PHILANTHROPY ESG FUND RESPONSIBLE INVESTMENT POLICY

ERSEL
Asset Management

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1. Introduction

Considerations regarding environmental, social and governance aspects have always been an integral part of the investment selection process.
Sustainability and the management of any activity according to the best practices of "good governance" are in fact essential factors for the creation of value in the short term but even more so in the medium to long term. A focus on the sustainability of companies can affect their ability to create long-term value for investors and stakeholders; therefore, we consider ESG integration an important tool to improve the risk/return profile of investments.

2. Aim and purpose

The investment policy is an integral part of the Sustainable Investment Policy adopted by EGI. The present document aims at formalising and illustrating the selection and monitoring methodologies of the financial instruments adopted in order to integrate the analysis of sustainability risks within the investment process of the Philanthropy ESG sub-fund.



3. ESG key topics

Philanthropy ESG Fund invests in companies from different geographic areas and sectors, with very different approaches to social, environmental and governance issues depending on the sector they belong to and the geographic area in which they operate. However, some key common themes can be identified, which include, but are not limited to:
Environmental criteria: examine how an issuer contributes to environmental challenges (e.g. energy consumption, waste, pollution, reduction of greenhouse gas emissions, combating resource depletion and deforestation, protection of biodiversity and climate change).
Social criteria: analyse how a company develops its human capital by referring to fundamental principles that are universal in scope (e.g. human resources management, diversity and equal opportunities, working conditions, health and safety).
Governance criteria: assess the effectiveness of management in initiating a process of collaboration among the various stakeholders, aimed at ensuring the pursuit of long-term objectives and consequently the long-term value of the company (e.g. executive compensation, tax strategy and practices, anti-corruption and abuse of office, diversity and Board structure).

4. Fund classification

Philanthropy ESG Fund (pursuant to Art. 8 of Regulation 2019/2088) promotes, among others, sustainability factors provided that the issuer in which investments are made follows good governance practices.
This is achieved through investment strategies that, in accordance with a "finance-first" approach, select investments on the basis of social and environmental impact criteria.

This approach leads to a deeper understanding of a company's long-term risks and opportunities: the integration of ESG criteria into the analysis phase of companies leads to more informed investment decisions and potentially better risk-adjusted returns throughout the investment life cycle. If ESG risks and opportunities are significant, ESG analysis could impact a security's fair value and portfolio allocation decision.



5. Investment strategies

The investment objective of the Sub-Fund over time is to preserve and increase the real value of its capital with a moderate level of risk. The Sub-Fund also has the objective to produce an annual income to be distributed to its Unitholders. In pursuing this objective, the Sub-Fund Manager will allocate capital to a diversified set of asset classes, ranging from liquidity, to fixed income, to equity and to alternative investments. The main geographical focus, i.e. more than fifty percent (50%) of the Sub-Fund's assets, is on developed market, but the Sub-Fund can also invest in emerging markets. Each asset will be represented either by a selection of direct financial securities (both listed and unlisted) or by UCITS or UCI (of open and closed form). In selecting investments and throughout the investment process, the management team uses a proprietary investment assessment model that systematically integrates, among other things, ESG risks and opportunities in its various stages as described below.

5.1 Idea generation

Exclusion screening

EGI responsible investment ESG Policy excludes certain categories of sectors, countries or issuers, that operate is sectors that are considered "non ESG" or that behave in a way that contradicts ESG values.

Issuers:

- Norm-Based Exclusions: exclusion of the issuers that do not comply with international treaties such as those on controversial weapons, in particular the 2008 Convention on Cluster Munitions, the 1997 Ottawa Treaty on anti-personnel mines, the 1997 Chemical Weapons Convention, the 1975 Biological Weapons Convention, the 1968 Nuclear Non-Proliferation Treaty or the rules on the use of depleted uranium.
- Values-Based Exclusions: Exclusion of issuers that operate in sectors which in EGI opinion contradict ESG values and, more specifically, those issuers:
  - whose revenues come from tobacco production;
  - that earn more than 50% of their revenues from tobacco distribution;
  - that earn more than 25% of their revenues from coal mining and coal-based electricity generation;
  - that earn more than 25% of their revenues from the extraction of hydrocarbons from tar sands or fracking;
  - that earn more than 10% of their revenues from the extraction of hydrocarbons in the Arctic.

