

# Stewardship Report

Dialogue and voting – sustainable investing in 2023





# Stewardship: active influence for a more sustainable world

Responsibility also applies to investing. In recent years, investor stewardship has become a highly effective lever in transforming the economy towards sustainability.

Stewardship refers to investor dialogue with companies, borrowers and legislators, as well as the responsible exercise of voting rights. In this way, investors can actively help to bring about certain changes, such as in the case of serious violations of human rights, or an inadequate climate strategy.

In this report, we highlight how Luzerner Kantonalbank, including LUKB Expert Fondsleitung AG, exercised its stewardship in the name of its investment solutions during 2023.

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# Voting and dialogue are key to sustainable investing

Dialogues on over 450 ESG topics were held via initiatives and pools on behalf of the investment solutions offered at Luzerner Kantonalbank, including LUKB Expert Fondsleitung AG. LUKB Expert Fondsleitung AG actively voted responsibly at more than 280 general meetings. Roland Wöhr, Head of Sustainability in Asset Management, explains the LUKB approach.



*“As responsible investors we can make a difference in dialogue for a more sustainable world.”*

*Roland Wöhr, Head of Sustainability in Asset Management*

## What changed in 2023 in terms of dialogue and voting?

**Roland Wöhr:** Last October saw the presentation of the Swiss Stewardship Code. Its nine principles set out Swiss guidelines for best practice in dialogue and voting for the first time. We orientate ourselves towards this Code. In addition to dialogue, a credible stewardship strategy must also include the active exercise of voting rights. For example, in 2023 LUKB Expert investment funds expanded their exercise of these rights from Swiss stocks to companies in the USA and Europe. In doing so, alongside good corporate governance we attach considerable importance to sustainability factors and climate change.

## Why is it so important to exercise voting rights?

By actively exercising their voting rights shareholders can protect their investments and persuade company managers to act in a way that appropriately safeguards their interests and makes decisions transparent. This includes elections to boards of directors, for example, or the approval of compensation reports. But there has also been an increase in voting on agenda items that are environmentally or socially relevant. Since many investors are still not active or informed in their voting, even good shareholder motions have little chance of passing. Investors can force responsible corporate governance by actively exercising their voting rights.

## How does LUKB approach voting? Does it examine each and every agenda item?

Last year we at LUKB Expert Fondsleitung AG voted actively on just under 5,500 motions. Analysing each item in depth takes time and a great deal of specialist knowledge. That's why we rely on a team of specialists, which assesses in detail all general meeting (GM) motions on which we can vote, and provides recommendations based on our voting policy. We use the voting analyses of Institutional Shareholder Services (ISS) to help us here. This allows the LUKB Expert Fondsleitung AG fund managers to issue instructions for the individual votes, and thus exercise our rights actively and responsibly.

## There has been some resistance to Climate Action 100+. Is the age of dialogue over already?

It is true that many major investors have withdrawn from the most important climate change dialogue initiative, Climate Action 100+ (CA100+). A politically motivated counter current against ESG and climate awareness is under way, especially in the USA. That has prompted some big US asset managers to leave CA100+. That's a great shame, because the initiative is important in guiding companies along a climate-friendly path. We remain with the initiative, however, and continue resolutely to pursue our strategy of dialogue, with a focus on complying with norms and protecting the climate and biodiversity.

# Our aims

LUKB has three points of emphasis in dialogue with companies. First, we hold companies committing gross violations of international norms and standards to account. Second, we push for the biggest contributors to climate change to drive positive climate strategies forward. Third, we address companies from sectors with a high risk of biodiversity loss. We actively and responsibly exercise the voting rights attached to LUKB Expert investment funds.



## Compliance with global norms

Compliance with global norms is essential to us. LUKB is a committed member of a norm-based pool and seeks dialogue with companies in the case of violations of human rights or labour law, environmental scandals and corruption.



## Alignment with the climate

The impact of climate change poses one of the greatest challenges to society. We advocate for companies to align themselves more closely with a healthy climate.



## Conservation of biodiversity

Biodiversity loss has serious consequences for the well-being of our society. We ask that companies improve their transparency about biodiversity risks, their impacts on nature, and their strategy for managing nature-related risks.

