

# **SARASIN** CLIMATE ACTIVE STRATEGY

A Paris-aligned investment  
solution for Charities

2022

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



# CONTENTS

<b>BACKGROUND</b>	<b>04</b>
<b>GOVERNANCE AND OVERSIGHT</b>	<b>06</b>
<b>KEY INFORMATION - THE SARASIN CLIMATE ACTIVE ENDOWMENTS FUND</b>	<b>08</b>
<b>COMPANY ENGAGEMENT IN MORE DETAIL</b>	<b>11</b>
<b>CHANGING THE SYSTEM TO PROTECT OUR CLIMATE</b>	<b>12</b>
<b>KEY ACTIVITIES SINCE LAUNCH</b>	<b>13</b>
<b>IN SUMMARY</b>	<b>15</b>







# WHY MIGHT CLIMATE ACTIVE SUIT YOU?

Climate change poses potentially catastrophic risks to our way of life. It is also driving government policy that is set to transform how we produce and consume energy, and how businesses operate within society. The world has set itself a target to keep temperature increases below 1.5°C (the Paris Climate Accord goals), which means we must collectively ensure net carbon emissions come down to zero between 2050 and 2070. The investment community must play its part in accelerating change, to align our long-term financial risks with the long-term sustainability of our planet.

The **Sarasin & Partners Climate Active Strategy** is designed for investors who are seeking to promote change, in alignment with the goals of the Paris Climate Agreement.

Charities can access the strategy in one of two ways:

- the Sarasin **Climate Active Endowments**; a diversified multi-asset fund designed to achieve a total return of CPI +4% over the longer term.
- a **segregated equity only portfolio**; where trustees wish to only allocate to equities, or a bespoke asset mix, or require additional ethical exclusions.

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.

Since launching in February 2018, the strategy has gathered over >£1bn<sup>1</sup> of assets, via a combination of pooled and segregated mandates.

## Have you considered how climate change impacts your investments?

<sup>1</sup> As at 30.06.21

# BACKGROUND

In 2015, the world set itself a target to keep temperature increases below 1.5°C (the Paris Climate Accord goals). This was in response to overwhelming scientific evidence that the climate is warming at an unprecedented rate, and the potentially devastating impact this will have for millions of people.

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. It is clear that the transformation of the global economy also needs to accelerate.

## A PARIS-ALIGNED APPROACH

Our Climate Active approach is appropriate for investors concerned 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.
- It is important to press for more government policy action
- Shareholders have a role to play in guiding company boards to align with the Paris goals.

