



SUSTAINABLE INVESTMENT



CARBON PRICING

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CLIMATE POLICY AND
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EDITORIAL



Dieter Aigner

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

Dear Readers,

Carbon pricing is considered one of the most effective means of reducing harmful greenhouse gas emissions and limiting global warming. Although CO₂ (carbon dioxide) is not the only greenhouse gas – methane and ozone are others – it is responsible for more than half of the greenhouse effect caused by humans. With carbon pricing, this destructive gas is now being assigned a market value that makes positive steering effects possible. Therefore, it is not so much the introduction of this climate protection instrument that is the focus of criticism as the value that is assigned to one tonne of carbon dioxide emissions. Scientists criticise the fact that the carbon price is generally set far too low, especially in the industrialised countries, and therefore will not result in steering effects. According to critics, the legally defined introductory price of EUR 30 per tonne of CO₂ equivalent set by the Austrian government that will come into force from July 2022 (and will increase each

year before reaching EUR 55 per tonne at the end of 2025 and will then be subject to free market forces) is also much too low to make an effective contribution to the Paris climate agreement. While some people are disappointed by the lack of ambition shown in terms of carbon pricing, others are happy that this price even came into being at all after many years of discussion.

At any rate, the topic of climate protection has now definitely shifted into the centre of attention in society. Young people in particular see the basis of life for themselves and future generations as being in danger. The political pressure to take action is increasing and with it the chances that appropriate changes will finally be made.

At the same time, it is precisely this pressure that is now pushing the production of nuclear power back into the focus of many discussions as a purportedly better alter-

native in terms of carbon emissions in the fight against the climate crisis. However, it is clear that nuclear power stations are anything but sustainable. Apart from the fact that the exorbitant costs for construction, operation, and maintenance are not economic and nuclear power poses major risks – including the risk of terrorist attacks – the half-life of their radioactive waste is several tens of thousands of years. Waste that nobody wants, by the way.

This is often the case when it comes to sustainability, going the extra mile will pay off for the future. Generating energy from solar, wind, and water certainly involves smaller-scale structures and may require greater effort to arrive at one's goal. Naturally, it will also take technical innovations and investors willing to finance them. The potential is there. And the advantages speak for themselves. Hopefully, carbon pricing will make a contribution.



You can find out more about
Sustainable Development Goal 17
on pages 18–19.

CARBON PRICING – AN INDISPENSABLE TOOL IN COMBATTING THE

The ever-intensifying climate crisis is causing tremendous economic, social, and environmental damage around the world. The polluters or emitters of greenhouse gases are generally not held accountable for repairing this damage. The pricing of carbon dioxide and other greenhouse gases – when applied correctly – can have a significant steering effect for the reduction of emissions.

The so-called carbon price is a price that must be paid for carbon dioxide emissions with the goal of allocating the external costs of releasing carbon dioxide, which must otherwise be borne by society as a whole, to the polluter (i.e. internalising these costs). This makes the risks of global warming at least partially calculable. One thing that cannot be forgotten is that in addition to the topic of greenhouse gases, there are also many other costs in connection with energy generation that are currently externalised, such as environmental destruction and pollution caused by atomic energy.

While we often tend to oversimplify and only talk about carbon dioxide emissions in connection with the issue of greenhouse gases, in reality a wide range of long-lived greenhouse gases have to be included, such as methane and nitrous oxide. These gases each have a different global warming potential, or CO₂ equivalent. This is a relative measure of a gas's contribution to the greenhouse effect, in other words the amount of heat trapped by a greenhouse gas compared to the

amount of heat trapped by the corresponding mass of carbon dioxide. For example, the CO₂ equivalent for methane amounts to 21, which means that one kilogram of methane traps 21 times more heat than one kilogram of carbon dioxide within the first 100 years after being emitted.

CARBON PRICING MODELS

There are essentially two possibilities for structuring carbon prices:

The first possibility is

certificate trading such as the existing European emissions trading scheme (EU ETS). In this system, a carbon price is created because companies that release emissions have to have certificates, which are tradeable. In emissions trading, the quantity of carbon emissions is limited and the price is variable.

The alternative is

the direct definition of a price. Possibilities for this include a **carbon tax or carbon levy**.



CLIMATE CRISIS



Wolfgang Pinner
Head of Corporate Responsibility
at Raiffeisen KAG

With the introduction of a carbon price, carbon emissions can actually be reduced. Higher prices for goods that are harmful to the environment lead to lower demand or more frugal use. Alternatives such as the development of new, low-emission, and environmentally friendly products become more economical. With carbon pricing, climate protection starts where it is the most cost-effective. The steering effect is achieved via the emissions quantity or the emissions price. The alternative are regulatory measures such as the phaseout of coal or bans on products that are especially harmful to the environment, and in some cases such measures are suitable as complementary actions.

Carbon pricing is based on the polluter pays principle – those who cause damage should also be held accountable. Figuratively speaking, it is a “waste fee” for depositing greenhouse gases in the “atmospheric landfill”. On one hand, companies are motivated to use lower-emission production methods or to introduce products or living space with higher energy efficiency onto the market. On the other hand, consumers are held accountable and encouraged to change their behaviour.

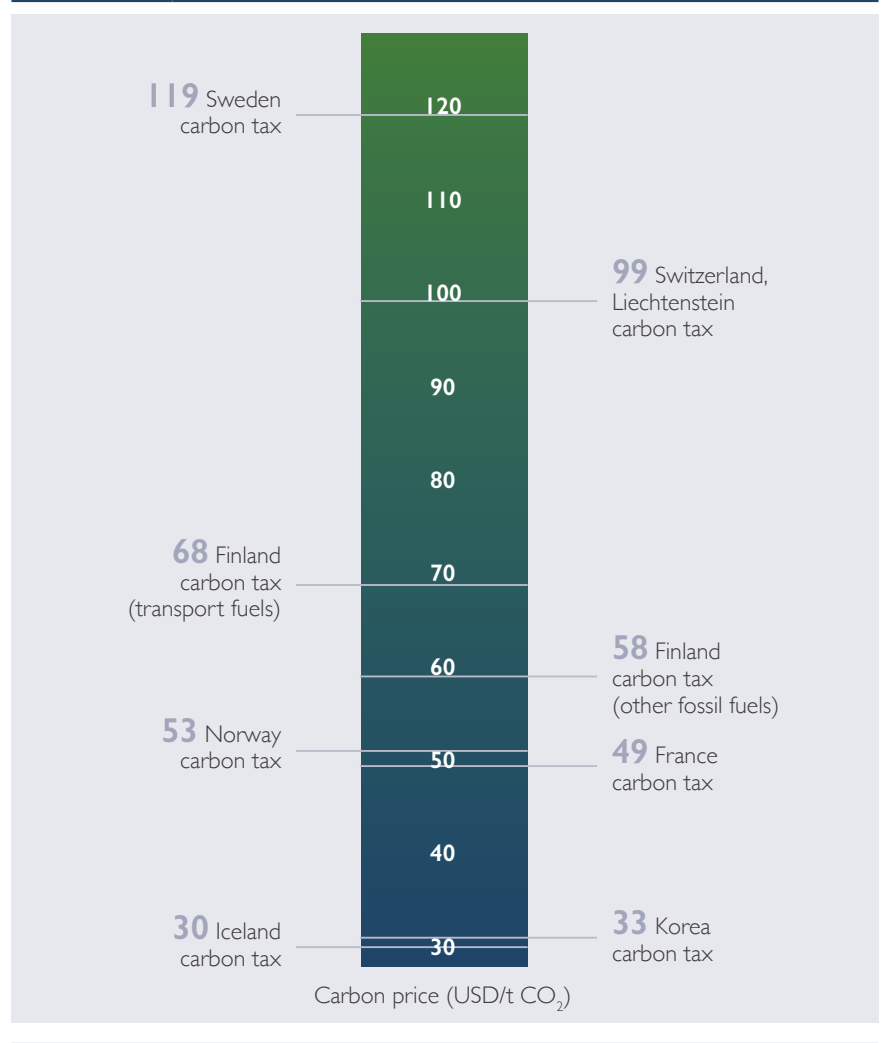
With regard to how high the carbon price should be, estimates of the social costs of carbon emissions provide orientation. The German Federal Environ-

