

**Generali Investments Partners S.p.A. SGR**

## SUSTAINABILITY POLICY

Policy

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## Document summary

|                       |  |
|-----------------------|--|
| <b>Title</b>          | Sustainability   |
| <b>Classification</b> | Policy   |
| <b>Approved by</b>    | Board of Directors of Generali Investments Partners SGR S.p.A. |
| <b>Approval date</b>  | 2023-02-24   |
| <b>GIP Owner</b>      | Product and Sustainability area as OBR                         |

## Versioning and Ownership

| Version | Date of issuance | Reason for and Extent of Changes   | Owner                             |
|---------|------------------|--|-----------------------------------|
| 3       | 2023-02-24       | Update of the exclusion list criteria with more specific indications and the inclusion of Coal and Tar Sand exclusion Policy and Controversial Weapons and controversies Exclusion Policy<br>Illustration of the "ESG Integration" (sustainability identification and measurement process) with reference to the specific types of financial instruments | Product and Sustainability as OBR |
| 2       | 2022-08-01       | Integration in light of SFDR requirements<br>Adverse Sustainability Impact Statement deleted from this Policy  | Investments area as OBR           |
| 1       | 2021-02-25       | N/A  | Investments area as OBR           |

## Main related internal regulatory references

- GIP Investment Process Policy
- GIP *Funds Selection* Operating Procedure

## Any substituted/abrogated internal regulations

- N/A

### Main related external regulatory references

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Regulatory  Yes  No

Regulation (EU) 2019/2088

### Annexes

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- GIP\_Annex 1\_Coal and Unconventional Oil & Gas Exclusion Policy
- GIP\_Annex 2\_Controversial Weapons Exclusion Policy

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## Glossary and Definitions

| Term                            | Definition   |
|---------------------------------|--|
| <b>ACS</b>                      | Asset Class Specialist within the Investments function   |
| <b>BOD</b>                      | Board of Directors of the Company  |
| <b>CEO</b>                      | Chief Executive Officer of the Company   |
| <b>CLIENTS</b>                  | Individual portfolios and investment advice services Clients   |
| <b>ESAS</b>                     | European Supervisory Authorities   |
| <b>ESG FACTORS</b>              | 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  |
| <b>GIAM</b>                     | Generali Insurance Asset Management SGR S.p.A.   |
| <b>GIP</b>                      | Generali Investments Partners SGR S.p.A.   |
| <b>KPI</b>                      | Key Performance Indicators   |
| <b>OBR</b>                      | Outsourcing Business Referent in GIP in charge of monitoring the outsourced activities related to ESG analysis for which a dedicated Outsourcing Agreement is in place   |
| <b>SBT</b>                      | 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 <sup>1</sup>  |
| <b>SUSTAINABLE INVESTMENT</b>   | <ul style="list-style-type: none"> <li>▪ 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</li> <li>▪ 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</li> <li>▪ 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</li> </ul> |
| <b>ENVIRONMENTAL OBJECTIVES</b> | (a) climate change mitigation;<br>(b) climate change adaptation;<br>(c) the sustainable use and protection of water and marine resources;<br>(d) the transition to a circular economy;<br>(e) pollution prevention and control;<br>(f) the protection and restoration of biodiversity and ecosystems”  |
| <b>SUSTAINABILITY FACTORS</b>   | Sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters   |
| <b>SUSTAINABILITY RISK</b>      | 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   |

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

| Term | Definition  |
|------|---|
| TCFD | Task Force on Climate-related Financial Disclosures |

