# Rathbone Unit Trust Management responsible investment and stewardship report 2020

(covering 2019 activity)

Rathbones
Look forward

This report has been compiled in accordance with the Financial Reporting Council's (FRC) Stewardship Code, details of which can be found at frc.org.uk/investors/uk-stewardship-code

**Contents**



# 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 unit trusts and OEICs 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 £50.4 billion of client funds, of which £7.4 billion is managed by Rathbone Unit Trust Management Limited

*(As at 31 December 2019).

# 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.

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 (ESG), and ongoing engagement 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 processes and ownership practices in the belief that these factors can have an impact on financial performance."

In this report we provide a detailed overview of our ownership activities under this policy, outlining how stewardship activities within Rathbone Unit Trust Management are an expression of our organisational purpose and culture.

# Rathbones group responsible investment policy

Between 2015 and 2019, our core policy in this area dealt mainly with investor stewardship. Following a major review of internal governance in this area in 2019, the wider group adopted an overarching statement of responsible investment policy which covers Rathbone Unit Trust Management's activities in this area.

The principles-based policy is intended to guide and shape stewardship and engagement activities without being prescriptive regarding outcomes, in line with our non-prescriptive investment process.

# Our core principles

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

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

2. **Active voting**
   We actively consider proxy votes for client holdings.

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

4. **Transparency**
   We report annually on our stewardship activities.

# Engagement policy

Having operated a formal engagement policy since 2015, in 2019 our parent company reviewed our current policy against the requirements of the European Union (EU) Shareholder Rights Directive. A revised statement was approved by senior management in July 2019 and its core features are as follows.

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.

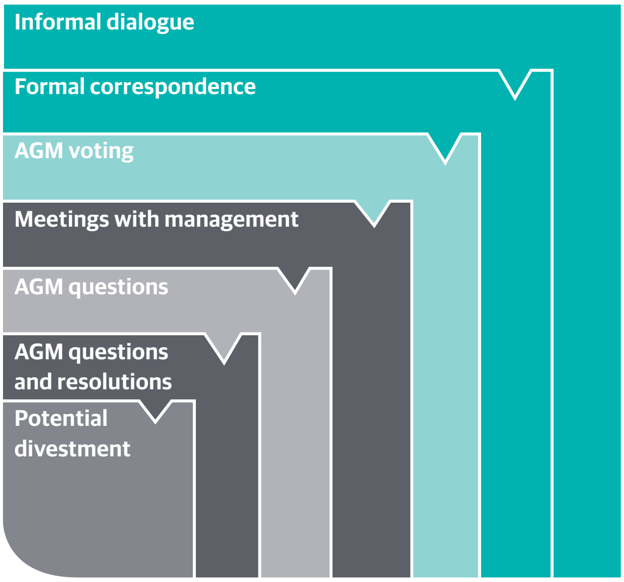
2. **Severity**
   We are more likely to engage on issues that present an immediate or severe threat to the best interests of our clients.

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.

# Escalation pyramid

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 are 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. This will include the provision of management information (MI) to support the current status of each conflict where appropriate.

**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 take 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**
Where such conflicts occur and are deemed not to be managed sufficiently by the procedures detailed in our policy, then 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 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 and 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 two 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 staff and fund managers. In addition, Rathbone Unit Trust Management 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.

# Integration with the investment process

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 governance risk insights. We plan to replicate this approach in the areas of environmental and social risks in due course.

Finally, we continue to invest time in training our staff on the issue of governance and stewardship risk. In 2019 we trained over 50 investment professionals across our UK offices in aspects of corporate governance and stewardship policy; this figure includes a number of Rathbone Unit Trust Management staff. In 2019 a particular emphasis was placed on understanding the principles of executive pay. 17 members of staff have also completed the Principles of Responsible Investment (PRI) Fundamentals course with a further four members due to sit the PRI Advanced course. This is to gain a greater understanding in how to incorporate ESG into the research and investment process, as we prepare to broaden the coverage of ESG risk analysis.

Our progress in this area has resulted in an improvement in a major external benchmarking of our approach to governance and stewardship issues. In 2019 (the latest year for which an assessment has been carried out) the UN-backed PRI once again ranked our parent group 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 showcard

| AUM | Module name | Your 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 – SSA | Not reported | |
| <10% | 13. Fixed income – corporate financial | B | B |
| <10% | 14. Fixed income – corporate non-financial | B | B |

# 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 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**
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.