### LUKB activities:

- Dialogue via the ISS norm-based engagement pool
- Support for initiatives run by the FAIRR investor network

### LUKB activities:

- Membership of the Climate Action 100+ (CA100+) initiative
- Dialogue via the ISS Net Zero engagement pool

### LUKB activities:

- Dialogue via the ISS Biodiversity engagement pool
- Support for initiatives run by the FAIRR investor network



## Active voting

By voting actively at general meetings, LUKB Expert Fondsleitung AG intends to be a driving force behind responsible corporate governance. Our voting policy sets out how we should vote in cases in which the majority of the board of directors is not independent, for example. It factors in good corporate governance criteria, as well as environmental and social aspects. Particular attention is paid to climate change.

### LUKB activities:

- Active exercise of voting rights for the majority of equity holdings in LUKB Expert funds
- Support from ISS with voting recommendations and representation at general meetings



For more information: [ISS Governance Climate Proxy Voting Guidelines](#)

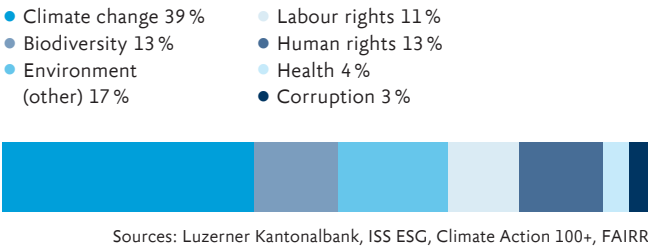
# Our activities in brief

Dialogues on over 450 topics were held with 330 companies during 2023. Here LUKB works alongside other investors in investor-led initiatives or engagement pools. Voting rights were exercised actively and responsibly for LUKB Expert investment funds for around 5,500 motions at more than 280 general meetings.

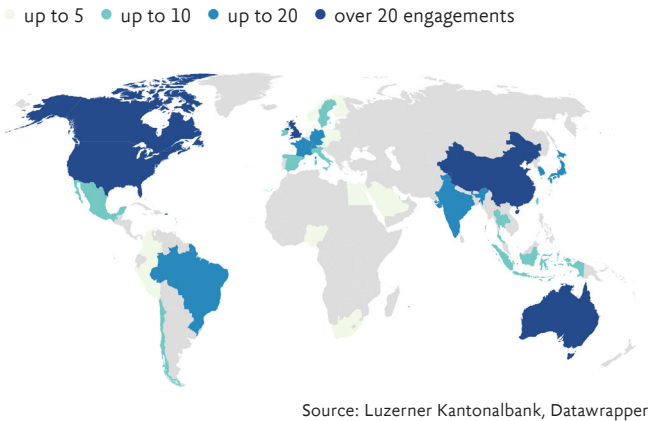
The majority of dialogues (69 %) concerned environmental topics, with climate change accounting for by far the lion's share. Social issues were the topic of discussion in some 130 cases, while 14 related to corruption. Dialogues covered companies from around 40 different countries. Approximately 70 % were headquartered in industrialised countries, and 30 % in emerging markets. Most activities were conducted via our three ISS engagement pools (55 %) and the CA100+ initiative (32 %). Willingness to engage in constructive dialogue was very high, not only in the context global initiatives such as CA100+, but also via the norm-based pool, for example, where it was over 65 %.

LUKB Expert Fondsleitung AG participated in 284 general meetings on behalf of LUKB Expert investment funds in 2023, involving just under 5,500 motions. At over 60 % of these meetings we voted at least once against the board of directors' (BoD) recommendation, going against it in 12 % of the approximately 5,500 motions overall. These particularly concerned remuneration matters or the election of directors. Where shareholder motions were concerned, we voted against the BoD recommendation in just under 70 % of cases. We approved all shareholder motions on climate issues at companies such as energy provider Engie SA or Bank of America. The approval rate for shareholder motions on social issues was around 75 %. These covered cases such as human rights at retailer Walmart, working conditions at online giant Amazon, and reporting on wage equality at US investment bank Goldman Sachs.