## Roles and Responsibilities

| Corporate Function  | Roles and Responsibilities   |
|---|--|
| <b>BOARD OF DIRECTORS/BOD</b>                             | GIP Board of Directors is in charge for the approval and review of the Sustainability Policy. The Board approves the Policy upon proposal of GIP CEO.  |
| <b>CHIEF EXECUTIVE OFFICER/CEO</b>                        | The CEO is involved in presenting to the BoD the Sustainability Policy to be approved.   |
| <b>GIAM ESG INTEGRATION &amp; SOLUTIONS (ESG I&amp;S)</b> | <b>GIAM ESG Integration &amp; Solutions</b> , under the direction of GIP OBR and GIP CEO in light of the relevant outsourcing agreement, is in charge for defining the sustainability risk assessment methodology and the management of the ESG score and climate metrics and parameters. In addition, GIAM ESG Integration & Solutions team supports and collaborates with Investments area providing ESG opinions, views and research on relevant ESG and climate topics in order to inform the investment decision-making process with updated quantitative and qualitative information, including analysis of controversies. |
| <b>GIP ESG PRIVATE ASSETS</b>                             | <b>GIP ESG Private Assets</b> is in charge for defining the sustainability assessment methodology and for providing ESG opinions for Article 8 and Article 9 Private Assets funds. In addition, GIP ESG Private Assets supports the Investment Teams in the Private Assets Hub with research and internal analysis on relevant ESG topics and propose/suggest the adoption/ implementation of ESG special and recurring projects coordinating their implementation with involved internal and external counterparties.   |
| <b>INVESTMENTS AREA</b>                                   | <b>Investments area</b> collaborates with GIAM ESG Integration & Solutions team in order to ensure that the investment decision-making process takes also into account quantitative and qualitative information with regard to ESG opinions, views and research on relevant ESG and climate topics.<br>It ensures the first level of control in monitoring the exposure towards issuers included in the Restricted lists throughout FO portfolio management platform Simcorp (both GIP and Client's own Exclusion list).   |
| <b>OBR</b>  | <b>An OBR</b> has been appointed in the GIP Investments area to oversee the ESG activities carried out by the service provider GIAM through the GIAM ESG Integration & Solutions function.   |
| <b>RISK MANAGEMENT FUNCTION</b>                           | <b>Risk Management function</b> , based on the ESG criteria defined by GIAM ESG Integration & Solutions 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.<br>It ensures the second level of control in monitoring the exposure towards issuers included in the Restricted lists (both GIP and Client's own Exclusion list).   |

## Introduction

Generali Investments Partners S.p.A. SGR (“GIP”), part of the Generali Group, is committed to responsible Investments since 2007.

GIP 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 8<sup>th</sup> 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.

GIP, fulfilling the requirements laid down by the European Regulations<sup>2</sup>, 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 factors<sup>3</sup>:

| Category of the ESG factor | Example of factor  |
|----------------------------|--|
| <b>E-ENVIRONMENTAL</b>     | 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.   |
| <b>S-SOCIAL</b>            | 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. |

<sup>2</sup> Please consider that Regulatory Technical Standards issued by European Commission on 6 April 2022, have been published in Official Journal of European Union of 25 July 2022 and will be applicable, starting from 1 January 2023.

<sup>3</sup> 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.

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

This policy, required by Article 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 material impact that ESG factors have on the long-term returns of asset classes is of utmost importance. It is therefore essential to consider how ESG integration affects long-term investment returns and take advantages on anticipating the risks characteristics of individual asset class analysis.

In this connection, GIP avails itself of GIAM, in light of the outsourcing agreement, to which it has outsourced the performing of ESG activities. In particular, an OBR has been appointed in the Product and sustainability to oversee the following ESG activities carried out by the service provider GIAM through the GIAM ESG Integration & Solutions function.

The only exception regards the managed Private Capital funds:

- Funds classified as Article 8 or Article 9 of SDFR: ESG activities are performed by the GIP ESG Private Assets team with the auxiliary support of external advisers through dedicated ESG frameworks;
- Funds classified as Article 6 of SFDR: the ESG activities, when deemed material, are directly performed by the Private Assets' Investment Team at the due diligence stage of the investment process.

## 1.1 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 GIP 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.

GIAM ESG I&S, in light of the relevant outsourcing agreement, 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 area 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 GIAM ESG I&S team interacts directly with the issuers and / or ESG data providers to obtain additional information.

