ESG Integration Policy

Adopted pursuant to article 3 and article 4 of Regulation (EU) 2019/2088 of 27 November 2019

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Background

On 25 September 2014, the UN General Assembly adopted The 2030 Agenda for Sustainable Development (the "2030 Agenda"), which sets 17 Sustainable Development Goals ("SDGs") to ensure a transition to a low carbon, more sustainable, resource efficient and circular economy.

Furthermore, the Paris Agreement adopted under the United Nations Framework Convention on Climate Change (the "Paris Agreement"), which was approved by the European Union on 5 October 2016 and which entered into force on 4 November 2016, seeks to strengthen the response to climate change by, inter alia, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development. Later on, on 8 March 2018, the Commission presented its Action Plan on Financing Sustainable Growth, where it expressed its intention to clarify fiduciary duties and increase transparency in the field of sustainability risks and sustainable investment opportunities with the aim to:

- reorient capital flows towards sustainable investment in order to achieve sustainable and inclusive growth;
- assess and man and manage relevant financial risks stemming from climate change, resource depletion, environmental degradation and social issues;
- foster transparency and long-termism in financial and economic activity.

Finally, Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR") was introduced by the European Parliament and the Council on 27 November 2019 to implement the 2030 Agenda and the Paris Agreement by ensuring that mobilising capital not only through public policies but also by the financial services sector.

Under this Regulation, financial market participants and financial advisers are required to disclose specific information regarding their approaches to the integration of sustainability risks and the consideration of adverse sustainability impacts.

According to SFDR, financial products can be classified in three main categories:

- financial products promoting, amongst other characteristics, environmental or social characteristics in accordance with article 8 SFDR (so-called "Article 8 Products");
- financial products that have sustainable investment objectives in accordance with article 9 SFDR (so-called "Article 9 Products");
- financial products which do not fall either into article 8 or 9 SFDR (so-called "Article 6 Products").

Objectives

The aim of this policy is to describe how Moneyfarm integrates sustainability risks in its investment decision-making process.

Interpretation

Article 6 Portfolio	means a Model Portfolio which does not fall into either Article 8 or 9;
Article 8 Portfolio	means a Model Portfolio which promotes, amongst other characteristics, environmental or social characteristics in accordance with article 8 SFDR;
Article 9 Portfolio	means a Model Portfolio which has a sustainable investment objective in accordance with article 9 SFDR;
Asset Allocation Team	means the business unit established within Moneyfarm's organisation and placed under the direction of the chief investment officer with the purpose of: (i) making proposals to develop the firm's investment strategy and (ii) analysing, selecting and reviewing the financial instruments and investment products offered or recommended to the clients.
Best in class approach	means an approach to investing that favours sectors, companies or projects characterised by a positive ESG performance compared to their industry peers and excludes companies that do not meet certain ESG performance thresholds;
Climate-related physical risk	means a risk arising as a result of extreme weather events, either acute or chronic risks from long term shifts in climate patterns;
Climate-related transition risk	means a risk arising as a result of changes in climate and energy policies, a shift to low carbon technologies and liability issues;

Exchange-Traded Fund (ETFs)	means a UCITS at least one unit or share class of which is traded throughout the day on at least one regulated market with at least one market maker which takes action to ensure that the stock exchange value of its units or shares does not significantly vary from its net asset value;
Investment Committee	means the committee established by Moneyfarm in charge of making decisions on the investment strategy and on the composition of the Model Portfolios, the members of which consist of the chairman, the chief executive officer, the Asset Allocation Team and the country heads of the investment consultant team;
Model Portfolio	means a pre-constructed collection of designated investments, including some retail investment products, that meets a specific risk profile, sometimes offered with a periodic rebalancing of investments to maintain a consistent asset allocation;
Moneyfarm (also "we" or "the firm")	means MFM Investment Ltd, an FCA solo-regulated firm whose registered office is at 90-92 Pentonville Road, London N1 9HS, United Kingdom;
Negative screening	means an investment approach according to which certain companies that do not comply with specified criteria are excluded from the investable universe;
MSCI	means MSCI Inc., a company whose headquarters are at 250 Greenwich St, New York, NY 10007, United States;
SASB	means the Sustainability Accounting Standards Board;
Sustainable factors	means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters;
Sustainability indicator	means an indicator relevant for measuring a chosen sustainable investment objective;

Sustainable investment	means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance;
Sustainability risk	means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment;
SRI ETF	means a socially responsible ETF;
UCITS	means an undertaking for the collective investment in transferable securities.

