

**POLICY OUTREACH,
COMPANY ENGAGEMENT
AND VOTING REPORT**

Q4 2019

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

COMPANY ENGAGEMENTS: FRESENIUS MEDICAL CARE

This quarter we met with the chair of the board of Fresenius Medical Care, the World's largest dialysis treatment provider, to discuss a number of issues such as remuneration, lobbying, internal control and anti-corruption.

Fresenius has a decentralised structure which allows it to rapidly respond to the needs of local markets. However, the company's rapid growth in recent years has made it hard to integrate different units and ensure the consistent adoption of its culture in all geographies. This has brought challenges and – at times – problems. Most notably, its failure to implement adequate internal controls resulted in a \$231m settlement with the SEC in 2017. It has also had recent problems of operational oversight in its North American business, which led to the departure of the chief executive of this business, and in 2019 controversies with the American Kidney Fund.

The board is aware of internal control weaknesses and has been putting measures in place to improve its compliance culture and harmonise standards across the Group. The number of compliance staff has increased from 10 to 150 today and they are now full-time focusing on compliance (where in the past compliance was a small part of a wider role). The head of compliance reports to the chief executive officer, but also – importantly – has an independent line of report to the supervisory board. A set of clear global values are now being rolled out. We will continue to engage with the company to make sure it maintains its emphasis on internal controls. We have specifically asked for better disclosure (e.g. transparency of lobbying campaigns), and for the auditor to consider bribery control as a key audit matter and undertake extra checks and reporting to shareholders.

Alongside internal control matters, we have been voting against the company's remuneration primarily due to the lack of executive shareholding requirement. We are glad to hear that the company will make a new remuneration proposal next year where shares instead of cash will be awarded as long-term incentives. However, we informed the chair that we will still vote against the new proposal if the executive shareholding requirement is not sufficiently large to ensure alignment with shareholders. In addition we highlighted the importance of a post-departure shareholding requirement to avoid problems of bad leavers.

COMPANY ENGAGEMENTS: AMAZON

In September, Amazon announced a Climate Pledge. This move is significant because it not only explicitly aligns with the Paris goals to get to net zero emissions, but also because it sets a valuable precedent for others to follow and helps generate a ripple effect.

Key elements of this Pledge are commitments to:

1. measure and report greenhouse gas emissions on a regular basis;
2. implement decarbonisation strategies in line with the Paris Agreement through real business changes and innovations, including efficiency improvements, renewable energy, materials reductions, and other carbon emission elimination strategies; and
3. neutralise any remaining emissions with additional, quantifiable, real, permanent, and socially-beneficial offsets to achieve net zero annual carbon emissions by 2040.

Beyond this Pledge, Amazon set out an even more ambitious goal to achieve net zero emissions by 2040, ten years before the Paris requirement. They set out explicit milestones including ensuring 100% renewable energy by 2030; they will order 100,000 fully-electric delivery vehicles, the largest order ever for electric delivery vehicles; and they will invest \$100 million in reforestation projects around the world to begin removing carbon from the atmosphere now.

We have written twice to Jeff Bezos, Chair and CEO, seeking a commitment to align with Paris in spring 2018 and again in March 2019. We have also reached out to other like-minded shareholders through the Interfaith Centre on Corporate Responsibility, and sought to support these. Yet over this two year period, we have had little more than an acknowledgment of our letters and general comments.

In terms of voting, we abstained from Bezos' reappointment due to his lack of response to our engagement; we voted against the Audit Committee chair - due to auditor concerns and lack of clarity over how climate risks are being factored in and reported on to shareholders. Finally, having spoken to the labour union (UNI Commerce Global Union) which has been vocally calling for Amazon to do more, we supported their shareholder resolution demanding they report on climate risks.

Without more transparency behind this announcement, we can only assume that sufficient pressure was brought to bear on the Board and Jeff Bezos in particular, to cause Amazon to decide to take a stand. We applaud this decision, and will follow up to get further clarity around their broader supply chain emissions and how these will be incorporated into their target.

