

Rathbone Unit Trust Management responsible investment 2021

(covering 2020 activity)



Rathbones
Look forward

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Introduction and background

Rathbone Unit Trust Management is a leading UK fund manager. We are a management house, offering equity, bond unit trusts, OEICs and a multi-asset portfolio (consisting of four sub-funds) to meet your capital growth and income requirements.

We are an active management house, specialising in investment management for the retail investor and segregated institutional accounts. All of our funds qualify for inclusion in ISAs (Individual Savings Accounts) which can receive lump sums.

Rathbone Unit Trust Management Limited is a wholly-owned, London-based subsidiary of Rathbone Brothers plc. In 1995 and 1996 respectively, Rathbone Brothers acquired stockbrokers Laurence Keen and Neilson Cobbold, securing many private wealth managers, and their clients. The company also acquired unit trusts from Laurence Keen Unit Trust Management including the Rathbone Income Fund – the success of which led to a rebranding of the operation in 1999 to Rathbone Unit Trust Management Limited.

Through its subsidiaries, the parent company manages £55.8 billion of client funds, of which £10.3 billion is managed by Rathbone Unit Trust Management Limited.

*(As at 31 March 2021).

Purpose, values and culture

“Thinking, acting and investing responsibly”

- 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.

Rathbone Brothers statement of purpose, December 2019

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.

These values are what drive our organisational culture and our investment process. We aim to lead the UK wealth sector by adopting an intelligent and active approach to responsible investment that takes a holistic view of investment opportunity and risk. We do this by thoroughly considering the relevant environmental, social and governance factors and actively engaging with the companies in which we invest.

Policies and governance

Our Responsible Investment Committee (established in 2019, building on previous committees in the area) defines responsible investment as:

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

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



Responsible investment policy

We believe it is in the best interests of our clients that the companies in which we invest adopt best practice in managing environmental, social and governance (ESG) risks. This provides each company with a framework for managing its operations in the long-term interests of its shareholders. As an investment manager that is mindful of our responsibilities to our clients, we seek to be good, long-term stewards of their wealth, as outlined in our [responsible investment policy](#).

Our major responsibility in this regard is to ensure that company boards are functioning well in their role to independently oversee their activities and their management teams, 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 fundamental expression of our stewardship responsibilities. However, stewardship is not limited to this activity alone. Engagement with companies on ESG issues is an important adjunct to voting activities.

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

Our responsible investment principles

We have developed four core principles that guide our responsible investment activities:

1. ESG integration

When we evaluate investments, we consider material environmental, social and governance (ESG) factors to help identify opportunities and risks.

2. Voting with purpose

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

3. Engagement with consequences

We prioritise engagement where we can make a real difference in addressing the world's systemic environmental and social challenges. We are prepared to reduce our holdings in companies that continue to present an ESG risk over time.

4. Transparency

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



Engagement policy

We recognise that ESG engagement opportunities present themselves across a spectrum of severity. In order to maximise the effect of our engagements and deliver on our responsibilities to clients, we must be selective and pragmatic. Whilst the specific approach taken to engagement will be decided on a case by case basis, the following principles guide the selection of an issue for more active engagement:

1. Exposure

Across our portfolios we may hold stakes in smaller companies which, whilst small in terms of value, may be significant in terms of the proportion of voting rights. We are more likely to engage directly where we hold a material stake in the company, defined as holding in excess of 3% of a company's share capital.

2. Severity

We are more likely to engage on issues that present an immediate or severe threat to the best interests of our clients.

3. Location

We are more likely to engage with those companies where we have a deeper understanding of the local legal framework.

4. Expertise

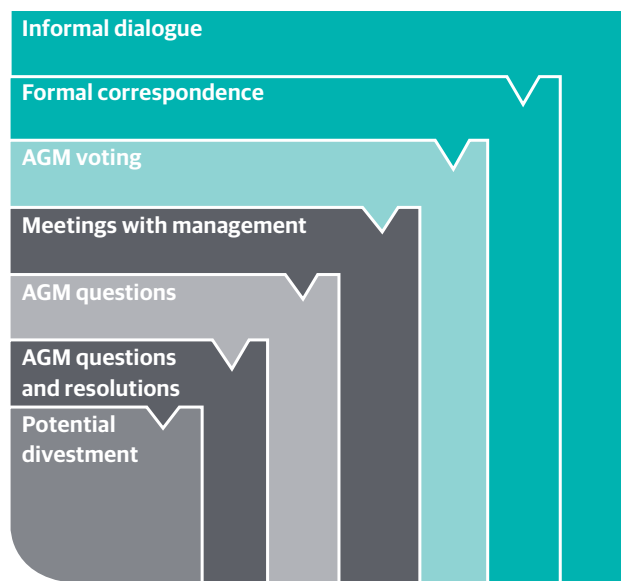
We are more likely to engage where we have deeper experience of a company or issue.

Above all, it is our belief that engagement must have consequences to be effective.

We are prepared to reduce our holdings in companies that continue to present a material and poorly managed ESG risk over time. **Please read our separate engagement policy for more information around this responsible investment principle.**

Engagement with consequences

Whilst we reserve the right to respond as appropriate, as determined by the circumstances, our general approach to engagement is outlined by the graphic below:



Collaboration

Where appropriate, in line with our conflicts of interest policy, we will seek to engage on a collaborative basis. We recognise that in some situations our concerns will align directly with those of other shareholders. However, our overarching aim is to act in the best interests of clients, and this takes precedence over collaborative action.

