

# Changing the planet

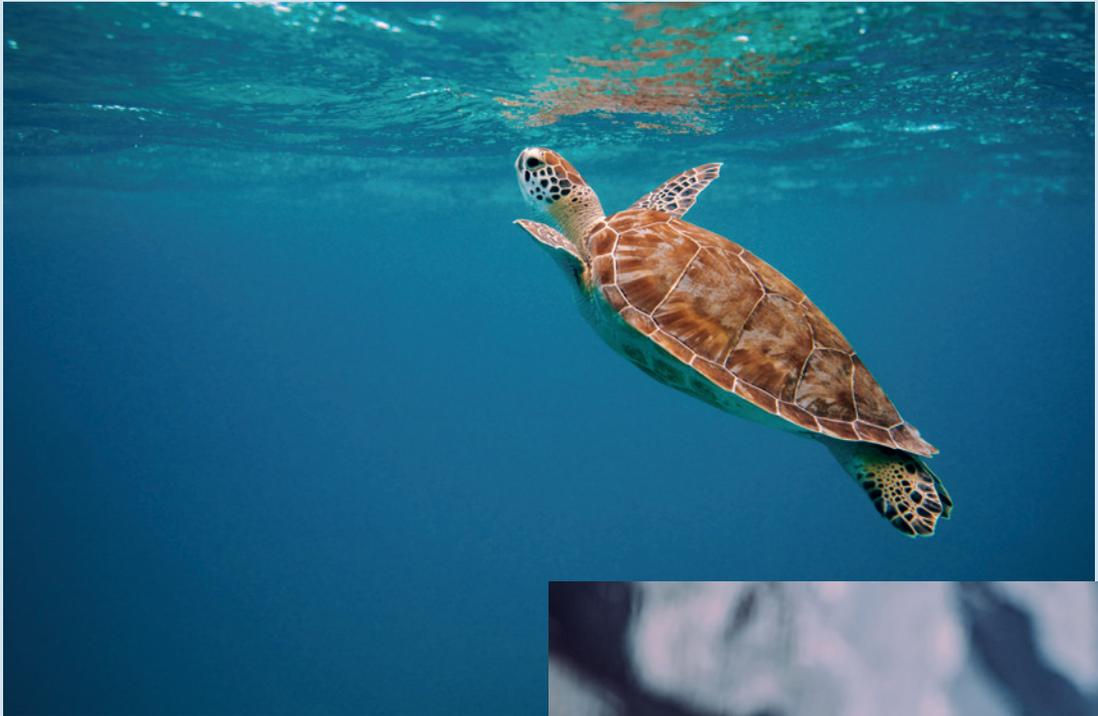
How your investments can make a difference



**Rathbones**

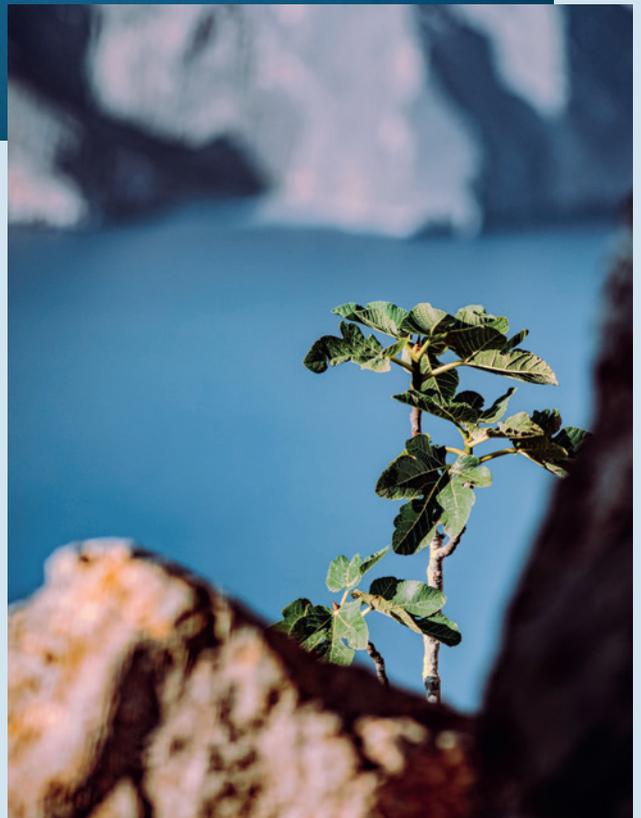
Look forward





# Can our investments make the planet a better place?

Cover illustration:  
Michael Driver, Folio Art



# Can investors change the world?

*A growing number of people are questioning how their pensions and other savings are invested. Rathbones' stewardship director Matt Crossman explains why he firmly believes we can make the world a better place through our investments, and how best to do it.*

