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EQUITA Capital SGR

Sustainability Glossary

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Understanding Sustainability

Sustainability

Sustainability is the ability to meet the needs of the present without compromising the ability of future generations to meet their own needs. This concept gradually took shape over the course of the 20th century. The key document, often cited as a reference, is the *Our Common Future report*, published in 1987 by the United Nations World Commission on Environment and Development, also known as the Brundtland Report.

- **Economic sustainability**: the ability of an economic system to generate income and employment in a lasting way, ensuring efficient use of resources and equitable, inclusive development.
- **Social sustainability**: the ability to maintain and improve the well-being of communities by promoting social justice, health, education, gender equality, inclusion, and democratic participation.
- **Environmental sustainability**: the ability to preserve and improve the health of natural ecosystems, conserve biodiversity, reduce pollution, use resources sustainably, and mitigate climate change.

Agenda 2030 e SDGs

The 2030 Agenda for Sustainable Development is a global action plan adopted by the United Nations in 2015. It aims to end poverty, protect the planet, and ensure peace and prosperity for all through 17 Sustainable Development Goals (SDGs). These goals address the main economic, social, and environmental challenges in an integrated way, with a universal perspective applicable to all countries.

Climate action

Climate action is a response to the global climate crisis through policies and practices that reduce greenhouse gas emissions, promote the sustainable use of resources, and support adaptation to climate change. It can be implemented through different strategies depending on the context, and every organization is called to define its own goals and priorities to contribute to the climate transition.

Environmental impact

Environmental impact refers to the consequences of human activities on nature and the surrounding environment, including biodiversity, ecosystem health, and the planet's balance. This impact can be **negative**—such as in the case of pollution, deforestation, or climate change—or **positive**, when actions contribute to the protection or restoration of the environment. For this reason, measuring and reducing environmental impact is one of the key actions to promote sustainable development.

Carbon footprint

It is the total measure of greenhouse gas emissions produced directly or indirectly by an individual, an organization, or an activity, allowing the quantification of their impact on the climate.

CO_2 emissions are the main component of these gases and include different categories, called Scopes:

- **Scope 1**: direct emissions generated by controlled activities (for example, fuel combustion within companies);

- **Scope 2**: indirect emissions from purchased energy (such as electricity consumed);

- **Scope 3**: all other indirect emissions related to the value chain, including those generated by suppliers, transportation, product use, and end-of-life.

Renewable energy

Energy produced from **natural sources** such as the sun, wind, and water, which continuously regenerate and have zero or very low environmental impact.

Climate Risks

Climate risks are **the possible negative consequences of climate change on economic, social, and environmental activities**. They are divided into two main categories:

- **Physical risks**: these include **direct damage caused by extreme weather** events such as floods, wildfires, heatwaves, prolonged droughts, storms, and sea level rise. These events can cause damage to infrastructure, disruptions in supply chains, loss of productivity, and impacts on people's health.

- **Transition risks**: these relate to the **challenges and uncertainties associated with the shift to a low-carbon economy**. This process involves regulatory changes (such as new environmental laws and emission regulations), technological innovations (such as the adoption of renewable energy or electric vehicles), and changes in consumer behavior and market preferences. These changes can affect operational costs, business competitiveness, and access to capital.

Key concepts for sustainable investment strategies and criteria

ESG

The acronym ESG (Environmental, Social, and Governance) refers to three categories of criteria used to evaluate the sustainability and ethical impact of an organization or investment, going beyond purely financial aspects. These factors help understand how a company manages its environmental, social, and governance responsibilities, influencing both its long-term performance and its impact on society.

- **Environmental**: concerns **the impact of business activities on the natural environment**. This includes managing greenhouse gas emissions (e.g., reducing CO_2 emissions), efficient resource use (e.g., water consumption), waste management, adoption of renewable energy (e.g., installing solar panels), and biodiversity protection (e.g., avoiding deforestation in production areas).

- **Social**: relates to the **company's relationships with employees, suppliers, customers, and communities.** It covers the protection of human rights (e.g., safe and dignified working conditions), promotion of diversity and inclusion (e.g., equal opportunity policies), compliance with labor regulations, engagement with local communities (e.g., investments in social projects), and customer privacy protection.

- **Governance**: concerns **how the company is managed and controlled**. This includes transparency in financial reporting, independence and diversity of the board of directors (e.g., presence of independent and gender-diverse members), prevention of corrupt practices (e.g., anti-corruption codes of ethics), risk management, and executive accountability.

Considering ESG factors in investment decisions allows for the assessment of risks and opportunities not immediately evident in financial statements, contributing to promoting a more sustainable and responsible economy.

ESG Engagement

ESG Engagement is the process through which investors actively engage with the companies they invest in to influence their environmental, social, and governance (ESG) practices. The goal is to promote concrete and sustainable improvements in corporate behavior, helping to reduce risks related to these issues and increase the long-term value of the investment.
There are different types of ESG Engagement, including:

- **Direct dialogue**: regular meetings and communications with company management to discuss specific ESG issues and encourage improvements.
- **Voting at shareholder meetings**: using voting rights to support or propose motions that promote more sustainable and responsible practices.
- **Investor collaborations**: alliances among different investors to exert more effective pressure on companies regarding common issues.
- **Campagne pubbliche e advocacy**: initiatives aimed at raising market and media awareness on specific ESG concerns, encouraging behavioral change.
- **Thematic engagement**: focusing on specific topics, such as carbon emission reduction or gender equality, to push the company toward concrete goals.

