

Voting and engagement report

2022

Overview

As a signatory to the UN Principles for Responsible Investment, Vontobel Group commits to being an active owner and to incorporate environmental, social, and corporate governance (ESG) issues into its ownership policies and practices. We believe active ownership adds value between long-term partners. At the same time, we are convinced that voting and engagement can have a positive influence on companies, economies, societies, and the environment.

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

Voting

Voting overview

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

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

The scope of our voting policy covers all actively managed funds and discretionary mandates managed by Vontobel Asset Management unless we have not been authorized to vote on behalf of clients in relation to the assets managed.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. This voting policy follows, among others, the recommendation for best practice on corporate governance published by the European Fund and Asset Management Association.

Use of proxy voting advisors across our investment solutions

Vontobel Asset Management 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 Asset Management.

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 2022, 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.

End of 2021, we reviewed our provider pool for active ownership services and the changes became effective beginning of 2022. More information about the changes can be found on page 3.

Voting process

When selecting a voting service provider, we pay particular attention to the voting principles they follow. With this approach, the vote recommendations we receive reflect the convictions of the respective investment strategies.

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 coordinate these aspects and the related processes.

Due diligence of the proxy voting advisors' services is regularly performed on the services used, as described in our ESG integration report (page 72) under am.vontobel.com/esginvesting.

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 analysed 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 Asset Management, 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.

Engagement

Engagement overview

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

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

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

Engagement process

As part of their fundamental research activities, our analysts and portfolio managers engage with the management of companies informally on relevant topics. ESG topics are not covered in all company reports or by all our research providers. Therefore, we carry out informal fact-finding engagements to better understand a company's sustainability performance and standards (e.g., its governance policies or environmental performance). This may include assessing the impact of its products and services on the environment—for example by looking at whether they can help to reduce or eliminate carbon emissions. An example is the questionnaire sent for our Listed Impact strategies. In certain circumstances, investment teams may take a more targeted and focused approach, depending on the circumstances and the nature of the situation, and raise concerns on specific topics with companies. Some examples are included in this report starting from page 12.

Collaborative engagement activities

In addition to direct engagement activities, for certain strategies, we also partner with a service provider. 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 towards 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. Additionally, it facilitates our collaboration with other investors.

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 out of these engagements may be factored in our research process.

Until end of 2021, we partnered with EOS at Federated Hermes, a service provider specialized in engaging with investee companies via objectives-driven and continuous dialogue on ESG issues. We were looking to extend the use of our engagement partnerships to additional strategies and asset classes, especially fixed income portfolios, which was unfortunately not possible with EOS. As the services were not meeting our evolving needs anymore, we looked for another service provider. We conducted a due diligence on seven service providers and paid particular attention to the 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 (objectives setting, progress tracking) and the reporting offered. The outcome of the due diligence process was the choice of reo® as our new partner; reo® is a service that allows investors to receive market-leading corporate engagement on equity and corporate bond holdings, and proxy voting services with a 20+ years track record. This new partnership became effective at the beginning of 2022.

In 2022, we continued our subscription to Sustainalytics' 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. The program focuses on measures such as fair procurement practices, rigorous due diligence procedures, and improved disclosure of modern slavery cases. As a participant of this thematic engagement, we are invited to participate in regular conference calls with companies and we receive ongoing updates and a bi-annual 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, and in 2022, it engaged with 16 companies.

Escalation process

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

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

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

Voting and engagement at our boutiques

Quality Growth

Our research philosophy is based on long-term holdings of quality growth companies. Unlike short-term holders, long-term holders are more likely to see a result from governance risks over time unless these risks are addressed. We engage with company managements through a variety of communication methods including face-to-face meetings, emails, conference calls, and letters to the board and senior management. We generally engage with managements in private. Only on rare occasions would we consider making public statements on issues where we disagree. Also, from time to time, we work with other investors on issues where we believe the approach will be helpful. We choose from a range of issues and levels of engagement. Some engagements relate to company-specific issues. These range from relatively short and simple through to more involved engagements that can take an extended period of time. The other main area of engagement we work with are thematic engagement campaigns. 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 a high carbon intensity or emissions and does not appear to have a plan to reduce those emissions, it may make sense to engage (risks include regulatory, taxation and brand) even if the potential benefit will not necessarily impact the near-term business continuity or performance. However, we will 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 may choose to exit the position.

Sustainable Equities

Listed Impact Equities Team

We believe active ownership is an important tool to contribute towards sustainable economies, societies, and the environment. Also, ESG issues can materially impact the future success of a company and therefore its investment returns. Consequently, we put a strong emphasis on direct engagement with our investee companies, particularly on social and environmental issues and arising opportunities thereof. We also participate in collaborative engagement through Columbia Threadneedle reo® and exercise our voting rights as an integral part of our investment process.

Our analysts and portfolio managers directly engage with the management of companies on relevant topics as part of their fundamental research activities. For areas flagged as key ESG risks, we engage in a direct dialogue with our holdings. We state our views in a constructive fashion and encourage companies to improve their risk management practices as well as impact and sustainability. Additionally, we carry out informal fact-finding engagements as part of our structured research process—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 sustainable investment objective. Additionally, we follow the company's improvements of key indicators, especially towards their set goals. If necessary, we make recommendations on specific topics, i.e. improve their risk management practices and ESG disclosure on their products impact over their entire lifecycle.

mtx equities

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

In 2022, mtx worked on the development of an engagement plan that was implemented in 2023. This engagement plan is meant to guide our interactions with many of our holdings. Direct engagements by mtx analysts typically target high sustainability risks that can impact future cash flows, or severe underperformance relating to sustainability factors (e.g., human rights, corruption, environmental damage, etc.). mtx also targets engagements on material issues where disclosure is weak, thereby undermining mtx's ability to make an informed evaluation of sustainability risk or impact. We track progress against the pre-defined objectives. For areas flagged as key risks, we seek to understand the company's plans to manage and mitigate them. Through these consultations, we encourage companies to improve their risk management practices and ESG disclosure. We reference specific areas of improvement where these are needed. Where an invested company is flagged for serious controversies, we maintain a regular review of the evolving situation, ever vigilant of the potential need to divest if the situation is not remedied.

mtx has long been conducting fact-finding research with its investee, or prospective investee, companies but this 2023 engagement plan marks a development towards longer-term, objective-orientated, ongoing dialogue on the most pertinent ESG issues. We regularly observe that engagement based on long-established dialogue and a relationship of trust, is most effective in helping to drive structural changes. We maintain a log of our engagements, and company milestones and these are summarized in the client quarterly reporting.

For additional support in effectively exercising ownership rights, mtx has partnered with reo®, an active ownership partner specialized in providing voting recommendations and company ESG engagement. It's engagement approach is bottom-up (focusing on exceptionally poor ESG practices or severe ESG controversies), top-down (thematic) and continuous risk management (controversy focus). Such collaborative engagements allow us to exercise greater influence than the size of our holdings would otherwise permit and benefit from specialist resources and experience. An additional major benefit is that the provider will 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.

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

Fixed Income Boutique

At the Fixed Income Boutique, we consider engagement to be an important part of our investment activities. More specifically, engagement helps us mitigate data quality issues and problems arising from differences in reporting and corporate governance standards especially in high-yield and emerging markets. We speak with issuers directly to understand the quality and underlying goals of the management.

