Rathbones
Look forward

Responsible investment report 2020

The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance should not be seen as an indication of future performance. You should always seek advice from a qualified professional if you have any doubt as to the suitability of any aspect of your financial affairs.

Responsible investment report 2020

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Foreword from Matt Crossman, stewardship director

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.

Since the company's founding as a timber merchant in the 1700s, many prominent members of the Rathbone family have led the way in supporting progressive causes in the UK. From the abolition of slavery to workers' rights, universal suffrage and financial support for struggling families, Rathbones has a strong heritage of seeking to think, act and invest responsibly.

We are committed to making this purpose ever-more evident in our culture and investment process. In doing so, we will lead the UK wealth sector by taking an intelligent and active approach to responsible investment through a holistic appraisal of investment opportunity and risk.

This includes a thorough consideration of environmental, social and governance factors, and ongoing engagement with the companies in which we invest.

Our responsible investment committee defines responsible investment as:

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

In this report we provide a detailed overview of our ownership activities under this policy.

Responsible investment and stewardship at Rathbones

We believe it is in our clients' best interests for the companies in which we invest to adopt best practice in managing environmental, social and governance risks. This provides a framework for each company to be managed according to the long-term interests of its shareholders. Mindful of our responsibilities to our clients, we act as good, long-term stewards of the investments which we manage on their behalf, as expressed in our responsible investment policy.

Our major responsibility is to ensure that company boards are functioning well in their role to independently oversee the activities of companies and their management, and to make sure the full scope of ESG risks are reported on and managed.

We have developed a robust approach to proxy voting as a clear expression of our stewardship responsibilities. However, stewardship is not limited to this activity.

Engagement with companies on ESG issues is an important adjunct to voting activities. This report will explain Rathbones' approach to proxy voting and engagement within the context of our ESG activities over the last 12 months.

Our core principles

We have developed a core set of guiding principles that apply to our stewardship and governance related activities:

Materiality
We recognise that ESG risks can be material to the performance and valuation of investments.

Active voting
We actively consider proxy votes for client holdings.

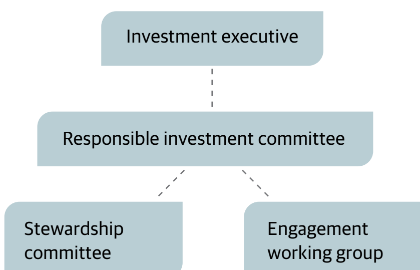
Engagement
Active engagement with companies on ESG issues is an important adjunct to voting activities.

Transparency
We will report annually on the progress of responsible investment activities.

2019 developments

2019 was a watershed year for responsible investment at Rathbones, as we entered into our tenth year of membership of the UN-backed Principles for Responsible Investment (PRI).

Building on this foundation, and following a review of our corporate purpose, principles and values, we have formalised our approach to responsible investment through the creation of a responsible investment committee and publication of a responsible investment policy. The newly formed committee is served by two working groups which deliver active proxy voting and engagement on ESG issues.



The stewardship committee – comprising investment professionals from across the business – continues in its important role as overseer of proxy voting at Rathbones. It reflects the fact that the governance agenda remains important and is backed by clearer and more detailed regulation than that currently seen in social and environmental issues.

Proxy voting and shareholder engagement at Rathbones is overseen by the ten full members of the stewardship committee, supported by the stewardship director, a full-time governance and voting analyst, and an external proxy voting consultant.

We target our resources where they can make the most difference to the greatest number of clients, and have recently taken steps to improve our coverage. As such, we focus our voting coverage on our largest listed security holdings and where we hold more than 3% of the shares of a company. In practice, this means that we cover the majority of relevant assets under management within the wealth management business with a bespoke voting policy.

Wealth management clients retain the ability to issue individual voting instructions on their stock held in our nominee. We have recently extended the scope of the guidance provided by the proxy voting consultant to include sustainability issues and we will be incorporating these considerations into our bespoke voting policy in 2020 and beyond.

Integration with the research process

We understand that relevant ESG factors can affect the valuation and performance of companies. As such, our research team and investment committees are exploring ways to analyse these considerations alongside financial factors as part of our day-to-day investment process.

Sustainability issues raised by our proxy voting consultant provide useful insights which we share with investment teams for consideration. Equally, our research notes highlight key governance issues for consideration when investment managers are implementing investment decisions within client portfolios.

