# Rathbone Unit Trust Management Limited stewardship report 2018

(covering 2017 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**



# About us

Rathbone Unit Trust Management Limited is the unit trust management arm of Rathbone Brothers Plc. Rathbone Unit Trust Management offers a range of equity and bond unit trusts and a multi-asset portfolio (consisting of four sub funds) to meet clients' capital growth and income requirements. We specialise in investment management for the retail investor and segregated institutional accounts. Rathbone Unit Trust Management's approach to stewardship and proxy voting is reported via our website rathbonefunds.com.

Rathbone Investment Management is one of the UK's largest and longest-established providers of personalised discretionary investment services. We manage funds for individuals, charities and trustees, and are part of Rathbone Brothers Plc, an independent company with a listing on the London Stock Exchange. Due to the unique features of Rathbone Investment Management, their approach to stewardship and proxy voting is reported separately via the website rathbones.com.

Rathbones has been a signatory to the Principles of Responsible Investment (PRI) since 2009, the world's leading proponent of responsible investment. We believe in being active stewards of our assets and regularly report on our activities, this year receiving 'A' grades for our Strategy and Governance and Stewardship activities.

# Corporate governance and stewardship at Rathbones

We believe it is in the best interests of our clients for the companies in which we invest to adopt best practice in corporate governance. This provides a framework in which each company can be managed for the long-term interests of its shareholders. Mindful of our responsibilities to our clients, we seek to be good, long-term stewards of the investments which we manage on their behalf.

Our major responsibility in this regard is to ensure that company boards are functioning well in their role to independently oversee the activities of companies and their management. We have developed a robust approach to proxy voting as a fundamental expression of our stewardship responsibilities. However, stewardship is not limited to this activity. Engagement with companies on governance issues is an important adjunct to voting activities. This report will explain Rathbones' approach to proxy voting and engagement within the context of our activities in this regard in the last 12 months.

# 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. From 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.

# The 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. Each decision is taken by the respective fund manager(s) who hold the shares with the assistance of the stewardship team and research from an independent research provider.

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:

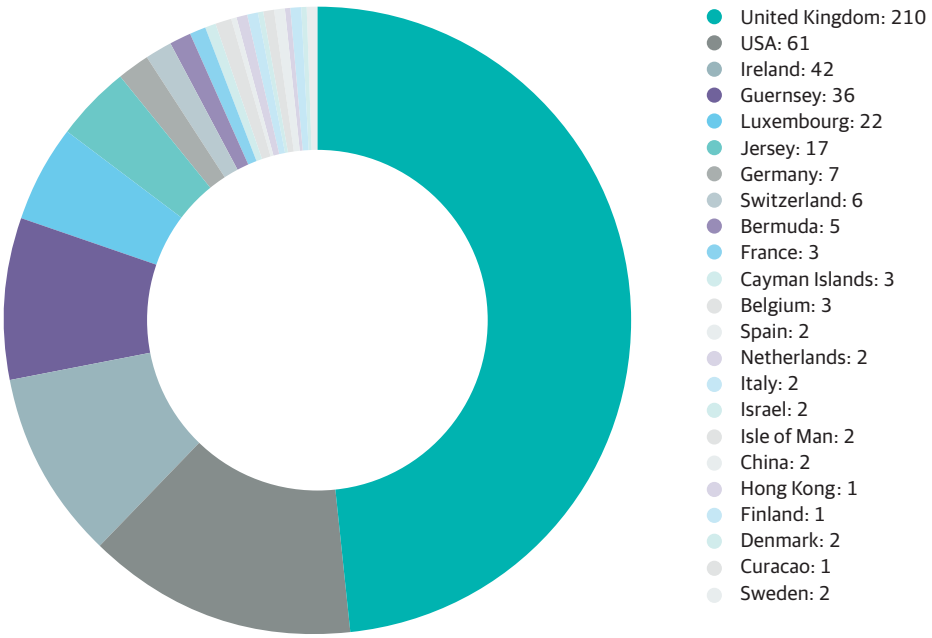
- be led by an independent chairman
- the chairman and the CEO roles should be separate and not exercised by the same individual
- the board and its committees should retain the requisite balance of skills, experience, knowledge and independence. This includes adequate attempts to address the level of 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.

Whilst the core principles of corporate governance are relatively well established, we observe emerging trends in the area. Standards naturally vary by market and whilst 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.

# 2017 voting review

In 2017 we voted on 5,372 resolutions at 431 company meetings. Since best practice now requires boards of directors to be re-elected annually, the majority of these resolutions concern the election of boards. However, they also cover important issues such as executive pay and the appointment of the firm's auditors. The number of meetings can vary each year determined by a number of factors, not least the level of merger and acquisition activity in the year.

# Votes by market



# Voting overview

| Category | Number | Percentage |
|---|---|---|
| Number of votable items | 5,469 | |
| Number of items voted | 5,372 | 98.23% |
| Number of votes 'For' | 5,061 | 94.21% |
| Number of votes 'Against' | 209 | 3.89% |
| Number of votes 'Abstain' | 42 | 0.78% |
| Number of votes 'Withhold' | 13 | 0.24% |
| | | |
| Number of votes 'With Management' | 5,115 | 95.22% |
| Number of votes 'Against Management' | 266 | 4.95% |

N.B. These figures are given as a general indication of our voting behaviour, not as detailed background on each individual company. The statistics do not reflect our voting adequately in every situation, as we may enter split votes on certain company meetings if the fund managers in question disagree on the particular issue. So for any given votable item, we may have entered votes for, against, abstain or withhold. Hence the total numbers of votes entered do not add up to the total number of votable items. However, it is helpful to understand in general terms what proportion of potential votes we entered against management.

