POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q2 2021

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

Our engagement work with companies and in the broader market aims to address governance failures, strategic challenges and other market imperfections, with a view to protecting and enhancing shareholder value. We are pleased to share with you some of our successes from the last quarter. If you wish to delve into more detail, you will find links to further analysis and presentations below.

COMPANY ENGAGEMENT: DS SMITH

On the 9th June DS Smith, the international packaging supplier, published a new commitment to achieve net zero carbon emissions by 2050, with interim 40% intensity reduction target by 2030 agreed with the Science-based target initiative (https://www.dssmith.com/media/newsroom/2021/6/net-zero-emissions-by-2050). They have also signed up to the Race to Zero initiative. This is a meaningful step up from their previous target to reduce emissions intensity by 30% by 2030.

Key features of their action plan include using cleaner energy, e.g. investing in waste-to-energy solutions and greater use of renewables, upgrading to more energy efficiency equipment, and using low carbon transport.

While we await further details, this is enormously welcome, and a good proof point for our engagement with the Board. We first wrote to the Chair in March 2019 setting out our support for their focus on sustainability, and particularly their effort to differentiate through the provision of circular economy packaging solutions. In our letter, we drew attention to the importance that DS Smith makes a net zero carbon emissions commitment. Following our discussion with the Chair, we reiterated this request in November 2020.

In our mind, despite its excellent record on recycling, which they have reinforced with their latest pledge that 100% of its packaging will be recyclable or reusable by 2023, DS Smith was falling behind on its climate commitments. This risked undermining its sustainability competitive advantage. DS Smith's clients increasingly need assurance from all their suppliers that they are net-zero aligned. Importantly, DS Smith's commitment to circularity is a major contributor to achieving lower emissions. According to the Ellen MacArthur initiative, up to 45% of the world's carbon reduction will have to come from achieving a circular economy. Making this longer-term commitment to act in line with the Paris Agreement reinforces DS Smith's leadership as a sustainable provider of packaging, and our conviction in their outlook.

COMPANY ENGAGEMENT: AB FOODS – BANGLADESH ACCORD AND BROADER SUPPLY CHAINS

This quarter, we became signatories to ICCR's Investor Statement on the continuance and maintenance of the Bangladesh Accord. The Bangladesh Accord requires retailers and global brands to maintain safe conditions at garment factories in Bangladesh. Set up in 2013 after the fire at Rana Plaza which killed over 1,000 people, the agreement officially comes to an end this year. This would be detrimental to the safety of Bangladeshi garment workers, particularly at a time of great strain due to the pandemic. We committed to engage with companies to urge support for the continuance of the Accord.

We initiated discussions with AB Foods, which owns Primark, in May to confirm its support for the renewal of the Accord, and to understand what steps it is taking to protect workers in its supply chain. While supportive of the aims of the Accord, having been one of the founding signatories, they expressed concerns over the expansion of the Accord, which they fear may become too loose and reduce its effectiveness. However, they were optimistic that the terms of the new Accord will ultimately be agreed and signed. Were the Accord to disappear, however, they believe that their internal Primark Structural Integrity program is stricter than the Accord and provides effective protection for Bangladeshi workers.

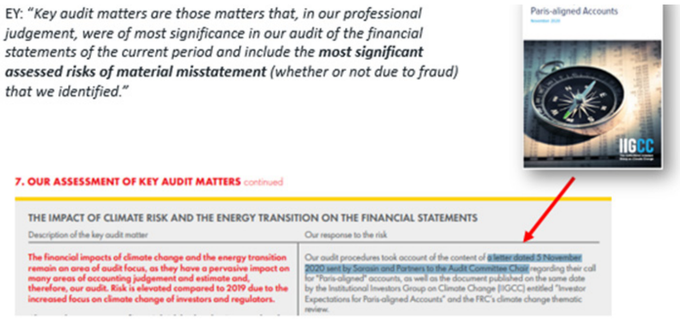
Beyond the Accord, we discussed AB Foods' supply chain in Myanmar (currently experiencing severe conflict), forced labour issues in Xinjiang, China, Covid-19, sustainable cotton and their approach to support the circular economy. Our discussion represented an improvement in communications as the company has historically been reluctant to engage on these types of issues.

