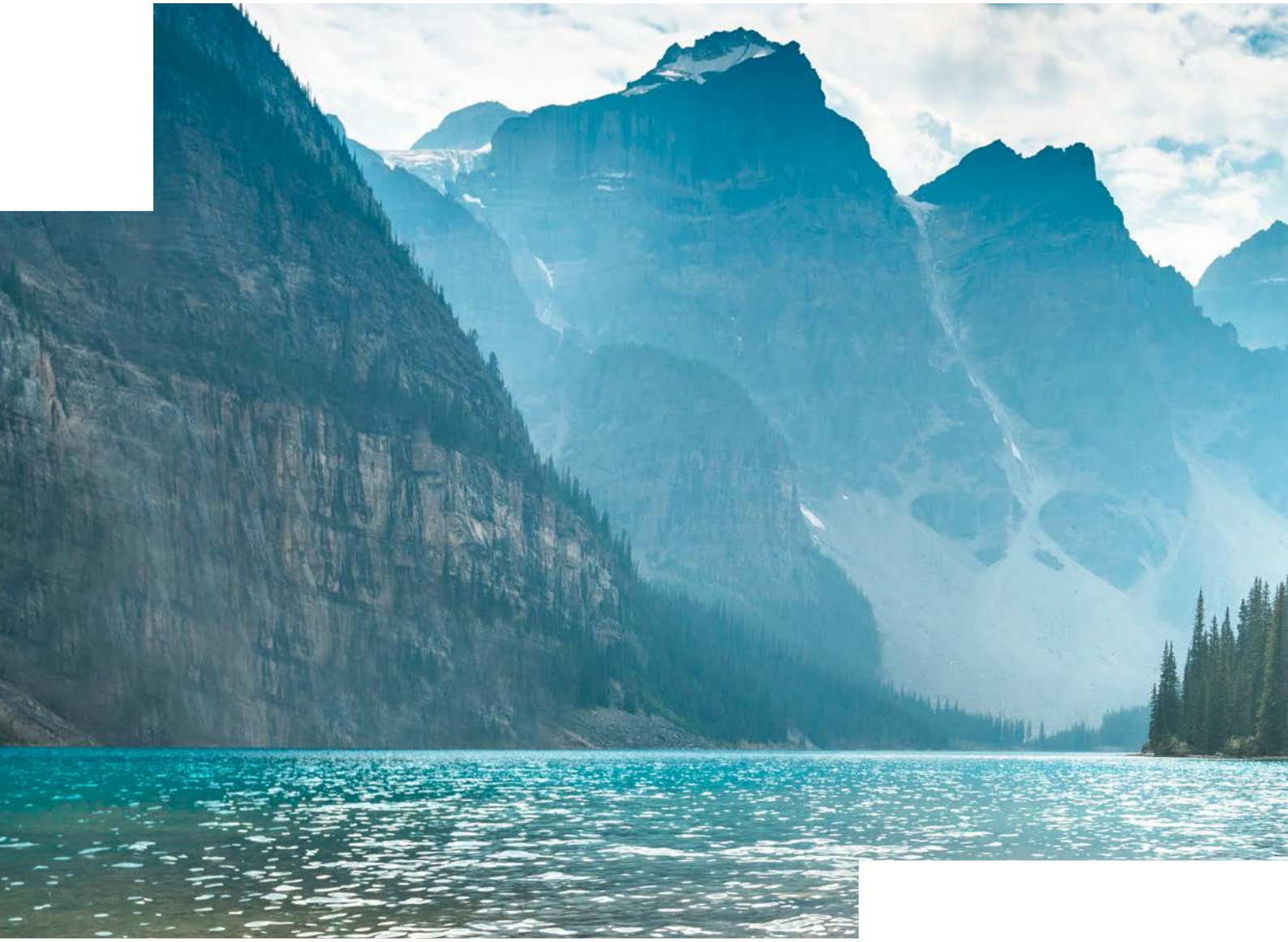
Asset Management

CREDIT SUISSE

Active ownership report 2020



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Preface

Active ownership creates possibilities to directly influence corporate decision-making in the interests of sustainability.

No review of the year 2020 can overlook the COVID-19 pandemic. Its outbreak and its consequences were the dominant topic in the financial world, the economy, and society at large. Nevertheless, progress toward more sustainable investment practices continued, and this can definitely be considered a very encouraging development. The practice of taking ESG – environmental, social, and governance – criteria into account is spreading. We at Credit Suisse Asset Management are determined not just to keep up with this trend, but to help shape it through leadership.

Proxy voting and engagement, the two components of active ownership, rank among the most important and effective tools at our disposal. Active ownership is about exercising voting rights in companies in which we hold shares on behalf of our investment clients through our investment funds, but it is also about establishing and maintaining a dialogue with the senior leaders of those companies. Both avenues, be it through engagement in resolutions at annual shareholder meetings or in direct contact with corporate decision makers, enable us to exert a direct influence. In this active ownership report, we show specifically how we exerted influence last year and explain in which direction we would like to continue to take steps.

The year 2020 brought home that it is possible to advance the necessary global transition to sustainability even under difficult conditions. This inspires us to persevere in the pursuit of our objectives.

Dominik Scheck
Head of ESG

Stephan R. Scharrer
Active Ownership

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Active Ownership

1 Introduction

Even though we were all very preoccupied last year by the effects of the COVID-19 pandemic, sustainability issues such as global warming, biodiversity loss, and social inequality faded into the background only temporarily. In fact, the rapid worldwide spread of the novel coronavirus exposed systemic weaknesses in this regard and drew attention to ESG-related issues. This prompted Credit Suisse Asset Management to continue its journey toward sustainability with decisive determination. We reached major milestones in our endeavor to reposition the majority of our actively managed investment funds for sustainability in the medium term and to round out our offerings by launching additional sustainable investment products. We took, for example, a further step in the direction of impact investing by introducing an environmental impact equity strategy, which encountered vibrant investor interest, a sign of how immensely important environmental and sustainability issues are in today's portfolio context. Our range of passively managed funds saw some additions of new investment strategies that closed gaps or supplemented existing products.

We enlarged and optimized our Credit Suisse Sustainable Investment Framework over the course of 2020. At the start of the second half of the year, for example, we introduced revised exclusion criteria and, together with other business departments of the Credit Suisse Group, formed an independent committee that draws up business-conduct exclusions, i.e. it sets guidelines for temporarily excluding companies involved in highly controversial business activities. In addition, we began to incorporate sustainability criteria much more intensively into our investment process in order to more thoroughly integrate sustainability-related reward and risk considerations in sector and securities selection.

