

ESG AND SUSTAINABILITY IN FINANCE

Zarattini & Co. Bank approach to Sustainable Finance

What is Sustainable Finance

The widespread awareness of the impact of economic activities on different social and environmental aspects has highlighted the demand for greater consideration of these same factors in the selection of financial investments by both private and institutional investors.

The evaluation of the long-term impacts of investment decisions has historically always been considered a niche approach, sometimes reflecting the personal values of the individual investor concerned (Ethical Investments, Socially Responsible Investments, or others). However, the visibility and importance that sustainable development has acquired in recent years have led to a strong evolution and diffusion of these trends, both in terms of approach and of strategies and composition of assets, to the point that Sustainable Finance has now become one of the main themes of consultancy and asset management activities.

So, Sustainable Finance now means an approach to the selection and monitoring of investments that takes into account not only long-term financial and economic objectives, but also the positive or negative effects that such investments may have on the environment and society. Seen in this light, investments must also be analysed on the basis of their contribution to the sustainable development of human activities at both the local and global levels.

Thus, taking into consideration ESG factors, on the one hand, allows investors to align their preferences and aspirations in terms of sustainability with the investments in which their assets are put and, on the other, in the ongoing dialogue between investors and the factors of economic production, it allows the generation of a virtuous circle that encourages companies to be more attentive to their own sustainability strategy.

Far from being a monolithic and immutable methodology, Sustainable Finance continues to develop and adapt as the concepts of sustainability and sustainable growth evolve. Technological development and its accompanying ethical-philosophical debate ensure that sustainable investment is constantly evolving and improving.

Following this perspective, the Swiss financial industry has now adopted standards that make sustainable finance a practice that is transparent, solid and suited to the needs of its clients and investors. In particular, the Swiss Bankers Association (SBA), the trade association of banks in Switzerland, has issued a directive for financial service providers concerning the inclusion of ESG preferences and risks in investment and asset management advisory activities. These directives are binding on all members of the association.¹

¹ <https://www.swissbanking.ch/en/topics/sustainable-finance/self-regulation-in-sustainable-finance>

ESG analysis

From a methodological standpoint, the analysis of investments identifies three factors that comprehensively cover all the key aspects related to sustainability: the Environmental factor, the Social factor, and the Governance factor, which correspond to the acronym ESG in English.

The first two factors indicate the two macro-categories on which the effects of economic growth have the greatest impact: the Environment, understood as both use of natural resources and pollution and waste of these resources, and the Social sphere, understood as both the community involved in the production activity (workers, shareholders, suppliers, etc.) and those who are affected by this activity (customers/consumers, inhabitants of the places where these activities are carried on, etc.), that is to say, more generally speaking, the so-called stakeholders.

Governance, on the other hand, is the key factor that guarantees that objectives are pursued in an ethical manner and in full compliance with current behavioural regulations as well as with the true spirit of the applicable laws.

This type of analysis is valid especially with regards to investments linked to the asset class of Stocks and Bonds. As regards the latter, keeping in mind that bondholders have less control over the activity of their creditor company, the offer of Green Bonds and Social Bonds or, more generally speaking, Sustainability Bonds is also increasing. These are debt securities containing explicit clauses that refer to the sustainability objectives that the issuing company aims to achieve or towards which the proceeds of the issue are to be directed.

ESG analysis is also fundamental for other asset classes, ranging from Real Estate to Private Assets to Certificates and Structured products, and is also used in the context of collective investment products, funds and Exchange Traded Funds (ETFs), as a methodology for identifying the sustainable approach to the selection of investments.

ESG risks

In recent decades we have seen how the effects of economic growth and access to the benefits of globalisation have both positive and negative sides. The negative effects, the so-called negative externalities, have an impact on both the investments themselves, that is to say the companies and their related economic operators, and the environment and society as a whole. In the financial context, this risk is defined as the ESG risk, i.e. the investment risk linked to ESG, Environmental, Social and Governance themes.

