Vontobel

Impact Report 2023

Vontobel Fund II – Global Impact Equities

October 2023

Asset Management

Past performance is not a reliable indicator of current or future performance.

Introduction

"European regulators hope that transparency is the key tool to form a trustworthy, sustainable finance architecture that leads to better investment decisions. We are guided by this vision. The coming years will show if it is well received with clients and helps to achieve a 'double dividend'—generating financial returns and a genuine positive and tangible impact on our planet and society. Such impact investments are desperately needed to support a global 'green' transition."

The world is navigating the post-pandemic era, and changes abound. Inflation, rising interest rates, and the ensuing recession fears are just one side of the coin. The ongoing war in Ukraine has set in motion a more serious and fundamental rethink of energy plans, supply chains, and geopolitics, all of which have implications for our focus areas.

Interest and investments in the energy transition are gaining more traction. After US President Joe Biden signed the Inflation Reduction Act last year, Europe has taken a page out of the US's book, with the European Commission granting greater focus to the objectives of its massive REPowerEU clean energy scale-up plan and reducing reliance on Russian gas imports. Projects and technologies that boost Europe's global position in solar and energy storage were among the main recipients as the European Union splashed out 3.6 billion euros of grants under its Innovation Fund program, according to a European Commission statement in July.

Road transport's green shift is also accelerating with the rise of electric vehicles (EV). In the US, Biden's administration is pushing ahead with plans to bulk up public EV charging stations along highways, aiming for 500,000 locations by 2030, according to a White House statement in February. With other regions around the world heading in the same direction, this development is poised to put pressure on resources needed for EV batteries—such as lithium, nickel, and cobalt—and change how we think about power, infrastructure, and controlling supply chains as we head into the future.

The disruptions caused by the fallout of the pandemic and Russia's invasion of Ukraine have played a big part in transforming the global supply-chain structure, with some companies mulling over their sourcing strategies to reduce dependencies, either by expanding to alternative suppliers or by "near-shoring" or "re-shoring"—moving production back home or closer to home. This is a trend that is likely to upend global supply chains and possibly cause more geopolitical tensions as China, long the world's factory, loses its dominance. Europe and the US have already started to boost domestic chip manufacturing, while rising demand for EV batteries is poised to move lithium production center stage—and away from China, the current main hub.

With regards to the social impact pillars, the fight against global hunger is also negatively affected by war, supply chain difficulties, and extreme weather. The global economic slowdown and reduced foreign investment constrained access to finance in emerging markets. Healthcare systems worldwide also grappled with issues such as overwhelmed hospitals, shortages of medical supplies, and the stress on healthcare workers, all of which highlighted the need for improved pandemic preparedness and healthcare infrastructure.

In this year's Impact Report, the third annual publication for the Vontobel Fund II – Global Impact Equities (hereinafter referred to as "Vontobel Fund II – GIE"), we will highlight the latest developments and elucidate how we view the industry as an active investor.

As Bob Dylan famously sang, the times they are a-changin'. These lyrics still ring true today, and we are ready to maneuver this changing world and help you make an impactful contribution.

Pascal Dudle, CEFA
Team Head & Portfolio Manager
Vontobel Fund – Global Impact Equities

Executive summary

Our fund's investors pursue what we call a "double dividend", seeking both financial returns and a positive impact on our planet. We are dedicated to meeting their expectations by continually enhancing our resources and reporting methods. We have fine-tuned our impact strategy assessment and reported impact indicators. We are confident that the impact strategy scores at a portfolio level are robust, reinforcing our investment philosophy. This assessment is based on the potential for meaningful growth in each company's impactful activities while also raising awareness of associated risks.

Furthermore, we provide you with a detailed analysis of the regulatory environment in a special chapter written by Dr. Tadas Zukas, Vontobel's global lead senior legal counsel on sustainability, with a distinct perspective on impact investing.

In addition, we have extended our chapter on voting and engagement, and added three case studies.

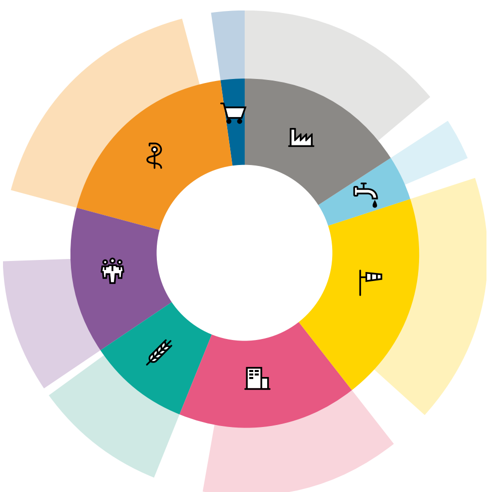
84 percent impactful revenues
The fund invests in companies that provide products and services that try to contribute to mitigating the challenges we are addressing with our impact objectives. Our investment approach follows the principles published by the Global Impact Investing Network (GIIN) in March 2023.

In aggregate, about 84 percent of the revenues from the fund's holdings come from impactful activities, often called "purity level". Furthermore, we illustrate the companies' contributions by looking at them through the lens of the United Nations (UN) Sustainable Development Goals (SDGs).

Measurable positive change
In the current year, higher data quality and refinements in baseline metrics again allowed for further improvement in the calculation of what we refer to as "potential avoided emissions (PAE)" , thereby diminishing cases of double counting. Furthermore, the methodology has been harmonized with the global greenhouse gas accounting and reporting standard established by the Partnership for Carbon Accounting Financials (PCAF) within the financial industry and a recent guidance document by the World Business Council for Sustainable Development (WBCSD) on avoided emissions.

These developments in PAE recognition, along with some portfolio changes, and a general increase in market capitalization of the fund's holdings, have led to a lower result of PAE per million euros of invested capital versus last year (373 tons of CO_2 per EUR 1 million versus 812 tons last year). A stricter baseline raises the hurdle for PAEs each year but is actually positive as it shows that the world is moving in the right direction. Results from our other impact indicators also reflect advances in how companies report on their sustainability efforts, e.g., by disclosing data on the introduction of circularity in their processes as opposed to just reporting on their waste disposals.

In addition to presenting the company's official data and our internal evaluation of the impact and potential avoided carbon emissions—whose framework has been determined in partnership with ISS ESG—the last section highlights assessments of the fund's sustainability credentials by multiple rating agencies. These third-party ratings collectively affirm our perspective that the fund's investments play a substantial role in facilitating a positive global transition.



Impact investing through public equities

In our previous reports, we've discussed the various aspects of impact investing, which involves allocating funds with the primary aim of achieving positive outcomes. Traditionally, impact investing has been closely associated with private markets, where specific practices and characteristics have gradually taken shape. However, in recent years, investors have demonstrated a growing interest in strategies that generate intentional real-world benefits across all types of assets, including publicly traded equities.

Public markets play a crucial role in helping companies scale up their efforts, which is essential for addressing global environmental challenges through the widespread adoption of new technologies and operating practices. As a result, these markets attract substantial investment capital, particularly from clients seeking sustainable investment opportunities. In this regard, we actively select individual stocks that align with our impact investing goals. For details on our impact investing methodology, read our 2021 white paper, "Make your money matter—creating impact through public equity".

We have been an active member of the GIIN's working group on listed equities since 2019, which culminated in a jointly developed guidance document that describes several practices or characteristics an investor can expect from an impact investing fund. Published in March 2023, "Guidance for Pursuing Impact in Listed Equities" is the result of a multi-year project involving more than 100 investors. It covers the four main aspects of listed equities impact investing: setting a fund or portfolio strategy, portfolio design and selection, engagement, and the use of performance data. The guidance is structured around four main characteristics of impact investing (Figure 1).

Figure 1: Core characteristics of impact investing in listed equities

Setting strategy
Documentation that states the ***intended real-world impact*** of the investment strategy including a description of ***how the portfolio contributes to accelerating change***

Portfolio design & selection
Selects companies with ***business models and core activities that are relevant to the impact strategy*** and represent a material part of the company's business

Engagement
Focuses on ***actions to accelerate company's contributions*** to the strategy's impact objectives, measures the effectiveness in relation to progress towards achieving the goals which also defines an important consideration in choosing the timing of exits

Use of performance data
Applies techniques to evaluate ***impact performance beyond relative*** measures of peer performance, and considers whether activities and outputs of companies are contributing to ***real-world changes***

Source: Global Impact Investing Network (GIIN), "Guidance for Pursuing Impact in Listed Equities", March 2023.

Fine-tuning our impact strategy assessment

As dedicated stock pickers, we have always recognized the significance of emphasizing a long-term strategy. Apart from clarifying the portfolio companies' impact strategy, it enables us to better identify the potential benefits of impactful activities as well as the potential risks companies face. Furthermore, it can help us engage with companies' management regarding which of their activities we consider impactful and enables us to point out potential non-financial risks (Figure 2).

Figure 2: Systematic six-point strategy assessment

IMPACT STRATEGY ASSESSMENT POINT	SCORING CRITERIA			
1. Management culture & strategy Company culture and major commitment to drive positive change	**Out of scope** Focus on non-impact businesses	**1** Limited strategy	**2** General comment	**3** Clear commitment
2. Growth potential, internal drivers Towards which areas is capital allocated to, what is the focus of research and development budget and direction of acquisitions or disposals	**Out of scope** Under-proportional	**1** Vague	**2** Over-proportional	**3** Strong over-proportional or near 100%
3. Growth potential, external drivers Growth potential of addressed end markets and achievable profitability drives the score	**Out of scope** Shrinking	**1** Weak growth	**2** Growth with end-market	**3** Above end-market growth, gain market share
4. Impact measuring and reporting What is measured is managed, often a driver for improvements in management and culture	**–1** No data available	**1** Only limited data available	**2** Partial impact reporting	**3** Detailed impact reporting on full company
5. Potential risks to impactful activities Policy or regulatory changes, customer preferences, technology risks or hurdles, competitive landscape	**–3** Significant risks	**–2** Potentially meaningful risks	**–1** Limited risks	**0** No risks
6. Potential risks to non-impactful activities Regulatory requirements or emission limits increase costs, stranded assets, or legacy liabilities or reputational issues	**–3** Significant risks	**–2** Potentially meaningful risks	**–1** Limited risks	**0** No risks

Source: Vontobel figures

Still, we saw room for some fine-tuning. We adjusted our assessment to include detailed instructions for the scoring criteria, which provide a clearer definition of which elements need to be fulfilled for each score. This fine-tuning helps reduce discrepancies and leads to a systematic and repeatable scoring process.

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

Figure 3: Portfolio weighted impact strategy assessment

Source: Vontobel figures

Impact pillars

Our investment process is in line with “Guidance for Pursuing Impact in Listed Equities” by GIIN (see chapter on Impact investing through public equities on page 6) and explains how we trace back our steps from the sustainability challenges that we grouped into six impact pillars and then identified solutions required to alleviate these problems. Each of our portfolio holdings is allocated to a pillar according to the environmental solutions they can provide with their products and services.

Impact pillars of Vontobel Fund II – GIE

Clean energy	Clean water	Sustainable cities	Innovative industry & technology
EXAMPLES OF CHALLENGES THAT WE ARE TACKLING WITHIN OUR IMPACT PILLARS			
– ***Electricity and heat cause 31 % of greenhouse gas emissions (GHG) globally,*** due to fossil fuels’ combustion – Unstable energy supply and energy losses	– ***3 billion people rely on water sources with unknown quality[1]*** – Rising demand for water – Increased water pollution – Inadequate access to safe and affordable drinking water	– ***Transport and logistics emit 15 % of all GHG[1]*** – Buildings cause 28 % of global CO_2 emissions – Cities consume 78 % of the world’s energy and produce more than 60 % GHG[2] and a significant portion of waste.	– ***Industry processes are the fastest growing GHG emitters: +203 % between 1990-2019[3]*** – Many emerging economies rapidly build manufacturing and infrastructures – Growing population and economy require energy and scarce raw materials
EXAMPLES OF PRODUCTS OR SERVICES PROVIDED BY FUND’S HOLDINGS			
– ***Generate electricity from wind, solar and other renewable sources*** – Manufacture renewable energy equipment and technologies that provide a smarter and reliable grid and greener power	– ***Provide drinking water and manage water waste*** – Upgrade old water infrastructure using new technologies and services – Equip emerging countries with sanitation and water treatment infrastructure in emerging markets – Provide products to improve water efficiency – Enable desalination – Limit the impact on biodiversity in water	– ***Decarbonize transportation with solutions including electric vehicles and rail transportation*** – Provide solutions for smart and energy efficient buildings: better insulation and smarter lighting, heating, ventilation and cooling over the lifecycle of a building – Deliver sustainable waste management	– ***Innovate with new materials and technologies to enable the transition to the low carbon economy*** – Improve manufacturing efficiency in terms of use of resources and / or workers safety – Enable the transformation to improve research and development, support cleaner production and logistics, design for repair, reuse, recycling
SPECIFIC SCOPES WITHIN AN IMPACT PILLAR AND COMPANY EXAMPLES			
– Alternative energy: First Solar – Electric utilities – Grid equipment: Prysmian	– Efficient use of water: Henkel – Water utilities: Veolia	– Infrastructure & construction: Stantec – Mobility solutions: Shimano – Sustainable buildings: Daikin	– Communication infrastructure: Airtel Africa – Functional materials: Linde – Digitalization
EXAMPLES OF CONTRIBUTION OF THE PRODUCTS / SERVICES TO THE UN SUSTAINABLE DEVELOPMENT GOALS			
7 AFFORDABLE AND CLEAN ENERGY	6 CLEAN WATER AND SANITATION	11 SUSTAINABLE CITIES AND COMMUNITIES	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
EXAMPLES OF IMPACT INDICATOR			
Annual renewable energy Generated, or capacity installed	Drinking water provided; water recycled, or wastewater treated	Cargo transported on rail	Potential avoided carbon emissions (PAE)

1 Source: www.unstats.un.org
2 Source: UN Habitat.
3 Source: World Resources Institute, 4 Charts Explain Greenhouse Gas Emissions by Countries and Sectors, 2020.

Impact pillars of Vontobel Fund II – GIE

Sustainable food & agriculture	Equal opportunities	Good health & well-being	Responsible consumption
EXAMPLES OF CHALLENGES THAT WE ARE TACKLING WITHIN OUR IMPACT PILLARS			
– 2.3 billion people lack adequate access to food[4] – Global hunger is on the rise[5]. Yet a large amount of food is wasted – Over 30 % of human-caused GHG emissions are caused by the food industry – Soil degradation and biodiversity loss can impact land yields. – Animal breeding takes up 77 % of all agricultural land, but supplies only 17 % of humanity's food supply.	– 31 % people are underbanked,[6] appropriate financial services enable creation of small businesses especially for women and the poor.[7] – 10 % of the world population live in extreme poverty, struggling to fulfil basic needs. – Wealth inequalities are alarming; gender and race gaps widening – Millions of children and young people have no access to quality education.	– Many diseases can be detected at early stages and preventively treated, lowering costs significantly – Half the world's population cannot obtain essential health services[8] – Unhealthy lifestyles may result in chronic diseases, and cause rising health care costs.	– Municipal waste may rise by 50 % to 3.4 billion tons from 2018 to 2050[9] – The oceans will contain more plastic than fish by 2050[10] – The reliance on natural resources increased over 65 % from 2000 to 2019.[11]
EXAMPLES OF PRODUCTS OR SERVICES PROVIDED BY FUND'S HOLDINGS			
– Ensure food security and safety with solutions including precision agriculture, animal health and aquafarm – Protect soil fertility – Offer sustainable solutions for safe and hygienic packaging, and efficient cold chain to reduce food waste – Enable plant-based diets.	– Offer financial services to underserved categories (e.g. microcredit, digital banking) – Provide high-quality education and / or access to information – Provide working parents with accessible childcare, dependable care and / or family planning solutions.	– Provide advanced diagnostics and prevention technologies / services – Enable access to health care (e.g. health insurance, telemedicine) – Manufacture generic or biosimilar drugs to allow affordable care – Improve nutrition and lifestyles.	– Replace single use materials without adequate recycling with e.g. paper based solutions bio-degradable plastics or other sustainable materials – Advance product lifecycle concepts through better design and engineering, i.e. circular economy – Foster a sustainable wood industry.
SPECIFIC SCOPES WITHIN AN IMPACT PILLAR AND COMPANY EXAMPLES			
– Agritech: Deere – Food processing & logistics – Improved nutrition	– Financial inclusion: Bank Rakyat – Quality education & access to information	– Affordable & modern drugs: – Novo Nordisk – Diagnostic, life science & tools – Healthcare insurance	– Sustainable Products: ***Smurfit Kappa PLC***
EXAMPLES OF CONTRIBUTION OF THE PRODUCTS / SERVICES TO THE UN SUSTAINABLE DEVELOPMENT GOALS			
2 ZERO HUNGER	1 NO POVERTY	3 GOOD HEALTH AND WELL-BEING	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
EXAMPLES OF IMPACT INDICATOR			
Food produced responsibly	Financial services offered to underbanked people	Patients reached and treated	Waste treated / processed / recycled / circular economy

Note: For informational purposes only. Holdings of Vontobel Fund II – GIE as of the period noted and subject to change.
No assumption should be made as to the profitability or performance of any security associated with them.

