Portfolio Decarbonisation Coalition

Statement of support by Sarasin & Partners LLP

October 2017

Introduction:

This document sets out Sarasin & Partners' commitment to the Portfolio Decabonisation Coalition's (PDC's) mission and goals. Sarasin & Partners is an active global investor, managing £14bn on behalf of clients. Our investment philosophy is long-term and we take the risks associated with climate change seriously, whether these are liniked to the physical impacts of climate stress, or changes in markets that follow from global efforts to decarbonise. We therefore consider climate risks in all our active investment strategies to ensure we are protecting our clients' capital.

In this document we specifically outline a new Climate Active strategy that we are due to launch in the Autumn 2017. The Climate Active strategy aims to provide a solutions for clients who wish to do more than simply ensure climate risks are accounted for in their investments. Its goal is to engage with a targetted number of companies and policy-makers to promote faster decarbonisation such that the world achieves its goal of limiting global warming to 2°C above pre-industrial levels. In essence the investment strategy rejects a passive ownership mind-set in favour of actively driving change to safeguard long-term capital and investment returns as well as the planet.

Overview of our Climate Active approach

PDC seeks disclosure of products and service offerings that:

- Enable investors to reduce the carbon-footprint and/or the carbon intensity of their portfolios, and/or
- Enable investors to align their mainstream portfolios with the transition to the low-carbon economy, and/or
- Enable investors to reduce portfolio exposure to risks from GHG emissions

Sarasin & Partners plans to launch a new multi-asset **Climate Active Endowment Fund later in 2017**[1]. Against a backdrop of climate change and an accelerating political response to climate change, the Fund aims to bring about, and benefit from, action by businesses to respond and in so doing generate economic value for our clients.

The Fund adopts a number of levers to achieve its goal. The Fund excludes a limited set of companies that derive the bulk of their revenues from the most carbon-intensive fossil fuels (either in the form of reserves or emissions) where we believe long-term prospects for value creation are poor. The Fund invests in companies with attractive prospects for long-term value creation, while also looking for opportunities to catalyse improved capital stewardship through targeted engagement with company Boards.

The Fund neither avoids nor favours energy companies, but looks for compelling long-term investment propositions across all sectors. Where the Fund holds companies that are highly exposed to fossil fuel production or consumption, we promote prudent climate-risk management.

Why active engagement, and when we divest

A key belief of the Fund is that divestment from extractive fossil fuel companies on its own is unlikely to deliver decarbonisation. We believe that these companies can and should play an important role in ensuring the world moves to a sustainable pat, and that this in turn will require an actively engaged shareholder base intent on delivering a 2°C outcome.

Asset owners and asset managers must be prepared to hold these companies to account, but also support their efforts to transform themselves. To deliver sustained shareholder value many companies will need to rethink medium and long-term strategies, as well as near-term decisions on capital deployment. In some cases investors may be best served by companies gradually winding down their operations and returning cash to shareholders to reallocate to alternative ventures.

The Fund's active approach to engagement does not mean we will not divest from fossil fuel extractive companies. Our approach is governed by our focus on prudent capital stewardship. We are excluding the most carbon-intensive companies where putting more

[1] The launch is awaiting final approval from the Charity Commission.

capital into the business amounts to throwing good money after bad. The Fund may also divest from companies where the climate risks are not being adequately managed.

More on our active engagement approach

Our engagement focus is on companies:

1) that are materially exposed to climate-related risks (either physical or regulatory);
2) that have not yet articulated a cogent strategy for navigating these risks; and
3) where we believe this can be addressed and we can effect change.

Engagements are strictly prioritised to ensure we target a manageable number of between 3 to 5 in a year. Each engagement is based on compelling evidence that the company's shareholders will gain from efforts to position itself for a carbon-constrained world.

Our approach to engagement seeks to be supportive of positive action, but challenging of inaction. Where necessary we adopt more robust tactics employed by mainstream activist funds that we believe to be effective in delivering change.

These engagements are guided by an Advisory Panel. The Panel comprises individuals with deep experience of activist investment, climate change, and fossil fuel exposed companies. Their involvement helps to ensure that we select our targets wisely and the engagements are effective.

With the companies identified we seek to work collaboratively with other long-term investors to increase the pressure and ensure our voice is heard.

Policy outreach

Our policy outreach dovetails our company engagements to promote regulatory and market-wide policies that support decarbonisation.

Our Fund is positioned to gain from these changes.

