SARASIN & PARTNERS

POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q3 2021

INTRODUCTION

Investors in companies have an important shared responsibility in holding the board to account for the management of the business.

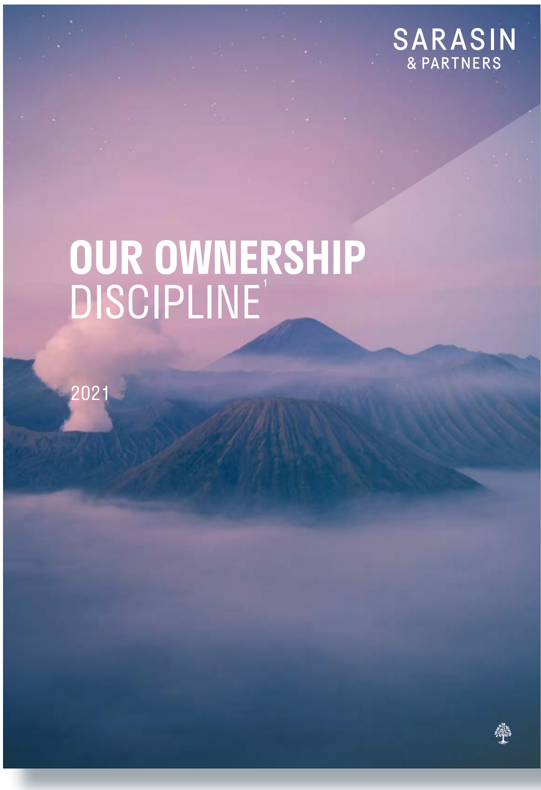
On behalf of our clients we are active in voting on matters put to shareholders, and we closely monitor investee companies and engage on issues of concern relating to corporate governance, capital structure and strategy. We do this because we believe that poor governance can adversely affect the returns 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 engagements from the last quarter. Please note that on this occasion some of these companies might not be held in your portfolio. If you wish to delve into more detail, you will find links to further analysis and presentations below.



COMPANY ENGAGEMENT: SHIMANO

This quarter we engaged with Shimano, a Japanese company that is the global leader in bicycle components, on a number of issues linked to its board composition, auditor effectiveness and communication. Our individual engagement with the company was supplemented by collaborative engagement, as members of the Asian Corporate Governance Association (ACGA) Japan Working Group.

We have concerns around the lack of independence and poor gender diversity on the Board, and have voted against directors in the past. Shimano is one of the few companies on our buylist that has no female representation on their board. Both calls were positive, and we gained some comfort that management and the Board are willing to address key governance and disclosure issues that we raised.

However, our discussion on auditor effectiveness was less reassuring. The current auditors have been in place for 34 years, which raises questions about their independence. It is crucial that companies provide financial statements and disclosures that we can trust. We continue to push the company for compliance with best practice, which in this case would be auditor rotation and not maintenance of the "status quo".

COMPANY ENGAGEMENT: SGS, MEDICAL PROPERTY TRUST AND NATIONAL INSTRUMENTS

In line with our Ownership Discipline, in the last quarter we wrote to the Chairs of SGS, Medical Property Trust and National Instruments – three companies recently added to client portfolios. We introduced ourselves as long-term responsible investors and our stewardship philosophy. We outlined the key reasons why we believe each company is well placed to deliver sustained value. We also set out areas of concern, with clear expectations for change.

SGS: A leader in inspection, verification, testing and certification, we are very positive about SGS's ability to grow as expectations rise – and regulations increase – for quality control in a wide range of areas, such as supply chain management, sustainability, health & safety, etc. Notwithstanding these strong tailwinds, we are keen to see SGS strengthen its board independence and diversity, enhance its audit process and extend its climate commitment to cover the services it offers clients.

Medical Property Trust: We have a positive view on the role MPT plays in enabling hospitals to release funds currently tied up in real estate to focus on providing acute care. We are seeking governance enhancement such as an independent chair as well as greater independence within the Audit Committee. We believe this is particularly true given the existence of related-party transactions within the business that from time to time attract media scrutiny. Finally, we have asked for more information relating to how MPT is managing its climate risks – both in terms of how physical climate change could impact demand for acute care as well as impact the real estate portfolios, as well as itself making a commitment to align its operations with the Paris Climate Agreement.

National Instruments Corp: Long-term growth of testing linked to automation and digital transformation in the semiconductor, transportation, aerospace, defence and government sectors will support strong growth. We have set out our desire to see a Board refresh, a move to annual director elections (and away from a classified board structure) as well as a change in the auditor to underpin independence. We are also pressing National Instruments' Board to make an explicit net zero carbon emission commitment alongside ensuring a greater emphasis on circular product design, recyclability and waste reduction.

