



A Q&A WITH ESG-AM'S ENGAGEMENT MANAGER

Interview



BEHIND THE SCENES: A Q&A WITH ESG-AM'S ENGAGEMENT MANAGER

Over the past year, we engaged in dialogues with companies and institutions on a wide range of sustainability topics, to increase transparency and accountability, manage risks, enhance the sustainability-related performance of our portfolios and address systemic sustainability challenges. Paula Krol, our Engagement Manager, explains how we make it happen.



"Every issuer has the potential to be a catalyst for change. At ESG-AM, we don't just invest; we engage, we inspire, and we strive for positive change."

PAULA KROL

Engagement Manager

Q: What role do asset managers play in advancing sustainability?

A: Coming from a background in international organizations has shown me the unique leverage that asset managers have in driving sustainability. Our influence through capital allocation is clear, and it's significantly less restricted by red tape. Beyond just investing, asset management firms can influence through engagement—urging not only companies but also public authorities and governments to tackle systemic challenges. This dual approach of influencing through investment and engagement positions investors at the forefront of addressing global sustainability issues.

Q: In your view, what is the value of engagement?

A: Engagement, to me, is a critical tool for discerning nuances that ESG scores alone might miss. It's relatively straightforward to spot companies at either extreme of the sustainability spectrum—those that perform either very poorly or exceptionally well. However, ESG ratings can often present conflicting information and may fail to capture the subtleties of companies that fall in between. Through engagement, we can better understand the depth of a company's awareness and commitment to ESG practices, identify those that are willing to improve and promote positive change.

Q: How does ESG-AM engage with issuers to enhance their sustainability practices?

A: At individual level, we may undertake three types of engagement: Disclosure Engagement, to improve ESG reporting transparency and granularity; Impact Engagement, to encourage sustainable practices; and Incident-Based Engagement, to address and mitigate risks associated with severe incidents or controversies.

Q: Does ESG-AM collaborate with other investors in its engagement efforts?

A: Absolutely. We engage collectively with other investors and institutions through platforms like the CDP and the Workforce Disclosure Initiative (WDI). We are also a signatory of the UN Principles for Responsible Investment (PRI). This collective approach allows us to leverage broader influence and drive progress on critical ESG issues. Such platforms also provide us with a venue for policy engagement on systemic sustainability issues, by participating in investor statements, for example.

Q: How does engagement feed into ESG-AM's investment process?

A: Engagement is at the heart of our Sustainable Investment Framework. It feeds into our investment process and enhances our portfolios' sustainability-related performance. The Sustainability Team handles all engagement activities in-house, which affords us great agility and contributes to building direct relationships with investees. I particularly appreciate how closely we work with Portfolio Management. We're right next to each other, so sharing insights and updates is frequent, often also informally. This proximity helps us respond swiftly to any emerging issues and integrate sustainability into our strategies. For example, our monthly controversy review meetings, bringing the

Sustainability and Portfolio Management teams together, are key. They are not just check-ins but real discussions where everyone is involved and contributing. It's energizing to see how committed everyone is.

Q: What aspects of your work do you find most rewarding?

A: My favorite part is the diversity of cases we handle. No two issuers or cases are the same. For instance, in 2023, we engaged several banks on their indirect financing of a controversial company; each responded uniquely and required a tailored approach. This diversity means that there is no typical week, and it keeps you on your toes, which is incredibly stimulating.

Another highlight is what I like to call the "Aha" moment. It's when you're having a discussion with an engagement target's senior management, and you see the realization dawn on them – you know you've planted a seed. Whether it's raising awareness, sparking ideas or simply asking the right questions that ignite further interest, these moments are very satisfying.

Q: What do you find the most challenging?

A: Engagement requires patience, which can be quite trying in a fast-paced setting like ours. Guiding companies toward sustainable practices is a process that unfolds over months, sometimes years. You build a solid case, connect with the right people, and employ all necessary tools to escalate the issue, yet sometimes we might not see the changes we hope for – ultimately, it is up to the company. When companies fail to respond, it signals that they may not align with our criteria for inclusion in our investable universe. In such cases, we may choose to divest. What keeps me motivated are the cases that do succeed and knowing that this work has a purpose and can potentially result in positive change.

Q: Where do you see the most engagement potential?

A: Traditionally, most sustainability engagement has focused on environmental factors, but social issues are the next frontier. These issues often come with challenges such as measurability and subjectivity, which can be more pronounced in smaller, private companies due to their varied practices and lack of mandatory and standardized reporting. However, these challenges also present a unique opportunity. Through engagement, investors can work towards standardizing social metrics and influence policy, significantly impacting how these companies operate.

Q: With the first experiences gained, what are some lessons learned?

A: Our experience confirms that focused engagements can drive meaningful outcomes even on a smaller scale. Quality engagement that is informed, relevant and tailored to an issuer's specific challenges and opportunities is more impactful than a higher quantity of generic interactions. It's also critical to have a pre-planned escalation strategy for instances when a company is unresponsive, as it allows us to remain proactive and maintain momentum. And finally, persistence: sustained effort is often required to raise awareness and to see real change.

 **Contact**

We are committed to continuous improvement and value feedback from our stakeholders. We invite our readers to share their feedback on this report via 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 Engagement Manager, Paula Krol: paula.krol@esg-am.com

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