Strategy for integrating sustainability risks into the investment decision making process

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INTRODUCTORY PROVISIONS

The strategy for integrating sustainability-related risks into the investment decision making process of Generali Investments CEE, investiční společnost, a.s. has been prepared in accordance with the legal system of the Czech Republic and the EU legislation, in particular within the meaning of Article 3 of 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, as of 1 March 2024. This document is available on request at the Company's registered office or on its website http://www.generali-investments.cz, section Information relating to sustainability. Generali Investments CEE, investiční společnost, a.s. reserves the right to amend or supplement this information at any time without prior notice.

The Client will be notified in advance of significant changes.

OVERVIEW OF TERMS AND ABBREVIATIONS USED

Concept	Definition of
ESG FACTORS	Environmental factors, social factors and principles of responsible corporate governance. Examples of ESG factors: **E (ENVIRONMENTAL) -** Aspects related to the quality and functioning of the environment and natural systems, including climate change; availability of natural resources, including energy and water; changes in land use and urbanisation; air, water and soil quality; waste production and management; protection of habitats and biodiversity. **S (SOCIAL) -** Aspects related to the rights, well-being and legitimate interests of national and local communities, including human rights, respect for diversity and the promotion of equal opportunities; demographic change; employment and the right to decent work, including the prohibition of child and forced labour; OSH (Occupational Safety and Health); wealth distribution and inequality within and between countries; migration; education and human capital development; digital transformation, artificial intelligence, the Internet of Things and robotics; health and access to social assistance and healthcare; consumer protection; energy waste and the crisis of traditional elites. **G (GOVERNANCE, PRINCIPLES OF RESPONSIBLE CORPORATE GOVERNANCE) -** Aspects related to corporate and organisational governance, including transparency; ethics and integrity in business practice and compliance with laws; corruption; fiscal responsibility; governance structure, independence and diversity; incentive mechanism for corporate governance; stakeholders and their rights, protection/distortion of competition.
GIC	Generali Investments CEE, investiční společnost, a.s.
CLIENT	For the purposes of this document, a client is an entity to which GIC provides an investment service of individual portfolio management. In addition, the Client shall be deemed to be the holder of securities issued by investment funds managed by GIC.
KPI	Key Performance Indicators
SUSTAINABILITY RISK	An environmental, social or governance event or situation that, if it were to occur, could have an actual or potential material adverse effect on the value of the investment.

Roles and responsibilities

Authority/department/position	Roles and responsibilities
BOARD OF DIRECTORS	The GIC Board of Directors approves the strategy for managing sustainability risks and is responsible for its regular review. The Board has established committees to exercise some of its powers and activities, i.e. dedicated expert groups to discuss, make informed judgements and address important agendas related to GIC's activities, e.g. the Sustainability, Voting and Other Engagement Committee and the Investment Committee.
ESG/ENGAGEMENT COMMITTEE	The Sustainability, Voting Rights and Other Involvements Committee (ESG/Engagement Committee) is responsible among others for defining the methodology for assessing and evaluating sustainability risks, as well as managing the ESG classification and other data sets and parameters provided by Generali Group. In addition, the ESG/Engagement Committee approves the methodology and risk exposure values of the portfolios, taking into account selected ESG criteria, in line with Generali's strategy. Furthermore, the ESG/Engagement Committee is responsible for carrying out the activities of active exercise of voting rights (voting at General Meetings of Issuers and other forms of participation).
INVESTMENT COMMITTEE	The Investment Committee (IC) assesses, among other things, the financial market situation and is responsible for the consistency between the strategic asset allocation or the established investment policy and the performance of asset management. It does this by setting rules for tactical asset allocation and monitoring their implementation.
PORTFOLIO MANAGEMENT	The GIC's internal unit, in its work, works with the ESG/Engagement Committee to incorporate quantitative and qualitative data on ESG issues and research on relevant ESG topics into the investment process.
RISK MANAGEMENT	The internal GIC unit which, in its activities, also takes into account the ESG factors defined by the ESG/Engagement Committee. It regularly monitors the exposure of portfolios to issuers included in the ESG lists used by the GIC and verifies compliance with investment limits reflecting ESG factors where relevant.

