

**SARASIN**  
& PARTNERS

# UNIVERSITY OF SHEFFIELD ENDOWMENT

## IMPACT REPORT

SARASIN & PARTNERS LLP

31 July 2023



# 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 180 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



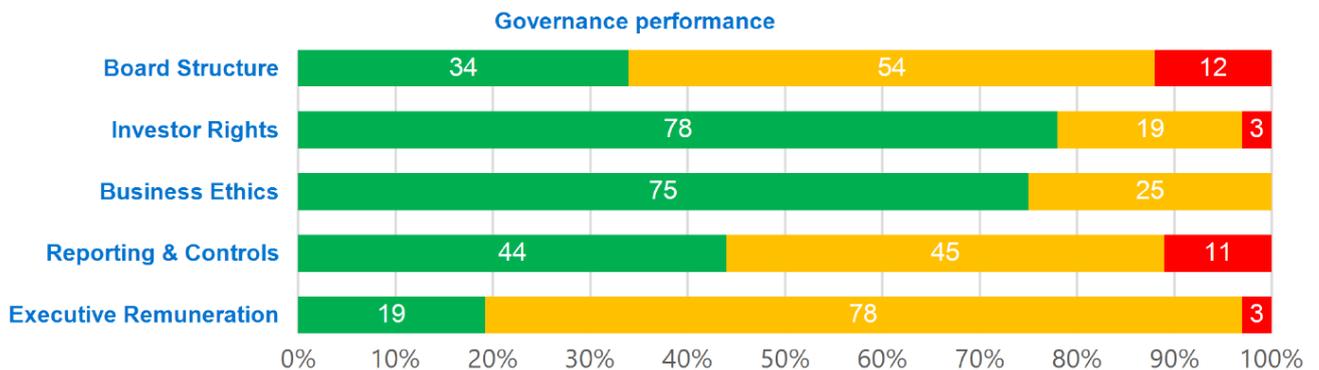
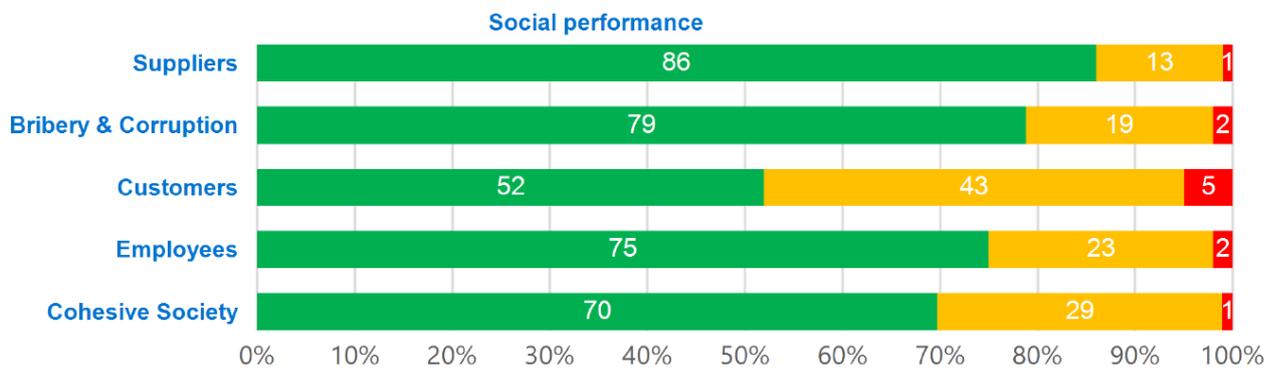
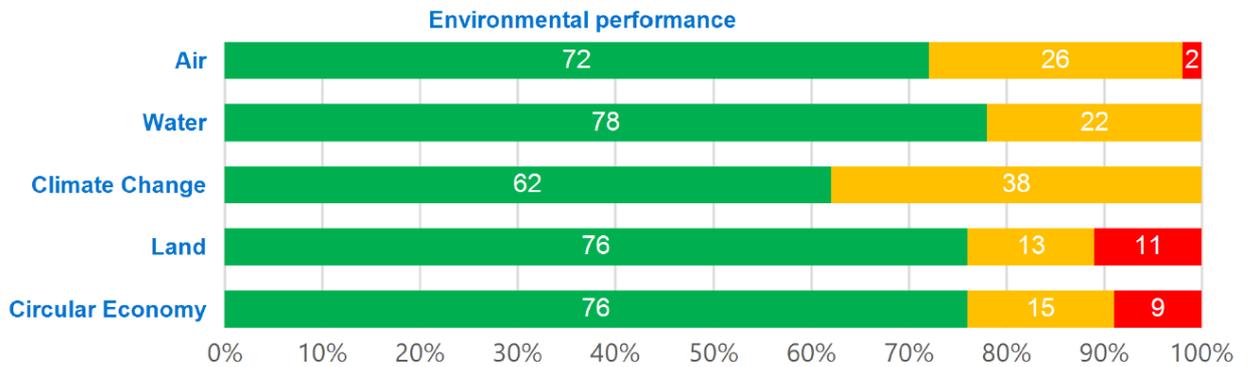
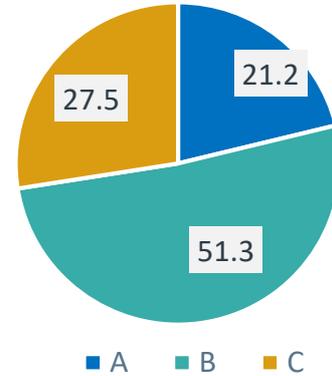
# UNIVERSITY OF SHEFFIELD ENDOWMENT – ESG SCORES

