

# **ESG POLICY**

## **ON THE INTEGRATION OF SUSTAINABILITY FACTORS AND RISKS**

**pursuant to Regulation (EU) 2019/2088**

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## ESG POLICY

## 1. INTRODUCTION

This policy (the "**ESG Policy**") sets out the commitment of F2i SGR S.p.A. ("**F2i SGR**") relating to the incorporation of Environmental, Social and Governance ("ESG") sustainability criteria into investment strategies and processes<sup>1</sup> regarding equity and debt funds.

The ESG Policy complies with Regulation (EU) no. 2019/2088 of the European Parliament and of the Council of 27 November 2019 on disclosures regarding sustainability in the financial services sector (the "**SFDR**"). As such, it describes all the policies and processes applied by F2i SGR in the ESG area, from the phase of analysis and due diligence in preparation for the investment to monitoring and, in the case of equity funds, the engagement of portfolio companies. For more details on the specific ways in which F2i SGR takes into account the main adverse impacts of investment decisions on sustainability factors ("**PAI**") (pursuant to art. 4 of the SFDR), please refer to the "**PAI Statement**", of which the "**PAI Policy**" is an integral part, also available on the F2i SGR website<sup>2</sup>.

F2i SGR adopted the ESG Policy to ensure that the overall investment activities are carried out in the exclusive interest of the investors of the funds and with the aim of increasing the value of the investments over time through a policy marked on principles of social and environmental responsibility.

## 2. REFERENCES AND PRINCIPLES

- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "**SFDR**"), as amended; Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports (the "**RTS**");
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending SFDR (the "**Taxonomy**"), as subsequently amended;

<sup>1</sup> This Policy repeals and replaces the ESG Policy approved by the Board of Directors of F2i SGR on 15 December 2021, of which it constitutes an update, in accordance with the provisions of the SFDR.

<sup>2</sup> The PAI Statement of F2i SGR (which includes the PAI Policy) can be downloaded from the "[\*Sustainability Information\*](#)" section of the F2i website, under "[\*Statement on the principal adverse impacts on sustainability\*](#)".

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- Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives;
- Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting (the Corporate Sustainability Reporting Directive “**CSRD**”);
- Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, as subsequently amended;
- Supervisory Expectations for climate-related and environmental risks of the Bank of Italy of 8 April 2022 (the “Bank of Italy Expectations”);
- Directive 2014/95/EU of the Council and of the European Parliament of 22 October 2014 as regards disclosure of non-financial information (“**NFRD**”);
- Legislative Decree no. 254 of 30 December 2016, adopted to implement the NFRD;
- Principal adverse sustainability impacts statement (**PAI Statement**, of which the **PAI Policy** is an integral part);
- Principles for Responsible Investment adopted by the UN in 2006 (“**UN PRI**” or “**Principles**”);
- Italian Stewardship Principles issued in 2013 by the Corporate Governance Committee of Assogestioni;
- Stewardship Code adopted by the European Fund and Asset Management Association (EFAMA) on 31 May 2018;
- Standards promoted by the Global Real Estate Sustainability Benchmark (GRESB), for infrastructure investments, and the Sustainability Accounting Standards Board (SASB) for equity investments;
- Principles defined by the United Nations Global Compact;
- F2i SGR Internal Code of Conduct;
- Organisation, Management and Control Model of F2i SGR pursuant to Italian Legislative Decree no. 231 of 8 June 2001;
- Remuneration and Incentives policy;
- Conflicts of Interest Management Procedures;

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- Equity Investment Procedure;
- Equity Disinvestment Procedure;
- Debt Investment and Credit Position Monitoring Procedure (the “**Debt Investment Procedure**”);
- ESG Monitoring and Reporting Procedure;
- Diversity and Inclusion Policy.

In becoming a member of the UN PRI, F2i SGR has committed to observing and promoting the following six fundamental principles:


1. incorporating ESG issues into investment analysis and decision-making processes;
2. being active owners and incorporating ESG issues into ownership policies and practices;
3. seeking appropriate disclosure on ESG issues by target companies;
4. promoting knowledge and application of the UN PRI in investments;
5. working together to enhance effectiveness in implementing the UN PRI;
6. reporting on activities and progress towards implementing the UN PRI.

