

**SARASIN**  
& PARTNERS

**UNIVERSITY OF SHEFFIELD  
ENDOWMENT**

**IMPACT REPORT**

SARASIN & PARTNERS LLP



# INVESTING ON A SOCIALLY RESPONSIBLE BASIS

The primary purpose of the investment of the University's endowment is to optimise returns in order to generate sufficient revenue to meet the specific purposes for which the funding was given to the University.

The University is committed to investing on a socially responsible basis. The University believes that to accord with its values when investing, regard must be made to social, environmental, sustainability and governance issues. In making investment decisions, the University expects its Investment Managers to actively consider these factors.

Sarasin & Partners' investment approach is aligned with the values of the University and aims to invest in a way that supports sustainable economic progress while protecting the interests of future generations.

## RESPONSIBLE STEWARDSHIP

We seek to solve the problems of people and planet profitably (positive impact), while also ensuring that we do not profit from causing problems (adverse impacts). By identifying responsible companies which demonstrate these behaviours, we aim to create more durable economic value for the University.

Our stewardship philosophy is built on three pillars:

- A thematic investment process with environmental, social and governance (ESG) factors at its core
- Active engagement with companies and thoughtful voting, to drive positive change
- Policy outreach where they can play a positive role in shaping markets and regulation

# SCORING ENVIRONMENTAL, SOCIAL & GOVERNANCE IMPACTS

## HOW ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS ARE INCORPORATED

We have a proprietary sustainability matrix that is central to our process enables us to identify material ESG risks:



- We undertake a comprehensive analysis and over 160 data points and criteria are considered.
- Each measure is given a Red, Amber or Green traffic light to reflect the severity of the impact.

## HOW OUR TRAFFIC LIGHT SCORING IMPACTS OUR A-E COMPANY SCORE

- An overall ESG rating of A to E translates the E, S and G traffic lights into a rating reflecting the overall materiality of ESG impacts for the investment.

	• Highly material risks
	• Possible management of ESG risks
	• No concerns or has positive impacts



Not investable

(+/-)

Highest rating



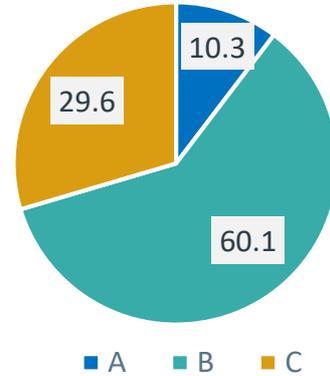
# UNIVERSITY OF SHEFFIELD ENDOWMENT – ESG SCORES

## TRAFFIC LIGHT RATINGS

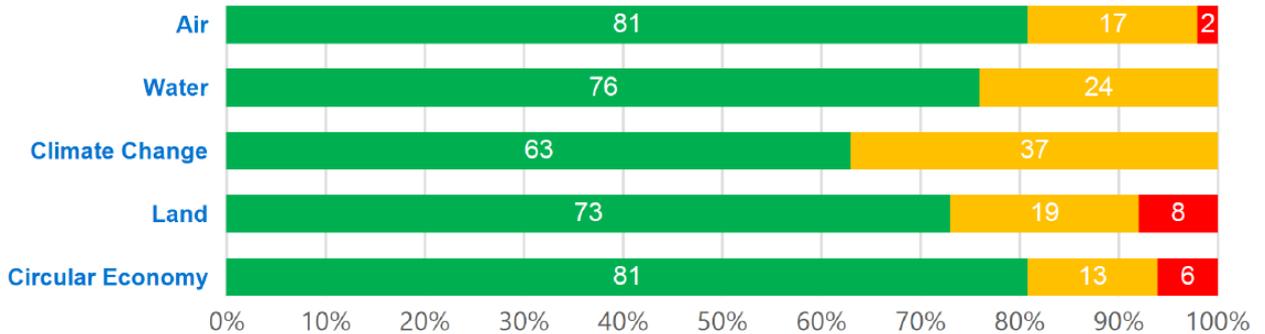
Where we identify amber and red flags (i.e. areas of elevated ESG risks), we would seek to engage with them and address our concerns.

