SARASIN
& PARTNERS

POLICY OUTREACH, COMPANY ENGAGEMENT AND VOTING REPORT

Q2 2023

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.

POLICY AND COMPANY ENGAGEMENT

Market outreach: Net Zero Banking Standard

Banks oil the wheels of global economic growth. They help to get capital to where it is most needed to deliver goods and services that improve human livelihoods. At least this is the theory.

The failure of the market to properly account for harmful – and potentially devastating – climate change is causing banks (and indeed economies more broadly) to malfunction. By and large, we believe many banks are failing to properly consider how lending, investment banking or other services they provide may be undermining future prosperity, rather than reinforcing it. Of the world's 60 largest banks by assets, 49 that have net zero targets have been assessed by the Rainforest Action Network to be providing 81% of the financing for the top 100 fossil fuel expanders in 2022[1]. If we are to tackle the climate crisis, we need the banking industry to be pulling in the same direction.

We are therefore pleased to announce the launch of the first global investor-led Net Zero Banking Standard. The initiative has been led by the Institutional Investor Group on Climate Change (IIGCC), with Sarasin & Partners working alongside Hermes as co-chair. This work was initiated in 2021, with investor expectations published and piloted in 2022.

The Standard gives banks a clear view of investors' expectations relating to a 1.5C alignment commitment, targets, robust governance, accounting, reporting and implementation mechanisms. The focus is squarely on emissions financed and facilitated through banks' lending and other activities, not direct operational emissions which are relatively minor. Alongside the Standard, the Transition Pathway Initiative (TPI) has published a framework to monitor banks' progress.

[1] https://www.ran.org/wp-content/uploads/2023/04/BOCC_2023_06-27.pdf

POLICY AND COMPANY ENGAGEMENT– CONTINUED

The standard is built around 10 key areas, some of which are listed here.

NET ZERO COMMITMENT
COVERING ALL FINANCING AND FACILITATION

SHORT & MEDIUM-TERM TARGETS ALIGNED WITH **1.5°C**

CREDIBLE BORROWER **TRANSITION PLANS**

STRONG GOVERNANCE & CONTROLS
ENSURING ADHERENCE

TRANSPARENT REPORTING
FINANCIAL AND NON-FINANCIAL

Market outreach: Collective letter seeking a net zero aligned power regulator

This quarter we helped to coordinate a collective letter from investors and other key stakeholders to Grant Shapps, Secretary of State for the newly formed Department of Energy Security and Net Zero. The letter applauds the recently adopted government amendment to update the power regulator Ofgem's legal remit in the draft Energy Bill being debated in Parliament. The amendment will make explicit Ofgem's responsibility to support the Government's 2050 Net Zero target.

This amendment to Ofgem's mandate is critical as it will empower the regulator to fast-track grid connections for renewables over fossil fuels, which they currently lack the authority to do.

Currently, we believe Ofgem's lack of clear net zero remit has likely contributed to a growing backlog in renewables projects that are waiting – in some cases over 10 years – to get a grid connection. National Grid estimates that about 600 projects with a combined capacity of 176GW (our current capacity is just 64GW) are waiting to connect to the grid.

At a time when the world needs to be doing everything possible to confront the climate crisis, leaving renewables stranded is inexcusable.

Aside from the waste, it is undermining incentives for further investment into this new power source.

Compounding the connection prioritisation, the regulator has also failed to ensure that investments in the transmission networks to bring wind from, for example, offshore in Scotland onto the system.

In the face of increasing calls for the government to act, it dropped its opposition last month and published a proposed amendment to the Energy Bill (see page 36). We felt it important to put our weight behind this positive U-turn to pre-empt any potential backlash, while also underscoring the importance of speedy implementation. Our letter to the SoS makes these two points.

Alongside investors, companies, industry associations, and consumer groups, we were pleased to facilitate a number of clients in putting their signatures to the letter.

While this update to Ofgem's remit is important to the UK's achievement of net zero, it is also a useful example for other countries that face similar issues with the grid rapidly becoming the biggest obstacle to ensuring decarbonisation goals are achieved. We will seek to leverage this policy step in our global outreach wherever we can.

