

# **EUROSGR SUSTAINABILITY POLICY**

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	<b>Department</b>
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## 1. INTRODUCTION

### 1.1 Definitions

- EUROGR: Euromobiliare Asset Management SGR S.p.A.
- AWS: Wealth Management Area of the Credem Group
- CSW: Sustainability Committee of the Wealth Management Area of the Credem Group
- BoD: Board of Directors
- GM: General Manager
- CDI: Investment Management Committee
- CRP: Risk and Performance Committee
- CP: Products Committee
- CSR: Corporate Social Responsibility
- SRI: Socially Responsible Investments
- ESG: Environmental, Social and Governance
- SFDR: Regulation (EU) 2019/2088 of the European Parliament and of the European Council
- FMP: Financial market participant within the meaning of Article 2.1 of the SFDR Regulation
- PAI: Principle Adverse Impacts
- TR: Regulation (EU) 2020/852 of the European Parliament and of the European Council
- RTS: European Commission Delegated Regulation (EU) 2022/1288
- CTB: European Commission Delegated Regulation (EU) 2020/1818
- ESA: European Supervisory Authorities, i.e. EBA (European Banking Authority), EIOPA (European Insurance and Occupational Pensions Authority) and ESMA (European Securities and Markets Authority)
- Manual: EUROGR Sustainability Operations Manual

### 1.2 The AWS Responsible Investment Framework

The Companies that make up AWS, including EUROGR, have adopted the following framework, approved by the CSW, to define strategic guidelines for the integration of sustainability into their investment processes (SRI). As part of the Credem Group, these Companies are committed to promoting the integration of sustainability into their investment policies, including through the consideration of adverse impacts on sustainability factors and the assessment of sustainability risks, as well as within their corporate governance, stewardship activities, and the offering of investment products and services.

#### Identification of priority sustainability issues

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Without prejudice to the specific features of each product or service offered, the Companies, in line with the Credem Group's Purpose and values, have identified the following key areas identified as priorities for advancing sustainability:

- Climate change mitigation, in line with the Group's focus on this issue;
- Protection and respect of human rights, in line with the principles shared by the Group;
- Observance of good governance practices, in line with the Group's principles of ethics and integrity.

This prioritisation can be reviewed or supplemented over time, also based on the Credem Group's sustainability choices.

### **Identification of areas of application**

The sustainability issues identified as priorities shall be applied in the following areas:

**Definition of exclusions applicable to all portfolios and services:** The Companies shall adopt an exclusion policy that aims to exclude specific business sectors, financial instruments or behaviours that are not in line with the Credem Group's principles of ethics and integrity and the key areas identified as priorities for advancing sustainability, with a cross-cutting approach that is also applicable to business stakeholders.

**Identification of sustainability risks:** The Companies shall identify sustainability risks, focusing on the priority sustainability issues identified and other relevant risks. Mitigation of these risks can be achieved through appropriate metrics and tools for various types of portfolios and services.

**Identification of priority PAIs:** The Companies shall adopt a methodology for identifying priority PAIs, considering the key areas identified as priorities for advancing sustainability and the Credem Group's principles of ethics and integrity.

**Identification of the environmental and social characteristics to be promoted and of sustainable investment objectives:** The Companies shall define their sustainable investments objectives and the environmental and social characteristics to be promoted, starting from the priority sustainability issues identified and integrating other relevant aspects to ensure a positive impact that is consistent with the Group's sustainability principles.

**Stewardship activities:** The Companies shall design their stewardship activities — including engagement and voting objectives — with a primary focus on the key areas identified as priorities for advancing sustainability.

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### 1.3 Objective

EUROSGR recognises the strategic value of conducting its business in an increasingly sustainable manner to better align itself with the long-term interests of business stakeholders.

EUROSGR has adopted this sustainability policy, approved by the BoD, to define how to integrate sustainability into its corporate governance (CSR) and investment processes (SRI).

This sustainability policy has been defined on the basis of the strategic guidelines for integrating sustainability into corporate governance and investment processes contained in the AWS Responsible Investment Framework, as described in the previous paragraph.

