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# Sustainable Investment Methodology 2022 and 2023

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**FINECO ASSET MANAGEMENT DAC**

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Fineco AM Investment

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**FINECO AM INVESTMENT**

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1 September 2023

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# FINECO AM Sustainable Investment Methodology 2022 and 2023

<b>Fineco AM Team Owner</b>	Fineco AM Investment
<b>Date</b>	1 September 2023

## Rationale and Scope

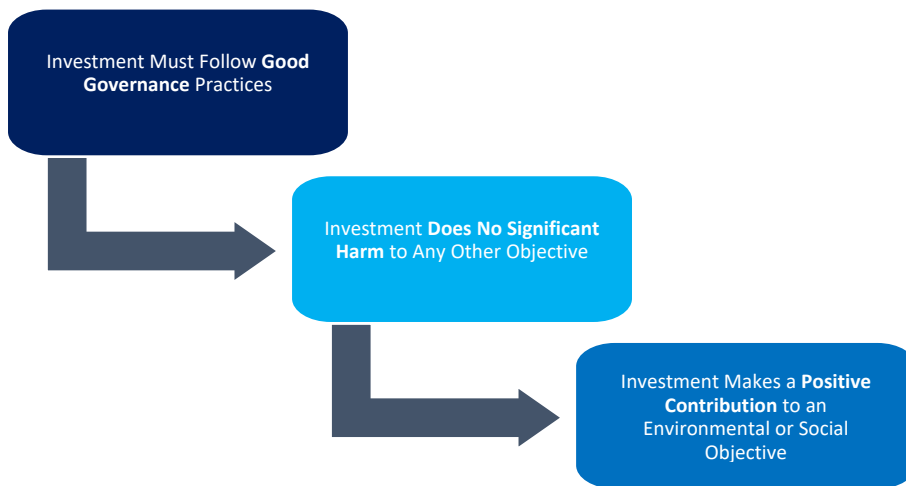
Fineco Asset Management dac (hereinafter “Fineco AM”) actively advocates a responsible approach to investing. To align our investments with this approach, Fineco AM is explicitly and systematically including ESG criteria in investment analysis and decisions. Our approach to integrating ESG criteria into our investment process is dependent on the specific product type, strategy, and asset class. Our products are subject to classification (Article 6/8/9) as part of the EU Sustainable Finance Disclosure Regulation (SFDR);

- **Article 6** funds integrate sustainability risks into investment analysis and decision-making, without the funds promoting environmental or social characteristics or having sustainable investments as their objective.
- **Article 8** funds promote environmental or social characteristics, but do not have a sustainable objective.
- **Article 9** funds have “**sustainable investments**” as their objective and promote environmental or social characteristics.

For Article 8 and 9 financial products which commit to making sustainable investments, the sustainable investment information must be set out in the asset allocation section of the mandatory SFDR pre-contractual and periodic disclosure templates for Article 8 financial products and Article 9 financial products.

## SFDR Article 2 (17) defines “sustainable investment” as:

*“...an investment in **an economic activity that contributes to an environmental objective**, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, **or** on its impact on biodiversity and the circular economy, or an investment in **an economic activity that contributes to a social objective**, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, **provided that** such investments **do not significantly harm** any of those objectives **and** that the investee companies follow **good governance practices**, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance”*



Therefore, at Fineco AM, in order to classify an investment as “sustainable” we assess its suitability based on the following criteria:

1. Good Governance,
2. Do No Significant Harm and
3. Positive Contribution tests.

As at the date of this document, there is no regulatory requirement imposing a uniform methodology to asset managers in order to calculate “sustainable investments” for their funds and it is currently left to market operators to make their own determination in respect of their methodology applied to such a calculation.

This document outlines the Fineco AM investment methodology and calculation approach for Article 2(17) SFDR sustainable investments of our financial products.

