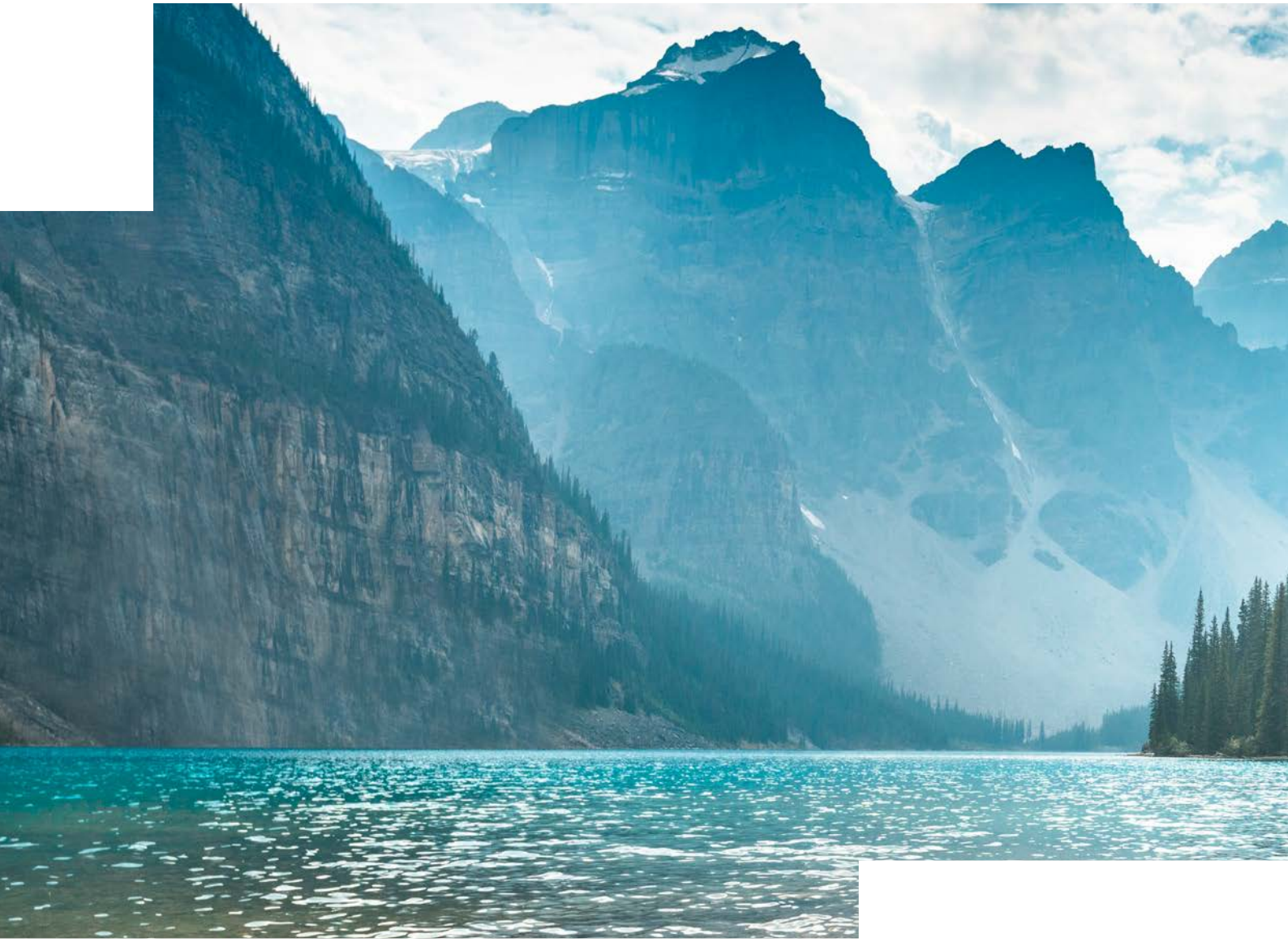
Asset Management

CREDIT SUISSE

Active ownership report 2019



Content

Preface

> Active ownership is a powerful tool in our push for a sustainable future.

Dominik Scheck
Head of ESG

Stephan Scharrer
Active Ownership

Asset managers have a range of tools they can use to improve their portfolios in line with environmental, social, and governance (ESG) criteria. As Credit Suisse Asset Management has begun to comprehensively integrate ESG criteria into our business model, the importance of active ownership – proxy voting and engagement – has become ever more apparent.

Given our significant investments in various companies on our clients' behalf, we can exercise proxy voting rights at an increasing number of annual and extraordinary general meetings. Year-round engagement with key corporate decision makers on ESG matters is equally as important.

By seeking out and insisting on a constructive dialogue with the companies we invest in, we can have a deeper impact and can spur our partners toward a greater commitment to sustainable values and practices.