When it comes to making Planet Earth a better place, ordinary investors don't normally spring to mind. Maybe we need to reset our thinking. Film director Richard Curtis apparently thinks responsible investing could be the next blockbuster. The man famous for directing *Love Actually* and screenwriter of *Four Weddings and a Funeral* has turned his focus to a new subject – the £3 trillion UK pension industry.

His Make My Money Matter campaign claims that moving money to a 'more sustainable fund' can have 27 times more impact in reducing your carbon footprint than giving up flying and becoming a vegan combined.

That's a surprising statistic, and an encouraging one for investors who are increasingly questioning how they can best use their savings to make a positive change in the world. So how can they?

## Avoidance

The most obvious way is to simply avoid certain industries. This is called negative screening – investing in funds that explicitly avoid industries like fossil fuels, tobacco, munitions and gambling, or instructing an investment manager to exclude them. This can also be done indirectly, through lobbying for negative screening.

Campaigners claim that 1,244 institutions managing \$14.61 trillion between them have now decided to exclude fossil fuels from their portfolios, largely as a result of this kind of lobbying. Half of Britain's universities have cut investment ties with the industry. This summer, so did two of the country's biggest pension schemes – the £75 billion Universities Superannuation Scheme, representing university lecturers, and the National Employment Savings Trust (NEST), a government-backed scheme that has nine million members.

Proponents of this approach say that by choking demand for shares in these industries you put downward pressure on the share price, which makes it harder and more expensive for companies to raise capital. In turn, you drive the value of sustainable companies up, making it easier for them to raise money and grow





their businesses. You are effectively redirecting capital – the lifeblood of business – to sustainable industries and companies.

You also avoid the risk of being left with stranded assets – holding shares in valueless fossil fuel companies, for example, when the world has switched to renewable energy.

But negative screening on its own is insufficient. You need to apply sustainability checks and filters around all your investments. This is where environmental, social and governance (ESG) factors come into play.

### **Positive investing through ESG**

Managers looking to invest sustainably judge companies not just by their financial prospects but by how they perform on ESG issues. They look for best-in-class companies that take seriously their responsibilities to the planet, their staff, customers and neighbours and that are run transparently and well.

There is a growing weight of academic evidence now to show that taking these factors into account can boost investment performance. Over the long term it seems that more sustainable can also mean more profitable.

Managers often rely on specialist agencies to help research and rate companies for their ESG performance. But ESG screening is not flawless. This was made abundantly clear in July, when it emerged that workers in Leicester linked with making clothes for the highly ESG-rated online fashion giant Boohoo were being paid just £3.50 an hour – nearly 60% less than the minimum wage.

Social media lit up with shoppers promising to boycott the company, and its shares lost nearly half their value in the space of a week.

One ratings agency had given Boohoo an AA in June, with 8.4 out of 10 for 'supply-chain labour standards' (the industry average is 5.5).

Ratings agencies often focus on different factors and can reach very different conclusions from the same evidence. American car manufacturer Tesla, for instance, is graded A by one and ranked in the bottom 10% by another! So this is not as simple as it looks.

### **Divestment**

After the Boohoo story broke, several of the country's biggest sustainable funds that had invested in Boohoo sold their holdings. This is known as 'divestment'.

## “Government believes a partnership with business is the way to achieve the innovative change required to get us to net zero.”

Divestment is often seen as a drastic last step for a manager because once you are no longer a shareholder your power to effect change within a company shrinks dramatically. Pensions minister Guy Opperman welcomes investors proactively seeking to use their savings more positively, but disagrees with campaigners who have forced pension schemes to not only screen out but also divest existing holdings of 'high-carbon stocks'.

