Responsible capitalism

Benefiting society *and* investment returns

Rathbones
Look forward

Index

Foreword

Since pulling out of the global financial crisis, markets have been on one of the longest bull runs in history. Yet as wages stagnate, productivity slumps and living standards drop, large swathes of people in Western democracies feel left behind. Many of them are losing trust in capitalism itself.

Capitalism today is delivering returns for shareholders, but not in a sustainable way if the other stakeholders — employees, customers and the wider world — aren't sharing in the benefits or, worse, if they're paying a cost for delivering those returns. Using a parable of Prussian forests, our head of asset allocation research Edward Smith addresses this myopic focus on short-term measures of profit growth in a surprisingly relevant way. He sets out compelling reasons for every long-term investor to care about responsible capitalism — even if they don't necessarily care about the societal benefits.

Capitalism is the solution, not the problem

Despite its faults, capitalism is one of the great success stories of history. Capitalism isn't the problem, it's the solution — when pursued responsibly. We recognised the importance of responsible investing years ahead of our peers, and started managing ethical and sustainable portfolios in 1997. We dedicated a whole unit to the subject in 2004, when Rathbone Greenbank Investments was established, and were one of the early private wealth managers to sign up to the Principles for Responsible Investment (PRI) 10 years ago.

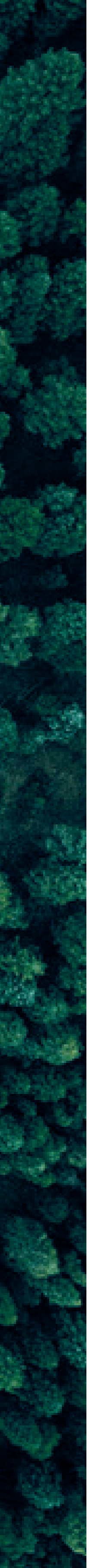
At the centre of this report our stewardship director Matt Crossman and governance and voting analyst Archie Pearson highlight our efforts to put this into practice over the past decade. They highlight the tangible benefits not just to our clients, and not just in financial terms, but to our wider society.

Matt then takes us to the origins of capitalism to show that 'responsible capitalism' is not a new concept. Capitalism is rooted in a social contract with a sense of purpose, and there is a great opportunity for healthy functioning, responsible capitalism to address today's urgent challenges.

A social contract

In essence we see true capitalism, what we're calling 'responsible capitalism', as a social contract between businesses, the state and consumers, working together for the maximum long-term benefit of all — as originally conceived.

We've achieved a lot over the past 10 years, and look forward to doing more to embed principles of responsible capitalism into our investment processes. This is the first in a series of reports exploring the 'whys, wheres and hows' of responsible investing.



A parable of responsible capitalism

by Edward Smith, head of asset allocation research

It's the middle of the 18th century and you are standing in a forest in what we now call Germany. There are elm and beech and alder and spruce and a cornucopia of mosses, lichens, shrubs, flowers and ferns. A mixed choir of birds fills the canopy with tumbling descants, while rabbits, frogs, slowworms and innumerable invertebrates dance below. Two children gather mushrooms from the thick forest floor while their mother collects kindling for the bread oven; their two domestic pigs forage for roots.

The scene is blissfully sylvan, like something from the paintbrush of Caspar David Friedrich. To the Prussian state that owned it, the forest was, at the same time, a flourishing, profitable source of wood.

It's now the end of the 19th century, and you are standing in the same forest. Only you wouldn't know it. The elm and beech and alder are gone, as is the cornucopia of flora and most of the fauna. It's eerily silent. There are no mushrooms for the children to gather, the forest floor is patchy and the soil is thin and grey. The villagers no longer live symbiotically with the forest: they no longer have a stake in it. Only row after regimented row of Norway spruce stand before you. And many of them look rather sickly.

What happened?

Forest management. Or mismanagement. The Prussian state and its managers looked through a vastly complex and poorly understood set of relations and processes that constituted the forest and, using a short-sighted fiscal lens, reduced the whole ecosystem to a single number: the annual revenue yield of timber. Everything that seemed unrelated to maximising yield from year to year was ignored (the birds or the fungi) and everything that was thought to impede production efficiency (domestic pasturage or the fertile underbrush) was eliminated.

But the vast array of elements and relationships that the state had resolutely dismissed as a source of wood came back to haunt it. Not seeing the forest for the trees – or the intricate environment that sustains a profitable resource – resulted in *Waldsterben*. Forest death. It turned out that most of those fungi, insects, mammals, 'weeds' and even humans mattered. Soil building and nutrient uptake depended upon them. Programmatically or accidentally acting as though they didn't while focusing single-mindedly on increasing the yields of monocultural grids of spruce was a mistake. Uniformity and a lack of diversity also made them highly susceptible to disease.