We have developed a governance risk evaluation tool and database that includes 29 governance risk indicators across three broad areas — accounting, board structure and executive pay. A composite governance risk score also forms part of the basic information on company factsheets provided by the research team for use by investment managers. Our governance and voting analyst sits on all relevant internal stock selection committees to provide governance risk insights.

Finally, we continue to invest time in training our staff on governance and stewardship risk. In 2019, we trained over 50 investment professionals across our UK offices in aspects of corporate governance and stewardship policy. At the same time, we placed particular emphasis on understanding the principles of executive pay.

Our commitment to responsible investment is demonstrated by a significant number of our research team undertaking the PRI fundamentals or advanced course. In doing so, they have deepened their knowledge of global sustainability standards and regulations that may impact business and provided input on assessing the materiality of ESG risk and opportunity.

This knowledge allows us to share insights with investment managers and intelligently incorporate our understanding into securities analysis and investment recommendations. Progress in this area helped improve our score from a major external benchmarking organisation. In 2019 (the latest year for which an assessment has been carried out) the PRI once again ranked us in the 'A+' band with regard to our strategy and governance linked to the responsible investment agenda.

We also commenced reporting in two new areas, and voluntarily began reporting against new questions aligning PRI reporting with the Task Force on Climate-related Financial Disclosures (TCFD) framework.

Summary scorecard

AUM	Module name	Our score	Median score
	01. Strategy and governance	A+	A
Direct and active ownership modules			
>50%	10. Listed equity – incorporation	B	B
>50%	11. Listed equity – active ownership	A	B
<10%	12. Fixed income – sovereign, supranational and agency	Not reported	
<10%	13. Fixed income – corporate financial	B	B
<10%	14. Fixed income – corporate non-financial	B	B

A summary of our performance in key areas versus the median for our peer group.

Voting

Proxy voting policy

The stewardship committee is responsible for developing and maintaining a bespoke corporate governance policy which builds on established best practice, compliant with and inspired by the provisions of the UK Corporate Governance Code (which covers UK companies) and the AIC Code of Corporate Governance (specific to investment trusts). Voting in line with the policy on our most widely held stocks helps us execute our responsibilities under the PRI, which we have been signatories to since September 2009.

Primary governance goals as expressed in our policy are to encourage boards to:

- adopt clear values and standards in business dealings throughout the organisation
- develop a culture of transparency and accountability
- focus on strategic issues and the quality of the business rather than simply short-term performance
- develop appropriate checks and balances to deal with conflicts of interest
- maintain effective systems of internal control and risk management
- create fair remuneration structures that reward the achievement of business objectives at all levels
- recognise and responsibly manage impacts on all stakeholders.

In order for boards to deliver on these goals, we believe that boards should demonstrate the following key features:

- be led by an independent chairman
- the chairman and CEO roles should not be exercised by the same individual
- the board and its committees should retain the requisite balance of skills, experience, knowledge and independence, which should include an adequate level of gender diversity
- develop clear and fair remuneration arrangements which incentivise shared value creation
- for larger companies, at least half of the board should be composed of independent non-executive directors.

Whilst the core principles of corporate governance are relatively well established, we are constantly monitoring emerging trends in this area. In order to ensure that our policy remains fit for purpose, it is reviewed against benchmark standards and principles, and updated accordingly on an annual basis.

As a result of the 2019 review, we have taken a firmer stance on a number of issues, including the independence of auditors and lead audit partners, female representation at board level, aggregate time commitments for board members, FTSE 100 non-compliance with the 2015 Modern Slavery Act and excessive executive director pension contributions.

For the 2020 AGM season, we will supplement our bespoke policy with a sustainability-themed voting policy, provided by our proxy voting consultant. This will ensure our bespoke policy incorporates the broader concept of environmental and social sustainability into its considerations.

2019 voting review

In 2019, we voted on 4,897 resolutions at 388 company meetings (2018: 4,876 resolutions at 395 meetings). Since best practice now requires boards of directors to be re-elected annually, the majority of these resolutions concern the election of board members. However, they also cover important issues such as executive pay and the appointment of the firm's auditors. The number of meetings can vary each year determined by a number of factors, not least the level of merger and acquisition activity in the year.

