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# Statement on principal adverse impacts of investment decisions on sustainability factors

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December 2022

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## 1. Summary

Through the SFDR, the EU is requiring financial market participants to integrate sustainability risk in the investment process and to disclose such integration at both the entity level and the product level. This includes extensive portfolio-level reporting on environmental and social adverse impact indicators in prescribed templates, applicable to financial products with either environmental or social characteristics or with sustainable investment objectives.

This consolidated statement on principal adverse impacts on sustainability factors describes how Fineco Asset Management Dac (“Fineco AM”) **considers principal adverse impacts (“PAI”)** of our investment decisions on **sustainability factors**, as per Article 4 of The Sustainable Finance Disclosure Regulation (“SFDR”).

The publication of this statement on principal adverse impacts on sustainability factors coincides with the first reference period of 1 January 2022 to 31 December 2022. Reporting over that reference period on the indicators for adverse impacts of Table 1, and any relevant indicators of Table 2 and 3 of Annex I of the SFDR Delegated Act will take place in 2023, following the measurement of the first reference periods (Q1 2022 - Q4 2022).

## 2. Description of the principal adverse impacts on sustainability factors

SFDR defines **sustainability factors** as;

*“environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters..”*

These **impacts** are defined by SFDR as;

*“negative, material, or likely to be material effects on sustainability factors that are caused, compounded by, or directly linked to investment decisions and advice performed by the legal entity.”*

Nearly all types of economic activity have the potential to impact various sustainability indicators, both positively and adversely. PAI indicators are a way of measuring how issuers negatively impact sustainability factors. For sustainable investments this means ensuring that the investments do no significant harm to any environmental or social objective.

We aim to manage the risk connected to potential adverse sustainability impact from our investments in several ways, including via general screening criteria such as norm’s based exclusions and ESG scoring. In addition, we monitor and evaluate a range of PAI indicators.

### 2.1 TABLE 1 – DESCRIPTION OF THE PAI OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

Through the SFDR, the EU is requiring financial market participants to integrate sustainability risk in the investment process and to disclose such integration at both the entity level and the product level. This includes extensive portfolio-level reporting on environmental and social adverse impact indicators in prescribed templates, applicable to financial products with either environmental or social characteristics or with sustainable investment objectives.

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A summary of PAI considered by Fineco AM is presented in Table 1.

**INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES**

ADVERSE SUSTAINABILITY INDICATOR	METRIC
<b>CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS</b>	
	Scope 1 GHG emissions
	Scope 2 GHG emissions
	Scope 3 GHG emissions
	Total GHG emissions
Carbon footprint	Carbon footprint
<b>GREENHOUSE GAS EMISSIONS</b>	GHG intensity of investee companies
Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
<b>BIODIVERSITY</b>	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas
<b>WATER</b>	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
<b>WASTE</b>	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average

**INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS**

**SOCIAL AND EMPLOYEE MATTERS**

Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
Board gender diversity	Average ratio of female to male board members in investee companies
Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical WEAPONS and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

**INDICATORS APPLICABLE TO INVESTMENTS IN SOVEREIGNS AND SUPRANATIONALS**

<b>Environmental</b>	GHG intensity	GHG intensity of investee countries
<b>Social</b>	Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law

**ADDITIONAL CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS**

<b>Emissions</b>	Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
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**ADDITIONAL INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS**

<b>Human Rights</b>	Lack of a human rights policy	Share of investments in entities without a human rights policy
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### 3. Description of policies to identify and prioritise PAI on Sustainability Factors

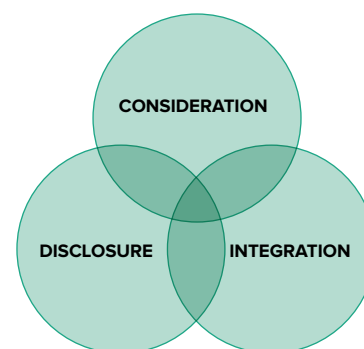
#### 3.1 METHODOLOGY TO IDENTIFY AND PRIORITIZE PRINCIPAL ADVERSE IMPACT

In line with SFDR measures, Fineco AM commits to considering principal adverse impacts of its investment decisions on sustainability factors as part of its investment decision making process and investment due diligence process and procedures.

Principal adverse impacts are considered on an ongoing basis by monitoring the Fund portfolio against mandatory and additional PAI indicators using an internally developed monitoring process and database. At a fund level, principal adverse impacts are prioritized based on materiality relative to the objectives or characteristics of the fund, provided that all minimum standards are met. Information on how the principal adverse impacts were taken into account will be provided in the Fund's annual report.

