

# Sustainability Statement

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# 1. Introduction

Being part of a global insurance group, Generali Investments, Management Company LLC (“Generali Investments” or “the Company”) is a member of Generali Group, one of the largest global insurers and asset managers that has committed to a number of important international initiatives aimed at expanding the implementation of sustainability policies and achieving long-term sustainable development.

The Sustainability Policy sets the framework for the Company to identify, evaluate and manage the risks and opportunities related to environmental, social and governance factors (“ESG factors”) in coherence with its goal to foster the sustainable development of business activities and generate value lasting over time.

The Generali Group (“the Group”) has defined a sustainability model articulated in two pillars:

- run a sustainable business focusing on excellence in internal business processes, and
- live the community, playing an active role where the Group operates, going beyond day-to-day business.

In particular, the Group is committed to ensure that the strategic choices and their execution are guided by the following criteria:

- multi-stakeholder approach, aimed at generating value for shareholders, for all those contributing to the realization of the Group’s goals and for those who influence or are influenced by the choices or activities of the Group, including employees, clients, agents and other distributors, contractual partners, the financial community and the wider society, as well as the environment;
- long term perspective, generating value in the present without compromising the capabilities to create value in the future;
- continuous improvement and innovation, with the ambition of pursuing excellence and sustaining the systematic development of economic, environmental and social performances, and the reputation of the Group.

The Generali Group is signatory of the United Nations Global Compact (2007), the Principles for Responsible Investment (2011), the Paris Pledge for Action (2015), and the Net Zero Asset Owner Alliance (2020). In line with these initiatives, Generali Group has been including in its investment strategies also environmental, social and governance criteria (the ESG factors) for a number of years now. This allows the Group to have a positive impact on its stakeholders, reduce the risk for its investments and protect its reputation. Generali Group formalized its commitment to responsible investment in 2006 and approved its own Group Ethical Guidelines. In 2015, the Group further strengthened its commitment by setting up a Responsible Investment Group Committee, regulated by the Responsible Investment Group Guideline, the objective of which is to steer the management framework for integrating the ESG factors in the investment decision-making process

In 2020, Generali Group also published its Active Ownership Group Guideline, outlining the objective to leverage its role as an institutional investor to foster change through investment.

Moreover, on 27 November 2019 the European Parliament and the Council adopted Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“Sustainable Finance Disclosure Regulation” or “SFDR”) in order to harmonize the disclosure and increase transparency with regard to the integration of sustainability factors and the consideration of adverse impacts, which entered into force on the 29 December 2019. SFDR was amended by Regulation (EU) 2020/852 of the European Parliament and the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

At the EU level, the European Green Deal sets out the objective of making Europe climate neutral by 2050. The financial sector has a key role to play in reaching those goals, as noted in the European Commission’s Action Plan on Financing Sustainable Growth. Climate change and environmental degradation may cause immense economic losses that may deeply affect the real economy and the financial system. Generali Investments is fully aware of its mission as a responsible financial intermediary whose investments may have a material impact on the real economy. Generali Investments includes sustainability considerations in its decision- making process, taking account of the size, nature and scope of business as well as the types and investment policies of the financial products offered.

In accordance with the SFDR, Generali Investments publishes the following disclosures:

- information on the integration of sustainability risks in its investment decision-making process (as laid out in Article 3 of the SFDR),
- a statement on principal adverse impacts on sustainability factors (as laid out in Article 4 of the SFDR), and
- information about the integration of sustainability risks in its remuneration policy (as laid out in Article 5 of the SFDR).

These disclosures are published on the Company's website [www.generali-investments.si](http://www.generali-investments.si).

As part of implementing its sustainability policy, Generali Investments will regularly, on an annual basis, review, adjust and update those disclosures in light of developments.

The sustainability policy is approved by the Management Board of Generali Investments. The Management Board is also in charge of its proper implementation in line with the Company’s internal regulations.