Writing in the *Telegraph* in July he said: “I strongly believe this is the wrong approach. Government believes a partnership with business is the way to achieve the innovative change required to get us to net zero. Holding such assets places trustees in an influential position to nudge, cajole or vote firms towards lower-carbon business practices. The tactic of simply selling them to others without the same environmental concerns is counterproductive.”

He advocates a strategy of constructive engagement – something with which I am familiar.

### Engagement

I joined Rathbones in 2004 as an assistant ethical researcher. One of my early jobs was to help Rathbone Greenbank clients file a shareholder resolution at the 2006 Shell annual general meeting (AGM). Our clients joined with more than a hundred other individuals, asking the company to do a much better job of ESG risk management.

I went back in 2010 to challenge Shell over its activities in the Canadian oil sands. These are vast swathes of land containing heavy deposits of glutinous bitumen or extremely heavy crude oil.

Shell was mining and processing the oil, leaving deep and ugly scars on the landscape, which needed to be restored afterwards. It is an expensive and carbon-intensive way to generate oil. Though the company was attempting carbon capture and storage and working hard to meet the demands of environmentalists, we challenged Shell as to whether it was worth the environmental and economic risk.



Shareholders  
can bring about  
change, but it  
takes time and  
patience



In 2017 Shell sold most of its holdings. French energy giant Total recently announced that it was writing off around \$7 billion worth of oil sands assets in Alberta because the production costs are too high in a world transitioning to low-carbon energy.

In 2013 Shell began considering drilling in the Arctic. I was there at the AGM again, asking questions. The company eventually retreated. Between 2014 and 2018 we were part of a 10-strong team of UK asset managers engaging with the 10 biggest carbon emitters on the UK stock exchange. I took the lead on Shell, trying to get it to set rates for reducing carbon emissions. Having resisted at first, Shell has now set itself an ambition to become a net-zero emissions energy business by 2050 or sooner.

Since 2014 I have worked with large utility company Scottish and Southern Energy to see how it will reduce its carbon emissions in line with societal expectations. We have pushed persistently for the firm to go further and faster. This year it announced that it had effectively set a plan to align itself with the Paris Agreement targets. We went back and asked it to put an element of its executive pay at risk if it did not achieve its targets, and it has done that.

————— **Research has shown that engagement is much more likely to be successful if investors – and large investors in particular – coordinate their efforts.**

If you can draw any lesson from my experience, it is that shareholders can bring about change. But it takes time and patience. And it can take collaboration.

In essence, when I appear on behalf of Rathbones at an AGM I represent a company with values. I also represent 40,000 or more clients who have values as well. And I represent nearly £50 billion worth of assets. That is a lot of weight behind me. There is an even bigger multiplier effect when I collaborate with other managers through the Principles for Responsible Investment (PRI) or Climate Action 100+.

Research by Professor Elroy Dimson, of Cambridge University's Judge Business School, has shown that engagement is much more likely to be successful if investors – and large investors in particular – coordinate their efforts. And the results are clear in returns. When a firm responds to engagement, its share price rises in the following year – on average by 8.6% for corporate governance issues and 10.3% for climate change matters.



It is not always easy to conduct collaborative engagement, and inevitably you get some companies joining these campaigns simply to look good. But when it goes well, few methods can match it.

### **Beyond box-ticking**

The range of issues on which we engage is broad. And that is another argument for engagement. You can press for improvements on environmental, social and governance matters. And you can continue to press.

The campaign I am probably proudest of is around modern slavery – a term covering forced labour, human trafficking, forced marriages and debt bondage. It is estimated to affect 40.3 million people globally and 136,000 in the UK.