The grave consequence wasn't seen until it was too late. The first rotation of conifers in stripped-down monocultural forests yielded spectacular results. But this tremendous growth was built on the nutrients engendered by the previous regime. By the second or third generation, production losses reached 20–30%. And that's not to mention the many other negative consequences: villagers' standard of living was affected by a loss of pasture, foraged food and charcoal, for example.[1]

Everything is connected

You may well be wondering why an investment manager would expend 500 words on Prussian forests. Or Prussian anything, for that matter! Well, we think it serves as something of a parable for present-day capitalism. Like most parables, it's rather blunt – we don't think the current regime has resulted in economic *Waldsterben*. But economic growth, and productivity growth in particular, has fallen to worryingly low levels.

The incremental return on investment has plunged. In advanced economies, real wages have stagnated and inequality has risen. And that lowers economic growth further because the average worker has a higher propensity to spend additional income than the average wealthy capital owner (issues we've been addressing in earlier reports like *Under pressure*).[2] Altogether, this means lower interest rates and lower

In advanced economies, real wages have stagnated and inequality has risen. And that lowers economic growth further.

prospective returns on both equities and bonds, with investors lowering return targets or exposing themselves to a greater risk of loss as a result. Let's not make the same mistake as the 18th-century state and pretend that everything isn't connected. The whole ecosystem matters.

Unfortunately we believe that executives, shareholders and investment managers *have* acted like the Prussian state. At some point in the 20th century, the company and its *purpose* in society was resolved, like the forest, into a very narrow set of short-term profit metrics. And thereby the complex relations a firm has with society, the economy and the environment have been ignored or subordinated in the name of maximising profits from year to year. Like early-modern forest management, we believe that this reductionist strategy is short sighted. Alongside the many negative consequences for the broad socioeconomic ecosystem, it has jeopardised the opportunity for profit long into the future.

Acting in your own interest

We believe that executives and investors must consider a new approach, one that acknowledges that long-term profits depend on a diverse, thriving ecosystem. One that acknowledges that a healthy, well-paid, socially mobile workforce matters for market size and productivity;[3] that insurance losses from climate change-related events have increased fivefold in recent decades and that the environment and financial stability on which markets depend are connected;[4] and that companies are better off prioritising basic research and investment over financial engineering.[5]

This approach is not just a 'nice to have' or something for the altruistically motivated 'ethical' investment specialist. If you believe that the world works best when capital owners act in their own self-interest, this approach is still for you. The ecosystem matters for shareholder value over the long term. Societal problems and the prospective collapse of investment returns are one and the same. The solutions for society and for investors in need of higher returns are one and the same.

Don't confuse strategy with result

Indeed, the rewards may come quicker than you think. There is a now-substantial body of evidence to suggest that businesses with the most sustainable practices are better performing than their peers.[6] We plan to look further into the evidence for this in a future report.

Most of our clients are long-term investors. Many are endowments with infinite time horizons. Others are motivated by intergenerational wealth creation for their families. Therefore we must ensure that we do not diminish the investment returns of tomorrow, which are intimately linked to the investment decisions of today.

To be clear, we are not dismissing the notion of maximising shareholder value. But like Jack Welch, the idolised chief executive of General Electric in the 1980s and 1990s who in hindsight famously called it the "dumbest idea in the world", we believe it should be the result not the strategy. And the only way to sustain those results is to ensure that public companies maintain vibrant, symbiotic relationships with employees, customers, suppliers and natural resources — with society at large. Peter Drucker, one of the founding fathers of management science, said in the 1950s that the purpose of a business is to create a customer. This is done through marketing and innovation, but it also requires a flourishing socioeconomic ecosystem that creates jobs. Businesses and their investors have a stake in that ecosystem, make no mistake.

[1] This summary of the travails of Prussian forestry management is indebted to James C. Scott's *Seeing like a State*, a brilliant contribution to political science that contains many other examples of managerial processes of simplification and reductionism gone awry.

