Vontobel

Voting and Engagement

Report 2020

Asset Management

Content

Overview

As a signatory to the UN Principles for Responsible Investment, Vontobel Group commits to being an active owner and to incorporate environmental, social, and corporate governance (ESG) issues into its ownership policies and practices. We believe this is important for the development of sustainable economies, societies, and the environment, and that material ESG issues can impact the future success of a company and, therefore, its investment potential. At the same time, we are convinced that voting and engagement can have a positive influence on a company's values and behavior and strengthen its longer-term contribution towards building more sustainable economies and societies and protecting the environment.

→ Since 2019, Vontobel Asset Management has had voting and engagement policies in place. They describe our rationale on voting and engagement, our processes and organizational setup. Voting and Engagement policies statements can be found under vontobel.com/sustainable-investing.

Voting

Voting overview
Vontobel Asset Management recognizes that portfolio management of the assets of clients, which include stocks, may include an obligation to vote in relation to the stock. At the same time, voting represent one of the ways we can use to express our views.

If authorized to do so, Vontobel Asset Management will vote in respect of the stock, typically by proxy, in a manner which it reasonably believes to be in the best interest of the client and in line with any specific legal or regulatory requirements in different jurisdictions or markets that may apply.

The scope of our voting policy covers all actively managed funds and discretionary mandates managed by Vontobel Asset Management unless we have not been authorized to vote on behalf of clients in relation to the assets managed. Funds and mandates managed based on quantitative investment strategies are not covered by our voting policy, however, they may have a voting setup, in a comparable manner. This voting policy follows, among others, the recommendation for best practice on corporate governance published by the European Fund and Asset Management Association.

Use of proxy voting advisors across our investment solutions
Vontobel works with specialist research providers who support portfolio managers with their research and voting recommendations. To ensure that all covered votes are treated, the portfolios of our funds are sent on a daily basis to our proxy voting advisors by our custodian. Recommendations are provided based on guidelines that have been reviewed and approved by Vontobel. In some cases, and on specific topics, we may develop tailored proxy voting guidelines with the relevant proxy voting service providers.

For our mtx and Listed Impact strategies, we partnered with EOS at Federated Hermes (EOS) in 2011 in order to improve the quality of our voting decisions and the breadth of our engagement. EOS helps institutional shareowners around the world meet their fiduciary responsibilities and become active owners of the public companies in which they invest. The selection of EOS followed a comprehensive internal research process evaluating the different proxy voting and engagement services available in the market to select the solution that fit closest with Vontobel's aims and methodology.

Next to EOS, Vontobel has selected Institutional Shareholder Services, Inc. (ISS) and Ethos Services SA (Ethos). Both service providers are also specialized in the exercise of voting rights and also provide research services. ISS is mainly used for our funds investing globally, such as the investment solutions offered by our Quality Growth boutique. Ethos has been selected for its expertise on the Swiss market and is thus used for our funds that have a focus on Swiss equities.

Voting process
Our portfolio managers and analysts receive alerts of forthcoming shareholder meetings together with the voting recommendations provided by the engaged proxy voting advisors. Portfolio managers and analysts review the voting recommendations and if they agree with them, Vontobel votes accordingly. If they disagree because the standard recommendation does not match their in-depth knowledge of the company in question and its management, the analyst or portfolio manager can change the vote on an item on the agenda, with appropriate documentation, thus providing justification for any choices that deviate from those recommended by the engaged proxy-voting service provider. This process ensures that we execute our voting obligations and that our analyst and portfolio managers retain the authority to personally make decisions in the interests of our clients. The respective management company coordinate these aspects and the related processes.

Due diligence of the proxy voting advisors services is regularly performed on the services.

In order to properly monitor service providers, the methodology should be adjusted to the type of services, from the selection of the service providers to the review of their services.

We carefully select proxy voting service providers and we look for the best fit between the scope of their services, their voting policy, possibly their focus and our own voting policy and investment strategies. For example, for our funds focusing on Swiss equities, we have selected Ethos, because of their expertise in the swiss market.

We process a due diligence of proxy voting services at least every two years, e.g. by reviewing whether the voting recommendations of the proxy voting service providers were in line with their respective voting policy.

Engagement

Engagement overview

At Vontobel Asset Management, we consider engagement to be an important element of our investment activities. As an active manager, we generally prefer to engage with the managements of investee companies directly. We do not have a standalone engagement team, since we believe in the direct contact between investee company management teams and investment professionals such as portfolio managers and analysts who have the specific expert knowledge and understanding of the context in which the company has been selected as an investment.

Reasons to engage with an investee company can include business strategy, corporate governance issues, change in the capital structure, remuneration issues, and identified environmental and social risks.

Engagement includes ongoing communications between the investment team and the management teams of investee companies and can range from ongoing updates and questioning of the current and future business model, to engagement on specific issues that may cover ESG concerns.

Engagement process

As part of their fundamental research activities, our analysts and portfolio managers engage with the management of companies informally on relevant topics. ESG topics are not covered in all company reports or by all our research providers. Therefore, we carry out informal fact-finding engagements to better understand a company's sustainability performance and standards (e.g. its governance policies or environmental performance). This may include assessing the impact of its products and services on the environment – for example by looking at whether they can help to reduce or eliminate carbon emissions. An example is the questionnaire sent for our Listed Impact strategies. In certain circumstances, investment teams may take a more targeted and focused approach, depending on the circumstances and the nature of the situation, and raise concerns on specific topics with companies. Some examples are included in this report starting from page 10.

