

**Annual
Engagement
Report
2023**

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Executive Summary

Dear reader,

We are pleased to present our second Annual Engagement Report, a testament to our unwavering commitment to sustainability. At EUROFIMA, we believe that investing our assets is not just about financial returns; it's about shaping a better outcome for many stakeholders.

Engagement with the companies we invest in is a cornerstone of our approach. It is through these open dialogues that we address critical questions surrounding sustainability. These discussions transcend the traditional boundaries of profit and loss, delving deep into the heart of corporate responsibility, environmental stewardship, and societal impact.

In 2023, we actively and directly engaged with twelve companies, nine of which continued the interactions with us that started in 2022. Various issues were part of the discussions; however, the primary focus stayed on the management of material ESG risks. The report summarizes the overall standing of our investee companies on the ESG issues prevailing in their industries. Some of the major gaps were identified, which we hope our investee companies will be focusing on and try to fill in upcoming months and years.

Our engagement initiatives have yielded profound insights, fostering a culture of transparency, responsibility, and continuous improvement within the companies we invest in. We extend our heartfelt appreciation to those companies that have embraced these dialogues. By working together, we know that we can drive positive change, enhance long-term value, and contribute to a world that is not only financially robust but also environmentally and socially responsible.

We also recognize that feedback is a powerful tool for growth and refinement. Therefore, this year, we conducted our first investee survey to collect impressions on the engagement process itself. The input will enable us to tailor any future interactions and allocate some resources more effectively, ultimately contributing to mutual success.

Transparency and trust are the foundation of our relationships. We believe that this survey will not only deepen our understanding but also reinforce our commitment to transparent, two-way communication. Together, we can enhance our collective efforts in pursuing sustainable growth and responsible business practices. As the survey results are restrictive, only some insights, with the permission of our investees, were shared at the end of the report.

We eagerly anticipate all the fruitful and interesting discussions with the existing and new investees in 2024.

Kristina Micic

Portfolio Manager, Asset & Management Unit
Lead, Sustainability Committee WS "ESG Integration"

Christoph Pasternak

Chief Executive Officer

Engagement Highlights

The EUROFIMA Investee Engagement Cycle 2023, similar to the Cycle 2022, was held in the form of active individual engagements with twelve investees. Nine of the twelve were "in progress" type, i.e., the engagements that rolled over from the previous year; meanwhile, three new entities were added to the list since January 2023 due to their poor ESG Risk Rating assessments performed by Sustainalytics. The existent investees also saw ESG Risk Rating changes throughout the year, such as movement from "High" to "Medium" categories. One investee improved the third-party assessment the most and was upgraded to "Low" ESG Risk. From the industry perspective, most of the engagement investees were classified as either regional or diversified Banks, two as Pfandbrief institutions, and one as non-residential construction. Similar to 2022, investees were contacted a number of times, on average six, while, unlike the previous year, all investees preferred to have at least one physical or online meeting to present their standing.

