



ESG

A SURVEY ON
RESPONSIBLE INVESTORS' KEY ISSUES AND NEEDS



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RESEARCH TEAM

Italy



ESG STRATEGY

A SURVEY ON RESPONSIBLE INVESTORS' KEY ISSUES AND NEEDS

We are progressing in our effort to identify the key issues and practical needs of investors interested in investing responsibly, particular in SMEs. A survey conducted with key investment houses operating in Italy highlights a still limited adoption of sustainability criteria in investment strategies, concerns about the current quality of ESG analysis and the need for easily accessible, standardized set of ESG data.

■ An analysis on responsible investors' key issues and needs

In this second piece of research on sustainability issues, Equita analyses in more details the needs of investors who are interested in investing responsibly, particularly in SMEs.

Patrizia Grieco, Chairman of the Italian Corporate Governance Committee and Chairman of Enel, underlined in a recent speech (see the full document attached) that **the integration of sustainability (including environmental, social and governance factors) into company strategies, risk management and remuneration policies should make no exceptions based on size. On the other hand, she reiterated the need for proportionality in the recommendations of the Code in regard to organisational measures, and flexibility regarding the methods used to achieve the established objectives.**

We intended to use the takeaways from Patrizia Grieco's speech to better understand, directly from asset managers:

- **How and to what extent asset managers operating in Italy are including at present ESG scores in their investment strategies;**
- **The key difficulties investment houses are encountering when defining these strategies and**
- **What they need in order to encourage wider and better use of ESG analyses.**

The key issues highlighted from the survey collected from the main asset managers operating in Italy are as follows:

- **the practice of incorporating sustainability factors in rating procedures is still far from being universally adopted;**
- **the quality of the available ESG analysis is still prevalently perceived as inadequate or barely sufficient;**
- **investors lack and would greatly appreciate an easy accessible, standardized set of ESG data provided by companies;**
- **Investors perceive all three ESG pillars (Environment, Social and Governance) as relevant and would be in favour of ad hoc guidelines on ESG reporting for small and medium-sized enterprises.**

■ The result of the survey strongly support our efforts on ESG themes

In our view, the results of the analysis clearly **reinforce our commitment:**

- **To spread the awareness amongst issuers of the importance of sustainability issues and help them to identify any areas that are not being adequately monitored or reflected in ESG scores;**
- **To support investors in their analysis, providing in our fundamental research a brief, easily available "ESG business description", based on the data collected from the questionnaires drawn up by Equita and Altis.**

A template of a brief "ESG business description", based on the Equita-Altis questionnaire and to be made available in our fundamental research, will be presented in the next research on the ESG topic.



AN ANALYSIS ON RESPONSIBLE INVESTORS' KEY ISSUES AND NEEDS

In this second piece of research on sustainability issues, **Equita analyses in more details the needs of investors who are interested in investing responsibly, particularly in SMEs.**

The analyses outlined in our research with ALTIS (Università Cattolica's Graduate School of Business and Society in Milan) titled "Sustainability: a made-to-measure rating system for SMEs", presented at an event in Milan and summarised in note n° 383 dated 25 October 2019, highlighted **a number of issues with the ESG rating procedures used for SMEs**, such as:

- **Deficiencies in terms of companies' non-financial reporting;**
- **Communication problems between companies and rating agencies;**
- **Failure of valuation models to fully reflect some of the unique features of SMEs**, such as the social impacts they can have on their local communities and their peculiar governance structures.

Patrizia Grieco, Chairman of the Italian Corporate Governance Committee and Chairman of Enel, underlined in her speech at the Milan event (English courtesy translation of the original document is attached to this report) **that the integration of sustainability (including environmental, social and governance factors) into company strategies, risk management and remuneration policies should make no exceptions based on size. On the other hand, she reiterated the need for proportionality in the recommendations of the Code in regard to organisational measures, and flexibility regarding the methods used to achieve the established objectives.**

We intended to use the takeaways from Patrizia Grieco's speech to better understand, directly from asset managers:

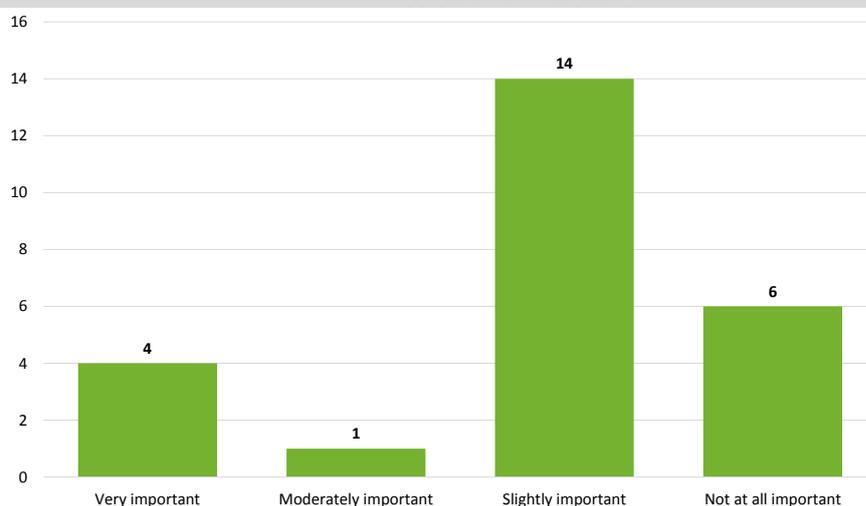
- **how and to what extent asset managers operating in Italy are including ESG scores in their investment strategies;**
- **the key difficulties investment houses are encountering when defining these strategies and**
- **what they need** in order to encourage wider and better use of ESG analyses.

