

# STEWARDSHIP POLICY

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**Dialogue, voting and advocacy:  
guidelines, strategies and topics**

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# CONTENTS

<b>Introduction</b>	2
<b>Part I</b>	3
General guidelines and references	3
<b>Part II</b>	6
Monitoring and engagement strategy and exercise of intervention and voting rights concerning the financial instruments of the UCITs under management	6
Part II.a – Monitoring issuers	6
Part II.b – Dialogue with issuers	7
Part II.c – Exercising intervention and voting rights	9
<b>Part III</b>	12
Dialogue, voting and/or advocacy topics	12
Sustainability governance (SDGs 5 and 8)	12
Capital allocation (SDG 8)	15
Financial statements (SDG 8)	16
Fair taxation (SDG 10)	17
Human rights (SDGs 5 and 8)	17
Biodiversity and ecosystem management (SDGs 12, 14 and 15)	21
Climate change (SDGs 8 and 13)	23
<b>Consideration of the principal adverse sustainability impacts</b>	25

# INTRODUCTION



Stewardship is a concept that goes beyond financial management: it means taking care of, taking responsibility for the assets that are entrusted to us. In the context of investing, stewardship captures the essence of acting in the investor's best interest and represents all the activities carried out by a financial intermediary to preserve and grow the value of the investments managed on behalf of savers, with dedication, transparency and consistency, and with a long-term outlook.

For us, stewardship is a key pillar. It manifests in ongoing dialogue with the companies in which the funds are invested, in active ownership and in advocacy activities with governments, regulators and standard setters. We firmly believe that the value of an investment is not simply measured by its financial returns, but also by the positive impact that it has on society and the environment.

Dialogue is the beating heart of our strategy. Continuous discussions with companies allow us to influence their decisions over time, while promoting more responsible business models. We pioneered active ownership in Italy, and our results demonstrate that our approach works and has the power to transform how companies act in society.

But our commitment goes even further. We collaborate with international networks to refine strategies, build partnerships and amplify the impact of our actions. We joined global campaigns on crucial topics such as protecting biodiversity, combating climate change and fighting plastic pollution. These campaigns were backed by our commitment to a just transition, which takes into account the social aspect of the climate crisis and its repercussions on communities and workers. Furthermore, our work for disarmament took us all the way to the United Nations, where we presented a statement to halt the financing of nuclear weapons in collaboration with ICAN, awarded the Nobel Peace Prize in 2017.

We will continue this journey with confidence and determination, grounded in the present but with one eye on the future and committed to promoting virtuous actions that generate a positive impact now and especially for future generations.



Chairman of the Board of Directors  
(Marco Carlizzi)

# PART I

## GENERAL GUIDELINES AND REFERENCES

This Policy defines and governs the stewardship strategies adopted by Etica Funds (hereinafter “Etica”, the “AMC” or the “Company”) in relation to the financial instruments held by the UCITs established and/or managed under a mandate by Etica.

“Stewardship” means the monitoring, engagement, voting and advocacy activities adopted by the AMC.

These activities are conducted in the exclusive interests of UCIT investors, with the objective of increasing the value of investments over time by implementing a policy based on the principles of social and environmental responsibility. These activities also seek to mitigate the principal adverse impacts of investment decisions on sustainability factors.

With reference to the UCITs managed by Etica under a mandate, this Policy will be applicable to them in accordance with the objectives and investment policy of the UCIT in question and according to the procedures adopted by the delegating manager. This is without prejudice to the circumstance where based on the agreements made with the delegating manager, the dialogue and exercise of the intervention, voting rights and advocacy may be carried out by the delegating manager directly on the basis of the instructions issued to the latter by Etica according to this Policy.

Etica’s main activity is linked to the sustainability analysis of issuers in relation to the creation and/or management of sustainable and responsible investment funds. The financial management of the UCITs is instead delegated to an external party (sub-delegated in the case of funds under a mandate).

Direct interaction is not usually envisaged between Etica and the stakeholders of the investee companies, except under particular requirements.

Etica can also carry out monitoring and engagement activities, directly and indirectly, in relation to companies not present in the portfolio or in the investable universe of UCITs managed.

This Document has been prepared in accordance with the provisions of:

- Directive 2017/828, known as the “Shareholder Rights II” of the European Parliament and of the Council amending directive 2007/36/EC to promote long-term shareholder engagement;
- Chapter II of Title III of Part IV, section I-ter “Transparency of institutional investors, of asset managers” of the Consolidated Law on Finance;
- Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to sustainability-related disclosures in the financial services sector;

- the “Italian Principles of Stewardship for the exercise of administrative and voting rights in listed companies”.
- pursuant to these Principles and the related Recommendations, which are based on the EFAMA Code for External Governance, Etica carries out stewardship activities – understood as monitoring, engagement, voting and advocacy – concerning the financial instruments of the UCITs established and/or managed under a mandate:
  - a. in the exclusive interests of the fund investors and in order to create long-term value by establishing constructive dialogue with the listed issuers and promoting commitment to high standards of corporate governance;
  - b. regardless of the market capitalisation, i.e. on the basis of qualitative elements described in more detail in “Part II - Dialogue strategy and exercise of intervention and voting rights concerning the financial instruments of the UCITs under management”;
  - c. in relation to the corporate social and environmental responsibility profile and to issues concerning corporate governance;
  - d. adopting, updating and publishing a stewardship policy concerning the financial instruments of the UCITs under management (see Part II of this Document) which describes:
    - i. the monitoring methodology and tools for issuers belonging to the basket of investable securities of the UCITs;
    - ii. the methodology and tools for engagement with issuers belonging to the basket of investable securities of the UCITs;
    - iii. the approach to collaborative dialogue;
    - iv. the procedure to decide to exercise voting rights, the methods of exercising them and the areas of intervention in the shareholders’ meetings of the issuers in which the UCITs invest;
  - e. managing the issues concerning insider information in accordance with the applicable legislation and the current internal policies and procedures drafted in line with the provisions of the Company’s Codes of Ethics, published on the website.

