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& PARTNERS

Sarasin & Partners

Guide to ethical restrictions

Introduction

Many of our clients have some form of ethical screening policy operating over their investment portfolio, and you may well be considering whether ethical exclusions are right for you.

This guide is designed to help you discuss and navigate the ethical options and decide the best course of action for your portfolio.

We have long experience of working with our clients to implement their ethical concerns in investment portfolios. We undertake research on each issue and consider the data provided by the companies themselves, together with data from third parties to inform us on the judgements that have to be made.

While we are able to operate on a bespoke basis, we have developed a set of parameters with clear definitions for each ethical issue to help clients implement their policies accurately.

Our approach is both quantitative and qualitative and considers the materiality of each exclusion based upon the percentage of revenues for the overall business involved in the production and distribution of ethically unacceptable products, such as gambling, tobacco, alcohol, adult entertainment, armaments and the extraction of thermal coal or the production of oil from tar sands. We have pre and post trade systems in place that allow us to manage portfolios within these defined parameters and we regularly review the stocks excluded for each factor.

The exclusionary policies described in this document apply to a range of Sarasin & Partners investment strategies. A summary matrix is included on page 14.

Investments which are prohibited under International Treaties (such as landmines and cluster bombs)

Excluded for all clients

Typical ethical exclusions

(such as tobacco, gambling & armaments)

Climate related

(such as thermal coal and tar sands)

Prohibited under International Treaties

Activities are excluded for all clients



CLUSTER BOMB

Cluster Bombs and Landmines

Prohibited under International Treaties

The United Nations Convention on Cluster Munitions is an international treaty that prohibits the use of cluster bombs, a type of explosive weapon which scatters sub-munitions ("bomblets") over an area. The convention was adopted in 2008.



LANDMINE

The Ottawa Treaty (Anti-Personnel Mine Ban Convention) aims at eliminating anti-personnel landmines (AP-mines) around the world. To date, there are 162 States party to the treaty while 34 UN states including the United States, Russia and China are non-signatories.

Definitions used:

Cluster munitions
(Manufacturer)

Companies that manufacture cluster munitions, whole weapon systems, components, or delivery platforms

Landmines
(Manufacturer)

Companies that manufacture landmines, whole systems or components

Excluded for all portfolios managed by Sarasin & Partners

Ethical Exclusions

These are the unethical sectors which can be excluded from your portfolio. Sarasin & Partners has set the following definitions and materiality thresholds as part of a carefully considered and regularly reviewed policy.



ADULT ENTERTAINMENT

Adult Entertainment

The adult entertainment exclusion policy applies a wide definition to exclude all producer, distributor, retailer and ownership categories of adult entertainment. We apply a materiality threshold at 5% of revenues. We make an exception for internet carriers and mobile operators, which are not excluded.

Restriction

Adult Entertainment related revenues

5% of revenues for activities connected to adult entertainment

Definitions used:

Adult entertainment producer

Companies that produce, direct, or publish adult entertainment materials that fall into the following categories: Producer of X-rated films, Producer of Pay-per-view programming or channels, Producer of sexually explicit video games, Producer of books or magazines with adult content, Live entertainment of an adult nature, Producer of adults-only material on the internet

Adult entertainment distributor

Companies that distribute sexually explicit products and services, including X-rated movies and videos, printed materials, television programs, and online products. This includes companies providing cable channels and television for adult viewing only. Companies in the hospitality industry are also included if they offer 'adults only' films for in-room viewing through pay-per-view services

Adult entertainment related revenues

Companies with industry related revenues, including producer, distributor, retailer, and ownership categories

0.0% of MSCI AC World Index excluded if these restrictions applied



ALCOHOL

Alcohol

The alcohol exclusion policy excludes both alcohol producers and companies with alcohol related revenues using the definitions below. We apply a materiality threshold set at 5% of revenues for producers and 10% of revenues for any company with alcohol related activities.

