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ESG May Soon Regain Momentum

Intermonte Research Team

@ esg.research@intermonte.it

www.intermonte.it



Equity Focus

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by Intermonte Research Team

Italian Equity Market

- **Focus is currently elsewhere but 2022 could see ESG themes returning to centre stage.** After the explosion of interest in ESG themes during 2020 – which also had a knock-on effect on stock market trading flows – followed in 2021 by a pause in the debate and the underperformance of sectors perceived as green, 2022 could be the year in which ESG issues return to centre stage. This is mostly the consequence of a number of changes that are expected to take effect over the next few months, including the requirement to report corporate information based on the Taxonomy Regulation and the Corporate Sustainability Reporting Directive (if approved), as well as the disclosure requirements for European funds based on the Sustainable Finance Disclosure Regulation (SFDR).
- **EU Taxonomy disclosure requirements to put a burden on companies and investors and might lead to a reshuffle of sectors in “green” funds.** Starting from 2022 both non-financial and financial corporates (i.e. those with > 500 employees) as identified in the NFRD, will be required to report Taxonomy eligibility for the 2021 reporting period, while starting from 2023 non-financial entities will have to report both eligibility and alignment for the 2022 reporting period. We believe that these requirements could have a number of significant consequences including: 1) greater transparency and reduced greenwashing; 2) companies and investors potentially struggling to get hold of data to report; 3) a broadening of the investment universe thanks to inclusion of companies that operate in high-carbon-intensity sectors in ESG funds; 4) exclusion of certain companies in sectors not yet covered by the Taxonomy.
- **Among asset managers, SFDR could potentially marginalise article 6 products and push competition among article 9 products.** Financial market participants that offer financial products referred to in Articles 8 and 9 of the SFDR must comply with the respective requirements set out in the SFRD and in Articles 5 and 6 of the Taxonomy Regulation. This means that for Article 8 and 9 products, the percentage of Taxonomy alignment should also be disclosed. The consequence for asset managers might be gradual marginalisation of funds classified under article 6 (AM flows into this type of fund have dropped from 59% of the total in 2Q21 to 36% in 4Q21) and an increasing need to differentiate themselves through an extensive offering of products under articles 8 and 9.
- **Approval of the Corporate Sustainability Reporting Directive will lead to a huge rise in the number of companies with reporting obligations.** Last year the European Commission published the draft of a proposed new CSRD whose purpose is to revise the current regulations on the disclosure of information laid down in the NFRD. The CSRD proposal aims to extend the scope of sustainability disclosure to include all large companies whether listed or not and all small and medium enterprises listed on regulated markets, except listed micro-enterprises. This would widen the disclosure requirements to around 49,000 companies compared to the c.11,000 that are subject to the existing regulations on sustainability disclosures. Additionally, the MiFID II amendment coming into effect in August will likely encourage more retail flows into sustainable funds as financial advisors will be required to ask clients about their sustainability preferences, in addition to their financial objectives.
- **New Intermonte approach to ESG analysis designed to help us select material KPIs and focus on companies’ risks and opportunities linked to ESG themes.** On the back of all the above changes, in recent months Intermonte’s research department has started to look in greater depth at ESG issues. In this report we present our approach to ESG themes and how we attempt to incorporate them into analysis of the stocks we cover. We believe that in the end ESG is all about risks and opportunities: risks that could be linked to regulatory changes, physical issues or reputational damage for example, but also opportunities for companies that are well placed in relation to new social and environmental trends. Based on this, we have created a framework that aims to help navigate the immense and ever-expanding quantity of ESG information in an orderly manner. We have applied the framework to five companies (Buzzi-Unicem, Campari, Hera, Moncler and Stellantis) and the results are shown in the second part of this report.

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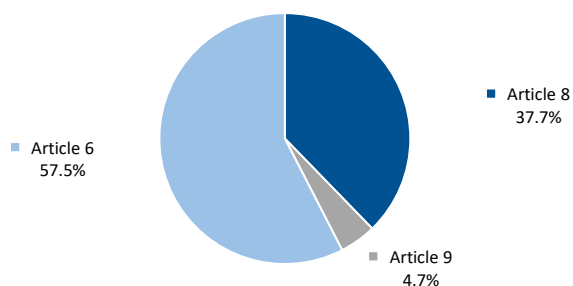
Executive Summary

Focus is currently elsewhere but 2022 could see ESG themes returning to centre stage. After the explosion of interest in ESG themes during 2020 – which also had a knock-on effect on stock market trading flows - followed in 2021 by a pause in the debate and the underperformance of sectors perceived as green, 2022 could be the year in which ESG issues return to centre stage. This is mostly the consequence of a number of changes that are expected to take effect over the next few months, including the requirement to report corporate information based on the Taxonomy Regulation and the Corporate Sustainability Reporting Directive (if approved), as well as the disclosure requirements for European funds based on the Sustainable Finance Disclosure Regulation (SFDR).

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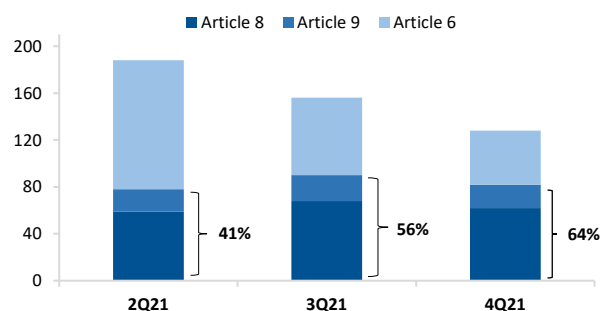
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SFDR: Fund Type Breakdown by Assets (2021A)



Source: Morningstar & Intermonte SIM

SFDR: Flows into Article 8 and Article 9 vs. Article 6 (Eu bn)



Source: Morningstar & Intermonte SIM

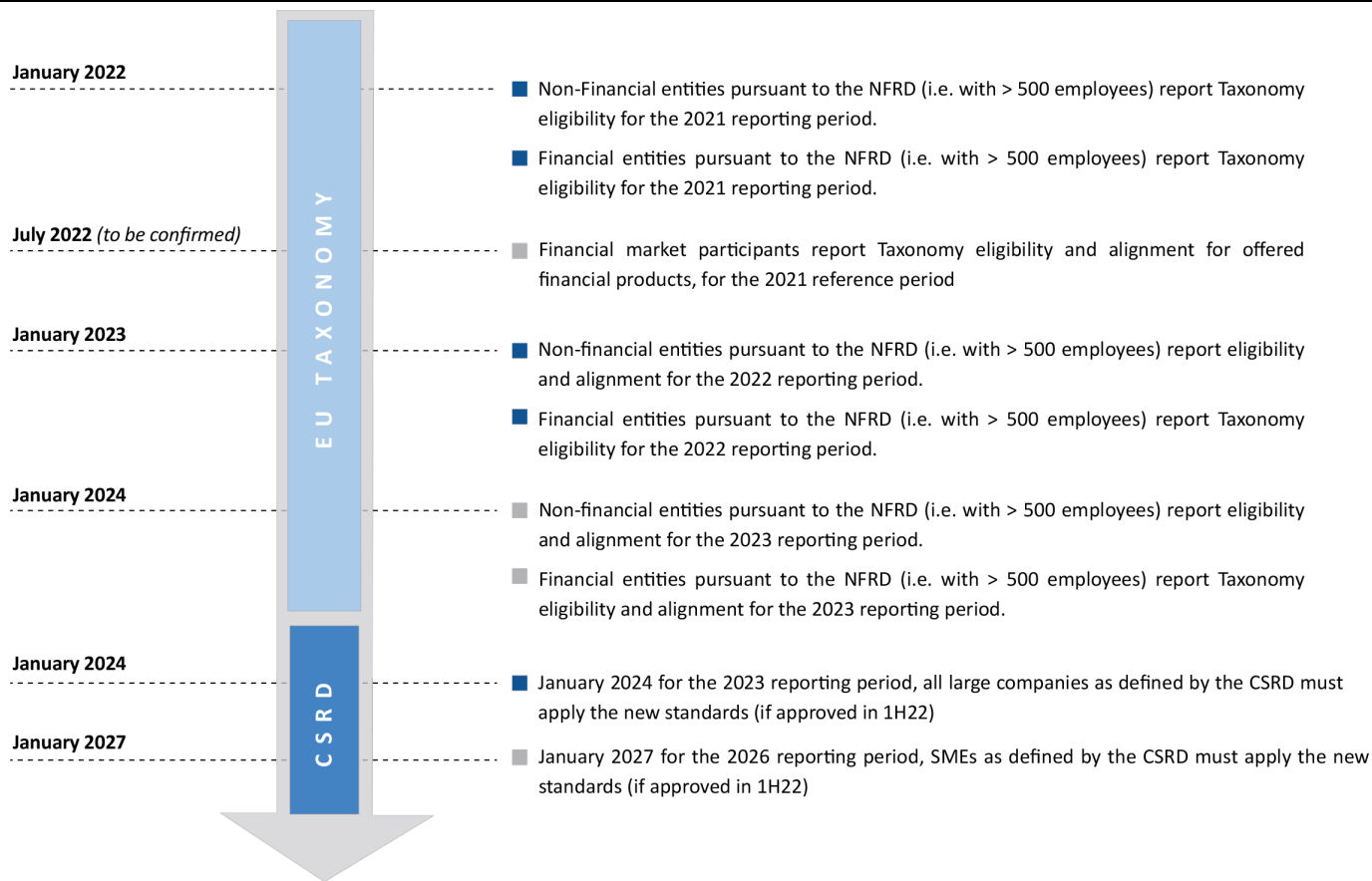
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We have applied the framework to the following five companies and the results are shown in the second part of this report:

