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01 Introduction

Investor stewardship, and more specifically voting and engagement, are critical sustainable investment approaches that can be used to create a positive impact regarding sustainability-related challenges and to address sustainability-related risks. In recent years, stewardship, also known as active ownership, has become increasingly important and more widely applied, and is considered best practice as investors have started to expand their goals to encompass the contribution to positive change in the economy, society, and the environment.

From a company perspective, investor stewardship plays a role in fostering sustainable value generation, helping to increase long-term risk-adjusted returns, thereby benefitting all investors equally. From an investor perspective, stewardship protects and enhances long-term value and is hence a core element of fiduciary duty. In a broader context, stewardship is a key driver to help companies, including financial institutions to achieve sustainable economic growth thereby creating long-term value creation from which the economy, environment, and society benefit.¹

On an international level, stewardship principles and practices are rapidly evolving and are being adopted and implemented in numerous markets around the world.² In many countries, the establishment of stewardship codes for investors complements the comparable development of corporate governance codes for companies.³ In Switzerland, engagement and voting are conducted in different ways. Based on international developments, AMAS and SSF see a strong need for guidance for the broad integration of stewardship activities in the business models and investment processes of asset owners, asset managers and service providers. In its report on Sustainable Finance of December 2022, the Federal Council made a recommendation to investors intended to provide transparency on how they promote sustainability goals through stewardship activities.⁴

The Code is directed at asset owners and asset managers (hereafter: investors) as well as third-party service providers to whom investors delegate their stewardship activities (hereafter: service providers). The Code reflects that asset owners⁵, asset managers⁶ and service providers⁷ differ by size, type of business model and investment approach and may exercise stewardship in different ways. Many Swiss investors – be it asset owners or asset managers – choose to delegate the implementation of part or the majority of their stewardship activities, which are by nature time and resource intense, to other organisations.⁸ The Code takes into account that it is common practice for many investors to delegate the implementation of stewardship activities (see chapter 7). Stewardship approaches can typically be developed and applied by investors and service providers at the institutional/company level.

The objective of this Code is to create an effective basis and guidance for more stewardship across the Swiss investment industry while offering a framework that leads to better comparability. By integrating stewardship into the investment process, the Swiss financial industry fosters a value-creating, efficient and sustainable Swiss economy.

¹ International Corporate Governance Network (ICGN) Global Stewardship Principles, 2020, p. 4.
³ See also ICGN Guidance on Global Governance Principles, https://www.icgn.org/policy/icgn-guidance, for example also: US Corporate Governance Framework from US Listed Companies, UK Corporate Governance Code, EU Shareholder Rights Directive II (SRD II) intending to improve corporate governance standards for issuers registered within the European Economic Area (EEA).
⁵ In this Code, we use the term asset owners for entities that manage assets on their own behalf or on behalf of beneficiaries: e.g. pension funds, insurance companies, foundations and trusts.
⁶ In this Code, we use the term asset managers for entities that manage assets for third parties e.g. asset management and fund management companies.
⁷ In this Code, we use the term service providers for entities that provide stewardship linked services to asset owners or asset managers: e.g. proxy voting advisors, engagement providers.
⁸ This is particularly relevant for the engagement and voting processes (see principles 3 and 4 of this Code), but can also apply to other elements of stewardship, such as reporting (see principle 9 of this Code).
The Code does not take the form of binding guidelines. It provides recommendations that are applicable on a voluntary basis and describes the most important elements that are crucial for effective and successful stewardship. Going forward, the Swiss Stewardship Code will be updated to reflect gained experience and future changes in stewardship market practices. It is supposed to educate investors and service providers by encouraging them to follow and implement the nine principles for effective stewardship set out in this Code. It deliberately makes use of open language since institutions differ in their functions and governance. It is therefore up to the institutions to interpret those recommendations in the context of their own governance. These principles are aligned with the Global Stewardship Principles of the International Corporate Governance Network (ICGN) which provide an international benchmark for the highest standards of investor stewardship from an investor perspective.9

In regard to the structure of this paper, chapter 2 defines the term stewardship (active ownership) as used in these recommendations. Chapter 3 provides more detailed information on the interaction between investors as well as between investors and their service providers, which is an important condition for the successful implementation and application of stewardship activities. Chapter 4 defines and summarises nine principles of effective stewardship, whereas chapter 5 provides more detailed guidance on the implementation of these principles.

