SARASIN

MAKING NET ZERO A REALITY

OUR NET-ZERO ACTION PLAN 2022[1]

FOR US CLIENTS

If you are a private investor, you should not act or rely on this document but should contact your professional advisor

This report serves as our first Action Plan under our Net Zero Asset Managers' Commitment. See https://www.netzeroassetmanagers.org/#our_commitment.
We will review our Action Plan at least every five years.

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INTRODUCTION

In 2015, the world set itself a target to keep temperature increases well below 2°C, and ideally 1.5°C (the Paris Climate Agreement goals). This was in response to overwhelming scientific evidence that the climate is warming at an unprecedented rate, and the impacts for millions of people are likely to be devastating.

Since then, data shows that our planet is warming even faster than previously thought and there has not been enough concerted action. The dangers of exceeding the 1.5°C threshold are graver than we had imagined. We must collectively ensure net carbon emissions come down to zero by 2050 if we wish to keep temperature increases to 1.5°C, and by 2070 for a 2°C cap. And the longer we delay action and thus we exceed today's emission limits, the sooner we will need to reach net zero.

What is required is an unprecedented economic and societal transformation – the entire world must be entirely weaned off carbon within three decades. This means phasing out fossil-fuel dependence and other carbon-emitting activities across all sectors of the economy. This means stopping continued destruction of natural habitats that act as critical carbon sinks (and are also home to vital life-supporting biodiversity). The challenge is enormous, and every day counts.

A 1.5°C-ALIGNED APPROACH

Asset managers are in a uniquely important position to help drive this climate transition. As stewards of capital, we decide where to deploy savers' capital – whether we are buying shares or debt issued by a wide range of entities. We also have an ability to influence how companies deploy their capital on the ground.

In the end, what matters is not whether a portfolio is carbon neutral. What matters is that the world achieves net-zero carbon emissions. This reality underpins our approach to net-zero alignment: we focus at all times on real-world emission reductions in the context of delivering enduring value to our clients.

Our focus on climate change and our responsibility to act is not new. In 2017, Sarasin & Partners launched a Climate Active strategy for UK charity clients. The goal was to provide an investment solution that both sought to manage risks to capital associated with climate change, but also aimed to play a catalytic role in promoting action on climate change. We explicitly set out to drive broader policy and market-wide solutions.

Building on this experience and our heightened conviction that more needed to be done, in 2019, we published our firm-wide Climate Pledge, which committed us to align our investment and stewardship activities with achieving the Paris Agreement goal of keeping temperature increases well below 2°C.

In December 2020, we became a founding signatory to the Net Zero Asset Managers' Commitment (NZAM).[2] Today, we are publishing this Action Plan to provide greater detail on how we will meet our NZAM Commitment.

ACTIVE OWNERSHIP

At the heart of our approach sits our commitment to driving positive change.

We believe investors have important rights, but also responsibilities to act through voting and engagement with companies, making public calls for policy change and building coalitions with like-minded stakeholders. We invest time and energy in fulfilling these responsibilities, and reporting transparently on our actions and the impacts we achieve, so we can be held to account.

We will vote against company directors and auditors where we see inadequate action to align strategies and operations with a 1.5°C pathway, and are public where we do so to put the spotlight on poor performers.

CLIMATE ACTIVE ADVISORY PANEL[3]

Our work relating to climate change is guided by our Climate Active Advisory Panel. The panel comprises individuals with deep experience of activist investment, climate change, the Paris Accord and the energy sector. Their involvement is helping to ensure that we do what we say when it comes to climate change, but above all that we aim high. Rather than narrowing our focus, we look at the bigger picture and levers we can pull to help to catalyse positive change.

THE GREATEST RISK IS THAT OF INACTION

Climate change is not going away, and the greatest risk today is one of inaction. The commitment to net zero that we detail in this document seeks to meet our clients' and other stakeholders' expectations for how an asset manager can play its part in protecting our climate for generations to come.

HOW TO READ THIS REPORT

This report is set out as far as possible in line with the Net Zero Investment Framework (NZIF) as applicable to an active asset manager.[4]

We start with the NZAM Commitment itself in Section 2, including the ten detailed sub-commitments.

In Section 3, we explain our strategy for alignment with a 1.5°C pathway at a high level, including targets for asset coverage, targets for financed emissions (emissions associated with the underlying entities where we hold securities), our high-level methodology and our governance framework for ensuring implementation.

Sections 4 and 5 provide detail on how we will integrate a net-zero pathway into our investment process – both at a macro level and in our bottom-up security analysis. Section 6 explains our approach to policy advocacy and how we aim to catalyse positive change across the entire market, rather than restricting ourselves to the securities that we hold for clients.

As we seek to align all our discretionary assets with a net-zero outcome, the provision of both client education and appropriate investment solutions is key. We describe our approach in Section 7.

Finally, we outline in Section 8 how we are practising what we preach by ensuring our own operations are aligned with a net-zero future.

[2]Net Zero Asset Managers Initiative
[3]Please see Section 5.2.3 for further details on our Climate Active Advisory Panel.
[4]NZIF guidance

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OUR COMMITMENT TO ALIGN WITH A 1.5°C PATHWAY[5]

Given our commitment to stewardship, it was natural that we would become a founding signatory to the Net Zero Asset Managers' Commitment (NZAM), launched in December 2020. This commits us to:

"support the goal of net-zero greenhouse gas emissions by 2050, in line with global efforts to limit warming to 1.5°C...[and] to support investing aligned with net-zero emissions by 2050 or sooner."

Specifically, Sarasin & Partners is committed to:

a) Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net-zero emissions by 2050 or sooner across all assets under management.

b) Set an interim target for the proportion of assets to be managed in line with the attainment of net-zero emissions by 2050 or sooner.

c) Review our short-term target annually, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.[6]

Underneath this high-level NZAM commitment sit ten more detailed commitments, as outlined on the following page.[7]

In subsequent sections we set out our Action Plan for meeting these commitments. While our approach will inevitably evolve over time to reflect the latest science and expectations, as well as improving data and more refined methodologies, our commitment to do what we can to align with a sustainable and stable planet will remain firm.

TEN DETAILED COMMITMENTS UNDER NZAM

FOR ASSETS COMMITTED TO BE MANAGED IN LINE WITH THE ATTAINMENT OF NET-ZERO EMISSIONS BY 2050 OR SOONER (UNDER COMMITMENT B)

- Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO_2 identified as a requirement in the IPCC special report on global warming of 1.5°C.
- Take account of portfolio scope 1 & 2 emissions and, to the extent possible, material portfolio scope 3 emissions.[8]
- Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest.
- If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions.
- As required, create investment products aligned with net-zero emissions by 2050 and facilitate increased investment in climate solutions.

ACROSS ALL ASSETS UNDER MANAGEMENT

- Provide asset-owner clients with information and analytics on net-zero investing and climate risk and opportunity.
- Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net-zero emissions by 2050 or sooner.
- Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net-zero emissions by 2050 or sooner.
- Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net-zero emissions by 2050 or sooner.

ACCOUNTABILITY

- Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria, and action is being taken in line with the commitments made here.

[5]This commitment supersedes our Climate Pledge first published in 2019.

[6]We include discretionary assets here, as we have no ability to determine how non-discretionary assets are managed. However, we are committed to informing all clients, including both discretionary and non-discretionary, about the importance of Paris-alignment to delivering long-term sustainable returns. Please refer to Section 2 for further details on covered assets, and Section 6 for a fuller discussion of our client communication strategy.

[7]https://www.netzeroassetmanagers.org/#our_commitment

[8]GHG emissions are classified as "scope 1", direct emissions from owned or controlled sources; "scope 2", indirect emissions from the generation of purchased energy; "scope 3", all indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

3

STRATEGY, TARGETS AND GOVERNANCE[9]

3.1 1.5°C-ALIGNMENT IS CONSISTENT WITH OUR STEWARDSHIP PHILOSOPHY

This Action Plan describes how we will use the levers at our disposal to support alignment with a 1.5°C temperature pathway. We are embedding our net-zero goal in how we deploy capital (our investment process), our engagements with the companies we invest client capital into, how we vote and our focus on policy outreach to press for broader market-wide change to support a 2050 net-zero target.

We believe that this commitment is consistent with, and indeed essential to, our responsibility to act in our clients' long-term interests. Our stewardship approach is detailed in our 2020 UK Stewardship Code report, and has at its heart a belief that responsible and sustainable companies are more likely to deliver enduring value for our clients.[10]

While implementing our commitment, we will ensure that we act in line with all legal obligations. Where there is any risk of misalignment, we will be obliged to adhere to our legal duties.

As already noted, our approach is holistic, ensuring we act at an investment, engagement and policy level. We do not believe that a singular divestment approach is in keeping with the Paris goals, as investors have a vital role to play in pressing carbon-intensive companies to change course. In our view, robust engagement can deliver greater impacts – and thus a better outcome – for our planet, but it needs to be undertaken with purpose, tenacity and be transparent.

Below we set out the two pathways we expect to follow in implementing our NZAM commitment:

1. a pathway to ensuring all our assets over which we have full investment and stewardship discretion are covered by our net-zero approach; and

2. a pathway for bringing down the underlying emissions linked to securities we hold on behalf of clients (our financed emissions) to net zero by 2050,

We outline the methodology we will employ to assessing and pressing for net-zero-alignment, and the governance framework for implementation.

FIGURE 1: % OF SARASIN AUM

Listed equity	>50%
Fixed Income	10-20%
Cash	<10%
Property*	<10%
Alternatives**	<10%

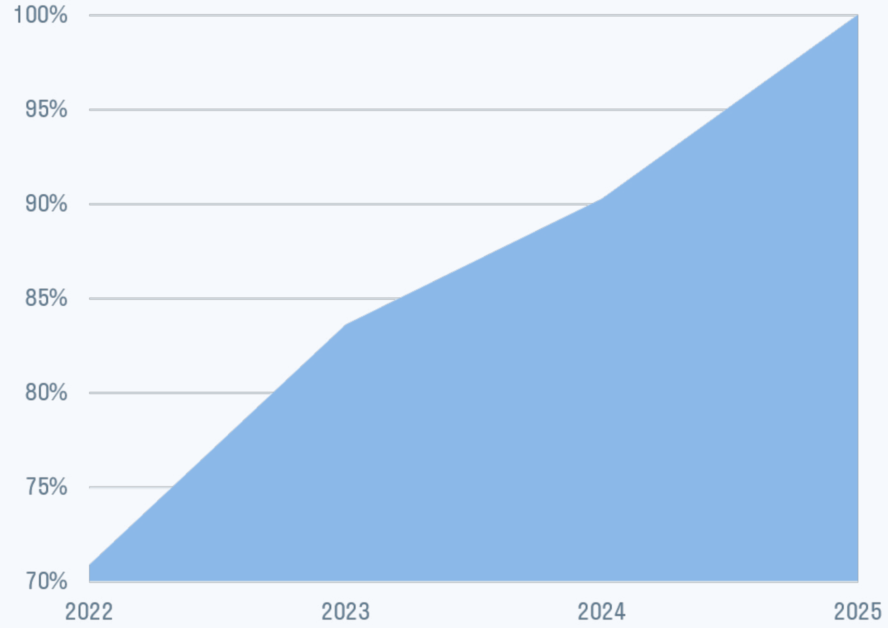
*Property assets which are primarily through REITS which are not included in the listed equity allocation
**Primarily listed closed ended funds.

3.2 SARASIN'S PATHWAY TO 100% AUM COVERAGE

100% AUM commitment by 2025:
We are committed to gradually expanding our net-zero approach to 100% of the assets over which we have unencumbered investment and stewardship discretion by 2025. This means that by 2025, all high-impact entities we hold on behalf of clients on a fully discretionary basis will be either net-zero aligned, or subject to efforts to drive 1.5°C-alignment.[11] In the case of the latter, we have a clear engagement methodology with defined time frames and disclosures on progress (see Section 4) as shown in figure 2.

Ratcheting-up mechanism:
We will review this target annually. Where we are able to bring this target forward, we will. We expect to gain greater visibility as data on underlying assets' emissions improves.

FIGURE 2: SARASIN'S CUMULATIVE AUM COVERAGE



Source: Sarasin & Partners, 31 August 2021

Non-discretionary/encumbered assets are not included in our commitment:
As noted above, we are only able to make this commitment for the assets over which we have investment and stewardship discretion, or where there are no other legal impediments, such as tax requirements that prohibit the sale of certain assets.

These exemptions are in line with the NZAM, which acknowledges potential legal constraints:

"We also acknowledge that the scope for asset managers to invest for net-zero and to meet the commitments set forth above depends on the mandates agreed with clients and clients' and managers' regulatory environments. These commitments are made in the expectation that governments will follow through on their own commitments to ensure the objectives of the Paris Agreement are met, including increasing the ambition of their Nationally Determined Contributions, and in the context of our legal duties to clients and unless otherwise prohibited by applicable law."

As of 31 August 2021, these amounted to roughly 23% of our AUM.

However, we are committed to informing all clients, both discretionary and non-discretionary, about the importance of Paris-alignment in delivering long-term sustainable returns. Our parent, Bank of J. Safra Sarasin, is also a signatory to the NZAM commitment, and its approach to implementation can be found on its website.

Please refer to Section 6 for a fuller discussion of our client communication strategy.

3.3 FINANCED EMISSIONS PATHWAY[12]

3.3.1 NEVER FINANCE HARMFUL CLIMATE OUTCOMES

In keeping with our commitment to 1.5°C-alignment, we aim to cease providing any new finance to activities not aligned with this temperature pathway, and to use our powers as shareholders and creditors to stop companies making or financing investments which are unsustainable.

In the vast majority of cases, we are not providing fresh capital to companies through the purchase of new share issuance or credit. We normally acquire securities in the secondary Markets. However, in this case we are gaining a voice in how companies deploy their capital, and we intend to use our voice to ensure companies stop allocating fresh capital to activities that are not aligned with a 1.5°C temperature pathway.

Taken together, our investment and stewardship activities aim to ensure our financed emissions come down in line with a 1.5°C pathway, currently believed to be consistent with reaching net zero by, on average, 2050.[13] While the precise slope of this pathway will depend on changes in our industry and geographic exposure as we buy and sell securities over time, it will be consistent with the central IPCC 1.5°C scenario of achieving a 50% real-world absolute reduction by 2030.

In setting our targets to support global decarbonisation, we are clear that our goal is to bring down real-world emissions, not merely to reduce our portfolio-level emissions.[14]

3.3.2 CONTEXT: HOW EQUITY AND CREDIT MARKETS INFLUENCE THE ROAD TO NET ZERO

In the equity markets, which makes up just under 80% of our AUM as of 31 August 2021, by and large we do not provide fresh capital for investment. Less than 1% of our equity purchases are for new issues. We are buying shares in the permanent capital of the company.