In particular, in signing up to the UN PRI, F2i SGR has publicly undertaken to adopt and implement them, in line with its responsibilities towards investors, by designing measures that can lead to concrete actions. F2i SGR also commits to periodically assessing the consistency and effectiveness of these interventions and actions, and to improving their content, aware that compliance with the UN PRI may lead to a better alignment of investment activities with the interests of the AMC and its investors as a whole.

Maintaining membership of the UN PRI network entails the obligation of preparing an annual Transparency Report (made public also through the UN PRI website), which assesses F2i's progress made in the enhancement of ESG issues.

Furthermore, by joining the UN Global Compact, F2i SGR has committed to promoting the following ten principles:

1. respect universally recognised human rights within their relevant spheres of influence;
2. ensure that they are not, even indirectly, complicit in human rights abuses;
3. uphold workers' freedom of association and recognise the right to collective bargaining;
4. eliminate all forms of forced and compulsory labour;
5. eliminate child labour;
6. eliminate all forms of discrimination in employment and occupation;
7. support a preventive approach to environmental challenges;
8. undertake initiatives that promote greater environmental responsibility;
9. encourage the development and diffusion of environmentally friendly technologies;
10. fight corruption in all its forms, including extortion and bribery.

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### 3. F2i SGR VALUES

F2i SGR manages long-term investment funds (equity and debt). Therefore, value creation is a key element of the business. This value creation is expressed through the recognition of certain core principles, which are an integral part of F2i SGR's values:

- **integrity**, which is a fundamental feature of the operations and organisational structure of the Asset Management Company and of the Funds managed and which is expressed, in particular, through: (i) constant monitoring of the risks of conflict of interest; (ii) the adoption of specific measures designed to prevent corruption; and (iii) with reference to equity funds, the requirements of suitability for office for the Chairman, the Chief Executive Officer and the other board members, in addition to the Statutory Auditors, appointed to the corporate bodies of the portfolio companies. More generally, the conduct of the AMC, at all levels of the company, is based on the principles of lawfulness, loyalty and good faith. Operating in compliance with the law, in an ethical and transparent manner, represents an essential condition, as well as a competitive advantage, for pursuing and achieving the AMC's objectives;
- **equal opportunities**, understood as both the absence of discrimination in the internal organisational structure (treatment of employees) and the development of gender equality and diversity within the boards of directors of the portfolio companies;
- **empowerment of human resources**, considered essential for responsible company management, by ensuring their training, professional development and safety in the workplace;
- **focus on energy transition**, through direct and indirect investments in operations related to the production of energy from renewable sources (solar, wind and biomass) and energy that is instrumental to the energy transition, to promote the development of the sector and the associated positive environmental impacts;
- **financing of projects with sustainability characteristics**, as recently demonstrated also through the launch of the fund called "F2i-Fondo per le Infrastrutture Sostenibili", in order to contribute to the construction of a sustainable development model;
- **exclusion of unethical investments**: see section 5, under the item "Negative Screening";
- **support to the non-profit sector**, through philanthropic projects, consistent with the values of social responsibility.

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#### 4. ROLES AND RESPONSIBILITIES

**Board of Directors (“BoD”):** is responsible for the approval and revision of the ESG Policy, the annual approval of the “*Principal adverse sustainability impacts statement*” adopted pursuant to art. 4 of the SFDR, of which the PAI Policy is an integral part as well as the approval of the Integrated Sustainability Report.

**Control, Risks and Sustainability Committee (“CRSC”):** assists the Board of Directors with investigative, propositional and advisory functions in assessing and deciding on sustainability issues.

**ESG Committee:** consists of the Chief Executive Officer, who chairs it, the Chief Investment Officer - Equity, the Chief Investment Officer - Debt, the Chief Financial Officer, the Head of the Strategy & Business Development Area and Head of the Regulatory, Legal and Corporate Area. It meets at least every six months to discuss the progress of the incorporation of ESG criteria into investment processes of F2i SGR. It discusses any changes to the ESG Policy or the PAI Statement to ensure compliance with articles 3 and 4 of the SFDR. It reviews and supervises the timely publication of ESG disclosures prepared by the ESG Sustainability Business Unit with regard to F2i SGR and each managed fund. With regard to equity funds only, it proposes the preparation and/or update of any Action Plans with reference to the individual portfolio companies, to be shared with management, in order to gradually remedy the most critical ESG aspects identified during the related due diligence and throughout the monitoring.