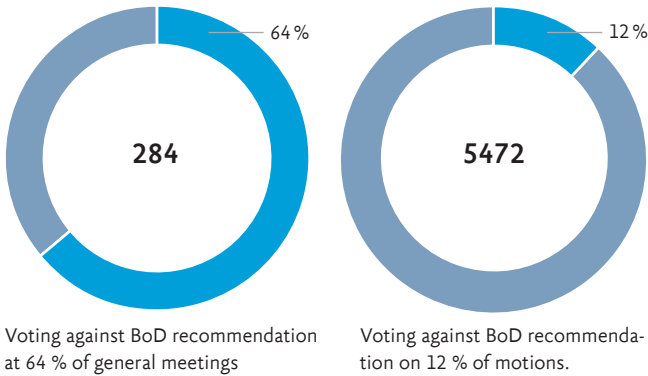
## Breakdown of over 450 dialogues by area



## Engagements by country of domicile



## Voting



Source: ISS

# Focus: Urgent protections for biodiversity

There is an urgent need for action in view of the unprecedented loss of biodiversity across the globe and the fact that more than a million species are threatened with extinction. Our financial and economic system relies on biodiversity and the related ecosystem services, and impacts upon them. That is why, as part of our programme of dialogues, we ask companies from particularly exposed sectors to act responsibly.

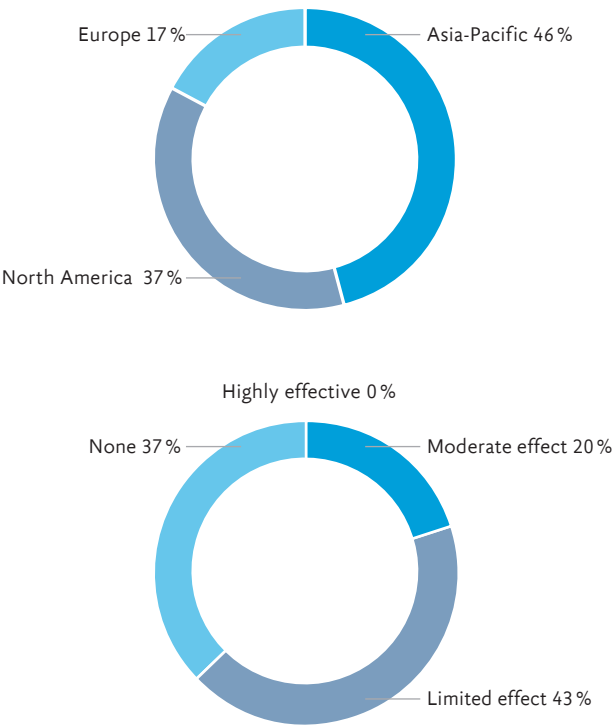
‘Biodiversity’ refers to the great variety of life on earth. It represents the ability of the natural world to provide ecosystem services on which humans, animals, plants, societies and economies depend. Without biodiversity, life and economic activity as we know them could not exist. The planetary crisis, which encompasses climate change, biodiversity loss and environmental pollution, therefore presents a systemic risk with significant consequences for all, including investors. We focus our dialogue on companies from the mining, food and agriculture sectors, which bear particular responsibility for biodiversity.

As part of our membership of the Biodiversity engagement pool we are conducting dialogues with 30 companies from the mining and food sectors over a three-year period. The ISS pool convenes institutional investors representing total assets of more than USD 250 billion. Its aims include the management of biodiversity risks, for example by encouraging food corporations to use sustainably produced palm oil. Mining companies are asked to respect internationally protected landscapes, for instance. Sixty percent have entered into a dialogue and improvements have already been achieved. Chocolate manufacturer Hershey was convinced to report on relevant key figures, while Chilean mining group Antofagasta has become more aware of the importance of managing biodiversity. ISS is currently escalating the other 12 companies.



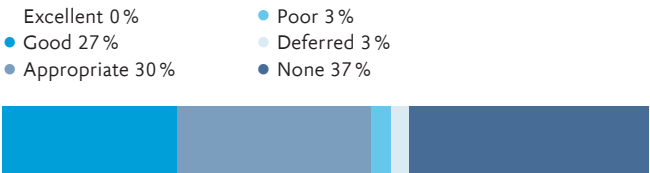
**For more information:**  
[Annual Progress Report for the ISS Biodiversity engagement pool](#)

