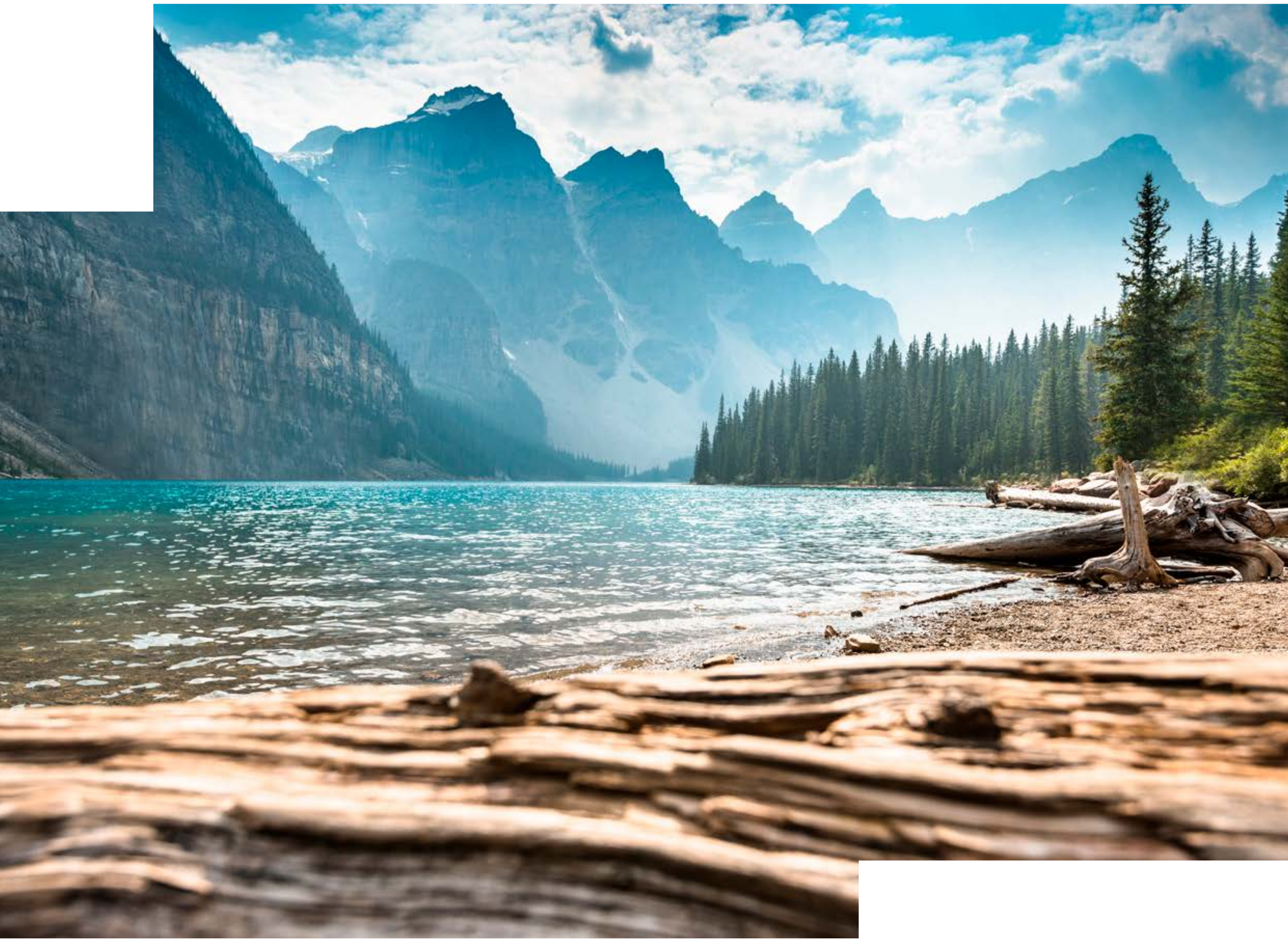
Asset Management

Proxy voting

Approach and policy
summary 2020



Content

1 Our approach to ESG

Credit Suisse has a proud tradition of thinking and acting sustainably with the long term in mind. Today, the bank supports numerous sustainability initiatives through active participation and engagement in a variety of organizations. Credit Suisse has also pledged to develop and promote investment products and services that generate financial returns while delivering ecological and social benefits. To achieve this commitment, Credit Suisse created the requisite structures at the executive level in 2017 with the founding of our Impact Advisory and Finance (IAF) department, which reports directly to the CEO.