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

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

TwentyFour Asset Management¹

At TwentyFour Asset Management, we take our stewardship responsibilities seriously and look to always act in the best interests of our clients. We conduct a significant amount of due diligence on issuers with whom we invest, which enables us to avoid companies we believe do not meet our high standards in strategy, performance and/or ESG factors. As fixed income investors we do not have votes at companies’ Annual General Meetings, but this does not prevent us from engaging on behalf of our clients when we feel this is appropriate and we do not engage the services of third parties for any aspect of our engagement. As fixed income investors we do manage “corporate actions” such as consenting or not to repurchase offers, bond exchanges and covenant modifications, among other matters. The general principles of our engagements are not fund or geography-specific. As global fixed income markets are large, diverse and complex, we need to retain a dynamic approach to serving our clients’ needs. In general, we will engage on any topic as and when we feel it is in our clients’ interests and do so in the manner described below. We do not currently see the value in ‘mass mailing’ issuers as we believe targeted approaches are more effective. Having said that, we have had and continue to have some more specific “project” type engagements. For example, the filling out of our portfolios’ CO₂ intensity data. Another example is the work that our ABS team is currently involved in to encourage CLO issuers to make their loan pools in line with our sustainable screen. The ABS team is also making representations to sponsors of securitized deals to include various environmental data points as part of their reporting process.

Investment or ESG issues can arise, however, post-investment, and where we are concerned about specific matters such as governance, management or treatment of bondholders, the portfolio managers will engage with the appropriate senior management or board member of the company involved. Within our proprietary ESG model, housed in our “Observatory” portfolio management system, we have a template which enables portfolio managers to log any company engagement by the following steps: Nature of the issue of concern, Desired outcome, Engagement, Response, Action/outcome.

¹ TwentyFour Asset Management is a specialist fixed income firm based in London and New York, and an independent operating subsidiary of Vontobel. TwentyFour Asset Management is a signatory of the UK Stewardship Code 2020. More information about TwentyFour Asset Management’s approach to ESG and Stewardship can be found under twentyfouram.com/responsible-investment.

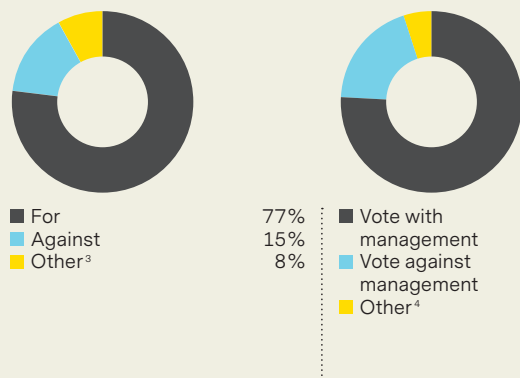
Voting highlights ¹

1,745 meetings

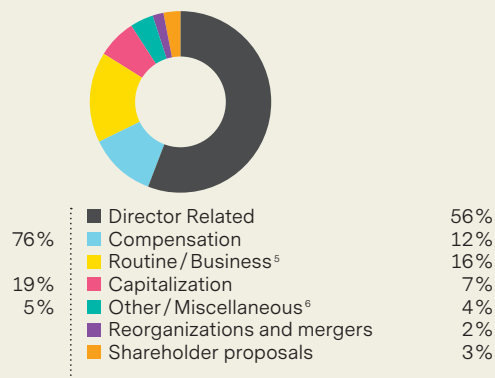
In 2022, we submitted votes at 1,745 meetings, for companies based in different regions, whereby the largest part was based in North America and in Europe. 77 percent of voting items were voted “For”, and the remaining items were voted either “Against”, “Abstain”, “Withhold”, “One Year” or “Split”. 76 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.

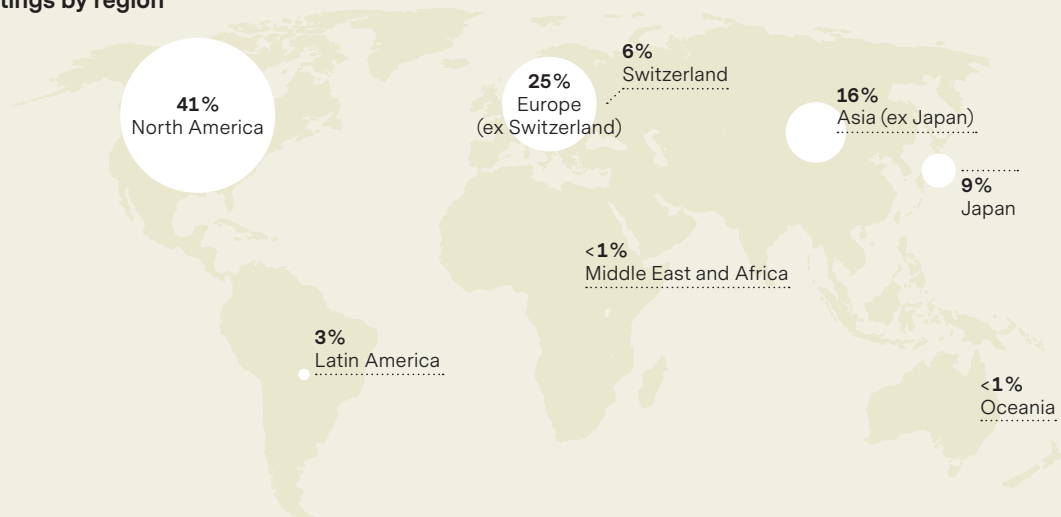
Vote Cast²



Vote by topic²



Meetings by region



¹ Scope of the voting statistics: Vontobel funds where Vontobel Asset Management 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, EOS at Federated Hermes 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”, “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 (<0.5%), company articles related voting items (approx. 2.5%) and miscellaneous voting items

Highlight of some of our voting decisions

Japan-based supermarket business—Director Vote (Against, Passed)

by Quality Growth

We voted against a Director/Audit Committee election in January 2022. The proposed candidate was a Certified Public Accountant who is employed by the company's auditing firm. While the Director was elected, we will continue to vote against independent directors who may potentially have conflicts of interest in the role.

US-headquartered financial derivatives exchange operator—Executive Pay Vote (Against, Failed)

by Quality Growth

We voted against the ratification of executive compensation for the CEO, who had received a USD 5 million discretionary bonus in connection with extending the term of his employment agreement for one year. The proxy did not disclose any clawback or repayment provisions if he were to resign or retire. Furthermore, the annual pay program's goal setting was concerning. The financial metric target used in the annual bonus was set below the prior year's actual performance for the third consecutive year, without a compelling rationale disclosed or a corresponding reduction in pay opportunity. Goal setting concerns also exist in the LTI program, as performance equity merely targets median performance. This ballot measure did not pass; we will continue to express to company management teams that variable compensation needs to be in line with well-articulated KPIs.

UK-based stock exchange—Climate Change Plan Vote (For, Passed)

by Quality Growth

We support the company's ambition to be carbon neutral across operations by 2040. The company already meets expectations in terms of disclosure and governance surrounding climate change. The reduction targets on the medium-term (by 2026 and 2030) are SBTi-approved and the company has clearly described its intended actions to achieve these targets. We continue to encourage our portfolio companies to establish realistic but challenging goals on climate change.

Vote against the management—Failure to link pay and appropriate sustainability performance

by Listed Impact Equities (Sustainable Equities Boutique)

Our investment strategy focuses on listed equities that create a positive impact for the environment and the society through their products and services. This year, we can report on our experience with our impact strategy assessment of each investee holding. We believe that the impact strategy scores on a portfolio level are very solid and support our investment approach. It helps to get a stronger conviction on each company's potential for impactful growth while raising awareness of associated risks.

One of the assessment criteria is linked to the management strategy. We analyze the major commitment to expand impactful activities—possibly combined with reduction of critical ones. One key aspect in this context is executive compensation and how it is linked to achieving certain impact and sustainability objectives. In 2022, there were 26 company AGMs where we voted against the management on agenda items that showed an apparent failure to link pay and appropriate sustainability performance. A letter was written by our stewardship partner, who represented us together with a group of shareholders, to NXP Semiconductory to highlight the rationale behind our "against" votes for five agenda items. Through this letter, we also highlighted their ongoing expectation of good corporate governance practice and set out our focus areas, which include: ethnic diversity and inclusion across the workforce and on boards; board gender diversity and diversity in the executive pipeline; climate change management practices and board oversight and impact on biodiversity; social and labor rights issues, including safe and fair treatment of the workforce and the board's approach to executive pay in this context.

