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# Active Ownership Report 2021

LGT Sustainable Equity Strategies

“Engagement is a two-way dialogue which allows us to express our expectations as a sustainable investor, while also providing companies with the opportunity to offer further clarification and insight into their ESG practices and aspirations.”

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# Active ownership: integral pillar of holistic ESG integration

Pursuing active ownership is a vital part of LGT Capital Partners' (LGT CP) investment approach for sustainable equity strategies, representing one of four pillars to integrate environmental, social and governance (ESG) considerations into the investment process. It is our responsibility as sustainable investors to use our position to try and influence the behaviors of companies to act in the most favorable way for society, investors and other relevant stakeholders. Our efforts cover a wide range of issues, including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and corporate governance.

It is part of our philosophy that engagement is conducted by sector specialists within the Sustainable Equities investment team, who carry out both fundamental and ESG research. We believe that the combined assessment allows the analyst to have a holistic view and deep understanding of a firm's risks and opportunities. Since 2009, the Sustainable Equities investment team focuses solely on the management of sustainable strategies. Engaging in dialogue with companies

on ESG matters has therefore been part of the investment process for more than ten years. However, as our tools and processes have evolved we continue to enhance how we conduct and monitor engagements. For example, in 2015 we began systematically monitoring negative news flow using data by specialist provider RepRisk. RepRisk continuously screens over 90,000 publication channels in 20 languages worldwide. Controversies identified through these news items allow us to identify negative developments in a timely manner and to focus our efforts on specific, relevant issues for reactive engagements. In 2020, we integrated a proprietary engagement tool into the team's research platform, enabling us to better consolidate and track engagement activities. It is therefore our ambition to provide further granularity in the upcoming years.

In the following pages, we are pleased to report on the engagement and proxy voting carried out by LGT CP's Sustainable Equities investment team on behalf of investors during 2021.

## Holistic approach, engagement and proxy voting—one pillar of our ESG activities

### Exclusions

- Activity based: Exclusion of certain harmful sectors
- Conduct based: Exclusion of UN Global Compact violators
- Worst-in-class (exclusion 4th quartile)

### ESG factors

- Quantitative and qualitative assessment
- Combining business operations and product/service impact
- Integration of controversies and negative news flow



### Active ownership

- Proactive dialogue with companies
- Reactive engagement on potentially adverse developments
- Collaborative initiatives
- Proxy voting

### Measuring and reporting

- Environmental footprint
- ESG scores
- CO<sub>2</sub> attribution
- SDG impact<sup>1</sup>
- Alignment with net zero by 2050<sup>2</sup>

Source: LGT Capital Partners

<sup>1</sup> The sustainable development goals (SDGs) are a set of 17 global sustainability objectives put forward by the United Nations and approved by 193 countries in September 2015. The SDGs address topics like poverty, hunger, health, education, climate change, gender equality, water, sanitation, energy, environment and social justice.

<sup>2</sup> We apply the IEA's Net Zero Emissions by 2050 Scenario which provides a pathway for what is needed to achieve net zero CO<sub>2</sub> emissions by 2050.

# Our approach to active ownership

Our engagement work spans different types of activities, ranging from direct dialogue with companies to systematic monitoring of news flow on investee companies.

## Direct dialogue with companies

As part of the initial and ongoing qualitative ESG assessment, the sector specialists are in continuous dialogue with companies within the LGT sustainable universe. They use company meetings to discuss firms' current ESG efforts and any areas of further development, including companies that already perform well. We may at times also be invested in companies that do not perform well on certain ESG aspects, but are on track to implement changes to improve on these areas. We typically engage with these companies to gain a better understanding of processes implemented and the current progress regarding these topics. Engagement is a two-way dialogue which allows us to express our expectations as a sustainable investor, while also providing companies with the opportunity to offer further clarification and insight into their ESG practices and aspirations. Ultimately, both parties gain a better understanding of industry best-practice and our overall ESG assessment is further strengthened.

The engagements can broadly be categorized into:

- Reactive engagements following a material ESG event
- Proactive engagements whereby the team actively identifies ESG related topics which we deem most relevant to the company and/or sector.

We then engage with these companies on how they address the specific topic and assure best practices related to it.

## Industry collaborations

We work together with other investors in cases where our engagement objectives are aligned and we believe there is a higher probability of achieving a result through a collective effort. This can include ad-hoc collective action on specific topics, as well as longer-term investor collaborations.

## Systematic monitoring

We systematically monitor companies held in our portfolios and recommendation lists based on their ESG score and negative news flow. A controversy alert or sudden drop in the firm's ESG score allows us to identify any negative developments in a timely manner. This enables us to focus on these specific, relevant issues for engagement.

## Escalation

If our ongoing assessment of an active engagement case, including the company's actions and responses, leads us to the conclusion that it is unlikely that our defined objectives will be met, we will terminate the engagement process. We then reduce or completely divest our holdings, vote against the company in the form of proxy voting or consider collaborative engagements.

## Exercising voting rights

LGT CP closely follows the SRI International Proxy Voting Guidelines provided by the Institutional Shareholder Services Inc. (ISS). The ultimate voting decision lies within the investment team. As shareholders, whenever possible, we use our voting rights in order to:

- Improve the level of reporting disclosure
- Align management compensation to ESG key performance indicators and emission targets
- Support strategic measures to accelerate or adapt to a low carbon business model

For more information, please refer to the Active Ownership Policy.

