

# Sustainability-related disclosure for financial products that promote environmental or social characteristics

**Product name: Epsilon Fund - Euro Bond**

**Legal entity identifier: 549300X4WXDSY506LR45**

SFDR categorisation: financial product that promotes environmental or social characteristics, or a combination of those characteristics, referred to in Article 8 of Regulation (EU) 2019/2088 ("SFDR").

## Summary

The fund promotes environmental and/or social characteristics but it does not commit itself to make sustainable investments within the meaning of art. 2(17) of Regulation (EU) 2019/2088. However, the fund might invest in activities that may be considered as sustainable according to its investment policy, but such investments are not per se decisive to the attainment of the fund's environmental characteristics.

Eurizon Capital S.A. has adopted a specific framework which provides for specific environmental, social and governance indicators for the assessment of the negative effects on the sustainability deriving from investments according to the characteristics and objectives of the individual financial products, which provide for the use of:

negative screening of SRI and ESG factors, with the aim of mitigating the risks of exposure to companies operating in sectors considered as not "socially responsible" (including, in particular, the exposure to the fossil fuels sector and to the unconventional weapons sector) or characterized by critical environmental, social or corporate governance;

positive integration of ESG factors in the analysis, selection and composition of financial portfolios (Score ESG).

These strategies are monitored through specific investment limits that allow both ex-ante control during preparation of orders and ex-post controls during portfolio valuation.

In addition, the Company, taking into account the safeguards it has defined, considers specific environmental and social indicators for assessing the main negative effects on sustainability factors brought about by financial product investment activities.

Eurizon Capital S.A. uses one of the leading market info providers specializing in ESG issues as a source of data to assess the environmental and social characteristics promoted by the financial product. In any case, in order to minimize any risk of "over-reliance," the Company has established special procedures to re-evaluate the information provided by the provider.

Eurizon Capital S.A. conducts due diligence on the assets underlying the financial product, both through specific ex ante and post controls aimed at ensuring the compliance with investment strategies.

No specific index has been designated as a reference benchmark to determine whether the fund is aligned with the environmental and/or social characteristics that it promotes.

## No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

The fund promotes environmental and/or social characteristics but has not committed to sustainable investments according to Article 2 paragraph 17 of Regulation 2019/2088.

## Environmental or social characteristics of the financial product

The fund promotes environmental and social characteristics by investing in securities of issuers with favourable ESG characteristics. Favourable ESG characteristics are determined as follows:

ESG Score integration: in accordance with good governance practices, the fund aims to pursue an "ESG score" - calculated at the overall portfolio level - higher than that of its benchmark, through the integration of ESG factors in the analysis, selection, and composition of its investments.

Sector exclusion: the fund does not invest in issuers operating in sectors considered "not socially and environmentally responsible".

Issuer exclusion: the fund does not invest in "critical" issuers (i.e. with a lower ESG sustainability rating level in the equity and bond investment universe) for which an escalation process is activated.

## Investment strategy

The fund mainly invests in debt and debt-related instruments of any kind, including for example bonds and money market instruments, with an Investment Grade credit rating, issued or guaranteed by governments, their agencies or public international bodies either on the domestic market or on the international markets and denominated in Euro, as well as in deposits with credit institutions. For additional information regarding the fund's investment policy please refer to the prospectus.

The analysis of ESG factors is a qualifying element of the fund's strategy.

The fund assesses the ESG profile of portfolio investments through an ESG scoring methodology that covers at least:

- 90% of investments in each of these asset classes: large capitalisation equities and sovereign debt from developed countries, and investment grade debt securities (including money market instruments).
- 75% of investments in each of these asset classes: large capitalisation equities and sovereign debt from emerging countries, small and mid-capitalisation equities, and below investment grade debt securities (including money market instruments).

Indeed, in accordance with good governance practices, the fund aims to pursue an "ESG score" - calculated at the overall portfolio level - higher than that of its benchmark, through the integration of ESG factors in the analysis, selection, and composition of its investments. The ESG score is representative of the environmental, social, and corporate governance opportunities and risks to which an issuer is exposed and takes into account the issuer's management of these risks. For additional information regarding the fund's investment policy please refer to the prospectus.