Our objective is to become one of the leading providers of sustainable investment solutions on both the active and passive sides of our investment fund range. To achieve this goal, besides integrating ESG criteria into the investment process, we continue to pursue two key pillars of our sustainability strategy: proxy voting, i.e. exercising voting rights for stocks held by our investment funds, and engagement, i.e. seeking active dialogue with companies, not just those in our ESG funds, but across our entire product range. We hold significant equity stakes in a variety of different companies on behalf of our clients through our product offerings. This enables us to influence their decision makers either by exercising our clients' voting rights by proxy at annual shareholder meetings (proxy voting) or by maintaining ongoing dialogue at the highest management level (engagement).

Proxy voting and engagement: our approach

Our prime objective in active ownership is to preserve and increase the value of companies in which we are invested. We are convinced that active ownership also includes addressing sustainability-related risks and opportunities. 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 shareholder meetings (AGMs), and secondly through active engagement, which means maintaining permanent dialogue with corporations by pointing out company-specific weaknesses and opportunities in ESG areas, setting agreed targets, and monitoring compliance with them. 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, for example, six standard criteria to assess the corporate governance of companies:

- Composition and independence of the board of directors
- Management and executive board
- Compensation (system and amount)
- Capital structure
- Shareholder rights
- Shareholder resolutions

Alongside corporate governance, in the scope of our engagement with companies, we increasingly discuss environmental and social issues that typically are sector- or company-specific matters.

2 Proxy voting

2020 was the first full year under the revised EU Shareholders Rights Directive (2017/828), or SRD II. 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 members of boards of directors, now giving shareholders a binding say on it. The EU directive has not yet been fully transposed into national legislation in all countries, but initial improvements are already visible. Significant progress still also needs to be made along the entire value chain – custodian banks and securities issuers, for example, have only been subject to this directive since September 2020.

On the basis of our proprietary EU proxy voting policy, we delegated our votes at annual shareholder meetings much more often last year than in 2019. At the same time, we substantially expanded our coverage outside Switzerland mainly in the UK, Germany, France, and the Netherlands. On the whole, we delegated our votes at 493 ordinary and extraordinary general shareholder meetings. Moreover, last year we deepened our cooperation with Institutional Shareholder Services Inc. (ISS), our partner for proxy voting, and accordingly made broader use of this platform.

In addition to addressing an array of other issues, our focus and main demands continued to concentrate on the following aspects:

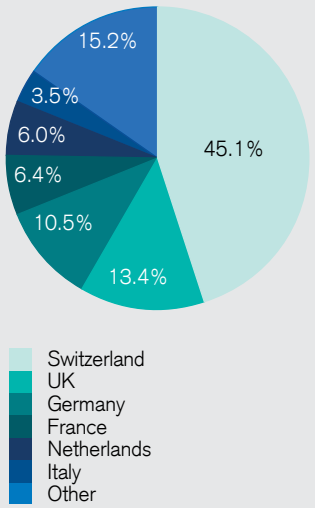
- **Executive management compensation**
  The structuring of executive compensation is of central importance to us. An attractive compensation framework is needed to retain and motivate management personnel. However, it is necessary to bring the long-term interests of stakeholders into alignment, especially the interests of management and investors. We put a sharp focus on deferred long-term compensation laid out in the long-term incentive plan (LTIP). We consider an LTIP a mandatory element, and the majority of the companies in which we are invested have one in place. We initiated a dialogue in 2020 with large investee companies that do not have an LTIP. See subchapter 3.1.1 to learn more about this. We saw further progress in compensation reports not just in Switzerland, but also throughout Europe. The improved transparency and degree of disclosure enabled us to gain better insights. As a shareholder, we have the fiduciary duty to approve absolute compensation, compensation budgets and/or remuneration systems in a growing number of countries. We exercise this duty with due care, conducting detailed analyses of compensation reports.

- **Independence of the board of directors and the audit and compensation committee**
  We consider it our fiduciary duty to ensure the independence of the abovementioned bodies. An independent board of directors (BoD) is crucial to the economic success of a company. Business strategies get adjusted much more often these days than some years ago 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 potential questionable developments in this area.
- **Capital measures**
  We take a critical stance on capital increases without preemptive rights for existing shareholders. We have therefore lowered this threshold to 10%, which we consider the current best-practice limit for Switzerland and Europe.

2.1 Proxy voting by country and sector
In the year 2020, we delegated our investment funds' votes at a total of 493 annual shareholder meetings. Switzerland remained our most important country, with 45.1% of the represented votes, followed by the UK (13.4%), Germany (10.5%), France (6.4%), and the Netherlands (6.0%).

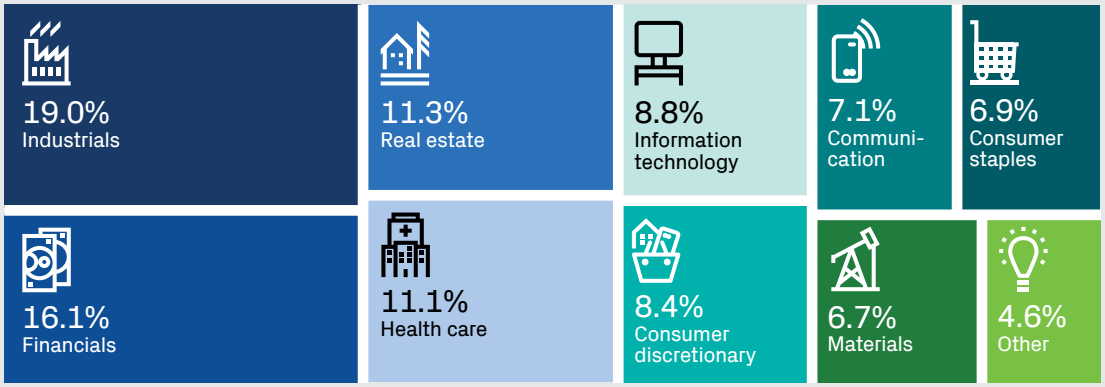
In Switzerland, we achieved a total coverage of 94.0%, followed by Germany at 30.7%.

Proxy voting by country



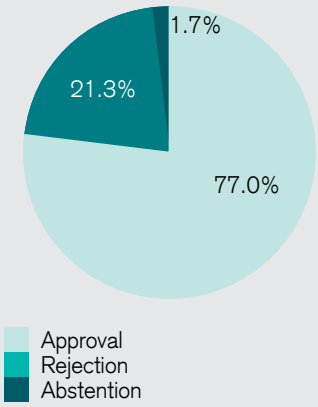
An analysis by sector shows that we delegated our votes most frequently at AGMs of industrial companies (19.0%), followed by financial institutions (16.1%), real estate companies (11.3%), and health care companies (11.1%).

Proxy voting by sector



Looking at our overall voting record, we endorsed 77.0% of all motions, voted against 21.3%, and abstained on only 1.7%.

