

**RATHBONE  
ETHICAL BOND FUND**



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# INTRODUCTION

## INCOME WITH A CONSCIENCE.

### OUR APPROACH

Every holding within our fund must pass our ethical screening criteria, so we avoid investing in activities that make the planet or its inhabitants worse off, and seek out investments that display strong responsible business characteristics. This screening is conducted by Greenbank, who have a veto over all our investments if they feel they do not meet our positive and negative social and environmental criteria.

We understand that transparency is vital when it comes to our investment process and ethical screening, as well as the positions that we hold as a result of these processes. That is why our full list of holdings is available monthly [here](#) and you can see a detailed breakdown of our screening criteria [here](#).

We believe that the combination of our investment process and ethical screening mean all our investments have a sound investment case and solid ethical record. This document gives a brief summary of the output of these processes for our top ten holdings and those that we consider to sit under 'Impact First' under our modified version of Bridges Ventures' Spectrum of Capital, as at 31 January 2024.



**BRYN JONES**

Head of Fixed Income



**STUART CHILVERS**

Fund Manager



**CHRISTIE GONCALVES**

Assistant Fund Manager



# ETHICAL PROCESS

## HAVING A CLEARLY DEFINED ETHICAL FRAMEWORK IS EXTREMELY IMPORTANT.

Greenbank has been at the forefront of ethical, sustainable and impact (ESI) investments for over 25 years. Its ESI research team is responsible for assessing our investments against a number of positive and negative top-level social and environmental criteria, made up of over a hundred distinct sub-criteria.

‘The Bridges Spectrum of Capital’ attempts to map out the broad range of risk/return strategies that exist within sustainable and impact investing - and to explain how that relates to the capital markets more generally. Below is a breakdown of our fund using our modified version of Bridges Spectrum of Capital.

As well as the reporting outputs of companies themselves, the ESI research team looks at a variety of sources (industry groups, non-governmental organisations, sell-side analysts, external research bodies, specialist Socially Responsible Investment (SRI) conferences, financial news monitoring, SRI media publications) to arrive at a balanced view of companies’ overall performance.

### SPECTRUM OF CAPITAL



Source: Graphic modified from Bridges Ventures’ Spectrum of Capital, Rathbones, 31 January 2024. Please note that due to rounding the total may not always be 100.00%.



# CASE STUDIES

# TOP 10 CASE STUDIES

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## GREEN GILT 1.5% 2053

### Investment case

- adds duration to the portfolio without credit risk
- should help to protect the portfolio in the scenario that we enter a downturn resulting in more significant rate cuts than currently priced in
- provides excellent liquidity as necessary

### Ethical summary

- proceeds of the UK government's green gilt issuance are used to help the UK to meet its target of reaching net zero emissions by 2050
- eligible use of proceeds includes transport electrification, expansion of renewable and low-carbon power generation, pollution prevention and control, preservation of natural resources and climate change adaptation
- UK government estimates that funds allocated under 2021-22 green gilt issuance resulted in 9.61m tonnes in avoided greenhouse gas emissions



## HSBC 5.844% PERP

### Investment case

- grandfathered under Basel III and as such no longer contributes to capital ratios
- therefore, this bond equates to expensive senior financing for HSBC
- we believe it is a matter of time before HSBC either undertakes a liability management exercise or a make-whole call, particularly after it called its 'disco' bonds last year

### Ethical summary

- has set an ambition to align its financed emissions (those linked to its investments and banking services) to net zero emissions by 2050 or sooner
- while it still has significant exposure to the financing of high-carbon and unsustainable industries, HSBC has progressively strengthened its sustainability lending policies and phased down its exposure to several high impact industries
- has policies in place to help mitigate deforestation risks linked to customers in the palm oil, soy, beef, leather and timber industries





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## AXA 6.379% PERP

### Investment case

- subject to Solvency II grandfathering, so will no longer contribute to solvency capital requirements after 2025
- already been subject to a tender offer once. Possibility that AXA utilises the make-whole call to clear up balance sheet
- AXA has shown a proactive approach to dealing with Solvency II grandfathered debt, we believe it will likely revisit these bonds soon

