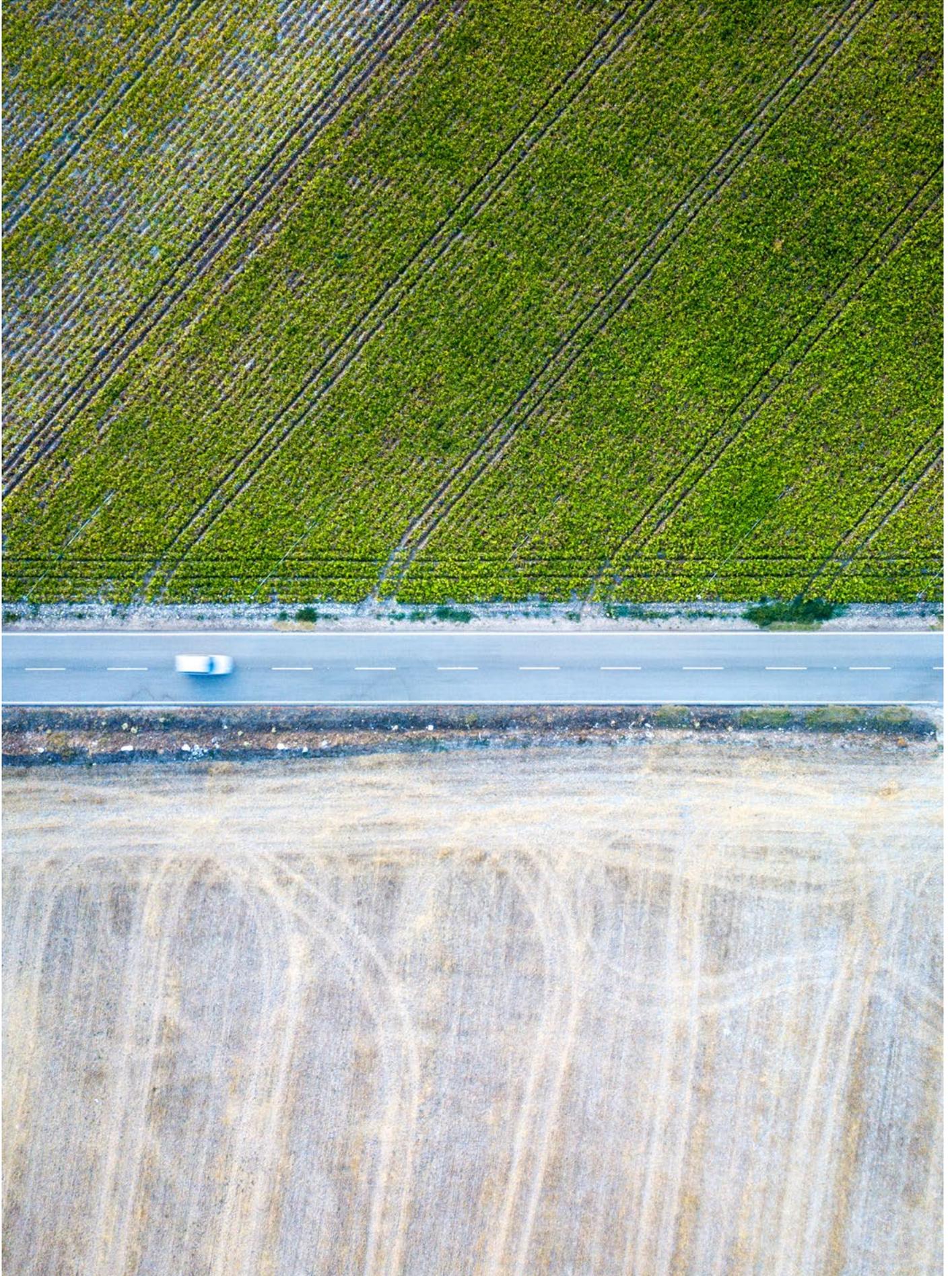


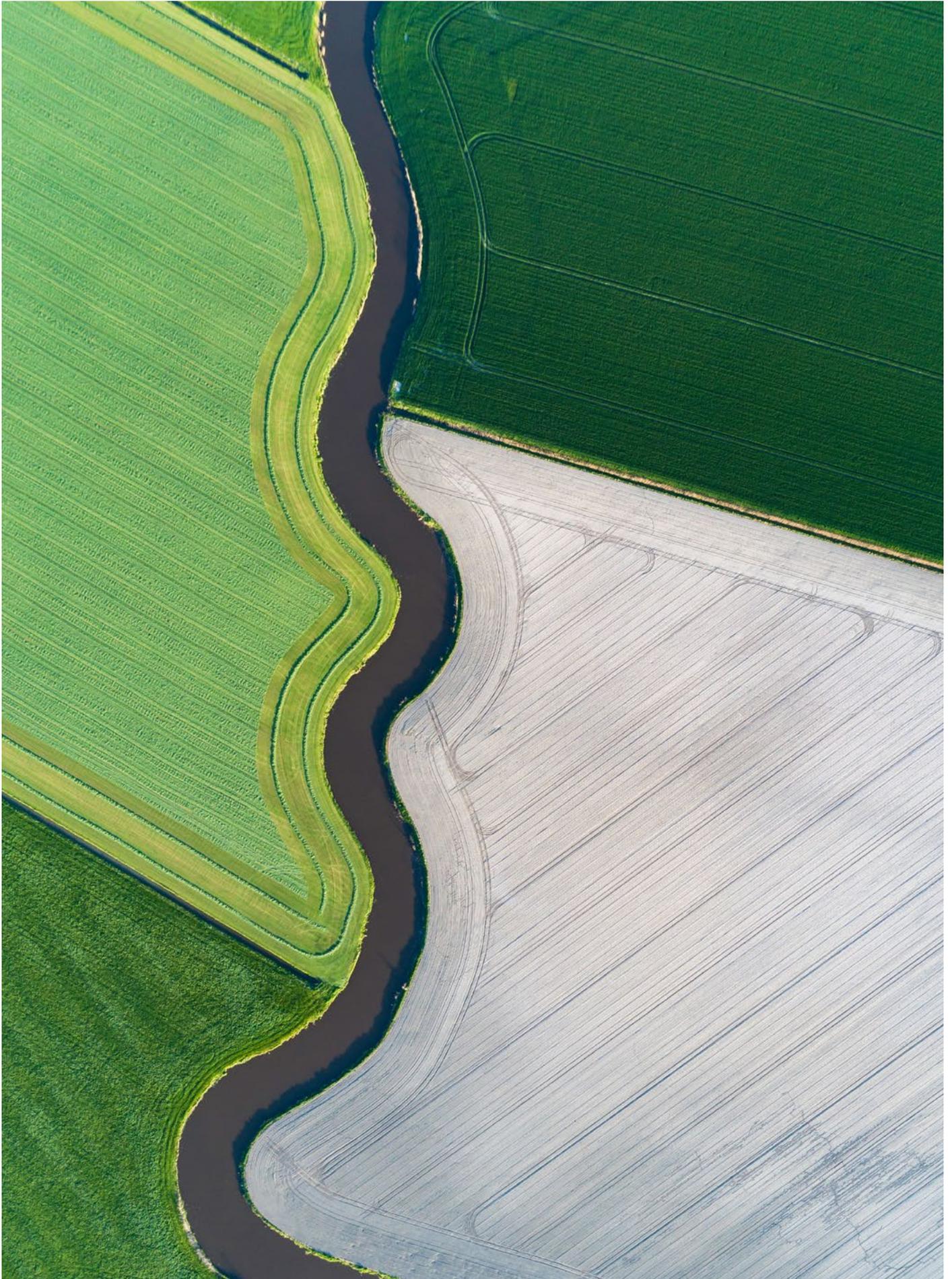
An aerial photograph of a bridge crossing a river. The bridge has a curved design and is populated with several people walking and a few cars. The water is a deep blue-green color, and there are some trees and grassy areas on the banks. The overall scene is bright and clear.

Vontobel

2025 Engagement Report

Driving change through dialogue





II. Executive summary

At Vontobel's Conviction Equities Boutique, engagement is a cornerstone of our investment philosophy, rooted in rigorous academic research and a steadfast commitment to long-term value creation. Our approach is informed by governance theories that demonstrate how active shareholder engagement can help mitigate risks, improve transparency, and enhance strategic decision-making. By fostering trust-based, constructive dialogue with portfolio companies, we aim to address material sustainability risks and opportunities in a way that aligns with financial objectives and considers the broader business context.

Engagement sharpens our investment edge, allowing us to interpret qualitative nuances and market context that go beyond standardized data, ultimately contributing to more informed capital allocation decisions. This report highlights our efforts to drive meaningful change through 115 engagements with 87 companies in 2025, focusing on sustainability as a key driver of operational resilience, risk management, and long-term shareholder value.

Key engagement themes in 2025

Our engagements were shaped by four critical themes: climate action, governance, labor management, and the responsible use of artificial intelligence (AI). These themes reflect the evolving priorities of our portfolio and the broader sustainability landscape.

1. **Climate action:** Companies made notable progress in transitioning from planning to implementing climate strategies, with a focus on emissions reduction, renewable energy adoption, and climate adaptation. Scope 3 emissions and resilience to physical climate risks rose notably in prominence in 2025, while transition plans largely remained on track despite growing caution surrounding prominent climate platforms. We believe that leaders such as TSMC and Samsung demonstrated innovative approaches to renewable energy and water management, while challenges such as limited grid capacity and regulatory hurdles persisted for other companies. Beyond emissions, water management has increasingly become a priority resource, and recycling has gone mainstream, with circular economy initiatives becoming real value drivers.
2. **Governance and transparency:** Governance continues to be the foundation of sustainable value creation. We observed progress in board independence, diversity, and the integration of ESG-linked metrics into executive compensation. For example, Barry Callebaut and Kia made strides in tying executive pay to sustainability outcomes, while other companies were encouraged to enhance transparency and accountability. Our engagements also addressed ethical concerns, audit risks, and governance challenges, advocating for stronger accountability and ethical practices.
3. **Social and human capital management:** Labor management, workplace safety, and community relations were key focus areas in 2025. Companies such as JSW Steel and Adnoc Drilling implemented innovative solutions to improve worker safety and community well-being. Efforts to address labor turnover and promote worker and community well-being were evident across our portfolios, with companies like Infosys, Wiyynn, and Swissquote making significant progress in fostering inclusive and supportive workplaces.
4. **Technological innovation and AI:** AI emerged as a dominant theme, with companies exploring its potential to enhance operational efficiency, sustainability, and customer experience. Leaders such as Alibaba and Samsung leveraged AI for energy efficiency, circular economy initiatives, and sustainability reporting, while challenges related to AI ethics and governance remain. We continue to advocate for responsible AI practices.

Impact and outcomes

While we do not claim progress is solely and directly attributable to our stewardship, we recognize measurable progress by the companies we engage with across a range of sustainability issues:

- **Climate action:** Companies are increasingly adopting SBTi as the gold standard for net-zero plans, with many achieving formal validation of their goals.
- **Governance reforms:** Progress has been made in enhancing board diversity, independence, and ESG-linked compensation frameworks, with companies increasingly revising executive remuneration policies to include sustainability metrics.
- **Social impact:** Companies are prioritizing workplace safety, labor management, and community relations, resulting in measurable improvements in employee retention, safety practices, and community engagement.
- **AI and innovation:** While AI adoption is still in its early stages, companies are making strides in deploying AI for sustainability and operational efficiency, with a growing focus on governance and ethical considerations.

Looking ahead: 2026 engagement priorities

We believe sustainability is moving into a more practical phase, where the emphasis is moving toward application and delivery. This actually aligns with how we've approached sustainability for some time, so it's not a change in direction for us. We believe the topics continually shift and evolve, though we see this dynamism as part of sustainability's core nature, not a flaw.

In 2026, we will focus on four key engagement priorities to address the most pressing sustainability challenges and drive long-term value creation:

1. **Decarbonization:** We will advocate for science-based targets across all emissions scopes, robust Paris-aligned transition plans with interim milestones, and improved climate governance and accountability at the board and executive levels.
2. **Governance for shareholders and stakeholders:** We will promote strong and accountable boards, transparent accounting practices, and fair pay structures. Aligning incentives with sustainability-based key performance indicators (KPIs) and addressing gaps in workforce practices, both within companies and across their supply chains, will remain a key focus.
3. **Nature protection:** We will support companies in managing and mitigating their environmental impacts, including land use, water stewardship, and ecosystem protection. We will also advocate for reducing resource intensity, adopting circular business models, and phasing out hazardous pollutants like PFAS.
4. **Safe and ethical AI:** We will focus on ensuring transparent AI governance, including board oversight, risk identification, and meaningful disclosures. We will advocate for responsible AI practices, such as implementing human-in-the-loop safeguards and ensuring alignment with ethical AI regulations, while addressing societal impacts like workforce reskilling.

Conclusion

Despite global challenges and a growing backlash against ESG, our 2025 engagements have reaffirmed the resilience of corporate sustainability commitments. By combining financial and sustainability expertise, we have helped companies navigate complex challenges while driving progress on climate action, governance, social equity, and technological innovation. As we look to the future, we remain committed to fostering long-term partnerships, amplifying our impact, and creating sustainable value for all stakeholders.

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III. Introduction: Our approach to engagement

Constructive, long-term partnerships lie at the heart of our philosophy. As stewards of capital, we view ourselves as engaged owners—not activists—committed to addressing material sustainability risks to preserve and enhance long-term value. We firmly believe that engagement is among the most impactful tools at our disposal to drive such meaningful change.

In 2025, we conducted 115 engagements across 87 companies. While the topics varied widely, recurring structural themes emerged: mitigating environmental risks; strengthening governance as a foundation for enduring value; ensuring worker and community well-being; and carefully managing the opportunities presented by AI.

Our engagement philosophy is built on disciplined inquiry. Companies frequently tell us that when investors stop asking about certain risks, executive attention shifts elsewhere. This underscores the importance of sustained questioning. Sometimes we act as a sounding board, at other times we advocate firmly—for example, for auditor rotation, board independence, or improved climate disclosures. While our tone varies, our ultimate objective remains value preservation.

Our engagement efforts are driven by a proactive and purpose-led approach. All investments are thoroughly assessed through a sustainability lens, and continuous monitoring allows us to identify material risks and controversies early. We conduct fact-finding engagements to close information gaps, but most dialogues are strategic. These dialogues are guided by defined objectives and tracked against milestones to advocate for enhanced sustainability practices. Ultimately, we seek to deliver long-term value for our clients, without prejudice for common societal goals.

Collaboration is central. Sustainability analysts work alongside financial analysts, ensuring that qualitative insights inform investment decisions in real time. This partnership facilitates a holistic evaluation of companies, blending financial acumen with sustainability expertise to address critical issues and foster meaningful outcomes.

Our engagement theory and methods: Driving long-term value

Institutional investor engagement is grounded in established governance and economic theories, including stakeholder theory, agency theory, and legitimacy theory.¹ These frameworks recognize that active shareholders can mitigate agency costs, improve transparency, reduce managerial opportunism, and influence long-term strategic orientation. Engagement is therefore both a risk-management tool and a value-creation instrument.²

We also engage because it sharpens our investment edge. The tone, depth, and responsiveness in dialogue (whether expressed through a verbatim phrase or genuinely held belief) often reveal deeper insights than reported metrics. Many sustainability risks are qualitative and cannot be fully captured in standardized data. Interpreting nuance against market context enhances our capital allocation decisions.

Our primary method of engagement is direct dialogue with management and boards. We build trust, listen closely, and articulate proportionate, financially grounded recommendations. As long-only, high-conviction investors, our dialogue is meant to be stabilizing, rather than coercive.

¹ Stakeholder theory posits that firms have responsibilities to a broad set of stakeholders beyond shareholders. Agency theory holds that external monitoring can reduce managerial opportunism and improve firm value. Legitimacy theory argues that corporations require societal legitimacy to maintain operational authority.

