SARASIN
& PARTNERS

POLICY OUTREACH AND COMPANY ENGAGEMENT

Q1 2024

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.

POLICY AND COMPANY ENGAGEMENT

We undertook outreach to the UK's Prudential Regulation Authority (PRA) and to the Basel Committee on Banking Supervision. This built on our work promoting prudent capital stewardship in the face of climate change in the banking sector (including as co-chair of the Institutional Investors Group on Climate Change's Net Zero Banking Standard[1]). In both cases we aim to offer a long-term investor voice in favour of forward-looking climate risk management that reinforces the safety and soundness of the banking sector, and thus financial stability more broadly.

What are the risks?

Banks are exposed to climate risks through the loans they make to businesses and individuals. They are also exposed through their investments in equities and bonds. There are two categories of climate risks that could impact default rates on loans, or market prices of held securities.

First, the physical impacts from climate change, whether chronic – such as persistent drought or increased rainfall – or acute – such as flooding, hurricanes, heat waves or deep freezes – will likely lead to asset impairment, shifting consumption patterns and changing costs.

Second, the transition away from fossil fuels will also alter market dynamics in many industries, impact housing values etc, with ramifications for default rates. To take an obvious example, as the world weans itself off coal, coal miners face higher risks of default.

These risks are widely acknowledged in the banking industry, in part due to regulatory action requiring banks to produce reports on their climate risks and management processes. Despite this, few (if any) banks offer any visibility of the expected financial consequences from these risks. Similarly, few have provided a credible action plan for mitigating these risks.

Letter to the UK Prudential Regulation Authority (PRA)[2]

In January we turned our attention to engaging with policymakers to support our bank engagements. We coordinated a collective investor letter to the Bank of England's PRA, which was co-signed by 10 of our clients alongside 11 European pension schemes and asset managers. It set out our support for the PRA's efforts to promote greater resilience in the banking sector to climate risks. It also highlighted our concerns about the lack of bank disclosure on their exposure to climate risks.

In addition, it asked that the PRA consider further actions that can equip long-term investors to play a more supportive role in building bank resilience to climate risks, including:

1. Explicit guidance to banks that they use severe but plausible scenarios that consider the latest scientific understanding on tipping points and other non-linearities;
2. Requirements for banks to disclose the key conclusions from climate stress-testing exercises they have undertaken, including implications for capital adequacy in more severe climate and transition scenarios; and
3. Proactive enforcement of existing accounting rules to ensure that material climate risks exposed in the internal climate stress testing work are properly reflected in banks' financial statements.

We pointed to our support for the PRA to advance its work on ensuring capital requirements were properly reflecting climate risks, to help incentivise risk mitigation in regulated entities.

Following a response from the Bank of England's Chief Sustainability Officer, we had a constructive discussion with PRA officials leading climate analysis and stress testing work to explore steps investors might take. We intend to continue this dialogue, drawing in other investors.

Submission to Basel Committee[3]

In March we provided a detailed submission to the Basel Committee's consultation on climate-related financial risk reporting. The Basel Committee is seeking feedback on its proposals to incorporate climate risk disclosures under Pillar 3 of the Basel Framework, which provides baseline regulatory and disclosure standards for banks globally. A decision to adopt the new proposals would offer a significant step forward in enhancing bank transparency around climate risk exposures, but faces considerable resistance from the industry.

[1] https://www.iigcc.org/banks-engagement

[2] https://sarasinandpartners.com/stewardship-post/investors-could-play-a-key-role-in-promoting-banks-climate-resilience/

[3] https://sarasinandpartners.com/stewardship-post/sunlight-is-a-great-disinfectant/

POLICY AND COMPANY ENGAGEMENT– CONTINUED

Our contribution to the consultation includes the following key points:

- Climate risks are unique in the scope of their impacts, uncertainty and irreversibility. We therefore urge a precautionary approach and early action to limit damaging outcomes.
- The soundness of the banking system depends on recognising and managing system-wide interactions. This requires a long-term mindset and capital requirements that reward effective climate risk management.
- Pillar 3 disclosures will be most effective if they build on prudent financial statements that include foreseeable losses and liabilities due to the physical or transition impacts of climate change.
- Prudential climate stress testing results should be disclosed and should cover banking and trading books. Without disclosure, investors cannot fulfil their role in holding banks to account for capital management.
- We suggest a net zero underpin for executives' performance-related pay similar to the capital adequacy underpin introduced following the 2007-'08 financial crisis.