In addition, the fund does not invest in issuers operating in sectors considered "not socially and environmentally responsible", that is, (i) in companies characterized by a clear direct involvement in the manufacture of unconventional weapons, (ii) in companies that derive at least 25% of their turnover from mining or electricity production activities linked to thermal coal or (iii) in companies that derive at least 10% of their turnover from the extraction of oil sands. In addition, the fund does not invest in "critical" issuers for which an escalation process is activated. "critical" issuers are those companies with the highest exposure to environmental, social and corporate governance risks, i.e. with a lower ESG sustainability rating level in the equity and bond investment universe.

The fund promotes environmental and/or social characteristics but it does not commit itself to make sustainable investments within the meaning of art. 2(17) of Regulation (EU) 2019/2088.

Corporate issuers having no independent members in their administrative body are considered as not having good governance practices.

On a monthly basis, such issuers are identified between those included in the services "MSCI ESG Ratings - World", "MSCI ESG Ratings - Emerging Markets" and "MSCI ESG Ratings - Fixed Income Corporate" of "MSCI ESG Research".

In addition, the monthly list may also include other Issuers that present (i) accounting investigations, internal or by external authorities, as well as the presence of sanctions or convictions for matters relating to accounting procedures or (ii) bankruptcy or liquidation procedures."

Such issuers are ex-ante excluded from the investment universe of the fund and, at the time of the portfolio valorisation, an ex-post control also takes place based on the latest available list of excluded issuers.

## Proportion of investments

The fund promotes environmental and/or social characteristics.

The investments aligned with the environmental or social characteristics have a minimum proportion of 80% of the fund's net assets (#1 Aligned with E/S characteristics).

In addition, please be informed that the fund assesses the ESG profile of portfolio investments through an ESG scoring methodology that covers at least (expressed in percentages of fund's net assets or issuers in the portfolio):

90% of investments in each of these asset classes: large capitalisation equities and sovereign debt from developed countries, and investment grade debt securities (including money market instruments).

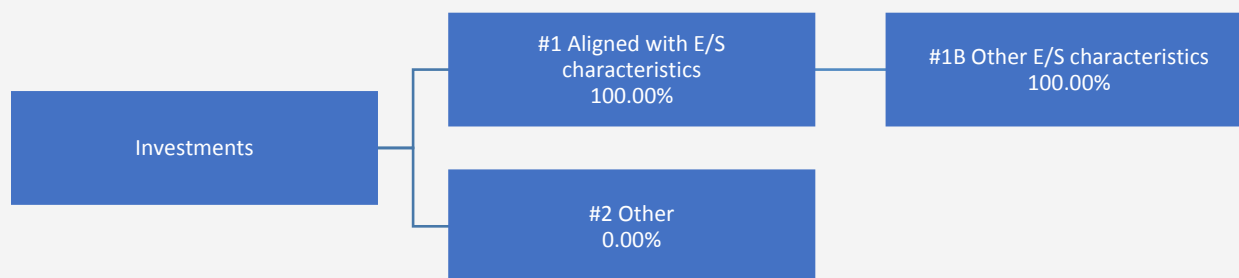
75% of investments in each of these asset classes: large capitalisation equities and sovereign debt from emerging countries, small and mid-capitalisation equities, and below investment grade debt securities (including money market instruments).

The fund does not commit itself to make sustainable investments within the meaning of art. 2(17) of Regulation (EU) 2019/2088.

The fund does not promote the specific environmental objectives set out in Regulation (EU) 2020/852. Indeed, the sustainable investments made by the funds do not take into account the European Union's technical criteria for environmentally sustainable economic activities. Currently, the fund's proportion of environmentally sustainable investments within the meaning of Regulation (EU) 2020/852 is equal to 0%. However, the fund might invest in activities that may be considered as environmentally sustainable according to its investment policy, but such investments are not per se decisive to the attainment of the fund's environmental characteristics.

The following investments are included under "#2 Other": (i) potential investments in issuers with no ESG score; (ii) derivatives for reducing risks (hedging) and costs, and to gain additional investment exposure; (iii) liquid assets in order to cover current or exceptional payments, or for the time necessary to reinvest in eligible assets; (iv) instruments and techniques only used for efficient fund management.