Proxy voting and engagement – active ownership – are among the most powerful tools in our ESG framework and help us pursue our goals, both in the interests of our investors and pursuant to the industry's responsibilities and obligations to the wider world.

Dominik Scheck **Stephan Scharrer**

1 Introduction

Real estate: opportunities and challenges for engagement

Building, maintaining, and operating real estate is one of the biggest sources of greenhouse gases in the world. This is also an area with some of the biggest opportunities for reducing emissions, making it a very fruitful field for our engagement activities. In a series of four vignettes throughout this report, we show some of the issues we engage with.

Over the last few years, sustainable and impact investing approaches have gone from niche to mainstream. We at Credit Suisse are convinced that they are the only way forward over the medium to long term due to an ethical imperative to act sustainably and because ESG investments have been shown to have a higher risk-adjusted return potential.

Credit Suisse Asset Management has committed itself to a comprehensive realignment of our business and our investment solutions in accordance with ESG criteria. This commitment takes many forms, from adjusting our investment processes to initiating a switch to renewable sources in our own daily use of resources.

One important element of our ESG strategy is our mission to move the broader conversation beyond the immediate limits of our organization. To do so, we have pioneered a number of industry initiatives concerning sustainability in finance and have fully signed on to others. And we seek to influence the decisions of other market participants to help them shift onto a more sustainable path.

To achieve these aims, we use two of the most important tools in our repertoire – engagement and proxy voting. On behalf of our clients, we hold significant investments in various companies through our funds and other solutions, which enables us to influence their decision

Without technical heating or cooling

We have been invested in Swiss Prime Site, a publicly traded real estate company based in Switzerland, for a number of years. Under our ESG framework, in 2019 we began actively engaging with the company on the topic of climate change and to what degree it is already taking this important issue into consideration in its operational business in areas such as strategy and risk management.
Swiss Prime Site, in collaboration with a local planning and architecture firm in Schlieren, plans to implement a novel concept for a new building to be erected just a few kilometers outside Zurich. The building reportedly will be capable of maintaining a constant interior temperature of 22°C to 26°C without any technical heating or cooling equipment. Sensors will continually monitor room temperatures as well as the ambient CO_2 concentration and humidity. The building's interior climate will be adjusted by means of ventilation louvers that automatically open and close. Eighty-centimeter-thick double-leaf solid masonry exterior walls form the basis of the new concept. The surfaces and materials are designed to optimally even out temperature fluctuations and to have a service life of 200 years.

makers either through meetings and an ongoing dialogue at the highest levels (engagement) or by exercising our clients' voting rights by proxy at annual shareholder meetings (proxy voting).

Our objective is to manage at least CHF 100 bn of assets in line with our Credit Suisse Sustainable Investing Framework by the end of 2020. As part of our ESG initiative, we have further refined our proxy voting practices. In light of the European Shareholder Rights Directive II (SRD II), we have expanded the scope of our shareholder proxy voting activities to all relevant Luxembourg-based funds. This results in much broader coverage across Switzerland and Europe, but also across North America and the Asia-Pacific region.

In this report, you will find a review of our activities in 2019 and a short outlook on where we want to take them in the years ahead.

Engagement and proxy voting: our approach

Our prime objective under active ownership is to maintain and increase the value of companies in which we are invested. To bring about positive change in this area, we exert influence on companies' business operations on two levels: firstly through proxy voting, i.e. the fiduciary exercise of our voting rights at annual general meetings (AGMs), and secondly through active engagement, which means maintaining permanent dialogue with companies on sustainability issues. Today, we represent our investment clients nationally and internationally at numerous AGMs every year and increasingly hold discussions with members of corporate boards of directors and executive boards.

Regardless of regional and cultural differences reflected in business practices, we apply five standard criteria when assessing the corporate governance of companies:

- Composition and independence of the board of directors
- Management and executive board
- Compensation (system and amount)
- Environmental and social aspects
- General corporate governance aspects

2 Proxy voting review

Zero emissions

One company in our engagement universe has set itself the goal of operating all of the buildings in its real estate portfolio without any CO_2 emissions. To do that, it is deploying fascinating modern technologies that are still in early stages of development. The energy supply for an inner-city building is being linked to a nearby lake. A heat exchanger will be used to transmit the energy of the lake water, the temperature of which varies by between 4°C and 8°C over a depth of 26 meters, to a separate intermediate circuit. From there, heat pumps will generate warmth, and in the summer, cool air will be directly transferred and circulated with the aid of a heat exchanger. As part of the development of an entire housing and office complex site, energy self-sufficiency is to be achieved by employing solar photovoltaic installations, multiple dynamic geothermal energy accumulators, and an "anergy grid." An anergy grid utilizes low-grade energy forms contained in waste heat, wastewater, ambient heat, and groundwater.

