SARASIN
& PARTNERS

POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q1 2020

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

COMPANY ENGAGEMENTS: ESSILORLUXOTTICA

This quarter EssilorLuxottica revealed a $200m fraud at an Essilor manufacturing facility in Thailand. While the size of the fraud is small compared to the market capitalisation of the company, we remain concerned over internal control deficiencies. We are also concerned that the fraud might exacerbate governance conflicts between Essilor and Luxottica directors. In March, the co-CEO and the co-CFO from Essilor resigned, suggesting further disquiet at senior levels.

Although the market responded well to reassurances provided by the company following the last Annual General Meeting (AGM) (as seen in the recovery of its share price at that time), conflicts between the two sides are not fully resolved. Consequently, we coordinated a joint investor letter to the Board this quarter, reiterating our previous asks: 1) put in place a succession plan for key Board members, 2) update to the market any progress of CEO search, 3) appoint a lead independent director with whom shareholders can discuss governance concerns, 4) consult with shareholders on executive remuneration and 5) provide a written assurance that directors' fiduciary duties would not be undermined by the terms in the Combination Agreement. This was our fourth letter, and it was signed by investors representing over 5% of the freely floating issued share capital.

We expect positive steps on these matters prior to the next AGM in June. Following last year's substantial support from minority investors for shareholder proposed independent directors, it is clear we are not alone in our concerns. We plan to escalate our engagement to press for a satisfactory response from the Board.

ENGAGEMENT: A SUCCESS – BARCLAYS COMMITS TO NET ZERO EMISSIONS BY 2050

the end of March, Barclays declared its ambition to align all of its financing with the Paris Agreement goals. The message is powerful: continuing to finance activities that undermine planet stability is not in anyone's interests, and certainly not shareholders. This is ground-breaking and the Board deserves to be commended.

This announcement has come as a direct result of a Shareholder Resolution that we co-filed alongside a group of asset owners and individual investors, and coordinated by ShareAction, and subsequent discussions with the Board. While Barclays is not held in Endowments, we have devoted resource to this engagement because it has strong potential to create a ripple effect. In short, we expect other banks to follow Barclay's lead, amplifying the impact across the world.

In making this commitment, Barclays has conceded that curtailing lending to fossil-fuel-based activities is vital not just for the planet, but also to minimise the risk to shareholders from stranded assets within the loan book. The Bank of England recently estimated that loan exposures to fossil fuel producers, energy utilities and emission-intensive sectors amounts to around 70% of the largest UK banks' Core Equity Tier 1 capital. In other words, an uptick in default rates in these sectors could materially reduce bank capitalisation.

What matters now is that Barclays' Board sets robust nearer-term targets that leave no doubt about its determination to deliver net zero emissions by 2050. Over coming weeks before the AGM, we will encourage other shareholders to support Barclays' ambition (which they plan to put to a shareholder vote), as well as our shareholder resolution.

MARKET OUTREACH

THE CORONA CRISIS AND WHAT WE ARE DOING ABOUT IT

As we write this quarterly update, the Coronavirus is foremost in our minds. The global pandemic is impacting every aspect of our lives, and already resulting in severe economic consequences. Figure 1 captures the magnitude of the impact for US employment. Inevitably, the most vulnerable in society will endure the greatest hardship.

While governments around the world are taking drastic steps to contain this outbreak, there is a role for the private sector. In many cases governments are requisitioning private assets, whether to build hospitals or scale-up virus testing, in others companies are voluntarily stepping forward to help. The scale of the response is comparable to mass mobilisations in war-time.

As asset managers, we also have a key role to play.

Above all, our duty is to keep our clients' savings safe. We are thus having regular calls with companies and stress testing all our exposed holdings to ensure they can weather this storm. As the economic fallout is broad-based, with recessions likely in major markets around the world, few will be spared. In line with our longer-term investment philosophy, we are also ensuring we keep focused on fundamental thematic drivers that should ensure resilience in the businesses we hold.

Alongside our stress testing work, we are also developing an engagement framework that reflects our commitment to be responsible stewards. In particular, we believe it is vital that we support your companies to respond in a way that contributes to long-term societal welfare, and does not detract from it.

As a first step, we are supporting the ICCR Investor Statement on Coronavirus Response, a global investor initiative, which sets out the following important principles to guide companies as they navigate this crisis:

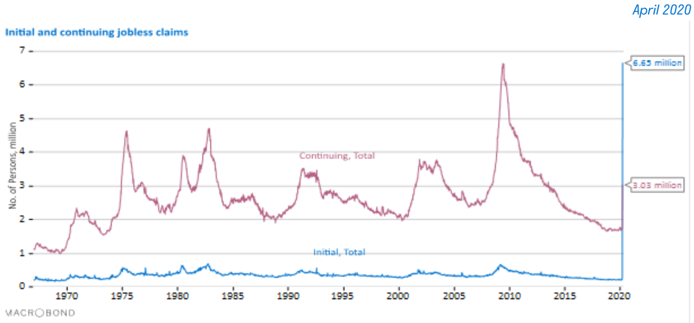
"...we urge the business community to take what steps they can and to consider the following steps in particular:

1. **Provide paid leave:** make emergency paid leave available to all employees, including temporary, part time, and subcontracted workers.
2. **Prioritise health and safety:** Workers should avoid or limit exposure to COVID-19 as much as possible. Potential measures include rotating shifts; remote work; enhanced protections, trainings or cleaning; ...and closing locations, if necessary.
3. **Maintain employment:** take every measure to retain workers as widespread unemployment will only exacerbate the current crisis.
4. **Maintain supplier/customer relationships:** maintain timely or prompt payments to suppliers and work with customers facing financial challenges.
5. **Financial prudence:** ...we expect the highest level of ethical financial management and responsibility...this may include companies' suspending share buybacks and showing support for the predicaments of their constituencies by limiting executive and senior management compensation for the duration of this crisis.

