CREDIT SUISSE
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Credit Suisse Sustainable Investment Framework

The Credit Suisse Sustainable Investment Framework applies to clients booked on Credit Suisse platforms and solutions offered by Credit Suisse only. The framework summarizes the Credit Suisse approach to sustainable investing.

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Credit Suisse Sustainable Investment Framework

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Executive summary

The growing need to combine prosperity with environmental, social and governance (ESG) considerations has already started transforming patterns of consumption, the political and regulatory landscape for businesses and the world of investing.

Businesses across all sectors are seeking to create more sustainable business models that address the risks and leverage the potential of this transformation.

The emphasis on sustainable investing is rooted in the belief that the successful integration of ESG information in financial research and analysis can reduce investment risks and lead to improved investment outcomes over time. Sustainable investing is simply smart investing.

The Framework reflects the central role that ESG considerations play across all stages of the investment process, from exclusionary screens to high conviction impact investments.

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The Framework focuses on the application of ESG criteria and the creation of transparency for clients.

The Framework outlines four primary approaches to sustainable investing:

- **Exclusion:** Approaches that assess whether positions are significantly involved in controversial business fields or incidents.
- **Integration:** Approaches that assess whether positions integrate environmental, social, and governance factors into their strategy.
- **Thematic:** Approaches that assess whether positions are aligned with specific United Nations Sustainable Development Goals.
- **Impact:** Approaches that assess whether positions are explicitly and intentionally contributing towards specific United Nations Sustainable Development Goals.

Each of these approaches adds value in its own right and may be suitable for different types of investors with different types of investment goals.

The goal in creating the Credit Suisse Sustainable Investment Framework was not to prescribe values for clients or the industry. The aim is to “say what we do and do what we say.” This is why the Framework does not simply focus on the application of ESG criteria across exclusions, integration, thematic and impact investment portfolios, but also on creating transparency for clients through classification.

Approach

From the exclusion of companies accused of violating international norms, to investing in companies at the cutting edge of technological breakthroughs that could one-day solve humanity's most pressing challenges, sustainable investing means different things to different people.

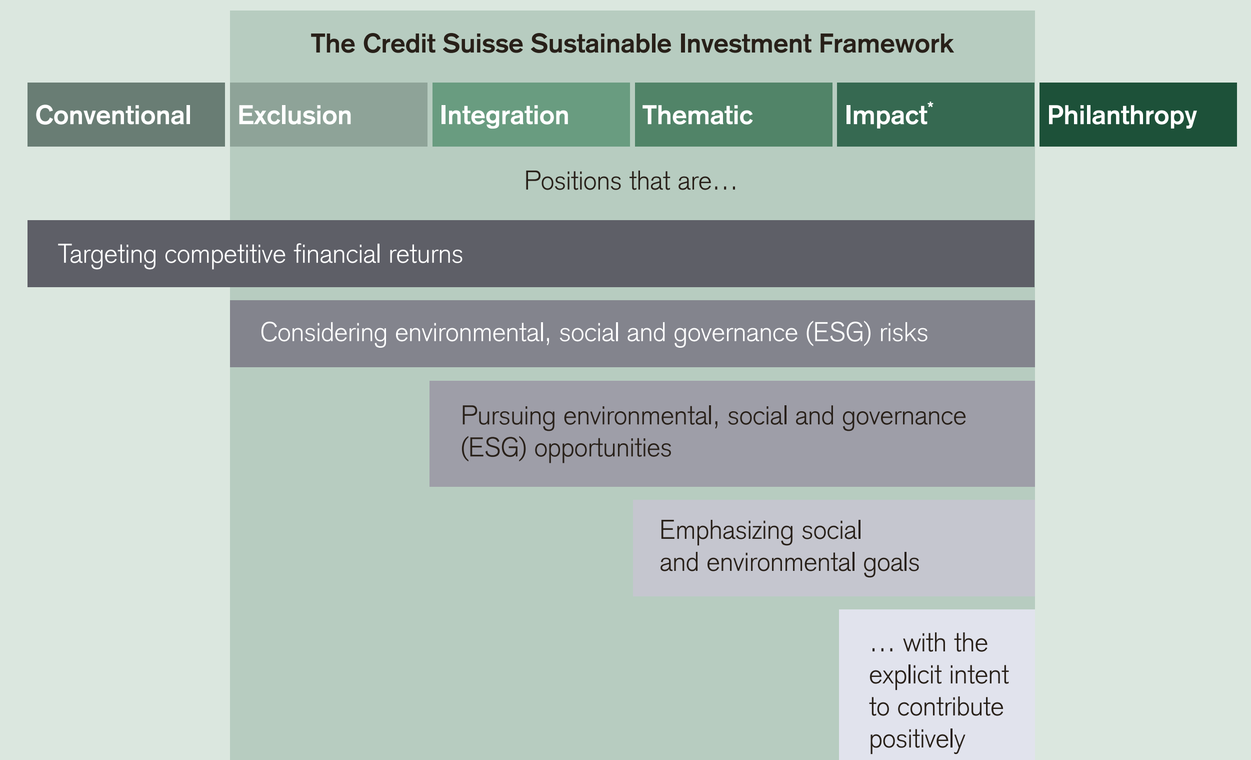
According to the Institute of International Finance, there are over 80 different terms used to describe approaches to sustainable investing.[1] Despite this complexity, the industry appears to be coalescing around four primary approaches:

- **Exclusions:** The primary purpose of these strategies is to provide clients with *investments that do not cause harm or align with their values*. This means excluding firms or sectors that produce controversial products such as tobacco, thermal coal, or weapons manufacturing, or excluding companies that violate international norms.
- **Integration:** These strategies integrate material ESG factors into investment processes *for the purpose of delivering superior risk-adjusted returns*. Catalyzed by the launch of the UN Principles for Responsible Investment (UN PRI) in 2006, ESG integration focuses on how risk and opportunity around environmental issues, human rights, corporate governance and other issues can be material to the financial prospects of companies. It is applied most explicitly in active management, where ESG issues become part of the fundamental analysis of a company.
- **Thematic:** These strategies are aligned with specific United Nations Sustainable Development Goals. In recent decades, sectors such as education, healthcare and clean energy have grown strongly, and fund managers have set up funds to invest in these companies.
- **Impact:** These strategies contribute explicitly and intentionally towards specific United Nations Sustainable Development Goals. A key element of impact investing for Credit Suisse is investor contribution or "additionality". This is the idea that the investment into the company, or the value add the investor can bring to the company, generates more impact than would be the case had they chosen not to invest.

The primary purpose of these strategies is to provide clients with investments that do not cause harm or align with their values.

1. IIF Sustainable Finance Working Group Report: The Case for Simplifying Sustainable Investment Terminology. *The Institute of International Finance, Inc*, 2019. https://www.iif.com/Publications/ID/3633/The-Case-for-Simplifying-Sustainable-Investment-Terminology

The Credit Suisse Sustainable Investment Framework



*Certain market definitions of Impact include a concessionary return sub-segment.

Notes:
- The SIF classification does not supersede any regulatory commitment, nor does the SIF classification determine or indicate whether or not an investment solution will be labelled as "sustainable" (or other such term) under any given regulatory regime.
- In reporting sent to Credit Suisse clients synonymous terminology may be used. "Exclusion" is synonymously referred to as "Avoid Harm"; "Integration" as "ESG Aware"; "Thematic" as "Sustainable Thematic" and "Impact" as "Impact Investing."

Exclusions

For the majority of clients, the goal of integrating ESG factors in the investment decision-making process is not to limit the investment universe, but to expand the scope of information considered.

Yet a growing subset of clients – particularly those that express a strong interest in sustainable investing – wish to align their investments with their values. This means limiting exposure to controversial business activities such as thermal coal or tobacco.

