RBC Brewin Dolphin

Our Stewardship Activities:
2023

In September 2022, Brewin Dolphin was acquired by Royal Bank of Canada (RBC). Over a year on, our two businesses are integrating and at the heart of this is our commitment to delivering the best results for clients. This includes our commitment to being responsible owners of their assets, and we continue to hold ourselves to high standards of engagement and corporate responsibility.

2023 Highlights

Maintained signatory status to UK Stewardship Code against ever increasing standards

Enhanced our stewardship capabilities and resources

Joined Nature Action 100

Delivered a programme of engagement with companies and funds

Our awards

defaqto ★★★★★ DFM Bespoke 2024 EXPERT RATED

defaqto DFM MPS (Platform) Family 2024 EXPERT RATED

defaqto ★★★★★ DFM MPS on Platform 2024 EXPERT RATED

defaqto GOLD DFM Service 2024 EXPERT RATED

2023 at a glance

498
meetings voted at by clients

92
meetings voted at by our analysts, containing 1216 resolutions

18
direct engagements with companies, plus additional 21 meetings

255
companies engaged through Columbia Threadneedle reo®

About RBC Brewin Dolphin

RBC Brewin Dolphin[1] is one of the UK's leading providers of discretionary wealth management. We have grown our business to become a trusted wealth manager, with our success built on the strength of our talented team and client relationships.

We specialise in helping clients protect and grow their wealth by creating financial plans and investment portfolios that meet personal and professional objectives. Our clients have high aspirations for themselves, for their families and their futures. We support them in taking a responsible and long-term view throughout their financial journey. While we have a long-term asset owner mindset, aiming to preserve value for our clients, we believe that for reporting purposes our business model mainly fits within the definition of asset manager.

We believe that focussing on the long-term has been important in our success. 260 years after our establishment as one of the founding firms of the London Stock Exchange, we remain true to our values and they are at the heart of how we work with clients and one another. Since 2022, we have been part of RBC, whose Purpose of helping clients thrive and communities prosper resonates with our work at RBC Brewin Dolphin. We have a long tradition of stewardship, which is naturally aligned to our long-term view, our success and that of our clients. Over time our business has seen the ebbs and flows of the markets, which has taught us the importance of being a responsible and sustainable business, and effective stewardship helps to ensure that our investee companies think this way too.

We are committed to building on this strong track record by delivering continued value to our stakeholders.

1. Except as otherwise noted, any references to we/our/us refer to RBC Brewin Dolphin, a trading name of Brewin Dolphin Limited

Our stewardship activities

Our engagement and voting activity this year focused on a range of issues and desired outcomes. This section, whilst not a complete record, aims to showcase our stewardship work. We have been careful to provide a balanced view, by selecting examples where we achieved our desired outcomes, along with engagements that perhaps did not lead to a change as we had expected. It is important to reference the latter, showing that stewardship takes time and effort.

We are also reporting on the work of some of our third party fund managers. Externally managed funds make up a significant proportion of our FUM, often due to the preferences of clients. Therefore the stewardship work they do on our behalf, and how we monitor it, is at times more impactful than direct engagement from us.

For more information on our stewardship processes and governance, please see our full Stewardship Report for 2023, which is available on our website

Voting activity

Votes over the year

We strongly believe in the importance of using our right and responsibility to vote on behalf of our clients, the beneficial owners, in respect of their investments held via our nominee companies. We vote on what we consider to be our core holdings, which represent the following categories:

- 75% of our listed holdings by FUM
- Equities on our recommended buy lists
- All covered investment trusts
- All other holdings where we own at least 5% of the share capital, and hold over £5m

The below charts shows the meetings at which our analysts actively voted on our core holdings and some of the decisions they took.

We also show votes cast by proposal category, to give transparency on the topics that come up most often on agendas. Electing directors remains the resolution that we see most often, which is why it is a key mechanism for holding companies accountable.

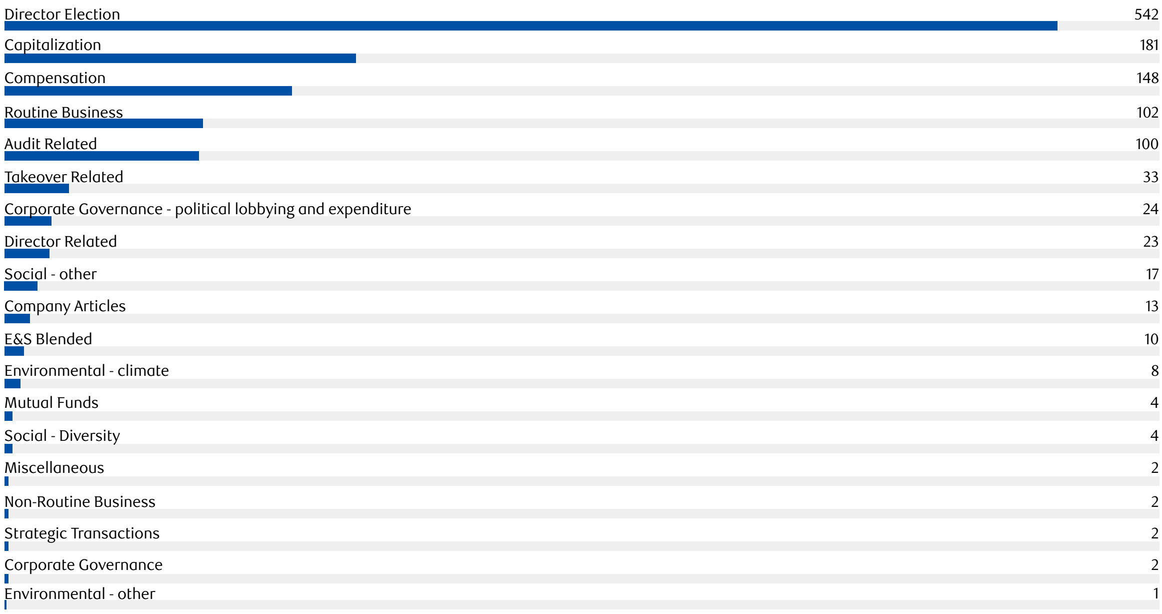
Proposals recorded

1216

Voting instructions

Votes cast by Proposal Category

Top 5 categories. These include Management + Shareholder meetings.



RBC Brewin Dolphin Case Study

Company: Microsoft

Theme:
Shareholder proposals

Background:
Microsoft's AGM in December 2023 contained a significant number of shareholder proposals. Such proposals are becoming increasingly popular with pro- and anti-ESG investors.

