

Pictet-Timber **Impact Report**

31.12.2019

For professional investors only



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Our Declaration of Intent

“Timber is becoming a strategic resource as forests are recognized as major CO₂-sinks and wood-based materials represent competitive bio-degradable substitutes to plastics, concrete, or steel.”

Timber Investment Team

A surface area the size of Madagascar was deforested between 2000-2015¹. The trend continues to worsen just as growing greenhouse gas concentrations in the atmosphere is an ever more pressing global challenge. Meanwhile, demand is rising to find alternatives to plastics which endanger sea life and adversely impact human health.

Investing in sustainably managed forests and in biodegradable wood fibre-based materials is one way in which we can help fight these global challenges:

- The UN Climate Change conference in Paris in 2015 confirmed that unsustainable management of forestland will threaten both the future timber supply and the vital role that forests play as carbon sinks. Forests provide significant storage for excess atmospheric carbon (CO₂). The use of timber and how it is sustainably cultivated are playing key roles in environmental discussions and in the mitigation of climate change.
- Sustainably managed forests are also reservoirs of biodiversity. With rotations on the order of decades, forestry is much less disturbing than (sub-)annual crop rotations in agriculture. And by producing wood on well-defined, managed surfaces, natural forests can remain untouched. In addition, forests root systems are also known to act as water filters, purifying water resources.
- Finally, sustainably managed forests provide the raw material for a growing variety of biodegradable materials. Wood fibre-based materials applications are only set to grow, substituting plastics and other non-biodegradable materials.

We intend to generate attractive returns as well as a positive environmental impact by allocating capital to companies with access to forests or companies that are active along the wood fibre value chain. We focus on companies that sustainably manage their forests, therefore ensuring that trees are replanted, nurtured, and allowed to re-grow to capture CO₂ and help to maintain biodiversity. Wood-based materials represent competitive bio-degradable substitutes to plastics, concrete, or steel, helping to solve the world's pollution problems.

¹ Global SDG Indicator database, United Nations. Note: Over 95% of deforestation is caused by agriculture, mining or infrastructure projects.



Investment universe

Strategic definition of the investment theme related to timber

The investment theme defines our long-term strategic orientation. Investment themes are identified on the basis of our megatrend framework. A dedicated Advisory Board helps the investment managers to track the evolution of the timber theme and to identify future trends in technology, public policy and consumption patterns that could affect it. The Board also helps defining new theme segments.

Board members are recognized experts in their respective domain; they often come from academia, NGOs or the private sector.

Timber Advisory Board

Michael Köhl, Ph.D.

As head of the World Forest Institute in Hamburg, Michael contributes to numerous European and international forestry-related organisations, publications and initiatives. His vast expertise ranges from European to international forest legislation, certification and trade schemes to sustainable tropical forestry.

David Walker, CFA

David Walker, Founder and Managing Partner of Singapore based Kauri Capital has a multi-decade long experience as a consultant to the forest industry, specialised in financing, M&A and corporate restructuring, covering Oceania, Japan and the whole developed and emerging Asian region.

Clark Binkley, Ph.D

A former Dean of UBC's forestry program as well as former founder, CIO and advisor to several US-based Timber Investment Management Organisations, Clark has tremendous expertise in private equity timberland investment, valuation and transactions, as well as their role in asset allocation and as an inflation hedge, both in North and South America.

We have identified an initial investment universe of listed companies active in timber-related businesses from the global equity market of over 40,000 companies. Circa 200 companies have been identified with sufficient exposure to the timber value chain.

The Timber strategy focuses on the full value chain of timber-based products:

- › Forest owners
- › Wood products and home builders
- › Containerboard and packaging
- › Industrials, paper and hygiene

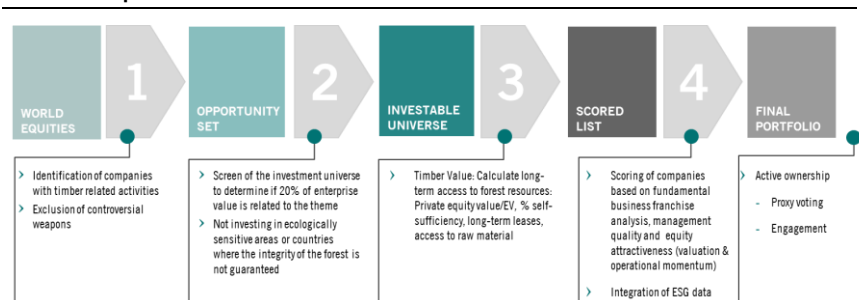


Investment process

The Timber investment process follows the steps shown below. It provides a systematic approach to portfolio construction which intends to minimize behavioural biases.

- › Strategic definition of the investment themes
 - Inclusion of all companies with exposure to the Timber theme
 - Exclusion of companies from the controversial weapons blacklist
- › Identification of the investable universe based on companies' exposures to the theme ("purity"²).
 - We only include companies with at least 20% purity.
 - We exclude companies active in ecologically sensitive areas (High-Conservation Value Forests) or investments in countries where the forest integrity cannot be guaranteed.
- › Determination of timber value, i.e. ownership and long-term access to forest resources
- › Bottom-up stock selection and weights determination based on the scored short list. Scoring is based on fundamental elements: Purity, risk factors, financial attractiveness, business franchise, management quality and ESG factors
- › Active ownership: we vote on all our equity positions and engage with selected companies

Investment process overview



² See next chapter for definition of purity

Detailed fundamental analysis and primary research are prerequisites for successful stock selection in global markets. A considerable amount of time is spent by the investment managers to conduct company visits to assess the operations and management quality of companies in our universe.

RESEARCH EXAMPLE



Christoph Butz, Senior Investment Manager for the Timber Strategy, inspecting timberland owned by one of the companies in our portfolio

In May 2019, the investment team met company representatives of several companies as well as international forestry experts at the International Timber conference in the US.

Following this conference, the team went on a research trip to one of the largest timberland owners in our portfolio. They met key representatives of their logging and reforestation teams and were able to inspect some of their key forests.



