



SARASIN
& PARTNERS

Disclosure of commitment to the UK Financial Reporting Council's Stewardship Code

July 2016

Introduction

At Sarasin & Partners we adopt a stewardship mindset in the management of our clients' assets.

This means that we are long-term in our approach to investment and we seek to invest in businesses that will create enduring value for our clients. Our approach to responsible stewardship emphasises the integration of environmental, social and governance factors into our investment processes, being an engaged and active owner, and seeking to influence policy where it is in our clients' interest to do so.

The UK Stewardship Code aims to enhance the quality of engagement between institutional investors in UK equities and investee companies. In turn, this should help improve long-term returns to shareholders and the efficient exercise of governance responsibilities.

The Financial Reporting Council (FRC) encourages all UK institutional investors to publish a statement on their website detailing the extent to which they have complied with the Code. This should contain a description of how the principles of the Code have been applied and disclosure of specific information.

This document explains how Sarasin & Partners complies with the Code on behalf of its clients, for all our holdings globally. We hope that it demonstrates to our clients – and other interested stakeholders – that Sarasin & Partners goes above and beyond expectations in its implementation of the Stewardship Principles. This is because we do not perceive stewardship as a compliance exercise; rather it is a core part of our investment philosophy, and thus defines how we operate.

Principles of the UK Stewardship Code

Principle 1

[Disclosure of policy on discharging stewardship responsibilities](#)

Sarasin & Partners adopts a stewardship mindset in the way we manage our clients' assets. In our view, long-term stewardship is not only the responsible way to manage assets, but it is more likely to deliver enduring value for our clients.

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

We look to the long-term prospects of a company. We purchase shares where there is a case for enduring value creation, and where this is currently under-appreciated by the market.

We believe that responsible companies will create more durable economic value. Specifically, we favour businesses that articulate compelling long-term strategies, and take seriously their responsibilities to their customers, staff, local communities, the environment, and their shareholders.

We add value by staying close to the executives and Boards of Directors of companies that our clients hold. Stewardship is as much about responsible ownership as a considered approach to selecting companies.

We apply judgment. We understand that the world is complex, and standards, rules and expectations vary between countries and communities, and the potential for unintended consequences is high. Our core investment principles guide our approach to investment and stewardship, but we avoid hard and fast rules in implementation, permitting us to apply judgment to deliver outcomes that are in our clients' best interests.

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, we believe that a myopic focus on benchmark-relative performance is not in our clients' interests. In particular, we believe that we can add value by boosting overall market performance (including the benchmark) by seeking to shape market-wide policies in a way that contributes to more sustainable capital allocation and economic growth.

We put these principles into practice through our three stewardship pillars:

- **Long-term mindset in stock selection:** This looks holistically at macroeconomic opportunity sets, specific competitive characteristics of the company concerned, the durability of those advantages, and the strength of governance structures to ensure minority investors benefit. Environmental and social value drivers are part and parcel of any investment case.
- **Engaged ownership:** Once we have bought a company's shares on behalf of our clients, we stay close to it and vote our clients' shares thoughtfully. We ensure regular dialogue with board members and management to monitor progress, and will reach out for additional conversations where strategic or governance issues arise.
- **Thought-leadership and policy outreach:** Where we find that there are practices or policies that impinge on companies' prospects for sustained performance, and where we believe we can contribute to change, we will seek to do so.

We believe these three pillars are mutually reinforcing and are essential to delivering enduring value for our clients.

The UK Stewardship Code's Principles are most pertinent to the second pillar in our Framework, and we provide further detail on how we fulfil these Principles overleaf. It is worth stressing that we do not outsource our stewardship responsibilities to third parties, as stewardship is a core part of our investment process, and this enhances our long-term performance. Stewardship, in short, underpins our investment philosophy.

