May 2025

Engagement Topics 2025

The Responsible Shareholder Group (RSG) selects the following main topics for the engagement activities in 2025:

Environment

- Scope 3
- Sustainable Products and Services
- Biodiversity

Social

- Human Rights Due Diligence
- Psychosocial Risks at Work

Governance

- Competencies in the Board
- ESG Criteria in the Compensation System

1 Scope 3

Greenhouse gas emissions are commonly divided into three «scopes» according to the internationally recognized Greenhouse Gas (GHG) Protocol:

Scope 1 refers to direct emissions from sources that are owned or controlled by the company, such as fuel combustion or company vehicles (excluding electric vehicles).

Scope 2 covers indirect emissions from the generation of purchased energy, including purchased electricity, heat, and steam.

Scope 3 includes all other indirect emissions that occur throughout a company's value chain but are not directly owned or controlled by the company. These may arise from upstream and downstream activities such as:

- Purchased goods and services
- third-party distribution and logistics
- leased assets, franchises and investments
- waste disposal and wastewater treatment
- use and end-of-life treatment of sold products.

In Switzerland, tracking and disclosing scope 1 and scope 2 emissions has become standard practice for many companies. However, reporting on scope 3 emissions remains limited. While scope 3 emissions are more difficult to quantify, often requiring complex value chain data, their significance is substantial and continues to grow. Between 1995 and 2015, global scope 1, 2, and 3 emissions grew by 47%, 78% and 84%, respectively. In many sectors, scope 3 emissions make up the largest share of a company's total emissions, accounting on average for approximately 75% of total greenhouse gas emissions.

For these reasons, disclosure of scope 3 emissions is essential to comprehensively assess a company's impact on climate change. Without transparent reporting across the value chain, including upstream and downstream activities, investors may obtain a misleading view of a company's exposure to climate-related risks, opportunities and impacts. Moreover, incomplete emissions data may hinder the progress of a country, investor, or business on its transition to a low-carbon economy. Developing a robust scope 3 emissions inventory requires active collaboration across the value chain, particularly with suppliers. This enables companies to identify emissions hotspots, manage risks and opportunities more effectively, and prioritize actions with the greatest potential to reduce value chain GHG emissions.

Finally, Inrate expects companies to adopt science-based net-zero targets that cover scope 1, 2 and, where material, scope 3 emissions. These targets should be aligned with the Paris Agreement's goal to limit global average temperature increase to 1.5°C above pre-industrial levels and validated by the Science Based Target initiative (SBTi).

2 Sustainable Products and Services

Companies that do not adapt their business models to the challenges of sustainable development may face significant environmental and social risks. Sustainability challenges can turn into business opportunities if companies develop innovative products and solutions that directly address specific or global sustainability issues, such as climate change, energy efficiency, scarcity of natural resources or fair trade. Among other characteristics, sustainable products can save energy, be free of toxic compounds, and be made of recycled or reused materials. Sustainable services can help to reduce the social and environmental impact through targeted technical and scientific expertise, for example in the financial industry or in the real estate sector. As customers have become increasingly sensitive to sustainability issues, demand has increased significantly in recent years and the portfolio of sustainable products and services is increasingly becoming a strategic business issue and a competitive factor for many companies. In the food industry, the supply of organic products that meet recognized standards and ecolabels is facing an ever-increasing demand. Many investors today view the range of sustainable products and services as a material ESG issue that contributes to a company's long-term financial value. International initiatives such as the Sustainable Development Goals (SDGs), supported by a growing number of stakeholders, including investors, strongly encourage companies to provide sustainable products/services.

3 Biodiversity

Human activities have drastically altered natural environments, putting one million plant and animal species at risk of extinction in the coming decades. This biodiversity loss threatens both livelihoods and ecosystem resilience. In 2025, The World Economic Forum defined biodiversity loss as a top-two risk, as more than half of the world economy depends on natural resources and services provided by nature and more than 80% of Sustainable Development Goals (SDGs) are connected to biodiversity.

Wildlife populations have declined by an average of 73% over the past 50 years, according to WWF's 2024 Living Planet Report—a stark indicator of ecosystem degradation.

Biodiversity loss is tightly linked to climate change. Ecosystem recovery depends on environmental stability, making it critical to reduce emissions, especially from the energy and food sectors (WWF & Zohner et al., 2023). Land-use changes along with crop and livestock production account for roughly 30% of global greenhouse gas emissions and weakens ecosystems' ability to respond to climate extremes (FAO 2022).

To address this, the energy industry must shift to renewables like solar, wind, and hydropower to lower emissions and reduce habitat destruction. Similarly, the food sector must embrace sustainable practices to combat deforestation, soil erosion, and water pollution. Regenerative agriculture and plant-based diets can further boost ecosystem health and climate stability.

However, restoration must extend beyond purely environmental objectives. The International Union for Conservation of Nature (IUCN) emphasizes the importance of integrating economic and social considerations. Effective initiatives should support local communities, respect the rights of indigenous peoples, and protect natural habitats.

Investing in holistic restoration allows businesses and industries to safeguard biodiversity, strengthen environmental resilience, and secure long-term economic sustainability.

4 Human Rights Due Diligence

Over the last few years, Human Rights Due Diligence (HRDD) has become a strategic topic for companies and their investors. Many companies are affected by human rights-related risks, particularly through their supply chains in emerging markets or their financing activities. The violation of human rights may cause severe risks for both companies and their investors, including reputational and financial damages, commercial losses and criminal sanctions.

