SARASIN
& PARTNERS

2021 STEWARDSHIP REPORT

UK STEWARDSHIP CODE

PUBLICATION – APRIL 2022

If you are a private investor, you should not act or rely on this document but should contact your professional adviser.

INTRODUCTION

Our goal is to grow and protect our clients' capital in a way that is aligned with a sustainable society.

We believe that responsible and sustainable companies are more likely to deliver enduring value for our clients: this is why long-term stewardship sits at the heart of how we manage our clients' assets.

Our global thematic investment approach embeds rigorous environmental, social and governance analysis; a proactive ownership discipline which promotes sustainable behaviour in investee issuers; and a commitment to press for changes in the wider market that support sustainable growth. These elements are mutually reinforcing, creating a virtuous cycle of research, capital allocation and influence working together towards positive change.

Since publishing our 2020 Stewardship Code Report, we are pleased to share several exciting developments, perhaps the most significant of which is becoming a founding signatory of the Net Zero Asset Managers initiative (NZAM). At the time of writing, NZAM represents $57.5 trillion of AUM and commits asset managers to the goal of aligning their investments with net-zero greenhouse gas emissions by 2050 or sooner.

Having launched our Climate Active strategy for UK charity clients in 2017 and announced our firm-wide Climate Pledge in 2019, we are delighted to now have joined with so many other NZAM participants in working towards achieving the most ambitious Paris Agreement goal of keeping temperature increases to 1.5°C.

Overall, the past year has seen a significant uptick in our engagement activities across a range of issues – including climate change, human rights, labour rights and diversity – with 281 engagements in 2021 versus 186 in 2020. In the process, we have made encouraging headway in our multi-year engagement and policy outreach effort calling for net-zero aligned accounting and audit, which are vital in making stakeholders aware of how low-carbon transition could materially affect businesses.

In particular, we would draw readers' attention to positive results from our collaborative engagements with Shell, BP and Total on accounting and audit, and to our engagement with HSBC on financing of fossil fuel intensive activities. Our outreach to the audit industry has also gained considerable traction with investors globally, with a rising number of auditor reports providing commentary on how climate risks are being integrated into their audit processes.

On the fixed income side, we have continued to engage with issuers of green bonds to identify and highlight 'greenwashing'. Our engagement with Adani Electricity Mumbai offers a key case in point.

In a new development that acknowledges the dependence of financial capital on natural capital such as clean air, land and water, we have launched the Sarasin Natural Capital Working Group. This initiative is exploring how we can deepen our understanding and refine our investment processes to reflect environmental issues.

We hope that our 2021 report demonstrates to our clients – and other interested stakeholders – that we go above and beyond expectations in implementing the Stewardship Principles.

ABOUT THE UK STEWARDSHIP CODE

The UK Stewardship Code 2020 sets high stewardship standards for asset managers, asset owners and service providers. It defines stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.

The Financial Reporting Council (FRC) requires all signatories to the Code to publish an annual statement showing the extent to which they have complied with the Code, detailing how its principles have been applied and disclosing specific information. Our 2021 Stewardship Report serves this purpose, as well as meeting SRD II requirements and informing our clients and civil society organisations about our stewardship activities in 2021.

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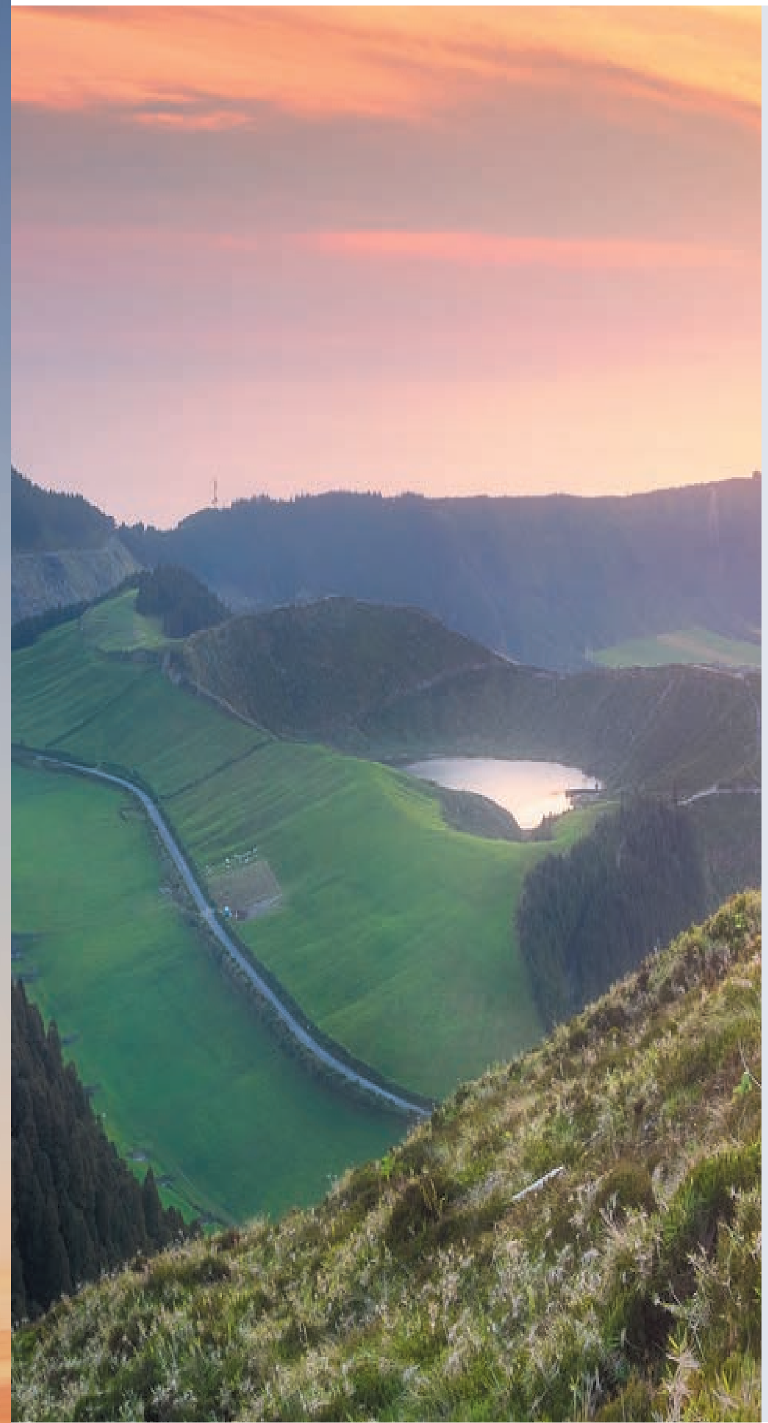


PRINCIPLE 1

PURPOSE, STRATEGY AND CULTURE

Sarasin & Partners LLP is a London-based limited liability partnership offering discretionary asset management services to charities, institutions, pension funds and private clients in the UK and around the world. Our assets under management amount to £21.0 billion (as at 31 December 2021).

OUR PURPOSE AND MISSION

Our purpose is encapsulated in our mission statement:

Think thematically. Invest responsibly. Drive change. Together we can secure tomorrow.

We believe investors have the power to grow and protect capital in a way that benefits society. We take a global, long-term, thematic approach to investing – with engaged stewardship at its core. Through integrated environmental, social and governance (ESG) considerations, active ownership and impactful policy outreach, we aim to improve financial outcomes for our clients and help secure tomorrow.

OUR CORE VALUES

Our core values underpin our culture: how we behave on a day-to-day basis, what we prioritise and how we confront problems.

We hope this report will demonstrate how these core values underpin our investment approach, how we support our clients, how we interact with other external stakeholders and how we make business decisions.

OUR CORE VALUES

Following a detailed review in 2020, we have refreshed our core values to the three we believe are most important to the way we manage our clients' assets:

PARTNERSHIP

We look after our clients' interests as if they are our own.

PEOPLE

We believe in the power of teamwork: everyone matters and we recognise that we are stronger together than as individuals. Diversity in all forms strengthens us.

STEWARDSHIP

We are long-term investors, actively working to secure a sustainable future and enduring value for our clients.

Across all assets, we undertake rigorous bottom-up analysis to identify leaders that offer attractive and sustainable return prospects as a result of the value they deliver.

OUR STRATEGY

SUSTAINABLE RETURNS DEPEND ON LONG-TERM INVESTMENTS AND PROACTIVE STEWARDSHIP

Our approach to responsible investment and stewardship is rooted in certain **beliefs**, as set out below:

We look to the long term. We purchase shares or fixed income securities where there is a case for enduring value creation, and where this is currently under-appreciated by the market. Our thematic approach guides us towards markets and activities that will be aligned with a sustainable society, and thus offer long-term growth opportunities.

We believe that responsible and sustainable entities create more enduring value. Specifically, we favour entities that articulate compelling long-term strategies, and take seriously their responsibilities to their customers, staff, local communities, the environment and their investors. We seek to avoid issuers whose success depends on imposing adverse impacts on society and/or the environment.

We add value by staying close to the leadership of entities that our clients hold, supporting long-term value-enhancing action, whilst challenging unsustainable behaviour. Responsible and proactive ownership work is as important as a considered approach to selecting which securities to buy.

We apply judgment. We understand that the world is complex, that standards, rules and expectations vary between countries and communities, and that the potential for unintended consequences is high. We therefore avoid hard and fast rules, and are guided by a focus on our goal of delivering enduring value in a manner that promotes a sustainable society.

We take a holistic approach. While it is important to many of our clients that we measure our performance relative to a market index to demonstrate the value we add, our overriding goal is to deliver capital enhancement in such a way that avoids harmful externalities for society. This is not just the right thing to do, but we believe that elevated short-term investment returns achieved at the expense of the environment or by harming local communities, for instance, are unlikely to be sustained. Moreover, the adverse external impacts may ultimately be borne by those we are tasked with looking after. We believe that our clients' interests are best served by contributing to a sustainable market environment.

SARASIN NET-ZERO ACTION PLAN

As a founding signatory to the Net Zero Asset Managers' Initiative (NZAM), we aim to align our investment approach with the Paris Climate Agreement's goal of keeping temperature increases to well below 2°C and ideally 1.5°C.

Our NZAM Action Plan describes how we are using the levers at our disposal to achieve this goal.

The key elements of our approach are to embed our net-zero goal into 1) how we deploy capital (our investment process), 2) our engagements with, and voting at, investee companies, and 3) our policy outreach to press for a 1.5°C-aligned market infrastructure.

Critical to our approach is our focus on delivering real-world reductions in emissions, rather than narrowly focusing on decarbonising individual portfolios.

Against this backdrop, Sarasin & Partners is committed to:

1. Working with our clients to manage their assets in accordance with this 1.5°C temperature cap ambition – which translates into a target of net zero by 2050.
2. Applying our 1.5°C-alignment methodology to 100% of our assets over which we have investment and stewardship discretion by 2025.
3. Reporting on our progress to clients quarterly and to other stakeholders through an annual TCFD report.

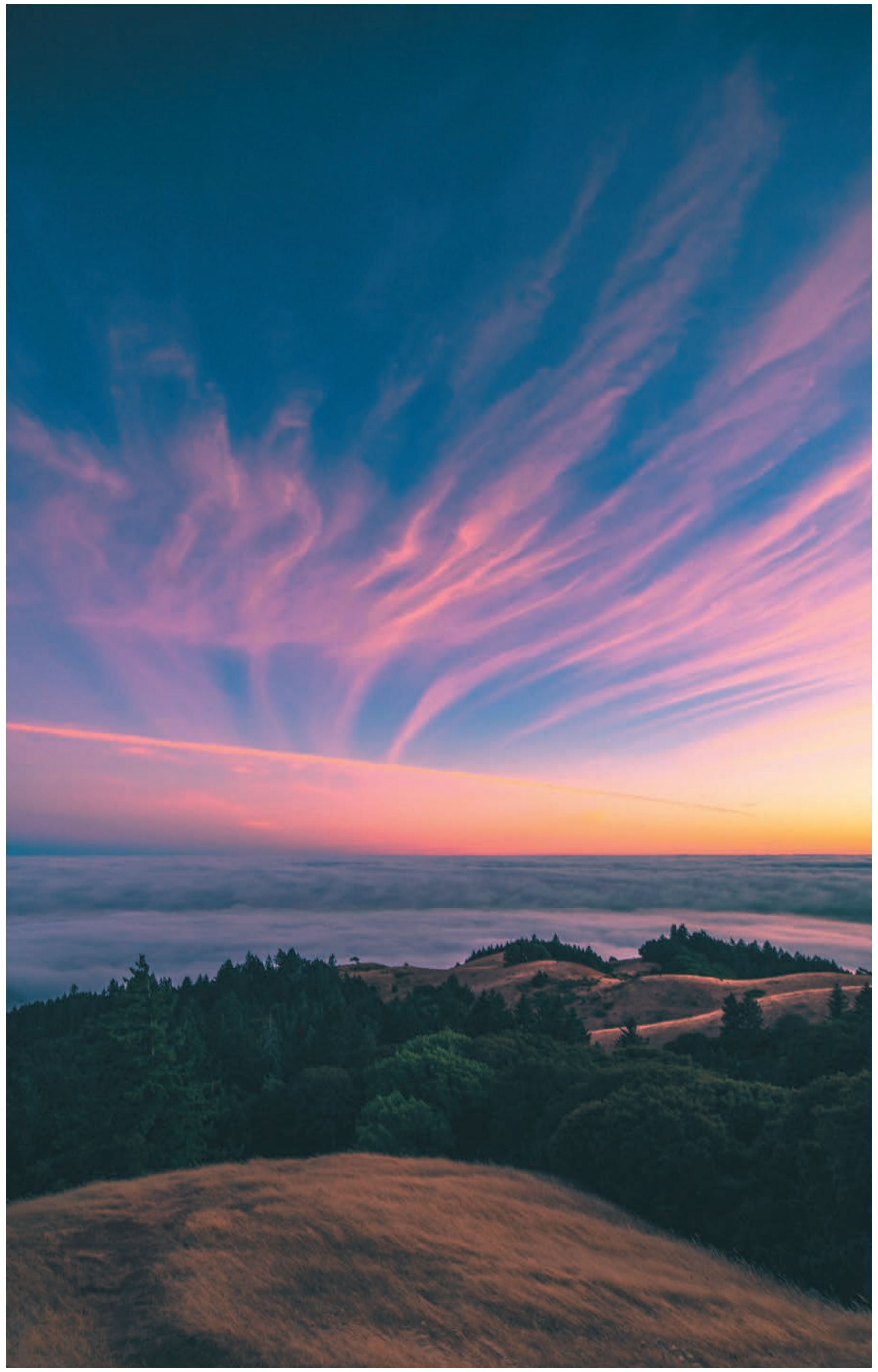
Underneath this high-level NZAM commitment sit ten more detailed commitments, which can be seen alongside our detailed methodology in our Action Plan. For full details of our Net Zero Action Plan, please visit our website.

SARASIN NATURAL CAPITAL WORKING GROUP

We established this working group in September 2021 with the aim of exploring critical natural capital issues in greater detail to help develop our policy engagement perspective and to deepen the profiling of environmental issues within the Sarasin Sustainable Impact Matrix (SIM - explained in **Principle 7**). This work includes seeking appropriate data sources to inform ongoing measurement and accounting of the issues. The working group includes experts from across Sarasin & Partners and is chaired by our Head of Investment Strategy.

A core investment belief is that financial capital has no value in isolation but is dependent on human, social and natural capital. Natural capital is under dangerous stress, not just from the impact of climate change but also the breaching of nearly all of the other major 'planetary boundaries': biodiversity loss; land conversion; freshwater withdrawals; nitrogen and phosphorus loading; chemical and plastic pollution; air pollution; and ocean acidification. All of these problems will continue to get much worse without radical change to how business operates and natural resources are managed.

The management of scarce resources is probably best regulated by incorporating them into current market systems, which means putting a cost on what many businesses have hitherto considered uncosted externalities. This has profound implications for the profitability of many industries and for the future returns of many investments. Despite the lack of transparent pricing mechanisms, and the inherent complexity, we are aiming to better incorporate impacts on natural capital into our thematic investment strategy and sustainability analysis for the future.



TRANSLATING OUR BELIEFS INTO ACTION

We put our strategic beliefs into practice through **three pillars**.

A ROBUST GLOBAL THEMATIC INVESTMENT PROCESS FOCUSED ON SUSTAINABLE VALUE DRIVERS

For equities, we implement a thematic investment process focusing on companies that support significant societal trends such as combating climate change, digitalisation, automation, ageing and evolving consumption. For fixed income, we favour activities that generate positive externalities – such as renewable energy infrastructure, housing associations, education, public transport and the not-for-profit sector. Across all assets, we undertake rigorous bottom-up analysis to identify leaders that offer attractive and sustainable return prospects as a result of the value they deliver. We examine ESG characteristics as core elements of the investment thesis via our Sustainable Impact Matrix (SIM) framework. These are incorporated into valuation analysis. We undertake stress testing for ESG risks, such as climate change, and regular security reviews when concerns arise. Our investment process is discussed further under **Principle 7**.

1 SUSTAINABLE VALUE DRIVERS

- Environmental sustainability
- Social responsibility
- Accountable and effective governance

ACTIVE OWNERSHIP

Fulfilling ownership responsibilities associated with investments held on behalf of clients is an integral part of our investment process. We have published an Ownership Discipline which guides our activities as an active owner. Once we have bought an issuer's security on behalf of clients, we monitor the business' strategic outlook and ESG performance. We seek regular dialogue with board members and management to monitor progress, and reach out for additional conversations where concerns arise. In the case of shares, we vote thoughtfully, based on our Corporate Governance and Voting Guidelines. In certain circumstances, we escalate our engagement, using tools available to us such as building investor coalitions, filing shareholder resolutions, calling for votes against directors or auditors, or making public statements. We provide more detail under **Principles 9 and 12**.

2 ACTIVE OWNERSHIP

- Impactful engagements
- Thoughtful voting
- Robust escalation

THOUGHT LEADERSHIP AND POLICY OUTREACH

Where we find market practices or policies that encourage harmful and unsustainable corporate behaviour, and we believe we can contribute to positive change, we will speak out. We engage with other investors, policymakers, regulators and market influencers, such as auditors or standard setters, to deliver a market environment in which sustainable behaviours are properly rewarded, and harmful activities penalised. Further details can be found under **Principle 4.**

3 THOUGHT LEADERSHIP AND POLICY OUTREACH

- Speaking out
- Collaborating with industry partners
- Helping shape the policy landscape to promote sustainable returns

We believe these three pillars are mutually reinforcing and are essential to delivering enduring value for our clients. It is worth stressing that we do not outsource our stewardship responsibilities to third parties, as our stewardship work is a core part of our investment process.

We also offer products that apply additional ethical or 'values-based' exclusions and analysis for interested clients, as well as a Climate Active strategy (explained in **Principle 6**) dedicated to those clients wishing to invest in line with the Paris Climate Agreement.

PRIORITISATION

We determine our stewardship priorities on an ongoing basis so that we can respond to changing events, such as COVID-19, promptly and flexibly. This does not mean there are frequent changes, but that we will always be alert to new issues as they arise and react promptly where required. We discuss how we prioritise our stewardship activities under **Principles 7 and 9** below.

EFFECTIVENESS OF OUR APPROACH

Further detail on our approach and the impact we have (and thus how effective we are at meeting clients' requirements) is provided under specific principles in this document.

Under **Principle 5**, for instance, we provide detailed performance data demonstrating how our process has delivered financial returns for our clients over time, and detail third-party evaluations of our stewardship work, which further evidences our effectiveness. We also provide preliminary data which seeks to isolate how our ESG analytical work has contributed to this performance.

Under **Principles 4 and 9**, we provide examples of the impact our policy and company engagement work has had, both for equities and fixed income.

The following key documents are located on our website:

PRINCIPLE 2

GOVERNANCE, RESOURCES AND INCENTIVES

Having a strong governance structure, encompassing clearly defined roles and responsibilities, effective challenge processes, aligned incentive structures, rigorous monitoring and clear lines of accountability, is key to achieving effective stewardship.

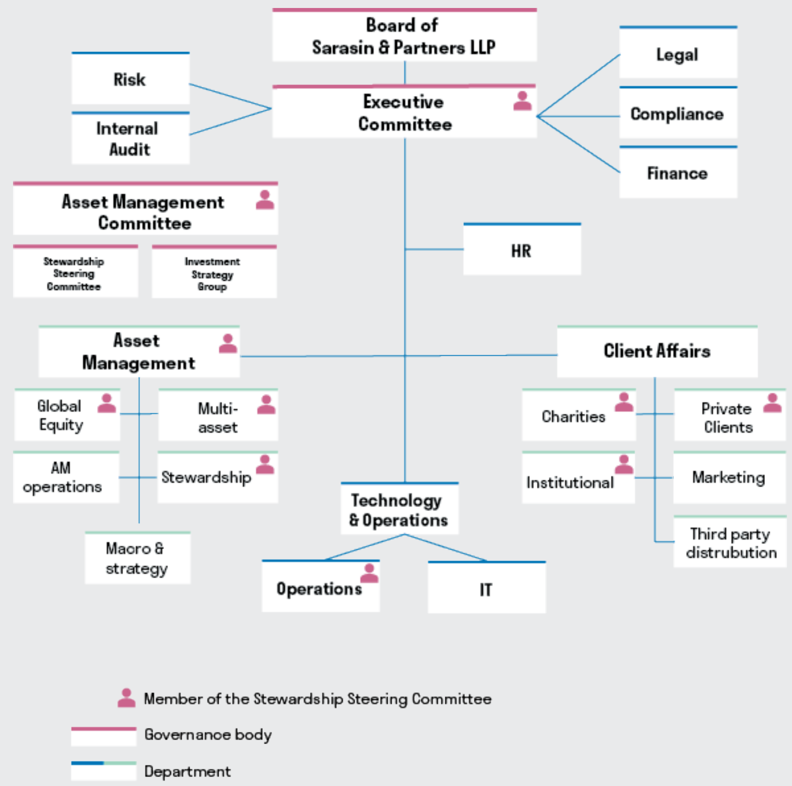
Below we set out our governance system for impactful stewardship. We believe this system has delivered effective stewardship, as reflected in our long-term financial performance, set out in **Principle 5**, the impact of our engagements, **Principle 9**, and in third-party evaluations of our stewardship work, **Principle 4**.

GOVERNANCE

The Board of Sarasin & Partners LLP has overall responsibility for the management of the business. It sets the firm's strategy but delegates implementation and day-to-day management duties to the Executive Committee. The Board is comprised of 25 partners, two independent Non-Executive Directors and two representatives from our parent company, Bank J. Safra Sarasin.

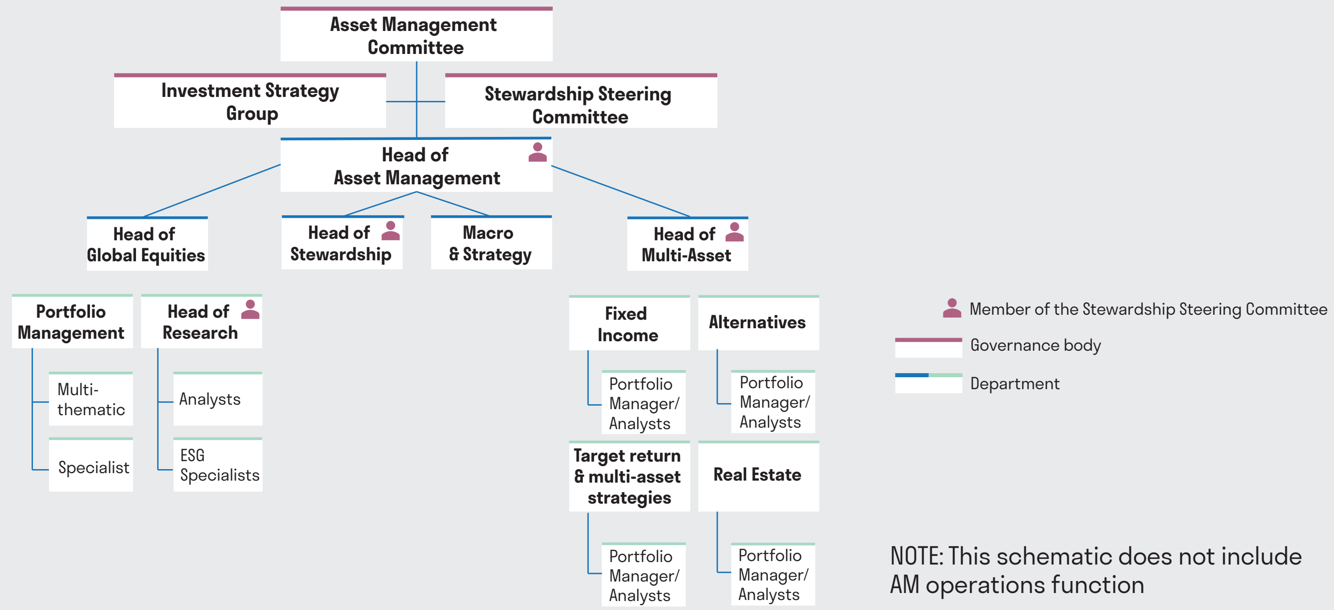
The Executive Committee is chaired by the Managing Partner and has representatives from key functional groups, including the Chief Operating Officer. This Committee is responsible for all decisions on matters that arise on a day-to-day basis, as well as implementing the agreed budget and strategy of the Board.

SARASIN & PARTNERS ORGANISATIONAL CHART



Our stewardship work is a routine item on our Board agenda, and regularly discussed at the Executive Committee.

ASSET MANAGEMENT ORGANISATIONAL CHART



NOTE: This schematic does not include AM operations function

Our Investment Strategy Group (ISG) is chaired by our Head of Investment Strategy, and includes senior partners, including the Head of Stewardship, and Board members. The ISG explores the long-term macroeconomic outlook as a basis for considering implications for asset allocation and our investment approach. Sustainability is routinely on the agenda. Specific areas of focus in 2021 were:

- Consideration of the multiple changes and risks to financial capital from imbalances in social and natural capital, including a Natural Capital Working Group to explore aspects of planetary boundary breaches.
- The existence of a return premium for sustainable investments (and the risks of a 'false yield' from failing to put an adequate cost on negative externalities).
- Investment in carbon credits and their addition to our matrix of investible assets.
- Investment in Bitcoin and the rejection of its inclusion in our matrix of investible assets.
- Further work on corporate purpose and incorporation of The British Academy Principles for Purposeful Business - "The purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems".

Stewardship Steering Committee
Following a review of Sarasin & Partners' stewardship function in 2020, a Stewardship Steering Committee was established in 2021 to provide a mechanism for ensuring effective oversight as well as cross-business input and support for the firm's stewardship work.

