



J. Safra Sarasin

# Active Ownership Report 2022



Sustainable Swiss Private Banking since 1841

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# Our Approach to Active Ownership

At J. Safra Sarasin Sustainable Asset Management, Active Ownership means using our investment influence through our channels of communication, either as a direct or collaborative effort, with investee companies. J. Safra Sarasin Sustainable Asset Management exercises voting rights on behalf of its clients for equity funds, taking into account environmental, social and corporate governance criteria. For particularly relevant sustainability topics, we engage with a selected number of companies in which we invest in a systematic way. We are convinced that the most productive outcomes related to engagements come from cultivating long-term relationships with corporate management teams. Active Ownership is one of the key ESG investment tools which we at J. Safra Sarasin Sustainable Asset Management use to complement ESG integration in every step of the investment process. Besides inducing positive change for people and the planet, Active Ownership enables a deeper understanding of key material and sectoral ESG issues relevant to investors, corporates, their management, company performance and further development.

In line with our ESG integration efforts, we engaged with 49 companies on a one-on-one basis on ESG-relevant issues, including on such topics as corporate sustainability strategy and climate transition plans, governance and ESG disclosure. Further, we engaged with companies on incident-specific topics e.g. human rights or environmental controversies when they arose. Generally, depending on the topic and materiality of the addressed issue, we interact with companies

several times, preferably and as necessary over a longer time period. Furthermore, in collaborative engagements, either as lead investor or co-signatory, we initiated or supported eight initiatives with another 46 companies, as well as publicly backed the Science-Based Targets Initiative media campaign for a third year in a row targeting 1,000 companies.

In the course of 2022, J. Safra Sarasin Sustainable Asset Management continued to evolve and enhance its Active Ownership approach. Following the changes introduced in previous years, J. Safra Sarasin Sustainable Asset Management went live with electronic voting processes for the majority of its in-house managed equity funds in the 2022 voting season. Additionally, to further align its Active Ownership approach with investment processes, a wide engagement strategy rollout was conducted with investment teams and systematic and consistent ESG-engagement reporting was introduced.

In 2022, J. Safra Sarasin Sustainable Asset Management continued to increase its participation at general meetings by 18 percent on a year-on-year basis, with a combined 682 AGMs and EGMs. In total, we opposed management's vote recommendations 25 percent of the time.

In this report, we present a detailed overview of our engagement activities for 2022, as well as key proxy voting decisions, in alignment with our overall ESG approach.



# Our Engagement Strategy

**Active Ownership activities are conducted in close cooperation and collaboration with J. Safra Sarasin Sustainable Asset Management's investment organisation. The Active Ownership team, together with investment professionals, continuously looks for intersections between investment drivers and management of sector-specific and material ESG risks and opportunities.**

Our engagement process starts with framing the engagement case based on investment relevance and identified key risks and opportunities. The internal scoping of engagement and investment helps us to determine the initial level of alignment of our expectations and the selected company's ability to meet our engagement expectations. We aim at setting targets where we see the most value-creating potential for companies and our investments. We assess sector-relevant performance of companies based on material ESG and investment-relevant drivers. The outcomes of our engagement over time are represented by 5 levels of progress (p. 22).

J. Safra Sarasin Sustainable Asset Management selects companies for engagement based on their relevance for our investments, their exposure to the specific and material ESG issue or topic, and their representation in our clients' portfolios. Periodically, we select between one to three topical ESG engagements, featuring a limited number of companies directly related to the selected topic. Topical ESG engagements typically run over a multi-year timeframe and use the below approach where possible and relevant.

## **Year one: Scoping dialogue & understanding business implications**

- Conduct baseline analysis of the selected company's ESG performance against each specific and business material topical engagement objective (e.g. cobalt extraction, cocoa production).
- Establish initial engagement dialogue with the company and agree on engagement scope and timeline.
- Conduct site-visit for selected companies. Agree on the common scope of issues to be addressed, as well as concrete objectives.
- Report to investment teams and integrate findings in ESG profiles of companies and investment cases.

## **Year two: Engaging multiple levels of management & business units**

- Assessment of relevant and topic-related management practices within different business units and within the value chain.
- Conduct site-visit to evaluate progress, if relevant.
- Report to investment teams and integrate findings in ESG profiles of companies and investment cases.

## **Year three:**

- Specific assessment of company performance as agreed upon during scoping stage and baseline.
- Conduct site-visit and agree on progress points and conclude developments.
- Close specific topical engagement successfully or unsuccessfully.
- Report to investment teams, integrate findings in ESG profiles of companies and investment cases.

A lack of responsiveness by the company can be addressed by seeking collective engagement, attending a shareholder meeting in person, or sharing written concerns with the board. This could also lead to adverse proxy voting instructions by the Active Ownership team on related agenda items at a shareholder meeting, or in a worst-case scenario, divestment, subject to assessment and approval by the internal ESG committee.

In general, an engagement with a company is triggered when one or more of the following situations occur: 1- a portfolio company is a key player in an industry that is a topical engagement focus, 2- a company is a constituent of a particular thematic fund, 3- an ESG controversy has occurred at a portfolio holding, 4- an engagement is conducted with the aim to enhance ESG-related disclosure and 5- a dialogue is triggered in advance of a shareholder vote at an annual or extraordinary general meeting (AGM/EGM).

