

Rathbone Global Sustainability Fund  
Annual review 2020

# Rathbone Global Sustainability Fund

## Annual review 2020

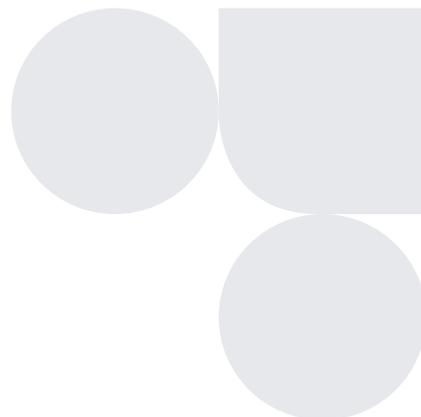
From the moment we launched our fund, our focus was clear: we wanted to be completely open about how we choose investments and be able to show you how your money is making a difference.

We want to give you a clear rationale for all our holdings. We also want to share the carbon footprint of our fund and highlight some of the engagement work we do with the companies we own. We believe that providing this level of detail is critical when it comes to sustainable investing. We also believe that we are uniquely positioned to provide this, given our integral relationship with the Rathbone Greenbank ethical research team.



**David Harrison**  
Fund Manager

Rathbone Global Sustainability Fund



# “Focus on owning high quality businesses remains at the core of what we do.”

12 months ago we published the first annual review of our fund. One year on and our focus remains the same. At a time of unprecedented change in markets and global society, it's imperative that we keep you closely informed and be consistent in our aims. COVID-19 has had a devastating impact on so many levels and one thing is clear to us – uncertainty will persist for some time.

That's why our focus on owning high quality businesses remains at the core of what we do. We think such businesses are best placed to navigate a changing world.

A clear consequence of the global pandemic is likely to be an accelerated adoption of technology across many industries. We want to own companies in the technology supply chain that can demonstrate a positive impact on societies, the environment or both, and we talk about this in the review.

COVID-19 has highlighted the importance of how companies treat their employees, supply chains and wider communities. There has been a wide range of management action in the wake of the crisis and we only ever want to own businesses that can consistently demonstrate a strong social contract with all stakeholders. That's why ongoing engagement with companies is a key part of our process and always will be. What we achieve here is also something we really enjoy sharing with you.

We have again provided case studies for each of our holdings, showing clearly which sustainability theme each contributes toward. This lets you see the sustainability exposure of your fund and how it evolves over time.

Companies whose activities are aligned to better resource efficiency and those helping drive sustainable innovation through the use of technology are the two largest sustainability themes currently in the fund, at just under 50% of total exposure. Many of these holdings have performed strongly in the past 12 months, yet we continue to see significant opportunities ahead for these businesses.

Fund performance has been robust in a highly volatile market. Over the past year it is up 7.02%, versus the FTSE World Index which is down 1% and the IA (IA) Global sector down 0.79%. While this is just a snapshot at a unique time in global markets, we believe our focus on owning durable franchises with a clear commitment to sustainability should serve you well in the long run.

## Performance table – I-class to 30 April 2020

	Year to date	3 months	6 months	1 year	Since launch
Rathbone Global Sustainability Fund	-0.76%	-1.37%	5.86%	7.02%	10.33%
Quartile	1	1	1	1	1
IA Global Sector	-7.14%	-7.40%	-3.42%	-0.79%	1.02%
FTSE World Index	-8.62%	-8.21%	-5.32%	-1.00%	2.44%

Source: Data from Financial Express FE fundinfo, at 30 April 2020.  
Past performance should not be seen as an indication of future performance.

# Meet the team

## Investment team



David is the lead fund manager of the Rathbone Global Sustainability Fund, supported by Liz Davis and Neil Smith. He joined Rathbones in 2014 and has 20 years' experience in equity analysis and fund management, including positions at Hermes and Goldman Sachs. David holds the Investment Management Certificate and a BSc (Hons) in Economics and Politics from the University of Southampton. He is a (Chartered Financial Analyst) charterholder.



Elizabeth Davis is a fund manager on the Rathbone Global Sustainability Fund, working closely with David. She also manages the Rathbone Heritage Fund. She joined Rathbones in January 2005. She has been instrumental in developing the quantitative processes used within the wider team. She is a (Chartered Financial Analyst) charterholder and holds the Investment Management Certificate.



Siyuan Lin is a global equity analyst with specific reference to Asian markets and works on sustainable investment ideas for the fund. She joined Rathbones in April 2013, having worked as a research analyst for three years in Martin Currie's emerging market team. She holds the Investment Management Certificate and is a CFA (Chartered Financial Analyst) charterholder.



Neil Smith is a research assistant, he works closely with David and the team to provide in-depth investment analysis with a focus on sustainable investment. He graduated from Plymouth University with a Bachelor of Science degree in law and politics. Neil has over eight years' experience working for Rathbone Unit Trust Management. He holds the Investment Management Certificate.

## Ethical, sustainable and impact research team



Perry Rudd is head of Rathbone Greenbank's ethical, sustainable and impact research team. He is responsible for managing the team's proprietary ESG (environmental, social and governance) research database, in addition to conducting thematic research into key responsible investment issues.



Kate Elliot is deputy head of Rathbone Greenbank's ethical, sustainable and impact research team. Kate assesses the ESG performance of companies and monitors emerging ethical and sustainability themes. She also developed the fund's sustainability reporting frameworks.



Sophie Lawrence joined Rathbone Greenbank in January 2020 as a senior ethical, sustainable and impact researcher. She is responsible for managing engagement activities, assessing the social and environmental performance of companies and conducting ESG and impact reporting for clients.



Kai Johns joined the ethical research team in March 2019 after graduating from the University of Cambridge with a BA in Law. He is responsible for assessing the social and environmental performance of companies.

## Stewardship and corporate governance team



Matt Crossman is the stewardship director for the group. Overseeing the work of our Stewardship Committee, he ensures active voting at company AGMs (Annual General Meetings), whilst also being the group lead on the integration of environmental, social and governance factors into the investment process. Matt also leads thematic engagement with companies on ESG issues, especially those are undertaken via the UN-backed Principles for Responsible Investment.



Archie Pearson joined Rathbones in 2018 as a voting and governance analyst. He supports Matt Crossman, on the stewardship team, ensuring informed proxy voting and corporate engagement activities as part of Rathbones' stewardship policies, and helping to promote the integration of ESG within the investment process. Prior to Rathbones, Archie worked for Oikocredit in their UK and Ireland office. Archie graduated in 2015 from the University of Edinburgh with a masters in Theology.

# Sustainability spotlight

## ESG considerations in the technology value chain

The wider use of disruptive technology – such as online healthcare, remote working and learning, autonomous vehicles and augmented reality – is set to touch more and more aspects of our everyday lives.

However, as the demand from consumers, business and government alike for greater connectivity and convenience grows, it's important to bear in mind the need for checks and balances to avoid some of the more negative impacts associated with these advances.

While many of the technological benefits we enjoy today have their roots in industries such as defence, adult entertainment and gambling, we now accept the advantages these have given us – although a broad range of issues remain beneath the surface.

The devices that deliver these services are exposed to many ESG risks. The greenhouse gas emissions, water consumption and amount of chemicals associated with the extraction and refining of raw materials such as tin, copper, gold and cobalt – often sourced from areas of conflict or countries with weak governance on environmental and workplace issues – are prodigious.

And in addition to concerns around supply chain transparency, there is the amount of end-of-life waste generated if consideration for repair and recycling is not built in the design process of the original product.

Another side of the equation is the need to consider the social implications of what is on offer: digital poverty, data privacy, cybersecurity and the mental wellbeing of young people are among the myriad issues that come with wider access within an ecosystem where everything can be tracked, traced and commoditised by unscrupulous scammers and 'Big Data' alike.

So, whether we are looking at step-changes in electricity storage for utility-scale batteries, smart charging for electric vehicles, building and home automation using the 'Internet of Things' (IoT) or enhancing the efficiency of existing conventional power plants, we are keen to ensure that there should be no such thing as a 'free pass' for those companies contributing to innovation in these areas.

