A brand of Zürcher Kantonalbank

swisscanto

Swisscanto Sustainable Funds – Why not invest in sustainable mega-trends now?

International edition – Marketing material

Swisscanto managed by Zürcher Kantonalbank

Zürcher Kantonalbank's Asset Management manages around CHF 300 billion (as at the end of 2024), making it the second largest asset manager in Switzerland. Experienced specialists develop high-quality investment and pension solutions for private investors, companies and institutions under the Swisscanto product brand. All of our Asset Management teams are based in the financial centre of Zurich. Zürcher Kantonalbank's Asset Management has committed itself to the Net Zero Asset Management initiative. For the actively managed Swisscanto investment funds in the traditional asset classes, a CO_2 reduction target is implemented as standard in line with the Paris Climate Agreement. Swisscanto investment funds regularly receive national and international awards.

Swisscanto product offer of active Sustainable funds:

Contents

Further information:
swisscanto.com/int/en/institutional/sustainability.html

Mega-trends with structural growth potential
Active Swisscanto Sustainable funds

Sustainable growth in future markets
In the search for long-term growth drivers, it is worth taking a look at global mega-trends. These are complex phenomena, the effects of which will sooner or later be felt worldwide. Numerous factors can be considered as the basis for such mega-trends, be they environmental, economic, regulatory, social or technological influencing factors. Through their complexity and interactions, mega-trends create a dynamic and evolutionary force whose impact will be felt in all areas of society and shape the world for decades to come.

Successful investing requires correctly identifying such trends and avoiding the associated risks by anticipating them skilfully. It is important to predict events and take advantage of the opportunities that open up if possible. Mega-trends serve as important pillars and indispensable fundamentals in this context.

Competitive advantages for sustainable investments
Sustainability is precisely such a mega-trend whose effects is likely to lead to lasting and fundamental changes due to its great complexity, long-term nature and also its societal diversity. Those who ride this wave in time and with the appropriate means can look forward with confidence. For example, companies and countries acting sustainably are likely to have competitive advantages in the long term by adapting their strategies to current and future challenges.

Sustainable management involves more than just optimising production processes or meeting legal requirements and social standards. At the same time, it is also a question of which developments are initiated by corporate and government activities, as well as the ability of companies and the state to implement the necessary changes. One example is the energy turnaround which seeks to replace fossil fuels with renewable energies and energy efficiency. Non-sustainable production processes or products must be dropped and replaced by new ones.
With its active “Sustainable Funds”, Swisscanto focuses specifically on these players: the funds invest in companies and bonds issued by states whose products or services contribute to sustainable development in accordance with the 17 United Nations Sustainable Development Goals (SDGs). These goals were published in 2015 by the United Nations General Assembly and entered into force on 1 January 2016. Both governments and companies can contribute to achieving some of these goals.

Figure 1:
The United Nations' 17 Sustainable Development Goals (SDGs)

Source: UN (2016)

SDG-aligned investing – sustainability approach with future opportunities

We firmly believe that companies that provide a social benefit are more successful, as they have products and services that generate above-average demand. If companies are additionally protected from competitors by market entry barriers, they can grow more profitably. A favourable valuation in relation to their return on investment and growth makes investments in these companies attractive.

The investment philosophy of the active sustainable funds
At the heart of the investment process is the SDG analysis, which identifies companies, governments and quasi-governmental organisations worldwide that use their innovative power to create environmentally and socially responsible products and services. The active Swisscanto Sustainable funds are also pursuing an ambitious reduction path, which is oriented towards the 1.5-degree climate target and the <2-degree climate target for the Sustainable thematic funds. This results in an annual reduction of the CO_2e intensity[1] of the investments included in the portfolio of at least 7.5% or 4% per year for thematic funds, plus nominal economic growth.

The applied sustainability approaches[2]

SDG-aligned investing

Investments in SDG Leaders
We invest in companies that expect above-average growth because their products and services have a positive impact on society or the environment.

In the fixed-income segment, besides companies, we also include bonds issued by governments and quasi-governmental organisations. In recent years, a specialised segment has established itself: Bonds that exclusively finance ecological (green bonds) or social projects (social bonds) or take both into account (sustainability bonds) and thus can contribute to sustainable development. An example of such an investment opportunity is presented on the following pages.

Best-in-class approach – ESG Leaders
For diversification purposes and using a best-in-class approach, in addition to the SDG Leaders, investments can be made in companies or states that perform positively and above average in terms of ESG criteria. The ESG Leaders are subject to a systematic analysis (ESG integration) based on our in-house ESG score. For this purpose, we obtain data from well-known sustainability research providers such as MSCI ESG, and ISS.

Exclusion criteria to avoid controversies
The application of extensive exclusion criteria is an integral part of our Sustainable characteristics. We monitor new findings, social norms and trends, and adapt the criteria if necessary. In doing so, we rely on sources such as MSCI ESG, the World Bank, SVVK-ASIR or Freedom House. Our exclusion criteria relate to one or more of the following problem areas:
– Risk to society and health
– Climate change
– Decline in biodiversity

You can find more information about our exclusion criteria on our website.

CO_2e reduction - orientation to the Paris Climate target of 1.5°C
In their portfolio composition, the active Sustainable portfolios[3] take into account the ambitious 1.5-degree climate target in line with the Paris Agreement.

Investment sectors with the best opportunities
We have defined six investment areas that we are convinced are relevant to sustainable development. Our focus is on the topics of water, climate, circular economy, health and well-being as well as digital and integral economies. Below is an overview of the areas and the relevant SDGs they can be assigned to. Each investment theme is briefly introduced and illustrated using a business example. The "SDG Leader profiles" we have created show the social benefits, the business model, the growth and the barriers to entry of the individual companies.

