Annual Engagement Report

2024

EUROFIMA

ROLLING STOCK FINANCING

Contents

Executive Summary

Dear reader,

We are pleased to present our third Annual Engagement Report. Similarly to the previous editions, this document highlights the most critical aspects of the ongoing confidential discussions with our investees. As we aim to be transparent without revealing the details of private discussions, the presented information is summarized but shown to provide a glimpse into the challenges different participants face regarding sustainability.

In 2024, we communicated with eleven companies - our investees - on relevant topics specific to their business models and objectives. For some, for example, the discussions were more focused on their investment management mandates and integration of sustainability goals into those, while for others, it was more about understanding how their business activities were influencing biodiversity and nature and their initiatives aimed at restoring any damage. Although all communication was highly tailored, some common issues were brought up repeatedly. Among those were concerns about the uncertainties around the developments in the ESG space, including, in some cases, cumbersome regulation and reporting requirements. Many mentioned the lack of good-quality data and standardization. The ESG Ratings were discussed substantially as well, as the fact that some investees had seen their ratings deteriorate was worrisome to us.

In the section “Key Developments Discussed with Investees,” we tried to shed some light on the ever-changing sustainability landscape our investees, and also we, were operating in 2024. While this text is highly condensed and covers only a fraction of the year’s developments, it should still provide a clear sense of the key topics we discussed with investees as part of our engagements. Unsurprisingly, those could be grouped into “Disclosures,” “Regulation,” “Standards,” and “Research.” Not every investee felt the impact of those developments in the same way, especially given their geographical differences. Nevertheless, the fact that these changes were underway and that there was a clear push toward regulatory harmonization across jurisdictions mattered to every company we engaged with.

Although we will continue engaging with all eleven companies in 2025, we remain grateful to everyone who participated in the discussions on their behalf. Their behind-the-scenes efforts—not just during these engagements, but also in their day-to-day operations—have been crucial and should not go unnoticed. We truly hope that the active engagements were of value to them as they were to us.

Kristina Micic
Portfolio Manager
Lead Sustainability Integration

Christoph Pasternak
Chief Executive Officer

Engagement Highlights

The EUROFIMA Investee Engagement Cycle 2024, similar to the previous cycles in 2022 and 2023, was held in the form of active individual engagements with eleven investees. All eleven engagements were rolled over from the prior year, leaving the industry classification breakdown the same – most investees participating in engagements represented the financial sector. No new entities have been added to the list since January 2024. The existent investees saw their ESG Risk Ratings change throughout the year, with most ratings staying intact or deteriorating and only a few seeing marginal improvement. When asked about sustainability challenges, most investees were concerned about the rapid developments and the unforeseen impact of those on the daily business, including regulation changes. Many mentioned the quality and/or lack of data necessary to make informed decisions promptly and rationally.

Number of investees

11

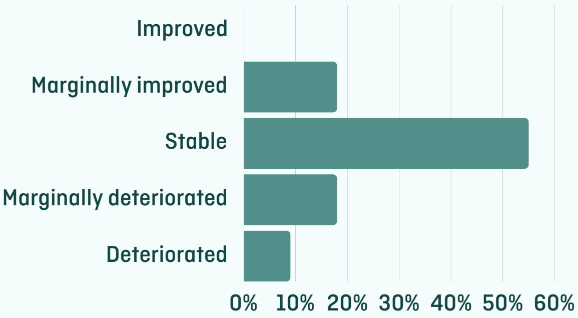
Number of rolled-over*/ new investees

11 / 0

**"Rolled-over" refers to companies from the previous year whose involvement in the engagement process continued into 2024*

