Vontobel

Voting and engagement

Report 2024

Voting and engagement

As a signatory to the UN Principles for Responsible Investment, Vontobel commits to being an active owner and to incorporating environmental, social, and corporate governance (ESG) issues into its ownership policies and practices. We believe active ownership adds value between long-term partners. As ESG issues can materially impact the future success of a company and therefore its shareholder value, we see active ownership as an important way to support long-term risk-adjusted returns for investors. This is why leveraging the tools of voting and engagement is one of our four ESG investment principles.[1]

Since 2019, Vontobel has had voting and engagement policies in place, corresponding statements can be found under am.vontobel.com/esg-investing.

[1] More information about the four ESG investment principles on page 19.

Voting

Integral to our investment philosophy is the proactive exercise of investors' rights, both for equity and bond holders alike. We firmly believe that ownership comes with a responsibility to safeguard and assert these rights in the best interest of our clients. As such, we participate in voting activities related to corporate governance, executive compensation, strategic decisions, and environmental and social policies. For equity holders, this includes voting on matters such as board elections, mergers and acquisitions, and shareholder proposals. Similarly, for bond holders, we engage in voting on issues such as debt restructuring, covenant amendments, and bondholder meetings. By exercising these rights, we advocate for transparency, accountability, and fair treatment of investors.

Our voting setup
Vontobel recognizes that portfolio management of the assets of clients, which include stocks, may include an obligation to vote in relation to the stock. At the same time, voting represents one of the ways we can express our views.

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

The scope of our voting policy covers all actively managed funds and discretionary mandates managed by Vontobel, unless we have not been authorized to vote on behalf of clients in relation to the assets managed.[1] Funds and mandates managed based on quantitative investment strategies are not covered by our voting policy. However, they may have a voting setup in a comparable manner.

Use of proxy voting advisors across our investment solutions
Vontobel works with specialist research providers who support portfolio managers with their research and voting recommendations. To ensure that all covered votes are treated, the portfolios of our funds are sent on a daily basis to our proxy voting advisors by our custodian. Recommendations are provided by the proxy voting advisor to the investment teams based on guidelines that have been reviewed and approved by Vontobel.

In some cases, and on specific topics, we may develop tailored proxy voting guidelines with the relevant proxy voting service providers, which provide specialized research on voting decisions.

In 2023, Vontobel was using three proxy voting service providers: Institutional Shareholder Services, Inc. (ISS), Ethos Services SA (Ethos) and Responsible Engagement Overlay (reo®), by Columbia Threadneedle. These service providers are used depending on the focus and active ownership approach of the strategies. For instance, Ethos has been selected for its expertise on the Swiss market and is thus used for our funds that have a focus on Swiss equities. ISS allows us to tailor voting policies, a service we use for our Quality Growth strategies.

Operational aspects related to our voting process
When selecting a voting service provider, we pay particular attention to the voting principles and policies they follow. With this approach, the vote recommendations we receive reflect the convictions of the respective investment strategies. The voting policies of our providers can be found on their websites.

Due diligence of the proxy voting advisors' services is regularly performed on the services used, as described on page 50.

[1] As most of our managed assets are under external custody, we closely collaborate with the external custodians to setup proxy voting. As part of this process, we clarify with the custodian if there is a stock lending process in place and if there is a potential impact on the proxy voting.
Clients' needs related to voting are analyzed on a case-by-case basis. For segregated accounts, clients may have their own voting setup and directly exercise voting rights for listed equities. Alternatively, clients might delegate voting to Vontobel, so that we exercise voting rights on behalf of the clients. The conditions related to these activities will be contractually agreed with the client. For our mutual funds, we do not accommodate stock lending.

Our portfolio managers and analysts receive alerts of forthcoming shareholder meetings, alongwith the voting recommendations provided by the engaged proxy voting advisors. Portfolio managers and analysts review the voting recommendations, and if they agree, no action is required, and Vontobel votes accordingly. In certain cases, they may have a different opinion; for example, the standard recommendation does not align with their in-depth knowledge of the company in question and its management, which may have been gained in the context of engagement activities. The portfolio manager can change the vote on an item on the agenda with appropriate documentation, thus providing justification for any choices that deviate from those recommended by the engaged proxy-voting service provider. The overruling process is outlined in our voting policy. This process ensures that we execute our voting obligations and make decisions in the interests of our clients. The respective management company coordinates these aspects and the related processes.

