SARASIN
& PARTNERS

POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q4 2021

If you are a private investor, you should not act or rely on this document but should contact your professional adviser.

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: MASTERCARD

This quarter we engaged with Mastercard, as part of our targeted outreach to 24 key companies with insufficient board diversity. Our discussion with the lead independent director provided comfort that diversity in all its forms is a top priority for the Board. She anticipates that this will continue as she takes over as Board Chair in 2022.

Over the past five years, Mastercard's board gender diversity has been 20% - 29%. However, they are currently refreshing the Board, with two directors retiring shortly. They expect to meet our 30% gender diversity guideline by the upcoming 2022 AGM. Beyond gender, the board is 60% ethnic diverse, with strong international expertise. This range of perspectives will help the business face a range of new competitive threats.

Progress is evident below board level where they have made a conscious effort to recruit with diversity in mind, often a challenge in the technology space. Improvements are beginning to show through, and gender representation at senior management now stands at 32%.

One area of weakness has historically been pay equity. Mastercard have been subject to gender pay equity shareholder resolutions in the past, which we have supported, pressing for greater transparency in this area. They now disclose more detailed pay equity information, and have recently stated that they have achieved gender pay parity at the global level. While this is positive, we would also like to see further disclosure at regional levels. We will continue to monitor progress and raise any concerns as the board transitions.

COMPANY ENGAGEMENT: NEXTERA

Over the past year, Sarasin & Partners has worked as the co-lead for the Climate Action 100+ engagement initiative for NextEra, alongside the US pension fund CalPERS. The CA100+ initiative brings together investor representing over $60 trillion in assets to press for more determined action on climate change in line with achieving a 1.5°C temperature pathway.

This escalation of engagement with NextEra's board follows two years of engagement with the Executive Chair, which saw NextEra agree to publish their first CDP report in 2021. While they are a leader in renewable power, they have been reluctant to set down an explicit commitment to align their strategy with reaching net zero emissions by 2050. This is in part due to its large gas business, which accounts for just under half its total annual generation.

In our latest call with the Executive Chair we were told that NextEra was actively considering making a 'zero commitment' but needed to wait for the conclusion of the Florida Light & Power rate case before proceeding. With this case concluded, we have made it clear that we expect the Board to act. In the event we do not see sufficient progress, we will reflect our loss of confidence in the leadership in our voting at the company's Annual General Meeting in the Spring.

MARKET IMPACT: WHAT NEXT AFTER COP26?

The final quarter of 2021 was punctuated by a depressingly familiar set of headlines on devastating weather events. In December, tornadoes in the US flattened whole villages, while the Philippines was hit by one of its worst ever typhoons.

As the world charts an increasingly dangerous climate course, world leaders once again missed an opportunity to act. The postponed COP26 summit held in Glasgow in November failed to agree the detailed action plans required. There was some progress; new ambitions to phase out coal-fired power, to end deforestation, and a surprise net-zero commitment from India were all break-throughs. The International Energy Agency estimated that the promises amassed in Glasgow put us in reach of a 1.8°C temperature target, a big step up from the 2.8°C pathway we are currently on.[1] The trouble is that these are just promises.

If we are to achieve the 45% reduction in carbon emissions required in the next eight years to limit warming to 1.5°C, we need systemic change. Global warming is not someone else's problem. Every organisation and individual must embrace their responsibility to act. This means 1.5°C-aligned actions need to be rewarded; and any misaligned actions sanctioned.

Investors, can re-calibrate incentives for company executives in line with a sustainable planet through five immediate interventions.

Vote against climate inaction – investors must not appoint directors who have not made a clear commitment to align with a 1.5°C pathway

Appoint audit committee directors who ensure accounts are consistent with a 1.5°C pathway – if we want capital allocation to align with a 1.5°C pathway, companies' accounts must incorporate the real economic impact of the net-zero transition

APPOINT AUDITORS THAT CALL OUT CLIMATE MISREPRESENTATION - SEE BELOW FOR MORE DETAIL ON OUR OUTREACH TO AUDITORS

Support remuneration committee directors who apply a net-zero underpin to executive pay- this ensures no bonuses or long-term incentives are awarded to those that harm the climate

Sanction climate misconduct in the courts – investors need to consider whether litigation is an appropriate course of action to protect long-term capital

These are not an alternative to governments setting hard caps on greenhouse gas emissions, with supportive policies prohibiting mis-aligned activities. What we propose are additive, do not require new laws or regulations, and we believe can have a meaningful impact. In 2022 we must shift gears to respond to the climate emergency.