According to the SBA definition: "ESG risks" are events or situations in the Environmental, Social and corporate Governance areas that are currently having a negative impact on economic, cost or reputation factors, for example, and thus also on the value of a company or the market price of financial instruments or could potentially do so in future.²

ESG risks are present in all investment products and, although they are identifiable, they are difficult to predict in terms of magnitude and timing. To manage these risks, it is necessary first of all to identify the factors that determine them and then to identify possible mitigation or reduction measures. Ideally, to achieve this result, it is therefore necessary to carry out a detailed

² SBA document "Risks involved in Trading Financial Instruments" published by the Swiss Bankers Association, ed. June 2023 - Chapter 1.6: "Sustainability-related financial risks (ESG Risks)"

analysis and, where possible, to encourage the investor in turn to be proactive. The next section lists some of the approaches most commonly used for this purpose.

Examples of the risks we are talking about are the consumption or contamination and pollution of the natural resources necessary for economic activity, unfair treatment of workers, which can lead to operational risks or reputational damage, or business practices which are not transparent or that can lead to disputes with suppliers or customers.

These risks are material, as the adverse event caused can have a serious impact on the company's income statement (fines, loss of customers, reputational damage, etc.) or it can even jeopardise its corporate survival (withdrawal of licenses, failure of its business model, corporate bankruptcy, etc.). It is important to point out that this list could be extended almost infinitely, as the analysis of ESG factors is constantly evolving.

In certain cases, these are risks that do not reflect directly on companies, but rather they represent an externality that impacts society as a whole, the communities in which the economic activity involved is carried on, the workers engaged in the production and supply chain, or the environment in general, not forgetting the effects on future generations.

The different approaches to sustainability-related investments.

Over the years, various strategies have been developed with the objective of taking into consideration and mitigating ESG risks, as well as of directing investments towards more sustainable development models. The most basic approach is that of Exclusion, which means that certain economic activities are directly excluded from the investable universe, as they are not consistent with the sustainability objective or because they are intrinsically exposed to an unmanageable ESG risk. Examples are the exclusion of activities related to pornography and gambling³ or arms, or limitation in the case of activities related to the consumption of alcohol and tobacco or the production of Genetically Modified Organisms (GMOs), or the production of nuclear energy. Although some aspects are common, the definition of the list of activities excluded from investments is part of the process of defining the strategy itself and, as such, it depends, or may depend, on the investor's preferences regarding sustainability.

For a more proactive approach, over the years analysis metrics have been developed that allow us not only to exclude the most controversial activities, but also to understand how the various companies involved are positioned in relation to the three ESG factors. To do this, we analyse various static quantitative parameters, such as the production of polluting substances and the composition of the workforce, or dynamic quantitative parameters, such as the constant improvement of these indicators, as well as qualitative parameters, such as the production processes and decision-making processes, commitments entered into with stakeholders, or even reputational aspects. These indicators are often summarised with an evaluation that can be expressed as a ranking. Of course, not all aspects are equivalent, and a part of the analysis involves understanding which factors have the most impact on the sector and company analysed. By selecting the best candidates in this ranking, we choose the approach referred to as Best in Class, which allows us to build an extremely well positioned portfolio as far as the mitigation of ESG risks is concerned. Depending on the approach used, the Best-in-Class selection may present greater exposure in certain sectors which by their intrinsic nature allow for greater sustainability.

³ Excluding gaming establishments holding a specific authorisation issued in the context of the applicable laws in force in the countries concerned

The development of sustainability analysis as described above allows us to take a further step forward and, instead of applying a simple positive filter, that is to say one which selects the best investments in assets at any given moment, it is now widespread practice to integrate this analysis into the broader process of investment, thus considering ESG factors not as an element extraneous to the financial evaluation, but rather as an integral part of it that actively contributes to the determination of the investment judgment. Among other things, proceeding in this way, the analysis is not static, but rather it allows investment in companies that have room for improvement in their sustainability profiles. These strategies are referred to as ESG Integration.