Exclusion policy

POSITIVE SCREEN

We first identify an initial universe of listed companies active in the timber value chain. Only companies with sufficient exposure to timber are eligible for investment. This includes areas such as forest owners, wood products and home builders, containerboard and packaging, as well as paper-based products.

We include companies in the investable universe only if at least 20% of the enterprise value (or sales, EBIT or EBITDA) is derived from timber-related activities (“purity” to the theme). By applying this filter, we narrow the universe down from 40,000 to circa 200 companies. On average, the portfolio has a purity of over 80%.

THEME SPECIFIC EXCLUSIONS

The Timber strategy does not invest in ecologically sensitive areas, e.g. in companies that have a negative impact on High Value Conservation Forests (HVCF). We do not invest in regions where forest legislation is weak or not enforced and therefore the integrity of the forest is not guaranteed. At the moment, these regions include Malaysia, Indonesia and equatorial Africa.

CONTROVERSIAL WEAPONS BLACKLIST

The Pictet Group applies an exclusion policy for companies involved in the production of anti-personnel mines, cluster munitions, biological & chemical weapons (including white phosphorous) and nuclear weapons from countries that are not signatories to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). The Pictet Controversial Weapons Blacklist so far covers 17 listed entities and over 40 private companies.

REVENUES FROM CONTROVERSIAL PRODUCTS & SERVICES

While we do not apply additional formal exclusions, we monitor the exposure to activities that might be perceived as controversial by some investors, such as weapons or tobacco production.

As our investment process includes a positive screen to identify companies exposed to Timber activities, it leads to a small universe of companies. Practically, the stringent positive screen leading to the identification of Timber-related stocks de facto “excludes” 99.5% of equities. Consequently, exposure to controversial activities of the investment universe is very small. In addition, our portfolio construction process maximizes exposure to the theme which further reduces the probability of being exposed to controversial activities in the portfolio.

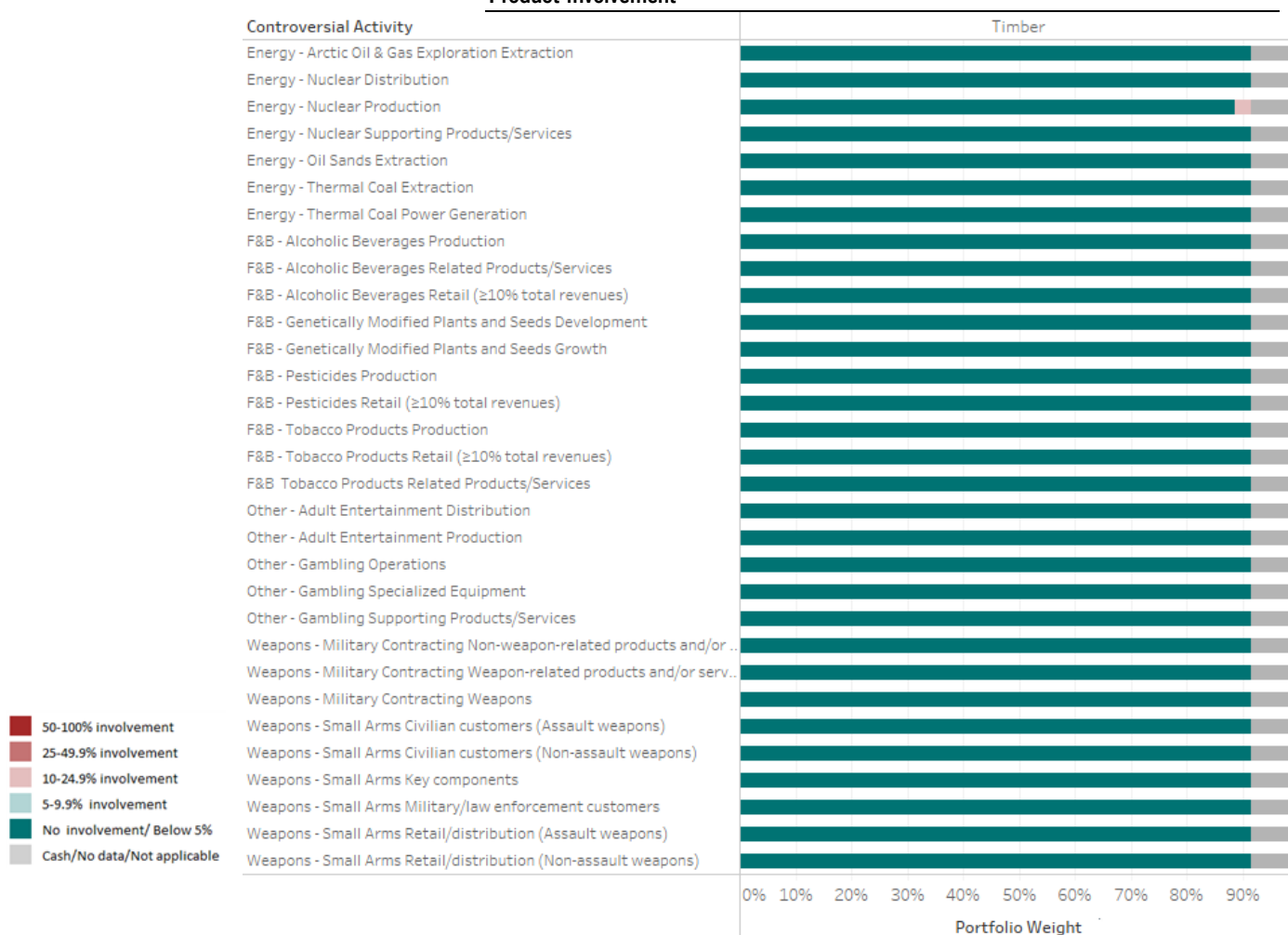
Exclusion of controversial weapons

Monitoring of revenues from controversial business activities



Please see below the product involvement of the portfolio as at 31.12.2019.

Product involvement



Source: Sustainalytics, Pictet Asset Management as at December 2019

90% of the portfolio is covered by Sustainalytics data. The Timber portfolio was exposed to one stock¹ active in nuclear power generation (portfolio weight 3.1%).