Credit Suisse Asset Management enhanced the profile and importance of proxy voting in 2019. Together with the relevant internal management teams (e.g. Equities and Balanced Solutions), we brought Credit Suisse Asset Management into full compliance with SRD II, which amends its predecessor. SRD II strengthens shareholder rights and sets out new requirements for intermediaries, institutional investors, asset managers, and proxy advisors. It also redefines the remuneration policy for directors, now giving shareholders a binding say on it. The updated Shareholder Rights Directive (SRD II) may at first glance seem like an addendum to the original Shareholder Rights Directive from 2007 (SRD I). In some respects, it is. Nevertheless, there were complexities that needed to be addressed, not only for EU firms but for those in Switzerland as well.

At the same time, we continued to raise the bar for the companies in which we are invested, concentrating on the following two broad areas:

- **Independence of a company's board of directors (BoD)**
  This is an extremely important topic. Firstly, it is our fiduciary duty to ensure such independence; secondly, an independent BoD is crucial to the economic success of a company. Business strategies are amended much more often these days and, as a consequence, changes to executive management personnel (CEO, CFO, etc.) occur more frequently than in the past. BoD independence is an important bulwark against unnecessary excesses in this area.
- **Executive management compensation**
  Since executive compensation has increased substantially over the last decade, we are looking much more deeply into its structuring and details. Compensation reports have improved substantially in terms of transparency and degree of disclosure, which gives us better insights and enables us to be more demanding. An attractive compensation framework is needed to retain and motivate employees. As a stakeholder, we have the fiduciary duty to approve compensation in a growing number of countries. We exercise this duty with care, analyzing the details of compensation reports and budgets.

The following sections detail the types of votes cast and explain how they tie into the categories above.

2.1 Compensation reports submitted for non-binding approval by vote

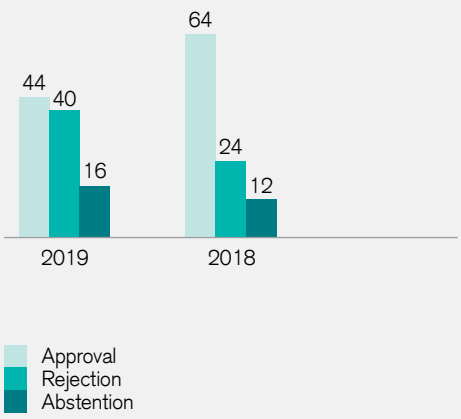
We have seen more and more companies, particularly in Switzerland, institute consultative votes on compensation reports. For the Swiss market, we now consider the submission of compensation reports for non-binding approval to be the best practice. Nevertheless, there are still companies in the mid- and large-cap segments that do not hold such votes. Our level of acceptance has decreased, and we rejected every second compensation report put to vote.

At the various shareholder meetings, this agenda item covers multiple aspects, including absolute compensation, historical figures, and the structure of the compensation framework. When deciding how to vote, we consider the following aspects:

- In 2019, we stopped accepting the exclusion of internal "exceptional income statement items" (e.g. restructurings). Many of those "exceptional items" occur more than once in a business cycle, and we believe that all stakeholders have to take responsibility for them.
- We view personal investments by executive management and BoD members in the companies they work for as the best practice, and on the whole we like to see increases in shareholdings. Personal selling is acceptable as long as a minimum annual base salary is paid out in shares (higher thresholds apply for certain functions).
- We look for transparent disclosure of the compensation of all BoD members on an individual level. The executive management is requested to provide a breakdown of its fixed and variable compensation elements and to disclose the key metrics that determine the variable parts – in particular long-term compensation and deferrals, for which we require a hard-coded three-year cliff vesting schedule.

If companies do not allow a non-binding vote on the compensation report, we will vote on the next most suitable agenda item in order to express our concerns, as we have done in the past.

Non-binding votes on compensation reports in %

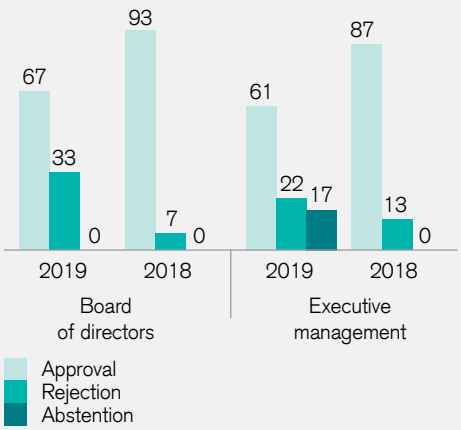


Source: Credit Suisse Asset Management

2.2 Legally binding retrospective votes on management-board pay, primarily in the financial sector

This kind of voting is still the exception for most industries; the most common approach is consultative voting (see section 2.1). For the financial industry, we often see a mixed approach toward approving executive compensation: a binding retrospective vote on fixed payments and a budget approach for variable compensation. In line with the evolution in our stance on approving compensation reports (see section 2.1), we have become more critical, and our level of acceptance has therefore decreased roughly to a 2:1 ratio, which is substantially lower compared to the previous year.