Restriction

Alcohol producers

5% of revenues from alcohol producers

Alcohol related revenues

10% of revenues for any company with alcohol related products or services

Definitions used:

Alcohol producers

Companies that manufacture alcoholic products including brewers, distillers, and vintners. This also includes companies that own or operate wine vineyards

Adult related revenues

Companies with alcohol related revenues, including producer, distributor, retailer, licensor or supplier categories

1.5% of MSCI AC World Index excluded if these restrictions applied



ARMAMENTS

Armaments

The armaments exclusion policy distinguishes between the manufacture of whole weapon systems (zero exposure) and companies with revenues related to weapons production, where a 10% materiality threshold is applied.

Restriction

Weapons producers

Zero exposure to the manufacture of whole weapon systems

Weapons related revenues

10% of revenues from any company with activities connected to weapons systems, including components and services designed for weapons use products or services designed for weapons use

Definitions used:

Weapons producers

Companies that produce conventional, biological/chemical or nuclear weapons. Excludes companies that manufacture components of weapons systems and support services and systems

Weapons related revenues

Companies that derive revenues from components of weapon systems, support systems and services designed for weapons use

1.4% of MSCI AC World Index excluded if these restrictions applied



CIVILIAN FIREARMS

Civilian Firearms

The civilian firearms exclusion policy excludes producers of automatic and semi-automatic firearms. It excludes any revenues from the retail of civilian firearms.

Restriction

Firearms producer

Zero exposure to the manufacture of automatic and semi-automatic civilian firearms

Firearms retailers

Zero exposure to any revenues from the retail of civilian firearms

Definitions used:

| | |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Firearms producers | Companies that manufacture firearms which automatically eject the cartridge case of a fired shot and load the next cartridge from the magazine allowing the gun user to fire more than one round of ammunition for every pull of the trigger. The screen includes all types of weapons that are automatic or fully automatic, as well as weapons that allow selective fire |
| Firearms retailers | Companies that derive any revenues from the distribution (wholesale or retail) of firearms or small arms ammunition intended for civilian use |

0.6% of MSCI AC World Index excluded if these restrictions applied



GAMBLING

Gambling

The gambling exclusion policy excludes exposure to gambling using the definitions given below. We set the materiality threshold at 5% of revenues for direct gambling operations and 10% of revenues for any gambling related activities.

Restriction

Gambling operations

5% of revenues from gambling operations

Gambling related revenues

10% of revenues for any company with gambling related activities

Definitions used:

| | |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Gambling operations | Companies that own or operate gambling facilities such as casinos, racetracks, bingo halls, or other betting establishments, including: horse, dog, or other racing events that permit wagering; lottery operations; online gambling; bingo; slot machines; mobile gambling; and sporting events that permit wagering |
| Gambling related revenues | Companies with gambling related revenues through the operation, support, licensing or ownership categories |

0.5% of MSCI AC World Index excluded if these restrictions applied



TOBACCO

Tobacco

The tobacco exclusion policy applies a zero tolerance approach to tobacco producers. It excludes all tobacco producers and applies a materiality threshold of 10% of revenues for any company with tobacco related activities, such as distributors, retailers and suppliers

Restriction

Tobacco producers

Zero exposure to any revenues from tobacco producers

Tobacco related revenues

10% of revenues for any company with tobacco related products or services

Definitions used:

Tobacco producers

Companies that manufacture tobacco products, including cigarettes, cigars, blunts, beedis, kreteks, smokeless tobacco, snuff, snus and chewing tobacco. This also includes companies that grow or process raw tobacco leaves

Tobacco related revenues

Companies with tobacco related revenues, such as distributors, licensors, retailers or suppliers (e.g. machinery, paper, filters)

1.5% of MSCI AC World Index excluded if these restrictions applied

Fossil Fuel Restrictions

Restrictions related to fossil fuels typically exclude the extraction of thermal coal or the production of oil from tar sands.

Climate Active Advisory Panel

In 2017, we created a new 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 to discuss exclusions, corporate engagement and activist policies, together with potential policy work in conjunction with governments and like-minded institutions. The CVs of the panel members are shown below:



David Pitt Watson (Chair)

David is a leading practitioner in the field of responsible investment. He is currently an Executive Fellow at the London Business School, non-executive at KPMG, and Treasurer of Oxfam. 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



Sir John Beddington

Sir John was elected Fellow of the Royal Society in 2001 and appointed CMG in 2004. 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 the 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 the Senior Adviser to the Oxford Martin School and Professor of Natural Resource Management at Oxford University. He is a Non-Executive Director of the Met Office (currently Acting Chair), chairs the Cabot Institute External Board at Bristol University, the Global Academies Panel at Edinburgh University and the Systemic Risk Institute at the LSE.