In addition to direct engagement activities, we also carried out indirect engagements for our mtx and Listed Impact strategies based on our partnership with EOS at Federated Hermes. This service provider seeks a balance between direct corporate engagement, ensuring its clients' major holdings are covered and focus on activities which add the most value to its clients' holdings from a risk management point of view, and public policy/best-practice engagement, which if effective can positively benefit all companies in the affected region or sector. EOS is specialized in engaging with investee companies via objectives-driven and continuous dialogue on ESG issues. Such programs often take place over several years and on a variety of issues, particularly with companies in regions or sectors where transparency is poor. Our collaboration with EOS strengthens our position because it facilitates our cooperation with other investors. This enables us to exert greater influence than our own investment volume would allow. Progress on engagements is measured by a series of milestones, marking events such as companies acknowledging the issue, committing to making improvements, and implementing the improvements. This progress is tracked based on objectives set beforehand. Solid progress was made in delivering engagement objectives across regions and themes. At least one milestone was moved forward for about 43% of our objectives during the year.

In some cases, we may also join forces with other investors and organizations directly. Two examples can be found on page 18.

Escalation process

Engagement could be escalated through additional meetings with the management and dialogue with the board chairman and non-executive directors.

Where these engagements do not progress in the direction that the investment team believe is in the best interests of shareholders or the shareholding is insufficient for an effective escalation on a standalone basis, other options are considered, including, but not limited to:

- Voting against resolutions at shareholder meetings;
- Collaborating with other institutional investors; and/or
- Selling some or all of the investment in the context of the value proposition of the investment as a whole.

Zooming in on some of our strategies' approaches to Voting and Engagement

Quality Growth
Our research philosophy is based on long-term holdings of quality growth companies. Unlike short-term holders, long-term holders are more likely to see a result from a governance risks over time unless it is addressed. We will engage with company managements through a variety of communication methods including face-to-face meetings, email, conference calls, and letters to the board and senior management. We generally engage with managements in private. Only on rare occasions would we consider making public statements on issues where we disagree.

We choose from a range of issues and levels of engagement. Some engagements are relatively short and simple, where a quick conversation or email can satisfy our need. Other engagements can be much more involved.

The value that may be gained does not need to be a near term benefit. For example, if a company has a high carbon intensity or emissions and does not appear to have a plan to reduce those emissions, it may make sense to engage (risks include regulatory, taxation and brand) even if the potential benefit will not necessarily impact the near term business continuity or performance.

If we have identified an issue, we believe could make an impact on the risk to return balance of a company over time, we may engage. However, we will only do so if we believe the company still meets our original investment thesis and maintains the quality of operations, we require from our investment holdings. If not, we may choose to exit the position.

mtx strategies
At mtx, we believe voting and engagement is core to our fiduciary responsibilities to clients and central to sustainable investing to achieve more sustainable outcomes for society and to support long-term risk adjusted returns for investors in mtx's funds. Material ESG issues can impact the future success of a company and therefore its investment potential. As long-term investors we see these as important tools to help steer companies towards internationally accepted norms and practices, which is ultimately for the long-term benefit of the company as well as its wider stakeholders. We understand this is an iterative process of on-going dialogue and we regularly work with outside partners to leverage our voice with other shareholders to elicit positive change.

Direct engagements by mtx analysts typically target breaches of sustainability factors (e.g. human rights, corruption, environmental damage, etc.), or high sustainability risks, which can impact company performance, as well as on material issues where disclosure is weak, thereby undermining mtx's ability to make an informed evaluation of sustainability risk or impact.

For additional support in effectively exercising ownership rights, mtx has partnered with EOS at Federated Hermes (EOS), a dedicated voting and engagement house, specializing in providing voting recommendations and engaging with some investee companies via constructive, objectives-driven and continuous dialogue on ESG issues. Such collaborative engagements allow us to exercise greater influence than the size of our holdings would otherwise permit and benefit from EOS' specialist resources and experience. An additional major benefit is that EOS will establish a long-term engagement plan with objectives and milestones and this persists irrespective of investment inflows and outflows by EOS' clients, i.e. it can take a truly long-term perspective and will maintain regular pressure throughout the life of the issue engagement. We regularly observe that engagement based on long-established dialogue and a relationship of trust, is most effective in helping to drive structural changes.

Mtx has a dedicated process in place to ensure it reacts to all voting alerts and reviews all voting recommendations from EOS leveraging internal expertise within the team. The medium and long-term aim of voting and active en-gagement is to achieve improvements in corporate governance and in the areas of sustainable business and social, ethical and environmental responsibility, and thereby to bring about a potential increase in long-term shareholder value for the investor.

Listed Impact Strategies
We believe active ownership is an important tool to contribute towards sustainable economies, societies and the environment. ESG issues can materially impact the future success of a company and therefore its investment returns. Consequently, we put a strong emphasis on direct engagement with our portfolio holdings, particularly on environmental issues and arising opportunities thereof, as this is an integral part of our research activities.

We have substantial engagement activities that enable us to support companies in becoming more sustainable and allow us to make more educated investment decisions.

Specific knowledge finding is carried out for certain material important environmental performance indicators, which demonstrate the positive impact of companies, their products and services. We consider these impact indicators to be material as they might influence the companies' future cash flow. Additionally, we try to monitor the company's improvements of these key indicators, especially towards their set goals. If necessary, we make recommendations to the company of specific topics for further development. Through these activities, we constantly monitor progress in ESG performance, and we encourage companies to improve their risk management practices and ESG disclosure in general, but moreover, also to report on their products impact over their entire life cycle

Fixed Income Boutique
Engagement helps us mitigate data quality issues and problems arising from differences in reporting and corporate governance standards especially in high yield and emerging markets. We speak with issuers directly to understand the quality and underlying goals of the management.

