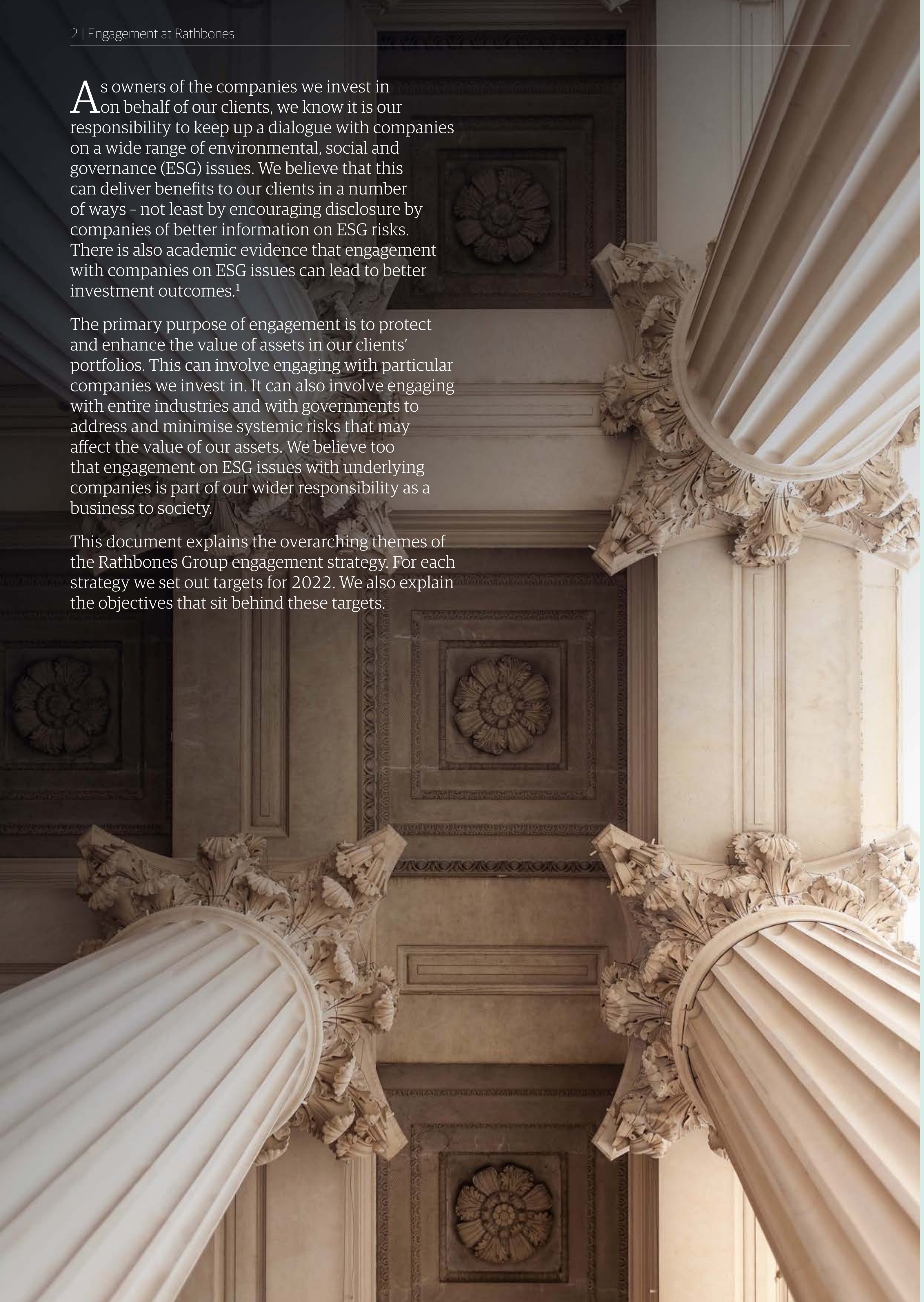
Rathbones Group Plc

Engagement at Rathbones

Our plans for 2022

Rathbones
Look forward



As owners of the companies we invest in on behalf of our clients, we know it is our responsibility to keep up a dialogue with companies on a wide range of environmental, social and governance (ESG) issues. We believe that this can deliver benefits to our clients in a number of ways - not least by encouraging disclosure by companies of better information on ESG risks. There is also academic evidence that engagement with companies on ESG issues can lead to better investment outcomes.[1]

The primary purpose of engagement is to protect and enhance the value of assets in our clients' portfolios. This can involve engaging with particular companies we invest in. It can also involve engaging with entire industries and with governments to address and minimise systemic risks that may affect the value of our assets. We believe too that engagement on ESG issues with underlying companies is part of our wider responsibility as a business to society.

