June 2023

Raiffeisen Capital Management
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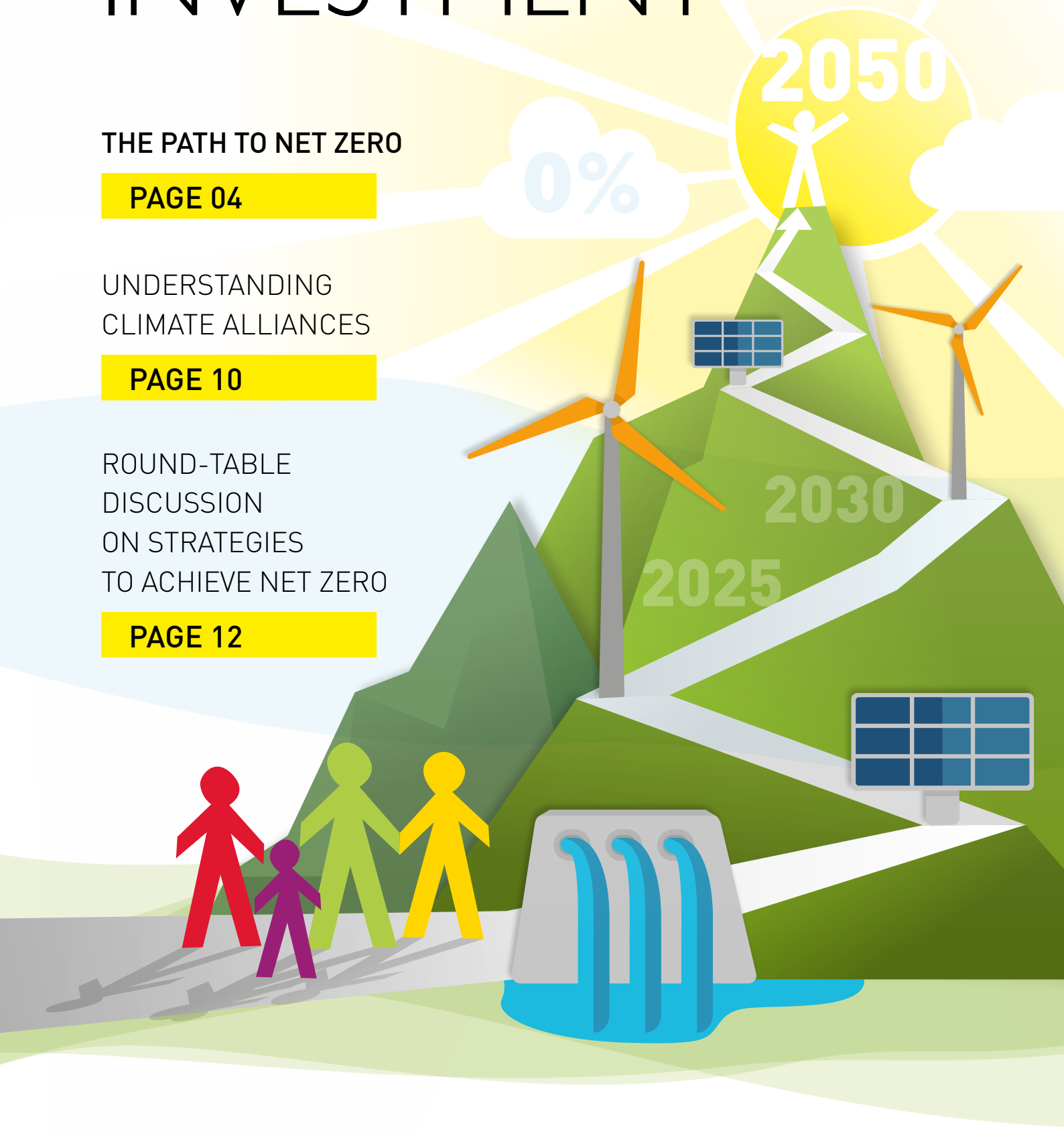
SUSTAINABLE INVESTMENT



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EDITORIAL

Dieter Aigner
Managing Director of Raiffeisen KAG, responsible for fund management and sustainability

Dear Readers,

In order to slow down climate change and limit global warming to 1.5 °C as set out in the Paris Agreement, greenhouse gas emissions must be radically reduced. According to scientific calculations, this can only be achieved if global carbon emissions reach their peak level before 2030 and then fall to net zero by around 2050.

197 governments have committed to the Paris climate targets, with a slightly lower number of around 130 countries targeting net zero emissions by 2050. This is a race that involves great challenges. With the so-called Green Deal, the European Commission hopes to create a resource-efficient, competitive economy that achieves the target of net zero emissions of greenhouse gases by 2050 and decouples economic growth from the use of resources. It is thus crucial for many companies to rally behind these ambitious goals and move ahead their own pathways to achieving net zero emissions. Naturally, it is particularly important to bring on board the companies that cause very high carbon emissions due to their high energy consumption. First and foremost, this applies to heavy industry.

These efforts are also under way in Austria. With its climate and transformation offensive, the Austrian federal government has launched a EUR 3 billion programme aimed at energy-intensive companies. The objective is to develop and build pilot plants that can help decarbonise operations and later be scaled up for industrial applications. When it comes to building industrial facilities, Austria has a great track record, massive know-how, and global players.

Simultaneously, the companies in the industrial sector are also pursuing their own strategies, but they are hitting their limits, especially with regard to infrastructure. In addition to robust power grids, there is also a need for pipelines to transport hydrogen and carbon dioxide. This is a Herculean task, which requires forward-looking planning and quick action.

We have also committed to the goal of achieving net zero by 2050. By signing the Net Zero Asset Managers initiative in December 2022, we have taken on the obligation to make our own portfolio climate neutral by the middle of this century. Part of this also involves intensifying our dialogue with emissions-intensive industries, with the goal of driving companies forward in the process of transformation and helping to achieve net zero. We are thrilled to be part of this great undertaking and play an active role in creating a more sustainable world.

NET
ZERO

PATH TO NET ZERO

Investors like Raiffeisen Capital Management play a special role in the fight against climate change, as they have wide-ranging opportunities to facilitate the process of transformation, on the one hand via their investments on the capital market and on the other hand via their communication with clients, companies, and other stakeholders. Strategies for reducing greenhouse gas emissions in the investment portfolios (known as "climate strategies") are an important part of asset managers' commitments in this regard, in the interests of a sustainable orientation.

Raiffeisen Kapitalanlage-Gesellschaft (acting under the umbrella brand Raiffeisen Capital Management) has a long and extremely successful track record in the field of sustainable investment. The company has a multi-dimensional understanding of sustainability, which also embraces social aspects, along with environmental ones.

Time is of the essence, as evidenced by the data on climate change published in the recent past, which show that a veritable climate crisis is occurring, as confirmed by many climate researchers.

Bearing this in mind, we want to reinforce and expand our commitment to supporting the decarbonisation of the economy, in a new climate strategy. The elaboration of a climate strategy is closely linked to the analysis of the issues of climate risks and climate opportunities. From both a sustainable and a financial perspective, opportunities can be exploited and risks avoided, by taking suitable measures at the company level, and in particular in relation to the portfolios we manage. Raiffeisen Capital Management's first definition of climate targets occurred several years ago, in 2017. Following intensive study of the data sets and after many years of development work, a new climate strategy was adopted in 2022. This ambitious set of targets contains reduction goals over three time periods, running until 2025, until 2030, and finally until 2050.