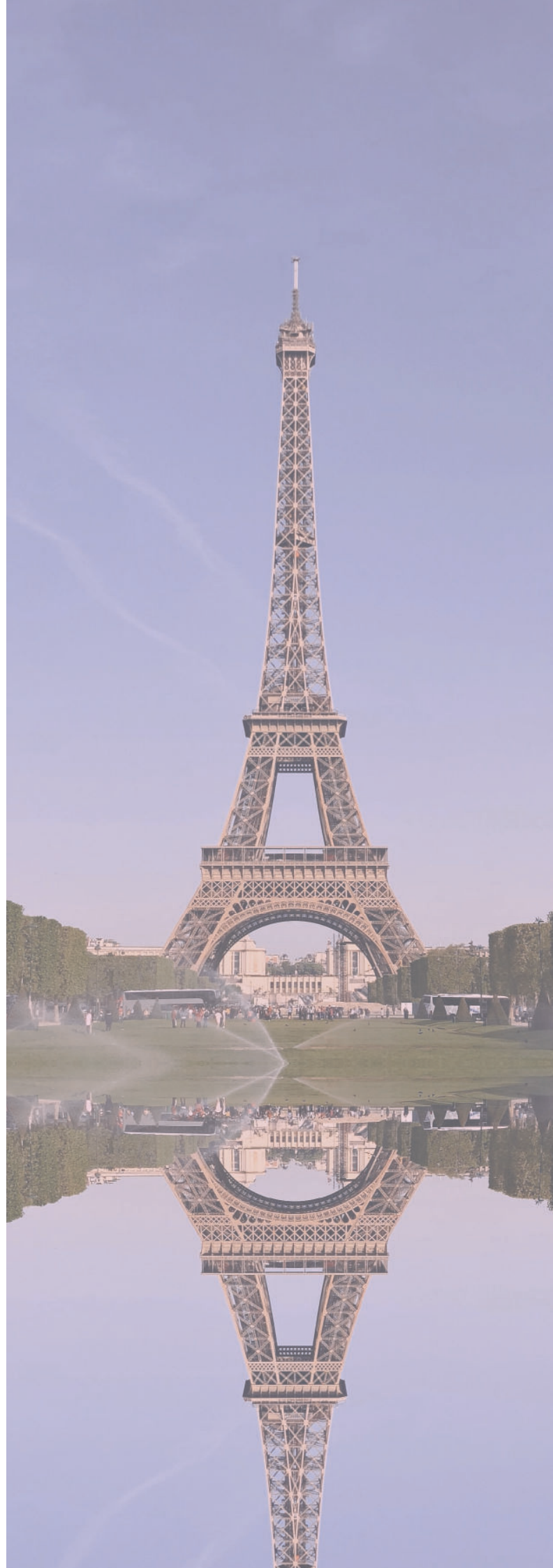
## COMPANIES NEED TO BE PART OF THE SOLUTION

Governments must create the environment that drives decarbonisation, but it is companies that will be the principal vehicles for achieving the energy transformation.

There is a deeply entrenched relationship between virtually every company and fossil fuels; they have become part of our economic DNA. Moreover, greenhouse gas emissions are a natural consequence of a range of land-based and industrial processes. This relationship leaves almost all companies exposed to some form of climate risk. Investors must be cognisant of these risks and all market participants, therefore, need to be part of navigating the global effort to meet the Paris goals.

We believe that governments must create an environment that drives decarbonisation, and that companies will be the principal vehicles for achieving the energy transition.

In order to deliver sustained shareholder value many companies will need to adjust their strategy and we must understand how climate change will impact a company's long-term profitability.



Furthermore, we must be prepared to hold management to account to ensure that they address material issues related to climate change.

## COMBINING INVESTMENT AND ENGAGEMENT

We aim to deliver attractive returns as the world accelerates its transition to net-zero emissions by investing in companies that we expect to create value from strategies consistent with a below 1.5°C cap in global warming. We also look for companies that will be resilient to the physical impacts of climate change.

Not all companies are aligned with the Paris goals, but 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 alignment with the Paris goals. We will engage with companies that fail to articulate a compelling strategy and will divest if there is no progress within three years.

## ACTIVE OWNERSHIP

In our engagements with companies, the Sarasin Climate Active approach is informed by the Oxford Martin School 'Principles for Climate-Conscious Investment'<sup>2</sup>



The Oxford Martin School 'Principles for Climate-Conscious Investment':

1. Commitment to net-zero emissions by a specific date or at a temperature increase cap (e.g. "below 1.5°C"), including supply chains and products sold (i.e. Scope 3 emissions)
2. A profitable net-zero-emission business model: to demonstrate viability and credibility of the strategy
3. Quantitative mid-term targets: to enable verification of progress towards net-zero emissions

This means that directors must commit to a 2050 to 2070 net-zero carbon emission pathway, and set out how they will get there in a way which enhances shareholder capital<sup>3</sup>.

To achieve these engagement objectives, the Sarasin Climate Active approach uses active ownership tools ranging from voting and engagement, to public calls for action and building coalitions with like-minded stakeholders.

Company engagements are 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 helps to ensure that we select our targets wisely and that the engagements are effective.

## MULTI-ASSET WITH AN ETHICAL OVERLAY

Sarasin & Partners can apply its Climate Active approach across bonds, equities and alternative assets.

In addition to the embedded climate active principles, the Sarasin Climate Active Endowments CAIF also avoids investment in a limited number of other controversial industries. Where clients want to follow their own specific ethical investment policy, we are happy to discuss how these can be integrated into a bespoke, segregated portfolio.

<sup>2</sup>Original principles published in 2015, with revised principles published in 2018.

<sup>3</sup>Special Report: Global Warming of 1.5°C by IPCC, published October 2018



# GOVERNANCE AND OVERSIGHT

## THE CLIMATE ACTIVE ADVISORY PANEL

We have two bodies that help steer our work and hold us to account. The Panel is an advisory body with no oversight responsibility, but which challenges the team on how it is integrating climate risks into investment decision-making, our engagement work and policy outreach. The Committee is a body with oversight powers as required under the CAEF structure.

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.



### 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.

# THE CLIMATE ACTIVE ADVISORY COMMITTEE

Sarasin & Partner's Climate Active approach was officially announced with the launch of the Climate Active Endowments Fund in February 2018.

In late 2005, Sarasin & Partners launched the original Endowments Fund with £50m of assets: it has since grown to over £1.9bn and is followed closely by over £3bn of segregated mandates as at 31 December 2020. Having developed our new Climate Active approach with a number of interested clients, in February 2018, £80m of assets spun out of the original Endowments Fund to launch the Climate Active Fund. As at 31 December 2020, the Climate Active Endowments Fund has grown to over £350m and is followed closely by a further £535m+ of segregated mandates.

