

What does a responsible portfolio look like in 2021?

Sarasin & Partners | October 2021

Richard Maitland & Katherine Hussein



Biographies



Richard Maitland, Partner and Head of Charities (30/29)

Richard joined Sarasin & Partners in 1992, was appointed Head of Charities following the merger between Chiswell Associates and Sarasin in 2003 and is a member of the Executive Committee. He specialises in strategy and the management of diversified, multi-asset portfolios. He is author of the Sarasin & Partners Compendium of Investment, which has now been published for 20 years and is Director of the £2bn Sarasin Charity Authorised Investment Funds. Richard has lectured at The Judge (Cambridge), University of Vienna and University of Stellenbosch business schools and runs the Trustee Training Programme for the CFG. He is Chairman of the Investments Advisory Committee of St Paul's Cathedral.

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Katherine Hussein, Investment Manager, Charities (7/2)

Katherine joined Sarasin & Partners in March 2020. Prior to Sarasin, Katherine worked at J.P. Morgan Asset Management in the Global Insurance Solutions team covering insurance companies in Europe and Asia. She has also worked at Société Générale Private Bank as an Investment Advisor and has completed internships at Goldman Sachs in Mergers & Acquisitions and at RBS in Sales & Trading. Katherine graduated from Queen Mary, University of London with a degree in Economics. Katherine is also a Trustee for the Hymans Robertson Foundation and the Chair of the Vietnamese Family Partnership charity.

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A shareholder awakening

Purpose of finance

To allocate capital to activities that deliver the greatest societal benefit

Role of asset managers

As key actors within finance, asset managers act should on behalf of savers:

- to *invest* capital in a way that maximises their welfare; and
- to *press* companies to deploy capital in a way that maximises welfare

Delivering short-term cash returns in a way that harms our environment or society is neither sustainable or desirable

Events of 2020



Investor rebellion at Procter & Gamble over environmental concerns

World's largest consumer group confronted by big shareholders led by BlackRock

Sports Direct says it will stay open amid coronavirus lockdown

Email to staff says they need to keep selling fitness equipment to population isolating at home



More than £1bn wiped off Boohoo value as it investigates Leicester factory



Energy & Science Chevron's Investors Defy Board in Demanding Climate Disclosures

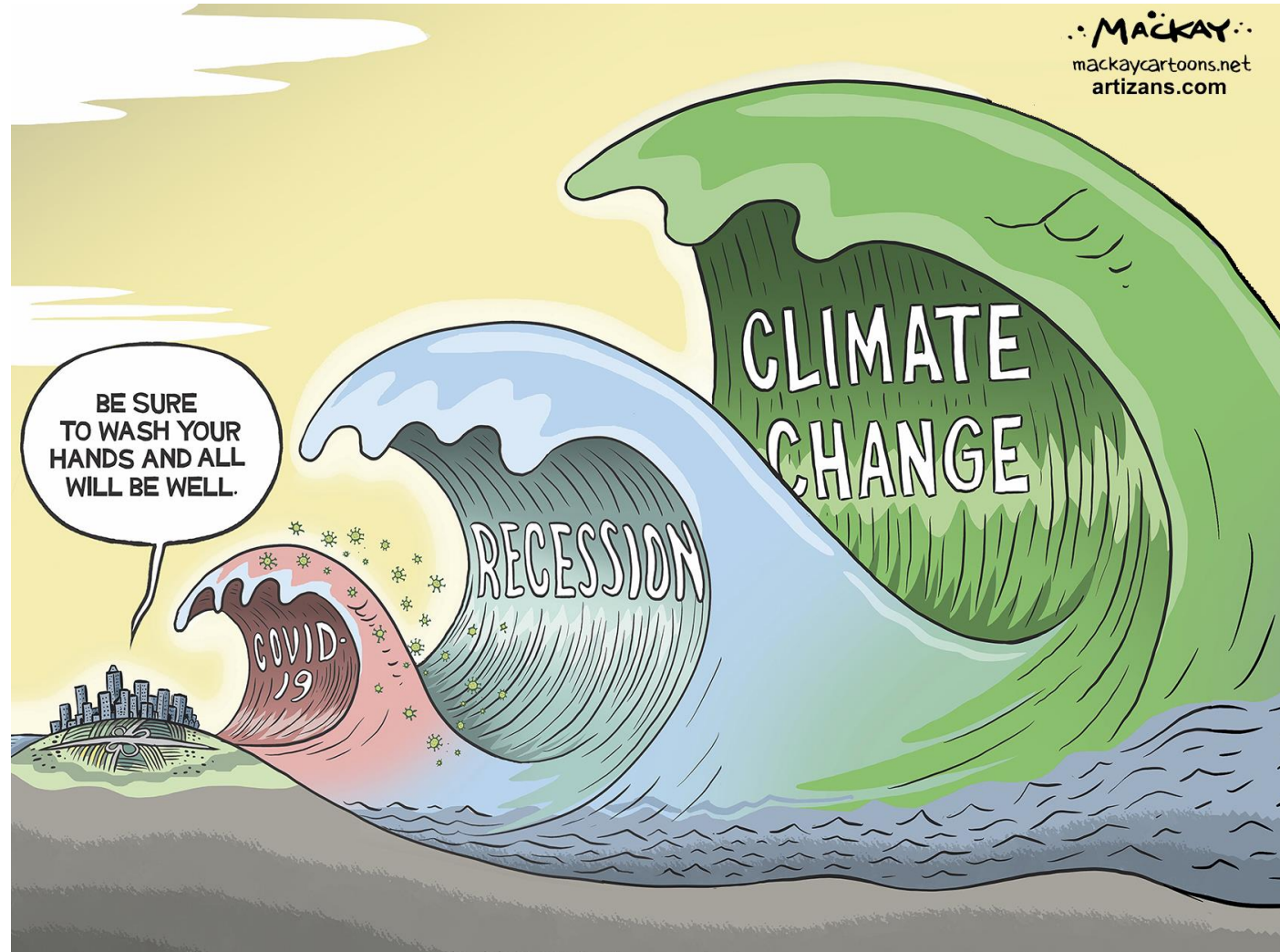
By David Wethe and Kevin Crowley
May 27, 2020, 5:10 PM GMT+1
Updated on May 27, 2020, 11:37 PM GMT+1

