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EQUITY RESEARCH

COMMITMENTS ON SUSTAINABLE DEVELOPMENT ON TRACK

Unprecedented commitments by European institutions to support responsible development are on track, despite some frictions, and well received by investors ready to allocate a growing share of wallet to ESG funds. Now it is time for the governments to translate suggestions – as the one collected in our "ITALIAN CHAMPIONS for SUSTAINABILITY" conference - into projects, capturing a unique opportunity to relaunch the economy on a more sustainable basis and to create value for Italian Corporates.

Commitments to responsible development on track

Almost 1 year after the outbreak of Covid-19, we have checked **whether the spike in sensitivity to social concerns and responsible investments** (outlined in our note published on July 2nd) **was still valid** and **whether the promises of unprecedented intervention to fight inequality were finding real application.**

Key findings are that:

1) **Demand for responsible investments has been growing faster than ever,** with inflows starting to spread to non-EU regions;
2) **ESG funds have kept outperforming on average traditional funds** also during the rebound of financial markets and the recent sector rotation;
3) **Some EU initiatives have already been successfully activated** while the **Next Generation EU project** is progressing (despite some delays and frictions) and **remains crucial for an effective support to EU economies**;
4) The resources allocated to sustainable development offer **value creation opportunities for the companies most involved in these projects and with solid fundamentals,** as those included in **our "ITALIAN CORPORATES FOR SUSTAINABILITY" portfolio** composed of 5 large (ENEL, Inwit, Snam Rete Gas, TIM, Terna), and 5 mid/small caps (Erg, Falck Renewables, Garofalo Health Care, SeSa, Sicit).

Italian Champions' priorities for a sustainable development

On December 3rd we hosted the "ITALIAN CHAMPIONS FOR SUSTAINABILITY" conference to discuss the **priorities for a sustainable development**, with a speech from Prof. Del Giudice (Altis - Graduate School of Business and Society) where he showed how social-environmental sustainability, too often seen only as a cost or an additional regulatory constraint, represents a **boost to productivity efficiency and a catalyst for large private and public capital** that is currently channeled towards sustainable companies and/or projects. The speech was followed by a round table with top managers of 4 Italian leading corporates (**DiaSorin**, **Iren**, **SeSa** and **Snam Rete Gas)** at the centre of the sustainable development projects in 4 strategic areas (healthcare system, circular economy, digital and green technologies).

DiaSorin stressed the need to provide **diagnostic solutions** able to offer a combination of **reliability and scalability** and **for governments to set up guidelines to collect data on the vaccine efficacy**.

Iren highlighted the context of **national shortage of waste treatment and disposal plants** and the group commitment to a €2bn-capex strategy structured along the waste cycle, water cycle and district heating drivers, through a **multi-circle economy**.

Sesa underscored how crucial is the **evolution of organizations and enterprises toward sustainable models**, stressing that **remote working can be smart only if inserted in digital organizations**.

Snam Rete Gas presented its **key commitments for higher hydrogen utilization**, centred on **mobility**, **technology** and **transport capacity**. EU initiative, crucial to kick start the project, has to focus on coordination among Member States and development of a European value chain.

RESPONSIBLE INVESTMENTS: WHERE WE ARE TODAY WITH RESPECT TO THE TRENDS AND PERSPECTIVES HIGHLIGHTED IN THE MIDST OF THE CRISIS

In our previous research published on July 2nd, we highlighted some important issues relating to responsible investment and key institutional initiatives at European and national level to support sustainable growth plans.

The main take-aways from the July's research were as follows:

- **Demand for responsible investment was strongly rising**, despite the uncertainty and volatility that characterized markets during the initial phase of the pandemic. The Covid-19 crisis had also made it clear that social considerations were just as important as environment and governance for a sustainable development.
- **The supply of responsible funds was quickly adapting,** with asset gatherers and asset management companies reacting fast to satisfy this growing demand.
- **The return of responsible funds was on average proving to be no lower than that offered by traditional products.**
- Institutions had promptly reacted to the severity of the health crisis, **deploying massive resources to support both emergency interventions and medium-term investment plans in sustainable growth projects**. The foundations had therefore been laid for the introduction of innovative instruments that saw a form of international solidarity, particularly at European level.

