EQUITA
WE KNOW HOW

EQUITA Capital SGR

Climate Report 2024

Summary

Introduction

EQUITA Capital SGR (hereinafter referred to as "EQUITA SGR" or "the **Asset Manager**") is the Asset Management Company of **EQUITA Group** (hereinafter “EQUITA”, “EQUITA Group” or "the Group").

As part of its broader commitment to sustainability, **EQUITA Group** introduced a **Corporate Social Responsibility (CSR) Governance framework**[1] in 2019, which outlines its core sustainability principles. The Group's activities are guided by respect for the principles, values, and rules set in the **Ethical and Conduct Code**, which, since November 2022, also addresses sustainability matters in line with the CSR Governance Framework.

At **Asset Manager** level, since the beginning of our operations, we have adopted a responsible investment approach, driven by the strong belief that integrating ESG factors is key to creating long-term value. To formalize this commitment, not only we introduced a Responsible Investment Policy, but also, we have established a comprehensive ESG screening and monitoring process that plays a central role in our daily activities.

In practice, this has led to several initiatives aimed at further integrating sustainability into our operations:

- Established the **Environmental, Social and Governance (ESG) Committee**[2] of the SGR;
- Established a **Responsible Investment Policy**[3] to incorporate ESG objectives;
- Appointed two ESG Ambassadors to act as liaisons between the SGR, the ESG Committee, and business areas;
- Developed a policy for monitoring **Principal Adverse Impacts**[4] (PAIs);
- Monitored PAIs across all Assets under Management (AuM);
- Approved a comprehensive training plan for employees, board members, and auditors, including a session on ESG risks;
- Developed an action plan at both EQUITA SIM[5] and SGR levels to integrate climate and environmental risks, as required by the Bank of Italy;
- Conducted targeted ESG audits through control functions.

As part of our ongoing commitment to sustainability, in line with the Group’s philosophy, **EQUITA SGR** endorses the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the newly released IFRS Climate-related Disclosure (IFRS S2). This report outlines our efforts to integrate these recommendations into our business model, focusing on the activities of **EQUITA SGR**.

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[1] For more information, please consult: Sustainability EQUITA Group
[2] For more information, please consult: https://sgr.equita.eu/informativa-sulla-sostenibilita.html
[3] For more information, please consult our Responsible Investment Policy
[4] To read our Principle Adverse Impact reports: https://sgr.equita.eu/informativa-sulla-sostenibilita.html
[5] EQUITA’s Investment Banking, Global Markets, and Research activities are managed by its dedicated entity, EQUITA SIM: https://www.equita.eu/it/expertise.html

Governance

Acting as a responsible financial institution is fundamental to **EQUITA**. Our governance structure addresses the challenges associated with this philosophy. The responsibilities related to achieving the objectives outlined in our Responsible Investment Policy are reflected in the organization of the supervisory and management bodies, as well as in our operating model.

In 2022, the Asset Manager established a Responsible Investment Policy. The implementation and adherence to this policy are overseen by **EQUITA SGR**'s Chief Executive Officer, who is responsible for its supervision and overall execution, supported by the ESG Committee. This body, which has advisory and propositional authority, has been nominated by the Board of Directors of **EQUITA Capital SGR** and comprises the following voting members:

- the Board Member with delegated authority for Private Debt Management, who also serves as the Chief Executive Officer (CEO) of the SGR and holds the position of Chairperson;
- the Board Member with delegated authority for Portfolio Management, who also serves as Vice Chairperson of the SGR;
- the Board Member with delegated authority for Private Equity;
- the EGIF ESG Officer;
- the ESG Specialist of the SGR.

In addition to these voting members, the following individuals, who do not have voting rights, are included:

- One ESG Ambassador
- Head of Compliance
- Head of Risk Management

Depending on the topics discussed, the participation of the Head of Internal Audit - who also serves as Vice Chair of the Group CSR Committee - and/or the additional ESG Ambassador of the SGR may be requested.