Our voting record



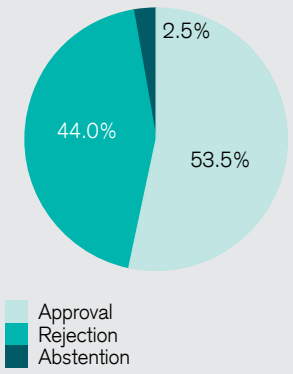
2.2 Compensation

SRD II compels companies to obtain shareholder approval on remuneration issues. The directive's transposition into national legislation varies considerably from one country to the next, and the procedures lack any semblance of uniformity. For example, absolute compensation was put to a retrospective vote or compensation budgets were voted on, or overall compensation frameworks were put to a vote, with some of them then remaining in effect for several years. Moreover, laws implementing SRD II have not all entered into force yet. We, however, are satisfied in principle with developments in this area even though we think that simpler solutions would have been possible in some instances.

We place high requirements on compensation policies, but base them on achievable targets. We see that a considerable number of companies have set sound standards with their compensation

policies and have adhered to those standards for years. On average, we voted affirmatively on only 53.5% of all compensation motions, but we believe that figure will increase in the years ahead.

Our voting record



Compensation issues vary widely in their formulation, as do the votes held on them. We go into the main types of votes in detail below.

2.2.1 Votes on compensation reports

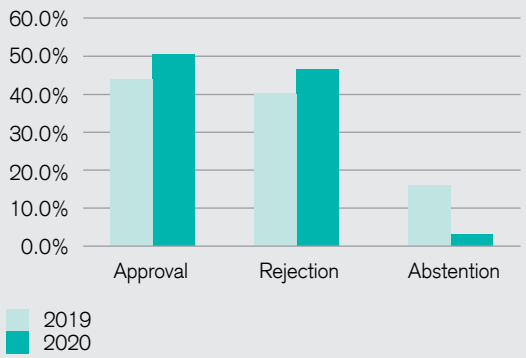
Votes on compensation reports are not legally binding in Switzerland, but they are in some other European countries. In our home market, we consider votes on compensation reports a standard agenda item and a sign of good corporate governance, though there are companies in the small- and mid-cap segment that still do not hold such votes. This agenda item covers multiple aspects such as absolute compensation, for example, but also the structure of the compensation framework per se. We continue to take a critical stance on stripping out internal "exceptional income statement items" (e.g. restructuring charges). Many of those "exceptional items" occur more than once in a business cycle and should thus be categorized as standard items from a long-term perspective. We accordingly believe that all stakeholders should bear part of the responsibility for "exceptional items."

Personal equity investments by executive management and BoD members in the companies they work for have gradually increased, it is gratifying to report. Nevertheless, some executives are still very timidly invested in the companies for which they bear substantial responsibility. We continue to expect executives, depending on their function, to hold a personal investment in their employer amounting to one to two times their annual base salary.

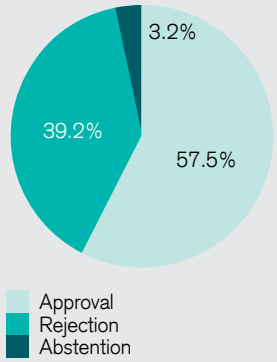
If companies do not allow a (non-)binding vote on the compensation report, we will continue to vote on the next most suitable agenda item in order to express our concerns.

We endorsed only around half of the compensation reports in 2020. A comparison with the prior year is only of limited meaning because the focus in 2019 was primarily on Switzerland, whereas the weighting of Europe increased substantially last year. We rate the overall trend as being stable. Votes in approval and rejection of compensation reports both increased a bit last year (to 50.4% and 46.5%, respectively) while we reduced abstentions (to 3.1%) to take a clearer stance.

Votes on compensation reports



Votes on compensation frameworks



2.2.2 Compensation frameworks

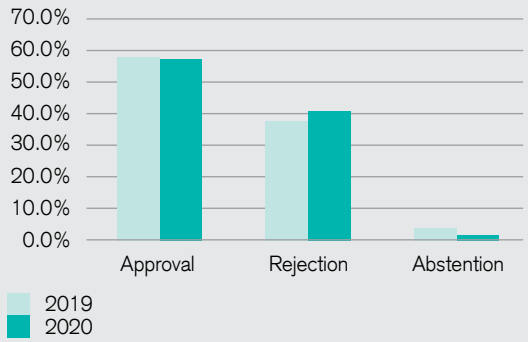
Pursuant to SRD II, binding votes on compensation frameworks have increasingly become a routine agenda item in Europe. Compensation frameworks do not have to be reapproved every year and remain valid over a medium-term time frame. Compensation framework practices differ from country to country depending on national legislation.

When voting on compensation frameworks, we make sure to verify that they are transparent and understandable and that all key variables and metrics are known from the outset. If a metric that judges a company's share price relative to a peer group is used, the identities of the companies belonging to the peer group must also be transparently disclosed in full. Furthermore, we pay strict attention to verifying that the long-term incentive plan has at least a three-year cliff vesting schedule. We endorsed 57.5% of all compensation framework proposals.

2.2.3 Board of directors compensation

This agenda item applies almost exclusively to Switzerland. Most votes on board of directors' (BoD) compensation are ex-ante votes on the budget until the next ordinary general shareholders meeting or for the next calendar year. Comparability with the prior year is good and shows a stable trend. Last year we endorsed 57.4% of BoD compensation proposals, marking a tiny decrease compared to 2019 and thus a continuation of the marginal downward trend.

Votes on BoD compensation



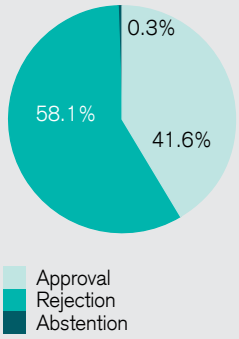
2.2.4 Executive board compensation

The picture regarding the effective remuneration of executive board members was less pleasing. Here we determined that the aforementioned requirements (see subchapter 2.2.2 on compensation frameworks) were not met or that year-on-year pay increase rates exceeded our permissible limit.

Last year, we rejected almost three out of five executive board compensation motions. Although we covered this issue in a European context for the first time, we saw a significant decline in our endorsement rate compared to the prior year.

We also took up the compensation issue in our thematic engagement activities. Long-term incentive plans in particular are a core aspect for us (see subchapter 3.1.1 on engagement). We see a continued need, though, to address the issue of compensation frameworks and budgets in active dialogue with selected companies in the future (see subchapter 4.2.1 on the governance outlook).

Votes on executive board compensation

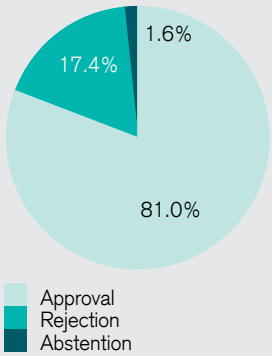


2.3 Elections

When electing boards of directors, we focus on ensuring the independence of the entire board and the audit and compensation committee and on preventing overboarding, i.e. making sure that board members do not hold an excessive number of mandates. For Switzerland, we apply a stricter definition of overboarding than the one currently recommended by the Swiss business federation economiesuisse. We believe that board members face a demanding and complex workload and should have the capacity to devote proper attention to their responsibilities during unforeseen challenging periods.

