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Introduction

The Rathbone Global Sustainability Fund represents a collaboration between Rathbone Unit Trust Management and Rathbone Greenbank Investments. The day-to-day management of the fund is the remit of Rathbone Unit Trust Management, utilising a well-established and robust investment process.

However, the ethical framework, methodology and screens have been developed by Rathbone Greenbank, based on many years' experience of managing private client portfolios as well as providing screening services for the highly successful Rathbone Ethical Bond Fund since 2002.

The processes around the analysis of sustainability (that is, the positive contributions that an enterprise can make) and the engagement piece around corporate governance are further products of the two teams' combined interaction. This document will outline this collaboration in greater detail; it will expand upon the principles and processes involved, and will therefore provide you, the investor, with a comprehensive insight into the credentials of the Rathbone Global Sustainability Fund.

Rathbone Unit Trust Management

Rathbone Unit Trust Management is a leading UK fund manager. We are an active management house, offering a range of equity and bond unit trusts and a multi-asset portfolio (consisting of four sub-funds). The company specialises in investment management for the retail investor, intermediaries and segregated institutional accounts.

The managers of the Rathbone Global Sustainability Fund are supported by a wider investment team with over 100 years of combined investment experience; a team at the very core of the investment process upon which the fund is established. The team approach is crucial. It orchestrates a challenging environment in which our managers test investment ideas through a form of peer review. It also creates a natural diversification because different people are interested in different things, but the core process means all these ideas are explored in the same way. Finally, work is not duplicated – trust in each other and the process breeds efficiency.

Rathbone Greenbank Investments

The ethical and sustainability research for the fund is provided by Rathbone Greenbank Investments, the specialist ethical, sustainable and impact investment unit of Rathbone Investment Management Limited (part of Rathbone Brothers Plc). The team at Rathbone Greenbank has been at the forefront of developments in the ethical, sustainable and impact investment industry since 1992, launching one of the first bespoke ethical portfolio services. Since 1997, Rathbone Investment Management has offered a dedicated responsible investment service.

In 2004, this unit was formally rebranded as Rathbone Greenbank Investments and now works with over 1,900 clients across the UK and overseas, managing in excess of £1.6 billion (at 31 December 2019). This team is dedicated to the application of social, environmental and ethical principles in the management and screening of client portfolios.

Rathbone Greenbank is a longstanding member of both UKSIF (the UK Sustainable Investment and Finance Association) and the Ecumenical Council for Corporate Responsibility (ECCR). It is also a member of CDP Worldwide and the Institutional Investors Group on Climate Change (IIGCC).

Sustainable investment – a definition

Sustainable investment is about long-term value creation for investors, society and the environment. We believe that investing in this way should not mean you have to compromise on your own personal values.

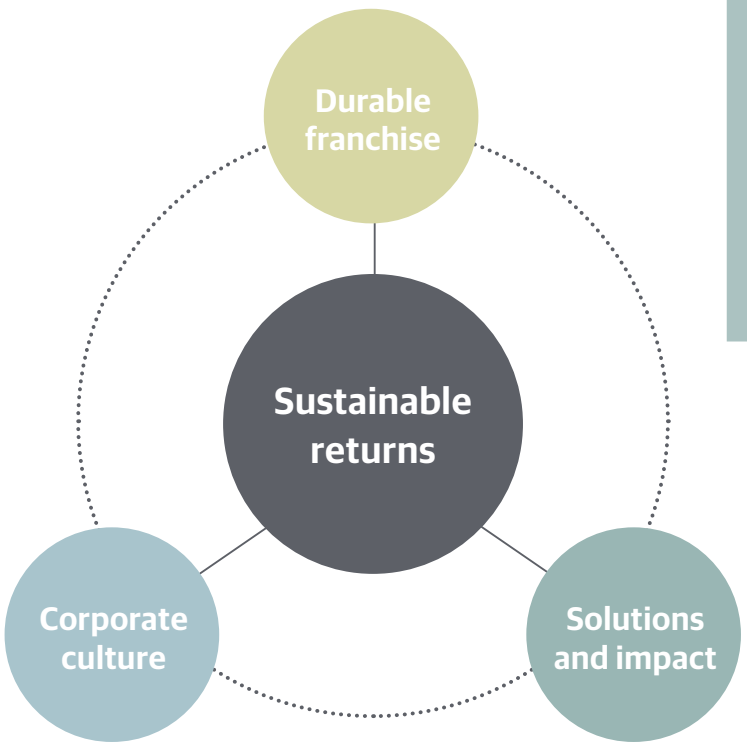
We believe that long-term growth can be achieved by companies that conduct their business, and thereby apply capital, in a responsible way. This gives full consideration to a range of social and environmental issues, as they might affect individuals and the wider society.