There are some elements of engagement that are specific to investors in fixed income. In contrast to an equity, a bond is a fixed contract, so once it has been issued, there is not a lot investors can do about the company. As far as ESG factors are concerned, bond issuance is more like a take it or leave it offer, i.e. price can be negotiated during book building, but ESG factors will not change. Therefore, once the bond is issued, the maximum we can do is fill the information gaps by asking questions about ESG and encouraging more transparency.

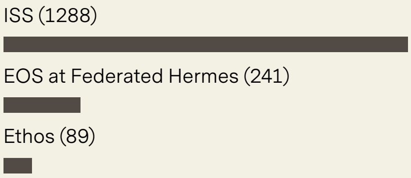
As an active asset manager of a meaningful size, therefore, we can make a difference either before a bond is issued, if issuer is eager enough to change our opinion about themselves or once it needs to re-assess the indentures, such as in the restructuring. By taking part occasionally in the bondholder committees, Vontobel can contribute to fixing relevant issues, which often tend to be partially driven by ESG misgivings.

Voting Highlights 2020

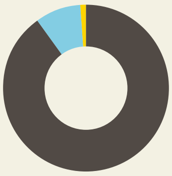
1460 meetings

In 2020, we submitted votes at 1460 meetings, on 19590 items, for companies based in different regions, whereby the largest part were based in North America and in Europe. In 90 % of items we voted "For". The remaining 10 % were voted either "Against", "Abstain", or "Withhold". 90 % of votes were cast with management and 10 % against management.

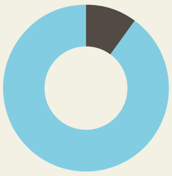
Meetings by proxy voting advisor[1]



Vote Cast

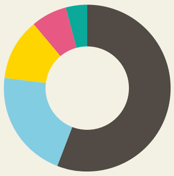


Vote for	90 %
Vote against	9 %
Vote abstain or withhold	1 %



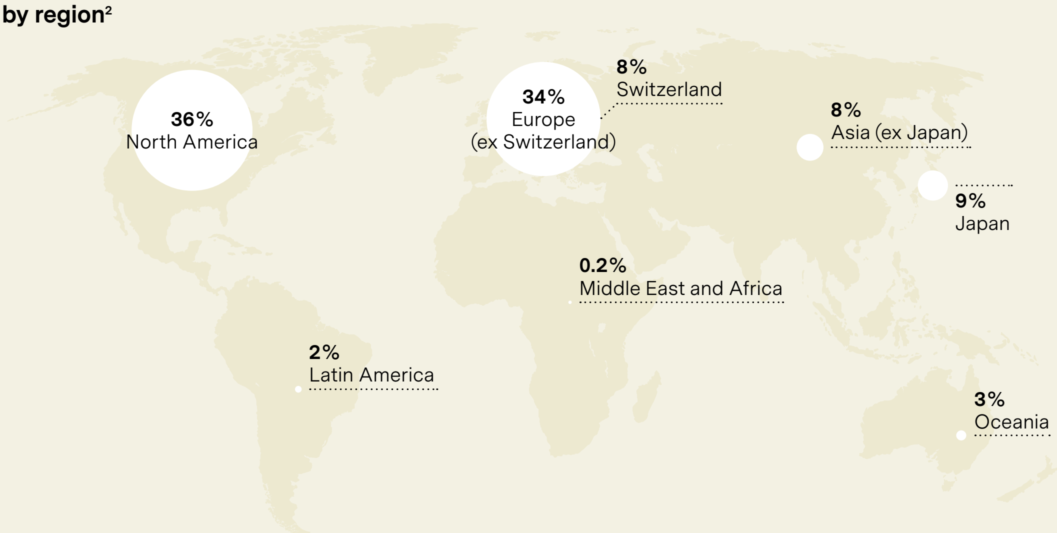
Vote against management	10 %
Vote with management	90 %

Vote by topic



Directors Related	56 %
Routine / Business	21 %
Compensation (incl. non-salary compensation)	12 %
Capitalization	7 %
Other	4 %

Vote by region[2]



[1] The sum of meetings is higher than the total number of meetings we attended, because we may have been represented by more than one proxy advisor at the same company meeting, depending on which advisor has been appointed for the fund. More information about our use of proxy voting service providers on page 3.

[2] with headquarter for country of reference.

Source: Vontobel, ISS, EOS at Federated Hermes and Ethos data

Our investment teams explain their rationale. Zooming in on some of our voting decisions.

Quality Growth strategies
For certain markets including the US, Canada and UK, we will generally vote against certain board members if less than 10% of the directors are from ethnic or racial minority backgrounds. For this US based company there were no identified minority board members. We voted against the reelection of two members of the nominating committee.

We regard the dilution of shareholdings as a risk to be avoided if above a threshold of 10%. In this case a Hong Kong based company was looking for authorization to issue up to 20% plus reissuance of repurchased shares without any limit to the pricing discount (limited to 20% by Hong Kong listing rules). We voted against this proposal.

mtx strategies
PTT Public is a Thai state-owned oil and gas company. PTT has robust operational monitoring and control systems, having climate-risk assessment integrated into its operational decision-making process, however mtx questioned if its climate-related targets and performance were progressing at an acceptable pace. As a result, at the 2020 Annual General Meeting, mtx voted against management on four of a total of five proposed directors on the ballot (an exception was made on a new female non-independent non-executive director) due to the company's slow progress with regard to its low-carbon transition. We regard this vote as part of a collaborative effort with EOS to bring to the board's attention that better board oversight on climate change topics is required.

Xinyi Glass Holdings is a Chinese firm and leading integrated glass manufacturer. Mtx's ESG assessment flagged concerns on board leadership structure. In particular, entrenched (overly long serving) board members with many executives' directors, lack of independence and weak gender diversity. Although Chinese companies are commonly highlighted for similar board structures, these conditions can affect a board's ability to effectively oversee management. As a result, at the 2020's Annual General Meeting, mtx voted against management on the re-election of Chair and founder Mr. Yin Yee Lee due to these concerns on board independence and diversity on the board.

