

# EUROFIMA

## Investee Engagement Guidelines



Treasury & Asset Management

Basel, 30 December 2021

**EUROFIMA**  
European Company for  
the Financing of Railroad  
Rolling Stock

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# 1 General information

Since the official signing of the United Nations-supported Principles for Responsible Investment (PRI) in January 2020, EUROFIMA has made significant efforts to foster its presence as a sustainable and responsible *asset owner*. EUROFIMA's strict integration of Environmental, Social and Governance (ESG) factors into its investment decision-making process is based on three major pillars:



**Pillar 1:** Compliance with the United Nations Global Compact (UNGC) is seen as a positive indication of an *investee company* and *counterparty* being ready to embrace ESG policies and principles in their business activities. According to the TREASURY POLICY, issuers that fail to comply to the Global Standards Screening by Sustainalytics, which assesses compliance to the UNGC's ten principles, are excluded from EUROFIMA's investment universe.

**Pillar 2:** ESG risks for investee companies and counterparties are assessed based on external data provided by Sustainalytics. The weighted ESG risk score at the portfolio level is targeted to be below 20, which is the equivalent of being exposed to "low" ESG risk. To ensure compliance with our ESG integration targets, monitoring the portfolios' ESG performance happens on a daily basis.

**Pillar 3:** Proactive *engagement* with investee companies on ESG topics includes either individual or collective engagement with *counterparties* encouraging the revision of their ESG approach for any positive change.

The INVESTEE ENGAGEMENT GUIDELINES provide a detailed overview of EUROFIMA's commitments and responsibilities towards the issuers it invests in, as prescribed by the third pillar of the ESG integration framework. The document specifies the engagement objectives, scope and principles, as well as individual responsibilities and practical aspects. Terminology in this document is highlighted in *italics* and defined in the Definitions section. EUROFIMA's documents are emphasised in CAPITAL LETTERS.

The current version of the INVESTEE ENGAGEMENT GUIDELINES is effective as of 1 January 2022 and should be read in conjunction with the TREASURY POLICY, PORTFOLIO GUIDELINES, TREASURY STRATEGY and MARKET ABUSE POLICY to obtain a holistic overview of its approach.

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## 2 Engagement objectives

All engagement activities carried out by the Treasury & Asset Management unit follow objectives mentioned below in accordance with EUROFIMA's non-profit maximising mission and align with EUROFIMA's commitment to promote *sustainability* in financial markets.

The primary objective of the engagements conducted by EUROFIMA is to comply with the *fiduciary duty towards its shareholders* to manage all assets in a careful and responsible manner. EUROFIMA actively manages risks related to ESG aspects, where engagement activities are an integral part of the process, as they improve the environmental and social performance of EUROFIMA's investees and counterparties.

The secondary objective is to fulfill EUROFIMA's **commitment to the UN Principles for Responsible Investment<sup>1</sup> Principle 2** ("We will be active owners and incorporate ESG issues into our ownership policies and practices") **and Principle 3** ("We will seek appropriate disclosure on ESG issues by the entities in which we invest").

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<sup>1</sup> <https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment>

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## 3 Scope

The Principles, as well as the responsibilities and processes, described in this document should provide clear guidelines to the EUROFIMA Treasury & Asset Management unit about when and how to engage with investee companies or counterparties.

All outlined recommendations do not depend on investee company location, sector or market capitalisation. Nevertheless, due to the operational burden and the practical aspects of the engagement process, a certain set of rules for selecting companies is set and described in the “Responsibilities and process” part of these Guidelines.

The Principles cover any engagement on the following non-exclusive topics:

- Environmental matters/concerns (e.g., carbon footprint)
- Social matters/concerns
- Corporate governance
- Product governance
- Business strategy and execution
- Risk management
- Business ethics
- Compliance

Any discussions with investee companies should not constitute an intervention into their daily business activities but rather be of the “reflect and suggest” nature.

If any Treasury & Asset Management team member becomes a possessor of any material non-public information during the engagement process, the Middle and Back Offices, as well as the Head of the Treasury & Asset Management unit of EUROFIMA, will immediately be informed. The latter ones will apply vigorous trade controls to ensure the team member does not trade based on *inside information* (see MARKET ABUSE POLICY for more information).

## 4 Principles

**Principle 1 “Monitoring”: The Treasury & Asset Management unit, with support from other internal units, will regularly monitor its investee companies**

The Treasury & Asset Management unit, with support provided by the Middle and Back Office units, will regularly monitor investee companies and counterparties based on the data provided by Sustainalytics. This single source of third-party data for assessing the investee’s exposure to ESG risks will be taken into consideration while forming a decision on investing in investee debt securities, keeping or liquidating existing positions and initiating any future engagements.

**Principle 2 “Governance”: The objectives and practical aspects of ESG engagements form the INVESTEE ENGAGEMENT GUIDELINES document**

Following active monitoring of investee companies and counterparties, the Treasury & Asset Management unit will compile and regularly update the list of companies to engage with. The overarching objectives for engagements, criteria for identifying target companies, relevant responsibilities of EUROFIMA staff and procedures will always be outlined in the INVESTEE ENGAGEMENT GUIDELINES. Adherence to the document will be required of EUROFIMA staff involved throughout the engagement process.

