



**TRANSPARENCY OF SUSTAINABILITY RISK POLICY**  
**PURSUANT TO EU REGULATION 2019/2088**

FEATURES	
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CLASSIFICATION	Public

VERSION HISTORY		
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24/04/2025	18/07/2024	General review and update



Following the entry into force of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the "**SFDR**"), which forms part of the EU's package of measures relating to environmental, social and governance issues, NEAM (hereafter referred to as "**NEAM**" or the "**Management Company**") is committed, *inter alia*, to publish on its website information about its policies on the integration of sustainability risks in its sub-funds' investment and risk management process.

Moreover, NEAM should disclose whether or not it considers principal adverse impacts of investment decisions on sustainability factors by mean of a statement on due diligence policies with respect to those impacts, taking due account of its size, the nature and scale of their activities and the types of financial products it makes available, in accordance with the regulatory deadline.

NEAM effectively adopted a sustainability risk policy (the "**Policy**") compliant with the applicable legislative and regulatory requirements and considers the principal adverse impacts of investment decision on sustainability risk factors. NEAM publishes the principal adverse impacts statement on its website and updates it periodically, according to the legal deadlines. Furthermore, NEAM identifies, measures and manages greenwashing risk.

In this respect, the Management Company takes sustainability risks into account when defines the investment policy of the NEF sub-funds (each a "**Sub-Fund**"). In order to identify sustainability risks, which may negatively impact the performance of each Sub-Fund, the Management Company:

- (i) excludes or limits investments in certain controversial sectors of activities;

NEAM's goal is to avoid as much as possible the financing of the armaments production and investments in such type of companies are strongly discouraged. Such restriction has been communicated to the delegated investment managers and is checked ex-post by NEAM.

No investment is allowed in controversial weapons, including anti-personnel mines, cluster munitions, and chemical, biological and nuclear weapons. Those weapons are considered unacceptable by the international community and banned by treaties such as the *Mine Ban Treaty (MBT)* and the *Convention on Cluster Munitions (CCM)* due to the severe harm they can cause to civilians, both during and after conflicts.



To ensure compliance with these regulations, NEAM relies on data from ISS ESG to identify companies involved in these *controversial weapons*. ISS evaluates corporate involvement based on international regulatory criteria, assessing the extent to which a company participates in the development, production, stockpiling, transfer, or supply of essential components and enabling equipment for such weapons.

Additionally, NEAM integrates assessments from the *Refinitiv Flag on Cluster Bombs* to identify additional companies suspected of producing cluster munitions. If an alert emerges, a more in-depth analysis is conducted and a decision is issued by NEAM on whether to include the relevant company on the exclusion list.

In this regard NEAM adopts a zero-tolerance approach: meaning that no exemptions based on revenue thresholds from controversial weapons (e.g. 5% or 10%) from involvement in controversial weapons are allowed. As with all screening, NEAM maintains the right to utilise our in-house exceptions process where there may be disagreement with a data point triggering exclusion.

Furthermore, NEAM also excludes companies involved in the cultivation and production of tobacco from Article 8 and Article 9 Sub-Funds. NEAM follows a zero-tolerance approach and exemption based on revenue thresholds, such as 5% or 10% of total annual revenue derived from involvement in the cultivation and production of tobacco, is not considered. However indirect involvement is not considered.

For sub-funds promoting environmental or social characteristics or having a sustainable objective it is required to further promote ethicality by excluding other controversial sector such as gambling, pornography, alcohol and fossil fuel business (Coal, Unconventional oil & gas, Integrated oil & gas, Oil & gas exploration and production, Oil & gas drilling, Oil-related services and equipment). Such exclusion/limitation may differ from one Sub-Fund to another according to the objective, the strategy and the investible universe of the Sub-Fund.

Additionally NEAM is willing to avoid as much as possible investing in Sovereign issuers of countries that apply the death penalty and countries having a significant level of corruption or other predicate offences to ML/TF. Therefore such countries are usually excluded from sub-funds promoting environmental or social characteristics or having a sustainable objective. Regarding the death penalty, in case of a Federation, the exclusion is implemented only to the individual Federal State that applies the death penalty.



Companies violating United Nations Global Compact (**UNGC**) principles or OECD Guidelines for Multinational Enterprises are excluded from *Article 8 and Article 9 Sub-Funds*. NEAM identifies these issuers using ISS ESG data, which flags violations with a score of 10 in its *Norm-Based Research (NBR)*, forming the OECD-UNGC Violation List (**Base List**).

NEAM may reassess flagged issuers in two cases:

1. If a delegated investment manager (**IM**) disputes ISS's classification and provides evidence.
2. If a newly flagged issuer is already in an *Article 8 or 9 Sub-Fund*, requiring consultation before divestment.