Rathbones was instrumental in ensuring that when the Modern Slavery Act was passed in the UK in

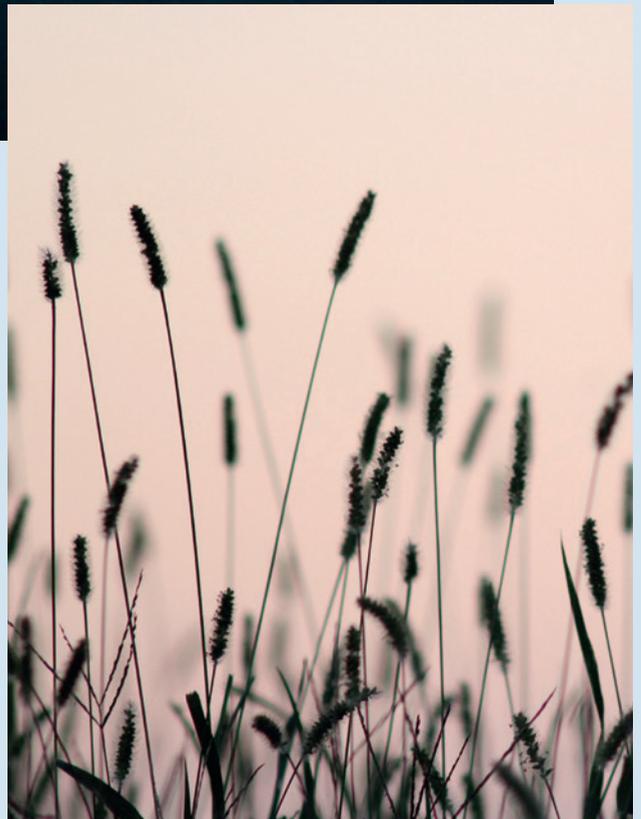
2015, a clause was included to ensure that large companies were forced to report on their efforts to deal with the problem. Last year we found some of the 350 biggest listed companies in Britain ignoring this demand.

We drew this to the attention of fellow PRI signatories and orchestrated a campaign. We attracted a coalition of 23 investment managers, including Aberdeen Standard, Aviva Investors and Legal & General. Between us we had more than £3.2 trillion assets under management. We identified 23 companies we regarded as serious laggards. Together we wrote to these firms ahead of the AGM season, calling on them to comply with the Act and to disclose what actions they have taken to identify and eliminate slavery in their supply chains. We warned that we would vote against their reports and accounts if they did not take action.

The results have been incredible. Around two-thirds of the companies we targeted have already made changes to become compliant. You can debate whether it has materially reduced slavery yet, but the starting point is for firms to be actively looking for signs of it. We know that there are millions of slaves in the world so it is going to affect most supply chains at some level.



We know that  
we will have  
to continue to  
adapt and invest



The Boohoo problem is arguably the result of turning a blind eye to the issue. We are not satisfied with companies that simply report not having a modern slavery problem. Without evidence of the checks they have in place to ensure their supply chains are clean, we do not believe them. We want companies to be open about potential issues and to tell us what they are doing to address them. Transparency is everything.

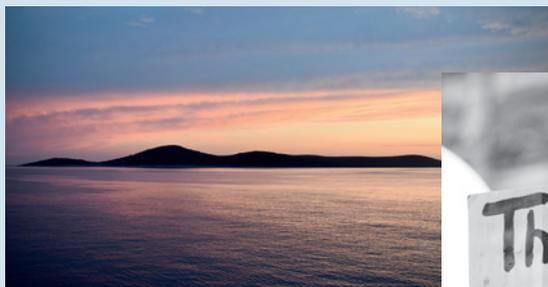
### **Going the distance**

A lot has changed in the 16 years since I joined Rathbones. We recognised the importance of responsible investing years ahead of our peers and had already started managing ethical and sustainable portfolios in 1997. We became a PRI signatory in 2009.

We know that we will have to continue to adapt and invest. I am now stewardship director. I have two colleagues supporting my work, with more appointments in the pipeline. Our priority is to protect and grow the wealth of the families and charities who entrust it to our care. Their interests often span generations, so we are long-term investors. That means it is in their interests not just that we invest in sustainable businesses, but that we try to make businesses more sustainable, too – through engagement.

Avoidance and divestment have value as strategies but, speaking personally, I believe engagement is the best way to make positive change.

*This is an edited version of an article that we first published in the autumn 2020 edition of Rathbones Review.*



# Important information

This document and the information within it does not constitute investment research or a research recommendation. Forecasts of future performance are not a reliable indicator of future performance.

The above information represents the current and historic views of Rathbones' strategic asset allocation committee in terms of weighting of asset classes, and should not be classed as research, a prediction or projection of market conditions or returns, or of guidance to investors on structuring their investments.

