

Credit Suisse Asset Management Engagement Policy Statement (CSAM Engagement Policy Statement)

Principles for Credit Suisse Asset Management's monitoring of, voting in, engagement with investee companies

The Credit Suisse Asset Management (CSAM) Engagement Policy Statement provides CSAM's stakeholders with an overview on how certain Credit Suisse legal entities that provide asset management services intend to adopt controls and procedures to ensure compliance with Article 3g of the Shareholder Rights Directive II¹ and adherence to the EFAMA Stewardship Code².

Background information based on the EFAMA Stewardship Code

Asset managers manage the assets entrusted to them by clients in accordance with strict statutory and regulatory requirements. They invest the capital in financial instruments on behalf of their clients and have a duty to act in the best interest of them. In certain investment strategies, asset managers may seek to preserve and/or enhance the value of the companies they invest in, through exercising voting rights and engagement with the management of the issuers.

Where appropriate, asset managers should consider stewardship/engagement for all equity investment strategies. Depending on the investment strategy, active managers that employ a fundamental investment research process would be expected to develop a deep understanding of investee companies, which should enable them to have a meaningful discussion with the management of those companies. Index-tracking managers hold shares in a company for as long as it is included in the index – they have the ability to establish a long-term and constructive relationship with the company.

Asset managers – to the extent consistent with their particular investment strategies – should engage with, and exercise, their voting rights attached to the shares of the companies in which they invest, provided that they can overcome external obstacles³ and the investment is material⁴ in size, in order to maintain and enhance long-term value of their clients' assets.

Where appropriate and consistent with the asset managers' usual process, asset managers should communicate issues they may have with an investee company through direct contact with the management or the board members. Discussions may take place on: business strategy and its execution; risk management; environmental and social concerns; corporate governance issues such as board composition and the election of independent directors, together with executive remuneration; compliance; culture and ethics; as well as performance and capital structure.

¹ Directive (EC) 2007/36 of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies amended by Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 as regards the encouragement of long-term shareholder engagement (text with EEA relevance) (Shareholder Rights Directive II – SRD II).

² http://www.efama.org/Publications/Public/Corporate_Governance/EFAMA%20Stewardship%20Code.pdf (EFAMA Stewardship Code).

³ E.g. due to a complex chain of intermediaries, which renders the exercise of shareholder rights more difficult.

⁴ Materiality thresholds will be defined in the CSAM Voting Policy.

According to the CSAM Voting Policy, when CSAM is unable to resolve important matters that it believes are in the best interest of the clients through dialog or – in exceptional cases – without prior dialog, it may elect to vote against the proposed company resolution at a general meeting, or sell its holding in the company. Material environmental and social matters should also be evaluated as appropriate in the investment analysis and decision-making process.

Engagement by fundamentally driven strategies and index-tracking strategies differs from the approach taken by activist investors, who purchase large numbers of shares in a company and may try to obtain seats on the company's board with the goal of effecting a major change in the company.

Scope

The CSAM Engagement Policy Statement applies to the CSAM entities explicitly listed in the header of the first page of this document, which invest in equities of companies domiciled in the European Economic Area (EEA) and are listed on a recognized trading venue in the EEA.

Effective date

Procedures and processes employed to implement the principles described in the CSAM Engagement Policy Statement are not in place yet, but will come into effect as of June 10, 2019, to the extent required by law.

Further references

Credit Suisse's global statements on

- Corporate Responsibility⁵
- Corporate Governance⁶
- Credit Suisse Statement on Sustainability⁷

should be read in conjunction with the CSAM Engagement Policy Statement to obtain a holistic overview of its approach.

⁵ <https://www.credit-suisse.com/corporate/en/responsibility.html>

⁶ <https://www.credit-suisse.com/corporate/en/governance.html>

⁷ <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/sustainability-statement-en.pdf>

Principles of the CSAM Engagement Policy Statement

CSAM adheres to the engagement principles below, as set out in the EFAMA Stewardship Code.

PRINCIPLE 1: Asset managers should have an engagement policy available to the public on whether, and if so how, they exercise their stewardship responsibilities. Where asset managers decide not to develop an engagement policy, they should give a clear and reasoned explanation as to why this is the case.

CSAM actively considers its obligation of ownership and stewardship on behalf of its clients and has published the Engagement Policy Statement to the extent applicable.

Integration of engagement in CSAM investment strategy

CSAM's investment philosophy is focused on meeting its clients' risk/return criteria while at the same time seeking to create value with the investment decisions made and achieve sustainable and attractive investment performance.

Where appropriate, CSAM strives to consider ESG factors in the investment strategy of products and services offered. The engagement framework may vary considerably as it depends on various factors such as

- whether the product or service is marketed as a sustainable investment,
- whether any sustainability data are available for the investee companies,
- clients' investment instructions regarding sustainability,
- ESG compliance of the reference index for index-replicating portfolios,
- ESG compliance of the instrument universe of a portfolio with a quantitative trading strategy.

