



PICTET ASSET MANAGEMENT

# Timber Strategy Impact & Sustainability Report

MARKETING MATERIAL  
31.12.2023

## LISTED EQUITIES AS IMPACT INVESTMENTS

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

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

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

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

### Company impact

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

### Investor impact

This is positive impact generated by investors through:

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

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

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



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

Marc-Olivier Buffle,  
Thematic Equities

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

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

## STRUCTURE OF THIS REPORT

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“Timber is becoming a strategic resource as forests are recognized as major CO<sub>2</sub>-sinks and wood-based materials represent competitive bio-degradable substitutes to plastics, concrete, or steel.”

Christoph Butz, Mikael Jafs, Gillian Diesen



## INTENTIONALITY

### Theory of Change

The UN FAO estimated that between 2015 and 2020, the rate of deforestation was at 10 million hectares per year<sup>3</sup>. Since 1990, a total of 420 million hectares of forest have been lost through conversion to other land uses. This is a surface area larger than the size of India. The trend continues to worsen just as growing greenhouse gas concentrations in the atmosphere is an ever more pressing global challenge. Meanwhile, demand is rising to find alternatives to plastics which endanger sea life and adversely impact human health.

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

- The UN Climate Change conference in Paris in 2015 confirmed that the loss and conversion of forestland will threaten both the future timber supply and the vital role that forests play as carbon sinks. Forests provide significant storage for excess atmospheric carbon (CO<sub>2</sub>). The use of timber and how it is sustainably cultivated are playing key roles in environmental discussions and in the mitigation of climate change.
- Sustainably managed forests are also reservoirs of biodiversity. With rotations in the order of decades (representing >95% of forest cover at all times), forestry is much less disturbing than (sub-) annual crop rotations in agriculture. By producing wood on well-defined, managed surfaces, natural forests can remain untouched. In addition, forest soils are also known to act as water filters, protecting water resources.
- Finally, sustainably managed forests provide the raw material for a growing variety of biodegradable materials. The applications of wood fibre-based materials besides traditional wood products such as lumber and pulp are only set to increase, substituting plastics and other non-biodegradable materials.

### Our declaration of intent

We intend to generate attractive returns as well as a positive environmental impact by allocating capital to companies that are active along the wood fibre value chain.

We focus on companies that sustainably manage their forests, therefore ensuring that trees are replanted, tended to, and allowed to re-grow to capture CO<sub>2</sub> and help to maintain biodiversity. Wood-based materials represent a renewable, low carbon alternative to concrete, steel and plastics, and thus contribute to solve the world's climate and pollution problems.

<sup>3</sup> The State of The World's Forests, UN Food and Agriculture Organization, 2020

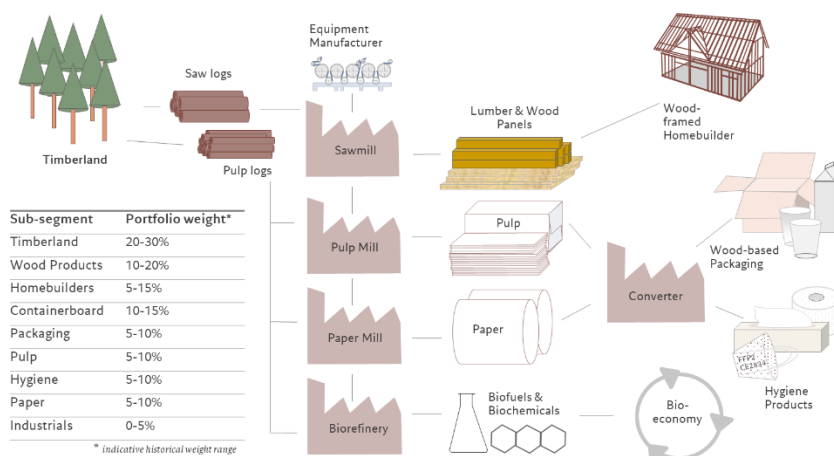
## DEFINITION OF THE THEME

The investment theme defines our long-term strategic orientation and sustainability objectives. Investment themes are identified based on our megatrend framework.

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

### Investment Universe

Strategic definition of the investment theme and how it relates to the timber value chain



Source: Pictet Asset Management, 2023

To be eligible for the portfolio, at least 20 per cent of the firm's activities must be related to the timber value chain and to products and services actively solving environmental challenges by providing forestry services, wood-based products or any products using raw wood fibres as a resource.



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

Board members are recognised experts in their respective domains, often with backgrounds in academia, government-related international organisations, or the private sector.

#### **Timber Advisory Board**

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**CLARK S. BINKLEY**  
MANAGING DIRECTOR OF INTERNATIONAL FORESTRY INVESTMENT  
ADVISORS LLC, USA

Area of expertise: Timberland Economics

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**PROF. MICHAEL KÖHL**  
WORLD FORESTRY PROFESSOR UNIVERSITY OF HAMBURG, GERMANY

Areas of expertise: Forestry Management and Wood Science

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**DAVID WALKER**  
FOUNDER & MANAGING PARTNER OF KAURI CAPITAL, SINGAPORE

Area of expertise: Forestry Transactional Advisory

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Source: Pictet Asset Management.

In one of the 2023 Advisory Board meetings, the team discussed new upcoming European legislation with the advisors. Focus of the discussion was the new deforestation-free products regulation, which will require detailed location-based information in due diligence processes, as well as the EU packaging legislation and its impact on the wood-fibre based packaging industry.

## POSITIVE SCREEN – THEMATIC PURITY

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

We include companies in the investable universe only if at least 20% of the enterprise value (or sales, EBIT, EBITDA, or similar measures) is derived from timber-related activities (“purity” to the theme).

While the minimum threshold for an individual company is 20 per cent, the weighted average purity of the portfolio is generally above 70 per cent.

## NEGATIVE SCREEN – EXCLUSION POLICY

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

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

### Exclusions

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

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

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

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

## Fundamental research

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

### Company meetings & site visits

The Timber team has 50 to 70 meetings with companies' top management each year. We use these meetings to check and test the validity of their current investment thesis.

We also do field trips and to inspect investee companies' forest and industrial assets whenever we have a chance to do so.

Our team has the necessary forestry and investment background to make the most of such visits. This is particularly important when it comes to companies owning and managing timberland, as nothing can replace 'boots on the ground' when assessing the quality of companies' timberlands and the way they manage these assets for the long-term.



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

<sup>4</sup> We systematically measure the exposure to sustainable activities in the strategy. We use exposure (purity as measured typically by revenues, Enterprise Value, EBIT or EBITDA) to the sustainable theme as our measure of impact. For the timber strategy, we use an additional 'smart' or 'timber purity' measure for position sizing, which is the inherent real asset value of the timberland owned by companies.

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

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

## Company example

### Smurfit Kappa

Smurfit manufactures, distributes, and sells paper-based packaging which is a sustainable alternative for plastic packaging. The company places a strategic focus on climate change, forest health, and circularity. Due to their industry-leading transparent and certified reporting, the company's impact on stakeholders is positively attributable.

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

Smurfit specializes in producing eco-friendly packaging solutions, such as corrugated boxes and paper-based packaging materials. These products offer a renewable, recyclable alternative to traditional packaging, reducing the reliance on fossil fuel-based materials. Smurfit's sustainable packaging solutions operate across 36 countries in over 350 sites, including many local recycling centers.

Further, Smurfit actively promotes sustainable forest management practices. Through partnerships with forest owners and certification bodies, the company ensures sustainable sourcing of wood fiber. Adhering to rigorous standards, Smurfit protects forest ecosystems, preserves biodiversity, and supports local communities economically. This initiative positively impacts stakeholders involved in the forestry sector, including forest owners, employees, as well as conservation organizations.

### Key Sustainability Drivers

**Sustainable paper-based packaging to reduce single-use plastics**

**26 million euro** investments in water treatment projects to promote responsible water use

**8 million tonnes of paper recovered each year**

88% of the collected paper is recycled in the company's own mills

Science-based target to reach **net zero emissions by 2050** with a 55% reduction in relative CO<sub>2</sub> emissions by 2030

Close to **EUR 1 billion investments in CO<sub>2</sub> reduction** since 2005

**100% of Smurfit Kappa forestry assets FSC/PEFC certified**

Source: Smurfit Kappa, 2023

## COMPANY IMPACT MEASUREMENT

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

Sustainable forestry in its most simple form means to grow trees, harvest, and replant them in an endless cycle spanning many decades. This has important implications for sustainability as managing forest is usually much less intensive and environmentally much more benign than traditional agriculture which happens intensively over short periods of time.