James C. Scott. *Seeing like a State: How Certain Schemes to Improve the Human Condition Have Failed*, London: Yale University Press, 1998

[2] See for example page 9 of 'Under pressure' at www.rathbones.com/Inflation

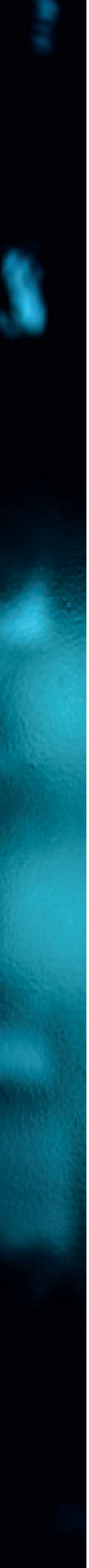
[3] James Heckman and Stefano Mosso. 'The Economics of Human Development and Social Mobility', NBER Working Paper Series, 2014

[4] Sarah Breeden, 'Avoiding the storm', Bank of England, 2019

[5] Mariana Mazzucato, *The value of everything: making and taking in the global economy*, Allen Lane, 2018

[6] Robert Eccles, Ioannis Ioannou and George Serafeim, 'The Impact of Corporate Sustainability on Organizational Processes and Performance', Management Science 60, no. 11 (2014): 2835-857; and Arabesque research.


THE TIME
IS ALWAYS
NOW



A decade of investing responsibly

Our stewardship director Matt Crossman and governance and voting analyst Archie Pearson tell us about putting responsible investing into practice over 10 years under the UN-endorsed Principles for Responsible Investment and where we go from here.

Matt, how did Rathbones first get involved in the PRI? And why?

Our involvement with the PRI goes back to 9 September 2009, when we wrote a letter to the UN marking our formal acceptance of the core six principles (see page 12). Our membership, in what was then a fledgling organisation, was something that very much resonated with Rathbones, given our history and culture, and that we very much wanted to be involved with.

When we signed up, Rathbones had around £10 billion in assets under management, compared to close to £50 billion today. Our membership was spearheaded by Rathbone Greenbank Investments, a team which has more than 20 years' experience in delivering specialist ethical and sustainable investment portfolios.

The decision to sign up to the PRI was a strategic one, supported by the wider organisation, to align with the principles and commit to building on our existing approach. The most important step was recognising that governance and other non-financial risks can be material factors in the determination of investment risk and return outcomes for our clients.

Today we are committed to progressing the responsible investment agenda, interpreting this in the context of individual client objectives and needs and ensuring that we adapt our approach to new information as increased disclosure on environmental, social and governance (ESG) factors becomes available.

What have Rathbones' clients gained from our PRI membership?

We've achieved a great deal over the past decade, during which time the signatories to the UN PRI have grown into their thousands, as we've sought to implement the core principles of responsible investment.

Our membership of the PRI has informed the evolution of our investment process in applying responsible investment. This has involved formalising our approach, first through the adoption of a formal stewardship policy and most recently the formation of a responsible investment committee.

We've worked on providing increased transparency and reporting on our progress in integrating ESG into the investment process, reflected for example, in the steadily improving PRI scoring (as you can see in the graphic on page 13). Our understanding of ESG risk has been enhanced through new

The value of your investments and the income from them may go down as well as up, and you could get back less than you invested.

data and research inputs and dedicated specialists working alongside analysts and investment managers. Together they interpret and apply ESG risks and opportunities as part of our overall and client-specific investment decisions. We believe our clients have benefited from this more robust risk analysis.

As active investors, engagement with the companies we invest in has always been part of our process, meeting regularly with company management and boards. The formalisation of our stewardship process and an ongoing commitment to education has helped us develop our knowledge and a clearer structure and consistency to our active ownership approach.

Rathbone Greenbank in particular has pioneered engagement with global businesses on a wide variety of ESG themes and it is clear that engagement has had an impact, incentivising more sustainable corporate behaviour around the world and leveraging the influence of Rathbones as a group.

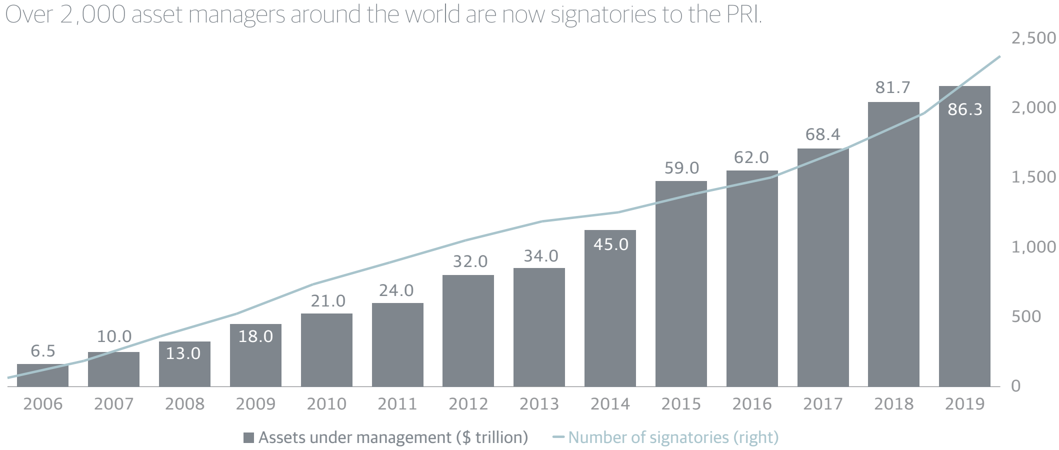
What have been some of the challenges you've faced, and how have you responded?