These issues have a high priority for Credit Suisse Asset Management. The sustainability criteria that we have defined for our investment businesses are integrated into our investment process using a holistic approach. "Holistic" means that environmental, social, and governance (ESG) criteria are taken into account at various points throughout the investment process.

We employ ESG criteria when defining the investment universe (exclusions), and consider ESG-related risks and opportunities as supplementary information in investment cases and portfolio construction (integration). ESG criteria are factored into specific investment decisions and incorporated into risk management. With active ownership, we foster sustainability through dialogue with companies and proxy voting.

Furthermore, we are pursuing the goal of managing at least CHF 100 bn in assets in line with our Credit Suisse Sustainable Investing Framework by the end of 2020.

2 Active ownership

Our prime objective under active ownership is to maintain and increase the value of the companies in which we are invested.

To bring about positive change in this area, we exert influence on companies' business operations on two levels: firstly through proxy voting, i.e. the fiduciary exercise of our voting rights at general shareholder meetings, and secondly through active engagement, which means maintaining permanent dialogue with companies on sustainability issues. Today, we represent our investment clients nationally and internationally at numerous general shareholder meetings every year, and we increasingly hold discussions with members of corporate boards of directors and executive boards. As an asset manager, we consider it our duty and responsibility to address ESG issues in an open dialogue with companies.

Our holistic ESG approach with four core elements

Negative screening
- Norm-based exclusions
- Values-based exclusions
- Exclusions due to involvement in controversies
- Country exclusions

ESG reporting
- Reporting on ESG performance
- Full transparency

ESG integration
- ESG data and ratings
- ESG risks and opportunities
- Contribution to the UN Sustainable Development Goals (SDG)

Active ownership
- Exercising of shareholders' rights (proxy voting) in line with ESG principles
- Engagement

Source Credit Suisse

3 Proxy voting

As a global and responsible asset manager, we take an active stance by participating in the general shareholder meetings of stock corporations and critically examining the most important voting matters in an effort to ensure that their business models and practices are geared toward sustainability.

3.1 Development

Credit Suisse Asset Management enhanced the profile and importance of proxy voting in 2019. Together with the relevant internal management teams (e.g. Equities and Balanced Solutions), we brought Credit Suisse Asset Management into full compliance with the European Shareholder Rights Directive II (SRD II), which amends its predecessor to encourage long-term shareholder engagement. It seeks to improve corporate governance, to strengthen the position of shareholders, and to ensure that decisions are made for the long-term stability of companies.

3.2 Scope

We currently take part in proxy voting in companies domiciled in the regions listed below. When choosing individual companies, we apply a materiality threshold.

- Switzerland and Liechtenstein
- EU
- North America[1]
- APAC[1]

[1] If weight >1% in their main regional index.

3.3 Main points of focus

We generally follow a best-practices approach when we define standards. In a few cases we have different rules in place due to regional business practices, although we strive for harmonization. We apply the following criteria when assessing the corporate governance of companies:

- Composition and independence of the board of directors (BoD)
- Management and executive board
- Compensation (system and amount)
- Capital structure
- Shareholder rights
- Environmental and social matters
- General corporate governance aspects

Board of directors elections and the ratification of compensation schemes and articles of association are the levers we use to influence these points of governance through proxy voting.

Below we detail the considerations we apply to each of these points when deciding on our vote.

