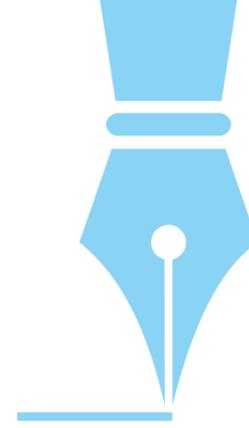


Investimenti Sostenibili

IMPACT REPORT 2017



Sella
SGR



Letter to investors

For years, the word *sustainability* seemed to be a distant ideal, heard only in the speeches of a limited number of visionaries. Today it is clear that sustainability is actually something extremely practical. It is a concept we must take on board without delay, for a fair, equal, respectful approach to helping the environment and the community, and it is the competitive factor that businesses, governments and investors must focus their strategies on.

2017 was the year of the COP23 in Bonn, focused on the renewal of a number of commitments enshrined in the Paris Agreement. This was followed by the One Planet Summit, created with the declared aim of finding capital to combat climate change. It was the year of the alliance of 15 countries to bring an end to the use of coal by 2030. It was the year in which the High-Level Expert Group on Sustainable Finance studied the dynamics of sustainable finance, providing the European Commission with the bases to formalize, in March 2018, an Action Plan to strengthen its role. In the words of the European institutions, sustainable finance is essential to attract and channel the huge amount of resources necessary to achieve the UN's 17 Sustainable Development Goals (SDGs).

This valuable confirmation from the institutions proves that the Investimenti Sostenibili fund has chosen the correct route right from the early days, developing and renewing its strategies over the years without ever losing sight of its objective: to contribute to sustainable development in the interests of future generations. This Impact Report is, first and foremost, a form of responsibility and transparency towards those who believed in this project and are able to experience the results it has brought, based precisely on those SDGs our near future depends on – with the guarantee that in the years to come, this commitment will continue to tackle increasingly ambitious challenges.

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Sustainable finance _____ 1

Responsible investments go mainstream

To reach the ambitious targets set by the Paris Climate Agreement and the United Nations' 17 Sustainable Development Goals (SDGs), it is essential to identify winning, innovative solutions able to attract and channel a huge volume of resources, and the contribution of private capital is vital for this. With socially responsible investments (SRI), finance is once again at the service of the Planet and of future generations, by creating value over the long term.

This definition comprises all the investment strategies that integrate financial analysis with an analysis of ESG (environmental, social and governance) factors. Initially a niche sector, SRI finance has witnessed tremendous growth over the last few years, in terms both of the volume of assets managed and of the attention paid to it by operators and by the general public. This success has been boosted by the numerous studies that have now made it clear that paying attention to ESG issues is not incompatible with maximizing earnings.

THEMED INVESTMENTS

Specific areas of investment are selected, linked to sustainable development: renewable energies, waste management, agriculture, energy efficiency, etc.

BEST IN CLASS

To build a portfolio, the companies are identified that obtain the highest ESG scores in a particular sector, category or asset class.

EXCLUSIONS

Securities from companies operating in controversial sectors (weapons, pornography, tobacco, etc.) or countries involved in human rights violations are excluded.

INTERNATIONAL CONVENTIONS

Investments are made only in companies and countries that comply with particular international standards, usually the Conventions of the UN or its agencies (UNICEF, ILO, UNEP).

ESG INTEGRATION

The traditional scope of an investment company is extended to explicitly include ESG factors and analyse their potential impact on the risk-yield ratio.

ENGAGEMENT

An attempt is made to play an active role in ESG themes, establishing a dialogue with the company (soft engagement) and exercising voting rights in shareholders' meetings (hard engagement).

IMPACT INVESTING

Investments are made with the declared objective of generating both a financial return and a positive, effective, measurable environmental and social impact.

“ **€ 11,045 billion** in sustainable investments in Europe

Source: Eurosif 2016

“ **\$ 22,890 billion** in sustainable investments worldwide

Source: Gsia 2016

Impact investing _____ 2

The most advanced frontier of sustainable finance

The expression “impact investing” refers to investments in companies, organisations and funds that have two objectives: on the one hand, to generate a positive, measurable environmental or social impact, and on the other, to guarantee a financial yield. It is not, therefore, to be confused with philanthropy, which contemplates donations for social causes without receiving any financial return.

