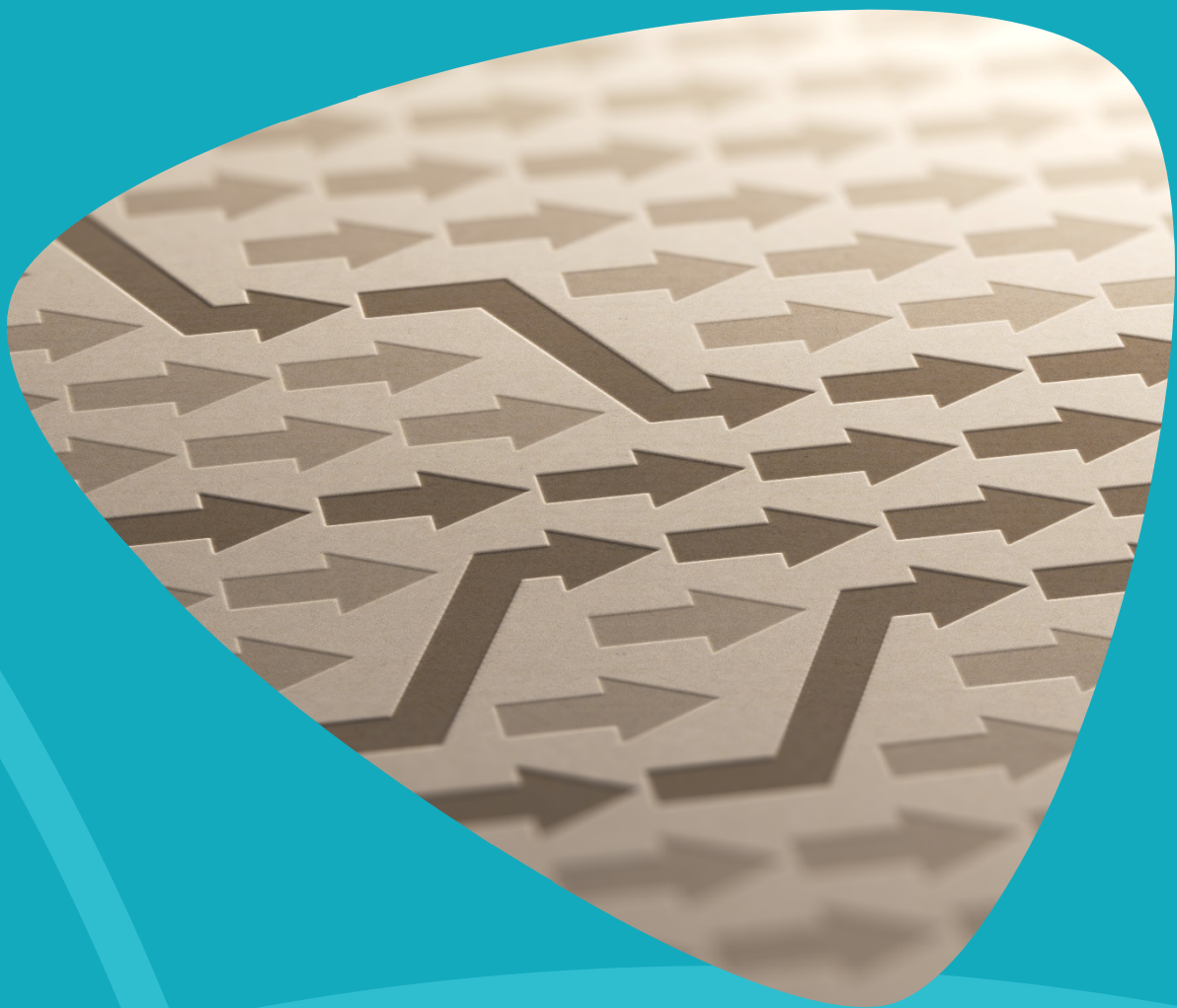




# ENGAGEMENT POLICY



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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.

**Investing.  
For a better  
now.**

**OUR MISSION.** We develop investment solutions for our clients that prioritize market-oriented returns and social and environmental performance. Our aim is to contribute to the preservation of our planet, promote social progress and drive forward the sustainability transformation of the economy. As one of the most important players in the market, we define standards. We achieve this through our extensive expertise in credit and sustainability, enriched by active engagement.