NET ZERO ASSET MANAGER

Raiffeisen Capital Management is currently the only Austrian asset manager that is a signatory to the Net Zero Asset Man- »

Wolfgang Pinner
Head of Corporate Responsibility
at Raiffeisen KAG

agers initiative (NZAM), which it joined in December 2022. This initiative is an international group of asset managers committed to supporting the goal of net zero emissions by 2050. At present, Net Zero Asset Managers initiative (NZAM) has 301 signatories managing an investment volume of USD 59 trillion. By achieving the goal of net zero emissions within just under 30 years, global warming should be limited to the 1.5 °C target, in accordance with the Paris Agreement. Moreover, the intention is to support a fair transition to a climate-neutral economy. On the way to achieving a healthy, green, fair future no one is to be left behind, according to Frans Timmermans, Executive Vice-President of the European Commission.

MEASURING THE TARGETS

One key precondition for formulating targets is the ability to measure them and the actual ability to influence them. In line with this, the assets included in the climate strategy initially consist of the so-called "assets in scope", i.e. all equities holdings and corporate bonds in the retail funds managed by Raiffeisen Capital Management itself. The year 2019 was taken as the base year for calculations. Consequently, the volume covered amounts to around 21% of the overall assets managed by Raiffeisen Capital Management. The following in particular are not included: government bonds, investments in derivatives and assets in the funds of other asset management companies, as well as assets managed according specific client requirements or by third parties in the form of delegated management. Double counting is avoided. The commitment can be expanded at any time and – based on the availability of suitable data – is a topic for the medium-term future.

The portfolio targets formulated within the framework of the climate strategy and membership of NZAM are as follows:

First, Raiffeisen Capital Management undertakes to transition the investment portfolio to net zero greenhouse gas emissions by 2050, which corresponds to a maximum global temperature increase of 1.5 °C by 2050. In addition to this primary target, there are also several sub-targets. For instance, Raiffeisen Capital Management commits to reducing emissions intensity by at least 25% by 2025 (base year: 2019) for the defined portfolio of corporate bonds and equities. Third, there is a sub-target to lower emissions intensity by at least 50% by 2030 (base year: 2019) for the same portfolio.

»

Based on the limited availability of reliable data, the scope of the carbon emissions covered by the sub-targets for 2025 and 2030 initially covers Scope 1 and Scope 2 emissions. Scope 3 figures will be reported based on the current limitations in data availability and quality, but they do not constitute part of the current agreement on targets.

IN PRINCIPLE, GREENHOUSE GAS EMISSIONS ARE ASSIGNED TO THREE CATEGORIES ACCORDING TO THE GREENHOUSE GAS PROTOCOL:

Scope 1
pertains to all of a company's direct emissions.

Scope 2
consists of indirect emissions from the generation of purchased energy.

Scope 3
covers the emissions that occur in the upstream and downstream value chain.

With regard to Raiffeisen Capital Management's commitment to achieve climate neutrality by 2050, it takes a broader approach in terms of the coverage of greenhouse gases. The inclusion of all emissions categories cannot currently be presented due to inadequate data availability. ISS ESG is Raiffeisen Capital Management's partner for the calculation of emissions targets, as this sustainability research agency has a comprehensive database of emissions.

WELL ON THE WAY

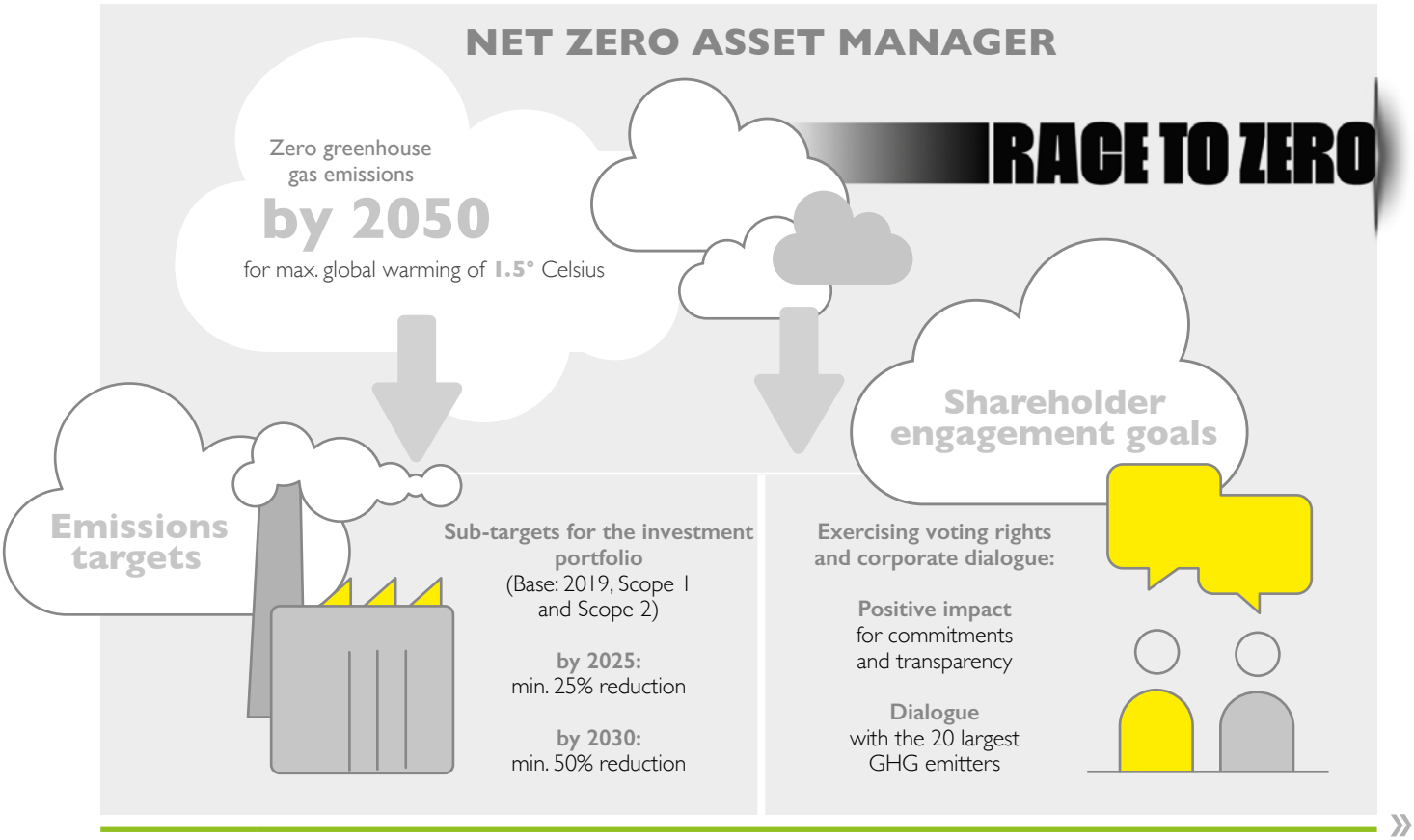
Raiffeisen Capital Management undertakes to reduce its emissions intensity compared to 2019 as the base year. This means that even in the last two years it has been possible to make some initial calculations on the development of the portfolio's emissions intensity. The analyses of the first data for 2021 and 2022 show that we are well on the way to achieving the intermediate targets for 2025 and 2030. With regard to climate protection, the portfolios are also on the right track as the past months and years have been marked by strong movement towards a holistic ESG asset management approach at Raiffeisen Capital Management. Two of the key components on this path have been the following: on the one hand, the product range has been further developed to incorporate a clear focus on ESG targets, and on the other hand, the increasingly low-emissions approach has been supported by taking into consideration corporate risks and opportunities in the selection of the invested equities and corporate bonds in the portfolios. This allows for the strategic portfolio management to be easily adjusted to ultimately achieve the net zero targets for 2050, using the climate data.