We recognise that many ESG issues are systemic, and hence are more suited to co-ordinated, cross-sectoral action. We therefore make full use of the United Nation's Principles of Responsible Investment (UN PRI) collaboration platform, engaging with other members on a wide range of ESG issues each year. We are also members of the Institutional Investors Group on Climate Change (a major investor group engaging with companies on climate issues) and the 'Find it, Fix it, Prevent it' campaign aimed at reducing modern slavery in supply chains.

Conflicts of interest

How we manage conflicts of interest

We are fully aware of our overarching duty to act in the best interests of the underlying investors, in our range of collective investment schemes, when proxy voting or engaging with companies in which we invest.

However, situations arise where the interests of management, fund managers and clients may be misaligned. In such circumstances we apply the principles of our Conflicts of Interest Policy.

Asset management businesses such as Rathbone Unit Trust Management is required, as part of their regulatory obligations, to identify potential and actual conflicts of interest which may arise during the course of undertaking regulated or ancillary activities, and have systems and procedures in place to manage or resolve such conflicts. We owe a fiduciary duty to our clients to ensure that conflicts are managed and where possible resolved in order to avoid any detriment.

Conflicts of interest are and will remain a key focus for the regulator. In Rathbone Unit Trust Management's case, the Financial Conduct Authority (FCA) Principle 8 of the FCA's handbook states:

“A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.”

The full regulatory obligations are contained in section 10 of the FCA Senior Management Arrangements, Systems and Controls sourcebook.

We are further required to prepare, maintain and implement a written policy covering the business activities of Rathbone Unit Trust Management, which will be made available on the Rathbone Unit Trust Management website (rathbonefunds.com).

What is a conflict of interest?

A conflict of interest arises when:

- The firm's interest or the interests of its managers, employees or any person directly or indirectly linked to it by control, conflict with the duty it owes to our clients; or
- The duties the firm owes to one client conflict with the duties it owes to another client in the course of providing regulated activities.

Steps have been taken to identify conflicts of interest across the activities undertaken by Rathbone Unit Trust Management. These along with the processes and procedures to control and mitigate are reviewed on a six-monthly basis by the Rathbone Unit Trust Management board by way of a report produced by Rathbone Unit Trust Management's compliance officer. Where appropriate, this will include the provision of management information (MI) to support the current status of each conflict.

Personal obligations

Rathbone Unit Trust Management requires all staff to understand and adhere to the requirements of the conflicts of interest policy. Personal integrity and vigilance is essential in recognising conflicts that may be either at a personal level or in respect of the activities undertaken for our business. Staff are expected to exercise the highest standards of integrity and ethical business conduct to ensure the fair treatment of clients. All staff are required to avoid any situation in which their personal interests' conflict with Rathbone Unit Trust Management's fiduciary duty to its clients. Staff are required to report any potential conflicts that they have identified, or that could arise in the first instance, to the Rathbone Unit Trust Management compliance officer.

To ensure that staff understand their responsibilities, training in conflicts of interest is provided to all new joiners, and an annual attestation of the current policy, its contents, and attachments is required of all staff.

Disclosure

A situation may arise where Rathbone Unit Trust Management's arrangements to manage its conflicts are not sufficient to ensure, with reasonable confidence, that the risks of damage to the interests of clients will be prevented. Rathbone Unit Trust Management will be required to disclose the general nature and the sources of the conflicts of interest to investors. The disclosure will be made in a durable medium and will include sufficient detail in order for the client to make an informed decision in respect of the service in the context of which the conflict arises.

Types of conflicts

Potential conflicts of interests currently exist in the following areas:

- Provision of research to Rathbone Investment Management managers by Rathbone Unit Trust Management fund managers and analysts
- Investment in Rathbone Unit Trust Management funds by Rathbone Investment Management managers, where primacy could be seen to be given to the stewardship concerns of Rathbone Investment Management managers over other shareholders
- Personal account dealing
- Provision and receipt of gifts and benefits (contained in a separate policy)
- Management of bespoke Rathbone Unit Trust Management funds as well as discretionary accounts
- Management of external funds by Rathbone Unit Trust Management managers
- Terms of business with platforms, supermarkets and other groups with whom we do business
- Competing needs between Rathbone Investment Management and/or Rathbone Unit Trust Management holders of debt and equity in the same company.

Resolution

If conflicts occur and are deemed not to be managed sufficiently by the procedures detailed in our Conflicts of Interest policy, then Rathbone Unit Trust Management is required to disclose the general nature and the sources of the conflicts of interest to investors. The disclosure will be made in a durable medium and will include sufficient detail in order for the client to take an informed decision in respect of the service in the context of which the conflict arises. With regard to proxy voting, the chief investment officer has final authority to decide on competition between potential courses of action.

Our parent company has a clear policy on restricting dealing whilst in possession of price sensitive information. A procedure is in place regarding the manner in which Rathbone Unit Trust Management employees are able to declare themselves insiders. With regard to governance and stewardship issues we recognise that in seeking to satisfy concerns raised, a company may request that we become insiders in order to resolve the issue. Given our closer exposure to private client investment management as part of our parent group, it is our preference for staff not to become insiders. However, where becoming an insider would further the best interests of clients, we have a clear policy and procedure in place to facilitate this.



Resources and incentives to support stewardship

We employ three full time staff who are responsible for providing oversight of our stewardship activities. These staff support and enable interaction with stewardship activities by Rathbone Unit Trust Management's staff and fund managers. In addition, Rathbone Unit Trust Management's fund managers serve as full voting members on two key committees at parent group level. The terms of reference of both the Responsible Investment Committee and the Stewardship Committee ensure representation from Rathbone Unit Trust Management fund managers.

