



Pictet-Clean Energy **Impact Report**

31.12.2018

For professional investors only



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Our Declaration of Intent

“We contribute to the structural change towards a sustainable, low-carbon economy and help our clients to benefit from opportunities arising from the energy transition”

Clean Energy Investment Team

By 2030 the global middle class is expected to grow from 3.8 billion to more than 5.6 billion*. Energy demand is set to increase accordingly. However, the utilisation of traditional energy sources such as oil and coal leads to large amounts of particulate matter and green-house-gas (GHG) emission which are respectively responsible for public health emergencies and climate change.

The world is increasingly recognising the urgency to transition to a low carbon economy. The Lancet estimates that over 6.5 million people die of air pollution every year. Many of the globe’s larger cities suffer from concentrations of particulate matter in the air that are orders of magnitude above WHO recommended values. At the same time, based on our current energy mix and consumption patterns, the earth is on a path to warm up by +4°C by 2100. In such a scenario, the majority of Europe and the entirety of the US, China and India will become uninhabitable deserts.

There are two ways to approach this global challenge: The existing fossil fuel-based energy sources must be switched to clean energy sources; and/or the energy intensity of human activities must be reduced.

To achieve the former, a colossal build-up in emission-free energy production installations—including solar and wind—is necessary. However, the above energy sources are intermittent. Hence, as there are currently few solutions for utilities-scale energy storage, natural gas power plants must also be built to compensate for the intermittency**.

To achieve the latter, development and commercialization of technologies that help increase the efficient use of energy in all human activities must occur.

Through our Clean Energy investment strategy, we intend to allocate capital to companies providing attractive investment opportunities in the areas of clean energy production and energy efficiency. These companies’ products and services are expected to have positive societal and environmental impact as they will help minimize particulate matter and GHG emissions and contribute to the transition towards a low-carbon economy.

* World Economic Forum in October 2018: A global tipping point: Half the world is now middle class or wealthier.

** Gas power plants are a cleaner alternative to coal as they emit half of the CO₂ and much less particulate matter. They will play an important role in the transition towards a low carbon economy.



Investment theme universe

Strategic definition of the investment theme related to Clean Energy

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

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

Clean Energy Advisory Board

Vince Pérez - CEO of Altemergy Partners and Chairman of Merritt Partners

Areas of expertise: Energy public policy and energy regulatory issues in Asia. Private equity investing and advisory services in the energy and clean energy industries

Dr. Hans Björn Püttgen - Senior Director, Energy Research Institute, Nanyang Technological University, Singapore

Areas of expertise: Energy systems, energy public policy

Dr. Vaclav SMIL - Distinguished Professor, University of Manitoba, Canada

Areas of expertise: Interactions of energy, environment, economy, population, food and technical advances from a contemporary and historical perspective

Our Clean Energy thematic universe is segmented amongst supply (clean production), demand (efficiency) and enabling technology (components enabling the supply and demand segments):

Investment universe

DEMAND

Energy efficiency

Green buildings



Efficient manufacturing



Smart mobility



SUPPLY

Renewables

Wind



Hydro



Solar



Geo-thermal



Low carbon infrastructure



ENABLING TECHNOLOGIES

Semiconductors, energy storage, smart grid





Some sectors that are generally considered low-carbon energy sources are not included in our investment universe. This concerns in particular nuclear energy. Nuclear power plants do not emit greenhouse gases, but generate highly radioactive waste that remains active for thousands of years. Therefore, we do not consider nuclear power a sustainable solution*.

The investment universe is dynamic. The team is constantly on the lookout for undiscovered companies. The sources of discovery leading to potential company addition to the investment universe are primary research through industry trade shows and associations, visit of companies and supply chain discussions, advisory board and associated industry networks.

We have identified circa 500 listed companies that have Clean Energy-related activities and thereof circa 200 that have at least 33% exposure to the theme.

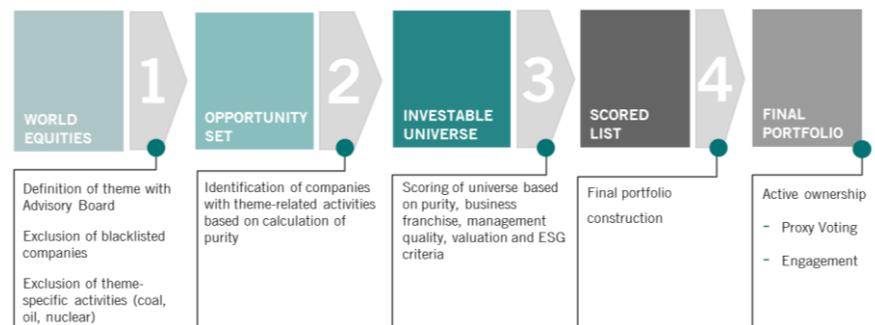
*Nuclear power: In addition to the radioactive waste problem, nuclear power is highly subsidized; the cost of insurance is not carried by a private reinsurer and integrated in the price of energy, but carried by the country where the power plant operates and its citizen.