Globally, there are many listed companies that own significant forestland assets, and many have industrial activities that are linked intimately to their forestland base, as they utilise their renewable and sustainable raw material base to produce a variety of products. Sustainably managed forests and the products & services derived from forestry offer many sustainable benefits:

- > Ecosystem services: Forests protect soil, water, filter the air and provide the most important terrestrial habitat for biodiversity
- > Carbon capture & storage: Forests sequester CO<sub>2</sub> from the air, store it in its biomass as well as in its harvested wood products
- > Carbon-neutral, green building materials: wood is lighter, has a much lower grey energy content, and allows for faster and healthier building
- > Sustainable Packaging: wood-based fibres are recyclable, and compostable, while plastic pollutes the environment for years to come
- > New wood-based Biomaterials: everything that is fossil-based today can be made of a tree - from fuels, to clothes, to chemical molecules
- > Green, Renewable and Bio-based Energy: energy from wood is CO<sub>2</sub> -neutral; forest industry has high degree of energy self-sufficiency
- > Circular economy: wood-fibres are recycled many times, and then used to generate CO<sub>2</sub> -neutral energy at the end of their lifetime

In particular, wood-based products can substitute fossil-based raw materials. We are thinking, for instance, of plastic packaging products being replaced with paper-based packaging materials, but also CO<sub>2</sub> -neutral wood products for housing, that can replace and substitute steel or concrete which is responsible for large amounts of CO<sub>2</sub>.

While most companies in other sectors struggle to lower their carbon footprint, integrated forest companies actually have a negative carbon

footprint over the full life-cycle of their products, removing substantial amounts of carbon from the environment.

According to Dr. Peter Holmgren's (FutureVistas, former Director General of the Center for International Forestry Research) analysis, the European Forest industry products and activities, including the substitution effect, offset 20% of the EU's total emissions of CO<sub>2</sub>.

Forest ecosystems and harvested wood products sink an estimated 447 million tons CO<sub>2</sub>e. This compares to 51 million tons of CO<sub>2</sub>e generated by the operations of the forest industry, leading to a net positive climate impact of the forest value chain.<sup>7</sup>

<sup>7</sup> Climate effects of the forest-based sector in the EU, Peter Holmgren (2020)

## Environmental footprint

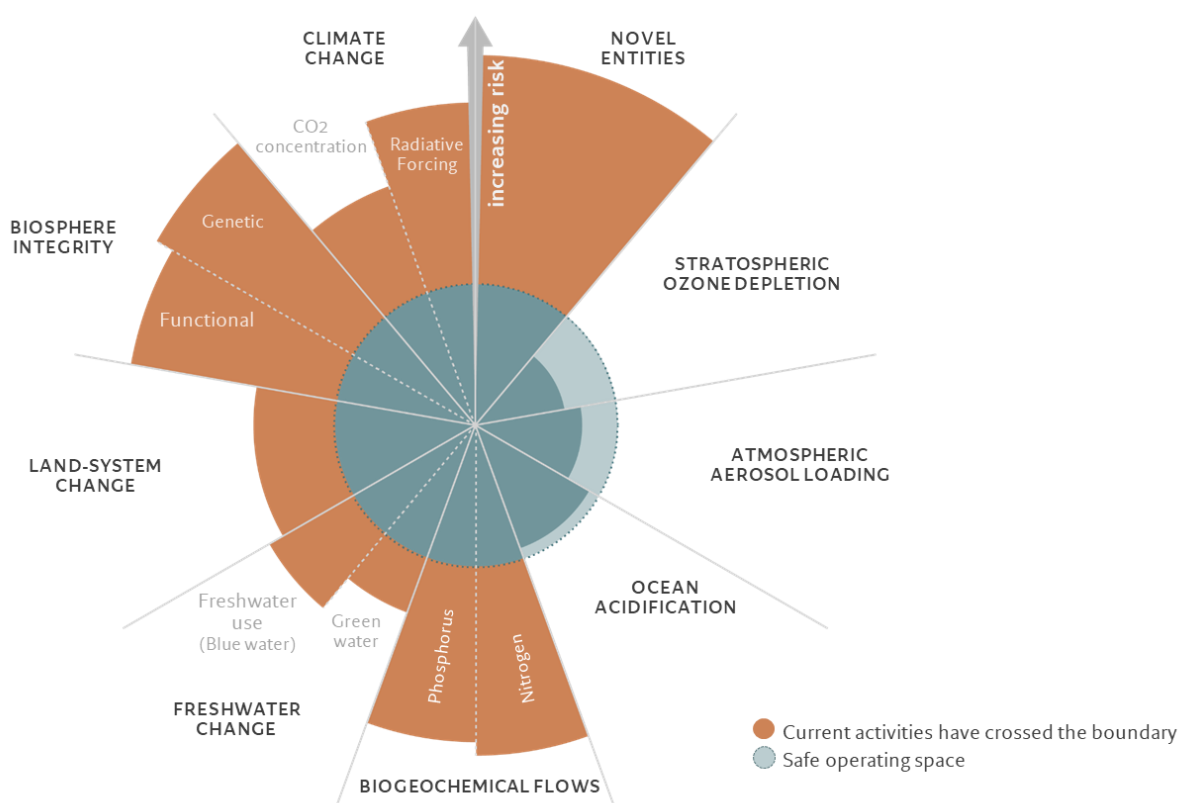
We measure the environmental footprint of our thematic strategies according to the Planetary Boundaries, a scientific framework developed by scientist from the Stockholm Resilience Centre.

Planetary boundaries are ecological thresholds for nine of the most important environmental challenges: Climate change, Ocean acidification, Ozone depletion, Eutrophication/Biogeochemical flows, Water use, Land use, Biodiversity, Atmospheric aerosols, Chemical pollution.

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

The framework guides our environmental assessment of companies.

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



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

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

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

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

It should be noted that our methodology can yield negative emissions. For example, in forestry, net negative emissions for CO<sub>2</sub> are due to primary sequestration of atmospheric carbon in the growing biomass of trees as well as by avoiding fossil CO<sub>2</sub> emissions in the first place by using wood-based materials and products instead of energy-intensive fossil- or minerals- based materials such as steel, concrete or plastic.

