SARASIN
& PARTNERS

POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q4 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

Policy outreach – net zero auditing

In anticipation of 2023 Annual Report and Accounts, we have coordinated engagement letters from investors to the heads of audit at the UK's largest audit firms: PWC, KPMG, EY, and Deloitte. These letters, sent at the end of November, are the latest in an engagement that was initiated in January 2019. They reiterate investors' expectations for auditors to provide greater, and more quantitative, disclosures relating to how material climate considerations have been considered in the audit process.

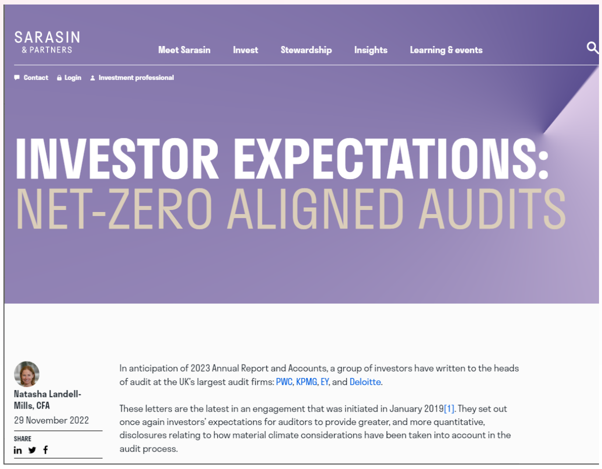
Investors wish to understand how auditors have examined three key things in company accounts:

- How expected physical climate impacts and the changed economic prospects from decarbonisation are being factored into forward-looking accounting assumptions;
- How entities' emission reduction commitments are reflected in assumptions; and
- How entities' prospects might be impacted by a 1.5-degree Celsius aligned pathway through sensitivity analysis in the Notes to the accounts.

The letters outlined recent regulatory guidance and supervisory notices, including recommendations from the Financial Reporting Council published in July, which for the first time echoes the requests from investors for 1.5-degree Celsius sensitivities.

Since Sarasin & Partners initiated this work in 2019, substantial progress has been achieved. Above all, it is now widely accepted amongst regulators, investors and companies that climate change and low-carbon transition introduce material consequences that must be considered in companies' accounts under existing regulations. The latest European guidance also calls for companies to ensure climate is fully embedded into accounting and audit processes. The investor-led Climate Action 100+ Initiative is also piloting accounting and audit criteria to its assessment framework, a tool which informs investment and stewardship decision-making.

While more companies are discussing how they consider climate in their accounting, Carbon Tracker's report "Still Flying Blind" points out that these disclosures remain high level. Critically, few have changed accounting assumptions. This sits uneasily with the societal and economic transformation needed to mitigate and adapt to our changing climate. When companies' start changing accounting assumptions, this will be a vital sign that real action is coming.



Collective action: FFP investor statement on UK seasonal workers scheme

Many vulnerable workers, particularly in the agricultural sector, continue to be exposed to the risks of exploitation. We believe that forced labour in any workplace is unacceptable and have co-signed an investor statement prepared by investor collaboration Find It, Fix It, Prevent It (FFP).

The statement relates to the UK Seasonal Workers Scheme. There are concerns that migrants from some of the poorest countries in the world, such as Nepal and Indonesia, have been left with thousands of pounds in debt after they have been sent home, in certain cases just weeks after arriving.

Despite the UK Government's commitments to tackle modern slavery and the International Labour Organization stating that no recruitment fees or related costs should be borne by workers or jobseekers, workers often have to take out loans at high-interest rates or sign over assets and property to pay these costs. This leaves the workers open to debt bondage, a key indicator of forced labour.

As signatories, we call on firms exposed to the UK agricultural supply chain to:

- Undertake an independent investigation on the scale of recruitment fees and related costs that have been made by workers recruited through the Seasonal Workers Scheme.
- Implement the Employer Pays Principle and ensure ethical or responsible recruitment in their own businesses and supply chains.

POLICY AND COMPANY ENGAGEMENT– CONTINUED

- Work with suppliers and all businesses in the UK agricultural supply chain to agree and implement a fair process to repay Seasonal Workers Scheme workers' recruitment fees and related costs.
- Encourage the government to bring the Seasonal Workers Scheme in line with international commitments such as Principles for Tackling Modern Slavery in Supply Chains and the Global Compact for Safe, Orderly, and Regular Migration.