Structured as a CAIF\*, charities investing via the fund not only benefit from very simple administration and efficient implementation, but also from the added oversight of the CAIF Advisory Committee. The Committee meet with Sarasin & Partners four times a year; the role of the committee is to review and challenge the activities of the fund on behalf of the underlying unit holders. The Committee also attend the Advisory Panel meetings.



## CHRIS STEPHENS (CHAIR)

Chris is Chairman of OCS Group and a Trustee of Power to Change. Previously he was Chairman of the Judicial Appointments Commission (JAC), a Member of the Senior Salaries Review Board (since 2009) and a Civil Service Commissioner (2004-2009). As well as a non-executive director of WSP, a global engineering consultancy, and Holidaybreak plc, a travel and education business. He was Chairman of Traidcraft (until March 2011) and Chairman of the DHL (UK) Foundation (until May 2011), a charity committed to community development and education projects both in the UK and worldwide.



## KATIE BLACKLOCK

Katie is a former fund manager who spent 15 years investing in emerging markets. She was a founding partner of the London based hedge fund Nevsky Capital and continues to be involved in financial markets through her non-executive roles at Edmond de Rothschild. She is also a member of M&G Plc's With Profits Committee.

\*CAIF: Charity Authorised Investment Fund, an FCA regulated UCITS fund, designed for charities

# KEY INFORMATION - SARASIN CLIMATE ACTIVE ENDOWMENTS FUND

Sarasin Climate Active is available as a multi-asset or single-asset portfolio, designed for charity investors who are seeking attractive and sustainable investment returns by investing in a way that is aligned with the Paris Climate Accord, keeping temperature increases below 1.5°C, while also pushing companies to align with the Paris goals.

## INVESTMENT GOALS

- To invest in alignment with the Paris Climate Agreement goals of keeping temperature increases below 1.5°C.
- To produce a consistent stream of income: the fund can make use of an 'income reserve' account to smooth income payments to unit holders. Income is expected to grow consistently over the longer term, but not necessarily every single year.
- To achieve long-term capital and income growth. This is defined as being a total return target of inflation (CPI) +4.0% per annum over the longer term (7-10 years).
- The fund will seek to outperform a bespoke, index-based benchmark.
- The fund will seek to outperform the ARC Steady Growth Charity Index.

## ILLUSTRATIVE MULTI-ASSET RISK AND RETURN FEATURES

The benchmark and tactical operating parameters of our multi-asset strategy are set out below:

ASSET CLASS	STRATEGIC ALLOCATION (%)	RANGES (%)
Government Bonds	7.5	0 - 35
Corporate Bonds	7.5	
Cash		0 - 10
<b>Total Bonds &amp; Cash</b>	<b>15.0</b>	<b>5 - 35</b>
UK Equities	20.0	10 - 30
International Equities	50.0	30 - 60
<b>Total Equities</b>	<b>70.0</b>	<b>50 - 80</b>
<b>Total Property</b>	<b>5.0</b>	<b>0 - 10</b>
<b>Total Alternatives</b>	<b>10.0</b>	<b>0 - 20</b>
<b>Total</b>	<b>100.0</b>	
<b>Sterling Weighting</b>	<b>60.0</b>	<b>50 - 100</b>

Projected returns	Income yield	2.4
	Trend annual return	5.3
	Trend annual 'real' return	3.2

Key risk metrics	Maximum annual drawdown	-24.9
	5% Value at Risk (VaR)*	-11.4
	Annualised volatility	10.1

**Please note: there are no guarantees that the projected returns will be achieved.**

Source: Sarasin & Partners LLP. \*Data since 31.12.05. As at 30.06.21. VaR is the statistical measure of 'minimum' anticipated loss over a given period. Our calculations are based on historical observations since 1 January 2000. For example a 95% 1 year VaR of -12.0 means that you could expect to lose at least 12.0% 1 in 20 years (5% of the time).



## ACTIVE MANAGEMENT

The strategic asset mix of the fund (as defined by the benchmark) sets out how the portfolio will be allocated in normal market conditions. However, the Fund is actively managed, taking into account material climate risks associated with moving onto a Paris-aligned pathway. When there is a strong sentiment, positive or negative, on a particular asset class, the Investment Manager will actively deviate away from this asset mix and the securities in the underlying indices to meet the fund's performance objectives. A key aspect of the Fund is its focus on active engagement to promote alignment by companies whose securities are held with the Paris Agreement.

## CURRENCY HEDGING STRATEGY

The natural position for this fund is to hedge some non-sterling currency exposure back to the benchmark weighting (60%) in sterling. However, as an actively managed fund, the Investment Policy Committee and Fund Managers may take a view on expected movements in currency and recommend more or less hedging. Cross currency hedging is permissible.