Objective:
To vote on all proposals and examine each carefully, including the supporting statements to understand the proposer's underlying rationale and motive. We aim to maintain a balanced approach, and ultimately assess what is in the best interests of the investee company on behalf of our clients.

Action:
We voted against one proposal requesting a report on the gender compensation and benefits gaps relating to reproductive and gender dysphoria care, and another which requested the details of 'take down' requests by government and other U.S. officials to be published. In both cases we felt these reports were unfeasible and any information pertinent to investor decision making were already covered in existing disclosures. On the other hand, we supported two proposals seeking reports on risks of operating in countries with significant human rights concerns, and related to Artificial Intelligence generated misinformation and disinformation, as we felt these presented significant areas where more transparency would be beneficial.

Outcome:
While ultimately none of these shareholder proposals passed, through our voting analysis we gained a better understanding of the motives of those submitting them, and sent our signal to the company on issues that are important to us.

RBC Brewin Dolphin Case Study

Company: Smithson Investment Trust

Theme:
Diversity

Background:
Diversity remains a key priority area for us. In 2023, we committed to strengthening our approach by holding UK listed companies accountable for not complying with expected diversity targets under listing rules[1], unless a sufficient explanation was provided or there were concrete plans to address the issue. In these cases, we believe that voting against the chair of the nomination committee - or the chair of the board, if the whole board acts as a nomination committee – sends a strong signal of dissatisfaction.

Objective:
Ensure the board meets ethnicity and gender diversity targets.

Action:
Ahead of the 2023 AGM, the board of Smithson Investment Trust was flagged by our proxy advisor as not meeting the listing rule requirements. In our view, the annual report did not provide a sufficient explanation or outline any exceptional circumstances. Despite efforts to engage with the company ahead of submitting our vote, we did not feel that a concrete commitment was made to address the issue at the earliest opportunity. Therefore, we voted against the re-election of the chair.

Outcome:
The chair received over 20% of votes against her re-election, a substantial part of which could be attributed to us as the top shareholder compounded by relatively low vote turnout. Following the level of dissent, the board initiated a thorough consultation process to better understand our views and explain their own perspective. As a result, the board clearly outlined their commitment to strive to meet diversity targets at the next recruitment opportunity; and, importantly, we established a channel and our expectation for much better communication and ongoing engagement.

1) Listing Rules 9.8.6R(9) and 14.3.33R(1) require that, for financial years commencing on or after 1 April 2022, all UK listed companies meet the following targets on a comply or explain basis: at least 40% of the Board are women; at least one senior board position is held by a woman; at least one member of the Board is from a minority ethnic background

Engagement activity

Our engagement activity this year once again has been broad in its scope, covering a variety of asset classes and topics. Given our exposure, expertise and resources, the main asset classes covered have been direct equities and funds.

Direct Equities

In the year to 31 December 2023, we had 18 direct engagements across 15 companies with an ESG related objective. While these figures may appear to be relatively conservative, we consider our definition of engagement to be robust; we only count as engagement purposeful interactions with a specific objective and where a particular change or outcome is sought.

In fact, over the year we had an additional 21 meetings across 19 companies covering ESG issues more broadly or focusing on other aspects of strategy. These additional conversations were about providing feedback and/or information gathering exercises, however they are still important. They are necessary for building relationships with senior management and board members and sharing our priorities and broad expectations relating to stewardship and engagement. These conversations also pave the way for meaningful engagement if we identify a material issue in the future.

A key issue within our direct engagements this year has once again been to understand the approach of the company to ESG issues. Remuneration has also been an important topic of engagement, especially for UK companies that are required to seek shareholder approval for their remuneration policies every three years. Many of our interactions focused on fundamental aspects of good governance such as board composition and diversity, covering both gender and ethnicity. The remaining engagements this year focused on climate and transition strategies, other environmental issues such as circularity and energy efficiency, social housing, and capital allocation.

Some of these engagements are ongoing and not yet at the stage where we can disclose details. We believe that it is important to respect the confidentiality some sensitive engagements require and will release further details if and when it is appropriate to do so. However, we are mindful of the need to balance confidentiality with expectations for greater transparency. We provide more visibility to clients and other external stakeholders via our Quarterly Stewardship Updates that include engagement case studies. In assessing the content of our updates, we found that we provided more case studies related to voting and engagement, which are largely reactive activities. In the year ahead we plan to communicate more information regarding our proactive engagement efforts.

RBC Brewin Dolphin Case Study

Company: Halma plc

Theme:
Multi-year dialogue on remuneration

Background:
Halma faced high levels of shareholder dissent for two years in a row against the remuneration report. At their 2021 AGM 39% of shareholders including ourselves opposed it; this was followed by another significant vote against the remuneration report (33%) and the re-election of the Remuneration Committee chair (23%) at the 2022 AGM. As we outlined in our 2022 Stewardship Report, we shared concerns raised by fellow shareholders and therefore did not support the remuneration report, but we initiated dialogue.

Objective:
Encourage the company to address concerns over remuneration

Action:
In early 2023 we had extensive dialogue with the company, to understand actions taken in terms of shareholder engagement after the continued high levels of dissent. The company was able to give us more insights into their thinking and timing of decision making, which did not allow full visibility to shareholders particularly around succession planning conversations. We also discussed challenges around engagement with the broader shareholder base and lessons learnt, how the business model informs their thinking on remuneration and alignment of executive pay with the workforce.

Outcome:
We found the company open to engagement and had fruitful conversations in clarifying changes to remuneration. As a result, we were able to support the remuneration report at the 2023 AGM and continue our high-quality dialogue with the company. The remuneration report and re-election of the Remuneration Committee chair were widely supported at the meeting.

Investment Trusts

As a listed collective investment, investment trusts act as a third party fund in their investment activities but are set up as a company with a board of directors, AGMs and the potential governance issues that come with such a structure. We are significant owners of many of the UK's largest investment trusts. As a result, and as highlighted in the previous voting section, our influence can be great. We therefore reached out to our largest holdings at the end of 2023 in an engagement campaign on governance expectations.

RBC Brewin Dolphin Case Study

Asset class: Listed Investment Trusts

Company: Multiple

Theme:
Corporate Governance

Background:
A significant amount of clients' money is invested in investment trusts. These are listed vehicles that can be bought and sold like equities, but which pool invested money together to create a collective fund of multiple underlying investments. With this layered structure, good governance is especially important, and in 2023 we once again saw a number of high profile examples of clear failures of governance.

