

Quaestio Capital

Description

Quaestio Capital is an independent Italian Investment Management Company, active both in public and private markets, managing around €8.8bn of Asset Under Management.

Since 2013, Quaestio has been integrating sustainability and ESG principles within the investment process, endeavoring not to invest in companies or countries in conflict with its system of Values & Beliefs. Since its creation, its System of Values & Beliefs has been conceived to consider the long-term consequences of its activities from a financial, social and environmental perspective, within the context of its fiduciary duties toward its clients. It can be substantially traced back to the limitation of the investments into i) controversial sectors, ii) UN Global Compact violators, iii) Relevant CO₂ offenders and iv) Countries characterized by a low level of democracy.

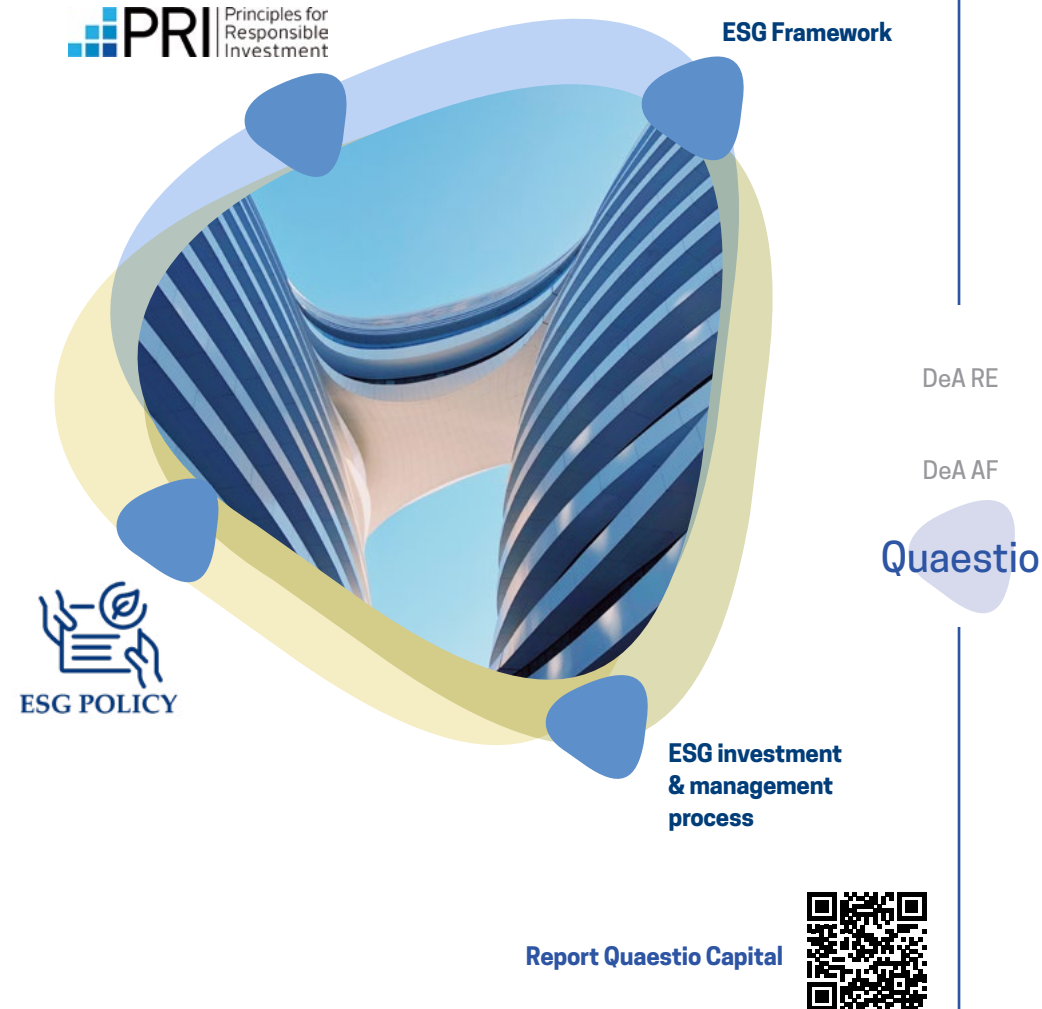
In 2020, Quaestio has materially strengthened the ESG capabilities and analysis through the revision of its Socially Responsible Investment, the appointment of a dedicated internal SRI Committee and

relevant investments in terms of resources and capabilities. This continuous effort has also led to the adherence to the UN PRI, with the first reporting in 2021.