Across all elections, we endorsed 81.0% of proposed candidates and rejected 17.4%.

Votes on elections to boards of directors



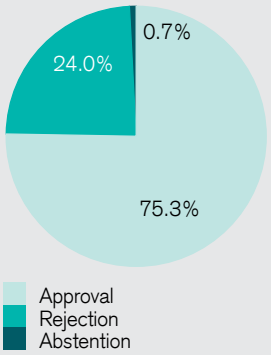
Switzerland scored a bit better than other countries in Europe. We endorsed 82.2% of the proposed candidates in Switzerland while our endorsement rate outside Switzerland stood at 77.8%.

Compensation committee members are elected separately in Switzerland. Since the majoritarian independence requirement for compensation committees was not met in every case, we endorsed only 72.3% of the proposed candidates for election. In other words, we rejected more than one out of four proposed candidates. We are dissatisfied with this circumstance and see a need to take action here. We therefore will bring up this issue as well in dialogue with various companies in 2021 (see subchapter 4.2.1 on the governance outlook).

2.4 Amendments to articles of incorporation and capital measures

These items concern routine matters such as amendments to articles of incorporation, stock buyback programs, share capital reductions, and authorized capital increases. Many of these agenda items are noncritical, so our approval ratio was accordingly high: we supported three out of four motions.

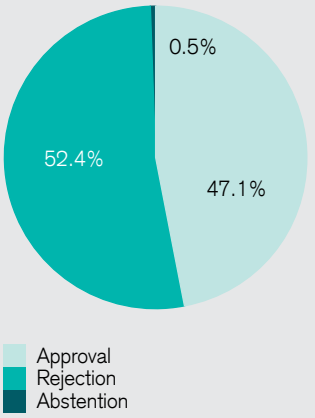
Votes on amendments to articles of incorporation and capital measures



We took a more critical stance on proposed authorized and/or conditional capital increases, i.e. the issuance of new shares without the granting of preemptive rights to existing shareholders. Such capital increases dilute existing shareholdings,

and this dilution must be capped. We understand that the convenience and speed of this type of financing can make it very attractive to companies, but it can run counter to our fiduciary responsibilities, at least partially. We currently allow a maximum dilution of 10% over a time horizon of at least two years. We therefore rejected 52.4% of all motions for capital increases last year. We noted an improvement here: the 10% limit is being respected by more and more companies and is becoming a best practice. There are some individual sectors, however, where companies continue to substantially exceed this limit.

Votes on motions for authorized and/or conditional capital increases



2.5 Credit Suisse Asset Management CH & EMEA Voting Rights Committee and Proxy Voting Committee

An internal voting rights committee consisting of highly qualified experts from Credit Suisse Asset Management's general counsel/legal, compliance, risk, portfolio management, and ESG departments was founded at the start of 2020. This committee passes decisions on individual warranted deviations from our proxy voting methodology and adjudicates escalation cases in which the assessment by our fund portfolio managers irreconcilably diverges from that of our active ownership officers. The committee mediates with the goal of reaching a compromise, which is why it makes sense to deviate from the proxy voting policy in justified individual cases. The overriding rationale, however, is always our commitment to upholding our fiduciary duty solely in the interest of our investors.

The committee also passes decisions on amplifications of the proxy voting methodology, which we undertake each year in order to incorporate current corporate governance developments into the body of rules. These adjustments are discussed with all internal stakeholders before being put into effect.

3 Engagement

To us, sustainability means more than making a simple binary determination about whether or not a given company conforms to a rigid catalog of criteria. In the context of a proactive approach and a constructive dialogue, we particularly also want to motivate companies to step up their sustainability-related activities. This engagement benefits our environment and society over the medium to long term and thus reduces investment risk in our portfolios and accordingly has a positive impact on investment returns. Our ESG experts work closely with our portfolio managers to this end. Together, they draw up a set of requirements that serves as the basis for agreements with companies on targets to be met and monitors compliance with the agreed targets.

Engagement, by definition, is based on interaction with the counterparty's decision makers. In 2020, our dialogues, with few exceptions, were one-on-one meetings conducted with BoD chairpersons, compensation committee chairpersons, and/or investor relations officers. Last year our ESG team held 147 ESG engagements or dialogues, some in cooperation with the respective portfolio managers concerned.

We divide our engagement into four categories:

- **Thematic engagement**
  In the context of our ESG initiatives and thematic focus areas, we identify companies where we see a need for action to be taken and enter into a dialogue with them.

- **Individual engagement**
  Our focus here is on company-specific issues.

- **Engagement in relation to proxy voting**
  Proxy voting is not an isolated action. It is accompanied by a carefully formulated engagement plan.

- **Public policy engagement**
  We participate in industry-wide efforts to shape the banking sector and the regulatory framework.

3.1 Thematic engagement

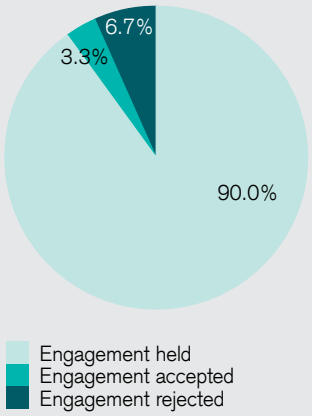
Our thematic engagement is invariably aimed at companies in which we hold large equity or bond investments on behalf of our clients. We do not draw any distinctions here between actively and passively managed funds. The size of our investments helps us to conduct dialogues with the top management of companies. We conducted a total 51 thematic engagements in 2020.

3.1.1 Corporate governance: compensation structure for members of executive boards and boards of directors

On the basis of our proxy voting in 2019 and the 2020 peak season, we focused our attention on companies that did not have a sound long-term incentive plan (LTIP) in place for their executive board members, did not base it exclusively on measurable performance targets (no time vesting), did not have a three-year vesting period, or had not secured sustainable funding for an LTIP. We were also critical of performance measurements that strip out "exceptional items" that in fact are actually part of a normal business cycle. We likewise disapproved of any variable compensation – particularly stock options – for members of boards of directors.

At the start of the third quarter of 2020, we identified almost 40 Swiss and European companies with which we considered engaging in a dialogue. We ultimately limited the selection to 30 companies for the sake of narrowing the focus to a certain degree. Twenty-nine of those companies originally accepted our request to engage in a dialogue and held out the prospect of setting meeting dates. One request was declined by a BoD chairperson right from the outset. One original acceptance to engage in a dialogue was later retracted due to a company's extensive ongoing restructuring and the subsequent entry of a new anchor shareholder. We postponed one commitment to engage until 2021 due to personnel upheavals on one company's executive board. In the end, we successfully engaged with 27 companies by the middle of the fourth quarter of 2020. We continue to monitor developments at those individual companies.