¹ The company is mainly active in the forest industry, owning close to one million hectares forests and produces pulp, papers, plywood and other building materials. Through a subsidiary, the company also owns a stake in a nuclear power generation plant. The energy segment contributed only 1% of the company's total revenues, of which 20% are based on nuclear production.



Environmental, social and governance reporting

Integration of ESG factors in the investment process

We systematically integrate environmental, social and governance considerations in the fundamental analysis of companies. ESG indicators are formally integrated in the investment process and impact the target weights of stocks in the portfolio.

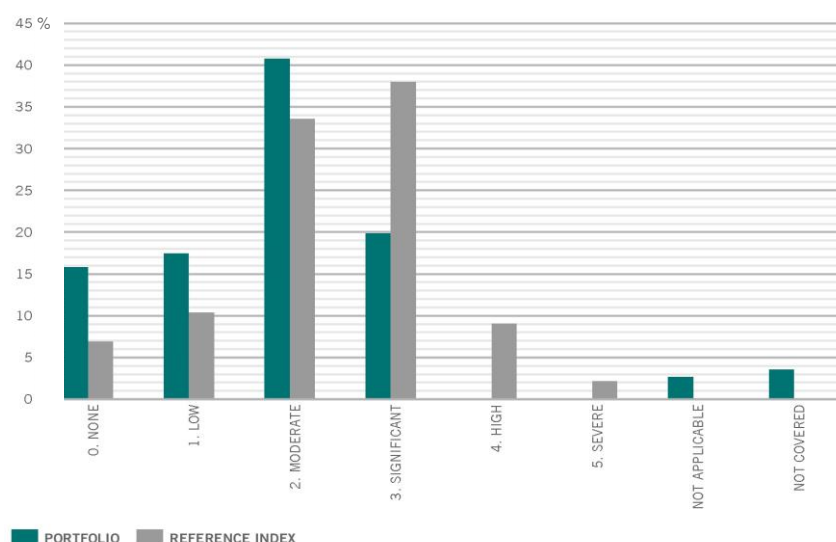
ESG factors integrated in our fundamental scoring process reflect the views of our Investment Managers. If companies are not covered by external data, investment managers assess ESG through primary research and a qualitative assessment of company fundamentals.

ESG CONTROVERSIES

The controversies indicator measures the extent to which companies are exposed to news flow related 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 Sustainalytics³ as our main source to identify controversies. Below 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 benchmark. “Not covered” corresponds to securities for which no score is available from Sustainalytics.

ESG controversies



Source: Pictet-Timber, Reference index: MSCI World Sustainalytics as at 31.12.2019

³ <http://www.sustainalytics.com/>

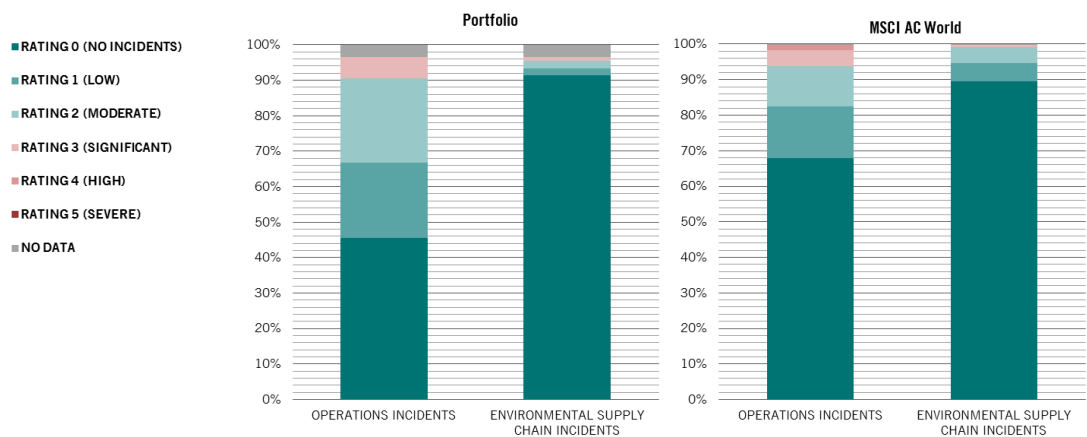


Pictet-Timber has no exposure at all to the severe and high controversy categories, and a lower exposure to the significant controversy category compared to MSCI World. Three companies in the portfolio are not covered by Sustainalytics data (total portfolio weight 3.5%).

ENVIRONMENTAL CONTROVERSIES

Environmental controversies are a proxy to estimate the potential extent to which companies may be engaged in questionable environmental practices. Here we show Operations Incidents and Environmental Supply Chain Incidents.

Environmental incidents



Source: Pictet-Timber, Reference index: MSCI AC World Sustainalytics as at 31.12.2019

