

# Finreon Engagement Report 2024-2025

June 2025



**= Finreon**  
ENGAGEMENT  
POOL

# Management Summary

## Engagement Statistics – 2024-2025 cycle<sup>1</sup>

<b>Total number of companies contacted</b>	<b>246</b>
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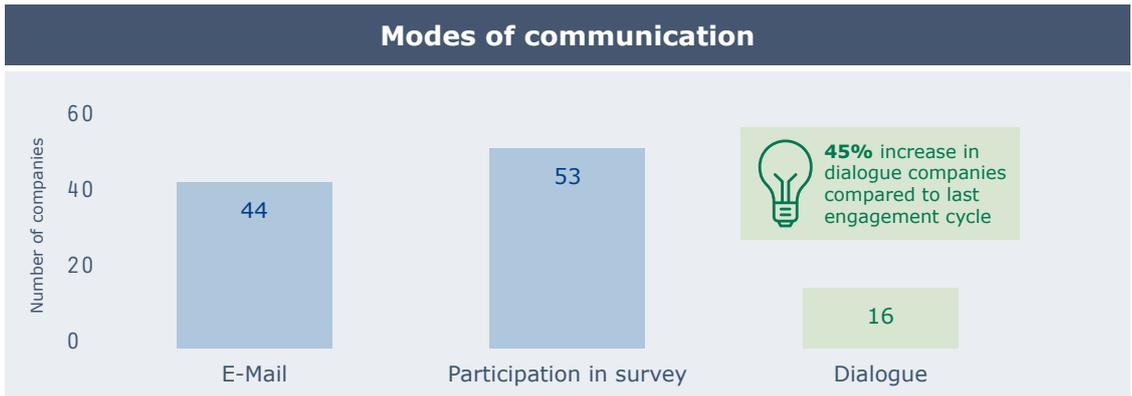
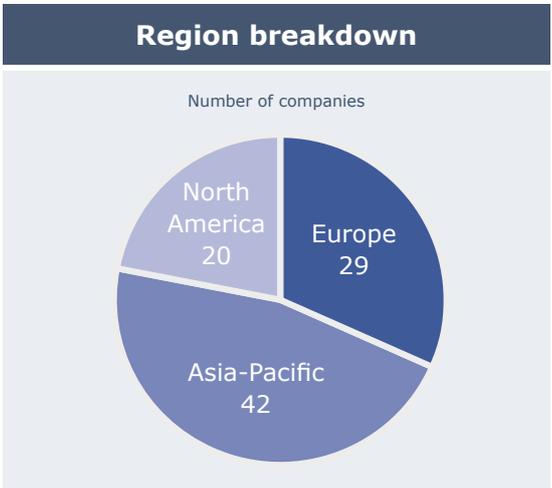
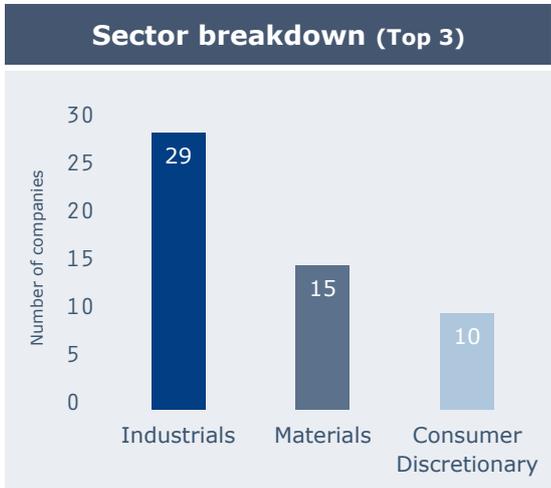
 Responsible for 70.7% of the developed world listed equities' total emissions<sup>2</sup> (scope 1 & 2)

<b>Total number of companies with reactions</b>	<b>91</b>
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 Responsible for 27.4% of the developed world listed equities' total emissions (scope 1 & 2)



## Key statistics of companies with reactions



<sup>1</sup> These statistics and information in the remainder of the report take into account interactions with the companies between June 2024 and May 2025.  
<sup>2</sup> Source: All carbon-related data from ISS ESG, reporting year 2023. GHG data, valid for all carbon data in the report unless specified otherwise: scope 1 & 2 emissions (tCO<sub>2</sub>e). Carbon risk ratings: the ISS ESG Carbon Risk Rating is a holistic and forward-looking assessment of the climate-related risk of companies on a scale from 0 (very poor performance) to 100 (excellent performance).

## Main Outcomes of the Engagement Cycle 2024-2025

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The interactions with the shorted companies and the results of the survey sent together with the *notice on short position* provide valuable insights on the companies that belong to the most CO<sub>2</sub>-intensive organizations worldwide:

### 45% increase in the number of dialogue companies

Compared to the previous engagement cycle (2023–2024), the Finreon Engagement Pool **increased the number of companies with which an active dialogue is conducted from 11 to 16 (+45%)**, enabling engagement with some of the world's most CO<sub>2</sub>-intensive firms.

### Decreasing response rate from North America, increasing in Asia Pacific

Compared to the previous engagement cycle (2023–2024), the **response rate** from shorted companies in North America – which was already comparatively low – decreased from 23% to 17%, while it **increased significantly for Asia Pacific** (42% to 54%).

### The *notice on short position* drives corporate climate awareness

The *notice of short position* represents an innovative engagement tool, drawing increasing attention among companies: **73% of respondents indicated that the notice had a meaningful impact** on their awareness of investors' expectations regarding climate-related issues.

### CapEx for decarbonization set to rise over the next five years

The surveyed companies report ambitious investment plans in decarbonization: 58% intend to allocate over 10% of their total capital expenditures (CapEx) to decarbonization in the next five years, while 25% plan to increase their decarbonization-related spending.

### Scope 3 emissions represent a challenge for high-CO<sub>2</sub> companies

From a decarbonization perspective, scope 3 emissions represent a challenge for the surveyed companies. **Purchased goods and services as well as use of sold products** are among the categories that pose the most difficulties.

### Self-assessment of GHG emissions' profile compared to peers

An **overwhelming 95% of surveyed companies rate their GHG emissions profile as better or significantly better** than that of comparable companies worldwide – despite being among the largest emitters globally.

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# 1. Motivation

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In recent years, and especially in 2024, investors worldwide have been navigating an increasingly complex landscape, marked by rising politicisation and polarisation around sustainability commitments. Recent developments in the financial industry reflect heightened scrutiny of climate action and sustainable practices, but also the increasing role played by engagement as a driver of change<sup>3</sup>. In the meantime, climate change is increasingly becoming reality and has already profound effects on the society and the economy. Accordingly, limiting global warming to below 2 degrees Celsius by the end of the century is more important than ever. In order to achieve this goal, global greenhouse gas (GHG) emissions must reach net zero by 2050. This transition involves profound changes in how we produce energy, manage resources, and conduct business. Such a transition is associated with major risks for unsustainable companies with, among other things, high CO<sub>2</sub> emissions<sup>4</sup>, whereas it represents an opportunity for forward-looking companies.

This paradigm shift is also influencing the investment strategies of investors. On the one hand, this means that greater transparency and disclosure about the extra-financial characteristics of portfolios is required. On the other hand, investors are also expected to contribute to the transition. However, one should realize that investors – especially in liquid markets such as listed equities or bonds – do not have the same influence channels as companies when it comes to contributing to the transition.

While a company can directly affect the real world by e.g. cutting CO<sub>2</sub> emissions (=company impact), investors cannot directly impact the real world. As a matter of fact, reducing the financed carbon footprint of a portfolio – by e.g. selling stocks of a company with high CO<sub>2</sub> emissions – does not lead to an immediate reduction of CO<sub>2</sub> in the atmosphere. Rather, investors can indirectly influence companies through various impact channels, which will in turn lead to real-world effects (=investor impact)<sup>5</sup>.