² For a deeper elaboration, see Katelouzou, Dionysia, “The Purpose of Investor Stewardship” (December 19, 2024, which discusses the concept of “enlightened stewardship” i.e., meaningful collaboration between investors and companies on basis of vested interest in long-term value creation. This collaboration has the potential to establish a corporate governance model that harmonizes profit with purpose, ensuring that businesses and societies thrive together. Also Kölbel, J. F., Heeb, F., Paetzold, F., & Busch, T. (2020). Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact, Organization & Environment

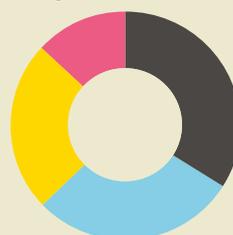
Conviction Equities Boutique engagement statistics 2025

Across all dialogues and companies

ENGAGEMENTS BY CEB SUSTAINABILITY TEAM IN 2025

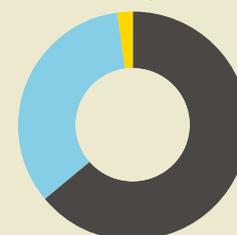
	2025
Total number of dialogues	112
Total number of companies	83
Number of companies engaged for mtx	37
Number of companies engaged for Swiss	15
Number of companies engaged for Impact	39
Number of industry engagements	1

Topics we engaged on in 2025
based on topics (349) logged for dialogues (112)



- 34 % Environment
- 29 % Social
- 24 % Governance
- 13 % Strategy, financials, and reporting

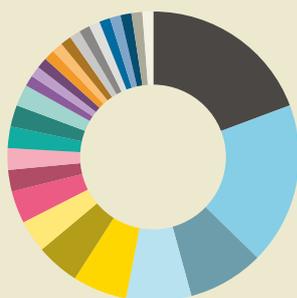
Type of engagements in 2025
based on 112 logged dialogues (excl. 12 attempts)



- 64 % Engagement
- 34 % Fact-finding
- 2 % Voting outreach

Engagement focus by country and sector

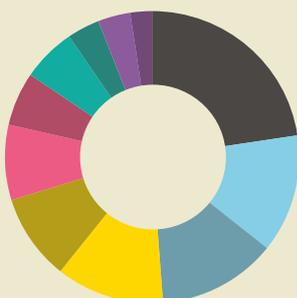
Across all dialogues and companies



By country

based on all companies (83)

- 19 % US
- 18 % Switzerland
- 8 % India
- 7 % China
- 6 % Taiwan
- 5 % Brazil
- 4 % Japan
- 4 % Korea, Rep.
- 2 % France
- 2 % South Africa
- 2 % United Arab Emirates
- 2 % Poland
- 2 % Mexico
- 1 % Spain
- 1 % Austria
- 1 % Indonesia
- 1 % Luxembourg
- 1 % Canada
- 1 % United Kingdom
- 1 % Finland
- 1 % Germany
- 1 % Denmark
- 1 % Hong Kong SAR, China
- 1 % Hungary
- 1 % Uruguay
- 1 % New Zealand
- 1 % Norway



By sector

based on all companies (83)

- 23 % Industrials
- 13 % Consumer discretionary
- 13 % Materials
- 12 % Utilities
- 9 % Information technology
- 8 % Health care
- 6 % Consumer staples
- 6 % Financials
- 4 % Energy
- 4 % Real estate
- 2 % Communication services

Source: Vontobel—ESG Engagement Log. Data as of December 31, 2025, no mapping to portfolio holdings. Overlaps between holdings and sub-teams may arise, as certain company engagements were conducted collaboratively across multiple investment strategies. This page includes all engagements—including companies that are not currently invested in, as well as holdings that were sold during the year. Engagement, fact-finding, and voting outreach conducted by the CEB Sustainability team are accounted for unless otherwise specified. Data accuracy based on best efforts. Percentages are rounded.

“Engagement is not peripheral to our process; it is integral to investment decision-making.”

We selectively participate in collaborative engagements where alignment enhances impact. Voting is treated as a core communication mechanism, integrating both sustainability and financial analysis.

Academic evidence supporting engagement

Empirical research demonstrates that high-quality investor engagement improves corporate disclosure, operational practices, and long-term strategic alignment, and is associated with enhanced sustainability performance and improved risk-adjusted financial outcomes.³

- Successful ESG engagements have been shown to reduce downside risk and volatility.⁴
- Engagement can lead to measurable improvements in operating performance.⁵
- Shareholder sustainability proposals that pass are associated with improved long-term financial performance.⁶
- Engagement for enhanced disclosure only can be dismissed as weak investor pressure—yet this can still contribute to better economic performance.⁷
- Engagement outcomes are sometimes measured in improved ESG performance, which in turn is associated with lower cost of capital, enhanced resilience, and stronger long-term shareholder value.⁸

While causality is complex and context-dependent, the weight of evidence supports engagement as a credible mechanism for influencing corporate behavior.

However, the theory of engagement is not without its critics. Skeptics argue that engagement risks substituting political preferences for shareholder value; that much of the evidence remains correlational rather than causal; and that short-term competitiveness can conflict with longer horizon sustainability ambition. They also note systemic challenges—such as climate mitigation or poverty induced child labor—that may exceed firm-level influence and instead fall within the purview of local regulators.

These critiques underscore the importance of disciplined, context-driven engagement. Our methodology is explicitly materiality-driven. We prioritize commercially viable actions that align with regulatory and market realities. Rather than applying universal checklists or pursuing maximalist social agendas regardless of cost, we seek outcomes that aim to mitigate risk, preserve market access, and enhance resilience.

³ 1) Heeb & Klöbel, “The Impact of Climate Engagement: A Field Experiment” (2024); 2) Sautner, Zacharias, Institutional Investor Engagement: From Climate to Nature Risks (September 13, 2025). 3) Lafarre, Anne and Van der Elst, Christoph and Slager, Rieneke, Beyond the Ballot: The Power of Shareholder Sustainability Questions (March 01, 2025). 4) Ringe, Wolf-Georg, Investor-led Sustainability in Corporate Governance (November 1, 2021). 5) Yahaya, Onipe Adabenege, The Role of Institutional Investors in the Nexus Between Sustainability Disclosure and Firm Performance (March 09, 2025).

⁴ Dimson, E., Karakaş, O., & Li, X. (2015). Active Ownership, Review of Financial Studies. 2) Hoepner et al. “ESG Shareholder Engagement and Downside Risk” (2020).

⁵ Barko, T., Cremers, M., & Renneboog, L. (2021). Shareholder Engagement on Environmental, Social, and Governance Performance, Journal of Business Ethics.

⁶ Flammer, C. (2015). Does Corporate Social Responsibility Lead to Superior Financial Performance?, Management Science.

⁷ Bancu, Emil. (2024). A Meta-Analysis of ESG Disclosure and Company’s Economic Performance. Proceedings of the International Conference on Business Excellence. 18. 2042–2056. 10.2478/picbe-2024-0173.

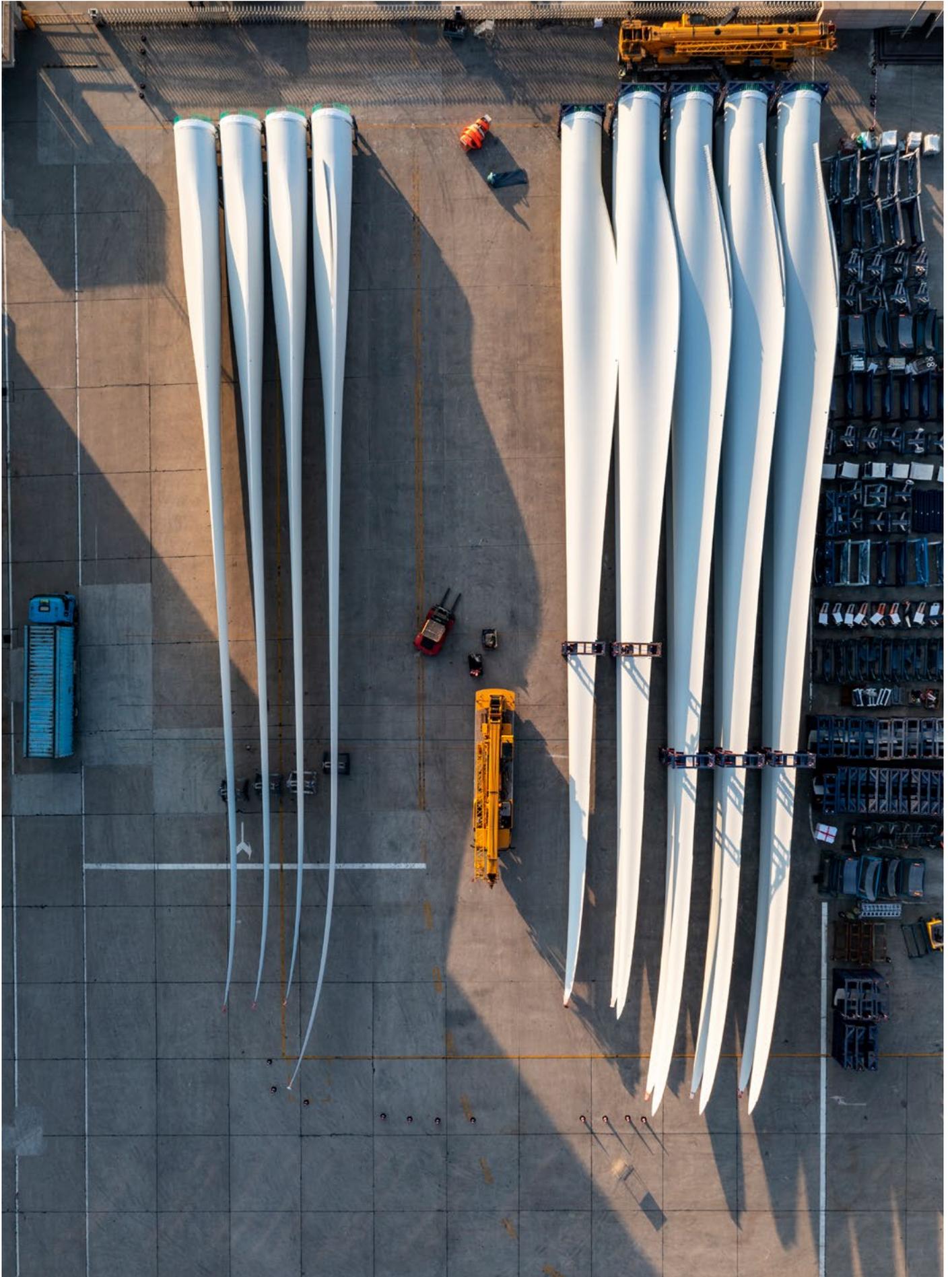
⁸ 1) Malich, J., & Husi, A. (2024). MSCI ESG Ratings and Cost of Capital (MSCI Research Paper, July 22, 2024). 2) dos Reis Cardillo, M. A., & Cruz Basso, L. F. (2025). Revisiting knowledge on ESG/CSR and financial performance: A systematic review of moderating variables. Journal of Innovation & Knowledge. This study found sustainable investments neither outperformed or under-performed. 3) Abate, G., Basile, I., & Ferrari, P. (2025). ESG Ratings and Financial Performance: An Empirical Analysis. International Journal of Financial Studies, 13(4), 230.

This is particularly relevant in emerging markets (EM), where regulatory enforcement may be uneven, yet companies remain acutely sensitive to commercial signals such as export eligibility, buyer standards, or quasi-sanctions.⁹ Our engagement focuses on anticipating these risks and strengthening resilience rather than moral lecturing. Our engagement approach is therefore framed as a credible intermediary, helping firms navigate complex and sometimes conflicting sustainability expectations to reduce tail risks and enhance long-term shareholder value.

We recognize the real trade-offs—such as short-term costs compared to long-term durability, or immediate competitiveness versus optionality. Our asks are designed to be proportionate, evidence-based, and financially grounded.

In conclusion, engagement is neither automatic nor universally successful. Achieving meaningful outcomes requires persistence, credibility, and prioritization. However, materially focused, trust-based engagement has demonstrated the capacity to improve corporate sustainability practices, reduce tail risks, and preserve long-term value. By combining rigorous research, disciplined focus, and constructive dialogue, we seek to influence corporate behavior in ways that are economically rational, contextually realistic, and aligned with fiduciary duty—even in complex or limited regulatory environments.

⁹ Such as entry onto restricted dealings list such as the “Entity List” under the US’ Uyghur Forced Labor Prevention Act, is effectively a ban on doing business in the US.



IV. Key trends in 2025 engagements

The four most pressing topics of 2025 were: climate, governance, labor management and AI. In addition, the Impact Investing team placed emphasis on chemicals and impact measurement.¹⁰

A. Climate and environmental focus

The critical need for climate action continued to dominate corporate agendas in 2025. Across geographies and sectors, companies prioritized renewable energy adoption, emissions reduction, and water management, although progress remains uneven globally.

1. Investor return case for climate-related engagement

Our approach to climate engagement is rooted in pragmatism and financial materiality. We view climate action not as a box-ticking exercise but as a core lever for long-term value creation and risk management. The evidence is clear: companies that take proactive steps to manage emissions and climate risk are better positioned to access capital, reduce volatility, and deliver sustainable returns.

Empirical studies consistently show that robust climate strategies—whether through emissions reduction, energy efficiency, or supply chain transparency—translate into tangible financial benefits. Firms with credible climate plans often enjoy lower costs of capital,¹¹ improved resilience and risk outcomes¹², and stronger operational performance, particularly in carbon-intensive sectors.¹³ Our portfolio companies inform us that climate action is not solely about managing downside risks; it also opens opportunities for efficiency gains, innovation, and competitive advantage.

While evidence of the direct financial impact of Scope 3 emissions management is still emerging, studies show that comprehensive Scope 3 measurement and management are associated with improved supply-chain transparency, stronger supplier relationships, and operational efficiencies, particularly in procurement, logistics, and inventory management.¹⁴

Adaptation and resilience have also come to the fore. The physical impacts of climate change are no longer theoretical—they are affecting operations, supply chains, and asset values today. Companies with strong environmental performance and adaptation plans are demonstrating lower risk and greater stability, even as extreme weather events become more frequent.¹⁵ Yet, adaptation remains an underdeveloped area, creating both risks and opportunities for investors who engage on these topics.

Ultimately, our engagement stance is straightforward: climate mitigation and adaptation are not only aligned with global transition pathways, but also with corporate financial performance, risk reduction, and sustainable investor returns, even in the absence of near-term regulatory mandates. We therefore advocate for credible action and transparency as an effective way to protect and grow value for our clients.

2. Emissions reduction: Moving from plans to actions

In 2025, companies made significant progress in moving from planning and target setting to implementing emissions reduction and renewable energy strategies. Adaptation—focusing on resilience to physical climatic impacts—saw a notable step-up in attention last year.

There are a large number of companies with advanced net-zero strategies in terms of scope, implementation detail, clear timelines, and early completion dates. Notable examples of progressive net-zero targets include **CATL** (2025), **BYD** (2045), **Adnoc Drilling** (2045), **Bosideng** (2028), and **Nestlé** (2050 across all scopes, halved emissions 2030). Yet, it is still common for companies to have more aspirational 2050 targets but with no clear implementation plans, such as **JSW Steel**. Encouragingly, Swiss companies such as **Holcim**, **Lonza**, **Sandoz**, and **Straumann** are actively working on their net-zero plans, perhaps a signal that the Swiss CO₂ Act motivates action even though its focus is on disclosure rather than delivery.

¹⁰ Note: This report focuses only on key topics that emerged in our direct conversations with investees in 2025, rather than a comprehensive report on all holdings.