We were aware of the challenges of operating a detailed stance on ESG in private wealth management, where each client is treated as an individual, with their specific needs and requests met. It's quite a different approach to the founding PRI members, large pension funds who could take a top-down approach. In the first instance, we focused our time and energy on corporate governance, which we regarded as the most relevant area to most of our clients.

Our equity research analysts incorporate an evaluation of governance risk as part of their investment case, using non-financial data and information, and this is debated as part of our stock selection process. Interestingly over time various social and environmental issues have become governance issues, as governments have begun bringing in

Investors are becoming more responsible

Over 2,000 asset managers around the world are now signatories to the PRI.



Source: UN PRI.

legislation in areas like carbon footprint and gender pay gap reporting and supply chain transparency.

How have Rathbones' responsible investing activities developed over the past 10 years?

We've continued to build on our offering so clients can benefit from our research and insights into environmental, social and governance factors in portfolios. This has taken shape through the continued strength and growth of Rathbone Greenbank Investments, and our ability to screen out specific investment types where appropriate for clients. We have also established specialist fixed income and equity funds with clear and defined ethical and sustainability criteria.

We've been steadily increasing the proportion of our assets covered by some form of integrated ESG policy, reflecting the nature of our business. We are committed to build on our progress to date, and while we work on refining our processes further we'll continue to be involved in a wide variety of engagements under the PRI banner.

What other benefits have you seen from being a part of the PRI?

Collaborative action is a key element of the PRI, which has invested time and resources in the initial development of an 'engagement clearinghouse'. Its successor still operates as the PRI Collaboration Platform.

The clearinghouse was a forum for members to post proposed ESG engagements and seek support, and we have sought to take advantage of this opportunity to engage collectively with global peers. Through the work of the Greenbank team we became involved in a very wide range of topics and projects that we considered of interest to our clients. We were listed in 2014 and 2015 as one of the top 20 most active engagers on the PRI Clearinghouse, despite being relatively small compared with the others on the list. This reflects the energy and commitment of the staff involved in collaborative engagements.

Archie, what attracted you to Rathbones, and what should Rathbones be doing to ensure rapid progress in the next 10 years?

I've joined at an exciting time for Rathbones, and really enjoyed grappling with some of the ESG issues facing global businesses. In my first year I've worked on projects covering the risks from cybercrime all the way to the environmental impacts of the mining industry. Rathbones has an excellent reputation for quality ESG engagement and I've loved getting involved in the big issues facing investors.

In the next 10 years we plan to build on the rapidly expanding interest in ESG and responsible investment internally and externally. Interest in joining collaborative engagements is growing across the business, our industry and the wider world. I'm excited to see the impact we can have by engaging more staff on these issues and the opportunities we have as investors.

The timelines on pages 14 to 19 show some highlights of our engagement in our first decade under the PRI. This work has been led by the Greenbank team but is of increasing importance and relevance to our wider client base.

The six principles

Then-UN secretary general Kofi Annan convened a group of the world's largest institutional investors in early 2005, inviting them to start a process to develop the PRI. This panel drafted The Six Principles, which were launched in April 2006 at the New York Stock Exchange. When we joined the PRI, we asserted our belief in and commitment to the principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the principles.

Rathbones was awarded a top A+ PRI rating for Strategy and Governance for the third year running in 2019.

The evolution of our rating with UN PRI

Today

2019
A+ rating for Strategy and Governance
This is an overall rating for PRI-related policy and activities.

2019
B rating for Listed Equity — Incorporation
This is a rating for strategies related to equity investment.

2018
A+ rating for Strategy and Governance

2017
A+ rating for Strategy and Governance

2016
B rating for Listed Equity — Incorporation

2016
A rating for Listed Equity — Active Ownership
This rating for equity investment includes engagement activity as well as strategy.