3.3.1 Board of directors elections

This governing body, which can have executive power in Switzerland, has important steering functions and bears a crucial responsibility for a company's commercial success. It has the following main duties:

- To supervise and monitor the executive board (i.e. checks and balances)
- To define the long-term strategy together with the executive board and to conduct periodic critical reviews of the implementation and achievement of that strategy
- To create a modern corporate governance structure

Shareholders have an indisputable right to elect members to the board of directors. We therefore pay special attention to the independence and composition of this committee. We check for potentially questionable business ties, conflicts of interests, and any advisory mandates and shareholding interests when considering the formal and material independence of individual board members. Furthermore, we attach great importance to members not being bound by an excessive number of board mandates (overboarding). When examining the composition of boards of directors we consider seniority, diversity, complementarity, and size.

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

We take a critical stance toward dual mandates in which a chief executive officer (CEO) is also the chairperson of the board of directors (COB). We are also critical of executive COBs and of role switches from CEO to COB. In the event of such a switch, we would expect, among other things, an independent lead director to be appointed. Our ESG team meets regularly with company representatives, mainly COBs or heads of compensation committees, to discuss our concerns from an investor's perspective.

In summary:

- BoD members
  - must be independent (formally and materially in order to count as an independent member, see fourth point);
  - must not sit on too many boards;
  - must not exceed a specified age;
  - must hold a certain amount of shares in the company.
- The chairperson may not also be the CEO of the same company simultaneously (exception for North America due to regional difference; we foresee additional requirements that must be met).
- Former CEOs may only become chairperson after a defined cooling-off period or if a lead independent director (LID) is in place.
- The majority of BoD members must be independent (exceptions apply), and the number of BoD members must not exceed a maximum limit.
- Diversity of BoD members is encouraged, and anchor shareholders must be represented adequately.
- The majority of members of audit and remuneration committees must be independent. The chairperson of the BoD may not chair either of those committees.

3.3.2 Management and executive board

An executive board's scope of responsibilities is defined narrowly or broadly, depending on the country. However, in every case an executive board's core duties include the following:

- To define a long-term strategy together with the board of directors
- To manage operations and to provide the board of directors with fair, transparent, and regular reporting
- To devise measures to achieve additional organic and inorganic growth (acquisitions)

Credit Suisse Asset Management's specialized investment teams meet regularly with company representatives, mainly CEOs and/or chief financial officers (CFOs), to discuss strategic positioning and operational performance. In these discussions they are often supported by a member of the ESG team.

3.3.3 Compensation (BoD and executive committee; ex ante and ex post)

In Switzerland, the Ordinance against Excessive Compensation (OaEC) significantly expanded shareholders' rights and powers at general meetings. Since the enactment of the ordinance, boards of directors and executive boards are now required to have their compensation approved bindingly, either retrospectively or prospectively. A prospective, budget-based approval approach and a mixed approach (albeit only for executive boards) have gained general acceptance.

In Europe, the rights of shareholders were enhanced by the EU's second Shareholder Rights Directive (SRD II), which aims to further expand shareholders' opportunities for engagement in and exertion of influence on publicly traded companies, as well as to facilitate cross-border transmission of information and the exercising of shareholder rights. Shareholders have the right to vote on remuneration reports and remuneration policies for members of companies' executive boards and BoDs at annual general meetings (AGMs).

For executive boards, we evaluate the base salary, near- and long-term compensation, and the split between cash and stock components. We expect stock compensation to be deferred under a three-year cliff vesting schedule, and it should not be granted at too large a discount. Furthermore, we expect target-based incentives to be transparent and comprehensible. We are critical of variable compensation for boards of directors, particularly since short-term profit optimization does not necessarily produce sustainable earnings.

We expect executive board and BoD members to hold shares in their respective companies that have been purchased with private funds. For regular BoD and executive board members, shares equal to an annual base salary must be held after a build-up period. We require higher thresholds for the chairperson (1.5 times the annual base salary), the lead independent director (1.5 times the annual base salary), and the CEO (2 times the annual base salary).

The extent of dilution of existing shareholders' ownership interests is another important aspect for us. Dilution can be substantial, for example in the case of stock-based compensation programs, particularly if these are implemented through authorized or contingent capital increases under the exclusion of subscription rights for existing shareholders. Furthermore, depending on the business sector, we additionally expect clawback options to be built into executive board remuneration, meaning that the compensation that has already been disbursed (normally variable compensation portions) must be paid back under certain fixed conditions.