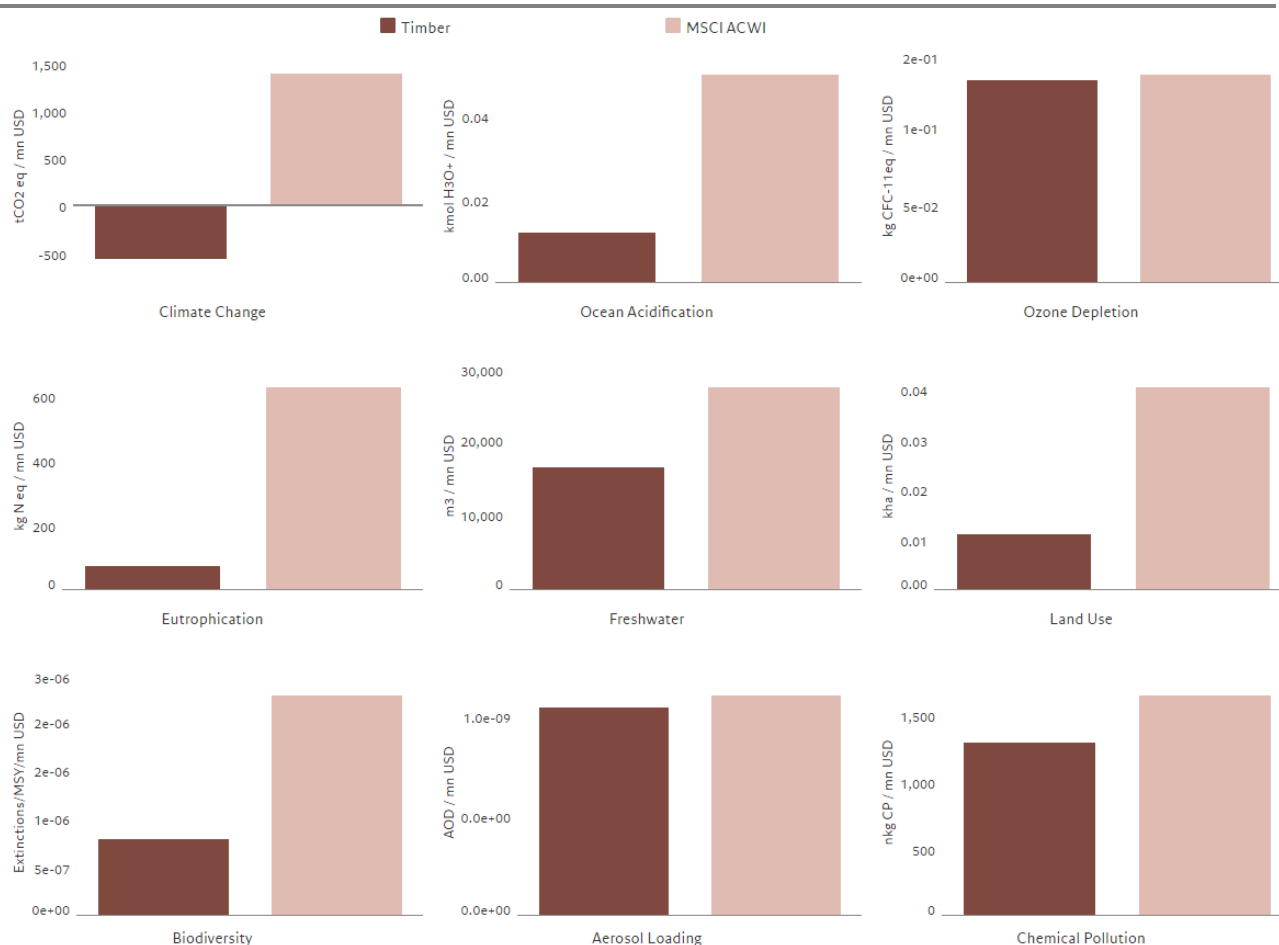


**“Understanding the environmental impacts of the full value chain of companies allows us to look for real world impacts.”**

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

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

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



Source: Pictet Asset Management, as of 31.12.2023

The environmental footprint of the Timber strategy is lower than that of the MSCI AC across all nine planetary boundaries.

As intended, the Timber strategy shows significant 'negative' emissions for the carbon dimension, which is reflecting the sequestration of carbon in trees and wood products.

Please note that the land-use boundary data point is significantly lower than in previous years. This is due to a change in methodology that now allows to differentiate between different types of land-use, for example for agricultural land, commercial, industrial, or urban land-use, or forests. This allowed us to exclude the forests from land-use data as the Planetary Boundaries framework defines land-use as a loss of forested areas, while the 'raison d'être' of sustainable forestry is to keep the forest forever and protect it from conversion to other uses.

## Sustainable Development Goals

In September 2015, the United Nations (UN) announced 17 Sustainable Development Goals (SDGs) as a part of the 2030 Agenda for Sustainable Development. The SDGs, as depicted below, are a united set of global aims that balance the social, economic and environmental dimensions of sustainable development. They recognise that “ending poverty must go hand-in-hand with strategies that build economic growth and address a range of social needs including education, health, social protection, and job opportunities, while tackling climate change and environmental protection”<sup>8</sup>:

### The United Nations’ 17 Sustainable Development Goals



Source: United Nations, December 2022.

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

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

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

### Our process

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

<sup>8</sup> United Nations <https://www.un.org/sustainabledevelopment/development-agenda/>

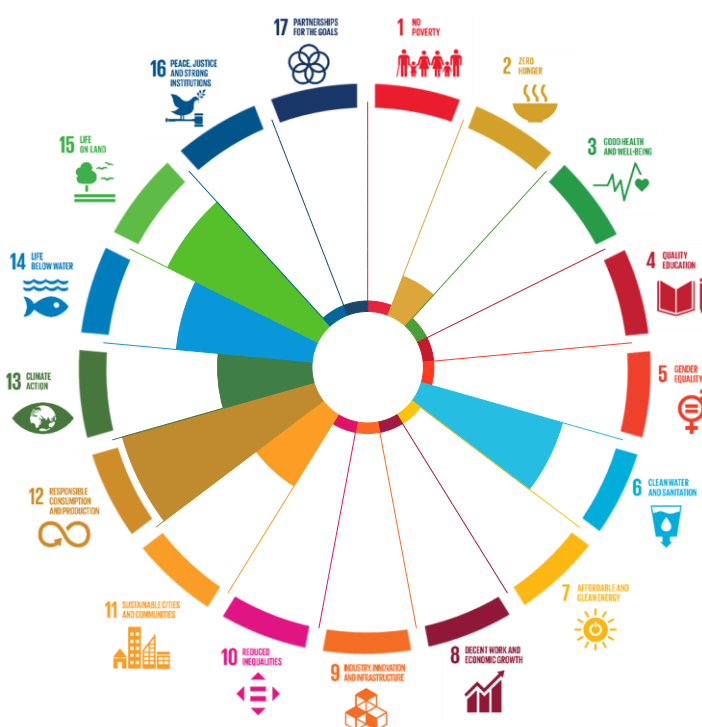
that occur most frequently, mapping a fingerprint of the company's activities.

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

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

The timber strategy has the highest relative exposure to SDG 12 (Responsible Consumption and Production), achieving a score 58 per cent points higher than the index. The strategy also has significant exposure to SDG 15 (Life on Land), amongst others.

### The Timber strategy and the SDGs



Source: Pictet Asset Management, as of December 2023

We assess the relationship of companies' operations, products and services to the SDGs and take into account both positive and negative links. Our methodology to assess SDG exposure uses AI-based Natural Language Processing as well as companies' revenue data sourced from Factset RBICS. The chart shows the positive score differential between strategy and the reference index for each SDG. The chart has been scaled to the highest relative SDG score of this strategy versus the reference index. Please note that the SDG reporting framework has been refined in June 2023 by adding revenue-related SDG data. Results cannot be compared to the framework that was in place before. The highest relative score of the Timber strategy is SDG 12 with a score of 58%.



## Company example

### PotlatchDeltic

PotlatchDeltic is a leading diversified forest products company managing nearly 2.2 million acres of timberland, producing lumber and plywood for sustainable construction projects. Through its sustainable stewardship approach, the company places integral importance on forest health and local communities.

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

The role of forests and wood products is essential to absorbing carbon and mitigating climate change. In 2022, PotlatchDeltic added nearly 400,000 acres of high-quality timberlands. The company's forests stored approximately 452 million metric tons of carbon as of year-end and provides an alternative to fossil fuel-based products for home builders.

PotlatchDeltic prioritizes responsible timberland practices by promoting clean air, water quality, soil vitality, and habitat protection for biodiversity. Nearly 100% of their timberlands are available for recreational purposes, providing ample spaces, accessible to local communities. Green spaces play a crucial role in enhancing wellbeing, by encouraging movement, relaxation, and social interactions.

### Key Sustainability Drivers

Forestry practices are  
**100% certified** by FSC/SFI



Prioritized biodiversity  
alongside environmental  
institutions to protect  
woodpeckers amongst  
other animals

Science-based target to achieve  
**net zero GHG emissions** by 2050,  
with a 42% reduction in Scope 1 and Scope 2, and 25%  
in Scope 3 emissions by 2030