For all operational and technical aspects, references are made to the Manual in the respective chapters.

### 1.4 Scope

This sustainability policy applies to the entire value chain and to all products offered by EUROSGR, including those delegated to third parties<sup>1</sup>, in accordance with the methods and distinctions set out below, and in line with the offering-related and/or contractual documentation of the respective products.

### 1.5 Updates and responsibilities

The Governance and Planning Office, in coordination with the Investment Area, is responsible for ongoing updates to the sustainability policy, also in the event of significant changes to sustainability-related regulations or market practices.

## 2. CSR POLICY

### 2.1 Sustainability governance

As stated in the AWS Responsible Investment Framework, EUROSGR, as part of the Credem Group, is committed to promoting the integration of sustainability into corporate governance.

EUROSGR has defined the following sustainability governance system:

- BoD: approves the sustainability policy, supported by the corporate committees;

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<sup>1</sup> In addition to the provisions of EUROSGR's sustainability policy, products delegated to third parties shall also comply with the AWS guidelines on the relationship between delegating and delegated entities.

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- GM: ensures, supervises and refines implementation of the sustainability policy within the corporate structure, also on the basis of information and reports provided by other corporate departments, and reports progress to the BoD;
  - Investment Manager: defines, coordinates and implements sustainability-related processes, particularly sustainable investments;
  - Corporate Committees: the CDI is involved in the process of assessing and approving operational decisions related to the sustainable investment process and, more generally, in the application of same; the CRP is involved in the process of monitoring compliance with the sustainable investment process; the CP is involved in the process of defining the approach to sustainability of new products and in the ongoing maintenance and analysis of the sustainability approach of existing products;
  - Corporate CSR Specialist and Contact Person for ESG Investment Analysts: these are dedicated CSR and SRI specialists. The Corporate CSR Specialist is the point of reference identified within each AWS company who draws on his/her knowledge of the business and corporate structure to contribute to the definition, implementation and development of sustainability within the Company, in coordination with all the corporate departments involved. The Contact Person for ESG Investment Analysts draws on an in-depth understanding of sustainable investment issues to contribute to the definition and implementation of the sustainable investment process;
  - CSW: this technical advisory body of AWS, specialising in CSR and SRI issues, proactively advises the relevant corporate committees and, if necessary, the Company's BoD (for details, see the CSW Operating Rules);
  - ESG Data & investments: this permanent working group, operating across all AWS companies, identifies, manages and monitors common initiatives for the definition of sustainable investment processes;
  - Risk Management Department: this department carries out second-level checks on sustainability risks and validates methodologies for the implementation of the sustainable investment process; it also supports the BoD in its sustainability policy reviews;
  - Compliance Department: this department monitors the sustainability policy's compliance with the applicable legislation and with EUROSGF's internal processes, as well as its correct application in implementing the investment process.

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## 2.2 Relations with the Credem Group on sustainability issues

As outlined in the AWS Responsible Investment Framework, the priority sustainability issues for integrating sustainability into the investment process and corporate governance have been identified in line with the Credem Group's Purpose, values and sustainability priorities.

Furthermore, EUROSGR, being wholly owned by Credito Emiliano S.p.A., the parent company of the Credem Group, falls within the scope of application and reporting of Consolidated Non-Financial Disclosure<sup>2</sup>, and is also involved in the environmental and social strategy initiatives promoted by the Credem Group.

## 2.3 Joining networks and forums for promoting sustainability in investment

EUROSGR recognises the strategic value of participating in industry networks and forums for the promotion of sustainability in investment.

EUROSGR participates in such initiatives when deemed in line with the strategic guidelines on sustainability integration defined in the AWS Responsible Investment Framework, and assesses potential participation by carrying out internal feasibility analyses and requesting the prior opinion of the Sustainability and Stakeholder Engagement Office (SSE) of the Credem Group.

EUROSGR is currently a member of Principles for Responsible Investment (PRI), the United Nations network dedicated entirely to promoting sustainability in investment.

## 2.4 Sustainability training

EUROSGR arranges for the participation – in particular of investment departments – in internal and/or external training courses in order to ensure an adequate level of knowledge on sustainability at all times.