¹¹ Climate change risk and the impact on cost of capital—systematic review (2025), Sustainability. www.mdpi.com/2071-1050/16/23/10727, and The low-carbon transition, climate commitments and firm credit risk (ECB Working Paper). ideas.repec.org/p/ecb/ecbwps/20212631.html

¹² Maruli Sitompul et al., Revisiting the Impact of Corporate Carbon Management Strategies on Corporate Financial Performance: A Systematic Literature Review (2023). www.mdpi.com/2227-7099/11/6/171 and Felipe Aparecido Cippiciani et al., Sustainability Practices, Corporate Value, and Financial Risk: Is There an Academic Consensus? A Systematic Bibliometric Review (2025). www.mdpi.com/1911-8074/18/10/536

¹³ Driving green: Financial benefits of carbon emission reduction in companies (2024), International Review of Financial Analysis. www.sciencedirect.com/science/article/pii/S1057521924006896

¹⁴ www.cdp.net/en/insights/strengthening-the-chain and www.cdp.net/en/press-releases/corporates-supply-chain-scope-3-emissions-are-26-times-higher-than-their-operational-emissions

¹⁵ See: www.msci.com/downloads/web/msci-com/discover-msci/events/event-assets/2025/november/better-resilience/Is%20Physical%20Risk%20Financially%20Material%20-%20FINAL.pdf and www.sciencedirect.com/science/article/pii/S0275531922000988 ; www.spglobal.com/sustainable1/en/csa/insights/physical-climate-risk-adaptation-are-businesses-doing-enough-to-adapt-to-physical-hazards

Renewable power: The top delivery enabler

The transition to net-zero is being driven by ambitious renewable energy (RE) targets, achieved through direct investments (e.g., rooftop solar) or power purchase agreements (PPAs). Many of our portfolio companies have communicated to us their ambitious, public goals to achieve full reliance on RE. For example, **Nestlé** has announced its target to be fully powered by RE by 2025, **Rede D'Or** by 2026, and **Wiwynn** by 2030.

CATL has already reached 75 percent RE penetration, **Embassy Office Parks REIT** reached 53 percent RE, while **Sandoz** is expecting an 80 percent emission reduction via its PPAs. Utility leaders in low carbon energy, such as **Iberdrola** and **Meridian Energy**, are also playing a pivotal role in supporting grid modernization and driving the clean energy transition, with Meridian planning to expand hydro storage by 1 TWh by 2035 to address hydro variability.

Despite progress, challenges remain. Many companies we spoke to in Taiwan (**TSMC**, **Wiwynn**, **Elite Materials**) and South Korea (**Samsung**, **Naver Corp**) highlighted limited renewable energy capacity on national grids and significant regulatory and permitting hurdles. These barriers have slowed their net-zero progress, but many are actively collaborating with governments to address these constraints.

Adopting SBTi as the gold standard

Despite the vocal “ESG backlash,” companies are increasingly adopting the SBTi as the gold standard for net-zero plans. Sixteen of the companies with which we engaged, including **Nestlé** and **Gjensidige**, have SBTi approved net-zero plans, while others, such as **NextEra Energy**, **Sandoz**, **Lotes Co**, **Galenica**, are on track for approval. We encouraged **NextEra Energy** to get SBTi validation for their Zero Carbon Blueprint. **Gold Fields**, however, found the SBTi linear pathway challenging and instead adopted a net-zero approach aligned with International Energy Agency (IEA) and Transition Pathway Initiative (TPI) pathways, which accelerate in ambition post-2030.

Scope 3 Emissions: Addressing the hard-to-reach challenges

Encouragingly, many companies are addressing Scope 3 emissions with innovative strategies. For example, **Sika** is targeting a 25 percent absolute Scope 3 reduction by 2032 through R&D, supplier collaboration, and material innovation. **Galenica** is pressing its suppliers to commit to SBTi, with 57 percent currently onboard and a goal of reaching 75 percent by 2030. **Wiwynn** and **SwissRe** are also prioritizing Scope 3 reductions, demonstrating leadership in tackling upstream and downstream emissions.

However, some companies are still in the early stages of addressing Scope 3 emissions. **Obero Realty** (India) is just beginning its efforts, while **Straumann** and **Swissquote** have cited data challenges as a key barrier. **BYD** has started reporting Scope 3 emissions but lacks a clear roadmap, which we encouraged them to develop.

Physical climate risks: Preparing for the inevitable

Physical climate risks were a recurring theme in our 2025 engagements, with companies increasingly recognizing the need to address these risks to ensure operational resilience. For instance, **JSW Steel** (India) has prioritized water management and deployed robotics to reduce heat exposure for workers. **Adnoc Drilling** (UAE) has implemented hydration initiatives and workplace inspections to mitigate risks from extreme heat. For other companies, physical risks remain an emerging concern. **BYD** (China) relies on insurance to manage these risks, while **Vista Energy** (Mexico) plans to enhance its risk assessments in 2026. **Lonza** (Switzerland) has integrated climate risks into its framework using TCFD-aligned scenario analysis but limits assessments to its top 10 sites, citing immaterial risks. **Wiwynn** (Taiwan) conducts annual assessments but has not yet experienced significant operational impacts from climate events.

Heavy emitters: Exploring advanced decarbonization solutions

For heavy emitters, decarbonization requires advanced solutions beyond renewable energy adoption. Carbon capture and underground storage (CCUS) is being explored by **JSW Steel** and is in development by **Adnoc Drilling** and **MasTec**. **Holcim** is leading with multiple CCUS pilot projects globally. Hydrogen is also emerging as a key transition fuel, with **JSW Steel**, **Adnoc**, **Quanta Services**, and **MasTec** actively exploring its potential.

3. Case study

a) Taiwan Semiconductor Manufacturing Company (TSMC) (Taiwan): climate leader in action

In 2025, we engaged with TSMC in three dedicated meetings, including a collaborative session with Asia Research & Engagement (ARE), to discuss its progress and challenges on a range of sustainability topics. Our key concern was to understand in more detail how it planned to meet its environmental objectives and what obstacles remained and how these investments were making the company's operations more resilient. As a global leader in semiconductor manufacturing, we believe that TSMC has demonstrated a remarkable commitment to climate action and sustainability, setting ambitious targets and implementing innovative solutions to address environmental challenges.

Renewable energy and emissions reduction

TSMC has committed to achieving net-zero emissions across all scopes by 2050, with interim targets of peaking emissions by 2025 and reaching 60 percent RE by 2030. Its Arizona plant has already achieved 100 percent renewable energy use, setting a benchmark for its global operations. However, TSMC faces challenges in Taiwan due to limited renewable energy capacity on the national grid and regulatory hurdles. To address these barriers, TSMC is actively collaborating with the Taiwanese government to expand renewable energy infrastructure and streamline permitting processes.

Energy efficiency and innovation

TSMC has made significant strides in improving energy efficiency. Its global average Power Usage Effectiveness (PUE) stands at 1.30, meeting the "gold" LEED standard, with its best fabrication facilities achieving a PUE of 1.25. These results are driven by advanced heat recovery systems, high-efficiency water-cooled chillers, and AI-enabled energy management systems. TSMC is on track to meet its 2030 energy efficiency target of an 18 percent reduction compared to 2016 levels, with a 15 percent reduction already achieved by the end of 2024.

Water management

Water is critical to TSMC's semiconductor manufacturing process. Following the 2023 drought in Taiwan, which required costly water trucking to its factories, TSMC invested USD 100 million in water recycling upgrades, achieving an impressive 90 percent water recycling rate. The company has also implemented stricter environmental regulations and robust wastewater segregation systems. At its new Arizona plant, TSMC has incorporated advanced water conservation measures to ensure operational resilience in a water-scarce region.

Waste

TSMC operates a zero-waste manufacturing center, which incorporates a lifecycle approach to minimize environmental impacts. This strategy has also contributed to the growth of its sustainable product revenues.

Supply chain decarbonization

TSMC has launched a supplier carbon reduction subsidy to encourage its suppliers to align with its sustainability goals. This initiative underscores TSMC's leadership in addressing Scope 3 emissions and driving decarbonization across its value chain.

Challenges and opportunities

Despite its achievements, TSMC's reliance on government-regulated renewable energy grid capacity remains a significant challenge. The company's ability to meet its ambitious targets will depend on the pace of renewable energy infrastructure development in Taiwan. Workforce safety became another topic where we raised concerns. TSMC acknowledged a rise in workplace injuries due to rapid expansion and new factory construction and emphasized safety as a top priority. However, as it did not specify its new prevention measures, this continues to be on our engagement agenda. We pressed for more transparency on metrics and thresholds for sustainability-linked compensation. We continue to engage with TSMC to support its efforts in overcoming these barriers and maintaining its leadership in sustainability.

In our opinion, comprehensive approach to emissions reduction, energy efficiency, water management, and supply chain decarbonization position it as a climate leader in the semiconductor industry. Its commitment to innovation and collaboration serves as a model for other companies navigating the complexities of sustainability.

3. Case study

b) Samsung Electronics (Korea): Transition in action

Samsung Electronics, which has experienced sustainability-related controversies in prior years, is actively preparing for the transition. It's leveraging its global influence to drive progress across renewable energy adoption, supply chain decarbonization, and AI governance. In 2025, we engaged with Samsung on multiple occasions to discuss its advancements and challenges in these areas.

Renewable energy and emissions reduction

Samsung has committed to achieving 100 percent renewable energy across its operations in the US, Europe, and China by 2025, with plans to expand these efforts globally. The company has also made significant investments in building renewable energy capacity, including the installation of solar panels and the use of power purchase agreements (PPAs). Despite South Korea's low renewable energy penetration rate (5.5 percent), Samsung is actively working to increase its share of renewable energy and has been collaborating with the government to address systemic challenges in grid modernization and energy policy.

Supply chain decarbonization

As part of its efforts to tackle Scope 3 emissions, Samsung is calculating embodied emissions across its products and working with suppliers to reduce their carbon footprints. The company has also integrated sustainability metrics into its procurement processes, encouraging suppliers to adopt science-based targets and to align with Samsung's decarbonization goals.

A lifecycle approach to materials

Samsung is piloting the use of recycled cobalt in batteries, expanding the use of recycled plastics, and experimenting with recycled steel in its manufacturing processes.

Water resilience

As a major water consumer, Samsung Electronics is committed to maintaining stable water consumption levels despite increasing production demands. The company has adopted Alliance of Water Stewardship (AWS) standards, implementing advanced water treatment technologies and efficiency measures to minimize its water footprint.

AI for sustainability and operational efficiency

Samsung has placed AI at the core of its strategy, using it to drive sustainability and operational efficiency. AI has been deployed in its circular economy initiatives, including optimizing resource use and improving recycling processes. Samsung is also leveraging AI to enhance its sustainability reporting and track progress on environmental targets.

AI ethics and governance

Recognizing the importance of ethical AI use, Samsung has established an AI Ethics Committee to oversee governance and compliance. The committee is tasked with ensuring that AI applications align with global standards and ethical principles, particularly in areas such as data privacy, bias mitigation, and responsible content moderation.

Challenges and opportunities

While Samsung has made significant progress, challenges remain. The company continues to face scrutiny over labor management issues, including high turnover and worker strikes, which were highlighted in our 2024 engagements. In 2025, Samsung reported improvements in labor relations and workplace safety, but further efforts are needed to address these issues comprehensively. Additionally, we have encouraged Samsung to enhance transparency in its ESG-linked executive compensation frameworks and to provide greater clarity on the metrics and thresholds used to evaluate performance.

Samsung's comprehensive approach to sustainability, combined with its focus on innovation and collaboration, positions it as a leader in the technology sector. Its efforts to address climate risks, improve supply chain sustainability, and establish robust AI governance frameworks serve as a model for other companies navigating the challenges of the global sustainability landscape.

4. Data center efficiency: Driving sustainability through PUE optimization

As data centers and semiconductor companies expand to meet growing digital demands, energy efficiency has become a cornerstone of their sustainability strategies. A key metric in this sector is **Power Usage Effectiveness (PUE)**, which measures the energy efficiency of data centers. A lower PUE indicates greater efficiency, as it reflects a higher proportion of energy used for computing rather than cooling or other overhead functions.

Energy can represent up to 30–50 percent of a data center’s operating expenses, meaning even modest PUE improvements can translate into significant cost savings, as well as extended equipment life, and enhanced competitive positioning in an era of surging loads from AI and cloud services. Investments in efficiency, such as advanced cooling or waste-heat recovery, often deliver paybacks within 1–4 years and ongoing savings thereafter. The reduction in infrastructure strain enables operators to scale more cost-effectively in power-constrained markets. For us as investors, this translates into lower operating leverage, improved valuation multiples, and reduced exposure to energy price volatility, while aligning with broader ESG expectations—enhancing both financial and sustainability profiles.

Leaders in data center efficiency

- **Alibaba (China):** Alibaba has set a benchmark in energy efficiency, achieving a PUE of 1.19 in its self-operated data centers—well below government-mandated requirements. This was accomplished through clean energy procurement, advanced cooling technologies, and AI-optimized energy management systems. Alibaba has also collaborated with suppliers to drive decarbonization across its operations.
- **Naver (South Korea):** Naver has focused on energy optimization through innovative measures like passive cooling systems and increased renewable energy adoption. Despite South Korea’s low renewable energy penetration (5.5 percent), Naver is working to increase its share by installing solar panels and leveraging carbon credits.

These companies exemplify how efficiency gains can be achieved through a combination of clean energy procurement, cutting-edge cooling technologies, and partnerships with governments and suppliers to enhance renewable energy capacity. Their efforts not only reduce operational costs but also significantly mitigate environmental impacts, showcasing the financial and environmental benefits of prioritizing energy efficiency in the data center sector.

5. Resource management

a) Investor return case for waste reduction, circular economy, and sustainable packaging

Our engagement on broader topics of natural resource management is grounded in clear evidence that these practices are increasingly material to both financial performance and strategic resilience, as well as clear environmental outcomes.¹⁶ The data is compelling. Research shows that companies adopting circular economy principles, with a focus on sustainable supply chains, can lower input and procurement costs, strengthen operational resilience, mitigate commodity price volatility, and improve resource efficiency.¹⁷

In packaging, the business case is equally robust. Companies investing in waste reduction and recyclable or reusable packaging are seeing tangible benefits—stronger brand equity, enhanced customer loyalty, and differentiation in markets where sustainability is becoming a baseline expectation. These factors are increasingly translating into long-term value creation.¹⁸

Importantly, practitioner research and our own company dialogues highlight that reusable and smart packaging systems can deliver direct cost savings, inventory efficiencies, and logistics benefits. This reinforces our view that circular and sustainable packaging strategies are shifting waste management from a pure cost centre to a genuine value driver—even when ahead of regulatory requirements.¹⁹

In terms of longitudinal trend analysis, in 2025 we observed that circular economy and recycling initiatives are gaining significant traction, with companies like BYD and SIG leading the way.

¹⁶ Circle Economy / KPMG—Circular Economy Investment Growth; 2) MDPI—Circular Economy Disclosure in Sustainability Reporting

¹⁷ International Journal of Environmental Sciences—CE Practices & Firm Performance. Journal of Cleaner Production—Circular Economy & Financial Performance in the Automotive Sector

¹⁸ IJSAT—Smart & Sustainable Packaging Technologies; PackagingWorldInsights—Reusable Packaging Driving Circular Economy

¹⁹ MDPI—Sustainable Packaging in Supply Chain Management

Advancing circular economy practices

Circular economy strategies have emerged as a critical component of sustainable production and waste reduction, directly contributing to decarbonization efforts. Many companies we engaged with in 2025 demonstrated innovative approaches to minimizing waste and maximizing resource efficiency:

- **BYD (China):** is making advances in recycling. BYD reports that over 90 percent of the materials used in four vehicle models are recyclable at end-of-life. The company operates two battery recycling plants with a combined capacity of 10,000 tons.
- **Gjensidige (Norway):** This Norwegian insurance company is pioneering a unique approach by integrating circular economy principles into its claims process. By using sustainable materials in repairs and creating marketplaces for reusing materials in property and auto claims, Gjensidige is driving climate adaptation and resilience. The company is also engaging with local communities and policymakers to improve permitting laws and climate resilience.
- **LKQ (US):** LKQ, a specialist in auto repair parts, is exploring the use of second-hand and reused materials as a sustainable alternative to recycled raw materials.
- **ARE Holdings (Japan):** This company specializes in recycling critical and precious metals essential for modern manufacturing. For instance, the carbon footprint of their recycled gold is just 10 percent of that of mined gold.

These companies are setting a strong example of how circular economy practices can reduce waste, lower emissions, and create new business opportunities while addressing global sustainability challenges.

Zero-waste initiatives: Leading by example

Obero Realty (India): Obero Realty has set a benchmark in sustainable construction with its zero-waste-to-landfill approach. This initiative is supported by rigorous environmental monitoring and testing, ensuring that waste is minimized at every stage of the construction process.

CATL (China): CATL has adopted a full lifecycle approach to battery production, focusing on recycling and reusing materials to minimize waste and environmental impact.