This Framework considers three categories of exclusions: norms-based, business conduct, and values-based exclusions.[2] Exposure to controversial business activities can present a material risk to investment portfolios.

Norms-based
Some weapons cause disproportionate harm and remain a threat long after a conflict has been resolved. Firms with business activities in controversial weapons are categorically excluded from the investments classified according to the Framework. This includes weapons prohibited according to international treaties, such as the Convention on Cluster Munitions, the Chemical Weapons Convention, the Biological Weapons Convention, and the Treaty on the Non-Proliferation of Nuclear Weapons. Weapons that cause excessive harm to both military and civilian targets are also excluded from investments classified according to the Sustainable Investment Framework.

2. For third-party funds, Credit Suisse will determine, on a case-by-case basis, if an exclusion approach and process is followed, which is comparable to the exclusions applicable for Credit Suisse products.

Evaluating business conduct violation cases

Evaluation criteria

- Severity of the alleged violation(s) and (potential) consequences
- Extent to which the company was responsible for, or contributed to, the alleged violation
- Extent to which the company acted outside the norms of its industry
- Evidence that the company systematically engages in controversial behavior
- Measure taken by the company to remedy the damage, including timely response from management
- Measure taken by the company to prevent future violations
- Extent to which the company's behavior violated national laws or international norms
- Transparency and extent to which company acknowledged the incident

Business conduct
Companies are expected to meet their fundamental obligations in line with the UN Global Compact Principles. This includes respecting universal human rights and labor standards, practicing environmental responsibility, and avoiding corruption in all its forms, including extortion and bribery.

To identify companies in breach of these principles, this Framework relies on the controversy research of market leading ESG data providers, which we combine with in-house expertise. Companies found to (1) systematically violate international norms, (2) where the breaches are particularly severe, or (3) where management is not implementing the necessary reforms, may be excluded from investment products classified under the Sustainable Investment Framework.

Exclusion is viewed as a last resort. Instead, the aim is to have a greater impact by engaging with companies to prevent future breaches (see Active ownership on page 24).

Exclusions

Values-based
Most sustainable investment strategies classified under this Framework exclude firms that derive a significant portion of their revenue from the following business activities:[3] conventional weapons and firearms, tobacco, adult entertainment and gambling. For thermal coal power generation and mining, a revenue threshold of 20% is applied. Further, the Framework applies a restriction on companies active in arctic oil and gas with a 5% revenue threshold as well as an oil sands restriction with a 10% revenue threshold.

3. Significant portion is defined as >=5% direct and/or >=20% indirect revenue exposure. The exception to this rule is adult entertainment and gambling, where a revenue threshold of 5% is applied even for indirect exposure.

Integration

ESG Risks and Opportunities
ESG is a term used to describe a group of risks and opportunities – environmental (E), social (S) and governance (G) – and selected underlying metrics.

Environment (E)	Social (S)	Governance (G)
▪ Biodiversity and land use ▪ Water resource management ▪ Raw material sourcing ▪ Climate change ▪ Pollution & Waste	▪ Human capital ▪ Supply chain labor standards ▪ Health and safety risks ▪ Privacy and data protection ▪ Demographic risks ▪ Stakeholder management ▪ Access to goods and services	▪ Board diversity ▪ Executive pay ▪ Ownership ▪ Accounting ▪ Bribery & Corruption ▪ Tax transparency ▪ Competition

While ESG risks and opportunities are sometimes referred to as “non-” or “extra-financial”, in reality, they are anything but. Companies that neglect sustainability risks for example may be subject to government fines, lawsuits or other legal and regulatory penalties. Likewise, companies that depend on unpriced natural capital assets such as a stable climate, clean air, or the availability of groundwater (often referred to as externalities), may face shocks to their production processes – either directly or via their supply chains – when these rising costs are internalized. Poor ESG management can also damage a company’s reputation, affecting a company’s ability to attract and retain talent, win customers, or gain access to financing.