Investment process

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

- › Strategic definition of the investment themes
 - Inclusion of all companies with some exposure to the Clean Energy theme (only companies with exposure to the Clean Energy theme are included in the opportunity set)
 - Exclusion of companies with more than 20% exposure to coal, oil, or nuclear
 - Exclusion of companies from Pictet’s controversial weapons blacklist
- › Identification of the investable universe based on companies’ exposures to the theme (“purity”*).
 - We only include companies with at least 33% purity.
- › Bottom-up stock selection and weights determination are based on a scoring process. Scoring is based on fundamental elements: Purity, risk factors, financial attractiveness, business franchise, management quality and ESG factors
- › Active ownership: we vote on all our equity positions and engage with selected companies

Investment process overview



* Please refer to next chapter for definition of purity

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

PRIMARY RESEARCH



Following the Wind Europe conference, a global summit of stakeholders in the wind energy industry held in Hamburg, Germany, the Clean Energy team took the opportunity to visit German wind turbine manufacturing plants.

The investment managers gathered additional knowledge on the company's production process, distribution system and governance structure which led to a refining of their scoring model of the company.

Investment manager Christian Roessing in front of a giant rotor blade on a research trip to a German wind blade manufacturer



Exclusion policy

POSITIVE SCREEN

We first identify an initial universe of listed companies active in the clean energy space.

Only companies with sufficient exposure to clean energy-related activities are eligible for investment. We include companies in the investable universe only if at least 33% of their enterprise value (or sales, EBIT or EBITDA) is derived from clean energy-related activities (“purity”). By applying this positive screen, we narrow the universe down from 40,000 to 200 companies. The weighted average purity of the portfolio is 65%.

THEMATIC SPECIFIC EXCLUSIONS

Exclusion of oil, coal and nuclear energy

When defining the investable universe of Clean Energy, we systematically exclude stocks that have an exposure to coal, oil and/or nuclear energy of more than 20%.

To assess the exposure to coal, oil and nuclear energy, we calculate the enterprise value (or sales, EBIT or EBITDA) directly derived from those activities. For stocks that have some exposure (< 20%) to coal, oil or nuclear energy, we consider future developments. We like to see that investments are directed towards clean energy projects and that investments in other areas are decreasing.

CONTROVERSIAL WEAPONS BLACKLIST

Exclusion of controversial weapons

The Pictet Group applies an exclusion policy for companies involved in the production of anti-personnel mines, cluster munitions, biological & chemical weapons (including white phosphorous) and nuclear weapons from countries that are not signatories to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). The Pictet Controversial Weapons Blacklist so far covers 21 listed entities and over 40 private companies.

REVENUES FROM CONTROVERSIAL PRODUCTS & SERVICES

Monitoring of revenues from controversial business activities

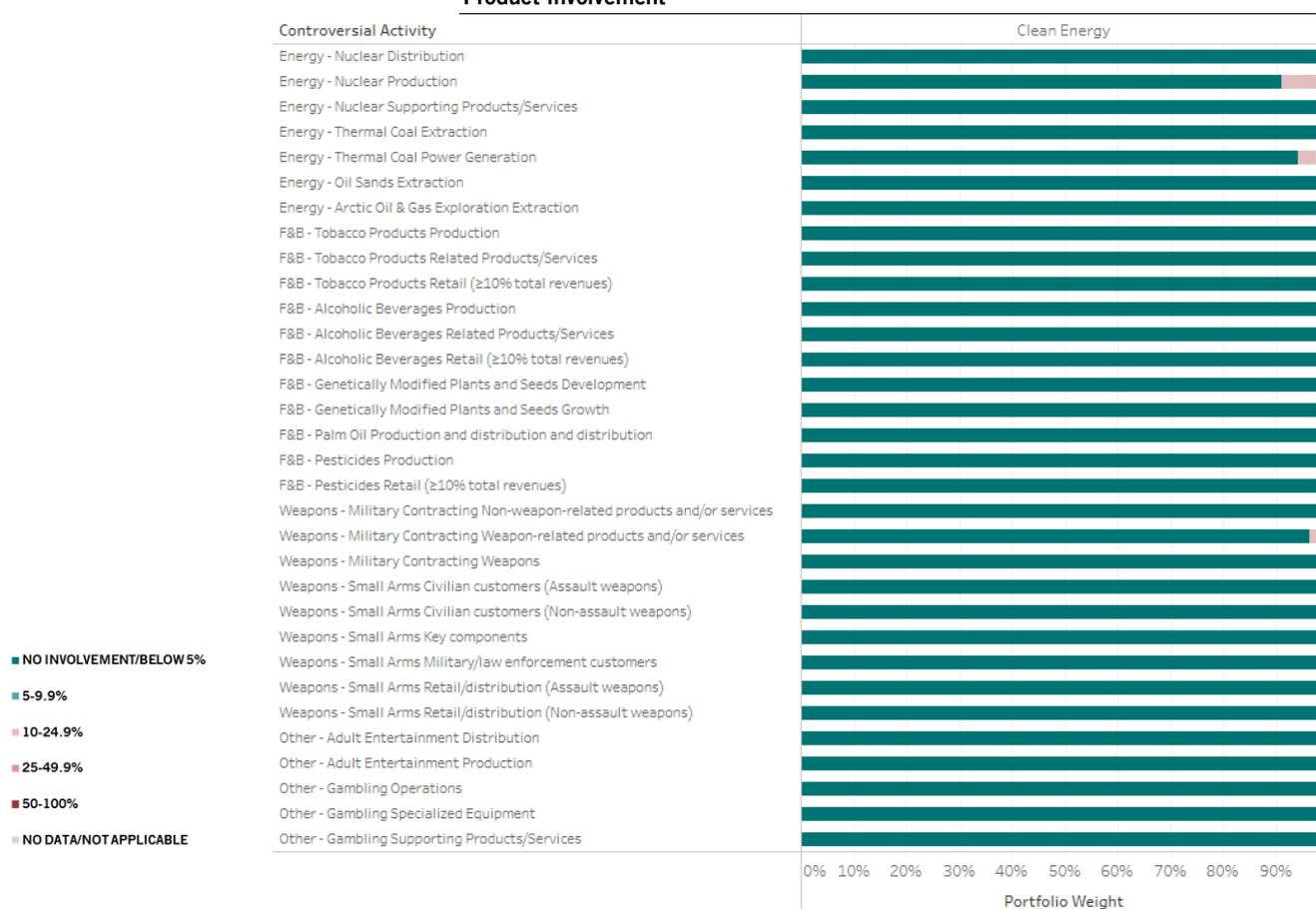
While we do not apply additional formal exclusions, we monitor the exposure to activities that might be perceived as controversial by some investors, such as weapons or tobacco production.

