Rathbone Greenbank Review

Spring 2017

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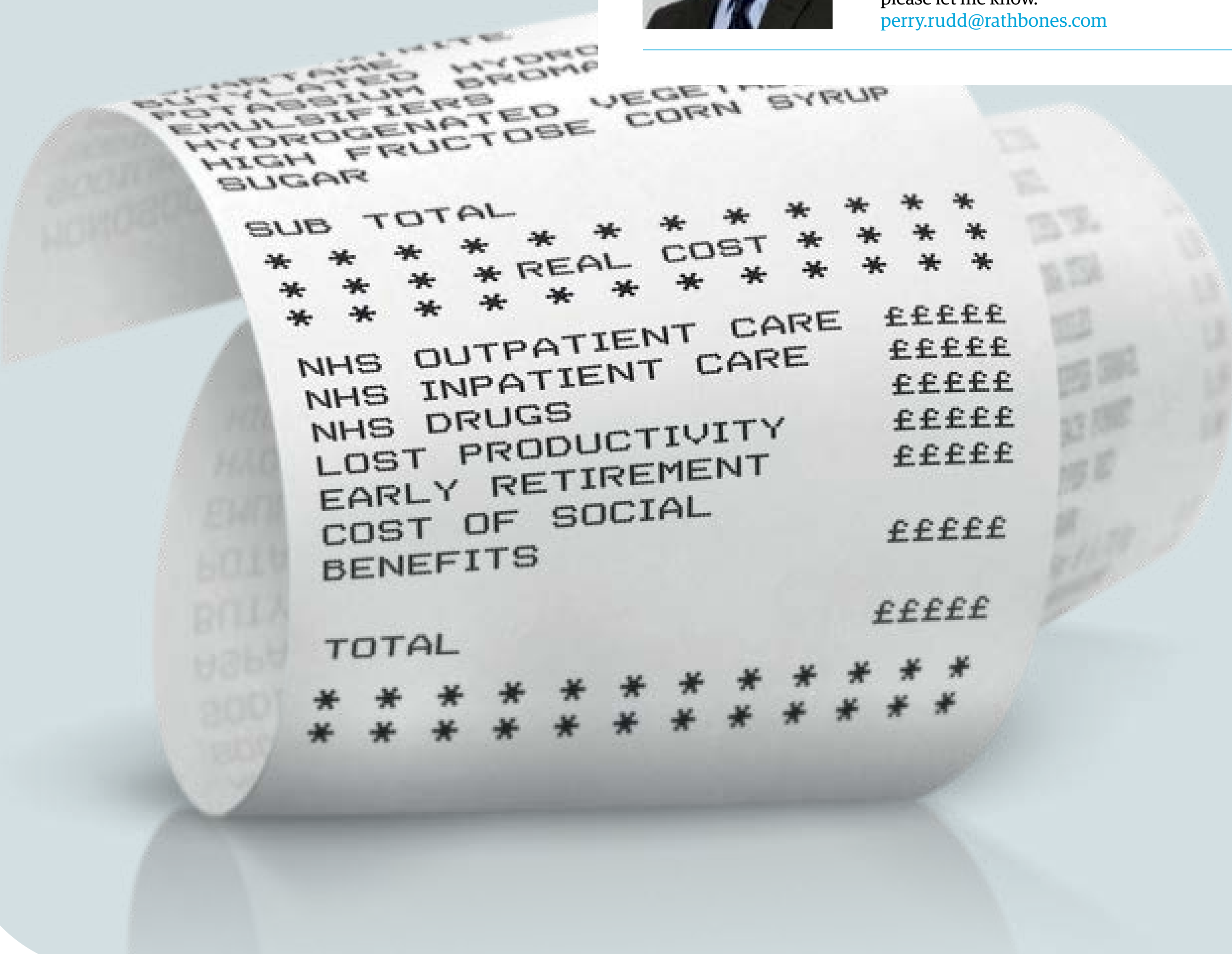
Rathbones
Look forward

Rathbone Greenbank Investor Day

The hidden costs of sugar
How can we manage the risks to our health and wealth?

IET London: Savoy Place
Thursday 18 May 2017



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Welcome to the Spring edition of the **Rathbone Greenbank Review**

The momentous political events of 2016 left many investors with an altered sense of what can and cannot be predicted. With Donald Trump now in place in the highest office of a global superpower and the UK's Brexit negotiations imminent, this year's elections in Europe may give a further indication of the extent to which the world is changing.

Whereas the vagaries of international politics may leave room for speculation, the drivers behind socially responsible business and investment are gathering strength. Poor standards of corporate governance and operational transparency are increasingly viewed as competitively disadvantageous in the long term, while companies and sectors showing insufficient regard for future social and environmental sustainability face the growing threat of devaluation.

In this edition of our Review, we track the course of the fossil fuel divestment movement as well as discussing the next steps for corporate responsibility in upholding the long-established principles of global human rights. With much of the language of historical legislation focused on the obligations of states to protect individual rights, the rise of the multinational corporation has demonstrated a greater need for increased accountability across global business operations.

