Rathbones

Rathbones Group plc
Responsible investment
interim report 2022

Stewardship in action

2022 voting-season: a high-water mark for Rathbones

As we reflect on the frenetic corporate voting season of 2022, one number stands out above all others: 5%. This is the percentage of cases where we opposed management during the first half of the year when the bulk of listed European and US companies hold their Annual General Meetings (AGMs).

Five percent may seem a modest number, but it's a high-water mark for Rathbones. This demonstrates how we take our stewardship responsibilities seriously, always assessing standards against an up-to-date view of best practice and engaging with companies on a wide range of issues.

One increasingly common way to vote against management is through investor-led resolutions filed with companies - resolutions filed by shareholders, with management usually opposing. The numbers for the US, where the bulk are filed, rose from 499 in 2021 to 576 in 2022, a record high. The vast majority are resolutions related to environmental, social and governance (ESG) issues; the Securities and Exchange Commission has made it harder for management to block these. Many were about climate change and racial diversity. Rathbones supported a majority of the resolutions.

When it comes to votes against management, we see that company boards are displaying more of an acceptance that investors can be useful sounding boards as 'critical friends'. This makes them less inclined to see votes against management on specific issues as hostile and more inclined to see them as constructive. Having said this, there are cases where shareholders have to be more confrontational, by using their votes to call for a new independent Chair or other board director.

Engagement + voting = influence

In many cases dialogue with a company is enough to persuade it to do something if investors are sufficiently patient and persistent. We call this dialogue 'engagement'. Along with voting, it's one of Rathbones' four principles of responsible investment. The cornerstone of our AGM activity is our voting policy.[1] This sets out our approach to a number of ESG issues, including diversity on boards, executive pay and corporate strategy on climate change. Our engagement has the potential to influence corporate change and we can use voting activity to reinforce our message. We wrote to more than 150 companies at the start of the year to outline our voting intentions should they not improve. This included letters raising concerns about modern slavery reporting, inadequate action on climate change and board diversity.

[1] rathbones.com/sites/rathbones.com/files/imce/rim-voting-policy-2022.pdf

Rathbones' four responsible investment principles

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

Voting with purpose
We actively vote across over 95% of the value of our holdings in line with our responsible investment commitments.[2] This may involve voting against management to help drive positive change.

Engagement with consequences
We will prioritise engagement where we believe we can make a real difference in addressing the world's systemic environmental and societal challenges.[3] We are prepared to reduce our holdings in companies that continue to present an ESG risk over time.

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

Insights gleaned from our engagement activity can sometimes lead us to vote contrary to our own voting policy. In fact, we're doing this more than before. That's largely because we want to rely on our judgement and an understanding of specific circumstances rather than an automated system. There may be extenuating circumstances where a company doesn't quite meet a target we've set in our policy, but where we think it's likely to do so by the time of the next AGM. We may also win concessions ahead of AGMs that put companies on track, so that they're complying with the spirit of our voting policy even if they haven't quite yet met the letter of it.

[2] Percentage covers votable assets only.
[3] We also prioritise engagement regarding non-ESG issues that may be material to investor outcomes.

Rathbones Group voting record	January-June 2022	
Number of items voted on	**9147**	
of which:		
Number of votes FOR	8651	94.6%
Number of votes AGAINST	464	5.1%
Number of votes ABSTAIN	163	1.8%
Number of votes WITHHOLD	60	0.7%
Number of votes on shareholder proposals	266	2.9%

Rathbone Investment Management voting record	January-June 2022	
Number of items voted on	**7554**	
of which:		
Number of votes FOR	7104	94.0%
Number of votes AGAINST	349	4.6%
Number of votes ABSTAIN	145	1.9%
Number of votes WITHHOLD	35	0.5%
Number of votes on shareholder proposals	241	3.2%

Rathbone Unit Trust Management voting record	January-June 2022	
Number of items voted on	**4894**	
of which:		
Number of votes FOR	4590	93.8%
Number of votes AGAINST	252	5.1%
Number of votes ABSTAIN	40	0.8%
Number of votes WITHHOLD	34	0.7%
Number of votes on shareholder proposals	159	3.2%

The data provided are in summary form for general information about voting trends and do not reflect the specific votes entered at a specific company. For example, within our discretionary wealth management service, different investment managers may have different views so it's entirely plausible (if not frequent) for us to enter three different votes for each voteable item, or some combination of For / Against / Abstain. Moreover, our votes on shareholder proposals are already counted within the votes above them. The numbers of items on each row therefore do not add up to the total number of resolutions on which we voted. Withhold is a US term, the equivalent to Abstain for the election and re-election of directors.

Digging into the numbers

At first sight, our tabular breakdown of the numbers for votes against management superficially suggests that we cared more about governance than environmental or social issues.

Governance is always important to us. For example, in 2022 we voted against executive pay in cases where annual bonuses were paid out at the maximum possible and we thought this was unjustified. This led to several votes above 20% against management, a milestone for significant shareholder dissent that demands immediate attention by the board. Problems with executive pay arrangements at the height of the COVID-19 pandemic have tailed off. However, we still voted in some cases against executive bonuses paid out at higher-than-expected levels even though the company hadn't reimbursed governments for their financial support. We also frequently vote against the re-election of directors because of their record on environmental and social issues (see the ExxonMobil case study below). In other words, we use the G as a way of addressing the E and the S.