Etica does not carry out securities lending operations.

- Principles 2 and 3 of the PRI (Principles for Responsible Investment), of which Etica has been a signatory since 2009<sup>1</sup>. According to the PRI, institutional investors have the duty to act in the long-term interests of their beneficiaries, also considering the ESG (environmental, social and governance) issues which may have an impact on the portfolio’s performance.

Specifically, for the exercise of intervention and voting rights, this Document is compliant with the provisions of:

- article 35-decies, paragraph 1, letter e) of Italian Legislative Decree no. 58 of 24 February 1998 – Consolidated Law on Finance (TUF), as amended;
- the Etica document “Policy for the Management of Conflicts of Interest”, published on the company’s website, drafted pursuant to the Provision of the Bank of Italy of 5 December 2019 that transposes the Regulation implementing articles 4-undecies and 6, paragraph 1, letters b) and c-bis) of the TUF

<sup>1</sup> Principles 2 and 3 state that the signatories must “Be active owners and incorporate ESG issues into their ownership policies and practices” and “Seek appropriate disclosure on ESG issues by the entities in which they invest”.

and in accordance with the provisions of the “Independence Protocol for the management of conflicts of interest” promoted by Assogestioni<sup>2</sup>.

In particular, the Policy establishes that:

- a. Etica does not exercise the voting right concerning shares issued by third parties and subscribed by Group Companies to which it belongs or listed companies controlled directly or indirectly by shareholders. In the event of situations of potential conflicts of interest, Etica abstains from the exercise of voting rights;
- b. Etica shall not delegate its voting rights to its Group companies or listed companies controlled directly or indirectly by shareholders;
- c. the Etica independent directors monitor the correct implementation of the principles and procedures concerning the exercise of administrative rights pertaining to the financial instruments underlying the assets under management.

This Document is updated periodically by the relevant corporate areas, submitted for the opinion of an autonomous and independent Ethics Committee and the approval of the AMC Board of Directors. It is also subject to verification by the relevant corporate control bodies.

Etica makes this Document available to all stakeholders via its website, and, for the UCITs belonging to the Sistema Etica, also provides notice of it in the Prospectus, the Annual and Interim Reports on the management of the Sistema Etica funds as well as the AMC’s Integrated Financial Statements.

The strategies in Part II of this Document also provide evidence of Etica’s specific reporting methods for the stewardship activities carried out, which include monitoring, engagement, voting and advocacy.

<sup>2</sup> Assogestioni is the Italian association for asset management. It currently represents around 300 associates, the majority of whom are Italian AMCs and foreign investment management firms operating in Italy, various banks and insurance firms that operate in the field of individual investment portfolios and supplementary pensions.

## PART II

### **MONITORING AND ENGAGEMENT STRATEGY AND EXERCISE OF INTERVENTION AND VOTING RIGHTS CONCERNING THE FINANCIAL INSTRUMENTS OF THE UCITS UNDER MANAGEMENT**

This strategy illustrates the methodology and tools adopted by the AMC in relation to the monitoring, engagement (including collective) intervention and voting activities concerning issuers subject to investment by the UCITs established and/or managed by Etica under a mandate.

The AMC envisages specific internal procedures and operating instructions that govern the exercise of such activities.

Etica can also carry out dialogue activities, directly and indirectly, in relation to companies not present in the portfolio or in the investable universe of UCITs managed.

#### **PART II.A – MONITORING ISSUERS**

Etica constantly monitors the behaviour of the issuers present in the basket of investable securities of the UCITs established and/or managed under a mandate 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 activities mainly look at issues pertaining to the risks and opportunities in areas linked to the social, environmental and corporate governance aspects of the issuers in which the UCITs invest, integrated with the strategy and the business of those users. If the AMC delegates the financial management of the UCITs established by it to third parties, in addition to the aforesaid activities, the AMC supervises the tasks assigned to the delegate as envisaged by the legislation of reference.

In relation to the monitoring of investments, Etica calculates the contribution to the portfolio risk, the historical volatility, the performance contribution, the return, the level of liquidity and the creditworthiness breakdown. The delegated manager monitors the capital structure and operations of the invested companies, their industrial strategies and financial results, the risks and creditworthiness, communicating this information to Etica.

The proactive monitoring carried out in the exclusive interests of the investors of the UCITs established and/or managed under a mandate makes it possible for Etica to keep the social and environmental responsibility profile of the companies present in the basket of investable securities updated, which is used by the decision-making body of the AMC, namely the Board of Directors, in order to:

- identify particular issues, i.e. opportunities pertaining to issuers, prior to their inclusion in, maintenance or exclusion from the basket and/or the launch of constructive and proactive dialogue about ESG issues;



- make voting and/or intervention decisions on specific items during the annual shareholders' meeting.