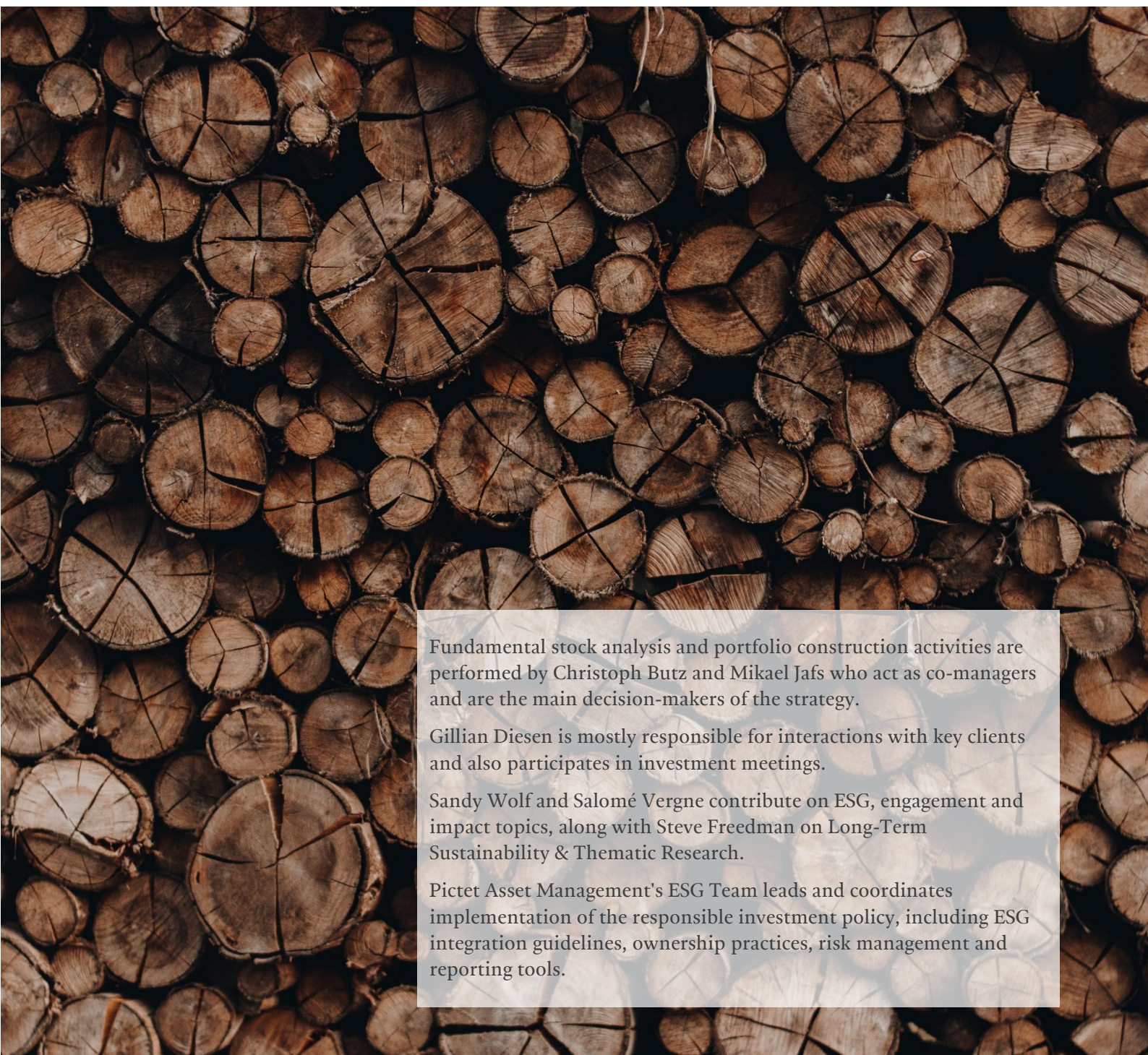
3.2 million metric tons CO<sub>2</sub>e of  
Scope 1 and 3 removals and storage

**21 million seedlings**  
planted and **6,494 miles** of  
watercourses protected in 2022

## ESG INTEGRATION IN INVESTMENT PROCESS

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

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



Fundamental stock analysis and portfolio construction activities are performed by Christoph Butz and Mikael Jafs who act as co-managers and are the main decision-makers of the strategy.

Gillian Diesen is mostly responsible for interactions with key clients and also participates in investment meetings.

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

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

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

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

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

### Illustrative examples of a Thematic ESG materiality assessment

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

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

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

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

## Risk considerations

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

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

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

## INVESTOR IMPACT – CAPITAL ALLOCATION

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

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

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

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

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

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

### Primary market allocations

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

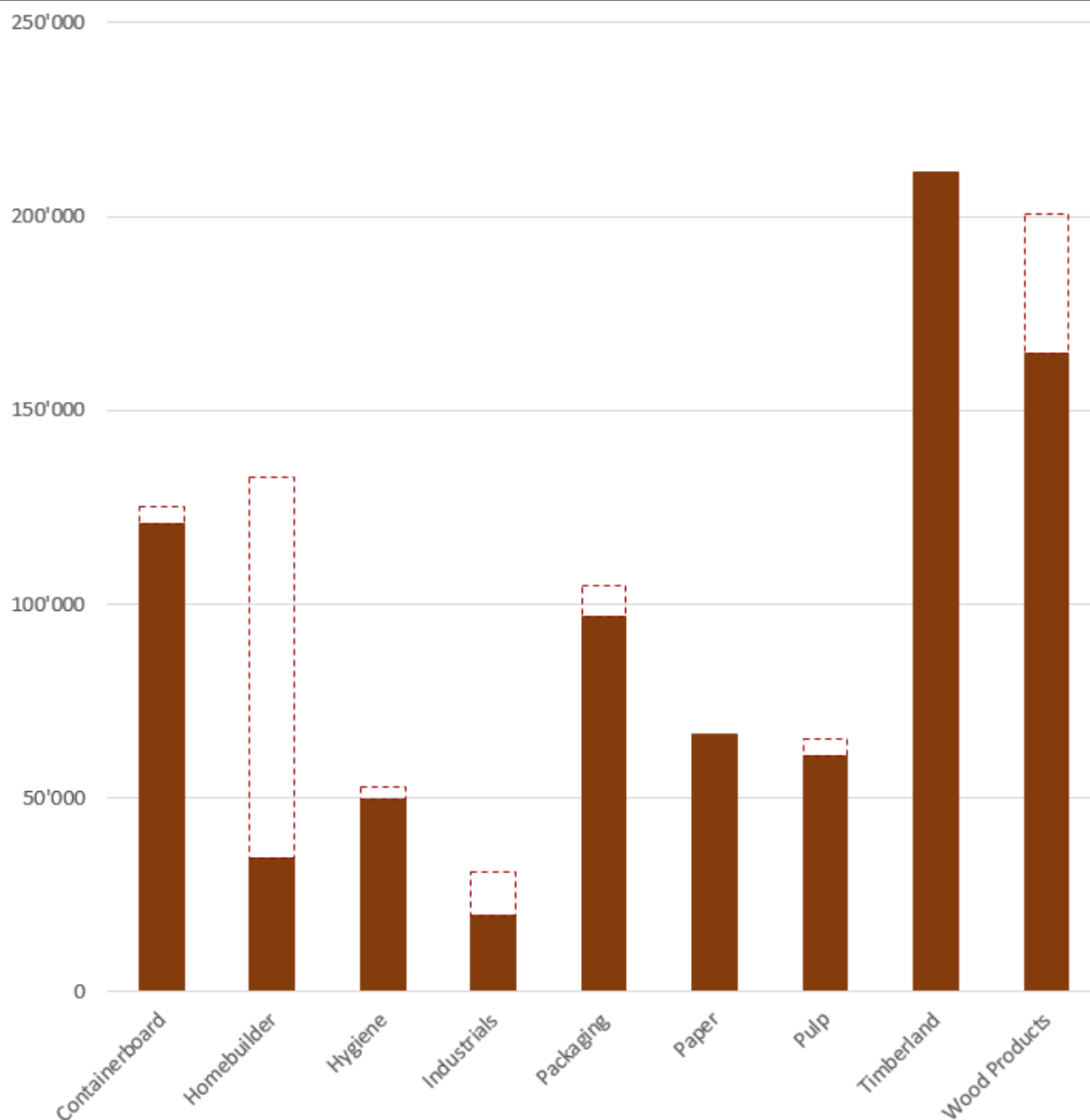
### Secondary market allocations

Thematic equity teams target long investment horizons and generally manage portfolios with low turnover. Empirical evidence shows that the presence of institutional investors with long-term investment horizons within a company's shareholder base tends to lower that firm's cost of equity capital by a considerable margin<sup>9</sup>. In 2023, the portfolio's turnover of the strategy was 68%.

<sup>9</sup> Huo et al. (2021); Institutional investors and cost of capital: The moderating effect of ownership structure

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

**Timber: Purity-adjusted allocation per USD 1 million invested**



Source: Pictet Asset Management, 31.12.2023

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

# HOLMEN

## Company example


### Holmen

Holmen, a sustainable forest manager and manufacturer of environmentally friendly wood-based packaging materials, plays a key role in maintaining a healthy global forest supply, acting as a CO<sub>2</sub> sink and protecting biodiversity.

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

The company produces and sells paperboard, paper, and wood products and renewable energy, managing approximately one million hectares of forests. Holmen's wide range of eco-friendly wood-based materials offer sustainable alternatives to carbon-intensive materials, supporting a range of industries to reduce their CO<sub>2</sub> emissions. By producing and promoting the use of renewable and recyclable wood-based materials, Holmen is active in tackling climate change and supporting our transition to a circular economy.