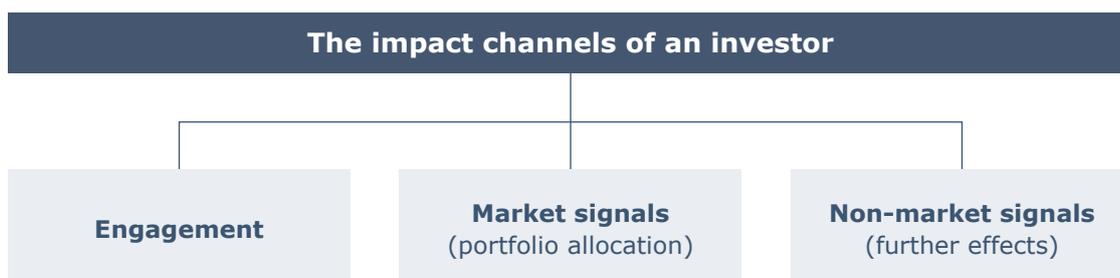
<sup>3</sup> Swiss Sustainable Finance (2025). Swiss Sustainable Investment Market Study 2025. [Available at sustainablefinance.ch](https://www.sustainablefinance.ch)

<sup>4</sup> In the remainder of the report, GHG emissions and CO<sub>2</sub> emissions are used interchangeably.

<sup>5</sup> See e.g. Busch T., Pruessner E., Brosche H. (2023). Principles for Impact Investments: Practical guidance for measuring and assessing the life cycle, magnitude, and tradeoffs of impact investments. *Working Paper*. [Available at SSRN.com](https://www.ssrn.com), also Heeb, F. Kölbl, J.F. (2021). The Investor's Guide to Im-pact; evidence-based advice for investors who want to change the world. University of Zurich, Center for Sustainable Finance and Private Wealth (CSP). [Available at csp.uzh.ch](https://www.csp.uzh.ch).

## 1.1 Combination of Academically Recognized Impact Channels

**Illustration 1: The three channels of investor impact. Own illustration based on Wilkens et al., 2023<sup>5</sup>**



In the realm of the investor impact, academia generally recognizes three different types of impact channels<sup>6</sup>. Next to market signals (investment and divestment activities) and non-market signals (such as generating information or raising awareness), engagement plays a key role in the impact toolkit of investors, especially in liquid markets. Engagement refers to the process by which investors interact with companies to influence their behaviour and decisions, particularly in areas related to corporate governance, social responsibility, and environmental practices.

Several papers have shown the effectiveness of engagement for instance on companies' Environmental, Social and Governance (ESG) performance<sup>7</sup> or their corporate climate policy<sup>8</sup>. While engagement has long been in the spotlight for shareholders wishing to influence the policies and practices of their portfolio companies on questions of environmental, social and governance aspects, organizations and investors are increasingly recognizing the potential of engagement for the broader investment community (such as bondholders and long-short portfolios for instance).

This broader interest for engagement stems from the fact that most investors have committed to achieve net zero portfolio emissions by 2050 or sooner. To ensure their investment strategy is consistent with achieving this goal, they must now use all the impact channels at their disposal (see illustration 1) to influence companies and their trajectory of future emissions in order to drive down CO<sub>2</sub> emissions in the real economy. The need for action is further exacerbated by the observation that climate change is already unfolding its profound consequences across companies, sectors and regions. A particular investment strategy that differs from holding shares of a company and that is increasingly considered by investors worldwide<sup>9</sup> consists in taking sustainability-motivated short positions in specific high-carbon companies.

<sup>6</sup> Wilkens, M., Jacob, S., Rohleder, M., Zink, J. (2023). The Impact of Sustainable Investment Funds – Impact Channels, Status Quo of Literature, and Practical Applications. [Available at SSRN.com](#).

<sup>7</sup> Barko, T., Cremers, M., Renneboog, L. (2021): Shareholder Engagement on Environmental, Social, and Governance Performance. *Journal of Business Ethics*. [Available at springer.com](#).

<sup>8</sup> Heeb, F., Kölbl, J. F. (2024). The Impact of Climate Engagement: A Field Experiment. Swiss Finance Institute Research Paper, No. 24-04. [Available at SSRN.com](#).

<sup>9</sup> The United Nations Principles for Responsible Investing (2021, Shorting and Responsible Investment A Review. [Available at UNPRI.org](#)) observes that a growing number of their signatories use shorting in their investment portfolios.

By taking short positions in a financial instrument (i.e. selling it), the investor gains a negative economic exposure towards the company underlying the instrument<sup>10</sup> (risk materiality perspective) and sends a (negative) market signal<sup>11</sup> (net zero materiality<sup>12</sup> perspective). For instance, the United Nations Principles for Responsible Investing describes<sup>13</sup> taking a short position as the reflection of an economic exposure that has real-world implications for employees, the environment and affected stakeholders. Applied in the framework of a sustainable investment approach, short positions can be:

- a strategy to signal that an entity, security, or asset may be inaccurately priced due to its insufficient consideration ESG factors in its operations.
- an alternative to screening, to „provide opportunities to profit from an underlying economic exposure and engage with companies – opportunities that would not be available were the position to be excluded”.
- a strategy to mitigate the aggregate exposure of a portfolio to significant risks associated with ESG factors.<sup>14</sup>

Because of the sustainability-motivated nature of short positions in such strategies, the combination of short positions with engagement becomes key to help convey the investors’ view regarding ESG-related risks, practices or policies<sup>15</sup> both to the market and to the shorted companies. Because listed companies’ management do pay attention to feedback from the market and especially to short positions<sup>16</sup>, engaging with shorted companies helps clarify the market signal and the reasons behind the decision to short. Furthermore, the combination of short positions with engagement enables an alignment of incentives between investors and companies by e.g. allowing investors to remove their short positions (and therefore the negative signal) and invest in the company should it improve sufficiently from a sustainability perspective. Finally, combining short positions with engagement can optimally complement other sustainable investment approaches on the long side<sup>17</sup> because the approach allows to broaden the universe of companies on which impact channels can be applied to.

10 Seiz, R., Vial, C. & Gougler, A. (2023). Avoiding greenwashing in investment portfolios through consistent emissions classification and transparent reporting of derivatives. [Available at SSRN.com](#)

11 Furdak, R., Xiang, V. & Zheng, D. (2020). The Big Green Short. Man Institute Analysis. [Available at pensionsforpurpose.com](#)

12 Institutional Investors Group on Climate Change (2022). Incorporating Derivatives & Hedge Funds into the Net Zero Investment Framework. [Available at iigcc.org](#).

13 United Nations Principles for Responsible Investment. (2021). Shorting and Responsible Investment: A Review. [Available at UNPRI.org](#).

14 For the motivations underlying the use of such financial instruments, see also Varsani, H. et al. (2024). ESG and Climate Reporting with Derivatives. MSCI Research Insights. [Available at MSCI.com](#).

