



ENGAGEMENT REPORT

FOR THE YEAR ENDING
31 DECEMBER 2023

We are committed to working with issuers and investors to promote transparency and accountability and drive positive change in the ESG landscape. In doing so, we seek to enhance and protect the value of our clients' assets while addressing systemic sustainability challenges.



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1 INTRODUCTION



At ESG-AM, utilizing our credit knowledge, we invest in issuers with strong sustainability performance. As an active investor this means going beyond the consideration of ESG criteria. For us, engagement is a cornerstone for identifying investment opportunities, mitigating investment risks, and driving positive outcomes for our clients. Where others see a challenge, we see an opportunity.

Looking back at ESG-AM's engagement activities over the past year, we feel immensely proud of our progress and tangible results. Our strong results in 2023 highlight our commitment to constructive engagement and to driving positive change, effectively navigating the particular conditions of the fixed-income market, including lower ESG disclosure by private bond issuers and lack of voting rights. Where others see a challenge, we see an opportunity. Our results affirm our conviction that bondholder dialogue can yield positive outcomes, particularly within corporate debt. Although historically the realm of listed equities, effective stewardship must encompass all asset classes. The fact that 2023 saw the first-ever symposium on bondholder stewardship¹ stands as a testament to the growing interest in and commitment to this area, underlining bondholders' pivotal role in shaping sustainable finance.



**CAROLINE DE LEEUW
DEN BOUTER**

ESG-AM's Head of Sustainability and member of the Executive Board.

"At ESG-AM, we have identified engagement with bond issuers as our opportunity to enhance our portfolios' sustainable performance, and to contribute to positive systemic change. Engagement is an inextricable element of our sustainable investment practice. Our experience demonstrates that engagement is an immensely effective tool for fixed-income investors. We have established constructive dialogues with issuers to support our due diligence, to promote the enhancement of public disclosures, and to champion the establishment of concrete sustainability targets. A specific thematic focus, strong expertise in the selected topics and dedication to longer-term interactions are ingredients, which enable investment managers to be effective agents for transformative outcomes."


PETER JEGGLI

ESG-AM's Head of Portfolio Management and member of the Executive Board

"Engagement with bond issuers on sustainability topics is a crucial tool at ESG-AM. It enables us to gain insights that go beyond conventional data. Our Sustainability and Portfolio Management functions collaborate closely, with engagement efforts contributing to identify and mitigate material risks that might affect the performance of our portfolios and pose reputational risks to us and our clients. Issuer dialogue is not only vital in expanding our investible universe and refining our investment strategies; it is essential for harnessing opportunities that drive superior market-oriented returns."

The year 2023 saw us elevate our engagement efforts to new heights with several key achievements. Continuing our trajectory of growth, we increased the number of our engagement initiatives from 20 in 2022 to 36 in 2023 and achieved strong results, as showcased by the detailed case studies presented in Section 5 of this report. While the number of collective engagements remained stable, we significantly increased the number of individual engagements from 2 to 18. We also achieved an impressive 78% response rate from the issuers we engaged with in 2023, with a total of 54% of 26 closed cases achieving engagement objectives.

We proudly assumed the role of Lead Engager in the CDP Non-Disclosure Campaign to influence transparency in corporate environmental reporting. Moreover, we saw a marked increase under the Workforce Disclosure Initiative (WDI), rising from engaging with 12 companies in 2022 to 17 in 2023, with enhanced communication and follow-up efforts.

We solidified our commitment to transparency by publishing our Engagement Policy, as well as an overview of our engagement activities in 2022 in our Sustainability Report. We also voluntarily reported to the UN Principles for Responsible Investment (PRI), including on stewardship and engagement indicators.

We refined our approach to handling controversial incidents, leveraging academic insights to enrich our screening process and optimizing our engagement response². Our collaboration with third-party data providers was intensified throughout the year, playing a crucial role in assessing controversies, improving data quality, and facilitating dialogue between engaged issuers and data providers to advance disclosure standards.

Looking ahead to 2024, we are keen to continue our proactive involvement in this evolving landscape, aspiring to be at the forefront of the movement towards more extensive bondholder engagement.

Reflecting on the progress of the past year, this report offers an in-depth look at our engagement activities and outcomes.

First, we explore our comprehensive engagement approach, detailing the methods and initiatives we employ to engage issuer sustainability practices and how these efforts are integrated into our investment processes ([Section 3](#)).