Iberdrola (Spain): Demonstrating leadership in renewable energy sustainability, Iberdrola has set an ambitious goal to achieve 100 percent recycling of wind turbine blades and solar panels by 2030, addressing the lifecycle impacts of renewable energy infrastructure.

Recycling as a production norm: Recycling is becoming an industry standard, with companies like Gold Fields, Sika, Holcim, Elite Materials, ARE Holdings, and Veolia incorporating recycling into their production processes. These efforts reflect a growing commitment to circular economy principles across diverse sectors.

Sustainable packaging: Overcoming challenges to drive change

Sustainable packaging has emerged as a critical area of focus, with companies striving to address the environmental impacts of plastic. However, significant challenges remain, particularly in food packaging, recycling infrastructure, and consumer behaviour. Below are insights from our engagements:

- **Mondi (UK):** Mondi is driving the transition from plastic to paper-based packaging, collaborating with clients like IKEA to develop more sustainable solutions. Despite its progress, the company acknowledges challenges, particularly in food packaging, where functionality and safety requirements complicate the transition.
- **SIG (Switzerland):** SIG is targeting 85 percent paper content in its packaging by 2025 and 90 percent by 2030. However, the company notes a 5 percent cost increase for clients switching to paper packaging and a 3 percent increase for non-aluminum packaging. SIG highlighted the importance of high paper recycling infrastructure (70 percent of paper is recycled globally compared to just 5 percent for plastics) and extended producer responsibility initiatives to support downstream waste management. A key success factor for SIG is ensuring packaging transitions can occur without requiring equipment updates for clients.
- **Nestlé (Switzerland):** Ranked as the fourth-largest plastics polluter globally, Nestlé is under pressure to address its environmental impact. The company is focusing on designing recyclable packaging and developing plastic alternatives. However, it faces significant challenges, including inadequate recycling systems in many regions and weak consumer recycling behaviors, echoing concerns raised by SIG.
- **Galenica (Switzerland):** Galenica has encountered regulatory and supplier obstacles in its efforts to adopt more recycled packaging within the Swiss pharmaceutical sector, highlighting the complexities of implementing sustainable packaging solutions in highly regulated industries.

These companies are at the forefront of sustainable packaging innovation, but their efforts underscore the broader systemic challenges that must be addressed to achieve widespread adoption of circular economy practices.

6. Water management: Preserving a critical resource

We've long engaged on water management because we have witnessed its central role in operational resilience, competitive advantage, cost of capital,²⁰ and, in some cases, companies' license to operate.²¹ Water stress as a financial stressor is only increasing, a trend we have also observed in an analysis of our engagements over time. Freshwater demand is projected to exceed supply by 40 percent by 2030, directly threatening business continuity and USD 225 billion of equity value in water-intensive sectors.²²

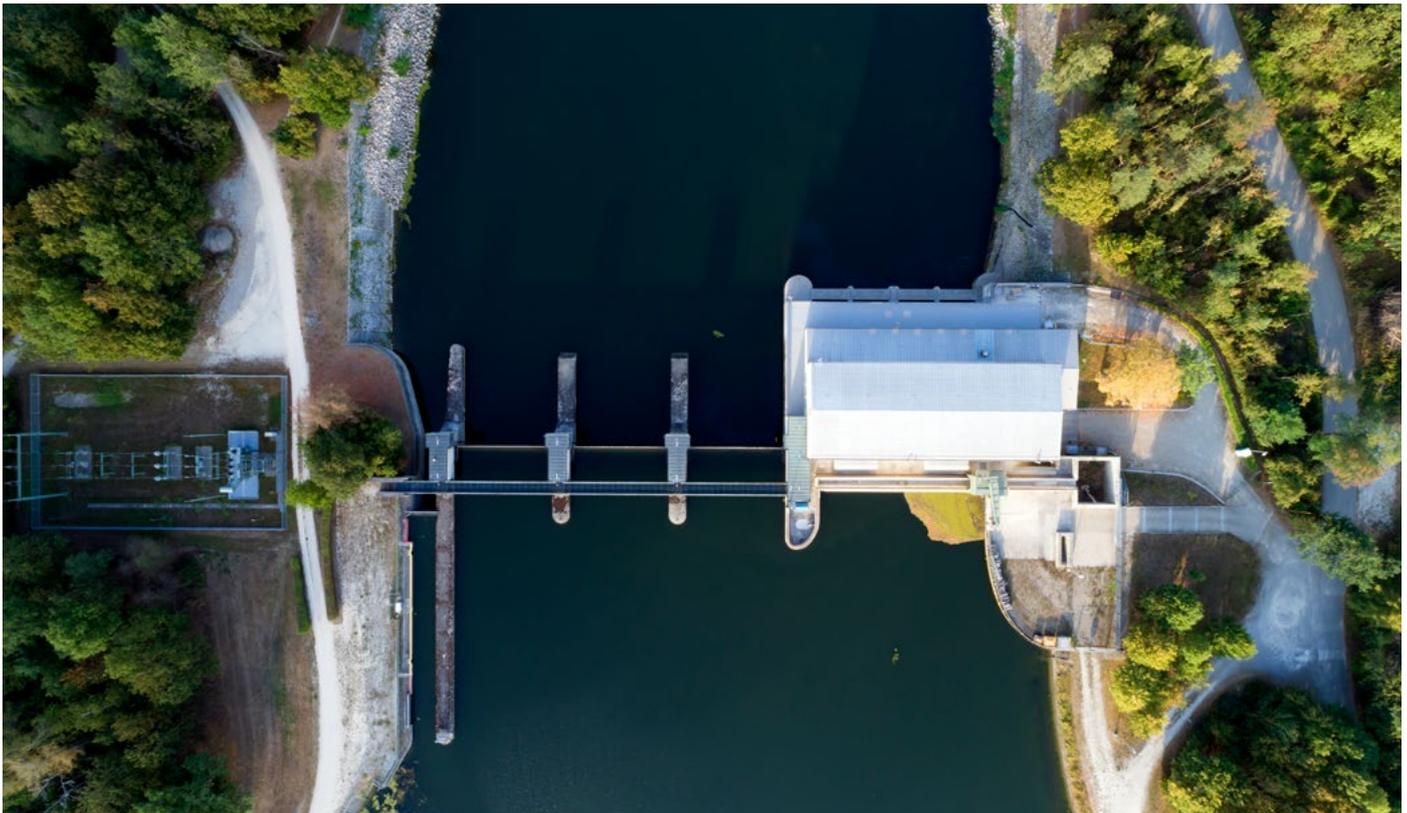
In 2025, water featured in 16 of our engagements. Investors increasingly recognize water management as a material financial risk rather than merely a compliance issue. As reflected in our discussions, many of our portfolio holdings are investing heavily in sustainable water practices, with operational resilience and community relations as pressing drivers. Below, we highlight key insights and examples from our engagements.

JSW Steel (India): Water management is a critical focus for JSW Steel, which aims to ensure water availability for both its operations and local communities, thereby safeguarding its license to operate. To achieve its water reduction targets, the company has adopted innovative solutions such as utilizing treated sewage water and improving water consumption efficiency.

²⁰ www.mdpi.com/2073-4441/17/13/1881

²¹ www.sciencedirect.com/science/article/abs/pii/S0301420722001350

²² news.sustainability-directory.com/esg/investors-demand-water-risk-management-across-corporate-supply-chains-and-operations/



Sabesp (Brazil): As one of the world’s largest water and sewage sanitation companies, Sabesp is at the forefront of addressing water-related challenges. Our engagement focused on the company’s efforts in water leak management, smart metering, network modernization, and hydrology safety. Sabesp is also tackling regional water security issues, including strategies to manage extreme climate risks such as flooding and torrential rain. These challenges also create significant opportunities for Sabesp to innovate and expand its business offerings.

Gold Fields (South Africa): Operating in water-scarce regions, Gold Fields has implemented robust water management practices, including efficiency measures, water recycling, and ensuring sufficient water supply for both operations and local communities.

Sika and VAT Group (Switzerland): Water-stressed operations also impact Swiss companies like Sika and VAT Group. VAT has prioritized water conservation, while Sika is implementing water recycling and closed-loop systems, supported by systematic data analysis of water-related risks. Despite these efforts, Sika acknowledges that relocating operations from high water-stress areas may be necessary as part of its long-term strategy.

Veolia (France): Veolia relies heavily on desalinated water, an energy-intensive process. However, the company has achieved an 85 percent improvement in desalination energy efficiency by adopting the latest reverse osmosis technology.

Gjensidige (Norway): As a leading insurer, Gjensidige views water risks through the lens of climate adaptation and resilience. Our discussions highlighted the increasing prevalence of uninsurable coastal land in Denmark, where the state has stepped in to underwrite residential risks. While Gjensidige considers climate change risks manageable in the near term (with Norway reporting USD 2 billion in natural catastrophe losses in 2025), the company anticipates significant impacts within 15–20 years, with water-related claims potentially affecting up to 50 percent of insured values in 25 years.

Other Highlights: BYD (China): The company has implemented water-saving initiatives as part of its broader sustainability strategy. **Oberoi Realty (India):** Oberoi has committed to achieving “Water Positivity by 2030,” showcasing its dedication to sustainable water management. **Nestlé (Switzerland):** The company continues to address water-related controversies, focusing on improving water stewardship and community engagement. **Elite Materials (Taiwan):** Water availability has become a critical factor in site location decisions for **Elite Materials**, reflecting the growing importance of water security in business operations. **Adnoc Drilling (UAE):** The company has invested in deep wells to minimize competition for water resources with local communities.

7. Nature, biodiversity, and deforestation: Managing risks and driving positive impact

In 2025, our engagements underscored the increasing importance of nature-related risks, biodiversity preservation, and deforestation mitigation. These issues are now widely recognized as critical to long-term operational resilience, regulatory compliance, and the maintenance of stakeholder trust. Below, we highlight key themes and company-specific actions.

Extensive evidence synthesized by the Taskforce on Nature-related Financial Disclosures (TNFD) and its partners shows that ecosystem degradation, habitat conversion, and species loss can exacerbate physical risks (e.g., droughts and floods), disrupt supply chains, increase input costs, and heighten regulatory, liability and reputational exposures, all of which have direct implications for earnings and valuation.²³ Research also reveals that a significant proportion of firms view nature-related risks as financially material and that capital markets are beginning to price biodiversity footprints into equity valuations, particularly where future regulation, supply chain disruption, or stakeholder expectations are salient.²⁴ Moreover, emerging literature suggests that biodiversity-focused investment strategies/indices can deliver risk-adjusted returns comparable to those of broad markets.²⁵ Yet biodiversity and nature-related topics face a slew of data and methodological challenges, making them harder for issuers and investors alike to grasp. This also provides opportunity for investors who are prepared to roll up their sleeves and dive into this complex realm. We start with conversations.

²³ [TNFD](#): Evidence review on the financial effects of nature-related risks. 2) [UZH](#): Initiative in Sustainable Finance: Corporate Nature Risk Perceptions

²⁴ [USZ](#): Investors Consider Biodiversity Risks. And [Reuters](#):

²⁵ International evidence on the financial performance of biodiversity investing (2025)

Deforestation and land use risks

Land use change is the primary driver of biodiversity loss;²⁶ therefore, a key focus of our discussions is companies with significant land-use impacts. We found that the firms most exposed are taking steps to mitigate deforestation risks and improve biodiversity outcomes.

Smurft WestRock (Ireland) addressed allegations of biodiversity loss and the displacement of Indigenous communities in Colombia linked to monoculture plantations. The company provided documentation on its forest stewardship practices, including adherence to FSC certification standards, and emphasized its engagement with local communities to address grievances and improve relationships.

Nestlé (Switzerland) continues to face reputational challenges related to deforestation, particularly in regions with weak environmental protections. The company has implemented monitoring systems to address this issue and is committed to improving supply chain transparency in high-risk regions.

Banco Bradesco (Brazil): Our collaborative engagement on deforestation with Banco Bradesco under the PRI Spring initiative faced challenges in 2025. While we conducted several investor-only calls to prepare objectives, set milestones, and gather expert advice on supply chain issues in Brazil, no direct company engagement occurred this year. This experience underscores both the potential benefits and limitations of collaborative engagement approaches, particularly when progress is hindered by external factors.

Biodiversity and ecosystem protection

Gold Fields (South Africa) has taken significant steps to address biodiversity concerns related to endangered chinchillas found near its mining sites in Chile. These protected species caused prolonged mining stoppages, as the company worked with external experts to relocate the animals to ensure their protection. We have tracked this issue for some time with Gold Fields, and it is a clear case of how nature-related regulations can have meaningful business consequences.

Vista Energy (Mexico) has conducted baseline biodiversity studies to assess potential risks and works closely with external institutes to monitor its operations. These efforts aim to ensure minimal impact on local ecosystems and align with global biodiversity protection standards.

These efforts highlight the increasing recognition of the interconnectedness between climate risks, waste management, water resilience, biodiversity, and community well-being. Our engagements emphasize the critical role companies play in addressing nature-related risks and promoting biodiversity. While progress is evident, challenges persist, particularly in achieving transparency, implementing robust monitoring systems, and delivering measurable impact. By maintaining active dialogue, we aim to support companies in mitigating environmental risks, preserving ecosystems, and aligning their strategies with long-term sustainability goals.

In preparing this report, we observed that deforestation, coal phase-out, and biodiversity received less attention in 2025 compared to 2024, with focus shifting to other environmental topics. We note this as an internal reminder to reprioritize these topics in 2026.

²⁶ Jaureguiberry, P., Titeux, N., Wiemers, M., Bowler, D. E., Coscieme, L., Golden, A. S., ... & Purvis, A. (2022). 'The direct drivers of recent global anthropogenic biodiversity loss'. *Science advances*, 8(45), eabm9982.

B. Governance and transparency: Strengthening foundations for sustainable growth

Governance remains a cornerstone of our engagement strategy. In 2025, corporate governance featured prominently in our engagements, reflecting its critical role in ensuring the resilience and accountability of the companies we invest in. Strong governance is critical to firm value and shareholder returns, as supported by extensive academic literature.²⁷

Yet the other side of the engagement coin—namely, why strong corporate governance matters as an enabler of sustainability outcomes beyond short-term financial returns—may warrant further explanation. A substantial body of recent research²⁸ demonstrates that robust corporate governance frameworks are positively associated with stronger sustainability outcomes. These studies show that governance features such as board diversity, executive incentives tied to sustainability metrics, and credible oversight structures can enhance strategic decision-making, improve risk management, and support long-term stewardship of environmental and social issues, rather than foster an excessive focus on short-term profit maximization.

While some see the “G” in ESG as concerned only with single materiality or near-term financial value, we see it as critical to long-term strategic value creation and robust oversight of sustainability risks and impacts. Below, we summarize the key themes and insights from our discussions in 2025. A notable area of progress in 2025 was the increased adoption of ESG-linked compensation structures across companies.

1. Board effectiveness: Building strong leadership foundations

Effective governance begins with a strong and diverse board. Through our engagements, we emphasized the importance of board independence, diversity, and accountability. Several companies demonstrated progress in this area:

Board independence and diversity

We encouraged companies such as **Power Grid**, **Rede D’Or**, **Smartfit ESCOLA**, and **Kia** to address the issue of insufficient independent directors. Concerns about board diversity and overboarding were raised with **Smartfit**, while we also highlighted the need for improved board attendance at organizations such as **Bajaj Auto**, **Rede D’Or**, **Infosys**, **Kia**, **Walmart de Mexico**, and **Sandoz**.

CEO succession planning

Leadership transitions were a key focus in 2025. For example, **Embassy REIT** addressed concerns about the departure of its former CEO due to misconduct and outlined steps to improve recruitment policies and succession planning. Similarly, **Swissquote** highlighted its ongoing focus on CEO succession, with two internal candidates under consideration.

Governance structures

Our discussions revealed varying governance practices. For instance, **Power Grid** confirmed that the roles of Chairman and Managing Director are currently combined, with no immediate plans for separation. **JSW Steel** operates under a clear family structure, with a lead independent director and a fully independent audit committee. Meanwhile, **Rede D’Or** and **Smartfit** acknowledged low board independence levels but expressed openness to increasing diversity and expertise in the future.