When it comes to votes directly concerning environmental issues, rather than those against director re-election on environmental grounds, a notable feature of the 2022 voting season was climate change. In particular, this was the first full year for many of the world's largest companies to put their climate change strategy to a vote. We've always felt that such votes can be useful – on two conditions. One is that they're set within certain boundaries; another is that investors take them seriously rather than rubberstamping poor plans. To this end we set out the criteria we use to judge such plans in our voting policy.[4] There were some fairly big votes (above 10%) against management on these issues. We see this as positive: investors are telling companies that any transition plan should be detailed, comprehensive and based on science.

[4] rathbones.com/sites/rathbones.com/files/imce/rim-voting-policy-2022.pdf

Votes against management/for shareholder proposals January-June 2022	
Rathbones Group	
Directors	366
Executive pay	133
Shareholder rights	89
Social	66
Environmental	43
Audit	13
Mergers and acquisitions	10
Other governance	35
Other	27
Total	**782**

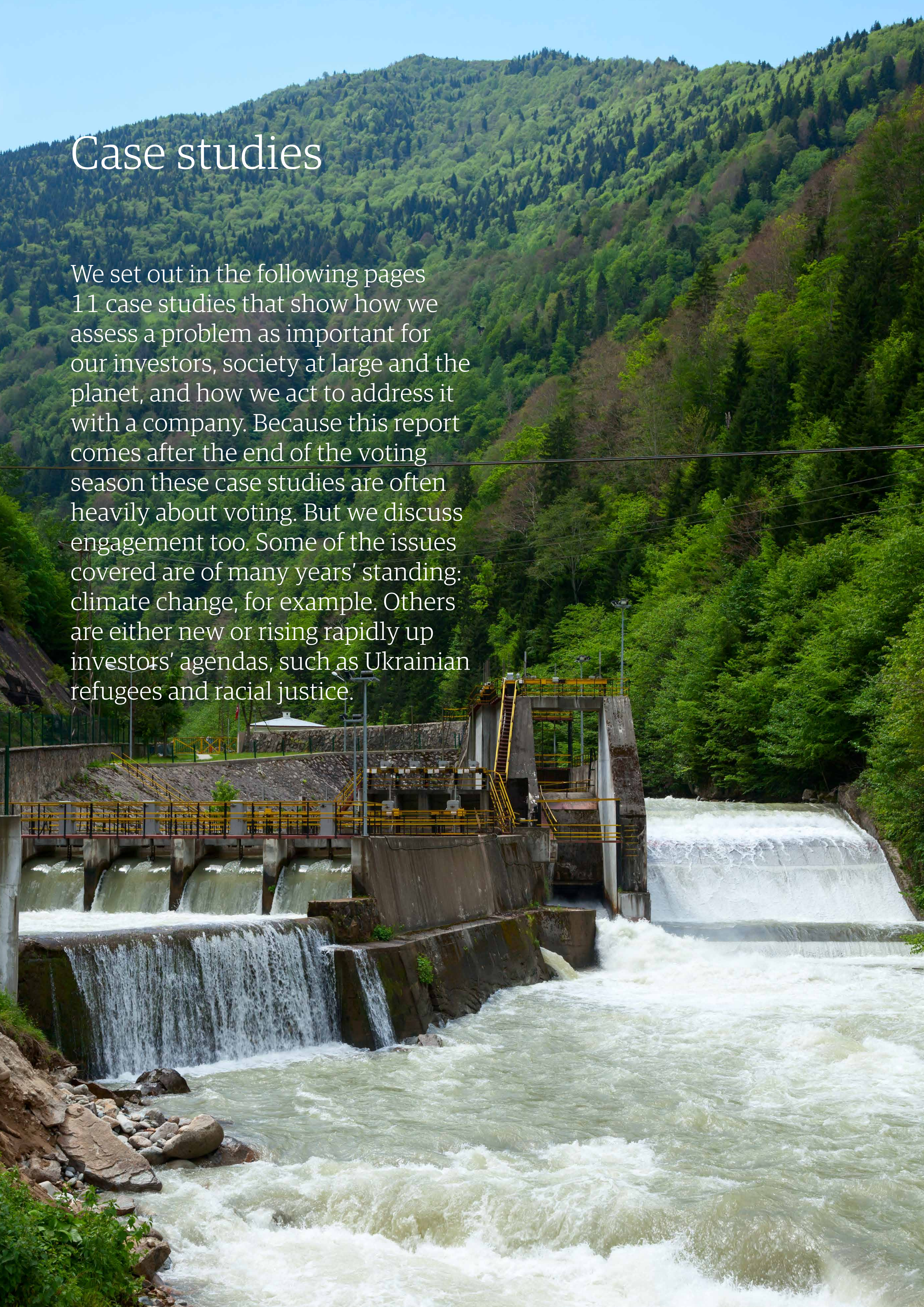
Votes against management/for shareholder proposals January-June 2022	
Rathbone Investment Management	
Directors	288
Executive pay	114
Shareholder rights	76
Social	55
Environmental	46
Audit	11
Mergers and acquisitions	9
Other governance	30
Other	15
Total	**644**

Votes against management/for shareholder proposals January-June 2022	
Rathbone Unit Trust Management	
Directors	164
Executive pay	70
Shareholder rights	43
Social	42
Environmental	30
Audit	5
Mergers and acquisitions	3
Other governance	15
Other	13
Total	**385**

NB Votes against management are calculated in a different way than for the corresponding tables on overall voting records

Case studies

We set out in the following pages 11 case studies that show how we assess a problem as important for our investors, society at large and the planet, and how we act to address it with a company. Because this report comes after the end of the voting season these case studies are often heavily about voting. But we discuss engagement too. Some of the issues covered are of many years' standing: climate change, for example. Others are either new or rising rapidly up investors' agendas, such as Ukrainian refugees and racial justice.