Thus, the key mechanism through which we impact the deployment of capital on the ground is through our influence over the governance of the company. This can be achieved in several ways. In most jurisdictions, shareholders vote routinely for board directors, the auditor, the issuance of new shares etc. This provides us with the ability to influence the entity's capital deployment. We also have other levers to impact board decision-making such as engagement, public outreach, regulatory complaints and filing shareholder resolutions. We discuss these in greater details in Sections 4 and 5.

In our holdings of credit (almost 14% AUM as of 31 August 2021), likewise, there is little 'fresh capital' provided. Purchases in the secondary market dominate. Even where we acquire new issues (normally between 1% and 5% of purchases by volume), in most cases, these refinance maturing proceeds.

3.3.3 OUR PATHWAY COMMITMENT

Against this backdrop, we commit to a downward trajectory in emissions for all our assets in line with the IPCC 1.5°C pathway for achieving a 50% reduction by 2030, and ultimately reaching net zero by 2050. The pathway will depend on changes to the composition of investments we manage, in particular our industry and geographic exposure. Our focus is always on driving reductions in emissions in the real world, not just our portfolios.

FIGURE 3

Where we are an equity holder, we will press companies to invest sustainably, and we will vote in line with these engagements

We further commit:

- To avoid providing fresh capital for fossil-fuel extraction or energy generation principally powered by fossil fuels, unless they are verifiably carbon neutral (for instance due to use of carbon capture and storage), or an engagement target with clear time-bound 1.5°C-alignment objectives.[15] This includes investment in any new issue of shares or bonds. We further commit not to purchase such bonds in the secondary market which might encourage future issuance of these securities.[16]

In recognition of the growing focus on **thermal coal and tar sands**, we wish to be clear that these will naturally be captured by our overarching policy.

We will not provide fresh capital to activities not aligned with a 1.5°C temperature pathway, unless we can present a compelling case that this investment would permit us to catalyse net-zero alignment in the entity, and thus wind down these activities. Any such investment would be accompanied by a time-limited engagement window for achieving demonstrable impacts. Of course, we already apply coal and tar sands exclusions on request for certain segregated mandates and particular products.

- To use our powers as shareholders and creditors with the aim of preventing unsustainable investment by the underlying companies, and thereby deliver materially larger emissions reductions than would otherwise transpire. Where we are an equity holder, we will press companies to invest sustainably, and vote in line with these engagements. We will vote against company accounts, auditors, or chairs of audit committees that sign off accounts that fail to properly reflect material climate risks. We will furthermore vote against all relevant directors, including the Chair, that fail to act sufficiently robustly on climate change.
- To seek commitments from other key market actors that they align their activities with a 1.5°C pathway. This will include other providers of capital (banks and other fund managers), and entities that have a market-wide impact on financing (such as auditors and proxy agencies).
- To ensure our own operations, including wherever possible emissions embedded in our supply chain, are carbon neutral from 2022. Over time, we will bring down our absolute emissions, and reduce our reliance on carbon offsets.

Measurement: We expect to measure emissions intensity (for instance tCO_2e/$ revenue or tCO_2e/EVIC, the preferred metric defined by the Partnership for Carbon Accounting Financials) to track emissions performance over time, which normalises for the size of underlying companies. We will also seek to measure our financed emissions against industry and regionally-adjusted benchmarks to avoid us automatically divesting

from more carbon-intensive sectors where we believe our engagement can deliver a larger emission reduction, and thus beneficial climate impact.[17] We will be finalising our measurement approach during the course of our first year of implementation.[18]

Measurement period: We expect to measure our financed carbon intensity using a rolling three-year average, or allow for a divergence range around the central pathway in any specific year. Again, we are explicitly building in this flexibility to permit us to focus on bringing down real-world emissions through stewardship, rather than creating the impression of emission reduction through divestment. Any increase in our carbon footprint above our central pathway would be justified by a detailed explanation for why we believe this is consistent with our net-zero goal, and regular reporting to track progress.

Treatment of offsets and negative emissions technology (NET): As required under the NZAM commitment (see page 7), we are cautious in our reliance of carbon offsets, though we do believe they have a role to play. Where we identify a material use of offsets by underlying entities, we will challenge management/the board to demonstrate why offsets need to be used instead of emission reduction approaches. We will seek evidence that the anticipated carbon removal will be long-lived, as well as plan for leakage risk mitigation. We similarly take a precautionary approach to offsets in our own operational emission reduction plans as detailed in Section 8.

Reporting: We will report quarterly to clients on adherence to these commitments as detailed in Section 7.

Ratcheting-up mechanism: We will review our goals for reducing financed emissions at least every five years. This will take account of past achievements, new science and changing policy and client expectations.[19]

3.3.4 WHERE WE WILL DIVEST

We have underlined our view that engagement to drive real-world emission reductions, rather than automatic divestment, is likely to be more effective in bringing down real-world emissions. We will, however, divest from heavy emitters where capital is at risk and this is in our clients' interests.

Our approach to assessing the materiality of climate risks, and whether or not to engage to drive positive change, is outlined below and in more detail in Section 4.

3.4 HIGH-LEVEL METHODOLOGY

Our methodology for implementing our net-zero commitment is outlined in greater detail in the following sections. At a high level, the key elements are summarised in figure 3. This approach is strongly aligned with our long-standing investment philosophy, and our goal to deliver enduring value in our clients' interests.

We invest in securities issued by entities that are net-zero-aligned, or have the potential to become aligned. We also seek out entities that are proactively developing solutions for climate change – either to enable us to mitigate rising temperatures, or to help us to adapt to the warming that is already coming. We see tremendous opportunity for companies positioned to gain from these trends.

Where companies are not yet fully aligned with a more stable climate, we press them to transition their business strategies to align with a 1.5°C pathway. Here we prioritise those entities that have the greatest climate impact – either directly through their operational emissions or indirectly by facilitating carbon-intensive activities. Our goal is to achieve the greatest absolute real-world emission reduction.

We undertake policy outreach to catalyse better regulations, fiscal measures or other market practices, and thereby deliver system-wide change in line with achieving a 1.5°C outcome.

We will report transparently and regularly on our efforts and achievements, as well as our failures. We expect to be held to account, just as we hold management teams and Boards of Directors to account for their climate conduct.

More detail on how we implement the key elements of this approach follow in Sections 3 through 6.

3.5 GOVERNANCE: OVERSIGHT, CONTROLS AND REPORTING

The implementation of this net-zero commitment is overseen by the Board, with routine monitoring undertaken by our Stewardship Steering Committee (SSC) with input from Asset Management, Risk and other departments where relevant. Oversight of client reporting is monitored by our Client Relationship supporting team, with our operational decarbonisation strategy falling under the purview of the Chief Operating Officer.

Responsibilities for implementation are delegated to the relevant units within the business, as follows:

Investment Strategy Group – responsible for consideration of climate risks in the formulation of macroeconomic assumptions underpinning Strategic Asset Allocation (SAA) and the consideration of new asset classes. This work is delegated to the joint ISG-SSC working group.

Asset Management – responsible for embedding climate risk monitoring and net-zero alignment into our global equities, multi-asset and stewardship processes. This includes ensuring net-zero scenario analysis through our in-house Climate Value at Risk (CVAR), 1.5°C-alignment assessments, and proactive engagement work.

Risk – responsible for developing and implementing appropriate climate risk monitoring tools for tracking exposures and net-zero alignment at a portfolio level against targets. These are communicated to asset management through monthly CIO/Risk Review Meetings and the Investment Risk Committee.

Client teams – responsible for reporting climate risks and opportunities to clients alongside broader investment performance.

Operations – responsible for ensuring Sarasin's operations are net zero, including wherever possible scope 3 emissions related to travel and our supply chain, and with a focus on reducing absolute emissions over carbon offsets.

Internal audit/assurance – responsible for checking that our NZAM processes are being properly implemented through routine internal audits. We will be initiating this process in 2022, with external audit introduced in subsequent years.

Remuneration: To ensure adherence to our commitment, incentive frameworks will be reviewed for alignment with our net-zero investment strategy.

The Board will report on the implementation of the net-zero investment commitment following the TCFD framework, annually.

[9]This section combines "Governance & Strategy" and "Targets and Objectives" under the NZIF.

[10]https://sarasinandpartners.com/wp-content/uploads/2021/03/Sarasin-UK-Stewardship-Code-2020.pdf

[11]We apply our methodology to all material holdings. These include all those names that appear on our internal buy lists that feed into all our core investment strategies. This covers roughly 91% of all our unencumbered AUM. With regards to high impact entities, we are using NZIF guidance, to include: TPI covered sectors, banks, real estate, and companies identified on the CA100+ focus list.

[12]Our financed emissions refer to greenhouse gas emissions associated with our clients' underlying entities. This encompasses emissions linked to securities we have acquired in the secondary market as well as new issues.

[13]The precise net-zero target date depends on how quickly the remaining 'carbon budget' associated with a 1.5°C temperature goal is used up. Based on the latest analysis by IPCC, a 2050 date for net zero will achieve the goal. If we fail to reduce emissions as projected, however, it is possible that the date could move earlier. Likewise, faster emission reduction could see it move later. It is also important to stress that the actual 1.5°C consistent pathway will vary by geographic region, sector and industry.

[14]An important consideration in setting our pathway is that we avoid actions that may reduce our own firm's financed emissions without having any real-world impact, or worse that may result in higher real-world emissions. For instance, we would quite easily reduce our own portfolio emissions by selling the securities of companies who were committed to achieving net zero and were implementing that strategy, but whose current emissions were high. However, if this means we sell securities to another investor that has no net-zero commitment, and supports the expansion of the underlying entity's carbon-intensive activities, this would exacerbate climate change. So, for example, we may hold securities in carbon-intensive entities, such as building materials, heavy industry, transportation and even oil and gas companies, but in all such cases we will press for winding down harmful activities and encourage investment in clean alternatives which offer appropriate rewards.

[15]We do not include in this exclusion securities issued by banks or other financials. We recognise that financial organisations provide finance for fossil fuels, and thus we are and will continue to actively engage with these entities as part of our broader net-zero commitment.

[16]We include secondary market purchases of credit due to the high frequency of bond issuance by fossil-fuel-related companies and, thus, the greater impact we can potentially have on companies' cost of capital for new issuance through these secondary markets.

[17]In the end, we need to bring absolute emissions down, as a central part of our approach is to engage with companies to drive real world reductions, not simply divesting to reduce our portfolio emissions. This approach is in line with NZIF guidance, which recognises the dangers of targets that drive automatic divestment.

[18]Entity-level emissions data are not always available today, which impedes portfolio-level emissions calculation. This is particularly true in the case of securities issued by entities with no publicly-listed equity, such as emerging market renewables, Offshore Transmission Owners, etc. Where relevant, we will engage with all entities to improve disclosure, and where data is not available we will estimate the likely carbon intensity, and/or make a judgement as to whether the entity is aligned with the Paris goals.

[19]Current 2050 net-zero targets are an average view of what is required based on scientific understanding for achieving a 1.5°C cap on temperature rises. It is possible that this target will need to be brought forward in the event that the world continues to overshoot emissions pathways.

4

STRATEGIC ASSET ALLOCATION[20]

Sarasin & Partners offers a range of equity and multi-asset investment solutions for clients. Decisions on strategic asset allocation (SAA) pertain to the latter, which accounts for 64% of our total AUM (end of August 2021).

4.1 MACROECONOMIC ASSUMPTIONS AND CLIMATE RISK

The main way we seek to ensure our SAA process takes account of climate risks is through stress testing of our long-term GDP growth projections to reflect both decarbonisation and the physical impacts from climate change.

When GDP assumptions are changed, this feeds through to our expected returns for our main asset classes, which in turn will influence our allocation to equities, fixed income and alternatives. We review these core assumptions every two years.

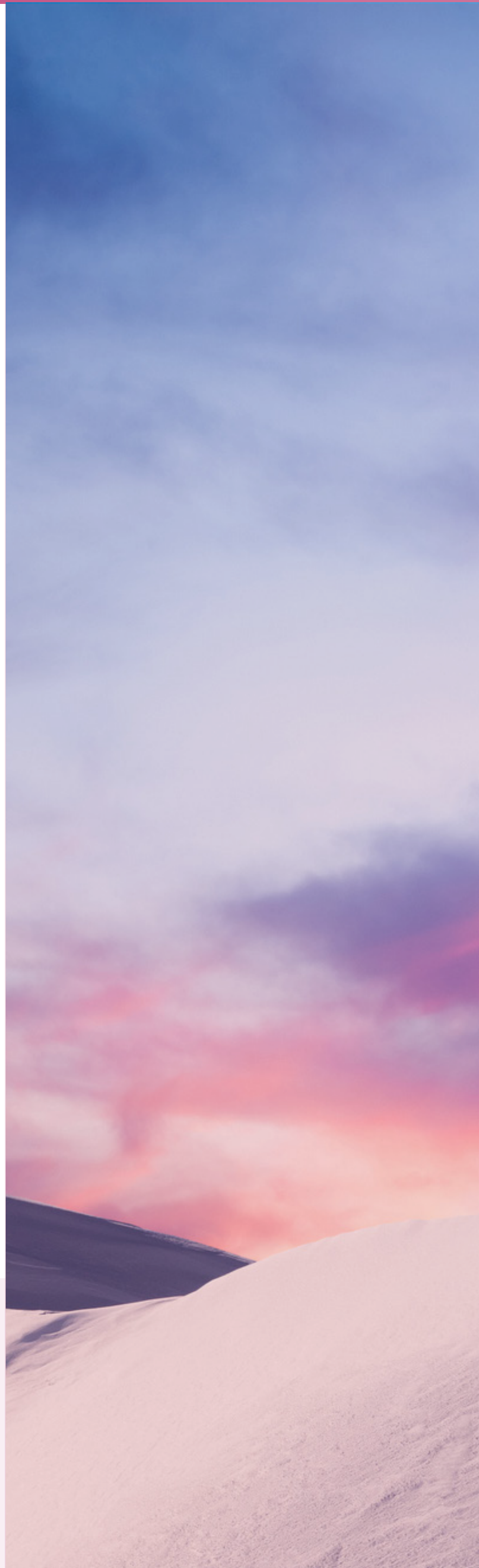
When considering climate risks, it is important to consider different scenarios from business as usual and expected warming in excess of 3°C, to the 2050 net-zero pathway where warming will be kept to 1.5°C. In most cases, there will be GDP impacts, but the precise magnitude is unknown, so must be estimated. This uncertainty around the GDP feed-through mechanisms is the main challenge in integrating climate risks, and a net-zero scenario, into our economic forecasting.