Conversely, effective ESG management can be an opportunity for companies, and by extension investors. Companies that are able to mitigate the above risks may be more likely to outperform their peers in the long-term. They may for example benefit from an improved reputation, leading to a more qualified and motivated workforce or better brand loyalty. Likewise, companies that are good stewards of natural capital may realize cost savings through product innovation and resource efficiency. This in turn might make them less susceptible to exogenous shocks and more likely to benefit from long-term sustainability trends.

For investors, the value of ESG integration is well documented in research. A 2015 meta-study by Deutsche Bank and the University of Hamburg examined the entire universe of academic studies published on the subject dating back to the 1970s. Over 60% of studies reviewed in the meta-study found that ESG had a positive effect on corporate financial performance, compared to just 10% of studies reviewed indicating the opposite.[4]

Importantly, the studies that point to a positive correlation between ESG factors and financial performance tend to focus on financially material factors - in other words, those ESG factors that are most likely to affect a company’s bottom line. Another study by Harvard University found that while investments in material ESG issues can be value enhancing for investors, investing in immaterial ESG issues had little to no impact on returns.[5] See *Making sense of the numbers* on page 14 for more information on how materiality is assessed.

4. Deutsche Asset and Wealth Management, ‘ESG and Corporate Financial Performance: Mapping the global landscape’, December 2015 https://www.dws.com/AssetDownload/Index?assetGuid=caef8dc7-510d-4dfb-8c3a-cf139335414b

5. Corporate Sustainability: First Evidence on Materiality, The Accounting Review 91-6 https://publications.aaahq.org/

Integration

The integration of material ESG factors in financial analysis and investment decision making can reduce risks and lead to improved investment outcomes over time. To capture these opportunities effectively, ESG considerations should be integrated into investment research and analysis.

Unlike exclusionary screening, which reduces the investment universe and is implemented typically *before* investment analysis takes place, integration expands the scope of information considered.

Whilst ESG factors were previously considered in one form or another in fundamental analysis, growing environmental and demographic pressures make it clear ESG must be integrated systematically across the investment process in order to be effective.

Integration in active equity and fixed income
For active equity and corporate fixed income strategies, the aim is to integrate material ESG factors across the investment process – from research and security valuation through to portfolio construction and monitoring. Sector analysts, portfolio managers and ESG experts work together to identify industry-specific sustainability factors that are expected to be most likely to affect business value in the short- and long-term. A materiality matrix captures the results (see *Making sense of the numbers* on page 14). As with traditional financial research, reliance is not only placed on the input of third-party data providers. Instead, ESG experts may draw on a plethora of ESG and financial data sources, as well as information gathered from conversations with company management and other industry experts, to inform their analysis.

Views on materiality may differ depending on the investment horizon and asset class considered.

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As with traditional financial research, reliance is not only placed on the input of third-party data providers.

Integration in passive investment strategies
The extent to which ESG considerations are taken into account in passive investment strategies, and the methodology applied, depends on the index tracked. ESG indices either exclude companies based on their involvement in controversial business activities (values-based exclusions approach) or select companies that outperform on ESG issues relative to their peers (best-in-class approach). A small but growing number of indices re-weigh constituents based on ESG factors, which allows more flexibility in terms of control of other factors such as industry, region or size exposure.[6] Finally, rules-based portfolio construction combines ESG indicators or scores with financial risk factors, in order to shape passive portfolios in line with specific investment objectives.

A systematic approach is applied to select, design and classify sustainable passive strategies. This means careful due diligence of the policies and strategies for the underlying indices and the approach for integrating ESG data in the construction rules.

Assessment of third-party fund managers
Clients are offered the most suitable investment solution, whether internally or externally managed. As with the majority of passive investment strategies, the investment process of third-party fund manager cannot be directly controlled. Instead, a separate ESG questionnaire incorporates ESG questions together with the traditional due diligence process conducted for new funds on the advisory shelf. ESG criteria are therefore considered alongside more traditional metrics including performance track record, fund strategy, and investment team to form a more holistic view of a manager’s capabilities. Fund analysts are responsible for interpreting the results, which are transparently communicated to clients as part of the fund classification system for private banking clients (see *The client journey* on page 20).