Moneyfarm's investment strategy

As a discretionary portfolio manager and financial advisor[1] Moneyfarm focuses on helping its clients try to reach their long-term investment goals by offering or recommending to its clients a range of well-diversified multi-asset Model Portfolios across a range of different risk levels. These portfolios are designed to provide diverse exposure across a broad range of asset classes and typically target a medium to long-term time horizon. Every investment decision is based on data and research, driven by quantitative techniques and qualitative judgement and approved by the Investment Committee.

As a matter of fact, prior to being submitted to the Investment Committee for approval, every ETF selected by Moneyfarm is subject to thorough initial and ongoing due diligence undertaken by the Asset Allocation Team to ensure that all relevant risks are adequately taken into account when developing or rebalancing a Model Portfolio.

In addition to the above, in accordance with its product governance policy, when the Asset Allocation Team isn't able to collect enough information about a specific ETF, Moneyfarm refrains to recommend it or offer it to its customers.

In the context of its investment process, Moneyfarm considers a range of risk and return parameters. Under an ESG integration point of view, Moneyfarm portfolios can be distinguished in three categories:

A. Portfolios that promote environmental and social characteristics:
    a. **Moneyfarm ESG portfolios**. The portfolios are built considering the socially responsible investment policy of Moneyfarm.
        i. Moneyfarm ESG portfolios ex. Art 8 SFDR.
        ii. Moneyfarm ESG portfolios PIP ex. Art 8 SFDR.
        iii. Poste Gestione Patrimoniale ex. Art 8 SFDR.
    b. **Moneyfarm ESG portfolios advised by BlackRock**. The selection of the ETF is advised by BlackRock so they follow a different ESG strategy. The portfolios still consider PAI and sustainability risk.
        i. Poste Premium Soluzione Finanziaria ex. Art 8 SFDR.
        ii. Portafogli Buddybank ex. Art 8 SFDR.
B. Portfolios that do not promote environmental and social characteristics.
    a. **Moneyfarm Classic portfolios** ex Art 6 SFDR.

[1] While, in the United Kingdom, Moneyfarm provides exclusively simplified advice and discretionary portfolio management, in Italy, the firm provides both portfolio management and independent investment advice through its established branch.

Transparency of adverse sustainability impacts at entity level

Moneyfarm ESG portfolios advised by BlackRock and Moneyfarm ESG portfolios consider principal adverse impacts of the investment decisions on sustainability factors (PAI), while Moneyfarm Classic portfolios do not consider PAI of the investment decisions on sustainability factors.

Moneyfarm launched the Moneyfarm ESG portfolios in November 2021 in Italy and August 2021 in the UK. For each risk level of risk, the customer can choose between Moneyfarm ESG portfolios, that consider PAI, and Moneyfarm Classic portfolios that do not consider PAI.

The asset under management of the portfolios that consider PAI is increasing over time, thanks to the interest of the customers and the migration of some products to ESG (such as PIP portfolios).