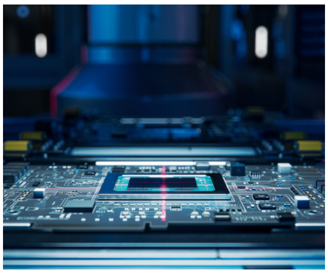
[1] This refers to the greenhouse gases mentioned in the GHG Protocol: carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O) and fluorinated greenhouse gases (CFCs), which together produce the greenhouse effect. Since the gases have different residence times in the atmosphere and do not contribute equally to the greenhouse effect, they are converted into CO_2 equivalents (CO_2e) to facilitate comparison.
[2] Individual criteria and approaches can be implemented differently for the different product lines.
[3] Thematic funds excluded: No ESG Leaders and <2 degree climate target

The six investment themes with attractive potential returns

The relevant 17 United Nations Sustainable Development Goals (SDGs[4]) are assigned to the appropriate investment theme. We focus on states and companies that contribute to solving sustainability problems.

	Investment theme	SDGs (main focus)	
	**Water** – Water protection – Water efficiency:	06 Clean water and sanitation	Ensure the availability and sustainable management of water and sanitation for all.
		14 Life below water	Conserving and sustainably using the oceans, seas and marine resources for sustainable development.
	**Climate** – Renewable energies – Energy efficiency	07 Affordable and clean energy	Ensuring access to affordable, reliable, sustainable and modern energy for all.
		09 Industry, innovation and infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
	**Circular economy** – Recycling – Resource efficiency	11 Sustainable cities and communities	Make cities and human settlements inclusive, safe, resilient and sustainable.
		12 Responsible consumption and production	Ensure sustainable consumption and production patterns.

[4] Source: UN (2016)

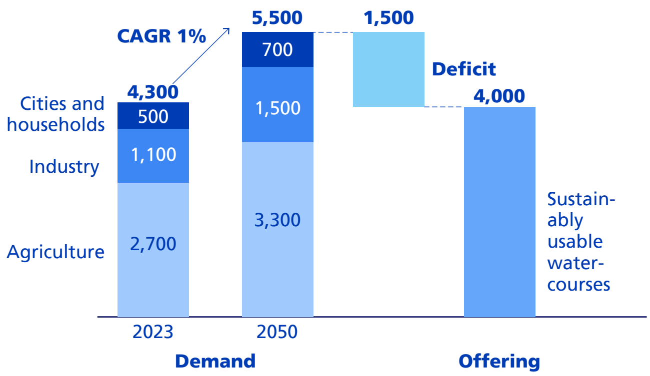
Investment theme	SDGs (main focus)	
 **Healthy longevity** – Nutrition – Services for the elderly	02 Zero hunger	End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
	03 Good health and well-being	Ensure healthy lives and promote well-being for everyone at all ages.
 **Digital economy** – Networking – Cybersecurity	08 Decent work and economic growth	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
	09 Industry, innovation and infrastructure	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
 **Integrative economy** – Knowledge – Access to finance	01 No poverty	End poverty in all its forms everywhere.
	04 Quality education	Ensure inclusive, equitable and quality education and promote lifelong learning opportunities for all.

Investment theme
Water

This vital resource is becoming scarce

Clean water is essential for all forms of life. But this seemingly unlimited resource is becoming ever scarcer. According to UN estimates, up to 2.4 billion people already live in regions with permanent or temporary water scarcity. By 2050, this number is even expected to increase to around six billion people. Because with the rapidly growing world population and increasing prosperity, water consumption is also constantly increasing. According to the UN, demand for water has increased by around 1% every year since 1980. But as liquid surface water, only 1% of the world's fresh water reserves are available to the Earth's population. The water gap, i.e. the imbalance between water supply and demand, is getting larger.

Figure 2: The global water gap in km³, distributed across 154 basins worldwide



Source: Zürcher Kantonalbank, UN World Water Development Report 2023, Water Resources Group 2009

Because industry, agriculture and households need large quantities of fresh water, humanity also has access to ground water in many places – fresh water from the depths of the Earth, which is only slowly renewed. As a result, in some places salty seawater is drawn in, which permanently contaminates these important reserves. In addition, the melting of the polar ice caps is causing sea levels to rise continuously. If this rises above the ground water level, there is a risk of salinisation of the existing deposits occurring. This must be avoided at all costs. Ground water plays an essential role in water supply. About half of the world's population regularly consumes ground water. This is because it is often the only reliable water source in low-precipitation regions.

Climate change as an additional danger

The already tense situation is further exacerbated by ongoing climate change. Melting glaciers that previously served as fresh water reservoirs, extreme weather events and changing precipitation patterns lead directly to increased restrictions and greater unplannability of the water supply. Long-lasting heatwaves and droughts are causing crop losses in agriculture and fuelling distribution battles for the vital resource of water. Even the water reservoir of Switzerland is not spared from this development. For example, the increasing summer heat is having a negative impact on the local water, while the mild winters are melting snow cover as an important precipitation reservoir.

Investing in water access

Closing the water gap offers numerous attractive investment opportunities in the water sector by promoting more efficient water use and improving water protection. This requires investment in the water sector in general and in its three investment opportunities of water technology, water utilities and water protection in particular. According to our estimates, investment in the water sector as a whole enables high average annual growth of around 4 to 6%, while average global economic growth is 2 to 3%.

The water technology sector encompasses a wide range of markets, ranging from infrastructure, piping, pumps, filters, smart water meters and grid monitoring technologies to dedicated software solutions. Water utilities includes the expansion and operation of water infrastructure. The third investment opportunity can be divided into a direct and an indirect part. The direct part includes companies that develop and implement solutions to measure water quality and help make water usable for longer, for example through the development of chemicals. Indirect water protection is based on the "polluter pays" principle and offers preventive measures for particularly water-intensive and water-polluting industries.

SDG Leader Profile:
Veralto Corp.

Water

Company description

Industry	Commercial Services and Utilities
Country	USA
Employees	15,500
Revenue	USD 5.14 billion
Market capitalisation	USD 26.04 billion

Veralto Corp. focuses on water purification, treatment and management systems to ensure clean and safe water for various industries. Veralto is thus addressing the increasing global water scarcity. With a strong presence in North America, Europe and Asia, Veralto serves an international customer base.