Listed Impact strategies
As investment managers focused on Listed Impact equities, we put particular importance to sustainability-linked executive compensation. One example in 2020 is Aalberts NV, a company engaged in the development of industrial products and systems in the Netherlands. Because of the Covid-19 pandemic and the guidelines applying during this period in the Netherlands, the company had to postpone their Annual General Meeting. What could appear as a bad news was an opportunity to engage with the company. EOS, our engagement partner, had a positive call with the head of sustainability during which they covered a number of governance and environmental and social matters, among others compensation. The company was taking advantage of being able to postpone its AGM to June to reconsider what further disclosures it can provide around bonus metrics and weightings, which gave us confidence to vote for, on remuneration related items during the next meeting.

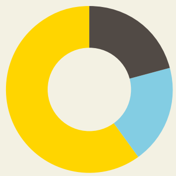
Engagement Highlights 2020

130 companies

In 2020, we engaged with 130 companies[1] on different topics, either directly or indirectly using EOS at Federated Hermes services. For 39 of these companies, we conducted at least fact-finding engagement activities, through our Impact metrics questionnaire. More details can be found on page 13.

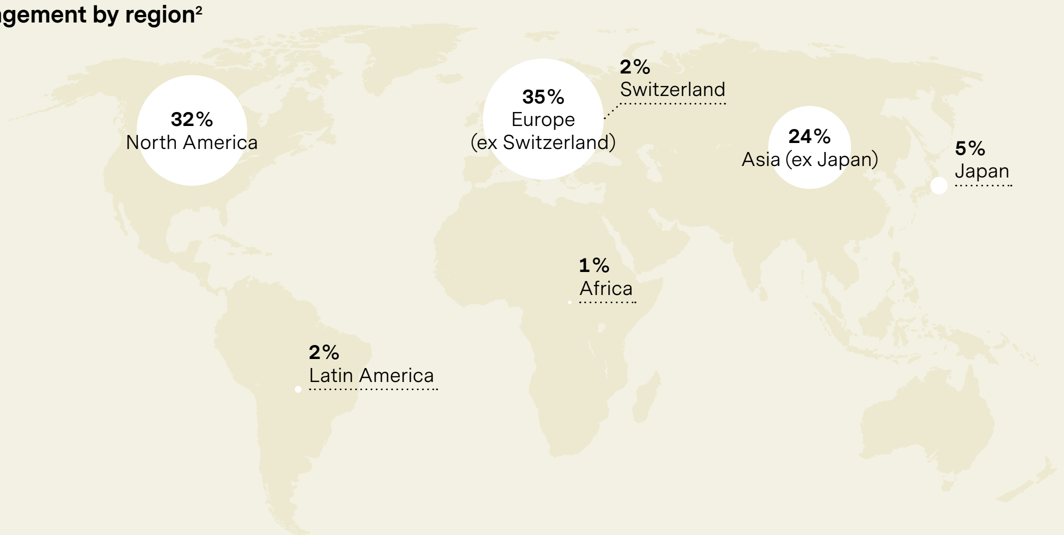
We engaged mostly with companies based in Europe, North America, and Asia. Governance issues were the biggest concerns.

Engagement by theme



Environmental	21 %
Social	19 %
Governance*	60 %

Engagement by region[2]



On the next pages, you will find engagement examples conducted our investment teams participated to.[3]

[1] Statistics include engagements conducted by Quality Growth, mtx and Listed Impact strategies.
[2] with headquarter for country of reference.
[3] We may have anonymized some engagement cases that contain sensitive information, in order to preserve our relationship with investee companies and be able to pursue certain engagements in the future.

Source: Vontobel, ISS, EOS at Federated Hermes and Ethos data

Independence for good governance

- **Engagement activities conducted by**
  Quality Growth Boutique (QGB)
- **Issuers**
  US pharmaceutical company and Indian communications services company
- **Topic**
  Independence of the board

We engaged with a large S&P500 pharmaceutical company that has a combined CEO and Chair of the board role. At QGB we believe that an independent chair provides better alignment with shareholder interests. While we do not have issues with the company's current CEO we note that the chair is the primary person on the board that shareholders may look to represent their interests. One primary consequence of combining the two roles is that the CEO is responsible for their own oversight and is better able to exert control over the board's agenda and discussion. This particularly becomes an issue if the CEO's performance starts to drift or the company needs to make a strategic change. It is not difficult to imagine how a dual CEO/Chair could delay the board from addressing emerging issues. In contrast, a strong independent voice as chair will likely be quicker to address corrective actions, including the potential for needing to replace the CEO. To use the prominent example of Microsoft, we anticipate it would have been unlikely that Steve Ballmer would have stepped down when he did (thereby paving the way for Satya Nadella) without the influence of Bill Gates as chair. Passive shareholders cannot expect to participate in the boardroom, but an independent chair does provide one level of mitigation.

We discussed the issue with management including the Corporate Secretary. The company emphasized that its board consists of all independent directors with the exception of the Chair, and that the board includes a lead director with significant responsibilities, and that it did not intend to split the role at this time. We engaged with the company and heard their views. We voted against the reelection of the Chair of the Board in 2020.

Another example is our engagement with a leading Indian company. The company's founding family controlled the business through a holding company. This 'promotor' (Indian term for controlling shareholder) relationship was well understood, and the company had built its business over the past twenty years within this structure. We had concerns around governance including the independence of certain directors on the board who we did not regard as independent, and the independence of the risk management committee.

