POLICY FOR THE MANAGEMENT OF SUSTAINABLE FINANCE PRODUCTS

Revision no.	01 – SGR
Drawn up by:	Sustainability Office
Checked by:	Compliance Function
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Contents

IMPact SGR S.p.A.
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1. Putting Finance at the Service of a Sustainable and Resilient Economic Development Model

The current economic development model prevents fair intergenerational use of resources. The transformation of the economic development model is no longer only an ethical issue, but has become a necessity to ensure prosperity for present and future generations. The social and environmental challenges of the 21st century are more evident than ever. Climate change and its environmental and social consequences, biodiversity reduction, ecosystem disruption and the growing intergenerational debt with respect to the use of available resources are exposing the weaknesses of our economic system, which is hinged on a development model that does not take into account the ecological limits of the planet. Perhaps more than at any other time in human history, however, enormous challenges also bring extraordinary opportunities. The increasing speed of scientific and technological breakthroughs, increased access to education, global interconnectedness and free access to information and telecommunications all point to the possibility that a society based on knowledge and clean technologies can find innovative solutions to the challenges of our time.

So, it is time to act without hesitation to turn the great challenges of the 21st century into opportunities and to harness the extraordinary benefits that can accrue from achieving a socially just transition to climate neutrality. However, these benefits will not unfold automatically, but will be the result of bold and forward-looking policy and investment choices. The benefits of the transition to climate neutrality will largely outweigh the costs only if they can be enjoyed widely and inclusively by workers and communities. Only in this way can the ecological transition create prosperity for both present and future generations.

Since 2015, international efforts have intensified and have set clear goals to be pursued in order to address the challenges of the 21st century, especially through the Sustainable Development Goals (SDGs), the Paris Agreement and, in the European context, the Green Deal. It is therefore also incumbent upon the asset management industry to invest the best of its knowledge, skills and resources in the development of financial products that can help address these challenges. The investment opportunities created by both the transition to climate neutrality and the need to adapt to climate change are momentous, and it is the responsibility of the asset management industry to develop investment strategies that can, at the same time, generate adequate financial returns, consistently with the ecological limits of the planet, and contribute to the generation of prosperity in an equitable manner for present and future generations.

2. The Reference Regulatory Framework for Sustainable Finance

Regulation (EU) 2019/2088 (SFDR)

Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) imposes transparency obligations on financial market participants with regard to the integration of sustainability risks, the adverse environmental and social impacts of investments and the degree of sustainability-related ambition of financial products. The regulation lays down disclosure obligations at both entity and product level with regard to the integration of sustainability risks into investment decisions and the negative impact of financial activities on environmental, social and governance (ESG) aspects. Furthermore, the regulation introduces a distinction between two categories of financial products: those which promote environmental or social characteristics (Article 8) and those which pursue a sustainable investment objective (Article 9).

Commission Delegated Regulation (EU) 2020/1818

This regulation concerns EU climate benchmarks and Climate Transition Benchmarks. It lays down minimum requirements for the construction of Paris-aligned climate benchmarks. It also specifies technical standards to ensure that these benchmarks provide clear and comparable information on the climate performance of the financial instruments to which they relate.

Regulation on the Taxonomy of Environmentally Sustainable Activities – Regulation (EU) 2020/852

Regulation (EU) 2020/852 on the taxonomy of environmentally sustainable activities establishes a unified Union-wide classification system to determine which economic activities qualify as environmentally sustainable. It lays down detailed criteria for economic activities to qualify as sustainable, thus orienting investments towards sustainable projects and activities.

Regulation (EU) 2021/2178

This regulation supplements Regulation (EU) 2020/852 by imposing specific disclosure requirements on financial and non-financial undertakings regarding the alignment of their activities with environmentally sustainable activities.

Commission Delegated Regulation (EU) 2022/1288

This regulation supplements the SFDR Regulation by specifying the technical details for the presentation of sustainability-related information. It specifies the content, methodologies and presentation of the principal sustainability indicators to be reported by financial market participants and financial advisers. The information covers the principal adverse impacts of investment decisions on sustainability factors, the promotion of environmental or social characteristics and sustainable investment objectives.

Directive (EU) 2022/2464 (CSRD)

The Corporate Sustainability Reporting Directive (CSRD), effective from 1 January 2024, extends the sustainability reporting obligation to all large undertakings and companies listed on a regulated market in the EU, including listed SMEs, with proportionate obligations. It introduces the European Sustainability Reporting Standards (ESRS), requiring external audits of sustainability-related information.

3. Purpose and Scope

This Policy applies to:

- collective asset management;
- individual portfolio management;
- investment advice.

For all its financial products, IMPact SGR attributes sustainability risk and applies exclusion criteria for socially controversial and carbon-intensive activities as laid down in Sections 6 and 7 of this Policy, respectively.

For SFDR art. 8 and 9 financial products, IMPact SGR adopts a two-level selection process. First it identifies the investable universe for the product, then it performs active investment selection with the aim of achieving the sustainability objectives of each financial product in a differentiated manner according to its SFDR classification.

4. Selection and Use of Sustainability Data in Investment Processes

IMPact SGR integrates sustainability factors and risk into investment processes through the use of sustainability performance metrics and indicators developed by third parties, as well as through in-house development of metrics and indicators from sustainability data obtained from third parties or collected internally. Data collected and processed by the Sustainability Office come from publicly available sources.

For this purpose, IMPact SGR has established collaborative relationships with external sustainability data providers recognised in the market for their thematic specialisation and provision of technologically advanced solutions.

4.1 Quality control of sustainability data

The increasing relevance of sustainability data in investment processes requires a rigorous approach to ensure its integrity and quality. In line with the Bank of Italy's expectations and IMPact's commitment to promoting investment strategies with a high level of sustainability ambition, a periodic monitoring process has been implemented to assess the quality of the data used in defining the sustainability profiles of issuers and portfolios. This process is based on the following key criteria

- Reliability:
  - Reliability implies that data is supported by documentary evidence and that any collection or calculation process is subject to rigorous checks to minimise errors or discrepancies. This ensures that business decisions based on sustainability data are based on information with rigorous processes for verifying the reliability of sources.

- Robustness:
  - Robustness of data refers to their ability to maintain integrity and consistency over time. Data must be resistant to systematic errors and manipulation and the collection system must be designed to ensure high quality over time, even in the presence of changes in external factors.

- Comparability:
  - Comparability requires that sustainability data be harmonised in terms of formats,

metrics and units of measurement, to allow for consistent comparisons across issuers, whether corporate or government, and consequently across portfolios.

- Trasparency:
  - Transparency implies that sustainability data are accessible, easily understandable and accompanied by a clear description of the methodologies used to collect and process them. Full traceability of sources and calculation processes must be ensured, so that their accuracy and consistency can be verified.

The periodic quality control of IMPact SGR's sustainability data includes an assessment of the data quality processes adopted by the sustainability data providers with whom IMPact enters into business relations, chosen by the company on the basis of the degree of specialisation, levels of coverage, completeness and periodic updating of data, measurement methods used and market recognition. For each category of sustainability data, the corresponding methodology, made available by the respective sustainability data provider, is evaluated in light of the criteria described above. For each criterion, a qualitative assessment of the methodology is then made.
This assessment is updated according to the periodicity of the updates of the reference methodologies for each data category and at least on an annual basis.

5. Integration of sustainability information into investment processes

The SGR has developed, through collaboration with an external software development company, an application aimed at performing the following functions:
- assessing ex-ante the contribution to the portfolio sustainability profile of a given investment
- assessing ex-ante and ex-post the compliance of a given security with the sustainability limits formally established in the investment policies of financial products, both at individual investment and portfolio level
- optimise, in an automated manner, the composition of portfolios according to the sustainability objectives pursued;
- monitor ex-ante and ex-post compliance with the sustainability limits formally established in the investment policies of sustainable financial products;
- create investment lists and investment universes based on sustainability factors and inclusion and exclusion criteria;
- periodically report on the sustainability profile of individual investments and portfolios.