This is the latest strategy to be adopted in the world of responsible finance, as well as the most pioneering and innovative. This is why the volume of assets managed is for the moment only a fraction of those linked to other longer-established strategies (for example exclusions). Observers agree that in the coming years, impact investments will have a growing role to play, as can be seen by their growth rates, unparalleled in the world of SRI finance.

“ € 98.3 billion in assets managed in Europe

Source: Eurosif 2016

“ +385% in two years in the volume of assets managed

Source: Eurosif 2016



FINANCIAL RETURN AND RISK MANAGEMENT

The aim is a gradual increase in the value of capital invested in the medium term, in line with the risk profile of the investment strategy.



INTENTIONALITY

The positive environmental and social impact is generated intentionally, and is one of the fundamental choice criteria.



IMPACT THEMES

A number of impact themes are identified, corresponding to the most significant social and environmental challenges.



MEASURING IMPACT

The social and environmental impact generated is quantified regularly, using a transparent approach.

Investimenti Sostenibili _____ 3 fund

History: from ethical fund to impact investing

During its 19-year history, the Investimenti Sostenibili Fund has evolved in order to provide an increasingly effective response to the needs of investors and the challenges presented by sustainable investment.

1999

Launch of Nordfondo Etico. In line with the notions of responsible finance at the time, it contemplated transfer of funds to charity only.

2003

The fund perfected its responsible strategy by introducing the recently developed ESG parameters into the investment process.

2015

With the name of Investimenti Sostenibili, the fund became the first in Italy with an impact policy. The areas investments could be made in were defined in collaboration with MainStreet Partners: an investment company specializing in sustainable investments and social and environmental impact.

2016

In partnership with LifeGate, one class of the fund was listed on the Italian Stock Exchange. An Impact Report was published for the first time in Italy.

Investimenti Sostenibili fund

The Investimenti Sostenibili Fund is aimed at anyone seeking a financial return, and, at the same time, to make an effective contribution to the sustainable development of the areas and the economy.

Established almost twenty years ago as an ethical fund, it has gradually been renewed until it became, in 2015, the first mutual fund in Italy to adopt an impact investment policy. Managed by Sella SGR, it is available in the following classes:

- Investimenti Sostenibili A, which each year transfers some funds to charity.
- Investimenti Sostenibili C, dedicated exclusively to professional customers.
- Investimenti Sostenibili LIFEGATE, the first impact fund to be listed on the Italian Stock Exchange.
- Investimenti Sostenibili LIFEGATE SG.

The fund intervenes on eight issues linked to the sustainable growth of the developed and emerging economies. With a view to guaranteeing transparency for investors, each year sees the publication of an Impact Report that quantifies the results achieved in the various areas, relating them to the 17 Sustainable Development Goals (SDGs) of the United Nations.