- **Membership:** Our Stewardship Steering Committee (SSC) is comprised of senior representatives from Sarasin's executives (including the Managing Partner), asset management, client-facing departments and operations.
- **Work:** Meetings take place at least quarterly. The agenda includes setting engagement and policy priorities, monitoring stewardship activities across asset classes, and managing stewardship commitments in light of evolving client expectations and regulations.
- **Reporting:** The SSC reports into the Asset Management Committee. Decisions and subsequent actions are notified to individuals/ governing bodies affected.

Our **Head of Stewardship** has responsibility for shaping stewardship activities and ensuring they are properly implemented. The Head of Stewardship reports into the Head of Asset Management, and from 2021 has had additional oversight and input from Stewardship Steering Committee. The Head of Stewardship works closely with the Head of Global Equity, Head of Multi-Asset and Head of Research, who share responsibility for the delivery of our stewardship work.

INTEGRATION OF ESG FACTORS INTO THE INVESTMENT PROCESS

As discussed in **Principle 1**, equity, fixed income and alternatives analysts undertake ESG analysis with support from stewardship experts. Investment notes detail the long-term drivers, bottom-up ESG profiles, including E/S/G adverse impact scores and an overall ESG materiality-based rating and momentum factor.

Any material ESG risks are reflected in investment models. Stress testing work is conducted where relevant, e.g. climate stress tests for equity holdings thought to face material headwinds from decarbonisation and/ or physical climate impacts.

Company ESG analysis is incorporated into investment theses, which go through a team review and challenge process before being eligible for purchase. This ensures the ESG issues are evaluated in sufficient depth.

Any adverse impacts identified through this process feed into our company engagements to ensure we have clear priorities for driving positive change once securities are purchased. Please see more on this in **Principle 7.**

ACTIVE OWNERSHIP

Company engagement is led jointly by analysts and stewardship experts. New stocks have engagement priorities identified, and Engagement Plans are drawn up for more involved efforts.

Escalation is pursued where required. For equities, we write to boards following annual general meetings to communicate our votes and rationales.

THOUGHT LEADERSHIP AND POLICY OUTREACH

The Head of Stewardship leads public policy positioning, with stewardship experts driving identified priority issues.

The identification of priority issues, such as climate change or diversity, is informed by the most material concerns affecting our clients' companies, and insights from policy outreach are incorporated into company analysis and engagements. This cross-fertilisation ensures we remain focused on the most material issues for our clients, and provides investment insight, thereby supporting the effectiveness of company dialogues.

RESOURCES

The Asset Management team comprises 48 employees, 27% of whom were female as of 31 December 2021. This includes five dedicated stewardship and ESG specialists. Further details of our stewardship specialists can be found on our website here: https://sarasinandpartners.com/stewardship/.

Our ESG and stewardship experts are individuals with varied backgrounds and experience from industry. As of December 2021, 40% of them are female and 40% from an ethnic minority background. Due to the diversity of backgrounds and expertise, we are in a strong position to provide sufficient diversity of thought and challenge to fulfil our stewardship obligations. In 2021, we added an ESG and voting analyst to the team with an ownership lead joining in January 2022.

It is worth stressing, however, that ESG analysis is a responsibility of each and every analyst for the securities they cover. This means the full resource focused on ESG is far greater than just the ESG and stewardship experts.

2021 ENHANCEMENTS

GLOBAL EQUITY

Our investment process was enhanced with the addition of several proprietary quantitative models that assist in identifying factor exposure at a stock and portfolio level. We added further detail to our ethical screens for stocks so as to better capture potential areas of concern as well to help steer us to engagement topics with our companies. We upgraded the content and bespoke nature of our post proxy letters which has promoted a number of subsequent engagements.

FIXED INCOME

ESG analysis has been formalised in our 6-blocker investment approach explained in Principle 7, and engagements are now tracked in an internal database. Individual issuers' ESG scores are established in a 2-step process:

1. A Materiality Map is used to assess the relative exposure of each industry sector to the 15 ESG factors we focus on.
2. Raw data on ~400 ESG-related metrics are collected and processed to produce a relative ranking of the issuers within each industry sector.

ALTERNATIVES

We continued expanding the ESG question set that is incorporated into due diligence of third-party managers. ESG integration and engagement procedures have been further strengthened in 2021, with more frequent and in-depth engagements with investee fund managers.

As part of ensuring our team has sufficient tools to fulfil our stewardship responsibilities, we allocate a significant portion of our research budget to ESG research. In 2021, approximately 14% of our overall research budget was spent on dedicated ESG research providers such as ISS, MSCI ESG Research, CDP and Responsible Investor, amongst others.

This amount, however, understates the total spending since we expect all our other research providers to deliver ESG insights, and this is a criterion we assess in our ongoing reviews of research quality. We anticipate the percentage of our research budget focused on ESG will rise in 2022.

Among other stewardship tools, we use Institutional Shareholder Services to help implement our voting policy. We conduct regular service reviews, please see **Principle 8** for more information.

DIVERSITY AND INCLUSION

Diversity and Inclusion (D&I) is a key focus of our organisation, and is reflected within our core values, see **Principle 1**.

Sarasin actively promotes diversity and equal opportunities amongst staff and in our governance structures. We believe it is important to measure, monitor and, therefore, manage our efforts in this area, so that we can maintain a strong and positive culture as a firm.

Following the establishment of a D&I Committee in 2020, comprised of colleagues from across the organisation, we adopted the following mission statement and operating framework in January 2021.

Since adopting this D&I mission statement, we have formed sub-committees and a number of working groups to identify, develop and implement initiatives aimed at achieving our four goals. These sub-committees have already rolled out a number of initiatives, including an inclusive calendar of events, a review of our internal committees and their Terms of Reference, a review of our hiring policy and we have formed a partnership with the Diversity Project. For example, in 2021, all corporate governance committee memberships were reviewed with D&I considerations in mind. We have also taken steps to improve our data collection, which will allow us to track and measure progress more easily.

We report on our D&I performance in our annual Corporate Social Responsibility report.

SUPPORT AND INCENTIVES FOR STEWARDSHIP

Because stewardship is an integral part of our investment philosophy, it is not the responsibility of one person or team. All members of the investment team are required to assess ESG considerations for their coverage and undertake engagements.

Individuals' performance on ESG integration and engagements is included as part of the annual appraisal process, which feeds into performance awards.

D&I COMMITTEE

Mission statement	Sarasin & Partners commits to promote a culture where all stakeholders are accepted as individuals and treated fairly and respectfully. We will aim to improve diversity both within the firm and across the asset management industry.			
Two strands	**INCLUSION** Sarasin & Partners commits to promote a culture where all stakeholders are accepted as individuals and treated fairly and respectfully.		**DIVERSITY** We will aim to improve diversity both within the firm and across the asset management industry.	
Sub-committees	BELONGING	EQUALITY	REPRESENTATION	OUTREACH
Four goals	Make progress towards an environment where all employees feel their identity and background is accepted and valued at S&P.	Make progress towards an environment where all employees feel they are treated fairly and respectfully and are empowered to achieve their potential at S&P.	Achieve a measured, material improvement in diversity within the firm.	Make significant contributions to improving diversity within our industry, becoming a leader rather than a laggard among peers.

The investment team's incentives reflect five-year performance versus tailored benchmarks; the achievement of priority objectives agreed with the line manager, as well as alignment with Sarasin's core values, see **Principle 1**. Where individuals are found lacking in either ESG-related priorities or their adherence to the stewardship core value, this will impact their awards and prospects for advancement in the firm.

In the end, we are results-oriented, rather than process-oriented, so we are interested in where we have added value to risk-adjusted performance for our clients, changed company behaviour for the better and shifted the policy debate.

Stewardship specialists do regular training for investment and client-facing staff. Analysts are expected to keep abreast of ESG risks and opportunities for their coverage by accessing our research providers and attending relevant conferences and webinars. The Head of Equity Research oversees and reviews research providers to maintain the quality of these inputs, and the ESG and stewardship experts routinely circulate educational materials and opportunities for improving awareness of ESG themes.

Aside from on-the-job learning, the investment team is encouraged to take the CFA's course on ESG, and this year two have completed the course, with a further five enrolled, and two more into a new CFA Certificate in Climate and Investing. In total 12% of analysts have now taken a formal ESG course.

NET ZERO ASSET MANAGERS' COMMITMENT – GOVERNANCE AND IMPLEMENTATION

As discussed in **Principle 1**, in December 2020 we became a founding signatory to the Net Zero Asset Managers' Initiative (NZAM), which commits us to ensuring that all our in scope assets are aligned with a 2050 net-zero plan.

In November 2021 we submitted the key elements of our commitment to the Institutional Investor Group for Climate Change.

This commitment builds on a history of work to promote action on climate change. In 2017 we launched our Climate Active strategy for charity clients, offering an investment solution aligned with promoting achievement of the Paris Climate Agreement goals. In January 2019, we published a firm-wide Climate Pledge setting out our commitment to integrate climate risks into our investment process; alongside engagement and policy outreach work to support global efforts to keep temperature increases well below 2°C, and ideally 1.5°C.

From 2022, **responsibilities for NZAM** implementation are delegated to the relevant units within the business, as follows:

- **Investment Strategy Group** – considers climate risks in the formulation of macroeconomic assumptions underpinning strategic asset allocation (SAA) and the consideration of new asset classes. This work is delegated to a joint ISG-SSC working group and led by the Macro team.
- **Asset Management** – responsible for embedding climate risk monitoring and net-zero alignment into our global equities, multi-asset and stewardship processes. This includes ensuring net-zero scenario analysis through our in-house Climate Value at Risk (CVAR), 1.5°C-alignment assessments and proactive engagement work.
- **Risk** – developing and implementing appropriate climate risk monitoring tools for tracking carbon footprint data and net-zero alignment at a portfolio level against targets. These are communicated to asset management through monthly CIO/risk review meetings and the Investment Risk Committee.
- **Client teams** – lead on reporting climate risks and opportunities to clients alongside broader investment performance. Also develop training and educational materials for clients were relevant.
- **Operations** – oversight of operational commitment to net zero, including wherever possible scope 3 emissions related to travel and our supply chain, and with a focus on reducing absolute emissions over carbon offsets.
- **Internal audit/assurance** – to undertake routine checks that our NZAM processes are being properly implemented. External audit to be introduced once internal audit fully operational.
- **Human resources** – incentive frameworks reviewed and monitored for alignment with our net-zero targets.

The Board will report on the implementation of the net-zero investment commitment following the TCFD framework, annually.

In February 2022, we published a detailed **Action Plan** for implementing our NZAM commitment. Please see our website for the full report.

In terms of the governance framework, our net-zero commitment is overseen by Sarasin's Board, with routine monitoring undertaken by our Stewardship Steering Committee (SSC) with input from Asset Management, Risk and other departments where relevant. Oversight of client reporting is monitored by our Client Relationship supporting team, with our operational decarbonisation strategy falling under the purview of the Chief Operating Officer.

In setting our targets to support global decarbonisation, we are clear that our goal is to bring down real-world emissions, not merely to reduce portfolio-level emissions.

Taken together, our investment and stewardship activities aim to ensure our financed emissions come down in line with a 1.5°C pathway, currently believed to be consistent with reaching net zero by, on average, 2050.

This structure is supplemented by advice from technical experts on our **Climate Active Advisory Panel**, which we set up in 2017 to help us consider all matters related to investing against a backdrop of climate change and the need for the world to decarbonise.

The Panel meets formally four times a year, supplemented by informal communications between meetings, to discuss divestments and corporate engagement, together with potential policy work in conjunction with governments and like-minded institutions. The members of the Panel can be viewed on our website.

Finally, the Climate Active Charity Authorised Investment strategy is the responsibility of the Sarasin Investment Funds (SIF) Board. There is also a Climate Active Advisory Committee which is appointed by the SIF Board as an additional, independent, body that may challenge the board and represent the interests of the strategy's unitholders.

NZAM COMMITMENT IMPLEMENTATION TOOLS

GOVERNANCE, RESOURCES AND INCENTIVES | PRINCIPLE 02

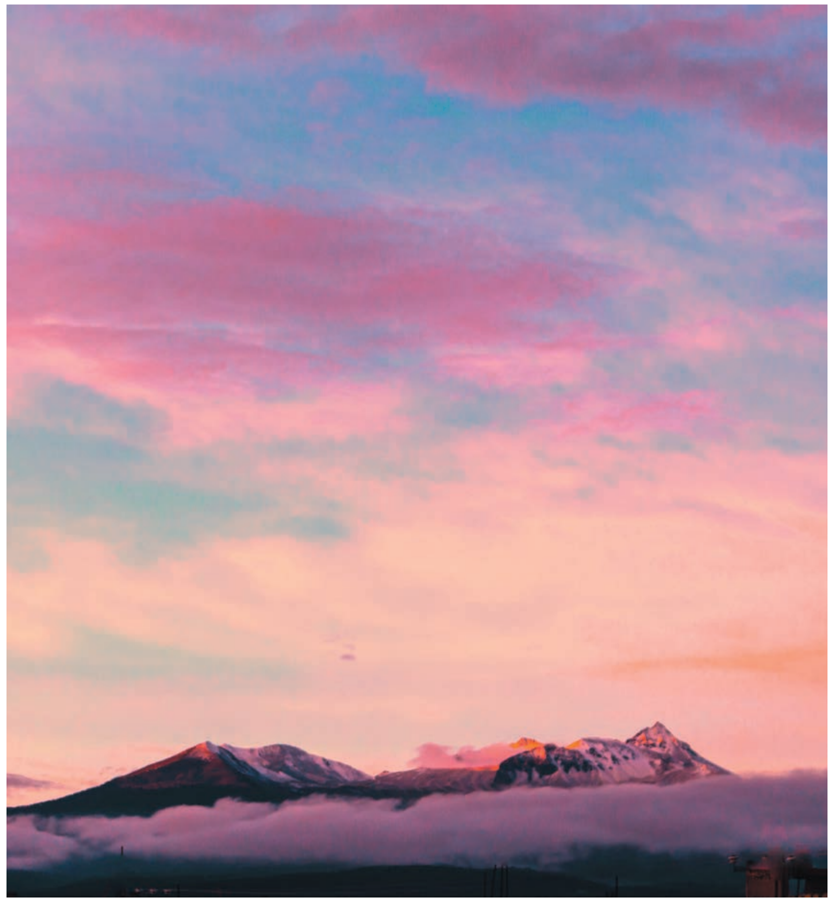
OUTCOME REPORTING

As part of our focus on delivering better outcomes for our clients, we track performance and impacts relating to our stewardship activities, with a view to learning and improving. Ensuring greater transparency of our stewardship work and its impacts is a priority.

Our client quarterly reports include an overview of their portfolio ESG scores, as well as the breakdown for individual holdings. We also report on our engagement and voting activities, including key impacts achieved. We provide regular updates on policy outreach, and how this is catalysing policy change,

We publish our voting activity each quarter on our website, including rationales. Key policy initiatives are also disclosed with regular updates on our website, alongside articles published in our quarterly House Report and elsewhere.

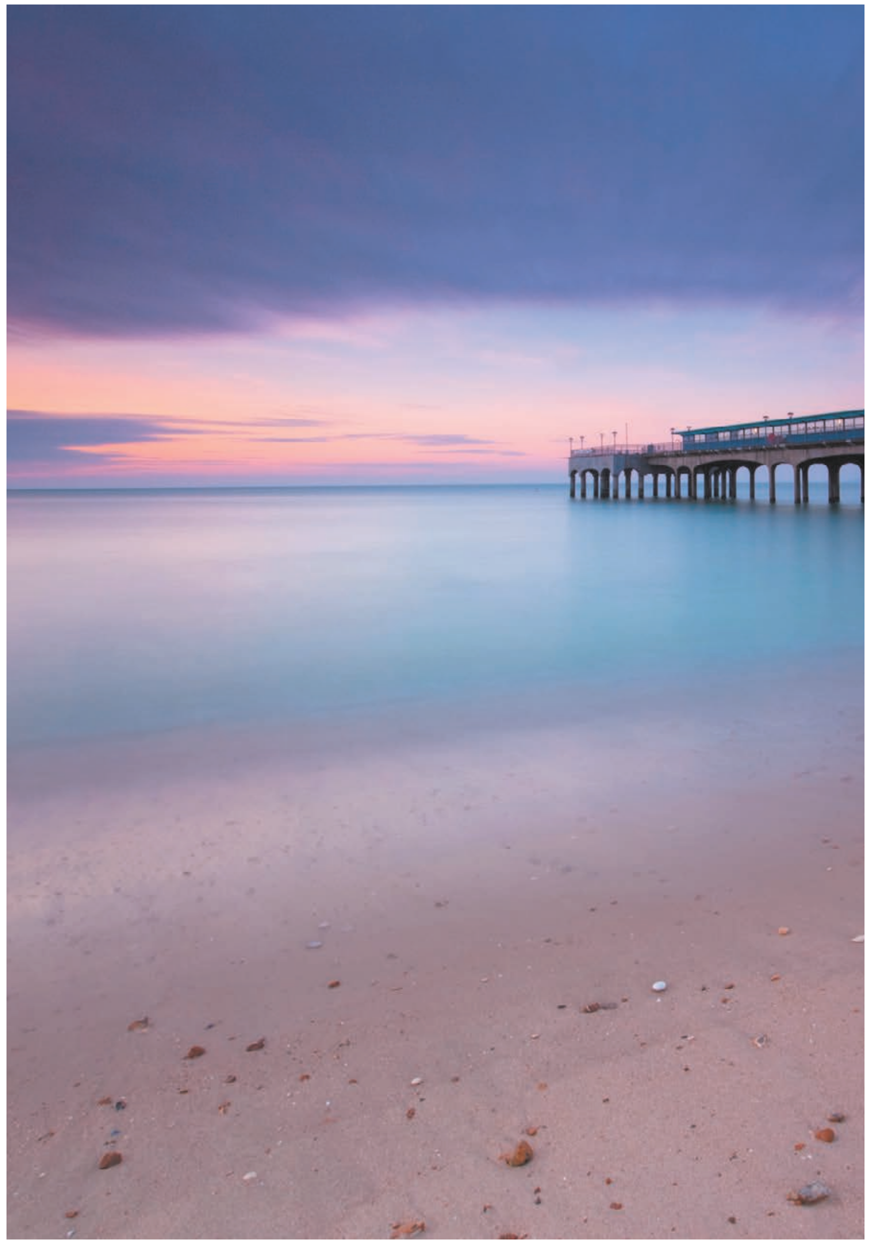
We discuss this in more detail under **Principle 6**.



PRINCIPLE 3

CONFLICTS OF INTEREST

Our procedure for managing conflicts is based on our public Summary Conflicts Policy, which is reviewed annually.



Sarasin & Partners seeks to act in the interests of all its clients when deploying capital, engaging with companies and policymakers and voting, for more on this, see Principle 6.

Conflicts of interest do arise from time to time, such as when voting or engaging on matters affecting a client, or where our clients are shareholders in two companies involved in both sides of a deal or dispute. We aim to identify and manage any conflicts objectively and fairly, and in line with our overriding goal of delivering enduring value to our clients.

Our procedure for managing conflicts is based on our public Summary Conflicts Policy, which is reviewed annually (the latest review was completed in January 2022).

- Conflict mitigating measures include:
- A Conflicts Management Group (CMG) with terms of business to guarantee independence.
- Compliance function and its regular staff attestation and trainings.
- Corporate Governance and Voting Guidelines.
- Defined process to override existing guidelines, when permitted.
- 'Ethical ("Chinese") walls' in place between Client Team and Investment Team.
- Dedicated Stewardship Team to support or mitigate potential vested interest within Client Team and Investment Team.

Specifically, conflicts of interest arising as part of the investment and stewardship activities **are managed as follows:**

CONFLICT IDENTIFICATION

We are alert to possible conflicts at all stages of our investment process, from our stock selection, our voting analysis, prior to and during engagements, and in any policy outreach we become involved with. Awareness is supported by annual mandatory trainings for staff on our Conflicts of Interest Policy.

INITIAL ASSESSMENT AND ESCALATION

Once a potential conflict is identified, the person exposed immediately reports the potential conflict to the Conflict Management Group (CMG), with an initial assessment of the conflict and any mitigating measures, when possible.

FORMAL ASSESSMENT AND LOGGING

Our CMG independently assesses the potential conflict, including mitigating measures. The conflict, once confirmed, is logged in the conflict register, and periodically reviewed. The CMG is comprised of senior management from across the business.

POTENTIAL CONFLICTS THAT ARISE IN OUR INVESTMENT AND STEWARDSHIP ACTIVITIES

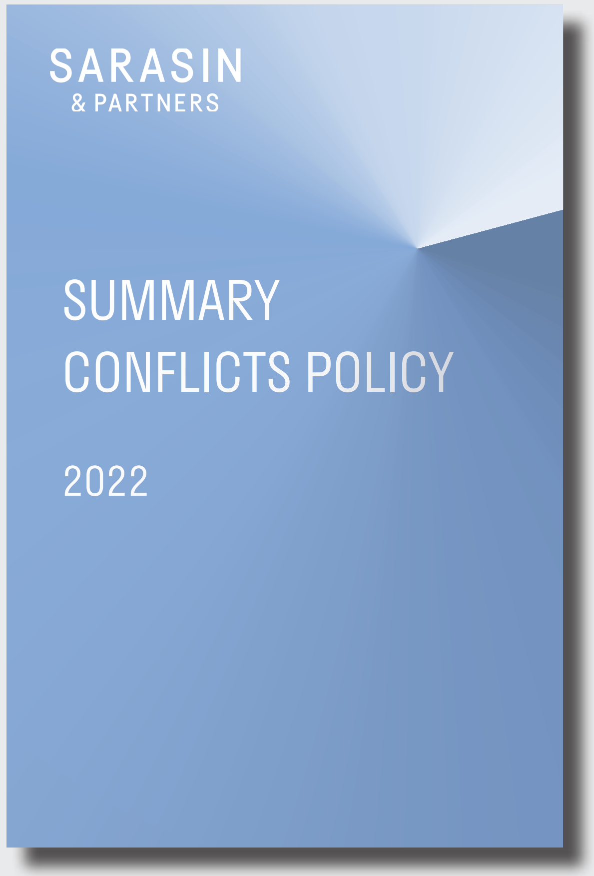
In the following table, we identify some of the most common forms of conflicts that we come across, and how we manage these.

CONFLICT	EXAMPLE	HOW WE MANAGE THE CONFLICT
Individuals on the board of a company that we engage with, or vote on, may have a commercial relationship with Sarasin & Partners. Because we apply judgment in our voting (this permits us to override our Corporate Governance and Voting Guidelines to reflect particular circumstances) and engagement activities, there is a risk that conflicts of interest could influence these activities.	Where a client (e.g. a trustee for a charity) serves on the board of a company we hold, and we intend to vote against his/her directorship because the company's governance structure falls below our expectation (e.g. inadequate board independence), we may come under pressure to change this decision.	The primary mitigation tool is the awareness of such conflicts fostered by Compliance and education regarding the rules of conduct. Where this conflict arises, we will escalate the conflict to the CMG.
In a merger and acquisition (M&A) situation of companies held in our portfolios, we may hold the shares of the acquirer and the target in different funds.	In this situation, if we perceive the potential acquisition to be detrimental to the shareholders of either the acquirer or the target, there is a risk that our engagement or voting activities could be influenced by the interests of one fund over another (or clients in one fund over another).	We will always cast our votes in M&A situations in the best interest of respective client mandates. Where this conflict arises, we will escalate the conflict to the CMG.
Where our clients are unit holders in our funds or those of our parent, Bank J Safra Sarasin (BJSS), we are an interested party in all voting situations.	Where our client has delegated voting rights to us as their discretionary manager, we will be able to vote on various routine governance and administrative matters concerning Sarasin funds and the funds of our parent, BJSS. The clearest instance of conflicts arising is in situations where voting would happen on matters concerning fund fees.	This embedded conflict will already have been logged by the CMG. We manage this conflict by restricting our vote and seeking instructions from our clients (on all our funds where we have voting responsibility) on matters which have a financial impact on the client, e.g. increasing fund fees.
We manage both fixed income funds and equity funds. In certain circumstances the interests of equity holders will conflict with those of the bond holders.	A common example of conflicts arising between equity and credit holders in the same company is where an executive team wishes to embark on large-scale share buybacks or dividend payments, which weaken the company's balance sheet and resilience to external shocks. Where equity holders may be in favour of the cash distribution, credit risk may rise, resulting in losses for debt holders. Conversely, if a company issues a bond which includes bondholder-friendly covenants such as dividend lock-ups, change of control puts or coupon step-ups, this would be to the detriment of equity holders.	As ever, our policy is to cast our votes in the best interest of our clients. Where client mandates include both equity and fixed income holdings we will determine what is in the best interests of the client, and vote accordingly. Where this conflict arises, we will escalate the conflict to the CMG.
Our staff or clients may have personal relationships with the companies we are engaging with, or voting on. Since we apply judgement in our voting (this permits us to override our Governance and Voting Guidelines to reflect particular circumstances) and engagement activities, there is a risk that conflicts of interest could influence these activities.	A fund manager may have an outside relationship (e.g. shared trusteeship of a charity) with board directors or executives for a company we hold.	Where this conflict arises, we will escalate the conflict to the CMG. Mitigation tools in place may include having another team member leading the engagement, and/or voting, to guarantee independence of judgement.
Our clients and staff may seek to influence our policy work, which could compromise our independence in determining which initiatives to prioritise.	We may be asked to desist from policy-outreach on audit or accounting matters due to objections from trustees of clients who work for audit firms.	Where inappropriate influence is exerted, we will escalate the conflict to the CMG.
Our engagement, voting or policy work may be in conflict with our parent group, Bank J.Safra Sarasin, if it seeks to influence our process.	We may be asked to alter our vote for a director who is close to our parent company, or desist from policy work that could impact our parent company.	Where this conflict arises, we will escalate the conflict to the CMG, to guarantee independence of judgment.

In the year under review, staff members have notified the CMG of 18 cases of potential conflict. In most cases, conflicts have arisen from staff members undertaking external interests outside of their roles. The CMG has assessed all cases and determined that none pose a material conflict. These have then been added to the conflicts register.

One conflict reported to the CMG in 2021 related to stewardship, and was satisfactorily resolved.

This document is located on our website.



PRINCIPLE 4

PROMOTING WELL-FUNCTIONING MARKETS

In our mind, adverse impacts on society that emanate from corporate behaviour will ultimately harm our clients' interests. A core part of our job is to do what we can to prevent this.

Policy outreach is a core pillar of our stewardship approach, see Principle 1. We believe that it is vital to engage not just with companies, but also in the broader policy debate where this matters to our clients' interests.

Specifically, where we find market practices or policies that encourage harmful corporate behaviour, and we believe we can contribute to positive change, we speak out. We do not seek to benefit from unsustainable activities that result in adverse impacts on society. We view this as short-termist and, ultimately, self-defeating. Likewise, we encourage government policies or market practices that ensure corporate accountability for negative externalities.