Environmental

Deforestation

The Home Depot

The issue

Between 2015 and 2020 the world lost 10 million hectares of forest a year.[5] Over a five-year period, that's the equivalent of double the size of the UK. The Home Depot, a US DIY retailer, does disclose information on how it manages deforestation in its Wood Purchasing Policy. Nevertheless, the company is lagging peers, particularly in its commitments to eliminating deforestation and forest degradation in its supply chain. For instance, a competitor, Lowe's Companies, has committed to 100% responsible sourcing of wood products by 2025.[6] The Home Depot has also received a low rating from Global Canopy, a non-profit organisation that tracks the strength and implementation of companies' deforestation and human rights commitments.

What we did

We supported the shareholder resolution calling on the company to report on its efforts to eliminate deforestation from its supply chain. We thought that additional disclosure on the steps taken to avoid supply chain risks would benefit shareholders. Companies found to contribute to deforestation are increasingly facing damage to their reputations, which could reduce their customer base.

What happened

The resolution passed, with 64.7% support. It's rare to see a shareholder resolution gain majority support. Although the company isn't required by law to implement these changes, investors will expect it to make changes or risk significant reputational harm and votes against the re-election of incumbent board members at the 2023 AGM. We will engage with the company to see what tangible changes the board makes following this vote.

[5] www.fao.org/state-of-forests/en/
[6] www.corporate.lowes.com/our-responsibilities/product-sustainability-value-chain

Climate change

Shell

The issue

The British oil and gas company has made some progress in addressing climate change. We also appreciate the company's efforts to engage with shareholders on this topic. However, we still have several major concerns. We think the company has failed to set its targets for reducing its carbon footprint - short, medium and long-term - to the point that they align with the Paris Agreement's target of 1.5°C of global warming. For example, we dislike the fact that Shell's Scope 3 emission target is relative rather than absolute. Scope 3 covers the carbon emitted when its products are used, such as petrol in a car engine.

What we did

We believe that climate risk has the potential to affect the performance and valuation of investments. For example, lawsuits in the Netherlands and US show that oil and gas companies may face legal risk if they don't adopt strategies for reducing emissions consistent with the Paris Agreement. They also risk being left holding 'stranded assets'. These are assets vulnerable to a premature write down in value before the end of their productive life because of factors such as changes in the market and regulatory environment.

We decided to vote against the board's latest transition plan. Moreover, we backed a shareholder resolution filed by Follow This, a Dutch responsible investment non-governmental organisation (NGO), which asks the company to set more stringent climate goals.

What happened

The board's transition plan was opposed by 20.1% of shareholders, a much larger number than in 2021. The Follow This proposal received 20.3% support, less than the previous year. However, in both cases these numbers were just above the 20% threshold needed for votes against the board to make their way onto the UK Investment Association's Public Register.[7] This is the world's first register tracking shareholder dissent. Companies prefer to avoid this because of the risk of damage to their reputations. We emphasised to the company that our voting decisions did not mean we saw the need for a completely new strategy. However, we do identify gaps that need filling before we can be confident that the company's commitment to be net zero by 2050 is credible and aligned with the Paris Agreement.

[7] www.theia.org/public-register

Climate change

ExxonMobil

The issue

We have reservations about the impression that Exxon's strategy appears to be founded on an underlying confidence in the widespread need for fossil fuels at least up to the middle of this century. This is despite the scientific consensus that extensive reliance on fossil fuels during this period is unsustainable for the climate. Given Exxon's stance, it's perhaps not surprising that according to the benchmark devised by Climate Action 100+, the US oil and gas giant doesn't fully meet any of the ten criteria used to judge whether a company is acting effectively and fairly in meeting the Paris Agreement's objective of limiting global warming to 1.5°C. Climate Action 100+ is an investor coalition that presses the biggest corporate greenhouse gas emitters to act on climate change.

Our main objection is to the misalignment of the company's short, medium and long-term decarbonisation targets with the Paris Agreement and the lack of targets for Scope 3 emissions,. Along with other investors, we have made our views on this clear in our engagement with management.

What we did

We think that stronger independent oversight and board management of climate risks at the company are necessary. This is why we voted - for the third successive year - against the re-election of the combined CEO and Chair. In 2022 we also opposed the re-election of the lead independent director, the Public Issues and Contributions Committee Chair and the Audit Committee Chair. Moreover, we supported several climate proposals put forward by shareholders. These called on the company to set targets for reducing greenhouse gas emissions in line with the Paris Agreement and to assess how the International Energy Agency's (IEA's) 'Net Zero by 2050' scenario would affect its financial statements. This scenario assumes massive changes in the energy industry, including 100% clean energy by 2040.