Our commitment and approach to responsible stewardship is outlined in our 'Framework for Implementing Responsible Stewardship', which can be found on our website. In addition, a set of 'Principles for Engaged Company Ownership', which can also be found on our website, sets out principles that govern how we manage company engagements. Finally, we have detailed 'Corporate Governance and Voting Guidelines' – available on our website too – which set out our expectations with regards to investee companies' governance behaviours, and the associated rationale.

Principle 2

Policy on managing conflicts of interest in relation to stewardship.

Sarasin & Partners seeks to act in the interests of all its clients when deploying capital, engaging with companies and policymakers, and voting. 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.

In the table below we identify some of the most common forms of conflicts that we come across, and how we manage these. In general, our procedure for managing conflicts works as follows:

1. *Conflict identification:* We are alert to possible conflicts at all stages of our investment process including our stock selection; our voting analysis; prior to and during engagements; and in any policy outreach we become involved with.
2. *Assessment:* Once a potential conflict is identified, the Stewardship team, relevant fund managers and analysts will determine whether the conflict is sufficiently material to warrant additional measures to protect the decision-making process from inappropriate influence.
3. *Escalation to the Head of Asset Management:* Where the team dealing with the matter believes the risks of inappropriate influence cannot be adequately managed, the matter is escalated to the Head of Asset Management.
4. *Escalation to the Conflicts Management Group:* In the event that the Head of Asset Management believes an independent intervention is required to protect the integrity of our investment and stewardship activities, he or she will escalate the matter to our Conflicts Management Group (CMG). The CMG is comprised of senior management from across the business.

Potential conflicts that arise in our investment and stewardship activities

Conflict situation	Examples	How we manage the conflict
Individuals on the Board of a company that we engage with or vote for may have a commercial relationship with Sarasin & Partners. Because we apply judgment in our voting (to permit us to override our 'Governance and Voting Guidelines' to reflect particular circumstances) and engagement activities, there is a risk that conflicts of interests could influence these activities.	Where a client (including trustees for our clients) 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.	Where this conflict arises, we will report it to the Head of Asset Management. If we believe the issue warrants further deliberation, we will escalate the conflict to the CMG.
In a merger and acquisition (M&A) situation, 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. If necessary the matter will be escalated to the Head of Asset Management, and then 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 have a vote on various routine governance and administrative matters concerning Sarasin & Partners funds and the funds of our parent BJSS.	We manage this conflict by restricting our vote on all our funds where we have voting responsibility. In cases where our clients' vote is necessary for fund operation (e.g. to achieve a quorum at a meeting), then we liaise with clients to get their explicit vote instructions.
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 which weaken the company's balance sheet and resilience to external shocks. Whereas equity holders may be in favour of the cash distribution, credit risk may rise, resulting in losses for debt 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. If necessary the matter will be escalated to the Head of Asset Management, and then the CMG.
Our staff or clients may have personal relationships with the companies we are engaging with, or voting for. Because we apply judgment in our voting (to permit us to override our 'Governance and Voting Guidelines' to reflect particular circumstances) and engagement activities, there is a risk that conflicts of interests could influence these activities.	A fund manager may have an outside relationship (e.g. shared trusteeship for a charity) with board directors for a company we hold.	Where such a conflict emerges, we will report it to the Head of Asset Management. If we believe the issue warrants further deliberation, we will escalate the conflict to the CMG.

Conflict situation	Examples	How we manage the conflict
Our clients / 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, the Stewardship Team will escalate the matter to the Head of Asset Management and – where necessary – the CMG.
Our engagement, voting or policy work may be in conflict with our parent group, Bank J Safra Sarasin, which 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.	As highlighted above, in any situation where conflicts arise, the Stewardship team will escalate the issue initially to the Head of Asset Management, and then on to the CMG if this is deemed necessary.

Principle 3

Monitoring investee companies

Once we have bought a stake in a company on behalf of our clients, **we seek to act as engaged owners**. The ultimate goal is always to protect and enhance long-term shareholder value.

