

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



SUSTAINABILITY POLICY AND ADVERSE SUSTAINABILITY IMPACT STATEMENT

Implementation of Regulation (EU) 2019/2088 Art. 3 and Art. 4

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Document summary

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Glossary and Definitions

Term	Definition
AGM	Annual General Meeting
BOD	Board of Directors of the Company
CEO	Chief Executive Officer of the Company
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	Generali Insurance Asset Management SGR S.p.A.
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
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	<ul style="list-style-type: none"> i) 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 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	<ul style="list-style-type: none"> (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

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

Term	Definition
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

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.
INVESTMENT STEWARDSHIP	Investment Stewardship is in charge for defining the sustainability risk assessment methodology and the management of the ESG score and climate metrics and parameters. In addition, the Investment Stewardship team supports and collaborates with Investments Function 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. Furthermore, Investment Stewardship is in charge of performing Active Ownership activities (voting and engagement).
INVESTMENTS FUNCTION	Investments Function collaborates with Investment Stewardship 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.
RISK MANAGEMENT FUNCTION	Risk Management function , based on the ESG criteria defined by Investment Stewardship 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.

Introduction

Generali Insurance Asset Management S.p.A. SGR (“GIAM”), part of the Generali Group, is committed to Sustainable 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. Furthermore, GIAM seeks to have an influence on issuers' behaviours, through engagement and voting activities according to GIAM internal policies and procedures.

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.

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 document which comprises of:

- i) the “Policy on the integration of sustainability risks in the investment decision-making process” in the first section; and,
- ii) the “Adverse Sustainability Impact statement” in the second section.

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 N 202103, published on 2nd February 2021, are still in final draft and will be effective, if confirmed by the European Commission, starting from 1 January 2022.

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.

1. 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 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, considering ESG factors in trend and valuation analysis, where material. GIAM believes that ESG risks will have a significant impact on these macroeconomic risk drivers and therefore on the risks and return of the portfolio.

1.1 SUSTAINABILITY RISK ASSESSMENT

Sustainability risk identification

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.

GIAM ESG risk identification activity, performed by Investment Stewardship, is guided by a two-layer framework that includes ESG risk identification at Sector and Issuer level:

- i) **Sector:** ESG sector risk identification is intended to recognize risks that could potentially cause sector-specific negative alteration, such as disruptive environmental technologies, sector-specific constraints, and the impact of climate risks, physical and transitional. In particular, ESG sector analysis seeks to isolate issues that could potentially alter long-term sector-specific competitive forces and at this regard, given that not all sectors are exposed to the same ESG issues, the first step of the sector analysis is a materiality matrix, where sector-specific criteria across environmental, social, and governance dimensions are identified.
- ii) **Issuer:** GIAM ESG assessment at issuer level starts by the identification of the material risks affecting the company, taking into consideration the sector to which the company belongs and the company’s specific risks. ESG issuer risk identification is intended to detect sustainability risks and opportunities that can impact the evolution of performance of the issuer. Indeed, while successful ESG strategies can create value to company, companies performing ESG risk management can avoid costs by managing risks and increasing resiliency to sector and macro adverse trends. GIAM ESG issuer analysis allows to measure the ESG risks, also capturing whether the issuer’s practices on ESG are improving or worsening over time.

Sustainability risk measurement and materiality

Sustainability risks, as ESG factors that can be detrimental to the value of the investment, are identified in the two-layer framework and measured both in a quantitative and qualitative manner in order to inform the Investments Function with the most updated and reliable figures and information to be integrated in the investment decision-making process.

Sustainability risk can be measured both in absolute and in relative (vs benchmark) terms. Data building leverages on internal ESG experts’ research in conjunction with sustainability news, scores and raw data coming from multiple external providers. Third-party data coming from ESG external provider are vetted and cross-checked with both external and internal researches. Qualitative assessments can be performed internally in cases where available data are not sufficient to correctly measure and manage material sustainable risks.