What happened

We were pleased to see 52% support for the resolution about the IEA's 'Net Zero by 2050' scenario. This is particularly important. Exxon's business strategy is still built on growth in demand for hydrocarbons for several decades. In contrast, the IEA scenario anticipates a steep decline in the demand for oil and gas. We will continue our engagement this year to see what changes the company makes following the majority backing for this shareholder proposal. However, we were disappointed to see limited shareholder opposition to the re-election of directors.

Social

Sex discrimination

Activision Blizzard

The issue

In 2021, plaintiffs brought lawsuits against the US video game company over accusations of harassment, gender discrimination and a culture that at times encouraged sexual misconduct towards female employees. Rathbones wrote to the company's Chair about these allegations. We commended the board for subsequently trying to improve its corporate culture and risk management oversight. This included establishing a Workplace Responsibility Committee and plans to recruit an Equal Employment Opportunities Coordinator. However, we had several concerns that we felt had not been appropriately addressed by the company. We also wanted more information on what had been done to help victims of harassment.

In addition, we wanted to know what measures had been in place to safeguard employees before the sexual misconduct allegations, and why these measures had failed. Furthermore, we asked if the board would now oversee and be accountable for staff safety.

What we did

In February 2022 we held a call with investor relations to discuss the company's response to these allegations. The claims are worrying not just because of the distress to the people involved, but also because they could affect the company's ability to recruit and hold onto staff and to attract customers. At the June 2022 AGM, the New York State Common Retirement Fund submitted a proposal for the company to disclose a report on its efforts to prevent abuse, harassment, and discrimination against protected classes of employees. These are groups of people legally protected from employment discrimination because they belong to that group: women, for example. We supported this resolution.

Rathbones Group supported the New York State Common Retirement Fund proposal. We also decided to abstain on the re-election of directors due to the lack of adequate action in the past to manage the risks related to sexual harassment and discrimination. However, several of our fund managers, who have the freedom to make up their own minds, supported the re-elections. They agreed with Rathbones Group's efforts to press the company to resolve the problems with its internal culture. However, they felt that in addressing this, it was enough to support the New York State Common Retirement Fund's proposal.

What happened

The shareholder proposal passed, with 67.4% support. Although the proposal is advisory rather than binding, we expect the company to respond to it, particularly in light of the damage to its reputation it's already suffered. Moreover, five directors received opposition above 10% to their re-election - in one case as high as 27.7%.

Racial diversity

McDonald’s

The issue

2021 witnessed a wave of shareholder proposals in the US calling on companies to arrange independent reports reviewing their civil rights policies and practices. None of these resolutions gained majority support in 2021 - but what a difference a year can make. By early June 2022, these proposals had passed at six companies, demonstrating a new investor mindset.

Looking at McDonald’s specifically, since 2016 the US fast food retailer has suffered over 100 complaints alleging workplace harassment at its restaurants and multiple allegations of civil rights and racial violations as well as unfair working practices. The company has taken some welcome steps since these allegations surfaced. These include stretching new targets for increasing the number of people from under-represented groups in leadership positions by 2025. The company has tied part of the annual bonus for senior management to human capital management - the way a company looks after and develops its workforce. This includes how well they do in meeting these targets. It has also launched Global Brand Standards to keep employees and customers safe by preventing violence, harassment and discrimination. Despite such moves, continuing allegations could harm the company’s ability to recruit and retain staff and pose significant operational, legal and reputational risks to the business.

What we did

We supported the shareholder resolution filed by the SOC Investment Group calling on McDonald’s to oversee and report on a third-party racial equity audit, assessing the civil rights impacts of the company’s policies and practices. This could also help shareholders assess the effectiveness of the company’s efforts to address racial inequality and its management of related risks. We also argued that board adoption of this proposal would reassure shareholders that this was a priority area. Shareholders have filed similarly worded resolutions at The Home Depot, Republic Services, Waste Management, Altria Group, Chevron and Johnson & Johnson. Most of these gained majority backing.

What happened

The resolution passed, with 55.8% support. The vote is advisory rather than binding, but we expect the board to take action to avoid significant reputational damage.

Modern slavery

Future Plc

The issue

Fifty million people around the world are victims of modern slavery and human trafficking.[8] This inflicts great suffering on people. It also poses a risk to our investments. Companies that fail to prevent modern slavery risk damage to their reputations, disruption to their operations and a hit to their finances if their supply chains are dependent on slave labour that's illegal and hence unsustainable. As long-term investors, we believe it's fundamentally important that UK companies comply with all provisions of the Modern Slavery Act 2015. To do so gives investors increased confidence in the company's risk management, making continued investment more attractive. However, the Act lacks enforcement powers; investors must step in to fill the breach. We therefore use our shareholdings to try to create greater transparency about corporate behaviour. Our Votes Against Slavery campaign harnesses the collective power of 122 investors with £9.6 trillion in assets under management (AUM) to press companies to comply with Section 54 (s54) of the Act (see the Principles for Responsible Investment (PRI) engagements section further on). This section requires companies to publish a statement setting out the steps they have taken to ensure modern slavery is not taking place in their business or supply chains.

