Vontobel

Voting and engagement report

Report 2023

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 of the ESG Integration and Stewardship report 2023 available under vontobel.com/esg-library.

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 76 of the ESG Integration and Stewardship report 2023 available under vontobel.com/esg-library.

[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 can receive alerts of forthcoming shareholder meetings together with the voting recommendations provided by the engaged proxy voting advisors. Portfolio managers and analysts review the voting recommendations, and if they agree with them, no action is required, and Vontobel votes accordingly. In certain cases, they may have a different opinion; for example, the standard recommendation does not match 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 described 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.

Asset managers' votes on shareholder resolutions aimed at tackling environmental and social issues are assessed in ShareAction's "Voting Matters 2023" report. Based on the analysis of votes on 257 shareholder resolutions from 2023, ShareAction found that asset managers' support for these resolutions has decreased compared to 2022 and 2021. With a 62 percent score, Vontobel ranked 40 out of the 69 asset managers assessed. We voted in favor of 50 percent of the resolutions analyzed (where we had holdings), while we voted against 28 percent of them. We take the findings of the recent report seriously and are analyzing them along with our overall voting activities to see whether there are areas where we can improve. As a responsible investor, we are committed to continuously enhancing our approach in the ESG space, ensuring our practices benefit both our clients and stakeholders.

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 towards companies and encourage them to consider ESG aspects.

Reasons to engage
In general, we will engage on any topic as and when we feel 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 the issuers during the bond issuance or restructuring phases and encourage more transparency regarding sustainability matters.

Another reason to seek out an engagement is for areas flagged as key ESG risks 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 a near-term 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 benefit will not necessarily impact the near-term business continuity or performance. At Vontobel, we coordinate our investment teams' thematic engagements efforts through a Vontobel-wide engagement plan. This is meant to guide our interactions with many of our holdings towards 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 on-going 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 we are also able to benefit from specialist resources and experiences. 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 will maintain 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 objectives set beforehand. 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+ specialists.

In 2023, we continued our subscription to Sustainalytics' three-year engagement program on modern slavery, which aims to address the issue of forced labor, human trafficking, forced marriage, and child labor. Companies associated with such practices are vulnerable to potential costs and losses due to emerging regulations, government initiatives, and societal expectations. Sustainalytics' engagement program seeks to mitigate these risks by ensuring high-risk portfolio companies implement effective strategies to address modern slavery-related risks. As a participant in this thematic engagement, we are invited to participate in regular conference calls with companies, and we receive ongoing updates and biannual reporting on KPI progress from Sustainalytics. The program targets approximately 20 companies in the construction and manufacturing industries, two of the industries that are most exposed to modern slavery. In 2023, engagements were held with 16 companies. As the three-year program is in its concluding stages, the engagements took the form of final dialogues centered on providing recommendations on key areas and giving constructive feedback. The focus has been put on strengthening their risk management, especially in light of regulatory changes, as Sustainalytics recognizes that in the remaining months, the full engagement goal is not realistically within reach.

Engaging as a bondholder
As a fixed income investor of meaningful size, we engage in sustainability risks and underperformance where possible. We can make a difference either before a bond is issued, if the issuer is eager enough to change our opinion about themselves, or once the indentures need to be reassessed, such as in the restructuring. Additionally, by occasionally taking part in bondholder committees, Vontobel can contribute to fixing 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 towards 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 ever vigilant of the potential need to have recourse to 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 82 of the ESG Integration and Stewardship report 2023 available under vontobel.com/esg-library.

Interview

with our active ownership specialists from Quality Growth

—
Brian Bandsma
Head of Quality Growth ESG Research,
Vontobel

— What are the similarities and differences between the European and North American approach to active ownership?
I don't think there is much of a difference except maybe a lesser focus on exclusions and a greater use of our influence as shareholders to encourage companies to improve operations. Excluding stocks or industries from a portfolio doesn't necessarily lead to better outcomes. Private capital is readily available and if investors exclude certain stocks, this leads to lower valuations, which eventually make them attractive targets to go private. When companies go private, there is less scrutiny and pressure to improve the sustainability of their operations. Our active engagement approach is about using our position to encourage and support management to work towards reducing their environmental impact and increasing their social impact.

— Quality Growth is close to the US companies. Did you observe some trends during the 2023 voting season in the US market?
In the US, there has been a noticeable decline in shareholder sponsored ESG initiatives. There is no doubt that this has been impacted by the pushback on ESG. However, from our interaction with hundreds of companies last year, we see little slowdown, with companies themselves working towards increasing disclosures and setting targets to improve outcomes. Additionally worth noting is that the track record of so-called anti-ESG initiatives has seen very little shareholder support.

— What were your top engagement topics in 2023?
We have continued to engage in the more impactful areas, such as emissions and biodiversity. We also had several engagements around executive compensation. We continue to focus on making sure that managers interests are aligned with those of shareholders. Executive compensation has risen significantly over the last couple of decades, but too often it is not on a pay-for-performance basis. Variable compensation should be consistent with returns to shareholders.

— Looking ahead: What is your outlook on active ownership for the coming years?
Companies in developed countries have made meaningful strides in improving disclosures around ESG factors as well as setting specific targets. However, there is still progress that needs to be made around auditing and control to reduce greenwashing risks. In some areas, like emissions or biodiversity, third-party data sources are providing more ways to act as a check on company provided data. More data means more risks of lawsuits, fines, or damage to brand reputation. Companies that fail to improve ESG outcomes will increasingly find that there may be a real financial cost.

Interview

with our active ownership partner reo®

—
Lara Kesterton
Head of Sustainability Conviction Equities, Vontobel

—
Karlijn van Lierop
Head of reo®, reo®

— What are the benefits of an engagement pool?
Lara Kesterton: Engaging with companies on ESG issues is a critical aspect of responsible investing, and we believe in the power of collaboration to drive meaningful change. Partnering with a dedicated engagement pool offers us numerous advantages. Firstly, by pooling our assets, we amplify our influence and enhance our visibility to management teams and boards. This collective strength allows us to engage with a broader range of companies, leveraging specialized resources and experiences for more impactful dialogues. Moreover, the long-term engagement plan established by our engagement pool provider ensures consistent pressure on companies to address ESG concerns, regardless of fluctuations in investment volumes. Through regular progress tracking and milestone reporting, we gain valuable insights that inform our research process, enabling us to make more informed investment decisions. Ultimately, the engagement pool model facilitates collaboration among investors, driving positive change on a larger scale.

— How do you ensure your guidelines, which are the roadmap for engagements and voting decisions, match the expectations of your partners?
Karlijn van Lierop: Setting our reo® client engagement program is a collaborative effort, and we proactively capture client priorities through an annual two-stage consultation. We work with the client to establish the priorities and strategy for any given year's engagement agenda, including engagement themes and priority sectors and companies. Our dedicated responsible investment analysts conduct a high-level assessment of a wide range of existing and emerging ESG issues and their potential impacts on investment returns, as well as on the economy, environment, and society. Based on this analysis, we propose projects linked to specific sectors/regions, including any outreach to specific and relevant companies. The second phase of the consultation allows clients to share their views and select their preferred projects. This ensures we build an engagement program that remains aligned with our clients' priorities. In terms of voting, reo® clients can, partly or in full, elect for their own voting policy to be applied. This enables us to accommodate any individual requirements our clients might have.

— Talking about a continuous exchange, what are your needs as an asset manager for this pooled engagement service?
Lara Kesterton: As an active manager, we leverage the tool of engagement based on long-term relationships with our investee companies. However, like any asset manager, we face resource constraints. Therefore, it's crucial for us to focus our efforts on a manageable set of companies. Through reo's pooled engagement service, we can effectively leverage their specialized resources and expertise to engage with a broader range of companies. Direct access to their engagement specialists enables us to delve deeper into ESG issues, going beyond what's typically available in sustainability reports. This access enhances our ability to make more informed investment decisions by uncovering insights that may not be apparent from surface-level data alone.