2019 voting

	For	Abstain	Against	Meetings	Resolutions
Jan	97.8%	0.0%	2.2%	17	180
Feb	98.6%	1.4%	0.0%	26	210
Mar	99.5%	0.0%	0.5%	24	187
Apr	98.4%	1.4%	0.2%	43	624
May	96.3%	1.9%	1.8%	74	1,242
Jun	90.1%	4.8%	5.1%	43	476
Jul	99.3%	0.2%	0.5%	54	840
Aug	99.4%	0.0%	0.6%	19	161
Sep	99.0%	0.0%	1.0%	23	300
Oct	100.0%	0.0%	0.0%	15	149
Nov	99.7%	0.0%	0.3%	30	335
Dec	99.5%	0.0%	0.5%	20	193
Year AVG / total	98.1%	0.8%	1.1%	388	4,897

Note: The data provided is 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 votable 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.

On the face of it, the votes in favour of company management may seem high. However, a little context can be helpful in explaining our voting outcomes. Firstly, good governance is a prerequisite for any company to be considered for inclusion in our portfolios. If there were severe concerns over corporate governance at a company, they would not be preferred for investment, and hence the worst examples never actually come to a vote for Rathbones.

Secondly, the data concerns the total number of resolutions voted. It is now best practice for companies to seek annual re-election for their boards, and hence each board member is covered by an individual resolution, in addition to the standard two agenda items on remuneration policy and other items. Most company agendas have around 20 resolutions on them, of which the majority are routine.

Failing to back management (whether through a vote against, an abstention or withholding a vote) is a relatively serious step and tends to happen only where dialogue has failed or serious concerns need to be raised. In the minority of cases where we vote against management, most attention has been paid to the issue of executive remuneration, followed by the independence of group directors. As more attention has been paid to this area in recent years, our proportion of votes against management has increased.

A breakdown of the different ESG issues where votes against management were entered in 2019 is summarised below.

Votes against management 2019

Anti-takeover related	1.8%
Capitalisation and shareholder rights	8.1%
Directors related (board independence)	45.9%
Executive pay	20.7%
Mergers, acquistions and takeovers	4.5%
Routine/business (audit re-election)	16.2%
Environmental and social	1.8%
Miscellaneous items	1.0%
	100%

Engagement

We are in ongoing contact with the companies in which we invest. Engagement can take a number of forms, including (but not limited to):

- regular and ad hoc face-to-face meetings with management
- teleconferences with senior management
- formal written correspondence
- informal written correspondence.

Engagement may cover a wide range of issues. The following topics are ranked in order of the frequency and intensity with which we engaged with companies:

Engagement topics in rank order 2019

Issue	Typical content of engagement
Board and directors	Leadership, effectiveness, committee composition, succession planning, diversity, independence
Remuneration	Pay policy, disclosure on pay policy and structure, recruitment awards, malus or clawback provisions
Capital structure	Share issues, issues of shares without pre-emption rights
Accounting and audit	Auditor independence and non-audit fees, rotation of auditor, accounts misstatements
Environmental and social	Management of material social and environmental risks, including but not limited to failure to provide adequate reporting in these areas.

Of particular note here is the increased focus on audit and the role of the auditors, following the high profile collapse of Carillion. We discuss this issue in more detail in the case studies section.

PRI engagements

With the establishment of the responsible investment committee and the underlying PRI engagement group, we were able to expand our activities in this area in 2019. The PRI engagement group meets on a monthly basis and currently has 11 members, each a volunteer investment professional who brings personal ESG expertise into priority engagements for the group. The group discusses potential new engagements to sign up to and how best to integrate the learnings from the PRI into the wider business, in line with the priorities set in the responsible investment policy.

In 2019 we played a major role in the following UN PRI coordinated engagements:

Fuelling water disclosure

We joined an investor coalition representing $6 trillion in assets under management (AUM), which wrote to 36 international companies in the oil and gas sector. We called on them to respond to address water risks and participate in transparent reporting on those risks.

KnowTheChain investor statement

We signed to demonstrate public support for eradicating forced labour in global supply chains, and to set expectations for investee companies in line with internationally recognised labour standards in existing human rights frameworks. As a signatory, we will support decent work in the supply chains of the companies in which we invest, better identify early warning signs, improve stakeholder relationships, and secure a stronger licence to operate in communities and countries.