### **Fineco AM Sustainable Investment – Calculation Methodology**

As MSCI is Fineco AM’s primary ESG data provider, we are aligned with their “MSCI SFDR ARTICLE 2(17) SUSTAINABLE INVESTMENT METHODOLOGY”. MSCI has developed a screening factor “EU Sustainable Investment” that combines a series of screening criteria (good governance practices, do no significant harm (DNSH) principle, and positive contribution to a social or environmental objective) based on MSCI interpretation of SFDR Article 2(17) to identify eligible investments. The only deviation Fineco AM makes from MSCI’s methodology is in relation to the do no significant harm (DNSH) principle whereby we apply our own house exclusion policy instead.

**Table 1. Overview of MSCI Sustainable Investment Methodology vs Fineco AM Sustainable Investment Methodology**

Criteria	Description	
	MSCI SFDR Article 2(17) Sustainable Investment Methodology 2022	FAM Assessment Approach 2022
<b>Good Governance</b>	Signals if the company passes or fails MSCI ESG Research’s criteria for the SFDR Article 2 (17) “good governance” (strong overall management and governance structures). Pass indicates that the ESG Rating score is BB or above as per the MSCI SFDR Article 2(17) Sustainable Investment Methodology.	<b>Same approach as MSCI</b>
<b>Do No Significant Harm</b>	Signals if the company passes or fails MSCI ESG Research’s criteria for the SFDR article 2 (17) “do no significant harm”. Pass indicates the company has no ties to controversial weapons, less than 1% of revenue from thermal coal, less than 5% of revenue from tobacco related activities, is not a tobacco producer, and has no red or orange ESG Controversies as per the MSCI SFDR Article 2(17) Sustainable Investment Methodology	<b>Minimum Safeguards:</b> Fineco AM applies its own norms-based Exclusion Policy as the criteria to assess if the company passes or fails the SFDR article 2 (17) “do no significant harm”.
<b>Positive Contribution</b>	Signals if the company has at least 20% of revenue from economic activities that positively contribute to a social or environmental theme, as measured by MSCI Sustainable Impact Solutions as per the MSCI SFDR Article 2(17) Sustainable Investment Methodology.	<b>Same approach as MSCI</b>

The below table illustrates how this sustainable investment methodology is applied to various Fineco AM investment strategies;

**Table 2. Fineco AM Sustainable Investment Methodology by Investment Strategy**

Strategy	Sustainable Investment Calculation Method
<ul style="list-style-type: none"> <li>• Direct exposure</li> <li>• Indirect Exposure via derivative instruments</li> </ul>	For these types of Investment Strategy, as outlined in Table 1 above, Fineco AM sustainable investments calculation leverages MSCI's Sustainable Investment Screen Factors;

<ul style="list-style-type: none"> <li>• Passively managed strategies with physical replication</li> <li>• Passively managed strategies with synthetic replication</li> </ul>	<ul style="list-style-type: none"> <li>- Good Governance Test (EU_SI_GOOD_GOV_TEST) which "Signals if the company passes or fails MSCI ESG Research's criteria for the SFDR Article 2 (17) "good governance" (strong overall management and governance structures). Pass indicates that the ESG Rating score is BB or above."</li> <li>- Economic Activities Test (EU_SI_ECONOMIC_ACT_TEST) which "Signals if the company has at least 20% of revenue from economic activities that positively contribute to a social or environmental theme, as measured by MSCI Sustainable Impact Solutions."</li> <li>- These factors, taken together with Fineco AMs exclusion policy form the basis for our Sustainable Investment % calculation.</li> </ul>
<p><b>Delegate Managed Strategies</b></p>	<p>Fineco AM adopts the Delegate Managed Fund's reported commitment to a minimum percentage for sustainable investments derived through the Delegate Investment Managers own methodology and data sources.</p>
<p><b>Fund of Funds</b></p>	<p>To arrive at the sustainable investment % of the Fund of Funds, Fineco AM performs an aggregation of the calculated or reported Sustainable Investment % of each of the underlying funds. The aggregation calculation is performed through a weighted average of the underlying funds reported minimum percentage of sustainable investments or actual percentage of sustainable investments (if available as of the Fund of Funds calculation date).</p>