# 3. SRI POLICY

## 3.1 Exclusions

### Rationale of exclusions

As outlined in the AWS Responsible Investment Framework, EUROSGR adopts an exclusion policy that aims to exclude specific business sectors, financial instruments or behaviours that are not in

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<sup>2</sup> As specified in the Credem Group's Sustainability Regulations.

line with the Credem Group's principles of ethics and integrity and with the key areas identified as priorities for advancing sustainability.

### **Identification of exclusion criteria and scope of application**

The exclusion policy has established the following exclusion criteria:

a) “Hard exclusion” criteria (i.e. applied across the entire value chain, affecting employees, clients, suppliers, proprietary portfolios, and the investment policy of all products offered):

- Corporate issuers involved in the production of controversial weapons<sup>3</sup>
- Speculative derivatives on food commodities<sup>4</sup>

The identification of the “hard exclusion” criteria is the responsibility of the BoD, on the proposal of the CSW, supported by the Advisory and Sustainability Committee of the Credem Group and subject to approval by the BoD of Credem.

b) “Soft exclusion” criteria (i.e. applied to the investment policy of all products offered by EUROSGR):

- Corporate issuers involved in very serious violations of human and child rights<sup>5</sup>

The list of exclusions drawn up independently by the external data provider appointed by EUROSGR, including the exclusion criteria described above, and any updates thereto (both additions and removals) shall be deemed to be immediately effective from the moment they are notified to EUROSGR. Submission of the list to the CDI therefore has purely informational value and does not authorise investment, without prejudice to the assessments that the CDI may carry out in the performance of its duties.

The exclusion criteria shall be applied to:

- direct investments in securities;
- indirect investments (such as Collective Investment Undertakings, or CIU, and derivatives), with regard to controversial weapons within the scope of Italian Law No. 220 of 09/12/2021

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<sup>3</sup> Controversial weapons are those that have indiscriminate effects, are unable to distinguish between civilian and military targets, and are regulated by international conventions aimed at limiting their proliferation. For example, these include anti-personnel mines, cluster munitions, biological and chemical weapons, nuclear weapons, blinding lasers, white phosphorus, undetectable fragments, incendiary weapons, and weapons of mass destruction.

<sup>4</sup> Speculative derivatives on food commodities are derivative financial instruments with a food commodity as the underlying asset, used for price speculation and generating a direct negative impact on millions of people. This does not include food commodity derivatives for hedging purposes attributable to the core business of the food sector.

<sup>5</sup> Very serious violations of human and child rights are particularly serious and systematic actions that violate the fundamental rights of individuals, especially children. For example, these include genocide, ethnic cleansing, torture, slavery, forced detention, and forced child labour.

on “Measures to counter the financing of companies producing anti-personnel mines, cluster munitions or bomblets”;

unless otherwise specified by the exemption process, which is defined and agreed at the AWS level. For more details, please refer to the Manual.

### **Implementing and assessing exclusions**

EUROSGR has defined sustainability indicators and binding thresholds to implement the identified exclusion criteria.

The definition of these sustainability indicators and binding thresholds is the responsibility of the BoD, on the proposal of the CSW, supported by the Advisory and Sustainability Committee of the Credem Group and subject to approval by the BoD of Credem.

EUROSGR assesses compliance of investments with the exclusion criteria through the CRP’s monitoring of the sustainability indicators against the binding thresholds.

For more details, please refer to the Manual.

### **Italian Law No. 220 of 09/12/2021**

“Hard exclusion” criteria for corporate issuers involved in the production of controversial weapons ensures compliance with Italian Law No. 220 of 09/12/2021 on “Measures to counter the financing of companies producing anti-personnel mines, cluster munitions or bomblets”.

