



Swisscanto  
**Invest**

by Zürcher Kantonalbank

# Swisscanto Engagement Guidelines

Investment Stewardship | Version: May 2021

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# 1. Introduction

As global investors Swisscanto Invest by Zürcher Kantonalbank ("Swisscanto") recognizes the growing view among investors and investment professionals that sustainability or environmental, social, and corporate governance (ESG) factors could present material risks to portfolio investments and opportunities for better risk-adjusted returns. Depending on the category of portfolio<sup>1</sup> our investing commitment may comprise one or all of the following: (1) Investment stewardship (i.e. to be active investors to promote best-practice ESG through engagement and proxy voting), (2) ESG integration (i.e. minimizing ESG risks), (3) Controversies (i.e. exclusions), (4) Reduction of greenhouse gas emissions and/or (5) Driving positive impact across our portfolios (i.e. exploiting ESG opportunities).

This document describes Swisscanto's engagement guidelines which together with our proxy voting comprise and reflect our investment stewardship. Engagements, i.e. dialogues with companies about ESG topics, concern all investment fund assets<sup>2</sup> of Swisscanto Asset Management Ltd. and Swisscanto Asset Management International SA where the asset management is carried out by Swisscanto ("Swisscanto Shareholdings"); they are primarily driven and led by our bottom up fundamental capabilities, mostly equity related but comprising also fixed income, as engagements drive both perspectives and benefits issuers overall irrespective of their listed securities. Proxy voting is performed for investment funds that are invested in listed direct equity

investments and for which Swisscanto Asset Management Ltd. or Swisscanto Asset Management International SA act as fund management company (including private label funds).

Through our investment stewardship, we seek to promote sustainable business practices advocating for the compliance within renowned international principles and widely-accepted ESG best-practice standards. This includes promoting compliant practices, check-and-balance principles, adequate pay-for-performances, stewardship of environmental protection and climate change, supporting biodiversity, fair labor practices, non-discriminatory work and the protection of 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 discretionary mandates ("Vermögensverwaltungsmandate").

## 2. Our Engagement Guidelines and Activities

Our engagement guidelines and activities are based on internationally recognized sustainability-oriented standards and initiatives which promote an integrated reporting as well as compliance of business environments which endorse and advance positive corporate and industry-wide ESG actions and mitigate related financial and reputational risks.

Our engagement activities apply to listed issuers. Engagements can be relevant from an equity investor perspective, from a bondholder perspective, or from both perspectives. At Swisscanto, we believe corporate engagement is essential to build a global financial system that delivers improved long-term returns for our investors. Engaging with our investee companies on those ESG issues presenting threats or opportunities to long-term shareholder value is a cornerstone of our engagement approach. We regard engagement as an integral part of our investment process. We listen attentively to companies, in order to understand their challenges and needs. Our engagement is focused on ensuring that the corporations are responsibly governed and well-managed to deliver more sustainable long-term value and in further consequence these activities also improve the lives of employees, promote diversity and support communities as well as contribute to wider society by safeguarding the environment, biodiversity and health and by protecting human rights.

Our engagement activities are based on three major pillars as set out hereafter:

1. Direct dialogue with Swiss issuers: The focus is to create visibility among companies as an active investor by promoting best-practice ESG in the interest of our investors.
2. Collaborative engagements: The focus is to promote best-practice ESG on entire industries as well as to achieve environmental and/or social goals (the 17 UN SDGs). These collaborative engagements are mostly driven by the UN PRI platform, but opportunistic direct interactions with companies by Swisscanto alone or selectively with other investors also take place (usually UN PRI in the lead).
3. Global & Thematic engagements: The focus is to promote best-practice ESG standards in our investors' interest as well as Swisscanto's greenhouse gas reduction target (i.e. our climate change strategy)<sup>3</sup>. Swisscanto mandated an external engagement provider to leverage existing resources. Own participation in corporate dialogues is possible depending on relevance and materiality.

### 2.1 Our Engagement Strategy

We believe that investors are well positioned to influence ESG best-practices among their investments, especially in material holdings. Where material Swisscanto Shareholdings are concerned, we will take the lead on engaging with Swiss and some international companies. Upon identifying the engagement companies, we develop an engagement strategy that describes how we envisage to achieve the intended objective. It addresses the priorities, the order in which different issues will be addressed and the tools we will employ as part of the dialogue. The strategy also enables us to measure progress, impact and success along the way.