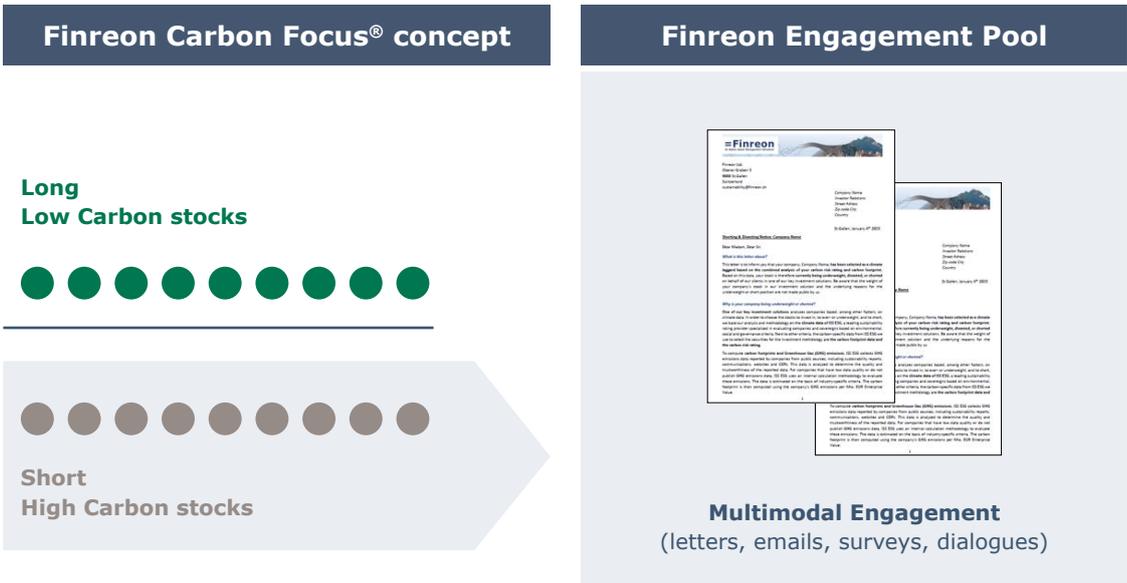
15 United Nations Principles for Responsible Investment. (2021). Shorting and Responsible Investment: A Review. [Available at UNPRI.org](#). For a thorough discussion on the combination of engagement with short positions, see also Gougler, A., Seiz, R. (2024). „We are shorting your stock”: Combining sustainability-based shorting with engagement. [Available at SSRN.com](#).

16 Institutional Investors Group on Climate Change (2022). Incorporating Derivatives & Hedge Funds into the Net Zero Investment Framework. [Available at iigcc.org](#).

17 Gougler, A., Seiz, R. (2024). „We are shorting your stock”: Combining sustainability-based shorting with engagement. [Available at SSRN.com](#).

## 2. The Finreon Engagement Concept

**Illustration 2: The Finreon Engagement Pool engages with the most carbon-intensive global companies in each sector which are being shorted in the Finreon Carbon Focus® investment concept**



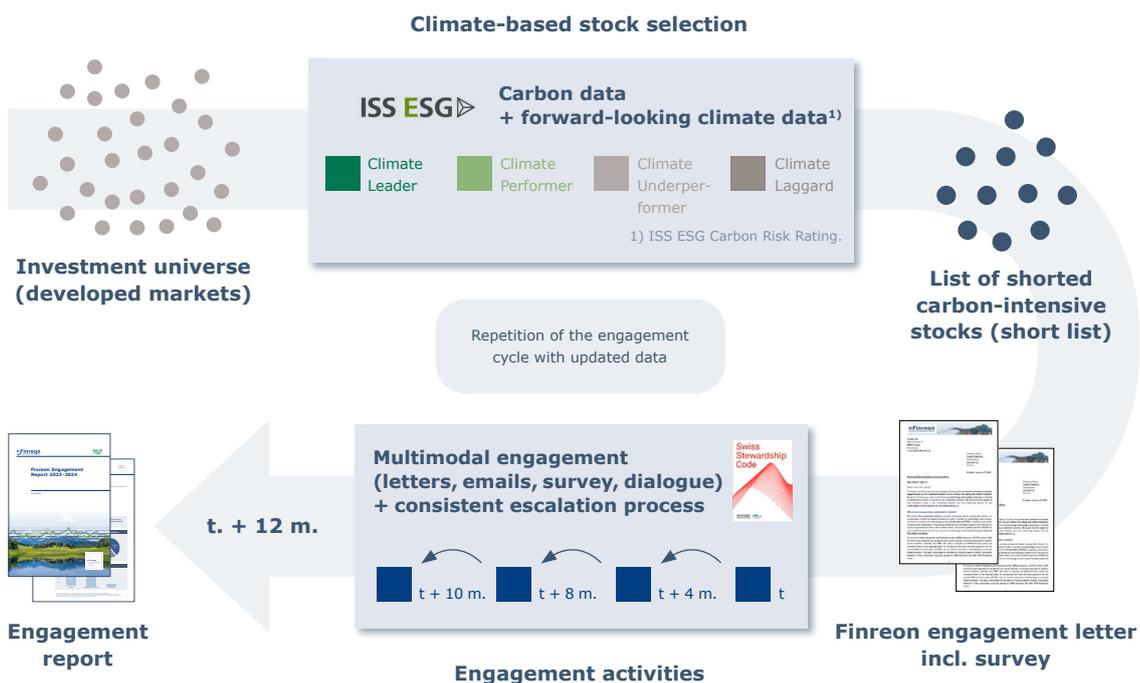
Finreon’s engagement concept – through the Finreon Engagement Pool – innovatively combines short positions and engagement and builds upon the Finreon Carbon Focus® investment solution. This investment approach analyses developed markets’ listed companies based, among other factors, on climate data. In order to choose the global<sup>18</sup> stocks to invest in, to over- or underweight, and to short, Finreon bases its analysis and methodology on the climate data of ISS ESG, a leading sustainability rating provider specializing in evaluating companies and sovereigns based on environmental, social and governance criteria.

Next to other criteria, the carbon-specific data from ISS ESG used by Finreon to select the stocks for the investment methodology are the carbon footprint data (as a current/backward looking measure) and the carbon risk rating (as a forward looking measure). Based on this analysis, the most carbon-intensive companies for each sector are selected and shorted. These companies, which cause very high GHG emissions levels both in absolute terms and compared to their sector peers, are proactively informed about this pressure as part of our engagement concept, thus reinforcing the market signal and fostering transparent dialogues for a low-carbon future.

<sup>18</sup> The investment universe consists of stocks from developed markets.

## 2.1 The Engagement Process

**Illustration 3: The Finreon engagement concept follows a systematic and data-driven process based on the Swiss Stewardship Code**



The Finreon Engagement Pool follows a systematic engagement process based on the principles formulated by the Swiss Stewardship Code<sup>19</sup>. In the first step and following the Finreon Carbon Focus<sup>®</sup> investment concept, the companies to be shorted are selected based on climate considerations. In the second step, all shorted companies are then contacted with the Finreon engagement letter dubbed *notice on short position* and invited to fill out the Finreon engagement online survey. The survey is an important tool in the engagement process and serves three functions:

1. It allows to frame our engagement efforts on the aspects of the decarbonization that are deemed most pressing.
2. It allows to gather more granular information on certain topics, so that Finreon can use the information for its exchange with companies and as a base case for future assessment of the company's efforts.
3. It allows to collect aggregate data on the most CO<sub>2</sub>-intensive companies worldwide in order to be able to draw some high-level conclusions e.g. on their approach to decarbonization and their stance on the impact channels used by investors.

<sup>19</sup> For more information, please refer to section 6 of the report.

Some aspects of the survey will truly unfold their value over the long run (such as e.g. the assessment of how fast the surveyed companies plan to decarbonize their business activities and the lists of concrete measures meant to be implemented in the near future), some other aspects of the survey provide valuable insights in the most CO<sub>2</sub>-intensive companies that took part in the survey (see Management Summary).

