



RESPONSIBLE INVESTING POLICY

Coutts

At Coutts our aim is to be a long-term, indispensable partner for our clients and help individuals, families and businesses thrive. We believe that embedding material environmental, social and governance (ESG) factors into our investment process will lead to better informed investment decisions. Our approach to responsible investing is therefore a cornerstone of our ability to deliver long-term, sustainable returns for our clients. This policy details how we incorporate sustainability into every step of our investment process.

OUR PURPOSE

Coutts Asset Management has as its purpose to secure our clients' futures by protecting and growing their assets, to remove or simplify the barriers to investing, and to reduce the climate impact of how we invest.

Coutts defines responsible investment as the integration of environmental, social, and corporate governance (ESG) factors into our investment processes and ownership practices.

We believe that ESG factors have the potential, over time, to have a positive impact on investment portfolios across companies, sectors, regions and asset classes. Strong corporate governance practices and management of environmental and social risks are important drivers to the creation of long-term shareholder value. The incorporation of ESG factors into our investment decision-making aligns well with our long-term investment horizon and our investment principles.

OUR COMMITMENTS

- We integrate material ESG factors at every stage of our investment process.
- At the start of 2020 we committed to two carbon reduction targets for all funds and portfolios managed by Coutts: a 25% reduction on all equity holdings by the end of 2021, of which we achieved an on average 38% reduction, and a 50% reduction on all holdings by the end of 2030, aligned with the Paris Agreement.
- In 2021 we set an ambition to reach net zero emissions across our investment funds and portfolio by 2050.
- We have applied an exclusions policy to our direct holdings and Coutts funds¹ which recognises business activity or involvement that is not aligned with our values or long-term climate commitments.
- We act as responsible stewards of the assets we manage on behalf of our clients, and engage with companies, funds, service providers and industry bodies and through investor initiatives to drive ESG integration and responsible behaviour.
- We aim to hold ourselves to the same standards as those we expect from our partners.

¹ Refers to the Coutts funds launched as part of our partnership with BlackRock, which include: Coutts US ESG insight Fund, Coutts UK ESG insight Fund, Coutts Europe Ex-UK ESG insight Fund, Coutts Actively Managed US Equity Fund, Coutts Actively Managed UK Equity Fund, Coutts Actively Managed Global Credit Fund

OUR FOCUS: ESG INTEGRATION

As stated above, we believe that responsible corporate behaviour with respect to ESG factors can generally have a positive influence on long-term financial performance. We therefore recognise that a broad range of financial and non-financial considerations may be relevant in making investment decisions.

We take a pragmatic approach to applying our responsible investment principles. We accept that those principles may at times have to be adapted to the local financial and legal environment, and the commercial imperatives a particular company may face. However, we always expect the companies in which we invest to comply with the legal and regulatory regimes that apply to them.

ESG factors are integrated into our decision making for all asset classes. We believe in a risk-based approach to setting priorities at both a strategic and fund level. When investing directly in equities, we assess ESG risks and opportunities as they relate to overall corporate performance and we look to identify and mitigate ESG factors that are, or could become, material to long-term financial performance. ESG risks are monitored throughout the life of the investment.

We encourage responsible behaviour through voting and engagement in the companies where we exercise control. In a typical balanced portfolio, we vote and engage directly on approximately 50% of holdings. We believe that engagement is an effective way in which shareholders can best effect positive change and enhance long-term financial performance. We identify engagement focus areas (available on [coutts.com](https://www.coutts.com)) through a detailed review of our holdings in order to prioritise key ESG issues using a risk-based approach, including relative risk and size of holding.

Direct engagement is done privately (with support from EOS at Federated Hermes) as we believe this is more effective than public engagement. Accordingly, we do not typically disclose the names of companies with which we have engaged but will report on overall progress in articles published on [coutts.com](https://www.coutts.com). We also make a number of case studies available upon request.

Funds managed by third parties make up a significant proportion of our client portfolios. When selecting funds, we undertake due diligence and assess the performance of each manager, which includes an assessment of their approach to responsible investing and stewardship. We receive regular reports from the asset managers and monitor progress. When investing in third-party funds, we delegate the day-to-day environmental, social and governance activities to our managers. Third-party fund managers vote at their discretion and, when exercising their vote, are encouraged to take into account the principles of good corporate governance. We encourage our managers to have due regard to the UK Corporate Governance Code and the UK Stewardship Code.