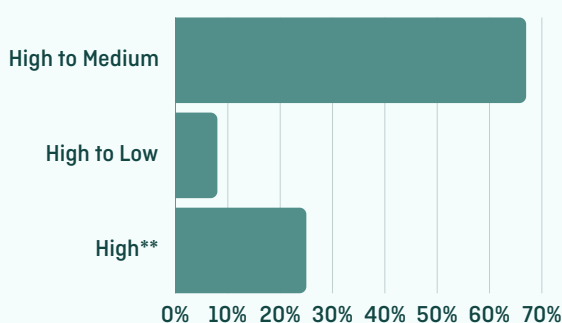
Number of investees

12

Number of rolled-over/ new investees

9 / 3

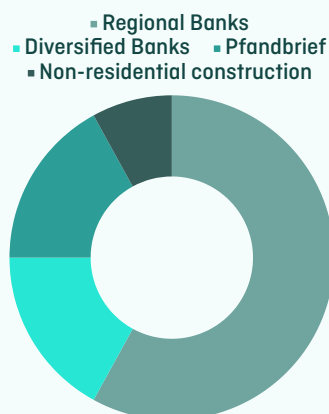
ESG Risk (Re-)Assessment* 2022 vs 2023



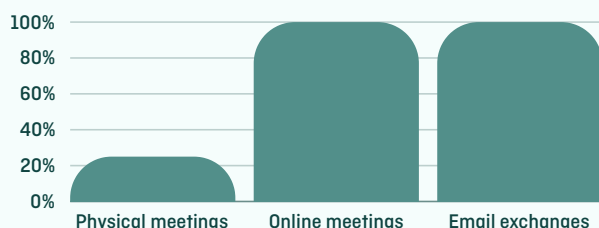
*Sustainalytics' ESG Risk Score Methodology

**Investees newly added in 2023

Investee sub-industry classification



Mode of communication % of investees



Number of contacts average, per investee

6

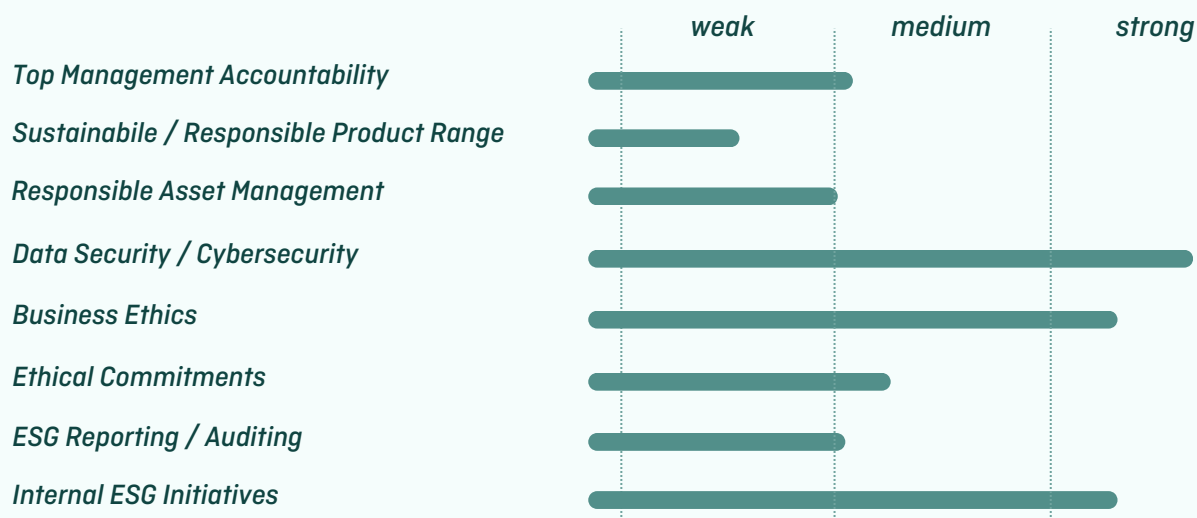
incl. physical/online meetings, phone/conference calls, email exchanges, etc.

Management of Material ESG Risks by Investee Type

by relevance and priority of risks as a seen by EUROFIMA Treasury & Asset Management Unit

Banks

on average for all relevant investees



Effective management of material ESG risks is paramount for financial institutions in today's financial landscape. These risks encompass a broad spectrum of factors, and their successful mitigation can have a profound impact on an institution's long-term sustainability and reputation. Here, Top Management Accountability stands out as a foundational element in this endeavor. It sets the tone for the entire organization, fostering a culture of responsibility and ethical conduct. Without strong leadership commitment, addressing other material ESG risks becomes challenging. Sustainable product offerings come next, reflecting the financial institution's commitment to providing financial products that align with the ESG Principles and the clients' needs. Among such products are green loans and mortgages with clear incentivizing mechanisms incorporated into them, ethical savings and deposit accounts, sustainable investment advisory services, and others.