[4] Source: The World Health Organization, July 2021
[5] UN Food and Agriculture Organization (FAO), Report on food security and nutrition, 2022.
[6] Findex report, 2017.
[7] Demirguc-Kunt et al, financial inclusion and inclusive growth: A review of recent empirical evidence, World Bank Group, 2017.
[8] Source: World Bank and WHO.
[9] Kaza, Silpa; Yao, Lisa C.; Bhada-Tata, Perinaz; Van Woerden, Frank, What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050, World Bank, 2018.
[10] The World Economic Forum and Ellen MacArthur Foundation report, The New Plastics Economy: Rethinking the future of plastics, 2016.
[11] UN, The Sustainable Development Goals Report 2022. SDG Goal 12.

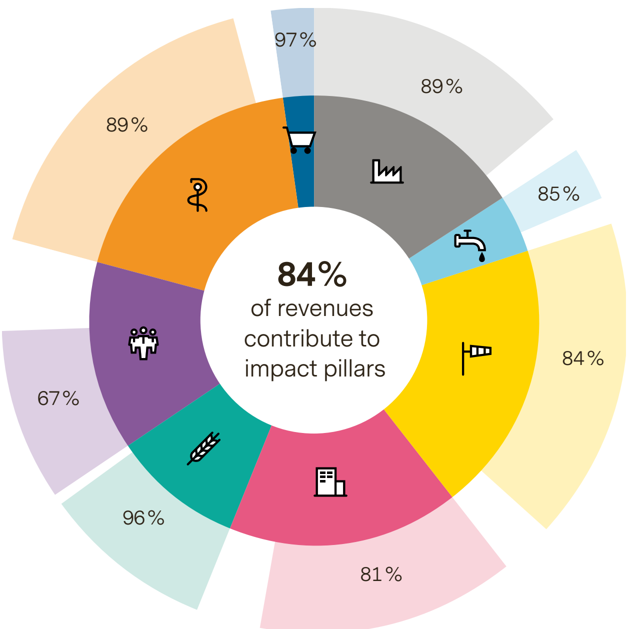
Purity factor reflects impactful revenues

We have long applied investment principles aiming to identify companies whose products and services can create a real-world impact in one of the areas defined by our impact pillars. At the same time, we follow good governance practices and the "do no significant harm (DNSH)" approach. This aligns us with the requirements to integrate sustainability considerations under the EU's Markets in Financial Instruments Directive (MiFID II).

It is decisive to understand that a sustainable investment strategy that is in line with the EU's Sustainable Finance Disclosure Regulation (SFDR), Article 2(17), can also contribute to environmental objectives ***outside*** the EU Taxonomy. While this taxonomy classification system dividing "sustainable" from "non-sustainable" economic activities consists of six clearly defined environmental objectives, there is no widely accepted definition of sustainable investment objectives. Under our own classification system, once we have identified the company as being "impactful and sustainable", it must contribute to one of our six "impact pillars with ***material revenues*** generated through their products and services. We believe that this approach fulfills the requirements of the wider EU term of sustainable investment objectives.

The inner circle in Figure 4 shows the portfolio's allocation to the six impact pillars of the Vontobel Fund II – GIE, while the outer circle represents the percentage of relevant revenues within each pillar. Across the whole portfolio, on average, 84 percent of all revenues are considered to have a direct or indirect positive impact.

Figure 4: The fund offers a high "purity level": 84 percent of revenues create impact



Pillar weights in the portfolio

Innovative industry & technology	15%
Clean water	4%
Clean energy	19%
Sustainable cities	16%
Sustainable food & agriculture	10%
Equal opportunities	13%
Good health & well-being	18%
Responsible consumption	2%

For companies with activities (revenues) in several impact pillars, all relevant revenue shares are allocated to the main impact pillar.
Pillar weights in the portfolio add up to 97 percent; 3 percent is cash.

Source: Vontobel Asset Management, as of June 30, 2023

SDG contributions

All UN member states adopted the 17 SDGs in 2015, serving as a global call to action to eradicate poverty, safeguard the planet, and ensure peace and prosperity for all by 2030. These goals encompass 169 targets and are tracked by 232 indicators to measure progress. Thanks to their broad language, the SDGs are the only universally accepted framework for defining sustainability.

At the halfway point of the 2030 Agenda for Sustainable Development, the world is far off track, as shown in the figures that capture the current SDG status[12]. Without urgent course correction and acceleration, humanity will face prolonged periods of crisis and uncertainty, triggered by and reinforcing poverty, inequality, hunger, disease, conflict, and disaster.

In 2015, the UN Conference on Trade and Development (UNCTAD) estimated that USD 2.5 trillion were required to attain these goals within developing nations. Before the disruption caused by the Covid-19 pandemic, advancement toward SDG-focused investments was observed across various domains, such as transportation infrastructure, sustainable energy, agriculture, healthcare, telecommunications, and biodiversity. However, this progress has been reversed. During 2020, investment flows from the international private sector to sectors aligned with the SDGs in developing and transitioning economies diminished by a third. Presently, the deficit amounts to roughly USD 4 trillion annually, according to UNCTAD[13].

By 2023, slow implementation and multiple crises had worsened the situation. Goals that were short of progress

Figure 5: Number of holdings with material contribution to UN SDGs through their products and services*

*Companies' positive contributions via their products and services.
Source: UN, Vontobel Asset Management, as of June 30, 2023

in 2019 still lack acceleration, and crucial areas like food security, climate action, and biodiversity are moving in the wrong direction. Urgent action is imperative.

Despite this rather bleak context, we continue our analysis to pick the "right" companies for our Vontobel Fund II – GIE, portfolio. An important part of our investment approach is to identify companies offering products and services that contribute to at least one of the ***impact pillars***. The overview table on pages 10 and 11 shows each pillar's investment contributes to one or two key SDGs. On a company level, we may assign additional specific SDGs.

Initially, the question of how individual companies could contribute to the SDGs remained unanswered. This changed with the introduction of the SDG Compass—a document created through collaborative efforts by the Global Reporting Initiative (GRI), the UN Global Compact, and the World Business Council for Sustainable Development (WBCSD). The SDG Compass provides businesses with tools and knowledge on aligning their activities with the SDGs, facilitating their engagement in sustainable development efforts.

It was amended by the SDG Essentials for Business in 2020. It is widely accepted that it is up to governments to implement the SDG agenda, but it will not be realized without the private sector. The private sector has a clear and vested interest in working to develop and scale up sustainable business solutions, using the SDGs as a lens to address challenges, build a strong growth strategy, and access new markets along the way.

We map contributions generated through the companies' products and services, not counting their internal, operational, or philanthropic contributions (Figure 5). For our SDG mapping process, we have defined the following rules:

1. SDG mapping must be aligned with the sustainable investment objectives of the corresponding impact pillars.
2. SDG contributions must be related to products and services and be material. Likewise, company management's behavior and initiatives, e.g., the focus on research and development, the funds available for capital expenditure, or activities tied to mergers and acquisitions, play a significant role. As a result, the number of SDGs we assign tends to be lower than what companies claim or what rating agencies may attribute to them.
3. SDG contributions are commented on in our database where needed and are reviewed at least yearly.

[12] 2023 Global Sustainable Development Report (GSDR)
[13] Closing investment gap in global goals key to building better future, UNCTAD, Sept 2022

Impact indicators

Consistent interaction and involvement with the companies in our portfolio enable us to gather supplementary data that reinforces our commitment to investing in impactful enterprises. This commitment is evident in the impact indicators of the Vontobel Fund II – GIE portfolio holdings, accurate as of June 30, 2023. While there is presently some variation in how companies gather and report data, we anticipate that our proactive engagement will enhance uniformity over time.

Figure 6: From the six impact pillars via SDGs to impact indicators

SDG = The Sustainable Development Goals reflect the megatrends that are shaping the world's future. They are adopted by 193 member states of the United Nations.The agenda contains 17 Goals and 169 targets. For illustrative purposes only.
Source: United Nations, Vontobel Asset Management.

The table below summarizes the impact indicators we collected from individual companies held by the Vontobel Fund II – GIE. These impact indicators contain major contributions from products and services of companies active in the corresponding impact pillar (e.g., a power utility generating renewable energy from a wind farm) but also minor operational contributions (excluded from the calculator in Figure 8) from many portfolio holdings (e.g., an industrial company having installed solar panels on their manufacturing sites for its own electricity consumption). The latter is, however, neither used for company selection nor for the purity factor of the portfolio. Nevertheless, it is a positive operational contribution, which we like to emphasize. Figure 7 shows the total numbers from all portfolio companies as well as the proportion that is attributable to the fund based on its ownership.

Figure 7: The fund's companies were associated with the following indicators over the year 2022, or their latest reporting year (61 companies held as of June 30, 2023):

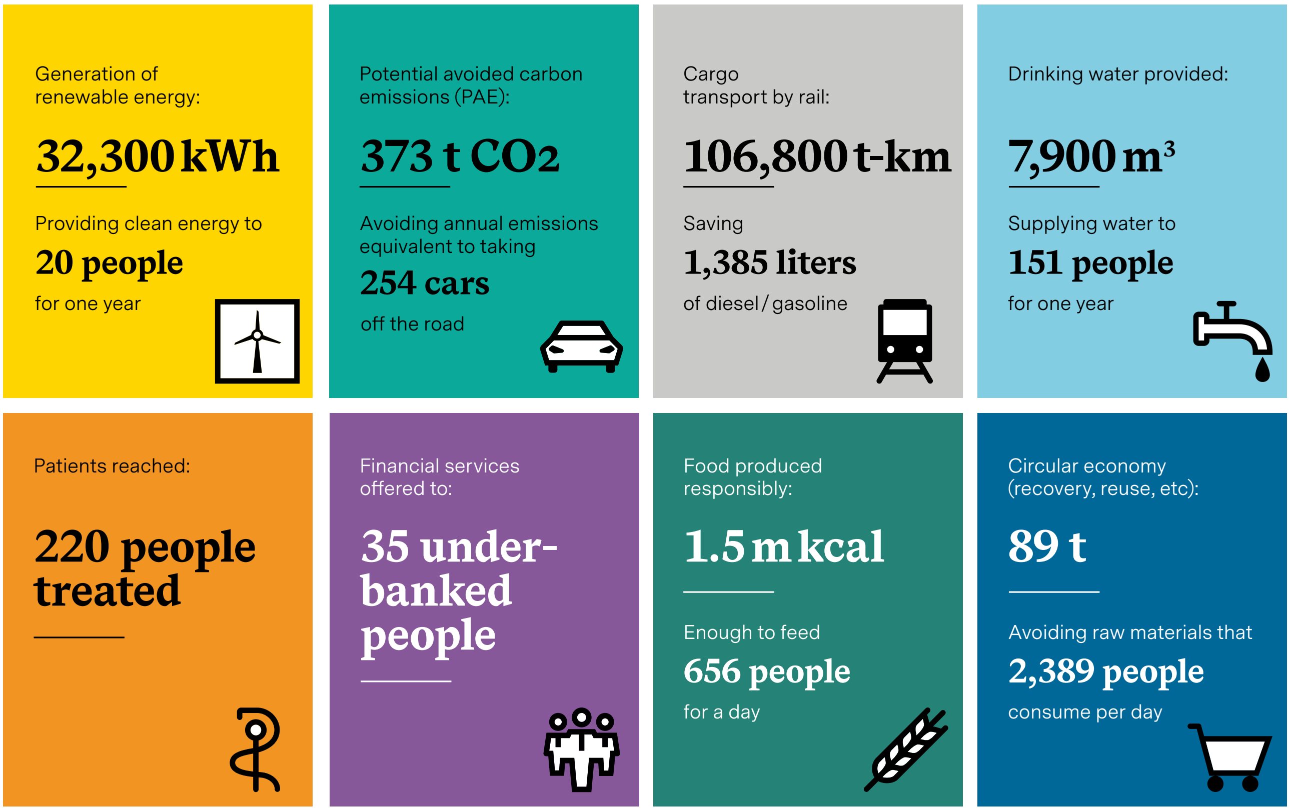
IMPACT INDICATOR DESCRIPTION	TOTAL FROM ALL PORTFOLIO COMPANIES	ATTRIBUTABLE TO THE FUND	MAJOR CONTRIBUTORS	TOTAL REPORTING COMPANIES
CO_2 emitted (carbon footprint, scope 1+2)	199.4 mn t	5,500 t	VEOLIA, AIR LIQUIDE	61
CO_2 avoided	748.5 mn t	27,700 mn t	SCHNEIDER, CARRIER	18
Renewable energy generated	89.9 TWh	2.4 GWh	NEXTERA, EVERSOURCE ENERGY	6
Annual renewable capacity installed	160.1 GW	20.4 MW	XINYI SOLAR, VESTAS	7
Renewable / recovered energy use in production	39.4 TWh	2.1 GWh	WEST FRASER, AIR LIQUIDE, LINDE	36
Drinking water provided	11,100 mn m^3	589,500 m^3	VEOLIA, AMERICAN WATER WORKS	3
Water recycled and / or saved	1,000 mn m^3	55,500 m^3	WEST FRASER, INFINEON	8
Waste water treated	7,300 mn m^3	397,300 m^3	VEOLIA, SUMRFIT KAPPA	3
Cargo transported on rail	677,200 mn ton-km	7.9 mn ton-km	UNION PACIFIC	1
Waste collected and separated for reycling	17.4 mn t	1,100 t	VEOLIA, CLEAN HARBORS, LKQ	34
Materials captured for circular economy	82.3 mn t	6,600 t	VEOLIA, DARLING, SMURFIT KAPPA	9
Beneficiaries of affordable medical solutions	35 mn people	194 people	UNITED HEALTH, NOVO NORDISK	2
Patients or people reached	2,000 mn people	16,000 people	ABBOTT, NOVO NORDISK	5
Users of nutrition solutions	2,000 mn people	103,000 people	KERRY, DSM	2
Education / information provided for	11 mn people	3,000 people	IDP EDUCATION, NYT	2
Jobs created through micro loans	28 mn jobs	742 jobs	BANK RAKYAT	1
Women empowerment	45 mn women	2'000 women	BANK RAKYAT, BANORTE	4
Loans granted to minority of female lead businesses	11,200 mn EUR	387'700 EUR	BANORTE, PAYPAL	4
Underbanked people served	44 mn people	3,000 people	BANK JAGO, BANORTE	4
Sustainable finance	343,800 mn EUR	8.2 mn EUR	PING AN, BMO	6
Food produced responsibility	523,900 mn kcal	109.8 mn kcal	BAKKAFROST, ZOETIS	3
Efficiently farmed land	611,100 mn km^2	12.3 mn km^2	DEERE	1

Source: Vontobel Asset Management. Note: For informational purposes only. Holdings of Vontobel Fund II – GIE as of the period noted and subject to change. No assumption should be made as to the profitability or performance of any security associated with them.

