European SRI Transparency Code

Pictet–European Sustainable Equities

Pictet–Emerging Markets Sustainable Equities

August 2017
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INTRODUCTION

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and has been designed to cover a range of asset classes, such as equities and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: www.eurosif.org.

The code comes with a Guidance Manual for fund managers on how best to use the Transparency Code and respond to questions. The present version of the Code was approved by the Board of Eurosif on 3 October 2012.

Statement of Commitment
Sustainability is a major part of Pictet Asset Management’s (Pictet AM) strategic positioning. We have been involved in these investment strategies since 1999 and welcome the Code. Our full response to the European SRI Transparency Code questionnaire is set forth below and is available on our web site.

Compliance with the Transparency Code
Pictet AM is committed to transparency and aims to be as transparent as possible given the regulatory and competitive environments in the countries in which we operate. Pictet AM meets the full recommendations of the European SRI Transparency Code.

European SRI Transparency Logo
The European SRI Transparency logo signifies that Pictet AM commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Sustainable Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Code can be found on www.eurosif.org, and information of the SRI policies and practices of Pictet-European Sustainable Equities and Pictet-Emerging Markets Sustainable Equities can be found on http://www.am.pictet.com/.

The Transparency Code is managed by Eurosif, an independent organisation. The European SRI Transparency Logo reflects the fund manager’s commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual.
SECTION 1 – BASIC DETAILS

The Fund Management Company

1a. Provide the name of the fund management company managing the fund(s) to which this code applies.

Pictet Asset Management SA
60 Route des Acacias
1211 Geneva 73
Tel.: +41 58 323 3333
www.am.pictet.com

Contact person: Geetu Sharma (gsharma@pictet.com)

1b. Describe the general approach of the fund management company with regard to how it takes environmental, social and governance (ESG) criteria into consideration.

Since 1999, with the creation of our first sustainable funds, Pictet Asset Management has continuously developed new products and strengthened its sustainable investment processes. In 2000, we launched the first ever Water fund, which seeks to improve the way global water resources are managed. That was soon followed by the Pictet European Sustainable Fund in 2002. Subsequently, we launched the Clean Energy fund and in 2008 the first ever Timber fund and Agriculture fund were launched. The Pictet Emerging Markets Sustainable Equities fund was further launched in 2010 leveraging on our expertise in sustainable investing to emerging markets. Besides these, we also manage several global SRI mandates for institutional clients.

Is the fund management company approach towards ESG criteria aligned or inspired by its corporate social responsibility policy? Yes/No. If yes, insert a link to the company’s CSR policy. If not, explain why not.

Our approach to sustainability is born from our 200-year history as a family-owned business, which has grown organically over several generations by developing enduring relationships with our clients and our employees and has always been grounded in the highest standards of business and personal conduct.

The Pictet Group’s CSR activities are coordinated by the Sustainable Board. The Sustainability Board is tasked with coordinating all activities that are linked to sustainable development within the Group. It is chaired by Laurent Ramsey, Group Partner and CEO of Pictet Asset Management, and comprises representatives from all business lines.

Our overall CSR policy is described in the document The Pictet Group and Sustainability.

Pictet Asset Management believes in responsible capitalism and takes an enlarged view of the economy and its interactions with civil society and the natural environment.

Consistent with our fiduciary duty to act in the best interests of our clients and our adherence to the UN Principles for Responsible Investment (UN PRI), we are committed to integrating material ESG criteria in our investment processes and ownership practices with a view to enhance returns and/or mitigate risks. We also aim to embed ESG in our risk management and reporting tools in order to maintain high standards of transparency and accountability.

Has the fund management company signed the Principles for Responsible Investment? If yes, please insert the link to the answer to the PRI questionnaire. If not, explain why not.

Pictet AM has endorsed the Principles for Responsible Investment (PRI) since 2007. Our latest assessment is available on the PRI website.

https://www.unpri.org/organisation/pictet-asset-management-144270

Is the fund manager a signatory to or member of other international and/or national initiatives supporting SRI practices? Please answer if you deem this information to be useful.