What we did

We discovered that the British media company had failed, since 2020, to update its modern slavery statement. This meant it had fallen short of the requirement under s54 of the Act to update the statement annually and upload it to the homepage of the UK website. For this reason, ahead of the company's AGM we abstained on the approval of the financial statements and statutory reports.

What happened

Two days after we sent a letter to the company explaining our position, we had a call with its investor relations team. They confirmed that the statement was outdated, making the company non-compliant with the Act's reporting requirements. They were grateful that we had pointed this out and committed to putting the new statement on the homepage of the company's website before the AGM. The company was true to its word, so we changed our vote to supporting approval of the financial statements and statutory reports. We're now confident that the company has improved its understanding of the importance of ensuring compliance with the Act's reporting requirements. Future's AGM took place in February, shortly before we launched our 2022 Votes Against Slavery project (see 'Collaborative engagements' section below).

[8] www.ilo.org/global/topics/forced-labour/lang--en/index.htm

Pay gaps

Walt Disney

The issue

As investors, we're concerned about pay gaps between men and women, and between minority and non-minority employees. Wide gaps suggest unfairness, which is both wrong and potentially damaging to corporate reputations. They can also demotivate employees, harming performance, recruitment and retention. The US entertainment company Walt Disney says it's committed to pay equity. It published some information on relative pay in its 2020 Employer Information Report. For its UK workforce, the company also clearly discloses its minority-non-minority and gender median pay gaps - the gap in pay between the middle-ranking earner in each group. However, Walt Disney doesn't publish such a statistic for its US or global workforce. The median pay gap statistic is important as it gives investors increased transparency and enables comparison across different organisations and sectors.

What we did

At the company's AGM, we decided to support the shareholder resolution calling on the business to report on its gender and racial pay gaps. We felt that improved disclosure about the median pay gap data for Disney's US and global workforce would allow investors to see how well the company was advancing opportunities for women globally and for ethnic minorities in the US. Companies reducing their gender pay gap and focusing on human capital management are likely to attract a wider range of talent. This should benefit a company's operations and reputation.

What happened

The resolution passed with 59.6% support. This vote is advisory rather than binding. However, we'll monitor the company's response over the next few months to see if it will implement any change. We expect a shareholder to raise this issue again next year should the board fail to report on its gender and racial pay gaps.

Ukrainian refugees

Vodafone, Telefonica and BT Group

The issue

The war in Ukraine has displaced millions of people. Refugees are highly vulnerable. They face the threat of exploitation - including modern slavery - when they arrive in a foreign country. Telecom companies can play an invaluable role in preventing this by alerting vulnerable people to the risks, and to the resources available to keep them safe. They can do this through an SMS alert to all Ukrainian-registered SIM cards entering a national network, for instance.

What we did

We wrote to all UK and European telecommunications companies in which we had a shareholding, encouraging them to send automatic texts with safeguarding information to all users from Ukraine entering the UK. We acknowledged that we did not understand the practicalities of such a request. That said, we urged senior management at each telecommunications company to support this campaign if technically possible.

What happened

Vodafone explained that its experts were looking into what was technically feasible and were in contact with their colleagues at other UK operators about an industry-wide approach. The company said calls and texts to Ukraine were free of charge for its UK customers, and it was waiving all charges for customers within Ukraine. The company offered free connectivity to 200,000 Ukrainian refugees through its 'charities.connected' initiative. UK charities working with Ukrainian refugees can search 'Vodafone everyone. connected' to apply for SIM cards with free data, calls and texts.

Telefonica similarly said that its team at Virgin Media O2 had been looking at this proposal, together with the other UK mobile operators. It was in the process of responding via the trade organisation, Mobile UK. Current solutions included the company covering the costs of its customers making calls and texts to Ukrainian mobile numbers and providing free unlimited access to a Ukrainian education site created by the Ukrainian education ministry, the All-Ukrainian Online School. Telefonica had also donated more than £800,000 to charities dealing with the Ukrainian crisis.

We haven't yet received a response from BT Group at the time of writing.

In July 2022 we were informed that Vodafone Ukraine had agreed to send a welcome text to all Ukrainian refugees arriving in the UK, providing vital safety information and advice. This included the number of the free Modern Slavery & Exploitation Helpline.

Governance

Executive pay

JPMorgan Chase

The issue

At the US bank's 2022 AGM, the board granted the combined CEO and Chair a one-off $52.6 million stock award unfettered by any performance conditions. His award is subject to a five-year vesting period and a subsequent five-year holding period. This is in addition to a 10% increase in total pay from the previous year.

It's unclear how such an award is in the best interests of shareholders. It appears to have been made purely to retain the CEO/Chair. In line with widely recognised best practice, we believe that one-time awards should be used infrequently, with rationale and pay arrangements clearly disclosed. Awards should be subject to rigorous performance goals and only granted for the delivery of shareholder value above what's delivered in the normal course of business.

What we did

Following a detailed discussion with the largest shareholders, we decided to vote against the advisory vote to ratify executive officers' compensation because of the CEO/Chair's award. Rathbones also opposed the re-election of board directors because of dissatisfaction with the management of climate risks at the company. These points of dissent were in addition to several other shareholder resolutions to which we lent our support. These included a call for an independent Chair and a request for the company to report on absolute targets for financed greenhouse gas emissions in line with its net zero commitments.