- ▶ Oil major told to report how lobbying aligns with Paris accord
- ▶ Some 53% of investors back proposal in preliminary vote count



Climate change

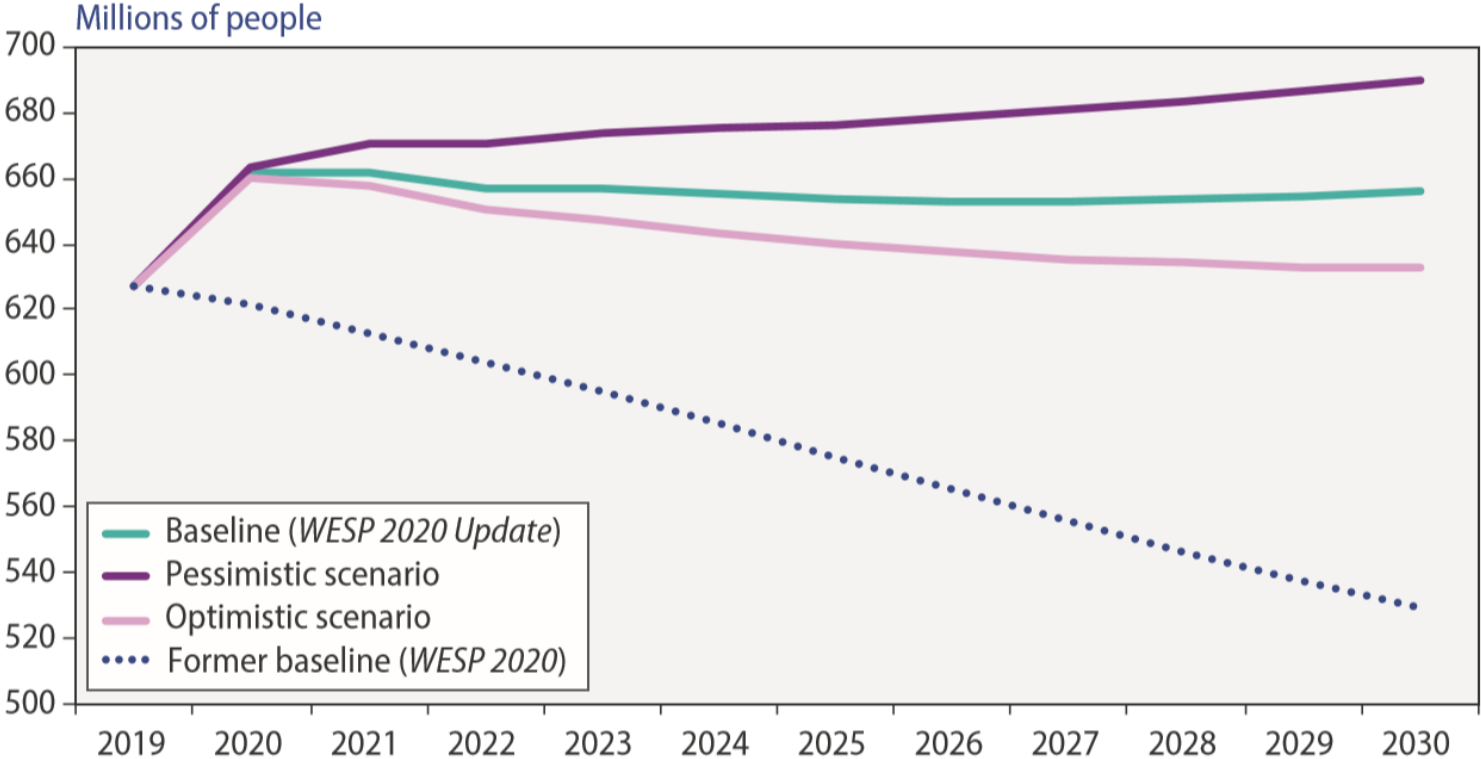
Very real, very big...



Covid19 means “S” is in the spotlight...with good reason



Relative to the projections the number of people living in extreme poverty could increase by nearly 130 million by 2030



Source: UN DESA, based on projections and scenarios produced with the World Economic Forecasting Model (WEFM).

Note: The threshold of extreme poverty used for the projections is \$1.9 a day.

Source: United Nations May 2020

UN SDGs: Increasing focus



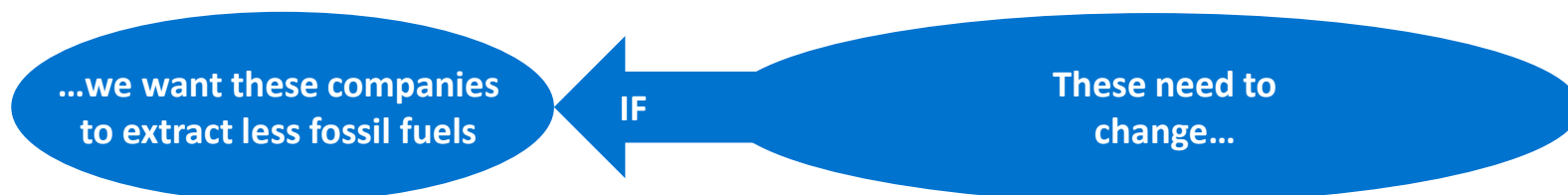
Simple or thoughtful?