For more systemic risks, we engage with the broader industry, like-minded investors, and other key actors in the market (e.g. auditors, policy-makers)

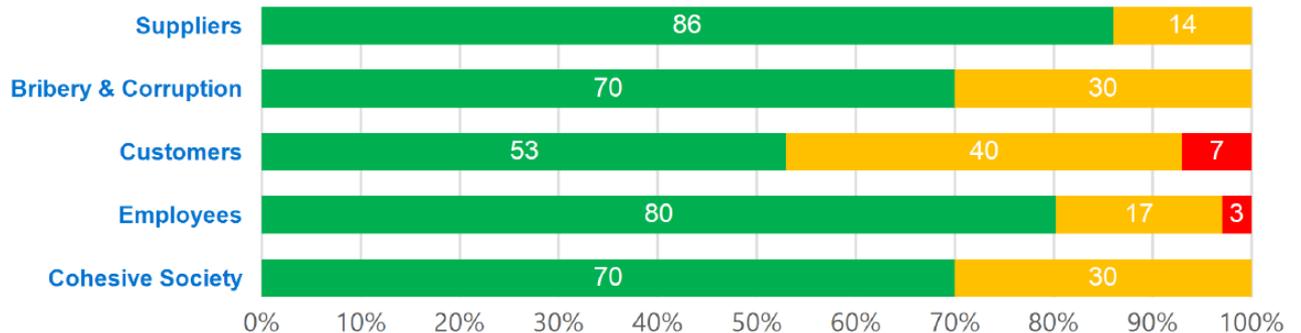
## COMPANY ESG SCORES



### Environmental performance



### Social performance



### Governance performance



Data as at 31.07.22

# UNDERSTANDING THE SARASIN SUSTAINABILITY MATRIX

*“The purpose of business is to solve the problems of people and planet profitably, and not profit from causing problems”* Principles for Purposeful Business – The British Academy Future of the Corporation, 2019

Financial capital cannot exist in isolation from the social capital and natural capital on which it depends. Sarasin & Partners utilises a framework to consider the interactions of all our investments with the environment, society and governance (ESG) and the harms that can be caused.

Each major issue is analysed using our primary research, supplemented by secondary sources. Harms to people and planet are identified and calibrated using a traffic light system, with red lights identifying significant adverse impacts.

A critical first step in putting a higher value on social and natural capital is to measure it better – the costs of human suffering or using up or damaging the environment are not reflected in GDP and other measures of national accounts. And they are not reflected in the financial accounts of most companies. The absence of information leads many to ignore the problems. With detailed data often not disclosed by the entity (or incomplete), we make our assessments using the quantitative and qualitative information available from multiple different sources, considering 137 different questions.

Having identified the impact issues, we then move on to separately consider our engagement strategy to encourage the entity to mitigate them and the financial materiality for our investment judgements.

## ENVIRONMENT



### CLIMATE CHANGE

We consider the nature of the entity's business and the contribution it makes to climate change, through direct and indirect emissions of greenhouse gases and damage from poor land and resource use. This includes the impacts of resource extraction, energy use, financing of climate change-causing activities, measurement, management and mitigation efforts. We examine plans for transition to net zero, including shorter-term targets for reduction and whether these are Science Based Targets.



### CIRCULAR ECONOMY

We examine the source and lifecycle of products, from raw materials, through processing, packaging and pollution, to product end-of-life. We look for policies on repair, refurbishment, remanufacturing and recycling and incentives to prevent waste. Beneficial product design or harmful practices like planned obsolescence are considered. Management's ambition to decouple growth from the consumption of resources, their environmental impact strategies, and waste management standards are examined.