This document explains the overarching themes of the Rathbones Group engagement strategy. For each strategy we set out targets for 2022. We also explain the objectives that sit behind these targets.

Our ***responsible investment policy*** defines responsible investment as:

> " The purposeful integration of environmental, social and corporate governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance. "

We engage on a wide range of ESG issues, including:

Environmental

Climate change
Biodiversity loss
Energy efficiency
Resource depletion
Waste management
Air and water quality

Social

Equality and diversity
Employment rights
Human rights
Supply chains
Data protection and privacy
Product safety and liability

Governance

Management structure and compensation
Accounting and auditing standards
Board leadership, diversity and independence
Succession management
Shareholder rights

Engagement with consequences is one of our four pillars of responsible investment along with ESG integration, voting with purpose and transparency.

Engagement with companies can take many forms, including:

- Meetings with senior management
- Private letters to the Chair of the board of directors
- Public statements
- Collaboration with other investors
- Tabling or voting on resolutions at company AGMs

[1] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3209072

Voting

Voting used to be mainly about governance issues, but we now see AGM and voting activity increasingly dealing with environmental and social concerns. We have adopted a more detailed voting policy on sustainability, which often triggers engagement with company boards on ESG issues.

We always engage with company management where we uncover serious ESG issues relevant to an AGM vote. Given recent trends, we expect an increase in ESG-themed shareholder resolutions in our clients' holdings in 2022.

Priority engagements – Rathbones' leadership

As stewards of the capital we invest on behalf or our clients, it is our responsibility to undertake dialogue with companies on a wide range of ESG issues. In the majority of cases we engage directly, rather than in collaboration with other investors or interested parties. Our engagement can take several forms. It can include regular and ad hoc meetings with management and formal written correspondence.

Where appropriate, in line with our conflicts of interest policy, it makes sense to work in collaboration with like-minded investors in order to achieve change.

Our overarching priority is to act in the best interests of clients and we will tailor our engagement approach to whichever engagement method we consider most suitable to achieving effective outcomes.

Environmental priorities

Net zero strategy

In 2021, Rathbones Group announced plans to achieve net zero carbon emissions across all its activities by 2050 or sooner, as part of its efforts to help limit global warming to 1.5°C above pre-industrial levels. Because the companies we invest in on behalf of our clients account for nearly all of the emissions for which we are responsible, this involves persuading the businesses we invest in to commit to rigorous plans for a transition to net zero.

Targets:

– Identify and engage with priority companies, based on their importance in helping us achieve our net zero goal.
– Work out how companies' net zero transition plans will be assessed and what they need to do to help us deliver portfolio goals.
– In addition, within 12 months, engage with a number of companies we invest in, where the auditors have given no sign that they have considered the effects of climate-related financial risks to the company.

Objective: Begin a multi-year engagement strategy on net zero transition plans with a group of priority companies. This is based on a combination of the carbon intensity of portfolios and data from MSCI, a specialist information provider. As part of our net zero audit engagement work, get companies we engage with to commit within 18-24 months to incorporating material climate risks into their financial statements.