We performed our analysis using a **short survey which we collected from 25 asset managers representing the main investment houses operating in Italy.**

In our view, **the key issues highlighted by the survey are as follows:**

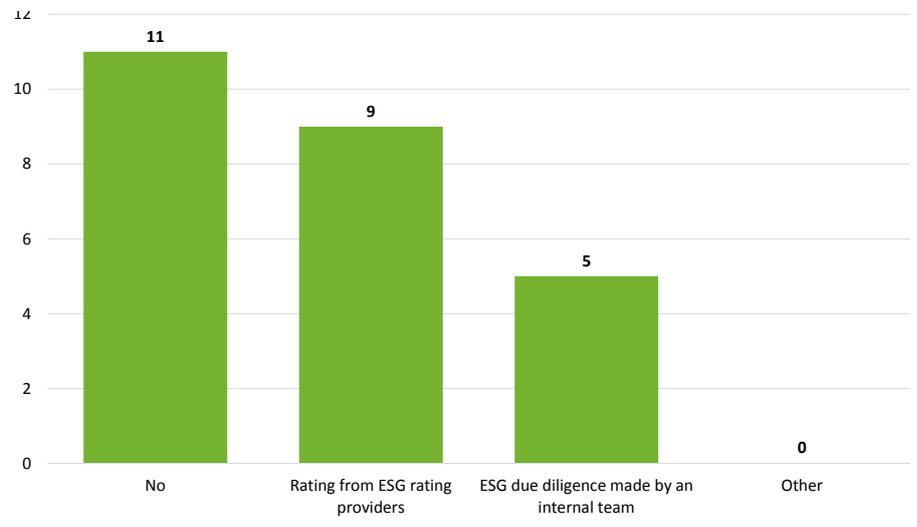
- **the practice of incorporating sustainability factors in rating procedures is still far from being universally adopted** (24% of respondents do not take ESG criteria into consideration at all and 56% only take ESG factors into consideration to a limited extent);

1. TO WHAT EXTENT YOUR INVESTMENT DECISION IN A COMPANY IS AFFECTED BY ESG CRITERIA?



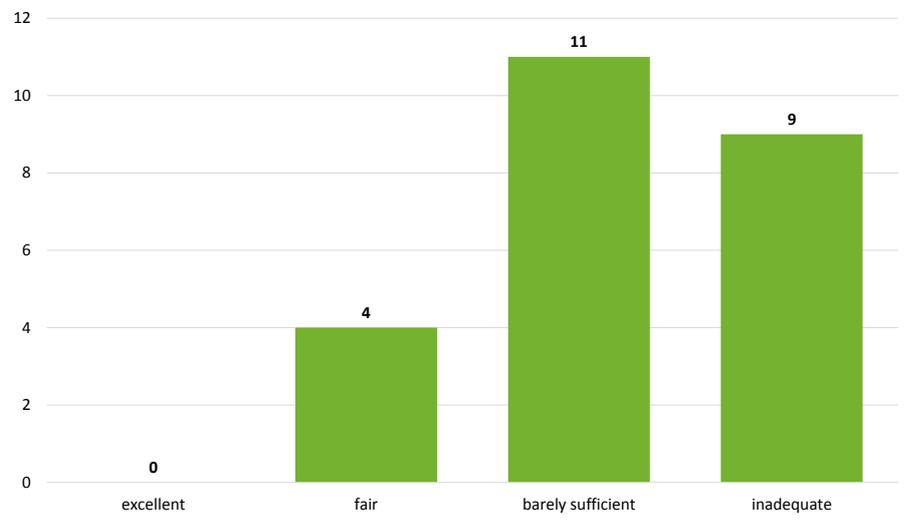
- **Few of those surveyed (just 20%) have appointed internal team to carry out due diligence on ESG criteria.** Most investors (36%) use the ratings issued by ESG rating providers or do not use any specific analysis methodologies;

2. DO YOU USE SPECIFIC METHODOLOGIES TO CARRY OUT ESG ASSESSMENTS ON SECURITIES?



- **The quality of ESG analyses conducted by rating providers on SMEs is for the most part (80%) seen as inadequate or barely sufficient.** The key issues brought to light by our study with Altis are therefore confirmed by the prevalent answers provided in our survey.

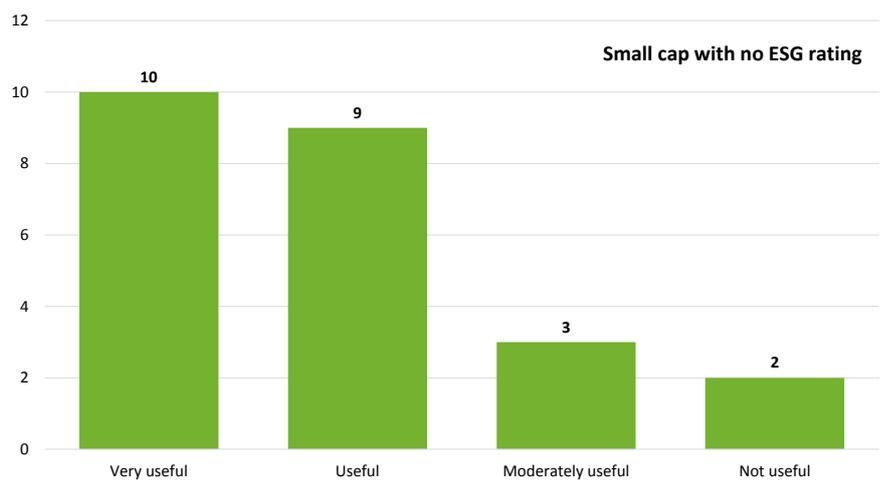
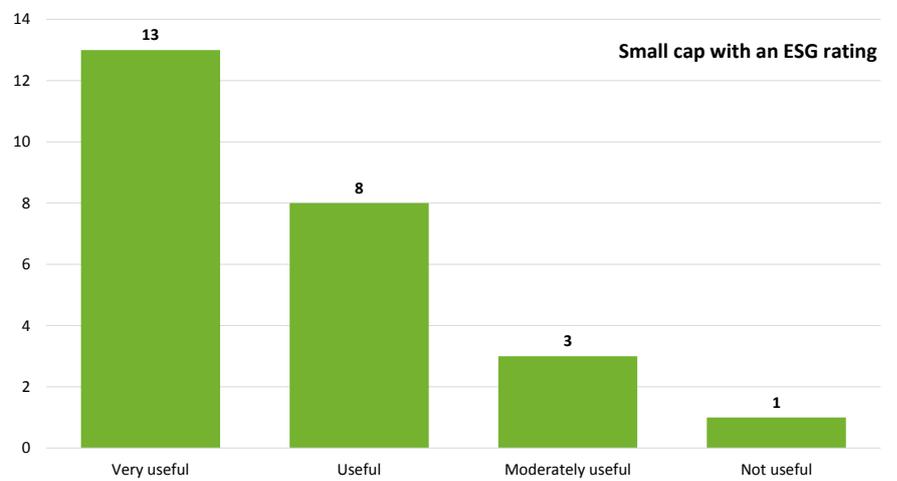
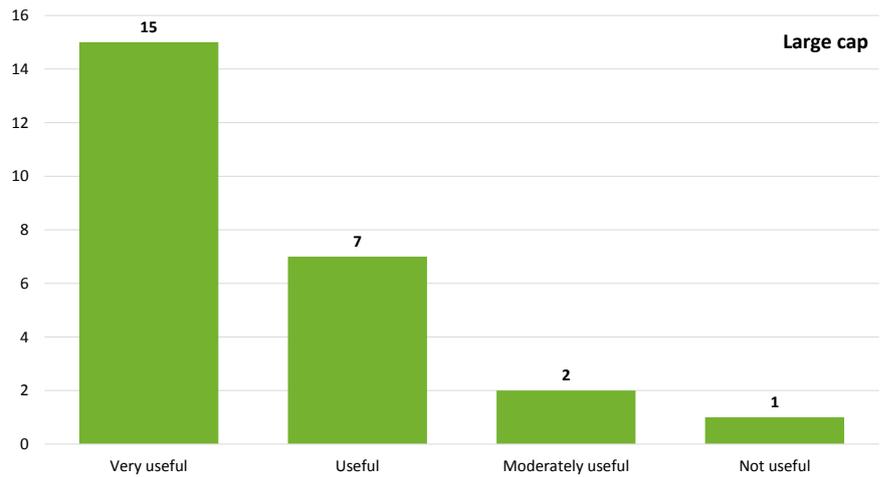
3. HOW DO YOU JUDGE THE CURRENT QUALITY LEVEL OF ESG ANALYSIS ON MEDIUM/SMALL SIZE COMPANIES?