— reo® as a service celebrated 23 years of track record in 2023. How have your engagement activities evolved, and what are the most recent developments?
Karlijn van Lierop: We are very proud of our +20-year long-standing track record in engagement. Our engagement approach has evolved as emerging best practices become better known and adopted across different markets. This evolution also means our clients are setting tougher expectations for sectors and companies. Our engagement efforts are backed by a research-driven global asset manager, and our RI team collaborates with over 200 fundamental research analysts to identify and engage on financially material ESG issues and opportunities.

Along with our engagement practices, the reo® service is constantly developing, with regulatory change being an important driver. For example, in 2023, we started to map our engagements to Principle Adverse Impacts (PAIs) when we are engaging issuers with poor ESG practices and performance in matters such as human rights violations, labor rights violations, environmental pollution, and corruption.

— Looking back at 2023, what were your highlights on the engagement side? Anything different compared to the past few years? Across your partners, what topics were of special interest in terms of engagement in 2023?

Karlijn van Lierop: We have multiple engagement priorities running concurrently throughout the year. In 2023, a theme of particular focus was deforestation as a major driver of the twin crises of biodiversity loss and climate change. The destruction and fragmentation of forests is the biggest driver of extinctions across the world, and deforestation and forest degradation contribute up to 15 percent of the carbon dioxide emissions caused by human activity. This is primarily linked to the production of commodities, including palm oil, soy, cattle products, timber, cocoa, coffee, and rubber. We have developed a bespoke tool to appraise the quality of deforestation management by issuers involved in soft commodity value chains and have been engaging issuers on policy and procedures, certification, due diligence, indigenous and smallholder support, and risk assessments.

Another focus area in 2023 was the responsible use of artificial intelligence (AI). The development of AI is becoming increasingly widespread as issuers look to automate their decisions and create new opportunities in a data-centered world. While there are vast benefits of AI, including increased efficiencies, there are also risks and harms associated with misuse, which raises questions about the accuracy, fairness, privacy, and security of these AI systems. Regulation cannot keep up with the rapid development of new technologies, and stakeholders are holding issuers responsible and accountable for the responsible development of these technologies. Issuers using AI in their operations and supply chains are potentially exposed to regulatory, reputational, and financial risks such as revenue losses. One of the most significant barriers to the success and adoption of AI is trust, and biased algorithms cause users to lose confidence in issuers and switch to other products or services. The project aimed to encourage issuers to publicly commit to and adopt responsible AI principles in their operations.

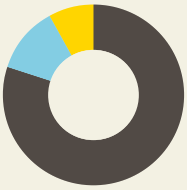
Voting highlights[1]

1,386 meetings

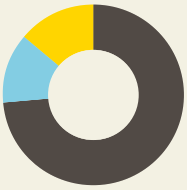
In 2023, we submitted votes at 1,386 meetings, for companies based in different regions, whereby the largest part was based in North America and in Europe. 80 percent of voting items were voted "For", and the remaining items were voted either "Against", "Abstain", "Withhold", "One Year" or "Split". 81 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]

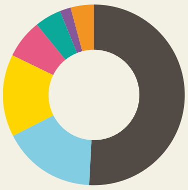


For	80%
Against	12%
Other[3]	8%



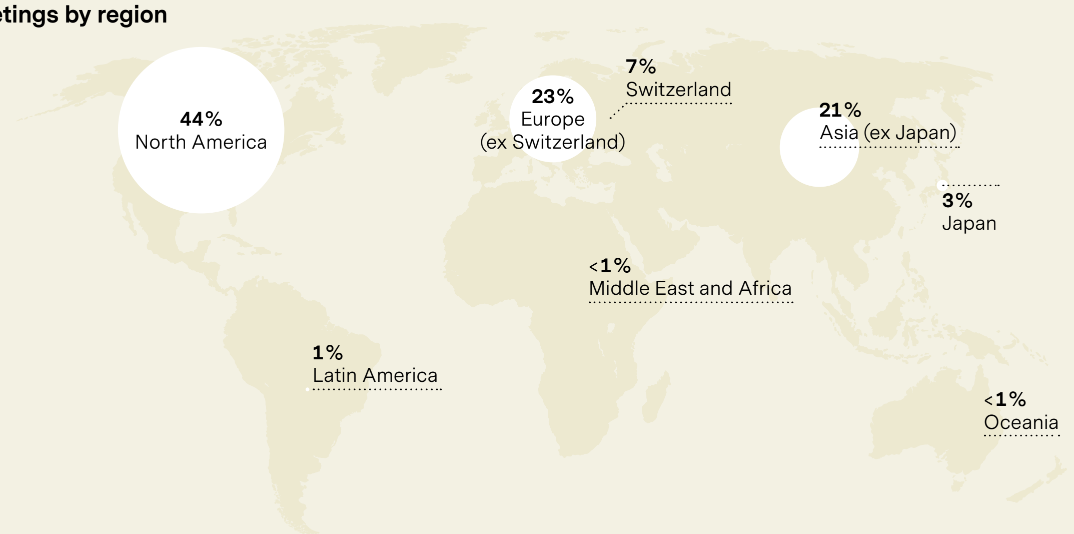
Vote with management	81%
Vote against management	14%
Other[4]	5%

Vote by topic[2]



Director Related	52%
Routine/Business[5]	17%
Compensation	15%
Capitalization	7%
Other/Miscellaneous[6]	5%
Reorganizations and mergers	2%
Shareholder proposals	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

On this page, we showcase a selection of our voting decisions. These illustrate how our policies and our active approach to ESG investing shape our approach to utilizing voting as a powerful tool for catalyzing change. This selection is not exhaustive, and our comprehensive voting records report can be found under am.vontobel.com/esg-investing.

Telkom Indonesia—
Seeking better governance practices and disclosures
by Conviction Equities

As part of our engagement efforts to improve governance and transparency for minority shareholders, we reached out to Telkom Indonesia ahead of the 2023 AGM to communicate our voting rationale on board election, voting against the relevant ballot items.

Despite board appointments being the right of the Indonesian Ministry of State Owned Enterprises, as minority shareholders, we encouraged the company to address this topic by disclosing adequate biographical information about the boards to shareholders in advance of the annual general meeting(s); and by separating the bundled board election proposals to enable shareholders to vote on each director and commissioner individually. Finally, we encouraged Telkom Indonesia to continue to strive for better governance practices, especially with regards to the Board of Commissioners' independence and diversity. It is an important body overseeing the Board of Directors and business activities; therefore, we stressed that composition with a majority independence as well as diversity of gender can support further board effectiveness.

Yum China—
Promising disclosure on emissions
by Quality Growth

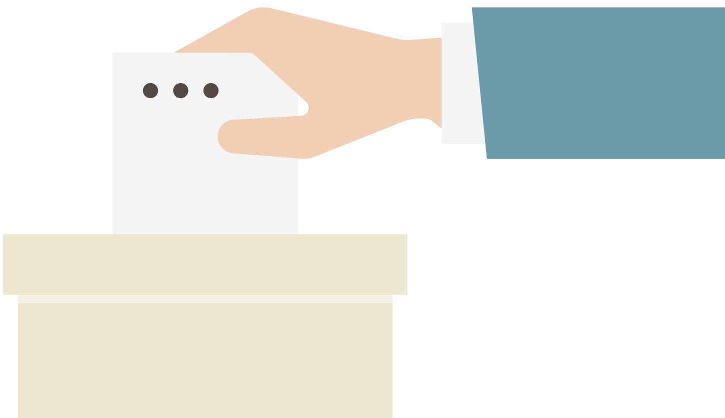
While our custom policy voting recommendation called for us to vote against management, we verify that the company does, in fact, report based on TCFD recommendations and does file with CDP. As we have previously discussed with the company, it has higher carbon intensity because the vast majority of stores are owned, meaning emissions are within Scopes 1 and 2. This contrasts with global peers that are majority franchised, for which emissions are captured under Scope 3.

