

MIRABAUD SUSTAINABLE CONVERTIBLES GLOBAL

ENGAGEMENT REPORT 2019

July 2020



INDEX /

01

INSIGHTS / PAGE 3

02

GENERAL INFORMATION ABOUT
THE ASSET MANAGEMENT FIRM / PAGE 4

03

GENERAL INFORMATION REGARDING SRI
FUNDS MENTIONED IN THIS
TRANSPARENCY CODE / PAGE 5

04

INVESTMENT PROCESS / PAGE 6



1. Insights

As an active and responsible shareholder, Mirabaud believes that engaging with companies in regards to sustainability matters is a key element to gain in depth understanding of the impact of non-financial matters and the processes in place for the company to deal with them from a long term sustainability perspective and become part of a company's day to day in regards to processes and strategy implementation.

The entities comprising the Mirabaud Asset Management business line (hereinafter referred to as « MAM Group »), therefore, commit to engage with investee companies and issuers to promote "best practices" (ie. good governance and sustainable corporate practices).

MAM Group's Engagement Policy is based on generally accepted best practices. These best practices are reflected in the OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises, the ICGN Global Governance Principles, the UN Global Compact and the UN Principles for Responsible Investment (UN PRI) and the UK Stewardship Code where applicable.

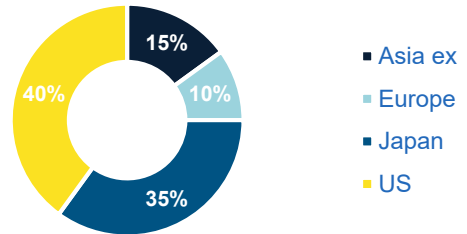
MAM is of the opinion that Issuers should address the impacts of their activities on society and the environment. Investees should focus their action and reporting on material ESG topics as these could significantly impact their financial performance. Therefore, when it is not the case, our portfolio managers actively engage discussions in order to gather additional transparency in regards to the matters at hand.

2. Mirabaud – Sustainable Convertibles Global engagement activities in numbers

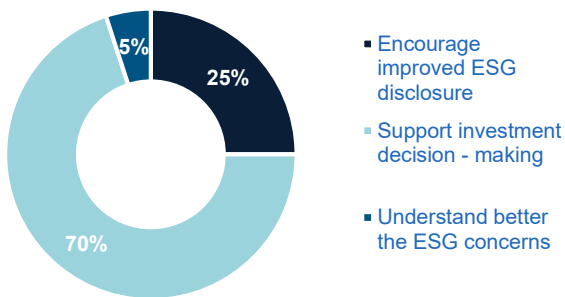
38 ESG issues engaged upon with CB issuers

Engagement activated with 20 issuers

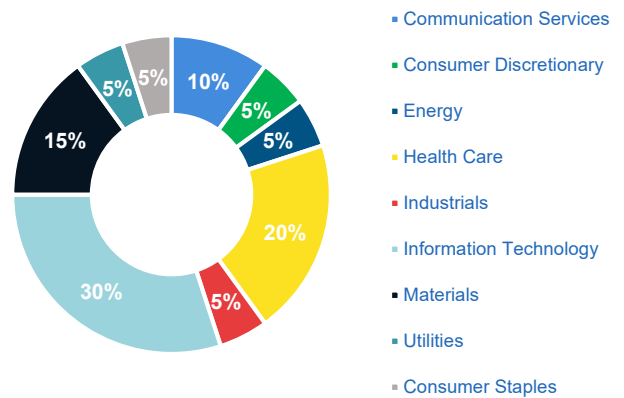
GEOGRAPHY



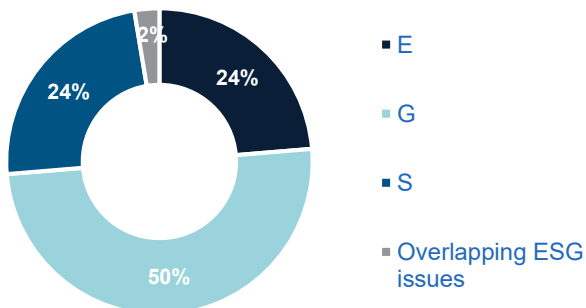
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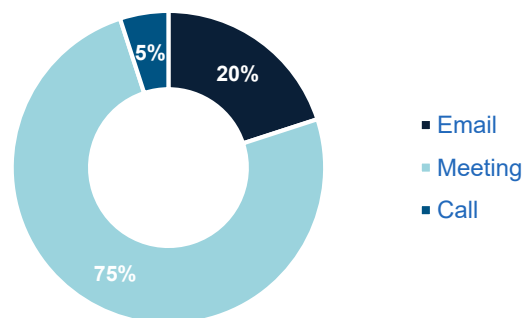
TOP SECTORS