### LAND

Use of land resources and the resulting impact on terrestrial biodiversity are analysed. Environmental impact controversies, policies on biodiversity and/or ecosystem preservation practices are considered and how the entity assesses, monitors and controls

these risks. Operations that could impact endangered species and/or protected areas are examined, along with consideration of major challenges such as deforestation, factory farming, antibiotic use, mono-culture, pesticide and chemical use, soil degradation etc.



### WATER

We consider whether the entity (or its products / value chain) pollute marine or other water ecosystems, extract from marine environments, damage marine /other water-related biodiversity or contribute to water stress. We look at the water sourcing impact on the water table/river or lake, water recycling and grey water as an output/input. Policies such as measurement of water intensity (consumption & withdrawal) and targets are explored as well as any water impact controversies and regulatory action or litigation linked to its impact on water and ocean resources.



### AIR

(This is separate to consideration of CO2 emissions which is dealt with under climate change). The major issues in air pollution include NOx/ Sox and particulates [PM2.5 / PM10]. We consider the nature of the entity's business and the contribution it makes to air quality. We examine the policies and practices of the entity, measurement and disclosure of emissions and air quality targets. We also explore activities that result in heat/ noise/light/dust and electromagnetic radiation.

# UNDERSTANDING THE SARASIN SUSTAINABILITY MATRIX



## SOCIETY



### SUPPLIERS

Cheap goods often stem from cheap labour and there can be significant pressures to reduce standards to cut costs in the supply chain. We want to see how the entity is checking for forced labour, working hours, fair & living wages versus minimum pay, health and safety and compliance with ILO guidelines. We may look for other indicators of poor practice including failure to pay suppliers in a reasonable timeframe, conflicts in labour relations and any controversies related to supplier treatment.



### EMPLOYEES

In developed markets there tend to be strong contractual and legal protections for employees, but this is not always the case (consider the 'gig' economy), particularly in the developing world. We look for unfair employment practices such as zero hours contracts, union bans, poor working conditions etc. and whether the entity references the fundamental conventions of the ILO / is an accredited Living Wage employer. We consider diversity and look for a gender gap regarding employment, pay and Board composition. Data pointers for health and Safety include employee fatalities and injuries and we may look at lost work hours, targets for incident reduction or staff turnover data. The geographic or sector footprint may point to modern slavery / child or forced labour.



### CUSTOMERS

We consider whether the entity's products or services cause harm to customers. This includes traditional 'ethical' concerns including tobacco causing cancer; alcohol and gambling causing addiction, crime and family breakdown; firearms causing injury

and gangsterism; pornography and prostitution causing exploitation and dehumanization. But there can be many forms of 'negative externality' including more recent concerns such as impacts from video gaming or opioid addiction. Health concerns, product safety, privacy & data security controversies are all areas of potential harm.



### BRIBERY & CORRUPTION

The rule of law is weak and still poorly policed in many countries. Recent or outstanding bribery and corruption controversies may be one indicator of poor practices as are operations in countries ranked low in the Corruption Perceptions Index. Some industries are also more vulnerable to bribery and corruption, e.g. government procurement of infrastructure, healthcare, utilities or resource extraction. To mitigate the risks we look for a whistle blowing mechanism and additional checks of internal controls by the auditor.



### COHESIVE SOCIETY

There are many ways in which entities can abuse their position in society, for example, setting unreasonable terms for those with little choice, as in the pay day lending scandals, or avoiding tax. In some countries, companies may exercise control over populations or exert political influence and there are examples of infringing communities' access to water supplies or indigenous lands. We look for controversies over abuse of power or political interference. There are many different ways in which the 'moral compass' can point in the wrong direction or entities can abuse the community.

# UNDERSTANDING THE SARASIN SUSTAINABILITY MATRIX

## GOVERNANCE



### BOARD STRUCTURE

Different laws, standards and codes around the world regulate board

composition, but some principles to represent the interests of minority shareholders are universal. All the directors should have appropriate skills and experience and there should be good diversity. The directors should apply sufficient attention to the business and we might vote against the reappointment of any that are 'over boarded'. We look for a lead independent director (LID) and a significant level of director independence, in particular, on board committees. We consider governance to be more effective when the positions of Chair and CEO are separate.