Furthermore, Quaestio's investment strategy has always been characterized by a Quality approach, which is strongly related to a positive ESG level and performance. As a result, Quaestio has always been strongly committed to deliver high levels of SRI & ESG performance, while pursuing the best interests of its customers and stakeholders.

Quaestio's SRI & ESG identity is characterized by the coexistence of different aspects and approaches that allows a wider understanding of the materiality of non-financial data within the investment decision and the value creation process for its stakeholders. Among them, the main distinctive features and aspects of its company are outlined below:

- The ESG framework and roadmap
- The SRI Policy - an Hybrid approach
- The UN Principle for Responsible Investments



Report Quaestio Capital



Quaestio Capital

The ESG Framework and roadmap

The ESG framework was reviewed and further developed in 2020 with the aim to rethink and enhance the approach in place since 2013.

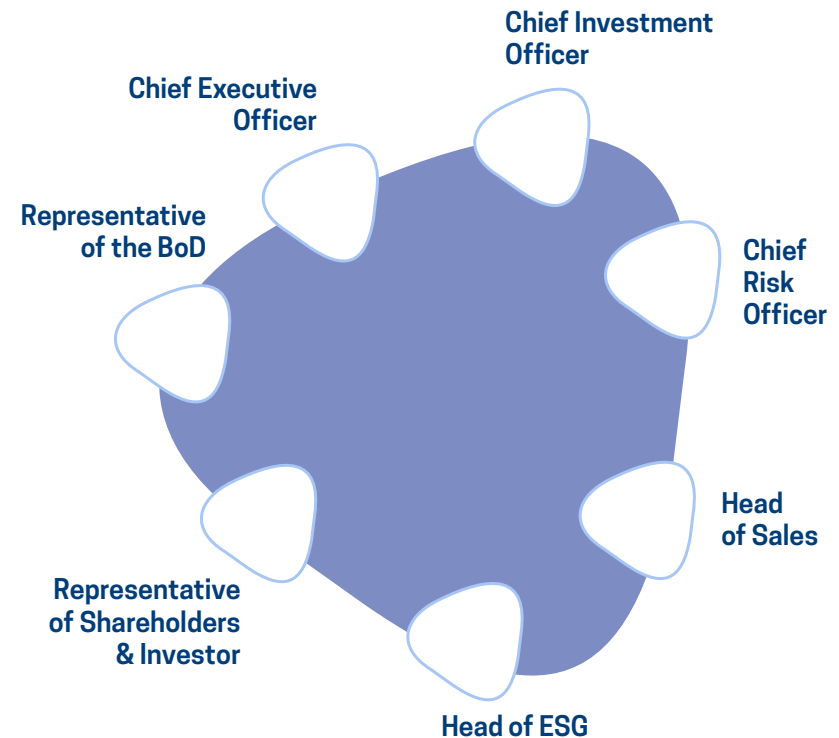
The actual framework is the outcome of an extensive period of analysis and research, carried on to critically brainstorm and conceive a comprehensive ESG and SRI structure. Within the final output, Quaestio identifies three key elements: (i) the sensitivity and the final expected objective of its investors and shareholders; (ii) the innovative regulatory framework in Europe and (iii) the understanding and analysis of the industry trends and best practices.

All the key elements outlined above have been analyzed and developed by the interaction of all the relevant stakeholders, mainly considering their involvement in the defined activities, in order to synergically leverage on the different set of expectations/capabilities:

- the **Investors** - given the fiduciary duties that Quaestio hold;
- the **Risk Management Team** - given the need of evaluate and understand non-financial risks;
- the **Investment Team** - given required integration of the investment process;
- the **Sales Team** - given the need of a deep understanding of the market trends and impacts.