We keep abreast of emerging analysis from entities such as the IMF and The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and use this research to stress test our assumptions. Where we can get a satisfactory degree of confidence around the data, we will update our central expectations.[21]

We are clear that, despite the inherent uncertainties, climate change represents a structural shift to the world's economic condition. Consequently, we are more likely to be wrong in our projections if we ignore its impacts than if we seek to include them, however difficult that may be.

4.2 BOTTOM-UP ANALYSIS IS THE PRIMARY TOOL FOR DELIVERING NET-ZERO ASSET ALLOCATION

While we consider climate risks in our SAA process as outlined above, given the nature of our business, the primary mechanism for ensuring our clients' assets are allocated in alignment with a 2050 net-zero trajectory is through our bottom-up security analysis and engagement work. We turn to the methodologies that will govern our approach in the next section.



[20]Under SAA, a number of KPIs identified in the NZIF are not relevant for Sarasin. The key mechanism for achieving our net-zero commitment comes through our bottom-up process as detailed elsewhere. This includes the identification of climate solutions under Alternatives.

[21]See for instance: https://www.ngfs.net/ngfs-scenarios-portal/

5

NET-ZERO ALIGNMENT THROUGH INVESTMENT AND ENGAGEMENT[22]

The question of how to measure 1.5°C or net-zero alignment for an investee entity is still evolving, and there is still no single or simple metric agreed by all parties that denotes a pass or fail. This is primarily because it requires forming judgements about the future emissions pathway of an entity. Companies are dynamic and constantly change business plans and strategies. In most cases, we simply cannot say today that a given company will get to net zero before 2050. This is especially true where we include scope 3 emissions – or those that are linked to the entity's upstream and downstream value chain.[23] We can only form judgements around the likelihood of this happening.

Against this backdrop, we outline below our approach to determining 1.5°C-alignment, and then based on an initial alignment assessment, we explain how this translates into investment / divestment decisions and engagement activities. We also touch on our approach to tracking portfolio performance. A summary of the approach is provided in figure 4.

5.1 MAPPING 1.5°C-ALIGNMENT - INITIAL ALIGNMENT ASSESSMENT

Our methodology is intended to capture companies that are aligned with a net-zero pathway today and – critically – also companies that have the potential to align. This is because our goal is not just to buy companies that are low carbon today, but to press high-carbon emitters to bring down their emissions to deliver a safer planet for us all tomorrow. We believe there is significant value to be captured by our clients from this approach.

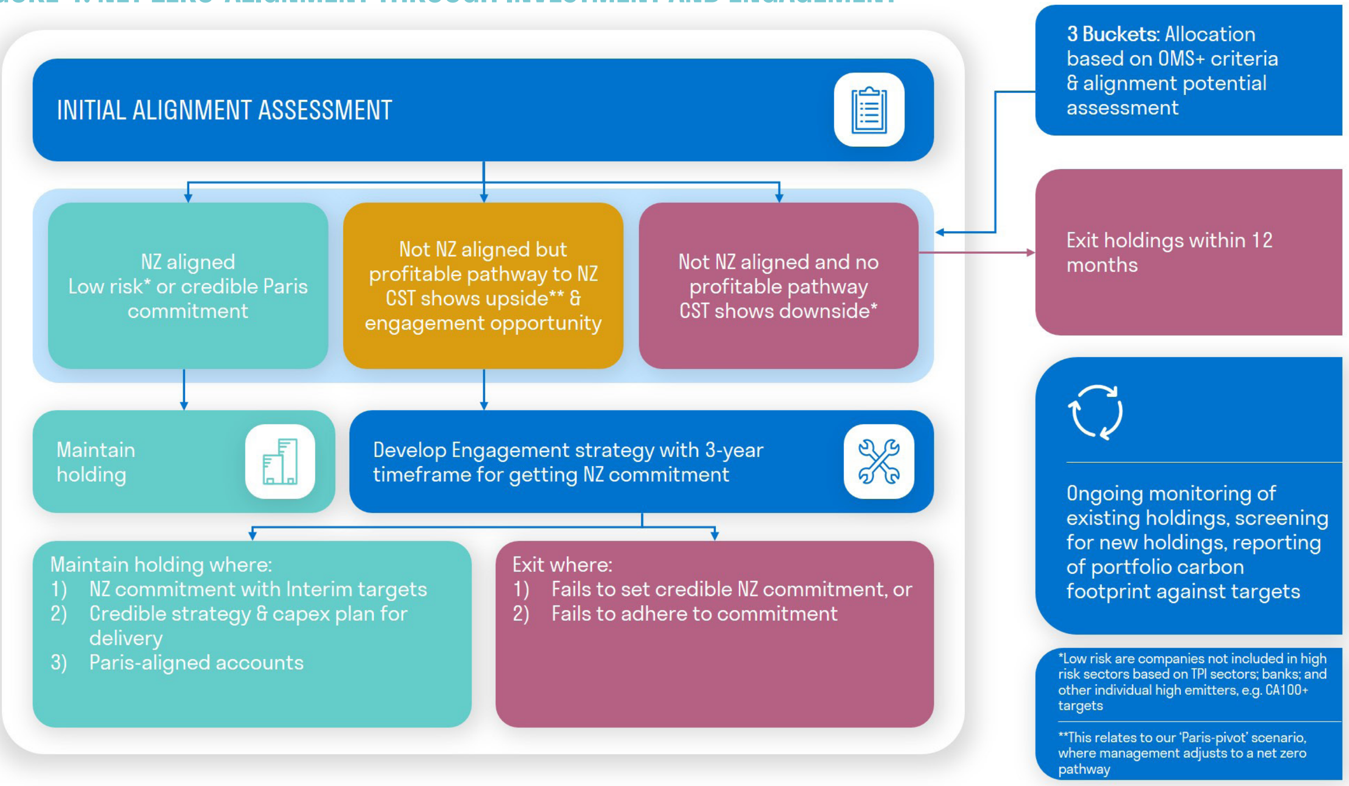
Consequently, our mapping process involves allocating companies into one of three buckets (figure 4):

1. Aligned today;
2. Not aligned today but transitioning or well-placed to transition - we can envisage a profitable pathway to net zero; or
3. Not aligned today with little prospect for alignment.

Where the entity gets allocated will determine whether we hold, divest immediately or engage to drive change.

In what follows, we outline our criteria for assessing 1.5°C-alignment today, and also our approach to determining companies' ability to transform. Both steps require judgement, but the latter is particularly challenging, and demands deep sector and company knowledge. Knowing the potential for companies to undertake a Paris-pivot is critical to determining whether to undertake an engagement. We turn to this in the next section.

FIGURE 4: NET-ZERO-ALIGNMENT THROUGH INVESTMENT AND ENGAGEMENT



5.1.1 1.5°C-ALIGNMENT TODAY – OXFORD MARTIN SCHOOL PRINCIPLES+

To determine whether or not a company is 1.5°C-aligned, we start with the Oxford Martin School Principles for Climate-Conscious Investment (see box).

To these, we add a fourth criteria, together referred as "OMS+:[24]

1. **Board-level commitment** to the Paris Climate Agreement and specifically an appropriate net-zero target consistent with a 1.5°C temperature goal.
2. **Interim targets** to measure and report progress that are aligned with the International Panel on Climate Change (IPCC) – which, on average, translates into a 50% reduction by 2030; covering scopes 1-3 where possible.
3. **A credible and profitable business plan** consistent with delivering these goals, supported by capital expenditure.
4. **1.5°C-aligned accounting and audit** that underpins a credible net-zero business plan. We add this fourth criteria to the OMS principles as we view this as an indicator of credibility. If the entity is predicating its financial statements on assumptions that are not consistent with a stable planet, then its business plan and incentives are unlikely to be aligned with shifting to that pathway.[25]

The last two criteria together effectively deliver a credibility assessment for the first two. They indicate what the company is actually doing to put their commitments into practice.

Source: https://www.oxfordmartin.ox.ac.uk/downloads/briefings/Principles_For_Climate_Conscious_Investment_Feb2018.pdf

OXFORD MARTIN SCHOOL PRINCIPLES FOR CLIMATE-CONSCIOUS INVESTMENT

The following Principles provide a framework for engagement between climate-conscious investors and companies across the global economy. Building upon the science of long-term climate change, they focus on how investments contribute to the global stock of cumulative carbon dioxide emissions, complementing other measures, such as carbon footprinting, that focus on emission flows.

1. COMMITMENT TO NET-ZERO EMISSIONS

Net global emissions of carbon dioxide must reach zero to stabilise global temperatures, whether at +2°C, +3°C or any other level. All industries must eventually reach net-zero emissions, even if some industries do so before others. Companies should commit to a date (or a temperature increase, such as 1.5°C or "well below 2°C") before which the net CO_2 emissions associated with their activities (including both supply chains and products sold) will be zero. Companies should develop and publish a net-zero transition plan. If the company envisages a substantial role for offsetting of residual emissions, what is the offset mechanism, is it reliable and available at sufficient scale for a global transition, and who is going to pay for it? The company's public statements and support for other organisations and lobby groups should be consistent with advancing public, political and corporate action towards net-zero emissions.

2. PROFITABLE NET-ZERO BUSINESS MODEL

Company executives should have business plans that ensure the profitability of their business, and limit supply chain risks, once emissions reach net zero. For companies that provide a carbon-intensive service or fuel for which there is no currently available substitute, a clear plan is required for contributing to the development and deployment of substitutes or remediation measures. For products and services for which zero-carbon substitutes already exist, a company should have a clear strategy and timescale for adopting them. If carbon dioxide removal plays a substantial role in the company's plans, how will it be achieved, paid for, monitored and maintained in perpetuity?

3. QUANTITATIVE MEDIUM-TERM TARGETS

Mid-term targets (for example, for 2030) that are directly relevant to achieving a net-zero business model, such as the rate and long-term trajectory of reductions in CO_2 emissions, are vital to assess compatibility with the Paris Agreement. If a company has a plan for a progressive transition to net-zero emissions, investors should be able to monitor their progress to ensure it is consistent with minimising risks to future climate and risks to future asset owners, consumers and taxpayers. Global temperatures are projected by the IPCC's Fifth Assessment Report to reach around 1.2°C above preindustrial by about 2030. By this level of warming, emissions scenarios approximately consistent with the 1.5°C goal will have seen global CO_2 emissions reduce by at least 40% relative to business as usual, or at least 20% below business as usual for the 2°C goal. These rates of emissions reductions can act as useful benchmarks against which company progress can be measured.

High-impact entities: In line with the NZIF, we apply a climate 'materiality' threshold to focus our energies on those companies with the highest emissions profiles – both direct and indirect. To do this we look for:[26]

- **High-impact sectors:** these include both sectors that have high direct emissions (scope 1 and 2), but also those who are inextricably linked to high-emissions activities (scope 3). We use the Transition Pathway Initiative (TPI) high-impact sectors as a guide, adding in banks and also real estate.
- **High-impact entities :** in certain instances, we find individual companies have high carbon footprints outside the high-impact sectors. To ensure we do not miss these, we screen our holdings for CA100+ focus list – see https://www.climateaction100.org/whos-involved/companies/

Asset class coverage: This framework applies to all our asset classes (equities, fixed income and alternatives), although the details for how it is implemented will vary to reflect the specific characteristics of each asset class (see an example for equities below). We also cover assets held through third-party funds, where we focus on engagement with the relevant asset manager to implement similar controls to our own.

EQUITIES – SCREENING FOR 1.5°C-ALIGNMENT THROUGH SARASIN'S SUSTAINABILITY IMPACT MATRIX

All new equity investments are currently scrutinised for their ESG impacts through our internal Sustainability Impact Matrix. Climate change is embedded within this. We are enhancing this element to incorporate the OMS+ Principles described above, as a basis for assessing companies' degree of alignment to net zero. This will be applied in the defined high-impact categories. Alongside applying this to new investments, all existing high-risk holdings' assessments will be updated.

To establish companies' current alignment status (fully aligned, potentially aligned / aligning, or not aligned), we will utilise a number of data providers in addition to the entities' own reports to build a comprehensive view of whether they have set adequate net-zero goals, interim targets, a credible and supportive business (and capital expenditure) plan and whether they have 1.5°C-aligned accounts. We will also consider related evidence, such as if the company undertakes misaligned government lobbying.

Assessing companies' commitment to implementation requires judgement, which our analysts are well placed to undertake given their detailed analyses of potential investment candidates and their sectors.[27]

5.1.2 DETERMINING THE POTENTIAL FOR ALIGNMENT

Once we have assessed an entity's 1.5°C-alignment status according to the OMS+ framework outlined above, we need to differentiate between non-aligned companies according to their potential to align. This requires forward-looking analysis to explore how the entity could adapt its business model to deliver a net-zero outcome in a 1.5°C-aligned policy environment.[28]

Critically, there are two questions we seek to answer to determine whether the entity could achieve this transformation:

1. Will the entity still be profitable? If this is the case, then there is a far higher likelihood that it will be achieved.
2. Are there good prospects for engagement success? Change can be achieved even with entrenched boards, but we require some basic conditions to apply pressure.

We employ different tools in this assessment depending on the asset class.

WILL A 1.5°C-PIVOT BE PROFITABLE? CLIMATE STRESS TEST

Our methodology for assessing whether this transformation can be achieved profitably is our Climate Stress Test.

For equities, our Climate Stress Test involves a quantitative climate value at risk (CVAR) assessment based on a discounted cash flow model built around a 2050 net-zero scenario. This can deliver either expected downside to the current share price where a company is expected to be negatively impacted by the decarbonisation transition, or upside in the event they will benefit.

In essence, this exercise seeks to quantify how a company's prospects might be impacted by implementation of the Paris Agreement. Importantly, it moves beyond a simplistic assumption that a higher carbon footprint will mean more downside risk. It takes account of how government policy (e.g. a carbon tax, or bans on the sale of certain products) or shifts in consumption patterns (e.g. lower demand for international travel) could play out in the market place and impact revenue growth, margins, capital expenditure requirements, asset values, etc. In short, it is more realistic and offers more insight into economic risks and opportunities.

Critically, this tool also enables us to interrogate different scenarios. For instance, we can assume management ignores the impending policy changes, and carries on deploying capital on a business as usual basis. This would raise the downside risk for companies that need to adapt. We can also explore steps that management might be likely to take to adapt, and even prosper, and see whether they have a potentially profitable Paris-pivot pathway.

Alongside decarbonisation policies, we use CVAR to consider how the physical impacts of climate change may impact companies, such as damage to property, plants and equipment.