- **A large majority of investors would greatly appreciate if companies were to provide a brief, easily accessible, standardised summary report on ESG issues.** To our surprise, investors feel that this should be a **requirement for both large and small caps**. Another issue that came as a surprise to us is that the need to provide a summary of ESG KPIs is **felt more keenly for companies that already have an ESG rating** (84% of respondents consider this to be fairly or very useful) **than for those without a rating** (76%).

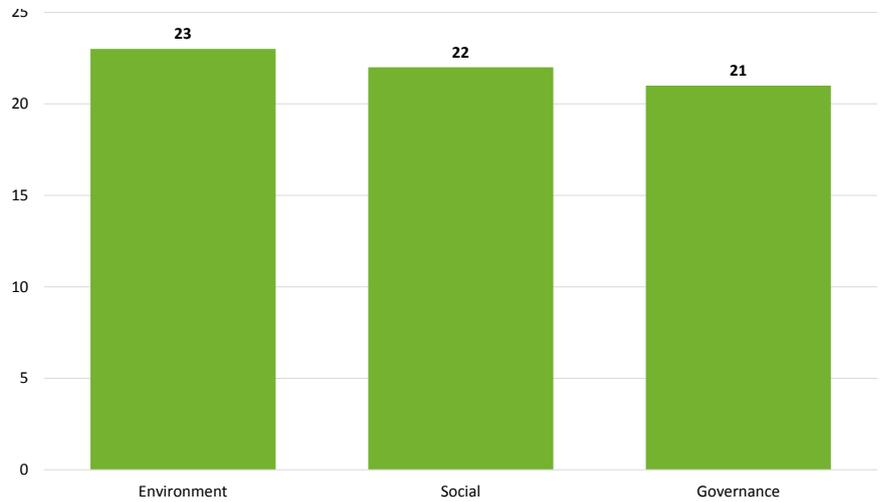
In our view, these responses highlight the **importance of providing investors with essential but easily accessible information, not just to establish a preliminary ESG rating where this is lacking but also** (and perhaps more importantly) **to corroborate the ESG ratings provided by third parties, for both large and small caps.**

4. HOW USEFUL WOULD BE A BRIEF, EASILY ACCESSIBLE, STANDARDISED REPORT ON ESG ISSUES PROVIDED BY COMPANIES



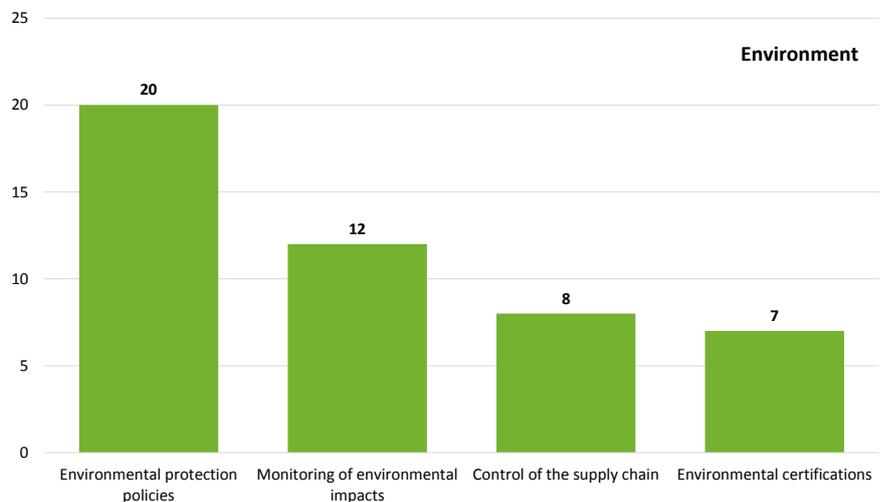
- **Investors perceive all three ESG pillars** (Environment, Social and Governance) **as important**, as shown by the answers to question 5. Investors also focus heavily on social aspects, which we believe are the most difficult to reflect accurately in ESG scores (as shown by our research study with Altis and reported in our October note), to a similar extent to Environment and Governance issues.

5. WHAT ESG PILLARS DO YOU THINK SHOULD BE PARTICULARLY ASSESSED WITHIN THE INFORMATION SET REFERRED TO IN PREVIOUS QUESTIONS?



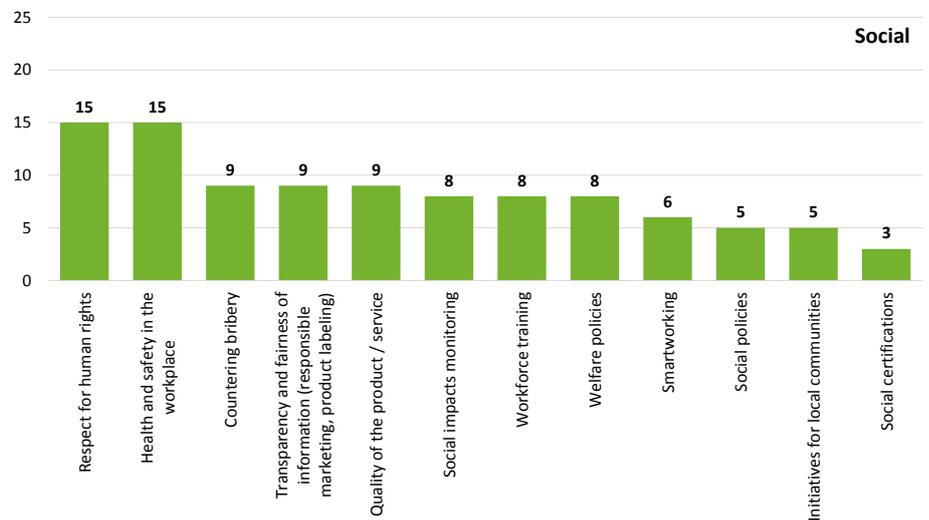
Regarding the “Environment” pillar, in addition to the proposed KPIs, respondents suggested that carbon footprint or other emissions measurements should also be monitored.

