

**Generali Insurance Asset Management
S.p.A. SGR**



SUSTAINABILITY POLICY

Implementation of Regulation (EU) 2019/2088 Art. 3

[generali-invest.com](https://www.generali-invest.com)

Document summary

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Glossary and Definitions

Term	Definition
BOD	Board of Directors of the Company
CEO	Chief Executive Officer of the Company
CIS	Collective Investments Scheme
CLIENTS	Individual portfolios and investment advice services Clients
ESAS	European Supervisory Authorities
ESG FACTORS	Environmental, Social and Governance factors have to be intended as a specification of Sustainability Factors (as defined below) and are selected to assess issuers' behavior in relation to the environment (e.g. carbon emissions, waste generated), social (e.g. relationships with employees, suppliers, customers, and the communities where it operates) and corporate governance (e.g. remuneration practices, audits and shareholder rights) matters
GIAM OR COMPANY	Generali Insurance Asset Management SGR S.p.A.
KPI	Key Performance Indicators
SBT	Science-based targets provide a clearly-defined pathway for companies to reduce greenhouse gas (GHG) emissions, helping prevent the worst impacts of climate change and future-proof business growth ¹
SUSTAINABLE INVESTMENT	An investment in an economic activity that contributes to (i) 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 (ii) 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 (iii) 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
ENVIRONMENTAL OBJECTIVES	(a) climate change mitigation; (b) climate change adaptation; (c) the sustainable use and protection of water and marine resources; (d) the transition to a circular economy; (e) pollution prevention and control; (f) the protection and restoration of biodiversity and ecosystems
SUSTAINABILITY FACTORS	Sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
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
TCFD	Task Force on Climate-related Financial Disclosures is a framework established in 2015 by the Financial Stability Board to improve and increase reporting of climate-related financial information

¹ <https://sciencebasedtargets.org/how-it-works>

Roles and Responsibilities

Corporate Function	Roles and Responsibilities
BOARD OF DIRECTORS/BOD	GIAM Board of Directors is in charge for the approval and review of the Sustainability Policy. The Board approves the Policy upon proposal of GIAM CEO.
CHIEF EXECUTIVE OFFICER/CEO	The CEO is involved in presenting to the BoD the Sustainability Policy to be approved.
ESG INTEGRATION AND SOLUTIONS (ESG I&S)	<p>ESG Integration and Solutions ESG I&S is in charge for defining the sustainability risk assessment methodology and the management of the ESG ratings and scores, including climate metrics. ESG I&S supports and collaborates with Investments and Research Functions providing inputs on thematic and corporate sector relevant ESG as well as climate related topics in order to inform the investment decision-making process with updated quantitative and qualitative information. ESG I&S is also in charge of updating the lists of Restricted investments according to the exclusion principles as set by GIAM's own policies and/or the clients in their Responsible Investment Guidelines, including analysis of controversies.</p> <p>ESG I&S liaises with Active ownership to identify and support Active Ownership activities (voting and engagement).</p>
INVESTMENT COMMITTEE	The Investment Committee (IC) is responsible for ensuring the continuity between the Strategic Asset Allocation (as defined within the investment guidelines) and the asset management activities, by defining the guidelines for the Tactical Asset Allocation and monitoring its implementation. Further information is included under the "GIAM Committees" Operating Procedure.
INVESTMENTS FUNCTION	<p>Investments Function collaborates with ESG I&S team in order to ensure that the investment decision-making process integrates sustainability risks and takes also into account quantitative and qualitative information with regard to ESG opinions, views and research on relevant ESG and climate topics.</p> <p>It ensures the first level of control in monitoring the exposure towards issuers included in the Restricted lists (both GIAM and Client's own Exclusion list).</p>
RISK MANAGEMENT FUNCTION	<p>Risk Management function, based on the ESG criteria defined by ESG I&S and on the reports available, periodically monitors the exposure towards the Issuers included in the ESG lists and verifies the respect of the ESG investment limits in order to monitor the sustainability risks on investment decisions.</p> <p>It ensures the second level of control in monitoring the exposure towards issuers included in the Restricted lists (both GIAM and Client's own Exclusion list).</p>

