



Etica SGR S.p.A.
GRUPPO BANCA POPOLARE ETICA

CLIMATE CHANGE: A CONCRETE COMMITMENT

**Etica Sgr measures its corporate
and product Carbon Footprint**



CLIMATE CHANGE: A CONCRETE COMMITMENT

Etica Sgr measures its corporate and product Carbon Footprint

Climate change is affecting our economy, health and society. In March 2015 the *National Oceanic Atmospheric Administration (NOAA)* found that concentrations of carbon dioxide, due to our massive use of energy produced from coal, have exceeded 400 parts per million against the optimal level of 350 ppm.

The uncontrolled increase of greenhouse gas emissions is threatening the planet's ecological balance: CO₂ emissions cause global temperatures to increase, glaciers to melt and sea levels to rise, risking the extinction of many animal and plant species.

It is therefore essential for every player in the world in which we live to accept responsibility for measures to be taken to prevent any irreversible scenarios. Companies, citizens and sovereign states have always been asked to make a concrete commitment: today even the financial world can no longer be excluded.

Etica Sgr's commitment towards climate change

Etica Sgr, in its capacity as an asset management company that establishes, promotes and manages only socially responsible investment funds, **has always been active on the front of climate change**, selecting the most sustainable companies, excluding from investments the sectors with greatest impact in terms of CO₂ or other climate changing gases, and asking invested companies for better reporting and management of emissions.

In fact, as well as providing specific elements of analysis of companies in relation to environmental performances, Etica Sgr has made climate change management a key element of its dialogue activities with listed companies and its interventions at the annual shareholders' meetings, but also of its own business activities. As early as 2014 Etica Sgr decided to neutralise its direct Carbon Footprint, produced by consumption for mobility, electricity, heating, paper and toners. Those emissions were offset by planting 500 trees: 50 trees in Italy - in collaboration with the association Libera - and 450 in Kenya. Each tree was photographed and geo-referenced so that the evolution of the Etica Sgr Forest can be followed over time.

In addition, together with other investor members of the *Principles for Responsible Investment (PRI)* of the United Nations and the *Interfaith Center for Corporate Responsibility (ICCR)*, Etica is active in awareness-raising initiatives with regard to public opinion and policymakers so that climate change can become a crucial point in policies for long-term sustainable development. This year, the initiatives in that sense have been particularly important, as they mostly concern the Party Conference on Climate Change (COP21) in Paris, which aims to achieve binding agreements between countries to reduce greenhouse gas emissions. Maintaining the global temperature increase within the limit of 2 degrees Celsius compared to pre-industrial levels is the main objective signed by the G7 countries meeting in June 2014: the need was identified to reduce, by 2050, overall CO₂ emissions by between 40% and 70% compared to the 2010 levels, by developing and adopting innovative technologies and focusing on transforming energy sectors to low emissions.

Etica Sgr is also the only Italian asset management company to have joined the Montreal Carbon Pledge initiative, supported by the *Principles for Responsible Investment* and by the UNEP FI (*United Nations Environment Programme – Finance Initiative*), launched on 25 September 2014 at the “PRI in Person” event in Montréal.

The initiative is aimed at institutional investors and involves the commitment, by members, to measure annually and to report upon the carbon footprint of their investments. The aim is to achieve managed amounts of 3 trillion dollars by December 2015, the month in which the cited COP21 will be held. The initiative, in fact, is one among many other events on the issue including the USA-China agreement on CO₂ emissions, the *Portfolio Decarbonization Coalition* and the *Global Investor Statement on Climate Change* (signed by Etica Sgr). In October 2015 there were over 100 members across the world for total managed assets of over 8 trillion dollars.

The carbon footprint of the Etica Azionario fund

In accepting the Montreal Carbon Pledge, Etica Sgr undertook to measure, manage and report upon the carbon footprint of its investments.

The carbon footprint is defined as the set of greenhouse gas emissions attributable to a company, event, product or person. While it has now become commonly accepted practice to calculate the carbon footprint of physical products, events and companies, it is rarer to measure emissions of services and even more difficult to calculate the impact of financial products in terms of greenhouse gas emissions. This is, therefore, a highly challenging commitment that Etica Sgr has accepted, which attributes even greater importance to the awareness of its investment decisions.

