



PICTET ASSET MANAGEMENT

**Global Environmental  
Opportunities Strategy  
Impact & Sustainability  
Report**

MARKETING MATERIAL  
31.12.2023

## LISTED EQUITIES AS IMPACT INVESTMENTS

The primary aim of impact investing is to deliver a positive, measurable social or environmental impact, alongside a financial return.

Public markets play an increasing role in supporting companies that contribute positively to the planet or society. Public equity markets can also bring impact investing to scale.

In line with the Global Impact Investment Network's (GIIN) guidance, Pictet's thematic equity strategies pursue **positive, intentional impacts** in listed equities, following a clearly defined theory of change.

We thereby distinguish between company impact and investor impact<sup>1</sup>.

### Company impact

This is positive impact generated by company activities that contribute positively to solving environmental or societal challenges. This applies in particular to their products and services (for example the production of renewable energy).

### Investor impact

This is positive impact generated by investors through:

- financing of impact companies (either directly, via IPOs and capital raises, or indirectly through long term share price support)
- active ownership of impact companies (through engagement and proxy voting)
- promotion of impact investing

The measurement of overall impact should encompass all the above steps, including intentionality; capital allocation to impact companies; active ownership; and promotion of impact investing principles.

This framework forms the basis for the structure of the present report<sup>2</sup>.



**“Impact measurement is intrinsic to impact investing. But measured impact cannot be reduced to one number. It should encompass all steps investors take to become agents of positive change, for society and for the environment.”**

Marc-Olivier Buffle,  
Thematic Equities

<sup>1</sup> Note: for a full description please see [“Thematic Equities as Impact Investments, Pictet AM 2022”](#)

<sup>2</sup> The decision to invest in the promoted strategy should take into account all the characteristics or objectives of the promoted strategy as described in its prospectus, or in the information which is to be disclosed to investors.

## STRUCTURE OF THIS REPORT

<b>INTENTIONALITY</b>	4	
<b>COMPANY IMPACT &amp; SUSTAINABILITY</b>	<i>DEFINITION OF THEME</i>	5
	<i>INVESTMENT UNIVERSE</i>	5
	<i>POSITIVE SCREEN</i>	7
	<i>NEGATIVE SCREEN</i>	8
	<i>IMPACT MEASUREMENT</i>	11
<b>ESG INTEGRATION</b>	17	
<b>INVESTOR IMPACT</b>	<i>CAPITAL ALLOCATION</i>	20
	<i>ACTIVE OWNERSHIP</i>	23
<b>PROMOTION OF IMPACT &amp; PICTET'S OWN IMPACT</b>	30	
<b>DATA &amp; SUPPLEMENTARY INFORMATION</b>	39	

“We believe that the true value of natural capital is not properly reflected in market prices. This leads to excessive pollution and overconsumption of natural resources.

We invest in companies that provide solutions to help reverse environmental damage and increase resource efficiency, to deliver a persistent return and growth.”

Luciano Diana, Katie Self, Yi Du, Gabriel Micheli,  
Jennifer Boscardin-Ching & Yi Shi



## INTENTIONALITY

### Theory of Change

The global middle class is growing rapidly. Its number is expected to increase from 3.8 billion people to more than 5.6 billion by 2030<sup>3</sup>, leading to over-consumption of the planet's natural resources.

The Planetary Boundaries scientific framework, first published in Nature Magazine in 2009 by the Stockholm Resilience Centre, identifies nine intertwined environmental dimensions: water, climate change, biodiversity, land-use, nitrogen & phosphorus cycle, ocean acidification, ozone depletion, aerosol loading and novel entities. The framework specifies the respective thresholds that humanity shall not cross, lest it may cause irreversible environmental damage with potentially catastrophic consequences on humanity and the planet. Scientists analysed that six out of nine planetary boundaries are already transgressed.

Within a so-called "safe operating space" human activities can take place safely without putting critical pressure on the planet's resources.

Our investment process applies the Planetary Boundaries principles to economic activities and to individual companies. Through this, we can understand how a company's products and services (over their entire life cycle) impact all nine environmental dimensions. We can assess whether company activities lie within the safe operating space, and if the business model is forfeited or favoured by potential stricter future environmental constraints.

We only invest in companies that already operate within the safe operating space. At the same time, they must make an *active contribution* to tackling environmental challenges through their products or services.



### Our declaration of intent

Our Global Environmental Opportunities strategy targets capital appreciation by investing in companies that seek to solve environmental challenges through innovation, technology, and intelligent use of natural resources. We invest in companies that provide environmental solutions to others, rather than companies only focusing on minimizing the environmental impact of their own operations.

<sup>3</sup> World Economic Forum in October 2018: A global tipping point: Half the world is now middle class or wealthier

**DEFINITION OF THE THEME**

The investment theme defines our long-term strategic orientation and our sustainability objectives. Investment themes are guided by our megatrend framework.

Strategic definition of the investment theme and how it relates to environmental solutions

The GEO strategy aims to make a positive contribution to building a more sustainable world, capturing investment opportunities across all areas of the global industry. Companies' business models must have a low environmental footprint. They must also drive and benefit from the development of environmental solutions.

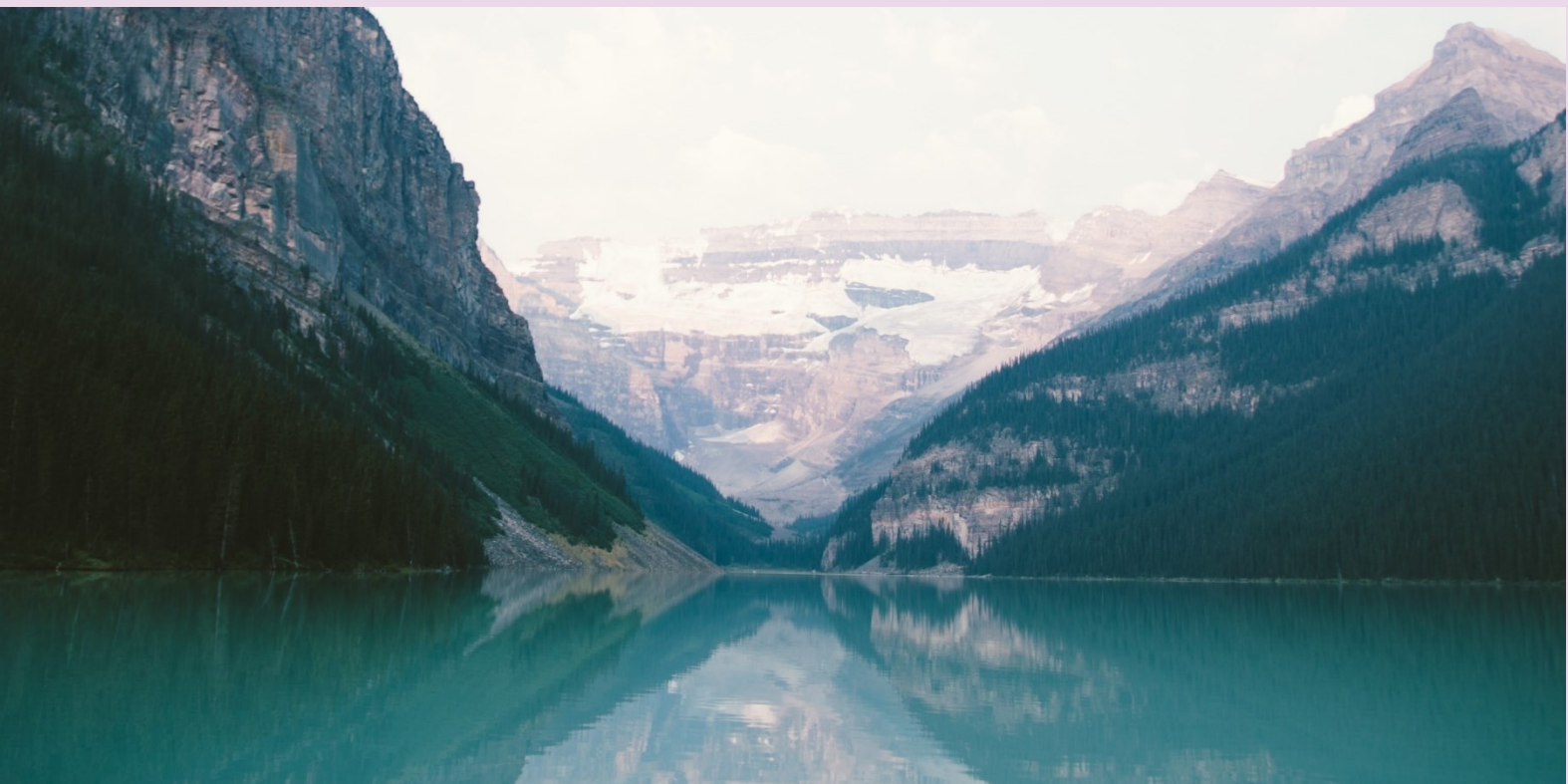
The strategy focuses on the following areas:

**Investment Universe**



Source: Pictet Asset Management, 2023

To be eligible for the portfolio, at least 20 per cent of the firm's activities must be related to products and services actively solving environmental challenges in these areas.



A dedicated Advisory Board helps investment managers to track the evolution of the theme and identify future trends in technology, public policy, and consumption patterns. The Board also helps define new thematic segments.

Board members are recognised experts in their respective domain, often with backgrounds in academia, NGOs, or the private sector.

#### **GEO Advisory Board**

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**PROF. MICHAEL GERRARD - ANDREW SABIN PROFESSOR OF PROFESSIONAL PRACTICE AT THE COLUMBIA LAW SCHOOL, USA**

Area of expertise: Environmental Law

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**PROF. DR. NICOLAS GRUBER - PROFESSOR OF ENVIRONMENTAL PHYSICS AT ETH ZURICH, SWITZERLAND**

Area of expertise: Climate Systems Modelling

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Source: Pictet Asset Management, 2023

One of the 2023 advisory board meetings focused for example on the potential greenwashing risk from net zero pledges and regulatory action that could be expected in response. The board also discussed voluntary carbon markets (VCM) for carbon removal credits. The discussion focused on initiatives to increase the integrity of the system and issues related to additionality, leakage, double counting, nature-based vs tech solutions, project risk, and conflicts of interest in credit verification.

## POSITIVE SCREEN – THEMATIC PURITY

We have identified an initial universe of listed companies active in the environmental value chain. Out of c.a. 40,000 companies globally, approximately 3'500 operate within the safe operating space, as defined by the Planetary Boundaries framework.

To be eligible for investment, companies must have sufficient exposure to environmental solutions within the focus areas listed above. 400 of the firms operating within the safe operating space also make an active contribution to solving environmental challenges. These 400 companies form our investable universe.

Companies are only included if at least 20 per cent of the revenue (or enterprise value, EBIT, EBITDA, or similar measures) is derived from theme-related activities (“purity” of the theme). Generally, the average purity of the strategy is well above 65 per cent.



## NEGATIVE SCREEN - EXCLUSION POLICY

When defining the investment universe of thematic strategies, we systematically exclude companies with activities that negatively impact the environment or society. If the revenue generated by such activities exceeds the threshold, the company is excluded from the investment universe.

We also exclude companies in severe material breach of UN Global Compact Principles on human rights, labour standards, environmental protection, and anti-bribery/corruption.