- **Buzzi-Unicem: a work in progress.** Buzzi-Unicem's ESG profile has significant room for improvement, but the company has started to get its act together. Management is set to release its carbon emission and sustainability roadmap in May, and this should help provide more visibility on medium and long-term targets, with more details on planned investments and initiatives. In recent years, the company has already demonstrated to be at the forefront of the industry on some aspects, such as the use of alternative fuels. Moreover, the prudent capital allocation policy has allowed the company to build a particularly strong balance sheet (the group ended 2021 with a net cash position of €236mn), which will be key to supporting investments in decarbonisation and preparing to tackle future innovation challenges, such as the development of Carbon Capture and Storage/Utilisation solutions, for instance.
- **Campari: room for improvement but change has begun.** Campari's ESG profile as a whole has material room for improvement specifically on some metrics within the environmental pillar such as GHG emissions. Also, on Social and Governance we see clear areas of improvement with a gap to peers in the panel which we deem not particularly difficult to fill. We must highlight that the analysis was performed on 2020 data while management has already released the 2021 sustainability report which includes some further [and material] improvements in the Environmental metrics as well a renovated commitment to perform better. A clear example is the raise in Emissions target following the level of goal achievements already obtained.
- **Hera: an ESG leader in most areas.** Based on our analysis as well general recognitions from ESG rating agencies we consider Hera to be very well positioned in the ESG space. Hera's commitment to ESG themes comes from afar (as shown by the strategic approach aimed at the creation of shared value, introduced in 2016), and this is reflected in the Group's performance on most of the parameters analysed. Among the many results regarding the Environment, those that are undoubtedly worth underlining are new themes such as production of biomethane or the reuse of wastewater; among the most critical areas we would point to exposure to gas sales in regard to lower consumption linked to the rise in temperatures as well as from the point of view of scope 3 GHG emissions. In Social and Governance, the company is positioned at the high end of its peer group and Hera boasts ESG ratings and adoption of standards at best-in-class levels.
- **Moncler: successful integration of ESG culture and values in the business model.** For the third year in a row Moncler was included in the Dow Jones Sustainability Indices (DJSI) World and Europe, obtaining the highest score (89/100) of the 'Textiles, Apparel & Luxury Goods' industry. On 5th May 2022 the company is hosting a Capital Market Day and we expect an update on sustainability projects such as that of recycling certified down from leftover garments or eliminating fur from new collections. Moncler's commitment to ESG themes is well represented in the "Born to Protect" plan and this is reflected in the Group's performance on most of the parameters analysed. Moncler has been able to trace a clear and ambitious plan in terms of industrial activity (100% carbon neutral by 2021, 100% renewable energy worldwide by 2023), product design (80% of nylon fabric scraps recycled by 2023, 50% sustainable nylon used by 2025), sourcing (100% of key raw materials traced by 2023), and personnel welfare (celebrating diversity and engaging 100% of employees in a three-year cultural awareness plan by 2022).
- **Stellantis: a strong starting point for the most ambitious targets in an industry that's hard on the environment.** Although the industry itself has a significant environmental footprint, we believe STLA is well positioned from an ESG perspective in light of the results of our analysis and scores from ESG rating agencies. In particular, we highlight: i) the most ambitious carbon neutrality target in the industry (by 2038); ii) significant investments in electrification with a credible and comprehensive strategy that management is already executing; iii) an environmental footprint that compares fairly well to peers, while the company is compliant on a standalone basis on tough emission limits in the EU; iv) a strict code of conduct. However, in order to perform a better and more comprehensive analysis, including on the observation of all ESG targets, we would need to await publication of the 2021 CSR report (due in Spring 2022) as STLA was formed through the merger of FCA and PSA just at the beginning of 2021.

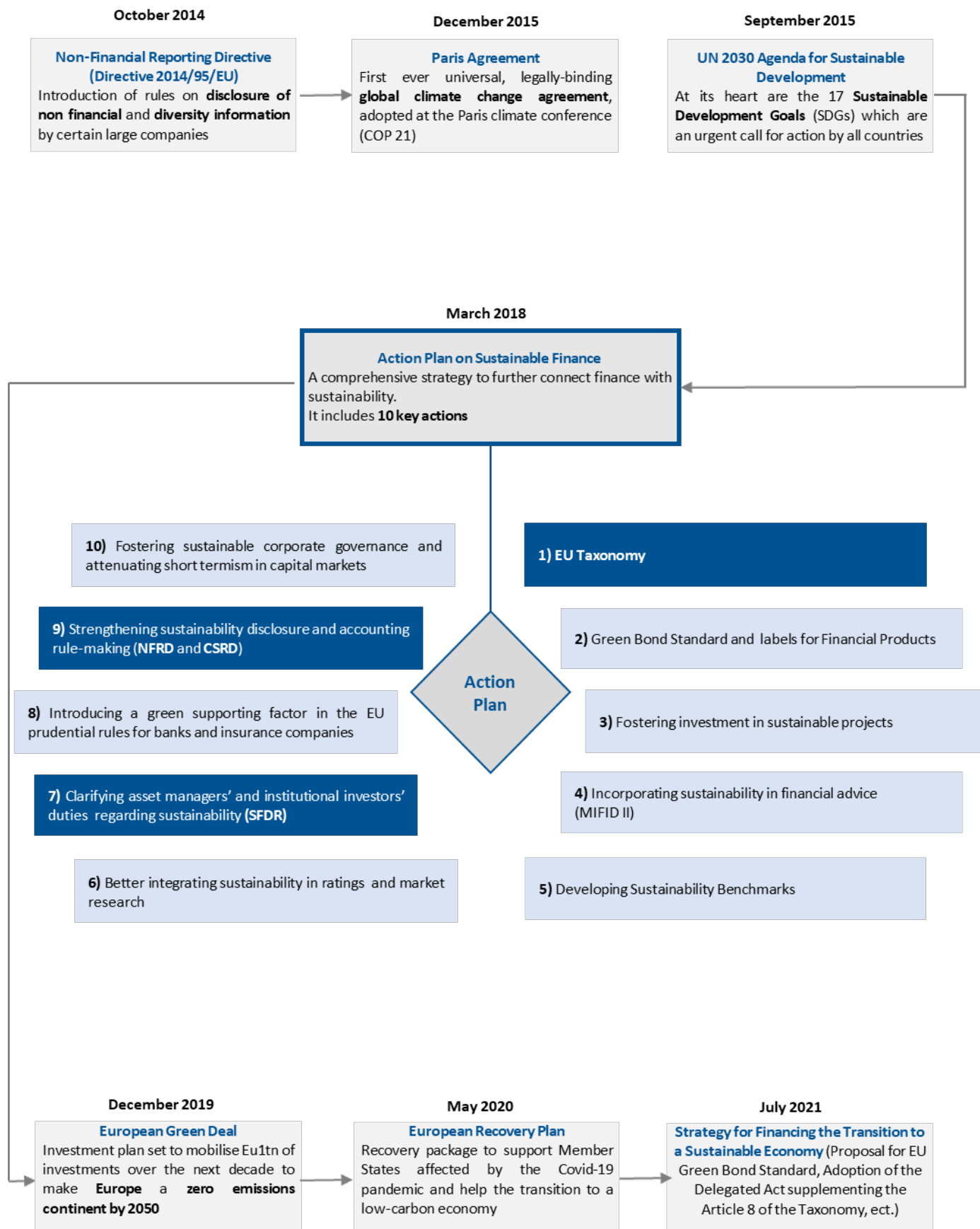
EU Taxonomy and CSRD Timeline



Source: Intermonte SIM

The European Path Toward Sustainability

EU Sustainability Roadmap



Source: Intermonte SIM

EU Taxonomy to Take a Great Leap Forward

We are updating the report we published on 16th July 2020 [“Green is the New Gold”](#) to include the recent crucial steps forward on the development of the Taxonomy, in particular the inclusion of nuclear energy and gas. We also highlight key opportunities and challenges for both investors and listed companies arising from the implementation of the Taxonomy Regulation and the remaining timeline.

EU Taxonomy for sustainable activities: a transparency tool to drive sustainable finance

In order to meet the **2050 carbon neutrality** target and achieve **Green Deal** objectives, the European Commission has developed a comprehensive policy agenda on sustainable finance. This includes the [Action Plan on Sustainable Finance](#), adopted in 2018 with the aim of improving the contribution made by finance to sustainable and inclusive growth, and incorporate **Environmental, Social and Governance (ESG)** considerations into investment decisions. One of the milestones of the Action Plan is the [EU Taxonomy Regulation \(Regulation EU 2020/852\)](#).

The EU Taxonomy is a classification system establishing a list of environmentally-sustainable economic activities

The **EU Taxonomy** is a **green classification system** to establish whether an **economic activity is environmentally sustainable**. It recognises as green or environmentally-sustainable economic activities that make a substantial contribution to at least one of the EU’s six climate and environmental objectives, while at the same time not significantly harming any of these objectives and meeting minimum social safeguards. The **Taxonomy delegated acts** establish clear criteria defining what it means to make a substantial contribution and what it means to do no significant harm.

