



# Engagement Guidelines Asset Management

Investment Stewardship | Version: May 2022  
Swiss edition

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# 1. Foreword

As a global investor, Asset Management of the Zürcher Kantonalbank shares the growing view among investors and investment experts that sustainability or environmental, social and corporate governance factors (ESG) can present significant risks for portfolio investments and opportunities for better risk-adjusted returns. Depending on the category of portfolio<sup>1</sup> our investment exposure may include one or all of the following:

- (1) Investment stewardship (i.e. being an active investor to promote best practice ESG through engagement and proxy voting)
- (2) ESG integration (i.e. minimising ESG risks)
- (3) Controversies (i.e. exclusions)
- (4) Reducing greenhouse gas emissions and/or
- (5) Promoting positive impacts in our portfolios (i.e. taking advantage of ESG opportunities).

This document describes the Engagement Guidelines of Zürcher Kantonalbank Asset Management, which, together with our proxy voting, cover and reflect our investment stewardship. Engagements, i.e. dialogues with companies on ESG issues, affect all investment fund assets<sup>2</sup> of Swisscanto Fund Management Company Ltd. and Swisscanto Asset Management International SA, insofar as wealth management is carried out by Zürcher Kantonalbank ("Swisscanto equity holdings"). They are primarily driven and determined by our fundamental bottom-up capabilities, which are mainly equity-related but also concern fixed-income securities, as engagements, regardless of their listed securities, both promote prospects and benefit issuers as a whole. Proxy voting

rights are exercised for investment funds that are invested in listed direct equity investments and for which Swisscanto Fund Management Company Ltd. or Swisscanto Asset Management International SA serves as fund management (including private label funds).

With our investment stewardship, we aim to promote sustainable business practices and compliance with renowned international principles and ESG best-practice standards. Within this framework, we support aspects including compliance practices and principles of mutual control, appropriate economic efficiency, stewardship for environmental and climate protection, biodiversity, fair working practices and a non-discriminatory working environment, as well as human rights and other best-practice ESG topics.

<sup>1</sup> Passive and active product categories, including traditional, responsible and sustainable product lines.

<sup>2</sup> Excluding our asset management mandates.

## 2. Our engagement guidelines and activities

Our engagement guidelines and activities are based on internationally recognised, sustainability-focused standards and initiatives that promote integrated reporting and compliance with business conditions that support and drive positive ESG measures at the corporate and sector level and mitigate associated financial and reputational risks.

Our engagement activities apply to stock exchange listed issuers. Engagements may be relevant from the perspective of equity investors, bondholders or both. We are convinced that the engagement of companies is crucial for building a global financial system that provides our investors with higher returns in the long term. A cornerstone of our approach is to discuss with the companies we invest in ESG issues that pose a threat or represent opportunity to long-term shareholder value. We view engagement as an integral part of our investment process. We listen carefully to companies to understand their challenges and needs. Our engagement is focused on ensuring that corporations are managed responsibly and effectively to create a more sustainable long-term value, and as a result these activities also improve the lives of employees, promote diversity, support communities and contribute to a more inclusive society as a whole by protecting the environment, biodiversity and health, as well as safeguarding human rights.

Our engagement activities are based on three main pillars, which are outlined below:

1. Direct dialogue with Swiss issuers: As an active investor, we aim to create visibility in companies by promoting best-practice ESG in the interests of our investors.
2. Collaborative engagements: The main emphasis is on promoting best-practice ESG across industries and achieving environmental and/or social objectives (the 17 UN SDGs). The UN PRI platform is the primary driver of collaborative engagements. Opportunistic, direct interactions also take place between companies and us (alone) or selectively with other investors (generally with UN PRI at the forefront).
3. Global and thematic engagements: Our focus is on promoting best-practice ESG standards in the interests of our investors and the greenhouse gas reduction target (i.e. our climate protection strategy)<sup>3</sup>. We commissioned an external engagement provider to use the available resources. Depending on the relevance and importance, it is possible to participate directly in company dialogues.

### 2.1 Our engagement strategy

We believe that investors are well positioned to promote ESG best practices in their investments, particularly with significant participations. In the case of significant equity holdings, we are taking the lead in cooperation with Swiss and some international companies. After identifying the companies for engagement, we develop an engagement strategy that describes how we want to achieve the desired goal. This deals with the priorities, the order in which different topics are dealt with, and the tools that we will use in the dialogue.