# Engagement overview

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Engagements

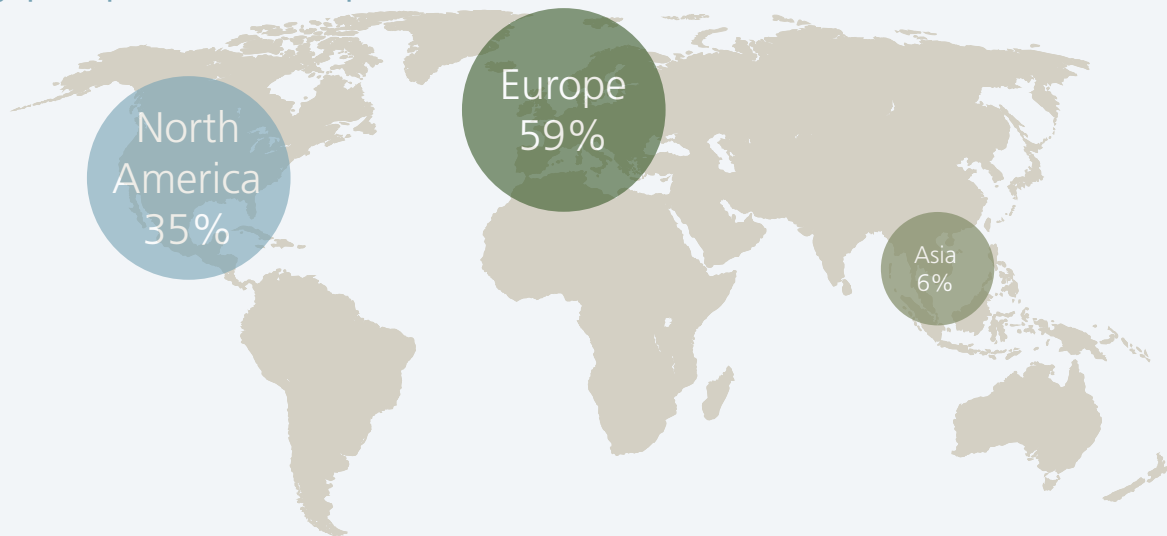
51

Companies engaged with

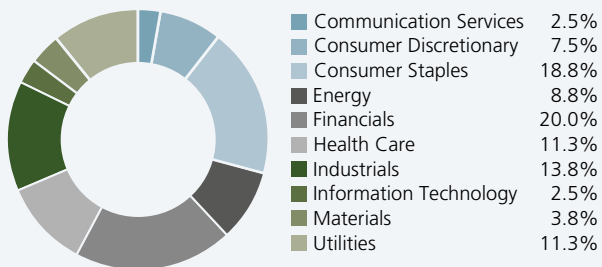
15<sup>3</sup>

Countries engaged in

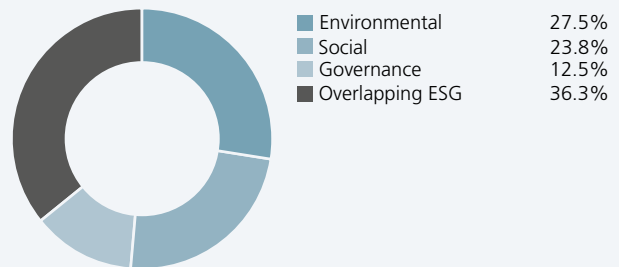
## Geographical split and selected examples<sup>3</sup>



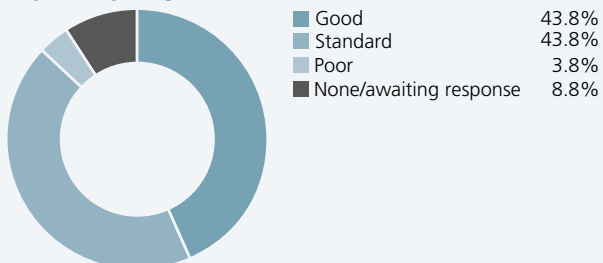
## Sector



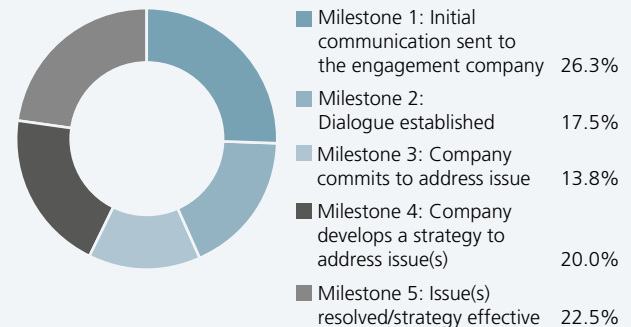
## Category



## Response quality<sup>4</sup>



## Status



Source: LGT Capital Partners

<sup>3</sup> Data based on location of company headquarters. Please note that engagements also took place on specific issues where the issue occurred in the following countries: Bangladesh, Brazil, China, Indonesia, Ivory Coast, Malaysia, Mexico, Myanmar, Peru, Serbia, Tanzania and Uganda.

<sup>4</sup> Good: company responded with detailed response on specific issues addressed and/or was open to actively engaging in dialogue on the matter. Standard: company provided answer to topics addressed and referred to relevant documents available for further information on actions taken. Poor: company responded but provided generic response, avoided the specific questions asked, referred to generic documents and has shown little commitment to issue addressed.



## Example engagement – environmental



### **Commitment to the Science Based Targets initiative (SBTi) within energy – TotalEnergies and Equinor**

In order to combat climate change and to move our portfolios to support the transition to a low-carbon economy, we exclude unconventional oil and gas extraction activities from our investment universe and limit investments in the conventional oil and gas extraction sector subject to certain criteria<sup>5</sup>. For those companies that remain in our universe, we aim to align them with the strictest requirements for sustainable investments. Engagement with these companies is therefore an important part of our process.

We engaged with TotalEnergies and Equinor on their view and commitments toward the SBTi<sup>6</sup>. The initiative's targets are set up to drive ambitious climate action by corporations to limit global warming to a well-below 2-degree scenario as defined by the 2015 Paris Agreement. TotalEnergies is a French multinational integrated oil and gas company with a strong footprint in sustainable energy. Equinor is a Norwegian exploration and production company with oil and gas activities around the world. We are pleased to see that both TotalEnergies and Equinor are in close contact with the SBTi and have made a commitment to the well-below 2-degree scenario. Both companies are actively cooperating with the organization of the SBTi to co-develop a methodology for setting emission reduction targets and have started a multitude of projects to either reduce, recapture or offset any emissions. We currently see these companies as leaders within the energy sector, with high ambition levels. Nevertheless, we are keeping a close eye on their commitments and the further roll-out

of the sustainable projects. Both companies appear to value our discussion on this topic and understand its importance. We have established a good discourse and the companies also proactively get in touch with us to inform us of any new developments; in this way, we stay as up to date as possible. We therefore believe that our engagement efforts have enabled constructive dialogue and we are confident in the action that these corporations are taking towards the Science Based Targets.