For many policy initiatives, we work alongside or join broader investor programmes of outreach, such as those being managed by the International Investor Group on Climate Change, or efforts by the UNPRI. In some areas, we seek a leading role.

One area where we are taking a stronger lead is in promoting more reliable and prudent accounting for climate risk. This is vital to underpin the efficient allocation of capital between and within companies, by ensuring the correct information is sent to market participants.

This builds on our established reputation in the UK and internationally for policy work on accounting and audit standards.

Apart from the change that can result from policy outreach, engaging in the broader policy debate is a powerful complement to individual company dialogues because it:

- builds credibility with Boards with whom we speak; and
- helps us form alliances with like-minded investors and supportive thought-leaders, improving chances of success in company engagements.

To guide and strengthen our Climate Active process, we have created a new **Climate Active Advisory Panel.** Members include:

- David Pitt-Watson (co-founder and Chair of Hermes Equity Ownership Service)
- Sir John Beddington (Senior Adviser at Oxford Martin School, Acting Chair of the UK's Met Office and former Government Chief Scientific Adviser)
- Heidi Hellmann (Head of Group Strategy at Centrica and formerly involved in strategy in the oil and gas industry)
- Dr Cameron Hepburn (Professor of Environmental Economics at Oxford University and LSE)

In addition, the Climate Active Endowment Fund will have an independent Oversight Committee.

Benefits for clients of investing in this fund include:

- Adoption of an intellectually robust investment strategy aligned with global efforts to decarbonise the planet and limit climate change to 2°C.
- Prudent management of investment risk as companies are impacted by climate change and decarbonisation.
- A platform for our clients to be heard by both companies and policy-makers.
- Enhanced stewardship and governance reporting.

This approach provides investors with the ability to play an active role in promoting decarbonisation to protect capital and the planet. It will help clients to align their mainstream portfolios with the transition to the low-carbon economy, and reduce portfolio exposure to risks from greenhouse gas emissions.

Further details on the Climate Active Endowment Fund and its approach can be found in the document included with this response.

The value of assets managed according to the Climate Active strategy

The Climate Active Fund awaits final approval from the UK's Charity Commission. In the meantime, we have initiated several activities aimed at promoting decarbonisation that are already benefiting our clients (AUM £14bn), including:

- Established an Advisory Panel to guide our company and policy outreach in relation to climate risks

- Released a position paper with other asset owner and institutional investor support calling for better reporting of climate risks

- Submissions to the International Accounting Standards Board and the Financial Stability Board's Task Force on Climate-related disclosures calling on standard setters to ensure better risk reporting, and emphasising the existing legal requirements for this type of reporting.

- Submitted a complaint to the UK's Financial Reporting Council that reporting by two oil and gas companies Soco International and Cairn Energy is failing to provide prospective investors with sufficient information on climate risks

- Publication of an Opinion piece in the Financial Times calling on shareholders to vote against annual reports and auditors at companies where the reporting is substandard with regard to climate risks.

- Initiated engagements with major oil and gas companies that we currently hold on behalf of clients.

On launch of our Climate Active strategy we expect £100m of client assets to be invested in the fund, with £150m of assets following the approach on a segregated basis.

Given the increasing awareness of the issues around climate change, and our market-leading approach to stewardship and active engagement we expect additional assets will flow into this strategy over time.

Impacts of our Climate Active strategy

PDC asks for disclosure of the results of our climate investment products and services:

- Either in terms of a reduction in the portfolio carbon-footprint;
- A reduction in the portfolio carbon-intensity;
- A reduction in the portfolio exposure to GHG-related risks;
- The volume of capital reallocated in alignment with any climate change related goals; and/or
- A description of the outcome(s) resulting from a corporate engagement exercise and, where possible, an estimate of the reduction of GHGs from that exercise.

As noted previously, our Climate Active strategy has not yet been launched as we await regulatory approval. It is thus too early to measure results.

In the meantime, our ongoing policy outreach on climate risk reporting has attracted support from other large shareholders and the media, as highlighted above.

Confirmation of agreement that the PDC will publically disclose key elements of all the information submitted

We confirm that we agree to PDC publically disclosing key elements of all the information submitted.

Confirmation of continued support of PDC its vision, missions, goals, and recruitment activities.

We confirm that we will continue to support PDC its vision, missions, goals, and recruitment activities through our work in relation to the Climate Active Endowment Fund and associated strategy as well as our broader work in relation to responsible stewardship and active engagement.

Signature: ....

Date: 23.10.2017. ....

Important Information

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