

Vontobel Asset Management Voting and Engagement Report 2018



Overview

As signatory to the UN Principles for Responsible Investment, Vontobel commits to being an active owner and to incorporate environmental, social and corporate governance (ESG) issues into ownership policies and practices. We believe this is important for the development of sustainable economies, societies and the environment, and that material ESG issues can impact the future success of a company and therefore its investment potential.

We partnered with Hermes Equity Ownership Services (HEOS) in 2011 in order to improve the quality of our voting decisions and the breadth of our engagement. EOS helps institutional shareowners around the world meet their fiduciary responsibilities and become active owners of the public companies in which they invest. The selection of HEOS followed a comprehensive internal research process evaluating the different proxy voting and engagement services available in the market to select the solution that fit closest with Vontobel's aims and methodology.

The Quality Growth boutique uses the HEOS service for voting only, whereas the mtX and Global Trends funds uses the service for voting and engagement. All other equity positions held by Vontobel are executed in line with the "Management Company Voting Policy" of Vontobel Management S.A.

This voting policy follows the Recommendation for Best Practice on Corporate Governance published by the European Fund and Asset Management Association. Further documentation on Vontobel's funds and sustainability practices are available at: <http://www.vontobel.com/sustainability>.

Process

HEOS uses the voting research and recommendations of its proxy voting provider (in 2012: Glass Lewis, since 2013: ISS) and adds own research in order to recommend to its clients about how to exercise their voting rights. Vontobel's portfolio managers receive daily alerts of upcoming company meetings along with a voting recommendation, based on standardised policies agreed by HEOS and Vontobel, and supporting research. The managers review the voting decision and if they agree no further action is required.

If they disagree, which may occasionally happen if the standard recommendation does not match the portfolio managers' in-depth knowledge of a company and its management, the portfolio manager can change the vote directly within the online proxy voting platform. This process ensures that we execute all of our voting obligations while maximizing efficient use of Vontobel's resources by freeing the investment team of the administration effort and basic research required for dealing with the majority of proxy votes,

but retaining the authority for portfolio managers to personally make a decision in the interests of our investors on the issues we think are most important.

Formal engagement programmes are carried out by HEOS. The company seeks a balance between direct corporate engagement, ensuring its clients' major holdings are covered and focussing on activities which add most value to its clients' holdings from a risk management point of view, and public policy/best practice engagement, which if effective can positively benefit all companies in the affected region or sector. Such programmes often take place over a number of years and on a variety of issues, particularly with companies in regions or sectors where transparency is poor.

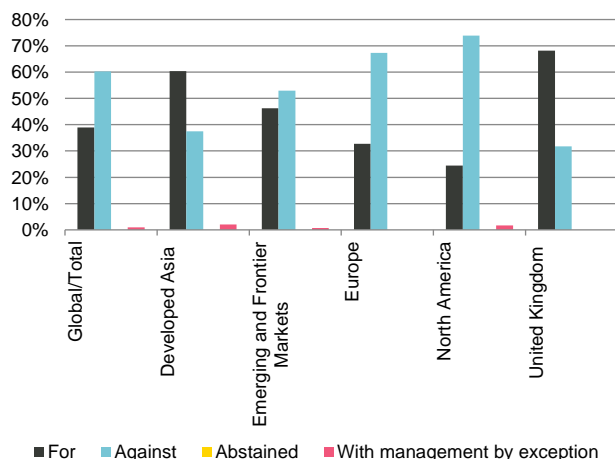
By partnering with HEOS, we are able to participate in many more engagements than we could undertake internally, we benefit from the greater influence that the combined shareholding of all HEOS clients has compared with our individual holding, and support engagements with companies that do not currently meet the standards for our sustainable funds but may do so in future if they improve their performance on ESG factors.

In addition, Vontobel analysts and portfolio managers are encouraged to engage informally on relevant topics with the management of companies in the course of their fundamental research. Our analysts regularly contact companies in order to learn more about governance standards or environmental performance and receive relevant information that is not covered in company reports. We also participate in Hermes' biannual client counsels, in which we have the opportunity to discuss with and learn from other investor using the HEOS service, and engage with Hermes on the current issues of most concern and development of their engagement activities.

Voting activity in 2018

During 2018, we voted at 463 company meetings worldwide on 5,817 resolutions. At 279 of those meetings, we opposed one or more resolutions. We voted with management by exception at four meetings and supported management on all resolutions at 180 meetings.