As our investment process includes a positive screen to identify companies exposed to Clean Energy activities, it leads to a small universe of companies. Practically, the stringent positive screen leading to the identification of 200 Clean Energy stocks de facto “excludes” 99.5% of equities. Consequently, exposure to controversial activities of the investment universe is very small. In addition, our portfolio construction process maximizes exposure to the theme which further reduces the probability of being exposed to controversial activities in the portfolio.

Please see below the product involvement of the portfolio as at 31.12.2018.



Product involvement



Source: Sustainalytics, Pictet Asset Management as at 31.12.2018

All holdings in the portfolio were covered by Sustainalytics (excluding cash). The Clean Energy portfolio was exposed to two companies¹ active in coal power generation (portfolio weight 3.8%), two companies² active in nuclear production (portfolio weight 6.7%) and one company³ that provides weapons-related products and services (portfolio weight 1.4%) and

¹ Coal power generation: in addition to energy from renewable sources, both companies operate traditional fossil-based power plants. As of 2017, 18.8% and 19.0% of the companies' net efficient capacity was coal-fired respectively.

² Nuclear production: both companies operate electric power-generation facilities. Exposure to nuclear energy production accounted for 18.6% and 13.4% respectively in 2017. In both cases the majority of revenues are generated from clean energy sources such as hydroelectric, wind, natural gas and solar.

³ Weapon-related services: the company produces, inter alia, optics for high power industrial lasers and optical communication equipment. Their infrared optics products can also be used for military navigation and target systems. Sales to the defence industry amounted to approximately 12% of revenues in 2016.



Environmental, social and governance reporting

Integration of ESG factors in the investment process

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

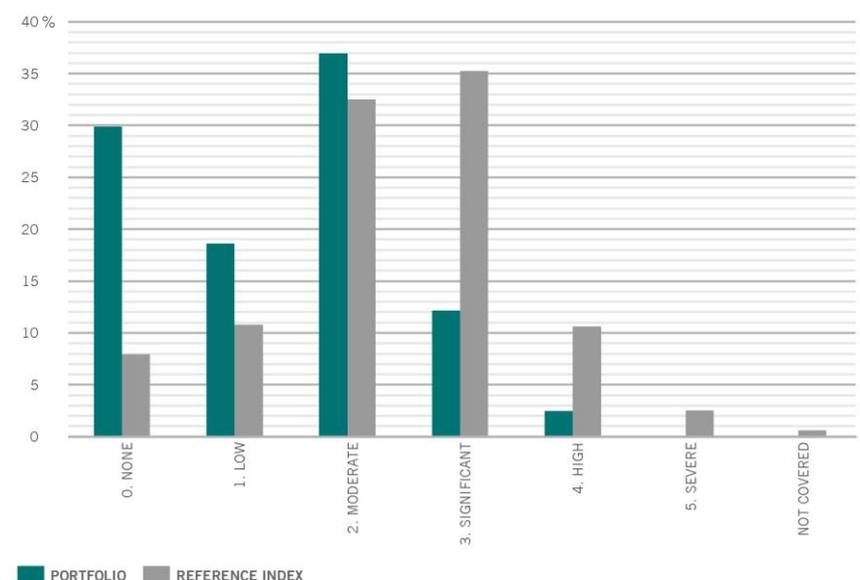
ESG factors integrated in our fundamental scoring process reflect the views of our Investment Managers. If companies are not covered by external data, investment managers assess ESG through primary research and a qualitative assessment of company fundamentals.

ESG CONTROVERSIES

The controversies indicator measures the extent to which companies are exposed to news flow related to ESG controversies such as bribery, corruption, product recalls, pollution incidents and conflicts with local communities. Controversies are evaluated based on their degree of severity and recurrence, as well as company accountability and reliability of information sources.