Such issuers are moved to a Gray List for further evaluation. Issuers on the Gray List face a freeze on new investments until reassessment is complete.

- (ii) considers several criteria depending on different asset classes. The ESG data sources used to assess and monitor the sustainability risks are external ESG data providers like Refinitiv, ISS and MSCI but also companies' public information as well as direct dialogue with delegated investment managers and financial press.

However, the management of each Sub-Fund has been delegated to external investment managers. Hence, as long as the investment management function is completely delegated, NEAM shall:

- (i) define the investment policies of each Sub-Fund according to the principles expressed above;
- (ii) select the delegated investment managers through a process which takes into account a series of principles, among others: the ability, capacity, and the fulfilment of any conditions required by law, the reputation, service commitment, ethics, financial conditions and reliability; and
- (iii) oversight its delegates.

In this respect, the Management Company carefully assesses ex-ante the profile of the delegated investment manager through a request for proposal ("**RFP**") and an initial due diligence questionnaire.

The Management Company considers, in addition to financial criteria, how the sustainability risk is integrated in the investment and risk management process of the delegated investment manager.



Sustainability risk integration criteria becomes more important when delegating the investment management activity of a Sub-Fund under article 8 and 9 SFDR. In this respect, NEAM requests to the investment managers their sustainability risk related policies and discusses in detail their approach to identify, measure and manage sustainability related risks in general and for the specific mandate.

Additionally, each year NEAM conducts the review on sustainable matters for sub-funds classified as Art. 8 or Art. 9 SFDR through an ongoing due diligence process with the delegated Investment Managers where main points are discussed and analysed with a focus on the portfolio they are managing on NEAM behalf (ESG scoring methodologies, ESG integration in Investment Process & RMP, Exclusion Policy, Sustainable Investment Implementation, Sustainable Investment alignment, DNSH analysis, PAI consideration in the Investment process, Annex IV/V, Engagement activity and Policies on sustainable matters). Then, a qualitative assessment is attributed to each topic (ranging from Bad to Very Good) and spot checks are done whenever the Management Company has different evidences compared to the Investment Managers or is not satisfied with the evidences or explanations provided.

The sustainability risk monitor mainly rely on the ESG score provided by Refinitiv and ISS. NEAM daily checks, for the Sub-Funds, different statistics like the minimum ESG rating, the average ESG rating, the coverage, the NAV percentage invested in securities with a low ESG score, the percentage invested in Green/Social/Sustainable and others ESG Bonds, etc. In relation to sub-funds classified as article 8 and 9, NEAM usually imposes to the delegated investment managers a minimum ESG score at issuer level and at portfolio level.

### **PAIs consideration**

NEAM asks delegated investment managers of sub-funds classified as article 8 and 9 SFDR whether they consider principal adverse impacts of their investment decisions on sustainability factors. In case they do, NEAM asks them to give details on the way they do consider PAIs and inserts it in the Investment Guidelines and in the precontractual disclosures (in accordance with Annex II or III of the Commission Delegated Regulation 2022/1288, as amended by Commission Delegated Regulation (EU) 2023/363 (hereafter "**SFDR RTS**") which will serve as a base of NEAM's oversight. In addition delegated investment managers shall produce on a yearly basis the PAI table in accordance with Annex I of SFDR RTS and shall fill in the periodic disclosure template as per Annex IV or V of SFDR RTS.



NEAM on its side considers the PAIs indicators through various process, in which parts of the indicators or all of them are already included, such as ESG score, Exclusion strategy and Engagement with delegated investment managers.

Additionally, NEAM will monitor to what extent the PAIs of the companies in the portfolio have improved or deteriorated compared to the previous years on a homogeneous basis and when there is a deterioration it will request the delegated Investment manager to explain the dynamics, the action taken or planned and eventually the related engagement activity.

Among other purposes, this is consider to be also a good mitigation measure of greenwashing risk that might arise from misleading information coming from delegated Investment Managers in their statement in regards to PAI consideration as well as DNSH principles.

### **Sustainable Investment Definition**

The Management Company asks delegated investment managers to explain their interpretation of the Sustainable Investment definition which is then inserted into the Investment Guidelines (Annex to the Investment Management Agreement or IMA) and in the precontractual disclosures (in accordance with Annex II or III of SFDR RTS) together with a minimum commitment % of sustainable investment.

The Management Company has adopted its own definition according to its own interpretation and has set-up its operational checks accordingly. Therefore, discrepancies in the percentage invested in sustainability investments between the delegated investment managers and the Management Company are possible.