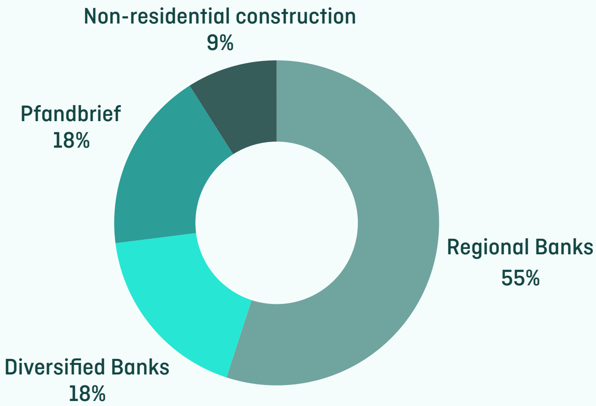
ESG Risk Rating* Assessment

2023 vs 2024



**Sustainalytics' ESG Risk Score Methodology*

Investee sub-industry classification



Most Frequently Mentioned Sustainability Challenges

Note: size of a bubble reflects relative frequency of an issue

Key Developments Discussed with Investees

Over the past year, numerous discussions have taken place with our investees regarding the rapidly evolving landscape of sustainable business management, green finance, and responsible investment. These conversations covered a wide array of recent regulatory updates, standards, frameworks, and research findings that are reshaping how companies and financial institutions address environmental, social, and governance (ESG) challenges. Below, we break down the most noteworthy developments into four core areas—Disclosures, Regulation & Self-Regulation, Standards, and Research —and highlight the main takeaways that were repeatedly raised with and explored by our investees.

Disclosures

- On 1 January 2024, the Swiss ordinance on mandatory climate disclosures for large companies was passed into force. Under this rule, qualifying companies must now publicly report on their climate-related impacts, risks, and strategies. Drawing on guidance from the Task Force on Climate-related Financial Disclosures (TCFD), the ordinance aims to increase transparency and comparability for investors, shareholders, and the public. Many underscored that the new requirement would help align corporate practices with both domestic and international best practices while also illuminating potential climate-related financial risks within their portfolios.
- The European Securities and Markets Authority (ESMA) published the Final Report on Guidelines on Funds' names using ESG or sustainability-related terms. This initiative sought to offer clarity on how asset managers label their funds, introducing a dedicated category for transition-related funds. We noted that many market participants welcomed ESMA's move, which helps limit "greenwashing" risks by ensuring that sustainability claims in fund names are accurately supported by the underlying investment strategy. This step was cited as critical in building trust among investors who prioritize sustainable finance products.
- The United Nations Development Programme (UNDP), Global Reporting Initiative (GRI), GSG Impact, IFRS Foundation, and International Organization for Standardization (ISO) forged a groundbreaking alliance to streamline sustainability disclosures globally. By promoting the adoption of international standards, this coalition aims to reduce fragmentation in reporting requirements and encourage companies to provide consistent, comparable ESG data. This alliance should help lower compliance hurdles and elevate the overall quality of sustainability reporting across markets.

Regulation & Self-Regulation

- The European Parliament adopted a regulation on the transparency and integrity of ESG rating activities. Intended to address growing concerns over the consistency, methodology, and accountability of rating providers, this development places greater responsibility on rating agencies to disclose how they compile ESG data and assign ratings.
- In June 2024, three significant Swiss financial associations—AMAS, SBA, and SIA—published updated or new self-regulations to further address greenwashing.
  - AMAS introduced self-regulation on transparency and disclosure for sustainability-related collective assets, which entered into force on 1 September 2024.
  - The Swiss Bankers Association (SBA) issued guidelines requiring financial service providers to integrate ESG preferences and risks and to prevent greenwashing in investment advice and portfolio management (effective 1 September 2024).
  - The Swiss Insurance Association (SIA) introduced self-regulation to prevent greenwashing in unit-linked life insurance policies referencing sustainability (effective 1 January 2025).
- The Swiss Federal Council decided that the Climate and Innovation Law (KIG) will enter into force on 1 January 2025. This legislation seeks to incentivize new technologies and solutions to meet national climate targets, demonstrating Switzerland's commitment to a holistic climate strategy.

