

# POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q3 2022

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## > 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.

# POLICY AND COMPANY ENGAGEMENT

## Sarasin becomes a signatory to the UK Stewardship Code

Based on 2021 annual stewardship reports submitted by investors in the Spring 2022 and explaining investors' adherence to the 12 principles of the UK Stewardship Code, the UK Financial Reporting Council (FRC) has published [a list of 236 Code signatories](#). This represents two-thirds of those who applied.



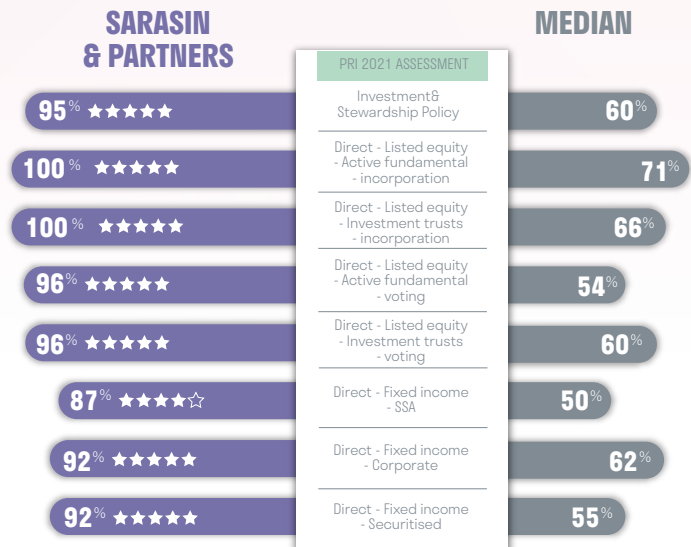
As in 2021, when 125 signatories were selected, Sarasin for the second time became a signatory of the UK Stewardship Code.



## Sarasin receives top scores in 2021 PRI reporting framework manager scores

Based on investor questionnaires submitted in 2021, PRI assessed investors' adherence to its six Principles of Responsible Investment. In 2021, PRI introduced certain changes to its assessment methodology and scoring, which has delayed announcement of the 2021 results. They were announced in September 2022.

Sarasin received the top score, five stars, for seven out of eight modules.



## Sarasin publishes its Net Zero voting policy for 2023

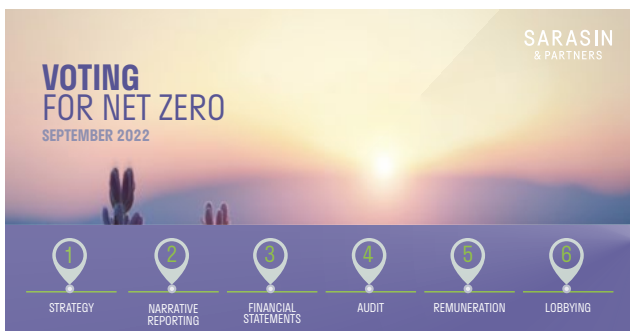
Climate change has been a consideration in our voting policy since 2018, with the policy updated annually. In September this year, we published a standalone [Net Zero Voting Policy](#) to clearly state our approach and stimulate a broader debate in the sector as to the vital importance ensuring that all our voting – including on director reappointment, auditors and the approval of annual report and accounts – takes climate risk management into account. The responsibility to vote in line with our clients' long-term interests demands that we do this. Aligning voting with the achievement of a 1.5C temperature pathway is also part of our Net Zero Asset Management commitment.

Our Net Zero voting policy applies to our Climate Amber list – those companies whose future prospects are most materially exposed to climate change and the energy transition – and thus needs to be a focus for the Board. Directors that fail to manage these risks should be held to account. Likewise, auditors that fail to sound the alarm to potential material mis-statement stemming from management ignoring accelerating decarbonisation should be replaced. Where remuneration is awarded for performance that makes climate change worse, we should reject it.



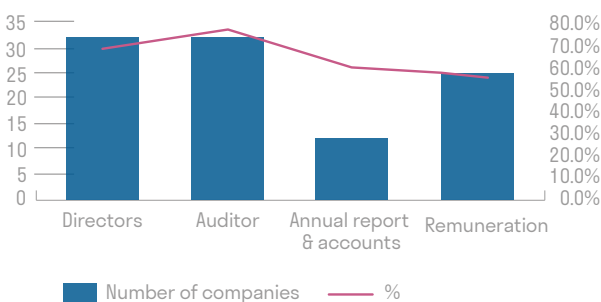
# › POLICY AND COMPANY ENGAGEMENT – CONTINUED

In our Net Zero Voting Policy, we set out how climate considerations are embedded into our voting on core items such as financial statements, auditor reappointment and remuneration, and, particularly, director elections. We call on our peers, and particularly signatories to the NZAM commitment, to ensure their voting reflects this commitment.