<sup>3</sup> More information: [swisscanto.com > about us > sustainability](https://www.swisscanto.com/about-us/sustainability).

– *Maximize Sustainability Operating Performance*  
We want companies to maximize the sustainable operating performance of their businesses, and to ensure that their investment plans have been critically tested in terms of environmental, social and governance impact (UN SDGs) and their ability to create long-term shareholder value (TSR, EVA)<sup>4</sup>.

– *Focus on Materiality*  
We expect companies to conduct a materiality assessment to identify key focus areas around ESG in order to optimize their efforts towards sustainability. Based on the output of this assessment, a sustainability policy and strategy should be developed to measure, understand and communicate their performance and progress. Measurable qualitative and quantitative goals and targets should be set to manage change more effectively. Companies should also publish a sustainability report that includes its progress towards addressing material topics, preferably as an integrated part of their annual report. A sustainability report should be a platform for communicating sustainability performance and impacts, both positive and negative. Consequently, related sustainability and financial goals should be included in the management compensation plans which are externally verifiable and measurable (ambitious and relative ESG KPI's<sup>5</sup> should act as incentives).

– *Engagement Reporting*  
Quarterly engagement reports summarize the engagement activities that our external engagement partner performed on behalf of Swisscanto (i.e. global and thematic engagements). An additional yearly comprehensive active ownership report describes and summarizes our investment stewardship activities retrospectively including our direct engagements and proxy voting activities.<sup>6</sup>

Zürcher Kantonalbank's Code of Conduct<sup>7</sup> which addresses potential conflicts of interest is also applicable for the activities carried out by Swisscanto. As such, Swisscanto's engagements shall not be influenced in any part by any client relationships of Zürcher Kantonalbank.

## 2.2 Direct Dialogue with Swiss Issuers

For Swiss companies we use our strong home market status. Swisscanto Shareholdings rank regularly among top 10/15 shareholdings in the constituents to the SMI and is in dialog with around 150 to 200 Swiss companies (almost all SPI). The focus is on material relevant ESG matters (i.e. UN Global Compact, proxy voting topics and/or other generally accepted ESG best-practice standards) by means of a constructive and productive dialogue, advising companies on best practices ESG. Swisscanto brings in the investor view. Direct engagements can be initiated by various sources but most of them can be classified into two groups:

1. **Pull:** Corporate induced engagement – whereby the issuer wants to discuss ESG matters with Swisscanto.
2. **Push:** Swisscanto induced engagement – whereby Swisscanto wants to engage with a clear ESG-related objective based on own assessment, analysis, guidelines, policy and/or breach of norms.

## 2.3 Collaborative Engagements

Swisscanto carries out collaborative engagements with other investors or institutions whenever necessary and appropriate. We believe that the best way to promote

<sup>4</sup> TSR = Total Shareholder Return, EVA = Economics Value Added = Spread between return and cost of capital.

<sup>5</sup> KPI's = Key Performance Indicators

<sup>6</sup> Both reports are published on: [swisscanto.com](https://www.swisscanto.com) › about us › Swisscanto Fund Management Co. Ltd. for our Swiss funds and Swisscanto Asset Management Intl. for our Luxembourg funds › investment stewardship.

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

improved market practices and ESG best-practice standards is through active membership in 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, Swisscanto identifies and prioritizes its collaborative engagement activities within these memberships.<sup>8</sup> Collaborative engagements are effective and enable investors to speak with a strong “common voice” when addressing common ESG issues. It takes on a variety of forms including investor letters and broader investor initiatives such as topical coalitions and campaigns. We assess collaborative engagements and participate in those where we can add value through our market position and insights in alignment with our engagement strategy and proxy voting guidelines<sup>9</sup>, for example through initiatives targeting Swiss and international companies on the topic of climate change, which is key to our overall thematic focus.

## 2.4 Global & Thematic Engagements

In order to complement our global and thematic engagement activities but foremost to convey our greenhouse gas reduction strategy on a global scale, we have mandated Sustainalytics which acts as our external engagement provider. They engage on behalf of Swisscanto and other investors on more than 300 global companies p.a. on the issues of human and labour rights, environmental, and business ethics and other relevant ESG matters (in line with our focus in the direct dialogue).