2014
B rating for Strategy and Governance

2014
C rating for Listed Equity — Active Ownership

2014
D rating for Listed Equity — Incorporation

9 September 2009
PRI Membership begins

2009

10 years of engagement with the PRI

Led by Greenbank and growing through Rathbones

Environmental

Examining how a company's business activities impact the planet. Key areas include environmental policy and management practices; energy efficiency; climate change strategy; carbon intensity and greenhouse gas emissions; and disclosures.

2009 — **2014**

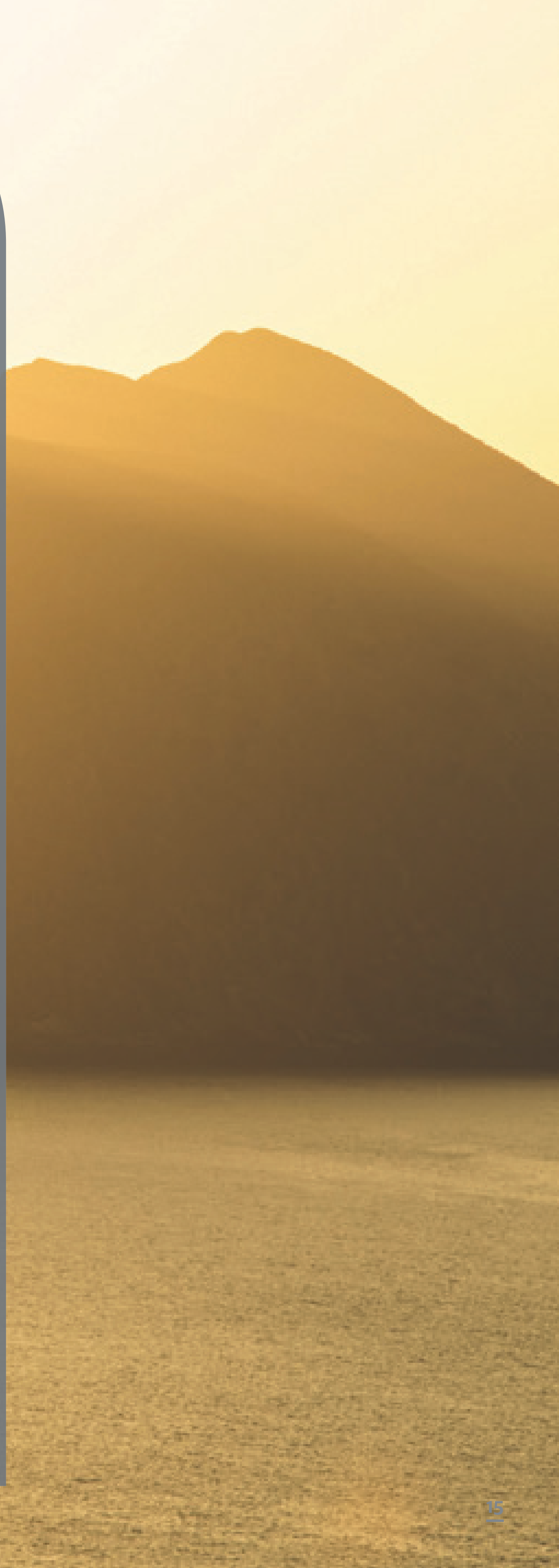
Challenging deepwater drilling
Wrote to oil and gas companies requesting improved management of the risks of deepwater offshore drilling and gas development.

Carbon Disclosure Project (CDP)
Joined with other PRI members engaging with laggard companies not reporting to the CDP.

Fracking
Joined Steering Group of the PRI co-ordinated engagement on fracking.

Corporate lobbying
Signed Investor Expectations document where investors stated that companies should be consistent in climate change policy engagement across all regions to help protect long-term portfolio value.

Offshore Arctic oil exploration initiative
Joined an initiative that aims to provide a strong signal from investment community about the need to protect the Arctic region from oil exploration.



Company meeting

Education

Policy influence

Partnership for change

Landmark event

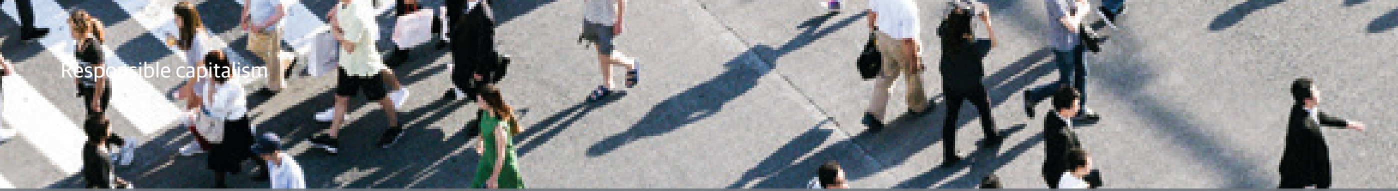
2019

Water risk disclosure for oil and gas companies
The PRI and PGGM created an investor statement on the importance of consistent water risk disclosure by oil and gas companies.