## PORTFOLIO CONSTRUCTION

Sarasin & Partners will seek to weight positions by conviction, while incorporating sufficient diversification within and across asset classes, regions, themes and opportunity sets to spread risk efficiently. We would expect to own:

- Up to 100 bond positions. Maximum exposure to non-investment grade bonds is 20% of the total fixed interest weighting.
- Up to 100 equities, diversified by theme, sector and geography.
- Property and alternative assets will predominantly be owned via specialist third party funds.

## ETHICAL RESTRICTIONS

The fund will operate a negative screening policy as follows:

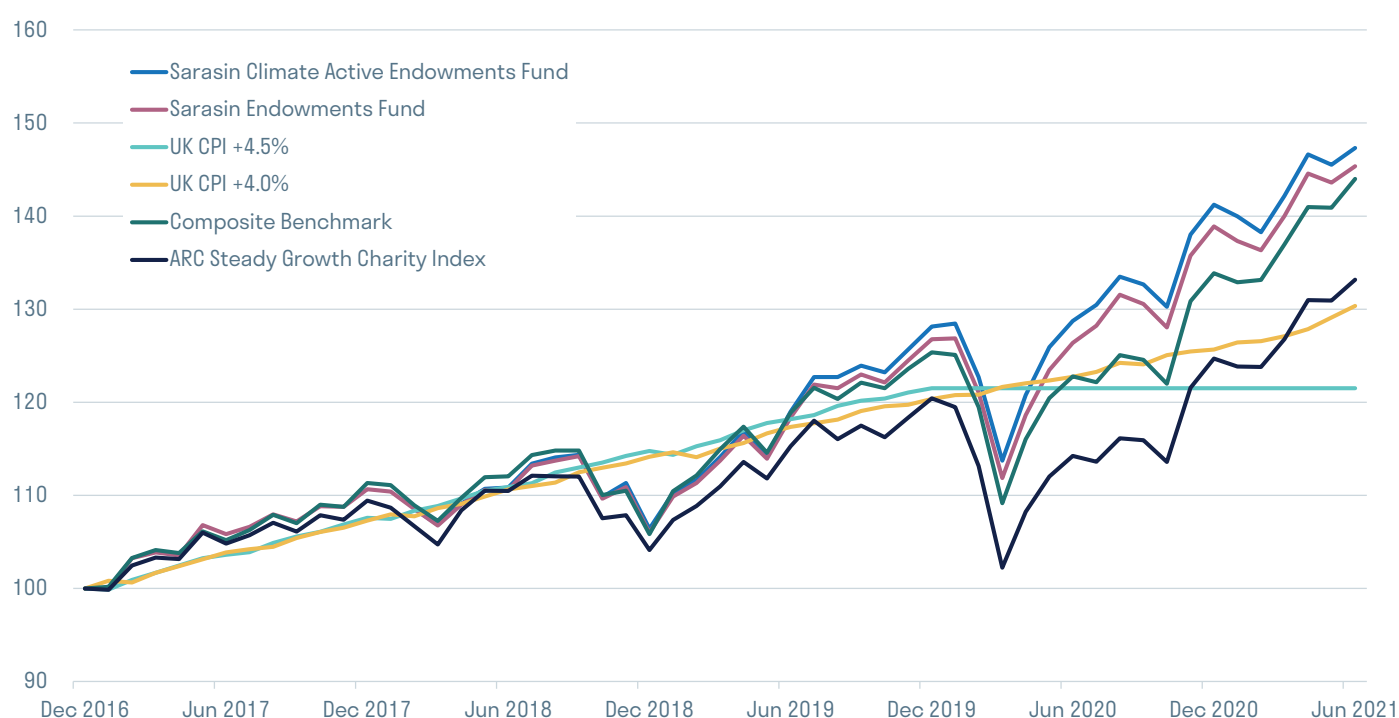
- No investment in companies with 5% or more of their turnover involved in the mining of thermal coal or tar sands.

- Following engagement, no investment in companies that needlessly emit significant quantities of carbon into the atmosphere, or which do not take seriously the transition to a low carbon economy.
- Qualitative judgments to be considered on a regular basis by the Climate Active Advisory Panel.
- Zero tolerance on tobacco production and manufacturing of tobacco related products.
- No investment in companies that generate significant turnover from armaments, alcohol, gambling and adult entertainment.

## DERIVATIVES

The fund uses derivatives for investment purposes and is not limited to their use for Efficient Portfolio Management only. However, the fund does not target market exposure of above 100%.

## 01 PERFORMANCE



Source: Sarasin & Partners, 31.06.21. The Climate Active Endowments Fund launched in February '18. The chart shows performance since launch. Longer term performance is illustrated by the Sarasin Endowments Fund which has the same asset allocation and investment objective as the Climate Active CAIF.