We use Sustainalytics* as our main source to identify controversies. Below we have grouped the results into six categories to represent none, low, moderate, significant, high and severe ESG standings. The vertical axis indicates weighted exposure of the portfolio and the reference index to the various categories. “Not covered” corresponds to securities for which no score is available from Sustainalytics.

ESG controversies



Source: Pictet-Clean Energy, Reference index: MSCI AC World Sustainalytics as at 31.12.2018

* <http://www.sustainalytics.com/>

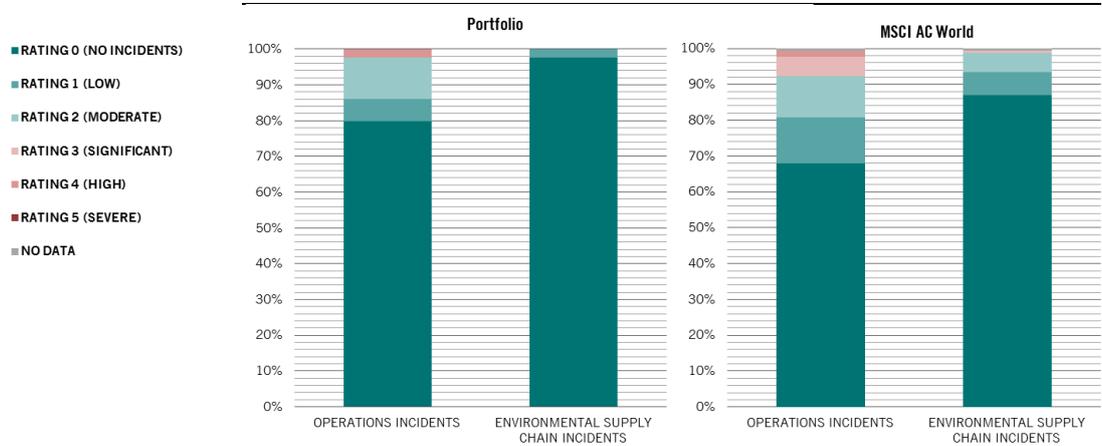


Pictet-Clean Energy has no exposure to the severe controversy category, and low exposure to the high and significant controversy categories. Exposure to the least controversial categories (none, low and moderate) is higher than that of the reference index. All stocks in the portfolio are covered by Sustainalytics data.

ENVIRONMENTAL CONTROVERSIES

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

Environmental incidents



Source: Pictet-Global Environmental Opportunities, Reference index: MSCI AC World Sustainalytics as at 31.12.2018

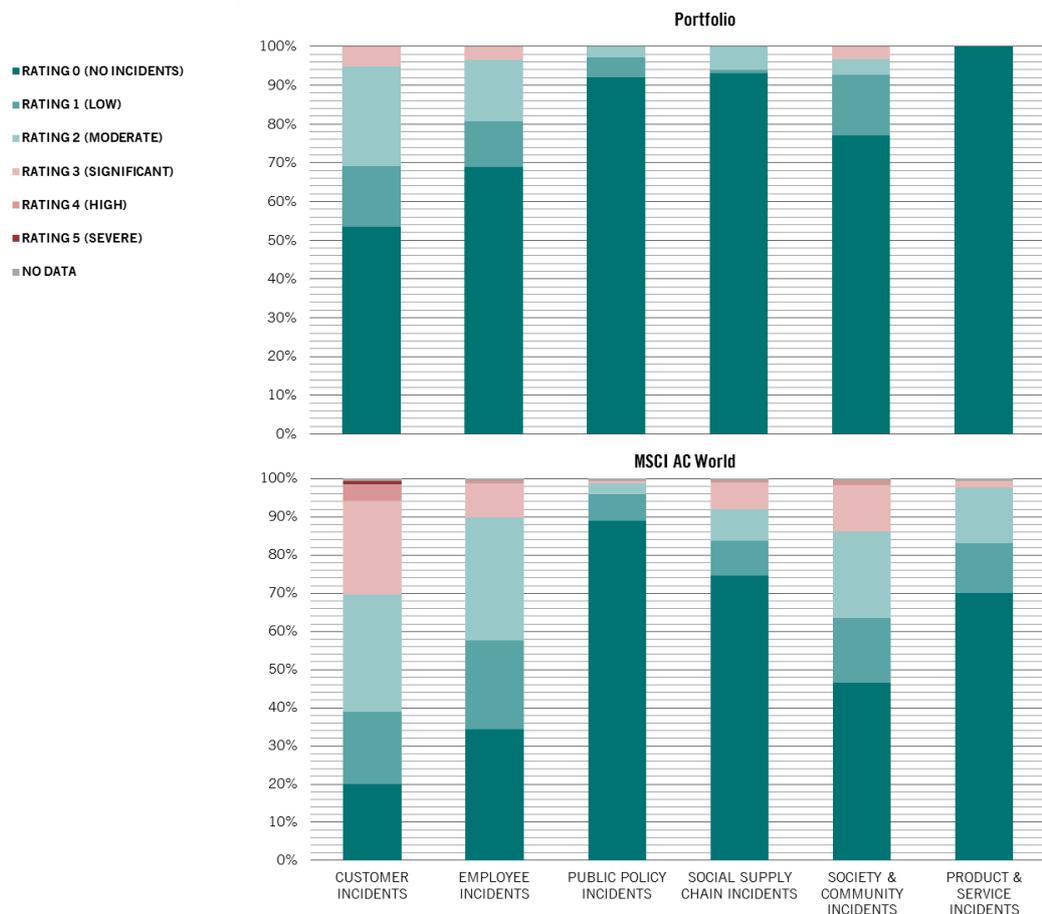
The portfolio had higher exposure to companies with no or low controversies compared to MSCI AC World across all incident types.