### Exclusions

INDICATOR	REVENUE THRESHOLD
Severe breaches of international norms on human rights, labour standards, environmental protection and anti-corruption	0%
Controversial Weapons, including anti-personnel mines, cluster munitions, biological and chemical weapons, nuclear weapons, and depleted uranium	0%
Nuclear Power Generation	>5%
Thermal Coal Extraction	>5%
Thermal Coal Power Generation	>5%
Oil & Gas Production	>5%
Oil & Gas Power Generation	>5%
Oil Sands Extraction	>5%
Shale Energy Extraction	>5%
Arctic Oil & Gas Exploration/Extraction	>5%
Tobacco Products Production	>5%
Alcoholic Beverages Production	>5%
Genetically Modified Plants and Seeds Growth	>5%
Genetically Modified Plants and Seeds Development	>5%
Palm Oil Production and distribution	>5%
Pesticides Production	>5%
Military Contracting Weapons	>5%
Small Arms Civilian Customers (Assault Weapons)	>5%
Small Arms Civilian Customers (Non-Assault Weapons)	>5%
Small Arms Military/Law Enforcement Customers	>5%
Small Arms Key Components	>5%
Adult Entertainment Production	>5%
Gambling Operations	>5%
Gambling Specialized Equipment	>5%

These are internal guidelines, complementing our Responsible Investment Policy, and may be subject to changes at any time and without prior notice.

Please refer to Pictet Asset Management's Responsible Investment Policy for exclusions that cover companies and sovereign/quasi sovereign issuers across Pictet Asset Management.

Exclusions are based on reliable sources gathered from reputable third-party research providers. Pictet AM retains full discretion over exclusions and always reserves the right to deviate from third party information on a case-by-case basis. We monitor the exposure to all activities that might be perceived as controversial by some investors. We use Sustainalytics as our external data provider and enhance it with company disclosures and our own research. A full reporting of exposure to potentially controversial activities is available in the Process & Data section.

## Fundamental research

We believe that detailed fundamental analysis and primary research are prerequisites for successful stock selection in international markets. Our investment managers spend considerable time conducting company visits to assess the underlying quality and management of the companies.



The GEO team together with the Thematic Advisory Board members visited EMPA, the Swiss Federal Laboratories for Materials Science and Technology. The investment team was able to learn more about latest developments in advanced materials and coating technologies.

Our analysis and primary research identify holdings and establish their weights in the thematic portfolio. We will only consider companies within our theme's investment universe (see previous chapter). Factors taken into consideration are: companies' thematic exposure (purity<sup>4</sup>), risk factors, valuation, business franchise, management quality, and Environmental, Social and Governance (ESG) considerations. All other factors being equal, a stronger purity or a better ESG profile<sup>5</sup> leads to a greater weight in the portfolio, and in turn a larger allocation of capital.<sup>6</sup>

Please refer to the chapter 'Investment Process' for further details.

<sup>4</sup> We systematically measure the exposure to sustainable activities in the strategy. We use exposure (purity as measured typically by revenues, Enterprise Value, EBIT or EBITDA) to the sustainable theme as our measure of impact.

<sup>5</sup> For a detailed description of ESG integration, metrics and reporting, please see Process & Data section.

<sup>6</sup> There are three ways of allocating capital to stocks: IPOs, rights issues and trading shares. From an investor impact perspective, the first two are direct capital provision to the companies (e.g. can be used to build new factories), the third helps listed companies lower their cost of capital through improved trading liquidity and share price support.

## Company example



WSP is a leading global professional services firm that specializes in engineering, design, and environmental consultancy. The company aims to provide innovative solutions to complex environmental challenges. WSP's services cater to a diverse range of industries, including transportation, buildings, water, energy, and environment.

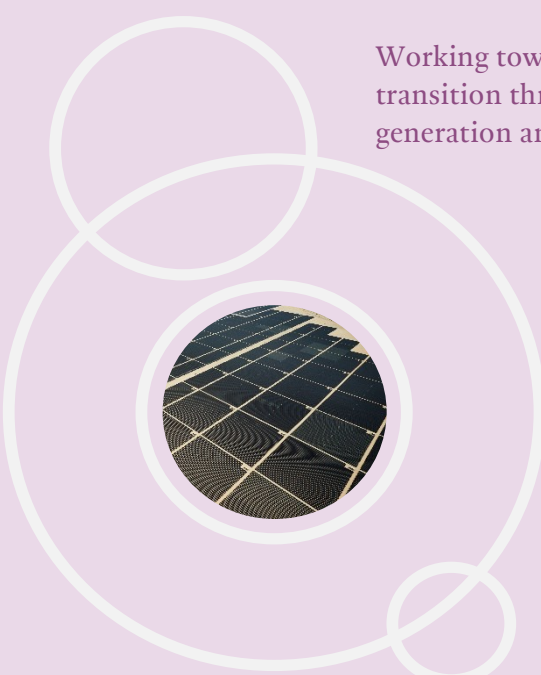
### **Positive contribution of the company's products & services**

WSP plays a pivotal role in designing and implementing sustainable infrastructure projects with over 150,000 projects worldwide. For instance, the company has contributed to the development of renewable energy facilities, such as wind farms and solar power plants, enabling the transition to cleaner energy sources. These projects benefit local communities by reducing reliance on fossil fuels and mitigating greenhouse gas emissions.

WSP also managed the Environmental Impact Assessment for the first concentrated solar power project in the Kalahari Desert in South Africa.

By leveraging their expertise and technological advancements, WSP actively contributes to a more sustainable future for its stakeholders.

## Key Sustainability Drivers



Working towards our society's low-carbon transition through renewable energy generation and infrastructure projects

The company reported approx. 60 per cent of SDG-linked revenues

### Case Study: Driving the decarbonization of Scotland

WSP led road infrastructure operations including the replacement of 2,000 lanterns to LED lighting, causing a 70 per cent decrease in energy consumption

Developed Digital Twins Carbon Calculator program, which integrates reality data from cameras, drones, and aerial mappings into 3D models

The model enables the advanced contemplation of sustainability features for a project, where carbon reduction initiatives can be emphasized and applied

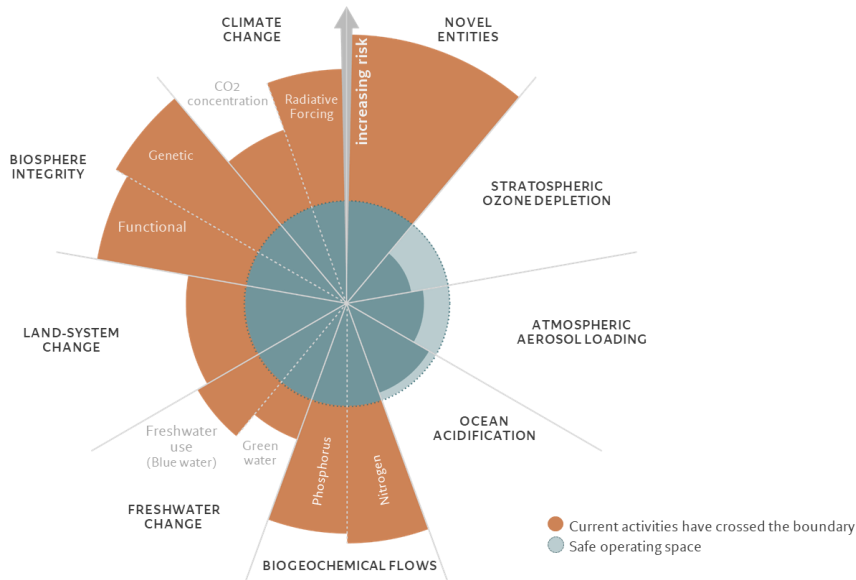
**COMPANY IMPACT MEASUREMENT**

This section details how we determine company impact. We define this as the positive contribution generated by a company’s products and services. All other sections of this report detail activities related to investor impact.

**Environmental footprint**

We measure the environmental footprint of our thematic strategies according to the Planetary Boundaries, a scientific framework developed by scientist from the Stockholm Resilience Centre<sup>7</sup>. The framework guides our environmental assessment of companies. We analyse supply chain, operations, and products and services over their full life cycle (‘from cradle to grave’) against the nine boundaries.

**Planetary Boundaries: A scientific framework to measure environmental impact along nine dimensions**



Stockholm Resilience Centre, based on analysis in Persson et al 2022, Steffen et al 2015, Richardson et al 2023

Most standardized environmental reporting today looks only at emissions related to direct operations of a company, and those related to supply chain. Wider impacts of the products and services during and after their lifetime, or positive impacts stemming from desired substitutions, are generally not considered.

Our methodology, however, accounts for the full life cycle of products and services companies provide. The environmental footprint shown can therefore differ significantly from those that would be generated through conventional approaches.

It should be noted that our methodology can yield negative emissions. For example, a company providing advanced wastewater treatment would generate negative freshwater-use data. This is because the company does not consume water, but rather removes pollutants, and so itself serves as a water resource.

<sup>7</sup> <https://am.pictet/en/switzerland/global-articles/2020/expertise/thematic-equities/planetary-boundaries-and-environmental-footprint-of-businesses>

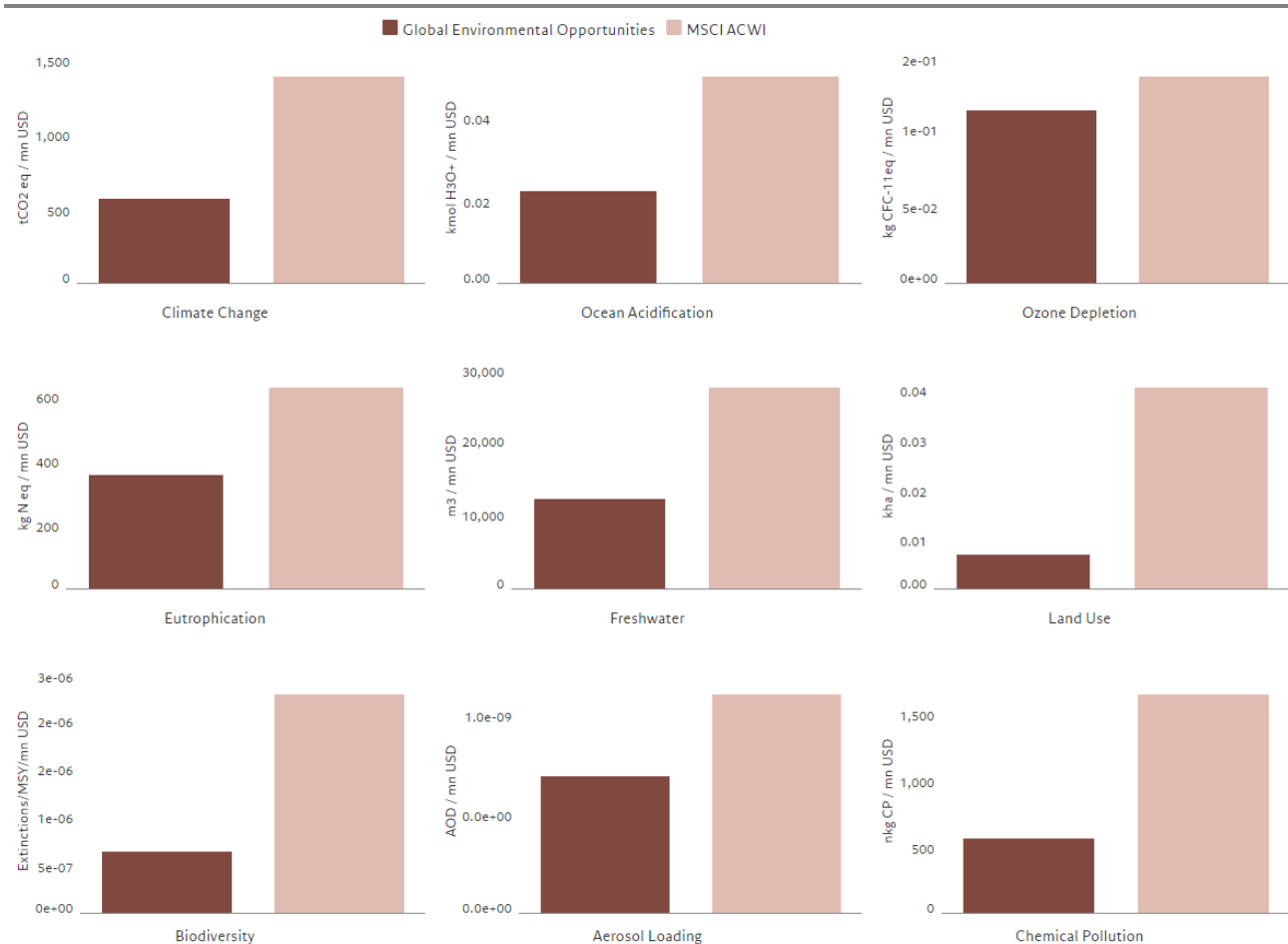


“Understanding the environmental impacts of the full value chain of companies allows us to look for real world impacts.”

