SARASIN
& PARTNERS

Policy outreach, company engagement and voting report

Q2 2018

July 2018

Introduction

Investors in companies have an important shared responsibility in holding the board to account for the management of the business.

On behalf of our clients we are active in voting on matters put to shareholders, and we closely monitor investee companies and engage on issues of concern relating to corporate governance, capital structure and strategy. We do this because we believe that poor governance can adversely affect the returns for investors and, equally, good stewardship can lead to better returns over the long term.

As long-term investors, we also take an interest in the broader market environment in which companies operate. Where we perceive problems, and believe we can catalyse positive change, we will reach out to policy-makers and other key market participants to promote reform. Our objective is to shape the regulatory and market environment to support more sustainable economic growth.

Given the emphasis we place on responsible and active ownership, we aim to communicate openly with our clients and other interested parties about our activities. This report offers a window into our recent company engagement, policy outreach and voting activities.

Stewardship: Policy and company engagement

Our engagement work with companies aims to address governance failures or strategic challenges with a view to protecting and enhancing shareholder value. It often takes place in confidence, but we aim to share key points and goals of recent engagements to ensure transparency and insights on our stewardship activities to our clients.

Alongside our company dialogues, we often have a unique opportunity to engage with policy makers to improve the regulatory and market environment in which companies operate. In these cases our aim is to promote rules and market-wide practices which encourage long-term and sustainable behaviour, which in turn will underpin sustained and equitable wealth creation.

Company Engagements

SSP, Samsonite and Glencore

An important focus this quarter has been on board diversity. As an investor signatory to the 30% Club, we expect the boards of our investee companies in the US and UK to demonstrate meaningful progress towards a target of at least one third female directors by 2020. We therefore wrote to the Chair of SSP, a large travel food and beverage operator, which is falling short of our expectations and which did not respond to the Government's Hampton-Alexander Review of the gender imbalance in business leadership. We urged the Board to engage in the next iteration of the Review, and outlined our belief in the importance of addressing the lack of diversity on its board.

This company also has a significant part to play in addressing the problem of plastic pollution, and we are encouraging it to both show leadership on this matter, and to demonstrate it is managing the risks associated with more determined government action. The UK Government is consulting on solutions to single-use plastic waste, while the European Commission launched plans this year to ensure all plastic packaging is reusable or recyclable in a cost-effective manner by 2030. We await the company's response.

During the quarter, we also engaged with Samsonite, a luggage manufacturer and retailer, regarding allegations made by a short-seller in relation to a number of governance and accounting matters. We were reassured by our dialogue with the Chair and new CEO (who was previously the CFO), although we will monitor the appointment of a new CFO, and some possible risks to audit quality. We also followed up with the company's auditor to clarify, in general terms, the auditor's approach to certain accounting policies, as well as to understand how it gets assurance around the quality of audit undertaken on Group entities by separate local audit firms.

A third focus in recent weeks has been on Glencore, the global mining company. Here, we have two areas of concern that we have been discussing with them: 1) the unsettling news on ongoing links to a sanctioned Israeli businessman, Mr Gertler, in the Democratic Republic of Congo (DRC); and 2) unresolved questions over how seriously Glencore is taking decarbonisation as a strategic threat to its coal business. We have engaged with the company on both of these issues.

With regard to Glencore's DRC operations, over recent months more information has come out on the complex web of illicit payments operated by Mr Gertler and the Kabila regime. In December 2017, Mr. Gertler was added to the US sanctions list, and this month (June 2018) his offshore company Ventora was also added. On the same day, Glencore announced that it would resume royalty payments to Gertler via Ventora.

While Glencore has been facing the possible loss of its valuable copper and cobalt assets in the DRC (accounting for about 15% of earnings today, but rising in importance) by withholding payments to Gertler, its decision to restart payments to Mr. Gertler can only raise the risk of corruption investigations and sanctions. While we believe the downside risk to the share price from this is relatively muted since the company already trades at a discount to peers, we are seeking better disclosures on how the board is managing this risk. Clearly, if Glencore could resolve these issues, this should enhance shareholder value and ensure that its operations in the DRC benefit the citizens of the DRC.

In parallel, we continue to discuss with Glencore its strategy for building resilience to decarbonisation, and why it has not explicitly committed to supporting the Paris Climate Accord goal. We are disappointed by disclosures in Glencore's Annual Report that set out a detailed and positive outlook for minerals like copper and cobalt linked to the electrification of transport, but that fails to offer a similarly detailed assessment of the prospects for coal. We feel this may run contrary to requirements for fair, balanced and understandable reporting, especially as Glencore's exposure to coal remain material and rising.