Binding votes in %

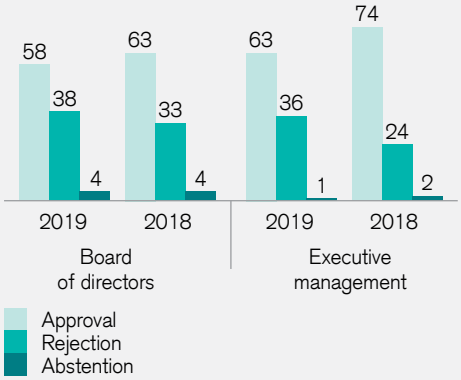


Source: Credit Suisse Asset Management

2.3 Prospective compensation budgets for BoDs and executive boards

Here, too, we have become stricter in our acceptance criteria. Overall, we have pulled back slightly to an acceptance level of around 60%, which was somewhat higher on the executive committee side. We rejected a substantial number of budgets due to high potential increases with no clear rationales given for such a rise. We are not against potential increases per se, but would like to understand the reasons that might necessitate and justify them.

Budgets, binding, in %



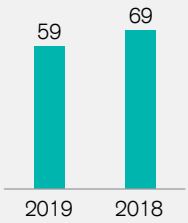
Source: Credit Suisse Asset Management

2.4 Independence of the BoD and avoidance of overboarded members

For Switzerland, we apply a stricter definition of overboarding than the one recommended by Economiesuisse. We believe that board members face a demanding and complex workload and should have the capacity upon election to devote proper time to their responsibilities during unforeseen challenging periods.

We fully endorsed or reelected all proposed candidates in almost 60% of cases, a level 10 percentage points lower than in previous years. In cases where we could not fully support all members, we rejected two candidates per annual general meeting (AGM) on average. This lower rate of full support results from our requirement of having a mostly independent BoD, but also from our stricter definition of overboarding. In Switzerland, compensation committee members also need to be elected. The rate at which we supported candidates was stable compared to the previous year.

Elections, fully supported, in %



Source: Credit Suisse Asset Management

2.5 Changes to articles of association

We had six cases of ordinary share capital increases, each of which we supported. Generally, only a small number of ordinary share capital increases occur per year.

In the 34 cases of proposed raising of authorized and/or conditional capital where the preemptive rights of existing shareholders were to be excluded, resulting in a dilution of our stake, we were supportive in almost 90% of instances, as in the previous year.

We have clearly defined thresholds in place that limit overall levels and cap the creation of stock and option compensation. Ideally, the stock programs should be funded with shares purchased on the open market by the company. Companies keep returning surplus cash to shareholders. We noted a larger number of capital reductions than in 2018. We considered all cases non-critical.

Lastly, we had fewer cases of other changes to articles of association, and some of them were requested by minority shareholders. Our acceptance level fell to 60%.

3 Engagement

Inexpensive versus sustainable construction

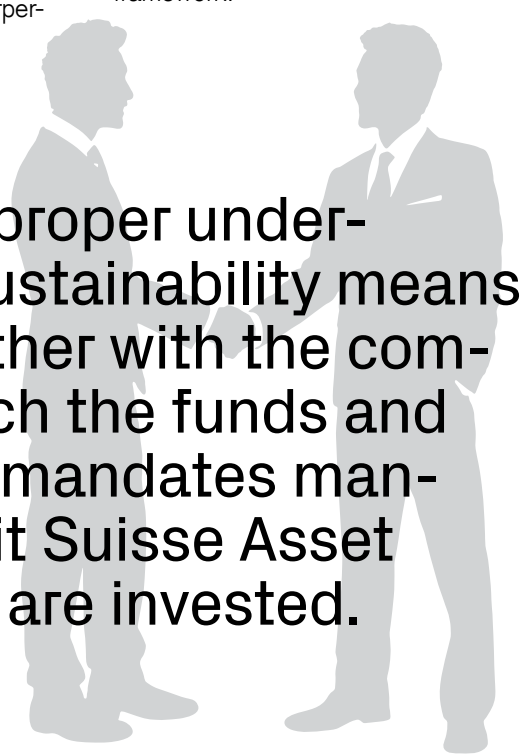
In our discussions with real estate companies operating mainly in the area of housing construction, the conflict of objectives between building inexpensively and building sustainably repeatedly came up. From the perspective of the companies we spoke with, insulation costs for buildings under renovation need to be kept within reasonable limits out of a desire for socially responsible rent pricing and because companies do not want or are unable to pass all of the costs on to tenants (Germany, for example, enforces a "rent price brake"). On the other hand, companies are striving to use sustainable, natural building materials that also do not pose disposal or recycling problems. This conflict of objectives is manifestly evident in the choice of insulation materials. For example, using petroleum-based EPS (expanded polystyrene rigid foam, also known as Styrofoam) instead of natural fiberboard can cut material costs practically in half. The two materials are comparable because their thermal conductivity coefficients are nearly identical and it takes the same primary energy input to manufacture them. Fiberboard, however, can be disposed of in a more ecological manner because it is made of natural wood chips, a byproduct of sawmill operations.