MARKET IMPACT: WILL THE AUDITORS SAVE US FROM THE CLIMATE CRISIS?

In past reports we have pointed to growing momentum behind our call for Net zero-aligned accounts at companies. From a solid base of roughly $1 trillion in support of our letters to the Audit Committees at Shell, BP and Total in November 2019, by the end of 2020 investors responsible for over $100 trillion of assets had added their voices to call for financial statements to be drawn up in a way that is consistent with a 1.50C temperature pathway. In November 2020, we gathered together a coalition of just over $10 trillion to write to 36 of the largest listed energy, materials and transport companies setting out our expectations for Net Zero-aligned accounts.

Earlier this year, we highlighted the vital role auditors can play in driving Paris-aligned accounting. In an article published by Reuters, we argued that it is time that these metaphorical knights in shining armour come out from the shadows [https://www.reuters.com/article/us-climate-change-accounts-breakingviews/breakingviews-guest-view-auditors-hold-key-to-climate-crisis-idUSKBN29X25E]. Specifically, we called on auditors to check whether company accounts were reflecting a net zero emissions pathway; and, if not, to sound the alarm so investors would know when climate risks were being glossed over.

All this attention seems to be working. As 2020 Annual Reports roll off the press this Spring, directors and auditors are starting to consider how decarbonisation or the physical impacts of climate change could hit profits and capital. One response deserves a special mention. In its report to shareholders, Shell's auditor EY pointed to the letter we coordinated, and responded in detail to the four asks laid before it. Critically, it identified climate risks as a Key Audit Matter, and thus a critical factor affecting the reliability of Shell's accounts:



THE KEY HIGHLIGHTS FROM ITS ASSESSMENT ARE SUMMARISED HERE.

Shell's accounts are not Paris-aligned

EY states not aligned with Net Zero & declines to disclose what Paris-alignment would mean

KEY HIGHLIGHTS

- Strategic commitment to Net Zero
- Accounts not Paris-aligned: Shell's pricing assumptions do not reflect net zero by 2050
- This is not consistent with strategic commitment to align with Paris
- EY states that it cannot provide any disclosures on how Paris assumptions would impact Shell's financial position

In Note 2, management states:

"Meeting the goals of the Paris Agreement is a global and Shell target. ***Shell's pathway to Paris alignment is reflected in the Group's strategy*** *and in 2020 we announced a long-term target to become a net-zero emissions energy business by 2050, in step with society."* ....

....*"However,* ***our plan and pricing assumptions do not yet reflect Shell's 2050 net-zero emissions target****, because our planning timeframe is 10 years and there is significant uncertainty on how society will transition to net-zero emissions."*

EY concludes:

*"...****it is neither possible nor appropriate for EY, as Shell's auditor, to attempt to provide in our audit opinion Paris-aligned assumptions*** *that are not in our remit to determine, and the impact that any such assumptions might be expected to have on the financial statements."*

Source: Sarasin & Partners based on extracts from Shell's 2020 Annual Report and Accounts

Not only does EY's commentary provide valuable insight into the risks embedded in Shell's balance sheet, but they are also clear: Shell's reported financial position depends upon continued fossil fuel demand in excess of what is consistent with a stable planet. The auditor has sounded the alarm; it is time for companies to respond.

OUR OUTREACH TO THE INTERNATIONAL ENERGY AGENCY GETS A RESULT

A key input into energy company accounts are long-term commodity price assumptions. These underpin impairment testing for all the main items on the balance sheet, and feed into determination of asset lives as well as the timing for liabilities such as asset retirement obligations. For accounts to be Paris-aligned, it is vital the price projections they use incorporate global decarbonisation efforts to achieve the net zero emissions by 2050.