The engagement activities are conducted through different channels (letters, emails, survey, dialogues). Two aspects of the engagement process that play an important role in the consistency and credibility of an engagement initiative are 1) the monitoring of companies considered in the engagement and 2) a clear escalation process in case of unsatisfactory results. The combination of shorts positions with engagement offers several advantages in these two aspects:

**1) Monitoring:** In order to be able to monitor companies appropriately, stakeholders should regularly assess the situation, ESG performance and long-term prospects of the companies on the engagement list. The Finreon engagement concept actively monitors the companies based on objective data. Companies considered in the Finreon engagement concept are selected based on their CO<sub>2</sub> footprint as well as on forward-looking, carbon-related metrics. Finreon then regularly monitors the companies on the short list based on these quantitative measures, which are regularly updated by ISS ESG. In the engagement process, the companies are also informed that the Finreon Engagement Pool only considers measurable improvements in those aspects (such as a decreasing carbon footprint or an improving carbon risk rating). Thanks to the regular rebalancing of the short list and the regularly updated data, sufficient improvements mean that improving companies may be removed from the short list. On the other hand, companies with worsening or stagnating metrics can be identified and the short positions on those companies can be maintained or increased, and the companies can be further engaged with.

**2) Escalation process:** Investors should also envisage escalation measures if companies with which engagement is pursued do not achieve desired results. A clear escalation process is already in place with regards to the communication of the engagement (see illustration 3). When it comes to escalation measures in case of stagnating or worsening metrics, the fact that these companies are being shorted means that the market pressure is therefore already being exerted. In case of stagnating or worsening climate-related results, the short position can be increased, meaning the market signal is reinforced. As a result, the companies have a clear and immediate incentive to quickly take the steps necessary to improve their climate profile in order to be removed from the short list. Only concrete improvements that can be measured in the carbon-related data can lead to the company being removed from the short list, and not mere declarations of intent that can be weakened or eliminated. On the other hand, if there is sufficient improvement in the above-mentioned criteria, the company can be removed from the short list. Depending on the company profile and key figures, companies can even be included on the long side of the Finreon Carbon Focus® concept (see illustration 2), thus providing a positive market signal to the company.

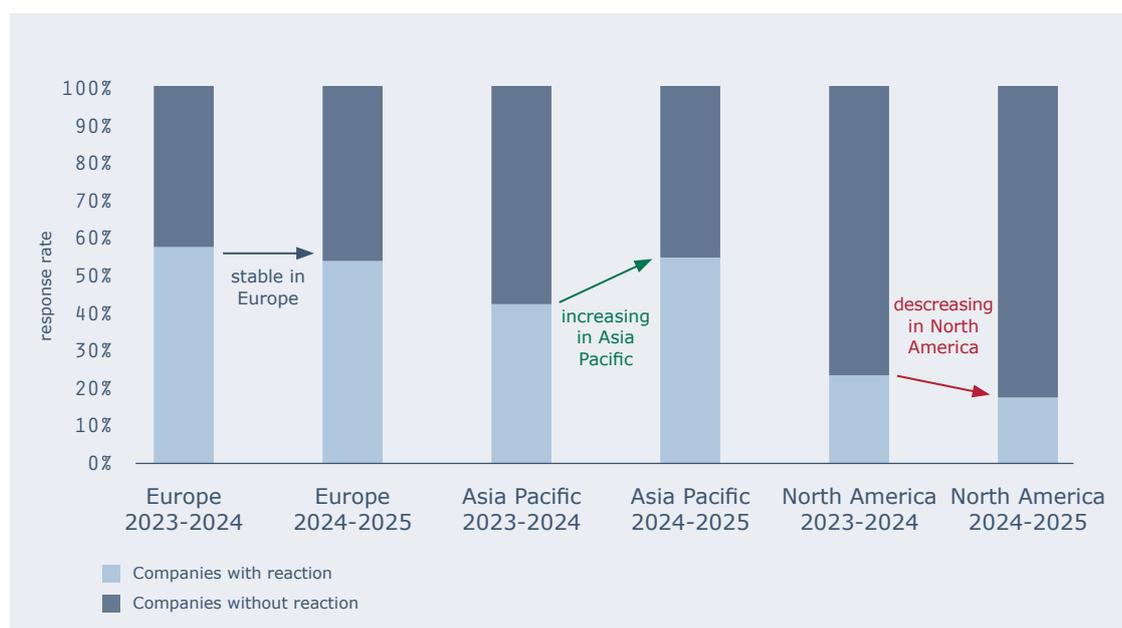
### 3. Detailed Findings of the Finreon Engagement Survey

#### 3.1 Evolution of the Shorted Companies' Response Rate

The escalation process is structured to allow companies sufficient time to respond to the Finreon Engagement Pool's initiative. It includes a follow-up reminder, providing an additional opportunity to react to our engagement. Furthermore, Finreon reaches out to two distinct departments and hierarchy levels – Investor Relations and the Chief Financial Officer – to ensure that the exchange does not rely on a single point of contact.

For the engagement cycle from June 2024 to May 2025, 37% of companies responded through the various communication channels available (see Section 2 of the report). While the overall response rate remains stable compared to the previous cycle, regional response rates vary, as illustrated in illustration 4.

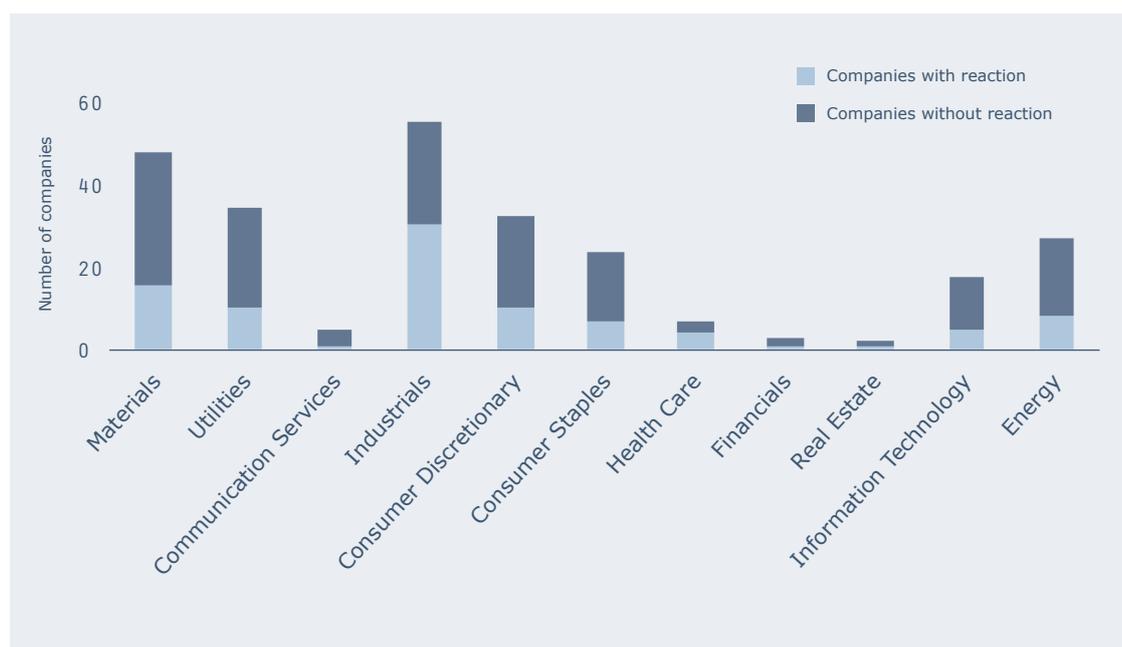
**Illustration 4: Share of responding companies by region and by engagement cycle**



As observed in the previous engagement cycle (2023-2024), the response rate from shorted companies headquartered in Europe remains high with a response rate of 54% (compared to 57% in 2023-2024). Reasons include the geographic proximity with Finreon and its customer base, but also Europe being a longstanding frontrunner in international efforts to keep global warming under 2 degrees Celsius. In North America, where Donald Trump's reelection sparked the US withdrawal from the Paris Agreement, the response rate – which was already the lowest among the three regions – declined further, with just over 17% of companies having reacted to the Finreon Engagement Pool's solicitations. On

the contrary, the response rate of shorted companies in Asia Pacific increased significantly compared to the previous engagement cycle, from 42% to over 54%, showing an increasing awareness for investors' demands around subjects such as climate change and decarbonization in that region. Reasons might include growing regulatory pressure, an improved awareness of global investor expectations around climate issues and more mature ESG processes and structures at larger companies. Companies in Asia Pacific show a higher openness to dialogue in the engagement cycle 2024-2025: The Finreon Engagement Pool was able to conduct an active dialogue with five companies from that region in this engagement cycle, compared to just one in the previous one.