## 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



# 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, it 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 equities and Investment Trusts that own businesses operating in the following areas:

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

Taken together, these assets account for **14.1% (£6.6m)** of the University's Endowment as at 31.07.23.

# OUR NET-ZERO ACTION PLAN

## TEN DETAILED COMMITMENTS



# COMPANY ENGAGEMENT EXAMPLES

| COMPANY             | ENGAGEMENT GOAL AND ACTIVITIES   | MILESTONES AND IMPACTS   |
|---------------------|--|--|
| Air Liquide         | <p>Leading collaborative engagement with the Chair of the Audit Committee focused on improved climate-related disclosures in financial statements, including 1.5°C-scenario disclosures.</p> <p>Following a collective investor letter to the Audit Committee Chair, copied to other audit committee members and the Lead Audit Partner, we held several discussions with IR and the Head of Group Reporting. Sarasin &amp; Partners <a href="#">pre-declared its AGM votes</a> on its website, including abstention on financial statements and voting against the auditor's re-appointment. Following the annual general meeting (AGM) Sarasin coordinated a follow-up collective letter to the audit committee and separately to the chair, outlining its voting decisions.</p> | <p><b>Milestone:</b> Published audit committee response to Sarasin-led letter on website and additional climate-related disclosures in the 2021 financial statements</p> |
| Bank of Nova Scotia | <p>Leading collaborative engagement with the Chair of the Board to seek net-zero commitment.</p> <p>Following our 2021 engagement with the Board, we held meetings with the Chair, Human Capital and Compensation Committee Chair, Corporate Secretary and Chief Corporate Governance Officer and, separately, with the CFO.</p> <p>We implemented our climate voting policy at the AGM and wrote to the Chair again explaining our votes against the Audit Committee Chair, auditor, Remuneration Committee Chair and remuneration, all including climate factors.</p>  | <p><b>Impact:</b> Climate Change Action Plan published with net-zero commitment and details of transition plan</p>   |
| Equinor             | <p>Leading collaborative engagement with the Chair of the Audit Committee for improved disclosure of climate considerations in the financial statements.</p> <p>Due to a lack of response to our second letter to the Audit Committee Chair, copied to other audit committee members and the Lead Audit Partner, we <a href="#">pre-declared our votes</a> against Equinor's Net Zero Transition Plan, the annual report and accounts, as well as auditor remuneration, due to concerns around inadequate disclosures and action on decarbonisation. We wrote to the Chair to explain our voting decisions.</p>  | <p><b>Milestone:</b> Included commentary on how climate change was factored into accounts, and a 1.5°C sensitivity for upstream oil and gas assets</p>                   |
| HSBC                | <p>Sarasin leads the Institutional Investors Group on Climate Change (IIGCC) Net Zero banking working group's collaborative engagement with HSBC. The goal is to gain greater clarity on the implementation of the bank's 2050 net-zero commitment and accounting alignment.</p> <p>Specific actions in 2022 included communication with IR on HSBC's scoring against the pilot net-zero banking standard, a follow-up roundtable discussion on the framework and a call to explore alignment to accounting and lobbying dimensions in greater detail.</p> <p>Following implementation of our climate voting policy, we wrote to the Chair to explain our votes against the Audit Committee Chair, the auditor, remuneration and the financial statements.</p>                     | <p><b>Impact:</b> Published energy and updated thermal coal financing policies</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**.
- Beyond **30% of all new FTSE 350 chair appointments** to go to women between by the end of 2023 .
- Promoted ethnic minority representation by engaging with 41 companies, 16 of which now comply with the Parker Review.

96% of FTSE 100 had at least one ethnic minority director by December 2022, up from 47% in 2016

67% of FTSE 250 met the target as of December 2022. *Source Parker Review 2023*

# OUTREACH AND THOUGHT LEADERSHIP HIGHLIGHTS

## POLICY OUTREACH REQUIRES PRIORITISATION, TENACITY AND RESOURCING

We believe adverse impacts on society that emanate from corporate behaviour will ultimately harm our clients' interests. A core part of our job is doing what we can to prevent this.