Within the fund, a number of companies are involved in many aspects of the technology value chain:

**Cadence** is a leading supplier of electronic design automation software. Customers use its software, hardware and services to design and verify advanced semiconductors, consumer electronics, networking and telecommunications equipment and computer systems in a number of markets, such as mobile and consumer devices, communications, cloud and data centre infrastructure, personal computers, automotive and medical systems.



“...it’s important to bear in mind the need for checks and balances to avoid some of the more negative impacts associated with these advances.”

**Ansys** is active in the same sphere; its software is used to design products and semiconductors, as well as to create simulations that test a product’s durability, temperature distribution, fluid movements and electromagnetic properties.

**ASML** makes equipment and software used in the manufacture of microchips and is focused on innovation in lithography technology to enable the manufacture of smaller, more powerful and more energy efficient circuits and chips. Lithography is the process by which lasers are used to etch the pattern and structure of microchips. ASML’s customers include designers and contract manufacturers of microchips for smartphones, tablets and other IoT devices.

**Adobe** develops and markets computer software products that allow users to create and manage content across print and electronic media. The move to distributing information digitally enables end-users to reduce paper consumption with the education sector being one of its biggest markets.

**Microsoft** has been involved in the development and support of software, hardware and personal electronics since 1975. Its operating systems, business solution applications and software development tools have made desktop computing accessible in both home and office environments. Its cloud-based Azure service reduces the need for businesses to invest in and maintain costly hardware.

**Trimble** integrates positioning technologies, including GPS, laser, optical and inertial technologies, with application software and wireless communications to provide complete solutions that allow customers to collect, manage and analyse complex information, making them more efficient and sustainable. Its software, hardware and services are transforming industries such as agriculture, construction, transportation and logistics.

**Aptiv** provides solutions for safer, cleaner and more connected transportation, using enhanced software and hardware to improve safety and the development of autonomous vehicles.



“Coronavirus is not some grand leveller: it is an amplifier of existing inequalities, injustices and insecurities.”

Owen Jones, The Guardian

## COVID-19: An opportunity to build back better?

Without diminishing the suffering and emotional toll that COVID-19 has taken on individuals and their families, 'black swan' events like this pandemic can serve as a wake-up call to highlight how susceptible the systems we take for granted are to extreme shocks. This article briefly explores three different impacts that COVID-19 has had on sustainable investment.

## An increasing emphasis on the 'S' and 'G' of ESG

COVID-19 has shone a light on the social ("S") component of ESG in a way that has not been seen before. How are businesses treating their workers? And – what measures are companies taking to protect the safety of their employees? These are just some of the questions at the top of the investor agenda. Some companies have gone even further to repurpose production lines to make emergency supplies (see Unilever example). The contribution of 'key workers', whose value to society had previously been grossly underestimated, has come to be truly appreciated. As Owen Jones<sup>1</sup> commented in the Guardian: "Coronavirus is not some grand leveller: it is an amplifier of existing inequalities, injustices and insecurities."

As we approach the peak of the AGM season, the COVID-19 crisis will also influence more than ever how investors look at corporate governance. The longer-term priority needs to be on how companies' handling of events has informed their approach to structural issues such as remuneration, continuity planning and tax transparency.

"The longer-term priority needs to be on how companies' handling of events has informed their approach to structural issues such as remuneration, continuity planning and tax transparency."

## Calls for fiscal recovery packages to be sustainable and inclusive

"Short-term reductions in emissions from lockdowns will have minor long-term impacts, unless they facilitate deeper, long-term human, business and institutional changes"<sup>2</sup>. That is the view of leading Economists, including Nicholas Stern and Joseph Stiglitz. They argue the case for the implementation of fiscal recovery packages that meet both economic and climate goals, including investment in clean physical infrastructure, building efficiency retrofits and natural capital investments. Experts are also calling for a special focus on the needs of the most vulnerable to deliver a 'just transition'<sup>3</sup>. Rathbones has recently signed an investor letter coordinated by the UK Business Group Alliance for Net Zero and IIGCC calling on the UK government to ensure that the economic recovery plans support a sustainable, inclusive and resilient UK economy, aligned with the UK's target of net zero emissions by 2050.

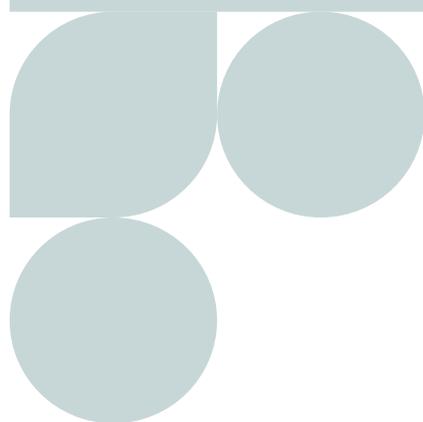
# Sustainable funds and companies have been more resilient during the crisis

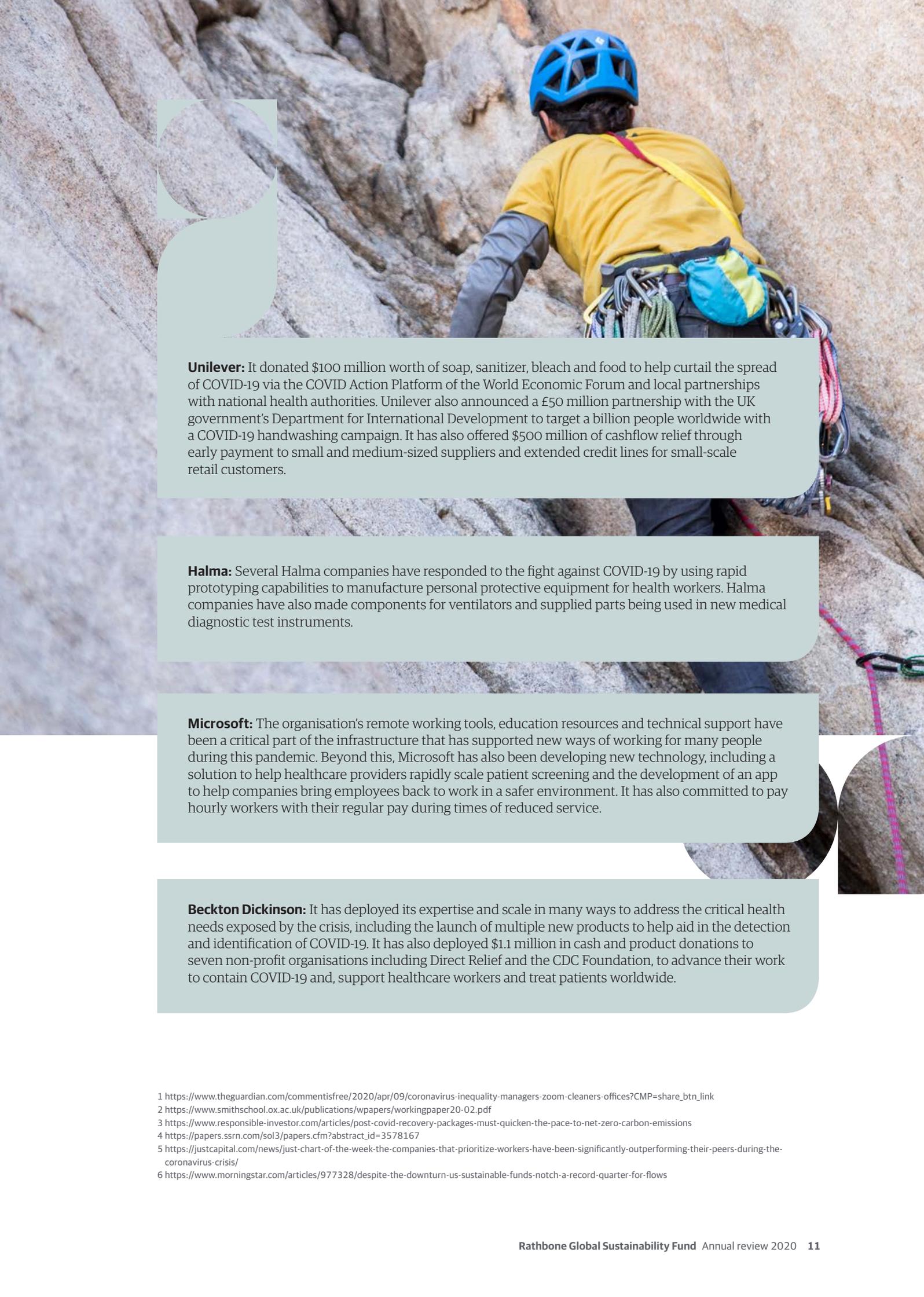
The concept of ESG investing is likely to be reinforced as companies that endure the crisis showing appropriate concern for their employees, customers and suppliers (and wider society, too) stand to benefit most from investors' loyalty. Initial research by Harvard Business School<sup>4</sup> has already found this to ring true. Their research found that more positive sentiment around a company's response to the crisis (specifically related to labour practices, supply chain and repurposing of operations to provide solutions during the crisis) is associated with less negative returns. JUST Capital<sup>5</sup> also found that companies in their database that were protecting employee health and safety during the crisis and providing fair and equal pay, outperformed their peers by 7.3% during the pandemic. Morningstar<sup>6</sup> data also illustrated how flows into ESG funds reached a record \$10.5 billion in the first quarter of 2020, despite the pandemic.