Engagements in 2020



In 19 instances we discussed our concerns with the BoD chairperson or the head of the board of directors' compensation committee. In other cases we spoke with the general secretary of the board of directors and/or with human resources and investor relations officers. Despite the pandemic, eight meetings in Switzerland were held in person under strict adherence to all safety regulations.

We also conducted a dialogue with economiesuisse. Our talks centered on the Swiss Code of Best Practice for Corporate Governance. The discussion was deliberately broad in scope. Topics such as board of director independence and overboarding were raised, and the aforementioned compensation issues were also a subject of discussion.

In summary, we can say that our expectations met with the approval of a slim majority of our dialogue partners. We identified two predominantly skeptical groups. One was the biotech sector, where long-term compensation continues to be heavily based on stock options, often with a vesting period of less than three years. Moreover, the biotech industry is heavily concentrated in the US, where not all companies have performance-based long-term compensation plans in place. We also saw that a few small- and mid-cap companies do not have a long-term incentive plan (LTIP) in a proper sense. Although variable compensation in the form of stock awards with a three-year vesting period exists in almost all cases, performance measurements are missing. A few companies signaled to us that this practice is under review, but the feedback from the majority argued that we are overly restrictive here and have set the bar too high and that introducing such plans would drive up compensation.

We understand such concerns and share them to a certain extent. At the same time, though, the fact is that a majority of mid-caps and an increasing number of largish small caps have introduced an LTIP. Even companies with strong anchor shareholders have already made this change. We therefore note that performance-based incentive plans are becoming more prevalent. Numerous discussions with our stakeholders and with representatives of other companies confirm our opinion that an LTIP is the best practice.

We will continue to vigilantly monitor developments in 2021. We will scrutinize disclosures in corporate financial statements and compensation reports to ascertain changes regarding performance-based remuneration. We will also continue to engage in dialogue on this issue. We are pursuing medium- to longer-term objectives, so we generally monitor and engage with companies over an extended period by regularly verifying the achievement of targets and maintaining a dialogue to vigorously press for compliance with targets (see subchapter 4.2.1 on the governance outlook).

3.1.2 Environment: climate change and publicly traded real estate companies

In a fast-moving environment, the issue of sustainability is at the top of real estate businesses' agendas. Existing buildings and properties account for 40% of primary energy consumption and 30% of CO_2 emissions in Europe.[1] As discussed in last year's active ownership report, the publicly traded real estate companies we engaged with were already thinking about issues relating to climate change, and most were on their way to meeting their environmental goals. We again addressed the same engagement universe composed of ten listed real estate companies in Germany, Switzerland, and the UK operating in the industrial, residential, office, and logistics segments or in a combination thereof. Unfortunately, due to the COVID-19 pandemic, we were unable to meet with any of the companies in person; all of the engagements took place via teleconference or Zoom.

3.1.2.1 Impact of the COVID-19 pandemic

Although the pandemic impacted every business, the listed real estate companies we engaged with all reported that they were able to continue their sustainability strategies or even accelerate and intensify them. Pursuing sustainable business practices in terms of environmental, social, and governance aspects has proven to be a successful approach in times of crisis. Companies also quickly learned to adapt their workplaces in order to successfully carry out their building projects. They also recognized that working from home and flexible remote working are becoming the new normal, and some companies even incorporated co-working spaces into their residential business plans.

HIAG, for example, plans to integrate work-from-home concepts into residential buildings in the canton of Zug, Switzerland, and will support the VillageOffice cooperative's co-working initiative going forward.[2] VillageOffice and HIAG will jointly develop a 100 m^2 workspace with the aim of promoting personal interaction among people who work from home and providing a community that people can benefit from in the vicinity of their own homes. The real estate companies in Germany that we spoke with hardly felt any effects of the pandemic due to the nature of their business, the country's solid welfare system, and state subsidies for those unable to pay rent.

[1] Source: University of Cambridge, Centre for Sustainable Development (2020)
[2] Source: startupticker.ch/en/news/october-2016/hiag-immobilien-unterstutzt-coworking-initiative

The tallest wooden high-rise building in Switzerland[3]

The tallest wooden high-rise building in Switzerland is being built on a site in Risch-Rotkreuz. The 60 m tall, 100,000 m^2 building is a pioneer construction project being undertaken by Zug Estates Holding AG, a real estate company with which we are in ongoing dialogue as part of our engagement activities. The objective of the energy concept being pursued is the creation of an entirely CO_2-neutral city district. The timber structure of the building fits perfectly with the CO_2-neutral goals of the new district. Wood has low carbon dioxide emissions compared to other building materials and has a positive effect on the area's ecological balance. Further advantages include a faster building pace, easier dismantling, and better sound and heat insulation properties. In addition, there is a "garden high-rise" with a façade full of plants right next to the wooden high-rise, adding to the positive ecological balance of the whole area.

Some current goals being strived for by companies with which we are in dialogue

It may not be surprising that climate neutrality is the shared goal. One of the companies we spoke with that operates large warehouses in the UK has already reduced its CO_2 emissions by 40% since 2018 and believes it will cut them by another 40% by 2025. Other companies have the goal of reaching net-zero carbon emissions (or close to that) within the next five to ten years. These goals are in line with the UN Sustainable Development Goal (SDG) of limiting the global temperature rise to well below two degrees Celsius by 2030. Most companies are trying to reach this goal by moving from fossil fuels to renewables as the main source of energy for their buildings. Tying executive board compensation to sustainability metrics, using more sustainable building materials, and sharpening the focus on biodiversity are other common goals that most companies are striving to reach. We also observed greater acceptance of science-based approaches, which means that companies are shifting their top priorities to areas on which they have a direct impact. In other words, they are aligning their business operations and sustainability strategies with environmental research findings. We keep track of companies' specific targets and regularly speak with companies to encourage that the goals are met in a timely manner.

[3] Source: zugestates.ch/fileadmin/user_upload/redakteure/pdf/medienberichte/180311_immoInvest_Zug_3-18_RZ_low_Zug.pdf

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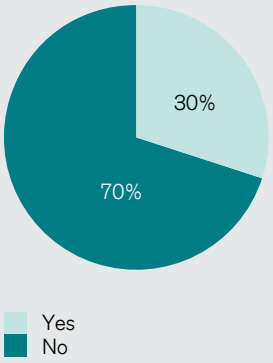
Flexibility is a key part of sustainability. Until now, customers looked to see if the building is in the right location, the right size, the right price. But now customers want all of that plus a good energy rating, low energy bills, and a sustainably managed building. Customer demands are changing.