The key role of the ESG Committee is to foster accountability within the organization for the implementation and monitoring of ESG policies. At the portfolio company level, the board of directors and senior management are responsible for defining the company's ESG strategy. They receive full support from **EQUITA SGR**'s investment teams and are committed to providing appropriate disclosures on ESG matters. The role of the ESG Specialists, including the ESG Ambassador and the EGIF ESG Officer, is crucial in reporting any critical issues related to ESG and climate risks to the ESG Committee of the SGR, ensuring that these issues are discussed and addressed as part of the Committee's activities

Key skills

Asset Management	Investment Baking, Capital Market	Finance, Audit, Accounting	Risk Management	ESG, incl. climate-related risks and opportunities

Key responsibilities

- Formulating and evaluating proposals impacting the ESG strategy
- Ensuring compliance with the Sustainable Finance Disclosure Regulation (SFDR) obligations, with the support of the compliance department
- Identifying and assessing material ESG risks and opportunities, including those related to climate, with support from the Risk Management team
- Prioritizing and monitoring the implementation of ESG initiatives at portfolio company level and assessing and monitoring the need for revising the Responsible Investment policy
- Monitoring the UN Principle Responsible Investment (UN PRI) questionnaire reporting obligations
- Identifying the need for ESG training at AIFM and portfolio company levels and defining training sessions

Strategy

EQUITA Group is Italy's leading independent investment bank, and for years has been a trusted reference point in the financial sector. This role comes with the responsibility of **operating sustainably**. For us, achieving a balance between competitiveness, environmental sustainability, and social responsibility is essential. We are committed to creating value for our stakeholders while contributing to the United Nations Sustainable Development Goals (SDGs) defined in the 2030 Agenda[6]. Recognizing the numerous connections between several of the 17 SDGs and our business, we have integrated our sustainability targets into our Strategic Plan, organizing them around five key sustainability objectives[7].

1	**Promotion of employee well-being**: As our Group continues to grow, we are creating more job opportunities, especially for young people. We are committed to providing our employees with an advanced corporate welfare plan that prioritizes their well-being.
2	**Enhancement of customer and financial community satisfaction**: We are dedicated to consistently improving and strengthening our relationships with clients and the broader financial community. Our targets include enhancing cybersecurity and introducing quantitative metrics into our remuneration policy, some of which are linked to customer satisfaction.
3	**Promotion of the social and economic development of the community**: The 'Young 4 Future' initiative aims to foster the growth of young people both within EQUITA Group and in the wider community.
4	**Young 4 Future**: We promote numerous initiatives with a social impact. We contribute annually to the EQUITA Foundation and support for local communities, also through partnerships with universities, associations, and non-profit organizations.
5	**Climate Action**: Among our environmental commitments, a key goal is achieving 'Carbon Neutrality.' We are progressing toward this goal by calculating our Carbon Footprint and implementing initiatives to reduce and offset our environmental impact.

[6] For more information: https://sdgs.un.org/goals

[7] For more information, please consult: Sustainability EQUITA Group

In line with the Group's broader sustainability objectives, **EQUITA SGR**'s investment strategy is anchored in our **Responsible Investment Policy**, which has been approved by both the ESG Committee and the Board of Directors. This policy is regularly updated[8] to reflect regulatory changes, emerging trends, and evolving market dynamics.

As a **signatory of the UN PRI**, **EQUITA SGR** aligns its operations with their six principles, which form the foundation of our investment strategy. While we have not yet developed a specific climate target for the SGR, we closely monitor developments in this area and remain committed to incorporating relevant ESG factors into our investment practices.

Our investment approach

Public market funds

Before the investment

The portfolio management team is responsible for the integration of ESG factors in the stock selection process (portfolio allocation). In order to pursue this objective, a risk-based screening is performed by the portfolio management team relying on MSCI ESG rating to complement the internal analysis (analysis of publicly available information on the issuers – e.g., non-financial disclosure reports).

Our responsible investment process requires the assessment of the identified material ESG factors alongside traditional financial factors when forming an investment decision about a specific company or the overall portfolio structure. This integration process involves a 2-steps analysis:

1. **Security research**: identifying material ESG issues (incl. potential climate risks) that might impact equity valuations.
2. **Portfolio allocation**: assessing the potential impact of a company inclusion on the overall portfolio ESG rating.

All the portfolios[9] managed by the team must meet the following two conditions:

1. an MSCI rating equal or above BBB;
2. and no more than an aggregated 20% weight in instruments without rating or in non-European instruments with rating below BBB.