We engaged with the company about the independence of the board and the risk management committee through a number of conversations with the CEO, independent directors. We also sent two letters to the board outlining our observations along with suggestions we believed might reduce these perceived risks. The company responded to our suggestions to an extent. The risk management committee representation of independent directors was lifted from 33% to 50% through the addition of an independent director. The company also removed the two independent directors we did not regard as independent.

Long term engagement – a focus on executive compensation

- **Engagement activities conducted by**
  mtx team
- **Issuers**
  X5, Russian food retailer
- **Topic**
  Remuneration

X5 Retail Group is a leading Russian food retailer, operating in several retail formats – proximity stores, supermarkets and hypermarkets, as well as online shops.

Following thorough ESG due diligence, mtx started investing in X5 Retail in 2017 and commenced regular dialogue on Sustainability issues in August 2018. Over this time, we have observed positive efforts towards integrating sustainability into its business strategy. We have seen the company's progression from one lacking in ESG disclosure and target-setting initiatives, to a company that is strongly committed to strategic sustainable development goals (SGDs). X5 Retail has committed to mid and long-term targets on material environmental and social issues, focusing on key areas such as human capital management, nutrition and health into its assorted food offerings, as well striving for better environmental operational efficiency.

Initially, our engagements with X5 focused on its sub-par ESG disclosure and general concerns on its human capital management, including a negative trend on employee turnover rates and poor working conditions (weakness that are common in the industry). We followed the company closely as it committed to improve employee engagement and retention, as well as its disclosure on ESG metrics.

As we observed stronger leadership and tangible positive performance related to those issues, in 2020, we directed our efforts to addressing issues of corporate governance. Our analysis flagged a controlling shareholder (CTF Holdings Ltd/Alfa Group – c.48% shareholding), which had been previously linked to the Kremlin, in addition to concerns over executive pay practices. Mtx was particularly interested in X5 Retail's board remuneration practices as that has faced increasing shareholder dissent over the past years.

Engagement
In X5's AGM in May 2020, mtx voted against management's various remuneration proposals because, inter alia, the long-term incentive (LTI) plan lacked any form of retrospective disclosure, the policy awarded the board disproportionate discretionary powers, quantum was excessive and not sufficiently justified and the CEO was essentially guaranteed a set pay out – raising the risk of paying for failure. In voting against management, we wished to communicate the need for better pay disclosure and we followed this up directly with management.

Following the AGM, in May 2020, mtx's financial analyst covering X5 had calls and emails with X5 Retail's Investors Relations. Mtx highlighted their concerns on lack of disclosure on executive long-term remuneration incentives and other pay-performance metrics, as well as excessive remuneration for the supervisory board as compared to peers.

X5 Retail explained that remuneration KPIs followed revenue and EV/EBITDA basis at 50% each, among other conditions. The company also explained that supervisory board pay is c.15% above emerging market peers, but in line with Russian standards given the level of industry expertise of the board (e.g. industry expertise from Amazon, Lidl, and Tesco). Lastly, it also shared its plans to improve disclosure of remuneration KPIs for the LTI program, as well as provide further detailed ESG metrics via a new portal on its website, to go live end of 2020. Given our 2019 engagement with X5 Retail on disclosure topics, we were pleased to see further improvements here.

In October 2020, mtx had a follow-up call with X5 Retail. We were mostly interested in its LTI scheme, efforts on GHG reduction, and the impact of Covid-19 on workforce KPIs.

In an email exchange following the October call, X5 Retail reaffirmed its efforts to improve disclosure in the near future, as well as emphasized that it is considering changes in its LTI program (e.g. integrating ESG metrics into its LTI program).

The company also referred to its focus on improving eco-efficiency on energy use (scope 2), which represents over 50% of its GHG emissions. By automating control and monitoring systems, it expects to cut electricity consumption in stores by an average of 10%. It has also decided to extend its monitoring project to other facilities and has started piloting renewable energy projects but their significance in GHG emissions is yet to be reflected in positive performance.

On workforce KPIs, X5 Retail explained it did not expect any significant impact on health and safety metrics or on employee turnover due to Covid-19. It also stressed its positive trend on employee engagement rate reaching peer-levels and the 2023 internal target (>75%). Mostly, employees refer to transparent communication and ability to implement changes internally as highly appreciated factors.

As at our detailed ESG review of October 2020, we observed continued positive outlook on workforce management, disclosure, and targets, with a three-year positive trend on employee turnover rate (the rate fell by almost 20% year-on-year in 2019) as well as strategic commitment to decent working conditions and equal opportunities. On the business strategy side, a strong focus on healthier products with increasing fresh fruits and vegetables in the total product range (in 2020 fresh fruit and vegetables represented almost half of the product assortment in its main stores, already a wider offering compared to competitors). Additionally, X5 has a series of efforts on sustainable packaging, sustainable sourcing programs, and waste management.

We will continue to foster an open dialogue with the company on material ESG issues, and express our point of view to management.

Inquiry for more quantitative impact data

- **Engagement activity conducted by**
  Listed Impact Investing Team
- **Issuers**
  engaged with all portfolio holdings
- **Topic**
  transparency and impact metrics data

All business activities have an effect on the environment, some positive, many negative. Not giving enough attention to, or even ignoring ecological consequences of these activities has led to enormous environmental challenges such as climate change, depletion of resources, or loss of biodiversity. We believe we can tackle large-scale challenges by actively selecting and owning shares of companies offering scalable business models in areas requiring billions of dollars of investments over the next decades. A large part of our engagement efforts is therefore, to convince companies to expand and improve their environmental reporting. This should allow us to improve the quality as well as the scope of our reporting over time.

Wherever possible, we rely on reported data from the portfolio holdings. This includes annual reports, CSR reports, websites or other investor information.