SOCIAL CONTROVERSIES

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

Social incidents



Source: Pictet Asset Management, Sustainalytics as at 31.12.2018

The portfolio had higher exposure to companies with no or low controversies compared to MSCI AC World across all incident types.

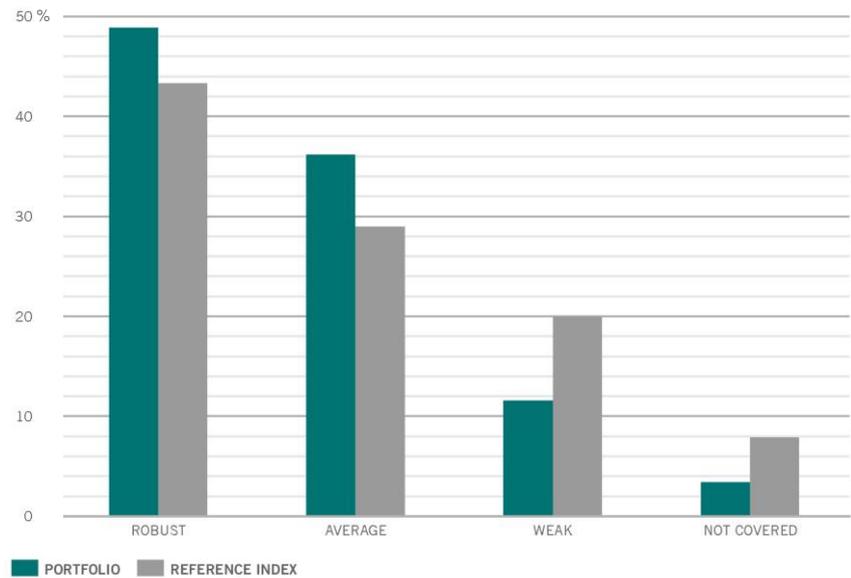
CORPORATE GOVERNANCE

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



Beyond the discussions our investment managers are having with companies' senior management, there are multiple additional sources for Governance analysis. The investment team has access to HOLT, Sustainalytics, ISS and CFRA analysis. Below we show ISS corporate governance scores, which range from robust (decile scores 1 to 3), average (decile scores 4 to 7) and weak (decile scores 8 to 10). Results are based on aggregate stock weights in each category for the portfolio and the benchmark. "Not covered" corresponds to securities for which no score is available from ISS.

Corporate governance



Source: Pictet-Clean Energy, Reference index: MSCI AC World
Data source: ISS as at 31.12.2018

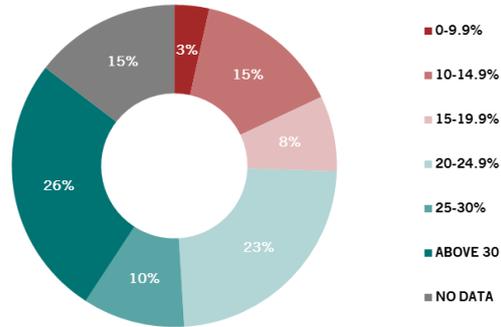
Pictet-Clean Energy has lower exposure to the weak governance rating category and higher exposure to the average and robust rating category than the reference index. 3.3% of the portfolio is not covered by 3rd party data (excluding cash).

* <https://www.issgovernance.com/>



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

Female board members



Percentage of Women on Board

Source: ISS, Pictet Asset Management as at 31.12.2018

No data is available for 14.3% of the portfolio.