At present there is no universally accepted net zero consistent commodity pricing scenario. Many companies refer to the International Energy Agency's Sustainable Development Scenario, but this is only consistent with a two-thirds probability of achieving a 1.8°C trajectory. To deliver a 1.5°C cap on Global Warming, decarbonisation will need to be faster, and one would expect commodity prices to come down more quickly as demand is curtailed (and assuming supply remains relatively abundant).

But without a credible reference for a 1.5°C pathway, companies have lacked a basis for stress testing their financial resilience, and investors are left with limited visibility on the risks they are taking.

In January the IEA announced that it would publish its new Net Zero Emissions 2050 scenario in its next World Energy Outlook, but it remained unclear whether they would publish the price projections with this. Sarasin & Partners coordinated a letter from a group of investors to the COP President, Alok Sharma, to ask him to seek assurance that the IEA would publish the full data set behind the NZE2050 scenario. We received confirmation from the COP President that he would do so, and in May, the IEA duly published these price projections. This represents a major step forward in our effort to ensure all carbon-intensive companies produce Paris-aligned accounts.

KEY VOTES AND ENGAGEMENTS
Q2 2021

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
EssilorLuxottica	12 May 2021	Elect Chair of the Board	Against	Passed

We have engaged 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 ex-Vice Chair had agreed a settlement at the AGM in 2019, the company has not made any noticeable improvement in governance. The company now has a permanent CEO but there is no lead independent director to act as a communication channel for minority shareholders.

We wrote to the Board four times and received one reply, which does not provide us with sufficient comfort that the Board is addressing our concerns. The controlling shareholder, also the Chair of the Board, has been dismissive of shareholders' concerns. The governance agreement where the Board was governed equally between Essilor representatives and Luxottica representatives expired after the 2021 AGM, and as a result the company is now fully under the control of the Chair.

Given the Chair's unwillingness to engage with shareholders despite clear governance concerns, and it is unlikely this will change, we voted against the re-election of the Chair to signal our protest.

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

Company	Date	Resolution	How we voted for you	Result
Blackrock	26 May 2021	Elect combined Chair and CEO	Abstain	Passed

According to our current voting policy, we would have voted against the Chair's reappointment due to concerns over the lack of independence at both the Chair and the lead independent director.

However, we abstained last year and did so this year again due to ongoing engagement and evidence that Blackrock is strengthening its voting policy relating to climate risks. We have not, however, seen the company move far enough in its voting on directors, as well as implementation of its commitment to press for Paris-aligned accounting and audit at its investee companies.

Percentage of votes cast for the resolution: 96.6% for, 3.4% against.

Company	Date	Resolution	How we voted for you	Result
Amazon	26 May 2021	Oversee and Report on a Civil Rights, Equity, Diversity and Inclusion Audit	For	Failed

This is a shareholder resolution submitted by the New York State Common Retirement Fund that asked Amazon to commission a racial equity audit to analyse the company's impacts on civil rights, equity, diversity and inclusion and the resultant impacts on the company's business.

With big tech touching every parts of our lives with artificial intelligence (AI) and machine learning, we believe more analyses and studies are needed to understand the impacts of these algorithms on the societies. AI bias are real and there have been examples in the US healthcare and criminal justice systems. We believe big tech need to be more transparent and honest about its impacts, and commissioning such an audit is a good place to start.

Percentage of votes cast for the resolution: 44.2% for, 55.8% against.

VOTING SUMMARY

		2016	2017	2018	2019	2020	Q1 2021	Q2 2021
Total number of company meetings		968	1,165	1,072	1, 228	771	90	320
Total number of proposals		10,387	13,244	13,433	13,373	9,168	1,073	4,503
Votes cast	for	7,728	8,570	11,152	8,732	6,378	893	3,190
	against	1,681	2,354	2,611	2,678	1,646	142	901
	abstain	61	101	181	129	95	5	51
	withhold	84	83	79	100	77	4	71
	did not vote[1]	833	2,136	1,420	1,641	972	29	285

[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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