Viktoras Kulionis is a senior environmental economist and investment manager in the Thematic Equities team. His responsibilities include the development, operationalisation and upgrade of our lifecycle assessment tools.

Before joining Pictet, Viktoras was a Postdoctoral Researcher at ETH Zurich’s Ecological Systems Design group, where he worked on developing methods and metrics to assess the environmental performance of countries, cities, and industries across a wide range of environmental topics. He has collaborated with leading researchers in the field and published articles in well-known scientific journals. He also has provided scientific input for national (e.g., Swiss Federal Office for the Environment) and international (e.g., UN Environmental Programme, UN International Resource Panel) organizations on sustainability related topics.

### GEO strategy vs MSCI All Country World Index (MSCI ACWI)



Source: Pictet Asset Management, as of 31.12.2023.

The environmental footprint of the GEO strategy is significantly lower than that of the MSCI All Country World Index (ACWI) for all nine planetary boundaries.

As the graph shows, in relative terms the GEO strategy has a strong positive impact on climate change, biodiversity, chemical pollution, and aerosol loading.

This translates into a positive impact on the environment and global health.

By investing in companies that help to reduce greenhouse gas (GHG) emissions, the strategy is helping to achieve the Paris Agreement's long-term goal to keep the global average temperature increase below 2 degrees Celsius.

Another positive impact of the strategy can be measured by chemical pollution. This is achieved by investing in companies that avoid chemical pollution through improved waste management, recycling and sewage treatment, or companies that help to replace wasteful materials (generally plastic-based) by renewable and recyclable materials.

It is estimated that over 6.5 million people die of air pollution every year<sup>8</sup>. Reducing atmospheric aerosol has a direct, measurable impact on health.

<sup>8</sup> Source: The Lancet, Planetary Health: Global Burden of Disease Study 2017

### Sustainable Development Goals

In September 2015, the United Nations (UN) announced 17 Sustainable Development Goals (SDGs) as a part of the 2030 Agenda for Sustainable Development. The SDGs, as depicted below, are a united set of global aims that balance the social, economic and environmental dimensions of sustainable development. They recognise that “ending poverty must go hand-in-hand with strategies that build economic growth and address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection”<sup>9</sup>:

#### The United Nations’ 17 Sustainable Development Goals



Source: United Nations, December 2023.

Though the SDGs were initially designed primarily for policy makers and governments, a growing number of businesses are looking to show their exposure to SDGs within their Sustainability reports. Investors are also starting to request that asset managers demonstrate the degree to which their investments are exposed to SDGs.

In the absence of a standardised global reporting framework on SDGs, we believe it is our duty to provide clients with a transparent and rule-based SDG-exposure analysis of our portfolios.

Working with experts in the Thematic Equities and Positive Change teams, we have developed an Artificial Intelligence-based quantitative analysis to assess the SDG relationships of companies’ key operations, products and services.

#### Our process

We aim for a systematic, data-driven estimation of companies’ engagement with the SDGs. Our proprietary AI engine uses natural language processing (NLP) to analyse various sources of information for each company – including transcripts of earnings calls, company reports and financial databases. It then identifies a set of keywords



<sup>9</sup> United Nations <https://www.un.org/sustainabledevelopment/development-agenda/>



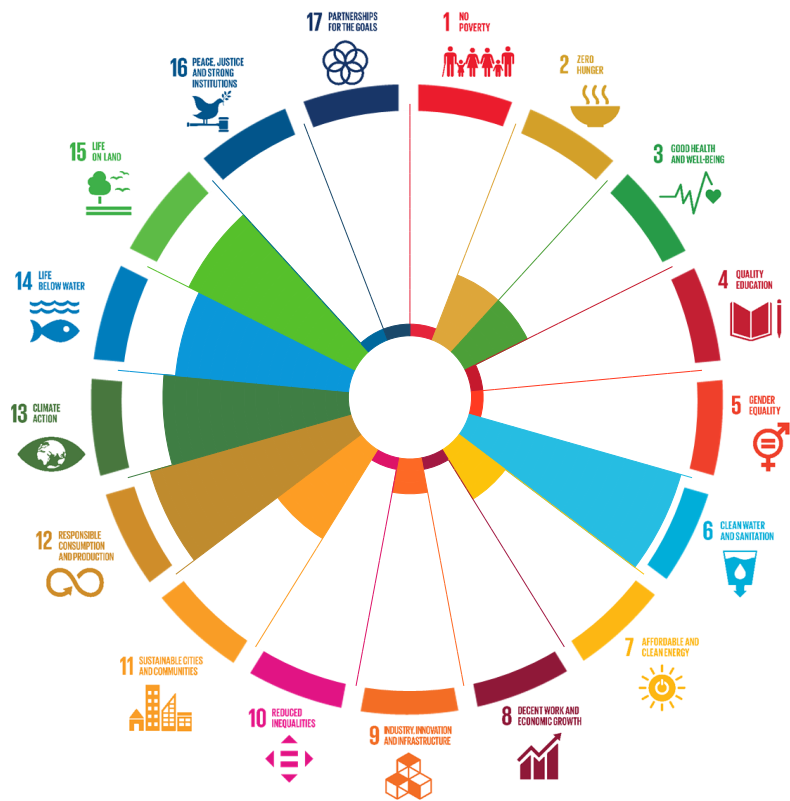
that occur most frequently, mapping a fingerprint of the company’s activities.

In addition, a set of more than 5’000 keywords has been created based on the United Nations SDG framework and fundamental analysis of sub-industries to identify close relationships with the SDGs using support from a third-party provider specialised in natural language processing.

In the chart below, we aim to show the SDG areas in which the GEO strategy’s exposure is high relative to the broader global equities market using MSCI ACWI as a proxy.

The GEO strategy has the highest relative exposure to SDG 6 (Water and Sanitation), achieving a score 43 per cent higher than the index. The strategy also has significant exposure to SDG 13 (Climate Action), SDG 12 (Responsible Consumption and Production), and SDGs 14 and 15 (Life below water and life on Land).

**The GEO strategy and the SDGs**



Source: Pictet Asset Management, as of December 2023

We assess the relationship of companies' operations, products and services to the SDGs and take into account both positive and negative links. Our methodology to assess SDG exposure uses AI-based Natural Language Processing as well as companies' revenue data sourced from Factset RBICS. The chart shows the positive score differential between strategy and the reference index for each SDG. The chart has been scaled to the highest relative SDG score of this strategy versus the reference index. Please note that the SDG reporting framework has been refined in June 2023 by adding revenue-related SDG data. Results cannot be compared to the framework that was in place before. Highest relative SDG score of the GEO strategy is SDG 6 at 43 per cent.





# AMERICAN WATER

## Company example

American Water Works is a leading provider of water and wastewater services in the United States. The company plays a crucial role in solving societal as well as environmental challenges by delivering clean, safe, and reliable water to communities.

### Positive contribution of the company's products & services

American Water is committed to meeting customers' water needs while working to achieve 15 per cent savings in water deliveries per customer by 2035, compared to 2015. It plans to achieve this through the expansion of existing efficiency programs, such as the implementation of AMI and leak detection to identify and eliminate water loss.

Secondly, it is actively working to increase the resilience of water systems in preparation for extreme weather events. Given the increasing frequency, severity and associated challenges of water scarcity, flooding, and contamination, the resilience of water systems has become more crucial than ever. American Water allocates approximately 8 percent of its total capital investment each year to resiliency projects, ensuring that risks are addressed, and continuous service is maintained for customers.

### Key Sustainability Drivers

Leading the safe, reliable, sanitary and affordable distribution of water and wastewater services

Committed to achieve Net Zero absolute Scope 1 and 2 emissions by 2050

Objective to maintain residential water bills at 1 per cent or lower of median household income

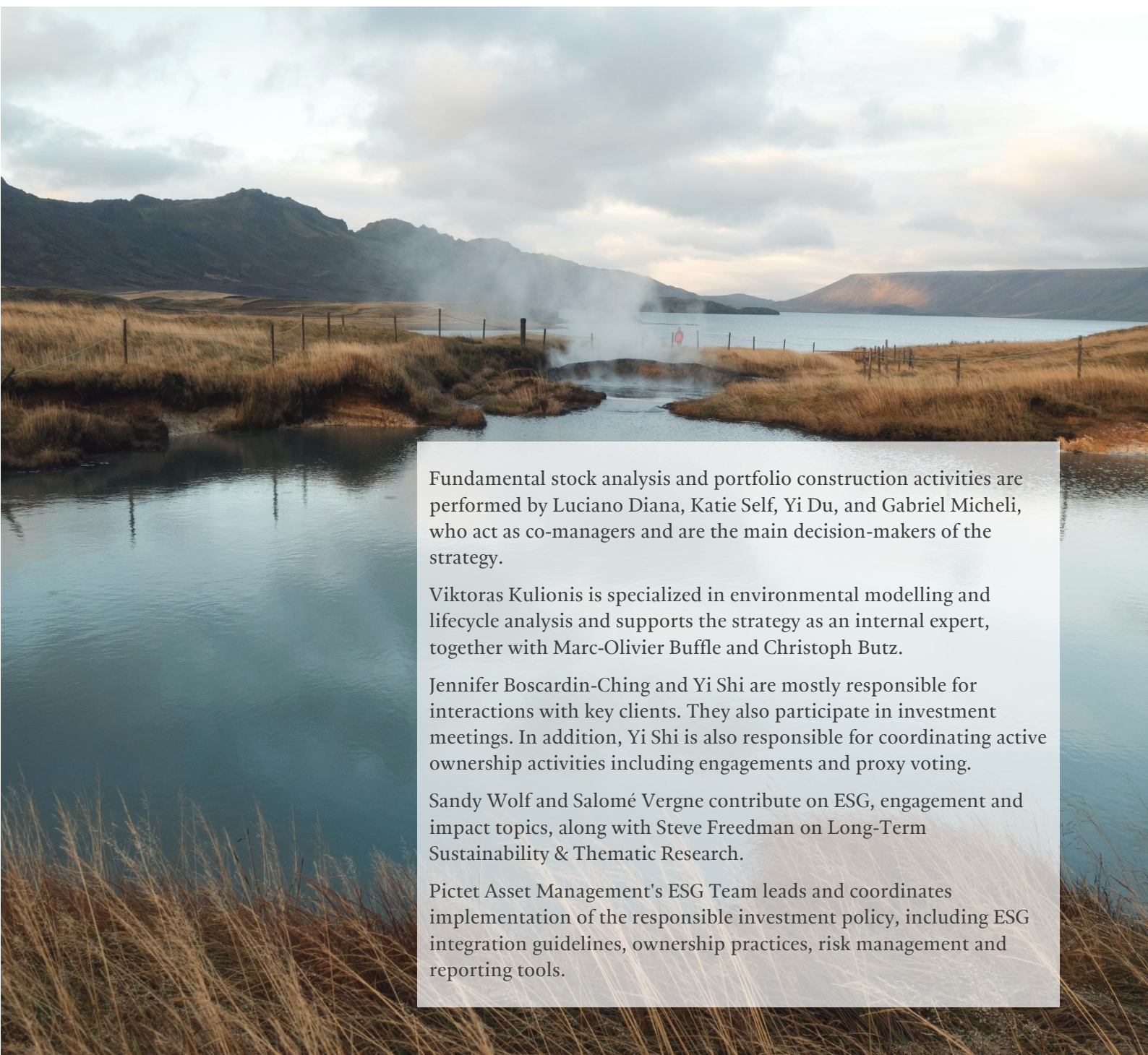
USD 1 million invested in infrastructure: This investment can create up to 15 high-paying local jobs

Investing USD 27-30 billion in infrastructure renewal, resilience and water quality over the next decade

## ESG INTEGRATION IN INVESTMENT PROCESS

All of our investment teams are specialised and dedicated to their thematic strategies. The investment team in charge of the GEO strategy is embedded in Pictet AM's Thematic Equities team. Investment managers have dual responsibilities for both fundamental stock analysis and portfolio construction.