MARKET OUTREACH

Brydon passes capital maintenance back to BEIS

One of the less expected impacts of the UK's December general election was the early release of Sir Donald Brydon's final report into the quality and effectiveness of audit.

The report includes a range of sensible recommendations to strengthen the UK's audit system; on the core point of clarifying the purpose of audit, however, it pulls its punches. This matters because if we do not know what audit is for, proposals for more transparency and fixing culture will count for little. Transparency for what end? The right culture to deliver what?

Earlier this year, the BEIS Select Committee exposed the failure of auditors to raise the alarm when a company's capital is at risk. Carillion has become the poster child for this failure (and is currently being investigated), but is just one of a lengthening list of sick companies where trouble perhaps ought to have been spotted earlier. Specifically, under the UK Companies Act auditors must say when directors' accounts overstate capital, and / or where directors propose dividends that eat into the capital base (and are thus illegal). Undistributable reserves must be disclosed.

Despite the centrality of capital protection in law, Brydon appears to treat it as peripheral. Oddly, he suggests that directors should only have to establish what their distributable reserves are where it looks like they might run out. This is equivalent to trying to install an airbag as a car is in the process of crashing. In short, it will probably be too late. Far better to set off on a car journey knowing your safety equipment is up and running properly.

Above all, the report largely misses the elephant in the room. There is today a legal requirement that defines a clear purpose for audits: Part 23 of the Companies Act 2006 outlines detailed provisions for how capital is to be protected through full disclosure of specific items in the "relevant accounts". This is neither peripheral nor optional. It offers the purpose we seek. It must not be watered down.

Interestingly, buried deep in Chapter 19 of his report Brydon does concede that companies need to make clear what they have available for distribution. He states "For all companies the contribution to (or deduction from) distributable reserves in any year following the adoption of these proposals would be required to be published in the financial statements for that year." This he suggest is a matter being taken forward by BEIS.

So what next? In our view, irrespective of what is decided regarding Brydon's numerous recommendations (and we hope that many of them are taken forward), BEIS should now ask the Law Commission to clarify director and auditor duties under the UK's capital maintenance regime. The Government must then start enforcing them.

CHRIS HOHN PICKS UP OUR CALL TO VOTE AGAINST DIRECTORS ON CLIMATE CHANGE

When it comes to voting, investors seeking to press companies to take action on climate change are currently focusing on shareholder resolutions. This is an important way to escalate pressure on directors to act, but it is neither the only voting tool shareholders have available, nor the most impactful. If an investor believes a board of directors is failing to plan for material climate risks, and thereby putting shareholder capital at risk, this ought to be sufficient cause to vote against directors. In short, supporting shareholder resolutions is important, but really investors should also be looking for new company leadership.

For this reason, we have been calling for investors to use their votes on director appointment at company Annual General Meetings for some time. In October, the Financial Times published our Opinion Piece "Asset Managers must use their votes to tackle climate change".

As highlighted in our article, it cannot make sense for oil companies, such as Exxon, Chevron, BP, Shell and Total, to continue to plough billions of dollars into future fossil fuel extraction where this both threatens the world's climate, but also makes increasingly questionable investment returns. And yet, in the most recent voting season, these policies were endorsed by shareholders who approved director appointments with an average of 97 percent support. Asset managers, tasked with overseeing companies and for voting on behalf of millions of shareholders, hold the key to address this issue.

Since 2018, we have been tightening our voting policies for directors and also auditors at companies we view to be materially exposed to climate change, and therefore where climate factors should be a consideration in the evaluation of strategy and reporting. The charts we provide below give a comparison of how Sarasin & Partners voted relative to a peer group of 17 other asset managers from the first six months in 2019. Of course there are non-climate factors also feeding into our and others voting decisions. About 18% of our votes against at least one director and 15% of our votes against auditor appointment were primarily due to climate change concern.