Chinese Retailer—Board composition, independence and overall board quality

by mtX (Sustainable Equities Boutique)

As part of our efforts to improve governance practices we pay detailed attention to board's composition and quality. We look at indicators such as independence, diversity, age, long tenure or over-boarded directors, relevant expertise and skills or other conflicts of interest with minority shareholders.

In 2022, out of 164 meetings voted by mtX, 58 meetings (35 percent) included director-related agenda items, of which, in 70 percent, we voted against management due to at least one of the topics listed above.

For example, in addition to our engagement efforts with a Chinese retailer (through collaborative engagement) on board composition, independence and overall board quality, we have been using our voting rights at Annual General Meetings (AGMs) to reinforce our message on better governance practices, especially with regards to board composition.

The company's board composition proposal in 2022 with two new independent directors at the AGM, signalled its commitment to better governance practices. Although, we noted the proposed two directors were over-boarded (with positions on three or more other boards) raising concerns on board effectiveness, we concluded that they both brought relevant expertise from financial, accounting, and industry know-how.

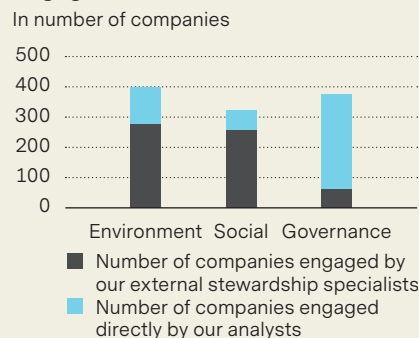
Later in the year, we also engaged with the company bringing our considerations of good board composition and challenging them on their action plan to increase board independence and quality further.

Engagement highlights

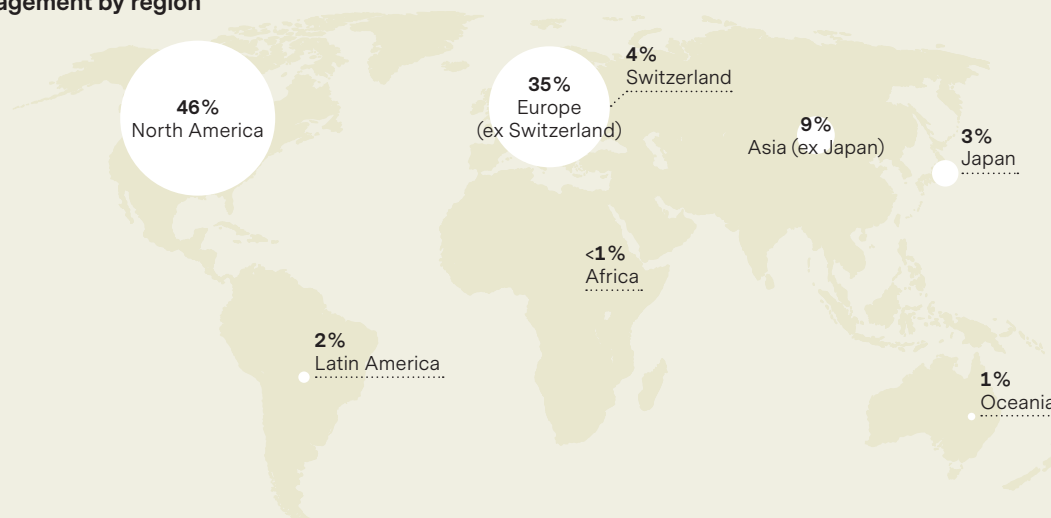
571 companies^{1,3}

In total, we engaged with 571 companies, either directly (208 companies) or collaboratively using the services of external stewardship experts (386 companies).² As part of the latter, our assets are pooled allowing us to reach the scale that is necessary for effective engagement activities. More information about these collaborative engagement activities can be found on page 3. Overall, the number of companies covered by our engagement activities has significantly increased compared to last year as we have been expanding the number of investment portfolios covered by the services of our external stewardship experts.

Engagement by theme^{2,3}



Engagement by region



Our engagements tackled environmental, social and governance related topics. More statistics can be found on the right side. For 45 companies, we conducted at least fact-finding engagement activities, for example through questionnaires. An example can be found on page 16.

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Improving diversity and inclusion	12	Addressing human rights risks	21
Understand progress in protection of environmental and rights of local communities	13	Biodiversity engagement campaign update	22
Carbon finance	15	Unionization and content moderation	23
Raising the bar on ESG disclosures—multi-year engagement	16	Transparency and net zero targets	24
Users’ digital rights and freedom of expression (FOE)	19	Governance concerns related to an acquisition	26
		Remediation after an environmental disaster	27

¹ As mentioned above, the number of companies has significantly increased compared to last year as we have been expanding the number of investment portfolios covered by the services of our external stewardship experts. We would also like to highlight that these statistics are only comparable to a limited extent to last year’s figures as we have been integrating the engagement activities of our TwentyFour Asset Management boutique in this report for the first time. More information about TwentyFour’s Asset Management’s activities in 2021 and 2022 can be found under twentyfouram.com/uk-stewardship-code.

² 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.

³ 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.

Improving diversity and inclusion

Engager

Sustainable Equities Boutique:
Listed Impact Equities team

Issuers

20 companies identified as “laggards” in the Impact Equities focus universe

Engagement type

1:1 Vontobel AM got in touch with the companies directly

Topic

Social:

- Human capital management (e.g., inclusion and diversity, employee terms, safety)

Governance:

- Board effectiveness—Diversity

Rationale and context

We believe that diversity and inclusion (D&I) is key for a thriving business as well as a sustainable and balanced society. Yet, a large percentage of listed companies exhibit poor D&I indicators. C-Suites often fail to reflect the available female talent pool.

For investors, there are significant risks when D&I is ignored, both in terms of missed upside potential, and downside from the inefficient allocation of scarce resources. Several studies highlight the costs and missed opportunities of an economic system exhibiting weak gender D&I.

As impact investors, we pay attention to material ESG issues and we encourage companies to focus on products or services that can help achieve the UN Sustainable Development Goals (SDGs), including—with regard to D&I—solutions to improve the gender equality and women’s empowerment as part of our equal opportunities impact pillar.

Engagement’s objective

- Awareness: Raise the issue relating to D&I
- Materiality: Emphasize that we believe that D&I is important from an investment point of view
- Change: Help companies to improve by suggesting some action points in a constructive way
- Benchmark: Encourage companies to compare their policies and practices with a suitable peer group so as to address sector/country specificities

Methods of engagement

E-mail, letter, meeting (teleconference)

Leadership level

Investor relations, senior executives

Engagement process

We reviewed our portfolios and identified leaders/laggards in respect to D&I. We decided to target the bottom 1/3 (20 companies with low percentage of female directors in their boards) of the Global Impact Equities fund and wrote them a three pages letter, inviting them to discuss this topic via video conference.

Our letter:

- Summarizes powerful research making the link between D&I and performance, quoting the UN, credit rating agencies as well as Vontobel AM’s proprietary research, to name a few
- Has a constructive tone and lists some practical suggestions to improve D&I, touching on hiring, training, coaching, promotions, parental leave, etc.
- Avoids the “one-size-fits-all” stigma by encouraging companies to benchmark themselves against the right peer group to improve their relative positioning
- Highlights the importance of a dialogue on these issues, as well as on fundamentals and business-related points

We followed up with emails and video calls.