There is no standardised CVAR model, since it is by definition able to reflect the specificity of each company's exposures. We believe this is a better approach, providing more rigorous bottom-up analysis to truly understand the extent of the risks within a portfolio.

In 2022, we aim to develop equivalent approaches for our fixed income and alternatives asset classes that fit into existing analytical frameworks. Sovereign debt requires a different approach and, again, we will be developing a fuller methodology. In the case of allocations to external managers made through a limited number of strategies, we will engage with the fund managers to seek confirmation of their alignment with a net-zero pathway.

WHAT ARE THE PROSPECTS FOR ENGAGEMENT?

If we establish through our Climate Stress Testing work that an entity could in theory chart a profitable transition path, and thus remain an attractive investment, we then need to determine whether there is a realistic possibility that we could drive a Paris-pivot through engagement – either as an equity or debt holder. If net-zero alignment is too expensive or difficult, then there is likely to be little point in encouraging a change and we are better off exiting the position within a reasonable time-frame.[29]

A range of considerations are relevant to determining the potential for engagement success, from access to the Board of directors, individual director interests, governance structures, the regulatory environment and broader shareholder support for change. None are conclusive. Deciding whether to engage is inevitably a judgement call, and success depends heavily on the time and effort made alongside the external situation that presents itself.

We outline in detail our current approach to engagement, the impacts we have had, and how we propose to deliver this

element of our NZAM in Section 5.2. Where we do not believe we are able to drive the necessary transition to net zero, then we would look to exit the holding within 12 months (see Section 5.4).[30]

5.1.3 RED ALERT FOR CARBON-INTENSIVE ACTIVITIES

For some clients we apply an ethical screen:

"Not to invest where thermal coal or tar sands represent over 5% of revenue unless we can present a compelling case that this investment would permit us to engage to catalyse net-zero alignment in the entity, and thus wind down of these activities."

This is a matter of choice for individual client mandates, but in practice, given the process outlined above, it is unlikely we would invest in companies with significant activities in tar sands or coal. As a consequence of the ethical screen, we have in place controls to flag wherever this threshold is triggered, and any new equity idea is checked against this screen.

In these cases, under our NZAM we would normally exclude the entity from our buy lists unless, as set out above, we had a strong and compelling case as to why we expect the entity to shift onto a 1.5°C pathway in the near future.

5.2 ENGAGEMENT APPROACH

As already emphasised, our approach to 1.5°C-alignment is rooted in our conviction that real-world reductions in emissions will be more likely delivered through concerted investor pressure – both from equity and bond holders – than a simplistic focus on divestment. We further believe that we have responsibilities to monitor and press issuers to act sustainably in order to protect capital. Consequently, ensuring robust and disciplined engagement is a central part of our net-zero commitment. This applies to companies as well as other issuing companies, though in certain instances – particularly where the issuers are not listed – this can be challenging. We plan to explore how we can effectively extend our engagement approach to governments – likely in cooperation with other investors – to support our sovereign debt holdings.

5.2.1 OUR OWNERSHIP DISCIPLINE

All equity engagements at Sarasin & Partners are governed by our Ownership Discipline, which can be found on our website.[31] This sets out the steps taken to establish a dialogue with the governing body of investee companies, and what steps we take where threats to capital emerge. We detail escalation tools we may deploy, from voting against Board directors, to public statements, shareholder resolutions or complaints to regulators. We also outline where we will decide to sell securities if the risks become too great, and engagement fails to deliver sufficient action.

5.2.2 NET-ZERO ENGAGEMENTS

Our net-zero engagements employ all the key elements of our Ownership Discipline. We prioritise high-risk companies as detailed above, that have been allocated to the amber bucket in figure 4 (i.e. not aligned today but could be and we can envisage a profitable pathway to net zero). Figure 5 outlines the approach.

Key features of our approach include:

Prioritisation
Engagements are strictly prioritised to ensure we target companies 1) in high-impact sectors as defined in Section 5.1 above; 2) where there are core strategic misalignments with the Paris goals using our OMS+ methodology (see Section 5.1.1); and 3) where we believe we can effect change that delivers enduring value for shareholders.

Thorough analysis
Unless we can present a well-researched and compelling case for change, we will not gain traction with the broader shareholder base or the Board of Directors, which is essential for success. The focus is on capital allocation and strategy, but we also consider operational matters. Our analysis frames the importance of net-zero alignment in terms of core director duties to protect and enhance long-term shareholder capital.

Clear engagement plan with targets
Where we initiate more involved engagements – in cases where there is material misalignment with the Paris Agreement – we set out clear goals and activities in an Engagement Plan. In all cases, we look for alignment with the OMS+ principles outlined above, including an explicit net-zero commitment, supported by interim targets, a credible and profitable strategy and 1.5°C-aligned accounts. Having an explicit Engagement Plan enables us to track progress over time and remain focused on the impact we intend to have. These plans will inevitably evolve with changing circumstances, but they provide structure for engagements and add rigour to the process. Our engagements are not open-ended. We expect to achieve a net-zero commitment with demonstrable progress on other items within three years. Where we do not see evidence of this transition, then we would sell the company's shares.

Escalating pressure on the board
We always seek a constructive dialogue with the Board. Initially we hold private conversations setting out our concerns. Where appropriate, we will work with other like-minded investors. Where private engagement fails to gain sufficient traction, we may escalate our engagement through actions such as publicly disclosing our concerns and calling for change; using our vote (see Box on our Climate Voting Policy) to apply pressure on directors; reporting breaches of director duties, or rules governing company reporting to shareholders; filing shareholder resolutions or in extreme cases putting forward director candidates.

Feedback into investment decisions
As with all our engagement work at Sarasin & Partners, we gain insights through engagements and these are routinely feeding back in our investment analysis. Engagements above all enable us to understand better how well-run companies are, and their preparedness for the decarbonisation underway across the world.

5.2.3 FIXED INCOME AND ALTERNATIVES APPROACH

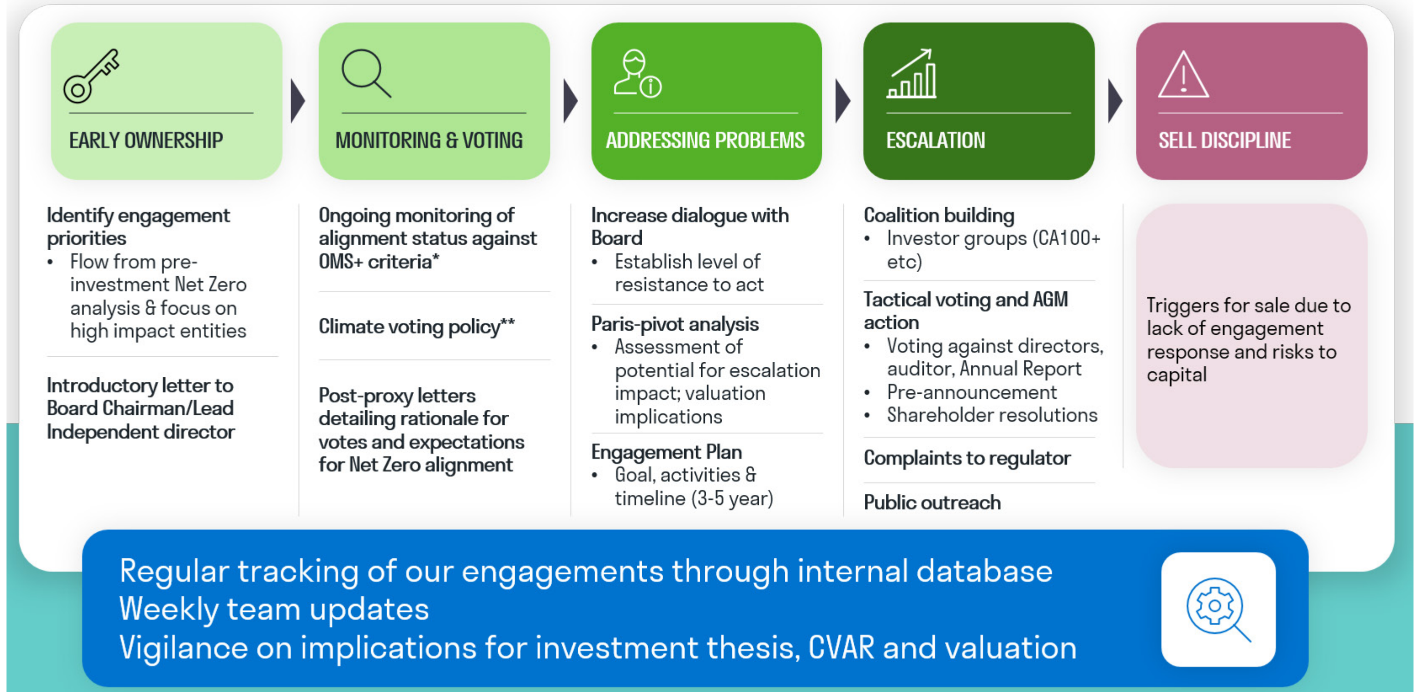
In the case of our fixed income and alternatives' holdings, we are also committed to pressing issuers to deliver a net-zero-aligned strategy.

The key challenge for creditors, of course, is that they do not have a vote at company meetings, or other powers to convene meetings. But they can exert influence in many of the other ways outlined above. Particular moments when creditors have leverage are prior to new issuances – when the terms of the Security Trust and Intercreditor Deeds (STIDs) are set, and when bond holders get a vote on a corporate action. We may also engage at other times and in some cases, we undertake joint engagements when we hold both shares and credit for the same issuer.

In the case of alternatives, we normally invest via listed closed-ended funds, so our engagement approach mirrors that for equities. The main difference is that one is frequently engaging with a fund manager, who then invests in operating companies. In other words, the relationship is with an intermediary rather than the operating entity direct, so we are seeking affirmation that they are in turn pressing underlying companies to align with a net-zero outcome.

Process
Normally, we engage with issuers via one-to-one meetings, group meetings and email inquiries. A combination of direct face-to-face interaction and written engagement is preferred, in order to establish a more personal relationship and more tailored responses to our questions. As for equities, we will track our interaction with issuers, monitor the outcomes and report on our progress to clients. When engaging we will look for evidence that companies are doing what they say, using the overarching OMS+ framework outlined in Section 5.1.1.

FIGURE 5: SARASIN'S CLIMATE OWNERSHIP DISCIPLINE



*OMS+ refers to our methodology for assessing Paris-alignment, which builds on the Oxford Martin School's Principles for Climate Conscious Investment.

**Sarasin has implemented a climate voting policy since 2017

Prioritisation

As for equities, our net-zero dialogues are targeted towards issuers in 1) high-impact sectors; 2) where there are strategic misalignments with the 1.5°C goal; and 3) our ability to effect change (which will incorporate a consideration of the size of the holding).

As noted earlier, in certain cases – especially for credit issued by non-listed companies – our leverage may be weaker. Another frequent constraint is lack of disclosure. For instance, with Housing Associations there is a lack of uniformity of reporting across the sector. We therefore seek better disclosure first and foremost.

5.2.4 CLIMATE ACTIVE ADVISORY PANEL

In 2017, we created a Climate Active Advisory Panel to help us consider all matters related to investing against a backdrop of climate change and the need for the world to decarbonise. The panel meets four times a year, supplemented by informal communications between meetings, to discuss divestments, corporate engagement and activist policies, together with potential policy work in conjunction with governments and like-minded institutions.

5.3 CLIMATE SOLUTIONS

Too often decarbonisation is viewed just as a threat; as something that we need to manage to avoid capital destruction. While this is clearly a danger, there are also exciting opportunities to invest in climate solutions. Whether these are linked to innovations that help reduce carbon emissions, or adaptation activities to protect vulnerable communities and infrastructure from harmful sea-level rise or weather events, the opportunity set is wide. While the ultimate investment requirements remain uncertain, estimates range from \$2.5 trillion to \$4.0 trillion per annum, a significant increase from the current \$600 billion per annum spending.

Our starting point is that the climate crisis demands both an urgent 'Paris-pivot' from the 'old energy' players as well as a massive scaling up of new clean energy entrants. It is as important to reduce fossil-fuel investment as it is to ramp up clean energy investment, because without the former we will not bring down emissions. Also, there is a substantial opportunity for the existing fossil-fuel producers to use the cash flows they generate to invest into clean energy.

Looked at this way, climate solutions may be delivered by all companies, old and new. Consequently, we look for innovation in all sectors.

Our approach to finding climate solutions is outlined below for each asset class. We also comment on setting targets.

5.3.1 EQUITIES

Sarasin & Partners is a thematic investor, and Climate Change has been one of our five core themes since 2018. We see climate-related opportunities in an expanding range of areas that we group under five sub-themes linked to climate mitigation and adaptation activities, as follows:

- **Low-carbon power:** Industrial and domestic energy consumption is a significant contributor to global CO_2 emissions. Energy generation will shift from fossil fuel to renewable energy sources, (such as wind and solar) requiring the ability to manage greater supply intermittency.

SARASIN'S CLIMATE VOTING POLICY

Sarasin introduced its first climate-related voting rules in 2017 at the same time as we initiated our Climate Active strategy. Since then, we have expanded the companies the rules are applied to and their scope in terms of the votes that we consider. This is also consistent with our 2019 firm-wide Climate Pledge. We continue to focus on companies that rely on a carbon-intensive business model or value chain, but – for instance, in 2021, applied our rules to financials for the first time.

We do not see climate change as something to be considered separately to core strategic or governance concerns that influence our voting, so where material, we use our assessment to decide our votes for director reappointments, remuneration, financial statements and auditors. This differs to the leading proxy agencies, such as ISS and Glass Lewis, who currently offer climate voting rules as an 'add-on' to their core analysis.

The main elements of our climate voting policy are:

- **Director accountability:** While all directors should be held responsible for alignment with 1.5°C, we focus on:
  - **The Chair:** Where the company has failed to explicitly indicate their strategy to align with a 1.5°C temperature goal.
  - **The Audit Committee Chair:** Where the company's Annual Report and Accounts fails to provide a detailed disclosure of governance, strategy and – critically – the financial statement impacts from climate risks. Alignment with the recommendations from the Task Force for Climate-related Financial Disclosures (TCFD) is important.
  - **The Remuneration Committee Chair:** Where the remuneration policy lacks a 'Paris-underpin' we will not support it. A Paris-underpin would permit the Remuneration Committee to block performance related pay that would otherwise be awarded for performance that runs contrary to the 1.5°C pathway. We cannot support bonuses / LTIPs that are awarded for actions that worsen climate change.
- **Auditor accountability:** Auditors have a key role in alerting shareholders to material mis-statements in the accounts, or inconsistencies between the narrative disclosures and the financial statements. We will vote against auditors (and their remuneration where relevant) that fail to indicate how they have considered climate risks in their review of the annual report and accounts.
- **Annual Report and Accounts:** In line with policies on voting for the Audit Committee Chair and the auditor, we will vote against an Annual Report and Accounts where there is inadequate disclosure of material climate-related risks and their financial consequences, specifically within the financial statements.
- **Remuneration policy / report:** As outlined above, we need to see details on how remuneration is adjusted to ensure performance-related pay is not made where activities are in contravention of the Paris Agreement. Small adjustments, such as a 10% weight in an LTIP scheme, would not be sufficient to warrant support if the overall package pays out for damaging activities. We are seeking a Paris-underpin.