There are signs others are starting to use these core votes alongside votes on Shareholder Resolutions. A prominent example is Chris Hohn of TCI Fund Management, a hedge fund, who announced that his fund will start voting against directors at companies that score poorly on climate emissions disclosure in December. But we need this trickle to turn into a flood. It is particularly critical that the large passive investors like Blackrock, Vanguard and State Street follow suit. As extremely large asset managers, often together accounting for over 25% of companies' shareholder base, they have a particular responsibility to act. We have, therefore, been engaging as a shareholder in Blackrock for them to ensure they also align their strategy with the Paris Agreement.

KEY VOTES AND ENGAGEMENTS

Q4 2019

Investors in companies have an important shared responsibility in holding the board to account for the management of the business. We take our voting responsibilities on behalf of our clients seriously. We believe voting provides shareholders with an important lever for ensuring proper corporate accountability and responsible stewardship, which is a critical input into delivering better returns over the long term.

The table below shows how we voted on company resolutions during the period under review. It also explains why we voted the way we did, and whether the resolution was approved by shareholders or not.

KEY VOTES FOR 4TH QUARTER 2019

Company	Date	Resolution	How we voted for you	Result
SQN Asset Finance Income Fund	21 Nov 2019	To elect chair of nomination committee	Against	Passed
<p>We voted against the chair of the nomination committee because the board is an all-male board and the company has not disclosed any plan to address gender diversity. Boardroom diversity can contribute to improved corporate performance by helping to address groupthink and by encouraging internal challenge. The chair of the nomination committee should consider how to address this issue when recommending future directors for recruitment.</p> <p>Percentage of votes cast for the resolution: not disclosed</p>				
Microsoft Corporation	4 Dec 2018	To report on gender pay gap	For	Failed
<p>We supported this shareholder resolution as the gender pay gap is an important issue in the technology sector. The World Bank estimated in 2018 that gender pay gap had cost \$160tn to the global economy. This resolution asked the company to report on its global median pay gap, which should not be difficult to disclose. While the company discloses gender pay gap on a statistically adjusted equal pay basis, reporting on a global median pay gap will provide investors with better insight into the company's efforts to promote equal opportunity by gender. Shareholders would benefit from this additional information that allows them to better measure the progression of the company's diversity and inclusion initiatives.</p> <p>Percentage of votes cast for this shareholder resolution: 29.6% for, 70.4% against</p>				
Associated British Foods Plc	6 Dec 2019	To approve remuneration policy; To re-elect chair of remuneration committee	Against	Passed
<p>We have engaged with the company for a number of years on remuneration. We had several concerns over its previous remuneration policy. Firstly, part of the long-term incentives did not take into account the performance of the sugar business, but the company continued to allocate capital to that business. We also had concerns around the higher-than-average employee pension contribution received by the Finance Director, an executive shareholding requirement which did not require executives to hold any shares post their departure and the independence of the remuneration committee chair.</p> <p>We have seen improvements in the company's remuneration structure over the years. We have welcomed positive developments such as a change in the remuneration committee chair, a post-departure shareholding requirement and long-term incentives that take into account the performance of the sugar business. However, we remain concerned about the company's decision to continue awarding the CFO a pension contribution which is significantly higher than that available to other employees. This is not only inconsistent with our remuneration principles, but is also contrary to the updated guidance in the UK Corporate Governance Code. Some companies have reduced pension contributions for serving executives in order to align them with other employees. We encourage ABF's remuneration committee to adopt the same approach.</p> <p>Percentage of votes cast for the approval of the remuneration policy: 96.2% for, 3.8% against Percentage of votes cast for the re-election of the chair of remuneration committee: 98.8% for, 1.2% against</p>				

VOTING SUMMARY

		2014	2015	2016	2017	2018	2019
Total number of company meetings		741	969	968	1,165	1,072	1,228
Total number of proposals		8,090	11,102	10,387	13,244	13,433	13,373
Votes cast	for	5,807	8,288	7,728	8,570	11,152	8,732
	against	1,332	1,631	1,681	2,354	2,611	2,771
	abstain	63	118	61	101	181	129
	withhold	126	85	84	83	79	100
	did not vote ¹	762	980	833	2,136	1,420	1,641

¹We 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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