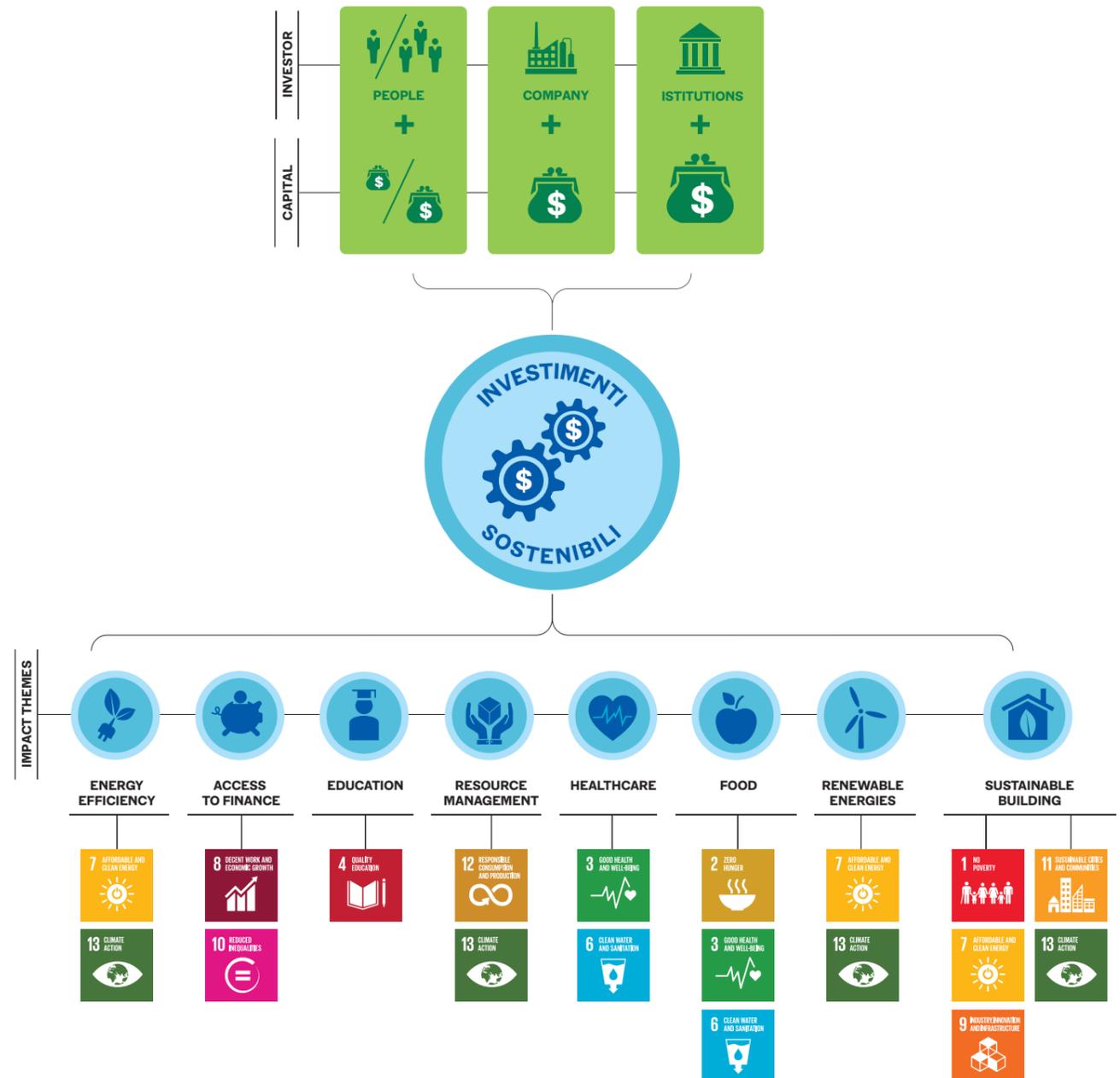
Since 1999, these yearly transfers of funds, equal to 0.5% of the Class A assets, have made it possible for numerous solidarity projects in Italy and abroad to receive more than € 2 million.

A portfolio built on three dimensions

The investment selection process begins with the exclusion of companies that have a negative environmental or social impact and countries that fail to guarantee respect for human rights. These exclusion criteria are complemented by inclusion criteria, based on two types of analysis: ESG analysis, which rewards the most virtuous companies, and impact analysis, which looks closely into the generation of sustainable value, by taking into consideration a number of parameters (competition, inclusion, innovation, intentionality, additionality and measurability).

In parallel, the decision-making process considers the macro-economic variables and the financial fundamentals liable to influence the management results. To sum up, an analysis is performed of the capacity of each investment to create positive, measurable value for the Planet and for the community, and, at the same time, guarantee a financial yield in line with the risk profile of the investment strategy. The result is a portfolio built on three dimensions: risk, yield and impact.

risk
yield
impact



Investimenti Sostenibili **3** fund

Financial instruments for sustainable development

BONDS

Some types of bonds, although they have similar financial characteristics to conventional bonds, differ in how the liquidity collected is used. Green bonds and social bonds finance environmental and social projects; social impact bonds adopt a “pay for success” remuneration strategy; charity bonds give a proportion of the interest to an NGO.

EQUITY

This category is formed by companies with a positive environmental impact, i.e. those with environmental, social and governance best practices and a significant proportion of whose profits are made from products and services able to make an effective contribution to achieving the SDGs.