Our letters to company Chairs (or the lead independent director where the Chairs are not independent) are an important part of being an active owner. Charged with representing shareholder interests, corporate boards need to hear investor views. This should not just happen around the AGM, though we will communicate to companies where we vote against and why. We are keen to establish a relationship with a board as soon as we become shareholders on behalf of our clients. This opens an avenue for dialogue early, which can prove vital in periods of difficulty.

MARKET IMPACT: GOVERNMENTS MUST ACT AT COP26

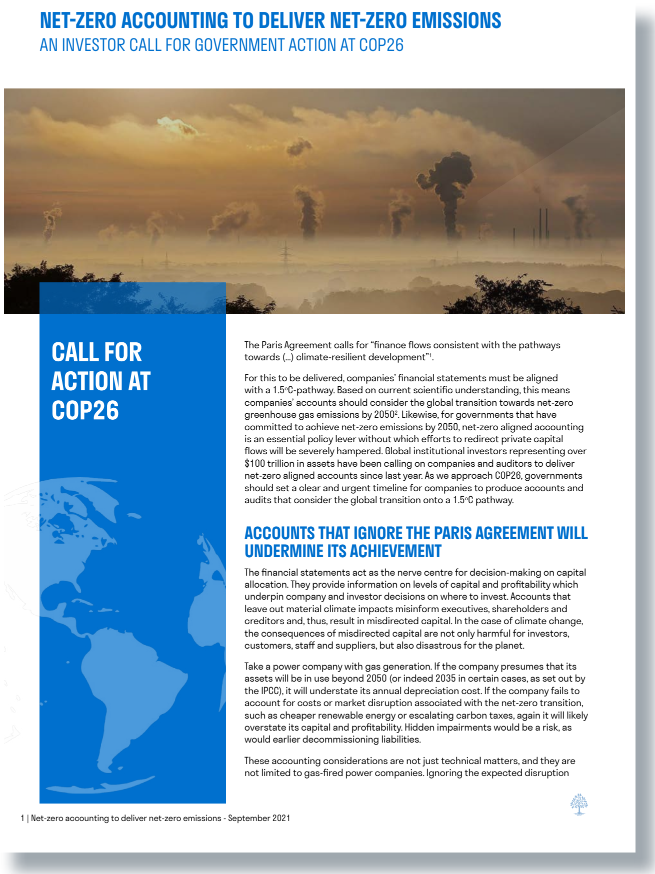
Greta Thunberg has a way with words. At a recent speech to world leaders she summed up the problem well: "Net Zero blah blah blah". "Build back better blah blah blah." Politicians empty promises are not just frustrating, they are dangerous. They are the public sector equivalent to corporate greenwash.

As you know, we have been working hard to press fellow investors to not just encourage business leaders to combat climate change, but to back up their engagements with their votes. This means voting against directors that fail to commit to align their businesses with a 1.5°C pathway, and that fail to set out how they will achieve these commitments. Looking over early results from the last AGM voting season, it remains clear that the investment community is not acting. All but one director at Chevron received over 90% of the vote, and most were over 95%. Gazprom was over 99%. BP over 97%. Shell over 95%.

Despite this broad-based investor paralysis, there are rays of sunlight. The boardroom coup at Exxon with three new climate-aware directors being elected following a campaign by the activist investor Engine No. 1 gives us hope that things may change.

The question is whether the investment community will change quickly enough to protect our planet. While we will continue to hope for – and argue for – this to be true, we do not believe it is prudent to wait and see.

For this reason, this quarter we turned our spotlight on governments. On 20th September, we released a [collective investor Position Paper] calling for governments to act. Specifically, we called for mandatory net zero aligned accounting disclosures by companies. Companies must tell us how their reported profit and capital would change if they were genuinely operating to a Paris-aligned pathway. In our view – and as set out in previous quarterly reports – this is amongst the single most powerful policy levers governments could easily and immediately implement to drive capital away from fossil fuel activities and towards clean climate solutions.


NET-ZERO ACCOUNTING TO DELIVER NET-ZERO EMISSIONS
AN INVESTOR CALL FOR GOVERNMENT ACTION AT COP26

CALL FOR ACTION AT COP26

The Paris Agreement calls for "finance flows consistent with the pathways towards (...) climate-resilient development"[1].

For this to be delivered, companies' financial statements must be aligned with a 1.5°C-pathway. Based on current scientific understanding, this means companies' accounts should consider the global transition towards net-zero greenhouse gas emissions by 2050[2]. Likewise, for governments that have committed to achieve net-zero emissions by 2050, net-zero aligned accounting is an essential policy lever without which efforts to redirect private capital flows will be severely hampered. Global institutional investors representing over $100 trillion in assets have been calling on companies and auditors to deliver net-zero aligned accounts since last year. As we approach COP26, governments should set a clear and urgent timeline for companies to produce accounts and audits that consider the global transition onto a 1.5°C pathway.