We monitor: In order to ensure capital is being efficiently deployed on our clients' behalf, we closely monitor the strategic direction and operational performance of those companies we invest in on behalf of our clients. The asset management team regularly reassures itself that critical value drivers remain intact, and regularly tests its conviction in the company's long-term value proposition given shifting societal expectations, regulatory trends (e.g. environmental, health and safety, competition) or other sector-specific or macroeconomic changes. Monitoring is led by the analyst responsible for a company, portfolio manager(s) and the dedicated Stewardship team, but the wider asset management team is involved in ongoing discussions and reviews. To support this activity we use research from sell-side brokers, independent research houses like MSCI's Environmental, Social and Governance (ESG) team, Institutional Shareholder Services (ISS), and expert networks, as well as our own primary research from company discussions, government agencies and non-governmental organisations.

We engage: Our fund managers, analysts and the Stewardship Team regularly and jointly meet with boards and management teams and discuss issues that could put our clients' capital at risk. These may range from the strategic threat of a new disruptive entrant, unfavourable macroeconomic headwinds, governance factors such as accounting behaviour, board composition or remuneration structure; potential environmental liabilities; or product safety and fair treatment of customers. We do not separate out so-called 'ESG' factors in these discussions, but seek to ensure we are covering all matters that have a bearing on long-term company performance and capital stewardship. Through our conversations with companies we build up a better understanding of the businesses and communicate our views and expectations.

We escalate where necessary: Beyond proxy season and discussions related to specific voting matters (see below), there will be times where companies' behaviour falls short of our expectations. In these cases, if we perceive material risks to capital, we will not hesitate to engage with the Board and/or senior executives to convey our concerns and set out any expected action. We do not seek to micromanage our clients' companies, but we will make high-level proposals. We outline in more detail our approach to when and how we escalate our engagements under Principle 4 below. We do not seek to be taken inside in these exchanges. Where our interests are aligned with other shareholders, and we believe we will have greater impact by working with others, we may engage companies as part of a larger group of investors (Principle 5).

We vote: A considered approach to voting is a vital part of our monitoring function. Voting is not just a key avenue through which we express our views and hold company Boards to account, but it also supports our relationships with the company's Board of Directors and executives. For this reason voting decisions are embedded within the asset management team to ensure we are as fully informed as possible in taking decisions, and that any insights about a company that come from the voting process are taken on board by the relevant analysts and portfolio managers. Details on our voting policy and approach are outlined under Principle 6.

Principle 4

[Guidelines on when and how to escalate activities as a method of protecting and enhancing shareholder value](#)

Below we set out our approach to determining when and how we escalate our engagement activities. Please also refer to our 'Principles for Engaged Ownership' document on our website.

When we escalate our stewardship activities

Our starting point is that we perceive ourselves as a partner with our clients' companies. This is a natural sequitur to our investment process which looks for strong long-term investment opportunities. We favour thoughtful and self-critical management teams that welcome shareholder views and inputs.

That said, we do not assume that all our companies will ensure responsible and efficient capital deployment or operational performance all of the time. We thus have a responsibility to be an involved owner on behalf of our clients. In certain cases we may need to raise questions or challenge behaviour we deem threatening to the company's long-term prosperity and our clients' capital. Where these risks are not sufficient to cause us to sell our clients' shares, we will begin a process of escalating our engagement with the company's Board of Directors. The goal is always to protect and enhance our clients' long-term investment returns.

Examples of issues that may lead us to begin a more robust engagement include a proposed strategic or operational change that risks generating a negative societal, customer, employee or regulatory backlash, or changes to corporate governance that threaten minority shareholder interests.

How we escalate our stewardship activities

We will seek Board dialogue first: In the event of disappointing company behaviour, we will normally first reach out to the lead/senior independent director to voice our concerns. If there is no senior independent director, we will reach out to the Chairman of the Board or the relevant Board committee chairman.

We understand that in some markets (outside of the UK) a direct dialogue between investors and the Boards is not possible. In these situations, we will deliver our opinions to the Board via a number of channels (e.g. investor relations, letter addressing to Board members, meetings with the management team).