Methane risk
Joined efforts to create 'An investor's guide to methane risk' in 42 oil and gas companies. Joined Climate & Clean Air Coalition.

Deforestation in cattle supply chains
Engaging with companies to prevent deforestation in agricultural supply chains.

Climate change transition for oil and gas
This initiative asks companies to outline the risks they face due to constraints on oil and gas use.



Social

Looking at how a company's activities impact society. Key issues include working conditions, such as slavery and child labour; local communities, such as indigenous populations; health and safety; product safety and governance; and labour relations and diversity.

2009 — **2014**

UN business and human rights initiatives
Part of the PRI investor coalition supporting Special Representative John Ruggie's Guiding Principles on Business and Human Rights. Implementing the 'Protect, Respect and Remedy' framework.

Arms Trade Treaty
Joined 21 investors with more than $1.2 trillion in combined assets under management to call for an Arms Trade Treaty (ATT).

Human capital management
Spoke with 27 global retail companies to better understand their employee relations strategies and encourage better disclosure and performance on this issue.

Access to nutrition
Participated in a webinar hosted by the PRI about access to nutrition.

Inequality roundtable discussion
Participated in a discussion organised by the PRI's academic network on the topic of inequality.

Clinical trials
Participated in an investor briefing on efforts to improve pharmaceutical industry transparency on clinical trials data.

Company meeting

Education

Policy influence

Partnership for change

Landmark event

2019

Food security conference
Attended an investor education session hosted by the PRI on food security.

Labour practices in the agricultural sector
Signed a PRI statement establishing expectations on company policy, practices and disclosures, as well as risks related to labour in agricultural supply chains.

Australia Modern Slavery Act
Signed a statement supporting an inquiry into the establishment of a Modern Slavery Act in Australia.

Modern slavery engagement – letters to FTSE 100 companies
PRI signatories were invited to co-sign letters aimed at companies who were failing to report in line with the UK's Modern Slavery Act 2015.

Governance

Addressing issues related to how a company is run. Key areas include executive pay; board diversity and structure; capital allocation record; bribery and corruption; shareholder rights; political lobbying and donations; and tax strategy.

2009

Big banks and political lobbying
Part of a PRI webinar called 'How is corporate political influence wielded by the banking sector?'

Anti-corruption engagement
Joined a collaborative engagement on anti-corruption and anti-bribery with major multinational companies.

Corporate tax responsibility
Part of an engagement steering group on responsible tax through Rathbone Greenbank, providing guidance to PRI members on engaging with companies to enhance corporate income tax disclosure and encourage responsible corporate tax strategies.

Presented to the Global Compact Working Group on Anti-Corruption
Communicated investor expectations to senior leaders from global business.

Company meeting
Education
Policy influence
Partnership for change
Landmark event

2014 → 2019

Director nominations
One of 17 investors in dialogue with 24 companies in the US and France on this critical issue. Director nominations and elections represent some of the most fundamental ownership rights for shareholders – namely the right to appoint and remove board members to represent their interests in promoting long-term value creation.

Cybersecurity
Joined steering group of PRI engagement on cybersecurity. Responsible for leading engagement with Vodafone and helped write the investor expectations of companies on cyber risk.

Audit compliance
Submitted evidence to the UK Government review of the Audit Industry. The role of the auditor required re-invigorating following scandals including Carillion. We advocated for increased competition and better audit quality.

The origins of capitalism: a privilege with a purpose

Stewardship director Matt Crossman explains how the idea of a responsible capitalism – where firms exist for the wider benefit of society – is nothing new.

The pace may have accelerated in recent years, but the world has been in a period of rapid change since the start of the industrial revolution some 200 years ago. The transition to heavy fossil fuel use and electrification has created a scale of economic activity that would've been simply unimaginable then. But none of this would have been possible without the rise of something far more subtle: a legal structure – the corporation.

We take corporations for granted, but a vital ingredient of capitalism that makes corporations possible – that of a separate legal personality – is a concept with a long history. In the UK, it was originally religious orders that benefited from this separate legal identity, given directly from concession by the Crown. So from their origins, corporations held a privileged position, and one that was granted for a higher purpose.