<sup>3</sup> Further information: [zkb.ch/sustainability-am](https://zkb.ch/sustainability-am)

The strategy also allows us to measure progress, impact and successes along the way.

– *Maximising operating performance in the area of sustainability*

We want companies to maximise the sustainable operating performance of their company and ensure that their investment plans have been critically tested in terms of environmental, social and governance impacts (UN SDGs) and their ability to create long-term shareholder value (TSR, EVA)<sup>4</sup>.

– *Focusing on significance*

We expect companies to conduct a materiality analysis to identify priority areas around ESG and to optimise their sustainability efforts. Based on the results of this assessment, a sustainability policy and strategy should be developed to measure, understand and communicate performance and progress. Measurable qualitative and quantitative targets should be set in order to manage the changes more effectively. Companies should also publish a sustainability report that includes their progress in addressing key issues, preferably as an integral part of their annual report. A sustainability report should be a platform for communicating sustainability performance and impact, both positive and negative. As a result, the relevant sustainability and financial targets should be included in management compensation plans that are externally verifiable and measurable (ambitious and relative ESG KPIs<sup>5</sup> should act as incentives).

– *Engagement reporting*

Quarterly engagement reports summarise the engagement activities undertaken by our external engagement partner on our behalf (i.e. global and thematic engagement). An additional, comprehensive, annual active ownership report retroactively describes and summarises our investment stewardship activities, including our direct engagement and proxy voting activities.<sup>6</sup>

The Code of Conduct of Zürcher Kantonalbank<sup>7</sup>, which deals with potential conflicts of interest, also applies to the activities of Asset Management. This means that the engagement of Asset Management is not in any way influenced by customer relationships of Zürcher Kantonalbank.

## **2.2 Direct dialogue with Swiss issuers**

For Swiss companies, we take advantage of our strong home market position. Our equity holdings are regularly among the top 10/top 15 equity holdings of the constituents of the SMI and we are in dialogue with around 150 to 200 Swiss companies (almost all SPIs). The focus is on materially relevant ESG issues (i.e. UN Global Compact, proxy voting topics and/or other generally recognised ESG best practice standards) by means of a constructive and productive dialogue in which we advise companies on ESG best practices. We put forward the investor's views. Direct engagement can be initiated from different sources, but most can be divided into two groups:

<sup>4</sup> TSR = Total Shareholder Return; EVA = Economic Value Added (spread between return and cost of capital)

<sup>5</sup> KPIs = Key Performance Indicators

<sup>6</sup> Both reports appear on [swisscanto-fondsleitungen.com/investment-stewardship](https://www.swisscanto-fondsleitungen.com/investment-stewardship).

<sup>7</sup> Link to the Zürcher Kantonalbank Code of Conduct.

1. **Pull:** Company-induced engagement – whereby the issuer wishes to discuss ESG matters with us.
2. **Push:** Asset management-prompted engagement – whereby we want to deal with a clear ESG-related goal, based on our own assessments, analyses, guidelines, regulations and/or violations of standards.

### 2.3 Collaborative engagement

We engage in cooperation with other investors or institutions whenever necessary and appropriate. We believe that the best way to drive improved market practices and ESG best-practice standards is through active membership of collaborative platforms, such as:

- United Nations' Principles for Responsible Investment (UN PRI),
- European Fund and Asset Management Association (EFAMA),
- Asset Management Association Switzerland (AMAS),
- Swiss Sustainable Finance (SSF),
- European Sustainable Investment Forum (Eurosif) and
- Farm Animal Investment Risk and Return (FAIRR).

For each of these platforms, we identify and prioritise our collaborative engagement activities within these memberships. Collaborative engagements are effective and enable investors to speak with a strong “shared voice” when dealing with common ESG issues. It takes many forms, including investor letters and broader investor initiatives such as current coalitions and campaigns. We evaluate collaborative engagement and participate in areas where we can add value through

our market position and insights in line with our engagement strategy and proxy voting guidelines<sup>8</sup>, for example through initiatives targeting Swiss and international companies on the topic of climate change, which is important for our overall thematic focus.