Periodically, NEAM will determine the percentage of sustainable investment in all the concern sub-funds to confirm that the minimum % of sustainable investment committed by sub-funds has been indeed achieved.

In order to define sustainable investments, NEAM considers that an investment in an economic activity should imperatively either:

- Have more than 20% revenues (turnover) aligned with one or more objectives of the EU taxonomy;

Or



- Contribute positively to any of the 17 SDG goals, except goal 17 "Partnerships for goals" due to its lack of tangible impact. Despite SDGs encompass both environmental and social impacts, the ultimate target revolves around human society development in a sustainable way, therefore is meant to contribute to a social objective. This is determined by using ISS SDG impact rating (ranging from -10 to +10) for each individual SDG, on which an issuer should have a minimum score of 2, in one or more SDG goals.

The SDG impact score is based on 3 pillars:

- o Product and services identify contribution or obstruction to SDGs, based on revenues. The score is ranging from -10 to +10 based on the percentage of revenues contributing or obstructing with the goal, +10 imply a 100% contribution.
- o Operations management: evaluate impact along the value chain, based on corporate ESG practices and impact. The score is ranging from -10 to +10.
- o Controversies: identify alleged or verified failure to respect norms that obstruct SDG. The score range from 0 (no controversies) to -8 (large negative controversies).

Once these 3 ratings are compiled for each goal, both operation management and controversies are added together and compared to the product and services score. Then, the following logic is applied: Highest positive score if only positive scores, Lowest negative score if only negative scores, sum of the positive and the negative score in case of mixed scores.

Or

- Be Green Bonds, Social Bonds, Sustainable Bonds, or bonds linked to Sustainable / ESG / SDGs projects which are meant to contribute to a social or environmental objective depending on the nature of the bond. Additionally such bonds should follow guidelines concerning the use of proceeds such as ICMA or CBI or other recognized independent party.

AND (pass/fail approach)

- Issuer minimum Governance ESG rating should not be below 25 according to Refinitiv or below D according to ISS governance rating. In case the rating is not available or if the delegated investment manager disagrees with the Refinitiv score he should submit to the Management Company a detailed analysis, that will be reviewed and potentially accepted by the Management Committee;



- Issuer minimum ESG rating should not be below 41.67 according to Refinitiv or D+ from ISS;
- The DNSH principle is respected.

### **Legal Documentation**

Pre-contractual documents, website disclosure as well as periodic reporting are drafted in conjunction by the Risk and Legal and Compliance department. The draft of such documents is shared and discussed with the relevant delegated Investment Managers which is requested to approve the final draft.

The final drafts of the pre-contractual documents (which are part of the Prospectus), of the periodic reports (which are part of the Annual accounts) and of the website disclosures are approved by the Management Committee. The Annual accounts as well as the Prospectus are then brought to the attention of the Board of Directors.

### **Governance**

The responsibility for the assessment and controls within NEAM is defined at several levels:





## Board of Directors

- Determines the Sustainability Risk Policy and its subsequent revisions;
- approves the exclusion and integration criteria to be applied to the managed assets in accordance with the Management Committee's proposals;
- periodically verifies that the Sustainability Risk Policy has been correctly implemented based on checks carried out by NEAM PRMF ("Permanent Risk Management Function").

## Management Committee

- Aims to provide advisory support to NEAM board of directors in the definition, review and implementation of the Policy.
- It is responsible to approve all the SFDR framework (ESG integration, Exclusion policy, Sustainable Investments, PAI consideration) both in terms of methodology and in managing exceptions or issues that might arise for the controls run by the PRMF and described in this policy.
- It is responsible for the definition of the thresholds by asset class. Whenever the thresholds are crossed, it shall propose the best course of action to be taken in such cases and it shall evaluate if an escalation to the Board of Directors is required to solve the issue.
- It has the final word on ESG ratings whenever a discrepancy between the ESG score reported by Refinitiv and the delegated IMs ESG score is identified or in case the issuer's ESG profile haven't been analysed by Refinitiv.
- It promotes and raise the awareness of the ESG criteria within the Management Company.
- It takes part to the contractual negotiations with the delegate investment managers in order to ensure that the appropriate limits, exclusions and the integration of the sustainability risks are reflected in the legal documentation.
- The Management Committee has the final word on the sustainable nature of investments after the analysis run by the PRMF as well as the decision on the action to be taken in regards to the PAIs analysis.

## PRMF

- Performs regular checks and controls by asset class as described by the Sustainability Risk Policy. Whenever the PRMF comes across any issues identified in the running of the checks, such issue is brought to the attention of the Management Committee which shall decide on the best course of action to take.