THEMED FUNDS

These are funds that invest according to sustainable best practices in a particular sector or area of business. Choosing themed funds guarantees an effective impact allocation, especially for those sectors or services that require an appropriate level of specialization or local presence.

TRANSPARENCY

Transparency is fundamental to create and to maintain a relationship of trust with investors. Sella SGR seeks to assiduously and consistently pursue this approach, and financial information on its products is published and regularly updated on its website.

A specific section is dedicated to the Investimenti Sostenibili fund, with a detailed explanation of how investments are constructed, the objectives, the impact themes and the projects supported with the funds transferred from Class A. This commitment is testified to by the Eurosif Transparency Code certification obtained by Investimenti Sostenibili.

ENGAGEMENT

Investimenti Sostenibili has performed engagement activities by taking part in the sustainable bond issue road shows. In addition, during the year, the fund contacted the companies in its portfolio directly to obtain further information not only on the impact of the bond chosen, but also, more generally, on the policies adopted regarding sustainability issues. Particular attention was paid to the theme of governance and sustainable reporting.

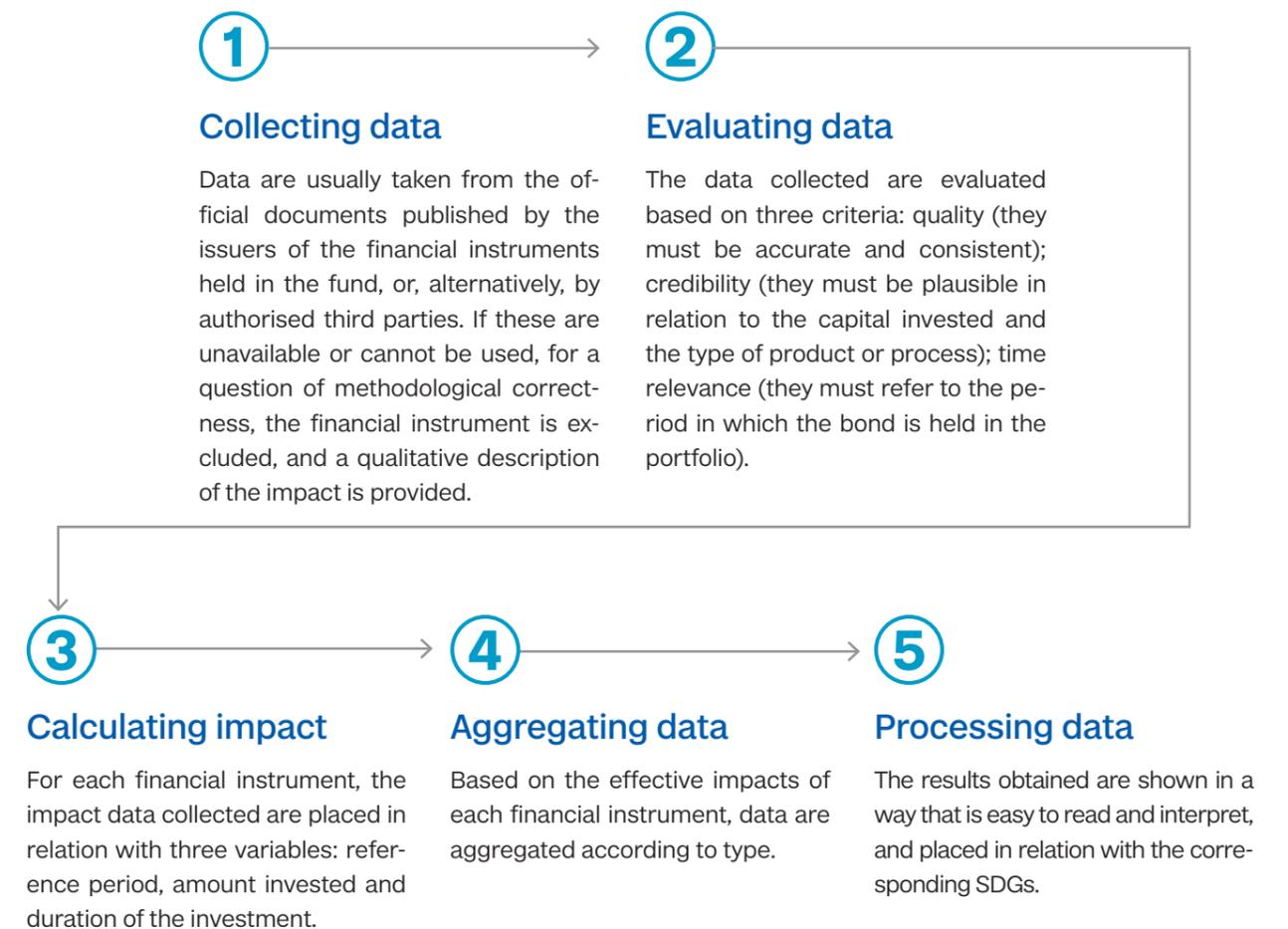
Impact Report **4**

Providing information and transparency

The aim of the Impact Report is to illustrate the environmental and social results that have been achieved thanks to the investments made during the calendar year. The Investimenti Sostenibili fund is the first in Italy to adopt this means of providing information and transparency to its investors and others.

Simply reporting the financial data would be a technically acceptable choice, but it would undoubtedly be reductive and would in no way do justice to the complexity of this kind of pioneering, innovative investment strategy, which has a positive impact on reality. A clear, objective quantification of this impact is therefore a top priority.

A five-stage process to measure impact



Eight urgent challenges facing the Planet

In keeping with the approach adopted in preceding years, environmental issues were predominant in the allocation over the eight impact themes during 2017. Renewable energies, energy efficiency and resource management are of strategic importance for tackling climate change, as well as offering interesting market opportunities.

The other impact themes (Sustainable Building, Access to finance, Healthcare, Education and Food) are also represented in the portfolio of Investimenti Sostenibili, which has so far contributed to the success of numerous projects worldwide. The real challenge for the future, starting from next year, is to gradually increase the allocation over themes of a social nature.