The visuals on this and next page list all of the material ESG risks as seen by the EUROFIMA Treasury & Asset Management unit in the order of their importance and relevance, as well as the management of those by the shortlisted engagement investees. Based on evaluations, unsurprisingly, the financial institutions' investees tend to perform better on longstanding and usually well-regulated issues such as business ethics (i.e., money laundering, avoidance of fraud and corruption, etc) and data security OR on more easily achievable tasks such as Internal ESG Initiatives (e.g., providing educational courses to staff, green office practices, office carbon footprint reduction, etc).

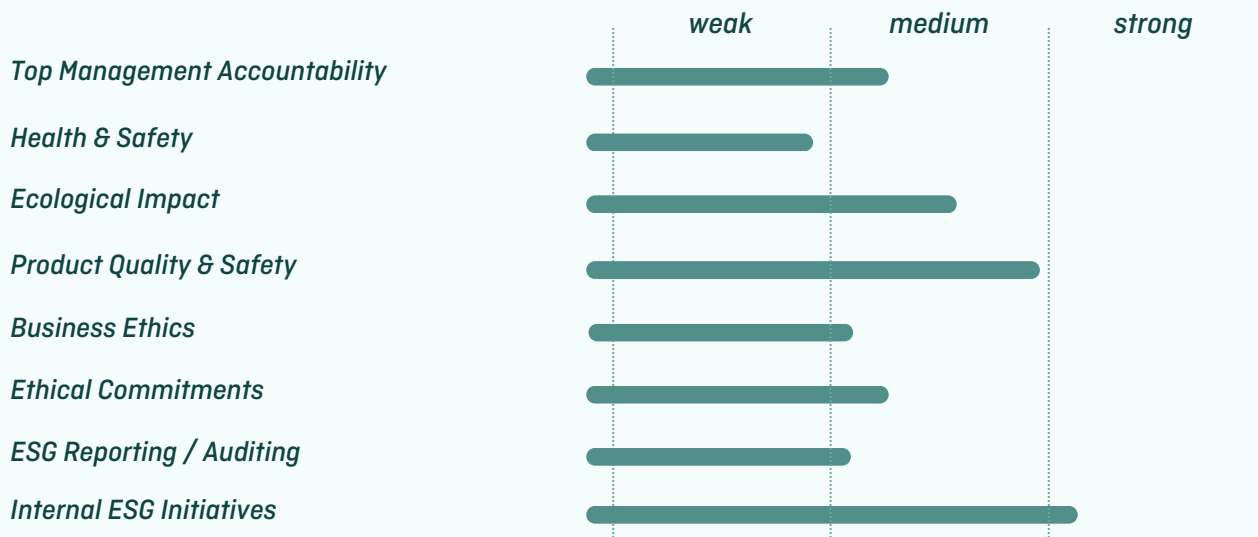
Pfandbrief-issuing Institutions

on average for all relevant investees



Non-residential Construction

on average for all relevant investees



Similarly to financial institutions, EUROFIMA pays careful attention to the management of the material ESG risks by investees operating in other industries. The list, as well as priorities of the risks, depend on the industry and very much aligns with the SASB Standards on the Materiality assessments.

