Vontobel

Impact Report 2024

Vontobel Fund – Global Environmental Change

October 2024

Introduction

"We are striving for a low-carbon and smart infrastructure."

This year has been marked by significant geopolitical and economic shifts. Ongoing conflict in regions like Ukraine and the Middle East, coupled with tensions between global powers such as the US and China along with the imposition of import tariffs on a variety of goods, has introduced new complexities to the market.

Despite these challenges, economic indicators provide glimmers of hope. The fear of inflation and rising interest rates has eased, with the world's major central banks having launched initial rate cuts. This shift in monetary policy is likely to stabilize economies and support continued growth, creating a more favorable environment for investments.

One significant ongoing trend is the near-shoring and re-shoring of supply chains. US and European companies are increasingly moving their operations closer to home, driven by the need for greater resilience and reduced dependency on distant suppliers. This not only enhances supply chain security but also presents new opportunities for sustainable and responsible investing.

As this historic election year nears its end, there has been a noticeable trend in Europe towards the right wing, with green parties experiencing setbacks. And as we go to press, the upcoming US election remains a focal point, with some investors questioning the fate of net-zero efforts if the Republicans win. As we say later in this report, we believe the momentum towards renewable energy and clean technology is unlikely to wane.

While political and societal headwinds regarding climate issues persist, the economic benefits of low-carbon solutions are stronger than ever. Companies are increasingly investing in these technologies, driven by the competitive edge and long-term strength that they offer. We have successfully focused on solution providers that support the build-up of a low-carbon and modern global infrastructure, be it for energy, buildings, transport, industry processes or the water supply.

Evolving European regulations and applicable guidelines propose a series of amendments and further specifications with the aim of fostering more transparency and fighting greenwashing, including discussions about stricter definitions for sustainable investments and fund names. This has led some asset managers to downgrade their funds for uncertainty of regulation or inability to comply with the changes. We have advanced our investment process and reporting and are confident that we will retain our Article 9 classification according to SFDR. The rebranding of our Vontobel Fund – Global Environmental Change (hereinafter referred to as "Vontobel Fund – GEC") implemented in July 2023 has helped to fully reflect our impact philosophy in the fund name. It has been well received by clients and prospects alike.

—

Pascal Dudle, CEFA
Team Head & Portfolio Manager
Vontobel Fund – Global Environmental Change

Executive summary

Our impact investment strategy aims to achieve what we call a “double dividend” concept by pursuing both financial returns and a positive impact on our planet. We are committed to exceeding our clients’ expectations through continuous improvements in our resources and reporting methods.

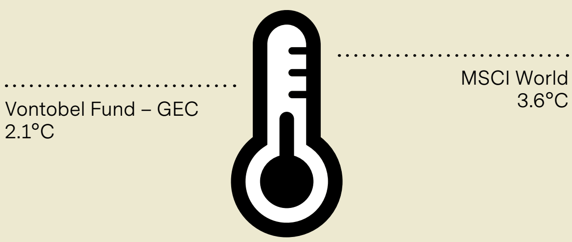
This year’s Impact Report introduces a new structure, beginning with an overview of the latest developments in our impact investing strategy, sustainability at Vontobel and some selected global ESG Trends. The report then presents several company case studies, followed by the results of the Vontobel Fund – GEC.

A significant enhancement this year is the integration of Carbon4 Finance as our new data provider for carbon footprint and avoided emission data. We found their methodology to be highly aligned with our strategy, as well as with the guidelines from the World Business Council for Sustainable Development (WBCSD) and Net Zero Initiative (NZI). This year, we quantified the potential avoided emissions (PAE)[1] for 47 of our 61 portfolio companies, compared to 28 last year. This resulted in PAEs of 1,200 tons of CO_2 per EUR 1 million invested in the Vontobel Fund – GEC, reflecting a carbon footprint to PAE ratio of 14. Moving forward, we will also incorporate Carbon4 Finance data into our full investment opportunity set. Additionally, we are utilizing their forward-looking climate metrics, such as the Implied Temperature Rise (ITR), to compare our fund with global equity markets. Our fund shows a much higher alignment with the Paris Agreement, with an ITR of 2.1°C compared to 3.6°C for the reference index.

Our methodology for calculating other impact metrics remains unchanged, with all indicators continuing to demonstrate a strong contribution to addressing real-world challenges in line with our impact objectives.

The impactful revenues of all portfolio holdings within the Vontobel Fund – GEC remained high at 78 percent. In addition to presenting the company’s official data and our internal evaluation of impact and avoided carbon emissions, the chapter “External ESG Rating” highlights the fund’s sustainability credentials as assessed by external rating agencies. The Impact Report and its indicators have been verified externally by ISS ESG, a division of Institutional Shareholder Services that provides ESG research, ratings, and advisory services, as was the case last year.

Implied Temperature Rise (ITR)



Souce: Vontobel, Carbon4 Finance; as of June 30, 2024.

[1] Avoided emissions are emissions that would have been released if an action or intervention had not taken place. The emissions avoided by using a more efficient product or service are often conditional on either consumer or market behavior. This analysis does not make absolute predictions about behavior or market developments. Consequently, we have chosen the term potential avoided emissions (PAE) to underline that the avoided emissions presented are dependent on certain behaviors.

The potential impact of a EUR 1 million investment in Vontobel Fund – GEC

For illustrative purposes only

Generation of renewable energy
73,100 kWh

Providing clean energy to
46 people
for one year

Shipment of renewable energy devices
61 kW

Replacing
123 tons
of annual coal consumption

Circular economy (recovery, reuse)
26 t

Reusing packaging waste caused by
137 people
in one year

Provision of drinking water
7,700 m³

Supplying water to
146 people
for one year

Water saved, recycled or treated
62,700 m³

Treating waste water of
1,193 people
for one year

Waste management
53 t

Treating waste caused by
103 people
in one year

Cargo / passenger transport by rail
188,600 km

Saving
5,247 liters
of diesel / gasoline

Carbon footprint (scope 1&2)
85 t CO_2

Causing annual emissions equivalent to
63 cars
of diesel / gasoline

Potential avoided carbon emissions (PAE)
1,200 t CO_2

Avoiding annual emissions equivalent to taking
900 cars
off the road

Source: Vontobel; as of June 30, 2024. The Global Environmental Change calculator is provided for informational purposes only to illustrate the potential impact that an investment may represent in the Vontobel Fund – GEC. The companies in which the Fund is invested fit in at least one of the six core impact pillars of the Fund and not all companies will have an impact on all of the nine environmental indicators. Impact investing must take into consideration the capital allocation and engagement strategies of the Fund.

Impact investing—updates and developments

2023 Impact Investing Survey
Vontobel's 2023 Impact Investing Survey gathered institutional and professional investors' views on attitudes and approaches to impact investing. The extensive online survey, conducted by CoreData Research, included a sample of close to 200[2] institutional and professional investors globally. Investor respondent categories were self-attributed. Seven in-depth interviews with investors supplemented the survey. These included a Swiss portfolio manager, the head of fund selection at a data and ratings provider, as well as the head of fund analysis at a Japanese fiduciary and consulting firm. All quotes were reported anonymously. The survey reveals a compelling truth: impact investing is essential for building resilient portfolios. As this exciting field enters a new chapter, investor feedback is delivering a clear message: ***impact investing is here to stay and grow, driven by both potential financial satisfaction and the desire to create positive change.*** Active management has been identified as crucial in identifying opportunities that balance purpose with performance.

New impact investing trends—highlighting enabling companies
The confluence of elevated interest rates, global economic and political instability and challenging business conditions did not create a particularly favorable environment for investment, including impact investing, in 2023. Despite these headwinds, the impact investment sector continues to mature, offering a growing array of products and opportunities for investors with available capital. Moreover, there is a concerted effort to encourage larger financial institutions to adopt an "impact lens" when scrutinizing the full range of their portfolios.

While still a niche segment in the overall investment market, impact investing is a well-established asset class. The Global Impact Investing Network (GIIN) values the global impact investment market at over USD 1 trillion[3]. The GIIN CEO Amit Bouri said: "While this figure serves as a very positive sign for the industry, it is also a call for further action. Vast allocations of capital and an intentional focus towards generating positive impact are required right now if we are to achieve the UN Sustainable Development Goals by 2030 and to reach net zero emissions by 2050."

Although the sector experienced a temporary slowdown in 2023, as evidenced by the outflow of green funds in Europe classified SFDR Article 8, it is expected to expand rapidly in the future. Notably, SFDR Article 9 funds, subject to the most stringent sustainability criteria, have also encountered challenges. Nevertheless, impact and sustainable investments demonstrated greater resilience than other investment categories during this period. This is partly attributable to their focus on less volatile economic sectors with promising long-term growth prospects.

Public markets play a crucial role in helping companies scale up their efforts, which is essential for addressing global environmental challenges through the widespread adoption of new technologies and operating practices. A large opportunity for impact investing derives from companies offering ***enabling technologies***. This broader view allows us to invest in a wider range of companies that wouldn't be accessible if viewed through a narrow impact lens. By gaining access to these companies, we can potentially improve the balance between risk and potential returns in our portfolio. Two enabling categories illustrate this. These examples focus on companies that support advancements in areas critical to sustainability and progress:

- ***Electric grid modernization:*** Companies involved in upgrading the power grid to better handle renewable energy sources.
- ***Power semiconductors:*** Manufacturers of the critical components needed for electric vehicles and industrial applications.

By investing in these enablers, we are indirectly supporting pioneers in renewable energy, electric vehicles and power storage technologies, improving our portfolio's overall impact and return potential.

[2] Investor respondent categories were self-attributed
[3] GIIN insight: Impact investing market size

Renewal of the "Towards Sustainability" label in 2024
The "Towards Sustainability" label, like all sustainability certifications, is continually evolving. Created by Febelfin, the Belgian Financial Sector Federation, this label is among the most rigorous in Europe and is reviewed every two years to stay aligned with consumer demands, societal trends, scientific advancements, available data, and regulatory changes. It has undergone thorough evaluation, first by a control body that includes Forum Ethibel, a non-profit that independently assesses ethical investments, and academic institutions ICHEC and UAntwerpen, and later by the independent Central Labelling Agency (CLA).

The criteria are regularly updated through a multi-stakeholder process and strengthened. Starting in 2024, the current bi-annual review cycle of the entire Quality Standard will shift to a more focused approach, concentrating on specific sustainability topics or sections of the Quality Standard. This new strategy will involve multi-stakeholder discussions and workshops on specific issues.

In the first half of 2024, we completed the re-certification process for our Vontobel Fund – GEC, and the label was successfully renewed in September.

Updated Impact & Sustainability Guidelines
We participated in the overall alignment process concerning exclusion criteria and Principal Adverse Impact (PAI) at the Vontobel Institutional Clients level. Furthermore, we implemented the renewed Febelfin standards. These amendments led to a release of ***new Impact & Sustainability Guidelines*** in September 2024 for our impact investing franchise and an alignment of all connected documents such as the Vontobel Fund – GEC's pre-contractual disclosures, the website disclosures and the European ESG Templates (EETs).

Impact strategy assessment
Our proprietary impact strategy assessment remained unchanged[4], with all our holdings undergoing an annual renewal and update process.

Essentially, the first four assessment criteria show a solid positive score at portfolio level. The two risk-related assessment criteria show negative to neutral scores for impactful and non-impactful activities. This is not surprising, as we would not invest in a company with low positive scores in the first four assessments or high-risk (negative) scores in the final two. The largest potential for improvement we see is in the measuring and reporting of sustainability impact indicators. This therefore remains a key focus of our ongoing fact-finding engagement with companies.

Impact pillars
Our investment process aligns with the GIIN guidance document on pursuing impact in listed equities. We elaborated on this topic in last year's impact report. In the meantime, we have conducted a thorough Theory of Change (ToC)[5] exercise, defining our impact pillars and scopes and even sub-scopes in detail. The left page of each of our case studies contains a comprehensive description of the corresponding impact pillar. It outlines our approach to addressing sustainability challenges, which we have categorized into six impact pillars. We then identify the necessary solutions to mitigate these challenges. We allocate each of our portfolio holdings to a pillar based on the environmental solutions they offer through their products and services.

4 Further details on the impact strategy assessment can be found in the GEC Impact Report 2023, page 8.
5 Theory of Change outlines the steps and assumptions involved in creating positive change, from initial activities to long-term impact, and helps measure progress by identifying key factors that influence success.

Purity factor reflects impactful revenues

- The concept of purity refers to the revenue contribution from impact activities. We have consistently applied investment principles to identify companies whose products and services can create real-world impact in one of the areas defined by our impact pillars. Simultaneously, we adhere to good governance practices and the "do no significant harm (DNSH)" approach. This ensures our alignment with the requirements to integrate sustainability considerations under the EU's Markets in Financial Instruments Directive (MiFID II).
- It is crucial to understand that a sustainable investment strategy aligned with the EU's Sustainable Finance Disclosure Regulation (SFDR), Article 2(17) can also contribute to environmental objectives beyond the EU taxonomy. While the EU taxonomy classifies economic activities as "sustainable" or "non-sustainable" based on six clearly defined environmental objectives, there is no universally accepted definition of sustainable investment objectives. Based on our own definition, a company identified as "impactful and sustainable" must contribute to one of our impact pillars through material revenues generated by their products and services. We believe this approach is aligned with the current broader EU definition of sustainable investment objectives.
- For "purity" results for the Vontobel Fund – GEC please see page 32.

SDG contributions

The UN's 17 Sustainable Development Goals (SDGs) are a global call to action aimed at eradicating poverty, protecting the planet and ensuring peace and prosperity for all by 2030. This means the current progress is falling short, with only 17 percent of the SDG targets on track[6]. Achieving the SDGs requires investments of unprecedented scale. The estimated annual financing gap has escalated from USD 2.5 trillion in 2015 to USD 4 trillion today[7]. However, the cost of inaction, both economic and social, would still be far higher. The window of opportunity to salvage the SDGs and avert a climate catastrophe is still open, but it is rapidly closing. It is crucial for both public and private entities to recognize the urgency and significance of investing in solutions that advance the achievement of the SDGs. The SDGs serve as a strategic framework for the private sector to address challenges, construct robust growth strategies, and explore new markets. The private sector therefore has a compelling incentive to develop and expand sustainable business solutions.

We base our impact investing strategy on identifying, analyzing and selecting companies that align—through their products and services—with at least one of our impact pillars. Each of these ***impact pillars*** supports the goal of one or multiple SDGs. Consequently, the companies we invest in show direct and material contribution to the SDGs. For detailed information on the SDG contributions, please refer to page 34.

[6] The Sustainable Development Goals Report 2024
[7] Financing for Sustainable Development Report 2024

A snapshot of the status of a selected number of SDGs,
based on the Sustainable Development Goals Report 2024[1]

SDG 6: Clean water and sanitation
- At the current rate, by 2030, 2 billion individuals will still be without access to safe drinking water, 3 billion without access to safe sanitation, and 1.4 billion without basic hygiene services.
- In 2022, roughly half the world's population experienced severe water scarcity at some time during the year. A quarter faced extremely high levels of water stress.