### Sustainability risk identification, measurement and strategies for managed Private Capital Funds

#### Article 8/9 under SFDR Regulation

For managed Private Capital funds classified as Article 8 or Article 9 of SDFR, the GIP ESG Private Assets team performs the sustainability assessment both at sector and investment levels, in particular at Counterparty level for direct investments and at Underlying Fund for indirect investments. The analysis is carried out by the GIP ESG Private Assets team with the auxiliary support of external advisers through a Sustainability Due Diligence process modelled on the nature of the investment, including, but not limited to, a Sustainability Due Diligence Questionnaire, dedicated meetings with the Counterparty or Underlying Fund and other relevant documentation provided by the Counterparty or Underlying Fund. The outcome of this analysis results in a Sustainability Opinion that will feed into the due diligence package of the Investment Team.

The sustainability framework investigates, on the one hand, the sectors potentially exposed to high sustainability risk as defined

by the dedicated internal policies (please see the Annexes).

On the other hand, the investment specific sustainability issues is directly investigated by the GIP ESG Private Assets team through the Sustainability Due Diligence process and, in particular, the Sustainability Due Diligence Questionnaire which identifies the ESG issues that could expose the Counterparty or Underlying Fund. The investment execution can be subject to the definition of mitigating actions that the GIP ESG Private Assets team performs through engagement activities. The evidences of this analysis integrate the Investment Memorandum in the form of a Sustainability Opinion, which will be shared with the Risk Management function and that represent an input for the final investment decision. The ESG issues analysis is reviewed on an annual basis.

### Article 6 under SFDR Regulation

The sustainability issues identification analysis for Private Capital funds classified as Article 6 of SFDR is carried out internally and directly by the Private Assets' Investment Team through dedicated questions submitted during the investment decision making process within the Due Diligence package.

### ESG Integration

GIP 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 GIAM ESG I&S team has 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. Sustainability risks Integration is performed through Exclusion Lists, based on such analysis, for direct investments. For managed portfolios classified as article 8 or 9 products under SFDR, sustainability risks integration is performed also through ESG scoring and indicators that are provided by GIAM ESG I&S on quarterly basis according to the relevant individual portfolio mandate or CIS Rules/Prospectus.

**For Listed Equity:** GIP Equity portfolio managers use publicly available ESG information and external ESG data providers to identify major sustainability risks.

**For Sovereign:** The GIAM 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 area

**For Target CIS (Funds including Private assets funds for non PA Fund's range investments):** GIP Funds of Funds function performs an Investment Due Diligence, with a ESG integration section containing description and analysis of the integration of ESG criteria in the investment process of the portfolio manager, also including the sustainability risks management carried out by the relevant AM of the target fund.

Furthermore, when available the ACs will consult report from external database that includes, inter alia, the following:

- Sustainability rating referred to the target fund;
- Corporate and Sovereign sustainability score (current and historical) compared to global average category;
- ESG Pillars score: detailed breakdown for Environmental, Social and Governance score;
- Holdings analysis (ESG Score Distribution, and Controversy Level Distribution).

All the data provided come from the external ESG database Sustainalytics – Morningstar in use.

If ESG data is not available in the database, additional ESG data and/or information could be collected by the ACS.

Based on such report or information collected, the ACSs invest on the target funds taking into account the constraints, market conditions, SFDR classification and sustainability risks management of such target funds. In addition, in case of art. 8 and 9 funds managed, the consistency of the target fund with the ESG characteristics/ sustainability investment objective of the managed fund is also verified.

Considering the above criteria, the investment must obtain a rating of at least "adequate" for the investment to be "eligible".

### ESG Integration for Private Capital funds

For the Private Capital funds classified as Article 8 or Article 9 of SDFR, the ESG Integration activity is performed by the GIP ESG Private Assets team through a Positive or Best-in-class screening strategy.