Impact reporting

A scientific framework to measure environmental impact along nine dimensions

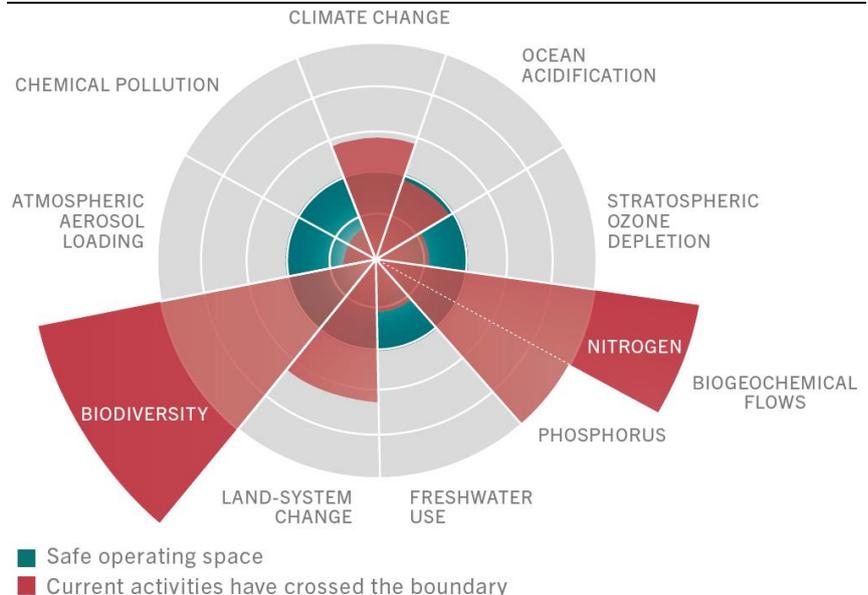
ENVIRONMENTAL IMPACT

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

- › Climate change
- › Ocean acidification
- › Ozone depletion
- › Eutrophication
- › 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 humankind and all life forms on this planet.

Planetary boundaries framework



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



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

Most environmental reporting today is done taking into account emissions related to in-house production and insourced energy. Wider impacts at suppliers, impacts of the products and services during their lifetime or impacts that lead to desired substitution are not taken into account.

Our methodology accounts for the full life-cycle of products and services provided by companies. The environmental impacts we show can therefore differ significantly from conventional measurements.

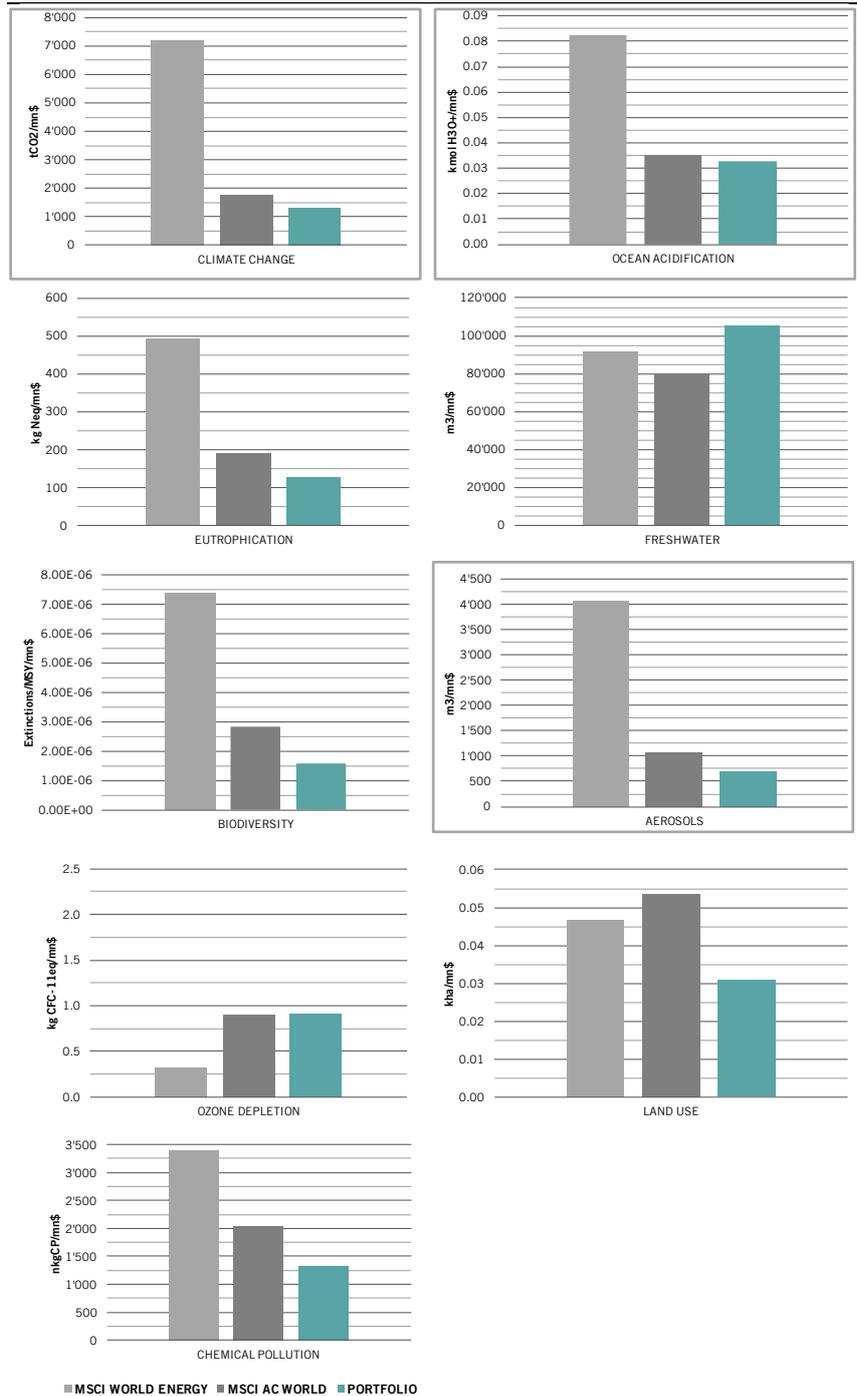
It should be noted that our methodology can yield negative emissions. For example, a company manufacturing wind turbines would generate negative carbon dioxide emissions if those wind turbines replace coal or gas powered energy generation and help reduce emissions in the future.