### 2.4 Global and thematic engagement

In order to complement our global and thematic engagement activities, but primarily to communicate our strategy to reduce greenhouse gas emissions on a global level, we have engaged Sustainalytics, which acts as our external engagement provider. It works on behalf of us and other investors at more than 300 global companies per year on the topics of human rights and labour rights, environmental and business ethics as well as other relevant ESG matters (in line with our focus on direct dialogue).

#### 2.4.1. Selecting companies for engagement

We select companies for engagement on the basis of relevant significant investments and the violation of international conventions and standards such as the UN Global Compact Principles, OECD Guidelines for Multinational Enterprises, International Labour Organization (ILO) standards and/or other generally recognised ESG best-practice standards. Engagements are prioritised according to the severity of the violations. However, the engagement can also be carried out on a situational basis and as required.

#### 2.4.2 Thematic engagement

As part of our focused engagement themes, we work cooperatively with companies on key ESG

<sup>8</sup> Find out more at [swisscanto-fondsleitungen.com/investment-stewardship](https://www.swisscanto-fondsleitungen.com/investment-stewardship). The voting guidelines and voting behaviour can be found at [swisscanto.com/voting](https://www.swisscanto.com/voting).

topics to raise industry standards in accordance with the UN Sustainable Development Goals (UN SDGs). These enable us to play an active role in tackling key shared sustainability challenges by encouraging companies to proactively deal with specific ESG risks, opportunities and impact. While our engagement for companies includes a broad ESG spectrum focused on international norms and conventions, our thematic engagement focuses on five core areas:

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### **Climate change**

We want to contribute to mitigating climate change by promoting energy and resource efficiency, renewable energy and the reduction of greenhouse gases. We are actively committed to fighting climate change through global coalitions and initiatives, direct dialogue and the engagements of the external engagement provider. We also pursue an active, climate-friendly capital allocation strategy<sup>9</sup> and can selectively underweight portfolio holdings and/or sell parts of the portfolio (e.g. coal and other fossil fuels) in order to pursue climate-related objectives.

### **Human rights**

We respect and support the protection of internationally recognised human rights as defined by the United Nations, including the rights to life, freedom, security, fair working conditions and equal opportunities, as well as the rights of children. Our human rights obligations are based on international conventions and standards such as the UN Global Compact, as companies are expect-

ed to act in adherence to internationally recognised standards.

### **Biodiversity**

We help preserve the diversity of habitats and species. Working with companies, we are committed to actively protecting biodiversity and publishing the relevant data in their company reports that assess risks.

### **Circular economy**

A circular economy seems to be an ideal alternative to the linear model of “take, manufacture and dispose”. This model ensures that we make optimal use of limited resources by reusing or reprocessing products that would otherwise end up in landfill. It makes sense both ecologically and economically, and companies, the community and investors can benefit a lot from this sustainable model. Various initiatives, such as the UNO Sustainable Development Goals, call for greater resource efficiency in consumption and production (responsible supply chains), the sustainable use of natural resources and a significant reduction in waste through prevention, reduction, recycling and reuse. For this reason, we encourage issuers to focus on and implement various measures such as emissions reduction, resource efficiency, recycling and the substitution or reduction of toxic substances and plastics. Key drivers include the introduction of improved technologies and operating procedures, the development of environmentally friendly products and services, and customer awareness.

<sup>9</sup> Further information: [zkb.ch/sustainability-am](https://zkb.ch/sustainability-am)

## Other topics

We continuously select other focus topics that we believe can add value and have a measurable impact on our corporate engagement. These other topics include resource efficiency, certified palm oil, responsible and compliant supply chains, the reduction of plastics and improvements in recycling (circular economy and sustainable material cycles), sustainable food supply (agriculture and seafood), stakeholder engagement (i.e. collaboration with industry associations, ESG data providers and other companies), board effectiveness, corporate/climate/ESG-related reporting and disclosure (SASB<sup>10</sup>, IIRC<sup>11</sup>, GRI<sup>12</sup>, TCFD<sup>13</sup>, CDP<sup>14</sup>, Swiss counterproposal to the Group Responsibility Initiative<sup>15</sup>, SBTi<sup>16</sup>, PCAF<sup>17</sup>, TNFD<sup>18</sup>), promotion of gender diversity and fair labour practices (e.g. gender pay gap).