For a more active approach

The approach to improvement becomes even more evident and radical when a policy of sustainability activism is chosen. As shareholders, and in some cases also as bondholders, investors have means at their disposal to influence the strategic decisions of the company in which they have invested. An increasing number of investment products allows the votes of minority shareholders to be cast in support of the cause of sustainability within the company's own strategies. This practice is often referred to as Stewardship, which represents the combination of two approaches. On the one hand, the exercise of voting rights through which shareholders express their will in periodic votes that determine the various company strategies. On the other hand, Engagement, that is to say the active dialogue between the shareholders and the company's management, with the aim of directing the corporate strategy in such a way as to ensure that ESG factors are taken into consideration.⁴

Lastly, when the selection of investments is done with the declared objective of favouring a positive change and is subject to measurable metrics in some areas of sustainability, we talk about Impact Investing. This type of investment can be limited to the holding of shares in companies that have clear positive social or environmental externalities or to the use of activism to define the sustainability strategies of the companies in which we invest, with the aim of obtaining measurable results on the environment and society. This second case is much more effective in the case of private assets, because the possibility of intervening is greater. In this case, what is involved is a high-risk, non-liquid investment suitable for professional clients only. Often, in this approach, the economic return, although taken into consideration, is secondary to sustainability and impact objectives.

Sometimes sustainable investments also fall into the category of so-called thematic investments, i.e. those collective investment instruments that concentrate the portfolio in the securities of companies that are exposed to a specific theme or business. In this case, this may be a typical sustainability theme, such as clean energy or social inclusiveness.

It is important to consider that these different approaches are not mutually excludable. Indeed, it is widespread practice for those who propose ESG or sustainable investment strategies to use different approaches, with the objective not only of providing an adequate financial riskreturn profile, but also of contributing in the manner which they deem to be more efficient for the environmental and social sustainability of the investment portfolio.

⁴ See, for example:

https://www.sustainablefinance.ch/upload/cms/user/EN_2020_06_16_SFAMA_SSF_key_messages_and_recommendations_final.pdf

Sustainable investments

The concept of sustainable investing has significantly evolved over time. Initially, it referred broadly to any form of investment that integrated environmental, social, and governance (ESG) factors following one of the available approaches. However, with the growing demand for transparency and the increasing risk of greenwashing, it has become necessary to define sustainable investment strategies with greater precision.

Today, following the latest regulatory guidelines and international regulatory and self-regulatory standards aimed at limiting the risk of greenwashing, an investment can be defined as sustainable only if it allocates the majority of its resources to the pursuit of, or the alignment with clearly defined and measurable sustainability objectives.

Furthermore, greater transparency is required from investment managers. They must clearly disclose how sustainability-related risks and opportunities are integrated into their decision-making processes, as well as provide detailed information on the characteristics and specific objectives of the financial products offered. This greater clarity allows investors to better assess the actual contribution of financial products to sustainability.

Specifically, in the directive relating to ESG preferences and risks, the ASB defines sustainable investments as follows.

Sustainable Investment Solution: In addition to the usual financial objectives, an ESG investment solution presented as sustainable must pursue at least one of the following investment goals:

- I. Compatibility (including transition) with one or more specific sustainability objectives; or
- II. Contribution to the achievement of one or more specific sustainability objectives.

The sustainability objective(s) is (are) established based on:

- I. A well-defined framework; and
- II. Specific indicators that can be used to measure and monitor the pursued sustainability objective(s).

The determining sustainability objectives may be pursued using one or more specific approaches, taking into account one or more frameworks.

The following aspects, in particular, apply as reference frameworks for sustainability objectives:

- i. Criteria issued by a national or foreign governmental body;
- ii. Criteria developed by a non-governmental entity;
- iii. Use of criteria reflecting recognized industry practices; and/or
- iv. Use of criteria independently developed by a financial services provider.

This leads to a fundamental distinction between a strategy that merely considers ESG criteria and one that qualifies as a sustainable investment because it is oriented toward specific, measurable objectives, as defined in the previous paragraphs.

Impact Investments

Within the broader category of sustainable investments, particular attention is given to the subcategory of impact investing, whose definition has been progressively refined over recent years.