At the international level, standards developed by the UN or the OECD are unanimously endorsed and are already being integrated by some leading companies in the field of Human Rights. Some countries, such as France, have enacted laws that impose binding HRDD requirements on national companies. In Switzerland, the responsible business initiative was rejected in 2020. The initiative would have compelled Swiss-based multinational companies to undertake human rights and environmental due diligence in all their business activities and would have imposed a liability for violations. Instead, the indirect counter-proposal entered into force in January 2022, with which companies were expected to comply as of January 2023. The regulations impose mandatory non-financial reporting and a due diligence for conflict minerals and child labour. In January 2025, a new responsible business initiative was launched, aiming to further strengthen the social and environmental requirements for multinational companies in Switzerland.

According to the UN Guiding Principles on Business & Human Rights, HRDD is a way for enterprises to proactively manage potential and actual human rights risks in which they are involved. It consists of five core components on which the dialogue initiated by Inrate with Swiss companies predominantly focuses:

1. Policy Commitment and Governance: a company needs to show its commitment to address the issue, to formulate ad-hoc policies and to adopt proper governance system.
2. Human Rights Impact Assessment: a company identifies and assesses actual or potential adverse human rights impacts that it may cause or contribute to, either through its own activities or through its products and services.
3. Actions to Mitigate and Avoid Impacts: after having considered the findings from impact assessments, a company takes appropriate action according to its involvement in the impact.
4. Monitoring and Reporting: a company communicates on how impacts are being addressed and shows stakeholders that adequate programs are in place.
5. Grievance and Remedy: a company implements grievance mechanisms so that appropriate remedies can be provided to affected stakeholders.

5 Psychosocial Risks at Work

According to a calculation done by the Centre for Economics and Business Research in 2024, Switzerland loses around CHF 17 billion of its GDP per year due to mental health issues at work. According to the Federal Office of Public Health (FOPH), mental illnesses can lead to disability if they are recognized too late and are inadequately treated. Furthermore, the Federal Social Insurance Office states that approximately 52% of disability pensions are caused by psychological reasons, making them the most common cause of disability and this number continues to grow. As a result of this development, the European Union (EU) as well as the Swiss State Secretariat for Economic Affairs (SECO) placed «psychosocial risks at work» (PSRW) at the center of their preventive activities.

Psychosocial risks occur at work and in society. The SECO describes PSRW as follows: Psychosocial risks refer to risks to health due to inadequate workplace design, work organization and unfavorable social environment. Psychosocial risks can affect mental health (e.g. depressions, anxiety disorders) and/or affect physical health (e.g. musculoskeletal diseases, cardiovascular diseases). Whereas group-related PSRW always involve at least two people (e.g. bullying, bossing, sexual harassment, violence), personality related PSRW (e.g. stress, monotony, burnout, bore- out, presenteeism) affect one individual (Fischer, 2016). PSRW can cause employees to lose motivation, become unsociable, increase their consumption of alcohol and/or psychoactive substances. According to the Swiss Health Survey on work and health, the proportion of people who say they feel stressed at work rose from 18% in 2012 to 23% in 2022. This is the largest recorded increase among various working conditions that may pose physical or psychosocial health risks. For companies, these can lead to productivity losses and higher illness costs.

The measurement of KPI's (e.g. absenteeism rate, presenteeism rate, employee turnover) can provide valuable information about PSRW, which is why companies should monitor them.

6 Competencies in the Board

The board of directors plays a crucial role for a company's long-term success. The board acts as a sparring partner to the management board, sets and supervises the firm's strategy and long-term priorities, and provides critical advice to the management. As a result, investors ought to have a serious interest in appointing a board composed of skilled and experienced directors. Furthermore, board diversity is important so that corporate challenges are tackled with insights from various perspectives. Inrate identifies eight measurable competencies to evaluate board of directors and to identify potential know-how gaps:

1. Industry experience
2. CEO experience
3. International experience
4. Experience in emerging markets
5. Financial knowledge
6. M&A experience
7. Legal education
8. Experience in digitization
9. Experience in listed companies
10. Experience in sustainability

7 ESG Criteria in the Compensation System

For investors, sustainability is becoming increasingly important when considering their investment decisions. At the same time, companies are implementing comprehensive sustainability strategies. This is intended to take into account environmental, social and governance (ESG) impacts when making corporate decisions (e.g. reducing CO2 footprints, promoting employee health, increasing diversity at management level). An effective instrument for the implementation of such strategies is the design of remuneration systems. Incentives can influence the behavior of employees and top-level managers. The consideration of ESG criteria for bonuses in remuneration systems might have a potential leverage effect on the integration of sustainability in companies. An analysis by Inrate of 2320 companies in 2018 showed that 11.3% of the companies included ESG criteria in their remuneration systems. The analysis showed that the most used ESG criteria in management remuneration relates to employees: 6.9% of companies mention such criteria. In this context, occupational safety and health of employees, talent development, talent management, employee satisfaction and diversity are mentioned. 4.9% of companies mention environmental issues. They mention general environmental issues, energy savings, emission reduction and water. In the area of social affairs (4.7%), customer satisfaction, quality criteria, ethics and corporate values, as well as stakeholder commitment and social programs are included in the variable compensation. 3.1% of companies generally refer to a link between sustainability or CSR and remuneration systems.

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