Exercising bondholders' rights
When invested solely through fixed income instruments, we do not have votes at companies' annual general meetings (AGMs), but this does not prevent us from engaging on behalf of our clients when we feel this is appropriate. We manage corporate actions such as consenting (or not) to repurchase offers, bond exchanges, and covenant modifications, among other matters.

Engagement

At Vontobel, we consider engagement to be an important element of our investment activities. It allows us to express our views and expectations toward companies and encourage them to consider ESG aspects.

Reasons to engage
In general, we will engage on any topic when we believe it is in our clients' interests. Reasons to engage with an investee company can include business strategy, corporate governance issues, changes in the capital structure, remuneration issues, and identified environmental and social risks. Engagement includes ongoing communications between the investment team and the management teams of investee companies and can range from ongoing updates and questioning of the current and future business model to engagement on specific issues that may cover ESG concerns.

Our analysts and portfolio managers, as part of their fundamental research activities, carry out fact-finding engagements either due to data gaps or to better understand a company's performance and policies. These engagements address material sustainability issues that are relevant to our investment strategies' objectives. As bond holders, we have the opportunity to exchange with issuers during the bond issuance or restructuring phases and encourage more transparency regarding sustainability matters.

Another reason to engage is when key ESG risks are flagged that can impact future cash flows, or severe underperformances related to sustainability factors (e.g., human rights, corruption, environmental damage, etc.). We engage in a direct dialogue with our holdings to understand the company's plans to manage and mitigate them. Through these consultations, we aim to encourage companies to improve their (ESG) risk management practices and disclosures by referencing specific areas of improvement where they are needed. We conduct thematic engagement campaigns related to strategic priorities. These are focused on issues we see across a number of our holdings. The value that may be gained from these campaigns does not need to be an immediate benefit. For example, if a company has high carbon intensity or emissions and does not appear to have a plan to reduce those emissions, it may make sense to engage even if the potential reduction of carbon emission will not necessarily immediately impact business continuity or the financial performance of the company. At Vontobel, we coordinate our investment teams' various engagement efforts through a Vontobel-wide engagement group. This is meant to share best practice and key learnings with the aim to improve our boutiques' interactions with many of our holdings toward a longer-term, objective-oriented, ongoing dialogue on the most pertinent ESG issues.

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

We understand this is an iterative process of ongoing dialogue and a relationship of trust. We engage with management through a variety of communication formats, including face-to-face meetings, conference calls, emails, and letters.

In addition to direct engagement activities, we also partner with engagement pool providers. We see many advantages in working with a partner on voting and engagement. By pooling the assets in an engagement partner tool, we reach the scale that is necessary to be present and visible to management teams and boards in dialogues and engagement activities. This enables us to exert greater influence than our own investment volume would allow. At the same time, it allows us to target a broader range of companies as we have access to more resources and can benefit from specialized expertise and experience. Additionally, it facilitates our collaboration with other investors. The engagement pool providers establish a long-term engagement plan with objectives and milestones, and this persists irrespective of investment inflows and outflows by the provider's clients. In this way, it can take a truly long-term perspective and sustains regular pressure throughout the life of the issue engagement. Engagement service providers typically report their progress on engagements by a series of milestones, marking events such as companies acknowledging the issue, committing to making improvements, and implementing the improvements. This progress is tracked based on predefined objectives. Insights gained from these engagements may be factored into our research process.

Since 2022, we have partnered with reo®. They provide a service that allows investors to receive market-leading corporate engagement on equity and corporate bond holdings. We selected reo® based on their coverage of our portfolios and the quality of services delivered. As part of the criteria for assessing the quality of the services, we looked at the depth of the engagement activities, the processes used (objective setting, progress tracking), and the reporting offered. In 2023, reo® provided their proxy voting services with a 23-year track record and 40+ ESG specialists.