CALENDAR YEAR NET RETURNS						Since Climate Active Inception
	2017	2018	2019	2020	2021 (YTD)	16.02.18 to 30.06.21
Sarasin Climate Active Endowments Fund	-	-1.4 <sup>^</sup>	20.4	10.2	4.3	36.6
Sarasin Endowments Fund <sup>^^</sup>	10.7	-4.2	19.6	9.5	4.7	34.6
ARC Steady Growth Charity Index	9.4	-4.9	15.7	3.5	6.8	22.6*
Long-Term Benchmark: UK CPI +4.0%	7.3	6.4	5.5	4.4	3.7	21.1
Composite Benchmark	11.3	-4.9	18.5	6.8	7.6	32.5

**Data to 30 June 2021. \*ARC data from 31.01.18 to 30.06.21. <sup>^</sup> Since Climate Active Fund inception on 16.02.18. Performance is provided net of fees. Past performance is not a reliable guide to future performance. The past performance was calculated in GBP on a net asset value basis with distributable income reinvested.**

Performance is calculated in sterling on the basis of net asset values (NAV) and gross dividends reinvested. Source: Sarasin & Partners LLP. All data as at 30.06.21. Composite Benchmark: ICE BofAML Sterling Corporate 7.5%, ICE BofAML UK Gilts All Stocks 7.5%, MSCI All Countries World ex. UK (Local Currency GBP) 10.0%, MSCI All Countries World ex. UK (Net Total Return) 40.0%, MSCI All Balanced Property Funds 5.0%, MSCI UK IMI (Net Return) 20.0%, Bank of England SONIA +2%. Benchmark changed on 01.07.21, for full benchmark history please visit <https://sarasinandpartners.com/wp-content/uploads/2020/05/benchmark-history.pdf> <sup>^^</sup>Fund Inception: 31.12.2005.

# COMPANY ENGAGEMENT IN MORE DETAIL

**We take great care in our approach to company engagement. Where it makes sense to work collaboratively with other long-term investors to increase the pressure and ensure our voice is heard, we will seek to build alliances.**

All our conversations with companies are based on an assessment of long-term shareholder returns, taking the Paris climate commitments into account. This assessment is holistic, incorporating scientific data on climate change, emerging regulation and technological advances.

Our approach to engagement seeks to be supportive of positive action, but challenging to inaction. In keeping with the Oxford Martin School Investment and Engagement Principles, we look for an explicit statement from the business of alignment with the Paris goals with a net-zero emissions target; a credible and profitable strategy to deliver this and measurable milestones.

Key features of our approach include:

## PRIORITISATION

Engagements are strictly prioritised to ensure we target companies where: 1) there are core strategic misalignments with the Paris goals that impede long-term value creation for shareholders; and 2) where we believe we can effect change.

## 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 input aims to point to emerging problems from a long-term shareholder perspective, taking climate risks into account.

## CLEAR AND ACHIEVABLE TARGETS

The course of action identified by the Board should be achievable and include specific targets, e.g. new operational targets to minimise emissions, capex plans that take account of a lower carbon world or dividend policy to return cash to shareholders where suitable investment opportunities do not exist.



## 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 reach out to other large and/or concerned shareholders to explore joint action. Where private engagement fails to gain sufficient traction, we may look to increase pressure on the Board. Possible actions include: publicly disclosing our concerns and calling for change; using our vote 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.

## WINNING THE ARGUMENT

We may make our case public to help raise awareness of risks to shareholder capital. Additional leverage is gained by building a network of supportive thought leaders in the business and policy worlds. Wherever appropriate, we seek to act in conjunction with our underlying investors and the Climate Active Advisory Panel to bring more voices to the debate and remind companies who their underlying shareholders are.

Sarasin Climate Active 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.



# CHANGING THE SYSTEM

## POLICY OUTREACH

Climate Active 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 compliments our company engagements. It is also supportive of our investment positioning for an accelerated policy response to climate change.

For many 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 [UN-backed Principles for Responsible Investment](#) (UNPRI), the [Portfolio Decarbonisation Coalition](#) (PDC), and the [Transition Pathway Initiative](#) (TPI).

We also work with other like-minded professional bodies pursuing the same goals, like [ClientEarth](#) (a public interest law organisation) and [ShareAction](#).

One area where we are taking a lead is in promoting more reliable and prudent accounting and audit for material climate risk within companies' financial statements. This is vital to underpin the efficient allocation of capital between and within companies, by ensuring that the correct information is sent to market participants. It is also key to ensure company executive

bonuses are based on performance numbers that incorporate climate risks.

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

Another focus is promoting more thoughtful 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.