Swisscanto Sustainability Score

77/100

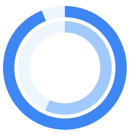
Theme universes

Climate, water, circular economy

Relevant SDGs

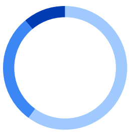
06 Clean water and sanitation	09 Industry, innovation and infrastructure	11 Sustainable cities and communities
12 Responsible consumption and production	14 Life below water	15 Life on land

SDG score



Issuer
94/100
Peer group
57/100

Most important SDG-linked sales



- 60% sustainable water protection
- 29% industrial innovation
- 11% Neutral

Source: Bloomberg, Zürcher Kantonalbank, data as of 31.12.2024

Growth and barriers to entry

Population growth, increasing prosperity and urbanisation are driving the demand for clean water. This growth creates significant market opportunities for Veralto's advanced water purification and treatment solutions. We expect this market to grow 1.5 to 2.0 times of global GDP in the next few years. The main barriers to entry are capital requirements, technological know-how (e.g. intellectual property), brand reputation and an established sales and service network.

Risks

The main risks are a broader economic downturn, leading to tighter customer budgets and significant regulatory changes that could adversely affect the entire water sector (e.g. more relaxed water quality requirements). With regard to business management, we see potential for improvement in the remuneration of managers and access to proxy voting.

Sustainability purpose and business model

Veralto's business model focuses on the development and delivery of advanced solutions for water purification, treatment and administration. The product portfolio includes state-of-the-art filtration systems, chemical treatment solutions and digital monitoring instruments that ensure the highest standards of water quality and purity. Veralto's digital tools include sensors, software and IoT-enabled devices that make real-time monitoring and management of water systems possible. By integrating cutting-edge technology and solid engineering, Veralto helps industries, municipalities and communities protect and manage their water resources more effectively, and helps solve critical water problems such as pollution, water scarcity and inefficient water management with these innovative water technologies and services. Thus, Veralto's products and services contributeto the achievement of several SDGs. In particular, SDG 6 (clean water and sanitation) by ensuring access to safe and affordable drinking water and improving water quality. In addition, Veralto contributes to SDG 14 (life below water) by reducing the release of pollutants into the sea and waterways through wastewater treatment solutions.

Investment theme Climate

Hotter than ever in the past 2,000 years

Driven by the combustion of fossil sources of energy, the CO_2 concentration in the atmosphere is constantly increasing – and with it man-made global warming. The climate has changed significantly since industrialisation in particular. Global temperatures are now higher than they have ever been in the past 2,000 years. The consequences of this development become more obvious the longer they last: Flooded cities and fields, landslides destroying houses and roads and periods of sustained heat drying out entire river courses and causing harvests to wither – these are the kinds of extreme weather events that, with increasing frequency, are making people acutely aware of climate change. Ultimately, the man-made global warming responsible for this can only be curbed by a rapid reduction in CO_2 emissions to net zero by 2050.

The drivers for reducing emissions are diverse, with global political ambitions (e.g. EU Green Deal, US Inflation Reduction Act), technological progress and significant demand for green energy probably among the most important. The economic potential is between USD 2.3 and 4.5 trillion in annual investments, depending on the International Energy Agency (IEA) scenario.

Drastic measures are necessary

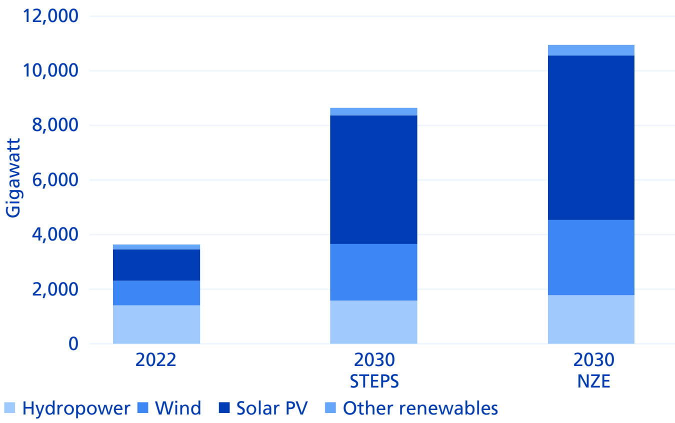
Numerous measures are required to reduce CO_2 emissions to net zero by 2050. According to the IEA, decarbonisation of electricity generation provides the strongest leverage. To achieve this, all fossil power plants would have to be replaced by wind, solar, hydro and, where appropriate, nuclear power. In vehicle technology, it would be necessary to switch to electric motors that run exclusively on green electricity.

This would save 22 to 23 billion tonnes of CO_2 per year. In view of such challenging goals, drastic and sustained measures will be necessary in the future. Climate change and the reduction of the CO_2 emissions that are responsible for it are likely to occupy humanity for many years to come.

CO_2 reduction as an investment opportunity

Under these conditions, we anticipate sustained growth in renewable energies, electromobility and energy and resource efficiency, while demand for fossil fuel sources of energy is likely to decline. The energy industry is likely to face fundamental changes in this decade. Companies that benefit from this transformation through their products and services and that contribute to decarbonisation are poised for profitable growth as a result. For investors in this area, we have identified four attractive investment areas that could benefit from efforts to cut CO_2 emissions and combat climate change: In the area of renewable energies, these are particularly solution providers, users and enablers from the fields of solar and wind energy, as they are likely to play a decisive role in the reduction of global CO_2 emissions.

Figure 3: Global renewable energy capacity by scenario, 2022 and 2030



Source: IEA (2024), Global renewable energy capacity by scenario, 2022 and 2030, IEA, Paris https://www.iea.org/data-and-statistics/charts/globalrenewable-energy-capacity-by-scenario-2022-and-2030, Licence: CC BY 4.0

It is also important to improve energy efficiency in order to reduce energy consumption despite economic growth. Here as well, solution providers are likely to benefit from increased demand. In addition, electrification of road transport, primarily through battery-powered electric vehicles, offers potential for a significant reduction in CO_2 emissions over the life cycle. Finally, the circular economy lowers resource consumption and reduces waste, thereby improving energy efficiency and promoting sustainable production and consumption behaviour.

SDG Leader Profile:
Quanta Services Inc.