ACCOUNTS THAT IGNORE THE PARIS AGREEMENT WILL UNDERMINE ITS ACHIEVEMENT

The financial statements act as the nerve centre for decision-making on capital allocation. They provide information on levels of capital and profitability which underpin company and investor decisions on where to invest. Accounts that leave out material climate impacts misinform executives, shareholders and creditors and, thus, result in misdirected capital. In the case of climate change, the consequences of misdirected capital are not only harmful for investors, customers, staff and suppliers, but also disastrous for the planet.

Take a power company with gas generation. If the company presumes that its assets will be in use beyond 2050 (or indeed 2035 in certain cases, as set out by the IPCC), it will understate its annual depreciation cost. If the company fails to account for costs or market disruption associated with the net-zero transition, such as cheaper renewable energy or escalating carbon taxes, again it will likely overstate its capital and profitability. Hidden impairments would be a risk, as would earlier decommissioning liabilities.

These accounting considerations are not just technical matters, and they are not limited to gas-fired power companies. Ignoring the expected disruption

1 | Net-zero accounting to deliver net-zero emissions - September 2021

We sent our Position Paper to Alok Sharma in his capacity as COP President as well as Mark Carney, UN Special Envoy for Climate Action and Finance.

The UK Government is already pressing hard to ensure mandatory Task Force on Climate-Related Financial Disclosures (TCFD) reporting. But, to put it bluntly, without climate-aware accounting, we may end up with "TCFD blah blah blah". Words but no action. As finance experts, we hope Mr Sharma and Mr. Carney will support that.

Market Impact: 2022 must be the year auditors are fired for their failure to sound the alarm.

[Link to Reuters article can be found here.]

KEY VOTES AND ENGAGEMENTS
Q3 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
Abcam Plc	1 July 2021	Approve remuneration policy	Against	Passed

The company proposed a new incentive scheme called "2021 Profitable Growth Incentive Plan" to align management's interests with that of shareholders in delivering the revenue targets of its 2024 strategy. Under this proposal, annual grant of long-term incentives will be replaced with a one-off equity grant in 2021 and no further equity awards will be given to the management until 2024.

While we generally favour a multi-year remuneration scheme with clearly communicated targets, we are concerned about the potentially high quantum (the CEO and CFO could be given a maximum of 0.6% and 0.3% of issued share capital respectively) and the weak shareholding requirement (200% of salary for the CEO). We expect a CEO to hold at least 400% of salary in shares throughout their year, and we require the same standard from both large and small firms to ensure alignment with long-term shareholders.

The company received a strong against vote (46%) and we will engage with the company in our next meeting.

Percentage of votes cast for the resolution: 53.6% for, 46.4% against.

Company	Date	Resolution	How we voted for you	Result
Alstom	28 July 2021	Approve remuneration policy of Chairman and CEO	For	Passed

We would normally vote against executive remuneration when 1) shareholding requirement is below 400% of salary; 2) no clawback policy and 3) no post-departure shareholding requirement. Given our ongoing engagement with the company on governance, remuneration, climate change and supply chain, we will support this resolution this year and will consider voting against it at the next AGM if there is no change.

Percentage of votes cast for the resolution: 90.5% for, 9.5% against.

Company	Date	Resolution	How we voted for you	Result
DS Smith Plc	7 September 2021	Reappoint Deloitte LLP as auditors	Against	Passed

We are not supporting Deloitte's reappointment primarily due to their length of tenure which will now take them beyond 15 years. We have had historical concerns over excessive non-audit fees, an FRC investigation for which no disclosure was provided, as well as a lack of transparency over DS Smith's reliance on receivables factoring. We also note that no mention is made of how emerging climate risks could impact their financial position.

Percentage of votes cast for the resolution: 94.7% for, 5.3% against

VOTING SUMMARY

		2016	2017	2018	2019	2020	Q1 2021	Q2 2021	Q3 2021
Total number of company meetings		968	1,165	1,072	1, 228	771	90	320	110
Total number of proposals		10,387	13,244	13,433	13,373	9,168	1,073	4,503	1,388
Votes cast	For	7,728	8,570	11,152	8,732	6,378	893	3,190	1,139
	Against	1,681	2,354	2,611	2,678	1,646	142	901	171
	Abstain	61	101	181	129	95	5	51	2
	Withhold	84	83	79	100	77	4	71	0
	Did not vote[1]	833	2,136	1,420	1,641	972	29	285	76

[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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