The overall effort has resulted in the definition of a roadmap, acknowledging the need to integrate the evaluation of non-financial risks along the investment process and across all the asset classes managed by Quaestio. In support of the roadmap, a clear action plan has highlighted the main required actions, among which i) the establishment of an internal SRI Committee, fully dedicated to the Social Responsible Investment dimensions and ii) the development of a dedicated SRI & ESG Policy, (iii) additional investment in internal and external resources and know how , and (iv) leveraging on the quantitative DNA of Quaestio in order to develop complementary internal models to enhance the evaluation of non-financial metrics.

The SRI Committee is composed of all the relevant stakeholders which contribute has been determinant in order to rethink its SRI & ESG Approach (including representatives of the Board of Directors, Shareholders and Investors).



Quaestio Capital

The SRI Policy - an Hybrid approach

Quaestio’s SRI philosophy aims to integrate three distinctive while complementary dimensions: the SRI approach, the ESG evaluation and the Sustainable Investment capabilities.

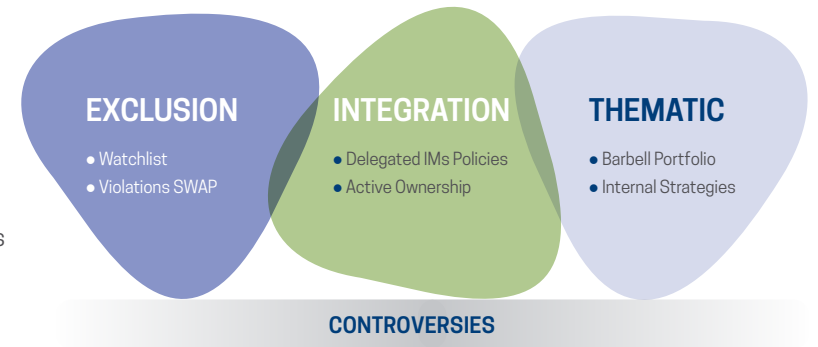
The SRI component focuses on the systems of Values & Beliefs, mainly through the limitation of the investment universe in an **exclusionary approach**. This limitation reflects and defines its Top-Down view of the investable universe, aiming to promote the six Principles for Responsible Investments.

The ESG evaluations’ perspective aims to assess the companies in the portfolio and their relationship with all the relevant stakeholders. Those non-financial valuations are based on the 10 principles of the UN Global Compact and covering Human Rights, Labor Rights, Environmental Risks and Anti-Corruption principles. Complementing the Top-Down exclusion approach, this analysis dimension relies on systematic Bottom-Up evaluations, leveraging also on the ESG research from third party providers (**integration approach**).

Both the integration and the exclusionary logics are fully integrated and deployed along its investment process.

This multidimensional approach aims to i) identify the optimal balance between backward and forward looking methodologies and ii) to allow Quaestio to implement a diversified set of strategies and activities, which synergy is deployed alongside the overall investment process, also benefiting from the opportunities that the multi-manager/ multi-strategy Platform provides.

While the exclusion and the integration are fundamentally conceived as backward looking approaches, the Sustainable Investments capabilities aim to effectively evaluate the potential achievements/involvement of companies in a future-looking, non-financial point of view. These capabilities are substantially deployed i) assessing companies and sectors within the 17 UN Sustainable Development Goals Framework and ii) leveraging on Thematic Investment strategies.



DeA RE

DeA AF

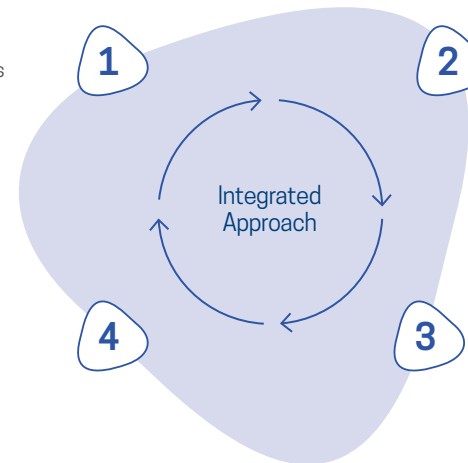


Prior to the investment

- Identification of SRI and ESG Objectives
- Endeavour to promote the Principle of Responsible Investments

