

ABSTRACT

INTEGRATED REPORT 2020

Leading in sustainable
development



etica FUNDS
Responsible Investments



Starting again from sustainable development

Dear Stakeholders,,

in 2020, at the peak of the pandemic, many were questioning the future and the importance of restarting in a different way to the past, placing the emphasis on ESG values.

For us, it was a year confirming our objectives, which we had pursued with pioneering determination for 20 years and which now find consensus and prospects that have allowed us to more easily overcome the market uncertainties caused by the pandemic.

Once again for the fifth consecutive year, Etica Sgr has been ranked among the best asset managers, and has also reached the milestone of having € 5 billion in assets under management.

At difficult times like the present, it is important to grow, but more especially to stand by our stakeholders as directly as possible, as has always been our modus operandi: on a person-to-person basis, so as to achieve positive economic results together and in terms of the environmental, social and governance impact of our Company and its funds.

People are therefore at the centre of the creative concept of these financial statements, **together with the relationships that these can nurture**, cognisant that the combination of talent and virtual intent leads to a future with **development, inclusivity** and **knowledge**.

We are pleased to see the fruits of our choices, and even more pleased to share these together with all of you.

Enjoy the read.

ABSTRACT

INTEGRATED REPORT 2020



etica FUNDS
Responsible Investments

Etica Sgr S.p.A.

Asset management company
member of the Banca Etica Group and
subject to management and coordination by Banca
Popolare Etica S.c.p.a.

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This document is a summary version of the Integrated Financial Statements available in Italian on the Etica Sgr website.

CONTENTS

- 6 Letter from the Chairman
- 8 Letter from the General Manager



11 The Company

- 12 **Identity**
- 12 **Values**
- 12 **Identification of stakeholders**
- 13 **Stakeholder engagement**
- 14 Definition of materiality
- 18 **Products and services**
- 19 **Value and supply chain**
- 22 **Highlights 2020**
- 24 **Strategy**
- 24 2018-2020 Strategic Plan
- 24 Objectives achieved
- 26 **Improvement objectives 2018-2020**
- 31 **Statement on calculation of added value distribution**



35 Economic operating results

- 36 Performance of the Funds
- 38 Management of the Etica System funds
- 41 Economic operating performance
- 42 Main financial indices
- 42 Proposal for the allocation of profits and losses for the year



45 Corporate Sustainability

- 47 **Governance**
- 48 Capital structure
- 48 Corporate bodies
- 51 **Market**
- 52 Performance of the sustainable and responsible funds at international level
- 55 Performance of the sustainable and responsible funds in Italy
- 56 Customers
- 59 Relations with suppliers
- 59 Relations with placement agents
- 61 **Characteristic activity and indirect impacts of the product**
- 62 Selection and ESG analysis
- 63 Etica Sgr engagement
- 65 Active exercise of intervention and voting rights
- 71 **People**
- 73 Composition of personnel
- 75 Focus on people
- 76 Growth and professional development
- 79 **Environment**
- 80 Consumption of resources
- 81 Emissions
- 83 **Community**
- 84 Relations with trade associations
- 84 Relations with institutions
- 84 Relations with universities
- 84 Events aimed at the local community
- 84 Events
- 86 Sponsorships and donations
- 89 Guarantee Fund for microfinancing and crowdfunding projects

LETTER FROM THE CHAIRMAN

Dear Reader,

We began 2020 happy to be celebrating our twentieth year in business. Between February and March, we then realised that it would be a year not quite suited to celebration. In the following months we experienced the pandemic, social distancing and uncertainty about the future.

However, we did learn a great deal. For example, at Etica Sgr we showed that we knew how to respond effectively and quickly to external stimuli.

Over the course of a few days, the entire structure of Etica Sgr was able to work remotely, with full business continuity.



UGO BIGGERI

Chairman
of the Board
of Directors

We realised just how important public services, activities of general interest and common goods were, and that to protect them, it is important to always assess the consistency between their objectives and the use of the financial resources that drive them.

We think about the importance of valuing investments also on the basis of proper tax conduct by the companies where the funds are invested: every euro not paid is a euro taken away from public spending on services (education, healthcare, support for the most vulnerable groups of the population), innovation and environmental protection.

Now is the time to rebuild. The European Union has put in place massive resources and at Etica we are more convinced than ever of the importance of not wasting this opportunity: we must seize the chance to remodel development with an ethical approach.

We consider it essential that economic recovery policies be centred around issues linked to the climate and to the

global transition towards a zero-emissions economy. In particular, we believe it is necessary to focus on people and creating employment, maintaining the commitments of the Paris Agreement, developing measures that integrate climate risk and creating economic solutions for climate resilience and net zero emissions. We are also convinced of the fundamental role held by businesses in the world of finance as the drivers of sustainable development.

Ethical finance was born to place people and the environment at the heart of our financial and economic decisions. This means recognising the limits of nature and adopting a utilitarian approach, it means assuming a long-term outlook. This is what we have always said, even during “normal times”.

Milan, 29 March 2021

LETTER FROM THE GENERAL MANAGER

I am pleased to introduce the eleventh edition of the Integrated Financial Statements of Etica Sgr. Despite the difficulties of 2020, we have achieved important goals: the number of active contracts exceeded the threshold of 300,000 and assets under management reached € 5 billion, meaning that the company joined the category of “significant managers” according to the definition contained in the Bank of Italy’s Regulation. These results were achieved thanks to the trust of our customers, the support of our business partners and our internal expertise: our main asset.

2020 will be remembered as the year of the pandemic and lockdowns, but it also marked twenty years of Etica Sgr, an anniversary that we did not celebrate. Thinking of the glass as half full, we can now say that we have learned an important lesson for the future: we understood the importance of investing in the long term (in health, research, prevention and much more), as well as sustainably and responsibly.



LUCA MATTIAZZI
General Manager

A handwritten signature in black ink, reading "Luca Mattiazzi".

The emergency brought to light several elements of social weakness: tax evasion, for example, in relation to the needs of the health sector, the frailty of off-the-books labour, inequality between sectors of the population and insufficient investment in digital infrastructure for workers and students.

Management of the effects of the pandemic has had such a massive impact that the matter became one of the themes of our engagement activity with companies, namely dialogue with the management of companies and active shareholding. To cite a few examples, we are carefully monitoring companies in the pharmaceutical sector in relation to the sharing of data and patents in order to promote access to vaccines in developing countries. Or, in the clothing sector, we intend to engage in dialogue with companies so that they prioritise workplace safety and do not penalise suppliers in countries that are facing delays due to the coronavirus pandemic. During 2020, we engaged in dialogue with over 200 international companies, posing 700 questions to managers on ESG issues. We also took part in the shareholders' meetings of 45 companies, voting on more than 500 agenda items.

As you know, our ethical funds aim to obtain financial results and create environmental, social and governance impact. For example,

the 2020 edition of our Impact Report describes environmental results in the portfolio of Etica Sgr funds that include +133% more companies with defined objectives in line with the Paris Agreement (science-based targets) compared with the market of reference (MSCI World). Social results include 43% more companies present in the portfolio of Etica Sgr funds with policies to prevent child labour, again compared to the reference market. Excellent governance results have also been reported: more than +32% of companies have a sustainability committee within the Board of Directors.

In 2020 we also launched three Etica Funds, designed for institutional customers and foreign markets. A result that allows us to make our first step beyond national borders.

Another development worth mentioning is the creation of *alimpace*, the impact investing closed-end fund promoted by Avanzi – *Sostenibilità per Azioni*, in collaboration with Etica Sgr.

Looking to tomorrow with faith, we must now concentrate on how to recover (or "restart") along the path of social justice. We are committed to doing our part.

Please enjoy this report.

Milan, 29 March 2021

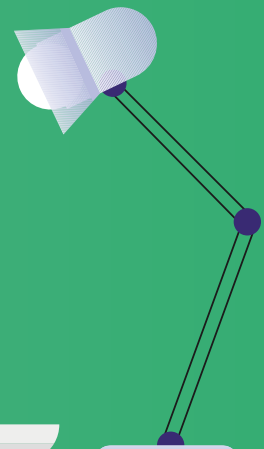


ABSTRACT
**INTEGRATED
REPORT
2020**

Leading in sustainable
development

1

The Company



THE COMPANY

Identity

Vision

Since its foundation, Etica Sgr has established and promoted exclusively sustainable and responsible investment funds that aim to create opportunities for medium to long-term return, targeting the real economy and rewarding companies and countries that put into practice virtuous actions in terms of the environment, society and governance (ESG). A pioneer of sustainable and responsible finance in Italy, Etica Sgr adopted this unique approach to investments twenty years ago, which, at this historic moment in time, is experiencing growing global recognition in a context more and more oriented towards the integration of social and environmental criteria into financial management, and towards a more active role played by intermediaries as shareholders.

Mission

Etica Sgr was created with the aim of “representing the values of ethical finance on the financial markets, increasing the awareness of the public and of financial operators relative to sustainable and responsible investments and to corporate governance”, as indicated in article 4 of the Company’s Articles of Association, offering investors the possibility to invest in line with their values without forgoing return expectations.

Values

Etica Sgr takes inspiration for its activity from a number of fundamental reference values: these principles derive both from the fact that the AMC is part of the Banca Etica Group, and from Etica Sgr’s direct commitment to promote sustainable and responsible investment. As part of its business, Etica Sgr seeks to disseminate its reference values both within the company itself and with its main stakeholders, with particular reference to the companies in which it invests and with which it engages in dialogue.

Identification of stakeholders

Etica Sgr has always paid a great deal of attention to dialogue with its stakeholders. In an initial identification, these have been divided into five categories, shown in Figure 1.

Figure 1. Stakeholders map



Stakeholder engagement

For those directing their management towards criteria of social responsibility, stakeholder engagement is a fundamental aspect: For years, Etica Sgr has initiated an engagement process with its stakeholders, with which it engages in dialogue for activities pertaining to its core business as well as to understand which interests they effectively have in the Company's activity, thus making it possible to align social, environmental and economic performance with strategy.

When choosing which topics to include in the integrated financial statements, Etica Sgr organised two meetings with its stakeholders. The first was attended by representatives from the main groups of stakeholders, i.e. shareholders and placement agents, retail customers, employees, relevant suppliers, companies present in the Etica System's portfolios and representatives of the community in a wider sense, such as trade associations, financial journalists and new generations. Then more "internal" stakeholders were contacted, i.e. the Board of Directors and Management. All participants were asked to reflect on the materiality of Etica Sgr, which, in relation to its specific nature as responsible investor, consists of two aspects: the "direct" one, related to the direct actions and impacts of the AMC and its activities, and the "indirect" one, which assess the actions and impacts of the companies where the funds are invested and subject to engagement in general. The requested opinions formed a list of 23 subjects divided between economic, environmental and social issues and overall sustainability (supplier evaluations and compliance with ESG legislation).

Definition of materiality

The two materiality matrices are shown below, obtained by cross-checking the scores of each issue in terms of the Company's ESG impact, assessed by the BoD and Management and shown on the x-axis, and in terms of the influence that

these have on the stakeholders, assessed by the stakeholders and shown on the y-axis. The participants expressed their opinion according to a numerical scale from 1 to 4 and only the issues with an average score higher than or equal to 2.5 were considered material.

Direct materiality

This concept refers to all impacts directly attributable to the AMC and its activity. For example, this definition includes direct consumption of resources, products launched by the AMC, its marketing policies, its workforce and so on. In essence, all aspects of its activity with respect to which Etica Sgr has direct leverage in order to intervene and possibly change impacts and behaviours.

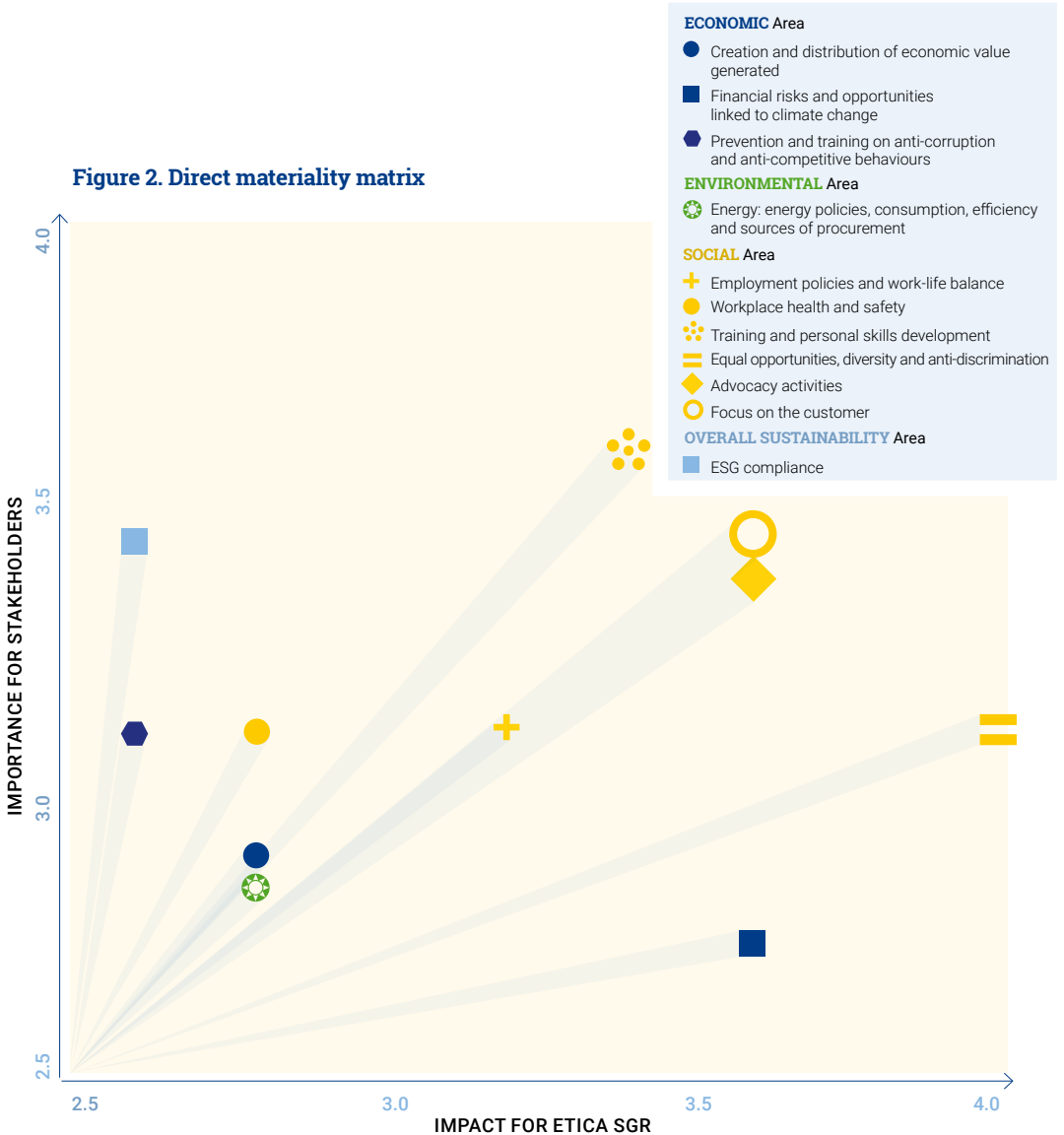
Given the number of subjects analysed, Figure 2 only contains those considered material by both the stakeholders and Etica Sgr. To the top right of the matrix are the most relevant issues: these all belong to the social aspect and the evaluation substantially in line with the opinions shown on the two axes highlights that the future priorities of the AMC should concentrate on the social context of its impacts, under various aspects. In a situation like the present, of great unrest and diffusion of financial products on issues of sustainability, the expertise of its employees, the focus on customers and the ability to disseminate and contaminate the financial system with principles of ethical finance are essential ingredients for standing out on the market. Therefore, employees must be kept constantly updated in order to innovate internal processes and offer products in line with customer requirements, thanks to an even more precise analysis and measurement of the performance and ESG risk of issuers, an analysis capable of selecting only the most virtuous with respect to the market benchmarks. Furthermore, the customer must be constantly informed, in a transparent manner, about the characteristics of the products offered, in relation to the composition and the underlying risk, also thanks to training for the sales networks and financial education initiatives directed at new generations and those unversed

in the governing mechanisms of investments. Finally, Etica Sgr is invited to increase alliances and synergies with other investors in order to improve the sustainability of the financial system.

In economic terms, the highest scores concerned the focus on risks and business opportunities

deriving from climate change on the one hand, and the issue of corruption on the other, the latter being scored very highly by the stakeholders. In terms of the environment, then, there was agreement that monitoring consumption and procurement sources were material.