## Engagement

### Engagement Triggers



Source: J. Safra Sarasin Sustainable Asset Management, 2022

The Active Ownership team’s engagement approach focuses on knowledge sharing, understanding key business drivers behind management of specific ESG topical issues and leverages various areas of expertise. The close collaboration between teams within J. Safra Sarasin Sustainable Asset Management allows us to select engagements which are financially material and able to create sustainability impact within our clients’ portfolios.

J. Safra Sarasin Sustainable Asset Management follows a multi-year engagement approach that particularly focuses on two areas, climate and human rights, as well as two specific topics, cobalt/strategic metals and cocoa. The climate focus reinforces our commitment under the J. Safra Sarasin Sustainable Asset Management Climate Pledge adopted in 2020 seeking a carbon-neutral outcome by 2035. In practice, J. Safra Sarasin Sustainable Asset Management commits to analyse, mitigate and report financial risks of climate change in investment strategies and engage with financial market participants and foster collaboration in order to promote climate change mitigation and adaptation. Under J. Safra Sarasin Sustainable Asset Management’s Statement on Human Rights<sup>1</sup>, we support due diligence to help companies avoid breaches of human rights and supply chains based on the UN Guiding Principles on Business and Human Rights.

In addition to the overarching climate and human rights focus areas, J. Safra Sarasin Sustainable Asset Management identified two specific topics – cobalt and strategic metals more generally, and cocoa - that were selected due to their relevance to our portfolio holdings, exposure to several ESG

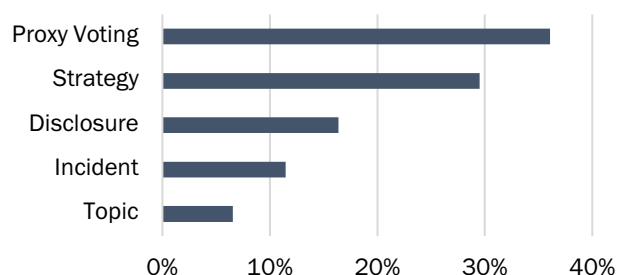
issues (e.g. climate, human rights, environmental degradation, etc.), as well as significance to our Swiss home market, home to some of the world’s largest commodity traders.

This targeted approach, which acts in support of and is integrated within J. Safra Sarasin Sustainable Asset Management’s sustainable investment strategies are also in alignment with the Bank’s overall sustainability philosophy. Furthermore, we consider that a targeted approach executed over multiple years allows our investment professionals to produce and track ESG performance in the long term within our portfolio holdings, while giving corporates time to react.

As a follow-up to J. Safra Sarasin Sustainable Asset Management’s 2020 commitment to the topic of biodiversity, when it became a signatory to the Finance for Biodiversity Pledge, we actively participated in related working groups that seek to develop a framework, including data analysis and methodology that manages the various challenges tied to this complex topic. These groups include the respective work stream of the Principles of Responsible Banking, of which J. Safra Sarasin Sustainable Asset Management became a member in 2019, Finance for Biodiversity Pledge and WWF, Climate & Company, Earthmind and Mundialis Consortium to develop relevant methodologies to assess and manage biodiversity-related risks. The focus of these initiatives has been to develop guidance that provides investors with the right tools to address issues such as engaging with companies, assessing impact and setting targets. J. Safra Sarasin Sustainable Asset Management aims at further aligning its biodiversity methodology and engagement approach in the course of 2023.

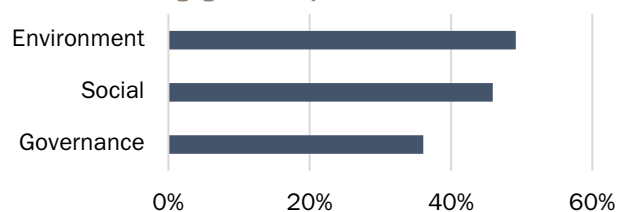
<sup>1</sup> 2019 Investor Statement for mandatory human rights due diligence legislation in Switzerland

**Engagement triggers**



Source: J. Safra Sarasin Sustainable Asset Management, 2022, approx. figures

**Distribution of engagement topics**



Source: J. Safra Sarasin Sustainable Asset Management, 2022

**Company engagements**

Company engagements can target actual behavioural changes in environmental, social or governance-related matters, or focus on the provision of improved data disclosures. This type of interaction usually requires a longer time horizon and may include continued

dialogues. In the statistics shown below, each engagement case is counted once, regardless of the number of interactions.

In 49 percent of the engagements, environmental topics were targeted, in 46 percent of the cases at least one social topic and in 36 percent of the discussions governance-related issues were addressed with corporates.

**Collaborative investor engagements**

Collaborative investor engagements focus on ESG issues that affect an industry as a whole, i.e. climate, deforestation, biodiversity, etc. and that leverage a unified investor voice to maximise the impact of the engagement activity. There are three main forms of collaborative investor engagements in which J. Safra Sarasin Sustainable Asset Management regularly participates: 1) lead investor roles, where J. Safra Sarasin Sustainable Asset Management acts as initiator of the collective engagement, 2) collaborating investor, where J. Safra Sarasin Sustainable Asset Management contributes individually in the engagement or working group, and 3) as signatory where J. Safra Sarasin Sustainable Asset Management acts as supporting investor adding weight and impact to the collective investor effort, e.g. as co-signatory in a letter of support. During the year in review, J. Safra Sarasin Sustainable Asset Management participated in 10 new or ongoing collaborative engagement initiatives, targeting a total of 46 companies in addition to 1,000 corporates addressed in the annual Science Based Targets initiative (SBTi) media campaign.