Standards

- Global convergence in sustainability reporting continued to advance in 2024, with the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) publishing interoperability guidance. The guidance clarifies how organizations that must comply with both sets of standards can streamline reporting processes and reduce duplications. The interoperability is key for multinational companies seeking to consolidate ESG data and disclosures.
- The European Financial Reporting Advisory Group (EFRAG) published final versions of its first three ESRS Implementation Guidance documents, covering Materiality Assessment, Value Chain, and ESRS Data Points. These documents provide practical instructions to help companies transition to ESRS-compliant reporting.
- EFRAG and the Taskforce for Nature-related Financial Disclosure (TNFD) released a document mapping TNFD requirements against ESRS. This highlights the common areas in reporting biodiversity and nature-related risks. It was widely recognized that integrating nature-based risk evaluations—beyond climate metrics—will only grow in importance, especially as biodiversity loss and ecosystem degradation pose increasingly significant financial and reputational risks.
- The International Organization for Standardization (ISO) published a flexible ESG framework for companies of all sizes and sectors. Designed to accommodate jurisdictional nuances and evolving ESG expectations, this framework gives organizations an overarching structure for implementing ESG principles while adapting to regional requirements.

Research

- The Financial Stability Board (FSB) published a Stocktake on Nature-related Risks, summarizing current and planned regulatory and supervisory initiatives to address biodiversity loss and natural capital depletion. The report also highlights the difficulties authorities face in identifying, assessing, and managing nature-related financial risks.
- In 2024, WWF Switzerland released the third edition of its Swiss retail bank rating, which evaluated the sustainability performance of 15 banks. The updated report concluded that while progress has been made, there remains plenty of room for improvement, particularly in effectively integrating climate and biodiversity considerations across all business operations.
- A cutting-edge development in ESG data analysis came from the International Finance Corporation (IFC), which introduced MALENA—a machine learning ESG analyst capable of extracting insights from unstructured ESG data at scale. Offered as a free public good, MALENA is particularly tailored to emerging markets, providing a valuable tool for investors, financial institutions, and data providers.

Taken together, these developments signal a rapidly maturing ecosystem for sustainable finance and corporate responsibility. From mandatory climate disclosures and enhanced ESG fund labeling to robust self-regulatory measures and cutting-edge AI-driven methodologies, the year 2024 witnessed major strides toward transparency, accountability, and innovation in the ESG space. These topics have been and will continue to be central in our engagements with investees as we collectively navigate the opportunities and challenges of aligning investment and business strategies with pressing sustainability imperatives.

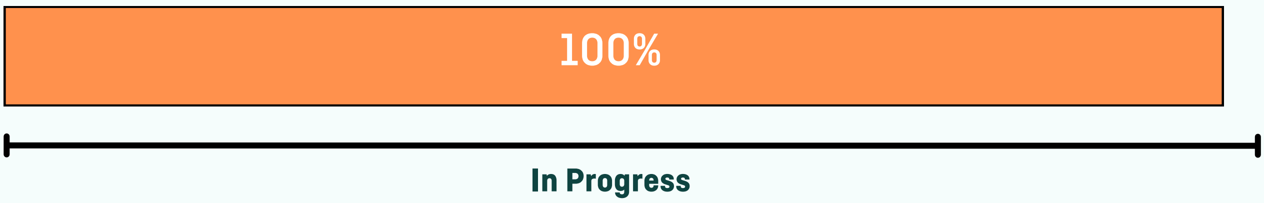
As further information and guidelines become available —whether from regulatory bodies, industry associations, or international standards-setters—we remain committed to staying at the forefront of these conversations. Our goal is to support investees in adapting swiftly to emerging requirements and best practices, ultimately fostering a more resilient, inclusive, and nature-positive global economy.

Results

The year 2024 concluded with zero failed engagements, as all investees actively participated in the engagement discussions and were open to an exchange. Due to insufficient evidence of material changes, the engagements with all eleven investees got the "In progress" status by the end of December 2024. The follow-ups will be held in 2025, as further measurable improvements would have to be presented to finalize the engagements. As 2024 marks the third year of partnership with certain existing investees, the EUROFIMA team will, by the end of the coming year, reach key decisions about whether to maintain business relationships with those that fail to demonstrate meaningful progress and deliver tangible outcomes in their essential sustainability efforts.

Engagement Cycle Success Rate

% of investees



If an investee company or counterparty actively implemented ESG improvements that are documented and shown to EUROFIMA and/or if the actions taken materialized 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 is declared as “successful.”

An engagement is 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 dialogue over a year. The existing investments will be held to maturity for failed investee companies and counterparties, but no other 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 will be lifted if the company is no longer shortlisted for the engagement process.

NOTE: all ESG engagements between EUROFIMA and investee companies are performed on a confidential basis.

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