To us, sustainability means more than a simple binary decision about a company or security to determine whether or not it conforms to some rigid catalogue of criteria. We believe a proper understanding of sustainability means working together with the companies in which the funds and discretionary mandates managed by Credit Suisse Asset Management are invested.

Through dialogue and judicious tenacity, we can steer decision makers onto a more sustainable development path. This is a better way forward because we are convinced that this kind of engagement has a beneficial impact over the medium to long term on investment returns and on society in a wider sense.

Engagement, by definition, is based on interaction with the counterparty's decision makers. In 2019, all engagements were one-on-ones in which we mostly met in person with the chairperson and/or BoD members, or in some cases with investor relations. Overall, we had numerous meetings and conference calls in 2019, covering a number of different kinds of engagement.

- Thematic engagement
  Speaking to companies about the current priorities of our ESG initiative – independence of the BoD and climate protection measures at listed real estate companies.
- Individual engagement
  Pertaining to company-specific issues.
- Engagement in relation to proxy voting
  Proxy voting is not an isolated action. It is accompanied by a dedicated engagement plan.
- Public policy engagement
  Participation in industry-wide efforts to influence our peers or the regulatory framework.



> "We believe a proper understanding of sustainability means working together with the companies in which the funds and discretionary mandates managed by Credit Suisse Asset Management are invested.

We also held a number of meetings closely related to our proxy voting in which we explained the reasons behind our impending or past votes and what might induce us to vote differently (see the box on the next page).

Below, we briefly elucidate our activities across these engagement categories.

3.1 Thematic engagement

3.1.1 Governance: independence of the BoD and committees

Based on our analyses, we identified several companies where we saw a need to engage with the BoD about this topic. In these conversations, we cover not only the independence of the board itself, but also of crucial deliberative bodies such as audit and compensation committees – the Swiss Ordinance against Excessive Compensation in Listed Stock Companies (OaEC) gives shareholders the power to elect compensation committee members.

Generally, we are seeing a better understanding of the importance of independence among large-cap companies. However, the guidance provided by regulators is sometimes lacking. It is more about companies following best practices and proactively incorporating them over time. Large-cap companies are quicker adopters, whereas small- and mid-cap companies take longer to adapt to new governance standards.

During the third and fourth quarters, we entered into a dialogue with ten companies based on our analyses. Overall, we are satisfied with the initial outcomes. In the vast majority of cases, we had one-on-one meetings with the chairpersons of the respective companies accompanied by an investor relations officer and sometimes other BoD members. The dialogues were very open and constructive, with learning often taking place on both sides. Measuring improvements will take longer because changes are needed at the BoD level, which will mainly occur in the runup to the companies' next AGMs, when they publicly disclose their new BoD lineups.

Examples of dialogues with companies concerning BoD memberships

While the issues we encountered in our active ownership activities were often similar, each case had its own unique aspects due to the specific constellation and culture of the company involved.

One example was a BoD member who has several other BoD mandates with other companies all controlled by the same parent company. We concluded that this person has a material dependency. The point to mention in his favor – and such facts only become visible through a dialogue – is that he is wealthy enough to no longer depend on the income stream.

Another example is a chairperson who also heads the compensation and nomination committees. We agree with the companies that the chairperson may head the nomination committee. But given the corporate organization, it might make sense to split the committee into two separate ones in order to make the compensation committee independent from the chairperson.

A third example is a constellation of four independent and five non-independent BoD members plus the chairperson, who also acts as the CEO. One person acting as both the CEO and chairperson is acceptable to us for a limited time.

In all of these cases, our concerns were understood and remedies were proposed. We will monitor the situations over the months ahead and will re-engage where necessary.

Aside from these encouraging examples of positive, open engagement, we also had two cases in which personal contact and exchange with the BoD could not be established. In one case, we had to submit our questions through the head of investor relations, but we received open feedback. In the second case, we also briefed the head of investor relations. Unfortunately, the answers were provided in a carefully worded letter to us. It probably is fair to say that it will take more time for mid-cap companies in particular to open up to this form of dialogue with their larger investors. Nevertheless, we already consider it a best practice and will continue to dialogue also with mid- and small-cap companies.