### Ethical summary

- has credible climate policies in place to manage climate-related risks in its exposure to fossil fuels in its investment and underwriting portfolios
- phasing out exposure to coal within its investments by 2040
- operates a women in insurance initiative aimed at closing the insurance protection gap, which is observable in both emerging and developed markets



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## PHOENIX 7.75% 2033/53

### Investment case

- attractive new issue that came to market in 2023, linked to a tender offer for two existing bonds that we owned
- management expected to decrease Solvency II leverage ratio from current level of 36% to 30%
- Solvency II shareholder capital coverage ratio sensitivities to a variety of risks are low in our opinion

### Ethical summary

- group-wide environmental policy and net-zero commitments in place. It has set a target to reach net zero carbon in its operations by 2025 and across its investment portfolio by 2050
- between 2019 and 2022, Phoenix Group achieved an 80% reduction in operational carbon emission intensity
- has a partnership with the Make My Money Matter campaign which encourages greater climate ambition across the investment sector

# TOP 10 CASE STUDIES

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## SANTANDER 2.25% 2027/32

### Investment case

- asset quality has remained robust whilst CET1 ratio remains above management target
- we feel the bond trades wider than justified, potentially due to the low reset if it were not to be called in 2027. However, we think the risk of a non-call is extremely low and more than compensated for by the valuation
- Santander has front-loaded the vast majority of issuance needed in capital instruments (i.e. AT1 and Tier 2) for 2024, so limited potential for new supply to result in credit spread widening

### Ethical summary

- has continued exposure to financing of industries with higher social and environmental risks, including forest-risk commodities. Santander was the first bank to join the Innovative Finance for the Amazon, Cerrado and Chaco (IFACC) initiative
- responsible banking strategy addresses climate change, access to basic financial services in underserved communities, and supporting higher and financial education. It includes targets for raising and facilitating green finance and interim decarbonisation targets for its high-carbon impact sectors as part of the bank's goal to achieve net zero by 2050



## ROYAL LONDON 4.875% 2039/49

### Investment case

- provided high spread duration during a period when spreads were elevated (through 2023) in a high quality issuer
- strong Solvency II ratio (using regulatory view) of 206%
- arguably receives less research coverage compared to many peers and we think as such trades on at an attractive valuation

### Ethical summary

- has reasonable employment policies and practices in place, including a diversity strategy, inclusion networks and wellbeing programmes.
- goals in place to reach net zero by 2050 and reduce carbon emission by 50% by 2030
- engages with both investee organisations and policymakers on climate risk



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## AXA 5.453% PERP

### Investment case

- subject to Solvency II grandfathering, so will no longer contribute to Solvency capital requirements after 2025
- strong Solvency II ratio of 227%
- since time of taking positions (end of January) we have seen AXA tender for these bonds, in line with our expectations

### Ethical summary

- has credible climate policies in place to manage climate-related risks in its exposure to fossil fuels in its investment and underwriting portfolios
- phasing out exposure to coal within its investments by 2040
- operates a women in insurance initiative aimed at closing the insurance protection gap, which is observable in both emerging and developed markets



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## LEGAL & GENERAL 3.75% 2029-49

### Investment case

- for a number of reasons we think the odds of a non-call in 2029 are very low, not least due to the high reset
- bond will fall to be sub 5 years to call at the back-end of this year, which could result in a positive technical picture for the bond
- Solvency II coverage ratio remains extremely strong at 224%

### Ethical summary

- released its climate transition plan in 2023 and has 1.5C aligned science-based targets in place, including an ambition to halve the carbon intensity of its investment portfolio by 2030
- sustainability strategy has a focus on workplace culture, diversity and inclusion, supported by strong employment policies and targets for improvement

# TOP 10 CASE STUDIES

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## AVIVA 6.85% 2038-58

### Investment case

- bond was subject to Solvency II grandfathering, and as such we felt it was likely to be subject to a liability management exercise by the company
- instead, last year we saw Aviva pay bondholders 16 basis points to amend the terms of the notes to make them Solvency II compliant (assuming they voted in favour)
- since then the bond has contributed significant spread duration in a high quality issuer with strong solvency (Solvency II shareholder cover ratio of 207%)