Climate

Company description

Industry	Construction and engineering
Country	USA
Employees	52,500
Sales	USD 22.90 billion
Market capitalisation	USD 49.45 billion

Quanta Services specialises in the electricity sector and offers planning, installation, modernisation and maintenance of transmission and distribution networks. Another focus is on renewable energy projects, including solar and wind farms as well as battery projects that support the transition to sustainable energy. Their focus is on the USA.

Swisscanto Sustainability Score
70/100

Theme universes
Climate, circular economy, digital economy

Relevant SDGs

06 Clean water and sanitation

07 Affordable and clean energy

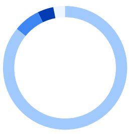
09 Industry, innovation and infrastructure

11 Sustainable cities and communities

SDG score

Issuer
100/100
Peer group
57/100

Most important SDG-linked sales



- 86% Infrastructure development
- 7% Smart grid technologies
- 4% Solar power
- 3% Other revenues

Source: Bloomberg, Zürcher Kantonalbank, data as of 31.12.2024

Growth and barriers to entry
Demand for Quanta Services' solutions is driven by the need for modernisation due to an ageing electricity infrastructure, a higher share of renewables in the electricity mix, and technological advances such as smart grids and energy storage systems. As a result, we expect the company to achieve double-digit growth rates or more than three times global GDP in the coming years. The main barriers to market entry are technical knowhow through highly qualified labour (including education and certification), a comprehensive range of services and competitive pricing through economies of scale, a good reputation and track record in large projects, and the relatively high investments required for special equipment.

Risks
Quanta Services faces project execution risks, including cost overruns, delays and technical difficulties that can impact profitability and customer satisfaction. Moreover, increased competition in the market could put pressure on profit margins, while safety and environmental risks require strict measures to avoid accidents and legal obligations. Supply chain disruptions can lead to delays in material and equipment deliveries, impacting project schedules.

Sustainability purpose and business model
Quanta Services addresses the challenge of the energy turnaround by providing infrastructure solutions that facilitate the use of renewable energy and improve the resilience and efficiency of the power system. The company's expertise in the power sector includes the planning, installation, upgrade, repair and maintenance of transmission and distribution grids, which are crucial for integrating renewable energy sources into the power grid. Quanta Services also offers the development and implementation of renewable energy projects. By providing end-to-end solutions, Quanta Services helps to increase the capacity and reliability of renewable energy production, thereby reducing dependence on fossil fuels and greenhouse gas emissions. In addition, Quanta Services' solutions enable stationary battery storage projects that are essential for ensuring a stable and reliable power supply. Quanta Services' contributions are aligned with several SDGs. These include, in particular, the promotion of clean and affordable energy (SDG 7), as well as industrial innovation and infrastructure development (SDG 9).

Investment theme
Circular economy

Circular economy instead of landfills
For years, the growth in population and prosperity has led to a continual increase in demand for natural resources, instances of resource scarcity and heightened levels of environmental pollution, especially as a large proportion of manufactured goods still go to landfill or incineration plants after use. In this way, large amounts of non-renewable resources are irrevocably lost. This makes it all the more important to close the loop on recyclable materials, for example by manufacturing products in such a way that the materials used can be fully reused. Economical dismantling and recycling processes produce essential preconditions for a more efficient and sustainable approach to handling valuable and scarce resources. Decoupling resource consumption from economic growth should become an important investment theme of the 21st century.

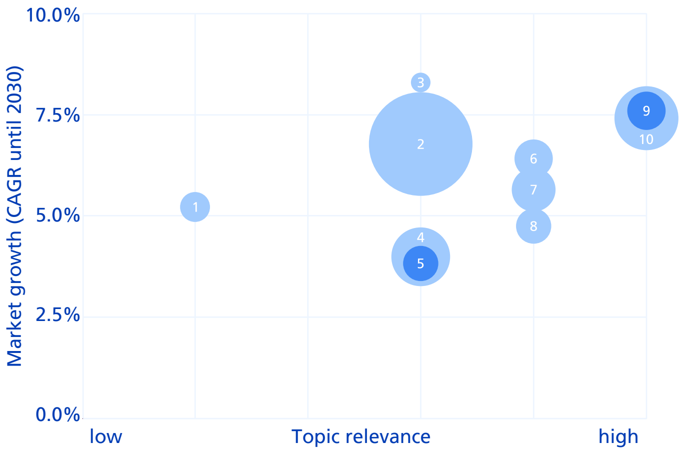
Maintaining value within the system as a goal
This approach represents a fundamental paradigm shift in production and consumption. The focus is on systems that enable the continuous and long-term use of resources. The circular economy revolves around product design principles that prioritise durability, repairability and recyclability. The overall goal is to maintain value within the system, minimise resource depletion and improve overall sustainability. This applies even in the context of biological resources, for example, when agriculture supplies nutrients to the soil and supports natural regeneration processes.

The transition to a circular economy is a key driver for tackling the complex problems arising from environmental deterioration, resource constraints and climate change. The arguments in favour of expanding the circular economy and recovering important raw materials have come to the fore due to geopolitical changes and tensions.

Long-term benefits for companies
At the same time, the circular economy also offers considerable economic prospects. Driven by regulatory requirements and political measures around the world, there are significant opportunities for companies that introduce circular economy practices. There are also numerous long-term benefits for companies that invest in the circular economy – from lower operational risks and costs to new business opportunities.

The success of the circular economy depends on how large a sector is and how significant its impact on the circular economy is. Investments in companies that are committed to the circular economy and thereby have a positive impact on the environment can generate financial return opportunities that exceed market growth in the long term.

Figure 4: Growth and impact by sector
Size of the circle = market value of the circular economy in USD billion



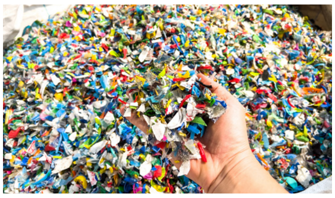
1. Oil, gas and consumable fuels
2. Environmental and building services
3. Agricultural machinery and equipment
4. Construction materials
5. Construction products
6. Motor vehicles and components
7. Ground transport
8. Electronics
9. Fashion
10. Food and beverages

Source: Chatham House, Just Economics, Goldman Sachs, ZKB Asset Management, July 2024

The companies can be divided into providers, enablers and circular economy adopters. These provide an indication of how a company is performing in the context of the circular economy.