Figure 2. Direct materiality matrix



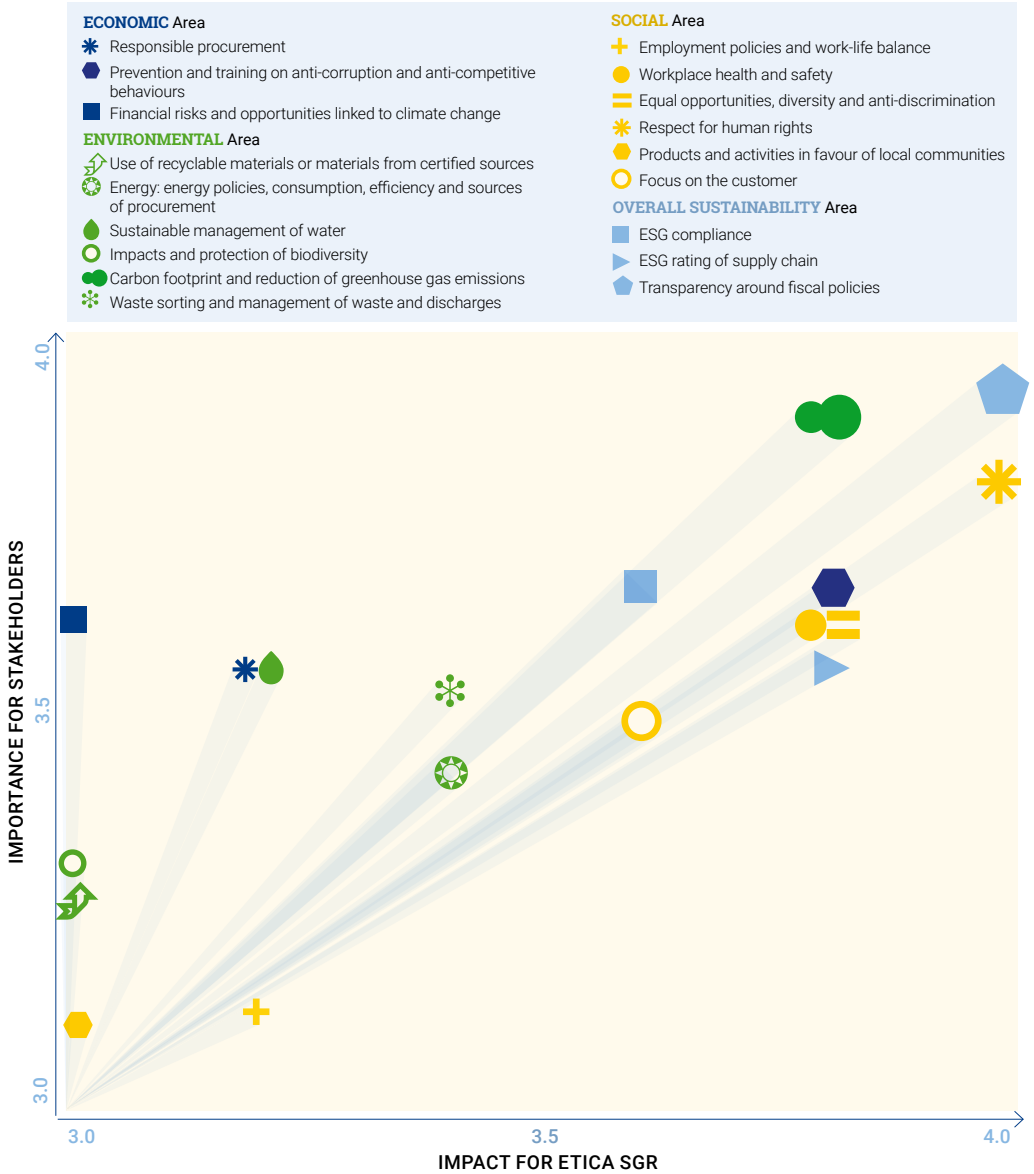
Indirect materiality

This second type of materiality refers to all the impacts which are not directly attributable to the AMC or its activity, but which may be indirectly attributable to it, by virtue of the activity carried out via its funds. For example, this definition includes all aspects linked to consumption and the impacts of the companies where the Etica Sgr funds are invested, the policies implemented by them with respect to their employees and so on. With reference to these aspects, Etica Sgr has no direct leverage to be able to intervene and possibly change impacts and behaviours, but it takes action through selection of investments and active shareholding in order to promote the shift in focus of the companies towards an even greater sense of responsibility.

The analysis in this case is influenced by the variability of the companies subject to investment, in terms of geography and business sector. Because of this, given the high scores received on the various issues,

Figure 3 only shows those given a score higher than or equal to 3 by both Etica Sgr and the stakeholders. Again focusing on the quadrants to the top right, there is a consensus among all the stakeholders that the most relevant issue is transparency around fiscal policies, a highly debated issue in this period and recently included in many sustainability indexes, since a company that adopts responsible fiscal policies and reports them transparently is more attractive to investors since it is less subject to a series of risks, including reputational, and produces significant social impacts due to the higher revenue it guarantees to the countries of residence. This was shortly followed by the commitment to reduce the environmental impacts of the business, in light of the emergency of ongoing climate change which has strong repercussions including social ones on the global population, and respect for human rights along the supply chain of the companies, where there are still numerous cases of discrimination and exploitation in the most disadvantaged areas, where basic safety measures are not guaranteed in the workplace.

Figure 3. Indirect materiality matrix



Products and services

In order to pursue its activity, Etica Sgr is active in four areas:

- Ethical finance: we promote investment solutions that target the real economy and reward stocks of companies and countries selected based on rigorous social, environmental and governance criteria. The mission and values of the AMC find concrete expression in its sustainable and responsible funds:
 - the Etica System, formed of six Italian open-ended mutual investment funds;
 - Etica Funds, the trademark of the three Luxembourg funds of the Multilabel SICAV, managed by Etica Sgr¹ under a mandate, launched through GAM Luxembourg S.A., in order to meet the demand of Italian and foreign institutional investors and the desire of the AMC to disseminate its model of ethical finance beyond the Italian borders;
- Engagement: dialogue with the management teams of companies and active shareholding, which takes the form of exercising voting

rights deriving from participation in the share capital of the companies where the funds are invested. The aim of this strategy is to guide companies towards more sustainable behaviour, encouraging them to make decisions that also take into account ESG issues in their corporate policies.

- Microfinancing and crowdfunding: the subscribers of the Etica Sgr mutual funds can choose to assign 0.1% of the capital invested (1 euro per thousand) in favour of a fund that guarantees microfinancing projects in Italy and which supports crowdfunding initiatives with high social and environmental impact, again in Italy. These initiatives and projects are then selected and managed by Banca Etica.

The financial products of Etica Sgr are consistent with the definition of SRI given by the Italian Sustainable Investment Forum, on the basis of which *"Sustainable and Responsible Investment is a medium to long-term investment strategy, which, in the evaluation of companies and institutions, integrates the financial analysis with the environmental, social and good governance analysis, in order to create value for the investor and for the company as a whole"*.

¹ Investment Manager: Etica Sgr SpA; Asset Management Company: GAM (Luxembourg) S.A.

Value and supply chain

Figure 4 shows the investment process related to the Etica System.

Figure 4. The Etica System investment process



Figure 5 summarises the supply chain that underpins the Etica System, identifying the players involved upstream and downstream of the company production process. The services, such as the financial management of funds, the custodian service and the calculation of the unit value, are entrusted to leading parties in the financial sector.

Figure 5. The Etica System supply chain



All the other suppliers are divided into two macro-categories:

- **services and consulting**, which includes the data providers for the ESG and financial analysis, IT, legal, fiscal and accounting consulting outsourced to external companies, selected for their quality and reliability of service;
- **goods and services for the office and for promotional activity**, such as stationery, cleaning supplies, printouts, catering, etc. purchased from companies that offer targeted products or in any case demonstrate attention to the social and environmental impacts of their activity.





HIGHLIGHTS 2020

Economic results

6,848,758 €

Net profit

71.26% ROE

50.47% Cost/income

Governance

12.15 €

Dividend per share distributed

79.83%

Payout ratio

44%

Independent Directors

33%

Female Directors

96%

Attendance rate of Directors
at Board meetings

44%

Percentage of directors
aged between 30 and 50 years old



Environment

100%
Electricity
from renewable sources

100%
Eco-friendly
or recycled paper
for internal and external use

Market

311,785
Active contracts
at year end

2,084,640
Operations
on funds

2
Complaints received

5.339 bln €
Etica
System Assets

People

42
Employees

17
Female
employees

42,9
Average age

5,5
Average company service

7,50%
Turnover rate

39
Hours of training
per capita

Community

49
Votes in shareholders' meetings
of portfolio companies

4,090,000 €
Microfinancing and
crowdfunding fund
allocated for 2020

101
New micro loans granted
thanks to the Etica Sgr
guarantee fund

8
Crowdfunding projects
supported thanks
to the Etica Sgr fund

53
Hours of training carried out
at universities, public events
and interviews

Strategy

2018-2020 Strategic Plan

Thanks a joint effort by the Parent Company and the AMC, in 2017 work took place on the Banca Etica Group's first Strategic Plan: a participatory process that involved the Group's main stakeholders: shareholders, workers, customers and placement agents of the Etica Sgr funds. The findings and the analysis of the current and future context were used to create the final document which identifies the pillars that will support the Group's growth in the three-year period of reference. These indications and the results of the studies and work groups conducted in 2017 represented the framework for defining the Etica Sgr 2018-2020 strategy, the cornerstones of which are shown below.

Context

In recent years we have seen a notable increase in the demand for sustainable products from investors, who are increasingly more aware of the extra-financial impacts of investments. Management companies have therefore extended their offer in order to fully intercept new requests for environmental and social sustainability. The major international players took action, which, since they also entered the Italian market, were some of the most dynamic competitors of Etica Sgr. In Italy, the development of sustainable and responsible investments is still in its initial phase, though potential for growth is high, given that the market of sustainable funds continues to grow even more in percentage terms of assets managed compared to the market of open-ended funds and Italian open-ended funds². Today, SRI funds in Italy are present in practically every macro-category of basic asset allocation: stock funds, balanced funds, real estate funds and bond funds.

Development objectives

In light of the hypothesised market prospects, Etica Sgr created a three-year development plan that aims to further reinforce its role in the market of Italian SRI funds. In the 2018-2020 three-year period, based on

an estimated funding target of € 1.2 billion in three years, the increase in assets under management was envisaged as the result of a series of projects that aimed to expand activities, by taking action on both the current range of products and on the development of new ones, but without ever losing its specificity – rather seeking to reinforce it – represented by the rigorous ESG analysis for the selection of issuers and by significant engagement activity.

The main actions that the AMC envisaged in order to achieve the quantitative objectives of the plan are summarised below:

- extension of the distributing classes to other funds of the Etica System (Sistema Valori Responsabili before 2018);
- launch of new products;
- expansion of distribution channels;
- expansion of training activities for placement agents;
- development of overseas customers and placement outside of Italy;
- further development of the proprietary research methodology and integration of ESG risk and ESG research data;
- increase in workforce in line with the objectives to be achieved;
- reinforcement of networking and alliance-building activities.

Objectives achieved

The main development projects that characterised the AMC during the three-year period of reference are shown below, as well as the main results achieved.

Launch of a "low carbon" fund: Etica Impatto Clima

In May 2017, the AMC formed a work group to check the feasibility of a new open-ended mutual investment fund to be defined as low carbon and/or the application of a "low carbon" strategy to the current funds on the basis of a "Group position" on the issue defined in advance, by developing existing good practices, starting with the multi-year

² Data processed by Assogestioni on 30/09/2017

experience in the calculation of the carbon footprint of the Etica Azionario fund. Following the feasibility study, a Work Group was formed within the AMC in order to establish and market the “Low Carbon Fund”, which was established and authorised on 1 October 2018, with the name of Etica Impatto Clima: a balanced fund focused on investing in issuers with low environmental impact, while respecting human rights. The product introduced the Linea Futuri Responsabili of Etica Sgr’s thematic funds and was warmly welcomed by customers, also due to the ongoing climate emergency, raising € 428.51 million in just over two years and reaching around € 442.95 million in assets by late 2020.

Completion of the feasibility study for an “impact” closed-end fund and creation of the product

During 2018, a joint venture agreement was signed with Avanzi S.r.l. which led to the creation of Avanzi Etica Sicaf EuVECA, an investment vehicle authorised by the Bank of Italy that supports the development and growth of SMEs and innovative start-ups with a mission to generate a positive social, environmental and cultural impact in the local community. On 22 January 2020, Etica Sgr acquired a holding equal to 45% of the B shares, shares associated with governance rights of the Sicaf.

Therefore, 2020 was the first year of activity of the Company, which in June made its first investment and in late 2020 had already made nine investments (two of which are yet to be paid) and was already discussing a tenth one. The total amount committed in late 2020 was around € 3.2 million, of which 2.5 were already effectively paid. The businesses chosen belong to a variety of sectors, ranging from education and sustainable construction, to health and the reuse of second-hand clothing, to services aimed at the social inclusion of migrants.

Over the next four years, the AMC will work to guarantee economic and financial sustainability, initially with a view to fund raising and then in order to manage investments and considerations pertaining to future exit strategies from those in place.

At the same time, the issue of impact is of fundamental importance for the AMC, in order to support current products with solutions more linked to small investments in the real economy, which make an even more intentional and measurable impact possible.

To do so, any development opportunities for the AMC will be monitored in this respect, through the initiatives outlined in the plan remain an absolute priority.

Expansion into foreign markets

In response to the demand from Italian and foreign institutional investors and the desire of the AMC to disseminate its model of ethical finance beyond the national borders in continuity with the Company’s mission, in 2018 a feasibility study was conducted for the launch of a foreign SICAV which could be placed by institutional and retail customers. A partner able to oversee the legal, regulatory and organisational aspects was identified: GAM (Luxembourg) S.A., one of the leading European companies in private labelling services.

From 19 December 2019, three of the Etica Sgr investment strategies were available for institutional customers in the form of Luxembourg vehicles (SICAVs) and with the Etica Funds trademark. The Etica Sgr funds were inserted in the GAM Multilabel SICAV established by GAM: the signed partnership identifies GAM as the management company and domestic agent, while Etica Sgr is the sponsor and investment manager of the funds.

The three funds replicate the same type of investment as the corresponding Italian funds and rely on the same methodology for selecting Etica Sgr issuers, ESG EticApproach® and the same Investable Universes as the corresponding Italian funds:

- Etica Sustainable Global Equity tends to replicate the Etica Azionario fund strategy;
- Etica Sustainable Dynamic Allocation follows the Etica Bilanciato strategy;
- Etica Sustainable Conservative Allocation replicates the Etica Obbligazionario Misto fund.

The funds are registered in Luxembourg, Switzerland, Spain and Italy (in the latter case, limited to institutional customers).

Expansion of retail placement to the Spanish market

The launch of the Luxembourg funds was also essential for the development of foreign placement: in October 2020, placement of the three Luxembourg funds was also initiated in Spain via the Parent Company Banca Etica, present on the Iberian Peninsula for some years.

Improvement objectives 2018-2020

On the basis of the approved strategic plan, below are the objectives, divided into area of interest and differentiated by a specific monitoring indicator (KPI): each indicator is accompanied by an objective level and by a deadline for its achievement. Furthermore, where relevant, the KPI has been connected to the SDG to which it contributes.

Governance

Qualitative objective	Time scale	Indicator (KPI)	Indicator target level	Status of implementation	SDG
Review of the mapping of operational risks with integration of ESG risks.	By 2018	Approval of new mapping.	N/A	The mapping was updated in 2018, but this update did not integrate ESG risks	
Level of capitalisation aligned with RAF objectives.	For the entire three-year period	Ratio of regulatory capital/capital requirement	>390%	2018: 442% 2019: 446% 2020: 413%	
Maintain a high attendance rate by Board members in meetings.	For the entire three-year period	Attendance rate	>90%	Average attendance rate 2018: 91% 2019: 90% 2020: 96%	



Objective achieved

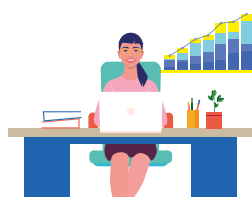


Objective partially achieved






Objective not achieved












Market

Qualitative objective	Time scale	Indicator (KPI)	Indicator target level	Status of implementation	SDG
Maintain a limited number of complaints.	For the entire three-year period	Complaints received related to events directly attributable to the AMC	<5	2018: 1 complaint 2019: 3 complaints 2020: 2 complaints 	
Expand distribution channels.	By 2020	New active placement agreements	3 or 4 new traditional medium-sized banks; 1 new partner with national network of financial consultants; 1 new online national bank.	1 traditional medium-sized bank ³ : Banca Popolare di Cortona 4 banks with a network of financial consultants: Banca Reale, Che Banca!, Banca Generali and Consulinvest 1 online distributor: Innovazione Finanziaria (FondiOnline) 	
Increase the amount of training provided in line with the training and marketing plans signed and with reference to MiFID II.	For the entire three-year period	Extra training days offered	10 (2018) - 15 (2019) - 20 (2020)	Objective not achieved due to COVID-19. 2017: 65 2018: 102 (+37) 2019: 130 (+28) 2020: 95 (-35) 	







³ The total number of new placement agents activated in the three-year period is in line with the objective of the 2018-2020 strategic plan. Unlike the indications set out in the plan, however, the new agreements mainly involved banks with networks of financial consultants (active nationally) rather than traditional medium-sized banks. It should be noted that a "commercial" development decision of this kind was not entirely voluntary but rather triggered by the ongoing changes in the banking sector, including due to a higher concentration of operators. This is also joined by our rigorous due diligence process on potential placement agents, which must have a generally low reputational risk and respect good standards of environmental and social responsibility.

Market

Qualitative objective	Time scale	Indicator (KPI)	Indicator target level	Status of implementation	SDG
Improved user usability and brand awareness, through optimisation of the website.	By 2019	Website views	50% more than the 2018 figure	734,313 logins, +55% compared to the 2018 figure 	
Launch of at least two new products.	By 2020	Products launched	2	Etica Impatto Clima Avanzi Etica Sicaf EuVECA 	 
Extension of distributing classes.	By 2018	Funds to which the new class was extended	3	Extended the distributing class to the Etica Obbligazionario Misto, Bilanciato and Azionario funds, in addition to the new Impatto Clima fund 	
Consolidation of the assets under management.	By 2020	Net funds collected Assets managed	€ 1.196 billion € 4.421 billion	€ 1.823 billion € 5.338 billion 	
Maintain a high level of customer satisfaction.	By 2020	Level of satisfaction expressed	>90%	The market survey carried out in 2019 does not allow for an in-depth evaluation of customer satisfaction in line with the pre-established objective. 	