## 2. Terminology

In accordance with Regulation (EU) 2019/2088<sup>1</sup>, ESG factors are key in assessing sustainability risk, which means an environmental (E), social (S) or governance (G) event or condition, and employee matters, respect for human rights, anti- corruption and anti- bribery matters, that, if they occur, could cause a negative material impact on the value of the investment and consequently on the Company's business results, meeting strategic goals and its reputation.

The table below provides examples of ESG sustainability factors, which mean environmental, social and employee matters, respect for human rights, anti- corruption and anti- bribery matters, noting they are not limited to these factors only, and are regularly reviewed and updated.

| Category of the factor      | Example of factor   |
|-----------------------------|---|
| <b>E-<br/>ENVIRONMENTAL</b> | 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.  |
| <b>S-<br/>SOCIAL</b>        | 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 labour, 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. |
| <b>G-<br/>GOVERNANCE</b>    | 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.  |

The management company Generali Investments addresses sustainability risks at the Company and product levels.

Generali Investments products include Generali Umbrella Fund and its subfunds, alternative investment funds and portfolios managed under discretionary mandates.

<sup>1</sup> 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 (OJ L 317/2019, 9.12. 2019)

## 3. Integration of sustainability policies in our business

Sustainability policy consideration and delivery is essential for reaching our investors' long-term investment objectives while it is also key for maintaining competitiveness, ensuring high level of business performance with top talents, and providing long-term support to the local and wider business environment contributing to our joint sustainable growth and quantifiable impact in the environment.

### 3.1 Policy on the integration of sustainability risks in the investment decision- making process

Sustainability risk means 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 financial instruments invested into under specific products.

Integration of sustainability risk assessment in investment decision-making is based on clients' agreements, fund rules, prospectuses and other documents on the products managed by Generali Investments.

#### 3.1.1 Sustainability risk measurement

Sustainability risks that can be detrimental to the value of the investment are measured in a quantitative manner based on the most updated and reliable figures and information, or in a qualitative manner in cases where data is not available or where additional aspects are used that cannot be measured in quantitative terms.

Sustainability risks can be measured both in absolute and in relative (vs benchmark) terms. Depending on the portfolio under management, data building leverages on research results provided by our clients, and scores and data coming from external providers. Where such data cannot be procured, it is possible to make in-house assessments based on publicly available information or information provided by issuers.

#### 3.1.2 Sustainability risk screening

Based on clients' agreements, fund rules, prospectuses and other product documentation, Generali Investments may use a range of sustainability screening strategies, including:

- Negative / exclusionary screening, aimed at limiting investments in sovereign, companies or sectors based on specific sustainability criteria;
- Norms-based screening, to restrict investments in financial instruments issued by issuers not meeting minimum international sustainability standards or good practice of industry or government;
- Positive or Best-in-class screening, where investments in financial instruments of sovereign or corporate issuers (industries, companies or projects) are selected for positive sustainability performance relative to peers (in terms of industry or region).

Investor lists drawn up on the basis of analysis and/or restrictions defined by portfolio management clients, data of external providers or in-house assessments are periodically reviewed and approved.

## Negative / exclusionary screening

In the context of negative / exclusionary screening, investments in certain issuers are excluded or limited by value or in relative terms based on the involvement in specific business activities or regions (countries) deemed to be inappropriate or less appropriate in view of sustainability.

Limitations and prohibitions of investment in financial instruments of certain issuers are laid out in agreements and other portfolio documentation and/or any other internally defined restrictions in asset management. The screening criteria and restrictions applied in the course of due diligence of investments and investment decisions, including risk management, will be further upgraded when detailed regulations on sustainability are issued and effective, and when exhaustive and comprehensive data on issuers (in terms of sustainability) are available.

