Sarasin & Partners

Policy outreach, company engagement and voting report

Q2 2019

July 2019

Introduction

Investors in companies have an important shared responsibility in holding the board to account for the management of the business.

On behalf of our clients we are active in voting on matters put to shareholders, and we closely monitor investee companies and engage on issues of concern relating to corporate governance, capital structure and strategy. We do this because we believe that poor governance can adversely affect the returns for investors and, equally, good stewardship can lead to better returns over the long term.

As long-term investors, we also take an interest in the broader market environment in which companies operate. Where we perceive problems, and believe we can catalyse positive change, we will reach out to policy-makers and other key market participants to promote reform. Our objective is to shape the regulatory and market environment to support more sustainable economic growth.

Given the emphasis we place on responsible and active ownership, we aim to communicate openly with our clients and other interested parties about our activities. This report offers a window into our recent company engagement, policy outreach and voting activities.

Stewardship:
Policy and company engagement

Our engagement work with companies aims to address governance failures or strategic challenges with a view to protecting and enhancing shareholder value. It often takes place in confidence, but we aim to share key points and goals of recent engagements to ensure transparency and insights on our stewardship activities to our clients.

Alongside our company dialogues, we often have a unique opportunity to engage with policy makers to improve the regulatory and market environment in which companies operate. In these cases our aim is to promote rules and market-wide practices which encourage long-term and sustainable behaviour, which in turn will underpin sustained and equitable wealth creation.

Policy and company engagement in Q2 2019

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Company Engagements: EssilorLuxottica

Governance conflicts continue to be a concern at EssilorLuxottica this quarter, so we have increased our scrutiny and engagement effort. In a rather dramatic public spat, Hubert Sagnieres (Vice Chair and previously head of Essilor) issued a press release in March accusing Del Vecchio (Chair and controlling shareholder at Luxottica) of attempting to take over the company without offering any premium to shareholders. In response, Del Vecchio filed an arbitration request with the International Chamber of Commerce claiming Essilor executives had violated the merger agreement.

While we believe the merged entity offers attractive opportunities for synergies (estimated at up to €600m), for these to be delivered the Board needs to work together. Infighting between the Essilor and Luxottica camps is clearly unhelpful and, if it persists, could put at risk the broader business prospects.

For this reason, a group of investors put forward two external board candidates at the company's AGM in order to break the deadlock and ensure minority shareholders' interests are represented in the boardroom. We discussed with the two candidates their plans to bring the two sides back together and supported their appointment. While we were disappointed that the Board decided to recommend a vote against the proposed directors, and they therefore failed to receive over 50 percent support, the fact that a majority of independent shareholders supported their appointment sent a strong message to EssilorLuxottica's leadership.

In response, the Board signed a settlement agreement promising to accelerate the integration process and simplification of the group structure, with Del Vecchio and Sagnieres handing over some of their executive power to subordinates. While these are positive steps, they fall short of the required changes we believe are necessary. Following the AGM, we wrote our second letter to all the independent directors at EssilorLuxottica setting out the steps we expect the board to take, including appointing new independent directors that can truly represent the combined group; succession plan for Del Vecchio and Sagnieres; an accelerated of transition to a new Chair and Chief Executive and the appointment of a lead independent director to whom minority investors can turn for future dialogues. We will scrutinise their response carefully and continue to closely monitor the situation.

Market Outreach
Accounting & audit

This quarter we coordinated and published an updated position paper 'Investors need to know whether profits and capital are real'. It was covered by Financial News, and signed by a growing list of institutional investors. Critically, we have support from some of the largest and most influential asset owners and managers in the UK, including Legal & General Investment Management, Hermes Investment Management, Columbia Threadneedle Investments, the Local Authority Pension Fund Forum (as well as individual pension schemes like Brunel Pension Partnership Ltd and the Local Pensions Partnership).

The paper sets out the case for companies to be required to disclose the breakdown in their profit between that which has been realised in cash and near cash, as well as the calculation of distributable reserves. Critically, investors need to know that foreseeable losses and liabilities have been accounted for before dividends are paid.

The paper makes specific recommendations for the Government to correct past failures with our accounting and audit system, and has also been submitted as part of our more detailed response to the Government's inquiry into the quality and effectiveness of audit (led by Sir Donald Brydon).

Climate Change – our Paris letter

Following publication of our Climate Pledge in January, this Spring we wrote to 45 company Chairs where we believe there are material climate risks to the business. We have asked the directors to publish an explicit commitment to align the business with the Paris Climate Agreement's goal of limiting global temperature change to 'well below 2°C.

These letters also build on similar correspondence sent to Chairs last year. However, alongside an explicit commitment from Directors to align their strategies with the Paris goals, this year we set out our intention to link Board's climate action and risk disclosures to our voting decisions. In the end, we believe that it is vital that we reflect our concerns over material climate risks in how we exercise our votes on behalf of clients, and will be reporting to clients on this next quarter.