In addition to this general D&I initiative touching 1/3 of the fund, we raised specific D&I issues relating to ethnicity/race with one additional company.

Outcomes

We made lagging companies in our fund aware of the importance of D&I from an investment perspective.

We received replies from 11 companies and organized follow up video calls with eight of them so far (as of 31.12.2022). The majority of them acknowledged the issues we raised, and has set internal targets to improve in D&I terms, including

- operational/governance improvements such as targets for board diversity,
- targets in terms of products/services that address SDG 5, e.g., loans to female entrepreneurs.

Next steps

We will continue monitoring our portfolio and engaging with the laggards. This will imply continuing the work with some of the companies targeted in 2022 as well targeting new companies added over the past few months.

Understand progress in protection of environmental and rights of local communities

Engager

Fixed Income Boutique: Corporate Bonds Team

Issuers

An industrial company in basic materials (Europe)

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Environment:

- Natural resource use/ impact (e.g., water, biodiversity)
- Pollution, waste

Social:

- Human and labour rights (e.g., supply chain rights, community relations)

Rationale and context

Certain severe controversies cases related to potential environmental pollution, water scarcity, violation of human rights of local communities and corruption incidents were identified based on research provided by the third-party ESG providers MSCI and Sustainalytics¹. Based on the Fixed Income Boutique (FIB) ESG Risk Integration framework, our ESG Research team conducted an ESG Deep Dive assessment to understand the actual degree, severity and persistence of the allegations and the mitigation measures taken by the company. For the controversy related to the coal mine in Latin America the outcome of the ESG Deep Dive was negative. The classification as negative was caused by the lack of evidence of credible remediation actions. Therefore, the ESG Research team recommended a direct engagement with the issuer.

Engagement's objective

Understanding progress and background related to the coal mine operations in Latin America:

- Water scarcity related to the diversion of a river
- Health issues related to water and air pollution
- Resettlements of local communities
- Lack of prior consultation
- Cultural heritage not respected

Methods of engagement

Meeting (in person)

Leadership level

Senior executives

Engagement process

In April 2022 we started our engagement related to several controversies related to potential environmental pollution, water scarcity, violation of human rights of local communities and corruption incidents. The Corporate Bonds team reached out to the company's investor relations via e-mail. The investor relation team shared links to publicly available information and pointed out that the upcoming Sustainability Report will provide additional information on improvement measures.

In June 2022 we intensified our engagement. The controversy flag provided by MSCI ESG Research worsened related to the afore-mentioned coal mining operations in Latin America. However, this was due to a methodological change by MSCI and not related to a worsening of the situation. The company's new Sustainability Report had only scarce information on progress related to the potential intensified water scarcity due to the coal mine and potential breach of access to clean water for the indigenous people, environmental pollution, and resettlements. Therefore, the Fixed Income Boutique ESG Research team and the Corporate Bonds team decided to meet with the company to get more insights.

The company was very responsive and in August 2022, a meeting took place with the head of sustainable development and the head of investor relations at the company's premise.

In September 2022, a public conference call with the management of the company's subsidiary in Latin America was organized.

¹ The process for monitoring of severe controversies is explained in our ESG integration and stewardship report (page 33) under am.vontobel.com/esg-investing.

Outcomes

The direct 1-to-1 meeting in the company premises was important to not only get more information on the progress (always under fair disclosure rule) but also to get an impression of how serious the company is taking our, and other, stakeholder's concerns. In addition, the company pointed out that the Sustainability Report 2022 will provide more details on the coal mine operations.

The company acknowledged some deficiencies in the management of environmental impact and resettlements. Since then, the company adheres to the various rulings including prior consultations with the local communities (several hundred), holds regular roundtables to achieve satisfactory agreements with the local communities and conducts additional and regular technical studies of environmental and social impacts.

Progress was highlighted with regard to water quality and water quantity through monitoring stations before and after mining sites. This was verified by the FIB ESG research team. However, it was noticed that the company should disclose data from third-party studies on their website.

The company mentioned also that the diversion of the river did not intensify the water scarcity. This was verified by the FIB ESG Research team based on satellite pictures (Google map, apple map) showing that around the new artificial/natural riverbed ecosystem is being re-established and will be monitored in coming months.

Furthermore, the company is investing in water infrastructure to improve access to water for the communities as the government (which changes almost every year) does not provide such investments.

Stakeholder engagement with the indigenous people and local population has been improved. There are regular meetings with the several hundred communities around the coal mine site.

To respect cultural heritage sites, the company is in the phase of rolling out its cultural heritage policy in Latin America including sharing best practice between different country teams. With the specific allegation of not respecting a cultural heritage site in the area of the coal mine site, the company mentioned it was unclear as no records have been found. The FIB ESG research team could not verify the statement but acknowledges the difficulties due to the colonialization and lack of written records.

The conference call with the management of the company's subsidiary in Latin America provided additional insights in the monitoring processes of water quality and quantity, air quality (e.g., interactive dashboards), measures to improve biodiversity and the roundtables with the indigenous people and local communities.

Overall, the direct engagement underlined that progress is underway.

Next steps

The issue is not solved yet. The FIB ESG analyst acknowledges that the company made progress. However, when compared to its peers, evident gaps are identified based on the scorecard for International Council on Mining and Metals (ICMM) members and the results of the responsible mining index 2022. Therefore, progress will be monitored in coming months also with regard to transparency around third-party studies on water flow etc.

Carbon finance

Engager

Sustainable Equities Boutique: Listed Impact Equities team

Issuers

Bank Rakyat Indonesia Persero Tbk PT (Rakyat)

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Environment:

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

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

Rationale and context

Bank Rakyat is one the largest banks in Indonesia. This country is the fourth most populous nation in the world with a total of 270m people with less than USD 4,000 GDP per capita on average. In Indonesia financial inclusion is below the global average. Increasing “bancarization” is considered a step toward better living standards. Rakyat is a leader in financial inclusion, it focuses on micro, small, and medium enterprises (MSMEs) and ultra-micro loans, it also provides banking activities based on shariah principles, targeting a segment of the population that is even more underbanked than the rest of the country. It serves over 32m MSME borrowers, including over 12m underserved female. Micro and ultra-micro loans to MSMEs/ SME reached 83 percent of total book, incl 47 percent for micro and ultra-micro only, with SME lending being the rest.

Based on our assessment, Rakyat is an impactful bank, contributing to the impact pillar “equal opportunities” and aligned mainly with SDG 1 (no poverty), SDG 5 (gender equality), SDG 8 (decent work and economic growth) and SDG 10 (reduced inequalities).

Given its significance in the Indonesian economy, the bank has a (small) lending exposure to clients in the petrochemical and thermal coal mining sector (1 percent of the loan book), which is at odds with our belief that economies should transition to a lower carbon paradigm.

Engagement’s objective

Encouraging the bank to follow best practice in the banking industry with reference to its lending activity. These are based on the United Nations (UN) Principles for Responsible Banking (PRB), The Partnership for Carbon

Accounting Financials (PCAF) and the Net-Zero Banking Alliance (NZBA).

Methods of engagement

Letter, meeting (video conference)

Leadership level

Senior executives

Engagement process

In January 2022 we wrote to the CFO asking for a video conference with top management to discuss the long-term strategy in relation to lending principles to the fossil fuel industry. We had a video conference call with the CFO and her team, and in February we followed up with a 12 page long engagement letter in which we provided highlights on UN PRB, PCAF and NZBA and how to become a signatory. We also shared links and snapshots from the sustainability reports of selected signatories, with the aim to provide Rakyat with practical industry examples from emerging and developed markets listed banks.

Outcomes

In May 2022, Rakyat joined PCAF as evidenced by carbonaccountingfinancials.com/financial-institutions-taking-action#overview-of-financial-institutions.