The six environmental objectives are:

1. **Climate change mitigation (already covered)**
2. **Climate change adaptation (already covered)**
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems.

Objective of the EU Taxonomy: provide a common framework for green economic activities

The objective of EU taxonomy is to provide companies, investors and policymakers with appropriate definitions for which economic activities can be considered environmentally sustainable. In this way, it should create security for investors, protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation and help shift investments where they are most needed and **helping the transition towards a low-carbon economy**.

Taxonomy users

The Taxonomy regulation will apply to:

- Financial market participants offering financial products in the EU, including occupational pension providers;
- Large companies who are already required to provide a non-financial statement under the Non-Financial Reporting Directive (>500 employees)
- The EU and Member States when setting public measures, standards or labels for green financial products or green (corporate) bonds.

When can an economic activity be considered green according to the Taxonomy Regulation?

In order to be recognised as “environmentally friendly” or Taxonomy-aligned, an economic activity must satisfy four conditions:

- The economic activity is covered under the EU Taxonomy Delegated Acts with **Technical Screening Criteria (TSC) available (Taxonomy eligibility)**;
- **Substantially contribute to at least one the six environmental objectives** as defined in the Regulation;
- **Do no significant harm (DNSH)** to the other five environmental objectives;
- **Comply with minimum social safeguards** (e.g. OECD Guidelines on Multinational Enterprises, UN Guiding Principles on Business and Human Rights).

Taxonomy eligibility vs. Taxonomy alignment

An economic activity is **Taxonomy eligible** if it features in the list of the economic activities included in the Taxonomy, while it is **Taxonomy aligned** if it contributes substantially to at least one of the six environmental objectives as defined in the Regulation, does no significant harm to the other five environmental objectives, and complies with minimum social safeguards.

Economic activities covered by the Taxonomy

The Technical Expert Group (TEG) prioritised sectors that have large emissions footprints, as identifying the activities that make a substantial contribution to climate change mitigation in these high-impact sectors will have the most positive impact on the decarbonisation process, e.g. for climate change mitigation, **sectors responsible for 93.5% of direct greenhouse gas emissions** in the EU were prioritised when identifying the areas for which TSC were developed. Below are the economic sectors covered by the Taxonomy, for both climate change mitigation and adaption.

Economic Activities covered by the Taxonomy Regulation

Climate Change Mitigation	Climate Change Adaption
Forestry	Forestry
Environmental protection and restoration activities	Environmental protection and restoration activities
Manufacturing*	Manufacturing**
Electricity production, distribution and storage	Electricity production, distribution and storage
Energy distribution, transport and storage	Energy distribution, transport and storage
Water supply, sewerage, waste management and remediation activities	Water supply, sewerage, waste management and remediation activities
Transport	Transport
Construction and real estate activities	Construction and real estate activities
Information and communications	Information and communications
Professional, scientific and technical activities	Professional, scientific and technical activities
	Property and casualty insurance and reinsurance

Source: Taxonomy Regulation, Intermonte SIM.

In Appendix I* and II** we report the full list of all economic activities covered under the Taxonomy Regulation for the two environmental objectives (climate change mitigation and adaptation).

Polluting activities are not excluded *a-priori* from the Taxonomy

As well as economic activities that are already low carbon and can be considered Taxonomy-aligned, the Taxonomy recognises two other types of activities that cannot be defined as green but that could make a substantial contribution:

- **Transitional activities** for which low-carbon alternatives are not yet available and that have GHG emission levels that correspond to the best performance in the sector or industry. For example, this might include best-in-class cement manufacturing.
- **Enabling activities** that, by provision of their products or services, enable a substantial contribution to be made in other activities. For example, an economic activity that manufactures a component that improves the environmental performance of another activity such as manufacturing of renewable energy technologies or installation of energy-efficiency equipment in buildings.

Natural gas and nuclear power considered sustainable investments under the EU Taxonomy

On 2nd February 2022, the Commission approved in principle a Complementary Climate Delegated Act including, under strict conditions, specific nuclear and gas energy activities in the list of economic activities covered by the EU taxonomy. These are considered “transitional” activities, i.e. those covered by Article 10(2) of the Taxonomy Regulation: the Commission believes that the gas and nuclear activities selected are in line with the EU's climate and environmental objectives and will allow the EU countries to accelerate the shift from more polluting activities, such as coal generation, towards a climate-neutral future, mostly based on renewable energy sources.

Additional gas and nuclear activities, but under strict conditions. On the gas side, the taxonomy imposes precise environmental conditions, specifically that the life-cycle GHG emissions from the generation of electricity using gaseous fossil fuels are lower than 100g CO₂eq/kWh (although this does include the use of CO₂ sequestration and capture and storage systems). For plants authorised by 31st December 2030: 1) greenhouse gas emissions must not exceed 270g CO₂eq/kWh, or an annual average of 550kg CO₂eq / kW over a 20-year period; 2) the activity must replace an existing high-emitting electricity generation activity that uses solid or liquid fossil fuels; 3) the facility must be designed and constructed to use renewable and/or low-carbon gaseous fuels and the switch to full use of renewable and/or low-carbon gaseous fuels must take place by 31st December 2035; 4) the replacement must lead to a reduction of at least 55% in GHG emissions over the lifetime of the newly-installed production capacity.

As for nuclear power, the EU regulatory framework establishes the legal requirement for national policies to keep the generation of radioactive waste to a minimum. In addition, the TSC go beyond requiring mere compliance with legislation regarding radioactive waste management and disposal. Notably, disposal facilities for low-level waste must already be operational, and Member States should have a detailed plan in place for a disposal facility for high-level radioactive waste to be in operation by 2050.

Specific disclosure requirements for businesses related to their activities in the gas and nuclear energy sectors. This Delegated Act also provides for specific disclosure requirements associated with natural gas and nuclear energy activities included in the act, by amending the Delegated Act on disclosures under Article 8 of the Taxonomy Regulation. Financial and non-financial companies should be required to present specific disclosure that would show to what degree gas and nuclear energy activities, complying with the TSC, feature in the numerator and denominator of the key performance indicators of those undertakings. This should help investors to distinguish between the different activities in which they are investing.

In addition, the Commission will explore further amendments to the disclosure framework pertaining to those financial products as appropriate, to provide for full transparency over the lifetime of the financial products. To ensure that this information can clearly be identified by end-investors, the Commission will consider amending the requirements on the financial and insurance advice given by distributors.

EU Taxonomy Disclosure Requirements for Companies and Financial Products

Disclosures required at entity-level (article 8 of Taxonomy Regulation)

Non-Financial and Financial companies, i.e. large companies that are already required to provide a non-financial statement under the NFRD (>500 employees), will have to provide a description of how, and to what extent, their activities are associated with Taxonomy-eligible/aligned activities.

More precisely, starting from January 2022 (for the 2021 reporting period) pursuant to the NFRD all large companies have to report the proportion of their activities that are considered eligible expressed as a % of their turnover, CapEx, OpEx for Non-Financial companies and total assets for Financial Companies. From January 2023, Non-Financial entities will need to report both eligibility and alignment for the 2022 reporting period, something that Financial entities will only have to do as of January 2024 (for the 2023 reporting period).

In more detail, after verifying Taxonomy-eligibility, for Non-Financial companies the disclosure to demonstrate Taxonomy-alignment must include the following KPIs:

- The **turnover KPI**, derived from products or services that are taxonomy- aligned. The turnover KPI gives a static picture of the company's contribution to environmental goals.
- The **CapEx KPI**, which represents the proportion of the capital expenditure of an activity that is either already taxonomy aligned or is a part of credible plans to extend or achieve taxonomy alignment. This metric provides a dynamic and forward-looking view of companies' plans to transform their business activities.
- The **OpEx KPI**, which represents the proportion of the operating expenditure associated with the Taxonomy-aligned activities in the CapEx plan.

The plan that accompanies both the CapEx and OpEx KPIs shall be disclosed at aggregate level for the economic activity and meet two conditions:

- It shall aim either to extend the scope of Taxonomy-aligned economic activities, or to enable economic activities to become Taxonomy-aligned within a maximum of ten years;
- It shall be approved by the management board of the Non-Financial companies or another body to which this task has been delegated.

The disclosures should be made as part of the non-financial statement, which may be included in annual reporting or in a dedicated sustainability report.

With regard to the main KPIs that need to be provided by Financial companies under the scope of the Taxonomy (banks, investment firms, asset managers, insurers/reinsurers), those indicators relate to the proportion of taxonomy-aligned economic activities in their financial activities, such as lending, investment and insurance.

For example, the main KPI for credit institutions is the **Green Asset Ratio (GAR)**, defined as the proportion of a credit institution's assets that are invested in taxonomy-aligned economic activities in relation to total assets. The definition of the GAR is as follows:

- The numerator covers the loans and advances, debt securities, equities, repossessed collateral financing from taxonomy-aligned economic activities, thus capturing total taxonomy-aligned exposure;
- The denominator covers total on-balance sheet assets.

Asset management firms should report the proportion of taxonomy-aligned investments managed by as a percentage of total assets under management (**Green Investment Ratio**).