Ben Brakes, Head of Sustainability, SEGRO plc

3.1.2.2 Expanding production capacity for renewable energy

HIAG specializes in acquiring industrial areas and repurposing the space. Some of HIAG's sites are near rivers, which means it can utilize preexisting power plants formerly used by industry. HIAG takes over the operation of the plants and converts them into small hydropower plants. In 2019, five small hydropower stations with an installed capacity of around 2 MW generated a total of around 6,534,610 kWh of electricity from renewable energy, enough to meet the average annual electricity needs of around 1,600 apartments.[4] HIAG's hydroelectric power plants provide energy for nearby buildings, but HIAG has additionally built one of the largest photovoltaic systems in the Brugg-Windisch region in the canton of Aargau on the roof of a former Swiss army recruitment center. With a total area of 1,300 m^2, it enables a maximum electricity production volume of 194 MWh from 794 modules. The total CO_2 emissions that have been saved since 2013 amounted to approximately 712 tons as of the end of 2019.[5]

Are companies incorporating the TCFD guidelines?



The Task Force on Climate-related Financial Disclosures (TCFD) provides a framework recommendation for companies and other organizations to develop more effective climate-related disclosures through their existing reporting processes. The TCFD emphasizes the importance of transparency in pricing risk, including climate-related risk, and encourages companies to view the implications of climate change as relevant to decisions made today. TCFD-aligned disclosures are not yet a mandatory requirement for companies.

[4] Source: hiag.com/en/expertise/sustainability/#hydroelectric-power
[5] Source: hiag.com/en/expertise/sustainability/#photovoltaics

3.1.2.3 E-mobility

Although real estate companies are not yet feeling direct pressure from regulators, the push for e-mobility is noticeable in the increase in the number of electric cars we see on roads. Given this stepped-up demand for electric vehicles, it is not surprising that real estate businesses are concerned with mobility. Swiss Prime Site AG has looked extensively at this topic and wants to offer its tenants possibilities to charge their vehicles to make its properties fit for the future. According to some studies, around one million electric cars are expected to be on the roads in Switzerland in 2030.[6] Swiss Prime Site sees importance in familiarizing itself with the requirements of new technologies and acknowledging these forecasts, and has already installed ten e-charging stations in the German-speaking part of Switzerland. Reducing CO_2 emissions by promoting e-mobility is one of the main goals of Swiss Prime Site's sustainability strategy.[7]

Sustainable real estate trends

- Reduction of CO_2 emissions
- Biodiversity
- Sustainable building materials
- Disclosures
- E-mobility
- Renewable energy

[6] Source: sps.swiss/en/stories/story-detail/e-mobility-is-the-future
[7] Source: sps.swiss/en/stories/story-detail/e-mobility-is-the-future

3.1.3 Social: food loss and waste

The 12th UN SDG, specifically goal 12.3, aims to halve global food waste by 2030.[8] Currently, an estimated 1.3 billion tons of food is wasted worldwide each year,[9] which equates to around a third of all food produced for human consumption.[10] Food waste accounts for 8% of global emissions.[11]

To put this into perspective, if food waste were a country, it would be the third-largest in terms of its carbon footprint. For this reason alone, food waste is a serious environmental issue and a direct contributor to climate change. When we started to research possible thematic engagement topics at the beginning of 2020, we noticed that hardly any engagement was taking place on the issue of food loss and waste, and we recognized this as an interesting opportunity.

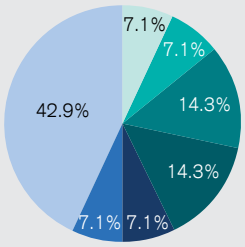
"Food waste" and "food loss"

do not mean quite the same thing. "Food loss" refers to food that is lost in early stages of production, e.g. during harvest, storage, and transportation. "Food waste" refers to finished food items fit for consumption that are wasted by consumers.

[8] Source: champions123.org/target-123
[9] According to the Food and Agriculture Organization of the United Nations: fao.org/state-of-food-agriculture/2019/en
[10] Source: foodwaste.ch/was-ist-food-waste
[11] Source: fao.org/3/a-bb144e.pdf

For our thematic engagement in 2020, we focused on 14 companies operating in sectors that are the most affected by the issue of food loss and waste. The companies were located in the UK, Switzerland, Ireland, Germany, France, the US, and Belgium and are active in retailing, beverage distribution, hotels, food production, and catering. Although the companies with which we conducted a dialogue operate in very different sectors, the issue of food loss connects them all, and they all play a crucial role in meeting the food waste targets set out by the Paris Agreement.

Are food loss and waste targets in place?



- No reduction target in place
- 90% reduction in waste to landfill (including food waste) by 2025
- 50% reduction by 2025
- 50% reduction by 2030 (in line with SDG 12)
- 30% reduction by 2020
- 0% by 2030
- Other/food loss and waste is not a material issue

Given the urgency of addressing the topic of food waste and loss, all but one of the companies we engaged with had clearly defined food waste reduction targets in place, with the vast majority of them aligning with SDG 12, which aims to reduce global food waste by 50% by 2030 or even by 2025. For large retailers, the goal of halving food waste by 2030 also applies to their supply chains.

A large British food retailer we engaged with has not sent food to landfills since 2009 and is now focusing on preventing food waste in its supply chain and at the consumer level by keeping food that is safe for human consumption in the food chain. The surplus food is donated to charities, used for animal feed, or distributed within the retailer's own operations through employee shops. Redirecting food waste for energy production (biomass) is viewed as a last resort.

One hotel we spoke with did not measure food waste, nor was it a part of its sustainability strategy. Our request to engage on the topic landed on the desks of the ESG committee at the beginning of 2020 and was addressed with high importance. We provided the hotel with a peer analysis that gave it insight into what other hotels are doing to tackle the issue. We are still in contact with this hotel and are looking forward to monitoring its progress and will support it wherever possible.

3.1.3.1 Tracking food waste

There are challenges involved in measuring food loss and waste, and big information gaps exist. Most companies we engaged with cited "data collection" in the act of measuring and monitoring as the biggest issue leading to inaccurate results. Technology is crucial to improving data collection on food waste, and some of the companies we spoke with are already quite advanced in how they collect data. Systems employing artificial intelligence (AI) cameras on disposal bins or weighing tools linked to reporting tools can improve the efficiency and effectiveness of tracking food waste.

A large German retailer with 760 stores in 25 countries measures food waste across all locations and has all local staff trained in measuring and collecting data such as orders, discard numbers, and product shrinkage. This data is reported back to HQ every quarter and is then directly linked back to the company's carbon-tracking tool. In addition, food waste is measured both with and without packaging, and there is a data point that collects the disposal route of the item, e.g. composting.

A large British catering and facility management company we spoke with uses sophisticated, internally developed technology to collect data on food waste. It uses this data to understand what exactly is being wasted and why, and then displays the findings on dashboards that all chefs have access to. The company believes that when kitchen teams are constantly briefed on the items that get wasted the most, this helps them focus their efforts to reduce food waste during food preparation. For hotels, this is very much a regional challenge; one European hotel chain collects data on food loss and waste in Europe but struggles to implement similar monitoring frameworks in African locations.