In order to ensure compliance with the legislation, EUROSGR has adopted the following operational safeguards:

- Subscribing to ETFs included in the list provided by the AML Compliance Department of the parent company, in agreement with the Risk Management Department, is prohibited. To this end, the Middle Office Team implements specific operational blocks within the Front Office system;
- In the event of a need to subscribe to an actively or semi-passively managed CIU (whether for an initial subscription or for an increase in position within EUROSGR-managed portfolios), the relevant Portfolio Manager is required to conduct a preliminary review of the CIU’s prospectus to verify the existence of a controversial weapons exclusion policy adopted by the respective Fund House. If an exclusion policy is not explicitly stated in the prospectus, subscription to the CIU may only occur with prior written authorisation from the Head of the Investment Service, based on demonstrable management needs and, in any case, in the best interest of the fund’s investors;

- Subscribing to financial instruments issued by entities included in the list provided by the AML Compliance Department of the parent company, in agreement with the Risk Management Department, is prohibited. To this end, the Middle Office Team implements specific operational blocks within the Front Office system.

### **3.2 Integrating sustainability risks**

#### **Definition of “sustainability risks”**

Sustainability risks are defined as environmental, social or governance events or conditions that, when they occur, could have a significant negative impact on the value of the investment.

#### **Regulatory framework for sustainability risks**

The transparency requirements on the integration of sustainability risks apply to EUROSGR in its capacity as FMP and exist both at the entity level, in relation to the investment process in general, and at the product level, in relation to product-specific investment decisions.

#### **Scope and methodology for integrating sustainability risks**

EUROSGR integrates sustainability risks at both the entity and product levels, covering all products offered.

The integration of sustainability risks includes the following methodological steps:

- Identification of material sustainability risks
- Implementation and assessment of material sustainability risks

#### **Identification of material sustainability risks**

EUROSGR has identified material sustainability risks, primarily by considering the key areas identified as priorities for advancing sustainability, as outlined in the AWS Responsible Investment Framework, as well as all other risks deemed relevant.

The material sustainability risks identified are such at both the entity and product levels, and are:

- Climate risk
- Environmental risk
- Social risk
- Governance risk
- Overall sustainability risk

EUROSGR allows, for each individual product offered, the possibility to add and/or replace certain sustainability risks as material risks in place of those listed, in line with the product's investment policy.

The identification of material sustainability risks for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

For more details, please refer to the Manual.

### **Implementation and assessment of material sustainability risks**

EUROSGR has defined sustainability indicators and attention thresholds to implement the integration of sustainability risks.

For example, the sustainability indicator chosen to implement the overall sustainability risk, for all products offered, is the ESG Score developed according to a proprietary methodology and shared at the AWS level<sup>6</sup>.

The definition of sustainability indicators and attention thresholds for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

EUROSGR assesses material sustainability risks for all products offered<sup>7</sup> through the CRP's monitoring of sustainability indicators against attention thresholds, with the CRP having the authority to undertake mitigation actions to reduce risks deemed excessive.

For more details, please refer to the Manual.

## **3.3 Consideration of PAIs**

### **Definition of "PAIs"**

PAIs are defined as the effects of investment decisions that have negative impacts on sustainability factors, which in turn are defined as: environmental, social, and employee-related issues; respect for human rights; and matters relating to the prevention of active and passive corruption. Adverse impacts are specified by the regulator through a series of indicators, categorised as principal and supplementary.

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<sup>6</sup> The AWS ESG Score, calculated for corporate, government and CIU issuers, is distributed on a scale of 0 to 100, with 0 being the worst and 100 being the best.

<sup>7</sup> This activity is considered effective at both the entity and product levels, given the scope of its execution.

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## **Regulatory framework for PAIs**

The transparency requirements on the consideration of PAIs apply to EUROSGR in its capacity as FMP and exist both at the entity level, in relation to the investment process in general, and at the product level, in relation to product-specific investment decisions.

## **Scope and methodology for considering PAIs**

EUROSGR does not consider PAIs at the entity level because the requirement applies only to companies with more than 500 employees and because it is not able to obtain, process, and/or monitor high-quality data to assess potential adverse impacts across all products offered\*.

EUROSGR does not consider PAIs at the product level for products offered under Article 6 of the SFDR, unless otherwise specified and an implementation resolution has been approved.

EUROSGR does consider PAIs at the product level for products offered under Articles 8 and 9 of the SFDR.