In terms of continuity, we aggregate the above list of 22 impact indicators into eight key impact indicators that gauge the favorable impact of the companies in the Vontobel Fund II – GIE.

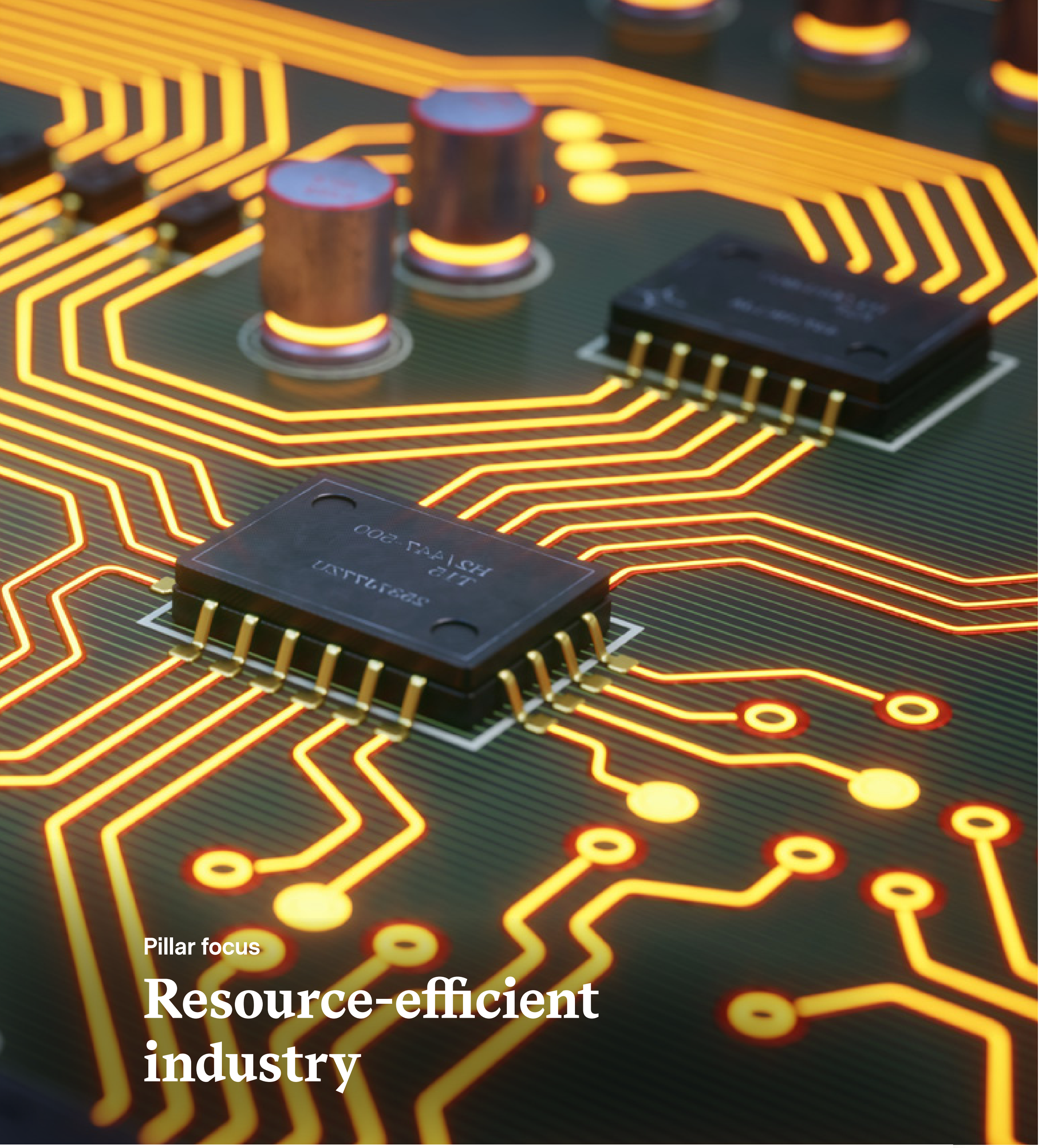
To make the indicators more tangible, we translate each positive impact into easier-to-grasp equivalents. Investing EUR 1 million in the Vontobel Fund II – GIE results in ownership of companies that delivered the following impactful activities during their latest reporting year:

Figure 8: The potential annual impact of a EUR 1 million investment:



Source: Vontobel Asset Management. Portfolio as of June 30, 2023. Figures are rounded.
The Global Impact Equities calculator is provided for informational purposes only to illustrate the potential impact that an investment in the fund may represent. The companies in which the fund is invested fit in at least one of the eight core impact pillars of the fund and not all companies will have an impact on all of the eight environmental and social indicators. Impact investing must take into consideration the capital allocation and engagement strategies of the fund.

The process of creating an impact occurs in two distinct steps: Initially, investors allocate funds to companies they perceive as impactful. Subsequently, these companies' products and services generate the intended real-world effects. As committed impact investors and long-term capital providers, our objective is to assist these companies in enhancing and expanding their offerings and refining their business practices. This approach aims to foster a more sustainable environment and infrastructure.



Pillar focus

Resource-efficient industry

Resource-efficient industries play a vital role in a move towards a more environmentally friendly and low-carbon economy. Clean and efficient production processes will reduce energy and materials consumption while increasing the output needed to cope with rising demand. Digital transformation is paving the way for new approaches to development, production, and the entire logistics chain.

Company case study: Synopsis, US

Resource-efficient industry—make processes simpler and cleaner

Weight allocation in the portfolio: 2.42%
Revenue relevance: 100%
Impact strategy score: 1.00

Synopsys is the market leader in electronic design automation software that engineers use to design and test integrated circuits, also known as chips. In addition, the company offers semiconductor intellectual property products, which are pre-designed circuits that engineers use as components of larger chip designs rather than designing those circuits themselves. It is also expanding its position in software quality and security tools used to test vulnerabilities during code development.

Impact relevance:
Synopsys is an important technology enabler, as the manufacturing of modern semiconductor chips requires electronic design automation tools that enable everything from the design of individual transistors to the development of software before any hardware is built. Chip and system developers must determine how best to design and connect the building blocks of chips and verify that the end design behaves as intended and can be manufactured efficiently and cost-effectively. This is a complex, multi-step process that is both expensive and time-consuming but can be greatly simplified with Synopsys' products. Smaller geometries allow for much lower power consumption and heat production. Thus, the company helps others reduce their carbon emissions.

Impact strategy:
Synopsys acts as a fast-growing technology enabler. Consequently, the company has limited direct impact, but its technology is required for modern, efficient production processes. In 2020, Synopsis committed to reduce its Scope 1 and 2 emissions by 25 percent by 2024 from a 2018 baseline, and in 2022, it decided to join the Science Based Targets initiative (SBTi). As a result, the company submitted new Scope 1 and 2 emission targets to SBTi and expects to receive their review and validation in 2023. In addition to resetting its targets, Synopsis is expanding its emissions reduction commitments to capture almost 70 percent of its total base-year Scope 3 emissions. These new Scope 3 commitments extend across the value chain and target intensity reductions in emissions from employee travel and customer use of hardware products. The company will publicly announce its new targets following SBTi's review. However, there is no data available yet to calculate absolute figures for potential avoided emissions from any downstream use of semiconductors by Synopsis' design automation tools.

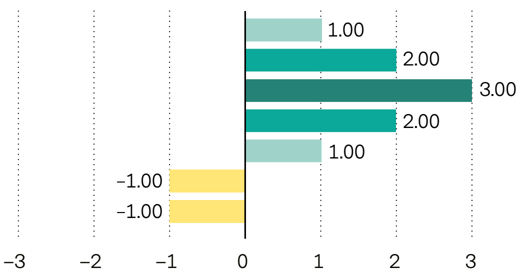
Company impact[15]

Renewable/recovered energy use in production
61.0 MWh

38 people

[15] Company's absolute contribution contribution for 2022. For illustrative purposes only.

Impact strategy assessment



Total assessment of impact strategy
Governance, management culture & strategy to drive impactful activities
Growth potential for impactful products & services (internal drivers)
Growth potential for impactful products & services (external drivers)
Measuring and reporting indicators on impact achievements
Potential risks related to impactful activities
Potential risks related to non-impactful activities

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

Pillar focus

Good health & well-being

At least half of the world's population cannot obtain essential health services, according to the World Bank and World Health Organization (WHO). At the same time, the population and the average global life expectancy are rising, and, by 2050, the number of people aged 60 or older will double.[16] The OECD expects health expenditures to outpace GDP growth, accounting for 10.2 percent of GDP by 2030 (up from 8.8 percent in 2018).[17] Given these expectations, providing access to quality health services at affordable prices is crucial to reaching underserved patients worldwide. Savings can allow national healthcare systems to go further, treat more people, and cover more diseases with the same budget. This is why we focus on companies that can make healthcare more efficient and affordable. We particularly favor businesses that sell generic / biosimilar drugs at cheaper prices than their patent-protected counterparts. A single generic competitor can lead to drug price reductions of 30 percent, and five generics competing can lead to drug price reductions of nearly 85 percent[18]. Measuring the number of people benefiting from equitable pricing strategies is key to our investment process. To improve efficiency, we consider advanced diagnostic med-tech companies as a solution to reducing hospitalization and accelerating the recovery process thanks to earlier, faster, and more accurate disease detection. We also believe that outsourcing is a powerful cost-saving strategy for the R&D phase and / or manufacturing of drugs. Lastly, we invest in food ingredient companies that help food producers reformulate their products to offer healthier options—e. g., low-sugar, low-fat, and vegetarian alternatives.

16 WHO, October 2021, WHO: aging and health.
17 OECD, November 2019, "Health spending set to outpace GDP growth to 2030".
18 US Food & Drug Administration (FDA), Generic Drug Facts, 2021

Company case study: United Health US

Good health & well-being—reaching more customers and treating more diseases

Weight allocation in the portfolio: 3.21 %
Revenue relevance: 99 %
Impact strategy score: 1.33

United Health is a multinational healthcare and insurance company. The health insurance business includes four divisions: Employer and Individual, which provides health benefit plans and services for employers; Medicare and Retirement, which offers health and well-being services to individuals aged 65 or older; UH Community and State, which serves state programs that care for the economically disadvantaged and the medically underserved in exchange for a monthly premium per member from the state program (Medicaid); UnitedHealthcare Global, which provides health and dental benefits to employer groups and individuals in South America; and United Healthcare (Optum), which delivers services to help modernize the health system and improve overall population health.

Impact relevance:
Today, 27.5 million Americans are uninsured. High healthcare and administrative costs (medical procedures, prescription drugs, hospital stays, and claim processing) contribute to the complexity of the system and result in insurance companies charging higher, often unaffordable premiums. Unlike many of its peers, United Health owns pharmacies and hospitals and has an extensive network of doctors and ambulatory care systems, allowing it to negotiate lower rates and provide cheaper plans to its customers. For example, some of its digital tools increase drug pricing transparency and help customers choose the right health plan. United Health provides access to affordable health insurance and services to 147 million people worldwide. It also offers direct care services, discounted medication, and analytical data to all participants in the US healthcare system.

Impact strategy:
Within its insurance business, United Health is currently focused on aggressively growing its membership base for Medicare Advantage (a private health plan for those aged 65 and up, which account for nearly a fifth of the US population). The federal government now pays USD 400 billion a year to insurance firms to subsidize that program. United Health also continues to expand its network of physicians (1.5 million) and hospitals (7,000), mainly through M&A and partnerships.

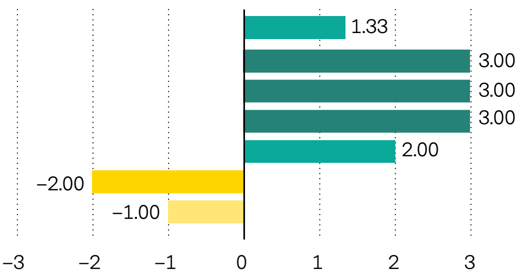
3 GOOD HEALTH AND WELL-BEING

Company impact[19]

Number of patients treated:
150 m

[19] Company's absolute contribution for 2022. For illustrative purposes only.

Impact strategy assessment



Total assessment of impact strategy
Governance, management culture & strategy to impactful activities
Growth Potential for impactful products & services (internal drivers)
Growth Potential for impactful products & services (external drivers)
Measuring and reporting indicators on impact achievements
Potential risks to scalability of impactful activities
Potential risks related to non-impactful activities

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

Pillar focus

Equal Opportunities

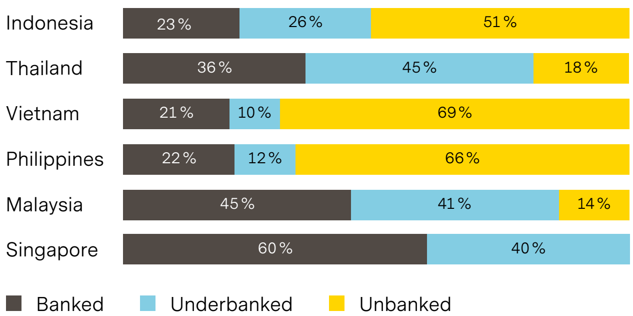
We believe that banks, as intermediaries, inherently provide a social good when managed and regulated properly. In several customer segments or situations, they are even highly impactful. For example, in many developing countries, large portions of the population remain entirely without access to credit, especially on fair terms. They save but lack access to savings products other than cash. Transfers and payments are often limited to cash or are prohibitively expensive.

Lack of access to credit is a real obstacle to poverty alleviation. In many cases, formal employment is not available, but there are business opportunities if working capital can be provided. These issues are not only common in developing countries but also exist in some, at times large, segments in developed countries. We invest in banks that seek to meet these needs.

By no means do we underestimate the risks that accompany banking—both to society and the individual customer. Banks have repeatedly been guilty of creating excessive leverage and excessive risk taking, failing to prevent money laundering and tax evasion, selling products that clients don't need or that are too complicated, etc. The list of misdeeds is unfortunately long. However, these problems are more prevalent in the developing world, which partially reflects the saturation of those markets. Hence, the more a bank is focused on a geography with an underbanked population, the less likely misconduct is to occur. Exploiting oligopoly powers, created by barriers to entry and economies of scale, and misaligned management incentives also represent important impediments reducing the social utility of banks. This is why we often turn to challengers, such as technology-based new entrants.

Indonesia is one example of a market with a large underbanked population that provides opportunity for profitable growth and where banks indeed make a positive difference. Several Indonesian banks generate attractive returns and growth, but our preference is Bank Rakyat, due to its higher purity level.

Figure 9: Low penetration in EM underlines the positive impact of banking



Source: e-Conomy SEA 2019 report, p. 45; issued by Google, Bain & Co and Temasek.

Company case study: Bank Rakyat, ID

Bank Rakyat is one of the three large state-controlled banks in Indonesia. Together with Bank of Central Asia, the one large private bank, these four banks issued 64 percent of all loans in Indonesia in 2022. The Indonesian government holds controlling stakes in each state bank (75 percent in Rakyat), but governance is strong, and incentives are aligned with minority shareholders. Bank Rakyat's loans are 43 percent micro, 23 percent small- and mid-sized enterprises, 18 percent large corporates and 16 percent consumer, according to its 1H 2023 financial update presentation; revenues are ~75 percent net interest income and ~12 percent fees related to loans and deposits, which reflects Rakyat's focus on taking deposits and issuing loans to lower-income individuals, especially in rural Indonesia.