Engaging as a bondholder
As a fixed income investor of meaningful size, we engage on sustainability risks and underperformance where possible. We can make a difference either during the bond issuance, if the issuer is eager enough to change our opinion about themselves, or once the indentures need to be reassessed, such as during restructuring. Additionally, by occasionally participating in bondholder committees, Vontobel can help resolve relevant issues, which are often driven by ESG misgivings.

Monitoring our engagement activities
We monitor our engagement efforts and follow the company's improvements in key indicators, especially toward their set goals. Such logs of our engagements and company milestones are, depending on the investment team, summarized in our client quarterly reporting. We only remain as investors and engage if we believe the company still meets our original investment thesis and maintains the quality of operations that we require from our investment holdings. If not, we remain vigilant of the potential need for escalation. Engagement could be escalated through additional meetings with the management and dialogue with the board chairman and non-executive directors.

Where these engagements do not progress in the direction that the investment team believes is in the best interests of shareholders or the shareholding is insufficient for an effective escalation on a standalone basis, other options are considered, including, but not limited to:
- Voting against resolutions at shareholder meetings;
- Collaborating with other institutional investors; and / or
- Selling some or all of the investment in the context of the value proposition of the investment as a whole.

→ A further engagement topic is that of public policy.

More information on this starting from page 37.

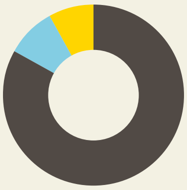
Voting highlights[1]

1323 meetings

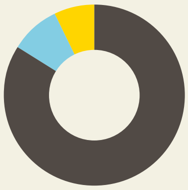
In 2024, we submitted votes at 1323 meetings, for companies based in different regions, whereby the largest part was based in North America and in Europe. 84 percent of voting items were voted "For", and the remaining items were voted either "Against", "Abstain", "Withhold", "One Year" or "Split". 84 percent of voting items were cast with management. The remaining were either cast against management, voted split, or no recommendations from the management nor votes were expressed.

More information about our voting records can be found under am.vontobel.com/esg-investing.

Vote Cast[2]

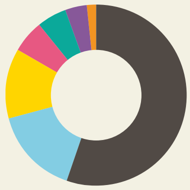


For	84%
Against	9%
Other[3]	8%



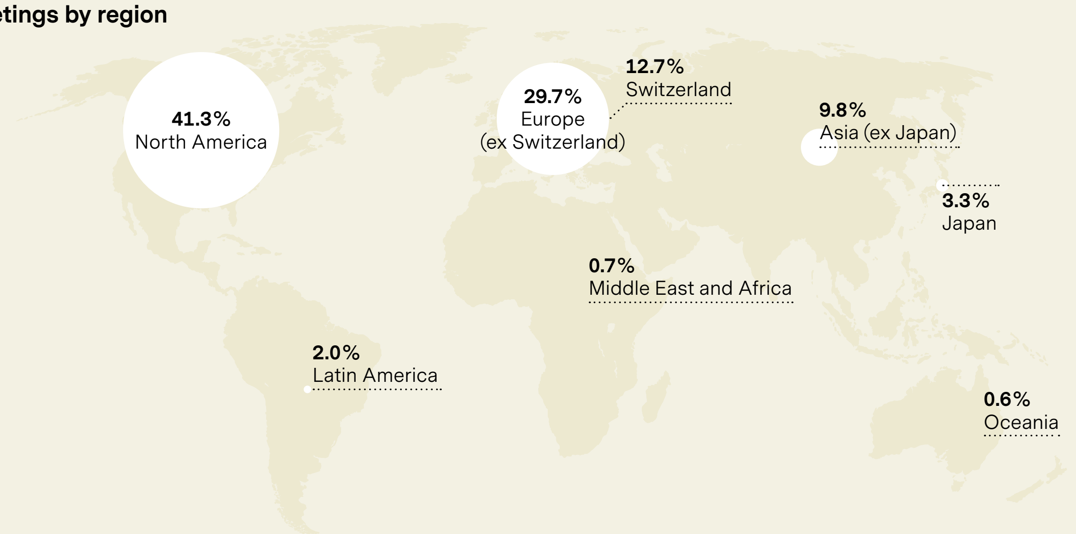
Vote with management	84%
Vote against management	9%
Other[4]	7%