SDG 7: Affordable and clean energy
- The number of people without access to electricity decreased by about 28 percent to 685 million in 2022 from 958 million in 2015. If the current trend continues, an estimated 660 million people will still be without electricity by 2030.
- The number of people without access to clean cooking fuels also decreased by a quarter to 2.1 billion in 2022 from 2.8 billion in 2015. If the current trend continues, around 1.8 billion will still be without clean cooking fuels and technologies by 2030.
- The global capacity to generate electricity from renewable energy is expanding at an unprecedented rate, a trend expected to continue.

SDG 9: Industry, innovation, and infrastructure
- Since 2022, growth in the manufacturing sector has plateaued at around 2.7 percent, a level expected to persist into 2024.
- Despite reduced carbon dioxide (CO_2) emissions intensity, global emissions have reached a record high in 2023.
- The gap in mobile broadband coverage remains at 5 percent.

SDG 11: Sustainable cities and communities
- Around one-quarter of the global urban population lives in slums, with the total slum population reaching 1.1 billion in 2022.
- The lack of equal access to public transportation is a significant concern, particularly in less developed countries, where only 4 in 10 individuals have convenient access.
- While air pollution levels have declined in most regions, they are still significantly higher than the recommended air quality guidelines for public health protection.

SDG 12: Responsible consumption and production
- In 2022, global food waste reached 1.05 billion metric tons.
- The rapid growth of global e-waste remains largely unaddressed, with only 22 percent collected and managed sustainably.

SDG 13: Climate action
- Climate records were broken in 2023 as the climate crisis accelerated. Rising temperatures have not abated and global greenhouse gas emissions continue to climb.
- Communities worldwide are suffering from extreme weather and increasingly frequent and more intense disasters, which are destroying lives and livelihoods daily.

[1] unstats.un.org/sdgs/report/2024/

Impact indicators

Consistent interaction and involvement with the companies in our portfolio enables us to gather supplementary data that reinforces our commitment to investing in impactful enterprises. This commitment and our fact-finding efforts are evident in the collection of impact indicators for our impact strategy's portfolio holdings. While there is some ongoing variation in how companies report data, we anticipate that our proactive engagement will enhance uniformity of impact indicators over time, wherever this is feasible.

We engaged with all portfolio holdings to develop a deep understanding of their impactful activities and metrics. More than 60 percent delivered clear data using practicable measuring methods. We approached the others a second time, set a deadline for delivery and continued to engage with them in the meantime. To quantify the remaining 40 percent, we collected information from publicly available data disclosed by the individual companies themselves. We then sent the consolidated impact indicator data file to ISS ESG for sample-based verification in July 2024.

Carbon4 Finance—comprehensive climate data provider

This year, for the first time, we worked with Carbon4 Finance as our new data provider for climate, carbon footprint, and avoided emissions data.

When we first explored the concept of potential avoided emissions (PAE) in 2016, the Danish wind turbine manufacturer Vestas Wind Systems A/S was the only company capable of providing such data. To develop a robust concept and calculate PAE as accurately as possible, we partnered with ISS ESG (originally known as South Pole Group). Since then, the concept has gained traction and evolved into a well-established practice. The availability and reliability of climate data from third-party providers has improved, enabling more companies to calculate and publish their own climate data.

We rely on corporate PAE data for our reporting whenever possible but seek to ensure the calculations adhere to market standards and align methodological parameters across all portfolio holdings. We also adopt a conservative approach, avoiding any tendency to overstate positive impact.

Last year, we evaluated various providers for climate and avoided emissions data. We selected Carbon4 Finance as our new data provider for climate, carbon and avoided emissions metrics, particularly for companies that do not disclose PAE data. This collaboration allows us to leverage a much broader data universe for stock selection, enabling more straightforward comparisons across sectors and countries. This shift may mean that this year's PAE figures are not fully comparable with those from previous years. While we have not integrated their full Carbon Impact Analytics (CIA) rating into this year's report, we are currently familiarizing ourselves with the underlying data.

According to net zero target-setting frameworks, companies must significantly reduce their greenhouse gas (GHG) emissions, both direct and indirect, to achieve the Paris Agreement's goals. A company's contribution to global climate protection efforts should not focus solely on reducing its own emissions. Companies can go further by providing solutions that align with a 1.5°C pathway, enabling others to cut emissions as well. The concept of potential avoided emissions better captures this broader and more holistic contribution. Understanding potential avoided emissions as a solution, along with the better-known GHG emissions, can aid in long-term planning and decision-making by offering a more comprehensive view of companies' climate impact and the appropriateness of their visions and solutions in a net zero world. The goal is to inspire companies and their relevant stakeholders such as investors and customers to focus on their roles in promoting systemic changes necessary to speed up the decarbonization of industry and society through transformation and innovation.

The Net Zero Initiative (NZI) was launched in 2018 by Carbon4 Finance in cooperation with the WBCSD (World Business Council for Sustainable Development) to endorse the idea of avoided emissions. Carbon4 Finance leverages its experience in advising various industries on how to create the CIA methodology. It uses this approach to evaluate companies' alignment with the shift towards a low-carbon economy. CIA is based on a thorough assessment of GHG emissions, both induced and saved. Induced emissions are emissions resulting from an entity's activities. It includes both direct (Scope 1) and indirect (Scope 2, Scope 3) emissions. Conceptually, induced emissions are what is commonly called the carbon footprint. In our reporting and in our impact database we stick to the carbon footprint terminology.

The guidance documents acknowledge that estimates of avoided emissions are by nature hypothetical as they compare a situation resulting from a solution in place with the scenario that would have existed without it. This is why the term "potential avoided emissions" (PAE) was created.

Carbon4 Finance employs a methodology aligned with the consideration of avoided emissions, similar to our approach in previous years. Our primary focus is therefore the incorporation of Carbon4 Finance's carbon footprint and avoided emissions data into our impact database using their raw data. We highly appreciate the wider application of their data to our full opportunity set and for a future stock selection process. We also introduced their temperature metric at portfolio level. This Implied Temperature Rise (ITR) is a translation of the CIA Overall Rating into a temperature metric, which can be used to assess the alignment of the portfolio to the objectives of the Paris Agreement.

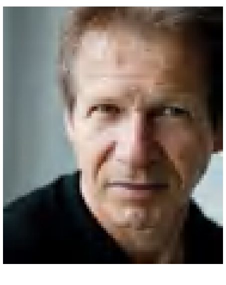
An extensive methodology paper produced by Carbon4 Finance can be requested via their website.

Future significance of avoided emissions

Interview: Jean-Marc Jancovici, partner at Carbone4, the parent company of Carbon4 Finance

— In your role at Carbone4, you contributed to two major guidance reports on avoided emissions from the World Business Council for Sustainable Development (WBCSD) and the Net Zero Initiative (NZI). Can you briefly explain the concept of avoided emissions and introduce the key framework and methodology put forward by the two documents?
"Avoided emissions" refers to a decrease in emissions that a given company can trigger through its sales. For example, let's suppose that company A is selling electric bikes in Europe, where a large proportion of employees commute to work by car. Let's assume that out of 100 bikes sold, 15 will replace the car for commuting on one out of every two days. In this case, the avoided emissions represent the emissions that will no longer occur during half of the commuting trips of 15 percent of Company A's clients. The same kind of calculation on avoided emissions can be made for companies that sell insulating material to existing homes (thus avoiding energy consumption to heat or cool these homes), repair existing clothes (thus avoiding manufacturing new ones), and more generally offer low-carbon alternatives to existing consumer habits.

The guidance published by the WBCSD and NZI is designed to help companies handle the concept of avoided emissions. With this guidance, they can evaluate whether they are eligible for these estimated avoided emissions for all or some of the products they sell and the markets they address. If so, they can calculate them, which means using the appropriate boundaries and time scales. And, last but not least, they can include leverage on these avoided emissions to build a product (or service) portfolio and be active in certain markets, minimizing their transition risk or maximizing their impact.



—
Jean-Marc Jancovici
Partner at Carbone4

— What is the key added value of reporting on avoided emissions?
Avoided emissions cannot be deducted from the company's carbon footprint but provide another essential metric pertaining to the whole value chain. They help understand how well a company is positioned with regard to the low carbon transition. Indeed, a high ratio of estimated avoided emissions to carbon footprint means that each time the company increases its activity, it in fact increases the carbon footprint of the company, but at the same time its products and services could help to lower emissions elsewhere. The name of the game is, of course, to make sure that the net effect is a gain. Knowing that, estimated avoided emissions make it possible to rank companies within a given sector that have a similar carbon footprint but, as they serve different markets, have very different avoided emissions levels.

— What do you think will be the primary technical problems or obstacles associated with the avoided emissions concept in the upcoming years?
Avoided emissions basically consist in comparing the trajectory of greenhouse gas solutions of the clients with the product or service sold by the company and without it. The emissions that happen with the product or service are known; they correspond to what really happens. The first challenge is to define a reference scenario, that is "what would have happened if the company that sells the products or services had never existed". Therefore, in contrast to the carbon footprint, avoided emissions are "scenario-dependent".

It is therefore critical to ensure the transparency of the full set of hypotheses that have been used to define the reference scenario. One must also be transparent about the boundaries of the avoided emissions assessed and the time frame used (for example it's questionable if avoided emissions last much longer than the product itself).

The challenge is to resist the temptation to choose a reference scenario that would be too favorable and then claim unrealistic avoided emissions. Misleading others as well as oneself is never a good idea in the long run! As it is highly unlikely that there will one day be a detailed reference scenario ready for use by any company, becoming an expert in the calculation of avoided emissions is close to becoming an expert in reference scenarios. It takes time, but the value of the information is worth the effort.

Impact survey with our portfolio holdings

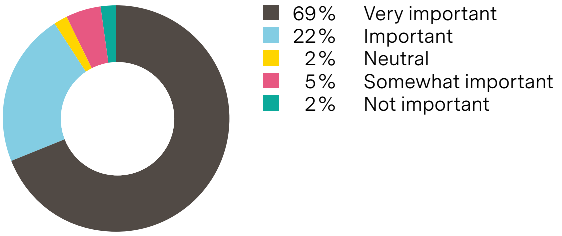
We polled our portfolio holdings to find out how important Environmental, Social, and Governance (ESG) factors are in their strategic decision-making processes, how important it is to for them to regularly measure and report on impact performance, how much money they invest in products and services that have a positive impact on society or the environment, and how well their current impact measurement indicators or metrics work. 42 companies took the time to answer our survey (a response rate of 50 percent), and many of them added specific comments about their achievements and tasks.

The results were encouraging, indicating a strong commitment to ESG considerations and impact performance. On a scale of 1 to 5, where 5 represents the highest importance, the average rating for the significance of ESG criteria in strategic decision-making was 4.5 (see Figure 1). Comments from the holdings revealed that most have embedded ESG principles into their core strategies and operations, with many companies highlighting the importance of sustainability in their strategic plans. They also emphasized the importance of ESG in their governance structures, with some establishing ESG committees under the Board.

The significance of regular impact performance measurement and reporting was also rated highly, with an average score of 4.5 (where 5 is very significant). Many have established robust processes to measure and report on their impact performance, recognizing the importance of these practices in meeting stakeholder expectations and evolving non-financial reporting requirements. They have also demonstrated a commitment to transparency and accountability in their ESG and impact performance, making use of external independent assessment frameworks and auditors (see Figure 2).

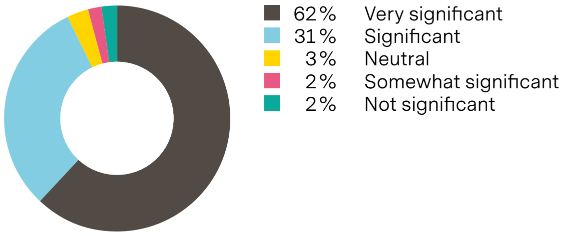
The level of investment in products and services with positive environmental or social impact received an average rating of 4.3 (where 5 is a very large amount). The holdings highlighted that they have made significant strides in reducing their greenhouse gas emissions and have invested heavily in sustainable business opportunities. Many have also highlighted their commitment to investing in products and services that have a positive environmental impact, with some aligning their investment plans with the EU Taxonomy (see Figure 3).

Figure 1: How important are Environmental, Social, and Governance (ESG) criteria in your company's strategic decision-making processes?



Source: Vontobel figures; as of June 2024.

Figure 2: How significant is it for your company to regularly measure and report on its impact performance?



Source: Vontobel figures; as of June 2024.

The effectiveness of current impact measurement indicators or metrics was rated at 4.3 on average (where 5 is very effective). The holdings noted the challenges of measuring impact versus outcomes, especially given the evolving nature of ESG and sustainability frameworks. However, they also highlighted their efforts to refine their assumptions and methodologies to enhance the precision and effectiveness of their impact measurements. They have also aligned with materiality mapping and guidance developed by the Sustainability Account Standards Board (SASB), now part of the International Financial Reporting Standards (IFRS) and have participated in numerous external independent assessments (see Figure 4).

These results underscore the importance that our holdings place on integrating ESG considerations into their core business strategies and their dedication to driving positive change through their business activities. It also demonstrates their commitment to transparency and accountability in terms of impact performance. While the overall sentiment from the survey is positive, it also highlights areas where further enhancements can be made.

Selected quotes from company-specific comments:

"[We are] acknowledging the challenge of measuring impact versus outcomes."

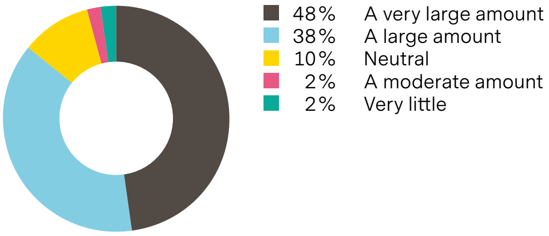
"While we understand the popular metrics, it's not a one-size-fits-all situation with us."

"ESG and sustainability frameworks are still evolving, and country nuances and the level of development are also critical factors that need to be considered whilst doing such evaluations."

"While our impact calculations are subject to certain assumptions, they are conducted by a reputable third party to ensure objectivity and accuracy. This independent verification adds credibility to our metrics, but we recognize that there is always room for improvement in refining our assumptions and methodologies to enhance the precision and effectiveness of our impact measurements."

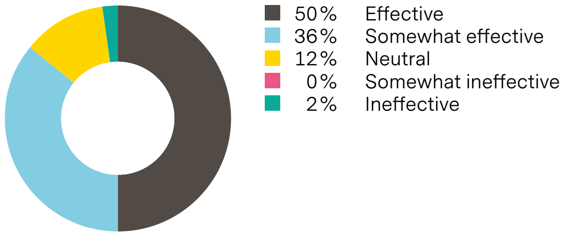
"Beyond reporting industry-aligned metrics, we have devised custom sustainability metrics that align with our business model and values."

Figure 3: How much does your company invest in products and services that have a positive environmental or social impact?



Source: Vontobel figures; as of June 2024.

Figure 4: How would you rate the effectiveness of your current indicators or metrics that measure your company's impact?



Source: Vontobel figures; as of June 2024.