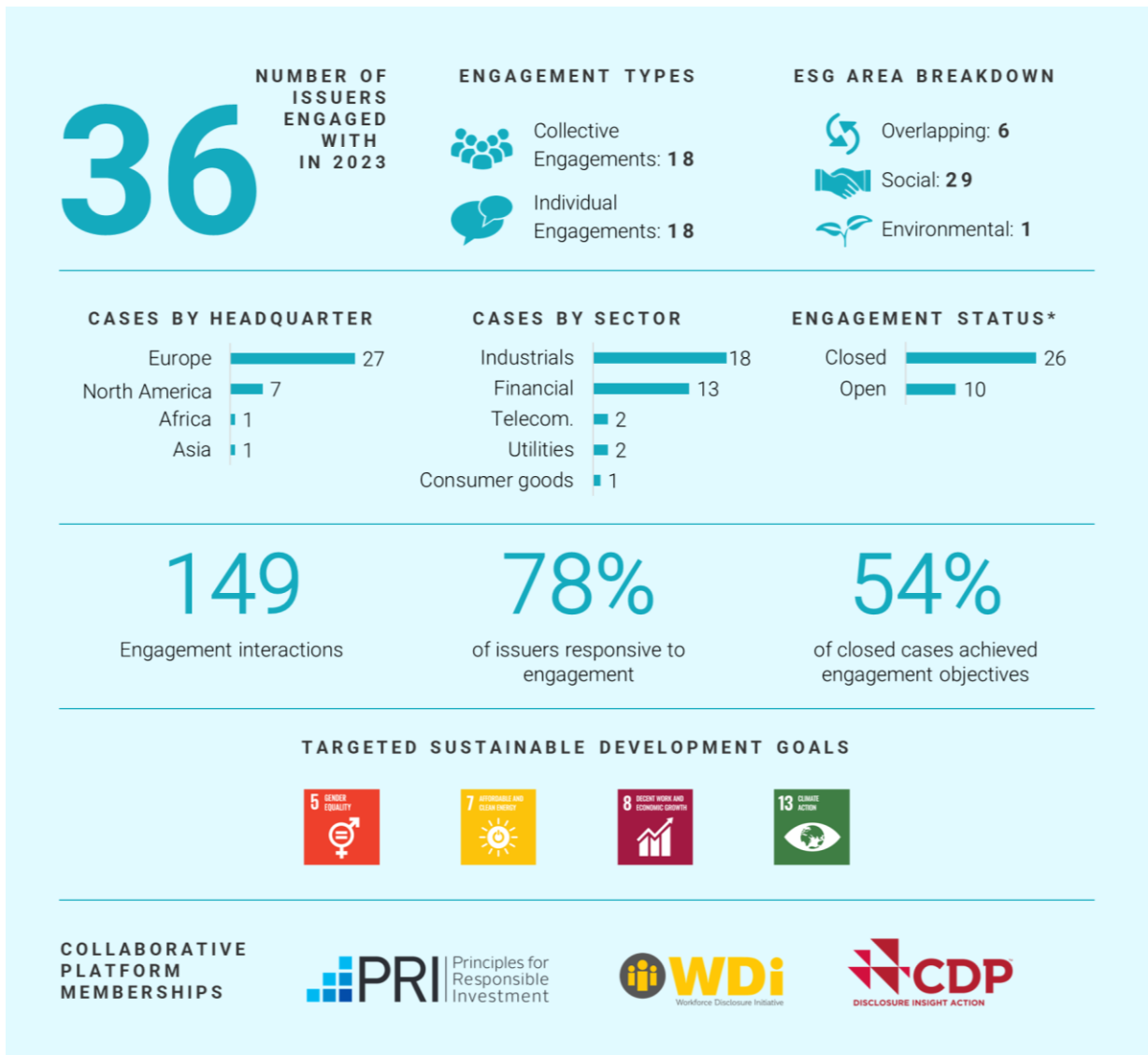
We then delve into our 2023 engagement activities, offering insights into their effectiveness and outcomes, with a focus on both individual and collective approaches ([Section 4](#)).

Next, we present a selection of case studies that showcase the breadth and effectiveness of our engagements in enhancing environmental sustainability, social responsibility, and governance across various industries and regions ([Section 5](#)).

Finally, we discuss our role in policy engagement, highlighting how we contribute to shaping broader industry and policy changes that support sustainable business practices globally ([Section 6](#)).



2 OUR HIGHLIGHTS IN 2023



3 A PEEK INSIDE OUR ENGAGEMENT APPROACH

Achieving social and environmental sustainability objectives is at the core of the ESG-AM Sustainable Investment Framework³. The framework integrates a comprehensive approach to sustainable investing: norms- and value-based exclusions, targeted allocations towards specific Sustainable Development Goals, screening for social and climate-related criteria, monitoring of controversial incidents and adverse impacts, and engagement.

At ESG-AM, engagement is an essential part of our toolkit for identifying investment opportunities, mitigating investment risks, promoting investees' sustainability-related performance, and supporting long-term value creation for our clients.



ESG-AM'S ENGAGEMENT

- Identifies investment opportunities and risks
- Supports long-term value creation for clients and companies
- Is informed by regulatory developments & industry best practice
- Is thematic and SDG-based
- Regards divestment as a last resort in escalation

In line with our Engagement Policy, our engagement activities include constructive dialogue with companies, both individually and collectively. We seek to improve their ESG metrics and performance while holding them accountable for their sustainability-related practices. We distinguish four types of engagement: disclosure engagement, impact engagement, incident engagement, and collective engagement.







ENGAGEMENT TYPES \ ENGAGEMENT APPROACHES	DISCLOSURE ENGAGEMENT	IMPACT ENGAGEMENT	INCIDENT ENGAGEMENT	POLICY ENGAGEMENT
 INDIVIDUAL ENGAGEMENT	 <ul style="list-style-type: none"> • Raise bond issuers' awareness on ESG aspects • Increase transparency / granularity of ESG metrics • Pre- and post-investment 	 <ul style="list-style-type: none"> • Raise bond issuers' awareness on best practice in relevant ESG aspects • Encourage companies to improve their performance on relevant ESG metrics • Pre- and post-investment 	 <ul style="list-style-type: none"> • Reactively target investee companies involved in controversial incidents, e.g. severe breaches of international norms such as UNGC, ILO standards. • Post-investment 	 <ul style="list-style-type: none"> • Address policy makers to encourage the adoption of enhanced policy frameworks and practices, which support sustainable investment practices.
 COLLECTIVE ENGAGEMENT				

FIGURE 1: ESG-AM'S ENGAGEMENT TYPES AND APPROACHES

Engagement target selection depends on engagement type. Disclosure engagement focuses on disclosure laggards. For Impact Engagement, we may consider criteria such as the issuer's scoring in our proprietary Social Transformation Scoring methodology, financial performance, portfolio weight, and our potential to influence change. Moreover, engagements may target investees or issuers with strong potential for portfolio integration. Incident Engagement targets issuers included in our portfolios and flagged by media or other publications as breaching international norms such as UN Global Compact principles or International Labour Organization Conventions.

Our engagement themes and topics align with our sustainable investment strategies' objectives, focusing on UN Sustainable Development Goals (SDGs) 5 (Gender Equality), 7 (Affordable and Clean Energy), 8 (Decent Work and Economic Growth), and 13 (Climate Action). We also engage on *ad hoc* ESG topics that are financially material to our investment strategies.

ENGAGING ON PAY DISPARITY: A HIGHLY RELEVANT TOPIC

The gender pay gap and excessive executive compensation are significant factors in the growing wealth and income inequality worldwide⁴. The COVID-19 pandemic has highlighted these issues, underscoring their financial importance for investors, given the implications for the economy, businesses, and the workforce⁵. CEO pay surged at the height of the pandemic while median worker pay stagnated and even declined⁶, eliciting vocal protests and calls for action⁷. Women were also disproportionately impacted by the pandemic⁸, with the World Economic Forum now estimating it will take another 169 years to close the economic gender gap⁹.