Moneyfarm ESG portfolios

Since ESG integration consists in the selection of ETFs best aligned with their sustainability objectives and not in the selection of individual companies, Moneyfarm's ESG portfolios do not consider all PAIs but only those explicitly indicated in the investment process of the ETFs. During the period considered, all ETFs relating to the equity and corporate bond component were SFDR Art. 8, most of the PAIs of the ESG portfolio improve compared to traditional investment PAIs, as they are explicitly considered by the underlying index. Moneyfarm analyses in particular:

- If the ETF excludes companies with significant revenues in controversial businesses, such as Tobacco, Fossil Fuels, Gambling, Weapons, Alcohol.
- If the ETF excludes issuers with very serious social, environmental and governance disputes as defined by the data provider used by the underlying index.
- If the ETF excludes companies that do not adhere to global regulations (e.g. OECD and UNGC).
- If the ETF integrates investment techniques aimed at aligning with the Paris Agreement and reducing the CO2 intensity of the underlying companies.

These assessments are carried out at the time of ETF selection through:

- the analysis of the methodologies of the underlying index
- the analysis of the EET provided by the issuer
- the continuous monitoring of the metrics relating to the main negative effects on the sustainability factors of the portfolio.

Moneyfarm invests via ETFs. The ETF issuer votes for resolutions on our behalf. The Asset Manager can centralise the vote, having greater weight in the Assemblies. It therefore becomes essential for Moneyfarm to evaluate the objectives of the Asset Manager and the ability to achieve active involvement with investee companies. Moneyfarm has developed a framework to assess the engagement capability of ETF issuers. Here is a brief summary of the methodology. The framework consists of the analysis of five subcategories:

- Voting activity
- Environmental commitment
- PACT transition
- Signed commitments
- Proxy Voting Policy

The assessment is based on third-party data for the world's leading Asset Managers and individual proxy voting assessment. To this end, we made use of the reports "Voting Matters" published by ShareAction, "Asset Managers and Climate change" published by Influence Map, "Climate Pledge Database" by 21 Investing.

Moneyfarm ESG portfolios advised by BlackRock

The portfolio takes into account the main negative impacts (PAIs) on sustainability factors by investing in ETFs that track indices that incorporate certain ESG criteria in the selection of index constituents and which in turn take into account those PAIs.

The portfolio considers the following PAIs:

- Exposure to companies active in the fossil fuel sector.
- Violations of the principles of the United Nations Global Compact and the Organization for Economic Co-operation and Development (OECD) guidelines for multinational enterprise.
- Exposure to controversial weapons (landmines, cluster munitions, chemical and biological weapons).

The portfolio's annual report will contain information on the main negative impacts of the above sustainability factors.

The portfolio does not use the engagement as a means to meet its binding commitments to environmental or social characteristics or sustainable investment objectives.

Portfolios that do not promote environmental and social characteristics.

Moneyfarm Classic portfolios ex Art. 6 SFDR does not consider PAI in its investment decisions.

Moneyfarm invests via ETFs. The ETF issuer votes for resolutions on our behalf.

Currently, Moneyfarm Classic portfolios ex Art. 6 SFDR do not evaluate active ownership of the ETFs issuer as a means to meet its binding commitments to environmental or social characteristics or sustainable investment objectives.

Transparency of sustainability risk policies

Moneyfarm portfolios are built on global and well-diversified ETFs, which help reduce idiosyncratic financial and non-financial (sustainability) risks. Moneyfarm portfolios are also generally widely differentiated in terms of geographic, sectoral and asset class exposure.

Moneyfarm ESG portfolios and Moneyfarm ESG portfolios advised by BlackRock consider metrics such as ESG rating in the selection of the ETFs, while for Moneyfarm Classic portfolios, Moneyfarm monitors the data on ESG risks, but does not actively select ETFs on the basis of it.

Moneyfarm ESG portfolios

Moneyfarm aims to reduce the financial risk deriving from sustainability factors through the improvement of the ESG Rating provided by MSCI, according to an approach of exclusion of ETFs with low ESG Ratings and preferably of ETFs with high ESG Ratings. The MSCI ESG Rating makes it possible to analyse the investment from the point of view of the risks and opportunities deriving from social, environmental and governance sustainability factors. Furthermore, the analyses relating to environmental and climatic factors of ETFs, provide for the preference of ETFs that consider transition risks within investment choices, through the reduction of exposure to companies with a high intensity of greenhouse gases, with a high concentration of fossil fuel reserves, whose revenues are highly dependent on fossil fuel-related activities.