**FIGURE 1: ESG-AM'S VISION AND MISSION**

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

The ESG-AM Sustainable Investment Framework encompasses six steps:

1. **Norms- and values-based exclusions**, which are applicable to all our investment strategies, 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, and other themes.
3. **Best-in-Class and Best-in-Progress Screening**, using a Social Transformation Scoring Methodology and a 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. **Principal Adverse Impacts Monitoring**, in line with the requirements of the EU Sustainable Finance Disclosure Regulation, covering climate- and other environment-related indicators, and indicators for social and employee, respect for human rights, anti-corruption, and anti-bribery matters.
6. **Engagement**, including constructive dialogue with bond issuers 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 bond issuers through our engagement activities. In the credit universe, engagement is all the more important, as bond issuers 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 and other bond issuers represented in our portfolios.






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](#)).

ESG-AM endorses the Swiss Stewardship Code published by the Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF), and this policy reflects the guidance set forth in this code.

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 is subject to regular review. It may be updated accordingly. Updates will be published on our website.

## 2 ENGAGEMENT RATIONALE AND OBJECTIVES

At ESG-AM, we are convinced that bond issuers 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 bond issuers' sustainability-related performance in view of **supporting our investment decisions**.
-  Increasing the availability of disclosed data by bond issuers 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 bond issuers, pre-emptively by promoting the availability of solid ESG-related policies and management frameworks or adequate responses following controversies and incidents.
-  **Enhancing the sustainability-related performance** of bond issuers and supporting the achievement of the targeted sustainability performance at portfolio level.
-  **Promoting positive change** towards a sustainable economy and society, by encouraging issuers to enhance their sustainable performance and, via policy engagement, advocating for rules and market practices that support a sustainable and stable financial system and address systemic sustainability challenges.

# 3 ENGAGEMENT THEMES AND TARGETS

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



**FIGURE 2: IDENTIFICATION OF ENGAGEMENT THEMES AND TARGETS**

## 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 focusing on Social Transformation and Climate Transition, aiming to promote the following United Nations Sustainable Development Goals (SDGs): [SDGs 5 Gender Equality](#), [7 Affordable and Clean energy](#), [8 Decent work and economic growth](#), [13 Climate Action](#).

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. Moreover, we may also engage with individual bond issuers on ad hoc topics identified as financially material by our portfolio managers.

Moreover, we may also engage with individual bond issuers on ad hoc topics identified as financially material by our portfolio managers.

**Engagement targets:**

ESG-AM engagement targets current investees and issuers 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 bond issuers may potentially be included in our investment portfolios.

ESG-AM engagement also targets policymakers. Policy engagement differs from engagement with bond issuers; while engagement with bond issuers makes reference to existing norms, policy engagement aims to promote the development and modification of the normative framework. To take account of this difference, ESG-AM has developed specific policy engagement guidelines, which supplement and further elaborate the statements on policy engagement in this document. ESG-AM's Policy Engagement Guidelines are included in Appendix I of the Engagement Policy and are to be understood as an integral part of this Policy.

**Approach for the identification of engagement themes and targets:**

To identify engagement themes and targets, our Sustainability Team evaluates bond issuers' sustainability-related performance, while our Portfolio Management Team reviews issuers' financial performance. This dual evaluation applies to both bond issuers currently represented in our portfolios and potential additions to our portfolios. 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 Social Transformation Scoring and Climate Transition Scoring Methodologies, 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 AND 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 issuers represented in our portfolios. We distinguish four types of engagement:







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

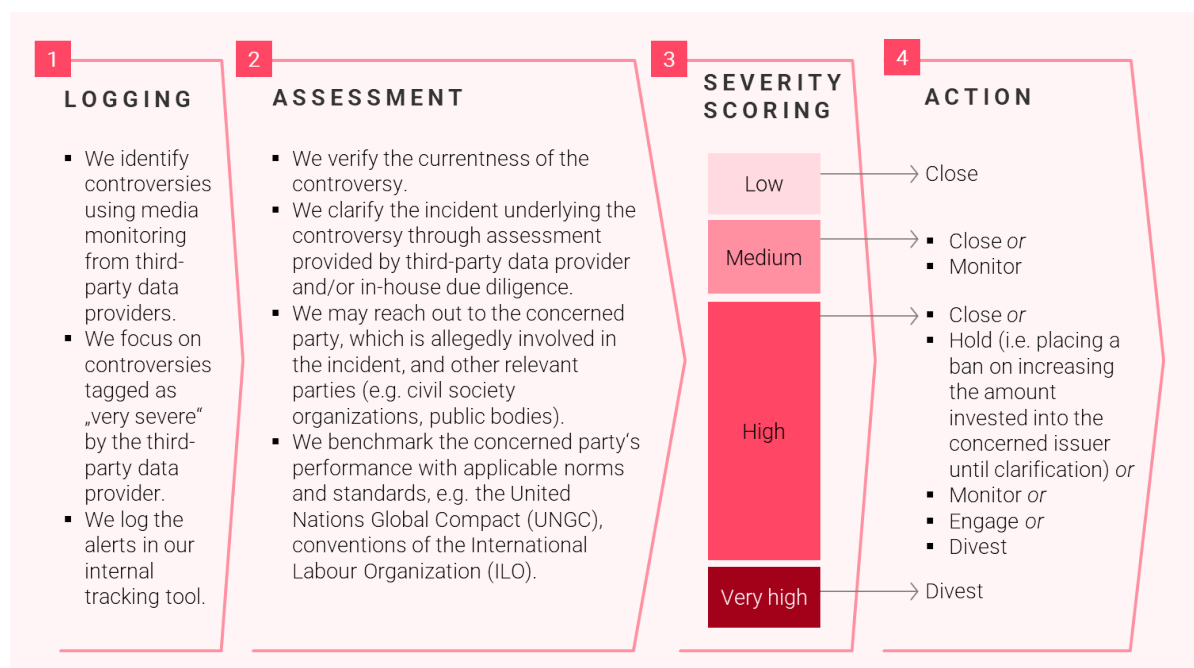
FIGURE 3: ESG-AM'S ENGAGEMENT TYPES AND APPROACHES (SOURCE: ESG-AM)

## Engagement Types:

ESG-AM may conduct four types of engagement: disclosure engagement, impact engagement, incident-based engagement and policy engagement.

- Disclosure engagement:** In the short term, disclosure engagement may raise bond issuers' awareness on sustainability-related aspects of their business and related expectations from responsible investors. This type of engagement may help us understand a bond issuer's level of awareness and plans to develop their sustainability policies and practices. In the medium term, it aims to enhance the range and granularity of ESG metrics reported by issuers. Disclosure engagement may be relevant during the pre-investment due diligence process, or for investees with gaps in their sustainability-related disclosures.

- Impact engagement:** The objective of impact engagement is to promote the sustainability-related performance of targeted bond issuers. During our constructive dialogue with target issuers, we may focus on specific sustainability-related themes and communicate our expectations concerning the enhancement of the bond issuer’s sustainability-related performance to the target issuer.
- Incident engagement:** The focus of incident engagement is risk management. Incident engagement targets portfolio companies and other issuers represented in our portfolios, involved in controversial behavior 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 issuer’s level of involvement in the incident, and to promote an adequate response.



**FIGURE 4: EXCURSUS: ESG-AM CONTROVERSIAL INCIDENTS HANDLING PROCESS (SOURCE: ESG-AM)**

- Policy engagement:** We engage with public stakeholders and policymakers to promote the adoption of policy frameworks that support our role as sustainable investors. This includes, for example, advocating for the enhancement and standardization of sustainability-related disclosures, the development of unified targets and benchmarks and the establishment of policy frameworks addressing systemic sustainability risks. Our policy engagement efforts are focused on topics relevant to our investment practices. We report these engagements promptly on social media and at regular intervals in our sustainability-related disclosures on our website. This transparency in policy engagement distinguishes it from other forms of engagement, which may be conducted over longer periods without immediate public reporting.

### **Engagement Approaches:**

- Individual engagement:** Individual engagements at ESG-AM are conducted in-house, by our dedicated Engagement Manager. Other team members from the Sustainability Department or other Departments may participate on a needs basis.
- Collaborative engagement:** We engage collaboratively with other investors or institutions whenever necessary and appropriate. For the purposes of this policy, the term collaborative engagement is used as an umbrella term that encompasses both cooperative and more structured forms of joint influence. Collaborative engagement refers to voluntary and informal cooperation between participants, which is primarily characterized by the exchange of information and non-binding coordination. In contrast, collective engagement in the narrower sense is understood as a more coordinated and structured form of cooperation in which common positions are defined or coordinated communication steps towards target companies are determined. Both forms of engagement may be conducted through participation in collaborative engagement platforms, such as the UN Principles for Responsible Investment (UN PRI), the Workforce Disclosure Initiative (WDI), and CDP.

### **Engaged Stakeholders:**

Our engagement activities may involve different type of stakeholders, encompassing:

- Bond issuers:** We engage with issuers in our portfolios as well as bond issuers currently not eligible for investment by ESG-AM for sustainability reasons but of interest from a financial point of view.
- Policymakers:** Our engagement with policymakers is limited to collaborative action. ESG-AM chooses to selectively join policy engagement activities offered on collaborative platforms such as the PRI, WDI and CDP. ESG-AM does not approach policymakers individually. Our engagement with policymakers typically involves participating in policy consultations and sign-on letters.

