

## ESG INVESTMENT POLICY TNS

### Introduction

Some of the in-house TNS - Timeo Neutral Sicav products can be classified according to Art.8 of the European regulation SFDR. The related investment process integrates sustainability and responsibility criteria explicitly.

Among different approaches to ESG investments, each with its strengths and weaknesses, we elected as our main choice the “ESG Integration” method, proposed among others by the Principles for Responsible Investments (PRI). This does not rule out other methodologies (like exclusions and engagement) that we consider ancillary.

We rule out other forms of sustainability and impact approaches where financial returns are secondary to impact and other forms of non-financial returns as this would be against our mandate. Nonetheless we firmly believe that pursuing long term financial return can and should be aligned to long term sustainability goals.

We consider that an investment process based on fundamental analysis with ESG integration either satisfies investors' demand for sustainability or offers added value thanks to the reduction of long-term risks. This method adds or combines ESG considerations to fundamental analysis. The ESG criteria become additional considerations in the analysis of investments that can lead to reduce or avoid investments because they are considered risky or inadequate from the point of view of sustainability.

We acknowledge that there is no single sustainability indicator that is always valid, and as in the case of classical fundamental analysis, the use of too simple indicators often leads to false results. Moreover, the ESG factors include values that not only are intangible or difficult to measure and interpret but also could depend on subjective judgments and evaluations. Therefore, it is necessary to combine quantitative analysis (with the use of objective data when available) with a qualitative analysis, with the use of as consistent as possible qualitative metrics.

### General Criteria

We use two approaches whether we are analysing government or non-government securities as the incentives and regulatory frameworks are different.

### Government and Sovereign Issuers

In general, we will only invest in government securities eligible under our ESG criteria. Countries are considered eligible if they have sufficient respect for human rights, a democratic form of government and participate in the international community. In general, developed countries belonging to the OECD comply with these criteria but we integrate our selection under an SDGs framework. We selected seven SDGs that we believe are best suited to our investment framework, and we use the progress of each country towards each goal as a measure of investment eligibility. In the case of emerging countries, if it is deemed appropriate to invest in public debt (adequate risk-return profile), compliance with these criteria will be assessed on a case-by-case basis.

In our analysis we mainly consider the progress towards the following UN Sustainable Developments Goals:

- SDG1: no poverty
- SDG3: Good Health and Well Being
- SDG5: Gender Equality
- SDG6: Clean Water and Sanitation
- SDG7: Affordable and Clean Energy
- SDG8: Decent Work and Economic Growth
- SDG11 Sustainable Cities and Communities.

We rely on the Sustainable Development Goals Report from the UN in order to assess the progress of each country towards such goals. The other SDGs are considered as well but as a complement of the analysis.

Based on the progresses towards the SDGs we obtain a scoring that can be used for the investment eligibility and that would be consistent with the scoring used for Stocks and Corporate Bonds.

### **Stocks and Corporate Bonds**

We start from the analysis of the company. As in fundamental analysis, ESG analysis chooses the relevant factors that have a material effect on the life of the company. Not all ESG factors are equally important, and some have always been part of fundamental analysis and can be considered real "value drivers". In the ESG analysis these factors are made more explicit. Some examples are corporate governance, transparency, attention to resource scarcity, environmental sustainability, Corporate social responsibility policies and respect for stakeholders.

We believe that the Governance criteria should in general weight relatively more than the other criteria. Furthermore, as in the analysis of economic fundamentals, also in the ESG investing analysis the present is important, but the future is more important: the commitment of a company to improve is therefore taken into consideration together with the current situation, as well as the improvement trend shown in the past. Conversely, belonging to a sector is not a priori considered negative or positive, but is considered only to assess the importance of the various specific ESG factors.

A stock or a bond or any security will become part of the portfolio only if it meets both the fundamental analysis criteria and the ESG ones.

### **Method of analysis for Companies.**

As explained, we use both qualitative and quantitative analysis in our ESG assessment. In quantitative analysis, ESG indicators from external providers will be used as far as they are available. These indicators make it possible to define companies from an ESG point of view by explaining the key performance indicators typical for that sector. In general, only companies that show positive values or positive trends in these indicators can be part of the portfolio. In this assessment we rely also on third party research and scoring, if we agree with the analysis' principles used.