Vote by topic[2]



Director Related	55.5%
Routine / Business[5]	15.4%
Compensation	12.6%
Capitalization	5.8%
Other / Miscellaneous[6]	5.3%
Shareholder proposals	4.0%
Reorganizations and mergers	1.4%

Meetings by region



[1] Scope of the voting statistics: Vontobel funds where Vontobel is the management company, investment manager and sponsor. White Label funds are excluded from the statistics. More information about the funds can be found under am.vontobel.com/vontobel-funds. Source: Vontobel, Ethos, ISS and reo®. The information presented here shows information across all ballot statuses for a given meeting / voting item, meaning all votes that were submitted on the respective proxy voting platform.
[2] Expressed as per voting item
[3] Includes "Abstain", "One Year", "Split" (not necessarily 50/50 split), "Withhold"
[4] Includes "Split" votes, and votes where the management did not express a recommendation.
[5] Includes audit related items
[6] Includes E&S management proposals, company articles related voting items and miscellaneous voting items.

Highlights of some of our voting decisions

Flutter Entertainment Plc
Quality Growth
Approve Remuneration Report

Executive compensation / remuneration is a cornerstone of our corporate engagement process: as such, we conduct ongoing discussions with company management regarding executive compensation. We had a strong level of confidence in their remuneration plan, and therefore supported this proposal. We will continue to engage with all portfolio companies on executive remuneration, particularly as it relates to corporate governance, talent acquisition, and retention.

Amazon.com, Inc.
Quality Growth
Report on Efforts to Reduce Plastic Use

With our vote against management's recommendations, we supported this shareholder proposal advocating for an official report on efforts to reduce plastic use. We believe all stakeholders would benefit from additional disclosure on the company's management of risks related to plastic waste creation. Though the proposal did not succeed, we will continue to support relevant disclosures of ESG-related data.

RB Global, Inc.
Quality Growth
Change Jurisdiction of Incorporation

Management sought approval for an item that would reincorporate the company in a different jurisdiction. The proxy advisor recommended a vote against management, but after engaging with the company, we felt comfortable with the changes and determined that the potential impact to shareholders was immaterial and / or manageable. Furthermore, the passing of this item removed the requirement for board representation by Canadian residents. As diversity becomes increasingly important, we felt that eliminating this requirement was a logical step. We will continue to review all proxy ballots and will engage with management to better understand issues and vote in our clients' best interests.

Engagement highlights

In total, we engaged with 101 companies as part of our engagement activities in 2024. This was either directly conducted by us, in collaboration with others, or on our behalf through the engagement pool we subscribe to. Accordingly, the level of depth and involvement from our side varied depending on the activity. Some of our engagement efforts focused on gaining a better understanding of the company's activities and the context in which it operates. These discussions provide an opportunity for us to raise important topics and ask questions that are relevant to our investment activities.

In 2024, 101 companies were covered by our engagement efforts, either through engagement activities conducted by us directly, or through our engagement partner reo®.

Our engagements tackled environmental, social, and governance-related topics, as well as strategy, financial and reporting. While most engagements took place in North America and Europe, we also leveraged our local presence in Asia.

Our engagement toolbox
We believe engaging with companies is not a "one-size-fits-all" approach. Accordingly, we employ different engagement methods, depending on what we believe will be most effective.

Write shareholder letters or emails, outlining specific concerns or proposals, and request a response from the company.	Propose new board members who are aligned with shareholders' interests. This can be done through a proxy fight or by negotiating with the board.	Make public statements through the media or press releases to draw attention to specific issues or concerns.
Submit formal proposals for consideration at the company's annual general meeting (AGM).	Engage in a proxy campaign to gather votes from other shareholders in support of a particular agenda.	File complaints with relevant regulatory bodies if there are concerns about legal or ethical violations.