ment Agency currently estimates that one tonne of carbon dioxide emitted in Germany does approximately EUR 180 (roughly USD 205) of damage to humans and the environment. Higher prices are based on new empirical findings regarding economic productivity losses at high temperatures and on more robust models for assessing how high carbon prices would have to be to keep the global temperature increase below the level of 1.5 degrees.

There are already numerous carbon prices at the global level. According to the annually published World Bank report State and Trends of Carbon Pricing, there were 61 carbon pricing systems in effect or on the verge of being introduced in 2020. There were 31 emissions trading systems and 30 carbon tax models. They cover various regions, including Chile, California, New Zealand, Norway, South Korea, and South Africa. A number of EU member states now collect carbon taxes. According to the figures of the World Bank, they range from EUR 12 per tonne of CO₂ equivalent in Latvia to EUR 118 in Sweden. Many countries have direct taxes or other forms of levy on the emission of greenhouse gases as well as taxes on the use of fuel, which are often measured according to the emissions produced by consuming one litre or one tonne of fuel. All in all, however, these carbon prices only cover around 20% of the global emissions. »

CARBON PRICING – AN INDISPEN- SABLE TOOL IN COMBATting THE CLIMATE CRISIS

Chart: Prices in implemented carbon pricing initiatives (from USD 30/t CO₂), as of April 2020



Source: World Bank. 2020. State and Trends of Carbon Pricing 2020. Washington, DC: World Bank. © World Bank. <https://openknowledge.worldbank.org/handle/10986/33809> License: CC BY 3.0 IGO. Disclaimer: This is an adaption of an original work by the World Bank. Responsibility for the views and opinions expressed in the adaption rests solely with Raiffeisen Kapitalanlage-Gesellschaft m.b.H. and these views and opinions are not endorsed by the World Bank.



In addition, the prices are generally too low to be able to make an appropriate impact. At the same time, fossil fuels are still highly subsidised in many countries and regions.

SOCIAL JUSTICE

Without mitigation measures, carbon pricing places a disproportionate burden on low-income households. When introducing a carbon price, there are many ways to ensure that this price will be at least neutrally distributed or may even benefit low-income households. Carbon pricing results in price increases for emission-intensive goods and services, such as the operation of large vehicles or older heating systems. Relative to their income, low-income households generally spend more money on these goods and services. In absolute terms, however, the expenditures of wealthy households are higher. The real impact of a high carbon price on various income classes primarily depends on what is done with the revenue collected from the carbon price. The payment of an annual per capita allowance or “climate bonus” is one option in which the revenues from carbon pricing are returned to consumers. Another is the possibility of reducing taxes that affect low-income households. In this way, low-income households get back (more than) what they pay.

One argument against national carbon pricing is the fear that it may cause emissions to be shifted to other (poorer) countries. The relocation of energy-intensive industries to countries with less ambitious climate targets would result in the displacement of emissions rather than an actual reduction. However, there are very few indications that such “carbon leakage” is a common occurrence. One reason for this is that energy is generally only responsible for a relatively low portion of the total costs. Nevertheless, exceptions could include individual energy-intensive and highly traded industries and goods, such as steel, aluminium, chemical products, and cement. Countermeasures in this context include the free distribution of emissions allowances for companies with a high risk of carbon leakage, which is already practised in the EU, as well as the expansion of the emissions trading system to include consumption-based components and carbon duties for a small group of energy-intensive industries.

COMPANIES ARE PROACTIVE

At the corporate level, more and more companies are utilising an internal price for carbon. The aim is to strategically prepare for a low-carbon world. The trend towards more and more national and supranational initiatives for the tax- »

CARBON PRICING – AN INDISPEN- SABLE TOOL IN COMBATting THE CLIMATE CRISIS

ation of emissions, on the basis of emissions trading systems or direct carbon taxes, increasingly makes high emissions a risk factor for companies. The potential threat lies in additional costs that will be incurred directly – such as through taxes – or indirectly – such as due to changes in consumer behaviour – in the future.

Using an internal carbon price, risks connected with emissions can be quantified and strategic decisions can be made today so as to reduce risks. In a way, one could describe this as the simulation of future carbon pricing, which enables companies to convert emissions into monetary figures.

Companies can use the management tool of carbon pricing in different ways. First, it is possible to either include various departments or limit it to the upper strategic level. In addition, the company can either allow real internal cash flows – i.e. define an “internal emissions tax” – or merely calculate the price theoretically – on the basis of a “shadow price” – to aid in better decision-making. Furthermore, the costs connected with emissions can be calculated based on the past or on the future. The essential adjustment parameter is the assumed price level per tonne of carbon emitted.

The introduction of an “internal emissions tax” for companies involves defin-

ing a fixed price per tonne of carbon. Company units can decide whether to pay the full levy or save “taxes” by reducing emissions. The proceeds from the “emissions tax” can be used by the company in different ways: for example, for internal environmental protection projects or investments or for emissions costs that are actually incurred. Internal emissions taxes create a direct and transparent incentive to reduce carbon emissions. The selection of the correct price is even more important in the case of an emissions tax than in the case of the shadow price that is described below.