Integration in sustainable real estate
The ESG strategy of the Credit Suisse Asset Management real estate offering consists of a targeted reduction of climate-damaging CO_2 emissions and other pollutants. This includes a focus on renewable energy and energy efficiency, as well as improvements in waste and water efficiency ESG considerations are integrated across the entire value chain, from the lanning and development of property construction projects or the acquisition of existing properties, to operational management and renovations or demolitions. Stakeholder engagement and the integration of ESG factors into risk management contribute to a comprehensive ESG strategy.

The proprietary methodology and sustainability label, the Greenproperty Quality Seal, evaluates the sustainability aspects of real estate investments. Further market standards and sustainability labels and certificates (e.g. LEED, BREEAM, etc.) also help to assess the sustainability quality of a property. The building optimization program aims to reduce CO_2 emissions and to improve the energy efficiency of buildings with selected short- and long-term building optimization measures applied across the real estate life cycle. To evaluate the ESG performance of properties and real estate portfolios, Credit Suisse Asset Management participate annually in ESG benchmarks such as the Global Real Estate Sustainability Benchmark (GRESB).

6. A practical guide to ESG integration for equity investing. United Nations Principles for Responsible Investing, 2016. https://www.unpri.org/listed-equity/esg-integration-in-passive-and-enhanced-passive-strategies/15.article

Integration

Making sense of the numbers:
ESG data and materiality
A common concern among investment practitioners new to the ESG space is that different ESG data providers may rate the same company very differently.

ESG scores *are* subjective. The underlying data on which these scores are based on is not. Metrics such as a company's operational carbon footprint or the number of women on the Board are often publicly available and not subject to debate. Where ESG data providers differ is in how they interpret these numbers.

Numerous data sources are taken into account. One provider may have exceptional data on corporate governance, but lack comprehensive coverage of human rights risks; in-house experts may have additional information about a company that data providers missed, or be more intimately familiar with the products and services a company offers. The goal at this stage in the research process is to be as accurate and comprehensive as possible in coverage. This means taking into account multiple data providers and hundreds of different data metrics.

Yet all of this data is meaningless in the absence of a Framework to make sense of it. This is where the concept of materiality comes in. Integrated strategies focus on factors that are financially material to a company – those most likely to affect the bottom line. This depends, to a significant extent, on the industry; data security and anti-competitive practices may have a significant impact on the long-term value of a company operating in the IT space for example, while forced labor risks or biodiversity concerns may be more relevant for a company operating in the seafood industry.

Example materiality matrix for energy industry

Pillar	Key ESG topic	Materiality	Horizon of business impact
E	Climate Change	Very high	Both short and long-term
E	Pollution and Waste	High	Both short and long-term
S	Human Capital	Medium	Long-term
S	Community	Low	Long-term
G	Business Ethics	Medium	Long-term
G	Corporate Governance*	High	Both short and long-term

* Corporate Governance is considered highly material for all industries.

Exposure to ESG opportunity themes: Sustainable Energy

Different sources are considered as a proxy for understanding industry-specific risks and opportunities. These sources might include: the overall sentiment on the industry contribution to the problems and stakeholder scrutiny on the issue as a proxy of the reputational risks that the industry may face; how ESG topics relate to macro trends such as demographic trends, product demand scenarios, or shifts in consumer preferences (e.g. increasing preference for green vehicles reducing demand for fossil fuels); and related regulatory or technological developments that may impact a business.

It is also important to consider the opportunity: which products and services could offer solutions to sustainable development challenges, representing a source of differentiation and growth for a company (e.g., energy storage solutions for utilities)? Opportunities may also arise from process-related innovations and/or effective management of material issues (for example, supply chain best practices, efficient use of resources and/or strong employee health and safety track record may help a company reduce costs and foster growth).