### **Net-zero commitment within loan portfolio – ING**

ING is a European-focused banking and financial services firm headquartered in Amsterdam. It provides retail and wholesale banking services through a multi-channel distribution network. Our discussion centered around ING's approach to aligning its loan portfolio with a net zero emission pathway. The conversation showed nine heavy emitting sectors, including power generation, upstream oil and gas, cement and steel, of which five are currently aligned. ING has sector specialists who engage with companies within the respective industry. If criteria are not met, escalation involves either terminating the loan, or if it has a short duration, it will not be renewed. Every new loan in wholesale banking undergoes a "green light assessment" to be approved. In our view, ING has a very comprehensive approach on managing climate risk in its loan portfolio. Overall it was a positive update. We continue our periodic dialogue.

### **Collective – participation in CDP campaigns**

LGT CP participated in the CDP<sup>7</sup> Science Based Targets Campaign. The campaign calls upon 1,600 companies to set emissions reduction targets through the Science Based Targets initiative to ensure that corporate ambition is independently verified against the industry standard for robust and credible climate targets. Additionally, LGT CP participated in the annual Non-Disclosure Campaign which involved engaging with companies that have received the CDP disclosure request with regard to climate change, deforestation, or water security related disclosures but that have not yet provided a response.

For a full list of engagements please refer to the appendix.

<sup>5</sup> Please refer to our positioning paper for details on exclusions

<sup>6</sup> Business Ambition for 1.5 Degree Celsius is a campaign led by the Science Based Targets initiative in partnership with the UN Global Compact and the We Mean Business coalition. The "SBTi's Net-Zero Standard" initiative provides the guidance and tools companies need to set science-based net-zero targets. Currently the initiative develops a new methodology for companies in the sector to set science-based targets. <https://sciencebasedtargets.org/sectors/oil-and-gas>

<sup>7</sup> CDP (formerly Carbon Disclosure Project) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

## Example engagement – social



### Responsible consumption and marketing practices relating to alcohol – Heineken

We acknowledge that the widespread consumption of alcohol globally results in a significant level of excessive consumption, with severe negative consequences for individuals' health and socioeconomic status, as well as harm to others. However, the support and commitment on achieving the goals of reducing harmful use of alcohol from alcohol producers is very important. Based on that rationale, we do not think that outright exclusion of alcoholic beverage producers from sustainable investment activities is the best approach. Instead, we believe that applying a positive selection process for alcohol producers, accompanied by an effective engagement approach, can lead to better outcomes<sup>8</sup>. We therefore continuously engage with the relevant companies in our portfolios, such as Heineken. Heineken is a Dutch multinational brewing company headquartered in Amsterdam. After last year's engagement on responsible consumption, we received a solid update that the company is pushing its alcohol-free products further. It sees a long-term opportunity in this area from a responsible drinking as well as fundamental perspective. Heineken acknowledged that it is difficult to measure the results of their responsible consumption efforts and that they are exploring ways to improve this going forward. Heineken's goal is to offer a 0.0% alcohol alternative everywhere, so that consumers have a choice. To combat harmful drinking, the company has a tailored approach for each different region. The company works together with various stakeholders (governments, NGO, police force, consumer groups, retailers, bar owners) to promote responsible consumption. We will continue to monitor their progress on pushing alcohol-free products and implementing responsible marketing policies.

### Just transition – SSE

Reaching net zero is imperative; however, it is also important to acknowledge that there will be transitional social challenges. This is a topic that we spoke about with British utility company SSE. In order to reach net zero in the fairest way possible for working people, SSE has identified 20 principles for a 'just transition'. These are centred around principles for green jobs, consumer fairness, building and operating new assets, as well as supporting people currently in high-carbon jobs and affected communities. More importantly, SSE has developed specific measures to put these principles into action. For example, two thirds of the employees in the control room of Beatrice offshore wind farm are former oil and gas workers. In our view, SSE has developed one of the most comprehensive frameworks for a 'just transition'. The company first published a report on its framework and actions on this subject in 2020 and released its second report in 2021. We will continue our dialogue with SSE, but importantly, we will also communicate this as a best practice example in our future engagements with its peers.

### Ingredients and transparency of labelling in the beauty industry – L'Oréal

Whereas food and beverages companies have made solid progress toward providing transparency of ingredients in recent years, the beauty industry significantly lags behind, in our view. Transparency is vital for the consumer to make an informed decision on their purchase. We engaged with L'Oréal on their strategy and efforts in this area. L'Oréal is the largest cosmetics and beauty company globally, with its headquarters in France. The company has launched an initiative promoting transparency to its customers. For instance, its Inside Our Products website responds to questions from the public about the composition of products. They measure and report on a large amount of data, including the carbon footprint and water usage of products. Additionally, in over 20 countries customers can directly speak to the researchers behind these formulas. The company not only shares the data and its methodology with customers. As a first mover in this area, L'Oréal is making their approach publicly available on their webpage and is also actively sharing it with peers. We welcome that the company is putting a lot of emphasis on its different stakeholders and is proactively addressing the topic of transparency. The fact that the data and processes are audited by Bureau Veritas was also important to our assessment. We will keep a close eye on the roll-out of this process, both at L'Oréal and among its peers.

For a full list of engagements, please refer to the appendix.