Impact relevance:
Bank Rakyat is designated by the Indonesian government to serve lower-income individuals, which it does through several specialized products, such as government-subsidized and commercial microloans; loans for women's groups; and consumer loans that are often used for business purposes and thus help fight poverty. Bank Rakyat's customers are typically underbanked because it is difficult to assess their credit worthiness, they lack collateral and are difficult to reach physically for disbursement and collection, and the small ticket size offsets the otherwise attractive operating leverage in banking. Due to its focus, and with with time, Bank Rakyat has gradually managed to overcome these issues. One important factor is physical presence, which is why it has a very large branch and hybrid outlet network, including boats that serve as branches for more remote islands in the Indonesian archipelago. Bank Rakyat also makes a positive impact on the environment by integrating environmental requirements into the corporate credit issuance process, including requiring sustainability certification from clients in the palm oil industry and mostly excluding coal mining. We measure Rakyat's impact (based on data by Bank Rakyat and Vontobel) through: 1) women serviced (15 million, +26 percent YoY) , 2) jobs created (28 million, +16 percent YoY), 3) loan balance issued to minority or female customers (EUR 2.4 billion, +37 percent YoY), 4) underbanked people served (36 million, +16 percent YoY), and 5) balance of sustainable finance issued (EUR 46 billion, +14 percent YoY).

Impact strategy:
Bank Rakyat is the primary bank for the underbanked due to a political decision rather than a corporate decision, and the annual volume of state-subsidized microcredit issued is dependent on what the government budget allows, not demand. Other banks are allowed to apply to disburse the microloans, but few are keen as they have failed to achieve the same asset quality and efficiency as Bank Rakyat. One reason for this is its vast distribution network. However, this is expensive, and hence Bank Rakyat is focused on continuous efficiency improvements, not least through digitalization. Despite the large government stake, its service to low-income individuals and the occasional rotation of senior executives, Bank Rakyat is managed to generate competitive return on equity.

Equal Opportunities—Address inequalities and raise standards of living

Weight allocation in the portfolio: 1.82%
Revenue relevance: 82%
Impact strategy score: 1.33

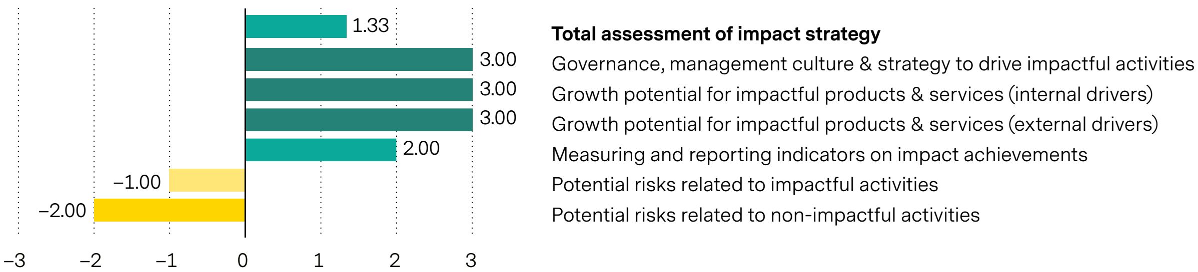
Company impact

Number of underbanked people served:
36 m

Sustainable finance
45.7 B EUR

[20] Company's absolute contribution for 2022.
For illustrative purposes only.

Impact strategy assessment



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

Countdown to net zero: it's urgent and carries a price tag

The climate crisis is right in our face and undeniable. Recent months alone have seen continual headlines about record temperatures being topped and other extreme weather events around our globe. Each passing year seems to bring a further intensification of climate change and its ramifications, affecting an increasing number of people worldwide.

To succeed in turning things around, the international community needs an urgent plan. This will carry a hefty price tag and, as capital allocators, investment firms have a clear role to play in the countdown to net zero. The "decade of delivery" for the UN SDGs can also be looked at as a massive opportunity for impact investors to intervene and help bring about positive change, with the UNCTAD expecting a significant increase in the current USD 1.3 trillion of funds dedicated to investment in sustainable development globally.

Commitments to change

The noise generated by the headlines is being matched by talk of action toward positive change. Indeed, the number of countries and companies pledging to achieve net-zero targets by 2050 has increased tremendously. Hence, you could conclude that the issue is being taken seriously. Some 149 countries had a net-zero target in June 2023, up from 124 in December 2020, while the number of companies jumped to 929 from 417 in that period, according to a Net Zero Stocktake report.

Even so, the timeframes set by companies differ substantially, and execution is lagging behind. According to a 2022 Bank of America (BofA) Global Research report 3 that studied the commitments of some 3,400 firms, 76 percent had the goal of achieving net zero by 2050, while a mere 11 percent aimed to do so by 2030. This indicates that many may still lack tangible plans to implement measures to meet the pledges made.

Checking the pulse

Good intent and promises won't be enough—the world needs urgent implementation. The UN Environment Programme's (UNEP) Emissions Gap Report 2022[4] doesn't paint a pretty picture. The nationally determined contributions (NDCs) that were adopted by world leaders at the 2021 UN Climate Change Conference COP26 in Glasgow have hardly scratched the surface. The world would need to cut 45 percent of current greenhouse-gas emissions by 2030 to get on track to limit global warming to 1.5 degrees Celsius (°C) and 30 percent to reduce it to 2°C, according to the report. Its authors emphasized the pressing need for a system-wide transformation and that a stepwise approach will no longer cut it.

A look at global energy-related carbon-dioxide (CO_2) emissions in 2022 might give cause for optimism at first glance: the International Energy Agency's (IEA) CO_2 emissions report showed they rose by less than one percent. That was significantly lower than in the previous year when we saw a jump of more than six percent. But it was also mainly driven by growth in sectors like solar, wind, and electric vehicles (EVs), which helped offset the impact of increased use of coal and oil amid the global energy crisis. The report made it clear: Carbon emissions remain on an unsustainable growth trajectory and bolder steps are needed for the world to accelerate the energy transition and meet its climate goals.

The massive gap comes with a price tag

According to BloombergNEF, global annual investment needs to triple throughout this decade to achieve global net-zero emissions goals by 2050. This represents a massive USD 2 trillion investment opportunity, approximately two percent of annual global GDP. Out of the total estimated cost of USD 195.7 trillion, USD 109 trillion is required to transform our energy-consumption patterns. The remaining USD 86.7 trillion will be directed towards energy-supply assets, to include upgrading and modernizing grids as well as implementing carbon-capture technologies. A substantial portion of capital spending will be allocated to investment in low-carbon power sources, such as wind and solar energy.

Governments alone won't be able to foot the bill. Capital will be required from both public and private actors and, as capital allocators, investment firms have a clear role to play. This is where impact investing comes in. These investors seek to deploy their wealth in a way that benefits the environment and society, whilst also generating a financial return.

Climate challenges, the transition of the energy sector, and carbon-emission reduction are key areas for impact investors. For example, since energy accounts for most GHG emissions, clean energy is key to addressing climate change and represents a significant component to mitigate human impact. The overall focus lies on emission reduction with electricity, hydrogen, and heat generated from renewable resources, and technologies enabling a reliable as well as smarter and greener grid. Investee holdings will be able to profit from the above-mentioned investments into the energy system.

Measuring the impact on the path to net zero
A major challenge for investors who opt for impact investing is measuring the impact of their investments. The approach we follow as an asset manager to select candidates for our portfolio revolves around the concept of "potential avoided emissions" (PAE)[21]. We believe companies active in the energy-efficiency value chain have so far broadly been disregarded in ESG (Environmental, Social, Governance) investing. Our primary focus is on identifying and investing in companies and projects that act as enablers for the transition towards a net-zero carbon economy.

To assess the "right" candidates, we analyze the potential impact of their products and services on reducing carbon emissions. By evaluating how these entities contribute to avoiding emissions and supporting sustainable practices, we aim to build a portfolio that aligns with our commitment to a low-carbon future. Incorporating the PAE framework into our investment decisions, we strive to play a significant role in driving the global shift towards a more sustainable and climate-friendly economy.

PAE places its emphasis on curbing future carbon emissions. It quantifies the emissions averted through the positive and efficient impact of a company's products in comparison to the greenhouse gases that would have been emitted normally. By calculating the emissions saved, PAE provides a clear measure of the potential environmental benefits of such innovative products and services.

Our PAE framework has been determined with ISS ESG, a leading provider of corporate governance and responsible investment solutions, market intelligence and fund services for institutional investors and corporations globally. The methodology description of PAE is available to institutional investors, together with our impact reports that outline the PAE concept.

To make real progress in getting to a net-zero world, we will have to redouble the efforts we are already making. Professional and institutional impact investors with their considerable financial muscle are key for us to get a handle on developing clean energy, transitioning the whole sector to drastically reduced carbon emissions and thus laying the foundations for a low-carbon future that is better for everyone on our planet.

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

PAE reporting

For our eighth PAE analysis of Vontobel Fund II – GIE's equity holdings, we draw on the PAE methodology paper by our partner for carbon and climate assessment, ISS ESG.[22] Their methodology follows an attributional approach based on life cycle GHG accounting. PAE per holding are aggregated to portfolio level based on the attribution factor in line with the PCAF Global Standard.[23]

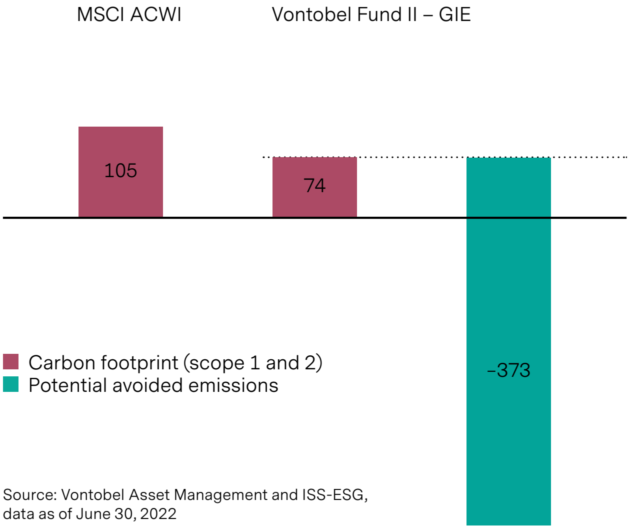
In agreement with the recent publication by the WBCSD[24], companies' contributions to global mitigation should not be limited to reducing their own and value chain GHG emissions but should also strive to accelerate global decarbonization efforts by delivering additional solutions and enabling others to reduce emissions as well. The guidance document acknowledges that estimates of avoided emissions are by nature hypothetical as they compare a situation with a solution in place with the scenario that would have existed without it. This is why we created the term "potential" avoided emissions.

ISS ESG analyzed 18 companies with major PAE contributions out of 61 individual stocks in the portfolio. The ownership of each company used for the analysis is as of June 30, 2023. The total value of the fund was EUR 76.6 mn. The fund is associated with 27,700 tons of potential avoided CO_2 (PAE) coming from the holdings' activities in 2022, or their latest reporting period as calculated by ISS ESG. The PAE data was adjusted for potential double counting by ISS ESG, which affected PAE values for 10 companies. As a result, these values provide a rather conservative impact metric on a portfolio level and lead to lower overall PAE. The four largest contributors to avoided emissions on fund level are ***Xinyi Solar*** (23 percent), ***Vestas*** (14 percent), ***First Solar*** (12 percent), and ***Mastec*** (9 percent). Overall, this corresponds to ***373 tons of potential avoided CO_2 (PAE) per one million euros invested*** in the Vontobel Fund – GIE. Further details on the PAE methodology can be found in the appendix.

The carbon footprint of a portfolio is traditionally measured under scope 1, 2 and 3 upstream and downstream, but this accounts only for past emissions. In addition, scope 3 emission data is not yet reliable, and we currently do not take them into account. Our focus lies on solution providers that ***help reduce the future*** CO_2 emissions of their customers to enable a transition to a low carbon economy – a more holistic approach to carbon emissions. Although the overall carbon footprint of the Vontobel Fund II - GIE turns out to be similar to its reference index, the MSCI World index (Figure 9), the large amount of PAEs – ***5 times more than the CO_2 scope 1+2 emitted*** – validates the significant and effective willingness to reduce future carbon emissions. Hence, a high PAE shows a strong support for industry transition and a real-world impact.

Figure 10: Carbon footprint and avoided emissions

In tons of CO_2 per EUR 1 m invested



Source: Vontobel Asset Management and ISS-ESG, data as of June 30, 2022

[22] Available upon request from ISS-ESG
[23] PCAF (2020). The Global GHG Accounting and Reporting Standard for the Financial Industry. First edition.
[24] WBCSD (2023): Guidance on Avoided Emissions

Engagement and voting

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

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

Climate reporting remains a key focus for all our company engagements. Our effort lies in more detailed reporting on PAEs and an improvement in expressing carbon reduction targets. We, along with other investors, are working with the companies to commit their net zero targets to be aligned with an SBTi Net Zero Strategy or later achieve SBTi approval where such a procedure has not been initiated yet (see chapter on "Countdown to net zero: it's urgent and carries a price tag").

Figure 11: Percentage of holding companies with SBTi targets

	VONTOBEL FUND II – GIE	REFERENCE INDEX
Committed to SBTi target	27%	18%
SBTi committed and approved net zero targets	41%	32%
Total percentage of companies with SBTi activities	68%	50%

Source: MSCI ESG; Vontobel Asset Management, June 30, 2023

Find further key engagement objectives for the Vontobel Fund II – GIE below:

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

To give a bit more insight we describe one engagement case study of 2022 and H1 2023.

Raising the bar on ESG disclosures: multi-year engagement

Engager

Engagement related to transparency is a topic pursued by several investment teams.

Issuers: All portfolio companies
Engagement type: Impact Investing Team got in touch with the company directly

Topic

Strategy, Financial and Reporting—Corporate reporting (e.g., audit, sustainability reporting)

Rationale and context

As investors, we closely assess companies' management of sustainability risks. We also consider their ability to capitalize on sustainability opportunities and address environmental challenges through products and services. Comparable data is vital for us to gauge sustainability aspects and quality. We rely on company-reported data like annual and CSR reports, as well as third-party ESG data providers. We don't solely rely on disclosure for evaluating sustainability performance, given the variation in reporting standards and practices. Furthermore, disclosures don't guarantee good practices, as demonstrated by "ClimateBERT," which revealed selective reporting by firms supporting TCFD. We've observed similar trends.

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

Engagement's objective

We were specifically focused on

- requesting additional data for our own analysis and reports and
- motivating companies to measure and publicly disclose the required data and indicators.

Methods of engagement

Letter / e-mail, meeting (in person or teleconference)

Leadership level

Essentially investor relations

Engagement process

We sent out a survey in April 2023 to the portfolio companies with a list of impact indicators we expect them to disclose, and which we used for our impact calculator in this report. More than 35 companies took the time to thoroughly answer our survey including further exchanges with companies that provided limited data. The relevant environmental metrics for the portfolio companies, mainly linked to their products and services, were applied where data was available or could be estimated. We aimed to obtain the most recently available environmental data from the invested companies either via engagement or directly from their website where possible; for over 90 percent, the data is from the company's fiscal year 2022.

The Voting and Engagement Guidelines for the Vontobel Fund II – GIE were updated in July 2023 and integrated in our new overall Impact & Sustainability Policy. They are based on the overarching Vontobel Voting and Engagement Guidelines and they describe the key objectives of our engagement, which are relevant for the sustainable investment objectives of this Fund.