The so-called shadow price is a virtual price used as a basis for decision-making, e.g. for product development or for investment decisions. The difference compared with an internal emissions tax is that no actual cash flows are involved in the concept of shadow prices. Because emissions-based costs strategically influence the decisions related to projects, products, or services, a cost markup is added. This means that a uniform carbon price or price margin is assumed as an additional cost factor in the assessment of investments and risks. As a result, external risks are appropriately taken into consideration in internal decisions, goals such as emissions reduction, energy savings, and energy efficiency are promoted, and future emissions are prevented. Shadow prices can be introduced for all »

investment decisions or only for larger projects. The concept is relatively simple to implement and easy to understand. Here as well, the use of a realistic price is an important prerequisite. Shadow prices lead to long-term rather than short-term success with regard to climate protection – on the basis of decisions in favour of more environmentally friendly investments.

The definition of an internal carbon price has a number of benefits for companies, including risk reduction with regard to emissions, the integration of the topic of emissions into the strategic decision-making process, the stimulation of internal innovation, positive public visibility, and meeting the requirements of NGOs, customers, and investors. According to current surveys, more than 250 companies in Europe have already introduced internal carbon pricing based on their own climate strategies, including both large corporations and medium-sized enterprises.

Regardless of which approach is selected, a steering effect can only lead to the urgently needed transformation of the economy if the costs of global warming are estimated realistically. In our opinion, action must be taken quickly both at the government level and on the part of companies if we still want to have a chance of meeting the 1.5 degree target.





EUROPEAN EMISSIONS TRADING

“Blah, blah, blah.” – At the Youth4Climate summit in Milan, Greta Thunberg used these words to describe the current political efforts to counter climate change. Are there really no measures for containing global emissions and the resulting global warming? One central steering instrument for the reduction of emissions in Europe is the European emissions trading scheme.

BASIS CONCEPT

The concept of emissions trading and the associated pricing of emissions gases was developed by John Harkness Dales and Thomas Crocker as far back as the 1960s. The basic idea was to achieve a significant reduction of emissions such as exhaust gases and waste water with minimum economic costs. To this end, an absolute upper limit for emissions is defined for a geographical area and, in turn, a corresponding number of certificates is issued. A certificate documents the right to emit a specified quantity of emissions in the course of the production process – for example, one tonne of carbon dioxide. If a company does not meet its obligation to cover its own emissions with certificates, a fine is imposed. Because the certificates are freely tradeable, market mechanisms then make it so that companies can eliminate significant quantities of emissions relatively easily with technological upgrades so that they no longer have to purchase certificates and/or can sell certificates that are no longer needed. By limiting the total number of certificates,

the speed of the transformation can be steered as necessary.

EUROPEAN UNION EMISSIONS TRADING SYSTEM (EU ETS)

This concept was adopted by the European Parliament and the European Council in 2003 and came into force as a law on 1 January 2005. Iceland, Norway, and Liechtenstein also take part in the EU ETS. In order to ease the transition, companies – with the exception of energy producers – were allocated a portion of their annual consumption in the form of free certificates. The remaining certificates were auctioned off on the market. The time periods were divided into four phases (Phase I: 2005–2007, Phase II: 2008–2012, Phase III: 2013–2020, and Phase IV: 2021–2030). The annual “cap”, i.e. the total quantity of EU emissions, decreased by a factor of 1.74% p.a. from 2005 to 2020 and will decrease by a factor of 2.2% p.a. from 2021 onwards. This is intended to reduce emissions by roughly 21% through 2020 and up to 43% by 2030 compared with the initial value from 2005.

Modifications have repeatedly been made to the system over time in order to boost the efficiency of the mechanism as well as to adapt to new objectives such as the current proposals from the Fit for 55 package, which targets even more ambitious emissions reductions. The following emissions, which can be measured relatively precisely, are covered at present: CO₂ (carbon dioxide), N₂O (nitrous oxide), and PFCs (perfluorinated compounds).

An alternative to obtaining certificates is the Clean Development Mechanism (CDM). Under this system, projects defined in accordance with the Kyoto Protocol can be supported in emerging countries and Certified Emission Reduction units (CERs) purchased, which are equivalent to a conventional emissions certificate. During the financial crisis, the combination of overly generous assumptions and shrinking economic activity led to an oversupply of certificates. This subsequently resulted in a substantial decline in prices for the certificates, which are in principle valid until they are used and do not have an expiration date. Therefore, the European Parliament decided to delay the auctioning of some 900 million certificates in 2013 in order to reduce the oversupply. These certificates were later transferred to a Market Stability Reserve (MSR), which can be used for liquidity management if necessary. Combined »



Alexander Toth
Fund manager
at Raiffeisen KAG

? WHAT'S THAT?

with the EU's statements of intent with regard to climate protection, these measures have led to a significant rise in prices for emissions allowances since 2017.

THE ENERGY MIX MATTERS

The energy sector is the biggest emitter of greenhouse gases on a global basis. Energy producers and their energy mix have relevant effects on the demand for certificates. Starting at a price of EUR 16 to 17 per tonne of carbon dioxide, coal-fired power plants become unprofitable due to their much lower efficiency in generating electricity compared to gas-fired power stations. Coal-fired power

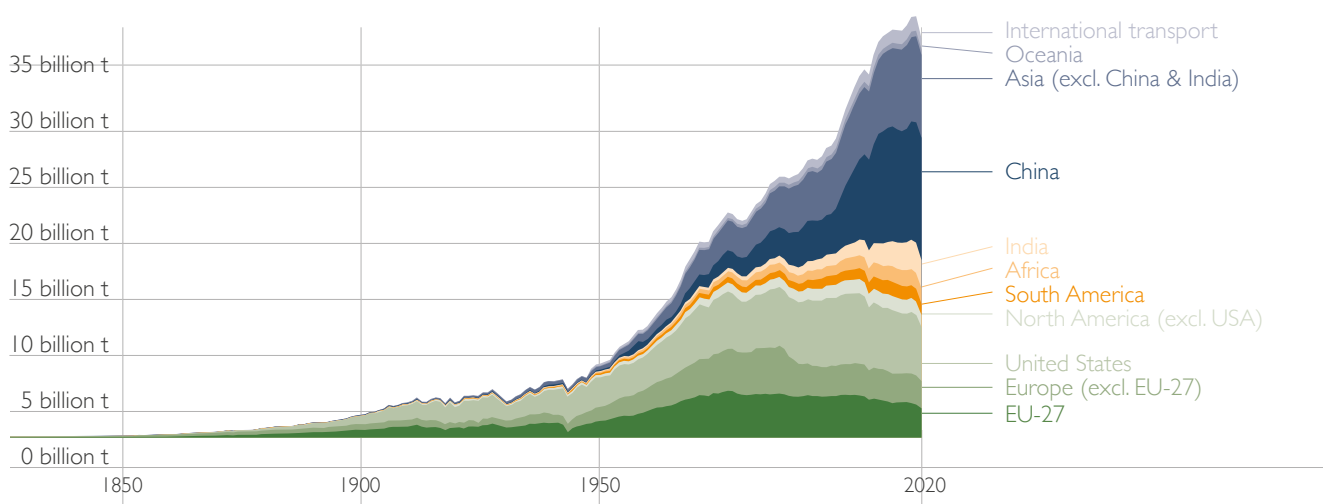
plants are roughly 50% as efficient as a gas-fired power station. As a result, such a transition will occur much faster at a current price level above this threshold than below this threshold. The chart depicting global emissions from fossil fuels shows that countries with a high share of coal in their energy mix, such as China, have tremendous savings potential.