SHAREHOLDER ENGAGEMENT GOALS

In addition to the emissions targets, Raiffeisen Capital Management's climate strategy and commitment as part of its NZAM membership also include a shareholder engagement goal. For us, shareholder engagement means active contact with companies and emitters via corporate dialogue and the exercise of voting rights. In addition to gaining a better general understanding of the company, the goal is mainly to work towards convincing the company to improve corporate social responsibility and sustainability at the corporate level. Corporate dialogues have been an important part of the sustainable investment process at Raiffeisen Capital Management in recent years. Specifically, the shareholder engagement goal embedded in the climate »

strategy includes dialogue with the 20 biggest greenhouse gas emitters in the corporate sphere. The focus is on companies that have either not yet formulated an obligation in relation to the Paris climate targets or belong to the 20 largest greenhouse gas emitters in the portfolio. The goal of the dialogue with these companies is to work in support of commitments and transparency. Specifically, in the shareholder engagement process, the goal is to influence the 20 companies

Chart: Raiffeisen Capital Management's climate strategy



Source: Raiffeisen Kapitalanlage-Gesellschaft m.b.H. 2023

to either make a commitment to the Paris climate targets, to comply with these targets (and the related intermediate targets), or to significantly reduce their greenhouse gas emissions. One part of the process is to define specific goals for each company, which may be related to the general decarbonisation strategy or the allocation of investments in renewable energy. These goals are communicated to the companies, and in another step the achievement of the goals is quantified.

The next steps to be taken by Raiffeisen Capital Management in the climate strategy and to achieve the goals of the NZAM commitment include measures for portfolio management after 2025, to maintain progress on the emissions path. Possible alternatives are the reduction of carbon-intensive companies or measures with a focus on greenhouse gas-intensive sectors, also known as "high priority sectors". At the level of individual funds, the portfolio management being pursued encompasses individual fund analysis and the formulation of specific targets. At the shareholder engagement level, detailed elaboration of the shareholder engagement goals is moving ahead and contact with the 20 largest greenhouse gas emitters is being intensified.

THE MOST IMPORTANT INITIATIVES OF THE FINANCIAL SECTOR

UNDERSTANDING CLIMATE ALLIANCES

Limiting global warming to 1.5 °Celsius, in line with the Paris Agreement, requires a significant reduction in global greenhouse gas emissions. Government measures alone will not be adequate to achieve this. The private sector plays a key role in this regard.

In recent years, a number of initiatives have been launched with the goals of supporting companies and/or investors in transitioning to a 1.5 °C pathway, establishing quality standards, and enhancing transparency for all market participants. It is necessary and at the same time good to see that the topic of climate protection and emissions reduction now plays a key role in the strategies of many enterprises in a variety of different sectors. That said, at times it is not easy to keep an overview of all of the initiatives and associations that have come into existence in recent years. This article outlines the most important initiatives and frameworks in this field, focusing on the financial sector.

Race to Zero, supported by the United Nations, is a broad-based campaign to unite businesses, cities, regions, investors, and other non-state actors to quickly and fairly reduce global emissions in accordance with the Paris Agreement. Race to Zero joins together several partner initiatives that monitor their members' compliance with the required minimum criteria. One of the partner initiatives is the Net Zero Asset Managers initiative, which brings together investors that have committed to transitioning the assets they manage towards net zero emissions. Raiffeisen Kapitalanlage GmbH is a part of this initiative. Another member of Race to Zero is the Science Based Targets initiative (SBTi), which offers firms a science-based methodology for formulating and monitoring their CO_2 emissions targets. SBTi is a partner of CDP* as well as the UN Global Compact, the World Resource Institute, and the WWF. Raiffeisen Bank International is a member of SBTi. Other relevant frameworks for the measurement and disclosure of corporate climate action pathways include Climate Action 100+, »

* The Carbon Disclosure Project (CDP) is a non-profit organisation that pursues the goal of supporting companies, states, and cities in the measurement and publication of their environmental data. Raiffeisen Kapitalanlage GmbH is a member of the CDP.

Magdalena Quell
Product and Project Manager
at Raiffeisen KAG

the Transition Pathway Initiative (TPI), and Net Zero Tracker (NZT).

The Paris Aligned Investment Initiative (PAII), founded by the Institutional Investor Group on Climate Change (IIGCC), has also developed a globally recognised methodology for the formulation of climate targets in the form of the Net Zero Investment Framework (NZIF). This offers transparency in relation to investors' progress on their pathway to lowering greenhouse gas emissions.

The Net Zero Asset Owner Alliance (NZAOA) is an alliance of institutional investors which have undertaken to align their portfolios with net zero emission targets. NZAOA was established by the United Nations and has developed a framework called the Target Setting Protocol (TSP) for the formulation and measurement of climate targets, similar to SBTi and NZIF.

The goal of the Glasgow Financial Alliance for Net Zero (GFANZ) is to bring together net zero initiatives within the financial industry and thus coordinate the industry's efforts to achieve the Paris climate targets, to reinforce cooperation, and to boost the transparency and reliability of targets. GFANZ was founded at the COP26 climate conference in November 2021. Its members include NZAM, NZAOA, and PAAO (Paris Aligned Asset Owners). GFANZ is a part of Race to Zero.

In recent months, there have been a number of exits from net zero initiatives, at the levels of banks, insurance companies, and asset managers. One of the factors behind this in particular is political pressure in the USA, where the Republican party has taken a stance against such initiatives. Additionally, aggressive net zero goals must be carefully designed by companies so that they can actually be achieved. In this regard, it is possible that doubts have arisen at some institutions and the desire to avoid any negative publicity may be another factor. However, the financial services industry continues to be keenly aware of the significant role it plays in achieving climate targets.

Moderated by:
Dieter Aigner,
Managing Director
of Raiffeisen KAG

Round-table discussion

Andreas Drescher
Programme Manager Carbon Reduction (RHI Magnesita), Vienna

Dr Wolfgang Hribernik
NEFI Network Coordinator and Head of Center for Energy (Austrian Institute of Technology), Vienna

Elvira Lutter
Mission Director of the international Net-Zero Industries Mission (Climate and Energy Fund), Vienna

Wolfgang Pinner
Head of Corporate Responsibility (Raiffeisen KAG), Vienna

Ms Lutter, if the EU has its way, energy-intensive industries will have to completely give up fossil fuels by 2050 and become climate neutral. Are there efforts at the political level in Austria to move forward in this regard?