Issuers are monitored by Etica according to one or more methods, with specific frequencies. These include:

- the analysis of the company activities from an ESG perspective according to a specific proprietary methodology;
- the calculation and monitoring of the risk variables associated with the investments, also including a number pertaining to ESG areas;
- the analysis of corporate documents and other documents provided by proxy advisors<sup>3</sup>, pertaining to items subject to voting at the annual shareholders' meetings;
- holding dialogue around ESG issues, including jointly with other investors, to be carried out in accordance with the legislative provisions in force from time to time in relation to concerted action and the regulations of the various markets.

In the specific case of Italian issuers, Etica's monitoring may also involve collecting information about the social and environmental responsibility profile by sending questionnaires or requests for information to specific company departments as well as organising meetings or conference calls.

## PART II.B – DIALOGUE WITH ISSUERS

Dialogue with businesses conducted by Etica represents an important tool for monitoring the sustainability of the performance of the companies in which the UCITs established and/or managed by Etica under a mandate invest and aims to collect information and raise company management teams' awareness of a constant commitment to the improvement of governance practices and environmental and social conduct.

The monitoring tools adopted by Etica and illustrated in Part II.a of this Document aid in identifying positive cases or particular issues that lead to the start of specific dialogue.

Alongside their ESG analysis, dialogue with issuers represents a fundamental characteristic of the UCITs managed by Etica; therefore, this activity is carried out continuously.

The AMC's Board of Directors defines the issues that are relevant in terms of dialogue with issuers, referring to that which is illustrated in Part III of this Document (see "Dialogue, voting and/or advocacy topics"), based on the approval of a specific document (Stewardship Plan), which is prepared annually by the relevant corporate Areas and shared with an autonomous and independent Ethics Committee.

<sup>3</sup> Proxy advisors are companies that specialise in analysing corporate data and advise investors on how to vote in general or extraordinary shareholders' meetings.

In this document, the possible companies subject to dialogue are identified on the basis of qualitative parameters, including:

- a. **proximity: preference for Italian companies;**
- b. **continuity: preference for companies where the voting right has been exercised or with which dialogue is ongoing;**
- c. **coordination: preference for initiatives presented jointly with networks of sustainable and responsible investors;**
- d. **relevance: amount of the investment in the portfolio of the UCITs established and/or managed by Etica under a mandate;**
- e. **ESG disputes: evaluation of the severity of negative news.**

The methods for carrying out dialogue are also defined, such as:

- joining initiatives or campaigns promoted by networks of sustainable and responsible investors of which Etica is a member and/or signatory;
- sending letters to request information or to clarify the votes cast during shareholders' meetings, with particular reference to votes not in line with management's recommendations;
- organisation of in-person or online meetings.

Specifically for the Italian companies, note also:

- for in-person attendance at shareholders' meetings, the drafting of an intervention text pertaining to individual items on the agenda as well as environmental, social and governance aspects;
- as part of the Committee of Managers<sup>4</sup>, participation in the activities promoted and carried out by it, including the joint presentation of lists of candidates for the election of the decision-making and supervisory bodies.

For the voting and intervention activities at shareholders' meetings, refer to Part II.c of this Document. The AMC monitors the outcomes of these activities. If the results or responses provided by companies are deemed especially unsatisfactory from the perspective of adequately protecting the interests of UCIT investors, having consulted with the Ethics Committee of the AMC, the Board of Directors may decide to disinvest from the securities of these companies.

Etica reports to all its stakeholders on the main dialogue activities conducted on the basis of the tools defined by the Board of Directors, such as:

- a. introducing a section dedicated to these activities in the Annual and Interim Reports of the funds established and belonging to the Sistema Etica published on the company's website;

<sup>4</sup> [www.comitatogestori.it](http://www.comitatogestori.it)

- b. preparation of a document on stewardship activities, published on the company's website;
- c. in the relevant section of the Company's website, publication of the international campaigns and initiatives the AMC has participated in.

## PART II.C – EXERCISING INTERVENTION AND VOTING RIGHTS

Etica plays the role of active shareholder by voting and intervening in the annual shareholders' meetings of the companies in which its UCITs invest, in the exclusive interests of the fund investors.

The exercising of intervention and voting rights is in line with Etica's investment policy, based on ethical principles and intended to create long-term value for the capital invested (see Regulation of the funds in Sistema Etica). This activity is also carried out in compliance with the contents of the document "Policy for the Management of Conflicts of Interest" (see Part I – General Guidelines and References).

The AMC decides on participation in the shareholders' meetings of investee companies by favouring, in application of the principle of proportionality, the companies deemed "relevant" according to qualitative and quantitative criteria specified from time to time in the operating instructions or in the Stewardship Plan under Part II.b of this Document.

The AMC reserves the right not to exercise the voting right in cases where such situation may not result in an advantage for the assets under management, for example:

- the AMC has an overall marginal holding;
- it is necessary to block access to the financial instruments for a period of time deemed excessive, to the point of influencing management strategies;
- the agenda of the shareholders' meeting does not foresee the discussion of significant topics (e.g. shareholder motions on topics of interest);
- the administrative costs required, including in consideration of the procedures envisaged in certain countries, are deemed to outweigh the benefits expected from participating in the shareholders' meeting.

The Etica legal representative has the power to represent, on behalf of the company, its funds at shareholders' meetings of the issuers in which the UCITs invest, exercising the respective rights, in accordance with the current provisions of the law and regulations.

This power may be granted via a mandate assigned separately to the Directors or other parties chosen by the AMC's Board of Directors.

The voting and intervention in shareholders' meetings of the Italian companies may be exercised by the entitled parties by attending the agreed locations in person or via a mandate to specialised third-party companies, issuing instructions for exercising the vote, in the interests of the assets under management. Electronic voting (so-called proxy voting) is usually used for the foreign companies.

