

ESG Review

Sarasin MPS

Responsible Balanced

January 2021

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Sarasin & Partners
 Responsible Balanced Portfolio
 Fraser Donaldson

Key facts

- Sarasin count themselves amongst the Pioneers of both multi-asset and responsible investing in the UK, established by a sustainable Swiss private bank in 1983. With a history of thematic investing, it is no surprise that Sarasin have continued to evolve their responsible investment approach over the decades.
- The Responsible Balanced portfolio aims to achieve returns over the long term of CPI + 3% and would typically invest around 60% Equity, 30% Fixed Income and 10% Cash and Alternatives.
- The portfolio invests in a combination of Sarasin Responsible funds and third party funds.
- Company engagement and the thoughtful exercising of voting rights is a key foundation of Sarasin’s company analysis.

Fund information

Launch Date	20 January 2020	UN PRI signatory*	Yes
Portfolio Manager	Ben Gilbert & Team	UK Stewardship Code signatory	Yes
Domicile	UK	IA Sector	-
Assets	Active	Morningstar Category	-
Approach	Return Focused (CPI+3%)	Defaqto Diamond Rating Type	MPS Family
Type	MPS	Diamond Rating	

*UN Principles for Responsible Investment (PRI)

ESG policy and alignment

Number of exceptions: 0

With a high percentage of AUM invested for charities, institutional and professional investors, Sarasin and Partners, being thematic investors have incorporated ESG analysis in all equity research since 2011. The parent, Bank J. Safra Sarasin, set up a sustainable team back in 1988, which makes Sarasin one of the pioneers in responsible investing.

The portfolios are focused on a number of ‘mega-themes’: digitalisation, automation, ageing population, evolving consumption and climate change. There are a number of sub-

themes within these ‘mega-themes’ and the current focus of the portfolio is represented below in the UN SDG graphics.

They have a clear, published policy on exclusions which is applied across all equity research and analysis. Further details of the exclusion policy can be found on page 5.

The responsible portfolios are the next evolution of responsible investment at Sarasin. Existing ranges of multi – asset funds and ‘core’ MPS portfolios have had elements of an ESG approach embedded in their process for some time.

Levels of ESG integration



For full details, please refer to p5

Sustainable Development Goals (SDG) current top 5 focus



ESG factors

Environmental

Less than 1%	Between 1% and 10%	More than 10%
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Environmental Exposures	Product Involvement
Fossil Fuel	5%
GMO	-
Nuclear	2.5%
Oil Sands Extraction	<0.1
Palm Oil	-
Pesticides	-
Thermal Coal	1.5%

There are three exposures of note here: fossil fuel, nuclear and thermal coal. Sarasin's well established exclusion policy keeps these exposures at a relatively low level.

We would expect these percentages to fall over time. There is an acceptance that there will be some legacy exposures through companies that are transitioning to cleaner and safer energy production.

Sarasin take a pragmatic view on sovereign debt, understanding that although the UK government does invest heavily in defence, there is a significant amount of UK PLC that invests for good such as the NHS, social security and infrastructure.

Source: Based on availability of Morningstar ESG data as at January 2021

Social

Social Exposures	Product Involvement
Adult Entertainment	-
Alcohol	-
Animal Testing (Pharmaceutical)	13.9
Animal Testing (Other)	-
Controversial Weapons	0.2
Fur and Specialty Leather	-
Gambling	-
Military Contracting	0.3
Small Arms	0.1
Tobacco	-

There is only one exposure of note, which is animal testing at 13.9%. The majority of this exposure comes from underlying investments in pharmaceutical and healthcare related investments. It should be noted that there is usually a legal requirement to test new vaccines and drugs on animals. There is no exposure to non-pharmaceutical animal testing.

There are some small exposures to other categories but these percentages are kept very low thanks to Sarasin's exclusion policy and robust stewardship.

Source: Based on availability of Morningstar ESG data as at January 2021

Governance

Due diligence on underlying companies does have a significant element of governance analysis. The focus is on board structure and diversification, ownership rights, methods of reporting and the controls imposed, executive remuneration and the companies general approach to business ethics.

For both internal and third party funds, Sarasin also believe that engagement is important and look for a good record of exercising voting rights, in particular paying close attention to where voting is against management. Another key area of focus is the company approach to the auditors, associated

voting record and auditor tenure.

Internally, where managers vote against resolutions, all analysts are informed as this is an indication that there is an issue with the company and this is factored in to the company due diligence and meeting strategy.

Levels of ESG integration

Within this section, we look at how ESG has been integrated across the portfolio. Using the IA responsible investment framework, there are three fund-level components: exclusions, sustainability focus and impact investing.

Exclusions 100%

Sarasin have a published exclusion policy. Anything prohibited by UN or international treaties is excluded across all Sarasin funds/portfolios. The ethical exclusions specifically apply to the Sarasin Responsible portfolios.