**Illustration 5: Share of responding companies by sector for the engagement cycle 2024-2025**

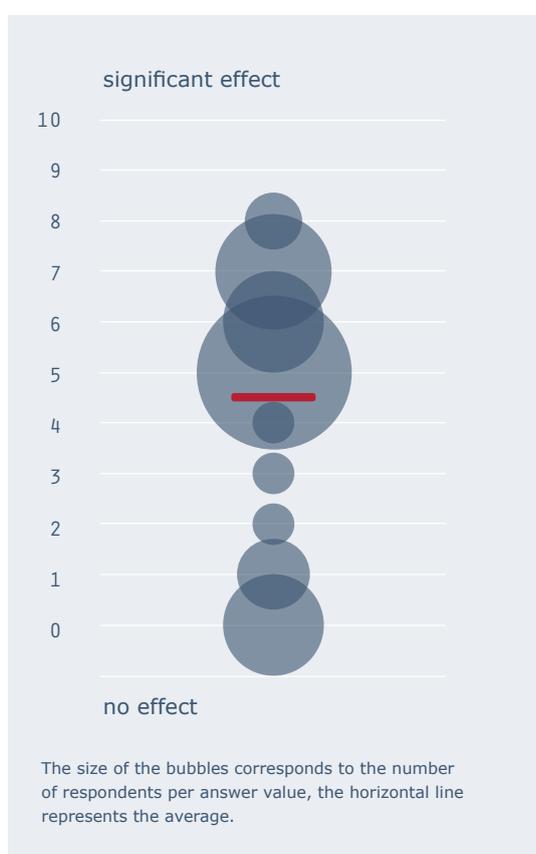


Looking at the relative share of respondents and non-respondents by sector (Illustration 5), the trend from the previous engagement cycle remains consistent: certain sectors are more responsive than others. Industrials, which represent a significant portion of the shorted companies, show an above-average response rate of 54%. In contrast, response rates remain notably lower in sectors such as energy (30%) and information technology (29%).

### 3.2 Reactions Regarding the *Notice on Short Position's* Effect

How would you rate the effect of this *notice on short position* on your company's awareness of the importance of climate-related questions to investors?

**Illustration 6:**  
Results of the above-mentioned question about the effect of the *notice on short position*.



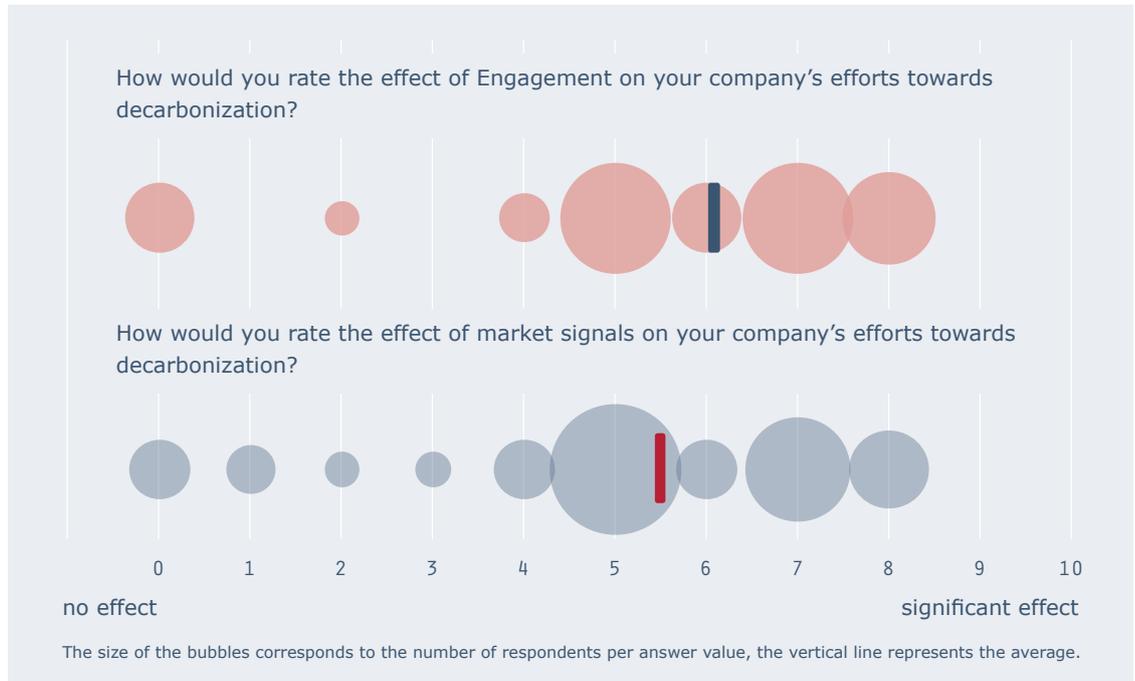
The Finreon Engagement Pool's *notice of short position* is a novel instrument that combines engagement with a short-selling strategy, introducing a unique approach to climate-focused engagement. When asked about the impact of the *notice of short position* on their awareness of the importance investors place on climate-related issues, 73% of respondents rated the effect as 5 or higher – highlighting a clear influence on corporate perception. This marks an increase from last year's result of just over 63% rating the effect as 5 or higher. The rise in awareness can therefore be linked to Finreon's consistent efforts to communicate the sustainability rationale behind the short position. Notably, 70% of companies in this year's engagement cycle also participated in the previous one. Among this group, the proportion reporting heightened awareness – i.e. rating the effect as 5 or higher – climbs to 78%, underscoring that the consistency and credibility of Finreon's engagement approach pay off.

«We value the feedback from financial markets participants, and engagement is a key feedback loop for us. Although we are not happy with your short position, we value you reaching out and the transparent exchange with you.»

#### Dialogue

with an energy company, Europe responsible for 237 M tons CO<sub>2</sub> (scope 1,2 & 3)