Is there a simple way to care for our common home?

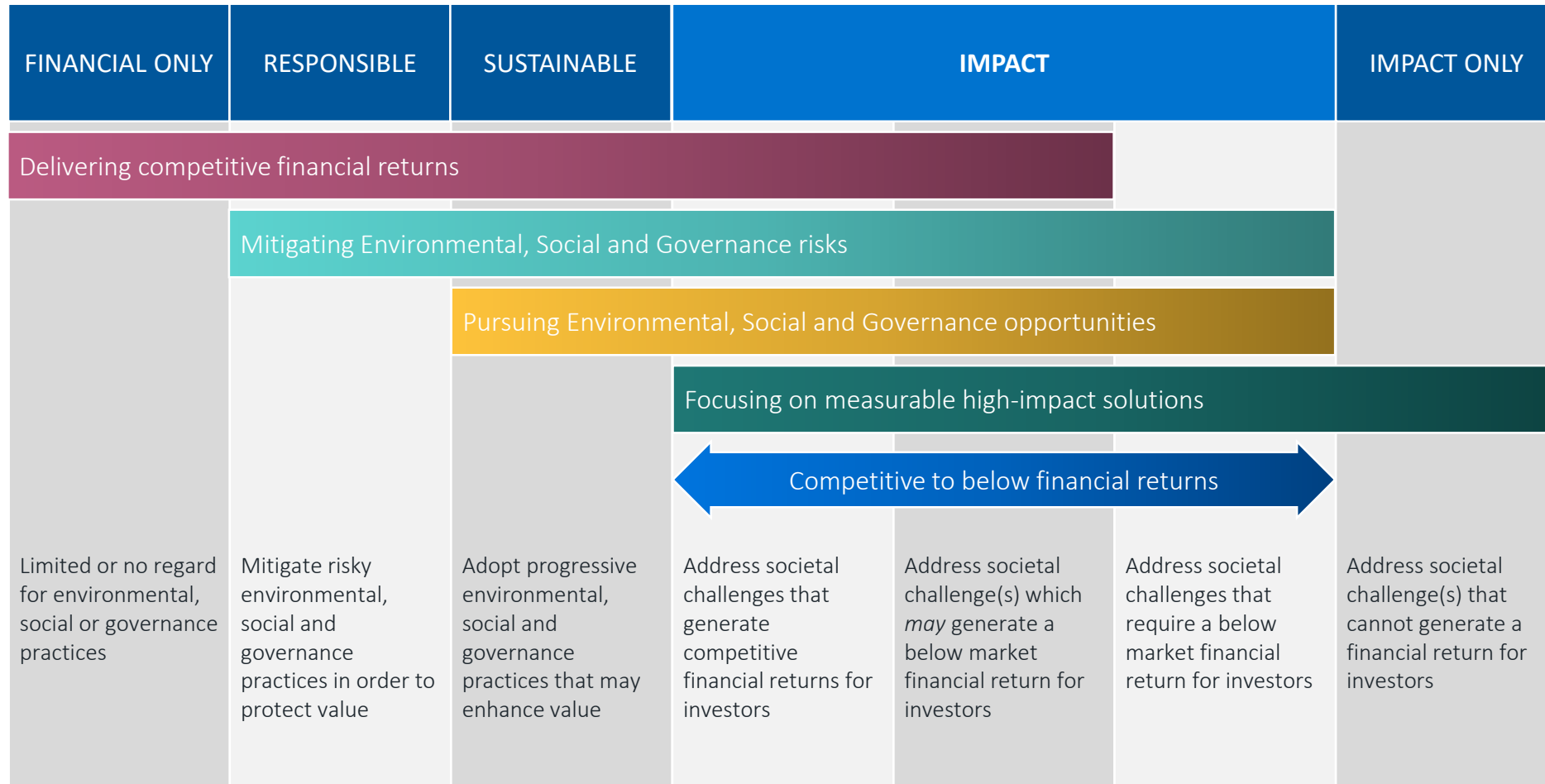
Type of impact:	Unnecessary extraction	Necessary extraction	Primary user of fossil fuels	Primary product reliant on fossil fuels	Ancillary need for fossil fuels
Type of company:	MINERS Tar sands and thermal coal	ENERGY Mainstream oil, & gas extraction	UTILITIES Electricity provision	INDUSTRIALS Vehicle manufacturers	Virtually everything else
Examples:	Allette Anglo American BHP Billiton	Shell BP Total Governments	ENEL E.ON Centrica Scottish Power	BMW Volkswagen General Motors	Banks: lending Manufacturing: power Retail: delivery Healthcare: plastics Transport: power

If you seek to avoid these....

Are you be happy to own all of these?