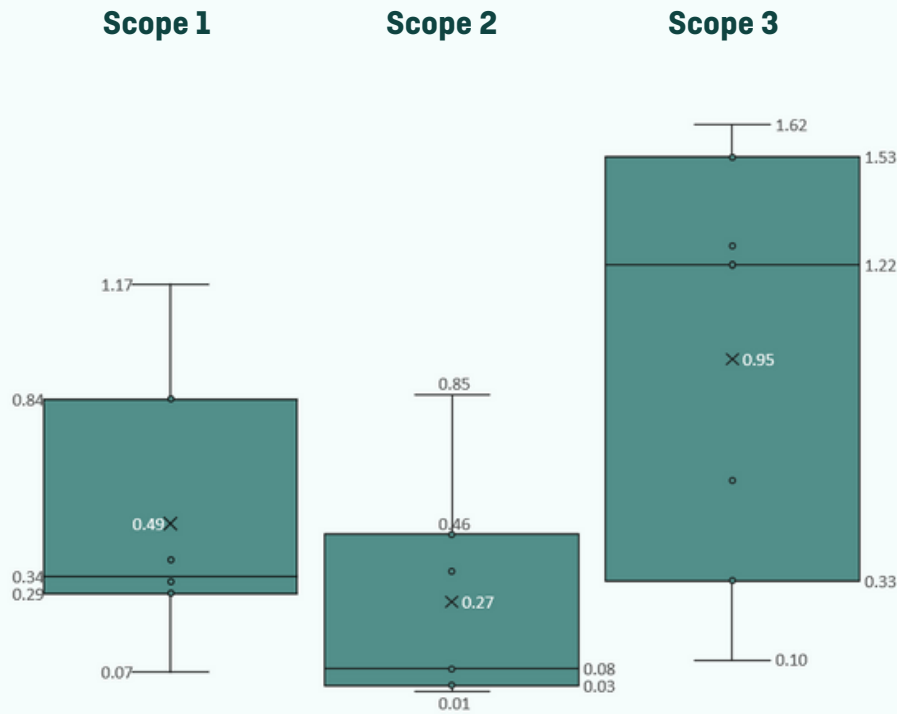
In the case of investees in Non-Residential Construction, Top Management Accountability is still an overarching issue, which is seen to be only moderately developed in the case of active investees. As construction, along with all on-site activities, involves significant manual labour work and is associated with a higher risk of workplace injuries, neglecting staff Health & Safety measures can lead to an increased number of incidents and associated costs. Companies that choose to prioritize proper staff training and foster a strong safety culture reduce the risks and are seen as more competitive in the long run.

Ecological Impact is yet another issue considered to be in the top three matters, as listed in the visual above, for companies involved in engineering and construction. Projects associated with such companies are usually aimed at boosting both economic and social development and, therefore, also pose risks to both the environment and local communities. Industry activities have the capacity to disrupt local ecosystems through their impact on biodiversity, air quality, water resources, natural resource consumption, waste generation, and the use of hazardous chemicals. Such activities as clearing, grading, and excavation may give rise to harmful waste products. EUROFIMA seeks to learn about approaches and encourage, whenever possible, its investees to tackle the above environmental risks with appropriate initiatives and activities. Among the latter are Environmental Impact Assessments, the use of sustainable design principles, responsible material sourcing, the use of energy-efficient techniques, and others. By effectively managing environmental risks, EUROFIMA believes that the investee companies can reduce regulatory scrutiny and community resistance. Initiating consideration of environmental factors from the projects' outset and continuing to monitor them throughout the project lifecycle allows companies to address potential challenges and mitigate associated financial risks proactively.

NOTE: The basis for the Material ESG risk assessments presented in this section is the SASB Standards.

Greenhouse Gas Emissions

Banking Engagement Investees



In Metric Tonnes of CO₂ equivalent / CHF million of revenue. As of end December 2022 based on company reportings. All three scope measures were standardized by revenue investee companies earned in the full year 2022. The estimation technique was used in cases when investees did not directly report its GHG emissions.

Understanding the carbon footprint of an investment allows portfolio managers to assess climate-related risks as companies with higher emissions or exposure to carbon-intensive industries may face regulatory, financial, physical, or reputational risks. Scope 1-3 emissions reported by investee companies help to evaluate and manage those risks, make performance comparisons, and investment selections.

For illustrative purposes, Scope 1, 2, and 3 of the banking investees participating in the Engagement Cycle 2023 were measured and presented in the box and whisker plot above. For ease of comparison, all reported or estimated GHG emission figures were standardized by revenues of associated companies. All data was as of 2022.

Scope 1 and 2 turned out to be of the expectedly low values, as banks' direct emissions and those associated with the consumption of purchased or acquired energy, respectively, would be negligible in comparison to companies involved in more energy-intensive industries (e.g., Energy Production, Utilities, Manufacturing, Transportation, Food & Beverages, etc.). The lowest Scope 1/Revenue value was recorded at 0.07 Metric Tonnes of CO₂ Equivalent/CHF millions of revenue [MTCO₂/CHFm], while the highest stood at 1.17 MTCO₂/CHFm. The range of Scope 2 emissions was even narrower. For comparison, a well-known multinational packaged food company reported around 34 MTCO₂/CHFm and around 8 MTCO₂/CHFm of Scope 1 and 2 for the same period.