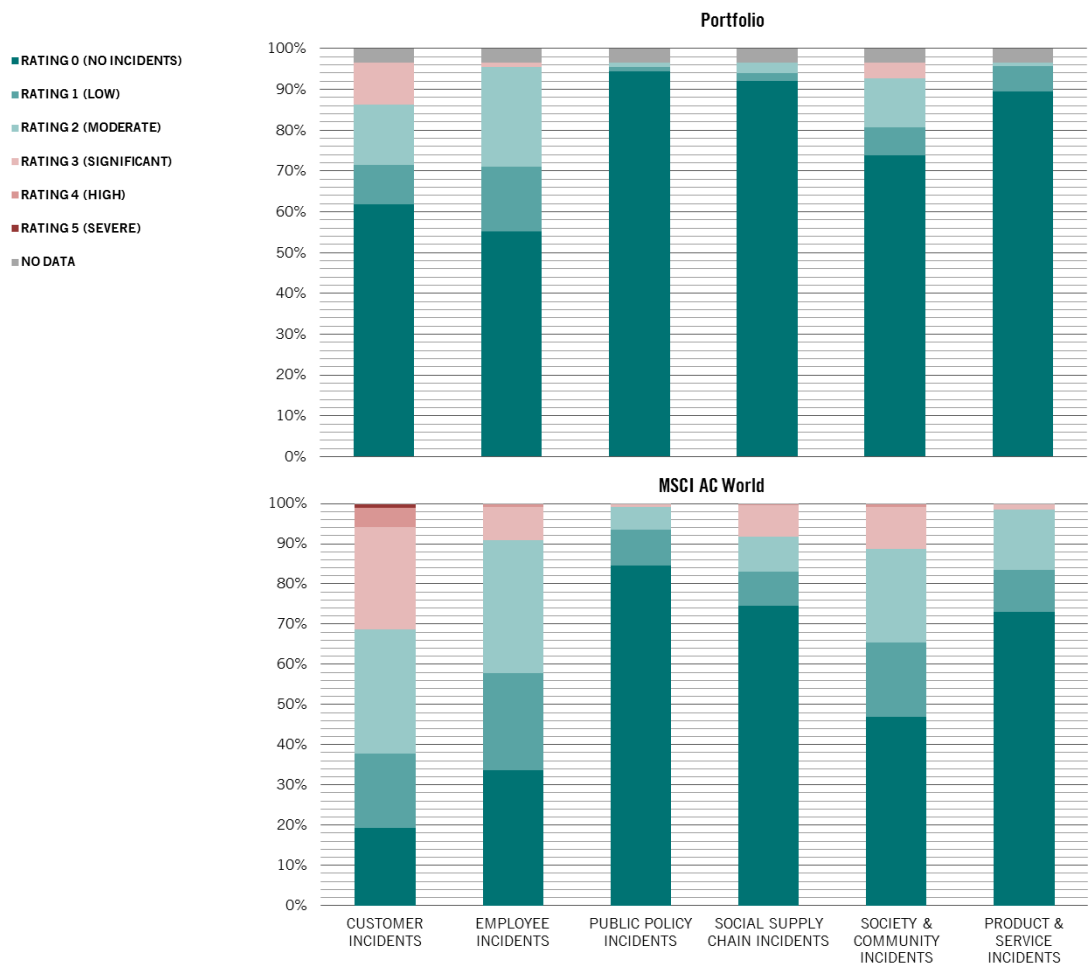
The portfolio had no exposure to the severe incident rating categories. Exposure to companies with low or moderate controversy ratings was lower than that of MSCI AC World.



SOCIAL CONTROVERSIES

Social controversies are a proxy to estimate the potential extent to which companies are engaging in questionable social practices. Here we show employee incidents, customer incidents, pollution incidents, conflicts with local communities and others of our portfolio vs a global reference index.

Social incidents



Source: Pictet Asset Management, Sustainalytics as at 31.12.2019

The portfolio has higher exposure to companies with no or low controversies compared to MSCI AC World across all incident types. For 3.5% of the portfolio (three companies) no external data was available, compared to 0.2% for MSCI ACWI.

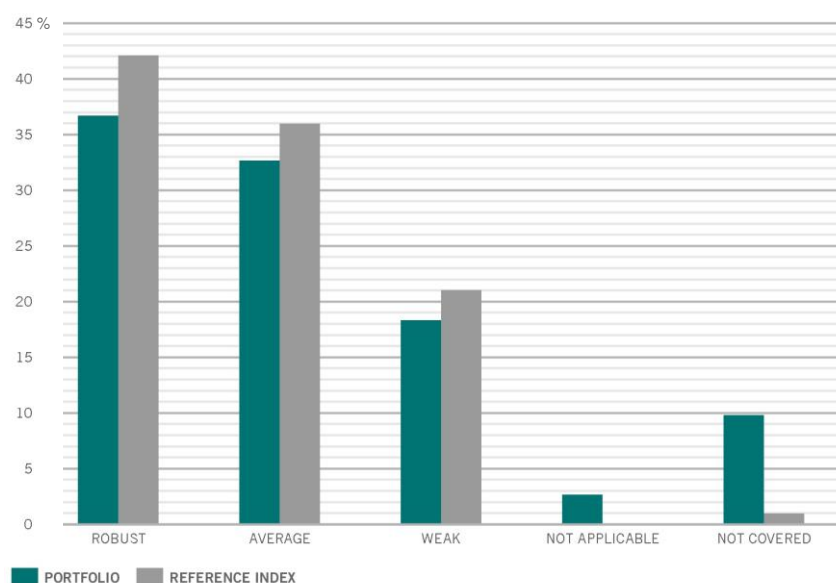


CORPORATE GOVERNANCE

In response to increased pressure from regulators and shareholders for stronger corporate governance, companies are expected to strengthen board competence and independence, to adopt executive remuneration plans based on long-term performance, to respect minority shareholder rights, and to reinforce risk control and audit functions.

Beyond the discussions our investment managers are having with companies' senior management, there are multiple additional sources for Governance analysis. The investment team has access to HOLT, Sustainalytics, ISS and CFRA analysis. Below we show ISS corporate governance⁴ scores, which range from robust (decile scores 1 to 3), average (decile scores 4 to 7) and weak (decile scores 8 to 10). 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



Portfolio: Pictet-Timber, Reference Index: MSCI World
Data Source: IS as of 31.12.2019

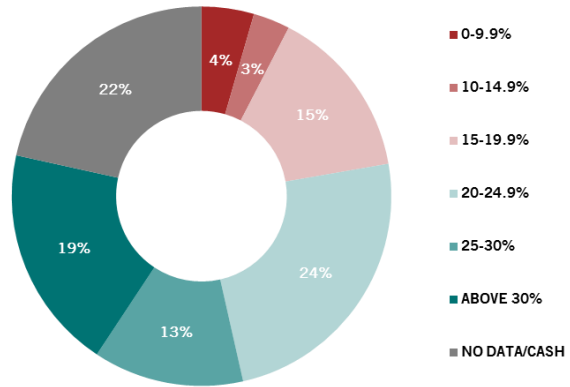
Pictet-Timber has lower exposure all rating categories due to the high number of companies (9 companies, 9.8% of the portfolio) that are not covered by ISS data. These are often small or mid-cap companies and/or companies in emerging markets that are not yet covered by most of the standard ESG research providers. Primary research is the basis of our independent ESG assessment of these companies.