<p>RESEARCH</p>	<p>Research function Corporate Fixed-Income Credit Research integrates ESG factors into corporate single-name analyses, as defined by sectorial materiality matrices elaborated with the ESG I&S function. Corporate credit opinions are complemented with “ESG considerations” i.e. a dedicated section explaining, when relevant, if any ESG factor has had an impact on the Credit Rating. Sovereign: Research function takes into consideration external ESG ratings when assessing the creditworthiness of Sovereigns, as per its proprietary quantitative model. Thematic: Research and ESG I&S cooperates to the production of ESG thematic Research to ultimately feed Investments with forward looking thematic inputs on ESG risks and opportunities.</p>
<p>EQUITY</p>	<p>Equity Portfolio Management team incorporates ESG considerations into its usual balance sheet and P&L forecasts and by applying premiums or discounts to its stock valuations based on a proprietary grid incorporating external ESG rating providers in order to integrate sustainability risks into investment decisions.</p>
<p>ACTIVE OWNERSHIP</p>	<p>Active Ownership function is in charge for the exercise of voting rights and engagement execution activities.</p>

Introduction

Generali Insurance Asset Management S.p.A. SGR (“GIAM”), part of the Generali Group, is committed to Responsible Investments since 2007.

GIAM believes that the proactive integration of Environmental, Social and Governance factors (“ESG factors” - see table below) into the investment process, across asset classes, will support it to achieve both financial returns and social value.

European Regulators have developed a framework to enhance the adoption of economic, environmental and social factors in investment and finance activities in order to achieve long-term sustainable development. In this framework, financial market participants and financial advisors are required to implement an appropriate governance structure and to provide accurate information about the sustainability risks.

In this regard, on the 27 November 2019 the European Parliament and the Council adopted Regulation (EU) 2019/2088 “Sustainable Finance Disclosure Regulation” or “SFDR” which entered into force on the 29 December 2019.

Furthermore, Bank of Italy issued on 8th April 2022 its “Supervisory expectations on climatic and environmental risks”.

The Regulation aims at providing homogeneous information to end-investors about sustainability risks and at the promotion of ESG factors in financial investment activities. This Regulation was enhanced by the Regulation (EU) 2020/852 (Sustainable Finance Taxonomy) that provides the criteria for determining whether an activity can be considered environmentally sustainable.

GIAM, fulfilling the requirements laid down by the European Regulations², adopts the present “**Policy on the integration of sustainability risks in the investment decision-making process**”.

Considering the activities regulated in this Policy, also for their potential implications, the document is relevant also for the purposes of the Legislative Decree no. 231/2001 with regard to the provisions of the Organization and Management Model as its integral part.

Whoever becomes aware of potential violations of the provisions contained within this Policy must report immediately to the Surveillance Body established in accordance with the Legislative Decree no. 231/2001.

The table below provides guidance examples of ESG factors³:

Category of the ESG factor	Example of factor
E-ENVIRONMENTAL	Aspects related to the quality and to the functioning of the environment and natural systems, including: greenhouse effect and climate change; the availability of natural resources, including: energy and water; changes in the use of soil and urbanization; quality of the air, water and soil; the production and management of waste; the protection of natural habitats and biodiversity.
S-SOCIAL	Aspects related to the rights, well-being and legitimate interests of people and local communities, including: human rights, diversity and promotion of equal opportunities; demographical changes; occupation and the right to decent working conditions, including child and forced labor, as well as occupational health and safety; the distribution of wealth and inequalities within and among countries; migrations; education and human capital development; digital transformation, artificial intelligence, internet of things and robotics; health and access to social assistance and healthcare; consumer safety; power diffusion and the crisis of traditional elites.

² Please consider that RTS Final Report on draft Regulatory Technical Standards issued by European Commission on 6 April 2022, have still to be published in Official Journal of European Union and, if confirmed, will be applicable, starting from 1 January 2023.

³ In accordance with Sustainability Group Policy.

**G-
GOVERNANCE**

Aspects related to government of the companies and organizations, including: transparency; ethics and integrity in business practices and compliance with laws; corruption; tax responsibility; board structure, independence and diversity; mechanisms to incentivize the management; stakeholders and stakeholders rights, protection/distortion of competition.

Policy on the integration of sustainability risks in the investment decision-making process

This policy, required by art. 3 of SFDR, hereinafter also referred to as the “Sustainability Policy” or the “Policy”, aims to integrate sustainability risks in the investment decision-making process through the identification, measurement and mitigation of risks stemming from ESG factors.

As an asset manager with a long-time horizon, the impact that ESG factors may have on the long-term returns of asset classes is of utmost importance. It is therefore essential to consider how these factors affect long-term investment returns and take advantages on anticipating the risks characteristics of individual asset class analysis.

1. SUSTAINABILITY RISK ASSESSMENT

Sustainability risk identification, measurement and strategies

Sustainability risk is defined by SFDR as 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.