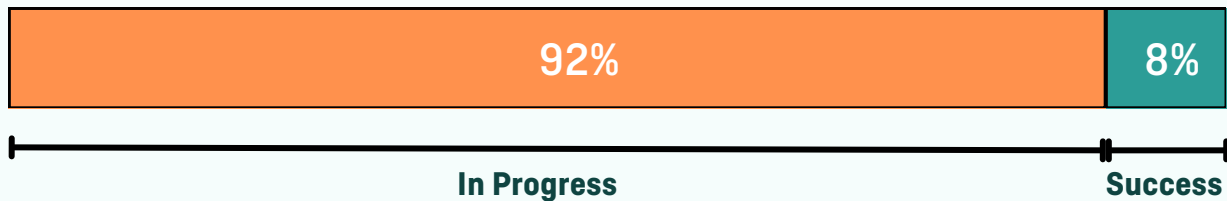
The Scope 3/Revenue results, on the other hand, were unforeseen and surprising. Scope 3 would traditionally involve supply chain emissions, business travel, and emissions associated with IT infrastructure, among others. However, taking into account that Scope 3, in the case of banks, would also include all Financed Emissions (e.g., loan provision) and all Investment Emissions (e.g., holdings as part of investment activities), the magnitude of the reported figures being similar to Scope 1 and Scope 2 values prompted inquiries and apprehensions. The concerns primarily revolved around the investees' capability to accurately assess Scope 3 emissions, the methodologies and techniques employed, and, most importantly, how the ongoing dialogue within the engagement process could assist in gaining clarity regarding the underlying factors behind the reported figures.

Results

The year 2023 was concluded with zero failed engagements as all investees actively participated in the engagement discussions and were open for an exchange. Engagements with eleven investees got the "In progress" status. They were automatically transferred to the year 2024, as further measurable improvements would have to be presented to finalize the engagements. Nevertheless, it should be noted that the Sustainalytics ESG Risk Score has positively changed for nine investees who participated in the Engagement Cycle 2023. One investee successfully concluded the engagement process with EUROFIMA as their Sustainalytics ESG Risk Score substantially improved from High Risk to Low Risk. By mutual agreement, a successful investee can be openly named - Basler Kantonalbank. Among the changes leading to this considerable improvement of the ESG assessment for this outstanding investee were refining their core business standards and practices, enhancing transparency around their sustainability-related policies, and continuous commitment to global sustainability standards and practices.

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.

Investee Feedback

Engagement experience

8.5/10

1 - unsatisfactory/unhelpful; 10 - very satisfactory/helpful

"We are pleased that we are a success story in this sense and have also been able to show our stakeholders the sustainable path we are on and the awareness of being a trustable ESG partner"

Regula Berger

Deputy CEO and Deputy Chairwoman of the Executive Board,
Basler Kantonalbank

"The Engagement process was well conducted and all personnel from EUROFIMA were kind and pleasant. The one point we would criticise is that for small banks it's not that clear, which improvements could be done to achieve a better score"

Banking investee

Challenges encountered by investees

- Understanding and raising awareness of the importance of sustainability assessments for external stakeholders
- Deep diving into third-party ESG rating methodologies

Points for improvement of the Engagement Process

- More disclosure on relative standing between investees
- Clearer guidelines on achieving "Success" status
- Weighing up different third-party assessment approaches

Ability to present sustainability agenda

4/5

1 - extremely not well; 5 - extremely well



Evaluated issues

Reasoning behind engagement initiation was clear
TRUE

Process was always explained and clear to all participants
VERY TRUE

All communication was held in respectful manner
VERY TRUE

Timing of the interactions was always mutually agreed upon
VERY TRUE



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