VOTING SPOTLIGHT – WALKING THE TALK ON GOOD GOVERNANCE

How asset managers use their votes is a litmus test of their willingness to practice what they preach [see for instance ShareAction | New data shows scant improvement in fund managers'...].[2] In 2021 we continued to lead the market in the alignment of our voting practices with our commitment to good governance, and to press companies to implement responsible environmental and social practices. Our Net Zero Asset Managers pledge details our promise to vote against directors and auditors who fail to promote alignment with a 1.5°C pathway. Below we include summary charts to demonstrate our 2021 voting record compared to a set of peers. In addition, we were pleased to be showcased as a leader in our climate-related voting by Greenpeace in November: 754.11.21 Greenpeace Accountable Report v6.pdf.[3]

At a high level, our record reinforces three important principles:[4]

Willingness to voice concerns – we will not self-censure or decline to vote against management where this is in our clients' best interests. In 2021, we voted against at least one resolution at 78 of our 87 company meetings.

Thoughtful voting – we apply our published voting policy [How we vote for you - Sarasin & Partners UK (sarasinandpartners.com)[5] which is not the same as our proxy provider, ISS. Our ability to alter how we vote in particular situations enables us to achieve better outcomes. In 2021 we voted differently to ISS in over 20% of resolutions, and we over-rode our own policy in 50 cases.

Our voting informs our investment analysis. Where we vote against management, this represents a red flag on governance, which gets considered in our investment work.

[1] https://www.iea.org/commentaries/cop26-climate-pledges-could-help-limit-global-warming-to-1-8-c-but-implementing-them-will-be-the-key

[2] https://shareaction.org/news/new-data-shows-scant-improvement-in-fund-managers-voting-on-esg-resolutions

[3] https://www.greenpeace.org.uk/wp-content/uploads/2021/11/Accountable-Shareholder-votes-on-auditor-appointments.pdf

[4] This voting data applies to our global buy list as at 1.11.2021 for the proxy season 2021 (1 January – 1 November 2021)

[5] https://sarasinandpartners.com/stewardship/how-we-vote-for-you/

KEY VOTES AND ENGAGEMENTS
Q4 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
Microsoft Corporation	30 Nov 2021	Report on Gender/Racial Pay Gap	For	Failed

We supported a shareholder resolution calling for disclosure on the median gender/racial pay gap. While the company has reported on the pay gap statistically adjusted for the type of role, we agree with the proponent of this resolution that an unadjusted median gap will allow shareholders to better understand how well the company is advancing opportunities for female and ethnic minorities employees.

Percentage of votes cast for the resolution: 40% for, 60% against.

Company	Date	Resolution	How we voted for you	Result
Medtronic plc	9 Dec 2021	Approve PricewaterhouseCoopers LLP as Auditors and Authorize Board to Fix Their Remuneration	Against	Passed

The company's auditor was appointed in 1963 and has served for 58 years, a tenure which we believe is too long and will hamper its independence. We have also voted against the chair of the audit committee given the committee's role in appointing the auditor.

We have been engaging with the company on various topics including product recalls, diversity and auditor tenure. The company started to improve its ESG practices and disclosure in 2021 and we will continue to push for a change in auditor.

Percentage of votes cast for the resolution: 93.4% for, 6.6% against.

Company	Date	Resolution	How we voted for you	Result
Softcat Plc	15 Dec 2021	Approve Remuneration Report	Against	Passed

We voted against the remuneration report because the shareholding requirement for the Chief Executive falls short of our expectation (400% of salary). We had a constructive engagement with the Chair of the Board in 2021 outlining our expectation on executive shareholding. The Chair appreciated our suggestion, but noted that the short tenure of the Chief Executive (3 years) means achieving 400% will be a multi-year target and the Board will stick to a lower target to start with (200%). We opined that a new Chief Executive can progressively build up his/her shareholding to 400%.

Percentage of votes cast for the resolution: 97.4% for, 2.6% against.

VOTING SUMMARY

		2016	2017	2018	2019	2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Total number of company meetings		968	1,165	1,072	1, 228	771	90	320	110	95
Total number of proposals		10,387	13,244	13,433	13,373	9,168	1,073	4,503	1,388	892
Votes cast	For	7,728	8,570	11,152	8,732	6,378	893	3,190	1,139	664
	Against	1,681	2,354	2,611	2,678	1,646	142	901	171	116
	Abstain	61	101	181	129	95	5	51	2	4
	Withhold	84	83	79	100	77	4	71	0	8
	Did not vote[1]	833	2,136	1,420	1,641	972	29	285	76	99

[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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