To feed the application's functionality, an integrated database was created, where all sustainability data held by IMPact is mapped and organised. The database is updated periodically, at least quarterly.

Thanks to the creation of the integrated sustainability database and the application for the management control of sustainability profiles of portfolios, IMPact has acquired the capacity to meet, in a comprehensive manner, the internal and external sustainability information needs dictated by the management of sustainable financial products, as well as those related to possible queries from supervisory authorities and arising from the pursuit of corporate sustainability objectives inherent to investment management activities.

6. Integration of Sustainability Risks into the Investment Process

The integration of sustainability risk and thus the potential negative effects of sustainability factors on the value of investments. affects all IMPact SGR financial products.

IMPact SGR applies the definition of sustainability risk contained in the EU Sustainable Finance Transparency Regulation (SFDR). Sustainability risk is defined as an environmental, social or governance event or condition that, if it occurred, could cause a significant actual or potential negative impact on the value of the investment.

The sustainability risk methodology is based on the following sustainability factors:

- involvement of corporate issuers in socially controversial activities;
- involvement of corporate issuers in social, environmental and governance controversies;
- physical and transition risks arising from climate change;
- low level of democracy, poor quality of governance, unequal distribution of wealth and high perceived corruption of government issuers;

6.1 Sustainability Risk Arising from Involvement of Corporate Issuers in Socially Controversial Activities

Involvement in socially controversial economic activities recognised for the harm they cause to human health and welfare can pose reputational and legal risks to companies that could affect the value of investments. Socially controversial economic activities that are relevant to sustainability risk attribution include the following:

- Production and sale of civilian weapons
- Development, production, maintenance, use, distribution, storage, transportation or sale

of controversial weapons[1]

- Production of conventional military weapons
- Production or distribution of tobacco
- Gambling
- Production and sale of alcoholic beverages without adopting responsible marketing practices

6.1.1 Attribution Method

Sustainability risk levels related to involvement in socially controversial activities are defined according to the following proportions of the turnover:

- Turnover derived from production and sale of civilian weapons:
  - Less than 5% = low risk
  - 5% or more = high risk

- Turnover derived from development, production, maintenance, use, distribution, storage, transportation or sale of controversial weapons:
  - 0% = low risk
  - More than 0% = high risk

- Turnover derived from production of conventional military weapons:
  - Less than 5% = low risk
  - 5% or more = high risk

- Turnover derived from production or distribution of tobacco:
  - Less than 5% = low risk
  - 5% or more = high risk

- Turnover derived from gambling:
  - Less than 5% = low risk
  - 5% or more = high risk

- Turnover derived from production and sale of alcoholic beverages without adopting

[1] In any event, companies involved in the chain of production and distribution of anti-personnel mines, cluster munitions and submunitions are considered to be at high risk according to the provisions of Italian Law no. 220 of 9 December 2021.

responsible marketing practices:
- Less than 5% = low risk
- 5% or more = high risk

6.2 Sustainability Risk Arising from Involvement of Corporate Issuers in Environmental, Social and Governance Controversies

Involvement in sustainability-related controversies allows for an assessment of the extent to which a company is exposed to the risk of actual or potential adverse environmental, social or governance impacts resulting from products, services, behaviours or business practices in breach of national and international laws or internationally recognised standards of proper business conduct. Involvement of corporate issuers in controversies can contribute to affect the value of investments because of the reputational damage and possible legal costs and compensation that social, environmental and governance controversies may entail. The following indicators, divided into different categories, are relevant to sustainability risk attribution:

- Environmental Controversies:

  - Biodiversity and Land Use: This indicator measures the severity of controversies over a company's use or management of natural resources where there is an alleged or anticipated negative impact on the environment, especially in ecologically sensitive areas. Matters covered by this indicator include issues such as species loss, biodiversity reduction, habitat damage, depletion of or competition for natural resources, loss of economic value (e.g., in fishery or tourism), and post-consumer waste issues. Impacts on biodiversity caused by toxic releases are included under "Toxic Emissions and Waste." Competition for water resources and water use controversies are included under "Water Stress." When there is a material impact on a local community due to an environmental controversy classified under "Biodiversity and Land Use," an additional controversy case is recorded and assessed under "Impact on Communities" within the "Human Rights and Communities" category; in this case, the assessment is based on community impact rather than environmental impact.

  - Toxic Emissions and Waste: This indicator measures the severity of controversies related to a company's non-GHG operational emissions or releases to soil, air and/or water. It includes ESG controversies related to accidental spills or releases, as well as environmental impacts of standard operational emissions, whether they are within or exceed permitted levels. When a material impact on a local community occurs as a result of an environmental controversy classified as "Toxic Emissions and Waste," an additional controversy case is recorded and assessed under "Impact on Communities" within the "Human Rights and Communities" category; in this case, the assessment is based on community impact rather than environmental impact.

- Energy and Climate Change: This indicator measures the severity of controversies related to climate change and a company's energy impacts. Issues covered include, for example, lawsuits over a company's alleged contribution to climate change, public or critical controversies over a company's contribution to climate change or status as an exceptionally large emitter of greenhouse gases, as well as resistance to calls for improvement.

- Water Stress: This indicator measures the severity of controversies related to a company's water management practices. Issues covered include, for example, ecological damage from water withdrawal, depletion of water resources for other users and regulatory actions or controversies with the community over the company's use of water. This indicator does not capture cases of pollution of waters, which are considered as water pollution and covered under "Toxic Emissions and Waste." When there is a material economic impact on a local community due to an environmental controversy classified as "Water Stress," an additional controversy case is recorded and assessed under "Impact on Communities" within the "Human Rights and Communities" category; in this case, the assessment is based on community impact rather than environmental impact.

- (Non-Hazardous) Operational Waste: This indicator measures the severity of controversies related to the impact of a company's non-hazardous and non-toxic operational waste, i.e., waste, emissions or effluents generated during normal operations and/or as part of the production of a product. Controversies related to toxic waste and toxic and hazardous waste released to air, soil or water are covered under "Toxic Emissions and Waste." Controversies related to post-consumer waste are collected under "Biodiversity and Land Use."

- Supply Chain Management: This indicator measures controversies related to sourcing of raw materials or other inputs that have material negative environmental impacts. Issues covered include, for example, degradation of natural resources through the use of resource- or waste-intensive raw materials, such as tropical hardwood, palm oil or unsustainable fishing.

- Social Controversies:

  - Customers:

    - Anti-competitive Practices: This indicator measures the severity of controversies related to a company's anti-competitive business practices. Matters covered include, for example, price fixing, collusion, bid rigging and predatory pricing. Controversies between undertakings are generally not covered, unless a regulatory authority joins proceedings.

    - Marketing and Advertising: This indicator measures the severity of controversies related to a company's marketing and advertising practices. Matters covered include, for example, false or misleading marketing or advertising, marketing of products for off-label uses and controversies related to marketing of products to children or other vulnerable populations, labelling controversies and spam or adware. Controversies related to known product safety issues are covered under "Product Safety and Quality."

    - Product Safety and Quality: This indicator measures the severity of controversies related to the quality and/or safety of a company's products or services. Matters covered include, for example, food safety, controversial media content, product recalls, service disruptions and the use of problematic chemicals in products.

    - Customer Relations: This indicator measures the severity of controversies over the way a company treats its customers or potential customers. Matters covered include, for example, fraudulent or improper billing, excessive or hidden fees, predatory financial products, spending restrictions or limitations and limited or discriminatory access to products or services.

