SARASIN
& PARTNERS

POLICY OUTREACH AND COMPANY ENGAGEMENT

Q3 2023

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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

Market outreach: From global warming to climate boiling

According to the National Oceanic and Atmospheric Administration (NOAA), August's global surface temperature was 1.25°C above the 20th-century average of 15.6°C, making it the warmest August in the 174-year record. Wherever you look, records were broken. Whether North America, Asia, Africa, South America or even the Arctic, this was the warmest summer on record. Oceania had its warmest winter on record. This means that year-to-date (January through August) global surface temperature ranked as the second-warmest ever.

While global temperatures have been unusually warm, it has been the oceans that have shattered prior records. According to NOAA, "for the fifth-consecutive month, the global ocean surface temperature hit a record high, with a monthly sea surface temperature anomaly of +1.03°C", well outside a standard deviation relative to history.

On sea ice, NOAA note **"August 2023 set a record for the lowest global August sea ice extent on record. Globally, sea ice extent in August 2023 was about 550,000 square miles less than the previous record low from August 2019. Sea ice extent in Antarctica continued to track at record lows; Antarctica saw its fourth consecutive month with the lowest sea ice extent on record".**

These trends do not yet include the full impacts of El Niño–Southern Oscillation. El Niño shapes extreme weather globally, and is anticipated to continue through the Northern Hemisphere winter (with greater than 95% chance through December 2023 to February 2024). Forecasters are increasingly expecting a strong El Niño, with roughly 2 in 3 odds of reaching, or exceeding, 1.5°C for the November to January seasonal average. Recent research points to the persistently negative impacts of El Niño events and also that the interactions with global warming are likely to cause higher economic impacts. In short, El Niño is bad for economies. Climate change plus El Niño is even worse.

The problem is that, despite the increasingly clear scientific predictions, there is compelling research suggesting that current models are materially understating the breadth and scale of the socio-economic impacts of climate change. In July, The Institute and Faculty of Actuaries and University of Exeter published a compelling critique of mainstream models such as those being used by central banks[1]. These flaws in modelling matter because by underplaying the dangers of climate change they provide cover for inaction.

As long-term stewards of our clients' capital, we are cognisant that policy change may not come soon enough to abate temperature increases above 1.5°C, and the rising likelihood of harmful physical damage. Ironically, this may also then lead to destabilising action when governments eventually pursue even faster decarbonisation.

Against this backdrop, we are clear-eyed about the physical risks to capital that continue to grow, even in a 1.5°C warmer world. In response, we are doing two things. First, we are turning our focus to the physical risks embedded in our clients' portfolios to ensure we protect capital under our current business-as-usual 2.5°-3°C pathway. This work complements our existing climate value at risk (CVaR) analysis, which considers the financial consequences for carbon-exposed companies to a 1.5°C scenario.

Second, alongside continuing to press for bolder action by companies, policy-makers and other market participants to align with a 1.5°C pathway, we will seek greater comfort that companies are taking adequate action to build resilience to climate change. A critical first step will be to press policy makers and companies to address flaws in the modelling they have been using to ensure we don't turn a blind eye to the climate risks before us.

[1] https://actuaries.org.uk/media/qeydewmk/the-emperor-s-new-climate-scenarios.pdf

POLICY AND COMPANY ENGAGEMENT – CONTINUED

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 an improved seasonal worker scheme and better enforcement

This quarter we helped to draft a collective letter from signatories to the Find It, Fix It, Prevent It (FFP) initiative to Thérèse Coffey, Secretary of State for Environment, Food and Rural Affairs.