<sup>8</sup> Please refer to our [positioning paper for details on exclusions](#)



## Example engagement – governance



### Level of CEO compensation – Hera

Hera is a multi-utility based in northern Italy with a strong footprint in electricity and water supply and industrial waste management services. We approached Hera following a controversy around the CEO's compensation for 2020, after he was offered a discretionary payment of EUR 600,000. Our proxy voting partner Institutional Shareholder Services (ISS) recommended a vote against this item. The company defended its position by stating that it is the first time in recent years that such a discretionary bonus has been paid. Additionally, the annual base salary for the CEO is below the industry average at around EUR 350,00. The one-off payment reflects the value creation from the Est Energy deal with Ascopiave, which Hera believes was a large value accretive deal. In our view, the remuneration report is generally in line with market practice and the company provided better disclosure on the short-term incentive program compared to the prior year. However, the payment of a discretionary

bonus to the CEO raises concern. The size of the payment is also much higher compared to the defined level under the annual bonus scheme. We therefore voted against this item and in our discussions with Hera made it clear that we oppose discretionary bonus payments. We communicated that we are of the opinion that competitive compensation should be possible, but are in strong favor of a clear remuneration framework that is based on key performance indicators, including short-term and long-term incentives and ESG targets. Our contact at Hera understood our position and assured us that he would express our views to the board. He expects that there will likely be improvement towards the 2022 AGM. We will monitor the situation closely.

### RepRisk incident relating to infrastructure project in Indonesia – ING

We approached the company due to a flagged RepRisk incident on allegations of corruption and bribery at a power plant in Western Java, Indonesia. ING was involved in the financing of the infrastructure project, and NGOs are claiming that ING should have done more in order to protect human rights and local communities. Currently, the case is in court and ING is awaiting the court ruling against the accused and will determine further action in response to the ruling. An exit of the loan is one option they are considering. We will follow-up and conduct a further assessment once the court ruling has been finalized.

### Frequent topics of engagement

Environmental	Social	Governance
circular economy	human rights and labor practices	board structure and remuneration
green-house gas emissions	supplier traceability and engagement	management structure and remuneration
water and waste management	product safety and quality management	ESG structure in organization
energy transition	responsible consumption of alcohol	corruption allegations
biodiversity	diversity	
best practice		
targets, disclosure and reporting		
negative news flow and UN Global Compact violation allegations		

Source: LGT Capital Partners. For a full list of engagements, please refer to the appendix.

## Focus topic: circular economy

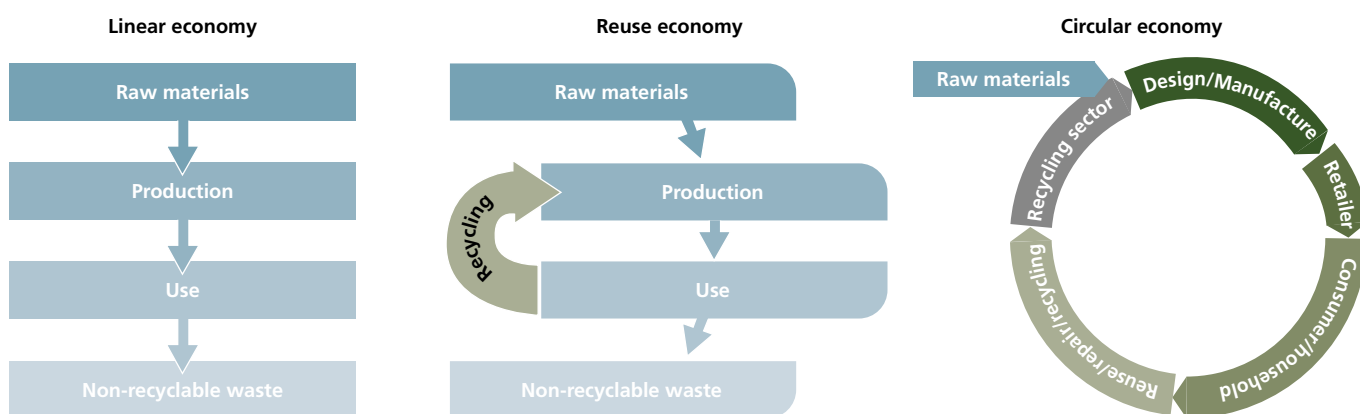
In today's world the vast majority of the economy works along a linear model of "take, make, dispose", i.e. we take raw materials from the earth, use them to make products, and once these products are no longer needed we dispose of them, with much ending up in landfill. This model evidently wastes valuable resources and puts a huge strain on a planet with finite resources. Not only that, according to the Ellen McArthur Foundation, energy efficiency and moving to renewable energy can only address 55% of global greenhouse gas emissions. To address the remaining 45% of emissions, we also need to transform how we design, make and use products and food<sup>9</sup>. Transitioning to a circular model is critical to reducing environmental degradation while also delivering on future competitiveness. The concept promotes the elimination of waste and the continual safe use of natural resources. In a circular economy, products are kept in circulation at their highest possible value for as long as possible and designed to be reused, repaired or repurposed. It strives to reduce virgin material consumption, avoid energy consumption and CO<sub>2</sub>-emissions related to raw materials extraction and goods production, and reduce the pressure from waste and associated pollution. A circular economy aims to do all of this while creating employment and preserving some economic growth potential.

Transitioning to a circular economy will be a massive endeavor that will require the efforts of all participants, including governments, companies and consumers, to re-think and re-design how we make and use products. However, the framework has already gathered huge momentum in recent years. The number of regulations and policies geared towards the circular economy is rising quickly. A prominent example

is the European Commission's 2020 Circular Economy Action Plan which is aimed at accelerating the transformational change required by the European Green Deal while building on circular economy actions implemented since 2015. The plan presents a set of interrelated initiatives (notably on product design, production, consumption, packaging and recycling, including food and construction) to establish a strong and coherent product policy framework that will make sustainable products, services and business models the norm and transform consumption patterns so that no waste is produced in the first place. National circular economy roadmaps and legislation are also in place, for example, in Chile, China, Finland, France, and the Netherlands. In parallel, a change in consumer attitudes and behaviors is also at play. Many people are becoming increasingly comfortable with access over ownership, for example with regards to cars and luxury goods. Consumers are also holding companies that they buy from to higher environmental and social standards.