Requesting additional data and motivating companies to measure and publicly disclose the required data and indicators is part of our engagement work. A questionnaire explaining our needs, comprising last year's impact report plus a list with possible KPIs was e-mailed to all portfolio holdings in March 2020.

A total of 39 companies took the time to answer our survey. The relevant environmental metrics for the portfolio companies were applied where data was available or could be estimated. The analysis included all companies in which the Vontobel Fund - Clean Technology was invested as of June 30, 2020. We aimed to obtain the most recentenvironmental data.Over 90 % ofthe data is based on the fiscal year 2019 or end of March 2020. The percentage owned of each invested company was applied to measure the environmental benefit attributable to the fund.

Compared to the previous year replies improved in terms of amount and quality. We can conclude that our continuous engagement on our impact topics increases the awareness and willingness of companies to report.

Sending our questionnaire is a great opportunity to start a conversation and educate companies. An American Software Company was impressed by our Impact Report. They were not yet prepared to provide the type of data. However, they were asking for some support in a video conference. They wanted to learn more and discuss how they might be able to measure "potentially avoided emissions". They plan to publish an ESG report in 2021 covering this type of information.

List of Impact metrics requested for the Impact Report 2020

1. CO_2e emitted (carbon footprint) in million t CO_2e emitted (scope 1&2)
2. CO_2e avoided (PAE) in million t CO_2e avoided
3. Renewable energy generated in GWh
4. Renewable energy devices shipped in MW
5. Drinking water provided in million m^3
6. Water recycled / treated or saved in million m^3
7. Eco-friendly passenger transport in million passenger km transported by train
8. Cargo transported on rail in million t cargo km transported by railroad
9. Waste treated or recycled million t waste treated, processed or recycled

No of stocks in Portfolio: 66

IMPACT INDICATORS	NO OF RELEVANT COMPANIES	DISCLOSED	ESTIMATED
Carbon footprint	66	65	
avoided carbon emissions	51	39	12
renewable energy generated	18	18	
renewable energy capacity shipped	7	7	
Circular Economy (recovery, reuse, etc.)	36	36	
Drinking Water provided	5	5	
Water saved, recycled or treated	36	36	
Waste Management	3	3	
Cargo/passenger transport by rail	2	2	

Source: Vontobel Asset Management

Environmental impact in the hydrogen sector

- **Engagement conducted by**
  Listed Impact Investing Team
- **Issuer**
  Air Products
- **Topic**
  controversial activity from an environmental perspective

In July 2020, Air Products has announced a mega project together with ACWA Power and the city of NEOM to produce hydrogen using solar and wind power, hence making a zero CO_2-emission fuel. At the same time, however, the company pursues investments in coal gasification, a high CO_2-emission activity.

This NEOM hydrogen project is by far the largest of its kind, its capacity will avoid 3 million tons of CO_2 per year, emissions equivalent to those emitted by 700,000 cars, according to Air Products. The management emphasized that this is not a pilot and that they will push ahead with additional projects similar in size – to us this is a very strong commitment in favor of a cleaner society. At the same time however, Air Products announced a coal gasification project in Indonesia. For the climate, coal should better be left in the ground given its high CO_2 emission relative to its energetic value; below is an excerpt to coal gasification's benefits as well as its associated environmental harm.

We requested further information from Air Products about the environmental impact this project is going to cause, or at least studies from similar projects, as Air Products has already completed several coal gasification projects, mostly in China.

Unfortunately, Investor Relations could not provide detailed information, only assuring the resulting product, methanol, will support Indonesia's renewable energy program as well as fertilizer production. Furthermore, Investor Relations reiterated that its management is very strongly commitment to activities benefitting the environment.

Reading Air Products' website and investor relation material, we would expect that environmental stewardship be deeply engrained in the company's corporate culture. While we highly appreciate Air Product's long-term vision and commitment shown with the NEOM hydrogen project, we are unfortunately disappointed that the management deems a study on the environmental footprint as nonessential, particularly as it is about such a controversial activity as coal gasification. To us it is of utmost importance to weigh beneficial activities against those causing harm. Admittedly, the sheer size of the NEOM project would favor the positive view. Nevertheless, we continue to ask for more environmental disclosure, and follow the company's developments carefully.

Critical activities in coal gasification of Air Products: Coal gasification is explored as a new way of using coal in a more efficient and more environmentally friendly process to generate electricity and heat.

The challenge, then, is how to harness coal's energy more cleanly. The main technology being used is coal gasification – instead of burning the fossil fuel, it is chemically transformed into synthetic natural gas (SNG).

Commercial hurdles: Integrated Gasification Combined-cycle (IGCC) IGCC is a newly developed technology for a power plant that turns carbon-containing material into synthesis gas (syngas). The system is designed to be able to remove impurities from the gas before it is combusted. This results in lower emissions of SOx, particulate matters and mercury. Excess heat from the primary combustion is passed to a steam cycle, which results in improved efficiency compared to a conventional pulverized – coal plant. However, IGCC plants are still not completely commercial. The aim of IGCC plants development is to improve the environmental performance and decrease the production cost.

The process is decades old, but recent rises in the price of gas mean it is now more economically viable. The US has dabbled in the technique, but China is going all out in a bid to satisfy its soaring demand for power and reduce its dependency on imported liquefied natural gas (LNG). The country's National Energy Administration has laid out plans to produce 50 billion cubic metres of gas from coal by 2020, enough to satisfy more than 10% of China's total gas demand.

Coal gasification can also help address local pollution problems that have in recent months brought parts of the country to a virtual standstill.

But there are two big problems. First, coal gasification actually produces more CO_2 than a traditional coal plant; so not only will China be using more coal, it will be doing so at a greater cost to the environment. IEA states: "It can be a nice solution to local pollution, but its overall carbon intensity is worse [than coal mining], so it is not attractive at all from a climate change point of view". Indeed a study by Duke University in the US suggests synthetic natural gas emits seven times more greenhouse gases than natural gas, and almost twice as much carbon as a coal plant (an extreme case in our opinion).