Mission

The European institutions have created a legal environment for a wider consideration of sustainability in asset management to achieve sustainable development. This legal framework requires financial market participants and financial advisors to put in place an appropriate governance structure and to provide accurate information on sustainability risks.

In this context, on 27 November 2019, the European Parliament and the Council adopted Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, or the "SFDR", which entered into force on 29 December 2019. This Regulation sets out harmonised rules for financial market participants and financial advisers on transparency regarding the integration of sustainability risks and the consideration of adverse sustainability impacts into their practices and on the provision of sustainability-related disclosures in relation to financial products. The SFDR has been further complemented by Regulation (EU) 2020/852 establishing a framework to facilitate sustainable investments and amending Regulation (EU) 2019/2088 (the "Taxonomy Regulation"), which defines criteria for determining whether an activity can be considered environmentally sustainable.

GIC, in order to meet the requirements set out in the SFDR and the Taxonomy Regulation, and taking into account its size, scope of activities and the types of financial products it provides, issues this document including a strategy for integrating sustainability risks into the investment decision-making process as set out in Article 3 of the SFDR.

STRATEGY FOR INTEGRATING SUSTAINABILITY RISKS INTO INVESTMENT DECISION-MAKING PROCESS

The objective of this strategy, required by Article 3 of the SFDR, is to describe the process of integrating sustainability risks into the investment process through their identification, measurement and mitigation.

Of paramount importance to asset managers with a long-term investment horizon is the material impact that sustainability risks can have on long-term returns. It is therefore essential to consider how the integration of these risks affects long-term investment returns and to anticipate the occurrence of potentially material risks. Sustainability risks can have a material impact on the investment returns of an individual portfolio or funds.

Managing sustainability risks is an important part of the investment management process for all funds. Beyond this basic process, selected funds also promote environmental and/or social performance in accordance with Article 8 of the SFDR. A list of the Funds is published on the GIC website and further details are provided in the Funds' statutes.

1.1 Sustainability Risk Assessment

Identification of sustainability risks

The objective of the sustainability risk identification process is to ensure that all significant risks to which GIC is exposed are properly identified, assessed and considered based on the likelihood of their occurrence and the severity of their impact, and that mitigation measures are properly implemented.

GIC's sustainability risk assessment activities are based on collaboration with the Generali Group and on available data provided by external suppliers and include the identification of sustainability risks at the level of the selected sector and issuer:

- Sector: the purpose of identifying sustainability risks within a sector is to identify risks that are likely to cause specific negative changes within that sector. These risks may include technologies with adverse environmental impacts, sector-specific constraints and the impacts of climate risks. The sectoral analysis of potential risks seeks to identify impacts that could alter long-term competitive forces specific to the sector. As not all sectors are exposed to the same sustainability risk challenges, the first step of the sector analysis is to establish a priority matrix that defines sector-specific risks.
- Issuer: The assessment at the issuer level starts with a description of the material risks affecting the issuer, taking into account the sector to which it belongs and the specific risks to which it is exposed. The identification of sustainability risks at the issuer level is intended to detect risks and opportunities that may affect its performance. The ongoing analysis of sustainability risks at the issuer level carried out by Generali Group or GIC allows the measurement of sustainability risks and also allows monitoring whether sustainability risks specific to a particular issuer are improving or worsening over time.

Measuring sustainability risks and priorities

Risks that may have a negative impact on the value of an investment are measured in both quantitative and qualitative ways to provide the most up-to-date and reliable data and information for the investment process.

Sustainability risk can be measured in both absolute and relative terms (comparative/neutral allocation). In order to create a relevant data base for risk assessment, internal research conducted within Generali Group is used in conjunction with sustainability information, ESG ratings and data from external providers. ESG ratings define a framework for identifying leaders and laggards within a selected sector according to their exposure to sustainability risks and to how well they manage these risks compared to peers over the same reference period. Data provided by third parties is reviewed and compared with other external and internal sources. A qualitative assessment may be undertaken by GIC where available data is insufficient to properly measure and manage significant sustainability risks.

