



# Portfolios with an Impact

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# Shareholder Engagement Update 2022



## Direct Dialogue for Ambitious Climate Targets



## Dialogue on the Human Rights Situation in Myanmar



## Engaging with Food Multinationals for Healthier Diets

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# We Have Ramped Up Our Engagement on Your Behalf

**O**ur philosophy of active ownership is part of Globalance's "raison d'être". We enable our clients to make their voices heard for the future viability of the economy, society and the environment.

Last year saw the publication of our first full "Engagement Report 2021". In it, we explained our active ownership principles in detail and provided you with a complete account of all our interventions in 2021. In this shorter "Shareholder Engagement Update 2022", we present the highlights and voting statistics from the previous reporting year. We will once more publish a comprehensive report in 2023.

We have strengthened our in-house engagement team and further developed the direct dialogue with portfolio companies. In this way we are fulfilling our fiduciary responsibility to work persistently and constructively on behalf of our clients to ensure that the companies in our portfolios remain among the leaders in their respective fields.

## 2022 Highlight:

### Dialogue on Climate Targets

Combating climate change requires companies to significantly reduce their greenhouse gas emissions. This, in turn, requires the setting of

reduction targets and the formulation of a plan on how to achieve these targets. We initiated and conducted talks with companies who had not published a verified climate target.

## We initiated and conducted talks with companies who had not published a verified climate target.

It was interesting that this year we were joined by lawyers during these talks. The positive side of this is that it shows that the topic is being taken very seriously. The negative is a regression in the area of transparency: especially companies from the USA have become reluctant to make any forward-looking statements out of fear of politically motivated critique or of being sued.

We look forward to getting any feedback you might have for us.



**Peter Zollinger**  
Head of Impact Research



**Salome Bechtler**  
Head Research Analyst

# We Want to Set Things in Motion

## Different Strategies Lead to Impact

One of the things that unites our clients is the desire to have a positive, sustainable impact with their portfolio. They chose Globalance because this understanding of sustainability is integral to our investment strategy and portfolios.

## How We Achieve a Positive Impact

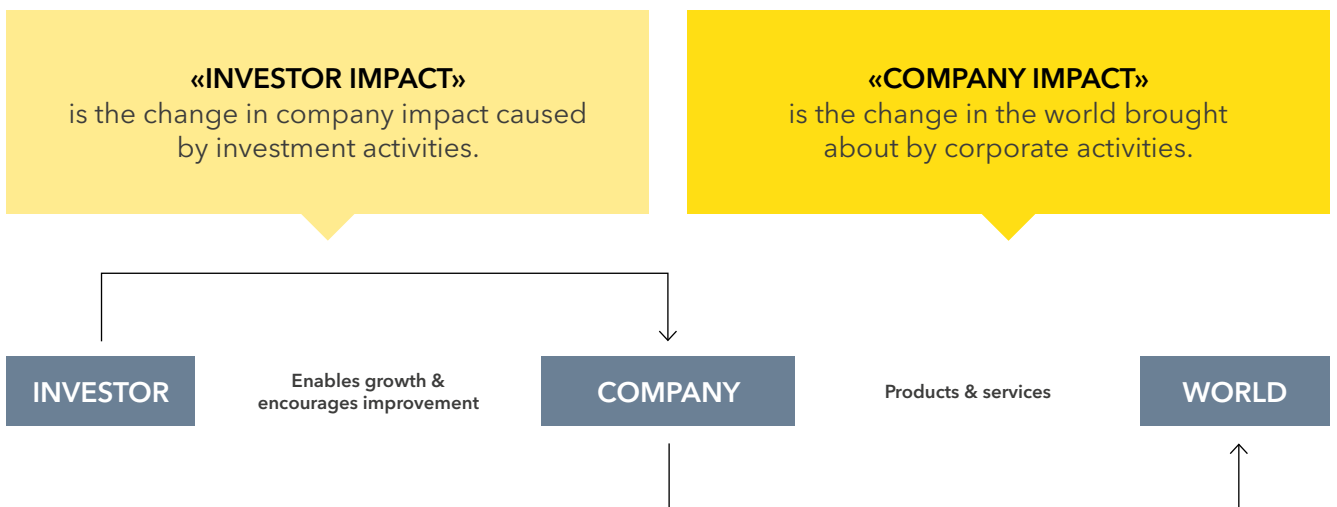
When we provide capital to a start-up, invest in a wind farm, or grant a loan to a microfinance bank, we can recognise a direct investor impact (see figure). This impact would not have happened without our investment. The Globalance investment strategies contain various investments of this type.

