

Credit Suisse

Engagement Policy Statement

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

The Credit Suisse (CS) Engagement Policy Statement provides CS's stakeholders with an overview on how certain CS legal entities that provide asset management services 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 could enable them where appropriate or warranted, 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 may have the ability to establish a long-term and constructive relationship with the company, in limited situations.

Asset managers – to the extent consistent with their particular investment strategies and in line with contractual obligations, local laws and regulations – should engage with, and exercise, their voting rights attached to the shares of the companies in which they invest, where possible or administratively feasible³ and the investment is material⁴ in size, in order to maintain and/or 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

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 are defined in the CS Voting Policy.

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.

According to the CS Voting Policy, when CS is unable to resolve important matters that it believes are in the best interest of the shareholders of the investee company through dialogue 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 CS Engagement Policy Statement applies to the CS entities⁵ 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. Local regulations of an investment structure's domicile (e.g. VegüV for Swiss fund structures) precede.

Effective date

The CS Engagement Policy Statement is effective as of June 10, 2019, to the extent required by law.

Further references

Credit Suisse's global statements on

- Corporate Responsibility⁶
- Corporate Governance⁷
- Credit Suisse Statement on Sustainability⁸

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

⁵ Proxy voting for CSAM's newly launched Irish ETF platform will commence in Q3 2020.

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

⁷ <https://www.credit-suisse.com/about-us/en/our-company/our-governance.html>

⁸ <https://www.credit-suisse.com/media/assets/corporate/docs/about-us/responsibility/banking/sustainability-statement-en.pdf>

Principles of the CS Engagement Policy Statement

CS 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.

CS 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 CS investment strategy

CS's investment philosophy is focused on meeting its clients' investment goals.

Where appropriate, CS strives to consider ESG factors in the investment process of investment strategies offered.

The engagement framework may vary considerably as it depends on various factors such as

- Whether the investment strategy 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, CS may monitor investment exposure in its investee companies through meetings with the Board of Directors, executive management members and/or investor relations teams of the respective investee company. Due to the scale and diversity of the investment strategies offered by CS, 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 concerns⁹,
- corporate governance issues such as board composition, the election of independent directors, and executive remuneration and its structuring,

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

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

Management of conflicts of interest

CS as a global asset manager is aware that conflicts of interest may arise when assessing whether and how to engage with companies. CS 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.

Handling of inside information

CS investment teams may 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) CS may recall stocks loaned from managed portfolios if the investment meets defined materiality thresholds and where CS deems the matters that are being voted on are relevant to our ESG framework.

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

Escalation strategy (see also principle 3)

CS's approach will be decided on a case-by-case basis following internal discussions at CS. Any action taken by CS 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, CS prefers to express its own views individually to companies. However, where appropriate, CS may seek to collaborate formally with other significant shareholders or investor groups.

Exercise of voting rights (see also principle 5)

CS would typically exercise its voting rights for material equity positions held in collective investment schemes. For separately managed accounts (mandates) where CS has discretionary authority, CS generally does not incorporate voting rights in the

⁹ Credit Suisse Asset Management (CSAM) has developed an ESG policy in order to cover ESG-related topics. Within CSAM, an ESG team supports portfolio managers in their investment decisions and relationship managers in client interactions, and they are responsible for active ownership (e.g. coordination of the exercise of voting rights).

Investment Management Agreement which governs the services provided by CS. To the extent that CS has been granted discretionary voting authority by its client, CS will follow the same principles adopted by the collective investment schemes and act in accordance with the general CS Voting Policy. CS 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.

CS 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. CS may have discussions with company officials, where appropriate.

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 CS may decide to become engaged include situations when CS 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 and its structuring; compliance, culture and ethics; performance and capital structure.

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

- meetings with members of the Board of Directors,
- voting against the company at its AGM,
- reducing or liquidating CS's holding.

For actively managed strategies, divestment from investee companies may be an appropriate measure in certain situations; 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.

CS 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 CS policies, and where there are no conflicts of interest that could result in legal, regulatory or reputational risks to CS. CS may adopt a collaborative stance in case the size of a CS 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.

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

Approach for exercise of voting rights

Due to the scale and diversity of CS's investment strategies, investment teams may employ different styles and strategies when exercising voting rights. CS has developed a global voting policy (CS Voting Policy), which describes threshold criteria for significant holdings as well as general criteria for voting for or against routine matters. However, CS 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)
CS management companies may choose to adopt and implement the CS Voting Policy on behalf of the CIS they launch and control or they may delegate the responsibility to the investment manager/advisor that must vote in accordance with the CS Voting Policy.

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

CS generally does not consider specific voting instructions from individual investors in CIS (exceptional cases may apply).

- 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, CS generally does not incorporate voting rights in the Investment Management Agreement which governs the services provided by CS¹⁰. To the extent that CS has been granted voting authority, CS will apply the CS Voting Policy. In general, CS does not accept voting instructions from the client for specific investee companies or specific agenda points.

¹⁰ Exceptions may apply due to local business offerings.

Usually, CS does not attend the AGMs for all companies it is invested in, unless there are specific reasons to do so. However, if CS has a material holding¹¹, individual team members may attend post-AGM industry analyst discussions. For material investments, CS 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 CS 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 CS investment team shall decide independently on its voting 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 CS view based on the CS Voting Policy, this may not be achieved in all instances. Accordingly, CS teams may vote independently of each other where appropriate.

Usage of services of proxy advisors

In order to facilitate well-grounded voting decisions, CS relies on several sources of information. To cover the extensive scope of investee companies, CS may utilize the services of external proxy advisors, where appropriate. Such proxy advisors adhere to the SRD II and will disclose the proxy voting results 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 CS's decision-making process on voting topics and supplements CS's internal research.

CS 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 CS Voting Policy. CS evaluates all decisions in accordance with the CS Voting Policy.

Conflicts of interest arising from the exercise of voting rights

In the context of exercising voting rights, it is possible that CS could encounter actual or perceived conflicts of interest. CS 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.

CSAM ESG discloses the voting results, 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 on their website.

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

¹¹ Materiality thresholds for the exercise of voting rights are defined in the CS Voting Policy.



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