### 2.4.1 Selection of Companies for Engagement

Swisscanto selects companies for engagement based on relevant significant shareholding and that are in violation of international conventions and standards, such as the UN Global Compact Principles, OECD Guidelines for Multinationals and the International Labour Organization (ILO) and/or any other generally accepted ESG best-practice standards. The engagements are prioritized according to severity of the breaches. However, engagement can also be performed opportunistically and whenever necessary.

### 2.4.2 Thematic engagements

Across our focused engagement themes, we engage with companies on material ESG issues to raise sector standards in alignment with the UN Sustainable Development Goals (UN SDG) agenda. It enables Swisscanto to play an active role in addressing material, shared sustainability challenges by influencing companies to proactively manage specific ESG risks, opportunities and impacts. While our corporate engagements include a broad ESG scope focusing on international norms and conventions, our thematic engagement focuses on five priority areas:

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#### Climate change

We want to contribute to the mitigation of climate change by promoting energy and resource efficiency, renewable energy and greenhouse gas reductions. Swisscanto actively engages to address climate change via global coalitions and initiatives, direct dialogue as

<sup>8</sup> For a full list of initiatives and memberships, please refer to [swisscanto.com › about us](https://www.swisscanto.com/about-us) › Swisscanto Fund Management Co. Ltd. for our Swiss funds and Swisscanto Asset Management Intl. for our Luxembourg funds › investment stewardship or direct link.

<sup>9</sup> Please refer to [swisscanto.com › about us](https://www.swisscanto.com/about-us) › Swisscanto Fund Management Co. Ltd. for our Swiss funds and Swisscanto Asset Management Intl. for our Luxembourg funds › investment stewardship. The voting guidelines and voting behavior are available at [swisscanto.com/voting](https://www.swisscanto.com/voting).

well as through engagements of its external engagement provider. Furthermore, Swisscanto follows an active climate-friendly capital allocation strategy<sup>10</sup> and may selectively underweight portfolio holdings and/or divest parts of the portfolio (e.g. coal, fossil fuel etc.) to pursue climate-related objectives.

### **Human rights**

We respect and support the protection of internationally recognized human rights as set out by the UN, including the rights to life, liberty, security, fair working conditions, equality of opportunity and the respect of rights of children. Our human rights engagements are guided by international conventions and standards such as the UN Global Compact, as companies, are expected to operate within internationally accepted norms.

### **Biodiversity**

We contribute to preserving the diversity of habitats, species and genes. In engagements with companies, we foster actively to protect biodiversity and to publish related data in their corporate reports for risk assessment.

### **Circular economy**

A circular economy seems an ideal alternative to the linear “take, make and dispose” model. This model ensures we make the most of limited resources by reusing or remanufacturing products that would have ended up on the rubbish dump. It makes both environmental and economic sense, and businesses, communities as well as investors, stand to gain a lot from this sustainable model. Various initiatives, such as the UN SDGs, call for increased resource efficiency in consumption and production (responsible supply chains), sustainable management of natural resources, and substantially reduced waste generation through prevention, reduction, recycling, and reuse. Therefore, we encourage issuers to focus on and implement various measures

such as emission reductions, resource efficiency, recycling, substitution or reduction of toxic substances and plastics. The main drivers involve the adoption of improved technologies and operating procedures, the development of eco-friendly products and services and raising customer awareness.

### **Other topics**

We continuously select additional focus themes where we believe our corporate engagement can add value and result in measurable impact. Such other topics include resource efficiency, certified palm oil, responsible & compliant supply chains, reduction of plastics and improvements in recycling (circular economy & sustainable material cycles), sustainable food supply (agriculture & seafood), stakeholder engagement (i.e. engaging with industry associations, ESG data providers and other entities), board effectiveness, corporate and climate/ESG related reporting and disclosure (SASB<sup>11</sup>, IIRC<sup>12</sup>, GRI<sup>13</sup>, TCFD<sup>14</sup>, CDP<sup>15</sup>, Swiss Counterproposal to the Corporate Responsibility Initiative<sup>16</sup>, SBTI<sup>17</sup>, PCAF<sup>18</sup>, TNFD<sup>19</sup>), and promoting gender diversity and fair labor practices (e.g. gender pay gap).

