SARASIN
& PARTNERS

POLICY OUTREACH AND COMPANY ENGAGEMENT

Q4 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: Working towards climate-conscious accounting

According to the National Oceanic and Atmospheric Q4 has been a busy quarter for our outreach on climate accounting, and also one where we have had evidence of our ongoing impact.

Alongside our company-specific engagements, this work aims to impress on standard setters, regulators and other key market actors such as auditors, the importance of ensuring that material climate impacts are properly incorporated into company financial statements. Where climate change and decarbonisation are left out of accounts, we believe financial positions of climate-exposed businesses could be misrepresented, leading to a misallocation of capital.

In terms of impact: the European Securities Market Authority (ESMA) released a report at the end of October. It outlined updated guidance for how climate considerations should be integrated into financial statements. Of the 21 company examples they provide, 13 have been targets of our outreach efforts through the Institutional Investor Group on Climate Change (IIGCC). This report offers a helpful proof point for the ongoing impact of our market outreach.

This quarter we undertook a number of outreach efforts to maintain momentum behind our goals to promote better accounting:

- **International Corporate Governance Network (ICGN) Viewpoint** – We were the lead author of a paper published by the ICGN in November entitled "Reflecting climate-related matters in financial statements".
- **IIGCC webinar on climate accounting & audit** – as co-chair of the IIGCC Paris-aligned accounting and audit workstream, we presented at a thematic workshop to build awareness/educate the investment community about the importance of climate-conscious accounting and audit, and the need to engage and vote.

- **Climate Active 100+ (CA100+) thematic webinar on climate accounting & audit hosted by Ceres** – We presented at a thematic webinar convened by the CA100+ secretariat for a US-focused investor audience, also to build awareness on the importance of climate-conscious accounting.
- **Transition Pathway Initiative / London School of Economic webinar on Net Zero Banking assessments** - Alongside the above efforts, we are highlighting the importance of climate-aware accounting in our work to promote net zero aligned banking.

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

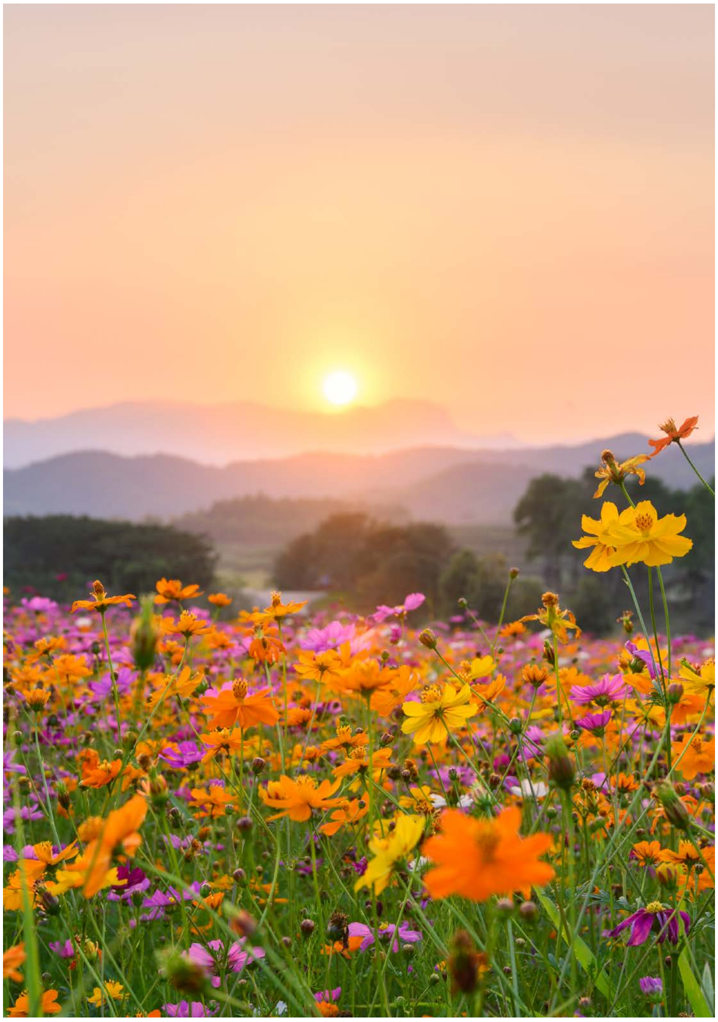
Market outreach: Investor seminar "Corporate accountability on artificial intelligence: shaping investor actions on AI ethics"

Sarasin hosted this seminar on the 5 December 2023, alongside the Digital Collective Impact Coalition (CIC) of the World Benchmarking Alliance (WBA). The event attracted 68 participants, attending in person or virtually.