GIC may also use evidence from two other key activities carried out within Generali , i.e. cooperation with issuers and participation in general meetings, to measure sustainability risks. Where significant sustainability risks are associated with a particular issuer, the objective of the collaboration is to understand the issuer's position, processes and behaviour, including identifying specific improvements that could be implemented. This also supports the company in advocating for a transition to broader compliance with the chosen ESG criteria.

Based on the data obtained, GIC identifies and quantifies those factors and risks that, if managed effectively, make investment recommendations more effective for Clients.

Risks relating to sustainability may include increased costs of revenue, research and development, capital expenditure (CapEx), contingencies, contingent liabilities and provisions, pension and other obligations or cost of capital for issuers. An issuer may also capture business opportunities by entering new markets (for example, by issuance of sustainable products) or by adapting its existing products to an evolving demand.

1.2 Sustainability risk management strategy

Based on available data from Generali Group and other data providers, GIC may implement a wide range of screening strategies to manage sustainability risks, based on agreements with Clients and their preferences, such as the application of negative/exclusionary screening aimed at limiting investments in countries, companies or sectors based on specific criteria, or in issuers that do not meet selected minimum international standards.

Negative / Exclusion screening

Generali Group uses negative/exclusionary screening to exclude certain issuers from the investment universe based on their involvement in specific business activities.

Providers of relevant data for the assessment of sustainability risks enable the identification of issuers that do not meet the screening criteria. Their list is used as a supporting tool to limit specific investments in portfolios and funds.

Screening based on issuer identification

Issuer identification-based screening monitors issuers involved in, for example:

- violation of the Nuclear Non-Proliferation Treaty;
- violation of the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction;
- a violation of the Ottawa Treaty;
- violation of the Convention on Cluster Munitions (CCM);
- a violation of the UN Global Compact;
- violation of human rights principles;
- serious damage to the environment;
- cases of gross corruption.

GIC collects the above available data to evaluate the eligibility of each issuer in whose securities it invests. This is based on a risk assessment prepared by a Generali Group specialist, taking into account the severity of the relevant sustainability risks at the level of each issuer.

Exclusion of investments in controversial weapons: the GIC commits to disinvest and make no new direct investments in issuers with any links to the production or distribution of cluster munitions, landmines, biological/chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons and/or undetectable fragments.

Risks are taken into account when making investment decisions depending on the type of Client and their risk profile. Under the DAM service, individual exceptions to the above rules may be made by agreement with the Client and subsequent approval by the Company.

Incorporating reputational risk

As an additional tool for integrating sustainability risks into the investment process, GIC monitors issuers' reputational risk using data collected from external data providers and evaluates the possibility of excluding them from the investment universe based on ethical considerations or the identification of additional sustainability risks. Reputational risk assessment is one of the key components of the ESG strategy integration framework at Generali Group. This is due to the fact that companies (issuers) often face litigation, class actions and sanctions from regulators that may affect their current financial valuation and/or future performance. To immediately capture positive/negative signals, Generali Group uses an internal database that is updated regularly.

Integration of climatic factors

Climate change-related factors have become most important due to increasing regulatory and societal pressures and their increased impacts on emitters. As such, climate-related topics are integrated into Generali Group‘s own ESG factors research.

GIC relies on Generali Group's methodology based on fundamental and quantitative metrics to analyse and optimise the impact of climate factors on securities in managed individual portfolios and funds. The analysis can take into account a wide range of dynamic indicators such as:

- Backward and forward-looking emission criteria (actual and expected emissions: decarbonisation pathways);
- Historical data on climatic factors;
- Current climate position of companies;
- Current climate position of countries.

Based on the analysis, strategies for climate investment funds managed by GIC may be implemented.