- Business-Conduct Exclusions: exclusion of issuers in serious breach of UN principles (UNGC) or OECD guidelines for multinational companies, or subject to investment restrictions by the UN, EU, USA.

Country:
- Exclusions concerning countries subject to international sanctions or which violate the UN Global Compact principles. The data used to identify these countries is provided by:
  - World Bank: World Governance Index (WGI) on political stability and absence of violence/terrorism;
  - Freedom House: Freedom in the World (FIW) index on Political rights and civil liberties;
  - Peace Fund: Fragile States Index (FSI).

The countries currently excluded are Afghanistan, Burundi, Central African Republic, Democratic Republic of Congo, Iran, Iraq, Libya, Mali, Myanmar, North Korea, Somalia, South Sudan, Sudan, Syria, Yemen, Zimbabwe.

The issuers and countries will be examined by both the investment team and the Risk Management function to verify if any relevant changes have been made to the issuer/country's activities or behaviors. For more details on the frequency of monitoring activity, please refer to EGI responsible investment ESG Policy.

As stated in the EGI responsible investment ESG Policy, with reference to the bond component, this can be invested in the following categories of issues, even if the issuers of such instruments fall within the exclusion criteria outlined above. Furthermore, for these categories of bonds the positive and negative screening mentioned below do not apply, as by definition their stated goal is to incentivise and finance initiatives in favor of the environment and society.
- green bonds;
- social bonds;
- sustainability bonds.

In the absence of formally recognised criteria, EGI generally refers to the definitions of the International Capital Market Association (ICMA).
In addition, as a baseline for both Articles 8 and 9, fund managers are required to ensure their fund's investee companies follow "good governance practices". The need for a signal broader than the UN Global Compact to align with Article 2(17) of the SFDR means that Philantropy ESG Fund also uses MSCI ESG Controversies as a further proxy for the principle of good governance.
MSCI ESG Research analysts investigate and assess controversies involving the impact of company operations, governance practices, and/or products and services that allegedly violate national or international laws, regulations, and/or other commonly accepted global norms. The ESG Controversies analytical framework organizes controversies

within the three pillars of Environment, Social, and Governance.
Philanthropy ESG Fund excludes from its investment universe publicly traded companies and fixed income issuers that have at least one very severe controversy, as defined by MSCI ESG Research.

Positive screening
Issuers:
- The investment team, in its investment choices, favours issuers that have an ESG rating higher than a certain threshold or a better rating in each category /sector, relative to the other comparable issuers. For this purpose, the ESG ratings assigned by MSCI are mainly considered, taking into consideration only the issuers rated as “leader” and “average” and excluding the “laggard” ones. We also intend to integrate internal ESG research into our analysis where available.
- Issuers defined as laggards according to MSCI ESG rating methodology can only be invested if the momentum of the ESG rating is positive. This is in order to incentivise and support the effort to improve the ESG practices of the issuers themselves.

Target funds:
- Only funds and ETFs classified as “Article 8 and 9 funds” under the Sustainable Finance Disclosure Regulation” (SFDR) pass the positive screening;

Derivatives:
- Index derivatives are excluded from positive screening, while for individual stocks and sector derivatives, look-through of the underlying index is applied.

Negative screening
Some companies may meet the eligibility for portfolio inclusion from a financial analysis perspective, however, their ESG rating may be non-existent because it is not covered by ESG data and analysis providers or is missing in many of its key components. In these cases, if the management team believes the fundamentals are attractive and the ESG profile, based on the due diligence conducted, is coherent with the ESG policy of EGI, they may consider allocating them to the portfolio.
The maximum overall exposure to both financial instruments of issuers without an ESG rating and to Funds and ETFs not classified as “Articles 8 or 9” under the SFDR may not exceed twenty five percent (25%) of the total assets of the Sub-Fund.

5.2 Portfolio allocation

Once the positive and negative exclusion screens have been performed, the results are integrated with the fundamental analysis of financial and market risks and the selected companies are allocated to the portfolio. For the purposes of this policy, the weighted average rating of the portfolio of rated securities, calculated using the rating of the issuer as the rating of the provider selected for the exclusion and monitoring activity, may not be less than sufficient.

