Corporate governance and stewardship activities 2019

Interim report

Rathbones
Look forward

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In this report we have provided a summary of our stewardship activities for the period January to June 2019.

A full report relating to corporate governance and stewardship activities for 2019 will be published in March 2020.

Foreword from Matt Crossman, stewardship director

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

This purpose is intrinsic to our organisational culture and our investment process. We aim to lead the UK wealth sector by taking an intelligent and active approach to responsible investment through an holistic appraisal of investment opportunity and risk. This incorporates a thorough consideration of relevant governance factors and ongoing engagement with the companies in which we invest.

Active voting, informed by governance risk awareness, is a core part of our responsible investment policy. We vote actively on our most widely held stocks across the group, a function supported by a committee of 10 investment professionals, applying a bespoke voting policy which sets out high expectations of the companies in which we invest. Our voting policy was strengthened in several areas in 2019, notably in the area of gender diversity on company boards and on company approaches to reporting the risks of modern slavery in their supply chains.

In this interim report we provide a summary of voting activities covering the first half of 2019. For a full breakdown of our voting for the past year, and for detailed case studies on engagement in action, please refer to our main annual stewardship report, published in March each year.

Voting activity

2019 voting (Jan-Jun 2019)

Category	Number	Percentage
Number of items voted	2719	
Number of votes FOR	2698	99.23%
Number of votes AGAINST	39	1.43%
Number of votes ABSTAIN	51	1.88%
Number of votes WITHHOLD	0	0.00%
Number of votes on shareholder proposals	7	0.26%

Note: 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, given our status as a private client asset manager with very close links to our clients, it is entirely plausible (if not frequent) for us to enter three different votes for each voteable item, or some combination of For / Against / Abstain. Hence the numbers of items voted For, Against and Abstain would not be expected to add up to the total number of resolutions on which we voted, as we may have entered two separate votes for a single resolution.

Votes against management

Routine/business	12%
Mergers, acquisitions and takeovers	4%
Executive pay	19%
Environmental and social	7%
Directors related	42%
Capitalisation and shareholder rights	10%
Audit related	3%
Anti-takeover related	3%
	100%

Engagements in the period

Note: Please be aware that our engagement activities cover our entire holdings, across all client accounts. The inclusion of a company in this list does not necessarily mean that a particular Rathbones client holds that stock.

Board composition:

Gabelli Value Plus+ Trust:
Issue: In the appointment of board directors, we expect a company to achieve the right balance between broad expertise and the capacity to dedicate enough time to their roles. Our primary concern is if a non-executive director (NED) holds multiple external mandates, this could potentially compromise their ability to commit sufficient time to their role in the company should a crisis in the company's affairs arise.

Process: We voted against the re-election of NED Christopher Mills, who holds positions at 14 other companies outside of his role at Gabelli Value Plus+ Trust. Twelve of these positions are as a NED, one as CEO and one as non-executive chairman.

Outcome: The chairman informed us that Mr. Mills would not be reducing his external positions and that the board remains satisfied that his ability to serve as a director is not compromised. We responded stating that it would be helpful to see the board's thinking about this issue addressed in the run up to the AGM. Some 41% of shareholders voted against the resolution at the AGM, showing that shareholders remain concerned.

Kainos Group:
Issue: Given the growing body of evidence that suggests that more diverse boards do better, and the potential reputational damage that can come from having an all-male board, we will vote against the re-appointment of the nominations committee chair of a FTSE 350 company if the board is all male.

Process: The company is one of four companies left in the FTSE 350 with an all-male board. This issue became particularly pertinent after the proportion of women on FTSE 350 company boards exceeded 30% for the first time in September 2019, in line with Government targets.

Outcome: We informed the chairman (who also serves as nominations committee chair) that we would not support his re-election in 2020 unless improvement was forthcoming.

Modern slavery:

Ashtead Group, Legal & General and Intertek Group:
Issue: Modern slavery and human trafficking is a pervasive risk to society and to our investments, and it is imperative that all companies in the UK play their part in seeking to reduce the opportunities for these crimes to occur. We feel it is fundamentally important that companies comply with modern slavery risk reporting requirements under UK law, in order to demonstrate a strong commitment to fighting modern slavery.

Process: We abstained on the resolution to accept the financial statements and statutory reports at the AGM of the companies, which had failed to meet the requirements of section 54 of the Modern Slavery Act 2015 for the year ending 31 December 2018. We used research provided by the Business & Human Rights Resource Centre as a basis for our actions. To our knowledge, we are the only investor that has adopted this approach.

Outcome: The company secretary of Intertek Group responded quickly to our engagement letter to explain that they had recently become compliant. We discussed this response in the stewardship committee and decided to change our vote in support of management. At the time of writing, we were awaiting responses from Ashtead Group and Legal & General.