Elvira Lutter: The European Commission has rolled out the Green Deal, which aims to create a resource-efficient, competitive economy with net zero emissions of greenhouse gases by 2050 and decouple economic growth from the use of resources. This is an idea that originated with Barack Obama. At the moment, there is quite a bit happening in Austria. The Federal Ministry for Climate Action recently launched the climate and transformation offensive to transform industry. It focuses on companies in manufacturing industries, in particular companies that participate in the EU's Emissions Trading System (ETS), so ones that are involved in emissions trading. Around EUR 3 billion will be available through to 2030.

What specifically is being supported?

Elvira Lutter: The funds are to be provided for plant and equipment that help decarbonise industrial operations. A smaller amount of around EUR 240 million, which is still a lot by Austrian standards, will be used for a research and innovation programme. The aim here is to develop and build pilot facilities, which can then be scaled up for industrial applications. One new aspect is that there will be an interface between the two programmes. The goal is to implement innovations that are "Made in Austria". Austria has a lot of companies that are involved in the construction of industrial plant and equipment.

...which are very successful around the world.

Elvira Lutter: Yes. In this regard, I always like to mention the Linz-Donawitz process, that was invented in Switzerland in the 1930s and perfected by Voestalpine in the 1950s. The first plants were built here in Austria. Up until recently, about 70 per cent of the world's steel was produced using this process, and Voestalpine received a lot of licensing revenues for it. This example highlights the scope available to the country if one strengthens innovation: It promotes local decarbonisation, generates a great deal of added value, allows one to sell technology abroad, and also makes a very important contribution to climate protection. At the global level.

Net zero can't happen without heavy industry, because the share of heavy industry in carbon emissions is simply too high. And because the products made by this sector form the basis for achieving climate neutrality in the first place. Such as steel »

ON STRATEGIES TO ACHIEVE NET ZERO

for wind turbines, components for power lines, refractory materials for new furnaces that use hydrogen, and so on.

Mr Hribernik, NEFI, which stands for New Energy for Industry, is an organisation that brings together know-how and expertise from science, technology providers, and companies, in order to achieve decarbonisation in industry. You recently presented a study which sets out three different scenarios for climate neutrality in the industrial sector.

Wolfgang Hribernik: Yes. In that study, we took a closer look at what the transformation pathways to achieve climate neutrality by 2050 might look like. We divided the industrial sector into 13 subsectors to develop these scenarios, in strong cooperation with our industrial partners. Along with energy-intensive sectors such as iron and steel or chemicals, there are also other non-energy-intensive ones such as manufacturing activities. In a number of steps, industrial data on energy use, fuels, and potential energy efficiency improvements were collected and analysed in the three scenarios. In order to achieve climate neutrality, industry must transition away from fossil fuels, such as coal, natural gas, and oil, as quickly as possible and start using carbon-neutral, renewable energy sources.

What scenarios are there for this?

Wolfgang Hribernik: Examining the details of the three scenarios would go beyond the scope of this discussion. But based on the data, it is quite clear that electrification based on renewable electricity plays a central role in the transformation of the industrial sector. At the moment, 20 per cent of the total energy consumption of Austrian industry is covered by electricity, which amounts to around 27 terawatt-hours (TWh). The study shows that, disregarding the additional electricity required for hydrogen electrolysis, about 49 TWh of electricity is needed for final energy applications to achieve industrial climate neutrality. In addition to general electrification efforts, such as heat pumps, the increase in electricity demand is driven in particular by electric arc furnaces and carbon capture plants in the subsectors iron and steel and non-metallic minerals. Additionally, if the whole hydrogen demand is met by electrolysis in Austria, total electricity demand for industrial production rises to 116 TWh in the third, zero emissions scenario. Furthermore, targeted research, development, and pilot projects will be necessary together with the industrial enterprises, in order to quickly implement the new technologies. It is crucial to expand the energy infrastructure to be able to meet the high energy demand of 172 TWh in the zero emissions scenario, mainly for electricity, hydrogen, biomass, and natural gases. This includes suitable networks for electricity and gas, including hydrogen and its derivatives, both for domestic supply and for cross-border transport.

That sounds like an enormous job. Innovation will play a key role. How is Austria doing in this regard?

Wolfgang Hribernik: Within the framework of our project, I could see that we have great expertise in systems integration for technologies in Austria. In particular, this applies to digital technologies, which are critical in terms of efficiency and flexibility in industrial processes. In this regard, one key expression is 'technological sovereignty'. In Europe, we simply must take a much more active approach to this issue, both as a society and as a location for business and industry. And this applies to various areas, not only the industrial sector, but also in education, in economic policy, and so on.

Elvira Lutter: Clearly, government action is also needed in this regard. The government must provide financial support for innovation and research. Because, of course, a great deal of money is at stake and there is considerable technical risk in the event that an industrial plant does not work as planned when it is scaled up. »

> "Net zero can't happen without heavy industry"
>
> Elvira Lutter

And when it is not only public funding that is involved, when for example credit institutions are also providing financing, they have to be able to assess the risks. There has to be an exchange of information starting from a very early stage. The projects have to be suitable for bank financing and have to be assessed. That is a very important aspect for financing.

RHI also has ambitious goals for net zero emissions. What's been your experience and how do you want to get to net zero?

Andreas Drescher: Yes. We set this goal at the group level and we are gradually adjusting our external commitment and taking a cautious approach overall. There are other corporate groups that have made even more ambitious commitments and are already communicating these externally as requirements. For 2025, the goal we have set is to reduce our carbon dioxide emissions by 15 per cent on the basis of the 2018 data, and we are following a roadmap that leads us to net zero in 2050. If we are successful with several things, we can achieve our goal more quickly, but a lot also depends on global developments. We are taking a bottom-up approach to planning and only committing to shareholders and stakeholders when we really know that we will be able to meet our goals. We have strong support for this path from our main shareholders.

RHI's production is very energy-intensive. Where does one start to make adjustments?

Andreas Drescher: We have started by defining three steps in our roadmap. Unfortunately, we consume an enormous amount of energy and most of this still comes from fossil fuels. When possible, we use natural gas. We have production operations around the world. Only about one tenth of our carbon emissions occur in Europe. But for Austria, this is a lot. Within Europe, we generate the most carbon emissions here in Austria, because we have very resource-intensive operations here. The first step is to take conventional measures. This involves switching fuels where it is possible. For example in Brazil we are discontinuing the use of heavy oils. We have been building a pipeline there for years. When it is ready, we will be able to switch over to gas. We are also attempting to use gas instead of oil at other locations, and where it is available, green electricity. This is still a problem in India and in the USA, because green power is essentially not available there. The second measure is electrification. But we are running into certain limitations in this regard. Specifically, at 1,000 degrees Celsius. And in our line work, this is just "lukewarm". Below that level, electrification of the processes proceeds well. But for calcination and sintering, the heat levels in the rotary kilns get up to 1,200 to 1,600 degrees. And then I can't get what I »

Discussion with Andreas Drescher, Wolfgang Hribernik, Elvira Lutter and Wolfgang Pinner

need from electrification. We are still investigating this, but we have not advanced far enough with the development to put it into operation. The third step in conventional measures is to use our waste heat and not lose energy.