During the holding period (monitoring)

The portfolio management team is responsible for monitoring the portfolio rating on a quarterly basis. Should the rating not meet the target on any given assessment date, the portfolio management team must take all the remedy actions to comply with the minimum target rating, as per above, within two months from the assessment date. Furthermore, periodical controls are performed by the Risk Management (RM) Function to guarantee compliance with the conditions set in the previous paragraphs.

[8] Last update: December 2023.
[9] Excluding derivatives, ETFs and Government Bonds

Private market funds

Before the investment

All potential investments undergo a comprehensive, multidimensional screening process to ensure alignment with our Responsible Investment Policy. The portfolio management team utilizes a **proprietary ESG Pre-Screening questionnaire**, which includes specific metrics on climate-related risks, to confirm that target companies are not engaged in sectors on our exclusion list, along with multiple other factors including a climate screening exercise for infrastructure assets. The exclusion list includes, at a minimum, the exclusion of companies involved in illegal economic activities, tobacco production, firearms, military supplies, gambling, pornography, certain electronic data technologies, and extractive activities related to thermal coal. Additionally, investments related to human cloning or genetically modified organisms (GMOs) are subject to strict regulatory and ethical oversight[10]. This rigorous screening process ensures that our investments adhere to both legal and ethical standards while supporting sustainable and responsible business practices. Furthermore, any companies operating in industries that fail to comply with both national and international norms are automatically excluded from our investable universe.

After the screening phase, we conduct an **ESG materiality analysis** based on the target's characteristics to identify potential material ESG topics. This is done using **the Sustainability Accounting Standards Board** (SASB)'s sectoral approach, with internal analysis and proprietary tools where applicable. This step helps identify the environmental and social factors that each investment company promotes.

A **preliminary maturity assessment** is then carried out to evaluate the target's ability to manage these identified ESG topics. This includes ESG Due Diligence and interviews with the target's management to determine an ESG risk score, which captures the target's preparedness in addressing material sustainability risks, including climate-related aspects. If potential ESG risks are identified, a thorough ESG Due Diligence assessment is conducted, often with the support of external consultants, to evaluate the target's maturity in managing ESG issues and uncover potential opportunities.

The results of these analyses, including risks and mitigation measures, are summarized in the Investment Memorandum and discussed during Investment Committee meetings, contributing to an informed investment decision that incorporates both financial and ESG considerations.

During the holding period (monitoring)

ESG criteria, including relevant climate-related considerations, are integrated into the ongoing assessment of portfolio companies. On a semi-annual basis, the portfolio management team monitors the ESG performance of the portfolio, ensuring compliance with minimum risk-based criteria. In parallel, periodic controls are conducted by the RM function to ensure adherence to the negative and norm-based screening criteria outlined earlier. For infrastructure investments, the Asset Manager's dedicated Infrastructure Investment Team takes an active role in managing the key ESG topics identified during the investment process.

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[10] Please note that the exclusion list can be tailored to investor requests, if needed, and specific commitments can also be made; however, EQUITA's criteria cannot be compromised.

To facilitate this process, the investment team receives a **customized ESG Data Collection and Monitoring report** from the portfolio companies, tailored to each company's material ESG topics and KPIs. This report aims to monitor the following:

1. Principal Adverse Impacts (PAI) on sustainability indicators, as listed in Tables 1, 2, and 3 of Annex 1 of the Delegated Regulation (EU) adopted on 6 April 2022;
2. Specific KPIs related to the environmental and social characteristics promoted by the company and, where applicable, the implementation of an ESG Action Plan for products aligned with Article 8 and Article 9 of the SFDR.

The exit process

EQUITA SGR recognizes the importance of improving the ESG profile of portfolio companies to maximize the value of assets at the exit. Specifically, the investment team assesses the ESG improvements achieved during the ownership phase by each portfolio company, compared to the performance evaluated during the pre-investment phase. An analysis of ESG best practices implemented, targets achieved, KPIs monitored, and, where applicable, an ESG Due Diligence is compiled into material to be shared with potential investors.

