

*October 2023*

## **Integrating ESG factors into the investment process**

Sustainability risk is defined as an environmental, social or governance event or condition that could potentially cause a negative impact on the value of the investment. Sustainability risk can be a risk in itself or have an impact on other risks such as market risks, liquidity risks or counterparty risks.

Sustainability risks may lead to a significant deterioration in the financial profile, liquidity, profitability or reputation of the underlying investment.

As of 31 December 2023, 7 out of 16 sub-funds of NEW MILLENNIUM SICAV and 1 out of 3 sub-funds of NEW MILLENNIUM SICAV-SIF integrate ESG criteria into the investment process, thus being classified as compliant with Article 8 of the SFDR.

For these sub-funds, NATAM requests that the delegated manager integrate the consideration of Environmental, Social and Governance (ESG) factors into its investment decision-making processes, also for the purpose of mitigating the related risks, in the conviction that these elements, in addition to fostering sustainable economic and social development, can contribute positively to the financial performance of clients' portfolios while reducing their risks.

To this end, when choosing financial instruments, the manager flanks assessments of the more traditional characteristics (economic/financial indicators, historical performance, income outlook, risk indicators, etc.) with consideration of factors linked to sustainability (potential ecological impacts, commitments on social, environmental and/or governance aspects, pursuit of goals and objectives consistent with those of sustainability, etc.).

Managers also follow two types of criteria in order to mitigate sustainability risk:

- the average ESG rating of the portfolio;
- a number of additional investment restrictions applied to each specific sub-fund.

## The average portfolio ESG rating

The average portfolio rating has a value from 0 (least virtuous) to 100 (most virtuous) and is processed for each sub-fund on a regular basis (at least once a month). It is the average of the scores assigned to each financial instrument in the portfolio<sup>1</sup>, weighted by weight, excluding the cash component.

For this purpose, the instruments are divided into three macro-categories:

- Very High Sustainability Instruments (Specific Sovereign Issuers, Green and Social Bonds, UCITS classified under Art. 9 SFDR)
- Government bonds, Corporate issues (both equities and bonds) and UCITS
- UCIs (with special cases and for which further specifications are taken into account\*)

For each of the above categories, there is a specific criteria for assigning and calculating ratings based on data and information made available by certain providers<sup>2</sup> and/or institutions, as described below. The ESG level of the portfolio (excluding cash) is a simple weighted average of the sub-portfolios as calculated above.

<b>Instruments characterised by high sustainability</b>	<p>Sovereign issuers (EIB, World Bank, IMF, IBRD and the like) are conventionally assigned a maximum rating (equal to 100), in view of the virtuous ESG aims of the projects financed by their issues, as well as their peculiar promotion and adherence to sustainability standards<sup>1</sup>.</p> <p>Bond issues rated 'green or social', given their specific ESG characterisation, are given a maximum rating (100) regardless of the rating by the data provider.</p> <p>Likewise, UCITs classified under Article 9 for the purposes of the SFDR are given a maximum rating (100) regardless of whether they are rated by the data provider.</p>
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<sup>1</sup> The ESG score assigned refers to the synthetic ESG indicator, elaborated and extracted from the reference data provider Refinitiv/Prometeia

<sup>2</sup> The reference data provider is currently Refinitiv/Prometeia

<p><b>Criterion for all other types of instruments</b> <i>(government securities, corporate bond and equity issues, UCITS)</i></p>	<p>The benchmark ESG score is the ESG Risk Rating developed by the benchmark DATA Provider Refinitiv/Prometeia. It uses a process that analyses the issuers of securities with both a quantitative and qualitative approach. The aforementioned Provider provides data for all issuers.</p> <p>The indicator used to calculate the average portfolio rating has a value from 0 (least virtuous) to 100 (most virtuous).</p> <p>With regard to GPM, the scores for the individual factors, such as: Environmental, Social, Governance and Sustainability factor.</p>
<p><b>*Particular cases for UCITS</b></p>	<p>Should the fund be unhedged and there is a justified interest in a specific UCITS (equity, corporate and/or balanced) without a rating assigned by the aforementioned provider, the Finnat manager may endeavour to derive its rating based on the criteria described above through a look-through of its most recent portfolio provided by the fund management company.</p> <p>For funds without a rating and not falling under the previous cases, a value of zero is precautionarily assigned (although this does not necessarily imply that investment in such instruments is inconsistent with the goals of investment sustainability), unless they are rated under SFDR.</p>

### Further limits and constraints to be respected

Art. 8 SFDR sub-funds are managed by also providing for compliance with certain criteria and/or investment limits (maximum or minimum), in order to give concrete expression to the aims of promoting environmental and social characteristics, in addition to the indispensable governance ones.

These limits may be of various types and are different for the various sub-funds depending on their specific characteristics (type of Sicav sub-funds, specific asset classes, particular investment objectives, etc.).