- Privacy and Data Security: This indicator measures the severity of controversies related to a company's privacy and data security practices. Issues covered include, for example, controversial legal uses of personal data, security breaches, regulatory actions against the company in relation to these issues and changes to company policies or practices that erode customer privacy. Employee privacy issues are covered under "Labour Management" within the "Labour and Supply Chain" category. Government oversight and related issues are covered under "Civil Liberties" within the "Human Rights and Communities" category.

- Human Rights and Communities:

    - Impact on Communities: This indicator measures the severity of controversies related to a company's interactions with the communities in which it operates. Matters covered include, for example, controversies over land use, adverse economic impacts resulting from environmental damage or the presence of business activities, controversies over access to economic opportunities or jobs, impacts of plant closures and controversies over access to safe drinking water, clean air or other natural resources. Controversies that primarily involve environmental impacts are classified under the relevant indicator of the "Environment" category (e.g., "Biodiversity and Land Use," "Toxic Emissions and Waste"). A case in which there are material environmental impacts alongside community impacts can be recorded and assessed under "Environment" and "Impact on Communities."

    - Civil Liberties: This indicator measures the severity of controversies over the impact of a company's operations on civil liberties. Matters covered include, for example, cooperation with repressive governments that require censorship, surveillance or restriction of other civil liberties, such as freedom of movement and freedom of the press. Customer privacy violations are included under "Privacy and Data Security" within the "Customers" category. Employee privacy violations are included under "Labour-Management Relations" within the "Labour and Supply Chain" category.

- Human Rights Issues: This indicator measures the severity of controversies over the impact of a company's operations on human rights. Matters covered include, for example, complicity in killings, physical abuse, displacement or other rights violations, as well as complicity with such actions by governments or other parties.

- Labour Rights and Supply Chain

  - Labour-Management Relations: This indicator measures the severity of controversies related to labour-management relations. Matters covered include, for example, cases of unjustified dismissal, benefit reductions, mistreatment of employees or contractors, controversial workforce reductions, controversies over wages and hours, employee privacy issues and forced labour.

  - Health and Safety: This indicator measures the severity of controversies related to the health and safety of a company's employees, temporary workers, contractors and franchised employees. Matters covered include, for example, workplace accidents, injuries and fatalities, mental health problems, kidnapping and physical harm suffered by employees in the field. This does not include health and safety issues in the supply chain, e.g. in supplier factories; these issues are covered under the "Supply Chain Labour Standards" indicator.

  - Collective and Trade Union Bargaining: This indicator measures the severity of controversies related to a company's labour relations practices. Matters covered include, for example, anti-union activities, efforts to prevent non-unionised employees from unionising, strikes, lockouts and the use of replacement workers, contentious contract negotiations and controversies over alleged violations of union contracts. Organised strikes by non-unionised employees are also included. Trade union issues in the supply chain are covered under the "Supply Chain Labour Standards" indicator. Health and safety issues raised by a trade union, but which do not primarily concern the company's relationship with the union are included under the "Health and Safety" indicator.

- Workforce Discrimination and Diversity: This indicator measures the severity of controversies related to the diversity of a company's workforce, including its own employees and temporary workers, contractors and franchised employees. Matters covered include, for example, allegations of discrimination on the basis of sex, race, ethnicity or other characteristics. Discrimination at supplier facilities is covered under the "Supply Chain Labour Standards" indicator. Discrimination on the basis of unionisation or union sympathy is covered under the "Collective and Trade Union Bargaining" indicator.

- Child Labour: This indicator measures the severity of controversies over child labour in a company's operations or supply chain. Matters covered include allegations against the company of using underage workers or the presence of underage workers at supplier facilities.

- Supply Chain Labour Standards: This indicator measures the severity of controversies related to workers in a company's supply chain. Matters covered include, for example, allegations of unsafe working conditions, inadequate pay, excessive working hours or overtime, trade union issues at supplier facilities, use of forced or prison labour by suppliers and discrimination. Child labour in suppliers' operations is covered under the "Child Labour" indicator.

- Governance Controversies:

  - Corruption and Fraud: This indicator measures the severity of controversies related to business ethics practices. Matters covered include, for example, corruption, tax evasion, insider trading, money laundering, tax evasion or avoidance, violations of government sanctions and accounting irregularities.

  - Governance Structures: This indicator measures the severity of controversies related to a company's corporate governance practices. Matters covered include, for example, shareholder or Board objections to compensation practices and governance structures, shareholder resolutions to change governance practices and conflicts of interest, unethical behaviour, misrepresentations or lack of qualifications by directors or senior executives.

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- Controversial Investments: This indicator measures the severity of controversies related to the social and environmental impacts of a company's lending, underwriting and financing activities. Matters covered include, for example, financing of projects that are controversial due to their actual or expected environmental or social impact, as well as criticism of mining companies, REITs and similar companies that receive royalties from or own shares in a particular project that they neither own nor operate.

6.2.1 Attribution Method

The level of involvement in controversies is assessed at individual company level from the following factors: severity of the controversy, extent of the potential or actual negative impact, company's role in the controversy and status of the controversy. Each indicator is given a score that summarises the level of severity of involvement in the different controversies on a scale from 0 (very severe involvement) to 10 (no involvement).
Risk levels are attributed as follows:

- Environmental Controversies:
  - Score of 8 to 10 = low risk
  - Score of 2 to 7 = medium risk
  - Score of 0 to 1 = high risk

- Social Controversies:
  - Score of 8 to 10 = low risk
  - Score of 2 to 7 = medium risk
  - Score of 0 to 1 = high risk

- Governance Controversies:
  - Score of 8 to 10 = low risk
  - Score of 2 to 7 = medium risk
  - Score of 0 to 1 = high risk

6.3 Physical and Transition Risks Arising from Climate Change

In 2015, *the Financial Stability Board* (FSB) established the *Task Force on Climate-related Financial*

Disclosure (TCFD) with the aim of studying climate change-related financial risks and encouraging awareness and transparency of financial undertakings with regard to climate-related financial risks. In 2017, the TCFD published a set of recommendations – which were updated in 2021 – that have become an international benchmark for improving the consistency, quality and comparability of information disclosed by public and private institutions. By the end of 2021, eight jurisdictions, including the European Union, had introduced *reporting* rules in line with the TCFD's recommendations, covering four main areas: governance mechanisms, strategy, risk management and metrics and targets.

In order to protect the interests of investors in the medium to long term, and in line with the TFCD's recommendations and the European Central Bank's and the Bank of Italy's expectations, IMPact SGR takes into consideration – in investment processes – the actual or potential impacts of climate change on the value of investments by mapping and integrating transition risk and physical risk into the risk management *framework*.

Physical risk of climate change: Physical risk relates to the economic impact resulting from the expected increase in natural events whose occurrence can be termed "acute" or "chronic." Acute physical risks depend on the occurrence of extreme environmental phenomena (such as floods, heat waves and droughts) related to climate change, that increases their intensity and frequency. Chronic physical risks, on the other hand, are brought about by gradually occurring climate events (e.g., gradual temperature and sea level rise, degradation of ecosystem services and biodiversity loss). All these types of events affect the level of production activity and can jeopardise it, including permanently. For each corporate issuer, the proportion of the turnover derived from geographical areas that are highly, moderately or slightly vulnerable to the effects of climate change is identified.

Transition risk of climate change: Transition risk relates to the economic impact resulting from the adoption of regulations to reduce carbon emissions and encourage the development of renewable energy, from technological advances, and from changing consumer preferences and market confidence.