### INVESTOR RIGHTS

The history of different entities give rise to varying capital

structures and investor rights. The ideal is a plural, one-member-one-vote system. Multiple share classes may indicate different (restricted) rights for minority shareholders and/or concentrated power in the hands of a significant or controlling shareholder. We will want to examine any history of shareholder abuses by a controlling/majority shareholder and any golden share or poison pill provisions.



### REPORTING & CONTROLS

The financial report and accounts are the primary communication

between the management of an entity and its stakeholders and it is critical that they reflect an accurate position. The accounting standards used are an important factor, but the degree of prudence and accuracy is assessed by the independent auditor. It is important to note that the auditor reports to the members and not to

the management and the auditor should have no conflicts of interest. These can arise if the auditor has had a long tenure (over 15 years) or if the audit firm earns significant non-audit fees. It can be instructive to review the topics identified in the extended auditor report as Key Audit Matters / Key Accounting Judgements and any 'Matters of Emphasis' / 'Qualified Accounts' in the past three years. Internal management controls are important and we might look at any recent investigations of the company's financial systems/ internal controls and the outcome. An independent and anonymous whistle-blower system should be in place.



### EXECUTIVE REMUNERATION

A balance needs to be struck in incentivising management:

remuneration should reward good long-term performance, aligned with the objectives of shareholders and in consideration of all stakeholders. We consider the total pay (including pensions) of the CEO and other key executives and expect them to have a significant shareholding in the business to ensure alignment (and that it is retained for at least a year after departure). We look at the main performance metrics used to determine CEO & CFO performance related remuneration and for KPIs for ESG. Overall, remuneration should be reasonable and we will consider the differential between CEO pay and average employee pay.



### BUSINESS ETHICS

The culture of a business is crucial to its relationship with

all stakeholders and its long-term value. We look for risks stemming from unethical behaviour e.g. anti-competitive behaviour; bribery and corruption (as under cohesive society above); exploitation of people or

natural resources; and other abuses that might raise questions over the reputation and trustworthiness of the entity. We would consider carefully any controversies linked to lobbying of governments, membership of collective business associations, human rights issues or links to entities without international framework agreements combating human trafficking.

# INVESTMENTS THAT HAVE A POSITIVE IMPACT

There are a number of holdings in Sheffield University's portfolio that are having a positive impact on society. Through the University's investment in the Sarasin Responsible Corporate Bond Fund the University provides financing for:

- charities
- education (universities) and student housing
- housing associations
- renewable energy infrastructure
- green bonds