Above and beyond these conventional measures, you must also be pursuing other avenues to achieve your goals?

Andreas Drescher: That brings us to step two and our plans for CCUS, or carbon capture utilisation and storage. That's my special hobbyhorse, along with step three, the use of hydrogen. Together, these two aspects will play a key role later in our timeline. There is still a lot of uncertainty, but I am optimistic that we can organise the import of hydrogen by 2028–2030, working together with the Austrian hydrogen import alliance. That would be huge. We'll see whether we are successful and whether the costs involved will allow us to be competitive at the international level. As a globally active company, one aspect that is extremely important for us is the fact that we produce a lot in Europe, in Austria, but almost 70 per cent of our production is exported outside of the EU. For us, the European Carbon Border Adjustment Mechanism (CBAM) is a major challenge. While it helps us in inner-European trade, it makes our exports outside of Europe very difficult. Another aspect is that, similar to the cement industry, we have so-called geogenic emissions: more than 50 per cent of our carbon emissions come from the raw materials magnesite and dolomite. In the cement industry, it's lime. Even if we manage to reduce the use of fossil fuels completely, we'll still have this share of the emissions. The only solution for this is carbon capture utilisation and storage.

Wolfgang Pinner: I'd be interested in hearing about the importance of utilising and storing carbon emissions in relation to the net zero goal. Was this also taken into consideration in the NEFI study we talked about?

Wolfgang Hribernik: There are industries that use high temperature processes and have process-related emissions, where there's not much else that can be done, and these industries are aware of this. Essentially, the technical solutions and the scenarios depend on the technology being used and of course on the use. In our scenarios, the utilisation of carbon is very strong in the chemical industry, for example for synthesising hydrocarbons. There certainly is an awareness that we need carbon utilisation and storage and that the technologies for this are known. In the public discourse with decision-makers, the topic is not so popular. One needs only to point out the CCS ban in Austria. But in the meantime, there is also some development on this front, both legally »

ROUND-TABLE DISCUSSION

and in terms of infrastructure. It is my firm belief that CCUS should be included in integrated infrastructure planning, just like hydrogen, carbon dioxide, and electricity. And I think this is also a weakness that we have: In Austria, we are planning power grids in a very sectoral approach, we're planning them for generation scenarios and not for load. What we need, however, is a complete paradigm shift towards a holistic approach, i.e. the developments in consumption and the sector linkages that we have. Only then can we plan energy grids. How we go about doing this in a federalised structure is whole other story. I think that in terms of the planning basis for the infrastructure, we are always one and a half steps behind compared to the needs viewed in a holistic context.

Elvira Lutter: I can confirm that there has indeed been progress. The support programme I mentioned earlier explicitly defines carbon storage as one of its key focus points. In the past, it was allowed for research purposes, but specific projects can now be submitted as part of an innovation programme. With regard to carbon capture and utilisation, Austria would have an extremely good export market for this. It would be crucial for us to do more. Because China, India, and others need it. New industrial sites are being built there and in other Emerging Markets. Demand for steel, cement, and so on is rising. In Europe, we are upgrading facilities, but it is mainly new ones that are being built in these countries. They would represent export markets. We have to think ahead. This allows us to do something globally in support of climate protection, not only in Austria.

Andreas Drescher: RHI is working on a CCUS process that works really well for Austria, which involves transforming the carbon that we have in the exhaust emissions into an industrial mineral. This is one of our biggest projects. We are working in collaboration with the University of Leoben and an Australian partner. It could turn out to be one of the larger plants, when it comes to the volume of carbon capture. In that case, the carbon is then fixed and no longer reacts. We don't need underground storage or special locations for storage. Our partners in Australia are currently planning on scaling up to industrial levels with one of their own plants. Our joint plant would be even bigger. But what we can see already is that a lot of individual components are needed for construction. And most of these come from Europe, starting with the grinding mills all the way to the filter units. European technology is still extremely important at the global level and, with its locations across Europe, Austrian industry can generate a great deal of technology and know-how »

> "Joining such climate or ESG initiatives is always only one part of the puzzle for us, when it comes to assessing how seriously we take the subject of climate protection and sustainability."
>
> Wolfgang Pinner

in plant construction, working in European alliance. This is very important and in the international context as well, it is clear that users are happy with our technological solutions.

As an active asset manager, we can accompany companies on their pathways to net zero and support them with investments. To some degree, this is a tightrope act, as these companies are not sustainable yet, but they are changing and moving in that direction. How does one deal with this?

Wolfgang Pinner: Yes. It's a double-edged sword. Of course, on the one hand, we want to support transformation. The environment for sustainable investments has developed enormously in recent years. Sustainable investments have become mainstream. For us, as a pioneer in this field, this is great news. With the strong growth seen in this market, a number of different sustainability approaches and investment styles have developed. Due to the depth of this market, companies are willing to move ahead in the process of transformation, and it is often the case that listed companies are financing this process by accessing capital on the stock markets, which is where we are active. On the other hand, companies that are in this process of transformation or maybe just about to embark on it often still show numerous violations of ESG criteria or controversies. And not all of the transformation processes that are announced actually take place as advertised, or even at all. So, this also entails a certain kind of reputational risk for investors. Being invested in a company that is just getting started on the road to transformation can be linked to major damages for the asset manager. Because potential violations catch the attention of critics, the media, and NGOs, who want to see clean investments.

How does one solve this conundrum, if you still want to be supportive?

Wolfgang Pinner: Our approach is to apply the ESG criteria very strictly in the retail funds. With institutional investor portfolios, we discuss the issue with the clients and invest with their consent, including in companies that are still involved in the transition.

A while back we signed the Net Zero Asset Management initiative. What obligations does this entail for us?

Wolfgang Pinner: By signing, we are pursuing the goal of net zero emissions in our portfolio. We want to reach this goal by 2050. We also have intermediate goals: 25% less emissions by 2025 and 50% less by 2030. This all pertains to a defined portfolio, for which it can be calculated well, i.e. for equities and corporate bonds, starting with Scope 1 and Scope 2 emissions (caused by a company's own activities), and later Scope 3 as well (upstream or downstream emissions). We approach companies and use shareholder engagement. As part of the Net Zero Asset Management initiative, we undertake to contact the biggest polluters, the biggest carbon emitters. Naturally, first of all we have to engage with the energy-intensive sectors, the high-priority sectors. For example, oil and gas, and the steel industry. We adjust the positions in our investments to our emissions targets and we contact the responsible people at the companies, engaging them in dialogue, to help us develop together and be supportive as well. Many companies, such as RHI, are taking the initiative themselves and when they also back this with specific, tangible action, this is very credible.

What do you say to the critics who might see this as greenwashing?

Wolfgang Pinner: That, in principle, every commitment has the possibility of being greenwashing, if it is not taken seriously or acted upon. Accordingly, joining such climate or ESG initiatives is always only one part of the puzzle for us, when it comes to assessing how seriously we take the subject of climate protection and sustainability. We take it very seriously. We want to make progress. We now have suitable metrics and we have made public commitments. Now, we have to press ahead.