A key focus of Rathbone Greenbank's working year is our annual Investor Day and we look forward to welcoming guests to this year's event in London on 18 May, which will take the issue of sugar as its main theme.

Scientific consensus was historically slow to acknowledge the harmful effects of sugar overconsumption, in particular its link to childhood obesity. But the question of its impact on quality of life and the increasing costs of the associated healthcare provision has now become central to a global debate. As part of this, governments are responding through forms of taxation and reduction targets: the UK will introduce a tax on soft drinks with added sugar in April 2018 and France has recently moved to ban unlimited fizzy drink refills in family restaurants.

With the help of expert speakers, we will look at the risks to both public health from excessive consumption and, potentially, to investments in food and beverage producers.

We also highlight our long history of 'impact investment' — a term that continues to gain exposure but whose precise definition is sometimes open to interpretation. In relation to this, we feature the contribution of our ethical research team to Rathbones' successful bid to manage the Access Foundation's £60 million endowment fund for charities and social enterprises.

The team has remained active in its engagement work throughout 2016 and our efforts in addressing the issues of climate change, human trafficking and responsible taxation are summarised here. Further information will be available on our website throughout the year.

On behalf of the Rathbone Greenbank team, I hope that you enjoy this latest edition of the Review. If you have any comments or if we can assist you in any way, we would be delighted to hear from you.

John David
Head of Rathbone Greenbank Investments

Responsible investors face up to fallout from rise of populism

Whether the populist surge in international politics during 2016 heralds a new era of protectionism and insularity, or one of renewed optimism arising from shifting international relations, remains to be seen.

But the outcomes have left many – not least ethical and sustainable investors – questioning what to feel certain about.

Even before his bid for the US presidency, Donald Trump's stance on climate change was notable for its inconsistency. Having once claimed it was a hoax perpetuated by China to undermine US manufacturing, he then vowed to reverse the country's commitment to the Paris Agreement. More recently, he has admitted to 'some connectivity' between climate change and human activity and promised a more 'open mind'.

Trump's policies in office may offer more clarity than his past proclamations, but some of his cabinet nominations have dampened optimism for progress on environmental reform in the US. Scott Pruitt, Trump's pick to head the Environmental Protection Agency (EPA), was a leading opponent of the Obama administration's Clean Power Act; while energy secretary nominee Rick Perry, who once referred to the EPA as a 'cemetery for jobs', has also historically described the science of global warming as a 'contrived phony mess'.

Small wonder then that, with such negative overtones and Trump's own vocal support for fossil fuels, funds favouring stocks rated highly for their environmental, social and governance credentials suffered $200.4 million of redemptions in the first week after the US presidential election.

Not everyone, however, is prepared to wait for a presidential epiphany or to place their trust in the decisions of the US legal system to outlast a sceptical administration.

In January, the World Economic Forum in Davos devoted a record 24 sessions to the profit-making potential of clean energy, while its opening plenary was delivered by President Xi Jinping – a vocal advocate of green finance and the first Chinese leader to address the forum.

Meanwhile, in an open letter to the then-president-elect, more than 600 US businesses and investors, united as 'Business Backs Low-Carbon USA', reaffirmed their commitment to a more energy-efficient US economy. Among the cross-sector signatories warning of the risk to American prosperity should the transition to low-carbon energy stall were 125 companies and financial institutions. Each of these have more than $100 million in annual revenues or in excess of $5 billion in assets under management.

There is also hope elsewhere that a Trump presidency might be less detrimental to the aims of sustainable investment than first feared, given that infrastructure renewal was a core pledge of both the Trump and Clinton election campaigns. Large parts of the United States' social and economic infrastructure remain desperately outdated while wasteful and inefficient utilities are creating additional costs and higher energy consumption.

Facing these problems, the case for innovative clean technologies with their strong emphasis on reducing waste and resource consumption, improving safety and lowering maintenance costs will be hard for the administration to ignore. Higher costs reduce profits, diluting government revenues from corporate tax which can impact fiscal policy – a salient point considering Trump's promise to slash corporate taxes. 'Cleantech' may also have a greater bearing on the broader goal of US socio-economic improvement than sceptics within the new administration realise.

Strengthening its own stance on renewable energy in the face of a healthcare crisis exacerbated by worsening air quality, China too may take a dim view of any decision by the US to renege on its commitment to the Paris Agreement. Such an act could provoke it to punish the US by dumping large numbers of US Treasury bonds, which could significantly devalue the dollar and raise borrowing costs.

Above: China's President Xi Jinping at the World Economic Forum (WEF) in Davos.

Below left: US President Donald Trump displays one of the five executive orders he signed in the oval office of the White House. This related to the oil pipeline industry.

However, the moderate post-election rally by cleantech stocks suggests that some investors anticipate an eventual détente between the new administration and advocates of sustainable development – government policy may slow progress in the short term, but the long-term course appears irreversible.

In the UK too, the implications of Brexit have made it difficult for sustainable and responsible investors to judge the possible extent of disruption to existing EU-wide renewable energy commitments. Potential reductions in any future government incentives might also have financial ramifications for ongoing renewable energy projects.