**Chief Executive Officer (“CEO”):** submits to the Board of Directors the proposals for amendments to the ESG Policy and the PAI Statement (including the PAI Policy), for whose implementation it is responsible, and the Integrated Sustainability Report for approval. He/she proposes to the Remuneration Committee the amendments to the Remuneration and Incentives Policy of F2i SGR in order to guarantee in the same the coherent integration of sustainability risks (in accordance with the provisions of art. 5 of the SFDR).

**Equity Chief Investment Officer (“Equity CIO”):** takes ESG factors into account, with the support of the ESG Sustainability Business Unit, when assessing investment and divestment opportunities. He/she ensures that the Investment Team also carries out the necessary ESG checks in the analysis and due diligence of each investment. He/she contributes, where necessary, to the preparation of an Action Plan for each target.

**Debt Chief Investment Officer (“Debt CIO”):** takes ESG factors into account, with the support of the ESG Sustainability Business Unit, when assessing investment opportunities. He/she ensures that the Debt Investment Team also carries out the necessary ESG checks in the analysis and due diligence of each investment.

**Chief Financial Officer (“CFO”):** proposes to the Chief Executive Officer the ESG objectives, defined with the contribution of the ESG Sustainability Business Unit, to be assigned to the Management of the portfolio companies in the equity funds.

**Head of Portfolio Companies Regulatory, Legal and Corporate Area (“Head of RLC”):** supports the ESG Sustainability Business Unit with regard to (i) compliance with regulatory obligations concerning

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ESG issues, (ii) changes to be made to the ESG Policy and relevant procedures of F2i SGR, as necessary or appropriate in order to better promote the integration of ESG factors in all internal decision-making processes.

**Head of the Strategy & Business Development Area (“Head of S&BD”):** oversees, under the supervision of the ESG Committee, all ESG profiles, with particular regard to the phase of acquisition of new companies and the monitoring of portfolio assets, ensuring investor communication on the subject. He/she supervises the activities of the ESG Sustainability Business Unit.

**ESG Sustainability Business Unit (“ESG Sustainability BU”):** supports the Investment Areas (Equity and Debt) in the consideration of ESG factors with respect to launching new products and in the phase of evaluation of new investments and divestments, as well as in the possible definition of the Action Plan of newly acquired companies. It implements the monitoring and engagement strategies with regard to portfolio companies, providing, to the extent of its competence, the relevant reporting activities. It prepares the ESG disclosures due under the SFDR and is responsible for the application of the taxonomy. It also annually prepares the draft Integrated Sustainability Report. It interfaces with the PRI, the GRESB, the UN Global Compact and any other organisations in the ESG field, as well as with the various stakeholders. It monitors developments in external regulations and proposes amendments to internal regulations where necessary. It provides training to internal structures on ESG issues, also using external consultants.


**Head of the Risk Management Function:** includes ESG factors in the categories used as the basis for the analysis and assessment of the risk profile of the target assets, reporting on this in the related Report that is submitted to the Investments Committee and the Board of Directors for the purpose of evaluating the investment in question. With reference to equity investments, he/she develops the ESGI sub-index (as defined below) used to measure ESG risks and effects during investment and periodic monitoring. With reference to investments in credit/debt instruments, he/she assesses the ESG Risk of the assets under investment and periodic monitoring.

**Head of the Compliance Function:** he/she monitors compliance with the ESG Policy, overseeing the correct application of the safeguards set out in external and internal regulations. He/she ensures that sustainability risks are duly taken into account in all relevant processes of the AMC, with particular reference to new product launches and investment processes.

**Equity Investment Team:** in the analysis of each investment, it carries out ESG checks, also on the basis of the elements provided by the Risk Management Function. It summarises in the Preliminary Memorandum and the Investment Memorandum its considerations and analyses on the potential sustainability risks related to each potential investment.

**Debt Investment Team:** in the analysis of each investment in credit/debt instruments, in particular in the case of financing or subscription of debt securities, carries out ESG checks with respect to the potential financed company, also on the basis of the elements provided by the Risk Management Function. It



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summarises in the Memo Screening and the Investment Memorandum its considerations and analyses on the potential sustainability risks related to each potential investment.

## 5. INCORPORATION OF ESG RISKS IN INVESTMENT PROCESSES

This Section summarises (also pursuant to and for the purposes of art. 3 of the SFDR) the various measures taken by F2i in order to integrate into its decision-making processes the assessment of "sustainability risks", defined as any environmental, social or governance event or condition that may cause a significant negative impact on the value of investments (art. 2, number (22) of the SFDR).