The investment team maintains Pictet's conviction that detailed fundamental analysis and primary research are prerequisites for successful stock selection in global markets. Our investment managers dedicate considerable time to conducting company visits, to assess the underlying quality and management of the companies in the investment universe.



Fundamental stock analysis and portfolio construction activities are performed by Luciano Diana, Katie Self, Yi Du, and Gabriel Micheli, who act as co-managers and are the main decision-makers of the strategy.

Viktoras Kulionis is specialized in environmental modelling and lifecycle analysis and supports the strategy as an internal expert, together with Marc-Olivier Buffle and Christoph Butz.

Jennifer Boscardin-Ching and Yi Shi are mostly responsible for interactions with key clients. They also participate in investment meetings. In addition, Yi Shi is also responsible for coordinating active ownership activities including engagements and proxy voting.

Sandy Wolf and Salomé Vergne contribute on ESG, engagement and impact topics, along with Steve Freedman on Long-Term Sustainability & Thematic Research.

Pictet Asset Management's ESG Team leads and coordinates implementation of the responsible investment policy, including ESG integration guidelines, ownership practices, risk management and reporting tools.

In thinking strategically about the ESG issues facing society, governments, and companies, we aim to identify material risks that may not show up on an issuer’s balance sheet today, but which loom over tomorrow. More than this, we can also identify opportunities in the companies rising to address these challenges. These companies may offer the best opportunities on the risk mitigation and return spectrum in the years ahead.

ESG is integral in our investment process and informs the bottom-up company analysis. ESG considerations help to formulate investment convictions and the scale of any portfolio allocation.

To track the material ESG issues our portfolios are exposed to, we have developed a proprietary ESG Integration framework. As a first step, a materiality assessment is done at theme-specific levels. This allows us to better identify material ESG issues based on companies with similar sustainability risks.

**Illustrative examples of a Thematic ESG materiality assessment**

	Material ESG issues					
Dematerialized Economy	Corp. Governance	Data Privacy & Security	Human Capital	Product Governance	Business Ethics	Resource Use
Food Ingredients	Corp. Governance	E&S Impact of Products & Services	Business Ethics	Human Capital	Carbon-Own Operations	Emissions, Effluents & Waste
Health & Diagnostics	Corp. Governance	Product Governance	Human Capital	Business Ethics	Access to Basic Services	Data Privacy & Security
Life Sciences	Corp. Governance	Product Governance	Human Capital	Business Ethics	Emissions, Effluents & Waste	Occupational Health & Safety
Pollution Control	Corp. Governance	Human Capital	Product Governance	E&S Impact of Products & Services	Business Ethics	Carbon-Own Operations
Recycling	Corp. Governance	Carbon-Own Operations	Emissions, Effluents & Waste	Resource Use	Occupational Health & Safety	Product Governance
Waste Management	Corp. Governance	Community Relations	Emissions, Effluents & Waste	Occupational Health & Safety	Carbon-Own Operations	E&S Impact of Products & Services

We then analyse companies’ management performance of those material issues. This allows us to assign a premium or discount to the target weights in the investment process based on companies’ ESG performance.

This analysis also helps us to identify oversights or failings that should be brought to management attention and serves as a basis for effective engagement and proxy-voting.

As a result of our universe construction process and fundamental company analysis, which integrates environmental, social, and governance criteria into the scoring process, we expect the portfolio to have a better ESG score than the reference index.



## Risk considerations

The strategy may be exposed to the following risks, which may negatively impact its value:

- **Financial Derivatives risk:** the leverage resulting from derivatives amplifies losses in certain market conditions.
- **Currency risk:** the risk which arises from potential movements of currency exchange rates.
- **Liquidity risk:** markets with low volumes result in difficulties valuing and/or trading some assets.
- **Counterparty risk:** losses occur when a counterparty does not honour its obligations related to contracts such as over-the-counter derivatives.
- **Investments in emerging markets:** are generally more sensitive to risk events, such as changes in the economic, political, fiscal and legal environment, as well as fraud.
- **Investment in Mainland China:** may be subject to capital restrictions and trading quotas (e.g. QFII and RQFII regimes). In the event of disputes difficulties or delays might be encountered in enforcing its own rights.
- **Chinese “Stock Connect” trading programmes:** may be subject to ownership rights, clearing & settlement, trading quotas and operational issues.
- **Operational risk:** losses resulting from human errors, system failures, incorrect valuation, and safekeeping of assets.
- **Sustainability risk:** ESG related risk events or conditions that could cause a material negative impact on the value of the investment if they were to occur.

Past results offer no guarantee for the future. The value and income from an investment may rise or fall, and it is possible that the investor will not recover their original investment.

## INVESTOR IMPACT – CAPITAL ALLOCATION

As discussed in the foreword, we believe it is important to distinguish between two kinds of contribution when reporting on impact strategies. These are:

- the positive contribution of investees' products and services
- the direct impact of investors

The positive contribution of companies' products and services has been addressed in the previous chapter.

Impact investors can directly contribute by allocating capital to help such companies expand and improve their activities. This can be via IPOs and capital raises, or indirectly through long term share price support.

Investors' positive contribution is increased through their active ownership, encouraging improvement of companies' impact profiles. It is also strengthened by investors promoting the principles of impact investing throughout the financial industry, and in wider society.

In this chapter we lay out the criteria for allocating capital, and the factors influencing the resulting allocation. We then aim to estimate the aggregated impact generated by the activities of our portfolio holdings.

### Primary market allocations

Thematic teams regularly participate in initial public offerings (IPOs) and rights issues. In some cases, Pictet strategies act as anchor-style investors. These are large institutional investors invited to commit to participation at an early stage, ahead of the IPO, and therefore exercising potential for disproportionate impact on the success of the transaction. Due to market conditions, 2022 and 2023 have been periods with very limited IPO activity. We will start reporting again on primary market activities in the coming years.

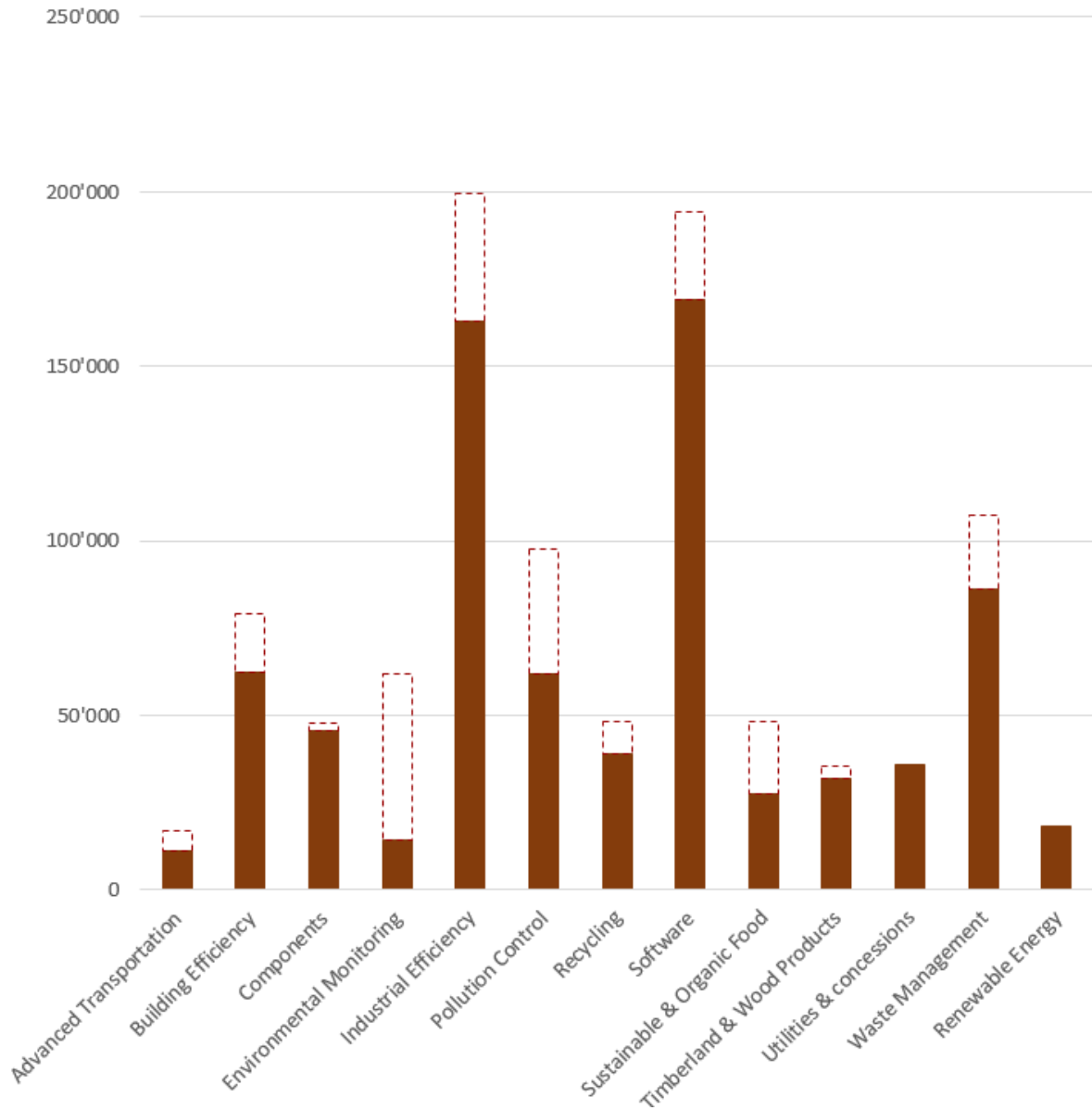
### Secondary market allocations

Thematic equity teams target long investment horizons and generally manage portfolios with low turnover. Empirical evidence shows that the presence of institutional investors with long-term investment horizons within a company's shareholder base tends to lower that firm's cost of equity capital by a considerable margin<sup>10</sup>. In 2023, the turnover of the strategy was 29 per cent.

<sup>10</sup> Huo et al. (2021); Institutional investors and cost of capital: The moderating effect of ownership structure

We allocate capital to companies that contribute positively to environmental challenges in line with our theory of change. The below chart indicates the portfolio’s purity-adjusted assets, i.e. the exposure of the portfolio related to the sustainable environmental value chain in comparison to the overall portfolio allocation.

**Global Environmental Opportunities: Purity-adjusted allocation per USD 1 million invested**



Source: Pictet Asset Management, 31.12.2023

Purity-adjusted assets with a positive contribution per USD 1 million invested in our Global Environmental Opportunities strategy, dotted bars indicate the total allocation, which are generally in other impact or impact-neutral segments of the companies we invest in.

## Company example



Republic Services (RSG) is the second largest non-hazardous solid waste company in North America. RSG owns or operates 355 collection operations, 238 transfer stations, 198 landfills, and 71 recycling processing centers, and is active across 41 states in the United States. It provides comprehensive waste and recycling services to residential, commercial, and industrial customers.