POLICY AND COMPANY ENGAGEMENT– CONTINUED

Market outreach: Collective action – investor statement on plastics reduction

The growing reliance on single-use plastics is a serious concern. Disregard for responsible waste management is imposing costly externalities on essential ecosystems and, potentially, to our economies. According to the Ellen MacArthur Foundation plastics initiative – which we support - companies will 'almost certainly' miss existing targets, increasing – rather than decreasing – their use of single-use plastic packaging overall.

Policy response has often been weak and ineffectual, but as investors we play a critical role in pressing companies and policymakers to take more proactive steps to deliver circularity.

We work with other investors on this. During the quarter we joined the newest investor collaboration to call on intensive users of plastic packaging to act more swiftly to address the plastics crisis. We fed into the development of the investor statement, pressing companies to tackle the problem at the source. The statement has been signed by 185 investors with $10 trillion in combined assets under management and represents one of the largest collaborations on this issue.

This builds on other initiatives we have been involved in. For example, last year we were pleased to lend our voice to the investor statement in support of a UN Environment Assembly resolution to create the world's first ever global plastic pollution treaty, viewed as potentially the most significant green deal since the 2015 Paris Climate Agreement. We will closely monitor the treaty's progress, and particularly the stringency of rules to prevent plastic pollution and its related risks to human well-being and the environment.

Where appropriate, we will support more robust action and will continue our engagement with the most exposed companies – particularly in the fast-moving consumer goods sector – towards adopting a circular economy mindset.

INVESTOR EXPECTATIONS

Companies should:

1. Advocate for - not against - ambitious plastics policies

2. Drastically reduce consumption of single-use plastic packaging whilst implementing re-use systems;

3. Phase out hazardous chemicals in plastics

POLICY AND COMPANY ENGAGEMENT– CONTINUED

Company Engagement:
CME Group

If there is one thing that is certain about climate change, it is that the future will be more volatile. Whether we are considering the unpredictable changes to our climate or the dislocation from weaning ourselves off fossil fuels, CME is well placed to provide vital risk management tools to a range of economic actors.

Risk management is the very essence of CME's service to society, whether this is through its provision of derivatives linked to agricultural commodities, metals or the energy sector – together accounting for over a third of revenues. To the extent that climate change disrupts economic growth, as is expected by global central banks[2], and thus feed through to inflation and interest rate volatility, these are also all covered by CME's core business derivative offering.

Our engagement with CME was initiated in 2021, when – alongside raising a number of governance concerns linked to the lack of independence of its Board, remuneration and long-tenured auditor – we encouraged the company to articulate a clear strategy to support a smoother transition towards a 1.5°C pathway.

Building on past correspondence, this quarter we held a constructive one-on-one meeting with the Chief Financial Officer and other senior executives. We are reassured to hear that CME has been developing new product solutions associated with climate change including Global Emissions Offset futures, Lithium futures and Nature-based Global Emissions Offset Futures. We underscored our interest in the company taking a more holistic and proactive approach, starting with an explicit commitment to align the business with a net zero future. This would be, in our mind, consistent with their own ambition to become a sustainable financial market. We look forward to continuing this discussion with the Board in coming weeks.

Company Engagement:
Illumina

If there is one thing that is certain about climate change, We engaged with Illumina on several occasions in 2022 and 2023. Our engagements were related to concerns we had with regard to the company strategy, specifically its 2021 decision to spend $7.1 billion to acquire Grail, which it had spun off in 2016. The acquisition has prompted dispute with antitrust regulators on both sides of the Atlantic and created uncertainty. It contributed to the company's share price dropping nearly 60% by the beginning of 2023. It should be noted that much of the fall can be attributed to higher interest rates impacting long-duration equities. However, the CEO compensation doubled in 2022 due to a one-off stock options award at 11.5 times the base salary, alongside no performance criteria.

In March this year we had a call with the Chair to discuss the Board's role in the Grail issue. We followed this up in May, meeting with three more directors, as well as the CEO and CFO. This meeting happened amid a proxy contest launched by Illumina's activist shareholder.

In this pre-AGM meeting we discussed a few items: the future of the Grail deal, the process through which Grail-related decisions were being taken, board composition and executive remuneration issues.

We marked this engagement as a Milestone: we received detailed responses which enabled us to better understand the considerations behind the decision to re-acquire Grail. This related to the business synergies and benefits of entering a big market – early cancer testing – at an advanced stage. According to Illumina's leaders, there was a mis-assessment of regulatory risks at the time when the decision to buy was made. This came about due to the prevailing market practice at the time and the anti-trust policy of the previous US administration that was to change soon after.