A consultative vote on the compensation report for the previous business year is part of modern corporate governance today. We expect a compensation report to show the extent to which executive and director remuneration practices are geared toward the company's long-term sustainable commercial development. Furthermore, we expect a summary discussion on target achievement. This helps us better understand the determined compensation. We are also critical of upfront sign-on bonuses.

In summary:

- For individual members, Credit Suisse Asset Management encourages a sustainable compensation structure, including a transparent disclosure of the system per se, the key performance indicators, key targets, peer group, caps, and vesting.
- For BoD members, compensation must be disclosed for each member.
- For executive committee members, compensation must be disclosed at least on an aggregated basis, including full single disclosure for the highest-paid member.
- BoD remuneration is to be paid as a lump sum and not as performance-based compensation. A predefined number of shares is acceptable.
- For both bodies, a split into cash and deferred instruments is required, including a cliff vesting of at least three years.
- BoD and executive committee members must hold at least a single year's base salary worth of shares.
- Budget votes may be accepted if the system per se is supported and the potential increases are comprehensible and capped at certain predefined levels.
- Credit Suisse Asset Management encourages companies to provide a consultative compensation report.

3.3.4 Capital structure
The BoD has the responsibility to allocate capital in a prudent manner in order to develop the business, generate growth, and create value for the shareholders and all stakeholders.
Our approach is as follows:

- Ordinary share capital increases are assessed on an individual basis.
- Authorized and conditional share capital increases must be limited to a ceiling in order to limit dilution.
- Agenda items to implement an employee stock ownership plan (ESOP) are supported. Shares to fund those programs should preferably be bought on the open market. Alternatively, authorized share capital may be accepted up to a low specified ceiling.
- Share buybacks are normally supported up to a low percentage of the issued capital. Buyback proposals should be followed by a cancellation of the shares in order to prevent reissuance without approval from shareholders.

3.3.5 Shareholder rights
We assess amendments to articles of association (AoA) and amendments to quorum requirements, as well as all other proposals, on a case-by-case basis.

Motions to institute a "one share, one vote" principle will be fully supported, and motions deviating from this principle will be rejected.

3.3.6 Shareholder proposals
Some markets have high requirements that shareholders must meet in order to be able to put resolution proposals on an AGM agenda. In other markets, the barriers are lower. In the US in particular we have seen a large number of shareholder resolutions, including on climate change and corporate lobbying. In the major European markets (including Switzerland), there are normally high ownership requirements (mostly in the range of 5% to 10% of paid-in share capital) that must be met in order to have the right to propose items for an AGM.

We expect the number of shareholder resolutions to increase further. We assess the shareholder resolution proposals based on our ESG and Credit Suisse Asset Management proxy voting framework. Controversial cases will be decided by our Credit Suisse Asset Management proxy voting committee exclusively in line with our fiduciary duties. We will support a resolution if we see it as being in shareholders' interests. We may opt to not support a resolution that could restrict management's capabilities or that is overly binding and thus creates an impediment to finding an optimal solution.

3.3.7 Environmental and social matters

We fulfill our duties in the context of sustainable investment strategies with a sharp focus on ESG issues. We examine the resilience of companies' business models and practices, and check whether they meet our high sustainability requirements. We attribute greater future viability to companies that already incorporate ESG criteria into their business practices compared to those that are only at an early stage in their sustainability considerations. In the context of a dialogue, we expect answers to any questions we may have regarding how ESG-relevant risks are managed in order to support shareholders' interests.

The aim here is to gain a better understanding of the extent to which environmental and social factors present opportunities and/or risks for a company.

Environmental and social matters are topics not often found on the agendas of European annual general meetings and extraordinary general meetings. They therefore are assessed on a case-by-case basis based on our ESG and Credit Suisse Asset Management proxy voting framework. Decisions on controversial cases will be taken by our Credit Suisse Asset Management proxy voting committee, which acts exclusively in line with our fiduciary duties. Resolutions that we view as beneficial to shareholders' interests will be supported, while we will vote against those that inhibit management's capacity to act and/or that prevent the implementation of optimal solutions.

