

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



# COAL AND UNCONVENTIONAL OIL & GAS SECTOR EXCLUSION

**WEBSITE VERSION**

[generali-invest.com](http://generali-invest.com)

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## Glossary and Definitions

Term	Definition
<b>BoD</b>	Board of Directors
<b>CCUS</b>	Carbon Capture, Usage and Storage
<b>CIS</b>	Collective Investment Schemes
<b>ESG</b>	Aspects related to Environmental, Social, Governance factors
<b>GIAM</b>	Generali Insurance Asset Management SGR S.p.A.
<b>GW</b>	GigaWatt
<b>IEA</b>	International Energy Agency, autonomous intergovernmental organization who provides authoritative analysis, data, policy recommendations, and real-world solutions to help countries provide secure and sustainable energy
<b>IPCC</b>	Intergovernmental Panel on Climate Change, an intergovernmental body of the United Nations responsible for advancing knowledge on human-induced climate change.
<b>MSCI</b>	Morgan Stanley Capital International, an independent provider of ESG data, reports and ratings
<b>NZE</b>	Net Zero Emissions
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>P&amp;L</b>	Profit and Loss
<b>SBT</b>	Science Based Targets

## 1. Scope of application of the Policy

This GIAM Coal and Unconventional Oil & Gas Sector Exclusion Policy applies to direct investment transactions concerning listed and unlisted equity and debt instruments issued by the corporate entities meeting the exclusion criteria, performed by GIAM in the provision of both the individual portfolio management service as well as the collective asset management of the Collective Investment Schemes (CIS).

In terms of asset classes, bank deposits (i.e., time and cash deposits) and derivatives transactions are excluded from the scope of application of this Policy.

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 one. Conversely, in case such exclusion policies are less restrictive than GIAM's one, GIAM reserves itself the right of not accepting any such less restrictive policies, on a case-by-case basis.

### 1.2 APPROVAL AND REVIEW

GIAM Board of Directors has approved this Policy upon proposal of GIAM CEO, who is also in charge for ensuring the implementation of the Policy.

Any possible review of the policy remains subject to approval by the BoD. This Policy is regularly reviewed and updated with the support of the ESG Integration & Solutions, having regard to possible changes to the regulatory requirements, GIAM's organization or business, the way in which GIAM conducts business (e.g. changes to the distribution model) and internal regulations. The reviewed version then of the Policy is submitted to the BoD for approval by the GIAM CEO.

The updated version of the Policy is published on GIAM's website.

## 2. Coal Sector

Overall progress towards the Paris Agreement goals requires a “steep reduction” in the use of coal, the main factor responsible for climate change attributable to human activity.

The IPCC states that coal-fired electricity generation must be reduced to near-zero in all climate scenarios consistent with limiting warming to 1.5 °C. Further, combustion of thermal coal needs to be reduced by 75% from 2010 levels by 2030, and by 98-100% by 2050.

According to the Science Based Targets (SBT), for financial institutions to phase out financial support to coal across all their activities in line with a full phaseout of coal by 2030, they need to immediately cease all financial or other support to coal companies, that are building new coal infrastructure or investing in new or additional thermal coal expansion, mining, production, utilization (i.e., combustion), retrofitting, or acquiring of coal assets.

According to Climate Analytics, between 2030 and 2040 all the regions should phase out of coal. The first regions to phase out are the OECD, Eastern Europe and Former Soviet Union countries - by 2031, followed by Latin America by 2032, Middle East and Africa by 2034, and finally non-OECD Asia by 2037, completing a global coal phase-out before 2040.

According to IEA (International Energy Agency), in a new scenario to reach net-zero emissions by 2050 (called Net Zero Emissions by 2050 - NZE2050), the share provided by coal plants without CCUS will fall sharply from 37% in 2019 to 6% in 2030 (with the share of renewables in global electricity supply rising from 27% in 2019 to 60% in 2030 and nuclear power generates just over 10%).

With this policy, GIAM commits to reducing to zero the exposure to coal of all business lines by 2030 in European and OECD countries, and by 2040 in the rest of the world.

GIAM commits to strengthening the exclusion criteria and thresholds regularly to end all support to companies active in the coal sector by the above-mentioned dates.

