

POLICY

Sustainable and responsible investment policy



etica SGR
Responsible Investments

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DEFINITIONS

For the purposes of this document the following definitions apply:

- a) "Regulation 2088": Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector;
- b) "Regulation 2089": Regulation (EU) 2019/2089 of the European Parliament and of the Council of 27 November 2019, which amends Regulation (EU) 2016/1011 relative to the EU reference climate transition benchmarks, EU reference benchmarks aligned with the Paris Agreement and communications relative to sustainability for reference benchmarks;
- c) "Company" or "AMC": Etica SGR;
- d) "investment manager" or "manager": intermediary qualified to provide asset management or portfolio management services, who manages, including partially, the assets of a UCI on the basis of a specific proxy granted by the Company in compliance with the criteria defined by said proxy;
- e) "Ethics Committee": Committee with a consulting role and makes proposals to the Board of Directors of the AMC, the latter establishes its operation based on the approval of the relative regulation. The Ethics Committee is not a company entity, but rather discharges an oversight function in relation to Fund investors, as to whether investment decisions comply with the principles underlying ethically-orientated financing;
- f) "Investments Committee": An advisory committee that supports the activities of the Board of Directors, composed of at least two Directors (one of which is independent), one of which is appointed chairperson, from an employee of the Company that has specific expertise on investments, from the General Manager and the Head of the Risk Management Department, appointed to formulate proposals on the general investment strategies presented by the investment manager, who is also represented in the composition of the Committee;
- g) "Investable Universe": list of approved issuers based on environmental, social and good governance assessments carried out by the Etica Sgr Analysis and Research Department and validated by the Etica Sgr Ethics Committee and Board of Directors;
- h) "Sustainable investment": pursuant to Regulation 2088, sustainable is defined as "an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance";
- i) "Sustainability risk": an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment;
- j) "Sustainability factors": pursuant to Regulation 2088 " the environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters;
- k) "Negative effects": the effects of investment decisions and consulting on investments that result in negative repercussions on sustainability factors.

INTRODUCTION

Etica SGR (hereinafter the “AMC” or “the Company”), member of the Banca Popolare Etica banking group, was created as a sustainable responsible operator. In accordance with its by-laws, “it proposes representing the values of ethical finance on the financial markets, increasing the public’s awareness regarding socially responsible investments and corporate social responsibility”.

Etica SGR was founded in 2000, based on the conviction that analysing issues from an environmental, social and governance (ESG) perspective could provide a more long-term view and potential added value in terms of returns. 20 years after its foundation, it is still the only Italian asset management company to concentrate exclusively on sustainable and responsible investments.

The range of products extends from Italian-registered open mutual investment funds, distributed across all risk/return profiles, with the objective of creating medium/long-term yield opportunities for investors.

The Sustainable and Responsible Investment Policy (hereinafter the “**Policy**”) responds to the intention of governing the principles and processes underlying the AMC’s investment activities and offering maximum transparency to the market.

As a responsible operator, the provisions set out in this Policy apply transversally to all Company products.

REFERENCE PRINCIPLES AND STANDARDS

In conducting its activities, the AMC operates in the exclusive interests of fund investors, namely, with the objective of increasing the value of investments over time by implementing a policy based on the principles of social-environmental responsibility.

The Company is mindful that its investment decisions could generate negative effects on sustainability factors if not properly assessed, and it therefore works so that its investments can minimise these negative impacts and promote positive returns for the community and the environment.

Etica Sgr has always taken into consideration the principal adverse sustainability impacts of its investment decisions on sustainability factors ("*principal adverse sustainability impacts*"), as detailed in the *PAI Statement* published on its website.

The document summarises the approach adopted by the Company in identifying the negative effects on sustainability and the main negative effects recorded.

It also describes the policies for identifying and prioritising the main negative effects and actions implemented to reduce these negative effects, (also outlining the Engagement activities and adherence to internationally recognised principles and standards that can strengthen its approach as a sustainable and responsible investor).

Finally, the Company actively works in conjunction with international networks of responsible investors to compare itself with the best practices regarding sustainable finance and promote and support dialogue and raising awareness among businesses, institutions and governments, focusing specifically on social, environmental and governance issues.

ETICA SGR RESPONSIBLE INVESTMENT

The responsible investment approach adopted by Etica SGR is characterised by five underlying principles, which range from the preliminary activities to defining the basket of investable issuers, through to measuring the generated impact, i.e.:

- ESG (environmental, social and governance) selection of issuers;
- engagement with issuers;
- monitoring issuers;
- ESG risk assessment;
- measuring the generated impact.