The plastic versus food waste debate

Plastic packaging can help mitigate food waste by preserving perishable foods and lengthening their shelf life. Beef, for example, can stay fresher for 26 days longer than it would without plastic packaging.[12] One company we spoke with emphasized how important packaging is for keeping its food fresh. While it understands the importance of minimizing the use of plastic packaging, it also stressed that for packaged sliced ham, for example, 95% of the ecological footprint of the finished product comes from the meat and only 5% from the packaging. It therefore is important to preserve the high quality of the product and to bear in mind that getting rid of all plastic packaging is not the answer to saving the environment.

[12] Source: plasticpackagingfacts.org/resources/preventing-food-waste

Plastic packaging extends the shelf life of perishable food[13]

3.1.3.2 What happens to byproducts of alcohol production?
Some of the companies we engaged with did not have specific food waste reduction targets. This does not necessarily mean that they do not care about this issue, but may owe to it not being a material risk for them because they only sell finished packaged products or may only carry products that have a long shelf life, such as alcoholic beverages. For producers and distributors of alcoholic beverages, food loss is mainly seen at the agricultural level, i.e. the production of grains or grapes.

One particular beverage producer we spoke with shared with us the ways in which it tries to minimize food loss. It tries to keep supply routes as short as possible because shorter journeys minimize waste throughout the value chain and shorten the time between harvest and production to a minimum. 99% of the waste created during production is recycled for uses such as animal feed, compost, and biofuel. At the consumer level, the focus is on recyclable packaging, while food waste is low due to the long shelf life of products.

3.1.3.3 WWF and other initiatives
The WWF brings companies in the hospitality, retailing, and food-service sectors together through its food waste initiative. The goal of this initiative is to create and promote an effective strategy that addresses food loss and waste while still meeting global food security needs and the food demands of the global population.[14] This initiative offers resources like "Further with Food," the WWF's center for food loss and waste solutions, which provides information and tools to companies seeking new approaches to reducing food waste.

[13] Source: plasticpackagingfacts.org/wp-content/uploads/2018/07/Food-Waste-Solutions-One-Pager.pdf
[14] Source: worldwildlife.org/initiatives/food-waste

While the WWF initiative was the most popular one among the companies we interviewed, there are also other initiatives like the Consumer Goods Forum in Germany, which helps restaurants and companies devise ways to measure waste and use the resulting data to reduce it. In the UK, the Waste and Resources Action Programme (WRAP) leads the way in promoting sustainable waste management among governments, businesses, and communities, and one of the companies we engaged with is a signatory. The United Against Food Waste initiative was also popular among the companies with which we spoke.

3.1.3.4 What are the main items being wasted?

The type of food waste varies from company to company. For retailers, meat, dairy, fruit, and vegetables are the most commonly wasted items, due to the organic nature and shelf life of the products. However, it is also worth noting that in the case of retailers, most of the food waste occurs further along the value chain and in consumers' homes. One retailer is tackling this by offering training to consumers on how to use up leftover food, how to store food correctly, and how to get the most out of produce.

In the case of hotels, the infamous breakfast buffet generally produces the most food waste and is often the main data point that determines the "food waste profile" of a particular hotel. One hotel we spoke with tackles this issue by training employees in food loss and waste management and by raising awareness by putting up signs around the buffet to remind guests to be more conscious of how they fill their plates. The fate of wasted food ultimately depends on how a hotel diverts food waste from landfills, which is done by either donating or composting it.

3.1.3.5 Solutions to counteract food waste

What we can say for sure is that food waste exists and that every company that works with produce or food and beverages is confronted with the fact that it needs to manage this waste. TooGoodToGo is a particularly popular option for some of the European companies with which we spoke. TooGoodToGo is a social impact company driving a crusade against food waste. It operates through an app that connects users with businesses that have surplus food.[15] The retailers we spoke with have launched initiatives that promote the selling of "ugly" fruit and vegetables (produce that does not conform with what customers usually pick) at a lower price. Food donations by retailers and hotels are common, which means they are reducing the amount of food waste sent to landfills by recovering it for its original purpose – consumption.

3.1.3.6 Stop Food Waste Day at Compass Group

In 2017, the world's largest food-service company initiated Stop Food Waste Day. The aim was to raise awareness about the topic and to encourage employees and consumers to reduce food waste. This event now takes place annually in all 38 of the Compass Group's markets worldwide.[16] The global reach of this campaign is undeniably impactful given that the Compass Group has reported an audience of 89 million followers of its hashtag #stopfoodwasteday and a further 140 million people via media coverage. Attendees of the events include organizations like the UN and WWF as well as high-profile celebrities and star chefs.

3.1.3.7 Conclusion

With 2030 on the horizon, it is encouraging to see companies push initiatives and reduction strategies that accelerate the fight against food waste and advance progress toward meeting Sustainable Development Goal 12.3. Almost all of the companies we engaged with committed to helping reverse the trend when it comes to food waste. Our goal with this engagement study is to raise awareness about the massive food loss and waste issue and to show our investors the kinds of solutions that are being developed to tackle it. Given the international reach that these large companies have, their goals are likely to have a positive impact on the entire global food system.

[15] Source: toogoodtogo.co.uk/en-gb/about-us

[16] Source: Compass Group Sustainability Report: compass-group.com/content/dam/compass-group/corporate/Acting-responsibly/CompassGroup_Sustainability_report_2019_high_res.pdf

3.2 Individual engagement

Our individual engagements include dialogues on company- or fund-specific issues such as frequent changes to executive management personnel, fines in connection with labor law violations, or environmental offences. The ESG team, alone or together with our fund portfolio managers, conducted a total of 65 engagements in 2020. Our Thematic Equity team (Environmental Impact Fund, Edutainment Fund, Digital Health Fund, and Robotics Fund) in particular conducted many more dialogues than in the prior year. Further information is provided separately in each fund's annual report.

3.3 Engagement in relation to proxy voting

We view proxy voting not as an isolated action, but as part of the engagement process. Over the course of 2020, we held a total of 31 meetings with BoD members, mostly one-on-ones with chairpersons and/or lead independent directors in which we discussed our proxy voting principles and framework. During those meetings, we explained our proxy voting behavior at the last annual shareholders meeting and highlighted the agenda items that we did not support. We openly explained what led us to our stances. The corporate representatives on the other side generally pointed out planned or effectuated improvements and explained their take on certain vote outcomes.

3.4 Public policy engagement

Our public policy engagement is generally not short-term in nature, but rather takes a long-term view. It is one of the reasons why Credit Suisse Asset Management has been very active in supporting the development of the EU regulatory framework, the EU Action Plan on Sustainable Finance. It will form a basic framework for standardized definitions of sustainable investments (EU Taxonomy Regulation), for development of sustainable benchmarks that are in line with the Paris Climate Agreement (EU Low-Carbon Benchmark Regulation), and will lay a common groundwork for future disclosure requirements at the product level (EU Sustainable Finance Disclosure Regulation). We are convinced that new rules should appropriately take into consideration the dynamic developments in the field of sustainable investing.