Almost 6 months later since our previous note, and with the pandemic far from being solved, we thought it appropriate **to check whether the trends highlighted in the midst of the crisis were still valid** and **whether the promises of institutional intervention were finding real application.**

DEMAND FOR ESG FUNDS ACCELERATED AGAIN AFTER THE PEAK OF THE CRISIS, STAYING WELL ABOVE TRADITIONAL FUNDS

■ Global ESG inflows keep outpacing conventional funds

Based on Morningstar data[1] in the first quarter of 2020, when the COVID-19 outbreak began in Asia and then spread to Europe leading to the collapse of financial markets**, traditional funds reported outflows amounting to $384.7 bn worldwide. During the same period, ESG fund inflows instead stood at $+45.6 bn,** lower than the record levels seen in 4Q19 (-27% QoQ) but still far outperforming traditional funds**.**

After 1Q20, when the health crisis started to slowly improve, inflows of ESG funds recovered quickly to new record levels, reaching $+70.6bn in 2Q (+55% QoQ), and then grew further in 3Q to $+80.5bn, thus regaining their usual pace (+14% QoQ). Looking for example to Europe and in particular to equity investments, total inflows of ESG funds in 3Q, at $38 bn, where 82% higher than the net inflows into conventional equity funds.

The outperformance of ESG funds vs. traditional funds during the first quarter has clearly helped to reduce investors' concern on the return trade-off of sustainable strategies and underpinned in the last few quarters the appetite for ESG funds compared to traditional funds.

Europe continues to represent the most developed market for ESG investments, accounting for roughly 80% of the total sustainable universe inflows, assets and number of funds, compared to 26% incidence on total assets under management on a global basis[2].

1 https://www.morningstarfunds.ie/ie/news/202313/investors-back-esg-in-the-crisis.aspx
2 BCG Global Asset Management Market Sizing 2020

However sustainable investments strategies have gained increasing ground also in the US in the last few quarters: inflows in 2020 so far are already 43% above the whole 2019 figure (as opposed to +11% for Europe), which is mainly the result of the strong outperformance seen in 1Q, when ESG inflows were up by +80% QoQ in the US vs. about -30% in Europe.

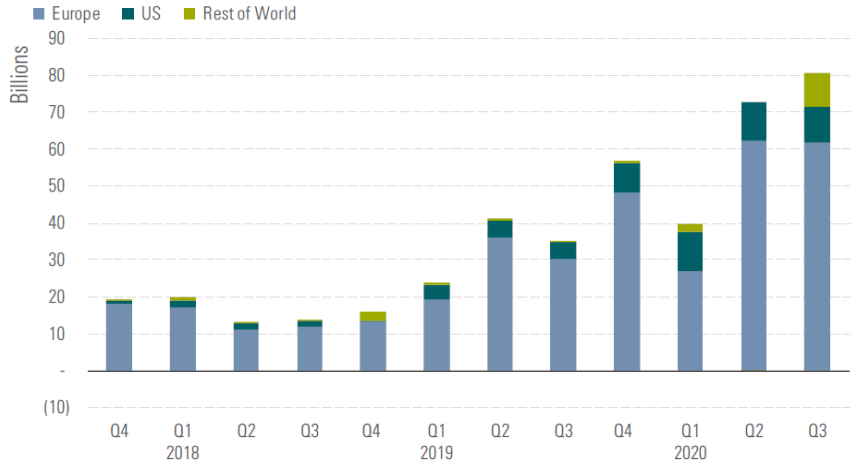
GLOBAL ESG FUNDS INFLOWS AND TOTAL ASSETS (USD Billion)

Region	Q3 2020 Flows		Assets		Funds	
	USD billion	% Total	USD billion	% Total	#	% Total
Europe	61.6	76.5	1,033	82.1	2,898	76.8
United States	9.8	12.2	179.1	14.2	367	9.7
Japan	7.0	8.7	12.4	1.0	128	3.4
Australia/New Zealand	0.8	1.0	15.7	1.2	123	3.3
Asia ex-Japan	1.0	1.2	10.7	0.8	151	4.0
Canada	0.3	0.4	7.6	0.6	107	2.8
Total	**80.5**		**1,258**		**3,774**	

Source: Morningstar Direct. Manager Research. Data as of September 2020

It is worthwhile noting also that the interest for sustainable investment strategies is starting spreading to Asia: inflows in the Rest of the World in 3Q20 were considerably higher than in previous quarters with $9.1bn new inflows (11.3% on total vs. 4.7% at the end of 1Q20) mainly thanks to a new fund launched in Japan that generated massive inflows of $5.5bn.