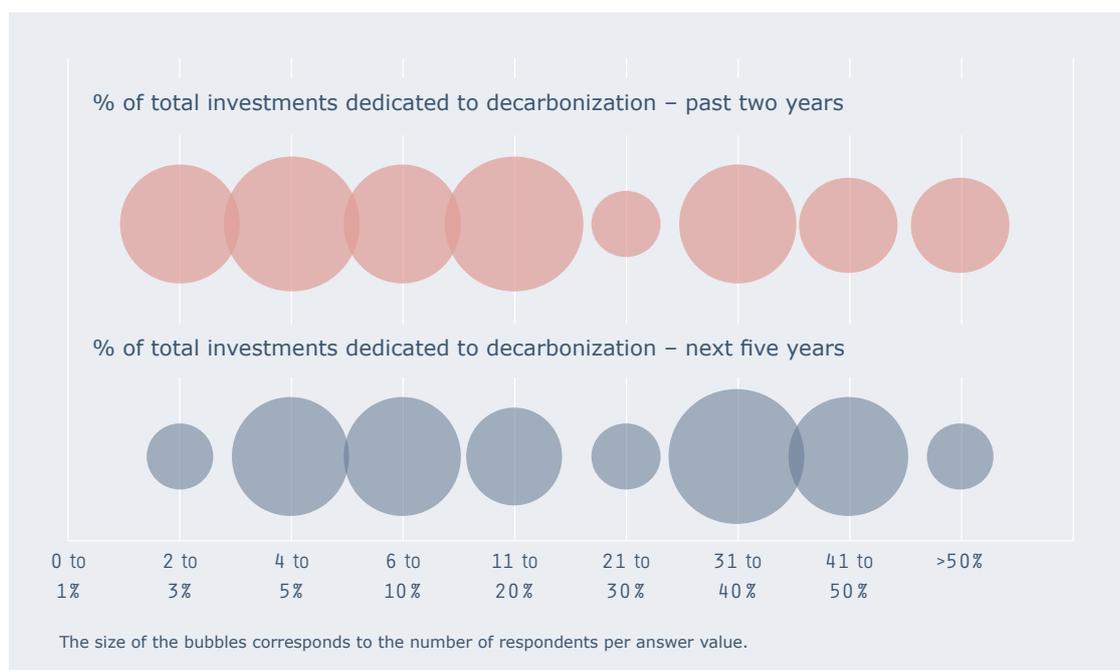
**Illustration 7:**  
**Results of the below-mentioned questions about the effect of engagement and market signals.**



The Finreon Engagement Pool combines two academically grounded impact channels: engagement and market signals. When asked about their influence on decarbonization efforts, 84% of respondents rated the effect of engagement at 5 or above (average 6.1), and 80% did so for market signals (average 5.6). The results thus confirm that both market signals and engagement have a noticeable effect on the shorted companies' effort towards decarbonization, highlighting the effectiveness of Finreon Engagement Pool's approach.

### 3.3 Capital Expenditures (CapEx) Geared Towards Decarbonization

**Illustration 8: Results of the questions about the share of total investment (CapEx) dedicated to decarbonization.**



Capital expenditures (CapEx) refer to a company’s investments in physical assets such as infrastructure, equipment, and technology that are essential for long-term operations and shape the company’s future. When a portion of CapEx is specifically dedicated to decarbonization, it signals a company’s strategic commitment to reducing its GHG emissions and aligning its business model with a low-carbon future. This may include investments in renewable energy, electrification of processes, energy efficiency upgrades, or carbon capture technologies, for instance. While some companies report similar metrics under certain frameworks (such as e.g. EU taxonomy), the capital expenditures dedicated specifically to decarbonization is often not disclosed by companies. The *notice on short position’s* survey thus contains a set of questions to learn about the share of CapEx that shorted companies allocate to decarbonization as it reflects both the company’s climate ambition and its operational readiness to manage transition risks. Tracking this figure over time in the next engagement cycles will provide insight into how climate goals are being translated into concrete action.

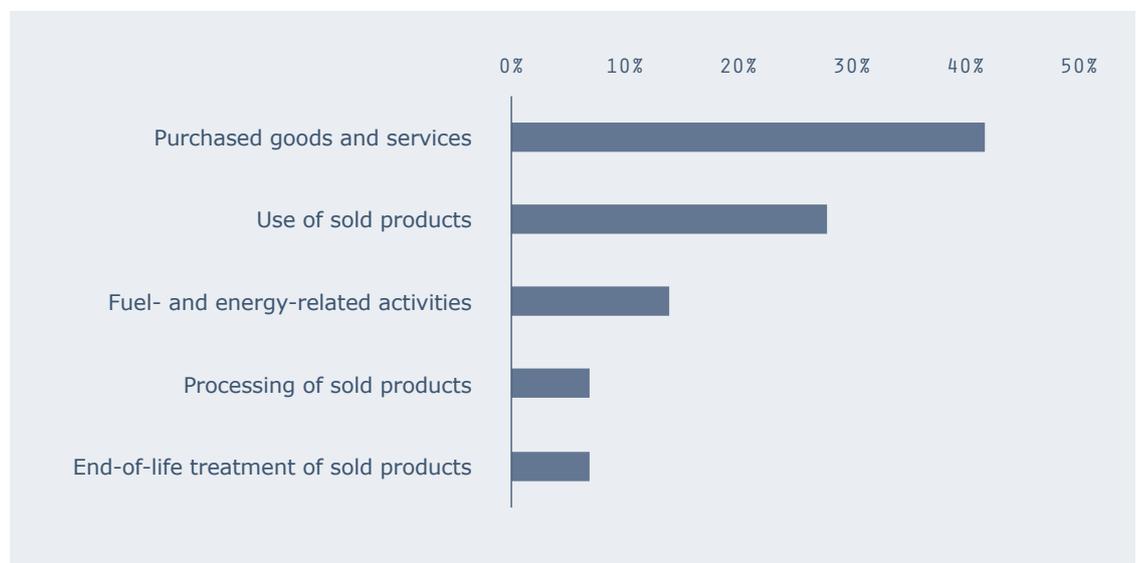
The results show that a large majority of companies will pursue their future decarbonization efforts with the level of CapEx they have been using for this purpose in the past two years: With over 50% of companies spending 10% or more of their CapEx on decarbonization, it will be key to track the impact these investments have on their emissions level. For instance, one company that states it will consistently be spending more than

50% of its CapEx on decarbonization is a Singapore-based energy solutions provider with which the Finreon Engagement Pool conducts an active dialogue. The company has plans to invest heavily in solar and wind and just entered into a joint venture for green-fuels, developments that the Finreon Engagement Pool will be tracking.

Moreover, 26% of the surveyed companies plan to increase their capital expenditures towards decarbonization in the future compared to the previous two years. These companies will be scrutinized in the following engagement cycles and will be subject to specific engagement efforts if the CapEx geared towards decarbonization do not match with the laid-out plan. It is also worth noting that a minority of respondents were unable to provide figures for these two questions, primarily due to a lack of current disclosure or due to ongoing efforts to improve transparency regarding this aspect of their CapEx.

### 3.4 Challenges in Addressing Scope 3 Emissions

**Illustration 9: Percentage of respondents that consider a specific scope 3 category as the greatest challenge from a decarbonization perspective.**



Scope 3 emissions arise from a company's value chain, with a focus on upstream and downstream activities. They often represent the largest share of a company's total carbon footprint. Unlike scope 1 and 2 emissions, which are within a company's direct control, scope 3 emissions are more complex to measure, manage, and reduce. With 15 different categories, scope 3 emissions therefore pose various challenges when it comes to decarbonization. The results from the notice on short position's survey give us some insights into which categories pose the greatest challenge to CO<sub>2</sub>-intensive companies: Over 43%

of surveyed companies consider purchased goods and services as the greatest challenge. This is mostly due to the reliance on external partners over which companies do not have direct control, and who might only have fragmented data on their own emissions' profile. Because of fragmented data, companies often have to rely on industry averages, leading to uncertainty and weak comparability, also because the reporting across suppliers is inconsistent according to a survey participant. Another stated reason is the lack of influence over these suppliers' practices. This, however, heavily depends on the company's importance as a customer. The focus of companies facing such challenges – and the focus of engagement efforts with companies facing such challenges – should further active collaboration across the value chain, especially when companies can exert influence on their suppliers, thereby leveraging their position as a customer. This aspect has been the emphasis of several dialogues that the Finreon Engagement Pool conducted in this engagement cycle.