Sustainability at Vontobel

Our guiding strategy
Our Lighthouse Ambition 2030 states that "by 2030, Vontobel will be known as one of the leading and most trusted global investment firms." Digital data and analysis will support our clients and investment processes. Our work will center around investing, and we aim to create best-in-class solutions. By concentrating on this shared long-term goal, we can ensure that the entire Vontobel organization is working together and moving in the same direction.

The company pursues this clear long-term vision in aligned, two-year sprints with concrete targets and business plans. For the two-year plan from 2023 to 2024, we defined four strategic priorities. Within our first strategic priority, to aim to deliver future proof investment solutions, we explicitly target the transition to sustainability. We strive to expand our ESG offering and live by our four ESG investment principles and six sustainability commitments.

The six sustainability commitments (see Figure 5) outline the key levers that we as a global investment firm have to deliver on our sustainability positioning, which states that:

"Sustainability has always been a focus for our owner families, now in their fourth generation. As corporate citizens, we honor their commitment by contributing to the health of our local communities. As a global investment firm, we empower investors with the necessary knowledge, tools, and investment options to consider sustainability in the building of their better futures. Through these efforts, we contribute to the UN's SDGs and aim for our impact to be proportionate to our reach."

In the past year, we have defined actionable measures and KPIs to monitor and measure progress and success. For the first time, the ***2023 Sustainability Report*** outlines our progress towards meeting our sustainability commitments.

Figure 5: Vontobel's six sustainability commitments

Being a responsible citizen	Partnering with our clients
Path to Net Zero Achieve net-zero[1] by 2030 in our banking book investments and operations.	**Advice for Private Clients** Advise our private clients on the benefits, opportunities and risks of ESG investments.
Equality, Diversity & Inclusion Continue creating a great workplace where everyone can thrive.	**Investment Solutions** Incorporate ESG consideration into active investment decisions[2].
Community Engagement Be an active member of the local community.	**Governance & Transparency** Empower our stakeholders to challenge us through governance and transparency.

[1] Net-zero means achieving a balance between emissions and removals of GHGs from the atmosphere (ISO IWA 42:2022), Scope 1–3 in our own operations and Scope 1–2 in our banking book bond investment in non-sovereign issuers. Our commitment is aligned with the 2015 Paris Agreement goal to limit global warming to well below 2, preferably to 1,5 degrees Celsius, compared to pre-industrial levels. We plan to reduce emissions as far as possible and aim to offset residual emissions at the net-zero target year and any GHG emissions thereafter.
[2] The implementation in specific strategies and investment funds may differ.

Source: Vontobel Corporate Responsibility & Sustainability Report—a chapter of the Annual Report 2023.

ESG principles, policies, and reports at Vontobel

Vontobel has a Group-wide ESG ***investing and advisory policy*** that details how it approaches ESG investing. In particular, it explains our rationale, our ESG investing objectives, our governance structure, and how we implement this policy across our business divisions. It was reviewed in 2023 to reflect organizational changes, business practices and new regulatory requirements, and entered into force at the beginning of 2024. Vontobel's monitoring of critical ESG events, often associated with significant negative impacts on sustainability, has been one of the key changes. In June 2024, Vontobel updated its ***statement on principal adverse impacts of investment decisions on sustainability factors***, which demonstrates how Vontobel considers principal adverse impacts on sustainability factors in all investments made during the year 2023.

In 2012, Vontobel approved a Group-wide ***guideline*** that prohibits investment in companies that manufacture weapons such as cluster bombs and landmines, which are banned by international convention. It is amended on a regular basis.

Vontobel's Institutional Clients segment has ***voting and engagement policies*** that define how we fulfill our active ownership responsibilities. It details how we maintain an active dialogue with all companies in which the Vontobel funds invest and how we actively exercise our voting rights whenever authorized to do so.

The ***remuneration policy***, which was updated in January 2023, addresses the variable components of remuneration. For instance, Vontobel compensates strong employee performance and the contribution to Vontobel's long-term sustainable financial success with the consideration and alignment of ESG risks and goals.

At Group level, Vontobel publishes a ***sustainability report*** as part of the annual report. For the first time, it includes a detailed TCFD (Task Force on Climate-Related Financial Disclosures) index and disclosure of how we implement the TCFD recommendations at Vontobel.

As a ***Principles for Responsible Investment (PRI)*** signatory, Vontobel has committed itself to implementing the six principles for the broad integration of sustainability in investment processes and to encouraging other market participants to adopt them. We report publicly on our responsible investment activities each year. Further information on our memberships and initiatives can be found here.

By publishing our annual ***ESG integration and stewardship report*** Vontobel has demonstrated compliance with the UK Stewardship Code, and, this year for the first time, also with the Swiss Stewardship Code. Further information on our memberships and initiatives can be found here.

Global ESG Trends

Trump 2.0: what would it mean for the trend towards net zero?
By the end of this historic election year, about half of the world's population is expected to have voted for their respective leaders. In the world's biggest economy, the race has yet to be decided. What might a second Trump term mean for net zero if he were to be re-elected?

The Republican and Democratic parties in the US have contrasting stances on climate change, the energy transition and ESG. Trump's first presidency saw significant action against climate policies: withdrawal from the Paris Agreement on climate change, rejection of the National Climate Assessment's finding[8] that climate change is primarily caused by human activities and risks having negative effects on the economy[9], rollback of numerous climate-related regulations[10] and attempts to ban ESG considerations in private-sector retirement plans[11] among them. Trump characterized ESG as "radical-left garbage[12]" and has vowed to continue his opposition[13].

For investors, this underscores the importance of thorough analyses of both politics and policy.

That may help distinguish rhetoric from political reality. While his campaign may signal a rollback on ESG initiatives, the reality is often more nuanced. We believe that once the dust settles, drastic changes are likely to be less common than feared.

For one, the conservative think tank "The Heritage Foundation" has pledged to advance its "Project 2025[14]", aiming to roll back President Joe Biden's environmental policies, including the landmark Inflation Reduction Act (IRA).

While some investors worry about the potential reversal of green policies, we think the substantial financial commitments already made by both the US government and the private sector render dismantling these initiatives challenging. Billions of dollars have been spent under the IRA, which stands as established law, and undoing such firmly settled policies would likely encounter a significant backlash and logistical hurdles.

We believe Biden's IRA law will remain intact. Notably, many Republican states have reaped the benefits of ESG investments. Texas is the No. 1 US state for clean energy production, according to the Environment Texas Research & Policy Center[15], demonstrating that renewable energy's economic benefits can cross party lines.

Some three-quarters of the investment in clean energy manufacturing pledged since the IRA was passed is slated for states with Republican governors, according to a JPMorgan analyst note dated May 7, 2024[16]. In fact, the JPMorgan analysts point out that Republican states lead the way in clean energy implementation, receiving 80 percent of all funding, with Georgia, Texas, and Oklahoma as top recipients. Texas counted the most new solar installations in 2023, surpassing California for the second time in the last three years, followed by Florida, the note said. Texas, Oklahoma, and Iowa ranked as the top three states for wind installations.

Another reason we believe it is unlikely that Trump will change the IRA is that a big portion of the IRA's incentives are tax credits (uncapped, in many cases). Reverting them would imply increasing taxes, which is not usually something Republicans like to do.

[8] BBC article published November 26, 2018. bbc.com/news/world-us-canada-46351940
[9] Fourth National Climate Assessment, nca2018.globalchange.gov/downloads/
[10] New York Times article published January 20, 2021. nytimes.com/interactive/2020/climate/trump-environment-rollbacks-list.html#:~:text=The%20bulk%20of%20the%20rollbacks,wetlands%3B%20and%20withdrew%20the%20legal
[11] Morningstar article published December 15, 2022. morningstar.com/portfolios/retirement-plans-become-new-battleground-esg
[12] Donald Trump's social media post on Truth, February 24, 2023. truthsocial.com/@realDonaldTrump/posts/109920978509261496
[13] Bloomberg article published February 25, 2023. bloomberg.com/news/articles/2023-02-24/trump-adds-his-voice-to-republicans-condemning-esg-investing
[14] Project 2025 Presidential Transition Project, Mandate for Leadership—The Conservative Promise, static.project2025.org/2025_MandateForLeadership_FULL.pdf
[15] Environment Texas Research & Policy Center, October 11, 2023. environmentamerica.org/texas/center/media-center/clean-energy-continues-meteoric-rise-in-texas/
[16] JPMorgan analyst note, "2024 US Election Watch—Implications for Commodities", published May 7, 2024.

In addition, history shows that strong drivers for the energy transition persist, no matter which party is in power. US clean energy capacity grew during both Republican and Democratic administrations, with slightly stronger growth rates under Trump compared to Biden (see Figure 6). This suggests that market forces and technological advancements, rather than political agendas, primarily drive clean energy adoption.

The trend towards electrification, clean energy and energy efficiency will likely prevail as a long-term force even if policy support and subsidies were to fall by the wayside. And new technologies related to renewable power, building solutions and electric vehicles are competitive: Over the past decade, the cost of solar and onshore wind energy has plummeted by more than 80 percent and nearly 70 percent, respectively[17], making them viable options regardless of federal policy. Solar is even poised to overtake fossil fuels as the main electricity source in the world by 2050, according to a study published in Nature Communications in October 2023, which called it an "irreversible tipping point."[18]

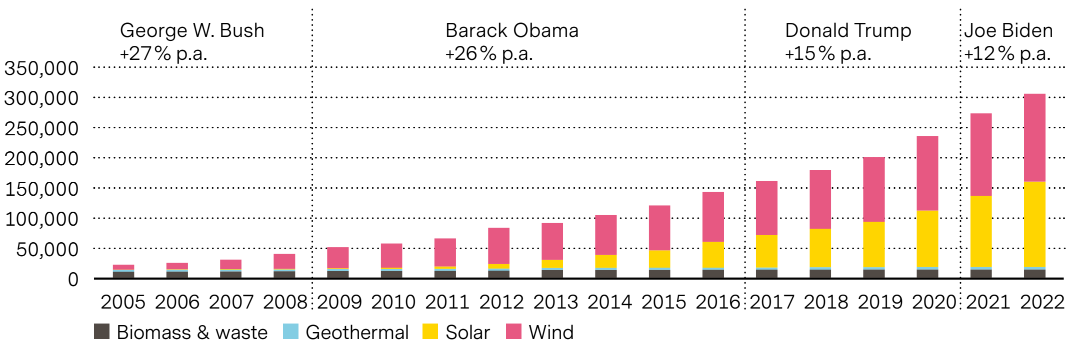
Indeed, there is evidence of exponential change across the energy system, with renewables, electrification and energy efficiency as the main drivers, according to a Jefferies analyst note dated June 13, 2024[19]. Cumulative solar installations have doubled 10 times since the 1970s and wind has doubled six times over the past two decades, according to the note. It also added that for every doubling in deployment, cleantech costs have fallen by about 20 percent, with prices down by some 80 percent in this decade alone. This economic shift translates into a long-term growth driver for companies working on scalable environmental solutions, in our opinion.

Current election uncertainty may bring market volatility, but also investment opportunities. Temporary market disruptions can create favorable entry points for long-term investments in clean energy and transition technologies. In our view, the growth and expansion of renewable energy infrastructure is poised to continue regardless of election results. We believe the economic advantages of renewables—such as lower operational costs and technological advancements—are significant, and hence we consider them difficult for any administration to ignore.

So while some investors might come under more political pressure to tone down their ESG commitments, the overall momentum towards a cleaner economy is strong. The entrenched nature of current green policies, significant financial investments already made and the economic viability of renewable technologies suggest that the trend towards low-carbon solutions will continue, making the potential impacts of a second Trump term less dramatic than the rhetoric might suggest.

Figure 6: Clean energy momentum has multiplied since 2005

Total US clean energy capacity in megawatts



Source: Bloomberg New Energy Finance, Vontobel; as of May 16, 2024.

[17] International Renewable Energy Agency, published August 29, 2023. irena.org/News/pressreleases/2023/Aug/Renewables-Competitiveness-Accelerates-Despite-Cost-Inflation#:~:text=Between%202010%20and%202022%2C%20solar,the%20cheapest%20fossil%20fuel%20globally

[18] Nature Communications, «The momentum of the solar energy transition", published October 17, 2023. nature.com/articles/s41467-023-41971-7

[19] Jefferies analyst note, "Harnessing the power of S-curves across the energy transition w/ RMI", published June 13, 2024.

Living in a world of water scarcity
In many fortunate countries around the world, it might not be so unusual to turn the tap on and wait for the water to be just the right temperature for some refreshing hydration or a warm shower. It might also not be a rare sight to see sprinklers irrigating lawns or golf courses, perhaps to turn on a dishwasher that's only half full, or to have a preference for bottled water that is sparkling rather than still.

However, this ease of access to clean water is in stark contrast to the reality faced by billions of people globally. Our planet may be known as the Blue Planet, with 70 percent of its surface covered with water, but despite all this abundance, many parts of the world are experiencing water stress. That is because most of it is salt water and a mere 2.5 percent of the planet's water supply is freshwater suitable for agriculture and industry, with pollution rendering an even smaller amount suitable for human consumption. And only about one-third of the freshwater suitable for human consumption is accessible on the surface or stored in groundwater, amounting to less than 1 percent of the earth's total water resources[20]. Of the world's freshwater, about 70 percent is used for agriculture, just under 20 percent for industrial use and about 12 percent for domestic or municipal consumption[21].

Given the limited supply of freshwater and our current consumption rates, water scarcity is a serious issue. In the last century, global water use increased more than twice as fast as the world's population[22].

Climate change is exacerbating this strain. Droughts and floods pose a challenge to agriculture and waterborne trade, and for each degree increase in the average global temperature, a 20 percent drop in renewable water resources is expected[23]. Some 3.6 billion people currently experience water scarcity at least one month per year[24], with estimates for nearly 6 billion to suffer from clean water scarcity by 2050, according to the UN's World Water Development Report.

In addition, as water infrastructure ages, the investment needed for repairs and replacement increases to avoid fresh-water loss due to leakage. The US Environmental Protection Agency projects that water pipe replacement rates will reach 16,000 to 20,000 miles of pipes per year in 2035, which is four times the current rate[25].

Our Clean Water pillar made up an average of 9.7 percent in our GEC portfolio in the fourth quarter of 2023. Water equipment stocks benefitted from resilient end market demand and especially in the US from investments to improve aging water infrastructure as well as more spending from the Federal Infrastructure Bill. Water infrastructure performed in line with global equity markets, while utilities underperformed in the first half of 2023 in line with rising long-term interest rates and also because they are usually seen as a substitute for bonds.

We increased our exposure to the Clean Water and Resource Efficient Industry pillars with new positions in ***Veralto***, whose water quality business helps customers manage, treat, purify, and protect the global water supply, as well as ***Spirax-Group***, which offers steam and electric solutions.