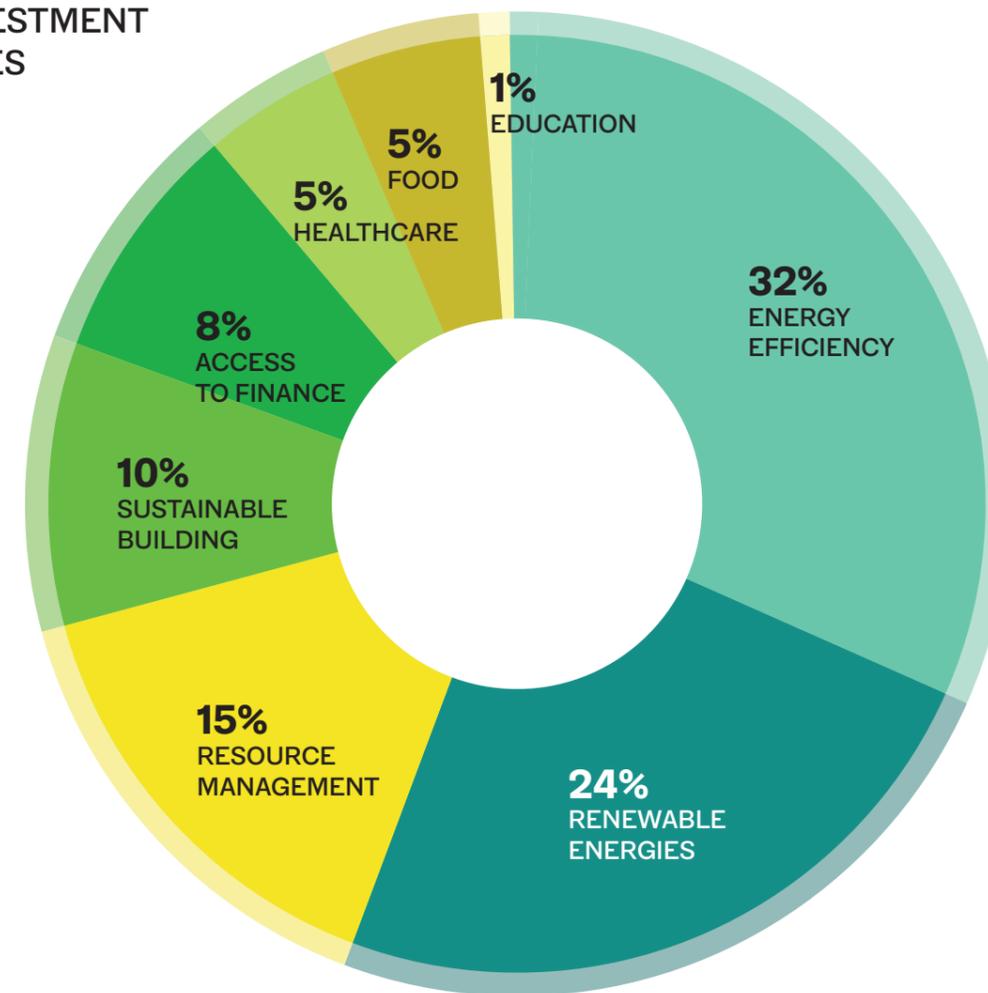
PERCENTAGES ACCOUNTED FOR IN THE PORTFOLIO

- 32% Energy efficiency
- 24% Renewable energies
- 15% Resource management
- 10% Sustainable building
- 8% Access to finance
- 5% Healthcare
- 5% Food
- 1% Education

Updated at 29 December 2017

Source: Sella SGR

COMPOSITION OF THE PORTFOLIO IN INVESTMENT THEMES





Resource management

The environmental degradation we are experiencing, with severe consequences for health and climate change, is the result of decades of indiscriminate exploitation of natural resources. Finding sustainable production and consumption models means working to boost the efficiency of economic activities while reducing the amount of resources used and their negative externalities.

The best-known approach is the circular economy, which breaks away from the traditional linear process (from material to waste) and provides for objects to be designed with their subsequent recovery or re-use already in mind. This transition requires the effective collaboration of everyone: businesses, consumers, the institutions, research and the media.



Renewable energies

Renewable sources such as the sun, wind, earth and water are, first and foremost, the best solution for the environment and for people's health, because they help to limit climate change. In recent years, they have also proved reliable, efficient and economical, as is shown by the figures on adoption of such systems.

According to the World Energy Outlook 2017 of the International Energy Agency (IEA), by 2040, clean energy sources will be able to satisfy 40% of the overall energy demand. This impressive growth will be made possible by technological progress on two different, although convergent, fronts: an increase in efficiency and a drop in prices (in 2017, the cost of photovoltaic energy, for example, reached an all-time low of € 0.015 /kWh).