The Positive or Best-in-class screening is aimed at mitigating sustainability risks. The exclusion decision is assessed for each investment opportunity through the Sustainability Due Diligence Questionnaire, varying according to direct and indirect investments. In details:

- For the direct investments (securities), the Counterparty is required to directly fulfil the Sustainability Due Diligence questionnaire that investigates, for instance, the Corporate Social Responsibility (CSR) and corporate governance, Diversity & Inclusion, Cybersecurity, Supply Chain, Workforce conditions and litigations, and approach to environmental issues. Moreover, when relevant, it would be required for the Counterparty to track and report on Principal Adverse Impact indicators and to comply with the Regulation;
- For the indirect investment (target funds), the Sustainability Due Diligence questionnaire is a two-section fill-in form covering both the Assessment of the Asset Manager and the Assessment of the Underlying Fund. Regarding the former, it assesses the Asset Manager's aspects of corporate social responsibility and incorporation of ESG factors into the investment process (e.g., responsible investment policy, sustainability reporting, integration of ESG KPIs implementation of thematic ESG strategies, investment stewardship). In the second section, it examines the specific Underlying Fund by assessing product related ESG KPIs.

For both direct and indirect investments, all the information and documentation provided during the completion of the Sustainability Due Diligence Questionnaire together with any dedicated meetings with the Counterparty or Underlying Fund contribute to the compilation of a Sustainability Opinion, produced by the GIP ESG Private Assets team with the auxiliary support of external advisers, for the Investment Team. The investment opportunity's Sustainability Opinion would contribute to the final investment decision. The evidences are annually reviewed as a consequence of the monitoring activity performed by the GIP ESG Private Assets team and included in the periodic reporting documentation.

### Climate risk identification

GIP Climate risk identification is performed by the GIAM 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 GIAM 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.

## 1.2 SUSTAINABILITY RISK STRATEGIES

GIP implements a range of ESG strategies aimed at mitigating sustainability risks and achieving the ESG goals of such portfolios according to the relevant individual mandate or CIS Rules/Prospectus:

- Negative / exclusionary screening aimed at limiting investments in sovereign, companies 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.

In addition to the application of negative, norms-based or best-in class approach, GIP is organized to adopt ESG integration techniques, when feasible, with the objective of:

- Incorporating financial and ESG information in portfolio construction process;
- Uncovering hidden risks as reputational risks;
- Enhancing returns anticipating trends;
- Focusing on ESG factors found to be material and likely to affect corporate performance and investment performance.

**Scope: The exclusions are applied to direct investments carried by GIP on all liquid asset classes.**

Bank deposits, multo constituents indices derivatives transactions and custodian services are out of scope.

**Negative / Exclusionary screening:**

**GIP Exclusion Lists:** regarding Negative/exclusionary screening, the list of issuers potentially excluded is defined on the basis of outsourcing agreement with GIAM ESG I&S, on the base of the involvement in specific business activities.

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

**The exclusions are applied to direct investments carried by GIP on all liquid asset classes.**

Bank deposits, multi-constituent indices derivatives transactions and custodian services are out of scope.

ESG data providers enable to identify the issuers not compliant with the screening criteria.

The list of issuers not meeting the ESG requirement is communicated to the investments and investments control functions and then incorporated in GIP front office tool

Exclusions framework is based on three pillars:

➤ Controversies Exclusion for corporate and sovereign issuers.

|                   | Screening and identification  |
|-------------------|---|
| Corporate issuers | <p>GIP avoids investing in companies responsible of ethical violations (e.g. breach of the principles of UN Global Compact), namely:</p> <ul style="list-style-type: none"> <li>▪ companies involved in systematic human rights and/or labor rights violations;</li> <li>▪ companies involved in severe environmental damages;</li> <li>▪ companies implicated in cases of corruption and bribery.</li> </ul> <p>Based on external ESG data providers, issuers are excluded in case of low Controversies Scores according to the MSCI scale and methodology (for more details see <a href="#">here</a>). However, the ESG Integration and Solutions team can analyze particularly controversial cases and conclude that they disagree with external ratings by deciding to:</p> <ul style="list-style-type: none"> <li>▪ admit an issuer excluded on the basis of the ESG rating, or in the opposite case to exclude it; or,</li> <li>▪ initiate an engagement activity with the issuer in order to collect more information, it being understood that investments on this issuer remain suspended until the outcome of this activity.</li> </ul> |
| Sovereign issuers | <ul style="list-style-type: none"> <li>▪ FATF black list and EU non cooperative jurisdictions for tax purposes</li> <li>▪ Social: freedom house list</li> <li>▪ Governance: corruption perception index.</li> </ul>   |