Addressing pay disparity is not only a moral and social imperative, but it also makes good business sense. Research indicates that actively addressing pay gaps can help organizations mitigate reputational risk and penalties, attract diverse talent, and enhance employee productivity, engagement, and retention, thereby boosting profitability¹⁰. Additionally, studies suggest that companies with no gender pay gaps tend to outperform those with negative pay gaps¹¹, and companies with high CEO-worker pay gaps are at greater risk of reputational damage¹². We believe that promoting greater pay equality ultimately leads to improved business performance and a more sustainable global economy.

Since 2022, ESG-AM has focused a number of engagements on the theme of pay disparity. Under this theme, our aim is to drive up transparency to obtain the information needed to evaluate how effectively companies are reducing their gender pay gap and CEO-to-median-worker pay ratio. Once a dialogue has been established, engagement efforts focus on encouraging fair and balanced compensation policies and practices.

During our engagements, we aim to define key performance indicators and to regularly assess progress. In cases where a company is not open to dialogue or where dialogue has not been constructive, we escalate our efforts progressively, which may include addressing concerns at higher corporate levels or sharing concerns with the board. If necessary, we may publicly communicate our concerns, engage with other investors for collective action, or as a last resort divest from the company.

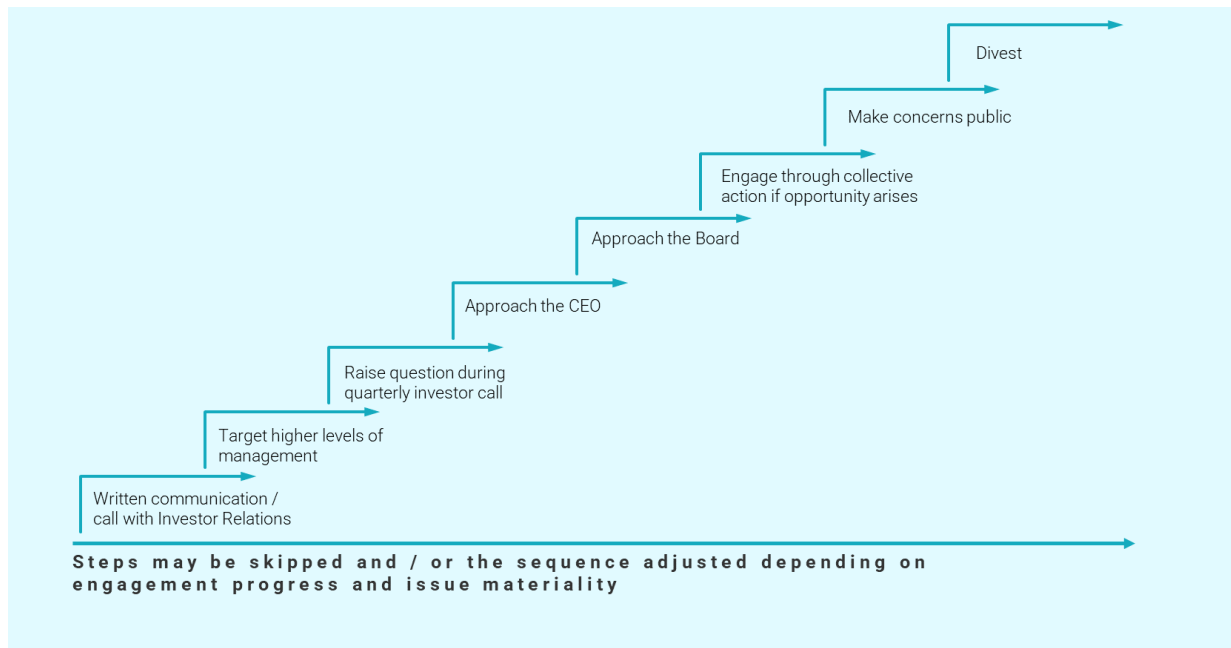


FIGURE 2: ESG-AM'S ENGAGEMENT ESCALATION STEPS

ESG-AM’s engagement activities are executed within our organization. We do not outsource engagement activities. A dedicated Engagement Manager 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 Executive Management is regularly informed and provides guidance and feedback on our engagement activities. Engagement activities, progress, and outcomes are regularly reported to the Board of Directors, fulfilling our duty to provide information. All of ESG-AM’s engagement interactions are documented and tracked internally via a dedicated database.

Please refer to our Engagement Policy for more information on our framework and process¹³.

OUR ALIGNMENT WITH THE SWISS STEWARDSHIP CODE

In October 2023, the publication of the Swiss Stewardship Code by the Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF) introduced a voluntary framework focused on enhancing sustainable investment practices in investors' stewardship activities, including engagement. The code promotes active ownership as a means to address sustainability challenges and risks, supporting long-term value creation, and fostering a sustainable economy.

ESG-AM has been ahead of the curve in adopting many of these principles, effectively living them even before the code was formalized. We have integrated engagement into our investment and operational models as a core element of protecting and enhancing long-term value, in line with our fiduciary duty to our clients. We have made our engagement policy public and transparently report on our activities. Our engagement framework includes mechanisms for escalating our efforts in cases of unresponsiveness or lack of meaningful progress by the entities we engage with. Our Code of Conduct, which deals with potential conflicts of interest, provides a clear framework for identifying and managing any potential conflicts arising from our engagement activities.

We welcome and view the publication of the code as a catalyst for industry-wide dialogue and improvements in engagement practices among Swiss financial institutions, and we look forward to being part of the conversation. We strive to continuously monitor and review our engagement approach and industry, policy, and regulatory trends relevant to engagement, ensuring alignment with best practices and the code, where applicable.

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.



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 tai-

lored 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.



