



# MEAG Engagement Policy

September 2023

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## 1 Preamble

This policy applies to MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH (MEAG KAG) as well as MEAG MUNICH ERGO Assetmanagement GmbH (MEAG AMG) and governs MEAG's (MEAG KAG and MEAG AMG together "MEAG") engagement approach.

When implementing the present Engagement Policy, MEAG takes into account and complies with all relevant laws and regulations that apply to it, including antitrust laws. MEAG thus never coordinates its investment or divestment behaviour with other investors or shares sensitive information with competitors.

The content of the present Engagement Policy constitutes the copyright of MEAG. Nothing in this document shall create any civil liability of MEAG towards any party or stakeholder.

## 2 Philosophy

### 2.1 What is our mission?

MEAG's objective is to optimize returns for our clients, to extend asset management by including attractive asset classes and enabling sustainable growth for our clients. By taking such an approach, we act in the best interest of our clients and we preserve as well as increase their assets and we rely on trust and mutual respect. It is our shared belief that companies with sustainable business practices are more successful. In this context, sustainability encompasses environmental, social and governance (ESG) matters, in particular climate protection, biodiversity, employee matters, respect for human rights and the fight against corruption and bribery. Our ESG approach mainly pursues three objectives:

- Management of financial risks posed by ESG aspects
- Consideration of principal adverse impacts of our investments on sustainability factors
- Promoting sustainability-related goals of investors.

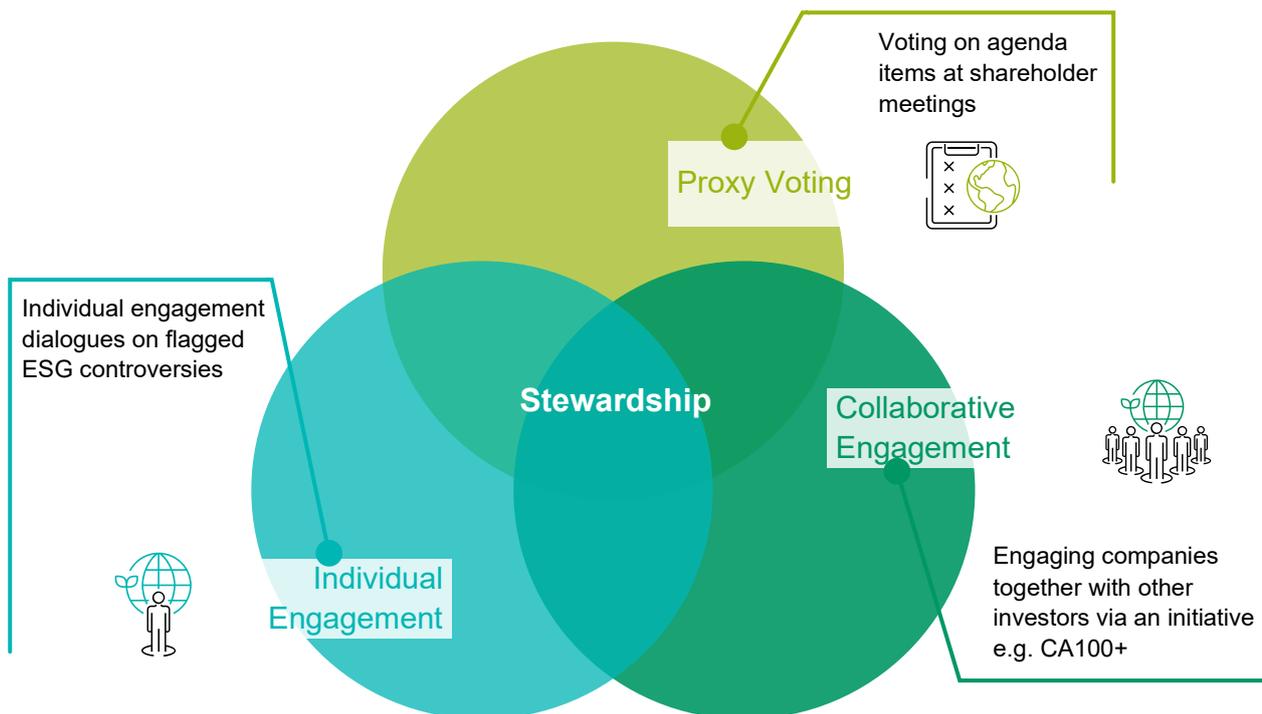
The active dialogue (engagement) with companies in which we are invested (portfolio companies) is an essential part of achieving these objectives. As an active fiduciary, we influence portfolio companies in a structured and systematic way regarding ESG-related financial risks and environmental and social impacts. Engagements enable us to leverage our portfolio investments to positively influence the real economy on sustainability-related issues by advocating for improved ESG performance at the portfolio company level (Inside-Out). Simultaneously, through our influence on portfolio companies, we aim to ensure that sustainability risks, like climate change impacts, are identified and considered in order to mitigate actual or potential material negative impacts on the value of our portfolios (Outside-In). For both perspectives, engagement is a tool to enable dialogue with portfolio companies and actively work towards positive change.