ESG risk measurement is also informed by evidence coming from other two key activities performed by Investments Stewardship, Engagement with issuers and voting in the general meetings in accordance with internal policies on engagement adopted by GIAM. In case material ESG risks are associated to a specific issuer, engagement aims at understanding in depth the positioning, process & behavior of the company, identifying the specific improvements that could be implemented, and supporting the company in the transition advocated. The voting activity could be also a source of risk identification and measurement. Indeed, during interactions with issuer in pre-AGM, Investment Stewardship can identify specific governance risks, having - in these interactions - the opportunity to suggest risk mitigations actions.

GIAM ESG assessment focuses on the Sustainability risks in each sector or business. The exception is with corporate governance, where GIAM considers the risks an important part of our evaluation horizontally and not based on the sector of incorporation.

ESG Risk Assessment, as fundamental part of the ESG Integration Process, is intended to identify, measure and monitor sustainability risks for each issuer. The process is a combination of multiple elements, starting from a materiality matrix aimed to identify the ESG factors that are material for each Industry sector and then determining an ESG score embedding also other ESG factors, such as voting and engagement results as mentioned.

GIAM aims to identify and quantify those ESG factors and insights that can strengthen and better inform the investment recommendations based on their financial materiality.

GIAM's aim is to create a holistic ESG approach which emphasizes materiality. This element is fundamental in the methodology applied: GIAM focuses on ESG metrics that have a significant financial impact on the investments. Sustainability risks can include increased cost of revenues, R&D, Capital Expenditures (Capex), Extraordinary Expenses, Contingent Liabilities & Provisions, Pension & Other Liabilities, cost of Capital for the issuers. The issuer can also capture opportunities by entering new markets (via green products for instance) or by adapting its existing products to the evolutions in demand. Those elements can also lead to positive and negative dynamics in pricing and direct impacts on both tangible and intangible assets.

In GIAM's view, a strong positive ESG view signifies that an issuer has a higher likelihood of showing resiliency and better long-term strategic positioning than issuers with a negative ESG view. Moreover, as material indicators can affect an issuer's balance sheet, income and cash flow statements, a key principle embedded in our approach is the avoidance of the "reputational risk": a news that will negatively affect an issuer's reputation and valuation.

1.2 SUSTAINABILITY RISK STRATEGIES

The above-described assessment activity performed to identify and measure sustainability risks is the first step in order to create and implement investment strategies which aim at mitigating sustainability risks. In this regard, GIAM implements a wide range of ESG screening strategies which are based on clients' agreements and funds' rules/prospectus, such as the application of:

- 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 screening, GIAM is organized to adopt ESG integration techniques with the goal of:

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

Negative / Exclusionary screening

Regarding Negative/exclusionary screening, the list of issuers potentially excluded is defined by Investment Stewardship on the base of the involvement in specific business activities.

ESG data providers enable to identify the issuers not compliant with the screening criteria (e.g. tobacco, child labor, defense and weapons - controversial weapon).

The list of issuers not meeting the ESG requirement is communicated to the investments function and then applied by the latter depending on the mandate or funds' rules/prospectus.

Norms-based screening

Norm-based screening is performed by Investment Stewardship 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 environmental damages;
- viii) Gross corruption cases.

Investment Stewardship detects these issues via an in-house assessment, which aims to evaluate the compliance of the issuers with the screening criteria case-by-case applied.

According and in line with the principles currently set, the current practices foresee the definition of two lists, namely:

- i) ESG Restricted List (very high severity of controversies - not investable); and,
- ii) ESG Watch List (high severity of controversies - companies being monitored due to involvement in relevant controversies but no restriction on investments)The above lists of issuers are communicated to the investments function and then applied by the latter depending on the mandate or funds' rules/prospectus.

Positive screening

When positive screenings are applied, Investment Stewardship defines a list of issuers that ensures a potential sustainable investments universe based on the issuers' ESG positive performance relative to industry peers in the same sector. The ESG scores are therefore comparable across the whole investment universe and enable to avoid sector biases.