The indicator that best summarises the sustainability objectives pursued by Etica Sgr funds is the ESG risk (or the “E” risk in the case of Etica Impatto Clima); this index is calculated starting with the sustainability scores calculated by the Analysis and Research Department based on the proprietary ESG eticApproach® methodology, which assesses issuers’ sustainability risk, and on aggregate, the portfolio’s risk.

In accordance with Art. 9 of Regulation 2088, the sustainability objective for all funds, translates into the definition of a predetermined percentage limit for the R_ESG (or R_E for Etica Impatto Clima), which is lower than the theoretical maximum level implicit in the model used to estimate the sustainability risk.

ESG selection of Issuers

Issuers are selected by Etica SGR on the basis of a proprietary methodology, represented by the internationally registered trademark ESG eticApproach®.

The Company has defined a series of environmental, social and governance (ESG) indicators that it uses when analysing the sustainability of listed companies and countries. In particular, specific Guidelines, approved by the Board of Directors as proposed by an autonomous and independent Ethics Committee, define exclusion criteria (or negatives) and the assessment criteria (or positives) that are specific to countries and companies, and subject to periodic updating.

ETICA SGR RESPONSIBLE INVESTMENT

More specifically, issuers are selected following a double screening process¹:

- a **negative screening**, aimed at excluding all issuers deemed to be controversial from an ESG perspective. Exclusion criteria are applied in this regard for issuers operating in sectors or conducting activities that generate significant negative impacts on the community and on the environment, such as arms manufacturing and gambling. In addition, the AMC excludes countries from the investable universe that enforce the death penalty or that do not respect civil and press freedom and political rights.
- a **positive screening**, aimed at selecting the best issuers from an ESG perspective in their sector according to a “best-in-class” approach. Issuers that pass the negative screening are then analysed according to specific and multiple ESG criteria and only the best are selected from an ESG perspective.

Both the negative and positive screening criteria are specific in relation to the product Line offered and its characteristics.

Specific data is then added to the analysis, which takes into account contingencies related to the current position and additional information regarding the discussions held by the AMC with the issuers themselves, or relating to the reputational risk level on ESG-related issues.

Finally, the selection is supplemented by specific risk indices related to the ESG aspects used in the analysis and developed by the AMC Risk Manager.

After this analysis process, the reference “Investable Universe” is identified for each Investment Line, i.e., the list of issuers complying with the ESG parameters selected by Etica SGR over a specific time frame, and forwarded to the investment manager.

The latter assesses the financial performances and in the context of the “Investable Universes” provided, selects the best securities in terms of the risk/return ratio, in accordance with the investment strategy defined by Etica SGR’s Investment Committee and approved by its Board of Directors.

¹ For further information on the screening criteria applied in relation to the product Line offered, please refer to the following links on the Etica SGR website:

- <https://www.eticasgr.com/investimento-responsabile/selezione-dei-titoli/selezione-valori-responsabili>;
- <https://www.eticasgr.com/investimento-responsabile/selezione-dei-titoli/selezione-futuri-responsabili>.

ETICA SGR RESPONSIBLE INVESTMENT

Engagement

Engagement is a sustainable and responsible investment strategy, which together with the ESG analysis, represents a basic characteristic of the funds established, promoted and managed by Etica SGR and represents an important tool for monitoring issuers' environmental, social and governance performance.

This activity aims to raise awareness among the management of the companies in which we invest, or those analysed, working towards a consistent and long-term commitment to improving good governance practices and good social-environmental behaviour.

The Etica SGR Board of Directors defines the issues that are relevant in terms of engagement with issuers, referring to what has been set out in Part III of the Engagement Policy (published on the AMC website in accordance with applicable legislation and international standards and principles), based on the approval of a specific document (Engagement Plan), which is prepared annually by the relevant corporate Areas, and agreed on by the autonomous and independent Ethics Committee.