It is also important to note that on an international level, sustainable finance regulation – especially in the EU, but also in Switzerland – is evolving rapidly with the aim of introducing standards and fostering transparency. This Code is complementary to existing and upcoming national and international regulation. It does not cover the fulfilment of legal obligations on a national or international level that investors and service providers must comply with vis-à-vis each other, their clients or supervisory authorities, or the requirements related to product regulation and financial services (e.g. FINSA10, CISA11, BVG12, other binding regulations, cross-border services). The same applies to the fulfilment of obligations under civil law. This Code does not contradict these obligations, nor does it discharge investors and service providers from such obligations.

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10 Federal Act on Financial Services of 15 June 2018 (FINSA).
Defining Stewardship (or Active Ownership)

Stewardship (or active ownership) is a responsible investment approach by which investors collaborate and interact with investee entities\(^{13}\) to generate long-term financial, environmental and societal value, and to reach positive and long-term sustainable outcomes.

Means: Stewardship (or active ownership) can be achieved through several means including the following two important ones: the active exercising of investor voting rights and/or engagement in an active dialogue with investee entities. Stewardship involves the full investment process and investment team, including the responsibility to monitor the portfolio, an escalation strategy and related capital allocation (including divestment).

Outcomes: Stewardship (or active ownership) focuses on generating long-term financial, environmental and societal value through measurable, positive and long-term sustainable outcomes. Double materiality is key for stewardship efforts. Effective stewardship is material to investors, as it contributes to effective investment decision making, and also material to investee entities, as it helps drive long-term, sustainable development. The terms active ownership and stewardship are used interchangeably in the context of this Code.

This definition builds on and is consistent with AMAS/SSF Recommendations (2020 and 2021\(^{14}\)) as well as AMAS Self-regulation on transparency and disclosure for sustainability-related collective assets (2022).

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\(^{13}\) Investee entities are primarily companies (listed or private) but can also include other actors (e.g. sovereigns, supranationals).

\(^{14}\) Sustainable Asset Management: Key Messages and Recommendations of AMAS and SSF of 16 June 2020; How to Avoid the Greenwashing Trap: Recommendations on transparency and minimum requirements for sustainable investment approaches and products, AMAS and SSF, October 2021.
The Role of Asset Owners, Asset Managers and Service Providers

The effective implementation of stewardship activities requires constructive collaboration and coordination between asset owners, asset managers and service providers. The success of stewardship implementation relies on a clear understanding of the different roles and joint efforts in contributing to positive outcomes and addressing sustainability related risks. Asset owners invest capital and ultimately preserve and enhance the value of the assets of their beneficiaries. They are accountable to their beneficiaries for fulfilling their fiduciary duty. Given their limited in-house capacity to implement all components of stewardship, many asset owners delegate stewardship activities to asset managers and/or service providers. Adequate contracts should specify the objective and the extent of the delegated activities to ensure that asset managers and/or service providers are undertaking the delegated stewardship activities on behalf of the asset owner in the best interest of their clients. The same principles apply to asset managers if they delegate stewardship activities to service providers (or make other use of their services).

Both asset managers and service providers can provide stewardship services to asset owners. These services often include engaging and voting as well as related monitoring of investee entities and reporting on activities. They should specify the objective and the extent of the stewardship services in contracts with their clients (i.e. asset owners). The same principles apply to the service providers if they provide stewardship services to asset managers.

Asset managers and service providers should make sure their stewardship policies are in line with the expectations of their clients. Asset owners should effectively oversee and monitor asset managers and/or service providers. Meaningful transparency is essential in the interaction of the different parties.