The level of each exclusion is based upon the percentage of revenues for the overall business involved in the production and distribution of ethically unacceptable products. Each company that is excluded is hard coded in to Sarasin's pre-trade compliance system so it is not possible to trade in them. The restricted companies are monitored regularly and added individually after discussion.

Exclusions include all cluster munitions, all tobacco

companies and distributors, retailers and suppliers that derive more than 10% of revenue. Maximum of 5% of revenues from alcohol producers and 10% of revenues from companies connected with alcohol. The same revenue restrictions for gambling as those that apply to alcohol. Maximum 5% of revenues that are derived from adult entertainment. For Armaments, zero exposure to whole weapons systems and max 10% of revenues from any companies associated with armaments such as components, support systems and services. Zero exposure to civilian firearms. 10% of revenues from extraction of thermal coal or production of oil from tar sands.

Sustainability focus 80%

Sarasin see the majority of their investment universe, from an ESG perspective in the responsible and sustainable investment sectors, estimating that approximately 80% is focused here. This makes sense as it falls in line with their mega-trend assessments for the longer term which include areas such as climate change.

The core proposition of each of the model portfolios is to preserve and grow the real value of clients' investments over time. This leads to a high sustainability focus and a much lower impact investing amount, where it is perceived that risks are much higher.

Impact investing 10%

While impact investing is seen as a higher risk strategy for ESG, and is also difficult to measure, there are inevitably going to be some exposures that are aimed at or result in significant contributions to positive societal outcomes with a

higher risk of below market returns.

It should be noted that many of the ESG initiatives that Sarasin lead on and support do have significant societal impact.

Top 10 Underlying Equity Holdings

Name	Theme	Country	% of assets
ASML Holdings NV	Digitalisation	Netherlands	2.0
Aramark	Evolving Consumption	US	1.8
Air Liquide SA	Climate Change	South Africa	1.7
Deere & Co.	Automation	US	1.6
Medtronic	Ageing	US	1.6
Middleby Corp	Automation	US	1.5
Daikin Industries	Climate Change	Japan	1.5
Mastercard Inc	Digitalisation	US	1.5
Alphabet Inc	Digitalisation	US	1.4
Schneider Electric SE	Automation	France	1.4

Source: Sarasin, 30 November 2020

Sustainable Development Goal (SDG) current top 5 focus



Source: Sarasin, November 2020

Engagement with corporates and/or funds

Engagement with companies forms a significant part of Sarasin's due diligence and the conclusions run through all of Sarasin's analysis. As well as portfolio managers and supporting analysts conducting meetings, the dedicated Stewardship team also conducts company visits and meetings, with their findings circulated across all investment teams.

The Stewardship team examine where companies stand on following ESG principles and should there be any issues, all analysts are alerted and this helps form the engagement strat-

egy. If the stewardship team or any of the analysts detect any issues this points to potential longer term weakness.

Sarasin see the exercising of voting rights as very important, feeling they can influence, or at least make their feelings known to the companies concerned.

In the 2020 proxy season, there were votes against management in 79 out of 83 company meetings. The voting record for Sarasin is published on their website quarterly.

Resources

Sarasin & Partners is 45% owned by its management with the rest owned by Bank J. Safra Sarasin a sustainable Swiss private bank, which at the end of 2019 had £144bn under management. Sarasin & Partners was established in 1983, currently employs 220 people of which more than 80 are investment professionals. Sarasin & Partners, as at 31st December 2020 had £17 bn assets under management.

Ben Gilbert is the model portfolio manager who, along with the wider MPS team, has the responsibility of putting together the portfolios from a combination of internally run responsible

funds, third party active managers and third party passive managers. Sarasin are well established multi-asset investors and the model portfolio team are able to draw on the experience and research of all the teams in the firm, with all of the specialist teams generating ideas for consideration. The Stewardship team has 4 dedicated analysts.

There are a variety of 3rd party tools available to help with analysis, including: Style analytics, Stat-Pro and Bloomberg. There is also the proprietary accounting system SIC.net.

Sarasin's ESG policy

As well as the exclusion policy, detailed earlier, ESG is fully integrated with all of Sarasin's investment research, believing that shareholder value is best protected and enhanced by following these principles over the longer term.

Sarasin operate a traffic light system that looks at each security, whether for responsible portfolios and funds or not, from the point of view of 15 ES & G principles. Environmental issues are climate, circular economy, land, wind and water. Social

issues are suppliers, employees, customers, bribery and corruption and cohesive society. Governance issues are board structure, ownership rights, reporting and controls, executive remuneration and business ethics.

Red amber or green is assigned to each issue and informs company engagement strategy and conviction in the stock.

Sarasin also support and lead on a number of ESG initiatives.



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