In addition to adhering to the PRI, Pictet AM supports and actively participates in several international and national initiatives. Below is a list of key initiatives where Pictet is a signatory or member.

<table>
<thead>
<tr>
<th>ESG Memberships/Affiliations/Signatories</th>
<th>Key Areas of Focus</th>
<th>Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>UNPRI</td>
<td>Signatory</td>
<td>2007</td>
</tr>
<tr>
<td>Swiss Sustainable Finance</td>
<td>Board member</td>
<td>2014</td>
</tr>
<tr>
<td>FNG, UK SIF, SpainSIF</td>
<td>Member</td>
<td>2006</td>
</tr>
<tr>
<td>CDP (Carbon Disclosure Project)</td>
<td>Member</td>
<td>2007</td>
</tr>
<tr>
<td>Swiss Climate Foundation</td>
<td>Corporate sponsor</td>
<td>2008</td>
</tr>
<tr>
<td>EFAMA (European Fund and Asset Management Association)</td>
<td>Member of the RI working group</td>
<td>2010</td>
</tr>
<tr>
<td>UK Stewardship Code</td>
<td>Signatory</td>
<td>2010</td>
</tr>
<tr>
<td>Climate Bond Initiative</td>
<td>Member of the Standards Board</td>
<td>2013</td>
</tr>
<tr>
<td>IIGCC (Institutional Investors Group on Climate Change)</td>
<td>Chair of the Climate Solutions program; Vice-chair of the Board (from 2013-2016)</td>
<td>2013</td>
</tr>
<tr>
<td>FTSE Environmental Markets</td>
<td>Member of the Advisory Committee</td>
<td>2013</td>
</tr>
</tbody>
</table>

Source: Pictet Asset Management, June 2017
Has the fund management company established an ESG engagement policy? If yes, describe the policy by outlining its objectives and its methodology and/or, if it is public, insert a link to the policy. If not, explain why not.

As part of its approach to responsible investment, Pictet AM engages with companies in two ways:

› Collaborative engagement through IIGCC, whose main goal is to deepen investors’ understanding of the risks and opportunities that companies face on climate change. IIGCC engagement activities and topics are available on the website: http://www.iigcc.org/

› Dialogue with some of the companies in which our environmental funds invest, when their activities are likely to pose a threat to the environment or society. We have hired a third-party engagement service provider to engage with companies on our behalf.

Has the fund management company established a voting policy? If yes, describe the policy by outlining its objectives and its methodology and/or, if it is public, insert a link to the policy. If not, explain why not.

Pictet AM actively exercises its voting rights for all actively managed equities funds through third party advisors including ISS and Ethos. Our approach is mostly based on corporate governance best practices as detailed in the ISS Sustainability policy. The complete version of this policy can be found under the following links:


Pictet Asset Management reserves the right to diverge on a case-by-case basis from third-party voting recommendations in order to act in the best interest of our clients.

Describe how the fund management company or the group contributes to the promotion and the development of SRI.

The Pictet Group is committed to the promotion and development of sustainable investing. Last year, Pictet Asset Management launched www.mega.com, a platform separate from the PAM website to discuss themes relevant to its range of thematic and sustainable investment strategies. It is a combination of articles and videos featuring leading academics, scientists and entrepreneurs active in the areas of sustainability, health and technology. The website was recently awarded for innovation, a fresh approach and an impact on the market by the Investment Marketing and Innovation Awards in London.

Besides this, we conduct fundamental research on sustainable investment topics and publish our insights on a regular basis. In the last five years, we have published three major papers:

› The SRI Performance Paradox — which shows how sustainable investing is a constant effort to strike a balance between short-term cost and long-term returns.
Can SRI prevent the next financial crisis? — which demonstrates that extra-financial research has to be combined with specific financial sustainability criteria.

Rio+20: The future we want? — which emphasises that true sustainability can be achieved only within the biophysical limits of our planet.

Besides these, we also periodically share with clients our perspectives on recent trends and actions in the industry such as the note on "Paris climate deal: a major step towards a sustainable economy" (December 2015)

Our experience in managing sustainable funds, as well as our research and contribution to the development of sustainable finance, have been recognised by many awards. Our credentials in sustainable investment have been recognised as SRI Provider of the Year by the European Pensions Awards and as SRI/ESG Provider of the Year by the UK Pensions Awards.