## Examples of how organisations in the fund have responded to COVID-19:

**Abbott Laboratories:** Abbott has launched five tests for COVID-19 to date, all of which have received emergency use authorisation in the European Union and the United States. The tests are being supplied worldwide, including the UK where they are the key supplier of antibody tests to NHS laboratories. Beyond leveraging its experience in diagnostics and medicines, Abbott is also providing funding via its foundation to support relief efforts globally and has partnered with other organisations to donate free glucose monitoring technology to hospitals in COVID-19 hotspots.

**Xylem:** Alongside the successful implementation of its pandemic risk mitigation plan that has kept critical services running throughout the crisis, Xylem has also taken steps to provide supplementary financial support and expansion of paid leave to employees and their families affected by COVID-19. Employees that are working in positions that require them to work onsite are also receiving premium pay. The group has established two new partnerships with Americares and UNICEF to extend community grants to local non-profit organisations and has provided funding for critical care facilities.





**Unilever:** It donated \$100 million worth of soap, sanitizer, bleach and food to help curtail the spread of COVID-19 via the COVID Action Platform of the World Economic Forum and local partnerships with national health authorities. Unilever also announced a £50 million partnership with the UK government's Department for International Development to target a billion people worldwide with a COVID-19 handwashing campaign. It has also offered \$500 million of cashflow relief through early payment to small and medium-sized suppliers and extended credit lines for small-scale retail customers.

**Halma:** Several Halma companies have responded to the fight against COVID-19 by using rapid prototyping capabilities to manufacture personal protective equipment for health workers. Halma companies have also made components for ventilators and supplied parts being used in new medical diagnostic test instruments.

**Microsoft:** The organisation's remote working tools, education resources and technical support have been a critical part of the infrastructure that has supported new ways of working for many people during this pandemic. Beyond this, Microsoft has also been developing new technology, including a solution to help healthcare providers rapidly scale patient screening and the development of an app to help companies bring employees back to work in a safer environment. It has also committed to pay hourly workers with their regular pay during times of reduced service.

**Beckton Dickinson:** It has deployed its expertise and scale in many ways to address the critical health needs exposed by the crisis, including the launch of multiple new products to help aid in the detection and identification of COVID-19. It has also deployed \$1.1 million in cash and product donations to seven non-profit organisations including Direct Relief and the CDC Foundation, to advance their work to contain COVID-19 and, support healthcare workers and treat patients worldwide.

1 [https://www.theguardian.com/commentisfree/2020/apr/09/coronavirus-inequality-managers-zoom-cleaners-offices?CMP=share\\_btn\\_link](https://www.theguardian.com/commentisfree/2020/apr/09/coronavirus-inequality-managers-zoom-cleaners-offices?CMP=share_btn_link)  
 2 <https://www.smithschool.ox.ac.uk/publications/wpapers/workingpaper20-02.pdf>  
 3 <https://www.responsible-investor.com/articles/post-covid-recovery-packages-must-quicken-the-pace-to-net-zero-carbon-emissions>  
 4 [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3578167](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3578167)  
 5 <https://justcapital.com/news/just-chart-of-the-week-the-companies-that-prioritize-workers-have-been-significantly-outperforming-their-peers-during-the-coronavirus-crisis/>  
 6 <https://www.morningstar.com/articles/977328/despite-the-downturn-us-sustainable-funds-notch-a-record-quarter-for-flows>

# Governance and stewardship update

An important aspect of sustainable investing for the Rathbone Global Sustainability Fund is our approach to corporate governance and stewardship. As a signatory to the UK Stewardship Code, Rathbone Unit Trust Management is mindful of its responsibilities to its clients and seeks to be good, long-term stewards of the investments, which it manages on their behalf. The companies in which the fund invests must adopt best practice in corporate governance as we believe that doing so provides a framework in which each company can be managed for the long-term interests of its shareholders. Rathbone has developed a core set of guiding principles, which apply to our stewardship and governance-related activities:

**Materiality** – we recognise that governance and stewardship risks can be material to the performance and valuation of companies.

**Active voting** – we actively vote all shares held within the Rathbone Global Sustainability Fund except where local regulations make voting impractical.

**Engagement** – active engagement with companies on governance issues, including writing to companies when voting against management, outlining our specific concerns.

**Transparency** – we will report annually on our stewardship activities. The latest report (Responsible investment and stewardship report 2020) covering 2019 voting and our stewardship policy is available on our website [rathbonefunds.com](http://rathbonefunds.com)

## Proxy voting

The Rathbone Global Sustainability Fund approaches 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. In addition to this, the fund benefits from a sustainability-themed voting overlay. This ensures that voting on fund holdings will be consistent with the values of the fund and its sustainability criteria. The default position is to vote in favour of social and environmental proposals that seek to promote better disclosure and good corporate citizenship, while also enhancing long-term shareholder and stakeholder value. We will now discuss some examples of issues identified during the year where the fund has voted against management.

# “Rathbone Unit Trust Management is mindful of its responsibilities to its clients and seeks to be good, long-term stewards of the investments, which it manages on their behalf.”

One area where the fund will consistently vote against management involves the failure to disclose their gender pay gap data. Whilst UK companies must report their gender pay gap, the same does not 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 both Mastercard and Microsoft.

Executive pay is another issue where the fund will vote against management should it be necessary. Bad practices include excessive increases that are not linked to targets that are in the best long-term interest of shareholders or qualitative measures are used that are decided and judged by the remuneration committee. We believe that executive remuneration targets should be easy to understand and linked to transparent identifiable metrics. During the year, there were four instances of the fund voting against management in this area.

Finally, we also encountered the issue of overloading of board members. This is where someone has multiple board positions across different companies meaning it will be difficult for them to pay enough attention to each individual organisation. We believe that board members should be able to adequately serve any positions they are elected to so that they can protect shareholders and protect the long-term interest of the company. There were a couple of instances where a board member had positions at seven separate companies, which we believe is too many. In both instances we vote against the re-election of the board member and sent a letter to the company explaining our opposition.

## **Engagement**

Engagement with companies is an important part of sustainable investing and we believe a collaborated approach is the most effective way to get companies to improve their ESG credentials. Rathbones is a member of the United Nations Principles of Responsible Investment (UN-PRI) meaning that we are able to engage with other members on a wide range of ESG issues through its collaboration platform. Within Rathbones, the fund has representation on the internal committee that works with the PRI on some of their engagements.

An example of an engagement that the fund has been involved with is on the responsible sourcing of cobalt with particular focus on the Democratic Republic of Congo (DRC). The mining of cobalt within the DRC is in desperate need of regulation as extreme poverty levels has meant that families (including children) are forced into the mining sector on incredibly low wages.