**Engagement Statistics**

	2022	2021	2020
One-on-one Company engagements	49	76	84
Collaborative investor engagements	8	13	14

Source: J. Safra Sarasin Sustainable Asset Management



# Climate Engagements

**Pursuant to its 2020 Climate Pledge that aims at a carbon-neutral outcome by 2035, and in line with the Net Zero Asset Managers (NZAM) Initiative joined in 2021, J. Safra Sarasin Sustainable Asset Management continued to hold various engagements with portfolio companies around their climate strategies, a sample of which is outlined below.**

J. Safra Sarasin Sustainable Asset Management set the following goals in response to this climate commitment, with regards to its investment products and services:

- Investing in companies whose solutions enable emission reductions and which take the progression of climate change into account in their operations and strategy.
- Focusing on analysing, mitigating and reporting financial risks of climate change in investment strategies.
- Engaging with all financial market participants and fostering collaboration in order to promote climate change mitigation and adaptation.

From an Active Ownership perspective, J. Safra Sarasin Sustainable Asset Management developed an engagement ap-

proach that contributes to and supports meeting these objectives and that includes one-on-one company engagements, collaborative engagements through various investor initiatives, as well as public policy engagements, the latter two are outlined on p. 15 and p. 17 of this report. The approach is supported by a proprietary Climate Engine tool that assists us in the forecasting of the global warming pathway, the estimating of green revenue exposure of approximately 8,000 companies, and a targeted climate voting policy for key emitters in our investment universe. As we look at investee companies to 1- articulate and disclose their climate action plans and 2- initiate implementation and delivery thereof, J. Safra Sarasin Sustainable Asset Management oversees this process through its Active Ownership activities.

## Tesla Inc. – Climate risk assessment



**Trigger:** Engagement launched based on the fund strategy, which takes into account how portfolio holdings assess and integrate climate risks and opportunities.



**Approach:** A formal letter was sent to the company outlining questions with respect to the integration of climate risks and opportunities into the corporate strategy. The letter was followed up by a call between Investor Relations of Tesla and the portfolio management team of J. Safra Sarasin Sustainable Asset Management.



**Findings/Results:** Despite being a pioneer in manufacturing electric vehicles, the company lags behind best practices in terms of ESG disclosures. The company has disclosed Scope 3 emissions (Use of Sold Products) for the first time in its Impact Report 2021. The company is working on carbon emissions reduction targets and their SBTi verification. Furthermore, the company is progressing on its climate change reporting in line with Task Force on Climate-Related Financial Disclosures (TCFD) recommendations. J. Safra Sarasin Sustainable Asset Management encouraged the company on this trajectory and is monitoring progress accordingly.

**Alcon AG – Water Security and Climate Disclosures**

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**Trigger:** The company, a Swiss-American pharmaceutical and medical device company focusing on eye care and investment holding in J. Safra Sarasin Sustainable Asset Management strategies, lags peers in key climate disclosures.

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**Approach:** As lead investor for the company in the 2022 CDP Disclosure Campaign, J. Safra Sarasin Sustainable Asset Management addressed a letter to the Chair of Alcon’s Board of Directors to urge the company to disclose water-related data with the objective to grant capital market participants reliable, comparable data on water-related impacts and risks to investments. The letter was co-signed by approximately 50 Alcon investors. The company was then contacted by J. Safra Sarasin Sustainable Asset Management for a follow-up discussion after the publication of its Sustainability Report for a call with the company’s Investor Relations and Sustainability teams, at which time both water and climate disclosures were discussed.

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**Findings/Results:** While the company is not currently ready to provide detailed water disclosures under the CDP Water Security Survey, Alcon positioned climate as part of its ESG strategy “Brilliant Lives, Brilliant Innovation and Brilliant Planet.” By 2030, Alcon intends to become carbon neutral across global operations. This encompasses Scope 1 and Scope 2 GHG emissions, but currently excludes Scope 3 emissions. Alcon committed to further disclosures of its Scope 3 emissions with a focus on upstream emissions. The company confirmed that it is planning to respond to the CDP Climate Survey in 2023 for the first time. In addition, Alcon committed to refine its climate risk oversight and thus improve its TCFD disclosures.

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# Topic-specific Engagements

**In the context of its public commitments towards Human Rights and Climate, J. Safra Sarasin Sustainable Asset Management focuses on two areas in the commodity space, cobalt and strategic metals, and cocoa. Both themes were selected due to their relevance to our portfolio holdings and exposure to several ESG issues. The two commodities also play a significant role in the climate space and energy transition, through 1- the use of battery-powered transportation and technology and 2- the impact on deforestation. Both continue to be noted for their exposure to human rights controversies.**

## Cobalt and strategic metals

The functioning of the economy is dependent on metals and the demand for metals is growing rapidly with developments such as the energy transition. This puts pressure on the extractive industry which is prone to human rights and environmental issues. Most miners have committed to more responsible mining practices by subscribing to voluntary sustainability standards. However, the implementation of such standards has proven to be very difficult and heterogeneous, depending on regions and schemes.