We are also concerned by reports that Glencore continues to lobby against the roll out of renewables, while stating that it supports the need to tackle climate change. They were clear to us that action by policy-makers to achieve the Paris goal falls short. We therefore urged them to do all they can to ensure the goal is met – which inevitably demands an accelerated rollout of renewables. Tackling climate change is, in our view, in shareholders' interests.

Market Outreach

Accounting & Audit

With concerns about weak audit and accounting standards continuing to hit the newspaper headlines this quarter, we have continued to outline our diagnosis of the underlying failures, and proposed solutions, and interest in our views is growing.

In April and May, we were invited to speak on the BBC's Radio 4 Today programme to provide a long-term investor perspective on what is wrong with audit in the UK. Our core message is that auditors need to be made more accountable to shareholders, and shareholders need to hold auditors to account by using their votes at Annual general Meetings. We also highlight that unless we also fix problems with the underlying rules auditors are implementing, we will not fix the failure of audit to warn of foreseeable insolvencies.

The Financial Times has been particularly engaged with us on these issues, quoting comments from Natasha Landell-Mills in

a “Big Read” in June. The article delved into how the accounting standards permitted – and even resulted in – audit failure at the failed construction company Carillion plc. They detailed, in particular, how the valuation of Goodwill is open to gaming by executives, and leaves shareholders and creditors exposed.

We believe others are beginning to understand that weaknesses in the International Financial Reporting Standards (IFRS) cannot be fixed simply by breaking up the Big Four audit firms (KPMG, PWC, EY and Deloitte), one of the favoured policy solutions being discussed. Broader based reform - including of the accounting standards – is essential.

Our arguments are getting some attention in the US (for instance in Global Finance, a magazine read by Chief Financial Officers), where many of the same problems exist.

In a sign that the UK Government is now taking seriously the concerns we and others have been raising, Natasha Landell-Mills has joined the newly created Investor Advisory Group at the Financial Reporting Council (FRC). This group seeks to provide independent input on a range of reporting matters to ensure the FRC can respond to investor concerns. We will actively participate in this forum to communicate our long-standing concerns, and do what we can to promote reform for the benefit of our clients and the industry at large.

At the same time, we will continue to speak publicly, as reflected in our submission to the Government consultation on Solvency and Corporate Governance, which closed in June (a copy can be found on our website).

This consultation aims to delve into problems exposed by the Carillion bankruptcy, and we were pleased to see it address questions around the role that accounts are expected to play as an early warning system for capital weakness in companies. We have emphasized our view that there is a gap in regulatory oversight to ensure that companies and auditors are implementing these capital protection rules.

Climate Change

We continue to leverage the insight we have gained through our work on company reporting for our analysis on company reporting of material climate risks.

This quarter, we have finalised our analysis of some of the world’s largest oil and gas companies (European and US), and concluded that there is a real risk of capital and profit overstatement due to overly optimistic long-term energy price assumptions hidden in company accounts. A summary of this analysis is featured in this quarter’s House Report for clients (a copy can be found on our website).

We hope to publicise this more widely, and will launch a broader outreach effort with other shareholders, large audit firms, regulators and companies in coming months. In particular, we hope to build on the Discussion Paper we authored for the Institutional Investor Group on Climate Change last quarter, and initiate a broader shareholder engagement on financial statement disclosures and reliability.

This quarter we have also been focusing on determining how to vote at a number of oil and gas and power companies, where we are committed to taking a view on whether their reporting to shareholders has adequately detailed the climate risks they face, and how these are being managed.

In general, we believe these companies are materially exposed to global efforts to decarbonise economic activity, and yet the annual report and accounts to shareholders remain vague about 1) the materiality of this risk; and 2) how then the board is reviewing strategy to protect shareholder capital.

As highlighted earlier, oil and gas company financial statements appear to be drawn up without taking account of these foreseeable headwinds.

Our concerns over a lack of disclosure around strategies to build climate resilience ensure that we remain alert to possible investment risks – and we are monitoring these carefully, and set them against the value proposition linked to attractive dividends as oil and gas companies reap the reward of past cost-cutting and rising energy prices.

These sector-wide concerns also feed into our voting decisions and company engagements. At all of our clients’ oil and gas company holdings, for instance, we have voted against the financial statements, auditor reappointment and/or audit committee chairs as part of broader efforts to promote more transparency.

