

# Sustainable Investment Policy

## Responsibilities

**Preparation:** Investments Division and Fidelidade Property

**Review:** Sustainability Division, Risk Division, Life-Financial Division, Compliance Division, Legal Division and General Directorate of Corporate Affairs

**Final approval:** Executive Committee

## Approval

**Executive Committee:** 27/08/2024

## Version history

Version	Date	Summary of Changes
1.0	14/06/2023	First Version
2.0	22/07/2024	Commitments update and addition of a new point about net zero plan

## Summary of the main changes from the last version

Chapter / annex revised	Summary of Changes
1. Introduction	Update Fidelidade adherence to PRI; NZAOA and Forum for Insurance Transition to Net Zero (FIT).
2. Net Zero Transition Plan	Inclusion

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## 1. Introduction

Fidelidade Group acknowledges the strong value proposition in what relates to the transition to a sustainable world, in the financial sector as a whole and in the insurance sector as a specific case. Fidelidade Group is committed to achieving the Sustainable Development Goals (SDG) – UN 2030 Agenda, with SDG 3 – Good Health and Well-Being, SDG 8 – Decent Work and Economic Growth, SDG 9 – Industry, Innovation and Infrastructure, SDG 10 – Reduced Inequalities, SDG 12 – Responsible Consumption and Production, SDG 13 – Climate Action and SDG 17 – Partnerships for the Goals as priorities. This same policy goes hand in hand with the SDGs as a lever for achieving them.

With this background, Fidelidade Group has a strong conviction that integrating **E**nvironmental, **S**ocial and **G**overnance (“ESG”) factors in its global investment strategy will contribute to creating long-term value for its policyholders and all the other stakeholders.

Conforming with the commitment to Sustainable business, Fidelidade Group has signed a set of initiatives with sustainability programs outlined by international and domestic organizations, which guide its positioning and its performance as a responsible and sustainable Entity, namely, UN Global Compact, PSI – Principles of Sustainability Insurance and Charter of Principles of BCSD Portugal.

Fidelidade – Companhia de Seguros, S.A. (“Fidelidade”) also joined, in October 2023, the internationally-recognized Principles for Responsible Investment (UN PRI)<sup>1</sup> and, in March 2024, became a member of the UN-convened Net-Zero Asset Owner Alliance (NZAOA)<sup>2</sup>.

Fidelidade is now a founding member of a new initiative of the UN Environment Program (UNEP), the Forum for Insurance Transition to Net Zero (FIT). FIT is a new multi-stakeholder dialogue forum led by the UNEP and convened to support the necessary acceleration and expansion of voluntary climate action by the insurance sector and key stakeholders<sup>3</sup>.

Through FIT, UNEP will deepen and reinforce its commitment to work with the global insurance sector and key stakeholders to support the acceleration and intensification of the transition to a Net Zero economy, as part of the solution to the global climate crisis and towards the vision of a resilient, sustainable and prosperous future for all.

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<sup>1</sup> Created in 2005, and sponsored by the UN, PRIs are the most relevant commitment of the institutional investment community at a global level to recognize the role of responsible investment in pursuing universal principles in the areas of human rights, the environment and fighting against corruption.

<sup>2</sup> The NZAOA is a member-led initiative of institutional investors committed to transitioning their investment portfolios to net zero GHG emissions by 2050 – consistent with a maximum temperature rise of 1.5°C. The Alliance members are from the finance industry, setting intermediate targets, which include CO2 reduction ranges for 2025 (22 – 32%) and for 2030 (40% – 60%).

<sup>3</sup> The creation of the Forum represents an important new opportunity for UNEP. The insurance sector and key stakeholders consider the experience gained with the Net-Zero Insurance Alliance (NZIA), which transformed net-zero insurance for the first time from theory to practice.

Fidelidade Group Sustainable Investment Policy follows Group's global sustainable approach mentioned above and aims to comply with the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure in the financial services sector and Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment. With legal regulation in rapid evolution, all other normative provisions approved or to be approved in terms of sustainability will also be considered in the investments.

This policy is applicable to the Fidelidade Group insurance Companies in Portugal.

The principles contained in this Policy will apply as guidelines to the Group insurance companies in other geographies.

## 2. Investment Management Principles

Fidelidade Group believes that adopting a sustainable Investment strategy foremost facilitates a better understanding of risks and opportunities of underlying investment portfolios, but at the same time strengthens the overall profile of environmental, social and governance practices of Fidelidade Group itself. It is, therefore, of paramount importance to incorporate the ESG factors into the conventional investment process alongside traditional financial analysis factors. Ultimately such a strategy has the purpose of controlling exposure to investees whose conduct is not aligned with Fidelidade Group's principles, or the efforts of Fidelidade Group on the engagement approach with whom prove to be unsuccessful.