The function is led by the stewardship director who has over 16 years' experience of responsible investment, stewardship and ESG integration. This employee's fixed and variable remuneration is contingent on the achievement of responsible investment goals set by senior management.

ESG integration with the research process

We continue to be committed to embedding our corporate purpose throughout our investment processes and wider business. Building on our strong responsible investment foundations, in 2020 we set out to achieve a number of ambitious objectives.

2020 developments

We believe being a responsible investor is a fundamental to our investment process. Throughout 2020, we began the work to formally embed and evidence ESG integration into our investment management processes. Integrating ESG into the research and investment process means specifically including and considering the risks and opportunities that specific environmental, social and governance factors have on an investment.

The assessment of ESG factors and risks is an intrinsic part of the over-sight framework that we are further establishing to safeguard the interests of our unitholders.

Rathbone Unit Trust Management is working to develop its fund offering to cater to the sustainable investment market. By offering a wider suite of funds, we are able to better cater for our investors needs in a world which is rapidly changing.

Our active consideration of ESG risks in the proxy voting process gives rise to useful insights which are integrated into the investment research process. Since we assert that ESG risks can be material to the valuation of companies, we are exploring different ways in which ESG risk data can be included within our core research.

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 ESG and voting analyst sits on all relevant internal stock selection committees to provide ESG risk insights. We plan to replicate this approach in the areas of environmental and social risks in due course.



Scope of stewardship activities

The range of funds delivered by Rathbone Unit Trust Management differ in their scope and focus, and we have developed specific stewardship and governance processes applicable to these different areas. In particular, we detail our approach to managing stewardship and engagement in the fixed income area where our influence is not built on the same ownership rights as in listed equity.

Listed equity

The cornerstone of our ownership and stewardship activities in the listed equity area is proxy voting. We commit to actively voting on every stock we hold in our funds.

Our voting activities apply a benchmark voting policy which is guided by established best practice, and also compliant with the provisions of the UK Corporate Governance Code (which covers UK companies) and the AIC Code of Corporate Governance (which covers investment trusts). It also respects best practice in local markets with regard to those securities we hold which are listed outside of the UK. In situations of conflict between best practice and local rules, we prefer to hold companies to the higher standard.

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 interests
- 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 they should demonstrate the following key features:

- Be led by an independent chairman
- The chairman and the chief executive roles should be separate and not exercised by the same individual
- The board and its committees should retain the requisite balance of skills, experience, knowledge and independence. This includes 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 non-executive directors considered to be independent.

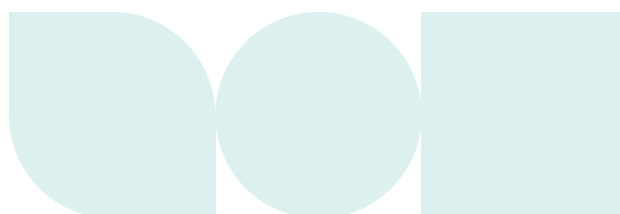
Voting

While the core principles of corporate governance are relatively well established, we are always monitoring emerging trends in this area.

To ensure that our policy remains fit for purpose, we review it against benchmark standards and principles, and update it accordingly on an annual basis. Following our 2020 review, we took 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 Index non-compliance with the 2015 Modern Slavery Act and excessive executive director pension contributions.

Voting is performed automatically in line with this benchmark policy, with the Stewardship Team exercising oversight throughout the process. Where a vote against management is recommended, the relevant fund manager is engaged in a discussion and the issues weighed. We retain full ability to change our votes relative to that recommended by the default policy, and often take a more stringent line, insisting on higher standards of ESG management.

Our approach is nuanced for those funds with a particular emphasis on environmental and social sustainability. For example, the Rathbone Global Sustainability Fund has from the outset applied a more detailed version of the default voting benchmark policy which is built from more detailed sustainability analysis and pays closer attention to the integration of sustainability issues into AGM voting. This approach has been so successful that the sustainability themed voting policy has been rolled out to all of our voting activities in Rathbone Unit Trust Management in 2020.



Impact of COVID-19 on 2020 voting

The COVID-19 pandemic has had a dramatic effect on annual general meetings (AGMs) around the world. In 2019, there were 286 virtual meetings globally – these are meetings that take place exclusively online and allow shareholders to vote and participate online. By May 2020, there were close to 4,000 virtual meetings around the world.

Some shareholders argue that this recent shift to virtual-only meetings, which we cover in more detail below, has contributed to less meaningful engagement. A key concern is that questions have to be submitted prior to the meeting, allowing senior management to more easily avoid difficult questions. Another noticeable effect of COVID-19 on AGMs has been the number of cancelled meetings. There was an estimated 21.8% reduction in AGM activity of the companies in the major stock market indices.

The way companies handle executive pay continued to be scrutinised by shareholders in 2020. Executive pay is one of the most controversial topics for shareholders and it became an even more contentious area during the pandemic. Some companies have attempted to reduce executive pay as a way of saving costs and aligning the experiences of executive directors with shareholders and wider stakeholders. However, there is an argument that the cuts made by company boards are few and far between and have not resulted in significant enough adjustments to executive pay.