Disclosures required at product level (article 5 and 6 of Taxonomy Regulation)

Financial products marketed into or manufactured in the European Union will be required to reference the Taxonomy. Financial market participants may choose to use the Taxonomy for other product types on a voluntary basis.

Starting from July 2022 (date to be confirmed), financial market participants will report Taxonomy eligibility and alignment for offered financial products for the 2021 reference period.

Below we illustrate the financial products with Taxonomy disclosure obligations.

Financial Products with Taxonomy Disclosure Obligations

Market segment	In scope for Taxonomy disclosure
Pensions and Asset Management	UCITS funds: <i>-equity funds</i> <i>-exchange-traded funds (ETFs)</i> <i>-bond funds</i> Alternative Investment Funds (AIFs): <i>-fund of funds</i> <i>-real estate funds</i> <i>-private equity or SME loan funds</i> <i>-venture capital funds</i> <i>-infrastructure funds</i> Portfolio management (under Article 4(1) of MIFID II) Pensions: <i>-pension products</i> <i>-pension schemes (defined with reference to IORP II)</i> <i>-pan-European personal pension products</i>
Insurance	Insurance-based investment products (IBIPs)
Corporate & Investment Banking	Securitisation funds Venture capital and private equity funds Portfolio management Index funds

Source: Company data & Intermonte SIM Estimates

For example, for funds investors are required to disclose:

- To what environmental objectives the investments contribute
- The proportion of underlying investments that are Taxonomy-aligned expressed as a percentage of the total AuM and indicating the breakdown activities considered to be enabling and contributing to transition.

For climate change mitigation, investors should indicate:

- Turnover (%) associated with Taxonomy-aligned activities
- CapEx (%) and where relevant OpEx (%), if part of a plan to achieve the climate thresholds for the economic activity.

For climate change adaptation, only costs can be counted (CapEx and OpEx if relevant) and only when they are part of a plan developed in response to a climate risk assessment, while turnover generated from the activity should not be counted.

Timeline for the EU Taxonomy

We have to make a distinction between information at entity level (article 8 of the Taxonomy Regulation) and information at product level (article 5 and article 6 of the Taxonomy regulation).

Disclosure at entity level (article 8 of Taxonomy Regulation):

■ January 2022

- Non-Financial entities pursuant to the NFRD (i.e. with > 500 employees) report Taxonomy eligibility for the 2021 reporting period.
- Financial entities pursuant to the NFRD (i.e. with > 500 employees) report Taxonomy eligibility for the 2021 reporting period.

■ January 2023

- Non-Financial entities pursuant to the NFRD (i.e. with > 500 employees) report eligibility and alignment for the 2022 reporting period.
- Financial entities pursuant to the NFRD (i.e. with > 500 employees) report Taxonomy eligibility for the 2022 reporting period.

■ January 2024

- Non-Financial entities pursuant to the NFRD (i.e. with > 500 employees) report eligibility and alignment for the 2023 reporting period.
- Financial entities pursuant to the NFRD (i.e. with > 500 employees) report Taxonomy eligibility and alignment for the 2023 reporting period.

Disclosure at product level (article 5 and 6 of Taxonomy Regulation):

■ July 2022 (to be confirmed)

- Financial market participants report Taxonomy eligibility and alignment for offered financial products, for the 2021 reference period.

Given the timetable established in the Taxonomy, there is a clear time lag between the disclosures that must be provided at entity level and the disclosures that must be provided at financial product level. Indeed, reporting rules at product level will be applied as of 1st July 2022, from which point the percentage of eligibility and alignment will both have to be revealed. On the other hand, at entity level, the reporting rules will be applied as of 2022, the year from which financial and non-financial companies will have to announce the percentage of eligibility, while the alignment will not have to be announced until 2023 for non-financial entities and 2024 for financial entities.

Taxonomy Implications for Companies and Investors

After the explosion of interest in ESG themes during 2020 (with a knock-on effect on stock market trading flows) followed by the underperformance of sectors perceived as green in 2021, we believe that 2022 will be a year in which ESG issues return to centre stage, partly thanks to the new developments outlined above. Looking in particular at the Taxonomy, it seems likely that disclosure requirements for eligible activities and then, as of next year, the requirement for companies to report data on Taxonomy alignment will lead to much greater focus from companies and investors.

Below we list a number of potential repercussions:

Opportunities

- Greater transparency and reduced greenwashing: More transparency on data provided from companies which could rely on a common framework to disclose green or sustainable economic activities is likely to mitigate risks of greenwashing and subsequent reputational risk for financial institutions.
- Common language to improve comparison across business models. Classification systems such as the EU Taxonomy will provide investors with a common language that will be useful to improve the comparability of companies' business models.
- Broadening of investment universe thanks to inclusion of companies that operate in high-carbon-intensity sectors in ESG funds. The Taxonomy will continue to benefit companies that already have a sustainable business model (e.g. renewables), but will leave some space for companies that are present in high-carbon sectors and underweight in ESG/Sustainable Funds (such as steel, cement, chemicals, etc).
- New opportunities for gas and nuclear power generation activities: the EU Commission believes that certain gas and nuclear activities are in line with the EU's climate and environmental objectives and will

allow the EU countries to accelerate the shift from more polluting activities. Activities linked to gas and nuclear could nevertheless suffer from the implementation of exclusion policies by funds.

- Lower cost of capital for companies with high weight of Taxonomy-aligned activities: search for Taxonomy-aligned activities from investors will probably push down the cost of capital for certain companies with a positive impact on valuations.
- Further increase in green financial products: increase the space for green finance and encourage financial market participants to design financial products and portfolios based on these disclosures.

Challenges

- Companies and investors could struggle for data: The struggle for data will continue for both companies and investors. Companies in particular will have to invest significant time and money due to the complexity of the new reporting requirements, as well as higher costs for resources and expertise to interpret and apply the Taxonomy.
- Some companies might have to disclose information on a voluntary basis: other companies not covered by EU rules (e.g. SMEs, non-EU companies) may decide to disclose information on a voluntary basis for the purpose of gaining access to sustainable financing or other purposes.
- Disclosure issues for Taxonomy-aligned gas and nuclear activities: some funds whose investments include companies exposed to gas and nuclear activities may have to voluntarily report Taxonomy figures net of these activities, even if they are Taxonomy-aligned.
- Not all sectors are covered by the EU Taxonomy Regulations: some sectors are not covered by the EU Taxonomy and for this reason might be excluded from certain green funds. For this reason it will also be important to assess the percentage of eligible investments in a fund before analysing the level of alignment (especially for funds that diversify across sectors).
- Marginalisation of article 6 products and strong competition for article 9 products: asset managers may witness a gradual marginalisation of funds classified under article 6 and face an increasing need to differentiate themselves by an extensive offer of products under articles 8 and 9.

SFDR: How Far Have We Come?

The Sustainable Finance Disclosure Regulation (SFDR or Regulation 2019/2088) lays down harmonised rules for sustainability-related communications by Financial Market Participants (banks, asset managers, insurers, pension funds, other investment companies) and Financial Advisers. The aim of the regulation is two-fold: increase transparency on sustainability-related disclosure to help combat greenwashing and improve the comparability of information provided to end investors, enabling them to make more informed choices.

SFDR requirements

The SFDR, which came into effect on 10th March 2021, requires disclosure of:

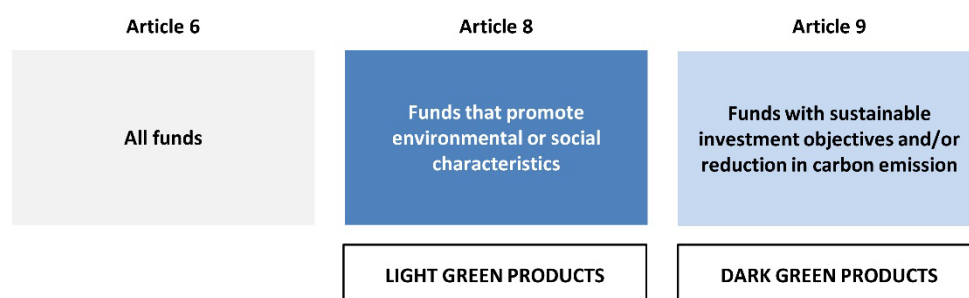
- how sustainability risks are integrated into investment decisions;
- the likely impact of such risks on the product's financial returns (Principles of Double Materiality);
- how sustainability targets are met for financial products that promote environmental or social characteristics (Art.8) and for products with sustainable investment objectives (Art.9)

SFDR funds classification: Article 6, Article 8 and Article 9

According to the SFDR the European Funds can be classified into three categories:

- **Article 6:** all funds
- **Article 8 (light green products):** funds which promote¹ environmental or social characteristics, or a combination, provided that the companies in which the investments are made follow good governance practices. Specifically, for light green products information is requested on:
 - how those characteristics are met;
 - if an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics.
- **Article 9 (dark green products):** funds with sustainable investment objectives and/or a reduction in carbon emissions. Specifically, for dark green products the following information must be provided:
 - Where an index has been designated as a reference benchmark, how the designated index is aligned with the sustainable investment objective;
 - where a financial product has sustainable investment as its objective and no index has been designated as a reference benchmark, an explanation as to how that objective is to be attained;
 - Where a financial product has a reduction in carbon emissions as its objective, the information to be disclosed must include the objective of low carbon emission exposure in view of achieving the long-term global warming objectives of the Paris Agreement.