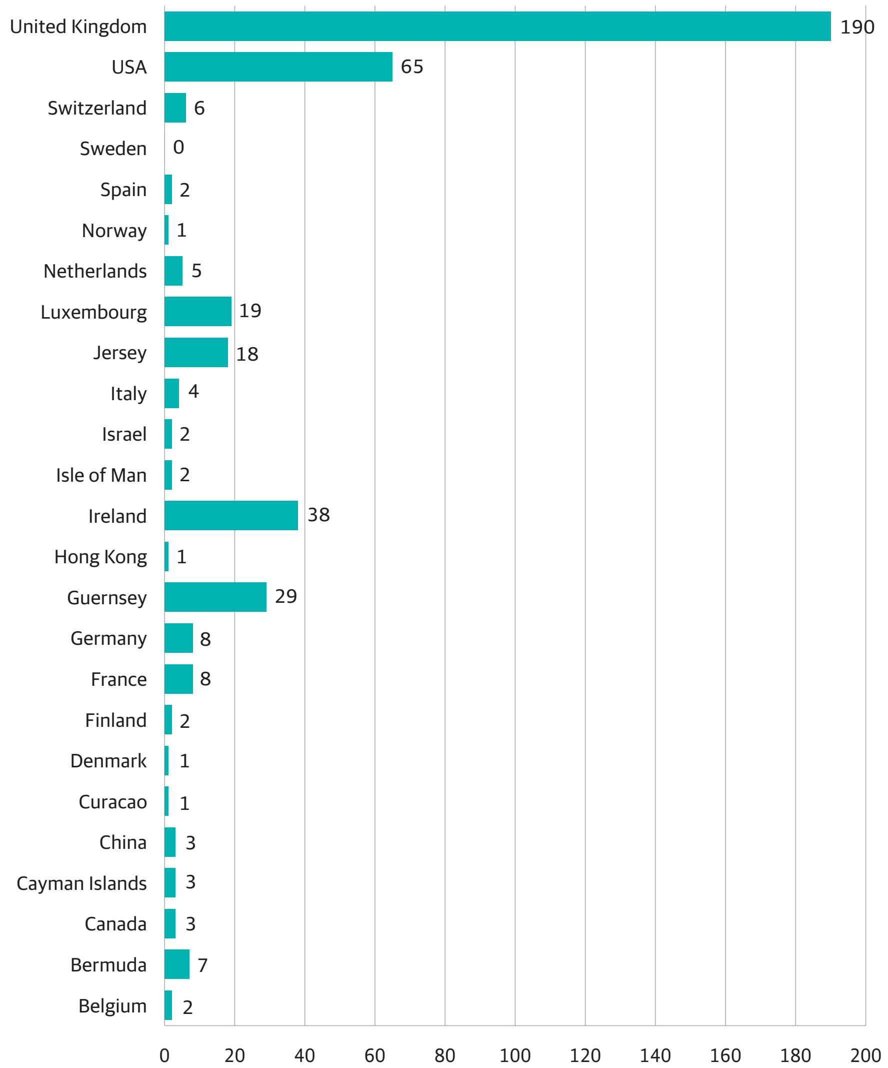
Our approach is nuanced for those funds with a particular emphasis on environmental and social sustainability. The Rathbone Global Sustainability Fund has from the outset applied a more detailed version of the default voting benchmark policy which is built from more detailed sustainability analysis and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

**Voting activity in 2019**
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 state the percentage in order to provide some sense of relative scale.

