POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q2 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 ENGAGEMENT: ASSOCIATED BRITISH FOODS

In May we spoke to the Financial Director of Associated British Foods. Our concerns centred around 1) Primark's cancellation of all new garment orders and lack of commitment to pay for outstanding orders; 2) the possible withholding of rent payments from landlords; and 3) the health and safety of workers and customers during furlough and business reopening.

Our engagement with the company has reassured us in some areas but some issues remain outstanding:

Suppliers – Whilst the company reversed their stance on paying their suppliers, and announced a new wage fund for garment workers, this followed a widespread outcry. Furthermore, the FD was not able to provide us with sufficient information on the operation of the wage fund for garment workers in the poorest countries. We are seeking more information.

Treatment of employees – We are broadly happy with the terms on which workers have been furloughed, although we would like more information on variations across jurisdictions. We also gained some reassurance that, as stores began to reopen, the company had strong health and safety controls. We continue to monitor the situation closely.

Landlords – We expressed our concern that their approach (unilaterally withholding rent) exposed the company to negative scrutiny.

Following our engagement, it has announced that negotiations with landlords on rents have "progressed", with most now paid or about to be paid. The company has also indicated the level of new orders to suppliers. Nevertheless, we intend to formally write to the Board Chair with our outstanding concerns around the wage fund for garment workers, and any future support.

COMPANY ENGAGEMENT: BLACKROCK NEEDS TO DO MORE TO ALIGN WITH PARIS

In June, we hosted a collective investor call with Blackrock to discuss a letter we sent to the Chief Executive, Larry Fink, in February. The letter – which represents an escalation in our ongoing engagement with the Board – was signed by sixteen investors. First, we asked that Blackrock votes against directors not setting out a commitment to align with Paris. Second, Blackrock needs to vote against audit committees and auditors where accounts are not aligned with Paris.

Our engagement follows an announcement by Mr Fink in January that they intend to put sustainability at the heart of their process. We welcomed that commitment, but we were underwhelmed by their proposed actions. The lack of explicit commitment to vote against directors where strategies are not consistent with a 'well below 2C' pathway removes a key sanction for inaction.

While Blackrock has now said that it will start to use its voting powers, the commitment is vague. Moreover, their primary consideration is whether companies are publishing Task Force of Climate-related Financial Disclosures (TCFD) and Sustainable Accounting Standards Board (SASB) reports. Reporting alone – while positive – is unlikely to deliver Paris-alignment.

Secondly, we asked that they vote against audit committee directors and the auditor reappointment where companies' financial statements are not Paris-proof. This is because until the accounts on which management relies to monitor performance and capital are adjusted to reflect material climate risks, behaviour will not be Paris-aligned.

MARKET OUTREACH

BP RIPPLE EFFECT

This quarter we saw further success with our outreach to oil and gas companies. In June BP surprised the market by announcing that it would lower its long-term oil and gas price assumptions used in its accounts to reflect accelerating decarbonisation, resulting in an estimated impairment of between $13.5 and $17 billion.

Not only is this precisely what we have been pressing BP's audit committee and auditors to do, but BP's decision has the potential to generate a powerful chain reaction to other companies. The more companies' financial statements are Paris-aligned, the more company behavior will be Paris-aligned. This is because these numbers are key to driving capital allocation.

BP's latest decision builds on our existing success with Shell, BP and Total. In November 2019, we coordinated investor letters to each company and their auditor setting out our expectation for Paris-aligned accounts. We asked specifically that critical accounting assumptions, such as their long-term commodity price assumptions, reflected ongoing and accelerating decarbonisation. We pointed to recent guidance from the International Accounting Standards Board as well as the UK's Financial Reporting Council, backing our call for the inclusion of material climate risks.

The impact of our engagement was evident in the companies' 2019 Annual Reports. All three have now included decarbonisation as a factor in long-term commodity price assumptions, and then lowered these assumptions, resulting in impairments. The auditors for BP and Shell provided detailed disclosures on how they considered climate risks in their Key Audit Matters.

Notwithstanding these improvements, they still had further to go to ensure Paris-alignment, as now demonstrated by BP's announcement. In its 2019 Annual Report, BP lowered its oil price to $70 per barrel from $75, but kept its gas price at $4 per mmBtu. Their auditor, Deloitte, highlighted that these assumptions were above what could be considered Paris-aligned. BP decided to act: it has now lowered its oil price to $55/bbl and its gas price to $2.90/mmBtu.

We now need to see others follow suit. We released a collective investor statement – representing £2.7 trillion in assets – welcoming BP's move. We also released the original letters sent to the companies. We have seen widespread media coverage, and are seeing signs of a ripple effect across a broader array of companies and geographies.

THE CORONA CRISIS AND WHAT WE ARE DOING ABOUT IT

We identified eight high-priority companies based on their exposure to potential tensions with staff, suppliers, customers or regulators. This quarter we added an additional company, Sonic Healthcare, based on concerns around their labour management practices.

We have reached out to these companies, seeking responses to our questions, and setting out expectations in line with the ICCR investor framework on coronavirus.