In certain cases, we also join forces with other investors in order to strengthen our influence.

A large part of the assets is covered by the engagement pool of Columbia Threadneedle Responsible Engagement Overlay (reo®). reo® has 24-year track record of engagement and a team of 20+ active ownership specialists who interact with hundreds of companies every year.	We selectively join forces with other shareholders to push for specific changes or proposals. An African telecommunications company—We worked with another major shareholder to promote better internal controls over subsidiaries.	We join engagement initiatives, powered by leading organisations. In 2024, we joined UN PRI Spring, an engagement initiative focusing on biodiversity.

Case study

Assessing Net Zero Strategy: Engagement with a US-Based Energy Company

Topic
Environmental:
Climate change

Company profile
US-based energy company engaged in hydrocarbon exploration and petrochemical manufacturing

Engagement type
1:1 and email outreach

Status
Ongoing

Rationale and context
We engaged with a US-based energy company involved in hydrocarbon exploration in the US and the Middle East, as well as petrochemical manufacturing in the US, Canada, and Chile. Given its significant carbon footprint and industry position, we sought to assess the credibility and ambition of its Net Zero by 2050 strategy.

A key driver of our engagement was the company's MSCI Implied Temperature Rise (ITR) score of 10°C, which suggests a misalignment with global climate targets. This rating reflects, in part, the perceived lack of sufficient Net Zero targets and decarbonization efforts. However, based on the company's Climate Report 2024 and comparisons with other US peers, we noted that MSCI's rating might not fully capture its climate strategy. We raised this issue, and the company confirmed it had already initiated discussions with MSCI regarding its methodology.

Activity
We engaged through direct meetings and email outreach, reviewing the company's Net Zero strategy in depth.
Our engagement included:

- Raising concerns about its MSCI ITR score and the potential misalignment with its disclosed Net Zero efforts.
- Discussing its decarbonization progress, including a 20 percent reduction in Scope 1+2 emissions since 2019 and the integration of climate targets into executive compensation (30 percent weighting).
- Examining its four strategic Net Zero pillars:
  - Revolutionize—Innovative projects such as sustainable aviation fuel (SAF) and carbon upcycling for industrial use.
  - Reduce—Targeting Zero Flaring by 2030, enhanced gas leak detection via satellite surveillance, and a 65 percent reduction in methane emissions since 2019.
  - Reuse / Recycle—Expanding circular carbon economy initiatives, including CO_2 utilization in production processes.
  - Remove—Investing in Direct Air Capture (DAC) solutions for carbon capture and storage.
- Assessing the implications of declining fossil fuel demand, considering the International Energy Agency's (IEA) Net Zero Roadmap 2023 update, which forecasts a 75 percent decline in oil demand and a 55 – 70 percent drop in gas demand by 2050.

Outcome
The company reaffirmed its commitment to Net Zero by 2050 and emphasized that it is actively exploring the new Science-Based Targets initiative (SBTi) guidelines for the oil and gas sector, expected in Q1 2025. If the framework is deemed feasible, the company would consider seeking SBTi validation of its Net Zero targets.

The company also confirmed that its Net Zero roadmap aligns with key IEA scenarios (NZE, APS, STEPS) and is already adapting its business model to reflect these transitions.

We will reassess the company's Net Zero strategy in Q2 2025, once the new SBTi guidelines for the oil and gas industry are released in Q1 2025. A follow-up engagement will be planned to evaluate how the company aligns with these developments and whether further improvements in disclosure and target setting are needed.

Case study

Enhancing ESG Disclosures: Investor Engagement on Paris-Aligned Benchmark Exclusion

Topic
Strategy, Financial and Reporting: Corporate reporting

Company profile
Various global companies

Engagement type
1:1 and email outreach

Status
Ongoing

Rationale and context
In the context of implementing the ESMA fund naming guidelines, we are considering Paris-Aligned Benchmark (PAB) exclusions as part of our ESG strategy. However, we identified disclosure gaps on certain key criteria, particularly from companies outside the scope of EU reporting requirements, given our global investment approach.