QUARTERLY GLOBAL ESG FUNDS FLOWS (USD Billion)



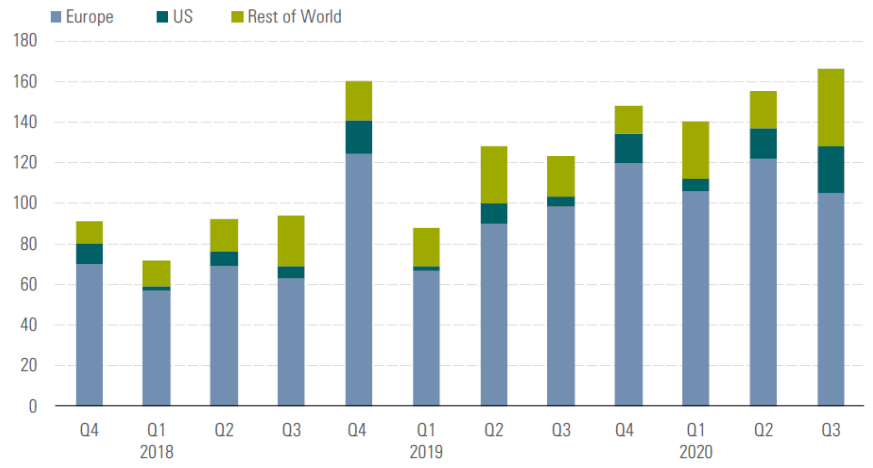
Source: Morningstar Direct. Manager Research. Data as of September 2020

ESG inflows boosted by ever wider offer and growing awareness of sustainability issues

The growing demand for ESG investing keeps finding an increasing response in terms of offering, with product development even intensifying compared to 1Q: asset managers are giving their retail and institutional investors ever more options to invest in ESG funds.

In the third quarter in particular new fund launches hit an all-time high, at +166 globally, slightly up from the +153 new launches of 2Q. Although Europe, as already commented, has always the lion share of newly launched funds, US and the Rest of the World areas are quickly catching-up, both hitting their record quarterly new launches in 3Q (+23 and +38, respectively), as shown in the chart below.

NUMBER OF GLOBAL SUSTAINABLE FUNDS LAUNCHES PER QUARTER



Source: Morningstar Direct. Manager Research. Data as of September 2020

We believe the growing appetite for ESG investing seen in the last few quarters also stem from an ever more urgent and wider perception of sustainability issues. In fact, on top of already dominant climate-related concerns, **the Covid-19 pandemic,** with its sanitary and social consequences, **together with the important mobilization for racial justice in the United States**, **have focused investors' attention on the "S" of "social",** often the least considered of the three ESG components. Furthermore, most recently the electoral debate in the US, with Biden putting climate change at the centre of his campaign, has further heightened investors' attention to ESG themes.

■ ESG inflows in Italy consistent with the global trend

Data for the Italian market are in line with the international trend. Assogestioni reported net inflows of €15.1bn in 3Q20 (€15.7bn YTD). ESG fund inflows amounted to €6.2bn vs. €8.9bn for non-ESG funds. **The number of ESG funds in Italy rose by roughly 64% YTD** (from 221 to 362) and +23.9% QoQ (from 292 in 2Q). In line with global figures, **ESG fund Assets under Management in Italy continued its growth moving from €30.4 bn in 1Q to €41.5bn in 2Q** (+36% QoQ) **to reach €55.7bn in 3Q** (+34.2% QoQ).

In the 9M20, ESG funds totaled net inflows of €12.8bn, representing 88.7% of overall net inflows gathered since the beginning of the year in Italy, partially motivated by the strong outflow that traditional funds saw during 1Q20 (-€14.9bn).

Despite the strong net inflows, ESG funds still represented just a tiny 2% of total assets at the end of September.

ITALIAN ESG FUNDS INFLOWS AND TOTAL ASSETS (€ Billion)

Region	Q3 2020 Flows	YTD Flows	Total Assets
Italy ESG	6.2	12.8	55.7
Italy non-ESG	8.9	1.6	2,279.9
Italy Total	**15.1**	**14.4**	**2,335.6**

Source: Assogestioni

ESG STRATEGIES OUTPERFORMANCE IN THE COVID CONTEXT TO BE TESTED IN THE VACCINE SCENARIO

EXTRA PERFORMANCE OF ESG FUNDS VS. NON ESG FUNDS
examples within some IA* categories