Each of these, of course, must be considered in light of the specifics of the company concerned. It is no good demanding employment is maintained, where this means the company becomes insolvent, for instance. Nonetheless, the message we aim to send is clear: companies must take a long-term and responsible approach, and seek to play their part in supporting staff, suppliers, and customers, such that these relationships can help underpin the business through the crisis and beyond. This is in investors' interests. Because we have a relatively concentrated portfolio, we are well positioned to take a company-specific approach.

FIGURE 1

Source: Macrobond, April 2020



Given this overarching framework, we are mapping our portfolio companies for their level of exposure to potential tensions with staff, suppliers, customers or indeed government. We are looking for possible issues that might arise due to excessive executive remuneration as well as dividends.

Based on these considerations, we will be reaching out to companies to understand how they are thinking about these issues, offering our support for a long-term approach and, where necessary, challenging behaviours we feel run contrary to our principles. As noted above, there is no simple formula for what is acceptable in these unprecedented times. It will require understanding of specific situations, and also good judgement. Above all, it will require a stewardship mindset.

VOTING POLICY UPDATE FOR 2020

We are regularly reviewing our voting policies (please see the Stewardship section of our website) to ensure they evolve with our thinking on corporate governance, and reflect our commitment to you 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. As we look to the 2020 voting season, we have:

- strengthened our policies are board diversity by extending our expectation that at least a quarter of Boards are female beyond the UK and US to cover Western Europe;
- tightened our requirement for share-ownership as a core aspect of remuneration policies in the US; and
- put in place a detailed set of climate-related voting rules that cover director accountability, auditor reappointment, remuneration-related votes and approval of the annual report and financial statements.

We would encourage you to review these changes, which we have published on our website, and get in touch if you have any thoughts.

KEY VOTES AND ENGAGEMENTS
Q1 2020

Investors in companies have an important shared responsibility in holding the board to account for the management of the business. We take our voting responsibilities on behalf of our clients seriously. 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.

The table below shows how we voted on company resolutions during the period under review. It also explains why we voted the way we did, and whether the resolution was approved by shareholders or not.

Company	Date	Resolution	How we voted for you	Result
Aramark	29 Jan 2020	Ratify auditors	Abstain	Passed

Last year we initiated an engagement with Aramark as we had significant concerns over the company's strategy, communication and executive remuneration. We wrote to the Chair twice and had a conversation with him asking the Board to clarify to the market its growth driver, and to review its portfolios and reduce CEO pay. We were glad that the Chair was receptive to our feedback and the Board has since taken a number of shareholder-friendly actions – new directors with strong food experience were appointed; CEO and CFO were both replaced and CEO's remuneration was cut by about 25%; and the new CEO gave a clear indication to the market what to expect of Aramark's strategy and growth drivers.

One remaining issue we asked the Board to consider is to change its auditor who has served since 2002, a period which we consider too long and would threaten its independence. The Chair explained that given the current transition of the company, changing the auditor at this point may be too disruptive. We abstained on the re-appointment of the auditor, and encouraged the Board to look for a new auditor as soon as practicable.

Percentage of votes cast for the resolution: 99% for, 1% against.

Company	Date	Resolution	How we voted for you	Result
The Walt Disney Company	11 Mar 2020	Advisory Vote to Ratify Named Executive Officers' Compensation	Against	Passed

We have voted against Disney's executive remuneration since 2017 given the egregious size of CEO pay. In 2019, then CEO (Bob Iger) took home $21m in annual bonus and received $19m in equity. In February 2020, Iger stepped down and was replaced by Bob Chapek, a long-time executive at Disney. We hope Disney's Board can use this opportunity to review the current compensation structure, and we will write to the Board expressing our discontent should the current quantum of executive pay continue.

Percentage of votes cast for the resolution: 53.8% for, 46.2% against.

Company	Date	Resolution	How we voted for you	Result
Shimano Inc.	26 Mar 2020	Elect directors	Against	Passed

We have continued to vote against all the executive directors (except the President) since 2017 given our concern over the lack of board independence. Only 3 of the 16-member Board are independent. Poor board independence is common in Japan and, despite a number of government reform proposals over the last five years, improvements in governance have been disappointingly slow. We had requested to meet the management in the past but we were rejected. We will continue to vote against the directors until there is an improvement in board composition and the company's responsiveness towards shareholders.

Percentage of votes cast for the resolutions: not disclosed.

VOTING SUMMARY

		2015	2016	2017	2018	2019	Q1 2020
Total number of company meetings		969	968	1,165	1,072	1, 228	168
Total number of proposals		11,102	10,387	13,244	13,433	13,373	1,459
Votes cast	for	8,288	7,728	8,570	11,152	8,732	1,064
	against	1,631	1,681	2,354	2,611	2,678	235
	abstain	118	61	101	181	129	7
	withhold	85	84	83	79	100	2
	did not vote[1]	980	833	2,136	1,420	1,641	151

[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
email: natasha.landell-mills@sarasin.co.uk

SARASIN
& PARTNERS

SARASIN & PARTNERS LLP

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

T +44 (0)20 7038 7000
sarasinandpartners.com