Spectrum of sustainable investing



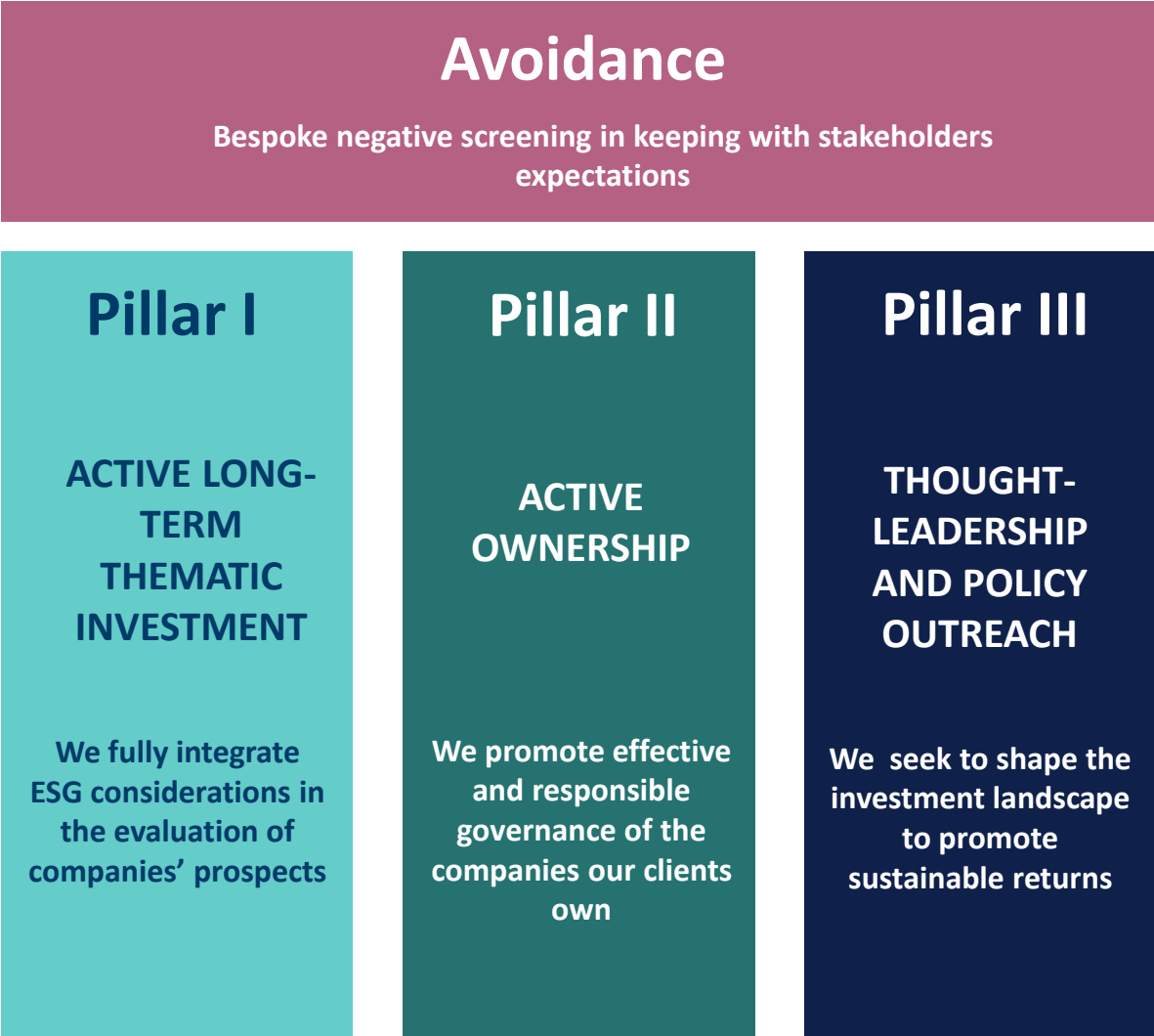
Source: G8 Social Impact Investment Taskforce, Asset Allocation Working Group (2014)

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Avoidance

Integrated stewardship and ethics

Investing responsibly is multi-layered



Our approach to Social and Environmental exclusions

Working with charities to develop mission-aligned exclusions

Exclude investment in companies which are materially involved in the production and distribution of **ethically unacceptable products, including:**

- Gambling
- Pornography
- Alcohol
- Tobacco
- Armaments
- Predatory Lending
- Tar Sands
- Thermal Coal
- Incarceration
- Animal Testing
- *Specific Stocks*
- *Low ESG Score*

Avoid investing in companies which are materially involved in **ethically unacceptable practices, such as:**

- Corruption
- Environmental degradation
- Poor labour practices
- Breaches of human rights
- Companies which persistently, knowingly and materially breach international legal standards



GAMBLING



PORNOGRAPHY



ALCOHOL



ARMAMENTS



TOBACCO





PREDATORY LENDING

Alcohol

Production and distribution of alcohol



The World Health Organization reports that 3 million deaths each year result from harmful use of alcohol (5% of all deaths). It is also a causal factor in more than 200 disease and injury conditions as well as a range of mental and behavioural disorders. The harmful use of alcohol also brings significant social and economic losses to individuals and society at large. In contrast, moderate alcohol consumption may provide some health benefits.

AREA 	DEFINITION 	REVENUE THRESHOLD
ALCOHOL PRODUCTION	The recent year (or maximum estimated) percent of revenue a company has derived from the manufacture of alcoholic products including brewers, distillers, and vintners. This includes companies that own or operate wine vineyards.	5%
ALCOHOL RELATED REVENUES	The recent year (or maximum estimated) percent of revenue a company has derived from manufacturing, distributing, retailing, licensing or supplying alcoholic products.	10%

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Building E, S & G research into everything you own

Stewardship and ESG analysis

ESG factors assessed as part of our stewardship of client assets



Examples of companies that are excluded and included

Coca-Cola The Coca-Cola Company is the world's largest soft drinks company. Billions of servings of its products are consumed every week **X**

Soft drinks are heavy to transport and CO2 emissions are high

Produces 100 billion plastic bottles each year and plans for recycling are too slow (2030) and unlikely to stop environmental impact

CLIMATE CHANGE	CIRCULAR ECONOMY	LAND	AIR	WATER
●	●	●	●	●
SUPPLIERS	EMPLOYEES	CUSTOMERS	BRIBERY & CORRUPTION	COHESIVE SOCIETY
●	●	●	●	●
BOARD STRUCTURE	OWNERSHIP RIGHTS	REPORTING & CONTROLS	EXECUTIVE REMUNERATION	BUSINESS ETHICS
●	●	●	●	●