Take climate change as an example. Our investment process seeks to ensure detailed climate risk and opportunity analysis to protect clients' assets from expected physical impacts and efforts to drive decarbonisation, and also to identify investments that are positively exposed to climate solutions.

But merely insulating client portfolios from the climate crisis does nothing to prevent the crisis itself and, given the scale of the threat, is unlikely to work over the longer term. Ultimately, to protect assets from the harmful impacts of climate change, we need system-wide solutions.

This is where our policy outreach comes in; we raise our gaze towards the broader market dysfunctionality and seek to intervene to support accelerating action to combat climate change. We work with others to help ensure we have an impact.

In our mind, adverse impacts on society that emanate from corporate behaviour will ultimately harm our clients' interests. A core part of our job is to do what we can to prevent this.

As already noted, we gain insight from our policy outreach, which is supportive of our company engagement and investment analysis.

POLICY OUTREACH REQUIRES PRIORITISATION, TENACITY AND RESOURCING

Inevitably, we have to prioritise when we undertake policy work. We cannot act on everything, so we must identify those issues that are most damaging and urgent, and also where we can realistically catalyse change.

As policy outreach can take years to come to fruition, we also need to be tenacious and outcomes-focused. We need to be willing to escalate, even where this can be uncomfortable.

Finally, as with any engagement, we need to know when to stop: when our resources and attention would be better spent elsewhere.

All of this requires both expertise and judgement, and a range of skillsets in addition to a rigorous analytical capability. Like company engagement, we require persuasion and negotiation expertise. Above all, it is important to understand what drives system change, and be willing to act on this.

OUR PRIORITIES

In 2021, we have four core priorities for our market outreach, including pressing for:

- Accounting reform to support long-term stewardship
- Reliable and transparent audits that support corporate accountability
- Paris-aligned accounting and audit to underpin achievement of a 1.5°C world
- Labour rights and human rights across the value chains, including diversity and inclusion, to promote more productive, cohesive and sustainable economic growth

We identified these priorities based on the following criteria:

- Materiality: we aim to work on issues that will have the greatest impact for our clients in terms of protecting and enhancing their capital, taking into account our view that harmful externalities imposed on society and/or the environment ultimately put financial performance at risk.
- Potential for impact: since many issues are material, we focus on those where we can drive demonstrable change. This will tend to be in areas where we have particular expertise, insight and a clear vision for what needs to change.
- Client preference: we seek input from clients on their areas of interest/concern through regular meetings, conferences and other ongoing communications.

We provide more detail on our current priorities and support for collective policy initiatives on the following pages.

WORKING WITH OTHERS TO DRIVE SUSTAINABILITY

A SELECTION OF EXTERNAL INITIATIVES WE LEAD AND SUPPORT

E

ENVIRONMENTAL

- Paris-aligned accounting and audit (in coordination with IIGCC, Ceres, etc.)
- Net Zero Asset Managers Initiative (NZAM)
- Taskforce for Climate-related Financial Reporting
- Climate Action 100+
- Say on Climate Initiative
- Carbon Accounting Project (PRI)
- Ellen MacArthur Foundation Plastics Initiative
- Plastic Solutions Investor Alliance (PSIA)
- Finance for Biodiversity Initiative (F4B)

S

SOCIAL

- 30% Club
- Find It, Fix It, Prevent It initiative (FFP) – Modern Slavery
- Workforce Disclosure Initiative (WDI)
- International Accord for Health and Safety in the Textile and Garment Industry
- Investor Statement of Solidarity to Address Systemic Racism and Call to Action

G

GOVERNANCE

- International Corporate Governance Network (ICGN)
- Investor Advisory Group, UK Financial Reporting Council (FRC)
- UK Corporate Reporting and Auditing Group (CRAG)
- Advisory Group for International Audit & Assurance Standards Board
- Asian Corporate Governance Network (ACGN)

RELIABLE ACCOUNTING TO SUPPORT LONG-TERM STEWARDSHIP

Over the years, Sarasin & Partners has been at the forefront of efforts to call for proper enforcement of capital maintenance rules set out in UK and EU company law. The concern has been that this vital aspect of company law and investor protection, which underpins companies' going concern status, appears to lack explicit implementation and enforcement mechanisms in several markets. The result is not just elevated risks to investors, but also to customers, staff, suppliers and communities in which these businesses operate.

While companies are required to follow accounting standards (most markets apply International Financial Reporting Standards – IFRS), these are often not aligned with rules to prevent insolvency. In the UK, for instance, rules prohibiting distributions out of capital require that boards have a prudent estimate of capital in the first place. The trouble is that company IFRS accounts do not deliver a prudent view of capital as their purpose is to show a 'neutral' view of company health.

In essence, the accounting rules mandated for use in many markets do not equip company management or boards to fulfil vital capital protection responsibilities.

We believe a lack of implementation or enforcement of capital maintenance goals, and the associated transparency regarding companies' dividend paying capacity, allows excessively risky behaviour to occur and persist. We consider these accounting failures as playing an instrumental role in permitting the build-up of risks in banks leading up to the Financial Crisis of 2007-08, as well as more recent insolvencies such as Carillion, Interserve and Thomas Cook.

GOAL

The goal of our work on capital maintenance is to build awareness of weaknesses in capital protection enforcement regimes in key markets as a basis for catalysing a policy response. The accounting system should prevent companies from hiding bad news that could put solvency at risk.

METHODOLOGY

We have led a coalition of primarily UK investors over several years, calling for more prudent accounting and greater focus on capital maintenance through public position papers, submissions to government consultations, private audiences with regulators, public media outreach (e.g. BBC Radio Four interviews, FT opinion pieces), and we have also provided evidence to the 2019 BEIS Select Committee inquiry into the Future of Audit. We were asked to join an Advisory Board for Sir Donald Brydon's review of the purpose of auditing, which incorporated questions on capital maintenance in the UK. We also participate in the UK's Financial Reporting Council's Investor Advisory Board.

We have sought to embed requests for the disclosure of distributable reserves into company engagements, particularly in the UK.

OUTCOMES

Our work has contributed to the following impacts in recent years:

- The International Accounting Standards Board (IASB) reversed a decision to take prudence out of its Conceptual Framework.
- 2019 BEIS Select Committee's final report called on the government to review the purpose of accounts and the weaknesses in the capital maintenance regime.
- 2019 Brydon Review called for capital maintenance to be examined further.
- 2019 KPMG paper "Capital Maintenance" outlined the problems and set out proposals to move forward.
- Increasing disclosure of distributable reserves by companies as reported by the FRC in recent review.
- 2020 ICAEW paper "Introduction to the law on dividends" provided a review of company law requirements on capital maintenance and the divergence from IFRS.
- 2020-2021 Parliamentary scrutiny of this issue, with numerous questions placed in the House of Lords.
- 2021BEIS White Paper "Restoring Trust in audit and corporate governance" accepted our long-standing argument that companies need to track and disclose distributable reserves to protect capital and long-term viability.

AN AUDIT SYSTEM THAT SUPPORTS LONG-TERM STEWARDSHIP

Auditors need to perceive investors as their clients if they are to act in shareholders' and creditors' interests.

Over the years, Sarasin has led an investor effort in the UK calling for robustly independent audits. We have coordinated a range of collective investor statements and public outreach to raise awareness of weaknesses in the audit system, which emanate from auditors' lack of independence from management, creating harmful conflicts of interest.

Shareholders depend implicitly on auditors as a defence against management misrepresentation in their financial statements. Numerous recent audit failures, notably Wirecard in 2020, but also Carillion, Interserve, Tesco, and BT point to the systemic nature of the problem, and the need for regulatory action.

GOAL

To promote more independent, transparent and reliable auditing which is aligned with investor and public – not executive – interests.

METHODOLOGY

As with our work on pressing for more prudent accounting, we have undertaken outreach at a regulatory/market level as well as with individual companies.

Outreach to regulators has involved numerous statements and submissions, including:

- Public position papers signed by over EUR 2 trillion AUM calling for more independent auditors.
- Submissions to the Competition and Markets Authority calling for action to split audit firms between audit and non-audit segments and to increase transparency to shareholders.
- Public position paper calling for the reconstitution of the audit regulator, the FRC, due to regulatory capture (2017).
- Media outreach, including an exclusive with The Times on the FRC paper and FT Talking Heads on audit failures.

We also track the following to identify audit risk in investee companies on behalf of our clients. These factors are often triggers for us to vote against auditor reappointment:

- Auditor tenure at companies. We believe independence is threatened when the audit firm has been in situ for over 15 years.
- The level of non-audit work. Where non-audit fees exceed 25% of the audit fee, we view this as an excessive risk to independence.
- The audit partner. Where available, we look for audit partners' past controversies and relationships with the executive.
- Other red flags. Example could be a cautionary statement by a regulator, an investigation or short seller reports that point to accounting weaknesses. Where we see red flags, we will engage with audit committees and also vote against their reappointment. We will also use our vote against auditors where we view them as lacking in independence or failing to ensure reliable accounts.

OUTCOMES

Our work has contributed to the following impacts:

- EU audit reform. While this was finalised in 2012, our early engagement with the European Commission's internal markets commissioner and Members of the European Parliament, including the then Chair of the ECON committee, fed into the reforms and was supportive of the key new requirements, such as caps on audit firm tenure of 20 years (with competitive tenders held every 10 years) and limits on non-audit work.
- Sir John Kingman's review of the FRC 2018 responded to our 2017 investor position paper calling for the FRC to be reconstituted, including recommendations for more transparency, clearer legal foundation and tougher rules on the role of the Big Four at the regulator.
- CMA recommendations for audit to be ring-fenced from non-audit and greater transparency for shareholders in 2019.
- 2020-2021 Parliamentary scrutiny of this issue, with numerous questions placed in the House of Lords.
- 2021BEIS white paper "Restoring Trust in audit and corporate governance" included several recommendations to improve disclosure and auditor accountability to investors aligned with suggestions we have been calling for over many years.

PARIS-ALIGNED ACCOUNTING AND AUDIT TO UNDERPIN ACHIEVEMENT OF A WELL-BELOW 1.5°C WORLD

Financial statements that leave out material climate impacts misinform executives and shareholders and result in misdirected capital. Company leaders without correct cost and return information are equivalent to pilots without a properly functioning altimeter. In extreme cases, companies on the wrong flight path can crash.

In the case of climate change, the consequences of misdirected capital are not only harmful for shareholders, but also potentially disastrous for the planet. In brief, where decarbonisation is ignored in drawing up financial statements, too much money will flow into fossil-fuel-related activities, and too little into cleaner energy. This clearly makes it harder to achieve decarbonisation, but also raises risks of stranded assets where governments act to deliver their commitments in the Paris Agreement.

Auditors play a vital role in protecting investors against accounting misrepresentation. They kick the tyres on managements' accounts and ensure they deliver a true and fair view of the economic health of the entity. It is, therefore, critical that the auditors are checking that company accounts are reflecting material climate risks – both those linked to decarbonisation and those that emanate from physical climatic change.

Where the accounts fail to do this, the auditor should sound the alarm. Failure to do so will undermine trust in company accounts.

GOAL

Our goal is to ensure that all companies dependent on carbon-intensive activities (either directly in their production processes, or for the consumption of their good or services), provide visibility in their financial statements of how their financial position would be impacted by the transition onto a 1.5°C pathway, in line with the Paris Climate Agreement. These disclosures could be either in the core accounts, or in the notes to the accounts in the form of, say, a sensitivity analysis.

We also expect auditors to commit to calling out where managements' accounts fail to fully represent future losses and liabilities associated with a 1.5°C pathway.

METHODOLOGY

Building on an internal analysis into eight oil and gas companies' financial statements in 2018 (published as 'Are oil and gas companies overstating their position?' Sarasin led a growing coalition of investors (rising from around $2 trillion of assets to over $9 trillion in assets under management at the end of November 2020) in an engagement effort targeting:

1. The Big Four audit firms (PWC, KPMG, EY and Deloitte)
2. Audit Committee Chairs at fossil-fuel-exposed companies
3. Regulators and standard-setters responsible for oversight of accounting and audit.

OUTCOMES

This engagement effort has contributed to the following impacts.

Investors

- Alongside the direct signatories to Sarasin-coordinated letters, over $100 trillion represented by PRI, IIGCC and other investor bodies published a supportive call for net-zero aligned accounting in October 2020.
- IIGCC established a working group in 2021, which Sarasin chairs, to roll out training and engagement support for members on net-zero accounting and audit.
- Ceres set up a working group of investors to promote net-zero accounting and audit in the US, with letters sent to US Big Four audit firms in 2021, a report on the lack of US oil and gas company financial disclosures and ongoing regulator (SEC, PCAOB) engagement.
- CA100+ Investor Initiative, backed by over $65 trillion AUM (as of February 2022) extended their company assessment benchmark to include accounting and audit indicators. This helps to ensure accounting and audit become part of the market standard for determining company alignment with a 1.5°C pathway.
- Shareholder resolutions seeking audited statements on the financial consequences of a 1.5°C pathway at Exxon and Chevron received just under 50% support in 2021.

Companies

- Eleven (over 30%) of 36 companies that we sent audit committee letters to added a reference to climate risk in their 2020 financial statements (published 2021), compared to just 9% of 71 companies that were not engaged with reviewed by Carbon Tracker (see below). All the main disclosures on climate risks occurred in companies we led engagements on.
- All oil and gas majors where we have had longer engagements provided the greatest level of disclosure in their financial statements, including Shell, BP, Total and Eni. A majority of European oil and gas companies have adjusted critical accounting assumptions (specifically the long-term commodity price assumptions), explicitly linked to decarbonisation. Impairments have been recorded.
- Shell's auditor, EY, referred to Sarasin and IIGCC in Shell's annual report and accounts, and provided a full-page disclosure aiming to meet investors' expectations.

Auditors

- Fifteen (42%) of the audit partners at the 36 companies we coordinated engagements with in 2021 included a reference to climate risk. By contrast, less than 3% of a group of 71 non-engaged auditors assessed by Carbon Tracker made reference to climate risk.
- All Big Four audit firms (UK) have made further enhancements to their training for all audit partners, and updated internal guidance materials for climate risks.
- UK audit firms are moving towards a consistent approach: all audit partners will make disclosures for FTSE 100/250 companies on how climate risks have been considered. This is a rebuttable presumption – lead audit partners can say that this is not relevant but it must be successfully argued to the auditor's internal review panel.
- Providing education for finance teams in audited companies.
- Deloitte and KPMG published documents in December 2019 setting out why climate risks are relevant to their core audit process.

Regulators/standard setters

- European Securities Market Authority (ESMA) included climate risks in its supervisory priorities for its review of financial statements (October 2021).
- The UK's Financial Reporting Council updated its advice to audit committees and finance directors, reminding them of their responsibility to consider material climate risks (October 2019 and October 2021). During 2020/21 the FRC "challenged companies' assessment of the effect of climate change on financial statement areas, including impairment reviews, asset lives and carrying values, decommissioning and restoration provisions, and segmental reporting."
- The International Accounting Standards Board (IASB) published updated guidance in November 2020 setting out how climate risks need to be considered under existing International Financial Reporting Standards (IFRS).
- The International Audit and Assurance Standards Board (IAASB) published a staff guidance paper in October 2020 highlighting that climate risks must be considered in the audit process.
- UK Climate Change Committee included net-zero accounting as a recommended policy step in its report to the government in 2020.

Civil society

- Carbon Tracker and Carbon Accounting Project (PRI) analysis of 107 listed companies' financial statements published in Flying Blind report October 2021, further helping to increase investor, company and regulatory scrutiny on this topic.
- Greenpeace analysis in November 2021 of investor voting focused on reappointment of auditors and audit committee directors linked to whether net-zero accounts and audits were delivered, and Sarasin's leadership in this area was highlighted.

LABOUR AND HUMAN RIGHTS ACROSS THE VALUE CHAINS

We have always supported a responsible and long-term approach when it comes to treatment of staff, customers, suppliers and other key stakeholders. In particular, insufficient attention to labour and human rights could have far-reaching negative consequences.

If a company's business model is predominantly reliant on artificially cheap labour, and we do not expect this 'negative social externality' to be addressed and rectified at some point, then the economics of the business model and thus the investment case would be damaged. Damage could also arise from broader human rights controversies linked to, for instance, treatment of local communities, gender and racial discrimination, and sexual harassment in the workforce.

Further, we believe that boards that embrace their role in promoting diversity and developing an inclusive culture throughout the company are more likely to accelerate progress and reap the benefits that a diverse workplace brings.

Despite the recent progress made in corporate reporting, we believe that there is still insufficient attention to, and transparency around, workforce and supply chain practices. As shareholders, we believe that these practices have a strong impact on business resilience, sustainability and longevity and therefore are of direct consequence to us, not to mention the wider communities in which a company operates.

GOAL

Our goal is the promotion of diversity, labour and human rights, and raising standards across the industry.

METHODOLOGY

We promote change through our support for public initiatives, including ICCR, the 30% Club, Workforce Disclosure Initiative (WDI), Modern Slavery Investors Initiatives and Find It, Fix It, Prevent It initiative (FFP).

Early in 2021, we became signatories to ICCR's Investor Statement in Support of the Maintenance and Expansion of the Bangladesh Accord. The Bangladesh Accord requires retailers and global brands to maintain safe conditions at garment factories in Bangladesh. Set up in 2013 after the fire at Rana Plaza which killed over 1,000 people, the agreement was at risk of expiring in 2021. This would be detrimental to the safety of Bangladeshi garment workers, particularly at a time of great strain due to the pandemic. We committed to engage with companies to urge support for the continuance of the Bangladesh Accord.

As a member of the Race Equity Working Group of the 30% Club, we were instrumental in drafting an Investor Statement of Solidarity to Address Systemic Racism and Call to Action to ensure that the persistent race inequities in business and society are addressed. This statement will be accompanied by collaborative investor engagement with UK companies that are yet to hit the Parker Review ambition to have 'at least one' person from an ethnic minority background at board level by 2021.

Another area where discrimination still occurs is with respect to pay, and this is true for many sectors is with respect to pay. And this is true for many sectors. Hence another key component of our policy engagement and direct company engagement is promoting transparency around pay gaps. We are pressing for better disclosures and quicker progress in this area.

We also continue to support:

- The WDI, which presses for transparency on a broad range of workforce issues, from gender diversity to employee wellbeing.
- The FFP, an investor-led collaboration to increase the effectiveness of corporate protective measures against modern slavery. This initiative focuses on public policy engagement and direct company engagements.

OUTCOMES

In August 2021, an agreement was reached for the Bangladesh Accord to be expanded for two years as the International Accord for Health and Safety in the Textile and Garment Industry.

Like its predecessor agreement, the new International Accord is a legally binding agreement between companies and trade unions that aims to make ready-made garments and textile factories safe. The International Accord aims to expand these safety standards and worker safeguards to other countries and labour markets using the Bangladesh Accord model.

In 2021, we have seen some improvement in human capital reporting. Through our support for the Workforce Disclosure Initiative we note that 173 organisations from 25 countries are now disclosing on workforce practices via the WDI framework. This represents a 23% increase over the prior year. In the technology sector, conversations were held for the first time with Amazon, Apple and Meta. While they did not report through the framework this year, the discussions were promising. We expect to see company participation increase further from 2022 onwards, which helps increase accountability and transparency on key workforce issues.

We also expect to see impacts from our work on gender and ethnic diversity in 2022 and beyond, and will continue to monitor board changes and disclosures around companies' diversity strategies, including pay equity.

LOOKING FORWARD

We continually look into the economic and societal environment to make sure we address all the foreseeable risks with our policy outreach efforts. Under **Principle 1** we identified the systemic risks to biodiversity and natural capital, not just from the impact of climate change but also the breaching of nearly all of the other major 'planetary boundaries'. The financial system cannot ignore nature and operate in isolation from it. With our Natural Capital Working Group we are currently considering major sustainability risks to investment values and policy engagement objectives to improve the reflection of these impacts in well-functioning markets.

PRINCIPLE 5

REVIEW AND ASSURANCE

MEASURING HOW EFFECTIVE WE ARE

Our Stewardship Steering Committee (SSC), formed in 2021, regularly reviews our stewardship policies and processes and assesses their effectiveness, as discussed in Principle 2. This is important for our clients as they seek to hold us accountable. It also enables us to identify areas for improvement.

Such improvements in 2021 included an updated mission statement, commitments under the Net Zero Asset Managers' Initiative and streamlining the stewardship governance structure. Among the areas for improvement in 2022, the SSC has identified ESG impact reporting as a priority, and launched a dedicated project to bring together different expertise in the business to address this need.

The SSC has also reviewed this report to ensure that it is fair, balanced and understandable for all parties involved, including through the lens of our clients.

We remain focused on long-term thematic value drivers, managing ESG-related risks and delivering positive impacts in our clients' companies through our stewardship work. At a high level, an important measure of our overall effectiveness is our long-term risk-adjusted investment performance, as well as the real-world impacts that we aim to have through our robust ESG integration, ownership discipline and policy outreach. To assess our effectiveness, we perform attribution analysis of the ESG factors that lead to improvements or deteriorations of performance (please see below). For specific examples of ESG impacts see **Principle 9**. For recent performance data, please contact our client affairs team.

EQUITIES

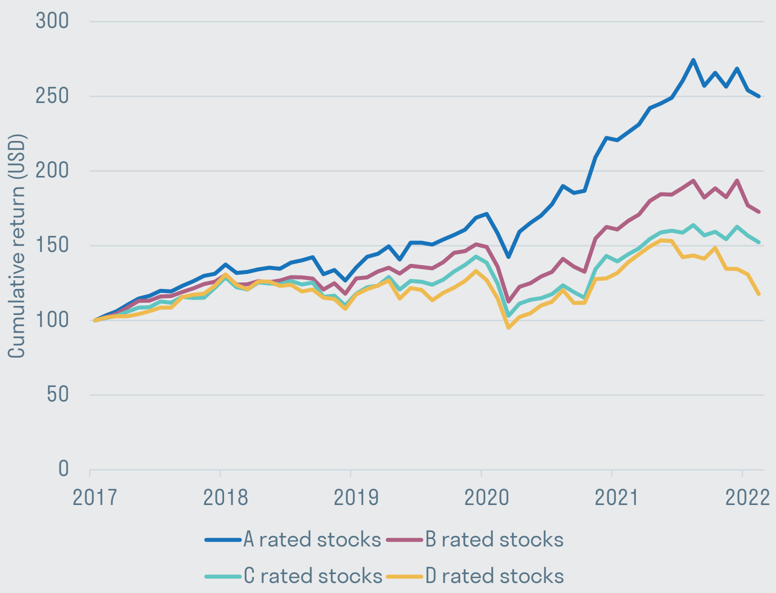
We also track whether our ESG analysis has added value by boosting investment performance. While there are inevitably numerous statistical challenges with any such analysis, such as the implications of limited data, short time periods and correlation versus causation, the chart and tables here provide us with some comfort that we are improving our clients' risk-adjusted returns through our ESG work.

The analysis has been performed for our internal global and UK equity buy lists since 2017, and compares performance of market cap weighted portfolios containing the A, B, C and D stocks based on their Sarasin ESG rating at the beginning of each month.

Based on this methodology the A-rated portfolio has significantly outperformed the buylist and the D-rated portfolio. As shown in the tables below, the A-rated portfolio also has the lowest volatility, highest Sharpe ratio and lowest (best) drawdown over the period.

PERFORMANCE OF BEST AND WORST ESG RATED STOCKS

USD PERFORMANCE OF MARKET CAP WEIGHTED PORTFOLIOS, MONTHLY REBALANCING



Source: Bloomberg, Sarasin & Partners, Data as of 31.01.2022. Returns are USD gross of all costs. Each basket is computed based on historical Sarasin ESG ratings and buylist membership and does not track the actual return of any portfolio or fund. Each rating basket is weighted by market cap and rebalanced at month end. **Past performance is not an indication of future returns.**

It is important to stress, that this analysis is based on a relatively short time period and therefore should be interpreted with caution. Nonetheless, we will continue to build statistical robustness, to enable us to have quantitative metrics that help inform our performance, and enable us to improve.

PERFORMANCE SUMMARY

Portfolio	Ann. Return %	Ann. Vol %	Sharpe	Max. Drawdown %	Max. Drawdown recovery (months)	Max. Drawdown date	Beta to MSCI ACWI
A rated stocks	19.56	14.61	1.34	16.84	4	31/03/2020	0.95
B rated stocks	12.64	16.31	0.78	25.38	8	31/03/2020	1.04
C rated stocks	10.29	16.64	0.62	27.73	9	31/03/2020	1.06
D rated stocks	6.90	17.75	0.39	28.52	11	31/03/2020	1.05
Buylist	10.50	15.66	0.67	25.00	8	31/03/2020	1.02

DRAWDOWN ANALYSIS

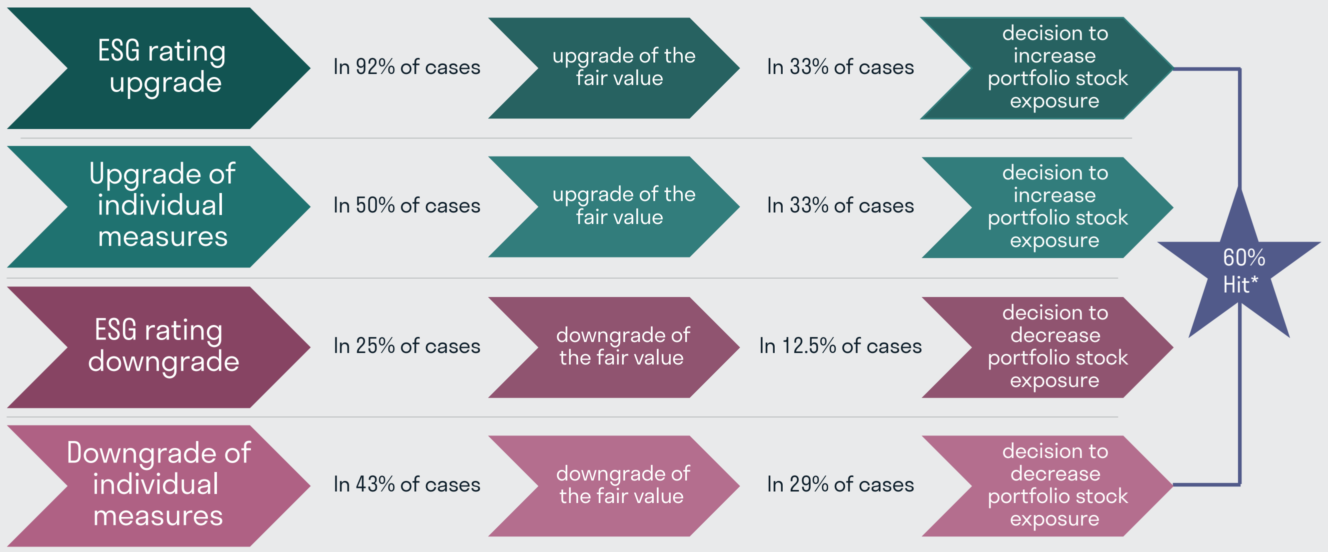
Start	End	Duration (months)	MSCI ACWI	A rated stocks	B rated stocks	C rated stocks	D rated stocks	Buylist
31/12/2019	31/08/2020	8	21.24	16.84	25.38	27.73	28.52	25.00
31/01/2018	30/04/2019	15	12.73	10.94	9.72	14.64	17.62	10.99
30/04/2019	28/06/2019	2	5.95	5.93	2.95	6.50	12.40	4.26
31/08/2020	30/11/2020	3	5.75	2.46	12.14	19.32	16.05	10.02
31/08/2021	29/10/2021	2	4.31	6.32	5.81	4.22	7.94	5.92
29/10/2021	31/12/2021	2	2.51	6.52	5.68	5.76	12.44	6.87
31/07/2019	31/10/2019	3	2.32	0.88	1.24	4.04	13.16	1.72
31/12/2020	26/02/2021	2	0.42	0.70	1.03	2.50	3.73	0.34

Source: Bloomberg, Sarasin & Partners, Data as of 31.01.2022. Returns are USD gross of all costs. Each basket is computed based on historical Sarasin ESG ratings and buylist membership and does not track the actual return of any portfolio or fund. Each rating basket is weighted by market cap and rebalanced at month end.