ECONOMIC GROWTH GOES GREEN

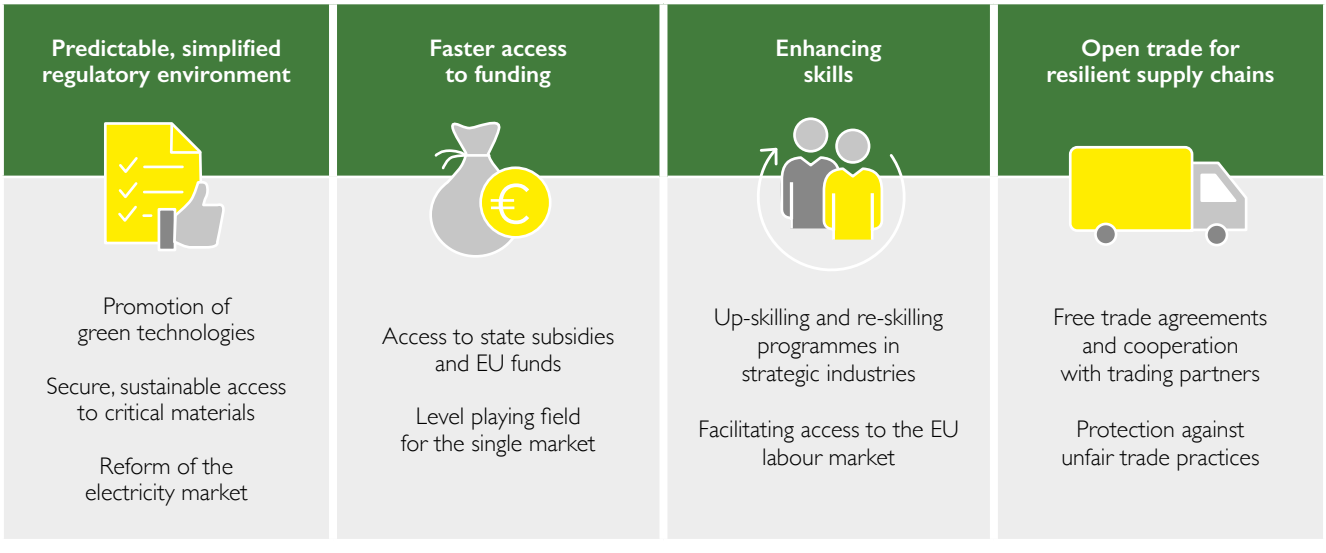
US INFLATION REDUCTION ACT

In August 2022, US President Joe Biden signed the Inflation Reduction Act (IRA). This law includes measures to counter the high inflation on the one hand and to press forward with climate protection in the USA on the other. The focus is on investments in low- and zero-emissions technologies, in green electricity generation and transmission, and in low-emissions means of transportation. According to the plans of the US Department of Energy (DOE), this should pave the way for a 40 per cent reduction in US greenhouse gas emissions by 2030, compared to 2005. To achieve this, around USD 370 billion is being made available, representing the largest investment in the fight against climate change in US history. The law also provides for additional spending of around USD 64 billion for the Affordable Care Act ("Obamacare"). These measures are to be financed with a combination of new corporate taxes, stricter tax enforcement, and a reform of the price-setting system for prescription medicines. In total, this is expected to generate revenues of USD 740 billion for the government. With these additional funds, the US government hopes to be able to reduce the budget deficit by around USD 300 billion over the coming ten years.

EU GREEN DEAL INDUSTRIAL PLAN

Although the Inflation Reduction Act represents a key measures in the fight against climate change and is thus clearly a welcome development, it has caused considerable consternation in Europe. There are worries that these subsidies will lead to market distortion and create incentives for companies to move to the USA, due to the generous supports. Consequently, this makes the EU's recently presented set of measures, the Green Deal Industrial Plan, even more important. The goal of this plan is to make Europe's industry more competitive and accelerate the transition to climate neutrality. It is based on the following four pillars:

Chart: EU Green Deal Industrial Plan



Source: Raiffeisen Kapitalanlage-Gesellschaft m.b.H. 2023

Andreas Perauer
Fund Manager at Raiffeisen KAG

Predictable, simplified regulatory environment

The first pillar is intended to create a legal framework that is easy to implement, functions effectively, and offers reliable planning security. This includes the Net Zero Industry Act (NIZA), which aims to promote investment and improve conditions for green technologies in Europe. By 2030, the EU should be able to cover at least 40 per cent of its annual needs in green technologies by itself. These efforts are focused on areas such as photovoltaics, wind energy, hydrogen, storage technologies, geothermal power, and network technologies. Additionally, the Critical Raw Materials Act (CRMA) is intended to ensure more secure and sustainable access to materials such as rare earths, which are vital for key manufacturing technologies. This will help the EU make its supply chain more robust and reduce its dependence on certain countries. Finally, the reform of the electricity market is also part of this pillar. The goal of the reform is to accelerate the expansion of renewables and the phase-out of fossil fuels, making the EU's industry greener and more competitive. The much-discussed "merit order principle" which bases the price of electricity on the power station with the highest generation cost, will be retained, but will be supplemented with additional mechanisms which ensure longer-term price plannability both for consumers and companies. First and foremost, these include long-term purchase agreements between private customers and generators, known as power purchase agreements (PPAs) or long-term contracts for difference concluded between states and generators.

Faster access to funding

The second pillar aims to speed up investments and financing for green technologies in Europe. To this end, a level playing field is to be created within the single market, while making it easier for EU Member States to grant the necessary aid to fast-track the green transition. The use of existing EU funds is to be facilitated, with a focus on REPowerEU, InvestEU, and the Innovation Fund.

Enhancing skills

The green transition can only succeed with the suitable development of the necessary skills and skilled workers. The Commission proposes to establish Net-Zero Industry Academies to facilitate up-skilling and re-skilling programmes in strategic industries. It will also consider to what degree the access of third-country nationals to the EU labour markets can be facilitated, as well as how public and private funding can be made available for the training of skilled workers.

Open trade for resilient supply chains

The fourth pillar is about developing free trade agreements and other forms of cooperation with trading partners to support the green transition. At the same time, the Commission also wants to protect the single market from foreign subsidies in the clean-tech sector which could distort competition.

In a nutshell, the Green Deal Industrial Plan aims to promote the EU's industry more effectively and create a level playing field for competition. It thus represents a badly needed response to initiatives by other major economic powers such as China and the USA in the competition for clean technologies. The success of such measures is extremely important for Europe as a business location and thus also for the capital market. Consequently, Raiffeisen Capital Management is carefully monitoring developments in these areas.

Herbert Perus
Sustainability Office
at Raiffeisen KAG

CORPORATE ON THE TOPIC OF

Mathias Zwiefelhofer
Sustainability Office
at Raiffeisen KAG

A continuous dialogue with numerous companies on the topic of net zero represents an important part the shareholder engagement activities of Raiffeisen Capital Management's fund management. Contact was made with around 70 firms which are frontrunners in their respective sectors in relation to climate protection, inquiring about their climate targets. The following questions were asked:

1 We are extremely pleased that your enterprise is considered to be a pioneer in the field of climate protection. Could you provide us with more information on your efforts to achieve your climate-related targets?