Additionally, the disbanding of the Department of Energy and Climate Change (DECC), together with the prominent role played by climate change sceptics within the 'Leave' campaign have only compounded investor uncertainties.

But again, there is evidence that sustainability commitments will survive in the longer term. For example, strong cross-party support exists for the Climate Change Act, which commits the UK to carbon emissions reductions until 2050 that are greater in scope than some EU targets. Independence from the EU's legal framework may also release the UK from certain legislative constraints affecting its capacity to plan and phase-in its own renewable energy schemes. The integration of DECC within the new Department of Business, Energy and Industrial Strategy may also be viewed positively as an opportunity to incorporate low-carbon policies within a joined-up approach to the long-term sustainability challenges faced by industry.

Whether the populist trend accentuating these uncertainties survives in the longer term is another question: attributing the desire for change to a deep-rooted mistrust of political elites oversimplifies the complex reasons behind public dissatisfaction. But it may yet convince investors to consider more socially beneficial avenues of investment, and force governments and corporations to address the serious issues of global economic inequality with greater purpose.

As for climate change, President Trump may want to broaden that 'open mind' given recent findings by Nasa and the Met Office that 2016 was the warmest year on record.

Fossil fuel divestment – reaching a tipping point?

Ethical investors are no strangers to calls for divestment: the 1970s and 1980s saw concerted lobbying against companies linked to Apartheid in South Africa, followed by similar campaigns focusing on Sudan and the occupied Palestinian territories. But fossil fuel divestment – a relatively recent phenomenon – has surpassed other campaigns with the speed at which it has grown in both scale and public awareness.

The fossil fuel divestment movement first gained traction in 2012, when not-for-profit organisation 350.org (co-founded in 2007 by author and environmental campaigner Bill McKibben), began to target American financial institutions, universities and foundations.

This followed the publication, in November 2011, of the first in the Carbon Tracker Initiative's influential series of reports under the *Unburnable Carbon* banner. Its original research presented a compelling argument that a 'carbon bubble' exists around the valuations of fossil fuel companies, with potentially material financial consequences should it burst. As the world moves towards a low-carbon economy, companies' accumulated carbon reserves may become over-priced when it becomes clear that the assets they have financed can no longer be burnt.

Together, these landmark events laid the foundations for the divestment movement. Key to the growth of fossil fuel divestment has been its rapid adoption by faith communities. In 2013, Quakers in Britain became the first religious organisation in the UK to commit to full divestment from coal, oil and gas companies, and they continue to engage actively with companies in other high-impact sectors. Meanwhile, the Churches of England, Scotland and Wales have also adopted a targeted divestment and engagement strategy. Globally, almost 150 faith-based organisations have, to date, made full or partial divestment commitments.

Under pressure from student and staff bodies, educational establishments have also joined the growing list of organisations with divestment policies. In 2014, Glasgow University became the first academic institution in Europe to divest from fossil fuels. Following concerted campaigns across other universities, 2016 saw something of a tipping point. High-profile announcements from Durham University, King's College London and the London School of Economics, among others, brought the total number of UK universities with some form of divestment policy

Navigating the divestment debate

Investors have several options available. Importantly, these responses are not binary, but instead form part of a spectrum of possible actions, including:

- full divestment, selling all holdings in companies with any exposure to the extraction and sale of any fossil fuels
- engagement with carbon-intensive companies or those which are involved in fossil fuel extraction, ensuring they adopt clear plans for emissions reductions and deliver them with concrete actions
- policy-level engagement, calling for supportive policies and regulations for the necessary transition to a low-carbon economy
- targeted divestment, selling holdings in companies involved in the most carbon-intensive fossil fuels (such as coal and tar sands) while still allowing some investment in cleaner alternatives such as natural gas.

Positive investment in companies involved in the creation of a low-carbon economy is another important factor to consider. Indeed, a wider aim of the divestment movement is to see capital reallocated from fossil fuels to low-or zero-carbon alternatives.

Consideration needs to be given to the motivations for divestment, the effectiveness of different responses in shaping a low-carbon future, and the financial implications for investment portfolios. For some, the moral imperative to divest from environmentally harmful industries will be the primary driver. Others may wish to remain invested and engage with fossil fuel companies in order to encourage a much faster transition to a low-carbon economy.

As with many aspects of ethics and sustainability, fossil fuel divestment is a more complicated issue than it first may seem and there is no single correct response. It is important that any decision on divestment reflects individual values and financial objectives, or those of the charity or organisation in question.

Rathbone Greenbank's in-depth knowledge of the subject, together with our sector-leading engagement work, means that we are well-placed to help clients successfully navigate the complexities of this important issue.

to 43 by the end of the year[1]. This represents around a quarter of all UK universities, and some £10.7 billion in assets.

The campaign has not been a universal success, however, with a number of institutions evaluating the arguments for and against, and choosing not to divest. Perhaps the most high-profile among these is Harvard University's endowment fund, whose president described divestment as neither 'warranted or wise'.