Effective coordination and ongoing dialogue between different parties in stewardship processes

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Summary of Principles for Effective Stewardship

Principle 1
Governance
Consistent with their fiduciary duty to clients, investors and service providers integrate stewardship into their investment management and/or working models with the objective of creating long-term value for clients and other stakeholders. Board leadership, appropriate oversight as well as regular review of governance practices are essential.

Principle 2
Stewardship Policies
Investors and service providers develop effective stewardship policies which reflect the principles for effective stewardship and are aligned with their goals and values.

Principle 3
Voting
Investors and service providers commit to active and informed voting with the goal of fostering long-term sustainable value creation. Investors integrate effective voting mechanisms into their investment process.

Principle 4
Engagement
Investors and service providers engage in an active dialogue with investee entities with the aim of generating long-term financial and societal value and of reaching positive and long-term sustainable outcomes. Where necessary, investors collaborate with other investors to increase engagement outcomes. Other stakeholders may be a partner in collaborative engagements as they provide know-how, research and in some cases also specific administrative services to asset managers and asset owners. Where possible and relevant, investors should aim at engaging directly or indirectly in an active dialogue with relevant public stakeholders and policymakers on issues that affect sustainable investment.
Principle 5

Escalation

Investors and service providers, where necessary, escalate their stewardship activities to encourage investee entities towards generating long-term financial, environmental and societal value and towards reaching positive and long-term sustainable outcomes.

Principle 6

Monitoring of Investee Entities

Investors and service providers regularly monitor investee entities to track, assess and review the effectiveness of their stewardship activities.

Principle 7

Delegation of Stewardship Activities

When delegating stewardship activities, investors ensure consistency of the delegated activities with their own investment beliefs, stewardship policy and strategy. They remain responsible and accountable for the effectiveness of the delegated activities.

Principle 8

Conflicts of Interest

Investors and service providers manage conflicts of interest in the best interests of their clients. They assess their investment activities and the interests of their clients to detect and suitably handle actual or potential conflicts of interest, disclosing these conflicts along with the measures taken to mitigate them.

Principle 9

Transparency and Reporting

Investors and service providers disclose and report their stewardship policies and activities to their clients and beneficiaries in a way that demonstrates effective fulfilment of their duties.
Principle 1

Governance

Investors need to establish good governance as a basis for stewardship activities with the objective of creating long-term financial, societal and environmental value and reaching positive and long-term sustainable outcomes for clients and beneficiaries and address sustainability-related risks. The way investors incorporate stewardship activities and obligations into their own processes and management systems is crucial.

Board leadership, appropriate oversight and regular review of governance practices are essential for effective stewardship. To implement and execute effective stewardship in their internal management system, investors and service providers should take into account the following elements:

— **Fiduciary duty**: Investors should align their investment beliefs, strategy, business model and corporate culture with their fiduciary duty to act in the best interests of their clients and beneficiaries as well as to create long-term value. They should explain the factors they consider important as well as the measures they have implemented to ensure that their investment beliefs, strategy, business model and corporate culture support effective stewardship. They should also assess, review and improve the effectiveness of these measures on a regular basis. They should have a code of ethics or conduct in place that guides their investment and fiduciary operations on behalf of their clients and beneficiaries.

— **Board leadership**: The board of the investor or service provider is ultimately accountable for stewardship activities and should provide proper support through the respective organisation and resource allocation for a meaningful execution of stewardship activities and obligations.

— **Governance structure and processes**: To ensure oversight, monitoring and accountability for effective stewardship, investors and service providers should explain their governance structure and processes of their internal organisation as well as assess, review and improve its effectiveness on a regular basis.

— **Resources**: Investors should make sure that the internal workforce (i.e. board members, executive management and employees) has appropriate experience, expertise and qualifications as well as receiving appropriate training to implement and execute stewardship activities and the obligations arising therefrom. In case investors use the services of service providers, they should describe the services received and how they integrate them into their decision-making process.

— **Remuneration system**: The remuneration structure and incentive system of investors and service providers should be aligned with the fiduciary duty (i.e. with the interest of clients and beneficiaries).

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Principle 2

Stewardship Policies

Investors and service providers should develop effective stewardship policies\textsuperscript{17} which reflect the principles for effective stewardship outlined in the Code.