This relative ESG score assigned to investment universe by ESG analysts, which considers the material sustainability risks identified, is the key aspect in positive screening methodologies. Based on their scores, issuers are classified in different categories of ESG performance in a similar way to the credit ratings. Investment Stewardship team has defined the average category as the minimal threshold to determine investment eligibility into sustainable investment universe, thereby considering only the issuers bearing an acceptable level sustainability risks compared to peers as part of the sustainable investment universe. If the score assigned is within or above this average category, the issuers can be accepted in the sustainable 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 funds' rules/prospectus.

Reputational Risk integration

Environmental, social, and governance (ESG) controversies can be costly, and even highly regarded issuers are subject to reputational risk. As additional tool for facilitating ESG integration and help inform short-term investment performance, even if no ESG constraints are set into the mandates, GIAM tracks reputational risk and assess in coordination with investments professionals the possibility to exclude issuers from investable universe on the basis of ethical considerations or the identification of others ESG risks. 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. To capture instantaneously positive/negative signals, GIAM leverages on an internal database, owned by the Investment Stewardship team within GIAM, that updates automatically on a regular basis.

Integration of climate factors

GIAM performs climate-related analysis and engagement to assess and mitigate companies' exposure to transition and physical climate risks influencing them to make changes or set more ambitious targets.

Among ESG themes, climate-related concerns gained greatest importance due to increasing regulatory and societal pressures, as well as their growing impacts on issuers in terms of transition and physical risks. As such, climate topics are embedded into GIAM's in-house ESG research (bottom-up), and they also represent a stand-alone topic.

Climate regulations are increasing exponentially, and GIAM is taking a proactive approach by voluntarily opting into climate initiatives and building multifaceted climate strategies.

Particularly, GIAM is active in supporting clients towards their decarbonization strategies by integrating climate assessment in their portfolios where relevant.

When conducting climate analysis and optimization on both fixed income and equity portfolios, GIAM bases its methodology on fundamental and quantitative metrics. A broad range of dynamic indicators are included, such as:

- i) Backward and forward-looking emissions criteria (actual and expected emissions: decarbonization pathways);
- ii) Temperature scenarios alignment;
- iii) Climate historical performances;
- iv) Peers' s climate comparison;
- v) Companies' current climate positioning;
- vi) Sovereigns' current climate positioning.

As a result of the analysis, climate strategies can be implemented with the aim of ensuring that client's investment positioning reflects the company's view and commitment towards climate change topics, with particular focus on transition risk and physical risk.

1.3 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 (fund rules/prospectuses).

Investment Stewardship team, under the direction of GIAM CEO to which reports 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, the Investment Stewardship team supports and collaborates with Investments Function 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 the Risk Management function, based on the ESG criteria defined by Investment Stewardship and on the reports available, monitors the exposure towards the Issuers included in the ESG lists (e.g. Restricted List, Watch List) and verifies the respect of the ESG investment limits in order to monitor the sustainability risks on investment decisions.

Investment Stewardship attends to the Investment Committee in order to foster alignment on ESG topics within the Investments area.

Reporting of the process

Annually, GIAM publishes on its website the updated version of the present Policy.

Internally, the Board of Directors is informed annually, by Investment Stewardship, 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.

2 Adverse Sustainability Impact Statement

Complying with art. 4 of the SFDR, the Statement on due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factors, hereinafter also referred to as the “Principal Adverse Impacts (PAI) Statement” or the “Statement”, aims to describe information about the policy on the identification and prioritisation of principal adverse sustainability impacts and indicators; a description of the principal adverse sustainability impacts and of any actions in relation thereto taken or, where relevant, planned; taking due account of the GIAM size, the nature and scale of GIAM activities and the types of financial products it makes available.

The Statement also provides a brief summary of GIAM engagement policy and a reference to their adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of their alignment with the objectives of the Paris Agreement.