Edinburgh University also rejected wholesale divestment, instead choosing to combine selective divestment with targeted company engagement. Stanford University similarly refused to go beyond avoiding investments in coal, stating that 'oil and gas remain integral components of the global economy'.

It is important to note that divestment is not the preserve of large institutions. There has also been a groundswell of interest from private trusts and charities who advocate combining divestment from fossil fuels with reinvestment of a proportion of their portfolios into clean energy.

By the end of 2016, the value of investment funds committed to some form of fossil fuel divestment had risen to $5.2 trillion, doubling in just over a year. So, if 2016 was the year in which the divestment movement achieved real momentum, what are the prospects for 2017?

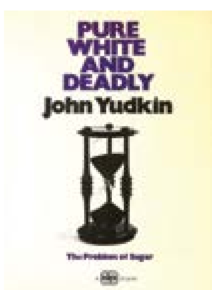
Certainly, UK educational establishments who have not yet made commitments will face renewed calls to do so from their student bodies and staff. Those who previously rejected action may be subject to further pressure from divestment campaigners emboldened by 2016's successes. Moreover, with Donald Trump in the White House, the role of private capital and investor engagement has never been more important in pushing for the transition to a low-carbon economy.

[1] These comprise a wide range of responses: Cambridge University, for example, committed only to avoiding any future investment in coal and tar sands.

Sugar: managing the risks to health and investments

In 1972, the Department of Nutrition at Queen Elizabeth College, London, published a book examining the role of sugar in heart disease. The prevailing wisdom of the day regarded lack of exercise and excess consumption of saturated fat as the main risks to dietary health. But the department's founder, Professor John Yudkin, asserted in *Pure, White and Deadly* that a significant increase in sugar consumption was more to blame for the growing incidence of obesity, diabetes and heart disease in the 20th century.

In response, the sugar industry and producers of processed foods joined forces to discredit Yudkin's findings, while proponents of existing dietary theory criticised a lack of definitive evidence to support a shift in emphasis. As a consequence, Yudkin's theory was largely ignored by the scientific community and sugar remained off the public health radar.



"If only a small fraction of what we know about the effects of sugar were to be revealed in relation to any other material used as a food additive, that material would promptly be banned."
John Yudkin.

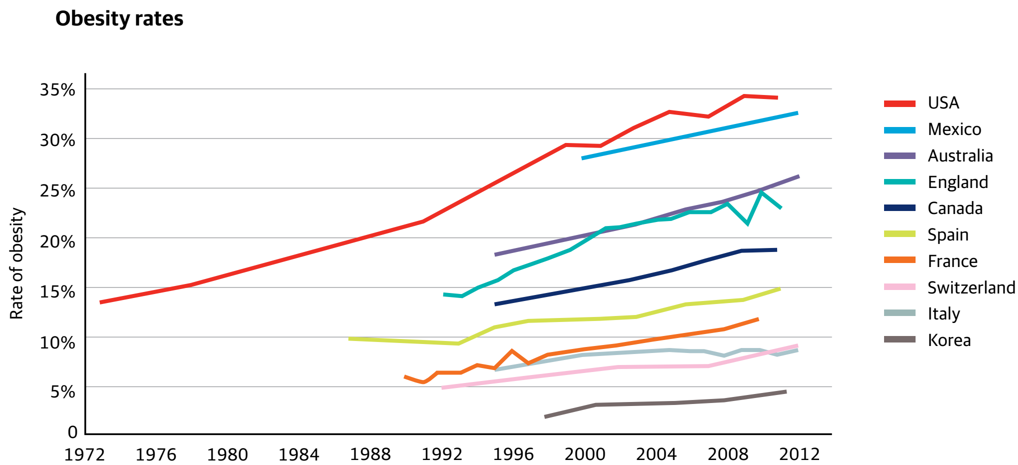
Little attention was paid to Yudkin's warnings in the decades that followed, but by the beginning of the 21st century, the case against sugar was rivalling those against salt and fat in the study of dietary health and global overnutrition. In 2009, interest in Yudkin's work was rekindled when Dr Robert Lustig – a specialist in childhood obesity – referenced his book in a recorded lecture entitled *Sugar: The Bitter Truth*. Lustig's 90-minute video, connecting excess sugar consumption to a wide range of non-communicable diseases, quickly went viral and has now been viewed almost seven million times. According to the *Financial Times*, some industry observers considered this to be "sugar's 'tobacco' moment".

With its high energy density and low nutritional value (especially in soft drinks), sugar has now become a central target in the fight to address global overnutrition: not just where it is used in snack or luxury foods, but where high levels are found in bread, cooking sauces and supposedly healthy products such as yoghurts. As high-calorie diets and inactive lifestyles have spread globally, obesity rates have soared to record levels.

The global obesity crisis has many facets that concern ethical investors: from issues of social justice and inequality with many of the poorest in society lacking access to healthy diets, to the moral ambiguities of marketing calorie-dense foods to the vulnerable. Wherever the spotlight falls, the financial implications of inaction are fast becoming clear.

In the summer of 2016, the UK government stated that NHS spending on overweight- or obesity-related health problems amounted to over £6 billion – more than was spent on the police, fire service and judicial system combined. The opportunity costs of treating these avoidable harms are beginning to affect us all.

