Investing today for a better tomorrow

Generali Investments SICAV (GIS) Euro Green & Sustainable Bond

May 2020

Fund management team of Generali Investments Partners[1]

Mauro Valle, CFA

Head of Fixed Income,
Lead Fund Manager

24 years of experience

Fabrizio Viola, CFA

Fixed Income Portfolio Manager
Deputy Fund Manager,

19 years of experience

[1] The company full legal name is Generali Investments Partners S.p.A. Società di gestione del risparmio.

Bonds to help build solar energy farms or finance water reclamation projects… In today's world, green business is good business. Why not invest where your money can make a positive impact on society and the environment?

Generali Group has been using a proprietary Ethical Filter since 2006[2], monitoring ESG (Environmental, Social and Governance) controversies on several hundreds of billions worth of assets under management. It is also committed to investing EUR 4.5 bn in green debt and infrastructure by 2021, supporting a "Just transition" approach based on managing climate change transition and its potential economic and social impacts.

At Generali Investments[1] we are one of Europe's major players in the fixed income space, with a strong expertise and experience in managing euro-denominated fixed-income assets (more than €405bn in AuM as of end of December 2019[3]).

We therefore launched the **Generali Investments SICAV (GIS) Euro Green & Sustainable Bond** sub-fund, a natural extension of the Generali Group's commitment to sustainability, combined with our proven expertise in managing fixed-income assets.

Why invest in Green & Sustainable bonds?

We believe that the main reason an investor would decide to invest in green bonds is simple: as a way to invest responsibly, in bonds that finance green & sustainable projects with real positive impacts on climate change and energy transition for instance.

It is worth also noting that the "green" assessment of a green bond is totally independent from the asset manager or the issuer and that the investment strategy using Green bonds is transparent, based on liquid listed securities.

The level of yield expected from green bonds should also be similar to that of traditional non-green bonds issued by the same entity, though the "use of proceeds" or the underlying nature of the financed project is the fundamental differentiating feature.

We consider that this positive, real-life impact is the primary benefit of investing in Green & Sustainable bonds.

Continue

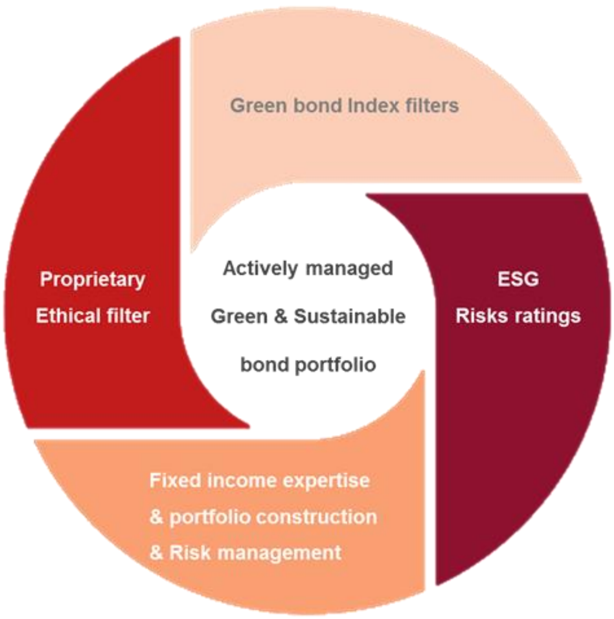
What are the key features of our bespoke investment approach?

The investment approach we implement in the GIS Euro Green & Sustainable Bond sub-fund leverages both internal and external expertise.

We start by screening the initial green and sustainable investment universe at different levels and through different parties:

- Through our proprietary Ethical Filter[2], identifying and screening potential ESG controversies affecting corporate issuers
- At the index level - Bloomberg MSCI Barclays Euro Green bond index - based on MSCI ESG Research's approach and the Green Bond Principles. We also monitor ESG risks and credentials of candidate green bond issuers

GIS Euro Green & Sustainable bond – Investment Process



Within this framework, the fund managers select bonds and build the portfolio based on our internal sovereign and credit research inputs.

The result is a fixed income strategy and a sub-fund that allow our clients to invest in the future, with a positive impact on society.

Will the green bond market continue to grow?

Investors are willing to actively contribute to global sustainability efforts. This explains the success of green bonds, which constitute a solution to the demand for more sustainable investments with a real impact.

"The proceeds from the issuance of green bonds is reinvested in sustainable projects, in accordance with Green Bond Principles" and market standards, underlines Fabrizio Viola.

In practical terms, companies can issue, for instance, a green bond for an investment aimed at reducing CO2 emissions, companies in the utilities sector in particular: "With green bonds, they pay for the transition from high-emission energy production to low- emission or even completely green production" adds Fabrizio.

Germany and Italy, despite the crisis

Another example is the green bonds issued by property developers. "This cash can be used for energy-efficient buildings that meet the highest standards," illustrates Fabrizio Viola. "Banks also issue green bonds. They in turn provide green loans to small businesses that typically do not have access to the market."

Green bonds are not the exclusive playing field of listed companies. International institutions such as the European Investment Bank and governments also issue this type of bond.

Indeed, Mauro Valle expects Germany and Italy to issue green bonds again soon, despite the ongoing crisis. "Countries set environmental targets. We expect the green bond market to remain strong as a result and continue to grow".

Better performance

For Fabrizio Viola, it is obvious that investing in green bonds gives greater satisfaction as they meet environmental, social and governance expectations. What is less known is that they perform better than traditional, risk-adjusted bonds. Fabrizio sees several reasons to this: "Green bonds are guaranteed by the underlying assets in which they are invested. The demand for such bonds is high and the supply low. Furthermore, the average credit rating is higher than that of comparable conventional bonds."

The demand for green bonds also comes from large institutional investors such as pension funds, while banks and insurers are also keen investors

Continue

"There is a strong demand for bonds that contribute to the fight against climate change", notes Mauro Valle. "They are looking for ways to make a positive contribution to global efforts and to invest in a socially responsible manner".

Retail investors are also showing increasing interest in green bonds. "They are paying more and more attention to sustainable growth", confirms Mauro Valle.

Some private investors may fear "greenwashing", the risk of investing in companies and securities failing to really meet the green standards and Generali Investments therefore uses several filters, from its internal ESG research team and from external data providers.

New rules and standards are currently being developed, especially in Europe, concludes Mauro Valle: "The potential problem of greenwashing is bound to be reduced over time."

Footnote

[1] The company full legal name is Generali Investments Partners S.p.A. Società di gestione del risparmio.

[2] Applying the Group Ethical Filter is part of the discretionary evaluation of the investment manager and the results of such evaluation are confidential.

[3] Source: Generali Investments Partners S.p.A. Società di gestione del risparmio, as at end of December 2019.