Monitoring of and dialog with investee companies (see also Principle 2)

Among others, CSAM may monitor investment exposure in its investee companies through meetings with investor relations teams and/or management bodies of the respective investee company. Due to the scale and diversity of the investment strategies offered by CSAM, individual investment teams may employ different styles and strategies when monitoring and engaging with investee companies. While not an exhaustive list, factors that may be taken into consideration, where appropriate, include

- business strategy and its execution,
- risk management,
- environmental and social concerns⁸,
- corporate governance issues such as board composition, the election of independent directors, and executive remuneration,

- compliance, culture and ethics, or
- performance and capital structure.

Other monitoring activities may include reviewing CSAM's positions in investee companies during regular investment meetings.

Management of conflicts of interest

CSAM as a global asset manager is aware that conflicts of interest may arise when assessing whether and how to engage with companies. CSAM has policies in place to define limitations, disclosures and approval of activities that may cause potential conflicts of interest. A defined conflict management process is in place to address potential and actual conflicts of interest.

CSAM maintains a register of conflicts of interest, which is regularly updated.

Handling of inside information

CSAM investment teams may occasionally receive inside information (material non-public information). If an investment team member gains access to such information, internal control functions will be informed immediately. The insider will be informed about his or her responsibilities, and details will be recorded in dedicated repositories. Internal control functions have implemented a robust trade surveillance framework to reasonably ensure employees are not trading on material non-public or confidential information.

Approach to stock lending

Where appropriate, a collective investment scheme may enter into a securities lending agreement for the purpose of generating additional income. Securities lending transactions entail a transfer of ownership of the relevant securities to the borrower, where the lender may not exercise voting rights while the securities are on loan. In order to exercise voting rights, before annual general meetings (AGMs) CSAM may recall stocks loaned from managed portfolios if the investment meets defined materiality thresholds.

Currently, CSAM does not borrow any shares in order to increase voting power by gathering additional voting rights.

Escalation strategy (see also principle 3)

CSAM's approach will be decided on a case-by-case basis following internal discussions at CSAM. Any action taken by CSAM would primarily be directed at the investee company's investor relations department to obtain further information on an issue. If a resolution cannot be agreed upon, investor teams may engage with the management bodies of the investee companies directly.

Collective engagement (see also principle 4)

Primarily, CSAM prefers to express its own views individually to companies. However, where appropriate, CSAM may seek to collaborate formally with other significant shareholders or investor groups.

⁸ CSAM is currently developing ESG guidelines in order to cover ESG-related topics that are not finalized or implemented yet. An ESG team will support portfolio managers in their investment decisions and relationship managers in client interactions, and they will take over responsibilities in ESG data management regarding active ownership (e.g. coordination of the exercise of voting rights).

Exercise of voting rights (see also principle 5)

CSAM would typically exercise its voting rights for material equity positions held in collective investment schemes. For separately managed accounts (mandates) where CSAM has discretionary authority, CSAM generally does not actively offer the execution of voting rights services. To the extent that CSAM has been granted discretionary contractual voting authority, CSAM will follow the same principles adopted by the collective investment schemes and act in accordance with the general CSAM Voting Policy⁹. CSAM will typically utilize the services of external proxy voting and advisory services organizations to facilitate the voting of proxies.

PRINCIPLE 2: Asset managers should monitor their investee companies in accordance with their engagement policy.

CSAM may actively monitor investee companies. Topics may include issues with regard to company strategy, ongoing performance, operational and corporate governance issues, as well as environmental and social factors. CSAM may have discussions with company officials, where appropriate.

CSAM views research analysts as vital in the ongoing oversight of investee companies.

PRINCIPLE 3: Asset managers should establish clear guidelines on when and how they will escalate engagement with investee companies to protect and enhance value of their clients' investments.

Instances when CSAM may decide to become engaged include situations when CSAM has concerns about the following: the company's business strategy and its execution; risk management; environmental and social concerns; corporate governance issues such as board composition and the election of independent directors, together with executive remuneration; compliance, culture and ethics; performance and capital structure.

In addition to regular dialog with officials at investee companies, CSAM has adopted the protocols applicable to the following scenarios, including but not limited to

- meetings with non-executive directors,
- voting against the company at its AGM,
- reducing or liquidating CSAM's holding.

For actively managed strategies, divestment from investee companies may be an appropriate measure; however, for passively (i.e. index) or quantitatively oriented strategies, it may not be possible to divest from investee companies, or only to a limited extent.

PRINCIPLE 4: Asset managers should consider acting with other investors, where appropriate, having due regard to applicable rules on acting in concert.

CSAM generally prefers to engage in dialog with its investee companies directly; however, it may collaborate, where appropriate, with other shareholders where such actions are deemed to be in the best interest of its clients and when not in violation of anti-trust or any other laws or Credit Suisse policies, and where there are no conflicts of interest that could result in legal, regulatory or reputational risks to Credit Suisse. CSAM may adopt a collaborative stance in case the size of a CSAM position in a company when viewed on a standalone basis is insufficient to exert influence when it comes to voting on critical company issues, such as matters relating to capital market transactions or corporate governance.