When we buy a carefully selected equity on a stock exchange, we are investing in line with certain impact goals, and thereby sending an important signal on the secondary market (indirect impact). In order to

also have a direct impact, we use active dialogue to strengthen the sustainability ambitions of the companies in which we invest (active engagement).

Generally, the term “impact” in this context is defined as a change of a result caused by an organisation. An impact can be positive or negative, intentional or unintentional.<sup>1</sup> Accordingly, our engagement is guided by our aspiration to achieve or to promote selected positive results in a targeted manner. To achieve this, we as active owners must understand the intricacies of the different levels of impact in detail. Globalance takes care of this preliminary work through our systematic analyses.

## Making an Impact with Our Portfolio



A company has an impact on people and the environment through its activities. Investors, for their part, can influence the behaviour of companies: by providing missing capital or through engagement.

<sup>1</sup> Impact Frontiers: [impactfrontiers.org/norms/](https://impactfrontiers.org/norms/)

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# The desire to contribute to a positive, sustainable impact in the economy, society and the environment with their portfolio unites all our clients.

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## Impact in All Asset Classes

Globalance takes an overall portfolio impact approach: we assess the impact of all asset classes on the real world. In doing so, we enable our clients to distinguish between positive and negative impacts.

Active ownership consists of proxy voting and engagement with portfolio companies. Traditionally, engagement refers only to equities, because an equity investor is the part-owner of the company and has corresponding rights. However, we understand engagement in a broader sense: we can also bring about positive change indirectly through dialogue with fund managers.

In 2022 we voted on motions in 99% of all general meetings and were actively engaged in enacting positive change in 25% of our core equities. We also took part in collaborative engagements. This report presents a few examples of Globalance's engagement.

## How Investors Make an Impact

- Signal that impact matters (for example, by excluding harmful industries)
- Engage actively with companies
- Grow new or underserved capital markets (for example, by financing a wind farm)
- Provide flexibility on risk-adjusted return (not applied by Globalance)

A number of global standard-setting organisations have come together to form the Impact Management Project (IMP) and establish a consensus on how to measure impact through investing. According to the IMP, there are the four pathways of impact shown. Globalance focuses on "signal that impact matters", "active engagement" and "grow new/undersupplied capital markets".

# Shareholder Influence Around the World Is on the Rise

Exercising all voting rights is a duty, but is not in itself sufficient engagement. Thanks to the technical proxy voting infrastructure from the provider ISS, Globalance can exercise its global portfolios' voting rights anywhere in the world. The votes are cast in accordance with Sustainability Proxy Voting Guidelines by ISS (see box). Globalance may additionally issue instructions for each vote on an individual basis.