High calorie soft drinks made with high fructose corn syrup and sugar are a major contributor to obesity and diabetes

Competition for water, growing of ingredients, corporate purpose, remuneration, accounting for externalities etc. are concerns



Orsted Orsted is the largest offshore wind farm company in the world with a market share of 16%. Based in Denmark it operates in Europe and the US

Aims to be carbon neutral by 2040, but in the meantime emits CO2 from biomass and fossil fuels in some of its power generation

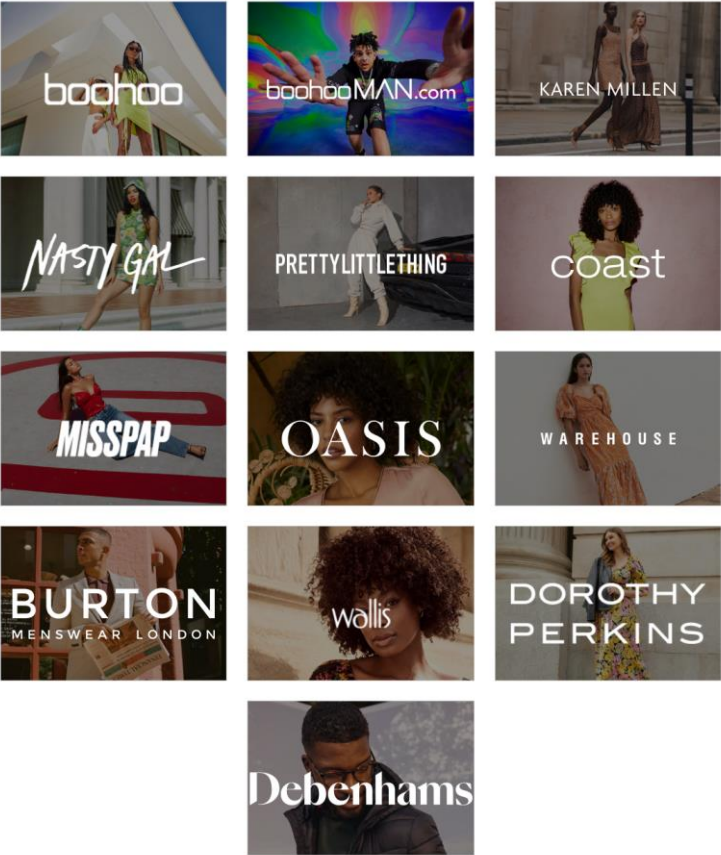
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●	●	●	●	●
BOARD STRUCTURE	OWNERSHIP RIGHTS	REPORTING & CONTROLS	EXECUTIVE REMUNERATION	BUSINESS ETHICS
●	●	●	●	●

There can be problems in recycling materials from the turbine blades at end-of-life. The footprint of steel and other materials used to construct towers needs to be reduced

