# Zuger KB

## Q1 2024

The purpose of the *reo*®(responsible engagement overlay) service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The *reo*® approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities.

## Companies engaged this quarter

| Engagement | Companies Engaged | Milestones achieved | Countries covered |
|---|---|---|---|
| 56 | 47 | 16 | 9 |

## Companies engaged by region



- North America
- Europe
- Asia (ex Japan)
- Japan
- Other

## Engagement by theme *



| | |
|---|---|
| ● Climate Change | 32 |
| ● Environmental Stewardship | 14 |
| ● Human Rights | 7 |
| ● Labour Standards | 16 |
| ● Public Health | 4 |
| ● Corporate Governance | 26 |
| ● Business Conduct | 7 |

## Milestones achieved by issue



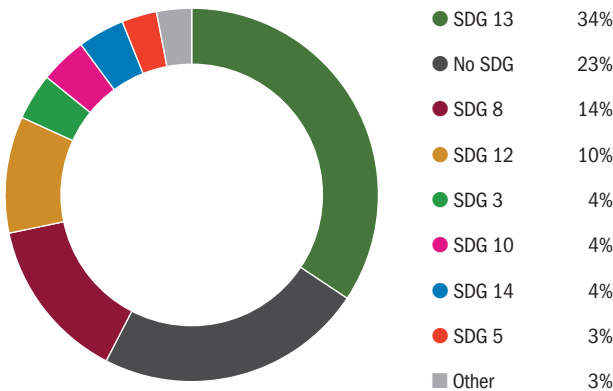| | |
|---|---|
| ● Climate Change | 11 |
| ● Environmental Stewardship | 2 |
| ● Human Rights | 1 |
| ● Labour Standards | 1 |
| ● Corporate Governance | 1 |

* Companies may have been engaged on more than one issue.

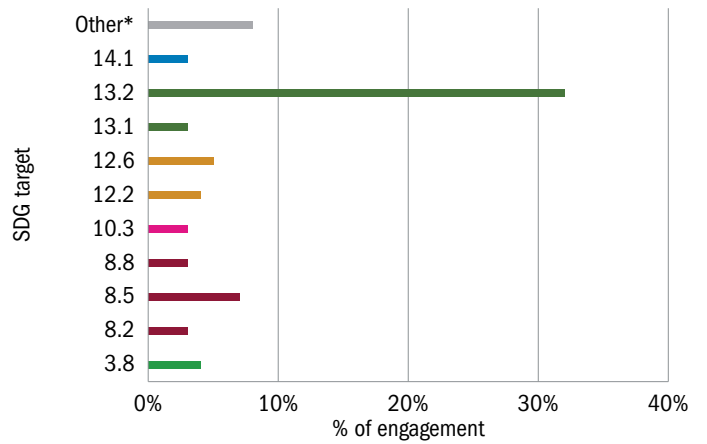## Engagements and Sustainable Development Goals (SDGs)

The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

We use the detailed underlying SDG targets to frame company engagement objectives, where relevant, as well as to articulate the positive societal and environmental impacts of engagement. Engagements are systematically captured at a target level, to enable greater accuracy and achieve higher impact.
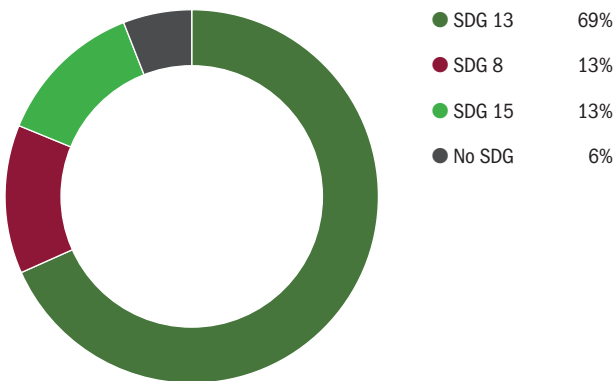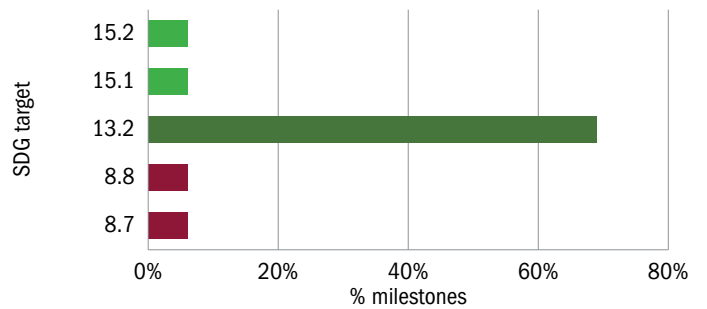
### Engagement: SDG level

| | |
|---|---|
| SDG 13 | 34% |
| No SDG | 23% |
| SDG 8 | 14% |
| SDG 12 | 10% |
| SDG 3 | 4% |
| SDG 10 | 4% |
| SDG 14 | 4% |
| SDG 5 | 3% |
| Other | 3% |

### Engagement: SDG target level

SDG target (y-axis): Other*, 14.1, 13.2, 13.1, 12.6, 12.2, 10.3, 8.8, 8.5, 8.2, 3.8

x-axis: % of engagement (0% to 40%)

### Milestone: SDG level

| | |
|---|---|
| SDG 13 | 69% |
| SDG 8 | 13% |
| SDG 15 | 13% |
| No SDG | 6% |

### Milestone: SDG target level

SDG target (y-axis): 15.2, 15.1, 13.2, 8.8, 8.7

x-axis: % milestones (0% to 80%)

*Other represents SDG targets less than 2% of the relevant SDG Goal.

