Disclosure on sustainability in financial services pursuant to

REG. (UE) no. 2088/2019

- Transparency on sustainability risk policies
- Transparency of adverse sustainability impacts
- Transparency of remuneration policies in relation to the integration of sustainability risks

Transparency on sustainability risk policies

A sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment. **FSI recognises these elements as crucial and undertakes to include ESG implications and risks in FSI and in its investments**, inspired by the principles of responsible investment and outlining the criteria to be followed in order to put this commitment into practice, for the purpose of aligning investors’ interests with the broader objectives of the company. In the context of its investment process, FSI assesses different risks in the environmental, social and good governance fields deriving from the bad management of the following aspects:

Environmental

Energy consumption and GHG emissions into the atmosphere;
Management of waste and hazardous materials;
Management of water resources;
Protection of biodiversity;

Social

Training and development of human capital;
Protection of employees’ health and safety;
Respect for human rights;
Safety of the consumer and the product;

Governance

Ethics and integrity in the business, anti-corruption and anti-money-laundering;
Respect for diversity and inclusion in workplaces;
Responsible management of the supply chain;
Management of risks with potential impacts of a systemic nature and resilience in the business.

Coherently with this integration of ESG issues into FSI and its investment portfolio, **FSI has publicly undertaken to observe six principles for responsible investment, signing the “United Nations Principles for Responsible Investments”(“UNPRI”).** The valuation of sustainability risks in the context of the investment decision process is, in fact, consistent with Principle 1: “We will incorporate ESG issues into investment analysis and decision-making processes.

Once sustainability risks have been identified, FSI integrates them into its decision-making processes related to investments. This integration occurs, in fact, both in a pre-investment stage, through ESG Due Diligence, and in the post-investment stage, through ESG engagement activity and monitoring of sustainability performance. FSI reserves also the right to adopt ESG remediation action plans. The process described is functional to overseeing the main risks and opportunities connected with the material issues; FSI reserves the right to make changes to the identification of sustainability risks if the materiality matrix is updated.

FSI shows its responsible investment strategy in the document “ESG Guidelines”, published in the «Croporate Responsibility» section of this website, available at the following link [https://www.fondofsi.it/Corporate Responsibility](https://www.fondofsi.it/CorporateResponsibility) please refer to this document for further details on the methods of integrating sustainability risks into investment decisions.

Transparency of adverse sustainability impacts

Principal adverse impacts mean the effects of investment decisions that determine adverse impacts on sustainability factors. Taking into account its size, the nature and scope of its activities and the type of financial products offered, FSI implements due diligence policies aimed at identifying and assessing the principal adverse impacts on environmental and social sustainability that its investment decisions could entail.

FSI identifies the potential adverse impacts on sustainability by carrying out an analysis of materiality related to its investment portfolio. To this extent, FSI follows, in addition, international accounting and reporting standards, as it has publicly undertaken to observe six principles for responsible investment, signing the "United Nations Principles for Responsible Investments", and promoting observance of the principles defined by the UN Global Compact.

The potential impacts identified are monitored and described in the non-financial reporting document entitled «FSI ESG Impact Report», published in the "Corporate Responsibility" section of this website to which you are referred for further information about the impacts on sustainability factors.

To facilitate the monitoring process, FSI makes use of performance measurement indicators. Details about main potential adverse impacts and monitoring indicators relating to the current investment portfolio are showed in the following tables:

Environmental

GHG emissions

- Total GHG emissions (Scope 1, Scope 2, Scope 3)
- Carbon footprint
- Intensity of GHG emissions of investees
- Exposure with respect to companies in the coal sector
- Non-renewable energy consumption and production quota
- Energy intensity for sectors with high climate impact

Energy

- Division of energy consumption by type of non-renewable sources

Biodiversity

- Activities that adversely affect areas with high biodiversity

Water

- Emissions with impacts on water resources (e.g. nitrates, phosphates, pesticides in water)
- Use and recycling of water resources

Waste

- Hazardous waste produced

Social

Social problems and problems related to employees

- Breach of the principles of the UN Global Compact and of the OECD Guidelines destined for multinational companies
- Absence of compliance processes and mechanisms for monitoring observance of the principles of the UN Global Compact and of the OECD Guidelines destined for multinational companies
- Gender pay gap
- Diversity within the Board of Directors
- Exposure with respect to companies in the armaments sector
- Injury frequency index

Human rights

- Lack of a human rights policy

Anti-corruption

- Lack of anti-corruption and anti-money-laundering policies

Supply chain

- Supply chain at significant risk of episodes of forced or child labour

Customer safety

- Market recalls

Business resilience

- Business continuity plans and contingency plans

In order to prioritise main potential adverse impacts, FSI

- carries out ESG Due Diligences together with the traditional one regarding economic and financial aspects (i.e. updated economic and financial situation of the target company, analysis of the business plan and budget, information on the ownership and governance structures, management and organisational structure);
- implements the ESG performance monitoring mechanism upon the arrangement of the annual non-financial report (and referred to the previous financial year).

FSI plans certain actions to mitigate these potential impacts:

- ESG engagement activities: the involvement of and active dialogue with the portfolio companies - facilitated by the ESG Committee, the Investment Managers and the ESG Ambassador - allow to monitor the risk profile of the portfolio companies, promote their sustainable growth and collect continuous feedback for the evolutions of the strategy itself. FSI undertakes to establish and maintain a transparent and continuous dialogue with the portfolio companies, especially with respect to the monitoring of the performance indicators associated with the principal adverse impacts on sustainability factors;

- non-financial reporting: the drawing up of a non-financial report (ESG Impact Report) has the objective to facilitate the ESG performance monitoring process through collecting qualitative and quantitative data.

In case of contingent situations, FSI assesses, in addition, the opportunity of using other instruments to minimise the adverse impacts, including, by way of example:

- structuring of ESG action plans based on the results obtained from ESG Due Diligence and shared with the investee companies;
- definition of sustainability objectives;
- providing for escalation measures if these objectives are not achieved.

Transparency of remuneration policies in relation to the integration of sustainability risks

FSI promotes the consistency of its activities and those of the portfolio companies with the sustainability aspects identified as material for FSI and the portfolio companies. The proper management of this aspects allows FSI to take into due consideration sustainability risks and opportunities. **FSI deems that the effective integration of sustainability risks may depend also on the inclusion of sustainability objectives in the remuneration schemes.** Accordingly, FSI adopts a incentive system linking the variable remuneration also to sustainability objectives. FSI believes that these objectives can positively influence the fulfilment of its strategic objectives and for this reason it deems crucial to incentive the achievement of them. FSI reserves the right to update its remuneration policies in order to include qualitative/quantitative sustainability parameters to which the variable remuneration may be linked.