We consider this Statement to be a real breakthrough on the road to disclosing GIAM best-practices on sustainability, while building standards on reliable methodologies and figures to be disclosed in the future.

As one of the leading European asset managers, GIAM is eager to promote progress on global environmental and social challenges. We believe the material impact that GIAM can have on global sustainability factors is of the greatest importance, ranging from pursuing investment actions to accelerate the transition to a low-carbon/net-zero emission economy to reducing the probability of events such as abrupt social disruptions (e.g. coming refugee crises due to displaced people because of extreme weather conditions). On the other hand, it is GIAM belief that negative externalities that companies accumulate overtime, build up as negative implications on their balance sheets, cascading negatively on investors’ performance. For this reason, GIAM implements mitigation actions (e.g. using vote and engagement) to eliminate/reduce the negative impact of sustainability adverse factors on its financial returns and those of its clients.

2.1 IDENTIFICATION AND PRIORITISATION OF PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

Misguided investment choices can have a potential adverse impact on stakeholders, environment and society.

GIAM, as part of Generali Group, considers the Group sustainability materiality matrix, [available online](#), as an important reference in order to identify and prioritize external adverse impacts.

Generali Group, which GIAM belongs to, is among the signatories of the United Nations Global Compact (2007), Principles for Responsible Investments (2011), Paris Agreement (2015), TCFD (2017) and Net Zero Asset Owner Alliance (2020).

GIAM, due to the afore-mentioned adherence to climate initiatives by Generali Group, believes that the climate change is one of the most relevant topics in regard to the impacts of its activities. GIAM can have an important impact on the environment through its investment choices. As an asset manager, GIAM can influence the investee issuers, by reducing the investments in polluting companies and providing more financing to cleaner and more environmentally friendly activity. Furthermore, in regard to Social and Governance factors, GIAM deems business involvement and behavior of the investee companies to be of the utmost importance. These factors could impact negatively the broader society and the corporate governance, hence the long-term performance, of the investee companies.

Based on the above, GIAM has decided to assess its impacts on sustainability factors through three different criteria, deemed to have the same priority among them, a climate change-related one and two linked to the business involvement of investees.

Following the list of PAI used to assess GIAM’s impact and their underlying methodology:

- **Greenhouse gas emissions (“GHG”)**: through investment choices, GIAM can invest companies and activity that have a higher or lower level of carbon emissions (expressed in CO₂e). A transparent view of the carbon footprint of our portfolios and investments shows how well our investments are promoting a cleaner and less polluting world. GIAM is supporting its clients in the commitment to align their investment to net zero carbon economy by 2050, such as their adherence to Net Zero Alliance Initiative, to reduce the carbon footprint of their portfolios.

METHODOLOGY: Currently, our emissions metrics consider direct GHG emissions (Scope 1 and 2) and we are assessing how to integrate Scope 3 emissions in the future. The metrics that can be used to quantify portfolio emissions are several, and they are presented in the table below:

Carbon Intensity (also called: Weighted Average Carbon Intensity - WACI)	<i>This metric measures portfolio's exposure to carbon intensive companies. It is a proxy for a portfolio's exposure to potential climate change-related risks</i>	$\sum_i \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} * \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$
Carbon footprint	<i>It expresses the impact on the environment</i>	$\frac{\sum_i \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 carbon emissions}_i \right)}{\text{current value of all investments (€M)}}$
Carbon Emissions	<i>Helps to make comparable portfolios of different sizes</i>	$\sum_i \left(\frac{\text{current value of investment}_i}{\text{investee company's enterprise value}_i} \times \text{investee company's Scope 1, 2 and 3 carbon emissions}_i \right)$

- **Exposure to controversies in the portfolio:** based on an ESG assessment and according to clients strategies or funds' rules/prospectus, companies revealing their involvement in the below controversies and/or in the below business sectors are either excluded from the investment universe if not meeting requirements, or strictly monitored and possibly engaged to further evaluate their positioning. Furthermore, in cases where there is any investment exposure to this companies prior to the identification of these issues, in addition to banning any new investment, it is immediately divested all equity and run off fixed income exposure.