3.1.2 Environment: climate change and listed real estate

With the signing of the 2015 Paris Agreement on climate protection, 195 countries pledged a commitment to make every effort to limit global warming in the 21st century to a maximum of 2°C. One action of prime importance is switching from fossil fuels to renewable energy sources like solar, wind, and hydro power. While current discussions mainly revolve around discontinuing the use of fossil fuel to generate electricity, one must not forget that the real estate sector remains one of the largest consumers of petroleum and natural gas for heating and is thus one of the biggest producers of greenhouse gas emissions. After all, existing buildings and properties account for 40% of primary energy consumption and 30% of CO_2 emissions in Europe.[1]

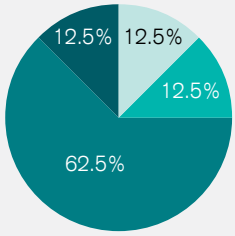
For publicly traded companies in particular, global warming and climate change pose a potential risk that will have an impact on their business strategies and operations in the medium to long term. The fundamental question facing us is to what extent an existing real estate portfolio might be affected by potential climate changes. If the assumptions put forth by the Intergovernmental Panel on Climate Change (IPCC) are taken as a basis, a rise in sea levels and extreme weather events like heat waves, severe storms, and torrential precipitation may not only have a direct impact on property values, but could also cause medium- to long-term shifts in demand for residential, office, and industrial real estate. Finding out whether publicly traded companies are already thinking about these issues was one of the objectives of our environmental engagement.

> “For publicly listed real estate companies, global warming and climate change pose a potential risk that will have an impact on their business strategies and operations in the medium to long term.

[1]Source: University of Cambridge, Centre for Sustainable Development (2020).

Our engagement universe in 2019 was confined to nine publicly traded real estate companies in Germany, Switzerland, and the UK operating in the industrial, residential, office, and logistics real estate segments or in a combination thereof. Our contact with one of those companies unfortunately did not result in a meeting or teleconference due to personnel reasons. Although the individual companies with which we sought a dialogue pursue very different business strategies, there were matters that could be judged equally across all of them. One example was the extent to which management compensation is tied to sustainability targets, particularly in the environmental realm. Our engagement activities reveal that there is a lot of potential for improvement here.

Is there a target for cutting greenhouse gas emissions?



- No reduction target, but remediation target in place
- Absolute reduction target (not aligned with Paris Agreement)
- Relative reduction target (aligned with Paris Agreement)
- Relative reduction target (not aligned with Paris Agreement)

Source: Credit Suisse Asset Management

Summary of engagement in real estate
Given the urgency and topicality of climate protection, it was hardly surprising but nonetheless praiseworthy that nearly all real estate companies with which we had initiated an environmental engagement dialogue have defined targets for cutting their CO_2 emissions. More than half of them have aligned their targets with the Paris Agreement goal of limiting warming to less than 2°C. A distinction is drawn between relative and absolute reduction targets. "Relative" in this case means that a specific intensity target, such as CO_2 emissions per square meter of space under management, is to be achieved. "Absolute" refers to a reduction target for a company's overall emissions.

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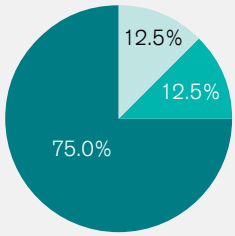
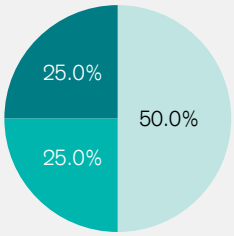
Is there a climate-change policy in place?



Yes
In progress
No (not yet)

Source: Credit Suisse Asset Management

Are climate risks a part of risk management?



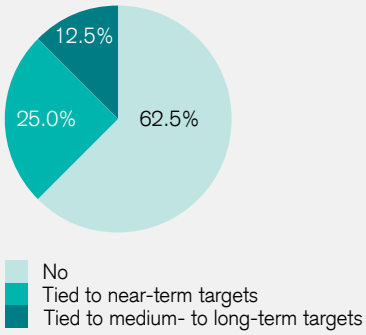
No
Preliminary deliberations are underway
Already a part of risk management

Source: Credit Suisse Asset Management

In connection with reduction targets, the question of whether companies have developed their own climate-change policies was also posed. In the vast majority of cases, there were clear targets set for cutting greenhouse gas emissions and sustainability strategies were geared to climate protection, but there were no declared climate protection guidelines implemented company-wide. From our discussions with companies, we discerned that the depiction of the findings above will change considerably over the next two to three years.