In particular, stewardship policies should:

— Be aligned with the goals and values of the investor/service provider and match the investment practices of the investor.
— Be endorsed at the highest level of the governance structure of the investor entity/service provider.
— Be subject of a periodic review.
— Outline the overarching financial, environmental, social and governance aspects of the stewardship activities (in line with the values of the organisation).
— Address governance, delegation of stewardship (including due diligence), conflict of interests, voting, engagement, escalation as well as monitoring of investee entities (see principles 1, 3–8).

Investors and service providers should also actively communicate their policies to investee entities as part of their ongoing dialogue. Furthermore, they should publicly disclose their stewardship policies or at least a summary of them (for more details see principle 9 below).

\textsuperscript{17} The term “stewardship policy” is used in a broad sense in this Code and can also include stewardship guidelines or principles, for example.
Principle 3

Voting

Investors and service providers should commit to an informed voting process at General Meetings with the goal of fostering long-term sustainable value creation and monitor and if necessary, challenge the policies of external advisors if third-party proxy advice is used. Voting activities of investors and service providers should be consistent with their own stewardship policies.

To ensure an informed voting process, investors and service providers should:

— Understand the objectives and timeframes of their clients and beneficiaries, and promote an investee entity’s long-term success and sustainable value creation over short-term considerations.

— Develop an understanding of the elements that could affect the long-term outlook of an investee entity, including the comprehension of the investee’s business model, strategy and the potential influence of ESG factors on risks and opportunities impacting an investee entity’s long-term performance and sustainable value.

— Define and disclose the overall process for arriving at voting decisions or recommendations, including the methods for handling potential conflicts of interest and conducting due diligence. For investors, it should be defined and disclosed who is responsible for the voting decision and its execution, including if this differs depending on the nature of the resolution, geography, or scale of holdings.

— For investors, provide information on the use of proxy research, voting services or ESG ratings, including details about the provider and the level of adherence to the recommendations. The use of a proxy voting advisor should not replace the investor’s own responsibility to guarantee that votes are made in a well-informed and responsible manner.

— A detailed internal voting policy should include all elements that ensure an informed voting process as outlined in this voting section.

— Where investors outsource voting to third-party service providers or to asset managers, the responsibility remains with the institutional investor as the owner to ensure that the voting mandate deals with financial, environmental, social and governance aspects. Voting decisions should remain at the investor level.

— Regularly make their actual voting records (both on a per-resolution basis and in aggregate) publicly available on their website as well as directly to clients. Where investors vote against management or abstain, the rationale should be disclosed to clients if requested.

— Provide a statement of the approach investors/service providers apply regarding stock lending, recalling lent stock and mitigation of “empty voting”.

— Disclose how ESG/sustainability criteria are considered in the voting policy.

— Disclose the voting policy or a summary thereof on their website.
Principle 4

Engagement

Investors’ and service providers’ active dialogue with investee or potential investee entities (engagement) may be performed at the individual investor/service provider level. Investors and service providers may also decide to coordinate and collaborate with other investors to heighten engagement outcomes. Investors and service providers are free to decide whether to engage individually and/or collaboratively and whether to conduct public policy engagement. In all cases, investors and service providers should describe which type(s) of engagement they decide to be active in. The following principles therefore apply differently depending on the type(s) of engagement investors are involved in.

Principle 4.1
Individual Engagement

Investors and service providers engage with investee or potential investee entities in an active dialogue with the aim of generating long-term financial, environmental and societal value and of reaching positive and long-term sustainable outcomes.