**Fineco AM Sustainable Investment – Methodology Update July 2023**

As of June 7th, 2023, MSCI updated their Sustainable Investment calculation methodology. An extra metric has been added to the positive contribution category, that **includes companies with a carbon emissions reduction target approved by the Science Based Targets initiative (SBTi)**. SBTi is a partnership between CDP, the United Nations Global Compact, the World Wildlife Fund for Nature (WWF) and the World Resources Institute (WRI). Other frameworks for measuring and comparing GHG reduction targets exist (including those developed by MSCI ESG Research), however, SBTi is currently the most commonly used framework to assess the aggressiveness of GHG emission reduction targets required under international treaties.

MSCI added this metric as the use of third-party verification was recommended in a UN High-Level Expert Group report to set net-zero climate targets and reduce total value-chain emissions. The report also explicitly mentions the SBTi as a verification body for this purpose. SBTi requires companies to also include scope 3 GHG emissions, where material (above 40% of total emissions), when setting climate targets. The objective of reducing GHG emissions is explicitly listed in SFDR Article 2(17). This can be accomplished by referencing an EU Climate-Transition Benchmark or an EU Paris-Aligned Benchmark, or by adding a detailed explanation of how those alignment efforts will be ensured.

The MSCI EU Sustainable Investment – Positive Contribution Test will now include both of the below

criteria;

**Table 3. Updated positive contribution category overview**

Positive Contribution	
MSCI ESG Proposed Metric	Proposed Inclusionary Screen
Positive Contribution – yes/no	EU_SI_POS_CONTRIBUTION_TEST = yes
Sustainable Impact Solutions - Maximum Percentage of Revenue	SI_SUST_IMPACT_MAX_REV ≥ 20%
SBTi approved target – yes/no	HAS_SBTI_APPROVED_TARGET = yes

Fineco AM is currently implementing this new metric, as introduced by MSCI in June 2023, into our sustainable investment calculation methodology and will update our mandatory SFDR pre-contractual and website documentation, where needed, to reflect this update at the earliest opportunity once the integration is complete.

The addition of the new metric will result in the following updated process to determine/calculate “sustainable investments”:

**Table 4. Updated overview of MSCI Sustainable Investment Methodology vs Fineco AM Sustainable Investment Methodology**

Criteria	Description	
	MSCI SFDR Article 2(17) Sustainable Investment Methodology 2022	FAM Assessment Approach 2022
<b>Good Governance</b>	Signals if the company passes or fails MSCI ESG Research’s criteria for the SFDR Article 2 (17) “good governance” (strong overall management and governance structures). Pass indicates that the ESG Rating score is BB or above, as per the MSCI SFDR Article 2(17) Sustainable Investment Methodology.	<b>Same approach as MSCI</b>
<b>Do No Significant Harm</b>	Signals if the company passes or fails MSCI ESG Research’s criteria for the SFDR article 2 (17) “do no significant harm”. Pass indicates the company has no ties to controversial weapons, less than 1% of revenue from thermal coal, less than 5% of revenue from tobacco related activities, is not a tobacco producer, and has no red or orange ESG	<b>Minimum Safeguards:</b> Fineco AM applies its own norms-based Exclusion Policy as the criteria to assess if the company passes or fails the SFDR article 2 (17) “do no significant harm”.

	Controversies, as per the MSCI SFDR Article 2(17) Sustainable Investment Methodology.	
<b>Positive Contribution</b>	Signals if the company has at least 20% of revenue from economic activities that positively contribute to a social or environmental theme, as measured by MSCI Sustainable Impact Solutions, <b>and with a carbon emissions reduction target approved by the science-based targets initiative (SBTi)</b> , as per the MSCI SFDR Article 2(17) Sustainable Investment Methodology.	<b>Same approach as MSCI</b>



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