We see this as an important agenda applicable across a wide range of firms. We would like to see companies push further past simply recycling and into more circular designs and processes. We seek to identify leaders and laggards and to use our engagement to positively influence corporates in their circular economy related activity. We expect companies to demonstrate commitment and partner across the value chain as well as with peers, governments and NGOs. In total we engaged with 13 companies on this topic across different sectors. The following pages provide some examples of our interactions.

### Transformation of business models



Source: Government of the Netherlands

<sup>9</sup> Ellen MacArthur Foundation, Completing the Picture: How the Circular Economy Tackles Climate Change (2019)

## Hera

Hera is a multi-utility based in northern Italy with a strong footprint in electricity and water supply and industrial waste management services. We held a general discussion on how utilities overall, and Hera in particular, are approaching the topic of a circular economy. Based on the discussion, the main areas for improvement for Hera lie within waste management and water treatment. For example, within water treatment, the focus is moving from simply treating the water (i.e. cleaning water and releasing it back to the ecological system) to developing re-usage cases and by doing so reducing the need to withdraw water. Hera referred to its cooperation with the Ellen MacArthur Foundation, which envisions a theoretical 20 times usage of water before sending it back to the ecological system. Hera estimates that it currently only reuses 10% of water treated (or 1.1 times versus up to 20 times possible). It was an interesting discussion and we encouraged their efforts in this space. We will continue to monitor their progress and maintain a dialogue.

## Kering

Kering is a French multi-brand luxury business that owns Gucci, Saint Laurent, Bottega Veneta, Balenciaga, and other luxury brands. Kering is making efforts to increase the lifespan of its products by aiming to ensure that products are of high quality for extended durability. Additionally, it is working towards further extending the lifespan through repair services and business models such as re-commerce. For example, in 2021, Kering invested in Vestiaire, a global platform for second hand fashion, making a statement about its commitment but also enabling the company to learn more about the second hand business model. No firm in the luxury space has figured out how to operate a scalable second hand platform yet, likely due to brand perception risk and a very different business model, in our view. However, we believe this is likely to change. A number of Kering brands also offer repair and re use services. For example, jewelry brand Pomellato uses gold to repair or upcycle broken gemstones that would otherwise be discarded. Another example is suit brand Brioni, which has designed its suits such that the seams can be easily altered to accommodate changes in the wearer over time. It also offers a repair and reconditioning service in most of its stores. In 2021, Kering published a report specifically outlining the group's ambition with regards to circularity. We continue to engage with Kering and note that they continue to demonstrate leadership in sustainability with the launch of a bio-based leather (Demetra) that has a significantly reduced environmental impact compared to animal leather.

## Estée Lauder Companies

The Estée Lauder Companies is an American multinational manufacturer of skincare, makeup, fragrance and hair care products. The company laid out its efforts and overall we have the impression that they understand the importance of circularity and are making progress. Their objective is that by 2025, 75–100% of packaging will be recyclable, refillable, reusable, recycled or recoverable and the company aims to limit virgin petroleum plastics to 50% or less by 2030. Estée Lauder has made certain changes to the packaging production process, which reduced the amount of leftover materials and byproducts created by 10–15%. Collaborations with suppliers exist to facilitate various innovations in packaging and ingredients. One example is Pulpex, which uses paper pulp to create a sustainable paper bottle. Estée Lauder has also taken steps to expand its refillable segment, for example, certain fragrance brands allow customers to refill bottles at a discounted price. Further, certain programs such as “Back-to-Mac” for the Mac Cosmetics brand allow users to bring in used plastic packages to be recycled or, if this is not possible, converted to energy. They stated that a challenge is that these programs require special infrastructure and hence are still expensive. Overall, we see that the company is going in the right direction. We expressed our view that their main competitor, L'Oréal, has even more ambitious targets regarding recycling and the use of plastics, as well as more clearly defined targets regarding the use of more natural products. Estée Lauder did not form a clear response on this, but highlighted that they feel confident about reaching their targets and stated that in most cases they have achieved their targets earlier than expected. Hence, they are not ruling out the possibility of increasing their targets going forward. We would welcome if Estée Lauder also further increased their ambition level and we will continue to engage with them on their progress.

### **Assa Abloy**

Assa Abloy is the world's leading manufacturer and supplier of locking solutions (locks, doors, gates, entrance automation), with headquarters in Sweden. The company has integrated considerations of circularity through its Sustainability Compass, which starts at the product development process. The compass includes eight dimensions: raw materials, packaging, virgin material, end-of-life reusability, recyclability, in-life energy consumption, carbon footprint and financial cost. Each dimension is evaluated from a life cycle perspective and the goal is to have a lower impact than the previous product. These areas are tracked and communicated among internal stakeholders involved in product innovation and development. This process enables circular design principles to be applied to new solutions. For example, extending the useful lifetime of their solutions, making them upgradeable, or designing for disassembly so their components can be reused for other solutions or at least be recycled at end of life. Further, Assa Abloy sees their services business lending itself best to improved circularity. Service contracts ensure customers' solutions are maintained, routinely maximizing their useful life while ensuring they perform optimally for energy and thermal efficiency. In our opinion, the comprehensive solution approach chosen by Assa Abloy makes sense. The task now is to ensure that it is implemented consistently. We will follow this with interest.