We chose to have the seminar shortly after the first Global AI Safety Summit which took place at Bletchley Park in early November 2023. It was a good opportunity to discuss the potential impact of the summit's decisions on industry trends. Howard Covington, the Honorary Fellow of the Alan Turing Institute, its founder and first Chair, led the discussion on this topic with two academics from the Centre for the Study of Existential Risk (CSER) at the University of Cambridge: Seán Ó hÉigeartaigh, and Dr Maurice Chiodo. We also discussed a few breakthrough analytical documents, e.g. an AI risk classification and a set of 42 best practice processes across nine categories, that had been developed and published in the run-up to the summit. The speakers provided their views on the key areas of risk that investors should focus when they discuss AI with its developers or deployers.

We then had a panel of investor representatives sharing their ideas about practical approaches to engagement on specific risk categories related to ethical AI, escalation techniques and ways to conduct assessment of progress.

Please see the summary of the seminar discussions here.



POLICY AND COMPANY ENGAGEMENT – CONTINUED

Company Engagement: POST-PROXY LETTERS 2023

As we do every year, we have written to the chairs at investee companies to explain our AGM voting decisions and highlight ESG concerns. We sent 58 letters in 2023, up from 53 in 2022 and 34 in 2021. This covered all companies on our five key watchlists. These include companies we have assessed as being exposed to elevated climate risks, or where we have ongoing concerns over board diversity, human or labour rights, corporate governance or circular economy. In terms of materiality, these would be entities where we hold $25 million or more (or £10 million for our climate watchlist) and where we had voted against management at the 2023 AGMs.

The key points raised with the boards largely related to the lack of board independence or diversity, staggered boards, lack of auditor independence, concerns about mis-alignment of executive remuneration with shareholder interests, and reporting flaws regarding quantifying risks and impacts related to net zero transition.

These letters happen to be the main avenue to ensure that our voting is impactful and companies understand the improvements we would like to see. They also provide a basis for follow up discussions with the board.

58 post-proxy Letters sent

- Explained our 2023 AGM votes against management
- Listed any further concerns to impact our future votes

20 responses received

- The board will look into our concerns
- Some mentioned improvements
- Some provided additional materials
- 7 suggested to meet

Follow-up

- We aim to follow up on most of our post-proxy letters ahead of the 2024 voting season

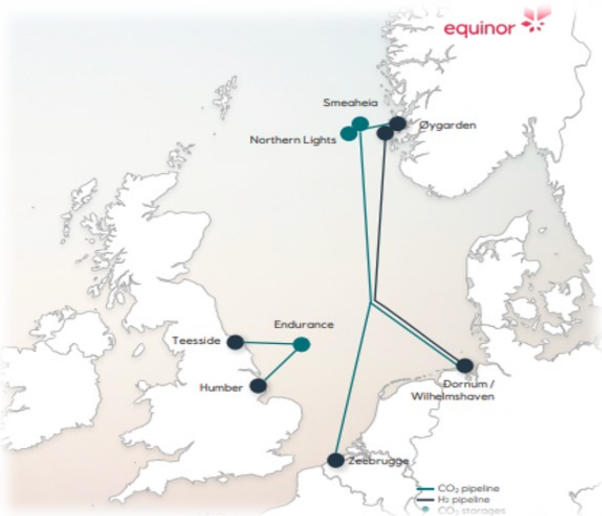
Company Engagement: EQUINOR

[The Norwegian government should] "prepare a strategy for the final phase of Norwegian petroleum activities... the Committee recommends not granting any further licences for development and operation... until such a strategy has been completed"

The 2050 Climate Change Committee, Norway, October 2023

This quote provides yet another reminder of the tensions between Norway's aspirations to be a global climate leader, and the reality of its ongoing dependence on fossil fuels. Equinor, Norway's national oil and gas champion, 67% owned by the state, exemplifies the challenges of reconciling these opposing forces.

Equinor is currently Sarasin's only oil and gas holding. We see it as the best placed in the sector to profitably navigate decarbonisation over coming decades. Not only is Equinor one of the sector's lowest cost producers, but it has been positioning itself for a net zero world. Alongside its investments into onshore and offshore wind and hydrogen, it has been quietly developing a business proposition to offer carbon transport and storage solutions to Northern Europe's industrial heartlands. In Q4 2023, Equinor announced a joint venture with RWE of Germany to start working on this proposition (see picture below). The state's shareholding should ensure the Board has the support it requires to pivot towards a cleaner energy future.