For example, by August 2020 nearly 40% of FTSE 100 Index companies had made cuts to executive pay, but the reductions were often only in the form of forgoing annual bonuses or short-term salary sacrifices over the course of a few months. Few FTSE 100 Index companies chose to cut the longer-term portion of executive remuneration, which often comprises the bulk of pay awards. It remains to be seen how society will view these trends, but initial results are not encouraging for companies that have maintained high levels of pay in the face of challenging economic conditions.

Voting activity in 2020

Our full voting record for the last calendar year is available on our website.

Please note that our fund managers retain the ability to enter voting instructions which differ from the house view. It is therefore possible for us to enter a split vote in a given situation – meaning that for each votable item on a company agenda, we might enter a combination of votes. This means that the numbers expressed as a percentage would not be expected to add up to 100%. We give the percentage in order to give some sense of relative scale.

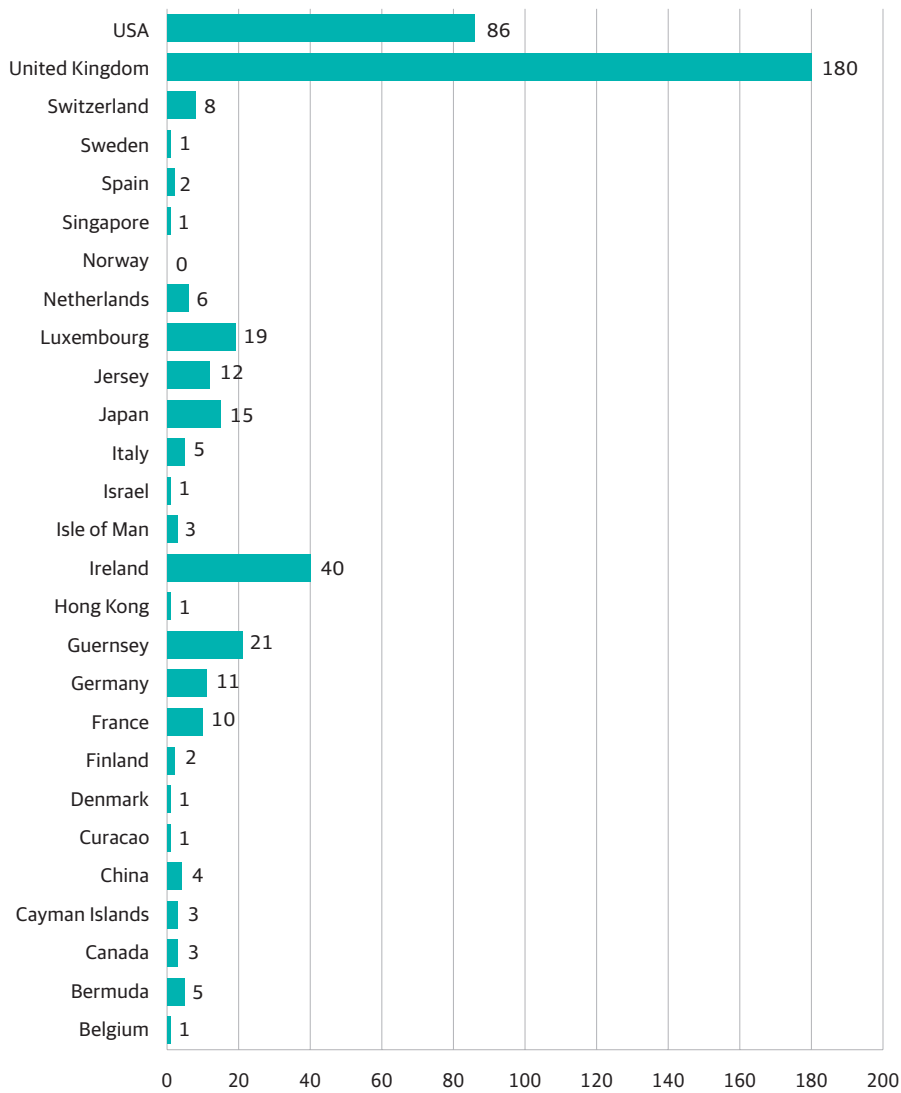
Proposal overview 2020

Category	Number	Percentage
Number of votable items	6,093	
Number of items voted	5,851	96.03%
Number of votes 'For'	5,568	95.16%
Number of votes 'Against'	247	4.22%
Number of votes 'Abstain'	26	0.44%
Number of votes 'Withhold'	13	0.22%
Number of votes on 'MSOP'	317	5.42%
Number of votes 'One year'	1	0.02%
Number of votes 'Two years'	0	0.00%
Number of votes 'Three years'	0	0.00%
Number of votes 'With policy'	5,831	99.66%
Number of votes 'Against policy'	23	0.39%
Number of votes 'With management'	5,557	94.98%
Number of votes 'Against management'	298	5.09%
Number of votes on 'Shareholder'	131	2.24%

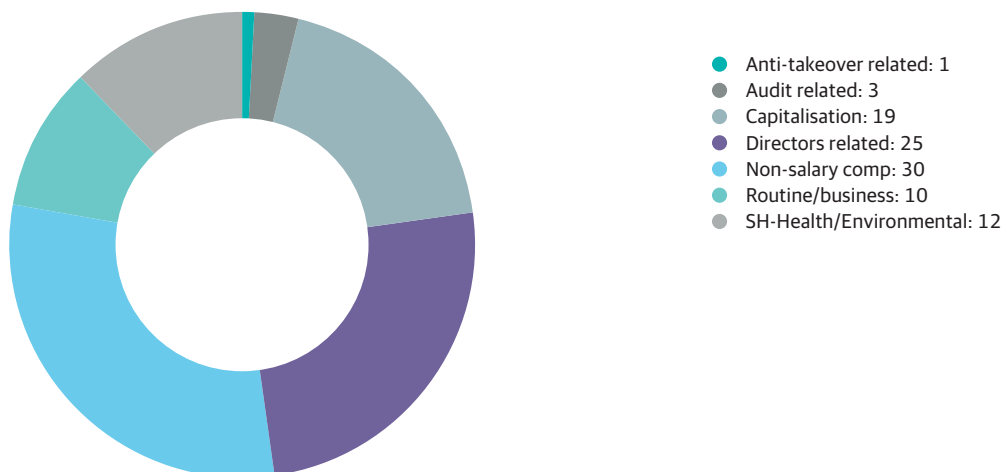
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Voting meetings