Positive outcomes

One example of collective shareholder engagement leading to tangible governance reforms is **Andritz AG** (Austria). Following pressure applied by us (and several other investors), the company’s Chairman stepped down from the Nomination and Remuneration Committee, thereby enhancing board independence. Additionally, Andritz revised its executive remuneration policy to include ESG metrics such as health and safety and carbon reduction, a change that received over 98 percent approval at the 2025 AGM.

²⁷ **Bebchuk**, Cohen & Ferrell (2009)—What Matters in Corporate Governance?; 2) **Gompers**, Ishii & Metrick (2003)—Corporate Governance and Equity Prices; 3) **Bhagat**, Bolton & Romano (2008)—Corporate Governance and Firm Performance; 4) Leslie Rodríguez-Valencia, Financial Performance and Corporate Governance on Firm Value (2025); 5) **Kijkasiwat**, Hussain & Mumtaz, Corporate Governance, Firm Performance and Financial Leverage (2022).

²⁸ 1) Board characteristics and effects on ESG performance (2025); 2) **Buchetti** (2025), A literature review on corporate governance and ESG outcomes (of note family ownership may adversely impact ESG performance); 3) The Influence of Corporate Governance on Firm Sustainability and Long-Term Performance (2025); 4) The impact of institutional ownership structure on corporate ESG performance (2025); 5) Homroy, S., Mavruk, T., & Nguyen, V. ESG-Linked Compensation, CEO Skills, and Shareholder Welfare (Review of Corporate Finance Studies, 2023). 6) ESG performance and audit committee expertise: advancing sustainable development goals (2025).

2. ESG-linked compensation: Aligning incentives with sustainability goals

We continued advocating for the integration of ESG metrics into executive compensation frameworks to align leadership incentives with long-term sustainability objectives. Progress and challenges in this area include:

Progressive companies

Companies such as **Barry Callebaut**, **BYD**, and **Kia** have made strides in incorporating ESG-linked metrics into their remuneration structures. For example, Barry Callebaut's updated long-term incentive plan now includes a 10 percent weight assigned to CO2 emissions reduction goals, while **Kia** has tied 30 percent of CEO pay to ESG performance metrics.

Transparency challenges

While companies like **TSMC** and **Sabesp** have begun exploring ESG-linked compensation, we encouraged them to provide greater transparency regarding the specific metrics and thresholds used to evaluate performance. Similarly, we urged companies like **Alibaba**, **Naver**, and **Vista Energy** to enhance clarity on their ESG-linked executive compensation frameworks. This level of detail is essential to enhance accountability and build investor confidence.

3. Addressing ethical concerns, audit risks, and business practices

Our engagements also addressed critical issues related to business ethics, audit practices, and shareholder returns:

Audit independence

We highlighted concerns over high non-audit fees at companies like **JSW Steel**, **Smartfit**, **Bajaj Auto**, and **Walmart Mexico**, emphasizing the importance of maintaining auditor independence.

Ethical concerns

Compliance lapses were discussed with companies such as **HDFC** and **Dino Polska**, where we advocated for stronger governance frameworks to mitigate reputational and operational risks.

Land acquisition concerns

We engaged with **Embassy REIT** to address concerns regarding a land acquisition proposal from its parent company. We emphasized that agreeing to unfavorable terms could erode investor confidence and reiterated our expectations for strong corporate governance practices.

Geopolitical risks

In 2025, **Tencent** was added to a US restriction list (Section 1260H CMC list) of companies allegedly contracting with the Chinese military. After extensive research and discussions with the company, we found no direct relationship between Tencent and the Chinese military, nor any legal or trading consequences. However, we noted potential short-term reputational risks and encouraged Tencent to appeal the inclusion on this list.

Founder governance challenges

We addressed concerns about CEO/Chair misconduct allegations at **Minth Group** and accountability issues at **Geely Automobiles**, where the CEO/Chair's competing commercial interests raised potential conflicts. In one case, founder governance concerns led us to decide against investing in a Chinese materials company, reflecting our sensitivity to this issue.

4. Governance: Key takeaways

Our governance-focused engagements in 2025 underscore the importance of robust leadership, aligned incentives, and transparent practices in driving sustainable value creation. While significant progress has been made, challenges remain, particularly in areas such as transparency, audit independence, and ethical business practices.

We remain committed to fostering a culture of accountability and ethical governance, ensuring that the companies we invest in are well-positioned to navigate the complexities of the evolving ESG landscape.

C. Social and human capital management: Advancing equity, safety, and community well-being

In 2025, our social engagements focused on critical issues such as labor management, workplace safety, community relations, diversity, and employee well-being. These efforts reflect our commitment to fostering equitable and inclusive workplaces, ensuring human rights, and promoting positive societal impact across our investments.

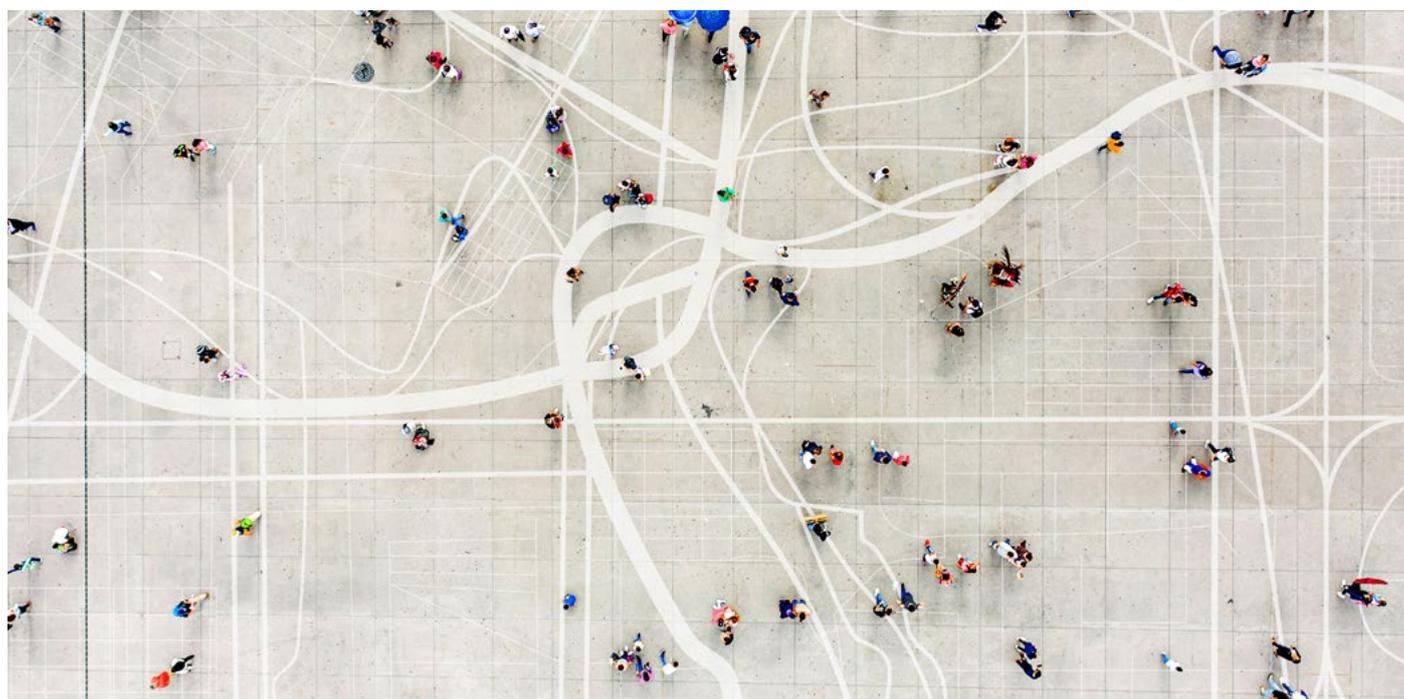
Research shows that strong corporate practices in labor management, workplace safety, and diversity not only advance societal goals but also enhance business value and financial performance. Workplace wellbeing and engagement initiatives boost productivity, retention and employee engagement and are positively correlated with firm financial and operational performance measures.²⁹ Safer work environments reduce operational costs, lower turnover and support operational continuity.³⁰

The value of social investments extends beyond the immediate workforce. Strong community relations and proactive management of human rights across products, operations, and supply chains protect a firm’s license to operate, reduce operational disruption, and strengthen consumer demand and trust. Empirical research and practitioner evidence³¹ show that companies with constructive community engagement face fewer project delays, protests, litigation, and regulatory interventions, particularly in extractives, infrastructure, manufacturing and consumer-facing sectors, where social opposition can materially affect cash flows. Effective human rights due diligence and management in supply chains also reduce exposure to legal, reputational and sourcing risks, while improving supplier reliability and resilience. Over the medium term, these practices support brand value, customer loyalty and access to markets and capital, translating social legitimacy into lower risk premiums, more stable operations and more durable financial performance.

²⁹ Exploring the link between work-life balance and corporate financial performance (2025). CSR and employee outcomes: a systematic literature review, *Management Review Quarterly* (2025); *Nature*: Does employee happiness create value for firm performance?, *Humanities and Social Sciences Communications* (2025)—finds happy firms outperform the market over the long-term, generating statistically significant positive alpha. Thriving workplaces: how employers can improve productivity and change lives, *McKinsey* (2025)—estimates workforce health and well-being can generate up to US 11.7 trillion in global economic value.

³⁰ Nothing to fear: strong corporate culture and workplace safety, *Review of Quantitative Finance and Accounting* (2024).

³¹ 1) Conflict translates environmental and social risk into business costs (PNAS); 2) MSCI, Human-Rights Risks in Portfolios: From Oversight to Due Diligence (2025); 3) ISO 26000—Guidance on social responsibility. 4) MDPI, Conceptualizing Company Response to Community Protest. 5) UNDP/WBA report, Human Rights vs. Competitiveness.



Below, we summarize key themes and highlight specific company engagements on social issues in 2025.

1. Workplace safety: Prioritizing employee and contractor well-being

Ensuring the safety of employees and contractors remained a top priority in our engagements. Several companies encountered challenges related to workplace incidents, prompting us to advocate for stronger safety measures and accountability.

- **Power Grid (India):** The company reported an increase in contractor fatalities in 2025, reversing a previous downward trend. In response, Power Grid introduced measures such as enhanced contractor safety training, stricter pre-screening processes, and increased fines for safety violations, as well as having four training centers focused on transmission-related safety.
- **JSW Steel (India):** The company resumed its Odisha project after conducting human rights due diligence and ensuring fair rehabilitation efforts without displacing affected communities. JSW also prioritized worker safety by implementing robotics to reduce heat exposure and ensuring water availability for both operations and communities.
- **Adnoc Drilling (UAE):** The company identified extreme heat as a major physical risk and outlined measures to protect employees, such as hydration initiatives and leadership site inspections. Safety remains a top priority. To promote a corporate safety culture, there are clear safety KPIs linked to everyone's pay—any fatality results in a 5 percent bonus reduction for all staff. In testament that this is working, the company reported an injury rate of 0.4 per million work hours, significantly lower than the US average.

2. Labor management and employee well-being: Fostering inclusive and supportive workplaces

Employee retention, fair compensation, and workplace culture were key focus areas in our social engagements. We encouraged companies to adopt best practices in labor management and address challenges related to turnover, diversity, and employee satisfaction.

- **Infosys (India):** The company's attrition rate remained in the low to mid-teens, driven by external opportunities and post-Covid dynamics. Infosys has implemented measures to address these challenges, including equal pay policies and embedding ESG goals into compensation structures. However, we encouraged greater transparency in board attendance and the disclosure of specific ESG criteria in compensation.

- **Rede D'Or (Brazil):** The company faced a high turnover rate of 31 percent in 2024, driven by low nurse salaries and better-paying opportunities elsewhere. To address this, Rede D'Or has focused on retention efforts such as offering perks, training, career growth opportunities, and internal mobility rather than competing on salaries. The company also reported strong data protection measures and no data breaches.
- **Wiwynn (Taiwan):** Wiwynn significantly reduced its voluntary turnover rate to 11 percent in 2024 (down from 26 percent in 2023) through career development programs, competitive compensation, and automation investments. The company also emphasized its commitment to paying above local salary standards in its operating regions.
- **Elite Material Company Limited (Taiwan):** The company implemented mentorship programs, retention bonuses, and above-industry-standard salaries to reduce its turnover rate, which stood at 17 percent in 2023—the driver of this churn comes from shop-floor operators in China, where the churn rate is comparable with peers. Retention rates are now a key performance indicator for managers at all levels.
- **HDFC Bank (India):** The company addressed concerns about workplace harassment and overwork-related incidents by creating an ethics office, implementing a "mystery shopper" approach to gather employee feedback, and taking swift action against toxic workplace practices.
- **Swissquote (Switzerland):** The company achieved certification for fair pay and reported a significant increase in employee Net Promoter Score (NPS) from 14 in 2023 to 34 in 2024, indicating a happier workforce. Swissquote also highlighted its efforts to enhance employee engagement and reduce turnover.
- **Sandoz (Switzerland)** emphasized its commitment to diversity, particularly at the senior leadership level, as a core element of its meritocratic culture. The company rejected tokenism and positive segregation, striving to embed diversity into its DNA.

3. Community relations: Strengthening local impact

Many companies demonstrated a commitment to fostering positive relationships with local communities and addressing social and environmental challenges.

- **Gold Fields (South Africa):** The company engaged with indigenous communities to negotiate procurement and hiring agreements and royalty arrangements. Gold Fields also collaborated with Harmony Gold to improve safety standards and align safety rewards across operations.

- **JSW Steel (India):** The company emphasized community relations and the well-being of affected populations at its greenfield projects. It also prioritized water management to ensure availability for both operational and community needs.
- **Aldar Properties (UAE):** Aldar implemented direct welfare programs for construction workers, including on-site dental check-ups and sanitization pack distribution. The company also operates a dedicated worker hotline with a high resolution rate and audits Tier 1 contractors to ensure compliance with health, safety, and living condition standards.

4. Human rights and ethical practices: Upholding global standards

Human rights and ethical business practices were central to our social engagements, particularly in regions with heightened risks.

- **Tencent (China):** As co-leader of the Tencent Digital Rights engagement plan, we continued to advocate for greater transparency in content moderation practices and government request handling. Tencent committed to publishing a human rights compliance report by 2028/2029.
- **BYD (China):** The company terminated its relationship with a contractor in Brazil over labor rights violations. BYD also cited its global human rights commitments, aligned with ILO, OECD, and United Nations Global Compact (UNGC) principles, which apply to all employees and contractors.
- **Nestlé (Switzerland):** The food company acknowledged controversies related to child and forced labor in its supply chain and outlined its monitoring system to address these issues. The company remains committed to improving supply chain transparency and addressing labor rights violations.

Nestlé is frequently beset by sustainability controversies. However, it is also critical to consider its extensive global reach. Nestlé estimates that it works with approximately 165,000 direct (Tier 1) suppliers and nearly 700,000 individual farmers globally, frequently small-scale farmers. Nestlé's reach spans virtually every country where commerce is possible. The company has a physical manufacturing presence in over 330 factories across approximately 75 countries, while its ingredient sourcing network is even more extensive and its products are sold in about 190 countries. The company operates in many countries where labor rights issues are still prevalent, and where many peers choose to exit rather than confront the entrenched challenges.

Nestlé has committed CHF 1.3 billion by 2030 to its cocoa sustainability efforts, centered on its Income Accelerator Program launched in 2022.³² Nestlé knows that despite its efforts to pull children from informal labor practices, this practice is structural and systematic as embedded in informal family farming systems. We expect more on supplier oversight in Nestlé's next sustainability report and we will continue to scrutinize outcomes in their living wage campaign in our on-going engagements with them.

5. Social: Key takeaways

Our social engagements in 2025 reflect our dedication to fostering equitable and sustainable practices across our portfolio. From addressing workplace safety and labor management to promoting diversity and community well-being, we have worked closely with companies to drive meaningful change. While progress has been made, challenges remain, and we will continue to advocate for transparency, accountability, and ethical practices in our engagements. That said, we note that, compared to 2024, there appeared to have been less labor unrest in 2025 across our holdings. In the prior year, Samsung, Grupo Mexico, and Ping An all grappled with labor management challenges, including high turnover and worker strikes.

