

## **ADDITIONAL DISCLOSURES FOR EX-ARTICLE 8 SFDR FUNDS**

### **INTRODUCTION**

For ex-Art. 8 SFDR Sub-Funds, the regulation requires that additional information must be disclosed to investors, including, but not limited to:

- how an Investment Product promotes environmental and/or social characteristics;
- the minimum percentage of the Investment Product's assets that have to be invested in investments that promotes environmental and/or social characteristics, and the binding elements;
- whether or not the Investment Product has a commitment to make sustainable investments;
- which criteria are employed to determine whether an investment is to be considered sustainable or not;
- the minimum percentage, if any, of the portfolio committed to make sustainable investments;
- within the portion reserved to sustainable investments, if any, what is the additional commitment, if any, to make investments aligned to the EU Taxonomy, rather than to environmental objectives other than those pursued by the EU Taxonomy, or to social objectives;
- whether or not the Investment Product considers PAIs.

For each Investment Product ex-Article 8 SFDR, all of the above information is provided in the document titled "pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph of Regulation (EU) 2020/852" (hereinafter "Pre-contractual Disclosures"). The Pre-Contractual Disclosures of the ex-Art. 8 Investment Products, if any, can be found in the annexes to the Prospectus of each Investment Product managed by Nova. Additional information can also be found in the website disclosures, available in the web page "Sustainability-related disclosures" on the Nova website.

Hereafter, we detail what are 1) the strategies for the promotion of environmental and/or social characteristics, 2) the criteria employed to determine whether an investment is to be considered as sustainable, and 3) the binding elements of both.

Concerning PAIs, earlier in this Policy, we have already reported that Nova considers PAIs for all the funds it manages, we have elaborated on how Nova considers PAIs, and how they can be mitigated (additional details in Section 12 of this Policy).

#### **STRATEGIES FOR THE PROMOTION OF ENVIRONMENTAL AND/OR SOCIAL CHARACTERISTICS**

Nova implement the following activities to promote environmental and/or social characteristics.

##### **ESG Integration**

ESG scores on each individual investment is taken into consideration, both at a single security level and on an aggregate basis. This aim is achieved through optimization which is made mainly by not considering and/or reducing investments with the lowest ESG scores, preferring instead investments having higher ESG scores. In case of investments in other financial products (i.e.: funds), in the selection process Nova favours financial products classified ex-Art. 9 or ex-Art. 8 SFDR.

Additional details are provided in Section 10 of this Policy.

##### **Exclusion list**

Nova does not invest in companies with a significant share of turnover from activities that are considered non-sustainable and/or may involve significant environmental and social risks, or in funds with an ESG rating considered too low.

Additional details are provided in Section 11 of this Policy.

##### **Active ownership**

Nova exercises its duty as a responsible investor by encouraging, through proxy voting and engagement with management, investee companies to adopt sustainable environmental, social and governance practices.

Additional details are provided in Section 14 of this Policy.

##### **Consideration of PAIs**

The adverse impact of investments on sustainability factors are calculated and monitored, focusing in particular on a specific sub-set of PAIs. Nova makes the assessment of the subset of the PAIs that are considered first at the aggregate level to determine which is the overall sustainability path of the company, and second on each PAI separately.

Additional details in Section 12 of this Policy.

**Minimum % of sustainable investments, if any**

For the Investment Products which declare a minimum commitment to make sustainable investment, the compliance with the minimum commitment.

**CRITERIA TO DETERMINE WHETHER AN INVESTMENT IS TO BE CONSIDERED AS SUSTAINABLE**

Article 2(17) of the SFDR establishes three conditions that must be met for an investment to be considered sustainable:

1. a measured positive contribution generated by each investment to an environmental or social objective;
2. that such investment does not significantly harm any of those objectives (Do Not Significantly Harm principle, hereinafter “DNSH”) through the consideration of indicators for adverse impacts on sustainability factors and the evaluation of the alignment of the investment to the OECD Guidelines for Multinational enterprises and UN Guiding Principles on Business and Human Rights;
3. investee companies must follow good governance
4. practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

Nova uses the MSCI ESG Research methodology to assess the conditions 1 and 2 above and a combination of data from MSCI ESG Research and other leading ESG data providers to assess condition 3 according to the following rules:

**Positive contribution:** as determined by Nova, companies generating at least 20% of their revenues from products or services contributing to one or more social or environmental objectives are considered as having a positive contribution on such objectives. From the perspective of targeting an environmental objective, the methodology includes activities focused on climate change mitigation and energy efficiency, pollution prevention and waste minimization, sustainable management of water, forestry and land resources. Activities focused on social objectives include access to basic needs, such as health care, housing, and nutrition, provision of SME and personal loans, education services, and bridging the digital divide in least developed countries. Accordingly, the methodology uses revenue data to capture positive contribution across both environmental and social objectives.