Votes against management 2020







Fixed income

For the fixed income investments in Rathbone Unit Trust Management, we instruct the service provider to make voting decisions on our behalf according to market benchmark policies. However, we are prompted wherever this would lead to a vote against management, and in such circumstances, we have a formal procedure for reviewing the decision before entering the vote manually. The stewardship team will assist with the execution of proxy voting for Rathbone Unit Trust Management's fixed income investments and support the team by providing voting advice that aligns with UK best practice guidelines found in the Rathbone Investment Management voting policy.

Engagement can take place throughout the different stages of the investment process, from pre-investment up to engaging prior to ESG-related divestment. The stewardship team may assist the fixed income team in carrying out an engagement, for instance to highlight the ESG risks and opportunities affecting a specific bond issuer or to encourage improved ESG disclosure by a company.

ESG factors are integrated into the investment process as categories of risk. Alongside our internal corporate governance research and the recommendations from our external proxy consultant, we also use ESG ratings from our third-party data provider. An ESG incorporation strategy is in place, although this process has not yet been formalised.

ESG engagements

Responsible investment principle – we prioritise engagement where we can make a real difference in addressing the world’s systemic environmental and social challenges. We are prepared to reduce our holdings in companies that continue to present an ESG risk over time.

It is our responsibility to have an open dialogue with companies on a wide range of ESG issues, with the end-goal of producing better investment and societal outcomes. We believe that purpose-driven company engagement on ESG issues forms part of our wider societal responsibility as a business. As investors, we have a role to play in addressing and minimising any systemic risks that may affect the assets in our portfolios. We achieve this through deep, meaningful and long-term contact with companies on a variety of topics.

Company engagement on ESG issues has been an important part of our stewardship activities for many years. When coupled with active voting, and set within a clear escalation framework, it can be a powerful force for change.

In addition, open dialogue and close interaction with a company can lead to improvements in corporate performance and better client outcomes.

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:

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

We have been members of the UN PRI since 2009 and access to the PRI's collaboration platform is a key benefit of continued membership. Through this portal, we are able to network with over 2,000 other responsible investment firms across the globe on ESG engagement projects.

To ensure we make the most of this opportunity, the PRI engagement group meets on a monthly basis and currently has 11 members, each of whom is a volunteer investment professional who has personal expertise in ESG topics.

The group discusses potential new engagements with a view to gaining investor support on how best to integrate learnings from the PRI into the wider business, in line with the priorities set in our responsible investment policy.

In 2020, we played a major role in the following UN PRI-coordinated engagements:

Letter to top mining companies on indigenous community rights and social licence

We joined this engagement after Rio Tinto caused the destruction of two ancient cultural heritage sites. The investor coalition wrote letters to 71 international mining companies on the actions that mining companies are taking to protect indigenous community rights and how they obtain and maintain their social licence to operate with these communities. This engagement will lead to improved transparency that will help investors better understand how companies are overcoming these risks and provide visibility of the governance arrangements they have in place.

FAIRR Initiative's Investor Action on Anti-Microbial Resistance (AMR)

Infections that are resistant to antibiotics are estimated to cause 700,000 deaths a year. That number is expected to rise to 10 million a year by 2050 if the current trend of growth in resistance continues, potentially resulting in US\$100 trillion in global economic losses. We therefore decided to join a new coalition coordinated by FAIRR as part of the Investor Action on AMR initiative.

By joining the coalition, we have begun to integrate an AMR lens into our investment decision-making and engagement processes with pharmaceutical portfolio companies. Our objective is to help combat the growing threat of drug-resistant superbugs in humans, animals and the environment.

Votes against slavery

Modern slavery has long been a key engagement area for Rathbones. In 2020, we led a 20-strong investor coalition with £3.2 trillion in assets under management to engage with FTSE 350 Index companies that failed to meet the section 54 reporting requirements of the Modern Slavery Act 2015. We decided to abstain from voting on the financial statements and statutory reports of FTSE 350 Index companies that were deemed to be breaching the letter and spirit of s54. With the help of the Business and Human Rights Resource Centre, we identified 22 target companies that we deemed to be non-compliant. By the end of the year, 20 of the 22 companies became compliant. This initiative was shortlisted for Stewardship Project of the Year at the PRI Awards 2020.

Investors, migrant labour, modern slavery and COVID-19

The International Labour Organisation estimates that debt bondage, where a person is forced to work to pay off debt, is a factor in more than half of the 25 million cases of forced labour worldwide. The payment of recruitment fees and costs is a significant indicator of forced labour and workers who pay for a job abroad often do so by taking out high-interest rate loans or by selling assets.

