RATHBONES | Incorporating Investec Wealth & Investment (UK)

ESG Policy

Investec Wealth & Investment UK

Investec Wealth & Investment (UK) is a trading name of Investec Wealth & Investment Limited

Equities

ESG Philosophy

Environmental, social, and governance (ESG) investing considers the investment merits of a business from the perspective of how it acts and behaves on a broad range of measures, from how it affects the environment and treats its employees to the efficacy of the board of directors. This analysis is used to complement conventional financial analysis with the starting assumption that businesses that are demonstrably better (than average) at identifying and managing their key ESG issues will, over time, create more value for shareholders. Perhaps more intuitively, putting this another way, those with loose internal controls and oversight will be more likely to destroy value.

Our Process

Screening

We will, twice a year, screen all of our centrally-researched equities from an ESG perspective. Any proposed additions to coverage will be reviewed on an ad-hoc basis, as will any existing covered name that suffers a material notifiable event.

We use the services of Sustainalytics to provide a quantitative analysis of a company's ESG attributes. Informed by this data we will consider a company's ESG credentials both in absolute terms and within a sub industry context, excluding from research any that pose a significant risk of destroying value through inadequate management of their specific ESG risks.

Portfolio Analysis

Beyond screening out the worst performing names, we will provide the means for our Investment Managers to appraise the overall ESG score of a direct equity portfolio (where those equities are centrally researched) against the overall score for an appropriate index. This will reveal whether or not an equity-portfolio's overall ESG metrics are better or worse than the index, and will highlight those names which are having the greatest deleterious impact on the overall score.

Engaging with Management

Whilst bottom up screening and scoring is a passive approach to ESG investing, we have the opportunity to be more active and use interaction with investee company management teams, (both the executive and non-executive) to engage on ESG matters. As well as soliciting more information about the significance of and priorities for ESG within a business, we can also communicate our own agenda.

Collective Investments

ESG Philosophy

1. Incorporating ESG considerations into a non-judgemental, objective investment framework is consistent with maximising risk-adjusted returns by reducing risk and increasing the potential value creation over the long term.

2. We do not put specific ethical requirements ahead of other criteria or incorporate moral judgements into the financial analysis of investable instruments.

3. ESG approaches should be appropriate for the asset class and strategy. They should only include those ESG considerations that may have a material financial impact on an investable instrument's future return given the investment strategy being employed.

4. Assessing the efficacy of an ESG approach should focus on 'inputs' rather than 'outputs'. It is necessarily qualitative and as such we do not use, nor do we seek to ascribe to funds' quantitative ESG 'scores'.

5. Our ESG philosophy and its practical implementation is underpinned by evidence and logic.

Some clients will have specific ethical requirements or other requirements that are inconsistent with our ESG philosophy. In practice, this means negative screening. Therefore, distinct from the incorporation of ESG considerations into our collectives research process – and in line with business needs – we continue to support an ethical collectives research offering.

ESG Approach

Our ESG approach assesses funds to ensure their ESG approach is consistent with our ESG philosophy and meets our qualitative APPROVED criteria. (See below.)

We focus on the ability of our third-party managers to integrate ESG considerations into their investment process in ways which are appropriate for their target asset class and style of active management as this can influence risk-adjusted returns generated by managers over time. Funds are assessed on at least an annual basis. Consistent with our philosophy and our current collectives research approach we do not use any current output (i.e. portfolio) based third party quantitative ESG scoring systems as they only provide a snapshot of a manager's portfolio at a specific time, telling us little about how a manager integrates ESG related considerations into its decision making. We therefore leverage our deep qualitative understanding of how our third party managers are pricing ESG related risks and opportunities, looking for this to translate meaningfully to investment decision-making over time.

Third party systems suffer from a lack of data, particularly for funds investing in private assets in addition to those investing in small-cap to mid-cap public listed equities which typically lack the resources to make comprehensive ESG disclosures and as such score poorly through lack of publicly available information rather than actual poor ESG performance. We recognise the value of quantitative metrics for individual securities when accompanied by detailed qualitative rationales. Indeed, we expect our fund managers to use them. But when it comes to looking at funds, the fact that they are backward looking and tend to be without context or explanation makes them less useful. We don't rule out incorporating them in the future should they improve in their usefulness.

We are material investors in a number of listed funds (Investment Trusts) - like many of our third-party managers, we believe engagement is key to improving ESG outcomes and that this in turn will be accretive to their respective share prices. Identifying companies that can make a positive ESG journey requires rigorous qualitative ESG assessments and this is where in our view the active management community can add additional value.

Requirement	Rationale	
Assets manageable	Scale of assets managed must be compatible with investment objective	Inappropriate scale of assets is a key driver of underperformance
Philosophy resonates	Intuitively appealing and able to deliver our required investment outcome	Investment team must articulate and demonstrate efficacy of investment philosophy
Process disciplined	Philosophy rigorously implemented with a consistent approach	Disciplined application of process to minimise risk of style drift
Risk managed	Investment process embeds appropriate risk management	Risk taken must be consistently commensurate with the returns delivered
Organisationally sound	All relevant aspects of the company organisation and infrastructure must be sound	Investment excellence is best supported by an organisation that exhibits all round excellence
Value for money	All costs are reasonable given value of investment objective	A large portion of active managers lose outperformance due to excessive costs
ESG approach	Clear evidence of a robust, dispassionate and suitable integrated ESG approach	Appropriate ESG approach will maximise risk-adjusted returns
Demonstrable talent	All investment individuals should demonstrate peer-leading investment skill	This is the first pre-requisite of achieving an investment objective