Techtronic Industry Co., Ltd.—
Emphasizing the importance of an independent audit committee
by Quality Growth

We voted against the proposal to elect Horst Julius Pudwil as Director because the Audit Committee is less than 100 percent independent.

Amazon.com, Inc.—
Reporting on climate change
by Quality Growth

We voted in support of the proposal (against management) to report on the impact of the climate change strategy, consistent with just transition guidelines, because we believe shareholders would benefit from more disclosure on how the company considers internal and external issues related to the transition to a low-carbon economy as part of its climate strategy.



Yili—
Striving for better disclosure practices in emerging markets
by Conviction Equities

We reached out to Yili ahead of the Special General Meeting in Q3 2023 for further clarification on its stock ownership plan for 2023, as there were concerns about the lack of disclosure of performance hurdles and the short lock-up period.

We typically look for best practice disclosure, such as far-reaching performance criteria and vesting conditions, as well as pay attention to the timing of proposal as we expect these to be proposed in line with yearly earnings rather than halfway through the financial year, where performance hurdles can be misguided.

The company explained that the proposed stock ownership plan is not a stock incentive plan or an employee stock purchase plan. The stocks awarded to the employees are not on top of their basic remuneration, but they form part of the remuneration – to be paid partly in cash and stocks. Therefore, it is not required to disclose a performance hurdle, and the one-year lock-up period complies with local regulations. However, there remains concerns about additional expenses and a reduction in net profit during the amortization period. After consideration, mtx decided to vote against management and used the opportunity to share examples of best practices on the A-share market, encouraging the company to follow such best disclosure practices in the future.

Flutter Entertainment Plc—
Highlighting the importance of a diverse board
by Quality Growth

Our policy called for a vote against the re-election of Chair Gary McGann because of the less than 10 percent racial / ethnic diversity (only 1 out of 12 members is a minority). We discussed the issue with the board secretary. Flutter's annual report contained some information about how the Board worked hard to improve gender diversity (e.g., recruiting from a shortlist of only women) but had no specifics on how to improve the racial/ethnic diversity. We discussed our reasoning behind this vote based on our policy and the work to be done by Flutter in this space.

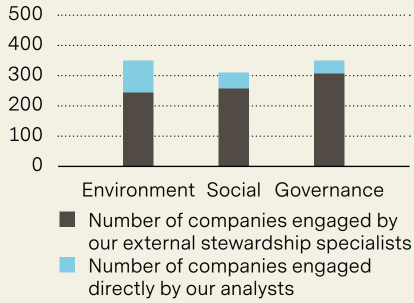
Engagement highlights

657 companies [1,2]

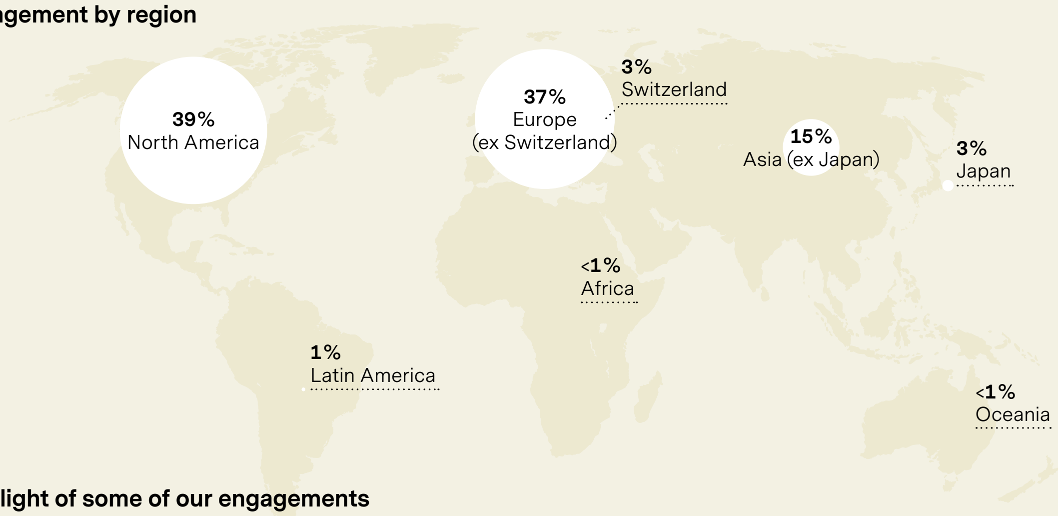
In total, we engaged with 657 companies, either directly (553 companies) or collaboratively using the services of external stewardship experts (118 companies).[3] More information about these collaborative engagement activities can be found on page 5 and a collaborative engagement case study can be found on page 18. For 51 companies, we conducted at least fact-finding engagement activities. An example of such an engagement can be found on page 27. Our engagements tackled environmental, social, and governance-related topics, as displayed on the right, and most engagements took place in North America and in Europe.

Engagement by theme [2,3]

In number of companies



Engagement by region



Highlight of some of our engagements

On the following pages, we provide several deep dives on engagements that took place in 2023.

[1] We would like to highlight that these statistics are only comparable to a limited extent to 2021 figures as we have been integrating the engagement activities of our TwentyFour in this report for the second time. More information about TwentyFour's activities in 2021 and 2022 can be found under twentyfouram.com/uk-stewardship-code.

[2] These statistics include engagement activities conducted by our stewardship partner, reo®. The figures presented include only companies in which our financial products were invested. This external stewardship specialist engages beyond our investee companies.

[3] Expressed as per number of companies. The aggregate of these figures does not equal the total number of companies covered by our engagement statistics for two reasons: 1. some companies have been subject to engagement activities relating to more than one topic. 2. Some companies are both part of our engagement activities and that of our external engagement experts.

Case study

Biodiversity within the healthcare industry

Sector
Healthcare services

Engagement
Individual

Status
Ongoing

Engager
Quality Growth

Issuers
Roche, Sanofi

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Environment:
– Natural resource use / impact (e.g., water, biodiversity)

Rationale and context
As part of our long-term engagement campaign on biodiversity, we have seen companies facing more material risk from regulatory pressures, massive (and expanding) global consumption, and increasingly stressed agricultural environments. Pharmaceutical companies tend to have high biodiversity footprints due to the use of agricultural commodity derivatives as ingredients. In 2023, we had the opportunity to speak with two global pharmaceutical companies on this subject.

Engagement's objective
We believe this engagement is material for us as investors for two primary reasons:
– To ensure companies are aware of the issues and are working to minimize the intensity of their biodiversity footprints in supply chains.
– To reduce the risk of an efficient company becoming vilified by market commentators simply because it has a large absolute footprint. A large biodiversity footprint does not imply efficiency; the amount of land used or resources consumed for a given output could be much greater under a less efficient producer.

Methods of engagement
Meeting

Leadership level
Operational Specialist and Investor Relations

Engagement process
In 2021, we launched a multiyear engagement program focused on biodiversity. The goal of this engagement program is not only to shed light on portfolio companies with substantial biodiversity footprints but also to encourage action towards minimizing biodiversity impact. Our initial rounds of company meetings focused, for the most part, on education and awareness. Subsequent engagements focused on the progression of companies' plans since the introduction of the campaign. We spoke with a senior biodiversity expert and environmental risk assessor from a Switzerland-based global healthcare company and the investor relations manager from a France-based global healthcare company.