International standards divide greenhouse gas emissions into scopes:

- **Scope 1:** all **direct emissions** of greenhouse gases of the entity or entities controlled by the same (fossil fuels used in the production process, emissions of vehicles in the company fleet, etc.).
- **Scope 2:** all **indirect emissions** of greenhouse gases not generated by the entity but which represent a direct consequence of the same (these are, for example: emissions deriving from the generation of electricity, heating or air conditioning used by the company in its activity).
- **Scope 3:** the **remaining indirect emissions** of greenhouse gases.

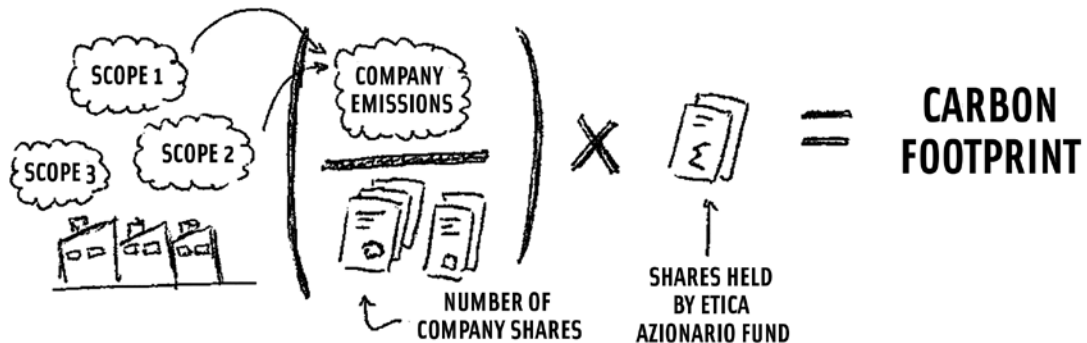
Alongside the CDP (Carbon Disclosure Project, a project established in 2000 with the aim of incentivising Companies to monitor and report on their climate change impact), Etica Sgr has calculated for the first time the carbon footprint of the investments of the Etica Azionario fund at the end of 2014.

The table below summarises the main information of the cited calculation.

Fund	Etica Azionario (ISIN: IT0004097405)
Assets under management at 31.12.2014	140.97 million Euros
% equity analysed for <i>carbon footprint</i>	85%
Securities in portfolio	82
Securities analysed for <i>carbon footprint</i>	78
Sectors with greatest impact	<i>Materials</i>
Companies with greatest impact	83% of the total emissions covered by the top 10 securities for equity exposure 50% of the total emissions covered by a single company (French - Materials sector)
Carbon footprint of the Fund	26,324 tonnes of CO ₂

(Source: Etica Sgr and CDP – Figures at 31 December 2014 – benchmark used in the analysis “MSCI All World”)

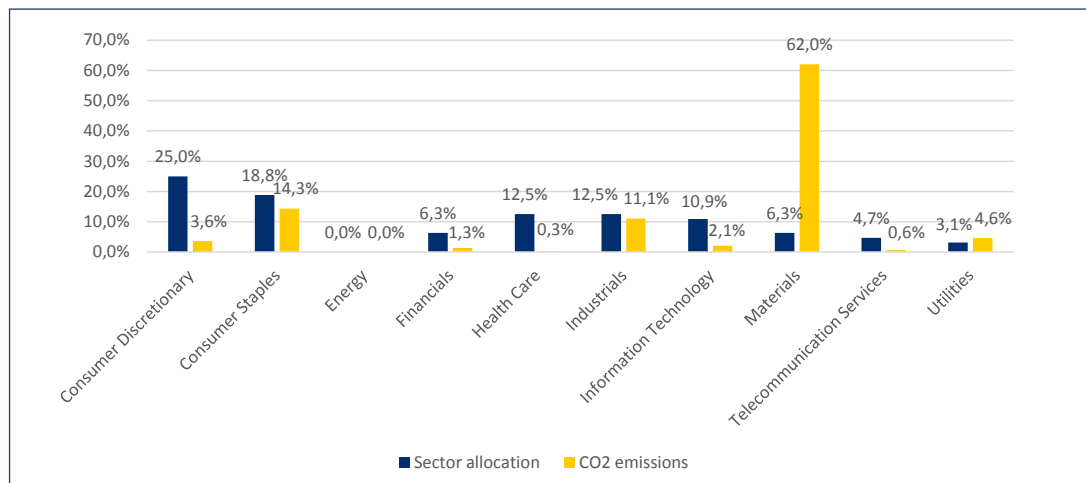
The methodology used to calculate the carbon footprint considered the Scope 1 and Scope 2 emissions reported by the companies, together with the size of the fund's investment in the same, on a pro rata basis to the total of the shares issued by the companies.