- **Civil society and research organizations:** We liaise with civil society and research organizations as part of our due diligence process. We do not undertake engagement with civil society and research organizations.
- **Third-party data providers:** We maintain regular dialogue with third-party data providers to enhance the coverage and quality of sustainability-related data. We maintain regular dialogue with their-party data providers to improve coverage and quality of sustainability-related data. This dialogue aims to enhance the relevance of our sustainability analyses and expand our investible universe. We do not consider this dialogue as engagement.

### **Tools:**

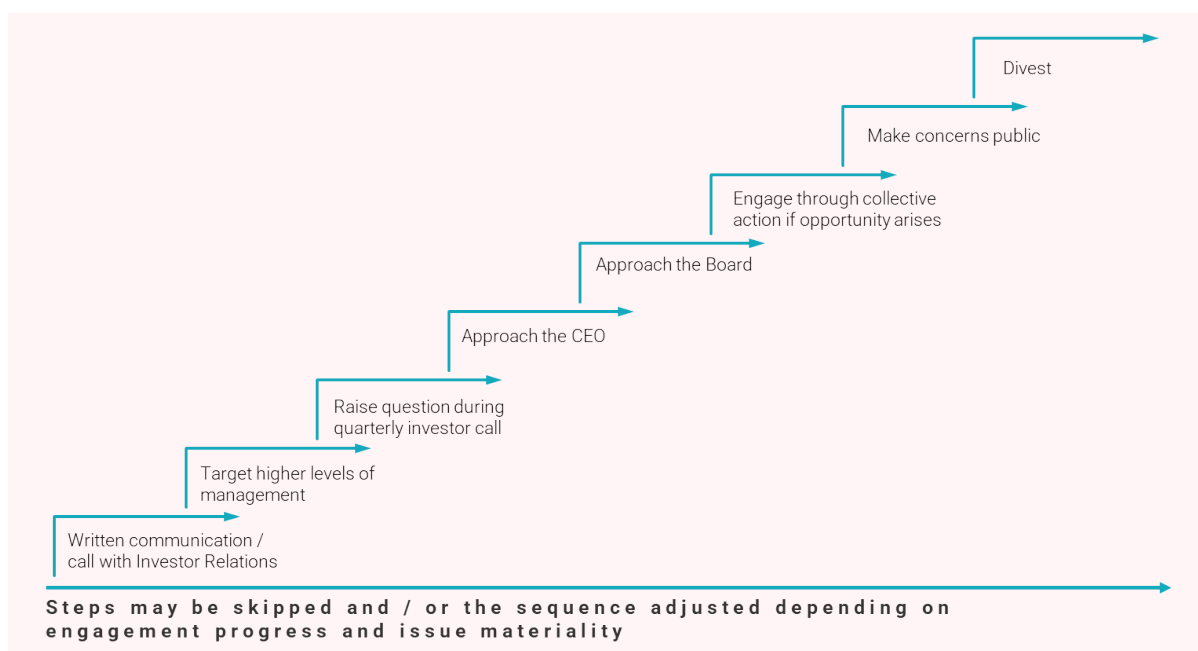
While conducting engagements, ESG-AM may utilize different means of formal and informal communication. Typically, engagements begin with an explanation of our engagement goals to the Investor Relations department of a bond issuer via email, letter, or phone call.

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

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:



**FIGURE 5: ENGAGEMENT ESCALATION STEPS (SOURCE: ESG-AM)**

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 bond issuer’s sustainability-related performance in general or in relation to the targeted sustainability-related engagement objectives is deteriorating and the issuer is continuously unresponsive to the engagement efforts. Overall, dialogue is continued for as long as the target issuer demonstrates willingness to engage and shows potential for enhancing its performance in relation to the targeted sustainability-related engagement objectives. In fact, the duration of engagement processes varies considerably, from a few weeks to several years, depending on the specific case and the specific objectives.

## 6 GOVERNANCE

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 informed at regular intervals, at least every two months, of Engagement progress and plans, and provides operational guidance.

ESG-AM's Board of Directors is informed at regular intervals, at least every six months, of Engagement progress and plans, and provides strategic guidance.

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 AND 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 bond issuers engaged with.



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 **Contact**

For further inquiries, please reach out to our Sustainability team at: [engagement@esg-am.com](mailto:engagement@esg-am.com)

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