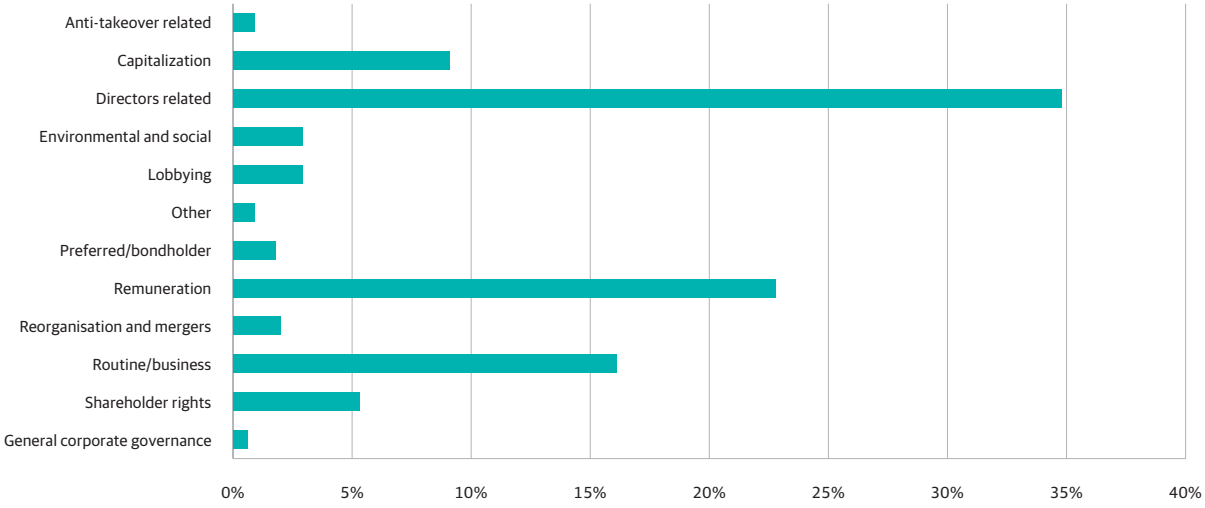
## Numbers

On the face of it, the votes in favour of company management may seem high. However, a little context can be helpful in explaining our voting outcomes. Firstly, good governance is a pre-requisite for any company to be considered for inclusion in our portfolios. If there were severe concerns over corporate governance at a company, they would not be preferred for investment, and hence the worst examples never actually come to a vote.

Secondly, the data concerns the total number of resolutions voted. It is now best practice for companies to seek annual re-election for their boards, and hence each board member is covered by an individual resolution in addition to the standard two agenda items on remuneration policy and other standard items. Most company agendas have around 20 resolutions, of which the majority are routine.

Failing to back management (whether through a vote against, an abstention or withholding a vote) is a relatively serious step and tends to happen only where dialogue has failed or serious concerns need to be raised. In the minority of cases where we vote against management, most attention has been paid to the issue of executive remuneration, followed by the independence of group directors. As more attention has been paid to this area in recent years, so our proportion of votes against management has increased. A summary of the issues where votes against management were entered in 2017 is summarised below.

# Percentage of votes against management



# Notable votes in 2017

We saw a slight increase in the number of shareholder votes on social and environmental issues in 2017. We determined to back such resolutions at seven companies in 2017, in line with our intention to vote in the long-term interests of stakeholders. We summarise these votes below.

| Company name | Meeting date | Proposal code description |
|---|---|---|
| Chevron Corporation | 31 May 2017 | Require environmental/social issue qualifications for directors |
| Chevron Corporation | 31 May 2017 | Climate change |
| Exxon Mobil Corporation | 31 May 2017 | Climate change |
| PayPal Holdings, Inc. | 24 May 2017 | GHG emissions |
| Royal Dutch Shell plc | 23 May 2017 | GHG emissions |
| Exxon Mobil Corporation | 31 May 2017 | GHG emissions |
| PayPal Holdings, Inc. | 24 May 2017 | Sustainability report |
| Alphabet Inc. | 07 Jun 2017 | Gender pay gap |
| Facebook, Inc. | 01 Jun 2017 | Gender pay gap |
| Chevron Corporation | 31 May 2017 | Operations in high-risk countries |

# Engagement

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 and 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 and account misstatements |

# Case study
# Patisserie Holdings Plc

**Issue:**
As a smaller company listed on AIM, Patisserie Holdings Plc is subject to a more lenient compliance regime as regards corporate governance. However, we consider certain areas of UK Corporate Governance Policy to be of benefit in companies of all sizes. It was drawn to our attention that the board of the company in question may not be fit for purpose as it experiences growth. In particular, Luke Johnson is an executive chairman and as such is not deemed to be independent, yet he sits on key board committees which would usually be expected to be served by fully independent directors. The chairman brings a wealth of industry experience, but his situation as an executive brings in conflicts of interest to the work of the audit and remuneration committees which are best avoided.

**Process:**
We initially determined to abstain our vote on the re-election of the chairman to the board. However, in dialogue with our fund managers we determined to support management on this occasion, as we have always found the CEO and Finance Director to be very open to dialogue. We wrote to the company explaining that the audit committee has an important role in acting independently from the Executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control. Further, we questioned the wisdom of allowing the chairman to serve on the remuneration committee, given his lack of independence; it is simply good practice for executives not to be involved in setting their own remuneration.

**Outcome:**
In dialogue with the company we made it clear that we would support any move to ensure that the audit committee be made fully independent, whilst retaining the chairman's knowledge and expertise on the board. If change is not forthcoming in a timely manner, we will escalate the engagement and consider voting against management until the board attains standards of best practice.

**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
rutm.com



Rathbones
Look forward

5668.02.18