ASSESSMENT

After being written off for a time, the topic of emissions trading has gained momentum again following a few teething troubles. The steering measures of the European Union with regard to de-

fined climate targets will lead to further shortages. Cost pressure appears to be the only incentive that works in order to spur on the necessary technological innovation. The European emissions trading scheme can serve as an example for other regions in pricing emissions and ushering in a corresponding wave of innovation. A look at the significant increase in emissions from fossil fuels shows how far we still have to go to realise the dream of climate neutrality and that in addition to technical innovations, it will take the conscious actions of each and every one of us in order to secure a liveable planet for future generations.

Chart: Annual CO₂ emissions from fossil fuels



Source: Global Carbon Project, OurWorldInData.org/co2-and-other-greenhouse-gas-emissions

Note: This measures CO₂ emissions from fossil fuels and cement production only – land use change is not included.

"Statistical Differences" (included in the GCP dataset) are not included here.



Moderated by
Dieter Aigner,
Managing Director
of Raiffeisen KAG



Round-table discussion about the need to quickly start taking action in climate policy and the opportunities of carbon pricing

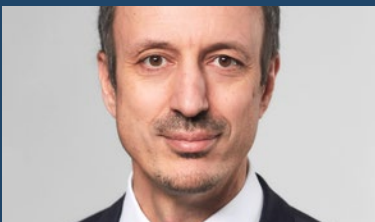
Wolfgang Anzengruber
Ambassador of the economic platform
CEOs FOR FUTURE and former chairman
of the board at Verbund AG



Wolfgang Pinner
Head of Corporate Responsibility,
Raiffeisen KAG



Jürgen Schneider
Section director, Federal Ministry of
Climate Action, Environment, Energy,
Mobility, Innovation and Technology



Sigrid Stagl
Professor, Department of Socioeco-
nomics, Vienna University of Econom-
ics and Business



Starting in July 2022, carbon emissions will cost EUR 30 per tonne in Austria. The price will be raised each year – to 35 euros in 2023, 45 euros in 2024 – and then reach 55 euros in 2025. Mr Schneider, is this price high enough in light of the pace we need in the fight against the climate crisis?

Jürgen Schneider: Austria has set itself the goal of being climate neutral by 2040. This won't happen by itself. We need an economic framework and a regulatory framework. The topic of carbon pricing is a very important stepping stone on the path to achieving this. I'm reminded of a quote by the Austrian climate economist Gernot Wagner, who said that the entry into the system – i.e. from zero to ten euros – is likely the much more difficult step than the increase from ten to 110 euros. I am very happy that we've managed to pull off this entry. After an introductory phase and a transition phase, real trading will start in 2026 via a cap-and-trade system*. This means that the price will no longer be set, but rather the number of available certificates. The price will then be determined on the market.

How can we imagine the implementation in practice and who is affected?

Jürgen Schneider: The system that is now being introduced in Austria has a

clearly defined scope of application. And this scope of application encompasses the carbon dioxide emissions not covered by the current EU Emissions Trading System. So not greenhouse gases, but carbon dioxide emissions. One of the groups of polluters this pertains to is the very large segment of transport, so emissions caused by the consumption of petrol and diesel. The second most important sector is buildings, where primarily heating oil and natural gas are involved. And then it also encompasses smaller industrial, commercial, and service companies that are not included in the EU Emissions Trading System – also natural gas and oil – as well as the agricultural sector, but only with regard to carbon dioxide emissions, so essentially related to the use of diesel. In the first step, we have to register the obligated companies – these aren't end consumers, but companies that distribute fossil fuels on the market – in a system. The advantage is that these are precisely the same companies that are currently subject to petroleum taxes and energy taxes. This means that we are very familiar with these companies. They are already registered with the customs office and tax office. These companies will then pass the prices on to the end customers, which should result in the desired steering effect. The certificate trading »

TIME TO ROLL UP OUR SLEEVES

system is not a conventional levy or tax – in other words, it's not something where the government wants to collect money in the medium- and long-term. The goal is to reduce the consumption of fossil-based energy. Therefore, there are also supporting actions aimed at making it easier to switch from fossil-based energy to renewables and creating social justice. To some extent, the whole thing is based on the carrot and stick principle.

The issue of social justice was mentioned. An issue that you deal with as well, Professor Stagl. What is your scientific opinion of carbon pricing?

Sigrid Stagl: There are two approaches to this in economic literature. One is the attempt to account for the social costs of greenhouse gases in the price. Under this approach, not only the costs that appear in a company's accounting are included in the pricing, but also the costs that are incurred in order to correct and offset damage caused by greenhouse gases for society as a whole. This results in widely varying figures. The further into the future the system accounts for, the higher the social costs of carbon are. The subject of what the correct value is when measuring the social costs of carbon has been hotly debated by the scientific community over the past 30 years.

And the second approach?

Sigrid Stagl: The second approach – the abatement cost approach – is much more pragmatic, namely: What do we need in order to achieve the goal? Here, you observe how quickly citizens and producers react to price changes. If they react quickly, then the carbon price doesn't have to rise as quickly. If they don't react very quickly, it has to increase more significantly. However, this price also depends on accompanying regulatory measures: technical standards, industry standards, and driving bans or parking bans. There are various strategies that can be used to achieve the same goal. The more the pricing is accompanied by other measures, the less the carbon price has to increase to accomplish the same goal. Achieving climate protection through the pricing of greenhouse gases alone is difficult because it can lead to social upheavals. And there's something else that has to be kept in mind, as well: We're talking about climate change now, which is good and important. But there are also other problems, such as the loss of biodiversity, material consumption, etc., that we have to address. And the argument for a mixed approach applies here, too.

Companies have to make hard calculations, and energy costs are always a major »

* The principle of a so-called cap and trade works as follows: An upper limit (cap) defines the total quantity of greenhouse gas emissions that may be released by the facilities that are subject to emissions trading. The member states issue a corresponding number of emissions permits to the facilities – in part for free, in part via auctions (a permit allows the release of one tonne of carbon dioxide equivalent – CO₂e). The emissions permits can be freely traded on the market (trade). This results in a price for the release of greenhouse gases. This price provides incentive for the participating companies to reduce their greenhouse gas emissions. Source: Federal Environment Agency



Dieter Aigner conferencing with Sigrid Stagl, Jürgen Schneider, Wolfgang Anzengruber and Wolfgang Pinner

focus here. Mr Anzengruber, what experiences have you had with carbon pricing and emissions trading in recent years as the long-time chairman of the board at Verbund AG?