The consideration of PAIs includes the following methodological steps<sup>8</sup>:

- Identification of priority PAIs
- Implementation and assessment of priority PAIs

## **Identification of priority PAIs**

EUROSGR has identified priority PAIs, and their indicators, taking into account the key areas identified as priorities for advancing sustainability and the principles of ethics and integrity of the Credem Group, as outlined in the AWS Responsible Investment Framework, and taking into account the likelihood and severity of the PAIs, as well as their potentially irreparable character. The indicators for priority PAIs, identified at the product level, for all products offered under Articles 8 and 9 of the SFDR, are:

For corporate issuers:

- 1. GHG emissions
- 2. Carbon Footprint
- 3. Intensity of the GHG emissions of the companies receiving the investments
- 4. Exposure to fossil fuel companies

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<sup>8</sup> Unlike the consideration of PAIs at the entity level, the ESAs have not provided specific guidance on how to consider PAIs at the product level. The approach is therefore primarily based on the methodology used for integrating sustainability risks and on the provisions for considering PAIs at the entity level.

- 10. Violations of UN Global Compact principles and OECD Guidelines for multinational enterprises
- 14. Exposure to controversial weapons

For Government issuers:

- 15. GHG intensity
- 16. Beneficiary countries of investments responsible for social violations

EUROSGR allows, for each individual product offered under Articles 8 and 9 of the SFDR, the possibility to add and/or replace certain PAIs as priority PAIs in place of those listed, in line with the product's investment policy.

The identification of priority PAIs for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

For more details, please refer to the Manual.

### **Implementation and assessment of priority PAIs**

EUROSGR has defined attention thresholds or targets for the indicators relating to priority PAIs, in order to implement the consideration of PAIs. The attention thresholds and targets have been set either in absolute terms or relative to a reference market, depending on the type of indicator<sup>9</sup>.

The definition of attention thresholds and targets for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

EUROSGR assesses priority PAIs—as identified for products offered under Articles 8 and 9 of the SFDR—through the CRP's monitoring of PAI-related indicators against the attention thresholds or targets, with the CRP having the authority to undertake mitigation actions to reduce adverse impacts deemed excessive or to correct significant deviations from the targets. These mitigation actions, aimed at improving the value of PAI-related indicators against the attention thresholds or targets, may include maintaining positions, divesting, or carrying out stewardship activities.

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<sup>9</sup> For products offered under Article 9 of the SFDR and products offered under Article 8 of the SFDR that partially make sustainable investments, it is possible to waive the identification of attention thresholds or targets due to the application of criteria ensuring that investments do not cause significant harm to other environmental or social objectives (DNSH principle).

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For more details, please refer to the Manual.

### **3.4 Promotion of environmental and/or social characteristics and observance of good governance practices**

#### **Definition of “promotion of environmental and/or social characteristics” and “observance of good governance practices”**

The regulator has no definition for the “promotion of environmental and/or social characteristics”, while some examples of good governance practices are provided, such as sound management structures, staff relations, staff remuneration, and compliance with tax obligations.

#### **Regulatory framework for the promotion of environmental and/or social characteristics and the observance of good governance practices**

The transparency requirements on the promotion of environmental and/or social characteristics and on investments in companies observing good governance practices apply to EUROSGR in its capacity as FMP and exist at the product level for products offered under Article 8 of the SFDR.

#### **Scope and methodology for the promotion of environmental and/or social characteristics and the observance of good governance practices**

Products offered by EUROSGR under Article 8 of the SFDR promote environmental and/or social characteristics and invest in companies that observe good governance practices.

The promotion of environmental and / or social characteristics and the observance of good governance practices at the product level follow the following methodological steps<sup>10</sup>:

- Identification of the environmental and/or social characteristics to be promoted
- Implementation and assessment of the promotion of environmental and/or social characteristics
- Definition of good governance practices to be followed
- Implementation and assessment of compliance with good governance practices

#### **Identification of the environmental and/or social characteristics to be promoted**

EUROSGR has identified the environmental and/or social characteristics to be promoted, primarily by considering the key areas identified as priorities for advancing sustainability, as outlined in the

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<sup>10</sup> The SFDR is a disclosure regulation and, as such, does not provide specific guidance on the methodological approach to be followed for the promotion of environmental and/or social characteristics and the observance of good governance practices; instead, it remains neutral in this regard.