Plastics Commitment

Sarasin & Partners has formally endorsed the Ellen MacArthur Foundation's New Plastics Economy Global Commitment. The Commitment sets out six high-level goals for plastic packaging:

1. Innovate and redesign delivery model and packaging to eliminate unnecessary plastic packaging;
2. Reuse plastic where relevant;
3. All plastic packaging to be 100% reusable, recyclable or compostable
4. No plastic packaging should end up in the environment (i.e. fully reuse and recycle plastic in practice)
5. Decouple plastic use from consumer consumption
6. Plastic package to be free of hazardous chemicals

It also sets out minimum requirements for businesses that become signatories, including:

- Implement the above 1-3 goals by 2025 and set an ambitious target to use recycled plastic content in packaging;
- Set a 2025 target to increase the volume and quality of recycled plastics; and
- Report annual and publicly on progress towards meeting their targets

As an endorser, we will use this Commitment to help us frame engagements with investee companies that are material users and/or producers of plastic. We will be developing and implementing these engagements over coming months, and will report to clients as we make progress.

Key votes and engagements Q2 2018

Investors in companies have an important shared responsibility in holding the board to account for the management of the business. On behalf of our clients we take seriously our voting responsibilities as we believe voting provides shareholders with an important lever for ensuring proper corporate accountability and responsible stewardship, which is a critical input into delivering better returns over the long term.

This table shows samples of how we voted on company resolutions during the period under review. It also explains the way we voted, and whether the resolutions were approved by shareholders or not.

Key votes for 2nd Quarter 2019

Company	Date	Resolution	How we voted for you	Result
Carnival plc	16 Apr 2019	Re-elect the chair of nomination committee	Against	Passed

We voted against the chair of the nomination committee because we do not believe the majority of the Board is independent. To act objectively and exert authority we believe the Board must consist of a majority of non-executive directors who are independent of management. The chair of the nomination committee has served for 32 years, which presents a material risk to his independence.

Percentage of votes cast for the resolution: 92% for, 8% against

Company	Date	Resolution	How we voted for you	Result
ING Groep NV	23 Apr 2019	Approve discharge of Management Board and Supervisory Board	Against	Passed

Last year's settlement relating to money laundering controls identified the 'tone from the top' as a factor in the Bank's failings and we are of the view that the management and supervisory boards were insufficiently attentive to these issues. We also have concerns about the ongoing suitability of a number of Board members in this context, which we have expressed, and as such have decided not to support the discharge of either the management or supervisory board.

Percentage of votes cast for the resolution: 67% for, 33% against

Company	Date	Resolution	How we voted for you	Result
EssilorLuxottica SA	16 May 2019	Elect directors proposed by an institutional shareholder	For	Failed

Since the completion of the merger in October last year, disputes between Essilor executives and the Luxottica's controlling shareholder, Del Vecchio, have become public. Relationships continue to deteriorate and the market is sceptical as to whether the two sides can work together to realise the promised synergies. We wrote to the independent directors earlier in the year but did not receive a response. We have therefore supported the proposal put forward by a group of institutional shareholders to appoint two independent board members in order to break the governance deadlock. While the resolutions failed, a majority of independent shareholders (not linked to the controlling shareholder) supported the proposed independent directors. We are continuing our engagement with the Board (see Engagement section).

Percentage of votes cast for the first proposed independent director: 44% for, 56% against

Percentage of votes cast for the second proposed independent director: 34% for, 66% against

Voting Summary Q2 2019

		2013	2014	2015	2016	2017	2018	Q1 2019	Q2 2019
Total number of company meetings		638	741	969	968	1,165	1,072	203	678
Total number of proposals		7,184	8,090	11,102	10,387	13,244	13,433	1,849	8,544
Votes cast	for	4,986	5,807	8,288	7,728	8,570	11,152	1,309	5,306
	against	1,418	1,332	1,631	1,681	2,354	2,611	287	1,889
	abstain	56	63	118	61	101	181	8	103
	withhold	173	126	85	84	83	79	0	96
	did not vote[1]	551	762	980	833	2,136	1,420	245	1,150

[1]We do not currently vote in jurisdictions in which share blocking and power of attorney requirements apply.

Further details are available upon request.

Contact:

Natasha Landell-Mills
T: +44 (0)20 7038 7000
F: +44 (0)20 7038 6850
email: natasha.landell-mills@sarasin.co.uk

Sarasin & Partners LLP

Juxon House
100 St. Paul's Churchyard
London EC4M 8BU

T: +44 (0)20 7038 7000
F: +44 (0)20 7038 6850

www.sarasinandpartners.com

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& PARTNERS