The second problem is water use. Coal gasification is one of the more water-intensive forms of energy production, and large areas of China, particularly in the western parts of the country that would host new gasification plants, already suffer from water shortages.

An engagement case in the fixed income field

- **Engagement activity conducted by**
  Fixed Income Boutique
- **Issuer**
  Infrastructure construction company in Brazil
- **Topic**
  Corporate Governance and transparency

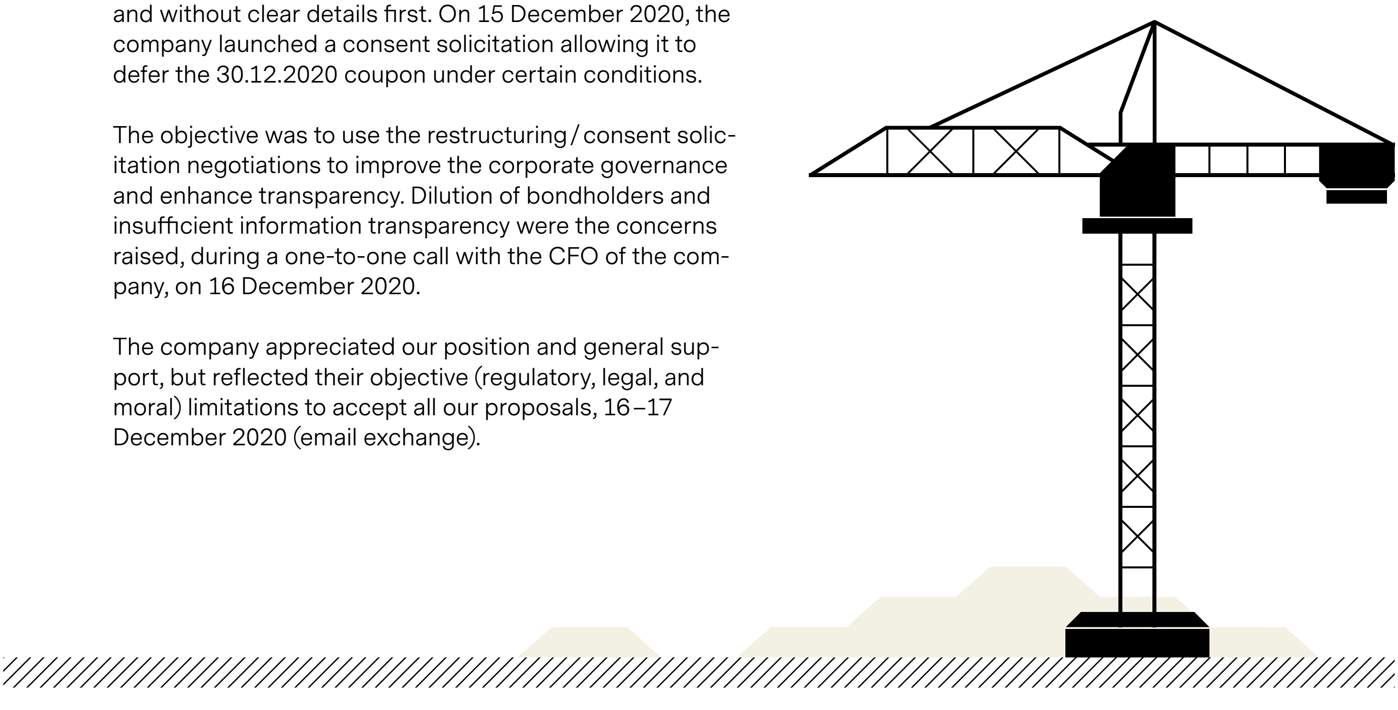
Background: The company is an infrastructure construction company in Brazil, which was implicated in the Lava Jato corruption scandal, settled it with the government and overhauled the business and corporate governance back in 2016 (only after which we entered the story) and kept servicing debt until its largest maturity – 2018 Eurobond maturity – came due. We had been engaged directly with the management already at that stage and, due to our support in a big part, the company rolled over into a 2021 bond with materially more bondholder-friendly structure (secured by shares of another, valuable, business of shareholders). In November 2019, the company carried out a voluntary exchange offer, rolling over the vast majority of the bond into new 2024. Covid-19 struck the company's sector more than many others, so by June 2020, and in October 2020 again, it made a decision to approach a local investment fund to tap the 24s bond at a discount for the amount of the coupon in order to avoid default. For other 2024 holders it means the limited collateral now is spread over a bigger amount of bonds, although the issuer was allowed to do this by bond indentures. More importantly, the company only informed bondholders of this funding source post factum and without clear details first. On 15 December 2020, the company launched a consent solicitation allowing it to defer the 30.12.2020 coupon under certain conditions.

The objective was to use the restructuring / consent solicitation negotiations to improve the corporate governance and enhance transparency. Dilution of bondholders and insufficient information transparency were the concerns raised, during a one-to-one call with the CFO of the company, on 16 December 2020.

The company appreciated our position and general support, but reflected their objective (regulatory, legal, and moral) limitations to accept all our proposals, 16 –17 December 2020 (email exchange).