QUANTIFYING THE EFFICACY OF OUR ESG & STEWARDSHIP WORK

We recently undertook analysis aiming to quantify the efficacy of our ESG & Stewardship work for our clients. We looked at the impacts of our ESG rating changes, often directly linked to our engagement efforts, on calculation of fair value, decisions to buy or sell stocks and subsequent performance of these stocks in our five core equity strategies. Via a number of analytical iterations, including selecting the portfolio decisions that could be confidently attributed to ESG upgrades or downgrades, we have arrived at the statistics shown in the chart below.

INVESTMENT IMPACTS



Source: Bloomberg, Sarasin & Partners. Data for the period December 31, 2020 – December 31, 2021

Past performance is not an indication of future returns.

* "Hit" represents a situation when the decision was to add/buy on the basis of an ESG rating upgrade, and subsequent relative return over 1 month and 3 months was positive; or when the decision was trim/sell on the basis of an ESG rating downgrade, and subsequent relative return over 1 month and 3 months was negative. It is important to note that these periods are short term, and we are most interested in whether they are sustained over longer periods. We plan to continue this analysis to capture longer timer-frames and share the results with our clients. Please also note that ESG is usually not the sole reason for a decision on fair value or stock exposure.

Over the past year, examples where we have not invested, or have sold, as a result of investments failing our investment process (which embeds ESG analysis, as discussed in **Principle 7**), include: Apple, Meta, Tesla, Kingspan, Alibaba and Tencent

We have also investigated the impact of stocks sold on ESG grounds for individual funds. This chart summarises the findings for a representative account. It shows that stocks exited on ESG grounds were down 10% in relative terms 12 months later, suggesting that the decision to exit these companies enhanced performance, and protected clients' capital.

As emphasised, this statistical analysis needs to be used with caution, as there are inevitably issues that arise due to small sample sizes, etc., and therefore is merely an indicator, but one we will continue to track.

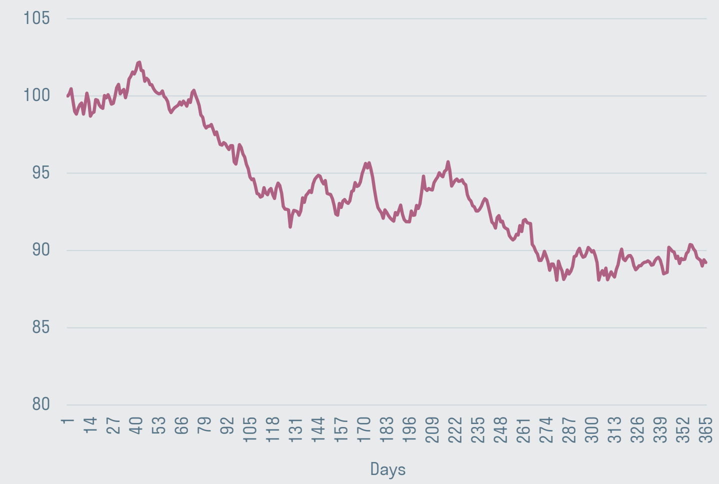
FIXED INCOME

Turning to our fixed income process, there is continuous review of portfolio performance down to issuer level, which can be tied back to ESG factors.

Generally, it is straightforward to identify where an adverse ESG development has triggered underperformance of bonds, as these normally take the form of breaking news stories to which the bonds react immediately.

For longer-duration ESG issues, we have found that the borrowing costs tend to rise and spreads tighten for higher ESG-scoring entities versus those with lower scores. A good example of this is provided by comparing the spreads over the risk-free rate (as measured using UK government debt – gilts) demanded by the market. For example, take the wind company Orsted and the natural gas based power and heating company Centrica, both of which we hold for clients (see following pages). Orsted's lower spread, provides preliminary quantitative evidence that the market is starting to price in the risks of the energy transition, with higher risks associated with the company that faces a greater threat from a net-zero carbon future.

AGGREGATE RELATIVE PERFORMANCE OF STOCKS SOLD ON ESG GROUNDS
(12+ MONTHS AFTER EVENT)



Source: Sarasin & Partners analysis. Data for January 2018 – December 2021.

Past performance is not an indication of future returns.

Representative account shown for illustrative purposes.

ORSTED VS CENTRICA

This chart provides supportive evidence that the market is demanding a higher return to compensate for rising risks associated with natural gas utilities such as Centrica versus a renewable company like Orsted. Note that the risk premium demanded for gas over renewables expands at times of credit market stress (e.g. Q1 2020, Q1 2022).

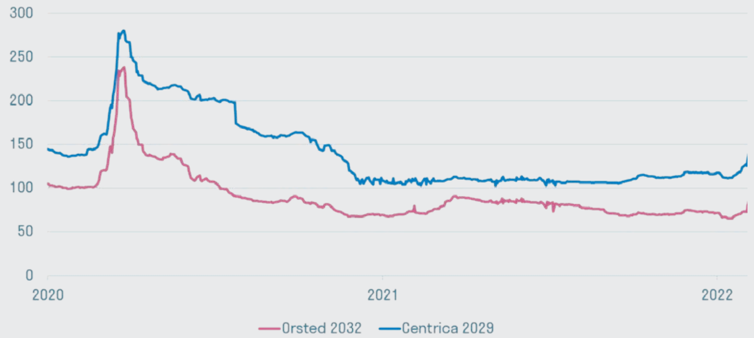
GAS DISTRIBUTION (CDTFIN) VS. ELECTRICITY DISTRIBUTION (UKPONE)

Further evidence that the market is increasingly demanding higher spreads for companies involved in more carbon-intensive activities, and thus exhibiting higher stranded asset risks, is provided by a comparison of the credit spreads for CDTFIN (gas distribution) versus that of UKPONE (electricity distribution). Both bonds have similar ratings and maturities, so the growing spread of the gas assets over the electricity distribution assets provides, in our view, preliminary evidence that the market is increasingly pricing in higher energy transition risks associated with gas infrastructure.

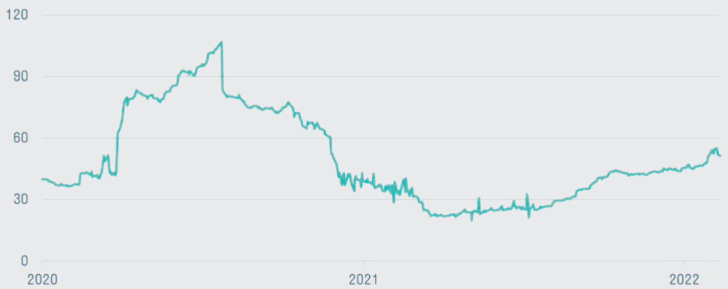
PERFORMANCE OF BEST AND WORST ESG RATED STOCKS

USD PERFORMANCE OF MARKET CAP WEIGHTED PORTFOLIOS, MONTHLY REBALANCING

CREDIT SPREAD OVER GILTS - ORSTED VS CENTRICA

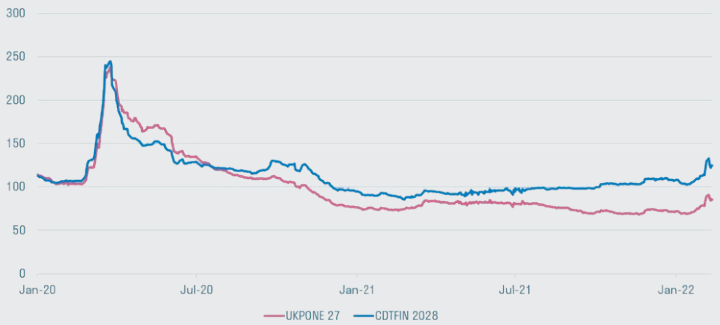


SPREAD DIFFERENTIAL



Source: Bloomberg, February 2022

CREDIT SPREAD OVER GILTS - UKPONE VS CDTFIN



SPREAD DIFFERENTIAL

Source: Bloomberg, February 2022

We are also able to demonstrate that we have avoided poor performance due to our decision to divest on ESG grounds.

JOHN LEWIS

A good example is John Lewis, illustrated right, which we sold due to concerns around a range of issues pertaining to weakening creditor protections and customer treatment. We believed these issues reflected a broader governance malaise and thus raised risks around the longer-term viability of the issuer.

GO-AHEAD

Another example is Go-Ahead Group, where we became concerned by the possibility of fraud at a train operating company related to the Southeastern rail franchise. Our attempts to engage on accounting issues at the Go-Ahead Group with regards to its rail operations were unsuccessful as they were unable to comment publicly on an ongoing investigation. Hence, in late 2021 we divested our entire holding to limit downside risk. This proved to be the right choice as the issuer was first downgraded to high yield by Moody's and then had its rating withdrawn entirely, and trading in the equity was suspended in early 2022.

CREDIT SPREAD - JOHLEW 34S

Source: Bloomberg, February 2022

CREDIT SPREAD - GOGLN 24S

Source: Bloomberg, February 2022

ALTERNATIVES

The integration of ESG analysis and stewardship has similarly improved our performance in our alternative investments. Specifically, we can point to examples where our ESG scrutiny led us to avoid investing in assets that have turned out to be poor investments. For example, we decided to redeem from Civitas Social Housing due to concerns related to governance, following a number of engagements with the investment managers. Since our last trade in January 2021 and through the beginning of March 2022, its share price fell by more than 15%.

Another example was a Residential Income Fund, which we decided not to invest in due to governance concerns. Shortly after its launch, it ran into serious problems due to the lack of integrity in its management, the founder and former CEO of its investment management company pleading guilty to a securities fraud scheme.

COMPANY AND POLICY ENGAGEMENT – OUTCOME TRACKING

Turning to the effectiveness of our company and policy engagements (two important aspects of our stewardship offering), we provide examples under **Principle 4** (for market outreach) and **Principle 9** (for company engagements – covering equities and fixed income).

POLICY AND PROCEDURE REVIEW

Stewardship policies and procedures are reviewed annually by the Asset Management Team to ensure they remain accurate and effective. This review process is overseen by our Asset Management Chief Operating Officer.

Over the year, where we identify areas for improvement in our stewardship procedures, for example the need to improve tracking systems, we will propose enhancements. These will be approved by our Stewardship Steering Committee. Where enhancements are made, these are reflected in the updated policy and procedure documents.

In addition, all documents that are released externally are checked by our Marketing department to ensure they are clear and understandable. Our Compliance department also reviews documents that can be considered financial promotions to comply with relevant regulation.

KEY LESSONS LEARNED FROM THE 2020 PRI ASSESSMENT

EQUITIES

- We increased the number of companies engaged with processes and intensity of our engagements in 2020/21.

Areas for improvement:

- Low voting percentage (86%) - primarily due to missing Power of Attorney in key markets in relation to share-blocking arrangements.
- Not notifying enough companies of our votes 'against'.

Action taken following report:

- Letters being sent to companies where we voted against management for 2020 and 2021.

FIXED INCOME

- We improved across the board in terms of our engagement.

Areas for improvement:

- Greater effort needed on direct government bonds.
- Improvements in record keeping relating to engagements required.

Action taken following report:

- Enhanced our fixed income engagement tracking process.

ASSURANCE OF PROCESSES

Our Risk department routinely reviews our portfolios across a range of risk metrics. Since 2021, our Stewardship Steering Committee has monitored the effectiveness of our stewardship and ESG integration work. A key aspect of this work will involve benchmarking against external ESG data providers to cross-check our analysis and, where there is discrepancy, investigating whether we have a strong rationale for having made a different determination of the ESG risk. We note, however, that the correlation between our ESG scores and vendors' scores is quite low.

Our asset management activity is reviewed every three years by our internal auditors, who report directly to our Board. This is important to ensure we are maintaining rigorous standards and identifying any weaknesses that require action.

From 2022, we plan to extend our internal audit process to incorporate more explicitly our engagement activities, including adherence to our ownership discipline, starting with equity (see Principle 9).

In terms of independent audit, we currently obtain an opinion from Deloitte LLP that our proxy voting activities are based on the standards of the AAF 01/06 guidance issued by the Institute of Chartered Accountants in England and Wales. This audit is conducted annually.

EXTERNAL ASSESSMENTS

PRI RESPONSIBLE INVESTMENT ASSESSMENT

In our latest Assessment Report published in 2020 (in 2021, PRI did not publish any assessments), we received A+ in five out of seven modules, and A elsewhere. In all categories we performed above median. This was an improvement on 2019. A summary of the 2020 Assessment is provided below. It is important to note that this assessment is based on self-reporting, and is not independently verified. Our PRI Assessment Report and our PRI Transparency Report for 2020 are available on our website.

The key lessons we have taken away from this survey are set out on the previous page.

INTERNATIONAL CORPORATE GOVERNANCE NETWORK (ICGN) GLOBAL STEWARDSHIP DISCLOSURE AWARDS

In 2021, we won the ICGN Global Stewardship Disclosure Award, for asset managers with below $60 billion AUM, which acknowledges excellence and innovation in investor stewardship and related public disclosures.

Natasha Landell-Mills made the following comment about the awards:

> "We are delighted to have been awarded the ICGN Stewardship Disclosure Award. Disclosure is crucial – not just to give clients visibility of our work – but also because it holds us accountable. Asset managers should disclose how they hold companies to account – and what they are doing where companies fall short."

FRC UK STEWARDSHIP CODE

Based on the 2020 stewardship report, Sarasin & Partners became a signatory of the 2020 UK Stewardship Code.

SARASIN & PARTNERS LLP SUMMARY SCORECARD

AUM	Module name	Sarasin's score	Median score
	01 Strategy & Governance	A+	A
Direct & Active Ownership Models			
>50%	10. Listed Equity - Incorporation	A+	A
>50%	11. Listed Equity - Active Ownership	A	B
<10%	12. Fixed Income - SSA	A	B
<10%	13. Fixed Income - Corporate Financial	A+	B
<10%	14. Fixed Income Corporate Non-Financial	A+	B
<10%	15. Fixed Income - Securitised	A+	B

CIVIL SOCIETY REVIEWS

We are increasingly scrutinised by civil society organisations such as ShareAction, InfluenceMap and Greenpeace in reviews they undertake of the asset management sector's stewardship work. These tend to be driven by particular campaigns, so need to be treated cautiously, and there's no certainty that they are themselves accurate or unbiased.

In 2021, for instance, we were ranked by an independent non-governmental organisation, InfluenceMap, for our 2020 climate-related stewardship work in their report 'Asset Managers and Climate Change 2021', and received the highest rating. Greenpeace were specifically assessing whether climate considerations were being factored into voting decisions on auditors. This review was based on published documentation available on our website.

Another example was a review by Greenpeace UK of a selection of UK asset managers' 2021 voting records on auditor appointments at FTSE 100, FTSE 250 companies and at 78 of the world's largest corporate emitters of greenhouse emissions.

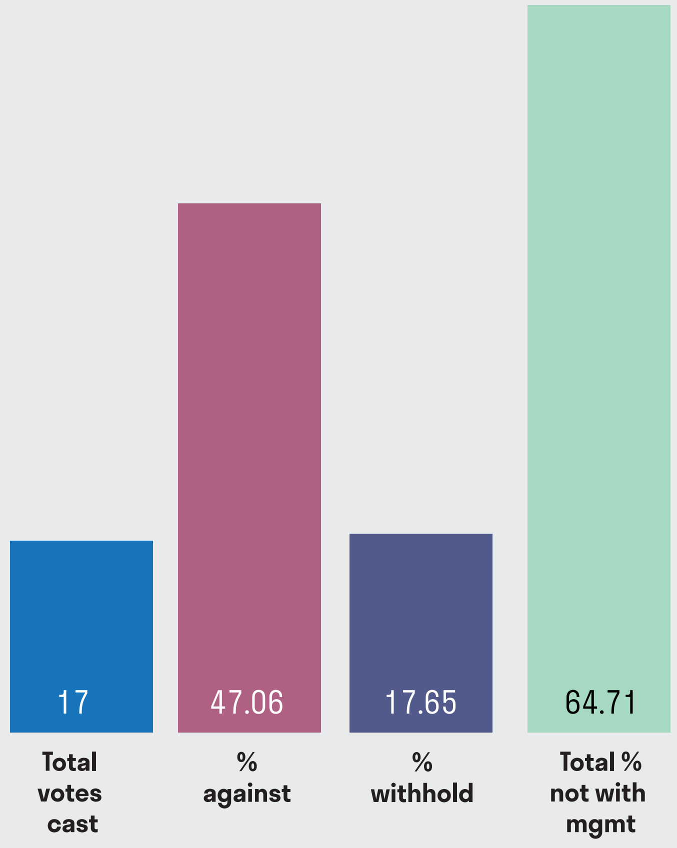
Sarasin & Partners led their peers in voting against management on auditor appointments with 64.71% of their votes at the group of high-carbon companies included in the review (see our votes on the right).

Of the asset managers assessed by Greenpeace, only two (including Sarasin & Partners) voted against or withheld on auditor appointments at any in-scope FTSE 100 company.

Only one of the 16 asset managers (Sarasin & Partners) listed climate change specifically as a relevant issue when voting on any auditor appointments.

Please also see awards that we received for servicing our clients in **Principle 6**.

SARASIN & PARTNERS VOTES ON AUDITOR APPOINTMENTS



Source: Greenpeace. Accountable. Shareholder Votes in Auditor Appointments. November 2021

PRINCIPLE 6

CLIENT AND BENEFICIARY NEEDS

INVESTMENT APPROACH

As highlighted in Principle 1, we operate a long-term investment approach underpinned by a stewardship mindset. At a high level, our aim is to deliver enduring value for our clients in a way that is aligned with a sustainable society. Building on this foundation, we ensure that our investment service is tailored to individual clients' requirements.

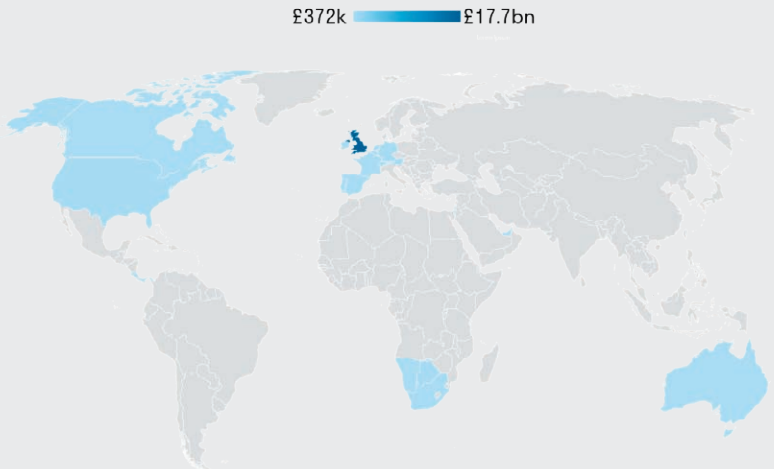
A key aspect of our service is regular client communication. This is vital to ensure our clients are fully and reliably informed of the performance of their assets and stewardship activities undertaken on their behalf, while also providing a forum for us to learn from our clients. Regular communication also ensures that we are aware of our clients' changing requirements and can adjust their portfolios accordingly.

In this section we provide more details on our client base, investment solutions and how we communicate with our clients and seek their feedback.

CLIENT BASE

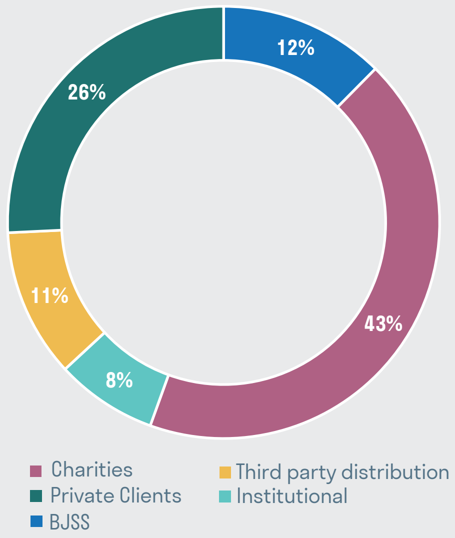
Our client base consists of a broad range of charities, pension funds, and other institutions, private clients and retail investors. Whilst largely UK-based, our clients are located globally as shown in the charts here.

GEOGRAPHICAL DISTRIBUTION OF CLIENTS



Total Sarasin & Partners' assets under management as of 31 December, 2021 were **£21.0bn**

CLIENT DISTRIBUTION AS A PROPORTION OF ASSETS



Source: Sarasin & Partners. Data as at 31.12.21

INVESTMENT SOLUTIONS, TIME HORIZON AND ASSET CLASS MIX

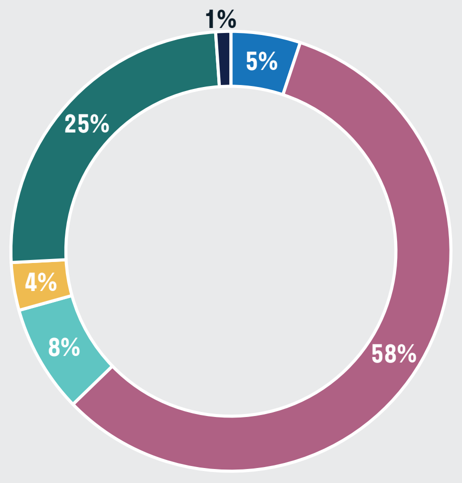
We offer clients a range of investment solutions that can best deliver their needs:

- High-conviction global thematic equity.
- Income focused strategies, both single-asset and multi-asset.
- Multi-asset solutions.
- Responsible and ethical investment strategies.
- Target return strategy.

In keeping with our goal of creating enduring value for clients, our time horizon for investing is long term. For equities, our thematic and ESG analysis means we look out over decades rather than years, and well beyond the immediate business cycle. When we analyse equities, we explicitly model forward for ten years. For most strategies, we commit to deliver performance over a rolling five-year period. Consequently, we analyse long-term ESG trends and engage with companies on their relevant risks and opportunities.

ASSET MIX

In terms of our asset mix, the chart below provides a high-level breakdown as at 31 December 2021.



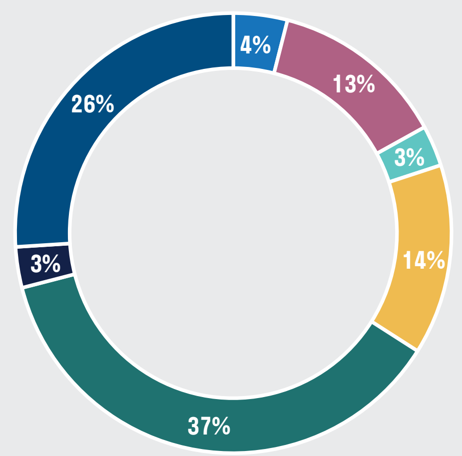
Source: Sarasin & Partners. Data as at 31.12.21

* Third-party funds which are primarily listed equities

** Property assets, primarily REITS which are not included in the listed equity allocation

GEOGRAPHICAL ASSET BREAKDOWN

The chart below provides a geographic breakdown of our assets as at 31 December 2021. As can be seen from the chart, we invest globally, with North America and the UK accounting for the largest allocations.



Source: Sarasin & Partners. Data as at 31.12.21

A COMMITMENT TO RESPONSIBLE STEWARDSHIP UNDERPINS ALL OUR STRATEGIES

All of our strategies are underpinned by our commitment to ESG integration and stewardship (**Principle 1**), but some strategies have increased emphasis on our ESG and stewardship expertise in response to client needs.

In December 2020 we became a founding signatory to the Net Zero Asset Managers Initiative (NZAM), which further commits us to setting out a pathway for ensuring all our fully discretionary assets are managed in alignment with the Paris Agreement 1.5°C temperature goal. We have set a target for 2025 for applying our Paris-alignment methodology to all our discretionary assets. Further details can be found in **Principle 1,** and in our NZAM Action Plan.

We routinely apply ethical overlays for clients – for example over 70% of our charity portfolios have some form of ethical restriction, with many more of our funds having a published exclusionary policy. Further details of our exclusionary policy can be found on our website.

We also offer investment strategies that place more weight on our internal ESG ratings and/or climate stress testing work (see **Principle 7** for further detail on our integrated approach). Examples include our Responsible Global Equity, Responsible Corporate Bond, Tomorrow's World and our Climate Active strategies.

EXAMPLE: CLIMATE ACTIVE STRATEGY

A good example of our innovation to meet evolving client requirements is our Climate Active strategy that we offer to our charity clients. Launched in 2018, the strategy is a multi-asset investment solution for charities focused on delivering long-term capital and income growth in a way that is aligned with the Paris Climate Agreement goals of keeping global warming to 1.5°C.

The Climate Active strategy was one of the first investment strategies we are aware of that explicitly sought to deliver Paris-alignment by combining climate stress testing to ensure resilience to both transition and physical climate risks with proactive company engagement and policy outreach to drive positive change. Further information on our Climate Active strategy can be found here.

"The College puts Environmental, Social and Governance (ESG) impacts at the heart of its asset allocation decisions and as a result, decided to invest in Sarasin's Climate Active strategy. The College believes that the active ownership approach ensures it is doing what it can to support the aims of the Paris Agreement while at the same time protecting the College's long-term financial interests."

The Rt Hon Dame Elish Angiolini DBE QC FRSE, Principal of St Hugh's College, University of Oxford.