### Key Sustainability Drivers



**100% of Holmen's forestry is certified by PEFC and FSC and all its wood is traceable**

**Since 2005, Holmen reduced fossil fuel consumption by 90%.** It has set science-based emission reduction targets for 2030.

| 10 SEK million invested in electricity and heat-saving projects

**7.2 million tons** of CO<sub>2</sub>e reduced, avoided, or sequestered in 2022

Holmen's nurseries produce **45 million** spruce and pine seedlings each year

Source: Holmen, 2023

**Over 30% of wind and hydro power** used for operations

| Around 4,000 GWh of renewable energy produced by Holmen owned assets

## ACTIVE OWNERSHIP

### Engagement philosophy

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

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

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

### Thematic engagements

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

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

### Engagement process with companies

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

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



## Engagement example

We began engaging with an American timberland company in September 2023 encouraging them to step up their reporting on biodiversity, thinking it would serve investors and the company itself to have a long-term strategy in place to assess and report on biodiversity and communicate its findings to the broader market. The Timber team organized an initial, very productive fact-finding meeting with the company's CFO and the company's sustainability team in efforts of a long-term engagement dialogue on biodiversity. We hosted additional meetings in November and December 2023, which assured us of the positive initiatives the company is – within the scope of its sustainable forestry practices - undertaking to not only mitigate negative impacts on biodiversity, but also to create biodiversity-related benefits. In addition, the company plans to measure and communicate the positive impact of its operations including strong carbon storage and removal process as well as biodiversity related benefits to the broader market. The Timber investment team will be able to utilize their initiatives as a baseline to compare other companies against these best practices. against other timberland companies and reward best practices.

We will continue to follow up with management on the developments of biodiversity impact measurement and disclosure.

Source: Pictet Asset Management, December 2023.

The main considerations for selection of engagement candidates are:

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

#### Identification of strategic engagement candidates

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Source: Pictet Asset Management, 2023.

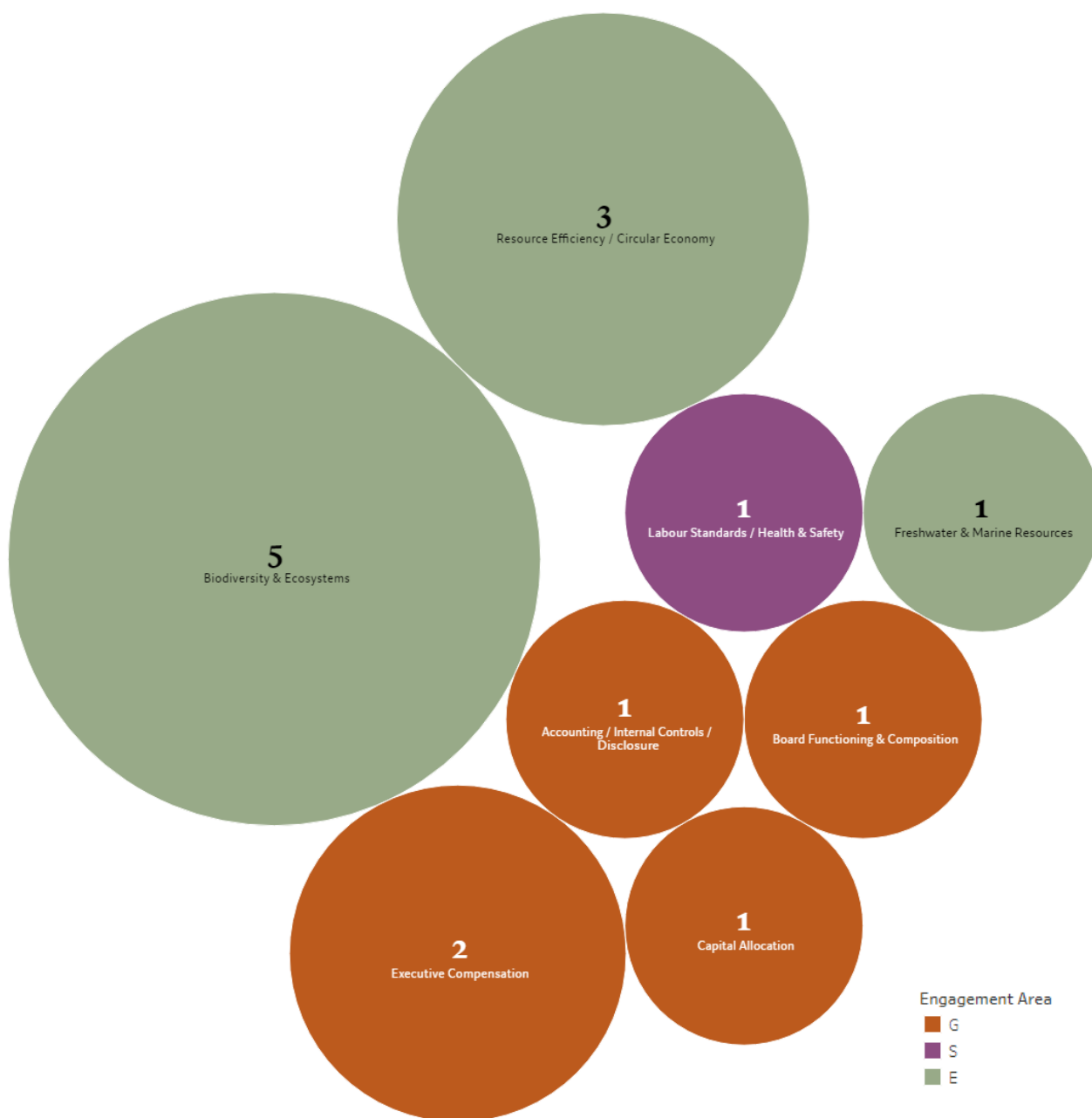
Additionally, ad-hoc engagements can be triggered for various reasons, including company requests for dialog, red flags raised from ESG screens, emerging controversies, data providers pointing towards potential high sustainability risks, or risks / concerns resulting from a corporate event.

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

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

The Timber strategy is involved in the following engagement cases:

#### Timber engagements (number of companies)



Source: Pictet AM as of 31.12.2023

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



**A US-based paper producer – Biodiversity, freshwater and executive compensation**  
*Ongoing Engagement*

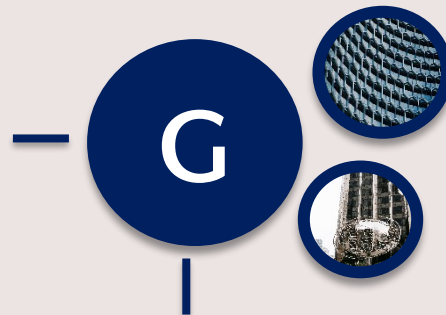
The objective of our engagement was twofold. Firstly, to improve the policies, measurement, and disclosure of environmental KPIs, including waste, biodiversity dependencies and impacts, and wood sourcing including that of their joint ventures (JV). Secondly, to incorporate ESG targets related to their 2030 vision in executive compensation plans.

The engagement was on the company's wood procurement policies, whose assets are based in the US and Canada. Their assets are FSC and SFI standard approved. These standards explicitly preclude and audit for deforestation. Additionally, we engaged regarding their ownership of a Russian JV stake. We deemed their response was not satisfactory. Following the engagement, the company returned, acknowledged their shortcoming, and offered a follow-up. They eventually decided to exit their Joint Venture with Illim in 2023, making this part of our engagement obsolete.

**US hygiene company with global operations – Climate Change Mitigation**  
*Ongoing Engagement*

We engaged with the paper-based consumer products company to improve the incorporation of ESG goals and metrics in executive compensation plans and have the company commit to net zero by 2050.

During our first engagement meeting, we inquired about incorporating ESG Key Performance Indicators (KPIs) into existing incentive plans, focusing on climate, water, and forests. We discussed biodiversity metrics and the TNFD framework, emphasizing the need for front-end LCA-based modeling. We also learned that the company utilizes LCA tools, trains its R&D team, and seeks investments for alternative fibers or plastics. They also mentioned their SBT target validation and commitment to net zero by 2050, exploring projects and levers to achieve this goal. We will follow up with the company and the engagement remains ongoing.