We discussed in parallel with the other bondholder group and the company in order to achieve acceptable adjustments to the consent solicitation to address existing issues and visibly improve treatment of bondholders. At the same time, we found some demands from other holders exaggerated and possibly pushing the company into unnecessary default (with associated negative social and other aspects). By being a relatively large holder and spending sufficient time and effort on bargaining these conditions, we believe, we found the optimal solution for all stakeholders, 17– 23 December 2020

The company agreed to hold monthly investor calls with business updates and refinancing strategy plans, the company cancelled the remaining capacity for tapping the bond and diluting bondholders, the covenants further tightened in exchange for a deferral of the December coupon. Verbal commitment of the management to address 2021 maturity in an equitable fashion for 2024 holders (who are senior to 2021s), the process which is currently ongoing, 7 January 2021 (official approval of consent solicitation).



Collaboration with our engagement partner

- **Engagement activities conducted by**
  mtx team, together with EOS at Federated Hermes
- **Issuers**
  large multinational, state-owned commercial bank in emerging markets
- **Topic**
  Independence of the board

Company A is a large multinational, state-owned commercial bank. On ESG matters, the company covers most ESG aspects adequately but there are several warning flags, especially on compliance management and business ethics. Common ESG issues in the banking industry where topic exposure is relatively correlated to corporation size.

The Company has made a number of efforts to address systemic compliance risk but minor controversies continue to be seen regularly. Additionally, despite being a signatory to various global initiatives (e.g. UN Principles for Responsible Banking, UNGC, and TCFD) and growing a significant green loan book, it has a long track record in funding controversial projects, which pose reputational and lending risk.

Mtx partnered with EOS, which has had a long-standing engagement with the Company, since 2011.

Engagement with Chair of Global Risk Committee.

In September 2020, mtx's ESG analyst covering financials had the chance to join an engagement led by EOS with the bank's chair of Global Risk Committee and an independent board director. We took the opportunity to ask two questions.

The first was on the bank's track record of financing of environmentally controversial projects and, therefore, its systematic measures to ensure sustainability is embedded in its financing activities. The Director shared that there was no policy on green targets as this must be set by the Government, not least because it is a state-owned bank. Given national carbon targets have been set, the natural process will be to move towards cleaner energy financing. Additionally, he stressed that although the bank is conservative on target setting, it is also serious about meeting any policy commitments.

Our second question was on the bank's frequent regulatory fines, which give the impression that compliance is not well managed. The director acknowledged great scrutiny by the national regulator, a member of which is on the bank's risk committee. The company has a strong monitoring approach, where every non-compliance fine goes through an investigation process and is discussed at board-level. He addressed several categories where it sees most fines going to, and outlined the bank's remedial measures e.g. more automation to avoid human error and fraud, better training and guidelines, and recruiting more compliance staff to better cope with multiplication of global compliance standards.

Other topics were also addressed in the call, mostly focus ing on business strategy, geopolitical risks, Covid-19 remediation and business continuity plan. We will continue to collaborate with EOS and participate in engagements where possible.

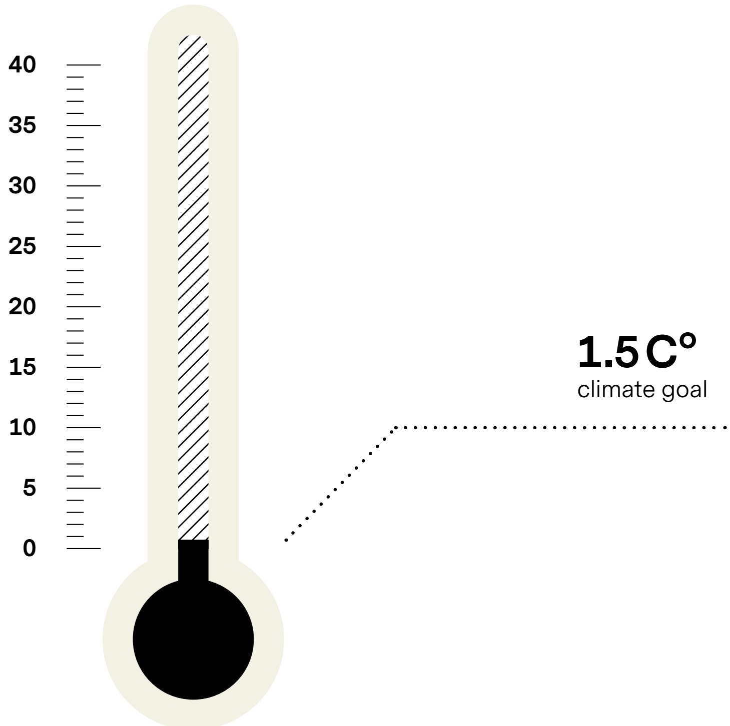
Other examples of collaborative engagements

Call for companies to set Science Based Targets
In 2020, Vontobel signed up to an initiative launched by CDP together with the World Resources Institute, the UN and WWF. The initiative calls on 1,800 companies to set Science Based Targets in line with the 1.5-degree climate goal and it is supported by almost 140 financial institutions globally. As a CDP signatory, we reported according to the new methodology for financial services providers for the first time in the year under review, with a focus on financed emissions.

As of January 2021, CDP had conversations with 150 companies, 80 % communicated their interest in setting Science Based Targets. Fifteen of them already signed the 1.5°C and net zero commitment. In addition to 33 companies joining SBTi through a standard commitment letter and eight companies who joined with approved targets. In May 2021, CDP will publish a first-year review of the campaign.

The letter, list of investors and mid-term report can be found on the cdp.net website.

Collaborative engagement on modern slavery
In 2020 an example of a group engagement was on the subject of Modern Slavery in the operations and supply chains of the apparel and construction industries. The initial goal is to run the engagement program for three years to allow time for a range of goals to be achieved. These goals include selecting an initial group of companies on which to engage, establishing a set of measurable Key Performance Indicators (KPIs) which will be used to monitor performance and progress over the length of the engagement, establishing effective practices, and working with company managements to incorporate operational changes aimed at reducing the chances of modern slavery.



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