Outcomes
We were impressed by the Swiss company's plans to reduce its broad environmental footprint; biodiversity, specifically, is a relatively new area of focus. The company is still working to catalog its full list of agricultural ingredients and build a process to constantly update it as formulations change. The company recently formed a board-level corporate governance and sustainability committee that is linked to the executive committee and has responsibility for the company's sustainability strategy. Biodiversity is a relatively new priority for the French company. Its management is still working on cataloging the full list of ingredients and sub-ingredients across their product base and through the supply chain. We believe management needs to take a holistic approach, starting with measurement, assessing the detrimental biodiversity impact in manufacturing, sourcing ingredients, and patient disposals. We will continue to engage on this and other topics with all relevant companies in the portfolio.

Next steps
We have a long-term investment horizon, which enables us to build partnerships with management at our portfolio companies. Our engagement campaigns are engineered to track progress over time, helping management and shareholders towards their common goals.

Case study

Carbon emission reductions in real estate

Sector
Real estate

Engagement
Individual

Status
Ongoing

Engager
TwentyFour

Issuers
European residential real estate

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Environment:
- Climate change
- Pollution & Waste

Rationale and context
We had previously engaged with the company following an acquisition, which resulted in a deterioration in their environmental credentials following years of improvement. This engagement was carried out as part of our Carbon Emissions Engagement Principles, which encourage us to identify issuers with elevated emissions with whom we have an influencing relationship.

Engagement's objective
To understand the plan to address the weaker environmental profile of the acquired assets, how that fits with the broader environmental strategy, and ensure emissions reduction continues.

Methods of engagement
E-mail, meeting

Leadership level
Investor Relations and Senior Executives

Engagement process
Engaged directly with Investor Relations via email and videocall.

Outcomes
In comparison to 2020, Scope 1, 2 and 3 emissions increased by 2 percent in 2022. This rise is primarily attributed to the uptick in emissions from tenants' purchased energy (Scope 3) where electricity was from more carbon intensive sources such as coal. This was well flagged, primarily due to the energy crisis facing Europe but also due to the weaker environmental profile of the acquired portfolio.

Looking at just Scope 1 and Scope 2, emissions declined by 2 percent. This reduction is linked to their energy efficiency initiatives, transition to renewable electricity contracts, and lower district heating emission factors in Czechia compared to 2020.

Looking at 2022 compared to 2021, the company's GHG emissions decreased; however, total Scope 1 emissions increased. This was driven by the acquired portfolio in Germany that we noted, of which many properties use natural gas or oil for heating and are more polluting than their existing portfolio. On the other hand, scope 2 emissions witnessed a significant decline. This is mainly due to the new emission factors for district heating regarding a Czech portfolio, which were much lower than what we previously estimated.

In 2022, the company expanded and developed its Climate Roadmap to include a large number of properties acquired in December 2021 and during 2022 – further approved by the SBTi. These commitments aim for a 42 percent reduction in absolute scope 1, 2, and 3 GHG emissions covering downstream leased assets by 2030 compared to the 2020 baseline.

Furthermore, in the company's annual results for 2023, they reported a 10 percent decline against the 2020 baseline in total emissions (scope 1 ,2 and 3) under the SBTi methodology, highlighting material emissions reduction in 2023.

In addition to their progress on emissions, the company established energy consumption reduction targets of 2 percent annually per square meter until 2025, based on a 2019 baseline within comparable property portfolios, which resulted in an 11 percent decrease in weather-adjusted energy usage per square meter compared to 2021. This achievement was facilitated by local teams' technical expertise in enhancing energy efficiency, despite 2022's energy supply chain challenges and tenant nudging activities.

The company's water consumption goal to reduce water usage by 1 percent per square meter annually until 2030, using 2019 as a baseline, saw a successful outcome with an average 5 percent water savings in targeted buildings due to the installation of efficient fixtures and their customer nudging program - impressive progress in the first year of establishing targets.

On the social side, the company undertook to offer 5,000 apartments as inclusive housing by 2026 (covering affordable housing and social leases), supporting vulnerable groups' access to housing. Additionally, they will offer 240 inclusive jobs by 2026.

Overall, while the headwinds of the acquired portfolio and the energy crisis have hindered more significant declines in overall emissions, management continues to take measures that should result in more meaningful declines in the future. Importantly, in our early engagements, we were pointed to their five pillar plans:

1. Origin-certified renewable electricity,
2. Fuel shifts,
3. Energy provider improvements,
4. Energy efficiency improvements,
5. Encourage tenants to reduce energy.

What we have seen so far, particularly in the latest FY 2023 results, is that all pillars have been acted on and have helped improve the environmental profile.

Next steps
The direction of travel is encouraging; however, we believe more needs to be done to meet the company's 42 percent target and upgrade acquired assets. We will continue to monitor progress and re-engage in 12 months.

Case study

Promoting strong environmental policies and targets

Sector
Financial services

Engagement
Individual

Status
Ongoing

Engager
TwentyFour

Issuers
UK-based bank

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Environment:
– Climate Change

Rationale and context
We engaged with this bank as part of our ongoing Carbon Emissions Engagement Principles where we have multi-year, ongoing engagements with certain companies to encourage strong environmental actions.

Engagement's objective
To encourage stronger environmental policies and targets in our investee companies.

Methods of engagement
E-mail

Leadership level
Senior Executives

Engagement process
This engagement started in 2021, and we have engaged every year to check on progress and to raise any concerns or queries we have with regards to the bank's policies, actions, and progress with the group treasurer and the investor relations team.

Outcomes
We wanted to see what progress the bank had made to their scope 3 coverage, their reduction targets, and to encourage them to increase their target for sustainable leaders in their business loan book, given they had already achieved their initial target.

The bank has made progress in their scope 3 coverage and now has decarbonization plans covering about 82 percent of the lending portfolio to help towards their path to net zero financing. They said they were committed to addressing the remainder of their lending portfolio in 2023. They have also agreed to increase their sustainable leaders target for the loan book to 10 percent for financial year 2027.

Next steps
We will continue to engage as part of our Carbon Emissions Engagement Principles to make sure they stay on track to deliver on their targets (and to encourage more aggressive targets where needed) and continue their journey to net zero.

Case study

Addressing environmental issues through collaborative engagement

Sector
Commercial Supplies, Construction Materials, & more

Engagement
Collaborative

Status
Ongoing

Engager
Conviction Equities: mtx

Issuers
China Jushi, Shenzhen Yuto, Inner Mongolia Yili, Alibaba, Xinyi, Huaxin, LG Chem, ENN Natural Gas, BB Seguridade Participacoes, Shenzhen Yuto Packaging Technology, Thai Beverages, Arca Continental, and more

Engagement type
A group of investors, including Vontobel, engaged with the company together.

Topic
Environment:
- Climate change
- Natural resource use / impact (e.g., water, biodiversity)

Rationale and context
Carbon emissions was a dominant theme in most of our engagements throughout 2023. We see increasing legal risks to companies that are not preparing for the low-carbon transition, as well as the growing emergence of physical climate hazards as a present or growing danger to costs or operations. We understand the very material systemic risks posed by unabated emissions and the pressing need for companies globally to move towards Paris-Aligned emissions curves for their sector.

Vontobel firmly believes that healthy biodiversity and a robust natural world play a pivotal role in fostering a dynamic and sustainable global economy and a stable geopolitical landscape. As such, mtx increasingly engaged in wider nature-related topics, with water as a dominant pressure point in focus in 2023. Mtx has considerably evolved its in-house tools and know-how to evaluate biodiversity impacts and dependencies. This internal capacity building enabled more targeted and richer conversations on how highly exposed companies are managing their nature risks.

Engagement's objective
We seek to understand the companies short- and medium-term strategies to decarbonize and their stance on the topic of climate and nature risks. Where companies appear to be unprepared in their climate strategy, we aim to maintain consistent pressure and encourage and support progress by sharing relevant material, such as peer positioning or regulatory insights.

