



Response to ESG Questionnaire Sarasin & Partners

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Introduction

The issue of defining ESG and how individual companies express their specific values is now at the forefront of many of our clients' minds. We have researched SRI funds for many years now and have a separate rating category, but we acknowledge that this is now a mainstream strategy for an increasing number of investors and ESG issues are impacting all funds, not just those designated responsible or SRI.

In order to understand each company's stance on ESG factors at the corporate level, and how this is built into the investment managers' research and process we ask all our rated fund managers four questions:

- Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.
- Please provide an overview of how ESG is integrated into your business.
- Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.
- What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

The responses given by Sarasin & Partners are shown here.

1. Please provide an overview of any Responsible Ownership/Stewardship strategy that your business follows.

At Sarasin & Partners, we consider ourselves long-term stewards of our clients' assets. We believe that the most crucial way in which we as an asset management firm have an impact on sustainability is through our stewardship work with investee companies. It's our view that investment has the power to deliver enduring value to clients in a way that benefits society. Equally, wealth creation at society's expense is likely to be ephemeral. In short, responsible companies will tend to create more durable economic value for investors and society alike.

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 underappreciated 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 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, and standards, rules and expectations vary between countries and communities, and the potential for unintended consequences is high. We 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.

We put these principles into practice through three pillars: active, long-term investment; ownership discipline, and thought leadership and policy outreach. Our ESG policy and core principles apply to all our investments, firm wide. Certain funds have further enhanced ESG criteria. More details on our approach to responsible stewardship can be found on our website: <https://sarasinandpartners.com/stewardship/>

2. Please provide an overview of how ESG is integrated into your business.

We deeply embed ESG analysis into our investment process as 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. We believe in securing tomorrow, through our thematic investment approach, our commitment to stewardship, and our long-term relationship with our clients. ESG issues are considered at all stages of our process and has evolved organically, through time. Our proprietary research and the depth of insight we have on ESG issues and Stewardship is one of our unique selling propositions.

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.

We put our strategic beliefs into practice through three pillars:

1. A robust global thematic investment process focused on sustainable value drivers

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. 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, producing a proprietary ESG score for equities - from "A" (excellent) to "E" (effectively un-investable) – and a proprietary ESG ratings for fixed income issuers (we generally do not invest where this score is lower than BBB). This scoring/rating is incorporated into valuation analysis. We undertake stress testing for ESG risks, such as climate change, and regular security reviews when concerns arise.

2. 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.

3. 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.

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.

A robust, global investment process focussed on sustainable value drivers:

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 via our Sustainable Impact Matrix 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.

3. Does your business have a policy of excluding any companies or sectors from all strategies managed? If yes, please provide further details.

We hold no investments which are prohibited under International Treaties such as landmines and Cluster bombs.

<https://sarasinandpartners.com/wp-content/uploads/2020/05/guide-to-ethical-restrictions.pdf>

Depending upon specific Client mandate we can and do exclude other sectors and companies such as Tobacco, Alcohol, Adult Entertainment, Gambling, Oil produced through Tar Sands, Civilian Firearms and Fossil Fuel extractors.

4. What improvements (if any) have been made over the past 12 months within your business to the points highlighted in the previous questions?

In 2023, we:

- Reviewed the fixed income ESG process, updated the materiality map and made changes to the way we approach the SIM for greater alignment with equities.
- Drew up a CAL for fixed income and carried out a NZAA for those entities.
- Continued to develop a high-level framework for climate stress testing in line with our NZAM commitment (see case study above).
- Undertook over 29 engagement activities, particularly in the banking and real estate/housing association space focused on our key thematic priorities: climate change and governance.

Stewardship

The most impactful enhancement we made in 2023 was adding a proxy voting dashboard (PVD) to our website. This gives real-time disclosure of all our voting activities over various time periods, organised by fund and entity level. We also finished the roll-out of our engagement tracker and engagement reporting tool. The tracker enables centralised record-keeping of our engagements to achieve better communication within the asset management team, supporting more effective discussions with issuers, tighter controls over escalation steps and closer links to the investment analysis. In terms of our team, a stewardship assistant joined in December 2023. We broadened the scope of our post-proxy letters to cover 58 companies, up from 54 in 2022, promoting various subsequent engagements.

Global Equity

Our investment process constantly evolves as we respond to regulatory requirements, seek new sources of data and optimise our analysis in order to improve investment outcomes.

We migrated our financial modelling to a new format that adds insights into factor risks and opportunities, while providing real-time market inputs into peer valuations. We also added three new ESG data providers. Two (GaiaLens and Green Street) provide proprietary ESG data for specialist sectors where mainstream providers are falling short of our desired level of scrutiny. The other (AlphaSense) specialises in the qualitative assessment of ESG failures using an AI tool which scans global media content for possible company controversies. Combined, these changes enhance our Sustainability Impact Matrix (SIM), which in turn improves our level of stock conviction. In addition, they are used to meet requirements under the EU Sustainable Finance Disclosure Regulation, and may prove useful in light of the forthcoming UK Sustainability Disclosure Requirements and investment labels regime.

Alternatives

Building on our experience, we initiated dialogue with like-minded investors and specialist consultants to promote governance enhancements for investment trusts. We have reached out to the Association of Investment Companies and are discussing joint efforts to develop proposals for use across the industry and to potentially share with the market regulator.

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