**A manufacturer of raw pulp and bulk paper – Executive Compensation**  
*Ongoing Engagement*

During a dedicated ESG investor roadshow, our team raised questions about incorporating sustainability goals in executive remuneration plans, progress in water stewardship plans, achieving GHG emissions reduction targets, the impact of climate variability on Eucalyptus productivity, and the company's disclosure of physical climate risk and biodiversity management in future reports. In December 2023 we engaged directly with the company. The company is considering incorporating metrics from its 2030 sustainability goals into executive compensation plans, but the compensation committee wants to assess the materiality and integration of these metrics first. They are currently focused on other initiatives.

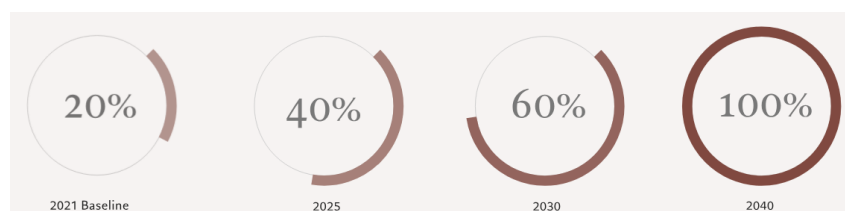
## Engagement focus: Climate Transition

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

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

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

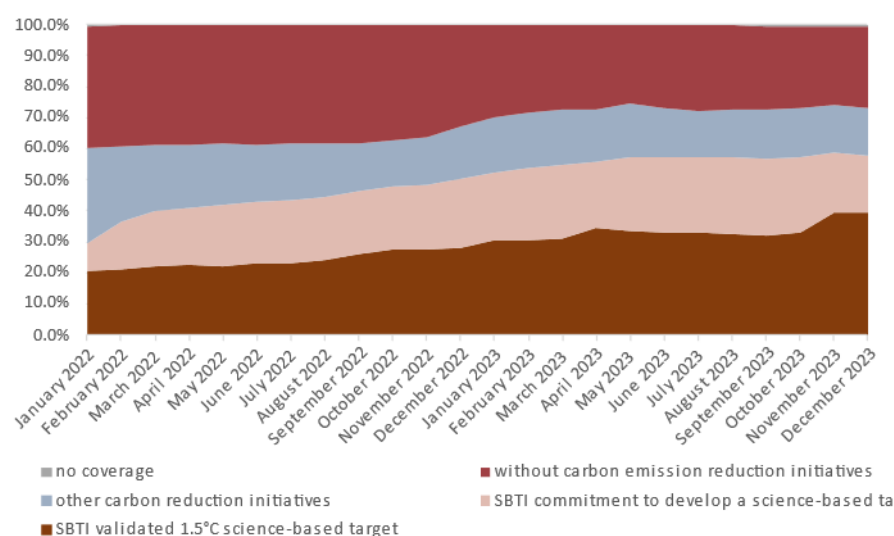
### Targeted proportion in assets with validated science based targets



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

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

### Carbon reduction trend assessment – Thematic Equities



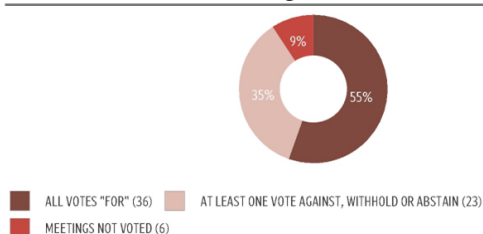
Source: Pictet Asset Management, 31.12.2023

Asset-weighted carbon reduction status across all thematic equity portfolios

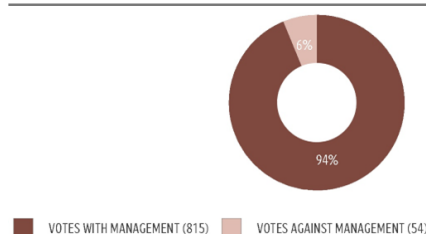
## Proxy voting

Voting rights are systematically exercised at general assembly meetings, in accordance with Pictet AM's voting policy and through the ISS proxy voting platform<sup>10</sup>. The voting policy takes into account internationally recognised standards of corporate governance. Subject to the comments above, we vote against resolutions that are not in the interest of shareholders.

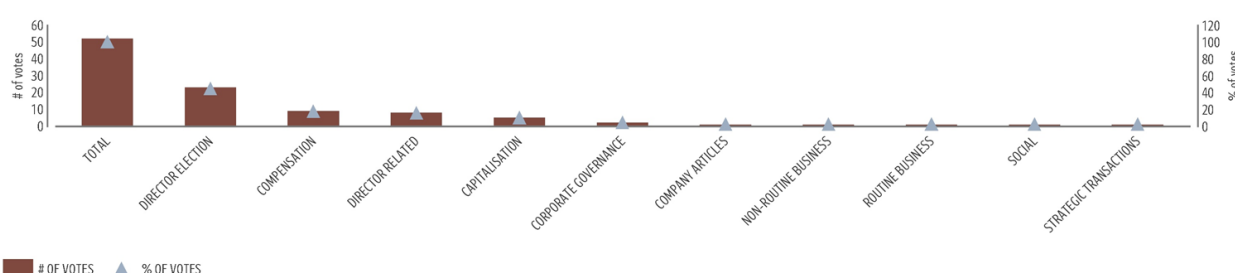
Breakdown of votable meetings



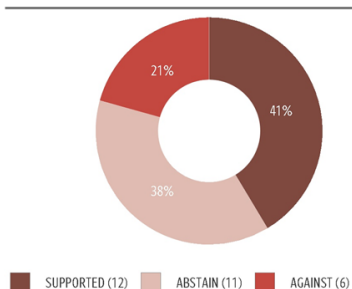
Breakdown of votable items



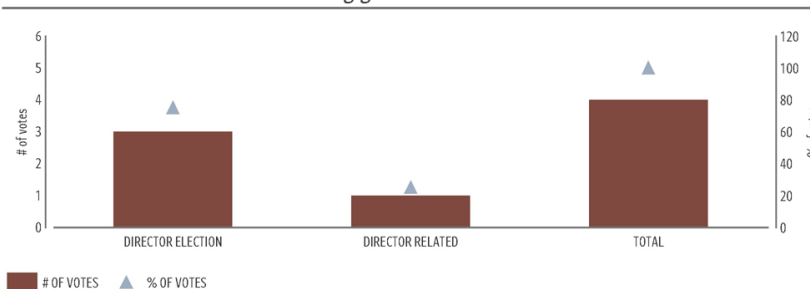
Breakdown of votes against management



Breakdown of shareholder resolutions



Breakdown of deviations from voting guidelines



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

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

<sup>10</sup> <https://www.issgovernance.com/solutions/proxy-voting-services/>

## PROMOTION OF IMPACT PRINCIPLES

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

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

### Engagement with industry stakeholders

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

#### UNPRI

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

#### International Investor Initiatives

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

#### Net Zero Asset Managers

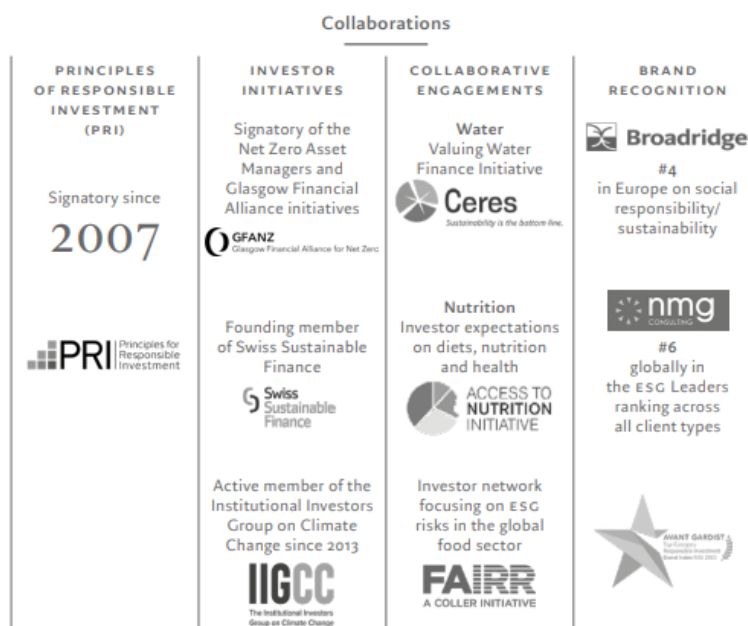
As is true of all asset managers, Pictet’s investment activities impact climate change outcomes. We acknowledge that the firm has a responsibility to foster positive and mitigate negative impact. Solving the major environmental and social challenges of our time will require increased collaboration and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

#### Scientific Collaboration

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

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

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



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

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

Source: Pictet Asset Management, December 2023.