During our follow up video conference in September 2022, the CFO and her team updated us on the group’s recent progress in ESG. They told us that the membership to PCAF will allow them to calculate the group’s financed emissions more accurately and Rakyat’s next sustainability report will report on this progress.

Next steps

We will carry on our engagement for the bank to set hard ESG limits such as maximum carbon emissions by their clients (total scope 3 financed emissions). In addition, we will continue to encourage Rakyat to engage with its own clients/ borrowers to adopt Science Based Targets (SBTi) to set pathways for their decarbonization.

Beyond the financed emissions field, we will continue to encourage management to disclose more details on Rakyat’s sustainable finance goals, with the identification of target areas. As to gender and diversity, we will monitor progress toward the stated goal for Indonesian SOEs to have over 25 percent gender diversity in the board/ executive management by 2025.

Raising the bar on ESG disclosures— multi-year engagement

Engager

Engagement related to transparency is a topic pursued by several investment teams. This case study highlights the efforts of the Sustainable Equities Boutique (Listed Impact Equities team, mtX team).

Issuers

For the Listed Impact Equities team: all portfolio companies, for mtX selected companies

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

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

Rationale and context

As investors, we pay particular attention to how companies are prepared for and managing their material sustainability risks. For some investment strategies, we also look at how companies are positioned to seize opportunities arising from sustainability, and how they tackle environmental and social challenges through their products and services. For example, our Listed Impact Equities strategies are structured around the belief that we can tackle large-scale challenges by actively selecting and owning shares of companies offering scalable business models in areas requiring billions of dollars of investments over the next decades.

To enable us as investment managers to understand how a company is positioned in terms of sustainability aspects and quality, comparable data is essential. Wherever possible, we rely on reported data from the portfolio holdings. This includes annual reports, CSR reports, website or other investor information. We may also have recourse to third-party ESG data provider, as explained in our ESG integration and stewardship report (page 26) under am.vontobel.com/esg-investing.

It is our belief that disclosure (or lack thereof) does not in itself determine companies' sustainability performance. In a context of lack of internal standards on sustainability reporting, we observe a wide range of sustainability disclosures extent, depth and quality, especially across regions. While more standardized disclosures are getting established in Europe, disclosures in emerging markets are still a mix of voluntary and regulatory disclosures. In some markets such as China domestic listings, regulatory requirements are fragmented across industries and government agencies; in others, like South Korea, ESG disclosures are gradually becoming mandatory, in phases.

In turn, more disclosures may also not be a guarantee of good practices. An interesting model "ClimateBERT", found that firms who claim to support TCFD mostly engage in empty promises and only report on climate risks that are not very significant, rather than reporting on all material risks.¹ We make similar observations in practice.

A part of our engagement efforts is therefore, to convince companies to expand and improve their sustainability reporting. We believe there are several benefits arising from such a trend:

- By engaging directly with companies, we can support the companies in understanding what risks / metrics are materially important to focus and report on.
- This leads to a more transparent market, allowing stakeholders to better understand a company's sustainability performance in absolute and relative terms.
- We as investors are better able to understand companies' activities and sustainability performance, allowing us to take informed investment decisions.
- As our portfolio reports are an aggregate of issuers' information improved disclosures allow us to provide more detailed assessments to our stakeholders. For instance, our Listed Impact Equities team publishes an Annual Impact Report for the financial products they are managing.

¹ Bingler, Julia Anna, et al. "Cheap talk and cherry-picking: What climatebert has to say on corporate climate risk disclosures." Finance Research Letters 47 (2022): 102776.

Engagement's objective

We were specifically focused on

- requesting additional data for our own analysis and reports and
- motivating companies to measure and publicly disclose the required data and indicators.

Methods of engagement

Letter / e-mail, meeting (in person or teleconference)

Leadership level

Essentially Investor Relations

Engagement process

Our teams choose different ways of engaging with companies on this topic. Our Listed Impact Equities team, for example, has been using a letter explaining their needs, with a list of KPIs they expect companies to report on. These KPIs are also disclosed in their Impact Report.

Our mtx team has prioritized companies to engage with on disclosures, based on their work structured around the Minimum Standard Frameworks (MSFs) (more information about the MSFs can be found in our ESG integration and stewardship report [on page 31] under am.vontobel.com/esg-investing). They have been identified based on important gaps found during that research.

Outcomes

The Listed Impact Equities team's letter was sent in April 2022, and more than 30 companies took the time to thoroughly answer our survey, some however only with limited data. The relevant environmental and social metrics for the portfolio companies—mainly linked to their products and services—were applied where data was available or could be estimated. The team aimed to obtain the most recently available environmental data from the invested companies; for over 90 percent, the data is from company's fiscal year 2021.

On the social indicators side, one of the challenges was for us to find reasonable social impact indicators for the stocks contributing to our social impact pillars. It is more demanding to find indicators here that can easily be aggregated as on the environmental side, where kWh of energy production or m³ of water recycling or savings are common metrics for many activities. Additionally, we observe that while on the environmental side, certain standards are established in reporting practices, disclosing social indicators remains very heterogenous throughout our portfolio holdings. It was the second time we collected social indicators data, as the corresponding investment strategy was only launched in April 2021. For the 2022 impact report, we sent out all the last years gathered impact indicators to the companies. Together with some additional research on individual stocks, we extended the list of impact indicators to overall 21 environmental and social indicators. We specified certain social indicators in more details or were divided in two or more specific indicators for certain impact pillars. For the pillar "equal opportunities" for instance, we now report on "loans granted to minority or female lead businesses", "underbanked people served" and/or "sustainable finance". For the impact pillar "sustainable food & agriculture" we introduced the new indicator "efficiently farmed land". In an engagement call with Deere, we discussed possible impact indicators and they showed us their approach of "engaged acres" related to sustainable practices in farming. To make this indicator more applicable to other companies in this impact pillar we broadened it to the term "efficiently farmed land". Our active communication with the portfolio holdings allows us to improve and align quantitative indicators over time. As such, we get more data from the holdings on commonly agreed indicators.

	TOTAL REPORTING COMPANIES
Carbon footprint (scope 1&2)	61
Potential avoided CO2 emissions	16
Renewable energy generated	5
Renewable energy shipped	3
Renewable energy use in production	31
Drinking water provided	2
Wastewater treated	1
Waste managed as a service	24
Cargo rail transported	1
Passengers transported in an eco-friendly way	1
Material captured for circular economy	15
Beneficiaries of affordable medical solutions	4
Patients or people reached	10
Users of nutrition solutions	2
Education/ information provided for	2
Jobs created through micro loans	1
Women empowerment	3
Loans granted to minority or female lead businesses	4
Underbanked people served	5
Sustainable finance	5
Food produced responsibly	3
Efficiently farmed land	2

The mtX team interacted with four invested companies in 2022 on the topic of ESG disclosure, giving them feedback on their reported information, and encouraging further disclosure and transparency.

For example, we engaged with a cement industry company in China with the objective of encouraging further reporting on carbon emissions and becoming more transparent on their decarbonization efforts. The company responded in April that they would consider publishing the data and in June 2022, the company published their carbon emissions and more information on their carbon reduction strategy in their ESG report.

For a pharmaceuticals manufacturing company in India, we shared our feedback on the company's first Integrated Report 2021 / 2022 with the objective to encourage more transparency on its material ESG areas. The mtX ESG team analyzed the report, and we suggested more detailed disclosure on several topics such as: 1) strategy to improve access and affordability of medicines; 2) recall management procedures and recalls severity levels, and its supply chain management systems; and 3) responsible marketing practices, especially on controls to minimize risks of misconduct. We will follow-up with the company mid-year 2023, once the next report is published.