The usefulness of the form saw such 'royal charters' extended to local authorities for public works, and then vitally to commercial organisations like merchant guilds. By the start of the 19th century, the ability to form a company was at the gift of Parliament, and these corporate entities finally gained a foothold with the passing of the Joint Stock Companies Act of 1844, more than a century later.

But importantly, the risks of these enterprises were still shared. Members of the companies granted under the 1844 Act were still liable for all the company's debts. The logical extension of granting a company legal personality – for example, its own name, capacity to be sued and to make investments – is that everything it makes, profits and losses, should be in its own name also. And so came this crucial development: limited liability.

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Increasing freedoms

This was when the world really changed. Not with the discovery of penicillin, nor the invention of the microchip, nor the internet, but with the passing of the Limited Liability Act 1855. This was the moment capitalism really took off.

The granting of limited liability to a wider class of companies in 1855 saw the introduction of labels such as 'Ltd' in the UK – that which we take merely as an identifier was originally intended as a warning label, a caution that in dealing with the organisation, the members' liabilities were limited. Once its assets are exhausted, those owed money cannot pursue the individual members.

A company limited by shares means each investor has limited their liability to the size of their investment. It is this limited liability – not being jointly and severally liable for the whole of the endeavour – which delivers the crucial freedom to entrepreneurialism and ambition. In the words of economist Ha-Joon Chang:

"Before the invention of the limited-liability company... businessmen had to risk everything when they started a venture. When I say everything, I really mean everything – not just personal property (unlimited liability meant that a failed businessman had to sell all his personal properties to repay all the debts) but also personal freedom (they could go to a debtors' prison, should they fail to honour their debts). Given this, it is almost a miracle that anyone was willing to start a business at all."[7]

> "Before the invention of the limited liability company... businessmen had to risk everything when they started a venture... it is almost a miracle that anyone was willing to start a business at all."

Using private capital for public good

The crucial point is what this granting of limited liability meant for investment levels. With downsides limited, companies were released to invest in nascent technologies, harnessing private capital to produce public goods. Take for example an electricity network. A sole trader wouldn't invest in a power station, lay down cables and find enough customers – there aren't enough hours in the day, nor a lender willing to entrust the large sums required to a one-man band.

But where a partnership might feasibly be able to deliver something workable, for a small proportion of an area, a utility grid for electricity requires a drastically bigger scale of investment, deliverable by corporations. Through limiting liability, you unleash innovation and risk taking (as well as speculation) with the result that, in the right regulatory environment, tremendous society-level benefits are achieved.

Great strides have been made in transport, electrification, communication, internet access, hygiene and healthcare, reducing

We believe investing in firms with a solid purpose can deliver benefits to society as well as maximising returns to shareholders.

child mortality, lifting people out of crippling poverty, increasing life expectancy and many other areas. They were all made possible by companies operating in capitalism.

Where do we go from here?

But where are we now, and will capitalism last another 100 years? Using my colleague Ed's metaphor, capitalism can be seen as an ecosystem – a set of complex relationships the firm has with society, the economy and the environment. And these relations need a system of institutions that fosters a mutually beneficial purpose of maximising prosperity for all (the aim of what we're calling 'responsible capitalism').

Adam Smith, known as The Father of Economics, was an early proponent of the tremendous gains to be made when individuals specialise, while also recognising that once that happens, they become mutually dependent. So companies play a vital role in coordinating and providing incentives for economic activity.

But Adam Smith also warned that limited liability could enable short termism and excessive risk taking, if corporate managers lacked the same "anxious vigilance" they would apply to their own cash.[8] For similar reasons, capitalism as it's practised today in Western democracies is not functioning as it should.

Capitalism has facilitated great investment in energy, technology, vital infrastructure and laid the groundwork for social mobility. But we know capitalism does not always allocate capital to the most useful areas. This is known in economic shorthand as a 'market failure' – an area where the true cost or value of an asset isn't priced in. For example, excess emissions from industry have long been known to be harmful, causing health problems and climate change, but the damage caused is not fully included in the price of the products, and so the damaging activity continues.

Are we adopting an appraisal of capitalism that is far too rosy? The banners at Extinction Rebellion protests regularly call for "system change not climate change". Free market capitalism in its current form is under extreme pressure.

We are not saying that capitalism is perfect. But we do believe that in its proper form, with a due regard to long term influences and a connection to its societal purpose, capitalism can drive human success and a flourishing planet like no other system.