1c. Describe/List your SRI products and the specific resources allocated to your SRI activities.

_Briefly describe the SRI fund range (number, assets under management, strategies, ...)_

Pictet AM offers clients a wide range of high-quality products in the field of sustainable investment, which takes two main forms:

› Sustainable equity portfolios, which focus on companies with superior corporate social and environmental responsibility.
  – Pictet-European Sustainable Equities
  – Pictet-Emerging Markets Sustainable Equities
  – Pictet-Ethos Swiss Sustainable Equities

› Thematic funds, which focus on environmental themes that are key to the concept of sustainability.
  – Pictet-Water
  – Pictet-Clean Energy
  – Pictet-Timber
  – Pictet-Agriculture
  – Pictet-Global Environmental Opportunities

We manage ca. USD 12 billion in sustainable investments (as of March 2017)
Describe/Detail the resources allocated by the fund management company (organisation, ESG research internal/external, dedicated portfolio management team, ...) and indicate where this information is available.

Sustainable Equities Portfolios are managed by a dedicated team of six portfolio managers and analysts, assisted by three investment managers for operational activities.

Environmental thematic funds comprise eight portfolio managers, who are supported by dedicated Advisory Boards.

In addition these funds are supported by the following two organisational initiatives:

- At the Group Level, the Pictet Sustainability Board provides a forum for discussion, coordination and guidance on sustainability issues such as Integration of ESG criteria into conventional investment strategies, active ownership, including company engagement and exercise of voting rights and development of sustainable investment solutions. This Board is led by Laurent Ramsey, Group Partner and CEO of Pictet Asset Management
- Pictet Asset Management's ESG Team headed by Eric Borremans who leads and co-ordinates implementation of our responsible investment policy, including ESG integration in investment processes, ownership practices, risk management and reporting tools. The ESG Team reports directly to Sébastien Eisinger, Deputy CEO and Head of Investments.

1d. Describe the content, frequency and resources allocated/used by the fund management company to inform investors about the ESG criteria taken into account.

We report on the ESG impact of our SRI funds on a quarterly basis. These reports are publicly available on www.am.pictet.com

The SRI fund(s)
1e. Provide the name of the fund(s) to which this Code applies and its (their) main characteristics

- Pictet-European Sustainable Equities
  - Isin: LU0144509550
  - Legal status: Sub-fund of the Luxembourg-registered Pictet SICAV
  - Inception date: 2002

- Pictet-Emerging Markets Sustainable Equities
  - Isin: LU0725974272
  - Legal status: Sub-fund of the Luxembourg-registered Pictet SICAV
  - Inception date: 2012
Describe the main characteristics of the fund(s): geographical focus, asset class, SRI strategy used (use the classification provided by Eurosif/EFAMA).

These funds invest in companies with superior corporate social and environmental responsibility which have been identified as being the leaders within their respective investment universe based on an assessment of risks and opportunities related to sustainable development.

Pictet-European Sustainable Equities invest in European equities, while Pictet-Emerging Markets focuses on emerging equities. The respective benchmarks are the MSCI Europe and MSCI Emerging Markets indices.

1f. What is (are) this (these) fund(s) trying to achieve by taking account of ESG criteria? For instance, financing a specific sector, reducing risks, supporting better CSR practices, developing new value-creation opportunities, other objectives. If part of the fund(s) assets is invested in unlisted organisations with high social, community or impact investing relevance, please specify.

Please refer to the above section. The funds only invest in listed equities.

SECTION 2 – APPROACH TO ESG EVALUATION OF COMPANIES

2a. What fundamental principles underlie the ESG research methodology? Describe the principles, standards or norms on which the ESG analysis is based for each of the environmental, social/societal and governance dimensions. Include brief comments about how stakeholders are consulted, as appropriate.

Our ESG analysis takes into account internationally recognised norms, such as the Universal Declaration of Human Rights, the conventions of the International Labour Organization and the Rio Declaration on Environment and Development.

Stakeholders’ consultation is an integral part of ESG research undertaken by our research providers.