This engagement was set up to target a number of global firms that rely on this resource and encourage them to do more to protect vulnerable workers. The fund is part of the lead investor effort engaging with Microsoft to improve their supply chains, reporting standards and collaboration with the local government to improve working conditions. As part of this engagement, we have had conference calls with Microsoft and gone through their literature to produce a scorecard highlighting areas of good business practice and areas that could be improved. The scorecard is sent to the collaborative group run by the UN-PRI so that information and progress can be shared.

During this engagement, we also attended an investor roundtable event organised by the UN-PRI to hear from lots of different organisations about the responsible sourcing of cobalt. The biggest issue is around traceability and accurately being able to tell exactly where the cobalt is being mined from and in what conditions. By having a collaborative engagement this is enabling companies to work together to find a solution around cobalt traceability and how technology such as blockchain could be used to achieve this in the future.

As part of this engagement, the PRI is encouraging all the targeted companies to collaborate more with each other to help the local communities thrive and provide an alternative to families forced into mining on very low wages. By eradicating the need for people to work in these mines unsafely, companies will be able to guarantee that the cobalt supplied to them has been done so both legally and responsibly. This won't be a quick fix but the fund will continue to engage with Microsoft on this issue.

# Portfolio carbon footprint

## Rathbone Global Sustainability Fund

### Estimated carbon footprint for portfolio equity holdings

Valuation date	30 Apr 2020	
Portfolio value	£13,895,595	
Equity value (% total value)	£13,385,944	96%
Value covered by carbon data (% total value)	£13,385,944	96%
Number of holdings not reporting carbon data	3	
% eligible holdings with data (by value)	100%	
Number of holdings excluded due to lack of data/estimates	0	

	Tonnes	Tonnes per £1m invested	
Portfolio carbon footprint	421.39	31.48	
MSCI World Index carbon footprint	2,042.66	152.60	-79.4%

The Intergovernmental Panel on Climate Change (IPCC) has highlighted the need to limit the rise in global average temperatures to 1.5°C above pre-industrial levels in order to avoid significant environmental and economic costs; yet current global policies and targets are projected to result in over 3°C of warming. This ambition gap needs to close. One of the ways in which investors can demonstrate support for the low-carbon economy is by measuring and reporting on the climate impact of their investments. We have conducted a carbon footprint assessment of the portfolio, showing the carbon 'owned' via an investment in the fund. The analysis looks at Scope 1 and Scope 2 emissions. This is due to widespread gaps in company reporting of Scope 3 emissions and our desire to compare like-for-like company data.

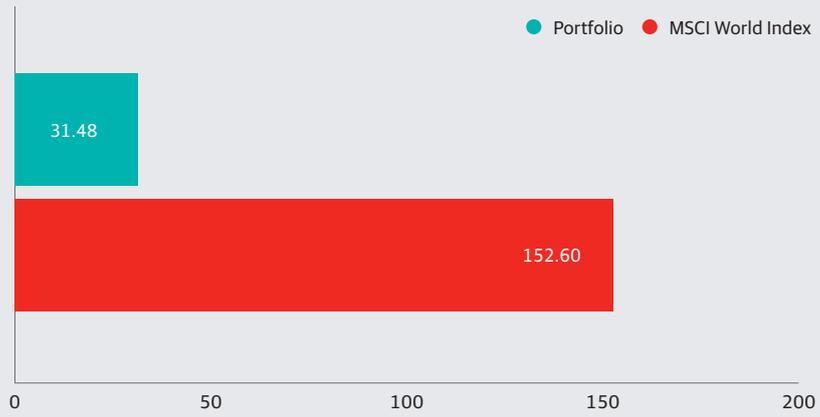
This shows that every £1 million invested in the fund owns 31.48 tonnes of Greenhouse Gas (GHG) emissions. If the same amount were invested passively in the MSCI World Index it would own 152.60 tonnes of GHG. That means the fund is estimated to be 79% less carbon intensive than the index.

This is partly driven by the fact that the fund excludes some of the highest emitting industries such as fossil fuels and mining. However, the positive sustainability focus of the fund also means that within the sectors where we do invest, we are looking for companies that can demonstrate leadership and an evidenced commitment to the low-carbon economy.

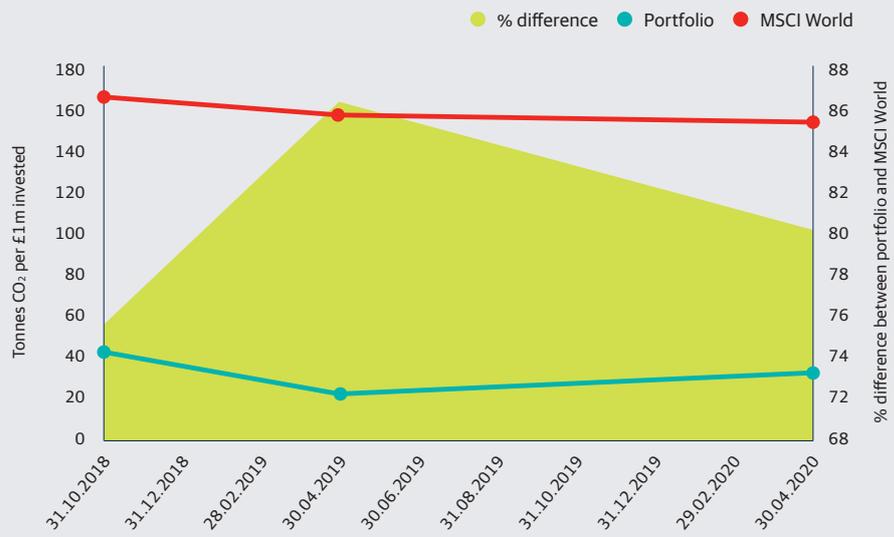
#### Explanatory notes

- In constructing the MSCI World Index data, sector averages have been estimated for those companies that do not report GHG emissions data
- The portfolio footprint is derived by calculating the percentage of a company's shares in issue held within the portfolio. This percentage is then multiplied by the company's total GHG emissions to derive the amount of carbon which can be ascribed to the portfolio holding
- Only the portion of the portfolio invested in equities and covered by carbon data (indicated overleaf) is used in the MSCI World Index carbon footprints. This is to ensure a fair comparison
- This value is allocated across the index constituents according to their respective market cap weightings. A similar process is used to calculate the share of each company's carbon footprint 'owned' by the benchmark