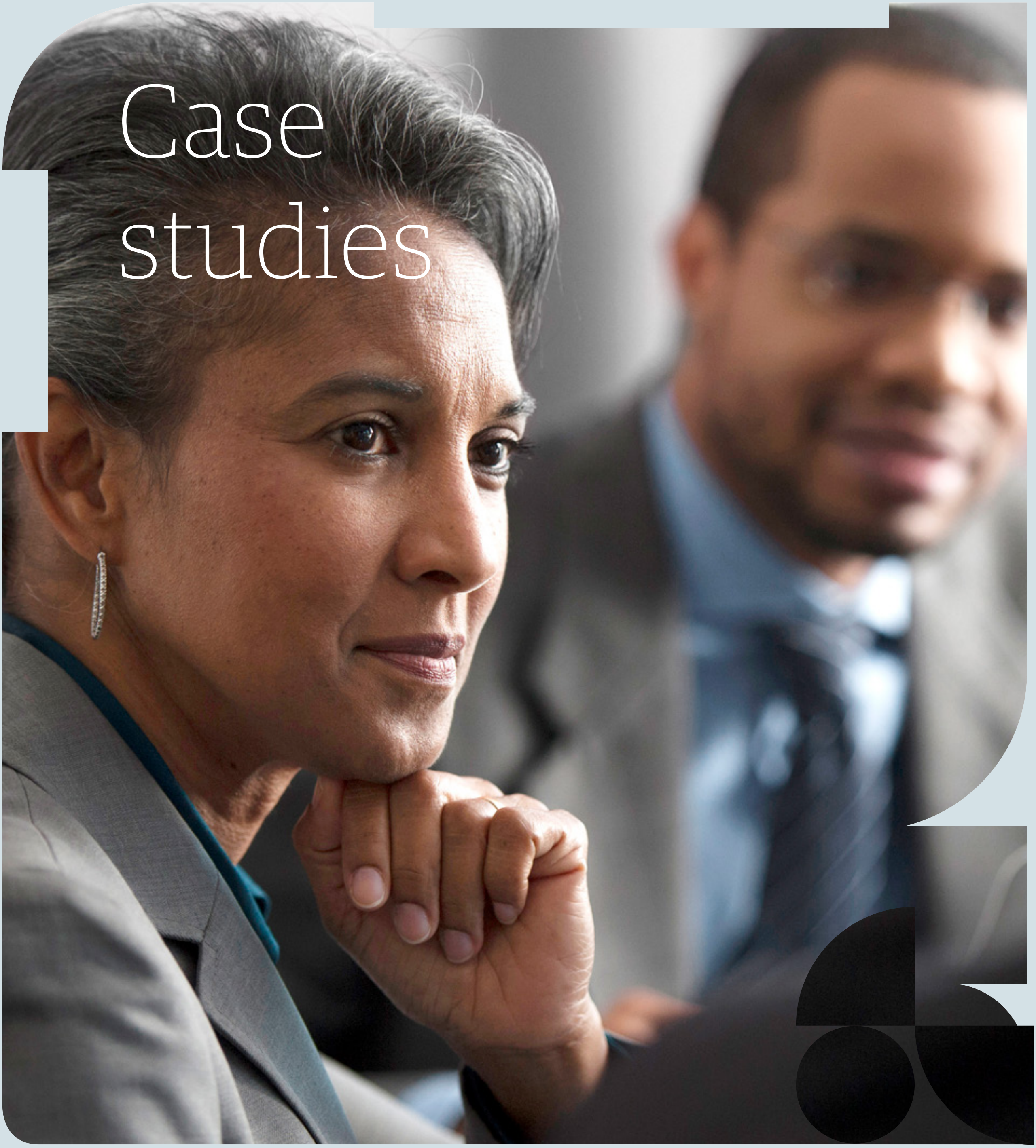
Responsible sourcing of cobalt
We are part of an engagement focused on improving sourcing practices around cobalt in line with The Organisation for Economic Co-operation and Development (OECD) Due Diligence guidelines. We have taken responsibility for managing the engagement with two target companies.

Call for new independent mine safety system for tailings dams
In early 2019, we joined the Investor Mining and Tailings Safety Initiative following the Brumadinho dam disaster which killed 270 people. Investors have made a public call to establish a sector-wide independent and publicly accessible international standard for tailings dams, based on the consequences of failure. The group has since written to 683 mining companies requesting information on each of their tailings facilities.

Transparency in Supply Chains provision of the Modern Slavery Act
In September 2019, we co-filed a submission with CCLA (Churches, Charities and Local Authorities) 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.

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 planet.

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 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).