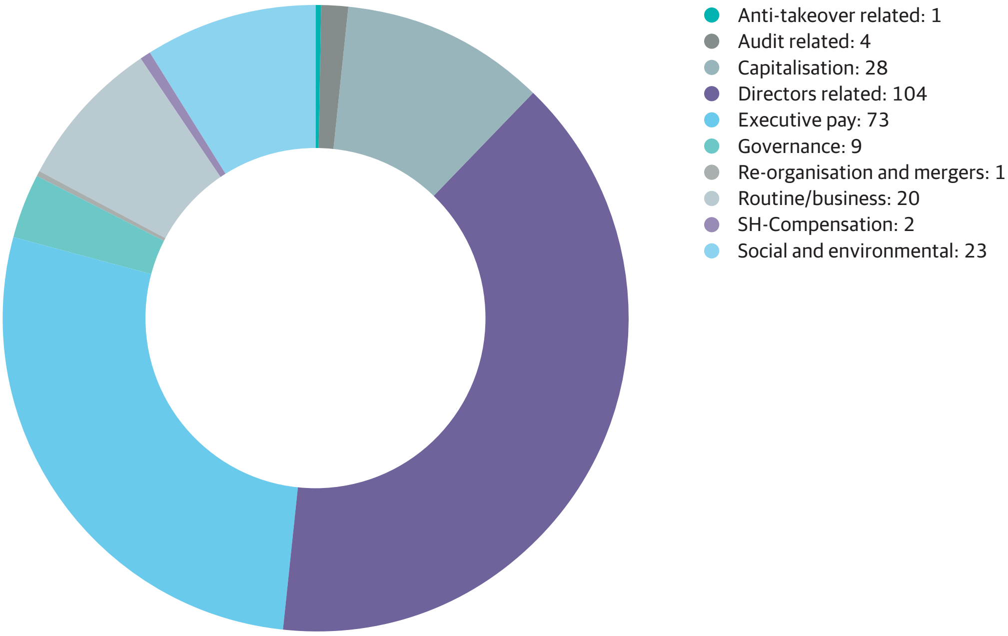
## Proposal overview

| Category | Number | Percentage |
|---|---|---|
| Number of votable items | 5,608 | |
| Number of items voted | 5,376 | 95.86% |
| Number of votes 'For' | 5,119 | 95.22% |
| Number of votes 'Against' | 233 | 4.33% |
| Number of votes 'Abstain' | 17 | 0.32% |
| Number of votes 'Withhold' | 19 | 0.35% |
| Number of votes 'With Management' | 5,117 | 95.18% |
| Number of votes 'Against Management' | 268 | 4.99% |
| Number of votes on shareholder proposals | 107 | 1.99% |

## Voting meetings



## Votes against management 2019



# 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.

# Rathbone Global Sustainability Fund

An important aspect of the Rathbone Global Sustainability Fund is its approach to corporate governance and stewardship. Given the funds ethical screening process and methodology, instances where environmental and social issues dominate the voting at AGMs of invested companies are rare. Companies in which the fund invests must adopt best practice in terms of corporate governance; however, we detail below examples of issues identified during the year where the fund voted against management.

One area where the fund will consistently vote against management involves the failure to disclose gender pay gap data. Whilst UK companies must report their gender pay gap, the same doesn't apply to those elsewhere in the world. We believe this reporting is crucial in helping companies demonstrate year-on-year progress on how they are tackling the issue of gender inequality. During the year, we voted in support of disclosure of gender pay gap reports at Mastercard and Microsoft.

Executive pay is another issue where the fund will vote against management should it be necessary. Where remuneration has been increased and not linked to targets that are in the best long-term interest of shareholders we believe a vote against is warranted. We believe that executive remuneration targets should be linked to stretching performance conditions and the delivery of shareholder value above that delivered in the normal course of business. During the year, there were four instances of the fund voting against management in this area.

# ESG engagements

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 |

A PRI engagement working group meets on a monthly basis and currently has 11 members from across the business. Each is a volunteer investment professional wishing to bring personal expertise in ESG topics 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 PRI Coordinated engagements:

**Fuelling water disclosure** – We joined an investor coalition representing $6 trillion in assets under management 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 are aiming to support decent work in our supply chains, better identify early warning signs, improve stakeholder relationships, and secure a stronger license to operate in communities and countries.

**Responsible sourcing of cobalt** – We are part of an engagement that is focused on improving sourcing practices around cobalt in line with The Organisation for Economic Co-operation and Development (OECD) due diligence guidelines, which 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 new independent and publicly accessible international standard for tailings dams based upon 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 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 globe.

**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 otherwise 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

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

## 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, the advocacy of whom clearly conflicts with the company's commitment to the Paris Agreement on climate change. Membership fees paid to organisations who's 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 joined two separate calls with the co-filers of the resolution and BHP senior management to develop a clear understanding of the arguments being put forward by both sides. We had further discussions with the Church of England Pensions Board who outlined why we should support the resolution. Given the importance of the resolution, we discussed this with the head of research and the chief investment officer before we reviewed the information with the largest holders of BHP and the stewardship committee. It was decided that we should support the 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 underway 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.

Social

# Becton, Dickinson & Company

**Issue:**
A shareholder proposal was put forward at the 2020 AGM requesting that the board reduce the share ownership threshold, to be able to call a special meeting to 10%. This would provide smaller shareholders with the means to vote on important issues at the company without having to wait until the date of the AGM. The current threshold of 25% poses as a considerable barrier to smaller shareholders, including Rathbones, making it harder to call out management for poor ESG practice. We believe it is important that smaller shareholders have the means to hold management to account outside of the company's AGM.

**Process:**
We consulted the largest holders across Rathbone Investment Management and Rathbone Unit Trust Management to decide whether to support the shareholder resolution. We recognised that this was not a new notion at the company, with similar shareholder proposals put forward in 2009 and 2011, which gained high levels of support. As long-term shareholders, we decided to support the shareholder resolution which would make it easier for us to support smaller shareholders in calling a special meeting in the future to improve the ESG performance at the company.