More in detail, sustainability risks are intended as ESG factors that can mainly imply, for a given issuer, loss of revenue or franchise, increased capital expenditures, extraordinary expenses, contingent liabilities and provisions, pension and other liabilities, ultimately leading to a loss of the value of the investment.

The sustainability risk identification process aims at guaranteeing that all material risks to which GIAM is exposed to are properly identified, assessed and considered based on their likelihood of occurrence and severity, and mitigating actions are identified and properly implemented.

ESG I&S, alone or in cooperation with Research function, performs sector and thematic analyses with the aim of identifying sustainability risks that could potentially alter short and long-term sector-specific performances. The findings of such activity will feed Investments function to integrate sustainability risks consideration into investment decisions.

Sustainability risk identification primarily leverages on external ESG data providers, monitoring of ESG-related news, sell side research and issuers’ public disclosure. When available data are not deemed sufficient to correctly identify sustainability risks the ESG I&S team or the Research team interacts directly with the issuers and / or ESG data providers to obtain additional information.

ESG Integration

GIAM aims at building an holistic and harmonized sustainability identification and measurement process, albeit nuances exist based on the type of asset class:

For Corporate Bond: the ESG I&S team and the Credit Research team have identified sector materiality matrices to map ESG factors which can translate into sustainability risks and ultimately have an impact on the credit rating migration of a given issuer. Credit Research opinions are complemented with main ESG metrics and qualitative ESG comments with the support and technical knowledge of the ESG I&S team, overall feeding the investment decision process.

For Listed Equity: GIAM Equity portfolio managers use publicly available ESG information and external ESG data providers to identify major sustainability risks. Such risks, when existing, are then reflected in the portfolio manager’s own financial forecasts. In addition, the proprietary valuation model incorporates an ESG premium / discount factor linked to external ESG scores assigned to the issuer.

For Sovereign: The Macro Research team integrates ESG external ratings and publicly available ESG information into its proprietary Sovereign Rating Monitor (proprietary algorithm), which is made available to the Investments function. In addition, the team plans for the end of 2022 to integrate climate scenarios in the macro forecasts.

For Target CIS (Funds): For target funds, information on sustainability risks are collected via a questionnaire, prepared by the ESG I&S team and aimed at identifying the ESG profile of the Fund and Asset Manager, including the ESG policies applying to the funds and the quality of the portfolio management team. The Investments function is responsible of submitting the questionnaire to the Fund and Asset Management company and collecting the answers. The process is complemented via the

integration in the primary investment tools of GIAM of external ESG scores and ratings, when assigned to the investee AM company / fund.

Climate risk: GIAM Climate risk identification is performed by the ESG I&S function, through the use of its proprietary transition risk model. The model assigns a “transition score” to each entity, enabling the identification and ranking of companies from the worst to the best positioned in the decarbonization journey. The framework includes past, current and forward-looking carbon metrics. It is asset-class neutral, meaning that it functions at issuer rather than security level. Therefore, it is applicable to equity and corporate securities. Sovereign securities are not yet included. The model sources data from primary ESG and carbon data providers. The analyst can complement information from Annual and Sustainability Report of the company at issue.

The ranking model feeds:

- the Research function with the goal of highlighting prospect climate risk which can translate into financial pressure and, ultimately, credit rating migration;
- the Investments function with the goal of supporting securities selection coherently with each client/product’s decarbonization target.

2. SUSTAINABILITY RISK STRATEGIES

In addition to ESG Integration as described above, GIAM implements a range of ESG strategies aimed at mitigating sustainability risks:

- Negative / exclusionary screening aimed at limiting investments in corporate bonds and equity, sovereign, or sectors based on specific ESG criteria;
- Norms-based screening to identify issuers not meeting minimum international standards of industry or government practice;
- Positive or Best-in-class screening: investment in sectors, sovereign, companies or projects selected for positive ESG performance relative to industry peers.
- Green / Social / Sustainability-linked bonds filter
- Voting and Engagement

Negative / Exclusionary screening

GIAM Exclusion Lists: The list of issuers excluded from the investment universe is defined by the ESG I&S function on the base of the involvement in specific sectors or activities.

The GIAM Exclusion lists apply to direct investments and cover in principle all the assets managed by GIAM, including CIS issued and managed by GIAM, CIS delegated to GIAM and Third Party mandates.