⁴ <https://www.issgovernance.com/>



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 members



Percentage of Women on Board

Source: ISS, Pictet Asset Management as at 31.12.2019

No data is available for 21.5% of the portfolio (including cash).



Impact reporting

A scientific framework to measure environmental impact along nine criteria

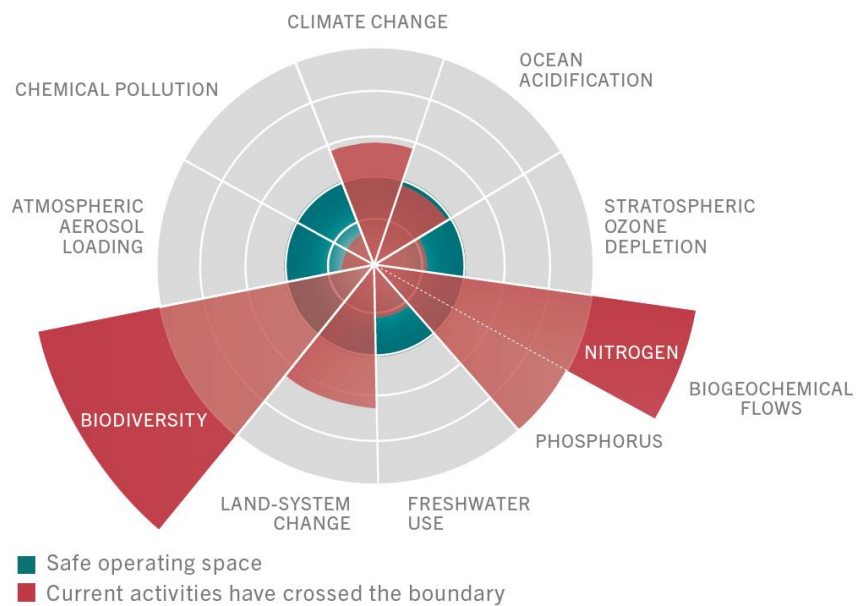
ENVIRONMENTAL IMPACT

We base the environmental impact measurement of our thematic strategies on the scientific framework of planetary boundaries*. Planetary boundaries are ecological thresholds for nine of the most important environmental challenges:

- › Climate change
- › Ocean acidification
- › Ozone depletion
- › Eutrophication/Biogeochemical flows
- › Water use
- › Land use
- › Biodiversity
- › Atmospheric aerosols
- › Chemical pollution

Transgressing these boundaries would endanger the favourable environmental conditions that have been in place for the last several thousand years. Staying within these boundaries, in the so-called “safe operating space”, will be crucial for mankind and all life forms on the planet.

Planetary boundaries framework



* See “A safe operating space for humanity”. Rockstrom et al. Nature, September 2009



We operationalise the planetary boundary framework and apply it to an environmental assessment of companies. We analyse companies' core activities, products and services over their life-cycle ('from cradle to grave') against the 9 boundaries.

Most environmental reporting today is done taking into account emissions related to companies own operations and supply chain. Wider impact of the products and services during and after their lifetime or positive impact stemming from desired substitutions are generally not considered.

Our methodology accounts for the full life-cycle of products and services provided by companies. The environmental footprint shown can therefore differ significantly from conventional approaches.

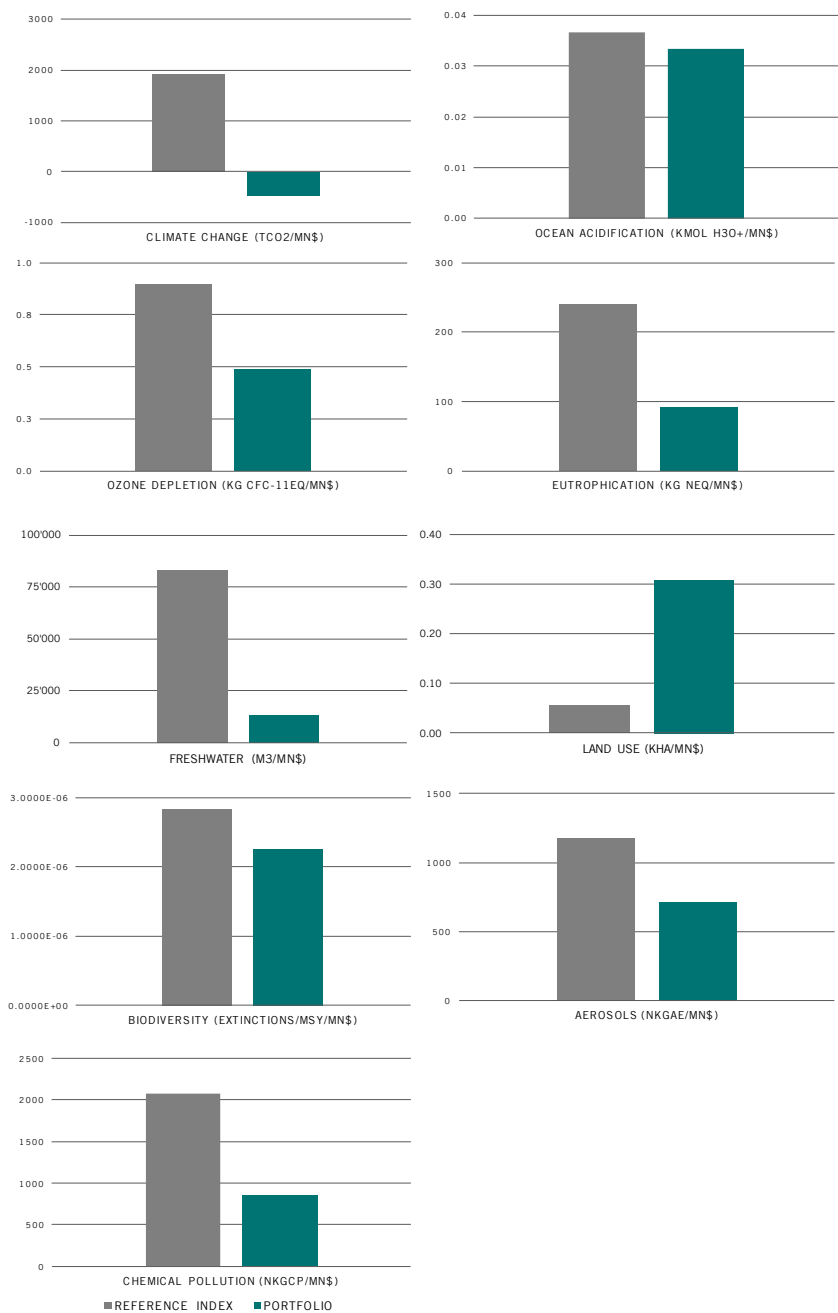
It should be noted that our methodology can yield negative emissions. For example, a company providing advanced wastewater treatment would generate negative freshwater-use data as it does not consume water, but rather removes pollutants thereby providing additional water resource.