In order to adequately perform individual engagement, investors and service providers should:

— Define their own engagement activities highlighting the positive and long-term sustainable outcomes they aim for.
— Define relevant and measurable key performance indicators (KPIs) in line with the relevant positive and long-term sustainable outcomes expected.
— Outline the expected outcomes of the engagement conducted based on the relevant predefined time-bound KPIs. Engagement should be performed in a constructive manner to promote the investee entity’s success and aim at addressing investor questions or concerns. It should be evidence-based and outcome-oriented.
— Define how engaged investee entities are identified, selected and prioritised.
— Define adequate methods of engagement and respective use cases.
— Define their own engagement topics, not only related to governance but also overarching goals on financial environmental and social aspects.
— Include the purpose and the process of engagement activities, including how engagement is prioritised in their stewardship policy.
— Seek to engage not only with the executive management of an investee entity but also with its board of directors. In the case of a controlled investee entity, investor engagement may also include meetings with controlling shareholders, to explore where interests align or diverge.

18 A KPI can be a quantitative metric or a qualitative description of an intended state.
Principle 4.2
Collaborative Engagement

Investors and service providers coordinate and collaborate, where necessary, with other investors to increase engagement outcomes.

In order to adequately perform collaborative engagement, investors and service providers should:

— Define, select and prioritise the engagement issues for which collaborative engagement is suitable to pursue the expected positive and long-term sustainable outcomes.

— Define the relevant collaborative engagement initiatives and/or coalitions they are joining\(^\text{19}\) and/or forming as well as the rationale to do so. Other stakeholders may be a partner in collaborative engagements as they provide know-how, research and in some cases also specific administrative services to asset managers and asset owners.

— Outline the outcomes of the collaborative engagement conducted based on predefined time-bound KPIs (if available).

Principle 4.3
Public Policy Engagement

Where possible and relevant, investors and service providers should aim at engaging directly or indirectly (e.g. through industry associations) in an active dialogue with relevant public stakeholders and policymakers on issues that affect responsible investment with the aim of generating long-term financial, environmental and societal value and of reaching positive and long-term sustainable outcomes.

In order to adequately perform public policy engagement, investors and service providers should:

— Define the engagement issues that affect responsible investment and corporate governance and for which public policy engagement is suitable to generate long-term financial, environmental and societal value and to reach positive and long-term sustainable outcomes.

— Define the public policy engagement activities they are conducting, including the nature of the relevant public stakeholders engaged, as well as the rationale to do so. Participation in organisations such as trade associations can be instrumental to help foster public policy changes, as well as to facilitate change at the system level where relevant for responsible investors e.g., to promote good corporate governance, protect shareholder rights or address environmental and social issues.

The effectiveness of the public policy engagement approach and objectives should be assessed and reviewed on a regular basis to inform further engagement actions and investment decisions.

\(^\text{19}\) For example: Climate Action 100+, PRI Collaboration Platform.
Principle 5

Escalation

Investors and service providers, where necessary, escalate their stewardship activities to encourage investee entities towards generating long-term financial and societal value and towards reaching positive and long-term sustainable outcomes.

In order to adequately perform escalation, investors and service providers should:

— Define the conditions under which an engagement is considered to be failing to achieve the expected positive and long-term sustainable outcomes, as well as the conditions under which an escalation may be triggered.

— Define the relevant engagement activities used in case of escalation. For investors, relevant escalation steps include the use of proxy voting as well as the modification of asset allocation, and may differ depending on the nature (passive vs. active) of the investments.

In particular, engagement escalations steps may include: voting against a specific agenda item (e.g. against a specific board member), voicing concerns to non-executive directors or corporate representatives, either directly, or in written form, or during annual general meetings, voicing their concerns collectively alongside other investors, issuing a public statement, proposing shareholder resolutions, delivering statements during general meetings, presenting one or more nominations for board election, convening extraordinary shareholders’ meeting, pursuing governance improvements, or formally including the investee entity in an exclusion list, or divesting or indicating an intention to divest from the investment.20

Principle 6

Monitoring of Investee Entities

Investors and service providers regularly monitor investee entities.

In order to adequately monitor investee entities, investors and service providers should:

— Regularly monitor and oversee investee entities to evaluate their individual situations, performance and long-term prospects, and ensure that the most recent information is taken into consideration. Investee entity monitoring should be integrated with the investor’s engagement programme, particularly to help identify situations where there is value in intervening to encourage change.
— Develop an understanding of the investee entities’ corporate governance and sustainability practices and assess the quality of the entity’s reporting against relevant national or international codes. They should also understand the specific circumstances of the investee entity, considering the legal environment, cultural norms and ownership characteristics.