In 2022 GIAM has issued its “Coal and Tar Sands” exclusion policy applied to all portfolios managed to respond to growing climate-related concerns, as triggered by increasing regulatory and societal pressures, as well as their impact on issuers. GIAM Coal and Tar Sands Exclusion Policy supports decarbonization strategies by integrating actual and forward-looking carbon emissions metrics in the assessment of the portfolios.

GIAM is assessing the possibility of complementing its “Coal and Tar Sands” policy with additional exclusions on other controversial sectors and on Sovereign.

Clients’ own exclusion lists: In the context of the individual portfolio management service and collective asset management under a delegation agreement, GIAM can agree with its Clients / delegating management company to apply additional exclusions, each time Clients/Delegating management company require GIAM to apply their own exclusion policies and such policies are more restrictive than GIAM’s ones. Conversely, in case Clients’ exclusion policies are less restrictive than GIAM ones, GIAM evaluates on a case by case basis and reserves itself the right of not accepting any such less restrictive policies.

Application: The ESG I&S team extracts exclusion-related data by using external data set of primary ESG data providers in order to identify the issuers not compliant with the screening criteria.

The list of issuers not meeting the ESG requirement is incorporated into GIAM’s main investment tool for prompt communication to the investments function, including blocking alerts. The lists are applied, to all portfolios / funds regardless of their classification

as article 6, 8 or 9 products, depending on the mandate or CIS funds' rules/prospectus.

Norms-based screening

Environmental, social, and governance (ESG) controversies can be costly, and even highly regarded issuers are subject to reputational risk. Controversies assessment is a key component of GIAM's ESG integration framework. That is because companies often face litigations, class action suits, regulatory fines and fines resulting from controversies that can impact current financial valuation and/or future performances but that are not reflected into the ESG ratings in real time.

Norm-based screening is performed by ESG I&S and corresponds to the identification of issuers involved in controversies, for example, in:

- i) **Breach of the Treaty on the Non-Proliferation of Nuclear Weapons;**
- ii) **Breach of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction;**
- iii) **Breach of the Ottawa Treaty;**
- iv) **Breach of the Convention on Cluster Munitions (CCM);**
- v) **Breach of the UN Global Compact;**
- vi) **Breach of human rights principles;**
- vii) **Severe environmental damages;**
- viii) **Gross corruption cases.**

ESG I&S detects these issues via an in-house assessment, with the support of data from external ESG data and controversy scores providers, which aims to evaluate the compliance of the issuers with the screening criteria listed above. The output is a list of issuers identified as not being compliant with the screening criteria and excluded from the investment universe. The Restricted list is incorporated in the main investment tool, including with blocking alerts, unless in the case of clients' policies less restrictive than GIAM's ones and which have been accepted by GIAM.

GIAM has introduced in July 2022 (subject to approval of the Exclusion lists by the Board) binding exclusionary limits for issuers breaching the screening criteria listed above (controversies and controversial weapons), including CIS issued and managed by GIAM, CIS delegated to GIAM and Third Party mandates.

Positive screening

For products classified as Art. 8 under the scope of SFDR classification, GIAM can adopt a Best in class or Minimum ESG rating / Scoring approach, according to the relevant individual management agreement or CIS rules / prospectus:

Best-in-class / Best-in-Universe / Selectivity or Rating Upgrade approach or equivalent: selection of issuers with an ESG performance (e.g. ESG rating) exceeding that of a benchmark. Alternatively, the overall ESG performance of the portfolio must be higher than the benchmark or investable universe's (equivalent approaches are allowed: e.g. "rating upgrade approach" for developed markets' sovereign bonds, investment in sustainable/ESG index, etc.).

Minimum ESG Rating / Scoring: setting a minimum ESG rating / ESG scoring threshold at the issuer/counterparty or at the portfolio level for securities selection purposes.

The ESG rating / scoring threshold must be set in such a way to allow for the promotion of the environmental and/or social characteristics promoted by the product. Based on their external ratings and scores, issuers are classified in different categories of ESG performance and ranked. A minimum threshold determines the investment eligibility into the investment universe. If the score is within or above this average category, the issuers can be accepted in the investment universe. In case the issuer score is below that threshold, ESG analysts can assess if the ESG material issues can be resolved through Engagement with the issuer itself.

The above list of issuers is communicated to the Investments function and then applied by the latter depending on the mandate or CIS' rules/prospectus.

For products classified as Art. 6 under the scope of SFDR classification, external ESG scores are visible to both Research and Investment functions in the main investment tools and can be taken into consideration in the investment decision, together with the financial decision-making elements.