Impact investments are those that, in addition to meeting environmental and social sustainability criteria—i.e., not causing significant harm to other sustainability objectives—intentionally aim to generate a positive, tangible, and measurable impact on the society or the environment, alongside achieving an economic return.

In this sense, the company or project being invested in does not merely comply with ESG principles, but actively contributes to sustainable development.

A key element often associated with this category is the concept of additionality, which refers to the investment's ability to generate an impact that would not have occurred without it. This criterion allows for a distinction between:

- Company impact: impact generated by the company regardless of the individual investor;
- Investor impact: impact directly attributable to the investor's involvement.

The investor impact dimension is more commonly observed in private market investments, where the investor's participation can be crucial to the realization of the project or initiative.

The “Greenwashing” Risk

On one hand, the development of techniques, international policies, and regulatory frameworks imply that there is no single uniform standard, making the selection and evaluation of sustainable investments a continuously evolving and exploratory process, as well as the definition and offering of ESG or sustainable financial products. On the other hand, practices and regulations demand clarity in the offer of services and products, both towards the public and clients.

Transparency, correct use of communication, and data reporting are therefore even more critical in sustainable finance than in traditional investment approaches. They enable investors to verify that sustainability objectives align with their own goals, monitor progress, and gain greater awareness of their investments.

Moreover, this helps limit the phenomenon known as Greenwashing—a practice explicitly condemned by both the Swiss Federal Council and FINMA. FINMA defines greenwashing as the intentional or unintentional deception of clients and investors regarding the sustainability characteristics of financial products and services. Regulators are highly sensitive to this issue and aim to prevent and combat superficial eco-friendly activities, such as the use and communication of sustainability concepts solely for commercial purposes, without a genuine sustainability goal or without implementing the necessary processes to achieve it.

This malpractice exploits the inherent difficulty in defining clear operational standards and the lack of transparency, leveraging a widely shared and topical issue. Unfortunately, cases of Greenwashing are known both at the level of individual companies and in the marketing of ESG and/or sustainability-linked investment products.

To prevent such practices, rules and measures are in place to ensure clear and transparent communication regarding the names, definitions, and objectives of sustainability-related financial products, as well as associated reporting.

Client profiling and preferences

In the context of financial services transparency, it is important not only to recognise and inform clients about the investment risks and opportunities linked to ESG factors, but also to collect any preferences from them regarding the theme of sustainability. This is done primarily in order to meet their specific needs and their desire to limit the risks related to ESG factors or to promote certain sustainable development objectives. Through correct profiling, it is possible for the financial services provider to propose the most suitable financial product or service among those available or to provide the necessary information with sufficient transparency in the event that it is not possible to satisfy the client's requests.

SBA Directive

Swiss banks, through their SBA trade association, have also equipped themselves with a selfdiscipline system in the area of sustainable finance. In particular, the new directive contains minimum requirements for the consideration of sustainability in investment and asset management consultancy with the aim of preventing "Greenwashing" practices and promoting the reputation of the Swiss financial marketplace. These requirements commit the members of the Association to inform their clients

about the ESG risks and characteristics of proposed investment solutions, to profile their clients according to their preferences in terms of ESG, and to take these preferences into consideration when developing their proposals, provided that such preferences are not in conflict with the investment objectives defined by the client's risk profile in accordance with the FinSA [Federal Act on Financial Services]. The financial services provider must ensure that clients' preferences are in line with the ESG characteristics of the recommended financial instruments and, if these instruments deviate from the expressed preferences, the provider must communicate this to the clients. Moreover, if the proposed investment solution is defined as a sustainable investment, the directive establishes a uniform minimum standard based on which an investment solution can be presented as such.

Further information, in particular on the documentation, reporting and effective date of the regulations, is available on the website of the Swiss Bankers Association.⁵

⁵ <https://www.swissbanking.ch/en/topics/sustainable-finance/self-regulation-in-sustainable-finance>

GLOSSARY⁶

CSR: Corporate Social Responsibility. This term refers to an organisation's commitment, beyond what is required by law, to ensure that the social, economic and environmental impact of its actions creates a net benefit for communities and society. It is based on the belief that all companies have a "duty of care" to all their stakeholders in every area of their business operations and that being a responsible citizen improves the long-term business success of a company.