**DNSH:** The methodology considers a subset of the PAIs on the sustainability factors and the alignment with the OECD Guidelines for Multinational Enterprises and UN Global Compact (UNGC) Principles, as criteria for avoiding harm and meeting minimal social safeguards.

**Good governance practices:** The assessment of good governance practices, which include sound management structures, employee relations, remuneration of staff and tax compliance, is a central pillar of the investment process adopted by Nova and it is based on the assessment of investee companies (by leading ESG research providers) against the rules of conduct aligned to international best practices and by the consideration of all stakeholder's interests, as well as the remuneration policy of the investee company.

Nova uses a proprietary methodology to perform this analysis, which is based on governance scores from leading ESG data providers, which can be adjusted based on the assessments made by the portfolio management team of Nova. The scores on the governance pillar are then standardized through a Z-scoring, and the issuers with a Z-score equal to or less than -2 are excluded.

The criteria used is based on Governance raw data sourced from the following providers: ISS, MainStreet Partners, Morningstar Sustainalytics, MSCI. In particular, the list of raw data used in our methodology is the following: a) "Governance Rating Numeric" from ISS ; b) "Governance Rating" from MainStreet Partners ; c) "Governance Risk Score" from Morningstar Sustainalytics ; d) "Governance Pillar Score" from MSCI. Since each provider uses a different "scale" for their scores, in order to maintain a methodological consistency, it has been deemed appropriate to apply a standardization via Z-scoring the data. The main advantage of this feature scaling technique is that, by scaling each variable based on its own mean and standard deviation, it makes them comparable to each other and allows the Z-score to have an intuitive interpretation as the number of standard deviations away from the mean. Except for "Governance Risk Score" from Morningstar Sustainalytics, for which it holds the contrary, the other three data providers have a scale whose minimum value represents "worst governance" and the maximum "best governance", therefore, it is necessary to invert the sign of the z-score computed for Morningstar Sustainalytics data. After computing the z-score for each provider, the scores are averaged (giving a weight of 25% to each provider: 100% divided by the number of providers used) to obtain the "Average Governance Z-score". Since the latter is not centered on its mean and has not a standard deviation of one (it is not a Z-score itself), it is scaled by subtracting its mean and dividing by its standard deviation, obtaining the final indicator: "Azimut Internal Governance Z-score". Companies whose "Azimut Internal Governance Z-score" is below the threshold of -2 (namely a value lower than 2 standard deviation on the left of the mean) cannot be part of the investment universe for funds ex Art. 8 SFDR. In addition to the governance score detailed above, investee companies marked with a red flag by the MSCI ESG Manager platform (assessment of a

company's direct involvement in the most serious adverse impacts, which have not yet been mitigated to the satisfaction of all implicated stakeholders), are excluded from the investment universe.

Furthermore to the criteria set out above, Nova considers also the following investments as sustainable:

- Green Bonds: As defined by the International Capital Market Association (ICMA), Green Bonds are any type of bond instrument whose proceeds are used exclusively to finance or refinance, in whole or in part, new and/or pre-existing environmental projects and that in each case are aligned with the four Green Bond Principles, such as use of proceeds, project evaluation and selection process, management of proceeds, and reporting activities;
- Investments into ex-Art. 9 SFDR funds are considered as 100% sustainable under Art. 2(17) SFDR;
- Investments into ex Art. 8 SFDR funds are considered as sustainable under Art. 2(17) SFDR only for the portion corresponding to the minimum percentage of sustainable investments declared by the fund.

#### **BINDING ELEMENTS**

The following criteria, in addition to the criteria explained above in relation to good governance practices, is applied for ex-Art. 8 SFDR Investment Products (all ratings are based on the following scale, in ascending order: CCC, B, BB, BBB, A, AA, AAA):

The average ESG rating at Investment Product level must be "BBB" or better;

The rating on either pillar E (Environmental) or S (Social) for each investment must be "BB" or better in order to be considered aligned with environmental and/or social characteristics;

For the Investment Products which declare a minimum commitment in sustainable investment ex Art. 2(17) SFDR, the compliance with the minimum commitment.

Exclusionary criteria: in addition to the Exclusion List's criteria applicable to all Nova' Investment Products directly managed by Nova the following additional restrictions apply for SFDR ex-Article 8 Investment Products:

It is not allowed to invest in funds with an ESG rating below "BB" calculated according to the MSCI ESG Research methodology;

Companies whose "Azimut Internal Governance Z-score" is below the threshold of cannot be part of the investment universe and investments in investee companies marked with a red flag (as per MSCI

methodology) which have not yet been mitigated to the satisfaction of all implicated stakeholders, are excluded from the investment scope.