

# Annual SRI conference from RSMR in collaboration with SRI Services, Sarasin & Partners and EdenTree

Has COVID-19 provided a global reset button?

Tuesday 29 September: 10:30 – 12:15



# Schedule

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10:30 - 10:40	Welcome: Geoff Mills	Director, RSMR
10:40 - 11:00	Julia Dreblow	Director, SRI Services
11:00 - 11:20	Alex Bibani	Fund Manager, Sarasin & Partners
11:20 - 11:40	David Katimbo	Fund Manager, EdenTree Investment Management
11:40 - 12:00	Stuart Ryan	Investment Research Manager, RSMR1
12:00 - 12:15	Wrap up and Q&A	
12:15 - 12:30	Close	

**SARASIN**  
& PARTNERS

# RSMR ESG Seminar

Alex Bibani, Fund Manager- Sarasin & Partners

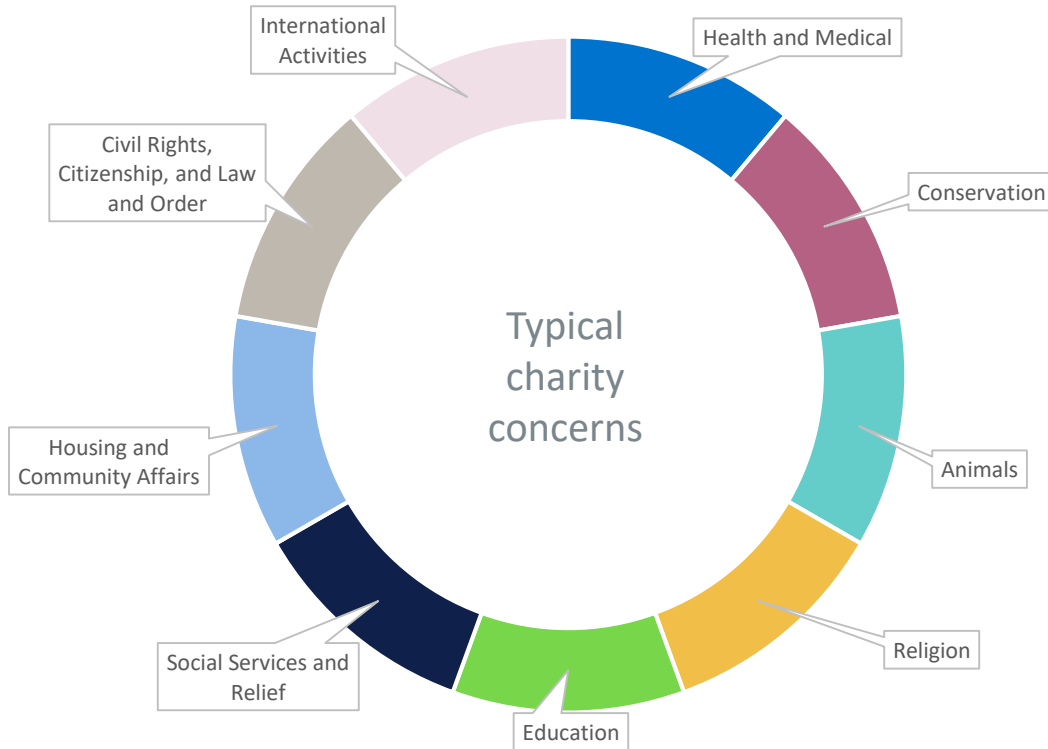
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This document is for investment professionals only and should not be relied upon by private investors.



# About Sarasin & Partners

A heritage of investing for charities – considering a library of non-financial issues



- Long-term investment horizon
- Concern about how returns are generated
- 'Ethical' mindset



- Long-term share ownership requires 'Stewardship'
- An in-house, multi-asset, global investment team
- Sarasin carries out its own ESG risk & impact analysis
- Seeking sustainable outcomes

# Investment philosophy



Distinctive thematic approach



We adopt a multi-thematic framework to identify long-term sustainable growth trends and the responsible companies best positioned to benefit



Integrated stewardship



Integrated ESG analysis embedded in stock selection. Our ownership discipline drives our active engagement. Climate impact analysis identifies and reduces climate risk.