Regions and effectiveness in the ISS Biodiversity pool



Source: ISS

Dialogue quality



Source: ISS

### Much potential in agriculture

The FAIRR ‘Biodiversity Loss from Waste and Pollution’ initiative is aimed at enhancing awareness of the biodiversity risks associated with animal waste and fertilizers in animal farming and agrochemical businesses. The negative impacts of industrialisation on agriculture, inadequate management of animal waste, and the nutrient load on biodiversity and ecosystems are becoming increasingly clear. Yet the effects of animal waste can also be positive, if it is used properly. The FAIRR initiative addresses the problem of the incorrect disposal of animal waste and nutrient load. It is aimed at ten of the biggest pig and poultry farmers, such as the Brazilian poultry producer BRF and the US meat processor Tyson Foods, and at two agrochemical companies, Darling Ingredients and Yara International. The initiative is backed by 80 investors representing assets of USD 23,000 billion. Although no company achieves best practice on the critical metrics, most have shown progress in their dialogues. Only one company did not participate in dialogue.

A further FAIRR initiative, entitled ‘Biodiversity & Climate Risks in Aquafeed’, targets fish farms. Fish meal and fish oil (from wild catches) and plant proteins such as

soya are often used as feedstuffs, which can impact negatively on biodiversity. Eight fish farming companies were contacted, including the largest salmon producer, Mowi. In dialogue to date none has been able to offer a convincing approach to reducing its environmental impacts. These dialogues continue.

### Governments also have a duty

Governments also have a duty to make their policies as climate and nature-friendly as possible. That is why we have also made representations by participating in investor statements. With the Financial Sector Statement on Biodiversity, initiated by UNEP FI, UN PRI and the Finance for Biodiversity Foundation, we call upon governments and the financial markets to adopt measures to halt and reverse nature loss. And the FAIRR-initiated Investor Statement on G20 Agricultural Subsidies asked G20 governments to repurpose their agricultural subsidies in line with climate and nature goals.



**For more information:** the [FAIRR](#) website provides detailed information on collaborative engagements.

### Protecting biodiversity high on the agenda worldwide

The urgent need to conserve and protect ecosystems on land, in inland waters, in the ocean and along coastlines was recognised globally in December 2022 with the adoption of the Kunming-Montreal Global Biodiversity Framework (GBF). Approved by 188 states, the GBF unites governments and non-state actors within a framework for action that sets out high-level goals and targets to protect biodiversity. The finance and business world is also taking notice of the need for action on biodiversity. The Taskforce on Nature-related Financial Disclosures (TNFD) and the Science Based Targets Network (SBTN) call upon organisations to manage biodiversity risks, create transparency, and set effective targets to prevent further biodiversity loss.

There are also two major investor-led initiatives on biodiversity: Nature Action 100 as a counterpart to Climate Action 100+, and the Spring initiative. These stewardship programmes were set up by UN PRI and concentrate on forest loss and soil degradation, which are seen as the chief causes of biodiversity loss.

# Focus: What does compliance with global norms involve?

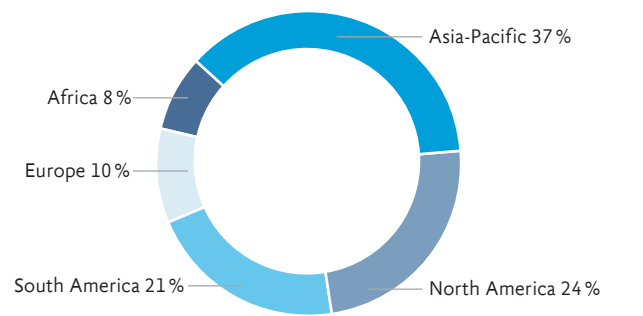
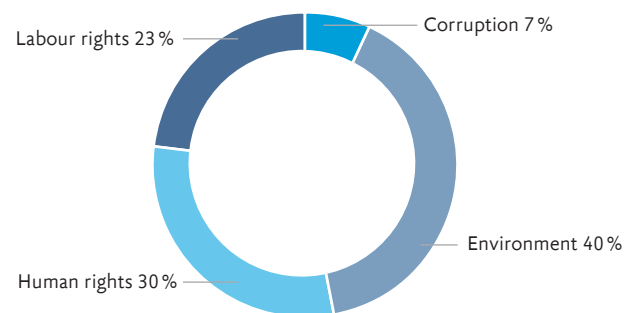
Our partner ISS identifies companies involved in serious social and environmental incidents. These do not meet the standards of responsible corporate governance and are in breach of global norms and standards.

ISS evaluates such breaches and formulates requirements for how the companies can remedy the negative impacts of their actions and prevent further incidents. Dialogue with companies was sought on just under 200 incidents in 2023.