What happened

The company suffered one of the biggest defeats at an S&P 500 company during the US AGM season, with 68.5% of shareholders voting against the executive pay proposals. Although the vote gained majority support, it's advisory rather than binding. However, given the growing public scrutiny of high executive pay and growing pressure from investors on companies to set appropriate pay arrangements, JPMorgan Chase will be expected to engage extensively with shareholders and take on board their concerns. If the company fails to show progress, we'll consider targeting the re-election of the Compensation Committee Chair at the 2023 AGM.

Executive pay

Informa

The issue

Since 2019, the British events company has suffered substantial shareholder opposition to senior executive pay. This culminated in a 61.7% vote against the remuneration report and a 46.6% vote against the re-election of the Remuneration Committee Chair at the 2021 AGM. In response, the Remuneration Committee Chair decided not to stand for re-election at the 2022 AGM. Rathbones spoke to the new Remuneration Committee Chair in December 2021 and again in February 2022 to discuss the proposed changes to the remuneration policy and the board's thinking about future executive pay. Ahead of the 2022 AGM, the remuneration committee sent us a letter regarding the new remuneration policy and the remuneration report.

What we did

The company had made considerable improvements to the pay arrangements to align with widely recognised best practice, so we decided to support its new remuneration policy.

However, we didn't support the remuneration report, which sets out actual executive pay arrangements for the year rather than general policy. This was because of underlying concerns we had raised on previous occasions with the company. At the 2021 AGM, we'd voted against the remuneration report because the targets for ongoing long-term incentive plan (LTIP) awards created in 2018 - known as 'in-flight' awards - were made less exacting. As for the 2022 report, we were disappointed at the board's decision to amend once again the performance measures for the in-flight 2019 LTIP awards. This led to higher-than-expected payouts. Furthermore, the new bonus measures have become largely qualitative and dependent on the discretion of the remuneration committee. We don't see how such arrangements are in the best interests of long-term shareholders, especially since the share price remains below pre-pandemic levels and the dividend hasn't been reinstated.

What happened

The company experienced the largest vote of the UK 2022 AGM season against a remuneration report for a FTSE 100 company: 71.3%. Informa has once again experienced the blow to its reputation of finding itself placed on the Investment Association's Public Register. We will engage further with the company in the coming months. However, given enhancements in pay policy, we remain confident that the pay arrangements are improving. After meetings with the new Remuneration Committee Chair, we're also confident that she's determined to move on from the issues of the past.

Women on the board

XP Power

The issue

In December 2021 Rathbones wrote to XP Power, a manufacturer of power control systems based in Singapore but listed in London. We wanted to encourage the company to meet the Hampton-Alexander Review's target that 33% of board members at FTSE 350 companies would be women - a target companies were expected to meet by December 2020. The company wasn't compliant, since women only made up 29% of the board. We reminded the board that an increasing number of studies find a significantly positive relationship between gender diversity and firm performance. The boost in performance is particularly strong, statistically, when three or more women are on the board rather than two or under.

What we did

We would usually vote against the re-election of the nomination committee Chair where the board had fallen short of the target. However, our constructive ongoing dialogue with the company meant we decided to take a more lenient stance on this occasion. The board had less than 33% female representation at the time of the AGM. However, it had stated that it planned to meet this target, albeit without setting out a timeline, so we decided to abstain on the re-election of the Chair of the nomination committee (who was also the Chair of the board). We expect the board to meet this target by the time of the next AGM.

What happened

Only 4.1% of shareholders voted against the re-election of the Chair. This showed that the bulk are not worried about the current arrangements. The company wrote to us to explain that following our December 2021 letter, it had published its Board Diversity and Inclusion Policy. This stated that it was working towards 33% female representation, with plans to do something about the low proportion of women before the end of the calendar year. The Policy also noted that the company met the UK government's Parker Review target for racial diversity on FTSE 100 boards. We will monitor the situation and push the company for an update before the end of the year.

Collaborative engagements

Environmental

Global Standard on Responsible Climate Lobbying

The issue

The standard was set up to strengthen the commitment of investors and companies to responsible lobbying on climate change – lobbying to achieve goals that are consistent with the Paris Agreement. The standard was set up by the Church of England Pensions Board, with the support of a number of investor organisations: the Asia Investor Group on Climate Change (AIGCC), Ceres, the Interfaith Center on Corporate Responsibility (ICCR), the Investor Group on Climate Change (IGCC), the Institutional Investors Group on Climate Change (IIGCC), the Principles for Responsible Investment (PRI) and SHARE.

What happened

We joined others in signing letters to 23 European Climate Action 100+ target companies – large corporate emitters of greenhouse gases – that haven't yet published or committed to publishing a climate lobbying disclosure. The letters don't threaten escalation. They are intended, rather, as a positive reinforcement of investor interest in Indicator Seven of the Climate Action 100+ benchmark: climate policy engagement. Investors hope they will steer the recipient companies towards better practice. We were expecting an update by the end of 2022.