Find It, Fix It, Prevent It investor representatives and Minister of State at DEFRA 05.03.2024

MARKET OUTREACH: STRENGTHENING THE UK'S SEASONAL WORKER SCHEME

As part of the Find It, Fix It, Prevent It investor collaboration, we met with the Rt Hon Mark Spencer, the Minister of State at the Department for Environment, Food and Rural Affairs (DEFRA) to discuss the pressing human rights concerns regarding the UK Seasonal Workers Scheme. The dialogue was comprehensive, delving into the intricacies of the scheme and its current shortcomings, particularly the cases of exploitation of migrant workers. We emphasised the need for robust measures to safeguard the rights and welfare of these workers. The discussion also highlighted the economic implications and the necessity for a sustainable approach that benefits both the agricultural sector and the workers themselves.

The meeting was constructive and it was clear that DEFRA was broadly supportive of our aims to improve the scheme. The Minister suggested that we write to the Home Office minister to put our case for better regulation. We have taken this suggestion on board, and the investor group will write to the Minister of State for Legal Migration and the Border in the coming weeks.

POLICY AND COMPANY ENGAGEMENT– CONTINUED

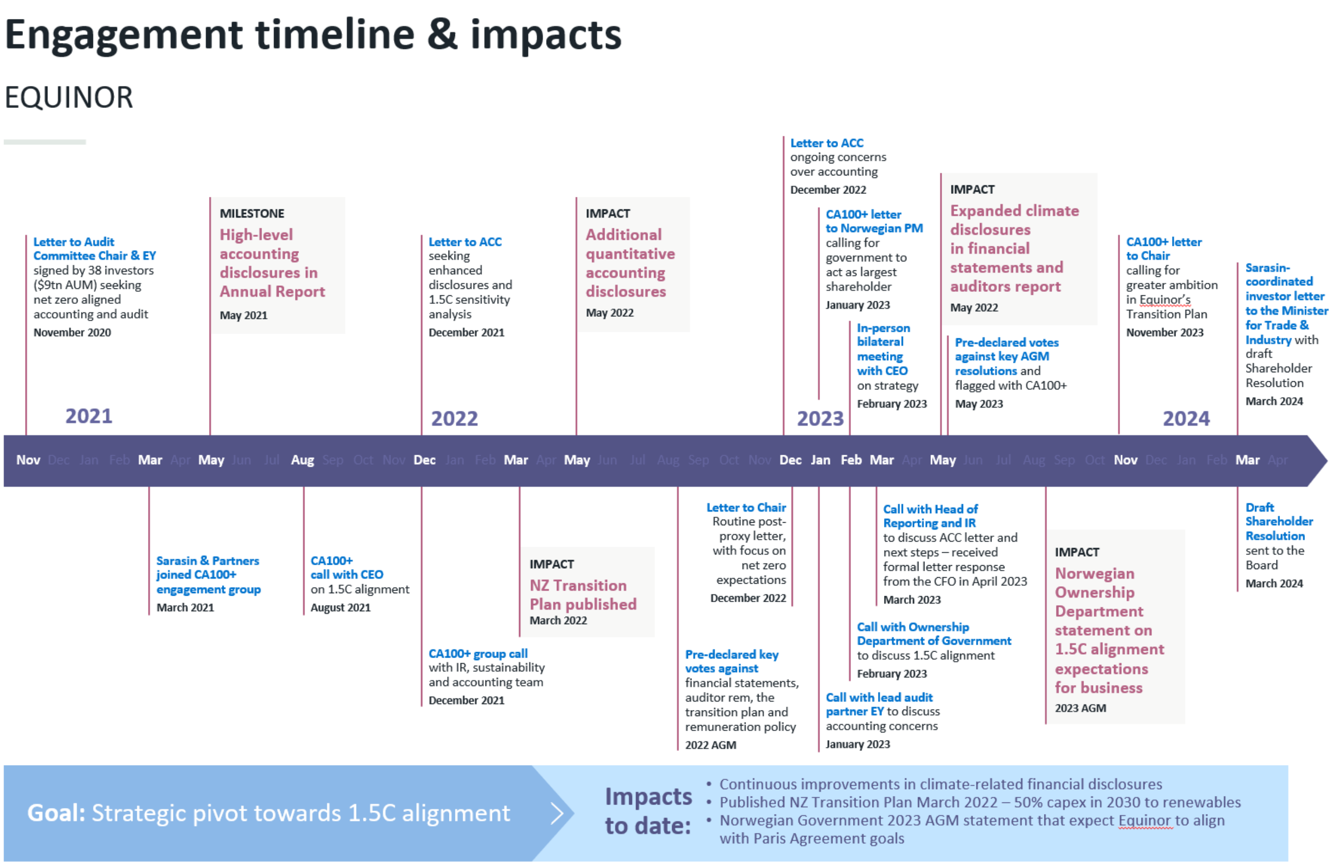
Company engagement:
Equinor

As a leading global oil and gas company, Equinor has been a priority engagement for us over the past three years. While we have welcomed important steps forward over this period, notably the publication of its Net Zero Transition Plan in 2022, we believe it can and should take more robust action to align its strategy with a 1.5°C-pathway. Indeed, we view Equinor as the best-placed global oil and gas major to demonstrate that a 1.5°C-transition is both technically feasible and economically sensible. As the world steps away from fossil fuels, oil and gas companies need to transition if they are to secure investor capital.

A key reason we view Equinor as a potential leader in fronting up to the transition is the fact that the Norwegian government, a vocal supporter of the Paris Climate Agreement, holds 67% of its shares. Our engagement with Equinor has therefore involved dialogue with the company and, in parallel, a conversation with the Norwegian Ministry for Trade and Industry, responsible for managing the state's shareholding.

Building on our past engagement (see timeline), we escalated our efforts in Q1. In preparation for filing a shareholder resolution at Equinor's forthcoming AGM in May, we coordinated a collective investor letter in March. The letter included signatures from several clients and was sent to the Minister for Trade and Industry, seeking a discussion on our proposed resolution. In parallel, we shared the draft resolution with Equinor's board.

Looking ahead, we hope to hold discussions with Equinor's board and the ministry in early April. Our preference would be for the board to agree to the resolution prior to the AGM, enabling us to step back from filing.



Source: Sarasin & Partners, March 2024

