ESG Integration Policy

(adopted pursuant to article 3 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

For the purpose of this policy:

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 characterized 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 has always focused 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 judgment 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.

Moneyfarm's approach to ESG integration

In the context of its investment process, Moneyfarm considers a range of risk and return parameters. As part of this process, **Moneyfarm takes into account principal adverse impacts of its investment decisions on sustainability factors**.

Given that, at the present time, the ETFs selected by Moneyfarm for its Model Portfolios do not have explicit screening on ESG Ratings or sustainability factors, all Model Portfolio Moneyfarm currently offered by the firm can be categorized as Article 6 Portfolios.

[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.

However, Moneyfarm believes that sustainability factors are an important consideration in multi-asset portfolio construction and risk management. In fact, sustainability factors can potentially impact asset prices in a variety of ways, including changing market conditions, availability of scarce resources, regulatory environment and consumer preferences. They can impact individual companies, specific sectors and geographic regions.

For this reason, despite the underlying ETFs not having any explicit ESG screening, for the current portfolios offering, Moneyfarm monitors the ESG Rating at a portfolio level in order to avoid a high concentration of the investments in ESG Laggards and non-ESG rated ETFs.

Moreover, Moneyfarm is currently working on launching an ESG (SRI) proposition with a set of Article 8 Portfolios, not only aimed at further decreasing the impact of sustainability risks on its Model Portfolios, but also at contributing positively to sustainable development and achieving sustainable investment objectives by channelling clients' investments to companies with a lower environmental impact and higher ESG ratings.

ESG Risk and materiality identification

The other aspect that Moneyfarm considers in terms of ESG integration is the impact of ESG Risks on Moneyfarm portfolios.

Sustainability risks are commonly recognized among investors and they are now identified by a large number of institutions who provide standard for their assessment. One example is the SASB's Materiality Map. This identifies a set of sustainability issues that are likely to affect the financial conditions or operating performance of companies within an industry.

Table 1: sustainability risks identified by SASB

Environment	**Social capital**	**Human Capital**	**Business Model & Innovation**	**Leadership & Governance**
GHG Emissions Air Quality Energy Management Water & Wastewater Management Waste & Hazardous Materials Management	Human Rights & Community Relations Customer Privacy Data Security Access & Affordability Product Quality & Safety Customer Welfare	Labor Practices Employee Health & Safety Employee Engagement, Diversity & Inclusion	Product Design & Lifecycle Management Business Model Resilience Supply Chain Management Materials Sourcing & Efficiency	Business Ethics Competitive Behavior Management of the Legal & Regulatory Environment Critical Incident Risk Management Systemic Risk Management

Ecological Impacts Environmental physical risks Transition risks	Selling Practices & Product Labeling		Physical Impacts of Climate Change	

Source: 2018 The SASB Foundation.

ESG risks can impact financial returns with different time horizons and different materiality. Moneyfarm identifies three main actions to be undertaken to successfully manage ESG risk:

1. Identification and measurement at portfolio level: the identification of risk can be performed through the assessment of one of the ESG Rating available on the market. To assess the risk, Moneyfarm analyses the ETF ESG Rating and aggregates this risk at portfolio level, to monitor ESG Laggards exposure.
2. Mitigation: to mitigate the risk it is important to set maximum levels of exposure to ESG Laggards and undertake actions when these limits are broken. For instance, to mitigate the risk it is possible to select an ETF that excludes companies with a low ESG risk from the portfolios.
3. Actively participation: to actively manage sustainability risks, the main solution is to address capital flows to reward those companies with low externalities on the society, or actively financing projects aimed to reach sustainability goals. The main basic solution consists in avoiding to invest in the most risk exposed companies by screening the investable universe considering ESG attributes with a *negative screening approach* or at least with a *best in class approach*. More advanced solution is to actively invest to address sustainability goals.

Sustainability risks have different levels of materiality and likelihood of occurring on the basis of the sector, geography and the time horizon considered. As in the classic financial theory, sustainability risk can be classified in two main categorization:

- Systematic risk: refers to the risk inherent to the entire market or market segment. It cannot be mitigated through diversification, only through hedging or by using the correct asset allocation strategy. One instance of systematic risk is represented by *energy management*: the shortage of energy resources can significantly affect most of the companies and sectors in the market. As shown in Table 1, the 91% of sectors might be affected by this risk, so diversification in this case can reduce ESG risk up to a certain point.

- Idiosyncratic risk: a hazard that applies only to a particular company, industry, or sector. This kind of risk is more diversifiable, for example reputational risks associated with labor practices are more linked to specific sectors and specific countries. With regard to the impact of sustainability risks on Model Portfolios, our belief is that, in the short term, Moneyfarm portfolios will be resilient. The reason is mainly driven by the global diversification and low concentration on single entities, that will allow to absorb the main idiosyncratic risks.