	YtD	2019	2018	2017
Europe Ex-UK	7%	1%	0%	3%
North America	11%	4%	5%	-9%
Global	8%	4%	0%	1%
Flexible Invest.	8%	4%	4%	0%
Global Equity Inc.	6%	5%	3%	-1%

Source: FE Analytics. Returns as at 23 Oct 2020
**IA: Investment Association (Association of UK Asset Managers, representing $8.5 trn of AUM)*

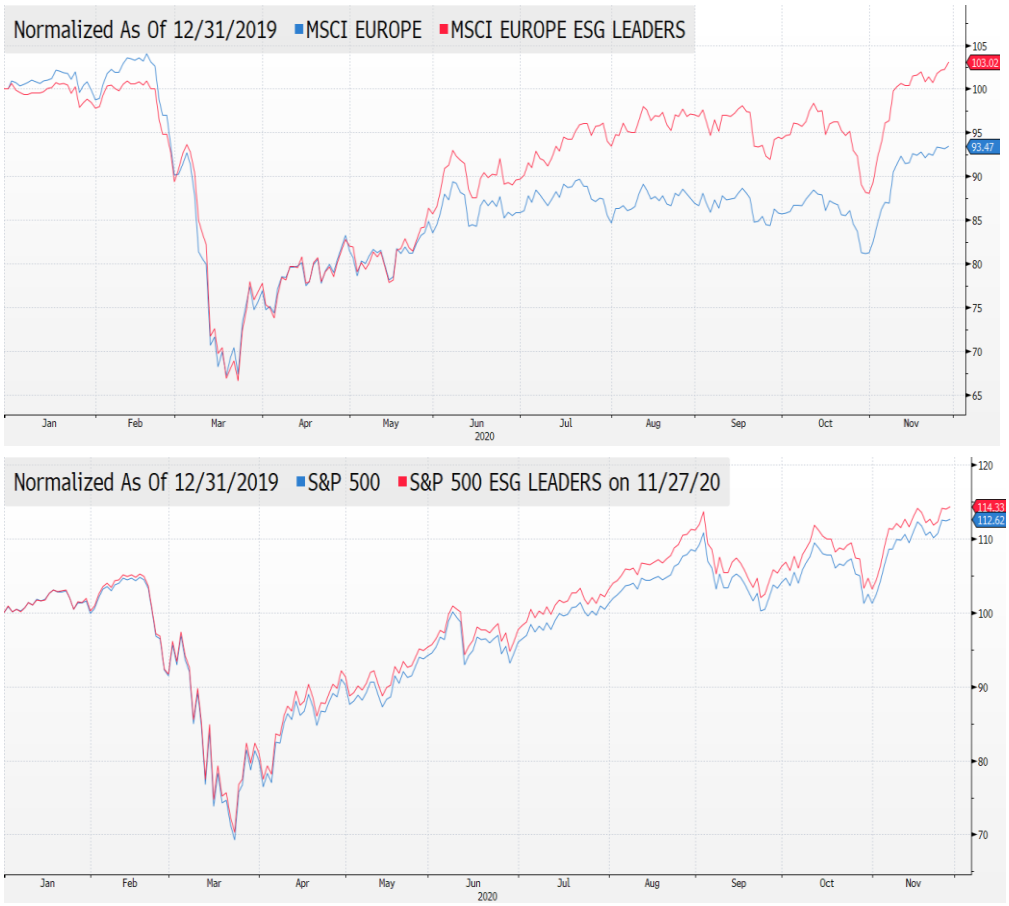
The return of ESG investment strategies has been often questioned. As a matter of fact ESG funds had underperformed their traditional equivalent until few years ago, probably as a result of still less sophisticated analysis and selection strategies.
However, already in the last couple of years, we have assisted to ESG funds/indexes matching or even outpacing the performance of the corresponding traditional funds/indexes, as shown for example in the table on the left for the UK asset management industry.
The Covid-19 context has further widened the return gap in favour of ESG investments.

This is clearly evident when looking also to main ESG indexes:

1) the MSCI Europe ESG leaders index (+3% YtD) has outperformed its conventional equivalent (-6.5%) by 9.5% so far this year.
2) the S&P 500 ESG leaders index (+14.3% YtD) has outperformed its conventional equivalent (+12.6%) by 1.7% so far this year.

In both cases the performance gap has widened since the pandemic outbreak.