5.A WHAT ENVIRONMENT THEMES DO YOU THINK SHOULD BE PARTICULARLY ASSESSED WITHIN THE INFORMATION SET REFERRED TO IN PREVIOUS QUESTIONS?



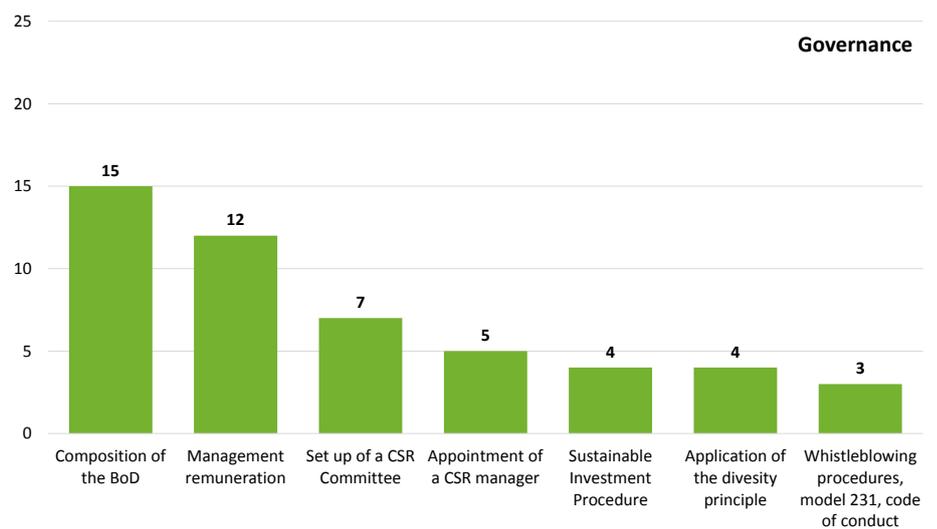
Regarding the "Social" pillar, the biggest problem seems to be selecting the most relevant KPIs, since many of the proposed areas of analysis are perceived as being important by a large percentage of investors (11 of the 12 proposed KPIs are considered to be important by at least 20% of respondents).

5.B WHAT SOCIAL THEMES DO YOU THINK SHOULD BE PARTICULARLY ASSESSED WITHIN THE INFORMATION SET REFERRED TO IN PREVIOUS QUESTIONS?



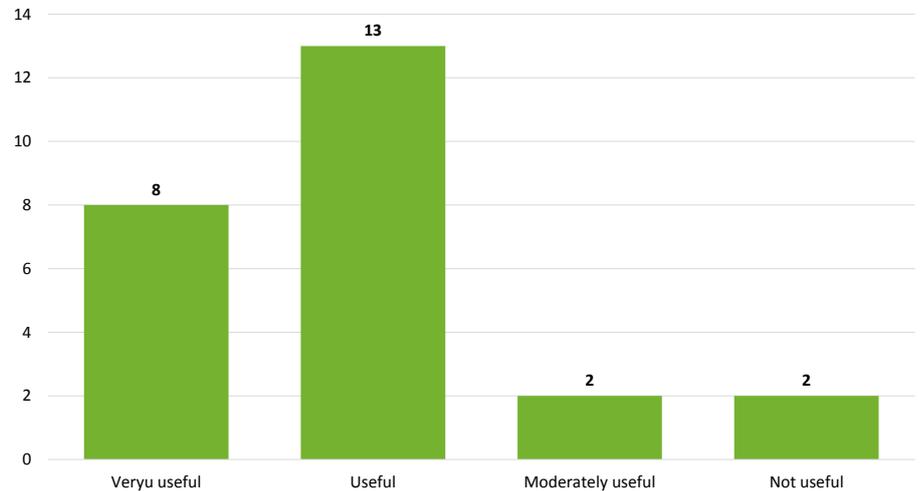
As for the "Governance" pillar, on the other hand, investors have a more homogeneous view of what the most important parameters to be monitored should be (only 4 out of 7 of the proposed areas of analysis are cited as being significant by at least 20% of respondents).

5.C WHAT GOVERNANCE THEMES DO YOU THINK SHOULD BE PARTICULARLY ASSESSED WITHIN THE INFORMATION SET REFERRED TO IN PREVIOUS QUESTIONS?



- Finally, a large majority of the investors interviewed would be in favour of **special guidelines on ESG reporting for small and medium-sized enterprises**. This point grasps the need mentioned by Chairman Patrizia Grieco to **avoid over-regulation**, but at the same time to **adopt standardised output data** and documents, in order to make it easier for all stakeholders to use and access information.

6. HOW USEFUL WOULD BE FOR SMES WITH NO NON-FINANCIAL REPORTING OBLIGATIONS TO HAVE AD HOC "ESG GUIDELINES"?



■ The results of the analysis support our effort with investors and issuers for the development of responsible investing

In our view, the results of the analysis strongly support our current efforts in:

- **Spreading awareness amongst issuers of the importance of sustainability issues and helping them to identify any areas that are not being adequately monitored or reflected in ESG scores;**
- **Encouraging an overhaul of the ratings methodologies currently applied** so that the specific characteristics of SMEs are better reflected in ESG scores;
- **Helping to define the type of disclosure best suited to the needs of investors and issuers.**

We will therefore provide in the next research on the ESG topic a **template of a brief "ESG business description"**, based on the **data collected from the questionnaires drawn up by Equita and Altis**.

We intend to **promote to issuers** the questionnaire and to **include in our fundamental research the ESG business description** in order to **help investors factor sustainability into their assessments** of issuers' ESG performances and to **support companies in their disclosure of their ESG efforts**.