The Engagement Policy includes with the **following engagement tools**:

- **monitoring**: for the relevant details, please refer to the next chapter;
- **dialogue with issuers on ESG issues**: this can be implemented in different ways, for example, by participating in initiatives or campaigns promoted by sustainable and responsible investor networks, sending letters to clarify the votes cast during shareholders' meetings and organising direct meetings with management. The AMC monitors the outcomes of these activities in relation to set time frames for each of the dialogue methods adopted. If the results or responses provided by companies are deemed especially negative or concerning by the Etica Sgr Ethics Committee, the Board of Directors may decide to disinvest from the securities of these companies from the perspective of adequately protecting the interests of investors in the UCITs managed;
- **voting**: actively exercising the right to vote, related to investments in the shares of investee companies. The proposals for voting at shareholders' meetings are subject to the opinion of the Ethics Committee and are approved by the AMC Board of Directors. These are drafted in accordance with:
 - the Guidelines contained in the Engagement Policy;
 - the voting recommendations drafted by the proxy advisors selected by Etica SGR;
 - information from other investors or networks with which Etica SGR collaborates;
 - information from the company social and environment responsibility assessment conducted during the year.

Monitoring Issuers

The achievement of the ESG objectives pursued in the selection of issuers conducted by Etica SGR, comprises periodic monitoring undertaken in respect of the issuers themselves, i.e., in the construction of "Investable Universes". The investments of the Etica System funds are permitted exclusively in relation to the issuers that make up the Universes: no other investment is permitted.

During the periodic updating of the Universes, the analysis process is completely revised, based on elements of exclusion, evaluation factors, assignment of an "ESG" score and application of "best in class" strategy. The data related to each issuer is then updated in view of the improvements or worsening recorded by the companies or countries analysed, in this way determining the inputs and outputs of the Universe itself.

Etica SGR constantly monitors issuers' behaviour in relation to the social and environmental responsibility profile, specific corporate governance issues, and to a lesser extent, in relation to capital structure and operations, business strategies and financial performance.

The **monitoring tools** for issuers adopted by Etica SGR are as follows:

- sending ESG questionnaires and requests for information to Italian companies, based on a proprietary analysis methodology used specifically for companies in our country;
- analysis of corporate documents subject to voting by the shareholders of Italian and foreign companies, in which Etica SGR funds invest; these are provided to the AMC by the companies themselves (via documents published on the website) and by proxy advisors;
- conducting engagement activities, also jointly with other investors, Italian and foreign issuers;
- integration of financial risk and ESG values based on proprietary measurements;
- monthly calculation and monitoring of the ESG risk via entropy and monthly calculation of the expected loss, referred to as VaR_ESG, from the integration of the financial risk (VaR) and ESG risk;
- daily calculation of the ESG risk of individual issuers, starting with the proprietary ESG score, adjusted in relation to the daily news on reputations.

ETICA SGR RESPONSIBLE INVESTMENT

ESG risk

Etica SGR believes that a careful assessment of the sustainability risk, as well as financial risks, makes investments more solid and rewarding over the long term.

This is the reason why Etica SGR calculates the ESG risk of its investments based on a proprietary methodology. More specifically, an index measuring the risk deriving from environmental, social and governance factors is calculated for each issuer.

The index developed by Etica SGR to calculate the ESG risk (represented by the internationally filed trademark ESG eticApproach[®]) was initially described in the "*Bancaria*" magazine ("A new ESG Risk measurement, October 2016).

It starts from the physical concept of entropy, inasmuch as entropy is a measure of the disorder of a system, and therefore lends itself to considering uncertainties (i.e. risk, at least in the first tier). In the terms of the funds, the disorder parameter can be calculated on the distribution of securities in the portfolio in relation to the ESG score class, where the frequency refers to their relative weighting. The mathematical formula adopted for the entropy is the *Shannon*.

This measurement estimates the portfolio risk related to the E, S and G dimensions, in relation to the distribution of ESG scores for the invested securities, which are determined internally by Etica SGR based on a rigorous analysis methodology: the risk is higher when the distribution is concentrated on low scores, rather than higher scores.

This measurement contributes to defining the Investable Universe: during the issuers' selection stage, in addition to the negative and positive screening criteria, an assessment is also made of the ESG risk (or "E" risk for Etica Impatto Clima), so as to create Investable Universes with overall sustainability risks that are deemed appropriate by the Company and that are not intermittent over time, to the benefit of investors' priority interests.

An objective is set for each fund in the Etica System, in terms of the ESG risk (or "E" risk, which is specific to Etica Impatto Clima), in the form of a predefined percentage limit in respect of the theoretical maximum (consistent with the case of uniform distribution among all risk classes, corresponding to passive management in relation to the securities' ESG score).