For us, a sustainable investment involves:

Durable franchises – we want to invest in the best businesses, and this means employing a company-focused investment process, established upon a robust risk framework, identifying businesses with durable franchises.

Corporate culture – we wish to invest only in those companies with strong corporate governance practices, ensuring they are managed in the long-term interest of shareholders and other stakeholders.

Solutions and impact – first, the fund applies key exclusion criteria. Companies held within the portfolio shall not be in breach of any of these, ensuring compliance with ethical norms and excluding those organisations whose activities or operating practices hinder sustainable development. Second, the enterprise must also fulfil at least one of the positive requirements. We invest in companies that support the achievements of the UN (United Nations) Sustainable Development Goals (SDGs).



Rathbones' funds business in partnership with Rathbone Greenbank Investments

In the first instance, the Rathbone Unit Trust Management team has a natural pool of stocks that they have researched and approved, using a robust and consistent investment process.

This universe of stocks then needs to be scrutinised in line with pre-determined ethical criteria. These criteria are detailed later in this document, but they have been agreed between the fund managers and the team at Rathbone Greenbank, who will be the final arbiters. The fund managers may propose a stock, but Rathbone Greenbank has the power of veto if the company fails this primary screen, ensuring validation by an independent, third party.

Rathbone Greenbank is responsible for the monitoring of corporate news on environmental and social matters. As companies change their activities, merge with others or develop new policies and practices, their suitability and risks will alter. The ethical research team works with Rathbone Unit Trust Management to ensure that investments are only made in approved organisations.

Thereafter, companies must evidence strong positive policies and practices. Using the 17 UN Sustainable Development Goals as a starting point, Rathbone Greenbank has mapped these goals to a set of eight sustainable development themes and underlying sub-themes. The fund manager seeks to invest in alignment with these themes, in the process marrying investment returns with positive social and environmental commitments.

Finally, corporate stewardship forms an essential part of our approach to responsible investment. Rathbones has directed substantial resources toward a separate corporate governance team over the last few years, and it grows in importance and relevance. Corporate engagement is a crucial third leg to the process, and involves the participation of both the fund managers and a dedicated corporate governance team, when scrutinising policies and management teams.

The sustainability investment criteria

The fund's ethical and sustainability investment criteria are applied by Rathbone Greenbank's ethical, sustainable and impact research team (the team), which maintains a proprietary database of company profiles. Companies are assessed against a number of **positive** and **negative** top-level social and environmental criteria, comprising over 100 distinct sub-criteria.

Companies are assessed using two approaches:

- **Stock-specific — looking in detail at the specific merits of their individual activities and how they address corporate responsibility issues;**
- **Macro — evaluating this performance in comparison to peers in terms of the range of corporate responsibility issues covered and quality of response.**

In addition to the reporting outputs of companies themselves, the team accesses a variety of sources, including industry groups, non-governmental organisations, sell-side analysts, external research bodies and specialist SRI publications, to arrive at a balanced view of companies' overall performance. Since June 2015, Rathbone Greenbank's ethical, sustainable and impact research team has subscribed to MSCI ESG Manager to reinforce this process.

Research is also conducted on a thematic basis, examining such topics as climate change, clean energy, human rights, community investment and employee welfare. The fund's holdings are monitored regularly, and reviewed in the light of any relevant news, merger and acquisition activity or findings from ongoing company analysis. A full review of the fund's eligible investment universe is carried out an annual basis ahead of the annual review meeting.

New stocks that are considered suitable for investment are investigated as requested by the fund's manager, and subjected to the team's screening process.

The team conducts reviews of its ethically themed 'peer groups' on a rolling basis and looks to update all of its in-depth company profiles on a 12-to-18-month cycle.

The companies we hold are unlikely to change their 'spots' overnight (become coalminers, for instance) so it will be uncommon for us to sell on ethical and sustainability grounds. If the activities of a company do change, such that it is no longer suitable for the fund, the manager would normally seek to sell the holding within three to six months.