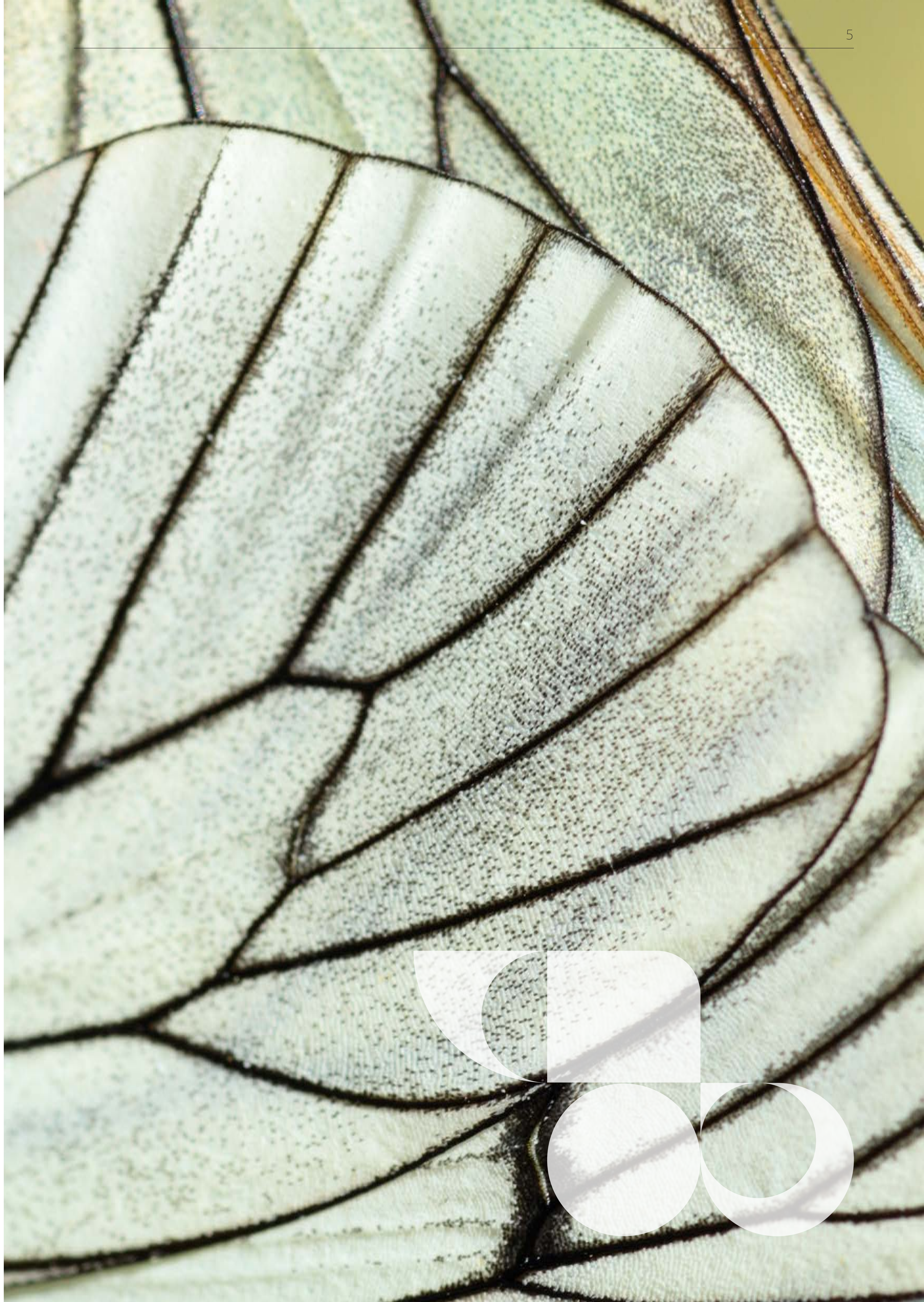
Biodiversity

Climate change cannot be solved without also addressing the destruction of nature. Since 1970 we have lost almost 70% of global biodiversity; the global economy is beginning to feel the impact. The World Economic Forum estimates that $44 trillion of economic value - more than half the world's GDP - is moderately or highly dependent on nature.[2] This is because nature is the ultimate supplier of our economies. If we corrupt or destroy it, we are damaging our own supply chains.

Target: Assess biodiversity risk across portfolio holdings in line with a science-based approach in order to identify priority companies and sectors for future engagement.

Objective: To understand the risk of biodiversity loss caused by companies held in our clients' portfolios during 2022. This will make it possible for us to develop and disclose a strategy to address the overarching risks to our clients' portfolios posed by biodiversity loss.

[2] Half of world's GDP moderately or highly dependent on nature, says new report > Press releases | World Economic Forum (weforum.org)



Social priorities

Votes Against Slavery

Modern slavery is a pervasive risk to society and supply chains. According to the Global Slavery Index, an estimated 40.3 million people are trapped in modern slavery globally, including 24.9 million in forced labour and 15.4 million in forced marriages. This means there are 5.4 victims of modern slavery for every 1,000 people.[3]

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, compliance is patchy and lacking in depth. Against this background, investors have a crucial role in advancing the protection of fundamental human rights. In 2021 Rathbones convened an investor collaboration with £7.8 trillion in assets under management to challenge 61 FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the Act. By the end of 2021, 59 out of 61 target companies were compliant with the reporting requirements. The remaining two companies became compliant in January 2022.

The project is continuing in 2022, with a new list of 45 target companies considered to fall below standards of best practice.

Target: Engage with all 45 identified laggards in 2022 and see compliance at 90% of targeted companies.