Methods of engagement
Meetings, Conference Calls, Emails

Leadership level
Investor Relations

Engagement process
With our objective of gaining insights into the practices of firms in relation to decarbonization, we found the following trends:

1. Some companies are still reluctant to publish emissions data when not required by regulators. Nonetheless, companies often develop internal targets and action programs.
   - We experienced this in our engagements with China Jushi, Shenzhen Yuto, and Inner Mongolia Yili.

2. Regulation is the primary motivator of action. Companies are keeping an eye on when their industry is due to fall under a national carbon emissions scheme and are preparing but not acting today.
   - Alibaba, in preparation for regulatory emissions in the ICT sector, has the target for its own operations to become (scope 1 and 2) carbon neutral by 2030. It expects emissions to continue to rise in the near term and therefore focuses on slowing the rate of emissions growth via energy efficiency enhancements.
   - Xinyi, a Chinese glass manufacturer, and China Jushi, in the glass fiber sector, both noted that their industries were not due to be covered by the China emissions trading scheme, which deflated their emissions reduction pressure.

   - Huaxin, a Chinese cement maker, is covered by various ETS pilot projects, but the free allowances are enough that it has no emission credits to purchase, and it doesn't forecast much impact at a national carbon trading level based on its emissions profile among peers.

3. Many companies anchor their net zero ambition to their government's timetable. However, some are more ambitious, especially when faced with lower energy-switching.
   - Like many Chinese firms, Xinyi's net-zero statement is a general one to fall in line with the government's 2060 target and has (only) a 1 percent intensity reduction target for 2023, having already dealt with the low-hanging fruit of solar rooftops and waste heat to electricity.
   - Huaxin also follows the 2060 national target and has made efforts in terms of alternative (to coal) fuel use (now 15 percent) and lowering the clinker ratio, but more expensive measures like carbon capture seem distant without any regulatory pressure.
   - China Jushi, however, plans to be 5-10 years ahead of national targets, and has some investment in renewables (<5 percent electricity use) and some natural gas use was swapped to electricity.
   - Others, like Longi Green Energy (a Chinese solar PV manufacturer), target zero-carbon operations as early as 2028.

4. Scope 3 of carbon emissions is a notable challenge for many of our engagers.
   - Alibaba, whose scope 3 emissions dominate overall emissions, has developed a pioneering measurement approach with data disclosure in 8 out of 15 categories of scope 3 emissions. In our engagement, Alibaba discussed the difficulty of cost-efficient solutions in scope 3. One solution is to promote sustainable consumption via its carbon ledger platform, which provides information on the carbon footprint of currently 1.8 million products. The aim is to promote awareness and green behavior and consumption among merchants and consumers.
   - Others, like Xinyi, note that they struggle to obtain carbon data in both their upstream and downstream value chains, thus impeding the challenge of tackling scope 3 emissions.
   - LG Chem, a Korean chemical company, has a commitment to set an SBTi net-zero target and is incorporating scope 3 emissions, but faces challenges in upstream feedstock emissions.

5. Several companies take the approach of divestment from high-emitting business parts as part of their decarbonizing strategies.
   - LG Chem sells off old, dirty plants.
   - ENN Natural Gas, a Chinese utility firm, has sold its coal business and is planning to sell its methanol business. 90 percent of its energy use comes from coal, and it has meaningful (intensity) reduction targets. More specifically, 10 percent by 2025 for natural gas distribution and 20 percent by 2025 to 50 percent by 2030 for natural gas production. It is building a carbon-neutral LNG terminal and other innovations for cold energy utilization. These are used to support clients with their own net-zero targets.

6. Physical risks of climate change are addressed by many companies, as climate hazards are no longer some distant threats. We also see this topic increasingly being discussed in sustainability reports.
   - For companies like Xinyi, this was being addressed through proactive insurance coverage.
   - For insurers, such as BB Seguridade Participacoes from Brazil with large agriculture coverage, the discussion was on how they diversify their exposure to climate hazards.
   - China Jushi said climate risk is most relevant when selecting a new plant location, whereas for existing plants, it mitigates acute climate hazards by improving the stability of factory construction, drainage, and ventilation capabilities through good engineering design to ensure the safety of facilities and employees.
   - Longi's plant in Yunnan province, a water scarce area, was powered by coal which requires high water use for cooling. It made this plant 99 percent renewable powered and so more production secure even in times of drought.

7. For nature-related risks, the most pressing topic that repeatedly came up was the importance of water management.
   - With Shenzhen Yuto Packaging Technology, the discussion was at data collection and disclosure level.
   - For water intensive businesses, such as Inner Mongolia Yili (Chinese diary producer), Thai Beverages (beer & spirits company), and Arca Continental (soft drinks esp. Coca-Cola), we discussed their targets and plans on water consumption and water risk management. For these companies the conversation moved to the discussion of regenerative agriculture practices and actions for replenishment of watersheds.
   - In the case of Arca, it has taken several actions to mitigate its operational impact and contribute to healthier ecosystems in the region of activity. It has ratcheting targets for water input and beverage output ratio and seeks full recyclability of operational water use. It offsets its consumption of water that cannot be recycled by investing in solutions that restore watersheds within Mexico in partnership with NGOs and the government. They adopt a dynamic production approach whereby plant capacity shifts in response to water stress / surplus across the different operating locations. Thereby, they can respond to the seasonality of water availability.

Outcomes
The output of these conversations is to show our concern on these topics and inform them that these answers are important to us as investors and in our investment evaluations. We firmly believe that these conversations, together with those of other investors, provide compounding pressure that can have the power to influence and accelerate climate and nature positive action. In these many and varied conversations, we learned about their strategies and the quality of management on the topics. We note the large spread of positioning from defensive positions on disclosure to full SBTi-approved net-zero plans. The impact of regulatory pressure is clear, but we also see how larger (and foreign market facing) firms are more progressive even without strong regulatory drivers.

Next steps
Our 2024 engagement plan will continue to have decarbonization as a dominant theme. For companies where their climate answers were insufficient, we plan to continue to apply pressure as well as more supporting reasons for action. Mtx has built a carbon transition assessment framework, based on the structure and advice of TCFD and a biodiversity assessment framework utilizing TNFD, among other sources. We will use these assessment tools to inform more structured and progressive conversations in the year ahead.

Case study

Controversy flag due to gas explosion

Sector
Gas network operators

Engagement
Individual

Status
Ongoing

Engager
TwentyFour

Issuers
UK-based gas network operator

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Social:
- Conduct, culture, and ethics
- Human and labor rights
- Public Health

Governance:
- Board effectiveness

Rationale and context
We were reviewing the business ahead of their new issue. While we liked the credit from a fundamental standpoint, a recent controversy was cause for concern.

The background of the controversy was the fatality following a gas explosion from one of the company's pipelines and it was claimed that prior to the incident 18 calls were made from nearby residents about the smell of gas which were not addressed by the company. Given the severity of this controversy we decided to engage.

Engagement's objective
We engaged on a number of points related to this, but mainly why it happened, remedial efforts, community support, and the size of the potential future financial liability. We wanted to establish whether the incident was the result of deeper governance issues, particularly given the allegations that efforts were made to report the issue to the company but were not acted on.

Methods of engagement
Meeting

Leadership level
Investor Relations and Senior Executives

Engagement process
We communicated our concerns to the company at their roadshow and through the syndicate.

Outcomes
The incident is still under investigation by the police and the company; therefore, management could not comment on any further details. Additionally, due to the early stage of the investigation, it is not possible for management to reliably estimate the financial impact or timing of any future liability.

We believe too many unknowns remain, and we remain particularly concerned that there may be governance issues that led to customer concerns being ignored.

While this was not necessarily the outcome we were hoping for, it was highly informative for our ESG analysis and investment decision.

Next steps
Following our engagement, we decided not to invest in the company at this stage and will re-engage with the company.