- **Low-carbon transport:** Transportation accounts for approximately 25% of global CO_2 emissions. Propulsion systems are shifting to lower or zero carbon alternatives, such as batteries and fuel cells, complemented by ongoing energy efficiency improvements.
- **Resource efficiency:** The increased focus on reducing emissions across all industries by increasing energy and material efficiency. This will be further complemented by developing increased closed-loop consumption cycles.
- **Infrastructure and buildings:** The increased focus on reducing buildings' CO_2 emissions (by some measures approximately 40% of all CO_2 emissions). Simultaneously, many buildings are at risk from physical manifestations of climate change and require protection or adaptation.
- **Environmental resources:** The increased use of Environmental Resources to reduce emissions across a range of industries, while improved use of these resources can help water, agricultural and built environment climate-related adaptation.

As of September 2021, just over 15% of our equity assets under management is in these climate change sub-themes, and we anticipate this will continue to expand as we find more attractive investment opportunities.

CLIMATE ACTIVE ADVISORY PANEL

DAVID PITT-WATSON (CHAIR)

David is a leading practitioner in the field of responsible investment. He is a Visiting Fellow of the Judge Business School at Cambridge. Previously, he chaired the KPMG Public Interest Committee, and was the Treasurer of OXFAM until 2017 and a trustee of Nesta, the innovation charity.

Previously, David was Chair of Hermes Focus Funds. As co-founder, and CEO of the Focus Funds and Equity Ownership Service, he built and led the largest responsible investment group of any institutional fund manager in the world. David has co-chaired the UN Environment Programme's Finance Initiative and was closely involved in the setting up of the UN's Principles for Responsible Investment.

HEIDI HELLMANN

Heidi was Head of Group Strategy and Market & Competitor Intelligence at Centrica until 2021. She was previously Head of Strategy at BG Group and had various strategy roles at Royal Dutch Shell. Heidi has had over 25 years' experience working in the oil and gas and power sectors, having started her career at Exxon in 1991. She has an MBA in Finance and Multinational Management from The Wharton School, University of Pennsylvania.

SIR JOHN BEDDINGTON

Sir John is Senior Advisor to the Oxford Martin School and Professor of Natural Resource Management at Oxford University, from 2008 until 2013 he was the Government Chief Scientific Adviser (GCSA) reporting directly to the Prime Minister. As GCSA, he was responsible for increasing scientific capacity across Whitehall. During his time as GCSA he set up the Scientific Advisory Group in Emergencies (SAGE) that reported to the COBRA committee. He is a Non-Executive Director of the Met Office, chairs the Cabot Institute External Board at Bristol University, the Global Academies Panel at Edinburgh University and the Systemic Risk Institute at the LSE.

PROFESSOR CAMERON HEPBURN

Cameron Hepburn is Director of the Smith School of Enterprise and the Environment. He is also Professor of Environmental Economics at the Smith School and at the Institute for New Economic Thinking at the Oxford Martin School. He is a Professorial Research Fellow of The Grantham Research Institute at the London School of Economics and a Fellow at New College, Oxford. He is an expert in environmental, resource and energy economics and is involved in policy formation, including as a member of the DECC Secretary of State's Economics Advisory Group. Cameron has advised governments (such as China, India, UK and Australia) and international institutions (e.g. OECD, UN organisations) on energy, resources and environmental policy.

5.3.2 FIXED INCOME

We have eight fixed income ESG themes around which we build portfolios. Climate solutions are key elements of each. We believe these are attractive due to their strong credit risk profiles, which are often not priced in by the market.[32]

5.3.3 ALTERNATIVES

As already noted in earlier sections, our due diligence process for alternatives seeks affirmation and evidence from the underlying managers that they are tracking and managing their climate risks, and committed to 1.5°C alignment.

We also explicitly target climate solutions within alternatives. Roughly a quarter of the assets invested in alternatives are currently associated with climate solutions, ranging from renewable energy, to battery storage, to carbon credits. In our infrastructure investments, we seek out climate-tilted investments, whether in the form of more energy-efficient housing or climate adaptation solutions.

Our allocations to climate solutions have grown strongly recently. We have been the cornerstone investor to multiple climate mitigation and adaptation initiatives, such as US Solar Fund, Octopus Renewables, Gresham House Energy Storage where we rank amongst the top three shareholders.

Looking ahead, we see significant potential to expand our climate mitigation and adaptation investments.

FIXED INCOME ESG THEMES

1. CHARITABLE ENTERPRISES
- Low-carbon power
- Infrastructure and buildings

2. EDUCATION & STUDENT HOUSING
- Low-carbon power
- Resource efficiency
- Infrastructure and buildings

3. GOVERNMENT SOCIAL HOUSING PARTNERSHIPS
- Low-carbon power
- Infrastructure and buildings

4. HOUSING ASSOCIATIONS
- Low-carbon power
- Infrastructure and buildings

5. PUBLIC TRANSPORT
- Low-carbon transport
- Infrastructure and buildings
- Environmental resources

6. RENEWABLE ENERGY INFRASTRUCTURE
- Low-carbon power
- Resource efficiency
- Infrastructure and buildings
- Environmental resources

7. GREEN BONDS
- Low-carbon power
- Low-carbon transport
- Resource efficiency
- Infrastructure and buildings
- Environmental resources

8. NOT FOR PROFIT AND MUTUALS
- Resource efficiency
- Infrastructure and buildings
- Environmental resources

THESE THEMES HAVE NORMALLY ACCOUNT FOR 35% - 45% OF OUR FIXED INCOME INVESTED ASSETS.

5.3.4 TARGETS

Over time, we expect to increase our exposure to climate solutions – both through 'pure play' companies, as well as through holdings in transitioning companies. However, we have not set explicit climate solutions targets. This is because it would be difficult to carve out the clean energy investment from more traditional companies. Also, if we ignore organic (i.e. made by larger companies) low-carbon investments, then targets could drive us to divest from these companies, even if this is not consistent with the goal of increasing financing to net-zero activities.

Likewise, for the same reasons, we believe that it would be misleading to suggest that if we hold a higher proportion of 'climate solution' (i.e. pure play) labelled assets, we are always 'greener'. Holding more renewable company shares may not deliver as much 'carbon savings' as if we were to invest in more carbon-intensive companies and press for shifts in capital towards net-zero solutions.

In line with our philosophy, we have developed investment strategies that combine our deep analysis of climate solutions as outlined above, with our engagement work to deliver 1.5°C-alignment. We launched our Climate Active strategy in 2017. We discuss these in more detail in Section 7. We are looking at options for expanding our offerings to meet client demands for more climate thematic style solutions.

5.4 DIVESTMENT APPROACH

For companies we allocate to our third bucket above ('Not net-zero aligned and no profitable pathway'), and for those that fall out of bucket 2 following engagement, we will divest our holdings within 12 months.[33] As already noted, our preference is to drive positive change through engagement, but we will not engage indefinitely.

We operate in a strict three-year window for delivering demonstrable action to meet the OMS principles. If investee companies fail to act in line with the global effort to combat climate change, they are not just contributing to increased climate risks for society, they are running risks with investor capital. We, therefore, believe it is in our clients' best interests that we exit these positions.

5.5 PORTFOLIO MONITORING

A set of key performance indicators will be agreed to monitor portfolio and firm-wide carbon emissions. These KPIs will include a combination of external and internal metrics to monitor how the financed emissions change over time. Scope 1 and 2 emissions, as available, would be routinely tracked, and scope 3 emissions included as reliable data becomes more widely available. These would be followed on a portfolio and firmwide basis. These KPIs will include a combination of external and internal metrics to monitor how the financed emissions change over time.

The Risk Office will independently compile monthly reports to be used in the monthly CIO/Risk Review Meetings and Investment Risk Committee.

The goal will be to provide alerts where financed emissions move away from the expected downward trajectory, or where specific commitments (e.g. thermal coal or tar sands exposure) are potentially breached. In these cases, explanations would be sought from the investment team, and if engagements were underway, evidence presented on adherence to the NZAM.

Where relevant, the Risk Office would provide scenario analysis for new higher carbon purchases to establish whether these would be in keeping with NZAM.

[22] This is referred to as 'Asset class alignment' in the NZIF.

[23] The inclusion of scope 3 also introduces complexities around double counting since each company's scope 3 will be another company's scope 1 or 2 emissions. By incorporating scope 3 we drive greater pressure for change through the supply chain, but need to take care to avoid double counting.

[24] NZIF's alignment methodology is similar to ours and based on the CA100+ framework. Rather than our three core criteria, they have five, including KPIs on emissions performance and disclosure. Their decarbonisation strategy and capital allocation alignment are, taken together, akin to our business plan alignment assessment. We use the OMS as it distils the three most important elements of Paris-alignment, and provides a strong basis for impactful engagement.

[25] Paris-aligned accounting has been a focus for Sarasin & Partners for several years. Through our work starting with the publication of a report "Are oil and gas companies overstating their position?" in 2017, we have seen over $100 trillion of AUM come behind calls for Paris-aligned accounts, and the CA100+ initiative move to incorporate this aspect into its benchmark expectations for companies. The NZIF likewise highlights the importance of accounting alignment to a credible net-zero strategy. Please see https://sarasinandpartners.com/stewardship-post/investor-expectations-for-paris-aligned-accounting/

[26] See NZIF section 7.2 for a description of their approach to identifying higher impact companies.

[27] Company due diligence is rigorous and can take several weeks. Analysts are tasked with undertaking detailed primary analysis, modelling and are subject to team scrutiny. All investments are also challenged by a different team member though a dedicated pre-mortem exercise.

[28] For this we assume that governments will implement the necessary policy measures to achieve net-zero carbon emissions by 2050. Our benchmark for determining what policies will be implemented in different countries and different sectors is the IEA's 2050NZE scenario.

[29] But even in the latter case, there could be a strong engagement case to promote wind-down. This could be particularly attractive if the entity has the ability to channel substantial cash flows back to investors as it shrinks.

[30] There may be circumstances where this takes longer due to limitations on trading, potentially where regulatory market stabilisation rules prevent sales. We expect these to be extremely rare.

[31] http://sarasinandpartners.com/wp-content/uploads/2020/05/ownership-discipline.pdf

[32] Unlike equity investment which is focused on earnings growth potential, for fixed income we are primarily concerned with how these climate sub-themes might impact the issuers' credit risk profiles.

[33] See figure 4 for an overview of the three buckets.

6

POLICY ADVOCACY AND MARKET OUTREACH

6.1 CLIMATE CHANGE REQUIRES SYSTEM-WIDE ACTION

Sarasin prioritises policy outreach to promote regulatory and market-wide action that supports decarbonisation. This is important because climate change is a systemic challenge, which demands an economy-wide response.

Our policy outreach complements our company engagements, and is a core part of our stewardship approach.[34] It is rooted in our belief that market failures that result in harmful environmental and societal outcomes are not in our clients' interests. Where we can see an opportunity to catalyse beneficial reform, we will take it.

Climate change is perhaps the strongest example that exists for why a market-wide approach is so vital. We have already described how we are acting to ensure climate risks and opportunities are properly analysed in our investment process, and acting to drive 1.5°C-alignment through company engagement. But merely insulating client portfolios from the climate crisis does nothing to prevent the crisis itself. Ultimately, to protect assets from the harmful impacts of climate change, we need system-wide solutions.

6.2 OUR APPROACH TO DELIVERING IMPACT

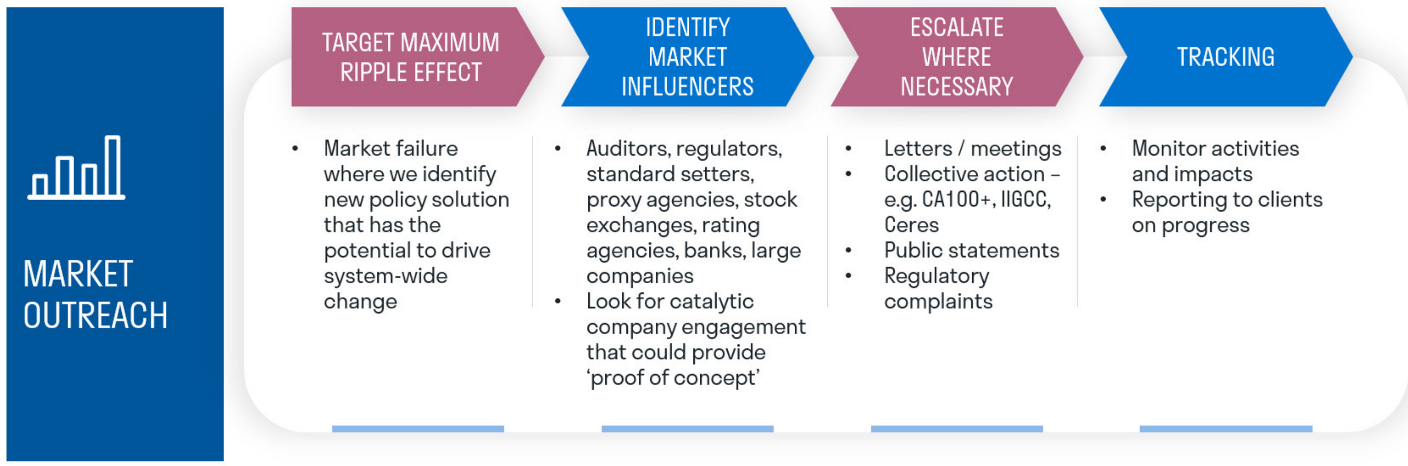
Just as we apply a staged process of escalation with our company engagements, we adopt a similar approach in our market outreach. Figure 6 illustrates our approach.

6.3 COLLABORATION IS KEY IN THE POLICY SPHERE

While we aim to provide thought leadership, we cannot be successful alone. For most policy initiatives we collaborate with other investment managers, joining broader initiatives like the Climate Action 100+ Group, the Institutional Investors Group on Climate Change (IIGCC), the Principles for Responsible Investment (PRI), the Portfolio Decarbonisation Coalition (PDC), and the Transition Pathway Initiative (TPI). This NZAM Commitment similarly represents a collective investor effort to demonstrate leadership on climate change.