The circular economy thus offers the perfect mix of sustainable and collective commitment and economic viability. This embodies fundamental change. If carried out conscientiously, it has the power to reform entire industries, conserve resources and create a fairer and more sustainable future for posterity.

SDG Leader Profile:
TOMRA Systems ASA



Circular economy

Company description

Industry	Industrial machinery & components
Country	Norway
Employees	5,370
Sales	NOK 1.29 billion
Market capitalisation	NOK 45.62 billion

TOMRA is the market leader in reverse vending machines (RVM, 50% of sales), which are used in retail outlets to process the return of beverage containers. In addition, TOMRA manufactures advanced sensor-based sorting solutions for metal and waste recycling as well as food sorting machines.

Swisscanto Sustainability Score

77/100

Theme universes

Climate, circular economy

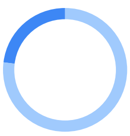
Relevant SDGs

08 Decent work and economic growth	09 Industry, innovation and infrastructure	12 Responsible consumption and production
14 Life below water	15 Life on land	

SDG Score

Issuer
88/100
Peer group
57/100

Most important SDG-related revenues



77% Circular economy
23% Neutral

Source: Bloomberg, Zürcher Kantonalbank, data as of 31.12.2024

Growth and barriers to entry

TOMRA holds a leading position in the global market for reverse vending machines and recycling equipment and has a market share of over 55–70% in its most important markets. The size of this niche market creates a considerable economy of scale, which makes it difficult for new market players to compete with the company. In addition, the need for machine maintenance (repair network) is another significant barrier to entry. At Investor Day 2024, TOMRA announced an annual sales growth target of approximately 15% by 2030. This is partly due to the new EU recycling regulation.

Risks

In the smaller food segment, TOMRA is exposed to a more fragmented competitive environment in which new market entrants and volatile end-market fluctuations (dependence on the investment spending of the food industry) create risks. In addition, irregularities and potential delays in the introduction of programmes for reverse vending machines in new countries can also lead to fluctuations in profits.

Sustainability purpose and business model

TOMRA is one of the few companies that focuses mainly on reuse and recycling. The entire organisation is driven by sustainability and has an annual growth potential of 10% and more. This makes TOMRA an important beneficiary of the circular economy trend. As the market leader in take-back and recycling equipment, TOMRA makes a direct contribution to facilitating the return and recycling of packaging. Reverse vending machines account for 54% of sales and recycling machines for around 23%. We therefore estimate that at least 77% of Group revenue comes from sustainable solutions that contribute to the circular economy (including glass bottle reuse and plastic recycling). The food segment is excluded from this analysis, as the proportion that contributes directly to the reduction of food waste is difficult to determine.

Investment theme
Healthy longevity

Fitness in older age

According to the United Nations World Population Prospects 2022, average life expectancy has increased worldwide in recent decades. In 2022, approximately 770 million people were estimated to belong to the age group of 65 or older. At the same time, birth rates have fallen. This has led to an increase in the average age and a shift in the weighting of age groups in populations. The proportion of the world's population aged 65 and over is currently almost ten percent. The relative proportion of this age group is forecast to rise to over 16% by 2050, assuming a world population of 9.7 billion.

Table 1: Populations of people 65+ in millions worldwide and by region

	2000	2010	2020	2030	2040	2050
World	423	533	737	1005	1321	1591
USA	35	40	54	71	81	87
China	87	115	178	255	356	389
EU	68	78	93	108	122	129
India	48	63	93	133	186	250

Source: United Nations, Department of Economic and Social Affairs, Population Division (2024). Data portal, https://population.un.org/dataportal/home?df=29acbc2e-e2e7-4dfc-98a2-1061c423e2c6 (accessed on 24 April 2024)

"Healthy Longevity" is a widespread goal and requires a more sustainable lifestyle from a young age. Medical and technological advances have also been made. As a result, today's 75-year-olds are as healthy as the 65-year-olds five decades ago. At the same time, the "Silver Economy" has a large proportion of the world's assets, which allows it to spend more thanks to its fitness for a longer period of time.

The growing demographic weighting of baby boomers, their wealth and thus their purchasing power, open up opportunities for products and services that are geared towards the needs of the "Silver Economy". They offer significant prospects for growth, which are also likely to have long-term effects and which cannot be found in many other economic sectors.

Healthcare costs are likely to continue to rise

At the same time, however, increased life expectancy is also driving up healthcare spending on medical benefits and care – both at individual and sovereign levels. In addition to demographic change, chronic diseases such as cardiovascular diseases, diabetes and cancer are driving up costs. Technological progress with new therapeutic methods and pharmaceutical research is also costly. The expansion of healthcare, rising real wage costs and increased expectations of services are further cost drivers.

Nevertheless, healthy longevity is not just an issue for older generations, but is already affecting young people. As a result, the market is expected to grow organically over many decades. Driven by strong innovative power in the relevant industries, a substantial market size is foreseeable. Demography is a comparatively slow but fundamentally strong driving force that will not lose speed and momentum in the decades to come and may even affect other countries, particularly certain emerging countries such as China.

Companies offer many preventive or medical-therapeutic products and services with which they address both individual and societal needs in terms of healthy longevity, after a longer life in good health. The respective companies are therefore in a good position to generate not only added value for investors, but also genuinely positive effects for customers and society – often described as having a "Sustainable Purpose". For investors, the opportunities in the market for healthy longevity are likely to be attractive, especially compared with other economic sectors.

SDG Leader Profile:
Sandoz Group AG

Healthy longevity

Company description

Industry	Pharmaceutical
Country	Switzerland
Employees	23,848
Sales	CHF 8.97 billion
Market capitalisation	CHF 16.50 billion

Sandoz is the second largest company in the non-patent drug market, which includes generics (chemical-based drugs) and biosimilars (biological-based drugs). As a result, Sandoz offers affordable, high-quality medicines and improves access to healthcare. Sandoz separated from Novartis as an independent company in October 2023.

