

Declaration on Principal Adverse Impacts (PAI) for sustainability

Regulatory references

The Declaration on Principal Adverse Impacts (PAI) for sustainability of investment decisions is prepared under Article 4 of the EU Regulation 2019/2088 ("Sustainable Finance Disclosure Regulation" or "SFDR"), which prescribes transparency obligations regarding the negative effects of sustainability factors at the entity level. In particular, market participants, when considering the principal adverse impacts of investment decisions on sustainability factors, are required to publish and keep updated on their website a declaration regarding their practices in relation to such impacts. This declaration takes into account their size, nature, and scope of activities and the type of financial products they make available.

General principles

As stated in the Responsible Investment Policy, Kairos aims to play an active and positive role in sustainable development. To achieve this goal, the asset management company aims to:

- adapt to national and international principles and guidelines to promote the integration of sustainability criteria in its decision-making and investment processes;
- appropriately evaluate and monitor sustainability risks to have a positive impact on the returns of its products and society as a whole;
- engage actively with all stakeholders by disseminating its strategic approach to sustainability, encouraging good governance practices and proper management of environmental and social risks;
- provide greater transparency on sustainability issues to investors.

The effort to achieve these objectives cannot ignore the consideration of negative effects (so-called negative externalities) that investment decisions can have on sustainability factors, in order to evaluate, monitor and mitigate them. Therefore, starting from January 1st, 2023, Kairos considers the principal adverse impacts on sustainability factors in the manner described in this document. The evaluation of these indicators presents, as of the date of this document, some limitations, related to the failure of some investee companies to publish necessary data or the timing of obtaining such information from data providers.

Identification and prioritization of key negative sustainability impacts and related indicators

The PAIs (Principal Adverse Impacts) are identified by the SFDR regulation and, in particular, in the tables contained in Annex I to Delegated Regulation (EU) 2022/1288 that integrates it. The asset manager has selected the indicators to be monitored among the PAIs listed in these tables, taking into account regulatory requirements, the characteristics of its products, the interests of its stakeholders, as well as the availability of information, and based on these factors, has defined their priorities. The definition of the indicators considered by Kairos is consistent with the principles stated in the Responsible Investment Policy and with the characteristics of the products it manages, which are detailed in the relevant offering documentation.

The publication of information on individual products will be carried out in accordance with the methods and deadlines set by regulations. The following table contains the minimum indicators considered by the company as of January 1, 2023. These indicators do not include those applicable to real estate investments, as the company is

not currently investing in such assets. Further indicators may be considered based on data availability and the characteristics of products that integrate sustainability factors into their investment policies.

Indicators applicable to investments in investee companies		
CLIMATE AND OTHER ENVIRONMENTAL INDICATORS		
Greenhouse gas (GHG) emissions	1. GHG emissions	GHG emissions of scope 1
		GHG emissions of scope 2
		GHG emissions of scope 3
		Total GHG emissions
	2. Carbon footprint	Carbon footprint
	3. GHG intensity of investee companies	GHG intensity of investee companies
Greenhouse gas (GHG) emissions	4. Exposure to companies in the fossil fuel sector	Percentage of investments in companies active in the fossil fuel sector
	5. Percentage of non-renewable energy consumption and production	Percentage of non-renewable energy consumption and production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources
	6. Energy consumption intensity for high climate impact sectors	Energy consumption in GWh per million EUR of investee companies' revenues, for high climate impact sectors Biodiversity
Biodiversity	7. Activities that have a negative impact on sensitive areas in terms of biodiversity	Percentage of investments in investee companies that have sites or conduct operations in sensitive areas in terms of biodiversity, or adjacent areas, where the activities of such companies have a negative impact on those areas
Water	8. Water emissions	Tonnes of water emissions generated by investee companies per million EUR invested (value expressed as a weighted average) Waste
Waste	9. Ratio of hazardous and radioactive waste	Tonnes of hazardous and radioactive waste generated by investee companies per million EUR invested (value expressed as a weighted average)