"The Climate Active strategy is an integral part of the University of Leeds' response to the climate crisis, supporting our move towards a sustainable, low-carbon future."

Alan Thomson, Director of Finance, University of Leeds.

EXAMPLE: TOMORROW'S WORLD MULTI-ASSET STRATEGY

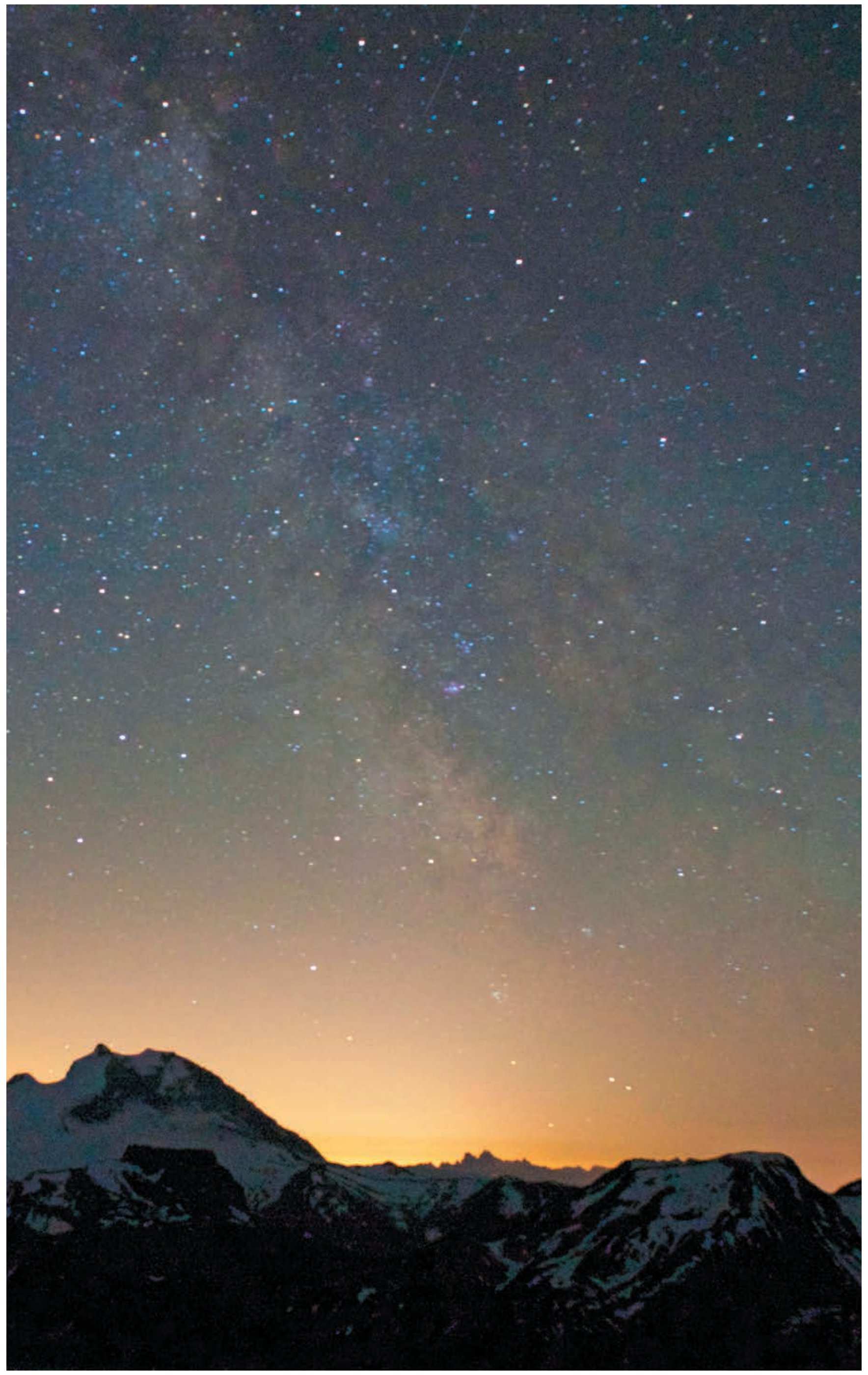
Launched 18 March 2021, this is a diversified multi-asset strategy that invests in purposeful institutions that aim to solve people and the planet's problems profitably, without benefiting from causing harm to the world. The British Academy has a simple and clear definition of corporate purpose:

> "Producing profitable solutions from the problems of people and planet, and not profiting from creating problems".

Investors are becoming increasingly aware of a wide range of different adverse impacts caused in the operations of investee companies, from carbon emissions causing climate change, to plastic pollution and poor working conditions in supply chains. Sarasin analyses these ESG issues in detail using our Sustainable Impact Matrix (SIM), which identifies and grades environmental and social impacts for each investment according to their materiality.

While our primary response to address these adverse impacts is to engage with the companies and seek to change their businesses for the better, there is a number of investors who would prefer to limit their investments to companies that do not cause significant E&S impacts in their operations. To meet their needs, Sarasin launched the new Tomorrow's World diversified multi-asset strategy, which invests only in companies that do not cause significant adverse impacts.

This is implemented by utilising the detailed ESG expertise within the company and avoiding investments that score red on any core environmental or social issue of the Sarasin Sustainable Impact Matrix.



COMMUNICATION WITH CLIENTS

As emphasised above, regular, transparent and two-way communication with our clients is vital to ensure we continue to meet their needs, and that they understand how we are acting as effective stewards of their capital. We pride ourselves in offering excellent client service, and this requires a high level of resource and attention.

Below we set out:

- How we communicate with our clients.
- How we seek client feedback on our performance.
- External rankings.

HOW WE COMMUNICATE WITH OUR CLIENTS

Client reporting is provided on a quarterly basis, sent electronically wherever possible.

These reports include an overview of performance, attribution analysis and details of underlying securities held, including their ESG profiles based on our internal analysis. Clients who invest in Sarasin & Partners' pooled funds have full visibility of underlying securities.

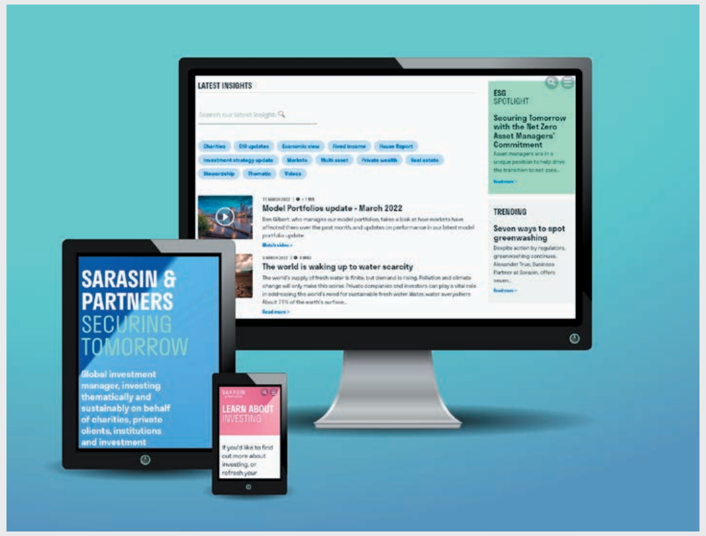
With regards to our stewardship work, voting records are included, alongside a summary of progress with key engagements and policy initiatives.

Alongside our quarterly performance reports, we aim to meet with clients at least once a year to present the latest investment report, together with the outlook for the period ahead. We routinely have conversations with clients between formal reporting periods wherever questions arise. In 2021 we conducted over 1,000 client meetings. We have recently put in place a quarterly internal meeting to discuss clients' feedback as a team so that we can continue to improve.

We also organise seminars, such as our annual Spring Seminars, our autumn event for Private Clients, our Charity Autumn Seminar for holders of our charity funds, and training events throughout the year. We publish our House Report on a quarterly basis, including articles on key themes or stewardship matters we are working on in the investment team.

We have published a Compendium of Investment for over 20 years. This is updated every other year, and forms the basis for our trustee training programme, through which we have

On our website, YouTube, Twitter and LinkedIn channels we publish insights on thematic investing, macroeconomic commentary, updates on our stewardship work and learning opportunities.



trained over 5,000 trustees since 2002.

INCREASINGLY DIGITAL

In early 2020, we launched a new website to facilitate more interactive and timely information flows to clients. Alongside our existing stewardship material, which sets out our philosophy, policies and our latest voting data, we regularly release topical videos and commentary.

We have also established a social media presence via LinkedIn and Twitter, and undertaken staff training to enable an increased flow of information for clients and other interested stakeholders.

Since launching, we have gained 26,100 followers on Twitter and 11,000 on LinkedIn (data at March 2022).

We have had particular success in gaining followers interested in our stewardship work, including, for instance, the release of our engagement letters and statements calling for Paris-aligned accounting and audit.

In November 2021, during COP26, we hosted our first ever LinkedIn Live event, which featured our Head of Stewardship, Natasha Landell-Mills, and Heidi Hellmann from our climate active advisory panel. Our speakers shared their views on COP26 and outlined the next steps for corporates, governments and investors (watch the video on our LinkedIn page).

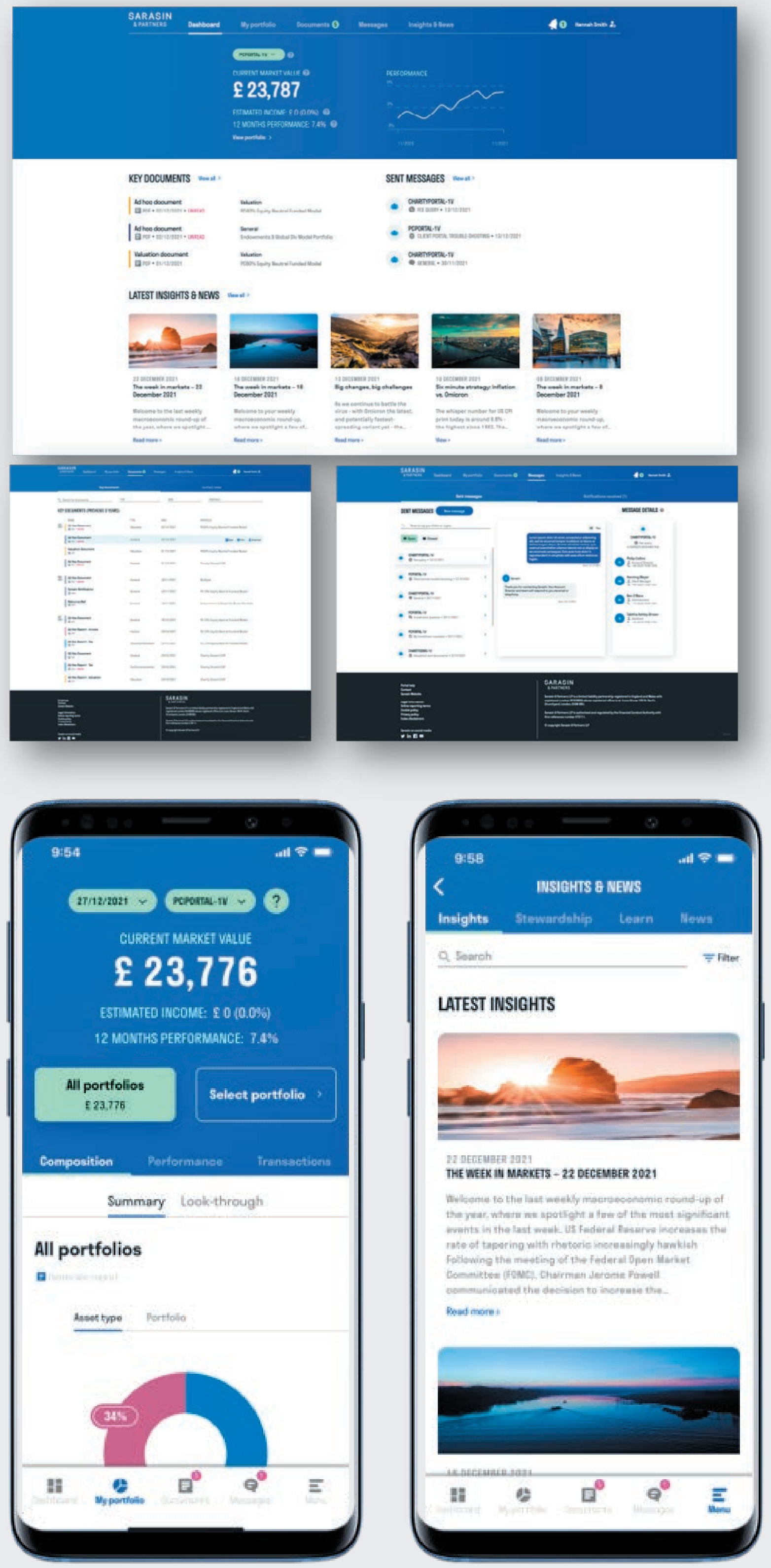
In early 2022, we launched an interactive online reporting service for our clients to ensure even greater visibility and easy access to key aspects of their portfolios whenever they wish.

Its key features include:

- Customised access to information
- Personalised access to insights
- Full optimisation for mobile access
- Interactive performance reporting
- Customised overviews of clients (for professional advisers)

During 2022, we will further enhance the online portal and app to include additional information on ESG analysis and stewardship.

NEW SARASIN CLIENT PORTAL



SEEKING FEEDBACK FROM CLIENTS

Adherence to client wishes is clearly of the utmost importance.

We seek feedback from clients, starting with our onboarding process and then through regular one-on-one dialogues and broader client gatherings, as well as more structured client surveys and feedback forms at events and training sessions.

These provide valuable lessons on what we are doing well, and areas for improvement. They also allow us to understand better which aspects of our stewardship work our clients are most interested in.

In recent years, we have seen rising interest in our ESG analysis and stewardship work, and have responded by providing more disclosure of this work. Out of 9,980 recipients of valuation reports sent out to clients for Q4 2021, 7,268 (equivalent to 72.8%) had opted into receiving analysis on policy/company engagements, key voting activities and the ESG characteristics of their portfolio.

A key point for ensuring we respect our clients' wishes is when we complete our annual suitability review, which contains questions to check that clients understand the impact of their investment decisions and requirements e.g. level of risk versus return, experience of investment, requirement for investment training and capacity for loss. This includes checking for certain investment considerations they may have – for instance, any ethical and sustainability requirements. This helps to ensure that our investment strategy remains appropriate for each client's portfolio.

Any specialist ESG or ethical criteria are hard coded against each client's portfolio on initial set-up and monitored on an ongoing basis as part of pre- and post-trade compliance checks.

We have internal checks conducted by our business managers to verify ongoing suitability, that meetings have been held along with regular client communication, that there are no client complaints and that portfolios are being managed effectively within the required risk parameters.

We are in regular contact with our clients. We minute all our meetings and phone calls with clients and maintain a record of these on the client file. Where pertinent, we also offer clients the opportunity to participate in our policy and engagement work, e.g. by co-signing letters we send to companies or to policymakers.

Lastly, we do a structured client survey every three to four years for private clients and charities. The most recent was in 2020. The results are set out in the figure below.

EXTERNAL RANKINGS

As an indicator of the quality of our client service, we have won a number of awards for this over the years – in addition to our stewardship awards mentioned in **Principle 5**.

Details of these awards can be found on our website.

CLIENT SURVEY

The results below from our 2020 survey illustrate the high percentage of clients that see the value in our stewardship work:

85% Strongly agreed or agreed that Sarasin's approach to stewardship is integral to long-term financial returns

75% Strongly agreed or agreed that they were well-informed on stewardship activities impacting their portfolios

70% Strongly agreed or agreed that Sarasin & Partners is a market leader in stewardship, responsible and ethical investing

58% Strongly agreed or agreed that Sarasin's credentials in Stewardship and ESG investing were a key determinant in the appointment to manage their portfolios

Source: Sarasin & Partners, 2020 Client Survey

PRINCIPLE 7

STEWARDSHIP, INVESTMENT AND ESG INTEGRATION

We use robust processes to integrate ESG data and stewardship into our portfolio management processes.

As underlined in Principle 1, responsible stewardship is not just a core value, but also fundamental to our investment offering. There are three pillars to our approach:

1. A robust global thematic investment process focused on sustainable value drivers
2. Active ownership
3. Thought leadership and policy outreach

In this section, we focus on pillar 1, or our approach to selecting securities in which to deploy client capital. We look first at our equity investment process, and then turn to fixed income and alternatives.

Our approach is long term and global. We look through business cycles to focus on positive societal trends that we expect to endure for decades. For most strategies, we commit to deliver performance on a rolling five-year basis.

The analysis involves a team approach, with analysts working alongside the stewardship leads. Stewardship experts sit within the asset management team, supporting ESG and engagement work in our equities, fixed income and alternatives teams (please see organigram under **Principle 2**).

EQUITIES

ESG considerations are embedded in all three stages of the process, from idea generation, which looks for long-term thematic trends (such as ageing or climate change – see below); to stock selection, which incorporates bottom-up ESG and climate impact analysis; to portfolio construction, where we monitor ESG exposures, e.g. climate risks.

SARASIN EQUITY THEMATIC INVESTMENT PROCESS

IDEA GENERATION

Using a thematic framework to uncover exciting investment ideas with the potential to grow along sustainable thematic trends

- Global mega-themes
- Investable sub-trends
- Niche industries

Thematic universe (~ 600 stocks)

STOCK SELECTION

- Robust stock selection process
- Fundamental bottom-up analysis
- Deeply integrated ESG
  - Owned by stock analysts
  - Supported by specialists

Global Buy List (~ 100 stocks)

PORTFOLIO CONSTRUCTION

- Purely bottom-up, no regional or industry calls
- High-conviction portfolios
- ESG exposure monitoring at portfolio level

SARASIN GLOBAL EQUITY PORTFOLIO (35-50 stocks)

IDEA GENERATION: OUR MEGA-THEMES

The first step is idea generation. We look for opportunities in places we anticipate long-term sustained growth underpinned by what we describe as mega-themes.

We believe these mega-themes will endure because they are aligned with a sustainable society, and that underpins a key element of our investment philosophy; we wish to invest in a way that supports improvements in societal welfare over the long term.

STOCK SELECTION

Once we have identified attractive ideas under our mega-themes, we undertake detailed bottom-up analysis. ESG is a central part of this.

The key components of our ESG analysis are:

1. Sarasin Sustainability Impact Matrix [SIM]. We undertake a comprehensive analysis into 15 E, S and G measures. Over 150 data points and criteria are considered in this assessment. This is an absolute analysis, rather than relative to peers in an industry. Each measure is given a Red, Amber or Green assessment to reflect the severity of the impact on the environment, people or governance.

SARASIN THEMATIC FRAMEWORK

INVESTMENT THEMES LEADING TO COMPANIES WITH SUSTAINABLE LONG-TERM BUSINESSES

DIGITALISATION

- Analytics
- Cloud
- Digital media
- Digital commerce
- Connectivity
- Processing

AUTOMATION

- Factory, robotics & AI
- Supply chain
- Food chain technology
- Test & verify
- Nascent adopters

AGEING

- Genomic revolution
- Future human
- Value based care
- Pandemic fragility
- Funding the 100 year life
- Fulfilment

EVOLVING CONSUMPTION

- Diet & nutrition
- Active lifestyle
- Emerging consumer
- Experience economy
- Aspirational consumer

CLIMATE CHANGE

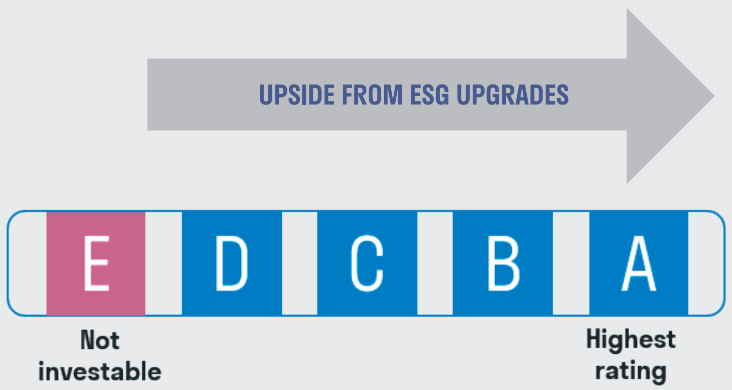
- Environmental resources
- Infrastructure and buildings
- Low carbon power
- Resource efficiency
- Low carbon transport

2. ESG Traffic lights: based on the assessments of the 15 measures, we draw out an overall traffic light for E, S and G representing how material the adverse impact is.
3. Overall ESG rating: an overall ESG rating of A to E with momentum indicators (+/-) translates the E, S and G traffic lights into a rating reflecting the overall materiality of ESG measures for the entity concerned. In essence, it captures the extent to which harmful external impacts are internalised. “A” points to ESG as a positive tailwind for the investment case; “E” is un-investable due to ESG risks, and would be taken off our internal buylist. Whether the overall ESG factor is a headwind or tailwind, this is then reflected in the valuation model.

SUSTAINABILITY IMPACT MATRIX (SIM)

IDENTIFIES POTENTIAL OPPORTUNITIES AS WELL AS ADVERSE IMPACTS FOR THE ENVIRONMENT, SOCIETY AND INVESTORS

OVERALL ESG RATING



INDICATES HOW MUCH ESG IMPACTS INVESTMENT CASE AND VALUATION

A TEAM APPROACH FOR DETERMINING THE ESG RATING

The lead analyst on a company, working within the stock team along with a stewardship team member, will propose the ESG rating as part of bringing a stock idea to the team. The investment team will scrutinise the ratings as part of our stock approval process. In the event of diverging views, the stewardship lead makes the final decision.

Materiality is modelled based on an understanding of the economics, not rules: since specific ESG issues will be more or less material depending on a company, its sector and business model, we do not adopt a formulaic link between the 'traffic light' assessment and overall ESG rating. Instead, the stock initiation note illustrates how our assessment of material ESG issues (structured by the 'traffic lights') has informed our view of a company's ESG risk and materiality, which is captured by the letter rating.

INTEGRATION INTO VALUATION

The ESG analysis is explicitly reflected in the company's model and valuation. This analysis will depend on the case in hand, so analysts use their expertise to determine how the economics of the business will be impacted, for instance whether the specific issue will alter top-line growth, margins/costs, capital expenditure levels or general risk best captured through an adjustment to the discount rate.

PURCHASE AND PORTFOLIO CONSTRUCTION

A final decision to accept a stock onto the buylist is taken only after a detailed due diligence process that can take several weeks. The process originates from a thematic review that identifies industry trends that support multi-decadal growth aligned with societal benefit. A universe of stocks is presented that have been identified as advantageously positioned to the thematic trend. The investment process kicks off with a Short Note on the company outlining the core elements of an investment thesis, including ESG considerations.

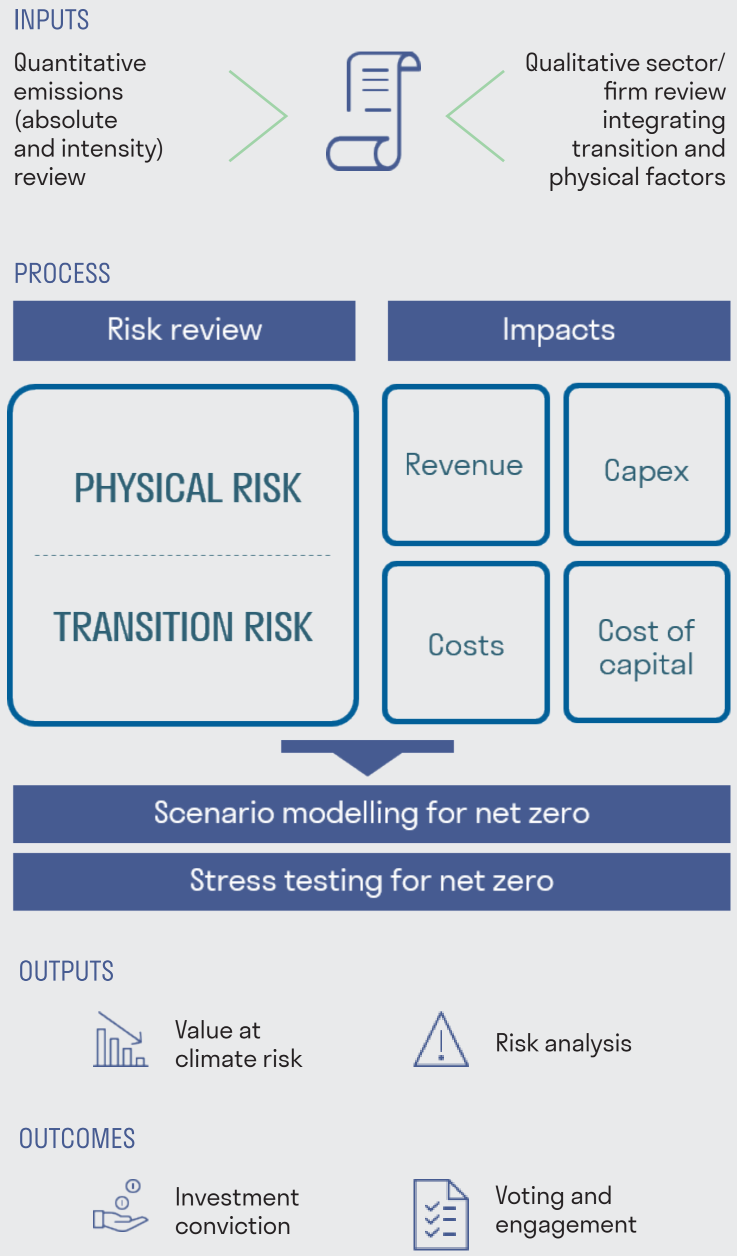
This is presented to the team and, where the team votes in favour of moving to the next stage, further analysis is undertaken, guided by detailed team questions. A pre-mortem is also undertaken by another member of the team to identify potential weaknesses in the investment thesis for debate.

CLIMATE STRESS TESTING

In 2021, we continued to devote attention to climate risk analysis, pursuing further transition and physical induced climate stress testing across holdings.

This work has come alongside increased efforts to identify attractive investment opportunities for our buylist under our climate change mega-theme. Furthermore, in line with the Net Zero Asset Managers' Commitment, we are embedding our net-zero goal in how we deploy capital.

Taken together, this analysis aims to reduce our climate risks and increase exposure to thematic opportunities and climate solutions in all our portfolios.



Valuation work is added to produce a Full Note for presentation back to the equity team. A final vote is then taken, including by ESG/ stewardship experts, for entry onto the global buylist.

Once a stock is placed onto the buylist, then it can be purchased. Portfolio managers are responsible for determining timing and the size of the position.