Net zero audit

We joined an investor group set up through the IIGCC, with Sarasin & Partners as the lead investor. As part of this, we wrote to Anglo-Australian metals and mining company Rio Tinto and German industrial company ThyssenKrupp to draw the companies' attention to investor expectations for Paris-aligned corporate accounts. These are accounts whose disclosures, asset values and other items are based on an assumption that average temperatures will rise by 1.5°C above pre-industrial levels. A rise of 1.5°C creates physical risk for companies. Moreover, efforts to limit the rise to 1.5°C by achieving net zero emissions by 2050 require comprehensive changes to the global economy, which will affect companies; this needs to be reflected in their accounts. Our letters to Rio Tinto and ThyssenKrupp were follow-ups to previous correspondence between Sarasin and the two companies in 2020. These new letters, sent in Q1 2022, sought to ascertain why the boards were unable to make the requested disclosures, and what steps they would take to address this omission in the forthcoming audited accounts.

Environmental

Global Standard on Responsible Climate Lobbying, cont

What happened

The Chair of ThyssenKrupp replied to our letter. He said that sustainability was core to the company's corporate strategy, and that it had published Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) reports. These show the company's climate and sustainability performance and risks. The company aims to be climate-neutral by 2050 and has set ambitious targets for 2030 consistent with global warming of well below 2°C. These targets are validated by the Science Based Targets initiative (SBTi), an arbiter of corporate climate change pledges. The company reports to CDP (a non-profit organisation formerly known as the Carbon Disclosure Project) and in alignment with the TCFD. It will report on its activities' alignment with the EU taxonomy, a way of classifying whether particular activities are sustainable or not, in its next annual report. The company noted that it had an AA ESG rating from MSCI, a data provider, and was on CDP's A list, a register of companies leading on environmental transparency and action. The Chair had raised the issues in our letter with the audit committee as well.

Rathbones also hosted a call with Rio Tinto and supporting investors as a follow-up to the letter sent in Q1 2022. We emphasised the need for more detailed disclosure on critical accounting assumptions relating to issues such as long-term commodity prices, the carbon price and asset lives. We also encouraged the company to use the IEA's 'Net Zero by 2050' scenario, which is more exacting than the scenario for the transition to net zero that they were using. We will continue our engagement with Rio Tinto on these issues.

NET ZERO

Net zero and auditors

In addition to our engagement with listed companies on net zero audits, Rathbones also engaged with the professional services firms actually carrying out the audits. We did this by continuing our supporting role in the Sarasin led engagement with the Big Four audit firms, PwC, KPMG, EY and Deloitte. Our engagement sets out investor expectations for auditors to conduct net zero-aligned audits for client companies. In December 2021, letters co-signed by us were sent to the Big Four.

What happened

The Big Four accepted that they need to improve disclosure of how they've considered climate in their audits. EY and PwC organised roundtables in 2022 to discuss net zero audits. Both firms said they were investing heavily in internal climate expertise and sector-specific briefings for audit partners to ensure all companies in higher-risk sectors were properly evaluated for the inclusion of climate risks. The firms didn't commit to auditing for a temperature rise of 1.5°C, but they did agree to consider this further.

Environmental

IIGCC Net Zero Investor Expectations of Banks

The issue

As part of a collaboration of 122 investors responsible for $10 trillion in AUM, Rathbones signed an IIGCC letter outlining investor expectations for how banks should demonstrate alignment with the Paris Agreement. A key request was for banks to confirm that they have or will set a commitment to align all of their financing activities with achieving net zero emissions by 2050 or sooner, encompassing all material greenhouse gas emissions. The IIGCC wants banks to establish short and medium-term targets consistent with this commitment.

What happened

The IIGCC published a framework of pilot indicators and a report in July 2022.

NET ZERO

Net Zero Banking Alliance

In June 2021 we co-signed letters to a list of 63 banks, calling on them to set more ambitious climate goals ahead of the 2021 United Nations Climate Change Conference, held in Glasgow (COP26). The letters were signed by 115 investors with $4.2 trillion in AUM and sent to members of the Net Zero Banking Alliance, a group of international banks that have joined together to set 2050 net zero aspirations. These banks have a broad geographical range and are exposed to a wide array of risks to the climate and to nature. They include physical risks – flood damage to assets banks lend against, for example. They also encompass transition risks – oil companies' ability to repay debt financed by oil reserves that become obsolete in a net zero global economy, for instance. Both these risks could have a significant impact on the value of the banks' assets and liabilities.

The letters encouraged these banks to update and strengthen their climate and biodiversity strategies in the run-up to COP27. In particular, they asked the banks to phase out investment in coal by 2040 at the latest, and to publish short and medium-term (5-10-year) climate-related targets covering the highest emitting sectors first, such as oil & gas, and power & utilities. The letters also asked them to integrate the findings of the new IEA 1.5°C scenario into their business plans.

Following COP26, we continued to engage with these banks into 2022.

What happened

Several banks showed progress in working towards more ambitious climate goals.

Environmental

World Benchmarking Alliance

The issue

The World Benchmarking Alliance (WBA) develops benchmarks that measure the impact of the most influential companies on the UN Sustainable Development Goals (SDGs). These benchmarks are then used to find collective weaknesses in corporate behaviour. In June 2022, we signed up to the WBA, becoming an 'Ally'.

What happened

As a WBA Ally, we can access the network of fellow Allies, including like-minded investors. We can also build knowledge from the various WBA workstreams, learn from the work and have opportunities to become involved. In particular, we plan to use the outputs of the Nature Benchmark workstream and hope to join the Collective Impact Coalition, a collaborative engagement, when it is launched in 2023.