To address this, we proactively engaged with a broad range of companies, urging them to improve transparency in relevant ESG disclosures. Our goal is to ensure that investors can access consistent, high-quality data when assessing alignment with the PAB framework.

Activity
To address this issue, we proactively engaged with a broad range of companies through targeted email communication. Our outreach highlighted the background of our request, urged companies to disclose relevant information publicly, and encouraged them to communicate these disclosures to ESG data providers to ensure widespread accessibility. We also provided best practice examples to support companies in enhancing their reporting.

In addition to email outreach, we conducted calls with select companies to delve deeper into individual PAB criteria, understand existing disclosure challenges, and provide further guidance on best practices. These discussions have allowed us to assess companies' readiness to align with evolving regulatory expectations and to identify areas where additional investor support may be beneficial.

Outcome
Some companies have already responded by publicly disclosing relevant information, while others have clarified their position bilaterally without yet making their disclosures public. For some companies, we were among the first investors to reach out on this issue. We will follow up with these companies to encourage further action and ensure that disclosures are accessible to the broader market.

Case study

Engagement on Biodiversity under the UN PRI Spring Initiative

The UN PRI Spring initiative, which we joined in 2024, is a collaborative investor program focused on enhancing corporate accountability for environmental, social, and governance (ESG) practices. Through this initiative, we are acting as collaborative investors for engagements with two companies—Banco Bradesco and L'Oréal—focusing on biodiversity and nature-related risks. By joining forces with other investors, the PRI Spring initiative encourages companies to integrate sustainability into their operations, promoting greater transparency, responsible business practices, and alignment with global biodiversity and environmental goals.

Topic
Environmental:
Biodiversity

Company profile

Banco Bradesco (Finance), L'Oréal (Ag, food, consumer good)

Engagement type

Collaborative engagement (PRI Spring)

Status

Ongoing
Rationale and context

Banco Bradesco, a major financier in the Amazon, and L'Oréal, a global cosmetics company, both face significant biodiversity risks in their operations. Through the UN PRI Spring initiative, we are collaborating with these companies, alongside other investors and stakeholders, to drive meaningful change in biodiversity risk management, deforestation mitigation, and sustainable sourcing.

Activity
Banco Bradesco: In collaboration with PRI Spring partners, we initiated joint discussions with Banco Bradesco's senior management, including the Head of Investor Relations and Head of Sustainability. These collaborative conversations allowed us to align on shared expectations for biodiversity risk management and identify areas where the bank could strengthen its deforestation mitigation efforts. Through ongoing dialogue, we emphasized the importance of integrating biodiversity risk assessments into their lending practices, particularly for high-risk projects in the Amazon.

As part of a broader collective engagement effort, we also coordinated with other PRI investors and stakeholders to advocate for the adoption of nature-related financial disclosures (e.g., TNFD). By working together, we aimed to influence the bank's approach to biodiversity risk, encouraging greater transparency and alignment with international frameworks.

L'Oréal: Our engagement with L'Oréal was similarly collaborative, involving discussions with the company's sustainability team and other PRI partners. We worked with L'Oréal to assess their efforts in traceability across the raw materials supply chain, focusing on their progress in tracing materials from plantations to refineries. We also identified key opportunities to enhance traceability to the farm level and engaged with L'Oréal on overcoming challenges in monitoring smaller suppliers.

In collaboration with industry peers and NGOs, we encouraged L'Oréal to adopt best practices in regenerative agriculture and biodiversity-positive sourcing, with the goal of scaling these efforts across its entire supply chain. Additionally, we focused on helping L'Oréal better integrate biodiversity considerations into its circular economy initiatives, including sustainable packaging and improving living wage standards within its supply chain.