Objective: The initial objective is to engineer rapid compliance with the provisions of the Act among laggard companies. However, the initiative is also an opportunity for investors to understand better the nature of the businesses they are investing in and to evaluate board responses to modern slavery. We also want to encourage a greater degree of challenge by investors on social issues.

Governance priorities

ESG and pay

Linking ESG metrics to executive remuneration - pay and other financial rewards - can help drive ESG issues to the top of the agenda and improve financial performance.

[3] https://www.globalslaveryindex.org/

Target: Engage with the 34 FTSE 100 companies that have failed to include an ESG measure in executive remuneration.

Objective: For each of the target companies, to add an ESG measure to the annual bonus or the long-term incentive scheme. Alternatively, to provide a detailed explanation of why this is not in the best interests of shareholders.

Gender and racial diversity on FTSE 350 boards

The Hampton Alexander Review, an initiative supported by the UK government, calls for FTSE 350 boards to set a minimum target of 33% female representation. FTSE 350 companies were expected to meet this target by December 2020. However, only 65% had done so by July 2021.

The UK government's Parker Review target called for all FTSE 100 boards to have at least one director from an ethnic minority background by the end of 2021, and for all FTSE 250 boards to have one by the end of 2024. As of March 2021, 19 FTSE 100 companies had failed to meet this target.

We believe this is an important issue. Research suggests that more diverse boards do better. This may be because they bring different experiences to decision-making. Companies enhancing diversity across a company may also attract a wider talent pool. We argue that a company lacking in board diversity is missing a valuable opportunity to bring in voices that represent potential and actual clients and customers.

Targets:

- Ensure that at least one-third of the board members are women at FTSE 350 companies we invest in, by the time of their AGM. Otherwise, we will vote against the re-election of the relevant director.
- Ensure the boards at each of the FTSE 100 companies we invest in have at least one director from an ethnic minority background by the time of their AGM. Otherwise, we will vote against the re-election of the relevant director.

Objective: For the target companies to maintain appropriate diversity on the board and to create a succession planning strategy that clearly incorporates gender and racial diversity.

Priority engagements - collaboration

IIGCC and physical climate risks and opportunities

Investors, regulators, and policymakers are increasingly recognising that physical climate risk can have financial impacts on investment portfolios. Physical climate risk covers how companies' operations may be affected by issues such as increased floods and rising temperatures.

Companies:

We are a member of the Institutional Investors Group on Climate Change (IIGCC), which has developed a new set of investor expectations for how companies should respond to this. It has written to 50 high-risk and high-impact companies to promote these expectations. The letters were sent in early September 2021, but the IIGCC is yet to receive any responses.

Targets:

For target companies to meet the following investor expectations:

- Establish a climate governance framework.
- Undertake a physical climate risk and opportunity assessment.
- Develop and implement a strategy for building climate resilience.
- Identify and report against particular benchmarks to demonstrate progress over time.

Proxy advisers:

The IIGCC and supporting investors sent letters to proxy advisers, which advise shareholders how to vote. The letter Rathbones co-signed relates to Institutional Shareholder Services (ISS), but the IIGCC also wrote to Glass Lewis.

Targets:

The letter to ISS:

- Requested a public commitment to support net zero investing and to develop a range of proxy advice solutions to this end.
- Called for ISS to incorporate the transition to a net zero economy into its benchmark, customised and climate policies.

Auditors:

The IIGCC invited Rathbones to co-sign letters to the Big Four audit firms, PwC, KPMG, EY and Deloitte. These letters, drafted by Sarasin & Partners, an investment manager, set out investor expectations for auditors to provide net zero-aligned audits and associated disclosures.

Targets:

Investors are asking auditors:

- To provide reassurance that company accounts incorporate material climate risks, as well as clarity about whether the accounts can be considered aligned with limiting global warming to 1.5 °C above pre-industrial levels.
- To call out any inconsistencies between financial statements and non-numerical disclosures about climate risks.

Auditors may provide this information through their disclosure of key or critical audit matters; they may consider whether this would necessitate a qualification to their opinion on the financial statements. Investors are expressly asking for accounting disclosures that align with limiting global warming to 1.5 °C of global warming.

IIGCC and banks

Along with 22 investors representing $10 trillion in assets under management, Rathbones signed an IIGCC letter outlining investor expectations for how banks should align with the goals of the Paris Agreement.