Physical and transition risks systematically impact economic activities, and consequently the financial system. Impact can be either direct – e.g., through lower corporate profitability, devaluation of corporate assets, higher legal costs and reputational damage or disruptions in supply chains – or indirect – through systemic changes at the macroeconomic and geopolitical levels. Physical and transition risks are systemic risks that add on top of traditional prudential risks, such as credit, market, operational and liquidity risks.

6.3.1 Attribution Method

The physical risk exposure of issuers is calculated from the degree of vulnerability to the effects of climate change of the geographical areas where the companies, or a portion of them, operate. The physical risk of issuers is indicated by the proportion of the turnover per level of vulnerability (high, medium, low):

- High physical risk: high vulnerability;
- Medium physical risk: medium vulnerability;
- Low physical risk: low vulnerability.

The transition risk exposure of issuers is calculated using a scoring system called the Transition Risk Score (TRS), which takes into account the following factors:

- Setting of decarbonisation targets
- Decarbonisation trajectory
- Exposure to carbon-intensive economic activities
- Taxonomy alignment based on turnover
- Taxonomy alignment based on capital expenditure
- Taxonomy alignment spread between capital expenditure and turnover

Each factor can take the following values according to the following thresholds:

- Setting of decarbonisation targets:
    - No targets set = 0
    - Science-based targets set = 1
    - Science-based targets validated by the *Science-Based Targets initiative* (SBTi) set = 2

- Decarbonisation trajectory:
    - Scope 1, 2, and 3 emissions on track for an annual reduction of 7% compared to the reference base year (2019, 2020 or 2021, depending on available data), in line with European Regulation 2020/1818 = 4
    - Scope 1, 2, and 3 emissions not on track for an annual reduction of 7% compared to the reference year (2019, 2020 or 2021, depending on available data), in line with European Regulation 2020/1818 = 0

- Exposure to carbon-intensive economic activities:
    - Turnover derived from typically carbon-intensive lines of business accounts for more than 50% of the total turnover = 0
    - Turnover derived from typically carbon-intensive lines of business accounts for more than 10%, but no more than 50% of the total turnover = 1
    - Turnover derived from typically carbon-intensive lines of business accounts for no more than 10% of the total turnover = 2

- Taxonomy alignment based on turnover:
    - Less than 10% = 0
    - 10% or more, but less than 50% = 1
    - 50% or more = 2

- Taxonomy alignment based on capital expenditure:
    - Less than 10% = 0
    - 10% or more, but less than 50% = 1
    - 50% or more = 2

- Taxonomy alignment spread:
    - More than 10% = 2

Based on the value of the Transition Risk Score, the following risk levels are attributed:

- From 7 (inclusive) = low risk
- From 2 to 6 (inclusive) = medium risk
- From 0 to 1 (inclusive) = high risk

6.4 Sustainability Risk of Government Issuers

Investments in government issuers characterised by a low level of democracy, poor quality of governance, unequal distribution of wealth and high perceptions of corruption can pose risks that could affect the value of investments. The following factors are relevant to sustainability risk attribution:

- The level of democracy of States is based on the Economist Intelligence Unit's (EIU) Democracy Index, which provides a snapshot of the state of democracy for 165 independent States and two territories. The assessment is made using 60 indicators, divided into five categories: electoral process and pluralism, civil liberties, functioning of government, political participation and political culture. The Democracy Index is reflected in a score ranging from 0 (very low level of democracy) to 10 (very high level of democracy).

    - Quality of governance of States measures trust, proper implementation of laws and protection of rights. The World Bank's research programme scores over 200 countries and territories based on the Worldwide Governance Indicators (WGIs), which are grouped into six dimensions: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law and control of corruption. Each of the six indicators is expressed in standard normal units ranging from about -2.5 to 2.5 – the higher a country's score, the better the rating.

    - Wealth distribution is calculated from the World Development Indicators, the World Bank's main collection of comparable cross-country development data. Statistical dispersion designed to represent income or wealth inequality within a nation or social group is measured through the Gini index. A Gini coefficient of 0 means perfect equality in distribution, where all values are equal, whereas a Gini coefficient of 1 (or 100%) means maximum inequality in distribution.

    - Corruption perception is measured through the Corruption Perception Index (CPI) updated by the non-governmental organisation Transparency International – a global movement that aims to curb corruption through advocacy and research by promoting greater transparency and integrity in all areas of public life. A coefficient of 0 means an extremely corrupt system, whereas a coefficient of 100 represents a highly virtuous country.

6.4.1 Attribution Method

Risk levels for government issuers are determined according to the following thresholds:

- Level of democracy:

- Score of 7 to 10 = low risk
- Score of 6 to 5 = medium risk
- Score of 4 to 0 = high risk

- Quality of governance:
  - Score of +2.5 to +0.8 = low risk
  - Score of +0.7 to -0.5 = medium risk
  - Score of -0.6 to -2.5 = high risk

- Wealth distribution:
  - Score of 0% to 40% = low risk
  - Score of 41% to 60% = medium risk
  - Score of 61% to 100% = high risk

- Corruption perception:
  - Score of 65 to 100 = low risk
  - Score of 40 to 64 = medium risk
  - Score of 0 to 39 = high risk

6.5 Assessment of the Likely Impacts of Sustainability Risks on Financial Returns

The Risk Management function regularly conducts assessments of the likely impacts of sustainability risk on financial returns. Each sustainability risk dimension described in the previous section reflects qualitative and quantitative performance indicators. For each sustainability risk dimension, the Risk Management function measures the contributions of the relevant sustainability performance indicators to the portfolio's aggregate financial risk within the risk management framework. The contributions of individual securities to the portfolio's financial risk – as measured by classic indicators such as *Value at Risk* (VaR) or volatility – are re-aggregated according to the relevant performance indicators for each sustainability risk dimension. Assessment of the likely impacts of sustainability risk on financial returns is conducted only for that portion of the portfolio for which the relevant sustainability indicators for each risk dimension are available. From these, an analysis of the contribution to the portfolio's aggregate financial risk is carried out.

6.6 Sustainability Risk in Funds of Funds

For financial products classified as funds of funds, integration of sustainability risk into the investment process is done by assigning to each fund in which the fund of funds is invested a sustainability risk level derived from the fund's SFDR classification. The relevant sustainability risk level is assigned to each fund according to the following scale:

- Financial products classified as SFDR Article 6 products have a high sustainability risk and an assigned score of 3;
- Financial products classified as SFDR Article 8 products have a medium sustainability risk and an assigned score of 2;
- Financial products classified as SFDR Article 9 products have a low sustainability risk and an assigned score of 1.

The weighted average sustainability risk of the fund of funds is calculated by multiplying the score assigned to each fund in which the fund of funds is invested by its exposure to each fund. Thus, the risk levels of financial products classified as funds of funds are as follows:

- A weighted average score of the financial product ranging between 3 (inclusive) and 2.5 (inclusive) indicates a high sustainability risk;
- A weighted average score of the financial product ranging between 2.5 (exclusive) and 2 (inclusive) indicates a medium-high sustainability risk;
- A weighted average score of the financial product ranging between 2 (exclusive) and 1.5 (inclusive) indicates a medium-low sustainability risk;
- A weighted average score of the financial product ranging between 1.5 (exclusive) and 1 (inclusive) indicates a low sustainability risk.