People

Qualitative objective	Time scale	Indicator (KPI)	Indicator target level	Status of implementation	SDG
Improved efficiency of the structure, organisation and balance between individual's private life and career.	By late 2020	Hours of overtime/ additional hours per capita	<120	70 	
Skills development.	For the entire three-year period	Hours of training per capita	>50	Objective partially achieved, due to COVID-19 2018: 66 2019: 57 2020: 39 % of courses deemed useful by participants 2018: 96% 2019: 92.55% 2020: 91.46% 	
High level of stability of resources.	For the entire three-year period	Turnover rate	<10%	2018: 5.71% ⁴ 2019: 5.56% 2020: 7.5% 	

⁴ In order to be aligned with the objective of the Strategic Plan, the data shown herein have been calculated considering open-ended contracts only. Therefore, the result deviates from the indications of the "People" chapter, which, based on the GRI reporting standards, includes all types of contracts.






Environment



Qualitative objective	Time scale	Indicator (KPI)	Indicator target level	Status of implementation	SDG
Major focus on use of resources.	For the entire three-year period	Tonnes of CO ₂ emitted per billion assets managed	<35	2018: 27 2019: 15 2020: 7	



Community

Qualitative objective	Time scale	Indicator (KPI)	Indicator target level	Status of implementation	SDG
Increase engagement activity and active shareholding.	For the entire three-year period	Engagement activities undertaken with the portfolio companies	>15	Votes cast 2018: 21 2019: 40 2020: 49	   
Promotion of knowledge of ethical finance and sustainable investments.	For the entire three-year period	Number of annual hours of training offered to the local community	>100	2018: 72 hours 2019: 107 hours 2020: 53 The sharp reduction in hours in 2020 was caused by COVID-19 restrictions.	

Statement on calculation of added value distribution

The statement on calculation of added value distribution takes account of how the economic value generated by the AMC is distributed among the various parties with which the company interacts. Such statement only considers the economic value generated and distributed, since, due to its definition, no assumptions were made with reference to the extra-economic value generated and distributed.

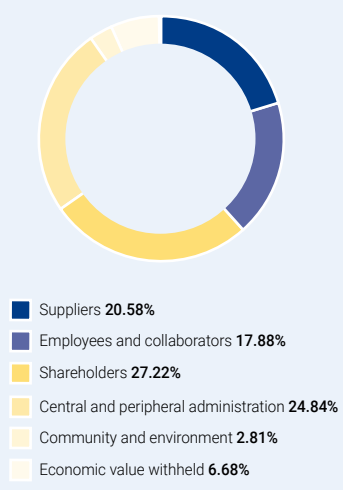
The data show the gradual growth in the economic value generated, which in the past year exceeded the threshold of € 20 million: around a 15% increase compared to 17.4 million in 2019. In recent years, this result was due mainly to the growth in net fees linked to the increase in assets under management. The percentage of the value generated distributed to the various stakeholders remains stable, at around 93%. During the year, this distribution was broken down as follows:

- **Suppliers:** these stakeholders were allocated a 20.58% share of the economic value generated, including invoices paid to the various suppliers of goods and services; the slight relative decrease compared to the previous year is linked to the fact that administrative expenses increased less than proportionally with respect to the fees accrued on the AMC's funds;
- **Employees and collaborators:** around € 3.6 million was returned to these stakeholders, equal to 17.88% of the economic value generated, in the form of salaries, contributions, other benefits and training. The proportion of the total was smaller than the previous year but in absolute value the amount increased as a result of the larger workforce;
- **Shareholders:** these stakeholders were allocated the largest share equal to around 27.22%, substantially in line with 2019 and with the net profit dynamics;

- **Central and peripheral administration:** taxes pertaining to 2020 represented around 24.48% of the total value destined for central and peripheral administration; the percentage is higher than 2019 due to the increase in VAT paid in 2020 and in income taxes;
- **Community and environment:** donations and charitable contributions made up 2.81% of the economic value generated in 2020, unchanged from the figure from the previous period.

The portion withheld by the company, equal to 6.68% of the total value generated, remained substantially unchanged in percentage terms and was mainly represented by net adjustments/ recoveries of value on tangible and intangible assets for around € 209,000 and by the profits allocated to reserves for around € 1,131,000.

Figure 6. Distribution of the value added generated in 2020



TAX TRANSPARENCY AT ETICA SGR



For a sustainable company, we think that it is essential to reconcile economic growth with a fair distribution of resources in order to adequately and transparently remunerate all stakeholders, including the country where the Company is resident or present, if it operates at an international level.

For Etica Sgr, which takes inspiration for its asset management from the values of responsibility, consistency and transparency, and due to it being a part of the Banca Etica Group, which has always been at the forefront for legality, this means adopting a transparent tax management approach in line with the applicable legislation in Italy, the country where its registered offices are located and where all main activities are managed. By virtue of these characteristics and in line with its founding principles, the AMC does not resort to fiscal leverage to develop its business, nor to tax optimisation

practices, seeking to be sustainable in full compliance with the scope of action granted by the financial administration, with the strong conviction that the revenue from tax represents a fair contribution to the economic and social development of the local area.

For these reasons, the Company has decided to pursue a prudent tax approach, aimed at minimising tax risk, i.e. by overseeing the risk of non-compliance with the law, which is understood as the risk of incurring legal or administrative sanctions, significant financial losses or reputation damage as a result of breaching mandatory regulations. Within the operating structure, this oversight falls to the Administration, Control & Sustainability and Personnel Administration Areas, the latter where related to contributions withheld from employee pay slips, which manage the various corporate tax obligations with the support of a number of consultants.

As shown in the section on stakeholder engagement, given the importance of the issue, Etica Sgr has included the issue of transparency of fiscal policies in the process of identifying the material issues submitted to its stakeholders, which did not consider it directly material but highly significant as one of the indirect impacts of the AMC, i.e. in the approach of the responsible investor who engages in dialogue with companies and analyses issuers also on the basis of their tax conduct, thus conveying the message that a company that adopts responsible fiscal policies and reports them transparently is more attractive to investors since it is less subject to a series of risks, including reputational, and produces significant social impacts due to the higher revenue it guarantees to the countries of residence. The dramatic social impacts that arose with the COVID-19 pandemic confirmed the need for this approach. Higher tax revenues represent more resources that countries can invest in the well-being of their citizens, to improve education and healthcare and support the most vulnerable groups of the population more effectively.

In line with the requests put forward to the companies with which it engages in dialogue, each year Etica Sgr reports in the Integrated Financial Statements, within the Statement on Added Value (Errore. L'origine riferimento non è stata trovata.), the portion of the economic value generated allocated to central and peripheral administration: not only does this include the VAT paid to suppliers and income taxes, which form its main items, but also all other types of taxation and administrative obligations linked to its activity, such as stamp duty, revenue stamps and vehicle property tax, waste tax (TARI), registration fees and tax for the authentication of corporate books.

In the "Characteristic activities and indirect impact" chapter, though in greater detail on the company website and in the annual Impact Reports and Engagement Reports, the statements also illustrate the initiatives that the AMC promotes at national and international level in this respect, also thanks to the networks it is a part of, and the main results achieved. In 2020, for example, in order to encourage the reporting of tax information by companies, it signed two letters: one addressed to the OECD for action on base erosion and profit shifting and on country-by-country reporting, and the other to the United States Congress, in support of the "Disclosure of Tax Havens and Offshoring Act (H.R. 5933/S.1609)" which requested that multinational publish tax data for the individual countries where they operate. Country-by-country reporting is essential for providing investors with the material information they need to correctly assess the profitability of a company and the financial risk.

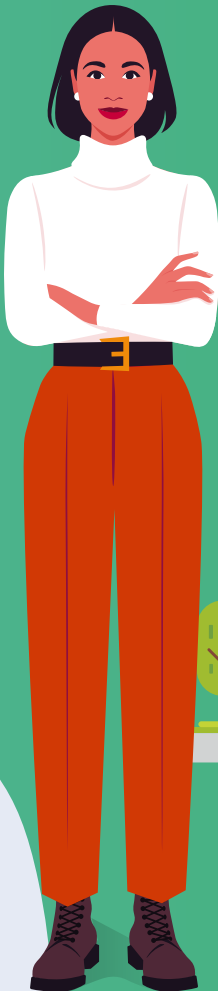


ABSTRACT
**INTEGRATED
REPORT
2020**

Leading in sustainable
development

2

**Economic
operating results**



ECONOMIC OPERATING RESULTS

Performance of the Funds

Funding, assets and customers

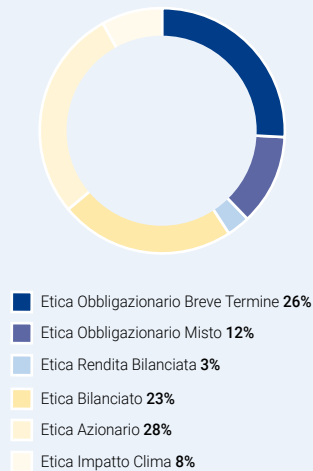
In 2020, even if the health emergency due to the COVID-19 pandemic negatively affected performance in the first quarter, the stock markets performed positive or slightly negatively overall, especially thanks to the coordinated intervention by the central banks, which implemented an unprecedented monetary expansion, and the governments that implemented highly expansive fiscal policies in support of the economy.

With reference to the bond market, following a significant increase in returns, coinciding with the unexpected explosion of the pandemic, the ultra-expansive monetary policies implemented by the main central banks at global level contributed to a gradual compression of the spreads, which particularly favoured the peripheral countries of the European Union, specifically Italy.

Benefiting from these performances, the Etica Sgr funds recorded slightly positive performances on an absolute level, especially the portfolios with significant stock exposure.

The net funds collected of Etica Sgr's Italian funds at 31 December 2020 came to € 681.91 million, an amount higher than the budget predictions and not far from the approximately 739 million of 2019 and which when added to the € 65.26 million of market effect, brought the assets under management by Etica Sgr to around € 5.33 billion, divided as follows:

Figure 7. Etica System Assets: breakdown by Fund

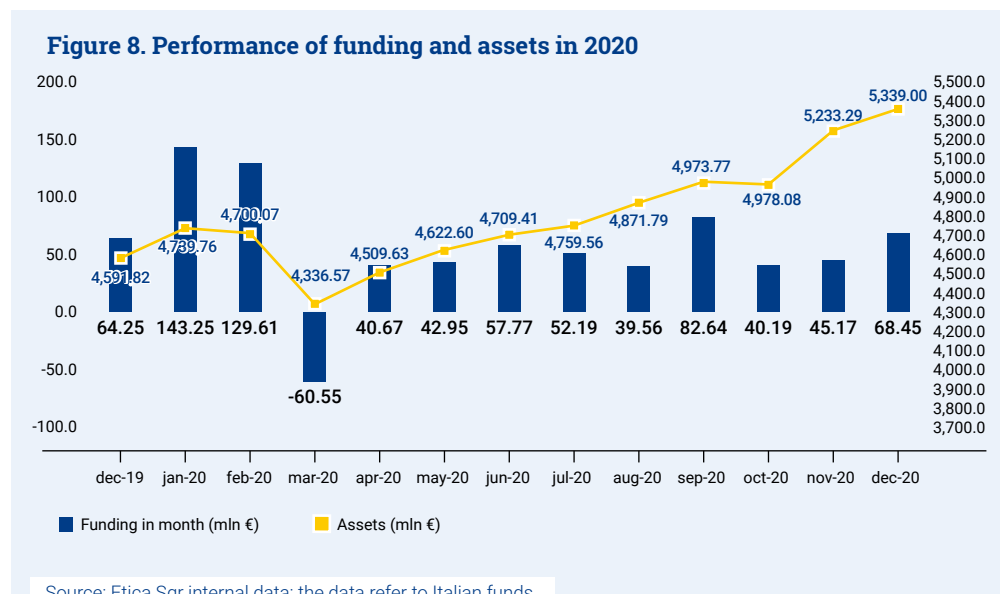


Source: Etica Sgr internal data

The following Figure displays the performance of the assets and funding of Etica Sgr's Italian funds over the course of 2020.

The uncertainty and pronounced volatility recorded on the global financial markets in March and April due to the pandemic changed the expectations of

investors who, as a result, initially reacted with a highly prudent approach, typically delaying or suspending previously scheduled investment decisions pending a greater overview of the outcome of the situation. This was all reflected in a significant slowdown in net funds collected recorded in March and April. The gradual return to a situation of lower market volatility, the steadfastness of the products especially in the bearish market phases, the favourable and unchanged context of low interest rates and the intense activity carried out by the commercial areas, which were quickly able to reorganise themselves to maintain constant monitoring including remotely of the placement networks and customers, made it possible for the Company to recover the net funds in the following months with vigour.



Etica Obbligazionario Misto led the 2020 funding with around € 245 million, confirming investor preference for solutions with a medium-low risk profile. It was followed by Etica Impatto Clima, which benefited from the widespread interest around climate change, contributing with around € 200 million and Etica Rendita Bilanciata with over € 80 million. The details related to the quarterly net funds collected by fund from year start to 31 December 2020 are shown below.

Figure 9. Breakdown of net funds collected by Fund related to 2020

Fund	Funds Collected				
	Q1	Q2	Q3	Q4	2020
Etica Breve Termine	€ 15.05	-€ 5.46	€ 45.60	€ 4.07	€ 59.26
Etica Obbligazionario Misto	€ 78.11	€ 34.51	€ 51.44	€ 81.47	€ 245.53
Etica Rendita Bilanciata	€ 27.16	€ 19.37	€ 16.76	€ 19.58	€ 82.88
Etica Impatto Clima	€ 97.39	€ 35.10	€ 30.41	€ 34.69	€ 197.59
Etica Bilanciato	-€ 2.54	€ 35.62	€ 22.72	€ 15.64	€ 71.44
Etica Azionario	-€ 2.85	€ 22.26	€ 7.45	-€ 1.65	€ 25.21
Overall total	€ 212.32	€ 141.39	€ 174.39	€ 153.81	€ 681.91

Source: Etica Sgr internal data, in millions of euro

Allocation of investments by institutional segment of Etica Sgr

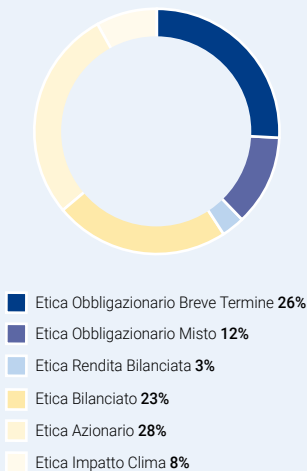
Etica Sgr's findings confirmed a growing trend even in as particular year as 2020: institutional investors continued to show interest in the AMC's sustainable and responsible funds with a growth of around 26%, compared to the end of 2019, of assets invested in the Italian funds.

With reference to the type of customer, those most active during the year were treasuries and asset management firms.

Investments in the institutional segment were prevalently concentrated on the class I reserved for them, which reached 30% in the retail class.

As shown in Figure 10, investments in institutional class I were mainly concentrated in the Etica Azionario, Etica Bilanciato and Etica Obbligazionario Breve Termine funds.

Figure 10. Distribution of class I assets



Source: Etica Sgr internal data

Management of the Etica System funds

When selecting the securities in which the sustainable and responsible funds belonging to the Etica System and the SICAV funds are invested, the ESG analysis is supported by the financial analysis: the investment manager Anima Sgr, an independent asset management company, assesses the financial performances and selects, in the context of the investable universes defined by Etica Sgr, the best securities in terms of risk/return ratio, in accordance with the Investment Policy defined by Etica Sgr's Investment Committee and approved by its Board of Directors.

Below we describe in brief the main investment decisions carried out in the year by the management team, by stock and bond component.

Stock component of the funds

The stock component achieved a positive performance in absolute terms in 2020, albeit lower than the benchmark of reference.

Management remained ever faithful to a medium to long-term investment approach, prepared for dialogue with the companies in the portfolio and in the investable universe. At sectoral level, exclusion of financial and energy stocks made a significant positive contribution to the relative performance, offset, however, by the absence of a number of major technological stocks, which reaped the benefits of the pandemic. Exposure to a number of cyclical sub-sectors (for example: automotive, materials, real estate and advertising) penalised the relative performance, since these sub-sectors provided a partial, yet significant, recovery from the second half of 2020 only. The excellent relative performance recorded in the industrial sector thanks to the selection of portfolio securities, however, is worth mentioning. At geographic level, the performance below the benchmark is due to the underperformance of Europe and Japan, which were overweighted in the funds; furthermore, the security selection was negative in France and Japan. The underweighting of the American market also contributed negatively to the performance, but the

resulting underweight in US dollars actually offset said impact as a result of the depreciation in the American currency against the euro in the second half of 2020. The defensive characteristics of the stock portfolio supported the relative performance in the market correction phase, but then penalised it during the strong recovery of the stock indexes.

Bond component of the funds

In 2020, the portfolio performed well but below the benchmark.

Given that rates and spreads are extremely compressed, the fund's portfolio had a highly prudent structure compared to the rates in the first six months and its duration was kept below the duration of the benchmark of reference. The increase in volatility and the decline in risk assets to the benefit of government ones, following the spread of COVID-19, penalised the portfolio.