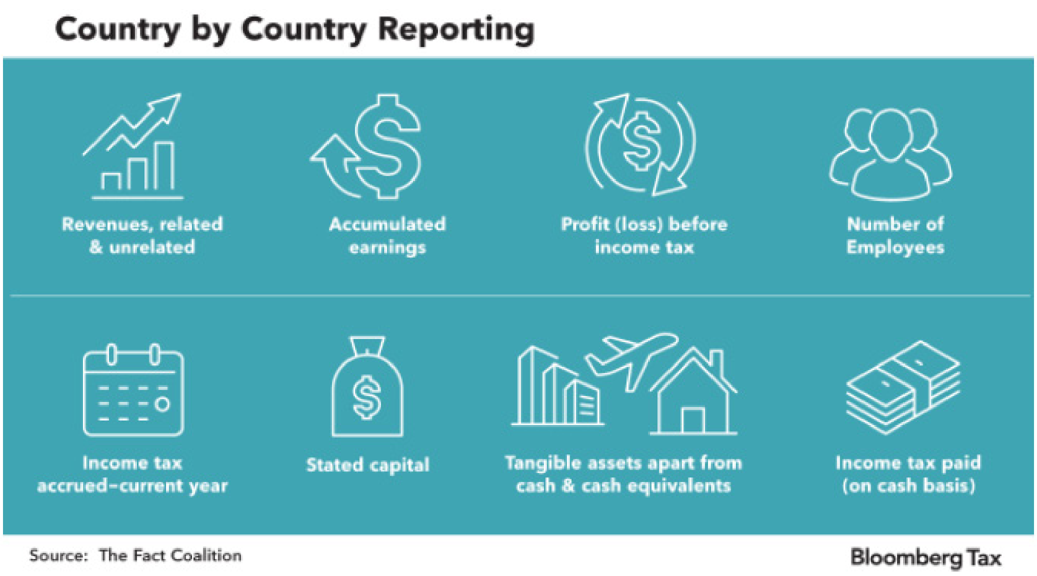
While we recognise that public statements alone will not solve the problem of modern slavery, we believe they provide an important message to companies and policy-makers that investors expect robust action.

Colllective action: engagement with ISS on tax transparency

As a member of the PRI reference group on tax transparency, this quarter we signed a collective letter to the proxy advisor Institutional Shareholder Services (ISS) asking it to adjust its benchmark voting policy to support improved corporate tax transparency. We subsequently had a call with ISS.

The goal of this initiative is to tackle aggressive tax planning where companies channel their profits to countries with lower corporate tax levels via related party transactions. Investors currently have little information to assess country-specific effective tax rates, which makes it difficult to determine whether companies are exposed to potential regulatory action, or reputational risks associated with irresponsible tax behaviour. Country-by-country reporting offers a potential antidote to such practices and has been supported by a growing number of international agencies and NGOs such as the OECD, Transparency International, Global Financial Integrity, FACT Coalition, Tax Justice Network, and Global Reporting Initiative (GRI).

The initiative targets ISS due to the proxy advisor's outsized influence over voting by a large proportion of the investment market. 3,400 investment organisations including some of the largest asset managers, hedge funds and pension funds globally follow ISS's benchmark policy in this or that way, so a change in this policy could have a meaningful impact on key tax-related votes. Currently, ISS has devoted minimal time and resource to developing a policy related to tax transparency, and the result has been a failure to support important votes seeking country-by-country reporting that we would consider aligned with sustainable value creation. ISS recommended voting against such proposals in 2022 at Amazon, Cisco and Microsoft.



POLICY AND COMPANY ENGAGEMENT – CONTINUED

Company engagement: Post-proxy letters 2022

As in the previous years, we have written to the Chairs or Lead Independent Directors at investee companies to explain our AGM voting decisions and highlight ESG concerns. We sent 53 letters this year, up from 34 letters in 2021. This covered all companies on our key watchlists (for instance, companies we view as exposed to elevated climate risks, or where we have ongoing concerns over board diversity) where we hold $25 million or more and where we had voted against management at the 2022 AGMs.

Key points raised with the Boards ranged from the lack of board independence or diversity to accounting flaws regarding quantifying risks and impacts related to net zero alignment. These letters seek to ensure that our voting is as impactful as possible by sending a clear message as to improvements we would like to see made. They also provide a basis for follow up discussions with the Board, and the opportunity to build long-term relationships.