7. Exclusion Criteria for Corporate Issuers Involved in Socially Controversial Activities

Corporate issuers involved in activities deemed to be socially controversial are excluded from the investable universes and the portfolios of all of the SGR's financial products. Involvement is determined by the following criteria:

- Corporate issuers involved in production and sale of civilian weapons, which derive a 5% or higher proportion of their turnover from these activities;
- Corporate issuers involved in development, production, maintenance, use, distribution, storage, transportation or sale of controversial weapons;

- Corporate issuers involved in production of conventional military weapons, as well as components or services that are essential to production or use of conventional military weapons, which derive a 5% or higher proportion of their turnover from these activities;
- Corporate issuers involved in production or distribution of tobacco, which derive a 5% or higher proportion of their total turnover from these activities;
- Corporate issuers which promote gambling (including online gambling) either directly or indirectly, i.e., either through casinos and betting shops or through the provision of products or services instrumental to gambling, such as slot machines, payment solutions and dedicated software, generating a 5% or higher proportion of their total turnover from these activities;
- Issuers involved in production and sale of alcoholic beverages, which generate a 5% or higher proportion of their total turnover from these activities and do not adopt marketing strategies encouraging responsible drinking.

In any event, it is prohibited for all of IMPact SGR's financial products to invest in companies which, either directly or indirectly, engage in construction, production, development, assembly, repair, maintenance, application, use, storage, possession, promotion, sale, distribution, import, export, transfer or transportation of anti-personnel mines, cluster munitions and submunitions, of any nature or composition, or parts thereof. It is also prohibited to invest in companies involved in technological research, manufacturing, sale and transfer, on any basis, export, import, and possession of cluster munitions and submunitions, of any nature or composition, or parts thereof. (Italian Law No. 220 of 9 December 2021).

Exclusion of issuers involved in socially controversial activities also applies to issuers whose securities are included in the portfolios managed by the SGR indirectly, i.e., through the purchase of UCITS. Before it is included among the products managed by the SGR, each UCITS undergoes an analysis regarding the involvement of each individual issuer in whose securities the instrument is invested. UCITS whose assets are found to be invested in issuers involved in controversial activities are deemed to be non-compliant and may not be included among the SGR's financial products.

8. Exclusion Criteria for Corporate Issuers Operating in Carbon-Intensive Sectors

The following corporate issuers are excluded from the investable universes of the SGR's SFDR Article 8 and 9 financial products:

- Corporate issuers which generate more than 50% of their total turnover from typically carbon-intensive lines of business and, at the same time, do not meet any of the following criteria:
    - Scope 1, 2, and 3 emissions on track for an annual reduction of 7% compared to the reference year (2019, 2020 or 2021, depending on available data), in line with European Regulation 2020/1818;
    - Taxonomy alignment of turnover is 10% or more;
    - Taxonomy alignment of capital expenditure is 20% or more;
    - Positive taxonomy alignment spread between capital expenditure and turnover.

Exclusion of issuers operating in carbon-intensive sectors also applies to issuers whose securities are included in the portfolios of the SGR's SFDR Article 8 and 9 financial products indirectly, i.e., through the purchase of UCITS. Before it is included among the SGR's SFDR Article 8 and 9 products, each UCITS undergoes an analysis regarding the involvement of each individual issuer in whose securities the instrument is invested. UCITS whose financial instruments do not meet the criteria for investments in issuers operating in carbon-intensive sectors may not be included in the SGR's SFDR Article 8 and 9 financial products.

9. Management of Sustainable Financial Products under SFDR Articles 8 and 9

IMPact SGR takes a different approach to the management of sustainable financial products, as defined by the *Sustainable Finance Disclosure Regulation* (SFDR), distinguishing between products promoting environmental and/or social characteristics (under Article 8) and products pursuing environmental and/or social objectives (under Article 9).

9.1 Products Promoting Environmental and Social Characteristics under SFDR Article 8

In order to be classified as an SFDR Article 8 financial product, a financial product must prove that it promotes environmental or social characteristics, or both, provided that the undertakings in which the investments are made comply with good governance practices. The approach taken to promoting environmental and social characteristics is a two-level selection process:

- The first level consists in the identification of the investable universe of the financial product through exclusion criteria in the stock selection process.

- The second level consists in an active selection aimed at promoting the environmental and social, as well as good governance, characteristics of the financial product.

9.1.1 Exclusion Process

The investable universes are constructed by excluding issuers according to the following criteria:

- Corporate issuers involved in socially controversial activities according to the criteria outlined in Section 6 of this Policy;
- Corporate issuers operating in carbon-intensive sectors according to the criteria outlined in Section 7 of this Policy;
- Government issuers that do not have a sufficient democracy index. The democracy index of government issuers is measured through the PAI indicator called "Average Rule of Law Score;" a low level of democracy, thus leading to exclusion from the investable universe of SFDR Article 8 products, reflects a performance of such indicator below the 50th percentile of all States for which data are available;
- Corporate issuers involved in very severe sustainability-related controversies are excluded from the investable universe of SFDR Article 8 products. Corporate controversies may involve environmental, social and governance sustainability factors; a comprehensive description of controversies is provided in Section 5. Each company is given a score that summarises the level of involvement in sustainability-related controversies on a scale from 0 (very severe involvement) to 10 (no involvement);
- Corporate issuers whose ESG rating is CCC are excluded from the investable universe of SFDR Article 8 products.

9.1.2 Active Investment Selection Process

The active investment selection process for Article 8 products includes the following criteria:

- The ESG rating of each corporate issuer must be B or higher.
- The weighted average ESG rating of the portfolio, net of cash, ancillary liquid assets and derivatives, must be BBB or higher.

ESG ratings are assigned at issuer level and then aggregated at portfolio level. For the attribution of ESG ratings, the internal rating system 'IMPact Sustainability Rating' was developed, which has seven different levels, from the best rating AAA to the worst rating CCC. The rating level attributed is derived from the normalised IMPact Sustainability Score, which ranges from 0 (worst performance) to 10 (best performance). The IMPact Sustainability Rating measures, on an aggregate basis, the sustainability performance of issuers, taking into account a set of sustainability indicators deemed relevant to assessing the individual issuer's contribution to specific social, environmental and governance objectives, paying particular attention to the financial materiality dimension. For more details on the IMPact Sustainability Rating methodology, see Annex A.

9.2 Products Pursuing Environmental and/or Social Investment Objectives under SFDR Article 9

In order to be classified as an SFDR Article 9 product, a product must prove that it pursues an environmental and/or social objective by making sustainable investments only. A sustainable investment is one that invests in an economic activity that generates positive impacts or is concretely committed to reducing adverse impacts, thus contributing to the pursuit of an environmental and/or social objective. The investment must also comply with the principle of "do no significant harm," as well as good governance practices.

The approach taken to pursuing environmental and/or social investment objectives is a two-level selection process:

- The first level consists in the identification of the investable universe of the financial product through exclusion criteria in the stock selection process.
- The second level consists in an active investment selection aimed at pursuing the environmental and/or social objective of the financial product.

9.2.1 Exclusion Process

The investable universes are constructed by excluding issuers that do not meet the following criteria:

- Corporate issuers involved in socially controversial activities according to the criteria outlined in Section 6 of this Policy;
- Corporate issuers operating in carbon-intensive sectors according to the criteria outlined in Section 7 of this Policy;
- Government issuers that do not have a sufficient democracy index. The democracy index of government issuers is measured through the PAI indicator called "Average

Rule of Law Score;" a low level of democracy, thus leading to exclusion from the investable universe of SFDR Article 9 products, reflects a performance of such indicator below the 50th percentile of all States for which data are available;

- Corporate issuers in breach of the principles of the UN Global Compact and the OECD Guidelines for Multinational Companies (10);
- Corporate issuers with no compliance processes and mechanisms in place for monitoring compliance with the principles of the UN Global Compact and the OECD Guidelines for Multinational Companies (11);
- Corporate issuers involved in very severe sustainability-related controversies. Corporate controversies may involve environmental, social and governance sustainability factors; a comprehensive description of controversies is provided in Section 5. Each company is given a score that summarises the level of involvement in sustainability-related controversies on a scale from 0 (very severe involvement) to 10 (no involvement);
- Corporate issuers that have a negative and worsening Net Impact Ratio, a negative SDG Achievement Rate, are not taxonomy-aligned, are not contributing to the achievement of climate neutrality and do not have a positive health impact indicator.