The exclusions and negative screens

The fund will apply screening criteria to avoid investing in:

- **Companies involved in specific activities or engaged in behaviour that is of general concern to ethical investors; or,**
- **Companies creating significant negative impacts that are considered to be incompatible with sustainable development.**

The fund shall exclude companies in breach of one or more of the following criteria:

Issue	Explanation and criteria for exclusion
Alcohol	Excessive or irresponsible alcohol consumption can result in significant harm to individuals and society. Factors contributing to alcohol misuse include: low per unit alcohol pricing; promotions targeting young or underage consumers, or which encourage excessive consumption; the siting of licensed premises.
	The fund shall exclude companies: – **Deriving over 10% revenue from the manufacture of alcoholic beverages.** – **Deriving over 25% of revenue from the retail of alcoholic beverages.** – **Involved in serious or repeated breaches of guidelines to prevent the irresponsible marketing of alcohol or harmful drinking.**
Animal welfare violations: animal testing	Companies developing new pharmaceuticals, medical devices, chemicals or personal and household care products are sometimes required to conduct animal studies in order to demonstrate their safety and meet regulatory requirements on the registration of new products and ingredients. While alternatives to animal studies exist, in certain circumstances companies are obliged to conduct animal tests.
	The fund shall exclude companies: – **Conducting animal testing without an appropriate animal welfare violations policy, referencing the '3Rs' principles of refinement, reduction and replacement.**
Animal welfare violations: fur	**The fund shall exclude companies:** – **Deriving any revenue from the production of fur or exotic animal skins.** – **Deriving any revenue from the production or sale of products containing fur or exotic animal skins (either wild or farmed).**
	Non-food animal products that are by-products of the meat industry (e.g. leather) are not covered by these exclusions.

Issue	Explanation and criteria for exclusion
Animal welfare violations: intensive livestock farming	Intensive livestock farming can lead to significant animal welfare violations issues, with certain practices (such as close confinement or long-distance transport) likely to result in negative welfare outcomes for farmed animals. Intensive livestock farming can also create wider social harm due to an increased use of antibiotics and growth promoters or higher incidence of food-borne pathogens. **The fund shall exclude companies:** — **Rearing or processing of animals for food and operating without evidence of policies, management and reporting on farm animal welfare violations issues.**
Armaments	**The fund shall exclude companies:** — **Deriving any revenue from the manufacture or sale of strategic weapons systems, munitions or combat platforms.**
Climate change	Climate change is a major environmental challenge with wide-ranging social and environmental consequences. Certain industries and activities have an intrinsically high carbon impact that limits their ability to reduce climate impacts, e.g. through energy efficiency measures or the use of renewable energy. **The fund shall exclude companies:** — **Operating oil and gas fields or thermal coal mines.** — **Operating in high-impact industries without evidence of a credible strategy to align their activities with a low-carbon transition.**
Employment	Companies have a duty to ensure the safety of those working for them, and to provide fair and decent working conditions. A failure to do so can result in serious safety incidents or fatalities, labour disputes or legal action. Poor employment practices can also exacerbate inequality and cause wider social harm. **The fund shall exclude companies:** — **Showing serious or repeated failings related to health and safety, labour relations or diversity and equal opportunities.**
Environment	Environmental impacts can arise as a direct result of company activities or indirectly, e.g. through supply chains or the use of products. A failure to properly manage and mitigate environmental impacts can result in pollution incidents, prosecutions and fines, and damage to ecosystems and biodiversity. In addition, certain activities have an intrinsically high environmental impact and cause damage that is difficult to mitigate. **The fund shall exclude companies:** — **Deriving any revenue from mining and mineral extraction.** — **Involved in serious or repeated pollution incidents and/or demonstrating a material failure to manage their environmental impacts.** — **Linked to widespread habitat destruction or serious and unabated impacts on biodiversity.**

Issue	Explanation and criteria for exclusion
Gambling	Excessive gambling can lead to debt problems for individuals, causing harm to families and wider society. Technological developments have led to greatly increased access to betting and gambling services. **The fund shall exclude companies:** **— Deriving over 5% of revenue from the operation of betting or gambling services (including casinos, betting shops, websites or mobile apps).**
Human rights	Companies can have significant negative impacts on human rights, either directly as a result of their own operations or indirectly, e.g. through supply chains, business partnerships and the use of products. While issues may arise in any location, the risks are greatest in jurisdictions with low levels of civil and political liberties and/or high levels of bribery and corruption. **The fund shall exclude companies:** **— Involved in serious or repeated breaches of international human rights standards, including direct use of child, forced or bonded labour.** **— Operating in high-risk locations without implementing appropriate controls for the management of potential human rights risks.**
Nuclear power	While nuclear power offers a lower carbon method of generating electricity than fossil fuels, concerns remain about the environmental and health impacts associated with potential incidents and the treatment and storage of nuclear waste. **The fund shall exclude companies:** **— Deriving any revenue from the construction of nuclear power plants.** **— Generating over 10% of their total electricity output from nuclear power.** **— Deriving over 5% of revenue from the supply of equipment or services to the nuclear power industry, unless related to safety or environmental management.**
Pornography	**The fund shall exclude companies:** **— Deriving any revenue from the production of sexually explicit material.** **— Deriving over 5% of revenue from the distribution or sale of sexually explicit material.** **— Failing to implement safeguards to prevent minors from accessing adult content.**
Tobacco	**The fund shall exclude companies:** **— Deriving any revenue from the manufacture of tobacco products.** **— Deriving over 5% of revenue from the sale of tobacco products or the provision of specialist machinery or packaging to the tobacco industry.**