Emissions from sold products — specifically those related to use of sold products, processing of sold products, and end-of-life treatment — present the second block of categories that poses the greatest challenge for companies, mostly due to limited control and high variability across customer behaviour, technologies, but also regional contexts. On one hand, the estimation of emissions from product usage often requires assumptions about lifetime energy consumption and users' habits. One company also stated that emissions from processing depend on downstream applications that are typically outside the company's visibility. Finally, end-of-life treatment introduces further complexity, as emissions depend heavily on local waste management infrastructure and on how consumers dispose of the products. Finally, 14% of surveyed companies consider the category fuel- and energy-related activities as the greatest challenge. This covers emissions from the extraction, production, and transportation of fuels and energy purchased or acquired by the reporting company. In one of our engagement dialogues with a retail company, one agenda point covered this aspect. In that particular case, the company was facing the following challenges in two of the countries it was operating in: limited access to energy suppliers with clean energy mixes and absence of district heating systems with low-carbon sources.

«We suggest to talk again next year so that we update you on the measures we have taken and so that we learn where we stand in your list of shorted companies.»

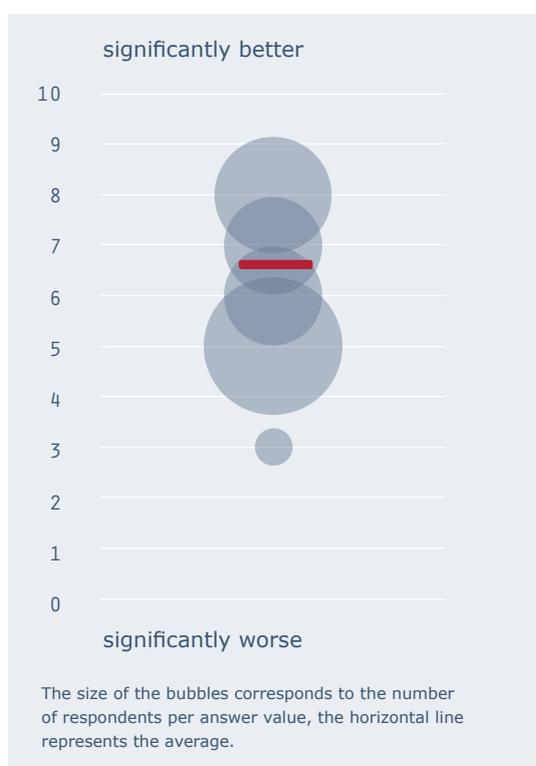
**Dialogue**

with a utilities company, Asia Pacific responsible for 83 M tons CO<sub>2</sub> (scope 1,2 & 3)

### 3.5 Self-Assessment of GHG Emissions' Profile Compared to Peers

How would you rate your company's GHG emissions' profile compared to other companies worldwide that are similar to yours?

**Illustration 10:**  
Results of the above-mentioned question about companies' GHG emissions' profile compared to peers.



The surveyed companies were also invited to rate their GHG emissions profile relative to peers to understand how they perceive their own performance on climate impact. Interestingly, an overwhelming 95% of respondents rated themselves with a score of 5 or higher, indicating they believe themselves to perform better than comparable companies worldwide. This is particularly striking given that the shorted firms are among the highest emitters within their respective sectors, even at the subindustry level. The discrepancy suggests a common optimism bias or a lack of consistent benchmarking, underscoring the need for more engagement to build up a shared understanding of what constitutes climate leadership. This question helps reveal not only how companies view themselves, but also the potential gap between perception and reality in corporate climate accountability.

To allow companies to explain how they perceive their GHG emissions' profile and what companies they consider as their peers, the survey then required companies to give an explanation about those aspects. The explanations provide several interesting insights. First, a substantial share of companies that answered with a value of 5 or higher refrained from giving detailed explanations as to why they believe they are performing better than their peers, and rather repeated the efforts and milestones their companies achieved, highlighted net-zero commitments or various ratings from external sources. This aspect is particularly important, as it can constitute a sign that companies may overlook the reality of how investors in financial markets assess and benchmark companies but rather focus on their own performance over time. Second, a group of companies effectively benchmarked themselves against peers. Doing so, these players often select a subset of companies or select some metrics which speak in favour of the companies' efforts towards decarbonization. For instance, one company selected the GHG (scope 1+2) emissions reduction

for 2023 to benchmark itself against selected peers and claim they perform better than those peers. However, the emissions reduction in 2023 might not be representative of how the companies perform over the long term and especially looking forward. Finally, most companies having responded with relatively lower scores (such as a value of 5) were either transparently comparing themselves to peers from the same subsector worldwide or mentioning their targets were in line with the industry (e.g. net-zero commitments). Notably, one company – an automobile manufacturer – gave an answer of 3 – indicating that it believes it performs worse than peers – and provided an explanation as to why they believe it is the case. They also explained that they would be underperforming these peers in the foreseeable future as well due to their current business strategy and regional focus. Overall, the results strongly speak in favour of targeted engagement initiatives such as that of the Finreon Engagement Pool which proactively inform firms about the aspects of their GHG emissions profile that their stakeholders put an emphasis on and which give those firms some insights about investors’ preferences and their consequences in terms of investment, divestment or shorting.

## 4. Engaging on the Transition through Dialogue

In order to disclose the reasons behind the short position, complement the market signal and to raise awareness on climate-related topics, Finreon has conducted dialogues with 16 focus companies in this engagement cycle. In the following, three typical dialogue cases are presented.

### 4.1 Engaging with the CFO of a Climate Laggard in the Utilities Sector



#### Brief Description of the Company

- Active globally in electricity generation, transmission and distribution.
- Operates in various countries in both developed and emerging markets.
- Generates most of its capacity from coal, gas and oil.

#### Climate and Sustainability Profile

- Among the top 10 companies with the highest carbon footprints (scope 1 & 2) in the electric utilities subindustry within the investment universe.
- ISS ESG Carbon Risk Rating: 21 (Climate Laggard).

#### Summary of the dialogue activities

- Reaction after third step of the escalation process (Letter to CFO).
- Virtual meeting with the CFO, Head of Sustainability, as well as representatives of the Investor Relations and Sustainability teams.
  - Explanation about which data are used to select shorted companies and how the systematic and data-based selection process works.
  - Discussion about three main focus topics: short-term reduction target, target-setting for scope 3 emissions, detailed roadmap for the transition plan.
- Follow-up by e-mail after the virtual meeting to clarify some aspects of the focus topics, especially about the roadmap for the transition plan.

#### Next steps

- Follow-up meeting in Q1/2026 to exchange about the measures discussed.

## 4.2 Follow-up Engagement Meeting with an International Oil & Gas Company



### Brief Description of the Company

- Major global player in the energy sector, primarily engaged in oil & gas exploration and production.
- Operates in 66 countries worldwide.
- Active in the entire value chain, from exploration and production, to refining and distribution.

### Climate and Sustainability Profile

- Among the top 20% of companies with the highest carbon footprints (scope 1 & 2) in the energy sector within the investment universe.
- ISS ESG Carbon Risk Rating: 42 (Climate Medium Performer)

### Summary of the dialogue activities

- Company's ISS Carbon Risk Rating increased from 29 to 42 compared to last year.
- Slight decrease in scope 1 & 2 total emissions, increase in scope 3 total emissions.
- Follow-up meeting with representatives of the Sustainability and Investor Relations teams.
  - o Earlier this year, the Science Based Target Initiative (SBTi) paused the development of an oil & gas standard, thereby also postponing our ask that they actively participate in this initiative. The company announced that they participate in the Oil & Gas Climate Initiative (OGCI) instead.
  - o Short-term targets and separate targets for scope 3 emissions: The company has set its targets in 2021. They still do not plan to revise their targets in the near future, but will reconsider due to investor pressure.
  - o Discussion on how they can reduce their scope 3 emissions: their main challenge is the use of sold products. One approach discussed is that they could improve the emissions reduction' resources on their OpenES platform, which is a systematic initiative to help companies such as suppliers and customers improve their sustainability performance.