Active, long-term mindset

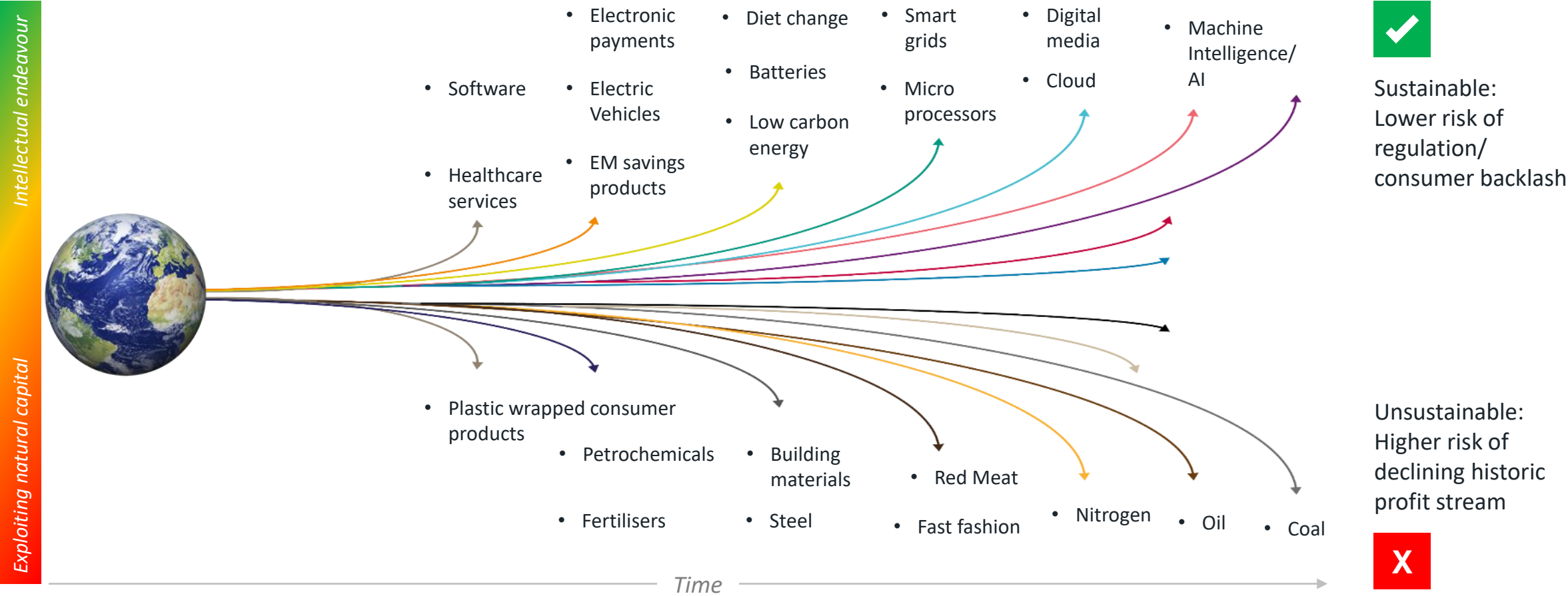


We believe that delivering long-term outperformance is best achieved through a concentrated portfolio of high conviction stocks

# Our Thematic strategy identifies many positive and sustainable trends



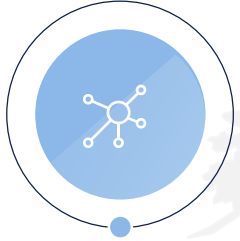
## Sarasin forecasts – growth trends



Source: Sarasin & Partners Forecasts and multiple industry sources

# Thematic framework

## Mega-themes and sub-themes



### Digitalisation

- › Analytics
- › Cloud
- › Digital media
- › Digital commerce
- › Connectivity
- › Processing



### Ageing

- › The Silver Dollar
- › Health
- › Wealth



### Evolving Consumption

- › Health, wellness & diet
- › Disruptive retail
- › The circular economy
- › Emerging consumer
- › Travel & experiences
- › Lifestyle consumer



### Automation

- › Food chain technology
- › Safety & security
- › Personal assistance
- › Process efficiency



### Climate Change

- › Environmental resources
- › Infrastructure & buildings
- › Low carbon power
- › Resource efficiency
- › Low carbon transport

Investment themes lead to companies with sustainable long-term businesses

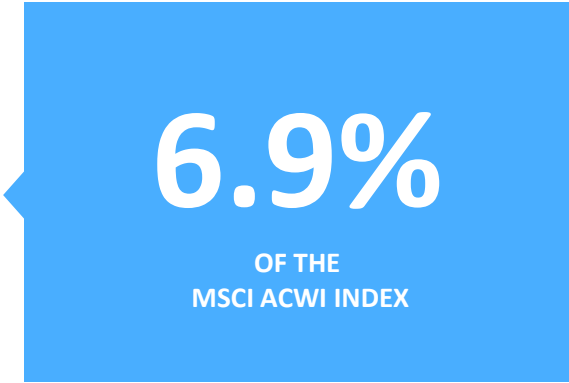
# Unsustainable and harmful activities are excluded