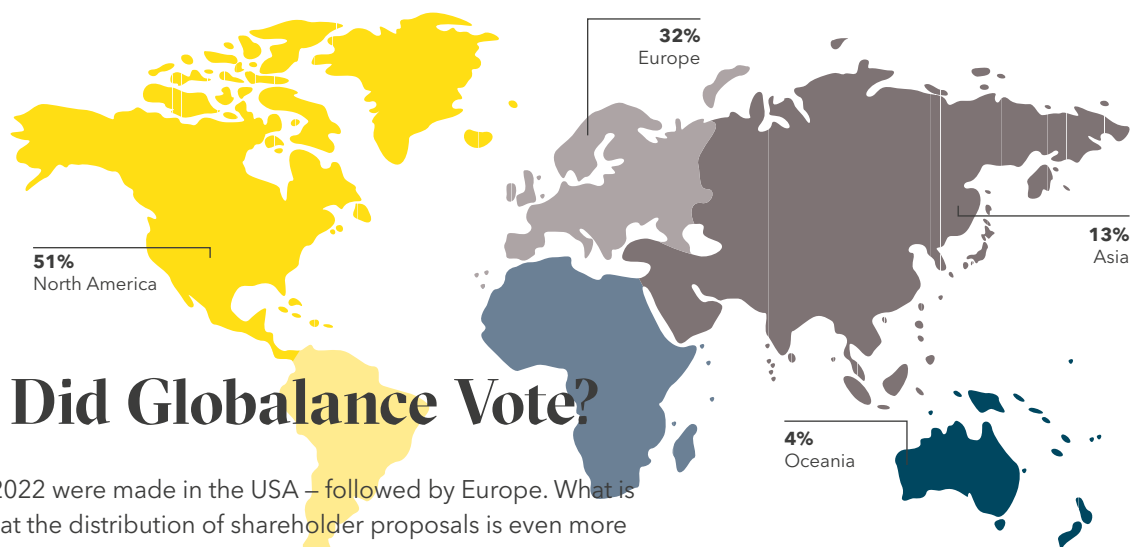
We exercise voting rights worldwide on behalf of our clients at all companies in our core portfolio, the Globalance Zukunftsbeweger and the Socrates Fund. We vote in accordance with sustainability principles through our voting representative (ISS).

## Motions by Shareholders for More Ambition in Sustainability Issues

The majority of motions come from the board of directors and are routine matters. As sustainability-conscious investors, we can exert influence in two ways: on the one hand by voting against the re-election

of a member of the board of directors whom we consider to be inadequate or who neglects his or her duties. Another way would be supporting relevant shareholder proposals. This public course of action can give shareholder concerns additional momentum. When a proposal is supported by many

investors, the board of directors comes under mounting pressure to address the issue or to provide substantial answers. Experience has shown that shareholder proposals can have great effect even without majority support.



## Where Did Globalance Vote?

Most motions in 2022 were made in the USA – followed by Europe. What is exciting here is that the distribution of shareholder proposals is even more extreme, with 92% being submitted in the USA.

## How Often Was the Vote Taken?

100

annual general meetings

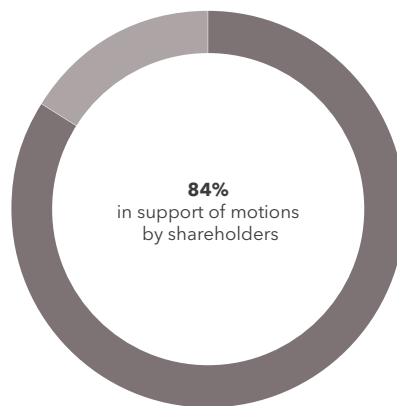
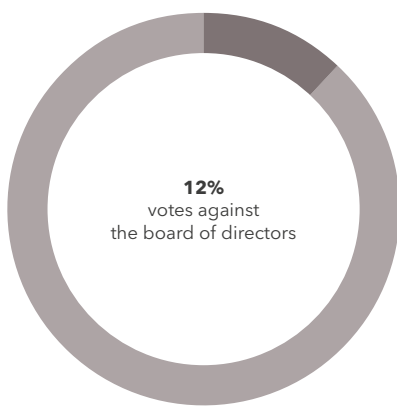
1303

proposals voted on

73

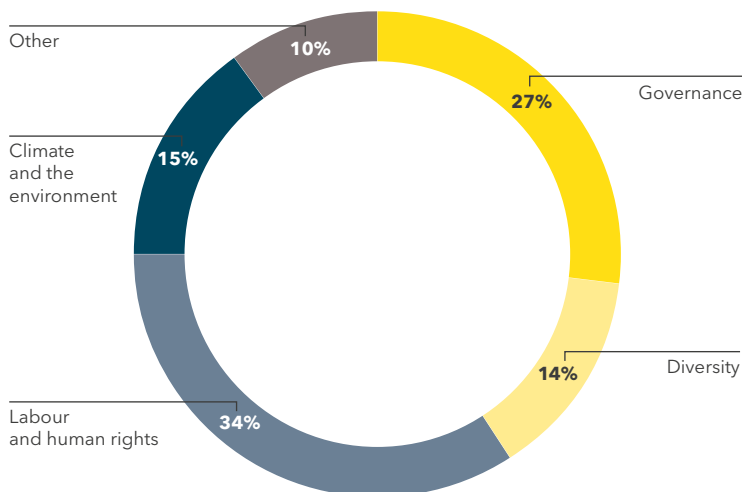
number of shareholder proposals voted on