MEAG follows a case-by-case approach for both individual and collaborative engagements. We analyse potential ESG issues and support our portfolio companies in improving their ESG performance.

## 2.2 Engagement within MEAG's Stewardship Approach

Engagement is a tool used in investment management to improve the extent to which ESG issues are addressed at the company level by actively influencing the portfolio company. At MEAG engagement is based on individual engagements in selected cases on the one hand and collaborate climate engagements on the other hand.

Besides the tool of engagements, MEAG exercises shareholder rights via proxy voting<sup>1</sup> to support votes at the company's annual general meeting that favour the ESG performance of the respective portfolio company. In the case of existing engagements, MEAG also ensures that its voting behaviour is in line with the stewardship focus and hence the corresponding engagement objectives. Furthermore, the execution of votes can be used as a tool to encompass the engagement escalation strategies. Engagement and proxy voting constitute the most important pillars in MEAG's stewardship approach.



MEAG's definition of Stewardship as well as of Engagement thereby follows the approach taken by the investor initiative "Principles for Responsible Investments" (PRI)<sup>2</sup>:

**Stewardship:** "The use of influence by institutional investors to maximize overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend".<sup>3</sup>

**Voting:** "Exercising voting rights on management/shareholder resolutions (and submitting resolutions), to formally express approval (or disapproval) on relevant matters".<sup>4</sup>

**Engagement:** "The interactions between an investor and current or potential investees/issuers, in order to: improve practice on an ESG issue, change a sustainability outcome in the real world or improve public disclosure".<sup>5</sup>

<sup>1</sup> MEAG Proxy Voting Policy

<sup>2</sup> PRI is an independent organization that encourages investors to undertake responsible investments to increase returns and better manage risk, but does not operate for its own profit (PRI, 2023)

<sup>3</sup> (PRI, 2023)

<sup>4</sup> (PRI, 2023)

<sup>5</sup> (PRI, 2023)

MEAG's engagements are designed in a cooperative manner, enabling a constructive dialogue between the investment's stakeholders. Stakeholders are mainly the portfolio companies themselves, but these may also include co-investors, project partners or the extended value chain of the portfolio company depending on the type of investment. While direct dialogues virtually or in person are the main channels of communication when it comes to ESG Engagement, public statements, emails or letters can also be deployed.

**Individual Engagements:** MEAG's department for ESG & Sustainable Finance conducts individual engagement dialogues with selected portfolio companies on severe<sup>6</sup> ESG controversies. ESG controversies are either an event or an ongoing situation in which company operations and/or products allegedly have a severe negative environmental, social and/or governance impact. The basis for the selection of portfolio companies, with which dialogues are conducted, is a controversy analysis, that takes place quarterly. If, based on the analysis, MEAG comes to the conclusion that such a controversy is material, current, and not sufficiently addressed by the portfolio company, the use of engagement as a response measure is considered. If engagement is the appropriate tool to fulfil our fiduciary duty, MEAG's stewardship experts enter into an individual dialogue with the company.

**Collaborative Engagements:** In addition to the individual engagements, MEAG also engages in collaborative dialogues with companies through the Climate Action 100+ (CA100+) initiative together with other investors. The CA100+ initiative is the largest global investor-led engagement initiative with the goal of engaging the world's largest greenhouse gas (GHG) emitters to take necessary action to combat climate change or mitigate its impacts. An advantage of collaborative engagements is the diversity of engagement participants, as they add different expertise and perspectives to the dialogue with the portfolio company.