### Promotion of impact to the wider public

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

Adoption of ESG concepts in general, and of the thematic impact perspective in particular, still have a long way to go. As such, managers' efforts to promote and share information should be regarded as one of the important mechanisms of investor impact<sup>11</sup>.

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



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

<sup>11</sup> See Buffle (2017) or Roessing and Freedman (2020) for examples of informational / educational contributions in investment industry publications.

## Mega from Pictet

Extensive research on sustainability is available at Mega from Pictet<sup>12</sup>. The purpose of Mega is to provide expert analysis of megatrends and the New Economy from academics, scientists and entrepreneurs. Further, to provide insights into the problems faced by humanity and the innovations that could solve them. With articles and videos featuring leading academics, scientists and entrepreneurs active in the fields of sustainability, technology, health, alternative energy, and agriculture, Mega seeks to energize and enrich the debate over how to create a better-functioning economy and society.

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



**mega.**

#### Reimagining wood: by the masses

Next-generation technology and AI are paving the way for high-rise wood, or "plyscrapers"

Mega in conversation with Clara



**mega.**

#### The builders that won't ever need a tea break

Timber houses made entirely by robots could make construction more accessible and less capital and resource intensive.

Mega in conversation with Gilles Retsin

ANALYSING CORPORATE ESG RATINGS - October 2023

#### ESG ratings under the microscope

ESG corporate ratings are redrawing the financial landscape and investors often struggle to interpret them.

Sources: Pictet Asset Management, 2023

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

<https://am.pictet/en/globalwebsite/mega/2023/bringing-timber-to-the-masses>

<https://am.pictet/en/globalwebsite/mega/2023/use-of-ai-in-architecture>

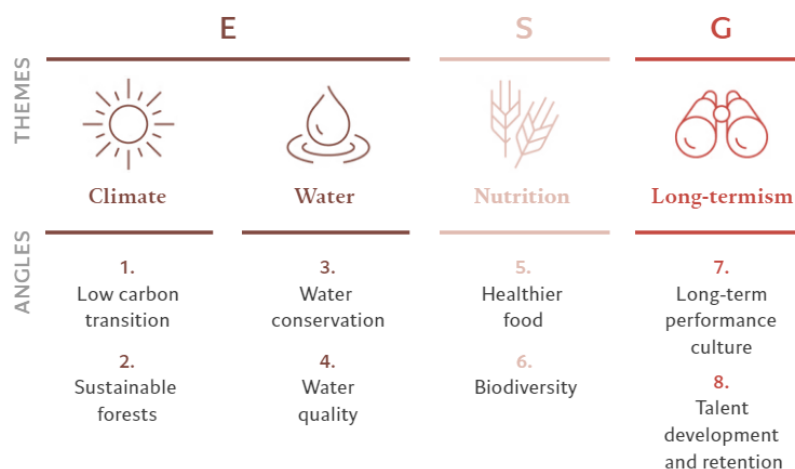
<sup>12</sup> <https://am.pictet/en/uk/intermediary/mega-from-pictet>

## IMPACT ACROSS PICTET

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

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

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



These principles have led to the following results:

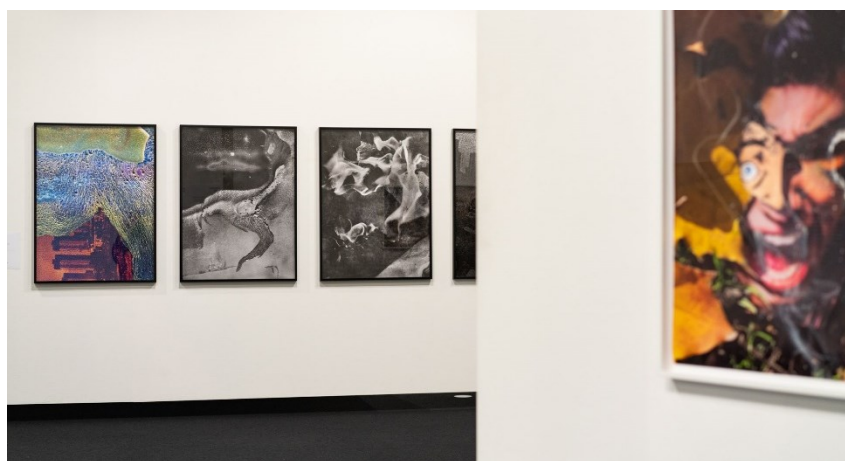
- The firm has reduced its own CO<sub>2</sub> emissions per employee by 73 per cent between 2008 and 2020.
- Pictet's balance sheet is invested in activities that help accelerate the transition to a low-carbon economy.
- Pictet has eliminated balance-sheet exposure to fossil fuel producers and extractors.
- Pictet takes a fair and equitable approach to recruitment, promotion and pay, including a yearly gender pay gap analysis.
- The Pictet Group Foundation has been established to fund impact-driven solutions in the fields of Water and Nutrition.
- Pictet is supporting volunteering programs where employees can take part in social or environmental projects.

### Prix Pictet

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

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

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



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

### Pictet Group Foundation

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

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

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

## Pictet Foundation examples



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

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



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

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



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

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



### Rivers of food

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



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



## DATA &amp; SUPPLEMENTARY INFORMATION

Top 10 Holdings				
Company	Segment	Positive Impact Contribution of the Company's Products & Services	Purity	Portfolio Weight
Weyerhaeuser	Timberland	Weyerhaeuser is the oldest and largest private forest owner in the US with over 10mn acres of timberland in all major US forestry regions. Weyerhaeuser is an integrated forest products company that promotes sustainable forestry practices, including responsible harvesting, reforestation, and conservation of natural resources. The company has set ambitious environmental goals, such as reducing greenhouse gas emissions, increasing renewable energy use, and achieving zero-waste operations. The company's main impact stems from its vast forest resources (primary carbon sequestration) as well as from its lumber and OSB business, which sequesters carbon in houses for decades and replace less carbon-friendly building materials.	Very High	6.2%
PotlatchDeltic	Timberland	PotlatchDeltic is a leading private timberland owner and a top 10 manufacturer of lumber in the United States. The company owns and manages close to 2mn acres of biologically diverse and sustainably managed timberland in Idaho and the U.S. South. The company is regularly doing conservation easements with third party, thus actively contributing to conservation and biodiversity goals. Sustainable forestry practices ensure that felled trees are replaced and that new growing trees will continue to absorb carbon dioxide, increasing the carbon sequestration potential of the company's activities.	Very High	5.7%
Rayonier	Timberland	Rayonier is a large forest owner and timberland management company providing timber for pulp, paper, lumber and other wood products. The company owns and manages 2.7 mn acres of forestland predominantly in the US South and the Pacific NW but also in New Zealand. Sustainable forestry practices ensure that forests are not converted to other uses and harvested trees are replaced by a new generation of young growing trees that will continue to absorb carbon dioxide, increasing the carbon sequestration potential in the forest and in the many products made from wood. In 2021, Rayonier's forestlands sequestered an estimated 14.7 million metric tons of CO2 equivalents from the atmosphere versus corporate emissions of roughly 350,000 metric tons of CO2 equivalents, representing a large 'negative' carbon footprint	Very High	5.4%
West Fraser Timber	Wood Products	West Fraser Timber is the largest North American lumber producer with sawmills in B.C., Alberta and the US South. The company manufactures sustainable, renewable, and recyclable wood products that can be used in a wide variety of applications, often as a more environmental alternative to other construction and fossil-fuel based materials. The company manages several million acres of forestland in the form of long-term licenses for the provinces of British Columbia and Alberta. West Fraser's operations contribute to climate change mitigation by capturing carbon dioxide (CO2) in forests, storing it in the products they make, generating renewable energy from forest residues or bio-boilers and providing renewable alternatives to carbon-intensive materials.	Very High	4.3%
Suzano Papel	Pulp	Suzano Papel is a sustainable pulp and paper company. Cellulose is a renewable raw-material, which can replace plastic-based materials and help transition towards renewable resources and towards a more circular economy. Final products include bio-based textiles and raw materials for packaging and paper products. They are committed to biodiversity and combat deforestation. Suzano owns one of Brazil's largest private natural areas, spanning over 965,000 hectares across the Atlantic Forest, the Amazon rainforest and Cerrado biomes, all of which benefit from total protection and the company's stewardship. For productive reasons, the company owns 1.3 million hectares of planted and certified eucalyptus plantations. All the wood used in their production process comes from eucalyptus planted for this purpose and they do not grow plantations or	Very High	3.6%