AWS Responsible Investment Framework, as well as other elements deemed relevant. The environmental and/or social characteristics to be promoted at the product level for products offered under Article 8 of the SFDR are climate, human rights, and the well-being of the population.

EUROSGR allows, for each individual product offered under Article 8 of the SFDR, the possibility to add and/or replace certain environmental and/or social characteristics to be promoted, in line with the product's investment policy.

The identification of the environmental and/or social characteristics to be promoted for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

For more details, please refer to the Manual.

### **Implementation and assessment of the promotion of environmental and/or social characteristics**

EUROSGR has defined sustainability indicators and binding thresholds or non-binding targets to be used to implement the promotion of environmental and/or social characteristics.

The definition ensures that all products offered under Article 8 of the SFDR comply with at least the exclusion criteria set out in the Climate-Transition benchmark indices

The definition of sustainability indicators, binding thresholds and non-binding targets for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

EUROSGR assesses the promotion of environmental and/or social characteristics, as identified for products offered under Article 8 of the SFDR, through the CRP's monitoring of sustainability indicators against binding thresholds and non-binding targets, with the CRP having the authority to undertake mitigation actions to reduce significant deviations from the targets.

For more details, please refer to the Manual.

### **The role of benchmarks in the promotion of environmental and/or social characteristics**

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If a product offered under Article 8 of the SFDR has a benchmark for comparing financial performance, EUROSGR shall not use that benchmark to compare the performance of sustainability indicators, unless otherwise specified in the pre-contractual disclosure.

The definition of the possible use of benchmarks to measure and verify the promotion of environmental and/or social characteristics for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

For more details, please refer to the Manual.

### **Management of investments that do not promote environmental and/or social characteristics in products offered under Article 8 of the SFDR**

For the share of investments made by products offered under Article 8 of the SFDR that do not promote environmental and/or social characteristics (i.e. those classified as “Other”), EUROSGR applies the general exclusion criteria as minimum social safeguard measures. Derivatives, unless otherwise specified in the pre-contractual disclosure, are included among investments classified as “Other”.

### **Definition of good governance practices to be followed**

EUROSGR has defined the following criteria to measure compliance with good governance practices by corporate issuers<sup>11</sup>:

- Soundness of management structures
- Strength of relationships with stakeholders
- Integrity of corporate conduct, including compliance with tax obligations

The definition of the criteria used to measure compliance with good governance practices is the responsibility of the CDI, on the proposal of the Head of the Investment Service.

### **Implementation and assessment of compliance with good governance practices**

EUROSGR has defined sustainability indicators and binding thresholds to implement the criteria for compliance with identified good governance practices.

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<sup>11</sup> The absence of criteria for measuring good governance practices with regard to government issuers or other types of issuers is due to the clarification, made by the ESAs in Q&A V.6 and V.27, that compliance with good governance practices is only required for corporate issuers.

The definition of sustainability indicators and binding thresholds to measure compliance with good governance practices is the responsibility of the CDI, on the proposal of the Head of the Investment Service.

EUROSGR assesses compliance with good governance practices through the CRP's monitoring of sustainability indicators against binding thresholds.

For more details, please refer to the Manual.

### **3.5 Sustainable investment**

#### **Definition of “sustainable investment”**

Sustainable investment is defined as investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any such objective and provided that the undertakings benefiting from such an investment comply with good governance practices.

#### **Regulatory framework for sustainable investment**

The transparency obligations on sustainable investment apply to EUROSGR in its capacity as FMP and exist at the product level for products offered under Article 9 of the SFDR and for products offered under Article 8 of the SFDR that partially make sustainable investments.

#### **Scope and methodology of sustainable investment**

Products offered by EUROSGR under Article 9 of the SFDR make sustainable investments for at least 90 % of the portfolio, leaving a maximum of 10 % for instruments such as cash or derivatives, used for technical or hedging purposes.