Wolfgang Anzengruber: Naturally, every form of pricing is a cost factor that has an impact on the calculation. That's also the intention, after all. The economy is in competition with other countries as well as enterprises that are outside of the national framework, and equal and fair competitive conditions are extremely important in this context. The European emissions trading scheme attempted to create such conditions. And this worked quite well in the energy industry on the whole. We started at five euros in 2005 and are now at 60 euros per tonne of carbon dioxide, so double the price at which the transport sector is now starting out. However, there is another aspect apart from the numbers and the operational business: innovation. Technologies that emit carbon dioxide are no longer economic today or are at the very least less economic. This has driven companies in the industry to move into other technologies. Thus, pricing has also led to changes, and this is a second, very important effect, which we also expect to see now in transport. Because, after all, we don't just want to

dole out punishment, but primarily want to effect change. Naturally, there have to be certain framework conditions that make suitable investments possible. Because anything that is uneconomic has no chance in industry.

As an investor, you get a great deal of insight into companies' strategies when you engage in dialogue with them. What does this look like with regard to carbon pricing?

Wolfgang Pinner: The topic of carbon pricing has definitely arrived on issuers' radar. Generally, companies opt for one of two models in their internal carbon pricing. The first is a fixed price that is applied per tonne of carbon dioxide emitted – the funds generated in this way are invested in sustainable projects. In the second case, a shadow price, or theoretical price, is applied, which is then essentially taken into account in the company's strategy or management on a virtual basis. In the course of our shareholder engagement on the topic of carbon pricing, we contacted roughly 50 companies. Some of these companies are already applying the pricing of greenhouse gases and are of course taking this into consideration in investment decisions, as well. Companies generally assume that the price of carbon will rise, which is why some of them have already implemented »

an internal carbon price for investment projects. Other companies have applied a notional price – a shadow price – to their carbon emissions, such as 30 euros per tonne of CO₂ equivalent. The expected taxation is anticipated through internal monitoring. And finally, there are some companies that have started with carbon offset measures or have voluntarily purchased carbon certificates from global reforestation projects. Our dialogues show that many companies are already active in the area of carbon pricing, which is certainly a good thing.

Some countries have also proposed nuclear power as a solution for carbon emissions recently. Are such solutions justified?

Wolfgang Anzengruber: The ambitions of the nuclear industry to swoop in as the knight in shining armour here are plain to see. And, of course, nuclear power plants do not emit any carbon dioxide in the production of energy – this much is true. But they are nowhere near sustainable. And it shouldn't just be about reducing carbon, but we should also strive towards sustainability. The waste materials have a half-life of roughly 24,000 years. This generally exceeds the planning horizon of any company. Furthermore, nuclear power simply isn't economic. In fact, compared to renewa-

bles, it's far from being profitable. It can provide large quantities of energy relatively quickly. But I think it's dangerous to create such large, powerful centres that are also very sensitive.

France is lobbying here on a massive scale.

Wolfgang Anzengruber: Yes, France, which is 70 per cent reliant on nuclear power and has projects in the planning stages... But let's not exaggerate. I believe there are four or five projects that are being planned or are under construction in Europe. I'm confident that we will see many more nuclear power plants being closed in Europe than being built. And if you look at the nuclear power plant that's set to go into operation in Scandinavia soon, you see that the costs and time spiralled out of control. It cost a fortune and will never be able to operate profitably.

Wolfgang Pinner: One aspect that is frequently mentioned in the argument in favour of nuclear power is grid stability. Renewables would without a doubt be a very good complement to the energy mix, but they are not sufficient for securing grid stability. I don't want to advocate the expansion of nuclear power, but it is currently an important factor for ensuring the stability of the grid in Europe –

including for the prevention of potential blackouts. Perhaps we shouldn't entirely lose sight of this.

Wolfgang Anzengruber: It's true, without question. The grid has become much more sensitive in recent years. But nuclear power plants provide base load capability, they don't help us when it comes to boosting. Gas-fired power plants help here, because they are quickly in the system. Pump storage plants are best because they are even faster and can provide stabilisation. But here we run into the issue of storage. I'm not saying that it's easy, but I think it's doable. Even if it isn't what we want to hear: We will continue to need smaller gas-fired power plants in the future for the management of bottlenecks.

Do you share this opinion, Professor Stagl?

Sigrid Stagl: I looked at the scientific literature about this from various disciplines very systematically about a year ago, and the conclusion I drew from this is that nuclear energy is not best-in-class. In terms of cost, it has been surpassed by the new renewables. Nuclear energy is too expensive when all of the costs are considered. It's no wonder that, from a global perspective, power plants are primarily being built today in countries »

ROUND- TABLE- DISCUSSION

that are not exactly democratic, where there are purchase guarantees, in other words special conditions for this technology. If there are alternatives, we should also abstain from using this option due to the hazards involved and the vulnerability to terrorist attacks. Naturally, the working conditions in uranium mining, the environmental effects, and similar factors also have to be considered in the assessment. I came to the very clear conclusion that nuclear power should not be classified as green according to the EU taxonomy. The small reactors do not change this evaluation, either. The installation of photovoltaic systems on rooftops, in building facades, and in windows may be more tedious, but we have tremendous potential in precisely these places. It's important that we do not allow ourselves to be tempted into entering into this dangerous technology by smokescreens that make nuclear power plants seem attractive to us.

How is the mood at the European level?

Jürgen Schneider: In the EU, there is currently a very intense discussion about this at the highest political level and the countries that are betting on nuclear power are lobbying on a massive scale. But we are also seeing a great deal of

lobbying from countries that advocate natural gas as a bridge technology. However, natural gas is a fossil fuel. Even if it causes 25 per cent fewer carbon emissions than oil, this is very clearly the wrong path. Natural gas may be a transitional technology, but it is not a climate protection measure.

Criticism of the lackadaisical climate policies is growing louder and louder. Is it still possible for us to change course and if so, how can we accomplish this?

Wolfgang Anzengruber: We talk a lot about whether the targets are ambitious enough, whether they are hard enough, whether or not the time frames are realistic. That remains to be seen. I don't have the answer. But one thing that is relatively clear to me – and I'm fundamentally optimistic – is that we still have a chance to achieve a controlled change at this point. Carbon pricing can only act as a trigger – it is not a real hurdle yet. At the same time, we have to use bans, because we won't be able to reach the targets without them. Germany is negotiating the phaseout of coal by 2030. The end of combustion engines is in sight. Changes will happen, whether they are controlled or uncontrolled. Right now, we have the last chance to »

make sure that these changes happen in a somewhat controlled manner. The later we start, the more painful and socially unjust it will be. We all know that 30 euros is a ridiculous price. We know it. Science tells us that we would have very different prices if we were to transfer the future damages to the present. I am generally not pessimistic. I believe we will pull it off. But we need more impetus – and a monitoring system with open price limits.