Involvement in controversies which potentially infringe the principles of United Nation Global Compact:

1. companies involved in serious or systematic human rights and/or labour rights violations;
2. companies involved in severe environmental damages;
3. companies implicated in cases of gross corruption and bribery.

METHODOLOGY: Starting from ESG providers' information, we identify controversies on serious environmental damages, social/employees/human rights violating (e.g. breach of the Global Compact principles) and corruption and bribery issues related to our investments. Then, we carry out a *severity assessment* of the controversy based on the intensity (impact of the controversy) and the accountability (to what extent the controversy could have been avoided with adequate measured taken from the firm) of the controversy. The application of such methodology results in a list of companies that are highly controversial hence *restricted* from the investible universe, where an exclusion strategy is implemented.

- **Exposure to controversial weapons:** According to the principles of ethical filters applied, GIAM does not invest in companies that use, develop, produce, acquire, stockpile or trade controversial weapons (cluster bombs, antipersonnel landmines, nuclear weapons, biological and chemical weapons), or key components/services of such weapons.

METHODOLOGY: the methodology to identify "controversial weapons" follows the relevant international treaties and conventions, such as the Treaty on the Non-Proliferation (NPT) on nuclear weapons, Convention on Cluster munitions, the Anti-Personnel Mine Ban Convention and the Biological and Toxin Weapons Convention. We apply two different assessment criteria considering the degree of involvement of the Issuers:

Direct involvement: "use, develop, produce, acquire, stockpile or trade controversial weapons or key components/services of controversial weapons";

Indirect involvement: "use, develop, produce, acquire, stockpile or trade non-key components/services of controversial weapons". Where such methodology is implemented, GIAM produces a list of companies that are involved hence restricted from investible universe.

2.2 ACTIONS TO ADDRESS PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

While this is GIAM first disclose period, hence we will monitor interim achievements in the future, GIAM is already involved in initiatives that aim at limiting/eliminating the potential adverse impact of investments.

Specifically referring to the impacts disclosed above⁴, GIAM implements mitigation strategies in line with the agreement with its clients or the funds' prospectus:

1. **application of Ethical Filters** through the definition of a restricted list that includes companies matching one or more of the following criteria:
 - Breaching the Non Proliferation Treaty for Nuclear Weapons;
 - Directly involved in cluster munitions, antipersonnel landmines and biological / chemical weapons;
 - Involved in one or more of the following breaches of the United Nations' Global Compact Principles: serious or systematic human rights violations; severe environmental damages; gross corruption.
 - Coal sector exclusion:
 - Coal-related business: more than 30% of the revenues deriving from coal;
 - Coal mining: more than 20 Million Tons of Coal production per year;
 - Coal power generation: more than 30% of power generated from coal;
 - Coal expansion: companies actively involved in building new coal capacity (coal plants).
 - Tar Sands sector exclusion:
 - Tar Sands revenues: more than 5% of the issuers' revenues derived from Tar Sands extraction;
 - Tar Sands transportation: operators of controversial pipelines dedicated to Tar Sands transportation.

Where Ethical Filters are implemented, issuers classified in the restricted list are excluded from the investment universe and no new investments shall be carried in any asset class. For existing exposure (if any), opportunistic sales should be envisaged.

This list of issuers is based on several ESG data providers input and is analyzed by Investment Stewardship team, with a particular focus on the issuers identified as in violation of the United Nations Global Compact Principle, which require a clear understanding of the severity of the controversies. This analysis is carried out twice a year by Investment Stewardship and the resulting updated list is communicated to all the investments structures. In order to monitor investments in these issuers and set up investment restrictions, the list is integrated in our investment management system.