POLICY AND COMPANY ENGAGEMENT– CONTINUED

Proxy alert:
Rio Tinto

At the end of March, in keeping with the last two years, we pre-declared our vote ahead of Rio's upcoming AGM. This kicks off the 2024 voting season by demonstrating our ongoing willingness to hold boards and auditors to account for progress in building resilience to climate risks.

Company engagement:
DS Smith

DS Smith has been a longterm holding for Sarasin & Partners' clinets. It is a leading global packaging company, which has put sustainability at the core of its offering. As demand for circular packaging, less virgin plastics, and a focus on net zero continues to gather momentum, DS Smith views its expertise in this space as central to delivering sales growth; customer retention and margin expansion.

While we have continued to support DS Smith's strategy, we have raised a few governance concerns over the years. In Q1, we had a call with the Chair to discuss requests for the Board to ensure a fully independetn Nominations Committee (currently the CEO sits on this Committee); reinforce diversity within senior management; and strengthen remuneration. We also encouraged him to provide more quantitative data on the economic benefits that accrue to DS Smith from its net zero alignment and circularity commitments.

This was the first discussion with Chairman Geoff Drabble since he took up the role a couple of years ago.

We marked this engagement as an Impact on Board Diversity. DS Smith appointed a new female director in January. However, we expect that under the CG Code requirements, another existing female NED (Louise Smalley) will stand down in 2024 as she has served a nine-year tenure, so they will need to recruit to fill that role.

The change of auditor from Deloitte to EY was also a positive step and will help to bring new perspectives.

The succession of CEO Miles Roberts, which is due to take place by November 2025, offers an opportunity to make other changes that Sarasin has been advocating.

Company engagement:
Amazon.com Inc.

This quarter, we engaged with four Amazon representatives, including two ESG investor relations specialists and two corporate lawyers, during their European roadshow. This meeting followed the letter we sent to the Chair of the Nomination and Corporate Governance Committee urging progress on labour and human rights issues. The discussion concentrated primarily on exploring workers' rights, including health and safety of warehouse workers and relevant disclosures, and freedom of association.

We received a degree of comfort on the breadth of Amazon's regulatory reporting and additional health and safety disclosures, which they claim to be comprehensive. They also insisted that their health and safety performance compared favourably to industry peers. We maintain a level of scepticism due to the volume of claims filed against them, and would like to follow up further with respect to granular country level disclosures and a gap analysis. We also pressed for third-party audits and greater transparency of the findings. These requests were met with particular pushback.