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<sup>10</sup> More information: [swisscanto.com > about us > sustainability](https://www.swisscanto.com/about-us/sustainability).

<sup>11</sup> Sustainability Accounting Standards Board.

<sup>12</sup> International Integrated Reporting Council.

<sup>13</sup> Global Reporting Initiative.

<sup>14</sup> Task Force on Climate-related Financial Disclosures.

<sup>15</sup> Carbon Disclosure Project.

<sup>16</sup> Indirect counter-proposal to the Swiss initiative “For responsible companies – to protect people and the environment”.

<sup>17</sup> More information: [sciencebasedtargets.org](https://sciencebasedtargets.org).

<sup>18</sup> Partnership for Carbon Accounting Financials.

<sup>19</sup> Taskforce on Nature-related Financial Disclosures.

Within our thematic engagements, we select companies together with our external engagement provider having the relevant exposure to the themes. For 2020–2023, the main themes include:

### Climate transition

Thematic engagement with the steel and cement sectors which are key emitters and hold the potential to be key enablers to a transition to a low carbon economy. Focus areas include:

- Alignment with the Science Based Targets Initiative (SBTI).
- Enhancing transparency and board level governance in line with mainstream systems such as CDP and TCFD.
- Absolute and efficiency-related carbon emission targets with corresponding incentive programs; science-based to the extent reasonable.

### Responsible cleantech

Cleantech has the potential to play a significant role in enabling a transition to a low carbon economy. However, while being a vital part of the response to climate change as well as other economic and societal needs, the growing supply of cleantech products also entails environmental and social challenges. The engagement seeks enhanced corporate measures and disclosures with respect to how raw material inputs are produced, how the product is 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 will to a large degree depend on the context and the company culture. We normally initiate communications by emails and telephone calls and thereafter use all available engagement tools, from constructive dialogue to proxy voting. In general, engagements follow a structured process:

Steps	Period	Comment
First meeting	From a few days up to 3 weeks	Develop understanding of strategy, ESG risks and address allegations or topic
Debriefing	Shortly after the meeting	Define change objective and shares suggested actions
In between	A few days after the meeting	Check in on progress, potentially revise suggested actions
Follow-up meeting(s)	A few weeks or months after the first meeting	Evaluate progress and discuss emerging issues
Continuous improvements	Progress reported in "Engagement Reporting"	Potentially revise change objective and suggested actions

Engagement progress is measured regularly to ensure that the dialogue moves forward, and potential challenges are addressed. Swisscanto recognizes that the engagement process may take several years depending on the case and objectives. Swisscanto follows developments closely and does not hesitate to escalate the dialog to senior management and board level, in the event that the engagement fails to advance. For Swiss companies, we tend to prefer engagement talks at the board level. As further escalation measures, we might adapt our proxy voting behavior and/or our capital allocation (point 5 and 6 of 2.5.2)<sup>20</sup>.

<sup>20</sup> Concerns only the active product categories.

### 2.5.2 Engagement approach

In general, we follow the following approach when engaging with issuers (escalation levels):

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1. Investor Relations
  2. CFO/CEO level
  3. Board level (issuer induced engagements traditionally start at this level)
  4. A Adapt proxy voting (vote against discharge, board members, compensation and/or resolutions) and/or  
B Consider filing related shareholder resolution at annual general meeting (AGM)  
and/or
  5. Underweight specific issuer
  6. Divestment as a last resort if risks are elevated, breach is highly severe, material and engagement is unsuccessful.



We view disengagement as a last resort and continue engagement efforts so long as there is meaningful progress and efforts on the part of a company. Upon reaching the decision to divest, Swisscanto might also inform the company if possible.

### 2.6 Real Estate Funds (direct investments)

Real estate funds invest directly into properties and are not dealing with issuers of listed securities. The engagement activities in these funds focus on the area of tangible influence:

- In the case of property co-ownership, ESG is promoted and responsibly exercised with active influence and consistent voting behavior at related assemblies, e.g. we promote for implementation of ambitious greenhouse gas reduction targets.
- The tenants of the portfolios are actively informed and consulted on sustainability issues. In addition, we support the implementation to achieve the sustainability targets.