### Positive contribution of the company's products & services

As one of the three largest waste companies in North America, the company is a key enabler for improving environmental quality. RSG makes a positive contribution along the Chemical Pollution, Biogeochemical Flows, and Biodiversity dimensions of Planetary Boundaries Framework, for treating waste and preventing leakage of chemical pollutants into the eco-system.

Republic Services' renewable energy initiatives actively contribute to solving environmental challenges. The company harnesses the power of landfill gas, a byproduct of decomposing waste, to generate clean energy. With over 70 landfill gas-to-energy projects across the country, Republic Services provides electricity to approximately 1 million homes, significantly reducing greenhouse gas emissions and dependence on fossil fuels.

## Key Sustainability Drivers



Leading company in sustainable recycling and waste solutions

USD 352 million invested in solar, renewable natural gas and plastic circularity initiatives

Route optimization initiatives resulted in the consolidation of 14 full routes daily, which reduced the number of miles driven for waste collection

71 recycling centre and 19 organics facilities delivering sustainable solutions

Goal to increase recovery and circularity of key materials by 40 per cent by 2030

40 million tCO<sub>2</sub>e emissions avoided in the past year through Republic Services activity

Source: Republic Services, 2023

## ACTIVE OWNERSHIP

### Engagement philosophy

We believe that engagement can enhance long-term returns for our clients, both through value creation and risk mitigation. Consequently, it is an integral part of our fiduciary duty to clients. It allows us to better understand business models and target improvements in areas of concern within companies.

In addition, we believe that equity investors can contribute to positive environmental and societal change through active ownership. Investors have a key role to play to achieve sustainability through their voting decisions and focused engagements. These centre on the principles of trust building and long-term thinking alongside investee companies.

We consider active ownership to be a critical tool for having a positive investor impact. Investors can drive change by successfully raising concerns on ESG matters with companies which can lead to significant improvements for their stakeholders over time.

### Thematic engagements

Thematic investing is particularly well-suited to generating such investor impact. That's because thematic investment managers create differentiated, focused portfolios, and are long-term investors across their investable universe. This approach establishes lasting relations with companies built on trust, which facilitate engagement discussions. Larger thematic strategies at Pictet Asset Management are also often a top twenty shareholders of their investees, making it easier to influence corporate management during engagement discussions.

Our Thematic Equities investment beliefs (focused, long-term, independent, and responsible) are deeply embedded in how we engage with investee companies.

### Engagement process with companies

As active long-term company owners, the focus of our Thematic engagement goes beyond limiting the negatives – we don't purely seek risk mitigation. Instead, we prioritize our focus on the positives, i.e., sustainable value creation. We embed these objectives into our engagement strategies. Risk mitigation targets improving management and disclosures of material, non-financial (incl. ESG) risks. Value creation targets strategic opportunities to enhance shareholder and stakeholder impact via sustainable transformation of business models and promotion of value-creating best practices.

The identification of strategic engagements is central to our engagement process. It is based on the alignment with important sustainability focus areas. These can be specific to a thematic portfolio strategy or fall under the Pictet Group Engagement Focus, a top-down engagement programme that focuses on four key themes: climate, water, nutrition, and long-termism.





## Engagement example

In March 2023, we initiated an engagement with a US efficient building solutions manufacturer due to concerns surrounding the company's involvement with PFAS in its legacy products, which posed significant reputational and litigation risks. Our primary objective was to encourage the company to mitigate its past, present, and future PFAS pollution.

In May 2023, we held a meeting with the company's Chief Sustainability Officer, who shared that a remediation roadmap and objectives were already in place. The company was actively conducting a comprehensive site investigation to improve transparency and remediate PFAS contamination.

However, in October 2023, we reached out to the company for published data on contaminant levels in August. Their response was delayed and lacked quality in terms of pollution monitoring and transparency. Consequently, we decided to reduce our position based on our PFAS liability-related concerns.

Finally, in December 2023, we made the decision to exit our investment in the company based on fundamental reasons and shifted our focus to higher quality peers in our portfolio. The engagement is finalized.

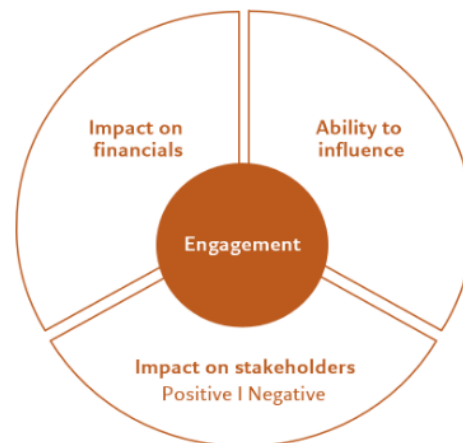
Source: Pictet Asset Management, December 2023.

The main considerations for selection of engagement candidates are:

- How financially material the topic is to the company over the long term, and thus how important it is to its shareholders.
- How material the topic is to the company's wider stakeholders. Our proprietary ESG materiality framework and in-house ESG analysis are key tools used in this process.
- Our ability to influence the company. This could either be through a significant ownership stake, or through strong, long-term relationships with the company.

### Identification of strategic engagement candidates

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Source: Pictet Asset Management, 2023.

Additionally, ad-hoc engagements can be triggered for various reasons, including company requests for dialog, red flags raised from ESG screens, emerging controversies, data providers pointing towards potential high sustainability risks, or risks / concerns resulting from a corporate event.

While we are aware that engagements are unlikely to follow a linear path, we follow a structured process. This helps ensure that the engagements meet the following criteria:

- High quality – through fundamental research and coordination among investment teams to increase our ability to influence company management.
- Impactful – by setting meaningful, achievable objectives to increase the likelihood of positive outcome.
- Transparent – by carefully recording interactions and progress towards the set objectives for transparency and investor oversight.

The GEO strategy is involved in the following engagement cases:

**GEO engagements (number of companies)**



Source: Pictet AM as of 31.12.2023

Please note that several engagement topics with the same company are double counted.



**US software company** – Climate Action and Executive Compensation

*Ongoing Engagement*

During our engagement with a US software company in September 2023, our primary objectives were to support the company in systematically measuring and reporting Scope 4 emissions and to align management incentives with shareholder values by transitioning non-GAAP KPIs to GAAP.

We met with the company's nominating committee chair, head of sustainability, and head of investor relations (IR) to discuss these goals. The company acknowledged the challenges they faced in measuring Scope 4 emissions but expressed a willingness to collaborate with us. Given our expertise in operationalizing the Planetary Boundaries framework and incorporating Scope 4 adjustments, we provided guidance to the company's IR and sustainability teams. Specifically, we recommended that they focus on measuring and categorizing their product handprint using benchmarked product KPIs. The company welcomed our suggestions and requested examples, and we plan to follow up on this matter in the coming year.



**US water company** – Freshwater & Marine Resources

*Ongoing Engagement*

We engaged with the company to improve the management of non-revenue water losses, or the water that has been produced and is lost before it reaches the consumer. The company voiced it is working on data analysis to assess the distribution of non-revenue water losses, aiming to establish a clear process to measure and reduce water losses before it reaches the consumer. This will enable the company to set compensation targets for senior managers linked to this ESG issue. This appears to be a pivotal area of focus for the company's management, and we anticipate further elaboration on their strategy to evaluate and mitigate non-revenue water losses, along with a clear delineation of the project timeframe.

We have held an initial fact-finding meeting with the company's IR, focusing on non-revenue water losses and their ESG approach in general. Management prides itself on being an ESG leader in this area. We continue to engage on the developments of their projects and disclosures.

**Swedish technology company** – Board Functioning & Composition, Accounting / Internal Controls / Disclosure

*Ongoing Engagement*

We engaged with a Swedish technology company to clarify concerns raised by a short-selling report and to advocate improvements in the corporate governance management to mitigate such events in the future. Promptly after the publication of the short-selling report, we raised our concerns with the Chief Strategy Officer and Head of IR. We requested immediate clarification on related-party transactions and better disclosure, as well as long-term improvements in board independence. In September 2023 our concerns were alleviated as the Chairman shared the board's key priorities in addressing investor concerns. By December 2023, it was revealed that management intended to enhance its disclosures, and the board had nominated two new independent directors. We will continue to monitor the company's delivery of the planned disclosures moving forward.

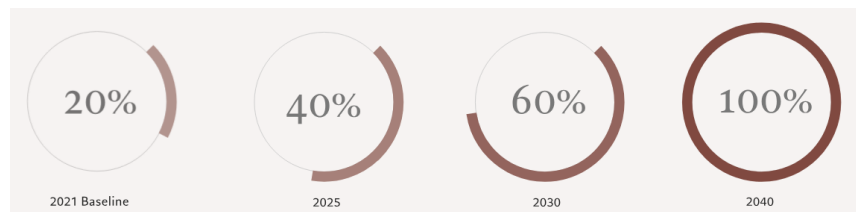
### Engagement focus: Climate Transition

Climate Change has been a priority on our agenda in 2023. We believe that climate change has a strong material impact on the price of assets as no economic system will be immune to the adverse effects of severe global warming. As responsible investors we have a duty to understand how to foster positive impact, mitigate negative effects, and avoid potential long-term damage caused by climate change.

Pictet launched a Climate Action Plan, outlining the path towards achieving net zero emissions by 2050. Engagement with companies regarding setting science-based greenhouse gas reduction targets lies at the heart of our efforts to persuade them to set science-based targets.

Pictet’s group-wide targets for fixed income and equity portfolios are focused on assets with validated 1.5°C science-based targets as shown below:

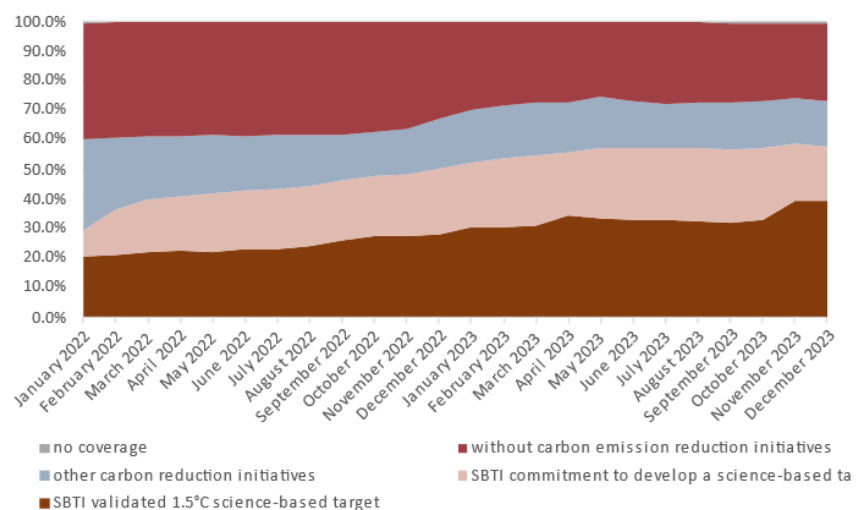
#### Targeted proportion in assets with validated science based targets



Source: Pictet 2023, targets based on percentage of AUM for fixed income and equity portfolios with validated 1.5°C targets

We systematically engage with companies on net-zero alignments. As such, our priority is to engage with our companies to make sure they are setting and meeting their emissions reduction targets. We are also working with investee companies to improve their scope 3 coverage as well as disclosure quality and transparency.

#### Carbon reduction trend assessment – Thematic Equities



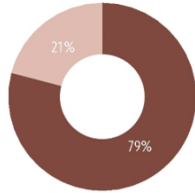
Source: Pictet Asset Management, asset-weighted carbon reduction status across all thematic portfolios (chart covers all Thematic AUMs).



### Proxy voting

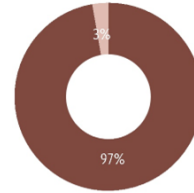
Voting rights are systematically exercised at general assembly meetings, in accordance with Pictet AM’s voting policy and through the ISS proxy voting platform<sup>11</sup>. The voting policy takes into account internationally recognised standards of corporate governance. Subject to the comments above, we vote against resolutions that are not in the interest of shareholders.