By way of example, the main investment limits are listed below:

#### Quality of issuers/financial instruments *Governmental*

<p><b>Commitment of countries on climate, CO2 reduction, education spending and anti-corruption</b></p>	<p>Minimum investment in Government Bonds, or of companies with governments as reference shareholders, of countries that, at the same time:</p> <ul style="list-style-type: none"> <li>• are signatories to the Paris Climate Treaties (COP 21);</li> <li>• Co2 production is less than 0.3 kg/GDP<sup>3</sup> (<i>source: IEA - International Energy Agency</i>);<sup>4</sup></li> <li>• spending on education is more than 4%<sup>5</sup> of GDP (<i>source: World Bank</i>);<sup>6</sup></li> <li>• the corruption control index is above 0.2<sup>7</sup> (<i>source World Bank: rating scale -2.5 to +2.5</i>).<sup>8</sup></li> </ul>
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### Quality of Issuers/Company Financial Instruments

<p><b>ESG characterisation in corporate governance</b></p>	<p>Investment quotas of no less than certain levels, in financial instruments (shares and/or bonds) issued by companies that have strongly declared to adopt corporate policies:</p> <ul style="list-style-type: none"> <li>• on respect for human rights,</li> <li>• on the protection of child labour,</li> <li>• on environmental compliance.</li> </ul>
	<p>Investment units of not less than certain levels in financial instruments (shares and/or bonds) issued by companies that demonstrate a commitment to ESG issues and that demonstrate transparency towards investors by voluntarily providing information on ESG aspects in their financial statements, website, public documents, etc. This includes companies for which analyst research reports relevant considerations on such matters.</p>

<sup>3</sup> The numerical value 0.3 kg/GDP refers to the average score of the IEA Association member countries.

<sup>4</sup> The indicators refer to the latest available data; the database is updated at least once a year.

<sup>5</sup> The numerical value 4% of GDP refers to the average of the countries covered by the data provider.

<sup>6</sup> The indicators refer to the latest available data; the database is updated at least once a year.

<sup>77</sup> The numerical value 0.2 refers to the average of the countries covered by the data provider.

<sup>8</sup> The indicators refer to the latest available data; the database is updated at least once a year.

<b>Share invested in instruments of high ESG quality, not below certain levels</b>	Share of financial instruments with: <ul style="list-style-type: none"> <li>• ESG Refinitiv/Prometeia rating above predetermined levels</li> <li>• Green Bond</li> <li>• Social Bond</li> </ul>
	Quality of the UCITS in the portfolio with: <ul style="list-style-type: none"> <li>• Refinitiv/Prometeia rating above predetermined levels</li> <li>• classification consistent with certain articles of the SFDR (typically Art. 8 or 9)</li> </ul>

<b>Prescribed limits (or exclusion) to the allocation to instruments based on sustainability rating and/or ESG characteristics (also related to the issuer's business sector)</b>	Maximum limit in instruments without ESG rating.
	Exclusion of Issuers resident in countries that do NOT allow an adequate exchange of information with Italy.
	Minimum share reserved for small issuers that do not relocate, and favour employment levels and development in their own territory (circular economy). In this context, focus on <i>committed</i> companies with ESG sectors.
	Minimum investment units in financial instruments (shares and/or bonds) issued by companies whose core business (or products/services) involves significant benefits on ESG issues (e.g. electric mobility, alternative energy, sustainable packaging, waste disposal, etc.).
	Minimum investment in companies that demonstrate a commitment to ESG issues in the conduct of their business and/or that adopt transparency towards investors by voluntarily providing information on ESG aspects in their financial statements, or in specific documents (such as sustainability reports, non-financial balance sheets, codes of ethics, etc.) or on their websites; companies for which financial analyses or analyst reports include relevant considerations on ESG factors of their business models may also be included in this limit.
	Maximum limit of investment in issuers whose turnover derives mainly from nuclear energy production, or tobacco, as well as any company in the gambling sector.

Maximum limit of investment in corporate equity issues with an ESG rating referring to the Governance factor, indicated by the reference data provider, below predetermined levels (last quartile).

### **Frequency of updates and verification of compliance with limits**

Compliance with these thresholds in the segments is regularly verified at least monthly. Where necessary, timely corrective measures are implemented in order to comply with them.

### **Risk Management**

Sub-funds that follow the integration of ESG criteria in the investment process already set a minimum level of ESG rating in the investment policy.

Natam has decided to also subject the other sub-funds, classified as compliant with Article 6 of the SFDR, to ESG rating screening at the same monthly frequency. NATAM will take the following actions based on the outcome of the screening:

The screening result (score) will be represented as follows:

**Low:** score over 75

**Medium - low:** score between 60 and 75

**Medium:** score between 50 and 60

**Medium - high:** score between 40 and 50

**High:** score between 25 and 40

**Very high:** score between 0 and 25