We do not micromanage: Constructive and active engagement does not mean micromanagement. We believe our role is to support effective management teams, and where we have concerns we will communicate these. In the end, however, it is up to the Board and senior management to resolve any challenges, and to fine-tune the details of how their plans will be implemented.

Our communications with companies are generally confidential. We will not make public correspondence from a company that has been written in confidence, unless this is first agreed with the company concerned. Also, our own letters to companies will remain confidential, unless we have explicitly indicated otherwise.

We will speak out publicly: In addition to reporting directly to our clients on our engagements undertaken on their behalf (Principle 7), we retain the right to speak publicly about the substance of a concern with a company where we believe this is necessary or helpful to protect or enhance our clients' capital. This may be through our own publications, through other news outlets, or through a public statement, e.g. made at the Annual General Meeting. We will normally notify the company prior to making a public statement.

We will use our clients' vote: Our ability to vote against the appointment of board directors as well as other resolutions is a powerful tool. While a vote against may be a blunt tool, the threat of this action can be effective in opening the door to more constructive conversations. This is most likely to be influential, however, where our clients' ownership stake rises above 1% of issued share capital. In most cases, we will fall below this threshold. However, if we find that other shareholders are of the same mindset, then our voting intent is likely to be taken more seriously.

We will file shareholder resolutions: If we feel our concerns are not being addressed, we may consider filing a shareholder resolution, either alone or alongside other investors. This is likely to be a rare action, but has at times proved an effective tool for escalating shareholder concerns.

We liaise with other shareholders: As our clients' shareholding is unlikely to be sufficiently large to ensure a proper response, we believe that it can be helpful to share concerns with other shareholders. Where our views are aligned, then a joint conversation may be appropriate. We discuss our approach to collective engagement under Principle 5 below.

We do not seek to be 'taken inside': We operate in public markets and all of our interactions are governed by local laws and regulations that aim to ensure a level playing field for all investors. We are clear that we do not normally wish to receive any material non-public information. In the rare case where we are in receipt of 'inside' information, we have policies to ensure we abide by the required procedures to prevent the spread of this information or any associated trading.

We sell where necessary: Our mindset is one of a long-term owner. However, where events unfold in such a way that the investment case is fundamentally weakened, or the share price rises to unsustainable levels, we may determine that it is in our clients' best interests to sell the company's shares. This is a critical pathway open to active managers in deploying their clients' capital, and we believe it supports a more efficient allocation of capital in the market place.

Principle 5

Acting collectively with other investors where appropriate

We normally pursue engagements with investee companies on our own, but there are situations where we believe a collaborative effort with other investors will be more effective. The extent to which we are listened to by a Board depends on a number of factors, including the power of our argument (i.e. how compelling it is); how deeply our points resonate with board directors; our size as a shareholder; and the level of shared concern of other shareholders.

It is common for us to meet resistance in our more active engagements, especially if the Board feels we are being unfairly critical, or proposing changes that threaten its (or the executives') interests. Because we are often a relatively small shareholder – generally less than 1% of issued share capital – we may have less traction with the Board. In these situations, a collective approach to engagement can help to ensure our concerns are taken seriously. These may be implemented jointly, or we may reach out to other investors to share concerns and seek a common position, which we may decide to communicate independently to a company.

Where we wish to jointly engage with a company, we communicate with other shareholders through our investor networks.

In certain cases, we may identify sector or market-wide failures, which are pertinent for both companies and policymakers. In these instances, we frequently reach out to other institutional investors to draw up joint letters; position papers, or public statements. Examples of targets for such coordinated investor actions include initiatives to improve the audit system, to reform international accounting standards, or to call for improved disclosure by companies of climate change related risks.

We are also an active participant in a number of investor bodies such as the UK Investment Association, the UK's Company Reporting and Auditing Group, International Corporate Governance Network, the Global International Governance Network, the Asian Corporate Governance Association, the Institutional Investors Group in Climate Change and the United Nation's Principles for Responsible Investment. Through these initiatives, we discuss and work with other investors on a range of collective engagement opportunities, including in the UK.