SFDR: Fund Classification



Source: Intermonte SIM

Regulatory Technical Standards (RTS): disclosure sustainability standards

The SFDR Regulatory Technical Standards (RTS) set out the disclosure standards in terms of content, methodology and presentation of Article 8 and 9 disclosures, as well as Principle Adverse Impacts disclosures. At entity level, the RTS could be qualitative and quantitative indicators (see our previous report [Get Ready for the New European Sustainability Standards!](#)). The European Supervisory Authorities (ESAs) had

¹ The term promotion within the meaning of Article 8 of Regulation (EU) 2019/2088 encompasses, by way of example, direct or indirect claims, information, reporting, disclosures as well as an impression that investments pursued by the given financial product also consider environmental or social characteristics in terms of investment policies, goals, targets or objectives or a general ambition in, but not limited to, pre- contractual and periodic documents or marketing communications, advertisements, product categorisation, description of investment strategies or asset allocation etc. [...]. Source: [Q&A on Sustainability Related Disclosures](#)

submitted the [first draft RTS](#) in February 2021 and the [second](#) in October 2021, but in November 2021 the European Commission sent a [letter](#) to the EU Parliament and Council to communicate the following:

- The two drafts will be merged in a single delegated act
- Deferral of the application of the delegated act to 1st January 2023. Firms will have to disclose the PAIs of the financial products offered for the first time by June 2023, i.e. the first reference period under the Regulatory Technical Standards will be 1st January 2022 to 31st December 2022. This means that Financial Market Participants should start to collect data from 1st January 2022.

Connection between SFDR and EU Taxonomy

The starting point is that the information disclosed in compliance with the Taxonomy Regulation should be used as part of other disclosures, such as those falling under the financial product-related transparency requirements of the Sustainable Finance Disclosure Regulation (SFDR). For example, the draft Regulatory Technical Standards on disclosures for Article 8 and Article 9 funds published in October 2021 specify that for products falling under this classification, the percentage of Taxonomy alignment should also be disclosed.

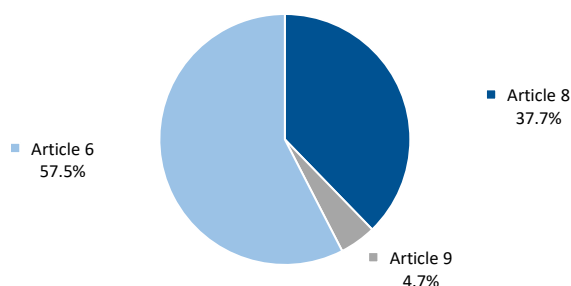
Some market data on SFDR Funds' collection

According to Morningstar research, based on SFDR data collected from prospectuses on 91% of funds available for sale in the EU, (excluding money market funds, funds of funds and feeder funds) it turns out that as at 31st December 2021, 5,862 (25.2%) were classified as Article 8, while 797 (3.4%) were classified as Article 9.

In terms of assets, the two fund groups accounted for a bigger share of the EU total: 42.4%, split into 37.7% for Article 8 products and 4.7% for Article 9 products, at the end of December. Combined assets amounted to Eu4.05tn, from Eu3.32tn at the end of September.

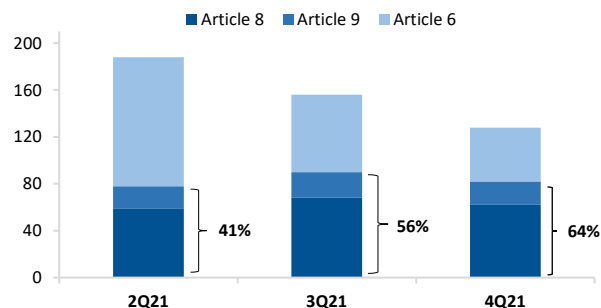
In terms of inflows, in the 4Q21, investors poured Eu81.4bn into Article 8 and Article 9 funds. This was 8% less than the Eu88.5bn invested in the third quarter. By comparison, however, Article 6 fund flows declined by over 30%. Article 8 and Article 9 captured 64% of Morningstar's reviewed fund universe's total flows in the fourth quarter. This compared with 56% in the third quarter and 41% in the second quarter.

SFDR: Fund Type Breakdown by Assets (2021A)



Source: Morningstar & Intermonte SIM

SFDR: Flows into Article 8 and Article 9 vs. Article 6 (Eu bn)



Source: Morningstar & Intermonte SIM

Search for Standardised ESG Data Continues: Proposal for a Corporate Sustainability Reporting Directive (CSRD)

On 21st April 2021, the European Commission published the draft of a proposed new [Corporate Sustainability Reporting Directive \(CSRD\)](#) whose purpose is to revise the current regulations on the disclosure of information laid down in the [Non-Financial Reporting Directive](#). The proposed directive would apply to around 49,000 companies compared to the c.11,000 that are subject to the prevailing regulations on sustainability disclosures.

Proposed CSRD extends the scope of sustainability disclosure to all large companies and SMEs

As things stand, the NFRD applies to large public-interest companies with more than 500 employees. This covers approximately 11 700 large companies and groups across the EU, including:

- listed companies
- banks
- insurance companies
- other companies designated by national authorities as public-interest entities.

The CSRD proposal aims to extend the scope of sustainability disclosure to include:

- all large companies whether listed or not (lowering the previous 500-employee threshold fixed by the NFRD)²,
- all small and medium enterprises³ listed on regulated markets, except listed micro-enterprises.

EFRAG to develop the new sustainability reporting standards

EFRAG (European Financial Reporting Advisory Group) is the body charged with developing new non-financial reporting standards.

Timeline for the CSRD

If approved in the first half of 2022, companies will apply the standards from:

- **January 2024** for the 2023 reporting period, for all large companies under the new scope of the CSRD
- **January 2027** for the 2026 reporting period, for SMEs as defined in the CSRD

Connections between CSRD, SFDR and EU Taxonomy

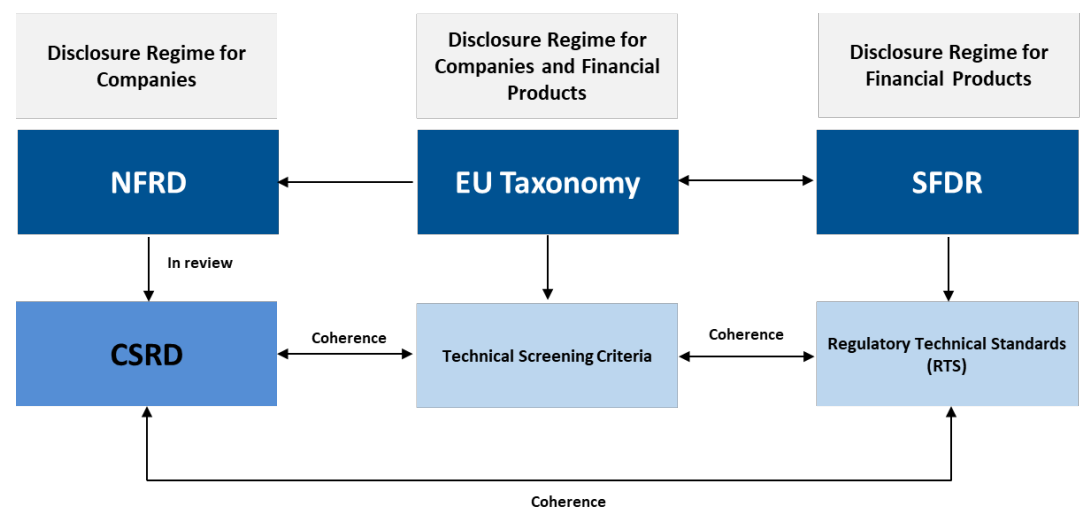
The CSRD pursues the objective of aligning information provided by companies with that required by investors and other financial market participants subject to SFDR. This means that the reporting standards would include indicators that correspond to the indicators contained in the SFDR. Article 8 of the Taxonomy regulation obliges companies within the scope of the prevailing NFRD, and other companies within the scope of the proposed CSRD if approved by the legislator, to report the extent to which their activities “are associated with environmentally-sustainable economic activities”. Companies will have to report these indicators of Taxonomy alignment, alongside other sustainability information mandated by the proposed CSRD. The reporting standards to be developed under the CSRD would fully take into account these indicators and build on the 'substantial contribution' and 'do-no-significant-harm' criteria of the Taxonomy.

² Under the CSRD large enterprises are those that exceed at least two of the three following criteria at the balance sheet date: 1) total balance sheet of Eu20mn; 2) net turnover of Eu40mn; 3) average number of employees during the financial year: 250

³ SMEs under the CSRD are those that match two of the three following criteria at the balance sheet date: 1) balance sheet of between Eu4mn and Eu20mn; 2) net turnover of between Eu8mn and Eu40mn; 3) average number of employees between 50 and 250.