Finally, the magnitude, likelihood and timeframe those risk and opportunity factors may materialize are assessed – and what this might mean in terms of margins, risk profile or growth. Based on those considerations, each material ESG topics can be categorized in a qualitative scale (from low to very high materiality).

Thematic

While integration strategies focus on how material ESG factors can be leveraged to achieve superior risk-adjusted returns, thematic and impact strategies focus on investments that address specific sustainability challenges, while still targeting market-rate or higher returns. Examples include investments in renewable energy, sustainable agriculture, or gender and diversity leaders.

Investing in the UN Sustainable Development Goals (SDG)

In 2015, the global community, represented by all 193 member states of the United Nations, agreed on a set of 17 goals to "end poverty, protect the planet and ensure prosperity for all by 2030". Collectively, these goals, and their 169 underlying targets, are referred to as the United Nations Sustainable Development Goals (SDGs).

Mobilizing private capital at scale will be essential for achieving the 2030 Agenda for Sustainable Development. According to the UN, the world is facing a USD 2.5 trillion annual funding gap in developing countries alone.[7] For investors, the SDGs serve not only as a call to action, but also as a useful framework for articulating how portfolios contribute towards solving global challenges.

Thematic and impact solutions classified under this Framework seek to mobilize capital for the SDGs. For thematic solutions, this is called SDG "alignment", since the impact investments can have in public markets is difficult to trace. Impact investment solutions, seek to have a direct, causal link between a company's reported impact and the decision to invest in that company.

7. Links in the chain of sustainable finance: Accelerating private investments for the SDGs, including climate action. Brookings Institute, 2016.

Thematic
Thematic strategies classified under this Framework focus on investments in themes and sectors with economic activities that address specific sustainability challenges. Typically, this means investing in companies or strategies that address one or more of the United Nations Sustainable Development Goals (SDGs). In addition to steering the economy in a more sustainable direction, addressing global sustainability challenges may presents an economic opportunity with the potential to generate alpha for the long term.

Similar to integrated products, in-house thematic funds classified under this Framework follow a robust and systematic process, beginning with a strong focus on fundamental analysis. As with traditional financial analysis, the construction of the thematic universe is based on a company's fair and intrinsic value. In addition to traditional financial indicators, analysts identify companies with a high potential for outperformance based on long-term sustainability trends. Where practicable, the aim is to invest in "pure-play companies" that derive at least 50% of their revenues from a specific theme.

> Similar to integrated products, in-house thematic funds follow a robust and systematic process.

Exceptions to this rule may be made however if:

1. The theme relates to how a company is governed, and not its products or services (for example, a fund that invests in gender and diversity leaders).
2. Companies that are in the process of transition, and where investing early in this transition has the greatest potential to generate alpha (examples might include a company that derives 30% of its revenue from a sustainable technology, but has made a strategic commitment to grow this business line).
3. The universe of applicable companies is too small to build a portfolio of high conviction stocks, but more growth is expected in the future.

In addition to the above, strategies classified under this Framework seek to exclude companies from their thematic universe when their behavior may be considered harmful to human beings and the environment. Examples might include companies engaged in the forced-displacement of communities, exceptionally unjust labor practices, etc. At a minimum, all in-house managed thematic funds must follow guidelines for norms-, values-, and business-conduct based exclusions.

For externally-managed thematic funds, through a thorough due diligence and fund selection process, the aim is to ensure that the above criteria are met in full. Where external managers do not meet standards, these funds will not be recommended as thematic investments under the Sustainable Investment Framework (see *The client journey* on page 20).

Impact

Impact investing

Impact investments are "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return".[8] Key factors that set impact investments apart from other sustainable investment practices include:

- the intentionality of social and environmental impact;
- the strategy to reach such impact;
- the investor's contribution to the impact;
- the measurement of the impact; and
- the transparent reporting of the impact.