Therefore, Etica Sgr's carbon footprint, i.e. 26,324 tonnes, represents the CO₂ emissions "weighed" by the Etica Azionario fund and are equivalent to:

- 5,542 vehicles driven for 18,000 kilometres per year;
- 12,825 tonnes of coal burned;
- 61,219 barrels of oil;
- 348 tanks of fuel;
- 3,621 household appliances used per year (in terms of electrical consumption).

The graph below shows the sector allocation of the Etica Azionario fund at 31 December 2014 (GICS¹ classification) and the percentage of emissions related to the companies belonging to each sector.



(Source: Etica Sgr and CDP – Figures at 31 December 2014)

¹ The Global Industry Classification Standard (GICS) is a classification standard developed in 1999 by MSCI and Standard & Poor's to establish a criterion accepted at global level in the sector classification of industries so as to give greater comparability to the research and analyses performed in different parts of the world. The standard, in particular, divides companies into 10 industries, 24 industry groups, 67 industries and 156 sub-industries.

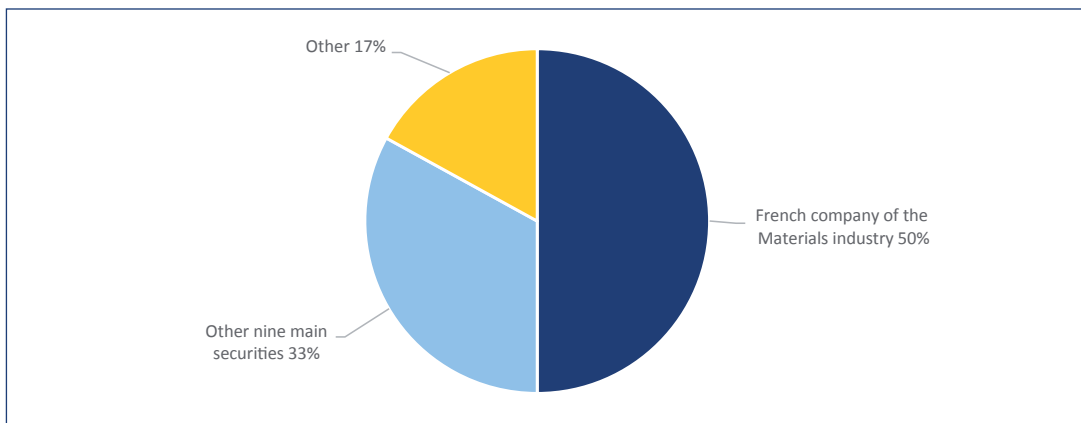
The graph shows that over 60% of the total emissions of the fund are associated with a *sector allocation* that sees a little over 6% of the assets invested in companies belonging to the *Materials* sector.

Even from a comparison with the MSCI All World index used in the analysis, it emerges that the most CO₂ emissions derive from the *Materials* sector.

It demonstrates, on the other hand, the successful decision by Etica Sgr to exclude a priori the *Energy* sector (mainly oil) as well as having an underweight position in the *Utilities* sector.

In terms of individual issuers, it is noted that 10 securities with the highest impact (almost all European) represent approximately 83% of the emissions of the fund, with a French company operating in the *Materials* sector having prevalence (representing, alone, 50% of the total emissions).

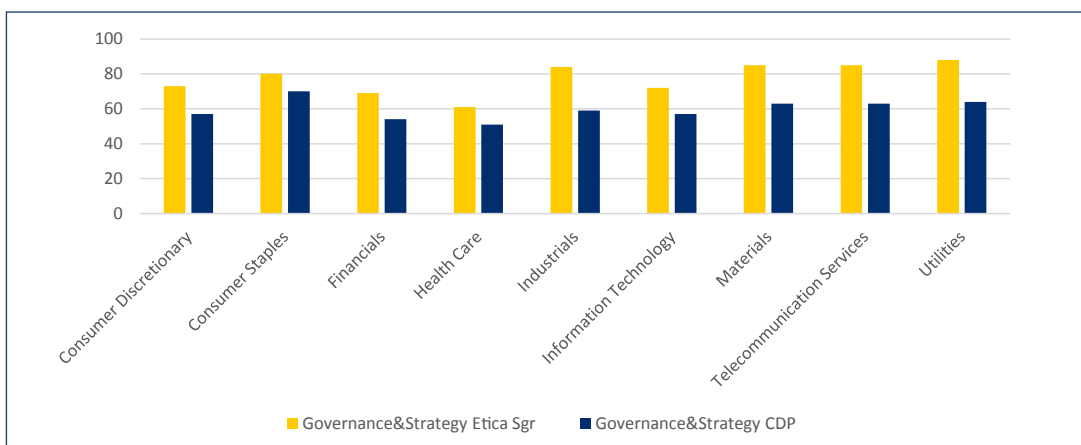
The graph below shows the cross-section of the securities in terms of emissions.