In assessing the listed investee entities’ long-term value generation opportunities, risks and strategy, it is critical to consider, besides financial information, environmental, social and governance information.

In cases where investors have separate stewardship, research, portfolio or investment management teams, these teams should fully align to maintain consistent communication with investee entities. In a case where both debt and equity is held, both the fixed-income and equity teams should consider the benefits of joint engagement across asset classes.
Principle 7

Delegation of Stewardship Activities

When delegating stewardship activities (engagement or voting) investors remain responsible and accountable for effective stewardship.

To ensure the consistency of stewardship activities carried out by the delegated party with the investor’s own investment beliefs, stewardship policy and strategy, the following elements should be part of the investor’s stewardship policy:

— Expectations for the delegated party along the investment chain.
— Description of the milestones of an appropriate due diligence process for the delegation of stewardship activities.
— Description of how the investor oversees the activities carried out by the delegated party and how they monitor them.

If an investor is unable to exercise stewardship activities directly, it should make an arrangement to ensure that its asset manager(s) or external service provider(s) is (are) undertaking these activities on its behalf. If an investor only invests indirectly through mutual or investment funds in listed companies, it should ensure that the managers of these funds have a stewardship policy in place that is in line with this principle or with other (international) codes or guidelines with similar objectives. Asset owners with passive or index-linked strategies should ensure the asset manager has appropriate stewardship capabilities.
Principle 8

Conflicts of Interest

Conflicts of interest may arise in many situations, for example:

— Business or commercial relationships between asset managers and asset owners, investors and service providers, and between investors/service providers and investee entities.
— Diverging client or beneficiaries’ interests.
— Different stewardship policies of investors and service providers and of asset owners and asset managers.
— Ownership structure.
— In situations in which an asset manager/service provider to whom an investor has delegated stewardship activities also provides financial products and services to the same investor.

Conflicts of interest should be managed in order to act in the best interest of clients and beneficiaries. Investors and service providers should rigorously and regularly review their investment activities and their client interests to identify and appropriately manage real or potential conflicts of interest.

Stewardship policies should address how matters are handled in case of conflicts of interest (including appropriate escalation process) and what measures are taken to minimise or avoid them.

Investors and service providers should explain and disclose conflicts of interest, along with remedies to mitigate them.
Principle 9

Transparency and Reporting

Investors and service providers should disclose and report their stewardship policies and activities to their clients and beneficiaries at regular intervals to confirm effective fulfilment of their duties. Investors and service providers should actively communicate their stewardship policies to investee entities as part of their ongoing dialogue. They should either publicly disclose their stewardship policies or a summary thereof on their website.

Investors and service providers should publicly disclose their commitment to the Swiss Stewardship Code on their website.

They should regularly, and at least once a year, publicly publish a stewardship report, including:

— the main stewardship priorities of the past year,
— the main topics addressed with investee entities in governance and sustainability engagements,
— the progress made on the set stewardship priorities.

Investors should provide a review of the stewardship activities of their reporting year. This reporting should be as transparent and as specific as possible while not compromising effective stewardship. The focus should be on activities and outcomes, providing external readers with relevant information on how the stewardship activities are carried out.
Appendix: Literature and Further Information

— AMAS, “Self-regulation on transparency and disclosure for sustainability-related collective assets”, 26 September 2022 (Update on 20 December 2022).
Publisher: Asset Management Association Switzerland and Swiss Sustainable Finance

The Asset Management Association Switzerland (AMAS) is the representative association of the Swiss asset management industry. It aims to strengthen Switzerland’s position as a leading center for asset management with high standards of quality, performance, and sustainability. To this end, it supports its members in developing the Swiss asset management industry and adding value for investors over the long term. The Asset Management Association Switzerland is an active member of the European Fund and Asset Management Association (EFAMA) and the International Investment Funds Association (IIFA). Founded in Basel in 1992, the Asset Management Association Switzerland currently has almost 200 members.

Disclaimer

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