Executive pay:

Standard Chartered:
Issue: In its 2018 annual report, the company said the CEO's pension cash allowance was equivalent to 20% of his total salary, which was calculated by combining his cash salary of £1.185m and a share payment of the same amount. In the past, executive pension allowances were calculated differently by dividing them by basic salary alone. Using this old method, the CEO's pension would have been reported as 40% of his cash salary. In addition, a new provision in the UK Corporate Governance Code requires that pension contribution rates for executive directors should be aligned with those available to the rest of the workforce on a 'comply or explain basis'. We were not satisfied that the company attained this standard.

Process: 36.2% of investors (including Rathbones) voted against the remuneration policy due to the difference in pension calculations from the previous year.

Outcome: The chairman explained that the pensions for new directors will be in line with the rest of the workforce (10%) but all existing directors will maintain a pension of 20% of total salary. In July 2019, the CEO called the investors who voted against the remuneration policy "immature". In November 2019, the group bowed to public pressure and agreed that the CEO and CFO would take a 50% cut in pension contribution, bringing them into alignment with the broader workforce.

Auditor re-election

Murray International Trust:
Issue: The subject of auditor independence at the company has become an issue of especially great importance to institutional investors given the collapse of Carillion PLC. The UK Corporate Governance Code prescribes that a company should have a policy in place requiring the retendering of the external audit contract at least as frequently as every 10 years and has imposed a maximum tenure of 20 years for an individual audit firm to continue with an audit engagement. We tend to adopt a more lenient approach for audit tenure at investment trusts, recognising that the requirements of the auditor are arguably less arduous than at companies involved directly in the provision of goods and services. EY have been the company's auditors since 1907. The firm dates back to 1849 with the founding of Harding and Pullein in England.

Process: We believe that investment trusts may benefit from refreshing audit tenure more frequently than we see in this case, as auditors may be free from potential conflicts of interest and may have fewer impediments to producing accurate and transparent information for shareholders.

Outcome: We decided to support management this time around with the warning that the board would not receive our support unless the company discloses how it has assessed the effectiveness of the external audit process and the approach taken to the appointment of the external auditor.

Principles for Responsible Investment (PRI) engagements

September 2019 marked the 10th anniversary of our PRI membership.

In 2019, we have been involved in a number of environmental, social and governance (ESG) themed engagement projects as part of this initiative.

Responsible sourcing of cobalt

Rathbones joined a new engagement in 2019, which will focus on engaging companies on their responsible sourcing practices around cobalt in line with The Organisation for Economic Co-operation and Development (OECD) Due Diligence Guidance. Investors will engage with companies to understand how they are addressing the issue of responsible sourcing of cobalt and to encourage them to improve specific practices. Rathbones is leading on the engagement with Microsoft and Johnson Matthey.

Transparency in Supply Chains provision of the Modern Slavery Act

In September 2019, we co-filed a submission with CCLA to the 2019 UK Government Consultation on the Transparency in Supply Chains provision of the 2015 Modern Slavery Act. Our submission was put on the PRI Collaboration Platform and was supported by a coalition of investors with a total of £2.4 trillion assets under management (AUM).

Tailings dam safety

We are part of the Investor Mining and Tailings Dam Safety engagement, which is made up of a group of investors representing over $12.5 trillion AUM. This engagement was formed following the Brumadinho tailings dam collapse in Brazil in January 2019, which killed 256 people. Investors made a public call to establish a new independent and publicly accessible international standard for tailings dams based upon the consequences of failure. The group has since written to 683 mining companies requesting information on each of their tailings facilities.

Deforestation and forest fires in the Amazon

In September 2019, we signed up to a global investor statement calling on a list of companies in the food, apparel and clothing industries to redouble their efforts and demonstrate clear commitment to eliminating deforestation within their operations and supply chains. This is particularly important following increasing deforestation and fires in the Amazon, which have an immense impact on society, biodiversity, water and the climate. The Amazon, as the world's largest rainforest, is a global repository of biological diversity and provides invaluable ecosystem services, which underpin economic activities across the globe.

Ghost gear in the Marine Stewardship Council's Sustainable Fisheries Standards

We are a signatory to a letter to the Marine Stewardship Council (MSC) calling for the inclusion of ghost gear in MSC Sustainable Fisheries Standards. Ghost gear refers to any fishing gear that has been abandoned, lost or otherwise discarded, and is the most harmful form of marine debris. Conservation standards such as those from the MSC play an important role in protecting and enhancing the world's major fisheries, which is critical both to maintaining the health of fish stocks and to the companies that rely on fish and fish-related products (e.g. fishing companies, seafood processors).

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