**Approach:** MEAG's objective is to achieve high-quality and sustainable ESG improvements in the portfolio companies. For this reason, Engagement dialogues are not outsourced to a service provider, but are rather conducted by internal MEAG experts. An Engagement is counted in this context as the number of addressed engagement cases per company and not as the number of contacts per case.

### 3 Goals and ambitions

MEAG has committed to its parent company "Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München" (Munich Re) to execute at least 20 Engagements with the largest GHG emitters in its portfolio in order to contribute to the United Nations Net Zero Asset Owner Alliance (NZAOA) target of Munich Re. "The NZAOA is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net-zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C".<sup>7</sup>

However, MEAG understands the integration of sustainability aspects into the investment approach not only as a fiduciary duty to operate sustainably but aims to conduct at least 50 engagements by 2025. Our goal is to continuously expand the engagement approach and, in addition to the current focus on climate and ESG controversies, to increasingly address other topics, in particular the protection of human rights and biodiversity. As a first step to expand the scope to Human Rights, MEAG has become an endorser of the PRI Advance<sup>8</sup> Stewardship Initiative in August, 2023. The initiative serves as a platform for investors to discuss Human Rights and social issues in portfolio companies and to foster positive change for employees and society.

With a view to the product level, the deployment of individual engagements is currently confined to funds in the retail segment that pursue MEAG's sustainability-related standard and advanced investment concept. However, this scope of individual engagements is subject to an ongoing review procedure and might therefore be extended to further products over time.

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<sup>6</sup> A MSCI controversy case score of 1 is herein the trigger for the controversy analysis for dedicated funds.

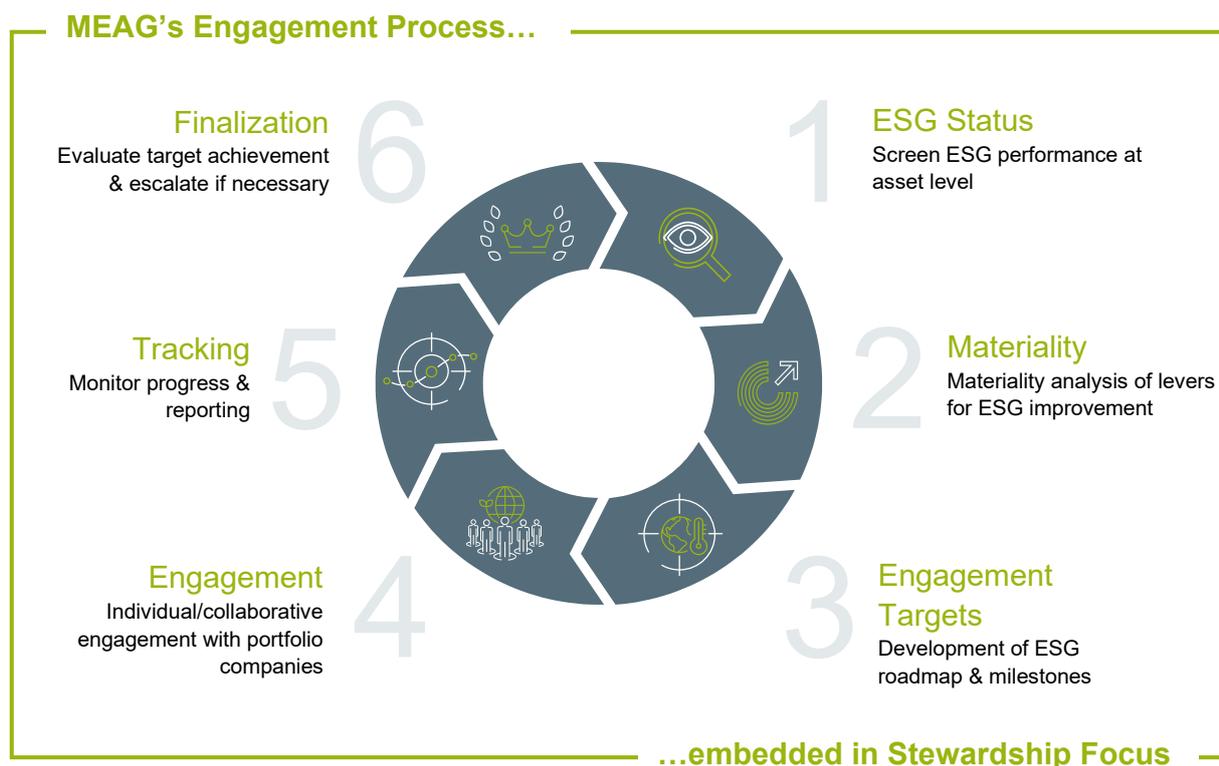
<sup>7</sup> The UN-convened Net-zero Asset Owner Alliance is a global asset owners committed to decarbonising their investment portfolios and achieving net-zero emissions by 2050 (UNEPFI, 2023)

