Rathbone Greenbank Investments

Rathbone Greenbank Investments – Net zero strategy and escalation approach

We believe that climate change is one of the biggest challenges facing the world, and that action must be taken urgently to reduce emissions. As an investor that has been integrating climate factors into investment decision-making for over two decades, we recognise the role that we can, and should, play in helping to accelerate the transition towards net zero.

Our net zero strategy

Greenbank has set a commitment to reach net zero carbon emissions from our operations, supply chain and the investments we manage by 2040 or sooner. We report our annual progress against these metrics publicly, including via submission to the Carbon Disclosure Project (CDP).

Greenbank's net zero ambition includes[1]:

- net zero carbon emissions from our investments by 2040
- a 60% cut in the carbon intensity of our investments by 2030 (from a 2020 baseline)
- continued engagement to encourage corporate action on climate change
- net zero carbon emissions from our own operations and supply chain by 2030.

Our sustainable investment approach means we have little to no exposure to many of the sectors which are the greatest contributors to greenhouse gas (GHG) emissions – such as fossil fuels, cement and airlines. Engagement with our investee companies to progress their net zero alignment is therefore a more appropriate tool than immediate divestment. However, divestment remains an option if investee companies do not demonstrate sufficient progress over time.

Our net zero stewardship and engagement approach

1. Overview

Stewardship and engagement can be critical tools long-term for investors to reduce emissions in the real economy. We have been instrumental in developing key frameworks and guidelines on how to do this, such as in the Paris Aligned Investment Initiative which ultimately developed the Net Zero Investment Framework (NZIF).

[1] https://www.rathbonegreenbank.com/insight/rathbone-greenbank-announces-net-zero-emissions-targets

NZIF sets a minimum standard for investors to establish a meaningful engagement programme covering at least 70% of financed emissions in material sectors. We are currently going well beyond this minimum threshold by engaging with over 80% of our total financed emissions, including both material and non-material sectors. This builds on and expands our existing programme of climate-related engagement over the past decade.

2. Implementation of our enhanced stewardship strategy

a. Analysis to identify priority companies for engagement

We identified companies to prioritise for targeted engagement based on analysis of their scope 1 and 2 absolute emissions and intensity, % of our financed emissions the holding represents, company progress to date and coverage by collaborative climate engagements such as Climate Action 100+.

We also agreed an allocation of companies between Greenbank and the Rathbones Group stewardship team where there was an overlap in investment exposure.

b. Establish net zero alignment criteria and develop alignment staircase to inform objective setting

Greenbank has followed the Net Zero Investment Framework criteria for assessing the net zero alignment of our holdings:

Core criteria:

i. Ambition: A long-term 2050 goal consistent with achieving global net zero.
ii. Targets: Short- and medium-term emissions reduction targets (scope 1, 2 and material scope 3).
iii. Emissions performance: Current emissions intensity performance (scope 1, 2 and material scope 3) relative to the company's own targets.
iv. Disclosure: Disclosure of scope 1, 2 and material scope 3 emissions.
v. Decarbonisation strategy: A quantified plan setting out the measures that will be deployed to deliver GHG targets, proportions of revenues that are green and, where relevant, increases in green revenues.
vi. Capital allocation alignment: A clear demonstration that the capital expenditures of the company are consistent with achieving net zero emissions by 2050.

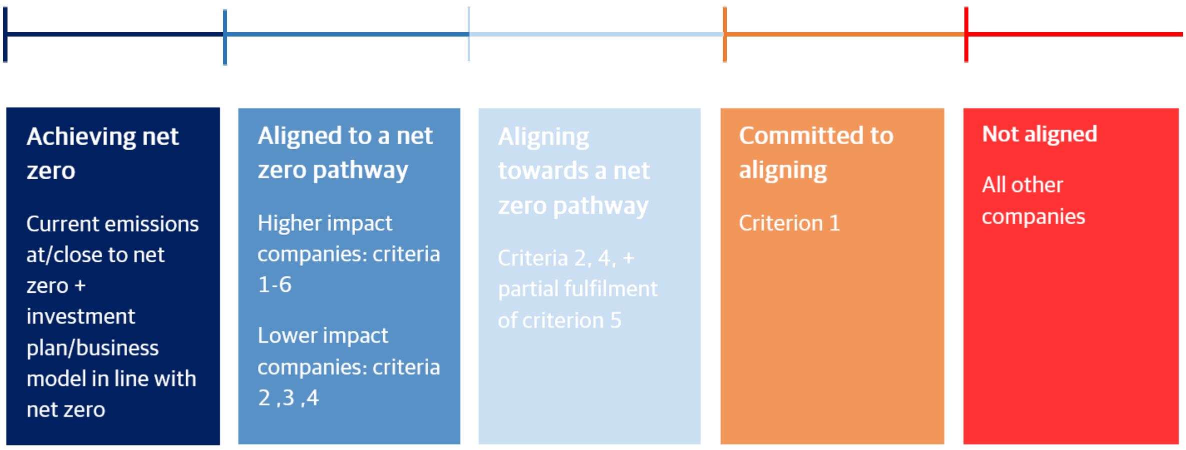
Additional, optional criteria that will be incorporated, where feasible, as data availability increases:

vii. Climate policy engagement: The company has a Paris-Agreement-aligned climate lobbying position and demonstrates alignment of its direct and indirect lobbying activities.
viii. Climate Governance: Clear oversight of net zero transition planning and executive remuneration linked to delivering targets and transition.
ix. Just Transition: The company considers the impacts from transitioning to a lower carbon business model on its workers and communities.
x. Climate risk and accounts: The company provides disclosures on risks associated with the transition through the Task Force on Climate-Related Financial

Disclosures (TCFD) reporting and incorporates such risks into its financial accounts.

We used the core criteria to develop a "net zero alignment staircase". A simplified version of the alignment staircase is set out in Figure 1, below. This defines the criteria a company must meet to be considered not aligned, committed, aligning, fully aligned and net zero[2]. This approach will enable us to track progress over time and has enabled us to set time-bound annual objectives for each priority company.

Figure 1 Net zero chart



c. Strategic engagement with companies and funds

Engagement with companies

We are engaging directly with the management of our priority holdings via meetings that make clear our investor expectations for net zero, how we assess net zero alignment and the annual objectives we have set for each company to help them progress toward net zero. We are also engaging with non-priority holdings to share our investor expectations for action on climate change, our net zero strategy and how we will be assessing alignment over time. As new investment holdings are added to the Greenbank universe, we will be assessing their priority or non-priority status and including them in the engagement process.

Engagement with funds

Managed funds[3] make up a significant proportion of our holdings. It is important that we engage with and demand progress on net zero from them as well as our direct holdings. We have written to all our funds in our investment universe[4], outlining our expectations and strategy on climate change. We have also requested information on

[2] We have followed the NZIF alignment framework with the additional requirement that all low impact companies must disclose their emissions (criterion 4) to be considered "committed to aligning".
[3] E.g. Unit Trusts and Investment Trusts
[4] Our investment universe describes the universe of funds, stocks or other assets which we actively target in line with our ethical, sustainable and impact investment approach, as opposed to tail stocks/funds. Tail stocks/funds are typically legacy holdings acquired from new clients' existing portfolios (i.e. which were bought prior to our management). We sell these tail holdings to reorganise the portfolio in line with our sustainable investment approach. Clients may request this to be performed over an extended period to manage tax liabilities, market movements and other factors.

each fund's net zero targets, strategy and transition plan. We will be setting annual net zero targets and undertaking further engagement based on our assessment of the responses to these questions.

Our approach to escalation

A review of net zero alignment for all holdings within the Greenbank investment universe will be carried out annually. We expect to see evidence of progress along the net zero alignment staircase by portfolio companies. For priority companies where the annual objectives we set are not met, we will escalate our engagement over time with reference to the illustrative escalation framework set out in Figure 2, below. This engagement activity will run parallel to our ongoing investment appraisal which may include downgrading the sustainability rating we assign the company or changing our view on their long-term financial outlook.

We favour informal and constructive dialogue with company representatives in the first instance, before considering other escalation measures such as Annual General Meeting (AGM) voting, follow-up meetings with management or tabling AGM resolutions. Collaborative net zero engagement with other investors is a further option. Where a portfolio company is not demonstrating year-on-year progress towards aligning to net zero, we will divest in line with our Greenbank minimum standards and reserve the right to make public statements about this.

In practice, the most effective route for escalation will vary. For example, some investments, such as corporate bonds, do not have voting rights and therefore we are not able to utilise voting to express dissatisfaction with progress. Escalation is also not always linear. There may be times when we 'reset' to more informal methods when milestones have been met or choose to skip over interim measures in response to serious concerns. Figure 2 is therefore illustrative of the tools at our disposal and the 'typical' hierarchy in which we would use them to effect positive change.

Figure 2 Greenbank escalation framework