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.

**Glencore** - sold Q1 2018 due to thermal coal exposure.

**Total and BP** - sold Q3 2018 following detailed stress-testing of integrated oil and gas companies. As a result of this work we decided to hold and engage with Royal Dutch Shell and sell Total and BP. Our analysis showed that Shell was best positioned to navigate the energy transition, the management team was more advanced in aligning the business and had responded well to our engagement.

**Air Products** - sold Q4 2018 after a lack of confidence that company management were considering climate risks, and instead its capital allocation policy is heavily weighted towards coal gasification – a technology that is incompatible with a well below 2°C scenario.

**Morant Wright** - sold Q2 2018 we engaged with Morant Wright to understand how transition and physical risks were integrated into the process and received a response confirming that no climate factors were considered in the investment process.

**Royal Dutch Shell** - see overleaf.

**Heathrow debt** - sold Q4 2018 over material increase in Scope 3 emissions that a third runway represents and concerns over the high levels of debt relative to the regulated asset base.

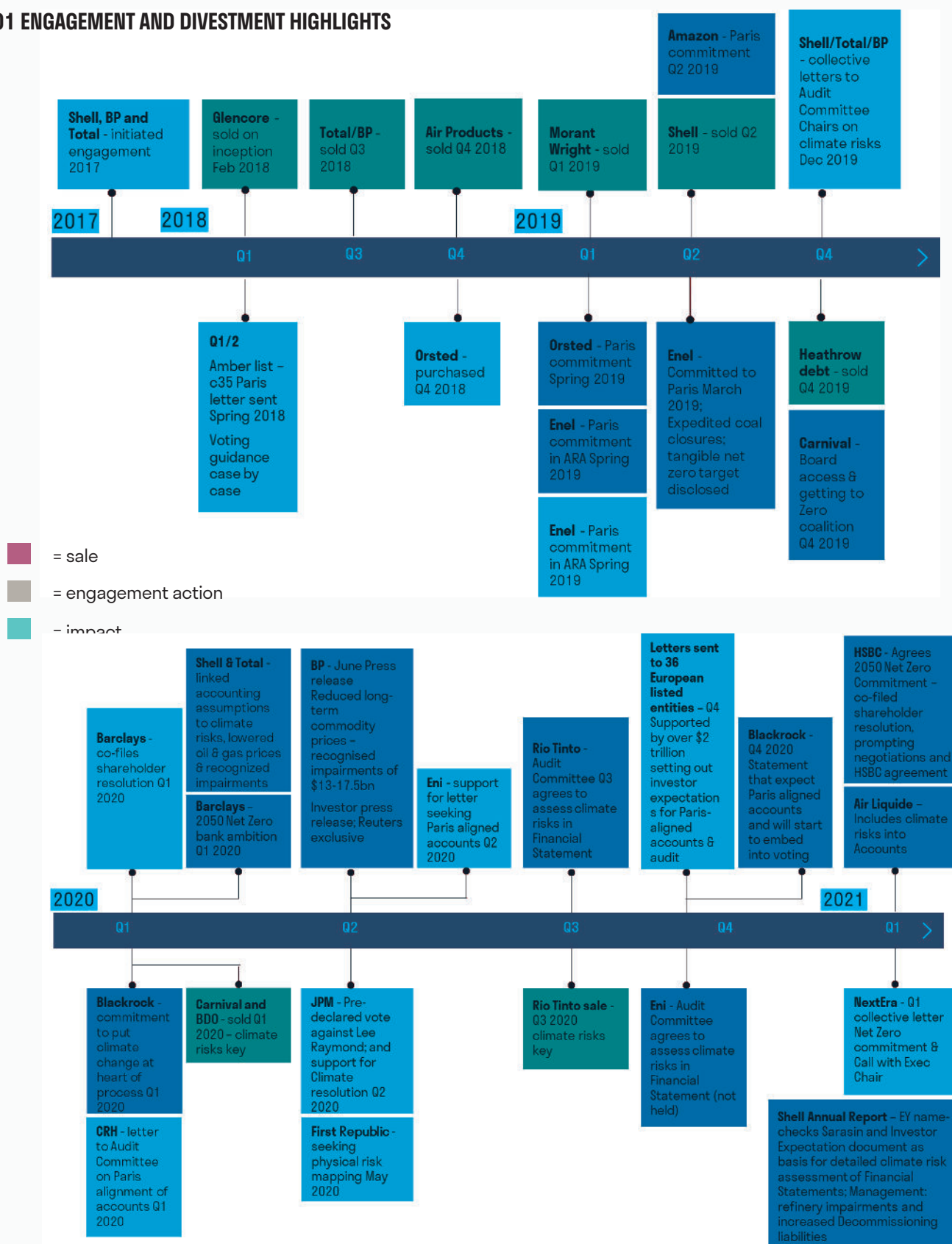
**Carnival** - sold Q1 2020 as the cruise ship owner was directly affected by the outbreak of COVID-19, impacting sales, grounding ships and damaging public perceptions. Reluctance or inability to make sufficient headway on climate concerns, as well as doubt over the resumption of cruise demand led us to sell the position.