On the next page we show the profile of our portfolio versus MSCI All Countries and versus the MSCI World Energy sector along the nine environmental dimensions. We compare Pictet-Clean Energy to MSCI World Energy to demonstrate the portfolio's impact of transitioning from a high carbon to a more sustainable lower carbon economy.



Pictet Clean Energy vs MSCI All Countries World and MSCI World Energy

Clean energy demonstrates a positive impact on seven out of nine planetary boundaries



The environmental footprint of the Clean Energy strategy is significantly smaller than that of the reference indexes along seven out of nine planetary boundaries.

As intended, the Clean Energy strategy has its largest positive impact on climate change (CO_{2equ}), atmospheric aerosol loading (particulate matter) and ocean acidification (CO_{2eq}).



This translates into a direct positive impact on the environment and global health. It is estimated that over 6.5 million people die of air pollution every year*. Reducing atmospheric aerosol has a direct, measurable impact on health. Through its focus on financing the energy transition towards a lower carbon economy, the strategy has a positive impact on climate change and ocean acidification.

In the ozone depletion category, the fund has a slightly higher contribution compared to MSCI AC World and MSCI World Energy. However, both the portfolio and the indices stay well within the Safe Operating Space. The portfolios' Freshwater use is higher than that of the reference indices due to its investments in renewable energy and electricity networks which include hydraulic power generation.



COMPANY EXAMPLE

Energy efficiency is a sustainable and low-cost solution to reduce emissions by limiting the need for additional conventional power generation. We see this as a long-term secular trend with governments increasingly supporting and encouraging efficiency measures by setting tighter emission standards.

In the energy efficiency segment, we invest in Kingspan, a global leader in high performance insulation systems for commercial and industrial buildings as well as residential housing.

Insulation products help to reduce the heating energy requirements of buildings over their full lifetime. Compared to its peers we measured a positive impact of the company's innovative products during their lifetime, with the highest positive impact on climate change and ocean acidification.

* Source: The Lancet, Planetary Health: Global Burden of Disease Study 2017



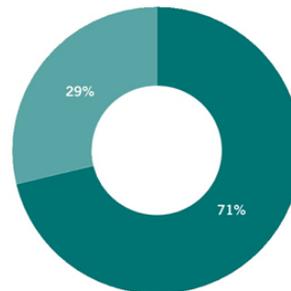
Active ownership

Systematic proxy voting on 100% of our active equity strategies

PROXY VOTING

Voting rights are systematically exercised at general assembly meetings for the companies held in the fund in accordance with Pictet Asset Management's voting policy and through the ISS proxy voting platform*. Our voting policy takes into account internationally recognised standards of corporate governance. Subject to the comments above, we vote against resolutions that are not in the interest of shareholders.

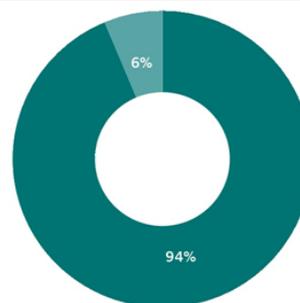
Breakdown of votable meetings



- ALL VOTES "FOR" (47)
- AT LEAST ONE VOTE AGAINST, WITHHOLD OR ABSTAIN (19)

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

Breakdown of votable items



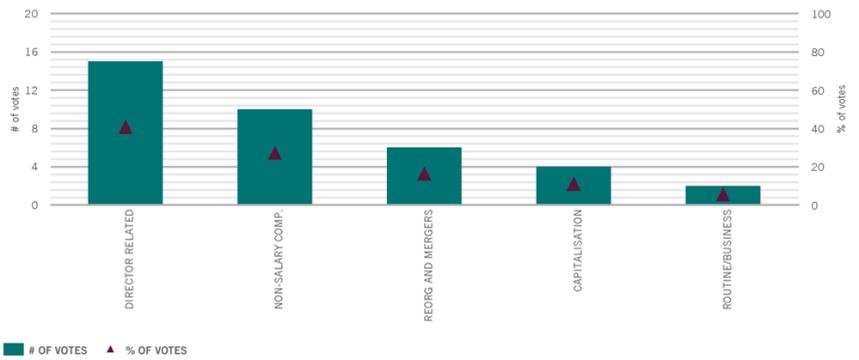
- VOTES WITH MANAGEMENT (712)
- VOTES AGAINST MANAGEMENT (48)