Sustainability and SMEs by Patrizia Grieco*This is an English courtesy translation of the original document prepared in Italian.*

9th September 2019
 Largo Gemelli 1 - Milan
 15:30

*Equita Group and Altis – Cattolica**University**Sustainability and SMEs****1. Sustainability in corporate governance: a flexible and proportional approach***

The Italian Corporate Governance Code was a precursor to the recent focus on ESG factors. It introduced measures aimed at increasing Italian listed companies' awareness of sustainability issues back in July 2015.

It is in fact worth bearing in mind that when defining the nature and level of risk compatible with the strategic objectives of an issuer, the Code recommended also considering the *"risks that may become relevant in the medium-long term"* and suggested that companies listed on the FTSE-Mib index appoint a specially created or existing committee to deal with specific sustainability-related tasks.

The role of the Code was put under the spotlight in the recent research conducted by Altis, with Assonime and CSR Manager, which underlined that the incorporation of social and environmental factors into corporate governance has accelerated significantly since 2016 - when the revised version of the Code came into effect - *"effectively becoming a permanent feature"* ⁽¹⁾.

By recommending that FTSE-Mib companies appoint a sustainability committee, the Code had already adopted one of the criteria based on proportionality, in line with the G20/OECD Principles that recommend this approach in order to create adequate incentives for personalised governance and meet the growth and development needs of smaller (or recently listed) companies ⁽²⁾.

Moreover, this is a proportionality measure to be applied to the organisation: conversely, the importance of incorporating sustainability into *business* applies to companies of all sizes.

(1) ALTIS-CSR MANAGER-ASSONIME, *"B.o.D and sustainability policies – 2018 Report"*, http://www.csrmanagernetwork.it/files/ATTIVITA/RICERCHE/2019/30_05_2019_CdA_e_politiche_di_Sostenibilita-2018.pdf, page 3. The study shows that in Italy 32 of the 40 companies listed on the FTSE-MIB (80%) have now appointed a BoD committee to manage sustainability-related issues; this is an increase on the 28 companies (70%) that had appointed a committee in 2016, and an even greater increase on the 10 companies (25%) identified in 2013; most specialist committees were formed as of 2016; almost 3 out of 4 companies (23/32) assigned responsibility for sustainability issues to a committee with a number of powers (for example, "territory and sustainability", "audit & risk and sustainability", "appointments and sustainability"), but at the same time, the number of companies that have set up a committee dedicated exclusively to sustainability issues has increased (from 5 to 6).

(2) To improve the application of these principles, the OECD published a report in November 2018 on the application of the criteria of flexibility and proportionality in corporate governance and OECD financial markets, *"Flexibility and Proportionality in Corporate Governance"*, 2018 (https://read.oecd-ilibrary.org/governance/flexibility-and-proportionality-in-corporate-governance_9789264307490-en#page7)

9th September 2019
Largo Gemelli 1 - Milan
15:30

As Sergio Marchionne once said, "there are an infinite number of ways to get results, but there is one way of achieving them that is socially responsible" (³).

In keeping with this thinking, a subsequent revision of the Code, this time in 2018, was aimed at reflecting the value of various diversity criteria for all issuers, precisely within the framework of an overall strengthening, within the Code itself, of sustainability as a strategic driver of competitiveness.

An explicit recommendation was therefore included in the Code to ensure that issuers apply diversity criteria, including gender diversity, when appointing the board of directors and board of statutory auditors, and apply the same quotas identified by the "Golfo-Mosca" Law - i.e., women to account for one third of members of the board of directors - whilst taking into account the main priority of guaranteeing the competence and professionalism of all directors.

In this case, the Code adopted a flexible approach, suggesting various ways of meeting the one-third quota, and also considering the ownership structure of the companies: these methods include statutory provisions, diversity policies, and guidance from the outgoing BoD for shareholders, as well as an independent list presented by the outgoing BoD (⁴).

It is also worth underlining the importance of the inclusion of an additional recommendation in the Code that (all) issuers adopt measures to encourage equal treatment and equal opportunities for men and women throughout each organisation, and to monitor their actual implementation.

Along the same lines, the new edition of the Corporate Governance Code, to be completed by the Corporate Governance Committee shortly, places strong emphasis on integrating sustainability, including environmental and social sustainability, into the strategies, risk management and remuneration policies of all listed companies.

This is in line with the common view on how to best reflect the content and evolution of the best sustainability practices adopted in 2018 by the chairmen of the competent corporate governance committees in France, Germany, Italy, The Netherlands, United Kingdom and Sweden (⁵).

(3) "Sergio Marchionne – Il coraggio di cambiare – Tre lezioni sulla leadership e la crescita" ("Sergio Marchionne – The courage to change – Three lessons on leadership and growth"), by A. GRANDE, introduction by M. MONTI, 2019, page. 107 (in Italian).

(4) During a Senate hearing regarding the extension of the "Golfo-Mosca" law, Assogestioni stated that: "Some companies, including Enel, which currently has the largest market cap on the Italian market, have already begun to amend their by-laws to include the provision initially introduced when the Golfo-Mosca law came into effect; the hope is that many other companies will apply this model" (<http://www.assogestioni.it/index.cfm/3.207.12758/testo-completo-audizione-assogestioni-6a-comm-senato-su-legge-golfo-mosca.pdf>). So far, four companies have adopted this provision: Enel, Tim, UBI Banca and Leonardo (see Prof. Genovese, https://www.senato.it/application/xmanager/projects/leg18/attachments/documento_evento_procedura_commissione/files/000/001/656/Audizione_Genovese_7_5_2019.pdf).

(5) The six chairmen unanimously asked European and national legislators to analyse and evaluate the development and efficiency of existing best practices. In fact, corporate governance codes represent the most suitable means of promptly meeting the evolving demands of the market in

9th September 2019
Largo Gemelli 1 - Milan
15:30

The Committee also plans to strengthen the proportionality of the recommendations within the Code according to the various characteristics of listed companies, but this simplification will still only apply to organisational measures. As highlighted again this year in the Italian Corporate Governance Committee analysis, size is a factor if we look at compliance with the most strictly "organisational" rules of the Code, with a 68% compliance rate for small companies, compared to 85% for medium-large companies.

2. Sustainability in regulation: a diversified approach that is not always proportional

Alongside these corporate governance initiatives - which are also increasingly more focused on the issue of sustainability in other countries (Belgium, France, Germany, UK) - legislators (the EU in particular) are becoming increasingly more involved in sustainability matters.

First of all, the 2014 Directive on non-financial reporting [2014/95 EU], implemented in Italy in 2016 [with Legislative Decree 254/2016] - adopting a proportionality approach - introduced a requirement for large issuers to disclose non-financial information (⁶).