We are still concerned about some issues, particularly the generous options grant amidst the uncertainty. The Board's succession policy was not well explained either: they decided on the appointment of two new directors in 2023, but did not nominate them for the AGM.

This engagement helped us make the following voting decisions:

- For two of the dissident candidates instead of two incumbent directors: the Board Chair and the Chair of the Nomination & Governance Committee
- Against CEO Francis DeSouza (we intended to Abstain, but this option was not available)
- Against the Remuneration due to the 2022 option grant, as well as non-disclosure of long-term incentive plan (LTIP) targets and the CEO shareholding requirement being below our expectations.

The AGM has led to some positive developments. One of the dissident nominees, Andrew Teno, joined the Board. The incumbent Chair John Thompson stepped down. The Say on Pay resolution received exceptionally low support of 13.9% of votes, which should now force the Board to review the policy.

CEO Francis DeSouza received only 71.1% of shareholder support and resigned soon after the AGM. The search for replacement is under way.

POLICY AND COMPANY ENGAGEMENT– CONTINUED

The two new director candidates discussed at our engagement meeting, Stephen MacMillan and Scott Ullem, have been appointed to the Board, and the former became the Chair. Mr McMillan is also the Chairman and CEO of a medical device and diagnostic manufacturer Hologic. We view these developments as generally positive for the company. We are planning to engage with him in the near future to see what new strategic steps and governance changes the Board is envisaging.

Company Engagement: Hydro One

As we acquired shares of Ontario-based electric utility Hydro One at the level exceeding $25 million, according to our policy, we sent an introduction letter to the Chair of the Board. In the letter we explained our investment philosophy as a long-term and thematic investment manager, our view of Hydro One's investment case and our stewardship objectives.

We highlighted two ESG concerns that we currently have. One is on biodiversity and specifically, the deforestation impacts resulting from a need to ensure that lines remain free of obstruction. The other relates to attracting and retaining employees. The company discloses that 13% of employees are now eligible for retirement and we believe that an acceleration in employee turnover could result in higher operating costs. We asked the Chair to explain the Board's policies to address these risks.

We received a prompt and detailed response from the Chair. He thanked us for our confidence in the company's potential and expressed their commitment to transparent relationships with investors.

The letter explained Hydro One's biodiversity management plan developed by an in-house vegetation management team in partnership with various research and wildlife protection organisations. As afforestation is not an option in the wire zones, the plan focuses on pollinator habitat creation and wetland projects. Hydro One's award-winning pollinator programme has created over 100 hectares of pollinator habitat across Ontario since 2015. The Kleinburg Wetlands project – a 2023 Environmental Excellence award winner and a partnership with the Toronto and Region Conservation Authority (TRCA) – is another example of efforts to enhance biodiversity.

In response to our concerns about employee attraction and retention, the Chair confirmed their awareness of the flight risks and highlighted proactive conversations around development and retention. He listed some succession planning efforts, including initiatives to retain senior employees beyond their retirement age, share-based compensation programmes for business leaders, as well as knowledge transfer responsibilities included into roles where a specialist is nearing retirement eligibility. To ensure they attract the right workforce at early career level, they have established apprenticeship and trainee programmes and receive hundreds of applicants per role. Strong relationships with universities and colleges, scholarships and graduate development programmes support this.

We have further questions to discuss with the company going forward, such as their impacts on and relations with indigenous peoples within Ontario. We are also aware of governance-related risks that stem from its structure as a 47.2% government-controlled company. Four Board directors represent the Government of Ontario, which also has a right to replace the entire board if deemed appropriate. This actually happened in 2018. These risks need further monitoring.

Company Engagement: Tencent

We wrote to the Chair of Tencent to initiate dialogue around diversity, working conditions and ethical AI.

In June we held our first engagement call with the company. This was somewhat of a breakthrough, as Tencent have historically not responded to requests for shareholder engagement.

At the meeting we received some assurance that they take data privacy seriously and have controls in place, including external verification from Trust Arc, an international privacy assurance company. In terms of ethical AI, they feel confident that they will meet the government regulations for which the consultation was launched this spring. Tencent have provided their input.