1 NO POVERTY
2 ZERO HUNGER
3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
5 GENDER EQUALITY
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION
14 LIFE BELOW WATER
15 LIFE ON LAND
16 PEACE, JUSTICE AND STRONG INSTITUTIONS
17 PARTNERSHIPS FOR THE GOALS
SUSTAINABLE DEVELOPMENT GOALS

# Engagement case studies

| | | |
|---|---|---|
| **Company:** Amazon.com Inc | **Mailing Country:** United States | **Sector:** Consumer Discretionary |
| **Priority Company:** ✔ | **ESG Risk Rating:** | **Response to Prior Engagement:** Poor |
| **Theme:** Human Rights | **Engagement Case Study Name:** Still reluctant to shed light on Responsible AI | |
| **SDG:** 10.3 | | |

## Background

Amazon is a leading online retailer and web service provider that offers a range of products and services to customers from electronic devices, media content and on-demand technology services. The company is part of our Responsible Governance of Artificial Intelligence (AI) project as it uses AI across its operations from personalised product recommendations, Alexa voice shopping, powered search to optimization in the warehouse. It's encouraging the company has also outlined AI opportunities particularly how it is using AI to advance its sustainability goals from reducing packaging use to identifying damaged items to prevent waste.

## Action

We had an in-person meeting to discuss the company's approach to Responsible AI in further detail. We gained further insight to the Board's oversight and scope of responsibilities with respect to Responsible AI. The whole Board is well aware of the interest in Responsible AI and the Nominating Governance committee has oversight of the topic. It was encouraging to note that a few members of the Board including the Lead Independent Director has policy experience which helps with monitoring policies and regulations around Responsible AI. While there is no specific Responsible AI committee as the company has various different use cases, there is a group of people from different disciplines (including the Legal department) who provide their insight and views on the topic. The company also states that it conducts risk assessments, although it did not elaborate further, stating that nothing is currently publicly disclosed. We encouraged enhanced disclosure in order to support investors in understanding the company's approach more fully. We learnt that these risk assessments or 'vulnerability' mechanisms are not limited to cybersecurity and are designed to cover broader ethical issues, although no specifics were divulged. Amazon has not disclosed any safety issues but asserts that it is an iterative process and the company is conducting a significant amount of testing.

### Verdict

Amazon has made progress with its public commitments to Responsible AI such as the White House Voluntary AI commitments signed in 2023. It has a Responsible AI policy and model scorecards that is limited to Amazon Web Services but we are optimistic that there will be more disclosure on the operationalization of Responsible AI principles beyond this division. This is important to enhance wider customer trust and adoption to scale AI. We also encouraged publication of further information on its human rights impact assessment process on Responsible AI, and the consideration of quantitative impact measurements to demonstrate how its use of AI can drive sustainable outcomes. We will continue to monitor progress on its Responsible AI framework and process.

## Engagement case studies

**Company:** Analog Devices Inc    **Mailing Country:** United States    **Sector:** Information Technology

**Priority Company:** ✔    **ESG Risk Rating:** ▉    **Response to Prior Engagement:** Good

**Theme:** Corporate Governance    **Engagement Case Study Name:** Compensation improvements enhance pay for performance link

### Background

Analog Devices Inc (Analog) is a multinational semiconductor company that designs and manufactures analog, mixed signal, and Digital Signal Processor (DSP) integrated circuits used for data conversion, signal processing, and power management. It is headquartered in Wilmington, Massachusetts and has customers globally across industries, including communications, automotive, and consumer electronics. Ahead of Analog's 2024 AGM, we had a meeting to continue our dialogue from last year on executive compensation and discuss the changes made by the company.

### Action

We have met with Analog Devices annually the past few years, either off-season or prior to the company's AGM, to discuss ESG topics. Executive compensation has been a focus in the past year, having met with the compensation committee chair in 2023, and following up with the head of total rewards in March 2024 to understand Analog's compensation philosophy and provide our views on best practice. The company stressed that attracting and retaining talent was important, and that tying compensation to performance with rigorous metrics was an area of focus. During our discussions ahead of the 2024 AGM, they highlighted positive changes to the executive compensation program, including an increase to the target payout under the total shareholder return metric of the long-term incentive plan to the 55th percentile and an increase in the percentage of performance-based grants to the CEO. In our view, both of these changes better align CEO and other named executive officers to Analog's performance and strategy execution and illustrated that the company had been responsive to our earlier feedback.