Breakdown of votable meetings



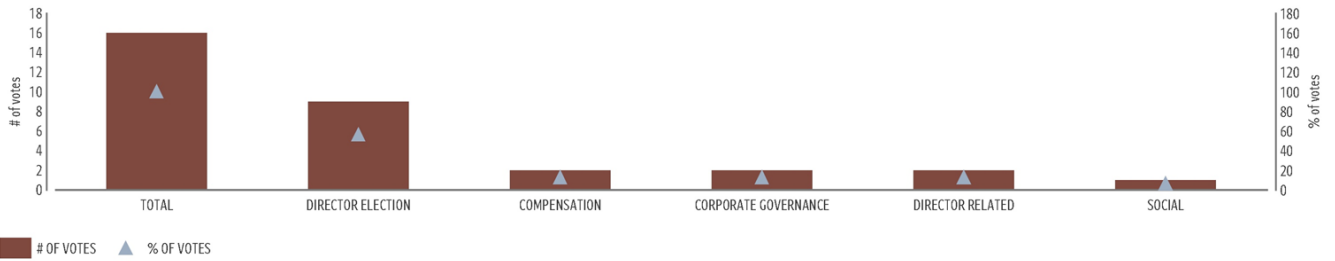
■ ALL VOTES "FOR" (34) ■ AT LEAST ONE VOTE AGAINST, WITHHOLD OR ABSTAIN (9)

Breakdown of votable items



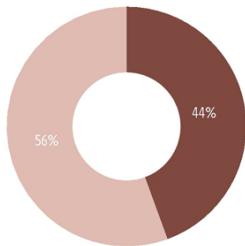
■ VOTES WITH MANAGEMENT (638) ■ VOTES AGAINST MANAGEMENT (18)

Breakdown of votes against management



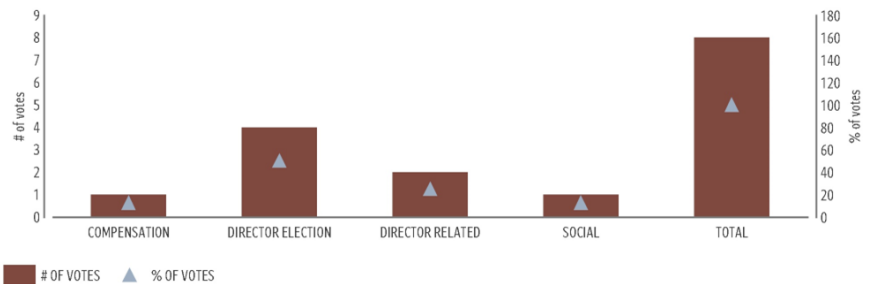
■ # OF VOTES ▲ % OF VOTES

Breakdown of shareholder resolutions



■ SUPPORTED (4) ■ AGAINST (5)

Breakdown of deviations from voting guidelines



■ # OF VOTES ▲ % OF VOTES

Source: ISS, Pictet Asset Management, as of 31.12.2023.

Please refer to the quarterly standard reporting for full proxy voting statistics of the strategy and descriptions of categories. Our annual and monthly voting activity can be viewed [here](#).

<sup>11</sup> <https://www.issgovernance.com/solutions/proxy-voting-services/>

## PROMOTION OF IMPACT PRINCIPLES

Applying sustainability principles to the process of investing in listed equities can have a positive impact on society and the environment. Every time an asset manager adopts this approach, the global investor base tilts further in that direction.

Investor management and promotion of impact portfolios contributes to the wider understanding and adoption of impact investing. This will help accelerate an industry-wide shift and its associated redirection of capital to fostering positive change. This is what the Impact Management Project (2018) refers to as “signaling that impact matters”.

### Engagement with industry stakeholders

Our engagement framework includes active engagement with industry stakeholders. This reflects our commitment to drive the ESG discussion within the asset management industry, to raise awareness, and to improve our clients’ understanding of ESG aspects of investment management.

#### UNPRI

Since 2007, Pictet AM has been a signatory of the United Nations Principles for Responsible Investment (UNPRI). We have been awarded an A+ rating under the PRI’s Reporting and Assessment Framework.

#### International Investor Initiatives

Pictet AM actively participates in several investor initiatives dedicated to sharing best practices between asset managers and owners, and in encouraging corporate disclosure on ESG issues. We are notably involved in the Institutional Investors Group on Climate Change (IIGCC), Swiss Sustainable Finance (SSF) and similar organisations in the UK, Germany and Spain.

#### Net Zero Asset Managers

As is true of all asset managers, Pictet’s investment activities impact climate change outcomes. We acknowledge that the firm has a responsibility to foster positive and mitigate negative impact. Solving the major environmental and social challenges of our time will require increased collaboration and transparency. As an expression of these beliefs, in October 2021 Pictet Group joined the Net Zero Asset Managers initiative. This initiative further strengthened Pictet’s commitment to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. Alongside this, to ensure the firm follows a science-based approach to setting targets, Pictet is also supporting the Business Ambition for 1.5 degrees from the Science-Based Targets Initiative (SBTi).











#### Scientific Collaboration

At Pictet AM, scientific collaboration takes many forms. The firm produces research and thought leadership on environmental issues in collaboration with several universities. University professors leading the fields of climate science and ecology also form part of the firm’s thematic strategy advisory boards.

One example is Pictet AM’s collaboration with the Stockholm Resilience Centre (SRC), which established the ground-breaking scientific Planetary Boundaries model (explained previously). Working with the SRC, Pictet AM has adapted the Planetary Boundaries model to quantify the environmental impact for every USD 1 million annual revenue that a business generates.

Pictet AM supports and actively participates in international and national initiatives, including those shown below.

**Collaborations**

PRINCIPLES OF RESPONSIBLE INVESTMENT (PRI)	INVESTOR INITIATIVES	COLLABORATIVE ENGAGEMENTS	BRAND RECOGNITION
<p>Signatory since <b>2007</b></p> 	<p>Signatory of the Net Zero Asset Managers and Glasgow Financial Alliance initiatives</p>  <p>Founding member of Swiss Sustainable Finance</p>  <p>Active member of the Institutional Investors Group on Climate Change since 2013</p> 	<p>Water Valuing Water Finance Initiative</p>  <p>Nutrition Investor expectations on diets, nutrition and health</p>  <p>Investor network focusing on ESG risks in the global food sector</p> 	<p> <b>Broadridge</b></p> <p>#4 in Europe on social responsibility/sustainability</p> <p> <b>nmg</b></p> <p>#6 globally in the ESG Leaders ranking across all client types</p> <p></p>

Sources: Fund Brand 50 @ Fund Buyer Focus, Broadridge Analytics Solutions Limited, Twelfth edition, March 2023; NMG Consulting 2022 Global Asset Management Study, March 2023; Hirschel and

Kramer (H&K) Responsible Investment Brand Index, March 2023; Pictet Asset Management as of 31.12.2022.

Source: Pictet Asset Management, December 2023.



### Promotion of impact to the wider public

Asset managers of environmentally and socially themed portfolios must make significant efforts to communicate with clients and prospects. This follows through from client acquisition all the way to relationship maintenance as investors typically need to become comfortable with these novel assets and with the investment approach. Before committing capital, investors require support in developing their understanding of the theme's definition, the rationale, and the methodological aspects. Following that, thematic updates (beyond performance) are needed as the theme evolves over time.

Adoption of ESG concepts in general, and of the thematic impact perspective in particular, still have a long way to go. As such, managers' efforts to promote and share information should be regarded as one of the important mechanisms of investor impact<sup>12</sup>.

Our thematic teams regularly participate as speakers at industry conferences and seminars. Some are for the purpose of promotion, but others include education and knowledge transfer around thematic impact investing. The media and web presence of the topic, as well as the publication of white papers and sustainability-themed research, further supports the promotion and education of thematic impact investing.



Jennifer Boscardin-Ching presenting impact investing approaches and case studies at the Impact Investing Academy in Amsterdam, 2023

<sup>12</sup> See Buffle (2017) or Roessing and Freedman (2020) for examples of informational / educational contributions in investment industry publications.

### Mega from Pictet

Extensive research on sustainability is available at Mega from Pictet<sup>13</sup>. The purpose of Mega is to provide expert analysis of megatrends and the New Economy from academics, scientists and entrepreneurs. Further, to provide insights into the problems faced by humanity and the innovations that could solve them. With articles and videos featuring leading academics, scientists and entrepreneurs active in the fields of sustainability, technology, health, alternative energy, and agriculture, Mega seeks to energize and enrich the debate over how to create a better-functioning economy and society.

### Examples of recent activities by Pictet AM Thematic Equities

The image displays three examples of recent activities from Pictet AM Thematic Equities:

- ESG ratings under the microscope** (October 2023): An article discussing how ESG corporate ratings are redrawing the financial landscape. It features a background image of a bee on a honeycomb.
- Biodiversity loss is becoming a material financial risk** (September 2023): An article detailing risks related to biodiversity loss and ecosystem degradation. It features a background image of a glass structure with plants.
- Renewables: timing the transition**: An article discussing the challenges of renewable energy, such as unreliability. It features a background image of solar panels.

Sources: Pictet Asset Management, 2023

<https://am.pictet/en/globalwebsite/global-articles/2023/expertise/thematic-equities/a-review-of-esg-ratings#overview>

<https://am.pictet/en/globalwebsite/global-articles/2023/expertise/thematic-equities/biodiversity-risk-premium>

<https://am.pictet/en/globalwebsite/mega/2023/renewables-clean-energy-transition>

<https://am.pictet/en/globalwebsite/mega/2023/reducing-food-environmental-impact>

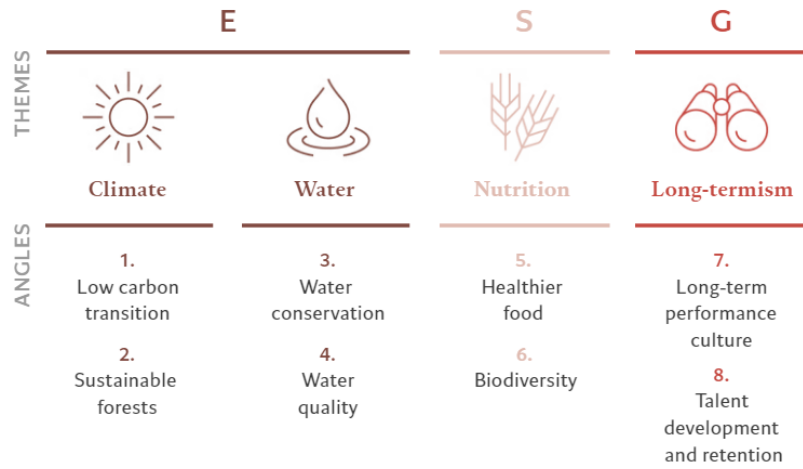
<sup>13</sup> <https://am.pictet/en/uk/intermediary/mega-from-pictet>

## IMPACT ACROSS PICTET

The Pictet Group is a committed advocate of responsible investing. We want to play an active role in building sustainable economies by encouraging sustainable finance. The industry must be steered towards more inclusive thinking around people, the planet, and portfolios. Over the long term, these are inextricably linked. Our contribution to that collective responsibility begins with how we handle our own assets.