Periodical Review and Impact Assessment

- Dedicated Reports and Assessments
- Interactive Dashboard



During the investment

- Proprietary Models and Watchlist
- Third-party managers capabilities
- Traditional and Alternative approaches

After the investment

- Active Ownership through voting and engagement activities

Quaestio Capital

A. The exclusion dimension

In order to properly identify the investable universe, Quaestio relies on its System of Values, affirmed within the company’s Prospectus. Consequently, Quaestio endeavors not to invest in:

- Countries with limited Democracy or involved in Human Rights violations
- Companies considered UN Global Compact Principles violators
- Unconventional Weapon Producers
- CO₂ and Climate Change offenders

This approach is synthesized by the definition of the proprietary watch-list that includes companies characterized by a low ESG Performance or ESG-related controversies. In order to deploy this negative screening tool in the most effective way, the Quaestio watchlist is revised on a continuous basis, in order to collect relevant ESG-related information and updates.

Complementing this negative-screening approach, the Violations Swap allows the synthetic elimination of any exposure in companies that, due to low ESG Rating or Performance, are not considered suitable for specific portfolios or customers.

B. The Integration dimension

While the exclusion pillar generally best represents a number of activities related to ex-ante investment phases, the integration dimension’s goal is to support the portfolio construction and investment management phase in an ESG empowered and conscious way.

In this context it can leverage on the unique opportunities provided by the Multi-Manager Platform which can provide a deeper view on the market best practices. Quaestio continuously aims to enrich the opportunity set of tools by evaluating, approving and integrating the Delegated Managers’ SRI & ESG Policies if they are aligned with its principles.

In the strong belief that the ESG multifaced analysis cannot be restricted only to the uncritical acceptance of an externally provided rating, the integration of the investment process through the use of different tools is set to enhance the exchange and discussion about ESG-related topics between our company and the different Delegate Managers on the Multi-Manager Platform.

One of the best examples describing this synergy-seeking approach is its consolidated Comply or Explain approach applied to its Watch-lists.

Through a direct engagement with the Portfolio Managers, it aim to privilege the PM’s deeper and specific knowledge of the companies in order to understand the consistency of the ESG valuation of its providers.

C. The Thematic dimension

The application of ESG valuations techniques or exclusionary lists, by construction, implies the limitation of the opportunity set. In response to this suboptimality, Quaestio has rethought the Sustainable and Thematic investing philosophy through a “Core-Satellite” approach.

Within its investment process and portfolio construction, Quaestio has the ability to selectively invest in thematic strategies or sustainable instruments, either through internally developed strategies or the set-up of segregated mandates managed by third party managers with specific ESG capabilities. Those investments are intended to represent the “satellite” component for the wider multi-asset portfolios.

Through this approach, the final portfolio is characterized by the “Core” component, which is subject to its exclusion and integration dimension, enhanced by the “Satellite” component, characterized by a higher Tracking Error and expected return.

Put differently, this approach’s attempt is to mitigate the long term tail ESG-risks without excessively reducing the opportunity set. The final expected output is the best balance between high financial returns and ESG positive outcomes, pursued through the implementation of its distinctive “Hybrid Approach”.

DeA RE

DeA AF



Quaestio Capital

The Hybrid approach

In the clear vision that any standard ESG approach is not sufficient to appreciate all the aspects of the ESG dimension, Quaestio's approach is characterized by an "Hybrid" nature:



- Definition of the **ESG & SRI Policy**, continuously revised and updated
- Usage of and Partnership with **ESG Service Provider**, strengthening the portfolio screening capabilities and research.
- **ESG proprietary watchlist**, conceived in a multilayer and dynamic sense
- **SRI Monitoring**, complementary the to Compliance controls
- **Sustainable Investing**
- Definition of the SRI Committee, with the active participation of the major stakeholders and shareholders in the SRI main activities and ESG analysis



- **Violator Swaps**, in order to synthetically eliminate the exposure to companies with low ESG characteristics, if not suitable for specific companies,
- Multidimensional, live and interactive **Dashboard**
- Proprietary ESG rating models
- **Natural Language Processing techniques**, aimed to analyse unstructured data in order to complete the ESG analyses
- **Collaborative Engagement**, leveraging on the high worth network opportunities available on the PRI Platform

Beside the traditional techniques and in the effort to differentiate the Quaestio's SRI and ESG approach through on its distinctive quantitative capabilities, a number of **alternative tools** are set-up in order to have a different while complementary valuation of all the ESG dimensions. Among them and beside the Violator Swaps system, a multidimensional and interactive **Dashboard** allows the evaluation and monitoring of all the ESG profiles and aspects, both at pools and portfolios levels. In addition, the SRI Monitoring process benefits from a live updated control panel, allowing the continuous monitoring of each potential ESG violation and breach.