### Tonnes per £1m invested



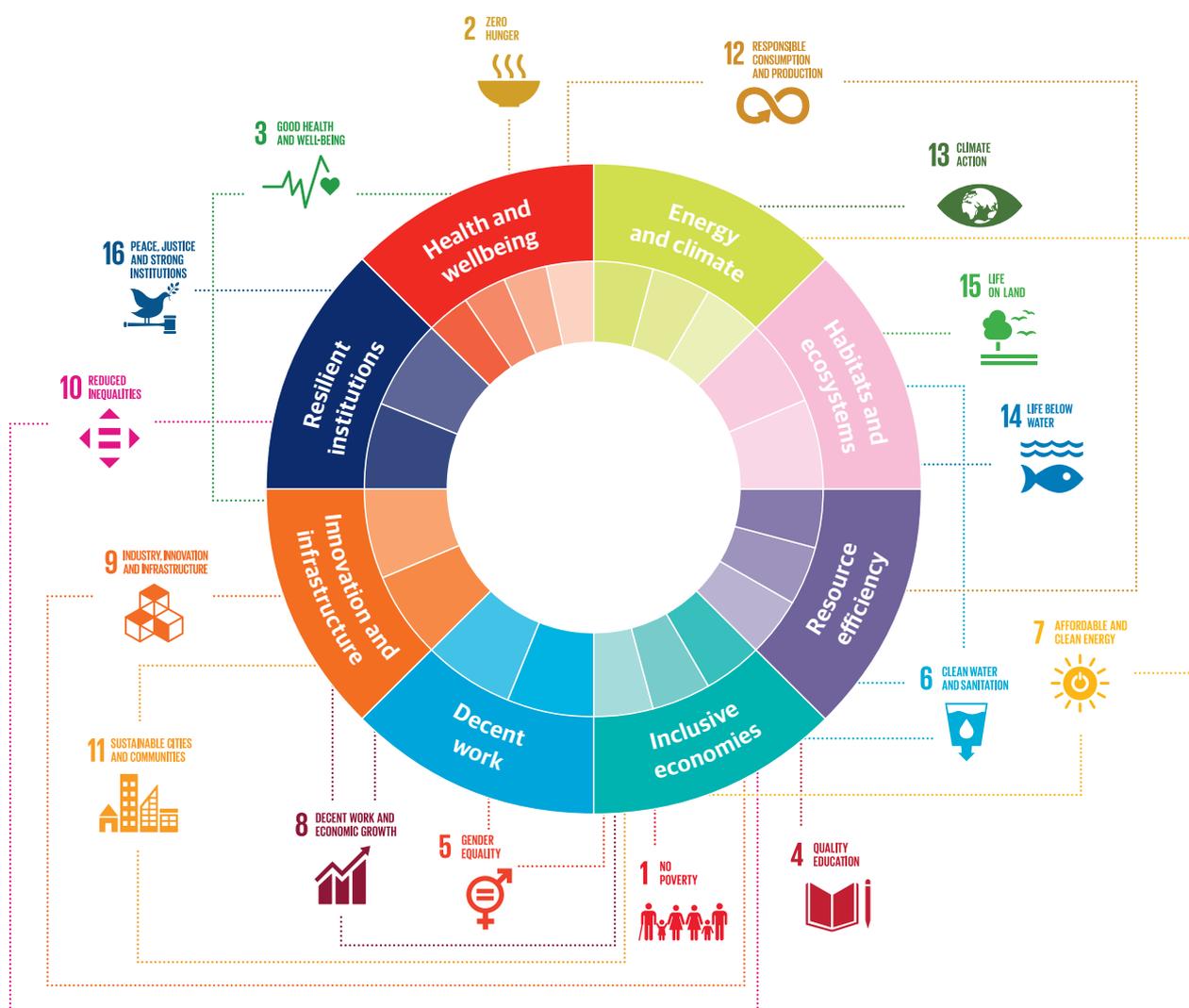
### Historical analysis



# Positive sustainability criteria

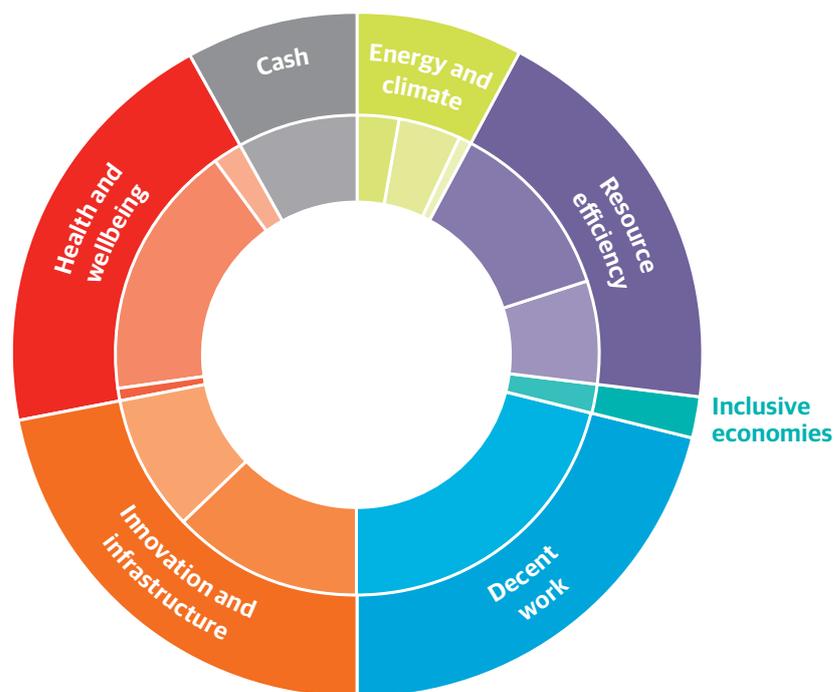
## How the UN SDGs map to Rathbone Greenbank's proprietary database

Sustainability philosophy – our sustainability model uses a set of sustainable development themes and a number of underlying sub-themes. Following the 2015 launch of the UN Sustainable Development Goals (SDGs), we updated our approach to incorporate the aims of the SDGs. The SDGs comprise 17 goals, with 169 underlying targets that aim to 'end poverty, protect the planet and ensure prosperity for all' by 2030. Our themes ultimately align with the same ambitions, but translate the SDGs into something more relevant for companies. Our internal sustainability framework has evolved over time and was updated in 2015 to incorporate the aims of the SDGs.



# Portfolio breakdown

Rathbone Greenbank has mapped the UN SDGs to its own set of eight sustainable development themes and a number of underlying sub-themes, making them more relevant to companies. We use these themes to determine how successful individual companies are at translating aspirations into tangible results.



Theme	Sub-theme	Total
Energy and climate	Climate action	4%
	Energy security	3%
	Operational alignment (climate)	1%
Resource efficiency	Sustainable consumption	14%
	Water security	5%
	Operational alignment (resource efficiency)	2%
Inclusive economies	Training and education	1%
Decent work	Operational alignment (employment)	18%
Innovation and infrastructure	Supporting environmental sustainability	19%
	Supporting human wellbeing	9%
Health and wellbeing	Healthcare access	15%
	Safety and protection	2%
Cash	Cash	7%

Source: Rathbones as at 30.04.2020

# Rathbone Global Sustainability Fund

## Case studies



Case study

# Abbott Laboratories



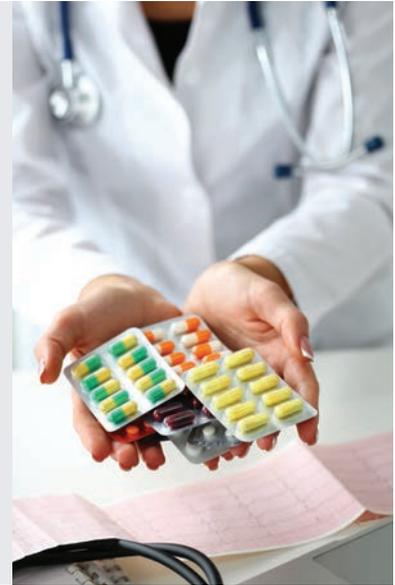
Health and wellbeing: Healthcare access

### Investment case

- leading nutritional products and diagnostics company, with a diversified portfolio
- Abbott is a market leader in adult nutrition with its Ensure brand
- freestyle diabetes monitors are a significant product for type 1 diabetes market

### Sustainability criteria

- provides industry-leading access to healthcare programmes in countries where resources are constrained
- products and services support human wellbeing and help individuals to lead healthy lives
- supplier diversity program which is designed to give opportunities to groups traditionally under-represented in business



Case study

# Adobe



Decent work: Operational alignment (employment)

### Investment case

- leading US software company with a focus on creating digital media and publication tools
- highly embedded with customers and a key beneficiary of the structural shift to digital
- subscription-based model with excellent levels of cashflow and attractive returns on capital

### Sustainability criteria

- achieved gender pay parity globally and switched focus to closing opportunity gap
- digital academy provides apprenticeships and the goal of placing participants with full-time employment at Adobe or another technology company
- commitment to 100% renewable energy for all operating sites and digital delivery of products by 2035



## Case study

# AIA



Decent work:  
Operational alignment (employment)

### Investment case

- leading Pan-Asian insurance products business
- focus on savings and protection products. Beneficiary of rising middle class
- double digit revenue growth supported by excellent and durable returns on capital

### Sustainability criteria

- significant investment in infrastructure-related sectors such as electricity, transportation and telecommunications
- focus on recruiting, developing and retaining capable, engaged and high-performing employees
- launched first-in-market mental health insurance in Malaysia increasing coverage of mental health conditions