2. **Transition to a low-carbon economy**

GIAM voluntarily pledges the reduction of portfolios' emissions and - more broadly, the low-carbon transition. GIAM developed a proprietary methodology to assess and improve portfolios climate sensitivity by (i) identifying climate leaders and laggards and (ii) optimizing portfolios according to various climate strategies, as recommended by best practice (NZ AoA, TCFD, etc.). This methodology includes the use of forward-looking criteria and indicators, given GIAM belief that the assessment of climate-related risk based solely on a backward-looking approach is insufficient to cover plausible possibilities of the future development. An example of forward looking indicator is the companies' SBTs commitments. Further, the developed methodology also describes how climate metrics have changed over time, hence it will support portfolio managers in considering climate metrics in investment decisions and monitoring.

⁴ See previous paragraph 2.1

2.3 ENGAGEMENT POLICIES

GIAM activity to mitigate its negative impacts is not only driven by the investment decisions, investment or divestment, but also by engagement with companies leveraging on dialogue and vote to foster a positive change. Reducing impacts on sustainability factors through the reduction of issuers' impacts is a positive solution for investors, investees and sustainability.

The GIAM Engagement Policy, [available online](#), defines the principles, active ownership activities, and responsibilities leading the role of GIAM as an asset manager. In this role, GIAM has a fiduciary duty and takes action accordingly by (i) monitoring investee issuer companies, (ii) engaging them on financial and non-financial topics including ESG issues, and (iii) voting at general meetings for the dissemination of best practices in terms of governance, professional ethics, social cohesion, environmental protection, and digitalization.

The GIAM Engagement Policy has been drawn up in compliance with the obligations introduced by the Shareholder Rights Directive II into the Decreto Legislativo 24 febbraio 1998, n. 58 - Testo Unico della Finanza (TUF) as regards the engagement policy of institutional investors (Art. 3g of Directive (EU) 2017/828 amending Directive 2007/36/EC) and duly takes into account best practices from international standards.

Briefly, the engagement process is structured as follows:

- i) **Engagement approach** – In general, Engagement is considered by GIAM as a constructive dialogue with different goals: to reinforce the understanding of the invested companies, to share the GIAM concerns on ESG and finally making actionable suggestions aimed to resolve potential ESG issues. The goal of the meetings with the company executives and directors is to share a long-term orientation, with a constructive and results-oriented approach. It is aimed at understanding how companies have transformed their operating model to embed ESG principles across their organization. In addition, when relevant, the cooperation with other investors who share the same concerns could take place in order to maximize the impact on the company engaged;
- ii) **Definition of Engagement priority list** – The first step is the definition of “Priority Engagement lists” (list of issuers), defined within “Engagement Committees” and driven by an evaluation of the ESG risks of our holdings. The Engagement Priority List is reviewed during each Engagement Committee, also taking into consideration principal adverse impacts connected to each specific issuer;
- iii) **Engagement Case** – Each Engagement Case presented to the Engagement Committee is composed of different elements: risk identified, questions, suggestions, task force, strategy, status & results;
- iv) **Engagement Execution** – Investment Stewardship is in charge for the engagement execution activities. During the execution, Investment Stewardship reports to the Engagement Committee the ongoing actions and informs it about the external elements that could impact the Engagement Cases;
- v) **Engagement Monitoring** – The Engagement Committee evaluates the status of each Engagement Case presented depending on the initial goals defined. Based on this evaluation the Head of Investment Stewardship can decide to: continue the engagement activity, escalate the intensity of the engagement, or close the Engagement Case;
- vi) **Engagement Impacts** – All Engagement Cases identify specific metrics as indicators to be improved over time, as a result of the engagement. They can be:
 - Carbon emissions, carbon intensity, reduction in coal capacity for climate related engagements,
 - Independence of the board, diversity ratio, pay ratio for governance related engagements,
 - Human rights, corruption controversies for social related engagements.

An extensive description of other activities performed by GIAM through engagement and voting could be found in the GIAM Active Ownership Report, [available online](#).