Green / Social / Sustainability-linked Bonds Filter

GIAM developed a proprietary green, social, sustainable, and sustainability-linked bond (hereafter, “ESG bonds”) assessment framework in order to identify bonds that will deliver a meaningful impact, applied to clients who requested its use.

GIAM assessment is an additional voluntary and stricter form of screening that is added to the EU best practices and the legal and regulatory requirements (ICMA) to which the financial products of GIAM clients are subjected.

The framework is split into four layers of analysis – sustainability policy compliance (e.g., negative screening), issuer ESG score, bond framework assessment and asset level analysis (traceability, transparency and reporting), which are interwoven into the whole assessment process.

Each layer is assessed individually, using both proprietary research and data from external third parties. In line with its broader climate strategy, the bottom-up approach to ESG bond selection is key to GIAM in generating a positive impact for clients by preventing greenwashing and unfaithful communication. This assessment complements the traditional financial considerations, such as on yield curve and risk factors, to reconcile the creation of long-term financial returns while also having a positive impact on society.

Voting and Engagement

In case the ESG I&S team, Research or Equity PMs identify material ESG risks associated to a specific issuer the information is shared with the Active Ownership team to evaluate the opportunity of engagement actions. The Active Ownership team aims at understanding in depth the positioning, process and behavior of the company vis-à-vis the sustainability risk, identifying the specific improvements that could be implemented and supporting the company in the transition advocated. The voting activity is a tool which can be used to further influence the issuer towards the suggested improvements.

Good Governance Practice Assessment

For products classified as Art. 8 or Art. 9 under the scope of SFDR classification, GIAM adopts the following Good Governance Practice Assessment.

Governance factors are intended as decision-making practices, rules and procedures from sovereigns’ policymaking to the distribution of rights and responsibilities among different participants in corporations, including the board of directors, managers, shareholders and stakeholders. An issuer’s purpose, the role and makeup of boards of directors, shareholder rights and how corporate performance is measured are core elements of GIAM assessments.

The assessment of good governance practices at GIAM has three layers of screening:

- **The proprietary Credit Research opinions** are complemented by a section “ESG considerations” in which Credit Research analysts comment on the Governance practices of corporate issuers, including the potential impact these might have had on current and future credit rating.
- **Controversy scores**, as sourced by major external ESG data providers, are fully integrated in the main investment tools allowing the Investment Function to have sudden evidence of poor governance practices as reflected by low Controversy Scores. In the most severe cases, the ESG I&S may go beyond the external controversy scores and perform a proprietary in-house analysis of the controversy.
- **Engagement**: the dialogue of the Active Ownership team with pre-identified issuers (including dialogue linked to voting activity) act as a third layer of scrutiny of good governance assessment. Additional information arising from such activity may complement external data on governance and / or the ESG analyst’s proprietary assessment, ultimately feeding the Investment Functions.

3. PROCESS GOVERNANCE

Governance of ESG Risk Assessment and Integration process

GIAM Board of Directors is in charge of the approval and review of the Sustainability Policy. The Board approves the Policy upon proposal of GIAM CEO, which is also in charge of the implementation of the Policy.

Sustainability targets, KPIs and guidelines to be achieved and implemented, such as decarbonisation target or sectors to be excluded from portfolios are those defined in the individual portfolio mandate and in the Collective Investment Schemes documentation (CIS' rules/prospectuses).

ESG I&S function, under the direction of GIAM CEO to which it reports and following the path traced by clients or CIS' rules/prospectus, is in charge of defining the sustainability risk assessment and the management of the ESG ratings and climate metrics and parameters.

The ESG I&S function sources ESG ratings from them from external ESG rating providers. The ESG I&S function, however, collaborates with Investments and Research functions when explanation on external providers' methodologies, outcomes or outlooks is deemed relevant, in order to ensure that the investment decision-making process is made on the basis of updated quantitative and qualitative information.

Periodically the Investments (first level of control) and Risk Management (second level of control) function, based on the ESG criteria defined by ESG I&S and on the reports available, monitors the exposure towards the Issuers subject to Restrictions.

Reporting of the process

GIAM publishes on its website the updated version of the present Policy every year, if any relevant change occurs.

Internally, the Board of Directors is informed annually, by ESG I&S, of the implementation of the Policy in order to assess and review the underlying methodology and the outcomes.

Periodically, internal reports must be delivered to the Investment structure in order to enable it to fulfil its oversight roles on investments. In addition, other internal stakeholders are updated and involved based on process's needs.