## Case study

# Ansys



Innovation and infrastructure:  
Supporting environmental sustainability

### Investment case

- American technology company focused on simulation software. Is used by customers to optimise products as they are designed
- simulation is becoming more important across the whole lifecycle of a product. Ansys will be a key beneficiary of this
- grows its top line at a multiple of GDP and also possesses a wide and durable economic moat

### Sustainability criteria

- software helps innovators test and improve solutions in clean technology and renewable energy systems
- technology is used for research and/or teaching in engineering schools around the globe
- developing solutions catered to emerging technologies for autonomous vehicles, energy storage and battery management systems



new  
holding

Case study

# Aptiv



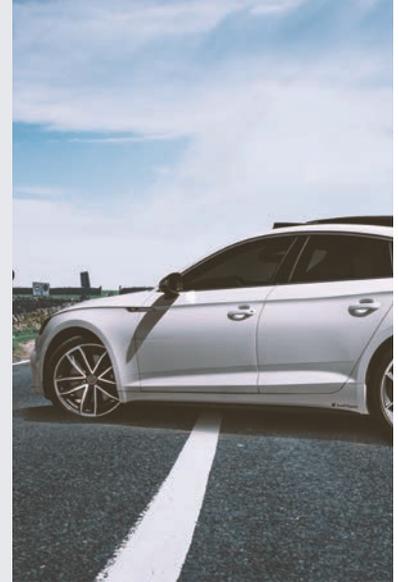
Innovation and infrastructure:  
Supporting environmental sustainability

**Investment case**

- US auto-supply business with a focus on the 'digital nerve centre' of vehicles
- no exposure to combustion engine should make returns on capital more predictable
- significant growth opportunities from focus on vehicle autonomy and safety

**Sustainability criteria**

- creating sustainable products around autonomous driving and electrification
- active safety features helping to reduce vehicle accidents and fatalities
- long-term targets for reducing waste, water and emissions aligned to the UN SDGs



Case study

# ASML



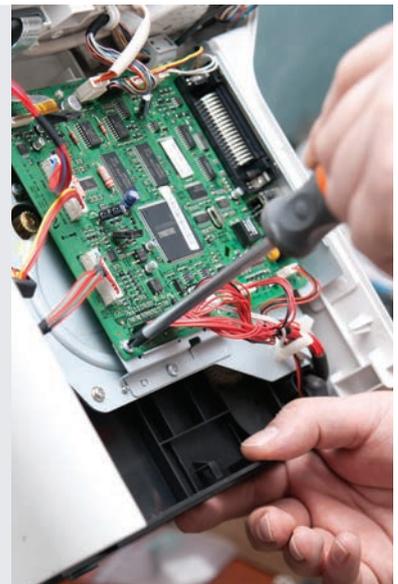
Innovation and infrastructure:  
Supporting environmental sustainability

**Investment case**

- global leader in semi-conductor manufacturing equipment
- enjoys well over 50% market share in next generation technology
- structural rise in microchip usage. Significant long-term growth opportunities

**Sustainability criteria**

- enables microchips to be smaller, cheaper and more energy-efficient
- products support the transition away from a linear economic model to a circular economy
- targeting 100% renewable electricity by 2020



Case study

# Assa Abloy

# ASSA ABLOY

Innovation and infrastructure:  
Supporting human wellbeing

### Investment case

- global leader in entry systems, an industry with attractive growth
- structural shift to digital locks a multi-year driver
- returns on capital are attractive and durable

### Sustainability criteria

- provides security and safety to customers with locks, doors and gates
- embeds sustainable design into product innovation process
- mobile access allows keyless entry to hotel rooms, reducing need for plastic cards



Case study

# Badger Meter



Resource efficiency: Water security

### Investment case

- US industrial company focused on municipal water meters
- enjoys a high and stable market share and new entrants have significant barriers to entry
- should be a key beneficiary of the shift to a more interconnected and digital infrastructure

### Sustainability criteria

- helps save water and other natural resources through highly accurate metering and analytics solutions
- bronze metering products contain recycled material made from scrap brass
- leadership training programme aimed at driving consistent management techniques and skills



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Case study

# Becton Dickinson



Health and wellbeing: Healthcare access

**Investment case**

- leader in medical safety devices and consumables used in urgent care environments
- extremely high market share and enjoys significant barriers to entry
- products are often life-critical and difficult to replicate

**Sustainability criteria**

- advancing the world of health by improving medical discovery, diagnostics and the delivery of care
- supports carers in healthcare by developing innovative technology, services and solutions
- on the front line of helping medical researchers through expertise in bioscience and genomics



Case study

# Big Yellow



Energy and climate: Operational alignment (climate)

**Investment case**

- the largest self-storage operator in the UK
- a structural growth industry with a very high incremental return on capital
- London supply is severely restricted

**Sustainability criteria**

- installing motion sensor lighting and switching entire estate to LED lighting
- reducing greenhouse emissions per square metre occupied through renewable energy initiatives
- supports different charities by donating free storage space



Case study

# Cadence Design



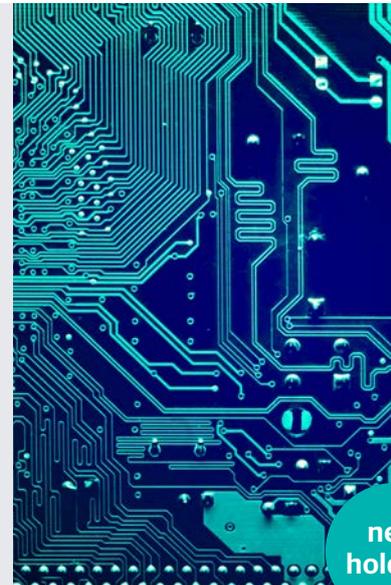
Innovation and infrastructure:  
Supporting environmental sustainability

**Investment case**

- American technology company that plays a key role in semi-conductor design
- exposed to a number of attractive long-term trends including artificial intelligence and next-generation technology
- products are often seen as mission-critical with its customers

**Sustainability criteria**

- provide technologies which assist in the design of electronic products that conserve energy and power
- supporting innovation in the auto industry and the transition to electric vehicles
- increasing female participation in the sector by offering women in technology scholarships



new holding

Case study

# Clorox



Resource efficiency: Operational Alignment

**Investment case**

- American consumer goods business with a strong brand footprint and an attractive product portfolio
- excellent management team with a proven ability to innovate and allocate capital effectively
- clear focus on recurring cashflow and long-term growth helps drive high and stable return on capital

**Sustainability criteria**

- bleach and disinfecting products help kill germs and Britta water filters provide safe clean drinking water
- targeting 100% recyclable, reusable or compostable packaging by 2025
- participant in TerraCycle's Loop pilot program, where once products are used the packaging is collected, cleaned, refilled and reused



new holding

Case study

# Close Brothers



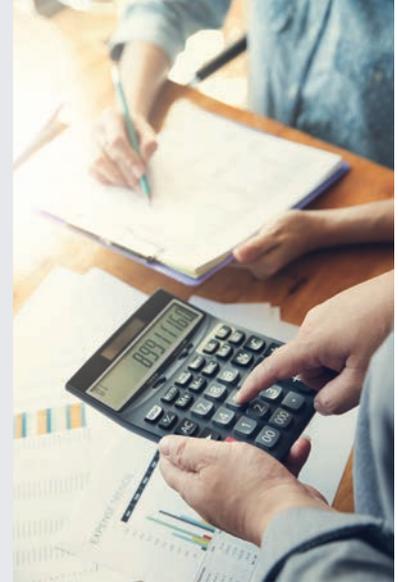
Decent work:  
Operational alignment (employment)

### Investment case

- niche UK financial services business – merchant banking and asset management
- clear focus on capital allocation and high market shares has driven long term returns
- conservatively financed and relatively simple business model