Energy efficiency

There are numerous solutions, technologies and products able to boost energy efficiency and reduce CO₂ emissions.

In recent years, there has been a huge growth in this area, thanks to technological progress and the support of the institutions.

The UN has set a target to double the global rate of energy efficiency improvement by 2030. In the 2030 Climate and Energy Framework, the EU aims for an improvement of at least 27%.

According to the International Energy Agency, in 2016, investments in energy efficiency reached \$ 232 billion worldwide, up 9% compared to the previous year.



Access to finance

According to the World Bank and the International Labour Organization, 767 million people in the world (more than 10% of the population) live on less than \$ 1.90 a day. A total of 192 million are unemployed.

Boosting access to financial services for people on a low income, microentrepreneurs and SMEs means making a practical contribution to genuinely inclusive economic growth, able to level out the massive inequalities in income and guarantee a decent life for everyone. In this sense, microcredit has truly brought about a revolution in huge areas in the South of the world. This is why the "father" of microfinance, Muhammad Yunus, was awarded the Nobel Peace Prize in 2006.



Impact themes



Healthcare

The right to health, wellbeing and medical care is clearly enshrined in the Universal Declaration of Human Rights. In the last few decades, thanks to progress with regard to hygiene and access to clean water, accompanied by major steps forward in medical science, life expectancy has risen virtually everywhere, and various causes of mortality have been eradicated.

Despite this, there are still major battles to be won. Every year, more than six million children die before their fifth birthday; four out of five live in Sub-Saharan Africa and Southern Asia.