Objective:
To outline our expectations to our biggest investment trust holdings regarding governance issues such as board diversity, remuneration and tenure. We were also looking to encourage additional disclosure and welcome dialogue in response.

Action:
We wrote a letter to our investment trust holdings where we hold more than £1m and own more than 3% of the share capital. On such trusts, a degree of independence from the fund manager is important and something we monitor. We outlined how we expect to see governance practices aligned to industry norms and standards, as set by the Association of Investment Companies, and how we would work with boards who do not meet these standards, including our voting intentions.

Outcome:
The majority of investment trusts acknowledged receipt of our letter. We received several letters in reply, and have had a number of meetings with board members. The important outcome is that, where we are a large shareholder, our voting actions can be anticipated by the board. Where applicable, if they are not happy with the way we plan to vote, a clear incentive and direction has been given to allow them to improve their practices accordingly or engage to provide sufficient explanations.

Collective investment funds

Because of the nature of our business, many of our clients own a combination of third-party funds and direct equities. As a responsible investor, we believe that stewardship must extend beyond our direct investments and into our funds as well. When we have engaged with fund managers on ESG issues, these often focus on the ESG integration practices of the fund managers, whether they are industry leading or falling below average. We may also speak to them about their own engagement activity and reporting.

Controversy tracking

Our innovative controversy tracking initiative enables our specialist fund research analysts to work with the managers of our buy-list funds, to help ensure that companies to which we are indirectly exposed are being correctly monitored and engaged with where appropriate. We receive inputs from Sustainalytics, Moody's ESG Solutions, and on an ad hoc basis from members of our Sustainable Investments Advisory Group who are tasked with providing feedback on our controversies process and monitoring the tracking and decision making. We may also on occasion engage on controversies based on feedback from our investment managers, who represent the client voice.

In 2023 our process highlighted 11 controversies that we felt warranted further engagement. In total, we made contact 86 times with fund managers to confirm their awareness of the issue, rationale for continuing to hold the company in question, engagement efforts and next steps. These controversies represent real world issues that have the potential to affect not only investment returns but wider society. These include, for example, supply chain issues, company culture and drug pricing. Through this process, not only do we encourage better outcomes for the underlying companies, but we also effectively monitor funds' ESG and stewardship processes.

It is not just a case of simply highlighting controversies to fund managers. Our Fund Research team request detailed responses from managers, explaining their position on the controversy, any engagement work they are undertaking and any impact it might have on the rationale for continuing to own the stock. Some responses have been exceptional, whereas some have been lacking in detail which has led to further interactions with management to express our concerns and suggest improvements to processes.

Through this process, we have also followed up on previous engagements as controversies can sometimes develop over a number of years.

RBC Brewin Dolphin Case Study

Asset class: US equities

Company: Multiple

Theme:
Access to medicine

Background:
Many responsible investors consider access to medicine important. This matter, like many other social issues, has likely been exacerbated by the Covid-19 pandemic and the increased attention vaccine makers received. With everyday costs, including medication, rising rapidly and trust in the pharmaceutical industry at historic lows, the states of California and Kansas are suing pharmaceutical companies for violating competition law to raise insulin prices. The discovery of insulin won a Nobel Prize 100 years ago, and synthetic insulin has been marketed since 1982. As an old drug with little new research and development investment required, U.S. lawmakers claim the 'skyrocketing' prices cannot be justified. With a complicated and expensive healthcare system, and only a segment of the population benefiting from the Medicare price cap at $35 per month, up to 20% of diabetics in the U.S. claim to ration their insulin to keep costs down.[1]

Objective:
To understand the views of our third party fund managers on the lawsuit and issue more broadly.

Action:
We reached out to around 20 fund managers flagged as owning companies facing this legal action, including UnitedHealth Group, Cigna Corp, Sanofi, Novo Nordisk and Eli Lilly & Co. Many of the fund managers have already engaged directly with the impacted companies.

Outcome:
The responses we received were detailed and considered, citing the complexity of the U.S. healthcare system and diabetes-specific factors such as chronicity. Some noted that certain impacted companies are actually very active in insulin affordability programmes. Most managers noted the lawsuit has so far provided no tangible evidence to suggest significant financial or reputational risk to the companies and highlighted that insulin prices have in fact remained static over the past five years. This differing of opinion is due to the complex system of prices and rebates in the U.S. Our assessment is that fund managers are aware of the issues, have been engaging proactively with their investee companies and continue to monitor the situation closely as more details of the lawsuits emerge.

1, Source - https://hls.harvard.edu/today/could-a-california-lawsuit-lower-the-cost-of-insulin-in-the-us/

Responding to systemic risks

Systemic risks pose a threat to an entire industry or system, such as the financial system or even the economy as a whole. Our extensive and ongoing macroeconomic research allows us to identify these market-wide risks, both existing and future, which can be slow building or acute in nature.

2023 was another challenging year for investors globally. The world was buffeted by economic, geopolitical and weather related shocks, which, coupled with a growing risk of recession, created very uncertain conditions for investment. There were, and still are, many sources of uncertainty and stress for the markets. These include multiple ongoing conflicts, extreme weather events and subsequent volatile energy prices. Added to this is high but moderating inflation, an ongoing cost of living crisis, and rising interest rates, presenting a high recession risk. As investment managers, it is our job to position portfolios to best protect, and grow, the value of our clients' assets.

We consider that we are well placed to respond to these risks from an investment point of view, by adjusting our internal asset allocation and stock selection accordingly.

Our Asset Allocation Committee meets monthly to review the current market and geopolitical situations and where necessary or prudent, alters our tactical asset allocation in an effort to position portfolios to maximise risk adjusted returns. The Asset Allocation Committee will take into account issues listed above, alongside more acute shocks and longer-term risks. This past year has seen the Asset Allocation Committee increase exposure to fixed income assets, mostly government debt, and reallocate some of our overseas equity exposure towards the U.S. market.

Throughout the year our stewardship and ESG integration work has also played a key role in our understanding of systemic risks to our clients' portfolios. Whilst stewardship activities cannot affect such risks as inflation or energy prices, there are others more within our sphere of influence, such as climate change, nature and biodiversity loss. This has led to the development of our stewardship priorities, four high level topics that encompass those risks mentioned above and many more.

A vital part of stewardship is the promotion of a well-functioning financial system. The separation of ownership from management has the potential to create conflicts of interest, especially considering the misalignment of priorities, where management usually has a shorter time horizon than shareholders. Our work on governance, as outlined throughout this document and specifically in the next section, promotes the transparent running of companies. For example, by aligning the compensation of management with longer term company performance, or even sustainability metrics, can help to remedy, at least in part, this conflict.