The positive sustainability criteria

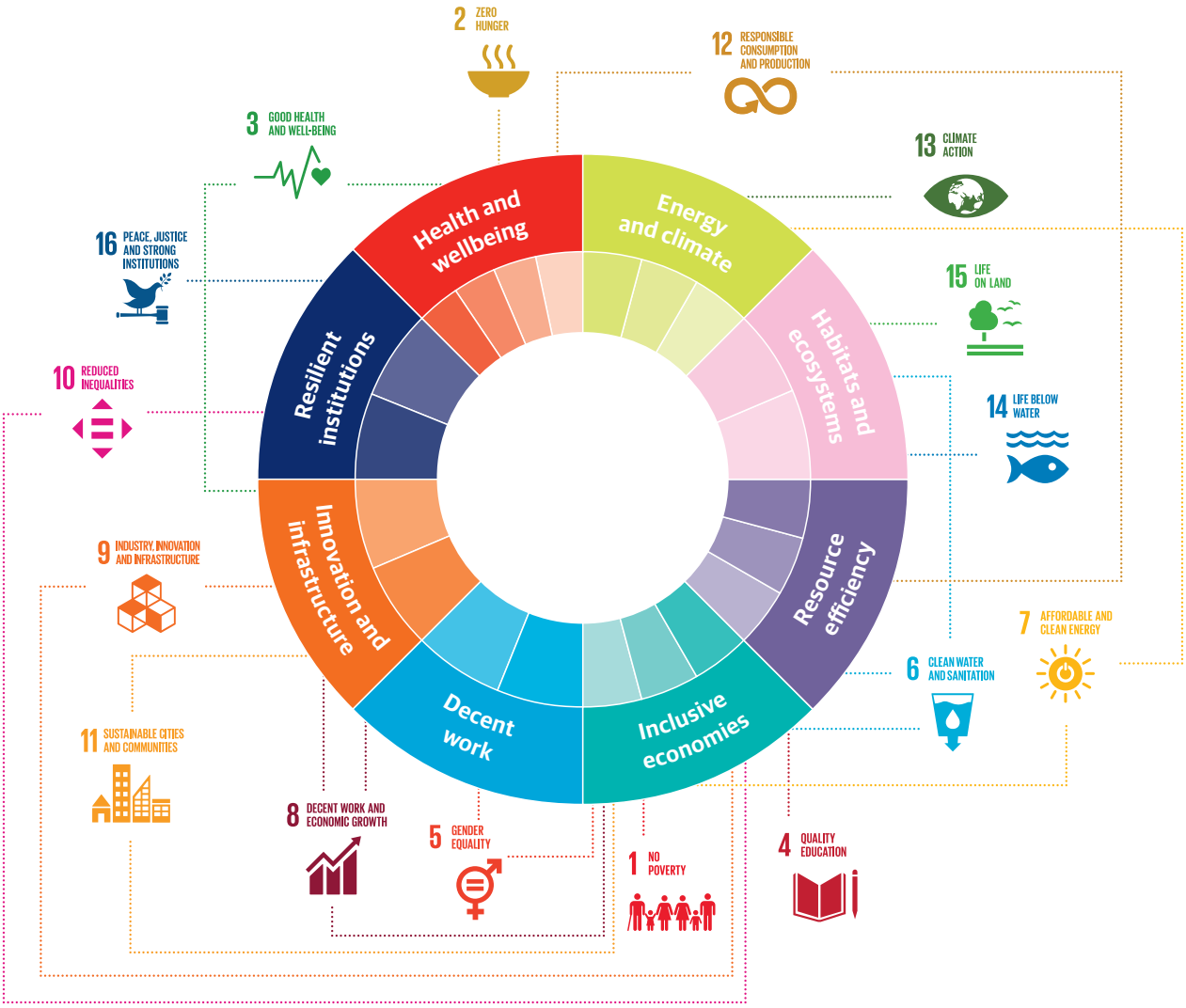
We believe that companies displaying strong policies and practices with regard to environmental, social and governance issues are likely to be well-positioned to deliver long-term value creation for investors.