**Outcome:**
The resolution gained 40.7% support. This however is a substantial amount for any shareholder proposal to receive and leaves room for further discussion between management and shareholders. We will monitor the issue.

Governance

# Kainos

**Issue:**
Companies today with an all-male board face potential reputational and operational damage. We believe that it is important for companies to have an eye to female representation at a board level, especially considering a change in public opinion on all-male boards. The Hampton-Alexander Review's target of 33% representation of women on FTSE 350 Index boards and FTSE 350 Index Executive Committee and the Direct Reports to executive committee comes into effect by the end of 2020. In addition to this, the Investment Association has begun naming and shaming firms with lower levels of female diversity. We would also argue that research suggests that more diverse boards do better and that having female representation on the board could bring about different experiences and decision-making which can be vital to an organisation's success and might spot material risks to the company that could have previously been missed.

**Process:**
A Rathbone Unit Trust Management fund manager requested that we engage with the company which had recently joined the FTSE 350 Index and as such were now expected to align with better standards of corporate governance. In line with our bespoke in-house voting policy, we will usually vote against the re-appointment of the nominations committee chair where a FTSE 350 Index company has an all-male board. However, as the company was a very new joiner to the FTSE 350 Index, we decided to support management at the AGM but notified the chairman that we would vote against the nomination committee chair (also the chairman) at the next AGM if they did not introduce gender diversity onto the board and communicate adequate succession planning.

**Outcome:**
The company is now one of four companies left in the FTSE 350 Index with an all-male board. The nomination committee is currently engaged in recruiting additional independent directors, with a focus on diversity. In relation to appointments and diversity, the board believes that better diversity creates a more inclusive corporate culture and better equips companies to navigate the challenges facing businesses and support long-term strategic needs. However, the board acknowledged the difficulty of achieving diversity in the technology sector due to the lack of available talent pool. We will be speaking further with company management throughout the year and in the run up to the 2020 AGM.

# Informa

**Issue:**
We expect the board members we elect to be able to dedicate sufficient time to their roles. It poses as a considerable risk to the company and shareholders if a director has too many external time commitments, particularly if they hold a vital position such as a remuneration committee chair. Institutional Shareholder Services (ISS) 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. The chair of the remuneration committee at Informa, Stephen Davidson, is chair at three other listed companies outside of his role at Informa.

**Process:**
We discussed the recommended vote against with the largest fund holders. Our particular concern was that Mr. Davidson received a 35.81% vote against his re-election in 2018 for being over-boarded, and yet has taken on another position since that AGM. This level of shareholder dissent is highly unusual and serves to highlight arrangements which have diverged significantly from best practice. We decided to issue a vote against the re-election and called for the board to re-evaluate the time commitments of their directors.

**Outcome:**
The re-election of Stephen Davidson received a 35.58% vote against. The chairman informed us that Mr. Davidson will not be reducing his number of other commitments. The board is happy with his focus and commitment to the group, with an 'exemplary' record. The chairman also stated that the board had engaged extensively with shareholders over the past 12 months, although Rathbones falls outside of the Top 30 largest shareholders so we were not part of the engagement process. We will be monitoring the number of positions held by Mr. Davidson in the run up to the AGM and will consider voting against his re-election in 2020 should the number of positions remain the same.

# Microsoft

**Issue:**
Despite having different standards around executive remuneration in the US, we expect all expenditure on executive pay to meet the same rigorous standards for return on investment as any other capital allocation. We also expect pay and performance to be properly aligned. Microsoft has raised their chief executive's base salary by 67%, and $12.5 million of the long term incentive (over 50%) is not performance based and will vest solely on the passage of time. In connection with this point, we believe that all companies stand to benefit from improving transparency around the gender pay gap, policies and related risks. A failure to do so could pose as a considerable reputational risk, as well as an operational risk with the danger of affecting employee morale and work ethic.

**Process:**
We consulted with multiple holders across both Rathbone Investment Management and Rathbone Unit Trust Management as this is a widely held stock. Questions around the level of executive remuneration generated considerable debate amongst the largest shareholders. As such, we decided to issue a split vote, with some choosing to support management, whilst others felt that a vote against the executive remuneration was warranted considering the substantial increase in pay for the chief executive.

**Outcome:**
The item to support the executive remuneration received a 23.31% vote against. We will be monitoring ahead of the 2020 AGM.

**Rathbone Unit Trust Management Limited**
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000
Fax 020 7399 0057

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



Rathbones
Look forward

6888.05.20