1. How we invest our balance sheet: This includes our corporate treasury as well as seed investments. As an independent organisation, we have full control over our balance sheet. We have used that freedom to commit to portfolio decarbonization, and to investing in activities that accelerate the transition to a low-carbon economy.
2. Employee engagement to foster responsibility: Our employees are our most crucial asset and a key amplifier of sustainability and responsible behaviour. We will continue to engage with our colleagues on sustainability topics and encourage their involvement in local action, especially in areas where we have a strong presence.
3. How we manage our direct environmental impacts: In our own business activities we are taking every possible step to cut our carbon footprint. We are employing the most advanced building technology, reviewing every aspect of our operations, and reducing the environmental impacts of our infrastructure and employee mobility.
4. Philanthropy for environmental and social benefit: As the ultimate “risk capital”, philanthropy can play an important role in tackling some of the world’s most intractable problems. Through our initiatives and supported projects, we seek to stimulate local and global action on environmental and social issues.
5. Advocacy and partnerships: We strive to encourage all our stakeholders and partners to promote sustainability and invest responsibly. To this end, we have signed the UN Principles for Responsible Investment for all our business lines, including our pension fund, and committed to the UN Principles for Responsible Banking.

In addition, Pictet puts a particular focus on four priority themes for engagement across all asset classes:



These principles have led to the following results:

- The firm has reduced its own CO2 emissions per employee by 73 per cent between 2008 and 2020.
- Pictet’s balance sheet is invested in activities that help accelerate the transition to a low-carbon economy.
- Pictet has eliminated balance-sheet exposure to fossil fuel producers and extractors.
- Pictet takes a fair and equitable approach to recruitment, promotion and pay, including a yearly gender pay gap analysis.
- The Pictet Group Foundation has been established to fund impact-driven solutions in the fields of Water and Nutrition.
- Pictet is supporting volunteering programs where employees can take part in social or environmental projects.

### Prix Pictet

Founded in 2008 by the Pictet Group, the Prix Pictet has become the world's leading award for photography and sustainability.

The Prix Pictet aims to harness the power of photography to draw global attention to issues of sustainability, especially those concerning the environment.

To date, there have been nine cycles of the award, each of which has highlighted a particular facet of sustainability. The nine themes are *Water, Earth, Growth, Power, Consumption, Disorder, Space, Hope* and *Fire*. The given theme for the upcoming prize is *Human*.



Source: Prix Pictet, Fire tour at Top Museum in Tokyo, Japan, January 2022.

### Pictet Group Foundation

Established in 2009, the Pictet Group Foundation provides financial support to charitable organisations and public-interest projects worldwide. The Foundation strives to improve the lives and well-being of the most vulnerable, fostering a more resilient and sustainable future for all. It supports projects that help mitigate pressing challenges, with a particular interest in the environment and young people.

Water and Nutrition are two of the most basic needs for human life. But in many parts of the world, climate change and a growing population are making fulfilment of these needs a major challenge. The Pictet Group Foundation supports projects and impact-driven solutions in the fields of Water and Nutrition, building resilient communities and self-sustaining ecosystems. The Foundation has a view to further expanding into other areas, in line with the Group's responsible vision.

The Foundation seeks to effect maximum impact at grassroots, community, and policy levels, through partnering with entrepreneurial social and environmental changemakers.

## Pictet Foundation examples



**PHILANI**

Maternal, Child Health and Nutrition Trust  
Healthy mothers raising healthy children

30 per cent of mothers in the Eastern and Western Cape of South Africa are HIV positive and one in five children in the region does not survive until their fifth birthday. Philani identifies and trains 'mentor mothers' to connect families to medical treatment, provide nutrition education, monitor child development and build trust within communities.

The Pictet Group Foundation supports Philani by funding 30 mentor mothers and 3 preschools that provide education and nutritious meals for vulnerable children.



water for people

Supported by the Pictet Group Foundation, Water For People has made a significant impact in Guatemala, specifically in the Quiché region, inhabited predominantly by indigenous Mayans. The organisation has equipped schools with bathrooms appropriately sized for children, installed handwashing stations in classrooms and launched an education programme stressing the importance of clean drinking water and sanitation, including the education of young girls on menstrual hygiene management.

**13'150 people benefited from improved water, sanitation, and hygiene.**

 **SANKU**  
PROJECT HEALTHY CHILDREN

Sanku, a non-profit organisation, is dedicated to addressing 'hidden hunger' in East Africa, aiming to end malnutrition for 100 million people by 2030. Maize flour lacks essential nutrients, leading to chronic malnutrition in nearly a third of the local population. Sanku partners with close to 1,000 small millers to fortify maize flour with vital micronutrients, making it accessible, affordable, and more appealing to families. This results in a foundation for healthier and more productive generations: reduced stunting, anaemia, and neural tube defects, decreasing absenteeism from work and school, boosting economic development and ultimately saving lives.

**600'000 people benefited from improved access to fortified food.**



### Rivers of food

Freshwater ecosystems are our life support systems, but they are the most threatened. The Rivers of Food project, supported by the Pictet Group Foundation, aims to comprehensively study the connections between rivers and global food production, ensuring that decision-makers consider the value of healthy rivers in their choices. The research findings are expected to influence the scientific community, encourage further research on river systems use and shape global policy.



Africa Water Solutions (AFS) improves access to clean water, sanitation, and hygiene infrastructures in the rural communities of Uganda. AFS trains the local population and staff in schools and health centers to adopt and maintain best practices of hygiene, water-harvesting, handwashing, and water disinfection solutions.



## DATA &amp; SUPPLEMENTARY INFORMATION

Top 10 Holdings				
Company	Segment	Positive Impact Contribution of the Company's Products & Services	Purity	Portfolio Weight
Republic Services Inc	Waste Management & Recycling	Republic Services is an industry leader in US recycling and non-hazardous solid waste disposal. It aims to make proper recycling and waste disposal effortless for customers through its collection of transfer stations, recycling centers, and food waste composting facilities, as well as landfill gas and renewable energy projects. Efficient waste management is a key tool to reduce GHG emissions and has a positive impact on people's health. The company is also expanding in other US environmental services, with a focus on the industrial and manufacturing sectors, and has committed to 2030 sustainability goals that are aligned with the UN SDGs.	High	4.0%
Synopsys Inc	Dematerialized Economy	Electrification of transport and industrial process requires large numbers of highly efficient semiconductors. Synopsys provides electronic design automation (EDA), Semiconductor Intellectual Property (reusable building blocks that are used for chip designs) and software security and quality solution. This enables the creation of advanced integrated circuits, electronic systems, and systems on a chip that are needed for many resource efficiency application. Synopsys also provides consulting services to streamline the overall design process and accelerate time to market. Their software integrity segment provides a solution for quality and compliance testing of software development lifecycle and supply chain applications. Synopsys has pledged to reduce carbon emissions in line with Paris Agreements goal to limit global temperature rise within 1.5 degrees Celsius and entered into one of the largest corporate aggregated clean energy procurement agreements to accelerate renewable energy developments.	Very High	3.8%
Eaton Corp Plc	Energy Efficiency	Eaton is an intelligent power management company, providing energy efficient products, technologies and services that support customers in effectively managing electrical and mechanical power more reliably, safely and sustainably. Eaton's solutions are directly contributing to the evolution of the electrical power value chain – critical for the energy transition from fossil fuels to renewables – from utility distribution operators to the downstream user environment. The company has a longstanding innovation track record across the electrical value chain and is investing in electrical vehicle markets, increasing focus on electrification, and employing digital technologies for power management. Eaton's long term ambition is to that 75% of its products will help with climate change mitigation or adaptation by 2050.	High	3.6%
American Water Works Co Inc	Water Supply & Technologies	American Water Works is a US based water and wastewater utility, providing drinking water and wastewater services to residential, commercial and industrial customers – serving an estimated 14 million people across 24 states. The company helps to increase water system resilience to prepare for and respond to the increasing number of extreme weather events and is committed to sustainability with a goal to save 15% of water delivered per customer, by 2035, compared to a 2015 baseline.	Very High	3.6%



Agilent Technologies Inc	Pollution Control	Agilent Technologies is global leader in the life sciences, diagnostics, and applied chemical markets. The company provides analytical instruments, software and services for pharmaceutical labs, academic and government institutions and for environmental, food, forensics, chemicals, and advanced materials related companies. Agilent's products and solutions are critical to the identification and analysis of pollutants in products or in the environment. For example, the company offers a fully pre-configured workflow solution for the testing and characterisation of PFAS (so-called "forever" chemicals) and is also leveraging its leadership in spectroscopy and gas chromatography to address testing requirements across the entire electric vehicle battery value chain.	Low	3.6%
Waste Connections Inc	Waste Management & Recycling	Waste Connections is an integrated solid waste services company that provides non-hazardous waste collection, transfer and disposal services, along with resource recovery primarily through recycling and renewable fuels generation. The company serves over eight million residential, commercial and industrial customers across 43 US states and six Canadian provinces. Waste Connections also provides non-hazardous oilfield waste treatment, recovery and disposal services in several basins across the U.S., as well as intermodal services for the movement of cargo and solid waste containers in the Pacific Northwest. Efficient waste management is a key tool to reduce GHG emissions and has a positive impact on people's health.	High	3.5%
Ansys Inc	Dematerialized Economy	Ansys is a global leader in the development of engineering simulation software used to predict how products will behave and how manufacture processes will operate in real-world environments. Through this software, innovators across industries are able to close the gap between design and reality to find new ways to optimize resource use while increasing efficiency and productivity. Ansys offers the most comprehensive suite of simulation solvers in the world, covering fluid dynamics, structural mechanics, electromagnetics, multi-physics. Its solutions are used for 'pervasive simulation', i.e., across product ideation, design & analysis, manufacturing, and operations. Applying engineering simulation solutions significantly increases efficiency, reduces cost, shortens time to market and reduces risk of failure by improving product quality.	Very High	3.4%
Ptc Inc	Dematerialized Economy	PTC Inc is a global software company that provides digital transformation solutions to businesses in various industries, including manufacturing, healthcare, and retail. Their technology enables digital design, engineering, and manufacturing, as well as the creation of IoT applications and augmented reality experiences. PTC is committed to sustainability, setting ambitious goals to reduce their carbon footprint and environmental impact. The company is investing in renewable energy and energy-efficient infrastructure, and they are also working with their suppliers to promote sustainable sourcing practices. Additionally, PTC is helping its customers reduce their environmental impact through its technology solutions, which enable more efficient production and energy management, reducing waste and emissions. PTC is also committed to promoting diversity, equity, and inclusion, with programs to support employee well-being and professional development.	High	3.3%