3.4 Exercise of voting rights

Credit Suisse Asset Management works with an experienced external partner who we appoint as a proxy to exercise our voting rights at general shareholder meetings in Switzerland, Europe, North America, and the Asia-Pacific region. As a matter of principle, we exercise our voting rights once a certain materiality threshold has been surpassed. Our determination of materiality takes into account both actively and passively managed collective investment vehicles.

The management companies of Credit Suisse investment funds exercise voting rights independently at all times and solely in investors' interests:

Fund management company in Switzerland:

Credit Suisse Funds AG
Credit Suisse Asset Management relays its voting preferences to the fund management company, which has its own three-member voting rights committee that carries out the actual proxy voting independently. The voting rights committee consists of:

- The CEO of Credit Suisse Funds AG – Thomas Schärer, Managing Director
- Asset Management Clients – Emil Stark, Managing Director
- Compliance Officer – Gabriele Wyss, Director

Fund management companies in Luxembourg:

Credit Suisse Fund Management S.A.
MultiConcept Fund Management S.A.

In the course of exercising voting rights, proxy voting analyses performed by the ESG team provide the portfolio managers with a basis for specific voting stances. The Credit Suisse Asset Management proxy voting committee makes the final decision if the assessments by the portfolio manager and the ESG team happen to differ. Credit Suisse has internal policies on exercising voting rights that take into account regional and cultural differences in business practices. The ESG team is responsible for the content of regional voting policies, which are further refined in collaboration with the fund management companies and Credit Suisse Asset Management's specialized investment boutiques. They are reviewed regularly and amended where necessary. The exact wording of regional voting policies is not published. Credit Suisse Asset Management publishes an annual proxy voting and engagement report that provides information on key developments, a summary of our voting record, and a synopsis of our findings.

Generally, the fund management companies exercise voting rights for funds. However, if proxy voting entails significant additional direct costs, it may not be exercised.

4 Engagement

In line with a proper sustainability approach, we consider it imperative to engage with the companies in which the funds and discretionary mandates managed by Credit Suisse Asset Management are invested. We are convinced that this dialogue will have a beneficial impact over the medium to long term on investment returns and on society in a wider sense.

Broad and constructive dialogue with companies gives us access to key decision makers and creates a better understanding of the business models and practices being pursued. We discuss ESG issues that are important to us and promote transparent disclosure of sustainability-related matters through dialogue with management. Our engagement is segmented into four categories.

4.1 Thematic engagement
In the context of thematic engagement, we focus on structural issues, which we define annually for each of the three ESG areas: environmental, social, and corporate governance. Constructive dialogue on these matters helps companies to advance their ESG-related activities, which in turn helps to enhance their competitiveness.

4.2 Individual engagement
If we have serious ESG-related concerns about a company in which an investment fund managed by Credit Suisse Asset Management is a significant shareholder, we promptly take this under review. One new mode of open exchange between chairpersons/BoD members and their companies' main investors are "soundings", discussions of "what if" scenarios and the outcomes that would be needed to support them as an investor.

4.3 Engagement in relation to proxy voting
Following the publication of a company's annual report and the agenda for its general shareholder meeting, new ESG-related concerns may arise regarding corporate governance and the compensation system that require us to take action. We balance this engagement between positions in actively managed and indexed portfolios, concentrating on larger holdings.

We meet regularly with representatives of large companies, primarily the chairperson of the BoD or the head of the compensation committee, to present our analysis and corresponding proxy voting in a transparent manner. Our Credit Suisse Asset Management specialist investment teams also meet regularly with representatives of senior management, accompanied by members of the ESG team where necessary.

4.4 Public policy engagement
Our objective is to get involved in the public policy-making process by actively contributing to policy discussions and the political work being done in the background. Through our engagement activities, we strive to get involved in an open, transparent dialogue with policymakers and legislators in the spirit of good corporate citizenship. We seek to engage with regional and local governments and industry and sector groups in order to shape policies that have an impact on our business and stakeholders.

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