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

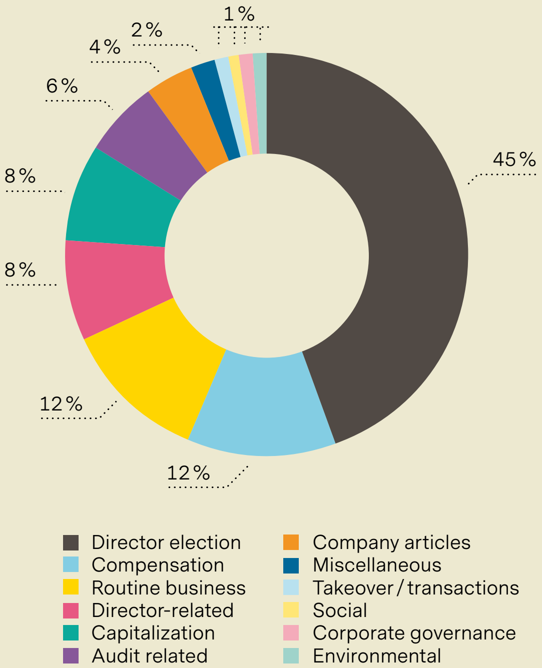
Figure 12: Statistics on our engagement activities 2022

# of requests for transparent impact reporting	61
# of fact-finding engagement on other topics	13
# of active engagements on other issues	32
# of collaborative engagements	35

Source: ISS ProxyExchange, Columbia Threadneedle reo®, Vontobel Asset Management, as of December 31, 2022

Figure 13: Proxy voting statistics for the year 2022 for portfolio holdings

Proposal code categories (% of items)



Voting statistics	Total	%
Votable meetings	65	
Meetings fully voted	64	99.46
Unvoted meetings	1	1.54

			MANAGEMENT PROPOSALS		SHAREHOLDER PROPOSALS	
Proposals Statistics	**Total**	**%**	**Total**	**%**	**Total**	**%**
Votable proposals	933		890		43	
Proposals voted	910	97.5	867	97.4	43	100.0
FOR votes	773	82.8	743	83.5	30	69.8
AGAINST votes	121	12.9	109	12.2	12	27.9
ABSTAIN votes	6	0.6	5	0.6	1	2.3
WITHHOLD votes	9	0.9	9	1.0	0	0.0

Source: ISS ProxyExchange, Columbia Threadneedle reo®, Vontobel Asset Management, as of November 31, 2022

In 2022, we submitted votes at 65 meetings. There was one unvoted meeting (company: Kion) due to a processing error on the side of ISS proxy. 83 percent of voting items received a "For" vote, Notably, 83 percent of voting items were cast in line with management. The remaining were either cast against management, or no recommendations from the management nor votes were expressed. More information about our voting records can be found under am.vontobel.com/esg-investing.

One example of a voting decision is described below: One of the assessment criteria is linked to the management strategy. We analyze the major commitment to expand impactful activities—possibly combined with reduction of critical ones. One key aspect in this context is executive compensation and how it is linked to achieving certain impact and sustainability objectives. In 2022, we voted against 12.9 percent of agenda items. One obvious topic was linked to the apparent failure to link management compensation and appropriate sustainability performance. For instance, our stewardship partner CTI reo®, who represented us together with other shareholders, wrote a letter to ***NXP Semiconductor*** to highlight the rationale behind our "against" votes for five agenda items. Through this letter, we also emphasized the expectation of good corporate governance practice and set out our focus areas, which include: gender and ethnic diversity and inclusion across the workforce and on management boards; diversity in the executive pipeline; climate change management practices and board oversight and impact on biodiversity; social and labor rights issues, including safe and fair treatment of the workforce, and the board's use of related criterion in awarding executive pay.

SFDR-related reporting

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

SFDR demands certain disclosure and reporting requirements. We published a first periodic report as requested by SFDR as part of the annual report of the fund for the fiscal year from September 1, 2021, to August 31, 2022. We were using the official RTS (so-called "SFDR Level II") template providing specific disclosure requirements issued by the European Commission. This report can be found on the Vontobel fund product website (p. 363. – 365). It includes, but is not limited to, a percentage of sustainable investments with an environmental objective aligned with the EU Taxonomy and the percentage of sustainable investments with an environmental objective that were not aligned with the EU Taxonomy.

Principle Adverse Impact (PAI) indicators

The SFDR requires annual entity level disclosures of adverse impacts on sustainability factors. Sustainable investments (SI) as defined in article 2(17) of the SFDR must pass a "do no significant harm" test based on a list of principal adverse impact indicators (PAIs)[25]. Detailed regulatory requirements are outlined in the expert report by Tadas Zukas (see Appendix).

Figure 14: Use cases for PAIs

1

Entity-level reporting
Annually, by June 30, fund managers must report on all PAIs and at least two additional indicators across all holdings

2

Product-level reporting
SFDR Article 8 and 9 PAIs can be used to build investment strategies; pre-contractual and periodic disclosure requirements include how adverse impact indicators are considered for SI impact indicators are considered for SI

3

Do No Significant Harm (DNSH) assessment
SFDR Article 2(17) SI requires "taking into account" all PAIs

Source: MSCI ESG Research LLC, June 2023.

Currently, there are still some challenges:

- Low data availability for some PAIs
- Most PAIs are subject to materiality assessment under forthcoming CSRD reporting standards (ESRS)
- Where information is not available, 'best efforts' required to access missing data
- Estimation models need to make 'reasonable assumptions'

The regulator doesn't provide any "do no significant harm" thresholds but all PAIs must be "taken into account". Despite these facts, threshold should be set or pass / fail for involvement flags introduced with some levels of tolerance permitted.

PAI approach on a Vontobel Group level: Our entire enterprise applies an active multi-boutique asset management approach, whereby each boutique and even each investment strategy tailors its investment and sustainability (or ESG) approach independently according to the requirements of the asset classes in which it invests and its own sustainability strategy. Thus, the degree and the way the PAI are considered depends on factors such as the investment strategy and the availability of reliable data.
The approach applied to consider the PAI depends on the nature of the indicator, as well as on the specific context of the investment that is causing the adverse impact. A PAI statement on entity level is published on the Vontobel website.

For the Vontobel Fund II – GIE strategy we consider all mandatory and multiple optional PAI indicators. A short description of the PAI consideration can be found in the Annex Sustainable investment objective to the Sub-Fund Vontobel Fund II – Global Impact Equities (p. 288 / 400) as of May 2023. The current PAI approach for the fund is described in our Impact & Sustainability Policy and in our SFDR Website Disclosure.

This also builds the backbone for our future SFDR periodic reporting. Regularly updated PAI reporting can be found in our EET file that is delivered to Fundinfo monthly, which is distributed to our clients. FE Fundinfo is supporting fund managers not only with the collection and creation of the EET, but also with the dissemination of EET required data fields.

[25] Esma, 2021-02-02, Final Report on draft Regulatory Technical Standards

The power of illumination: What increasing EU regulation means for impact investors

March 2023 marked the fifth anniversary of the EU's Sustainable Finance Action plan, which is delivering a highly sophisticated regulatory architecture for sustainable finance. As Dr. Tadas Zukas, Vontobel's global lead senior legal counsel on sustainability, explains in the regulatory briefing (see Appendix), impact investors are set to benefit from this regulatory evolution. Below is a summary of this regulatory briefing from the Impact Investing Team and what it all means to us.

What investors want
The long-term success and expansion of sustainable financial markets depends upon investor trust. A 2022 special coverage by The Economist on ESG investing reported that "sustainable investing is not about to disappear" and that "more regulation will make it more credible" as "investors will continue to care not just about returns but about the world they live in."

Looking specifically at impact investing, investors often cite lack of consistent regulation and perceived in-transparency as reasons to limit portfolio expansion or remain on the sidelines. Earlier this year Vontobel conducted a study of professional and institutional impact investors around the globe which revealed four key messages which map investors' impact journey:

- The time for impact investing is now
- Look for a proven track record of impact investing
- A strong commitment even through challenging times
- Active, high-conviction management is needed

Good regulation builds trust
Regulation can play a key role in addressing many of the challenges that are currently associated within the realm of sustainable finance. The new regulatory framework being implemented in the EU is disclosure- and transparency-oriented and thus shaped in the spirit of the influential regulatory maxim elegantly expressed by the renowned US Supreme Court Justice Louis Brandeis more than a century ago: "Sunlight is said the be the best of disinfectants."[26] As Dr. Zukas explains: "When I look at the new European regulatory architecture for sustainable finance, Brandeis' insight seems to be also the European regulator's big hope: that transparency as a key tool of that new framework will have the effect of "sunlight" and will "nudge" the market to self-correct, leading to better and more well-informed informed investment decisions."

While the central hub of this regulatory phenomenon remains entrenched within the EU, the effort to enhance congruence of sustainability and financial practices extends beyond the EU's boundaries. In fact, as the current global surge in regulatory activity within the realm of sustainable finance exhibits no indications of decelerating, some observers have utilized the phrase "regulatory tsunami" to fully reflect the trend's relentless momentum. The same phrase was applied to the wave of regulation that swept over the financial services industry following the 2008 Global Financial Crisis, reflecting that such fast-paced regulatory expansion, coupled with its often-technical language and cumulative impact, can be challenging for investors despite the benefits it brings.

"Professionally navigating the highly complex EU's regulatory framework in sustainable finance and related regulatory "tsunami" of new laws and emerging market standards poses a substantial challenge for the entire financial services industry, not only for the community of specialized regulatory lawyers," Dr. Zukas says. "The modern European regulator aims to lay serious foundations for a sustainable finance market which the investors trust and by defining key concepts of sustainable finance and asking for more transparency regarding sustainability claims, all while putting the client's sustainability preferences at the center of the new regulatory framework. That trust is essential for the transition to a more sustainable economy to succeed."

[26] For the original reference and related insights (including downsides of the approach), see Zukas / Trafkowski, Sustainable Finance: The Regulatory Concept of Greenwashing under EU Law, in: Zeitschrift für Europarecht, 2 / 2022, p. 23-25.

What's on the agenda?

The big question is if this new, complex regulatory framework can be successful in reality. Will it work "on the ground"? That is the key theme, not only in the ESG practitioner circles, but also of the European Commission's June 2023 communications, which setting out the current phase's focus and plan for the EU's sustainable finance journey for the next five years[27]. Let's take a look at some key topics on the regulatory agenda that investors should keep their eyes on:

- ***More data for more ESG.*** The EU Corporate Sustainability Reporting Directive (CSRD) came into force in January 2023. It aims to deliver high quality corporate sustainability data from the real economy and is a key law under the EU's new regulatory framework for sustainable finance. This law marks a clear conceptual shift to a ***"double materiality"***-perspective in corporate sustainability reporting, combined with a shift away from seeing that reporting as "non-financial". The full impact of this expansion cannot be understood without understanding the material increase of corporate sustainability data to be reported on, which is substantial indeed. These are indications of the transformative development's depth and reach, whose conceptual impact shall not be underestimated. This is set to continue: CSRD's new corporate sustainability reporting regime will be gradually rolled out to cover around 50,000 firms active on the European market by 2028.
- ***ESMA's proposed naming rules***. The shift in focus onto impact investing seen in 2022 can be expected to continue. In the framework of the consolidating European regulatory architecture for sustainable finance, the topic of using the word "impact" was addressed in 2022 as part of ESMA's proposed 80 percent threshold for funds using "impact-related" terms in their names. For the use of the words "impact", "impact investing" or any other impact-related term, ESMA's 2022 draft guidelines propose that these should be used only by funds meeting the proposed new quantitative thresholds set out in the draft guidelines.
- ESMA's 2023 progress report on greenwashing indicates that the term ***"impact washing"*** is entering the ESG marketplace's vocabulary to describe misleading claims on impact. Besides listing some examples of misleading fund claims, the report notes that such claims can also stem "from a confusion about types of impact targeted by a given fund".
- ***ESG know-how and literacy.*** ESMA's report observations demonstrate the level of nuance which the ability to lead a professional conversation about impact increasingly requires as the impact investing market enters its new phase of maturity. Clear, precise, nuanced client communication is becoming ever more important in impact investing as well, as is the in-depth understanding of sustainable finance concepts and impact investing literacy (also on client's side). As the ESMA itself emphasizes, some technical subtleties of the area can be a challenge to understand for not well-versed investors and thus may confuse them. In this context, raising and deepening clients' ESG literacy / impact finance education might also serve as an important mitigant to prevent the risk of being unduly perceived as committing greenwashing due to technical misunderstanding on the client's side.

The Impact Investing Team is grateful that the Vontobel Group has built up legal & compliance ESG expertise on all these regulatory changes on a corporate level that can support us in understanding, implementing, and benefiting from these changes (see info box).

You can find the full regulatory briefing in the Appendix?

Vontobel: Legal & Compliance 4.0 vision and the ESG challenge

Sustainable finance is an increasingly regulated field. The global regulatory waive in ESG and growing client / investor demands affect almost every ESG concept and there is practically no area of corporate activity left untouched by this development. From product structuring and disclosures to corporate reporting and climate risks, from marketing, website presence, data quality and consistent terminology to corporate strategy and purpose, in-house L&C departments are called to play a more active role in enabling firms to master the sustainability challenge and stay at the cutting-edge of fast-paced regulatory developments. In this context and as part of its strategy, Vontobel is building up and developing specialized in-house regulatory ESG expertise to navigate the complex global regulatory environment. As part of its vision and ambition, throughout the year 2022, Vontobel's L&C department has continued to invest in ESG expertise by developing existing and hiring new talent, including by creating a centralized L&C team specializing in ESG. Acting as experts in industry bodies, the global investment firm also aims to contribute to the sustainable transformation of the Swiss financial center.

[27] European Commission, "A sustainable finance framework that works on the ground", COM(2023) 317 final, Communication of June 13, 2023 see in particular p 3 et seqq.

Ratings from external ESG data providers

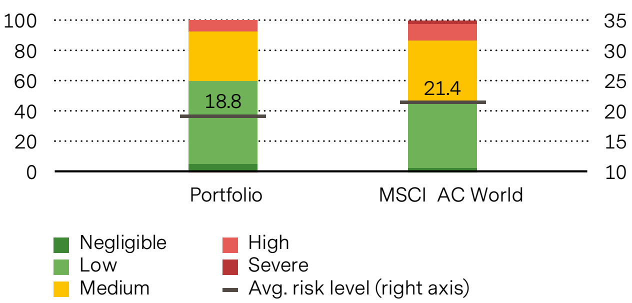
Various ESG rating agencies evaluate our Vontobel Fund II – GIE, and their ratings are used by clients, asset owners or financial advisers. To increase our fund's transparency, we not only report our own impact data, but also show a selection of ESG, climate, and impact ratings from external sources.

Overall ESG ratings of the fund

Although our primary goal is not to solely enhance our overall ESG rating, it's noteworthy that the companies we choose to invest in often receive favorable ratings from agencies. Instead, we continue to primarily focus on investing in companies that drive positive impacts across our six designated impact pillars. In addition, we prioritize those that derive a significant portion of their revenue from pioneering products and services.

Simultaneously, we are committed to steering clear of investments in companies entangled in critical business activities. Apart from our internally derived investment approach metrics such as purity, SDG contribution, and impact indicators, we also seek an external perspective through ratings from third-party sources. Multiple rating agencies validate the beneficial influence of our fund when compared to our reference index.

Figure 15: Portfolio ESG risk levels below those of reference index (MSCI ACWI)



Source: Sustainalytics, as of June 30, 2023

Sustainalytics

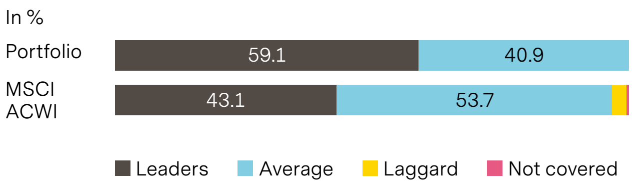
This ESG rating provider looks at the ESG risk levels and corresponding risk-level distribution of the Vontobel Fund II – GIE and compares it with the corresponding figures of the reference index MSCI ACWI. The risk distribution is again clearly favorable for the fund. Compared to last year, the portfolio's average Sustainalytics ESG risk level decreased from 26 to 19. At the same time the reference index reduced its risk from 31 to 21 (Figure 15).