Case study

Western semiconductor products found in Russian missiles

Sector	Engagement	Status
Semiconductors & Equipment	Individual	Concluded successfully

Engager
Conviction Equities: Impact Investments

Issuers
NXP Semiconductors

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Social:
- Human and labor rights (e.g., supply chain rights, community relations)

Strategy, Financial and Reporting:
- Corporate reporting (e.g., audit, accounting, sustainability reporting)
- Firm strategy/purpose
- Risk management (e.g., operational risks, cyber/information security, product risks)

Rationale and context
According to a report from the Royal United Services Institute ("RUSI"), NXP products were identified in weapons used by Russia in the Russia-Ukraine war that ensued in February 2022. NXP products highlighted in the RUSI report include (i) general purpose microcontrollers and (ii) pressure sensors.

Engagement's objective
- Ensure that NXP adheres to all minimum social safeguards and does no significant harm according to SFDR, the UN Global Compact and OECD guidelines.
- Reconfirm and deepen our understanding of NXP's products, their application, and NXP's distribution network.
- Understand how NXP has adapted in response to emerging risks, especially the decline of adherence to human rights on behalf of the Russian state.

Methods of engagement
E-mail

Leadership level
Investor Relations and Senior Executives

Engagement process
We sent an e-mail to the NXP IR, CSR and EHS teams in August 2023, requesting answers or statements regarding their human rights practices, including a dedicated policy, risk assessment, risk management, governance and due diligence. Especially in the context of the Russian invasion of Ukraine and the release of the RUSI report.

Outcomes
- No NXP product is designed for military use or weapons manufacturing. What Russian weapons manufacturers have obtained are entirely generic products.
- Some of the mentioned NXP products are old. Their presence in Russian weapons is an understandable consequence of the fact that until 2014, trade with Russia was normal, and even as of today, few NXP products are under any export control.
- NXP has taken a suite of actions to complement its routine audit and evaluation procedures. This included an investigation to trace the mentioned products from NXP to the Russian weapons manufacturers. NXP has also ceased all operations in Russia as of February 2022. NXP's general trade compliance measures include preemption, monitoring, and audit. NXP educates the distributors on human rights and the importance of trade compliance.
- Our assessment of NXP's conduct reflects that it is a responsible company that is compliant with all relevant laws, rules, regulations, and norms. NXP has a comprehensive and robust approach to managing human rights risks. NXP is prudent, as they voluntarily refrain from doing business even in partially embargoed countries. The mention of NXP in the RUSI report is not evidence of wrongdoing or a violation of any norms.

Based on all these findings and our overall assessment, we consider NXP to be compliant with the UNGC and OECD guidelines. Therefore, we reiterate our positive view of NXP and remain invested in the company.

Case study

Assessing activities related to military contracts

Sector	Engagement	Status
Commercial Services & Supplies	Individual	Concluded successfully

Engager
Conviction Equities: Impact Investments

Issuers
Tetra Tech

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Social:
- Conduct, culture, and ethics (e.g., tax, anti-bribery, lobbying)

Strategy, Financial and Reporting:
- Corporate reporting (e.g., audit, accounting, sustainability reporting)

Rationale and context
Assessment of a possible application of the Danish export ban on any export of weapons to Saudi Arabia and military-related activities of TTEK more broadly.

Engagement's objective
We want to understand the type of engineering services TTEK carries out on behalf of several departments of defense.

Methods of engagement
E-mail, meeting

Leadership level
Investor Relations and Senior Executives

Engagement process
We approached the company via e-mail in April 2023, asking for further details on such kind of services. What kind of activities do their engineering services comprise? Do they implicitly contain any weapon-related services?

Outcomes
They carefully replied to our questions. In addition, we had a one-hour conversation with company executives in June. This made it clear to us that TTEK is a specialized provider of civil engineering services, typically for purposes such as water management, environmental protection and remediation, energy production, climate change mitigation, disaster recovery, ice engineering and winter roads, government IT, etc. TTEK does not manufacture weapons, components of weapons, or dual-use military equipment.

Based on all these findings and our overall assessment, we believe that TTEK is an impactful company, complying with all our internal guidelines and adhering to the SFDR requirements of a sustainable investment. Therefore, we reiterate our positive view of TTEK and remain invested in the company.

Case study

Promoting gender diversity of the board

Sector
Financial services

Engagement
Individual

Status
Concluded successfully

Engager
TwentyFour

Issuers
Large UK-based bank

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Social:
– Human capital management (e.g., inclusion and diversity, employee terms, safety)

Rationale and context
We engaged with this bank because they did not meet the FCA target to have 40 percent women on their board.

Engagement's objective
We wanted to establish what this bank was doing to address their board representation issues, and to stress to them the importance of DE&I and good representation for us as investors.

Methods of engagement
E-mail

Leadership level
Investor Relations

Engagement process
We reached out to investor relations directly and we received a quick and thorough response from the team.

Outcomes
We were pleased with the prompt and explanatory response from the bank. The bank advised that they were intending to address the issue promptly and be compliant with the target by the end of the year. We learned in Q3 2023 that they had appointed two women to the board; they now have 50 percent female board members.

Case studies

Fair executive remuneration

Sector	Engagement	Status
Professional Services	Individual	Ongoing

Engager
Conviction Equities: Swiss Equities team

Issuers
Adecco

Engagement type
1:1 Vontobel got in touch with the companies directly

Topic
Governance:
– Remuneration

Rationale and context
We believe remuneration is appropriate when it is aligned with that of a peer group and does not exceed a predefined amount. Adecco was one of the companies where we identified potential for improvement. In fact, the total variable remuneration of the executive management corresponds to 467 percent of the base salaries, which largely exceeds our predefined limits.

Engagement's objective
The objective of our engagement activities was to raise awareness on the topic of remuneration with senior executives of Adecco and to trigger improvements to their remuneration structure. More specifically, we believe that the total variable remuneration of the CEO as well as that of the other executives should be in relation to the base salaries.

Methods of engagement
Meeting

Leadership level
Senior executives

Engagement process
In February 2023, we addressed the remuneration topic in a one-on-one meeting with the Chairman. During this meeting, we brought up our main argument, which is that the CEO's compensation is excessive in comparison to Adecco's peer group. The Chairman did not agree with the selected peers used to benchmark Adecco. Additionally, he proposed a discussion with the Chair of the Compensation Committee. Unfortunately, this did not materialize due to scheduling conflicts.

Following our and other shareholders' feedback, Adecco provided additional context in the form of a shareholder letter ahead of the AGM on their remuneration decisions and committed to rebalance and align their CEO pay closer to shareholder expectations. More specifically, the base salary of the CEO was adjusted downward by 13 percent (from CHF 1.5 million to CHF 1.3 million). In addition, the variable remuneration was adjusted upwards to 72 percent (from 69 percent) at target. A first successful step was reached.

At Adecco's AGM in April 2023, only 56 percent of its shareholders approved the Remuneration Report 2022. While Adecco made commitments to rebalance the CEO pay, we decided to vote against this voting item as there are other aspects that still do not correspond to our expectations. For example, the maximum amount that can be paid out in case of overachievement of targets significantly exceeds the amount requested at the AGM because the amount requested excluded the leverage of the long-term plan. Therefore, there is a possibility that the remuneration that will be paid out exceeds the amount approved by the shareholders.

Outcomes
Adecco has been proactive by writing the shareholder letter prior to the AGM and has made some improvements in regards to their executives' remuneration. However, this is only the first step.

Next steps
As a next step, we will address this issue again in a meeting with the Chairman at the beginning of 2024, and we aim to set up a meeting with the Chair of the Compensation Committee. More broadly, we will continue to address remuneration issues with Adecco's board members on a regular basis in order to succeed in further aligning the remuneration with shareholder expectations.