Additionally, the investment team acknowledges that enhancing the ESG profile of portfolio companies contributes to their sustainable growth, which in turn improves their ability to meet financial obligations. This focus on ESG performance is key to ensuring long-term value across the portfolio.

The Risk Management process

EQUITA Group has established a dedicated RM Function, which operates independently from the company's operational units, both hierarchically and functionally. One of the key responsibilities of the RM Function is to identify, evaluate, and monitor risks associated with **EQUITA Group'**s activities, including **ESG risks**. In collaboration with the ESG Ambassadors and the ESG Committee, the RM Function has developed a tailored risk management process for all investment products under management.

Specifically:

- **Investments within the Public Market** are also subject to environmental and climate risks, which could have a potentially material impact; however, the impact is mitigated by the nature of these investments, such as higher liquidity and lower concentration relative to individual holdings.
- **Investments in the Private Market** are subject to environmental and climate risks, which may have a material and direct impact on both the managed fund and the SGR. These climate-related risks stem from the high concentration of individual holdings and the inherently low liquidity of such investments.

Below is a detailed description of our current risk management process.

Public market

With reference to all **Investments within the Public Market**, the Risk Management Function has integrated sustainability factors within the various risk management frameworks. Specifically, in the weekly monitoring reports produced by the Function, the consistency of the current equity investments with the criteria set out in the Responsible Investment Policy is verified. In particular, the policy requires that portfolios[11] comply with the following:

1. an MSCI rating equal to or greater than BBB (or any equivalent rating);
2. no more than an aggregate weight of 20% in unrated securities or non-European securities with a rating below BBB.

In addition, on a semi-annual basis each security undergoes an **initial screening based on the NACE code** of the activities carried out by the individual companies in the portfolio. It is assessed whether the sector is potentially subject to **transition risk** based on intrinsic characteristics and the applicability of certain regulations:

Directly → in the case of an energy-intensive sector or one included in the Carbon Border Adjustment Mechanism or the European Emission Trading Scheme, or potentially eligible for the European Taxonomy.	**Indirectly** →in the case of a high-emission sector with impacts on the supply chain.

Based on the results of the analysis described, the securities are categorized into potentially exposed sectors (both directly and indirectly) and non-exposed sectors.

For securities belonging to potentially exposed sectors, the score obtained by each company in the portfolio with respect to the **Carbon Disclosure Project** (CDP)[12] is considered.

Private market

Article 6 SFDR Products

The methodology developed for this type of fund estimates the **physical risk to which the various production sites of the investee companies are exposed based on their location**, and the **transition risk based on the NACE code** of the activities carried out by each company in the portfolio. The estimation of exposure to both types of risk aligns with the process in place for Article 8 SFDR funds *(more information provided in the next paragraph)* but does not consider the potential mitigation derived from resilience to the impacts of climate change.

[11] Excluding derivatives, ETFs and Government Bonds
[12] https://www.cdp.net/en

Article 8 SFDR products

The methodology developed for this type of funds assesses both **physical and transition risks** to which portfolio companies are exposed, considering their **location and economic sector (NACE code)**. The exposure to these risks is mitigated by the **company's resilience** to climate change impacts, evaluated through a questionnaire that measures the company's level of awareness (Maturity).

Specifically, the risk profile of individual portfolio companies concerning **physical risk** is based on two equally weighted drivers:

1. **Exposure to Physical Risks**: this analysis evaluates the geolocation of individual industrial or production sites, using specific databases to assess risks from acute climate events (e.g., landslides, floods, wildfires, hurricanes) and chronic climate events (e.g., heatwaves, water stress). Each type of physical risk is assigned a risk score (Low, Medium-Low, Medium, Medium-High, High).
2. **Resilience to Physical Risks**: if a company is exposed to medium, medium-high, or high physical risks, its resilience to these risks is evaluated. This is done using a questionnaire assessing the company's awareness and maturity in managing physical risks.
   Resilience is categorized as:

Low | Low-Medium | Medium | Medium - High | High

Low	No awareness or internal responsibilities.
Low-Medium	Some awareness, with spot actions but no internal responsibilities or monitoring.
Medium	Awareness with targeted actions and internal responsibilities, along with monitoring.
Medium-High	Awareness with defined mitigation actions, internal responsibilities, budget, and scenario analyses.
High	Awareness with implemented resilience measures, such as emergency plans or divestment from high-risk assets.

