

# LGT Capital Partners Active Ownership Guidelines

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# Introduction

## Scope

Pursuing active ownership is an integral part of LGT Capital Partners' ("LGT CP") sustainable investment approach. We actively exercise our voting rights and seek to engage with companies, supranationals and sovereigns that we invest in. We believe that over the long-term, a well-developed relationship between a company and its investors can lead to increasing shareholder value and superior returns. LGT CP has the fiduciary responsibility to influence companies and issuers of securities in the most favorable way for their investors, society and other relevant stake-holders.

LGT CP monitors investee companies/issuers on relevant ESG related matters, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance.

Where LGT CP considers that there is a need for a dialogue with a company or issuer of a security, or that it could influence a company's business conduct related to well-defined topics, it starts an engagement process with investee companies/issuers, and/or cooperates with other shareholders. LGT CP also regularly exercises voting rights and other rights attached to shares.

Additionally, LGT CP will use its relationship with the investee companies/issuers to monitor and gain further insight on relevant matters that are used for the ESG analysis of these companies. We acknowledge the value of the increased insights and understanding of our investee companies that we obtain from our active ownership activities. To ensure full integration of the feedback from our active ownership activities into our investment decision-making process, we systematically track and share all active ownership activities with investment management staff (portfolio managers and analysts).

# Guidelines

## International Guidelines

Being a signatory of the UN Principles of Responsible Investment (PRI) since 2008, we do not only integrate ESG topics into our investment analysis and portfolio management activities, but we also consider active ownership practices to be an effective way to promote better ESG performance and sustainable investing.

Within our sustainable investment activities, we take a number of accepted global standards into account, including:

- United Nations Global Compact (UNGC)
- United Nations Universal Declaration of Human Rights (UDHR)
- International Labor Organization Conventions on International Labor Standards (ILO)
- Conventions on controversial weapons, like the convention on anti-personnel mines (APLC) and the convention on cluster munitions (CCM)

The following guidelines are especially relevant for our active ownership practices:

- OECD Principles of Corporate Governance
- ICGN Global Governance Principles
- European Shareholder Rights Directive, European Union
- Swiss Code of Best Practice for Corporate Governance, Economiesuisse

# Engagement

For LGT CP, engagement consists of a constructive dialogue between investors and investee companies and other issuers of securities to discuss:

- companies' views on specific ESG related negative events, measures taken to improve companies' practices, follow up actions to remedy the situation
- identification, management and mitigation of sustainability risks and business opportunities associated with sustainability challenges
- enhanced disclosure of ESG related information, data and practices
- sustainable financing through green-, social-, sustainable-, sustainability-linked bonds

We use company meetings to discuss our sustainable investment framework and raise awareness of our industry specific principles. More specifically, we encourage companies/issuers to increase disclosure of relevant material information and environmental related metrics by adapting to internationally well-respected reporting standards such as the Global Reporting Initiative (GRI) or the Task Force on Climate-Related Financial Disclosure (TCFD).

We will also engage through collaborative engagements, if we believe that this will be more successful than individual engagements, and if the objectives of the collaborative engagement are consistent with our objectives. Collaborative engagements can be of additional value if there is significant knowledge sharing among investors, or engagements deal with complex issues, where access to local knowledge is particularly useful.

## Selection of engagements

To identify engagement topics, portfolio holdings and our core research coverage are monitored on an ongoing basis. LGT CP uses its propriety ESG tool, the LGT ESG Cockpit, to constantly monitor and systematically score negative company news flow and controversies. This allows us to identify any negative developments in a timely manner and to focus our efforts on specific, relevant issues for engagement. We identify possible engagements by:

- occurrence of a negative event related to ESG topics at a company or any other issuer, including the supply chain
- a sudden drop in the ESG assessment of a company/issuer
- evidence of systematic exposure to controversial topics and/or insufficient ESG practices on material issues

Our engagement activities can be broken down into the following categories:

- Reactive engagements following a material ESG related event.
- Proactive engagements focusing on substandard ESG practices on material issues or ongoing exposure to controversial topics, identified by our proprietary controversy scoring.

We prioritize possible engagement cases for deeper analysis and the start of an engagement dialogue using the following criteria:

- actually being invested and size of portfolio holdings
- geographical market and/or industry affected, with a particular focus on the exposure of markets and industries on material ESG issues
- overall ESG assessment, focusing on low-ranking companies/issuers
- supposed breaches of international norms, especially the UNGC principles
- evidence of structural, systematic or persistent exposure to controversial business conduct
- specific ESG topics that we consider crucial and/or offer a high potential for possible improvements

The prioritization of engagements, results in a shortlist of engagements to be initiated.

