RATHBONES

NET ZERO

STEWARDSHIP AND ENGAGEMENT STRATEGY

OUR NET ZERO STRATEGY

The Intergovernmental Panel on Climate Change (IPCC) has warned that to limit global warming to 1.5°C above pre-industrial levels, the world's carbon emissions need to halve by 2030 and reach net zero by 2050. In 2021, Rathbones Group Plc announced a commitment to achieve net zero emissions across the wider business by 2050 or sooner.[1] Our commitments align with the 1.5°C target, and cover greenhouse gas emissions associated with our operations, supply chain and, most importantly, our investments.

As part of this, the Science Based Targets initiative (SBTi)[2] have validated and approved our near-term 1.5°C-aligned targets, under which we have committed to:

— a Scope 1 and 2 emissions reduction of 42% by 2030 (from a 2020 baseline)[3]

— ensure that 35% of our listed equity and bonds investments, by value, set SBTi-approved targets by 2025, increasing to 57% by 2030, and 100% by 2040

— set long term emissions reduction targets with the SBTi in line with reaching net zero by 2050.

Meeting our net zero target will entail coordinated efforts across different areas of the business, but at the heart of our approach sits our commitment to engagement and stewardship. Successful engagements can not only play a central part in the achievement of our portfolio alignment targets but also have a positive impact on companies' real-world emissions trajectories.[4] We recognise that net zero is a complex target with progress unlikely to be predictable and linear, requiring an open and ongoing conversation with investee companies and the ability to escalate our response to engagements which are not progressing in line with expectations. This is explored below.

On 21 September 2023, following regulatory approval, Rathbones Group Plc completed its planned combination with Investec Wealth & Investment UK (IW&I (UK)). This strategy document excludes IW&I, unless otherwise indicated. We are working to set net zero targets for the combined group and will update this document as necessary.

[1] This includes a commitment from Greenbank, the specialist ethical, sustainable and impact team of Rathbones Group, to become net zero by 2040.

[2] Science-based targets provide companies with a roadmap for reducing their emissions at the pace and scale that the scientific consensus tells us is necessary for a 1.5°C world. The Science Based Targets initiative (SBTi) is a corporate climate action organization that develops standards, tools and guidance which allow companies to set greenhouse gas (GHG) emissions reductions targets in line with the 1.5°C target.

[3] Scope 1 and 2 emissions refer to different types of greenhouse gas emissions. Scope 1 emissions are direct emissions from sources owned or controlled by a company, such as burning fuel for heating or running vehicles. Scope 2 emissions are indirect emissions resulting from the generation of purchased energy, such as electricity from the grid.

[4] See, for example, MSCI, Engagement is a Powerful Force in Climate Action, (19 September 2023), available at: https://www.msci.com/www/blog-posts/engagement-is-a-powerful-force/04073807172, accessed on 3 May 2024.

OUR NET ZERO STEWARDSHIP AND ENGAGEMENT APPROACH

1. Overview

Our **Group Responsible Investment Policy** highlights the important role of proxy voting and engagement in delivering on our stewardship responsibilities. We believe in being active stewards of our clients' capital, working with investee companies to ensure that they take the necessary actions, in line with science, to limit global temperature rises to 1.5°C. By urging companies to manage their climate-related risks, we help to protect clients' capital. An overview of our stewardship activities, which includes collaborative engagement undertaken with other investors, can be found in our **Group Engagement Policy.**

2. Our path under SBTi

Our SBTi targets require that an increasing proportion of our investee companies set or commit to set their own validated science-based targets, such that 100% of our listed equity and bond holdings have SBTi targets by 2040.[5] The 2040 timeline has been determined to allow investee companies enough time to implement their plans to ultimately contribute to an economy-wide transition to net zero by 2050. We intend to meet these SBTi targets through engagement with investee companies.