Swisscanto Sustainability Score
96/100

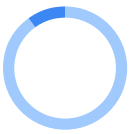
Theme universes
Healthy longevity

Relevant SDGs
03 Good health and well-being

SDG score

Issuer
100/100
Peer group
86/100

Most important SDG-linked sales



- 90% Biotech and pharma
- 10% Major disease treatment

Source: Bloomberg, Zürcher Kantonalbank, data as of 31.12.2024

Growth and barriers to entry
Competition in the generics market is very tough due to competitors from India who are able to produce simple medicines cheaply. Growth in this segment has been stagnating for years. Nevertheless, Sandoz can achieve growth of around 4% thanks to its wide product range, large production capacity and worldwide distribution. However, in order to grow sustainably above the market for off-patent drugs, Sandoz has increasingly entered market segments that have higher barriers to entry due to the difficulty of manufacturing the products. These areas are complex generics (e.g. peptides) and biosimilars. As numerous biological blockbuster drugs will lose their patent protection by 2030, biosimilars are expected to grow by 20% per year. Sandoz plans to double its exposure to biosimilars to 30% by 2028. The company could therefore sustainably increase sales by 5-7%.

Risks
The main risks for Sandoz include, firstly, competitive threats, particularly with biosimilars; secondly, an unfavourable cost and price environment; thirdly, the failure of court proceedings or settlements in patent disputes; fourthly, regulatory hurdles in drug approvals and production inspections; and fifthly, continued dependence on Novartis for production capacity.

Sustainability purpose and business model
Sandoz's business model is aligned with the UN Sustainable Development Goal 3 (good health and well-being) by improving access to global healthcare, particularly through its initiatives in the field of generics and biosimilars. The portfolio of affordable generics and biosimilars covers a wide range of diseases and ensures broader access to essential medicines worldwide. In addition, the company makes a direct contribution to SDG 10 (reduced inequalities) by reducing inequalities in healthcare, particularly in underserved regions. Their efforts save health systems considerable sums of money each year, with an estimated social benefit of USD 180 billion.

Investment theme
Digital economy

Much more than just the technology sector
The digital economy is experiencing explosive growth – and not only in the technology sector. As a driver of economic prosperity, it affects almost all areas of life and the economy – from global trade, communication and health to research and development. The digital economy promotes renewal in a wide range of sectors and should also contribute to increased sustainability.

In addition to continuous innovation and technological developments, several factors are driving the upturn. One example of this is the constantly increasing computing power of computers, thanks to which complex tasks such as data analyses can be performed, algorithms for artificial intelligence can be calculated or realistic graphics for augmented reality can be created. Miniaturization of components allows, in turn, for more powerful devices in smaller enclosures, while improved network infrastructure allows for faster data transmission.

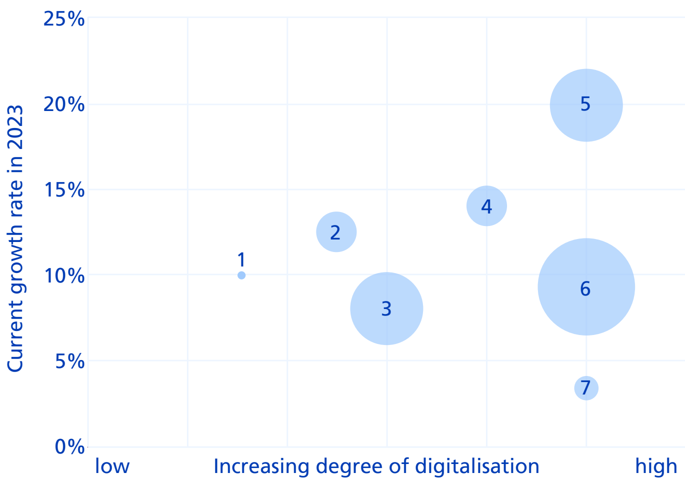
These innovations have the potential to disrupt traditional business models, create new business opportunities and change the way products and services are offered across industries.

A market worth trillions with growth potential
There are several estimates of the market size of the digital economy: Capgemini assessed the "eco-digital economy" at USD 16.6 trillion or 15.8 percent of global GDP in 2023[5]. By 2028, the consulting firm forecasts an increase to USD 32.9 trillion, or 26.2 percent of GDP. These figures are in line with those of Microsoft CEO Satya Nadella, who already pays 16 percent of global GDP to the digital economy[6]. Having grown more than twice as fast as GDP over the past 15 years, the digital economy is expected to continue to show similar growth rates in the future.

The impact of the digital economy is of central importance for further economic growth and social development, with far-reaching effects on the environment, companies, consumers and society as a whole. The rapid spread of technologies such as the Internet, mobile technology and artificial intelligence has revolutionised business operations and social interactions, paving the way for new business models, increased productivity and broader access to information and services.

Investment theme with sustainability aspects
The digital economy is closely linked to digitization, a long-term investment theme that continues to offer significant opportunities to increase the use of technology in the economy and in society as a whole. The "digital economy" offers investors a wide range of investment opportunities. They can be found in core technology sectors as well as adjacent sectors such as telecommunications, media, cyclical consumer goods, health care, financials and industrials.

Figure 5: Growth rate and degree of digitalisation by sector (The size of the bubbles corresponds to the market value in USD billion)



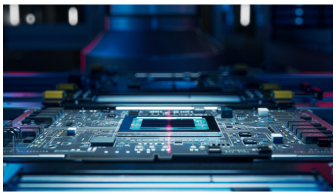
1. Agricultural technology
2. Health care and life sciences
3. E-banking
4. Cybersecurity
5. Cloud computing
6. IT services
7. 5G

Source: Zürcher Kantonalbank

This results in broad sector exposure and diversification. At the same time, there is an opportunity to benefit from the accelerated growth of the interconnecting theme of the digital economy. Sustainability aspects can also be addressed by innovative companies in the digital economy.

[5] https://www.consultancy.eu/news/9716/global-eco-digital-economy-to-double-in-next-five-years
[6] Forbes article 26 January 2022

SDG Leader Profile:
Fortinet Inc.