Sector
Diversified Financials / Restaurants

Engagement
Individual

Status
Ongoing

Engager
Quality Growth

Issuers
LSEG, Yum China

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Governance:
- Remuneration

Rationale and context
We are seeing companies becoming more proactive and reaching out to us for further conversations around establishing or evolving sustainability goals. In both instances, the company reached out to us to discuss their executive compensation plans.

Engagement's objective
At Quality Growth, as a guideline, we look for total executive compensation to be below 2 percent of pre-tax profit. However, we do recognize that specific circumstances warrant deviations from time to time. Hence the need for direct engagement.

Methods of engagement
Meeting

Leadership level
Investor Relations and Board directors

Engagement process
The US stands apart from all other countries when it comes to the level of compensation, whether measured relative to revenues, profits, or median wages. Non-US companies operating in the US face the challenge of having to sometimes pay US-based executives more than those more senior back home. History provides plenty of data to indicate whether elevated pay and share-based compensation have been beneficial to shareholders. As stewards of our clients' capital, it is our ongoing responsibility to monitor executive compensation across all portfolio companies. In these specific engagements, we spoke with representatives from the companies' boards, remuneration committees, and investor relations teams.

Outcomes
Our "High Quality Growth at a Sensible Price" philosophy is based on stable underlying earnings growth with reasonable predictability over the long term. To support these goals, our approach is backed by active stewardship, which we view as the combination of deep bottom-up research, direct engagement, and the independent exercise of votes, which we regard as central to an investor / operator relationship. Say-on-pay policies, which allow shareholders to have a non-binding vote on executive compensation, have been in place in the US, Australia, and UK for some time, while EU countries have implemented similar policies more recently. While non-binding, they do seem to be having an impact where companies will look to proactively engage with shareholders and try to build support from their larger shareholders, before the AGM. We will continue to leverage these opportunities to continue to be active stewards of our clients' capital.

Case study

Dealing with surprise CEO departures

Sector
Health care equipment / Commercial services

Engagement
Individual

Status
Concluded successfully

Engager
Quality Growth

Issuers
Lonza, RB Global

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Governance:
– Leadership—Chair / CEO

Rationale and context
In 3Q 2023 there were three surprise CEO departures from companies held across the Quality Growth platform (~180 in total). The number of surprise departures may seem low, but is above average, especially over the course of one quarter.

Engagement's objective
Given this unusual number of surprise CEO departures, we engaged with two of the three companies to help us determine if these events represented red flag warnings of deeper issues to investigate further or sensible business decisions by the board.

Methods of engagement
Meeting

Leadership level
Board Directors and Senior Executives

Engagement process
We engaged with a previous C-suite executive from a European healthcare company, and the Board Chair of a North American heavy industrial equipment auctioneer. We spoke with both about the sudden CEO departures. These were isolated events that should not require any escalation.

Outcomes
Sudden CEO departures, while rare, can be the result of fundamental problems or more personal disagreements between board and executive. As investors, these events constitute new information that needs to be researched and the investment thesis retested. The CEO is selected and retained by the Board, and the Board is led by its Chair. A Chair with the experience and capability of spearheading a search for an effective CEO replacement is important. It is also a justification for the separation of Chair and CEO roles. In these instances, miscommunication between management and the board seems to have been at the heart of the problem.

Though these were isolated events that should not require any escalation, these events did serve as a reminder of the importance, in most cases, of the separation of Chair and CEO roles.

Case study

Royalty payments to the controlling shareholder

Sector
Household & Personal Products

Engagement
Individual

Status
Concluded successfully

Engager
Quality Growth

Issuers
Hindustan Unilever

Engagement type
1:1 Vontobel got in touch with the company directly

Topic
Governance:
- Shareholder rights

Rationale and context
We wanted more information on royalty payments from the listed Indian subsidiary of its controlling shareholder, domiciled in the United Kingdom.

Engagement's objective
When the new royalty agreement was announced, we were concerned that the value of our holdings in the subsidiary could be negatively impacted. We had four main questions:
- Will minority shareholders have a chance to approve the deal?
- How were the rates established?
- Why was the contract term shortened to 5 years from 10 years last time?
- What rails are in place to limit how far future rates could go?

Methods of engagement
Meeting

Engagement process
We held calls with the CFO of the subsidiary in question, followed by a call with the Chair of the parent company. The subsidiary's CFO was particularly helpful in addressing our main concerns.

Outcomes
Our questions were answered to our satisfaction. Specifically on shareholder rights, the CFO explained that the increase in brand royalties was not large enough to justify a shareholder vote under local law, and they only need board approval, which they already have. However, the increase in the central services agreement is large enough to require a vote, and this is planned for the company's next AGM.

Next steps
We will continue to monitor these payments. Part of our comfort that future negotiations will remain fair is that the subsidiary and parent company have a solid mutual benefit from both companies operating effectively. The subsidiary accounts for a large proportion of the parent company's value and gains great benefit from the centralized services provided by the mothership, helping drive future growth. At this point, we felt comfortable with the approach taken and the pricing agreed to, given the elevated value of services provided by the parent company since the last contract.

Case study

Promoting users' digital rights

Sector
Interactive
Media & Services

Engagement
Collaborative

Status
Ongoing

Engager
Conviction Equities: mtx

Issuers
Tencent Holdings

Engagement type
A group of investors, including Vontobel, engaged with the company together.

Topic
Governance:
– Company Strategy

Rationale and context
Information and communication technology (ICT) companies hold swathes of valuable data about their users that can be monetized or used in various ways, including by authorities. This puts primacy on the need for ICT to establish strong policies and practices to defend our digital rights—our human rights in the online context, especially freedom of expression, data privacy, and control over our own data.

We expect internet companies to have policies to prevent the spread of misinformation, viral hate speech, illegal surveillance, and discrimination, including algorithmic biases based on ethnicity and gender. Salient human rights risks are currently posed by the misuse of data and online platforms. Along with other investors and using the guidelines of the Investor Alliance for Human Rights (IAHR), we have increasingly been engaging with our internet platform companies on these topics. We wish to convey our expectations for transparency and accountability for their human rights commitments and to implement human rights due diligence processes across all their business activities. In our engagements, we also follow the learnings from the Ranking Digital Rights (RDR) evaluations.

In August 2022, Sustainalytics downgraded Tencent's compliance with the UN Global Compact (UNGC) from Watchlist to Non-Compliant under Principle 2, "Businesses should ensure that they are not complicit in human rights abuses". Their decision was based on the widened scope of censorship and surveillance in China and Tencent's role as the largest social media platform operator in China. Additionally, they expressed low confidence in the companies' management of the issue owing to low transparency and some governmental links. For UNGC assessments, we also look to MSCI, which put Tencent on their UNGC watchlist owing to the firm's indirect role in human rights abuse by abiding by Chinese laws on internet governance. These assessments triggered intensive research by mtx on digital rights and human rights in the context of internet businesses and on relevant international and domestic laws. We spoke with numerous stakeholders, academics, NGOs, brokers, RDR, IAHR and repeatedly with Tencent itself. We concluded that Tencent has limited options to opt out of its obligations under domestic laws; nevertheless, we identified various areas where specific improvements seemed achievable. This was therefore the basis of our engagement campaign, which started in 2022 and continued into 2023.

Engagement's objective
Our primary engagement objective with Tencent is for greater transparency on digital rights, with four core objectives:
- Formulate a robust Human Rights / Freedom of Expression policy with strong implementation and governance mechanisms. This includes conducting human rights due diligence & risk assessment across all products and regions, including risks posed by government regulations. Governance includes handling mechanisms for censorship/surveillance government data requests and publishing how the legality of data requests are validated. Harms should be mitigated, such as by avoiding discretion and subjectivity, notifying users when impacted, and establishing appeals avenues.
- Maximize transparency in how policies are implemented. We expect a transparent annual reporting of statistics on content censored or shared. The scope should be beyond false adverts, frauds, etc. and include topics censored under government agency request.