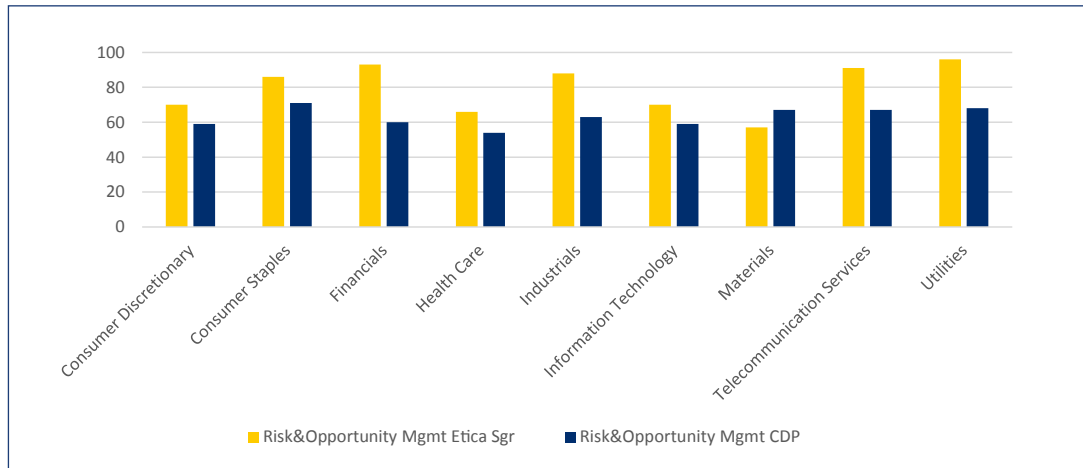
(Source: Etica Sgr and CDP – Figures at 31 December 2014)

In addition to the performances in terms of emissions, we analysed how the fund performs in relation to the score assigned by the CDP in the assessment process of questionnaires to which the companies respond annually: the score received by each company is in fact divided into *performance* and *disclosure score*, or, on one side, the performances of the issuer with regard to *climate change* and, on the other, its level of transparency in the respective communications. The performance score assigned by the CDP was then broken down into the areas “*governance and strategy*”, “*risk management*”, “*verification*”, “*emission management*” and by industry, so as to offer interesting ideas for *engagement* with companies that present under performances in these areas.

For this type of analysis, the assigned scores were aggregated, on a scale from 0 to 10, with the questions of the CDP questionnaire and the result achieved (by industry average) by the companies present in the Etica Sgr portfolio was compared with that of the average achieved by the entire reference sample of the CDP.



(Source: Etica Sgr and CDP – Figures at 31 December 2014)



(Source: Etica Sgr and CDP – Figures at 31 December 2014)

As can be seen from the graphs, the result achieved by the companies present in the Etica Azionario portfolio is almost always higher (excluding the Materials industry, in confirmation of what emerged from the other analysis) than the average of the universe considered by the CDP. It can be said, therefore, that **the companies chosen by Etica Sgr represent a sort of “best in class” according to the analysis approach used**. This confirms the good process of analysis of companies taken forward by Etica Sgr, with a view to selecting the best companies also from an environmental perspective.

As provided by the Montreal Carbon Pledge, **the carbon footprint figure of the Etica Azionario Fund is useful for the Sgr to identify priority areas and actions for reducing emissions, also to be implemented through specific engagement activities with companies.**

In particular, in light of the above results, **Etica Sgr is committed to gradually reducing the exposure at 31 December 2014 of the security with the greatest impact by the end of 2015.**

This is a further step towards greater awareness of our impacts and active management of the same.



www.EticaSgr.it



Via Napo Torriani, 29 – 20124 Milano
tel. +39 02 67071422 fax +39 02 67382896