With a consumer discretionary company in China, we started our dialogue in 2021, as part of our ESG due diligence process. In February 2022, the company approached us for our suggestions on the breadth and depth of ESG disclosures for their upcoming report, which would be published in April 2022. We revisited the material ESG issues together with the company and suggested detailed disclosure on its environmental policy, e-waste treatment, employee relations policy, supply chain due-diligence process, ESG-linked KPIs, and supplementary data to illustrate the effectiveness of its control processes.

Next steps

Proper disclosure continues to be a topic of focus in several industries as we strive to create awareness about global standards and best practices.

Users' digital rights and freedom of expression (FOE)

Engager

Sustainable Equities Boutique: mtX team

Issuers

Large ICT (Internet, Communication, Technology) company (China)

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Social:

- Human and labour rights (e.g., supply chain rights, community relations)

Rationale and context

Against the backdrop of the expansion of influence of large ICT (Internet, Communication, Technology) companies, there is increasing threat to users' freedom of expression (FOE) and privacy—such human rights in online environments are often referred to as digital rights. Violations of users' digital rights may include targeted surveillance, censorship of dissident voices, marginalization or discrimination against targeted individuals, groups and communities (including due to artificial intelligence and algorithmic bias), disclosure of users' data to governments in the name of legal purposes without evidence or validation of claims, spread of misinformation and viral hate speech etc. Digital rights issues are reshaping the risk profiles of ICT companies as their business models, technical design and operational decisions can pose prominent human rights risks. In turn, elevated risk profiles can have financial impact on companies.

An internet company has been reported in various journalistic articles for enabling violation of users' digital rights via its sharing of data with the state and censorship of a growing number of topics on its social media platform. Due to the scale of its business, the company is perceived to be a facilitator of mass surveillance and censorship. The company operates in a country in which the government has tight control on how information is disseminated, and the company must abide by the state's content and internet ecosystem regulations. We engaged with the company because we believe that within the context of the law, there is scope for improvement towards users' digital rights, particularly with higher levels of transparency around FOE and privacy.

Engagement's objective

Objectives: Greater transparency on FOE and privacy in terms of:

- Disclosure of handling mechanisms for censorship/surveillance and government data requests, including how they assess, mitigate, and provide redress to users e.g., giving users meaningful control over their data and data inferred about, affording clear options to access and control their own data including if and how it is used and access to remedy when needed.
- Formulate robust human rights/FOE policy with strong implementation mechanisms, including conducting human rights due diligence/risk assessment across all products and regions to identify how government regulations and policies affect FOE and privacy and how this can be mitigated.
- Produce a Transparency Report with disclosure of censored content under government agency request (including key words/issues censored; number/volume of requests to remove, filter, restrict or share content or accounts and the legal basis for it; notifying users when impacted, and appeal avenues). We may start with their policy on handling foreign government requests.
- Public declaration on forbiddance of back-door access to private data.

Methods of engagement

Meeting (video conference)

Leadership level

Investor Relations

Engagement process

We held an initial conference call in September 2022, with the company investor relations' team to exchange views on the concerned issues. Our focus was on their policies and processes to evaluate government data requests and apply the ecosystem content law, including oversight to ensure they do only the minimum required by law and ensure users are informed where their data is shared. We pressed them to publish a Transparency Report and put in place a human rights due diligence process. We learnt that the company relies on the content team's expertise and discretion to decide if content is deemed a violation of local law, which can be a subjective process given the regulation is over-arching and implementation is applied at a granular level. The company informed us that it was benchmarking global best practices and conducting a feasibility study on what they can disclose with a view to improving its disclosure levels in its 2023 ESG report. The company also discussed becoming a signatory of the United Nation Global Compact (UNGC), we encouraged this while advising on the need to have the right implementation measures in place. We understood that the company was in listening mode and was open to improvement in these areas.

We followed up the call by e-mailing examples of human rights/FoE protection and transparent disclosure by its domestic and global peers for their benchmarking and feasibility studies. We also shared information on EU ESG regulations to better explain investor pressure on these topics.

In October 2022, we held a conference call with lead engagers from Ranking Digital Rights (RDR) and a director from the Investor Alliance for Human Rights (IAHR). We learnt that it has been a challenge for them to engage with company, and that our conversation with the company is notable progress. We gained more insights from RDR on the areas where the company lags behind domestic and international peers in the ICT sector.

Although we believe the company does internally generate an annual report on censorship (for the government), it will be a highly challenging request for the company to publicly disclose this. We agreed that a more feasible starting point is to request the company's processes for handling foreign government data requests. We discussed divestment versus engagement and IAHR shared their conviction in active ownership as a mechanism to drive positive change.

We held a second conference call with the company's IR and Head of ESG Communication in December 2022. We sought their feedback on the disclosure examples we had previously e-mailed to them of domestic and global peers, to ascertain if they planned to achieve the same disclosure level. They asked for examples that are more relevant to their business (which we sent following the call). The company reiterated its commitment to UNGC membership. In our discussions, the company wanted to focus on digital rights in relation to false advertising, false information, hate speech, scams and abusive contents. However, we repeatedly steered the conversation back to the treatment of FOE on social issues deemed sensitive by the government, including their process for proper validation of legal requests by the government and/or regulators. Our focus was on their processes for evaluating such data requests to ensure narrow application of the Governance of the Online Information Content Ecosystem. The company shared that they had published a government request policy, but it was only in Chinese. We responded that it is good to have a policy, but investors scrutiny is also on its implementation, and that is the reason to provide transparent reporting of censorship statistics and topics. Two days after the call, the company published an English version of their policy for dealing with government requests.

Outcomes

The engagement with the company is still at initial stage. We have been able to build a relationship with the company with active participation from the company's representatives. After both meetings, we shared examples of transparency disclosures and human rights approaches of domestic and international ICT companies. While these examples include companies with different business operations, we nevertheless hoped that they provide a useful reference point for the company's disclosure feasibility study. The level of disclosure and transparency in the company's upcoming ESG report will determine the extent of objective met.

Next steps

We will hold our next meeting with the company in May 2023, after its publication of its ESG report in April. We will set goals and milestones upon reviewing the ESG report. We will also become co-lead and participate in a collaborative engagement with the company initiated by the Investor Alliance on Human Rights. We participated in an initial meeting where the investors in the group exchanged views, objectives and expectations. A meeting with the company has been scheduled in March 2023 for this collaborative effort. We hope that acting with one voice with other investors will be more effective in driving change in the company.

Addressing human rights risks

Engager

Sustainable Equities Boutique: mtX team

Issuers

Electronic component manufacturing company (China)

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Social:

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

Rationale and context

With the current global economy landscape, where businesses operate in highly complex and global value chains, addressing human rights with investees have become of paramount importance. From working conditions, to involuntary work or child labor, we pay close attention to companies' actions in this area.

We have been monitoring news concerning human rights violations against the Uighur Muslims in, and beyond, Xinjiang since 2019. We have identified several elements as strong indicators of forced labor: direct evidence of involuntary employment where laborers are transported and living on-site in isolation, under strict surveillance of daily movements, required to attend trainings indicating political indoctrination and inability to freely change employers. If any of these elements are found in any labor transfer program in which the company is involved, in a company's facilities and/or in the facilities of the company's suppliers, it is deemed potential risk of exposure to forced labor. Recruiting labor from Vocational Education Training Centers (VETCs) is also considered a red flag. Companies who are exposed to this issue may face financial, reputational, and legal risks throughout their value chain.

In engaging on this topic, we want to avoid the adverse side effect of encouraging discrimination of hiring Uighurs, a noted problem they already face. We also understand that Chinese companies may face challenges concerning their social license to operate if they do not participate in government social programs.

Engagement's objective

Since 2020, we have been participating in the Investors Alliance for Human Rights working group on Xinjiang Human Rights. This engagement allows us to consult and collaborate with other investors and organizations on this topic.