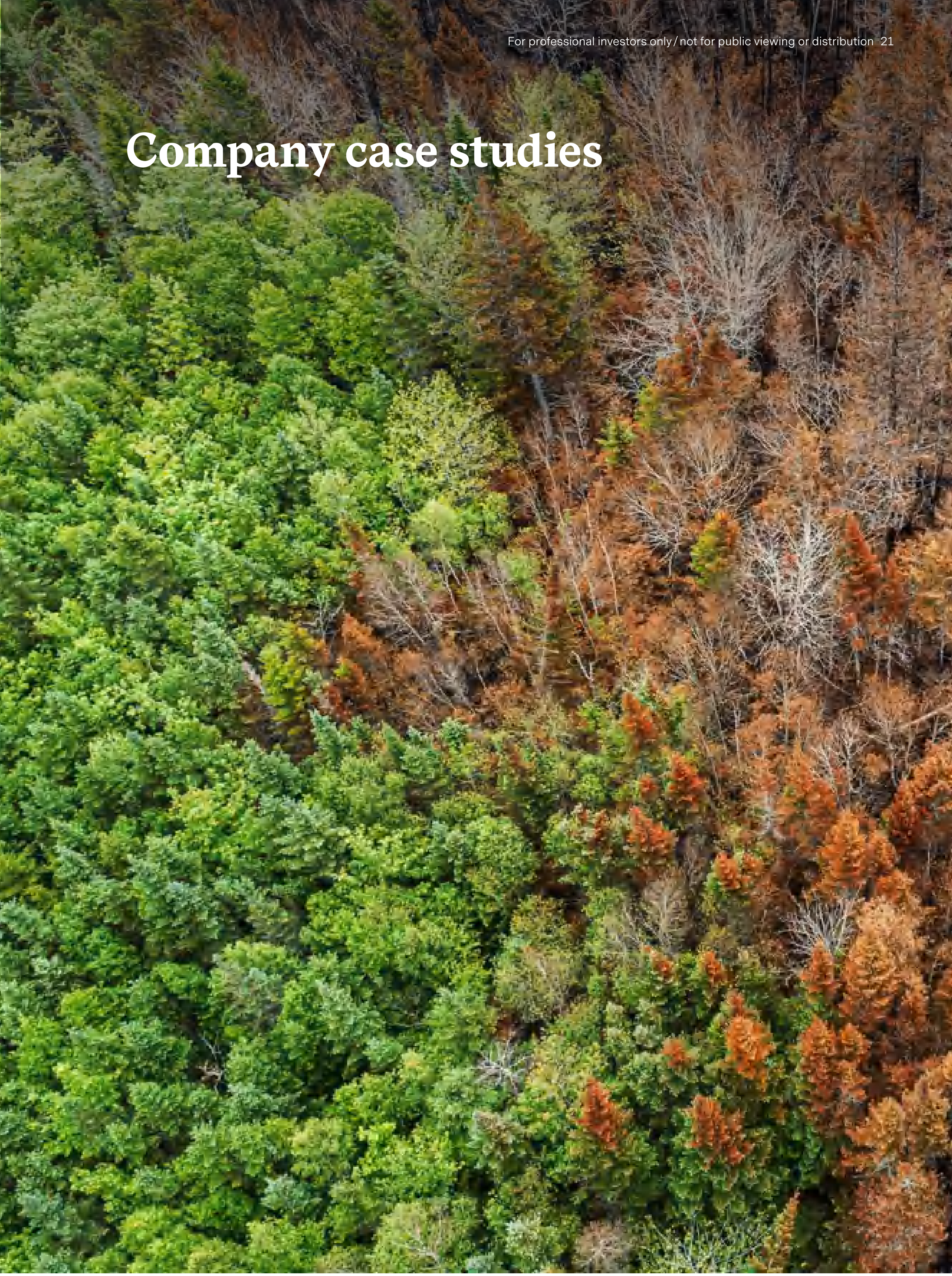
It's important to understand that there is no single water crisis. It is a complex web of challenges as each region or country faces a unique set of problems driven by differences in population pressures, water resources, climate, privatized vs. nationalized water utilities, industry mix or government water regulation. Water scarcity also helps brew many other crises: it can impact large-scale involuntary migration as well as areas like energy (water used in production and cooling processes), food and biodiversity. This makes water a pressing issue, not just in isolation, but also to ensure widespread safety and security.

To solve the water problem, the world needs a multi-pronged approach of innovative technologies, scalable solutions, investments in infrastructure, and more efficient agricultural practices, to name just a few. On our end, we focus on companies that provide products and services for efficient water usage, wastewater treatment, purification or desalination as we believe they are poised to benefit from additional investments.

This article contains excerpts from Vontobel's white paper "The quest for resources", published in June 2024 and updated in July 2024. If you are interested in reading more about how resource scarcity, geopolitics, and globalization can impact your investments, read the full report here: am.vontobel.com/en/insights/the-quest-for-resources

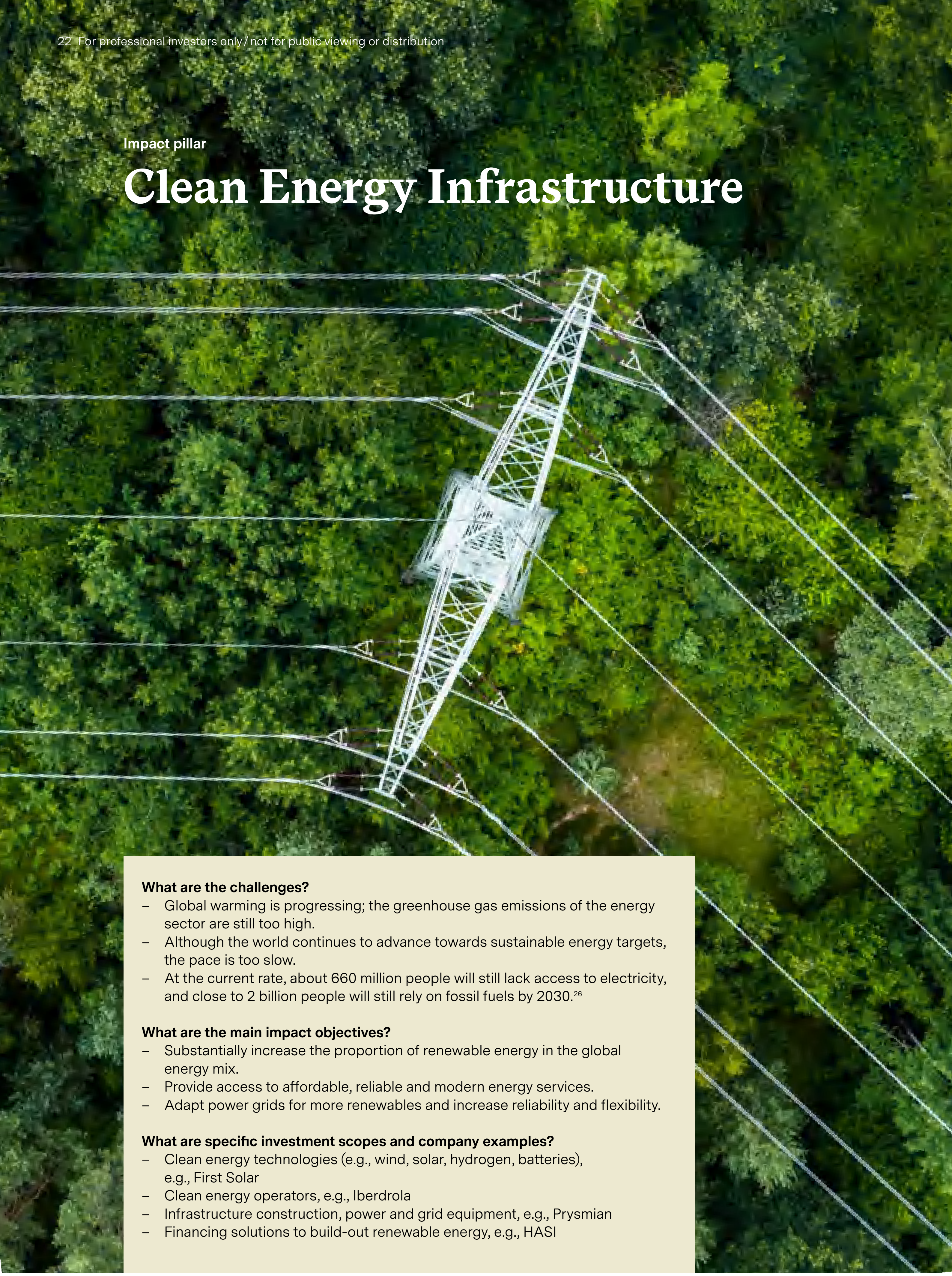
[20] International Atomic Energy Agency, September 2011. iaea.org/sites/default/files/publications/magazines/bulletin/bull53-1/53105911720.pdf
[21] UN World Water Development Report, updated February 26, 2024. unesco.org/reports/wwdr/en/2024/s#:~:text=Worldwide%2C%20agriculture%20accounts%20for%20roughly,freshwater%20withdrawn%20for%20domestic%20purposes.
[22] United Nations Department of Economic and Social Affairs, un.org/waterforlifedecade/scarcity.shtml#:~:text=Water%20use%20has%20been%20growing,and%20a%20human%2Dmade%20phenomenon.
[23] United Nations Economic Commission for Europe press release, published May 20, 2022. unece.org/climate-change/press/climate-change-threatens-access-water-and-sanitation-warn-unece-whoeurope#:~:text=Globally%2C%20each%201%20%C2%B0C,to%20maintain%20good%20hygiene%20practices.
[24] Article «Reassessing the projections of the World Water Development Report" published in Nature on July 31, 2019. nature.com/articles/s41545-019-0039-9
[25] 2013 Report Card for America's Infrastructure, sec.gov/Archives/edgar/data/1534155/000153415516000067/ex1021drinkingwaterreport.pdf

Company case studies



Impact pillar

Clean Energy Infrastructure



What are the challenges?

– Global warming is progressing; the greenhouse gas emissions of the energy sector are still too high.
– Although the world continues to advance towards sustainable energy targets, the pace is too slow.
– At the current rate, about 660 million people will still lack access to electricity, and close to 2 billion people will still rely on fossil fuels by 2030.[26]

What are the main impact objectives?

– Substantially increase the proportion of renewable energy in the global energy mix.
– Provide access to affordable, reliable and modern energy services.
– Adapt power grids for more renewables and increase reliability and flexibility.

What are specific investment scopes and company examples?

– Clean energy technologies (e.g., wind, solar, hydrogen, batteries), e.g., First Solar
– Clean energy operators, e.g., Iberdrola
– Infrastructure construction, power and grid equipment, e.g., Prysmian
– Financing solutions to build-out renewable energy, e.g., HASI

Hannon Armstrong Sustainable Infrastructure Capital

HASI is a specialized investment firm focused on climate-friendly projects. It identifies promising projects, structures them to generate steady income and raises funds from banks and investors. HASI's deep industry knowledge allows it to select high-quality projects and manage risks effectively. The company primarily invests in and holds these projects, but it also sells some to create space for new opportunities, generating income from both ownership and management fees. HASI recently formed a partnership to secure additional capital for new projects, marking a significant step in its growth strategy.

Essentially, HASI makes money by investing in clean energy projects, managing them well and continually finding new opportunities.

Impact Relevance
HASI exclusively finances assets that have a positive effect on the climate. These are divided into three categories: a) "Behind-the-meter", such as residential solar and storage, community, commercial and industrial solar and energy efficiency, b) "Grid-connected" i.e., utility scale solar, onshore wind and energy storage, c) "Fuels, transport, and nature" is made up of renewable natural gas, fleet decarbonization and ecological restoration. Customers range from individual households to large corporations and public sector clients, such as school districts. The positive impact generally comes from reduced reliance on fossil fuels and power generation. These projects are normally of long duration and with stable cash flows; hence, they need long-duration funding and fixed rates. It is normally extremely costly to provide such funding. As the projects are relatively small and not rated, debt capital market funding is neither practical nor affordable. This is HASI's niche.

Impact Strategy
In North America, there was overall approximately USD 80 billion in capital invested in renewable energy in 2022, HASI's legacy focus, and USD 60 billion in electrified transport, their new growth area. This compares to the total of USD 2.3 billion (1.6 percent of the market) that HASI originated in 2023. It is fair to assume that demand is not the constraint. Capital is the primary constraint. HASI solves this by selling assets once they have "seasoned", releasing capital to take on new, more attractive projects while still earning a management fee. Additionally, HASI has demonstrated its ability to adapt and grow despite the issues in the wind segment, as they developed the new "Fuels, transport, and nature segment". In 2023, HASI issued USD 0.7 billion in this segment.

Impact pillar

Clean Energy Infrastructure

Weight allocation in the portfolio:
1.16%

Revenue Relevance
100%

Impact Strategy Score
1.60

SDG contribution

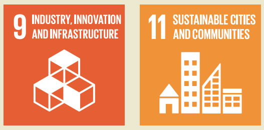
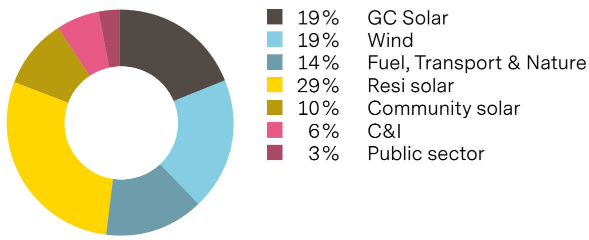


Figure 7: HASI portfolio by real asset type



Source: HASI, Vontobel.