ESG integration is a key part of all our funds and strategies. In some cases, we may place greater weight on the ESG analysis, in response to client requirements. Examples where this is the case are our Responsible Thematic, Climate Active and Tomorrow's World strategies. The latter two are multi-asset strategies. We do not alter our approach for different geographies.

The importance we attach to ESG performance is reflected in our portfolio composition. As shown in the charts to the right the higher-rated ESG stocks have a greater weighting in our core funds than the worst-rated ESG stocks.

Where we have identified areas of concern in our SIM analysis, these are flagged for engagement once the stock is bought. Details on our engagement and voting activities are outlined under **Principles 9–12.**

Separate to our ESG integration work, we also manage ethical screens for particular clients where required. This process is to identify exposures to any of our 13 ethical considerations.

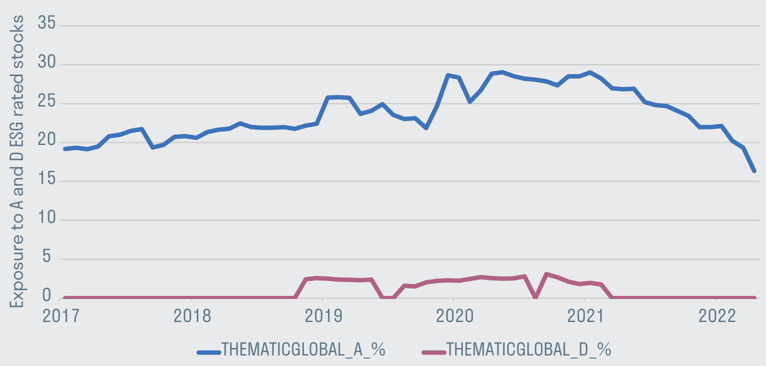
ESG RESOURCES

We undertake primary analysis to form a view of ESG measures, drawing on a wide range of sources, including the company's legal disclosures to shareholders (e.g. annual report and accounts/10K), external experts, non-governmental organisations, government publications and discussions, and our own voting analysis.

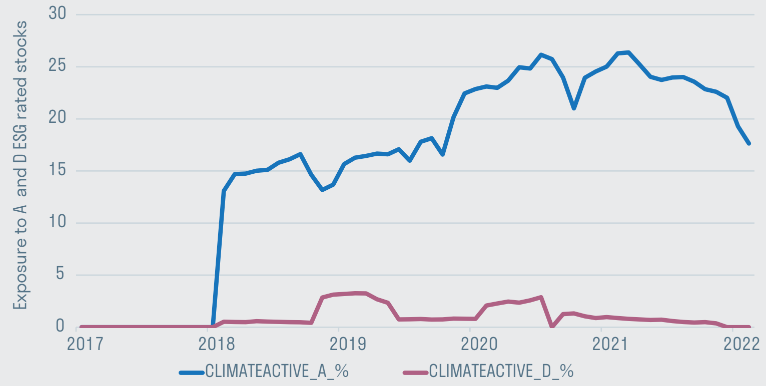
We draw upon multiple specialist ESG providers that include: MSCI ESG research, ISS proxy analysis, HOLT, Proxy Insight, 427, as well as drawing from expert network sources and services.

We are also members of a range of industry bodies and associations that provide valuable insights into a range of ESG issues, including the International Corporate Governance Network, Institutional Investor Group on Climate Change, Asian Corporate Governance Network, Conference for Institutional Investors, Workforce Disclosure Initiative, Climate Action100+ and CDP (formerly Carbon Disclosure Project), to name a few.

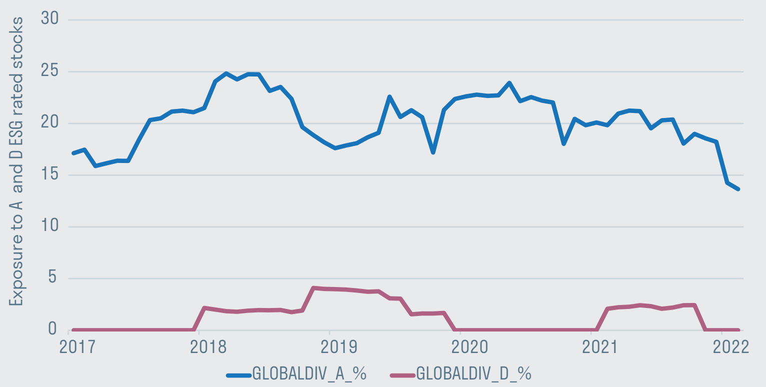
THEMATIC GLOBAL



CLIMATE ACTIVE



GLOBAL DIVIDEND



Source: Sarasin & Partners, 28.02.22

On many occasions Sarasin & Partners has engaged with such entities to enhance their messaging and encourage additional research. Examples include efforts to ensure our proxy agency, ISS, improves its analysis of auditors' performance and independence, as well as requests that they incorporate more climate analysis within their core advice on directors and auditors. Similarly, we worked with the Asian Corporate Governance Network (ACGN) to encourage fuller disclosures in reporting requirements and benchmarking practices by listed companies in Asia.

In terms of more conventional financial analysts and brokers, over the last few years we have shifted towards those who are developing more sophisticated ESG data and analysis.

As highlighted under Principle 8, ESG and stewardship service providers are selected via competitive process, where criteria included the robustness of their analytical methodology that would facilitate our ESG integration. They are then evaluated through a formal half-yearly feedback process as well as continuous monitoring.

We routinely look for new entrants and research providers as part of our review process. For example, we are currently testing a new climate data resource, with a view of integrating it into our climate analysis, stress testing, portfolio construction and stewardship in line with our NZAM commitment.

IMPACT OF OUR ESG ANALYSIS FOR INVESTMENT DECISIONS AND ENGAGEMENTS

Our ESG analysis directly and demonstrably impacts our stock purchases and sales and, ultimately, client outcomes.

Under **Principle 5** (Review and Assurance), we provided detail from preliminary analysis of the relationship between our ESG assessments and stock performance. We have found a strong positive correlation. Not only have our A-rated ESG companies tended to outperform our D-rated stocks, but we have found evidence that decisions to sell companies' securities on ESG grounds, as well as decisions not to buy other securities, have contributed to protecting and enhancing our clients' capital. While there are a number of statistical limitations to this analysis, and thus we treat the result with caution, this has provided comfort that our ESG process adds value.

To provide evidence that our ESG work is impacting our investment decisions, we are increasingly tracking metrics for different points in our process, ranging from the follow-through from an ESG rating change to a security rating change to an investment decision (reduce, increase, buy, or sell). For a simple illustration, in the past four years, 22 out of 48 stocks that failed our process did so due to an ESG issue. Likewise, in the past four years, we have exited 19 full positions across our five flagship global equity strategies following an ESG downgrade.

On the opportunity side, it is worth stressing that the vast majority of our equity holdings have significant social or environmental tailwinds as a result of our thematic process. Our thematic framework explicitly seeks sustainable and superior growth that is aligned to societal good. For instance, all our stocks under our Climate Change theme have strong climate-related tailwinds. These account for 27% of our global equity buylist as of January 31, 2022. Likewise, companies in our Ageing theme are beneficiaries of increased efforts to improve livelihoods in old age. These account for a further 19% of our buylist.

Finally, there is a direct flow from our ESG analysis to our monitoring and engagement work. For every security, we have identified potential adverse ESG impacts through our Sustainability Impact Model (SIM) outlined above. Where we then decide to buy a security, the SIM guides us towards our engagement priorities. Where we find 'amber' or 'red' issues, we will normally raise these with management and the Board when we meet. These are issues which may also influence our voting at EGM/AGMs. Where the issues are more material, and more intensive engagement is needed to generate the desired outcome, we will draw up an Engagement Plan. Please see **Principle 9** for details on our Ownership Discipline.

FIXED INCOME

In the ESG integration process in fixed income we combine top-down screening and thematic tilts with bottom-up ESG analysis in our fixed income process. The process differs in certain respects to the equity process due to differences between the asset classes and the larger number of securities covered.

SCREENING

Negative screens typically exclude the following sectors: tobacco, alcohol, armaments, pornography, tar sands, fossil fuel extraction, gambling and predatory lending. There are also areas where we do not have mandatory screens but may at our discretion screen out issuers because of exposure, for example, to plastics or palm oil (typically in the consumer sector).

SUSTAINABILITY-THEMED INVESTING

Within fixed income, we have a strong preference for lending to entities whose activities contribute to sustainable growth and/or generate positive externalities. This leads to overweight allocations versus the benchmark to sectors such as renewable energy infrastructure, housing associations, education, public transport and the not-for-profit sector.

INTEGRATION OF ESG ISSUES

We use a 7-step process to calculate ESG credit ratings for the issuers in our universe. We calculate scores on a 0 to10 scale, which we then translate into ratings according to the ESG credit ratings table shown right:

ESG CREDIT RATINGS

AVERAGE ESG FACTOR SCORE	INDICATED ESG RATING
8.5 to 10	AAA
7 to 8.5	AA
5 to 7	A
3 to 5	BBB
2 to 3	BB
1 to 2	B
0 to 1	CCC

Source: Sarasin & Partners, 2022

THE STEPS TO CALCULATE ESG CREDIT RATING ARE AS FOLLOWS:

We only own securities from issuers rated as ESG investment grade (BBB or above).

1. Creation of a Materiality Map© to assess ESG exposure of each industry sector. For each sector we assign a risk score from 1 (low risk) to 3 (high risk) for each of the 15 measures listed above in the equity section.
2. These risk scores allow us then to determine the relative weightings given to E, S and G for each sector. For example, transport will have a higher weighting on E, universities on S, banks on G, and so on.
3. They also allow us to determine the guidance range for the issuer 0-10 scores. For example, issuers in the energy sector, which has high E risk, might not be able to achieve an E score outside the range 0-4. Conversely, supranationals, having low G risk, might have a guidance range of 8-10 for their G scores.
4. We then generate raw scores for E, S and G for all the issuers in our coverage universe using data from Bloomberg. We do not do our own scoring due to the large number of securities being covered. However, where Bloomberg data is not available for certain issuers, we undertake internal analysis. Data gaps tend to occur for issuers that generate a clear positive impact (e.g. retail charities, privately-held renewable energy companies, etc.), so the ESG concerns are often less material.
5. We permit analysts at their discretion to adjust the system-generated E, S and G scores for each issuer by a maximum of +/- 2 notches in cases where the data are scarce or do not capture the whole picture on an issuer (e.g. if a compelling carbon reduction strategy has been unveiled but is still in the early stages of implementation). In cases where there is overlap with the equity analysis, we cross-reference this to ensure our analysis is sound.
6. We calculate the overall ESG numerical score by taking the weighted average of the E, S and G scores.
7. Finally, we convert the numerical scores to Sarasin ESG credit ratings as per the table above.

The above analysis feeds into our Six Blocker credit analysis framework, which drives our investment decision-making.

ALTERNATIVES

We invest in alternative assets through closed-end fund vehicles (primarily LSE-listed) that invest in private equity, renewable energy, infrastructure and real estate assets.

Negative screening is in place for a range of harmful activities such as weapons production, alcohol, tobacco, gambling and thermal coal. In 2021, we added new screens such as cannabis.

An integral part of the due diligence process involves an assessment of target funds' ESG and stewardship performance. When we have concerns, we engage with the investment manager of the relevant third-party vehicle.

Alongside a detailed evaluation of the investee vehicle's own governance structures, we seek confirmation that investees integrate ESG measures in their investment process, including climate risk. We ask for evidence that this integration is meaningful, and thus impacts investment decision-making. We also seek vehicles that take seriously their stewardship responsibilities, with evidence that they will proactively engage with underlying investments where concerns arise.

PRINCIPLE 8

MONITORING MANAGERS AND SERVICE PROVIDERS

Sarasin & Partners' ESG and stewardship service providers are evaluated through a formal half-yearly feedback process and monitored on an ongoing basis.

RESEARCH PROVIDERS

MiFID II regulations require asset managers to evaluate research providers. Sarasin & Partners considers ESG services and data to be inputs into the investment process, and as such, providers are subject to the same qualitative and quantitative review alongside other investment research providers.

Quality is assessed and verified at the point of use. Department-wide surveys are carried out every six months to evaluate the value of each counterparty to each team member. The results of these surveys are combined with live CRM data to make an informed judgement on the value of each provider.

In instances where we see a disconnect, we can communicate either a need to improve performance or to terminate the agreement. In 2021 we terminated three counterparty agreements and adjusted the contract terms of two others to better align them with our assessment of value. Analysts also actively engage with the voting process and investigate discrepancies with our third-party proxy voting service, ISS, when identified.

OUTSOURCED SERVICES

For outsourced services, Sarasin & Partners retains responsibility for those functions and takes a different approach to monitoring with a focus on contingency planning and business continuity. The risk to the business is assessed, including reputational risk and perceived risk of failure. Monitoring of business-critical outsourced services includes consideration of whether the service provider is fulfilling requirements, if there are issues and how might those requirements might be met if they were to fail, including engaging with viable alternative providers. Ahead of the move to remote working we reviewed all outsourced providers' business continuity plans and engaged with them on their readiness to deal with the challenges the pandemic would present.

We are looking to strengthen the quality review process for business-critical providers. For example, we have initiated quarterly service reviews with ISS, which is our business partner for automation implementation of our voting guidelines.

NETWORKS AND INITIATIVES

Beyond our contracted service providers, we set out under **Principle 7** a broader range of initiatives and third-party entities with whom we interact, either to get additional insight on the entities in which we invest, but also to encourage the provision of better ESG analysis to the market. Examples include the International Corporate Governance Network, CDP and the Institutional Investor Group on Climate Change. As noted in **Principle 7**, these relationships are more akin to partnerships, although in several cases we pay annual membership fees. With all these relationships, our Stewardship Steering Committee undertakes an annual review to determine whether to continue our support.

PRINCIPLE 9

ENGAGEMENT

The collective failure of asset owners and managers to properly monitor and hold executives to account is widely viewed as a weakness in capital markets. In the end, a passive approach to ownership risks making all of us worse off if capital is allocated inappropriately, harmful externalities ignored, executives are not held to account and short-term results are prioritised over long-term productive investment.

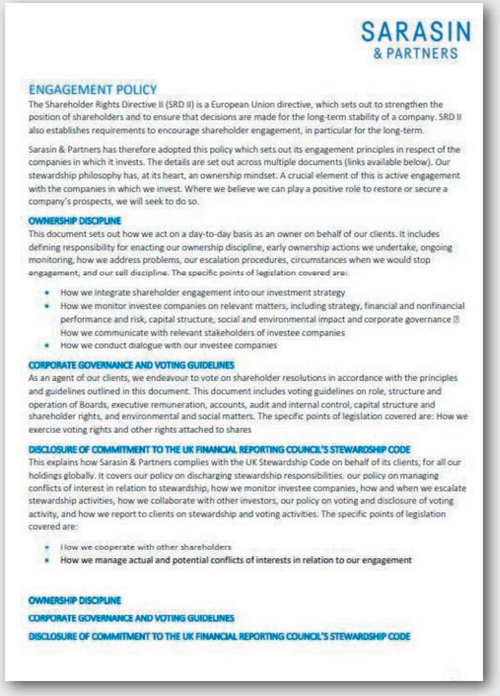
As set out under **Principle 1**, Sarasin & Partners' investment philosophy has at its heart an ownership mindset. We stay close to our clients' companies, not just to ensure we can monitor developments and the persistence of long-term value drivers, but also so we can effectively scrutinise and hold management to account for their performance. In particular, our engagement work with companies aims to address identified adverse impacts for society or the environment, strategic questions, and/or governance failures, with a view to protecting and enhancing our clients' capital, see **Principle 6**.

SRD II DISCLOSURE NOTE:

In line with SRD II, COBS 2.2B.51(a) and (b) requires Sarasin & Partners to produce an engagement policy and to publicly disclose how it has been implemented annually.

This disclosure must meet the requirements of COBS 2.2B.7R, which specifies that the annual disclosure must include a general description of voting behaviour, an explanation of the most significant votes and reporting on the use of the services of proxy advisers.

Under this principle, we provide a summary of Sarasin's Engagement Policy, as also set out on our website.



SARASIN & PARTNERS

ENGAGEMENT POLICY

The Shareholder Rights Directive II (SRD II) is a European Union directive, which sets out to strengthen the position of shareholders and to ensure that decisions are made for the long-term stability of a company. SRD II also establishes requirements to encourage shareholder engagement, in particular for the long-term.

Sarasin & Partners has therefore adopted this policy which sets out its engagement principles in respect of the companies in which it invests. The details are set out across multiple documents (links available below). Our stewardship philosophy has, at its heart, an ownership mindset. A crucial element of this is active engagement with the companies in which we invest. Where we believe we can play a positive role to restore or secure a company's prospects, we will seek to do so.

OWNERSHIP DISCIPLINE

This document sets out how we act on a day-to-day basis as an owner on behalf of our clients. It includes defining responsibility for enacting our ownership discipline, early ownership actions we undertake, ongoing monitoring, how we address problems, our escalation procedures, circumstances when we would stop engagement, and our sell discipline. The specific points of legislation covered are:

- How we integrate shareholder engagement into our investment strategy
- How we monitor investee companies on relevant matters, including strategy, financial and nonfinancial performance and risk, capital structure, social and environmental impact and corporate governance How we communicate with relevant stakeholders of investee companies
- How we conduct dialogue with our investee companies

CORPORATE GOVERNANCE AND VOTING GUIDELINES

As an agent of our clients, we endeavour to vote on shareholder resolutions in accordance with the principles and guidelines outlined in this document. This document includes voting guidelines on role, structure and operation of Boards, executive remuneration, accounts, audit and internal control, capital structure and shareholder rights, and environmental and social matters. The specific points of legislation covered are: How we exercise voting rights and other rights attached to shares

DISCLOSURE OF COMMITMENT TO THE UK FINANCIAL REPORTING COUNCIL'S STEWARDSHIP CODE

This explains how Sarasin & Partners complies with the UK Stewardship Code on behalf of its clients, for all our holdings globally. It covers our policy on discharging stewardship responsibilities, our policy on managing conflicts of interest in relation to stewardship, how we monitor investee companies, how and when we escalate stewardship activities, how we collaborate with other investors, our policy on voting and disclosure of voting activity, and how we report to clients on stewardship and voting activities. The specific points of legislation covered are:

- How we cooperate with other shareholders
- How we manage actual and potential conflicts of interests in relation to our engagement

OWNERSHIP DISCIPLINE

CORPORATE GOVERNANCE AND VOTING GUIDELINES

DISCLOSURE OF COMMITMENT TO THE UK FINANCIAL REPORTING COUNCIL'S STEWARDSHIP CODE

Details on our voting and use of proxy advisors are provided under **Principle 12**.

SARASIN'S OWNERSHIP DISCIPLINE

To ensure rigour, consistency and ultimately impact in our ownership work relating to equities, we implement a structured Ownership Discipline.

This process sets out the steps we take as an owner on behalf of our clients from the day we purchase shares, including monitoring, voting and addressing problems through to escalation steps where these become necessary. The process helps to ensure structure and keeps us results oriented. It also sets out criteria for where inadequate action may lead to a sale.

An overview of the process is presented in the schematic to the right.

EARLY OWNERSHIP

Following the purchase of a company's shares, we write to the company's leadership –ideally the Chair or Lead Independent Director (LID) of the board where this is possible – to introduce ourselves, outline the basis for our investment thesis and set out the identified areas for engagement.

MONITORING & VOTING

Our ongoing monitoring involves regular exchanges through calls and/or face-to-face meetings with senior executives, and, wherever possible, the company chair, lead independent director, or other non-executive and independent board members. We exercise our votes according to our corporate governance and voting policy. However, if we believe our voting policy produces a perverse outcome, we will override it, recording our rationale. In this way, our voting is an integral part of our ongoing monitoring and engagements, see **Principle 12**.

ADDRESSING PROBLEMS

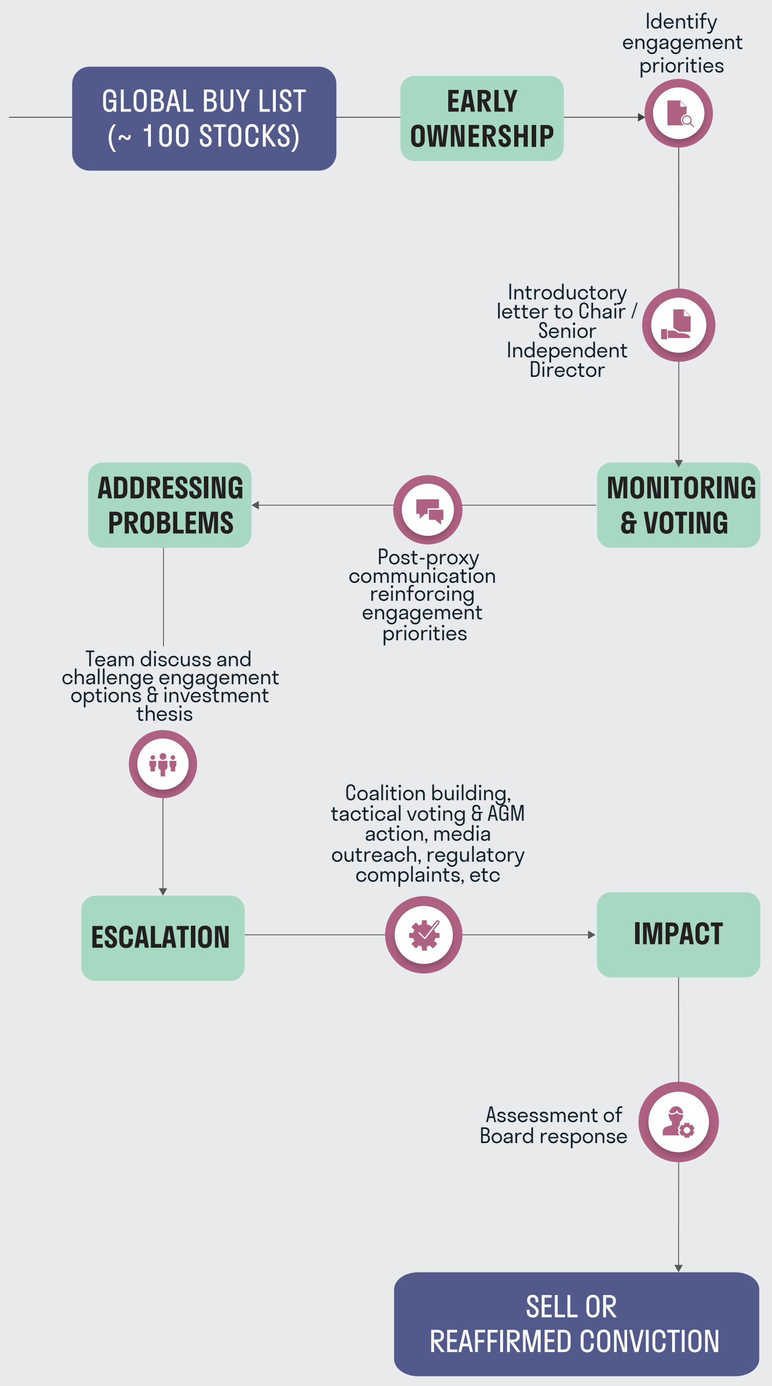
In instances where concerns arise, we undertake an initial investigation, gather information from third-party sources as well as the company itself. If we establish that there is a need to raise the concern with the board, we will do so, often in letter form.

ESCALATION

See also **Principle 11**. If the issue is not resolved, and we determine that our clients' interests are at risk, we will assess whether to escalate our engagement or sell. In the case of escalation, we draw up an engagement plan, which sets out the goal of the engagement, planned steps we will take and a timeline.

Potential escalation measures include forming a collective shareholder engagement, exercising our votes against directors/auditors, filing shareholder resolutions, lodging complaints with

SCHEMATIC OF SARASIN'S OWNERSHIP DISCIPLINE



Source: Sarasin & Partners, 2022

regulators, public outreach and – in extreme cases – we may consider litigation. We ensure necessary internal communication, review and legal checks.

IMPACT

We track the progress and outcomes of our engagements. We update our records regularly and progress of live engagements is discussed at our weekly global equities team meeting.

Where the goals of the engagement are achieved, or we determine there is inadequate progress, we may decide to stop the dialogue.

KNOWING WHEN TO STOP

Just as we are committed to fulfil our clients' ownership responsibilities, it is as important for us to know our limits to effect change, either alone or as part of a broader group. There will inevitably be cases where our ability to drive change is limited and there will be cases where we fail to achieve our objective.

In these instances, beyond clearly setting out our concerns to the board, we will deploy our efforts elsewhere. We will also carefully review our conviction in the investment case, to determine whether or not we should continue to hold the company's shares.

Once we sell a stock, we will stay alert to further progress. Impacts from engagements can often come months or even years after initial dialogue was initiated.

SALE DISCIPLINE

Sometimes, difficulties with an engagement will lead us to sell the investment. Even where an engagement is progressing well, however, we may decide to sell the shares where new information comes to light that causes us to reassess the investment case, or the share price rises to unsustainable levels.

The long-term nature of some engagements always needs to be balanced with the need to take quick sale decisions. The portfolio manager retains the final decision about whether or not to sell a company's shares, and will take this decision with a clear understanding of any ongoing dialogue and expectations over progress. The rationale will be detailed in any final sell note.

LIMITATIONS IN CERTAIN MARKETS AND COMPANIES

It is worth emphasising that our ability to implement our ownership responsibilities varies by jurisdiction due to differences in legal frameworks, culture and market practice. We cannot commit to having the same access to, or influence over, company leadership everywhere we invest.

Also, we are inevitably limited by the challenge of diffuse ownership, which means that in most cases our clients' holdings represent a small percentage of the total issued share capital. Where access to the board is limited to only the largest shareholders, this is a constraint.

In alternatives, however, we more often have an advantage of being one of the largest shareholders. For example, we have been productively engaging with a renewable energy investment trust on their recycling practices. For more on our stewardship approach to alternatives, see **Principle 7**.

PRIORITISATION OF ENGAGEMENTS

Engagement work is resource-intensive, which means we inevitably have to prioritise the engagements we believe to be most urgent and impactful.

A range of factors are incorporated into our prioritisation of engagements. The most important are:

- Materiality of our holdings (i.e. AUM), considering both equity and debt.
- Materiality of ESG concerns at specific entities for the company concerned, for markets and society as a whole, while also taking into consideration our current stewardship priorities.
- Ripple effect – the potential to catalyse broader behavioural change in the market.
- Feasibility – our ability to drive change.

It is worth emphasising that we are not focused exclusively on ESG. Rather, our aim is to protect and enhance our clients' capital and we therefore consider any concern spanning governance, strategy, operational behaviour, and/or external adverse impacts and reputational risks as potential engagement topics. The overarching point is that we have a long- term stewardship mindset, and wish to ensure our companies are behaving in alignment with a sustainable society, not at its expense.