Most cases involved violations of labour law or human rights, and occurred most frequently (approx. 37 %) in the Asia-Pacific region, followed by North America, South America, Europe and Africa. The metals and mining, oil and gas, electricity, food and construction sectors were most commonly affected.

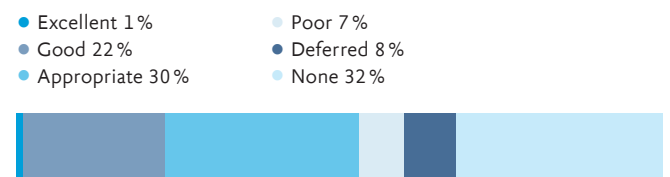
Companies' willingness to engage in dialogue with investors is very high overall. The response rate from those that were contacted stood at around 65 %. However, a factor here is that dialogue with many of the companies that have not yet responded was not begun until the last quarter of 2023. In most cases steady follow-up achieved a gradual improvement in disclosure and willingness to engage. Where engagement was successful, companies could be motivated to be more transparent, to halt a controversial practice, or to announce a specific risk-mitigation strategy with a fixed timeframe. The quality of participation in the engagement could be judged as appropriate or good among half of those companies.

## Norm-based dialogue by topic and region of incident



Source: Luzerner Kantonalbank, ISS

## Dialogue quality



Source: Luzerner Kantonalbank, ISS



## What norms are relevant?

Global norms and standards provide the framework for norm-based dialogues.

These include:

- UN Global Compact: a voluntary independent commitment by businesses to seven principles, to make globalisation more social and ecological
- OECD Guidelines for Multinational Enterprises: a code of responsible business conduct
- UN Guiding Principles on Business and Human Rights: these define companies' responsibility for the human rights impacts of their business operations
- ILO (International Labour Organization): a special UN organisation that determines international labour and social standards



### The Tesla example: dialogue on union relations and product safety

In a written answer to an investor enquiry from ISS electric car manufacturer

Tesla responded to its proven disregard for union rights in the USA and apparent safety problems with its vehicles. It said that one case pertaining to union rights was still under appeal. The company also stated that it abided by the law with regard to freedom of association and wage negotiations, as set out in its global policy on human rights. The dialogue is still ongoing but is currently rated by ISS as between poor and satisfactory. In response, LUKB Expert Fondsleitung AG did not vote to re-elect the director responsible at the general meeting, on the grounds of inadequate ESG risk management.



### The McDonald's example: indications of gender-specific discrimination

ISS contacted McDonald's concerning several complaints by female employ-

ees that accused the company of failing to prevent sexual harassment at several of its own and franchisee-run locations in the USA. ISS welcomed McDonald's willingness to enter into dialogue and acknowledged the information on the company's apparent failure to prevent gender-specific discrimination in the United States. The company emphasised its commitment to safe, respectful and inclusive workplaces and pointed to the introduction of new training options and a feedback process for employees and franchisees. ISS suspended its engagement to monitor the effectiveness of the related undertakings and measures.



For more information: [2023 annual report of the norm-based engagement pool](#)

# Focus: Climate change and Climate Action 100+



Climate Action 100+ is the largest investor-led initiative on climate change. Launched in 2017, it has encouraged large numbers of companies to become more climate-friendly and to address climate risks more consciously. In 2023, the initiative entered its second phase, which will last until 2030. The strategic focus in the next few years will be on implementing the goals that have been set to date. LUKB has been a part of this influential initiative since 2021.

The Climate Action 100+ (CA100+) initiative concentrates on the 170 or so biggest emitters of greenhouse gases. Together, they are responsible for around 80 % of all industrial emissions. The aim of the initiative is for companies to acknowledge the Paris climate targets and take the appropriate action within their own organisations. CA100+ is the foremost investor-led initiative on the climate. It has been signed by more than 700 institutional

investors representing assets under management of some USD 68,000 billion. Dialogue with individual companies is conducted by small groups of investors from the initiative on behalf of all participants. The outcomes are then made available to all. LUKB joined this investor-led initiative in 2021 and plays a supporting role in its engagement with Danone and Southern Corp.

