ESG INVESTMENT POLICY MANDATES

Introduction

The products offered by Banca Zarattini & Co. include management mandates that place greater emphasis on sustainability factors. Management is based on selecting investment funds that are classified under Art. 8 or Art. 9 of the European SFDR regulation and that are in line with the internal selection methodology listed below.

The management lines must invest at least 80% of the portfolio in products that meet these characteristics (with the exclusion of cash).

Selection of Third-Party Funds for ESG Lines

The management of ESG lines in funds follows the same procedure as the standard lines, with the addition of assessing the approach to sustainability of the management companies selected.

1. The first step is the strategic asset allocation, which defines the long-term objectives and the objective allocation in the various asset classes in comparison to a benchmark.
2. This allocation is reviewed on a monthly basis and modified as directed by the Investment Committee, which may increase or reduce exposure to the individual asset class.
3. Finally, the management company selects the funds with which to implement the asset allocation. This selection is made according to both quantitative criteria (performance results, risk, alpha generated, etc.) and qualitative criteria (due diligence on the management company, strategy adapted to the identified scenario, etc.)

In the case of ESG lines, the selection phase mainly takes into account funds that have an explicit focus on the issue of sustainability, in particular through ESG factors, to which two additional dimensions of analysis are added.

Quantitative analysis: an assessment of the fund's financial performance and its main risk-return metrics is carried out by comparing it with its reference peer, composed of funds that implement a similar strategy; the peer includes (at the moment, for the most part) funds that do not follow an ESG approach but that have sufficient history and characteristics to be included in the reference group.

The aims of the comparison in terms of quantitative variables is to evaluate the fund's performance independently of its ESG approach, in order to favor only those ESG funds that demonstrate they have a risk-return that places them at the top of the reference fund ranking and does not worsen the risk-return profile of a strategy based on sustainability choices.

Qualitative analysis: an analysis of the product and the management company offering it is carried out. This analysis aims to avoid possible greenwashing and identify companies that invest sufficient resources in an effective sustainable approach.

The analysis takes the following factors into account:

Management company:

1. *ESG-only:* determine whether the company is dedicated solely to sustainable investments or also offers traditional investments;
2. *ESG philosophy:* what is the management company's vision of sustainability and what concepts does it base its analysis on;
3. *Asset manager's CSR:* the management company's CSR policy, beyond the selection of investments;
4. *Associations signatures:* which associations and bodies that promote sustainability is the management company associated with;
5. *ESG approach:* What kind of approach does it take: integration, impact, best in class, exclusion etc;
6. *Engagement:* approach towards and methodology of activism and engagement with the companies in which it is invested.

Investment fund:

1. *ESG team structure:* the management team's structure and experience from the perspective of sustainability;
2. *Reporting:* details and materiality of reporting on the topic of sustainability;
3. *Exclusion list:* exclusion criteria used;
4. *ESG outliers:* any investments that do not seem to fall within the sustainability policy;
5. *Third-party ESG score:* ESG score assigned by third parties (MSCI, Morningstar, or other);
6. *ESG score vs benchmark:* sustainability KPIs (carbon footprint, ESG scoring, etc.) that make it better (or worse) than the reference benchmark.

A descriptive comment is made on the factors used in the analysis and a score between 1 and 3 is assigned, which will in turn contribute to determining the fund's average score.

Each fund is then also evaluated on the basis of KPIs that indicate how closely it aligns with an ideal sustainable portfolio. The average of these KPIs determines whether the portfolio under management aligns with this ideal.

KPIs (Key Performance Indicators):

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1. *Overall score: weighted average of the scores of the securities in the portfolio;*
2. *Exclusion:* coherence and impact of exclusions;
3. *Integration:* level of integration of ESG factors in the investment process;
4. *Engagement:* importance of activism in management;
5. *Thematic/impact:* whether the strategy has a strong theme or impact on sustainability;
6. *CSR:* the quality of the management company's CSR policy;
7. *Dedication:* the level of attention and importance given to the issue of sustainability in general;

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8. *ESG as a risk:* the approach to ESG factors as sustainability risk management;

9. *ESG as an opportunity:* the approach to ESG factors as a positive investment opportunity;

10. *Reporting:* the level of ESG information contained in periodic reporting.

Considering that ESG standard lines are offered to a general public, it is possible that the maximum KPIs cannot be achieved because it would require an excessive focus at the expense of investment diversification. In the case of customized portfolios, however, this system allows you to increase adherence once you have clarified the possible trade-off between adherence and portfolio optimization from the management point of view to the customer.

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