### 2.1 COAL SECTOR EXCLUSION

GIAM identifies companies as potential exclusion if one or more of the following criteria occurs:

- Coal-related business: more than 20% of the revenues deriving from coal;
- Coal power generation: more than 20% of power generated from coal;
- Companies with an installed coal power capacity of more than 5 GW.

In addition, GIAM committed to increase the level of scrutiny by applying two additional stringent criteria:

- Coal mining: more than 10 Million Tons of Coal production per year.
- Companies involved in coal mining and power expansion projects.

At every annual screening, the companies involved in thermal coal business are reanalyzed to verify if there are elements to reinclude any company in the investable universe. If the analyzed company no longer triggers the thresholds defined for exclusion, the company exits the Coal Restricted List.

#### ***Exceptions and Engagement***

The coal exclusion list is formed using the thresholds defined in this Policy. The ESG I&S function may consider granting exceptions to issuers which are close to the exclusion thresholds and that have a credible energy-mix transition plan away from coal. The exceptions would follow an ad-hoc assessment of the materiality and credibility of the coal-phase out plans. A SBT (Science Based Target), even if not exclusively focus on the coal phase out plans, can be considered as a credible decarbonization plan as well as a commitment to reducing to zero the exposure to coal of all business lines by 2030 in European and OECD countries, and by 2040 in the rest of the world (in line with GIAM coal exit strategy), accompanied by public updates, disclosures and dialogue with investors compatible with a clear reduction path.

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In the event that more information is required to assess the coal phase out strategy, the companies will be engaged. If the engagement efforts do not lead to obtaining more relevant information on a time horizon of 9 months, the companies will be considered as restricted.

### 3. Unconventional Oil and Gas Sector

GIAM commits to no longer make new investments in companies involved in the exploration and production of fossil fuels from Tar Sands. Effective January 2023, GIAM is extending the exclusion policy both to issuers involved in exploration and production of oil and gas extracted by fracking (shale oil, shale gas, tight oil, tight gas) and to issuers with onshore and offshore exploration and production activities that fall within the Arctic Circle.

Particularly, GIAM will not invest in companies:

#### **Fossil fuels from Tar Sands**

- with more than 5% of revenues derived from Tar Sands exploration and production;
- operating controversial pipeline dedicated to the transport of Tar Sands.

#### **Oil and gas extracted by Fracking**

- with more than 10% of revenues derived from fracking exploration and production.

#### **Oil and gas from the Arctic Circle**

- with more than 10% of revenues derived from Oil and Gas exploration and production from Arctic Circle.

The identification of the restricted companies is carried out according to the information sourced by external ESG data providers. For issuers or sub-set of information not completely covered by MSCI, data can be complemented by other publicly available ESG data sources and/or investee companies' public disclosure or information shared through the engagement relationship.

At every annual screening, the companies involved in Unconventional Oil & Gas businesses are reanalyzed to verify if there are elements to re-include any company in the investable universe. If the analyzed company no longer triggers the criteria defined for exclusion, the company exits the restricted list.

## 4. Process

The list of restricted issuers is defined by the ESG Integration & Solutions according to the above-indicated Coal and Unconventional Oil & Gas Sector exclusion criteria.

ESG data providers enable to identify the issuers not compliant with the screening criteria. GIAM identifies MSCI as the reference data provider. For issuers or sub-set of information not completely covered by MSCI, data can be complemented by other publicly available ESG data sources and/or investee companies' public disclosure or information shared through the engagement relationship.

On an annual basis, the ESG Integration & Solutions function sends the list of restricted issuers to the Investments function for screening and immediate application purposes, as well as to the Risk Management function for monitoring purposes. The list is applied to all managed relevant portfolios as regard the financial instruments falling under the scope of application of this Policy,

The list is then integrated into GIAM's investment tools, as outsourced to Generali Investments Holding, used by portfolio managers in order to be flagged by blocking alerts.

For those companies identified as restricted the following actions apply:

- No new investments are allowed; the list of restricted issuers is integrated in GIAM's investment management system that prevents the possibility for the portfolio managers to insert orders on any such issuers;
- For existing exposure: the relevant portfolio manager can decide, in the best interest of the managed portfolio and depending on the type of financial instruments concerned, to
  - (i) hold to maturity
  - (ii) perform opportunistic sales, depending on the individual case and considering potential constraints (e.g., balance sheet constraints, potential P&L impact for Group and Policyholders, market liquidity conditions, Asset and Liability Management constraints, Risk Management limits).