Outcome

Banco Bradesco: Through our collective engagement, Banco Bradesco demonstrated a commitment to improving its deforestation risk management, though gaps remain, particularly with indirect suppliers in the meatpacking sector. We have collectively pushed for the bank to shorten the compliance deadlines for these suppliers and adopt standardized biodiversity risk assessments such as TNFD. Moving forward, we will continue our collaborative efforts with other investors to ensure that the bank strengthens its biodiversity risk screening and adopts robust nature-related financial disclosures.

L'Oréal: L'Oréal showed significant progress in supply chain traceability, though full transparency at the farm level is still a work in progress. With continued engagement, we will collaborate with PRI partners to press L'Oréal for further advancements in traceability, regenerative agriculture, and biodiversity impact assessments. We will also advocate for the integration of biodiversity goals into L'Oréal's broader sustainability strategy, ensuring that their supply chain practices align with global biodiversity objectives.

Case study

Enhancing Corporate Governance: Investor Engagement on CEO-Chairman Role and Board Diversity

Topic
Governance:
Board effectivness, Diversity, Independence

Company profile
The primary distributor of one of the largest beverage companies in Latin America, involved in retail, beverages, and logistics.

Engagement type
1:1 meeting and follow-up communication

Status
Ongoing

Rationale and context
As a long-term shareholder, we engaged with the company on governance concerns, specifically around the combined CEO and Chairman role and the composition of its board. At the time of the AGM, we voted against the combined role, advocating for a separation of these positions to improve governance practices. Additionally, we raised concerns about board diversity, as the company's 15-member board had only three women, all non-independent.

Our objective was to encourage the company to adopt higher governance standards, particularly as a leading player in Latin America.

Activity
We initiated engagement by meeting with the company's Head of Investor Relations to discuss both the CEO-Chairman role and board diversity. During the meeting, we expressed concerns about the lack of independence and gender diversity on the board and emphasized the importance of separating the CEO and Chairman roles to align with best governance practices.

Following this, we continued to monitor the board's composition and engaged further through email correspondence. Our outreach encouraged the company to publicly disclose its progress on governance improvements and to consider adding independent female directors, aiming to align with both local corporate governance guidelines and broader global best practices.

Outcome
CEO-Chairman Role: The company confirmed that the separation of the CEO and Chairman roles is under review, with updates expected within the next year.

Board Diversity: In response to our engagement, the company added two independent female members to the board over the last 12 months, increasing independent membership to over 25 percent, meeting the corporate governance guidelines for independent directors.

Case study

Addressing Gender Pay Disparities in a European Bank

Topic
Social:
Human capital management

Company profile
Large Listed European Bank

Engagement type
1:1, Email

Status
Ongoing

Rationale and context
After identifying that the bank's gender pay gap was significantly higher than its peers, we engaged with the company to gain further insights into the reasons behind this disparity.

Activity
We reached out via email after reviewing the bank's disclosures. Investor Relations responded with insights on the causes of the gender pay gap and outlined ongoing initiatives aimed at addressing it.

Outcome
The bank's Investor Relations team provided explanations, noting that the gap stems from a higher proportion of men in senior positions and front-office roles, contributing to a high gender bonus pay gap. While the London branch aligns with industry averages, the bank is implementing initiatives such as targeted recruitment efforts and early-career development programs to improve gender balance. The bank also has DE&I committees in place to promote long-term change.

Case study

Investigating a Power Plant Accident: Ensuring Health & Safety Compliance

Topic
Social:
Human & Labor Rights; Human Capital Management; Public Health

Company profile
Utility, Italy

Engagement type
1:1, Email and Teleconference Meeting

Status
Ongoing

Rationale and context
We engaged with the company after our ESG data provider flagged a low controversies score due to recent incidents. Specifically, we sought further details on the fatal power plant accident near Bologna in April 2024.

Activity
We held a teleconference with the company's Head of ESG to gain a deeper understanding of the incident. The company clarified that the accident occurred during a test on a hydroelectric plant, where turbines and alternators were operated at maximum speed. While the first test was successful, the second resulted in an explosion, likely due to a mechanical issue with the alternator.