Impact indicator[27]

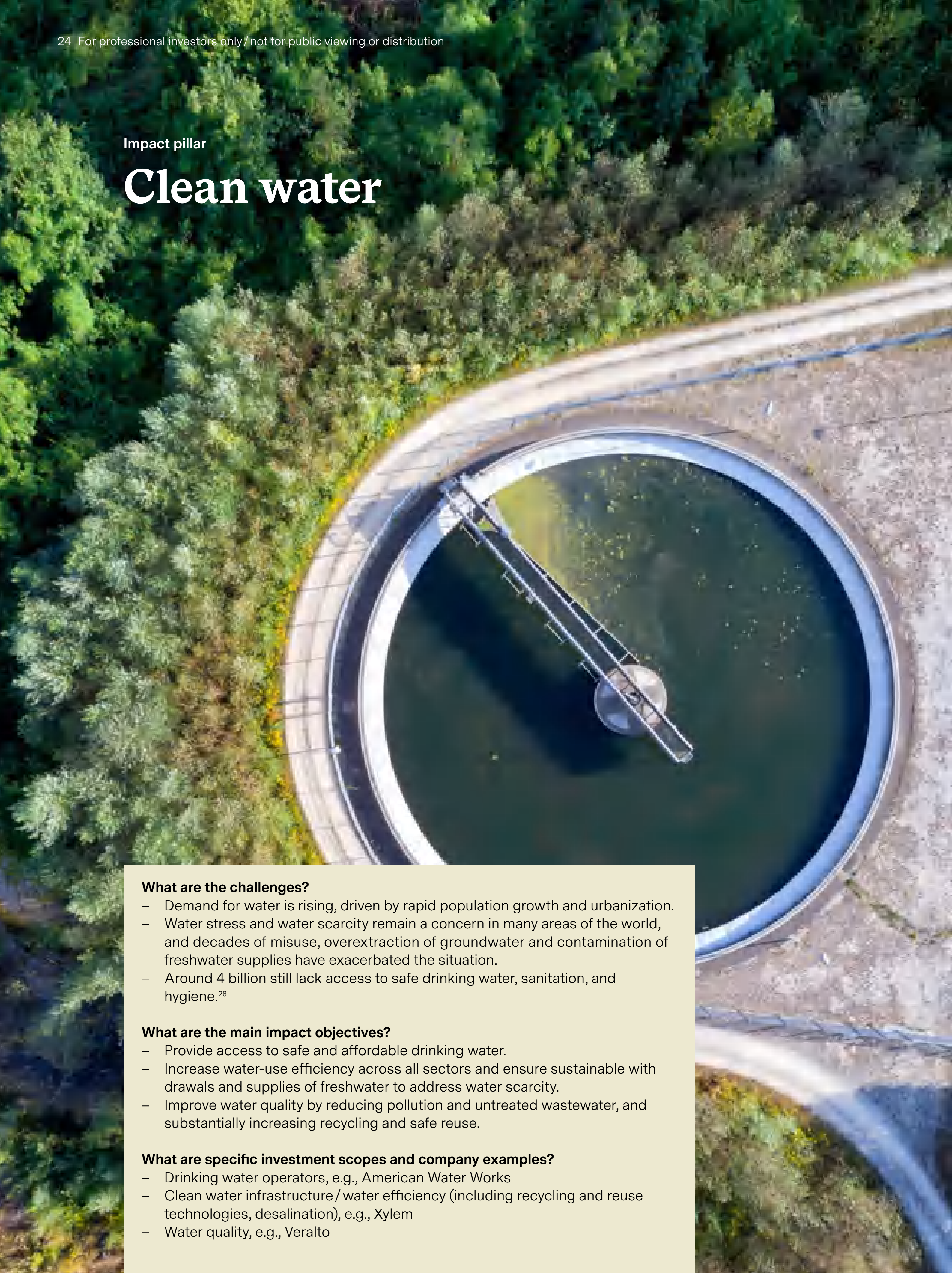
Potential avoided carbon emissions (PAE)
9.9 Kt CO2

Avoiding annual emissions equivalent to taking
7,318 cars
off the road

Source: HASI, Vontobel; as of June 30, 2024.

Note: Investment case studies presented for illustrative purposes as an example of the companies' ESG activity and evaluation of this activity as part of our investment process. No assumption should be made as to the profitability or performance of any company identified or security associated with them.

[26] United Nations, Sustainable Development Goals Report, Special edition 2023.
[27] Company's absolute contribution for 2023. For illustrative purposes only



Impact pillar

Clean water

What are the challenges?

- Demand for water is rising, driven by rapid population growth and urbanization.
- Water stress and water scarcity remain a concern in many areas of the world, and decades of misuse, overextraction of groundwater and contamination of freshwater supplies have exacerbated the situation.
- Around 4 billion still lack access to safe drinking water, sanitation, and hygiene.[28]

What are the main impact objectives?

- Provide access to safe and affordable drinking water.
- Increase water-use efficiency across all sectors and ensure sustainable with drawals and supplies of freshwater to address water scarcity.
- Improve water quality by reducing pollution and untreated wastewater, and substantially increasing recycling and safe reuse.

What are specific investment scopes and company examples?

- Drinking water operators, e.g., American Water Works
- Clean water infrastructure / water efficiency (including recycling and reuse technologies, desalination), e.g., Xylem
- Water quality, e.g., Veralto

Ecolab

Ecolab Inc. is a global provider of water, hygiene and infection prevention solutions for customers in the food, healthcare, hospitality, industrial and energy markets. The company's services include food safety, sanitation, optimization of water, detergent and energy use, improvement of operational efficiency and sustainability.

Impact Relevance
Ecolab's professional services are focused on water efficiency to reduce water and energy use. As a consequence, it reduces GHG emissions and saves costs. Their (waste)water treatment services provide improved water quality and access to sanitation and hygiene. In addition, they provide infection prevention via cleaning solutions, pest elimination and improvement of drug quality to promote good health, well-being and food safety.

Impact Strategy
Ecolab's continued efforts to improve the quality and efficiency of its products while reducing the footprint on the environment help not only the planet but also reduce costs via less water and energy use, hygiene, and safety for its customers. Relevant efforts in R&D towards digitalization are improving and extending its product and service range, which favors customer satisfaction, help reducing their costs and will ultimately benefit Ecolab's long-term growth and profitability.

Impact Indicator[29]

Water recycled and / or saved
300.3 K m³

Treating waste for
5,714 people
for one year

Source: Ecolab, Vontobel; as of June 30, 2024.

Impact pillar

Clean Water

Weight allocation in the portfolio:
1.89 %

Revenue Relevance
94 %

Impact Strategy Score
1.67

SDG contribution

Note: Investment case studies presented for illustrative purposes as an example of the companies' ESG activity and evaluation of this activity as part of our investment process. No assumption should be made as to the profitability or performance of any company identified or security associated with them.

[28] United Nations, Sustainable Development Goals Report, Special edition 2023.
[29] Company's absolute contribution for 2023. For illustrative purposes only.

Impact pillar

Resource-efficient industry

What are the challenges?

- CO_2 emissions from industrial processes, often just for heating or cooling, grew by nearly 1 percent to a new all-time high of around 37 billion tons in 2022, below GDP growth but still up[30].
- Inefficient manufacturing uses excessive quantities of raw materials.
- Toxic and hazardous materials are emitted in processes or embedded into products in large quantities despite economically viable alternatives.

What are the main impact objectives?

- Help to increase energy and resource efficiency as well as greater adoption of environmentally sound technologies.
- Reduce emissions, hazardous waste and water / raw material consumption by optimizing industrial and manufacturing processes.
- Improving components that help reduce end-products' life-cycle footprint, or with components that help reduce inequalities by making technology cheaper and accessible to everyone.

What are specific investment scopes and company examples?

- Digitalization (semiconductors, information technologies), e.g., Cadence Design, Applied Materials
- Modern manufacturing equipment, sensors, and controllers as well as process automation, e.g., Spirax Sarco, Daifuku
- Functional materials, industrial gases, coatings, films, magnetic materials, e.g., Air Liquide

Spirax Group

Spirax is a UK-based industrial engineering company with expertise in the control and management of steam, electric thermal solutions, peristaltic pumping and associated fluid path technologies. It has a defensive business model due to its broad range of customers (no single customer >1 percent of group sales; average invoice size GBP2.5k) and end-markets (e.g., >60 percent of sales from more defensive segments like Food & Beverage 18 percent, Pharma 23 percent, Water 4 percent) and regional manufacturing strategy. Despite being the market leader in steam and peristaltic pumps, at 14 percent, the company has a small share of its addressable market, providing potential for further market share gains.

Impact Relevance
Spirax is a key beneficiary of the secular trend towards rising industrial energy efficiency. In many industries, steam is the most efficient and effective medium for heat transfer. Heat represents 50 percent of global energy consumption and 40 percent of CO_2 emissions, with 50 percent of total heat used in industrial processes. Despite this, only 5 percent of global industrial heat is generated using electricity; this points to the size of the company's market opportunity for a switch to clean generation. Electric Thermal Solution´s electrical process heating and temperature management solutions improve thermal energy management and control systems, resulting in more efficient processes. In industrial processes, 95 percent of heat generation is through fossil fuels. Introducing electric generation (in boilers and heaters) can reduce Scope 1 emissions down to zero (no gas burning), and even lower Scope 2 emissions using renewables to generate electricity.

Impact Strategy
Spirax has a clear sustainability strategy ("One Planet Strategy"). The company targets net zero scope 1 and 2 GHG emissions by 2030, with an interim target of a 50 percent reduction (compared to 2019) by 2025. In addition, the company targets a 20 percent reduction in energy use from plants, equipment and building assets (compared to 2019) by 2025.

Impact Indicator[31]

Potential avoided carbon emissions (PAE)

80.5 Kt CO_2

Avoiding annual emissions equivalent to taking

59,407 cars

off the road

Source: Spirax, Vontobel; as of June 30, 2024.

Impact pillar

Resource-efficient industry

Weight allocation in the portfolio:
0.96%

Revenue Relevance
79%

Impact Strategy Score
1.17

SDG contribution

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

Note: Investment case studies presented for illustrative purposes as an example of the companies' ESG activity and evaluation of this activity as part of our investment process. No assumption should be made as to the profitability or performance of any company identified or security associated with them.

[30] United Nations, Sustainable Development Goals Report, Special edition 2023.
[31] Company's absolute contribution for 2023. For illustrative purposes only.

Impact pillar

Lifecycle management

What are the challenges?
- Unsustainable patterns of production and consumption contribute to climate change and biodiversity loss.
- Cheaper materials are often preferred over lower life-cycle-footprint.
- Littering and waste are too often dumped into landfills. Municipal waste may rise by 50 percent to over 3 billion tons from 2018 to 2050.[32]
- Cheaper materials are often preferred over lower life-cycle-footprint, e.g., fast fashion or electronic gadgets.

What are the main impact objectives?
- Enable a circular economy with a focus on repair, reuse, and recycling.
- Extract valuables from scrap before final and safe disposal.
- Improve life-cycle-footprint of materials, e.g., reuse, recycle, enable low greenhouse gas processes.

What are specific investment scopes and company examples?
- Recycling operators and services, e.g., Clean Harbors
- Waste management services, e.g., Veolia
- Sustainable materials, e.g., Smurfit Kappa
- Sustainable products, e.g., West Fraser Timber

West Fraser Timber

West Fraser is a leading diversified wood products company. It produces oriented strand board, laminated veneer lumber, medium density fiberboard, plywood, particleboard and other wood products, including pulp, newsprint, wood chips and residual renewable energy. West Fraser Timber serves customers in the United States, Canada and Europe. The company is known for its sustainable practices and is a major player in the global forest products industry.

Impact Relevance
West Fraser's products are all wood-based, a renewable material for the construction of mostly residential houses and, to a lesser extent, large buildings (however, a fast-growing business as architects and construction engineers are learning from its successful use in Europe). Wood is also a suitable material for interior furniture and flooring. Recycled wood is used for fiberboard or as a source of heat. Moreover, the pulp and paper industry uses the residuals from wood processing, making it a renewable and highly recyclable raw material. It is also worth mentioning that wood keeps the absorbed CO_2 stored when used in buildings; as a comparison, ***the net carbon emissions to produce*** 1t of cement, steel and wood emits, respectively, 0.17, 1.04, and −0.32t of CO_2 into the atmosphere.[33] West Fraser reports that its products sold in 2021 have over 15 million tons of CO_2 stored. 77 percent of the company's energy comes from renewable sources (mostly biomass).

Impact Strategy
West Fraser's management is committed to growing its sourcing from sustainably cultivated forests, reducing transportation distance and improving efficiency in manufacturing. West Fraser manages ~25 million acres of forests in Canada and has 100 percent of its timber supply chain certified by the Sustainable Forestry Initiative ("SFI") and 100 percent of harvest sites reforested. The company has a sustainable rate of harvest of less than 1 percent of managed forests and uses 99 percent of every log it processes. Furthermore, 98 percent of reforested sites meet growth targets within five years. 77 percent of the company's energy come from renewable sources (mostly biomass).

Impact Indicator[34]

Potential avoided carbon emissions (PAE)
3.4 M t CO_2

Avoiding annual emissions equivalent to taking
2.53 M cars
off the road

Source: Vontobel; as of June 30, 2024.

Impact pillar

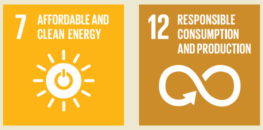
Lifecycle Management

Weight allocation in the portfolio:
1.32 %

Revenue Relevance:
100 %

Impact Strategy Score:
1.4

SDG contribution:



Note: Investment case studies presented for illustrative purposes as an example of the companies' ESG activity and evaluation of this activity as part of our investment process. No assumption should be made as to the profitability or performance of any company identified or security associated with them.

[32] Kaza, Silpa; Yao, Lisa C.; Bhada-Tata, Perinaz; Van Woerden, Frank, What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050, World Bank, 2018.
[33] Churkina, G. et al. Buildings as a global carbon sink. Nat Sustain 3, 269–276 (2020). West Fraser analysis.
[34] Company's absolute contribution for 2023. For illustrative purposes only.

Impact pillar

Building technology

What are the challenges?

- Global urbanization is accelerating rapidly and it is expected that two-thirds of the global population will live in cities by 2050[35].
- Buildings are often inefficient, consume too much energy and account for roughly a third of global CO_2 emissions[36].
- Transport accounts for more than a third of global CO_2 emissions and transport infrastructure is often degraded or non-existent[37].

What are the main impact objectives?

- Develop materials to lower the environmental impact over the lifecycle of a building.
- Minimize power consumption for heating, ventilating and cooling through energy-efficient equipment combined with optimized building envelope.
- Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters.

What are specific investment scopes and company examples?

- Building envelope and insulation materials, e.g., Saint-Gobain
- Energy efficient HVAC and appliances, e.g., Carrier Global
- Building control technology, e.g., Johnson Controls
- Infrastructure equipment and services, e.g., Stantec

Carrier Global

As a spin-off from UTX in 2020, Carrier Global (Carrier) moved towards more businesses related to energy efficiency solutions within its Heating, Ventilation and Air Conditioning, known as HVAC, (72 percent of revenues) and refrigeration (14 percent of revenues) businesses, while its Fire & Security refrigeration cabinets for food retailers' businesses are both no longer considered core and the sale process is expected to be completed by the end of 2024[38]. Their efforts to focus on energy-saving solutions are exemplified by their acquisition of Viessmann, a German leader in efficient heating and cooling, as well as solar and battery solutions to complement their offering. Carrier commands a No. 1 position in most of its businesses and No. 3 in global applied HVAC. Following the Viessmann integration, its geographical exposure is: 48 percent Americas, 32 percent Europe, 20 percent Asia Pacific, and others.

Impact Relevance
Carrier is a leader in healthy, safe, sustainable, and intelligent building solutions and refrigerated supply chain solutions. While its legacy Fire & Safety business is mostly relevant for social aspects, all other areas are focused on energy efficiency. Carrier has set targets to reduce its own GHG emissions but has a much bigger impact through its solutions that allow customers to reduce their GHG emissions. The recently acquired Viessmann estimates that 98.8 percent of its total emissions are within scope 3 downstream; hence, any reduction there has a massive impact. Carrier's existing offering, combined with compressor technologies from Toshiba, lower-cost manufacturing with Giwee and highly efficient heat pumps combined with solar and storage and controlled by integrated software solutions, all from Viessmann, are strong indicators that Carrier's impactful activities could grow significantly.

Impact Strategy
Carrier's divestments of Chubb and various joint ventures, as well as the ongoing sales of fire and safety and cabinets on the one hand, and the acquisitions of Viessmann, Toshiba's HVAC business, Giwee and smaller ones on the other hand, are proof of the management's focus on energy-efficient solutions in its core businesses. It also significantly increases relevant revenue contributions and makes the company a leader in energy-efficient ACs and heat-pumps in North America, Europe, and, to a lesser extent, Asia.