FROM ALERT TO ACTION: OUR CONTROVERSIAL INCIDENTS HANDLING PROCESS

Engagement is a pivotal component of our approach to managing issuers involved or alleged to be involved in controversial behavior¹⁴. At ESG-AM, we actively monitor allegations and confirmed controversial incidents throughout the investment period using data from third-party providers complimented by our own research. This distinction helps address both reputational risks and the risks of underperformance related to environmental, social, and governance issues.

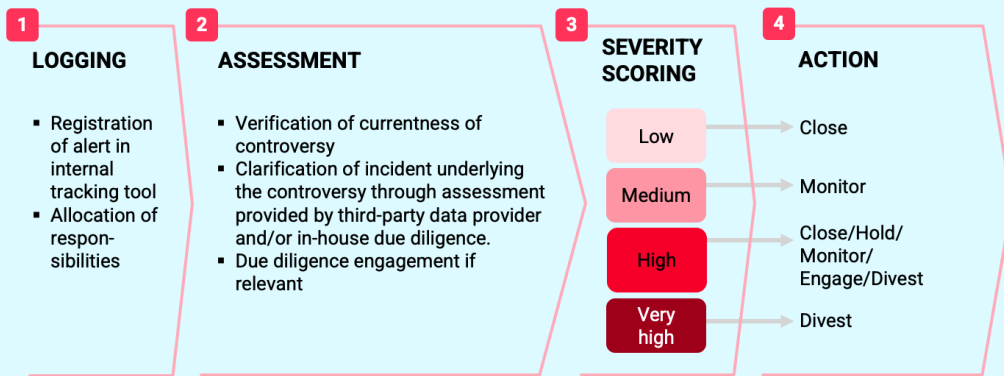


FIGURE 3: ESG-AM'S CONTROVERSIAL INCIDENTS HANDLING PROCESS

Engagement may occur at two key stages within our controversial incidents handling process. Initially, engagement can serve as a due diligence measure following the reception of an alert from our data provider. If the data obtained from third-party sources and our research does not provide enough clarity, we may engage with the involved issuer as a means to gather additional insights. This step helps determine the severity of the incident or dispel or confirm allegations. It involves direct dialogue with the issuer to establish whether they acknowledge the allegations and to understand any expressed commitments or remedial actions undertaken. During such engagements we may also approach other stakeholders such as the original source of the allegations, governmental agencies, and international and non-governmental organizations. Their insights can be valuable in assessing the veracity and extent of the allegations.

If efforts lead us to establish a high severity level and identify a definitive need for remedial action, our engagement will focus on corrective measures undertaken by the issuer. Depending on the case, we may also advocate for the implementation of broader changes relating to the issuer's sustainability framework and practices.

4 OUR ENGAGEMENT DATA EXPLAINED

Over the course of 2023, we engaged with 35 companies and one multilateral development finance institution. Issuer responsiveness¹⁵ stood at a commendable 78%, reflecting issuers' willingness to engage in conversations around sustainability topics, bolstered by a carefully formulated escalation strategy. For example, all three engagements that were escalated at the Executive or Board level resulted in increased issuer response and the establishment of a subsequent constructive dialogue.

In 2023, we continued dialogue from 2022 with 3 additional issuers, and we initiated a total of 33 new cases. Of the 36 engagement cases this year, 26 were closed, with 54% meeting their intended objectives. This underscores the effectiveness of our strategies in achieving our engagement goals and highlights our ability to drive meaningful progress. The remaining 10 ongoing cases have been transferred to the year 2024. All 12 closed cases that did not meet engagement objectives involved issuers we engaged collectively under the Workforce Disclosure Initiative (see "[Case study 5: Campaigning for Improved Corporate Transparency and Accountability on Workforce Issues: The Workforce Disclosure Initiative](#)")¹⁶.

Overall, we handled 18 individual and 18 collective engagement cases, maintaining a balance between collaborative and individual approaches. This dual approach maximized our actions' effectiveness, catering to both systemic and issuer-specific concerns.

The majority of our individual cases were triggered by third-party data provider alerts flagging allegations of controversial incidents. Alleged controversial behavior included forced prison labor, sexual harassment, negative environmental and social impacts of infrastructure projects, and corporate complicity in human rights violations. Out of 14 engagements initiated from controversy alerts, seven were resolved satisfactorily within the year, demonstrating the effectiveness of our controversial incident handling process (see [Figure 3](#)). As part of our disclosure and impact engagement efforts, we continued engaging with two issuers on the theme of pay disparity and also launched a third one on this theme (see [page 9](#)).

Our collective engagement efforts focused on fostering enhanced disclosure of workforce and climate data, striving for greater transparency and accountability. Under the Workforce Disclosure Initiative (WDI), we engaged with 17 companies, resulting in 10 responses, including 5 disclosures. Additionally, through our participation in the CDP's Non-disclosure Campaign (NDC), we engaged directly with one company, urging them to disclose climate data through CDP, re-

sulting in comprehensive data submission. Furthermore, by participating in the 2022-2023 Science-Based Targets Campaign, we collectively encouraged over 1060 companies to set emissions reduction targets aligned with limiting global temperature rise. For more information and detailed statistics on our collective engagements in the framework of the WDI and the CDP, see “Case Study 4: Fostering Environmental Accountability: Enhancing Transparency and Promoting Science-based Targets through CDP Initiatives” and “Case Study 5: Campaigning for Improved Corporate Transparency and Accountability on Workforce Issues: The Workforce Disclosure Initiative”.

Most of our engagement cases in 2023 focused on social topics. This relates to our investment strategies focused on social sustainable objectives and targeting Sustainable Development Goals (SDGs) 5 (Gender Equality) and 8 (Decent Work and Economic Growth). Our investment strategies focused on climate-related sustainable objectives target SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action). We cooperate with responsAbility for the handling of climate or environment-related controversial incidents¹⁷.

The achievements of our 2023 engagement initiatives reflect our thorough strategic planning and strong framework, highlighting ESG-AM’s ongoing commitment to fostering persistent and constructive dialogue.