J. Safra Sarasin Sustainable Asset Management invests in a number of companies that use strategic metals in the production of batteries and components, including tech and phone equipment, electric vehicles (EVs) and renewables. In the case of cobalt, there is limited public information found on its sourcing, its environmental and social impact, as well as how it is managed on the ground. Furthermore, there is a lack of established best-practices related to artisanal- and

small-scale mining (ASM) in many countries of origin, such as the Democratic Republic of the Congo (DRC). ASM mining, however, represents a considerable 10-20 percent of all cobalt extracted in the DRC. Demand pressure will increase ASM and subsequently also risks for environmental and social issues. J. Safra Sarasin Sustainable Asset Management hence prioritized the understanding of the implications related to this development, which impact several companies in which we invest.

In 2022, to better inform our understanding of the significant issues around cobalt extraction, the Head of Active Ownership attended the Cobalt Institute's annual conference where global trends in cobalt extraction, trade and use were presented and debated with upstream and downstream players. Separately, discussions were also held with key organisations active in the strategic metals space, including the Responsible Business Alliance and the Initiative for Responsible Mining Assurance (IRMA).

## UNPRI Advance - Tackling human rights and social issues in the metals, mining and renewables sectors

In 2022, the UNPRI launched a new and the largest to date, investor-led human rights initiative. In its first engagement cycle focused on 25 metals and mining and 15 renewable companies, the 'Advance' initiative brings together investors in collaborative engagement streams to use their influence with companies and other decision makers to drive positive change. It was endorsed by 220 investors with USD 30 trillion in assets under management. The aim of the initiative is to address human rights and social issues in the metals, mining and renewables sectors. After a thorough selection process, J. Safra Sarasin Sustainable Asset Management was selected as one of the 120 investors to join this high profile initiative as a participating investor.

**Mining company – Human rights due diligence**



**Trigger:** Significant player in the extraction of key strategic metals, this copper-extracting company with exposure to human rights issues experienced an occurrence of two consecutive deaths at the same mine, causing concerns about the health and safety practices at the mine.



**Approach:** Direct contact with representatives from the Investor Relations and Sustainability teams.



**Findings/Results:** The company has a safety and environment management system in place and explained that safety protocols were not respected leading to the two fatal accidents. The company provided updates on the investigation on a regular basis and stated that based on the outcomes, measures will be taken such as the intensification of training or re-training of employees. Separately, the company defines human rights as a material issue, supports international initiatives to promote this matter and put a policy in place in 2020. The company conducted Human Rights Impact Assessments at 80 percent of its sites. The Human Rights Impact Assessments for the remaining sites have been scheduled. The company also began implementing Human Rights Action Plans to address the opportunities for improvements identified in their respective Human Rights Risk and Impact Assessments. Further, the company is planning to roll out training on Human Rights. This is an ongoing engagement and J. Safra Sarasin Sustainable Asset Management will push towards additional disclosure on the methodology used for its Human Rights Risk and Impact Assessment, as well as follow up on the implementation of the Human Rights Action Plan in the upcoming Sustainability Report.

**Cocoa**

Cocoa is one of the main ingredients in the chocolate industry worth over several USD billion a year in sales. However, cocoa-producing countries earn a fraction of this amount in annual export revenues and cocoa farmers have been known to struggle to live in poverty, lack access to services such as healthcare and education and may be forced to use their children as laborers.

Human rights violations in the cocoa sector are frequent, and include gender inequality, child labour, lack of education, malnutrition, insufficient health care facilities and sanitation, insecurity of land and tree tenure and rule of law, and labour rights violations for smallholders, workers and tenants. Key concerns include the significant presence of child labour in cocoa production, poverty and inadequate living conditions, and the deforestation and loss of biodiversity.

**Cocoa producer – Monitoring of human right developments and deforestation issues**



**Trigger:** Long-term engagement in child labour monitoring, remediation activities and deforestation concerns due to uncontrolled small-scale farming and raw material sourcing.



**Approach:** Dialogue with CEO, Head of Sustainability and Investor Relations on cocoa certification, child labour remediation and deforestation to monitor progress on sustainability programs in cocoa sourcing countries.



**Findings/Results:**

**Child labour:** The company recently scaled up their support programs on the ground with the hiring of 1,300 people in cocoa-sourcing countries. Nevertheless, the company considers child labour to remain a persistent concern in its cocoa value chain, a fact complicated by the pandemic that caused significant hurdles in making progress on poverty alleviation programs through the hiring and training of adequate staff.

**Deforestation and biodiversity:** The issue of deforestation is closely tied to poverty alleviation programs, as the farming of cocoa is largely undertaken in uncontrolled small scale operations. The company identifies and reports on deforestation through census information and forest loss tracking and uses innovative farming methods and the introduction of different crop varieties to combat biodiversity loss. Nevertheless, progress is slow and requires continued follow-up.

**Cocoa certification:** The company experienced an uptake of 62 percent year-on-year in certified cocoa products, driven largely by end-consumer demand and increasing sustainability regulation. While demand is expected to rise, scaling up of credible certification programs remains a challenge.