The Directive also allows for flexible disclosure of sustainability information, based on materiality criteria, that is, "to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity" and according to relevance criteria "taking into account the activities and characteristics of the business". Materiality analyses are now an essential part of the most widely used non-financial reporting procedures at an international level (⁷).

In regulatory terms, the recently implemented Directive aimed at encouraging long-term shareholder engagement [Directive 2017/828, which modifies the Shareholders' Rights Directive]

this area and in order to adapt them to the unique features of the Italian market and the characteristics of the business, thus allowing for integrated and, therefore, effective application of these best practices. The chairmen have therefore undertaken to foster and increase the focus on sustainability in the development of existing best practices, partly by identifying a set of common guidelines.

(6) This therefore applies to public interest entities (e.g. listed companies) with an average of 500 employees during the year and which exceed at least one of the following thresholds at the balance sheet date: total assets > 20 million euro or total net revenues from sales and services > 40 million euro.

(7) It is worth noting that according to a recent Consob study, although almost all 151 Italian companies that issued a non-financial statement in 2018 performed a materiality analysis, only 44 companies also involved external stakeholders in this analysis (in other cases, limiting this involvement to internal bodies or top managers). The study also highlights that only 12 companies have integrated long-term issues and their impact on value creation into their strategic plans, while five have incorporated their impact on the relevant Sustainable Development Goals (UN SDGs). None of these companies mentioned the materiality analysis in their strategic plans. Please see Consob, in collaboration with con Methodos and Nedcommunity, "Non-financial information as a driver of transformation", 2018, (<http://www.consob.it/documents/46180/46181/Sost2018.pdf/c87d3f84-2b68-45e9-a389-5b21f8cfe7f7>).

9th September 2019
Largo Gemelli 1 - Milan
15:30

in Italy, inspired by the United Nations' Principles for Responsible Investment (⁸), requires that institutional investors and asset managers draw up and disclose an engagement strategy that describes the methods used to monitor the financial and non-financial results, social and environmental impacts and corporate governance of their affiliated undertakings, outlining how this strategy contributes to the medium and long-term performance of their assets, and disclosing the methods used to implement their engagement strategy on an annual basis.

It is immediately apparent that the Shareholders' Rights Directive makes no distinctions according to the size of the affiliated undertakings: institutional investors and asset managers must provide disclosure for all the assets they invest in. To paraphrase Marchionne: *"there are an infinite number of ways to invest, and then there is socially responsible investing."*

This presents us with a dilemma that ties in with Equita-Altis's current research: if smaller companies do not disclose non-financial information (because they are not required to), how are investors supposed to take ESG criteria into account when investing in such companies?

....especially since with the 2018 Sustainable Finance Action Plan (⁹), the European Commission proposed to "explicitly require institutional investors and asset managers to integrate sustainability factors into their investment decision-making procedures and improve transparency for investors on how they factor such sustainability issues into their investment decisions, particularly regarding exposure to sustainability risks. "(action 7) (¹⁰).

According to a Consob study with IRTop Consulting, in 2018 (first year of application) in Italy, 73% of the companies listed on the Star segment and 43% of companies listed on the Ftse Italian Small Caps Index or not listed on any index issued a non-financial statement: none of the exempted companies issued a non-financial statement voluntarily, although some did issue a sustainability report (¹¹).

(8) The 6 Principles of Responsible Investment, developed in 2006 by a group of investors with the support of the United Nations, have so far been signed by approximately 2,300 institutional investors and asset owners. These are voluntary principles that list potential actions to incorporate ESG issues into investment strategies (<https://www.unpri.org/pri>).

(9) The Action Plan on Sustainable Finance, published in March 2018, set the target to reorient capital flows towards a more sustainable economy, integrate sustainability into risk management and foster transparency and long-term investment (<https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52018DC0097&from=IT>).

(10) In reference to action 7 of the Action Plan on Sustainable Finance, a political agreement was reached in March 2019 regarding a proposed regulation to increase disclosure by investors (https://europa.eu/rapid/press-release_IP-19-1571_en.htm).

(11) Please see CONSOB – IRTOP CONSULTING, "Governance and transparency in Small Cap companies", 2018, pages 4 and 14 (<http://www.consob.it/documents/46180/46181/SmallCapAim2018.pdf/765b762d-d5b7-455c-94b5-3fdd231414e9>). More specifically, the study shows that in the first 9 months of 2018 73% of companies in the **Star segment** issued a non-financial statement

9th September 2019
Largo Gemelli 1 - Milan
15:30

The idea of extending the ESG reporting requirement to smaller companies has already been suggested by various entities, e.g. GRI reports ⁽¹²⁾ or the recent document published by the *Consiglio Nazionale dei Dottori Commercialisti ed Esperti Contabili* (Italian Association of Certified Chartered Accountants) ⁽¹³⁾. Some Member States, such as Spain, have extended their non-financial reporting obligations to smaller issuers ⁽¹⁴⁾.

In this respect, the questionnaire drawn up for the purpose of Equita-Altis's research could prove very useful, as it cleverly adopts the criteria of flexibility and proportionality recommended for SMEs. Indeed the questionnaire is designed to act as a "guideline for companies, which could use the questions as a check-list in order to identify any problem areas (e.g. inadequate organisational structure, failure to disclose corporate policies) and to provide all stakeholders (if made public) with a concise but not overly rigid picture of the group's ESG profile (using open-ended questions and questions on the business model), which would be particularly useful for any companies that do not already have an ESG rating".

3. *Enel's role in the sustainability of SMEs within its value chain*

In this context, how does a large company like Enel approach the issue of the sustainability performance of the SMEs it does business with?

Enel is not an asset manager or an institutional investor and is therefore not interested in investment opportunities in SMEs based on environmental, social and governance factors.

(i.e. 51 companies out of 70), while the remaining companies are exempted due to their small size (19 companies, or 27% of the total) or because the obligation is fulfilled by the parent company. Among the Small Cap companies (i.e. companies listed on the Ftse Italian Small Caps Index or not included on any index), 36 (or 43%) published a non-financial statement, unlike 47 small companies and three issuers belonging to a group. None of the exempted companies published a NFS voluntarily, although 7 companies issued a sustainability report: three companies published a social and environmental report, two issued a sustainability report (or statement) and two provided some information on the subject. Eight companies listed on the AIM market (not subject to the obligations prescribed by Legislative Decree 254/2016) published a sustainability report.