In 2022, we conducted a comprehensive review of our invested companies, with a focus on supply chain, sourcing, operations, and labor exposure. This review involved extensive research and direct engagement with companies.

We engaged with two companies that were allegedly exposed to forced labor from Xinjiang. Our objective was to examine the companies' communication regarding the allegations and to assess their policies and procedures to mitigate the risk of human rights violations in their operations and supply chain.

We aim to understand the robustness of the companies' monitoring systems, including evidence of:

- Human rights policies that adhere to global standards across all operations.
- Supply chain due diligence and monitoring that extend to the raw materials level.
- Third-party auditing on human rights practices, operations, and supply chain.

Methods of engagement

Meeting (video conference)

Leadership level

Investor Relations

Engagement process

In 2021, an electronic component manufacturing company in China was the subject of a journalistic article linking it to China's Labor Transfer / Poverty Alleviation schemes, which raised concerns about potential human rights violations in terms of Uighur forced labor. We engaged with the company to express our concerns about the allegations therein. The company categorically denied the accusations of forced labor and reiterated its commitment to fair and voluntary employment. It also highlighted its adherence to international codes, such as the ILO Declaration on Fundamental Principles and Rights at Work, the Universal Declaration of Human Rights, and its status as a signatory to the UN Global Compact. Additionally, it referenced its internal codes on business ethics, human resource management, its employee handbook, as well as its efforts to strengthen internal processes.

Subsequently, in late 2022, an ESG Rating agency flagged the company as non-compliant with the UN Global Compact. This triggered a series of communications with NGOs, investor groups, academia, ESG rating agencies and with the company. Through detailed due diligence of its recruitment processes using international and local sources, brokers familiar with company operations, in addition to company engagement, we confirmed that the company has adequate hiring measures in place. This includes that it: recruits and on-boards all staff themselves; undergoes regular audits from key international clients with detailed human rights due diligence processes; has its manufacturing sites passed the Validated Audit Process (VAP) audit by Responsible Business Alliance (RBA); and it regularly audits its own Tier 1 suppliers.

Outcomes

In our research, we have found no evidence (nor allegation) of any of the ILO indicators of forced labor in relation to the company's factories or recruitment being violated. We cannot eliminate the risk of forced labor via the state labor transfer scheme, but nor do we find any evidence indicating its presence. Our recommendation would be that the company is on a watchlist for on-going monitoring.

Additionally, as part of our efforts to identify companies exposed to human rights and forced labor in the Xinjiang region, we have created a framework to support us assessing risk and action points. Our engagement with specialist NGOs and academia as part of this engagement deepened our knowledge of the issues and key flags and further supported the development of that risk framework.

Next steps

We will continue to actively participate in industry initiatives, such as the Investor Alliance for Human Rights' working group on human rights and collaborating with ESG raters.

Human rights will continue to be at the center of our engagement plan for 2023, not only ensuring companies' practices ensure the protection of basic human and digital rights.

Biodiversity engagement campaign update

Engager

Quality Growth

Issuers

Two global food companies

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Environment:

- Natural resource use/ impact (e.g., water, biodiversity)

Rationale and context

We discussed our multi-year engagement program focused on biodiversity. Reducing the loss of biodiversity is vital because the loss of species can threaten food security, the provision of medicine (four billion people rely on natural medicines), bioenergy (two billion people rely on wood fuel), and natural protection from hazards, such as flooding and pests—just to name a few glaring risks. Against these risks the negative momentum we face includes estimates from the United Nations that of the 8 million animal and plant species on the planet, a staggering 1 million are threatened with extinction. Nature, society, and the health of our portfolios are interlinked.

Engagement's objective

The aim of our engagement program is to not just to shed light on the activities and actions being taken by companies within our portfolios, but to also get a sense of the range between market leaders and those with more work to do.

Methods of engagement

E-mail, meeting (video conference)

Leadership level

Investor Relations, Operational Specialist,
Senior Executives

Engagement process

Since the launch, we attempted to engage with 20 companies on this subject and have connected with 16 across the Quality Growth platform. We maintain contact with the relevant stakeholders from the corporates, to check on any progress that has been made over time.

Outcomes

One company, the world's largest food company accounting for roughly 1 percent of all global food production, has been open to our engagement efforts. We have discussed this issue with a number of their management team including senior members of the divisions with responsibility for dairy products, coffee and cocoa. In 4Q22, the company announced the USD 1 billion renewal of their plan aiming to bring together a number of its projects and targets: 20 percent of its coffee to be sourced from regenerative agricultural methods by 2025, rising to 50 percent by 2030.

Another company, a drinks and snacks business: has launched a significant agreement with ADM to use regenerative agricultural practices within the company's supply chain. This project is estimated to span up to 2 million acres of farmland by 2030.

The agreement will have the companies share resources and collaborate to support a transition by farmers with crops including corn, soy and wheat across 6 US states initially. The program aims to use methods including cover crops, reduced tillage and the responsible use of pesticide.

Next steps

We are excited to see corporations take these important steps and will continue to monitor their progress.

Unionization and content moderation

Engager

Quality Growth

Issuers

Global provider of outsourced customer experience management services (Business Process Outsourcing industry)

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Social:

- Human and labor rights (e.g., supply chain rights, community relations)
- Human capital management (e.g., inclusion and diversity, employee terms, safety)

Strategy, Financial and Reporting—Risk management (e.g., operational risks, cyber/information security, product risks)

Rationale and context

Recently, the company has gone through a volatile period due, in part, to several recent press articles critical of the company's content moderation business. For the past two years, the company has also faced pressure from the UNI Global, a Swiss-based services union, to organize in Colombia and other markets. In 2020, UNI Global Union, a global federation of trade unions, filed a complaint against the company with the Colombian Ministry of Labor regarding workers' conditions. The complaint alleged that the company was violating workers' rights by not providing proper protective equipment and sanitation measures to prevent the spread of Covid-19 in its call centers in Colombia. Additionally, the complaint claimed that the company was violating workers' rights by engaging in anti-union practices, such as discouraging union membership and using intimidation tactics to prevent workers from organizing. UNI Global Union also accused the company of violating Colombian labor laws by not providing workers with fair pay and benefits, including paid sick leave and overtime pay.

Concerns stemming from the combination of these pressure points, along with a change to a Labor Party government in Colombia, led to a sharp sell-off of the company's shares in November 2022.

Engagement's objective

Our goal as active stewards of our clients' capital was to investigate the issue, determine the magnitude and weight of any proven claims, and determine a course of action for our portfolio holdings.

Methods of engagement

E-mail, field trip and on-site visit, meeting (in person and video conference)

Leadership level

Investor Relations, Operational Specialist, Senior Executives

Engagement process

We had multiple engagements with a range of senior managers as well as sending two of our research team to Colombia for further meetings. On-site engagements were attended by an ESG and an investigative analyst from the Quality Growth research team. Our investigative analyst held additional meetings with Colombia's Vice Minister of Labor, the local services union and field officers for UNI Global.

Outcomes

The company announced its decision to exit the highly egregious content end of its moderation segment. It is working with its clients to facilitate the transition which may not always be straightforward. Company management also announced their willingness to come to an agreement with UNI Global and have since signed an agreement that signals its commitment to workers' rights to form trade unions and engage in collective bargaining—while advancing principles on key issues such as health and safety and workplace monitoring. The pact covers the company's 440,000 employees worldwide. The agreement is based on the recognition of core labor rights as established by the International Labor Organization and respect for the OECD Guidelines for Multinational Enterprises.

Next steps

We will actively maintain our communication with management and UNI Global and actively monitor the situation as it evolves.

Transparency and net zero targets

Engager

TwentyFour Asset Management

Issuers

Transport—UK Bus Operator

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Environment :

- Climate change
- Pollution, waste

Rationale and context

As part of TwentyFour Asset Management's Carbon Emissions Engagement Policy, which seeks to achieve long-term positive environmental outcomes, we engaged with a leading UK bus operator.