### **Vestas Wind Systems**

The difficulty of recycling wind turbines was a topic that came up in last years' engagement with wind power companies, and we therefore wanted to look more deeply into this topic. We had an interesting exchange with Vestas Wind Systems (Vestas) regarding their approach. The company designs, manufactures, installs, and services wind turbines. Currently, the average Vestas wind turbine is 85% recyclable or re usable. They stated that the remaining challenge lies largely in the recycling of wind turbine rotors, which are difficult to recycle cost-efficiently and without leaving a higher carbon footprint than using virgin raw materials. Vestas is working actively in the development of recycling technologies to achieve their goal of zero-waste wind turbines by 2040. They are concentrating their efforts on two major initiatives, namely, DecomBlades and CETEC. The former addresses the recycling of existing blades, and the latter is developing new technologies to improve the circularity of future blades. Overall, Vestas targets a 50% decrease in the waste intensity of their supply chain by 2030. Vestas strategic suppliers are asked to report on their waste generation, set waste reduction targets for their own operations, and then asked to set waste reduction targets for their suppliers. In our opinion, Vestas has set itself very ambitious goals with the projects described. Vestas is working with various partners, including the Aarhus University, to achieve the project goals. We continue to monitor their progress.

### PepsiCo.

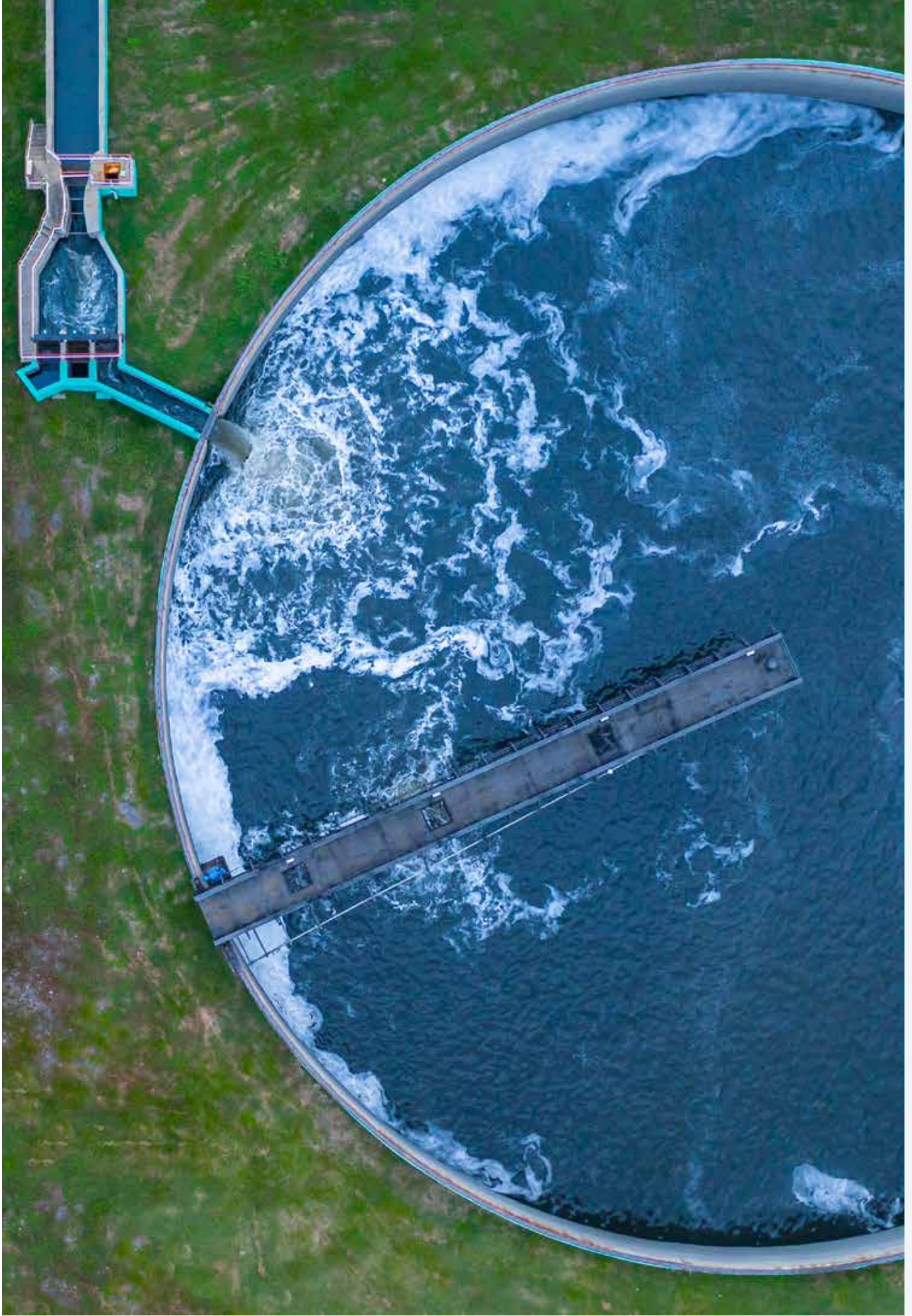
PepsiCo. (Pepsi) is a global food and beverage company. Through its operations, bottlers, contract manufacturers and other third parties, the company is engaged in making, marketing, distributing and selling a range of beverages, foods and snacks in over 200 countries and territories. Pepsi has been on our watch-list for some time, predominantly due to its, in our view, too slow adaptation to healthier products, resulting in a low social score and significant negative impact on the Sustainable Development Goal 3: Good health and well-being. However, we appreciate that the company does have a clear agenda and targets around its sustainability initiatives. Importantly, due to Pepsi's size, influence, resources and relationships, the company has considerable opportunity to incentivize, support and scale more sustainable practices in the years ahead. Therefore, we believe engaging with the company on sustainability topics is beneficial.