ESG controversies impact share price performance

Boohoo suffered after modern slavery allegations

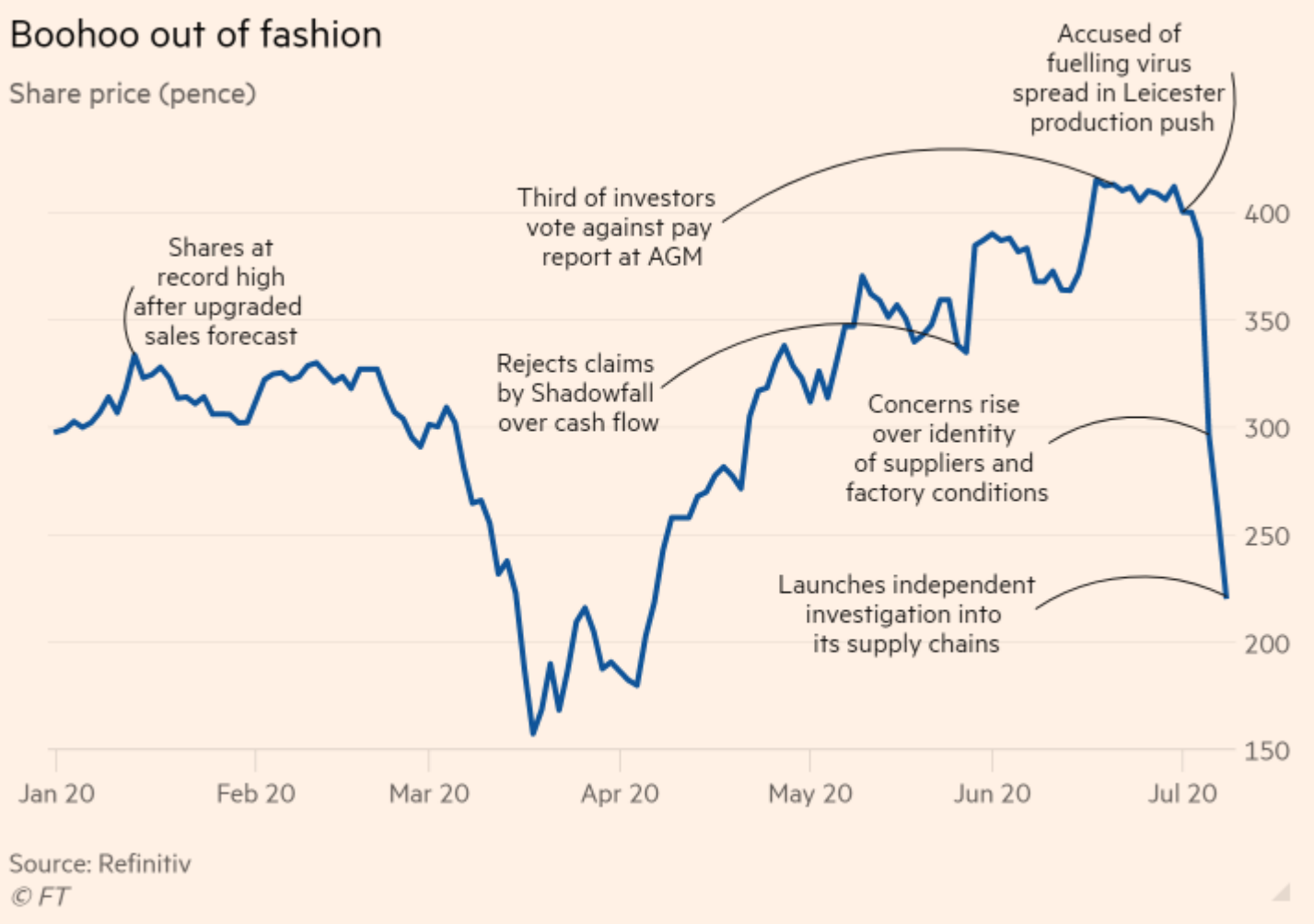
boohoo
group plc



Source: Boohoo Group

Boohoo out of fashion

Share price (pence)



Source: Refinitiv © FT

Engagement or divestment...or both?

Divest from what?

Fossil fuels, utilities, autos, airlines, supermarkets?

Who is to blame?

Has divestment worked?

A powerful political statement

... but lose your voice

Little evidence that it will raise the cost of capital

Has engagement worked?

Yes: many examples of activist investors influencing strategy

Fossil fuel companies are responding to change



Source: NUS website, 2018

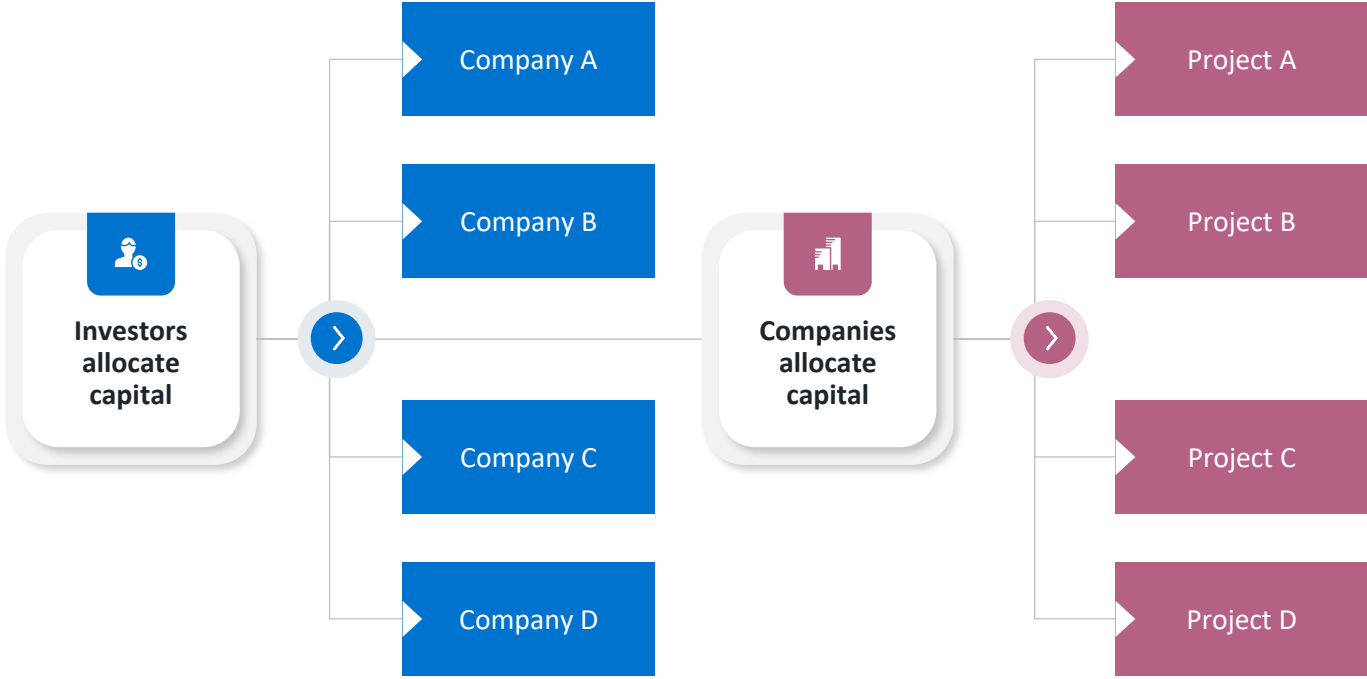
ENGAGEMENT

Engage where vulnerable, but opportunity to build resilience to climate change

DIVESTMENT

Divest where vulnerable & not responding or willing to pursue a strategy towards zero net-emissions

Capital allocation is what matters

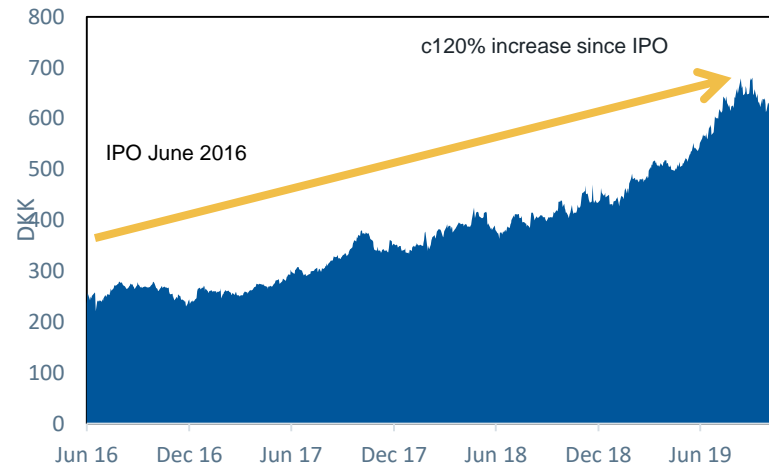


Investors engage to shift capital deployment on the ground

Combining positive themes with excellent management

Example Stock: Orsted

2007 transformation from “black to green”



Source: Sarasin & Partners, Orsted, 2020

Where do we find stocks that could benefit from the climate crisis?