In line with the international procedures and operating instructions, Etica prepares the voting proposals (i.e. casting votes for and against and abstentions) and any intervention text for the shareholders' meeting on the basis of:

- a.** Guidelines approved by the Board of Directors, relating to issues set out in Part III "Dialogue and/or voting topics" of this Document, prepared in the protection of the interests of the participants in the managed UCITs;
- b.** voting recommendations prepared by proxy advisors chosen by Etica in support of these activities. The recommendations provided by proxy advisors are not binding for the AMC;
- c.** information from other investors or made available by national and international networks with which Etica collaborates (including PRI, ICCR, SfC, EUROSIF and national SIFs);
- d.** information from corporate social and environment responsibility analyses conducted during the year.

Voting not compliant with the Guidelines set out in point a) above and shareholders' meeting interventions are submitted for the opinion of the Etica's Ethics Committee and for approval by the Board of Directors.

In accordance with the provisions of the legislation in force from time to time regarding concerted action, taking account of the regulations of the various markets, Etica may collaborate with other investors who share the ESG issues illustrated in its intervention. Furthermore, a discussion with the company's Investor Relations department is also possible, in order to obtain further information or clarifications on points that could lead to a non-favourable vote.

For the Italian companies, when exercising the voting rights related to the selection of candidates for the election of the administrative and supervisory bodies, Etica follows the principles and criteria identified by the Assogestioni Corporate Governance Committee, which establishes the requirements of professionalism, integrity and independence of the candidates as well as the conditions of ineligibility and incompatibility.

In general, where the regulation of the various markets allows and subject to authorisation from the Board of Directors, Etica may participate in the presentation of specific shareholder motions on ESG issues, as lead filer or supporting filer<sup>5</sup>.

Etica makes reference to this strategy in the Prospectus of the Sistema Etica funds and reports to its stakeholders on the voting and intervention activities in the shareholders' meetings using tools established in advance by the Board of Directors, such as:

- a.** introducing a section dedicated to these activities in the Annual and Interim Reports of the Sistema Etica funds, published on the company's website;

<sup>5</sup> The "lead filer" is the main point of contact for the company and shareholders who support a motion presented by them in the shareholders' meeting (so-called supporting filer or co-filer). The lead filer may: coordinate the group of shareholders; draft and organise documents for presenting the motion; manage meetings between the filers and the company or with third parties, such as other shareholders, the media and proxy advisors.

- b. preparation of a document on stewardship activities, published on the company's website;
- c. publication, in a dedicated section on the company's website and for each shareholders' meeting, of a short text concerning the votes cast, specifying any cases where deviation from this strategy became necessary.

With specific reference to the UCITs managed under a mandate, Etica plays an active role in the exercise of intervention and voting rights in compliance with the objectives and investment policy of the UCIT in question and in accordance with the procedures adopted and agreed with the delegating manager, adopting a constructive and long-term approach aimed at the improvement of the corporate profile from the governance, environmental and social perspective. This is without prejudice to the circumstance where based on the agreements made with the delegating manager, the intervention and voting rights may be exercised using different methods: (i) directly by Etica; or (ii) overseen by the delegating manager on the basis of the instructions provided by Etica as delegated manager. In any case, where due and based on the applicable legislation, Etica will also provide a report of the activity carried out by it.

## PART III

### DIALOGUE, VOTING AND/OR ADVOCACY TOPICS

This section outlines the main issues subject to Etica's dialogue and/or voting activities.

It also describes the guidelines to be followed on specific topics in case of dialogue and/or voting, whether in person or via an electronic platform.

The stewardship strategy, which includes dialogue, voting and advocacy, is in line with the Stewardship Plan approved by the Board of Directors and updated each year. The Plan defines the systemic and tactical issues of stewardship.

Voting is carried out in accordance with the Operating Guidelines approved by the Board of Directors and updated, as a rule, each year.

Etica may make use of specialised service providers and proxy advisors to assess relevant elements.

The assessment is usually adapted to the specific nature of individual markets, especially but not exclusively the markets in Italy, Japan and the United States.

Furthermore, the Company selects the main topics subject to stewardship with businesses on the basis of environmental, social or corporate governance (ESG) issues deemed relevant, with reference to:

- certain Sustainable Development Goals of the United Nations (UN SDGs) to which the AMC intends to contribute (SDGs 5, 8, 10, 12, 13, 14 and 15);
- certain indicators of adverse impact in its investment decisions on sustainability factors ("Principal Adverse Sustainability Impacts"), which the AMC is committed to considering, as described in the related PAI Statement published on the website (PAI 4, 7, 8, 9, 10, 14 and 15 of Table 1).

### SUSTAINABILITY GOVERNANCE (SDGS 5 AND 8)



"Corporate governance" refers to the system of management and control, namely the set of mechanisms and legal and technical rules intended for conducting corporate governance so that it is not only effective and efficient, but also correct for the purposes of protecting all stakeholders of company life.

Some of the topics in which Etica seeks to engage in dialogue and voting are shown below, including in relation to shareholder motions.