On the next page we show the physical measures of our portfolio versus MSCI All Countries along the nine environmental dimensions.



The Timber strategy demonstrates a positive impact on eight out of nine planetary boundaries

Timber strategy vs MSCI All Countries World



Source: Pictet Asset Management, as of 31.12.2019

The environmental footprint of the Timber strategy is lower than that of the MSCI AC along eight out of nine planetary boundaries. On land-use, the strategy has a larger footprint due to the vast direct forest ownership by timberland companies. As discussed above, land-use in sustainable forestry is among the most environmental beneficial as forests maintain biodiversity, store CO₂ and act as water and air purifiers.



As intended, the Timber strategy has its largest positive impact on climate change (CO₂equ), biodiversity and chemical pollution (includes substitution of plastic waste).

COMPANY EXAMPLE

Plastic-based waste is a major concern globally, with an estimated 12.7 million tonnes of plastic polluting our oceans each year. The effects are dramatic, with bigger plastic parts choking sea turtles and birds or clogging the stomachs of animals mistaking plastic for food. Micro-plastic is finding its way back via the global food chain onto our plates.



We invest in Mondi to address these issues. The company produces paper-based packaging products that are a necessity to avoid plastic-based waste and helps reducing transportation cost by appropriate package design. The company has the capabilities and the solutions to replace 100'000 tonnes of plastics with their kraft paper products and paper shopping bags. Mondi is also recycling paper and containerboard

The company's' biggest positive impact with regards to the Planetary Boundaries is measured on the climate change, freshwater use and chemical pollution categories.



EXPOSURE TO 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 Sustainable Development Goals, as depicted below, are a united set of global aims which balance the social, economic and environmental dimensions of sustainable development. They recognize “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”⁵:

The United Nation's 17 Sustainable Development Goals



Initially designed primarily for policy makers and governments, businesses increasingly try to show their exposure to SDGs within their Sustainability reports, while investors are also starting to request that asset managers demonstrate the exposure of their investment to SDGs.

In the absence of a standardised global reporting framework on SDGs and given some excessive optimism we observe in terms of reporting practices, we believe it is our duty to provide our clients with a transparent and rule-based SDG-exposure analysis of our portfolios. We have developed a two-tier proprietary process, combining Artificial Intelligence-based quantitative analysis with fundamental input from our experienced investment managers in the Thematic Equities team to assess the external impact of company's products and services on society and on the planet.

⁵ United Nations <https://www.un.org/sustainabledevelopment/development-agenda/>



Our process

We aim for a systematic, data-driven estimation of companies' contribution to the SDGs. Our process consists of two parts:

1- Quantitative

- › Our proprietary AI engine uses natural language processing (NLP) to analyse seven different sources of information for each company – including transcripts of earnings calls, company reports and financial databases. It then identifies a set of keywords which occur the most frequently and which thus sum up that company's DNA.
- › The system then screens the keywords to focus on ones which are aligned with the SDG concept. It takes into account their relative importance (both to the company and to the SDG) to quantify the exposure of each company to the 17 goals and 169 sub-goals.

2 - Fundamental

- › The fundamental analysis is conducted by our experienced investment managers and thematic product specialists. They focus on the impact of the products and services produced by the companies, rather than on their own internal operations.
- › The SDG exposure is assessed by drilling down to all 169 targets (or sub-goals) across the thematic portfolios. Scores are ranging from highly negative to highly positive exposure.

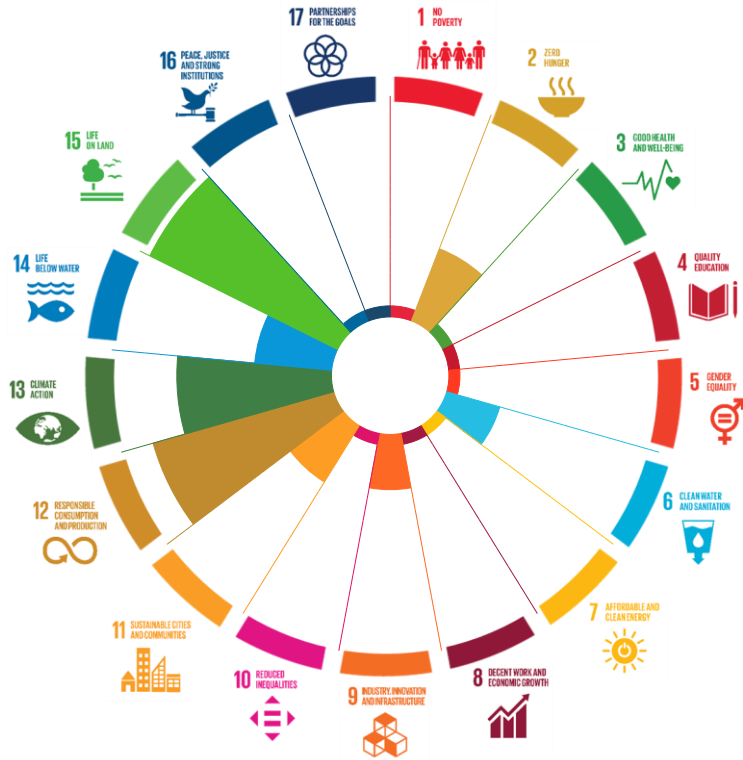
For example, to get a good exposure score for “Good Health and Wellbeing” (SDG 3), a company would need to help others to improve their health or have a positive external impact on the public Health system. It is not enough to just prevent health-related incidents for their own employees.