**Principle 3 “Transparency”: The INVESTEE ENGAGEMENT GUIDELINES, as well as relevant reporting on engagement results, will be made publicly available**

For the full transparency of the stewardship process, the INVESTEE ENGAGEMENT GUIDELINES, as well as the ANNUAL ENGAGEMENT REPORT, will be made available for public review via EUROFIMA’s official webpage. As part of the ANNUAL ENGAGEMENT REPORT, information on engagements will be disclosed in a summarised and anonymised form only. Any updates or revisions will be reflected on time in the publicly available versions of the documents.

**Principle 4 “Best Practice”: The portfolio managers can and should consider collaborating with other asset managers/asset owners/investment consultants to learn about their best practices regarding their engagement process**

Whenever there are no conflicts of interest and no violation of laws or policies, EUROFIMA’s portfolio managers will seek to exchange their engagement experience with other investors or other relevant bodies. The best practices identified during such collaborations might be further adopted in any future engagements.

## 5 Responsibilities and process

Core engagement activities are carried out by the respective Portfolio Manager & ESG Analyst. The guidelines are set in accordance with the Head of the Treasury & Asset Management unit and approved by the Management Committee as outlined below.

Portfolio Manager (PM) / Middle Office (MO)	Head of Treasury & Asset Management unit	Management Committee
<ul style="list-style-type: none"> <li>Monitoring investee companies in regard to ESG risks (MO)</li> <li>Short-listing target companies for engagement (PM)</li> <li>Initiating and actively participating in the engagement process (PM)</li> <li>Applying the INVESTEE ENGAGEMENT GUIDELINES throughout the engagement process (PM)</li> <li>Reporting engagement results (PM, MO)</li> </ul>	<ul style="list-style-type: none"> <li>Revising the INVESTEE ENGAGEMENT GUIDELINES</li> <li>Approving a list of target companies</li> <li>Reviewing engagement results</li> <li>Participating in the engagement process (if deemed necessary)</li> <li>Participating in any escalation process (if required)</li> </ul>	<ul style="list-style-type: none"> <li>Approving the INVESTEE ENGAGEMENT GUIDELINES</li> <li>Approving the ANNUAL ENGAGEMENT REPORT</li> <li>Participating in the engagement process (if deemed necessary)</li> <li>Participating in any escalation process (if required)</li> </ul>

### 5.1 Target companies

The list of companies to be engaged with in relation to ESG considerations will be identified by applying the following three criteria:

1. The investee company is on the **watchlist** of the Global Standards Screening by Sustainalytics, which assesses compliance to the ten principles of the UN Global Compact;
2. The investee company or counterparty has an ESG risk rating from Sustainalytics of **“high”** ESG risk or has an ESG risk rating of **“severe”** ESG risk and is approved by the Management Committee as an eligible investment;
3. There is clear and robust evidence of **ESG violations of at least one of the UN Global Compact principles** by the investee company (e.g., a third party reported a violation of environmental controls). Potential sources of information would be publications by news outlets, company reporting/press releases, research publications conducted by third parties, etc.

The engagement process will be triggered in case the investee company or counterparty fulfills at least one of the listed conditions.



## 5.2 Forms of engagement

As defined in the TREASURY POLICY, EUROFIMA's investment universe for all existing portfolios solely comprises fixed income investments. No equity investments are permitted, and therefore, in the context of engagements, no voting rights attached to shares can be exercised. Nevertheless, the engagement tool still available to a fixed income investor is to establish **a direct dialogue/discussion** of relevant matters, such as questioning the implementation of ESG concepts and practices, with an investee company.

The goal of such open discussions is to establish long-standing relationships with investee companies or counterparties, with the aim of value preservation rather than of any quick financial gains. This, in turn, also means engaging whenever any problem or issue is identified which can be improved in the case of direct engagement.

There are two possible options for open communication with investees: 1) active individual engagement and 2) collective platform-based engagement.

The advantages of **active individual engagement** include:

- a) establishing a one-on-one dialogue, which can lead to a desirable long-term relationship with a company,
- b) having a chance to discuss the most relevant issue(s), and
- c) being able to choose the most convenient way of communication.

At the same time, the disadvantages would be:

- a) excessive time consumption on the operational side to establish a dialogue, and
- b) little power of influence due to relatively modest exposure at an individual company level taken by EUROFIMA.

**Collective platform-based engagement** can tackle the disadvantages of private engagements but also pose risks and limitations such as:

- a) an investee company/counterparty might not be targeted by other investors,
- b) no personal interactions with the issuers will take place,
- c) the possibility exists of *acting in concert*, and
- d) additional time is required for coordinating and aligning the requirements/expectations between peers.