TOPICS



CONTACT CHANNEL



3 Top areas of engagement for 2019

Data Privacy and Security

Data security has become a critical risk for many industries due to large and growing number of cyber-attacks and social engineering threats, which puts customer information and a company's own data at risk. When engaging about Data Privacy and Security, we aim at assessing whether the company has adequate approach to identify and address data security risks and whether specific cybersecurity risk management standards have been implemented or in use

Water Management

Water is critical to a number of industries, such as semiconductors, Water is becoming a scarce resource around the world, due to increasing consumption from population growth and rapid urbanization and reduced supplies due to climate change. Without careful planning, water scarcity can result in higher supply costs, social tension as well as loss of access to water in water-scarce regions, posing a critical risk to production. When engaging with companies for which we believe water management is a material issue, we assess whether the company has analyzed all its operations for water risks and identified activities that withdraw and consume water as well as if policies for wastewater effluent management are in place.

Human Capital

A number of social factors can affect a company's financial performance, ranging from short to long-term challenges and risks. We consider employee engagement, diversity, talent retention as well as good labor relations as material issues for a number of sectors. Some industries, such as pharmaceuticals, are particularly reliant on skilled workers to develop products and new commercialization strategies. When engaging with companies, we assess, among other indicators, the quality of their disclosure regarding employees' diversity, retention rate, engagement, etc...

4 Engagement case studies

4.1 Resource use of a semiconductor manufacturer

Background

A designer and manufacturer of high-performance sensor solutions for applications issued convertible bond in 2018 for general corporate purposes, including financing of M&A transactions.

Objective

Companies with in-house manufacturing activities are particularly exposed to the Environmental issues. Concerns revolve around water use and the steady supply of key materials. In aggregate, the semiconductor industry spends approximately USD 1 billion on water and wastewater systems per year. Therefore, our engagement with the company mainly emphasized the risk related to critical materials and water resources. We sought additional details in management process and risk controlling since this is an important factor for sustainable development.

Scope and Process

Our discussion with the issuer was focused on whether the company had implemented best practices to mitigate the risk of disruption of critical materials, as well as their water scarcity and wastewater effluents management. As considering their Environmental Performance Report, we found out that there is no water management program; hence, this became our biggest concern. After discussion, we concluded that they had in-house wastewater treatment plan, with recycling rate of 30% and is working on improving their water and waste program in order to increase the recycling rate. However, there is insufficient of transparency in policy and program for water and materials scarcity.

Outcome

The ESG standard and policy should be more transparent and reliable, especially with risk management to hedge against any scarcity risk, which can cause the disruption to its business. We consider this risk is manageable and the company could make further enhancement, thus, our investment team decided to invest in this issuer and still follow their ESG disclosure to have proper reactions.

4.2 Environmental and health concerns of a food retailer

Background

A food retailer with their private label products raised concerns about transparency on environmental impacts of their packaging as well as their nutritional and health prospect.

Objective

Food retailing industry tends to prioritize product quality and safety, which has a direct impact on consumers and concern over products' direct impact on the environment. In this flat world, any issues raising from these problems could become viral and pose a negative impact to company credit and growth.

Scope and Process

Our discussion with the issuer was focused on two subjects as stated above. Firstly, it is about the eco-friendly of their packaging. The results were quite satisfied. Company launched program to reduce plastic components in their packages and collect empty bottles to recycle. Second concerns is the hygiene and nutritional ingredients of their own products. There is a specialized department for product safety and security with daily site checks, store visits by headquarter, declaration of radioactivity. Based on their awareness, we believe that they can do better by disclosing their objectives and plans to achieve, in order to gain confidence from their stakeholders.

Outcome

With its efforts to manage and reduce risks from environmental and health concern, the sustainability prospect of the issuer is on a good pace. However, the requirement for transparency and compliance with regulations remain important and we encourage the issuer to disclose the necessary information to public and investors.

4.3 Data privacy and insider trading of an education platform

Background

The issuer is an educational services company that specializes in textbook rentals, course assistance, and online tutoring. The company focuses on high school and college level students who are able to rent textbooks for various courses and return them to the company after completion. The issuer also provides course and professor reviews, standardized test preparation, career preparation, and study materials on its website. The convertible bonds proceeds are used for share repurchases, working capital and some other corporate purposes, which may include acquisitions or other strategic transactions.

Objective

Since the majority of their customers are minors, the data privacy is extremely important for an online platform. Hence, we would like to understand about their data management. Besides, corporate governance and controversy related to insider trading of top managers are also considerable topics to follow.

Scope and Process

During our meeting with the issuer, we discussed the use and the way to manage risk from data of minors. The issuer was aware of that concern and strongly stated that they keep the data within company to support decision-making process on product features. In considering the insider-trading dispute, with evidences provided by the issuer, it is not reasonable to conclude that the trading was a manipulation.

Outcome

After investigation, our investment team agreed on the positive view on data privacy and corporate governance of the company. Nevertheless, we always pay attention to the data concerns, since it can have unfavorable consequences on business of technology firms.