# Spotlight: Fund Engagement

**In 2022, J. Safra Sarasin Sustainable Asset Management launched a formal engagement strategy for one of its signature funds. The strategy aims at improving the ESG profile of investee companies through targeted engagements. The fund invests in Swiss small and medium-sized companies and has a historically long-term investment horizon. As long-term and sizable investor with unmatched direct access to senior management and boards, ESG objectives are addressed at the highest level of investee companies.**

Targeted engagements related to ESG topics were initiated or continued with approximately 50 percent of the fund's portfolio companies. Several companies were selected for a dialogue based on our formal engagement process and engagement meetings were held based on defined ESG themes. Company selection for engagement was based on the following criteria:

- Screening performance of key ESG issues and disclosure: portfolio holdings are screened on their J. Safra Sarasin Sustainable Asset Management sustainability rating followed by

an ESG performance evaluation on key metrics applicable to each company's sub-sector. Each company rating is then taken into account in the prioritization and selection of firms.

- Portfolio holding size: Adding to the equation of the ESG performance evaluation, the size of the company is considered as aspect of prioritization.
- Ongoing company discussions: As final step, consideration is given to companies that have been engaged around their 2022 AGM and where first discussions have already occurred.

## Industrial company – ESG-related disclosure and reporting practices



**Trigger:** Perceived shortcomings in the company's corporate governance structure, Board of Directors, as well as E&S disclosures, including its carbon emissions profile.



**Approach:** In-person meeting with the Chair of the Board of Directors in which the absence of an audit sub-committees was addressed, as well as the adaptation of the company's governance to a fast-growing business. The discussion was followed-up with a call with the company's Corporate Social Responsibility Officer to highlight some of the key ESG topics requiring additional disclosure to allow investors to accurately evaluate company risks and impacts.



**Findings/Results:** The company's leadership confirmed that several of the topics addressed were already closely monitored in its operations and promised to improve the public disclosures thereof. At the time of the public filing of the company's 2022 annual report, a formal Audit Committee had been formed and relevant disclosures on the Board of Directors had been published. Furthermore, the company provided concrete evidence of a newly adopted corporate social responsibility strategy, including climate strategy and relevant targets, which mitigated the concerns raised at the time of contact with the company.

**Technology company – Pre AGM discussion**

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**Trigger:** J. Safra Sarasin Sustainable Asset Management conducted an in-depth analysis of the resolutions put forward by the company at the 2022 AGM with a focus on board composition and executive remuneration. The company does not yet have formal Audit, Remuneration and Nomination sub-committees. Additionally, and contrary to best practices, the company pays variable remuneration to non-executive directors. J. Safra Sarasin Sustainable Asset Management expects a company to establish key board committees to clearly define responsibilities on the Board. These key board committees should be chaired by independent non-executive board members and be majority independent. Furthermore, variable, performance-based pay to non-executive directors is often viewed as problematic for causing a misalignment in the oversight responsibilities of the board relative to the management teams it is set to supervise by incentivizing short-term gains over alignment with long-term company interests.



**Approach:** Dialogue with the Investor Relations representative prior to the AGM, followed by written exchange.

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**Findings/Results:** The company agreed to discuss the matter with the Board and later confirmed that formal committees on the Board of Directors will be established. Furthermore, J. Safra Sarasin Sustainable Asset Management addressed concerns regarding the variable remuneration granted to non-executive members of the Board of directors. Non-executive director pay should not affect their independence and thus is expected to be composed of fixed remuneration only.

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# Collaborative Investor Engagement

**Collaborative investor engagements correspond to individual investor contributions in a collective setting such as a working group, where investors join forces in a dialogue with companies on environmental, social and governance (ESG) issues. J. Safra Sarasin Sustainable Asset Management joins collaborative investor engagements on key themes to leverage collective power or, in the case of non-investee companies to advocate a certain stance.**

In 2022 J. Safra Sarasin Sustainable Asset Management participated in various collective engagement platforms as individual contributor or signatory, as outlined below:

- Access to Medicine (ATM) Index
- Access to Nutrition Initiative
- Carbon Disclosure Project (CDP) – Non-Disclosure Campaign 2022
- CDP Science-Based Targets Campaign
- Farm Animal Investment Risk and Return (FAIRR) – Animal Pharma
- FAIRR – Biodiversity Loss from Waste & Pollution

- FAIRR – Sustainable Aquaculture
- FAIRR – Sustainable Proteins
- FAIRR – Working Conditions
- ShareAction – Investor Decarbonisation Initiative

Additionally, the Head of Active Ownership presented to groups of corporate issuers on the investor perspective on key ESG topics, including on ESG disclosures and investor use of ESG data to a group of global pharmaceutical companies at their annual Biopharma Investor Day and Diversity and Inclusion to a working group of Heads of Diversity of large cap European issuers.

## FAIRR - Sustainable Aquaculture

J. Safra Sarasin Sustainable Asset Management participated in the dialogues set up with our engagement partner FAIRR and other investors to tackle climate and biodiversity risks in fish farming in a long-term collective engagement. One of these discussions focused on Mowi ASA, a Norwegian salmon producer. Even though Mowi has already been publishing details on the composition of its fish feed prior to the beginning of the engagement process, the company now also publishes information on the nutritional value of the salmon it produces. By 2030, 10-15 percent of its feed is set to come from alternative sources, compared to the current level of 4 percent.

## ATM Index - Access to Medicine

The Access to Medicine Foundation has launched the ATM Index to encourage pharmaceutical companies to improve the access to medicine globally. In the ATM Index, the Foundation assesses companies on their access-to-medicine performance. The Foundation also coordinates an investor-led collaborative engagement with ATM Index companies. In 2022, J. Safra Sarasin Sustainable Asset Management participated in engagement calls with ATM Index companies Merck KGaA and Roche Holding.