Please see the chart below for the climate related votes implemented in 2022.

**Climate-related voting in 2022:** Number and percentage of Amber List companies where climate was key driver of against/abstain vote.



Source: Sarasin & Partners LLP, 30.09.22

## Collective Action: 30% club UK investor race equity working group

The 30% Club UK Investor Group was established in 2011 and brings together more than 40 investors with £11.7tn AUM to drive change with companies on inclusion and diversity.

In 2022, we assumed leadership of the newly created 30% Club's UK Investor Race Equity Working Group. We lead the investor workstream to press companies to achieve the 30% Club's targets for representation of women of colour in senior executive and board roles in UK listed companies, as well as the Parker Review recommendations for ethnic diversity on FTSE Boards.

Following the launch of the 30% Club's Investor Statement on addressing Racial Inequality and Call to Action in March, which we were instrumental in drafting, we now lead the collective outreach with FTSE companies to satisfy the Statement's asks.

As FTSE 100 companies now largely satisfy the Parker Review, we have turned our attention to FTSE 250 companies, even though they have until 2024 to meet the Parker Review guidelines. We want to see faster action – specifically the appointment of at least one ethnic minority director by the end of 2023 - in line with the 30% Club's targets.

Our focus is on those FTSE 250 companies that do not meet the Parker Review recommendations, based on the most recent update report as of March 2022<sup>2</sup>.

To prioritise engagements, we stripped out the investment trusts and REITs from this list, as well as companies who were not surveyed by this update, due to being newly listed in the FTSE 250. The final target list totals 71 names, which we have split into three phases based on market capitalisation, and intend to contact over the longer term.

This quarter, we launched Phase 1, comprising 24 companies. Letters have been sent to the Chairs of all of these companies, with each member of the working group taking ownership of specific companies.

### FTSE 250 companies already meeting the target (as of December 2021)

Companies already meeting target	128
Companies not yet meeting target	105
Companies not responding	17
% Met*	55%

Source: Improving the Ethnic Diversity of UK Boards — An update report from the Parker Review March 2022

\*Base: Responding Companies

# › POLICY AND COMPANY ENGAGEMENT – CONTINUED

As can be seen by the progress highlighted below, even at this early stage the outlook appears positive, and we expect to see further improvements in the coming months.



Source: 30% Club's UK Investor Race  
Equity Working Group - Sept 2022

## **Company Engagement:** **Taiwan Semiconductor Manufacturing**

This quarter, we escalated our engagement with Taiwan Semiconductor Manufacturing (TSMC) on board gender diversity. We contacted TSMC in 2021 as part of our targeted outreach to 24 key companies with insufficient board diversity. Following our initial letter to the Chair, we received a response highlighting the company's awareness of investors focus on gender diversity, and indicating that diversity of the Board was a key consideration when evaluating director candidates.

However, following the company's 2022 AGM, there was no measurable improvement, with only one female board director in place. Additionally, this director had already served on the board for eleven years which raised concerns that the length of her tenure could negatively impact her independence. We therefore wrote to the Chair in July 2022, strongly expressing our concerns and indicating that improvement is crucial and we would like to see progress before the next director elections.

The Board Chair responded that TSMC "...will take these into consideration for our planning for the upcoming 2024 Board elections." We will continue to actively monitor their performance in this area.

## **Company Engagement:** **Amazon.com**

As one of the largest listed companies in the World, Amazon is surprisingly difficult to engage with. Despite several efforts to correspond with the Board, both bilaterally and part of broader investor coalitions, we have even found it difficult to gain access to the board and have only been able to speak with Investor Relations. This is troubling because we have identified several areas of concern that we believe the Board needs to hear from shareholders on.

We had a call with Investor Relations in July following our email exchanges which spanned several months and our focused voting at Amazon's AGM in May this year. We had six items on the agenda: 1. Data privacy & security, 2. Worker safety and labour rights, 3. Tax transparency, 4. Circular economy and pollution, 5. Competition / Fair play, and 6. Auditor rotation.

On two of them, data privacy & security and fair play, the company was reluctant to provide comments because of the ongoing investigations by the European competition authorities. On the last item on our list, we received pushback: Amazon is not planning auditor rotation in the near future. However, we did have a meaningful discussion on items 2, 3 and 4.

On Worker safety, we raised concerns about the gaps in Amazon's Safety Report and our views about more compressive safety indicators including injury rates by type of jobs and geography. There are advanced safety measures in place, such as safety vests that are embedded with intelligent chips, and AI-based camera technologies. With that proving effective, Amazon and its shareholders should benefit from enhanced disclosure. We also suggested increasing transparency around employee satisfaction rates and the effects of grievance mechanisms that are in place. We also articulated our opinion that protecting the rights of freedom of association and collective bargaining would present an opportunity for better management of human and labour rights related risks.