## Election of the Board of Directors and/or the Board of Statutory Auditors

The main elements considered by Etica in relation to the evaluation of a Board of Directors/Board of Statutory Auditors concern:

- a. for list voting:
  - the presence of a list that Etica also helped to draw up;
  - the composition of the list of candidates in terms of: conflicts of interest, gender diversity, independence, separation of roles between Chair and Chief Executive Officer/General Manager, presence of a Sustainability Committee or similar body, transparency and reliability in managing climate and tax risk, compliance with the one share, one vote principle.
- b. For separate voting of individual candidates:
  - the composition of the team of candidates in terms of: conflicts of interest, gender diversity, independence, separation of roles between Chair and Chief Executive Officer/General Manager, presence of a Sustainability Committee or similar body, transparency and reliability in managing climate and tax risk, compliance with the one share, one vote principle.

## Remuneration

### Remuneration Policy and Report

The main elements considered by Etica in relation to the evaluation of a remuneration policy or report for directors and executives with strategic responsibilities concern:

- a. the clarity with which the variable and fixed components of the total remuneration are described;
- b. the clarity with which the indicators used as targets for the short and long-term variable components are identified, if envisaged;
- c. the presence of claw-back clauses for the variable component of the remuneration;
- d. the type of remuneration of the independent or non-executive directors, which is preferred to be fixed and independent of company results;
- e. if present, the characteristics of the severance agreement<sup>6</sup> for executives with strategy responsibilities;
- f. the presence of elements of discretion in the definition of remuneration;
- g. the presence of a relationship between changes in the remuneration and the company performance;
- h. the presence of ESG indicators included among the targets of the variable components, short and/or long term;
- i. the composition of the Remuneration Committee;
- j. CEO Pay Ratio<sup>7</sup>.

<sup>6</sup> “Severance agreement” identifies the remuneration paid by an organisation to employees who leave because their assigned post ceases to exist, through no fault of their own.

<sup>7</sup> The CEO Pay Ratio is a remuneration ratio. Pursuant to Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, companies listed on the stock exchange must disclose (1) the median of the annual total compensation of all employees, except the chief executive officer, (2) the ratio between the annual total compensation of the chief executive officer and that of the median employee and (3) the ratio between the salary of the chief executive officer and the median employee.

### Remuneration plans based on financial instruments

The main elements considered by Etica in relation to the evaluation of remuneration plans based on financial instruments concern:

- a. the transparency in indicating the beneficiaries of the plan;
- b. the presence of predefined, measurable and clear performance objectives for exercising the assigned right;
- c. the extent of the dilution effect of the plan with respect to the shares that make up the share capital;
- d. the transparency in communicating the exercise price of any options (so-called stock options);
- e. the transparency in communicating the type of financial instruments intended to be used;
- f. the transparency in communicating the time and performance-based criteria that lead to the maturity of the assigned instruments.

Etica usually welcomes the presence of employee share purchase plans.

### Total annual remuneration of the Board of Directors and/or the Board of Statutory Auditors

The main elements considered by Etica in relation to the evaluation of the annual total remuneration of the Board of Directors and/or the Board of Statutory Auditors concern:

- a. the timely communication to shareholders of the amount of the total remuneration before the annual shareholders' meeting;
- b. the amount of the total remuneration per capita proposed with respect to the current amount;
- c. the reasons for any increases in the total remuneration per capita over a significant threshold.

### Lobbying

The main elements considered by Etica in relation to the evaluation of donations to political parties and lobbying organisations concern:

- a. the publication of a policy that governs lobbying;
- b. the publication of the lobbying expenses incurred during the previous year;
- c. the evaluation of the alignment between the objectives declared to the company and the lobbying objectives of the financed parties.



## CAPITAL ALLOCATION (SDG 8)



Capital allocation is the process of defining strategies to distribute investments so as to maximise the value of a company and to increase the assets of shareholders.

Capital allocation decisions must take into consideration the company's dependencies and environmental and social impacts, in order to safeguard its long-term survival.

Some of the topics in which Etica seeks to engage in dialogue and voting are shown below, including in relation to shareholder motions.

### Share buyback operations

The main elements considered by Etica in relation to the evaluation of a treasury shares purchase plan concern:

- a.** where the plan identifies a structured series of industrial or strategic objectives:
  - the percentage of shares subject to buy-back operations with respect to the share capital and treasury shares;
  - the duration of the plan.
- b.** where the plan is linked only to share incentive schemes:
  - the evaluation of the remuneration policy;
  - the percentage of shares subject to buy-back operations with respect to the share capital.

### Distribution of dividends

The main elements considered by Etica in relation to the evaluation of the policy on distribution of dividends concern:

- a.** the payout ratio;
- b.** the level of indebtedness of the company.

### Issuance of ESG debt

The main elements considered by Etica in relation to the issuance of ESG debt instruments (e.g. green, social and sustainable bonds) concern:

- a.** the framework developed by the company, including its certification or evaluation by third-party bodies;
- b.** the issuer's commitment to decarbonisation (in the case of green bonds);
- c.** the periodic reporting published by the company.
- d.** these elements are also relevant for the advocacy activities performed with government issuers in relation to the issuance of ESG debt instruments.

## FINANCIAL STATEMENTS (SDG 8)



Financial statements are made up of all the documents that a company must draft periodically, by law, for the purpose of pursuing true and correct representation and ascertaining in a clear, truthful and correct way its capital and financial situation, as well as the net result for that year.

### Approval of the financial statements

The main elements considered by Etica in relation to the evaluation of the approval of the financial statements concern:

- a. the presence of any doubts about the quality and accuracy of the information reported;
- b. the completeness of the information reported;
- c. the willingness of the Board of Directors to provide information considered important;
- d. the presence of any accusations of serious and provable alterations to the accounts;
- e. the presence of significant shortcomings in the management of climate risk.