We understand that as an asset manager, we don't exist in isolation, and stewardship is not just about votes and company engagement. Therefore, we are very aware of different market dynamics and where needed actively engage in dialogue with policymakers through our industry association memberships.
Our driver is to contribute to making the UK market more competitive, while maintaining its integrity and world leading standards, and balancing the risk to investors and society from corporate failures. Where appropriate, RBC Brewin Dolphin will contribute to the policymaking process for the benefit of our clients and their long-term interests. In 2023 we continued our work with the Investment Association Stewardship Committee and various PRI Reference Groups, feeding into consultation responses and also responding ourselves directly when needed. We were also proud to be appointed as a member of the Financial Reporting Council's Stakeholder Insight Group.

External Fund Manager Case Study

Manager: Schroders

Fund: Schroder Global Sustainable Value Equity Fund

Asset class: Equities

Company: Marks & Spencer plc

Theme:
Access to nutrition

Background:
Supermarkets find themselves in a difficult situation, trying to balance the pressure to be able to provide affordable food to customers amid a cost of living crisis whilst promoting healthier diets and eating to the communities they serve. In the light of the UK's Access to Nutrition index, and the increasing focus on shareholder balance within supermarkets given the cost of living rises, we engaged with M&S to understand their current position and future ambitions on this topic.

Objective:
In our engagement with M&S we wanted to see clear, time-bound targets to reduce levels of saturated fats, sugar, salt and calories in products whilst increasing levels of positive nutrients. We also wanted to understand how they were using their influence as a supermarket to promote healthier diets in the population.

Action:
In conversation with the Head of Sustainability we were very impressed by the success M&S had seen in increasing healthier product sales through their Eat Well range and we encouraged them to set more stretching targets to show their commitment to stakeholders on the topic.

Outcome:
We were pleased to see progress from M&S by the end of the year as they set a more ambitious future target of 70% of sales to come from healthier foods by 2024/25. This puts them well ahead of the UK Government's 2024 reformulation targets and means M&S have effectively implemented the high fat, salt, and sugar (HFSS) legislation in England. They are also targeting at least £75 million of sales to come from plant-based products by 2024/25, combining their net zero goal and healthier product ambitions.

Our stewardship priorities

Reacting to company specific controversies and engaging around AGMs are important parts of stewardship, and go hand in hand with proactive engagement on key, systemic issues. Such issues, for example climate change or diversity, often require working with others over the years to correct market failures and reduce risks to the economy as a whole. We consider this important for protecting and enhancing the value of our clients' assets, a key objective of our stewardship programme.

Over the past few years, a number of ESG issues have come to the forefront, affecting our investments and clients in various ways. However, our resources are not infinite and trying to address every single issue or controversy is not the most effective means of promoting and supporting change. This has led to the development of our four stewardship priorities, through which we can prioritise engagements to maximise the positive benefits we can achieve.

Our programme of proactive engagement focuses on four broad themes that, in our view, encompass the most material ESG issues and most pressing systemic risks.

Climate	Nature
Human rights	Governance

This view is supported by our investment managers, who were asked to rank stewardship topics in order of importance to them and their clients. It came as no surprise that climate was ranked highest, followed closely by human rights and then nature.

Climate change

The summer of 2023 showed once again that the climate crisis is one of the biggest threats we face. Wildfires, floods and unprecedented heat waves caused disruption not just to daily life but to companies too. Risks posed to businesses may play out in lower returns to shareholders, as companies must budget more for insurance or adapt to changing regulation or customer demands.

Supporting the transition to a net zero economy is a key priority for our stewardship work but this is not something we are only beginning to think about now. RBC Brewin Dolphin is a member of Climate Action 100+ and has carefully considered climate related votes at AGMs since the development of our responsible investment approach in 2020. In 2023, we signed an endorsement of the International Sustainability Standards Board's IFRS Sustainability Disclosure Standards. In doing so, we signified our support for the establishment of market infrastructure to enable consistent, comparable climate-related disclosures at a global level and our commitment to advancing the adoption and use of the ISSB's climate standard, IFRS S2 Climate-related Disclosures, as the global baseline.

As part of our work on our stewardship priorities, we have developed guidelines for climate related voting and engagement, as well as an escalation plan. We are willing to work with investee companies and will give them time and support to develop and implement their transition plans, provided demonstrable progress is being made. We expect companies to engage with us as investors and to be ambitious with their emissions reduction plans. We have already voted against board members at investee companies to demonstrate our dissatisfaction at their progress in this area, or their lack of willingness to engage.

RBC Brewin Dolphin Case Study

Theme:
Paris Agreement Alignment

Background:
Climate change is one of the biggest risks facing our investee companies, and we are cognisant of the risks of investees not taking action and how this might affect the value of our clients' assets. For the past three years, we have engaged with our recommended external fund managers regarding their exposure to companies that are not taking appropriate action. Using the Transition Pathway Initiative (TPI) as our data source, we have identified our indirect exposure via our fund managers to companies flagged as 'unaligned' with the goals of the Paris Agreement, which targets keeping global temperature rises to 1.5°c to avoid the worst effects of climate change. The TPI is a global, asset owner-led initiative which assesses companies' preparedness for the transition to a low carbon economy.

Objective:
Through this engagement, our aim was to assess the ESG integration and climate-related stewardship practices of our recommended funds. By considering the unaligned companies they hold and analysing their responses to our questions, our objective was to uncover any gaps or weaknesses in their processes whilst highlighting best practice where it exists.

Action:
Using the TPI data, crossed referenced with look-through analysis of the funds we recommend on our buy lists, we reached out to 44 fund houses, covering 103 funds, which hold approximately 96 companies showing as non-aligned. We asked managers to comment on how they have assessed the attempts of these companies to reduce emissions and the potential financial implications of failing to comply with global pledges. We also asked about climate related voting and engagement activity, both generally and specific to the company showing as unaligned, as well as escalation options and links between engagement and voting. Fund responses were received, analysed and scored based on their responsiveness, commitment to climate and strength of their overall stewardship approach.

Outcome:
We were pleased that all fund managers contacted responded. The scores we awarded each manager followed a normal distribution, with a slight skew towards the upper middle and upper quartiles. Two fund houses scored full marks, both presenting very structured, thorough and thoughtful responses. Importantly, these showed a clear link between policy and implementation which others were lacking. Those scoring the least marks fell short due to lack of strategy and a weak link between policy/ commitments and actions. In the year ahead these results will inform ongoing feedback provided to our managers while we intend to put further escalation matters in place for the small number of managers that did not meet expected standards.