The structure was then changed by increasing the liquidity component and increasing the component of Italian and peripheral country bonds, with the prospect of greater support from the central bank and the European Union. Following the stabilisation of the markets, the credit component was reconstructed, this exposure made it possible to obtain a gross return at maturity higher than the benchmark. In the second half of the year, the BTP component was gradually brought back to neutrality and the duration was managed more tactically and flexibly.

For the entire six months, there was limited use of futures on the interest rates and hedging derivatives were used to protect from excessive volatility.

Returns and awards

The financial management of the Etica System recorded the following returns:

Figure 11. Return on the Etica System funds at 31 December 2020

Fund	1-year return	Average 3-year compound annual return	Average 5-year compound annual return
Etica Azionario	1.31%	5.09%	5.28%
Benchmark	6.05%	8.95%	8.66%
Etica Bilanciato	2.60%	4.26%	4.34%
Benchmark	6.66%	7.85%	7.19%
Etica Rendita Bilanciata	2.43%	2.80%	2.53%
Benchmark	5.03%	5.17%	4.52%
Etica Obbligazionario Misto	2.26%	1.90%	1.67%
Benchmark	4.27%	3.85%	3.12%
Etica Obbligazionario Breve Termine	-0.05%	-0.26%	-0.26%
Benchmark	-0.01%	0.00%	-0.01%
Etica Impatto Clima*	0.04%		
Benchmark	5.73%		

Data at 31 December 2020

Source: Anima Sgr.

The figures refer to the R classes of the funds (the funds of the Etica System are also available in class I, reserved for professional investors, and RD, returns distribution, which envisages the same return as the R class). Fund performance reflects charges applying to it and not recognised in benchmark performance
Past performance does not guarantee future results.

*The Etica Impatto Clima fund was launched on 1 October 2018.

The Etica System funds, as well as the Luxembourg sub-funds, closed the year with positive performances in absolute terms, albeit lower than the benchmark or market of reference.

Though the global stock markets recorded substantially positive performances, during the year they were characterised by extreme volatility and enormous disparity of performance between different geographic areas, sectors and investment styles. Infotech and consumer discretionary goods proved to be the best sectors at global level, while the energy sector suffered from the most widespread collapse. Though financial and oil stocks have always been excluded, all Etica Sgr portfolios target the economic transition and aim for an entirely more sustainable business model in the medium to long term. This means that businesses active in the industrial sector (e.g. automotive), consumer goods and basic materials (cyclical sectors) are preferred over a number of securities in the technological sector, which, at the moment, since they are not reaching sufficiently

positive ratings in terms of environmental or social impact, do not pass the AMC's selection process. Government bonds recorded alternating phases of upward pressure on the rates (due to the risk-on climate – risk appetite – or the prospects of public accounts impacted by fiscal stimulus) and of downward pressure (especially for the core segments, since a sentiment of greater caution and aversion to risk prevailed). Overall, the macroeconomic scenario deriving from the COVID-19 pandemic and the extremely expansive global monetary policies translated to a decrease in long-term bond returns. High volatility was also seen on corporate bonds, which, after a substantially negative year start with a significant increase in the spreads, gained ground and reached the lowest levels seen in the investment grade sector.

There were many awards which, even in 2020, attested to the widespread commitment of Etica Sgr to sustainability and the value of Etica Sgr's funds.

INTERNATIONAL
INVESTOR
AWARD WINNER 2020



ETICA SGR
RESPONSIBLE INVESTOR OF THE YEAR
MAY 7, 2020



International Investor Award 2020

Etica Sgr was nominated responsible asset manager of the year by International Investor, which presents its award of excellence in all international sectors and levels. The awards are given to companies that offer excellent products, services, opportunities, innovation and performance.

H&K Responsible Investment Brand Index: Etica Sgr top in Italy and sixth in Europe

Etica Sgr came sixth place and is the first and only Italian AMC of the top 10 managers in Europe "seriously committed" to sustainability, as an "Avant-gardist" operator in the ESG context, which is therefore distinguished by a massive commitment, above average, in promoting sustainable development through its brand.

Best 300 and Best Fund Over 10 Years

Etica Rendita Bilanciata and Etica Bilanciato were recognised among the "Best 300", i.e. in the selection of the 300 best funds based on the rating obtained by the UCIs with at least 36 months of reports in the categories "Balanced – Bond Oriented" and "Balanced - Share Oriented" respectively).

Etica Obbligazionario Misto and Etica Bilanciato were recognised as "Best Fund Over 10 Years", i.e. as the best funds with a track record of over 10 years in their respective categories.

FundsPeople 2020

Etica Bilanciato Class R was recognised by FundsPeople as one of the most sold funds on the market and because of this it received the FundsPeople seal with a Blockbuster rating. Etica Rendita Bilanciata Class I was recognised by FundsPeople as one of the most sold and consistent funds on the market, because of this it received the FundsPeople seal with a Blockbuster rating and a Consistent rating.



Economic operating performance

At 31 December 2020, the assets under management amounted to € 5,338,997,948⁵, up by around 16% compared to the same date in the previous year. This significant increase led to a proportional increase in both the intermediation margin, which increased from € 17,179,829 to 19,669,355, and in the net profit, equal to € 6,848,758, up by around 22%.

The fundamental components of the operating result are highlighted in Figure 12.

Figure 12. Fundamental components of the operating result

Relevant components of the operating result	2020	2019	DIFFERENZA	Δ%
Fee income	70,292,261	59,132,983	11,159,278	18.87%
Fee expense	(50,654,397)	(41,986,700)	(8,667,697)	20.64%
Net fees	19,637,864	17,146,283	2,491,581	14.53%
Interest income and expense and similar income/charges	12,503	11,761	742	6.31%
Result of trading activities	18,988	21,785	(2,797)	12.84%
Intermediation margin	19,669,355	17,179,829	2,489,526	14.49%
Operating costs	9,927,829	9,082,690	845,139	9.30%
Amortisation and depreciation	209,485	213,595	(4,110)	(1.92%)
Other income and management fees	418,896	258,348	160,548	62.14%
Gross profit	9,949,767	8,141,892	1,807,875	22.20%
Income tax	3,101,009	2,564,028	536,981	20.94%
Net income	6,848,758	5,577,864	1,270,894	22.78%

Amounts in euro

⁵ The figure refers to Italian funds (Etica System)

Main financial indices

The main balance sheet indicators are shown below:

Figure 13. Main balance sheet indicators

Profitability index	2020	2019	2018
ROE (net profit/net equity)	71.26%	63.83%	54.56%
Efficiency indices			
Cost/Income (administration expenses/ intermediation margin)	50.47%	52.87%	55.34%
Incidence rate of personnel costs (employee expenses/operating costs)	34.37%	35.65%	38.28%

The profitability indices, such as ROE (Return on Equity), which measures the “return” in terms of net profit of the average Net Equity in the year, and the efficiency indices, such as Cost/Income, showed clear improvement, confirming the AMC’s excellent performance, for all the reasons described above.

Proposal for the allocation of profits and losses for the year

The proposal for the allocation of profit for the year, equal to € 6,848,758, is shown below:

- € 100,000 to legal reserves;
- € 5,467,500 to dividends (equal to € 12.15 per share);
- € 250,000 to provisions for future charges for charitable donations;
- € 1,031,258 carried forward.





ABSTRACT
**INTEGRATED
REPORT
2020**

Leading in sustainable
development

3

**Corporate
Sustainability**





Governance



Governance

Capital structure

The AMC's capital was held at 31 December 2020 by five leading Italian credit institutions, all originally attributable to the world of industrial cooperative banks and credit unions. The main portion of the share capital is held by Banca Popolare Etica, which exercises management and coordination activity.

In late 2020, the share capital had a nominal amount of € 4.5 million, divided as follows:

Figure 14. Breakdown of share capital

	No. Shares	Nominal amount	Ownership
Banca Popolare Etica	231,600	€ 2,316,000	51.47%
Banco BPM	87,500	€ 875,000	19.44%
BPER Banca	45,000	€ 450,000	10.00%
Banca Popolare di Sondrio	44,400	€ 444,000	9.87%
Cassa Centrale Banca - C.C.I.	41,500	€ 415,000	9.22%
Total	450,000	€ 4,500,000	100.00%

From 2012, considering the solid capitalisation of the AMC on the one hand and the excellent acquired profitability on the other, the Board of Directors of Etica Sgr decided to suggest that the Shareholders' Meeting allocate part of the profit for the year to dividends. This approach was also confirmed for 2020, with the proposal of a dividend equal to € 12.15 per share. The increase compared to € 9.90 in the previous year is in line with the dynamics of the profit for the year, with a pay-out ratio substantially stable in the previous financial years, at around 79%.

Corporate bodies

Board of Directors

As mentioned in the Directors' Report, the Shareholders' Meeting on 29 April 2020 appointed the new Board of Directors, the mandate for which will end with the approval of the financial statements at 31 December 2022. As a result of the new shareholder agreements, the number of Directors was reduced from eleven to nine for the first time, with the return of a number of members such as Chairman Ugo Biggeri and Cesare Antonio Pozzi, appointed Deputy Chairman, and the entry of new Independent Directors.

The composition of the current Board of Directors is shown below in detail:

Ugo Biggeri	Chairman
Cesare Antonio Pozzi	Deputy Chairman and Director
Carlo Capotorti	Director
Marco Carlin	Director
Marco Carlizzi	Independent Director
Stefania Di Bartolomeo	Independent Director
Federica Ielasi	Independent Director
Grazia Orlandini	Director
Aldo Soldi	Independent Director

The members of the Board of Directors are all non-executive, can be re-elected and the methods for their appointment are governed by the Articles of Association and by the shareholder agreements signed by the Shareholders.

The quantitative composition of the Board is consistent with an adequate representation of the membership base and with the need to have diversified expertise in consideration of the activity carried out by the AMC.

There are no Committees currently present within the Board of Directors.

Figure 15. Summary of activities and composition of the Board of Directors

	2019	2020
Board Members	11	9
<i>of which women</i>	4	3
% of women in the governing bodies	36%	33%
<i>of which independent</i>	5	4
% independent directors	45%	44%
% of governing bodies aged between 30 and 50 years old	64%	44%
% of governing bodies older than 50 years old	36%	56%
average attendance rate	90%	96%

The average attendance rate during 2020 increased to 96%, thanks to the use of remote means of communication, which, by allowing Directors to participate remotely during the pandemic, guaranteed the continuity of company activities.

Transition to Significant Manager and appointment of internal board committees

In 2020 the assets of the funds managed by Etica Sgr grew to the extent that the threshold of 5 billion was exceeded. As a result of this increase, Etica Sgr became a Significant Manager as per legislation. In preparation for this change, Etica Sgr availed itself of the possibility to establish the same committees at Group level, as indicated by the legislation.

Therefore, the Parent Company Banca Etica established three internal board committees at Group level, specifically: Risk Committee, Appointments Committee and Remuneration Committee, determining their composition and respective regulations.

Ethics Committee

When analysing the social and environmental responsibility of issuers, as well as in activities pertaining to active shareholding and dialogue with companies, Etica Sgr is assisted by the Ethics Committee, an autonomous and independent body, which serves a consulting role and makes proposals to the Board of Directors of the AMC.

On 1 November 2020, the new Committee came into office, which has a mandate until 31 October 2023 and again nine members, with recognised experience in the issues of sustainable finance and corporate social responsibility, i.e. in social, environmental and academic fields.

At the meeting on 10 December 2020, the members of the new Committee unanimously appointed Leonardo Becchetti as Chairman once more and confirmed Laura Berry's role as Deputy Chairwoman.

The section dedicated to [governance](#) on the Etica Sgr website describes the composition of the Ethics Committee, its regulations and the annual reports on activities carried out.

The Committee met four times in 2020. The following figure summarises the data on its activity and composition, while the next box contains a summary of the activities undertaken by the body during the year.

Figure 16. Summary of activities and composition of the Ethics Committee

	2019	2020
Members	9	9
<i>of which women</i>	4	4
Meetings	6	4
Average attendance	76%	89%



Market



Market

Performance of the sustainable and responsible funds at international level

We can confirm that the sustainable and responsible investments (SRI) market has for some time now left behind its niche role and is today one of the biggest trends in the world of asset management.

In particular, 2020 saw sustainable and responsible investments grow at extremely high rates, considering the growing concerns around the impacts of climate change, social inequalities and the more recent consequences of the pandemic. The health emergency triggered by the spread of the coronavirus across the world drove reflections on important environmental matters such as deforestation, and brought to light weaknesses in the healthcare system everywhere, highlighting the shortcomings and distortions of the social system: from the management of public health and workplace health and safety, to growing social inequality and drugs that are not accessible to everyone, to the known problems of tax evasion. In this context, a sustainable and responsible approach to finance, which, when choosing

where to direct our investments, pursues the dual objective of creating value for investors and having a positive impact on the environment and local community, takes on more relevance than ever before. Financial operators play a central role, given that they can direct savings towards investments that promote sustainable growth in order to bridge the existing gap.

In the latest edition of the *Financial Stability Review*⁶, published at the end of November 2020, the European Central Bank (ECB) highlighted the resilience of green financial instruments during recent market turmoil. The analysis showed how, at global level, the assets of the funds with an ESG approach had increased by 170% since 2015. In the last year in particular, the aggregate exposure of Eurozone sectors to ESG funds increased by 20%.

At global level, therefore, the assets of sustainable and responsible funds continued to grow in 2020. This was also confirmed by the Morningstar⁷ analysis, which showed numbers in clear expansion across ESG investments. According to the study, assets invested in ESG funds amounted to \$1,652 billion and recorded flows for over \$152 billion in the fourth quarter alone (+89% compared to the previous quarter).

Figure 17. Sustainable investments across the globe

Region	Q4 2020 Flows		Assets		Funds	
	USD billion	% Total	USD billion	% Total	#	% Total
Europe	120.8	79.3	1,342.8	81.3	3,196	77.0
United States	20.5	13.4	236.4	14.3	392	9.4
Asia ex-Japan	5.0	3.3	25.4	1.5	208	5.0
Australia/New Zealand	1.2	0.8	19.8	1.2	126	3.0
Japan	3.7	2.4	17.7	1.1	138	3.3
Canada	1.2	0.8	10.2	0.6	93	2.2
Total	152.3		1,652.3		4,153	

Source: Morningstar Direct. Morningstar Research. Data updated at December 2020

⁶ Financial Stability Review

⁷ Morningstar, Global Sustainable Fund Flows Report, Q4 2020

Europe is the protagonist in this trend in terms of new flows, assets managed and number of funds. The table shows that 81.3% of the assets managed responsibly globally and 79.9% of the flows invested refer to funds domiciled in Europe. Even the number of products (3,196) is much higher than the number of products offered in the rest of the world, representing around 77% of the total.

At global level, there is continuous and constant progress, as shown by the growth trend of assets under management in the following table.

Figure 18. Global growth of ESG assets



Source: Morningstar Direct. Morningstar Research. Data updated at December 2020.

Again from the point of view of incoming flows, there was a bullish trend in the last two years, with investments related to the fourth quarter of 2020 climbing strongly compared to the average of the previous periods, demonstrating the widespread resilience of sustainable and responsible funds across the globe.

During the year, all the sustainable funds in Europe proved to be notably resilient during the period of strong downturns in the market due to COVID-19. The assets only decreased by 10.6% in the first quarter of 2020, while the market of European funds in general recorded a decline of over 16.2%. In general, we can call this an unprecedented growth: the flows in 2020 in the European sustainable funds were nearly 5 times higher than three years prior and nearly double compared to the previous year.

From the point of view of European institutional investors, the attention on issues associated with sustainability, in particular climate change, is experiencing notable growth. This is confirmed by the recent survey by Mercer - *Investing in the Future. European Asset Allocation Insights 2020*⁸ which involved 927 European portfolios in 12 countries, for a total of over € 1,100 billion in assets: more than half of the interviewees (54%) considered climate change to be a relevant risk factor and assessed possible impacts on their investments. The percentage has grown starkly compared to the 14% reported in 2019. 89% of European pension plans currently take into consideration environmental, social and governance (ESG) risks as part of their decision-making process underlying the investment decisions, an increase compared to 55% in the previous year: the main reason remains the need to comply with regulations, accompanied by an increase in plans that integrate

⁸ Mercer - Investing in the future. European Asset Allocation Insights, 2020

ESG into their investment policy and develop related policies as a result.

Even at Italian level has there been growing attention on sustainable finance from asset owners, such as pension investors and bank foundations. The annual sector survey carried out by the Italian Sustainable Investment Forum⁹ and presented during the SRI Week 2020 showed the notable acceleration that took place in the last year in the number of plans that apply sustainable investment strategies (these made up 47% of the sample interviewed in 2019 and have now increased to 62%) and, furthermore, more than half of the plans active in SRI calculate or intend to start calculating the carbon footprint of their portfolio. The data are also very encouraging in the case of Foundations: around half of respondents, 14 out of 32 (44%), declared that they make sustainable investments. For both types of investors, the reason most commonly cited as underpinning the decision to make sustainable investments was a more

effective management of financial risks as well as the desire to contribute to sustainable development.

This figure underlines the awareness of the relevance of ESG aspects from the perspective of asset management.

With reference to risks, the World Economic Forum (WEF) in its latest Global Risk Report 2021¹⁰, now in its sixteenth edition, cautioned against long-term risks and examined the turmoil of 2020, between the coronavirus, economic recession, political tensions and a continually worsening climate crisis. Despite the pandemic having significant social repercussions, the issues linked to the climate and the environment continue to occupy a large space on the list of risks, in terms of both impact and probability. The Report describes these issues as “an existential threat to humanity”. In terms of impact, the risk posed by infectious diseases is now in first place, while it was 10th place in the previous edition.