Case studies

Environmental

BHP:

Issue
Despite the claim by senior management that BHP leads the mining industry on tackling climate change, concerns were raised about the company's membership of a number of controversial industry associations whose stance appeared less progressive. In particular, the company was a member of COAL21 and the Minerals Council of Australia, which clearly conflicts with the company's commitment to the Paris Agreement on climate change.

Membership fees paid to organisations whose aims are in conflict with the group's position are a potential mis-allocation of shareholder funds. In addition to this, given BHP's size and influence in these associations, the suspension of its membership could influence other members and companies in the sector to take a similar stance.

The resolution was co-filed by Vision Super (an Australian not-for-profit), ACTIAM (a top-ten Dutch asset management company), Grok Ventures (a private Australian company), MP Pension (a Danish member-owned pension fund) and the Church of England Pensions Board.

Process
We supported a shareholder resolution calling for the board to 'Approve Suspension of Memberships of Industry Associations That Are Involved in Lobbying Inconsistent with the Goals of the Paris Agreement.'

Outcome
22% of shareholders supported the resolution with another 7% abstaining. In response to a letter sent before the AGM explaining our stance, the Chairman explained that BHP has a review of industry association memberships under way and is waiting for the results of the review before acting on its memberships.

The Chairman took the stance that being a member and advocating for change inside the organisation was frequently the best position to take, rather than withdrawing. Our view is that, given the scale and severity of the climate crisis, such views are no longer tenable.

BP:

Issue
Given the recognised risks and opportunities associated with climate change, the Climate Action 100+ shareholder group (of which Rathbone Greenbank is a member) put forward a shareholder resolution to encourage further disclosures by the board to provide clarity on how the company's strategy is consistent with the Paris Agreement, including enhanced reporting requirements. The resolution was drafted with adequate flexibility for the strategy to adapt over time.

Process
We chose not to co-file the shareholder resolution, as Climate Action 100+ already had the necessary numbers. However, we chose to vote for the request. We consider climate change to be a major issue facing the company, and the resolution to be timely given the imminent change in strategy and leadership at the company.

Outcome
99.14% of shareholders supported the resolution. This was aided by the board's decision to back the disclosure request. We updated our Rathbone Investment Management (RIM) voting policy to generally support shareholder resolutions making reasonable requests for increased transparency regarding ESG matters.

Social

Ashtead Group, Legal & General and Intertek Group:

Issue
Modern slavery and human trafficking is a pervasive risk to society — but also to our investments. It is imperative, then, that all companies in the UK play their part in reducing 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, to demonstrate a strong commitment to fighting modern slavery and reduce the risk of reputational damage.

Process
We used research provided by the Business & Human Rights Resource Centre (BHRRC) which reviews the modern slavery statements of FTSE 100 companies on an annual basis and flags those companies failing to meet the minimum requirements of section 54 of the Modern Slavery Act 2015. Section 54 requires every organisation with a global annual turnover of £36 million or more to produce a slavery and human trafficking statement for each financial year. The statements should fulfil three minimum requirements under the Modern Slavery Act — statements must be published on the company's website, be approved by the board of directors and signed by a director.

In 2019, we decided to abstain on the financial statements and statutory reports of FTSE 100 companies that were deemed to be breaching the letter and spirit of section 54 of the Act. As the largest companies in the UK, the FTSE 100 should provide leadership and help lift standards at an industry level. We notified the three non-compliant companies in question (Legal & General, Ashtead Group and Intertek Group) ahead of the AGM that we would be taking this position. 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. Legal & General responded to our engagement after the AGM to explain that they had now published their Modern Slavery Act statement and notified the BHRRC that they were now compliant. We have yet to hear back from Ashtead Group.

Governance

Galliford Try:

Issue
Given the centrality of good safety performance to the group's licence to operate, we struggled to understand why the remuneration committee failed to reduce the annual bonus awarded to the CEO and CFO, despite failing to meet performance and improve health and safety at the company. In particular, we noted that the accident frequency rate (AFR) and accident incident rate (AIR) both exceeded the 2019 group level targets.

Process
Through discussions with top holders and our review of the group's approach against market best practice we decided to support management; we raised our concerns with the chairman at the time of the AGM.

Outcome
The company secretary informed us that health and safety was the company's top priority and that performance is regularly reviewed and discussed at all levels of the business. The company then informed us that it had noted our points on the disconnect between health and safety performance targets, and executive pay and bonuses.