Inevitably, we have to prioritise when we undertake policy work. We cannot act on everything, so we must identify those issues that are most damaging and urgent, and also where we can realistically catalyse change.

As policy outreach can take years to come to fruition, we also need to be tenacious and outcomes-focused. We need to be willing to escalate, even where this can be uncomfortable.

## CASE STUDY: ETHICAL ARTIFICIAL INTELLIGENCE (AI)

Having co-signed the [Investor Statement on Ethical AI](#) published by the World Benchmarking Alliance in April 2022, we joined the Ethical AI Collective Impact Coalition (CIC). The coalition was formally launched in September 2022 and includes a group of 30 investors representing \$6.4 trillion in AUM.

This collective engagement is looking to boost the extent to which the sustainable approach to design and use of any AI technologies by key tech sector companies is (a) in line with the [UN Guiding Principles of Business and Human Rights](#), and (b) public. Companies are expected to assess and minimise their negative human rights impacts.

The coalition has prioritised engagements with 40 of the most powerful digital economy companies with a measurable aim: to see an increase in disclosed commitment to ethical AI principles.

## OUR PRIORITIES

In 2022 we have retained the four priorities from 2021, but added two new focus areas for market outreach: Responsible Tech and Circular Economy, as summarised below:

- Accounting reform to support long-term stewardship of capital;
- Reliable and transparent audits that support corporate accountability;
- Paris-aligned accounting and audit to support the achievement of a 1.5°C-world;
- Labour rights and human rights across the value chains



"We encourage the companies we invest in to implement policies and mechanisms to ensure the ethical development and application of AI, guided by respect for human rights and the principle of leaving no one behind. As a first step, we specifically ask that companies disclose a commitment to abide by principles for ethical AI development and application. Such disclosure will signal that a company gives serious attention to this issue from the highest levels of management."

Investor Statement on Ethical AI - World Benchmarking Alliance

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

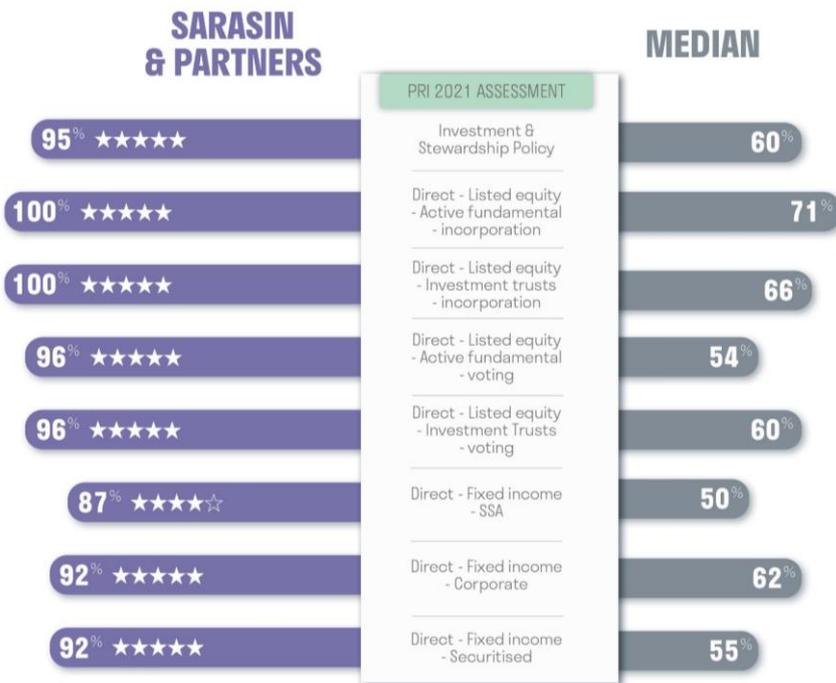
## GOVERNANCE

- Signatory of UN Principles for Responsible Investment (UNPRI)
- 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/)

# INDEPENDENT VERIFICATION OF OUR WORK

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



## UK Stewardship Code – 2022 Assessment Successful signatories for the third 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

“My experience of Sarasin & Partners is that they are focused on identifying those issues which, if tackled, can fundamentally change the game when it comes to tackling climate risk. Their leadership among global investors on company accounts and audit is a perfect example: not immediately headline-grabbing and challenging to snappily condense if PR is your focus, but actually maybe the lynchpin issue when it comes to ensuring company and investor capital is allocated taking climate risk into account. Sarasin & Partners have led their peers in understanding this issue and using their voting rights to drive change.”

Louise Rouse, Independent Advisor to Greenpeace

“Sarasin & Partners’ approach to stewardship of companies is both more strategic and more courageous than the vast majority of fund managers we assess across the world. Not afraid to stick their head above the parapet, Sarasin achieves outsized impact on companies, driving them towards greater resilience and sustainability.”

Catherine Howarth, CEO, ShareAction

Source: PRI 2022 Assessment – Published April 2023

## IMPORTANT INFORMATION

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