## How Did Globalance Vote?



## What Issues Did the Shareholders Bring Forth?

Globalance has voted on over 73 motions by shareholders in 2022. Motions on the topic of “labour and human rights” were the most common, but the number of motions on “climate and the environment” was also on the rise compared to 2021.



### Sustainability Proxy Voting Guidelines

If Globalance does not issue specific instructions, the ISS Sustainability Proxy Voting Guidelines are applied. These support shareholder proposals that promise long-term benefits for the company and society. They support calls for increased transparency and more detailed reporting, as well as calls for the recognition of international standards and principles. In the area of climate change, they promote shareholder proposals that call for disclosure of information on climate risks, greenhouse gas reduction, a climate policy and reduction targets.



# Direct Dialogue for Ambitious Climate Targets

We use direct engagement to strengthen the sustainability ambitions of the companies we invest in.

We see the prevention of climate change as the most important global challenge of our time. This is why our main focus in our dialogue with the companies we invest in is on climate change.

If companies experience serious controversies, or if we identify other relevant issues, we will also address them through dialogue with company representatives.

## **Direct Dialogue on Independently Verified Climate Targets**

Combating climate change requires companies to significantly reduce their greenhouse gas emissions. This, in turn, requires the setting of reduction targets and the formulation of a plan on how to achieve these targets.

The best way to ensure the credibility of these plans and targets is to have them verified through independent scientific organisations. One such organisation is the “Science Based Targets initiative” (SBTi), which examines companies’ actions and climate targets regarding their contribution to achieving the goals of the Paris Agreement.

In 2022, we sent a letter to six companies requesting the development of a climate target verified by the SBTi. Half of them did begin talks that were beneficial for both sides. This signals to companies that their shareholders have high expectations and wish to know how climate plans could be integrated into future

positioning in the competitive landscape. For our part, we were able to draw additional valuable conclusions based on the dialogue, especially on how professionally a company deals with the issue.

It was interesting that this year we were joined by lawyers during these talks. The positive side of this is that it shows that the topic is being taken very seriously. The negative side is that companies, especially those from the USA, are increasingly reluctant to make any forward-looking statements out of fear of being sued.

Technical challenges are also subject of discussion: measuring emissions generated by suppliers or during the use phase (Scope 3) is challenging. The emissions data of the entire value chain of a company are still very patchy today. This makes it difficult to assess whether a company is actually achieving its reduction targets.



# Dialogue on the Human Rights Situation in Myanmar

Globalance is invested in the Japanese telecommunications operator KDDI. In 2014, the KDDI Corporation established a subsidiary in Myanmar which operates a telecommunications network in the country together with the state-run enterprise "Myanma Posts and Telecommunications" (MPT).

In principle, this is a good thing, as it improved access to the Internet in the country.

But after the military coup d'état in February 2021, MPT came under the control of the new military junta. This new military government ordered the blocking of

various social networks (e.g. Facebook), which were also used by those opposing the new regime. There were even days on which the population had no access to the Internet. Reuters additionally reported that the military government demanded that telecommunications companies set up spyware which would allow the junta to tap into private calls.

These developments mean that KDDI is in danger of, involuntarily, being involved in the violation of human rights.

Should a company that wants to stay true to its responsibility, but finds itself in such a difficult situation, abandon its operations in the country? Or could staying there be justified under particular conditions?

The Norwegian telecommunications company Telenor, for instance, has chosen to leave Myanmar as a result of these negative developments.

To evaluate the situation, we contacted KDDI directly to discuss its assessment of the situation and a possible exit from Myanmar. In addition to answering our questions precisely, KDDI's representatives informed us that, to their knowledge, they were not involved in human rights violations.