This crisis is global in nature and has already prompted regulatory action that may directly affect the profitability of companies abroad. For example, forms of sugar taxes have already been proposed or implemented in Denmark, France, Mexico, Norway and South Africa, with varying



Note: Age-and-gender-adjusted rates of obesity and overweight, 2005 OECD standard population. Measured height and weight in Australia, England, Korea, Mexico and the United States; self-reported in other countries. No projections were produced in 2010 for Australia, Mexico and Switzerland.
Source: OECD Obesity Update, ©OECD, June 2014, p2

degrees of success. The UK has announced the introduction of a levy on the soft drinks industry in April 2018, aimed at driving product reformulation and reducing portion sizes. As taxation and marketing restrictions start to take effect on sugary products, the parallels with tobacco become more apparent.

"Diet-related diseases, including obesity, are the leading cause of ill-health in the UK. That's bad news for individuals who develop diabetes, heart disease and cancer, for the health service straining to cope with an ageing population and the wider economy through lost productivity."

Susan Jebb, Professor of Diet and Population Health, University of Oxford.

At Rathbone Greenbank, we have been tracking the emerging risks of the obesity crisis for many years – and the responses to it. In early 2016, we joined with Schroders in a collaborative engagement project aimed at bringing about a productive dialogue with the UK's leading food and beverage producers and retailers.

Having reflected on the scale of the risks and opportunities, we sought the views of many companies from the food, beverage and grocery sectors in order to establish a framework for meaningful corporate responses to this issue. We then set up a 'sugar roundtable' to engage with a broad range of stakeholders. Two extensive discussions were supplemented by many one-to-one meetings, contributing to a clear set of investor expectations, which were then reviewed by a panel of stakeholders including companies, academics, investors and NGOs.

Our work resulted in the publication in December 2016 of a formal set of investor expectations[1] aimed at supporting engagement on the risks and opportunities posed by excess sugar consumption, and providing a common set of guiding questions.

By building a framework for gathering information and setting baseline expectations for companies to follow, we hope to raise the profile of sugar-related health concerns and seek to identify leaders and laggards in the relevant sectors. We are also aiming to encourage more consistent reporting of sugar-related risk by companies.

As voluntary efforts such as the Public Health Responsibility Deal (through which the government aimed to encourage food and drink producers to help to deliver changes in public health) have largely failed, the pressure on companies from investors to respond has been increasing. Even the UK government's long-awaited childhood obesity strategy, launched in August 2016, was met with widespread disappointment by NGOs and the medical profession.

Investors, however, are now armed with the tools they need to conduct rigorous, ongoing engagement with the industry. Through this work, corporate accountability on sugar-related obesity will be greatly increased.

[1] rathbonegreenbank.com/insight/sugar-increasing-risk-health-and-wellness.

BRISTOL SITR ■ DEC 2016 PLACES FOR PEOPLE FINANCE ■ JULY 2003 GOLDEN LANE HOUSING ■ NOV 2003 ETHICAL PROPERTY COMPANY ■ APR 2004 CAFEDIRECT ■ OCT 2006 CITY CAR CLUB ■ MAR 2009 COCHABAMBA PROJECT ■ JULY 2010 MOTABILITY OPERATIONS ■ NOV 2010 HCT ■ JAN 2011 THE COMMUNITY FARM ■ JULY 2013 SOCIAL JUSTICE & HUMAN RIGHTS CENTRE (THE FOUNDRY) ■ FEB 2014 CONVERGING WORLD RENEWABLE ENERGY ■ APR 2015 HIGHTOWN HOUSING ASSOCIATION ■ OCT 2015 THERA GROUP ■ MAR 2016 CHARITIES AID FOUNDATION ■ MAR 2016 RESONANCE

Investing for impact

Investors are increasingly seeking to achieve positive social and environmental change alongside – or, in some cases, ahead of – a financial return through an approach known as ‘impact investing’.

Under this broad category, there are a number of more specialised approaches, including social investment, impact-first investment (where social return may take precedence over financial return) and social enterprise investment – all of which can be applied across different asset classes, including equity, venture capital, debt and fixed income. The one factor common to all definitions is that participating organisations should demonstrate an explicit intention to make a difference to society and report on their impact accordingly.

Rathbone Greenbank has a proven track record of involvement across all areas of impact investing, in keeping with our overarching philosophy of applying positive ethical criteria when selecting investments. We were one of the first private client investment teams to implement such an approach, in the firm belief that companies delivering positive impacts on society and the environment were likely to produce sound financial returns.

Many high-impact investments are not quoted on the main stock market and therefore carry a higher risk of loss of financial capital. We therefore ensure that potential investors fully understand these risks by outlining them in a separate risk warning.

In addition to equity investment, many impact investments are in the form of bonds. In recent years, the Rathbone Ethical Bond Fund, originally seeded with funds from Greenbank clients, has sought to place capital into high-impact bonds. These have included issues from social enterprises such as Midlands Together and Glasgow Together, which help ex-offenders acquire new skills working on property development projects.