➤ Laggards Exclusion – based on MSCI ESG Rating – for corporate and sovereign issuers.

|                   | Screening and identification |
|-------------------|------------------------------|
| Corporate issuers | CCC rating <sup>3</sup>      |
| Sovereign issuers | CCC rating <sup>2</sup>      |

<sup>2</sup>

➤ Sector and Controversial activity Exclusion for corporate issuers: details in ad hoc policies:

- Coal and Tar Sand exclusion (see Annex 1);
- Controversial Weapons and controversies Exclusion (see Annex 2).

According to the exclusion criteria defined for each of the above three pillars (see paragraph 3), issuers not fulfilling filter requirements are excluded from the investment universe and therefore put in the Restricted List and subject to specific action (i.e. Obligation to sell existing positions during the next 3 months, no new positions allowed).

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

**Application:** The GIAM 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 GIP's main investment tool for prompt communication to the investments function, including blocking alerts. The lists are applied, to all portfolios / funds direct investments 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 GIP'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 GIAM ESG I&S, when feasible and on the basis of outsourcing agreement, and corresponds to the identification of issuers involved, 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<sup>3</sup> environmental damages;
- viii) Gross corruption cases.

GIAM 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

| Letter Rating | Leader/Laggard | Final Industry-Adjusted Company Score |
|---------------|----------------|---------------------------------------|
| AAA           | Leader         | 8.571* - 10.0                         |
| AA            | Leader         | 7.143 - 8.571                         |
| A             | Average        | 5.714 - 7.143                         |
| BBB           | Average        | 4.286 - 5.714                         |
| BB            | Average        | 2.857 - 4.286                         |
| B             | Laggard        | 1.429 - 2.857                         |
| CCC           | Laggard        | 0.0 - 1.429                           |

<sup>3</sup> As defined by extensive to extremely widespread scale of damage and serious to very serious nature of impact according to the scale and methodology (for more details see [here](#)).

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 GIP's ones and which have been accepted by GIP. For financial instruments, already purchased for managed portfolios, subsequently resulting issued by those companies identified as restricted and subject to specific action (i.e. Obligation to sell existing positions during the next 3 months, no new positions allowed)

**Positive screening:** for products classified as art. 8 under the scope of SFDR classification, GIP 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/universe. Alternatively, the overall ESG performance of the portfolio must be higher than the benchmark's or investable universe's (equivalent approaches are allowed: e.g. “rating upgrade approach”, 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 Investment functions in the main investment tools and can be taken into consideration in the investment decision, together with the financial decision-making elements.

## Negative / Exclusionary screening for managed Private Capital Funds

### Article 8/9 under SFDR Regulation

For the managed Private Capital funds classified as Article 8 or Article 9 of SDFR, the sustainability issues mitigation activity is performed by the GIP ESG Private Assets team through a Negative/Exclusionary screening strategy.

The Negative/Exclusionary screening is the first ESG strategy performed by the GIP ESG Private Assets team aimed at mitigating sustainability issues. The exclusion decision is assessed for each investment opportunity through the Sustainability Due Diligence process and, in particular, the Sustainability Due Diligence Questionnaire varying according to direct and indirect investments. In details:

- For the direct investments, the questionnaire investigates the total Counterparty exposures to Unconventional Weapons, Coal sector and Unconventional Oil & Gas: Fracking, Arctic and Tar Sands sector, as well as to Ethical Violations<sup>4</sup>. The investment is excluded if the total exposures exceed the thresholds defined by the respective policies annexed to the Policy. In case the exposure is detected during the ownership phase of the investment cycle, the Investment Team defines a remedy/ mitigation plan also taking into consideration the actual market conditions and the illiquid nature of the investments;
- For the indirect investment, the questionnaire assesses the Exclusion Policy applied by the Asset Manager on the Underlying Fund in order to identify the presence of both the sectorial exclusions and controversial activities screening criteria. Failure to meeting these screening criteria results in the exclusion of the investment opportunity unless the Asset Manager commits to integrate them in its Exclusion Policy. In case, during the holding period of the investment process, the Asset Manager does not respect the commitment, the Investment Team defines a remedy/ mitigation plan also taking into consideration the actual market conditions and the illiquid nature of the investments.

In performing the Negative/Exclusionary screening activity, GIP ESG Private Assets team may consider granting exceptions to Counterparties or Underlying Funds which are close to the exclusion thresholds and that have a credible transition plan away from any exclusionary criteria. The exceptions would follow an ad-hoc assessment of the materiality and credibility of the transition plan.

### Article 6 under SFDR Regulation

<sup>4</sup> “Ethical violations” means, for instance, the breach of the principles of UN Global Compact, such as: i. systematic human rights and labor rights violations, ii. involvement in severe environmental damages, iii. implications in corruption and bribery.

The sustainability issues mitigation activity for managed Private Capital Funds classified as Article 6 of SFDR is carried out internally and directly by the Private Assets' Investment Team applying only the Negative/Exclusionary screening through dedicated questions submitted during the investment decision making process within the Due Diligence package.

### Voting and engagement

For products classified as art. 8 and art. 9 under the scope of SFDR classification and in case of material ESG risks associated to a specific issuer, the GIAM Active Ownership team evaluates, in light of the relevant outsourcing agreement, the opportunity of engagement actions. The GIAM 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.

For the managed Private Capital funds classified as Article 8 or Article 9 of SDFR, the GIP ESG Private Assets team with the auxiliary support of external advisers is responsible for the engagement practices for both direct and indirect investments. The engagement activity extends throughout the entire investment process.

### Good Governance Practice Assessment

For products classified as art. 8 and art. 9 under the scope of SFDR classification, GIP adopts the following Good Governance Practice Assessment.

Governance factors are intended as decision-making practices, rules and procedures from sovereigns' policy making 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 GIP assessments.

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

- **Positive screening assessment**, which indirectly guarantee good governance standards thanks to the maximization of ESG scores, which include a weighted G assessment;
- **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 GIAM ESG I&S, in light of the relevant outsourcing agreement, may go beyond the external controversy scores and perform a proprietary in-house analysis of the controversy;
- **Engagement**: the dialogue of the GIAM Active Ownership function 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.

For the managed Private Capital funds classified as Article 8 or Article 9 of SDFR, the assessment of good governance practices is performed by the GIP ESG Private Assets team through the Positive or Best-in-class screening procedure as defined in the paragraph "*Sustainability risk strategies for Private Capital funds*". The analysis especially focuses on the Corporate Social Responsibility (CSR) and corporate governance practices of the Counterparty for direct investments or Underlying Fund for indirect investments.

## 1.3 PROCESS GOVERNANCE

### Governance of ESG Risk Assessment and Integration process

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

GIAM ESG Integration & Solutions team, under the direction of GIP OBR and GIP CEO and following the path traced by clients or funds' rules/prospectus, is in charge of defining the sustainability risk assessment methodology and the management of the ESG score and climate metrics and parameters. In addition, GIAM ESG Integration & Solutions team supports and collaborates with Investments area providing ESG opinions, views and research on relevant ESG and climate topics in order to ensure that the investment decision-making process is made on the basis of updated quantitative and qualitative information.



Periodically, GIP Risk Management function, based on the ESG criteria defined by GIAM ESG Integration & Solutions and on the reports available, monitors the exposure towards the Issuers included in the ESG lists (e.g. Restricted List) and verifies the respect of the ESG investment limits in order to monitor the sustainability risks on investment decisions.

### **Reporting of the process**

GIP 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 GIP OBR 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 area 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.