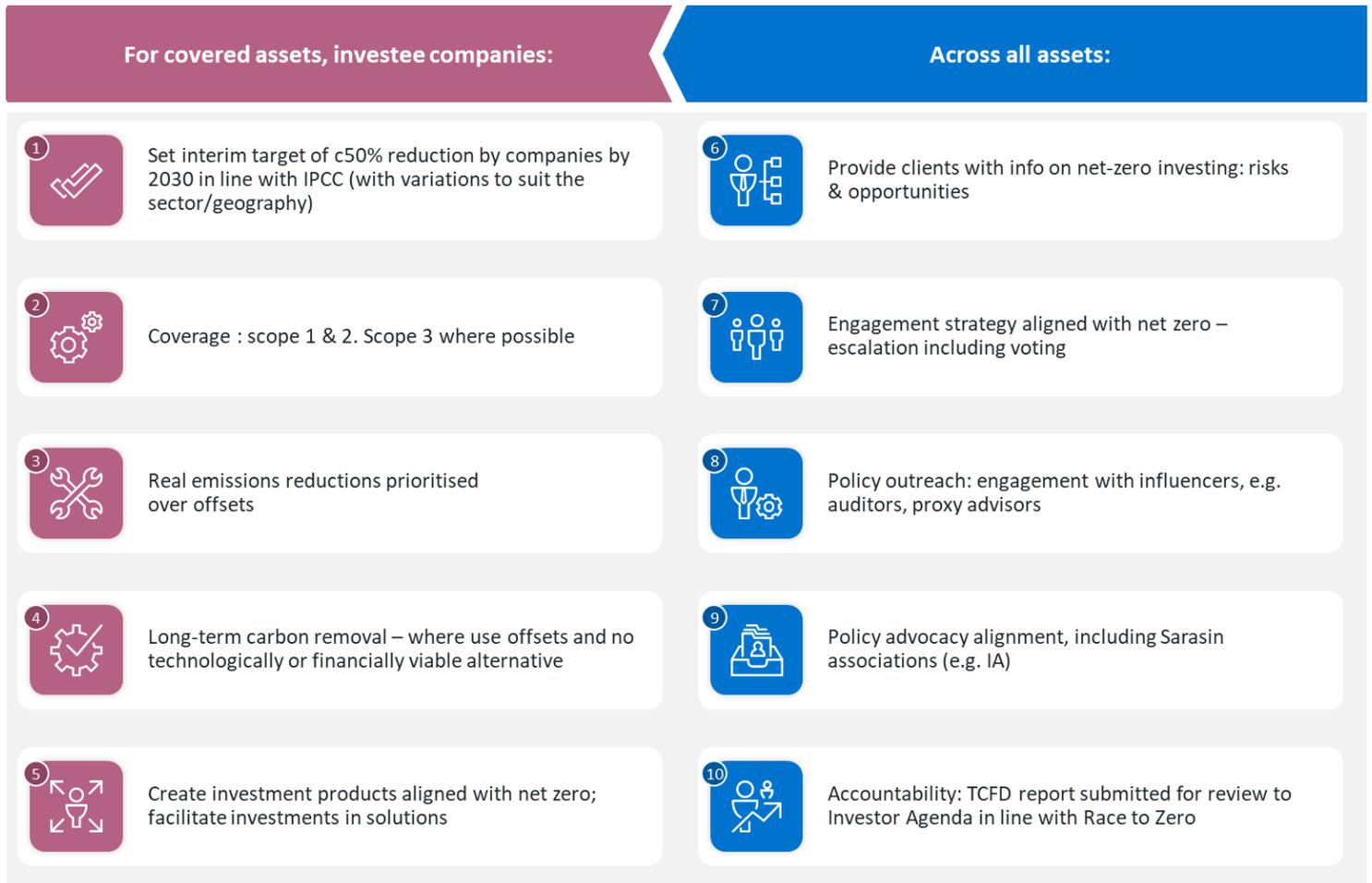
In addition to the above there are specific investments made in Investment Trusts that own businesses operating in the following areas:

- digital infrastructure
- renewable energy
- energy storage
- healthcare innovation

Taken together, these assets account for **10.4% (£4.9m)** of the University's Endowment as at 31.07.22.