Impact Indicator[39]

Potential avoided carbon emissions (PAE)
75 M t CO2

Avoiding annual emissions equivalent to taking
55.33 M cars
off the road

Source: Vontobel; as of June 30, 2024.

Impact pillar
Building Technology

Weight allocation in the portfolio
1.28 %

Revenue Relevance
73 %

Impact Strategy Score
2.0

SDG contribution

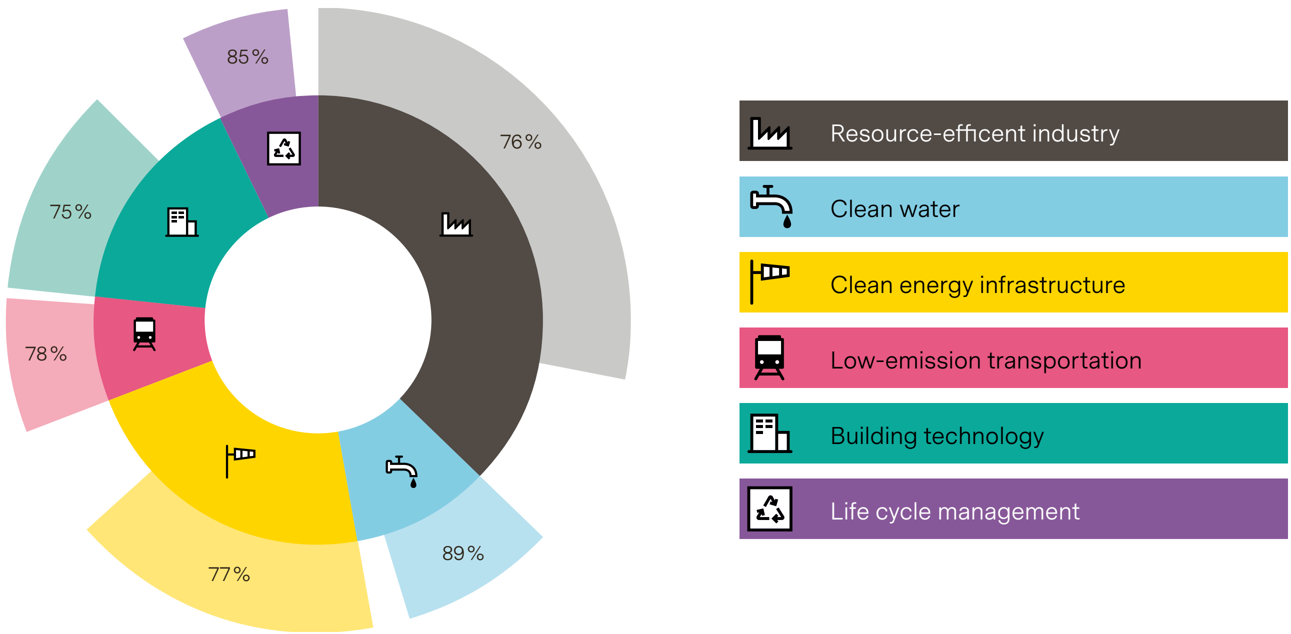
Note: Investment case studies presented for illustrative purposes as an example of the companies' ESG activity and evaluation of this activity as part of our investment process. No assumption should be made as to the profitability or performance of any company identified or security associated with them.

[35] United Nations, Sustainable Development Goals Report, Special edition 2023.
[36] International Energy Agency: iea.org/energy-system/buildings
[37] International Energy Agency: iea.org/energy-system/transport
[38] ir.carrier.com/news-releases/news-release-details/carrier-announces-close-1425b-sale-its-industrial-fire-business/
[39] Company's absolute contribution for 2023. For illustrative purposes only.

Results Vontobel Fund – Global Environmental Change

Purity of GEC
The inner circle in Figure 8 shows the portfolio's allocation to the six impact pillars of the Vontobel Fund – GEC, while the outer circle represents the percentage of the revenues from the fund's holdings that come from impactful activities within each pillar. Across the whole portfolio, on average, 78 percent of all revenues are considered to have a direct or indirect positive impact. For companies with activities (revenues) in several impact pillars, all relevant revenue shares are allocated to the main impact pillar. Pillar weights in the portfolio add up to 97.3 percent. The rest of the portfolio, 2.7 percent, is held in cash.

Figure 8: The fund offers a high "purity level": 78 percent of revenues create impact



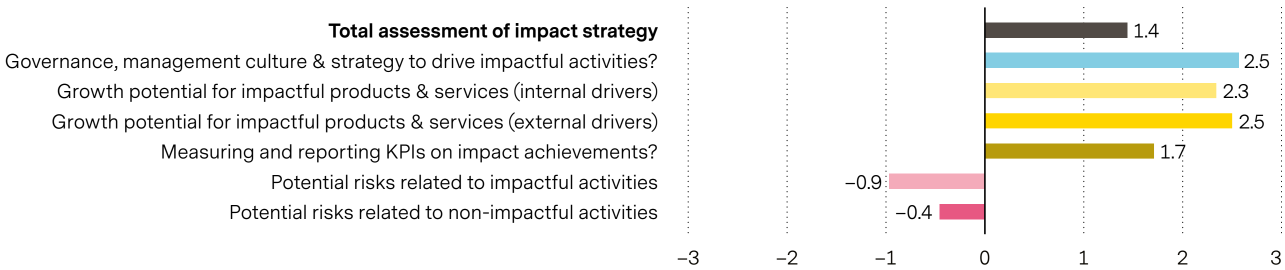
Source: Vontobel; as of June 30, 2024.

Impact strategy assessment

Essentially, the first four assessment criteria as described in Figure 9 show a solid positive score at portfolio level. The two risk-related assessment criteria show negative to neutral scores for impactful and non-impactful activities. This should not surprise us, as we would not invest in a company with low positive scores in the first four assessments or high-risk (negative) scores in the latter two. The largest potential for improvement we see is in the measurement and reporting on sustainability impact indicators; hence, this remains a key focus of our ongoing fact-finding engagement with the companies.

The overall impact strategy assessment score of the Vontobel Fund – GEC has improved from 1.39 to 1.44 in the one-year period through June 30, 2024 and reflects an overall higher conviction level we have in our holdings (see Figure 9).

Figure 9: Portfolio weighted impact strategy assessment



Source: Vontobel; as of June 30, 2024. Assessment of management's strategy within six categories. A score from -3 to +3 is assigned to each category based on a qualitative assessment, whereby the first four should preferably be positive scores, while the last two risk-scores are neutral at best or negative.

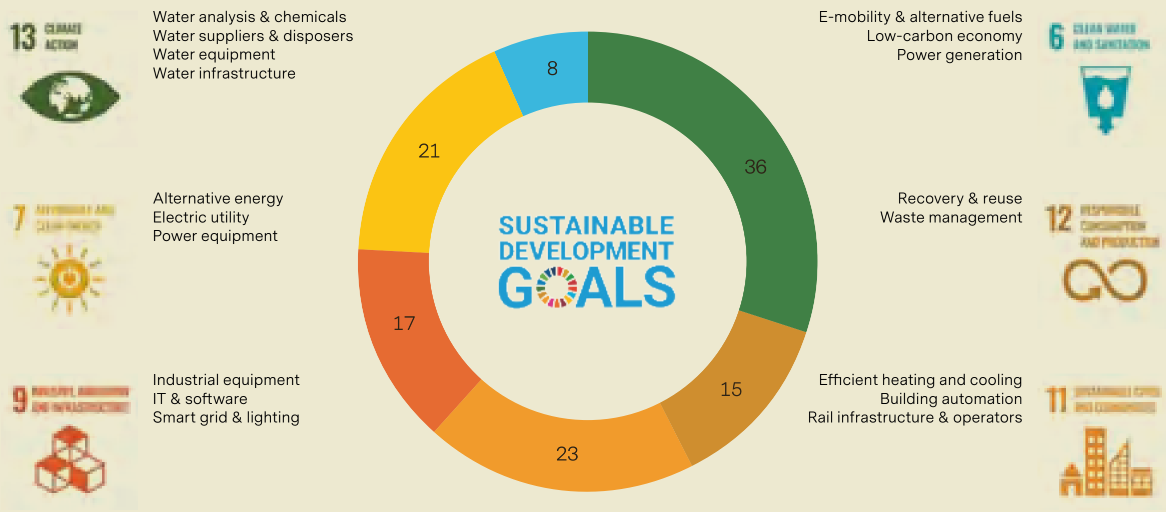
SDG contributions
We map contributions generated through the companies' products and services, not counting their internal, operational or philanthropic contributions (see Figure 10). For our SDG mapping process, we have defined the following rules:

1. SDG mapping must be aligned with the sustainable investment objectives of the corresponding impact pillars.

2. SDG contributions must be related to products and services and be material. Likewise, company management's behavior and initiatives, e.g., the focus on research and development, the funds available for capital expenditure or activities tied to mergers and acquisitions, play a significant role. As a result, the number of SDGs we assign tends to be lower than what companies claim or what rating agencies may attribute to them.

3. SDG contributions are commented on in our database where needed and reviewed at least on a yearly basis.

Figure 10: Number of holdings with material contribution to UN SDGs through their products and services*



*Companies' positive contributions via their products and services.
Source: UN, Vontobel; as of June 30, 2024.

Impact indicators: data, calculation and data quality and references

The table below summarizes the impact indicators we collected from individual companies held by the Vontobel Fund – GEC. These impact indicators contain major contributions from products and services of companies active in the corresponding impact pillar (e.g., a power utility generating renewable energy from a wind farm) but also minor operational contributions from many portfolio holdings (e.g., an industrial company having installed solar panels on their manufacturing sites for its own electricity consumption). The latter is, however, neither used for company selection nor for the purity factor of the portfolio. Nevertheless, it is a positive operational contribution, which we like to emphasize. Figure 11 shows the total numbers from all portfolio companies as well as the proportion that is attributable to the Fund based on its ownership.

In terms of continuity, we aggregate the below list of 12 impact indicators into nine key impact indicators that gauge the favourable impact of the companies in the Vontobel Fund – GEC.

To make the indicators more tangible, we translate each positive impact into easier-to-grasp equivalents. Investing EUR 1 million in the Vontobel Fund – GEC results in ownership of companies that delivered the following impactful activities during their latest reporting year (see Figure 12).

Figure 11: The Vontobel Fund – GEC's companies were associated with the following indicators over their FY 2023, (61 companies held as of June 30, 2024):

IMPACT INDICATOR DESCRIPTION	TOTAL FROM ALL PORTFOLIO COMPANIES	ATTRIBUTABLE TO THE FUND	MAJOR CONTRIBUTORS	TOTAL REPORTING COMPANIES
CO_2 emitted (carbon footprint, scope 1+2)	215.0 mn t	186,600 t	VEOLIA, AIR LIQUIDE	61
CO_2 avoided	2,000 mn t	2.7 mn t	SAINT-GOBAIN, VEOLIA, ANDRITZ	47
Renewable energy generated	203.5 TWh	160.2 GWh	IBERDROLA, NEXTERA, EDPR	10
Annual renewable capacity shipped	50.5 GW	134.3 MW	ANDRITZ, FIRST SOLAR, VESTAS	7
Drinking water provided	10,700 mn m^3	16.8 mn m^3	VEOLIA, AMERICAN WATER	2
Water recycled or saved	66,700 mn m^3	125.9 mn m^3	VERALTO	11
Waste water treated	7,300 mn m^3	11.7 mn m^3	VEOLIA	5
Passengers transported in an eco-friendly way	119,700 mn passenger-km	238.7 mn passenger-km	EAST JAPAN RAILWAYS	1
Cargo transported on rail	665,100 mn t-km	174.9 mn t-km	UNION PACIFIC	1
Waste collected / recycled	69.2 mn t	116,100 t	VEOLIA, CLEAN HARBORS, LKQ	39
Materials captured for circular economy	31.3 mn t	56,500 t	SMURFIT KAPPA, SAINT-GOBAIN, CLEAN HARBORS	9
Renewable / recovered energy use in production	44.0 TWh	120.0 GWh	WEST FRASER, SAINT-GOBAIN, AIR LIQUIDE	46

Source: Vontobel; as of June 30, 2024.

Compared to last year's data, the fund delivered similar numbers for most of the impact indicators. Certain shifts were as follows:

- It was a very challenging year in particular for renewable equipment manufacturers as higher interest rates, project delays and overcapacity in certain areas (e.g., the Chinese solar supply chain) led to lower earnings and cautious guidance. From an investment perspective (keeping in mind our "double dividend" concept) this implies that we have reduced our exposure to such stocks significantly. This is why the capacity of renewable energy devices that were shipped has decreased almost threefold compared to last year.
- At the same time, it became obvious that power infrastructure is a crucial enabler of the energy transition but at the same time an obstacle to it. A rapid increase in the build-out of power grids is needed, implying that we found many attractive investment opportunities in this area including planning, servicing, environmental certification, utilities but also equipment producers that will benefit from these additional projects. This is why our allocation to renewable energy generation grew by almost 15 percent.
- We saw a more than sixfold increase of the impact indicator "Water saved, recycled or treated", which mainly had to do with two companies: ***TetraTech***, (2 percent weight in the portfolio) that reported a much higher figure due to the addition of recently completed projects, including those from the ***RPS Group*** who was acquired by TTEK in January 2023 and ***Veralto*** (1.23 percent weight) a spin-off of the water businesses from Danaher in which we started to invest in November 2023.
- Waste collection and recycling experienced a threefold increase, while the circular economy indicator saw a 2.25-fold decrease. This is mainly due to more transparent reporting and a reclassification of certain company specific datapoints for firms that include waste collection and recycling in their operations ***(Chroma, National Grid, Iberdrola, Siemens)*** but do not use recycled materials for their products. Only the latter is seen as a contribution to the circular economy.
- For carbon footprint and PAE, see separate chapter.

Figure 12: The potential annual impact of a EUR 1 million investment:
For illustrative purposes only

Generation of renewable energy
73,100 kWh

Providing clean energy to
46 people
for one year

Shipment of renewable energy devices
61 kW

Replacing
123 tons
of annual coal consumption

Circular economy (recovery, reuse)
26 t

Reusing packaging waste caused by
137 people
in one year

Provision of drinking water
7,700 m³

Supplying water to
146 people
for one year

Water saved, recycled or treated
62,700 m³

Treating waste water of
1,193 people
for one year

Waste management
53 t

Treating waste caused by
103 people
in one year

Cargo / passenger transport by rail
188,600 km

Saving
5,247 liters
of diesel / gasoline

Carbon footprint (scope 1&2)
85 t CO2

Causing annual emissions equivalent to
63 cars
on the road

Potential avoided carbon emissions (PAE)
1,200 t CO2

Avoiding annual emissions equivalent to taking
900 cars
off the road

Source: Vontobel; as of June 30, 2024. The Global Environmental Change calculator is provided for informational purposes only to illustrate the potential impact that an investment may represent in the Vontobel Fund – GEC. The companies in which the Fund is invested fit in at least one of the six core impact pillars of the Fund and not all companies will have an impact on all of the nine environmental indicators. Impact investing must take into consideration the capital allocation and engagement strategies of the Fund.