There are three major pillars to Fineco AM's approach to PAI:

- Consideration (*via Engagement*)
- Integration (*via Ongoing Monitoring and Governance*)
- Disclosure (*via Periodic Reporting*)



At Fineco AM, principal adverse impacts on sustainability factors are integrated and considered for SFDR Article 8 and Article 9 Funds.

As SFDR Article 6 Funds neither promote environmental and/or social characteristics nor have a sustainable investment objective, principal adverse impacts on sustainability factors for such Funds are not considered at financial product level.

Notwithstanding the above, Fineco AM does calculate and report the principal adverse impacts on sustainability factors for SFDR Article 6 Funds as part of its overall assessment at entity level under Article 4 of the SFDR.

#### 3.2 PAI CONSIDERATION (VIA ENGAGEMENT)

PAI Indicators are calculated at Fund level. The results will be compared with that of a chosen proxy benchmark representative of the Fund's investment universe and/or peers. These calculations will be used as the basis of assessment of adverse impacts on sustainability factors in order to determine what the Portfolio Managers/Investment Managers can improve at Fund level and where the Portfolio Managers/Investment Manager can engage with relevant issuers to improve on such indicators. PAI reports will be made available to all Portfolio Manager/Investment Managers and the ESG experts will engage with them to seek improvements in indicator results over time through the investment process. Any new factors which may require attention may also be identified on a quarterly basis.

For Fineco AM funds that make fund-of-fund investments, a tailored due diligence process is applied to the fund selection process, that includes due diligence on principal adverse impact and good governance.

### 3.3 PAI INTEGRATION (VIA ONGOING MONITORING AND OVERSIGHT)

Fineco AM aims to manage the risks connected to potential adverse sustainability impact in several ways, including via general screening criteria, surveillance of norms breaches, MSCI ESG scoring system and engagement with clients and investees. In addition Fineco AM will look to monitor and evaluate PAI indicators and potentially include further requirements / targets in investment policies as a result of this analysis. At a fund level, PAI are prioritised given the sustainable objectives or characteristics of the fund, provided that all minimum standards are met. Following this, Fineco AM makes use of wide range of processes to identify principal adverse impacts:

1. As a minimum standard, Fineco AM identifies and mitigates principal adverse impact through the application of the Fineco AM **exclusion policy**. The exclusion policy covers activity-based exclusions with a high occurrence of adverse impact (e.g. controversial weapons). Please refer to our Exclusion Policy for more information.
2. **Through the investment process**, via the Principal Adverse Impacts Consideration Procedure, additional principal adverse impacts can be identified. Tools for the identification include sector specific materiality, external ESG data provider research and regular PAI reporting dashboards that combine evaluation of a company's sustainability performance on many aspects. The worst performing issuers, or "negative outliers" will be analysed by our Investments team and where relevant escalated to the SFC, who will decide on the appropriate action. Our Investments team maintains our PAI analysis and monitoring system and identifies cases for analysis and potential action at entity level. The Investments team considers which of the following actions to be taken in each case;
  - **Engagement:** The issuer is identified as a candidate for an engagement case. This can be due to various reasons such as the issuer's PAI performance, either overall or on certain indicators, or low data coverage for the issuer compared to benchmark. The ESG experts engages with the issuer and tracks performance after the engagement based on relevant PAI-related KPIs.
  - **Exclusion:** The issuer is deemed not eligible for Fineco AM investments, and is added to our exclusion list.
  - **No action:** The PAI indicator level of the issuer is deemed acceptable or judged not to reflect the actual ongoing performance of the company, and no further action is needed at this point. The issuer will continue to be assessed on an ongoing basis.

In deciding the appropriate action, the SFC considers, among other things, the severity and scope of individual adverse impacts, and the probability of occurrence and severity of adverse impacts, including their potentially irremediable characteristics.

### 3.4 PAI DISCLOSURE (VIA PERIODIC REPORTING)

By June each year, Fineco AM must publish the 'Principal adverse sustainability impacts statement' on the company website (Annex I to the Commission Delegated Regulation of 6 April 2022). The first reports against the PAI indicators must be published by 30 June 2023 covering a reference period of 1 January 2022 to 31 December 2022.

### 3.5 GOVERNANCE

The Sustainable Finance Committee ("SFC") oversees Fineco AM's performance with regards to Principal Adverse Impact and will evaluate and approve the Principal Adverse Impact Statement on a yearly basis. On a quarterly basis, an overview of PAI reporting and engagement activity will be presented to the SFC. In the event that there are concerns in respect of the trajectory or level of responsiveness from relevant Portfolio Managers/Investment Managers regarding PAI consideration, the SFC may then make a decision as to what action should be taken.

### 3.6 DATA SOURCES

At Fineco AM we have developed an in-house PAI database and assessment tool which screens our investment universe against the MSCI ESG Manager Adverse Impact Metrics dataset of adverse sustainability indicators which are mapped to the SFDR prescribed disclosure template. The MSCI ESG Manager data may also be complimented by third party or internal research.