Source: Equinor, Capital Markets Day 2023 slide 11
https://cdn.equinor.com/files/h61q9gi9/global/4f657cc565efd-de0a3103fb055b6c7b5374b601e.pdf?2023-cmu-all-presentations.pdf

POLICY AND COMPANY ENGAGEMENT– CONTINUED

The above factors may help to explain why Equinor has not joined peers like BP and Shell in rolling back their decarbonisation commitments over the last year. They have reiterated their plans for production levels to be flat over this decade, before declining, and committed to deploying 50% of their capex into renewables by 2030.

Notwithstanding Equinor's potential to transform, they remain reluctant to commit to a more rapid curtailment of production, consistent with a 1.5°C pathway. They have not set any red lines for capital deployment into new fossil fuel exploration and production. However, the International Energy Agency has clearly stated that "new [oil and gas] project developments face major commercial risks and could also lock in emissions that push the world over the 1.5 °C threshold".

In an unusual move, at Equinor's latest AGM, the government underlined its expectation for a 1.5°C-aligned transition plan. We had written to the Prime Minister of Norway in January to share our support for this position.

This quarter, alongside our own letter to the Chair outlining our concerns, we helped to coordinate a collective investor letter to the Chair to underline our support for the company to act more boldly. We copied the letter to the Norwegian Ownership Department, responsible for managing the state's 67% shareholding. We also met with senior executives to explain our expectations.

We still believe Equinor could be an example of an oil and gas company that plays its part in global efforts to combat climate change. In so doing, Equinor will be better placed to protect and enhance long-term capital.

Company Engagement:
THERMO FISHER SCIENTIFIC INC.

We engaged with Thermo Fisher, the world's largest life science tools company, following our recent post-proxy letter to the Chair. We had a constructive discussion with the Corporate Secretary and IR covering concerns around human rights policies, diversity at the management level and executive remuneration.

The main human rights concern is related to allegations of Thermo Fisher's DNA collection kits for forensics investigations being used for mass biometric data collection and surveillance that "could enable further gross violations" of the rights of Tibetans. This followed previous allegations with respect to Uyghurs in the Xinjiang province of China. The company stated that since 2019, there were "no sales by Thermo Fisher or any authorised distributor to the entities listed in the transaction data provided to us". They also stated they had no evidence of their technology being used in Tibet. There would be a statement in the near future on the outcome of their investigations. While this provided a degree of comfort, we would like to see stronger policies for controls against potential misuse, and disassociation if evidence is found.

They have made progress on board diversity this year, subsequent to their AGM, and now satisfy our guidelines. They confirmed that there is a diversity strategy in place for senior leadership, but stated they will not set public diversity targets due to the potential for litigation following recent Supreme Court rulings.

Finally, we expressed remuneration-related concern: the vesting of performance shares in situations of below-median performance and the lack of non-financial (strategic) KPIs in long-term incentives. We were pleased to hear that the company is planning to improve their disclosures next year, particularly around stock options.

Company Engagement:
KONINKLIJKE AHOLD DELHAIZE

In our most recent engagement with Ahold, a Netherlands-headquartered multinational retail company, we discussed their progress on plastic reduction, a goal within Sarasin's wider circular economy initiative. Ahold's slower progress on circularity, due to exposure of plastics packaging materiality, had given them a red ranking on Sarasin's Sustainability Impact Matrix (SIM) analysis.

We had a productive and detailed discussion. Ahold noted that they will miss their 2025 target which is to have 100% of own-brand goods reusable, recyclable or compostable. This is due to several reasons, such as unfavourable economics (high costs for a low-margin industry). Post-consumer recycled content is also not available in large enough quantities to meet targets. We appreciate their transparency on this, because the company is responsibly evaluating their progress in plastic reduction targets.

Ahold has highlighted the company's slight downward trend in the use of plastic packaging and a slight upward trend in the use of compostable content, demonstrating that progress towards the target, even if delayed, is possible.

They now plan to re-evaluate and set new targets in 2024 and are working in conjunction with the Ellen MacArthur Foundation on the feasibility of new aims. Ahold's plastic experts, within their sustainability team, plan to focus on various methods to reach new targets. This includes reducing the amount of plastic used in the production and product packaging operations, conducting materiality assessments and lastly carrying out a full life-cycle assessment.

Ahold took our concerns on board and expressed strong interest for regular dialogue with Sarasin. We will continue to engage with Ahold for further monitoring of their progress.