Connection between NFRD, CSRD, EU Taxonomy and SFDR

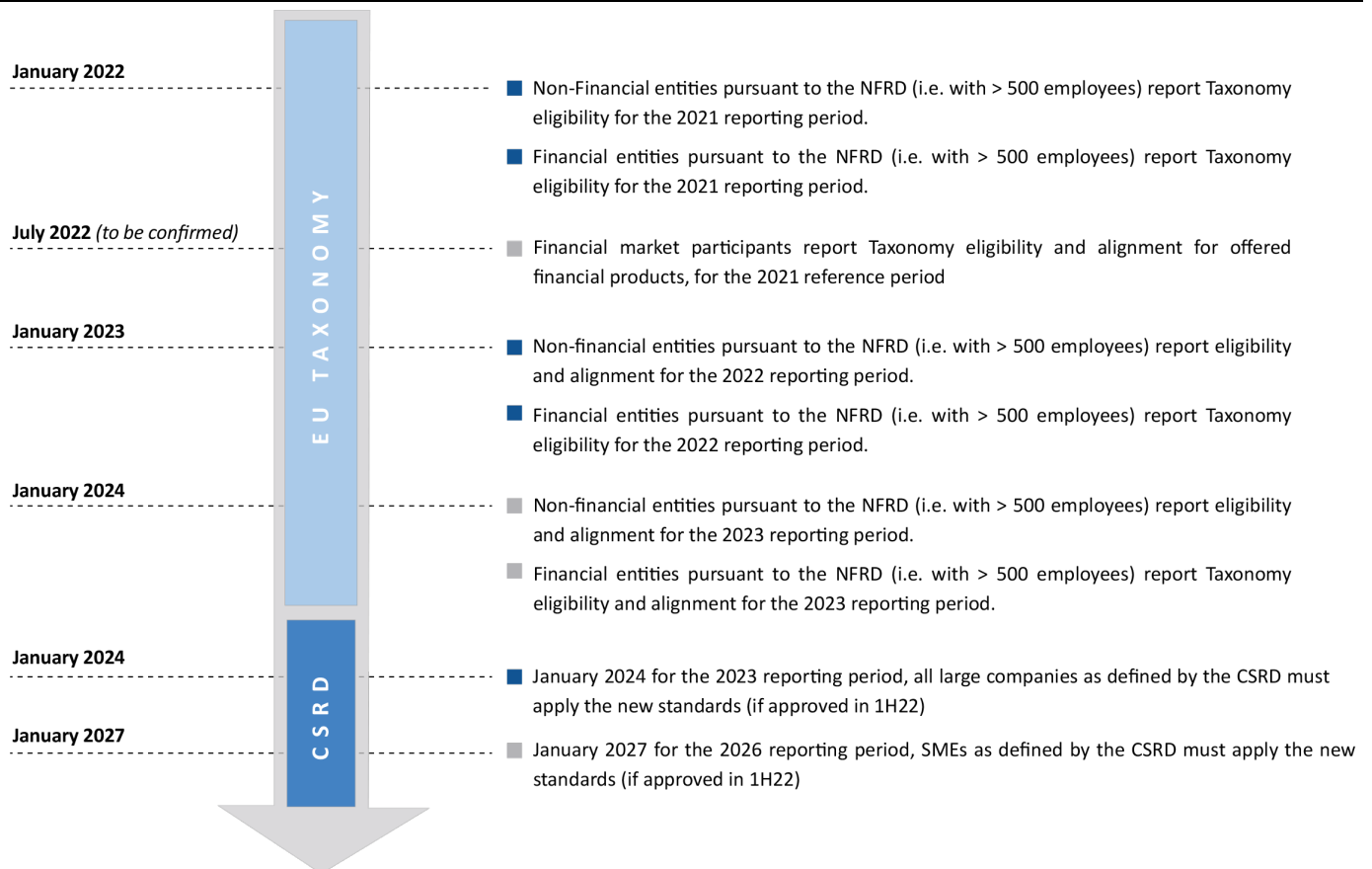
Sustainability Disclosures Connection



Source: Intermonte SIM

Key dates for European Sustainability Roadmap

EU Taxonomy and CSRD Timeline



Source: Intermonte SIM

Glossary

Corporate Governance Code: the Code applies to all companies with shares listed on the Italian main market (MTA) managed by Borsa Italiana. Adoption of this Code is voluntary and is disclosed in the report on corporate governance and ownership structures.

Task Force on Climate-related Financial Disclosures (TCFD): the Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector.

Carbon Disclosure Project (CDP): CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. CDP's disclosure platform provides the mechanism for reporting in line with the TCFD recommendations.

GHG Protocol: GHG Protocol supplies the world's most widely used greenhouse gas accounting standards. The standards are designed to provide a framework for businesses, governments, and other entities to measure and report their greenhouse gas emissions in ways that support their missions and goals. In 2016, 92% of Fortune 500 companies responding to the CDP used GHG Protocol directly or indirectly through a program based on GHG Protocol.

Global Reporting Initiative (GRI): an independent, international organization that provides businesses and other organizations with the world's most widely used standards for sustainability reporting – the GRI Standards.

Principle of Double Materiality: this principle expresses the likely impact of the ESG variables on financial returns and the impact of company activities on the ESG variables.

Science Based Target Initiative (SBTi): the SBTi is part of [World Resources Institute's Center for Sustainable Business](#) and a collaboration of WRI, CDP, WWF and the UN Global Compact. Science-based targets show companies how much and how quickly businesses need to reduce their GHG emissions in order to prevent the worst impacts of climate change. WRI is a global research organization that works with governments, businesses, multilateral institutions, and civil society groups to develop practical solutions that improve people's lives and protect nature.

Sustainable Development Goals (SDGs): the SDGs, part of the 2030 Agenda for Sustainable Development adopted by the 193 United Nations (UN) member states, comprise the world's comprehensive plan of action for achieving sustainable development.

Climate change mitigation: means making the impacts of climate change less severe by preventing or reducing the emission of greenhouse gases (GHG) into the atmosphere, e.g. by increasing the share of energy generated from renewable sources. In other words, mitigation is a human intervention that reduces the sources of GHG emissions. Mitigation measures are focused on the causes of climate change.

Climate change adaptation: means taking actions to prepare for and adjust to both the current and predicted effects of climate change. Adaptation measures are focused on the effects of climate change.

Delegated Act: non-legislative, legally binding acts with general scope that supplement or modify certain non-essential elements of legislative acts. The European Parliament or Council can delegate powers to the Commission to adopt this kind of act. The Commission prepares the delegated acts through consultation with groups of experts comprising representatives from all EU Member States. Once the Commission has adopted a delegated act, Parliament and the Council have two months to formulate objections. If no objections are forthcoming, the acts enter into force.

NACE: Nomenclature statistique des activités économiques dans la Communauté européenne. NACE is the statistical classification of economic activities in the European Community and is the subject of legislation at European level, which imposes the use of the classification uniformly within all Member States.

DNSH: Do No Significant Harm Principle in the context of the EU Taxonomy means that when an economic activity substantially contributes to one environmental objective as stated in the Regulation, it must be carried out in such a way that it does not harm the remaining environmental objectives.

CSRD: Corporate Sustainability Reporting Directive. At the moment this is just a draft published by the European Commission on 21st April 2021, with the purpose of revising the current regulations on the disclosure of sustainability information laid down in the Non-Financial Reporting Directive.

NFRD: Non-Financial Reporting Directive lays down the rules on disclosure of non-financial and diversity information by certain large companies.

TSC: Technical Screening Criteria are science-based metrics and thresholds that have been developed in the Taxonomy for specific environmental objectives and sectors. In order to be Taxonomy-aligned, in addition to contributing substantially to at least one of the six environmental objectives as set out in the Regulation and respecting the DNSH principle, an economic activity should also be compliant with the TSC.

TEG: Technical Expert Group on sustainable finance. A group of experts (35 members) from civil society, academia, business and the finance sector, responsible for assisting the EU Commission in developing the Action Plan. The TEG started work in July 2018 and its mandate ended in 2020, when it was replaced by the permanent Platform on Sustainable Finance.

SFDR: Sustainable Finance Disclosure Regulation, also known as Regulation (EU) 2019/2088. Lays down harmonised rules for sustainability-related communications by Financial Market Participants (banks, asset managers, insurers, pension funds, other investment companies) and Financial Advisers.