In addition to physical risks, the methodology assesses **transition risks** based on two equally weighted drivers:

1. **Exposure to Transition Risk**: this evaluation considers the NACE code of each company to determine if the sector is exposed to transition risks due to its intrinsic characteristics or applicable regulations, such as energy-intensive sectors or those affected by the Carbon Border Adjustment Mechanism, the European Emission Trading Scheme, or the European Taxonomy.

LOW SECTOR: The sector is not exposed to transition risk.
MEDIUM SECTOR: The sector is indirectly exposed to transition risk.
MEDIUM-HIGH SECTOR: The sector is directly exposed to transition risk.
HIGH SECTOR: The sector is exposed to transition risk both directly and indirectly.

2. **Resilience to Transition Risk**: companies with Medium, Medium-High, or High exposure to transition risk will be evaluated for climate change resilience based on a maturity questionnaire.
   The resilience is classified into five levels:

LOW: Unaware of transition risks, no internal responsibilities or monitoring.
MEDIUM-LOW: Aware of risks, ad-hoc actions implemented, no internal responsibilities or monitoring.
MEDIUM: Aware of risks, ad-hoc actions, defined responsibilities, and periodic monitoring.
MEDIUM-HIGH: Aware of risks, defined mitigation actions with a planned budget, scenario analysis, and periodic monitoring.
HIGH: Aware of risks, has implemented resilience measures (e.g., energy efficiency, renewable sourcing), aligned with TCFD guidelines.

Article 9 SFDR products

The methodology developed for this type of fund is based on the characteristics of the currently marketed **'EQUITA Green Impact Fund**[13],' which, due to its defined investment perimeter in the Solar, Wind, and Biogas sectors, is not exposed to transition risk and, therefore, focuses primarily on physical risks, considered more relevant in the current context. As a result, the methodology focuses **exclusively on assessing physical risks**, determined by the geolocation of individual production sites within the portfolio, using data from specific databases. The relevant types of physical risks considered include both **acute climatic events** (e.g., landslides, river floods, coastal flooding, wildfires, hurricanes) and **chronic climatic events** (e.g., extreme heatwaves, water stress).

For each type of physical risk analyzed, a score is assigned based on the level of risk identified:

Low, Medium-Low, Medium, Medium-High, and High.

These scores are then weighted according to the relevance of each physical risk type relative to the type of production site.

The potential resilience of the production sites to the impacts of climate change is considered, assessed through the identification and implementation of risk mitigation measures.

Furthermore, notwithstanding the risk management process described, for each asset that EGIF invests in, a Climate Risk and Vulnerability Assessment (CRVA)[14] is required. The CRVA may have been performed by the developer of the project using different parameters and thresholds than EGIF's pre-screening, however, if appropriate RCPs have been used, EGIF may rely on it.

[13] For more information, please consult: https://sgr.equita.eu/static/upload/egi/egif_erm_website-disclosure--art-10--03082023-1.pdf

[14] https://www.adaptation-undp.org/assessing-climate-risks-and-vulnerabilities-for-adapting-to-climate-change

Metrics & Targets

We recognize that climate change is a global issue affecting all aspects of society, posing a significant threat to the ability of future generations to meet their own needs. As part of our broader ESG strategy, we have established a **Climate Action objective**. However, we have not yet defined a comprehensive climate strategy with specific metrics and targets (e.g., a Net Zero objective).

As a sustainability-focused asset manager and signatory of the UN PRI, we have identified "**climate change**" as a **sustainability priority**, using a risk-based approach that considers the type, nature, and scale of our investments. Accordingly, we have selected a set of Principal Adverse Impact (PAI) indicators to monitor climate-related risks and impacts, following the framework provided by the Regulator and guided by a materiality criterion.

Specifically, for climate-related metrics, **EQUITA SGR** considers the absolute GHG emissions of issuers, their emissions intensity relative to revenue, and sectoral benchmarks. We also assess our portfolio's exposure to companies active in the fossil fuel sector.