### Next steps

- Follow-up meeting in Q4/2025 to exchange about the topics discussed.

### 4.3 Tracking Progress of an International Retail Company



#### Brief Description of the Company

- International food retailer based in Europe.
- Operates several thousand stores in Europe and the Americas.
- Runs vertically integrated agribusiness operations to ensure control over food supply chains.

#### Climate and Sustainability Profile

- Among the three companies with the highest carbon footprint (scope 1 & 2) in the subindustry food retail within the investment universe.
- ISS ESG Carbon Risk Rating: 73 (Climate Outperformer).

### Summary of the dialogue activities

- The company's ISS Carbon Risk Rating is already high and has further increased compared to the last engagement call.
- Slight decrease in scope 1 & 2 total emissions, increase in scope 3 total emissions.
- Follow-up meeting with representatives of the Sustainability team:
  - o Scope 2 emissions: As discussed last year, they have now started requesting a detailed description of the energy mix from all energy suppliers to optimize their energy consumption. They have also installed PV in 30% of their stores, a rollout which is still ongoing.
  - o CapEx: They have released the share of the total CapEx that they will be dedicating to reaching their near-term emissions reduction targets in their newest transition plan. It amounts to at least 10% p.a.
  - o Scope 3 emissions reduction: they have released a catalogue of measures in their latest transition plan that should mostly drive reduction in the categories „use of sold products“ and „end-of-life treatment of sold products“. Reliance on proxies from suppliers is still a challenge, which hinders progress in scope 3 emissions reporting.

### Next steps

- Follow-up meeting in Q3/2025 to exchange about the implementation of the scope 3 emissions reduction measures.

## 4.4 Dialogue Statistics

Finreon conducted dialogues with **16 companies** during the engagement cycle with a clear focus on:

- Explaining the **reasons motivating the short position**
- Discussing the **actions to be taken** by CO<sub>2</sub>-intensive companies **to reduce greenhouse gas emissions** (decarbonization).

Total number of companies with which a dialogue was conducted

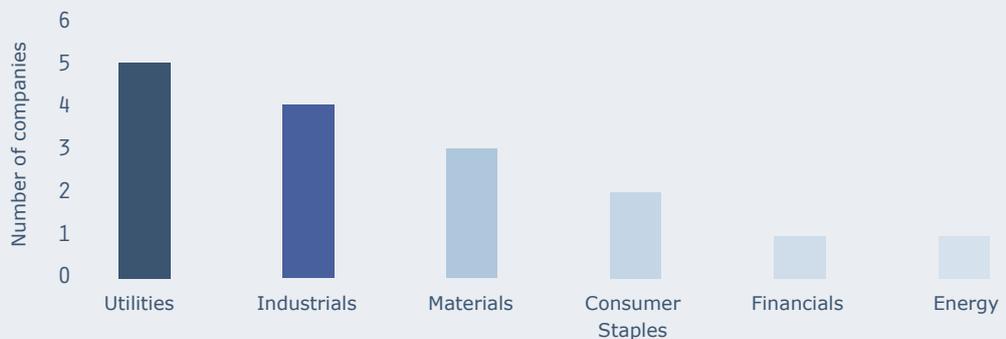
16

### Key statistics of companies with which a dialogue was conducted



Responsible for **424'037'734 tons of CO<sub>2</sub>e (scope 1 & 2)** equivalent to **10.5%** of the developed world listed equities' total emissions

#### Sector breakdown

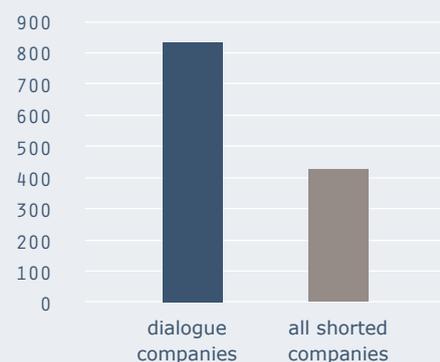


#### Regional breakdown



#### Average carbon footprint

tCO<sub>2</sub>e/ €M EVIC (scope 1 & 2)



## 5. Engagement with Climate Action 100+

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Climate Action 100+ is an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Its signatories engage with companies to address climate change risks and opportunities. The aim of Climate Action 100+ is to halve GHG emissions by 2030 and achieve net zero by 2050 in alignment with the Paris Agreement. The approach follows three goals:

- Establishing governance frameworks to clarify board responsibilities regarding climate risk.
- Reducing emissions throughout the value chain and collaborating with stakeholders to facilitate sector-specific transitions.
- Enhancing disclosure and implementing plans that align with TCFD recommendations to improve investment decisions.

Because the Finreon Engagement Pool's engagement efforts are largely aligned to the goals of Climate Action 100+, the Pool joined the initiative in early 2024 and participates in collaborative engagement with one of the focus companies. Joining Climate Action 100+ means that the Pool is now working with other signatories on company-related commitments and thereby further expanding the Finreon Engagement Pool's influence. Together with other investors, the Finreon Engagement Pool is committed to a constructive exchange to shape a more sustainable future.

A proud participant of:



## 6. Alignment with the Swiss Stewardship Code

The Swiss Stewardship Code is a set of principles designed to promote responsible investment and corporate governance among institutional investors in Switzerland. The code was developed by the Swiss Asset Management Association and Swiss Sustainable Finance with the support of pension funds, asset managers and service providers. The Finreon Engagement Pool makes sure to align with the Swiss Stewardship Code, especially with the following key principles relevant to the Finreon engagement concept:

### **Governance:**

Regular evaluation of the engagement concept and engagement activities in the Finreon ESG Board.

### **Stewardship Policies:**

Clear and systematic engagement concept in line with the Finreon Carbon Focus® investment solution.

### **Engagement:**

Individual engagement (with companies), collective engagement (with Climate Action 100+) and public engagement (dialogue with universities, public bodies and authorities).

### **Escalation:**

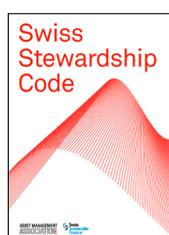
Clear list of measures for exerting pressure with a systematic escalation process, both in terms of communications and market signal.

### **Monitoring:**

Monitoring of companies based on CO<sub>2</sub> data (backward-looking), carbon risk data (forward-looking) and results of interactions with companies.

### **Transparency & Reporting:**

Transparent engagement process and reporting of our activities with the yearly engagement report.



## 7. Participation in rezonanz's Engagement Data-Sharing Initiative

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Rezonanz is a Switzerland-based stewardship software startup founded in 2024. It specializes in transforming fragmented engagement and proxy voting data in clear, actionable signals to enhance investor stewardship. Their mission is to amplify investors voices to enable better decision-making. To help overcome informational barriers and enable a new form of peer learning, rezonanz has launched a data-sharing initiative for engagement initiative. Since its launch, the Finreon Engagement Pool has participated in the initiative, which consists in anonymously sharing our engagement records to gain insights into other investors' focus themes and targets. The initiative allows participants to enhance the effectiveness of their engagement efforts and to contribute toward a global company-level engagement overview.

The Finreon Engagement Pool is proud to participate in this initiative, particularly given its multiple benefits:

- It gives visibility into other investors' engagement priorities and helps support broader engagement goals.
- It enables more efficient engagement by allowing to concentrate engagement efforts on some target topics.
- It allows the Finreon Engagement Pool to contribute to the creation of a global overview of engagement activities, benefiting investors, companies and society at large.



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**Finreon** is an established spin-off from the University of St.Gallen and offers competent and professional services in the field of asset management und finance.

Our concepts are based on years of practical experience, combined with the latest findings in financial market theory.

Signatory of:



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