Figure 19. Classification of risks by probability and impact

TOP RISKS

by likelihood

- 1 Extreme weather
- 2 Climate action failure
- 3 Human environmental damage
- 4 Infectious diseases
- 5 Biodiversity loss
- 6 Digital power concentration
- 7 Digital inequality
- 8 Interstate relations fracture
- 9 Cybersecurity failure
- 10 Livelihood crises

TOP RISKS

by impact

- 1 Infectious diseases
- 2 Climate action failure
- 3 Weapons of mass destruction
- 4 Biodiversity loss
- 5 Natural resource crises
- 6 Human environmental damage
- 7 Livelihood crises
- 8 Extreme weather
- 9 Debt crises
- 10 IT infrastructure breakdown

Risk categories

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

Source: World Economic Forum, The Global Risks Report 2021

⁹ Italian Sustainable Investment Forum, Sustainable and Responsible Investment Policies of Pension Investors, 2020

¹⁰ WEF, The Global Risks Report 2021, http://www3.weforum.org/docs/WEF_The_GlobalRisks_Report_2021.pdf

Considering the significant economic and financial impacts caused by the COVID-19 pandemic at a global level and, in particular, in the European and Italian context, the Italian Sustainable Investment Forum conducted a survey¹¹ in 2020 with the aim of analysing the role that sustainable finance might play in economic recovery. The sample included 80 financial subjects, including banks, AMCs, insurance firms, foundations, pension funds and social security funds. Of the various aspects, it was found that:

- 76% of investors reported higher returns for products that integrated environmental, social and governance (ESG) criteria compared to non-sustainable ones;
- 74% of investors considered regulations on sustainable finance to be an opportunity for undertaking the transition towards an economy with less environmental impact and to limit new phases of market volatility.

Performance of the sustainable and responsible funds in Italy

The data at 31 December 2020 issued by Assogestioni show that we experienced a genuine boom in sustainable and responsible funds in Italy in the last year, aided also by the

change in perspective and priorities in the world of investments brought to light by the health emergency, and not only that, linked to the COVID-19 pandemic.

Total SRI product assets nearly tripled in one year, increasing from around € 31 billion at the end of 2019 to € 80.8 billion at the end of 2020. An increase driven by the decisions of investors as well as by the integration of ESG strategies into the management of funds by asset managers, which brought the funding in 2020 of sustainable and responsible funds to € 24.393 billion compared to 8.772 billion in 2019, exceeding the total funding of the assets managed (€ 14.6 billion) and of mutual open-ended funds (23.6 billion) in 2020 by a long shot.

Sustainable and responsible funds went from representing 2.9% of all open-ended funds in terms of assets in 2019 to 7.13% in 2020. Irrefutable proof of the transformation and ongoing revolution in the asset management industry, as well as of the interest around such products from Italian investors. An interest also demonstrated by the growth in the number of this type of fund available for placement, which has more than doubled: from 221 to 561. At the end of 2020, 40 companies offered funds classified as sustainable and responsible. Etica Sgr, the only one of them to date that establishes and manages exclusively sustainable and responsible funds, is positioned fifth place in terms of assets under management.

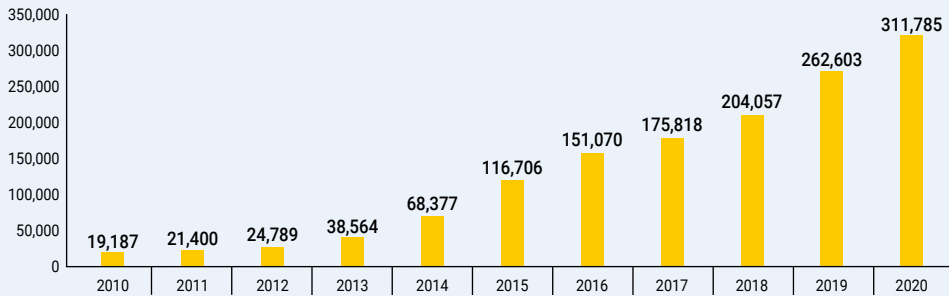
¹¹ Sustainable finance after the COVID-19 emergency
<https://finzasostenibile.it/wp-content/uploads/2020/11/Finanza-Sostenibile-post-COVID.pdf>

Customers

Despite the social context characterised by the health emergency caused by COVID-19, 2020 was another year of growth for Etica Sgr, during which exceeding the threshold of 5 billion in Fund assets was accompanied by an increase in the number of active contracts: over 311,000 at year end, up by

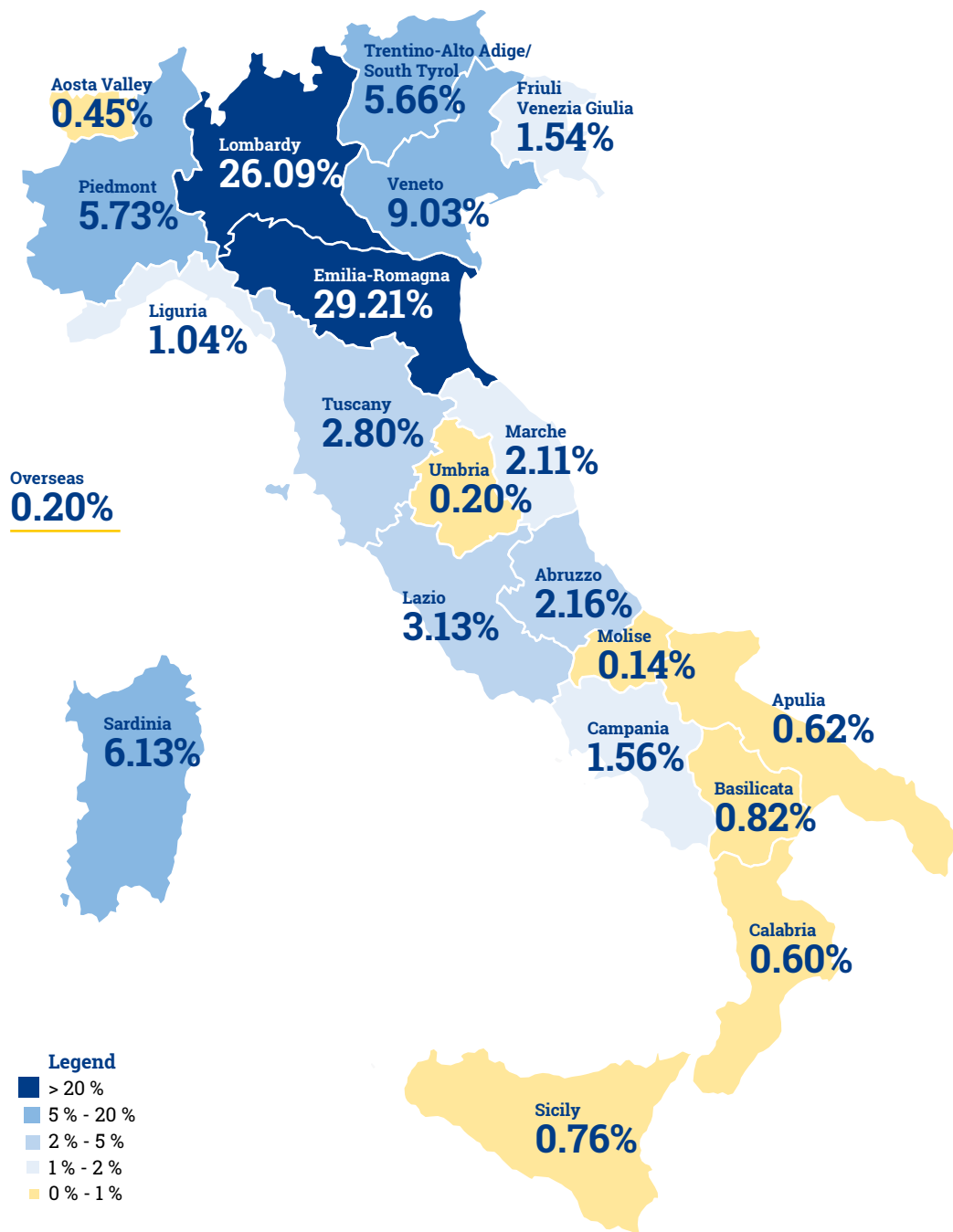
18% compared to December 2019. The Company's experience also demonstrates the resilience of sustainable and responsible investment to market turmoil, responding to the ongoing cultural change of generating positive impacts on the environment and local community alongside financial return. As for assets under management, 80% of contracts were also signed with the five affiliated banks of the AMC.

Figure 20. Active contracts of the Etica System fund customers



A more detailed breakdown of the contracts by each region is shown in Figure 21.

Figure 21. Geographic distribution of fund customers



Communication with customers

The www.eticasgr.com website is the essential channel of communication for Etica Sgr: the point of reference for customers, stakeholders and prospects, who can find out more information about the Company, the performance of the funds, the method for evaluating the issuers that make up the portfolios of the funds, the company policies, the reports on environmental, social and governance impact, the results of dialogue with issuers and active shareholding. The website also contains the section “*Stories*”, the company blog, which is updated frequently with articles about current economic events and the world of sustainable investments, where news about events directly involving the AMC is added.

In 2020, the website results portrayed a significant increase in traffic: the number of views exceeded 2 million, reaching the record figure of 2,227,059 (+40.6% compared to 2019), there were 519,742 unique visitors (+10% compared to 2019), while the number of logins was 922,045 (+28% compared to 2018). During the year, the “*Stories*” section recorded 304,114 page views, +30% compared to 2019, representing 14% of traffic on the company website.

In support of the content strategy, growth on the main social networks continued. Etica’s presence on Facebook, Twitter and LinkedIn and, since 2020 also on Instagram in a more structured manner, further increased engagement and interaction with both current and potential customers. The number of users who follow the AMC’s activity on these channels has increased considerably: at the end of 2020 the social network community reached 73,752 users (+16% compared to 2019).



Figure 22. Statistics of site views and social networks

Website	2019	2020	Increase
Unique visitors	478,897	519,742	9%
Site logins	734,313	922,045	26%

Facebook	2019	2020	Increase
Likes	33,884	37,206	10%

YouTube	2019	2020	Increase
No. views	154,853	1,007,072	550%

Twitter	2019	2020	Increase
Follower	17,008	18,769	10%

LinkedIn	2019	2020	Increase
Follower	12,552	16,420	31%

Instagram	2019	2020	Increase
Follower	655	1,357	107%

Community	2019	2020	Increase
Users	63,444	73,752	16%

YouTube figures were particularly significant: 8 storytelling videos were created on the microfinancing projects carried out thanks to the voluntary contribution of subscribers to the Etica Sgr mutual

funds who chose to allocate 0.1% of the amount invested into a fund specifically created to guarantee microfinancing projects. The videos reached a total of one million views in 2020. They told the stories of people, sustainable companies and social cooperatives that were successful also thanks to the microfinancing of the Banca Etica Group, using a warm and emotional tone, to reach an audience of notable size, communicating the impact that ethical finance can have on the lives of people and on society. One of the eight most viewed videos in 2020, with 230,600 views, was on [Apical](#), which, via an interview and photography, recounts the work of the Milan-based start-up aiming to improve the environmental and social impact of the tourism industry. The eight microfinancing stories were also highly appreciated on social networks, reaching hundreds of thousands of people, with an engagement percentage much higher than the average post on the Etica Sgr social channels.

Relations with suppliers

Etica Sgr has always been mindful when selecting its suppliers. Because of this, where possible, while maintaining careful oversight of the price applied and the quality offered, as well as any logistical opportunities, it opts to collaborate with businesses that stand out for their positive social and environmental impact. Considering the nature and scope of action of the company, the geographical location of suppliers does not, however, represent a decisive element for the purposes of selection: therefore, the Company did not consider it necessary to formalise a policy promoting the selection of local suppliers.

Since 2013, Etica Sgr has had an accreditation system for its suppliers which also involves an analysis of any social, environmental and human rights-related certifications. All new critical suppliers are subject to the accreditation process, seeking to favour, where possible, the partners most mindful of their social and environmental impacts, requiring that they adhere to Etica Sgr's Social Responsibility Policy. Critical suppliers are those with a significant

impact on the services to customers and on the performance of Etica's activities: for example, the ESG databases and management systems provided by outsourcers, for which non-compliance of the service could cause economic losses and/or damage to the company's image. In late 2020, the AMC renewed its procurement policy, also governing the selection and accreditation process of strategic partners, in addition to placement agents, outsourcers and significant suppliers based on certain revenue thresholds.

As shown in Figure 23, in 2020 there was an improvement in supplier payment times with reference to the invoice due date. As a matter of fact, invoices were settled on average around one day in advance and the average payment time of documents decreased. An analysis of the timescales against the amount of the invoices shows that the average payment days increased (from 20.21 to 22.83) but the balance of the invoices was nevertheless settled before the due date, a sign of the Administrative Area's efforts to address the payment conditions requested by suppliers, especially for more significant payments, thus more critical for the suppliers.

Figure 23. Average payment times of suppliers

	2019	2020
Average payment time	24.35	22.04
Average advance (delay)	(0.57)	1.38
Weighted average payment time	20.21	22.83
Weighted payment average advance (delay)	2.59	4.31

Relations with placement agents

Placement by one new agent was launched during the year. This was an intermediary which in 2020 had signed the distribution agreement of the Funds through vertical integration and had already initiated the first subscriptions. This was joined by four cooperative credit banks already active in the past, but which had made their first subscriptions

during the year. For a number of these, specific activities had already been carried out by the Business Partners Area, through commercial visits or participation in dedicated training activities. Additionally, 7 merger operations took place during the year involving 14 banks that were already placement agents, which, combined with the new intermediaries, brought the placement agents active at 31 December 2020 to 180.

In 2020, € 44,041,496 in fees were paid to placement agents, up by around 20% compared to 2019 as a result of the increase in assets placed. Figure 24 shows the amount paid to the placement agents divided by geographic area of residence. The increasing foreign entry corresponds to the AllFunds Bank platform, with offices in Spain, through which transit the operations of both placement agents and institutional customers.

Figure 24. Geographic distribution of fees to placement agents

Residence	2019		2020	
	Granted fees	%	Granted fees	%
Milan	10,115,184	27.76%	11,898,261	27.02%
Italy	26,222,145	71.97%	31,864,433	72.35%
Overseas	99,088	0.27%	278,802	0.63%
Total	36,436,417	100%	44,041,496	100%

Training for placement agents

In 2020, despite the physical restrictions due to the health emergency caused by COVID-19, under the coordination of the Business Partners Area, Etica Sgr personnel met with the various sales networks on numerous occasions.

During the year, by making use of different means of remote communication (conference calls, video chats and webinars), 44 commercial events took place with the managers of parties already authorised for placement of the Funds or of those interested in beginning to do so.

There were five "Etica Day Live Webcasts", periodic live training seminars that also involved managers from Anima Sgr. This new format saw over 1,000 registrations from different networks of placement agents.

These were joined by another 46 meetings at distributor offices for a total of 54 hours of training offered and over 1,600 participants. As part of these meetings, there were 3 events that also involved the customers of the placement banks: around 300 people attended over 4 hours of interviews.

Furthermore, the Company has had another tool at its disposal since 2018, the online EticAcademy, a free platform for remote training, currently reserved to members of the sales networks. In 2020 two video chats lasting 40 minutes were organised with representatives from the sales structure of the Company and the Investment Manager: participants were able to pose questions to the speakers who offered opinions on the management decisions of the funds in light of market trends, influenced by events such as the pandemic and the US elections. At the end of 2020, there were 14 courses available on the platform for a total of 7 hours of training on sustainable investment and the unique aspects of Etica Sgr, such as ESG analysis and engagement with companies, the calculation of ESG risk and the financial management of funds, including in light of the ongoing health emergency: one of these is in Spanish, created for foreign placement. Not to mention in-depth analyses linked to technical legislation of financial instruments, such as the European MiFID II Directive and provisions regarding anti-money laundering and the funding of terrorism. The initiatives registered a good level of satisfaction, given that more than 600 people signed up, compared to 550 at the end of 2019.

Characteristic activity and indirect impacts of the products



Characteristic activity and indirect impacts of the products

Selection and ESG analysis

The funds of the Etica System and the sub-funds of the SICAV invest exclusively in securities of issuers selected according to environmental, social and governance criteria.

The issuers are selected by Etica Sgr on the basis of a proprietary methodology, represented by the internationally registered trademark ESG eticApproach®. The methodology ensures that all issuers selected to form the Investable Universe undergo an environmental, social and governance screening. Specifically, negative (or exclusion) criteria are applied initially, followed by the application of positive (or evaluation) criteria with the “best-in-class” method. After having eliminated the issuers involved in controversial activities, practices or sectors, they are then analysed on the basis of specific ESG criteria and only the best in terms of sustainability then go on to make up the investable universe.

Etica Sgr’s commitment to select investments according to ESG criteria is already established in the fund and sub-fund offer documentation, which briefly lists the main indicators based on which both companies and countries are analysed. The regulation, analysis methodology, criteria adopted and the selection procedure for securities are published in detail on the AMC’s [website](#).

See below for the characteristics and analysis activities of issuers carried out during the year for the Etica Sgr products, which, by virtue of specific investment strategies, each have their own Investable Universes.