**BDO** - sold Q1 2020 on the realisation that emerging markets face an outsized challenge in dealing with COVID19. Also, BDO faces material headwinds from climate change in the Philippines. We anticipate that the combined impact from rising sea levels and more extreme weather events would curtail economic growth and hit BDO's profitability in coming years.

**Rio Tinto** - sold Q3 2020 on the back of climate stress tests which revealed a level of reliance on iron ore prices remaining high. This is inconsistent with assumptions on the eventual decarbonisation of steel production that needs to occur.

# KEY ACTIVITIES SINCE LAUNCH

## 01 ENGAGEMENT AND DIVESTMENT HIGHLIGHTS



Source: Sarasin & Partners, 31.03.21

# CREATING A RIPPLE EFFECT THROUGH ENGAGEMENT

## ROYAL DUTCH SHELL, BP AND TOTAL

Following the launch of Climate Active in 2018, we initiated intensive engagement efforts with three oil and gas companies Royal Dutch Shell, BP and Total. A key ask has been that directors ensure their financial statements properly reflect climate risks so investor can understand their capital strength as the world decarbonises.

While Climate Active has now divested from all three companies (largely due to concerns over stranded assets within these businesses), the engagements we initiated continue to have a ripple effect. Companies across a range of sectors are now being pressed to reflect climate risks in their financial statements. This is vital if we are to ensure that capital deployment by these businesses is aligned with the Paris Climate Agreement.

## OUR ENGAGEMENTS WITH SHELL, BP AND TOTAL

From 2018, we began making clear our expectations to directors at Shell, BP and Total that company reporting and financial statements needed to fairly represent the risks to capital from the energy transition and physical impacts from climate change.

Despite the companies taking some steps forward, progress was not sufficient to demonstrate Paris-alignment. Moreover, continued multi-billion dollar capital deployment into fossil fuel development meant that shareholder capital was increasingly exposed to risks of future write-downs, as the energy transition accelerated. We sold our clients' holdings in BP and Total in the autumn of 2018. In the summer of 2019, we also divested from Shell.

While we exited our oil and gas holdings in Climate Active, we remained engaged with the sector as part of our commitment to drive systemwide change. We believed that a decision to wind-down capital deployment to fossil fuel development in the oil and gas sector would have far-reaching ripple effects. Ultimately, this will help to

underpin action to tackle climate change and, thereby, help protect our clients' long-term interests.

In November 2019, we coordinated a letter from roughly twenty institutional investors representing over \$1 trillion in assets under management to audit committee directors and lead audit partners at Shell, BP and Total, seeking reassurance that material climate risks were being properly reflected in their financial statements. We specifically pointed to the need to ensure key assumptions that underpin the valuation of assets and liabilities on the balance sheet, and that feed into items such as depletion, depreciation and amortisation in the Profit and Loss statement take account of global commitments to achieve net zero emissions by 2050.

The impact of these engagements is clear in all three companies' 2019 and 2020 Financial Statements. It has also had a visible ripple effect for other oil and gas companies' reporting, and has galvanised a broader coalition of over \$100 trillion of investor support.

**Management lowered their commodity price assumptions:** All three companies have lowered the long-term commodity prices due to decarbonisation. Shell reduced its oil price from Brent \$70/barrel to \$60 and its gas price assumption from \$3.5/mmBtu to \$3 (Henry Hub). In 2020, Shell then cut the long-term refining margin by 30% due to expected falling demand for oil products. BP reduced its oil price assumption from \$75/barrel to \$70 in 2019, and then to \$55 in 2020. Total came down from \$80/barrel to \$70 in 2019. In the case of Total, management then assumed a downward price trajectory to \$50 to 2050. Material impairments resulted in all three cases.

**Climate risks were identified in material audit risks:** The auditors for Shell and BP have proved vital in helping to alert shareholders to how climate risks impact the reliability of the financial statements.

For Shell, EY has explicitly indicated that the energy transition could impact valuations for at least two-thirds of total

assets on the 2019 balance sheet, equivalent to almost 145% of the reported equity. On the liability side, the decommissioning and restoration provisions could rise significantly above the current 8% of total liabilities.