We acknowledge that endeavours to implement responsible investing practices will take time and perseverance. We are committed to continually improving our investment processes that underpin our approach to ESG integration and stewardship.

OUR APPROACH TO CLIMATE CHANGE

Climate change poses never before seen challenges to our planet, society, and economy, and will therefore drive huge change to the global financial system. As an asset manager looking after our clients' assets, we believe it is vital to understand the potential risks and opportunities that arise from climate change, and how we can use them to provide long-term value for our clients.

Climate change and its potential impacts are fed into our investment process. Examples of this include:

- We have set out our net zero strategy and published our short-, medium- and long-term targets that will help us align our assets under management with net zero by 2050
- When investing in third-party funds we consider how fund managers quantify climate-related risks and opportunities into their company selection process
- We engage with companies and funds to encourage the development of a credible plan to transition to Net Zero, including short-, medium- and long-term commitments
- Our voting activity in our Coutts funds is aligned with the goals set out by the Paris Agreement and we support shareholder resolutions that we believe encourage increased ambition by companies to align their operations and investment with the Paris Agreement
- We take part in industry working groups to set standards around how we can best incorporate climate change into investment processes, and we join collaborative engagement initiatives to encourage companies to reduce their emissions

We understand that tackling climate change is a long and uncertain process, which is why we believe that the most important thing to do is communicate our progress and our journey transparently. To do this, we use the voluntary disclosures set out by the Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD provides one of the most widely used and recognised sets of guidance for companies and asset managers to help them report the climate change-related risks they face. While we do not have complete information available, we are committed to improving our disclosure around climate risks in our portfolios to our clients and investors.

For more information on how we address environmental factors in our investment process, please see the Coutts Asset Management TCFD Statement, available on [coutts.com](https://www.coutts.com).

OUR APPROACH TO NET ZERO

In 2021, we set an ambition to achieving net zero emissions across our assets under management by 2050. This was supported by joining the Net Zero Asset Managers initiative.

The global alliance of the Net Zero Asset Managers initiative brings together 273 asset managers worldwide representing \$61tn (as of 31st May 2022) who have committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with the goals set out by the Paris Agreement to limit warming to 1.5°C. This includes a halving of net emissions by 2030, and net zero emissions by 2050. The 'net' element means that globally, by 2050, the absolute levels of emissions in the atmosphere stays constant. This can be achieved either through a reduction in emissions, or an increase in climate solutions such as tree planting or carbon capture and storage.

As part of our ambition to achieve net zero emissions across our assets under management (AUM) we have also published our Net Zero strategy and our short-, medium- and long-term targets. Our targets are as follows:

- We currently consider 89% of our assets under management (AUM) to be in-scope for net zero

- We aim to reduce the weighted average carbon intensity of our equity and fixed income holdings by 50% by 2030
- We aim to align 50% of our in-scope AUM with net zero by 2025, increasing this to 70% by 2030 (see details below)

More information on our net zero strategy, including our methodology, is available on *page 38*: [Net Zero Asset Managers Initiative - Initial Target Disclosure Report](#)

Aligning our AUM with net zero

As most of our investments are in funds, we assess the alignment to a net zero trajectory on a fund level. As part of our fund due diligence and review process we will assess funds based on the presence and robustness of their net zero strategy.

This is important because, while a net zero target reflects a company/fund’s end goal of reaching net zero emissions by 2050, it does not guarantee alignment with the Paris Agreement. Therefore, it is crucial that a net zero target is accompanied by a strategy that demonstrates that the company/fund is on a credible ‘net zero trajectory’ and reducing its emissions sufficiently and in a timely manner to keep the 1.5C limit within reach.

Our assessment, which is based on the assessment criteria set out by the Paris Aligned Investment Initiative’s [Net Zero Investment Framework](#) and adapted to fit within our investment context (i.e. investing through third-party fund managers) should help us align with net zero and strengthen our approach to climate risk while remaining globally diversified and exposed to a wide range of sectors.