Integrating climate risks and different climate scenarios into in-house risk management is another area that still represents uncharted territory for most real estate companies. The typical statement is that there have already been thoughts along those lines, but that it is still “too soon” to implement them or the necessary data and information are unavailable. One company stated that it was talking to insurance companies about climate risks, but had received at most a five- to ten-year outlook from them. Another company said that it took published scientific studies into account in its internal discussions and deliberations if they related to metropolises and regions in which it does business.

Is management compensation tied to sustainability targets?



Source: Credit Suisse Asset Management

On the matter of management compensation, the question arose as to whether it is at least partially tied to near-, medium-, or long-term sustainability targets. In most instances, compensation is not tied to sustainability targets, which means a lot of catching-up still needs to be done in this regard.

Altogether, it can be asserted that the real estate companies we looked at have already embraced the subject of climate change to a good or very good extent and have anchored it in their thinking. Even though certain weak spots are still discernible here and there, it is unmistakably evident that business policies are being geared both toward greater energy efficiency, and climate change prevention and mitigation in view of the Paris Agreement on climate protection. On a near- to medium-term horizon, it would be desirable for management compensation to be aligned more closely with sustainability targets and for companies to formulate their own climate-change policies as a basis for future business activities. Moreover, there is still a lot of potential to factor climate change more thoroughly into risk management.

3.2 Individual engagements

A second form of engagement was individual engagements due to special situations. One example was our engagement with a large company that experienced two CEO departures within a very short time frame. In this case, we wanted to hear from the chairperson the reasons that led to the dismissals. One new mode of open exchange between chairpersons/BoD members and their companies' main investors are "soundings," discussions of "what if" scenarios and the outcomes that would be needed to support them as an investor. For example, the incumbent chairperson might not stand for reelection at the next AGM. The successor would be a BoD member who was the CEO up until recently. The required cooling-off period for a former CEO to become the new chairperson would not be long enough in this case. Here we could reassure the company that we would back the election if it also nominated a lead independent director and barred the new chairperson from serving as a member on any committee. We appreciate investee companies' trust in openly discussing challenging scenarios with us and viewing us as a competent partner.

3.3 Engagement in relation to proxy voting

Proxy voting is not an isolated action, but often part of the engagement process. Throughout the year, we had almost 40 meetings with BoD members, again mostly one-on-ones, in which we discussed our proxy voting principles and framework. During those meetings, we reviewed our proxy voting behavior at the last AGM and highlighted the agenda items that we could not support. We openly explained what led us to our stances. The corporate representatives on the other side normally highlighted improvements and explained their take on certain vote results.

3.4 Public policy engagement

In February 2019, we and more than 140 other asset managers, asset owners, and wealth managers from around the world collectively called on index providers to remove manufacturers of controversial weapons from their mainstream equity and fixed-income indices. The open letter was sent to representatives of FTSE Russell, Morningstar, MSCI, S&P Dow Jones Indices, and STOXX, and was published in the *Financial Times*, the *Neue Zürcher Zeitung*, and *Le Temps*, with all signatories urging index providers to take action. Some national regulations and international conventions already ban investments in companies linked to controversial weapons. However, mainstream indices continue to include them.

In April 2019, the nine Operating Principles for Impact Management were launched under the auspices of the World Bank's International Finance Corporation (IFC). These principles are designed to bring greater transparency, comparability, and rigor to the impact investing market. Credit Suisse has supported this initiative from the outset and was part of the small working group convened to advise on the drafting of these principles, underscoring our expertise in a market that the IFC believes could be worth over USD 25 tn if brought further into the mainstream.

In the second quarter, the International Monetary Fund endorsed the work done by the Institute of International Finance on its Principles for Debt Transparency. The principles were discussed and accepted at the G20 meeting in Tokyo in late June. Credit Suisse began to develop the framework that evolved into these principles in 2017 in the belief that increased transparency is the key to better access to capital markets in the developing world.

As a global financial institution, Credit Suisse is expanding the role it can play in its own operations and in supporting its clients with investment products and advisory services in their transition to a low-carbon economy. To this end, we recently joined the United Nations Environment Program Finance Initiative's Task Force on Climate-Related Disclosures Banking Pilot Phase II to further develop approaches and tools for climate risk management in the banking sector. In our internal operations, we have joined the Green Power Pass early adopter program of one of the bank's key providers of data center services, ensuring that 100% of the power used comes from renewable resources.

Additionally, during the course of 2019, Credit Suisse was an active member of both the Swiss Bankers Association (SBA) working group on sustainable finance and the OECD Advisory Group for Responsible Business Conduct in the Financial Sector. We also participated in a sustainable finance roundtable organized by the State Secretariat for International Finance (SIF) and chaired the Financial Institutions Task Force (FITF) of the Roundtable on Sustainable Palm Oil (RSPO). Another major item we have been working on is the EU Action Plan on Sustainable Finance. We have had several interactions with, and have sent several responses to, the European Commission's consultation on the proposed EU Ecolabel for Financial Products, as well as to the EU Technical Expert Group on Sustainable Finance (TEG), the European Securities and Markets Authority (ESMA), and the European Fund and Asset Management Association (EFAMA).