Investor contribution is key to achieving a measurable, positive impact on people and planet. This Framework therefore differentiates between two levels of impact – Company Impact (level I) and Investor Impact (level II).

8. What you need to know about impact investing. *Global Impact Investing Network.* https://thegiin.org/impact-investing/need-to-know/#what-is-impact-investing

Company impact

Company level impact refers to the impact achieved by the underlying company or project. Similar to thematic solutions, impact investments classified under this Framework seek to invest in companies or projects that address one or more of the United Nations Sustainable Development Goals.

Company level impact can be assessed across five key dimensions:[9]

- **What** - How does the company expect to generate positive outcomes for people and the planet? How relevant are the targeted SDGs in a geography or sector, and are they important priorities? In a country with water scarcity, for example, a company offering innovative solutions to save water is highly relevant to where it operates.
- **Who** - What stakeholders will benefit from the positive outcome? How underserved are they in relation to the product or service offered?
- **How much** - What is the magnitude of the expected SDG-aligned outcomes, including the potential scale, depth and duration of the expected impact?
- **Contribution** - Do the company's efforts lead to better outcomes than without its participation in that market? Contribution to the SDGs and a positive impact measures the additionality that can be attributed to the company's activities.
- **Risk** - What can go wrong? What could be unintended negative effects of delivering the expected SDG contribution? For example, what is the risk of not meeting impact targets or other potential downside ESG risks or externalities?

Investor impact

Once the company impact is established, the extent to which an investment in that company (be it direct or through a fund manager) can contribute to the impact achieved is examined. Two main mechanisms of investor impact are considered two main mechanisms of investor impact:

- **Capital allocation:** Investors create impact through directly financing the growth of impactful companies. They can also create impact through financing the upgrading or improvement of a company (from a sustainability or impact perspective).
- **Active ownership:** Investors can also create impact during the investment period through active ownership. This might include adding value through participating on boards, offering technical assistance and strategic advice, providing access to networks, assisting with fundraising, and generally helping a company to enhance its sustainability or impact performance.

9. Impact Management Norms. *Impact Management Framework.* https://impactfrontiers.org/norms/

The client journey

Understanding each client's unique perspective is the priority, to ensure investment strategies are tailored to their specific needs, wishes and circumstances.

Through the integration of sustainability preferences into the clients' advisory process, sustainable investing becomes part of the client journey.

The process starts with dialogue. Clients are asked about *their motivation* for investing sustainably. These insights enable the identification of relevant investment approaches that can best achieve financial and sustainable objectives. Motivations for investing sustainably are varied and complex. Four main motivations for investing sustainably have been identified:

- Clients who wish to avoid investments in controversial business activities or in companies that violate international norms and standards.
- Clients who wish to integrate ESG considerations, with the goal of mitigating risks or identifying ESG opportunities. Increasingly, institutional investors may also view ESG integration as a fiduciary duty.
- Clients who wish to align their investments with specific United Nations Sustainable Development Goals.
- Clients who wish to invest in companies or projects that have a positive impact on people and/or planet and which address one or more of the United Nations Sustainable Development Goals.

The majority of clients do not have a singular motivation for investing sustainably and may combine all three approaches in a single portfolio.

Relationship managers are trained to balance sustainability preferences against risk, return and other suitability criteria in order to find the investment solution that most appropriately matches clients' goals.

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Clients are asked about their motivation for investing sustainably.

Upholding the framework

The Sustainability Classification Forum is responsible for classifying the Credit Suisse advisory shelf. For internally-managed collective investments, the Classification Forum assesses the extent to which the Sustainable Investment Framework has been upheld. The Forum also serves as an additional sounding board and quality check for internally managed funds aiming to be classified according to the Sustainable Investment Framework.