It is also important in some instances that we engage with companies that we do not hold. For reasons of societal benefit and ripple effect, we have engaged with Shell (as described below in this section) and BP (as described in our 2020 report), for instance, although we did not hold, or held only limited amounts of, their equity or debt. These engagements may also be considered part of our market-wide efforts discussed under **Principle 4**.

Our primary focus areas in 2021 were:

- Climate risk management and transition to net zero.
- Social issues across value chains, including diversity and inclusion, labour rights and human rights.
- Company-specific governance concerns, including accounting and audit.

Notable company engagements in 2021 were:

- **Climate:** HSBC, NextEra, CRH, Air Liquide, Equinor, Enel, Shell, BP.
- **Social:** Mastercard, Daikin, Home Depot, AIA, Bridgestone, Samsonite.
- **Governance:** NextEra, Alstom, Novartis.

RESOURCES

Our ownership discipline is not solely the responsibility of our stewardship experts. Each and every member of our asset management team takes on this responsibility. Our stewardship leads offer support, advice and challenge for engagements, and will normally jointly lead an engagement in instances where problems have been identified and we embark on a programme of escalation. Our integrated approach is designed to bring together different skill sets to ensure we adopt a holistic and ultimately successful engagement strategy.

PROCESS

We usually engage with firms via one-to-one meetings, group meetings and email inquiries. A combination of direct face-to-face interaction and written engagement is preferred, in order to establish more personal relationships with companies and more tailored responses to our questions.

REPORTING

As discussed under **Principle 6**, we provide quarterly reports on our ownership activities to clients and, where appropriate, real-time updates on our website. In our reports, we provide examples of our most impactful stewardship activities.

A SUMMARY OF OUR 2021 ENGAGEMENT ACTIVITY

ENGAGEMENT TOPIC	NO. OF ENGAGEMENTS			NO. OF INTERACTIONS		
	2019	2020	2021	2019	2020	2021
Board of directors	11	35	46	15	37	83
Committees and reporting (e.g. auditors, financial statement approval)	8	33	39	13	45	96
Corporate structure (including capital changes, Q&A)	3	1	1	4	1	1
Remuneration	9	38	49	15	45	54
General governance (e.g. anti-takeover, auditors, shareholder rights)	6	4	0	7	9	0
Climate risk	49	24	85	70	64	141
Environmental (excluding climate risk)	2	7	6	2	9	8
Social	3	12	55	3	15	93
Other	1	0	0	1	0	0
Total	**92**	**154**	**281**	**130**	**225**	**476**

* In addition, we sent letters to 351 FTSE All-Share companies outside of our portfolios in October 2021 regarding Say on Climate.

Source: Sarasin & Partners, 2022

SOCIAL EXAMPLE: ASSOCIATED BRITISH FOODS

OUR ENGAGEMENT:

We initiated discussions with Associated British Foods (AB Foods), which owns Primark, to confirm its support for the renewal of the Bangladesh Accord (please see more on this public initiative in **Principle 4**), and to understand what steps it is taking to protect workers in its supply chain.

Having been one of the founding signatories of the Accord, AB Foods expressed concerns over the expansion of the Accord, which they feared may become too loose and reduce its effectiveness. However, they were optimistic that the terms of the new Accord will ultimately be agreed and signed. Even were the Accord to disappear, they assured us that their internal Primark Structural Integrity programme was stricter than the Accord and provided effective protection for Bangladeshi workers.

Beyond the Accord, we discussed AB Foods' supply chain in Myanmar (a region of severe conflict), forced labour issues in Xinjiang, China, COVID-19, sustainable cotton and their approach to supporting the circular economy.

IMPACT:

Primark have confirmed their support for the new Accord. They explained that all first and second tier factories in Bangladesh, Pakistan and Myanmar were subject to rigorous and comprehensive surveys. Before any new supplier was accepted, a full structural review was completed. Each factory building was assessed by a team of structural engineers against international standards. If any areas were found to require improvement, Primark worked with a team of structural and civil engineers to provide suppliers and their factories with technical support and guidance. After a factory has been audited and approved it is re-audited at least once a year, with no prior notification.

We are pleased with the successful outcome of the discussions with AB Foods and in particular that this key new agreement will now continue and expand to other areas, both geographically and in terms of worker protection. Accord signatories agreed to the future expansion of health and safety programmes and to the development of Country-Specific Safety Programs (CSSP) in other selected countries, based on feasibility. Priority countries for consideration include Pakistan, India, Vietnam, Cambodia and, possibly, Turkey, Egypt and Morocco. Signatories will also explore the expansion of the Accord's scope to address additional human rights due diligence responsibilities and will set up a working group for this purpose.

In addition, while our discussion on specific human rights issues in China represented an improvement in communications (the company had been reluctant to engage on these issues), we expect to see demonstrable action and greater transparency with regard to human rights due diligence in supply chains.

CLIMATE CHANGE

As underscored in our Net Zero Asset Managers' Commitment described under **Principle 1**, we prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest.

We do not believe that a singular divestment approach is in keeping with the Paris goals, because investors have a vital role to play in pressing carbon-intensive companies to change course. In our view, robust engagement can deliver greater impacts – and thus a better outcome – for our planet, but it needs to be undertaken with purpose, tenacity and be transparent.

Consistent with our ambition for all assets under management to achieve net-zero emissions by 2050 or sooner, we pursue this goal by engaging with our investee entities in all relevant asset classes: equity, fixed income, investment trusts and real assets.

Here we highlight two recent examples of engagements where we believe we have had a demonstrable impact. In the table on page 60 we provide a broader (non-exhaustive) selection of our climate-related engagements and their impacts.

EXAMPLE: HSBC

OUR ENGAGEMENT:

In 2021, we supported a ShareAction-led engagement with HSBC to press for a commitment to align its financing activities with the Paris Climate Agreement.

HSBC was the thirteenth largest financier-of-fossil fuel intensive activities globally between 2016 and 2020, and second to Barclays in Europe. HSBC provided an estimated $110.7 billion to fossil-fuel-intensive activities, according to the Rainforest Action Network, making it a natural step for us to focus our energies on HSBC in 2021.

Although HSBC announced in October 2020 its goal to be a net-zero bank by 2050, this ambition was vague. Specifically, the bank failed to explicitly state that it was to withdraw financing for projects or activities that were not consistent with a 1.5°C pathway. Even as they published their ambition, ShareAction found that they continued to finance new investments in thermal coal and tar sands development, two of the most carbon-intensive sources of energy.

Following engagement with the board, we joined 15 institutional investors representing $2.4 trillion in AUM to file a climate change resolution at HSBC for its 2021 AGM. Intensive discussions were held with the chair, CEO and senior executive team over subsequent months.

IMPACT:

Negotiations with the bank paid off. In the weeks running up to their AGM in April, the board agreed to their own special resolution that incorporated all the key asks within the shareholder resolution.

Alongside a broad-based commitment to "set science-based strategy with short- and medium-term targets to align HSBC's provision of finance to the Paris Agreement goals", it included a commitment to phase out thermal coal financing by 2030 in OECD countries and by 2040 in non-OECD countries. They furthermore committed to publish a new coal policy and emission reduction targets covering both lending and capital markets underwriting for its oil and gas and power and utilities portfolios – which they did later in the year.

We duly withdrew our shareholder resolution in acknowledgement of this progress but with the provision that dialogues would continue as the bank worked out key details for implementation.

The board's special resolution was passed at HSBC's AGM with 99% of the vote.

The success of the HSBC resolution is likely to be felt far beyond the bank itself. HSBC operates globally and its proactive stance on climate change offers an example to others. It is particularly powerful given HSBC's large and growing footprint in Asia, where carbon emissions continue to grow rapidly, and thus action to bring them down is particularly needed.

While we welcome the demonstrable progress at HSBC, we will watch carefully as it sets out further detail on how it will deliver on its commitments.

EXAMPLE: SHELL

In 2021, we saw continued success with our outreach to oil and gas companies following our six-year engagement effort calling for net-zero aligned accounting and audit (please see description of our efforts on this under **Principle 4**).

Of particular note were the steps taken by Shell, BP and Total to review and amend their core accounting assumptions to better reflect the economic consequences of long-term decarbonisation, as well as the explicit disclosures by their auditors on their work to check the companies' numbers. Below we provide more detail on our engagement with Shell.

OUR ENGAGEMENT:

We initiated our engagement with Shell's chair in 2016. We requested an explicit Paris-alignment commitment by the board, and for the company to review its accounting assumptions to ensure they were properly reflecting decarbonisation. Alongside regular correspondence, we co-filed a shareholder resolution at the company in 2016 and made a formal complaint to the FRC concerning a lack of disclosure on critical accounting assumptions in 2017.

We gradually built an investor coalition (expanding from $1 trillion to over $9 trillion in AUM) around our call for net-zero aligned accounts. Following a letter in 2020 to the audit committee chair and lead audit partner, we escalated our proxy action at Shell in 2021. Specifically, we pre-declared our votes against the audit committee chair and financial statements, against the energy transition plan and our abstentions on the auditor reappointment. We asked two public questions at the AGM: one directed to the audit committee chair, and the second to the auditor, EY.

IMPACT:

Over the years we have seen clear impacts from our engagement effort in Shell's accounting disclosures, and changes to critical accounting assumptions to better reflect the net-zero transition.

Most notably, Shell has iteratively brought down its long-term oil price assumptions used in impairment testing from $80 per barrel to $60. They have explicitly attributed these reductions to the ongoing energy transition linked to decarbonisation.

The accounting changes have resulted in multi-billion-dollar impairments, demonstrating the stranded asset risks embedded in oil and gas company balance sheets.

In 2021, Shell extended its accounting adjustments to cover its downstream refining assets for the first time. It is the first oil and gas company to accept that decarbonisation will result in curtailed lives for these assets. It consequently recognised a £6.9 billion impairment for these assets and identified an increase in asset retirement obligations of £3.6 billion.

Turning to Shell's auditor, EY, there was enhanced disclosure around how they considered decarbonisation in their audit process. Once again, climate was identified as a key audit matter, reflecting the auditors' view on the most significant assessed risks of material misstatement.

Most welcome of all was EY's full-page response to our investor expectations for auditors, preceded by this disclosure:

> "Our audit procedures took account of the content of a letter dated 5 November 2020 sent by Sarasin and Partners to the Audit Committee Chair regarding their call for "Paris-aligned" accounts, as well as the document published on the same date by the Institutional Investors Group on Climate Change (IIGCC) entitled 'Investor Expectations for Paris-aligned Accounts" and the FRC's climate change thematic review.'

Shell and EY's disclosures remain market leading, even though they themselves conclude that their accounts are not Paris-aligned (hence our votes against).

The power of this leadership is evident in the ripple effects it is generating amongst other oil and gas companies. The majority of European oil and gas companies we reviewed in 2021 are now incorporating climate-related accounting adjustments, and we are seeing pressure rising for their US-listed peers.

These accounting adjustments reflect the goals of the Paris Agreement and have the potential to create a chain reaction within the energy sector and beyond. The more companies' financial statements are Paris-aligned, the more company capital deployment will be Paris-aligned. This is because their accounting numbers are key to driving capital allocation.

AGM QUESTIONS TO SHELL

TO AUDIT COMMITTEE CHAIR, ANN GODBEHERE:

"Shell has stated in its annual report that its accounts are not drawn up using assumptions consistent with the Paris goals because it does not see this as a likely scenario.

However, shareholders have a legitimate interest in understanding how the world's transition onto a 2050 net-zero pathway could impact Shell's capital strength and performance, not least because this is the pathway that Shell has committed to.

With the publication of the IEA's Special Report on a 2050 net-zero pathway this morning, and projections of oil prices falling to $35/bbl in 2030 and $24/bbl by 2050, this visibility becomes even more urgent.

Could you comment on whether the audit committee will look again at whether its accounts should use forward-looking assumptions consistent with Paris, or at the very least publish the results of sensitivity analysis showing how a Paris-aligned pathway would impact its financial position in its next financial statements?"

TO AUDITOR, EY, ALLISTER WILSON:

"We welcome EY's detailed response to the IIGCC Investor Expectations for Paris-aligned accounts in Shell's annual report. We likewise appreciated the clear opinion that Shell's assumptions are not in line with a Paris-pathway.

EY, however, indicated that "it is neither possible nor appropriate for EY" to provide disclosure of the financial statement consequences of such a scenario.

However, I'd like to make three points:

- Deloitte provided such commentary for BP this year.
- EY does undertake stress testing on critical forward-looking assumptions already, and it is unclear why a scenario aligned with a net-zero pathway is not appropriate or possible.
- Finally, the publication this morning of the IEA's Special Report on a 2050 net-zero scenario including commodity price trajectories would provide an external benchmark to support such stress testing.

Consequently, we would like to know whether EY will provide investors with the visibility they seek on the risks from a 2050 net-zero pathway next year."

SELECTION OF CLIMATE ENGAGEMENTS FROM 2021 (NON-EXHAUSTIVE LIST)

COMPANY	ENGAGEMENT ISSUE	IMPACT
Air Liquide	Seeking Paris-aligned accounting & net-zero commitment.	Published financial statements include climate risks and net-zero by 2050 commitment published with interim targets.
ASOS	Calls with chair, sustainability team and head of strategy on ESG disclosures.	Published a net-zero commitment, covering scopes 1-3 (alongside circular economy and diversity goals).
Blackrock	Exchanges with company secretary and head of sustainability on more robust climate voting.	Published stronger voting policy.
CRH	Seeking net-zero commitment, supported by clear strategy, net-zero financial statements and lobbying.	Announced net-zero ambition for 2050, and brought forward target for intensity reductions to 2025.
DS Smith	Ongoing calls for Paris Commitment.	Net-zero commitment with SBTi-aligned interim target set.
Enel	Continued dialogue on strengthening climate commitments, including ensuring net-zero accounting.	Published financials substantially increased coverage of climate factors, offering an example to others.
HSBC	Co-filed shareholder resolution requesting an explicit net-zero commitment with ShareAction.	Agreed special resolution committing HSBC to net-zero by 2050, covering all financing and all geographies.
NextEra	Intensive engagement with executive chair seeking an explicit net-zero commitment.	Increased climate risk reporting in 2021 (CDP and TCFD), moving towards net-zero commitment in 2022.
Weyerhaeuser	Ongoing dialogue seeking net-zero commitment and greater visibility of company's climate strategy.	Set a net-zero commitment with interim targets. Published a carbon record which reports their net carbon sequestration equivalent to 25mn mtCO2e in 2020.

Source: Sarasin & Partners, 2022

GOVERNANCE: BOARD DIVERSITY

The promotion of diversity and inclusion remains a key focus for us. We have long incorporated gender diversity guidelines into our voting, but in 2021 we launched an intensive, targeted engagement with companies that fail to meet our guidelines. We also focus on diversity and inclusion at the levels below the board.

We reached out to 24 key companies with insufficient board diversity, across multiple regions and sectors, to notify them of our expectations and to press for tangible improvements, not only at the board level but within senior management and the broader workforce. We received meaningful responses from approximately 80% of the companies on the shortlist, and conducted calls with 13 companies, of which we highlight the following two examples.

EXAMPLE: DAIKIN INDUSTRIES

OUR ENGAGEMENT:

In October we engaged with Daikin, a global integrated manufacturer of HVAC products headquartered in Japan. Daikin's board diversity is just under 10%, and the board is not majority independent. Our discussion with senior management gave us some comfort that the leadership acknowledge benefits of diversity and recognise that they are lagging behind peers.

We welcomed the opportunity to discuss these key concerns with the company, particularly as it has often been a challenge to obtain access to management at Japanese companies.

IMPACT:

As part of Daikin's steps to improve their board diversity, they have established an advisory committee with oversight of board composition and workforce diversity, and shared with us the strategy that they are working towards.

Within the workforce, key areas of focus include gender, age, nationality and disability. They have set gender targets (albeit modest) at the senior management level, and have established targets for the inclusion of disabled employees.

It is promising that there is a strategy under way to improve diversity and inclusion, but we recognise that this will require close monitoring to ensure that progress happens at a faster pace. As such we intend to hold periodic discussions with Daikin to assess and encourage improvement.

EXAMPLE: MASTERCARD

OUR ENGAGEMENT:

In November we engaged with Mastercard, whose board gender diversity of between 20% - 29% over the past five years falls below our diversity guideline. Our discussion with the lead independent director provided comfort that diversity in all its forms is a top priority for the board. She anticipates that this will continue as she takes over as board chair in 2022. They are currently refreshing the board, with two directors soon retiring.

One area of weakness has historically been pay equality. Mastercard have been subject to gender pay equity shareholder resolutions in the past. We supported these resolutions and pressed for greater transparency in this area.

IMPACT:

Mastercard expects to meet our 30% gender diversity guideline by its 2022 AGM. Beyond gender, the board is 60% ethnic diverse, with strong international expertise. This range of perspectives will help the business face a range of new competitive threats.

Progress is evident below board level, where they have made a conscious effort to recruit with diversity in mind, often a challenge in the technology space. Improvements are beginning to show and gender representation at senior management level now stands at 32%.

The company now discloses more detailed pay equity information, and has recently stated that they have achieved gender pay parity at the global level. While this is positive, we would also like to see further disclosure at regional levels. We will continue to monitor progress and raise any concerns as the board transitions.

FIXED INCOME ENGAGEMENT

We also pursue dialogues with companies on ESG matters where we hold debt instruments because, as for equities, we believe that ESG engagement can reduce the credit risk of a given sector while also affecting positive outcomes for the society and the planet.

The key difference with bonds, of course, is that creditors do not have a vote at company meetings, or other powers to convene meetings. But they can exert influence in many of the other ways outlined above. Particular points include when creditors have leverage prior to new issuance – when the terms of the security trust and intercreditor deeds (STIDs) are set and when bond holders get a vote on a corporate action (see **Principle 12** for more detail on our approach to voting). We may also engage at other points and, in some cases, we undertake joint engagements when we hold shares and credit from the same issuer.

PRIORITISATION:

In determining which engagements to prioritise, we take into account:

- The size of a holding
- Materiality risk related to ESG, and/ or
- Extent of disclosure on ESG (or lack thereof)

The ESG assessment methodology described in **Principle 7** allows comparison both cross-sector and within sector and guides us in our engagement process. Where we feel ESG risks are more material for issuers, the more we will engage those issuers. Certain sectors, such as energy or industrials, often have more material ESG risks than others.

It also helps identify issuers that may be falling short in ESG reporting versus peers. For example, disclosure and governance are key points in our engagements with financial institutions.

We are members of the IIGCC Banking Group, within which we take part in collaborative engagements with banks on climate. These engagements focus on the Investor Expectations document published in April 2021, to which we contributed.

Our priority topics for 2021 included: Bank of England climate stress tests (banks), EPC profile of housing stock (housing associations), green/ sustainable bond financing frameworks (various industries) and more granular details of accounting methodology (various industries). In 2021 we undertook engagements with 24 issuers across a range of industry sectors.

2021 FIXED INCOME ENGAGEMENTS AND THEIR OUTCOMES

COMPANY	E/S/G FACTOR	GOAL	ACTIVITIES	OUTCOMES
Orsted	E: Climate change	Carbon neutrality (own operations) by 2025 and "full" carbon neutrality (Scope 3) by 2040. Elaboration of strategy for achieving these targets.	Two management calls (CFO, head of treasury) in 2021.	Confirmed closure last (contractually-obliged) coal asset in 2023, though will retain some gas-fired generation. Targets to be partially achieved by offsets in high-quality assets (no disclosure here as yet). Target interim goal of 50% reduction in Scope 3 emissions by 2032.
UK banks (Natwest, Barclays)	E: Climate change	Results of Bank of England climate stress tests.	Small group investor calls with investor relations and treasury.	Positive outcome with confirmation of intensive communication with regulators and rapidly increasing sophistication of climate risk modelling. Data submissions due end of 2021/start of 2022.
Vena Energy	G: Business structure – Japanese assets held outside the change of control clause.	Clarification of ultimate ownership breakdown of Vena's Japanese assets.	Two management calls in 2021; extensive follow-up email contact.	Very detailed follow-up provided by the company satisfying us as to the ownership position and management rights of Vena Energy Holdings Ltd entity with regard to the Japanese assets.

Source: Sarasin & Partners, 2022

ANALYTICAL TOOLS

Two of the credit assessment tools we use are sensitivity analysis and stress testing, which can show us the potential range of impacts on issuers' financial fundamentals from ESG risks, i.e. profitability or capital impairments resulting from regulatory fines due to governance weaknesses.

Where there is a lack of disclosure we are alert to heightened risks. For instance, among housing associations there is a lack of uniformity of reporting across the sector. We are closely following developments initiated by a working group to develop a blueprint on ESG reporting standards for housing associations. This is expected to be finalised later this year, after which more targeted and efficient engagement can be implemented.

Our engagement approach is the same across all our fixed income strategies and geographies, and we engage wherever ESG concerns are material.

"Our engagement approach is the same across all our fixed income strategies and geographies, and we engage wherever ESG concerns are material."

FOCUS: FINANCIALS

Our engagement prioritisation with financial issuers is a function of the severity of ESG risk, size of bond holdings and position in the capital structure.

We tend to prioritise engagement with issuers where we hold bonds at the riskier end of their capital structure. Most importantly, though, we focus our ESG engagement efforts on issuers facing elevated ESG risks that may adversely affect their franchise and financial fundamentals.

Specifically, such risks can:

- Cause reputational damage and consequently franchise erosion
- Lead to a material impact on banks' P&L and balance sheets
- Can move spreads and therefore negatively impact the value of our investments

FOCUS: GREEN BONDS AND 'GREENWASHING'

Another area of focus has been engagements with issuers of green bonds to protect against greenwashing. We scrutinise, in particular, the use of proceeds to ascertain whether they will genuinely promote a more sustainable outcome. In certain instances, we decide not to purchase green bonds if engagement fails to resolve our concerns.

A good example is Adani Electricity Mumbai (Indian electricity distribution company) which issued a 'sustainability linked' bond in July 2021. We participated in the roadshow for the new bond issuance, where we queried management on links the issuer had to coal plants and coal mining. We discovered that the issuer, although broadly owning green electricity distribution assets, also owns a 500MW coal plant.

This, and Adani Electrical Mumbai's strong links to the rest of the Adani Group, which owns other coal plants and coal mines, made us uncomfortable with the issue's 'sustainability' label. We were also unpersuaded by independent verification of the 'sustainability' label. Investors who took part in the issuance began questioning the bond's 'sustainability' label soon after buying it, and the independent verifier amended its report soon after. In November a NGO filed a complaint with the SEC against the lead managers of the deal for failing to disclose coal exposure.

We continue to be wary of greenwashing and always endeavour to invest in green, social and sustainable issues from issuers that fulfil positive ESG attributes as a whole.

PRINCIPLE 10

COLLABORATION

Having a larger shareholding united on a matter of concern can often make company engagement more impactful.

Collaboration with other like-minded investors is an increasingly common feature of our company engagement and policy outreach. As a mid-sized asset manager with global investments, we are not often in the top ten of any company's shareholder or creditor base, but through collaboration we are able to amplify our voice and potential to drive change.

Our ability to gain broader investor support for particular positions, however, depends on us delivering high-quality analysis with credible proposals for action that others can get behind. We therefore put considerable effort into our analytical work. We are assisted in this effort by the fact that, as a relatively high-conviction asset manager with a core global equity buy-list of c.100 stocks, we are able to draw on a deep understanding of the businesses we hold.

COMPANY ENGAGEMENTS

While the majority of our company engagements are pursued on our own, as outlined under **Principle 9 and 11**, we will collaborate with other investors where we are seeking to escalate due to resistance from a board or executives. Often, having a larger shareholding united on a matter of concern can be more impactful. Wherever we explore collaboration, we ensure the steps we take are consistent with local laws and regulations.

2021 COLLABORATIVE ENGAGEMENTS

In 2021 we participated in **40** collaborative engagements, **8** of which we led. The latter were engagements we were undertaking according to our priorities, but wished to draw together a broader group to increase our voice. In the other 32 cases, we added our name to efforts that also aligned well with our priority areas of concern. The following table provides an overview of some of these, their goals and outcomes so far.

POLICY OUTREACH

In certain cases, these collaborations link into broader initiatives that we support, such as Climate Action 100+, the Workforce Disclosure Initiative, or the Ellen MacArthur global commitment on recycling. These were also outlined under **Principle 4.**

Collaboration is particularly important in our policy outreach work, where having a collective investor voice behind specific requests for policy action is necessary to gain traction.

These include initiatives to improve the audit system, to reform international accounting standards, to call for companies to deliver Paris-aligned accounts and to promote human rights in supply chains.

2021 COLLABORATIVE ENGAGEMENTS

COMPANY	CATEGORY	GOAL	OUTCOMES
ASML Holding	S	Disclosure of workforce practices	Confirmed participation in WDI survey.
Associated British Foods	S	Continuance and expansion of Bangladesh Accord	Primark supported revised Accord. Published new ESG commitments.
BP	E, G	Paris-aligned accounts; Paris-aligned audit	Company's financial statements included extensive discussion of climate risks, and auditor statement addressing the degree of Paris-alignment.
Compass	S	Eliminating human rights abuses	Committed to external audit on workforce practices in UAE.
Compass	E, G	Net-zero commitment; Paris-aligned accounting	Announced updated SBTi-approved emission targets for 2030 and net-zero commitment for 2050, covering global operations and value chain.
Enel	S	Disclosure of workforce practices	Confirmed participation in WDI survey.
Equinor	E, G	Net-zero commitment, Paris-aligned accounting	Commitment to review gaps with Climate Action 100+ Net Zero Benchmark assessment.
Reckitt	S	Disclosure of workforce practices	Confirmed participation in WDI survey.
Shell	E, G	Paris-aligned accounting	Financial statement adjustments for decarbonisation and detailed auditor response to Sarasin led letter. Commitment from the auditor to improve disclosure further in 2022.
Schneider Electric	S	Disclosure of workforce practices	Confirmed participation in WDI survey.
Unilever	S	Disclosure of workforce practices.	Company agreed to participate in WDI survey.

For the avoidance of duplication, we excluded from this table the ten engagements with seven companies that we already showed in the table under **Principle 9** (Air Liquide, Blackrock, CRH, DS Smith, Enel, HSBC, and NextEra). In six of those engagements, we were leads. The table above also does not include the collaborative campaign on Say on Climate with FTSE All Share companies, where the results are yet to manifest themselves.

Source: Sarasin & Partners, 2022

PRINCIPLE 11

ESCALATION

A central pillar of good governance is that individual directors can be held personally accountable for shareholder outcomes.

Escalation is a feature of both our engagement work, see Principle 9, and our policy and market outreach (Principle 4). It is important to be able to escalate where we are failing to gain traction on key issues of concern for our clients, as it demonstrates a commitment to our goal and increases our chances of success. But we do not escalate our efforts in all situations. There are costs involved, and reputational risks need to be considered.