³² www.nestle.com/sustainability/human-rights/living-income The program explicitly acknowledges that poverty, lack of education access, and limited awareness about child safety are root causes of child labor, recognizing that most child labor in West Africa cocoa involves children supporting their parents on family farms. The program provides direct cash incentives (up to CHF 500 annually initially, then CHF 250 as incomes grow) split equally between male and female household heads via mobile transfer, conditional on practices including school enrollment and sustainable farming. After scaling from a 1,000-family pilot in 2020 to 30,000 families by 2024, Nestlé aims to reach 160,000 households by 2030. Independent evaluation found participating households achieved 18 percent higher yields and 15 percent higher income than non-participants. This sits within Nestlé's broader Cocoa Plan (operational since 2009), which includes child labor monitoring systems, school construction, and full traceability commitments. The approach centers on addressing income gaps as the primary driver of child labor risk, though the program reaches only a fraction of Nestlé's total supply chain. <https://www.nestle.com/sustainability/human-rights/child-labor-education>, www.nestlecocoaplan.com/reports/tackling-child-labour, www.nestle.com/sustainability/human-rights/living-income/cocoa

D. Technological innovation and AI

We are in the age of AI, and the potential for social and financial value creation is enormous. AI and digitalization are increasingly being leveraged to enhance sustainability, operational efficiency, and customer engagement. While AI was a topic of discussion in 2024, it became a recurring theme in 2025, featuring in 14 of our conversations. Companies are moving from experimentation to meaningful application, yet most are still at an early stage, testing AI for internal operational efficiency gains before scaling further. There is a lot of work underway both to scale deployment and to develop appropriate risk governance. Companies are “building the plane while flying it.”

Our conversations have focused on learning how companies are investing in AI tools to drive value while addressing known risks such as biases & discrimination, data validation, data security and privacy, as well as how they are supporting their workforce through this rapid transition. We recognize that this is a very technical and emergent realm, which can make it difficult to assess the adequacy of risk management from an external perspective. We continue to develop internal capacity to strengthen our external audit capacity.

1. AI for operational efficiency

Nestlé (CH) is seeing operational gains from AI in supply chain and customer monitoring. **Straumann** (CH) is seeing AI improve speed and efficiency on its production lines. It is not the only company to note jobs impacts will follow. **Meridian Energy** (New Zealand) is exploring the use of AI to optimize energy trading and maintenance, while **Andritz AG** (Austria) is more advanced and has integrated AI into its autonomous pipe mill technology for real-time production optimization.

One sector using AI for internal operational efficiency is financial services. **HDFC Bank** (India), **Swiss Re** (CH), **Gjensidige** (Norway) and **Swissquote** (CH) use AI for fraud detection, claims processing, customer queries, loan applications—significantly reducing costs, reducing compliance risks, speeding up processes, and improving customer satisfaction. They all say they are now in the scaling phase, with AI currently deployed in safe test areas and without access to customer data, whereas **VAT Group** appeared to have underweighted its focus on AI, and we encouraged greater attention to this matter.

2. AI for sustainability gains

Samsung is using AI to drive its circular economy initiatives. **Nestlé’s** supply chain oversight through AI can help it monitor its sustainability commitments upstream. **Alibaba’s** impressive gains on datacentre efficiency come in part from use of AI-driven systems to optimize energy consumption and cooling processes

3. AI enhancing customer experience

Technology companies are understandably at the forefront of AI use. **Naver** is using AI for targeted Ads; **Tencent** (China) is similarly uses it to personalize user experiences and content moderation, driving advertising revenue and user engagement. Uber (Global) applies AI to optimize ride-matching algorithms and safety features.

4. The thorny problem of AI ethics

Tech companies’ head start in AI means that they are now under greater scrutiny regarding platform ethics, with some (**Tencent, Samsung, Alibaba**) establishing AI ethics committees. Our engagements pressed for more transparency and accountability on content moderation practices, calling for public transparency reports and enhanced accountability by using third-party evaluators to audit their compliance with Chinese and EU privacy & AI laws such as GDPR and EU AI Act. We noted that while Chinese companies had made significant strides on digital rights and transparency versus recent past, this was against a very low baseline. We advocated for the recommendations in the Ranking Digital Rights 2025 report.

5. AI governance

Alibaba (China): Alibaba’s AI capabilities extend to platform ethics and compliance, where AI tools are deployed to ensure operational integrity and enhance decision-making processes. The company’s comprehensive sustainability governance structure, supported by AI-driven insights, enables it to track progress on environmental targets and integrate ESG performance into executive remuneration frameworks. While challenges remain in areas such as emissions breakdowns and climate-related capex measurement, Alibaba’s use of AI underscores its strategic approach to addressing sustainability risks and opportunities.

In conclusion, AI is delivering significant financial and operational benefits, including cost savings, revenue growth through customer experience, and efficiency gains. However, governance, ethics, and regulatory compliance remain critical challenges. Continued engagement is essential to ensure responsible AI practices that align with societal and environmental goals.



V. Engaging to achieve impact

For our impact investing strategies, we have outlined four key priorities to guide our engagement efforts through 2025: i) Drive real-world decarbonization, ii) drive positive change, iii) increase ESG stewardship, and iv) reduce critical chemicals.

In this section, we delve deeper into each of these priorities by highlighting examples of engagement efforts over the past year. Additionally, we provide insights into our outlook and planned engagement initiatives for 2026.

A. Drive real-world decarbonization

We are committed to addressing climate change by encouraging companies to set science-based emission reduction targets, align with the Paris-Aligned Benchmark (PAB) regulation, and improve greenhouse gas (GHG) management practices. A key focus of our engagement is ensuring companies align their net-zero commitments with the SBTi's Net Zero Strategy and pursue SBTi validation where not yet achieved. In 2025, 74 percent of holdings in the Global Environmental Change strategy were engaged in SBTi-related activities.

Notably, we observed progress as more companies moved from committing to SBTi targets to achieving formal approval of their net-zero goals. Globally, over 10,000 companies now have validated science-based targets, with some 2,400 achieving net-zero target approvals, a figure that more than doubled in 2024.³³ These trends highlight a growing recognition of climate risks as material financial risks, driven by regulatory pressures, operational resilience needs, and stakeholder expectations. While challenges remain, our engagements demonstrate that companies are making meaningful progress in addressing climate risks and advancing their decarbonization efforts.

East Japan Railway (Japan): Our targeted engagement focused on JR East's progress and plans for energy efficiency, renewable energy, and sustainable real estate development as part of its "Zero Carbon Challenge 2050." The company aims to reduce CO₂ emissions by 50 percent by 2031 compared to 2014, with a projected reduction from 2.65 million tons in 2014 to 2.18 million tons by Q3 2025. While no specific annual energy consumption targets have been set, JR East is prioritizing hydrogen hybrid trains and non-fossil energy. Renewable energy initiatives aim to cut CO₂ emissions by 520,000 tons by 2031, with 141,000 tons already reduced as of Q3 2025. In real estate, JR East achieved Japan's first zero-energy building (ZEB) certification for Muraoka New Station and the first ZEB certification for a wooden station at Yamamae Station, though broader targets for energy consumption and ZEB certifications remain undefined. We encouraged the company to set specific annual energy consumption reduction milestones and expand ZEB certification goals across its real estate portfolio to enhance transparency and accountability.

Waste Management Inc (US): WM is actively working to reduce its Scope 1 and 2 emissions, which totalled 13 million tons CO₂e in 2024, with 90 percent stemming from landfill gas. In 2024, WM captured 80 percent of landfill gas, with 45 percent put to beneficial use, and aims to increase this to 65 percent by 2027 through the development of 20 new renewable natural gas (RNG) facilities and technological innovations like improved landfill covers, gas wells, and methane detection. While capturing 100 percent of landfill gas is not currently feasible due to biological limitations, WM remains committed to reducing greenhouse gases and exploring long-term solutions. On the recycling front, WM has expanded its material recovery capacity with 27 of 39 new facilities operational and innovative initiatives like a child car seat recycling program. The acquisition of Stericycle has added 400,000 tons of recycled paper annually, and WM is fostering domestic markets for recycled materials through its brokerage services and advisory work with municipalities. The team is satisfied how WM achieved milestones in landfill gas capture and recycling efforts.

³³ SBTi Target Dashboard (January 2026).

B. Drive positive change

This engagement priority aims to drive positive change by urging companies to define a clear impact strategy, outline a path for expanding their impactful business activities, and improve disclosure on these activities by quantifying impact indicators.

NextEra Energy (US): Our engagement with a leading energy utility company focused on its nuclear power strategy, including the planned revival of the Duane Arnold Energy Center and whistleblower concerns about nuclear safety. Nuclear power accounts for 18 percent of the company's power generation, serving as a low-carbon baseload resource, while the strategic focus remains on renewables and battery storage, targeting 77–100 GW of new capacity by 2032. The Duane Arnold Energy Center is set to restart in 2029, with minimal impact on the nuclear generation share. Advanced nuclear technologies are considered long-term options post-2040. The company emphasized its commitment to nuclear safety, waste management, and regulatory compliance, aligning with Paris-aligned benchmarks. In response to whistleblower complaints, it has cooperated with the Nuclear Regulatory Commission, implemented management changes, and conducted studies to mitigate risks, reflecting its focus on compliance, safety, and community engagement. The company also agreed to certain milestones to increase transparency on its nuclear safety measures and to continue prioritizing safety as it expands its energy capacity.

Veolia Environnement (France): The engagement aimed to clarify the company's coal-related revenue and energy production, and the requested data was successfully obtained. It provided updated figures for its 2024 coal involvement. Veolia Environnement's total electricity capacity is 5.8 GW, of which 66 percent (3.8 GW) is non-renewable. Coal accounts for 1.2 GW (21 percent of non-renewable capacity), while gas represents 2.2 GW (39 percent). Renewable energy makes up 34 percent (2 GW) of the total capacity. Overall, revenue from coal represented 3 percent in 2024.

BYD was a joint engagement of the CEB ESG team for the mtX and the Impact Investing team, including colleagues in Hong Kong and Zurich. It's been a communication process that has started in 2024 and will continue into 2026. BYD has committed to achieving carbon neutrality across its entire value chain by 2045 and is on track to reduce Scope 1 and 2 carbon intensity by 50 percent by 2030. The company has also made progress by terminating its partnership with Jinjiang Construction Co. in Brazil, where there were allegations of serious breaches of

worker conditions. On waste, it is establishing two battery recycling facilities with a combined capacity of 10,000 tons to support circular material use.

Continued outreach efforts are being made to encourage dialogue and gain insights into how the company tracks and manages carbon emissions across its supply chains, operations and products. Additionally, there is a focus on improving internal systems for measuring, reporting, and validating emission reductions, as well as ensuring compliance with labor standards in both domestic and international manufacturing facilities. Engagement with BYD will continue, with ongoing efforts to address new topics such as impact metrics, EV sales, and battery recycling targets.

C. Increase ESG stewardship

We take a proactive approach to ESG stewardship, addressing critical ESG risks and events by demanding clear mitigation measures and requiring detailed strategies to reduce controversial issues.

Union Pacific Corp (US): UNP is navigating the challenges of reducing its coal transportation exposure amidst the global energy transition. Coal shipments accounted for 6 percent of UNP's revenue in 2024. The company is legally obligated under US "common carrier" laws to continue transporting coal and other fossil fuels, preventing the company to pursue an actively managed exit strategy. Coal demand is expected to decline significantly by 2034 and even more by 2050 due to the growing adoption of renewable energy. The potential merger with Norfolk Southern, a company with higher coal-related revenue exposure, raises questions about the combined entity's coal strategy and its alignment with sustainability goals. UNP has acknowledged these challenges but has not set immediate milestones to address them beyond adhering to legal obligations and monitoring market trends. We will follow-up on these issues with UNP once the merger has been finalized.

Smurfit WestRock (Ireland): Our engagement with Smurfit WestRock focused on addressing its placement on the UNGC watchlist due to two controversies: allegations of biodiversity loss caused by pine and eucalyptus monocultures and claims of human rights abuses related to the displacement of Indigenous Misak and Nasa communities. Smurfit WestRock has strongly disputed the validity of these allegations, emphasizing that its forestry operations in Colombia are certified sustainable by the FSC and adhere to strict principles of Indigenous rights and biodiversity protection. Smurfit WestRock has taken proactive

steps to engage with the Misak community, including hosting a delegation from Colombia to discuss reconciliation and agrarian reform. Together with the company, we set further engagement milestones in relation to Indigenous communities, improve transparency in its reporting, and work closely with stakeholders to address concerns and rebuild trust.

D. Reduce critical chemicals

Finally, we focus on reducing critical chemicals by asking companies involved in their production to develop firm exit or replacement strategies, while supporting remediation and waste management efforts of such critical chemicals by specialized waste companies.

Daikin Industries (Japan): Our engagement with Daikin focused on its involvement in defence-related products, particularly related to the critical chemical white phosphorus that is used in certain munitions. Our engagement milestones strive to assess and reduce ESG risks and encourage alignment with global standards. In 2024, the company confirmed it manufactures white phosphorus munitions exclusively for the Japanese Ministry of Defense, accounting for less than 0.1 percent of revenue, with no exports and in full compliance with international conventions. It acknowledged reporting discrepancies and clarified that only one product contains white phosphorus. During our last engagement in Q4 2025, the company committed to discontinuing white phosphorus applications by March 2026, addressing ESG concerns while maintaining its limited defence activities.

Powell Industries (US): Our engagement with Powell Industries focused on sustainability and regulatory readiness. The company has ceased manufacturing of SF6 gas-insulated equipment, with only four hermetically sealed units remaining in operation, and now exclusively produces air-insulated equipment, positioning it to comply with future regulations phasing out SF6 gases in regions like the EU and Japan. While labor availability remains a challenge, the company's locations are less affected by employee turnover. The engagement with Powell highlighted its ambitious milestones, regulatory compliance and readiness for evolving environmental standards.

E. Impact outlook 2026

Looking ahead to 2026, the I&T team has defined key engagement priorities that build on our 2025 focus areas, reflect market developments, and address our clients' evolving demands.

Our top two priorities remain broadly unchanged, with more developments across themes 3 and 4:

- On climate, we continue to push the decarbonization agenda by pressing for adoption of credible frameworks and pathways (e.g., SBTi, NZIF and TPI alignment).
- On impact integrity, our push is on strengthening accountability, with an emphasis on improving the quantification and verification of impact indicators, aligning management incentives with long-term sustainability goals, and increasing transparency around impact pathways and intentionality.
- Our third priority in 2026 is new: protecting biodiversity and natural ecosystems by encouraging companies to assess and manage nature-related impacts and dependencies across their operations and supply chains, implement mitigation and restoration actions, and strengthen land use, water stewardship, and ecosystem protection practices.
- Finally, our fourth engagement pillar on chemicals is broadened in scope. We aim to advance material and product circularity while eliminating pollution by promoting circular business models, design innovation, and the phase-out and remediation of PFAS, hazardous chemicals, and other persistent pollutants. We will also advocate for improved transparency and traceability in waste management, recycling, and supply chains.

Based on our strategies' holdings at the end of 2025, we have already identified laggards in these areas, which will be prioritized in our 2026 engagement efforts, with clearly defined milestones to drive meaningful progress.

VI. Switzerland: A focus on engagements in our domestic market

Vontobel's Conviction Equities Boutique includes a dedicated Swiss equities franchise, with Switzerland accounting for 15 percent of 2025 engagements. It is worth reflecting on some common themes for this small country with a mighty global reach.

1. Swiss pragmatism in action

Swiss companies are characterized by a pragmatic approach to business and reporting. While some global firms have adopted a "more is more" mindset in areas such as sustainability reporting, producing extensive documents with hundreds of pages, Swiss firms tend to focus on meeting regulatory requirements and providing financially relevant information. Although they recognize the value of additional disclosures in enhancing transparency, discussions often center around the practical importance of such disclosures and whether they provide meaningful impact. Swiss companies generally prioritize allocating resources to areas that truly matter, ensuring sufficient information is disclosed while safeguarding sensitive business information, particularly in areas where confidentiality is critical.