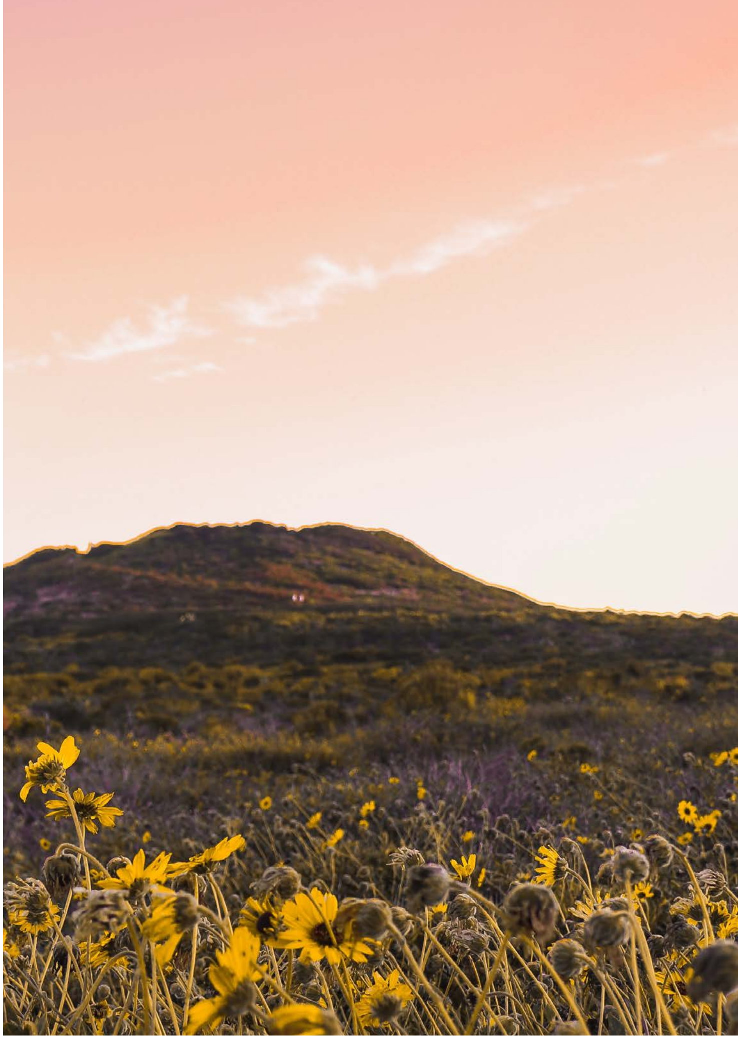
As investors, we are deeply committed to the development of a sustainable and resilient domestic food and agricultural sector. This includes ensuring that companies in this sector maintain high standards of welfare for their workforces, comply with modern slavery regulations and mitigate against risks of abuse. We remain deeply concerned about the alleged experiences of workers who have come to the UK under the Seasonal Worker Scheme. We are particularly concerned that some workers have potentially been left in severe debt, trapped in situations of bonded labour and often subjected to poor treatment in the workplace. This has been revealed in the Independent Review into Labour Shortages in the Food Supply Chain.

The letter supports its findings and continues our call for improvements that we began in 2022 as signatories to the FFP investor statement issued in December 2022. The letter specifically states:

- We support the report's call for a replacement Seasonal Worker visa scheme and for the replacement scheme to be guaranteed for a five-year period. We also support visa periods being extended to at least nine months and reducing the cooling off period to make it easier for returnees to get new visas.
- We also support the call for a workforce data strategy to improve available data on labour and skills supply. Workforce-related data, particularly around subcontracted and supply chain workforces is generally inadequate, and lessens investors' ability to assess company performance in this area.
- While we welcome the report's suggestion that employers pay the NHS surcharge, we encourage the government to go further in applying the **employer pays principle** as workers should not be paying recruitment fees or incurring significant travel expenses to come to work in the UK.
- We would also like to see the government align the new UK scheme with best practice from migrant worker regimes around the world.
- Lastly, we would like to see the new scheme be supported by a **robust enforcement system** managed by the Gangmasters and Labour Abuse Authority (GLAA) that is sufficiently well-resourced to monitor exploitation risks. The GLAA should also have better intelligence-sharing functions with the private sector and other agencies.

We believe that these recommendations will help support long-term value creation and enable sustainable domestic food production while ensuring workers are adequately protected.

POLICY AND COMPANY ENGAGEMENT – CONTINUED



Market outreach: Sarasin's submission to ISS annual benchmark policy survey

As part of our efforts to promote thoughtful voting as a key pillar of effective and sustainable capital markets, we contributed to ISS's 2023 survey on its benchmark voting policy. ISS is one of the most well-established proxy vote providers to asset managers, and its voting policies have considerable influence over global corporate governance behaviour. It is therefore vital that their analysis is orientated towards supporting long-term value creation.

The survey informs ISS's benchmark voting analysis and recommendations. Many institutional investors around the world use these recommendations as they formulate their votes at company annual general or extraordinary general meetings.

Below, we highlight key elements from our responses to the survey. Our full response can be viewed here. We also offer additional commentary on points ISS failed to cover in its survey. We should stress that Sarasin & Partners implements its own Voting Policy.

ESG expectations

Whether we are referring to climate change, biodiversity or human rights, corporate action that causes adverse impacts for society is unlikely to be costless for the business, or its shareholders, over the long-term. Our focus on protecting and enhancing enduring value for our clients means we look for responsible corporate behaviour. With few exceptions, we would expect ISS's benchmark policy to aim for global consistency on environmental and social challenges.

While increased politicisation of ESG has been apparent over the past two years, this does not mean shareholders should now neglect important long-term value drivers. Shareholders have a legitimate interest in companies disclosing how they manage ESG risks. If anything, increased and more consistent disclosure is vital to enable investors to properly assess the economic health of a business.