### Sustainability criteria

- strict lending policy – won't finance arms companies or to onshore oil development projects
- provide finance to green energy projects, especially smaller ones that struggle to get finance elsewhere
- apprenticeship programmes to help recruit and train the next generation of workers



Case study

# DiaSorin



Health and wellbeing: Healthcare access

### Investment case

- Italian medical company, leader in niche diagnostic testing
- larger players generally avoid niche tests and partner with DiaSorin
- excellent management team that allocate capital very clearly and consistently

### Sustainability criteria

- help patients improve the quality of their lives through early detection of potential diseases
- participate in scientific collaborations and help connect research and development in medicine
- provide scholarships and access to labs to promising students, many of which go on to work for the company



Case study

# Ecolab



Resource efficiency: Water security

### Investment case

- market leader in commercial cleaning products
- consistent growth in market share and excellent pricing power. Client retention of over 95%
- highly cash-generative business and durable return on capital

### Sustainability criteria

- assist companies to deliver clean water, safe food and reduce energy consumption across a range of industries
- help companies reduce, reuse and recycle water, saving billions of gallons every year
- switching from using virgin plastic to recycled in their product range



Case study

# EDP renewables



Energy and climate: Climate action

### Investment case

- global leader in the ever-expanding renewable energy sector
- self-funding value accretive growth model, with low leverage
- excellent operator achieving industry leading margins through outperformance along the value chain

### Sustainability criteria

- providing clean energy and better infrastructure capabilities
- high percentage of employees come from the local communities where the company operates
- innovating to improve the economics of offshore wind and battery storage



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Case study

# Edwards Lifesciences



Edwards

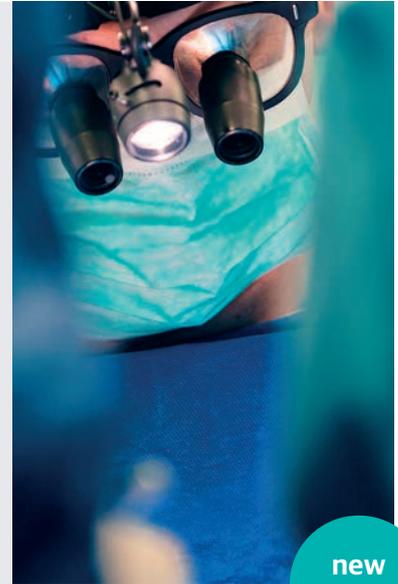
Health and wellbeing: Healthcare access

### Investment case

- American medical technology company, focused on heart valve replacement products and cardiac monitoring equipment
- leading player globally in its field, with significant growth opportunities in the long term
- attractive return on capital should be sustainable given the durability of the business

### Sustainability criteria

- help reduce the global burden of heart valve disease by supporting the education, screening and treatment
- drive the development of minimally invasive technologies that improve both patient outcomes and speed of recovery
- raise awareness and provide education about all treatment options available to patients



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Case study

# First Republic



Decent work: Operational alignment (employment)

### Investment case

- California-based bank, with a strong focus on wealth management
- unique culture creates long-lasting and strong customer relationships
- stable and attractive returns. A simple and niche financial services company

### Sustainability criteria

- financial products give access to finance for businesses, students and families
- attractive employee benefits and work-life balance helps to ensure low staff turnover
- Eagle Community Home Loan Program helps individuals in the community become homeowners



Case study

# GN Store Nord



Health and wellbeing: Healthcare access

### Investment case

- leading Danish hearing aid and audio company, with strong focus on innovation
- only hearing aid company without a large retail footprint, making it more agile and scalable
- audio business benefitting from structural change in how we work

### Sustainability criteria

- hearing solutions improve the quality of life for an ageing population
- graduate and mentoring programme to attract and develop the talent of tomorrow
- GN Hearing co-sponsors research into better hearing solutions



Case study

# Halma



Health and wellbeing: Healthcare access

### Investment case

- UK industrial business, focused on safety technology across multiple applications
- market-leading positions in niche segments helps to protect pricing power
- significant long-term growth potential whilst achieving attractive returns on capital

### Sustainability criteria

- involved in manufacturing a wide range of products that protect and improve the quality of life for people worldwide
- medical technology helps to diagnose and treat disease earlier and more accurately
- technology helps the agriculture industry to maximise crop growth and cultivation



Case study

# Hannon Armstrong



Innovation and infrastructure:  
Supporting environmental sustainability

**Investment case**

- American financing company for renewable energy and infrastructure projects that reduce carbon emissions
- long standing relationships with industry-leading partners gives them unique access to lots of business opportunities
- strong pipeline in a growing energy efficiency sector with both private and public sector customers

**Sustainability criteria**

- first American public company solely dedicated to investments in climate change solutions.
- provides financing to energy and water efficiency projects for residential and commercial buildings
- repayment of loans comes out of energy savings generated by the project



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Case study

# Kingspan



Energy and climate: Energy security

**Investment case**

- global market leader in high performance insulation
- patent protected technology with superior insulation properties
- sales team has technical knowledge allowing them to lock in long-term relationships with architects

**Sustainability criteria**

- products significantly reduce energy consumption and greenhouse gas emissions in buildings
- targeting net zero carbon manufacturing by 2030
- aiming to achieve zero waste to landfill throughout the business by 2030



Case study

# Kone



Innovation and infrastructure:  
Supporting environmental sustainability

**Investment case**

- elevator market is consolidated with very high barriers to entry
- structural demand remains robust as urbanisation means building up, not out
- highly cash-generative business with long-term visibility

**Sustainability criteria**

- products and services improves buildings eco-efficiency with an emphasis on safety
- no landfill waste at a number of manufacturing sites
- employee development through virtual reality, gamification and mobile learning



Case study

# Legal & General



Decent work:  
Operational alignment (employment)

**Investment case**

- UK insurance business with strong investment management franchise
- significant growth opportunities in US market
- highly experienced management team that allocates capital clearly

**Sustainability criteria**

- provides funding into small-to-medium sized enterprises, supporting job creation and economic growth
- supporting key technologies in the transition to a lower carbon economy
- offers agile employment allowing workers to be more flexible and not tied to one office location



Case study

# Linde



THE LINDE GROUP

Resource efficiency: Sustainable consumption

**Investment case**

- global leader in industrial gases, with operations across multiple sectors
- merger of Praxair and Linde assets should drive significant synergies
- wide and durable moat around a highly cash-generative business

**Sustainability criteria**

- products, services and technologies offer environmental benefits to a wide variety of industries
- hydrogen gas used to help produce cleaner air by reducing sulphur emissions from trucks and cars
- oxygen gas helps steelmakers save energy and serves medical patients needing respiratory oxygen



Case study

# Littelfuse



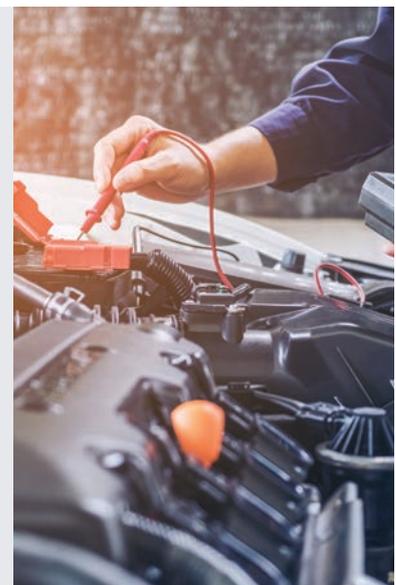
Innovation and infrastructure:  
Supporting human wellbeing

**Investment case**

- global leader in power-management technology for auto and industrial sectors
- vehicle electrification drives structural demand for products
- brand and barriers to entry help protect margin and pricing

**Sustainability criteria**

- products assist in the growth of smart meters, LED lighting and electric vehicles
- working with customers in renewable energy and energy storage markets to improve efficiency
- Products support the safety of electrical systems



Case study

# Mastercard



Innovation and infrastructure:  
Supporting human wellbeing

**Investment case**

- multi-year driver of cash-to-card switch. Global penetration 50%
- in duopolistic industry structure with durable barriers to entry
- excellent top line growth and very strong cash generation