In the event that third party indicators are not directly available, we delve in to further analysis. We look for quantitative data, such as data on emissions or consumption of raw materials. Then we extend the detailed and extensive analysis that is already done security by security from a fundamental point of view also to the ESG data available. The transparency of companies in the field of sustainability is continuously increasing and many companies join organizations that promote it. This allows you to obtain the necessary data more easily.

Therefore, where it is not possible to find the results of analysis by specialists or quantitative data (or if these data are unreliable), we use an analysis model which allows to maintain a coherent assessment. This model takes into consideration all the main ESG items, extrapolating them from balance sheets, sustainability reports and other corporate communications, assigns a vote to each and weighs them in order to obtain a single value, which allows to classify the companies in which to invest. Some of the topics considered cannot be quantified, and therefore it is necessary, according to common practice, to give a score in a qualitative rather than quantitative way or we allow even for a void scoring if the criteria is deemed not material for the company

From the scoring of each criteria, we obtain a single score that summarize our valuation and help us to define the investment eligibility of the issuer.

The model may be improved over time with new factors, with the increase in available data or with the change in the weights considered. Currently the model is based on the following criteria:

### **Environment**

- Climate Change
  - Carbon Emissions

- Energy Efficiency
- Climate Change Vulnerability
- Natural Resources
  - Water
  - Animals
  - Raw Material Sourcing
  - Plants
  - Land Use
- Pollution
  - Toxic Emissions
  - Waste
- Environmental Opportunities
  - Renewable Energy
  - Green Building
  - Clean Tech

**Social**

- Human Capital
  - Labor Management
  - Equality
  - Health and Safety
  - Supply Chain Control
- Products
  - Product Safety
  - Privacy and Data Security
  - Responsible Investment
- Social Opportunities
  - Access to Communications
  - Access to Finance
  - Nutrition
  - Health

**Governance**

- Corporate Governance
  - Board
  - Ownership
  - Transparency and Accounting
- Corporate Behaviour
  - Business Ethics
  - Anticompetitive Practices
  - Corruption
  - Financial System Instability

**Exclusion (negative screening)**

While our choice of an integrated approach is not based on a priori exclusion, we believe it appropriate to specify some sectors where the fund cannot invest under any circumstances.

The following sectors are excluded because they are inherently unsustainable.

- Adult Entertainment
- Animal Testing
- Controversial Weapons
- Fur & Specialty Leather
- Gambling
- Military Contracting
- Palm Oil (unsustainable)
- Small Arms

Investments in companies belonging to the following sectors are not excluded but are subject to discussion. They are considered controversial, but the impact of the businesses, the approach of the company to the transition or the share of revenue coming from such businesses can be matter of discussion and result in an approval of the investment.

- Alcohol
- Tobacco
- Thermal Coal (revenue less than 30% and a commitment to improve)
- GMO
- Nuclear
- Pesticides

## **FUNDS THAT ADHERE TO THIS ESG POLICY**

### **Timeo Neutral Sicav Conservative Wolf fund**

The Timeo Neutral Sicav Conservative Wolf fund is a balanced fund with a reference asset allocation of 65% bonds and 35% shares. The fund invests primarily in developed markets, with at least 70% of investments in companies deemed eligible according to our ESG analysis model criteria (environmental, social, governance). In particular we use a score threshold of 50 (for a score between 0 and 100) The remaining 30% of assets is dedicated to cash and to investment opportunities where data and analysis are not yet sufficient for a complete ESG assessment. We aim to reach an entirely ESG compliant portfolio.

### **Timeo Neutral Sicav Inflation Linked Bonds fund**

The Timeo Neutral Sicav Inflation Linked Bonds fund is a government bond fund with a focus on the inflation linked bonds issued by major developed countries.

The fund invests primarily in debt of G7 countries. The remaining part can be invested in corporate or other country debt, nonetheless at least 80% of the investments should follow the guidelines of this ESG policy. Based on such guidelines we consider eligible countries that do not suffer major challenges in more than two of the selected SDGs, accordingly to the UN SDG report.