Quarterly Stewardship Update

The last quarter of 2023 was a busy one for stewardship at RBC Brewin Dolphin. We carried out multiple engagements through our controversy tracking process, watched as COP28 unfolded having supported a statement seeking better climate disclosures, and laid out our expectations for 2024 with our investment trust holdings. Furthermore, the industry has been hard at work digesting the recently released Sustainability Disclosure Requirements from the Financial Conduct Authority (FCA).

Activity snapshot

This quarter we have:

- Voted thoughtfully on issues including tax transparency
- Welcomed the new Sustainability Disclosure Requirements regulations
- Challenged fund managers on controversies relating to forced labour in China

Our voting statistics

This quarter we voted at a total of 10 company meetings.

Votes for the quarter 01/10/23 - 31/12/23

10	6	4	0
meetings	with management	against	abstentions

Over the past three months, we voted at 10 meetings. At the majority of meetings, we voted with management on all resolutions. In four meetings we voted against management on at least one resolution and there were no abstentions. While we appreciate the insights lent to our analysis by Institutional Shareholder Services (ISS), our proxy voting provider, we continue to take a more nuanced approach to voting informed by our engagement with companies. For this quarter, this means that in seven meetings we decided not to follow ISS recommendations for at least one resolution.

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PRI Principles for Responsible Investment

Shareholder proposals at Microsoft

The Microsoft annual general meeting (AGM) was held in December, with a significant number of shareholder proposals on the agenda. Historically, shareholder proposals have been a tool for investors to encourage corporates to take greater action, usually on ESG (environmental, social and governance) issues such as climate change and diversity.

However, as was discussed in the spring edition of our Stewardship Update, anti-ESG investors have also been using these agenda items as a means of telling corporates to stop taking these actions, mainly driven by political divisions in the US.

At Microsoft we saw both types of proposals and, as always, we examined 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.

For example, we voted against one proposal requesting a report on the gender compensation and benefits gaps relating to reproductive and gender dysphoria care and one which requested the details of 'take down' requests by government and other US 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.

In addition, for the second year in a row we supported a proposal requesting reporting against the Global Reporting Initiative (GRI) Tax Standard, as we felt that this would enhance the company's transparency in communicating its tax practices to investors globally, its importance highlighted by recent controversies.

Boohoo

In the depths of the Covid-19 pandemic, we engaged with some of our fund managers regarding a controversy surrounding Boohoo and their supply chain issues, which included poor working conditions and below minimum wage pay at their factory in Leicester.

Despite public promises to remedy the situation, this past quarter has seen a BBC Panorama investigation uncover issues of forced overtime, pressure on suppliers to drive down prices after orders have been agreed and a cut in lead time of almost 40%.

Given the evolution of the story, we reached out to the one fund manager who holds Boohoo on our behalf, and one who sold it prior to this news, for financial reasons. We wanted to understand their views on the issue, and if they had engagement plans for Boohoo. The fund still holding Boohoo stated that while they are aware of the issue and have downgraded Boohoo on their sustainability matrix, they see them as an improver and are happy to continue holding the company for the time being.

Looking across all of our client portfolios, we have only limited exposure to Boohoo; nonetheless, this is a story we will monitor as we head into the new year.

Forced labour in supply chains

Continuing the theme of human rights in supply chains, we have launched a programme of engagement with our fund managers based on allegations of forced labour of the ethnic minority Uyghur population in the Xinjiang region of China.

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. Considering the indirect exposure we have to these companies, we reached out to the relevant fund managers to understand their views on this important but complex situation.

While this work is ongoing, initial responses have highlighted challenges with oversight of supply chains and 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 ensure that the right due diligence is applied.

The protection of human rights is one of our stewardship priorities at RBC Brewin Dolphin and we believe that management of supply chains plays a key part in addressing related risks, reputational risk being one of many. We therefore plan to continue our work on this important issue in the year ahead.

Improving governance standards at investment trusts

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. We therefore wrote a letter to our core investment trust holdings (those where we hold more than £1m and own more than 3% of the share capital) to outline our expectations regarding governance issues such as board diversity, remuneration and tenure.

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.

As responses to this letter come in, we anticipate higher levels of engagement with boards in the new year as well as around AGM season.

Policy update

At the end of November we welcomed the publication of the Financial Conduct Authority (FCA)'s Sustainability Disclosure Requirements (SDR) and labelling regime. Whilst the labelling scheme does not yet apply to us as wealth managers, it is important for us to understand with our significant role in communicating sustainability-related information to clients.

Under the latest policy, wealth managers have responsibilities to communicate the labels used by third-party fund managers, and note exceptions, such as on overseas products which will impact product suitability processes which determine which products are suitable for a particular client. The FCA have made it clear that there will be further regulation following a consultation with the industry which aims to further clarify the expectations and rules for wealth managers.

COP28

The 28th annual global climate change conference of parties (COP), took place in Dubai in December. The largest COP so far, the ten-day long event achieved some progress in channelling funding to developing and island nations most at risk from the physical impacts of climate change. Furthermore, 130 countries have agreed to triple their use of renewable energy sources and double the rate of energy efficiency improvements.

With over 84,000 attendees (double the previous record at COP26 Glasgow), COP28 was hailed as the most inclusive ever with virtually every country and interest group being represented. And yet the summit has proved exceptional at reaching consensus amongst all of the blocs and countries involved with diverse agendas.

While progress was made in the above areas, there remains ongoing debate and limited progress in other areas of negotiations. Of note, it remains unclear how the world will pay for the monumental transition it has now committed to. Expect to see further developments at next year's COP29 in Azerbaijan.

At RBC Brewin Dolphin, we believe it is important to use our voice to push forward causes or initiatives that are in the best interests of our clients. In response to calls for climate action at COP28, we signed an endorsement of the global adoption of the International Sustainability Standards Board (ISSB)'s Climate Standard, which would enable consistent, comparable climate-related disclosures at a global level.

We believe that incorporating climate disclosures into financial disclosure requirements is the best way to encourage more companies to do so and that this will be beneficial for investment analysis.

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