Our society faces massive challenges – dwindling natural resources, climate change, ballooning inequality of pay, just to name a few – and increasingly people are demanding change. This is

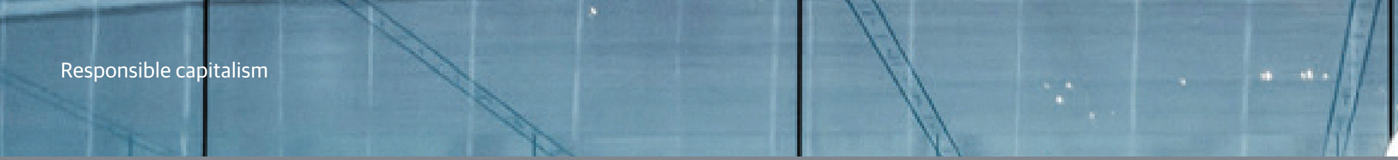
a massive opportunity for companies that can find sustainable solutions to our environmental conundrums, address inequality and offer sustainable products to customers that vote with their wallets. And this is no niche market; The Business and Sustainable Development Commission estimates that achieving the UN Sustainable Development Goals will create at least US$12 trillion in market opportunities.[9]

Yes, it's messy, but we believe investing in firms with a solid purpose can deliver benefits to society as well as maximising returns to shareholders. Capitalism has a future if it reconnects with this founding purpose – and if shareholders are encouraged to act with a view to the longer term. As long-term investors we must seek to do what is in the best interests of our clients. This includes investing responsibly, thinking through the true long-term costs of all assets we invest in and seeking sustainable returns. Echoing Ed's words, societal problems and investment returns are intimately linked; the solutions for society and investors are one and the same. We know we have much further to go, but we are committed to doing our bit for responsible capitalism.

[7] Ha-Joon Chang "23 things they don't tell you about capitalism" pg 12.

[8] A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations (Clarendon Press, Oxford 1976)* p.741

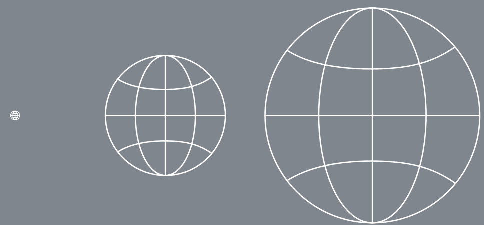
[9] http://report.businesscommission.org/report



200 years of the corporation; how the world has changed

We are connected

Global internet users since 1990.



1990
2.6
million

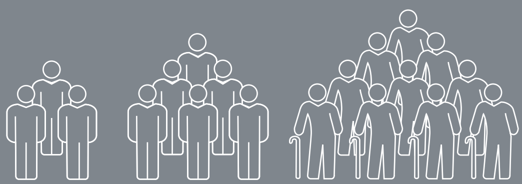
2010
2.0
billion

2016
3.4
billion

Source: World Bank, International Telecommunications Union

We live longer; there are more of us

Since 1800 average life expectancy has more than doubled; since 1945 the global population has tripled to 7.7 billion.



1800
32 years
990 million

1950
48 years
2.54 billion

2012
70 years
7.5 billion

Source: Our World in Data, World Population Review; World Health Organisation

We can travel

The number of UK rail passengers spiked after the introduction of the company and post privatisation.

Early trains
1860
250 million

The Big Four
1940
1.25 billion

Nationalisation
1980
750 million

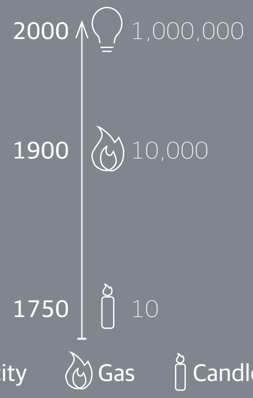
Privatisation
2019
1.75 billion

Source: Rail Delivery Group; Office of Rail and Road

We have power and light

Lighting technologies have developed dramatically since the 1700s.

Total lighting in billions of lumen hours



Source: Our World in Data, Fouquet and Pearson (2007) – Seven Centuries of Energy Services; The Energy Journal Vol. 27

We have some big challenges, and opportunities to invest in the solutions

It would take 1.7 planet Earths to regenerate the natural resources we consume in a year; sustainable solutions will be a huge area of growth for responsible capitalism.

1.7 planet Earths

Source: Global Footprint Network

We have inequality

Inequality of pay is ballooning; through our engagement with companies we are raising awareness and shareholders are increasingly voting against excessive pay.

1965	2016
22:1	**294:1**
CEO $902,000	CEO $16,030,000
vs	vs
Employee $40,900	Employee $54,500

Source: Economic Policy Institute; dollars adjusted for inflation

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The view from Rathbones: our roof terrace overlooking the City of London