Some Swiss companies operate with minimal dedicated sustainability resources, often balancing regulatory requirements with operational priorities. A key challenge is the focus on meeting disclosure and reporting obligations, which can detract from the implementation of sustainability solutions. For example, some firms rely on existing business teams to manage sustainability topics, making the efficient use of time and resources critical. However, this can result in a lack of transparency, which can sometimes hinder our ability to assess whether sustainability risks are being adequately managed. At the same time, regulatory compliance already places a significant burden on company resources, particularly for smaller Swiss companies. Increasing regulatory demands have added to reporting pressures, leading companies to reconsider participation in voluntary initiatives, such as CDP disclosures, where the perceived benefits may not justify the required effort.

2. Size matters

For smaller Swiss firms, regulatory requirements often establish the baseline for reporting. Larger companies, on the other hand, frequently exceed these requirements, particularly when sustainability is integral to their corporate strategy or when it directly supports business opportunities. However, it is worth noting that some companies are still in the early stages of developing and implementing their sustainability strategies. As such we see our portfolio holdings coming to us for feedback on their first double materiality assessments, highlighting the ongoing evolution of sustainability practices in certain firms. Smaller Swiss companies may not always be as advanced in their sustainability strategies, implementation and reporting as one might expect. However, they often face fewer regulatory demands, are less exposed to issues that typically attract significant media attention and encounter fewer controversies.

3. Unwavering commitment and high engagement

Our discussions with company executives reveal that ESG considerations are not as prominent among investors as they were in previous years. Despite this, Swiss companies appear to remain committed to their sustainability strategies and roadmaps. Notably, we observed several Corporate Governance roadshows in 2025 where sustainability was a central theme—something we might not have seen in other areas of equities (EM, global).

One notable distinction in Switzerland is the high level of access to companies, which is facilitated by long-standing relationships between firms and equity analysts. Engaging with C-level executives and members of Boards of Directors—whether at large multinational corporations or smaller Swiss firms—is common practice. Companies are generally responsive to inquiries, and meetings are arranged with relative ease, reflecting a culture of openness and accessibility.

4. Swiss engagement themes

Swiss engagements have been extensively profiled in section II of this report.

Please find below some Swiss themes that were prominent in 2025:

- **Governance:** many Swiss companies are incorporating ESG into executive compensation. Some are more advanced with clear metrics and weights (**Swiss Re, Barry Callebaut, Georg Fischer**), while others are in the early stages.
- **AI:** AI adoption is full steam ahead. As our AI section above shows, many Swiss companies are adopting AI to increase operational efficiency and for more efficient customer engagement (**Swissquote, Swiss Re, Straumann, Nestlé**). We note the leap forward that companies have made year-over-year on this topic.
- **Supply Chains:** While Switzerland may be small, the supply chain reach of its corporations is significant and larger Swiss companies are driving sustainability requests down their supply chains through sustainability supplier contracts, supplier audits, and data collection (**Sika, Galenica and Sandoz**). **Barry Callebaut** is focusing on traceability and sustainable sourcing, while **Straumann's** production process involves purchasing titanium using barcodes to trace origin.
- Reducing **Scope 3 emissions** is a major challenge, largely due to supply chain complexities and data quality issues. Many companies rely heavily on suppliers, making it difficult to effectively address emissions. While some Swiss companies have set ambitious targets, most struggle with limited control over supply chain practices. Additionally, many are still in the early stages of collecting and improving supply chain data, acknowledging the difficulties in enhancing transparency, and driving meaningful reductions.

These challenges underscore the need for Swiss companies to enhance transparency, improve supply chain collaboration, and streamline regulatory compliance efforts to maintain their reputation as sustainability leaders while effectively addressing material risks.

VII. How engagement works in the long term

Case study: Tencent

Introduction: A partnership approach to engagement

Our engagement with Tencent Holdings Limited (Tencent), a leading Chinese technology company, highlights our commitment to fostering long-term, constructive dialogue. Since 2020, we have engaged with Tencent 13 times (both directly and through collaborative networks) on a range of sustainability issues, including data privacy, human rights, AI governance, and climate change. This case study illustrates how we act as a partner to address evolving challenges, encourage progress, and maintain consistent dialogue to drive meaningful change.

Early engagements: Building a foundation (2020–2021)

Our initial conversations with Tencent focused on regulatory compliance and data privacy, as China introduced new regulations on data security, gaming, and anti-trust. Tencent demonstrated a proactive approach, sharing its efforts to protect user data through measures such as anonymizing customer information, limiting data collection, and implementing privacy-by-design principles.

In 2021, Tencent introduced an ESG section in its earnings call for the first time, signalling the incorporation of ESG into its corporate strategy. In this significant step, Tencent outlined its initiatives on energy efficiency, digital inclusion, and responsible gaming practices. These early engagements laid the groundwork for a collaborative relationship, enabling us to address more complex challenges in subsequent years.



Deepening the dialogue: Tackling human rights and AI governance (2022 – 2023)

As Tencent matured in its ESG approach, our engagements evolved to address human rights, data privacy, and AI governance. In 2022, Tencent established a Personal Information Protection Governance Taskforce and adopted a minimum data collection policy. It also became a signatory of the UNGC in 2023, committing to align its practices with global human rights standards.

AI governance became a key focus area during this period. Tencent formed an AI Technology Committee in 2023 to oversee AI projects and ensure compliance with China's new regulations on responsible AI. The company also implemented an evaluation mechanism to improve data reliability in its AI models and issued white papers on AI thought leadership. While Tencent made progress in these areas, we continued to encourage greater transparency, particularly in its disclosures on content moderation and government surveillance practices.

Recent engagements: Addressing emerging challenges (2024 – 2025)

In 2024 and 2025, our conversations with Tencent focused on platform decarbonization, AI governance, and human rights. Tencent acknowledged the challenges of reducing emissions from its rented data centers and shared its strategy to transition to hyperscale, self-built data centers equipped with energy-efficient technologies. This shift demonstrated Tencent's growing commitment to addressing its environmental impact.

We also engaged Tencent on its inclusion in the U.S. Department of Defense's (DoD) Section 1260H list, which raised concerns about reputational risks. Our fact-finding revealed no direct relationship between Tencent and the Chinese military, and we encouraged the company to appeal the decision while improving its communication with stakeholders.

Evolution of challenges: Milestones in Tencent's maturing approach

Over the years, Tencent has faced a dynamic regulatory and ESG landscape, requiring it to adapt and mature its approach.

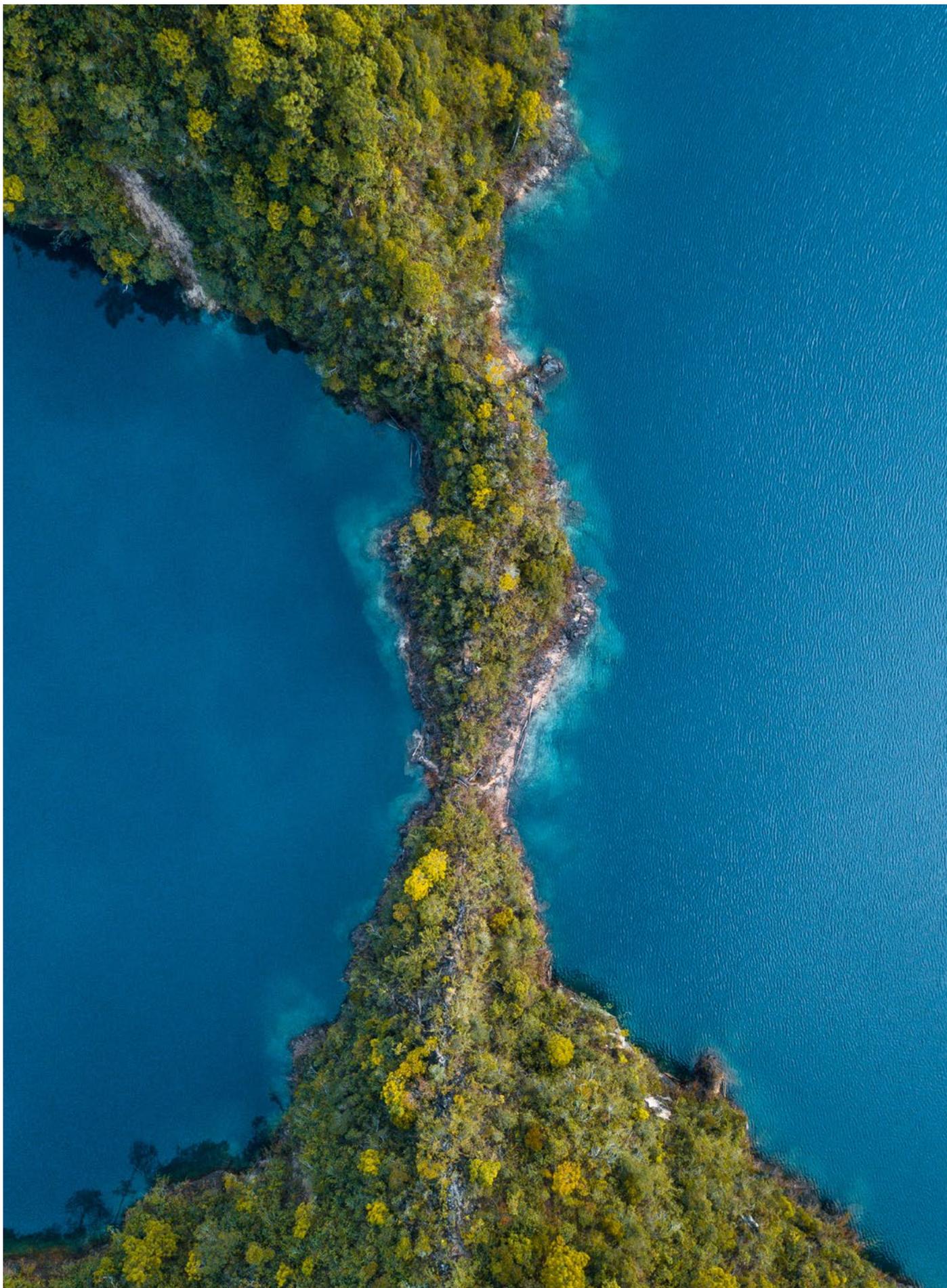
Key milestones include:

- **Human rights:** From lacking a formal human rights policy in 2022, Tencent became a UNGC signatory in 2023 and committed to publishing a progress report. Engagement on users' digital rights have come a long way. Our overall impression is that Tencent has achieved and disclosed what it can in the practical sense. As we continue to monitor its performance on users' digital rights and content moderation, it is also time to shift our engagement focus to other material issues, such as its data center efficiency.
- **AI governance:** Tencent has taken significant steps, such as forming an AI Technology Committee, implementing data evaluation mechanisms, and issuing white papers on AI ethics.
- **Environmental sustainability:** Tencent has shifted its focus to platform decarbonization, investing in hyperscale data centers and energy-efficient technologies.

Key takeaways

Our long-term engagement with Tencent demonstrates the value of a partnership approach to sustainability dialogue. By maintaining regular communication and applying consistent pressure, we have encouraged Tencent to address pressing issues, adopt global best practices, and align with international standards. While challenges remain, Tencent's responsiveness and willingness to engage reflect its growing maturity in addressing sustainability issues. This case study underscores our role as a partner, rather than an activist, in driving meaningful change through ongoing dialogue.

We have engaged with Tencent both directly but also as co-lead of the Digital Rights engagement theme organized by Investor Alliance for Human Rights (IAHR). Our collaborative engagement with IAHR has been fruitful in the past 3 years. But we have also seen investors withdrawing and the group has become smaller. We also note that targeted thematic engagement with companies can "use up your slot" to engage directly on other topics. We decided to discontinue our partnership with IAHR and we parted amicably. It has been a great learning experience to draw from others' perspectives, expertise, and experience and to tap into the expert network group they convened.



VIII. Looking forward: Our 2026 engagement plan

At the start of every year, we refresh our engagement agenda for the year ahead. This involves screening our holdings to identify where engagement action is most pressing based on multiple criteria, including: ESG scores controversy severity, UNGC watchlist, key issues identified in our issuer sustainability evaluation (our MSF evaluation) as well as portfolio size, accessibility of management and durability in the portfolio. Our end-of-year reflection has focused our minds on improving our selection process and shifting to a thematic priorities

approach, following the lead of our Impact & Thematic team. Key advantages of this development are to be sharper and more consistent in our recommendations and deepen our topic knowledge along evolving best practices, regulations, and frameworks. The outline of the 2026 engagement priorities for mtX and Swiss teams (there is strong alignment with those of the Impact team) are as follows:

Our engagement priorities for 2026



Drive real-world decarbonization

- Address gaps in science-based, Net Zero Investment Framework—Transition Pathway Initiative—aligned targets across Scopes 1 – 3
- Strengthen transition plans with interim milestones and 1.5°C-aligned capex
- Improve climate governance and accountability at board and executive level



Governance for shareholders & stakeholders

- Advocating best governance practices focusing on strong and accountable boards, clear strategic vision, transparency, and trust of accounting practices, robust and fair structures and pay
- Governing for long-term value creation: align incentives with sustainability KPIs
- Strong human capital practices—addressing gaps in workforce practices—direct & in supply chains



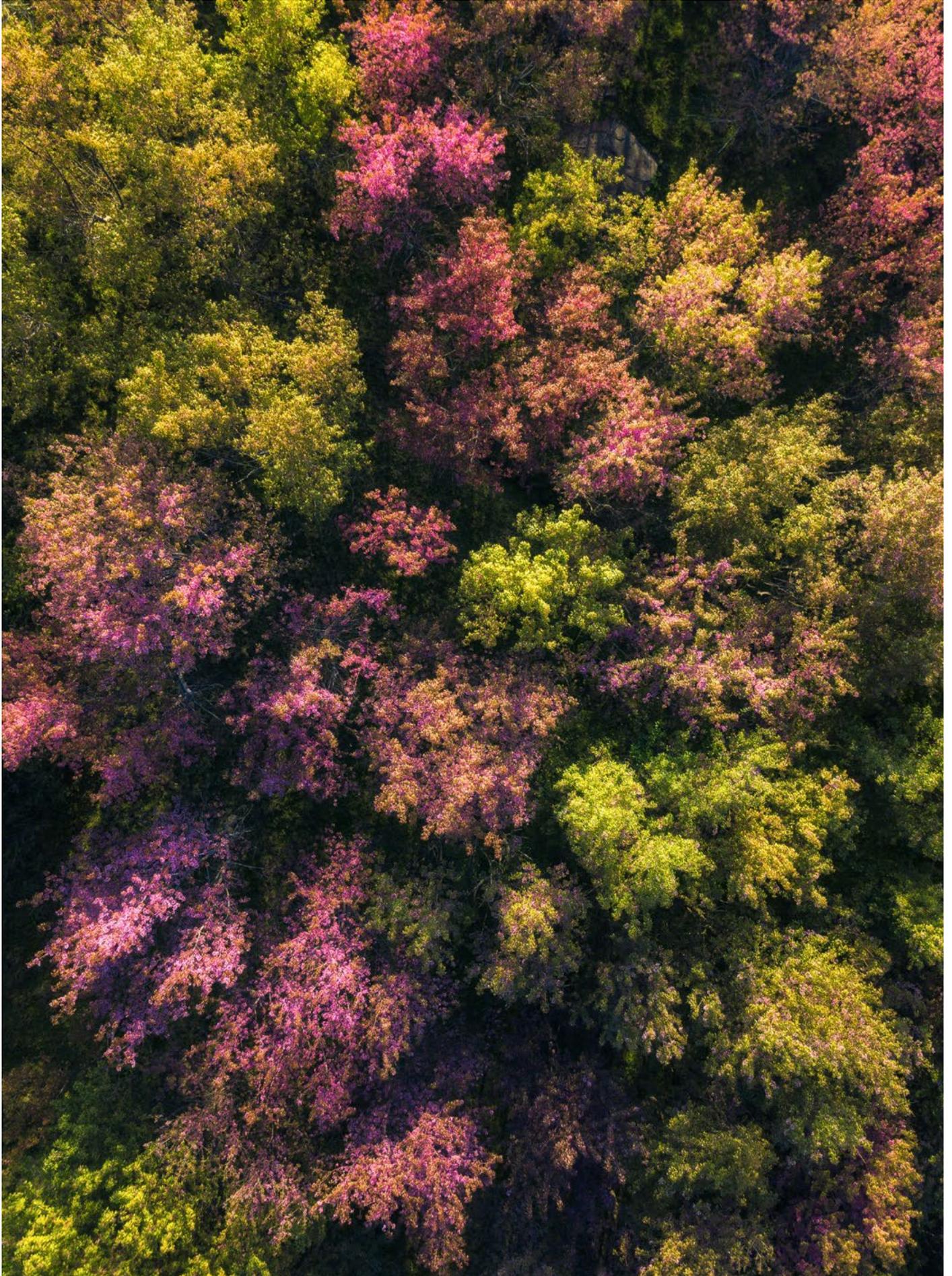
Protect nature

- Manage and mitigate nature impacts and dependencies
- Strengthen land-use, water stewardship, and ecosystem protection practices
- Reduce resource intensity and improve waste management, e.g., through circular business models
- Accelerate phase-out and remediation of hazardous/persistent pollutants, e.g., PFAs



Safe, ethical, and accountable use of artificial intelligence

- Transparent governance: board oversight, AI risk identification and controls, meaningful disclosures
- Responsible AI with safeguards: human-in-the-loop, strong data governance, and privacy controls
- Societal impact—workforce reskilling, AI risk assessments
- AI regulation—alignment with ethical AI laws and norms (EU AI Act, OECD AI principles, AI RMF, etc.)