For BP, Deloitte highlighted how lower commodity price assumption represented a significant risk, and alerted shareholders that management's oil price assumptions in 2019 were above what would be consistent with Paris. Shortly thereafter management issued a press release to say that it would lower its oil price assumption to \$55 to reflect accelerating decarbonisation, resulting in anticipated impairments of \$13 billion to \$17.5 billion, almost 20% of net assets reported in 2019.

## RIPPLE EFFECT - DRIVING SYSTEM CHANGE THROUGH NET ZERO-ALIGNED ACCOUNTING

Following the clear impacts of these engagements with Shell, BP and Total, we have seen support for our call for Paris-aligned accounting grow quickly. Today, statements calling for accounts to reflect the Paris Agreement have been made by investors and investment associations representing over \$100 trillion in assets.

In November 2020, a group of investors representing over \$10 trillion in AUM signed letters coordinated by Sarasin with support from IIGCC to 36 European listed companies in the energy, materials and transport sectors. By early 2021, we have already seen several of these entities refer for the first time to climate risks in their financial statements and auditor reports. Examples include Enel, Air Liquide, CRH and Rio Tinto.

In parallel, our outreach to regulators such as the FRC and accounting and audit standard setters, including the IASB and IAASB, has resulted in supportive statements confirming that existing requirements for accounts to ensure fair representation would necessarily cover material climate risks.



## IN SUMMARY

The Sarasin Climate Active strategy integrates climate risk in its investment analysis. It identifies climate risks and uses active investment and engagement with companies to achieve a Paris-aligned portfolio.

# CONTACT US

If you would like to learn more about the fund and our approach, please contact:

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# ABOUT SARASIN & PARTNERS

We are a specialist asset manager, trusted to invest £21.0 billion\* on behalf of charities, private clients, institutions and intermediaries from the UK and around the world. The group manages £9.1\* billion on behalf of charities and other not-for-profit organisations and currently employs just over 200\* people.

As long-standing providers of multi-asset investment solutions, our diverse, experienced team stretches from global analysts and economists to risk experts, all sharing knowledge and ideas on a daily basis. We are passionate about what we do, and focus exclusively on delivering strong, long-term investment performance and exceptional client service.

Using our history of investment expertise and innovation, we seek the most suitable businesses for long-term investment, taking seriously our role as stewards of our clients' assets.

We operate as a partnership, with local management owning 40% of the economic interest. The remainder is owned by Bank J. Safra Sarasin. The Group in total has assets under management in excess of £155 billion.\*\*

Further information can be found at [www.sarasinandpartners.com](http://www.sarasinandpartners.com)

\*as at 31.12.21

\*\*Source: Bank J Safra Sarasin as at 31.12.20 (annually); exchange rate used as at 31.12.20 is GBP:CHF = 1.20816

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## NOTES

## IMPORTANT INFORMATION

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

These funds are designed for charities within the meaning of Section 1 of the Charities Act 2011 or as defined in paragraph 1(1) Schedule 6, Finance Act 2010 which are organised, incorporated or resident in the United Kingdom. There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years). Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments. For efficient portfolio management the fund may invest in derivatives. The value of these investments may fluctuate significantly, but the overall intention of the use of derivative techniques is to reduce volatility of returns. The fund may also invest in derivatives for investment purposes.

ARC Charity Indices are based on historical information. **Past performance is not a guide to future returns and may not be repeated.** The value of investments and the income from them can go down as well as up and an investor may not get back the amount originally invested.

Asset Risk Consultants Limited (ARC) is an independent investment consultancy specialising in the analysis of private client and charity investment portfolio performance. Circa 30 investment houses supply ARC with performance data across their entire charity base. Portfolios falling into the Steady Growth risk category will have exhibited a historical variability of returns in the region of between 60 - 80% of UK equity markets. Portfolios in this category usually have a significant allocation to equities (in excess of 50%) but also have material exposure to a range of other asset classes.

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The investments of the fund are subject to normal market fluctuations. **The value of the investments of the fund and the income from them can fall as well as rise and investors may not get back the amount originally invested.** If investing in foreign currencies, the return in the investor's reference currency may increase or decrease as a result of currency fluctuations. **Past performance is not a guide to future returns and may not be repeated.**

There is no minimum investment period, though we would recommend that you view your investment as a medium to long term one (i.e. 5 to 10 years). Frequent political and social unrest in Emerging Markets, and the high inflation and interest rates this tends to encourage, may lead to sharp swings in foreign currency markets and stock markets. There is also an inherent risk in the smaller size of many Emerging Markets, especially since this means restricted liquidity. Further risks to bear in mind are restrictions on foreigners making currency transactions or investments. For efficient portfolio

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“The greatest threat to our planet  
is the belief that someone else will  
save it”

- Robert Swan OBE (Historian and explorer)

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