Appendix I

List of economic activities under the Taxonomy Regulation (Climate Change Mitigation)

Economic Activities covered under the Taxonomy Regulation (Climate Change Mitigation) – Part 1

Sector	Activity number	Activity
Forestry	1.1	Afforestation
	1.2	Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event
	1.3	Forest management
	1.4	Conservation forestry
Environmental protection and restoration activities	2.1	Restoration of wetlands
Manufacturing	3.1	Manufacture of renewable energy technologies
	3.2	Manufacture of equipment for the production and use of hydrogen
	3.3	Manufacture of low carbon technologies for transport
	3.4	Manufacture of batteries
	3.5	Manufacture of energy efficiency equipment for buildings
	3.6	Manufacture of other low carbon technologies
	3.7	Manufacture of cement
	3.8	Manufacture of aluminium
	3.9	Manufacture of iron and steel
	3.10	Manufacture of hydrogen
	3.11	Manufacture of carbon black
	3.12	Manufacture of soda ash
	3.13	Manufacture of chlorine
	3.14	Manufacture of organic basic chemicals
	3.15	Manufacture of anhydrous ammonia
	3.16	Manufacture of nitric acid
	3.17	Manufacture of plastics in primary form
Energy	4.1	Electricity generation using solar photovoltaic technology
	4.2	Electricity generation using concentrated solar power (CSP) technology
	4.3	Electricity generation from wind power
	4.4	Electricity generation from ocean energy technologies
	4.5	Electricity generation from hydropower
	4.6	Electricity generation from geothermal energy
	4.7	Electricity generation from renewable non-fossil gaseous and liquid fuels
	4.8	Electricity generation from bioenergy
	4.9	Transmission and distribution of electricity
	4.10	Storage of electricity
	4.11	Storage of thermal energy
	4.12	Storage of hydrogen
	4.13	Manufacture of biogas and biofuels for use in transport and of bioliquids
	4.14	Transmission and distribution networks for renewable and low-carbon gases
	4.15	District heating/cooling distribution
	4.16	Installation and operation of electric heat pumps
	4.17	Cogeneration of heat/cool and power from solar energy
	4.18	Cogeneration of heat/cool and power from geothermal energy
	4.19	Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels
	4.20	Cogeneration of heat/cool and power from bioenergy
	4.21	Production of heat/cool from solar thermal heating
	4.22	Production of heat/cool from geothermal energy
	4.23	Production of heat/cool from renewable non-fossil gaseous and liquid fuels
	4.24	Production of heat/cool from bioenergy
	4.25	Production of heat/cool using waste heat

Follows on the next page

Economic Activities covered under the Taxonomy Regulation (Climate Change Mitigation) – Part 2

Sector	Activity number	Activity
Water supply, sewerage, waste management and remediation	5.1	Construction, extension and operation of water collection, treatment and supply systems
	5.2	Renewal of water collection, treatment and supply systems
	5.3	Construction, extension and operation of waste water collection and treatment
	5.4	Renewal of waste water collection and treatment
	5.5	Collection and transport of non-hazardous waste in source segregated fractions
	5.6	Anaerobic digestion of sewage sludge
	5.7	Anaerobic digestion of bio-waste
	5.8	Composting of bio-waste
	5.9	Material recovery from non-hazardous waste
	5.10	Landfill gas capture and utilisation
	5.11	Transport of CO ₂
	5.12	Underground permanent geological storage of CO ₂
Transport	6.1	Passenger interurban rail transport
	6.2	Freight rail transport
	6.3	Urban and suburban transport, road passenger transport
	6.4	Operation of personal mobility devices, cycle logistics
	6.5	Transport by motorbikes, passenger cars and light commercial vehicles
	6.6	Freight transport services by road
	6.7	Inland passenger water transport
	6.8	Inland freight water transport
	6.9	Retrofitting of inland water passenger and freight transport
	6.10	Sea and coastal freight water transport, vessels for port operations and auxiliary activities
	6.11	Sea and coastal passenger water transport
	6.12	Retrofitting of sea and coastal freight and passenger water transport
	6.13	Infrastructure for personal mobility, cycle logistics
	6.14	Infrastructure for rail transport
	6.15	Infrastructure enabling low-carbon road transport and public transport
	6.16	Infrastructure enabling low carbon water transport
	6.17	Low carbon airport infrastructure
Construction and real estate	7.1	Construction of new buildings
	7.2	Renovation of existing buildings
	7.3	Installation, maintenance and repair of energy efficiency equipment
	7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
	7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings
	7.6	Installation, maintenance and repair of renewable energy technologies
	7.7	Acquisition and ownership of buildings
Information and communication	8.1	Data processing, hosting and related activities
	8.2	Data-driven solutions for GHG emissions reductions
Professional, scientific and technical activities	9.1	Close to market research, development and innovation
	9.2	Research, development and innovation for direct air capture of CO ₂
	9.3	Professional services related to energy performance of buildings

Source: EU Taxonomy Compass, Intermonte SIM

Appendix II

List of economic activities under the Taxonomy Regulation (Climate Change Adaptation)

Economic Activities covered under the Taxonomy Regulation (Climate Change Adaptation) – Part 1

Sector	Activity number	Activity
Forestry	1.1	Afforestation
	1.2	Rehabilitation and restoration of forests, including reforestation and natural forest regeneration after an extreme event
	1.3	Forest management
	1.4	Conservation forestry
Environmental protection and restoration activities	2.1	Restoration of wetlands
Manufacturing	3.1	Manufacture of renewable energy technologies
	3.2	Manufacture of equipment for the production and use of hydrogen
	3.3	Manufacture of low carbon technologies for transport
	3.4	Manufacture of batteries
	3.5	Manufacture of energy efficiency equipment for buildings
	3.6	Manufacture of other low carbon technologies
	3.7	Manufacture of cement
	3.8	Manufacture of aluminium
	3.9	Manufacture of iron and steel
	3.10	Manufacture of hydrogen
	3.11	Manufacture of carbon black
	3.12	Manufacture of soda ash
	3.13	Manufacture of chlorine
	3.14	Manufacture of organic basic chemicals
	3.15	Manufacture of anhydrous ammonia
	3.16	Manufacture of nitric acid
	3.17	Manufacture of plastics in primary form
Energy	4.1	Electricity generation using solar photovoltaic technology
	4.2	Electricity generation using concentrated solar power (CSP) technology
	4.3	Electricity generation from wind power
	4.4	Electricity generation from ocean energy technologies
	4.5	Electricity generation from hydropower
	4.6	Electricity generation from geothermal energy
	4.7	Electricity generation from renewable non-fossil gaseous and liquid fuels
	4.8	Electricity generation from bioenergy
	4.9	Transmission and distribution of electricity
	4.10	Storage of electricity
	4.11	Storage of thermal energy
	4.12	Storage of hydrogen
	4.13	Manufacture of biogas and biofuels for use in transport and of bioliquids
	4.14	Transmission and distribution networks for renewable and low-carbon gases
	4.15	District heating/cooling distribution
	4.16	Installation and operation of electric heat pumps
	4.17	Cogeneration of heat/cool and power from solar energy
	4.18	Cogeneration of heat/cool and power from geothermal energy
	4.19	Cogeneration of heat/cool and power from renewable non-fossil gaseous and liquid fuels
	4.20	Cogeneration of heat/cool and power from bioenergy
	4.21	Production of heat/cool from solar thermal heating
	4.22	Production of heat/cool from geothermal energy
	4.23	Production of heat/cool from renewable non-fossil gaseous and liquid fuels
	4.24	Production of heat/cool from bioenergy
	4.25	Production of heat/cool using waste heat
Water supply, sewerage, waste management and remediation	5.1	Construction, extension and operation of water collection, treatment and supply systems

Follows on the next page

Economic Activities covered under the Taxonomy Regulation (Climate Change Adaptation) – Part 2

Sector	Activity number	Activity
Water supply, sewerage, waste management and remediation	5.2	Renewal of water collection, treatment and supply systems
	5.3	Construction, extension and operation of waste water collection and treatment
	5.4	Renewal of waste water collection and treatment
	5.5	Collection and transport of non-hazardous waste in source segregated fractions
	5.6	Anaerobic digestion of sewage sludge
	5.7	Anaerobic digestion of bio-waste
	5.8	Composting of bio-waste
	5.9	Material recovery from non-hazardous waste
	5.10	Landfill gas capture and utilisation
	5.11	Transport of CO ₂
	5.12	Underground permanent geological storage of CO ₂
Transport	6.1	Passenger interurban rail transport
	6.2	Freight rail transport
	6.3	Urban and suburban transport, road passenger transport
	6.4	Operation of personal mobility devices, cycle logistics
	6.5	Transport by motorbikes, passenger cars and light commercial vehicles
	6.6	Freight transport services by road
	6.7	Inland passenger water transport
	6.8	Inland freight water transport
	6.9	Retrofitting of inland water passenger and freight transport
	6.10	Sea and coastal freight water transport, vessels for port operations and auxiliary activities
	6.11	Sea and coastal passenger water transport
	6.12	Retrofitting of sea and coastal freight and passenger water transport
	6.13	Infrastructure for personal mobility, cycle logistics
	6.14	Infrastructure for rail transport
	6.15	Infrastructure enabling road transport and public transport
	6.16	Infrastructure for water transport
	6.17	Airport infrastructure
Construction and real estate	7.1	Construction of new buildings
	7.2	Renovation of existing buildings
	7.3	Installation, maintenance and repair of energy efficiency equipment
	7.4	Installation, maintenance and repair of charging stations for electric vehicles in buildings (and parking spaces attached to buildings)
	7.5	Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings
	7.6	Installation, maintenance and repair of renewable energy technologies
	7.7	Acquisition and ownership of buildings
Information and communication	8.1	Data processing, hosting and related activities
	8.2	Computer programming, consultancy and related activities
	8.3	Programming and broadcasting activities
Professional, scientific and technical activities	9.2	Close to market research, development and innovation
	9.1	Engineering activities and related technical consultancy dedicated to adaptation to climate change
Financial and insurance activities	10.1	Non-life insurance: underwriting of climate-related perils
	10.2	Reinsurance
Education	11.1	Education
Human health and social work activities	12.1	Residential care activities
Arts, entertainment and recreation	13.1	Creative, arts and entertainment activities
	13.2	Libraries, archives, museums and cultural activities
	13.3	Motion picture, video and television programme production, sound recording and music publishing activities