ESG: Environmental, Social and Governance. ESG stands for Environmental (e.g. energy consumption, water usage), Social (e.g. talent attraction, supply chain management) and Governance (e.g. remuneration policies, board governance). ESG factors form the basis for the different SI approaches.

ESG Engagement: Engagement is an activity performed by shareholders with the goal of convincing management to take account of environmental, social and governance criteria. This dialogue includes communicating with senior management and/or boards of companies and filing or co-filing shareholder proposals.

Successful engagement can lead to changes in a company's strategy and processes so as to improve ESG performance and reduce risks.

GREEN BONDS: Green bonds are broadly defined as fixed-income securities that raise capital for a project with specific environmental benefits. The majority of green bonds issued to date have raised money for renewable energy projects, energy efficiency measures, mass transit and water technology. Most green bonds have been either plain vanilla treasury-style retail bonds (with a fixed rate of interest and redeemable in full on maturity), or asset-backed securities tied to specific green infrastructure projects.

SUSTAINABILITY-RELATED INVESTMENT: it refers to any investment approach that integrates Environmental, Social, and Governance (ESG) factors into the selection and management of investments. This category includes some sustainable approaches that were previously considered "sustainable investments," but that no longer qualify under this definition in light of recent regulatory developments.

SUSTAINABLE INVESTMENT: The concept of Sustainable Investment (SI) has evolved over time alongside the maturation of market practices and regulatory frameworks. Whereas it once referred broadly to any investment incorporating ESG factors through one or more sustainable approaches, today the term is increasingly reserved for those investments that meet specific, predefined criteria related to processes or expected outcomes.

⁶ Extracted and translated from <https://www.sustainablefinance.ch/en/resources/what-sustainable-finance/glossary.html>

Banca Zarattini & Co.'s sustainability strategy

Banca Zarattini & Co. considers its role as a trusted advisor to its customers to be its *raison d'être*. In assisting our clients with the various aspects of financial and investment planning, our goal has always been to build a solid and lasting relationship. Starting from this foundation, it is natural for us to consider how long-term sustainability is an essential aspect in both our business and our investment decisions.

The events and developments of recent years have made us realize that we need to put more effort into and pay greater attention to those sustainability issues that are now a primary objective of development and global economic progress. Banca Zarattini & Co. does not shy away from this effort, but rather strives to be a key player and participant in it. Numerous players, including public opinion, associations, and regulators, are actively promoting this transition and creating the preconditions and the framework within which companies will have to orient themselves.

We are delighted to have confirmation that our values are in line with issues that resonate on a global level and we are aware that each individual company can contribute to more virtuous development. That is why we have tried to translate our principles into concrete initiatives, integrating sustainability on multiple levels. Under the advisory supervision of a "Sustainability Committee", the Bank bases its sustainability strategy on two fundamental pillars: Corporate Social Responsibility (CSR) and Responsible Investments.

The first applies to the entire organizational structure and covers a wide variety of issues that corporate management must take into account. These include working conditions, human rights, environmental protection, preventing corruption, fair competition, consumer interests, taxation, and transparency.

As for the second, we make it our responsibility and take the opportunity to guide our clients towards more conscious choices. To this end, we have expanded the range of services we offer by incorporating ESG factors, so that our financial services are in line with national and international initiatives.

Finally, we believe that transparency is a key point of fundamental importance in both communicating with our stakeholders and avoiding greenwashing. To promote transparent communication, we have committed to making public our Sustainability Report, a document that reports on our progress in the field of Corporate Social Responsibility and Responsible Investments.

Banca Zarattini & Co.'s approach to the usage of ESG criteria in investment selection

Banca Zarattini & Co. uses both qualitative and quantitative methodologies to select the most suitable investment products for our clients' risk profiles and objectives. In particular, with regard to ESG investments, Banca Zarattini & Co. aims to identify the investments that have the best characteristics in terms of environmental, social, and governance sustainability out of those selected.