“Valori Responsabili” Line and Sub-funds of the SICAV

The funds use the same Investable Universe of issuers which excludes government bonds issued by countries that have the death penalty or that do not respect political freedoms or civil rights and the stocks of companies that, among other things, produce weapons, manage or control nuclear plants, carry out animal testing for the production of cosmetics or are involved in harmful practices for human dignity or the environment.

Subsequently, only the most virtuous countries and companies with ESG ratings higher than an absolute threshold and found to be some of the best in their sector, go on to become part of the Investable Universes of funds and sub-funds. The aforementioned Investable Universes at year end included 25 countries, 14 agencies and 509 companies.

“Futuri Responsabili” Line

The mutual funds of the Futuri Responsabili Line place particular attention on one specific investment issue, selecting stocks on the basis of an appropriate analysis of issuer sustainability. Currently, the Line is formed of only one fund, Etica Impatto Clima, launched on the market in October 2018 and focused on the issue of climate change. The Investable Universe of the Fund excludes government bonds issued by countries that have the death penalty or that do not respect political freedoms or civil rights and the stocks of companies that, among other things, do not use or develop energy from renewable sources and are involved in activities such as the use of fossil fuels and the generation or sale of nuclear energy or that are involved in negative events in terms of corruption, respect for the environment and respect for workers’ rights.

Subsequently, only the most virtuous countries from an environmental perspective and the companies

most mindful of the impact of their products and services on the environment and of a low carbon transition go on to become part of the Investable Universes of the Etica Impatto Clima fund. In 2020, these were updated and at year end included 24 countries, 14 agencies and 465 companies respectively.

Given the environmental specificity of the Fund, investments in [corporate green bonds](#) are admitted, the issuers of which are selected by following a specific methodology, described on the website, and listed in a specific investable universe, which was also approved in March. The approval of these investments is subject to additional screening of the green bond by Etica Sgr, following reports by the Investment Manager.

Measuring the impact of investments

As the final phase of the sustainable and responsible investment process, each year Etica Sgr measures the ESG impact of the investments of its Italian Funds. The impact can be considered a genuine integration of financial and ESG factors, in light of the fact that the portfolio of funds is constructed by following a financial approach on a list of issuers selected in advance on the basis of ESG indicators.

The impact of the Etica Sgr investments is summarised in two documents:

- the first is the report containing the results of the climate change metrics of the investments, also measured this year according to the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD)¹²;
- the second is the Impact Report, which illustrates the social, environmental and governance impacts of stock investments through the analysis of specific indicators consistent with the Sustainable Development Goals (SDGs) of the United Nations.

For more details, please refer to the AMC's website, where the full reports can be viewed and downloaded.

Etica Sgr engagement

Engagement, i.e. the proactive and constant dialogue with bodies, institutes and companies and voting expressed in the annual shareholders' meetings of the companies in which it invests, represents, alongside ESG selection and analysis, a fundamental characteristic of the Etica Sgr funds and an important tool for monitoring the ESG performance of issuers.

The aim of this activity is to raise awareness among company management teams regarding a constant and lasting commitment to improve corporate governance and socio-environmental conduct. Engagement is conducted by Etica Sgr in the exclusive interest of the subscribers of the funds on the Valori and Futuri Responsabili lines, in accordance with the "Engagement policy: dialogue and exercise of voting rights pertaining to the financial instruments of the UCITS managed", available in the "Engagement by Etica Sgr" section of the website.

The Policy was prepared in line with the provisions of:

- Directive 2017/828, known as the "Shareholders Rights II" of the European Parliament and of the Council;
- the "Italian Principles of Stewardship for the exercise of administrative and voting rights in listed companies and related recommendations", which govern the strategies and tools for monitoring, dialogue and exercise of intervention and voting rights adopted by Etica Sgr in relation to Italian and foreign issuers. These principles are promoted by the Corporate Governance Committee of Assogestioni. Each year, the Compliance and Anti-Money Laundering function verifies the contents of the Report on the implementation of such principles and the compliance of the voting decisions with the Etica Sgr Policy. The Report is approved by the Etica Board of Directors and is available on the Company's website on the page dedicated to the [Italian Principles of Stewardship](#).

¹² Body established by the Financial Stability Board (FSB) to prepare instructions for reporting on risks and opportunities linked to climate change.

International campaigns and initiatives

As a sustainable and responsible investor, Etica Sgr adheres to and promotes initiatives or campaigns on ESG issues, designed and developed by networks of international investors, such as the CDP (previously the Carbon Disclosure Project), [ICCR](#) (Interfaith Center on Corporate Responsibility), PRI (Principles for Responsible Investments) and [SfC](#) (Shareholders for Change).

The initiatives target companies, governments and institutes with the aim of creating dialogue and encouraging sustainable behaviour. The dedicated page on the Company's [website](#) provides information about the main campaigns and initiatives in which Etica Sgr has been involved over the years.

In 2020, Etica took part in eight engagement initiatives on the following issues:

- publication of data pertaining to the management of climate change, the water resource and issues linked to deforestation and biodiversity;
- adoption by some of the biggest international pharmaceutical companies of a collaborative approach in response to the COVID-19 pandemic to facilitate access to related drugs and vaccines;
- integration of some US catering companies of considerations linked to environmental and social sustainability in relation to meat supply methods;

- responsible management of the supply chain in relation to the procurement of rare metals;
- fiscal responsibility;
- integration of some US catering companies of considerations linked to environmental and social sustainability in relation to "sustainable proteins".

The following figure shows the number of companies and the type of issues with which the AMC engaged in dialogue in 2020, excluding votes at shareholders' meetings. The percentages express the ratio with respect to the total number of issuers present in the portfolios representing stock investments.

Figure 25. Interactions on social and environmental issues*

	2020
Stock issuers in portfolio	161
Companies subject to ESG engagement	70
%	43.5%
Companies subject to social and environmental engagement	69
%	42.9%

* The portfolio breakdown refers to 31/12/2019

Active exercise of intervention and voting rights

In 2020, Etica Sgr voted in the annual shareholders' meetings of some of the companies where the funds are invested. On the company website information is published about the votes cast and

the main environmental, social and governance subjects addressed by Etica Sgr in shareholders' meetings.

The strategic areas of dialogue with the companies were guided by the Sustainable Development Goals relevant for Etica Sgr, identified in the "2020 Engagement Plan", and concerned:

Figure 26. Correspondence between issues raised and SDG

Issues raised	SDG
Biodiversity and resource management	  
Climate change	 
Human rights	 
Tax	
Management of the water resource	
IT security	

There were other areas in addition to these, linked to issues of governance, such as the independence of members and gender diversity in the Boards of Directors, remuneration policies and policies on dividends and the acquisition of treasury shares.

Etica Sgr took part and voted in the shareholders' meetings of fourteen Italian companies, as described below.

Figure 27. Italian companies in which Etica Sgr voted in 2020

Data	Società	Settore	Data	Società	Settore
27/03/20	Davide Campari-Milano SpA ⁽¹⁾	Consumer Staples	12/05/20	Italgas SpA	Utilities
21/04/20	ERG SpA	Utilities	13/05/20	A2A SpA	Utilities
23/04/20	Freni Brembo SpA	Consumer Discretionary	15/05/20	SOL SpA	Materials
23/04/20	Technogym SpA	Consumer Discretionary	18/05/20	Terna SpA	Utilities
28/04/20	Prysmian SpA	Industrials	10/06/20	DiaSorin SpA	Health Care
29/04/20	Hera SpA	Utilities	18/06/20	Snam SpA	Utilities
04/05/20	Sabaf SpA	Consumer Discretionary	29/09/20	Sabaf SpA ⁽³⁾	Consumer Discretionary
08/05/20	Buzzi Unicem SpA ⁽²⁾ (Az. Ordinarie)	Materials	19/11/20	Buzzi Unicem SpA ⁽⁴⁾ (Az. Ordinarie)	Materials
08/05/20	Buzzi Unicem SpA ⁽²⁾ (Az. Risparmio)	Materials	19/11/20	Buzzi Unicem SpA ⁽⁵⁾ (Az. Risparmio)	Materials

(1) The name of the issuer and the country of reference were valid at the date of the shareholders' meeting indicated (on 4 July 2020 the Dutch notarial act was signed for the transfer of the company's registered offices to the Netherlands).

(2) The Etica Sgr funds voted in the shareholders' meeting for holders of ordinary shares and in that for holders of savings shares. Both shareholders' meetings were held on 8 May 2020.

(3) The second ordinary shareholders' meeting of the Issuer SABAF SpA for 2020 was held on 29 September 2020.

(4) An extraordinary and ordinary shareholders' meeting took place on 19 November 2020 for the shareholders of Buzzi Unicem SpA who held ordinary shares.

(5) A special shareholders' meeting took place on 19 November 2020 for the shareholders of Buzzi Unicem SpA who held savings shares.

Furthermore, via a platform, Etica Sgr voted in the shareholders' meetings of the following 31 foreign companies:

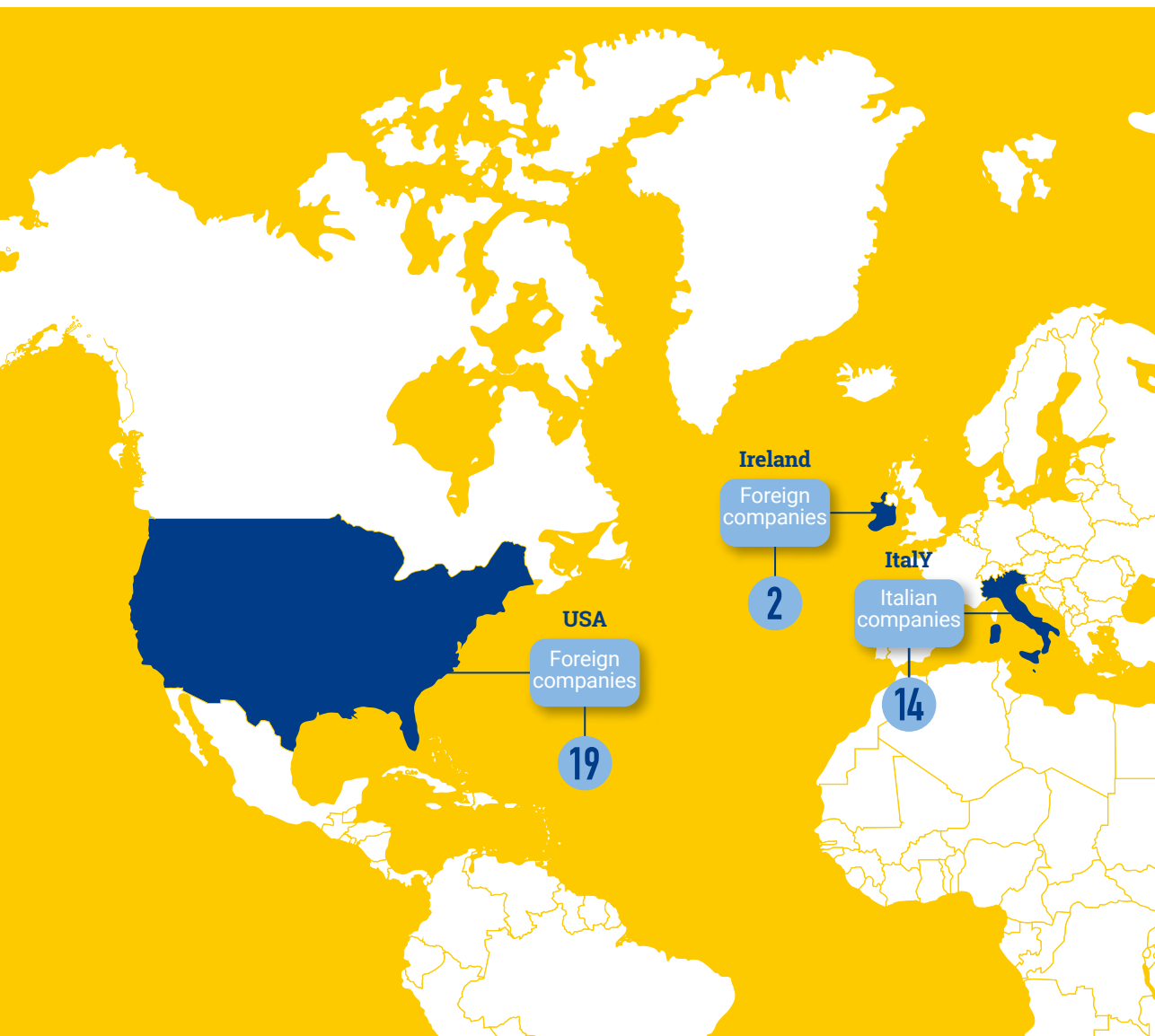
Figure 28. Foreign companies in which Etica Sgr voted in 2020

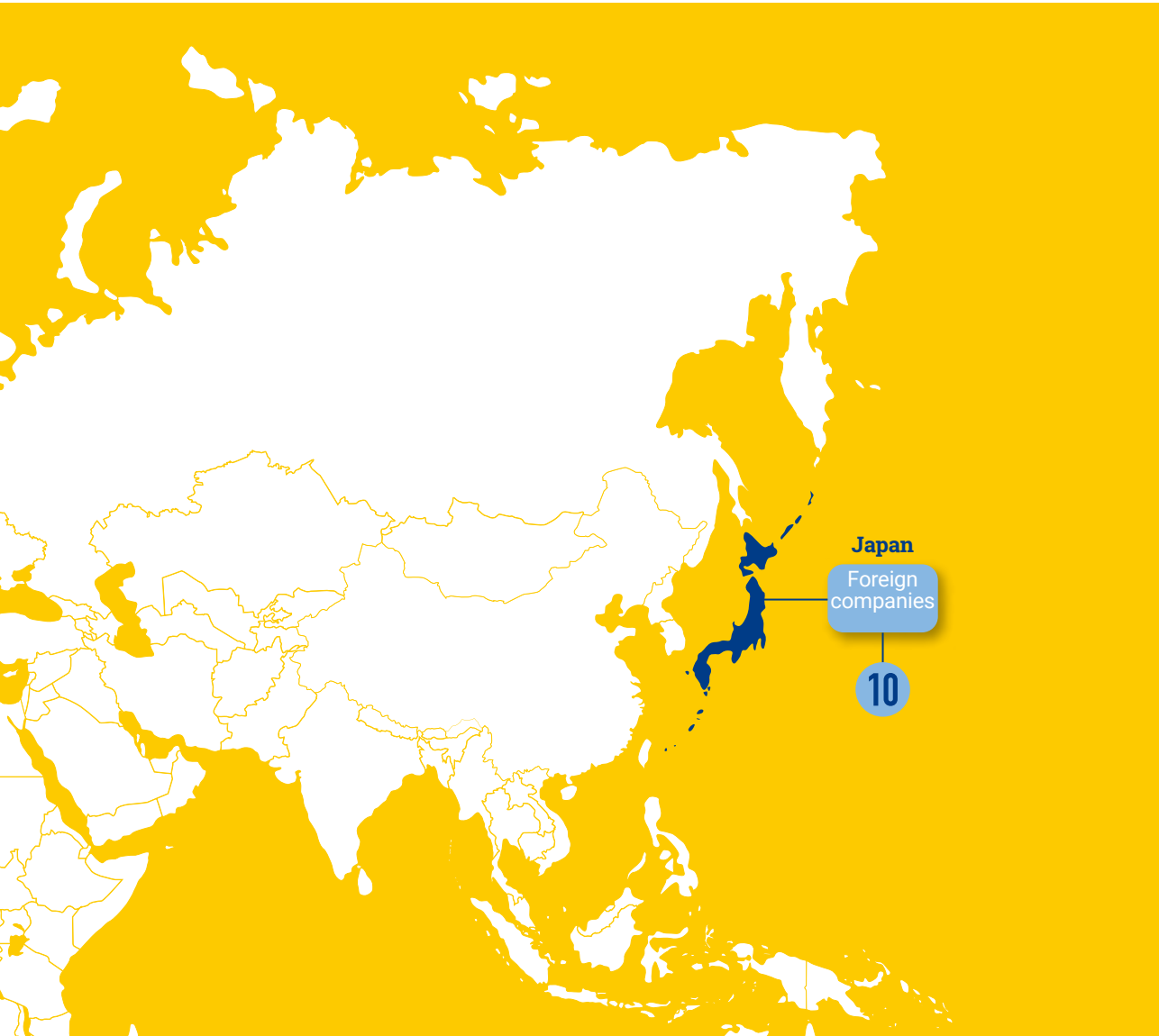
Data	Società	Paese	Settore
24/04/20	AT&T Inc	USA	Communication Services
08/05/20	AbbVie Inc	USA	Health Care
13/05/20	American Water Works Co Inc	USA	Utilities
13/05/20	Xylem Inc/NY	USA	Industrials
14/05/20	Intel Corp	USA	Information Technology
14/05/20	CVS Health Corp.	USA	Health Care
14/05/20	United Parcel Service Inc.	USA	Industrials
19/05/20	Amgen Inc.	USA	Health Care
02/06/20	Cognizant Technology Solutions	USA	Information Technology
03/06/20	Biogen Inc	USA	Health Care
03/06/20	Comcast Corp.	USA	Communication Services
09/06/20	TJX Cos Inc.	USA	Consumer Discretionary
11/06/20	Salesforce.com Inc.	USA	Information Technology
11/06/20	Toyota Motor Corp	Japan	Consumer Discretionary
18/06/20	Itochu Techno-Solutions Corp	Japan	Information Technology
18/06/20	Delta Air Lines Inc.	USA	Industrials
19/06/20	Denso Corp	Japan	Consumer Discretionary
23/06/20	TDK Corp	Japan	Information Technology
25/06/20	Kyocera Corp	Japan	Information Technology
25/06/20	Panasonic Corp	Japan	Consumer Discretionary
26/06/20	Mitsubishi Estate Co Ltd	Japan	Real Estate
26/06/20	Sony Corp	Japan	Consumer Discretionary
26/06/20	Taiheiyo Cement Corp	Japan	Materials
27/07/20	Linde PLC	Ireland	Materials
30/07/20	Hitachi Ltd	Japan	Information Technology
22/09/20	General Mills Inc	USA	Consumer Staples
23/09/20	Conagra Brands Inc	USA	Consumer Staples
13/10/20	Procter & Gamble Co/The	USA	Consumer Staples
18/11/20	Campbell Soup Co	USA	Consumer Staples
10/12/20	Cisco Systems Inc	USA	Information Technology
11/12/20	Medtronic PLC	Ireland	Health Care

Figure 29 summarises the number of votes cast in the 2019-2020 two-year period. The number of votes cast in the year was higher than in the previous year and the data related to 2019 and 2020 relating to the number of companies include the companies present in the funds of both Lines of the Etica System.