Sigrid Stagl: Although COP26 did not have the desired result from a climate perspective, steps were taken. Now we have to stay the course, again and again. It's not enough to cross our fingers, we also have to roll up our sleeves. I think it would be very important to have a monthly measurement of the development of greenhouse gases, the same way we do for the gross domestic product, unemployment, and price stability. Because then this issue would remain a topic of discussion throughout the year. But I'd like to come back to the global perspective. At the moment, around 20 per cent of the global greenhouse gases are covered by a pricing regime. That is shockingly little. And being covered by a pricing regime does not mean that an

adequate carbon price is paid. On the contrary, this price is absurdly low in some cases. We still have a very long way to go, but it can't take a long time. It will be a difficult path. And it's very important that we foster international cooperation here. The International Monetary Fund proposed a differentiated global carbon price, with poor countries paying 25 US dollars, rich countries 75 US dollars, and countries in between 50 US dollars per tonne of CO₂ equivalent. This is a starting point. And that's important. We have to move towards global carbon pricing and we need a differentiated approach.

Wolfgang Pinner: In our sphere of action – sustainable investment at the portfolio level – we will continue to take carbon emissions, which we can estimate very well via databases, into account in the discretionary analysis in our investment process. This means that we evaluate emissions in the context of the given company before making an investment or nominating a security for our watchlist or short list. However, greenhouse gas emissions are only one of a large number of topics we are following with concern. The loss of biodiversity is another related issue that is very impor-

tant when it comes to sustainable development.

As is so often the case, politics have the final word.

Jürgen Schneider: Naturally, the result of the climate conference in Glasgow can only be viewed with ambivalence, and I understand the climate researchers who say that they were hoping for more. But if you ask a behavioural economist if this was to be expected, they would likely say that the result is sensational. We have 195 countries around the globe, including dictatorships and countries in which 50 per cent of their national budget is based on the production and sale of fossil fuels, and we have a principle of unanimity. And despite this, we agreed for the first time to assign an expiration date to coal as a fossil-based energy source. Naturally, things are proceeding too slowly. But there are also signals that provide hope. Austria – Europe – has to show how a climate-friendly society and economy can function. It has to become a model for success that is as suitable to be spread around the world as possible. Not in the sense of colonialism, i.e. take what we're doing, but rather "leading by example". If we can accomplish this, then we'll be an attractive example for other parts of the world.



SUSTAINABLE DEVELOPMENT GOAL 17 (SDG 17):

Partnerships for
the Goals

**SUSTAINABLE
DEVELOPMENT
GOALS**

With the global Sustainable Development Goals, the United Nations addresses challenges such as eliminating hunger and poverty and ensuring fair trade, clean water, and climate protection. One country or region cannot achieve these goals alone. This requires strong worldwide partnerships between various stakeholders, from governments and businesses to civil society and the scientific community. A sustainable transformation can only be achieved through closely interlinked measures in numerous fields and on many public and private levels.

SDG 17 deals with this issue and describes five areas for strengthening collaboration – finance, technology, capacity-building, trade, and systemic issues. Both developed regions and emerging economies are addressed in order to strengthen collaboration at the local, national, regional, and global level and promote effective development. The responsibility for inclusive, sustainable development is not borne by one person, but by global society. The five areas of SDG 17 are described in part in the following.

THE UN HAS SET THE FOLLOWING TARGETS PERTAINING TO THE TOPIC OF “PARTNERSHIP FOR THE GOALS”, WHICH HAVE ALSO BEEN INCORPORATED INTO THE AUSTRIAN FEDERAL GOVERNMENT’S 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT (ABRIDGED):

Finance

- ✓ Strengthen domestic resource mobilisation
- ✓ Ensure that developed countries fully implement their official development assistance commitments
- ✓ Mobilise additional financial resources for developing countries from multiple sources

Technology

- ✓ Enhance North-South, South-South, and triangular regional and international cooperation on and access to science, technology, and innovation and enhance knowledge sharing on mutually agreed terms

Capacity-building

- ✓ Enhance international support for implementing effective and targeted capacity-building in developing countries

Trade

- ✓ Promote a universal, rules-based, open, non-discriminatory, and equitable multilateral trading system under the World Trade Organization

Systemic issues

This area encompasses measures in the fields of policy and institutional coherence, multi-stakeholder partnerships, data, monitoring, and accountability.



Herbert Perus
Fund Management – Corporate
Responsibility at Raiffeisen KAG

CORPORATE ON THE TOPIC OF

The greenhouse gas emissions of various companies differ considerably, and the measures taken by these companies to

reduce emissions as well as to face the challenges of future pricing are just as varied.

The shareholder engagement activities of Raiffeisen Capital Management's (Raiffeisen KAG) fund management on the topic of carbon pricing include dialogue on this issue with several major, and for us some of the most interesting, listed companies. This time, we contacted over 50 companies from the DACH region (Germany, Austria, and Switzerland) and asked them the following questions:

- 1 Is your company currently obligated to pay a carbon tax and/or do you participate in certificate trading?
- 2 If so, has this pricing had an influence on the reduction of carbon emissions by your company and do you strive to achieve climate neutrality?
- 3 What greenhouse gases are emitted by your company and to what extent?
- 4 What investments are being considered or implemented in order to reduce your carbon footprint, and how is this measured?
- 5 How is your company preparing for the future pricing of greenhouse gases?
- 6 Which pricing method for greenhouse gases do you see as most sensible for your sector?
- 7 What contribution does your company make to SDG 13 (Climate Action)?

VOICES

CARBON PRICING

Here is a small selection of the answers we received:

1 & 2 Mayr-Melnhof, Zalando

The main goal of carbon pricing is to achieve a steering effect in companies' climate policies. This begs the question of whether companies that pay a carbon tax actually consider this an incentive to reduce their emissions or whether they see the tax as just another cost factor. The paper company Mayr-Melnhof pays carbon taxes in accordance with the legal regulations in the given countries and participates in certificate trading. For the company, there is a clear correlation between the taxes and a future reduction of greenhouse gas emissions.

The company strives to be climate neutral by 2050 and sees itself as being obligated to achieve the Paris climate targets. According to the company spokesperson, this goes above and beyond the legal requirements.