9.2.2 Active Investment Selection Process

The active investment selection process is aimed at pursuing the environmental and/or social objectives of each SFDR Article 9 product as specified in the offering documentation. This process uses the following indicators.[2]

SDG Achievement Rate[3]:

- This indicator measures the contribution made by issuers to the achievement of each SDG and is expressed as a percentage ranging from -100% – indicating a company that only has a negative impact on all SDGs – to +100% – indicating a company that only has a positive impact on all SDGs.

Net Impact Ratio (NIR)[4]:

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[2] The offering documentation is available on IMPact SGR's website at the following link: https://www.impactsgr.it/world-impact-sicav/?lang=en

[3] The SDG Achievement Rate is calculated only for the portfolio component that is invested in securities of corporate issuers.

[4] See The Upright Project's Net Impact Framework white paper (https://www.uprightproject.com/whitepapers/model/) for a detailed description of the assessment model adopted for quantifying and measuring environmental and social costs and benefits generated at individual product, company and investment level. The Net Impact Ratio is calculated only for the portfolio component that is invested in securities of corporate issuers.

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- The Net Impact Ratio is a synthetic indicator developed by The Upright Project that reflects impact performance and is measured using 19 categories divided into 4 impact dimensions:
    - Society: taxes, jobs, societal infrastructure, equality, societal stability and understanding;
    - Health: diseases, nutrition, physical activity, relationships, meaning & joy;
    - Knowledge: use of scarce human capital, knowledge infrastructure, creating knowledge, distributing knowledge;
    - Environment: GHG emissions, non-GHG emissions, biodiversity, water, waste.

The maximum possible NIR value is +100%, which would be for the theoretical case of a company that generates no negative impact in any of the four impact dimensions. Conversely, the minimum possible NIR value is -∞, which would be for the case of an undertaking whose positive impacts tend asymptotically to zero. The estimated net impact value is calculated using the following formula: (Positive impacts - Negative impacts) / Positive impacts.

Alignment with the EU Environmental Taxonomy[5]:

- The EU Climate Taxonomy alignment indicator reflects the proportion of environmentally sustainable economic activities and is expressed in accordance with EU Regulations 2020/852 and 2022/1288. The taxonomy alignment taken into consideration is derived from the pursuit of climate change mitigation and adaptation objectives. Alignment is calculated based on turnover and, when necessary, considering the company's business model, also based on capital expenditure (capex). In the case of investments in green bonds that are partly or fully aligned with climate taxonomy objectives, the taxonomy alignment attributed to the investment is determined by the individual purchased security rather than the issuer.

Contribution to achieving climate neutrality by 2050[6]:

- This indicator captures an issuer's annual decarbonisation rate and shows whether the investment aligns with the objective of limiting the temperature increase to 1.5°C above pre-industrial levels and the objective of achieving climate neutrality by 2050.

[5] Alignment with the EU Environmental Taxonomy can be calculated only for the portfolio component that is invested in securities of corporate issuers.

[6] The contribution to achieving climate neutrality by 2050 is calculated only for the portfolio component that is invested in securities of corporate issuers.

An investment whose decarbonisation rate is consistent with achieving climate neutrality by 2050, even though it is not an environmentally sustainable economic activity according to the EU Taxonomy, can qualify as an investment that pursues an environmental objective. The calculation of the indicator complies with the methodological requirements laid down in Commission Delegated Regulation (EU) 2020/1818.

Health Impact Indicator:

- This indicator measures the actual impacts that a given company generates on human health both directly, through products and operational activities, and indirectly, along the value chain and when products are used by consumers. The health impact performance indicator is broken down into the following five categories: Physical diseases, Mental diseases, Nutrition, Relationships, Pleasure and Happiness. Through a score, the indicator measures the costs and benefits – expressed as a monetary value and adjusted to the turnover – that a company generates in relation to human health.

For each SFDR Article 9 financial product, other key indicators that are deemed relevant to the pursuit of the sustainable investment objective and are set out in the investment policy may be taken into consideration. Depending on the product's sustainability objectives, IMPact SGR may send *ad hoc* questionnaires to target issuers in order to collect the information required to determine whether the issuer's profile is appropriate for pursuing the sustainable investment objective set out in the investment policy for the product.

9.2.3 Principal Adverse Impact (PAI) Indicators for SFDR Article 9 Products

In all of IMPact SGR's products pursuing an environmental and/or social objective under SFDR Article 9, Principal Adverse Impact (PAI) indicators are deemed relevant to the achievement of objectives. At least the following adverse impact indicators are taken into account:

- Greenhouse Gas Emissions (1) – Table 1 – trajectory improvement
- Greenhouse Gas Intensity of Investee Companies (3) – Table 1 – trajectory improvement
- Breach of the principles of the UN Global Compact and the OECD Guidelines for Multinational Companies (10) – Table 1 – exclusion from the investable universe
- No compliance processes and mechanisms in place for monitoring compliance with

the principles of the UN Global Compact and the OECD Guidelines for Multinational Companies (11) – Table 1 – exclusion from the investable universe

- Exposure to Controversial Weapons (14) – Table 1 – exclusion from the investable universe
- Greenhouse Gas Intensity of Investee Countries (15) – Table 1 – improvement trajectory
- Average Rule of Law Score (24) – Table 3 – exclusion from the investable universe

Depending on the investment strategy of SFDR Article 9 products, additional PAIs may be taken into consideration if deemed relevant to the pursuit of the set environmental and social objectives. In any case, these shall be specified in the offering documentation.

9.2.4 Principle of 'Do No Significant Harm'

Sustainable investments must comply with the principle of "do no significant harm" to any environmental and/or social objectives. An investment that does not comply with this principle cannot qualify as sustainable investment. In order to ascertain compliance with this principle, the following sustainability factors are considered and monitored:

- Democracy index of government issuers;
- Involvement of corporate issuers in socially controversial activities according to the criteria outlined in Section 6 of this Policy;
- Corporate issuers operating in carbon-intensive sectors according to the criteria outlined in Section 7 of this Policy;
- Involvement of companies in breaches of the principles of the UN Global Compact and the OECD Guidelines;
- Involvement of companies in very severe controversies concerning environmental, social or governance issues;
- Mandatory Principal Adverse Impact (PAI) indicators according to EU Regulation 2022/1288;
- Sustainability indicators that enable the achievement of the environmental and social objectives laid down in the investment policy for each financial product, and consequently qualify the investment as sustainable.

10. Shareholder Activism

The SGR also intends to play its role as a responsible investor by engaging, voting and participating in shareholders' meetings of its investee companies in order to help improve – in a long-term perspective – corporate governance practices, strategic vision, and integration of sustainability factors at the companies in which the SGR is invested. Therefore, the SGR has laid down the following key principles that it promotes in its engagement and voting activities:

- Investee companies should aim to create long-term shareholder value through a clear strategy, taking into account all stakeholders, as well as traditional and sustainability risks, with a special focus on climate risks.
- Investee companies should safeguard shareholder rights.
- Investee companies should ensure an efficient and independent governance structure; their representatives should possess appropriate qualifications and reflect an appropriate degree of diversity and expertise on key sustainability issues at both managerial and non-managerial levels.
- Investee companies should have an employee remuneration policy that is aligned with long-term shareholder interests and appropriately integrates sustainability objectives.
- Investee companies should ensure that financial, operational and sustainability results are prepared, drafted and disclosed in a timely, accurate, verifiable and appropriate manner, in accordance with internationally recognised regulations and frameworks.
- Investee companies should make sure that information on sustainability metrics, with a special focus on labour standards, treatment of employees, climate change mitigation efforts, carbon emission reductions, and, in general, any negative environmental or social impacts generated by the company, is managed, made clear and verifiable, and communicated responsibly to all stakeholders.