Such actions can leave these people in a position of debt bondage. We joined an engagement organised by CCLA Investment Management to encourage international companies operating in the United Arab Emirates to assist with the identification and then the provision of a remedy (particularly the reimbursement of recruitment fees and costs) to migrant labourers who lost their jobs due to the pandemic. Many of the promised and existing jobs have been revoked and the large numbers of workers who have already travelled to the UAE are being returned to their home countries, leaving many with significant levels of debt that will be impossible to repay. This is likely to lead to increased levels of suicide or other forms of social harm and could overwhelm local public health systems.

Responsible sourcing of cobalt

Throughout 2020 we were involved in a collaborative effort that focused on engaging with companies from a number of industries, such as the technology, telecommunications and automotive sectors, on the responsible sourcing of cobalt in line with OECD Due Diligence Guidance. We were co-leaders of the engagement with Johnson Matthey and Microsoft. These companies have supply chains operating in the Democratic Republic of the Congo (DRC), which is home to more than 60% of the world's cobalt resource. Companies with cobalt supply chains in the DRC face a plethora of ESG risks, from child labour to community displacement. This engagement focused on engaging companies on their responsible sourcing practices around cobalt, paying particular attention to the key trends in cobalt due diligence and risk management. The aim was to encourage these companies to improve their operations in line with internationally recognised best practice. This engagement concluded in early 2021.

Case studies

Here we provide more detailed examples of the type of engagements we pursued during the course of the year, across a range of ESG topics.

Environmental

The Proctor and Gamble Company

Issue:

Preventing deforestation will be key to mitigating the risks of global warming, as rainforests act as a vital carbon sink. Companies found to be contributing to deforestation face substantial competition and reputational risks, both of which could harm long-term shareholder value. A number of the company's tier 1 palm oil suppliers have links to illegal deforestation and have failed to meet internationally recognised deforestation standards. According to WWF's 'Palm Oil Buyers Scorecard', the company is not 100% covered by the Roundtable on Sustainable Palm Oil (RSPO) certified sustainable palm oil.

Process:

We decided to support the ESG shareholder resolution calling for better visibility of the company's efforts to eliminate deforestation from its entire supply chain. We would argue that such a step is necessary given that the company uses both palm oil and forest pulp, both of which are recognised as large contributors to deforestation.

Outcome:

The resolution passed with over 66.5% support. This resolution gained one of the highest levels of support for an ESG shareholder resolution last year. The company will now be expected to issue a report assessing if and how it could increase the scale, pace, and rigor of its efforts to eliminate deforestation and the degradation of intact forests in its supply chains. In the US, any shareholder resolution which gains over 50% support is passed, however these resolutions are not binding and the company does not have to implement any changes should it not wish to do so. That said, the board will struggle to ignore such high levels of shareholder support amid the changing attitude of shareholders towards climate change.

JP Morgan Chase

Issue:

The company remains the world's largest financier of fossil fuel companies. Since the Paris Agreement, the company has invested over \$268 billion in the fossil fuel industry. Although the company claims to be a supporter of the Paris Agreement, the company does not have greenhouse gas emissions (GHG) targets in place. At the AGM, As You Sow (an NGO) put forward a climate resolution calling on the company to issue a report, at reasonable cost and omitting proprietary information, outlining if and how it intends to reduce the GHG emissions associated with its lending activities in alignment with the Paris Agreement's goal of maintaining global temperature rise below 1.5 degrees Celsius.

Process:

We decided to support the shareholder resolution as we believe that further information on how the company tracks the GHG emissions associated with its lending activities would be helpful, as only then can investors judge progress against plans to reduce its GHG emissions associated with its fossil fuel lending aligned with the Paris Agreement goal of keeping global warming under 2 degrees Celsius.

Outcome:

The resolution narrowly failed to pass with 48.6% support. Given this high level of support for the resolution, we expect a similar resolution to be proposed at the 2021 AGM. The shareholder resolution calling for an independent Chairman received 41.6% support. This was one of the highest levels of support for this particular governance resolution. The company's efforts in this area suggest that a truly independent Chairman would serve the wider stakeholders of the company better.



Royal Dutch Shell

Issue:

At the company's AGM, a number of the company's shareholders put forward a resolution at the AGM requesting that the company set and publish targets that are aligned with the goal of the Paris Climate Agreement to limit global warming to well below 2 degrees Celsius above pre-industrial levels. These targets need to cover the greenhouse gas (GHG) emissions of the company's operations and the use of its energy products (Scope 1, 2 and 3), to be short, medium, and long-term, and to be reviewed regularly in accordance with best available science. Our external proxy advisors recommended that we support the resolution.

Process:

Ahead of the AGM, the Institutional Investors Group on Climate Change (IIGCC) – of which Rathbones is a member – had a number of fruitful discussions with senior management at the company. It was felt that the company had made significant progress in this area and such a resolution would be particularly restrictive on the company. In particular, the company made a commitment to become net zero by 2050 or sooner. This means achieving net zero emissions for Scope 1 and 2 and 3 by 2050 or sooner. We believe that this pledge by the board could have a profound effect on the way other companies within the oil and gas sector view their own commitments to addressing climate change and safeguard the future of their businesses. Following these meetings, the stewardship team discussed the resolution with Greenbank and felt we should vote against the resolution on account of the commitment made by the company. This position was also taken by a number of the company's larger shareholders.

Outcome:

The shareholder resolution gained 13.8% support. Although we voted against the resolution, we asked the board to continue to clearly disclose to investors the interim steps taken by the company to meet these commitments, and to further link executive pay practices to the delivery of these long-term ambitions. The IIGCC said that it was agreed with Shell that it is essential that the Transition Pathway Initiative (TPI) can assess their new commitments.