In keeping with our tradition (as indicated by the example investments framing this article), Rathbone Greenbank continues to support pioneering impact investments. In 2016, we were significant investors in the Resonance Bristol SITR Fund, one of the UK’s first funds to benefit from social investment tax relief (similar to that available to investors in qualifying companies under the Enterprise Investment Scheme).

To date, the Resonance Bristol SITR Fund has made three investments:

- **South Bristol Sports Centre** aims to use the power of sport to engage with disadvantaged groups and improve confidence, self-belief, health and wellbeing.
- **Paper Arts** benefits unemployed artists through six-month paid internships to develop skills and learn specific job roles to help them start a career.
- **Bristol 24/7** aims to give people from challenging backgrounds the opportunity to gain work experience and training within media.

Given the pressure on public funding for social projects, there is no shortage of opportunities to create impact, and we look forward to continuing our work in this rewarding investment area.

Collaborating for the greater good

In August 2016, Access – The Foundation for Social Investment announced the award of a 10-year mandate to Rathbones to manage a £60 million endowment from the Cabinet Office. The successful proposal was put together by members of Rathbones' fixed income team together with Greenbank's ethical research team.

Background to the fund
Supported by Big Society Capital, the Big Lottery Fund and the Cabinet Office, Access was originally set up as an initiative to fill a gap in the charity and social enterprise market for higher-risk loans below £150,000.

What are the plans for the fund?
The idea is to make it easier for a charity or social enterprise (SE) to access the capital they need to grow and ultimately increase their impact. Access therefore acts as a bridge between charities and SEs on one side and social investors on the other.

Access will also use its endowment to help small charities and SEs develop the skills needed to achieve greater success with investment applications and then use those funds more effectively.

How did the relationship develop between Rathbones and Access?
Rathbones was invited to pitch for the mandate on the basis of two main factors: the strong performance of the Rathbone Ethical Bond Fund and the successful management of a smaller account for Big Society Capital, supporting retail charity bond issues.

Access were impressed by Rathbones' sense of realism about what was achievable within the charity bond market, as well as their desire to support growth in this space. They also appreciated the extra level of scrutiny provided by the interaction between the fixed income team and Greenbank's ethical researchers, which added another element of credibility to the overall proposal.

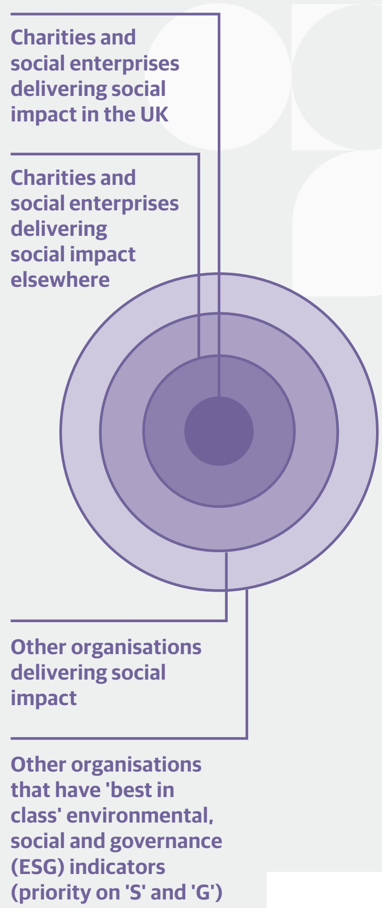
What have been the benefits of the partnership?
The mandate offers a great opportunity for Rathbones to collaborate with highly reputable partners in this field and will give us an opportunity to play a role in shaping the charity bond industry.

In addition, it will enable us to exchange ideas with high-profile members of the social investment sector on how investor expectations can best be communicated to companies reporting on their social impact.

What is the key objective for Access?
At the end of its 10-year lifespan, Access would like to demonstrate that it is possible to simultaneously achieve targeted financial returns and create genuine social change through investment. Both parties want to prove that this type of investing doesn't have to be a leap of faith – that you don't necessarily have to lower performance expectations to achieve positive social impact.

The 'bull's-eye' model
Access will invest the money using a 'total impact' approach. This more holistic way of thinking about investing considers the social and financial benefits generated by every £1 invested, as well as the social impact generated by making grants.

To achieve this, the Foundation has created a 'bull's-eye' model that aims to invest in bond issues that increase the supply of capital to UK charities and social enterprises. Where this isn't possible – perhaps due to a lack of supply – it aspires to hit the target as closely as possible by investing in sustainable and 'green' bonds. As at 31 December 2016, over 25% of the fund had been successfully invested in the 'bull's-eye' itself.



The business of human rights

UN General Assembly resolution 217A of December 1948 begins with the famous statement that: "*Recognition of the inherent dignity and of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world*." But almost 70 years later, who now bears the greater burden of responsibility for upholding the Universal Declaration of Human Rights (UDHR)?

Right: Dhaka: child labour in a shoe factory. Des Willie / Alamy Stock Photo.

Far right: Special representative for economy and human rights of the secretary general of the United Nations, John Ruggie, talks at a workshop on 'Economy and Human Rights' in Berlin.