“As a global financial institution, Credit Suisse is expanding the role it can play in its own operations and in supporting its clients with investment products and advisory services in their transition to a low-carbon economy.

4 Outlook

Special shareholder proposals

Some markets have high requirements that shareholders must meet to put resolution proposals on an AGM agenda. In other markets the barriers are lower. In the US in particular, we have seen a large number of shareholder resolutions, also on climate change and corporate lobbying. In the major European markets (including Switzerland), there are normally high ownership requirements (mostly in the range of 5% to 10% of paid-in share capital) that must be met in order to have the right to propose items for an AGM. We expect the number of shareholder resolutions to increase further. Generally, we only exercise our voting rights once a certain materiality threshold has been surpassed. We assess the shareholder resolution proposals based on our ESG and Credit Suisse Asset Management proxy voting framework. Controversial cases will be decided by our Credit Suisse Asset Management proxy voting committee exclusively in line with our fiduciary duties.

Remember that many of the topics mentioned here have both social and environmental components. Like the Sustainable Development Goals (SDGs) defined by the United Nations, there is usually an overlap between social and environmental aspects. This will influence our thinking and actions going forward.

4.1 Proxy voting

Our extensive review of our proxy voting methodology led to us introducing a number of new criteria, the most important ones being:

- **Executive management remuneration**
  We now require a long-term incentive plan (LTIP), including a three-year cliff vesting schedule. In the medium term, we are aiming for a four-year deferral, but we acknowledge that this has not yet become a best practice.
- **Shareholdings**
  Minimum shareholding rules are a requirement. For regular BoD and executive board members, shares equal to an annual base salary must be held after a build-up period. We require higher thresholds for the chairperson (1.5 times the annual base salary), the lead independent director (1.5 times the annual base salary), and the CEO (2 times the annual base salary).

4.2 Engagement

With regard to our thematic engagement, we will continue to engage on environmental and governance issues and will commence with our social engagement. We will increase the number of companies with which we engage in dialogue and will follow up on companies that we first contacted in 2019. We will reiterate our communication of our key performance indicators (KPIs) to determine whether the overall situation has improved or deteriorated. We see a need to reach out to companies and their BoD members, in particular with a focus on management compensation and environmental and social issues.

4.2.1 Governance: compensation

Given our low level of support for compensation proposals at AGMs, we need to engage on compensation topics. The focus here will be on the following areas:

- measurement: no exclusion of “extraordinary items”; and
- long-term incentives: existence and a meaningful size of such a plan, compensation based on measurable targets, no simple time vesting, and, lastly, the funding of the plan.

4.2.2 Environment

Climate change is very likely to remain the big topic on the environmental side. So we will continue with our engagement on a regional level with regard to listed real estate companies. We are looking at expanding our regional focus to other European countries and into Asia and the Americas. It will be interesting to find out the regional differences between Europe, Asia, and the Americas concerning these issues and to work within those contrasts.

4.2.3 Social

On the social side, global food waste has become one of the problems that need to be solved. It is estimated that 1.3 billion tons of food is wasted annually. Developed and developing countries differ substantially when it comes to food waste. Whereas most food waste in developing countries is due to processing, refrigeration, and storage problems, food waste in developed countries mainly occurs at the retailing and household levels. This is an issue we intend to take up where appropriate.

5 Proxy voting and engagement – part of a true commitment to ESG

When a financial services company decides to "go ESG," as the Credit Suisse Group and Credit Suisse Asset Management have done, there are a number of quick wins to be had. These include, for example, the elimination of certain clearly non-ESG investments from active portfolios and a partial reengineering of one's own processes to reduce, say, the company's carbon footprint.

The true challenges lie beyond this low-hanging fruit. By its nature, our sector, like few others, is globalized and intertwined with the rest of the economy and indeed with society at large. This positions us well to make a difference because nearly every point of contact we have with our investee companies and with regulators, peers, suppliers, and clients presents a chance to engage. Proxy voting and engagement are two of our most powerful tools for creating a sustainable future for the long term.

Both our overarching goal of anticipating and satisfying our clients' financial needs and our responsibility toward society as a whole make it imperative that we continue to pursue every effort in this regard. Read our report next year to judge our progress. And in the meantime, feel free to contact us, and we invite you to stay abreast of our proxy voting and engagement activities through our website.

"By its nature, our sector, like few others, is globalized and intertwined with the rest of the economy and indeed with society at large. This positions us well to make a difference.

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