We believe it is important to reiterate that the process of creating impact occurs in two distinct steps and that Vontobel Fund – GEC investors' impact is not direct but brought about by the products and services of the investee companies. Initially, investors allocate funds to companies they perceive as impactful. Subsequently, these companies' products and services generate the intended real-world effects. As committed impact investors and long-term capital providers, our objective is to assist these companies in enhancing and expanding their offerings and refining their business practices. This approach aims to foster a more sustainable environment and infrastructure.

Wherever possible, we rely on reported data from the companies held in the fund. This includes annual reports, CSR reports, websites or other investor information. Requesting additional data and motivating companies to measure and publicly disclose the required data and indicators is part of our engagement work. In April / May 2024 we contacted our portfolio holdings explaining our needs, attaching last year's impact report and a list of impact indicators. More than 60 percent of the holdings took the time to answer our request. The relevant environmental metrics for the portfolio companies—mainly linked to their products and services—were applied where data was available or could be estimated. The analysis included all companies in which the Vontobel Fund – GEC was invested as of June 30, 2024. We aimed to obtain the most recently available environmental data from the invested companies; for over 90 percent, the data is from the company's fiscal year 2023.

The data for each company is divided by its market capitalization (the total value of the listed shares of a company) in euros. This figure is then multiplied by the amount invested in that company by the fund (ownership approach).

The following reference values and sources were applied for the impact indicators in Figure 11 to translate the associated impact data into more tangible equivalents:

- ***Renewable energy generated:*** Electricity consumption by households per capita in the EU in 2022 was 1'584 kWh. Source: ec.europa.eu/eurostat
- ***Renewable energy devices shipped.*** The assumption is made that wind and solar power operate at an average capacity of 30%. 1 kW of renewable capacity replaces 2.01 t of coal in a power plant. Source: agora-energiewende.de/
- ***Circular economy:*** In 2021, the EU generated an estimated 188.7 kg of packaging waste per inhabitant. Source: ec.europa.eu/eurostat
- ***Drinking water provided:*** In 2021 an average of 144 litres of water per person per day was supplied to households in Europe. This equals 52'560 l or 52.56 m^3 per person per year. Source: eea.europa.eu
- ***Water recycled/treated/saved:*** see drinking water.
- ***Waste treated/processed/recycled:*** 513 kg of municipal waste per capita per year were generated in the EU in 2022. Source: ec.europa.eu/eurostat/
- ***Cargo/passenger transport by rail:*** Rail transportation replaces travel by cars, which (in the EU) have an average occupation of 1.55 passenger and an average fuel consumption of 6 l / 100 km. Cargo transportation on rail also replaces trucks on the road, which has a net load of 27 t for a 40 t truck and an average diesel consumption of 35 l / 100 km. Source: UNP, CSX; ec.europa.eu/eurostat/; iea.org
- ***Carbon footprint:*** In the EU, the average annual distance travelled by car was 12'540 km in 2022. The average CO_2 emissions of newly registered EU cars in 2022 were 108.1 g CO_2 / km. Hence, the total CO_2 emissions per car / year are 1'356 kg CO_2 / year. Source: eea.europa.eu/; kba.de/
- ***Potential Avoided Emissions (PAE):*** see carbon footprint.

The nine impact indicator data points provide an indication of the positive impact associated with the portfolio; they may however be exposed to inconsistencies. These can be caused by underlying assumptions, or in some cases, disclosed data required conversion to allow for aggregation across the portfolio.

Note: The Vontobel Fund – GEC Impact Report, and hence our impact calculator methodology, is verified by the independent ESG and climate experts from ISS ESG (see certification on page 48).

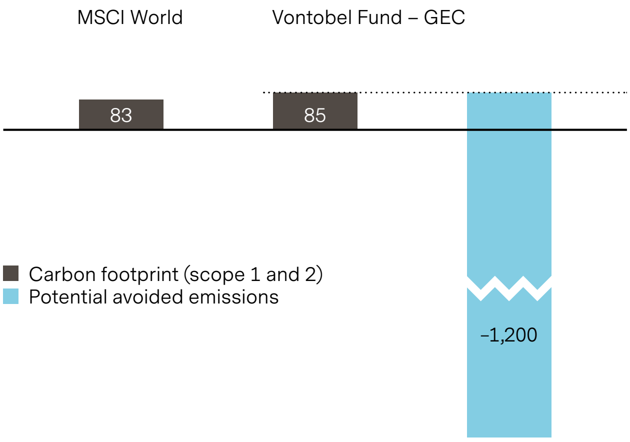
PAE reporting

For our eighth annual carbon analysis of Vontobel Fund – GEC's equity holdings, we continued with our PAE concept with extensive carbon and avoided emission data. This year, we collaborated with Carbon4 Finance as a data provider. As already elaborated in the chapter on Carbon4 Finance on page 10, they follow the idea of the recent publication by the WBCSD[40]: companies' contributions to global mitigation should not be limited to reducing their own and their value chain GHG emissions but should also strive to accelerate global decarbonization efforts by delivering additional solutions and enabling others to reduce emissions as well.

Over the past few years, a growing number of our portfolio holdings have started to disclose their own estimated avoided emissions data. We used this disclosed data (22 companies) after some methodological alignments where necessary. Carbon4 Finance allowed us to add additional estimated avoided emission data from 25 companies that do not report any data, which led to a combined reporting of PAE data from 47 companies.

Figure 13: Carbon footprint and potential avoided emissions

In tons of CO_2 per EUR 1 million invested in the Fund



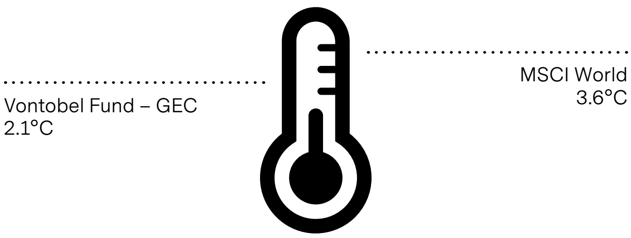
Source: Vontobel, MSCI ESG and Carbon4 Finance; as of June 30, 2024.

The carbon footprint of the Vontobel Fund – GEC turns out to be similar to its reference index, the MSCI World Index (see Figure 13). The high number of PAE—***14 times higher than the carbon footprint scope 1+2 emitted***—validates the significant and effective drive to reduce future carbon emissions. Hence, this high PAE / footprint ratio shows a strong contribution to an industry transition and a real-world impact.

The ownership of each company used for the analysis is as of June 30, 2024. The total value of the fund was EUR 2.11 billion. The fund is associated with 2.7 million tons of potential avoided CO_2 (PAE) coming from the holdings' activities in financial year 2023. The five largest contributors to potential avoided emissions at fund level are ***Saint-Gobain*** (37%), ***Andritz*** (17%), ***Vestas*** (13%) ***TetraTech*** (8%) and ***Mastec*** (5%). Overall, the company contributions correspond to a total 1,200 tons of potential avoided CO_2 (PAE) per EUR 1 million invested in the Vontobel Fund – GEC. Such a high PAE shows a strong support for industry transition and the real-world impact of our portfolio holdings.

Onboarding Carbon4 Finance also allows us now to conduct further climate-related analysis of our portfolio and draw comparisons with the broader market like the Implied Temperature Rise (ITR). The ITR of the portfolio and the reference index MSCI World is a translation of Carbon4 Finance's Carbon Impact Analytics (CIA) overall rating into a temperature alignment metric. This metric can be used to assess the alignment of the portfolio with the objectives of the Paris Agreement. The ITR comparison shows a favorable picture for our portfolio compared to MSCI World. This underlines how well our portfolio companies are aligned with the overall climate goals and their contribution to the transition.

Figure 14: Comparison of the Implied Temperature Rise (ITR)



Souce: Vontobel, Carbon4 Finance; as of June 30, 2024.

[40] WBCSD (2023): Guidance on Avoided Emissions

Engagement and voting

For the Vontobel Fund – GEC, we consider active ownership to be very important for the development of sustainable economies, societies and the environment. Material ESG issues can impact the future success of a company and therefore its investment potential. Consequently, we put a strong emphasis on direct engagement with our portfolio holdings, particularly on environmental issues and related opportunities, as this is an integral part of our research activities.

VTAM engagement policy statement
Our analysts and portfolio managers directly engage with the management of companies on relevant topics as part of their fundamental research activities. For areas flagged as key ESG risks, we engage in a direct dialogue with our holdings. We state our views in a constructive fashion and encourage companies to improve their risk management practices as well as their impact and sustainability practices. Additionally, we carry out informal fact-finding engagements as part of our structured research process, either due to data gaps or to better understand a company's performance and policies. These engagements address material sustainability issues that are relevant to our sustainable investment objective.

Climate reporting remains a key focus for all our company engagements. Our effort lies in more detailed reporting on PAEs and an improvement in expressing carbon reduction targets. We and obviously other investors are working with the companies to commit their net zero targets to be aligned with a Science Based Targets Initiative (SBTi) Net Zero Strategy or later achieve SBTi approval where such a procedure has not yet been initiated yet. The overall percentage of Vontobel Fund – GEC holdings with SBTi activities increased by 8%-points compared to last year.

Figure 15: Percentage of holding companies with SBTi targets

	VONTOBEL FUND – GEC	REFERENCE INDEX
Committed to SBTi target	20%	25%
SBTi committed and approved net zero targets	52%	37%
Total percentage of companies with SBTi activities	72%	62%

Source: MSCI ESG, Vontobel; as of June 30, 2024.

The key engagement objectives for the Vontobel Fund – GEC remained unchanged:

- Climate change and related risks and opportunities
- Potential avoided carbon emissions
- Water management / stress
- Energy efficiency
- Renewable energies
- Waste management
- Technology innovation

To give a more insight into these, we detail two engagement case studies from 2023 and H1-2024.

Case study

Raising the bar on ESG disclosures: multi-year engagement

Engager
Impact Investing Team

Issuers
All portfolio companies

Engagement type
1:1
Impact team contacted the company directly

Topic
Impact Strategy and Reporting on Impact Indicators

Rationale and context
As investors, we closely assess companies' management of sustainability risks. More importantly we consider their ability to capitalize on sustainability opportunities and address environmental challenges through impactful products and services. Comparable data is vital for us to gauge impact and reliable quality. We count on company-reported data like annual CSR reports, as well as third-party ESG data providers. We do not solely rely on disclosure for evaluating sustainability performance, given the variation in reporting standards and practices. In any case, disclosures do not guarantee good practices per se.

Engaging with companies is a significant part of our strategy. By doing so, we help companies learn about meaningful impact metrics for reporting. This fosters a transparent market, enabling stakeholders to comprehend companies' sustainability performance. This engagement benefits us as investors by facilitating informed decisions and detailed assessments for stakeholders, given that our portfolio reports are consolidated from issuers' information.

Engagement objective
We were specifically focused on
- requesting additional data for our own impact analysis and reports; and
- motivating companies to measure and publicly disclose the required data and impact indicators.

Methods of engagement
Letter / email, meeting (in person or teleconference)

Leadership level
Essentially Investor Relations

Engagement process
We sent out a survey to the portfolio companies in May 2024 with a list of impact indicators we expect them to disclose, and which we used for our impact calculator in this report. More than 60 percent of our holding companies took the time to thoroughly answer our survey. The relevant environmental metrics for the portfolio companies, mainly linked to their products and services, were applied where data was available or could be estimated. We aimed to obtain the most recent environmental data from the invested companies either via engagement or directly from their website where possible; for over 90 percent, the data is from the company's fiscal year 2023.

Case study

Western semiconductor products found in Russian missiles

Engager
Impact Investing Team

Issuers
One portfolio company

Engagement type
1:1
Impact Investing Team contacted the company directly

Topic
Social:
- Human and labor rights (e.g., supply chain rights, community relations)

Strategy, Financial and Reporting:
- Corporate reporting (e.g., audit, accounting, sustainability reporting)
- Firm strategy / purpose
- Risk management (e.g., operational risks, cyber / information security, product risks)

Rationale and context
According to a report from the Royal United Services Institute ("RUSI"), the company's products were identified in weapons used by Russia in the Russia-Ukraine war that began in February 2022. The company's products highlighted in the RUSI report include (i) general purpose microcontrollers and (ii) pressure sensors.

Engagement objective
- Ensure that the company adheres to all minimum social safeguards and does no significant harm according to SFDR, the UN Global Compact and OECD guidelines.
- Reconfirm and deepen our understanding of the company's products, their application, and their distribution network.
- Understand how the company has adapted in response to emerging risks, especially the decline in adherence to human rights on the part of the Russian state.

Methods of engagement
Letter, emails and a teleconference.

Leadership level
Investor Relations and senior executives.

Engagement process
We sent an email to the company's IR, CSR and EHS teams in August 2023, requesting answers or statements regarding their human rights practices, including a dedicated policy, risk assessment, risk management, governance, and due diligence. Particular attention was drawn to the context of the Russian invasion of Ukraine and the release of the RUSI report.

Outcome
- No company product is designed for military use or weapons manufacturing. What Russian weapons manufacturers have obtained are entirely generic products.
- Some of the mentioned the company's products are old. Their presence in Russian weapons is an understandable consequence of the fact that until 2014, trade with Russia was normal, and even as of today, few of the company's products are subject to any export controls.
- The company has taken a suite of actions to complement its routine audit and evaluation procedures. This included an investigation to trace the mentioned products from the company to the Russian weapons manufacturers. The company also ceased all operations in Russia as of February 2022. The company's general trade compliance measures include preemption, monitoring and audit. The company educates distributors on human rights and the importance of trade compliance.
- Our assessment of the company's conduct confirms that it is a responsible company which complies with all relevant laws, rules, regulations and norms. The company has a comprehensive and robust approach to managing human rights risks. The company is prudent, as they voluntarily refrain from doing business even in partially embargoed countries. The mention of the company in the RUSI report is not evidence of wrongdoing or a violation of any norms.

Based on all these findings and our overall assessment, we consider the company to be compliant with the UNGC and OECD guidelines. Therefore, we reiterate our positive view of the company and remain invested in the company.

Regarding collaborative engagements, we have worked with Columbia Threadneedle Investments (CTI) reo® since January 2022. Such collaborative engagements allow us to exercise greater influence than the size of our holdings would otherwise permit and in addition, enable us to benefit from CTI reo® specialist resources and experience. We regularly observe that the type of engagement which helps drive structural changes is most effective in the context of long-established dialogue and a relationship of trust.

Figure 16: Statistics on our engagement activities in 2023

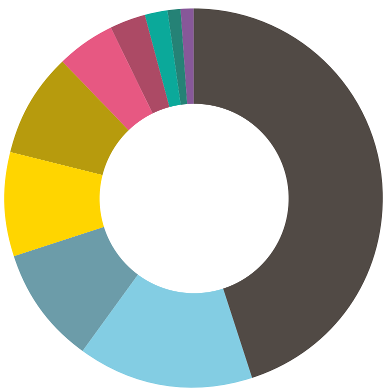
Number of requests for transparent impact reporting and fact finding	61
Number of active engagements on other issues	18
Number of collaborative engagements	18

Source: Vontobel; as of December 31, 2023.