The illustration below sets out the criteria we use to assess alignment with Net Zero. We will consider a fund to be on a net zero trajectory if it credibly meets the criteria of sections 3, 4 or 5:

1 - Not aligned	2 - Committed to aligning	3 - Aligning towards a net zero pathway	4 - Aligned to a net zero pathway	5 - Achieving net zero
	<ul style="list-style-type: none"> • Ambition: A long term 2050 goal consistent with achieving global net zero 	<ul style="list-style-type: none"> • Ambition: A long term 2050 goal consistent with achieving global net zero • Targets: Short and medium-term emissions reduction targets • Disclosures of emissions • Decarbonisation strategy: Plan setting out how emission reductions will be achieved 	<ul style="list-style-type: none"> • Ambition: A long term 2050 goal consistent with achieving global net zero • Targets: Short and medium-term emissions reduction targets • Disclosures of emissions • Decarbonisation strategy: Plan setting out how emission reductions will be achieved • Progress against decarbonisation targets • Capital Allocation Alignment: Show how company capex is consistent with global net zero emissions by 2050 	<ul style="list-style-type: none"> • Company/fund that is already achieving the emissions intensity required by the sector and regional pathway for 2050 and whose ongoing investment plan or business model will maintain this performance

SCREENING AND EXCLUSIONS

Our approach to responsible investing focuses on ESG integration and active ownership, as we believe that these are the most powerful ways we can drive change at the companies we invest in. However, there are certain activities that we perceive as inherently risky, unsustainable, or not aligned with our values, and which we therefore will not invest in at all.

For full details, please see our Exclusions Policy, available on [coutts.com](https://www.coutts.com).

STEWARDSHIP

We regard stewardship as integral to our investment process, and we believe that our focus on meaningful voting and engagement activity is inherently connected to our commitment to be a responsible investor.

- We vote globally at shareholder meetings where we can and where costs are not prohibitive
- For our Coutts funds we partner with EOS at Federated Hermes, who provide vote instructions and engage on our behalf in line with our Voting & Engagement Policy
- We also commit to engaging with our third-party fund managers to ensure they apply best practice standards of global stewardship
- Our voting and engagement activity is published on [coutts.com](https://www.coutts.com) on a quarterly basis

Coutts has been a signatory of the UK Stewardship Code since 2016 and complies with the 2020 UK Stewardship Code, which is available on [coutts.com](https://www.coutts.com).

CONFLICTS OF INTEREST

Our conflicts of interest policy is detailed in our Stewardship Policy, which is available on our website.

GOVERNANCE

Our approach to responsible investing has been reviewed and approved by the Coutts & Co Board and the Coutts Investment Committee. Responsibility for implementation lies with the Responsible Investing team and the Asset Management team as a whole.

COLLABORATING WITH OTHERS

Coutts has been a signatory of the UN-backed Principles for Responsible Investing (PRI) since 2018 and reports yearly on its responsible investing activity. We are also active supporters of Climate Action 100+, which aims to tackle climate change by working with the world's largest emitters. We are a signatory to

the Net Zero Asset Managers Initiative and a member of the Institutional Investors Group on Climate Change (IIGCC), additionally, we are a member of the Investment Association (IA).

We actively support transparency and good reporting from companies and the integration of ESG in investment decision-making processes by engaging with other bodies with similar goals. We engage with industry bodies and working groups in this developing sector.

Coutts is part of the NatWest Group, which is:

- Founding Signatory of the UNEP FI Principles for Responsible Banking
- Signatory of the United Nations Environment Programme Finance Initiative's Collective Commitment to Climate Action (CCCA)
- Member of the UK Sustainable Investment and Finance Association (UKSIF)
- Both Coutts and NatWest Group are members of the Sustainable Markets Initiative
- The first major UK bank to sign up to the Partnership for Carbon Accounting Financials (PCAF)
- Signatory of the UN Global Compact (UNGC)
- Signatory of the Science-Based Targets Initiative

DATA USE AND LIMITATIONS

We source our ESG data from external providers and undertake detailed due diligence through regular meetings and reviews of their methodologies. However, we recognise that there are issues in terms of availability, accuracy, quality, and comparability of ESG data. Our aim is always to communicate data gaps in a transparent way and make informed decisions based on the information we do have.

ADDITIONAL INFORMATION

The following documents are publicly available on our website:

- Stewardship Policy, including our statement of compliance with the 2020 UK Stewardship Code
- Exclusions Policy
- Voting & Engagement Policy
- Taskforce on Climate-Related Financial Disclosures (TCFD) Statement
- Asset-class specific guidebooks

If you have any questions on Coutts approach to responsible investing, please contact your wealth manager.

Last Updated: September 2022