### Ethical summary

- carbon reduction targets validated by the Science Based Targets initiative as being aligned with the Paris Agreement's target of meeting a 1.5C warming pathway
- launched its climate transition plan in 2022, outlining the steps it will take to reach net zero by 2040
- Aviva strives to be an inclusive workplace and its efforts have been recognised by external indices and assessments of social mobility and gender equality



## ROYAL LONDON 6.125% 2028

### Investment case

- provides attractive carry with limited duration risk
- history of being proactive in management of capital stack, such as with the tender of the 2043 bond alongside the issuance of the 10.5% RT1 bond
- strong Solvency II ratio (using regulatory view) of 206%

### Ethical summary

- has reasonable employment policies and practices in place, including a diversity strategy, inclusion networks and wellbeing programmes
- goals in place to reach net zero by 2050 and reduce carbon emissions by 50% by 2030
- engages with both investee organisations and policymakers on climate risk







# IMPACT FIRST ON SPECTRUM OF CAPITAL CASE STUDIES



## ALNWICK GARDEN TRUST

### Summary

The Alnwick Garden is an attraction in Northumberland that welcomes over 350,000 visitors a year, with 12 acres of magnificent gardens that contain the world's largest Taihaku Cherry Orchard and the world's largest treehouse.

The bond raised (undertaken through the Retail Charity Bond platform) helped to fund the construction of Lilidorei – the world's largest play structure.

The trust runs a number of programmes to support those within the region who need it most such as Elderberries (a programme that works with people over 55 to combat isolation) and Roots and Shoots (a programme that supports schools across the region to tackle childhood obesity).



## B4RN

### Summary

Broadband for the Rural North (or B4RN) provides broadband (at speeds that are among the fastest in the country) to underserved rural areas which tend to be overlooked by most commercial operators.

The bond raise was undertaken to help B4RN work with community groups more quickly and roll out their network in new areas faster.

Whilst government funding usually covers much of the build cost for a new community, the shortfall is raised by local community investment – this helps to ensure B4RN only extends its network into communities where there is demand and buy-in from the local community.



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## BURNHAM & WESTON ENERGY

### Summary

Burnham & Weston Energy Community Interest Company (CIC) is one of the largest community solar farms in the UK, with a 9.3MW solar array made up of nearly 36,000 solar panels. The project was accredited by the Feed-in-Tariff scheme in 2016 which guarantees a fixed price (rising with inflation each year) for electricity generated for 20 years.

The bond raised enabled the CIC to refinance a short-term higher cost bridging facility which was used to purchase the site – hence reducing interest rate costs and increasing the amount that can be contributed to a community benefit fund.

This community benefit fund supports projects that help tackle fuel poverty in the local area. It is expected over the life of the project an estimated £3m will be contributed to this fund.



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## CALIFORNIA ENDOWMENT

### Summary

The California Endowment is the largest health foundation in California. It is dedicated to expanding access to affordable, quality health care for underserved individuals and communities, and to promoting fundamental improvements in the health status of all Californians.

The Endowment issued a social bond in 2021 to advance racial justice and health equity in California.

Grants are made guided by three key ideas: people power, reimagining institutions and a 21st century health system for all. They are made to non-profit organisations, local government entities and faith-based organisations that welcome all members of the community.

# IMPACT FIRST ON SPECTRUM OF CAPITAL CASE STUDIES

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## CANAL & RIVER TRUST

### Summary

Canal & River Trust is the UK's largest canal charity and looks after 2,000 miles of canals and rivers across England and Wales, as well as being the third largest owner of listed buildings and other structures in the UK.

The bond issuance was undertaken to refinance existing debt and for general Trust purposes.

As part of their work, Canal & River Trust care for 1,000 wildlife conservation sites and over 300 conservation areas. They also deliver learning to over 230,000 children every year, with many taking part in one of their Canal & River Explores and Science, Technology, Engineering and Maths (STEM) programmes.