The following principles provide a general framework for Fidelidade Group Sustainable Investment strategy:

- Fidelidade Group applies a long-term approach;
- Fidelidade Group considers all ESG factors, particularly those having material financial impacts with the purpose of reducing the exposure to issuers whose behaviors are not aligned with the Group's principles and investment strategy;
- Fidelidade Group identifies ESG risk factors and incorporates them into its general risk management and monitoring process;
- Fidelidade Group acknowledges that sustainable investment is an ongoing journey. The sustainable investment approach is expected to evolve to reflect changes in business practices, structures, technology, and regulations.

In 2020, Fidelidade Group integrated ESG principles during the review of its Investment Policy, which is called "ESG Factor Compliant". These principles evaluate aspects, namely the composition and responsibility of the board of directors, human capital stability, as well as sound and responsible environmental practices that signal operational excellence and management quality.

With respect to direct investment, Fidelidade Group leverages a third party's independent data to implement internal controls on investment portfolios' ESG metrics.

### 3. Investment Process – Financial Assets

Fidelidade Group affirms that ESG factors have material impacts on investment returns. Consequently, they are integrated into both pre-investment (namely investment analysis and the investment decision-making) and post-investment (monitoring and performance review) processes.

Fidelidade has also developed an internal methodology to classify its assets allocated to insurance-based investment products (IBIPs). According to this methodology, assets can be classified as "Assets that promote environment and/or social characteristics", "Sustainable assets" or "Others".

Fidelidade Group ESG direct investment strategy takes into consideration three main dimensions:



#### 3.1. Exclusion / Negative screening

Fidelidade Group does not consider new investments in socially controversial industries. More specifically, the underlying company cannot have its revenue exposed to tobacco manufacturing and controversial weapons (nuclear weapons, biological and chemical weapons, civilian firearms, depleted uranium, incendiary - white phosphorous - and laser blinding weapons). The underlying company also cannot have more than 25% of its revenues towards gambling. For legacy portfolios, the goal is to reduce existing investment related to arms & weapons, gambling, and

tobacco to no more than 3% of the total investment portfolio within the next 2 years and to 0% of the total investment portfolio within the next 4 years.

To comply with the objectives of GHG net-zero emissions for the investment portfolio by 2050, Fidelidade Group is committed to the following guidelines:

- Reducing investment related to fossil fuels extraction and thermal coal production to no more than 5% of the total investment portfolio within the next 4 years.

To align with the principles that we should follow as Investors, Fidelidade is also committed to **not invest** in companies that:

- Have controversy levels 4 (high) or 5 (severe)<sup>4</sup> associated with environmental, social and/or governance topics;
- Do not comply with United Nations Global Compact Principles and/or OECD Guidelines for Multinational Enterprises on responsible business conduct.

### Exceptions

Conditions set forth above can be waived in a case-by-case scenario when the asset is compliant with the following conditions:

- Companies who have an approved Science-Based Target (SBTi), or an equivalent target validation, that aligns with the goals of the Paris Agreement;
- Green or Sustainability Bonds, where the proceeds go exclusively to low-carbon solutions (renewable energy and/or sustainable alternative fuels) to displace and/or reduce the share of the activity that sees the issuer excluded.

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## 3.2. Best-in-Class Approach / Positive Screening

Fidelidade Group integrates ESG factors in its investment process through a strong preference for investees with sustainable business models and promoting long-termism, both of which should create a lasting performance. Thanks to the assessment of ESG factors of each investee, it enables to identify and respond to possible risks and opportunities at environmental, social and governance levels. The goal of such an investment process is to positively screen out those best performing in ESG aspects and reduce those deteriorating in their ESG outlooks throughout the process of portfolio construction.

The integration process is achieved by complementing the traditional fundamental analysis with paid data and analysis from at least a tier-one ESG research provider focusing on ESG risk, framed with a rating interval between negligible risk (best) and severe risk (worst), with

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<sup>4</sup> The range is between 0 and 5 (0 - No evidence of controversies; 1 – Low; 2 – Moderate; 3 – Medium; 4 – Significant; 5 – High).



equivalence to a score, that ranges from 0 (best) to above 40 (worst), from Sustainalytics. Other providers may be used, which although they may have a different classification system, allows distinguishing which assets have the best and worst classification within the same rationale mentioned above.

Fidelidade therefore incorporates the following guidelines for managing investment portfolios:

- Portfolios shall consist of at least 60% of assets with ESG rating<sup>5</sup>;
- Portfolios should have a minimum weighted average ESG rating of low risk<sup>6</sup>;
- Based on the ESG assessment, Companies revealing their involvement in industries and/or sectors referred to in 3.1 - Exclusions / Negative screening, are either (i) excluded from the investment universe if not meeting Group requirements (Restricted List) or (ii);
- strictly monitored and possibly engaged if presenting some poor ESG practices (Watch List).