Collaboration would, in principle, take place via dedicated formal meetings that would include other institutional investors, including but not limited to other Credit Suisse Group entities or affiliates, and may be expanded under special circumstances to include trade associations or government entities. Besides formal meetings, collaboration can be maintained by participating in informal meetings with other investors (e.g. investor networks, conference calls, analyst events).

PRINCIPLE 5: Asset managers should exercise their voting rights in a considered way.

CSAM considers the exercise of voting rights a key element in bearing stewardship responsibilities for client's assets. Voting serves CSAM in the escalation of issues and the expression of concerns and opinions. CSAM ensures effective and efficient voting processes and controls by focusing on investments that are material to it.

Approach for exercise of voting rights

Due to the scale and diversity of CSAM's investment strategies, investment teams may employ different styles and strategies when exercising voting rights. CSAM is currently developing a global voting policy (CSAM Voting Policy), which will describe threshold criteria for significant holdings as well as general criteria for voting for or against routine matters. However, CSAM businesses in different jurisdictions may vary in their approach to voting as each investment team must adhere to their fiduciary duty to act in the best interest of their clients and the assets they are overseeing.

- Collective investment schemes (CIS)
CSAM management companies may choose to adopt and implement the CSAM Voting Policy on behalf of the CIS they sponsor and control or they may delegate the responsibility to the investment manager/advisor that must vote in accordance with the CSAM Voting Policy.

CSAM investment managers will accept mandates by a third-party CIS or management company to exercise voting rights only if CSAM is allowed to apply the CSAM Voting Policy.

⁹ The CSAM Voting Policy is currently being developed and will be published by the effective date of this Engagement Policy Statement.

CSAM does not accept specific voting instructions from individual investors in CIS.

- **Discretionary mandates**
Clients are usually informed by their EU and non-EU custodians about AGMs, which are required in accordance with the SRD II to facilitate the exercise of shareholder rights.

For discretionary mandate clients, CSAM generally does not actively offer proxy voting services.

To the extent that CSAM has been granted contractual voting authority, CSAM will apply the CSAM Voting Policy. In general, CSAM does not accept voting instructions from the client for specific investee companies or specific agenda points.

Usually, CSAM does not attend the AGMs for all companies it is invested in, unless there are specific reasons to do so. However, if CSAM has a material holding¹⁰, individual investment team members may attend post-AGM industry analyst discussions. For material investments, CSAM usually attends AGMs or arranges for representation at the AGMs through proxy advisors. Under normal circumstances, any holdings below the materiality threshold¹⁰ are considered immaterial, and CSAM will not be able to exert influence on certain matters put to the vote and the potential costs arising for investors might not be justifiable.

Each CSAM investment team shall decide independently on its intervention strategy, as fiduciary managers have to act in the best interest of their clients, who may have diverging interests. Therefore, notwithstanding that it will seek a unified CSAM view based on the CSAM Voting Policy, this may not be achieved in all instances. Accordingly, in certain cases, CSAM investment teams may vote independently of each other.

Usage of services of proxy advisors

In order to facilitate well-grounded voting decisions, CSAM relies on several sources of information. To cover the extensive scope of investee companies, CSAM utilizes the services of external proxy advisors, where appropriate. The appointed proxy advisors adhere to the SRD II and will disclose the proxy voting results on the CSAM website on an annual basis. The proxy advisors provide shareholder voting research and analysis services in addition to efficiently facilitating the delivery of voting decisions to companies. Vote recommendations of proxy advisors serve as one source, among others, within CSAM's decision-making process on voting topics and supplements CSAM's internal research.

CSAM does not delegate vote decisions to the proxy advisors but usually accepts the vote recommendations provided by the proxy advisors, which are based on the CSAM Voting Policy. CSAM evaluates all decisions in accordance with the CSAM Voting Policy.

Conflicts of interest arising from the exercise of voting rights

In the context of exercising voting rights, it is possible that CSAM could encounter actual or perceived conflicts of interest. CSAM has well-established policies and procedures in place to manage such conflicts of interest.

PRINCIPLE 6: Asset managers should disclose the implementation and results of their engagement policy and EFAMA stewardship and voting activities.

Once a year, CIS in their annual reports or CSAM on the websites of its in-scope legal entities will publicly disclose how the engagement policy has been implemented, including a general description of voting behavior, an explanation of the most significant votes (e.g. if voting against a proposition) and information on the use of proxy voting advisors.

While CSAM will adopt a transparent approach in all aspects of its engagement policy activities, in certain circumstances, CSAM will refrain from making public disclosures where the availability of such information is considered not to be in clients' best interests.

¹⁰ Materiality thresholds for the exercise of voting rights will be defined in the CSAM Voting Policy.



Source: Credit Suisse, if not specified otherwise.
The information contained in this document may change after the date of issuance of this document without notice.
Copyright © 2018 Credit Suisse Group AG and/or its affiliates. All rights reserved.