The fundamental principle of the UDHR was that nation states had a duty to actively protect international human rights. In support of this belief, a parallel movement gradually emerged – advanced by the establishment of seminal humanitarian organisations such as Amnesty International and Médecins Sans Frontières – as it became clear that such groups were required to encourage the execution of that duty.

Fast forward to 2017, and the world has changed dramatically. In 1948, the established international order relied on fewer than 50 nation states to adopt and uphold the concepts of the UDHR. As the wave of trade liberalisation, now known as 'globalisation', reduced the role of an expanding number of nation states, it created a new source of power and influence within global society: the multinational company.

Around 70,000 transnational firms boast millions of employees and supply chain networks of an even greater magnitude. In terms of their estimated wealth, some have cash on their books exceeding the GDP of many developing and developed countries.

Companies were not subject to the specific requirements of international human rights law, but were equally capable of impacting the lives of ordinary people through their operations. This generated a dilemma of responsibility. When sweatshop conditions were uncovered in garment factories in the developing world, was the host government or the foreign corporation to blame?

When resource extraction in poor countries brought human rights infringements and environmental degradation, and the promised social benefits failed to trickle down to local communities, who had the responsibility of tackling the ensuing unrest? It was clear that the human rights system had to evolve to match this new globalised reality.

Efforts to bring multinationals closer to the protective obligations of the UN's human rights framework largely failed. However, a measure of success came in 2008 with the completion of Harvard Professor John Ruggie's review of business and human rights for the UN Human Rights Commission.

Uniting both elements of his review, Ruggie advocated a conceptual framework of 'Protect, Respect and Remedy' that encouraged:

– the state's duty to protect against human rights abuses by third parties, including business;
– the corporate responsibility to respect human rights; and
– greater access by victims to effective remedy, both judicial and non-judicial.

Ruggie's report was unanimously approved by the UN Human Rights Council which then commissioned his team to implement the framework through the production of the UN Guiding Principles on Business and Human Rights, published in June 2011. Prior to endorsement, Rathbone Greenbank was active in filing submissions during the consultation phase of the 31 Guiding Principles.

In assessing the effectiveness of these principles, it is important to understand that the framework was intended to work with the voluntary efforts of the corporate sector; it creates no specific legal obligation.

While much progress has been made in broadening the understanding and use of human rights due diligence procedures, the major weakness remains in remedy. If there are no means of recourse through which to assert one's rights when they are infringed, then those rights are worthless. Speaking at the UN Forum for Business and Human Rights in Geneva in November 2016, Professor Surya Deva, the new Asia-Pacific representative of the UN Working Group on Business and Human Rights, stated that public access to remedy would be a major focus of his tenure.

However, many doubt the viability of Ruggie's framework as a means to actively prevent corporate human rights abuses, advocating a binding treaty to present a clear and unambiguous statement to companies that they must comply with international human rights.

But the obligations placed on companies are not the same as those placed on states, and multinationals are often able to avoid state-level liability through careful legal arrangements. As such, many argue that multinationals need to be made legally accountable for their actions at an international level, beyond the recommendations of the Guiding Principles.

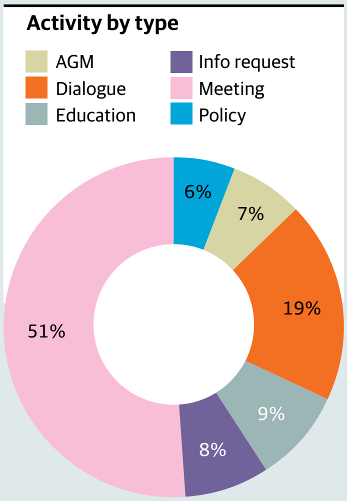
The debate will undoubtedly continue, but the litmus test of any treaty will be the degree to which it focuses on providing relief for victims and supporting the efforts of those campaigning for an end to worldwide corporate abuses.

Can a combination of voluntary action and treaty language protect people where there is no business case for upholding human rights, and where states are unwilling or unable to take action? John Ruggie himself has stated that further international legislation is logical and inevitable, but that the narrative needs to shift from the abstract notion of a 'treaty' to concrete proposals.

The discussion now needs to focus on exactly what is necessary to endorse such proposals, to agree how they should be delivered and to ensure they fill the gaps in the voluntary approach. Complex problems like corporate human rights abuses require solutions to match. There is no 'magic bullet', but investor pressure for higher standards can make a difference and must continue to be applied.

Engagement review

As part of our commitment to ethical and sustainable investment, we seek to use the influence we have with companies and policymakers to create positive change. Here we provide a summary of the engagement activities undertaken on behalf of our clients in 2016. Further details on our engagement activities can be found on our website; a detailed annual engagement review will be published later this year.



Climate change
Since 2013, we have worked with a small group of investors to engage with some of the biggest carbon emitters in the FTSE 100 index. During 2015, we contributed significantly to the drafting and filing of successful shareholder resolutions at the Annual General Meetings (AGMs) of BP and Royal Dutch Shell. These committed both companies to greater transparency in reporting the impact of climate change on their business models.