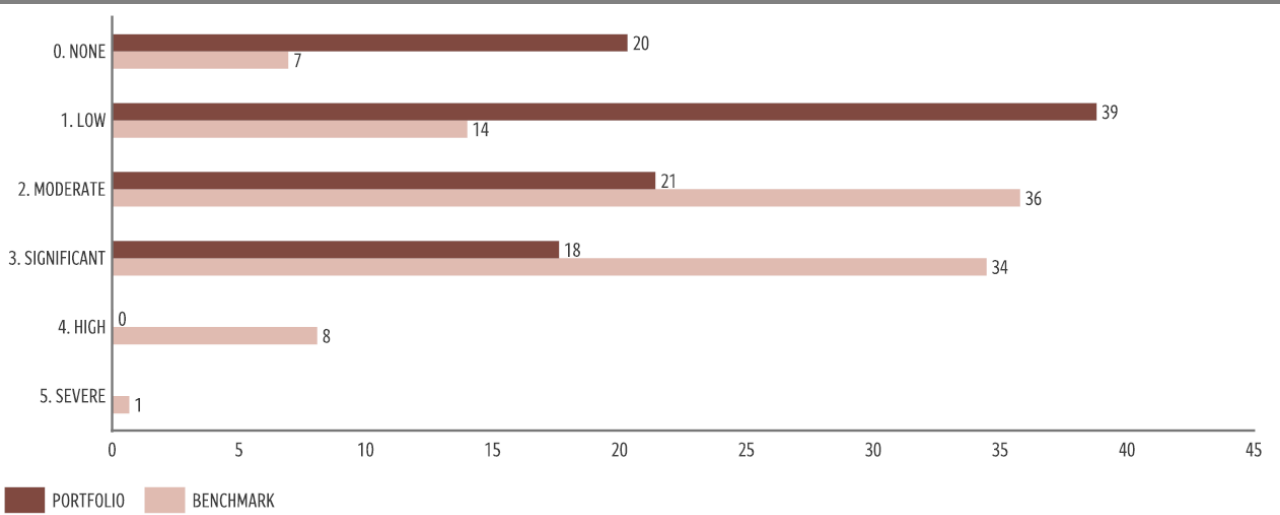
Xylem Inc	Water Supply & Technologies	Xylem is 100 per cent focused on water, helping their clients to solve water challenges through technology and expertise. They support global efforts to make water more accessible and affordable, and communities more water-resilient. Xylem's solutions cover everything water related across multiple sectors and industries. Applications include innovative leak detection solutions that support utilities to detect leaks and pipe failures in time to enable systemic prevention, UV and Ozone disinfection products that are able to treat wastewater for reuse applications, or for example dewatering pumps used for sewage pumping. Network optimization tools help cities from sewage overflow prevention into water bodies and surrounding areas with the help of level sensors, data analysis and intentionally constructed buffer tunnels.	Very High	3.3%
Waste Management Inc	Waste Management & Recycling	Waste Management is North America's largest comprehensive waste management environmental solutions provider. The company provides collection, recycling and disposal services to millions of residential, commercial, industrial and municipal customers throughout the US and Canada. With innovative infrastructure and capabilities in recycling, organics and renewable energy, Waste Management provides environmental solutions to and collaborates with its customers in helping them achieve their sustainability goals. The company has the largest disposal network and collection fleet in North America and is the largest recycler of post-consumer materials and a leader in beneficial reuse of landfill gas, with a growing network of renewable natural gas plants in North America.	High	3.2%

Source: Pictet AM as of 31.12.2023; Purity is classified as follows: Low 20-39 per cent purity, Medium 40-59 per cent purity, High 60-89 per cent purity, Very High is above 90 per cent purity.

ESG controversies

The controversies indicator measures the extent to which companies are exposed to news flow relating to ESG controversies such as bribery, corruption, product recalls, pollution incidents and conflicts with local communities. Controversies are evaluated based on their degree of severity and recurrence, as well as company accountability and reliability of information sources. We use Sustainalytics as our main source to identify controversies. We have grouped the results into six categories to represent none, low, moderate, significant, high and severe ESG standings. Results are based on stock weights in the portfolio and in the reference index. "Not covered" corresponds to securities for which no score is available from Sustainalytics.

ESG controversies (by weight, in percentage)



Source: Pictet Asset Management, Sustainalytics, December 2023, Reference index: MSCI AC World

Not applicable: portfolio 0% / reference index 0%, Not covered: portfolio 2% / reference index 0%

"Not applicable" corresponds to cash, sovereign and quasi-sovereign bond issuers. "Not covered" corresponds to securities or single line derivatives for which no data is available.

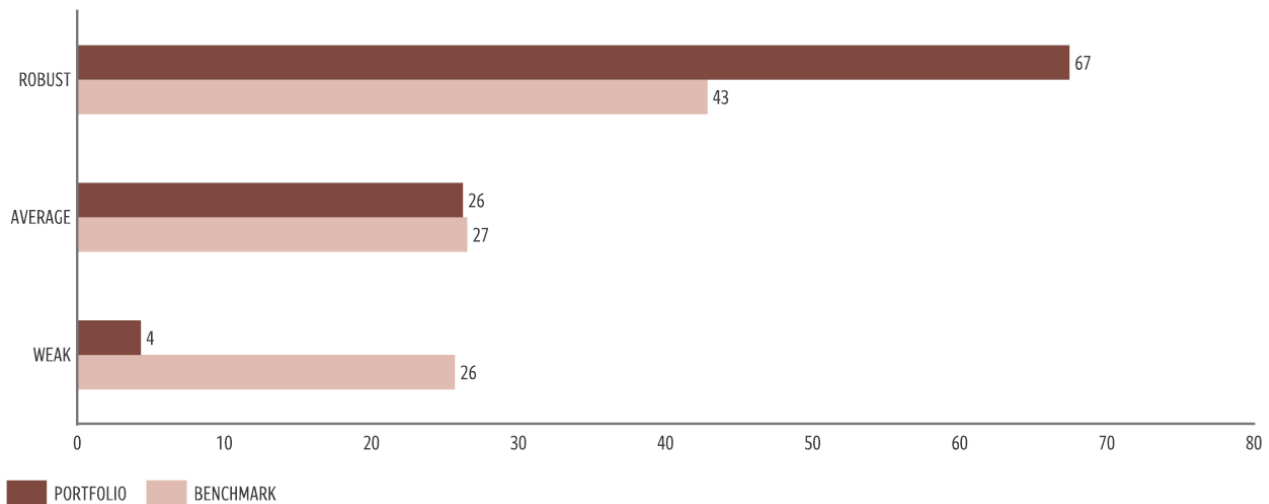


### Corporate governance score

Beyond the discussions our investment managers have with companies' senior management, there are multiple additional sources for Governance analysis. The investment team has access to HOLT, Sustainalytics, ISS and CFRA analysis. The chart below shows ISS corporate governance scores, which range from robust (decile scores 1 to 3), average (decile scores 4 to 7) and weak (decile scores 8 to 10). ISS Corporate Governance analysis is based on four pillars: board structure, executive remuneration, shareholder rights, audit practices. Evaluation criteria reflect regional best practices.

Results are based on aggregate stock weights in each category for the portfolio and the benchmark. "Not covered" corresponds to securities for which no score is available from ISS.

### Corporate governance (by weight, in percentage)



Source: Pictet Asset Management, ISS, December 2023

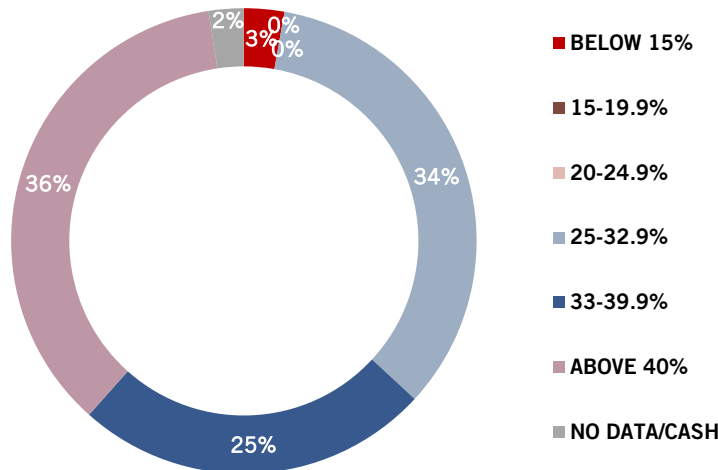
Not applicable: portfolio 0% / reference index 0%, Not covered: portfolio 2% / reference index 5%

"Not applicable" corresponds to cash, sovereign and quasi-sovereign bond issuers. "Not covered" corresponds to securities or single line derivatives for which no data is available.

Board diversity

Diversity is an important factor for operational success. Some indicators such as board membership can be a proxy of diversity and a topic of engagement. Here, we show female board membership for our portfolio.

Female board membership within the GEO portfolio



Source: ISS, Bloomberg, Pictet AM as at 31.12.2023, No data is available for 2 per cent of the portfolio (including cash).

Exposure to controversial activities

We monitor the exposure to all activities that might be perceived as controversial by some investors. Such exposure is generally very low based on our investment process that seeks to

- maximise exposure to positively contributing activities and
- reduce negative impacts on the environmental or society through exclusion guidelines

We use Sustainalytics as our external data provider and enhance it with company disclosures and our own research.

Exposure to controversial activities (weighted average company revenues, in percentage)

	PORTFOLIO	REFERENCE INDEX
Fossil fuels and nuclear energy	0.01	3.69
Weapons	0.26	0.98
Other controversial activities	0.01	0.87

Not applicable: portfolio 0% / reference index 0%

Not covered: portfolio 0% / reference index 0%

"Not applicable" corresponds to cash, sovereign and quasi-sovereign bond issuers. "Not covered" corresponds to securities or single line derivatives for which no data is available. Calculations exclude short positions.

Source: Pictet Asset Management, Sustainalytics, December 2023

Fossil fuels and nuclear energy include thermal coal extraction and power generation, oil & gas production and extraction, shale energy extraction, offshore arctic oil & gas exploration, and nuclear power generation.

Weapons include military contracting (weapon and weapon related services), and small arms (civilian customers (assault/ non-assault weapons, military law enforcement, key components).

Other controversial activities include tobacco production, adult entertainment production, gambling operation, GMS development or growth, pesticides production or retail.

## Other regulatory ESG disclosures

We have highlighted below some additional ESG metrics that may be requested by some clients, labels, or regulators in specific markets. These should be considered additional information on significant ESG indicators. Such indicators can inform our investment process and may form a basis for engagement with companies.

INDICATOR	PORTFOLIO	REFERENCE INDEX
Weighted average of independent board membership	79.2 per cent Source: ISS, Bloomberg as of 31.12.2023, no data for 2 per cent of portfolio and 0.4 per cent of reference index.	75.9 per cent
Weighted average of female board membership	36.4 per cent Source: ISS, Bloomberg as of 31.12.2023, no data for 2 per cent of portfolio and 0.3 per cent of reference index.	33.0 per cent
Weighted average exposure to UN Global Compact Signatories	44.4 per cent Source: ISS as of 31.12.2023, no data for 5.0 per cent of portfolio (including cash) and 0.9 per cent of the reference index.	44.4 per cent
Weighted average Scope 1 and 2 carbon intensity	199 tons of CO2 equivalent per million USD revenues Source: Sustainalytics, Pictet AM as of 31.12.2023 Data coverage: 99.09 per cent for the portfolio, 99.6 per cent for the reference index	167 tons of CO2 equivalent per million USD revenues
Sustainable Investments exposure (pass/fail approach)	Environmental Objectives: 74.28 per cent Thereof, taxonomy aligned: 5.02 per cent  Social Objectives: 24.81 per cent  Source: Pictet Asset Management, 31.12.2023	15.05 per cent 0.35 per cent  17.52 per cent
Additional indicators and documents	<a href="#">Summary page on sustainability-related disclosures in the financial services sector (SFDR)</a>  <a href="#">European ESG Template</a>	

Direct GHG emissions (also referred as "Scope 1") arise from activities such as heat and power generation, transportation, and production processes directly owned or controlled by companies. Indirect GHG emissions (also referred as "Scope 2") arise from energy and heat purchased and used. These emissions can be significantly different from reporting based on full lifecycle analysis, which takes into account the wider supply chain and emissions from products and services of the company.

Pictet Asset Management uses a proprietary framework to define sustainable investments. Sustainable investments are calculated on a pass/fail basis based on securities from issuers with at least 20% combined exposure (as measured by revenue, EBIT, enterprise value or similar metrics) to economic activities that contribute to environmental or social objectives.

The fund made investments in economic activities that contributed to the first two environmental objectives (climate change adaptation and climate change mitigation) as set out in the Article 9 of Regulation (EU) 2020/852. EU taxonomy-aligned investments were calculated on a revenue-weighted basis (i.e. security weights are multiplied by the proportion of revenues from economic activities that contribute to relevant environmental objectives) and cannot be consolidated with other numbers following a pass/fail approach. EU Green Taxonomy alignment data were sourced from publicly available reports. Calculations may also include estimates in a limited number of cases when EU Green Taxonomy alignment reported data were not available. Estimates were performed on a best effort basis and following a conservative approach so as to produce a prudent outcome. The monitoring procedures have been implemented to verify at all times compliance with Article 3 of the EU taxonomy regulation. Data provided have not been verified by an external auditor or reviewed by an independent third-party.

Further information on Pictet AM's responsible investment strategy is available [here](#).

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