Responsible tax behaviour

The issue of company tax transparency and aggressive tax behaviour is not addressed adequately in ISS's benchmark policy. Yet, a company's tax practices have an important bearing on long-term earnings and regulatory and reputational risk. The PRI Tax Reference Group has set out clear expectations for multinational companies to deliver country-by-country reporting of tax information, ideally under the Global Reporting Initiative (GRI) standard 207. We will continue to engage with ISS to encourage them to provide clear analysis of companies' tax behaviour against this standard.

Net zero voting

ISS asks a number of questions about how to evolve its integration of climate consideration into votes on climate-related resolutions (please see our responses here). While this is welcome, it is concerning that ISS continues to frame climate change as being relevant only to specific climate-related votes such as the approval of Transition Plans, rather than a consideration in routine votes relating to board accountability[1].

This approach fails to properly reflect the systemic nature of climate change, its implications for long-term business prosperity and its consequent importance to corporate governance. ISS needs to increase both the scope and strength of its expectations.

For the most carbon-intensive companies, we will continue to call on ISS to consider material climate matters for all routine votes, whether for directors, auditors, the financial statements or remuneration policies, as set out in our own net zero voting policy.

Prior to responding the benchmark policy survey, we co-signed the investor letter to the head of ISS governance research highlighting a need for ISS to take a more considered approach to embedding climate factors into voting policies. This was signed by 36 institutional investors, including a number of pension schemes.

[1] Despite a new policy in 2023 to hold chairs accountable for a failure to take "the minimum steps needed" to understand and mitigate climate risks, this did not appear to trigger a single vote against a chair.

POLICY AND COMPANY ENGAGEMENT– CONTINUED

Company Engagement:
LSEG

LSEG is a critical enabler of financing across whole economies. It provides stock exchange services, supporting the issuance and trading of securities, alongside data analytics. Given its role as a platform for raising capital and supporting securities trading, it plays a potentially catalytic role in supporting more sustainable corporate behaviour. This is a role it clearly embraces, as set out in its 2022 Annual Report: **"LSEG is dedicated to enabling sustainable economic growth. Given our central role in capital markets, our global footprint and presence throughout the trade lifecycle, we are uniquely positioned to play a leading role in this respect".** As a founding member of the Net Zero Financial Service Provider Alliance, they are also committed to aligning their business with a 1.5°C pathway. They have set a net zero commitment for 2040.

On the face of it, this commitment should mean that all the finance that LSEG facilitates should be consistent with a 1.5°C pathway. However, when we take a step back and consider the end-use of capital being raised through the exchange, over 40% of the FTSE100 (the largest LSE-listed companies) market capitalisation are high-carbon entities. Moreover, according to EY analysis in April 2023, just 5% of FTSE100 companies have published credible Transition Plans[2].

So, while LSEG has taken steps to reduce operational emissions and boost the green financing, it is less clear how it is acting to drive 1.5°C alignment in the higher-carbon entities that use its services. This is where we are focusing our engagement.

Following our call with LSE's CEO in May, we had a conversation with its Head of Sustainability in August to go into more detail on what steps the LSE could take to address this gap. Recognising that LSEG lacks the power to alter listing rules, which come under the purview of the Financial Conduct Authority, our asks are two-fold:

- LSEG uses its role on the Transition Plan Task Force[3](TPT) to ensure any forthcoming listing rules are anchored to a 1.5°C-aligned pathway, rather than undefined, in keeping with the TPT's goal of setting the 'gold standard'.
- LSEG ensures issuers are informed about and implement FRC guidance on climate-related disclosures. In particular, it is vital that company financial statements properly reflect material climate risks in line with calls from investors that Sarasin has led over many years[4].

We look forward to seeing these discussions progress and turn into action.

Company Engagement:
Amazon.com

If there is one thing that is certain about climate change, As a co-lead of the Amazon group of the World Benchmarking Alliance's (WBA) Digital Collective Impact Coalition (CIC), we coordinated the process of following up on the engagement we undertook last year with Amazon on this topic.

We wrote to Amazon twice this year, asking them to further clarify policies, procedures and governance structure for making sure that AI technologies are applied in a responsible way.

In September we received a response from Amazon's investor relations department. This highlighted that Amazon, with other tech companies, had made a public commitment to safe and responsible development and application of AI models. The other companies included Microsoft, Google, Meta, OpenAI, Anthropic and Inflection – the leading players in the design and application of AI technology.

This voluntary commitment to a set of specific policies, or actions, was organised by the US presidential administration and was signed at a meeting with President Biden in the White House in July 2023.

The text of the commitments proposed by the US government is available on the White House website. Amazon disclosed it here, and Microsoft here and here.