### CDP – 2022 Non-Disclosure Campaign

As in previous years, J. Safra Sarasin Sustainable Asset Management joined forces with other signatory investors in the 2022 CDP Non-Disclosure Campaign. The majority of companies selected in this year's campaign were requested to provide additional disclosure on their impact on climate change. Further, some companies were asked to report on their water- and forests-related risks and impacts. J. Safra Sarasin Sustainable Asset Management was a lead investor at three companies and has co-signed 18 investor letters. Subsequently, J. Safra Sarasin Sustainable Asset Management held several one-on-one follow-up calls with companies targeted in the 2022 Non-Disclosure Campaign.

### FAIRR – Animal Pharma

Antimicrobial resistance (AMR) is a systemic global health risk. Over two-thirds of antibiotics are used in farmed animals and thus the animal pharmaceutical market represents an important lever to tackle this risk. In 2022, FAIRR launched a stewardship initiative that J. Safra Sarasin joined that seeks to tackle the lack of transparency on antimicrobials. We joined a letter-writing campaign to 7 animal pharmaceutical companies, covering approximately 61 percent of the total animal pharmaceutical market. The uptake from companies has been slow and regrettably none of the target companies agreed to meet with the investor coalition. However, 4 companies agreed to meet bilaterally with investors.

# Public Policy Engagement

**J. Safra Sarasin Sustainable Asset Management actively participates in political dialogue in various ways. Through involvement in leading sustainable investment initiatives and organisations, including Swiss Sustainable Finance (SSF), we foster contacts with politics and other stakeholders to promote the consideration and integration of relevant ESG themes on a regulatory level. J. Safra Sarasin Sustainable Asset Management is also committed to promoting a better understanding of sustainable investments.**

**In 2022, J. Safra Sarasin Sustainable Asset Management participated in the following selected working groups:**

- SSF – Working Group on Swiss Sustainable Investment Market Study 2022
- SSF – Working Group on the consultation about the climate-reporting ordinance
- Asset Management Association Switzerland (AMAS) – Working Group on environmental indicators for real estate funds
- WWF – Working Group on a biodiversity risk framework

Further, J. Safra Sarasin Sustainable Asset Management contributed to the public consultation on “General Requirements for Disclosure of Sustainability-Related Financial Information” International Sustainability Standards Board (ISSB).

## ISSB – Public consultation on “General Requirements for Disclosure of Sustainability-Related Financial Information”

In 2022, J. Safra Sarasin Sustainable Asset Management participated in the request for information on sustainability reporting by the International Sustainability Standards Board (ISSB). ISSB was created by the International Financial Reporting Standards (IFRS) Foundation Trustees in 2021 to introduce global standards for sustainability-related financial information. J. Safra Sarasin Sustainable Asset Management welcomed ISSB’s proposal to introduce global standards for sustainability disclosure standards. In its input, J. Safra Sarasin Sustainable Asset Management outlined why it supported the “single materiality” approach adopted by ISSB. J. Safra Sarasin looks at ISSB’s proposal from the perspective of a capital market participant. We consider material information to be above all “significant sustainability-related risks and opportunities” that may have an impact on an entity’s enterprise value. Many existing sustainability disclosure frameworks and regulations, for example under the EU’s Action Plan on Sustainable Finance, focus on taking also into account the impact that company activities have on society and the environment, often referred to as double materiality. Given the wide range of firms’ potential impacts on society and environment, ranging from diversity to climate change, the perception and trade-offs are strongly influenced by the cultural and ethical background of stakeholders.



# Proxy Voting Highlights

## Geographic Spread of Voting



Source: J. Safra Sarasin Sustainable Asset Management, 2022

## Overview of voting activities

Proxy voting is part of J. Safra Sarasin Sustainable Asset Management's Active Ownership activities. Voting rights are exercised for sustainable equity investment funds (excluding mandates), following J. Safra Sustainable Asset Management's overall sustainable investment approach that systematically incorporates ESG aspects into the investment process. The voting execution is coordinated by the Active Ownership Team with the support of sustainability analysts and inputs of portfolio managers. J. Safra Sarasin Sustainable Asset Management's Corporate Governance & Proxy Voting Committee, a sub-committee of the ESG Committee, acts as an oversight body for the implementation of J. Safra Sarasin Sustainable Asset Management's voting policy. This approach allows J. Safra Sarasin Sustainable Asset Management to apply in-depth company and sector knowledge to its proxy voting activities.

In 2022, J. Safra Sarasin Sustainable Asset Management voted at 682 general meetings across 36 markets globally. In doing

so, J. Safra Sarasin Sustainable Asset Management leverages the assistance of a proxy advisor (Institutional Shareholder Services Inc.) for the implementation of its custom proxy voting policy. Important shareholder votes, including corporate transactions, certain board elections, as well as key resolutions submitted by shareholders are referred for in-house voting. Both J. Safra Sarasin Sustainable Asset Management's voting policy and voting history are publicly available.