13% of our holdings had established science-based targets in 2020 (our base year). We have set an interim goal that, by 2025, at least 35% of our holdings by value have set a net zero target or are committed to setting one. To reach our long-term target, the proportion of our portfolio that has a target will need to increase at a rate of just over 4% per year. However, we do not expect progress in this area to be predictable and linear. We are dependent on the role of other investors and regulators to help drive achievement of this goal, as our influence with portfolio companies varies greatly.

3. Targeted engagement

The majority of our financed emissions are attributed to a small number of companies in high-emitting industries, such as energy and mining. We perform holdings analysis to formally identify these companies and focus our engagement efforts on these priority companies.

While planning our engagements, in addition to encouraging the adoption of science-based targets amongst our holdings, we look to align with the guidance of the Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Framework (NZIF). The NZIF asks asset managers to set an engagement goal that at least 70% of financed emissions in specific sectors are either assessed as net zero, aligned with a net zero pathway, or the subject of direct or collective engagement and stewardship actions.

4. Implementation of our enhanced stewardship strategy

An increasing number of companies are issuing net zero commitments. We recognise that we have a responsibility to assess the quality of those commitments.

In addition to tracking the adoption of SBTi targets as a means of assessing investee companies' net zero targets, we have established our own framework to determine whether companies' emission reduction plans are aligned to what is needed to limit global warming to no more than 1.5°C above pre-industrial levels. Our framework is inspired by the IIGCC's Net Zero Stewardship Toolkit, and broadly requires compliance with established industry guidelines such as the NZIF criteria and the CA100+ Company Benchmark Indicators. These assessments help to inform our conversations with companies by identifying areas where companies are meeting requirements and where there may be need for more urgent action.

[5] As stated above, the SBTi targets referenced in this document, and any analysis relating to them, relate to Rathbones Group Plc, excluding Investec Wealth & Investment UK.

CORE CRITERIA	TO ASSESS BASELINE ALIGNMENT
1. Ambition	A long-term emissions goal based on Scope 1, 2 and material Scope 3 consistent with achieving global net zero.[6]
2. Targets	Short- and medium-term emissions targets (for Scope 1, 2 and material Scope 3).
3. Emissions performance	Current emissions intensity performance (for Scope 1, 2 and material Scope 3) on a metric consistent with targets.
4. Disclosure	Scope 1, 2 and material Scope 3 emissions disclosure.
5. Decarbonisation strategy	A quantified plan setting out the measures that will be deployed to deliver GHG targets, proportions of revenues from green products and services and the use of neutralising actions such as CCUS (Carbon Capture, Utilisation and Storage) and offsets.
6. Capital allocation alignment	Clear demonstration that future capital expenditures are consistent with the goal to achieve net zero emissions by 2050.
ADDITIONAL CRITERIA	**TO AID ENGAGEMENT**
7. Climate policy engagement	The company has a Paris aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities.
8. Climate governance	Board capabilities and competencies to manage climate change. Specific Board member responsible for climate and net zero oversight. Executive remuneration should be linked to achieving climate targets.
9. Just transition	The company considers the impacts on its workers and communities of transitioning to a lower-carbon business model.
10. Climate risk accounting and audit	The company provides disclosures about risks associated with the transition through TCFD reporting. Its financial accounts state the climate scenario under which they were generated as well as explore any material, climate-sensitive assumptions (e.g. fossil fuel prices, carbon taxes) and outcomes (e.g. write-downs on coal assets, useful life impact on gas assets). Where assumptions are not consistent with a net zero scenario, the impact of a net zero scenario on financial statements should be indicated.

We use a combination of different datasets in addition to the entities' own reports to build a comprehensive view of whether a company is aligned to the 1.5°C framework, and which of the above indicators are being met. This exercise requires judgement and time but allows for a more targeted engagement when meeting companies.

Although the 1.5°C criteria defined above apply to all companies at a high level, we recognise that some sector-specific criteria may be necessary. This is particularly the case for high emitting sectors and where 'sector decarbonisation pathways' – or analysis around an orderly reduction of greenhouse gas emissions specific to certain sectors – are available. For some sectors, an enhanced alignment framework may be needed. Rathbones is committed to embracing further sectoral recommendations as these become available.