Figure 29. Votes cast

	2019	2020
Voting in shareholders' meeting	40	49
Companies in portfolio	161	202
% votes	24.84%	24.26%







People



People

In 2014, the Banca Etica Group created a specific Human Resources Policy which states that *"people are the most important asset of any business. They represent the resource that can most heavily influence the development of a new and rather complex business such as the Banca Etica Group. Within a company, decisions concerning personnel are of the greatest importance because they impact on the ability and quality of the performance of the organisation. The personal and professional development of individuals initiates a challenging process of continuous improvement which represents a relevant competitive factor for company*

success and contributes to the creation of a calm atmosphere founded on respectful and harmonious interpersonal relationships".

In this context, the Banca Etica Group reiterates that the centrality of the individual is a primary value and promotes a personnel management procedure that successfully addresses this priority across the group in a fully consistent and recognisable manner. The professionals present in the Banca Etica Group incorporate the technical expertise required for each role, the knowledge of interpersonal relationships, shared group values and motivated ideals.

The Banca Etica Group has structured its human resources policy around three specific areas of focus:

- 1. The development of employees.** The Banca Etica Group applies an approach to personnel management that favours personal development aimed at enhancing the potential of individuals and their growth with the purpose of achieving the company mission. The actions undertaken by the Group in this regard are centred around a reasonable and balanced combination of: training courses; gradual acquisition of skills; exchange of knowledge, expertise and information including through personnel participation in processes to define company decisions, with horizontal dynamics;
- 2. Work organisation style** which is characterised by: a) cooperation and team work; b) a focus on reconciling personal and professional life; c) the environment and organisational well-being
- 3. Involvement in corporate strategic decisions.** The Banca Etica Group takes on the challenge of an organisation which stays on the market with the desire to enhance the contribution of all stakeholders. The Group researches and promotes the contribution of all workers – especially in a cooperative-style organisation – because it is considered a factor for success. This is combined with a healthy balance that must always include participation, responsible attitude, recognition and respect for roles.

Composition of personnel

The composition of Etica Sgr's personnel highlights the Company's focus on gender policies, the stability of employment contracts and equal opportunities. At the end of 2020 there was a substantially equal distribution between men and

women (women made up around 41% of personnel, down slightly from 2019) with a prevalence of male middle managers and executives. Nevertheless, as in the previous year, there were 6 female Area Managers (of a total 11).

Figure 30 shows the distribution of personnel at the end of the last two years.

Figure 30. Composition of personnel

	2019	2020
Grade		
Executives	2	2
<i>of which women</i>	0	0
Middle management	18	17
<i>of which women</i>	7	6
of which Area Managers	11	11
<i>of which women</i>	6	6
Office workers	20	23
<i>of which women</i>	11	11
Total	40	42
<i>of which women</i>	18	17
Contract type		
Open-ended	39	42
of which apprenticeships	0	0
<i>of which women</i>	17	17
Fixed-term	1	0
<i>of which women</i>	1	0
Part-time	2	2
Qualifications		
Master	13	13
Bachelor's degree	21	21
High school	6	8
Junior high school	0	0
Average age	41.5	42.9
Age < 30 years	12.50%	7.14%
Age between 30 and 50 years	65.00%	66.67%
Age > 50 years	22.50%	26.19%
Average company service	5.1	5.5

In 2020, two more people joined the Etica Sgr workforce than the previous year, as a result of five newcomers and three leavers. The average age of employees increased slightly, from 42.6 to 42.9, a figure that reflects the increase in the average length of service. Again in 2020, most employees fell under the age bracket of between 30 and 50 years old (66.67%).

At 31 December 2020, all employment contracts were open ended, which demonstrates the focus of Etica Sgr on the stabilisation of employment contracts. At year end, one individual was undertaking an internship.

Figure 31 shows the trend in new hires and leavers recorded in the last two-year period, also including fixed-term contracts in the calculations.

Of the 5 new hires in 2020, 2 people were younger than thirty years old and around 40% were women. The recruitment rate in the year, generated by the ratio between the number of employees hired and the number of employees at the end of the previous year, was 12.50%, down compared to 2019, as a result of the lower number of newcomers registered. 3 employees left the AMC in the last year. The increase in the workforce led to a decrease in the turnover rate, calculated as the ratio between former employees and the number of employees at the end of the previous year, which decreased from 8.33% in 2019 to 7.50% in 2020.

Figure 31. Breakdown of Company recruitment and turnover

Grade	2019									2020											
	Hires				Leavers					Hires				Leavers							
	< 30-30	> 30-50	> 50	Tot. hires	Hiring rate	< 30-30	> 30-50	> 50	Tot. leavers	Leaving rate	< 30-30	> 30-50	> 50	Tot. hires	Hiring rate	< 30-30	> 30-50	> 50	Tot. leavers	Leaving rate	
Executives	0	0	0	0	0.00%	0	0	0	0	0.00%	0	0	0	0	0.00%	0	0	0	0	0	0.00%
Men	0	0	0	0	0.00%	0	0	0	0	0.00%	0	0	0	0	0.00%	0	0	0	0	0	0.00%
Women	0	0	0	0	0.00%	0	0	0	0	0.00%	0	0	0	0	0.00%	0	0	0	0	0	0.00%
Middle management	0	2	0	2	5.56%	0	1	0	1	2.78%	0	0	0	0	0.00%	0	1	0	1	2.50%	
Men	0	1	0	1	2.78%	0	1	0	1	2.78%	0	0	0	0	0.00%	0	0	0	0	0	0.00%
Women	0	1	0	1	2.78%	0	0	0	0	0.00%	0	0	0	0	0.00%	0	1	0	1	2.50%	
Office workers	0	3	0	3	8.33%	0	1	0	1	2.78%	2	3	1	6	15.00%	2	0	0	2	5.00%	
Men	0	3	0	3	8.33%	0	1	0	1	2.78%	1	2	0	3	7.50%	0	0	0	0	0	0.00%
Women	0	0	0	0	0.00%	0	0	0	0	0.00%	1	1	1	3	7.50%	2	0	0	2	5.00%	
Total employees	0	5	0	5	13.89%	0	2	0	2	5.56%	2	3	1	6	15.00%	2	1	0	3	7.50%	
Men	0	4	0	4	11.11%	0	2	0	2	5.56%	1	2	0	3	7.50%	0	0	0	0	0	0.00%
Women	0	1	0	1	2.78%	0	0	0	0	0.00%	1	1	1	3	7.50%	2	1	0	3	7.50%	

Focus on people

In addition to the National Collective Labour Agreement for credit sector workers, the company complementary agreement signed in December 2018 and valid for the 2019-2021 three-year period which governs relations with the AMC's employees, including Management, was applied to all employees for 2020. The characterising elements of the Agreement are shown below:

- 40% of the annual change in the company bonus was due to the change of a profitability indicator such as ROE, 40% to the change in an efficiency indicator such as cost/income and 20% to the change in environmental indicators such as consumption per employee of paper, toner and electricity;
- all employees were offered the possibility to sign up for free to the bike sharing service named BikeMI;
- employees who used public transport to travel to work for at least six months during the year could request reimbursement from Etica Sgr of two months' worth of travel passes;
- all employees hired under a fixed-term contract were able to make use of an annual medical check-up service. This service, part of the supplementary healthcare assistance that has always been in place at Etica Sgr and extends to all employees, seeks to protect the health of employees not only following the occurrence of any health problems, but also as a preventive measure;
- in addition to the provisions of the applicable legislation, three days of paid leave are granted, to be used over the course of one month from the birth of a child;
- Etica Sgr grants each worker a maximum contribution of € 100 and one day of paid leave per year for participation in training initiatives that are in line with the values and aims of the Banca Etica Group. Two working days and an expenses allowance for travel and registration in training camps/volunteering projects are also provided.

Policies for development of organisational well-being:

Over the years the Banca Etica Group has developed a collection of actions intended to reinforce company welfare, some envisaged by the national CLA (e.g. supplementary pension scheme, healthcare policy), some defined through internal trade union agreements and others promoted under direct initiative.

The main activities promoted in 2020 are shown below.

Organisational Well-being Monitoring Body

Launched in 2016, through the submission to all Group personnel of an internal survey, its objective is to monitor annually the quality perceived in terms of organisation, in order to initiate any possible actions for improvement in critical areas. The survey was also conducted in 2020 via an on-line questionnaire.

The average responses were better than 2019: they achieved 3.57 on a scale from 1 to 5 (3.43 in 2019).

In general, the areas of strength and improvement already found in previous years were confirmed, even if these areas of focus have seen improvement:

- perception of great personal commitment and of high motivation from workers
- presence of professionally qualified managers with good professional skills (even if slightly lower than 2019);
- Banking Group which has created a work environment that promotes proactivity, internal relations and the development of personnel, which is mindful of reconciling personal and work life, but which must improve its ability to assess collaborators, define paths for professional growth, provide efficient work tools, acknowledge the proper commitment of workers and which must take care to prevent discrimination in general.

Specifically, the Company Plan for Organisational Well-being is structured around two macro courses of action which were implemented as of 2020 and will be further developed over the course of 2021, envisaging:

- Actions for a culture of respect and development of diversity in the Banca Etica Group;
- Actions for the development of People in the Banca Etica Group;

Company welfare

In the context of the promotion and development of a welfare system underpinned by research for solutions suitable for reconciling personal and work life in addition to the identification of useful tools also with social value, the Banca Etica Group, alongside trade unions, considered it important to seize the opportunities offered by the legislation for the dissemination of specific company policies regarding welfare, able to respond to the health and social needs of personnel.

A trade union agreement was signed which involves the disbursement of the company bonus or part of this through welfare measures.

The range of possible services to be offered was defined during internal consultation, through a survey given to all employees:

- services dedicated to children;
- services dedicated to elderly family members aged 75 or dependent family members;
- employee-centred services: sport, culture, well-being and leisure;
- mobility.

Time Bank

With the trade union agreement of 15 December 2020, the so-called "Time Bank" was established, an annual availability of hours of paid leave in favour of workers, contributed to by worker donations of unused annual leave and by the Company with paid leave time. Workers can use the bank if, in order to deal with serious and ascertained personal and/or family situations, they require more hours in addition to their envisaged leave entitlement.

Social Security

In relation to social security aspects, Etica Sgr contributes 3% of the basis for calculating the severance indemnity to the payments made by employees who decided to merge the severance indemnity with a pension fund, proposed by Etica Sgr, and who chose to make an additional payment of at least 1% of the basis for calculating the severance indemnity.

Health and safety

Etica Sgr oversees the dissemination of a culture of worker health and safety on site by all personnel. The coronavirus emergency and the resulting pandemic had a strong impact on the organisation of the AMC during 2020. Flexible working was introduced for all employees, who were given the necessary IT devices to carry out their work remotely and the preference for remote communication replaced business trips, including in the case of training events.

During the year there many initiatives to support personnel during the pandemic: in addition to the normal precautions and specific information, we took out a dedicated insurance policy, launched a counselling project and launched a mindfulness course that will be completed in 2021.

Over the last two years, following an increase in the number of hours worked, no accidents were recorded either in the workplace or during journeys to and from work.

Growth and professional development

Training

Albeit with the difficulties and new developments that the health emergency caused for organising training, the focus on the professional growth of resources continued, by overseeing the technical and value training activities: the topics addressed included, among other things, as envisaged by the legislation, aspects related to anti-money laundering, privacy, the 231 Law and compulsory training

introduced by MiFID II. The total hours offered to employees in 2020 was 1,735 hours, equal to around 39 hours per capita. The fewer hours compared to 2019 were affected by the slowdown in training due to compliance with anti-COVID-19 measures, especially in the first half of the year. However, the training satisfaction rate remained high, at 91.46%.

Remuneration policies

The following figures highlight the comparison between the remuneration of female employees compared to that of their male counterparts in the previous two-year period.

Specifically, Figure 32 represents the weighting of the average gross salary of women against the average gross salary of men. The basic salary corresponds to the Gross Annual Salary (G.A.S.) only, with no company bonus, benefit or other contributions.

Figure 32. Average basic salary of women compared to men

	2019	2020
Executives	na	na
Middle management	103%	102%
Office workers	103%	106%

The table shows that in terms of basic salary, women received slightly higher salaries on average.

For executives, this comparison was not possible because the two executives present were both men.

The same comparison was made considering the average remuneration including the G.A.S. (Gross Annual Salary), company bonus, any benefits and other contributions.

Figure 33 represents the weighting of the average total salary of women against the average total salary of men.

Figure 33. Average total salary of women compared to men

	2019	2020
Executives	na	na
Middle management	100%	97%
Office workers	105%	106%

As regards middle management, the decrease is due to resigning employees, whereas for office workers there was a higher average remuneration compared to the male colleagues.



Environment



Environment

Etica Sgr has always been mindful of its environmental impact. Where possible, it promotes the use of recycled raw materials or those that come from renewable sources, it encourages the sustainable mobility of its employees and seeks to limit waste of resources. This chapter illustrates the main results achieved in this respect.

Consumption of resources

Etica Sgr's consumption of resources mainly involve paper, toner, electricity and heating for the offices. See below for the trend in consumption in the previous two-year period.

Figure 34. Energy consumption within Etica Sgr

Energy consumption (GJ)	2019	2020
From renewable sources	107.63	63.35
Electricity	107.63	63.35
From non-renewable sources	168.40	208.50
Methane gas for heating	168.40	208.50
Total	276.03	271.85

The electricity used by Etica Sgr comes from certified renewable sources, thanks to an operator specialised in this kind of supply. In recent years, the consumption of electricity has been continuously increasing, mainly as a result of the increase in the workforce, the gradual increase of offices used by employees for internal meetings and allowing external organisations to use the company spaces for meetings and conferences; the notable decrease recorded in 2020 compared to 2019 is linked to the lack of use of the company offices for most of the year, given that employees have worked remotely since the first lockdown and continue to do so; as

a result, despite the increase in the workforce, the consumption per capita has reduced sharply, from 2.76 to 1.58 GJ.

The AMC's offices are within a communal building equipped with gas central heating. The gas consumption figures were calculated by remeasuring the total fuel and cubic metres of gas consumed by the condominium in proportion to the premises occupied by the AMC. For 2020, the consumption totalled 208.50 GJ¹³, an increase compared to the 168.40 GJ of the previous year, as a result of the full availability of the new spaces purchased in late 2018. The heating created atmospheric emissions of 12.32¹⁴ tonnes of CO₂ equivalent.

Figure 35. Annual consumption of materials

Annual consumption of materials (kg)	2019	2020
Paper for internal use	665	115
<i>Ecological FSC</i>	100%	100%
Paper for external use	19,823	26,692
<i>Coated FSC</i>	0.10%	0.00%
<i>Coated non-FSC</i>	0.00%	0.00%
<i>Recycled</i>	8.96%	1.27%
<i>Uncoated non-FSC</i>	0.00%	0.00%
<i>Uncoated FSC</i>	90.94%	98.72%
Toner (Kg)	32	8

The lack of use of the offices during the year led to a sharp decrease in the use of internal paper and consequently toner: the possibility to work remotely demonstrated the futility of printing many documents, given that these could be created and authorised digitally.

The use of paper for external uses, however, increased significantly in relation to the increase in the number of customers, who were sent compulsory communications regarding their investments. In late 2020, by virtue of a number of

¹³ For the calculation of the consumption expressed in GJ, the conversion factor used is the one present in the National Inventory Report issued in 2020 by the ISPRA (Istituto Superiore per la Protezione e la Ricerca Ambientale - Italian Higher Institute for Environmental Protection and Research).

¹⁴ The figure was calculated using the emission factors suggested by the DEFRA (Department for Environment, Food and Rural Affairs) for 2020.

amendments made to the Rules of the Funds, the AMC also decided to send a letter to all customers containing the changes. Note that more and more subscribers have signed up for the “Farewell paper” service, which allows them to view and manage all communications in their personal bulletin board in the Reserved Area. As already specified in the box in the “Market” chapter, in one year the number of registered customers increased from 10,007 in late 2019 to 20,392 and made it possible to save around 365 kg of paper and 336 kg of CO₂ equivalent, estimated on the basis of the emission factor suggested by the DEFRA.

As shown in Figure 35, all paper used by Etica Sgr, for both internal uses and to print promotional and information material, is recycled or certified eco-friendly by the Forest Stewardship Council (FSC).