<sup>8</sup> (PRI Advance, 2023)

## 4 Engagement Process

In general, MEAG's Stewardship focus sets the overarching framework for the ESG issues addressed by engagements. Currently, there are two main ESG focus areas on MEAG's engagement agenda. One is the reduction of GHG emissions to mitigate the effects of climate change and the other is tackling severe and material ESG controversies.

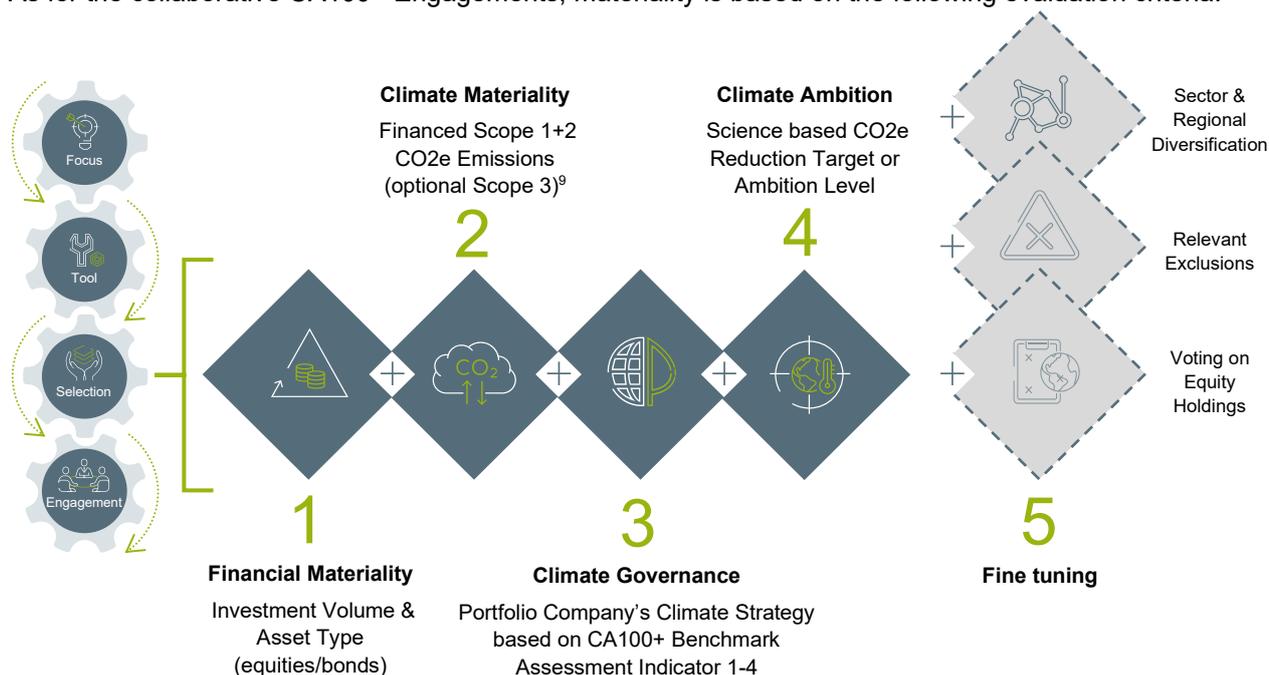
When conducting an engagement, MEAG follows its Engagement Process, beginning with a review of current ESG performance at the investment level and ending with the evaluation of individual target achievement.