Social

The Home Depot

Issue:

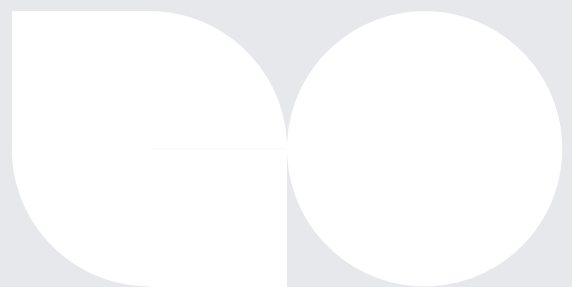
Diversity is a key governance concern at the companies in which we invest, with evidence demonstrating that more diverse boards can lead to outperformance. Companies which fail to improve reporting on diversity practices within the business could face significant reputational and operational risks. In addition to this, improved diversity representation and practices could lead to an improved culture and increase the company's capacity for long-term value creation. While the company has made significant steps to improve its diversity disclosure, it fails to produce equal opportunity disclosures although it files this information with the Equal Employment Opportunity Commission. This information however is not disclosed to shareholders.

Process:

We supported the shareholder resolution calling on the board to prepare a diversity report and report on diversity policies. The resolution, if approved, would require the board to create a chart identifying employees according to their gender and race in the nine major equal employment defined job categories for the last three years. The board would also be required to list the numbers or percentages in each category, a summary description of any affirmative action policies and programs to improve performance, including job categories where women and minorities are underutilised and a description of policies/programmes oriented toward increasing diversity in the workplace. We felt that the production of a diversity report would improve disclosure around the company's current diversity policies and practices and provide shareholders with greater transparency regarding the efforts of the company in this area, beyond that which is already available.

Outcome:

The resolution failed to pass but gained 35% support by shareholders. This is an encouraging level of support for a social shareholder resolution and we therefore expect this resolution to be raised at the 2021 AGM. Two other governance related shareholder resolutions were put forward gaining 26.1% and 32.6%.



BooHoo

Issue:

News emerged of alleged discovery of poor labour conditions within the company's supply chain in Leicester. It was reported that one of the company's suppliers Jaswal Fashions had been underpaying staff who were operating in dangerous conditions during the ongoing pandemic, paying less than £3.50 an hour. This caused a subsequent 43% drop in share price and severe reputational damage to the company. This is especially alarming given that the company's modern slavery statement speaks of a 'zero tolerance approach' to modern slavery and that 'appropriate safeguards' are in place to protect workers' health and safety. Further, it says "the supplier acknowledgment process requires that suppliers accept their obligations relating to modern slavery", and we asked what process was put in place to ensure that Jaswal Fashions was meeting this policy requirement.

Process:

The company is not on our active voting list however we felt that we needed to engage with the company following this serious human rights risk at the company. We decided to write to the Chairman expressing our concerns with the pervasive risks to society and to our position as shareholders in the company. We asked the Chairman to comment on how the incident was able to take place and how the company will be changing its approach in light of the discovery. A number of the company's shareholders called for the company to cut ties with the supplier involved in this illegal activity. We argued however that such a step could enable the supplier to continue operating and potentially carry out further human rights violations elsewhere. We suggested that the company could instead retain the supplier and provide rehabilitation which would serve as an excellent opportunity to lead the retail sector in its approach to opposing all forms of modern slavery.

Outcome:

Following the announcement of this news, a number of our fund managers chose to divest from the company. The CFO responded to our letter and acknowledged that simply cutting ties with suppliers is not enough and they are committed to solving these issues with a more holistic approach. The company carried out an independent review of all their suppliers which was led by Alison Levitt QC with board representation from the Group's Deputy Chairman and Senior Independent Director. The review found unacceptable failings in the company's supply chain. As a result of the review, the company has introduced new policies that will include complete audit of the full supply chain, more management oversight, a new set of purchasing principles for buying teams, consolidating the supplier base in Leicester, and establishing a model manufacturing facility there to demonstrate best practice. Overall this has been a salutary reminder of the critical importance of ESG and proper governance, and of the fact that external ESG scoring services can sometimes miss critical risks.

Johnson & Johnson (JNJ)

Issue:

In 2019, the company was ordered to pay \$572 million for playing down the dangers of opioids and engaging in false marketing. The ongoing sale of opioids by the company presents considerable legal and reputational risks. Johnson & Johnson has offered to pay \$5 billion by 2020 to settle multi-jurisdictional lawsuits alleging that the company contributed to the opioid crisis. According to a report by the Centre for Disease Control (CDC), opioid abuse caused an average of over 130 overdose deaths per day as of 2017.

Process:

In light of this, we decided to support the shareholder resolution calling for the board to report to shareholders describing the corporate governance measures JNJ has implemented since 2012 to more effectively monitor and manage financial and reputational risks related to the opioid crisis given JNJ's sale of opioid medications. The resolution also called on the board to report on whether increased centralization of JNJ's corporate functions provides stronger oversight of such risks and changes in how the Board oversees opioid-related matters, how incentive compensation for senior executives is determined, and how the Board obtains input regarding opioids from stakeholders. Given the potential legal and reputational risks facing the company, we believe it is imperative that the board improve disclosure on the steps it is taking to ensure compliance with the law and on how it is aligning executive remuneration with these issues.