Within the framework of corporate engagement activities, the Investment Committee, with the support of the Sustainability Office, determines the relevant engagement themes and how to interact with the individual investee companies on a case-by-case basis, upon the proposal of the responsible product manager. Engagement typically takes place with company officials and/or by participating in annual shareholders' meetings and other dedicated events. Meetings with investee companies also take place through one-on-one meetings, visits to the SGR's offices and video calls.

Further details on the above can be found in IMPact SGR's Engagement Policy, available on its website[7].

11. Final Provisions

The Heads of the corporate functions shall be responsible for supplementing the contents of this Policy. When managing third-party portfolios, the SGR, as the delegated entity, shall comply with the policies for the management of sustainable finance products provided by the delegating entity, unless otherwise provided in the delegation contract. With respect to the provision of investment advisory services, these shall be provided exclusively to per se professional clients, and the approach to managing sustainable finance products shall be laid down in agreement with the client.

The Board of Directors shall be responsible for approving this Policy and any amendments thereto, based on the proposals for amendment and/or revision that will be made, when necessary, by the Head of the Compliance Function with the support of the relevant function.

[7] https://www.impactsgr.it/sfdr/?lang=en

ANNEX A: Methodology for Calculating the IMPact Sustainability Rating

1. Introduction

The adoption of the 'IMPact Sustainability Rating', IMPact SGR's internal system for assessing the sustainability profile of investments, represents a strategic choice, as it responds directly and punctually to the company's operational needs and long-term vision. The IMPact Sustainability Rating aims to assess the sustainability profile of investments in line with the environmental, social and governance issues considered most relevant, especially with respect to financial materiality. For this reason, the adoption of an internal sustainability rating system strengthens IMPact's ability to keep aggregate assessments of investment sustainability profiles aligned with the evolving regulatory, macroeconomic and geopolitical environment and the company's strategic objectives. This approach helps to reduce the risk of integrating standardised sustainability assessments into the investment process that are inadequate to keep pace with the rapid changes underway, primarily the acceleration of the climate crisis. The IMPact Sustainability Rating is assigned at the level of the individual issuer and then aggregated to the portfolio level.

2. Assessment methodology and assignment of the IMPact Sustainability Rating from the IMPact Sustainability Score

For the attribution of the IMPact Sustainability Rating, seven different performance levels are used, associating a rating level for each score range.The rating levels are derived from the normalisation of the IMPact Sustainability Score, which ranges from 0 (worst performance) to 10 (best performance), according to the thresholds shown in the following table.

RATING	RANGE SCORE	DESCRIPTION
AAA	8.57 – 10.00	Leader
AA	7.14 – 8.57	Leader
A	5.71 – 7.14	Average
BBB	4.28 – 5.71	Average
BB	2.86 – 4.28	Average
B	1.49 – 2.86	Laggard
CCC	0.00 – 1.49	Laggard

The selection of metrics and indicators specific to environmental, social and governance issues are shown in Tables 1 and 2.

The indicators that determine the IMPact Sustainability Score, and consequently the IMPact Sustainability Rating, developed from the basic metrics, are designed to vary on a scale from a minimum of 0 to a maximum of 10. This range allows for a standardised assessment of the performance of different issuers in relation to sustainability criteria. The metrics can take on different values depending on their nature, in particular it is possible to have binary or non-binary values, as described in Tables 1 and 2.
For non-binary values, an IMPact Sustainability Score of 0 is given for issuers below the 20th percentile of the distribution, and a score of 10 for issuers above the 80th percentile. For values between the 20th and 80th percentile, scores are calculated proportionally, depending on actual performance.

The methodology used to create the rating is based on a bottom-up approach, starting with an analysis of each individual metric for each issuer. The scores assigned to the indicators are then aggregated to create indicators that represent a summary of an issuer's performance in the environmental, social and governance (ESG) areas.

The metrics and indicators selected to determine the IMPact Sustainability Score, and consequently the IMPact Sustainability Rating, are either developed internally, from external data sources, or derived from third-party methodologies.

2.1 Selection of indicators

Corporate issuers

For the construction of the IMPact Sustainability Score of corporate issuers, a total of 41 metrics are taken into account, divided into the three dimensions:

- 20 environmental metrics;
- 14 social metrics;
- 7 governance-related metrics.

From these 41 metrics, 36 indicators were developed. Indicators can be derived from the combination of several basic metrics or from the reconversion of individual metrics into a standardised scale ranging from 0 to 10. This range facilitates the interpretation of results, where:

- 0 represents the worst possible performance;
- 10 corresponds to the best possible performance.

The breakdown of the 36 indicators follows this distribution:

- 14 environmental indicators;

- 8 social indicators;
- 7 governance indicators.

To each sustainability dimension considered, the following weights are assigned in determining the IMPact Sustainability Score of corporate issuers:

- Environmental: 33.3% (including taxonomic indicators)
- Social: 33.3%
- Governance: 33.3%

The result of this assessment is a final score that varies on a scale from 0 to 10, where 0 represents the worst possible performance and 10 indicates the best possible performance. This quantitative score is then converted into a 7-level rating system, ranging from AAA (excellence) to CCC (poor performance). An in-depth description of the selected metrics and indicators can be found in Table 1.

Government Issuers

The IMPact Sustainability Score is also attributed to government issuers, thus making it possible to assess their sustainability profile in a systematic and comparable manner. Comparability is intended both among government issuers themselves and, thanks to the process of normalising the score on a scale of 0 to 10, also between government and corporate issuers. This score is based on a set of metrics selected to capture key aspects related to environmental, social and governance sustainability of government issuers. In this case, the selected metrics relate to:

- the concentration of income distribution among the population;
- the perception of corruption in the public sector;
- tonnes of CO_2e emissions per million GDP of the country;
- society's trust and respect for rules;
- a country's human rights performance;
- the level of corruption;
- the country's stability;
- respect for fundamental human rights.

The result of this evaluation is a final score that varies on a scale from 0 to 10, where 0 represents the worst possible performance and 10 indicates the best possible performance. This quantitative score is then converted into a 7-level rating system, ranging from AAA (excellence) to CCC (poor performance).

For government issuers, the IMPact Sustainability Score, which is used as the basis for the IMPact Sustainability Rating, is calculated through a weighted average of the six metrics described above. This means that each metric contributes equally to the overall rating. An in-depth description of the selected metrics and indicators can be found in Table 2.

Indicators on the European taxonomy

Within the environmental component of the IMPact Sustainability Score, there are also indicators linked to the European taxonomy. These indicators do not penalise the score in the event of negative performance and can therefore be considered as purely rewarding indicators, whose contribution is eventually added to the performance determined by the other environmental indicators.

The metrics linked to the taxonomy provide a maximum contribution of 0.75 points to the final score and are set out below:

- Revenues aligned to the taxonomy,
- Capital Expenditure (CapEx) aligned to taxonomy,
- Difference between percentages of alignment to the European environmental taxonomy between CapEx and revenues.

Each of these three metrics can add up to a maximum of 0.25 points each. This system allows for the valorisation of companies that demonstrate concrete alignment with the objectives of the European taxonomy, without distorting the overall weight of the other environmental metrics considered in determining the final score.

Market indices

The IMPact Sustainability Rating is also assigned to equity and bond indices, where required by the SGR's management needs.