## QUANTITATIVE

**Exclude** investment in companies which are materially involved in the production and distribution of **ethically unacceptable products**, including:

- Tobacco (1.1%)
- Alcohol (1.8%)
- Gambling (0.4%)
- Adult Entertainment (0.0%)
- Armaments (2.5%)
- Civilian Firearms (0.4%)
- Extraction of thermal coal (0.4%)
- Production of oil from tar sands (0.3%)



## QUALITATIVE

**Avoid** investing in companies which are **materially** involved in **ethically unacceptable practices**, such as

- Corruption
- Environmental degradation
- Poor labour practices
- Breaches of human rights
- Companies which persistently, knowingly and materially breach international legal standards

Source: MSCI data as at 31.12.2019



# Environmental, Social and Governance

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E



S



G

**Environment** - <https://www.youtube.com/watch?v=J16n2PI6AwU>

**Social** - <https://www.youtube.com/watch?v=f1JUOVumc14>

**Governance** - <https://www.youtube.com/watch?v=mdhcdJPYxG8>

# Identifying threats and opportunities with integrated E, S & G analysis

**E**  
Environmental impacts remain after making a profit

**S**  
The social contract is the core pillar of trust

**G**  
Governance is the foundation on which a company stands

CLIMATE CHANGE



CIRCULAR ECONOMY



LAND



AIR



WATER



SUPPLIERS



EMPLOYEES



CUSTOMERS



BRIBERY & CORRUPTION



COHESIVE SOCIETY



BOARD STRUCTURE



OWNERSHIP RIGHTS



REPORTING & CONTROLS



EXECUTIVE REMUNERATION



BUSINESS ETHICS



# Example of a company that is excluded

*Coca-Cola*

The Coca-Cola Company is the world's largest soft drinks company. Billions of servings of its products are consumed every week

X

Produces 100 billion plastic bottles each year and plans for recycling are too slow (2030) and unlikely to stop environmental impact

Soft drinks are heavy to transport and CO2 emissions are high

High calorie soft drinks made with high fructose corn syrup and sugar are a major contributor to obesity and diabetes

Competition for water, growing of ingredients, corporate purpose, remuneration, accounting for externalities etc. are concerns

CLIMATE CHANGE



CIRCULAR ECONOMY



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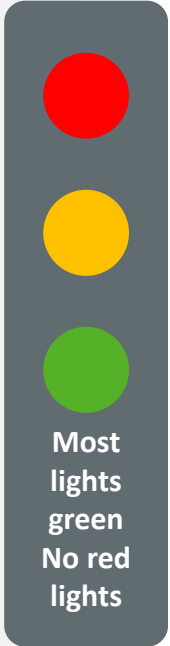
REPORTING & CONTROLS