Outcome:

The resolution passed with 56.7% support. As such, the board will be expected to create a report on governance measures implemented since 2012 to manage risks related to the opioid crisis. This was one of few ESG shareholder resolutions in the US to receive over 50% support. The shareholder resolution calling for an independent Chairman received 41.6% support. This is an increasingly popular governance-related shareholder resolution at US companies and achieved one of the highest levels of support for this type of resolution. It shows that shareholders are particularly concerned with the current arrangements at the company and feel the separation of roles between the CEO and Chairman will contribute to better long-term risk management.



Governance

Ferguson

Issue:

As a result of the COVID-19 pandemic, the company was forced to make 2,100 redundancies and close 94 branches. Despite these redundancies, bonus payments for senior management were between 62% and 71% of maximum. We acknowledge that companies are having to implement cost cutting mechanisms as a result of the ongoing COVID-19 pandemic. Nevertheless, we find it deeply concerning that no discretion was used to lower the annual bonus pay-outs for senior management given these cuts. This clearly goes against the company's social license to operate – where it has a duty not only to its shareholders, but also to its staff. There is a risk that this could exacerbate tensions between staff and senior management and potentially undermine morale, with a detrimental effect on the operational culture.

Process:

This was heavily debated by the largest holders on both Rathbone Investment Management and Rathbone Unit Trust Management. Some of the fund managers felt that the company had done enough to warrant support and that the senior management needed to be properly remunerated for navigating the business through the pandemic. We discussed at length on the Stewardship team and agreed that the performance of the company had been strong, however we still felt that the remuneration for senior management should have been reduced as a result of the redundancies. We therefore voted against the remuneration report at the AGM.

Outcome:

The remuneration received a 21.85% vote against. The company has been added to the Investment Association Public Register. We have updated our bespoke voting policy to trigger a 'refer' (where our internal committee is required to discuss this issue) when remuneration committees have failed to use discretion in the awarding of bonuses when significant redundancies and lay-offs have been made. We foresee this being a common issue in 2021 and as such have included this as one of our key engagement areas in our 2021 Engagement Action Plan. More details can be found on the website.



Tesco

Issue:

At the 2020 AGM, the remuneration committee decided to adjust the TSR comparator group under the FY2018 PSP awards which vested this year. The Remuneration Committee removed Ocado from their peer group, resulting in it appearing as though Tesco had outperformed its competitors by a 3.3% premium to the index, rather than underperforming by 4.2% had Ocado remained in place. Such an adjustment caused a considerable uplift to the level of awards paid-out to the departing CEO and the CFO, increasing both awards by 15.4%. The amendment of in-flight performance conditions is generally considered to be poor practice in the UK and changes to TSR comparator groups should only be done so to take account for M&A activity. The board claims that the change was to account for Ocado's move away from a retail-focused business towards a technology-focused business during the performance period.

Process:

Having discussed this issue on the stewardship committee and with the fund managers with the largest holdings, we decided to vote against the remuneration report and raise our concerns with the Chairman. We felt that although Ocado has indeed diversified, retail is still the main driver for the company. Secondly, the board knew about Ocado's business plan at the time the FY2018 performance share plan was set and therefore this should not have come as a surprise to them. Further, the removal of Ocado would appear to be of considerable benefit to the executive directors considering the exceptional performance of Ocado during the 2018 calendar year, which this pay-out in question relates to. As this adjustment has substantially increased the pay-outs to the executive directors, we feel the board has deviated from best practice and placed the company at risk of severe reputational damage in a time of great economic uncertainty for many of its customers.

Outcome:

The remuneration report received a vote against of 67.29%. This was the second largest vote pay seen at the UK AGM season. As the vote on the remuneration report is an advisory vote, the resolution passed despite receiving more than 50% opposition. The company however has been placed on the Investment Association 'Public Register'. The company is at risk of reputational damage should it fail to consider shareholder concerns. The remuneration committee will engage with investors and listen to feedback before putting its binding remuneration policy to a vote at the 2021 AGM.

Standard Life Aberdeen

Issue:

The ongoing COVID-19 pandemic has led to many companies attempting to change their bylaws to allow for AGMs to be held virtually, rather than in person. Many investors are concerned that virtual AGMs are risky as they can lead to less meaningful engagement. Senior management can avoid difficult questions with shareholders being unable attend and having to send through questions ahead of the meeting. As such, there is a risk that senior management will become complacent and dodge the hard questions. At the AGM, the board put forward a resolution requesting that shareholders adopt the new articles of association. If approved, the company would be able to hold virtual-only shareholder meetings.

Process:

The proposed arrangements at board level were sufficiently controversial to trigger significant debate among our fund managers, some of whom declined to follow our central recommendation of opposing the resolution and wished to support management instead. As such, we issued a split vote on the resolution.

Outcome:

The resolution failed to pass, with only a 37.36% vote against. As this was a special resolution, it needed 75% support to pass. We spoke with the company who assured us that the changes to the Articles they are proposing allow for the option of shareholders to participate remotely at these meetings (a 'hybrid' meeting). This is not currently possible under the existing Articles, as shareholders have to be present in the room in order to participate in the meeting. They believe that this change gives additional optionality in the way they can run their meetings and enables them to engage better with their significant retail shareholder base. While the changes would also allow for the possibility of a 'virtual' meeting, they currently have no intention of moving to this. Following this discussion with the company, we decided to change our vote and support management. We saw similar resolutions proposed throughout last year which all gained high levels of shareholder opposition.



Rathbone Unit Trust Management Limited
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000

Information line
020 7399 0399
rutm@rathbones.com
rathbonefunds.com

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Financial Conduct Authority
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