Those who have responded have generally been open and willing to discuss their challenges and the steps they are taking. We have gained reassurance on a number of issues, including the physical wellbeing of workforces.

We have also gained comfort that the companies we have spoken to have not been using employee furlough schemes in an unjustifiable manner. Companies have generally elected to furlough employees rather than undertake widespread layoffs. Where possible companies have reallocated employees to less affected areas. The terms of employee furloughs have varied widely by region, with operations in the UK and continental Europe having greater access to government wage support. Some companies, such as Marriott and Compass, have sought to provide additional benefits and allowances in regions where government support is limited or non-existent.

The picture with respect to excessive executive remuneration is less clear. While most companies we have spoken to have made direct cuts to executive salaries, very few have made cuts to long-term incentives. However, most companies have indicated that in light of the crisis they do not expect existing long-term incentives to pay out. Some have indicated that they are looking at executive remuneration closely.

We will be following up with companies who have not yet responded. Additionally, where we have identified unresolved issues, we will follow up by reaching out to the Board there.

TABLE 1

	COMPANY	SECTOR
1	Aramark	Accommodation and food services
2	Compass Group	Accommodation and food services
3	Marriott	Accommodation and food services
4	Associated British Foods	Consumer staples (food and clothing)
5	Reckitt Benckiser	Consumer staples (household products)
6	Amazon	Consumer discretionary (online retail)
7	Disney	Communications (Entertainment)
8	Booking Holdings	Communications (Travel)
9	Sonic Healthcare	Healthcare

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
JPMorgan Chase & Co.	19 May 2020	Elect the combined Chair and CEO	Against	Passed

We voted against the Executive Chair, Jamie Dimon, due to the following concerns: 1) Dimon is the combined Chair and CEO and yet the Board do not appear to have a strong lead independent director (LID). The current LID has been in this position for nearly 20 years, meaning that he is not in a position to provide independent challenge, in our view). Moreover, there remains significant uncertainty over succession planning for Dimon and recent health issues make this more urgent; 2) We have been engaging with the bank on climate change (letters in 2018 and 2019) and JPMorgan has failed to take sufficient action to ensure its financing activities are aligned with the Paris Agreement. As the biggest lender to the fossil fuel sector, including some of the most carbon-intensive activities, we see a Paris commitment as a precondition for our support.

Percentage of votes cast for the resolution: 95.2% for, 4.8% against

Company	Date	Resolution	How we voted for you	Result
Amazon.com, Inc.	27 May 2020	Report on Global Median Gender/Racial Pay Gap (Shareholder resolution)	For	Failed

Diversity is a very important subject in the technology sector as various algorithms and products could inherently create bias against race or gender because either the developers are biased or the data is biased. Given technology is touching our everyday lives, big technology companies such as Amazon have the duty and responsibility to promote diversity. One way to do it is to ensure any pay gaps due to race or gender are eliminated. While Amazon has been disclosing pay equity data since 2016, we encourage the company to disclose median gender/racial pay gap figures as these numbers paint a better picture on how employees of different gender and race have progressed within the organisation. While a global number is unable to provide complete picture, we believe the company can explain this number rather than avoid reporting on this number at all.

Percentage of votes cast for the resolution: 15.3% for, 84.7% against.

Company	Date	Resolution	How we voted for you	Result
EssilorLuxottica SA	25 Jun 2020	Approve compensation of the Chair and the Vice-Char	Against	Passed

We have been engaging with the company since the completion of the merger in October 2018 and the emergence of a governance deadlock at Board level. While the Chair and the Vice Chair had agreed a settlement at the AGM in 2019, the company has not made any noticeable improvement in governance since then. The company still lacks a permanent CEO, and there is no lead independent director to act as a communication channel for minority shareholders.

We have written to the Board four times and have received one reply, which does not provide us with sufficient comfort that the Board is addressing our concerns. Before the AGM in 2020, we wrote to two French regulatory bodies – the Autorité des Marchés Financiers and the Haut Comité de Gouvernement d'Entreprise – raising our concern that the company's current governance arrangements have impeded directors in carrying out their duties in the best interest of shareholders. We have not had a formal response yet.

At the AGM we voted against the remuneration of both the Chair and the Vice-Chair, as a protest that the company has not been willing to engage with shareholders, as well as to reflect our ongoing concerns related to the company's remuneration policy.

Percentage of votes cast for approving compensation of the Chair: 85.8% for, 14.2% against
Percentage of votes cast for approving compensation of the Vice-Chair: 81% for, 19% against

VOTING SUMMARY

		2015	2016	2017	2018	2019	Q1 2020	Q2 2020
Total number of company meetings		969	968	1,165	1,072	1, 228	168	378
Total number of proposals		11,102	10,387	13,244	13,433	13,373	1,459	5,401
Votes cast	for	8,288	7,728	8,570	11,152	8,732	1,064	3,576
	against	1,631	1,681	2,354	2,611	2,678	235	1,090
	abstain	118	61	101	181	129	7	82
	withhold	85	84	83	79	100	2	72
	did not vote[1]	980	833	2,136	1,420	1,641	151	581

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

Further details are available upon request.

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