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## CHARITIES AID FOUNDATION

### Summary

Charities Aid Foundation (CAF) is one of the UK's largest charities, specialising in growing tax effective, safe and easy charitable giving.

The latest bond offer in 2021 by CAF enabled them to make a tender offer for their previous bond issuance (that was due for maturity in 2026) and for general purposes.

CAF operate the UK's largest payroll-giving scheme, support charities in over 100 countries and their regulatory and charity validation expertise helps to ensure funding reaches charities and partners safely and effectively.







## COIGACH COMMUNITY DEVELOPMENT COMPANY

### Summary

Coigach Community CIC owns and operates a wind turbine in Coigach, a remote peninsula in the Northwest Highlands of Scotland. The wind turbine was developed to create a regular income to support the community through a variety of projects.

The bond raise was undertaken to enable refinancing of existing high cost loans taken out to finance the construction of the turbine, hence increasing the contribution that can be made to the community through lower interest costs.

Over the life of the turbine it is estimated that it will contribute £4.4m to community projects through donations to Coigach Community Development Company (CCDC). In turn, the CCDC focuses its work on four main areas: housing, land & food, infrastructure and arts & heritage



## DOLPHIN LIVING

### Summary

Dolphin Living is an affordable housing charity, focused on supporting London workers on modest incomes who cannot afford housing near to their place of work.

The bond was raised through the Retail Charity Bond platform in 2017 to help the charity further its objectives, including the acquisition, development, and management of housing properties for rent.

In 2024 74% of their 838 homes were available for intermediate rent at an average discount of 40% to the local market rent, whilst a further 6% of homes are available at social and affordable rents, and to those who are statutorily homeless.

# IMPACT FIRST ON SPECTRUM OF CAPITAL CASE STUDIES

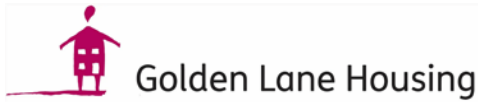
## GOLDEN LANE HOUSING

### Summary

Golden Lane Housing is one of the country's leading supported housing landlords for people with a learning disability or autism.

The social bond issued in 2021 helped to refinance an existing bond as well to finance the acquisition and/or adaptation of housing for people with one or more learning disabilities.

Golden Lane Housing provide over 1,300 homes across the UK to over 2,700 people. They offer a range of products that provide a variety of housing solutions, understanding that each individual's requirements will vary.



## GREENSLEEVES

### Summary

Greensleeves is a high quality care home charity that has been supporting older people for more than 20 years. It cares for over 1,200 residents across 28 homes.

The bond was raised to help further the provision of accommodation and care, refinance existing indebtedness and to redevelop of some existing properties.

22 of the 26 homes that had been inspected at the time of writing had received CQC ratings of good or outstanding. Care Quality Commission commitment, Greensleeves has a 'home for life' meaning that a resident will never be asked to leave if they run out of funding.





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## MASSACHUSETTS HIGHER EDUCATION ASSISTANCE (AMERICAN STUDENT ASSISTANCE)

### Summary

American Student Assistance (ASA) is a non-profit with a mission to help students know themselves, know their options, and make informed choices to achieve their education and career goals.

In March 2021, ASA secured a \$100m social bond to deepen their impact in reaching and engaging students, helping them make informed decisions and achieve life goals.

In 2022, ASA funded \$17.44m in programme activities with the use of bond funds and provided funding to 47 organisations, reaching nearly 13m students through in-person and digital direct-to-student programmes.



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## MEDIA DEVELOPMENT INVESTMENT FUND

### Summary

MDIF Media Finance I is a blended-value loan fund for independent news media companies in select emerging and frontier markets.

The proceeds were used to help fund independent media, with borrowers being established small and medium-sized enterprises in the media sector with high social impact, for whom funding is unavailable.

Through the life of the note, loans were provided to 19 media companies in 16 countries. 23m people receive their news and information from MDIF Media Finance, with 100% of the portfolio allocated in countries where the media environment is not good, according to the World Press Freedom Index published by Reporters Without Borders.