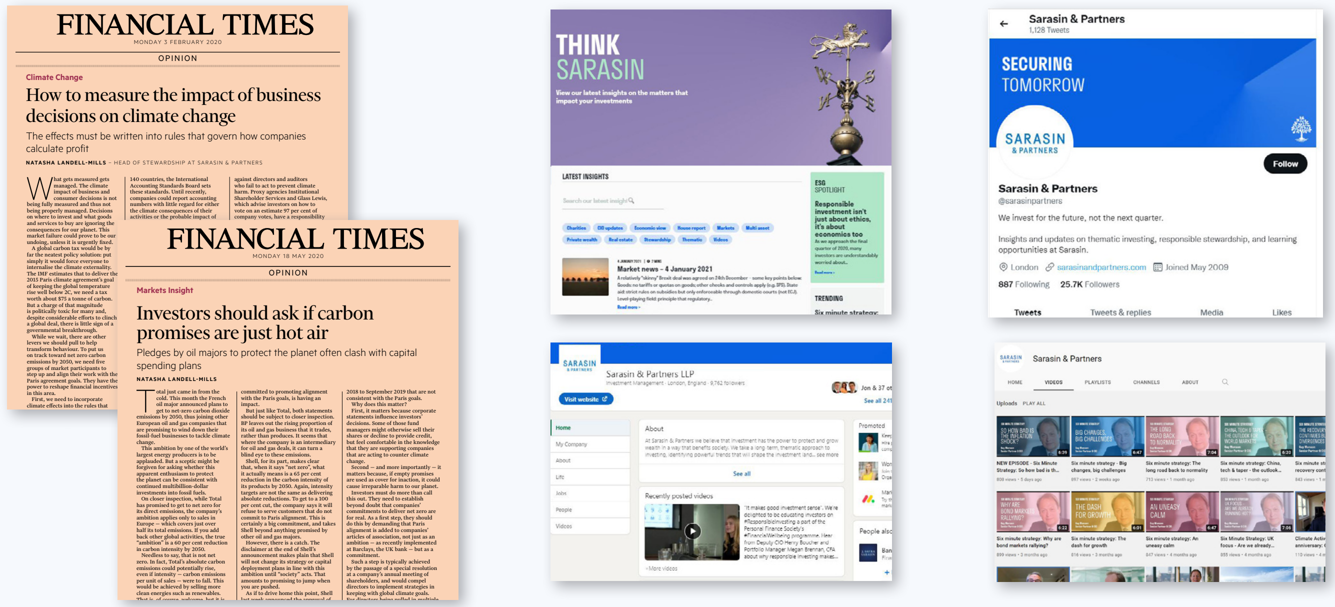
We also work with other like-minded professional bodies pursuing the same goals, like ClientEarth (a public interest law organisation working to protect the climate) and ShareAction (a UK charity focused on promoting a more sustainable investment system).

FIGURE 6: MARKET OUTREACH – STEPS TO DELIVERING IMPACT



Source: Sarasin & Partners LLP, 2021

FIGURE 7: MEDIA OUTREACH – SPEAKING OUT



6.4 LEADERSHIP WHERE WE CAN ADD MOST VALUE

Alongside lending our voice to support others, we also seek to provide leadership in areas we believe we can add most value and – critically – drive change.

As policy outreach can take years to come to fruition, we seek to be tenacious and outcomes focused. We are willing to escalate, even where this can be uncomfortable. But above all, we need to win the argument through rigorous research and determined outreach. Like company engagement, we require persuasion and negotiation expertise. Above all, it is important to understand what drives system change, and be willing to act on this.

6.5 MEDIA OUTREACH

Linked to our determination to drive change, we are prepared to speak out. Indeed, this is a key tool for driving change. We regularly write opinion pieces that are published in the mainstream press (see figure 7) such as the Financial Times, Reuters, Bloomberg, as well as via social media, where we have seen our following grow quickly.

6.6 RECENT POLICY IMPACT

One area where we have – and continue to – lead is in promoting Paris-aligned accounting and audit (see figure 8). This builds on our established reputation in the UK and internationally for policy work on accounting and audit standards. We currently are represented on the UK Financial Reporting Council's Investor Advisory Group, the International Audit and Assurance Standards Board's (IAASB's) Consultative Advisory Group as well as the International Corporate Governance Network's (ICGN's) Accounting and Auditing Practices Committee.

It is clear that until company financial statements properly reflect the global commitment to decarbonise in line with a 1.5°C pathway, they will have little incentive to align with this goal. This is because company accounts signal to company management where to allocate capital (what is most profitable); they also drive executive incentive packages (normally linked to reported profits).

We need the numbers to properly reflect incoming government action that will mean falling demand for fossil fuels, shorter lives for fossil-fuel-related assets, rising carbon taxes, etc. By taking these foreseeable changes into account, the financial statements will better reflect the net-zero future and ensure capital shifts with this. In short, Paris-aligned accounts are vital to ensure 1.5°C-aligned capital allocation, and the delivery of a stable planet.

FIGURE 8: EXAMPLE OF POLICY IMPACT: PARIS-ALIGNED ACCOUNTING AND AUDITS[35]

Financial statements that leave out material climate impacts misinform executives and shareholders and thus, result in misdirected capital. Company leaders without correct cost and return information are equivalent to pilots without a properly functioning altimeter. In extreme cases, companies on the wrong flight path – like planes – can crash.

In the case of climate change, the consequences of misdirected capital are not only harmful for shareholders, but also potentially disastrous for the planet. In brief, where decarbonisation is ignored in drawing up financial statements, too much money will flow into fossil fuel related activities, and too little into cleaner energy. This clearly makes it harder to achieve decarbonisation, but also raises risks of stranded assets where governments act to deliver their commitments in the Paris Agreement.

Auditors play a vital role in protecting investors against accounting misrepresentation. They kick the tyres on managements' accounts and ensure they deliver a true and fair view of the economic health of the entity. It is, therefore, critical that the auditors are checking that company accounts are reflecting material climate risks – both those linked to decarbonisation and those that emanate from physical climatic change.

Where the accounts fail to do this, the auditor should sound the alarm. Failure to do so will undermine trust in company accounts.

Goal: Our goal is to ensure that all companies that are dependent on carbon-intensive activities (either directly in their production processes, or for the consumption of their good or services), ensure their financial statements take account of the Paris Climate Agreement. This goes beyond those extracting fossil fuels, to include companies dependent on transport, materials, heavy industry, agriculture, etc. We also expect auditors to commit to raising a red flag where managements' accounts fail to fully represent future losses and liabilities.

METHODOLOGY

Building on our analysis of eight oil and gas companies' financial statements in 2018 (published as "Are oil and gas companies overstating their position?")[36], Sarasin has led a growing coalition of investors (representing over $9 trillion in assets under management, with further support from investment associations representing over $100 trillion by the end of November 2020) in a market outreach effort. We have published position papers (e.g. with IIGCC), made government submissions (e.g. to UK's CCC, TCFD, FCA, FRC) and written letters to the Big Four audit firms (PWC, KPMG, EY and Deloitte). This work has also underpinned broad-based company engagement effort involving 36 European listed companies setting out investor expectations for Paris-aligned accounts.

OUTCOMES

Companies: Three oil and gas majors who we coordinated letters to (Shell, BP and Total) have adjusted critical accounting assumptions for climate risks in their annual accounts, resulting in material impairments on the balance sheet. Others who have also made refence to climate risks in their accounts include: Enel, Eni, Rio Tinto, and Air Liquide.

Auditors: All four audit firms have added climate risk to their training for audit partners, and updated internal guidance materials. Deloitte and KPMG published documents in December 2019 setting out why climate risks are relevant to their core audit process. Auditor reports to shareholders in BP, Shell and National Grid have provided detailed commentary on how climate risks were considered.

Regulators/standard setters: The UK's Financial Reporting Council published a letter sent to Audit Committees and Finance Directors reminding them of their responsibility to consider material climate risks (Oct 2019). The International Accounting Standards Board (IASB) published guidance setting out how precisely climate risks need to be considered under existing International Financial Reporting Standards (IFRS). International Audit and Assurance Standards Board (IAASB) published a Staff Guidance paper in Oct 2020 highlighting climate risks must be considered in the audit process.

Another focus is promoting more impactful voting by the asset management industry, which as a whole currently fails to use its votes to hold directors to account. Where material, directors need to be held to account for failing to align with the Paris goals. We are part of an IIGCC-coordinated effort to engage with the proxy industry to ensure climate risks are routinely considered in proxy guidance.

[34]See "Principle 4: Promoting Well Functioning Markets" in our latest UK Stewardship Code Report

[35]See "Investor expectations for Paris-aligned accounts" (Nov 2020) for a fuller description

[36]https://sarasinandpartners.com/think/are-oil-and-gas-companies-overstating-their-position/

7

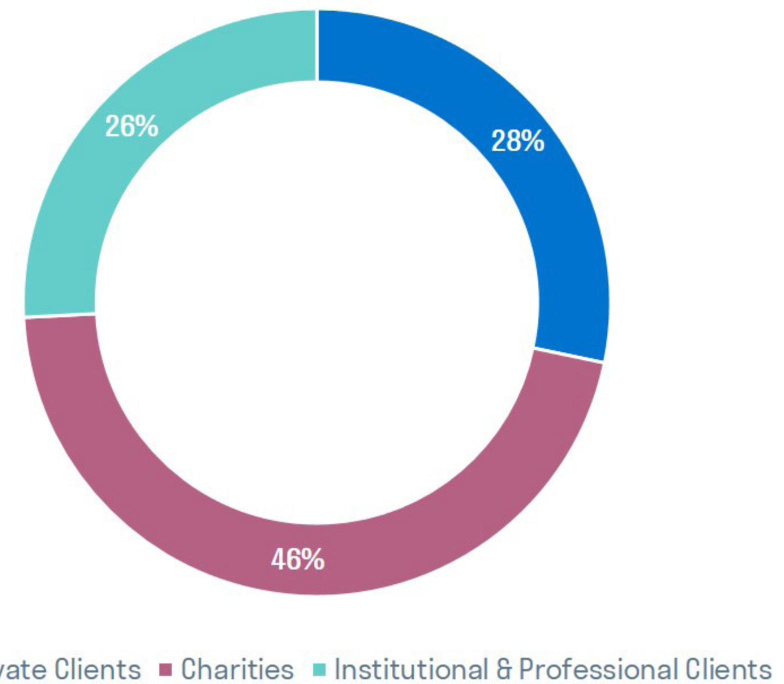
CLIENT EDUCATION AND SOLUTIONS

7.1 OUR APPROACH IS EMBEDDED IN OUR STEWARDSHIP PHILOSOPHY

As already emphasised, long-term stewardship sits at the heart of how we manage our clients' assets. Our goal is to grow and protect our clients' capital in a way that is aligned with a sustainable society.

We achieve this through a global thematic approach to investment that embeds rigorous environmental, social and governance analysis, a proactive ownership discipline which promotes sustainable behaviour in investee issuers, and a commitment to engage in the wider market place to press for changes that support sustainable growth. Ultimately, we believe that responsible and sustainable companies are more likely to deliver enduring value for our clients.

FIGURE 9: CLIENT DISTRIBUTION AS A PROPORTION OF ASSETS



Source: Sarasin & Partners LLP, as at 31.12.21

7.2 REGULAR REPORTING ON CLIMATE EXPOSURES AND ENGAGEMENT IMPACTS

We pride ourselves in offering excellent client service, and this requires a high level of resource and attention. Regular, transparent and two-way communication with our clients is vital to ensure we continue to meet their needs, and they understand how we are acting as effective stewards of their capital. We do this through a range of channels, including detailed quarterly investment reports, routine meetings, online updates as well as educational seminars and talks.

With regards to our climate-related reporting, we aim to provide insights on both our clients' current exposures to climate-related risks and opportunities, as well as the impacts from our engagement work to drive climate action. By providing this information we seek to enhance our clients' understanding of climate-related risks and opportunities, and thus foster a deeper appreciation of why we devote resources to managing these risks and opportunities.

We provide more detail of the nature of this climate reporting below, and how we plan to enhance it in the future.

7.2.1 CLIMATE EXPOSURES

Alongside increased reporting on portfolios' ESG characteristics, we incorporate climate-related factors that are embedded within our Sustainability Impact Matrix (see figure 10).

Our quarterly ESG characteristic and sustainability reports use proprietary analysis and RAG status to highlight the most material environmental, social and governance risks within client portfolios.

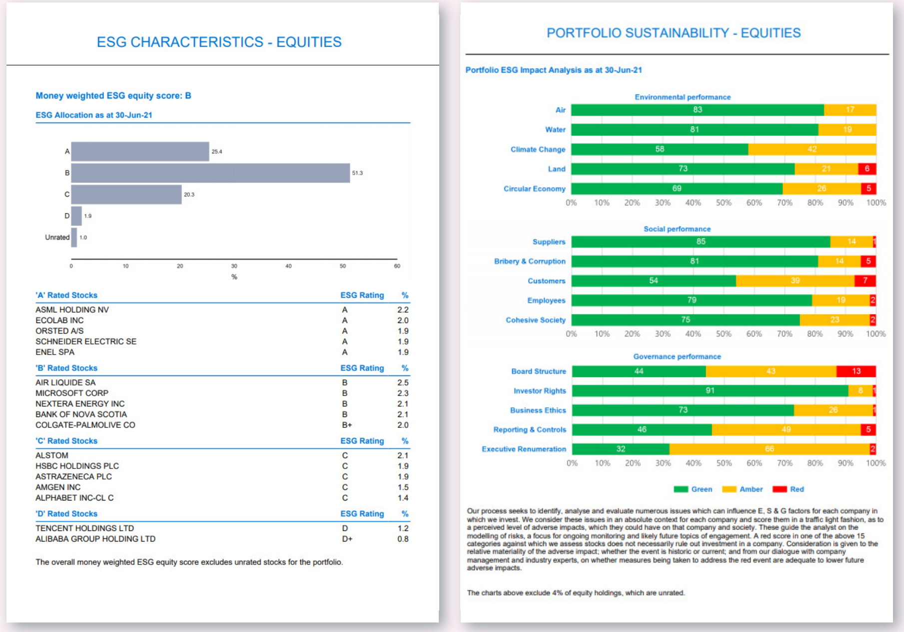
Climate-related factors are addressed within the environmental assessment of underlying companies and reflected in the overall rating for the portfolio. In the example represented in Figure 10 the portfolio has no 'red' flags indicating that climate change is not as material a risk to the portfolio as some of the other environmental considerations.