53 post-proxy letters sent	• Explained our 2022 AGM votes against management • Some listed further concerns to impact our future votes
11 responses received	• The board will look into our concerns • Some mentioned planned improvements • Some provided additional materials • 4 suggested to meet
Follow-up	• We will be aiming to follow up on most of our post-proxy letters ahead of the 2023 voting season

Company engagements – net zero accounting

In December we continued our engagement with audit committee chairs and lead audit partners at our most carbon-intensive companies (Air Liquide, Rio Tinto, CRH and Equinor). Our goal is to gain more detailed disclosures in forthcoming financial statements on how climate change is being captured in accounting assumptions. These disclosures are important to help us understand the economic resilience of the business to climate change and the energy transition. We are specifically asking for sensitivity analyses to a 1.5-degree Celsius pathway.

These letters reinforce our audit firm outreach (see above) by underlining director accountability at companies where we view climate-related economic headwinds to be most material. Our voting is also consistent with the concerns raised (see Key Votes report for Rio Tinto as an example).

In each case, we have seen progress in response to our past engagement, which we welcome. All of these companies have introduced and expanded their climate commentary in their financial statements, with Rio Tinto and Equinor also providing sensitivity analysis (although incomplete).

Our latest letters encourage the Board to build on these disclosures to ensure investors have a more complete picture of climate resilience. We point to more recent regulatory guidance, as well as the growing investor expectations for these disclosures as exemplified by the addition of an accounting and audit element to the CA100+ initiative framework. We look forward to holding discussions with Audit Committees over coming months.

Company engagement: Siemens

This quarter, we engaged with Siemens, a German corporation involved in industry, infrastructure, transport and healthcare, on their labour and human rights performance.

We have had concerns about historic allegations of bribery and corruption as well as supply chain risks. We spoke with their Chief Compliance Officer and other senior members of the management team on areas including:

- The effectiveness of their internal controls and whistleblowing;
- Assessment and monitoring of higher risk areas for forced labour; and
- Workers' rights and pay equity in their global operations.

POLICY AND COMPANY ENGAGEMENT– CONTINUED

From the meeting it appears that Siemens have taken on board learnings from previous bribery and corruption scandals, and have implemented stronger controls. We gained a degree of comfort that the culture is improving, and there is ongoing development of a comprehensive compliance management system, and improved policies and procedures.

In terms of their supply chain, Siemens are working to comply with the new German Supply Chain Due Diligence law, which comes into effect in January 2023. This new law touches on many aspects of environmental and human rights. It requires companies to produce policy statements and risk analysis; produce annual reports on the activities of their supply chain; and rectify any violations identified. Siemens feel that they are in a relatively strong position to comply, and we look forward to further evidence of their improvements in this area.

Company engagement: London Stock Exchange Group (LSE)

We had a long-waited meeting with the Chair of the LSE and the Head of Investor Relations to discuss concerns we have had relating to poor investor communication following LSE's merger with Refinitiv (as well as the Board's failure to respond to our correspondence), board composition, remuneration and net zero alignment.

During the meeting we received evidence of a clear plan of improvement in the investor communication process.

We also discussed the effectiveness of the board given its composition which includes three strategic investor representatives. We got to a better understanding of their role and further plan of action.

We received an explanation of an unexpected change in the executive remuneration policy that happened in 2021 and, most importantly, the assurance of a stronger investor consultation process to be used going forward.

On the matter of net zero alignment, we highlighted the potential for LSE to drive the transition through at least three avenues:

1. Make a net zero transition plan a conditionality for entry into the premium market, akin to existing requirements for higher standards of governance.
2. Supplement LSE/FCA requirement for TCFD disclosures with a requirement that financial reports incorporating material climate risks and a 1.5C sensitivity analysis. This is in line with best practice sought by investors encouraged by the FRC (see above in Policy Outreach), and we think this ought to be relatively easy quick win.
3. Commit to net zero aligned lobbying activities.

The Chair suggested that we follow-up with the CEO on these proposals.

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 .[1]