The final SDG score for our portfolios consists of equal contributions from the fundamental and quantitative analysis.

In below chart we show only SDG exposures above 14.0%, which is the average SDG exposure of MSCI World according to our methodology.

The Timber strategy has its highest exposure to SDG 15 (Life on Land) with 67%. The strategy also has significant exposure to SDG 12 (Responsible Consumption and Production) and SDG 13 (Climate Action).

SDG Exposure Pictet-Timber



Source: Pictet Asset Management, as of December 2019

The chart demonstrates the relative importance of the SDGs for the strategy as of December 2019 based on our own SDG methodology.

We assess the impact of the companies' products and services to help achieving the SDGs. The chart has been scaled to the highest SDG exposure of this strategy. SDG exposure data below 14.0% (MSCI World average) are not shown.

Highest SDG exposure of Pictet-Timber is: **SDG 15 67%**



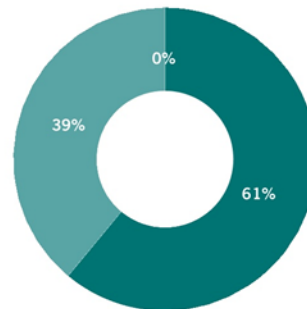
Active ownership

PROXY VOTING

Systematic proxy voting on 100% of our active equity strategies

Voting rights are systematically exercised at general assembly meetings for the companies held in the fund in accordance with Pictet Asset Management's voting policy and through the ISS proxy voting platform⁶. Our 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.

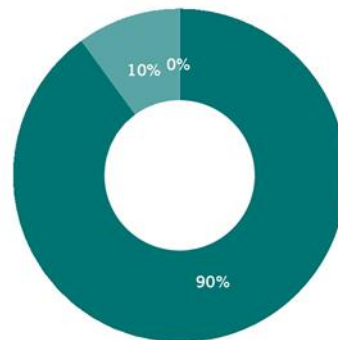
Breakdown of votable meetings



- ALL VOTES "FOR" (36)
- AT LEAST ONE VOTE AGAINST, WITHHOLD OR ABSTAIN (23)
- MEETINGS NOT VOTED (0)

Number and percentage of General Assembly meetings where votable items were presented to shareholders. Meetings are broken down in three categories: (i) meetings where we supported all items, (ii) meetings where we voted against, withheld, or abstained on at least one item, and (iii) meetings where we could not vote for technical or legal reasons.

Breakdown of votable items



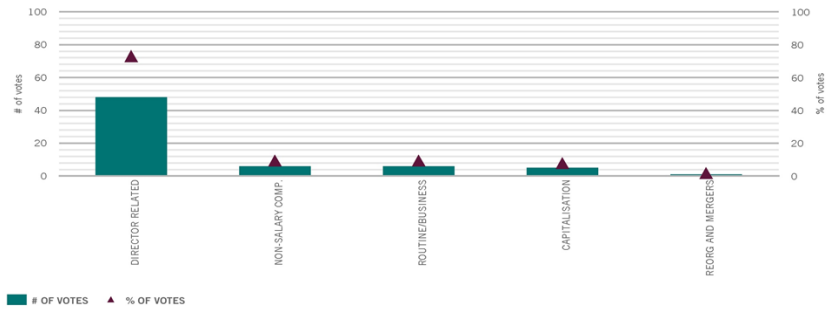
- VOTES WITH MANAGEMENT (636)
- VOTES AGAINST MANAGEMENT (71)
- ITEMS NOT VOTED (0)

Number and percentage of votable items presented to shareholders at General Assembly meetings of portfolio companies. Items are broken down in three categories: (i) votes in line with the management (ii) votes against the management (iii) items not voted.

⁶ <https://www.issgovernance.com/solutions/proxy-voting-services/>

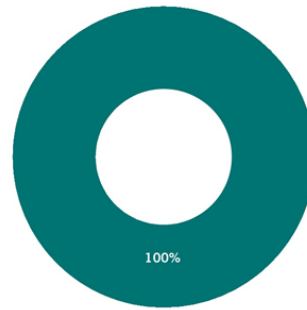


Breakdown of votes against management



Number and percentage of votes against management broken down by category. This includes votable items proposed by management and excludes votable items proposed by shareholders. Please refer to the glossary for a description of categories.

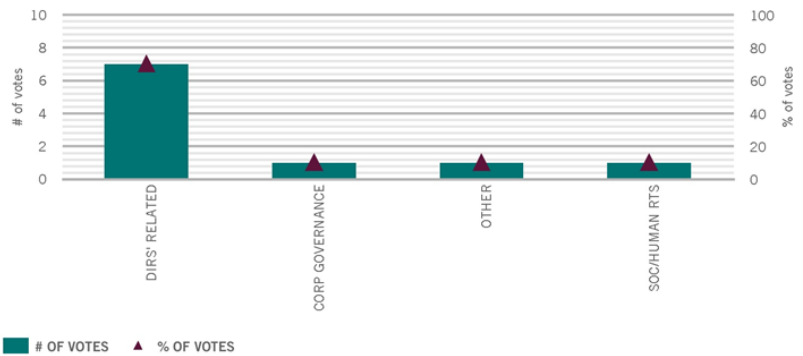
Shareholder resolutions



■ SUPPORTED (10)

Number and percentage of votable items proposed by shareholders. Items are broken down in three categories. (i) shareholder resolutions that we supported, (ii) shareholder resolutions that we opposed, (iii) shareholders resolutions for which we abstained.