Products offered by EUROSGR under Art. 8 of the SFDR may make some sustainable investments. The minimum sustainable investment threshold for products offered under Article 8 of the SFDR is defined in line with the product investment policy.

The definition of the minimum sustainable investment threshold for new products offered under Article 8 of the SFDR and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

EUROSGR defines a significant share of sustainable investments—used to characterise a product offered under Article 8 of the SFDR that partially makes sustainable investments—as being no less than 50%.

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The process for sustainable investments includes the following methodological steps<sup>12</sup> :

- Identification of the environmental and/or social objectives to which the sustainable investments contribute
- Implementation and assessment of sustainable investments

### **Identification of sustainable investment objectives**

EUROSGR has identified sustainable investment objectives, primarily by considering the key areas identified as priorities for advancing sustainability, as outlined in the AWS Responsible Investment Framework, as well as other elements deemed relevant.

The sustainable investment objectives to which to contribute at the product level, with reference to products offered under Article 9 of the SFDR and products offered under Article 8 of the SFDR that partially make sustainable investments, are:

Environmental objectives:

- Climate change mitigation

Social objectives:

- Mitigation of social inequalities

EUROSGR allows, for each individual product offered under Article 9 of the SFDR and each individual product offered under Article 8 of the SFDR that partially makes sustainable investments, to add and/or replace certain sustainable investment objectives to which to contribute, in line with the product's investment policy.

The identification of sustainable investment objectives to which to contribute for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

For more details, please refer to the Manual.

### **Implementation and assessment of sustainable investments**

EUROSGR has defined a methodology for implementing sustainable investments that includes the following methodological steps:

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<sup>12</sup> The SFDR is a disclosure regulation and, as such, does not provide specific guidance on the methodological approach to be followed for defining sustainable investments; instead, it remains neutral in this regard.

- Contribution to identified sustainable investment objectives
- Do No Significant Harm (DNSH) to other environmental and social objectives
- Observance of good governance practices

The criteria for contributing to the identified sustainable investment objectives are as follows:

For the environmental objective “Climate change mitigation”:

- For corporate issuers, a positive alignment with environmental issues such as energy transition, circular economy, and sustainable resource management.<sup>13</sup>
- For Green or Sustainable corporate or government bond issues, a positive assessment of alignment with the Green Bond Principles

For the social objective “Mitigation of social inequalities”:

- For corporate issuers, a positive alignment with social issues such as quality education, access to healthcare and housing, inclusive employment, and food security<sup>14</sup>
- For Social or Sustainable corporate or government bond issues, a positive assessment of alignment with the Social Bond Principles

In particular, the contribution criteria consist in assessing the performance of the corporate issuer or of the bond issue with respect to the identified issues, against quantitative thresholds.

The DNSH criteria—ensuring that the investment does not cause significant harm to other environmental or social objectives—consist in assessing the corporate issuer’s performance across all PAI-related indicators and a selection of supplementary indicators related to adverse impacts, against quantitative thresholds. It should be noted that the methodology, considering all PAI-related indicators, also takes into account PAI 10 “Violations of UNGC Principles and OECD Guidelines for Multinational Enterprises”, and is therefore aligned with the minimum safeguard requirements set out in the TR.

The criteria by which an investment complies with good governance practices consist in assessing the performance of the corporate issuer<sup>15</sup> on governance-related aspects against a quantitative threshold.

The definition of the methodology for implementing sustainable investments is the responsibility of the CDI, on the proposal of the Head of the Investment Service.

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<sup>13</sup> The list of issues provided is intended to be illustrative and not exhaustive.

<sup>14</sup> The list of issues provided is intended to be illustrative and not exhaustive.

<sup>15</sup> The absence of criteria for measuring good governance practices with regard to government issuers or other types of issuers is due to the clarification, made by the ESAs in Q&A V.6 and V.27, that compliance with good governance practices is only required for corporate issuers.

EUROSGR has also defined sustainability indicators and binding thresholds or non-binding targets to be used to assess the implementation of sustainable investments in its various methodological steps.