In order to qualify for inclusion in the fund, companies that pass the negative screen must also display leading or well-developed business practices and policies (operational alignment), and/or allocate capital towards the provision of products or services aligned with sustainable development (activity alignment).

In September 2015, the United Nations launched the Sustainable Development Goals (UN SDGs). These comprise 17 goals, with 169 underlying targets that aim to 'end poverty, protect the planet and ensure prosperity for all' by 2030. The SDGs provide a comprehensive framework for international action on the many social and environmental challenges facing the world.

Rathbone Greenbank has mapped the UN SDGs to a set of eight sustainable development themes and a number of underlying sub-themes.

These themes ultimately align with the same ambitions as the UN SDGs, but translate them into something more relevant to companies. We use these themes to determine how successful individual companies are at translating aspirations into tangible results.



Operational alignment

Our focus is on three principal areas of operations: employment, environment and human rights. Businesses under consideration are expected to exhibit positive action in at least one of these areas. We should think of this as a **minimum threshold** with regard to how the company operates.

Operational alignment with sustainable development		
Issue	**Attributes of good practice**	**Sustainable development theme**
Employment	– Investment in staff training and development. – Good relationships with unions and other employee representative bodies. – Commitment to workplace communication and employee engagement; evidence of responsiveness to staff concerns. – Strong safety performance (both over time and relative to peers) and commitment to staff wellbeing. – Payment of wage rates above statutory minimums. – Good performance with regard to workplace diversity at all levels of the business. – Provision of flexible working arrangements.	Decent work
Environment	– Detailed environmental policy covering all operations, with clear guidance on its application. – Board-level oversight of environmental policy and integration of environmental considerations into business decisions. – Strong performance with respect to impact areas such as greenhouse gas emissions, and energy and resource consumption (both over time and relative to peers). – Commitment to working with suppliers and other partners to improve their environmental performance. – Innovation in products and business processes to reduce 'cradle-to-grave' impacts.	Resource efficiency Energy and climate
Human rights	– Detailed human rights policy covering all operations, with clear guidance on its application. – Board-level oversight of human rights policy and its implementation. – Recognition of international human rights guidelines and principles. – Commitment to community engagement and consultation, and operation of appropriate grievance mechanisms. – Awareness of specific risks associated with different business activities, geographies or operating environments.	Resilient institutions

Activity alignment

We require companies to have significant involvement in the provision of products or services aligned with sustainable development. Essentially, we are asking **whether companies are allocating capital in alignment with one or more of these themes, and if this practice is central to their business models**. In doing so there is a clear overlap between Rathbone Unit Trust Management's investment process, which is very motivated by how businesses allocate capital for long-term value creation, and Rathbone Greenbank's disciplines. This is where capital deployment is examined through the lens of sustainable development.

Examples of activities aligned with sustainable development include:

Activity alignment with sustainable development	Sustainable development theme		
Major environmental sustainability challenges include climate change, resource scarcity, water security, biodiversity and ecosystem loss. Activities, products and services include (but are not limited to): – Manufacture, installation or operation of renewable or low-carbon energy infrastructure. – Industrial or domestic products or services enabling cleaner or more efficient use of energy and resources. – Promotion of the circular economy through sustainable waste recovery and recycling services, or the manufacture of products with lower lifecycle impacts. – Services or technologies to control emissions or the discharge of pollutants to land, water, or air.	Energy and climate	Resource efficiency	Innovation and infrastructure
	Habitats and ecosystems	Health and wellbeing	Inclusive economies
Major social development challenges include inequality, demographic change, urbanisation, access to nutrition, healthcare and other basic needs. Activities, products and services include (but are not limited to): – Provision of basic needs, such as educational products and services, water and sanitation, sustainable and public transport, or affordable housing. – Products and services that help to prevent avoidable deaths and support the ability of individuals and communities to lead healthy lives. – Products and services meeting the needs of underserved or conventionally excluded groups. – Technology and innovation that supports economic development and human well-being.	Inclusive economies	Innovation and infrastructure	
	Decent work	Resilient institutions	

Corporate governance and stewardship

Rathbone Unit Trust Management strives to adhere to the principles and spirit behind the Stewardship Code, Principle 4, which states:

"For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings".