Digital economy

Company description

Industry	Cybersecurity
Country	United States
Mitarbeitende	13,568
Sales	USD 5.30 billion
Market capitalisation	USD 7.84 billion

Fortinet is a world-leading cybersecurity company specialising in network security solutions. Its broad product portfolio is aimed at both SMEs and large companies. Fortinet's cybersecurity platform is trusted by 680,000 customers worldwide to protect IT infrastructure across industries and regions.

Swisscanto Sustainability Score
82/100

Theme universes
Climate, circular economy, digital economy

Relevant SDGs

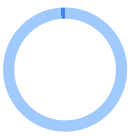
07 Affordable and clean energy

09 Industry, innovation and infrastructure

SDG score

Issuer
100/100
Peer group
57/100

Most important SDG-linked sales



99% Cyber security
1% Energy Efficient Industry

Source: Bloomberg, Zürcher Kantonalbank, data as of 31.12.2024

Growth and barriers to entry
We expect cyber security to grow at least three times faster than global GDP. Certain newer segments of the cybersecurity market are growing even faster, at around 15-20% per year. Fortinet is exposed to some of these newer markets, but has made significant market share gains, particularly in the more established areas of cyber security. The company itself is expected to achieve at least three times GDP growth, and in some cases even significantly more, considering the firewall replacement cycles, which typically take place about every four years. The company's market leadership was initially achieved through strategic investment in specially developed microchips. Over time, this has established Fortinet as a leading cybersecurity platform. New market entrants would therefore need many years to achieve the breadth of cyber security solutions that Fortinet has today.

Risks
Fortinet is exposed to certain risks when launching and competing with software-oriented products, such as cloud cyber security. Potential challenges include slower-than-expected growth in the firewall market and potential reputation risks due to the serious impact of a major cybersecurity breach. The CEO/VRP role is performed in a personal union and two co-founders remain active in the company as CEO and CTO. These two people have made a significant contribution to the company's success, but also pose a key person risk.

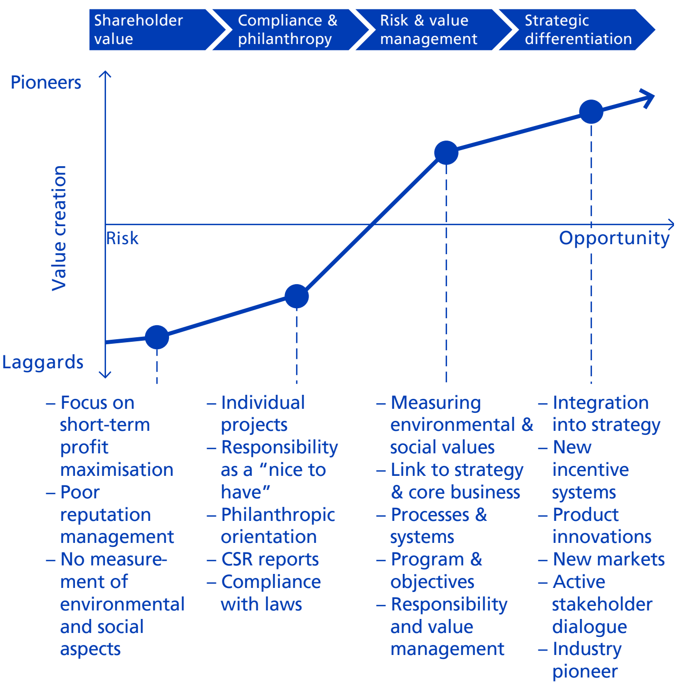
Sustainability purpose and business model
Fortinet's multi-year strategic investments in specially developed microchips have resulted in an enormous cost-performance advantage. This knowhow makes the company unique in the network security market. From this strong position, Fortinet has expanded into other cybersecurity niches. Approximately one third of the revenue is from one-off hardware sales. These, in turn, drive multi-year sales of software and services, which account for the remaining two thirds of revenue. In addition to the general cybersecurity market dynamics, Fortinet plays a central role in protecting sensitive infrastructures that are increasingly connected to the Internet in order to achieve greater efficiency and achieve several SDGs. Fortinet's cost-efficient devices are particularly attractive given the large number of individual infrastructure data points that need to be protected. The company's contribution is aligned with the Sustainable Development Goals (SDGs), in particular SDG 7 (affordable and clean energy) and SDG 9 (innovation and infrastructure).

Investment theme
Integrative economy

Economic growth, but socially acceptable
The integrative economy aims to organise entrepreneurial activities in such a way that they not only focus on economic goals, but also take social and ecological concerns into account. This should result in a sensible balance between economically growth, social justice and environmental sustainability.

The inclusive economy includes approaches such as corporate social responsibility (CSR), in which companies take responsibility for the social and environmental impact of their business activities (see figure 6).

Figure 6: Development of CSR and sustainability



Source: Gastinger/Gaggl (2012) in Schneider/Schmidpeter (ed.), Corporate Social Responsibility, p. 246.

Another relevant area is the sustainable development of economic activities. These should be designed in such a way that natural resources are preserved for future generations. Finally, the inclusive economy also includes issues such as the promotion of equal opportunities and social justice by including disadvantaged groups in the economic process.

Tangible benefits for companies
In addition to the positive aspects for society, the inclusive economy also offers tangible benefits for companies. These are both short-term and long-term in nature. For example, it has a positive effect on the reputation and brand value of companies.

This usually improves customer loyalty and retention as well as market opportunities. In addition, greater employee satisfaction can be assumed, which is likely to have a positive effect on the search for skilled workers. In this way, the inclusive economy helps companies to proactively address social and environmental risks and thus better prepare for regulatory changes and market uncertainties.

Companies with an integrative economic approach are given the opportunity to achieve sustainable growth, strengthen their competitiveness and at the same time generate a positive impact on society and the environment.

Financially performance and higher returns
Ultimately, the approach also benefits investors, who are likely to profit from potentially higher and more sustainable returns. After all, companies that invest in sustainable technologies and processes are often considered to be more innovative and competitive. They enjoy a better reputation and higher brand value. This in turn can lead to new business opportunities and higher returns.