5 ENGAGEMENT IN ACTION: CASE STUDIES

This section features a selection of case studies that demonstrate the range and influence of our efforts. The case studies illustrate our commitment to improving governance, social responsibility, and environmental sustainability. Through our targeted efforts, we aim to foster transparency and effect positive changes that benefit our clients and contribute to a more sustainable future. While some issuers are named, others remain anonymous, either because the engagements are ongoing or because the issuers did not consent to the publication of their names.



CASE 1

From Allegations to Clarity: The Role of Engagement in Resolving Controversial Project Financing Allegations

In November 2023, we were alerted to an article implicating several banks within our investment portfolio in indirectly financing the controversial East African Crude Oil Pipeline (EACOP) project. Shareholders of this large-scale infrastructure project include the China National Offshore Oil Corporation (CNOOC)¹⁸. The project is a 1,443 km pipeline that will transport oil from Uganda's Lake Albert oilfield to the port of Tanga in Tanzania, for international sale. EACOP has been the object of a European Parliament resolution denouncing the project for human rights abuses and environmental damage¹⁹.

Based on financial data from 2016 to December 2022, the article highlighted a discrepancy between financial institutions' public commitments to disengage from environmentally and socially harmful projects and their investment activities. Especially, the article suggested that the banks continue to provide financial support to the project through their involvement with CNOOC, a company included on the US Office of Foreign Asset Control (OFAC) sanctions list²⁰. We immediately stopped any further investments into the concerned banks, initiated engagement with the institutions and analyzed their ESG frameworks to understand which corporate constraints were in place to prevent indirect financing of the EACOP project and similarly critical undertakings. In this context, we reached out to a major European mul-

tinational banking group to seek clarification on its position on the funding of the EACOP project, as well as any direct or indirect financial activities that could be perceived as backing the EACOP project, with a particular focus on CNOOC.

The bank responded within two weeks, stating that they were not involved in financing EACOP, had no indirect activities supporting the project, and their past limited exposure to CNOOC was settled. The bank's swift responsiveness and transparency, along with their confirmation of disengagement from the project and specifically CNOOC, have demonstrated its dedication to upholding the ESG values formally committed to in their ESG framework. To establish full transparency on the matter, and to ultimately confirm the bank's response, we requested that their statement of non-involvement be shared with the article's author. The bank agreed to this request and shared their response with the organization.

We see this engagement case as exemplary, as it allowed us to gain confidence in our investee's commitment to uphold ESG values within an adequate timeframe.

Moreover, after scrutinizing the ESG framework and financing relationships of the other affected banks, we were able to close several cases in 2023 satisfactorily. Other engagements were ongoing in 2024.

CASE 2

Engagement Amid Disclosure Gaps: Championing Pay Equity and ESG Disclosure with a Telecommunications Company

In 2023, we continued our engagement with a leading European-headquartered private telecommunications provider. We initiated the engagement in 2022, addressing the company's lack of transparency in key social metrics. Their level of disclosure was insufficient to meet the eligibility criteria of our investment strategies, and we could, therefore, not invest.

We included the company in our thematic disclosure engagement on pay disparities (see page 9). Our approach under this theme first focuses on achieving public reporting of these metrics. Next, we advocate for the setting of specific, time-bound targets based on the disclosed data. In this case, we additionally made the case for the company's broader ESG public disclosure.

As bondholders, we are in a unique position to engage with private companies that are typically inaccessible to traditional public equity engagements. This leverage allows us to advocate for greater transparency and ESG compliance, which is vital for managing risk and enhancing the sustainability of our investments.

During the initial engagement stage, we experienced difficulties in establishing a regular dialogue with the company. Following escalation and personnel changes at the company's top management, a series of productive discussions with the CFO and newly instated ESG team started. In the course of our engagement, they informed us of the company's transition from treating ESG considerations as an ad hoc topic to an essential part of its business strategy. Efforts included conducting a double-materiality analysis, developing a sustainability policy with associated SMART ob-

jectives and KPIs for public release and establishing a dedicated ESG team - evidence of a shift towards a formalized sustainability framework.

In terms of disclosure, the company anticipated launching a dedicated sustainability webpage and was focusing on ESG topics as part of future mandatory reporting. The gender pay gap was being addressed as part of these considerations.

Upon learning that the company did not have a commitment to equal pay, we stressed the importance of formalizing this commitment as a strategic imperative for enhancing a company's reputation, talent attraction and retention, and potentially improving financial performance. In that discussion, there was an expressed intent to formalize the principle of equal pay into company policies. Subsequently, the company communicated to us that a commitment to eliminating gender-based salary differences had been included in the newly adopted sustainability policy - a promising stride towards tangible change.

We commend the company's efforts to strengthen its sustainability framework and its pledge to pay equity, which we expect will be made public in 2024. The adoption of these measures is a positive reflection on the company's commitment to sustainability.

This engagement demonstrates that active and meaningful dialogue can also be achieved with potential investees. In 2024, we intend to focus on encouraging the company to establish specific, measurable objectives to tackle the gender pay gap, reinforcing their commitment to equality and aligning with our strategies' investment values, and enhancing their disclosure.

CASE 3

Engaging with a Multilateral Development Finance Institution: Socio-economic Impact and Consultation in Energy Investments

The Mphanda-Nkuwa Hydropower Dam Project in Mozambique is praised by its promoters for its contribution to the transition to clean energy and combating climate change. Critics, on the other hand, emphasize the project's potential negative impact on the local water scarcity situation. The project is expected to cause the displacement of 1,400 families and jeopardize the livelihood of 200,000 residents downstream. Moreover, critics claim a lack of consultation with potentially affected stakeholders²¹.

In March 2023, we were alerted about the African Development Bank's (AfDB) involvement in the project. Following desktop-based due diligence of the case, we reached out to AfDB's investor relations team to obtain further clarifications. The receipt of our query was confirmed within one working day.

As investors in the AfDB, we focused our engagement on the Bank's role in the Mphanda-Nkuwa Hydropower Dam Project. We sought to understand the Bank's position and if warranted to potentially influence its actions in relation to the allegations concerning the project.