Collective platform-based engagement would entail the use of the available platforms uniting separate investors across various regions/countries. Those platforms are often provided by the asset owner associations supporting their members, such as the Council of Institutional Investors (US), the Asian Corporate Governance Association and the Climate Action 100+. Since EUROFIMA is a UN PRI signatory, the PRI Collaboration Platform might become the natural choice over any other existing alternatives. The process on this platform starts with initiating the engagement proposal, which can be further supported

by other PRI members. The actual engagement with the investee company is then led by the working group of investors (see also Principle 4 of these Guidelines).

The practical implementation of the active engagement approach, in turn, would highly depend on the preferred communication channel between the portfolio manager and the investee company. Nevertheless, the engagement process will always be initiated with a formal email/letter sent to an investee. Following the acceptance of the invitation for an exchange, further means of communication can be chosen, i.e., via phone, face-to-face or online meetings and/or any combination of those. The most appropriate, flexible and convenient mode of communication for both parties involved should always be chosen.

Direct engagement should always start with the investor relations team or with the head of the treasury department of the investee company. Any probable escalation will be decided on a case-by-case basis after internal discussions within EUROFIMA, and if found necessary, might require participation in the management bodies' discussions.

Due to the limitations of collective platform-based engagement and the strong positive aspects of active individual engagement, preference will always be given to the individual rather than the platform-based approach.

### 5.3 Gauging engagement success

The definitions below outline the three possible statuses that can be attributed to an engagement process at the moment of reporting:

- If an investee company or counterparty actively implemented ESG improvements that are documented and shown to EUROFIMA and/or if the actions taken materialised in an upgrade of the ESG rating and/or if the investee company or counterparty was removed from the UN Global Compact Watchlist, the engagement process will be declared as **“successful”**.
- An engagement would be considered **“in progress”** if the engagement process has started but no measurable improvements have been made. Going through the engagement process in such situations would not preclude EUROFIMA from holding the existing positions or continuing investing in the company or counterparty in question.
- An engagement is classified as **“failed”** if an investee company or counterparty does not intend to engage with EUROFIMA regarding the identified ESG risks or does not answer our requests for a dialogue in the course of a year. For failed investee companies and counterparties, the existing investments will be held to maturity, but no further positions will be raised. If after one year, the

investee company or counterparty enters the engagement process, the engagement status may improve towards “in progress” or “successful”, and the respective rules for the new status apply. The restrictions on investing would be lifted if the company falls out of the “Target companies” defined under 5.1.

## 5.4 Reporting results

For transparency reasons and as prescribed by Principle 3 of these Guidelines, the yearly publication of the ANNUAL ENGAGEMENT REPORT will disclose, on an anonymous basis only, details of engagement attempts by EUROFIMA with its investee companies and counterparties. Future reports will also contain engagement processes over time.

### The report will summarise:

1. the number of ESG engagement attempts and their success rates (i.e., engagements initiated, engagements accepted, engagements declined).
2. the style of engagements adopted (i.e., active individual engagement vs collective platform-based engagement)
3. the condition(s) which became pre-requisites for engagement
4. the investee company/counterparty representatives involved in the process (e.g., investor relations team, head of units, Board of Directors)
5. the mode of communication (e.g., email, letter, face-to-face/online meeting, platform)
6. the status of the engagements (e.g., “successful”, “in progress”, “failed”)
7. high-level summary of points raised and discussed by the parties involved in the engagement.

## 5.5 Sharing experience with peers

Principle 4 of the Guidelines encourages EUROFIMA’s portfolio managers, as well as relevant colleagues, to get in contact with other investors to share their engagement experience in regard to investee companies and counterparties. This will enable learning from peers and potentially help to improve the pragmatic aspects of any future engagements. Any best practices identified through such exchanges could potentially be considered as amendments to the existing latest version of the INVESTEE ENGAGEMENT GUIDELINES.

## 6 Definitions

**Acting in concert:** uniting with other investors to accumulate a major position in a security to influence a target company's daily activities. It can also be seen as an attempt to manipulate a target company's price of debt, which in the context of the Guidelines is seen as an illicit form of behavior.

**Asset owner/investor:** "organisations that represent the holders of long-term retirement savings, insurance and other assets" (UN PRI). According to the UN PRI, EUROFIMA is classified as an asset owner based on the nature of its investments and the respective ultimate owner of the assets, which are the shareholders.

**Counterparty:** any financial or non-financial institution which takes the opposite side of the financial transaction conducted by EUROFIMA.

**Engagement:** "interactions between an investor and current or potential investees/issuers, in order to improve practice on an ESG issue, change a sustainability outcome in the real world or improve public disclosure" (UN PRI).

**Fiduciary duty:** responsibility "imposed upon a person or an organisation who exercises some discretionary power in the interests of another person in circumstances that give rise to a relationship of trust and confidence" (UN PRI).

**Inside information:** information: a) of a precise nature; b) which has not been made public; c) relating, directly or indirectly, to one or more issuers or to one or more financial instruments; and d) which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

**Investee company:** a company receiving an investment from EUROFIMA.

**Stewardship:** "the use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns, and clients' and beneficiaries' interests depend" (UN PRI).