## Norms-based screening

Norm-based screening corresponds to the assessment of issuers based on their involvement in any banned or unacceptable activities, for example in:

- Breach of the Treaty on the Non-Proliferation of Nuclear Weapons;
- Breach of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction;
- Breach of the Ottawa Treaty;
- Breach of the Convention on Cluster Munitions (CCM);
- Breach of the UN Global Compact;
- Breach of human rights principles;
- Severe environmental damages;
- Gross corruption cases.

Issuers breaching the above principles are normally assigned to two lists:

- list of issuers likely to be non-compliant with sustainability criteria, therefore their activities are closely watched, and
- list of issuers assessed as violating sustainability criteria in their activities.

Limitations or prohibitions of investment in financial instruments of issuers in the above lists are laid out in agreements and other documentation related to portfolios under management or any other internally defined restrictions in asset management. The manner and scope of application of this method will be upgraded subject to availability of data and further development of the approach.

## Positive screening

To mitigate sustainability risk, Generali Investments can define an investable or partly investable universe in a way that investments must match some pre-defined requirements in terms of sustainability performance applying proprietary criteria or thresholds.

## Integration of climate and environmental factors

The risks linked to climate and environmental aspects are increasing year after year, both in terms of likelihood and magnitude of impact. As such, they represent a stand-alone topic of the Generali Group. Climate change and environmental degradation are sources of structural change affecting the economic activity and, indirectly, the financial system. When talking about climate and environmental risks, two main risks categories apply, being the transition risk and the physical risk. Physical risk concerns the financial impact of climate change, including an increased frequency of extreme weather events (such as droughts, floods or storms) and gradual climate change and environmental degradation (such as increase in temperature, rising sea levels, reduced water availability, lack of resources). Transition risk concerns financial losses that arise, directly or indirectly, from the transition to a low-carbon, more sustainable economy. It can be triggered by factors, such as a relatively rapid introduction of climate and environmental policies, technological advances and regulations.

In 2018, Generali Group adopted a Strategy on Climate Change, outlining the Group's actions and objectives in transitioning to a low-carbon economy. The concrete application of this strategy to the investment activity covers the exclusion from our investments of the companies involved in the thermal coal and tar sands business as well as the Group ambitions in terms of green and sustainable investments. The objective to reduce the carbon footprint of Generali Group investments is also expressed in its adherence to the Net Zero Asset Owner Alliance (NZ AOA) – through this initiative, Generali Group committed to decarbonize its portfolio in order to become carbon neutral by 2050.

As part of the Generali Group, Generali Investments, based on clients' agreements, fund rules, prospectuses and/or other product documentation, is supporting its clients in the implementation of sustainability strategies, by giving due consideration to sustainability factors, including climate factors.



## 4. Adverse Sustainability Impacts Statement

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”, aims to describe the identification, prioritisation and actions taken in relation to impacts on sustainability factors generated by the activity and investment decisions made by Generali Investments.

Misguided investment choices can have a potential adverse impact on stakeholders, environment and society. Generali Investments, as part of Generali Group, considers the Group sustainability materiality matrix as an important reference in order to identify and prioritize external adverse impacts.

Generali Investments believes that climate change is one of the most relevant topics in regard to the impacts of its activities. Given its size and scope of business, Generali Investments can have an important impact on the environment through its investment choices. Taking account of the Generali Group Restricted Lists, as an asset manager Generali Investments can influence the investee issuers, by reducing the investments in polluting companies and providing more financing to cleaner and more environmentally friendly activity.

In addition, Generali Investments can implement for its clients ethical filters whose objective is to avoid investing in companies responsible of ethical violations or involved in controversial business sectors.

The framework described above allows Generali Group and Generali Investments to identify, monitor and manage a set of principal adverse impacts, including:

- Greenhouse gas emissions and carbon footprint
- Coal exposure,
- Exposure to controversial weapons.