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### **3.3. Proxy Voting / Engagement**

According to the terms expressed in the Fidelidade Engagement Policy, Fidelidade Group aims to broaden the scope of shareholder voting and deepen the interaction with shareholders on ESG matters. The focus will be issues associated with ESG controversies alongside the potential breaches of main ESG standards and conventions, particularly:

- Local and international legislation;
- Recognized international standards (UN Global Compact, UN Guiding Principles on Business & Human Rights, OECD Guidelines for Multinationals and UN Sustainable Development Goals);
- Net Zero Engagement to align our portfolio with the goals of the Paris Agreement, as set out by our net zero commitments.

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<sup>5</sup> Companies Group has the same ESG Rating as Fidelidade – Companhia de Seguros, S. A., except for Real Estate companies. The public debt rating is according to ESG Country Risk.

<sup>6</sup> ESG rating from Sustainalytics (0% a 10% - Negligible; 11% a 20% - Low; 21% - 30% - Medium; 31% - 40% - High; 41+ % - Severe, but other providers may be used, with the equivalent classification applying.

## 4. Net Zero Transition Plan

As an important milestone in our broader ESG responsibilities, we have defined our journey towards Net Zero by setting up NZ-aligned science-based emission reduction targets on our investment portfolios. Specifically, for our portfolios, we have set an ambition to be Net Zero by 2050, with interim targets set for 2030, whereas for our operations we have an ambition to be Net Zero by 2040, with interim targets for 2025.

To ensure the delivery of our targets, we regularly monitor and track the progress achieved through our actions. This will allow us to assess key metrics employed to reduce our emissions and their impacts on our business and broader society so that we can adequately steer the process.

Our Net-Zero transition plan is summarized in Figure 1.

Figure 1: Net Zero transition plan and GHG reduction targets

Investments		
Perimeter	Listed Equities & Corp. Bonds (companies with reported emission data)	Real Estate direct investments
Metric	Intensity over AuM	Intensity over sqm
Baseline	0.13 ktCO <sub>2</sub> e/Mn€	35 kg CO <sub>2</sub> e/sqm
Target	-40% by 2030 vs 2022	-45% by 2030 vs 2022

In order to achieve these targets, we aim to actively steer our portfolios towards lower emissive companies and assets, for instance, by allocating liquidity from matured bonds towards less emissive intensive issuers.

Company engagement will also be a key measure to get better transparency on NZ transition plans of our investees and encourage emission reduction target-setting. In addition to our Net Zero targets, we are committed to enhancing our ESG (Environmental, Social, and Governance) practices.

By 2025, our goal is to have 75% of our asset portfolio reviewed, according to ESG criteria.

## **5. Investment Process – Real Estate**

For Real Estate Assets, the analysis of the relevant sustainability factors for new investments is being incorporated as part of the pre-acquisition Due Diligence process, through the appointment of ESG advisors.

- Throughout the assets' lifecycle, a detailed and regular analysis is performed of what concerns the assets' relevant ESG characteristics, in order to identify and implement the necessary initiatives to ensure the assets' compliance with the appropriate ESG standards and continuous improvement from a sustainability point of view.
- Furthermore, a periodic review is conducted with the aim of obtaining (or improving) the assets' relevant ESG certifications (e.g., LEED, BREEAM, WELL, etc.) in line with the best market practices.

## 6. Responsibilities

The definition of the general principles and the implementation of this policy are carried out by the Investment Division and Fidelidade Property, respectively, with Fidelidade's Operational Sustainability Committee being responsible for reviewing and verifying compliance with the strategy and policies established in matters of Responsible Investment in managed assets. The Operational Sustainability Committee meets on a regular basis, and it has the participation of the Investment and Sustainability divisions, along with members of the Executive Committee (namely CEO and CIO) as permanent members. The CEO will also have the managerial responsibility for responsible investment.

Activities	Responsibilities					
	DIV/FPE	DGR	DJN	DSU	Sustainability Committee	Executive Committee
Definition of General Principles	●			●	●	●
Implementation of Sustainable Investment Policy	●			●	●	●
Control and Monitoring	●	●	●	●	●	●

● Execution
● Review
● Approval

Companies outside of Portugal define their responsibilities for the investments they are managing, in accordance with the strategic guidelines defined for the Group.

## **7. Review and publication**

This Policy articulates with other Fidelidade Group's Internal Rules, Code of Conduct, Sustainability Policy, and Investment Policy and will be reviewed, at the initiative of Investment Division, regularly or whenever internal and/or external changes occur with relevant impact.

This Policy is published on Fidelidade's website ([www.fidelidade.pt](http://www.fidelidade.pt)), and in the internal repository of existing Policies and regulations.