AfDB clarified that they were acting in an advisory capacity to the project developers, focusing on the project's compliance with applicable environmental, social and governance standards. AfDB confirmed that they had already advised, "in compli-

ance with the provisions of its Integrated Safeguards System (ISS)²² that the client carries out a very comprehensive stakeholder identification (including local and international civil society organizations), analysis and mapping to inform the engagement strategy from the project area in a manner that is transparent and free of reprisals." It appeared that the project was in the early development stages, and formal stakeholder mapping and consultations were under preparation.

The AfDB committed to engage with the project developer to address the allegations as part of the ongoing Environmental and Social assessment studies. Lastly, we analyzed the AfDB's ISS, and understood that strict rules would apply should the Bank consider, at a later stage, to finance the project. Requirements included in the ISS address early and transparent stakeholder consultation, and involuntary resettlement and compensation. On the basis of these clarifications and commitment, we closed the engagement and proceeded with monitoring future developments via our regular media monitoring.

The AfDB's clarification of its role in the project and its position on stakeholder consultation, involuntary resettlement, and compensation was conducive to a swift and adequate clarification of the allegations. We commend the AfDB for its responsiveness and transparency during our engagement.

CASE 4

Fostering Environmental Accountability: Enhancing Transparency and Promoting Science-based Targets through CDP Initiatives

The CDP is a non-profit organization that operates a global disclosure system for companies to report on key environmental issues, including climate change, water scarcity, and deforestation. ESG-AM became a CDP signatory in 2022, recognizing the value of consistent and transparent corporate disclosure on ESG metrics. Its datasets and reporting platform feed into our partner's responsAbility's Climate Transition Rating Methodology, which ESG-AM utilizes to identify suitable investments for strategies with an environmental objective. In 2023, we supported the CDP through our participation in the [Non-disclosure Campaign \(NDC\)](#)²³ and the Science-based Targets Campaign.

The [NDC](#) targets companies that have not disclosed their environmental data through CDP's platforms in previous years. In 2023, a record 1,590 non-disclosing companies were approached by 288 financial institutions, emphasizing the campaign's significant role and growth. The NDC provides a unique platform for financial institutions to directly influence these companies towards improved transparency and accountability in the themes of climate, forests, and water. A total of 317 companies disclosed in this campaign's edition, demonstrating a strong corporate will to enhance transparency about their environmental impact.

2023 marked the second year of ESG-AM's participation in the NDC. Through our involvement, we

co-signed on engagements with all targeted companies. Eager to take a more active role in the campaign, we also signed up to participate as a lead engager. As a result, in June, we directly engaged with Suez SA, a French-based utility company operating largely in the water and waste management sectors, urging them to disclose climate data through CDP. The company had not yet reported as a newly restructured entity following its acquisition by a consortium of investors in 2022. Commendably, the company responded positively by submitting comprehensive data which earned them a score of A-, signifying a high level of transparency and action on environmental issues²⁴.

Through the [CDP's Science-based Targets Campaign 2023-2024](#) edition, we are also collectively encouraging over 2100 companies to set emissions reduction targets aligned with limiting global temperature rise to well below 2°C and pursuing efforts towards 1.5°C. In the 2022-2023 edition²⁵, we joined forces with 318 financial institutions. Of the 1060 high-impact companies, 99 new companies joined the Science-based Targets Initiative (SBTi), underscoring a growing corporate drive towards science-backed sustainability efforts.

Read the [2023 CDP Non-Disclosure Campaign: Results Report](#) or visit the dedicated [CDP Science-Based Targets Campaign](#) webpage for more insights²⁶.

CASE 5

Campaigning for Improved Corporate Transparency and Accountability on Workforce Issues: The Workforce Disclosure Initiative

In 2023, we continued our active involvement in the Workforce Disclosure Initiative (WDI)²⁷, marking our second year of engaging with companies under this initiative since becoming a signatory in 2022.

The WDI, backed by 56 investors managing USD 9.5 trillion, aims to improve corporate transparency and accountability on workforce issues. The investor-led coalition encourages companies to share their workforce data, aiming to make this information clearer and more consistent for investors and stakeholders. This helps understand progress and gaps in how companies handle their employees and address social and human rights concerns within their supply chains. Participating companies receive feedback from the WDI, which in turn helps them address shortcomings. Investor signatories gain access to company data and to a collaborative forum for exchanging insights and thematic workforce research.

For its 2023 engagement cycle, the WDI called on 1000 top publicly listed companies to disclose to their annual workforce survey. Among them, 299 were actively engaged by investor signatories within the wider outreach campaign, and an impressive 166 voluntarily chose to disclose data to the WDI.

This indicates a strong interest in corporate transparency and accountability. Importantly, none of the non-responding companies cited a lack of investor interest as a reason for non-disclosure. Moreover, the decision by some companies to delay their voluntary reporting to the WDI until mandatory sustainability reporting requirements are in place suggests that we can expect an increase in responders as these regulations come into effect. Looking at the submitted data, numerous companies still lag in gathering essential data to fully understand and improve their value chains and working conditions. This highlights the ongoing need for increased investor engagement on workforce issues.

At ESG-AM, we engaged with 17 companies between August and November 2023. Out of these, 10 responded to our outreach. Notably, 5 of these companies disclosed to the WDI, and one expressed interest in future participation. In 2024, we plan to build on established dialogues, especially with those companies that expressed interest in future participation but did not manage to submit their data in 2023.

For more insights, read the 2023 WDI Findings Report²⁸.

CASE 6

Engagement Amid Exclusion: Addressing Ineligibility Arising from Controversial Weapons Involvement

In December 2022, we initiated engagement with Adecco Group AG, a global leader in Human Resources solutions, due to the company being flagged for involvement in controversial weapons by one of our data providers. Adecco acquired AKKA Technologies in the first half of 2022, a company with a significant presence in the aeronautics and defense sectors and specifically involved in providing engineering and testing services for the avionics systems of the M51 submarine-launched ballistic missile (SLBM)²⁹. This missile system has capabilities for delivering nuclear warheads over long distances.

Despite Adecco's positive ESG performance and candidacy for investment in the event of new bond issues, its association with controversial weapons made it ineligible for our investment, in line with our zero-tolerance exclusion criteria. The engagement was thus aimed at understanding Adecco's position and any measures being taken to address this involvement while also communicating our investment criteria related to controversial weapons.