**1 ESG Status:** In determining whether the investment is sufficiently positioned with respect to the Stewardship focus topics, a detailed assessment of the status quo of current ESG performance is conducted at the issuer/investment level. Both qualitative and quantitative information is analysed.

**2 Materiality:** Subsequently, the identified ESG status is reviewed for its materiality for the start of an engagement. The materiality analysis has at least two levels. One is the severity of the identified ESG issue, and the other is the leverage which MEAG as an asset manager can utilize regarding investment volume, power of intervention or expertise in addressing an identified ESG issue.

As for the collaborative CA100+ Engagements, materiality is based on the following evaluation criteria.



**3 Engagement Targets:** Based on the materiality assessment, the process moves to the next phase where specific engagement objectives are formulated to address the identified ESG issue of the portfolio company. Depending on the nature of the issue, an engagement target can be quite narrow in scope, e.g. addressing one specific controversy case or it can be more systemic, e.g. reaching a 1.5°C net-zero climate target alignment. The time horizon given to achieve the defined target therefore varies from short-term (months) to long-term periods (3 or more years). If an engagement is conducted over a long-term period, it is structured according to an overall roadmap which is broken down into medium-term milestones.

For individual engagements, the content and scope of the materiality assessment is determined by an individual case-by-case approach. For collaborative CA100+ engagements the overall roadmap contains the three main objectives of the initiative and the progress evaluation of the CA100+ Benchmark Assessment Indicators<sup>10</sup> as illustrated in the table below.

Roadmap	Milestones
1) Improve climate change governance	1) Net-zero GHG Emissions by 2050 (or sooner) ambition
2) Cutting emissions	2) Long-term (2036-2050) GHG reduction target(s)
3) Strengthening climate-related financial disclosures and implement transition plans	3) Medium-term (2026-2035) GHG reduction target(s)
	4) Short-term (up to 2025) GHG reduction target(s)

<sup>9</sup> CO2e: Carbon dioxide equivalent

Scope 1: "Direct GHG emissions that occur from sources owned or controlled by the reporting company, i.e., emissions from combustion in owned or controlled boilers, furnaces, vehicles, etc." (PCAF, 2022)

Scope 2: "Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where the electricity, steam, heating, or cooling is generated." (PCAF, 2022)

Scope 3: "All other indirect GHG emissions (not included in Scope 2) that occur in the value chain of the reporting company." (PCAF, 2022)

<sup>10</sup> (CA100+ Net Zero Company Benchmark, 2023)

**4 Engagement:** Based on the defined objectives, individual or collaborative engagements are conducted. MEAG is convinced that direct dialog with the portfolio company achieves the strongest effect. Only if a company is not willing to engage in a direct dialog, the exchange can be conducted via email.

**5 Tracking:** The key to measuring the progress and impact generated through an engagement is the documentation of engagement outcomes. Therefore, qualitative and quantitative information on the engagements are tracked on a quarterly basis. Information required includes: the engagement issue, type of contact, frequency of contacts, and the progress toward target achievement.