### Information on the sustainability strategy

The main elements considered by Etica in relation to the evaluation of the sustainability strategy concern:

- a. asking that this document be published before the meeting date, at the same time as publication of the documents convening the shareholders' meeting, to analyse it and assess the environmental and social results, alongside the economic/financial results of the reporting year, so that a more informed vote can be cast;
- b. asking for greater transparency and continuity in the publication of social and environmental data;
- c. requesting that international standards be followed for sustainability reports or integrated financial statements;
- d. asking the company to consult the various stakeholders when preparing the sustainability report or integrated financial statements.

### Taxonomies and regulations

The main elements considered by Etica in relation to the evaluation of the disclosure required by sustainability-related taxonomies and regulations concern:

- a. the clarity and transparency of information published;
- b. the level of alignment of the activity with objectives defined by taxonomies and regulations, e.g. in terms of revenue, capital expenditure and operational expenditure.

## Audit company

The main elements considered by Etica in relation to the evaluation of the appointment or renewal thereof to an audit firm concern:

- a. the duration of the period during which the audit firm has already performed its appointment at the company;
- b. the ratio between any remuneration received for consultancy or other activities not linked to auditing and the remuneration received for auditing.

## FAIR TAXATION (SDG 10)



Fair taxation is a fundamental principle that guarantees fairness and equality in the application of tax on capital. It refers to the distribution of tax expenses, ensuring that individuals and businesses are able to contribute to the public coffers in a way that reflects their ability to pay. The objective is to create a tax system that treats all taxpayers fairly. Fair taxation is essential for a fair and efficient tax system, since it helps to reduce inequalities and promote economic growth.

Other information: the main elements considered by Etica in relation to the evaluation of fair taxation practices concern:

- a. the publication and content of a tax strategy;
- b. the clear definition of responsibilities for managing tax risk, preferably pertaining to the Board of Directors;
- c. the publication of information about operations and taxes paid for each country of operation (so-called country-by-country reporting)<sup>8</sup>.

## HUMAN RIGHTS (SDGS 5 AND 8)



The essential reference on human rights is the Universal Declaration on Human Rights (UDHR, 1948), a focal point for all internationally recognised Conventions and Principles, which, despite being documents approved by national governments, significantly influence company activities.

Companies must undertake to implement and promote among their business partners, including suppliers and sub-suppliers: the ILO Fundamental Conventions; the OECD Guidelines for Multinational Enterprises; the UN Guiding Principles on Business and Human Rights, and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy.

Some of the topics in which Etica seeks to engage in dialogue and voting with companies are shown below, including in relation to shareholder motions.

<sup>8</sup> The reporting standard used as a reference and as good practice is GRI 207.

## Decent working conditions

The main elements considered by Etica in relation to the evaluation of protection and promotion of **human rights** concern:

- a. adopting, at the highest levels of the business, a purpose statement for respect for human rights and minorities, which is published internally and externally to the company and is translated across into integrated policies and operating procedures;
- b. adopting the UN Guiding Principles on Business and Human Rights and implementing due diligence actions that are adequate for the context of the activities and the severity of the risk of negative impact on human rights;
- c. providing for the implementation of adequate mechanisms and measures to identify, prevent and correct the effective and potential negative impacts deriving from the business activities and from its relations with business partners;
- d. implementing due diligence measures on human rights in a manner correlated to the size, nature and context of the activities and the severity of the risk of negative impact on human rights;
- e. providing information about particular disputes relating to human rights; obtaining certifications for correct management and monitoring of human rights and guaranteeing optimal working conditions.

In particular, in relation to **decent working conditions**, the main areas of attention are:

- a. training, safety and well-being
  - reporting on investment in employee training, with cross section of internal and external (i.e. assigned to third parties);
  - publishing data on any pay gaps (for example between executives and office workers or the gender pay gap);
  - publishing employee training policies;
  - implementing policies and programmes aimed at promoting the measures to guarantee worker health and safety, as well as the provisions of national regulations;
  - reporting on occupational diseases, accidents at work and the tools introduced to guarantee health and safety in the workplace;
  - guaranteeing workers the right to remove themselves from work when there are conditions of serious and imminent danger to health and safety;
  - publishing policies to measure employee satisfaction and their results;
  - disclosing the methods of engagement and consultation with workers and employees in relation to decision-making;
  - adopting certification for proper management of employee health and safety.
- b. freedom of association and collective bargaining
  - respecting ILO Conventions 87 and 98 on the freedom of trade union organisation and collective bargaining, to guarantee workers' rights to form trade unions and representative organisations of their choice for the purposes of collective bargaining and to reach collective agreements on working terms and conditions;

- providing worker representatives with the necessary means to define effective collective agreements;
  - providing worker representatives with adequate information about the business strategies;
  - promoting consultation and cooperation through constructive industrial relations on topics of mutual interest;
  - giving adequate notice to worker representatives about any production changes that impact jobs, for the purposes of identifying protective measures.
- c. corporate restructuring**
- considering the effects of the reorganisation plan on jobs ex ante and verifying these effects ex post;
  - publishing the reasons that might lead to the corporate restructuring decision, the corporate policies implemented to manage its direct and indirect employment impacts;
  - considering employee transfer and professional refresher programmes;
  - reporting on the quality of relations with workers and with unions.

