

Engagement Policy

ESG-AM AG



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1. INTRODUCTION

ESG-AM AG (ESG-AM) is an independent asset manager, aiming to provide leading-edge sustainable investing opportunities, with sustainability at the core of our business offering. We are committed to investing sustainably and delivering ESG investment solutions with market-oriented returns and sustainability-related performance. Our investment approach considers the sustainability performance of companies alongside financial analysis and credit attractiveness.

We have developed the **ESG-AM Sustainable Investment Framework**, which is an integrated element of our investment approach. **Engagement** is one of the five steps of the ESG-AM Sustainable Investment Framework.

The **ESG-AM Sustainable Investment Framework** encompasses five steps:

1. **Norms- and value-based exclusions**, which are applicable to all assets managed by ESG-AM, setting a high standard that applies uniformly.
2. **Sustainability Themed Investing**, which offers investors the opportunity to allocate funds to portfolios targeting specific Sustainable Development Goals (SDGs) focusing on social transformation, the net zero emissions transition, or both.
3. **Best-in-Class and Best-in-Progress Screening**, using our proprietary Social Transformation Score (STS) Methodology and our partner responsAbility's Climate Transition Rating Methodology.
4. **Incidents Screening**, to identify very severe incidents, which may entail a number of measures ranging from monitoring investees to divestment.
5. **Engagement**, including constructive dialogue with companies with the highest impact potential, both individually and collectively.

Given ESG-AM's focus on credit investment, we attach great significance to conducting high quality and meaningful dialogue with companies through our engagement activities. In the credit universe, engagement is all the more important, as companies might receive less inquiries about their ESG performance.





This **Engagement Policy** outlines ESG-AM's engagement approach and underlying processes. The described engagement approach and processes do not relate to a specific investment product managed by ESG-AM. Depending on contractual agreements with clients and other considerations, engagement may be applied for selected portfolio companies.

This document outlines the rationale and objectives of engagement undertaken by ESG-AM ([section 2](#)), our approach to selecting engagement themes and targets ([section 3](#)), ESG-AM's approach and tools applied during engagement ([section 4](#)), our escalation logic during engagements ([section 5](#)), governance ([section 6](#)), and monitoring and reporting ([section 7](#)).

We strive to continuously monitor and review our engagement approach and monitor industry, policy and regulatory trends relevant to engagement, and may integrate new insights into our engagement approach. This policy may be updated accordingly.

2. ENGAGEMENT RATIONALE & OBJECTIVES

At ESG-AM, we are convinced that companies will only be successful in the long term if they implement the principles of sustainability to protect the environment, fulfil their social responsibility and ensure good corporate governance. Our engagement, being an integral element of our Sustainable Investment Framework, is focused on:

-  Enhancing our insight into companies' sustainability-related performance in view of **supporting our investment decisions** and achieving the targeted sustainability performance of our portfolios.
-  Increasing the availability of disclosed data by companies on relevant ESG-factors and therewith **support the broadening and quality of the investible universe** for our portfolios.
-  Supporting the **mitigation of adverse impacts** by companies, pre-emptively by promoting the availability of solid ESG-related policies and management frameworks or adequate responses following controversies and incidents.
-  **Promoting positive change** towards a sustainable economy and society, by encouraging companies to review and enhance their sustainable performance.

3. SELECTION OF ENGAGEMENT THEMES & TARGETS

Prior to initiating an engagement, ESG-AM thoroughly considers the relevance of the engagement theme and the relevance of the engagement target.

Engagement themes:

We focus on thematic engagements that are aligned with the sustainable investment objectives of our strategies. At present, our investment strategies have sustainable investment objectives with a social focus and with an environmental focus, aiming to promote the following United Nations Sustainable Development Goals (SDGs): *SDG 5 Gender Equality*, *SDG 8 Decent Work and Economic Growth*, *SDG 7 Affordable and Clean Energy* and *SDG 13 Climate Action*.