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As part of our thematic engagement, together with our external engagement provider, we select companies that have the corresponding engagement in the topics. For 2020–2023, the main topics included:

## Climate change

Thematic cooperation with the steel and cement sectors, which are key emitters and have the potential to be key elements in the transition to a low-carbon economy. The priorities are:

- Coordination with the Science Based Targets Initiative (SBTI)
- Improving transparency and governance at the board level, in line with common systems such as CDP and TCFD
- Absolute and efficiency-relevant CO<sub>2</sub> emissions targets with corresponding incentive programmes, based on science, where appropriate

## Responsible cleantech

Cleantech has the potential to play a significant role in promoting the transition to a low-carbon economy. However, the growing supply of cleantech products is not only an important part of the response to climate change, it also poses environmental and social challenges. Engagement aims to improve company actions and information related to the way raw materials are produced, how products are manufactured and how products can be recycled after use.

## 2.5 General engagement process and approach

### 2.5.1 Engagement process

The choice of engagement methods is highly dependent on the context and corporate culture. Normally, we initiate communication through

<sup>10</sup> Sustainability Accounting Standards Board.

<sup>11</sup> International Integrated Reporting Council.

<sup>12</sup> Global Reporting Initiative.

<sup>13</sup> Task Force for Climate-Related Financial Disclosures.

<sup>14</sup> Carbon Disclosure Project.

<sup>15</sup> Indirect counterproposal to the Swiss initiative "For responsible companies – to protect people and the environment".

<sup>16</sup> Further information: sciencebasedtargets.org.

<sup>17</sup> Partnership for Carbon Accounting Financials.

<sup>18</sup> Taskforce on Nature-related Financial Disclosures.



e-mails and phone calls and then use all available engagement tools, from constructive dialogue to proxy voting. In general, engagement follows a structured process:

| <b>Steps</b>         | <b>Period</b>                                 | <b>Note</b>   |
|----------------------|---|---|
| Initial meeting      | From a few days and up to 3 weeks             | Developing an understanding of strategy, ESG risks and dealing with allegations or issues |
| Follow-up discussion | Shortly after the initial meeting             | Defining the change objective and sharing the proposed measures                           |
| Interim              | A few days after the meeting                  | Reviewing progress and revising proposed measures if necessary                            |
| Follow-up meeting(s) | A few weeks or months after the first meeting | Assessing progress and discussing emerging issues   |
| Ongoing improvements | Progress reported in "engagement reporting"   | Potentially revising the change objective and proposed measures                           |

The progress of the engagement is regularly measured to ensure dialogue moves forward and potential challenges are addressed. We are aware that the engagement process can take several years, depending on the case and objective. We follow developments closely and do not hesitate to expand dialogue with the general

management and the Board of Directors if engagement does not progress. For Swiss companies, we generally prefer engagement talks at the board level. As further escalation measures, we can adjust our proxy voting behaviour or our capital allocation (points 5 and 6 in 2.5.2).<sup>19</sup>.

<sup>19</sup> Only applies to active product categories.

### 2.5.2 Engagement approach

In general, when working with issuers, we take the following approach (escalation levels):

|   |   |
|---|---|
|    | <b>1. Investor relations</b>  |
|   | <b>2. CFO/CEO level</b>   |
|    | <b>3. Board level</b><br>(issuer-induced engagement traditionally starts at this level)   |
|   | <b>4. A Adjusting proxy voting</b><br>(voting against discharge, members of the board of directors, remuneration and/or resolutions) and/or<br><b>B Considering the submission of a corresponding shareholder resolution to the Annual General Meeting and/or</b> |
|  | <b>5. Underweighting a specific issuer</b>  |
|   | <b>6. Divestment as a last resort if the risks have increased, the violation is very serious and significant and the engagement is unsuccessful.</b>  |

We consider terminating the engagement to be the last option and continue the efforts to engage for as long as there is meaningful progress and effort from a company. Following the decision to sell, we can also inform the company, if possible.

### 2.6 Real estate funds (direct investments)

Real estate funds invest directly in real estate and do not trade with issuers of listed securities. The engagement activities in these funds focus on the area of tangible impact:

– For co-owners of real estate, ESG is promoted and exercised responsibly through active influence and consistent voting behaviour at appropriate meetings, e.g. we are committed to the implementation of ambitious greenhouse gas reduction targets.