We will also take collaborative engagements into account if:

- we think we can gain a much better understanding of the ESG issues concerned by engaging collaboratively
- there seems to be a significantly larger probability to achieve the engagement objectives
- we can add substantial value to the collaboration



## Objective Setting

Upon initiation of an engagement case, at the outset the case is clearly defined by setting the overall engagement objective, deciding on necessary actions, and milestones that are to be reached during the engagement process. Typical milestones are:

- start of the engagement process by initiating communication with the company/issuer of a security
- establishment of a dialogue, including discussion of engagement issue, objectives, disclosure of additional information
- commitment of company/issuer of a security to address the issue, including acknowledgement of the materiality, and/or definition of a timeline
- company/issuer of a security implements strategy to address the issue, including concrete measures and targets and/or outcomes
- collection of evidence for effectiveness of the actions taken and/or achievement of defined outcomes

In the course of the engagement process, the objectives are regularly evaluated and can be adapted if necessary.

## Engagement process

Engagement activities comprise:

- one-to-one meetings (management, Investor Relations (IR), Corporate Social Responsible (CSR) team), on-site visits
- phone calls
- e-mails
- written communication via email or letters
- participation in company roadshows and events

Following individual engagement activities, the engagement case is evaluated, which comprises tracking the achievement of defined milestones, assessing the response quality of the company/issuer of a security, and the overall progress of the engagement. Any insights from ongoing engagement activities are systematically shared with all relevant investment decision makers (portfolio managers and analysts).

If we assess the response of the company and/or the overall progress of the engagement as being poor, and it seems unlikely that the engagement objectives can be reached within the pre-defined timeframe, the engagement process is stopped, and further escalation strategies are implemented.

## Tracking of results

Engagement cases together with all relevant data, as well as individual engagement actions such as achieved milestones, overall progress and feedback throughout the engagement process are tracked in our proprietary ESG Cockpit, a dedicated software platform accessible to all relevant investment decision makers and analysts. Our engagement efforts and outcomes are reported annually to the public in our Active Ownership Report.

## Unsuccessful engagements

If our ongoing assessment of an active engagement case, including the company's/issuer of securities' actions and responses, leads us to the conclusion that it is unlikely that our defined objectives will be met, we will terminate or pause and review the engagement process. We may use one of the following escalation strategies:

- Reducing or completely divesting our holdings in company's securities
- Voting against the company's board of directors
- Considering a collaborative engagement

## Communication

We publish an annual active ownership report, including our engagement philosophy and processes, summary statistics on engagement activities and selected engagement examples. This report is available on the LGT CP website and will be sent to our clients upon request.

# Proxy voting

Regarding proxy voting, LGT CP closely follows the SRI International Proxy Voting Guidelines provided by the Institutional Shareholder Services Inc. (ISS) but can deviate if our sector specialists come to a different assessment. The SRI International Proxy Voting Guidelines are available under [www.issgovernance.com](http://www.issgovernance.com). Voting rights shall be exercised exclusively in the interest of the investors and market integrity and without having regard to interests of third parties. As part of this collective of 1,900 investors, we aim to have a more significant impact on the accountability of large corporations and their actions. To monitor ISS processes, all sector specialists qualitatively check and review all voting recommendations.

LGT CP relies on the following Socially Responsible Investment (SRI) criteria when exercising voting rights:

- balanced capital and owner structure, shareholders' rights
- qualified management, independent from supervision (corporate governance)
- adequate remuneration structure
- transparent communication

Therefore, as shareholders, whenever possible, we use our voting rights in order to:

- Improve the level of reporting disclosure
- Align management compensation to ESG key performance indicators and emission targets
- Support strategic measures to accelerate or adapt to a low carbon business model

## Securities Lending

In general, we do not engage in securities lending for our sustainably managed portfolios. The reason for this is that we want to be able to exercise voting rights wherever possible. In addition, we want to be able to retain access to the securities we own in situations of financial distress.

## Dialogues with companies

If we think a company's voting recommendations are not in line with our principles of good ESG governance or practices, we will raise concerns about the respective items with the company before voting.

In case we vote against the management's recommendations, we and/or our service provider ISS communicate the rationale for doing so to the companies affected. These typically comprise voting decisions on material ESG issues, on companies exposed to ESG related controversies, and companies operating in industries contributing significantly to climate change, like utilities or energy companies.

## Escalation strategies

If the voting does not result in our desired outcome on individual issues, we will consider the following:

- Reducing our holdings in the companies' securities, including complete divestment
- Starting an engagement process with the relevant companies to address the particular issues

## Communication

We publish an annual voting report on our voting decisions. This report is available on the LGT CP website and will be sent to our clients upon request. In addition, our voting decisions are published on the LGT CP website on a monthly basis.



#### Important information

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