We acknowledge the importance of bus travel and the number of positive social factors associated, from cheap, accessible travel to connecting communities. On the environmental side, buses are highly effective in keeping cars off the road which ultimately leads to a reduction in emissions. However, thanks to the evolution of technology and renewable fuels there are alternatives to the fossil fuels currently used to power the bus operator and we believe there is more that they can do.

Given their bus fleet is dominated by diesel-fuelled vehicles, this was the key focus of the engagement. We pushed on their plans to operate a fully zero-emission fleet by 2030 in the UK bus business and by 2035, in the UK coach business.

In parallel, following their success in being ahead of target for their 2°C warming target we pushed them to be more ambitious and shift to a 1.5°C target.

Additionally, this bus operator lacked a separate CSR report, this is something we stressed was important and an area where they lagged peers.

Engagement's objective

The objective is to see material progress on the decarbonization of the bus fleet while acknowledging this will take time.

Methods of engagement

E-mail

Leadership level

Investor Relations

Engagement process

We engaged with the Head of Investor Relations, via e-mail to raise our concerns. Progress will be slow and we will continue to engage, no need for any escalation at this time.

Outcomes

We received a very detailed response from the bus operator.

The area which is holding back the decarbonization of the bus fleet is the lack of hydrogen infrastructure—they have currently submitted a bid together with another market participant for funding as part of the ZEBRA funding through the National Bus Strategy, for up to 200 Hydrogen vehicles. For their coach business EV technology doesn't currently work due to the high speed and long distance of these routes so national hydrogen infrastructure will also be required for refuelling a national network. Despite the challenges this bus operator is facing in transforming their bus fleet, this is an area where we must see change in order to meet carbon reduction targets and wider net zero targets. We were provided with a full breakdown of the fuel type of their bus fleet in Northern Ireland, UK and Europe. Their current portfolio is very heavily weighted to diesel vehicles (69 percent), particularly in their UK operations—we fully expect this to improve and will monitor this closely.

Transformation of the bus fleet will take time and government infrastructure support will be necessary – they are currently liaising with the government on this.

We were pleased to hear they plan to publish new net zero group targets which would align to a 1.5°C target following the success they have had in reaching their 2°C.

They acknowledged our comments regarding the lack of CSR report, and this is something they will look to address.

We learned they may look to issue ESG labelled debt in the future. Additionally, in order to finance the transition to zero emissions vehicles they may look to change their asset ownership model to something like the ROSCO model in the UK—this is certainly a positive from an ESG and credit perspective, good for momentum. The bus operator has clear climate reduction targets with ambitious goals to operate a fully zero emission fleet—by 2030, in their UK bus business and by 2035, in the UK coach business.

We re-engaged at the end of 2022, for an update on their progress in decarbonizing their bus fleet. Both the absolute number and proportion of diesel-fuelled vehicles declined with 67 percent. Overall progress is slow but not unexpected given the scale of their fleet, manufacturing challenges and the financial cost associated. They also highlighted future expansion of a further 130 BEVs in operation by year-end, in Coventry, the first electric city and a further 124 Hydrogen buses in operation by 2024. In Geneva, they were awarded a contract where almost all the fleet is electric—this will start operating in Dec 2023—with 22 EVs.

They have addressed our concerns regarding the lack of CSR report and have since published one. They expect to commit to the SBTi's in the near future, subject to successful work on their scope 3 emissions—which is positive progress and will align National Express with 1.5C warming target.

Next steps

Continue to monitor progress on the decarbonization of their fleet and adoption of the SBTi's; re-engage in six months.

Governance concerns related to an acquisition

Engager

TwentyFour Asset Management

Issuers

Commercial Real Estate

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Governance:
– Company Strategy

Rationale and context

We were researching the issuer for potential investment given the attractive yields their bonds offered.

Despite strong credit fundamentals, there were a number of factors which raised potential governance concerns regarding the purchase of a 12 percent stake in a peer real estate firm.

This purchase was in total contrast to management's prior communication regarding a pivot away from cyclical commercial real estate. The transaction occurred at a time when the target company's owner who is known to be friends with the issuer's management, was said to be in financial trouble. Additionally, it occurred when the target company was in a blackout period, which tends to prohibit this kind of activity.

Engagement's objective

To understand the rationale behind the purchase and determine if there were material governance concerns.

Methods of engagement

Meeting (teleconference)

Leadership level

Senior Executives

Engagement process

We arranged a call directly with the Group Treasurer and the Senior Treasury Manager to get further clarity on these issues and to determine whether there are material governance concerns.

Given our concerns were confirmed, no escalation was necessary.

Outcomes

The overall response was unsatisfactory. Both the Group Treasurer and the Senior Treasury Manager were unable to provide any detailed rationale for the purchase other than it being cheap despite contradicting company strategy. They were unable to provide any further details on the relationship between the CEOs who remain friends, which we believe is highly suspicious. Additionally, they were unable to confirm whether the stake would be increased further (which it has been) creating greater divergence with the stated investment plan.

Overall, we were unsatisfied with the rationale provided and believe there are fundamental governance concerns surrounding both companies.

Next steps

Continue to monitor capital allocation decisions and governance.

Remediation after an environmental disaster

Engager

TwentyFour Asset Management

Issuers

Mining company

Engagement type

1:1 Vontobel AM got in touch with the company directly

Topic

Environment:

- Natural resources use/ impact
- Pollution, waste

Social:

- Conduct, culture and ethics
- Human and labor rights
- Inequality
- Public health

Governance:

- Board effectiveness

Strategy Financial and Reporting—Risk management

Rationale and context

We were exploring a well-known global mining giant, for potential investment given their incredibly strong fundamental credit profile. We also acknowledge the importance of the mining industry in the transition to net zero. However, on conducting our ESG research, we were very surprised by this mining company's incredibly weak controversies score (which signals poor management of controversies) despite having a very strong raw ESG score.

We are well aware that the mining sector as a whole does have a cloudy past but, looking into the drivers of the controversies score we were taken aback by the sheer. These number were anything from working condition issues to fair wage strikes to environmental damage. More alarming, was a recurring controversy which dates back to the collapse of a Brazilian dam in 2015. This disaster displaced local communities, polluted water supplies and resulted in a humanitarian crisis. What makes this story even worse, before the collapse, the company was made aware of engineering design flaws which were not appropriately rectified.

Engagement's objective

To determine the extent of remedial actions related to the collapse of the Fundão tailings dam in Brazil in 2015, and whether there are any fundamental social and governance concerns.

Methods of engagement

E-mail

Leadership level

Investor Relations, Operational Specialist, Senior Executives

Engagement process

We engaged with; VP Investor Relations, Practice Lead ESG EMEA and Group ESG Officer via e-mail.

We were not satisfied with the response received and noted that the company's efforts are far from what we expect. Response so far from our expectation that no escalation deemed appropriate at this stage.

Outcomes

In the response the company stated only 96 of the 553 households displaced have been rebuilt and all 42 of the programs identified by the Renova Foundation are behind schedule. They provided insufficient details on mitigation of future incidents and actions taken to clean up and compensate for the disaster. Additionally, there is currently a number of ongoing court cases surrounding this disaster.

We believe the lack of action since this disaster highlights more inherent social and governance issues not captured in the company's raw ESG score and reinforces the importance of the controversies score. There is more that the company, and wider mining sector in general, can do to emerge from their past history to become a key pillar of the energy transition but we believe that as investors we must continue look beyond ESG scores and colorful CSR reports and hold those lagging to account.

Next steps

Monitor progress in remedial efforts; however, we would need to see material action before reconsidering our opinion on this case.

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