POLICY AND COMPANY ENGAGEMENT– CONTINUED

Company Engagement: CME GROUP

CME Group, the world's largest derivatives exchange, may not seem like an obvious engagement priority relating to climate change. However, as we have flagged previously, we believe that the business is well-placed to provide its customers and shareholders with a hedge against climate risks.

This is because CME performs well when the world is more uncertain; it provides a range of derivative products that enable its customers to manage risk. Risks are likely to grow, for example in terms of unpredictable weather events related to global warming, or disruption in carbon-intensive industries caused by the transition to cleaner energy. CME offers risk management tools in key sectors that are exposed to these trends, including agricultural commodity, metals and mining, and energy. Climate-driven disruption to economic growth could also eventually feed through to volatility in its macro-hedging product range, such as interest rates futures.

Despite the opportunities and our engagement with them since 2021, CME has so far remained broadly silent on the topic. This quarter we were able to raise the matter directly on a call with two board directors, including the Lead Director and a member of audit and compensation committees. We suggested that the board undertake analysis of how its key products will be affected by climate change and the energy transition, and build a strategy to enable it to benefit from key findings. We followed up with a letter to the Lead Director in December suggesting CME publish its assessment as part of a TCFD report. We look forward to further dialogue in 2024.

Company Engagement: JPMORGAN CHASE

In November, JPMorgan released its latest climate report, which includes details of its efforts to align its financing with a 1.5°C pathway. The report provides welcome visibility into the bank's exposure to climate risks and its sector targets for a 1.5°C pathway, and also adds new sector targets for shipping and aluminium (see table). This represents progress towards our core engagement points with the bank.

Critically, the 2023 climate report gives more clarity on the level of potential risk exposure. It states that roughly 35% of JP Morgan's corporate lending was to high-carbon industries (as of 31 December 2022).

Examples of decarbonization levers across sectors

SECTOR	EXAMPLE OF DECARBONIZATION LEVER	
Oil and Gas	• Methane abatement projects (e.g., venting and flaring) • Use of alternative fuels and renewable energy in operations • Carbon capture, utilization, and storage ("CCUS") for operations and customers	• Producing alternative fuels (e.g., biofuels, synthetic fuel, etc.) • Producing hydrogen, especially green • Producing renewable energy
Electric Power	• Renewable energy (solar, onshore / offshore wind farms geothermal, etc.) • Nuclear	• Hydrogen, especially green • CCUS
Auto Manufacturing	• Battery electric vehicles • Plug-in hybrid electric vehicles	• Hydrogen fuel cell vehicles • Efficiency improvements in internal combustion engines
Iron & Steel	• Electric arc furnaces • Hydrogen for direct reduced iron production • Use of renewable electricity	• Scrap recycling and direct re-use (without re-melting) • CCUS • Extended lifetime of steel output
Cement	• CCUS • Decreasing clinker-to-cement ratio of sold cementitious products • Producing clinker replacements	• Use of alternative fuels (non-renewable waste, biomass, renewable waste) • Electrification of equipment
Aviation	• Sustainable Aviation Fuels - learn more about our work in advancing SAF development on page 7 • Alternative propulsion systems (electric, hydrogen) • Fleet replacement	• Engine efficiency improvements and retrofits • Load factor / demand management • Flight control and ground operations efficiency
Shipping	• Alternative fuels (biofuels, ammonia, hydrogen, methanol) • Fleet replacement • Electrification	• Engine efficiency improvements and retrofits • Load factor / demand management
Aluminum	• Use of renewable electricity • Electrification of refining	• Recycling of aluminum • Use of inert anodes

Source: : https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/documents/Climate-Report-2023.pdf (p. 12)

Moreover, almost 60% of the commercial and industrial credit portfolio (42% of the overall credit book) was categorised as being of high or very high carbon-intensity. 41% of the same portfolio was categorised as being at high or very high physical risk.

While all banks' climate risks reflect the carbon-intensity and physical risk exposures of their customers, what matters is how these risks are managed. Having reviewed JPMorgan's risk management actions, and following a call with its investor relations team, we wrote to the Lead Director in December to request further action.

We are keen to see JPMorgan establish explicit red lines to prevent financing of non-aligned, long-lived fossil fuel infrastructure. This would include more ambitious scope 1 and 2 emission reduction targets for oil and gas customers and more clarity around how the climate heat maps are feeding into the capital adequacy management and financial reporting. The latter are key to driving capital allocation within the bank. It continues to concern us that there is little discussion of climate risk management in JPMorgan's latest statutory filing (its 10K), and that the bank's net zero targets are omitted altogether, despite this being identified as a material strategic risk in its climate report.

Further details are available upon request.

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