To do this, the Bank's research department classifies investments according to the data provided by Refinitiv⁷ and Prometeia's calculations.⁸ The Refinitiv data is composed of more than 500 ESG performance indicators for each individual company, grouped according to the three pillars Environmental, Social, and Governance. These indicators are parameterized into a score between 0 and 100, identifying the companies that are the best positioned within their product sector.

In this context, we emphasize that our offering does not currently include investment services or products that can be classified as sustainable investments, according to the definition provided by the ASB Directive.

Banca Zarattini & Co.'s model for ESG evaluation of investments

Based on the score provided by Refinitiv, the bank classifies securities according to the following ESG Rating scale:

1. We do not provide a rating for this product
2. We assess the ESG characteristics of this product as neutral
3. We assess the ESG characteristics of this product as positive
4. We assess the ESG characteristics of this product as very positive

The rating of the securities depends on the score provided and the type of asset class.

Shares: Equity products are classified as 2 if the score is below 50, as 3 if the score is above 50 but below 75, and as 4 if the score is above 75. This classification helps identify companies with a stronger focus on sustainability and lower exposure to ESG risks.

Bonds: Fixed income products are rated as 2 when the issuer has a score below 50, as 3 when the issuer's score is above 50, and as 4 when the issuer's score is above 50 and the debt instrument is a sustainability-linked bond (such as a green bond, social bond, or sustainable bond) – that is a bond which includes clearly defined sustainability objectives among its characteristics.

Funds: regardless of the strategy, a fund is rated 2 if the average score of the fund's investment portfolio is less than 50; it is rated 3 if the average score of the portfolio is greater than 50 and the fund is classified under Article 8 according to the European Sustainable Finance Disclosure Regulation (SFDR); and finally, it is rated 4 if the average score of the investment portfolio is greater than 50 and the fund is classified under Article 9 according to the SFDR.⁹ If the fund is not a fund under European law, only the investment portfolio is scored.

In the case of other investment products, such as certificates, derivatives, and so on, the underlying instrument is considered, where possible, or the most similar asset class.

⁷ See refinitiv.com. Calculation methods available on request

⁸ See prometeia.com. Calculation methods available on request

⁹ European SFDR: Sustainable Finance Disclosure Regulation (EU) 2019/2088 (SFDR)

Banca Zarattini & Co.'s products and services

ESG preferences

Within its financial services offering, whether in asset management or investment advisory, Banca Zarattini & Co actively seeks to assess the interests of its clients (both private and professional) regarding ESG investments. Specifically, within the asset management or investment advisory agreement, clients can explicitly declare their sensitivity to ESG issues.

For clients who express an interest in ESG investments, Banca Zarattini recommends considering services oriented towards these characteristics in order to align their preferences with the most suitable option. However, if the ESG investment services offered by Banca Zarattini are not compatible with the client's risk profile or investment objectives, the client may still choose, in accordance with their risk profile, other financial services.

It should be noted that in the latter case—meaning when a service with ESG characteristics is not selected as described below—preferences related to ESG investments will not be taken into account.

Investment advice¹⁰

Banca Zarattini & Co. offers its clients a professional investment advisory service to support them in their investment decisions. Within portfolio advisory strategies, it is possible, for clients who wish to do that, to select the ESG option.

For portfolios under advisory with the ESG option, the Bank commits to proposing only products or instruments with an ESG Rating of 3 or 4, meaning instruments whose ESG characteristics are assessed as good or very good.

Regardless of the choice to opt for the ESG option, it is possible within the advisory service to request specific customizations, allowing the client to tailor the investment style to the approach they consider most suitable, provided it is consistent with their classification and risk profile.

Clients who have indicated sensitivity to ESG issues are advised to consider specifying the ESG option or a specific customization when choosing a portfolio advisory service.

If the ESG option or a specific customization regarding sustainable investments is not selected, the investment advice provided through the advisory services will not take into account the client's expressed ESG preference.