## Human rights in the supply chain

The main elements considered by Etica for the evaluation of the protection and promotion of human rights along the supply chain concern:

- a.** having a supplier management policy that includes relevant environmental and social criteria in relation to the respective sector;
- b.** conducting a risk assessment in this regard;
- c.** reporting on audits conducted on suppliers, sub-suppliers and contractors;
- d.** reporting on activities carried out to ensure that suppliers operate responsibly;
- e.** publishing the supplier management policy;
- f.** informing shareholders about any disputes relating to suppliers and the behaviours adopted by the company in this regard;
- g.** aligning with the ILO Fundamental Conventions, the OECD Guidelines on Multinational Enterprises, the ISO guidelines and/or other internationally recognised tools in this regard.

With specific regard to the supply chain, the following are also considered:

### Respect for the rights of indigenous populations

- a.** adopting policies on conduct with respect to the issue of the rights of indigenous populations in line with the UN declaration on human rights and with the principles issued by the national constitutions of individual countries (e.g. principles recognised by the constitutions of some Latin American countries: Ecuador, Bolivia, etc.);
- b.** publishing information about projects with an impact on indigenous populations;
- c.** involving indigenous populations in projects and listening to their needs;
- d.** preparing reports on the impact on local indigenous communities;
- e.** publishing the tools used and the results obtained;

- f. recognising and protecting the collective rights to the land of indigenous populations and local communities on the basis of ILO Convention no. 169 of 1989 and the UN Declaration on the Rights of Indigenous Peoples;
- g. ensuring transparency and accountability in the operations and investments that may have impacts on the land or livelihood of indigenous populations and local communities, through policies and mechanisms that prevent the confiscation and appropriation of land, reducing and finding solutions to the direct and indirect impacts of their production on the land and natural resources, also providing for redress mechanisms;
- h. implementing the principle of prior and informed consent and fair compensation in the event of sale of land and reporting mechanisms for any violations;
- i. promoting due diligence on human rights that takes account of gender rights, establishing respect for the FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests.

#### **Child labour**

- a. adopting policies on conduct that prevent the use of child labour below the ages envisaged by ILO Conventions 138 and 182 and by national laws throughout the production chain;
- b. adopting, in the presence of child labour, the necessary measures to guarantee the rehabilitation and social re-inclusion of the children affected and consequently change supply relations to prevent it from happening again;
- c. disclosing the tools intended to minimise the risk of involvement with child labour (for example checks on suppliers);
- d. disclosing the levels of control introduced to prevent the risk of use of child labour throughout every stage of the production chain;
- e. responding to any accusations of child labour by any party in the company production chain or at supplier level.

#### **Human trafficking and forced labour**

- a. adopting policies on conduct with regard to the issue of forced labour;
- b. adopting measures to prevent any use of forced labour and to identify, release, protect and rehabilitate those who have been “employed” under forms of forced labour;
- c. disclosing the tools intended to minimise the risk of involvement with forced labour (for example checks on suppliers);
- d. disclosing the levels of control introduced to prevent the risk of use of forced labour throughout every stage of the production chain;
- e. responding to any accusations of forced labour by any party in the company production chain or at supplier level.

## Diversity and inclusion

The main elements considered by Etica in relation to the evaluation of protection and promotion of equal opportunities concern:

- a. publishing the policies implemented to promote equal opportunities, their objectives and the results achieved;
- b. publishing the percentage of disabled people or ethnic, religious or gender minorities hired and information about any programmes to facilitate their recruitment;
- c. publishing any programmes to increase the number of disabled, female or ethnic or religious minority managers;
- d. publishing a report on any disputes related to equal opportunities;
- e. promoting studies on the internal salary system to ensure that women and minorities in general (e.g. ethnic and religious minorities) are paid the same salary as other workers with the same role, quantity and quality of work.

## BIODIVERSITY AND ECOSYSTEM MANAGEMENT (SDGS 12, 14, 15)



Biodiversity means all animals, plants, fungi and microorganisms that inhabit our planet. This myriad of living beings represents invaluable natural capital, since all these co-existing species create a fundamental balance not just for Earth as we know it, but also for our very existence.

Without biodiversity we would not have sufficient food and water, the ecosystems that allow our civilisations to prosper would no longer exist, nor would the resources that ensure a better future.

## Environmental policies

The company's performance is also evaluated on the basis of its environmental impact, which shareholders are increasingly more interested in, including but not exclusively in relation to the issue of climate change.

In particular, Etica seeks to engage in dialogue on the following subjects, among others (and to vote in favour of any shareholder motions in this regard):

- a. producing detailed reports about the environmental impact of processes and products, preferably using objective performance indicators (e.g. quantity of CO<sub>2</sub> issued per employee or per unit of product);
- b. creating policies intended to increase the efficiency of resource management and, preferably, to obtain internationally recognised certifications;
- c. creating systems and procedures to minimise environmental impact (e.g. cleaner technologies, transparency around the methods of separate waste collection of unusable products and any other recycling methods used);
- d. publishing information about the good practices implemented by the company.

## Management of natural capital

The main elements considered by Etica concern:

- a. reporting on nature-related risks and opportunities according to recognised international frameworks such as the TNFD and CDP;
- b. disclosing the presence of manufacturing sites in so-called sensitive areas;
- c. tracing the supply chain;
- d. setting procurement targets from certified suppliers, e.g. from RSPO<sup>9</sup> in relation to palm oil;
- e. introducing policies that prohibit the marketing of products that contain materials from protected forests;
- f. evaluating and reporting on the impact of procurement and use of raw materials on deforestation and human rights;
- g. introducing sustainable management policies for forests or making them more effective (e.g. according to FSC standards – Forest Stewardship Council).

