SARASIN
& PARTNERS

POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q3 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: SONIC HEALTHCARE

June we initiated engagement with Sonic Healthcare on their labour management practices. We wanted to get comfort that Sonic Healthcare is ensuring fair treatment of staff with regard to Covid -19, following claims from a UK union (IWGB) of alleged failures of the company to provide requested Personal Protective Equipment to couriers transporting Covid-19 test samples. These couriers were all employed by a Sonic subsidiary, the Doctors Laboratory (TDL), which represents approximately 7% of the company's overall sales.

The Union had also raised concerns around the treatment of 10 employees, including a union representative, who have been made redundant. IWGB has filed a trade union victimisation and whistleblower victimisation claim against the company at the employment tribunal.

Our initial interaction with management, including a call with the Deputy CFO, provided us with the company's viewpoint on the allegations but did not fully address our concerns. We followed up with a formal letter to the Board for further clarity on the TDL labour dispute and to obtain examples of best practice actions on broader labour issues. We also pressed the company to improve its remuneration practices predominantly with respect to shareholder alignment and disclosure.

Our engagement with the Board provided some reassurance with respect to the specific localised issue with the couriers but we have broader concerns around the company's labour practices. We are therefore continuing our engagement with the company.

COMPANY ENGAGEMENT: CRH

Our engagement with the building materials company, CRH, on climate risk and financial reporting continues to progress. Over the course of the year, we have coordinated two investor letters to the Chair and Audit Committee Chair. Our second letter, sent in early June, highlighted outstanding questions around the resilience of capital to Paris-aligned scenarios (specifically with reference to carbon pricing), how the new emissions targets were reflected in capital allocation decisions and when we might expect to see remuneration alignment with climate stability objectives.

While we received a welcome response from the Chair to our letter in late June, many of our concerns remain unanswered.

As such, in early September, we co-signed another letter to the Board of CRH, led by the Climate Action 100+ Group. This letter raised many of the aforementioned issues and requested further clarity on CRH's climate mitigation position. We have yet to receive a response but will continue to press the board for more concerted action.

MARKET OUTREACH

PRESSING THE POINT: PARIS-ALIGNED ACCOUNTING IS NEEDED FOR ALL

Last quarter we reported to you a major milestone in our effort calling for companies and auditors to deliver Paris-aligned accounts. BP announced in June that it would do this, and consequently is expected to book a $13.5bn to $17bn write-down on its net assets – equivalent to between 13 and 17% of its reported 2019 equity. Shell and Total have also published steps they are taking to align their numbers with the Paris Agreement, and reported associated impairments.

Following close on the heels of these accounting adjustments, all three companies are accelerating their strategic shifts away from fossil fuels towards net zero carbon businesses. This is precisely the impact we would expect. As accounting numbers are updated to include climate risks, then Paris-aligned capital deployment will be incentivised. Let us explain why using a hypothetical example.

Below, we set out key elements of a coal-fired power company's financial statements that will be impacted by global efforts to move the world onto a net zero emissions pathway. On the left, the company ignores this decarbonisation trajectory, and presumes business will continue as it has in the past. On the right, the company can see the clean energy imperative, and draws up its accounts accordingly.

For the company on the left, the numbers suggest a long-term future for coal power, and thus profits and capital appear healthy. Any clean up liabilities (known as asset retirement obligations) will be a distant problem, with little need to provision much today. Reported profitability will tend to drive higher levels of reinvestment into coal-fired power.

Were the same company to take account of the Paris Agreement, the outlook is less rosy (on right hand side). The operations will need to be wound down over a shorter time frame, pushing up depreciation expenses and clean-up costs (which come far sooner). Some assets may be impaired as the anticipated cash flows do not cover their current value. In this case the business could well be loss making, and fresh capital would go elsewhere.

The power of the accounting to drive capital deployment is hopefully clear from this example. If Boards pretend Paris is not happening, then their accounts will be potentially misleading, and drive too much investment into fossil fuel related activities.

What is more, the risks to long-term investors is materially higher in the case on the left: reinvestment back into coal power sets the stage for even larger write-downs in coming years when the executives can no longer deny the inevitable.

While shareholders take some pain early on in the righthand case, the executives are more likely to protect capital by winding down in line with the Paris Agreement, or by re-orienting into new sustainable and profitable activities.