In participating in collaborative initiatives we remain alert to potential conflicts, issues of insider information and concert party rules. Where we believe there are any potential risks of falling foul of these rules, we ensure close involvement of our internal legal and compliance teams.

Principle 6

[Policy on voting and disclosure of voting activity](#)

Our voting policy supports our approach to stewardship

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 set out our perspectives on common governance issues from board structure, composition and operation; executive remuneration; audit, accounting and internal controls; capital structure and shareholder rights, as well as common environmental and social resolutions. In general we find that our voting principles are more robust than the proxy advisory firms, like ISS, which means that we tend to vote more frequently against Boards, particularly on resolutions relating to remuneration, accounting and audit.

These Guidelines are reviewed annually, and we may make adhoc adjustments where unintended outcomes become apparent during the course of the year. We employ the proxy advisory firm ISS to help to implement our voting policy, and we monitor our votes, including all votes against the Board, any controversial votes, and votes linked to any ongoing engagement.

We do not rigidly apply our voting policy

We recognise that it would be impossible to foresee all possible 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 counter-productive, we may alter our vote. Any divergence is clearly justified in our voting notes.

Voting is part of our ownership and investment activity

We perceive voting to be a core part of our normal company monitoring activity (described in Principle 3). Voting decisions are embedded within the Asset Management team, rather than undertaken as a separate function. We believe 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 corporate governance 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 alert is sent to the relevant research analyst, portfolio manager and – in the case of a referred item – the Stewardship team. 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 analysis, ISS research, MSCI ESG research, and pertinent broker/independent research, as well as keep a close eye on views of government officials, non-governmental organisations and other influential stakeholders where pertinent. We will also seek inputs from the concerned company, and reach out to co-shareholders to share concerns where relevant.

Voting is intertwined with company engagement – this is a continuous relationship

In certain instances, companies may seek our input prior to a vote, if they expect it to be contentious. If we have particular concerns or suggestions, we will communicate these either to the Chairman, Senior Independent Director or the relevant Board member (e.g. the Remuneration Committee Chairman for remuneration matters, Audit Committee Chairman for accounting concerns). Likewise, where we have voted against the Board on an issue that we feel is particularly important, we will follow up in writing to the company.

We do not normally attend annual general meetings 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 a high profile attention by the board and by the public, we will attend general meetings to raise our questions and concerns.

We seek to vote all shares held by our clients, unless the costs or administrative burden of doing so are excessive. We do not engage in stock lending, which could inhibit our ability to vote.

We disclose our voting activity quarterly

A summary of our voting record and profiles of particularly interesting company votes are sent to clients at a frequency of their choice. These disclosures are also made in our quarterly House Report, bi-annual Stewardship Report, and on our website. A full record of all our company votes, including specific resolutions, is available on our website at the end of each calendar year. For clients who are interested we provide more detailed information on request (see also Principle 7).

Principle 7

[Periodic reporting on stewardship and voting activities](#)

We report regularly to clients on our stewardship activities. Our reports to clients include details of selected company engagements, voting activities, as well as updates on market-wide policy outreach. Key votes, a voting summary and policy outreach updates are also reported to clients in our quarterly House Report, bi-annual Stewardship Report as well as provided on our website. We release our voting data for all companies held and all resolutions annually on our website.

Our website also offers live updates on ongoing policy dialogues that may be of interest to clients, including developments relating to our accounting and audit work, climate risk disclosure initiative, and other public contributions we have made on topical issues such as fiduciary duty or active investing.

We audit our voting activity

We have obtained independent 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.

Other information relating to the UK Financial Reporting Council's Stewardship Code

It should be noted that compliance with the Code does not constitute an invitation to manage the affairs of investee companies or preclude a decision to sell a holding, where this is considered in the best interests of end investors.

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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.**

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