IX. Voting Report 2025

A. Voting summary

This report summarizes the proxy voting activity of the Conviction Equities Boutique in FY2025, highlights our analytical framework and the most significant voting themes that emerged this year. It provides insight into our approach to voting in the respective markets.

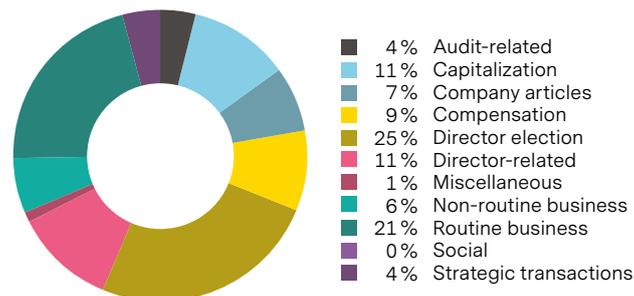
1. mtx voting statistics for FY2025

During the period, mtx voted on 1,113 proposals across 120 shareholder meetings. The mtx franchise focuses solely on EM, which has some norms or traits that can differ from other markets. Proposals in the EM focus predominantly on governance matters, with no climate-related or social proposals put forward for a vote. This was again the case in 2025.

2. Impact voting statistics for FY2025

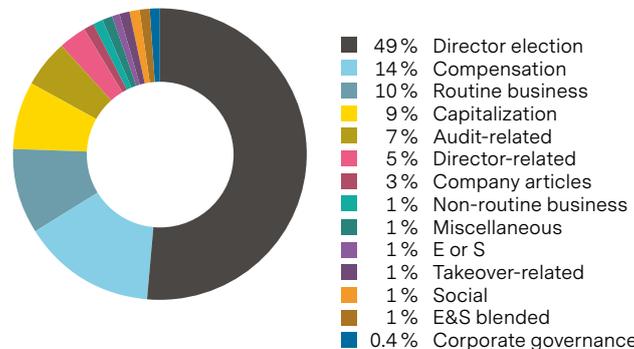
During 2025, the Impact team voted on 988 proposals across 67 shareholder meetings through their Global Environmental Change strategy. While we are globally invested in impact-driven companies, the number of environmental and social-related proposals we voted on remained low. Additionally, there were fewer shareholder proposals from activists compared to recent years. However, these have historically been few as the companies we invest in are already leaders in sustainability practices, with no exposure to the big oil & gas companies that are predominantly targeted. The majority of proposals we voted on were governance-related, such as director elections, executive compensation, and capitalization.

Breakdown of voting proposals as proportion of total for mtx strategies



Source: ISS ProxyExchange, CTI reo® services, Vontobel.
Time period: January 1, 2025 to December 31, 2025. Percentages are rounded.

Breakdown of voting proposals as proportion of total for Impact's Global Environmental Change strategy



Source: ISS ProxyExchange, CTI reo® services, Vontobel.
Time period: January 1, 2025 to December 31, 2025. Percentages are rounded.

B. Voting process and partnerships

Voting allows us to influence corporate governance and sustainability practices, not just for individual portfolios but in the broader interest of investors. The ultimate goal of exercising voting rights is to improve corporate governance, promote sustainable and ethical business practices, and enhance long-term shareholder value. Vontobel Asset Management AG has a partnership with Columbia Threadneedle's Responsible Investment Overlay™ (reo®) as our engagement and proxy voting advisor. Vontobel has a voting policy with reo® that aligns with our core theory of good governance. reo®'s advice is in turn supported by ISS's voting policy as the first layer of research and recommendation. However, reo®'s position is the default voting outcome, unless overridden by Vontobel's investment teams. The mtx and Impact & Thematic teams adhere to this approach in their investment practices.

The Swiss investments team takes an alternate approach where it seeks voting and engagement advice and administrative services from Ethos Services SA, a dedicated stewardship provider specialized on Swiss companies. Their voting recommendation (based on a sustainable investment policy) serves as the default voting decision unless it is overridden by Vontobel's investment teams. In 2026 we are moving to a dual-review process that includes Conviction Equities' sustainability analysts, thereby aligning with practices followed by other teams within the boutique. More information on voting guidelines and Ethos' proxy voting recommendations on general meetings for SPI companies in 2025 can be found [here](#) and [here](#).

Currently, mtx and Impact teams' portfolios have established a process to review all ballots and advice of reo® and ISS, accepting 95 percent coverage in the case of error. The process involves ballot review by the relevant sustainability analyst for the sector, followed by a discussion with the financial analyst where appropriate. This ensures our voting decisions are thoroughly considered and fully contextualized, taking both local market acceptable practices and specific business considerations into account. It also ensures that ballot agenda items feed into the investment thesis, sometimes updating our view on the company. This integration of proxy analysis into our investment process is a fundamental component of our stewardship activities.

We analyze each voting item using a company-specific lens, informed by our knowledge of both the company and its market context, while accounting for regional differences in practice. The recommendations from ISS, reo®, or Ethos serve as useful reference points within our broader, independent decision-making process.

C. 2025 Major voting trends

1. Director elections

The election of directors remains the most material component of our proxy voting activities, reflecting our conviction that board composition and effectiveness are central to long-term shareholder value creation. Our voting decisions are guided by three core principles aligned with best governance practices: director experience, qualifications, and accountability.

In previous years, reo® provided guidance recommending votes against directors deemed directly accountable for sustainability-related shortcomings. However, in 2025, no such voting advisories based on environmental, or social considerations were issued.

Regarding board composition, reo® did not recommend opposing director nominees on the basis of gender diversity in FY2025. However, it continues to advocate for the establishment of fully independent audit and nomination committees through its voting decisions.

2. Shareholders' proposals

In 2025, shareholders submitted 24 proposals for approval across our Emerging Market portfolios. These primarily focused on director elections, with others addressing amendments to the Articles of Association (AoA) and capital allocation matters. We supported all shareholder proposals except one, which sought approval for changes to the board of directors without disclosing information on the proposed nominees.

Our exposure to global companies, outside of EM, comes through our Impact & Thematic portfolios, where we are structurally under-exposed to the names that would be most targeted by activist type campaigns. Therefore, in our global portfolios we also observed very few shareholder proposals, particularly those connected with sustainability topics. Out of 13 shareholder proposals, 10 focused on governance, such as requiring an independent board chair. Three focused on requesting an increase in transparency on social and environmental activities. The environment-related shareholder proposal was put forward for *Linde plc*. It called for more transparency on activities related to climate lobbying and partnerships—we supported the resolution.

An industry observation is the collapse in sustainability-related shareholder resolutions. While we have inherent biases (to EM and Impact companies), we also observe this to be true and where they existed, they were very "light" in their demands.

3. Say on pay

Say-on-pay remains non-mandatory in most EM. While certain companies have voluntarily adopted say-on-pay policies and submitted executive remuneration proposals for shareholder approval, many others continue to lack such mechanisms. In 2025, four companies within the mtX portfolios presented executive remuneration for shareholder consideration. All provided adequate disclosures on both short-term and long-term compensation components. We supported three of these proposals, while withholding support for one due to a one-off award to new executives that lacked compelling justification. The Impact team voted on 20 remuneration approval proposals, all of which we voted in favor of.

4. China's abolition of supervisory boards

In reviewing amendments to Articles of Association, we have observed several Chinese companies proposing to abolish their supervisory board in response to recent revisions in Chinese Company Law calling for only one board. We have supported these resolutions, as they represent a meaningful evolution from the traditional two-tier board structure toward a more streamlined unitary board model.

Under the previous system, the supervisory board often functioned as an inefficient and ambiguous oversight layer, with its role and accountability unclear. The shift consolidates governance responsibilities within a single board, empowering the audit committee—already a committee of the board—to assume critical duties such as monitoring management, convening extraordinary general meetings, and ensuring regulatory compliance.

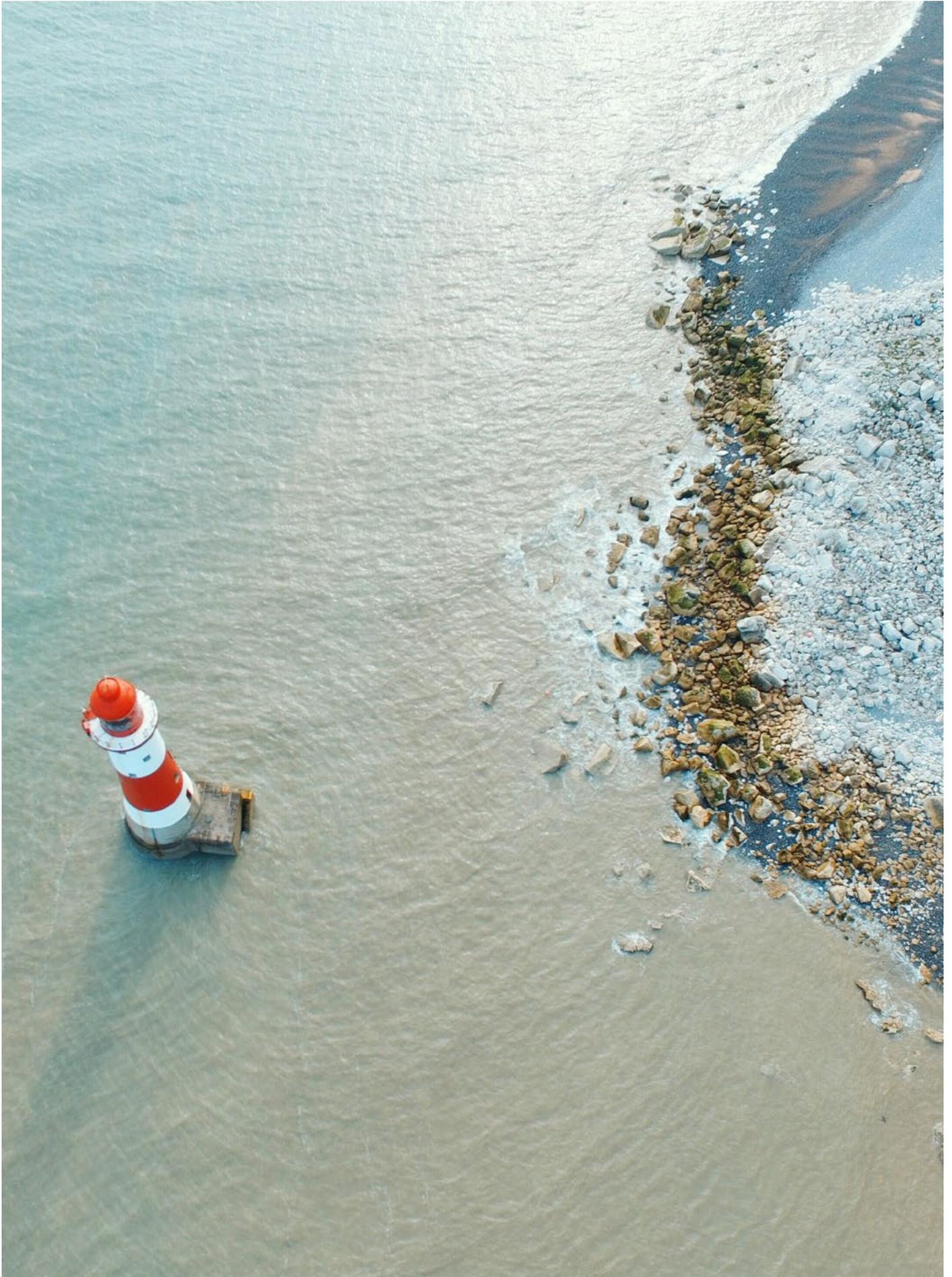
We view this transition as a positive step toward more integrated and effective corporate governance, eliminating redundancy and strengthening the clarity and authority of the board's oversight functions.

5. South Korea's South Korea's "Corporate Value-up Program"

South Korea's "Corporate Value-up Program" was unveiled in February 2024 as a government-led initiative aimed at addressing the long-standing "Korea discount"—the tendency for Korean equities to trade at lower valuations relative to global peers. The program seeks voluntary disclosure of credible medium- to long-term value-enhancement plans, including improvements in capital efficiency, shareholder returns, governance and transparency, supported by clear communication, benchmarking (e.g. the Value-Up Index), and institutional incentives to encourage sustained corporate value creation.

To date, our Korean portfolio companies have not demonstrated substantial, concrete measures aligned with the program's objectives—particularly in terms of ballot proposals aimed at value-up. The 2025 income allocation proposals reveal no material changes in dividend payout ratios among our portfolio companies. An exception is Samsung Electronics, a major technology firm, which has announced a three-year dividend target. We believe 2026 will be critical to see if Korean companies really develop long-term plans for driving shareholder value. We also await broader governance changes, such as unwinding cross holdings in the coming 2–3 years.

Governance and transparency improvements continue to face structural challenges, particularly due to the extreme concentration of AGMs. Over 96 percent are held in late March, a practice driven by the legal requirement to convene within three months of the December fiscal year-end. This timeline delays the inclusion of audited financial statements and auditors' reports in proxy materials, in contrast to other EM where AGMs are more flexibly scheduled from April to December. Consequently, shareholders often cast votes without a complete and audited view of financial performance. In the absence of specific concerns, we generally maintain a supportive stance on resolutions to approve financial statements.



X. Conclusion: Driving change through constructive dialogue

Our 2025 engagement activities reaffirm the power of constructive dialogue in driving meaningful change. Across 115 interactions with companies spanning diverse geographies and sectors, we have witnessed progress on critical sustainability challenges. From advancing net-zero commitments and renewable energy adoption to addressing governance, labor management, and the responsible use of AI, our engagements have supported companies in navigating an increasingly complex sustainability landscape.

Despite the global ESG backlash, our conversations reveal that companies are continuing to work toward sustainability goals, recognizing the material financial risks and opportunities tied to these efforts. While progress is evident in areas like renewable energy adoption, Scope 3 emissions reduction, and ESG-linked compensation, challenges remain, particularly in transparency, supply chain collaboration, and regulatory compliance. These obstacles highlight the importance of sustained investor engagement to ensure that companies stay accountable and on track.

Our partnership-based approach has enabled us to raise critical questions and encourage action on material issues. By integrating financial and sustainability expertise, we provide actionable insights and advocate for measurable solutions. This collaborative process has been instrumental in addressing pressing issues such as climate risk, governance reforms, and human capital management.

Looking ahead, we remain committed to deepening our engagement efforts, with a focus on emerging priorities such as biodiversity protection, circular economy practices, and the responsible use of AI. As we continue to evolve our approach, we aim to amplify our impact, support companies in delivering on their sustainability commitments, and create long-term value for all stakeholders.

Across 115 interactions with companies spanning diverse geographies and sectors, we have witnessed progress on critical sustainability challenges.

Contact us

We would welcome feedback or suggestions from investors and companies to help us further develop our Engagement Report.



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