RBC Brewin Dolphin Case Study

Company: BP and Shell

Theme:
Climate change

Background:
At the 2023 BP and Shell AGMs, we applied our stewardship policy and expertise to assess how each resolution might impact the company, the value of our clients shares and environmental and social outcomes. Both meetings were disrupted by protestors demanding an end to fossil fuel exploration. This came as no surprise, with consistent messages from the climate change community that the oil and gas industry's transition to lower carbon technologies will be imperative in keeping global temperatures from soaring.

Objective:
To understand the transition plans of BP and Shell, question and hold to account management where necessary. Furthermore, to incorporate engagement and voting learnings into the investment case.

Action:
In February 2023, BP revised its climate strategy and adopted less ambitious carbon emissions reductions targets. In the same vein, whilst claiming to increase investment in 'transition growth engines' such as renewables and electric vehicle charging points, BP announced that they will channel a similar increase into new and existing fossil fuel assets. Even with this backwards step, BP's targets are still industry leading, and challenges facing the energy transition, such as infrastructure and financial feasibility, need to be considered. However, we were disappointed with the lack of prior engagement concerning the redirection, compounded by subsequent dialogue that did not provide sufficient reassurance. As such we, and 10% of all shareholders, voted against the re-election of the Chair, holding him accountable and making clear our expectations for future engagement.

We approached the Shell AGM a month later following meaningful engagement. It was our opinion that, for the time being, ESG risks were being managed sufficiently, and whilst conservative, progress against emission reduction targets had been demonstrated. We note that whilst in line with targets, the proportion of capital expenditure being allocated to the energy transition remains low at 17%, with much of the rest directed towards oil and gas. We approved the Energy Transition Progress resolution but will continue to engage with management on this topic and revise our approach as needed. At both AGMs, we chose not to support shareholder resolutions asking both companies to align Scope 3 emissions 2030 reduction aims with the goal of the Paris Agreement. Scope 3 emissions come from the use of BP and Shell's products, such as emissions from a vehicle that filled up at BP or Shell petrol stations. We note that there are significant measurement challenges and data limitations with respect to the measurement of Scope 3 emissions, and that Scope 3 emissions reductions will require action beyond the control of these companies and their clients. We intend to closely analyse the progress on Scope 3 emissions reductions at both companies.

Outcome:
Our stewardship approach feeds into our overall view of the companies we work with, which alongside ESG integration and traditional financial analysis, can inform investment decision making. In this case, our interactions with the leaders of BP and Shell gave us greater conviction when it comes to future predictions and financial modelling. In terms of their operations and global footprint BP and Shell are very similar, and therefore it is execution, in part demonstrated by their approach to shareholder engagement, that can set them apart. For example, conversations with the new Chief Executive of Shell have focussed highly on cost-cutting and the reasons for it. Therefore, we are able to translate this into our expectations for future results. Similarly, the lack of pre-AGM engagement with BP last year gives us reason to be cautious when predicting cash flow into renewables technology, noting that the quality of our dialogue with the company increased in late 2023.

External Fund Manager Case Study

Manager: Ninety One

Fund: Global Environment

Asset class: Equities

Company: NextEra

Theme:
Environmental and Governance

Background:
NextEra is one of the largest electric power and energy infrastructure companies in North America and a leader in the renewable energy industry.

Objective:
Our 2023 engagement goals focused on the company's progress on Science based targets, Scope 3 emissions reporting and governance issues.

Action:
During 2023, we carried out a joint engagement with a significant US based asset owner. Our collaborative engagement was conducted via an in-person meeting and followed up by a formal letter signed by both parties.

Our engagement and letter focussed on articulating the benefits of incorporating Scope 3 emissions reporting and targets. We followed up from our initial engagements by meeting with NextEra's CEO, going into further detail on the importance of decarbonising upstream emissions as part of wider Scope 3 emissions, largely emanating from use of steel.

In addition to the above, we separately engaged with NextEra's CFO on issues relating to the former CEO of the Florida Power and Light (FPL) business, Eric Silagy. Silagy stepped down as CEO following allegations of political involvement/ lobbying in the Florida Senate elections in 2021 and 2022.

Outcome:
NextEra have progressed significantly in addressing Scope 3 emissions disclosure and supply chain decarbonisation. Notably, through their Real Zero plan to achieve carbon neutrality by 2045. The company have confirmed they are thinking of embedding science based targets within their net zero target, we have encouraged them to make quicker progress on this front.

Our supply chain decarbonisation engagement focused on NextEra's ability to decarbonise their steel supply chain. Green steel is a real opportunity for supply chain decarbonisation if US regulation enables green hydrogen to become cost competitive. We will continue to engage with NextEra on this topic.

Regarding governance, our analysis acknowledges errors by former FPL CEO Eric Silagy, but NextEra has since conducted a comprehensive review and made positive improvements, revamping consultant hiring and establishing an internal committee for donations. Their lobbying reflects the challenges of being a climate-focused company in a conservative state.

External Fund Manager Case Study

Manager: Evenlode Investment

Fund: Evenlode Global Income

Asset class: Equities

Company: Quest Diagnostics

Theme:
Carbon Emissions

Background:
To better understand the carbon emissions' impact on our investee companies, Evenlode's stewardship team conducts an annual emissions analysis. This analysis serves as a useful tool to initiate dialogue with some of the more emission-intensive holdings in our portfolios. During 2023 as part of the analysis Quest Diagnostics was identified as a potential anomaly after having placed in the top three emitters for the Evenlode Global Income fund, sitting at 13.4 tCO2 per £10k invested. This was almost 8x larger than the average emissions footprint per investment across the portfolio companies. Quest Diagnostics is a US provider of laboratory and pathology testing services that one wouldn't immediately think of as being a high emitter. As a result, the team did some further analysis by comparing Quest's emissions with their competitor Labcorp. We found that the company's purchased goods and services (scope 3) were reported as being significantly (25x) higher than its peer Labcorp.

Objective:
When the team identified this difference, we reached out to the company to first congratulate them on their significant efforts around measuring their emissions for all scopes, and to highlight this potential oversight in their reporting.