## › POLICY AND COMPANY ENGAGEMENT – CONTINUED

On the tax transparency item, we discussed the consequences of the 2021 regulatory changes, such as the agreement by 137 countries to the OECD framework for global tax reform including a minimum 15% tax rate for Multinational Enterprises (MNEs) from 2023 and a new EU directive requiring all large MNEs to publish country-by-country reporting (CbCR). We also discussed the 2022 Amazon shareholder resolution asking to Publish a Tax Transparency Report aligned with the Global Reporting Initiative standard. We supported it, and we are engaging with other investors as part of the PRI Tax Reference Group. Amazon seems to be acceptive to the idea of CbCR, yet reluctant to the adoption of formal global standard.

On circular economy and pollution, we discussed the steps Amazon has taken to bring down plastics use in packaging. We asked for better disclosure of the remaining volumes and reduction in absolute terms, as well as the percentage of recycled plastics. This would give investors a chance to quantify progress towards Amazon's goal of making all of its packaging recyclable. At the 2022 AGM, Sarasin supported shareholder resolution asking to Report on Efforts to Reduce Plastic Use, which received 49% of votes. We are particularly interested in seeing better quantitative disclosures related to these efforts.

### Company Engagement: Weyerhaeuser's Net Zero Strategy

Following a long-standing engagement with Weyerhaeuser, one of the World's largest timberlands management company, over recent months we have seen Weyerhaeuser announce a 2040 Net Zero

commitment, receive Science-based Targets Initiative (SBTi)-approval for its medium term emission targets and demonstrably pivot its business strategy to focus on monetising the value it brings to society through both the forest-based carbon sequestration it is able to deliver, but also its provision of a low-carbon construction material.

This marks a shift from the Board's historical reluctance to emphasise these environmental benefits, relegating them to its 'corporate responsibility' activities, rather than a future value driver. With this shift, and following a meeting with the CEO and CFO in our offices this quarter, we have upgraded their climate change rating internally, classifying them as a 1.5C-aligned business. Please see our assessment summarised in the table below.

<sup>1</sup><https://30percentclub.org/wp-content/uploads/2022/03/30-Club-Race-Equity-Investor-Statement-1.pdf>

<sup>2</sup>[https://assets.ey.com/content/dam/ey-sites/ey-com/en\\_uk/topics/diversity/ey-what-the-parker-review-tells-us-about-boardroom-diversity.pdf](https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/topics/diversity/ey-what-the-parker-review-tells-us-about-boardroom-diversity.pdf)

<sup>3</sup> At the 2022 AGM, to highlight its concerns with Amazon's ESG performance, Sarasin voted Against three Amazon's directors based on remuneration, audit and independence concerns and Against auditor EY and executive compensation. We supported 7 out of 14 SHRs and Abstained on one.

NZAM criteria	Comment
Climate/NZ commitment by 2050	<b>Yes</b> – net zero by 2040 published on climate pledge website jan 2022 <sup>1</sup> ; this currently excludes carbon sinks due to accounting complexities, but which they estimate make them net negative today (carbon record: company removed net 14 million metric tons of co2e from the atmosphere between 2020 and 2021).
Medium and short-term targets – SBTi-alignment	<b>Yes</b> – Reduce our scope 1 and 2 emissions by 42% and scope 3 emissions by 25% per ton of production by 2030 <sup>2</sup> . SBTi-approved as 1.5C aligned
Governance and Risks disclosure – TCFD & climate accounting	<b>Partial</b> – TCFD reports have been published since 2019. WY now includes scope 3 emissions targets for 2030. Financial statements lack any reference to how climate considerations have been included.
Credible transition plan	<b>Yes</b> – Carbon emission reduction goals embedded in new strategy published in Sept 2021, which underlines a new Natural Climate Solutions Business led by former CFO
Capex alignment	<b>Yes</b> – Carbon emission reduction goals embedded in new strategy published in Sept 2021, which underlines a new Natural Climate Solutions Business led by former CFO associated capex

Looking forward, we will continue to monitor and support Weyerhaeuser's delivery of its strategy, press for improved climate-related accounting disclosures and seek better disclosure on their physical risks, which could have a profound impact on the business.

## KEY VOTES

Shareholders have an important responsibility to hold directors to account for responsible oversight of businesses. Good governance underpins the delivery of enduring returns. The voting responsibilities we have on behalf of our clients are, therefore, of utmost importance to Sarasin & Partners. Our approach to voting can be found in our [Corporate governance and voting guidelines](#). This is a core part of our stewardship approach.<sup>1</sup>

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.