For this purpose, using mainly the ESG ratings assigned by MSCI, the portfolio average rating must be at least BBB. We also intend to integrate internal ESG research into our analysis where available.

Philanthropy ESG Fund pays explicit attention to sustainable Impact Metrics. The MSCI Sustainable Impact Metrics framework could be leveraged to assess the extent companies' products and services address at least one of the major social and environmental challenges, as defined, for example, by the UN Sustainable Development Goals (UN SDGs). And it can be also used for assessing alignment with other recognized frameworks, such as the EU Taxonomy for Sustainable Activities.

Sustainable Impact measures revenue exposure to Sustainable Impact Solutions which reflects the extent to which company revenue is exposed to products and services that help solve the world's major social and environmental challenges. Additionally, Sustainable Impact Solutions revenue from companies with negative externalities is excluded (as defined by MSCI ESG).

Philanthropy ESG Fund aims to have at least 10% of revenue of the underlying issuers exposed to sustainable impact solution. According to MSCI ESG, a percentage between 10% and 20% of revenue exposure is defined as "High"; >20% Very High, between 5 and 10% Moderate; between 1% and 5% Moderate; <1% Negligible.

This aggregate percentage is calculated as a weighted average, using portfolio weights and each issuer's percent of revenue generated from Sustainable Impact Solutions. For the funds and ETFs in portfolio, MSCI ESG supply the aggregate percentage calculated with the look-through of the underlying issuers. Only issuers and funds/ ETFs with the revenue data are included in the analysis.

Green, Social and Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance eligible Social/Environmental Projects. Social/Environmental Projects directly aim to address or mitigate a specific social/environmental issue and/or seek to achieve positive social/environmental outcomes.

For green bonds specifically, any investment in those instruments is deemed to account for 100% exposure to sustainable impact solution as the European regulation explicitly recognizes their alignment with the EU taxonomy. For social, sustainability and sustainability-linked bonds, as they are not yet covered by dedicated European regulations, any investment in those instruments is deemed to account for 100% exposure to sustainable impact solution as long as the following conditions are satisfied:

1) The issuers have publicly disclosed their external review reports, in accordance with the recommendations of the International Capital Market Association (ICMA).
2) The external review shows a positive alignment of the issue with the ICMA principles and the UN Sustainable Development Goals.

5.3 Portfolio management

The analysis of the ESG profile of an investment does not end once capital has been allocated. The process is ongoing and this is critical to ensure we identify factors before they turn into events that can threaten the value of an investment, as well as to allow us to capitalise on new investment opportunities.

EGI monitors the listed companies in which it has an interest. This activity focuses on economic-financial data and ESG matters and is carried out on the basis of flexible and proportional criteria in consideration of the size of the participation in the company or of the significance of the investment with respect to the assets of the UCIs managed. EGI Engagement and Voting Rights Policy provides for the framework of EGI engagement and voting actions in respect to issuers of instruments in which EGI invests.

For full details of the engagement policy, please refer to the dedicated document.



6. Access to and use of ESG data

Access to and use of ESG data ESG data analysis is a key component of the ESG approach. Access to ESG data enhances understanding of an investment's ESG profile, potential future performance, risks and opportunities. A number of ESG data providers are in the market providing a variety of products, using different approaches and methodologies that support the ESG research process. After conducting an extensive analysis, the MSCI ESG Manager platform was chosen, as it offers a broad coverage of issuers and financial instruments, the possibility of carrying out inclusion and exclusion screening, the mapping of both disputes/ sanctions and of factors related to climate change.

In addition, to mitigate dependency on ESG datasets and improve access to quality ESG data, such external ESG data from different vendors can be integrated with internal research sources and data. Integration of external ESG data with internally sourced findings improves ESG analysis, particularly in cases where there is very little or no coverage of external suppliers.

7. Monitoring and reporting

Integrating ESG factors into the investment process is an integral part of the due diligence and research process: the management team is therefore required to track ESG analysis in the investment memorandum for the specific instrument. During the due diligence phase, the management team uses a combination of ESG data from external and internal sources in order to complete the investment analysis. All engagement activities are monitored and documented internally. In addition, each investment is discussed and reviewed during the investment committee, providing an opportunity to discuss, among other things, ESG aspects and ensure that information is strategically identified.