Targets:

The letter asked banks:

- To confirm that they will set (or have set) a commitment to align all of their financing activities with achieving net zero emissions by 2050 or sooner, including all material greenhouse gas emissions.
- To establish short- and medium-term targets consistent with this commitment.
- To ensure good disclosure. This includes alignment with the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD), an international body, when setting out climate-related risks and opportunities.

- To ensure good governance of climate risks and opportunities. This includes board ccountability and expertise on climate change and sustainability and clarity on the role of risk and remuneration committees in moving to net zero.

Net-Zero Banking Alliance

We were invited by ShareAction, a charity that promotes responsible investment, to sign letters to a list of banks calling for more ambition on climate ahead of the COP26 climate summit. Banks are in a powerful position to drive the low-carbon transition and to address the worst consequences of climate change. By November 2021, 46 banks had responded, with 24 confirming they would publish new climate targets ahead of COP26, the end of the year, and/or their 2022 AGM. Several calls have also been organised to get more information on the steps being taken by each company. We are still waiting on responses from 16 banks.

Targets:

For globally significant banks to:

- Publish short-term (5 to 10-year) climate-related targets covering all relevant financial services ahead of their 2022 AGMs.
- Integrate the findings of the International Energy Agency net zero scenario and/or another 1.5°C scenario into their climate strategy.
- Phase out funding for coal by 2030 in OECD countries and by 2040 in non-OECD countries at the latest.
- Ensure financial statements are drawn up in alignment with limiting global warming to 1.5 °C above pre-industrial levels.
- Commit to protect and restore biodiversity.

Plastics Investor Working Group

This group aims to raise investor awareness about plastic production, waste and pollution.

Targets:

- To increase investor appreciation of the impacts, risks and opportunities of plastic production, waste and pollution and explore how these can be managed.
- To assess the financial impact of plastic on companies across the plastic value chain.
- To support understanding and investor action to achieve the responsible production and consumption of plastics.

Mining companies and indigenous communities

In 2020 Rio Tinto, the mining company, destroyed the 46,000-year-old Aboriginal heritage site at Juukan Gorge, Australia. In response, investors wrote to the top 78 international mining companies and all other major companies that operate in Australia, seeking assurances on indigenous community rights. By December 2021, 59 companies had responded. Among these, 68% said they had policies for their relationship with communities that took account of international standards for human rights; 75% had some form of board level responsibility, such as committees for Cultural Heritage or Relationship Management.

Targets:

We expect mining companies to consider their practices globally, including:

- Their approach to relationships with indigenous communities. This includes which international standards they follow, their current policies and processes and how they operate in practice.
- Their governance. This includes how the board oversees issues, where responsibility lies for the management of relationships with relevant First Nation or indigenous peoples, and how they assess the effectiveness of processes for incorporating these views.
- The action they have taken to identify and manage the risks.
- The company's position on possible changes to indigenous heritage laws in Australia.

Find it, Fix it, Prevent it (FIFIPI)

In 2020 we joined an investor initiative led by CCLA Investment Management, which encouraged hospitality companies to find victims of modern slavery within their supply chains.

We want these companies to develop better policies and procedures for tackling modern slavery.

We are the lead investor for the engagement with Mitchells & Butlers, the UK pub, bar and restaurant chain, and the supporting investor on the engagement with Greggs, the bakery chain.

Target: For our target companies to disclose where they have found modern slavery within their supply chains, how they provided remediation to those affected and how they have prevented such incidents from occurring in future.

Mandatory reporting by food sector companies

Greenbank, a specialist ethical, sustainable and impact investment division within Rathbones, recently organised an investor letter to the UK Government in support of the National Food Strategy's recommendation to introduce mandatory reporting of nutrition and sustainability metrics for companies in the food industry. The letter had 23 signatories, representing over £6 trillion in assets under management or advice. Rathbones Group was a signatory to the letter. The Group is also promoting the engagement through the United Nations-backed Principles for Responsible Investment.

Targets:

We encourage the government to:

– Introduce new legislation on mandatory reporting of sales-weighted figures, as recommended by the National Food Strategy. These figures should include measures of nutrition and sustainability that take account of how much each company is selling of each product.
– Mandatory reporting should include a wide set of figures including sales of food and drink high in fat, sugar or salt, sales of protein by type, sales of fruit and vegetables, and food waste
– Consider the full range of regulatory tools to promote sustainability in the food system.
– Be bold and ambitious in its response to this major social and environmental challenge.

Contact us

stewardship@rathbones.com

0117 930 3000

For more information, please visit: rathbones.com

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rathbones.com

@RathbonesGroup

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