Furthermore, Credit Suisse Asset Management continued to be an active member of the UN PRI Taxonomy Practitioners Group, which brings together over 40 investor signatories to share tools and experiences to support the implementation of the EU taxonomy. As a signatory since early 2014, Credit Suisse Group produced a case study on applying the EU taxonomy to listed equities. Additionally, Credit Suisse Asset Management provided feedback on a number of sustainable finance consultations on a growing range of topics and in a number of jurisdictions such as the EU, the US, Singapore, and Malaysia through relevant industry associations.

In Switzerland, the Swiss Federal Office for the Environment (FOEN) released the results of its 2020 climate compatibility test for the financial sector. The test measures the alignment of financial portfolios (Swiss-booked clients' investments in equities and corporate bonds worldwide, and mortgages issued in Switzerland) with the goals of the Paris Climate Agreement. Credit Suisse Asset Management participated in the exercise and decided to disclose its individual results.

4 Outlook

The United Nations Sustainable Development Goals (SDGs) remain the supreme guiding principles in our thinking and actions. On the basis of the SDGs, we delineate the activities we will focus on this year in the context of our proxy voting and our thematic and public policy engagement.

4.1 Proxy voting
In the second half of 2020, we collaborated with internal and external partners to develop new methodologies for exercising our voting rights in North America and the Asia-Pacific region (with a focus on developed markets according to MSCI's definition, i.e. Australia, New Zealand, Japan, Singapore, and Hong Kong). The objective was to draw up very robust sets of rules. We have been covering these markets since January 2021 and will systematically and actively exercise our voting rights in companies in which we hold substantial positions.

Moreover, we are broadening our expertise by incorporating additional know-how from our partner ISS and will henceforth apply the ISS Sustainability Policy as a supplementary instrument. This will, among other things, enable us to respond more in-depth to shareholder resolutions on environmental and social issues.

Furthermore, we reviewed our proxy voting methodologies for Switzerland and Europe at the start of 2021 and adapted them and/or defined them more precisely in line with developments in the 2020 season. The adjustments were moderate on the whole, and we are leaving the fundamental parameters unchanged for 2021.

4.2 Thematic engagement
Our thematic engagement efforts will continue to concentrate on the environmental, social, and governance aspects that we have been concerned with thus far. Our goal is to further increase the number of companies with which we are in contact and to continue dialoguing with the companies we engaged with in 2019 and 2020.

4.2.1 Governance
We continue to pursue the issue we raised in 2019, i.e. ensuring the independence of boards of directors and other crucial deliberative bodies, particularly audit and compensation committees. We see a need to engage in dialogue on this issue particularly with boards of directors of small- and mid-cap companies. We will advance ongoing dialogues and will also establish contact with new companies.

We will also continue to address our topic from 2020, i.e. the compensation framework for executive boards and boards of directors. Given our aforementioned low level of support for executive compensation proposals at annual shareholder meetings, we see as great a need as ever to seek a dialogue on this matter with decision makers, particular the heads of compensation committees. We will continue to focus our attention on companies that do not have a sound long-term incentive plan (LTIP) in place for their executive board members, do not base it exclusively on measurable performance targets (no time vesting), do not have a three-year vesting period, or have not secured sustainable funding for an LTIP. We will also maintain a

critical stance on performance measurements that strip out "exceptional items" that in fact are actually part of a normal business cycle. And we will continue to disapprove of any variable compensation – particularly stock options – for members of boards of directors.

4.2.2 Environment

Real estate companies play an important role in the development of a more sustainable and environmentally conscious world, not just because of their direct impact on our environment, but also because people's lives are centered around buildings. Tenants are becoming more and more demanding and are increasingly seeking buildings that incorporate sustainability features. In 2021, we expect to see real estate companies continue to make green practices part of their business plans and to step up their sustainability efforts, regardless of the direction of national policies. Sustainability and climate change will continue to be major focuses as younger generations enter the housing market. The real estate business is open to meeting these demands, and we will continue to share their positive impact with our investors as they move toward a more sustainable future.

We will be adding biodiversity as a new environmental engagement topic in 2021. We want to look into the relationship between business and biodiversity. Businesses and industry often have serious adverse impacts on biodiversity resources, despite the fact that they rely on a healthy ecosystem. Although businesses are part of the problem, they can also be part of the solution. This year we intend to look into how the companies in which we are invested are working on protecting our natural capital and halting the dramatic loss of species, genetic diversity, and ecosystems.

4.2.3 Social

Until the issue of food loss and waste has been addressed at every step of the food supply chain, the topic is here to stay. We know that food loss and waste not only affect the environment, but also impact society as a whole, and we see many opportunities arising from this. We expect to see more companies take the opportunity to raise awareness about the topic, and we expect companies to start using their data to reduce food waste. We believe that they will introduce more technologies and innovative solutions for managing food quality. To reduce food waste, changes need to take place in every link of the food supply chain, from farmers and food manufacturers to supermarkets and individual consumers. We expect to see more engagement between companies and their supply chains and, in some cases, better disclosure about the topic. We will continue to follow these developments closely and aim to increase the number of companies we engage with on this issue.

4.3 Public policy engagement
Credit Suisse Asset Management will continue to participate in several working groups and associations to improve and share best practices in the financial market with respect to sustainable investing. We will be closely watching and helping to improve the implementation of the EU Action Plan on Sustainable Finance, which will fundamentally influence the way sustainability is considered in the investment world. The focus at the start of 2021 will remain on the Sustainable Finance Disclosure Regulation, but it will gradually shift toward EU Taxonomy considerations and the EU Benchmark Regulation toward the end of this year.

Reduction of CO_2 emissions

A first-mover example that illustrates how rigorously CO_2 emissions cuts can be pushed in a global organization:

Swiss Re is the first multinational corporation that internally sets a price of USD 100 on each ton of CO_2 emitted since January 1, 2021, and charges it to the business unit that caused the emissions. Swiss Re, for example, adds the cost of CO_2 emissions to business travel expenses, giving the person responsible for the emissions a direct incentive to consider whether the planned trip is really necessary or a digital meeting would suffice. The price will gradually be raised from USD 100 to USD 200 per ton by 2030 and will thus rise toward the expected cost of permanently removing and sequestering CO_2 from the atmosphere (compensation of emissions through CO_2 removal). We also see that the board of directors and executive board of Swiss Re are resolutely pursuing a group-wide net-zero emissions target. We, as a stakeholder, endorse these and other similar efforts.

Source: swissre.com/sustainability/stories/carbon-levy-and-flight-reduction.html

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