For externally-managed collective investments, funds are classified according to the ESG policies and strategies applied by external managers. This is assessed as part of the due diligence process (see *Integration* on page 11 for more information). Where external managers do not meet the standards for a given approach, these funds' classification according to the Sustainable Investment Framework may differ considerably from the self-reported approach a manager claims to apply.

> "The Classification Forum assesses the extent to which the Credit Suisse Sustainable Investment Framework has been upheld.

Active ownership

Exercising rights as shareholders is a powerful tool. The hallmark of a successful active ownership strategy is partnership. Through voting and engagement, Credit Suisse Asset Management seeks to bring about positive change in investee companies.

Engagement provides companies welcome insights into investor expectations. This can reduce companies' vulnerabilities to exogenous shocks, which may result in a material competitive advantage over peers. Active ownership should increase the value of the investee companies and ultimately improve the risk/return profile of portfolios. In addition, by accelerating the transition to a more sustainable economy, active ownership can create tangible benefits for people and planet.

Voting

Credit Suisse Asset Management participates in the general shareholder meetings of stock corporations in which it holds a position and examines the most important voting matters in an effort to ensure that business models and practices are geared toward sustainability.

The voting instructions of Credit Suisse Asset Management are based on its proxy which, together with regional sub-policies consider best practice, including the International Corporate Governance Network's (ICGN) Global Governance Principles and Global Stewardship Principles, to which Credit Suisse Asset Management is a signatory under UBS Group. Having a proprietary proxy voting policy allows Credit Suisse Asset Management to update expectations of companies across a range of material ESG topics on a regular basis. A third party proxy advisor supports this process, which issues voting recommendations on behalf of Credit Suisse Asset Management, based on regional voting policies.

Experienced ESG professionals at Credit Suisse Asset Management are responsible for the content of regional voting policies, which are refined in collaboration with fund management companies and Credit Suisse Asset Management's specialized investment boutiques. Deviations from the default proxy voting policy are permitted if this research comes to deviating conclusions. Such cases are escalated to the Credit Suisse Asset Management Proxy Voting Committee for a final decision.

Voting and engagement are complementary tools to bring about positive change. Where practicable, Credit Suisse Asset Management seeks to engage with company management and boards around voting issues. This ensures that votes are well informed, and that the rationale is well understood by company management teams and boards.

Engagement

As responsible stewards of client assets, Credit Suisse Asset Management frequently engages with companies in which it invests. In combination with voting, maintaining an active dialogue with company management and other representatives on key sustainability issues builds trust and is an essential component of an active ownership policy. This dialogue can provide additional insights into a company's operations, strategy and business-model, leading to better-informed investment decisions.

Engagements are conducted along four categories:

1. **Thematic engagements**
   In the context of thematic engagement, Credit Suisse Asset Management focuses on structural issues, defined annually for 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 enhances their competitiveness.

2. **Individual engagements**
   If there are serious ESG-related concerns about a company in which an investment fund managed by Credit Suisse Asset Management is a significant shareholder, they are reviewed promptly. Open exchange between chairpersons/board members and the investors may now include "soundings"-discussions of "what if" scenarios and the outcomes needed to support them as an investor. Where violations of ESG norms are particularly severe, and where companies are unwilling or unable to take action or engage, these companies may be excluded from investments classified according to the Sustainable Investment Framework.

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, which may require us to take action. This engagement is balanced between positions in actively managed and indexed portfolios, concentrating on larger holdings.

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

4. **Public policy engagement**
   Advocacy efforts in the public policy making process include active contributions to relevant policy discussions. Engagement activities serve as a channel to be involved in an open, transparent dialogue with policymakers, regulators and legislators to encourage the development of conducive framework conditions. Engagement with regional and local governments and industry and sector groups can shape policies that have an impact on the business and stakeholders.

Engagement typically runs over several years, during which time Credit Suisse Asset Management sets clear and specific objectives with company management. These objectives are reviewed regularly, until they are either completed or deemed irrelevant. Credit Suisse may also pool engagement efforts with other investors through collaborative engagement initiatives.

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