This reporting is available to all clients within their quarterly reporting and we are releasing an enhanced online client portal later this year to give clients additional information on underlying ratings. We will continue to refine our quarterly reports and online reporting.

In addition, for our climate active endowment strategy we report portfolio-level carbon footprints (i.e. CO_2/$ turnover) to track whether these are reducing over time. If we are doing a good job in implementing our 1.5°C-alignment methodology outlined

FIGURE 10:

Our quarterly ESG characteristic and sustainability reports use proprietary analysis and RAG status to highlight the most material environmental, social and governance risks within client portfolios.



Source: Sarasin & Partners reporting, 2021

FIGURE 11: WHAT ARE SCOPE 3 EMISSIONS?

SCOPE 1	SCOPE 2	SCOPE 3
Fuel combustion	Purchased electricity, heat and steam	Purchased goods and services
Company vehicles		Business travel
Fugitive emissions		Employee commuting
		Waste disposal
		Use of sold products
		Transportation and distribution (up- and downstream)
		Investments
		Leased assets and franchises

Source: Briefing: What are scope 3 emissions? | The Carbon Trust

in earlier sections, the portfolio's carbon footprint should trend down over time.

However, carbon footprinting has important limitations in conveying an understanding of climate risks embedded within portfolios. One is that it only tends to capture scope 1 and scope 2 emissions, which leaves out those scope 3 emissions associated with the supply chain and also consumption of the final product (see figure 11). This can result in a biased view of actual climate risks – especially for sectors where the bulk of emissions lies outside their direct operational activities. The most obvious example is oil and gas, where the vast majority of emissions come when the fossil fuels are burned by customers.

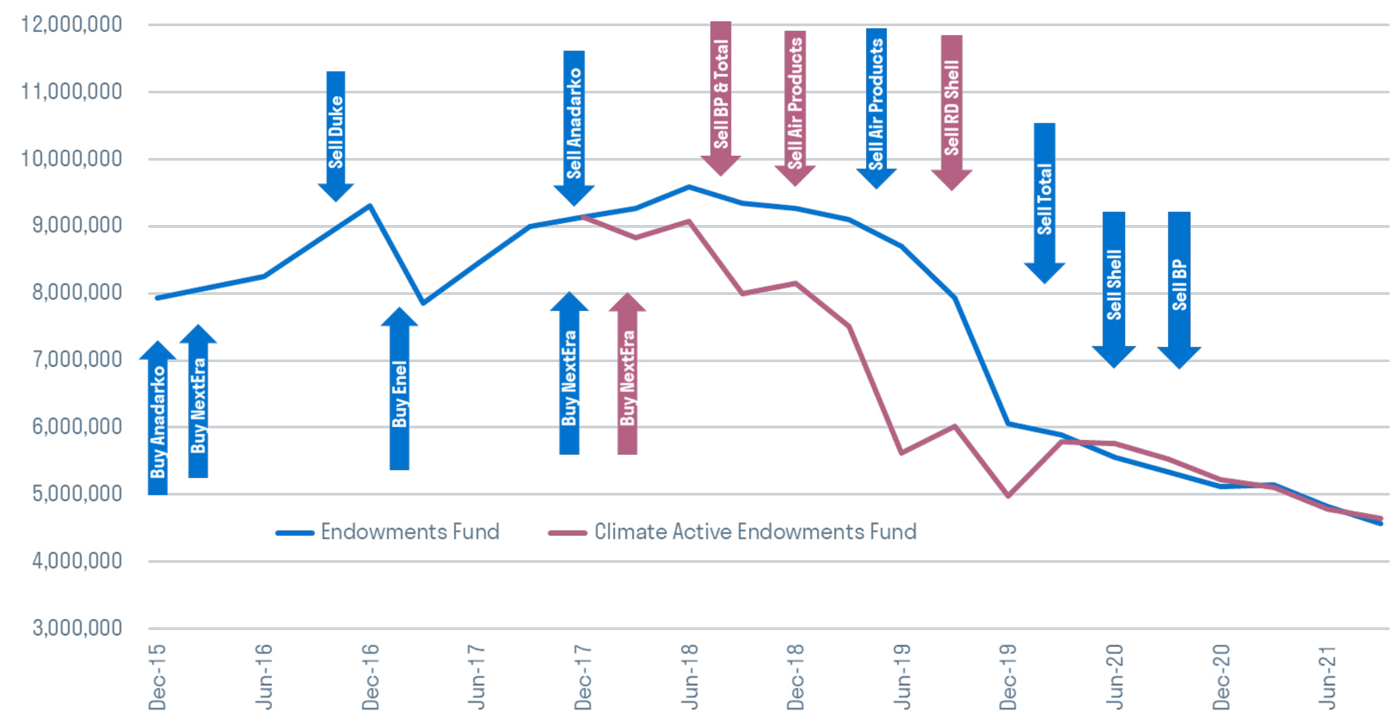
A second problem with carbon footprinting is it is a backward-looking measure of performance, and fails to reflect company strategies for bringing emissions down. Given our focus on driving change, we are focused on how to ensure emissions come down, not just on where we are today. Using the carbon footprint in isolation might result in the electric utilities being sold due to high reported footprints, even if these companies are on a 1.5°C-aligned pathway and will deliver the greatest emission reductions in coming years.

Reflecting these limitations, we prefer our in-house CVAR approach (see Section 5.1.2) as a better measure of embedded climate risks. We calculate this for our high-risk companies, and then aggregate it to a portfolio level, as depicted in the chart in figure 12.

7.2.2 PRESSING FOR CHANGE – COMPANY ENGAGEMENTS AND POLICY OUTREACH

As we have underlined throughout this report, a critical element of our net-zero commitment is to press for determined action on climate change. We report quarterly to our clients on our company engagements work, (see Section 5.2), relevant votes as well as our policy outreach (Section 6), indicating wherever we have achieved a demonstrably impact. We are aiming to further enhance this reporting through our web-portal over the coming year.

FIGURE 12: CARBON EMISSIONS SINCE LAUNCH OF CLIMATE ACTIVE STRATEGY
WEIGHTED AVERAGE SCOPE 1 AND 2 EMISSIONS



Source: Sarasin & Partners and MSCI ESG Research data. Measures scope 1 and scope 2 emissions only. 30.09.21

Our engagement work is frequently a topic of conversation in client meetings, and we welcome the opportunity to share how our clients' rights either as shareholders or creditors are being used to promote positive change. Through these discussions we likewise seek feedback on our priorities, and any suggestions clients might have.

7.3 OTHER EDUCATIONAL OUTREACH

Beyond our regular reporting and meetings with our clients outlined above, we host seminars and talks, publish articles outlining key climate-related themes, and provide other web-based content, such as videos. Some recent examples include:

SEMINARS AND TRUSTEE TRAINING

Seminars: Charities Seminars held every Spring, normally attended by over 500 clients, bespoke Climate Active seminars, such as the Climate Active Third Anniversary.

Trustee Training: As the preferred trainer for Charity Finance Group (CFG) we have trained >5,000 Trustees in recent years. This training covers all investment-related matters including responsible investment and how to incorporate climate change risk within investment policy statements as well as portfolios.

Promotion of our Climate Pledge: while our NZAM supersedes this Climate Pledge from 2016, it provided an example of how we use our published materials to improve understanding of climate risks, and our determination to act to manage them.

ONLINE MATERIALS

We have made considerable **enhancements to our website and content** in recent years, making this a useful resource for clients. We publish articles, research pieces, media outreach we have led as well as video content on newsworthy topics, such as the latest IPCC report published in August 2021.

Examples: See Insights section of our website for recent thought pieces and webinars.

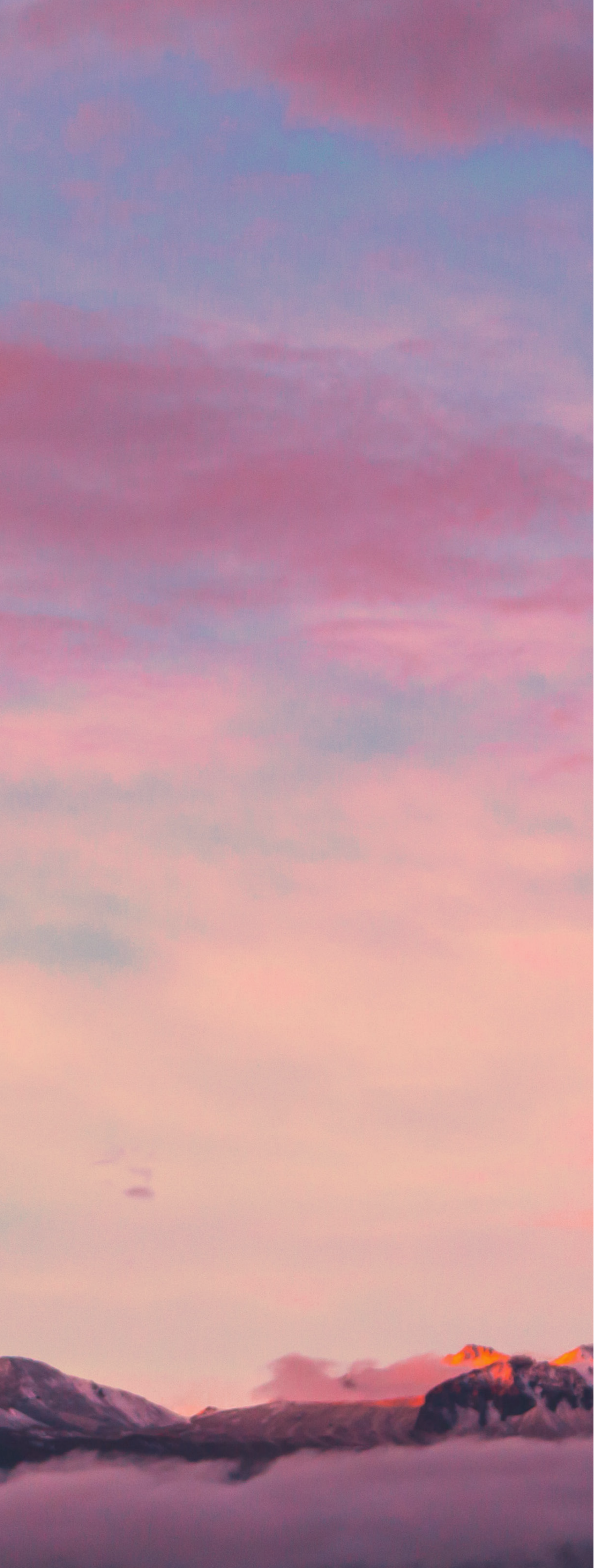
HOUSE REPORT

A quarterly publication, gathering a series of articles from internal and external contributors covering topical matters that are of interest to a wide range of investors. Climate change regularly features. We also publish Stewardship Reports that explores a range of ESG issues.

Both documents are emailed directly to clients and published on our website. The House Report is widely read by clients.

MEDIA OUTREACH

As noted in Section 6, we seek to drive positive policy change as part of our net-zero commitment. An important tool we deploy is publishing opinion pieces in the mainstream press to draw attention to market failures and press for action. Alongside our social media promotion, we share these articles and opinion pieces with our clients to support our commitment to enhance their understanding. In many cases, our clients join us in signing position papers we publish on matters of concern.



EXTERNAL PANELS AND SEMINARS

We also seek to publicise our climate engagements and policy work through participation in external panels and seminars, often oriented towards asset owners. The below illustrates a selection of the seminars on climate issues that we have participated in in recent months:

- Deloitte Academy and Chapter Zero Webinar: Climate Change response - The impact on the Audit and Risk Committee – September 2020.
- Universities UK - Climate Emergency: How can Universities achieve greater impact with their investments? February 2021.
- British Universities Finance Directors Group (BUFDG) Conference - March 2021.
- Association of Chief Executives of Voluntary Organisations (ACEVO) "Power to the People" the role of shareholders in driving change – March 2021.
- Association of Provincial Bursars (APB) Sanctity of Life and Climate Change – April 2021.
- Tablet Spring Festival - Climate Change – May 2021.
- Ceres climate accounting seminar – August 2021.
- IIGCC climate accounting seminar – September 2021.
- CFA seminar "Sustainable investing: Progress in practice" – September 2021.
- COP26 Green Horizons Summit sponsored by the City of London Corporation – Panel debate "Without harmonised global standards, litigation risk is a major barrier to mobilising private capital" – November 2021

7.4 PRODUCT DEVELOPMENT

As we have already outlined, climate change is already a core part of our investment process across all our products and assets. It is both one of our five themes that drives our equity investment process (see Section 5.3), as well as a key part of our bottom-up risk analysis, where we identify climate-related traffic lights in our Sustainability Impact Matrix as well as undertake climate scenario valuation work for the high-risk companies. Similar risk-focused processes are used for fixed income and alternatives assessments.

Alongside ensuring we are considering climate factors for all our investments, we launched a focused Climate Active strategy in 2018 to offer our clients the opportunity to align their investments with the Paris Climate Agreement. This strategy is summarised below, and further information can be found through the links.

7.4.1 CLIMATE ACTIVE[37]

The issue

Our charity clients work to make the world a better place and we understand that a charity's investments must complement its ethos. We recognise that climate change poses catastrophic risks to our planet. It also drives government policy that is set to transform how we produce and consume energy, and how businesses operate within society. Following the Paris Climate Agreement, the world has set itself a target to keep temperature increases well below 2°C, and ideally 1.5°C. Consequently, we must collectively ensure net carbon emissions come down to zero between 2050 and 2070.

Data suggests that it is the most vulnerable in society that will suffer disproportionately from climate change. It is the most vulnerable that are the ultimate stakeholders of the assets we manage. As such, our charity clients need investment solutions that actively lower carbon emissions. We believe that asset managers can play a crucial role in accelerating change, by aligning long-term financial risks with the long-term sustainability of our planet and allocating capital accordingly.

The solution

The Sarasin & Partners Climate Active Endowments Strategy was designed in partnership with several leading charities but also for investors who seek to promote change, and alignment with the goals of the Paris Climate Agreement. It is a diversified, multi-asset strategy designed to achieve a total return of CPI +4% over the longer term. Climate Active is appropriate for those who accept the material risks generated by climate change, and wish to play a collaborative role in driving transformation.

Our Climate Active strategy is for investors who recognise that:

- Accelerating climate change poses a risk to financial capital.
- Climate change will happen more quickly than consensus opinion.
- Governments will drive increasingly intense policy action to combat climate change.
- Shareholders have a role in guiding company boards to align with the Paris goals.
- We must press for more government policy action.