In 2023, we submitted votes at 69 meetings. There was no unvoted meeting. 86 percent of voting items received a "For" vote. Notably, 88 percent of voting items were cast in line with management. The remaining were either cast against management, or no recommendations from the management or votes were expressed. More information about our voting record can be found under am.vontobel.com/esg-investing.

One example of a voting decision is described below:
One of the assessment criteria is linked to management strategy. We analyze the commitment to expand impactful activities—possibly combined with a reduction in critical behaviors. One key aspect in this context is executive compensation and how it is linked to achieving certain impact and sustainability objectives. In 2023, we voted against 10.1 percent of agenda items. One major topic was the apparent failure to link management compensation to sustainability performance. For instance, our stewardship partner CTI reo®, who represented us together with other shareholders, wrote a letter to a US company, highlighting the rationale behind our "against" votes on five agenda items. Through this letter, we also emphasized our expectation of good corporate governance and set out our focus areas, which include: gender and ethnic diversity and inclusion across the workforce and on management boards; diversity in the executive pipeline; climate change management practices and board oversight and impact on biodiversity; social and labor rights issues, including safe and fair treatment of the workforce, and the board's use of related criteria in awarding executive pay.

Figure 17: Proxy voting statistics on portfolio holdings for the year 2023
Proposal code categories (% of items)



Voting statistics	Total	%
Votable meetings	69	100
Meetings fully voted	69	100
Unvoted meetings	0	0

			MANAGEMENT PROPOSALS		SHAREHOLDER PROPOSALS	
Proposals statistics	**Total**	**%**	**Total**	**%**	**Total**	**%**
Votable proposals	962		946		16	
Proposals voted	962	100.0	946	100.0	16	100.0
FOR votes	824	85.7	813	86.0	11	68.7
AGAINST votes	97	10.1	93	9.8	4	25.0
ABSTAIN votes	5	0.5	4	0.4	1	6.3
WITHHOLD votes	9	0.9	9	0.9	0	0.0

Source: ISS ProxyExchange, Columbia Threadneedle reo® services, Vontobel. Time period: 31.01.2023 – 31.12.2023.

Principal Adverse Impact (PAI) Indicators

The SFDR requires annual entity level disclosures of adverse impacts on sustainability factors. Sustainable investments (SI) as defined in article 2(17) of the SFDR must pass a "DNSH" test based on a list of principal adverse impact indicators (PAIs)[41].

Definition: Principal Adverse Impacts are the most significant negative impact of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. The concept of Principal Adverse Impacts (SFDR Level I) has been translated into a set of Adverse Sustainability indicators (SFDR Level II):

- 18 "mandatory" indicators,
- 22 "additional" indicators for climate and environment matters,
- 24 "additional" indicators related to social items and employees, respect for human rights, anti-corruption and anti-bribery matters

For the Vontobel Fund – GEC strategy, we take into consideration all mandatory and multiple optional PAI indicators. A brief description of how we deal with PAIs can be found in the Annex Sustainable Investment Objectives to the Vontobel Fund – GEC (p. 298 – 305) as of July 2024. The current PAI approach for the fund is described in our Impact & Sustainability Guidelines and in our SFDR Website Disclosure. These PAI indicators also form the backbone for SFDR periodic reporting. Regularly updated PAI reporting can be found in our EET file, which is delivered to FE Fundinfo on a monthly basis and also distributed to our clients. FE Fundinfo supports fund managers not only with the collection and creation of the EET but also with the dissemination of the EET's required data fields. In 2023, we extended the scope of EET data fields, for which we provide information to our clients on a regular basis.

Does this financial product consider principal adverse impacts on sustainability factors?
Yes, the Investment Manager considers all the mandatory adverse impact indicators and any relevant additional adverse impact indicators by applying the following process: The Investment Manager identifies issuers that are exposed to principal adverse impacts on sustainability factors based on in-house research; data sources include ESG data providers, news alerts and the issuers themselves. When no reliable third-party data is available, the Investment Manager may make reasonable estimates or assumptions. Where the Investment Manager identifies an investment as having a critical and poorly managed impact in one of the principal adverse impact areas, and where no signs of remedial action or improvement have been observed, action must be taken by the Investment Manager. Action mechanisms may include: exclusion, active ownership and tilting. Information on how principal adverse impacts on sustainability factors are considered will be made available in the periodic reporting of the Sub-Fund.

[41] ESMA, 2021-02-02, the final report is dated Dec 2023 Final Report on draft Regulatory Technical Standards

SFDR-related reporting

The Vontobel Fund – GEC is categorized as an "***Article 9 SFDR***" financial product, the most demanding SFDR category with the highest disclosure requirements. To qualify for this category, an impact fund such as ours must reflect intentionality and have a sustainable investment objective, i.e., the ambition to contribute to environmental and/or social objectives.

It is crucial to understand that a sustainable investment strategy aligned with the EU's Sustainable Finance Disclosure Regulation (SFDR), Article 2(17) can also contribute to environmental objectives beyond the EU Taxonomy. While the taxonomy classifies economic activities as "sustainable" or "non-sustainable" based on six clearly defined environmental objectives, there is no universally accepted definition of sustainable investment objectives. Based on our own definition, a company identified as "impactful and sustainable" must contribute to one of our impact pillars through material revenues generated by their products and services. We believe this approach is aligned with the current broader EU definition of sustainable investment objectives.

SFDR imposes certain disclosure and reporting requirements. We published a periodic report as requested by SFDR as part of the annual report of the SICAV Vontobel Funds for the fiscal year from September 1, 2022 to August 31, 2023. We were using the official RTS template providing specific pre-contractual disclosure (PCD) requirements issued by the European Commission. This is the so-called "SFDR Level II" and can be found on the Vontobel fund product website (p. 361 – 369). It includes, but is not limited to, a percentage of sustainable investments with an environmental objective aligned with the EU Taxonomy and the percentage of sustainable investments with an environmental objective that were not aligned with the EU Taxonomy. The official periodic disclosure contained the following percentage figures for the portfolio as of August 31, 2023:

- Sustainable investments with environmental objectives: 97.5 %
- Investments aligned with EU Taxonomy: 7.9 %[42]
- Other investments with environmental objectives: 89.6 %
- Not sustainable: 2.5 % cash

[42] Sustainable EU Taxonomy aligned is revenue based.

Vontobel Fund – GEC ratings from external ESG data providers

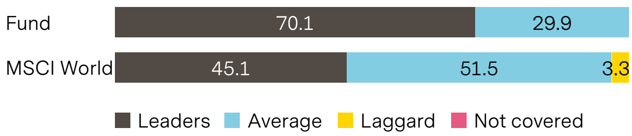
MSCI
Various ESG rating agencies evaluate our Vontobel Fund – GEC and their ratings are used by clients, asset owners and financial advisers. To increase our Fund's transparency, we do not only report our own impact data but also present a selection of ESG, climate and impact ratings from external sources.

Although our primary goal is not to enhance our overall ESG rating, it is worth noting that the companies we choose to invest in often receive favorable ratings from agencies. Our goal is to focus primarily on investing in companies that drive positive impact across our six designated impact pillars. In addition, we prioritize those that derive a significant portion of their revenue from impactful products and services. This is reflected in our internally derived investment approach as well as metrics such as purity, SDG contribution and impact indicators. Simultaneously, we are committed not to invest in companies entangled in critical business activities. We also seek to offer an external perspective through ratings from third-party sources.

MSCI's "ESG Quality Score" measures the ability of underlying holdings to manage key medium to long-term risks and opportunities arising from environmental, social and governance factors. It is based on MSCI ESG ratings and measured on a scale of 0 to 10 (worst to best). The distribution of scores is based on the universe of approximately 28,000 funds included in MSCI ESG fund metrics. ESG ratings are classified as ESG Ratings Leaders (AAA and AA), Average (A, BBB, and BB), and Laggards (B and CCC). The ESG Quality Score and rating for the portfolio is 7.85 (AA) versus 6.84 (A) for the reference index. The difference in score between the Fund and the reference index increased from 0.7 to 1.01 over the last year.

Figure 18: MSCI ESG fund rating summary

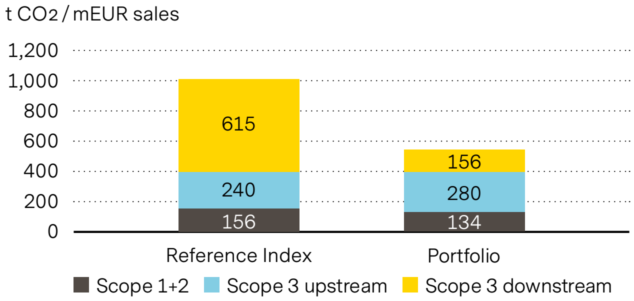
	VONTOBEL FUND – GEC	MSCI WORLD
ESG Quality Score	7.85	6.84
ESG Rating	AA	A



Source: MSCI ESG Research LLC; as of June 30, 2024. MSCI ESG rating is not a binding element of the Vontobel Fund – GEC investment strategy. Past performance is not a reliable indicator of current or future performance.

MSCI ESG research defines the financed carbon intensity as tons of CO_2 emitted per EUR 1 million sales[43]. The carbon emissions of the companies in the Vontobel Fund – GEC are 3 percent lower than those of the constituents of the reference index MSCI World. In addition, the Scope 3 upstream emission are higher, but the Scope 3 downstream emissions come in considerably lower. In total, the carbon emissions per EUR 1 million invested are 29 percent lower compared to the reference index.

Figure 19: Vontobel Fund – GEC carbon emissions intensity



Source: Vontobel, MSCI ESG Research LLC; as of June 30, 2024.

[43] Measures the carbon efficiency of a portfolio, defined as the ratio of carbon emissions for which an investor is responsible to the sales for which an investor has a claim by their equity ownership. Emissions and sales are apportioned based on equity ownership (% market capitalization).

The MSCI EU Taxonomy Alignment Methodology builds on the underlying methodologies of the MSCI Sustainable Impact Metrics, MSCI ESG Business Involvement Screening Research and MSCI ESG Controversies. MSCI ESG offer a full range of reported and estimated data points. Reported taxonomy-related capex and opex data are also available. Out of the 61 portfolio holdings, only 16 displayed "reported" taxonomy-***eligible*** and 14 disclosed "reported" taxonomy-***aligned*** revenues, capex and opex data. "Estimated" eligible and aligned revenue percentages are available for all holdings (see Figure 20). For all EU Taxonomy-related datapoints the Vontobel Fund – GEC displays considerably higher contributions than the reference index.

Figure 20: MSCI ESG data of the Vontobel Fund – GEC portfolio on EU Taxonomy eligibility and alignment versus reference index

VONTOBEL FUND – GEC

	Reported		Estimated	
	Eligible	***Aligned***	***Eligible***	***Aligned***
Revenue	14.3	7.6	83.8	15.5
Capex	16.3	9.5	-	-
Opex	15.7	7.9	-	-

REFERENCE INDEX (MSCI WORLD)

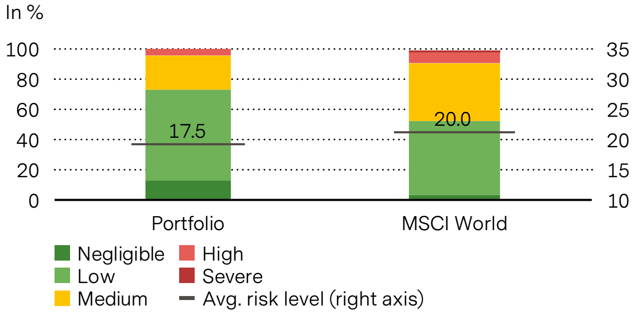
	Reported		Estimated	
	Eligible	***Aligned***	***Eligible***	***Aligned***
Revenue	3.4	0.5	45.9	7.7
Capex	3.8	1.0	-	-
Opex	3.0	0.8	-	-

Source: Vontobel, MSCI ESG Research LLC. Reproduced by permission, for more information see msci.com/notice-and-disclaimer. As of June 30, 2024. MSCI ESG rating is not a binding element of the Vontobel Fund – GEC investment strategy. Past performance is not a reliable indicator of current or future performance.

Sustainalytics

This ESG rating provider looks at the ESG risk levels and corresponding risk level distribution of the Vontobel Fund – GEC and compares them with the corresponding figures of the reference index MSCI World. The ESG risk distribution is favorable for the Fund. Compared to last year, the average Sustainalytics ESG risk level of the portfolio decreased from 19.1 to 17.5. At the same time, the reference index also reduced its average risk level from 21 to 20 (see Figure 21).

Figure 21: Vontobel Fund – GEC ESG risk levels below those of reference index (MSCI World)



Source: Vontobel, Sustainalytics; as of June 30, 2024.

Third-party verification

ISS ESG

VERIFICATION STATEMENT

Impact Indicators for Vontobel Fund - Global Environmental Change

September 12, 2024

Review Summary

ISS ESG has reviewed the impact indicators reported in the impact report by Vontobel.

- *ISS ESG has reviewed the impact indicators stated by the Impact and Thematic Team in the Conviction Equities Boutique of Vontobel. The team sent out an inquiry form to the holdings to gather the necessary data points in Spring 2024.*
- *ISS ESG reviewed a self-selected sample of 2-3 data points per type of metric provided by the Impact and Thematic Team.*
- *The information revised corresponds to that communicated by the investee companies and reflects the positive impact generated by the holdings in the Vontobel Fund - Global Environmental Change.*

ISS ESG provides corporate and country ESG research and ratings that enables its clients to identify material social and environmental risks and opportunities, including through advisory services.

Contact us

We would welcome feedback or suggestions from investors and companies to help us further develop our impact report.

For companies

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The KID is available in Finnish.

The KID is available in Swedish.

The KID is available in Norwegian.

The Fund and its subfunds are included in the register of The Netherland's Authority for the Financial Markets as mentioned in article 1:107 of the Financial Markets Supervision Act ("Wet op het financiële toezicht").

Refer for more information regarding subscriptions in Italy to the Modulo di Sottoscrizione. For any further information: Vontobel Asset Management S.A., Milan Branch, Piazza degli Affari 2, 20123 Milano, telefono: 0263673444, e-mail clientrelation.it@vontobel.com.

The KID is available in French. The fund is authorized to the commercialization in France. Refer for more information on the funds to the KID.

In Spain, funds authorized for distribution are recorded in the register of foreign collective investment companies maintained by the Spanish CNMV (under number 280). The KID can be obtained in Spanish from Vontobel Asset Management S.A., Sucursal en España, Paseo de la Castellana, 91, Planta 5, 28046 Madrid.

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MSCI ESG Rating (AAA-CCC): The MSCI ESG rating is calculated as a direct mapping of ESG quality scores to letter rating categories (e.g., AAA = 8.6-10). The ESG ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC). All data is from MSCI ESG ratings as of June 30, 2024, based on holdings as of June 30, 2024. As such, the portfolio’s sustainable characteristics may differ from MSCI ESG ratings from time to time.

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