# OUR NET-ZERO ACTON PLAN 2022

## TEN DETAILED COMMITMENTS



# COMPANY ENGAGEMENT EXAMPLES

Company	Engagement issue & latest action
<b>Air Liquide</b>	<p>Seeking net zero commitment to cover scope 3 emissions; more detailed strategy/capex to support net zero goal and NZ accounting.</p> <p><b>Action and result:</b> Letter to Audit Committee Chair; meeting with VP of Group Reporting; Vote alert published. New climate targets include an absolute reduction in Scope 1 &amp; 2 emissions by 33% by 2035 (vs 2020 levels), and a carbon neutrality target for 2050. Additional accounting disclosures include an affirmation that climate risks are fully accounted for. New strategy puts decarbonisation at its heart.</p>
<b>Blackrock</b>	<p>Discuss voting and backlash against 'woke' capitalism in US</p> <p><b>Action and result:</b> Meeting with Company Secretary (May) and separately Global Head of Stewardship (June) following letter to Chair seeking confirmation that they would be aligning their voting with a net zero goal.</p>
<b>Deere</b>	<p>Seeking explicit Net Zero by 2050 commitment, supported by transition plan and NZ accounting</p> <p><b>Action and result:</b> Call with LID (Chad Holliday). The company published new LEAP strategy that puts sustainability, and decarbonisation, at its heart. Considering net-zero commitment and accounting requests.</p>
<b>NextEra</b>	<p>Discuss lack of a clear net zero commitment or transition plan. Concerns over Board access, independence and effectiveness.</p> <p><b>Action and result:</b> Pre-declared vote against LID and Chair; CA100+ flag. The company published 'Real zero' commitment and Zero Carbon Blueprint outlining key elements of transition plan.</p>

## A focus on diversity & inclusion

As investors, we ask that UK companies, in addition to disclosing racial diversity data, establish transparency on par with gender disclosures and set out plans to increase racial diversity and inclusion in their workforce.

We support the UK 30% Club targets:

- **At least one person of colour** on FTSE 350 boards and executive committees by the end of 2023.
- And as the 30% Club campaign is focused on gender, we expect at least half of those appointments to go to **women of colour**.

In 2021, wrote to 24 key companies; c. 80% response rate. Seven companies now meet our guidelines (including Deere, Mastercard and Medtronic). Three have made meaningful progress. We continue to have active discussions with investee companies.

# OUTREACH AND THOUGHT LEADERSHIP HIGHLIGHTS

## SEC PROPOSED RULE ON CLIMATE-RELATED DISCLOSURES

- Sarasin had made a submission to the SEC consultation, which is [further detailed here](#).
- On March 21<sup>st</sup> 2022, the Securities and Exchange Commission proposed rule changes that would require registrants to include certain climate-related disclosures in their registration statements and periodic reports, including information about climate-related risks that are reasonably likely to have a material impact on their business, results of operations, or financial condition, and certain climate-related financial statement metrics in a note to their audited financial statements.
- These proposals provide a proof point of the global impact of our policy outreach on accounting & audit

## AUDITOR ENGAGEMENT UPDATE

### PWC (May 2022)

Head of Audit  
Head of Public Policy  
Lead for the tech accounting department  
Climate risk specialist

- Training and infrastructure built in-house
- 2021 Reports: 88% Auditor reports cover climate (up from 15% FY2020); 81% FS vs 27% in 2020FY
- Few changes in assumptions – too uncertain
- 1.5°C alignment rarely mentioned
- NZ target integration where specific action plan

### EY (July 2022)

Chair & Managing Partner  
Head of Audit  
Head of Public Policy  
Financial services partner  
INEs and Audit Non-Execs, Board

- 2021 Reports: 95% auditors now include mention; 78% FS now reference CC – 54% said no material impact
- Few changes in assumptions – despite 46% saying material
- Banks: Not mentioned in FS: must have 'reasonably supportable information'



Further details are available at: [www.sarasinandpartners.com/stewardship/](http://www.sarasinandpartners.com/stewardship/)

# HOW SARASIN PARTNER WITH OTHER ORGANISATIONS

## ENVIRONMENT & SUSTAINABILITY

- Sarasin [Climate Pledge](#): committed to aligning the business and investee companies with net-zero
- Pathway to 100% Net Zero Alignment by 2025
- Support the [Task Force on Climate-related Financial Disclosures \(TCFD\)](#)
- Support the [Carbon Disclosure Project \(CDP\)](#)
- Member of the [Institutional Investors Group on Climate Change \(IIGCC\)](#)
- Signatory of the [Paris Pledge for Action](#)
- Member of Climate Action 100+, Portfolio Decarbonisation Coalition, and Transition Pathway Initiative
- Challenge the UK's audit regulator on inadequate climate risk reporting
- Integrate climate risks in investment analysis and invest in clean energy
- Member of [Farm Animal Investment Risk and Return \(FAIRR\)](#) – promotes sustainable protein supply chains
- Member of [Plastic Solutions Investor Alliance \(PSIA\)](#)
- Endorse the [Ellen MacArthur Foundation New Plastics Economy Global Commitment](#)
- A founding signatory of the [Net Zero Asset Managers Initiative](#).