EXECUTIVE REMUNERATION



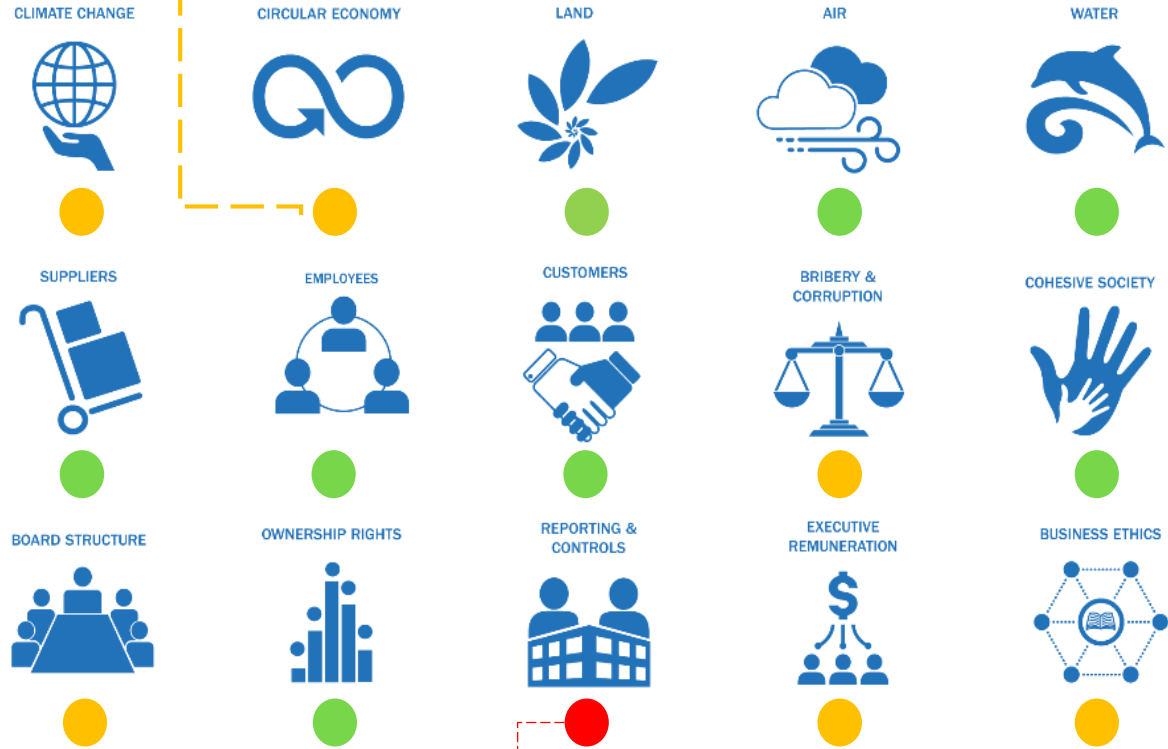
BUSINESS ETHICS



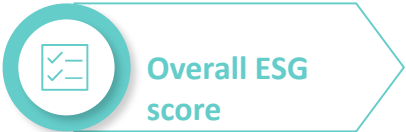
# Example of a company that is included



Their own accomplishments and goals in carbon footprint, product lifecycle and use of renewable power could be improved upon.  
 Reporting of chemical use is very limited - more disclosure required.  
 Underwhelming goals for reducing transportation emissions given this is largely a distribution operation.



The auditors report an "Emphasis of Matter" around revenue recognition, and the inclusion of a non-independent director on the audit committee are concerns. Audit tenure a concern



# Integrating ESG into valuation



Schneider Electric SE		History	Explicit forecast period					
Reported currency	EUR m	2019	2020	2021	2022	2023	2024	2025
<b>Discounted Cash Flow Analysis</b>								
Analyst WACC		8.1%						
Last reported year end		31-Dec-19	Manual inputs as drivers of DCF					
<b>Fade period - active case</b>		<b>Base case</b>						
NOPAT growth		3.5%	<b>Fade period</b>			<b>Base</b>	<b>Bull</b>	<b>Bear</b>
Non cash costs growth		2.5%	NOPAT growth	3.5%	4.5%	2.0%		
Capex growth		2.5%	Non cash costs growth	2.5%	4.0%	1.5%		
Working capital growth		2.5%	Capex growth	2.5%	4.0%	1.5%		
			Working capital growth	2.5%	4.0%	1.5%		
<b>Terminal period</b>								
Terminal IC growth rate		3.5%	<b>Terminal period</b>					
Tax rate		24.5%	Terminal IC growth rate	3.5%	4.5%	2.5%		

Schneider Electric SE	Bloomberg WACC	Analyst WACC	Analyst adjustment reasoning
<b>Nominal WACC estimation</b>			
<b>Global standardized input</b>			
Developed markets risk free rate	1.3%	1.3%	
Equity risk premium	7.9%	7.9%	
<b>Stock specific input</b>			
Risk free rate premium vs developed markets	0.0%	0.7%	Future expansion into EM increases risk
Long term corporate cost of debt premium vs risk free rate	0.0%	0.7%	As above
Corporate tax rate (for tax relief on debt interest)	24.5%	24.5%	
Beta	1.14	1.08	Lower beta of forward looking business mix
Long term proportion of debt vs total capital	13.7%	25.0%	Cash conversion and WIP allows for higher debt
<b>Calculation of WACC</b>			
Risk free rate relevant to company	1.3%	2.0%	
Cost of debt (pre tax relief)	1.3%	2.7%	
Cost of debt (after tax relief)	0.9%	2.0%	
Cost of equity	10.3%	10.5%	
ESG headwind / (tailwind) adjustment	0.0%	-0.3%	Efficiency product/services suite tailwind
<b>WACC as per CAPM model</b>	<b>9.0%</b>	<b>8.1%</b>	

Equity Value per share: WACC vs. perpetual growth rate						
	119.59	7.1%	7.6%	8.1%	8.6%	9.1%
2.5%		136.45	121.24	108.81	98.47	89.74
3.0%		145.19	127.68	113.67	102.20	92.64
3.5%		156.38	135.71	119.59	106.66	96.07
4.0%		171.23	145.99	126.96	112.10	100.17
4.5%		191.88	159.63	136.41	118.88	105.18