## Management of the water resource

The main elements considered by Etica in relation to the management of water resources concern:

- a. reporting on water consumption;
- b. setting objectives to reduce water consumption;
- c. investing resources to increase the efficiency of water consumption;
- d. drafting documents where water consumption for each production department or cycle is evaluated, as are the corporate policies intended to minimise water waste (water management activities), preferably using objective indicators (e.g. those contained in the CDP questionnaire, formerly the Carbon Disclosure Project);
- e. monitoring and declaring the level of pollution produced by the production cycle on aquifers and environmental impact where springs are used, including in relation to the provisions of current legislation;
- f. publishing the policies activated to mitigate the impact of company activity on the use of drinking water (collection of rain water, closed-loop systems) especially in geographic areas characterised by water scarcity (e.g. in case of withdrawals from wells that draw from local aquifers);
- g. introducing systems to reduce water consumption per unit of product with the volume of water used highlighted on the product supplied;
- h. developing technologies with low water consumption especially at the level of intensive agriculture, industry and hydroelectric use;
- i. developing a Water Footprint Assessment according to the ISO 14046 guidelines and other recognised standards.

<sup>9</sup> The Roundtable on Sustainable Palm Oil (RSPO) certifies palm oil, palm kernel oil and derivatives. It guarantees and promotes products obtained from palm and palm kernel oil originating from cultivations managed according to environmental and social sustainability criteria.



## Sustainable packaging

The main elements considered by Etica concern:

- a. adopting policies that require the creation of products that are easier to use and recycle;
- b. adopting policies that require that the price incorporate the cost of waste management;
- c. adopting product packaging techniques with biodegradable and compostable (where possible) or recyclable material and in any case from renewable raw materials;
- d. carrying out a risk-to-benefit assessment deriving from the use of unsustainable packaging (e.g. LCA).

## Well-being of animals

The main elements considered by Etica concern:

- a. adopting an “animal testing policy” that follows the ethical principles of the 3Rs (Replacement, Reduction and Refinement);
- b. publishing data on tests performed on animals;
- c. extending any policies on the use of testing to all laboratories, regardless of geographic location;
- d. adopting specific policies to improve animal breeding conditions along the supply chain, to protect animal and human health.

## CLIMATE CHANGE (SDGS 8 AND 13)



Climate change refers to weather patterns that affect the Earth in the long term, such as temperature, sea levels and rainfall. It indicates the changing climate of the Earth, i.e. variations over time and space to the average values of one or more environmental and climate-related parameters.

Climate change can negatively affect the health, well-being and safety of people, even at work; it can also impact the availability of water resources; farming production, fisheries and livestock rearing and, therefore, the availability of food in general; the loss of land and sea species; poverty and migration.

## Mitigation and adaptation

The main elements considered by Etica concern:

- a. reporting on emissions;
- b. setting science-based<sup>10</sup> targets to reduce emissions;
- c. investing for a low-emissions economy;
- d. monitoring CO<sub>2</sub> emissions and other climate-altering gases and committing to reduce them quickly and significantly (e.g. Etica recommends participation in the “CDP Climate Change” questionnaire);
- e. publishing any strategies to respond adequately to the growing pressure created by the legislator, by competitors and by public opinion to reduce emissions;
- f. linking managers’ remuneration to the achievement of environmental objectives;
- g. disclosing any programmes for the use of energy from renewable resources and increasing the energy efficiency of facilities and products so as to achieve a significant reduction in consumption;
- h. providing information about the environmental certification of facilities and publishing any certification plans;
- i. disclosing progress made in reducing the quantity of materials used, in line with production volume (dematerialisation);
- j. calculating the carbon footprint in terms of tonnes of CO<sub>2</sub> associated with a specific company product or service.

Furthermore, the areas of interest for the AMC include:

- Responsible technological development, which encompasses topics such as:
  - a. Methods for developing, managing and using technologies related to so-called artificial intelligence;
  - b. Link between new technologies and the weapons sector;
  - c. Information security;
- Health and access to medicine
- Reduction in inequalities
- Responsible management of food

<sup>10</sup> A science-based target is an objective to reduce greenhouse gas emissions that is grounded in science, i.e. in line with the level of decarbonisation required to keep the increase in global temperatures below 1.5°C in relation to pre-industrial temperatures.

## CONSIDERATION OF THE PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

In line with the provisions of Commission Delegated Regulation (EU) 2022/1288, the evaluation of the principal adverse impacts of investment decisions on sustainability factors and the definition of possible actions to mitigate them constitute an integral part of the AMC's approach to sustainability.

In accordance with the provisions of Regulation (EU) 2019/2088 (Sustainable Finance Disclosure Regulation or "SFDR") and Commission Delegated Regulation (EU) 2022/1288, the Company was committed throughout 2024 to an initial internal mapping of the dialogue indicators with respect to the principal adverse impacts (PAI) of investment decisions on sustainability factors, for all financial products established and/or managed under a mandate by the Company.

The definition of the possible actions to be taken in relation to stewardship also forms an integral part of the AMC's approach to monitoring and mitigating sustainability risks.

The following table shows the mapping of the principal adverse impacts considered in the stewardship activities with investee companies:

Main topics identified by the AMC	Principal adverse sustainability impacts				
	Greenhouse gas emissions	Biodiversity	Water	Waste	Social and employee matters
Sustainability governance					x
Capital allocation	x	x			x
Fair taxation					x
Human rights					x
Biodiversity and ecosystem management		x	x	x	
Climate change	x				

**To find out more**  
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