At the end of December 2018, there were 357 companies listed on Borsa Italiana markets. In more detail: 242 companies on the MTA market (of which 74 STAR), 2 on MIV and 113 on AIM Italia (http://www.borsaitaliana.it/borsaitaliana/ufficio-stampa/comunicati-stampa/2018/review-mercati-2018_pdf.htm). At the end of July 2019, there were 125 companies listed on the AIM.

(12) GRI "Ready to report?" (http://impattosociale.ilgermoglio.fe.it/wp-content/uploads/2016/01/00_Ready-to-Report-SME-booklet-online-Italian.pdf)

(13) CNDCEC (Italian Association of Certified Chartered Accountants) "*Sostenibilità aziendale e sviluppo professionale - corporate governance e risk management*" ("*Corporate sustainability and professional development - corporate governance and risk management*"), 31 July 2019, page 15, which states that "Evidently, SMEs have fewer resources to devote to sustainability reporting and generally also have fewer immediate incentives, if we consider that most of them, in all probability, have a negligible individual socio-environmental impact. Nonetheless, their overall impact can clearly be significant on many local production systems. Ultimately, providing some form of sustainability reporting is essential for both large and small companies operating in certain industries."

(14) In Spain, the non-financial reporting requirement applies either to companies with more than 500 employees or to those that exceed two of the following parameters: consolidated assets in excess of 20 million euro, consolidated revenues of over 40 million euros or an average number of employees during the year of more than 250 (Ley 11/2018, 28 December 2018).

9th September 2019
Largo Gemelli 1 - Milan
15:30

Moreover, these factors are important when Enel analyses partnership opportunities or commercial agreements or, more generally, when selecting its suppliers.

As concerns the procedure used to select its suppliers, a valuation of the technical factor (so-called "K") now includes aspects related to environmental, social and safety sustainability (so-called "sustainability factors (K)"). For example, it considers whether they hold ISO certifications for waste management, or OHSAS certification for safety, or if they recruit unemployed / temporarily laid off/redundant workers or young people in first time employment ⁽¹⁵⁾.

In these contexts, it monitors whether both contractors and subcontractors comply with their obligations: Enel constantly monitors the current and potential risks associated with its business throughout the entire supply chain ⁽¹⁶⁾.

The company discusses sustainability issues with its suppliers, holding numerous meetings in order to exchange ideas and approaches, including on the circular economy ⁽¹⁷⁾.

Therefore, the role of large companies, which are more accustomed to assessing and disclosing their ESG performances, is also to help the smaller companies within their value chain to develop a

(15) According to the 2018 sustainability report: Enel has established a "Supplier Qualification System" that allows it to accurately select and assess companies that wish to participate in procurement procedures by assessing technical, economic-financial, legal, environmental, safety, human and ethical rights, and integrity requirements in order to guarantee that they offer high quality and reliability should they be awarded any contracts in the energy sector. Each supplier is categorised into one or more specific product groups (PG) and suppliers only qualify when they meet all the set requirements. These requirements vary based on the specific implications and impacts associated with each group. Enel has continued its commitment to introducing sustainability-related aspects into the bidding procedure by introducing a specific "sustainability factor (K)". It has created a "Library", in which the "sustainability K factors" are listed and can be used during the tender process in line with the various PGs. There are three macro categories: (i) K factor - environment: for example, ISO 14001 certification, waste management, EMAS - circular economy certification; (ii) K factor - *safety*: for example, OHSAS 18001 certification; (iii) K factor - social: for example, hiring unemployed / temporarily laid-off / redundant workers or young people in first time employment.

As regards the sustainability of the supply chain, among other things, Enel requires its contractors / suppliers and subcontractors to respect and protect internationally recognised human rights, as well as to comply with ethical and social requirements regarding: child labour, gender equality, equal treatment, workplace discrimination, freedom of trade union, association and representation, forced labour, occupational health & safety, environmental protection, hygiene and health conditions as well as regulatory, remuneration, contribution, insurance and tax conditions. Furthermore, suppliers are expressly requested to adopt and implement the principles of the UN Global Compact and to ensure that they are met in the performance of all their activities, by both by their employees and subcontractors. In addition, suppliers must undertake to respect the principles contained in the Enel Code of Ethics, or similar standards, in the management of their business. Finally, it is specified that the "International Labour Organisation" conventions or regulations in force in the country of business, where more restrictive, shall apply.

(16) For example, in as early as 2016, it performed an internal investigation in order to establish whether suppliers of products that contain or use cobalt were in compliance with human rights regulations: it conducted inspections and interviews with the main suppliers and introduced specific contractual provisions. Furthermore, Enel actively participates in the Global Battery Alliance organised by the World Economic Forum.

(17) In recent years, Enel has organised several meetings with contractors to discuss sustainability issues aimed at exchanging ideas and approaches. More specifically, between June and September 2018, it held *Suppliers Days* in Italy, Peru, Colombia, Spain, Romania and Brazil. Enel has included a specific section on a special web portal (<https://globalprocurement.enel.com/it.html>) in order to publish articles and information on the main topics regarding its business and sustainability profile. As for the circular economy, it has launched a "*Circular Procurement*" project which aims to track the materials used in its business, to monitor the inflow and outflow of materials in depth in terms of components, environmental impacts and recyclability of its products.

9th September 2019
Largo Gemelli 1 - Milan
15:30

growing awareness of these aspects ⁽¹⁸⁾, which allows them to reach a better understanding of the potential risks to which the organisation is exposed, prevent and manage them more efficiently and, ultimately, to grow.

Consideration of social and environmental impacts requires the use of new methods and increases the number of factors that may be applied to differentiate a company's value proposition - e.g. circular economy solutions. Furthermore, the integration of these aspects into corporate strategy consolidates the decision-making process, offering managers a clearer picture of the internal and external variables that help to determine corporate behaviour.

This approach has a positive impact on the whole system: sustainability involves managing the impacts on both the up and downstream supply chain and adopting a comprehensive strategy ⁽¹⁹⁾.

4. Conclusions

Regarding the aforementioned considerations, the integration of sustainability, including environmental and social issues, into strategies, risk management and remuneration policies is a desirable outcome for SMEs.

Adequate non-financial reporting methods - such as the solutions proposed in the Equita-Altis research - could lead to a more diversified investor base and potentially lower cost of capital, to a more constructive dialogue with the interested parties and, ultimately, improve the image of the companies.

It is quite clear that adequate industrial policy measures are required to stimulate the growth of SMEs.