These factors are considered in two stages:

- Ex-ante: during the ETF selection process, Moneyfarm analyses whether the underlying index considers ESG ratings and metrics related to climate transition risks.
- Ex-Post: Moneyfarm uses indicators provided by the MSCI ESG Manager data provider and monitors the level of the metrics analysed.

Moneyfarm ESG portfolios advised by BlackRock

When selecting ETFs, the portfolio applies a high standard of due diligence in selecting and continuously monitoring the investments made by the portfolio in order to comply with the portfolio's investment, liquidity and risk guidelines, as well as sustainability risk and ESG criteria and the general performance.

The portfolio seeks to invest at least 80% of its assets in ETFs that track indices that incorporate ESG screens or, in the case of government bond exposures, indices that incorporate ESG requirements or that include bonds issued by governments that have a sovereign rating ESG of at least BB (as defined by third party data providers such as MSCI).

Portfolios that do not promote environmental and social characteristics.

Classic Moneyfarm Portfolios (pursuant to Art. 6 SFDR) are built using ETFs that do not explicitly consider sustainability risks. However, the portfolios are extremely diversified from a geographical, sectoral and concentration point of view. For this reason, both specific financial risks and ESG risks are minimised.

In order to assess and monitor the Sustainability risks associated with Article 6 Portfolios, Moneyfarm uses the MSCI ESG Fund Rating. MSCI ESG Fund Ratings are designed to measure a company's resilience to long-term sustainability risks by adopting a rules-based methodology, enabling the identification of industry leaders and laggards according to their exposure to sustainability risks and how well they manage those risks relative to peers. MSCI ESG Ratings range from leader (AAA, AA) to average (A, BBB, BB) to laggard (B, CCC). To assess the sustainability risks underlying Article 6 Portfolios, at every portfolio rebalancing,

Moneyfarm performs the following checks for each Model Portfolio:

- analyse the MSCI ESG Rating assigned to the single ETFs to understand if there is any meaningful deterioration and if the rating falls below BBB;
- analyse the MSCI ESG Rating assigned to the Model Portfolio to understand if there is any meaningful deterioration and if the portfolio average rating falls below BBB;
- check that the weight of ETFs with an MSCI ESG Rating CCC is lower than 5%;
- check that the weight of ETFs without an MSCI ESG Rating is below 35%.

In addition to the MSCI ESG Rating indicators, Moneyfarm also monitors:

- The percentage of the market value of the portfolio exposed to companies facing one or more severe disputes related to the environment, customers, human rights, labour rights and governance.

- The exposure of the portfolio to companies with a low quality of governance (according to MSCI definition).
- The weighted average CO_2 intensity of the companies in the portfolio.

If any of these indicators is above the threshold or deteriorates sharply, the Investment Committee might evaluate the potential risk and any remedial action to undertake, such as the substitution of the ETF.

ESG data limitations

ETF methodologies are analysed by the investment team. The adherence to the sustainability strategies is mainly monitored, through the analysis of the data provided by MSCI. Moneyfarm does not currently carry out any data collection at the individual issuer level or checks on the data provided by MSCI. A large portion of data is also a source of estimates (for example, scope 3 emissions) or entirely generated by MSCI (ESG Rating).

Moneyfarm is aware of some of the limitations highlighted by ESMA in its letter to the European Commission of 28th January 2021 on ESG Ratings, such as the low correlation between different vendors' ratings[2]. Moneyfarm looks forward to seeing a regulatory framework that addresses some of the issues highlighted in the document mentioned. To partially address some of these issues, the ETF selection process drafted by Moneyfarm for Article 8 products is going to be based not only on the ESG Ratings themselves, but also on a qualitative assessment of the index rules underlying the ETF.

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[2] Rajna Gibson, Philipp Krueger, and Peter S. Schmidt*