Social

Investor Coalition on UK Food Policy

The issue

In 2021, Greenbank, Rathbones' specialist ethical, sustainable and impact investment business, led the drafting of an investor letter to the UK Government in support of the National Food Strategy's recommendation to introduce mandatory reporting of nutrition and wider sustainability metrics for food sector companies. The National Food Strategy was the first independent farm-to-fork review of England's food system in 75 years. There were 23 signatories to the letter, representing over £6 trillion in assets under management or advice, including Rathbones Group.

Investors strongly supported this recommendation as it's challenging to understand the risks and opportunities facing food sector companies without access to comparable and high-quality information on their nutritional and sustainability performance. Through direct and collaborative engagement on the issue with portfolio companies, investors have also witnessed how voluntary reporting mechanisms have led to the reporting of inconsistent data on food industry practices when it comes to health and sustainability. This is despite incremental improvements in disclosure in recent years by some parts of the food sector, such as retailers. Well-designed regulation in this area will encourage the movement of capital to companies that are supporting the transition to a sustainable and healthy food system.

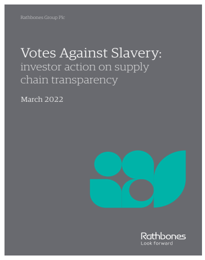
The coalition of investors that signed the letter is now known as the Investor Coalition on UK Food Policy.

What happened

The coalition held several meetings with government officials at the Department for Environment, Food & Rural Affairs and the Department of Heath & Social Care following the letter, to explain the investor case for mandatory reporting. In June 2022, the UK Government responded to the National Food Strategy. Although this White Paper was generally disappointing, Greenbank and the wider coalition were pleased to see that it included a commitment to explore mandatory reporting, as proposed in the Strategy. Investors have also been invited to take part in the Food Data Transparency Partnership following talks with government officials. This brings together stakeholders to consult on implementing mandatory public reporting on health and wider sustainability metrics. The coalition will continue to work both to see the implementation of mandatory reporting and the fostering of stronger investor-policy dialogue on other food issues.

To find out more about Greenbank's engagement activity across the board, visit www.rathbonegreenbank.com/investment-approach/engaging-change

Social



Votes Against Slavery

The issue

We launched the third version of this project in 2022, convening a 122-investor-strong collaboration with £9.6 trillion in AUM to challenge 44 FTSE 350 companies that had failed to meet the reporting requirements of s54 of the UK Modern Slavery Act 2015. As we did last year, we set ourselves the aim of achieving full compliance from laggard companies. We expected members of the FTSE 350 to lead the business world in this area, taking substantive action against the risk of slavery in their supply chains

What happened

By June 2022, 39 out of 44 companies were compliant. By August this had risen to 42.

Social

Find It, Fix It, Prevent it

The issue

Rathbones continued its involvement in this drive for hospitality businesses to find victims of slavery within their supply chain and support their rehabilitation. We also sit on the advisory committee for this project. We want to see hospitality companies develop better policies, processes and procedures for tackling modern slavery. Rathbones remains the lead investor for the engagement with Mitchells & Butlers. It's also a supporting investor for the engagement with Greggs.

What happened

Rathbones had a follow-up call with Mitchells & Butlers in March 2022 to discuss the content of the company's new modern slavery statement and the company's ongoing work with Stop the Traffik, a campaign against human trafficking. This project was set to broaden over the course of 2022 to incorporate the construction sector.

Engaging mining companies on indigenous community rights and social licence

The issue

In October 2020, the Church of England Pensions Board and Australian partners ACSI, which assists investors on ESG issues, sent letters on behalf of 67 investors representing $10.3 trillion in AUM to 78 mining companies. These letters asked them to explain what they were doing to protect indigenous communities' rights and win and retain the blessing of these communities to mine in their lands - what's known as 'social licence'. This engagement came about following Rio Tinto's destruction of two ancient cultural heritage sites at Australia's Juukan Gorge in 2020. This initiative aims to improve transparency, helping investors understand better how companies are overcoming these risks and making their governance arrangements more transparent.

What happened

By May 2021, 58 companies had responded. The quality of responses is being examined, with an investors' assessment set to be released later in 2022.

Social

Investor Mining and Tailings Safety Initiative

The issue

Rathbones has continued its involvement in the Investor Mining and Tailings Safety Initiative, set up in 2019 following Brazil's Brumadinho dam disaster, which killed 270 people. The investor group calls for the establishment of an independent and publicly accessible international standard for tailings dams, which store mining waste. It has written to 683 mining companies, requesting information on their tailings facilities.

What happened

In January 2022, we attended the Investor Mining and Tailings Safety Initiative Roundtable on the eve of the third anniversary of the Brumadinho disaster. Topics included the recent developments in Brumadinho and addressing the risk posed by tailings dams. The roundtable also discussed The Mining 2030 Investor Agenda, a set of investor aspirations for socially and environmentally responsible mining. In March 2022, the Mining Initiative 2030 was launched to achieve this. The Investor Mining and Tailings Safety Initiative also keeps a company database on Tailings Standard Implementation. After talking to the Church of England Pensions Board, we updated our voting policy to consider voting against the Chair of any board whose company had failed to meet the new tailings safety standard.

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Rathbones
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