### 1. *Negative screening*

In order to take into account the sustainability risks that are typical of assets in sectors at risk, F2i SGR does not make direct investments and does not acquire exposure to companies that are involved in (i) the production or trade of tobacco, arms and ammunition; (ii) the production, trade or distribution of alcohol; (iii) gambling or the production or trade of products related to gambling; (iv) pornography, prostitution or similar activities; (v) the production of illicit substances; (vi) the production of or trade in products or services which promote the cessation of human life; (vii) the production or extraction of fossil fuels; (viii) the production of or trade in products or services which are (a) illegal in the jurisdiction in which the company is established or (b) contrary to international conventions, agreements or bans to the applicable extent of the same to such companies; (ix) the violation of human rights; or (x) companies that derive more than 20% of their revenues from (a) the production of electricity from coal, (b) controversial hydrocarbon extraction activities (e.g., shale gas, shale oil and arctic drilling), (c) managing assets for the transportation and processing of hydrocarbons that come directly from controversial extraction activities; (d) the transportation of coal, including the construction of wharves, terminals, ports or the use of vessels specifically for the transportation of coal; (e) the production of liquid hydrocarbons involving the continuous combustion of gases emitted during the extraction of deposits (routine flaring).

At the date of approval of this ESG Policy, in addition F2i SGR does not invest in countries outside the Eurozone, which by definition excludes the possibility of investing in countries included in black lists due to the violation of fundamental rights or the financing of terrorist activities.

The scope of the excluded companies and sectors described so far may be extended by the Board of Directors, not only on the basis of the Rules of the individual AIF in question, but when the PAI Policy and the ESG Policy are updated.

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## 2. *Positive screening*

Conversely, F2i SGR takes care of the selection of investments in the scouting phase, focusing on issues of particular importance at ESG level (in particular through direct and indirect investments in operations related to the production of solar, wind and biomass energy, rail freight transport, circular economy). This includes verification of compliance with international rules, labels and standards by target companies, as well as proven maturity in terms of framework and awareness of ESG practices adopted.

This positive screening aims (in addition to limiting the possible negative effects of the portfolios on sustainability factors, as better described in the PAI Statement) to reduce exposure to typical ESG risks such as reputational, legal, as well as so-called "physical" and "transitional" risks related to the climate emergency.

## 3. **Due Diligence and ESG Rating**

During the investment phase, F2i SGR obtains the relevant information relating to the ESG positioning of the target asset, at the company itself, through any data and information available from public sources and possibly using the support of third parties specialised in the due diligence phase. Upon completion of this phase, a special section on the results of the ESG analysis is thus created (in the Investment Memorandum), so that the key sustainability profiles become an integral part of the decision-making process of F2i SGR on investments.

With reference to equity investments, the assessment of all possible investments identified by F2i SGR is integrated by specific risk metrics linked to ESG factors, developed and applied by the Risk Management Function. For this purpose, the analysis uses a sub-index called "Environmental Social and Governance Indicator" ("**ESGI**"), developed by the Risk Manager on the basis of the Morgan Stanley Capital International (MSCI) methodology, considered the most suitable due to the broad scope of application and the renowned reliability of MSCI in investment index analysis. The approach followed involves the attribution of an ESG rating to each target company in the investment phase, evaluating the company against a matrix consisting of 3 ESG categories ("pillars" in MSCI terminology) and 13 sub-categories ("themes" in MSCI terminology). A score of 1 to 5 is assigned for each sub-category, in relation to the assumed significance of the sub-category for the asset being examined. The resulting overall ESG rating is divided into classes: Good (values ranging from 0 to 18), Fair (values ranging from 18 to 34), Poor (values ranging from 34 to 54) and Bad (values ranging from 54 to 110, the hypothetical maximum achievable).

The rating obtained in this manner serves a dual purpose: (i) to ensure that the investments made by the funds managed comply with the regulatory framework and the ESG Policy in force, and (ii)

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to identify, manage and mitigate any financial and reputational risks that may arise from investments exposed to ESG risks.