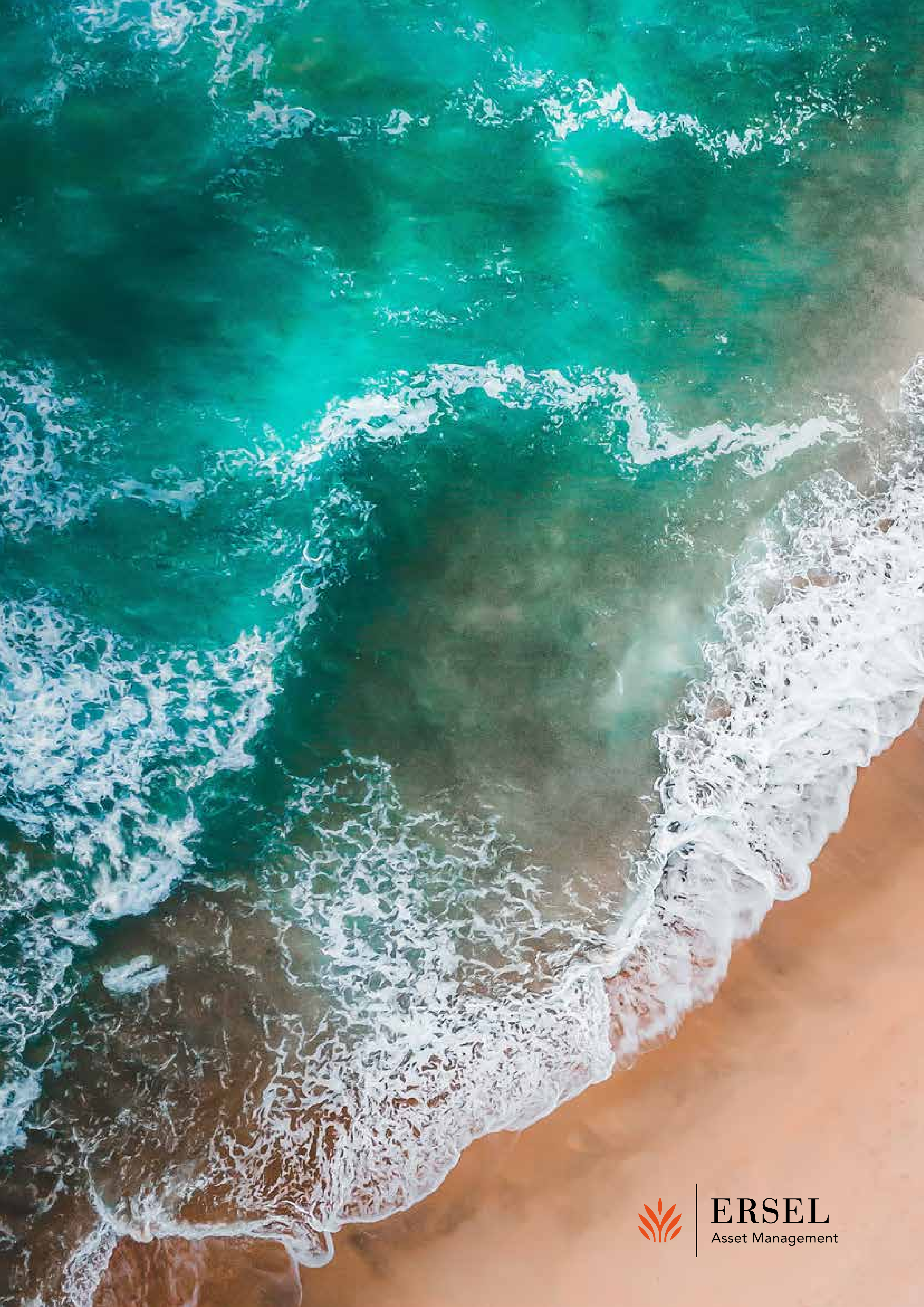
The Risk Management function periodically monitors the compliance of the portfolio's ESG criteria as described in the general investment policy and this policy.

8. Review of criteria

The Responsible Investment Policy will be reviewed as part of the regular review of business processes by the Management Team, the Risk Management function, the Compliance Department and the ESG Committee to ensure compliance with best practice and regulatory developments.

9. Transparency

This policy is available on Ersel's website.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