MSCI ESG overall ESG rating comparison

MSCI's "ESG Quality Score" measures the ability of underlying holdings to manage key medium to long-term risks and opportunities arising from environmental, social, and governance factors. It is based on MSCI ESG ratings and is measured on a scale of 0 to 10 (worst to best). The distribution of scores is based on the universe of approximately 28,000 funds included in MSCI ESG fund metrics. ESG ratings are classified as ESG Ratings Leaders (AAA and AA), Average (A, BBB, and BB), and Laggards (B and CCC). In April 2023 MSCI ESG revised the Fund ESG Quality Score calculation. The Adjustment Factor(s) was removed from the calculation of the fund's ESG Quality Score. The Fund ***ESG Quality Score*** is now equal to the Fund Weighted Average ESG score. Figure 15 shows the MSCI ESG Ratings as of June 30, 2023. The overall ESG Quality Score and rating for the portfolio is 7.34 (AA) versus 6.8 (A) for the reference index.

Figure 16: MSCI ESG fund rating summary

	FUND	MSCI AC WORLD
ESG Quality Score	7.34	6.80
ESG rating	AA	A



Source: MSCI ESG, as of June 30, 2023

Ratings tied to UN SDGs

ISS ESG SDG Impact Rating

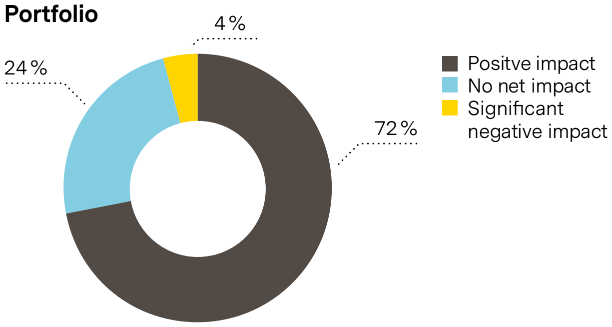
The ISS ESG SDG Impact Rating provides a holistic metric of impact using the UN SDGs as a reference framework. The rating measures the extent to which companies are managing negative externalities in their operations across the entire value chain to minimize negative impacts, while at the same time making use of existing and emerging opportunities in their products and services to contribute to the achievement of the SDGs. A company's impact contribution follows the SDG framework. For each of the 17 SDGs, a company's impact is determined by three pillars: (1) the company's products and services; (2) the company's operational management; (3) the involvement in and responsiveness to controversies. Scores range from –10 (significant negative impact) to +10 (significant positive impact). The fund has an overall positive SDG contribution of 72 percent versus 61 percent of the reference index by holding weights (see Figure 16). At the same time the Fund has only 4 percent significant negative impact versus 10 percent. The two fund holdings mentioned by ISS ESG in this negative category are ***Trimble*** and ***Clean Harbors***. The former in our view provides great electronic devices and geospatial services for the construction, transport infrastructure and agribusiness that enable customers to optimize productivity and reduce project costs. The latter is an environmental services company. ***Clean Harbors*** helps to prevent the release of hazardous waste into the environment which is crucial for a healthy society and environment.

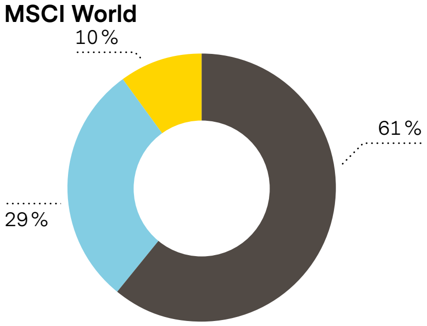
Carbon footprint / climate assessment

MSCI ESG research

MSCI ESG research defines the portfolio carbon footprint as tons of CO_2 emitted per EUR 1 million invested.* The carbon emissions by the companies in the Vontobel Fund II – GIE are 33 percent below those of the constituents of the reference index MSCI ACWI. In particular, the Scope 3 downstream emissions are considerably lower.

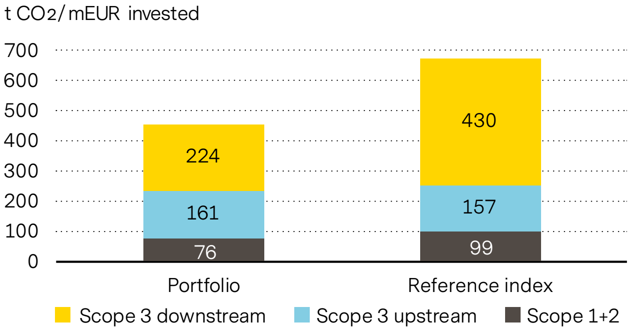
Figure 17: The portfolio's positive SDG impact exceeds that of the MSCI ACWI Index





Source: ISS-ESG, June 30, 2023

Figure 18: The Vontobel Fund II – GIE with lower carbon emissions intensity*



Source: Vontobel Asset Management, MSCI ESG Research LLC, as of June 30, 2023.

*Measures the carbon emissions, for which an investor is responsible, per USD million invested, by their equity ownership. Emissions are apportioned based on equity ownership (% market capitalization).

EU Taxonomy analysis

ISS ESG results

ISS ESG has reviewed approximately 2,000 issuers for directly reported Taxonomy data, of which just over 1,000 have disclosed Taxonomy eligibility and / or alignment as of March 2023. The ISS ESG EU Taxonomy alignment report evaluates the alignment at portfolio level against the six climate and environmental related objectives set out by the regulatory text, by determining investee companies' involvement in Taxonomy-eligible economic activities, quantifying the respective revenues from these activities, and subsequently applying the three technical assessment steps of "substantial contribution", "do no significant harm", and "minimum social safeguards".[28] This graph's "Aligned" figures combine aligned figures from reported data, as well as "Likely Aligned" assessments from modelled data from ISS ESG. These data could be used to assist with product level disclosures under the Sustainable Finance Disclosure Regulation (SFDR). We see a considerably higher percentage of taxonomy-***eligible*** but also ***aligned*** activities of our portfolio holdings against the reference index MSCI World (see Figure 19). The top 5 contributors of Taxonomy-aligned activities are ***American Water Works, Vestas, Ørsted, National Grid***, and ***Iberdrola***.

MSCI ESG Taxonomy results

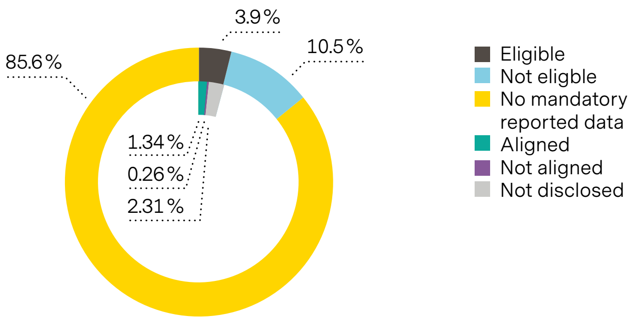
The second analysis was conducted according to the MSCI ESG Taxonomy data points. The MSCI EU Taxonomy Alignment Methodology builds on the underlying methodologies of the MSCI Sustainable Impact Metrics, MSCI ESG Business Involvement Screening Research and MSCI ESG Controversies. Compared to last year, MSCI ESG has introduced new additional data point that show reported Taxonomy figures by the companies themselves. Furthermore, reported Taxonomy-related capex and opex data have been introduced. From the 61 portfolio holdings only 10 displayed Taxonomy-***eligible*** and 9 of them also disclosed Taxonomy-***aligned*** revenues, capex and opex data.

The results from ***Figure 19*** and ***Figure 20*** show that there are some discrepancies in the methodology, underlying estimates and applied data, so there is no consistency yet across Taxonomy-aligned data and metrics. However, all data give clear evidence that Taxonomy-related figures (be it revenue, capex or opex) of our fund are beneficial versus the reference index.

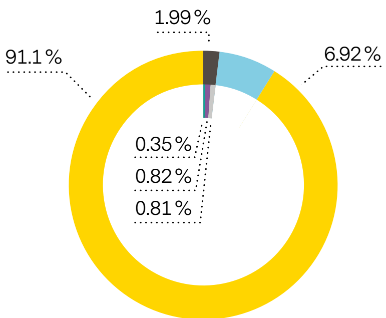
[28] Further information on ISS ESG methodology can be found: ISS Governance

Figure 19: ISS ESG: The portfolio's EU Taxonomy eligibility* and alignment is higher than that of the reference index

Portfolio—All Taxonomy objectives



Benchmark—All Taxonomy objectives



Source, ISS-ESG; * Eligible revenue is an important component of the EU Taxonomy framework because it defines a company's level of activities that can positively contribute to an environmental objective, regardless of whether those activities meet any of the EU Taxonomy's technical criteria. June 30, 2023

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

VONTOBEL FUND II – GIE

	Reported		Estimated	
	Eligible	***Aligned***	***Eligible***	***Aligned***
Revenue	3.5	1.9	61.4	14.1
Capex	4.7	1.9	-	-
Opex	3.5	2.2	-	-

REFERENCE INDEX (MSCI ACWI)

	Reported		Estimated	
	Eligible	***Aligned***	***Eligible***	***Aligned***
Revenue	1.4	0.4	44.3	5.9
Capex	2.5	0.8	-	-
Opex	1.6	0.6	-	-

Source: Vontobel Asset Management, MSCI ESG Research LLC. Reproduced by permission, for more information see https://www.msci.com/notice-and-disclaimer.

Appendix

Latest ESG developments at Vontobel (policies, organization)
Vontobel has a Sustainable Investing and Advisory Policy Statement, which describes how Vontobel integrates sustainability risks and principal adverse sustainability impacts in its investment decisions and advisory services. In particular, the policy explains our rationale, objectives, governance structure, and how we implement these across our business divisions. The policy addresses SFDR levels I and II, and Vontobel regularly evaluates how subsequent regulatory technical standards (RTS) can be integrated.

As a signatory of the Principles for Responsible Investment (PRI), Vontobel has committed itself to implement six principles for the broad integration of sustainability in investment processes and to encourage other market participants to observe them. This includes the active exercise of voting rights at general meetings and establishment of a constructive dialogue with the management of other companies. The latest Vontobel PRI Transparency Report can be found here.

The latest remuneration policy also addresses the variable components of remuneration. They compensate strong employee performance and contribution to long-term sustainable financial success of Vontobel with consideration of ESG risks and goals.

Vontobel employees were able to participate in an ESG awareness training and several legal & compliance training sessions in light of Swiss and European regulations. The targeted group were all employees interested or involved in sustainable investing / ESG-related work and activities, particularly in the realm of client and general communication and marketing, advice, product structuring, product management and reporting, new product launch, as well as regulatory compliance.

Impact indicators: data, calculation and data quality and references
Wherever possible, we rely on reported data from the companies held in the fund. This includes annual reports, CSR reports, websites, or other investor information. Requesting additional data and motivating companies to measure and publicly disclose the required data and indicators is part of our engagement work. An e-mail explaining our needs, comprising last year's Impact Report and a list of all the impact indicators, was sent to all portfolio holdings in April 2023. 46 companies took the time to answer our survey, while some only provided with limited data. The relevant environmental metrics for the portfolio companies were applied where data was available or could be estimated. The analysis included all companies in which the Vontobel Fund II – GIE was invested in as of June 30, 2023. We aimed to obtain the most recently available environmental data from the invested companies; for over 90 percent, the data is from the company's fiscal year 2022.

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

The following reference values and sources were applied for the impact indicators in figure Figure 7 to translate the associated impact data into more tangible equivalents:

- ***Renewable energy generated:*** Electricity consumption by households per capita in the EU in 2020 was 1,596 kWh per capita. Source: https://ec.europa.eu/eurostat
- ***Renewable energy devices shipped.*** Assumptions: Wind and solar power—average capacity 30 percent. 1 kW of renewable capacity replaces 2.01 t of Coal in a power plant. Source: https://www.agora-energiewende.de/
- ***Circular economy:*** Approx. 13.654 t of raw material consumption per capita in 2020 in the EU-27. Source: https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=env_ac_rme&lang=en
- ***Drinking water provided:*** On average, 144 liters of water per person per day is supplied to households in Europe (Updated in 2021: per year: 144 l * 365 days = 52,560 l or 52.56 m^3). Source: www.eea.europa.eu
- ***Water recycled / treated / saved:*** see drinking water provided
- ***Waste treated / processed / recycled***: 505 kg of municipal waste per capita per year were generated in the EU in 2020. Source: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Municipal_waste_statistics
- ***Cargo / passenger transport by rail:*** replaces car travels: average occupation in Germany: 1.46 passenger and average fuel consumption of 7.4 l / 100 km. Cargo: Net load of a 40 t truck is 27 t and average diesel consumption of 35 l / 100 km
- ***Carbon footprint:*** Car average annual distance travelled in Germany 2020: 13,693 km; Average CO_2 emission of newly registered EU cars in 2020: 107.5 g CO_2 / km. Source: European Environment Agency (EEA) → Total CO_2 per car / year: 1472 kg CO_2 / year: Source: www.kba.de/;
- ***Potential Avoided carbon emissions (PAE):*** See carbon footprint. The nine impact indicator data points provide an indication of the positive impact associated to the portfolio; they may however be vulnerable to inconsistencies. These can be caused by underlying assumptions, or in some cases, disclosed data required conversion, to allow for aggregation across the portfolio.

PAE methodology and data applied by ISS ESG

Potential Avoided Emissions (PAE)

Potential voided emissions are emissions that would have been released if an action or intervention had not taken place. The emissions avoided by using a more efficient product or service are often conditional on either consumer or market behavior. This analysis does not make absolute predictions about behavior or market developments. Consequently, ISS ESG has chosen the term ***potential avoided emissions*** (PAE) to underline that the avoided emissions presented are not assured or verified by a third party and are dependent on certain behaviors.

Description of the portfolio

This analysis looks at the potential avoided emissions for equity holdings of the Vontobel Fund II – GIE. In total, ISS ESG analyzed 30 individual companies in the portfolio. All market cap data used in the analysis is from June 30, 2023.

This is the eighth time this analysis is conducted. No significant methodological changes have occurred since the previous year's analysis. This analysis includes an alternative PAE value for 13 companies subject to a double counting correction (see "Double counting" below).

Calculations

Each holding was contacted and asked to provide data on potential avoided emissions. If a holding was able to provide their own avoided emissions calculations, either via direct communication or publicly available information, these calculations were reviewed and used. In some cases, if the holdings' calculations were deemed imprecise, the calculations were amended. If no data was provided, a variety of methods were be applied, such as an analysis of climate-friendly product lines, or an extrapolation based on key figures from projects or companies in the same sector. The choice of assumptions and emission factors has followed a conservative approach. In other words, when choosing data points, the value generating the lower amount of PAE was chosen. It is possible that the results would be higher if in-depth company-specific calculations were made.

Emission factors for electricity used in calculations are based on the International Energy Agency's "Stated Policies Scenario" (STEPS) in "World Energy Outlook 2021".

For companies providing products or services where the PAE is expected to occur over a longer period, such as via an energy-efficient battery or renewable energy technologies, an ex-ante approach considering the lifetime of the product or service was applied.

If a holding was unable to provide data, and the products and services provided were difficult to define from an environmental perspective, the holding would be given the rating “No Potential Avoided Emissions” (No PAE).

The data request concerned 2022. If data from 2022 was unavailable, the latest available data was used instead.

Double counting
From an opportunity perspective, a company that is providing PAE is contributing to building a solution to the challenges posed by climate change. In an interlinked market economy with complex value chains, it is nearly impossible to completely exclude double counting. A couple of companies can provide interlinking services, each reporting how their service helps third parties avoid emissions. To illustrate, ISS ESG can look at the example of a wind farm. A wind turbine producer will report the potential avoided emissions from shipped capacity. An electrical utility may report potential avoided emissions based on operating the same wind farm. The energy generated can then be used by a rail service lowering the travel emissions of their passengers. All entities, being part of the same value chain, might report potential avoided emissions from the same source. This does not pose a problem for analyses on a company level, such as year-on-year comparisons. But the possibility of double counting on a portfolio level can be quite high and increases the more portfolio companies are part of the same value chain.