Our PAI assessment tool allows us to identify and prioritise principal adverse impacts on sustainability factors by highlighting issuers which are outliers on specific indicators, or which exhibit high adverse impact across several indicators. With regards to PAI data analysis, our approach is to review the portfolio data against those of an appropriate benchmark for indicative comparison purposes. This will help us to identify specific areas where a fund's profile may be out of line with what might be generally expected based on the fund's broad investment universe, thereby prompting further investigation.

The PAI indicators that are taken into consideration are subject to data availability and may evolve with improving data quality and availability.

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## 4. Engagement policies

### 4.1 CORPORATE ENGAGEMENT

At Fineco AM, we believe that Responsible Investing means integrating ESG risks and factors in our business activities, identifying sustainable outcomes and where deemed appropriate, taking actions to promote same. Fineco AM actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We undertake a range of engagement activities with Portfolio Managers/Investment Managers and issuers in order to affect and influence these to improve their ESG-related practices. This includes engagement as a result of identifying and analysis of improvements that could be made in relation to PAI indicators.

### 4.2 COLLECTIVE ENGAGEMENT

Direct Engagement consists of a constructive dialogue between institutional investors and investee companies to discuss how they manage ESG risks and seize business opportunities associated with sustainability challenges. Within our engagement programs, we consider the principal adverse impacts in relation to areas such as greenhouse gas emissions, biodiversity, water and social and employee matters.

Given our size and scale, we believe that the best way to promote improved market practices is through active membership in collaborative platforms. The most important principles for engagement followed by Fineco AM are the UN Global Compact and UN PRI and therefore we have joined UN PRI Collective engagement initiatives. Through initiatives such as the "UN PRI Advance; a stewardship initiative for human rights and social issues", Fineco AM can collaborate with other investors to engage with companies with the objective to advance human rights and positive outcomes for people.

Under these circumstances, we will take an active role in collaborative engagement by promoting stewardship beyond corporate dialogue through;

- Voting Escalation
- Investment chain engagement
- Sector-level engagement
- Policy engagement



### 4.3 PROXY VOTING

Existing arrangements for voting also capture exercise of voting rights as a shareholder on PAI indicators. Fineco AM uses the Institutional Shareholder Services (“ISS”) voting platform and proxy voting recommendations for all of the meetings in which we vote. Fineco AM has incorporated sustainability considerations into our voting approach through subscribing to the ISS International Sustainability policy and proxy voting guidelines. ISS has developed proxy voting guidelines that are consistent with the objectives of sustainability-minded investors and fiduciaries. On matters of ESG import, ISS’ Sustainability Policy seeks to promote support for recognized global governing bodies promoting sustainable business practices advocating for stewardship of environment, fair labor practices, non-discrimination, and the protection of human rights.

Generally, ISS’ Sustainability Policy will take as its frame of reference internationally recognized sustainability-related initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact, Global Reporting Initiative (GRI), Carbon Principles, International Labour Organization Conventions (ILO), Ceres Roadmap 2030, Global Sullivan Principles, MacBride Principles, and environmental and social European Union Directives. Each of these efforts promote a fair, unified and productive reporting and compliance environment which advances positive corporate ESG actions that promote practices that present new opportunities or that mitigate related financial and reputational risks.

For further information in relation to our ESG Voting policies and Stewardship initiatives, please refer to our Responsible Investment policy.

### 4.4 ADAPTION OF THE POLICIES

Every reporting period, Fineco AM will conduct a review whether there is a reduction of the identified principal adverse impacts. When there is insufficient progress, the SFC may decide that the engagement policies described above will be adapted in terms of the selection of engagement themes, selection of companies for engagement and/or voting, as well as the process during engagements including escalation strategy and objectives setting.

## 5 References to international standards

Our application of PAI builds on relevant international conventions and norms, including, but not limited to:

- United Nations Global Compact
- United Nations Principles for Responsible Investment
- International Labour Organization Conventions (ILO)
- Paris Agreement under the United Nations Framework Convention on Climate Change
- OECD Principles of Corporate Governance
- OECD Guidelines for Multinational Enterprises
- Universal Declaration of Human Rights
- UN Guiding Principles on Business and Human Rights
- UN Convention on Corruption
- Convention on Cluster Munitions
- United Nations Environment Programme Finance Initiative

## 6 Historical comparison

The earliest historical comparison will be provided in June 2024.

## 7 Additional information

More information Fineco Asset Management Funds responsible investment framework can be found on <http://finecoassetmanagement.com/sustainability/>



ASSET  
MANAGEMENT

Fineco Asset Management D.A.C. is part of the FinecoBank Group. Fineco Asset Management D.A.C. is regulated by the Central Bank of Ireland.