# 3. Stewardship and regulation

Stewardship of our client assets is an element of our fiduciary duty. We recognize that most of our clients expect us to ensure the alignment of our approach with generally-accepted investment beliefs, policies and guidelines including international market regulations. Swisscanto's responsible investment beliefs including these Engagement Guidelines, follow relevant Swiss and European regulation and standards, as well as renewed international standards, UN Global Compact, OECD, and many more.

## 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 enhances the transparency between EU-listed companies and their investors.

Swisscanto complies fully with the requirements set out in the Directive, Article 3g:

### ▪ Engagement policy

Swisscanto has policies and guidelines for Proxy Voting and Engagement which outlines its position on Stewardship.<sup>21</sup> The policies and guidelines are updated annually.

### ▪ Engagement reporting

Swisscanto reports annually on the implementation and progress of its engagement and proxy voting activities.<sup>22</sup>

## 3.2 Asset Management Association Switzerland and Swiss Sustainable Finance

Swisscanto fully supports margin notes 47 to 52 on Stewardship, referring to proxy voting & engagement of the "Key Messages and Recommendations" of AMAS (former SFAMA) and SSF on integrating sustainability into products and services.<sup>23</sup>

<sup>21</sup> Published on [swisscanto.com › about us › Swisscanto Fund Management Co. Ltd. for our Swiss funds and Swisscanto Asset Management Intl. for our Luxembourg funds › investment stewardship](https://www.swisscanto.com/about-us/swisscanto-fund-management-co.-ltd.-for-our-swiss-funds-and-swisscanto-asset-management-intl.-for-our-luxembourg-funds/investment-stewardship).

<sup>22</sup> Concerns only the active product categories

<sup>23</sup> Published on the following link.

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

Swisscanto fully supports and applies the principles of the European Fund and Asset Management Association (EFAMA) Stewardship Code<sup>24</sup>.

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#### Principle 1

**Asset Managers should have an engagement policy available to the public on how they exercise their stewardship responsibilities.**

Swisscanto fully supports this principle – the present document<sup>25</sup> outlines our engagement approach and process.

#### Principle 2

**Asset Managers should monitor their investee companies, in accordance with their engagement policy.**

We expect our investment managers and analysts to be aware of environmental, social and governance risks and report fully to their investors. Where appropriate, our investment managers attend regular meetings with companies in which they invest. Investment managers actively consider the corporate governance issues presented by resolutions at Annual General Meetings (AGMs) and Extraordinary General Meetings (EGMs) as well as one-on-one meetings with management.

#### Principle 3

**Asset Managers should establish clear guidelines on when and how they will escalate engagement with investee companies to protect and enhance value of their client's investments.**

We expect our investment managers to escalate and engage with investee companies. We also use the services of a third-party engagement provider, Sustainability, for additional engagements. We consider

engagements on a case-by-case basis in reaction to concerns about company strategy or policy. Where our opposition to a company's policy or conduct is strong enough and adequate assurances have not been received, we may consider, in the best interests of our clients, to exercise our stewardship responsibilities by selling the shares.

#### Principle 4

**Asset Managers should consider acting with other investors, where appropriate, having due regard to applicable rules on acting in concert.**

Our investment managers actively work and engage with other investors through a wide range of coalitions and investor initiatives.

#### Principle 5

**Asset Managers should exercise their voting rights in a considered way.**

Swisscanto considers company-specific circumstances or local regulations when reviewing proxy voting proposals. Furthermore, to align proxy voting with engagement activities, Swisscanto applies a holistic approach to active ownership by voting in alignment with ongoing engagement activities and vice versa. Swisscanto has its own sustainability-oriented proxy voting policy and guidelines.<sup>25</sup>

#### Principle 6

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

Transparency is very important to Swisscanto and we publish quarterly and annual reports outlining our stewardship and voting activities ([swisscanto.com/voting](https://www.swisscanto.com/voting)).<sup>25</sup> Furthermore, as PRI signatories, we report in accordance with the annual PRI reporting framework.

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<sup>24</sup> Published on the following link

<sup>25</sup> Concerns only the active product categories

# Your contacts

- [Engagement@swisscanto.ch](mailto:Engagement@swisscanto.ch)  
For all matters relating to engagement. Primary focus are issuers who want to engage.
- [Voting@swisscanto.ch](mailto:Voting@swisscanto.ch)  
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