ESG Framework

Consistent with the existing qualitative APPROVED framework our ESG assessment will be driven by evidence and logic. Asset managers will be expected to clearly articulate their ESG approach and demonstrate its efficacy A key component of our ESG assessment is our in-house Due Diligence Questionnaire which consists of >100 questions. Asset Managers are required to complete this questionnaire to inform the ESG assessment process. Our current approach focus on the following - including, but not limited to:

Expectation	Rationale
Consideration of ESG factors is fully integrated into the decision-making process	ESG factors considered should be material to risk or return and thus fundamental to asset analysis and therefore fully integrated into the investment process
ESG approach should be well established	Many ESG considerations are relatively new, but many are not; investors will benefit from approaches that are well thought out and well established
ESG approach is non-judgemental and evidence based	Only financially material ESG factors should be taken into account; don’t get “carried away” or take into account non financially material risks, even if controversial
Full commitment to ESG	Memberships of bodies, adherence to codes, level of management buy in all serve to underpin ESG commitment and likely success
Resources	Full consideration of ESG risks will have resource implications; resources must be appropriate to the task at hand
Suitable for and consistent with strategy and asset class	Different strategies and asset classes will require different ESG approaches as ESG factor materiality will vary depending on investment type
ESG approach efficacy	ESG approach must be based on logic and evidence and its likelihood to improve client outcomes must be demonstrable

No over-reliance on external scoring to assess ESG risk of investment instruments	Low correlation of ESG scores between third party providers reflects differing value sets; asset managers can outsource data provision, but not their values
ESG approach at the asset management company level	Best ESG approaches will be undertaken by asset managers who themselves have strong ESG approaches at the corporate level
Engagement	If there is one “must have”, it is likely that fund managers fully engage and be active in voting
Passion for ESG and belief in it	Given evidence supporting need to consider ESG factors investment team must show suitable level of passion and engagement with ESG matters
Measuring ESG for both potential return and risk	Team can demonstrate effective process to analyse and measure ESG considerations both for potential return and also potential risk

Engaging with Management

We aim to achieve industry leading engagement and voting in relation to the Investment Trusts our clients invest in. We use Institutional Shareholder Services (ISS) to notify us of meetings in a timely manner, ISS also providing initial guidance on voting action. We discuss voting and engagement options in the Collectives Corporate Governance Committee, ensuring our actions are reflective of our qualitative understanding of the funds under coverage as well as our beliefs in terms of best outcomes for clients. We meet the Chairpersons of the Boards of every Investment Trust under our coverage at least once per annum in order to ensure a strong understanding of the quality of governance being applied to the vehicles and to provide investor feedback if requested.

Fixed Income

ESG Philosophy

Given the asymmetric return profile of the asset class (the upside is typically capped, whilst the downside is significantly larger), we believe ESG is an important consideration when investing in fixed income assets. ESG integration is the systematic inclusion of ESG factors in investment analysis and decisions, to enhance risk adjusted returns. In fixed income investments, the focus is typically on managing downside risk. In the main, we see ESG integration as a toolkit and process that reduces the downside risks that are normally not found by conventional fixed income analysis. ESG upside opportunities in fixed income markets are not typical, however where we see value we will invest (e.g. green/sustainable bonds).

ESG Approach

ESG considerations are different per sub-component of the fixed income market:

- For government bonds, we use a proprietary ten-factor scorecard, covering a number of social, governance and environmental factors, is used to assess the ESG risks and opportunities associated. Supra-national agencies are reviewed annually using qualitative assessments to ensure their purpose and activities are consistent with delivering positive change to society.
- For credit selection, we use a number of techniques. Corporate issuers are assessed using a number of quantitative-based ESG tools. In tandem with equity research, Sustainalytics is used to highlight specific ESG issues (e.g. environmental credentials, business ethics and exposure to human rights issues) that may require further investigation and to filter out the worst performing companies in both absolute terms and relative to their industry group. Companies are also reviewed in terms of their commitment to environmental reporting (through the Carbon Disclosure Project) and carbon intensity (carbon emissions relative to company revenue). Finally, companies are assessed with regards to the Sustainable Development Goals (SDGs). Numerous corporate issuers are private companies and the availability of ESG data can sometimes be mixed. These can include companies and sectors are that provide clear social benefits, such as social housing associations or utilities that focus on renewable energy. We aim to avoid issuers with a severe ESG score (as provided by Sustainalytics).

Screening

The vast majority of our centrally researched corporate bond holdings are investment grade rated – which typically do not have a severe risk rating (as per Sustainalytics ESG risk methodology). Where data is available, we exclude securities from our centrally researched bond list that have a severe risk rating, with a review carried out on an annual basis.

Engagement

We understand that the ability to develop a dialogue with governments is difficult and government bond yields are mainly determined by economic growth, inflation and interest rates. A significant portion of our corporate engagement is related to investment grade rated issuers that are in the process of issuing new bonds. In addition, we collaborate internally with our equity research colleagues regarding engagement with corporates.

ESG issues are reviewed at a monthly Fixed Income Direct ESG group that includes both members of the fixed income team and the wider governance team within the Investment Research Office (IRO).