Should the ESG rating obtained by the Risk Management function be in the Bad class, F2i SGR will not proceed with the investment in question; If F2i SGR decides to proceed with an investment that does not fall into the "Bad" class but with respect to which significant sustainability risks have been identified, the ESG Committee, in order to reduce these risks, proposes the definition of an "**Action Plan**" aimed at gradually filling any *gaps* found in terms of ESG and reducing the related risks. The Action Plan is agreed with the management of the target company within six months from completing the acquisition of the same.

Regarding investments in credit or debt instruments, for each asset target the Risk Manager will evaluate during the investment phase, using the elements available, a series of Key Risk Indicators (also defined on the basis of draft regulatory technical standards published by the European supervisory authorities pursuant to the SFDR on 2 February 2021) that consider the environmental, social and governance aspects of the asset. These KRIs are assigned a score from 1 to 5 depending on their importance, leading to, through the weighted average of them, a measure of ESG Risk (which can also assume values from 1 to 5).

Should the ESG Risk value reached by the Risk Management function be higher than 4, F2i SGR will not proceed with the investment in question.

## 6. MONITORING OF PORTFOLIO COMPANIES AND REPORTING

Following the investment, F2i SGR carefully monitors the portfolio companies throughout the period of their retention within the managed funds, including through the periodic updating of the relevant ESGI index by the Risk Management function, in order to detect possible changes in the sustainability risks on the value of the investments. This monitoring is integrated into the periodic reports provided to the investors of the various funds managed by F2i, and also taken into account in order to ensure the uninterrupted consistency of the investments with the relative criteria of suitability and risk appetite.

In addition, F2i SGR establishes a dialogue with its portfolio companies (or, to the maximum possible extent, financed companies), the aim of which is to guide them towards conduct that is as consistent as possible with ESG issues (and as a consequence less risky under this profile), possibly through the adoption (concerning the companies in the equity fund portfolio) of a specific Action Plan and the establishment of ESG objectives to determine the variable remuneration component (MBO) of the Chief Executive Officers of the portfolio companies, to the extent possible. By using engagement - which is an integral part of F2i's approach to sustainable and responsible finance - F2i aims to drive improvement in the environmental, social and governance aspects of the companies in its portfolio.

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In addition to round table discussion groups, the control can take place - where possible, and in particular concerning the portfolio companies of the equity funds - through questionnaires and requests for information on specific ESG issues or sample-based audits agreed with the portfolio company concerned and conducted by specialist consultants.

Alongside the monitoring, which enhances F2i SGR's active role also after the analysis of investment, the ESG Sustainability Business Unit prepares the draft of the Integrated Sustainability Report, containing the essential ESG data of the AMC and of each of its portfolio companies, as well as the required disclosures (both with respect to F2i SGR as a whole, and with respect to each individual fund under management) pursuant to the SFDR and the Taxonomy.

The reporting is also carried out with the aid of external consultants with specific expertise in the field of sustainable and responsible investments, particularly in relation to the relevant sustainability indicators.

With reference to investments in credit/debt instruments, the Risk Manager of F2i SGR periodically updates the ESG Risk of the assets in the portfolio, in order to detect possible changes in the sustainability risks on the value of the investments. This monitoring is integrated into the periodic reports provided to the investors of the various funds managed by F2i, and also taken into account in order to ensure the uninterrupted consistency of the investments with the relative criteria of suitability and risk appetite.

## 7. IN-HOUSE TRAINING

The ESG Sustainability Business Unit provides, where necessary, with the aid of an external consultant, in-house training on ESG issues, aimed primarily at highlighting the link between competitive advantage, profitability and ESG best practices. Attention is therefore focused on the principles and actions that F2i SGR intends to implement, with particular regard to the ESG investment criteria and related methodology.

The in-house training programme is provided to all the personnel potentially concerned and involved in the incorporation of ESG factors into investment strategies and processes.

In accordance with the Bank of Italy Expectations, a specific ESG training session is also provided annually to the Board of Directors of F2i SGR.

## 8. ESG POLICY REVIEW AND AMENDMENTS

On proposal from the ESG Committee, based on the progress made and developments in the applicable regulatory framework and ESG best practices, the Chief Executive Officer shall submit proposals to the Board of Directors for amendments and/or additions to the ESG Policy.

The ESG Policy may be amended by the Chief Executive Officer, who will inform the Board of Directors of this at the next available meeting, if the amendments are directly linked to organisational changes that have occurred in the meantime in F2i SGR's structure.