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3. Table 1 - Key indicators of the IMPact Sustainability Rating - corporate issuers

Pillar	Thematic area	Indicator Name	Description	Type
Environment	Climate Change vulnerability	CLIMATE_CHG_VUL_HIGH_RISK_GEO_PCT	Indicates the estimated percentage of revenues from geographic areas that are highly vulnerable to the physical impacts of climate change (%)	% range (0-100)
		CLIMATE_CHG_VUL_MED_RISK_GEO_PCT	Indicates the estimated percentage of revenues from geographic areas moderately vulnerable to the physical impacts of climate change (%)	% range (0-100)
		CLIMATE_CHG_VUL_LOW_RISK_GEO_PCT	Indicates the estimated percentage of revenues from geographic areas moderately vulnerable to the physical impacts of climate change (%)	% range (0-100)
	Target Carbon & Science Based Target Initiative	TARGET_CARBON_SCIENCE_BASED	Indicates whether a company has set science-based greenhouse gas emission reduction targets in accordance with international climate agreements, such as the Paris Agreement.	Binary (True/False)
		HAS_SBTI_APPROVED_TARGET	Indicates whether a company has verified and Science Based	Binary (True/False)

			Targets initiative (SBTi)-approved greenhouse gas emission reduction targets	
		TARGET_CARBON_SCIENCE_BASED_+_HAS_SBTI_APPROVED_TARGET	Indicates whether the company has emissions reduction targets based on scientific criteria and approved by the Science Based Targets initiative (SBTi)	Binary (True/False)
		% Not Available_No_Target	Indicates whether the company has neither science-based nor Science Based Targets initiative (SBTi)-approved emission reduction targets	Binary (True/False)
	Decarbonisation trajectory	PASS FAIL CHECK INTENSITY 123 or EMISSION 123	Indicates whether the company has a decarbonisation trajectory in line with the Paris Agreement.	Binary (Pass/Fail)
	Fossil fuels	ACTIVE_FF_SECTOR_EXPOSURE	Indicates whether the company is exposed to fossil fuel related activities.	Binary (Yes/Not Disclosed)
		PCT_NONRENEW_CONSUMP_PROD	Indicates the percentage of the company's energy consumption and/or production from non-renewable sources compared to the total	Range (0-100)

			energy used and/or generated.	
		ENERGY_CONSUMP_INTEN_EUR	Energy consumption of the company (in GWh) per million revenues in Euro.	Numerical
		OPS_PROT_BIODIV_CONTROVS	Indicates whether the company operates in or near biodiversity sensitive areas and has not carried out impact assessments or is involved in litigation for impacts on local biodiversity.	Binary (Yes/No)
		EXPOSURE_WATER_STRESS_NO_POL_VALUE	Indicates whether the company operates in high water stress areas without having water management policies in place	Binary (Yes/No/Not disclosed)
		OVERALL_FLAG	Assesses whether a company has a noteworthy controversy related to social or environmental impacts	Range (Green, Yellow, Orange o Red flag)
	Environmental disputes	ENVIRONMENT_CONTROVERSY_SCORE	Assesses controversies (if any) related to a company's environmental impact.	Range (0-10)
	Taxonomy	TTOT_alignment	Alignment % to all Taxonomy objectives.	Range (%, 0-100)
		TCCT_alignment	Alignment % to climate change mitigation and adaptation targets.	Range (%, 0-100)

		TCCT_alignment_capex	Alignment of capital expenditure (CapEx) to climate change adaptation and mitigation targets.	Range (%, 0-100)
		SPREAD % CapEx/revenues TCCT Alignment	Difference between CapEx and revenue of total alignment to climate change adaptation and mitigation targets.	Range
Social		Net Impact Ratio (NIR)	The net impact of a business is the net sum of the costs and benefits it generates. It can also be defined as the net value created by a company.	Numerical
		HEALTH	It measures the exposure of a portfolio's investments to positive impact on public health and welfare promotion.	Numerical
		NET_SDG_ALIGNMENT_SCORE	Measures a company's level of compliance or contribution to the Sustainable Development Goals (SDGs) defined by the United Nations	Numerical
		CONTR_HUMAN_RIGHTS_N_SEVERE	Indicates the number of cases of serious and very serious disputes in the last three years	Range (0 – 10)

			relating to human rights violations.	
		LABOR_RIGHTS_EMP_HS_SCORE	Measures the severity of disputes related to the safety of a company's employees.	Range (0 – 10)
		HUMAN_RIGHTS_LOCAL_COMM_SCORE	Measures the severity of disputes related to a company's interactions with the communities in which it operates	Range (0 – 10)
		SOCIAL_CONTROVERSY_SCORE	Measures disputes related to the impact on customers, human rights, communities, and labour rights in the supply chain.	Range (0 – 10)
	Involvement in controversial activities	Involvement Tobacco	Indicates whether a company is involved in tobacco production or marketing	Binary (Involved/ Not involved)
		Involvement Alcohol	Indicates whether a company is involved in the production or marketing of alcohol	Binary (Involved/ Not involved)
		Involvement Gambling	Indicates whether a company owns or operates gambling facilities and the % of revenues from this activity	Binary (Involved/ Not involved)
		Involvement Civilian Firearms	Indicates whether the company is involved in the production or sale of civil firearms or	Binary (Involved/ Not involved)

			ammunition, directly or indirectly.	
		Involvement Conventional Weapons	Indicates whether the company is involved in the production of conventional weapons or components, directly or indirectly.	Binary (Involved/ Not involved)
		Involvement in controversial weapons	State whether the company is involved in the production of controversial weapons systems, delivery platforms or components.	Binary (Involved/ Not involved)
		Involvement Nuclear Weapons	Indicates whether the company is involved in the production of nuclear weapons, delivery platforms, or components, directly or indirectly.	Binary (Involved/ Not involved)
Governance		MECH_UN_GLOBAL_COMPACT	Indicates whether the company has at least one policy that covers some of the UNGC principles or OECD guidelines (e.g. human rights, labour due diligence, anti-corruption policy)	Binary (Yes/No Evidence)
		GENDER_PAY_GAP_RATIO	Measures the percentage difference between the average gross hourly earnings	Numerical

			of male and female employees.	
		FEMALE_DIRECTORS_PCT	The percentage of female members on a company's board of directors compared to the total.	Numerical
		GOVERNANCE_STRUCT_SCORE	This indicator measures the severity of disputes related to a company's governance and executive compensation practices.	Range (0-10)
		GOVERNANCE_BRIBE_SCORE	This indicator measures the severity of disputes related to corporate ethics.	Range (0-10)
		CUSTOMER_PRIVACY_SCORE	This indicator measures the severity of disputes related to customer data privacy and security.	Range (0-10)
		GOVERNANCE_CONTROVERSY_SCORE	This indicator measures disputes (if any) related to a company's governance practices.	Range (0-10)

4. **Table 2 - IMPact Sustainability Rating Key Indicators - Government Issuers**

Pillar	Thematic area	Indicator Name	Description	Type
Sovereign		GOVERNMENT_RAW_GINI	Measures the shift in the distribution of income in the population from a perfectly equal distribution.	Range (0-100)
		GOVERNMENT_RAW_CORR_PERC_INDEX	Measures the perception of corruption, including abuse of office and nepotism.	Range (0-100)
		CTRY_GHG_INTEN_GDP_EUR	Indicates tonnes of CO2e emissions per million of nominal GDP in euros of the country	Numerical
		GOVERNMENT_RAW_RULE_OF_LAW	Measures perceptions of the extent of trust and compliance in society, including enforcement of contracts and quality of property rights.	Range (-2,5/2,5)
		GOVERNMENT_FUNDAMENTAL_RIGHTS	Measures a country's human rights performance, according to Factor 4 of the WJP Rule of Law Index.	Range (0–1)
		SCORE_GOVERNMENT_STABILITY_PEACE_SCORE	Assesses a country's stability and peace risk management based on	Range (0-10)

			the likelihood of political instability or violenc	