- Give users meaningful control over their data (and the data inferred about them). This means affording clear options to access and control their own data, including if and how it is used and access to remedy when needed. It should include a public declaration on the forbiddance of back-door access to private data.
- Account for harms that stem from algorithms and targeted advertising—focus on governance in the use of AI and compliance with emerging standards.

Methods of engagement
Meetings, Conference calls

Leadership level
Investor Relations and Senior Executives

Engagement process
In 2022, mtx held three engagements with Tencent on digital rights, where mtx provided the company with examples of domestic best practices in content moderation disclosure and human rights policies and awaited to see promised improvement in the company's 2023 ESG report. In 2023, mtx continued its direct engagement campaign as well as widening it to a collaborative engagement strategy, including liaising with Vontobel's engagement partner, Columbia Threadneedle Responsible Engagement Overlay (reo®). In summary, our engagement activities (direct and collaborative) in 2023 were:

January
- Reo®'s engagement call with Tencent's investor relations team, expressing the need for centralized and accessible policies on data privacy and security to transparently disclose their compliance with human rights.
- Reo® then followed up with an email encouraging human rights due diligence throughout the supply chain and operations as well as data disclosure on government data requests.

February
- Mtx joins as co-lead for digital rights under IAHR's collective engagement plan. Preparatory meetings between the three co-leads and Ranking Digital Rights specialists are held.

March
- IAHR collaborative engagement are held with three other asset managers and Tencent's investor relations team. The aim was to learn more about what Tencent already has in place in regards to content moderation mechanisms, data privacy policies, handling procedures for government data requests, and users' digital rights and data control, as well as to communicate ideas and best practices on these topics. The RDR index provided context on the digital rights issues with a high level of objectivity, allowing Tencent to understand its ranking against peers. We learned that Tencent has implemented some enhancements, such as users' explicit authorization for data sharing and opting out of location tracking on its platforms. We anticipate improved disclosures in the new ESG report.
- Mtx meets Tencent in a one-to-one meeting in their Hong Kong's offices with their vice general manager and investor relations lead. The discussion focused on the topics of regulation tightening, golden shares and ESG developments, including board diversity and progress on company becoming a UNGC signatory.
- As part of the Asia Corporate Governance Association (ACGA) China Working Group, Reo® took part in a collaborative engagement meeting with Tencent's independent director on various ESG topics, including the challenge of complying with local regulatory requirements and their plans to make their policies on data collection and facial recognition technology more readily accessible to users.

April
- Reo®'s in-person meeting with Tencent's investor relations team. Tencent has now consolidated its product specific ESG policies on its website, and its ESG governance body oversees AI governance. They described their practical application of their responsible AI principles, such as their protection of minors, their AI usage to generate photos, their human-led feedback loop mechanisms, their improvements in training data, and their legal team's and ethical AI's involvement in sensitive AI use-cases. The policy works to strengthen their AI data security. On data privacy, it was disappointing that the company could not provide an update regarding its independent oversight privacy protection board, which now has stalled.
- Tencent released their 2022 ESG report and an AI whitepaper in Chinese, which was reviewed by mtx. We noted some positive improvements in the recently published ESG report, including the establishment of a management taskforce on user privacy and cybersecurity, a taskforce on data compliance management, an assessment on privacy impacts, the collection of data for stated purposes, the disclosure on content moderation mechanisms and the disclosure of statistics on the removal of harmful contents.

May
- Mtx and our IAHR collaborative engagement partners provide written feedback to Tencent after reviewing its ESG Report 2022. We acknowledge Tencent's efforts on disclosing their content moderation mechanism and for making their data and privacy policies accessible on their website. We suggest further improvements such as disclosing a granular breakdown of their moderated content, the volume of removed content, and a description of the processes to identify forbidden content. We also suggest that their data protection policies and procedures are audited internally and externally. As Tencent is in the process of becoming a member of the United Nation Global Compact (UNGC), we encourage Tencent to formalize a human right policy.

- Tencent's AGM and EGM takes place. Prior to the AGM, mtx reached out to the company for information on various ballot items on which our proxy voters recommended us to vote against. We received clarifications from Tencent on these points and, after responding to us, the investor relations team made the information public by an email to all investors. We felt the information was sufficient to warrant supporting votes in the relevant meeting items, for example, we voted for the newly appointed independent social policy expert on the board. We nevertheless wished to send a message of discontent on the slow progress regarding our previously raised human rights concerns, which was communicated by Reo® via a letter to Tencent following the AGM.

August
- Tencent becomes a member of the UNGC. We also noted wider ESG improvements, including a new anti-fraud department that operates independently and reports directly to its audit committee, a public DEI commitment to increasing female workers, and a 2030 carbon neutral target with absolute emissions reduction targets (all scopes) that are validated by Science Based Target Initiative (SBTi).

September
- Mtx had a second collaborative engagement meeting together with our IAHR fellow investors with focus on Tencent's preparedness for the EU's CSRD, their improved disclosure on data privacy impact assessment, and their content moderation process. The IAHR group felt that Tencent has become more receptive to our feedback, and we acknowledged that becoming a UNGC signatory was a major milestone. Tencent has established a committee to monitor compliance with the UNGC, and it halved the opt-out steps for data tracking and made improvements on data privacy assessment using AI integration with controls at each stage of the data governance cycle. It recognizes that AI standards are evolving, and it is working to balance the public need for transparency and confidentiality, and investors can expect more detailed disclosure in the next ESG report. The IAHR group followed up by providing peer examples on content moderation and AI ethics disclosures.

Outcomes
Over the course of 2023, Tencent made some notable improvements on ESG and the digital rights topic specifically. These actions seem to be in clear part due to investor pressure, including our own. We summarize below the key developments:
- Policies relating to data privacy and state data requests are now centralized and publicly available.
- ESG report increased disclosure/statistics of moderated content—but not relating to state-led censored or shared content.
- Wexin (the China domestic version of WeChat) now has the same data policies as WeChat and QQ and include notification to users when personal identifying information is shared and explicit authorization by users is required to consent to data sharing and opting out of location tracking of mini programs.
- Tencent now has a public Government Request policy which overviews how official requests are received, reviewed, and responded to, and how users are notified to protect users' rights and privacy. Any data requests from public authorities require that body to provide the specific legal basis. If the authority believes that user notification would jeopardize their investigation, they must first obtain an appropriate court order to override notification of users.
- Better understanding on process for content moderation: hybrid model for screening (machine) and classifying (human) big data for suspicious accounts and activities. Some objectivity but human discretion still present. Still no clarity on state driven sensitive topics.
- Enhancements to ESG governance, including a new ESG Co-ordination Office, chaired by CEO/CFO.
- Publication of Explainable AI whitepaper. The report presented the concept, regulatory policies, development trends and industry practices. It also put forward suggestions for future development of AI. Tencent fully incorporated practice of explainable AI into its products.
- Corporate Governance: In the 2023 AGM board independence rose to 63 percent (from 50 percent).
- UNGC Signatory with improved governance mechanisms to support compliance.

Next steps
On human rights protection, Tencent has not yet formulated a public human rights policy, but we expect demonstrable improvement now that it is a UNGC signatory. We will monitor Tencent's annual reporting in relation to its UNGC commitment. We recognize that the fundamental issue of data sharing with government authorities is basically unsolvable, and improvement in disclosure is the best we can continue to press for. We hope that the IAHR working group on digital rights will continue to engage with Tencent on digital rights, as there is still room for improvement and the dual approach of bilateral and collective engagement has worked well.

As we look forward, we see the varied issues surrounding AI as paramount for this vast data company. Our 2024 engagement will focus on the topic of compliance with AI standards and internal governance to define and ensure "ethical AI" practices. Decarbonization and monitoring progress on Tencent's net-zero commitments will also be added to the 2024 agenda.

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