# Active ownership



Source: Bloomberg, Schneider Electric share price from 01.08.2017 to 04.03.2020

# Active ownership – holding companies to account

Showing the voting records of a selection of well-known fund managers (July 2018 – Jun 2019)



## Remuneration

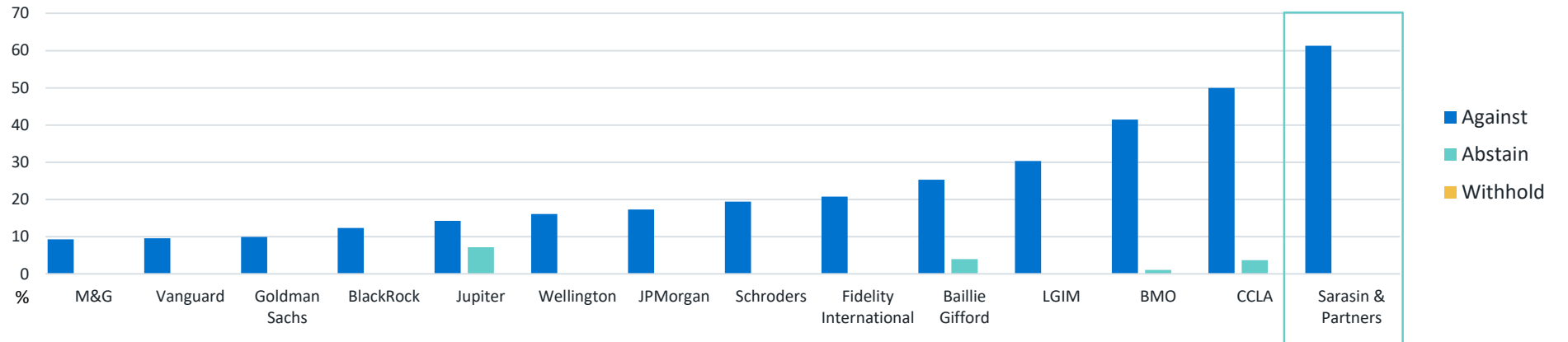
### Common reasons for us to vote against:

- > Less than 4x shareholding requirement
- > Don't have post-departure holding requirement

Source: Sarasin & Partners, Proxy Insight, Jun 2019



## Remuneration



## Auditor

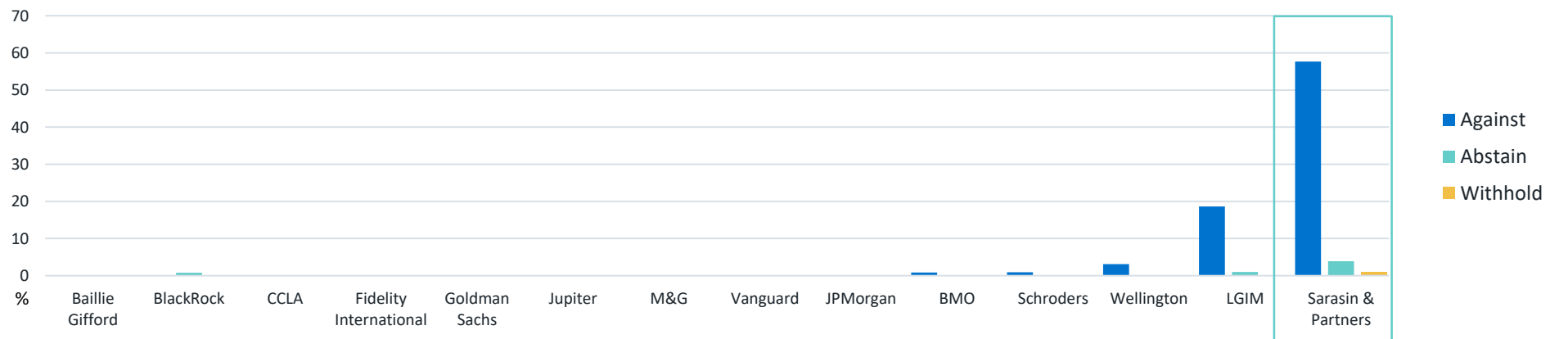
### Common reasons for us to vote against:

- > Non-audit fees > 25% of audit fees
- > Tenure > 15 years

Source: Sarasin & Partners, Proxy Insight, Jun 2019



## Auditor



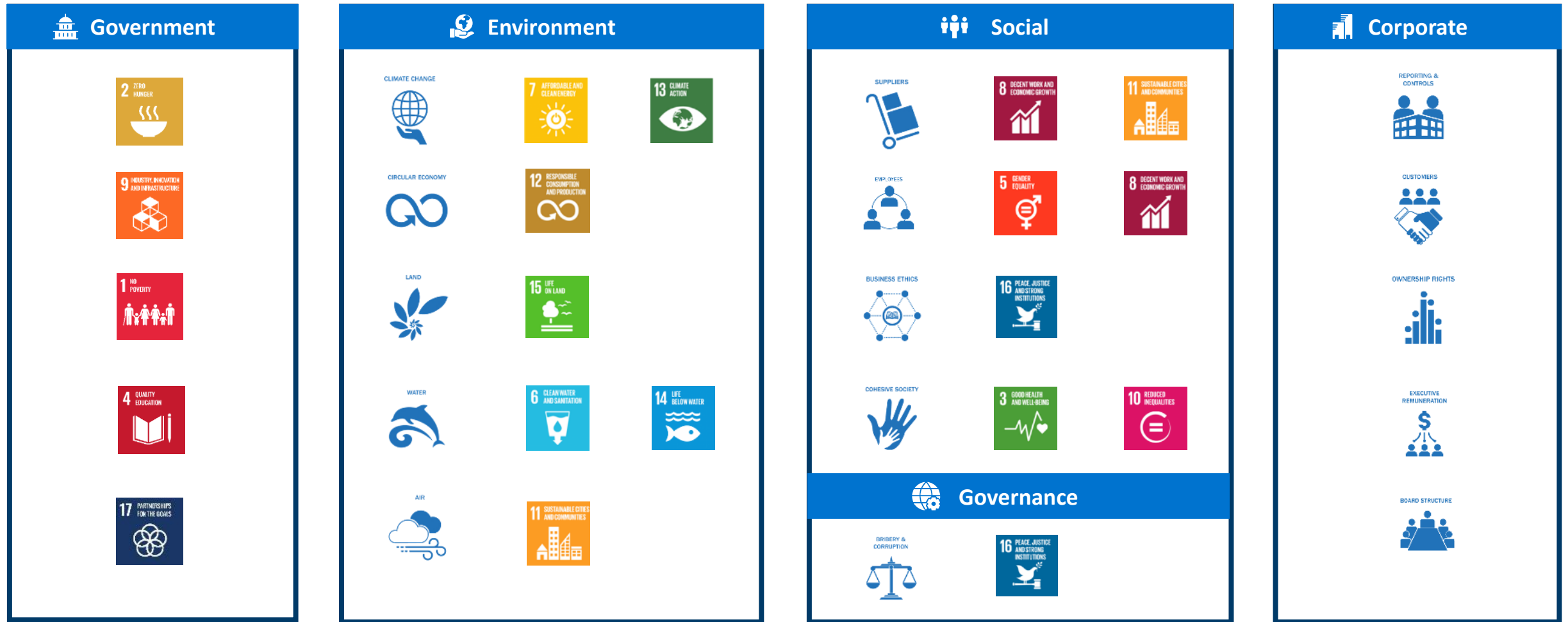
# We contribute to a wide range of initiatives, collaborations and policies under each of the ESG categories