For the investments included under "#2 Other", there are no minimum environmental or social safeguards.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

## Monitoring of environmental or social characteristics

Eurizon Capital S.A. performs specific monitoring activities for the integration of sustainability risk in the strategies mentioned above, specifically:

**ESG Score integration:** with regard to monitoring related to the integration of ESG factors, the activity is supervised through specific investment limits. In addition, Eurizon Capital S.A. applies specific investment limits on issuers that do not comply with good governance practices.

**Sector exclusion:** the monitoring of portfolio consistency with respect to the list of issuers operating in sectors deemed not "socially responsible" is overseen through specific investment limits that allow both ex-ante control during the preparation of orders and ex-post control during portfolio valuation. In this regard, Eurizon Capital S.A. monitors the absence of direct investment in such issuers.

**Issuer exclusion:** monitoring of the portfolio's consistency with the list of issuers deemed "critical" is overseen through special investment limits that allow for both ex-ante control when preparing orders and ex-post control when valuing the portfolio. If issuers of securities already in the portfolios of the managed assets are identified that have a rating or have undergone an ESG sustainability rating review that would place them among the "critical" ones, Eurizon Capital S.A. decides about the activation of an escalation process (so-called "engagement"), also taking into account (i) the significance of the overall positions held by the managed assets or (ii) the exposure within the individual managed assets. "Critical" issuers for which the engagement process is not initiated are divested from the managed portfolios according to the timing deemed most appropriate in the interest of the participants/clients and, in any case, within three months of the decision made. If after 18 months from the activation of engagement, no positive effects or improvement of the sustainability rating have been found, Eurizon Capital S.A. decides whether to initiate the divestment process from the managed portfolios; divestments are made according to the timing deemed most appropriate in the interest of the participants/clients and, in any case, within three months of the decision made.

## Methodologies

The following sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product:

**Sector exclusion:** weight in the fund of issuers operating in sectors deemed not to be "socially and environmentally responsible", identified on the basis of data provided by specialised ESG and SRI infoproviders.

**Issuer exclusion:** weight in the fund of issuers with a high exposure to environmental, social and corporate governance (ESG) risks (i.e.: "critical" issuers), identified on the basis of data provided by specialised ESG infoproviders.

**ESG Score integration:** "ESG Score" of the fund as determined by the specialised ESG infoprovider "MSCI ESG Research" on the basis of environmental, social and governance profile of the investee companies.

## Data sources and processing

Eurizon Capital S.A. uses one of the leading market info providers specializing in ESG issues as a source of data to assess the environmental and social characteristics promoted by the financial product. The percentage of data estimated is a function of the characteristics of the Issuer and the level of interaction between the info provider and the Issuer itself. In addition, the Company has introduced appropriate safeguards to ensure the correct representation of the acquired data.

## Limitations to methodologies and data

Eurizon Capital S.A., using a single info provider, does not have the ability to fill in any missing data or directly correct anomalies by cross-referencing multiple data sources. In addition, it should be noted that the info provider is not always able to verify data with Issuers and, therefore, estimates or approximations are used in some cases.

## Due diligence

Eurizon Capital S.A. conducts due diligence on the assets underlying the financial product, both through specific ex ante and post controls aimed at ensuring the compliance with investment strategies (see Section IV "Investment strategy" and Section VI "Monitoring").

## Engagement policies

Eurizon Capital S.A. has a fiduciary commitment towards its clients and Investors that requires to effectively deal with issues related to the performance of investee companies. To this end, Eurizon Capital S.A. has adopted an Engagement Policy that is published on the website:

[https://www.eurizoncapital.com/-/media/Project/Eurizon/EurizonPortals/EurizonPortal/Files/Sustainability/ENG/ECSA\\_EngagementPolicy\\_eng.pdf](https://www.eurizoncapital.com/-/media/Project/Eurizon/EurizonPortals/EurizonPortal/Files/Sustainability/ENG/ECSA_EngagementPolicy_eng.pdf)

## Designated reference benchmark

No specific index has been designated as a reference benchmark to determine whether the fund is aligned with the environmental and/or social characteristics that it promotes.

**01/01/2023**