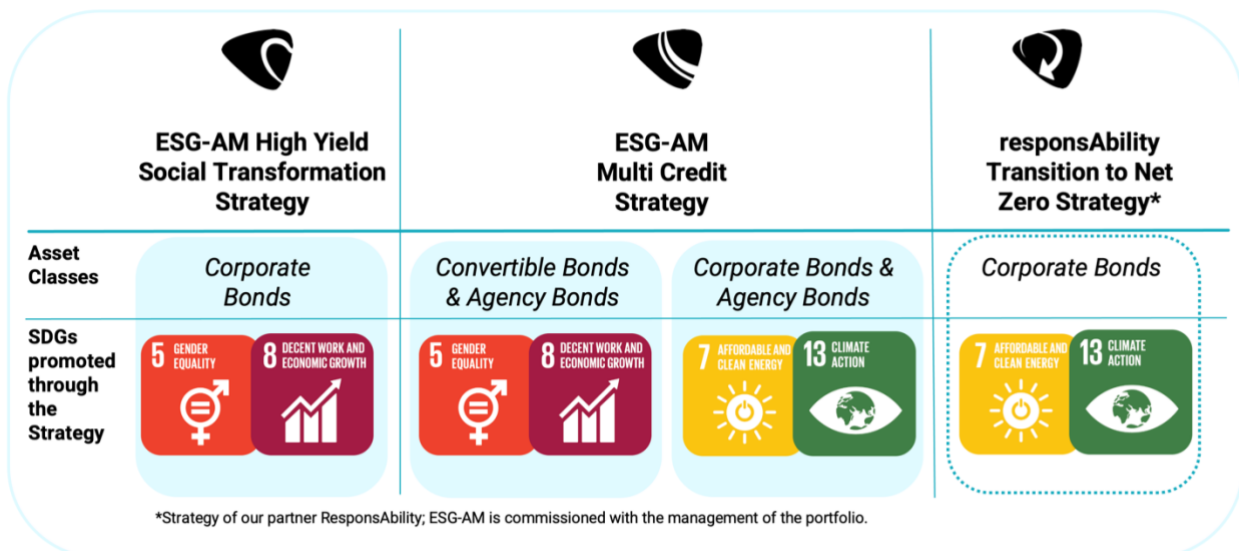


FIGURE 1 | ESG-AM'S INVESTMENT STRATEGIES & AND THE SDGS THEY FOCUS ON (SOURCE: ESG-AM AG)

We may also engage with individual companies on ad hoc topics identified as financially material by our portfolio managers.

Moreover, we are constantly monitoring sustainability-related trends and developments. Forward-looking, we may broaden our strategies to integrate additional sustainability themes and related SDGs. Consequently, we may adjust the thematic focus of our engagement activities accordingly.

Engagement targets:

ESG-AM engagement targets both our current investees and companies not currently in our portfolios but with strong potential for integration. Regarding the latter, our interest primarily lies in the enhancement of their sustainability-related disclosures and/or performance. By meeting the requirements relevant to our strategies, these companies may potentially be included in our investment portfolios.

Approach for the identification of engagement themes and targets:

To identify engagement themes and targets, our Sustainability Team evaluates companies' sustainability-related performance, while our Portfolio Management Team reviews companies' financial performance. This evaluation applies to both our current portfolio companies and potential additions to our portfolio. The Sustainability Team and the Portfolio Management Team may suggest engagement topics and targets based on their ongoing review. Aspects taken into consideration during the selection process may encompass, among others, potential targets' performance in our proprietary Social Transformation Score (STS) Methodology, their portfolio weight, our view on upcoming sustainability trends and the potential target's sustainability-related and financial performance, as well as our assessment of our ability to effect sustainability-related change.

4. APPROACH & TOOLS FOR ENGAGEMENT

Approach:

At ESG-AM, engagements may take place both before the initial investment is made and as part of our ongoing monitoring of portfolio companies. We distinguish four types of engagement:

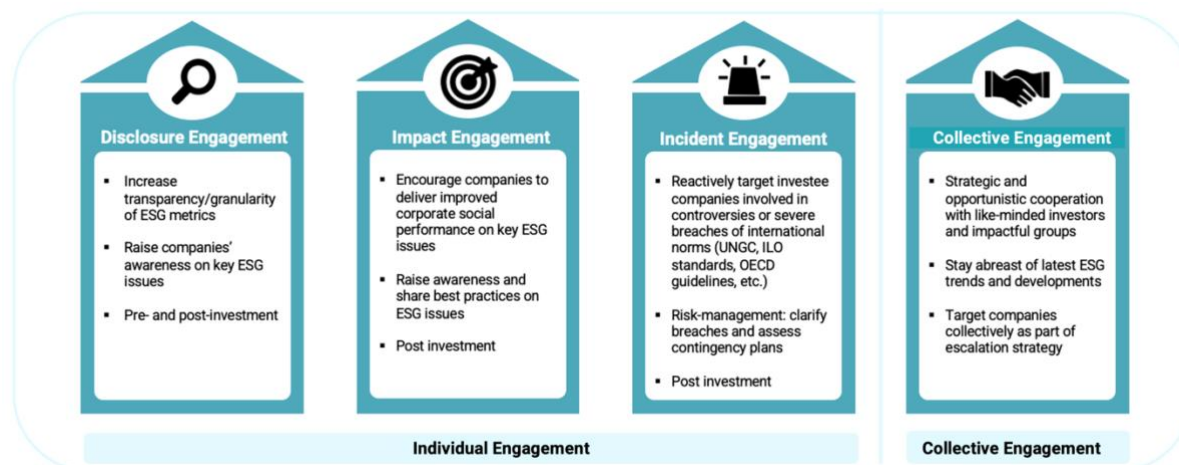


FIGURE 2 | ESG-AM'S FOUR TYPES OF ENGAGEMENT (SOURCE: ESG-AM AG)

Individual engagement:

When entering into one-on-one dialogue with companies, ESG-AM may conduct three types of engagement: disclosure engagement, impact engagement and incident-based engagement.

- **Disclosure engagement** strives for improving companies' range and granularity of reported ESG metrics. This type of engagement may be relevant during the pre-investment due diligence process, or for investee companies with gaps in their sustainability-related disclosures. While disclosure engagement might not lead to immediately increased reporting, it may contribute to our understanding of a company's level of awareness and plans to further develop their policies and other responses to relevant sustainability-related matters.
- **Impact engagement** aims to promote development of corporate cultures through constructive dialogue with target companies. During impact engagement, we may communicate our specific expectations concerning the enhancement of the company's ESG-related performance to the target company.
- **Incident engagement** is event-driven and reactive. The focus of incident engagement is risk management. Incident engagement targets portfolio companies involved in controversial behaviour severely and structurally breaching international norms, such as for example the UN Global Compact principles or the International Labor Organization's conventions. During incident engagement, we aim to develop an understanding of a concerned company's level of involvement in the incident, and to promote an adequate response.

At ESG-AM, the process of handling controversies and incidents is defined as follows:

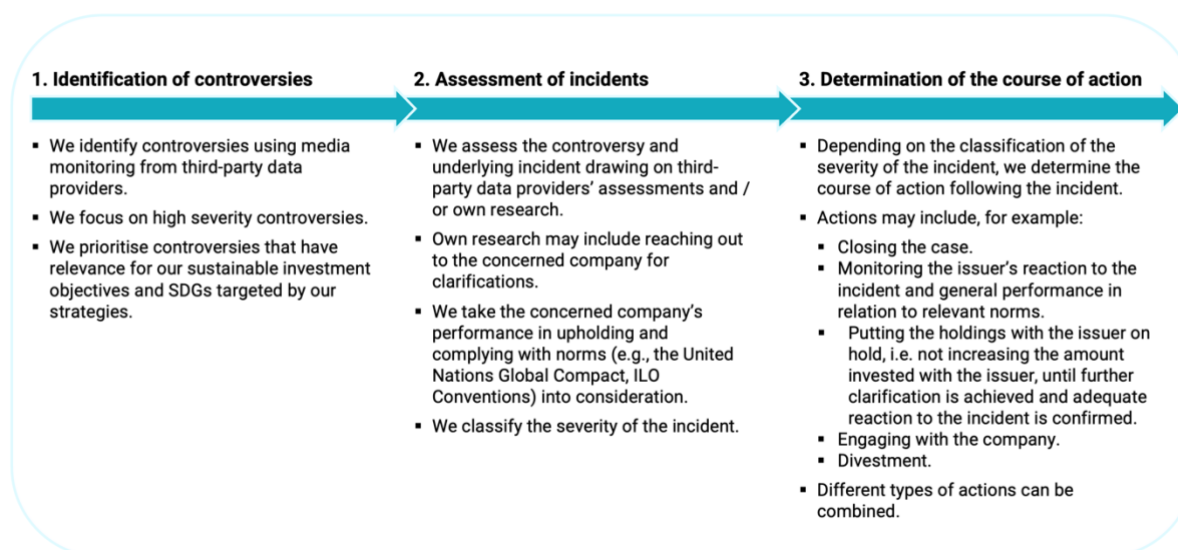


FIGURE 3 | ESG-AM'S CONTROVERSIES AND INCIDENTS PROCESS (SOURCE: ESG-AM AG)3

Collective Engagement:

We engage collectively with other investors or institutions whenever necessary and appropriate. For this purpose, we choose to act through collaborative engagement platforms, such as for example the UN Principles for Responsible Investment (UN PRI) and the Workforce Disclosure Initiative (WDI). For each platform, we identify and prioritize our collective engagement activities within these memberships. We focus on topics relevant for our investment strategies, including for example climate-related and workforce-related disclosures, objectives, and performance.

Tools:

While conducting engagements, ESG-AM may utilise different means of formal and informal communication. Typically, engagements begin with an explanation of our engagement goals to the Investor Relations department of a company via email, letter, or phone call.

Communication may then be followed by conference calls or one-on-one meetings with technical experts such as Heads of Sustainability, Diversity and Inclusion, Risk Management, Supply Chain Management and/or other operational experts. ESG-AM may also engage during company roadshows' Q&A sessions. Senior executive management and board members may additionally be targeted during the engagements.

Engagements are highly individual, depending on the target and the topic. The selection of tools differs between engagements, and we may adjust our approach depending on the development of the respective engagement.

5. ESCALATION

We are aware that the engagement process can take several years, depending on the specific case and the specific objectives. During the engagement, we aim to define key performance indicators and to regularly assess progress. In case of insufficient or lack of progress, we do not hesitate to expand our dialogue. For the purpose of escalation, the following approaches can be applied:

- Targeting higher levels within the company's corporate hierarchy
- Sharing written concerns with the company's board
- Propose the target or case to collaborative engagement platforms, such as for example UN PRI or WDI
- Communicate publicly, e.g., on our website or through social media
- Divestment of the holding

There is no generally applicable sequence of these escalation approaches. Rather, the use of one or several escalation approaches will be determined in response to the specific situation of an engagement.

Divestment of the holding is considered as a last resort. Divestment is applied, for example, if we consider that the company's sustainability-related performance in general or in relation to the targeted sustainability-related engagement objectives is deteriorating and the company is continuously unresponsive to the engagement efforts. Overall, dialogue is continued for as long as the target company demonstrates willingness to engage and shows potential for enhancing its performance in relation to the targeted sustainability-related engagement objectives.

6. GOVERNANCE

ESG-AM's engagement activities are executed within our organization. We do not outsource engagement activities. A dedicated Engagement Officer is charged with the planning, implementation and monitoring of engagement activities. ESG-AM's Head of Sustainability oversees the implementation of this policy.

ESG-AM's Code of Conduct, which deals with potential conflicts of interest, provides a clear framework for identifying and managing any potential conflicts.

7. MONITORING & REPORTING

All ESG-AM engagements are documented and tracked internally via a dedicated database.

We periodically report on our engagement activities in ESG-AM's Sustainability Report or through alternative channels. Reporting may be generic, i.e., focusing on general statistics, or if deemed adequate may include information on specific engagements and identifying the companies engaged with.

Contact:

*We value continuous improvement and actively seek feedback from our stakeholders. We invite our readers to provide feedback on our engagement policy at **engagement@esg-am.com**. We welcome your comments and will use them to enhance our approaches and reporting in the coming years.*

For further inquiries, please reach out to our Sustainability team, headed by Caroline de Leeuw den Bouter: caroline.deleeuwdenbouter@esg-am.com

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