Type of impact:	Unnecessary extraction	Necessary extraction	Primary user of fossil fuels	Primary product reliant on fossil fuels	Ancillary need for fossil fuels	New Opportunities Alternative energy and businesses benefitting from <u>and driving</u> change
Type of company:	MINERS Tar sands and thermal coal	ENERGY Mainstream oil, & gas extraction	UTILITIES Electricity provision	INDUSTRIALS Vehicle manufacturers	Virtually everything else	
Examples:	Allette Anglo American BHP Billiton	Shell BP Total Governments	ENEL E.ON Centrica Scottish Power	BMW Volkswagen General Motors	Banks: lending Manufacturing: power Retail: delivery Healthcare: plastics Transport: power	
	None?	Probably none...until 'tipping point' reached	There are 'greener' utility companies	Many companies embracing new energies	Many companies more proactive and compliant with 'net' zero	Green Infrastructure Green Bonds New Technologies
	Avoid	Engage & tilt	Engage & tilt	Engage & tilt	Engage & tilt	Seek out

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Governance and active ownership
Policy work: beyond ownership

Active ownership & policy outreach

Goal: To align capital with sustainable growth

PRESS FOR CHANGE WITHIN COMPANIES



Scale up sustainable behaviour

Companies deploy capital towards sustainable investments
Ensure responsible behaviour

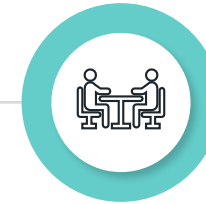


Wind down harmful behaviour

Companies reduce harm imposed on environment & society
[ESG value at risk]

Exit if capital is at risk

POLICY OUTREACH

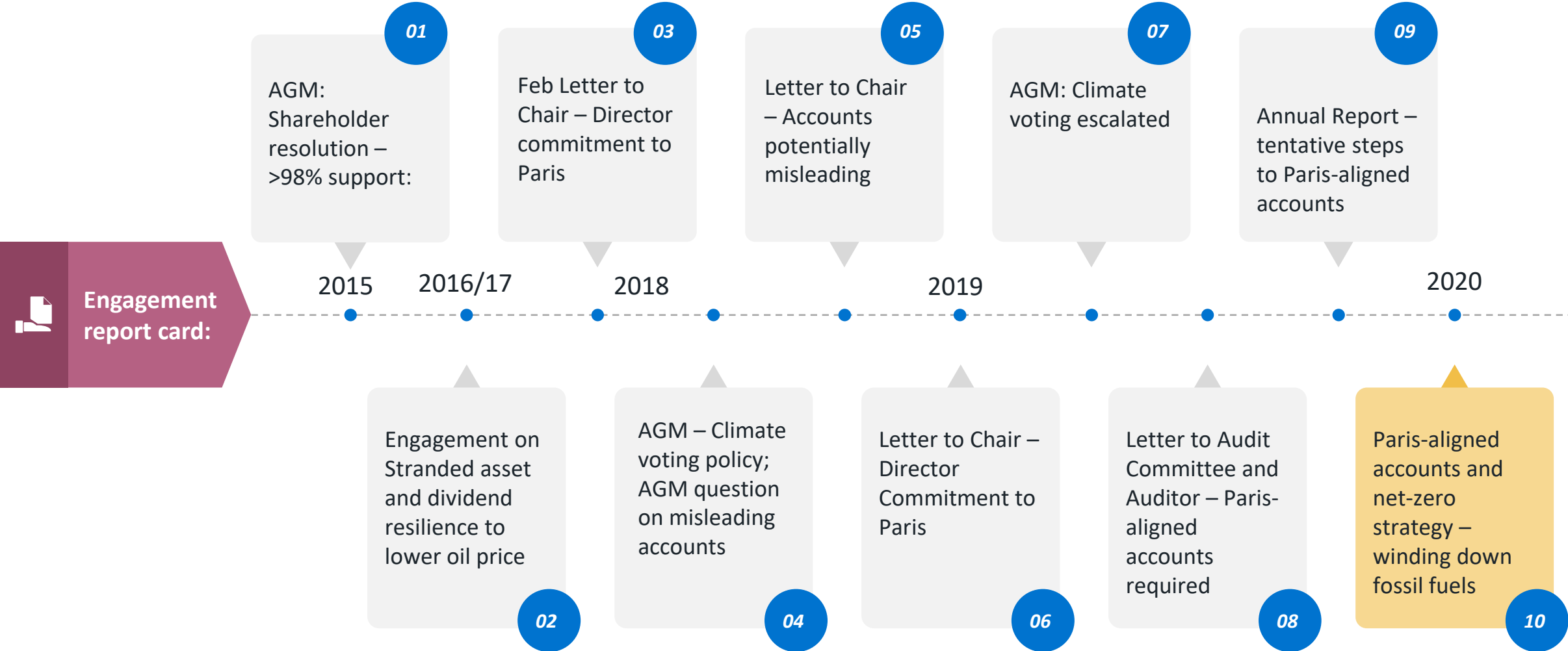


Challenge market obstacles to sustainable growth

Engage policy makers
Collective investor action
Outreach to market influencers (e.g. auditors)