This statement is based on an independent analysis of the developments by an external organisation commissioned by KDDI. Unfortunately, this is not publicly available, Globalance has requested publication.

Our interlocutors left open the question of whether disinvestment is an option. They stressed that they see advantages in external players continuing to be present in Myanmar.

We saw that our critical "European voice" was valuable and helpful for this Japanese enterprise.

We will continue to follow how this situation develops and will address it again in our next round of talks with the company.





# Joint Engagement with Other Investors Increases Impact

Investor coalitions are an effective means of exerting influence, as the resources and the ownership share in the company, and therefore potential influence, are pooled. Globalance participated in the following two investor coalitions in 2022:

## Global Campaign for Better Climate Data

We once again took part in the Carbon Disclosure Project's (CDP) 2022 engagement campaign. In the case of eight companies, Globalance took the lead role and called upon them to publish their climate data through the CDP.

Our efforts were rewarded: five of the eight companies provided at least some of the requested data.

## Engaging with Food Multinationals for Healthier Diets

We are actively involved in the "Access to Nutrition Initiative" (ATNI), which aims to facilitate access to healthy and affordable food for consumers around the world.

In October 2022, the organisation published the US Index, which analysed the eleven most important food

manufacturers in the US. Unilever, one of our core shares, came in first place.

There are several things that put Unilever ahead of the competition: the company systematically analyses the health profile of its portfolio and sets itself concrete improvement targets. Unilever is also committed to abstain from advertising to children and adolescents under 16.

Nevertheless, Unilever also has room for improvement: only 19% of the American products were classified as healthy by ATNI. At the end of the year a collaborative engagement programme was started on the issue in which Globalance takes part.

In the interview, Unilever criticised the rating system used by ATNI. This evaluates all food products with the same criteria. Since 60% of Unilever's American portfolio is in the ice cream segment, the company scores poorly. Unilever recommends an evaluation according to food types or categories, or according to progress. Within the ice cream segment the company is working towards concrete improvement of its products' health profile. This might lead to ice cream becoming a less unhealthy "guilty pleasure", but it will not become one of your five a day anytime soon.

# Globalance Shareholder Engagement Guidelines

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**The principles of responsible investing are the foundation of the Globalance philosophy and mission: We enable investors to successfully invest in pioneering companies that are solving global challenges and shaping a positive future.**

**Our commitment to active ownership and fully exercising our co-determination rights is also reflected in the United Nations Principles of Responsible Investing, UN-PRI.**

**Our guiding principles described below follow the recommendations voiced in the Stewardship Principles of the International Corporate Governance Network, ICGN.**

## **1) Internal Governance**

We see engagement and the exercising of co-determination rights as an integral part of our fiduciary duty to our clients. The board of directors, executive board and all staff ensure the supervision, strategy and execution of our engagement programme.

## **2) Scope of the Application**

The systematic assessment of the sustainability and impact of all financial investments on the economy, society and the environment is integrated into the entire investment process (selection, portfolio management, monitoring).

We account for our assessments in real time. Our reporting (including Globalance World) achieves world-leading transparency.

We apply engagement to all asset classes. Listed companies are subject to direct engagement, while collective investments are engaged with indirectly through the corresponding managers.

## **3) Dialogue with Companies and Investor Coalitions**

We see engagement as an effective instrument for promoting sustainability, a forward-looking approach as well as long-term performance in companies.

We maintain a direct dialogue (appropriate for our size) with selected companies that we have invested in. In doing so, we place our main emphasis on increasing the sustainability ambition and integrating it into business models and strategies.

We join selected investor coalitions to create more impact for our invested capital through pooling.

## **4) Exercising Voting Rights**

We take full advantage of our clients' voting rights. Our international voting behaviour is guided by the principles of sustainability.

## **5) Promoting Long-Term Performance and Sustainability**

Promoting the long-term sustainability of our investments is at the heart of all our investment decisions as well as our engagement. This includes solving global challenges and shaping a positive future.

## **6) Reporting**

We disclose our voting behaviour and report regularly on our engagement activities.

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