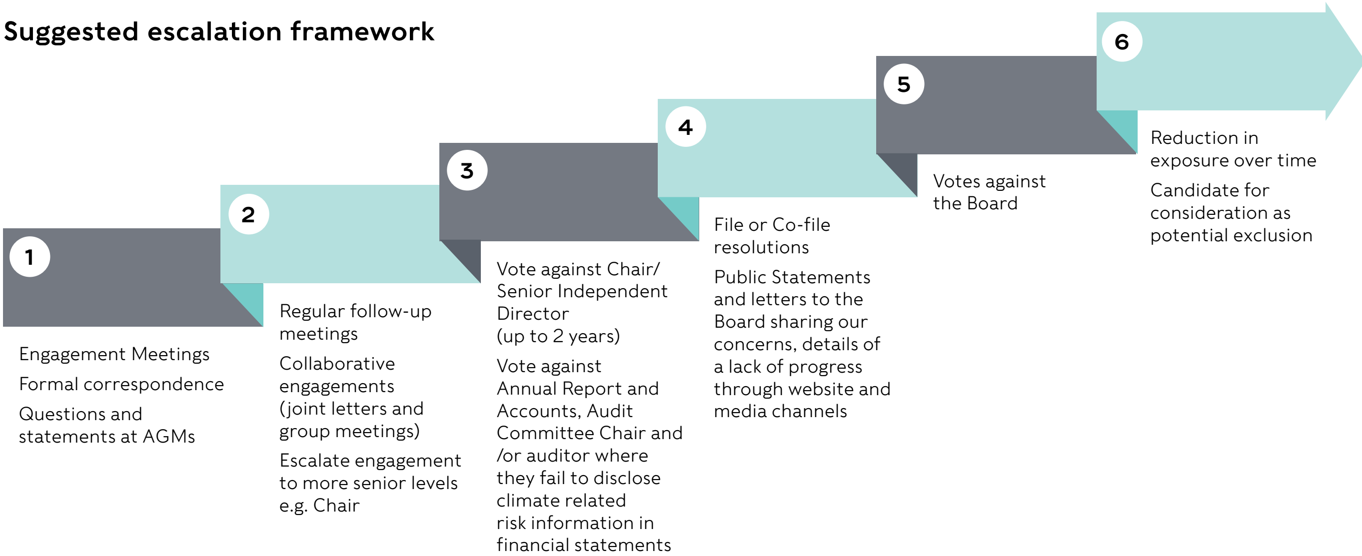
[6] Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

OUR APPROACH TO ESCALATION

We understand that meaningful engagement efforts require significant resources and perseverance, and it often takes time to achieve the intended outcome. While we hope to work with companies to promote positive change, we recognise that there may be occasions when companies do not respond constructively to the issues we raise in our engagements and progress is not forthcoming. When this occurs, we may choose to escalate our engagement activities, depending on the particular circumstances, nature and severity of the issue. Our escalation options allow for effective intensification of stewardship activities in order to progress goals. A full explanation of our engagement philosophy, and escalation in particular, can be found in our engagement policy.

Our escalation framework, set out below, utilises the range of stewardship levers at our disposal, including the voting rights we hold on behalf of our clients. It is important to note that net zero target companies will already be at different steps on the escalation plan. We assess the progress made by our holdings towards setting SBTi-approved targets every 12 months. The escalation steps taken will depend on the specific circumstances of a company's emission reduction plans. Our engagement does not necessarily follow a linear path on the escalation framework; we may adopt different tools at varying stages of engaging with companies, depending on their performance and the steps we believe are likely to be most effective.

Suggested escalation framework



We will continue to enhance our escalation approach to provide more clarity to companies on our expected timelines for delivering demonstrable action to meet our 1.5°C alignment framework.

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