Engagement success: BP

Paris-aligned accounts and net-zero strategy



4

Conclusions

Careful and careless fund managers

CAREFUL

- ✓ Invests on a long-term horizon
- ✓ Integrates ESG in fundamental analysis
- ✓ Uses stewardship to enhance capital protection
- ✓ Uses voting actively to encourage improvement in corporate behaviour
- ✓ Active discussions with company management teams
- ✓ Engaging with policy makers to encourage systemic change

CARELESS

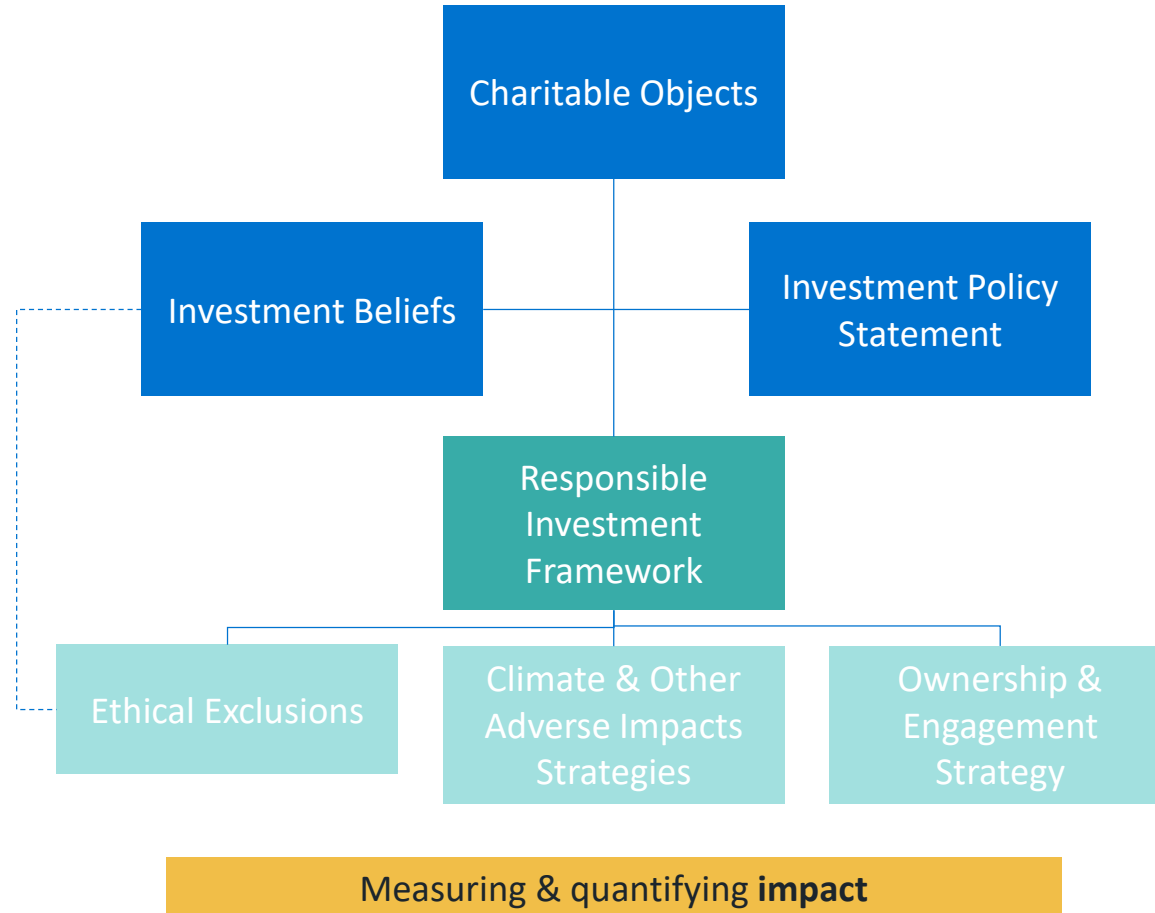
- ✗ Focuses on short-term share price movements rather than long-term returns
- ✗ Passive parasites
- ✗ Participate in voting but only as 'box-ticking'
- ✗ Fails to engage with investment company
- ✗ Cuts costs by doing nothing
- ✗ Greenwashes

The questions you should be asking your manager

- Evidence of your UK Stewardship Code
- Can we see your engagement plan?
- Can you evidence ESG is factored into your investment analysis?
- How do you ensure restrictions and ESG considerations are taking into account for third-party funds?
- What was the impact of our exclusions? What lessons have you learned from your engagements?
- What is your voting record? Can you demonstrate a consistent approach to your voting engagements?
- What public statements have you made?
- What questions have you been asking at AGMs?
- How active a role does your organisation want to play in decarbonising?
- If governments embrace 'Paris' and move more quickly....how might this impact your investments?
- How often were your shares used to vote in favour of management resolutions?
- What is your fund manager doing in each of Environmental, Social, Governance categories?

If you are not happy with the answers to the questions above... what action are you going to take?

Helping to develop your Responsible Investment policy



- Investment Manager’s philosophy & process aligned with charitable objects
- Promote collaboration (e.g. signatory to engagements)
- Clarity and transparency of reporting...
 - Exposure to ESG factors
 - Measures of materiality
 - Carbon foot printing
 - Voting policy & record
 - Engagement strategy & reporting
- ... will aid monitoring impact and progress of a successful **Responsible Investment policy**
- Engender wider accountability



*“Yes, the planet got destroyed. But for a beautiful moment
in time we created a lot of value for shareholders.”*

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