In 2016, our focus shifted to the mining sector. Again, Rathbone Greenbank clients were involved in the co-filing of similar shareholder resolutions at the AGMs of Rio Tinto, Glencore and Anglo American, all of which received almost unanimous shareholder support. As a result, these companies will be required to report on how they are adapting their business models to the risks presented by climate change. Our engagement with energy provider SSE also helped secure a promise of enhanced disclosure in the company's 2016 sustainability report.

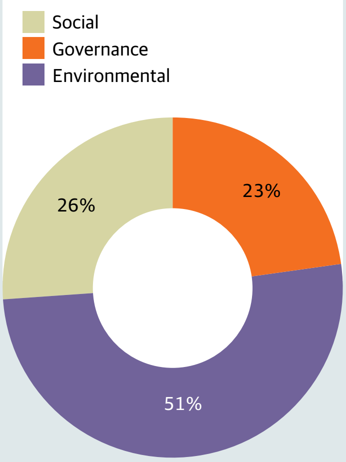
Human trafficking
We continued our longstanding contribution to increasing corporate action in tackling modern slavery through improved transparency in supply chains. We provided considerable input in the drafting of new reporting requirements and also supported the launch of a new website hosting all company supply chain transparency statements made under the Modern Slavery Act (tiscreport.org). We also became a signatory to a newly-developed set of investor expectations on supply chain labour practices in the agricultural sector.

Responsible taxation
We continue to serve as an active member of an international steering group supporting the Principles for Responsible Investment's work on corporate tax responsibility. During the year, we have been involved in raising awareness among companies, investors and regulators about the need for greater transparency on companies' tax policies and corporate governance. Additionally, we were invited to participate in a panel discussion hosted by the UK government's All Party Parliamentary Group on Responsible Tax in March 2016.

World Heritage Sites
In a report published in October 2015, WWF reviewed those natural World Heritage sites considered to be at risk from activity by the extractives industry: it concluded that 31% of these sites were potentially at risk. The World Heritage Committee also noted that the threat to such sites from the extractives industry has been on the increase in recent decades.

Given the vulnerability of these sites, and their considerable importance in terms of ecology, biodiversity and habitat, we wanted to highlight the financial and reputational risk faced by companies operating in or near such areas. We therefore entered into dialogue with a number of mining, oil and gas companies to encourage them to make public commitments not to operate within these protected areas.

Activity by theme 2016



While some companies have agreed to increased reporting on their exposure to sensitive areas, securing additional 'no go' commitments remains difficult. We are therefore shifting our focus to engagement with industry bodies where we hope to encourage the adoption of enhanced reporting and risk assessment guidance for operations in sensitive ecological environments.

How we work
We aim to maintain a balance between social, environmental and governance-themed engagement activities. While there is often a considerable degree of overlap between them, we categorise each engagement project according to its main driver.

During 2016, 51% of our engagement events were categorised as environmental, consistent with the previous year. Socially-themed engagement accounted for 26% of our work, with governance-related activities accounting for the remainder.

Dialogue and information gathering remain our principal methods of engagement, followed by policy work. As part of our commitment to understanding emerging issues and trends we also participate in workshops and seminars, which we classify as 'education' activities. We also remain committed to attending AGMs — around 7% of our engagement work in the year revolved around this core component of shareholder democracy.

Events

Rathbone Greenbank Investments Investor Day 2017

The hidden cost of sugar

How can we manage the risks to our health and wealth?

With the UK government's Soft Drinks Industry Levy — the 'sugar tax' — due to come into force next year, we are delighted to announce that our 20th annual Investor Day will discuss the implications for all stakeholders engaged in promoting healthier eating.

The Institution of Engineering and Technology London
2 Savoy Place, London WC2R 0BL

Thursday 18 May 2017
9.30am–2.30pm

Speakers include:
- **Professor Graham MacGregor,** Chair of Action on Sugar and Professor of Cardiovascular Medicine
- **Dr Alison Tedstone,** Deputy Director for Diet & Obesity and Chief Nutritionist, Public Heath England
- **Kate Elliot,** Senior Ethical Researcher, Rathbone Greenbank Investments

For more information and to reserve a place, please visit **rathbonegreenbank.com/register-investor-day-2017** or call Catherine Naughton on 0117 930 3000.

The Funding Network (TFN)

We are pleased to announce our continuing support for TFN events around the country as they raise funds and awareness for social change projects.

Jesus College — Ship Street Centre
Ship Street, Oxford OX1 3DW
Thursday 18 May 2017 at 6.15pm

Rathbones
8 Finsbury Circus, London EC2M 7AZ
Thursday 6 July 2017 at 6.00pm

For further details on these events and how to register, please visit **thefundingnetwork.org.uk**

Contact us

Rathbone Greenbank Investments provides personalised and professional investment services for investors who wish to ensure that their investments take account of their environmental, social and ethical concerns.

For further information on the services that we provide, or to arrange a meeting, please contact us.

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For international investment services, Rathbones has an office in Jersey.*

Rathbones
Look forward