<div data-bbox="282 386 377 479" data-label="Text"> <p><b>E</b></p> </div>	<div data-bbox="639 275 891 301" data-label="Section-Header"> <p><b>CLIMATE CHANGE</b></p> </div> <div data-bbox="741 311 800 394" data-label="Image"> </div> <ul style="list-style-type: none"> <li>• Task Force on Climate-related Financial Disclosures (TCFD)</li> <li>• Institutional Investors Group on Climate Change (IIGCC)</li> <li>• Signatory of the Paris Pledge for Action</li> <li>• Climate Risk Reporting with ClientEarth</li> <li>• Sarasin Climate Active Expert Advisory Panel</li> <li>• Sarasin Climate Pledge &amp; Climate Action 100+ (CA100+)</li> <li>• The Climate Disclosure Project (CDP)</li> </ul>	<div data-bbox="1156 275 1454 301" data-label="Section-Header"> <p><b>CIRCULAR ECONOMY</b></p> </div> <div data-bbox="1258 322 1365 386" data-label="Image"> </div> <ul style="list-style-type: none"> <li>• Fair Animal Investment Risk &amp; Return (FAIRR)</li> <li>• Plastic Solutions Investor Alliance (PSIA)</li> <li>• Ellen MacArthur Foundation Plastics Initiative</li> </ul>	<div data-bbox="1574 275 1658 301" data-label="Section-Header"> <p><b>LAND</b></p> </div> <div data-bbox="1569 311 1666 401" data-label="Image"> </div>	<div data-bbox="1842 275 1893 301" data-label="Section-Header"> <p><b>AIR</b></p> </div> <div data-bbox="1811 311 1918 401" data-label="Image"> </div>	<div data-bbox="2028 275 2130 301" data-label="Section-Header"> <p><b>WATER</b></p> </div> <div data-bbox="2028 311 2142 401" data-label="Image"> </div>
	<div data-bbox="282 715 377 808" data-label="Text"> <p><b>S</b></p> </div>	<div data-bbox="563 632 715 658" data-label="Section-Header"> <p><b>SUPPLIER</b></p> </div> <div data-bbox="588 668 677 765" data-label="Image"> </div> <ul style="list-style-type: none"> <li>• 30% Group Investor Initiative</li> <li>• Workforce Disclosure Initiative (WDI)</li> <li>• Collaboration with ShareAction</li> <li>• Sarasin Modern Slavery Statement</li> </ul>	<div data-bbox="919 632 1090 658" data-label="Section-Header"> <p><b>EMPLOYEE</b></p> </div> <div data-bbox="945 668 1052 765" data-label="Image"> </div>	<div data-bbox="1268 632 1472 658" data-label="Section-Header"> <p><b>CUSTOMERS</b></p> </div> <div data-bbox="1314 668 1391 765" data-label="Image"> </div> <ul style="list-style-type: none"> <li>• Interfaith Center on Corporate Responsibility (ICCR)</li> <li>• The Local Authority Pension Fund Forum (LAPFF)</li> <li>• Sarasin Anti-Bribery and Corruption Statement</li> <li>• Social investment exclusions: tobacco, pornography, armaments, gambling, alcohol</li> </ul>	<div data-bbox="1564 632 1964 658" data-label="Section-Header"> <p><b>BRIBERY &amp; CORRUPTION</b></p> </div> <div data-bbox="1722 668 1824 765" data-label="Image"> </div>
<div data-bbox="282 1058 377 1150" data-label="Text"> <p><b>G</b></p> </div>		<div data-bbox="486 932 805 958" data-label="Section-Header"> <p><b>BOARD STRUCTURE</b></p> </div> <div data-bbox="580 968 690 1051" data-label="Image"> </div> <ul style="list-style-type: none"> <li>• International Corporate Governance Network (ICGN)</li> <li>• Asian Corporate Governance Association (AGCA)</li> <li>• Council of Institutional Investors (CII)</li> <li>• Australian Council of Superannuation Investors (ACSI)</li> <li>• Sarasin Independent Voting Policy</li> <li>• UK Corporate Governance Code</li> <li>• Show of Hands Initiative on Shareholder Voting</li> </ul>	<div data-bbox="868 932 1200 958" data-label="Section-Header"> <p><b>OWNERSHIP RIGHTS</b></p> </div> <div data-bbox="988 968 1059 1065" data-label="Image"> </div>	<div data-bbox="1327 932 1549 958" data-label="Section-Header"> <p><b>REPORTING &amp; CONTROLS</b></p> </div> <div data-bbox="1386 1025 1472 1108" data-label="Image"> </div> <ul style="list-style-type: none"> <li>• Investors Coalition on Audit &amp; UK Stewardship Code</li> <li>• Oxford Martin School Investment and Engagement Principles</li> <li>• Investors coalition on International Financial Reporting Standards (IFRS)</li> <li>• Corporate Reporting and Auditing Group, convened by the Investment Association</li> <li>• Investor Advisory Group of the Financial Reporting Council (FRC)</li> <li>• Signatory of the UN Principles for Responsible Investment (PRI)</li> </ul>	<div data-bbox="1640 932 1913 958" data-label="Section-Header"> <p><b>EXECUTIVE REMUNERATION</b></p> </div> <div data-bbox="1735 1025 1811 1108" data-label="Image"> </div>



# Aligning our process with the UN Sustainable Development Goals

The UN 2030 Agenda for Sustainable Development provides a shared blueprint for peace and prosperity for people and the planet