The opinions expressed and models provided within this document and the statements made are, due to the dynamic nature of the items discussed, valid only at the point of being published and are subject to change without notice, and their accuracy and completeness cannot be guaranteed.

Figures shown above may be subject to rounding for illustrative purposes, and such rounding could have a material effect on asset weightings in the event that the proportions above were replicated by a potential investor.

Nothing in this document should be construed as a recommendation to purchase any product or service from any provider, shares or funds in any particular asset class or weighting, and you should always take appropriate independent advice from a professional, who has made an evaluation, at the point of investing.

The value of investments and the income generated by them can go down as well as up, as can the relative value and yields of different asset classes. Emerging or less mature markets or regimes may be volatile and subject to significant political and economic change. Hedge funds and other investment classes may not be subject to regulation or the protections afforded by the Financial Conduct Authority (FCA) or the Prudential Regulation Authority (PRA) regulatory regimes.

The asset allocation strategies included are provided as an indication of the benefits of strategic asset allocation and diversification in constructing a portfolio of investments, without provision of any views in terms of stock selection or fund selection.

Changes to the basis of taxation or currency exchange rates, and the effects they may have on investments are not taken into account. The process of strategic asset allocation should underpin a subsequent stock selection process. Rathbones produces these strategies as guidance to its investment managers in the construction of client portfolios, which the investment managers combine with the specific circumstances, needs and objectives of their client, and will vary the asset allocation accordingly to provide a bespoke asset allocation for that client.

The asset allocation strategies included should not be regarded as a benchmark or measure of performance for any client portfolio. Rathbones will not, by virtue of distribution of this

document, be responsible to any person for providing the protections afforded to clients for advising on any investment, strategy or scheme of investments. Neither Rathbones nor any associated company, director, representative or employee accepts any liability whatsoever for errors of fact, errors or differences of opinion or for forecasts or estimates or for any direct or consequential loss arising from the use of or reliance on information contained in this document, provided that nothing in this document shall exclude or restrict any duty or liability which Rathbones may have to its clients under the rules of the FCA or the PRA.

We are covered by the Financial Services Compensation Scheme (FSCS). The FSCS can pay compensation to investors if a bank is unable to meet its financial obligations. For further information (including the amounts covered and the eligibility to claim) please refer to the FSCS website [fscs.org.uk](https://www.fscs.org.uk) or call 020 7741 4100 or 0800 678 1100.

Rathbone Investment Management International is the Registered Business Name of Rathbone Investment Management International Limited which is regulated by the Jersey Financial Services Commission. Registered office: 26 Esplanade, St. Helier, Jersey JE1 2RB. Company Registration No. 50503. Rathbone Investment Management International Limited is not authorised or regulated by the PRA or the FCA in the UK.

Rathbone Investment Management International Limited is not subject to the provisions of the UK Financial Services and Markets Act 2000 and the Financial Services Act 2012; and, investors entering into investment agreements with Rathbone Investment Management International Limited will not have the protections afforded by those Acts or the rules and regulations made under them, including the UK FSCS. This document is not intended as an offer or solicitation for the purchase or sale of any financial instrument by Rathbone Investment Management International Limited.

Not for distribution in the United States. Copyright ©2020 Rathbone Brothers Plc. All rights reserved. No part of this document may be reproduced in whole or in part without express prior permission.

Rathbones and Rathbone Greenbank Investments are trading names of Rathbone Investment Management Limited, which is authorised by the PRA and regulated by the FCA and the PRA. Registered Office: Port of Liverpool Building, Pier Head, Liverpool L3 1NW. Registered in England No. 01448919. Rathbone Investment Management Limited is a wholly owned subsidiary of Rathbone Brothers Plc.

Our logo and logo symbol are registered trademarks of Rathbone Brothers Plc.

If you no longer wish to receive this publication, please call 020 7399 0000 or speak to your regular Rathbones contact.

# Rathbones

Look forward

 [rathbones.com](https://www.rathbones.com)

 [@Rathbones1742](https://twitter.com/Rathbones1742)

 [Rathbone Brothers Plc](https://www.linkedin.com/company/rathbone-brothers-plc)