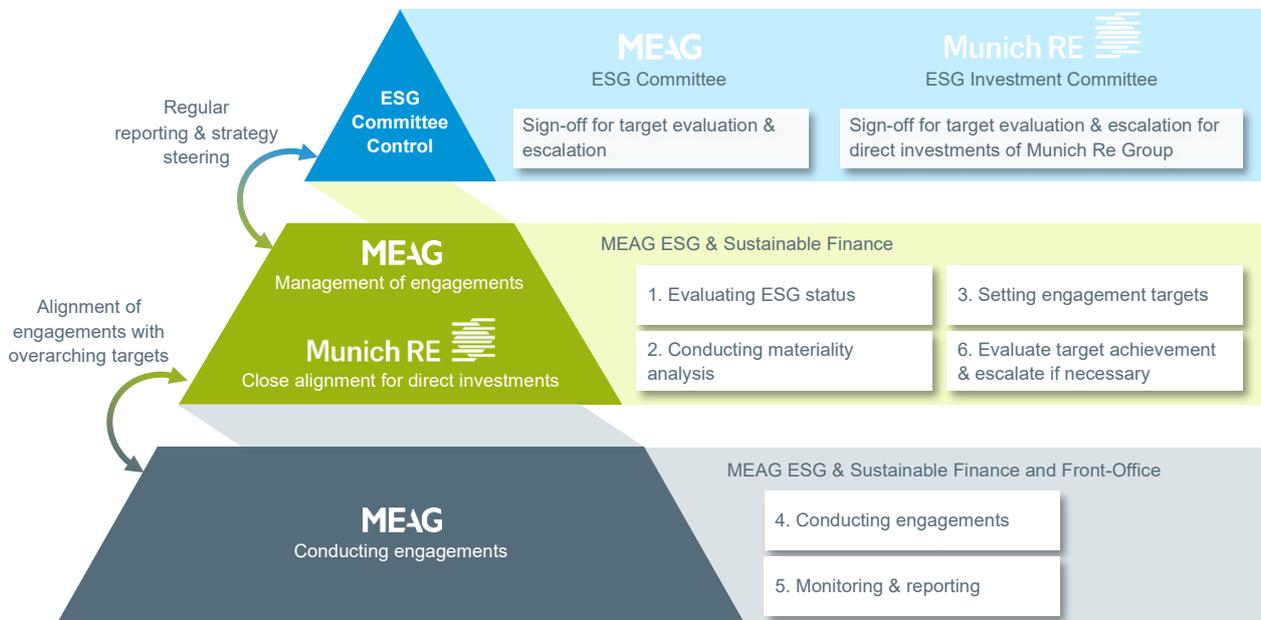
**6 Finalization:** The quarterly progress review is used to assess whether or not the engagement goal has been accomplished. If the engagement target has been achieved, the process is finalized. If an engagement goal has not been achieved, various escalation tools are at hand. The toolbox includes actions such as realignment of engagement strategies, support or publication of a public statement on the grievances raised, portfolio adjustment, escalation via proxy voting and, if necessary, divestment. In addition, lessons learned from failed or very complex engagement processes are incorporated into the development of further engagements. Thus, the Engagement Process can start from the beginning once further problems are identified or a follow-up engagement to an original issue is required.

## 5 Engagement Governance

To strategically align the individual as well as the collaborative engagements, the ESG & Sustainable Finance department at MEAG manages the overall engagement progress evaluation. The progress on the collaborative engagements conducted via CA100+ is reviewed at an operative level on a quarterly basis and is presented to the MEAG internal ESG Committee and Munich Re ESG Investment Committee on an annual basis.

If a portfolio adjustment or a divestment must be considered, MEAG's ESG Committee is summoned. In addition, Munich Re ESG Investment Committee decides on escalation for Munich Re's direct investments managed by MEAG AMG.

If escalation occurs through the use of our voting rights and this requires a deviation from MEAG's proxy voting policy, the internal compliance department will be consulted in advance to mitigate any conflicts of interest.



## 6 Data

Several data sources support the engagement process. For climate related key performance indicators, ISS (*International Shareholder Solutions Inc.*) ESG Climate Solutions Data and the publicly available CA100+ Benchmark Assessment Indicators are integrated. For individual engagements concerning the retail funds “MEAG Nachhaltigkeit”, “MEAG FairReturn”, and “ERGO Vermögensmanagement Flexibel/Ausgewogen/Robust”, ESG Controversy data supplied by the external data provider MSCI ESG Research LLC is used as a source of information. The controversy data is supplemented using an internal ESG analysis, which together constitutes the basis for the materiality assessment.

## 7 Update of the Engagement Policy

The ESG & Sustainable Finance department of MEAG is responsible for the content of this Engagement Policy. The Engagement Policy will be reviewed annually and amended as necessary. Any material changes, such as changes or additions to responsibilities or material changes to content or scope, must be approved by the MEAG ESG Committee.

## 8 Associated Policies

[MEAG Proxy Voting Policy](#)

[MEAG Participation Policy](#)

[MEAG Principles for avoiding conflicts of interests](#)

## 9 Glossary

Term	Definition
CA100+	Climate Action 100+
CO2e	Carbon dioxide equivalent
ESG	Environmental, Social and Governance
GHG	Greenhouse Gas
ISS	International Shareholder Solutions Inc.
NZAOA	Net Zero Asset Owner Alliance
PRI	Principles for Responsible Investments