Malaria, measles, dysentery and AIDS, which rarely kill people in western countries, cause 30% of infant mortality worldwide.



Food

According to the UN, between 2014 and 2016, 11% of the world's population is malnourished. Tangible progress has been made over the last 15 years, but we certainly cannot say the battle has been won. Indeed, two studies published by Nature magazine state that no African country will succeed in eradicating child malnutrition by 2030, as requested by SDG 2.

With a global population set to reach 9.8 billion by 2050, an indiscriminate increase in food production alone is not the answer. It is necessary to study sustainable systems and resilient farming practices, able to safeguard animal and plant biodiversity.

In parallel, it is essential to invest in agricultural productivity, inverting the trend that in recent years has seen a drop in public spending on agriculture.



Education

Education is the most powerful weapon to fight inequality and boost progress. With this in mind, the UN has set a target for 2030 to guarantee equity and quality both for the completion of primary and secondary education and in access to higher education.

This ambitious objective still requires a major effort, focused above all on the developing countries, where 57 million children are still excluded from enrolment in primary education.

Almost half the children who do not attend school live in war-torn areas.

There are still 103 million young people in the world (60% of them women) without basic reading and writing skills.



Sustainable building

A commitment to sustainable building means working on two fronts. First, the environment, with an increasing number of eco-compatible construction projects. Thanks to the technological progress made in recent years, it is now possible to construct buildings with very low environmental impact, using biocompatible materials and systems to reduce consumption and control emissions.

The second front is social housing, aimed at increasing the offer of accommodation for people on low income or with physical disabilities.

By targeting these situations that present a risk of social exclusion, social housing is an effective means towards inclusion.



Impact generated by investments in 2017

A major action plan for people, for the Planet and for prosperity: this is how we might describe Agenda 2030, signed in September 2015 by the 193 leaders of the UN member countries. The plan comprises 17 Sustainable Development Goals (SDGs) to be reached by 2030, making a total of 169 targets. Challenges this crucial require a major effort at all levels. By investing in the Investimenti Sostenibili fund, even with a small amount of capital, anyone can make an effective contribution to change.



15.38 accommodation structures built, mainly for low-income families at risk of social exclusion.



Access to markets in the developed world for local producers in emerging countries, guaranteeing the protection of biodiversity and equity in wages and working conditions.



14,800 children in developing countries have received tetanus, yellow fever, measles, polio, meningitis, pentavalent and pneumococcus vaccines.



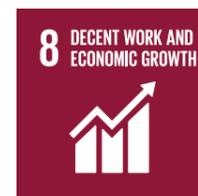
Support for **educational projects** in Latin America and in the Caribbean regarding child development, teaching and occupational training for young people.



Prevention of water pollution thanks to projects and specific technologies to reduce the presence of chemicals (COD and NH3-N) in water.



19.55 mw of renewable energy installed **51,000 MWh** of renewable energy produced, avoiding 27,081,000 kg of CO₂ emissions, the equivalent of the environmental impact generated by the life cycle of 90 million 2-litre plastic bottles.



360 microloans and funding issued to small enterprises to access foreign markets or develop projects linked to sustainable transport and renewable energies.



3,851 people have benefitted from the infrastructure projects implemented in various countries, including Malaysia and Costa Rica.



16 jobs created in a year, making a real contribution to economic growth and social inclusion.



6,120 tonnes of waste production avoided, the equivalent in weight of 4,000 small cars or the waste produced per day by 12,000 people.



56,446 € in yearly costs avoided linked to fossil fuels, thanks to the use of energy from renewable sources. **323,587 litres** of water saved, the equivalent of the daily consumption of drinking water of 1,500 people, thanks to the efficient management of water resources.



49,984 tonnes of equivalent CO₂ emissions less of greenhouse gases, the equivalent of the environmental impact generated by 100,000 diesel-fuelled cars travelling an average of 10,000 km a year.

Data processed by Sella SGR and MainStreet Partners at 29/12/2017. Details of the calculation method used are available on request from SGR. During 2017, a number of investments matured that in the preceding periods produced significant positive environmental and social impacts. The reinvestment process in some cases regarded newly issued financial instruments, which, although they are already generating a positive impact, will produce their first reports at the end of the current year.

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