ESG Integration

ESG integration is an investment approach that systematically includes environmental, social, and governance (ESG) factors in financial analysis and investment decision-making.

This means assessing how ESG-related risks and opportunities may affect the financial performance of a company or economic activity, alongside traditional financial and economic indicators. For example, an investor applying ESG integration might consider:

- The risk of a company facing fines or reputational damage due to poor environmental practices (Environmental);
- The impact of issues related to workers' rights or lack of diversity in the workplace (Social);
- The transparency and effectiveness of the board of directors or the presence of unethical behavior (Governance).

Responsible Investment

It is an investment approach that **considers not only financial returns but also the ESG impacts of the activities being invested in**. The goal is to promote sustainable development and help create long-term value for both investors and society.

Sustainable Investment

Also known as impact investing, sustainable investment aims to achieve financial returns while simultaneously promoting long-term environmental or social benefits.
According to the European SFDR (Sustainable Finance Disclosure Regulation), a sustainable investment must make a significant contribution to one or more environmental or social objectives, without causing significant harm to other objectives (the DNSH principle – Do No Significant Harm).
In addition, it requires responsible and transparent management of ESG risks.

Exclusion policy

It is a responsible investment strategy that involves the selective exclusion of certain companies, sectors, or countries from investment decisions based on ethical, social, or environmental criteria. This approach aims to avoid providing financial support to activities considered harmful or unsustainable.

For example, exclusions may apply to companies involved in the production or sale of controversial weapons, serious human rights violations, exploitative labor practices, or those with particularly harmful environmental impacts such as high levels of pollution or deforestation.

The exclusion policy is often adopted by investors who wish to align their portfolios with ethical values or specific regulations, contributing to the promotion of a more responsible and sustainable economy.

UN PRI

United Nations Principles for Responsible Investment

These are six principles promoted by the United Nations that investors voluntarily commit to follow, with the goal of integrating environmental, social, and governance (ESG) factors into investment decisions. The initiative encourages more ethical and sustainable finance, recognizing that the responsible management of ESG risks and opportunities can enhance long-term returns and contribute to a more sustainable global economy.

The UN PRI (United Nations Principles for Responsible Investment) also provide a framework and tools to support investors in implementing responsible investment practices and foster collaboration among signatories to drive change within the financial sector.

European regulations and policies on Sustainable Finance

SFDR

Sustainable Finance Disclosure Regulation

It is a European regulation (*Regulation (EU) 2019/2088*) that requires banks, investment funds, insurance companies, and other financial market participants to clearly and transparently disclose how they integrate environmental, social, and governance (ESG) factors into their decision-making processes and the products they offer. One of the main objectives is to help investors understand which financial products are genuinely sustainability-oriented.

The SFDR provides a classification of financial products based on their level of ESG integration:

- **Article 6**: financial products that do not meaningfully consider ESG factors in their investment strategies;

- **Article 8** ("*light green*"): products that promote environmental and/or social characteristics, but do not have sustainability as an explicit objective;

- **Article 9** ("*dark green*"): products that have a clear sustainable investment objective, meaning they invest in activities that generate measurable environmental or social benefits, in compliance with the DNSH (Do No Significant Harm) principle.

PAI

Principal Adverse Impact

It refers to the principal adverse impacts that an investment may have on the environment and society, such as CO_2 emissions, waste of natural resources, human rights violations, or unethical labor practices.

Financial operators, such as fund managers and advisors, are required to analyze, monitor, and report these impacts to ensure greater transparency and to help investors make more informed and responsible choices.

DNSH

Do Not Significant Harm

It is a fundamental principle stating that an economic activity, to be considered sustainable, must not cause significant harm to other environmental objectives. For example, a project that reduces greenhouse gas emissions must not pollute water resources or compromise biodiversity.

This principle ensures that positive actions in one area do not generate negative effects in other environmental sectors, promoting a balanced and integrated approach to sustainability.

EU Taxonomy

The European Taxonomy is a classification system for economic activities considered environmentally sustainable, based on precise technical criteria defined by regulators. Its purpose is to guide investors, companies, and governments toward projects that support the ecological transition by imposing strict technical criteria and adherence to the Do No Significant Harm (DNSH) principle.

The EU Taxonomy is based on six main environmental objectives:
1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Circular economy, waste prevention, and recycling
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

TCFD Reporting

The Task Force on Climate-related Financial Disclosures (TCFD) Recommendations (2017) aim to ensure transparency and completeness of information regarding the financial impacts related to climate change. They help investors and companies assess climate-related risks and opportunities and develop strategies aligned with environmental sustainability.

The recommendations are organized into four key areas**:**
- **Governance** – how the organization manages climate-related risks and opportunities.
- **Strategy** – current and future impacts of climate change on the business, strategy, and financial planning.
- **Risk Management** - processes used to identify, assess, and manage climate-related risks.
- **Metrics and targets** – indicators and goals used to monitor and manage climate performance.

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