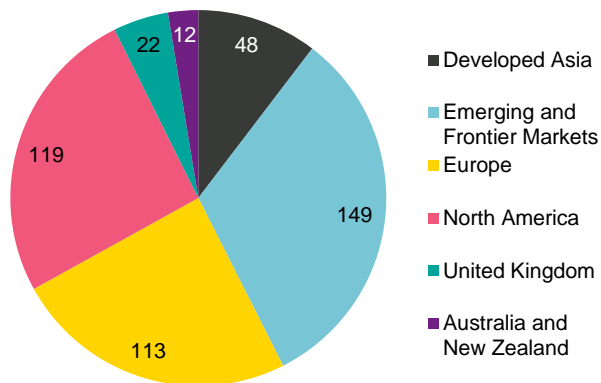
Figure 1: Voting decisions by region (in %)



Source: Hermes EOS Report for Vontobel AG, 2018

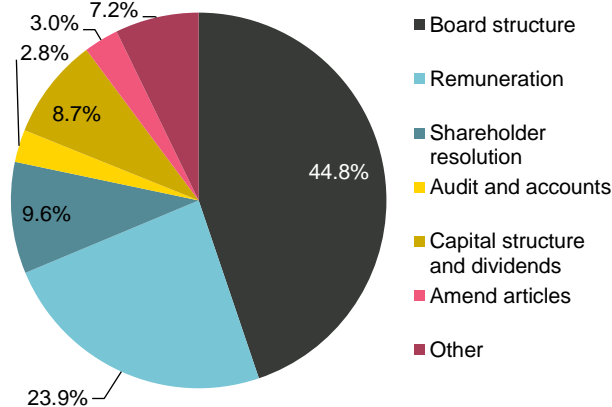
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Figure 2: Company meetings voted worldwide



Source: Hermes EOS Report for Vontobel AG, 2018

Figure 3: Voted against or abstained by issue



Source: Hermes EOS Report for Vontobel AG, 2018

Engagement activity in 2018

In 2018, HEOS engaged on our behalf with 38 companies in Vontobel sustainable and thematic investing portfolios, on a range of 134 environmental, social, governance, strategy, risk and communication issues. Engagements with companies typically involve more than one issue simultaneously and are in addition to any discussions surrounding voting matters. Governance issues were the biggest concern; these represented 35.8% of all engagement issues. Remuneration continued to be a key issue in many markets, particularly in the UK. Executive pay plans are complex and difficult to understand and they are often misaligned with the interests of long-term shareholders and the performance of companies. HEOS published remuneration principles for clarifying expectations to overhaul executive remuneration structures so that they better align management with the interests of their long-term shareholders and factor in issues of fairness.

Social and ethical issues were the next largest group, covering issues such as human rights, labour rights and supply chain management issues such as child labour.

Given the introduction of legislation on modern slavery in the US and the UK in 2015, engagements on human rights made up a large part of social engagements in 2018.

HEOS engaged with the communities living in proximity to their operations and built good relationships with them. On strategy, risk and communication, HEOS continued to encourage companies to produce integrated reports to take into account equally their financial and material environmental, social and governance risks. HEOS also requested companies to set and report on sustainability targets and urged for more disclosure on audits, including reporting on the non-audit fees paid to auditors.

Environmental engagements in this area typically seek the disclosure of relevant environmental indicators and encourage companies to develop plans for managing their environmental footprint, set appropriate targets, monitor and disclose progress. In addition, HEOS encourages companies to disclose explicit and practical examples of how they manage environmental risks and press for board involvement in overseeing progress. In 2018, HEOS pushed for enhanced disclosure of climate-related risks and sought greater transparency on stress-testing and portfolio resilience in a range of carbon-constrained scenarios at companies where the issue is particularly material. HEOS engaged with automotive companies globally on their adherence to emissions standards and their commitment towards sustainable drivetrain technologies.

Progress on engagements is measured by a series of milestones, marking events such as companies acknowledging the issue, committing to making improvements, and actually implementing improvements. In 2018, HEOS made progress on 49% of its ongoing engagements.

Figure 4: Engagement themes worldwide

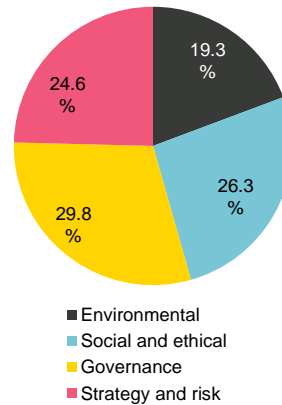
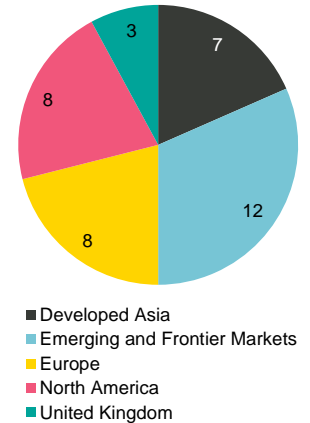


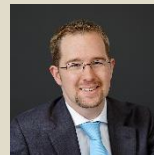
Figure 5: Engaged companies by region



Source: Hermes EOS Report for Vontobel AG, 2018

For more information on Vontobel funds please log on to:
vontobel.com/am

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