We also supported the Follow This shareholder resolution put forward at the Shell AGM. The resolution called on Shell to align its strategy with the Paris goals, and we felt that Shell’s arguments against the resolution were not convincing. Through this voting and engagement policy, we believe we can help protect future shareholder value and support.

Key votes and engagements Q2 2018

Investors in companies have an important shared responsibility in holding the board to account for the management of the business. On behalf of our clients we are active in voting on matters put to shareholders, and we closely monitor investee companies and engage with companies on issues of concern relating to corporate governance, capital structure and strategy.

Poor governance can adversely affect the returns for investors and, equally, good stewardship can lead to better returns over the long term. The table below shows how we voted on four company resolutions during the period under review. It also explains the way we voted, and whether the resolution was approved by the shareholders or not.

Key votes and engagements for 2nd Quarter 2018

Company	Date	Resolution	How we voted for you	Result
Citigroup Inc	24 April	Ratify KPMG LLP as Auditors	Against	Approved

We voted against the auditor ratification (KPMG) who have been in place since 1969 and as consequence their independence may be compromised (in our view, an auditor should not serve more than 15 years). Additionally, we are concerned about the quality of KPMG's audit as it failed to alert shareholders to problems identified during the 2008 financial crisis.

More recently, KPMG has been fined for fraudulently obtaining information on regulatory inspections of its audits, including Citigroup, raising questions over its internal controls and business ethics.

Percentage of votes cast for the resolutions to ratify auditors: 97% for, 3% against

Company	Date	Resolution	How we voted for you	Result
London Stock Exchange Group	24 April	Re-elect Nomination Committee Chair	For	Approved

Empirical evidence points to better performance in companies that have a more diverse workforce. In 2018, we started voting against the Nomination Committee Chair of UK companies when board diversity falls below 25% and the board does not have a credible approach to improving diversity in the near future.

Although London Stock Exchange's board diversity falls short of 25% (18% of directors are currently women), the annual report demonstrates a commitment to increase diversity. Furthermore, the board aligns itself with the Hampton-Alexander review (which looks at ways of ensuring women in senior management positions can progress to board level appointments). If we do not see progress by the next annual general meeting, we will consider voting against the Nomination Committee Chair.

Percentage of votes cast for the re-election of Nomination Committee Chair: 84% for, 16% against

Company	Date	Resolution	How we voted for you	Result
JPMorgan Chase & Co.	15 May	Re-elect the Lead Independent Director	Against	Approved

We have concerns over the lack of independent challenge to Jamie Dimon, who is widely known to be a powerful Chairman and Chief Executive. Since our engagement on a number of governance issues including board composition, succession planning, remuneration and audit, we have seen some positive improvements with better-qualified Board candidates and the announcement of a succession plan for Jamie Dimon. That said, our concerns over weak remuneration targets and excessive long tenure of the auditor remain unaddressed.

The lead independent director has served for 30 years and he is also the Remuneration Committee Chair. Given our ongoing governance concerns, we believe the board should seek a new and demonstrably independent lead director.

Percentage of votes cast for this resolution: 95% for, 5% against

Company	Date	Resolution	How we voted for you	Result
Total SA	1 June	Approve Consolidated Financial Statements and Statutory Reports	Against	Approved

Notwithstanding the recognition in Total's Annual Report that it faces significant challenges from decarbonisation, we voted against Total's financial statements due to ongoing concerns over the lack of disclosure of the materiality of decarbonisation for the business. We also have unresolved concerns over the high long-term commodity price assumptions used in Total's accounts. They use $80/bbl for oil (and $7/MMbtu) from 2020 in valuing key assets on their balance sheet, while they say their strategy assumes $50-$60; and peers' assumptions are lower. The danger is that shareholder capital may be overstated. So far, engagement with Total has not given us comfort that they are adopting a prudent approach in their accounting.

Percentage of votes cast for this resolution: 98% for, 2% against

Voting Summary Q2 2018

		2012	2013	2014	2015	2016	2017	Q1 2018	Q2 2018
Total number of company meetings		636	638	741	969	968	1,165	188	652
Total number of proposals		7,448	7,184	8,090	11,102	10,387	13,244	1,881	10,525
Votes cast	for	4,720	4,986	5,807	8,288	7,728	8,570	1,182	7,727
	against	1,312	1,418	1,332	1,631	1,681	2,354	284	1,791
	abstain	5	56	63	118	61	101	15	97
	withhold	171	173	126	85	84	83	2	75
	did not vote[1]	1,240	551	762	980	833	2,136	398	835

[1]We do not currently vote in jurisdictions in which share blocking and power of attorney requirements apply.

Further details are available upon request.

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