Category of shareholder resolutions we supported



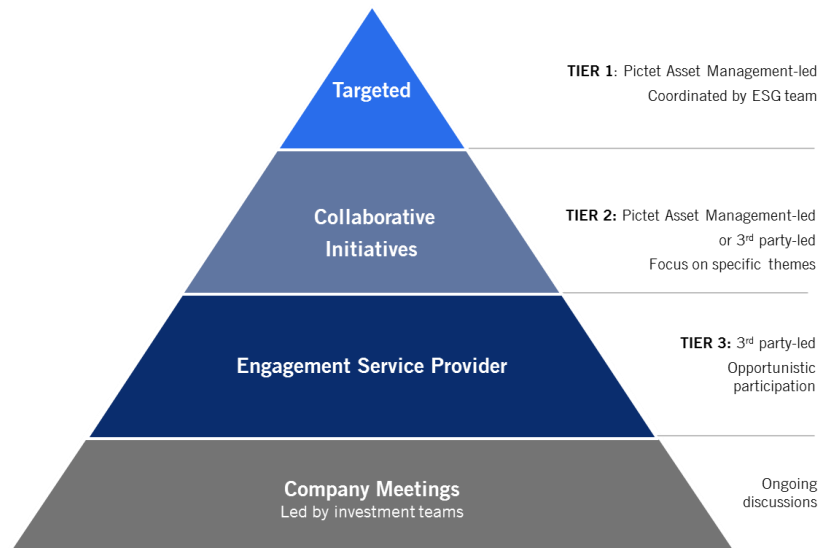
Number and percentage of shareholder resolutions that we supported broken down by category. Please refer to the glossary for a description of categories.



ENGAGEMENT WITH COMPANIES

Engagement with companies to positively influence business and financial practices

Our engagement framework is aimed at positively influencing ESG performance of corporate and sovereign issuers and to create long term value for our clients. It is built on four key pillars: direct engagements by the investment teams, pooled engagements led by an external service provider, participation in collaborative initiatives and targeted engagements.



1. To positively influence corporate behaviour, including ESG issues, investment teams engage with companies in their normal course of business:

Company meetings

During 2019, we have been opposing a taking private bid for one of our Canadian portfolio holdings. We have considered the timing as highly opportunistic and the bid price did not reflect the company's true inherent value. Therefore, the transaction was not in the best interest of the minority shareholders. Our engagement and outspoken opposition was successful as the bid was eventually rejected by minority shareholders.



Pooled engagements

2. We also use the services of Sustainalytics to perform ESG engagement with corporate issuers across Pictet Asset Management's entire suite of investment strategies. The Sustainalytics Corporate Governance Engagement program is a value-enhancing overlay service focused on corporate governance issues, such as board composition, succession planning and ESG strategy. Sustainalytics targets companies for engagement based on several criteria, including voting-related issues, event-driven concerns and portfolio characteristics, and focuses on materiality when evaluating companies and their risks. Sustainalytics sets engagement objectives and formulates an action plan for each engagement. During 2018, it engaged with 58 of our holdings across 10 countries.

We are in engagement with one company in the Timber portfolio via our external engagement service provider. One additional case is currently being evaluated.

Collaborative initiatives

3. **Collaborative initiatives** in which we participate include Climate Action 100+. As part of this initiative, Pictet Asset Management is actively participating in collaborative engagements with a Swiss mining company, a Russian metals and mining company and a German automaker.

Pictet AM targeted engagements

4. **Targeted engagements** are coordinated by Pictet Asset Management's ESG team. The key criteria for candidate selection are based on the severity of ESG concern(s) and our likelihood of successfully influencing the issuer. The issuers that we engage with represent a variety of regions, sectors and ESG issues.



ENGAGEMENT WITH INDUSTRY STAKEHOLDERS

We also include active engagement with industry stakeholders in our framework. This reflects our commitment to drive the ESG discussion within the asset management industry and to raise awareness and better understanding of environmental, social and governance aspects of investment management with our clients.

Pictet Asset Management has been a signatory of the UNPRI since 2007 and has been awarded an A+ rating under the PRI's Reporting and Assessment Framework. In addition, Pictet Asset Management actively participates to several investor initiatives aimed at sharing best practices between asset managers and owners and encouraging corporate disclosure on ESG issues. We are notably involved in the IIGCC (Institutional Investors Group on Climate Change), SSF (Swiss Sustainable Finance) and similar organisation in the UK, Germany and Spain.

Pictet Asset Management supports and actively participates in international and national initiatives, including:

ORGANISATION/INITIATIVE	INVOLVEMENT OF PICTET ASSET MANAGEMENT
UNPRI	Signatory
Swiss Sustainable Finance (SSF)	Founding member, Board representative
FNG, UK SIF, SpainSIF	Member
CDP (Carbon Disclosure Project)	Member
Swiss Climate Foundation	Corporate sponsor, Board representative
EFAMA (European Fund and Asset Management Association)	Member of the Stewardship Market Integrity & ESG Investment Standing Committee
UK Stewardship Code	Signatory
JP Stewardship Code	Signatory
Climate Bond Initiative	Member of the Standards Board
IIGCC (Institutional Investors Group on Climate Change)	Steering Committee Member Investment Practices program; Vice-chair of the Board (from 2013-2016)
FTSE Environmental Markets	Member of the Advisory Committee
Climate Action 100+	Supporter of 3 collaborative engagements
EMpower	Partnership

Source: Pictet Asset Management, October 2019

Pictet, together with Swiss Sustainable Finance, is leading an initiative to put pressure on index providers to remove controversial weapon manufacturers from mainstream indices. The initiative, launched in August 2018, secured the backing of 173 signatories from 20 different countries representing USD 9.1 trillion including international asset owners and managers (as of October 2019⁷).

This initiative reflects Pictet AM's commitment to responsible investment principles and if successful will be an impressive demonstration of how the asset management industry can bring about positive change while putting PAM at the forefront of ESG investing.

⁷ https://www.sustainablefinance.ch/en/engagement-initiatives-_content--1--3117.html



Pictet has set up a Group Investment Stewardship unit which is responsible for driving and coordinating responsible finance and stewardship efforts across the firm. This ensures alignment in ESG integration and active ownership, and optimal dissemination of best practices across the Group.

The governing body of the Stewardship unit is the Sustainability Board, which ensures coordination across all activities that are linked to sustainable development within the Pictet Group. Our thematic equities team is a member of the Sustainability Board to bring in our expertise on environmental and societal issues.

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