2 Have you set specific intermediate targets or is there a time-line? Have you achieved your targets to reduce greenhouse gas emissions so far?

3 How do you assess your technological progress in lowering greenhouse gas emissions compared to your competitors?

4 Are you participating in any external initiatives which re-quire you to take action in the field of achieving net zero? If so, what are the features of these initiatives?

5 The IPCC released its new report on the state of climate research on 19 March. Are you using the IPCC report as a scientific basis for your sustainability strategy?

VOICES NET ZERO

1 (Schneider Electric, Union Pacific)
In order to achieve a real reduction in greenhouse gas emissions, companies have to have a comprehensive strategy. This must take into account the emissions generated by the company's own activities (known as Scope 1 and Scope 2 emissions) and upstream or downstream emissions (known as Scope 3 emissions). Companies thus need a well-founded climate strategy featuring a comprehensive approach that covers all business activities.

The French electronics group Schneider Electric has defined several targets in this regard. It is often the case that the largest part of the emissions stems from upstream supply chains. These include the emissions of greenhouse gases from transportation or from the production of essential raw materials for its own products. In order to reduce these emissions in particular, Schneider Electric has set the target of reducing its total Scope 3 emissions by 25% as of 2030, compared to the 2021 basis. To achieve these ambitious goals, the group has taken a number of measures. Schneider Electric is adopting a proactive approach to its own supply chain when it comes to decarbonisation. The company has contacted its 1,000 largest suppliers to address this issue. By 2025, the share of sustainable materials in all products is slated to reach a level of at least 50%. This applies to steel, aluminium, and plastics. Furthermore, the use of one-way plastic packaging is to be discontinued. By 2050, Schneider Electric intends to reduce its Scope 1, 2, and 3 emissions by 90%, also taking 2021 as the base year.

The US railway company Union Pacific wants to achieve climate neutrality by 2050. To reach this ambitious goal, the company is taking a pragmatic approach, and thus intends to continue using diesel-powered locomotives. Every year, 300 of these locomotives are upgraded to use less fuel and be generally more efficient. Additionally, biodiesel and synthetic fuels will gradually replace fossil fuels for diesel applications. In response to our question about hydrogen-powered trains, Union Pacific noted that these were not economically viable, since a hydrogen-powered locomotive needs seven cars just to transport its own fuel in order to reach the same range as a diesel locomotive.

2 (Weyerhaeuser, Johnson Matthey)
As investors, it is very helpful for us when companies communicate their climate targets clearly and comprehensibly. This improves our ability to evaluate and monitor achievement of the targets, also »

CORPORATE VOICES ON THE TOPIC OF NET ZERO

in relation to the targeted timeframes. In our shareholder engagement activities, in addition to inquiring about companies' plans, we also ask about what targets they have actually achieved.

Companies in the forestry industry bear particularly great responsibility when it comes to climate neutrality. For example, the US company Weyerhaeuser, which is the largest international company active in this area, has announced that it wants to reduce the greenhouse gas emissions from its wood products division by 4% to 5% annually. Plans call for EBITDA in the firm's internal Natural Climate Solutions business to grow to USD 100 million by 2025. Weyerhaeuser is a member of the initiative The Climate Pledge and has thus undertaken to stop emitting greenhouse gas after 2040.

Raw materials and the production of materials tend to be energy-intensive processes, which are responsible for above-average amounts of greenhouse gas emissions. The broadly diversified conglomerate Johnson Matthey specialises in refining precious metals and the production of chemical catalysts. In its 2022 annual report, for each of its divisions the company specifies clear targets through to 2040 on its pathway towards »

reaching climate neutrality. For example, one of Johnson Matthey's intermediate targets is to cover at least 60% of its energy needs for all business divisions using renewables by 2025. After 2025, the focus will specifically be on supplying clean energy to the company's production facilities in India and China.

3 (AkzoNobel)
Technological progress is one of the biggest drivers of the transformation into a climate-neutral economy. Sustainable technologies can offer a key market advantage over competitors and are thus more and more in the focus of corporate strategies. Companies' internal goals can promote innovation and make a valuable contribution to their sustainable development.

The Dutch chemicals giant AkzoNobel views itself as a climate leader in terms of reducing carbon emissions in comparison to its competitors. AkzoNobel was the first paint and coating company to set validated, scientifically-based targets for the reduction of carbon emissions for itself.

Most of the companies we contacted did not want to comment on how they view their competitors.

4 (Scatec, Northern Trust)
Initiatives that require companies to act sustainably are often a good starting point for enabling an honest review of sustainability factors and thus preventing greenwashing. One example for a reputable initiative is the Science Based Targets initiative (SBTi). The Norwegian energy company Scatec has taken the SBTi's proposals as the basis for its climate targets. SBTi defines and promotes demonstrated practices in setting science-based targets, offers resources and pointers for reducing obstacles for the introduction of such, and provides independent auditing of climate targets that companies have laid down.

In the field of finance, the Net Zero Asset Managers initiative is one of the most well-known initiatives for the support of tangible climate targets. Along with Raiffeisen Capital Management, the insurance company Northern Trust is also a member of this initiative. Together with other companies, Northern Trust is also participating in Climate Action 100+, which uses a joint shareholder engagement process to help move the world's largest emitters of greenhouse gases towards reducing emissions. Raiffeisen Capital Management is also taking part in this joint initiative.

5 (Roche, Münchener Rückversicherung)
Expertise and information in the field of sustainability can come from many different sources. One of these sources is the annual publication released by the Intergovernmental Panel on Climate Change (IPCC), which also includes proposals and guidelines for resolving the climate crisis for politicians and investors. Raiffeisen Capital Management uses the results of the IPCC as an important source of information in its sustainable investment strategies, but do other companies do this as well?

The Swiss pharmaceutical company Roche employs both internal and external inputs as the basis for its sustainability strategy and targets. Roche describes the IPCC report as "one of the most important scientific publications on climate change".

For financial services providers, the scenario analyses of the IPCC can provide useful fundamental information for their influence on companies' position in terms of assets, liabilities, and equity. In its long-term scenarios, the insurer Münchener Rückversicherung uses the climate-related analyses and forecasts of the IPCC. In particular, the IPCC special report on global warming and the sixth IPCC report are of special importance for this German company.

VOESTALPINE AG

COMPANY SPOTLIGHT

"Politics has set ambitious goals for the reduction of CO_2 emissions. With greentec steel, we are making a contribution to meeting the targets."
Herbert Eibensteiner, CEO voestalpine

According to Statista Research Department, in 2020 around 81 million tonnes of CO_2 emissions were generated by people living in Austria, and companies and institutions registered in Austria. Industry and airlines were responsible for just over 30 million tonnes of this. The industrial operation which accounts for the largest share of emissions in Austria is the company voestalpine in Linz, which alone generates emissions of 8.4 million tonnes of CO_2. The second on the list is also voestalpine, with its steelworks in Donawitz, that causes 3 million tonnes of emissions. At the same time, this also represents a massive opportunity to reduce emissions, with tangible effects for Austria's overall emissions balance. As a company, voestalpine has risen to meet this challenge and taken some spectacular measures.