Based on this model, Etica Sgr also assess the impacts of the sustainability risk on the yields of financial products, by calculating the adjusted performance for the risk in ESG² terms for the different portfolios.

² For further information on ESG Risk monitoring, please refer to the Etica SGR Risk Management Policy.

Measuring the generated impact

The AMC undertakes to regularly measure the ESG impact related to investments. The Company in fact deems it necessary to have clear and complete information regarding the impact generated by its responsible investment strategy, both in terms of a monitoring tool to assess possible critical positions, and in terms of transparency in respect of its investors and the relevant stakeholders.

In this regard, Etica SGR provides periodic and public reporting on the impacts generated, in documents such as:

- **Impact Report**³: annual document, presenting the impacts of investments on the social, environmental and governance contexts, resulting from the selection of companies in relation to the reference market, and those generated by engagement activities undertaken with issuers;
- **Climate Change Report**⁴: annual document analysing the impact of Etica SGR fund investments in relation to issues referring to climate change and in relation to the reference market, following the recommendations of the TCFD - Task Force On Climate-Related Financial Disclosures, an entity established by the Financial Stability Board (FSB) to draft instructions on risk reporting and the opportunities related to climate change.

Etica SGR makes this Policy available to all stakeholders via its website, ensuring that it is distributed as necessary.

³ For additional information on the Impact Report, please refer to the following link on the Etica SGR website: <https://www.eticasgr.com/investimento-responsabile/il-nostro-impatto/report-di-impatto>.

⁴ For additional information on the Climate Change Report, please refer to the following link on the Etica SGR website: <https://www.eticasgr.com/investimento-responsabile/il-nostro-impatto/carbon-footprint>.

DISTRIBUTION, ROLES AND RESPONSIBILITIES

This Policy is updated on a periodic basis by the relevant company areas, and submitted for the approval of the AMC Board of Directors. It is also subject to verification by the relevant corporate control bodies.

In particular, in order to ensure the supervision and correct implementation of this Policy, the bodies and functions involved have been identified and have been assigned the relative responsibilities as detailed below:

- the **Board of Directors** of Etica SGR approves the Sustainable and Responsible Investment Policy, and is responsible for supervising the correct implementation of the strategy detailed therein.

With regard to the selection of securities, the Board of Directors is responsible for approving the Investable Universe and general investment strategies that the investment manager will then have to follow in managing the investments.

On the issue of engagement, the Board of Directors is responsible for approving the Engagement Policy and the Engagement Plan;

- the **Ethics Committee**, an independent and autonomous body, comprising members with recognised experience in the issues of sustainable finance and corporate social responsibility, i.e. in social, environmental and academic fields; it serves a consulting role and makes proposals to the Board of Directors. More specifically, the Ethics Committee issues opinions relative to the ethics of investments and suggests additional criteria for evaluating companies and governments⁵.

With regard to engagement, the Ethics Committee provides an assessment on the Engagement Plan, voting and the interventions required in the shareholders' meetings of investee companies and the outcomes of engagement activities;

- **Investments Committee**: based on the Operating Directive, provides support to the Board of Directors, formulating proposals on the general investment strategies submitted by the investment manager and with the support of the Risk Manager, conducts a monthly assessment of exposure to the ESG risk;

⁵ For further information on the Ethics Committee, the relative Regulation, its composition and the Report on the activities carried out, please refer to the following link on the AMC website: <https://www.eticasgr.com/etica-sgr/governance-e-policy/comitato-etico>.

DISTRIBUTION, ROLES AND RESPONSIBILITIES

- **Analysis and Research Department:** comprising resources with specialist skills, responsible for analysing listed issuers with regard to ESG issues, primarily directed at creating Investable Universes for the AMC funds, coordinating and conducting engagement activities (dialogue and exercising voting rights) and managing certain networks that Etica SGR subscribes to⁶;
- **Risk Manager:** quantifies the ESG risk for Etica SGR funds and monitors the funds' exposure to these types of risk on a monthly basis.

⁶ For further operational information on the analysis and selection process for the securities that the Etica SGR Funds invest in, please refer to the following link on the AMC website: <https://www.eticasgr.com/investimento-responsabile/selezione-dei-titoli>.

TO FIND OUT MORE:

www.eticasgr.com



Etica SGR

Via Napo Torriani 29 – 20124 Milan, Italy

Tel. +39 02.67 071 422

posta@eticasgr.it

Before subscribing, please read the KIID and Prospectus available at placement agents and on the website www.eticasgr.com

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