### Verdict

We welcomed the opportunity to engage with Analog and were encouraged by the changes made to executive compensation. We felt that through our conversations, the company proved responsive to our feedback and was able to comprehensively articulate their compensation philosophy and how it was reflected throughout their organization.

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**ESG Risk Rating:** Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN    Second quartile: YELLOW    Third quartile: ORANGE    Bottom quartile: RED

# Engagement case studies

| | | |
|---|---|---|
| **Company:** Stellantis NV | **Mailing Country:** Netherlands | **Sector:** Consumer Discretionary |
| **Priority Company:** - | **ESG Risk Rating:** <span style="background:orange">    </span> | **Response to Prior Engagement:** Good |
| **Theme:** Climate Change | **Engagement Case Study Name:** Material progress towards climate aligned lobbying activities | |
| **SDG:**    13 CLIMATE ACTION   13.2 | | |

## Background

Stellantis are one of the largest automakers in the world, with a presence in over 130 countries and over 300,000 employees. Stellantis was formed in 2021 by a merger between the Italian-American conglomerate Fiat Chrysler Automobiles (FCA) and the French PSA Group. Stellantis has been slow to provide investors with more transparency on its positioning on public policies, and its lobbying on climate related policies directly and through industry associations. Many peers have published lobbying reports, including Volkswagen, General Motors, Ford, Mercedes, BMW, Volvo and Toyota. This lack of transparency is especially concerning given the mixed record that the company has on its lobbying around vehicle emissions standards in the US, UK and EU.

## Action

We have engaged FCA and PSA bilaterally and through CA100+ on this topic since 2019, and began engaging Stellantis on this topic in 2022. In 2022, together with the other CA100 + co-leads, we spoke to Stellantis' Heads of Public Affairs, Head of CSR and investor relations representatives to discuss the company's approach to climate lobbying. We reiterated that progress on climate lobbying was a priority in a call with investor relations in 2023, and provided the company with further guidance on what we considered to be good practice. In March 2024 we had another collaborative call with Stellantis' head of European public affairs and IR, where we asked for the company to establish and disclose a monitoring and review process to ensure that all of its direct and indirect climate change lobbying activities are consistent with its proclaimed climate targets. Stellantis recognised that it had work to do to on its lobbying disclosures compared to peers, and committed to evaluating the steps that it could take to improve disclosure.

### Verdict

In mid-March the company sent us a letter signed by the CFO in which it committed to provide investors with an initial work plan for its lobbying disclosures by the end of June, with a view to preparing an initial disclosure by the end of 2024. This is a positive step, and shows that the company is proactive and open to productive conversations with investors. We will continue to work with the company on its work plan, and to ensure that Stellantis' disclosures align with the best practices outlined in the Global Standard on Responsible Climate Lobbying.

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**ESG Risk Rating:**    Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: <span style="background:green">GREEN</span>   Second quartile: <span style="background:yellow">YELLOW</span>   Third quartile: <span style="background:orange">ORANGE</span>   Bottom quartile: <span style="background:red">RED</span>

## Appendix



| SDG | Target | Target Summary |
|---|---|---|
| ■ SDG3 | 3.8 | Access to medicines and health-care |
| ■ SDG5 | 5.1 | End all forms of discrimination against women and girls |
| ■ SDG5 | 5.5 | Ensure full equality of opportunity for women, including at leadership levels |
| ■ SDG6 | 6.1 | Achieve universal access to safe & affordable drinking water |
| ■ SDG8 | 8.2 | Achieve greater productivity through innovation. |
| ■ SDG8 | 8.5 | Achieve full and productive employment for all |
| ■ SDG8 | 8.7 | Eradicate forced labour, modern slavery & human trafficking |
| ■ SDG8 | 8.8 | Protect and promote safe working environments for all workers |
| ■ SDG9 | 9.1 | Develop resilient and sustainable infrastructure |
| ■ SDG10 | 10.2 | Empower and promote inclusivity for all |
| ■ SDG10 | 10.3 | Ensure equal opportunity and legislation for all |
| ■ SDG12 | 12.2 | Sustainably manage and make efficient use of natural resources |
| ■ SDG12 | 12.6 | Encourage companies to adopt sustainable practices and enhance ESG reporting |
| ■ SDG13 | 13.1 | Strengthen adaptive capacity to climate-related events |
| ■ SDG13 | 13.2 | Integrate climate change plans into policies and strategies |
| ■ SDG14 | 14.1 | Prevent and reduce marine pollution of all kinds |
| ■ SDG14 | 14.4 | Regulate harvesting and end overfishing to restore fish stocks |
| ■ SDG15 | 15.1 | Ensure sustainable usage of terrestrial freshwater ecosystems |
| ■ SDG15 | 15.2 | Promote the implementation of sustainable management of forests |