However, we were not satisfied that the board had grasped the severity of the issue, and sent a second engagement letter asking for more specifics on why it failed to apply discretion in the current situation and why the AFR target for the executive directors differs from the overall group-level target.

The company secretary explained that the remuneration committee chose not to reduce the annual bonus for the CEO and CFO as the group maintained its health and safety performance for the 2018/2019 financial year. The board will be engaging with shareholders on the matter ahead of the 2020 remuneration policy.

Herald Investment Trust:

Issue
The external auditor EY had exceeded the 20-year maximum audit tenure. Although we usually take a more lenient approach to investment trusts, we have concerns that the longer the length of tenure undertaken by an auditor, the greater the chance of an impairment in the objectivity and the value of the audit service. 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.

Process
Although we supported management on the re-election of EY as the external auditors, we asked the board to deliver greater disclosure of the plans relating to the appointment of a new auditor well in advance of the next AGM.

Outcome
Whilst the audit committee did not agree that refreshing audit tenure more regularly will incline auditors to be free from potential conflicts of interest and have less impediments to producing accurate and transparent information for shareholders, the audit committee has listened to shareholder concerns on this issue and an audit tender will be held in 2020, which is sooner than the law requires. EY will not be eligible to participate.

Kier Group:

Issue
Despite seeing its share price fall by more than 80% during 2019, the board decided to maintain long-term incentive plan (LTIP) awards for the chief operating officer for FY2020. The company also proposed to increase the normal LTIP award limit for the CEO for FY2020, which exceeded the normal level awards limit stated in the shareholder-approved remuneration policy. In addition, disclosure on the rationale for these changes was poor.

Process
We voted against the remuneration report due to the vast divergence between executive pay and performance.

Outcome
The remuneration report received a 53.88% vote against. This was in the top-three largest votes against a remuneration report for a FTSE 350 company in 2019. The company will publish an update within the next six months on the views it has received from shareholders and the actions it has taken, or proposes to take, in response.

Berkeley Group Holdings:

Issue
When we invest in a company, we expect the composition of the board to achieve the right balance between expertise and the capacity of directors to dedicate enough time to their role. Our proxy voting consultant defines an 'over-boarded' director as any person who holds more than five mandates at listed companies. An executive director counts as three mandates, a non-executive chairman counts as two mandates and a non-executive director counts as one mandate.

With regard to Berkeley Group, we noted that one of the non-executive directors, Mr Li, held positions at five other companies outside of his role at Berkeley Group Holdings and that the majority of the directorships held were at companies with large market capitalisations.

Process
We decided to vote against the re-election of the non-executive director, as we had considerable concerns that his extra external commitments could potentially compromise his ability to commit sufficient time to his role should a crisis in the company's affairs arise. We were also concerned that the situation had been allowed to continue despite two successive years of significant shareholder opposition to the re-election of this non-executive director in 2017 (33.5% against) and 2018 (31.4% against).

Outcome
46.26% of shareholders (including Rathbones) voted against the re-election of the non-executive director, Mr Li. We have updated our voting policy to abstain the re-election of a director who holds the same position at more than two FTSE 100 companies and to oppose their re-election if there are serious concerns about the director's aggregate time commitments.

About us

Rathbone Investment Management is one of the leading providers of high-quality personalised investment management services for private clients, charities and trustees.

Rathbone Investment Management is a subsidiary of Rathbones Brothers Plc, which provides investment management services, financial planning, offshore investment management, trust and tax services, ethical investment and banking services. Rathbone Brothers Plc is a FTSE 250 listed company employing over 1,300 people across 14 UK locations and Jersey. This report covers our voting and stewardship activities relating to Rathbone Investment Management, referred to as Rathbones, which reported 43.0 billion in assets under management as at 31 December 2019.

This report does not cover the voting and engagement activities of Rathbone Unit Trust Management, the unit trust arm of Rathbone Brothers Plc. Rathbone Unit Trust Management is a signatory to the UK Stewardship Code, being the only part of the group which is covered by this area of voluntary regulation. Rathbone Unit Trust Management's approach to stewardship is reported separately from that of Rathbone Investment Management via our website **rathbonefunds.com**

Looking forward

We are committed to transparency in our proxy voting activities. You can read more about our approach to the management of governance risks in our public Principles for Responsible Investment reporting which can be found on the PRI website at unpri.org/signatories/rathbone-brothers-plc/1700.article

For more information, please email stewardship@rathbones.com

Important information

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Rathbones
Look forward

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