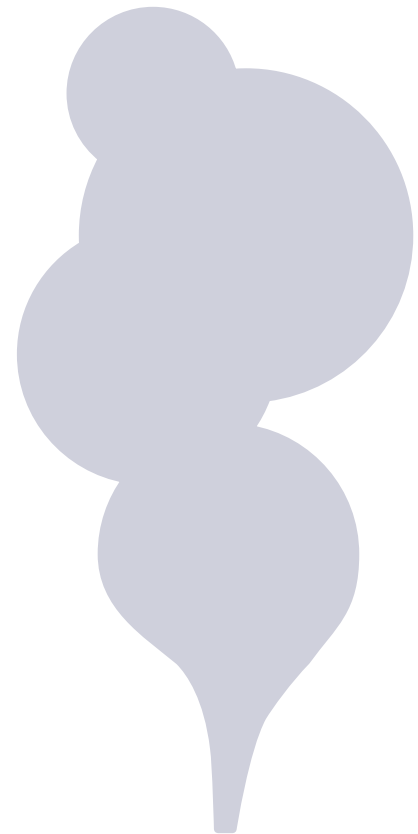
The online mail-order retailer Zalando is not obligated to pay a carbon tax and, accordingly, carbon pricing has not had an impact on Zalando's climate policy. Nevertheless, the company has communicated very ambitious climate targets and measures for reducing its carbon footprint. For example, it purchases carbon certificates that contribute to the re-

forestation of cleared woodlands in tropical forest areas.

3 Agrana, Infineon:

The portfolios of Raiffeisen Capital Management include broadly diversified holdings in a wide range of companies in many different industries. Carbon pricing does not always pertain to just carbon dioxide, but also to other greenhouse gases. The food company Agrana primarily emits carbon dioxide in its own production, but its upstream value chain primarily involves nitrous oxide emissions. These emissions are the result of fertilisers containing nitrogen that are used in modern agriculture.

For the semiconductor manufacturer Infineon, the main focus is on PFC (perfluorocarbon) gases, which are primarily used in etching processes. The company regrets that no alternatives to PFCs have been found in the semiconductor industry thus far, despite intensive research. Some 14% of Infineon's emissions fall under Scope 1 (all emissions caused directly by combustion), Scope 2 (emissions caused by purchased energy such as electricity or district heating) accounts for roughly 40%, and the rest can be attributed to Scope 3 (emissions that are caused by intermediate inputs and services purchased from third parties). »



CORPORATE VOICES ON THE TOPIC OF CARBON PRICING

4 Porr, OMV

Innovations involving climate-friendly technologies require investments. For reasons related to emissions reduction and climate taxes, companies are deciding more and more frequently to reduce their carbon footprint and to spend money for this purpose. In order to actually be able to see the success of climate protection, we need methods for measuring carbon emissions. As one of the leaders in its industry, the Austrian construction company Porr aims to actively shape the transition towards climate neutrality. To this end, Porr has developed a new strategy for climate-neutral construction projects. Under this strategy, the company is investing in alternative drives and energy sources, state-of-the-art construction machinery, the sustainable management of its machinery and vehicle fleet, and the optimisation of its construction site logistics. The company measures its carbon footprint using two methods. On one hand, the energy consumption of the production sites is analysed, and on the other, the company started collecting energy data for major construction sites in 2020.

OMV and Borealis are investing one billion euros in the so-called Sustainability Strategy 2025. This is primarily being used to finance projects involving inno-

vative energy and circular economy solutions such as ReOil and co-processing.

5 Palfinger, Delivery Hero, Siemens:

It is very likely that the costs for companies will increase from year to year due to carbon taxes. In order to prepare for the rising prices, there are various approaches to dealing with this future task from an entrepreneurial perspective. However, carbon pricing is not only a cost factor, but also creates opportunities. For example, the mechanical engineering firm Palfinger has been assuming notional carbon prices of EUR 30 per tonne of CO₂ equivalent since 2017. Using this method, the company simulates a potential cost burden and is thus preparing for the actual pricing.

However, not all industries will necessarily be subject to carbon pricing. Take the online company Delivery Hero, for example. Based on internal analyses, the company does not expect emissions pricing to be introduced for delivery services.

Siemens, a company that focuses on automation and digitalisation in industry, feels that it is crucial for carbon pricing to cover all sectors and send an effective price signal. For Siemens, carbon pricing offers many opportunities to contribute to the reduction of emissions for its customers with Siemens products. Thus, »

* Co-processing: This method improves the quality and stability of using oil from biowaste.

new business opportunities will open up for the company, as high carbon prices will create demand for “clean” products.

6 Verbund, Porr, BMW

As is so often the case in life, there are different approaches for achieving the same goal. And the same holds true for emissions reduction via pricing. Naturally, companies have their own opinions about taxes and about what carbon pricing has to achieve in order to truly effect change. The energy company Verbund is subject to the EU Emissions Trading System (EU ETS) and still sees this as the central instrument for the pricing of carbon. According to Verbund, a minimum price for carbon would have the biggest steering effect. In order to ensure that international competition is not distorted, a uniform taxation procedure should be implemented in Verbund's opinion.

The Austrian construction company Porr sees greenhouse gas pricing for the transport of goods as the most sensible step with the greatest leverage. This would strengthen local business through regional procurement, shorten transport distances, and thus also prevent and reduce carbon emissions.

BMW is also of the opinion that the EU ETS is the most sensible carbon pricing

method. The company believes that uniform taxation across Europe will lead to tremendous progress in accelerating the electrification of the automotive industry. This will open up additional opportunities for BMW's own products, apart from protecting the environment.

7 Wienerberger, BMW

Companies can contribute to SDG 13 (Climate Action) in many different ways, for example through decarbonisation. However, there are naturally many different approaches to achieving the targets of SDG 13. As the largest brick producer in the world, Wienerberger has production facilities on every continent and is committed to decarbonisation along its entire value chain as well as a complete switch to green electricity on a group-wide basis.

The automobile manufacturer BMW achieved carbon neutrality for the production of vehicles at all of its sites in 2021 and strives to fully convert to alternative drive solutions in its products for Europe by 2030. The plants get their energy from regional energy sources. Every site uses the most environmentally friendly energy supply currently available. In addition, the company utilises recycling to a very high degree and relies on innovative solutions that make electric car batteries 90% recyclable.



LENZING



COMPANY SUSTAINABILITY SPOTLIGHT

Austria is a pioneer in many areas of environmental protection and sustainability. This is also made evident by the fact that leading Austrian companies often take on prominent roles in their industries when it comes to the use of natural resources or the definition of ambitious goals for the future. The Upper Austrian company Lenzing is a good example.