## SOCIAL

- Member of the [30% Group Investor Initiative](#) – encouraging gender diversity and leading on race equity
- [Interfaith Center on Corporate Responsibility \(ICCR\)](#) – signatory to ICCR's investor statement on Covid-19 response to companies, calling for fair and responsible behaviour
- Founding signatories of the [Workforce Disclosure Initiative](#) – seeking to improve health & safety standards, policies and practices related to employee wellbeing
- Collaboration with [ShareAction](#)
- [The Local Authority Pension Fund Forum](#)
- Monitor companies and their supply chains for labour issues, including child labour and slavery, poor health and safety, poor levels of pay and benefits

## GOVERNANCE

- Signatory of UN Principles for Responsible Investment (UNPRI) – 2020 score of A+
- Signatory to the UK and Japanese Stewardship Codes
- Passed the FRC's UK Stewardship Code Test 2021/22
- Advisory Group for International Audit & Assurance Board
- Member of the [Investors coalition on International Financial Reporting Standards \(IFRS\)](#)
- Member of the [Investor Advisory Group of the Financial Reporting Council \(FRC\)](#)
- Member of various corporate governance networks and initiatives, detailed on [our website](#)
- Utilise the Oxford Martin School Investment and Engagement Principles

Further details are available at: [www.sarasinandpartners.com/stewardship/](http://www.sarasinandpartners.com/stewardship/)

# SARASIN'S RESPONSE TO THE RUSSIAN INVASION OF UKRAINE

## MONITORING AND ENGAGING WITH COMPANIES ON THEIR RESPONSE

### What we said in our statement published on 5 April:

- Our sympathy with the unfolding crisis in Ukraine, and our support of private companies' moves to terminate or suspend their operations in Russia
- How we are assessing our portfolio risks
- How we will monitor and engage, where relevant, on related human rights issues

### What we did where revenue exposure or societal footprint in Russia were material:

- We monitored via companies' announcements and the Yale School of Management web resource
- We engaged where information was not sufficient or we had concerns
- Our focus was on the decisiveness of response, as a signal of company opposition to the violation of human rights in Ukraine

### We did that because of the following reasons:

- We were following our Ownership Discipline
- We saw this as potentially material information for our SIM assessment
- We were concerned with reputational risks of companies and, as a consequence, financial risks from continued presence in Russia

## THREE GROUPS OF COMPANIES

### 1. Group I

Satisfactory from a human rights perspective, such as:

- Microsoft
- Mastercard
- Disney
- Schneider Electric

### 2. Group II

Adequate action but constrained by external circumstances:

- Deere & Co
- OTIS

### 3. Group III

Much less decisive for extended periods of time:

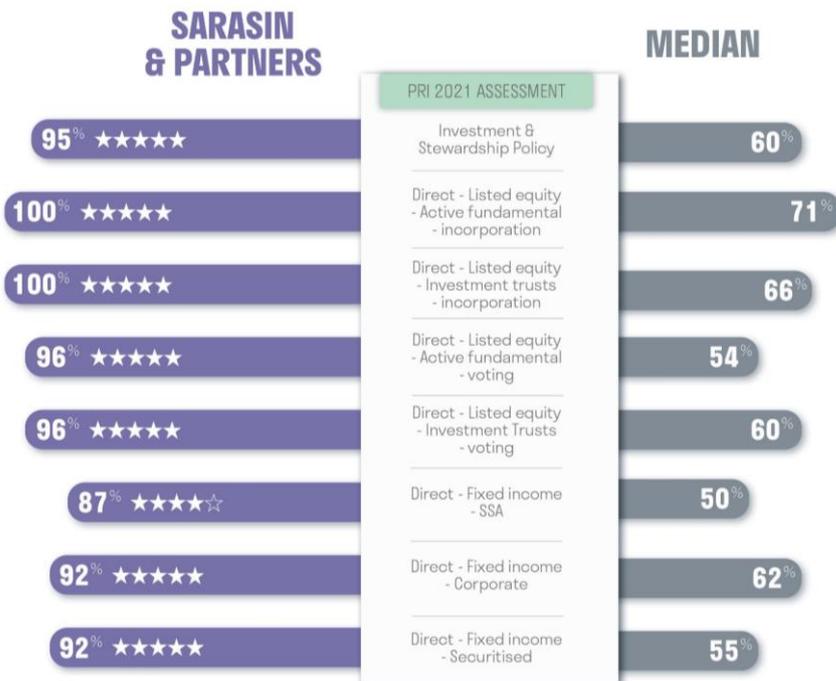
- EssilorLuxxotica
- Colgate
- Unilever
- IFF

## SUMMARY

- This response can be seen as a test of corporate policies relating to human rights, democracy and the rule of law
- Companies taking decisive action to discontinue operations in Russia will be, in our opinion, more resilient as the conflict drags on

# INDEPENDENT VERIFICATION OF OUR WORK

## UN PRI (Principles for Responsible Investment) 2021 Reporting Framework scores



## UK Stewardship Code – 2022 Assessment Successful signatories for the second year

- PRINCIPLE 1**  
Purpose, strategy and culture
- PRINCIPLE 2**  
Governance, resources and incentives
- PRINCIPLE 3**  
Conflicts of interest
- PRINCIPLE 4**  
Promoting well-functioning markets
- PRINCIPLE 5**  
Review and assurance
- PRINCIPLE 6**  
Client and beneficiary needs
- PRINCIPLE 7**  
Stewardship, investment and ESG integration
- PRINCIPLE 8**  
Monitoring managers and service providers
- PRINCIPLE 9**  
Engagement
- PRINCIPLE 10**  
Collaboration
- PRINCIPLE 11**  
Escalation
- PRINCIPLE 12**  
Exercising rights and responsibilities

Source: PRI 2021 Assessment – Published 8 September 2022

## IMPORTANT INFORMATION

This document has been issued by Sarasin & Partners LLP which is a limited liability partnership registered in England and Wales with registered number OC329859 and is authorised and regulated by the UK Financial Conduct Authority. It has been prepared solely for information purposes and is not a solicitation, or an offer to buy or sell any security. The information on which the document is based has been obtained from sources that we believe to be reliable, and in good faith, but we have not independently verified such information and we make no representation or warranty, express or implied, as to their accuracy. All expressions of opinion are subject to change without notice.

**Please note that the prices of shares and the income from them can fall as well as rise and you may not get back the amount originally invested.** This can be as a result of market movements and also of variations in the exchange rates between currencies. **Past performance is not a guide to future returns and may not be repeated.**

Neither Sarasin & Partners LLP nor any other member of the Bank J. Safra Sarasin group accepts any liability or responsibility whatsoever for any consequential loss of any kind arising out of the use of this document or any part of its contents. The use of this document should not be regarded as a substitute for the exercise by the recipient of his or her own judgment. Sarasin & Partners LLP and/or any person connected with it may act upon or make use of the material referred to herein and/or any of the information upon which it is based, prior to publication of this document. If you are a private investor you should not rely on this document but should contact your professional adviser.

© 2022 Sarasin & Partners LLP – all rights reserved. This document can only be distributed or reproduced with permission from Sarasin & Partners LLP.

# SARASIN & PARTNERS

Juxon House  
100 St Paul's Churchyard  
London  
EC4M 8BU

T: +44 (0) 20 7038 7000  
[www.sarasinandpartners.com](http://www.sarasinandpartners.com)