INDICATORS RELATED TO SOCIAL ISSUES, EMPLOYEE CONCERNS, RESPECT FOR HUMAN RIGHTS, AND FIGHTING ACTIVE AND PASSIVE CORRUPTION		
Indicators related to social issues and employee concerns	10. Violations of the principles of the United Nations Global Compact and the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises	Percentage of investments in beneficiary companies that have been involved in violations of the principles of the United Nations Global Compact or the OECD Guidelines for Multinational Enterprises
	11. Lack of compliance procedures and mechanisms to monitor compliance with the principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises	Percentage of investments in beneficiary companies that do not have policies to monitor compliance with the principles of the United Nations Global Compact or the OECD Guidelines for Multinational Enterprises, or mechanisms for handling complaints of violations of the principles of the United Nations Global Compact or the OECD Guidelines for Multinational Enterprises
	12. Unaddressed gender pay gap	Mean of unaddressed gender pay gap in beneficiary companies
	13. Gender diversity on the board	Mean ratio of women/men among board members of beneficiary companies, expressed as a percentage of all board members
	14. Exposure to controversial weapons (landmines, cluster munitions, chemical and biological weapons)	Percentage of investments in beneficiary companies involved in the manufacture or sale of controversial weapons

Indicators applicable to investments in sovereign issuers and supranational organizations		
Environmental	15. GHG intensity	GHG intensity of countries benefiting from investments
Social	16. Countries benefiting from investments subject to social violations	Number of countries benefiting from investments and subject to social violations (absolute number and relative number divided by all countries benefiting from investments), in accordance with international treaties and conventions, United Nations principles, and, if applicable, national regulations.

Actions taken to mitigate major negative sustainability impacts

Kairos takes into account ESG factors in the investment process, through the use of indicators within the exclusion criteria detailed in the Responsible Investment Policy, in the application of inclusion criteria for products that integrate sustainability factors, as well as in its voting and engagement activities towards the investee companies.

Exclusion criteria

Kairos believes that sustainability risk management for all products it manages requires the application of some exclusion criteria based on rules, ethical evaluations, and specific risk assessments. In particular, the Company excludes investment in issuers involved in banned weapons material, which do not comply with the United Nations Global Compact, instruments issued by countries with a high risk of money laundering or terrorism or subject to financial embargo or by companies domiciled or listed in those countries, and companies with a high level of controversies.

Furthermore, the products managed by the Company maintain an average ESG risk rating of a maximum of 30 for equity and bond issuers and exclude issuers domiciled or listed in countries with severe country risk, as well as securities issued by governments or government agencies of those countries.

In addition, funds that integrate sustainability factors also exclude investment in tobacco-producing companies, companies that derive over 25% of their revenue from thermal coal extraction and exploration and electricity production, and in light weapons. Further exclusions may be provided for such products under their own investment policies.

Inclusion criteria

Products that integrate sustainability factors select their investments taking into account the sustainability characteristics of target companies, i.e., those that have better integrated ESG factors and therefore have lower risks associated with such factors. The criteria applied differ depending on the asset class and are described in the Responsible Investment Policy.

Active ownership and engagement policies

Kairos intends to encourage the companies in which it invests to engage in more sustainable business practices. Therefore, in addition to considering sustainability risk assessment, the Company engages with the issuers of financial instruments in which it invests in order to encourage them to manage their own ESG risk factors and to develop their activities in this regard.

This is done through direct dialogue with the management of individual companies, by exercising the right to vote at the assembly, also with collective engagement, through collaboration with other management companies within the Managers' Committee established within the industry association Assogestioni. For more details, please refer to the Engagement Policy available on the Company's website.

Adherence to standards and codes of conduct

Kairos is a signatory of the United Nations Principles for Responsible Investment (UNPRI), a member of the Forum for Sustainable Finance, and as of 2023, adheres to the Carbon Disclosure Project (CDP), a non-profit organization that manages a global data collection and disclosure system for investors, companies, cities, states, and regions to manage their environmental impacts.