2b. What internal and external resources are used to carry out this research? Describe the general information used to carry out the ESG research: internal analysis, ESG rating agencies, other external sources of information.

Our ESG analysis is based on proprietary research, undertaken by our in-house teams, and external research from specialised agencies. These include ISS, Sustainalytics and Inrate among others. The role of these agencies is mainly to collect raw data provided by companies, the media and other relevant sources (e.g. NGOs) and provide their assessment on material ESG issues.
2c. Which ESG analysis criteria are used?

Indicate the main criteria for each of the environmental, social/societal and governance dimensions. Specify if these criteria differ according to sectors, geographical zones, the type of company, ... If appropriate, provide an example.

Our ESG analysis focuses on four aspects:

1. Corporate governance, including issues such as business ethics, audit and accounting practices, board independence, minority shareholders rights and executive remuneration.

2. Environmental and social practices, which cover issues such as carbon footprint, energy efficiency, water management, labour and supply chain management. For instance, companies with exposure to tar sands / fracking, coal extraction, oil production and power generation are analysed for their carbon footprint relative to peers and excluded from the portfolio if deemed to be excessive.

3. Impact of products and services on society and the environment, which entails a focus on clean technologies and the exclusion of activities such as weapons, nuclear energy, tobacco, gambling, pornography or genetically modified organisms (GMOs). Exclusions apply to companies with at least 5% turnover in such activities¹.

4. ESG-related controversies, such as incidents involving employees, major environmental pollution or damage, supply chain issues and product scandals.

2d. What is your ESG analysis and evaluation methodology (how the investment universe is built, rating system, ...)?

Describe the ESG evaluation/rating system and how it is built by explaining how the various ESG criteria tie in with each other. If appropriate, provide an example.

With respect to ESG considerations, a company is assessed based on four dimensions: governance, operations, products & services, and controversies. The ESG research methodology used to identify companies eligible for SRI portfolios is based on data received from external providers which is used to determine the initial list of eligible companies.

There is no overall ESG score as companies are either eligible for inclusion or exclusion. However, in order to ensure a high ESG quality of the portfolio, Pictet has defined specific minimum thresholds for companies in order to be eligible for the final investment universe. The internal ESG team of Pictet reserves the right to overrule the judgment of rating agencies if it concludes that this does not reflect the actual ESG performance of a company.

- **Governance** is determined based on information provided by specialist providers such as ISS. For companies scoring poorly on any of the dimensions, additional analysis is conducted to assess the relevance and materiality. Companies must have a strong governance track record to be eligible. Therefore, an ISS score of 10 or higher would lead to exclusion.

¹ This threshold is reduced to 0% for companies involved in controversial weapons such as anti-personnel landmines, cluster ammunition, chemical and biological weapons.
With regard to a company’s operational activities, Pictet has defined a set of proprietary criteria that are specific to each sector to determine the impact a company has on the environment and society. For example, we look at the carbon intensity of power generation or the rate of accidents in high-risk sectors such as mining. These proprietary criteria are backed up with an inrate ESG rating. Accordingly, all companies should have a high ESG rating of inrate, preferably B or better (Scale A (best) to D (worst)). The admission of C-rating companies is reviewed on a case-by-case basis.

- Similarly, when looking at products and services, we have defined a list of activities that we aim to get exposure to (e.g., renewable energy, energy efficiency, natural gas), and activities that we do seek to avoid (e.g., coal extraction, fracking, tar sands).

- Reputation is assessed based on the seriousness of controversies such as reported by Sustainalytics. Companies must have a minimum score of at least 3 (scale 1 to 5, companies with score 5 are the most controversial companies) to be eligible in this dimension or must demonstrate specific steps taken to rectify existing controversies.

With regards to the financial quality of a business we use our proprietary 4P framework - Profitability, Prudence, Protection and Price dimensions. A company must satisfy both the financial and extra-financial dimensions in order to be eligible for the buy list / portfolio construction.

2e. How frequently is the ESG evaluation reviewed?

*Please briefly explain the methodology update process and who is involved. If appropriate, explain if the methodology has changed in the past 12 months and the nature of the key changes.*

Screening criteria are reviewed on a regular basis in line with new ESG issues (e.g., industry standards, policy and regulatory developments).