Action:
The company responded quickly and offered us a time to talk through our concerns. We spoke to several members of the Quest team including the company VP Corporate Secretary, Deputy General Counsel, VP President Operations, and Investor Relations. We explained the potential outlier related to their upstream scope 3 and Quest thanked us for our diligence. We also took the opportunity to encourage the company to set appropriate science-based emissions reduction targets, in line with their long-term net zero transition plan

Outcome:
Quest fed back the engagement to both their internal sustainability team and their third-party consultants. with the Evenlode team also providing them with some best-in-class examples around disclosure and recalculation policies. Later in 2023, Quest informed us that they had indeed identified some discrepancies. They are currently addressing these and plan to issue a supplementary report this year to detail the improvements in methodology.

Nature

Inextricably linked to climate, we are increasing our focus on nature. A broad term, nature as a subject encompasses issues such as biodiversity loss, deforestation and ecosystem disruption. The destruction of much of the natural world has pushed many species to extinction, forever altering delicately balanced ecosystems. With as much as 50% of global GDP dependent on nature in one way or another [1], the loss of species and natural environments has the potential to change how we live our lives as well as impacting corporate profitability.

Nature Action 100, a new collaborative engagement we have joined, cites a World Bank report that estimates that protecting nature could avoid a global GDP decline of $2.7 trillion[2] annually by 2030. Ensuring the resilience of our planet through conservation, restoration and the sustainable use of natural resources should be a key priority for every company. We plan to continue our commitment in this area, building on the PAS 510 standard we sponsored in 2020. The publicly available standard sets requirements for the handling and management of plastic pellets, flakes and powders throughout the supply chain to avoid damage or loss to the environment.

1. https://www.pwc.co.uk/press-room/press-releases/more-than-half-of-global-gdp-is-exposed-to-material-nature-risk-.html
2. https://www.worldbank.org/en/news/press-release/2021/07/01/protecting-nature-could-avert-global-economic-losses-of-usd2-7-trillion-per-year

Columbia Threadneedle reo®: Engagement Provider case study*

Company: TotalEnergies

Theme:
Engaging holistically on the climate-nature nexus

Background:
The French energy company Total was one of the first in the oil and gas sector to set a scope 3 target in 2020. They remain a global leader, although their strategy can seem unclear at times due to an apparent "two speed" approach between European operations and the rest of the world. We believe their approach still has room for improvement, as highlighted below.

Action:
We have engaged the company bilaterally and through CA100+, and they have gradually improved the clarity of their reporting on their future energy mix and forecast capex across green and brown assets, in line with our engagement. The company's approach touches all of the constituent parts of our proprietary net zero model, showing a strong foundation. Total upgraded their interim targets earlier in 2023:

- Improved 2025 scope 1, 2 and 3 intensity reduction target to 15% from 10%, and 2030 target to 25% from 20%
- Upgraded targets to reduce scope 3 emissions from oil sales by 30% by 2025 and 40% by 2030
- Maintaining scope 3 total emissions at <400 mt in 2025 and 2030

Despite these improvements their strategy is still misaligned with a 1.5C scenario, primarily due to the absence of significant absolute emissions reductions. Carbon Tracker, an energy focused financial thinktank, has highlighted several projects that Total are supporting which are misaligned with even a 2.5C scenario, such as their oil and gas expansions in Uganda, Angola and Norway. We also engaged the company specifically on their project in Uganda, highlighting the reputational importance of living up to their claims around community engagement and biodiversity protection. In addition, Total's plans to significantly scale up Nature Based Solutions (NBS) is a concern due to questions around their permanence and additionality as well as the reputational risks from accusations of land grabbing for some projects.

Outcome:
Despite clear disclosure on where the company intends to be in 2030, Total is misaligned with a 1.5C path and were the subject of a case brought under the French Duty of Vigilance law regarding the EACOP (East African Crude Oil Pipe Line) project. Based on their plans to increase gas production, we expect Total to become the largest EU hydrocarbon producer by 2030. With their low carbon capex projected to be a third of their total spending by 2030, they lag peers including bp, Shell and Equinor, who all aim for 50%. We will continue to engage Total to encourage capex alignment and consistency between their actions in Europe and elsewhere, as well as on ensuring their NBS plans are implemented responsibly from a climate, nature and community perspective.

* This, and all subsequent Engagement Provider case studies featured in this Report have been written by Columbia Threadneedle reo® and as a result any reference to we/our/us refers to Columbia Threadneedle reo®, not RBC Brewin Dolphin. All actions, opinions and statements made in the featured Engagement Provider Case Studies are those of Columbia Threadneedle reo® and not of RBC Brewin Dolphin. While information presented in this Engagement Provider Case Study is believed to be factual, its accuracy is not guaranteed by RBC Brewin Dolphin

External Fund Manager Case Study

Manager: River Global Investors

Fund: ES R&M Global Recovery Fund

Asset class: Equities

Company: Danieli (Steel Producer)

Theme:
Climate Change (Enablers)

Background:
Danieli is the market leader in equipment for electric arc furnace (EAF) steel plants and the direct reduced iron (DRI) process. EAF plants have ~80% lower carbon intensity than the traditional blast furnace process which still accounts for ~70% of global steel production. With steel making up ~8% of global emissions, Danieli is a critical decarbonisation enabler. Despite attractive growth prospects linked to this, Danieli trades below book value. Our fundamental due diligence identified improvements in several areas which could help unlock the valuation discount.

1. Cautioned allocating additional capital to its steel making division beyond €750m programme outlined. Return on capital is low versus the Plantmaking division and the stockmarket consequently applies a lower valuation to this invested capital.
2. Danieli held cash & short-term investments (net of customer advances) at 25% of its revenues (60% gross). Peers run at ~5% or less, indicating excessive conservatism creating an inefficient capital structure.
3. Variable compensation of non-family executives included ESG metrics but did not include a TSR metric, which can help alignment for minority shareholders (particularly in family run business such as Danieli).
4. Danieli should consolidate its current share structure via a conversion of the 'savings' line, to improve liquidity. Others in Italy have executed this successfully.
5. Improvement of company disclosure and communication to shareholders is required, including a capital markets day to highlight the market leading technology.

Objective:
Improvement in Danieli's capital allocation, share structure, remuneration, and investor communications to create shareholder value.

Action:
We have held two engagement meetings with management to address these topics.

Outcome:
We have high conviction in the fundamental investment case, with Danieli's market leadership in green steel technology underpinned by persistent innovation. Steelmaker capex plans suggest at least a decade of strong profit growth, with the societally beneficial end goal of decarbonising the steel industry. Our engagement remains ongoing, and we anticipate action on several fronts is imminent. Consequently, the company is set to engagement milestone 2 out of 4 (engagement dialogue ongoing and company commits to addressing issues raised). We will continue to engage to support positive change.