IMPACTS THIS QUARTER

The power of accounting to leverage market-wide change is gradually being understood following BP's announcement. We have seen the UN-sponsored Principles for Responsible Investment pick up our message with a global investor statement calling for Paris-aligned accounts [see https://www.unpri.org/sustainability-issues/accounting-for-climate-change], which has now been echoed by Mark Carney as he presses for concrete action before the next United Nation's sponsored climate talks to be hosted by the UK in November 2021 [see https://uk.reuters.com/article/uk-climate-change-companies-accounts/carney-backs-call-for-climate-risk-to-be-baked-into-company-financial-accounts-idUKKCN26F2X9].

FURTHER AMPLIFICATION

This quarter we have continued to amplify our efforts. Specifically, we have:

- Presentation to UK Audit and Risk Committee members – organised by Chapter Zero with Deloitte, we presented alongside Simon Henry, Chair of Rio Tinto's and Lloyd's Audit Committees [https://deloitte-buto.videomarketingplatform.co/secret/64479392/71e1baa2ac10a06b4396b7631ad51012]

- Submission to the UK's Commission on Climate Change calling for a mandatory requirement for Paris aligned accounts and audit [https://sarasinandpartners.com/stewardship-post/paris-aligned-accounting-and-audit-to-deliver-net-zero-emissions/]

- Outreach to US institutional investors to ensure US-listed companies are also facing similar calls for Paris-aligned accounting and audit.

We are hopeful that we will begin to see this snowball grow into an avalanche as all companies respond to rising demands for Paris-aligned accounting; and auditors deliver Paris-aligned audits.

KEY VOTES AND ENGAGEMENTS
Q3 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
Sequoia Economic Infrastructure Income Fund Ltd.	31 July 2020	Re-elect director	Against	Passed

We voted against an independent director because we are concerned that he is overcommitted. This director candidate has six board memberships, one of which is a Chair role and three are audit committee chairs. While all of his directorships are with small companies and investment funds, we could not find any explanation in the annual report that would alleviate our concern over his time commitment.

Percentage of votes cast for the resolution: 91.9% for, 8.1% against.

Company	Date	Resolution	How we voted for you	Result
Fresenius Medical Care AG & Co. KGaA	27 August 2020	Ratify PricewaterhouseCoopers GmbH as Auditors for Fiscal 2020	Against	Passed

We voted against the ratification of the re-appointment of the auditor because the auditor has served since 1996, a period which we consider too long and would threaten its independence. The role of the auditor is especially important given that the company was fined by the US authorities for bribes paid to government officials in the Middle East and Africa between 2007 and 2016. In October 2019, German authorities announced that they are investigating the company based on the findings by the US authorities.

We engaged with the Chair in November 2019, and sought in particular greater comfort over their internal controls following the bribery problems. We encouraged the company to change its auditor, and our expectations that future audits would focus on internal controls as a key audit matter. The Board has not yet addressed our concern so we opposed the re-appointment of the auditor.

Percentage of votes cast for the resolution: 98.8% for, 1.2% against.

Company	Date	Resolution	How we voted for you	Result
DS Smith Plc	8 September 2020	Re-appoint the auditor	Against	Passed

We voted against the re-appointment of the auditor due to concerns about auditor's independence linked to material non-audit work for the company in the past. The percentage of non-audit fees to that of audit fees were 43.8%, 30.8% and 2.4% in FY2018, FY2019 and FY2020 respectively.

While the level of non-audit work has come down this year, we have questions over some accounting practices (lack of disclosure of distributable reserves, reverse factoring, and adjusting items) and - like last year - a lack of clarity as to whether they have considered material climate risks in drawing up the financial statements. The company has a high level of intangible assets on the balance sheet, which heightens the importance of robustly independent audit. We note the auditor is due to stay in place until at least 2023, which will take them beyond our 15 year limit, which presents a further risk to independence.

Percentage of votes cast for the resolution: 94.9% for, 5.1% against.

VOTING SUMMARY

		2016	2017	2018	2019	Q1 2020	Q2 2020	Q3 2020
Total number of company meetings		968	1,165	1,072	1, 228	168	378	113
Total number of proposals		10,387	13,244	13,433	13,373	1,459	5,401	1,304
Votes cast	for	7,728	8,570	11,152	8,732	1,064	3,576	1,022
	against	1,681	2,354	2,611	2,678	235	1,090	171
	abstain	61	101	181	129	7	82	2
	withhold	84	83	79	100	2	72	0
	did not vote[1]	833	2,136	1,420	1,641	151	581	109

[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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IMPORTANT INFORMATION

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Please note that the prices of shares and the income from them can fall as well as rise and you may not get back the amount originally invested. This can be as a result of market movements and also of variations in the exchange rates between currencies. **Past performance is not a guide to future returns and may not be repeated.**

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