Following the incident, the company launched an internal process to verify compliance with health and safety standards. They conducted a physical inspection and retrieved data from black boxes. Because the plant was submerged in water, a full inspection was not immediately possible, but six potential causes were identified—all pointing to a mechanical failure rather than procedural errors.

The company continues to monitor its suppliers for safety and human rights compliance. If the alternator supplier is found to be responsible, the company is prepared to take immediate action. If the issue is internal, the company has committed to strengthening its health and safety measures.

Outcome
The company provided sufficient clarity on the event, including its cause, investigation process, and potential remedial actions. They committed to addressing any identified shortcomings and implementing corrective measures if deemed at fault.

We have scheduled a follow-up meeting to review the final outcome of the investigation and assess the company's response.

Case study

A proactive approach to remuneration and talent management

Topic
Social:
Human Capital Management

Company profile
Analog Devices Inc

Engagement type
Collaborative, conducted by reo®

Status
Ongoing

Rationale and context
Analog Devices Inc (Analog) is a multinational semiconductor company that designs and manufactures analog, mixed-signal, and Digital Signal Processor (DSP) integrated circuits used for data conversion, signal processing, and power management.

Ro® engaged with several operational specialists at the company to discuss proposed changes to its remuneration policy, including annual short-term incentive measurements, more challenging short-term incentive targets, and a reduction of the maximum payout. These changes were introduced in response to investor feedback received earlier in the year following shareholder dissent at the previous AGM.

Activity
During the engagement, reo® discussed these proposals with the company and recognized its responsiveness to investor feedback. The improvements to remuneration practices represent a positive step in enhancing corporate governance. Reo® provided additional feedback to further refine the remuneration policy, including adjustments to the vesting schedule and change-in-control provisions.

Reo® also explored the company's succession planning processes, which demonstrated a strong awareness of risk management and talent development opportunities.

Outcome
Analog's proactive approach to addressing investor concerns and revising its remuneration policy reflects a commitment to good corporate governance. The company's willingness to engage on remuneration and succession planning matters is a positive development. However, reo® believes ongoing engagement may be necessary to monitor the implementation of these changes and ensure alignment with best practices in executive compensation and talent management.

Case study

An update on sustainable forestry and community engagement in Colombia

Topic
Environmental:
Climate change

Social:
Human Rights

Company profile
Smurfit WestRock PLC

Engagement type
Collaborative, conducted by reo®

Status
Ongoing

Rationale and context
Smurfit WestRock is an Irish-American supplier of paper-based packaging. The company is vertically integrated, spanning forestry assets (mainly in Colombia), mills, and plants, and is one of the largest paper and board producers in the world.

Reo® conducted a two-day site visit to Smurfit WestRock's forestry assets and pulp mill in Colombia, accompanied by the company's Chief Sustainability Officer. The visit aimed to assess the company's sustainable forestry practices, community engagement efforts, and the environmental and social impacts of its operations.

Activity
During the visit, reo® toured Smurfit WestRock's forest research unit, forestry plantations, and the Cali pulp plant. The company's scientific rigor and collaborations with universities in forestry research were evident. The plantations are established on degraded cattle pastures, and reo® observed significant soil erosion on similar cattle assets, highlighting the positive impact of afforestation in controlling erosion.

Additionally, reo® toured the new biomass boiler under construction at the Cali plant, which will replace coal. The company was encouraged to ensure that any third-party-sourced biomass is certified. From a social perspective, reo® also visited two primary and secondary schools funded by Smurfit WestRock in the local area. Alumni from these schools are often recruited into company roles, providing employment opportunities in economically disadvantaged regions of Colombia.

Outcome
Reo® was impressed by Smurfit WestRock's sustainable forestry practices, community engagement efforts, and the scope of the mill revamp in Cali. In particular, improvements in the company's management of operational impacts on biodiversity—an area of focus in reo®'s engagement over the past two years—were well received.

The company has acted on reo®'s recommendations and is currently evaluating some of the eDNA providers suggested for biodiversity monitoring. Going forward, engagement will focus on ensuring that the company sustainably sources feedstocks for the biomass boiler and continues to foster productive relationships with local Indigenous communities.

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