Human rights

We believe a fundamental respect for human rights should exist in every company. Human rights are the basic rights and freedoms that apply to all of us, and those that are most relevant in a corporate setting include issues from modern slavery and child labour to working conditions. Failings in protecting human rights can seriously harm individuals and communities, and can lead to poor staff and customer retention, directly and indirectly impacting the success of a company. We have seen the impacts of poor treatment of staff and communities within the companies we own, on a human level and reflected in the financial assessment of the company in question.

Environmental issues are always prominent on the stewardship agenda, but expectations on social issues have also risen as well as a recognition of their importance. What's more, society is now beginning to really understand how climate change and nature loss are impacting on human rights. For example, increased forced migration due to climate change and extreme weather events will put more people at risk of human trafficking and modern slavery.

The concept of a 'just transition', where all societies are brought along on the journey to a low carbon future, and no sector, community or social group is left behind or disadvantaged, is another way human rights and climate intertwine.

RBC Brewin Dolphin Case Study

Company: Multiple

Theme:
Forced labour in supply chains

Background:
An ongoing issue we are engaging on is the Office of the United Nations High Commissioner on Human Rights' assessment of human rights concerns in the Xinjiang Uyghur Autonomous Region, People's Republic of China, specifically relating to how this is interpreted by ESG ratings agencies. In 2023, a number of large companies, both in the West and in Asia, were flagged by MSCI, a provider of ESG data, as being exposed to this issue. These companies included, among others, Tencent, Apple, Nike and Volkswagen.

Objective:
Considering the indirect exposure we have to these companies, we launched a programme of engagement with our fund managers to understand their views on this important but complex situation. We were also looking at how these responses have changed since our last engagement.

Action:
We reached out to five fund houses covering a number of individual underlying companies and also separate funds. We sought to understand their work on supply chain risks and in particular the risks of Uyghur forced labour arising from business activities in China. We also asked how any such work has informed their view of the company and whether it triggered engagement on this issue.

Outcome:
We heard of various engagements, many of which demonstrated a constructive relationship with the holding company, and learnt of actions such as the sale of factories in the region and supply chain audits. We also heard of the difficulties faced with traceability of raw materials and the sensitivities around company disclosures. While there is indeed a fair level of complexity and opacity across certain supply chains, there is also an increased recognition of the material effect that supply chain issues can have on businesses and a heightened regulatory focus on companies' obligations to apply appropriate levels of due diligence. This is an issue that we intend to keep a close eye on, particularly for specific controversies or reports around investee companies.

External Fund Manager Case Study

Manager: Liontrust Fund Partners LLP

Fund: Liontrust SF UK Growth

Asset class: Equity

Company: Smurfit Kappa

Theme:
Better Resource Efficiency

Background:
Smurfit Kappa is a FTSE100 company and a leading provider of paper-based packaging in the world. It operates in 22 European countries and 13 in the Americas. The company has 47,000 employees in 350 production sites across these countries. It has grown substantially since its founding in 1934 through acquisition and organically. Card based packaging benefits from having a very high recycled content and degrades rapidly after use, in marked contrast to plastic packaging. It is fundamentally a more circular packaging material. Smurfit Kappa has faced controversy regarding forestry in a specific region of Colombia; and also has a significant biodiversity footprint.

Objective and Action:
We engaged with Smurfit Kappa on the ongoing controversy with the Misak indigenous community in Colombia. This is a complex situation, and we have met several times to discuss progress with the company, most recently in December 2023. The company is in mediation with the Misak community and an independent third party, and so are limited in what they can say on this until it has been concluded. In order to gain more context for the complex historical and political background in Colombia, the team met with Kirsty Brimelow KC, who has experience from mediating the Colombian peace accord in 2016. She highlighted the key issues companies should consider when operating in Colombia and when trying to resolve a dispute.

In addition we encouraged the company to provide more detail around its participation in the Nature Action 100 initiative to protect biodiversity.

Verdict:
Smurfit Kappa are actively trying to resolve the controversy in Colombia. They confirmed they are signatories to the UN Guiding Principles on Business and Human Rights. They provided us with their response to the UN Special Rapporteur letter, and emphasised that there had been numerous FSC inspections of its operations in Colombia which have not raised any concerns on indigenous rights or environmental issues. It also highlighted its long investment in schools and education in Colombia as evidence they are operating for the long term interest of all stakeholders. We expect a formal communication on mediation in March of this year. Overall we believe the company is handling this sensitive issue sensibly and to give the best outcome.

On biodiversity the company reassured us that it will be a leader on biodiversity initiatives and is expected to respond well to any additional requirements from these.

External Fund Manager Case Study

Manager: Schroders

Fund: Schroder ISF Global Energy Transition

Asset class: Equities

Company: Canadian Solar

Theme:
Human Capital Management and Human Rights

Background:
Solar energy will play a critical role in our future energy system as we transition away from fossil fuels, but as the industry has grown so too have social concerns about human capital management and labour practices across the supply chain. At Schroders, we strongly believe that sustainability is not just about 'what a company is doing' but also 'how a company is doing it', and so understanding the potential secondary social and environmental challenges associated with the energy transition is vital to ensure we are investing in the best-in-class businesses across the space. With rising concerns over labour practices potentially increasing reputational and regulatory risks for companies, we think actively engaging with businesses on this issue is key.

Objective:
With concerns growing around labour practices across the solar supply chain, we set out to engage with companies across this part of the energy transition value chain to better understand the challenges at hand, to assess which businesses were managing these issues best, and to encourage businesses to adopt best-practice with regards to labour management processes and policies.

Action:
Canadian Solar was one of the companies we engaged with on this topic. They explained to us how they understood the current labour challenges and outlined the various processes and policies they already had in place to manage this issue and its associated risks in an effective way. While we felt that the company had already taken lots of positive steps to manage their own human capital and assess their supply chain, we encouraged the company to undertake an independent third-party audit of their own facilities and supply chain to get a more holistic view of the potential risks.

Objective:
The company has started the process of arranging and undertaking such an audit and we continue to look forward to the final review. Our wider discussions with the company and other industry players on this topic gave us confidence that Canadian Solar were managing this issue relatively well compared to peers.