The inclusive economy should therefore also be reflected in the improved financial performance of companies. This can lead to stronger customer loyalty and positive public perception.

SDG Leader Profile:
CIF capital market mechanism

Integrative economy

Company description/project financing

Industry	Supranational organisation
Country	United Kingdom
Sectors	- Renewable energy 90% *solar 30.9%, geothermal energy 11.3%, wind energy 6.4%, final consumption 5.0%, other renewable energies 36.4%* - Transport 6% - Energy storage 4%
Regions	Asia 31%, Europe & Central Asia 19%, Sub-Saharan Africa 16%, Latin America & Caribbean 16%, Middle East & North Africa 15%, Global 3%
Projects financed	USD 6.3 billion

The Climate Investment Funds (CIF) Capital Market Mechanism (CCMM) was set up as a vehicle for the direct procurement of investment capital via the international capital markets to finance climate projects in emerging markets. The aim is to mobilise capital from the private sector to drive the development of renewable energy and sustainable infrastructure projects in low- and middle-income countries.

Theme universes
Integrative economy

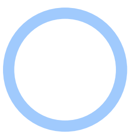
Relevant SDGs

01 No poverty	08 Decent work and economic growth	17 Partnerships for the goals

SDG score

Issuer
100/100
Peer group
57/100

Most important SDG-linked sales



100% access to emerging country finance

Source: CIF website, Moody's, Fitch, as of November 2024, Zürcher Kantonalbank per January 2025

Growth and barriers to entry
The CIF was established in 2008 and consists of two different sub-funds: The Climate Technology Fund (CTF) and the Strategic Climate Fund (SCM). The CIF supports more than 350 projects in over 80 low- and middle-income countries. The CCMM was established to raise funds for the CTF on the capital markets through a new channel. It finances low-carbon technologies that have considerable scaling potential and thus promote sustainable development in developing countries. The fund invests in renewable energy, energy efficiency and transport, including innovations such as energy storage. It does not grant loans directly to borrowers or make funds directly available to them. This is done through six multilateral development banks (MEBs). The CTF has 10 member states: Australia, Denmark, Germany, France, Japan, Canada, Spain, Sweden, the United Kingdom and the United States. In total, the CTF financed projects worth USD 6.3 billion in 2023.

Risks
The main risks in lending come from weak liquidity management, high debt levels and an increase in non-performing loans. The debt level of the CCMM is relatively low at 0.6x compared with other supranational organisations and is limited to 150%. Non-performing loans stand at 1.6%, which is low compared with the sector. 94% of loans are granted to middle-income countries, while the majority of financing for low-income countries is provided through government grants. Liquidity is similar to that of other AA-rated MEBs and the CCMM is expected to generate positive cash flow and maintain its strong liquidity position. The World Bank acts as the Treasury of the CCMM. It is responsible for both liquidity management as well as risk management and capital market issues. However, with solid credit ratings of AA+ from Fitch and Aa1 from Moody's, both points can be classified as low risk.

Sustainability purpose and business model
The CCMM provides emerging countries with rapid access to the CTF's loan portfolio, enabling new climate finance funds to be released rapidly on a large scale. The CTF loans have a term of up to 40 years with a repayment moratorium of up to 10 years. In order to release funds for investments now, CCMM issues bonds collateralised by these loans so that the funds are available sooner instead of waiting for the long-term returns.

Years of experience with sustainable investments

As early as 1998, Zürcher Kantonalbank launched the first sustainable fund as a pioneer in the field of sustainable investments. In 2009, Zürcher Kantonalbank was one of the first universal banks in Europe to sign the United Nations' six Principles for Responsible Investment (UN PRI). With this step, it has underpinned its endeavour to integrate ESG issues more and more into asset management investment decisions and active shareholder behaviour. The international investor initiative UN PRI is committed to ensuring that around 5,300 signatories with a volume of investment of over USD 128.4 trillion[7] include social and environmental factors as well as sustainable business management in their areas of responsibility.

Orientation to the Paris Agreement in Swisscanto funds
In line with the Paris Agreement, our investment experts for our active funds in the traditional asset classes aim for an annual reduction of the CO_2e intensity of the investments by at least 4% as standard, which corresponds to a <2-degree target. In the case of the acitve Sustainable funds (without thematic funds), we align our investing activities with the 1.5-degree target. The reduction target is to be achieved through capital allocation and engagement. An active dialogue with company management is intended to ensure that companies set themselves ambitious and measurable sustainability goals.

Stewardship

We actively exercise voting rights
Our voting guidelines are based on Swiss and international corporate governance standards, as well as the UN PRI principles. They contain a comprehensive set of environmental, social and governance standards that guide the decision-making process. We also use the assessments of the independent voting advisor ISS (Institutional Share holder services) and our investment specialists in asset management. Voting behaviour is published in detail on our website swisscanto.com/voting.

Engagement on three pillars

Direct dialogue with Swiss issuers
Our focus is to create visibility among companies as an active and sustainable asset manager by promoting ESG best practices in the interests of our investors by leveraging our home base expertise.

Collaborative engagements
The focus is to support ESG initiatives of the UN PRI platform that are aligned with the environmental and/or social aspects of the 17 UN Sustainable Development Goals and affect entire industries or global themes.

Global and thematic engagements
We prioritise compliance with the UN Global Compact principles and topics such as climate change, biodiversity, circular economy and healthy longevity. We have commissioned Sustainalytics to optimise the use of existing resources and communicate our central sustainability goals worldwide.

Transparency
Our customers have been receiving detailed reporting on their assets in our Sustainable funds with regard to various sustainability indicators and dimensions, including:
- Sales (in %) of issuers that make a positive contribution to achieving the SDGs
- ESG ratings
- CO_2e-intensities including 1.5 or 2-degree climate target compatibility measurement
- Controversies
- Voting and engagement activities

Detailed information about the sustainable **investment solutions** from Swisscanto can be found on our website:
swisscanto.com/int/en/institutional/sustainability.html.

[7] Annual Report 2024; https://www.unpri.org/pri/about-the-pri

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