Our analysts also monitor on a daily basis ESG controversies that may negatively affect the assessment of companies in the portfolio. If there are major controversies on ESG issues, they may decide, in agreement with the investment manager, to disinvest the stock.
A change in a company's sustainability standing will affect its sustainability score and will be taken into account at the next rebalancing date.

**SECTION 3 – FUND MANAGEMENT PROCESS**

3a. How do you take into account ESG criteria when defining the universe of eligible investments? *If appropriate, describe the eligibility threshold and the resulting level of selectivity.*

Our final stock selection is based on combining financial and extra-financial sustainability of companies. In order to succeed in the long run, businesses must be ecologically sound, socially just and economically viable.

Concerning the European Sustainable Equities fund, from the starting universe of 800 companies (largest European companies by market capitalisation), only about 400 companies are eligible based on ESG considerations, only 200 companies based on ESG and financial considerations. Similar process is applied to the Pictet-Emerging Markets Sustainable Equities where the starting universe used is MSCI Emerging Markets Index.
3b. How do you take ESG criteria into account into the portfolio construction?

*Describe how you link ESG selection with the financial analysis or with portfolio management. More precisely, describe how the results of the analysis of each of the dimensions (E, S and G) are integrated into the investment/divestment process. If applicable, state where you provide information on divestments that have occurred in the past year on the basis of ESG criteria? If appropriate, explain how potential ESG weightings are defined and describe your treatment of companies that are not subjected to an ESG analysis.*

In order to be eligible for portfolio construction, companies must be eligible both from a financial quality standpoint (using our proprietary 4P framework we assess companies for their Quality, Value and Defensive characteristics) as well as from an ESG standpoint. Positive assessment from both dimensions is essential for a stock to be eligible to the portfolio. As such the invested portfolio always reflects our assessment of the ESG profile of companies.

3c. Does (do) the fund(s) have a specific ESG engagement policy?

*Please explain what you mean by engagement. Describe how you select the companies/themes for engagement activities and the impact on the portfolio management of the fund(s). Who undertakes engagement on behalf of the fund (internal and/or service providers)?*
3d. Does (do) the fund(s) have a specific voting policy integrating ESG criteria?

Both funds actively exercise voting rights and aim to vote on all securities held in the portfolio.

Voting recommendations for the European Sustainable Equities funds are provided by Ethos, a well-known player in the field of Corporate Governance. Ethos's guidelines are based on accepted international recommendations as well as on local codes of best practice (http://www.ethosfund.ch/).

For our Emerging Markets Sustainable Equities, we used proxy-voting service provider ISS. Our policy is based on ISS global voting principles (www.issgovernance.com).

3e. Does (do) the fund(s) engage in securities lending activities?

Our funds do not engage in securities lending activities.

(i) is a policy to recall the securities in place in order to exercise the voting rights?

n/a

(ii) does the counterparty selection process integrate ESG criteria?

n/a

3f. Does (do) the fund(s) use derivative instruments?

No

3g. Is a share of the fund(s) invested in unlisted entities pursuing strong social goals?

No
SECTION 4 – CONTROLS AND ESG REPORTING

4a. What internal/external control procedures are in place to ensure the compliance of the portfolio with the ESG rules defined in section 3 of this Code?
State who is carrying out the controls, their frequency and within which timeframe the fund(s) have to comply should a breach be detected.

The sustainability of the funds is monitored by our compliance team, which ensures that our portfolio strictly follows our sustainable investment policy.

4b. Please list all public media and documents used to inform investors about the SRI approach to the fund, and include URLs.
This should include a link to the detailed list of holdings of the fund(s), which may not be more than 6 months old.

The following standard information is accessible on our website (www.am.pictet.com, available on each fund section):

› Factsheet (on a monthly basis)
› Fund Manager’s Comment (on a monthly basis)
› Annual Report
› Semi-Annual Report
› Prospectus

Additional information related to the sustainability of our funds is also publicly available on our website:

› Extra-financial reporting (quarterly)
› Fund holdings (quarterly)
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