We also discussed unionisation and allegations of anti-union behaviour. They stated that they are supportive of freedom of association, and that the actual degree of employee support for unions in their US operations is very low, with less than 0.04% of the workforce in favour. While some disputes over recent election results exist, they are not expected to alter the outcome. They also stated that the company is actively creating opportunities for employee engagement with management, and seeking feedback on work conditions. This approach will be monitored for indirect signs of employee unrest, extending beyond the issue of unionisation.

The dialogue with Amazon was productive, despite the inherent challenges in engaging with the company. However, while we see some signs of progress, there is still too much ambiguity for us to consider this engagement as having reached a milestone.

Company engagement:
Walt Disney

Over the past two years, Disney's financial performance has been poor, resulting in negative TSR for two years in a row, and underperformance of the S&P 500 by over 30% in the same time period. This, coupled with failures to ensure a successful succession to CEO Bob Iger on multiple occasions, suggests low effectiveness of the board. We can see that the Disney's board is predominantly made up of current or ex-CEOs, and we question their degree of involvement and ability to contest the powerful CEO (and ex-Executive Chair) Bob Iger.

POLICY AND COMPANY ENGAGEMENT– CONTINUED

CEO remuneration is another source of frustration. It increased by 43.5% in 2023, while TSR fell by 23.5% as a result of targets being set at a very low level. The performance-based element of equity rewards only contributed 57% of the total, while the rest is time-based. Furthermore, Disney's shareholding requirement of 500% is below our expectations.

Activist shareholders Trian Partners, led by Nelson Peltz, have renewed their campaign for board representation in 2024, nominating Peltz and former Disney CFO Jay Rasulo as alternative board candidates at the 2024 AGM. As part of our stewardship processes, we met with both the activist shareholder and the Disney investor relations to hear both sides of this proxy battle.

Our meeting with Nelson Peltz and his Trian colleagues allowed us to better understand not only his numerous frustrations with the Disney's board and management performance, but also his view of the needed changes. Peltz highlighted a need to reduce corporate management staff to improve P&L responsibility, while also suggesting that Disney should enhance their sales force. In addition, Trian wants to launch an urgent CEO search to ensure proper and timely succession to Bob Iger in 2026, when his newly renewed contract expires. They also believe that creating a position of COO for a potential successor would be a positive step as part of this process. Beyond their governance concerns, they sounded convincing in their aspirations to help the company to grow its business and margins.

Our call with the company investor relations representative did not add much to our existing knowledge of their strategy and their unwillingness to accept Peltz and Rasulo on the board on the grounds that the appointments would be distracting, disruptive and harmful for Disney. We discussed the apparently ongoing search for the new CEO, in which Bob Iger himself appears to be involved and the timeline is unclear. We also discussed Disney's recently announced $60bn capex spending plans for its Parks & Experiences segment, as well as a request for greater clarity on the long-term outlook for operating margins in the direct to consumer (DTC) segment.

We believe that electing a refreshed and potentially more effective board to ensure management accountability and CEO succession would be a good thing for the company. We have decided to support both Trian's candidates at the forthcoming AGM. We will again vote against remuneration and auditor appointment (given the extremely long tenure of PWC, the current auditor), as well as against the chairs of remuneration and audit committees (as an escalation), and a director whose skills are not very complementary to the desired board skillset.

Company engagement:
Siemens AG

As a follow-up to our 2023 post-proxy letter, we had a call with the Siemens investor relations team to discuss our concerns and hear their updates and views. We wanted to have a chance to speak with the board, but access has so far not been granted.

We articulated our rationales for the votes against management at the January AGM. One was related to the staggered board and we continued our discussion of this. They confirmed that other investors also raise this concern, though not as firmly.

On remuneration, we explained the recent change in our voting policy in line with their expectation (now 300% CEO shareholding requirement, down from 400%, which makes them aligned), but highlighted concern about LTIP shares vesting at below-median performance on relative TSR. They confirmed that that was other shareholders' main reason for voting against. They said they would bring this view up with the board.

We also raised the expectation that their Scope 3 emissions will be covered by their net zero commitment and decarbonisation targets. They explained their approach to reporting those emissions, which is more conservative than their peers' and, in the absence of standards, makes them compare unfavourably. We still insisted that additional disclosure around this and expressing the targets in percentage reduction terms would help. Finally, we commented that we expect better disclosure about the economics and ultimate impacts of climate change and the low-carbon energy transition in their financial statements. They took these points on board.

While this call did not yield an immediate result, we believe that such regular catch-ups are useful, as they enable us to push consistently for desired positive changes.

Further details are available upon request.

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