HISTORY

It is best to start off discussing this leading Austrian industrial enterprise with a brief outline of the company's complex past. Ground-breaking for the weapons manufacturer called the Hermann-Göring-Werke occurred on 13 May 1938. After the end of the Second World War, the company was seized by the Allies and renamed Vereinigte österreichische Eisen- und Stahlwerke (VÖEST); it was subsequently turned over the Republic of Austria for management in trust. On 26 July 1946, the company became state-owned. As a symbol of reconstruction, the first blast furnaces were fired up as early as 1947, with three operating in 1951 and four from 1956. VÖEST thus formed the foundation of Austrian state-owned industry and advanced to become the Austrian state's flagship company, at the latest with its development of the revolutionary Linz-Donawitz process (basic oxygen process).

In 1973, the struggling Styrian company Alpine Montan AG was reintegrated into VOEST, which it had been part of before 1946. The other Austrian steelmakers from that period, Böhler and Schoeller-Bleckmann, were also incorpo- »

SUSTAINABILITY

rated into the group. The newly formed company was called VOEST-Alpine AG, which also owned the internationally well-known weapons manufacturer Noricum.

In the years thereafter there was strong political influence over the state-owned company in the interests of maintaining jobs. This came to end in 1985, when the company, which had grown into a conglomerate and been running large deficits since 1981, suffered a record-setting loss of 25 billion Austrian schillings (equivalent to about EUR 1.8 billion), due to oil derivatives transactions. As a result, the company was completely restructured and divided into three groups in 1993: VOEST-Alpine Industrieanlagenbau (as part of the newly founded company VA Tech), Böhler-Uddeholm AG, and VOEST-ALPINE STAHL AG (now voestalpine AG).

In 1995, privatisation of the 100% state-owned company voestalpine began with its listing on the Vienna Stock Exchange; this process was finally completed in full in 2003. Shares in the steelmaker Böhler-Uddeholm were gradually acquired, until the company was fully integrated into voestalpine in 2008. This led to the creation of a steelmaking group which has earned an excellent reputation for quality and volume in the global steel industry.

GREEN STEEL, MADE IN AUSTRIA

As the largest emitter of greenhouse gases, the European steel industry as a whole faces enormous challenges in terms of transforming its technology to make production more environmentally friendly. With its product "greentec steel", voestalpine has developed an ambitious plan for clean steel production and views itself as a global pioneer in the field of environmentally-friendly steel production. The core of this ambitious plan is to achieve carbon neutrality by 2050.

As a first step, starting from 2027, the existing blast furnace route is to be partially replaced with a hybrid electric steel route. In April 2023, a decision was made to spend EUR 1.5 billion on this undertaking. Plans also call for one blast furnace in Linz and one in Donawitz to be replaced after 2030. In parallel with this, there is intensive research on new processes and investment in pilot projects to find new methods in the production of steel.

H2FUTURE

One of the projects is the hydrogen pilot plant H2FUTURE at the company's works in Linz. This plant is testing out the production of hydrogen in industrial quantities and the possibilities for its use in steel produc- »

VOESTALPINE AG

Fund managers of Raiffeisen KAG were able to get a look at the company's progress in reducing its carbon emissions at a company visit at voestalpine in Linz on 22 November 2022.

Left to right: Michael Huber, Günther Schmitt, Peter Fleischer (voestalpine), Georg Thalhammer, Thomas Unterholzner, Andreas Perauer

Herbert Perus
Sustainability Office
at Raiffeisen KAG

tion and in other industrial sectors. H2FUTURE was successfully commissioned and the plant is now already producing green hydrogen.

TEST FACILITY DONAWITZ

In Styria, at the Donawitz plant, a test facility is currently being built to research the CO_2-free production of crude steel in a production step using novel hydrogen-plasma technology. This involves making steel without the iron ore step, using an electric arc furnace and the reduction of iron ore with hydrogen plasma. This generates only water vapour as an end product and emissions of greenhouse gases are completely avoided. This project has a very long timeframe for implementation and the University of Mining, Leoben, is also involved.

HYFOR

Another research project under way in Donawitz is HYFOR, also in collaboration with the University of Mining, Leoben. It involves the construction of a pilot plant for the reduction of iron ore in a fluid state, using hydrogen. The resulting hot sponge iron would then be fed into an electric arc furnace, or used to produce hot briquetted iron (HBI). The research project is designed to establish the base data for later conversion to an industrial plant.

UNDERGROUND SUN STORAGE 2030

As part of the Underground Sun Storage 2030 project, voestalpine is researching the underground storage of green hydrogen, together with partners from industry and science. Electrolysis is used to convert solar energy into pure hydrogen, which is subsequently stored in former natural gas reservoirs. In this unique project, the only one of its kind in the world, voestalpine is investigating the various possible uses for the stored hydrogen.

The Austrian frontrunner voestalpine is currently one of the largest emitters of greenhouse gases, but with the measures it has started introducing and the possible achievement of its medium- and long-term climate targets, it can make a significant contribution to improving the emissions statistics for Austria as a whole. These measures are ambitious, but in our estimation they are also credible and serious. As an active investor, Raiffeisen Capital Management will continue to accompany and support the firm on this path.

RAIFFEISEN FUND FOREST CONTINUES TO GROW

In early May, around 30 employees of Raiffeisen KAG joined together again to enlarge the Raiffeisen Fund Forest in the Waldviertel region by planting another 2,100 saplings. The Fund Forest project was launched in October 2021, in collaboration with the Wald4Leben start-up from this region.

Prior to this latest reforestation effort, about 7,000 trees had been planted in the Raiffeisen Fund Forest. Taking into account the natural loss rate over the last autumn/winter, the Raiffeisen Fund Forest now has more than 8,200 trees.

The reason for this reforestation project is climate change, which has also started impacting Austria's forests in recent years. Along with storm damage, persistently lower precipitation levels and bark beetle infestation in particular have severely affected shallow-rooted tree species such as spruce. In certain districts of the Waldviertel, Weinviertel, and Mühlviertel, bark beetles have destroyed more than 50 per cent of the forest area; entire forests needed to be felled. Many hundreds of hectares of forest have disappeared in these areas as a result and in some cases cannot be replanted by the forest owners themselves due to the lack of acceptable returns.

CLIMATE-STABLE MIXED FORESTS

In the course of reforestation, Wald4Leben (www.wald4leben.at) pays special attention to ensure that the new forest is resilient to climate change. The newly planted tree species, such as oak, Norway maple, wild cherry, larch, and silver fir, also grow well and flourish in warmer, drier conditions. The forest also provides a perfect habitat for six beehives, which were placed right next to the forest to promote the bee population. This project is not for carbon compensation by Raiffeisen KAG, but rather a contribution to climate protection.

CULTIVATION WITH A LOW CARBON FOOTPRINT

The clear-cut areas are cultivated using drones, so that heavy, diesel-powered vehicles, such as tractors, are not necessary. The work can be done using electrical power, in an energy-efficient manner, which also has a positive impact on the environment.

Make it happen

You can also help out with these reforestation efforts in the northern parts of Lower Austria. The Wald4Leben website provides detailed information on our project partner.

www.wald4leben.at

Edited by: Pia Oberhauser


NACHHALTIGE
FONDS


Wald4Leben
Wald4Leben

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