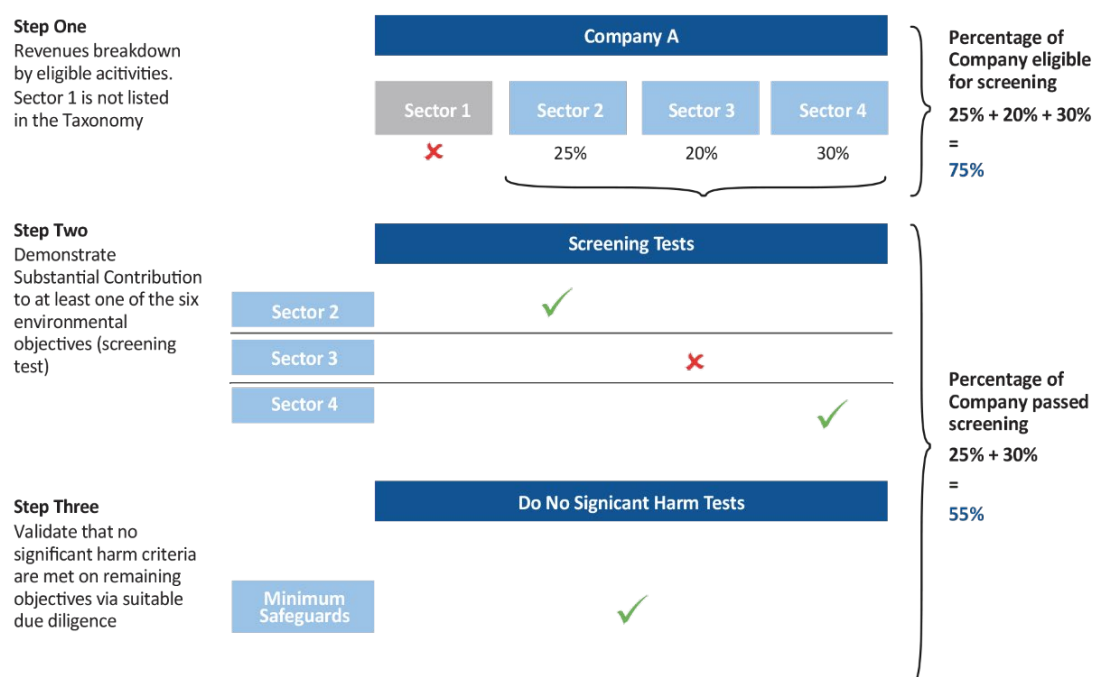
Source: EU Taxonomy Compass, Intermonte SI

Appendix III

Step-by-step application of EU Taxonomy for companies

- In the **first step**, the company needs to break down its revenues or CapEx (and OpEx, if relevant) by taxonomy-eligible activity. In the example shown in the following graphic, Company A has activities split across four sectors: based on the TEG report, TSC have been developed for Sectors 2, 3 and 4 only, hence the percentage of company-eligible taxonomy activities at this stage is 75%.
- In the **second step**, the company should demonstrate a substantial contribution to at least one of the six environmental objectives. In this case, only Sectors 2 and 4 pass the screening test and as a result the percentage of company alignment at this step is 55%.
- In the **third step**, the company should verify the Do No Significant Harm criteria with regard to the remaining environmental objectives and compliance with Minimum Social Safeguards. In this example, the company passes step three and its final taxonomy alignment percentage is 55%.

Assessing an individual company for Taxonomy Alignment



Source: TEG Final Report on EU Taxonomy, Intermonte SIM

Companies not subject to the NFRD, including SMEs, may decide to disclose their taxonomy-alignment KPIs on a voluntarily basis in order to gain access to environmentally sustainable finance or as part of their overall business strategy based on environmental sustainability.

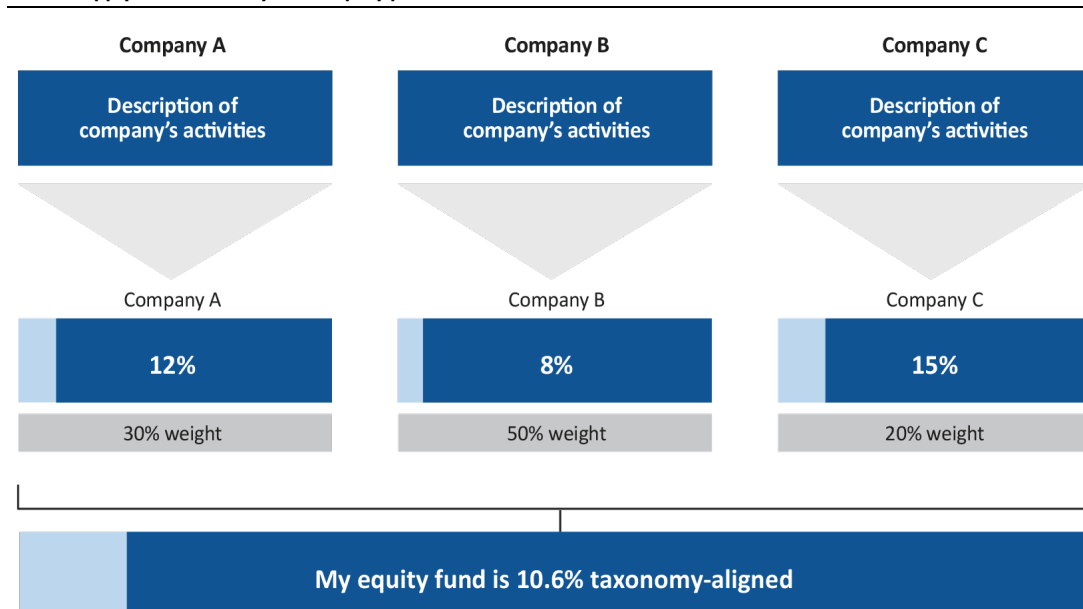
Appendix IV

Step-by-step application of EU Taxonomy for Financial Market Participants

- Identify the activities conducted by the company or issuer or those covered by the financial products that could be taxonomy-aligned, and which environmental objectives they support.
- For each potentially aligned activity, verify whether the company or issuers meet the relevant screening criteria.
- Verify that DNSH criteria are being met by the issuer. Investors using the Taxonomy would most likely use a due diligence-type process for reviewing the performance of underlying investees and would rely on the legal disclosures of eligibility from those investees.
- Conduct due diligence to avoid any violation of the social minimum safeguards stipulated in the Taxonomy Regulation.
- Calculate alignment of investments with the Taxonomy and prepare disclosures at investment product level.

The graphic below shows an explanation of how to apply the Taxonomy to a portfolio of company investments, considering turnover as a proxy for equity exposure to Taxonomy-aligned activities.

How to apply the Taxonomy to an equity portfolio



Source: TEG Final Report on EU Taxonomy, Intermonte SIM

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GUIDE TO FUNDAMENTAL RESEARCH

The main methods used to evaluate financial instruments and set a target price for 12 months after the investment recommendation are as follows:

- Discounted cash flow (DCF) model or similar methods such as a dividend discount model (DDM)
- Comparison with market peers, using the most appropriate methods for the individual company analysed: among the main ratios used for industrial sectors are price/earnings (P/E), EV/EBITDA, EV/EBIT, price/sales.
- Return on capital and multiples of adjusted net book value are the main methods used for banking sector stocks, while for insurance sector stocks return on allocated capital and multiples on net book value and embedded portfolio value are used
- For the utilities sector comparisons are made between expected returns and the return on the regulatory asset base (RAB)

Some of the parameters used in evaluations, such as the risk-free rate and risk premium, are the same for all companies covered, and are updated to reflect market conditions. Currently a risk-free rate of 2.5% and a risk premium of 5.0% are being used.

Frequency of research: quarterly.

Reports on all companies listed on the S&P500 Index, most of those on the MIBEX Index and the main small caps (regular coverage) are published at least once per quarter to comment on results and important newsflow.

A draft copy of each report may be sent to the subject company for its information (without target price and/or recommendations), but unless expressly stated in the text of the report, no changes are made before it is published.

Explanation of our ratings system:

BUY: stock expected to outperform the market by over 25% over a 12 month period;
OUTPERFORM: stock expected to outperform the market by between 10% and 25% over a 12 month period;
NEUTRAL: stock performance expected at between +10% and -10% compared to the market over a 12 month period;
UNDERPERFORM: stock expected to underperform the market by between -10% and -25% over a 12 month period;
SELL: stock expected to underperform the market by over 25% over a 12 month period.

Prices: The prices reported in the research refer to the price at the close of the previous day of trading

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Intermonte SIM is authorised by CONSOB to provide investment services and is listed at n° 246 in the register of brokerage firms.

As at 31 December 2021 Intermonte's Research Department covered 120 companies. Intermonte's distribution of stock ratings is as follows:

BUY:	16,95 %
OUTPERFORM:	53,39 %
NEUTRAL:	25,42 %
UNDERPERFORM:	04,24 %
SELL:	00,00 %

The distribution of stock ratings for companies which have received corporate finance services from Intermonte in the last 12 months (53 in total) is as follows:

BUY:	30,19 %
OUTPERFORM:	49,06 %
NEUTRAL:	20,75 %
UNDERPERFORM:	00,00 %
SELL:	00,00 %

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In order to disclose its possible conflicts of interest Intermonte SIM states that:

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Emittente	%	Long/Short
AEDES NEW	3,7	LONG
COGEME SET SPA	1,6	SHORT
IKF	0,57	SHORT
OLIDATA	0,74	SHORT

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