In the absence of both a commonly accepted framework or methodology to account for double counting on a portfolio level, and the necessary data granularity on flows of products and services between individual companies, ISS ESG nevertheless addresses the issue of double counting in a holistic and precautionary way: This analysis includes an alternative PAE value for 13 companies identified as being subject to high risk and impact of double counting. The double counting corrections applied are based on share of capital cost of the final product and market share of the respective companies. Although ISS ESG believes that this approach might actually overestimate the impact of interconnections between companies in the sample at hand, the resulting aggregated, downward-adjusted PAE figure can serve as a more ***conservative*** impact metric on a portfolio level.

Explanatory power and limitations
The primary limitation of this exercise has been the availability of relevant data. The process of analyzing the activities of a company is time consuming and presents several challenges, including the interpretation of unstandardized reports and a lack of available information. The results are therefore always dependent on the quality of the available data.

All results presented in this report are based on approximations and assumptions. The data used in this report is derived from various sources. For companies that were not able to provide data but whose offering enable PAEs, generic data has been used.

Allocation rules
The emissions and PAE are proportionally allocated ‘per share’ to the investor. If an investor owns 0.1 percent of a company, 0.1 percent of that company’s emissions or PAE’s have been apportioned to that investor. On a fund level, these PAEs and emissions are being aggregated based on the respective ownership of each holding.

Intensity metrics
In this study, ISS ESG presents the results with a primary intensity metric of emissions and PAE per million EUR (EURm) invested, attributing an investment’s share of emissions to the investor.

The metric “Emissions and PAE per EURm market cap” refers to how many tons of CO_2e emitted or potentially avoided an investor would finance in relation to the respective ownership in a certain company or portfolio. As a result, the figure calculates the emissions or PAE intensity of an investment amount. A company’s share of PAE is determined by the value of shares held divided by the company’s market cap.

Investor impact
Lastly, it is important to note that ISS ESG’s PAE methodology does not allow for any claims about investor impact. The GHG emissions are potentially avoided by the actions of the ultimate user of the product or service and are therefore largely driven by demand for the respective product or service. Consequently, an investment in a company whose products deliver PAE does not necessarily translate into an increase in future PAE delivered.

Figure 21: Major findings on company-specific PAE changes

COMPANY	DIFFERENCE 2021/22*	REASON / COMMENT
XINYI SOLAR HOLDINGS LTD	4,443%	The PAE account for both the solar glass and the solar farms business lines. For the former, PAE are computed for the total amount of electricity that will be produced by the solar plants for which solar glass has been supplied in 2022. These PAE are computed for the annual amount of electricity produced. Last year's PAE were only calculated for the solar farm business, which explains the significant increase observed this year.
AIR LIQUIDE SA	529%	PAE relevant business activities: Oxygen supply for oxy-combustion in the steel industry; Hydrogen for fuels desulfurization in refineries. Last year, we only included the reported PAE directly attributable to the use of Air Liquide's solutions by its direct customers. This year we also include the emissions indirectly avoided due to the use of hydrogen for fuels desulfurization and reduction of black carbon emissions using ultra-low sulphur fuels (64.1 $MtCO_2e$). Similar to last year, we still exclude the reported PAE due to optimization of Air Liquide's assets as these correspond to scope 2 emission reduction and not PAE from sold products.
CLEAN HARBORS	309%	The estimations are based on the amount of oil and solvents recycled within a year, as well as the amount of ozone depleting substances destroyed. There are not many details provided on the methodology used for the calculation, except than the energy needed for the production of new oil and solvents is compared with the one needed to produce the same number of recycled products. However, when doing computations on our side, the results are higher. This indicates that Clean Harbors's calculations should be rather reliable and don't lead to an overestimation of their impact.
FIRST SOLAR INC	68%	PAE are calculated over the estimated lifetime of the PV modules (20 years) for the total amount of electricity that will be produced by the solar plants for which modules from First Solar have been shipped in 2022.
PRYSMIAN SPA	–80%	PAE relevant business activities: production and installation of high volatage power cables for interconnection projects and cables for offshore wind projects. The PAE were calculated for the added renewable capacity allowed by the interconnection projects and offshore wind projects that Prysmian worked on during the reporting year. Unlike the previous years, this year's analysis leverages project-based data which allow the PAE to be assessed regarding a more representative baseline. This change in the assessment's methodology explains the big difference with last year results.
VEOLIA ENVIRONNEMENT	–98%	PAE from biogas capture and recovery. The big discrepancy with last year's figure is due to a conversion mistake in 2021 that led to the PAE being expressed in CO_2e instead of tCO_2e.

*Difference based on companies absolute PAE contributions between 2021 and 2022 Impact Report

Impact investing under the evolving EU regulatory framework

Regulatory briefing / Expert contribution

—
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The global regulatory wave in sustainable finance has continued to develop and gain intensity throughout the year 2022 and H1 / 2023. The wave shows no signs of stopping or slowing down; it is even called a "regulatory tsunami" by some. While the epicenter of this modern regulatory phenomenon remains in the European Union with its consolidating new regulatory framework for sustainable finance that has emerged out of the 2018 Action Plan for Sustainable Finance, the effort of trying to better align sustainability with finance is not limited to the EU. It shows signs of starting to affect other major capital markets as well. This briefing summarizes selected key regulatory developments, focusing on the EU and aspects relevant to impact investing.

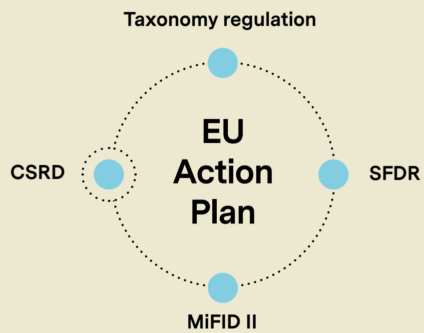
Five Years EU Action Plan. The European Union's Action Plan for Sustainable Finance marked its 5th anniversary in March 2023. The new European regulatory architecture for sustainable finance is now getting closer and closer to its conceptual completion, on paper at least.

With the entry into force of the Corporate Sustainability Reporting Directive (CSRD) in January 2023, all key pieces of legislation that came out of the Action Plan's regulatory agenda are now in force (see Figure 21). A new, highly sophisticated regulatory architecture for sustainable finance has emerged in front of our eyes and with that a new densely regulated field of finance. The new regulatory framework is disclosure and transparency oriented and thus shaped in the spirit of the influential regulatory maxim elegantly expressed by the renowned US Supreme Court Justice Louis Brandeis more than a century ago: "Sunlight is said to be the best of disinfectants."[29] When I look at the new European regulatory architecture for sustainable finance, Brandeis' insight seems to also be the European regulator's big hope: that transparency as a key tool of that new framework will have the effect of "sunlight" and will "nudge" the market to self-correct, leading to better informed, better investment decisions.

The big question is if this new, complex regulatory framework will be successful in action. Will it work "on the ground"? That is the key theme not only in ESG practitioner circles but also of European Commission's June 2023 communication setting out the current phase's focus and plan for the EU's sustainable finance journey for the next five years[30].

More data for more ESG. CSRD's new corporate sustainability reporting regime will be gradually rolled out to cover around 50,000 firms active on the European market by 2028. That extension of the old Non-Financial Reporting Directive's personal scope of application as part of its "fitness check" under the Action Plan is a big step compared to the current coverage which is around 10,000 firms.

Figure 22: The EU Action Plan



[29] For the original reference and related insights (including downsides of the approach), see Zukas / Trafkowski, Sustainable Finance: The Regulatory Concept of Greenwashing under EU Law, in: Zeitschrift für Europarecht, 2 / 2022, p. 23-25.
[30] European Commission, "A sustainable finance framework that works on the ground", COM(2023) 317 final, Communication of 13 June 2023, see in particular p 3 et seqq.

The full impact of this expansion cannot be comprehended without understanding the extension of the range of corporate sustainability matters to be reported on, which is substantial indeed. A clear conceptual shift to double materiality, combined with a shift away from seeing the corporate ESG reporting as "non-financial", are further indications of this transformative development's depth and reach, which conceptual impact—not only technical implementation challenges related to it—shall not be underestimated. In the end, the CSRD shall enable the market to deliver high quality ESG data from the real economy to the Action Plan's sophisticated network of disclosures, which in turn should help lead to better informed investment decisions. As the Action Plan's system is both disclosure- and investor-choice focused, it is strongly dependent on the availability of quality ESG data. The adoption of the European Sustainability Reporting Standards (ESRS) by the European Commission on July 31, 2023 is yet another indication of the regulatory pace to be expected as the focus of the "regulatory tsunami" switches (or extends) from products to corporate reporting.

Supervisory focus topic impact investing. Since around mid-2022, we have observed selective but more and more visible European Securities and Markets Authority's ("ESMA") "interventions" on the topic of impact investing

Figure 23: Latest ESMA interventions

5 / 2022
- ESMA supervisory briefing: Sustainability risks and disclosures in the area of investment management
- pp 9-10 ("impact" in fund names, concept's definition)

11 / 2022
- ESMA consultation paper: On Guidelines on funds' names using ESG or sustainability-related terms
- pp 21-22 ("impact" in fund names, concept's definition, treshold proposals)

5 / 2023
- ESMA Progress Report on Greenwashing
- pp 20-21, 40-41, 55 (claims about impact, types of impact, "impact washing")

(see Figure 22). This might come as a surprise for some as the impact investing concept is not directly regulated in SFDR or other new EU sustainable finance regulations. The concept, however, plays a major role in the modern sustainable finance debate with its focus on impact of firms and investment portfolios on the environment and society, and thus naturally raises supervisory authorities' interest. The Economist's Special Report on ESG Investing of July 21, 2022 quoted the founder of Sustainalytics, Mr. Jantzi, saying the following: "The last 10-15 years have been about the impact of environmental and social issues on a portfolio. The next ten years will be as much about the impact of investment on the environment."[31] Immediately following this quote, The Economist's Report noted that "Conveniently, that is the direction that regulators want to take the ESG market as well". Developments relating to the new European regulatory framework for sustainable finance seem to confirm both of these observations.

The gradual expansion of ESMA's attention to impact investing has started with ESMA addressing the topic of using the word "impact" in its principles-based guidance on fund names, which was part of the ***ESMA supervisory briefing*** on sustainability risks and disclosures in the area of investment management of May 31, 2022. The briefing made clear that words "impact", "impact investing" and any other impact-related terms should only be used by funds whose investments are made "with the intention to generate positive, measurable social and environmental impact alongside a financial return". This in essence restates the state-of-the-art definition of the concept of impact investing, known under the frameworks of such global standard setters as Global Impact Investing Network GIIN (of which Vontobel is a member). As an example of an acceptable use of the word "impact" in a fund's name, ESMA's briefing defines a "climate impact" fund as "investing in companies with business in activities focuses on enabling the adaptation to, or mitigation of, climate change."[32] ESMA continued to work on the impact topic throughout the rest of the year 2022, providing the market with partial access to its thinking on the topic in the form of an ***ESMA consultation paper*** on guidelines on funds' names using ESG or sustainability-related terms published on November 18, 2022. In the consultation paper, the topic of using the word "impact" was addressed

[31] See "Rating agencies: The signal and the noise", in: The Economist, Special Report ESG Investing of 21 July 2022.
[32] ESMA Supervisory Briefing: Sustainability risks and disclosures in the area of investment management, 31 May 2022, pp 9-10.

as part of regulator's proposed 80 percent threshold ("minimum proportion") for funds using "impact-related" terms in their names[33]. For the use of the word "impact" or "impact investing" or any other impact-related term, ESMA's draft guidelines propose that these should be used only by funds meeting the proposed new quantitative thresholds set out in the draft guidelines.[34] Additionally, such investments under the minimum proportions mentioned in the draft guidelines, should be made "with the intention to generate positive, measurable social or environmental impact alongside a financial return". Again, this in essence was a restatement of the already quoted state of the art definition of impact investing concept. When issuing its consultation paper, ESMA claimed to expect issuing the final Guidelines by Q2 / Q3 2023. Finally, but certainly not least importantly, the ***ESMA progress report on greenwashing*** of 31 May 2023 has addressed the topic of impact investing in a level of detail not seen before, thus clearly indicating the regulator's deepening attention and interest in the topic as well as increasing scrutiny of the related claims. I summarize key insights from ESMA's progress report which are of particular relevance for impact investing in the next section.

Tackling greenwashing. 2022 has been the year of a clear regulatory attention shift in the supervisory standard-setting practice from the previous focus on laying down the foundations of the new European regulatory framework for sustainable finance by enacting key regulations towards tackling greenwashing on supervisory level. The timing seemed suitable for such a step since the regulatory definitions of the greenwashing concept under the EU's new regulatory framework for sustainable finance were generally available in their final form in all key laws enacted under the Action Plan[35]. That focus shift to supervisory practice has been first indicated in the European Commission's Sustainable Finance Strategy 2021 (an "upgrade" of the Action Plan, published in July 2021) and clearly announced in ESMA's Sustainable Finance Roadmap 2022 – 2024, published in February 2022. Following a call for evidence by the European Commission in November 2022, all three European Supervisory Authorities ("ESAs") have published extensive separate progress reports on tackling greenwashing on 1 June 2023 (200+ pages in total). A final report and advice from the three authorities are planned for May 2024. Besides covering the topic of greenwashing in unprecedented breadth and depth, listing all the greenwashing definitions available in the new sustainable finance regulations and related official documents, all three ESAs have reached a common high-level understanding of what greenwashing is, a major achievement of this interim phase and progress report.

European Supervisory Authorities (ESAs) common high-level understanding of greenwashing
"The ESAs understand greenwashing as a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants."

Source: ESA's joint press release of June 1, 2023 (excerpt).

ESMA's report is of the greatest relevance for the field of sustainable investing. ESMA's progress report is extensive (90 pages in total), rich in technical detail and useful market insights. When discussing high risk areas for each relevant financial services area in scope of its report, ESMA lists problematic practices ("misleading qualities"), which serve as a particularly useful guidance to prevent greenwashing risk. For ***investment managers***, such a list of "high risk" areas includes naming, cherry-picking, exaggeration, ambiguity and omission, lack of meaningful assumptions, and omission.[36] For ***investment services providers,*** the list of high greenwashing risk activities has a slightly different focus, although it also includes some of the same items: inconsistency, exaggeration and cherry picking, omission, naming, outdated information, and lack of substantiation.[37] More generally, the topic of "impact" is highlighted as a "high-risk area of greenwashing" for all levels of what ESMA technically describes as "sustainable investment value chain" ("SIVC"): issuers, investment managers, benchmark administrators, investment service providers.[38] The topic is classified as a "transversal topic" by ESMA and will certainly remain high on the regulator's radar going forward. With the envisaged publication of final ESAs report(s) and advice on the greenwashing topic in May 2024, another fundamental

[33] ESMA Consultation Paper: On Guidelines on funds' names using ESG or sustainability-related terms, 18 November 2022, pp 21-22.
[34] ESMA Consultation Paper, p 22.
[35] For an overview and deep-dive, see Zukas / Trafkowski, Sustainable Finance: The Regulatory Concept of Greenwashing under EU Law, in: Zeitschrift für Europarecht, 2 / 2022, pp 1 – 33. For an updated version of the list of definitions reflecting new developments, see also ESMA Progress Report on Greenwashing, 31 May 2023, pp 79 – 81.
[36] ESMA Progress Report on Greenwashing, 31 May 2023, p 39.
[37] ESMA Progress Report on Greenwashing, 31 May 2023, p 54.
[38] For an overview, see ESMA Progress Report on Greenwashing, 31 May 2023, p 59.

element of the new European regulatory framework shall reach a new level of maturity, on which the proper functioning, predictability, legal certainty of the sustainable finance market strongly depends.