The definition ensures that all products offered under Article 9 of the SFDR comply with at least the exclusion criteria set out in the Paris-Aligned benchmark indices<sup>16</sup>.

The definition of sustainability indicators, binding thresholds and non-binding targets for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

EUROSGR assesses the implementation of sustainable investments, for products offered under Article 9 of the SFDR and products offered under Article 8 of the SFDR that partially make sustainable investments, through the CRP's monitoring of sustainability indicators against binding thresholds and non-binding targets, with the CRP having the authority to undertake mitigation actions to reduce significant deviations from the targets.

For more details, please refer to the Manual.

### **The role of benchmarks in sustainable investment**

EUROSGR does not make use of a benchmark for products offered under Article 9 of the SFDR, either for comparing financial performance or for the implementation of sustainable investments, unless otherwise specified in the pre-contractual disclosure. For more details, please refer to the Manual.

The definition of the possible use of benchmarks to measure and verify the implementation of sustainable investments for new products is the responsibility of the CP, on the proposal of the Head of the Investment Service, whereas updates to the sustainable investment process fall under the responsibility of the CDI, also on the proposal of the Head of the Investment Service.

### **Management of non-sustainable investments in funds under Article 9 of the SFDR**

Although the ambition of products offered under Article 9 of the SFDR is to make sustainable investments across the entire portfolio, they may, incidentally, hold other instruments that do not contribute to the sustainable investment objective (i.e. classified as “#2 Non-Sustainable”), such as cash or derivatives, for technical or hedging purposes. For these instruments, EUROSGR applies the general exclusion criteria as minimum social safeguard measures. Derivatives, unless otherwise

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<sup>16</sup> An exception is made for Green or Sustainable corporate or government bond issues, where — in line with the ESA guidelines — “the manager may apply a look-through approach to assess whether they are relevant for exclusion purposes”.

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specified in the pre-contractual disclosure, are included among investments classified as “#2 Non-Sustainable”.

### **3.6 Environmentally sustainable investments**

#### **Definition of “environmentally sustainable investments”**

Environmentally sustainable investments, or “EU Taxonomy-aligned investments”, are defined as investments in economic activities considered environmentally sustainable under the TR. These activities are deemed environmentally sustainable if they substantially contribute to one or more of the environmental objectives defined by the TR, do no significant harm to any other environmental objectives, and are conducted in compliance with the minimum safeguard requirements. The criteria for contribution to the objectives and for avoiding significant harm to same are specified by the regulator through a set of Technical Screening Criteria (TSC).

#### **Regulatory framework for environmentally sustainable investments**

The transparency obligations regarding environmentally sustainable investments apply to EUROSGR in its capacity as FMP and exist at the product level, specifically for products offered under Article 8 of the SFDR that promote environmental characteristics and products offered under Article 9 of the SFDR that have a sustainable investment objective related to environmental goals and for which a minimum threshold of environmentally sustainable investments has been established.

#### **Scope and methodology of environmentally sustainable investments**

Products offered under Article 9 of the SFDR and products offered under Article 8 of the SFDR that partially make sustainable investments may make environmentally sustainable investments.

Environmentally sustainable investments include the following methodological steps:

- Definition of the minimum threshold of environmentally sustainable investments
- Implementation and assessment of environmentally sustainable investments

#### **Implementation and assessment of environmentally sustainable investments and their relation to sustainable investments**

EUROSGR defines a minimum threshold of environmentally sustainable investments, at the product level, for products offered under Article 8 of the SFDR that promote environmental characteristics and partially make sustainable investments, and for products offered under Article 9 of the SFDR that have an environmental investment objective, where deemed consistent with the investment policy of each product.

The definition of minimum thresholds for new products and the amendment of existing products fall within the competence of the CP, on the proposal of the Head of the Investment Service, whereas enhancements of the sustainable investment process fall within the competence of the CDI, also on the proposal of the Head of the Investment Service.

When a product has a minimum threshold of environmentally sustainable investments, the value of the environmentally sustainable investments automatically serves as a sustainability indicator used to assess the implementation of sustainable investments with the environmental objective of “climate change mitigation”.

For more details, please refer to the Sustainable Investments section and the Manual.