Date:	<b>ALSTOM</b>
<b>July 12, 2022</b>	Alstom
Resolution:	We have had an extensive engagement with Alstom during the last year, with at least five engagement activities focusing on Paris alignment, social value chain issues and various corporate governance issues including executive compensation. While we recognise the improvements that Alstom has made on certain aspects of the remuneration policy such as the introduction of a clawback and increased shareholding requirement, the policy still does not meet our shareholding guidelines of at least 400% of base salary. We are also concerned about the large number of metrics included in the LTIP.
<b>Approve Remuneration Policy of Chairman &amp; CEO</b>	
How we vote for you:	
<b>Against</b>	
Result:	Additional concerns include non-disclosure of achievements on non-financial criteria and the significant increase in the CEO award level following the acquisition of Bombardier Transport. We will continue engaging on these items.
<b>Passed</b>	Percentage of votes cast for the resolution: <b>91.6%</b> for, <b>8.4%</b> against.

Date:	<b>ALSTOM</b>
<b>July 12, 2022</b>	We are asking directors of our investee companies to explain in their Annual Report to shareholders and financial statements how the alignment of their strategies with the Paris Climate Agreement's goal of limiting temperature increases to 1.5C above pre-industrial levels will impact their financial indicators. Alstom's financial statements explicitly refer to climate disclosure regarding climate change consequences. And the company's Universal Registration document has extensive climate related disclosure. It includes Net Zero commitment and carbon reduction targets regarding specific elements of emissions. The company also provides extensive disclosure around climate adaptation and resilience. There is extensive coverage pertaining to TCFD integration.
Resolution:	
<b>Approve Financial Statements and Statutory Reports</b>	
How we vote for you:	
<b>Abstain</b>	
Result:	However, there is no explicit disclosure of how critical accounting assumptions / estimates have considered climate-related factors (e.g. asset lives; commodity prices; contingent liabilities; etc) or disclosure of stress testing for Paris (1.5C) in notes to the accounts.
<b>Passed</b>	As this is the first year of voting on climate factors at Alstom, we decided to abstain rather than vote against. We will continue engaging with the company on climate-related disclosures.
	Percentage of votes cast for the resolution: <b>99.9%</b> for, <b>0.1%</b> against.

<sup>1</sup>For further information on our stewardship philosophy, please refer to our annual Stewardship Report, available on our [website](#).

## > KEY VOTES – CONTINUED

Date:

**Sept 6, 2022**

Resolution:

**Re-elect Geoff Drabble as Director (Chair)**

How we vote for you:

**Abstain**

Result:

**Passed**

### **DS SMITH**

We have a continued concern that the CEO, Miles Roberts, is on the Nomination Committee. Last year we considered abstaining on the reappointment of the Chair, who also chairs the Nomination Committee, but chose not to, as he was new to the post and we wanted to give him the chance to address this. Since nothing has changed, we decided to abstain this time.

We engaged with DS Smith three times in the last 12 months. The focus areas included board composition. This issue should be added to the list of engagement priorities and referenced in the post-proxy letter.

Percentage of votes cast for the resolution: **88.3%** for, **11.7%** against

Date:

**July 21, 2022**

Resolution:

**Approve Remuneration Report**

How we vote for you:

**Against**

Result:

**Passed**

### **HALMA**

We had three reasons to vote against this proposal. First of all, Halma's executive remuneration policy lacks requirement for material long-term shareholdings by the Chief Executive Officer (at least 400% of base salary). We usually vote against remuneration report or policy where schemes do not require alignment of CEO's and shareholders' interests via material share-ownership.

We also paid attention to the increase in the fixed quantum of executive compensation that was not adequately explained by the company. We analysed the letter that the company sent to us later on explaining this decision. We accepted the chair's argument that this was needed to secure new CEO Marc Ronchetti as the successor to the departing CEO Andrew Williams; however, we wanted to express our concern with the lack of disclosure at the time of the decision.

Finally, we voted AGAINST this proposal because pension contribution to the executives is not the same as that to the general workforce.

Percentage of votes cast for the resolution: **67.1%** for, **32.9%** against



## > VOTING SUMMARY

		2016	2017	2018	2019	2020	2021	Q1 2022	Q2 2022	Q3 2022
<b>Total number of company meetings</b>		968	1,165	1,072	1,228	771	615	83	327	107
<b>Total number of proposals</b>		10,387	13,244	13,433	13,373	9,168	7,855	1,000	4,849	1240
<b>Votes cast</b>	For	7,728	8,570	11,152	8,732	6,378	5,886	806	3,497	982
	Against	1,681	2,354	2,611	2,678	1,646	1,330	137	1,005	152
	Abstain	61	101	181	129	95	62	6	61	12
	Withhold	84	83	79	100	77	83	2	100	0
	Did not vote <sup>1</sup>	833	2,136	1,420	1,641	972	489	49	182	34

<sup>1</sup>We do not currently vote in jurisdictions in which share blocking and power of attorney requirements apply.

Source: Sarasin & Partners LLP, 30.09.22

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Further details are available upon request.

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