– The tenants of the properties in the portfolios are actively informed and advised on sustainability issues. We also support implementation in order to achieve the sustainability goals.

# 3. Stewardship and regulation

The management of our client assets is an element of our fiduciary duty. We understand that most of our clients expect us to ensure that our approach complies with generally accepted investment beliefs, principles and guidelines, including international market regulations. Our responsible investment philosophy, including these Engagement Guidelines, complies with the relevant Swiss and European regulations and standards as well as renewed international standards, UN Global Compact and the OECD, etc.

## 3.1 Shareholder Rights Directive II

The European Shareholder Rights Directive 2017/828 (SRD II) amends Directive 2007/36 (SRD I) and promotes long-term shareholder engagement and transparency between EU listed companies and their investors. We fully comply with the requirements of the Directive, Article 3g:

### – *Engagement guidelines*

We have guidelines on exercising voting rights and engagement; these set out our stewardship position.<sup>20</sup> The guidelines and guiding principles are updated annually.

### – *Engagement reporting*

We report annually on the implementation and progress of our engagement and proxy voting activities.<sup>21</sup>

## 3.2 Asset Management Association Switzerland and Swiss Sustainable Finance

We fully support side notes 47 to 52 on the topic of stewardship and relating to the proxy voting and engagement of the “Key Messages and Recommendations” of AMAS (formerly SFAMA) and SSF with regard to integrating sustainability into products and services.<sup>22</sup>

## 3.3 Stewardship Code of the European Fund and Asset Management Association

We support and fully apply the principles of the Stewardship Code of the European Fund and Asset Management Association (EFAMA).

<sup>20</sup> Published on [swisscanto-fondsleitungen.com/investment-stewardship](https://www.swisscanto-fondsleitungen.com/investment-stewardship).

<sup>21</sup> Applies only to active product categories

<sup>22</sup> Published under the following link.

#### **Principle 1**

**Asset managers should provide the public with an engagement guideline about how they exercise their stewardship responsibilities.**

We fully support this principle – this document<sup>23</sup> describes our engagement approach and process.

#### **Principle 2**

**Asset managers should monitor their portfolio companies in accordance with their engagement guideline.**

We expect our asset managers and analysts to be aware of environmental, social and governance risks and to report to their investors in full. When necessary, our asset managers participate in regular meetings with the companies in which they invest. Asset managers actively take into account corporate governance issues arising from resolutions of the annual general meetings (AGMs) and extraordinary general meetings (EGMs) as well as one-to-one meetings with management.

#### **Principle 3**

**Asset managers should establish clear guidelines on when and how to expand engagement with portfolio companies in order to protect and enhance the value of their customers' investments.**

We expect our asset managers to expand engagement and work with the portfolio companies. We also use the services of a third-party provider, Sustainalytics, for additional engagement. We review engagement on a case-by-case basis, in response to concerns about corporate strategy or policy. If our resistance to a company's policies or behaviour is strong enough and we have not received adequate assurances, we may consider, in the best interests of our clients, exercising our stewardship responsibility by selling the equity.

#### **Principle 4**

**Asset managers should consider cooperating with other investors as appropriate, and with due consideration of the applicable rules for collective action.**

Our asset managers work actively with other investors through a variety of coalitions and investor initiatives.

#### **Principle 5**

**Asset managers should exercise their voting rights in a considered manner.**

We consider company-specific circumstances or local regulations when examining voting rights proposals. In order to align proxy voting with engagement activities, we also apply a holistic approach to active ownership by voting in accordance with ongoing engagement activities and vice versa. We have our own sustainability-oriented proxy voting policy and guidelines.<sup>23</sup>

#### **Principle 6**

**Asset managers should disclose the implementation and results of their stewardship and voting activities.**

Transparency is very important to us and we publish quarterly and annual reports that represent our stewardship and voting activities ([swisscanto.com/voting](https://www.swisscanto.com/voting)). In addition, as a PRI signatory, we report in accordance with the annual PRI reporting framework.

<sup>23</sup> Applies only to active product categories

# Your contacts

## **For all questions about engagement**

The main focus is on issuers that would like to participate in engagement.

[Engagement@swisscanto.ch](mailto:Engagement@swisscanto.ch)

## **For any questions regarding**

proxy voting

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