In 2022, J. Safra Sarasin Sustainable Asset Management implemented a targeted Climate Voting Policy that applies to the highest emitting portfolio companies in terms of Scope 1, 2, and 3 GHG emissions. The climate-related disclosures for companies in scope of the Climate Voting Policy are thoroughly researched prior to their AGM. In the absence of adequate climate action by the companies, J. Safra Sarasin Sustainable Asset Management may oppose the election of the directors responsible for the development and implementation of the company's net zero alignment strategy.

## Proxy Voting

Voting Summary	2022	2021	2020
Number of General Meetings	682	580	541
Number of proposals	9'285	7'530	8'459
AGAINST management	25%	22%	23%
Shareholder proposals on environmental (E) & social (S) themes	140	66	65

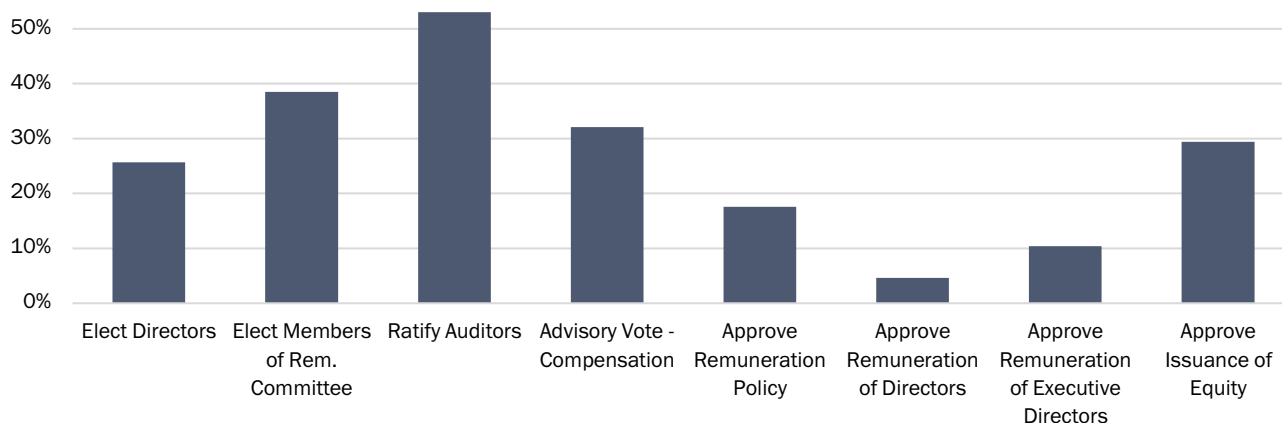
Source: J. Safra Sarasin Sustainable Asset Management

### Votes against management

In 2022, J. Safra Sarasin Sustainable Asset Management voted against management for 25 percent of all proposals and 26 percent against all director election/re-elections, by and large due to insufficiently independent boards. For non-controlled companies, J. Safra Sarasin Sustainable Asset Management expects a majority of all shareholder-appointed board members to be independent. Controlled companies are expected to have

a minimum of one-third independent board members. J. Safra Sarasin Sustainable Asset Management also voted against 53 percent of auditor appointments by and large due to excessive tenure. J. Safra Sarasin Sustainable Asset Management considers different elements to review the independence of a company's auditors, including auditor tenure, disclosure and breakdown of audit vs. non-audit fees.

### 2022 Votes against management on selected topics



Source: J. Safra Sarasin Sustainable Asset Management, 2022

### Shareholder proposals on environmental (E) & social (S) themes

2022 witnessed far more shareholder-submitted resolutions on E & S themes than in previous years, demonstrating a general increase in shareholder activism on ESG-related topics. J. Safra Sarasin Sustainable Asset Management analysed 140 shareholder proposals, compared with just 66 in 2021. At the same time, the number of Annual General Meetings (AGM) analysed by J. Safra Sarasin Sustainable Asset Management increased by 18 percent. With regard to themes in the social area, many were related to questions on diversity, civil rights

and discrimination. As expected, most motions on the environment concerned climate change.

Shareholder proposals are generally treated differently depending on the market. Although the filing of shareholder motions at AGMs tends to be the exception in most markets, they are very common at large, North America-domiciled corporations. In 2022, the large majority of the E & S-themed shareholder proposals were at companies in the US.

### Compagnie Financière Richemont SA – Shareholder proposals

London-based activist investor Bluebell Capital Partners filed key governance proposals at the 2022 AGM of Richemont, a Swiss-based luxury goods company. By proposing an amendment to the company's articles of association, Bluebell demanded that at least the same number of representatives of A-shareholders and B-shareholders should be represented on the Board of Directors. Further, Bluebell nominated Francesco Trapani, a former LVMH SE executive and rival of Richmont, as board candidate.

To come to an informed vote decision before casting its vote, J. Safra Sarasin Sustainable Asset Management contacted and held discussions with the activist, as well as with a company representative. As part of this exercise, we also sought to understand the extent of interaction between Bluebell and the company prior to the AGM, to determine how long-term oriented the investor campaign and interests are.

Richemont maintains two share classes with different nominal value: listed A shares and unlisted B shares. Johann Rupert, Chairman of the Board and holder of all B shares, owns 10 percent of the capital and holds 51 percent of the company's voting rights. In line with the one-share, one-vote principle, J. Safra Sarasin Sustainable Asset Management advocates for a single share class with equal voting rights. As such, J. Safra Sarasin supported the amendment to the articles of association in order to strengthen the rights of minority shareholders.