As part of our engagement with Pepsi this year, we addressed the topic of circularity. In our discussion with the company, it was clear that sustainable packaging and water savings are some of the higher priorities set within the journey to a more circular economy. For instance, Pepsi is committed to designing 100% of its packaging to be recyclable, compostable, biodegradable or reusable by 2025 (estimated to be at 87% at the end of 2020). As part of this, Pepsi has invested alongside Pulpex to design the first 100% recyclable paper bottle. There is also significant

collaboration on an industry level through off-take agreements, and on standards, for example, the CEFLEX consortium (organization for circular and flexible packaging). Recycling is also a key challenge. Currently, a lot of Pepsi's waste is down-cycled (e.g. into plant pots, not the same product as before) but the goal is to recycle into food containers (the outer layer of a chips bag could be feasible). Direct reuse of the packaging is going to take longer as there are significant infrastructure barriers to helping lift collection and recycling rates. With regards to water usage, the company targets to be net water positive by 2030. To achieve best in class-water-use efficiency, the company has set out detailed targets such as its commitment to draw 1.2 liters of water for every liter of beverage it manufactures, and 0.4 liters of water for every kilogram of food it manufactures. Specific actions undertaken include promoting drop irrigation over flood irrigation, and investing in more targeted tech efforts such as gene editing (different from GMO), which could help reduce the water need of certain crops. On top of this, the Pepsi foundation has been funding local projects for the past ten years, aimed at providing high quality drinking water for local communities.

As mentioned above, Pepsi is being watched from an ESG point of view, but we see the company pushing in the right directions regarding circularity, and also regarding healthier food trends. We will continue to engage with the company to see how the company fares in its ESG ambitions going forward.





# Proxy voting overview<sup>10</sup>

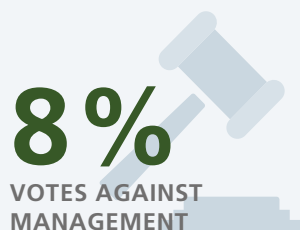
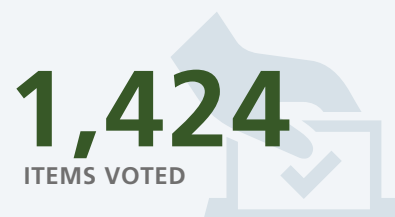
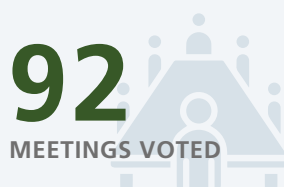
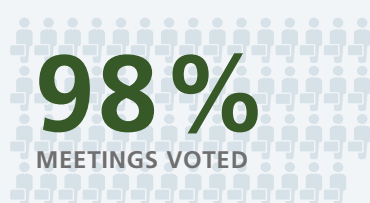
We actively exercise our voting rights and engage with companies that we invest in. We believe that over the long-term, a well-developed relationship between a company and its investors can lead to increasing shareholder value and superior returns. LGT CP has a fiduciary responsibility to influence companies and issuers of securities in the best interest of investors. As shareholders, whenever possible, we use our voting rights in order to:

- Improve the level of reporting disclosure
- Align management compensation to ESG key performance indicators and emission targets
- Support strategic measures to accelerate or adapt to a low carbon business model

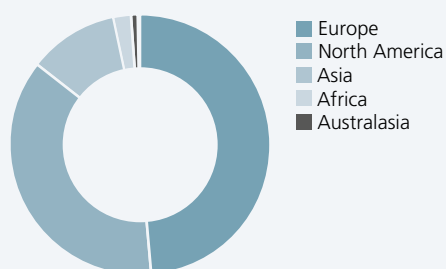
LGT CP closely follows the SRI International Proxy Voting Guidelines provided by the Institutional Shareholder Services Inc. (ISS), but can deviate if we come to a different assessment. As part of this collective of 2,000 investors we aim to have a more significant impact on the accountability of large corporations and their actions. To monitor ISS processes, we review all voting recommendations.

A complete list of all proxies voted is available upon request.

## Facts and figures

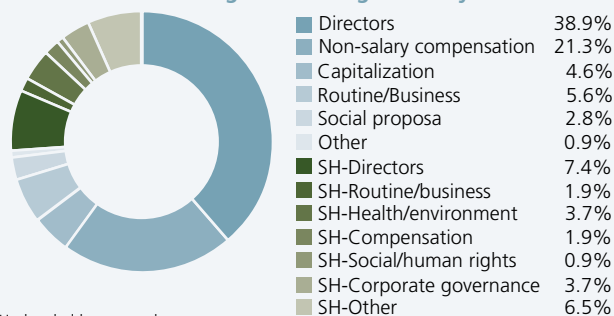


### Meetings voted by region



Source: LGT Capital Partners, ISS

### Breakdown of votes against management by issue



SH: shareholder proposal  
Source: LGT Capital Partners, ISS

<sup>10</sup> Includes all of LGT CP's dedicated sustainable strategies which include a direct equity allocation: LGT Sustainable Equity Global strategy, LGT Sustainable Quality Equity Hedged strategy, LGT Sustainable Equity Europe strategy, LGT Sustainable Equity Market Neutral strategy, LGT Sustainable Strategy 5 Years, LGT Sustainable Strategy 4 Years, LGT Sustainable Strategy 3 Years. Does not include client mandates.



## Appendix: engagement list

Please find below a list of the companies the Sustainable Equity Team engaged with in 2021.