## Impressive results since inception in 2017



**77 %**

of companies have adopted a net-zero target  
(50 % in March 2021)



**93 %**

of companies have climate change expertise on the BoD  
(87 % in March 2021)



**90 %**

of companies report their climate risk according to the TCFD  
(72 % in March 2021)

Source: CA100+, Progress Update 2023

### Net Zero engagement pool

As part of our membership of the Net Zero engagement pool we will be conducting dialogues with 30 companies over a three-year period. These companies are drawn from the oil and gas, chemicals, utilities and construction sectors. This ISS pool convenes institutional investors representing total assets of over USD 350 billion. Companies are asked to present a credible decarbonisation strategy. Dialogues are in progress with just under 70 %, and improvements have already been achieved. For example, 60 % of companies now have convincing medium-term targets on their pathway towards net zero. ISS is currently escalating the remaining ten companies.

### Executive-level expertise and net-zero strategies

Climate-related disclosures have improved significantly, with 93 % of focus companies now aligning themselves with the TCFD recommendations on climate risk reporting. Transparency is also required with regard to climate-related lobbying activities. For example, under intense pressure from CA100+ companies such as auto giant Volkswagen and the British National Grid electricity network declared themselves willing to create clarity with a related report. More transparency about climate-related risks and opportunities helps investors to make better-substantiated decisions. Another important CA100+ goal is to improve supervision of key climate-related issues at board level. This has been achieved to at least a certain degree at 93 % of focus companies.

What's more, around 77 % of companies have now undertaken to achieve net zero by 2050. Only five focus companies had made this commitment when Climate Action 100+ was set up at the end of 2017. The issues of decarbonisation and net zero have become increasingly important to the general public, but investor engagement continues to play an important part in communicating the legitimacy, urgency and feasibility of these obligations.

### Phase two demands deeds, not just words

The real economy must make rapid progress with reducing emissions. Pronouncements and undertakings that are not backed by action are not enough. To halve emissions by 2030 and to keep the 1.5°C target within reach, companies must develop and implement credible transition plans now, in line with the Paris Agreement. In its second phase up to 2030, CA100+ is therefore directing its strategic focus to ensuring that ambitious targets are followed by actual emissions reductions.

Should dialogue with companies not achieve the desired success, there is the option of tabling an issue for discussion at the general meeting. In 2023 there were a total of 76 general meeting resolutions and agenda items initiated under the aegis of CA100+, consisting of 20 shareholder and 56 management motions.

LUKB Expert Fondsleitung AG voted actively on behalf of its investment funds at some of these general meetings. For example, it supported a motion put forward by the shareholders of French energy supplier Total Energies to extend decarbonisation targets to the greenhouse gas emissions generated by the use of energy products (scope 3 emissions). Although achieving the approval of many investors, at a clear 30 %, as so often it was not enough for the motion to pass.



For more information: [Climate Action 100+ Progress Report 2023](#) and the [Net-Zero pool](#) 2023 Annual Progress Report



