SARASIN
& PARTNERS

VOTING POLICY
UPDATE FOR 2020

We regularly review our voting policies to ensure they evolve with our thinking on corporate governance, and reflect our commitment to hold executives and auditors to account for their actions. As set out in detail in our Ownership Discipline, voting is one of the core levers shareholders have to ensure robust governance, so it must be handled with diligence and care. We need to have thoughtful policies to guide our votes, but we must also remain vigilant in diverging from these where unintended consequences become plain, or ongoing engagement demands a different approach. As we progress through the 2020 voting season, we wanted to share key changes we have implemented.

PROMOTING GREATER DIVERSITY

Our policy has been to vote against the chair of the nomination committee if a Board in the UK or in the US fails to ensure at least 25% gender diversity. We are now extending this policy to Western European countries. We believe that there should be greater balance in boardrooms not only because it is right but also because it helps underpin robust challenge and avoids herd-like thinking. This is particularly important in building business resilience as a diverse board is more likely to have considered potential challenges from a range of perspectives.

REMUNERATION THAT ALIGNS EXECUTIVES WITH LONG-TERM VALUE CREATION

Three broad principles underpin our approach to executive remuneration:

- Alignment with long-term value creation;
- Simplicity to ensure clarity around incentives; and
- Moderation when it comes to quantum.

We believe a high shareholding requirement that persists until – and to a degree beyond – retirement from a company is the most important mechanism to align executives with shareholders over the longer term. Our policy calls for a shareholding requirement of at least 400% of salary, which remains higher than levels commonly seen in many UK and European companies. Because executives tend to hold more shares in the US, we now require a shareholding requirement of at least six times salary in the US. We continue to expect a post-departure holding requirement to help protect against bad leavers.

We have long advocated for simple remuneration packages as the current structure across the market results in opacity. Different metrics are employed for annual bonus and long-term incentives and there are too many of them. Complex remuneration schemes make it hard for investors to understand what drive executive motives. Therefore, from 2020, we will vote against remuneration policies and reports where there are more than four metrics in the long-term incentive plans. We will also scrutinise pay metrics on a case-by-case basis and will vote against if we believe both the metrics and targets are too difficult to understand.

When it comes to quantum, we continue to examine in detail any chief executive's pay package that exceeds $15 million in the US and £10 million in the UK. In addition, from this year, we are looking more closely at pension contributions for the top executives. We believe the amount should be aligned to the general workforce, and we will vote against any remuneration policies and reports if an executive's pension contribution as a percentage of salary is not the same as that of the general workforce. Looking ahead we are exploring how we can extend our scrutiny of quantum to other markets.

PROMOTING ACTION ON CLIMATE CHANGE

We have strengthened our voting related to action on climate change as we believe this is increasingly central for all companies. We do not see this as the 'add on' that leading proxy advisory firms treat it as; rather it is core. Every company must think carefully about how it can contribute to ensuring planet stability. In line with this, Sarasin & Partners published its own Climate Pledge in 2019. Voting to support the Paris Agreement is a key part of our Pledge.

The main pillars of our voting commitments linked to climate change are:

Director accountability – While all directors should be held responsible for alignment with Paris, in 2020 we will be focusing specifically on the following directors:

- The Chair – where the company has failed to explicitly indicate their strategy to align with the Paris Climate goals.
- The Audit Committee Chair – where the company's Annual Report and Accounts fails to provide a detailed disclosure of governance, strategy and – critically – the financial statement impacts from climate risks. Alignment with the recommendations from the Task-force for Climate-related financial disclosures (TCFD) is important.
- The Remuneration Committee Chair – where the remuneration policy lacks a 'Paris-underpin' we will not support it. A Paris-underpin would permit the Remuneration Committee to block performance related pay that would otherwise be awarded for performance that runs contrary to the Paris Climate Agreement. We cannot support bonuses/LTIPS that are awarded for actions that worsen climate change.

Auditor accountability – Auditors have a key role in alerting shareholders to material mis-statements in the accounts, or inconsistencies between narrative disclosures and financial statements. We will vote against auditors (and their remuneration where relevant) that fail to indicate how they have considered climate risks in their review of the annual report and accounts.

Annual Report and Accounts – In line with policies on voting for the Audit Committee Chair and the auditor, we will vote against an Annual Report and Accounts where there is inadequate disclosure of material climate-related risks and their financial consequences, specifically within the financial statements.

Remuneration policy / report – As outlined above, we need to see details on how remuneration is adjusted to ensure performance-related pay is not made where activities are in contravention of the Paris Agreement. Small adjustments, such as a 10% weight in an LTIP scheme, would not be sufficient to warrant support if the overall package pays out for damaging activities. We are seeking a Paris-underpin.

These votes will apply to our internal Amber List, which is our list of companies materially exposed to climate risks. This list is reviewed on an ongoing basis.

IMPORTANT INFORMATION

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