However, due to the acceptable composition of the Richemont board and the risks associated with appointing an external candidate representing rival interests, J. Safra Sarasin Sustainable Asset Management opted to reject the appointment of Francesco Trapani.

### McDonald's Corp. – Proxy fight

Activist hedge fund investor Carl Icahn publically criticized the company for animal welfare violations and supply chain issues, as well as a hollow ESG agenda. In order to strengthen its ESG approach, Carl Icahn nominated candidates Leslie Samuelrich and Maisie Ganzler to stand for election to the McDonald's Board at the 2022 annual meeting. Carl Icahn specifically targeted Sheila Penrose and Richard Lenny, both members of the company's Sustainability and Corporate Responsibility Committee (SCRC) for insufficiently addressing key animal welfare, supply chain and labour practices at McDonald's, as well as other publicly listed companies. As the meeting was structured as proxy fight, shareholders were asked to submit either the proxy card of the management (White Proxy Card) or the dissident's proxy card (Gold Proxy Card). J. Safra Sarasin Sustainable Asset Management supported the dissident's nominations of Leslie Samuelrich and Maisie Ganzler, based on their respective backgrounds and expertise, as well as excessive tenure concerns within the company's Board of Directors and the SCRC specifically.

### Climate Voting Policy Implementation – Opposing Board Elections

J. Safra Sarasin Sustainable Asset Management opposed AGM proposals at Deere & Co., ConocoPhillips, Martin Marietta Materials, and Inc., Weichai Power Co., Ltd. based on its climate voting policy.

In three instances, J. Safra Sarasin Sustainable Asset Management opposed at least one board election for failing to address climate issues sufficiently or missing to set GHG reduction targets at three companies.

At one AGM, we voted against receiving the annual report since there were no direct elections to vote on. The annual report for this high-emitting company inadequately addressed climate in its strategy and public disclosures. While keeping in line with national legislation, the company failed to go beyond this minimum requirement, which we would have expected for a high-emitting company.

# Direct Dialogue Engagement Process

**J. Safra Sarasin Sustainable Asset Management seeks to enhance long-term shareholder value by engaging with companies on a one-on-one basis. Direct engagement is conducted by following a five-step approach.**



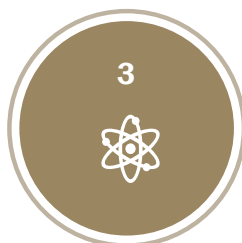
## **Screening & Selection**

Investment universe and portfolio holdings are monitored to select engagement areas for a given company. The process focuses on controversial news flow and ESG outliers.



## **Dialogue**

Engagement with the company is initiated and conducted in accordance with specific objectives and using different forms of communication (e.g. calls, emails, letters, in-person meetings).



## **Evaluation**

The engagement is tracked and the outcome evaluated and categorised to determine the success of the engagement.



## **Conclusion**

The decision is made on whether the engagement has been successfully concluded or whether it is to be continued. The in-house ESG rating of issuers can be adjusted (down- or up). In extreme cases, divestment is an option.



## **Communication**

The internal rating outcome and impact of engagement dialogues are communicated on a regular basis.

# References

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Climate Pledge, <https://publications.jsafrasarasin.com/publ-dl-ch/dl-disc?dl=C55A28427313C300A89F5440C0653E71228D9095711A27BBCF5F5111DCF7063BE9F6DCDA72710E291B58A3B565264E94>

Finance for Biodiversity Pledge, <https://www.financeforbiodiversity.org/>

## References to external resources

ATM Index - Access to Medicine, ATM Index - Access to Medicine

Advance – A stewardship initiative for human rights and social issues, <https://www.unpri.org/investment-tools/stewardship/advance/the-investors>

CDP – 2022 Non-Disclosure Campaign, [https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/764/original/CDP\\_2022\\_Non-Disclosure\\_Campaign\\_Report\\_18\\_01\\_23.pdf?1674225832](https://cdn.cdp.net/cdp-production/cms/reports/documents/000/006/764/original/CDP_2022_Non-Disclosure_Campaign_Report_18_01_23.pdf?1674225832)

FAIRR – Animal Pharma, <https://www.fairr.org/research/animal-pharma/>

FAIRR - Managing Biodiversity & Climate Risks in Aquafeed, <https://www.fairr.org/engagements/sustainable-aquaculture-engagement/>

ISSB – Public consultation on “General Requirements for Disclosure of Sustainability-Related Financial Information”, <https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/>

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The environmental, social and governance (ESG) analysis of companies is based on a proprietary assessment methodology developed by the Sustainability Department of BJSS. All ratings are conducted by in-house sustainability analysts. The sustainability rating incorporates two dimensions which are combined in the Sarasin Sustainability-Matrix®:

Sector Rating: Comparative assessment of industries based upon their impacts on environment and society.

Company Rating: Comparative assessment of companies within their industry based upon their performance to manage their environmental, social and governance risks and opportunities.

Investment Universe: Only companies with a sufficiently high Company Rating (shaded area) qualify for Bank J. Safra Sarasin sustainability funds.

### Key issues

When doing a sustainability rating to individual companies, the analysts in the Sustainability Department assess how well companies manage their main stakeholders’ expectations (e.g. employees, suppliers, customers) and how well they manage related general and industry-specific environmental, social and governance risks and opportunities. The company’s management quality with respect to ESG risks and opportunities is compared with its industry peers.

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