# IMPACT FIRST ON SPECTRUM OF CAPITAL CASE STUDIES

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## THE NATURE CONSERVANCY

### Summary

The Nature Conservancy is a global environmental non-profit, working to create a world where people and nature can thrive.



They issued a \$350m green bond in 2022 to help advance conservation projects that will make the greatest impact for the planet. At the time of issuance, it was the biggest green bond to have been issued to support non-profit conservation.

Since issuance, \$230m of the green bond proceeds have been allocated to 44 projects. As part of this, 132,179 hectares of land has been protected, 602km of rivers protected and 466 hectares of ocean protected.

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## NOTTINGHAMSHIRE YMCA

### Summary

Nottinghamshire YMCA is the largest YMCA in the Midlands. With a focus on healthy living, youth development and social responsibility, it provides services across Nottingham City, Nottinghamshire County and the East Riding of Yorkshire.



The bond was raised as part of a larger combined funding package to fund the construction of phase 2 of the YMCA Community and Activity Village.

This facility is seeing over 100,000 visitors a year and has created over 130 job opportunities. It offers a variety of sporting facilities, an education wing and childcare facilities for up to 92 children.



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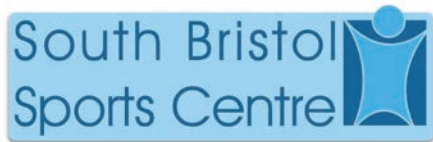
## SOUTH BRISTOL SPORTS CENTRE

### Summary

South Bristol Sports Centre provides sports, leisure and recreational facilities for communities in and around Bristol.

The bond was raised to fund a project involving building five-a-side football pitches, resurfacing an AstroTurf pitch and relocating a bowling green.

The project delivered various positive outcomes including the pitches being utilised across a number of social inclusion activities and the formation of a Youth Council.



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## THERA TRUST

### Summary

Thera is a group of companies that support adults with a learning disability to have control over their own lives.

The 2018 bond was raised to help refinance an existing bond and also to purchase up to an additional 15 homes for 25 people.

Thera Trust supports over 3,000 people, offering direct care and support to over 1,800 with a 95% average overall quality rating, rated by assessors with a lived experience of learning disability.



# IMPACT FIRST ON SPECTRUM OF CAPITAL CASE STUDIES

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## TRIODOS BANK UK

### Summary

Triodos Bank provides a range of sustainable financial services, offering a broad banking service for sustainable organisations. It is a founding member of the Global Alliance for Banking on Values.

Triodos Bank UK became a wholly owned subsidiary of Triodos Bank in 2019 (having previously operated as a branch). This Tier 2 bond issuance provided a level of regulatory capital that, alongside retained earnings, was required to support their projected growth in lending.

Triodos banks has a dedicated website ([knowwheremoneygoes.co.uk](http://knowwheremoneygoes.co.uk)) that maps their borrowers, so anyone can pin-point the organisations Triodos finances by sector, region or postcode.

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## W.K. KELLOGG FOUNDATION

### Summary

The W.K. Kellogg Foundation, founded in 1930 as an independent, private foundation by breakfast cereal innovator and entrepreneur Will Keith Kellogg, is among the largest philanthropic foundations in the United States.

The foundation issued a social bond in 2020 as it became clear that with the impact of Covid-19, the Foundation's guarantees and community-based partners would require substantial additional financial resources to continue to carry out their missions.

The Foundation increased grant-making by 50% over two fiscal years following the issuance of the bond, responding to critical and urgent needs within communities created by the impact of the Covid-19 pandemic.





# ADDITIONAL INFORMATION

**ANY VIEWS AND OPINIONS ARE THOSE OF THE INVESTMENT MANAGERS, AND COVERAGE OF ANY ASSETS HELD MUST BE TAKEN IN CONTEXT OF THE CONSTITUTION OF THE FUND AND IN NO WAY REFLECT AN INVESTMENT RECOMMENDATION.**

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