Some SDGs are issues for governments. Some ESG issues apply only to companies

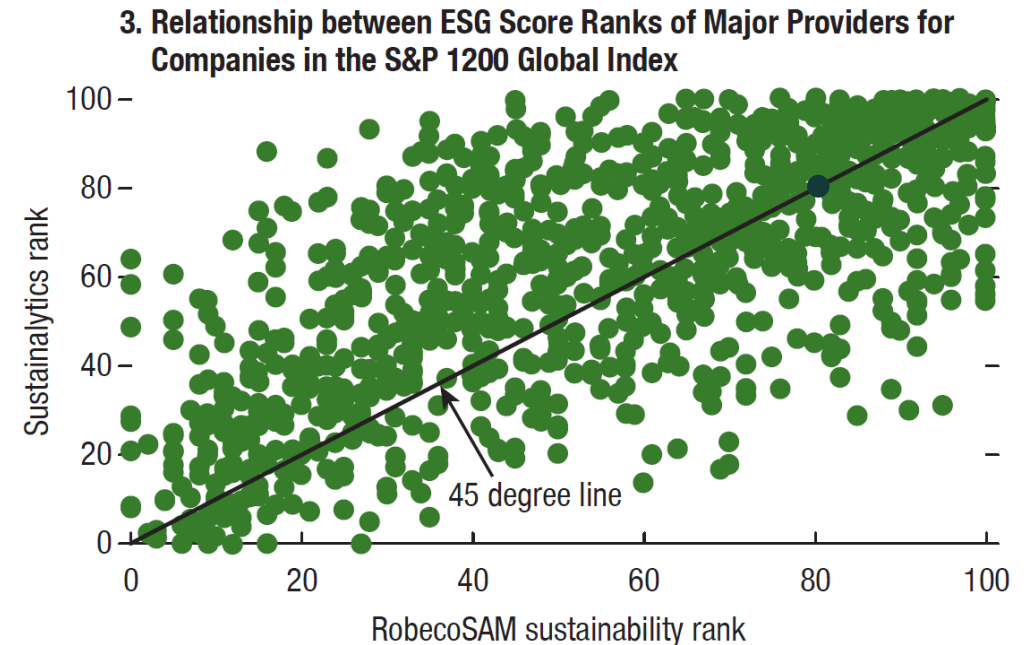
# ESG analysis takes hard work – it is part of core stock analysis

## Most ready-made ESG ‘scores’ vary so much they are not useful

- In a recent analysis, the IMF concluded that there is uncertainty when it comes to measuring ESG impact
- They compared ESG scores from major providers and found little agreement
- Passive investing is not conducive to sustainable investing, given the need for greater engagement with issuers and higher analytical burden and cost
- Sarasin carries out its own ESG risk & impact analysis



IMF chart: if Sustainalytics and RobecoSAM ESG scores agreed, each point would sit on the 45 degree line



Source: IMF Global Financial Stability Report October 2019  
Bloomberg Finance L.P.; Refinitiv Datastream; RobecoSAM; Sustainalytics; and IMF staff calculations.

# A strong track record in managing responsible and sustainable equities

Sarasin Responsible Global Equity Fund as at 31 August 2020

Global Equities



Annual and cumulative performance	1 Year	3 Year	3 Year Ann.	5 Year	5 Year Ann.	Since Launch*	Since Launch Ann.
<b>Sarasin Responsible Global Equity P Acc</b>	11.65	37.90	11.31	93.14	14.07	160.49	13.22
Sector: IA Global	6.42	23.89	7.40	76.69	12.06	126.91	11.21
Net Outperformance	<b>+5.23</b>	<b>+14.01</b>	<b>+3.91</b>	<b>+16.45</b>	<b>+2.01</b>	<b>+33.58</b>	<b>+2.00</b>

Discrete performance	01.06.2019 – 31.08.2020	01.06.2018 - 31.08.2019	01.06.2017 - 31.08.2018	01.06.2016 - 31.08.2017	01.06.2015 - 31.08.2016
<b>Sarasin Responsible Global Equity P Acc</b>	11.65	9.78	12.51	17.84	18.86
Sector: IA Global	6.42	5.26	10.60	17.65	21.22
Net Outperformance	<b>+5.23</b>	<b>+4.52</b>	<b>+1.91</b>	<b>+0.19</b>	<b>-2.36</b>

**Performance is provided net of fees. Past performance is not a reliable guide to future performance.**

Performance is provided net of fees. Past performance is not a reliable guide to future performance. Performance is calculated in GBP on the basis of net asset values (NAV) and net dividends reinvested. \*P share class launched 15.10.2012. Source: Sarasin & Partners LLP and Morningstar as at 31.08.20.

Benchmark: IA Global (Sector). The index data referenced is the property of the third party fund providers and has been licensed for use by us. Our third party providers accept no liability in connection with its use. See our website for a full copy of our Index Disclaimers: [www.sarasinandpartners.com/docs/default-source/regulatory-and-policies/index-disclaimers.pdf](http://www.sarasinandpartners.com/docs/default-source/regulatory-and-policies/index-disclaimers.pdf)

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Investing to meet the needs of the present  
without compromising the ability of future  
generations to meet their own needs

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