One important aspect of human rights in the context of company engagement is child labour. It is often defined as work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development.[1] With over 160 million children, 79 million of whom work in hazardous conditions, affected worldwide and with long supply chains and consumer demands impacting workers, a number of controversies have occurred over the past year that have warranted further engagement.[1]

As part of our work to assess the impact of material human rights risks on our investee companies, we supported HACE, provider of the Child Labour Index, an AI-powered specialised benchmark, in their proof-of-concept phase. The Child Labour Index scores companies and portfolios in relation to three performance indicators in the specific area of child labour: company disclosure, public perception and supply chain; as well as providing a "Stewardship Toolkit" to support meaningful engagement. The insights we gained during this work will help form the basis of potential engagement on the subject going forward.

1. Source: https://static1.squarespace.com/static/61dc473121c0a76f5b73ace9/t/64f9e3e20c6bfa7f23e4484e/1694098402260/Child+labour+one+pager.pdf

Columbia Threadneedle reo®: Engagement Provider case study

Company: PepsiCo

Theme:
Labour risks in supply chains

Background:
Pepsi, headquartered in New York, is one of the world's largest snacks and beverage companies. Aside from its eponymous cola, it owns a portfolio of well-known brands including Mountain Dew, Lay's, and Doritos. In February, the New York Times reported that migrant children had been working in US factories run by Hearthside - one of Pepsi's suppliers - allegedly working long hours, overnight shifts, and being exposed to hazardous conditions. Outsourcing of labour is widespread in food manufacturing, with companies relying on agencies to match workforce size with production demand. This flexibility can result in reduced visibility of processes to ensure legal compliance and responsible recruitment. In 2022, the US saw a 37% rise of child labour violations, reinforcing the importance of companies conducting due diligence along their value chains and frequently monitoring all markets, even those previously considered lower risk. Labour within both their direct operations as well as their suppliers should be included in this assessment.

Action:
We wrote to Pepsi to express our concerns and requested a dialogue to understand the company's reaction to the case, the remediation efforts focused on the underage individuals involved, and the strengthening of due diligence processes to avoid a reoccurrence. In our dialogue with the Head of Human Rights, it was explained that the factory in question had been audited for several years but without indication of this type of risk. Pepsi also reported that Hearthside was unable to provide individual remediation as the individuals in question had not returned to the site. This highlights the importance of readiness to act quickly when cases are identified in order to provide victim-focussed remediation.

Outcome:
Labour provision into supplier factories had not received sufficient scrutiny at Pepsi, despite a robust governance structure for labour standards in both operations and supply chain, as well as third-party labour providers being explicitly in scope of supplier policies. This highlights the need for a regular examination of the shifting risk landscape, as well as the need to challenge assumptions and test operational readiness. We believe Pepsi has taken concrete steps to mitigate risk, including revising policies to mandate stronger age verification during recruitment. The sustainability team has also engaged the procurement function to assess the link between short lead times and the risk of quick recruitment without necessary checks.

External Fund Manager Case Study

Manager: Colchester Global Investors Limited

Fund: The Colchester Global Bond Fund

Asset class: Fixed Income

Country: Poland

Theme:
Female Labour Participation and Child Poverty

Background:
In 2022, a research trip to Poland involved discussions with the government regarding female labour participation rates, childhood poverty rates, and the Family 500+ program, a government initiative launched in 2016 to support Polish families by providing a tax-free benefit of 500 Polish zloty per month for every second and subsequent child up to the age of 18. This program aims to improve living conditions and reduce child poverty, with Eurostat data showing a significant decrease in children at risk of poverty from 22.5% in 2015 to 16.7% in 2022 in Poland.

Objective:
Our objective was to engage with the Polish government to understand the impact of the Family 500+ program on female labour force participation and childhood poverty rates. We aimed to assess how this program affects the labour market, especially concerning women's participation and the potential for encouraging them to stay out of the workforce, in light of proposed increases to the program's benefits.

Action:
We followed up our initial engagement in September 2023, discussing a variety of issues including the labour force participation rate of women and the proposal to increase the Family 500+ benefit from 500 to 800 Polish zloty. This increase, passed by the Senate in July 2023, aims to adjust for inflation since the benefit's 2016 inception. We raised concerns about potential inflationary effects and impacts on the government deficit with the Ministry of Finance.

Outcome:
Despite concerns about inflation and the labour market, it is encouraging to note improvements in both childhood poverty rates and female labour force participation since the introduction of the Family 500+ program. Female labour force participation increased from 62% in 2016 to 67% in 2022, surpassing the OECD average. The Ministry of Finance forecasts low inflation in the new year, despite a high average rate of inflation in 2023.

Governance

Good governance is the cornerstone of a well-run company. Corporate governance encompasses the structure, remuneration, transparency and general corporate behaviour of the board. Engagements in this space can include issues such as board diversity, remuneration policies, political lobbying or independence amongst board members.

With strong governance expertise on our team, we are well positioned to identify poor governance practices and engage in a thoughtful and knowledgeable manner as showcased in previous case studies.

Therefore, governance underpins all our engagement and voting activities as a cross cutting theme.

Our voting and monitoring processes are designed to identify governance red flags. The relationships developed by our analysts with their respective companies often facilitate timely engagements.

External Fund Manager Case Study

Manager: Muzinich & Co.

Fund: Muzinich Global Tactical Credit Fund, Muzinich Diversified Credit Income Fund

Asset class: Fixed Income

Company: Deutsche Bank

Theme:
Business ethics

Background:
Deutsche Bank had a below-median ESG risk ranking with Sustainalytics, driven by a 'medium' risk score. However, within this score was a Level 4 'High' category material ESG issue around business ethics.

Objective:
Part of an ongoing monitoring of the bank around the issue of business ethics, to establish whether they were continuing to make sufficient progress around addressing historical issues. Central to this is the extent of regulatory scrutiny, investigations and lawsuits in multiple jurisdictions that have been pursued against the bank.

Action:
We have been undertaking engagement with the Investor Relations team at Deutsche Bank, with the most recent engagement occurring in Q1 2023. When questioned on this topic, the bank provided reassurances around the efforts they have been making to address these issues, including pointing to their alignment with the measures communicated by the German regulator, BaFin, and the extent of their expenditure on improving controls (including anti-financial crime and compliance controls) over recent years, which they note has led to a reduction in litigation charges and fines.

Outcome:
We are sufficiently comfortable with their ongoing progress to adopt a stance of 'ongoing monitoring' at present. However, we stand by to escalate the engagement should any concerns emerge or there is a divergence from their path of improvement; in particular, whether there are negative outcomes from the ongoing discussions with the domestic regulator on improving internal compliance controls.

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