All paper waste produced internally is sent for waste sorting, as are cans, plastic, glass and the vegetable oil of the foods consumed in the company canteen. The latter is actually collected in a container then disposed of at the specific collection points present in Milan.

The only hazardous waste produced is empty toner

cartridges from printers and photocopiers. For these, the service contract signed with a specialised company envisages the resupply of toner and cartridges and collection of empty ones, in addition to machine rental. These are collected monthly from the office by a social cooperative as part of the disposal programme created by the toner manufacturers. The Company only uses original toners, considering that these provide better results than remanufactured toners.

A series of measures were adopted by the Company to further limit its environmental impact, such as the installation in the corridors and toilet facilities in the head office of specific time sensors that only switch on the lights when people are present.

Emissions

The following figure summarises the emissions of CO₂ equivalent in the last two-year period relating to the consumption of paper, electricity, heating and travel to and from work.

Figure 36. Trend of CO₂ equivalent emissions

Source	2019		2020	
	Location-based	Market-based	Location-based	Market-based
Scope 1				
Heating		9.97		12.30
Company cars		4.40		0.67
Scope 2				
Electricity	9.49	0.00	5.24	0.00
Scope 3				
Paper		19.52		24.65
Business trips		36.31		1.33
Total CO2 equivalent (t)	79.70	70.20	44.19	38.95

In 2020, the impact was halved due to the effects of COVID-19, which removed journeys to and from work and reduced electricity use due to the lack of use of the corporate headquarters.



ETICA SGR CONTRIBUTES TO THE REFORESTATION OF MILAN

In collaboration with Rete Clima, Etica Sgr played its part in the commitment to an even greener



Milan as part of ForestaMi: the project of the Metropolitan Area of Milan which aims to plant 3 million trees by 2030.

In 2020, the Company turned 20 years old, and to celebrate this important milestone, decided to give a gift to its host city and citizens. On 14 February 2020, at the Parco Nord Milano, the first tree of the "Etica Sgr Forest" was planted by the AMC's Chairman and, as scheduled, by November another 414 were planted, equal to 1,900 m² of new forest.

The forest is formed of plants native to Lombardy, from regional nurseries: once mature, the forest will be able to absorb around 263,000 kg of CO₂, equal to the emissions of a car driving around the Earth over 30 times, of around 450,000 0.5-litre bottles, of 2,300 refrigerators running for one year.

Etica Sgr was also able to offset its own emissions in 2019, equal to around 70 tonnes of CO₂e, alongside those deriving from its website. Based on a methodology created by Rete

Clima, it was calculated that the over 1.62 million views generated 570 kg of CO₂e.

An initiative that improves the quality of the local region and increases its resilience to global warming.



Community



Community

Relations with trade associations

Etica Sgr continues its commitment in numerous national and international contexts to promote the knowledge and dissemination of sustainable and responsible investment: to do so, it is a member of various trade associations and organisations, the list of which is available on the Company's website under the section "[Network](#)".

Relations with institutions

Etica Sgr did not, in 2020 or in previous years, make financial contributions to political parties and related institutions, nor did it have to face legal action for unfair competition, anti-trust or monopolistic practices, nor sanctions of any type due to non-compliance with laws or regulations on social, environmental or economic matters.

Relations with universities

Etica Sgr continues to cultivate relationships with universities, considering them a preferential channel not only because of the training and refresher courses aimed at its employees, but also for the activity carried out by the AMC as both a lecturer and in support of works carried out by thesis writers and students, given the importance held by the growth of the culture of sustainable and responsible investment among younger generations.

In 2020, as well as taking part in various online events and lessons, Etica Sgr contributed to the creation of two important higher education courses organised by two leading Italian universities. The first was a second-level master's degree in "Finance: instruments, markets and sustainability" organised by ALTIS, Alta Scuola Impresa e Società of the Catholic University of the Sacred Heart in Milan. The second was a higher education course in Ethical Finance at the Economics Department of the University of Naples Federico II, now in its second year.

Events aimed at the local community

During the year, as a guest or speaker, Etica Sgr took part in conferences and seminars on ethical finance and responsible investments, some of which had an international reach. Furthermore, there were also various lectures in universities and high schools for a total of 47 hours of training and testimonials offered, an important number given the health emergency that characterised 2020 and which only allowed for online events, which were not always easy to organise.

Lastly, with the aim of spreading the principles of ethical finance by describing its activities and experience, Etica Sgr took part in various broadcasts on sector radio and television channels, for a total of nearly 6 hours of footage.

Events

The impact of COVID-19 on organising in-person events was significant. Many of the events envisaged in 2020 were cancelled, others became online events. Shown below are the main events attended by Etica Sgr, either by contributing to the event or sending its personnel as speakers.

Digital Week Asset Management

Etica Sgr took part in Digital Week Asset Management, the first multimedia event in Italy aimed at financial consultants, private bankers, asset managers and family offices. Organised by BFC Media in the week between 5 and 9 October, the morning schedules of the event included round tables where the sector's various issues were analysed, such as innovative and alternative investments, pension funds, SRI finance and M&A in the asset management industry. In the afternoon, workshops were organised to discuss sustainability, cybersecurity, market volatility and subjects linked to technology applied to the world of asset management, including the figure of the post-COVID financial consultant.



Italian Sustainability Week

The Italian Sustainability Week took place between 29 June and 3 July. The event was organised by Borsa Italiana, a member of the London Stock Exchange Group, a player that is more and more aware of the strategic role that its market infrastructure might play in financing more sustainable economies and in supporting dialogue between issuers and investors. The initiative has grown over the years and given the increasing numbers of companies and investors involved, the 2020 edition took place over an entire week, instead of the usual single day in previous years. In an entirely digital format, which took account of the requirements of social distancing but offered the possibility to reach a greater number of stakeholders, the intention of the organisers was to provide a response to the demand of issuers and investors while enjoying an opportunity for education and public discussion, and above all, direct dialogue between companies and investors. The only asset management company to have participated in all editions since 2017, Etica Sgr engaged in dialogue with 13 companies, highlighting the possible latent ESG risks and suggesting tools to address them.

SRI Week

[SRI Week](#), promoted and coordinated by the Italian Sustainable Investment Forum (SIF), took place between 11 and 25 November. The schedule of the 2020 edition included 17 online conferences which looked at key issues in the context of sustainable finance, with the presentation of 4 research studies and one cultural review.

The Etica Sgr Chairman took part in the round table of the closing event, "Sustainable investments for the climate", which discussed the alignment of portfolios with climate objectives to mitigate and adapt and the financing of climate solutions. The handbook created by the Forum with the support of the AMC was presented at the event.

The Salone SRI took place as part of SRI Week. Carried out on 24 November entirely via streaming, the event was exclusively dedicated to ESG products and strategies and was open to

investors and consultants. Aldo Bonati, Corporate Engagement and Networks Manager of Etica Sgr, was one of the speakers at "[Transparency of ESG investment products: voluntary and regulatory standards](#)", the workshop organised in collaboration with CFA Society Italy dedicated to the issue of transparency of ESG investments. Guests answered the question: Which standards should the fund use to report its ESG characteristics?

The run-up to the Salone SRI 2020 was characterised by the online roadshow, "Digital Roadshow ESG Planet", a series of four events introducing the subjects of the Salone SRI. Maurizio Fedeli, Deputy Manager of the AMC's Business Partners Area, took part in the first event on 27 October, where considerations were made on the concept of this year's edition: "ESG Planet - Finance faces a new world", or rather how investment should adjust to processing fragmented information (ESG parcel) but with planetary effects.

Sponsorships and donations

The donation and sponsorship activities carried out by the AMC in 2020 are shown below.

Archivio Desaparecido

Etica Sgr has decided to support the Centro di Giornalismo Permanente in the project to create a multimedia archive that reconstructs the history of Italian citizens or citizens of Italian origin who in the final decades of the 20th century were persecuted, tortured and killed by the military dictatorships governing a number of countries in Latin America.

Cooperativa Sociale Zaffria

A 2019 survey conducted by Telefono Azzurro and Doxa Kids on a sample of 600 Italian children aged between 12 and 18 years old showed that nearly 1 in 10 children had spread embarrassing information/videos of someone. More than 1 in 6 children also stated that they had been a victim of bullying and more than 1 in 10 identified more frequently the online context in which this violence takes place. In this national context, where the impact of cyberbullying is often underestimated,

Etica Sgr has decided to support [Zaffiria](#), the centre in Rimini that has worked since 1988 mainly in education around the media and digital use, working with Italian and European colleagues, but also in Japan, Senegal and Korea. In particular, the AMC will help to support VOICE, the project that aims to work with primary school children, families and teachers to prevent cyberbullying and online hate speech. The initiative involves the creation of a cartoon with 3 classes with children aged 9/10 years old, which identifies some of the possible situations of risk in order to initiate narrative strategies and raise awareness to help children browse the web while aware of the dangers and with constant dialogue with adults. Parents and teachers are involved in the creation of the cartoon alongside the children. The second product planned is an app that can be downloaded for free on iOS and Android, which involves “educational games” to create situations of dialogue within the family and at school: the app envisages a collaborative effort between parents and teachers. While playing, children will be faced with a number of questions and situations that become opportunities for discussion with adults.

Economy of Francesco

The Banca Etica Group, of which Etica Sgr is part, was a partner of [“The Economy of Francesco”](#), which saw economists, entrepreneurs and promoters of sustainable economy aged under 35 from across the globe, invited by Pope Francis to meet in the symbolic location of Assisi, Italy, alongside the most renowned economists and experts in sustainable development and humanities to launch a process of global change. Initially planned for 26-28 March, due to the COVID-19 pandemic, the event was held online between 19 and 21 November 2020, while the in-person event was postponed to autumn 2021. Over the 3 days, more than 40 countries were connected, thanks to the registration of around 2000 young people from across the world, with live streaming from Assisi and a video message from the Holy Father. A series of remote events were held in the months prior, with dialogue and reflection through work groups divided by thematic area, called “villages”. From the outset, the Banca Etica Group had decided to take

part in this exciting journey, focusing on the works of the “Finance and Humanity Village”, engaging in discussion with the young people and supporting them in the definition of their thesis proposals to generate more inclusive, responsible and ecological finance. Two webinars were organised for the village participants, held in October, which looked at the history and evolution of ethical finance and its instruments and issues of engagement respectively, such as dialogue, active shareholding and critical shareholding. Etica Chairman Biggeri took part as a speaker in the second webinar, overseen by the AMC and the Fondazione Finanza Etica.

Festival of Human Rights

Etica Sgr sponsored the “Festival of Human Rights”, the event streamed from 5 to 7 May. In its fifth edition, it focused on the rights of disabled people. Discussions took place around diversity and equality, inclusion and equal opportunities, stigma and self-realisation. Created to raise awareness of the importance of human rights, this year the Festival brought the topic of disability to the forefront of the events, which could be followed on various platforms via live streaming and recordings. Talks, school lessons, discussions with testimonials, experts, writers, photographers and journalists formed the programme of the 3-day Festival.

Fondazione Finanza Etica

Etica Sgr is one of the founding members of the Fondazione Finanza Etica, the cultural body of the Banca Etica Group with which the AMC actively collaborated during the year, alongside the Parent Company. In 2020, the AMC awarded the Fondazione € 50,000 of its charitable donations fund, created by the allocation of its profits, to be used to issue a call for tenders for the promotion of women's employment.

Italian Sustainable Investment Forum

As previously mentioned, the [“Sustainable investments for the climate”](#) handbook was presented during the SRI Week 2020, the result of a work group supported by various market players, including Etica Sgr, launched by the Italian Sustainable Investment Forum in collaboration

with the WWF to analyse the contribution that sustainable finance might make to the achievement of the internationally identified climate goals, both in terms of integration of sustainability aspects in investment decisions, and with a view to funding mitigation and adaptation solutions. To guarantee an optimal management of risks/opportunities, as well as the effectiveness of the actions undertaken, it is essential for each investor to define a personal strategy in order to integrate the issue of climate changes into investment decisions. The implementation of the strategy can take place through multiple approaches and instruments capable of reducing the negative impact of investments (engagement; disinvestment; exclusions) and financing activities with a positive impact on the climate (green bonds, including sovereign ones; transition bonds; sustainability-linked loans; loans for energy efficiency; thematic investments; best-in-class; impact investing; climate benchmarks). The handbook also looks at the social aspects linked to climate change and their relevance from a financial perspective, both in terms of risk (for example damage to health, increase in inequalities and involuntary migration), and of opportunities (in terms of fair transition and greater resilience of companies and human society).

Online Summer School on Social Banking & Sustainable Finance

The [Summer School on Social Banking & Sustainable Finance](#), the event of reference for understanding and analysing the issues linked to ethical banks and sustainable and responsible finance, is carried out each year by the ISB (Institute for Social Banking) which oversees the training and research for operators at ethical finance organisations. The 2020 edition, now in its thirteenth year, was entitled “Beyond sustainability! Social banking as a way forward” and was held entirely online for the first time, with around 80 guests from 20 different nations who came together to discuss the opportunities and challenges of this fast-changing sector, from the perspective of academia as well as those who work in it. The speakers also included the AMC’s Chairman Biggeri, who explained to the participants the fundamental steps in the history of ethical finance.

Shareholders for Change

Etica Sgr has decided to contribute directly to the new project of the [SfC](#) network, of which it is a founding member. The study, entitled “Responsible capital allocation strategies during COVID recovery”, seeks to highlight a particular aspect of the response of listed companies in managing COVID-19, especially in terms of capital allocation strategies. As a result of the health emergency, which is still ongoing, many large companies received (and in part, still do) public subsidies, especially for furloughing employees. However, a number of these companies continued to pay bonuses to their managers, laid off workers, funded the repurchase of shares on the market to support their stocks), did not reduce the dividends paid to shareholders and continued to maintain subsidiaries in tax haven countries with high financial opacity. Therefore, it could be suggested – as the research ought to prove – that a number of companies used taxpayers’ money irresponsibly to increase the short-term profits of shareholders rather than to improve the long-term conditions of workers and the company in general. The research will aim to identify, among the main European listed companies, a number of cases in which this irresponsible capital allocation has occurred and to provide the bases for a new engagement project. The research team will be identified by Etica Sgr in collaboration with another two lenders and network members: the Austrian fair finance company, Vorsorgekasse AG and the UK-based charity Friends Provident Foundation. The results of the research will be presented during the summer AGM of SfC, which will take place in June 2021.

Figure 37 summarises the amount of the economic value distributed to the local community by Etica Sgr in the 2019-2020 two-year period.

Figure 37. Disbursements in 2019-2020

	2019	2020
Disbursements	558,160	564,008

The total amount for 2020, equal to 2.81% of the economic value generated in the year and in line with the amount for 2019, includes disbursements directed to the various organisations, the contribution to the fund for microfinancing and crowdfunding equal to 0.1% of the fees accrued on the funds during the year and the portion of profits allocated to charitable donations, equal to € 250,000.

Guarantee Fund for microfinancing and crowdfunding projects

Subscribers of the Etica System funds are not subject to entry fees, but can choose to assign 0.1% of the amount subscribed to a fund that guarantees microfinancing projects in Italy and, as of 2016, that also supports Italian crowdfunding initiatives with high social and environmental impact. As it has done previously, Etica Sgr has assigned 0.1% of the fee income accrued on the funds and of investment in units of its own products, for an amount of € 68,507.75.

Microfinancing activities

The fund offers guarantees to microloans granted by Banca Etica or by parties it identifies. For 2020, € 3,990,000 was made available for the activity, including funds already committed in previous financial years.

During the year, 101 new loans were granted, of which 97 were managed directly by Banca Etica and the other 4 were granted in partnership thanks to the agreement with local associations. Of the loans granted in 2020, around 61% led to new business initiatives, while the remaining 39% of the operations were social and healthcare related. 39% of the micro-business loans were located in Northern Italy, 37% in Central Italy and 24% in the South and the Islands. As regards the social and healthcare microfinancing, 56% was directed to Northern Italy, 31% Central and 13% South and the Islands.

At 31 December 2020, there were 357 loans in place, also due to the 11 guarantees enforced for a total amount of around € 138,000.

Crowdfunding activities

Since 2016, the Fund has also helped to support crowdfunding projects selected by Banca Etica through specific tenders and managed technically by the Produzioni dal Basso platform. For all initiatives that achieve 75% of their funding target, the AMC covers the remaining portion until its yearly allocation is used up. For 2020, the fund portion allocated in favour of crowdfunding was € 100,000.

Planning for the 2020 calls for tenders, which started in late January, suffered from the impact of the COVID-19 pandemic. Due to the systemic complexity deriving from the epidemic and the initial evidence, a decision was made to avoid emergency healthcare-related or institutional campaigns and to wait a few months before designing a tender notice suited to the new requirements.

Of the many social emergencies triggered by the restrictions imposed by the health emergency, children were among those that suffered the most. As a matter of fact, the months of lockdown, school closures and the inability to carry out group activities led to growing loneliness and isolation, especially for the most fragile and vulnerable. As a result, in September the "IMPACT +, CONTRASTO ALLA POVERTA EDUCATIVA" [Impact +, Fighting Educational Poverty] call for tenders was issued, dedicated to educational integration in the search for innovative educational and cultural projects aimed at children in need aged between 3 and 18 years old. Banca Etica received 75 applications and 14 projects were selected for the final phase, which between 1 December 2020 and 31 January 2021 collected funding through the Produzioni dal Basso platform. Having achieved 75% of the funding goal through donations from the network, eight projects received a contribution from the Fund for a total of around € 16,000.

Concept, Graphic design and Layout



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