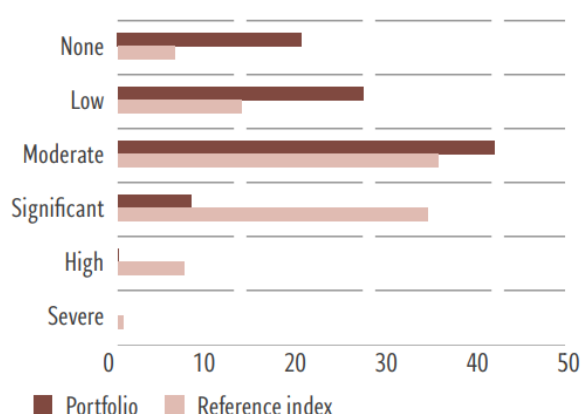
		acquire eucalyptus planted in areas that were previously occupied by native vegetation or that were legally or illegally deforested.		
Ufp Industries	Wood Products	Ufp Industries is predominantly a supplier of lumber and pre-fabricated wood-based component to the housing industry. Today the company is a multibillion-dollar enterprise with subsidiaries around the globe that serve three markets: retail, packaging, and construction. Ufp Industries support responsible stewardship of forestlands and natural resources by using sustainable practices, promoting clean air, water and land while innovating to do more with less. Nearly all of the company's products and by-products follow a cradle-to-cradle vision of packaging, where they are collected and recycled to produce other useful products. As such, Ufp has a positive impact on the environment through sustainable forest management and carbon sequestration upstream as well as in wood-framed residential construction.	Very High	3.5%
Svenska Cellulosa	Timberland	Svenska Cellulosa (SCA) is Sweden's largest private landowner, a provider of construction lumber, pulp and wood-based packaging. They are also providing land and investing in wind parks. The company manages over 2 mn ha of sustainable forests in Sweden and owns and additional 0.6mn of marginal land which is essentially managed as a forest reserve. In addition to contributing to large carbon sequestration activities due to the company's sustainable practices, SCA is also actively committed to the development and preservation of biodiversity in their forests by preserving and recreating habitats for species with special requirements.	Very High	3.4%
Stora Enso	Packaging	Stora Enso is a large global forest company with roots in Scandinavia, integrated in packaging, pulp, paper and wood products. The company owns over 1m hectares of timberland in Sweden, Finland and LATAM. The company's products include lumber, cross-laminated timber, pulp, environmentally friendly packaging materials, which are sustainable alternatives to other types of packaging, such as plastic. In addition, its sustainable forest operations maintain global forest supply, act as CO2 sinks and protect biodiversity.	Very High	2.9%
Builders Firstsource	Wood Products	Builders FirstSource is a provider of predominantly wood-based building materials such as lumber, Oriented Strandboard, but fabricated building materials such as doors, windows, plywood, pre-cut frames, or insulation materials. 90% of the wood used are from sustainable forestry certified vendors. Builder's FirstSource manufactured wood framing components are more efficient than on-site solutions and makes building greener with less disposal sent to landfill. Since 2019, this approach has saved more than 4.3 million trees. The company has undertaken first steps to consolidate and report energy use data with the aim to set formal reduction targets.	Medium	2.8%
Westrock	Containerboard	WestRock provides innovative, sustainable, fiber-based packaging solutions for consumer and corrugated packaging markets. Westrock's extensive network of mills, converting and recycling facilities as well as the company's positioning on sustainable forestry helps to enable a more circular economy. Fiber-based packaging plays a central role in replacing plastic. The company sources virgin fibres from responsibly managed forests and has created one of the industry's largest independently audited certification systems for tracking harvest compliance. The company supported certification of more than 450'000 acres of forest since 2019 and aims for certification of 1.5 million acres by 2030. 641,000 trees were planted through WestRock's community partners. Westrock also operates 18 recycling facilities to reclaim paper and fibres from customers. Overall, 97.8% of WestRock's products are recyclable, compostable or reusable.	Very High	2.6%

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

## ESG controversies

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

### ESG controversies (by weight, in %)



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

Not applicable: portfolio 1% / reference index 0%, Not covered: portfolio 1% / reference index 0%

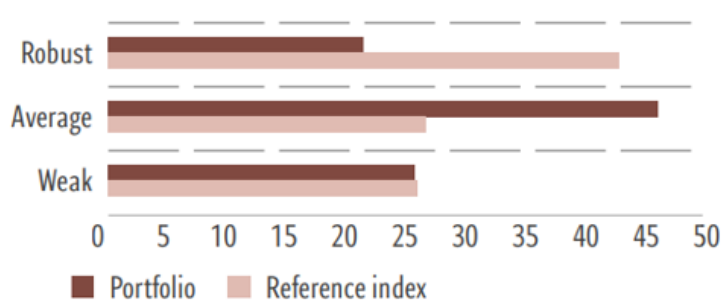
"Not applicable" corresponds to cash, sovereign and quasi-sovereign bond issuers. "Not covered" corresponds to securities or single line derivatives for which no data is available.

## Corporate governance score

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

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

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



Source: Pictet Asset Management, ISS, December 2023

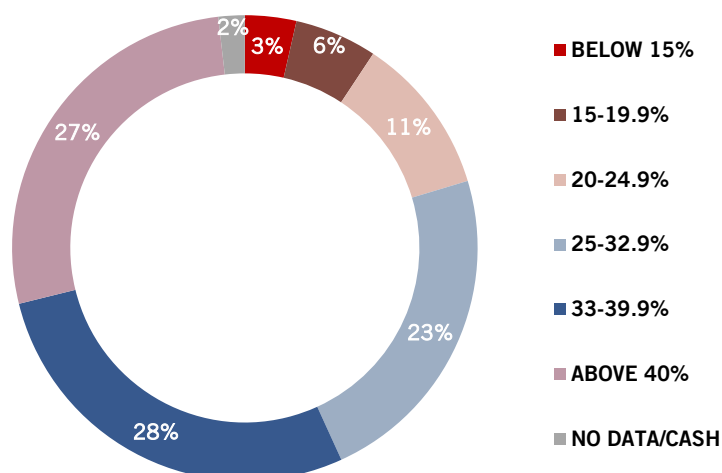
Not applicable: portfolio 1% / reference index 0%, Not covered: portfolio 3% / reference index 5%

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

## Board diversity

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

### Female board membership within the Timber portfolio



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

## Exposure to controversial activities

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

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

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

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

	PORTFOLIO	REFERENCE INDEX
Fossil fuels and nuclear energy	0.09	3.69
Weapons	0.00	0.98
Other controversial activities	0.07	0.87

Not applicable: portfolio 1% / reference index 0%

Not covered: portfolio 1% / reference index 0%

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

Source: Pictet Asset Management, Sustainalytics, December 2023

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

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

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

## Other regulatory ESG disclosures

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

INDICATOR	PORTFOLIO	REFERENCE INDEX
Weighted average of independent board membership	75.0 per cent Source: ISS, Bloomberg as of 31.12.2023, no data for 2 per cent of portfolio and 0.4 per cent of reference index.	75.9 per cent
Weighted average of female board membership	31.9 per cent Source: ISS, Bloomberg as of 31.12.2023, no data for 2 per cent of portfolio and 0.3 per cent of reference index.	33.0 per cent
Weighted average exposure to UN Global Compact Signatories	40.3 per cent Source: ISS as of 31.12.2023, no data for 21.3 per cent of portfolio (including cash) and 0.9 per cent of the reference index.	44.4 per cent
Weighted average Scope 1 and 2 carbon intensity	174 tons of CO2 equivalent per million USD revenue  Source: S&P, Sustainalytics, Pictet AM as of 31.12.2023 Data coverage: 98.17 per cent for the portfolio, 99.6 per cent for the reference index	167 tons of CO2 equivalent per million USD revenues
Sustainable Investments exposure (pass/fail approach)	Environmental Objectives: 68.72 per cent Thereof, taxonomy aligned: 1.63 per cent  Social Objectives: 29.45 per cent  Source: Pictet Asset Management, 31.12.2023	15.05 per cent 0.35 per cent  17.52 per cent
Additional indicators and documents	<a href="#">Summary page on sustainability-related disclosures in the financial services sector (SFDR)</a>  <a href="#">European ESG Template</a>	

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

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

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

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

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