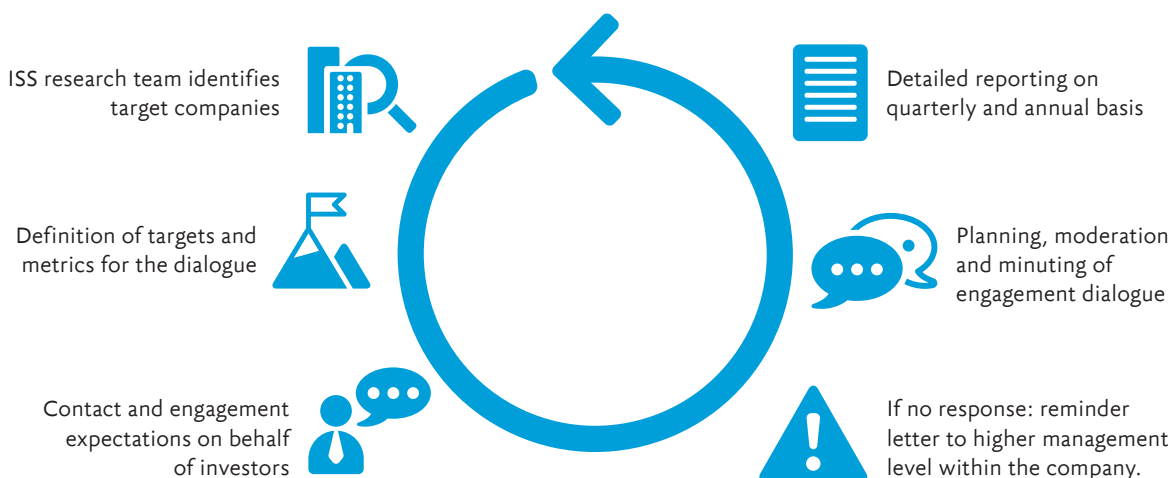
# Resolute pursuit of clear goals

The example of a norm-based process illustrates how the engagement process works. The first step is for the experienced team of ISS analysts to identify companies worldwide that are involved in controversies, and to formulate expectations for the dialogue. Each engagement then begins by defining clear and achievable goals in four principal categories: disclosure, implementation, correction and conclusion. These are then tackled in partnership with the company.

The dialogue with the company generally begins with a written approach, followed by meetings and further correspondence. These interactions and their outcomes are recorded and evaluated transparently. ISS assesses the quality of the dialogue, and if goals have been achieved and controversies resolved it will conclude the engagement. Most companies participate appropriately in these dialogues, but the process may be aborted

if there is little prospect of the goals of the engagement being reached. If the dialogue with the company does not achieve the desired success, there are a number of ways of proceeding, from an agenda item on a disinvestment issue at the general meeting through to actual disinvestment. LUKB can access detailed information on each engagement via an online platform, and it also has the option of participating in meetings.

## The engagement process for ISS investment pools



### The LUKB escalation strategy

Dialogue on behalf of Luzerner Kantonalbank is conducted primarily via service providers. Issues are therefore generally escalated within this engagement framework, through repeated contact at different levels of the hierarchy. If, despite extensive attempts to begin dialogue, it is not possible to engage on a productive level, and if expectations are not sufficiently fulfilled, there are various levels of escalation depending on the seriousness of the trigger issue. These will be assessed qualitatively in each individual case. Possible steps include LUKB contacting the company directly to encourage it to participate in dialogue, downgrading the company in the LUKB sustainability ratings, or changing how LUKB votes at the company's next general meeting. Ultimately, the holding might be sold.

# Swiss Stewardship Code

LUKB orientates itself towards the Swiss Stewardship Code. These voluntary guidelines were drawn up by the Asset Management Association Switzerland (AMAS) and Swiss Sustainable Finance (SSF) and published for the first time in October 2023. In nine principles the Code sets out best practice for how stewardship can be integrated effectively in the investment process. The stewardship principles are based on the Global Stewardship Principles issued by the International Corporate Governance Network (ICGN) and the United Nations Principles for Responsible Investment (UN PRI), as well as the UK Stewardship Code, which together offer an international benchmark for investor stewardship.

LUKB itself has laid down the principal elements of dialogue and voting, including escalation, in its own policy. This has been adopted by the Executive Board. Internal guidelines govern the details of strategy and implementation. In dialogue we work largely through collaborative initiatives and paid engagement pools with ISS. When responsibly exercising voting rights attached to LUKB Expert investment funds, LUKB Expert Fondsleitung AG is supported by ISS as a specialist service provider, in particular with regard to voting recommendations and proxy voting at general meetings. We report via the initiatives, pools and this Stewardship Report. Detailed voting outcomes for the various funds are also available



For more information: [Swiss Stewardship Code](#) from the AMAS and SSF.

## Our partners



ISS is an international service provider of responsible investment solutions with a long track record. In the engagement segment, the company runs the norm-based pool for international investors, and represents assets of over USD 2,000 billion. In addition, it has offered thematic engagement pools on various topics for several years now. ISS also supports us with voting recommendations and proxy voting.

[www.issgovernance.com/esg/](http://www.issgovernance.com/esg/)

A proud participant of:



The Climate Action 100+ initiative focuses on dialogue with around 170 companies that are responsible for 80 % of industrial greenhouse gas emissions around the world. LUKB joined in 2021. Dialogue objectives include transparent climate risk reporting, and credible commitments to reducing greenhouse gas emissions.

[www.climateaction100.org](http://www.climateaction100.org)



Founded in 2016, FAIRR has set itself the goal of driving improvements in food and agriculture. Members, which together represent assets of over USD 70,000 billion, have access to a variety of reports and databases. FAIRR joins with investors to conduct numerous engagements with companies from the agricultural and food sectors.

[www.fairr.org](http://www.fairr.org)



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