Company <sup>11</sup>	E	S	G	Main topics of engagements	Sector	Country <sup>12</sup>
Agilent Technologies	✓	✓		Environmental targets, controversy regarding business infraction at Chinese subsidiary	Health Care	United States
AIA Group	✓	✓	✓	ESG strategy update, employee turnover	Financials	Hong Kong
Anheuser Busch Inbev	✓	✓		Controversy regarding living conditions of sub-contractor in Brazil, measures to promote responsible consumption of alcohol	Consumer Staples	Belgium
Apple		✓		Controversy regarding accusations of forced labor at Apple suppliers Lens Technology and Ofilm	Information Technology	United States
ASSA ABLOY	✓	✓		Strategy and social initiatives during restructuring, circular economy	Industrials	Sweden
BlackRock			✓	Separation of role of CEO and Chairman, linking of ESG to executive remuneration	Financials	United States
Colgate-Palmolive Company	✓	✓		Animal testing, environmental commitments, natural products	Consumer Staples	United States
Deutsche Boerse		✓		Employee turnover	Financials	Germany
Diageo	✓	✓		Measures to promote responsible consumption of alcohol, measures to reduce the harmful impact of water usage	Consumer Staples	United Kingdom
Equinor	✓			Science Based Target initiative, renewable CAPEX	Energy	Norway
Estee Lauder Companies	✓		✓	Circular economy, responsible sourcing of palm oil	Consumer Staples	United States
Etsy	✓			E-commerce carbon emissions	Consumer Discretionary	United States
Geberit	✓			Circular economy	Industrials	Switzerland
Grifols		✓	✓	Linking of ESG to executive remuneration, supply chain policy	Health Care	Spain
Heineken	✓	✓		Circular economy, measures to promote responsible consumption of alcohol	Consumer Staples	Netherlands
HERA	✓		✓	Controversial discretionary 2020 bonus payment to CEO, waste treatment cycle and circular economy	Utilities	Italy
Iberdrola	✓		✓	Framework for measuring impact of infrastructure projects on biodiversity, supplier assessment framework, circular economy controversy regarding Chairman and CEO named suspect in criminal probe	Utilities	Spain
ING Groep	✓	✓	✓	Approach to align loan portfolio with net zero, diversity and inclusion, latest FinCEN news and infrastructure related controversies	Financials	Netherlands
Intercontinental Exchange			✓	Separation of role of CEO and Chairman	Financials	United States
Johnson & Johnson			✓	Controversy regarding baby powder litigation	Health Care	United States
Kansas City Southern	✓	✓	✓	ESG strategy update	Industrials	United States
Kering	✓	✓		Sustainable and alternative materials in luxury industry, supply chain traceability, circular economy	Consumer Discretionary	France
Lennox International	✓	✓	✓	ESG strategy update, circular economy	Industrials	United States
Loews Corporation	✓	✓	✓	ESG strategy update	Financials	United States
L'Oréal	✓		✓	Green science, linking of ESG to remuneration, transparency of ingredients labelling	Consumer Staples	France
Lululemon Athletica	✓	✓		Controversy regarding working conditions in Bangladesh, sustainable materials in products, recycling/reusing of unwanted products	Consumer Discretionary	United States

Source: LGT Capital Partners

<sup>11</sup> References to a specific company should not be construed as a recommendation

<sup>12</sup> Data based on location of company headquarters. Please note that engagements also took place on specific issues where the issue occurred in the following countries: Bangladesh, Brazil, China, Indonesia, Ivory Coast, Malaysia, Mexico, Myanmar, Peru, Serbia, Tanzania and Uganda.

Company <sup>13</sup>	E	S	G	Main topics of engagements	Sector	Country <sup>14</sup>
Man Group		✓		Employee turnover	Financials	United Kingdom
Marsh & McLennan Companies	✓	✓	✓	Linking of ESG to remuneration, sustainable procurement, End-of-Life electronic recycling program, diversity and inclusion	Financials	United States
Medtronic	✓	✓	✓	Product recalls in recent years and quality management, board independence, linking of ESG to remuneration, separation of role of CEO and Chairman	Health Care	United States
Merck & Co.		✓	✓	Various controversies regarding product safety and animal mistreatment	Health Care	United States
Nasdaq	✓	✓	✓	Diversity and inclusion, structure of ESG organization, linking of ESG to remuneration	Financials	United States
National Grid	✓	✓	✓	Net zero commitments, supply chain assessment and engagement, linking of ESG to remuneration	Utilities	United Kingdom
Neste	✓			GHG emission reduction calculation, operational emissions, waste collection	Energy	Finland
Nestlé		✓		Supplier issues for palm oil linked to child labor and unpaid labor, supplier issues for cocoa linked to child labor and unpaid labor	Consumer Staples	Switzerland
Newmont Corporation		✓		Controversy regarding land dispute in Peru	Materials	United States
NGK Insulators	✓	✓	✓	New ESG strategy, circular economy	Industrials	Japan
Nintendo Co.			✓	Shareholder value, board of director representation	Communication Services	Japan
Old Mutual	✓	✓	✓	ESG strategy update	Financials	United Kingdom
PACCAR	✓	✓	✓	ESG strategy update	Industrials	United States
PepsiCo	✓	✓		Move towards healthier products, circular economy	Consumer Staples	United States
Quidel Corporation			✓	Executive remuneration	Health Care	United States
Reckitt Benckiser Group	✓			Circular economy	Consumer Staples	United Kingdom
Rio Tinto	✓			Controversy regarding socio-environmental concerns at Serbian lithium mine, waste generation	Materials	United Kingdom
SoftBank Group			✓	Corporate governance policies, investment committee structure and decision making processes	Communication Services	Japan
SSE	✓	✓	✓	Transition to net zero, supply chain management, impact on biodiversity	Utilities	United Kingdom
Stryker Corporation	✓	✓	✓	Board independence, linking of ESG to executive remuneration Environmental targets, controversies regarding bribery allegations	Health Care	United States
TotalEnergies	✓	✓	✓	Separation of role of CEO and Chairman, linking of ESG to executive remuneration, Science Based Targets initiative, social and environmental plans related to pipelines in Uganda and Tanzania, oil and gas exploration in Myanmar which is controlled by the Junta	Energy	France
Unilever		✓		Controversy regarding human rights at palm oil supplier	Consumer Staples	United Kingdom
UnitedHealth Group	✓	✓	✓	Board independence, linking of ESG to executive remuneration, controversies in recent years regarding labor and sales practices	Health Care	United States
Vestas Wind Systems	✓			Circular economy	Industrials	Denmark
YIT	✓			Circular economy	Industrials	Finland

Source: LGT Capital Partners

<sup>13</sup> References to a specific company should not be construed as a recommendation

<sup>14</sup> Data based on location of company headquarters. Please note that engagements also took place on specific issues where the issue occurred in the following countries: Bangladesh, Brazil, China, Indonesia, Ivory Coast, Malaysia, Mexico, Myanmar, Peru, Serbia, Tanzania and Uganda.

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