Mindful of our responsibilities to our clients, we seek to be good, long-term stewards of the investments which we manage on their behalf.

The companies in which we invest must adopt best practice in corporate governance. Doing so provides a framework in which each company can be managed for the long-term interests of its shareholders.

Our core stewardship principles

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

1. Materiality

Principle: We recognise that governance and stewardship risks can be material to the performance and valuation of companies. Governance is therefore taken into consideration by our internal research teams when making company recommendations.

2. Active voting

Principle: We actively vote all shares held within Rathbone Unit Trust Management except where local regulation makes voting impractical.

3. Engagement

Principle: Active engagement with companies on governance issues is an important adjunct to voting activities. Since 2017, we have begun writing to all companies when voting against management, outlining our specific concerns and offering further engagement on the issues.

4. Transparency

Principle: We will report annually on our stewardship activities. Periodic reports covering stewardship activities and full voting records are available on our website.

Rathbones' Stewardship Committee

Proxy voting and shareholder engagement at Rathbones is overseen by a committee of investment professionals from across the business, supported by the stewardship team and an external proxy voting consultant. The committee also meets quarterly to discuss market developments and any proposed policy amendments.

Proxy voting policy

We approach each company meeting on a case-by-case basis, using a combination of established best practice for each market and knowledge of the particularities of each company to reach a decision.

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 long-term 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 boards should demonstrate the following key features:

- be led by an independent chairman
- the Chairman and the CEO 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 adequate attempts to address the 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.

While the core principles of corporate governance are relatively well established, we observe emerging trends in the area. Standards naturally vary by market and, while recognising this, we will also encourage the adoption of global best practice. In order to ensure that our policy remains fit for purpose, we make sure that it is reviewed against benchmark standards and principles, and updated accordingly on an annual basis.

Sustainability overlay

In addition to the policy and process outlined above, the Rathbone Global Sustainability Fund will benefit from an additional sustainability-themed voting policy with respect to proxy voting on the holdings in the fund.

The fund will subscribe to the ISS Sustainability Voting Policy as standard for all holdings. These guidelines are "consistent with the objectives of sustainability-minded investors and fiduciaries".

The ISS Sustainability Voting Policy takes as its frame of reference internationally recognised sustainability-related initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact, Global Reporting Initiative (GRI), Carbon Principles, International Labour Organization Conventions (ILO), CERES (coalition for environmentally responsible economies) Principles, Global Sullivan Principles, MacBride Principles, and environmental and social European Union Directives.

We are confident that application of this policy to the fund's holdings will provide an additional layer of accountability with regard to the sustainability impact of the Rathbone Global Sustainability Fund. It will ensure that voting on fund holdings will be consistent with the values of the fund. Under the policy the fund will, as a default position, vote in favour of social and environmental proposals that seek to promote good corporate citizenship, while enhancing long-term shareholder and stakeholder value.

With regard to shareholder resolutions on the specific issue of climate change we will:

- Vote for shareholder proposals seeking information on the financial, physical, or regulatory risks it faces related to climate change – on its operations and investments, or on how the company identifies, measures, and manage such risks.
- Vote for shareholder proposals calling for the reduction of GHG (greenhouse gas) emissions.
- Vote for shareholder proposals seeking reports on responses to regulatory and public pressures surrounding climate change, and for disclosure of research that aided in setting company policies around climate change.
- Vote for shareholder proposals requesting a report/disclosure of goals on GHG emissions from company operations and/or products.

The funds are governed by the Undertakings for Collective Investment in Transferable Securities (UCITs) regulatory framework, which provides a level of protection designed to reduce investment risk for you.

Things to consider:

- Equity investment risk is not right for everyone. For example, during periods of market volatility, the risks normally experienced by our fund may increase significantly. In addition, the fund may be subject to different investment risks.
- As an equity investor, you should ensure that you understand the tax treatment of your investment and its impact on your personal taxation.
- The value of investments in our fund and the income from them may go down as well as up, and you may not get back your original investment.
- We are not responsible for ensuring your investment is suitable for you. If you have an investment adviser, they will be able to provide guidance.

For more information about the risks of our fund, please see our Key Investor Information Document (KIID).

Copies of our fund's Prospectus, as well as its latest KIID and manager's report, are available on request and free of charge from our intermediary services desk.

You can find more information about Rathbones, our approach to investing and our latest views on the global economy and financial markets at rathbones.com

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Rathbones
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