The commitments are centred around public benefits such as fairness, security and protection of human rights. As outlined below, the commitment to supporting social interests is very clear. We highlight this language in red, and the course of action in bold:

1. Commit to internal and external **adversarial-style testing (also known as "red-teaming")** of models or systems in areas including misuse, societal risks and national security concerns, such as bio, cyber and other safety areas.
2. Work toward **information sharing** among companies and governments regarding trust and safety risks, dangerous or emergent capabilities and attempts to circumvent safeguards.
3. Develop and deploy **mechanisms that enable users to determine if audio or visual content is AI-generated,** including robust provenance, watermarking, or both, for AI-generated audio or visual content.
4. **Invest in cybersecurity** and insider threat safeguards to protect proprietary and unreleased model weights.
5. **Incentivize third-party discovery and reporting of issues and vulnerabilities.**

[1]https://www.ey.com/en_uk/news/2023/04/only-five-percentage-of-ftse-100-have-published-net-zero-plans

[2]https://transitiontaskforce.net/

[3]https://sarasinandpartners.com/row/stewardship-post/investor-expectations-for-paris-aligned-accounting/

POLICY AND COMPANY ENGAGEMENT – CONTINUED

6. **Publicly report model or system capabilities, limitations and domains of appropriate and inappropriate use,** including discussion of societal risks, such as effects on fairness and bias.
7. **Prioritize research on societal risks** posed by AI systems, including on avoiding harmful bias and discrimination and protecting privacy.
8. **Develop and deploy frontier AI systems to help address society's greatest challenges.**

We marked the outcome of this engagement as a Milestone. It is particularly remarkable that Amazon is not alone here, as adopting such a commitment will require collaboration in the industry and can potentially generate ripple effect across it. If the stated actions are implemented (and this needs to be monitored), they could also lead to standardisation of oversight and reporting procedures.

It is also interesting how, unlike the approach taken by the EU – where the AI Act is expected to be fully approved by the end of 2023 – the US administration has so far let the industry self-regulate. In the meantime, US lawmakers are preparing a broad review of AI to first determine what elements of the technology might need to be subject to new regulation and what can be covered by existing laws.

Company Engagement: Otis Worldwide

We had a meeting with the Chair/CEO of OTIS where we were aiming to confirm that last year's decisions and actions regarding their operations in Russia have been fully implemented. Our engagement on this issue is part of our social value chain initiative, which focuses on protection of human rights.

Since the beginning of Russia's war against Ukraine, which has already caused more than 24,000 civilian casualties , we engaged with companies exposed to Russia regarding whether they would exit the country. OTIS was one of those who most decisively and transparently took action to terminate their business in Russia, while also protecting the interests of people working at their production facility and trade branches in the country. Due to this quick action, they were able to sell their Russian business and fully expatriate the proceeds of the sale.

They recently confirmed to us that they would have exited their Russian operations regardless of cost or benefit, because it is a matter of principle. They also told us how they protected staff at their branch in Ukraine by offering every employee a job and support to leave the country. They are set to continue business in Ukraine.

Company Engagement: Places For People

Social housing has been a key focus for our credit investment over many years. We believe the social housing business model plays an important role in supporting lower-income households in England. Over recent years, however, evidence has emerged that raises serious questions about the quality and safety of housing delivered by certain housing associations (HAs). Additionally, HAs are facing demands to upgrade properties in line with the UK government's drive towards net zero carbon emissions.

We have launched an engagement initiative with our investee entities in this sector to promote best practice. We are initially seeking a better understanding of individual HA's performance with regards to treatment of tenants, and also alignment with climate goals.

We wrote to the chairs of four HAs, prioritised by level of exposure and materiality of issues: Places for People, Jigsaw Group, L&Q Group and Notting Hill Genesis.

In September, we held a constructive introductory call with Places for People's tax and treasury director following the letter we sent to the group's chair.

Our objectives were to:

1. Gain clarity on how they are adhering to best practice
2. Gain insight into, and comfort on, complaints handling in light of some cases received by the ombudsman
3. Secure a commitment to speak with the chair.

We obtained some clarity on property issues such as reinforced autoclaved aerated concrete (RAAC); fire safety, damp and mould; and the work being done to rectify issues. The main issue they are dealing with is damp and mould – they have noticed a spike during the past year in tenants contacting them with concerns. They have set up a dedicated triage team, increased their budget and are working to educate residents.

Regarding complaints handling, they stated that they are improving their approach and that most cases are resolved internally, with a relatively small number being escalated to the ombudsman.

They feel they are well positioned to deal with the increasingly rigorous regulatory environment. However, we would like to see better transparency on complaint handling in order to better understand underlying risks. We would also like to see a comprehensive gap analysis against the new regulatory framework. We have also requested further calls to discuss their net zero strategy and progress, and a call with the chair to discuss governance and oversight. These were all requested on the call and reiterated in follow-up correspondence.

Overall the call was positive, and addressed some key issues. Management appeared willing to take our concerns on board and engage in further dialogue.

Further details are available upon request.

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IMPORTANT INFORMATION

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