On board diversity where we have had longstanding concerns, we gained comfort that they are making progress, particularly as they have set an internal target of 30% female directors by 2030. They stated that they plan to meet this target via a new recruitment drive aligned with their revised Board Diversity Policy which covers gender, age, ethnicity, as well as expertise. They also welcome investor input.

At the wider workforce level, they highlighted initiatives already in place including diversity, equity and inclusion (DEI) workshops, unconscious bias training, anti-sexual harassment policies and mandatory training. They stated that they comply with equal pay requirements and focus on remuneration, promotion opportunities and upholding a DEI culture. However, they were not as forthcoming on the topic of manageable working hours for their employees.

We will build on this initial engagement and we look forward to further evidence of improvements in these areas.

KEY VOTES

Shareholders have an important responsibility in holding 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: **24 May 2023** Resolution: **Commission third-party assessment on company's commitment to freedom of association and collective bargaining (shareholder resolution)** How we vote for you: **For** Result: **Failed** **For: 34.9%**	**Amazon.com** We supported a shareholder resolution to commission an independent third party to conduct an assessment on the company's commitment to freedom of association and collective bargaining. Amazon's labour practices have been depicted as questionable. Berkeley published a report revealing that Amazon is not in compliance with International Labour Organization (ILO) standards. Issues have been identified regarding the unionisation of employees and freedom of association. We engaged with the company on these issues in 2022. We also participated in the Big Tent investor group established by the Interfaith Center on Corporate Responsibility (ICCR), an organisation that advocates on ESG issues. We will continue challenging the company on their labour rights policies.

Date: **11 May 2023** Resolution: **Elect Jacobus Petrus (Koos) Bekker as Director** How we vote for you: **Against** Result: **Passed** **For: 88.4%**	**Tencent** Tencent's board diversity remains below our guidelines. We expect at least 30% gender diversity on the board at companies outside of the UK. Tencent's Board is 25% female. We have voted against the re-election of an incumbent director as neither the Chair or any nomination committee members were up for re-election. Subsequent to the AGM, we engaged with the company on this and other issues (see the Company Engagements report).

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

KEY VOTES – CONTINUED

Date:

03 May 2023

Resolution:

Approve financial statements and statutory reports

How we vote for you:

Abstain

Result:

Passed
For: 99.8%

Air Liquide

Despite Air Liquide publishing improved disclosure in the financial statements on how decarbonisation has been considered and how they are insulated from impairments due to transition risk, there are still deficiencies. There is a lack of mention on how a 1.5°C-pathway will impact its financials and the physical risk.

Over the last three years we have had ongoing engagement with Air Liquide, and we had three interactions so far this year. As a result of improved disclosure and their receptiveness to ongoing engagement, we have chosen to Abstain rather than to vote Against.

Date:

04 May 2023

Resolution:

Advisory vote to ratify named executive officers' compensation

How we vote for you:

Against

Result:

Failed
For: 33.2%

CME

We voted Against ratifying the named executive officers' compensation (Say on Pay resolution). We are concerned about excessive quantum that is not aligned with performance, lack of clawback provision and inadequate shareholding requirement. Key performance metrics are insufficiently stretching and have been consistently weakened over time, permitting the CEO to receive above target pay-outs. Despite a zero-bonus paid in 2022, a significant increase was made in all other elements which made the total quantum stay the same amidst total shareholder return falling by 21%.

Additionally, there is no indication that the degree to which CME is aligning with the Paris agreement will be factored into performance-related pay.

The company also received a strong vote Against remuneration last year (77%) and we are disappointed it has failed to address the numerous problems shareholder have raised.

We wrote to the Chair of CME three times, including post-proxy letters, but have never had a chance to discuss remuneration issues with the Board.

VOTING SUMMARY

		2016	2017	2018	2019	2020	2021	2022	Q1 2023	Q2 2023
Total number of company meetings		968	1,165	1,072	1, 228	771	615	622	72	293
Total number of proposals		10,387	13,244	13,433	13,373	9,168	7,855	7,972	1,026	4,732
Votes cast	For	7,728	8,570	11,152	8,732	6,378	5,886	5,913	788	3,279
	Against	1,681	2,354	2,611	2,678	1,646	1,330	1,416	129	805
	Abstain	61	101	181	129	95	62	83	11	34
	Withhold	84	83	79	100	77	83	113	0	43
	Did not vote[1]	833	2,136	1,420	1,641	972	489	336	33	227

[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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