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: **25 October 2022** Resolution: **Approve Proposed Joint Venture with China Baowu Steel Group Co., Ltd** How we vote for you: **Against** Result: **Passed**	**RIO TINTO** At the Special General Meeting of Rio Tinto, management proposed two resolutions associated with the planned Joint Venture (JV) with China Baowu Steel Group Co., Ltd. We consider corporate restructuring resolutions on a case-by-case basis. In this specific case, we were interested to see what analysis has been undertaken and published as to how Rio Tinto will ensure that it fulfils its 2050 net zero commitments in proceeding with this JV. These commitments also cover scope 3 emissions. We were particularly interested to understand what steps Rio was taking to reassure shareholders that it will be investing in carbon neutral R&D for steel production and any targets or goals that are being set in this regard. We engaged with Rio Tinto on climate matters five times during 2022. These discussions were largely focusing on the company's analysis and disclosure of the risks associated with the low carbon energy transition in its financial accounts. However, in the case of the proposed JV we have not seen a rationale which would outline any degree of alignment of this new asset with the company's climate targets. Rio Tinto's iron ore Scope 3 emissions in 2021 were 345Mt. This came from output of ~320Mt. As such this project will generate additional Scope 3 emissions of ~250Mt over 13 years. Rio Tinto mentioned low-carbon technologies being deployed with the US$10 million investment with Baowu, but that was (a) quite vague and (b) represented a small portion of the overall investment of US$2bn into this JV. Due to this, we opposed the proposed transation. We will continue engaging with Rio Tinto on this and other matters. Percentage of votes cast for the resolution: **99.7%** For, **0.3%** Against

[1]For further information on our stewardship philosophy, please refer to our annual Stewardship Report, available on our website.

KEY VOTES – CONTINUED

Date:

8 December 2022

Resolution:

Elect Director Denise M. O'Leary (chair of the Audit Committee)

How we vote for you:

Against

Result:

Passed

MEDTRONIC

Under the Sarasin Corporate Governance and Proxy Voting Guidelines, we vote AGAINST a resolution to appoint a non-independent director to committees dealing with audit, remuneration or nomination matters. Non-executive directors who have served on the Board for 12 years, or who have material links to the company or its executives are considered non-independent. Ms O'Leary has been on the board for 22 years by the time of the 2022 AGM. We believe that this lack of independence of the chair of the Audit Committee is a major negative governance factor.

In addition to that, according to our policy, we vote AGAINST the re-election of the Audit Committee Chair where we have voted against the appointment of the Auditor or the Report and Accounts for two or more years, and our concerns have not been adequately addressed. At Medtronic, we voted AGAINST the auditor, PricewaterhouseCoopers, during the last few years, as we believe that long tenure of the auditor hampers its independence of judgement. We define the threshold for independence as 15 years. PricewaterhouseCoopers has been the statutory auditor of Medtronic since 1963, i.e., for 58 years.

We will continue engaging with the company following up on our successful engagement on the gender diversity of the board and the issues related to product recalls.

Percentage of votes cast for the resolution: **91.4%** For, **8.6%** Against.

Date:

13 December 2022

Resolution:

Report on Tax Transparency (Shareholder resolution)

How we vote for you:

For

Result:

Failed

MICROSOFT

We are a member of the PRI reference group on tax transparency which is aiming at achieving enhanced country-by-country reporting (CbCR) of tax and profits by multi-national companies. This disclosure is often missing or piecemeal. We believe that shareholders can benefit from a better understanding of companies' tax practices and associated risks across geographies. The Global Reporting Initiative (GRI) has developed a standard (#207) specifically for this type of reporting, which we believe could be a good tool. Earlier this year we supported two other shareholder resolutions asking for the same disclosure, at Amazon and Cisco.

Microsoft's tax practices in various countries have been depicted as questionable and disclosure as insufficient in the report by the Centre for International Corporate Tax Accountability and Research (CICTAR) published in October 2022. The report argues that that Microsoft does not contribute fairly to funding the public services that its global workforce and customers depend on, and from which it earns enormous profits. The company "uses a vast network of subsidiaries around the world to game its taxes. It traces billions of dollars in financial flows between companies that have zero employees and claim residency in known secrecy jurisdictions including Luxembourg, Singapore, Bermuda, Ireland, and the Netherlands".

We are aiming to engage with Microsoft on these allegations and a possibility to improve its tax transparency.

Percentage of votes cast for the resolution: **23.0%** For, **77.0%** Against

VOTING SUMMARY

		2016	2017	2018	2019	2020	2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Total number of company meetings		968	1,165	1,072	1, 228	771	615	83	327	107	105
Total number of proposals		10,387	13,244	13,433	13,373	9,168	7,855	1,000	4,849	1240	883
Votes cast	For	7,728	8,570	11,152	8,732	6,378	5,886	806	3,497	982	628
	Against	1,681	2,354	2,611	2,678	1,646	1,330	137	1,005	152	122
	Abstain	61	101	181	129	95	62	6	61	12	4
	Withhold	84	83	79	100	77	83	2	100	0	11
	Did not vote[1]	833	2,136	1,420	1,641	972	489	49	182	34	71

[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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