LENZING HISTORY AND FACTS

The first pulp and paper factory started operating in Lenzing all the way back in 1892. The first groundbreaking advancements were made in the 1960s with the development of the first special fibre, the predecessor to today's Lenzing Modal, in 1965. At that time, environmental protection was still a foreign concept. As with all other viscose fibre plants in the world, the factory severely polluted the water and air in Lenzing. However, the awareness that changes had to be made here gradually increased. With this in mind, a separate environmental department was established, which was entirely unique in the industry.

Lenzing subsequently attracted attention with several innovations and a number of collaborations with partners from its value chain. In 2012, a new type of fibre was presented that does not lose any of its colour intensity even after many washes and offers significant environmental advantages due to the elimination of dyeing in the production process. The development of a special

lyocell fibre in the hygiene segment was also very successful. This fibre can be safely disposed of via the toilet because it dissolves on its own in the sewage treatment plants despite being very strong.

In 2017, the Refibra technology was introduced, which represented a major advancement for the circular economy in the textile industry. The Tencel and Refibra lyocell fibres are the first cellulose fibres that are produced using residual materials from the production of cotton textiles along with wood.

The first filament yarn – Tencel Luxe, which became market-ready in 2017 – is used for sustainable textiles made of cellulose fibres in the luxury segment of the fashion industry.

In early 2021, there were irregularities in the course of the coronavirus pandemic at Hygiene Austria, in which the company was invested along with Palmers. Protective facemasks were purported to be an Austrian product although they had been manufactured »

in China. During Raiffeisen KAG's shareholder engagement activities regarding this topic, Lenzing told us that its investment in Hygiene Austria was being reconsidered. In April, the company announced that it would dispose of all shares in Hygiene Austria.

Lenzing currently operates seven production sites in Europe, America, and Asia, with nearly 8,000 employees in total. Revenues of EUR 2.1 billion are expected for 2021. The company's stock has been listed on the Vienna Stock Exchange since 1985.

CARBON PRICING IS A MAJOR TOPIC

The European Union Emissions Trading System (EU ETS) is an instrument of the EU's climate policy aimed at reducing greenhouse gas emissions (such as carbon dioxide) with minimum economic costs by issuing a limited number of emissions allowances and then allowing them to be traded on a market. According to Lenzing, the company uses this instrument at the sites in Austria and Czechia. Following the exit of the United Kingdom from the EU, an emissions trading scheme (UK ETS) was also established there, and Lenzing takes part in this scheme with its site in Grimsby, England. »

Lenzing has clearly communicated the goal of becoming climate neutral by 2050. Carbon pricing is only one element of this vision, but it is accelerating the transformation towards climate neutrality. Other elements that are important for Lenzing when it comes to carbon reduction include the placement of products with a low negative greenhouse gas impact, the use of new and more cost-effective technologies, employee retention, and many other measures.

In response to our question about investments being considered or implemented to reduce its carbon footprint, the company primarily pointed to the production facilities that are currently under construction in Thailand and Brazil. The company strives to achieve carbon neutrality from the beginning at the factory in Thailand, and the plant in Brazil will even boast a positive net carbon balance.

As for many companies, the future pricing of greenhouse gases and the associ-

ated cost risks play a major role. Lenzing set its ambitious carbon targets in order to be able to counteract potential negative influences.

PARTICIPATION IN INTERNATIONAL CLIMATE INITIATIVES

Accordingly, the Sustainable Development Goal for climate action (SDG 13) plays a significant role at Lenzing. With regard to achieving these goals, the company primarily cites the environmentally friendly properties of the Lenzing products in comparison to the competition.

The company's participation in the Science Based Targets Initiative (SBTi) is also noteworthy. This non-profit organisation provides participating companies with a clearly defined path for the reduction of greenhouse gas emissions in accordance with the Paris climate targets – on a completely scientific basis. Over 2,000 companies from a wide range of industries have joined the initiative thus far.

“Climate change is the biggest challenge humankind faces right now. With our strategic target of becoming climate neutral by 2050, we are taking on responsibility for future generations.”

Lenzing AG

CORPORATE VOLUNTEERING AT LICHTBLICKHOF

Following the interruption due to COVID-19 last year, Raiffeisen KAG resumed its corporate volunteering activities at Lichtblickhof this year.



Some 30 dedicated employees (who had been tested with PCR tests) actively helped with the relocation and setup of the office as well as a therapy room with accommodations for a caregiver on two days in September. In addition, a privacy hedge was planted to shield the new building from view. This will ensure that the therapy with the horses can continue to be conducted in a protected setting.

Lichtblickhof assists children and youths who are affected by grief, trauma, disability, or illness or are in the midst of a crisis situation in transitioning back to normal life. The EQUOTHERAPY, which was originally developed with horses and now also includes other animals, helps children and youths in crisis situations to find new courage and strength.

"The corporate volunteering at e.motion Lichtblickhof has become a fixture in Raiffeisen KAG's overall sustainability approach," commented Dieter Aigner,

Managing Director and Chief Sustainable Investment Officer. "Apart from direct financial support through donations, we also want to contribute directly on a personal level with our manpower and manpower. The fact that so many employees take part shows that sustainability is not just lip service for us, but an anchor of our corporate culture."

The management of Raiffeisen KAG also used this opportunity to view the charitable organisation's new space in the apartment building that was built by Gesiba near Lichtblickhof. Last year, the fund company decided not to distribute Christmas gifts for the first time and to instead provide financial support for the expansion of the therapy facilities. An investment that was put to optimal use, as the three managing directors of the fund company, Rainer Schnabl (CEO), Dieter Aigner, and Michal Kustra, were able to see for themselves during the tour led by Verena Bittmann, deputy managing director of Lichtblickhof. "The families we assist with therapy are sometimes from other regions. The two

barrier-free apartments we can now offer for families to stay overnight allow us to make the situation much less stressful and improve our therapeutic possibilities. Also because we can bring the given therapy horse directly to the outdoor areas of the apartments via a separate entrance. For us, this is truly a dream come true," explained Verena Bittmann.

The partnership with Lichtblickhof started several years ago. Two years ago, Raiffeisen KAG became the sponsor for the therapy horse Miakoda and built an enclosure for small animals as part of a corporate volunteering initiative. Last year, the volunteer work had to be suspended due to COVID-19, but Raiffeisen KAG provided financial support for the construction of a roof including wind protection for a horse stable as well as the construction of a new entrance gate.

For more information,
visit www.lichtblickhof.at



Some 30 dedicated employees of Raiffeisen KAG actively helped with the relocation and setup of the Lichtblickhof office.



Verena Bittmann, deputy managing director of Lichtblickhof, and the three managing directors of Raiffeisen KAG – Michal Kustra, Dieter Aigner, and CEO Rainer Schnabl (from left) – view the new therapy apartment in which the families of children and youths receiving therapy will be able to stay in the future.

**Raiffeisen
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**LET'S INVEST
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SUSTAINABLE FUTURE.**

PRESERVING VALUE. CREATING VALUE.

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