**Sustainability criteria**

- inclusive growth agenda to move people from poverty to prosperity
- innovation in mobile payment and pre-paid cards targets under-served customer groups
- Girls4Tech signature education program aims to inspire girls into a career in science, technology, engineering and maths



Case study

# Microsoft



Decent work: Operational alignment (employment)

**Investment case**

- global software company with leading positions across multiple categories
- management have transformed the business into a well-positioned franchise with multiple revenue drivers
- high level of recurring cash flow with limited need for large strategic deals

**Sustainability criteria**

- meeting increasing demand for IT infrastructure services with more environmentally friendly and energy efficient solutions
- carbon neutral since 2012 and will remove historic carbon emissions by 2050
- offers employees strong benefits and development programmes, which help maintain high employee engagement and satisfaction levels



new holding



Case study

# Norma

Resource efficiency, Sustainable consumption

**Investment case**

- German engineering business, focused on mission-critical clamps and seals
- product used in a variety of applications and a key driver in emission reduction
- cash-generative and profitable business with market-leading positions

**Sustainability criteria**

- water management products help customers control water consumption
- clean water project – providing water supply to schools in India and Brazil
- making products in automotive and aerospace industries lighter to reduce CO<sub>2</sub> emissions



Case study

# RELX



Inclusive economies: Training and education

**Investment case**

- global leader in providing data analytics to the scientific and legal industries
- often provides a critical service to its customers, with few global competitors
- wide economic moat in the business is reflected by excellent return on capital

**Sustainability criteria**

- products promote sustainable access to information, helping the advancement of science, health and access to justice
- free universal access to SDG Resource Centre which includes information and research on the UN SDGs
- targeting 100% renewable energy by the end of 2020



Case study

# Sampo



Decent work:  
Operational alignment (employment)

**Investment case**

- Nordic financial services company with excellent management team
- insurance business is cash-generative with durable barriers
- banking exposure should unlock long-term value.

**Sustainability criteria**

- offers customers insurance solutions that provide them with security and stability in their daily lives
- loss prevention is the most important issue discussed with clients when choosing insurance offering
- stable and trusted employer with international career opportunities and mentoring programmes



Case study

# Sartorius



Health and wellbeing: Healthcare access

**Investment case**

- leader in making 'catalytic starters' for many biologic drugs
- strong market share in growing industry. High barriers to entry
- high level of sustainable growth. Returns on capital very attractive

**Sustainability criteria**

- products are used in biopharmaceutical industry to produce medical drugs
- laboratory instruments and consumables used in research, helping to enable scientific progress
- increasing the proportion of environmentally friendly raw materials in products



Case study

# SIG Combibloc



Resource efficiency: Sustainable consumption

### Investment case

- leader in aseptic packaging systems, which are used for a number of consumer products
- operates in a duopoly with Tetra Pak and enjoys strong barriers to entry
- long-term growth opportunity in aseptic packaging remains attractive

### Sustainability criteria

- packaging has a significantly lower environmental footprint than plastic bottles or cans
- enables food and beverages to retain their nutritional value over long periods of time without the need for refrigeration
- all the energy used to make their packs from renewable sources



new holding

Case study

# Smurfit Kappa



Resource efficiency: Operational Alignment

### Investment case

- Irish company focused on packaging for the global consumer products industry
- clear focus on sustainability has helped embed Smurfit with key customers and drive market share
- attractive return on capital is supported by excellent cashflow generation and steady revenue growth

### Sustainability criteria

- recyclable packaging delivers real savings in cost and carbon for customers and for consumers
- collect used packaging and recycle it within their closed loop business model
- Smurfit Kappa academy offers a range of training programmes to assist in employee career development



new holding

Case study

# TeamViewer



Innovation and infrastructure:  
Supporting environmental sustainability

### Investment case

- German software company focused on providing remote working solutions
- strong position in a growing and fragmented market
- top-line growth at a multiple of Global GDP drives attractive margins and returns

### Sustainability criteria

- enables customers to work remotely and collaborate on a global scale reducing travel and CO<sub>2</sub> emissions
- company emissions are offset by "Plant for the planet" program which plants trees in the Mexican rainforest
- new development centre in Ioannina, Greece provides employment to local talent left behind during the financial crisis



new holding

Case study

# Thermo Fisher Scientific



Health and wellbeing: Healthcare access

### Investment case

- American medical technology company, focused on laboratory testing equipment
- Thermo has an excellent brand reputation and enjoys extremely high market share in each of its core markets
- sustainable top-line potential in the business is attractive, supported by strong margins and returns on capital

### Sustainability criteria

- products and services key to healthcare professionals trying to cure disease and improve diagnostics
- offers multiple green product ranges and continuously innovates to reduce environmental impacts
- employee resource groups look at recruitment, career development and community involvement



new holding

Case study

# Tomra



Resource efficiency: Sustainable consumption

**Investment case**

- Norwegian company focused on recycling and sensor-based sorting machines
- extremely strong market share in both sorting and collection solutions and an excellent brand
- robust revenue growth and attractive profit margins drive durable return on capital

**Sustainability criteria**

- food sorting products reduce wastage and increase food safety
- sorting solutions increase recycling rates and reduce waste sent to landfill
- working with manufacturers to help produce 100% recyclable packaging and create a circular economy



Case study

# Trimble



Innovation and infrastructure:  
Supporting environmental sustainability

**Investment case**

- leader in advanced location-based software solutions
- software effectively digitises a farm or construction site
- attractive long-term growth opportunities are underpinned by excellent cashflow

**Sustainability criteria**

- enable farmers to increase efficiencies, enhance productivity and improve crop performance
- in transportation, bring efficiency and visibility into fleet operations for cleaner, greener and safer operations
- provide customers with instruction for safe disposal including recycling programme to prevent products ending up in landfills



Case study

# Unilever



Resource efficiency: Sustainable consumption

### Investment case

- strong sustainable growth potential
- focus on faster and more relevant innovation
- acquisitions to strengthen global portfolio

### Sustainability criteria

- sustainable living plan: contributing towards the achievement of:
  - a. improving health and wellbeing for more than 1 billion people
  - b. halve the environmental impact of their products
  - c. enhance the livelihoods of millions of people



Case study

# US Bancorp



Decent work:  
Operational alignment (employment)

### Investment case

- leading US bank, largely focused around the Mid-West
- business model is relatively simple. Management very returns focused
- extremely well capitalised franchise, supported by conservative lending

### Sustainability criteria

- recognised by Forbes as a best employer for women and diversity in 2018
- opportunity fund which gives loans to small business owners
- American dream mortgage loans: serves low-to-moderate income borrowers



Case study

# Vestas



Energy and climate: Climate action

### Investment case

- global leader in manufacturing onshore wind turbines and the servicing of turbines
- is protected with high barriers of entry and perfectly placed to capitalise on growth of wind energy
- delivers best-in-class margins with strong free cashflow generation

### Sustainability criteria

- delivering best-in-class renewables energy solutions
- company's mission of benefiting the planet by reducing CO<sub>2</sub> emissions and driving down the cost of energy
- invests in local community focussing on education, training and providing job opportunities



Case study

# Visa



Innovation and infrastructure:  
Supporting human wellbeing

### Investment case

- global leader in payment processing, operating in duopoly with Mastercard
- benefits from multi-year switch from cash-to-card payments
- double-digit revenue growth supported by excellent and durable returns on capital

### Sustainability criteria

- works with start-up businesses and developers to co-create new ways to pay at innovation centres
- financial literacy program offered in 42 markets around the world
- 100% renewable energy across its global operations



Case study

# Xylem



Resource efficiency: Water security

### Investment case

- US company focused on industrial equipment for the water industry
- huge opportunity for long-term growth in water sensing technology
- fragmented industry with high barriers and good return on capital

### Sustainability criteria

- treating water to make it safe to use or be returned to the environment
- smart water networks identify infrastructure problems earlier so wastage can be minimised
- water reclamation plant which purifies and recycles water for beneficial use



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# Rathbones

Look forward

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