1.3 Process management

Managing the process of assessing and integrating sustainability risks

The GIC Board of Directors approves the Sustainability Risk Integration Strategy on the proposal of the ESG/Engagement Committee, to which responsibility for its implementation has been delegated. The GIC Board is also responsible for its regular review.

Clients, in collaboration with GIC, have the opportunity to define sustainability goals, KPIs and guidelines to be achieved and implemented, such as decarbonisation.

The ESG/Engagement Committee is also responsible for defining the methodology for assessing sustainability risks based on input from third parties and Generali Group. In addition, the ESG/Engagement Committee supports other stakeholders in the investment process with whom it works and to whom it provides opinions, views and surveys on relevant topics related to ESG factors in order to support the investment decision-making process with updated quantitative and qualitative information.

The ESG/Engagement Committee plays a supporting role in the Investment Committee's decision-making process.

Information on the process of assessing and integrating sustainability risks

The GIC shall publish an updated version of this Strategy on its website annually; in the absence of an updated version, no changes shall be deemed to have occurred.

Internally, the GIC Board of Directors is briefed annually on the implementation of this strategy to assess and review the underlying methodology and results.

Internal participants in the investment process are recipients of relevant information related to the assessment and integration of sustainability risks in order to fulfil their roles in the investment process. In addition, other stakeholders receive updates and are involved in the process described above as appropriate.

Clients with individual portfolios are informed about the implementation of the process and the achievement of the objectives described in this policy on the basis of individual arrangements between them and GIC.

ACTIVE ENGAGEMENT POLICY

The activity in GIC to manage sustainability risks is not only carried over along the lines of investment decisions, investing or offering investment products and services, but it is also promoted by actively engaging in dialogue with companies (issuers) and voting at general meetings to promote positive change.

In line with this approach, Generali Group (i) monitors issuers and their involvement in financial and non-financial topics, including matters relating to ESG factors, in a responsible manner and (ii) by voting at General Meetings, promotes the dissemination of best practices in terms of governance, professional ethics, social cohesion, environmental protection and digitalisation. GIC coordinates active engagement activities with Generali Group to achieve maximum impact. Cases suitable for active engagement are submitted to and approved by the ESG/Engagement Committee

The Generali Group's engagement policy has been developed in accordance with the obligations set out in Article 3g of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the promotion of long-term shareholder engagement and takes due account of best practices from international standards.

The GIC has adopted the above principles into its voting policy, which is available online and which is implemented mainly through voting at general meetings.

Briefly, the process of active engagement is structured as follows:

- **Approach to engagement** - Generali Group considers active engagement to be generally a constructive dialogue with different objectives: to strengthen issuers' knowledge, to share Generali Group's approach on ESG factors and then to make actionable recommendations to address potential issues in this area. The aim of the discussions with the management of the companies (issuers) is to share a long-term orientation with a constructive and results-oriented approach. The meeting focuses on learning how companies have transformed their operating model to reflect the management of sustainability risks across their organisation. In addition, where relevant, engagement with other investors who share the same approach can be undertaken to maximise the impact on the company being proactively engaged.
- **Definition of the Active Engagement Priority List** - The first step is the definiton of the Active Engagement Priority Lists (Issuer List), defined within the respective Committees and taking into account the sustainability risk assessment.
- **Active Engagement Case** - Each Active Engagement Case presented to the ESG/Engagement Committee consists of various elements: identified risk, questions, suggestions, working group, strategy, status, and outcomes.
- **Implementation of Active Engagement** - The ESG/Engagement Committee is responsible for the implementation of Active Engagement. During this activity, the ESG/Engagement Committee monitors ongoing actions and external elements that could have an impact on active engagement.
- **Active Engagement Monitoring** - The ESG/Engagement Committee evaluates the status of each submitted active engagement case against defined initial objectives. On the basis of this evaluation, the ESG/Engagement Committee may decide to continue or increase the intensity of the active involvement or to close the active involvement case.

Impacts of active engagement - In all cases of active engagement, specific actions are identified to address any gaps, e.g. recommendations to manage sustainability risks more effectively.