To monitor these indicators, **EQUITA Capital SGR** has identified various data sources aligned with different investment types. For listed companies, data is collected and monitored directly through PAIs. For private companies, data is obtained via ESG questionnaires submitted to portfolio companies, enhancing dialogue and encouraging data transparency. The results of PAI monitoring are reviewed quarterly by the asset manager's investment team.

In line with SFDR requirements, we are committed to publishing our **PAI statement** annually. Our 2022 and 2023 PAI publications are currently available[15], and we will release the 2024 edition soon.

Carbon reduction initiatives

At **Group level**, we have adopted a "**Code of Conduct for a Sustainable Office**," which encourages employees to reduce their environmental impact through recycling, efficient resource use, and responsible mobility. Initiatives include eliminating plastic use by installing water dispensers, replacing plastic bottles with glass ones, and using compostable materials. To reduce energy consumption, we have installed energy-efficient LED lighting and implemented automatic computer shutdowns. We also support sustainable commuting by offering bicycles and public transportation incentives to employees. Additionally, we contribute to local community projects, such as "Un orto fiorito per Piazza Sicilia," which educates children on sustainability and environmental stewardship.

Since 2022, **EQUITA** has partnered with Rete Clima to calculate and decarbonize its operations, enhancing corporate sustainability. In March 2024, **EQUITA purchased 650 carbon credits**[16] to support the installation of a 500 MW solar energy plant in Andhra Pradesh. All supported carbon offset projects are part of the VCS (Verified Carbon Standard) Program by Verra, ensuring high verification and certification standards.

[15] For more information, please consult: https://sgr.equita.eu/informativa-sulla-sostenibilita.html
[16] For more information, please consult: Sustainability EQUITA Group

Conclusion

Since the start of our operations, we have embraced a responsible investment approach, firmly believing that ESG integration is essential to generating long-term value. To formalize this commitment, we adopted a Responsible Investment Policy. Building on this foundation, we have developed a robust ESG screening and monitoring process, which plays a central role in our day-to-day activities. To date, however, we have not yet embarked on a formal climate-scenario analysis. Given the growing frequency of extreme weather events and evolving regulatory expectations, we acknowledge that climate-related risks could crystallize into material financial impacts if left unaddressed.

Driven by our belief in continuous improvement, we are launching a dedicated effort to build a comprehensive climate-scenario assessment methodology, which will leverage the expertise of specialists to gain deeper insights into climate risks.

Systemic Challenges and Opportunities

To this end, we acknowledge several key challenges that must be considered, including the following

1. **Long-term projection uncertainty**: Climate models project decades ahead, often spanning beyond traditional risk horizons, making it difficult to pinpoint precise outcomes.
2. **Non-linear impacts**: A single climatic event—like a flood or heatwave—can trigger cascading effects that standard risk tools struggle to capture.
3. **Data gaps**: Robust, facility-level data linking emissions, asset utilization, credit quality, and mitigation actions remain scarce.
4. **Context dependency**: The same physical hazard (e.g., drought) can have radically different consequences depending on local geography, regulation, and infrastructure.
5. **Second-order effects**: Disruptions to critical infrastructure or global supply chains often lie hidden in indirect, harder-to-measure channels.

Addressing these challenges will take time and collaboration across various stakeholders, but we remain committed to progressing our efforts. We aim to further implement the recommendations of the Task Force on Climate-related Financial Disclosures and the newly released guidelines of the IFRS Foundation. Some of the next steps we are exploring include conducting climate scenario analysis with a 2030 deadline, evaluating third-party methodologies, models, and tools, and engaging with clients and stakeholders to deepen our collective understanding of climate risks and opportunities. Additionally, we are looking to engage with clients to support investments in climate change solutions for adaptation and mitigation, while collaborating with stakeholders to improve data availability and close critical data gaps.

Looking Ahead: A Resilient Future

Our journey toward comprehensive climate risk management is both a strategic imperative and a collective endeavor. By embedding scenario analysis, closing critical data gaps, and fostering strong stakeholder partnerships, we aim not only to safeguard our assets but also to catalyze positive change across the financial ecosystem. In doing so, **EQUITA SGR** aspires to set a new standard for resilience—one that turns climate uncertainty into a source of opportunity and long-term value for our clients, our communities, and the planet.

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