ESMA's progress report on greenwashing: Insights for impact investing. ESMA's progress report addresses greenwashing risks related to impact claims at several levels. ***First***, it addresses misleading claims about real-world impact ***in general***[39]. Here, in ESMA's view, main issues stem from the fact that there are currently no rules under the EU sustainable finance framework on the use of the term "impact" and impact-related terms. According to the regulator, most frequent misleading claims relate to exaggeration based on an unproven causal link between an ESG metric and real-world impact (implying ESG metrics mean more than what they do). Lack of clarity about where exactly the impact is factored in or achieved is another point the regulator mentions in the context of misleading impact claims. Lack of essential information about the main aspects of any impact framework (intentionality, additionality, impact measurement) is another situation or scenario which ESMA sees as a problematic practice in the impact area. Selecting inadequate measures of impact and having insufficiently robust standards for correctly measuring product-level impact are described as further problematic areas. Even when plausible and well-calculated measures are in place, exaggeration (for example, regarding contribution to a given UN SDG), ambiguity, and cherry-picking can lead to misleading real-world impact claims. ***Second***, ESMA's report addresses the topic of misleading claims on impact as a high-risk area for ***investment managers***[40]. The report notes that the term "impact washing" is entering the ESG marketplace's vocabulary to describe misleading claims on impact. Beside listing some examples of misleading fund claims, the report notes that such claims can also stem "from a confusion about types of impact targeted by a given fund." The report then proceeds to discuss two types of impact fund strategies: "Buying" impact vs. "Creating" impact[41], providing valuable insights on both including what those two types consist of and how they are related to SFDR Article 8 und 9 product disclosure categories. Further, the report shares some technical insights which may be of particular interest to the impact investing professionals' community, including commentary on the subtleties and nuances essential to a professional conversation about impact, especially as impact investing market enters its new phase of maturity. Clear, precise, nuanced client communication is becoming ever more important in the area of impact investing as well, along with an in-depth understanding of sustainable finance concepts and thus ESG / sustainable finance literacy (also on clients' side). As the ESMA itself emphasizes in the progress report, some technical subtleties of the area, which are crucial to the transition to a more sustainable economy, are not easy to understand for investors not well-versed in ESG / sustainable finance, and thus may confuse them. In this context, raising and deepening clients' ESG literacy / impact finance education might also serve as an important mitigant to prevent the risk of being perceived as committing greenwashing due to a mere misunderstanding of key impact finance concepts and impact mechanisms. Investing in raising investors' literacy in sustainable finance and impact finance in particular is thus particularly important for the field's success going forward. ***Third***, the report addresses impact investing as a high-risk area for ***investment services providers***

Insights from the ESMA progress report on greenwashing: Two main types of impact fund strategies:
"Buying" impact (getting underlying investee company exposure) via impactful companies: In this case, fund holdings are expected to have some level of positive sustainable impact or greenness, and analysis of holdings is a pertinent way to detect greenwashing. Typically, these strategies provided requirements, disclosed under Article 9 SFDR, related to the DNSH of SFDR. Good governance is met at investment level.

"Creating" impact: There are multiple ways for "creating" impact including financing the transition and supplying new capital by directly financing sustainable solutions. One notable example are funds buying "brown" (transitioning) companies and turning them "green", then selling them for profit and reinvesting in other brown companies. The impact in this case is attributable to the investment strategy (e.g., successful engagement) and cannot be entirely ascertained based on a portfolio holdings analysis. The funds would disclose under Article 8 or Article 9 SFDR, subject to their meeting of Article 9 SFDR criteria and, in particular, related to holding sustainable investments. It is very important to note that ***sound impact claims can come from such products trying to de-brown the economy and that these may confuse those who are not well-versed investors.***

Source: ESMA Progress Report on Greenwashing, 31 May 2023, p. 41

[39] ESMA Progress Report on Greenwashing, 31 May 2023, pp. 20-21.
[40] ESMA Progress Report on Greenwashing, 31 May 2023, pp 40-41.
[41] ESMA Progress Report on Greenwashing, 31 May 2023, p 41.

as well[42], particularly emphasizing the risk of passing misleading impact claims found in marketing materials to retail investors. The topic is addressed next to discussing the newly introduced MiFID II requirements regarding client sustainability preferences and considering them at "point of sale." ESMA identifies ESG knowledge deficit as a notable driver of greenwashing[43].

SFDR: transparency, not labeling regime. 2022 has been a remarkable year for the ESG market in one particular, market (re)shaping sense. It has been the year during which ESMA has started a rather intensive effort to correct the market's previously widely held understanding on what the purpose of SFDR is. In the meantime, everyone is on the same page: It's all about transparency, no labelling. Accordingly, the so-called "SFDR-article-products" are not labels, but transparency regimes. In the course of the year 2022, ESMA used several occasions to not only emphasize this, but also place this impactful insight into the context of misleading use of "SFDR-article-product"-categorizations and even greenwashing risk[44]. That effort culminated in ESMA's 2023 greenwashing progress report's observation that describing Article 8 und 9 products as "light green" and "dark green" is a misuse of SFDR's system—a practice which needs to be discouraged[45]. The development has been closely related to the finalization and enactment of MiFID II delegated regulation's concept of client "sustainability preferences", which went live in August 2022. In fact, the first indication of the European Commission's view that SFDR is not a labelling regime can be found in the Commission's Explanatory Memorandum to MiFID II draft published in April 2021[46]. This draft stated the concepts of "environmentally sustainable investment" (Article 2.1 Taxonomy Regulation), "sustainable investment" (Article 2.17 SFDR) and "principle adverse impact consideration" (a variation of Article 7 SFDR) will play the key role for purposes of the new European regulatory framework for sustainable finance, rather than the SFDR Article 6-8-9 products. The market continues to fully digest the impact of this major conceptual shift onto the ESG practice.

"SFDR-article-products" are not labels: Article 8 ≠ "light green", Article 9 ≠ "dark green"
"…despite the fact that ***SFDR is a disclosure regulation, the market has been using SFDR as a labelling regime*** built around three categories at product level: Article 9 products are those with a sustainable investment objective (sometimes referred to by the industry as "dark green products"), Article 8 products are those that promote environmental or social characteristics but that do not have a sustainable investment objective (sometimes wrongly referred to as "light green products"), and Article 6 products are those that do not have sustainability features (sometimes referred to as "brown products"). It is important to note that this market practice should be discouraged as it is a misuse of SFDR classification. In addition to this, it is worth emphasizing that the usage of such terms as dark or light green products and related categorizations is not endorsed by regulators and supervisory authorities."

Source: ESMA Progress Report on Greenwashing, May 31, 2023, p 45

Implementation challenges and clarification efforts. The process of clarifying various SFDR provisions for implementation purposes that has started with the EC's SFDR Q&A of July 2021, continued full speed throughout 2022 and 2023. The go-live of SFDR Level 2 per beginning of 2023 has been an important and also market-reshaping moment in that process. Accompanying that, an entire body of the official SFDR Q&As has emerged out of the effort to properly implement the regulatory requirements stemming from the Action Plan's agenda, reaching such level of complexity that the ESAs decided to publish all those Q&As in one consolidated SFDR Q&A document in May 2023[47]. The consolidated document consists of 59 pages of complex technical guidance and has become an indispensable sustainable finance practitioner's guide for properly navigating SFDR's concepts and the regulation's implementation. In addition to that, the EC published its

[42] ESMA Progress Report on Greenwashing, 31 May 2023, pp 54-55.
[43] ESMA Progress Report on Greenwashing, 31 May 2023, p 56.
[44] See SFDR / TR RTS final draft of 6 April 2022, C(2022) 1931 final, Explanatory Memorandum, p 1; ESMA Supervisory Briefing: Sustainability risks and disclosures in the area of investment management, 31 May 2022, p 8; ESMA Chair Verena Ross (speech), Key priorities for EU retail fund investors: Irish Funds Annual Global Funds Conference 2022, 31 May 2022, p 7.
[45] ESMA Progress Report on Greenwashing, 31 May 2023, p 45.
[46] See MiFID II delegated regulation's draft, C(2021) 2616 final, 21 April 2021, p. 2.
[47] ESAs Consolidated questions and answers (Q&A) on the SFDR (Regulation (EU) 2019 / 2088) and the SFDR Delegated Regulation (Commission Delegated Regulation (EU) 2022 / 1288), JC 2023 18, 17 May 2023, pp 1-59.

clarifying decision in June 2023 stating that an investment qualifying as "Taxonomy-aligned investment" under the Taxonomy Regulation's requirements, generally qualifies as a "sustainable investment" under SFDR[48], a highly relevant and challenging question on which the ESAs seemed to have held a different view[49]. As Article 7 SFDR on PASI consideration at financial product level was the last (and therefore perhaps somewhat underestimated) SFDR Level 1 provision to go live by the end of 2022, European Commission's Q&A of April 2023 has provided a welcome guidance on what PASI "consideration" means in product context. The Commission clarified that the description of PASI consideration under Article 7 shall not be limited to the description of the adverse impacts, but shall also include description of the procedures put in place to mitigate those impacts[50]. In terms of practical relevance, another clarification on Article 7 SFDR was done via Q&A of May 2022, which made clear that products considering PASI (and thus negative externalities) can be manufactured also by firms making a negative PASI statement under Article 4 SFDR[51]. It needs to be reminded that in such case, Article 7 SFDR requires reference to such negative entity level PASI statement at the level of financial product (see Article 7 Paragraph 2 SFDR). Finally, in the European Commission's SFDR Q&A of 6 April 2023, important clarifications have been made on the definition of "sustainable investment" under SFDR[52], a key concept under the new EU regulatory framework for sustainable finance, of particularly high relevance for fund practice (fund naming, SFDR product reporting). On one hand, the Q&A reemphasized the importance of the core elements of sustainable investment's definition under Article 2.17 SFDR (contribution to "E" or "S", do no significant harm, following "G"). On the other hand, it "does not set out minimum requirements that qualify concepts such as contribution, do no significant harm, or good governance", which the Q&A describes as "key parameters" of the concept of sustainable investment[53]. This means that financial market participants "must carry out their own assessment for each investment and disclose their assumptions", doing this with "responsibility towards investment community". At the same time, the Commission makes clear that for the purposes of the "DNSH" test, "referring to a transition plan aiming to achieve that the whole investment does not significantly harm any environmental and social objectives in the future could for instance not be considered as sufficient."[54]

While the Q&As provide useful practice guidance on SFDR implementation, they also add an additional layer of complexity to the already complex regulatory framework consisting of hundreds if not thousands of pages of regulatory text that has emerged out of the Action Plan's regulatory agenda. This makes professionally navigating the field even more challenging.

Non-EU developments: selected highlights. Though not in the same degree and intensity as in the EU, the trend of regulating the field of sustainability in finance becomes increasingly global. On a ***global*** level, a major development has occurred on June 26, 2023 with ISSB / IFRS publication of the Sustainability Disclosure Standards. The standards include two elements—IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate-related Disclosures)—and are expected to be used starting in the beginning of 2024 for accounting purposes. On the level of national jurisdictions, in the period covered by this briefing, we have observed elements of emerging ESG regulatory frameworks in such jurisdictions as the ***US***[55], ***UK***[56], but also in ***Switzerland***[57], to illustratively name just a few. Here, especially the UK's proposed sustainable finance regulatory regime—on which the FCA started its consultation in October 2022, seems to be trying to take advantage of being "second mover". The UK's proposed sophisticated new regulatory regime for sustainable finance is

[48] European Commission, on the interpretation and implementation of certain legal provisions of the EU Taxonomy Regulation and links to the Sustainable Finance Disclosure Regulation, (2023 / C 211 / 01), in: Official Journal of the European Union of 16 June 2023, p 5 ("Interactions with the SFDR: 4. Do Taxonomy-aligned investments qualify as 'sustainable investment' under the SFDR?").
[49] SFDR / TR draft final report 10 / 2021, p 8.
[50] EC SFDR Q&A 4 / 2023, p 8 ("…the description related to the adverse impacts shall include both a description of the adverse impacts and the procedures put in place to mitigate those impacts.").
[51] EC SFDR Q&A 5 / 2022, p. 1 ("…may, notwithstanding the criteria set out in Article 7(1), first subparagraph, of Regulation (EU) 2019 / 2088, manufacture a financial product that pursues a reduction of negative externalities caused by the investments underlying that product.").
[52] EC SFDR Q&A 4 / 2023, p 1-3.
[53] EC SFDR Q&A 4 / 2023, p 3.
[54] EC SFDR Q&A 4 / 2023, p 3.
[55] To access US SEC proposed ESG rule draft of May 2022, see https://www.sec.gov/news/press-release/2022-92.
[56] To access UK FCA consultation draft of October 2022, see https://www.fca.org.uk/publications/consultation-papers/cp22-20-sustainability-disclosure-requirements-sdr-investment-labels.
[57] To access newly introduced Swiss Bankers' Association's ESG self-regulation of June 2022, see https://www.swissbanking.ch/en/news-and-positions/press-releases/sba-introduces-self-regulation-in-the-area-of-sustainable-finance; for the newly introduced Swiss Asset Management Association's sustainable finance self-regulation of September 2022, see https://www.am-switzerland.ch/en/regulation/self-regulation/sustainable-finance-self-regulation.

titled "Sustainability Disclosure Requirements (SDR) and investment labels", thus explicitly aiming to introduce product labels, the absence of which seems to be an increasing point of market criticism within the EU. The draft framework, beside proposing to introduce three sustainability labels (Sustainable Focus, Sustainable Improvers, Sustainable Impact), includes naming rules and a far-reaching anti-greenwashing regime. Only time will tell if it would prove more efficient and "market friendly" than the EU's regulatory framework for sustainable finance. Though an in-depth analysis of the UK FCA's proposal would go beyond the scope of this briefing, it is worth noting that the proposed regime includes a dedicated impact-related label called "Sustainable Impact", which is certainly a development which we will continue to follow closely. In our home jurisdiction of Switzerland, the ESG investing field continues to be a high priority of the financial center's strategy. On the regulatory front, Switzerland continues to address the field with the traditional means of financial industry's self-regulation.

Outlook. While holding a critical view towards both the current state as well as the future of ESG investing in general, The Economist's Special Report on ESG Investing of July 21, 2022 has nonetheless expressed a prediction that "sustainable investing is not about to disappear" and that "more regulation will make it more credible"[58]. Why? Because according to the publication, "Investors will continue to care not just about returns but about the world they live in." This is an overall observation and expectation which I tend to share based on my experience as a regulatory sustainable finance lawyer with a strong focus on the coverage of the new European sustainable finance regulations. I am saying this while being fully aware that professionally navigating the highly complex EU's regulatory framework in sustainable finance and related regulatory "tsunami" of new laws and emerging market standards poses a substantial challenge for the entire financial services industry, not only for the regulatory lawyers' community. By defining key concepts of sustainable finance, asking for more transparency regarding ESG claims while putting client's sustainability preferences at the center of the new regulatory framework, the modern European regulator aims to lay serious foundations for a sustainable finance market which the investors trust. That trust is essential for the transition to a more sustainable economy to succeed.

[58] "The future of ESG: Measure less, but better", in: The Economist, Special Report ESG Investing of July 21, 2022.

Third-party verification

ISS ESG

VERIFICATION STATEMENT

Impact Indicators for Vontobel Fund II – Global Impact Equities

September 12, 2023

Review Summary

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

- *ISS ESG has reviewed the impact indicators stated by the Listed Impact Team in the Conviction Equities Boutique of Vontobel Asset Management. The team sent out an inquiry form to the holdings to gather the necessary data points in Spring 2023.*
- *ISS ESG reviewed a self-selected sample of 2-3 data points per type of metric provided by the Listed Impact Team.*
- *The information revised corresponds to that communicated by the investee companies and reflects the positive impact generated by the holdings in the Vontobel Fund II - Global Impact Equities.*

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

Contact us

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

For companies

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