Heidi Hellmann

Heidi became Head of Group Strategy and Market & Competitor Intelligence at Centrica in 2016. 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, having also worked at RD Shell, Aramco and BG.



Professor Cameron Hepburn

Cameron Hepburn is Professor of Environmental Economics at the University of Oxford, and Director of the Smith School of Enterprise and the Environment. He also serves as the Director of the Economics of Sustainability Programme, based at the Institute for New Economic Thinking at the Oxford Martin School. He has degrees in law and engineering, a doctorate in economics, and over 30 peer-reviewed publications in economics, public policy, law, engineering, philosophy, and biology. Cameron has advised governments (e.g. China, India, UK and Australia) and international institutions (e.g. OECD, UN organisations) on energy, resources and environmental policy. He is a member of the Economics Advisory Group (with Lord Stern and Professor Helm) to the UK Secretary of State for Energy & Climate Change.



THERMAL COAL

Extraction of thermal coal

Thermal coal is mainly used in power generation. It is burned for steam to run turbines to generate electricity. Emissions from burning coal are seen as the single greatest threat to climate change. Coal mining is also a source of methane, another global warming gas. We set the materiality threshold to this activity at 5% of revenues. We do not exclude metallurgical coal (coking coal), which is used in the process of iron and steel production.

Restriction

Thermal coal

5% of revenues from the extraction of thermal coal

Definitions used:

Thermal coal

Any company that derives more than 5% of revenues from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. It excludes: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); and revenue from coal trading

0.4% of MSCI AC World Index excluded if these restrictions applied



TAR SANDS

Production of oil from tar sands

Some oil companies have expanded the scope of their operations to search for oil from less conventional sources with higher pollution, such as oil from tar sands. We set the materiality threshold to this activity at 5% of revenues.

Restriction

Tar sands

5% of revenues from the production of oil from tar sands

Definitions used:

| Tar sands | Definitions used: |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. This factor does not include revenue from non-extraction activities (e.g. exploration, surveying, processing, refining); ownership of oil sands reserves with no associated extraction revenues; or revenue from intra-company sales |

0.3% of MSCI AC World Index excluded if these restrictions applied

Fund name

Ethical restrictions

| | Food & Agriculture Opportunities | Responsible Corporate Bond | Responsible Global Equity | Responsible Global Equity (Sterling Hedged) | Climate Active Endowments CAIF* | Endowments CAIF* | Income & Reserves CAIF* |
|----------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------|---------------------------|---------------------------------------------|---------------------------------|------------------|-------------------------|
|  CLUSTER BOMB | X | X | X | X | X | X | X |
|  LANDMINE | X | X | X | X | X | X | X |
|  ARMAMENTS | X | X | X | X | X | X | X |
|  GAMBLING | X | X | X | X | X | X | X |
|  ADULT ENTERTAINMENT | X | X | X | X | X | X | X |
|  ALCOHOL | | X | X | X | X | X | X |
|  TOBACCO | X | X | X | X | X | X | X |
|  CIVILIAN FIREARMS | X | X | X | X | X | X | X |
|  THERMAL COAL | | | X | X | X | | |
|  TAR SANDS | | | X | X | X | | |

X = exclusionary policy applied

*These funds are for registered charity investors only

Guidance Notes

- All restrictions are monitored on a best endeavours basis
- Restricted stocks are coded into our pre-trade compliance system to prevent portfolio managers from buying them
- Each restriction is monitored and applied separately. It is not possible to apply a percentage threshold to revenues in respect of an amalgamation of ethical categories, as accurate data is not disclosed to allow meaningful analysis to take place
- We use external agencies for data provision
- The Sarasin & Partners Ethical Committee reviews the data and discusses all stocks on the exclusion list. Stocks will be subjected to further investigation where questions arise
- The restrictions, criteria and thresholds set out in this document form part of a dynamic and flexible approach to ethical screening, and are therefore subject to change at any time without notice
- We review criteria at each quarterly meeting

Important Information

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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.**

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