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

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

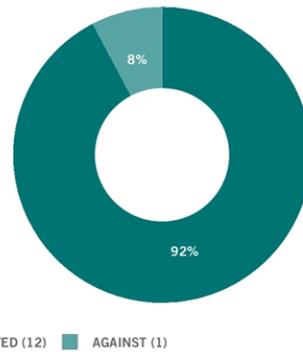


Breakdown of votes against management



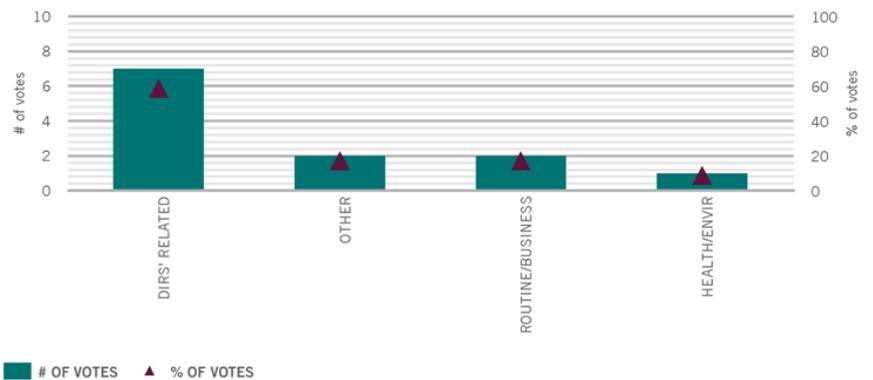
Number and percentage of votes against management broken down by category. This includes votable items proposed by management and excludes votable items proposed by shareholders.

Shareholder resolutions



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

Category of shareholder resolutions we supported



Number and percentage of shareholder resolutions that we supported broken down by category.

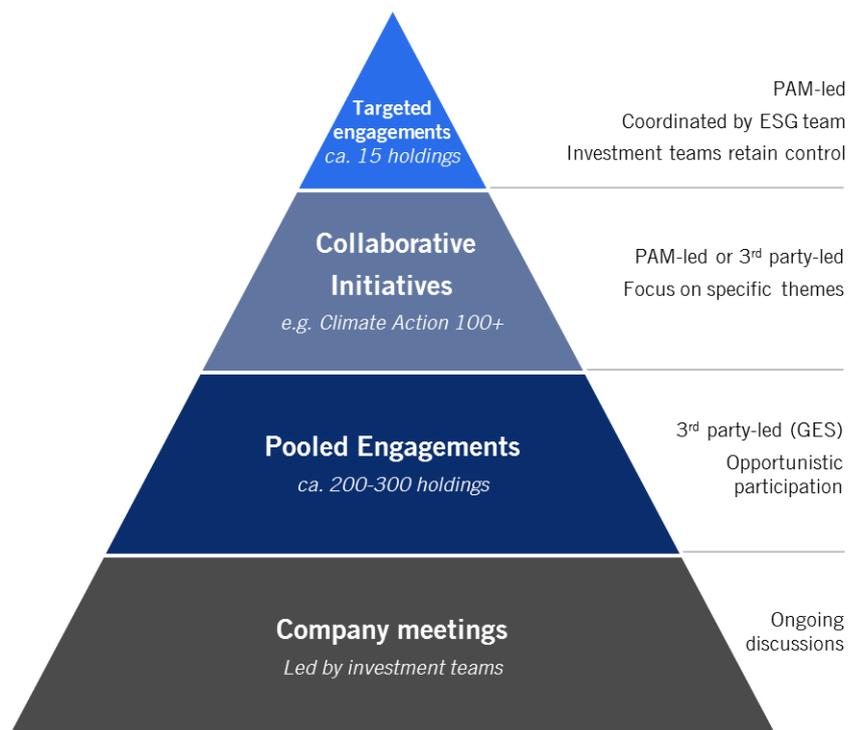
Data YTD 31.12.2018, Pictet Clean Energy
Source: ISS, Pictet Asset Management



ENGAGEMENT WITH COMPANIES

Engagement with companies to positively influence business and financial practices

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



Company meetings

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

In 2017 we started a pro-active engagement process with a US-based company active in industrial automation products. The Clean Energy investment team met the CFO to express their concerns over weak shareholder rights relating to mergers and acquisitions. This engagement process is still ongoing.

Pooled engagements

2. We also use the services of GES (Sustainalytics) to perform ESG engagement with corporate issuers across Pictet Asset Management's entire suite of investment strategies. GES engages with approximately 230 companies on behalf of Pictet Asset Management.

We are in engagement with five companies in the clean energy investment universe via our external engagement service provider.



Collaborative initiatives

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

Pictet AM targeted engagements

4. Targeted engagements are carried out with 15 - 30 issuers and are coordinated by Pictet Asset Management's ESG team. The key criteria for candidate selection are based on the severity of ESG concern(s) and our likelihood of successfully influencing the issuer. The issuers that we engage with represent a variety of regions, sectors and ESG issues.



ENGAGEMENT WITH INDUSTRY STAKEHOLDERS

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

Pictet, together with Swiss Sustainable Finance, is leading an initiative to put pressure on index providers to remove controversial weapon manufacturers from mainstream indices. The initiative, launched in August 2018, secured the backing of 140 signatories controlling USD 6.8 trillion including international asset owners and managers (as of February 2019).

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

The investment manager of the Clean Energy strategy is member of the Steering Committee "Financing the low-carbon energy transition" by Swiss Sustainable Finance (SSF).

With the energy transition set to gather momentum in the coming years, SSF intends to discuss the role of the financial sector for the transition to a low-carbon society and economy in a special report. To ensure that the publication contains a practical perspective and current developments, SSF has requested Pictet AM amongst other investment professionals and consultants to bring in their expertise in the field of renewable energy finance (i.e. lending, project finance) and the energy transition in general.



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

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

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