Table 2: materiality of risk and percentage of sectors affected according to SASB materiality matrix. Darker cells mean higher materiality.

Source	risk	Materiality	Sector affected
Business Model & Innovation	Product Design & Lifecycle Management		91%
Environment	Energy Management		91%
Human Capital	Employee Health & Safety		82%
Environment	GHG Emissions		73%
Environment	Water & Wastewater Management		73%
Environment	Waste & Hazardous Materials Management		73%
Business Model & Innovation	Supply Chain Management		73%
Social Capital	Product Quality & Safety		64%
Social Capital	Data Security		64%
Leadership & Governance	Business Ethics		64%
Human Capital	Labor Practices		64%
Business Model & Innovation	Materials Sourcing & Efficiency		55%
Environment	Ecological Impacts		55%
Environment	Air Quality		45%
Leadership & Governance	Critical Incident Risk Management		45%
Human Capital	Employee Engagement, Diversity & Inclusion		45%
Business Model & Innovation	Physical Impacts of Climate Change		45%
Social Capital	Selling Practices & Product Labeling		36%
Social Capital	Customer Privacy		36%
Leadership & Governance	Competitive Behavior		36%
Social Capital	Human Rights & Community Relations		36%
Social Capital	Customer Welfare		27%
Social Capital	Access & Affordability		27%
Leadership & Governance	Systemic Risk Management		27%
Leadership & Governance	Management of the Legal & Regulatory Environment		27%
Business Model & Innovation	Business Model Resilience		18%

Source: 2018 The SASB Foundation, elaboration Moneyfarm.

Moneyfarm designs Model Portfolios using ETFs based on broad market indexes with the aim of reducing specific financial risks and non-financial risk. Moneyfarm portfolios are generally broadly differentiated in terms of geographic exposure, sectors and asset class. The firm monitors the sector and geographic exposures of the Model Portfolios to ensure that sector risk (e.g. in the energy sector) is well-contained. Moneyfarm doesn't invest in single sector ETFs at the moment.

The systematic risk needs to be measured and monitored. Moneyfarm monitors the exposure of all its Model Portfolios to sustainability risks by analysing most relevant sustainability indicators at ETF and portfolio level. For this purpose, Moneyfarm draws data from publicly available sources such as MSCI. This enables the firm to adequately identify, assess a broad range of sustainability risks. We acknowledge that ESG data is an evolving field, which sometimes lacks consensus, and we will continue to evaluate new data sources.

Moneyfarm's portfolios offering

Moneyfarm does not currently offer Article 8 or Article 9 Portfolios. This means that in the Moneyfarm offering there are currently no Model Portfolios promoting environmental or social characteristics or featuring sustainable investment objectives. Nevertheless, all Article 6 Portfolios offered by Moneyfarm monitor the ESG Laggards to be sure that their exposure in the portfolios is limited to a certain threshold.

Moneyfarm is aware of the importance of promoting environmental and social characteristics. Therefore, Moneyfarm is creating an ESG proposition to tackle this issue.

Article 6 Portfolios

In order to assess and monitor the suitability 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:

1. 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;
2. 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;
3. check that the weight of ETFs with an MSCI ESG Rating CCC is lower than 5%;
4. check that the weight of ETFs without an MSCI ESG Rating (NR) is below 35%.

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

Article 8 Portfolios

As mentioned above, Moneyfarm is planning to offer Article 8 Portfolios at some point in the future. With this regard, to enhance the protection against sustainability risks and impacts on the portfolios, Moneyfarm has already set up a process to select ETFs with ESG factors oriented.

The ETF selection process is explained in a specific document containing the Guidelines on ESG Proposition defined by the Moneyfarm Investment Committee, to drive the selection of the ESG ETF.

Based on this process, Moneyfarm, whenever possible, will select for its Article 8 Portfolios exclusively or predominantly those ETFs with the strictest sustainability criteria, such as **SRI ETFs**.

SRI ETFs are built to track the indexes that with both a *best in class* approach and a *negative screening* include those companies with the highest MSCI ESG Rating and exclude those companies with social controversies.

Moreover, whenever possible, the Moneyfarm screening process rewards those ETF with an environmental screening layer. This screening allows to select those companies whose revenues are less exposed to fossil fuels and have lower environmental externalities.

The screening process is based on MSCI data. Sustainability indicators are aggregated and monitored also at portfolio level in a similar way as it is done for Article 6 products . When it is not possible to select SRI ETFs, Moneyfarm might include non-SRI ETF monitoring the marginal impact of the ETF at portfolio level by adopting appropriate technical and administrative measures.

ESG Rating limitations

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 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*