To conclude with a joke inspired by the debate generated this summer by the Business Roundtable statement on a more inclusive capitalism: Milton Friedman claimed that "*The business of business is business*", one response to which might be "*Questions of sustainability are questions of business and should be treated as such*". Corporate governance in Italy is in fact moving in this direction.

(18) Please see European Commission Communication 2019/C 209/01, published in June 2019, on "Guidelines on non-financial reporting: Supplement on reporting climate-related information", where companies subject to non-financial reporting regulations are encouraged "*to support SMEs that are part of the value chain in providing the required information*".

(19) and the Brundtland Report "*Our Common Future*", drawn up by the World Commission on Environment and Development in 1987 and quoted on page 25 of the Equita-Altis research, V. file:///C:/Users/a255465/Downloads/our_common_futurebrundtlandreport1987.pdf Similarly, Business Roundtable recently summarised the commitment of large companies to suppliers in these terms: "*We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions*".

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RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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SOSTENIBILITÀ: UN NUOVO STUDIO PER ESAMINARE COME GLI INVESTITORI INCORPORANO I FATTORI ESG NEL LORO PROCESSO DI VALUTAZIONE E PER AGEVOLARE TALE PROCESSO

- EQUITA HA ANALIZZATO IL PROCESSO DI INCLUSIONE DEI FATTORI ESG NELLE STRATEGIE DI INVESTIMENTO DEGLI ASSET MANAGER ATTIVI IN ITALIA E INDIVIDUATO LE PRINCIPALI DIFFICOLTÀ CHE SORGONO DURANTE LA DEFINIZIONE DI TALI STRATEGIE E LE POSSIBILI AREE DI MIGLIORAMENTO

Milano, 5 febbraio 2020

Equita, l'investment bank indipendente italiana, ha pubblicato in data odierna una nuova ricerca dedicata ai temi della **sostenibilità** con l'obiettivo di continuare a fornire alla comunità finanziaria spunti e considerazioni che migliorino il processo di valutazione delle società, in particolare delle PMI, e ottimizzino il processo di integrazione della sostenibilità nelle strategie e nella gestione dei rischi da parte di tutti gli attori coinvolti sul mercato.

Con questo nuovo studio Equita ha voluto analizzare in che modo il processo di inclusione delle valutazioni e dei fattori ESG risulti già incorporato nelle strategie di investimento degli *asset manager* attivi in Italia, quali siano le principali difficoltà operative riscontrate dalle case di investimento nella definizione di tali strategie e quali possano essere le principali esigenze per favorire una diffusione più ampia e qualificata della sostenibilità e dei fattori ESG.

L'analisi è stata condotta attraverso un **questionario a cui hanno risposto circa 30 gestori che rappresentano le principali case di investimento operanti in Italia**.

Uno dei principali risultati che emerge è che **l'inclusione della sostenibilità nel processo di valutazione delle aziende è ancora distante dall'essere universalmente adottata** (il 24% dei rispondenti non tiene ancora in considerazione i parametri ESG nel processo di valutazione, mentre il 56% ne tiene conto sono marginalmente); **poche realtà tra i rispondenti** (solo il 20%) **hanno strutturato un team interno per effettuare un'attenta analisi dei parametri ESG** sulle società oggetto di potenziale investimento e la maggior parte utilizza rating prodotti dalle agenzie di rating ESG (36%) o non utilizza una specifica metodologia di analisi (44%). Peraltro, la qualità dell'analisi ESG condotta dai *provider* viene per lo più valutata inadeguata o appena sufficiente dall'80% dei rispondenti.

Tra i suggerimenti che emergono dall'analisi, gli investitori apprezzeranno la **predisposizione di un set informativo sui temi ESG di tipo sintetico, standardizzato e facilmente consultabile da parte delle società valutate**. Questa esigenza si evince sia per le *large cap* che per le *small cap*, ed è sentita maggiormente per le società che sono già dotate di *rating* ESG (84% dei rispondenti lo ritengono abbastanza o molto utile) rispetto a quelle sprovviste di *rating* (76%). Queste evidenze segnalano l'importanza di **fornire agli investitori un set informativo rapidamente consultabile sia per sviluppare un rating ESG preliminare sia per corroborare le valutazioni ESG fornite da soggetti terzi**.

Dall'analisi condotta risulta inoltre che la **rilevanza percepita dagli investitori è elevata per tutti e tre i fattori ESG**. Anche gli aspetti sociali infatti – che sono quelli più difficili da valorizzare come evidenziato dallo studio condotto da Equita e l'Alta Scuola Impresa e Società dell'Università Cattolica del Sacro Cuore (ALTIS) a settembre 2019 – ricevono un grado di attenzione elevato e comparabile a quello relativo all'ambiente e alla *governance*.

Sulle tematiche sociali la criticità maggiore sembra essere la selezione dei parametri chiave più rilevanti, dal momento che quasi tutti i parametri proposti (11 su 12) vengono ritenuti importanti da almeno il 20% degli investitori. Sulle tematiche di *governance* invece gli investitori hanno una visione più uniforme di quali siano i parametri più importanti da monitorare dato che solo alcune delle aree di analisi proposte (4 su 7) vengono indicate come significative da almeno il

20% dei rispondenti. Sulla tematica ambientale infine, oltre ai parametri proposti, i rispondenti hanno indicato anche il *carbon footprint* e altre forme di misurazione degli impatti ambientali come parametri da monitorare attentamente.

L'ampia maggioranza degli investitori intervistati si è poi dichiarata favorevole alla definizione di linee guida *ad-hoc* per le piccole e medie imprese circa la rendicontazione ESG. Questo punto coglie le esigenze espresse dal mercato di standardizzare i dati e la documentazione prodotta dalle società in modo da rendere più facilmente fruibile l'accesso alle informazioni da parte di tutti gli *stakeholder*, senza necessariamente dover introdurre nuovi adempimenti regolamentari.

Andrea Vismara, Amministratore Delegato di Equita, ha commentato: *“Con questo secondo studio Equita ha voluto analizzare se e in che modo gli asset managers attivi in Italia hanno integrato le loro strategie d'investimento con valutazioni ad-hoc dei fattori ESG. I risultati della ricerca evidenziano che c'è ancora molto da fare e che solo alcuni asset managers si sono strutturati con team dedicati alla valutazione della sostenibilità delle aziende. La predisposizione di set informativi sintetici, standardizzati e di facile consultazione da parte delle società investibili aiuterebbe sensibilmente gli asset managers nel processo di selezione degli investimenti, velocizzando l'incorporazione della sostenibilità e dei fattori ESG nel processo di valutazione”.*

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