There is a range of options open to shareholders to apply greater pressure on boards, including:

COLLECTIVE SHAREHOLDER ENGAGEMENTS

A common escalation step is to join with other concerned shareholders in a shared engagement effort. While rules around collective engagement vary between markets, and therefore may not always be an option, in markets like the UK it is encouraged as part of promoting better dialogue and more robust governance at companies (see **Principle 10**). Notable examples of collective shareholder engagements in 2021 included Enel, Rio Tinto, CRH, HSBC and NextEra.

VOTING AGAINST DIRECTORS AND OTHER AGENDA ITEMS

A central pillar of good governance is that individual directors can be held personally accountable for shareholder outcomes. We therefore use our votes thoughtfully, and do not automatically vote for directors. We communicate with proxy advisory agencies to ensure they are aware of long-term shareholder concerns. The power of the vote varies by jurisdiction, but is not limited to the legal rights it conveys.

Heavy votes against individual directors (in some cases more than a 10% vote against) can be influential through its reputational impact, and the signal it sends. Also, it is important to understand the board dynamic to identify those who might be sympathetic to our cause and take a differentiated approach that reflects this.

Our voting against directors often comes in conjunction with voting against executive remuneration, financial accounts, or other relevant items. Please see two such examples (The Walt Disney Company and EssilorLuxottica) in **Principle 12**.

To promote action on climate change, in 2020 we extended our climate voting policy to focus on director accountability, specifically holding the chair, audit committee chair and remuneration committee chair to account for progress in their areas of responsibility. In 2021 we voted against 31 directors on climate grounds, where we perceived material climate risks and saw lack of progress.

We also voted against 68 chairs of nomination committees in 2021 due to the lack of board diversity. Some of those votes were an escalation of previous engagement on this topic where we considered there was insufficient progress. Examples include Activision Blizzard, Amgen, Charter Communications, CME Group and Crown Castle International.

Altogether, we voted against 859 company directors in 2021 on various concerns, or 25% of total.

FILING SHAREHOLDER RESOLUTIONS/ PROPOSING DIRECTORS

Shareholders often have powers to file shareholder resolutions, including proposing independent directors for the board. This can be an effective tool to ensure the board has the right leadership, or to press a board to undertake a particular action they are otherwise resisting. Even where the shareholder proposals are not ultimately passed, if sufficient support is garnered this sends a strong signal to the board that it needs to act.

In 2021, we co-filed a climate change resolution at HSBC that was subsequently withdrawn following the board's positive response and a special resolution initiated by HSBC that incorporated all our key requests (please see more detail on this in **Principle 9**).

VOTING AGAINST THE AUDITOR AND/OR ANNUAL REPORT AND ACCOUNTS

Shareholders often have a binding vote on the auditor's appointment (and even non-binding votes can be powerful).

This is because the auditor plays a critical role in protecting investors from misleading reporting of performance and capital strength. This vote (and any associated engagement with the auditor) can be influential since, by pressing an auditor to be tougher, this can force management to reveal information they might otherwise wish to conceal.

In 2021, we voted against 29% of proposals to appoint company auditors. Similarly, a vote against an annual report and accounts sends a strong signal that shareholders lack faith in what is being reported. In 2021, we voted against 4% of all voted management accounts.

SUBMITTING FORMAL COMPLAINTS TO REGULATORS

Where a breach has occurred, for instance inadequate shareholder disclosure, misrepresentation or poor treatment of a stakeholder, then a complaint to the relevant regulator may be an appropriate tool to drive change. The most recent example was Shell, where we complained in 2018 that they failed to disclose their commodity price assumptions in their accounts. This led to commodity price assumptions being included in the subsequent set of accounts.

PUBLIC STATEMENTS

Depending on the situation, a public statement by one or more shareholders challenging a company's or director's actions or other key market player can help to draw broader market scrutiny and prove effective in generating a response.

For example, following engagement, we escalated our proxy action at Shell in 2021 by pre-declaring our votes against the company's audit committee chair, financial statements and energy transition plan, and abstaining on the auditor reappointment. We similarly pre-declared our votes at BP's AGM.

Another example of our use of a public statement was where we released the letters we coordinated to the UK Big Four audit firms in November 2021, in the run up to the Conference of Parties (COP26) negotiations in Glasgow. We issued a statement on our website alongside the letters explaining why they were sent, and the vital importance of auditors playing a proactive role in calling out companies' annual reports and financial statements that are misrepresenting their alignment with a 1.5°C pathway.

LITIGATION

While there are frequently high hurdles to overcome in any legal action, in extreme cases it may be appropriate to consider legal action against directors – or supporting someone else in their legal action – for failures to uphold, for instance, their fiduciary duties. The threat of legal action can also prove influential.

None of the actions should be taken lightly. At every stage we ensure proper internal debate and challenge, weighing up the benefits and costs. Where appropriate, we seek legal guidance.

Our effectiveness depends on building our reputation for accurate analysis, our commitment to long-term sustainable returns and our integrity, so we need to move forward with any engagement carefully. But, as already highlighted, we believe that investors have a responsibility to speak out against poor behaviour, and we do not avoid necessary challenge.

Where appropriate, we seek partnership with third parties, including civil society actors. We routinely review our investment thesis to ensure our holding remains appropriate.

GEOGRAPHICAL DIFFERENCES

While we view our ESG expectations as universal, our approach to implementation will at times reflect geographical specificities. Also, we may prioritise certain markets as a practical measure in certain cases and, as we gain experience, extend them to cover other markets.

For instance, until 2021 we had a gender diversity requirement only applying to developed countries (ex-Japan); it was 30% of women on boards (25% before 2021). Starting from 2022, we made this requirement global, including emerging economies. In the UK, however, the requirement is 33% in reflection of the requirement of the 2016 Hampton Alexander review for FTSE 350 boards by 2020.

Additionally, from 2022 in the UK and the US (starting from large-cap companies first), we will vote against the nomination committee chair if a board does not have any ethnic minority directors.

Another example relates to our expectation for senior executive shareholding requirements. Generally, we believe that top executives should have significant portion of their overall wealth held in shares during their employment and for some time after. While across the world we apply the threshold requirement of 400% of base salary for CEOs, in the US – due to typically lower levels of fixed pay and higher levels of variable – we apply higher threshold requirement of 600% to achieve the goal.

Specifically in Japan, where shareholder value creation is typically not a high priority for the boards, we will vote against all executive directors, if a company has had an average return on equity of less than 5% over the past three years.

Our escalation methods do not differ among funds or strategies as they are specific to companies whose securities we hold in our portfolios, or the markets they are in.

PRINCIPLE 12

EXERCISING RIGHTS AND RESPONSIBILITIES

In this section, we set out how we exercise vital shareholder and creditor rights and responsibilities on behalf of our clients. Generally speaking, most attention is on shareholder rights, typically associated with voting at annual general meetings (AGMs), but creditors also have rights and can exert a degree of influence over issuers to incentivise more sustainable behaviour. We highlight our approach to both below, including details of our voting behaviour in 2021.

We apply voting rights only with clients that delegate their voting rights to us. This represents more than 95% of our assets under management, according to our custody register. We do not implement voting for clients who have different custodians or otherwise do not delegate their voting rights to us.

OUR VOTING POLICY SUPPORTS OUR APPROACH TO STEWARDSHIP

To ensure sound corporate governance, we believe it is essential that equity investors fulfil their responsibilities to monitor and hold executives to account. A key mechanism for shareholders to do this is by exercising their voting rights.

A powerful role we have as an asset manager, therefore, is to ensure we fulfil this voting function on behalf of our clients.

Our approach to governance and voting is set out in our corporate governance and voting guidelines, which take account of the UK Corporate Governance Code as well as other international guidance on governance. These guidelines outline our perspectives on common governance issues, including: board structure, composition and operation; executive remuneration; audit, accounting and internal controls; capital structure and shareholder rights; and common environmental and social resolutions.

These guidelines are reviewed annually and we may make adjustments where unintended outcomes become apparent. In December 2021, we updated our voting policy and in March 2022 we published a summary of these changes on our website.

SRD II DISCLOSURE NOTE

In line with SRD II, COBS 2.2B.7R requires Sarasin & Partners to provide an annual disclosure of its voting behaviour, an explanation of the most significant votes and reporting on the use of the services of proxy advisers. Sarasin & Partners must also publicly disclose how it has cast votes in the general meetings of companies in which it holds shares.

Under this principle, we describe our voting behaviour for 2021, provide examples with explanations for significant votes, and outline our use of the proxy advisory firm Institutional Investor Services (ISS).

The key changes included:

- Promoting greater diversity: We now expect that all companies globally have at least 30% gender diversity at board level (33% for the UK). This builds on our 2021 requirement, which increased our demand for global developed markets ex-Japan boards from 25% to 30%.
- Promoting ethnic diversity: From 2022, we expect UK and US companies to have at least one director from an ethnic minority background.
- Disclosure of auditor tenure: Before 2022, we would abstain in the first year on the appointment of an auditor if a company did not disclose its tenure. Starting from 2022, we will vote against the auditor appointment if the company does not report its tenure.
- Newly listed companies should not introduce differential voting rights without reasonable sunset provisions: We support the principle of one-share-one-vote, and will vote against the chair of the board if a company's governance structure does not reflect this principle and does not suggest reasonable sunset provisions.

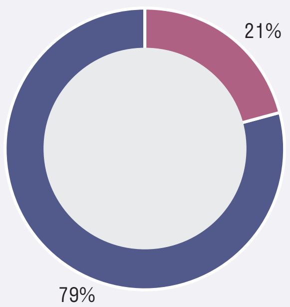
We employ a proxy advisory firm, Institutional Shareholder Services (ISS), to implement our voting policy, but we do not use their default voting policy. We monitor our votes, including all votes against the board, any controversial votes and votes linked to any ongoing engagement. We reviewed ISS's performance in 2021, and believe that the service remained strong. We identified fewer than 10 voting errors out of a total of 7,400 votes cast on resolutions.

KEY FEATURES OF OUR 2021 VOTING

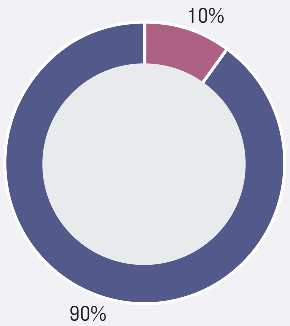
THOUGHTFUL VOTING POLICY

- Annual review
- Not a tick box exercise

21% of resolutions* voted differently from ISS in 2021 proxy season.



Overrode our own voting policy or manually determined in **10%** of resolutions (c.160 resolutions).



VOTING INFORMS ANALYSIS AND ENGAGEMENT

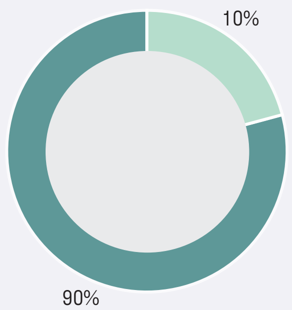
Email alerts to analysts/PMs and stewardship team on AGAINST votes for core holdings inform stock analysis

Votes inform investment case, e.g. where we vote against the auditor, we consider accounting risks in our analysis

Votes support our engagements – too often managers don't follow through with votes against management where problems exist

WILLINGNESS TO VOICE CONCERN

In 2021 proxy season, votes against management in **78** out of **87** company meetings*



Higher vote ' AGAINST' versus peers

Voting records published quarterly on our website

Source: Sarasin & Partners, Proxy Insight, 31.12.22

*This refers to the global buy list as at 1.11.2021 (109 companies) for the proxy season 2021 (1 January – 1 November 2021)

Our voting principles tend to be more robust than the default used by proxy advisory firms, which means that we tend to vote more frequently against boards, particularly on resolutions relating to remuneration, accounting and audit. In 2021, we voted against management on at least one resolution in 90% of our clients' companies; and we implemented different votes to ISS's default policy in just under 21% of resolutions.

WE DO NOT RIGIDLY APPLY OUR VOTING POLICY

We recognise that it would be impossible to foresee all governance situations, so we retain the ability to diverge from these guidelines where we can satisfy ourselves that this would be in our clients' best interests. For instance, we may conclude that the spirit of our policy requires a different approach in certain circumstances.

Likewise, where we have an ongoing dialogue with a company and we believe a vote against the board could be counterproductive, we may alter our vote. Any divergence is clearly justified in our voting notes. As shown in the charts on page 70, in 2021 we overrode our own voting policy in 10% of resolutions.

VOTING IS PART OF OUR OWNERSHIP AND INVESTMENT ACTIVITY

We perceive voting to be part of our normal company monitoring and engagement activity (**Principle 9**). We seek to vote all shares held by our clients, unless there are limitations. We do not engage in stock lending, which could inhibit our ability to vote.

Voting decisions are embedded within the asset management team, rather than undertaken as a separate function. This is important to ensure we are as fully informed as possible in taking more complex decisions, but also because the insights gained from being involved in the voting process enhances our investment decision-making.

During proxy voting season, where our corporate governance and voting policy is expected to deliver a vote against an investee company or an item on the agenda is referred to us for further consideration (normally because it falls outside our Policy), an ISS alert is sent to the relevant research analyst, portfolio manager and – in the case of a referred item or company on our active engagement list – the stewardship leads. This group will review the vote to determine what action is in our clients' best interests. As inputs into this process we will draw on company disclosures, ISS research, MSCI ESG research, broker/independent research and, where pertinent, keep a close eye on views of government officials, non-governmental organisations and other influential stakeholders. We will also seek inputs from the company, and may reach out to co-shareholders to share concerns.

VOTING IS INTERTWINED WITH COMPANY ENGAGEMENT – THIS IS A CONTINUOUS RELATIONSHIP

We exercise votes in alignment with our voting policy, the investment thesis and any ongoing company engagements.

In certain instances, companies may seek our input prior to a vote, for instance if they expect it to be contentious. If we have particular concerns or suggestions, we will communicate these to the chairman, senior independent director or the relevant board member (e.g. the remuneration committee chairman for remuneration matters, or audit committee chairman for accounting concerns).

We do not normally attend AGMs as we have sufficient channels to raise our concerns with company management and, in some cases, board directors. However, if we believe a certain issue warrants high-profile attention by the board and by the public, we will attend general meetings to raise our questions and concerns.

From 2020, we have initiated a post-proxy communication effort with our clients' companies. Where we have voted against company resolutions, we write to the chair to explain why. In 2021, we wrote to 39 companies which were selected based on the significance of the voting issues identified and the materiality of our holdings.

STEWARDSHIP OUTCOMES

Our engagement, voting and other proxy actions such as shareholder resolutions have led to clear examples of positive changes in companies' practices. Under **Principle 9**, we provided data on the company impacts we had in 2021.

It is rare that voting alone delivers an impact. Above all, votes without engagement can leave boards in the dark on the rationale behind the votes, providing little impetus for change. This is why we have a programme not just of focused engagements but of rolling out post-proxy letters to boards to set out where we have voted against and why (see **Principle 9** for a fuller discussion of our ownership discipline).

While we are often not alone in pressing for change, and are therefore cautious about claiming that our activities have generated a positive outcome, where we are the lead investor and have built coalitions behind our efforts, we will identify the related impacts. Examples we have outlined elsewhere in this report include our work programme on net-zero aligned accounting and audit (see **Principle 4**).

More broadly, while we would not attribute company actions solely to our votes, we can say that our votes against management have contributed to the broader investor pressure for change. Examples we would point to in 2021 on climate include Air Liquide, CRH, NextEra and Weyerhaeuser that preceded material improvements in the companies' climate risk integration (see **Principle 9**).

With Shell, BP, Air Liquide, Rio Tinto and Enel, such consistent voting efforts, coupled with focused engagements, ultimately led to inclusion of climate risks into critical accounting assumptions and key audit matters and to related asset impairments.

At HSBC, in response to the shareholder resolution calling for an explicit net-zero financing commitment that we co-filed with ShareAction and others, the board agreed to all the key demands, which they incorporated into their own special resolution at the AGM. We voted for this resolution, which received over 99% support, and led to the net-zero commitment being added to the bank's articles of association.

With Amazon.com, after supportive votes on shareholder resolutions related to human rights issues in 2021, we have seen a few improvements in the company's analytical thinking around its facial recognition products.

REPORTING: WE DISCLOSE OUR VOTING ACTIVITY QUARTERLY

A summary of our voting record and profiles of significant company votes are sent to clients at least quarterly, but more often when requested (see also **Principle 6**). These disclosures are available on our website.

A full record of all our company votes for 2021 and the relevant rationale is available on our website here: https://sarasinandpartners.com/stewardship/ how-we-vote-for-you/

Examples of some significant votes reported to clients are reproduced on page 74.

OUR VOTING ACTIVITIES 2020-2021

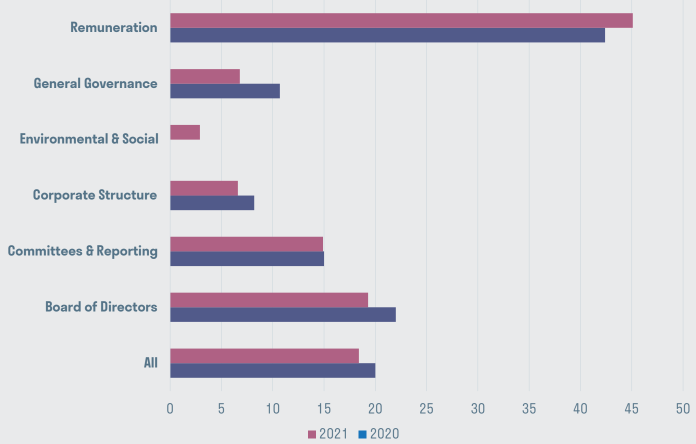
Between 1 January and 31 December 2021:

- We have voted **93.2%** of our meetings and **93.8%** of our resolutions. These figures are not 100%, primarily because of missing Power of Attorney in key markets in relation to share-blocking arrangements
- We voted FOR **79.9%**, AGAINST **18.1%**, WITHHOLD **1.1%** and ABSTAIN **0.8%**.
- We voted against management in **20.8%** of resolutions.

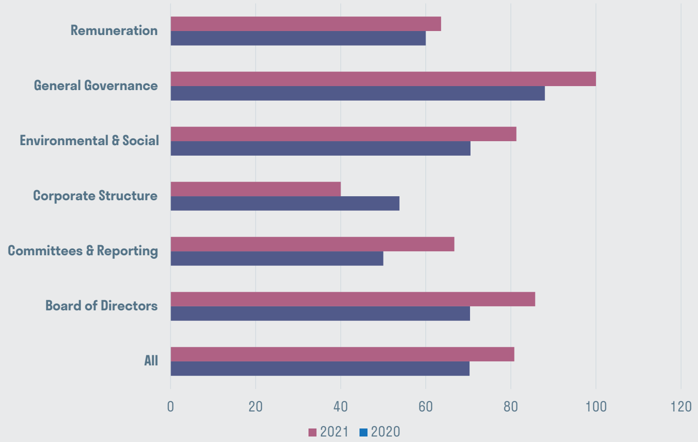
A summary of our votes on specific categories of resolutions in last two proxy seasons are provided in the following charts.

PERCENTAGES OF SPECIFIC VOTES IN EACH CATEGORY OF RESOLUTIONS IN 2020 AND 2021

MANAGEMENT RESOLUTIONS (% AGAINST)



SHAREHOLDER RESOLUTIONS (% FOR)



Source: Sarasin & Partners, 2022

FOR FURTHER INFORMATION ON HOW WE VOTE FOR YOU, PLEASE VISIT OUR WEBSITE

EXAMPLES OF VOTE REPORTING IN 2021

COMPANY	DATE	RESOLUTION	HOW WE VOTED FOR YOU	RESULT
The Walt Disney Company	9 Mar 2021	Elect remuneration committee chair	Against	Passed

We have voted against the chair of the remuneration committee in the past three years as we have voted against the company's proposed remuneration for four years, and our concerns have not been adequately addressed. We highlighted our concerns to the board in 2020 in light of the COVID-19 pandemic, but we have not received a satisfactory response.

While there has been a reduction in quantum compared to the previous CEO's package, we remain concerned by the overall CEO package that appears to provide a target payout of $25m, a quantum that we believe is too high. The shareholding requirement is only 500% of salary for the CEO, which is lower than our threshold of 600% for US companies. Moreover, there is no requirement that an executive should uphold part of the shareholding requirement after he/she departs, a practice which we believe will strengthen the alignment of the interest of the departing executive with that of long-term shareholders. Finally, we urged the board to use appropriate and challenging targets.

Percentage of votes cast for the resolution: 92.3% for, 7.7% against.

COMPANY	DATE	RESOLUTION	HOW WE VOTED FOR YOU	RESULT
EssilorLuxottica SA	12 May 2021	Elect Chair of the Board	Against	Passed

We have engaged with the company since the completion of its merger in October 2018 and the emergence of a governance deadlock at board level. While the chair and the former vice chair had agreed a settlement at the AGM in 2019, the company has not made any noticeable improvement in governance. The company now has a permanent CEO but there is no lead independent director to act as a communication channel for minority shareholders.

We wrote to the board four times and received one reply, which does not provide us with sufficient comfort that the board is addressing our concerns. The controlling shareholder, who is also chair of the board, has been dismissive of shareholders' concerns. The governance agreement where the board was governed equally between Essilor representatives and Luxottica representatives expired after the 2021 AGM, and as a result the company is now fully under the control of the chair.

Given the chair's unwillingness to engage with shareholders despite clear governance concerns, and it is unlikely this will change, we voted against the re-election of the chair to signal our protest.

Percentage of votes cast for the resolution: 91.9% for, 8.1% against.

COMPANY	DATE	RESOLUTION	HOW WE VOTED FOR YOU	RESULT
Splunk Inc.	17 Jun 2021	Advisory vote to ratify named executive officers' compensation	Against	Failed

The performance of Splunk has been a concern since Q3 2021, when the company announced the withdrawal of guidance on annual recurring revenue and cashflows. Since then, revenue growth and margin performance have been disappointing, and there were some high-level executive departures. Despite weak performance, the company revised down its remuneration targets and increased CEO pay by 25% in 2020. Had the targets not been revised down, none of the awards would have been paid out.

We had a call with Splunk's chief legal officer to discuss our concerns prior to the AGM. While we were sympathetic towards the CEO's pay increase and the adjusting the targets due to the COVID-19 pandemic, we believed the company could have handled it better. For example, by phasing CEO's pay increase over several years, and imposing extra targets or prolonging the vesting period when the initial remuneration targets were revised down.

We voted against Splunk's executive remuneration. The vote was advisory in nature but it did receive a majority vote against. We expect Splunk to adjust its compensation structure to respond to the shareholder revolt.

Percentage of votes cast for the resolution: 34.9% for, 65.1% against.

Source: Sarasin & Partners, 2022

FIXED INCOME

Unlike shareholders, creditors do not have a vote at company AGMs. Instead, we exercise bondholder rights and responsibilities in the following ways.

PRE-ISSUANCE ENGAGEMENT

First, we engage with issuers prior to issuance. As detailed under **Principle 9**, we often meet with management to discuss various aspects of upcoming issuance. This will often involve discussions surrounding aspects of the prospectus, and may also focus on the terms of other indentures or security trust and intercreditor deeds (STIDs), which set out terms relating to, for instance, coupon payments, redemption, any covenants (like certain debt leverage), reporting schedules, issuer rights and bondholder rights and voting rights for amendments.

We will specifically seek to discuss the creditworthiness of the issuer, management strategy or information disclosure commitments. ESG also forms part of these discussions, particularly with respect to green bonds, where we closely scrutinise the use of proceeds and incorporate ESG analysis in our investment decision.

VOTE ON MAJOR CORPORATE ACTIONS

Second, we are often able to vote on major corporate actions. These offer an important point of influence for creditors, especially since the threshold for approval is usually around 75%, giving creditors considerable say.

We consequently conduct detailed due diligence on any proposed amendments to existing indentures we hold, especially where this involves any weakening of the indenture language or protections. We reply to these on a case-by-case basis to ensure we vote for the best outcome for our clients. In some cases, it may be an early tender at advantageous pricing, or an amendment due to an accounting change, in which case we would generally approve.

Other cases can be more difficult, and we have had instances where we have not accepted corporate actions.

For instance, in May 2020, in order to complete the disposal of its telecoms business (TowerCo), Arqiva was seeking the consent of its secured creditors through a process called a STID (security trust and intercreditor deed) proposal, as documented under the WBS (whole business securitisation) common documents. We, as well as more than 93% of creditors who were entitled to vote, voted in favour of the STID proposal. The main reason for our vote in favour was that it would allow Arqiva to reduce leverage substantially, with a reduction of WBS debt as well as super senior swap positions. In our opinion, the transaction provided upside potential for senior secured bondholders as a result of reduced financial leverage, which more than compensated for the negative impact on Arqiva's business diversification resulting from the sale of the TowerCo assets. Our view was confirmed by the one-notch upgrade of Arqiva's senior secured bonds to BBB+ in October 2021.

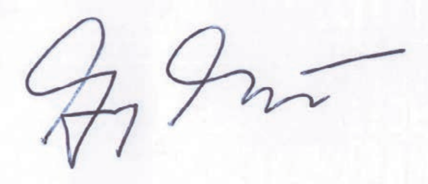
The decision to exercise our rights and responsibilities is taken by the Sarasin Fixed Income Team as a group. In 2021, in total we faced 18 corporate actions demanding votes, and we consented on 16. Where we did not consent, this was to reject corporate actions that we deemed to be unfavourable. If a corporate action is immaterial, we do not vote. This allows us to retain liquidity because securities are generally not tradable while they are involved in corporate actions.

ONGOING MONITORING AND ENGAGEMENT

Third, our ongoing analysis of the issues and issuers we hold. As credit investors we are constantly analysing and reviewing our rights for any indentures we hold in light of the issuers' creditworthiness. As we seek to avoid default and an event where we would be in a position to have a claim against the assets of an issuer (breach of covenants, for example), we always seek to determine the value of the assets backing indenture issues and overheads over covenants. This takes the form of analysing issuer publications (including financial modelling) as well as ongoing direct engagements with issuers and the wider investment community.

APPROVAL

This statement had been approved by



Guy Matthews, Managing Partner
on behalf of the Board of Sarasin & Partners LLP

Natasha Landell-Mills, chair of Stewardship Steering Committee of Sarasin & Partners LLP

Date: Effective March 2022

IMPORTANT INFORMATION

If you are a private investor, you should not act or rely on this document but should contact your professional adviser.

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Please note that the prices of shares and the income from them can fall as well as rise and you may not get back the amount originally invested. This can be as a result of market movements and also of variations in the exchange rates between currencies. **Past performance is not a guide to future returns and may not be repeated.**

There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years).

Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments.

For efficient portfolio management the strategy may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns.

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