Our initial communication focused on Akka Technologies' role in the M51 SLBM program, which directly linked Adecco to supporting and producing nuclear weaponry systems. Adecco acknowledged this involvement, highlighting a contract related to the development of propulsion systems, a critical component of rocket technology. Adecco also referred to their Group-wide policy effective from September 2022, which prevents the Group from entering into new contracts or renewing existing ones related to controversial weapons. We also learned that Adecco was exploring their options on this contract.

In subsequent correspondence in 2023, we sought an update on any developments or decisions regarding their contract and policy implementation. Adecco reiterated its compliance with relevant weapons laws, governmental authorizations, and the new policy, underscoring the challenges posed by the contractual commitments that predate the policy.

Adecco's transparent communication has been instrumental in maintaining an informed perspective on their business conduct and potential future alignment with our investment criteria. While we appreciate the Group's intention to avoid contract renewals in line with their policy, the exact timeline for the full disengagement from Akka Technologies' ongoing projects remains, however, uncertain. We will continue to monitor developments and liaise with Adecco at regular intervals to follow up on their remaining controversial weapons exposure and intention to eventually terminate this exposure. The company will remain ineligible until its ties to controversial weapons are fully severed.

6 DRIVING CHANGE THROUGH POLICY ENGAGEMENT

At ESG-AM, we recognize the crucial role that investors play in shaping a sustainable future not only through issuer engagement but also via policy engagement. As outlined by the Principles for Responsible Investment (PRI), policy engagement refers to “engagement with policy makers conducted as part of investors’ approach to responsible investment”³⁰. This approach aims to align local, national, and international policy with broader sustainability and responsible investment objectives. Such dialogue is key in addressing systemic sustainability challenges since it enables financial investors to drive broader, industry-wide changes that individual corporate practices cannot achieve alone.



In 2023, we participated in a policy workshop organized by Augsburg University, Sustainable Finance Research Platform, Sustainable Finance Advisory Committee of the German Federal Government, and VfU, and attended by policymakers representatives besides industry representatives and academia. The workshop focused on opportunities and approaches to enhance the real-world impact of sustainable investment funds. We used the opportunity of the workshop to provide our input to a survey conducted by the Augsburg University and during the workshop's discussions. Moreover, we endorsed 6 investor statements, aligning our efforts with those outlined by the UN PRI, to influence public policies in ways that foster transparent, accountable, and sustainable business practices.

INITIATED BY	TITLE	THE ASK
CDP	Financial institutions, business actors and networks in support of adopting ambitious EU Sustainability Reporting Standards (ESRS) ³¹	The European Commission was urged for the rapid adoption and implementation of comprehensive ESRS to boost corporate transparency and support a nature-positive economy shift
CDP	Open Letter to Governments on the Water Crisis ³²	Global governments were called on to establish strong polices, ambitious water targets, and mandatory disclosures for water resilience by 2030
INVESTOR ALLIANCE FOR HUMAN RIGHTS (FACILITATED BY PRI)	Investor sign-on statement in support of robust EU forced labor regulation ³³	The EU was called upon to implement strict regulations against forced labor-made products and enhance worker-focused remedies and supply chain transparency
PRI, EUROSIF, IIGCC	Joint statement on ESRS (European Sustainability Reporting Standards) ³⁴	The European Commission was called upon to maintain the integrity and ambition of the initial ESRS to ensure robust, mandatory sustainability disclosures
SHAREACTION/WDI	Investor group calls on the ISSB to embark on human rights and human capital concurrently, and as a priority ³⁵	ISSB was asked to prioritize integrated human rights and human capital standards in their upcoming work plan for clearer corporate disclosures
EUROPEAN ASSOCIATION OF PUBLIC BANKS, CSR EUROPE, SGI EUROPE AND OTHERS (FACILITATED BY PRI)	Europe needs to mobilize capital for social investments ³⁶	The European Commission was encouraged to develop a social investment framework for mobilizing capital towards crucial social infrastructure, while ensuring human rights in value chains and addressing social dimension of sustainability

 **Contact**

We value continuous improvement and actively seek feedback from our stakeholders. We invite our readers to provide feedback to our Engagement Report 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 Engagement Manager, Paula Krol: paula.krol@esg-am.com