### 4.1 List of principal adverse impacts

Generali Investments uses the following PAIs to assess its impact:

- **Greenhouse gas emissions:** Through investment choices, we can finance companies and activity that have a higher or lower level of carbon emissions (expressed in CO<sub>2</sub>e). The objective is to reduce impact on the climate through this long-term initiative and to guide the real economy in positive terms toward a more sustainable future.
- **Coal exposure:** Coal sector exposure (solid fossil fuel sector exposure) is the share of investments in solid fossil fuel sectors. The coal is unanimously reckoned as one of the activities most damaging the environment. When burned to produce electricity, thermal coal emits around two times more GHG emissions compared to gas. Coal phase-out strategies are aimed at migrating investments from carbon-intensive (coal) towards renewable energy sources. Exclusionary thresholds are implemented according to clients’ strategy at a percentage of companies’ revenues deriving from coal. . Generali Investments can periodically review and update thresholds set with its clients in order to achieve their strategy objective.
- **Exposure to controversial weapons:** According to the principles of ethical filters laid out in clients’ agreements, fund rules, prospectuses or other product documentation, Generali Investments 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.

## 4.2 Actions to address principal adverse sustainability impacts

Generali Investments is involved in Generali Group initiatives that aim at limiting/eliminating the potential adverse impact of investments. Specifically referring to the impacts disclosed above, Generali Investments is supporting its clients in the implementation of mitigation strategies, subject to and in accordance with clients' agreements, fund rules, prospectuses or other product documentation.

### 4.2.1 Application of ethical filters

Ethical filters are applied based on clients' agreements, fund rules, prospectuses and/or other product documentation, currently with respect to the portfolio of a single client only. Examination of ethical filters with other products will be possible once all ESG regulations and ESG assessments, analysis and/or restrictions are available, based on ESG data of external providers.

The restricted list includes companies that match 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 and Tar Sands sector exclusion.

### 4.2.2 Transition to a low-carbon economy

Generali Investments follows the Generali Group strategy of reducing investments in companies not compliant with low-carbon transition. Generali Group 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.

### 4.2.3 Engagement policies

Being an institutional investor, Generali Investments also leverages its role as a liability-driven financial intermediary through investments, contributing to the greatest extent possible to raising corporate governance standards. In this role, Generali Investments has a fiduciary duty towards its stakeholders, 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.

## 5. Remuneration policy

Details of Generali Investments remuneration policy<sup>2</sup> are available on the Company's website. As a member of the Generali Group, Generali Investments pursues long-term growth, integrating sustainability into the core business and acting as Lifetime Partner to its stakeholders.

The sustainability commitments are a pillar of Generali business priorities, fully embedded in the Group remuneration policy and incentives system linked to long term sustainable value creation.

The scope of application concerns all key risk takers in the Generali Group companies. The incentives system is based on a meritocratic approach and a multi-year framework, with a combination of annual cash variable remuneration and deferred share or cash based variable remuneration, integrating sustainability/ESG strategic objectives based on Generali's 2021 and climate strategy goals, already disclosed to the market:

- at least 20% of top managers annual cash variable remuneration is linked to ESG goals & KPIs related to specific perspectives: People (e.g., Diversity & Inclusion index), Brand & Lifetime Partners (eg. relationship Net Promoter Score) and Sustainability (e.g., % green and sustainable investments growth; % green and social products growth, social community development through The Human Safety Net);
- the deferred (long-term) variable remuneration strengthens the link with long-term sustainable value creation.

The remuneration policy considers the integration of sustainability risks in the investment decision-making processes, containing also specific references to Group internal regulations governing sustainability risks within investment decisions. The continuous improvement of the link between sustainability and remuneration is a primary goal of our Group.

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<sup>2</sup> [https://www.generali-investments.si/ow\\_document\\_reader.php?documentID=3732&filename=Podrobnosti+politiike+prejemkov+25032020.pdf&fundCode](https://www.generali-investments.si/ow_document_reader.php?documentID=3732&filename=Podrobnosti+politiike+prejemkov+25032020.pdf&fundCode)