Asset Management¹¹

In its asset management offerings, Banca Zarattini & Co. also provides management mandates that incorporate analysis of ESG risk factors. These mandates are referred to as ESG mandates, and an up-to-date description of such products can be found in the informational document on the management lines. Within these management lines, ESG risks are taken into account by allocating a defined percentage of investments to products with an **ESG Rating** of 3 or 4, meaning instruments whose sustainability objectives are assessed as good or very good.

Furthermore, the selection of investment products—particularly funds—includes a qualitative analysis aimed at avoiding potential Greenwashing practices and identifying companies that allocate sufficient resources to an effective sustainable approach. This

¹⁰ Please refer to the information sheet on advisory services for a fuller explanation of the services available

¹¹ Please refer to the information sheet on asset management services for a fuller explanation of the services available

analysis considers various indicators that evaluate the sustainability approach of the management company and the specific investment fund.

Portfolios within these management lines are constructed to ensure exposure to different aspects of sustainable investing while maintaining the benefits of proper diversification.

In addition to the standard ESG line offerings, it is possible, through individual lines, to request customization that more broadly reflects one's sustainability preferences.

Other investment strategies not specifically designated as ESG utilize products without applying any selection criteria related to ESG Ratings or their overall sustainability approach. Nonetheless, this does not exclude the use of products that consider sustainability factors or promote sustainability objectives.

It should be noted that if neither a standard ESG line nor a specific customization is chosen, investment decisions within asset management will not take into account the client's expressed ESG preferences.

Funds

Banca Zarattini & Co. handles the management of some funds and investment products directly. Timeo Neutral Sicav is a UCITS fund under Luxembourg law managed by Banca Zarattini & Co. to offer clients solutions suited to their investment needs.

Banca Zarattini & Co. offers two fund products classified under Article 8 of the European Sustainable Finance Disclosure Regulation (SFDR): the **Timeo Neutral Sicav Conservative Wolf Fund** and the **Timeo Neutral Sicav Inflation Linked Bonds Fund**. We have identified an investment process for these products that takes sustainability and responsibility factors into account, as well as ESG factors in general.

Out of the different approaches to ESG investing, each of which has its own strengths and weaknesses, we have chosen the ESG integration method as our main reference point. This does not exclude other methodologies (such as Exclusion and Engagement), which are considered ancillary. On the other hand, we exclude sustainability approaches in which financial returns are secondary to impact or other forms of non-financial return, as they are contrary to the fiduciary mandate. However, we firmly believe that pursuing long-term financial returns can and should be aligned with broader sustainability goals.

We believe that an investment process based on a fundamental analysis integrated with ESG factors can both meet the demands of sustainability-oriented investors and offer additional added value by reducing the long-term risks. To achieve this goal, we employ both quantitative analysis (making use of objective data when available) and qualitative analysis that uses metrics that are as consistent as possible.

We use two different approaches depending on whether we are analyzing government securities or corporate securities, since the incentives and regulatory frameworks can differ. For government issuers, we invest in eligible government bonds according to our criteria. In particular, we have selected seven United Nations Sustainable Development Goals (UN SDGs) that we believe are best suited to our approach to investments and, in the case of securities issued by developed countries, we use each country's progress towards each goal to measure whether or not they are eligible as investments.

With regard to shares and corporate bonds, we start by analyzing the company based on the sustainability factors that have a material effect on the company's activities. Not all ESG factors are equally important. Some have always been part of the fundamental analysis and can be considered true "value drivers". These factors are made more explicit in the ESG analysis. Some

examples are: corporate governance, transparency, attention to resource scarcity, environmental sustainability, corporate social responsibility policies, and respect for stakeholders.

We will only add a stock or bond or any security to the portfolio if it meets both the requirements of the fundamental analysis and the ESG criteria. Furthermore, although we did not choose an integrated approach based on a priori exclusion, we consider it appropriate to specify that investing in some sectors is not permitted under any circumstances.

Please refer to Timeo Neutral Sicav's ESG policy for further information.