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- ¹ The symposium on bondholder stewardship, titled "*The power of debt investors: how can engagement through fixed income drive positive sustainability outcomes?*" was co-hosted by the Oxford Sustainable Finance Group and ShareAction. It convened a diverse group of participants from the fixed income ecosystem—including practitioner investors, academics, regulators, and NGOs—to discuss the challenges and opportunities for effective and collaborative stewardship. For more information: <https://www.smithschool.ox.ac.uk/news/its-time-bond-holders-take-their-seat-stewardship-table>
 - ² For a detailed explanation of our controversial incident handling process, please refer to our 2023 Sustainability Report: <https://esg-am.ch/sustainable-investment-framework/>
 - ³ For a detailed explanation of our Sustainable Investment Framework please refer to our 2023 Sustainability Report: <https://esg-am.ch/sustainable-investment-framework/>
 - ⁴ UBS (2021). Women's Wealth 2030: Parity, power, purpose. Available at: <https://www.ubs.com/global/en/wealth-management/women/2021/women-wealth-parity-power-purpose.html> (Last accessed on 06.05.2024); Economic Policy Institute (2019). CEO compensation has grown 940% since 1978. Available at: <https://www.epi.org/publication/ceo-compensation-2018/> (Last accessed on 06.05.2024)
 - ⁵ Time (2022). Investors Are Finally Pushing Back on Massive CEO Pay Hikes. Available at: <https://time.com/6184355/ceo-pay-investors-workers/#:~:text=The%20average%20chief%20executive%20of,executive%20has%20been%20so%20fortunate> (Last accessed on 06.05.2024); Moodys (2021). Reducing gender gaps exacerbated by COVID would support economic gains; Moodys (2021). Rising focus on gender inclusion highlights links to economic growth and credit quality.
 - ⁶ Institute for Policy Studies (2021). Pandemic Pay Plunder. Available at: <https://ips-dc.org/report-executive-excess-2021/> (Last accessed on 06.05.2024)
 - ⁷ BBC (2021). The push to penalise big corporations with huge pay gaps. Available at : <https://www.bbc.com/worklife/article/20210610-the-push-to-penalise-big-corporations-with-huge-pay-gaps> (Last accessed on 06.05.2024)
 - ⁸ Johns Hopkins Bloomberg School of Public Health (2022). COVID-19 Shutdowns Disproportionately Harmed Women. Available at: <https://publichealth.jhu.edu/2022/covid-19-shutdowns-disproportionately-harmed-women> (Last accessed on 06.05.2024)
 - ⁹ <https://www.weforum.org/publications/global-gender-gap-report-2023/in-full/benchmarking-gender-gaps-2023/> (Last accessed on 06.05.2024)
 - ¹⁰ Workforce Disclosure Initiative (2022). Investor Guidance: Wage Levels and Pay Gaps. Available at: https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Company-Briefing_Wage-levels-and-Pay-Gaps.pdf; (Last accessed on 06.05.2024) Institute for Policy Studies (2021). Pandemic Pay Plunder. Available at: <https://ips-dc.org/wp-content/uploads/2021/05/report-executive-excess-2021-PDF.pdf> (Last accessed on 06.05.2024)
 - ¹¹ Refinitiv (2021). The Gender Pay Gap and your Investment Strategies. Available at: https://www.lseg.com/content/dam/marketing/en_us/documents/gated/reports/gender-pay-gap-and-investment-strategies.pdf (Last accessed on 06.05.2024)
 - ¹² Bhavian et al. (2018). Consumer Avoid Buying from Firms with Higher CEO-to-Worker Pay Ratios. *Journal of Consumer Psychology* 28(2), 344-352. Available at: https://www.hbs.edu/ris/Publication%20Files/Mohan_et_al_2018-Journal_of_Consumer_Psychology_26084303-75cb-44cb-a6ef-e1ff3e78105f.pdf

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- ¹³ The ESG-Am Engagement Policy is available at: <https://esg-am.ch/sustainable-investment-framework/>
- ¹⁴ For a detailed description of our controversial incidents handling process please refer to our 2023 Sustainability Report: <https://esg-am.ch/sustainable-investment-framework/>
- ¹⁵ Responsive to engagement means: engagement target did reply to contact attempts; this is counted irrespective of the content and the communication channel. Unresponsive issuers did not reply to the contact attempts.
- ¹⁶ Notably, disclosing to this initiative is not a prerequisite to be eligible for investment, and the lack of disclosure does not imply that social metrics are unavailable to us; they are accessible through our third-party data providers or internal research.
- ¹⁷ For investment strategies with a social objective, ESG-AM pays particular attention to social incidents. Similarly, for investment strategies with an environmental objective, particular attention is dedicated to environmental incidents. For the screening, assessment and following-up on environmental incidents, we collaborate with our partner responsAbility, leveraging their environmental expertise.
- ¹⁸ EACOP website: <https://eacop.com/> (Last accessed on 04.03.2024)
- ¹⁹ European Parliament (2022). Resolution on violations of human rights in Uganda and Tanzania linked to investments in fossil fuels projects (2022/2826(RSP). Available at: <https://oeil.secure.europarl.europa.eu/oeil/popups/ficheprocedure.do?lang=en&reference=2022/2826> (Last accessed on 04.03.2024)
- ²⁰ US Office of Foreign Asset Control sanctions list: <https://sanctionssearch.ofac.treas.gov/Details.aspx?id=30956> (Last accessed on 04.03.2024)
- ²¹ Nigriza (2023). *Mozambico: una nuova diga sullo Zambesi*. Available at: [Mozambico: una nuova diga sullo Zambesi - Nigrizia](#) (Last accessed on 15.03.2024)
- ²² Available at: [African Development Bank Group's Integrated Safeguards System 2023 | African Development Bank Group \(afdb.org\)](#) (Last accessed on 21.03.2024)
- ²³ CDP (n.d.). Engage with companies: Non-disclosure campaign. Available at: <https://www.cdp.net/en/investor/engage-with-companies/non-disclosure-campaign> (Last accessed on 03.05.2024)
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- ²⁵ CDP (2023). SBT progress report 2023. Engage with companies: CDP science-based targets campaign. Available at: <https://www.cdp.net/en/investor/engage-with-companies/cdp-science-based-targets-campaign/sbt-progress-report-2023>
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- ²⁸ Thomson Reuters Foundation. (n.d.). Workforce disclosure in 2023: Trends and insights. Available at: https://wdi.trust.org/resource/workforce-disclosure-in-2023-trends-and-insights/?utm_source=trf-linkedin&utm_medium=social&utm_campaign=2023-disclosure (Last accessed on 03.05.2024)
- ²⁹ Ministère des Armées, (no date). *Le missile mer-sol balistique stratégique M51*. Available at: <https://www.defense.gouv.fr/dga/missile-mer-sol-balistique-strategique-m5> (Last accessed on 04.03.2024)
- ³⁰ UN PRI. (2022, November). A sustainable finance policy engagement handbook. Available at: <https://www.unpri.org/download?ac=17538> (Last accessed on 03.05.2024)
- ³¹ Available at: [Business_letter_in_support_of_ambitious_ESRS_to_Commissioner_McGuinness_FINAL.pdf](#) (cdp.net)

³² Available at: [2022_Global_Investor_Statement_Water.pdf](#) (cdp.net)

³³ Available at: [About Investor sign-on statement in support of robust EU forced labour regulation | PRI](#) (unpri.org)

³⁴ Available at: [About Investor sign on statement on European Sustainability Reporting Standards | PRI](#) (unpri.org)

³⁵ Available at: [2023_WDI_Investor-RFI-open-letter_For-publication-4.pdf](#) (assets-servd.host)

³⁶ Available at: [Social-Investment_Framework-Advocacy-Paper-October_2023_eng_letter-2.pdf](#) (aki-ekd.de)