Combining investment and engagement

As the world accelerates its transition to net-zero emissions, we aim to deliver attractive returns by investing in assets that we expect to create value from business strategies consistent with a 1.5°C cap in global warming. We also look for companies that will be resilient to the physical impacts of climate change. While not all companies are Paris aligned, we seek to identify those that have the potential to implement a net-zero pathway. Consequently, a key aspect of our Climate Active philosophy is to drive positive change by pressing boards of directors to take steps towards strategic and operational Paris alignment. We engage with companies that fail to articulate a compelling Paris-aligned strategy, and will divest if there is no progress within three years.

Active ownership

In our engagements with companies, Sarasin is informed by the Oxford Martin 'Principles for Climate-Conscious Investment'.

To achieve these objectives, we use active ownership tools such as voting and engagement, public calls for action, and building coalitions with like-minded stakeholders.

Company engagements are guided by our expert Climate Active Advisory Panel. The Panel comprises individuals with deep experience of activist investment, climate change and the energy sector. Their involvement helps to ensure that we select our targets wisely and that our engagements are effective.

One unique feature of the Sarasin & Partners Climate Active approach is that we invite and encourage investors to play an active role in our engagement activities, signing letters and most recently, taking a direct part in an ongoing dialogue with Blackrock.

Outcomes

Since launch in February 2018, we have actively engaged with more than 100 companies, divested from 20 holdings where we have not seen sufficient change, and identified new investment opportunities that are Paris-aligned, These actions have succeeded in raising Paris-alignment up the corporate agenda while also delivering sustainable returns ahead of benchmarks. During this time, the strategy has grown. As of 30 June 2021, assets under management for the strategy totalled £993m.

We have an aligned equity version of this strategy: The Sarasin Responsible Global Equity strategy (£337m 30.06.21). We expect this strategy to continue to grow.

7.4.2 TOMORROW'S WORLD STRATEGY

For clients that wish to take a less active role in driving change but would rather minimise their footprint today we have launched the Tomorrow's World strategy as another option for the climate-concerned investor. It is a multi-asset strategy that aims to provide long-term capital growth by investing in a diversified portfolio of assets that combine attractive investment potential, without causing significant environmental or social harm.

7.4.3 LOOKING AHEAD

When launched, our Climate Active strategy was the first we were aware of that sought to offer a Paris-aligned investment solution combining rigorous climate-tilted investment analysis with robust engagement. The strategy has performed well and grown substantially (performance compared with the ARC Steady Growth Charity Index for the period February 2018 (Climate Active strategy launch date) to September 2021). We have been able to learn from this experience, such that today we are ready to scale up our commitment to net-zero investment across all our assets, as we set out in this report.

As public opinion has moved on climate change, asset managers are now having to explain why they are not delivering net-zero-aligned strategies rather than the reverse. We have concerns, however, that with the proliferation of climate products, there are real dangers that the ultimate goal – to tackle climate change – is lost. A tick box approach that drives simplistic divestment will not deliver the outcome we seek. Our NZAM-aligned approach aims to offer a more considered and, in the end, more effective investment approach.

Against this backdrop, we intend to keep innovating with Climate Active to demonstrate the power of the investment community to drive change. We also expect to innovate to respond to client demand and to minimise risk while maximising the opportunity presented by the transition to net zero.

Without change we cannot secure our planet. Climate Active looks to deliver the greatest change possible to bring carbon emissions down to zero as soon as possible, whilst protecting and enhancing our clients' assets.

To hold us to account, we will continue to enhance our reporting – both to clients and the public.

- We will increase client engagement and education through increasing data access via a new client portal expected later in 2021.
- We will explore how we can facilitate an increasing number of clients to co-file shareholder resolutions, alongside Sarasin and Partners, as well as letters to company boards, so that they can evidence to their stakeholders the role that they have in driving change towards net zero.
- We will expand our existing training materials through publishing climate specific video content that builds a library of useful resources for our clients and affiliates.

[37] See our Climate Active brochure, Our strategy for charities, and details of our 3rd anniversary event

8

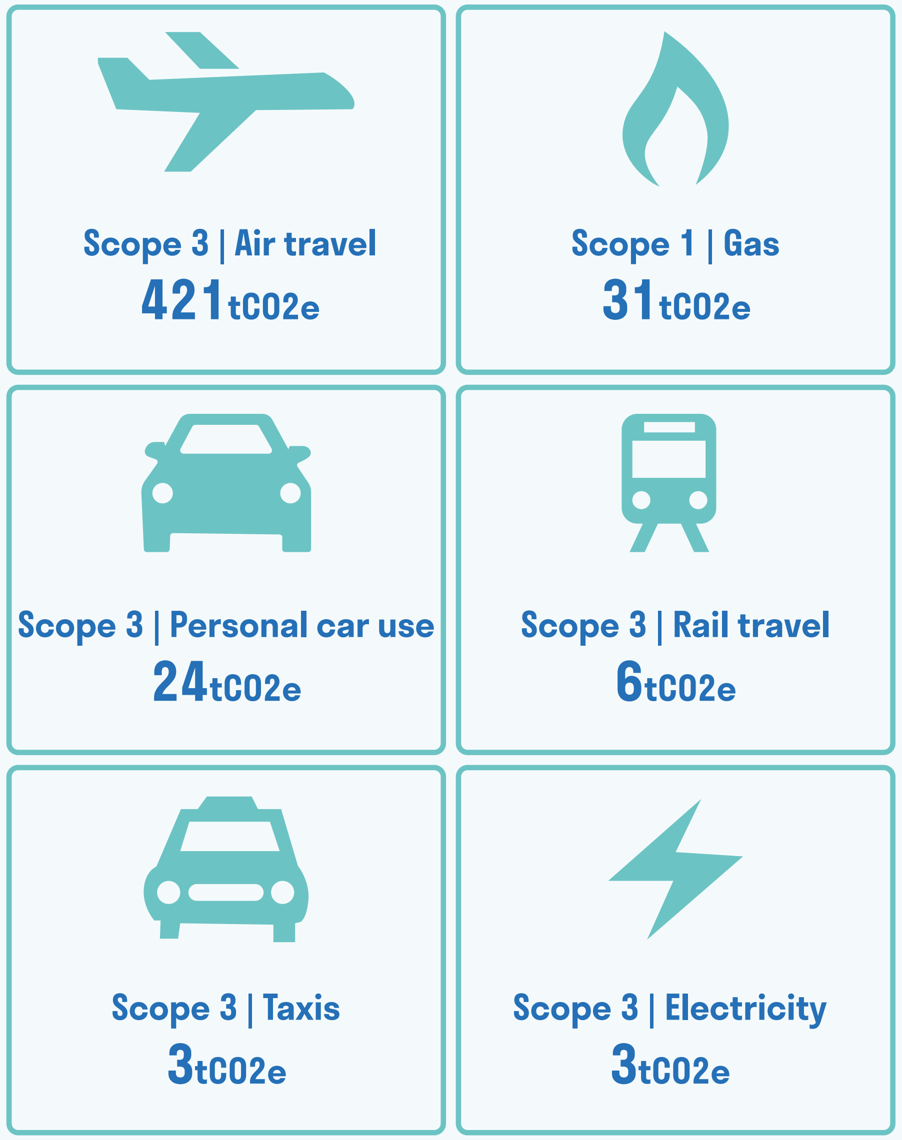
OPERATIONAL COMMITMENT

In line with our 2019 Climate Pledge, we have already in place a commitment to ensure net-zero emissions for our business operations, covering scope 1 and 2, as well as scope 3 emissions associated with business travel. We are currently achieving this primarily through the use of renewable energy and, for activities where carbon-free alternatives are not yet available, carbon offsets.

From 2022, we commit that our own operations, including wherever possible emissions embedded in our supply chain, will be carbon neutral. Over time we aim to bring down our absolute emissions, normalised for any growth in the business, and reduce our reliance on carbon offsets.[38]

Below we set out our carbon footprint targets, and our plans to deliver on these. Critically, we will be seeking to bring down our absolute emissions in air travel. We are also planning to extend the coverage of our targets to cover our supply chain.

FIGURE 13: 2019 CARBON FOOTPRINT SUMMARY



Source: Sarasin & Partners, 2019

8.1 CARBON FOOTPRINT AND TARGETS

We will use 2019 as our baseline year for tracking reductions. We cannot use 2020 due to the distortions in carbon emissions caused by the coronavirus.

AIR TRAVEL

Our business travel is currently net zero due to our use of carbon offsets. We aim to reduce our absolute emissions associated with air travel, and thereby reduce our reliance on carbon offsets.

The biggest element of our carbon footprint (excluding our supply chain) is air travel, accounting for an estimated 86% of the total in 2019.[39]

While we fully offset these emissions, we plan to set an interim absolute reduction target by the end of 2021. We are exploring whether we may achieve this by setting internal departmental travel related carbon caps, supported by a carbon trading scheme to ensure travel is undertaken where it is most needed.

BUILDING-RELATED EMISSIONS

Our electricity and gas consumption are primarily associated with our UK office. Our electricity is renewable and the landlord has committed to prioritising renewable energy and green gas in future when renewing contracts.

EXPANSION OF SCOPE COVERAGE AND SUPPLY CHAIN TARGETS

We plan to increase our carbon footprint coverage to include our staff's commuting-related emissions and our supply chain (scope 3). This will naturally result in an initial increase in the firm's reported carbon emissions but this will ensure that our carbon-emission reduction efforts are more comprehensive and in line with our expectations for investee companies.

8.2 GOVERNANCE AND STRATEGY

As with our NZAM Commitment (see Section 3.5), oversight of our operational carbon emissions targets ultimately sits with the Board, with responsibility for implementation assigned to the Chief Operating Officer. Where relevant, our COO delegates actions to relevant departments, and ensures action plans are implemented.

Reflecting our existing commitment to net-zero operational emissions and associated targets set out above, our strategy for implementation involves:

Carbon footprint mapping – we update our carbon footprint data annually, to track performance against targets. We will expand the scope as previously indicated to ensure we cover wherever possible scope 3 emissions.

Approach to offsets – as previously noted, we favour reductions in emissions over the use of offsets. We currently rely on offsets to cover our hard to abate emissions, but are planning to bring down absolute emissions in the future. At the same time, as we expand the coverage of our carbon tracking we will naturally see a jump in our reported emissions. Consequently, in the short-term we will continue to use offsets, and will ensure these are externally verified.

Monitoring implementation through routine meetings with relevant departments, and internal reporting to the COO. Progress will be discussed with the CSR Committee, chaired by the COO.

Reporting – we will continue to gather data on carbon emissions annually and report this publicly through our CSR report. We will also incorporate this into our forthcoming TCFD report.

Assurance – in line with our NZAM commitment, we will be first looking to ensure our operational carbon reduction processes are reviewed by internal audit, and then later we would expect to get our data externally assured.

8.3 METHODOLOGY

Carbon footprint mapping and implementation is done according to the main sources of carbon emissions. We plan to follow UK government guidance for measuring carbon emissions, though we note that data availability remains a key challenge.[41] Currently, we have identified the following main categories:

Air travel – As highlighted above, travel is our largest source of emissions so a priority area for reduction targets. As there are no viable zero-carbon airline options at present, we are working on a plan to cut back air travel. Specifically, we are exploring an internal carbon trading scheme with rolling year reductions.

Looking ahead, we will seek to reduce our reliance on offsets in the delivery of our net-zero commitment

Building – We operate from one building in central London, which we rent. All our energy for both electricity and heating is green, and the landlord has committed to prioritise renewable energy and green gas in future when renewing contracts.

Supply chain – We have not historically covered our scope 3 supply chain emissions due to complexity and a lack of data. In 2021, we undertook an initial review of our top suppliers (by value of spend), and will be developing a plan to engage with these suppliers to ensure that they are aligned with our wider climate commitments.

- **Existing suppliers:** Where suppliers do not have emission-reduction plans consistent with a 1.5°C pathway, we will engage with them. Where they are unwilling to make such a commitment, and demonstrate adherence to it, we would look for alternatives.
- **New suppliers:** We intend to update our procurement policy to include climate consideration when selecting new suppliers.
- **During the period of engagement with suppliers,** any excess emissions attributable to us will be include in our own carbon offsetting schemes.

Staff commuting – As with our suppliers, historically commuting numbers have not been included in our carbon tracking. We will be exploring ways to incorporate these emissions. We note that working practices have been significantly disrupted by recent COVID-related lock-downs, and we expect to see increases in commuting-related emissions as people return to work.

Remote working – Given the shift in working patterns, we will investigate whether and how we might incorporate emissions associated with home working.

8.4 TIMELINE

We plan to roll out our carbon emissions reduction plan over the next two years, with the goal of having all the core elements in place by 2025. We are prioritising air travel reductions as well as supplier engagement in the first instance.

[38] We will measure our emissions in terms of tCO_2/£ revenue, to enable normalisation for the same of the business. For instance, if we were to double in size, we would need our emissions reductions targets to reflect the larger business. In the end, we understand we need to get to lower emissions overall, and will regularly review how we can set more ambitious absolute targets.

[39] Scope 2 emissions are based on estimates using, for instance, the UK Government's (Department for Energy published benchmarks (Greenhouse gas reporting: conversion factors 2020). Our scope 3 includes business travel emissions and excludes supply chain and staff related travel.

[40] Biomethane (also known as 'green gas') can be produced from a number of sources including biogas from anaerobic digestion, landfill gas and synthetic gas ('syngas') from the gasification of biomass. All these gases can be converted to biomethane by removing the CO_2.

[41] See 2019 Government greenhouse gas conversion factors for company reporting: Methodology paper

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CONCLUSION

Signing up to the NZAM commitment was a natural step for us. We have had a commitment to align our investment, engagement, voting and policy advocacy work with the Paris Agreement since 2019, and before that we had developed a Paris-aligned 'Climate Active' investment solution for interested clients.

OUR COMMITMENT THUS COMES FROM WITHIN

We strongly believe that playing our part in promoting a stable planet is aligned with our clients' interests.

Making a commitment, however, is just the first step. Putting this into practice involves a complex set of actions and challenges, several of which will take time to overcome. And yet we do not have the luxury of time when it comes to climate change. What will, therefore, remain vital as we move forward is that we stay focused on the end goal as set out in the Introduction:

In the end, what matters is not whether a portfolio is carbon neutral. What matters is that the world achieves net-zero carbon emissions. This reality underpins our approach to net-zero alignment.

Our Action Plan is not intended to be the final blueprint, as we must ensure flexibility to respond to new scientific insights and/or methodologies. It should, however, offer clarity to our clients and other interested stakeholders that we are serious about climate change and, above all, determined to play our part in the most challenging task of all: bringing down carbon emissions in the real world.

We intend to do this by confronting inaction, not looking the other way.

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