Proprietary ESG rating models support the Investment Team with complementary and quantitative analysis, conceived both to i) exceptionally analyses the reliability of any of the ESG third party provided ratings, taking into account the top-down logic characterizing the Service Provider analyses and outputs and ii) provide a synthetic ESG score for asset classes that are not covered by any rating, in the effort to base all the carried out evaluations on an economic rationale. Among these alternative ESG analysis tools, advanced Natural Language Processing techniques and proprietary model of the ESG tail-risks allow a different point of view through the analysis of unstructured data.

DeA RE

DeA AF



Quaestio Capital

The UN PRI, the assessment and the collaborative activities

The **PRI** is the leading global proponent of responsible investment practices and activities. When committing to the **Six Principles Framework**, institutional investors are encouraged to increase their efforts to promote SRI practices, values and activities.

In the strong belief that acting in the best long-term interest of stakeholders and shareholders requires taking into account the Environmental, Social and Governance aspects of the investment practices, Quaestio officially subscribed to the UN PRI in June 2020.

The adherence of Quaestio to the PRI has never been intended as a formal commitment to the Principles for Responsible Investment, but it always has been conceived

as a strategic opportunity to enhance and critically assess its overall ESG profile, practices and activities, in the effort to get closer to the market best practices. As a signatory, each investor is required to file the Annual Assessment Report, in which the overall company ESG performance is assessed, compared with the respective peer group and, as a final outcome, assigned a rating.

Even if the 2021 PRI Reporting Cycle final rating is expected to be received by June 2022, the propaedeutic activities and analyses settled to the report filing have represented a valid rethinking opportunity for Quaestio, allowing a critical and retrospective analysis of the actual state of the ESG approach and processes.

The correct identification of the key areas of strength and weakness through a dedicated **PRI Gap Analysis**, will allow a coherent enhancement of the latter in the near future, while continuing to leverage on the value delivered by the former.

Acknowledging the high networking opportunities provided by the PRI Collaboration Platform and in the spirit of enhancing the specific ESG know-how and to deliver positive ESG impact, Quaestio has joined several collaborative engagement activities. Among them, Quaestio joined the **Access to Medicine Foundation**, which engages the major pharmaceutical companies in order to ease the access to medicines and drugs for lower-income countries' people, and **Climate Action 100+**, which main goal is to engage a number of high CO₂ polluting global companies, in order to make them to put the necessary efforts to reduce carbon emissions.



DeA RE

DeA AF

Quaestio

Quaestio Capital

CASE STUDY

Fondo Quaestio Principi di Investimento Cattolici.

The Quaestio Principi di Investimenti Cattolici Fund was launched in 2015, following Quaestio's alignment with the Catholic Church's management and sustainability criteria since 2015. The fund was developed with the idea of supporting Catholic institutions to pursue their mission and achieve their goals beyond just financial performance.

In February 2020, the Italian Bishops' Conference issued guidelines for the management of financial resources that place the goals of protecting life, human dignity, empowering women to work, supporting families, reducing arms production, pursuing economic justice and encouraging corporate responsibility alongside sustainable investment objectives.

Quaestio's investment process is very rigorous: in fact, it aims to identify products and activities that do not fall within the guidelines of the Italian Episcopal Conference and to exclude them.

The fund has obtained the certification of compliance of investments according to the ethical principles of the Catholic Church, which is issued after a thorough analysis and detailed breakdown of the portfolio by **Nummus**, which is the Certifying Body of portfolios conforming to the guidelines issued by the CEI.



DeA RE

DeA AF

Quaestio