MAIN ESG VS. EQUIVALENT TRADITIONAL EQUITY INDEXES - PERFORMANCE YTD



Source: Bloomberg

Looking instead to ESG funds' performance, according to Morningstar analysis on 2Q, among 212 sustainable stock funds 56% ranked in the top half of their respective categories. That continued the record outperformance of 1Q and left 72% of sustainable equity funds in the top halves of their Morningstar categories as of June 30th.

As we had already started observing at the end of 1Q, **the pandemic seems to have led institutional and retail investors to raise their preference for companies with a particularly high sustainability profile, generating a positive market price performance.**

On top of this, the outperformance of ESG funds in 2020 could be explained - at least in part - with their lower exposure to this year's worst-performing sectors, namely oil/energy and transport, and instead their higher exposure to what have been some of the best-performing sectors, i.e. technology and Renewables.

The outperformance of ESG indexes vs. their traditional equivalent has been even more marked in Europe than in the US. This wider performance gap in Europe can have been the result of **the clearer institutional commitment and the broad set of initiatives approved by the EU in terms of fiscal, monetary and regulatory support to companies exposed to sustainability issues or enablers of the green transition process.** This has contributed to shift investments towards companies/sectors targeted by these polices and drive their relative outperformance.

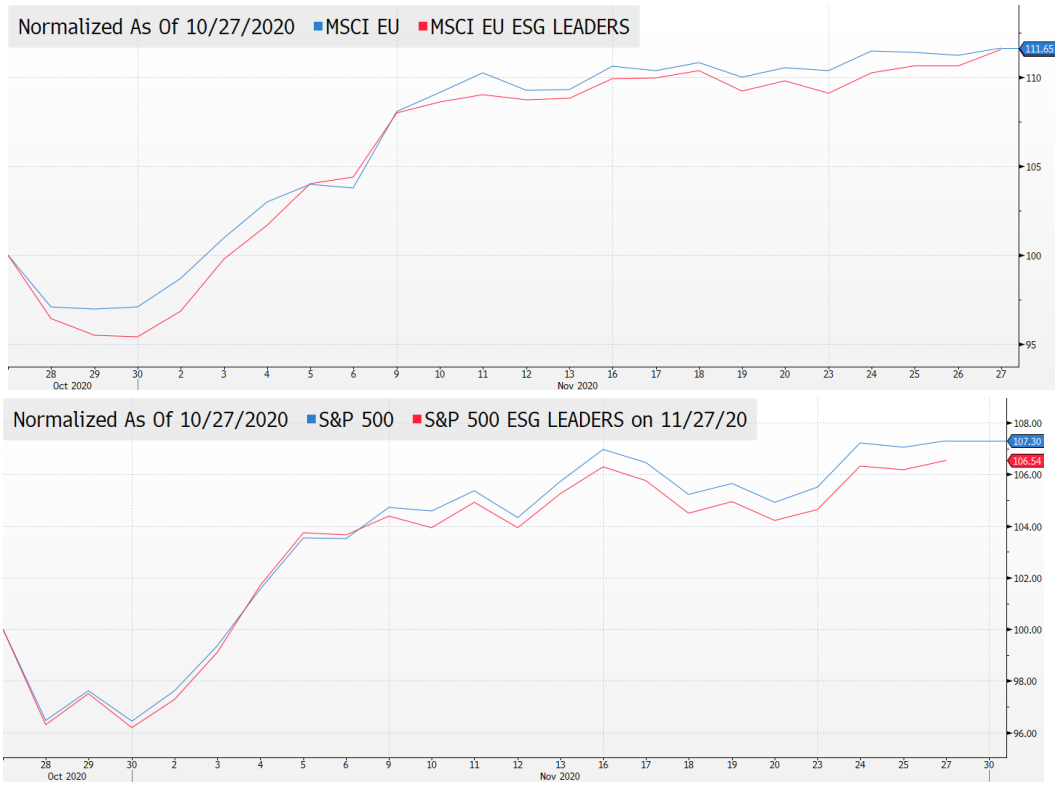
Now, with the recent positive newsflow on the successful trials for a new Covid vaccine which could be available shortly, it's time to wonder:

- **how are ESG investments performing in the recent sector rotation** triggered by the news of an imminent vaccine?
- **will the extra-inflows of ESG funds vs. their traditional equivalent be confirmed also in a "vaccine scenario"?**

As the chart below shows, **ESG Leaders indexes, which are based on a best-in-class selection within each sector, have held decently in the financial markets' rebound of the last few weeks**: in November the MSCI Europe ESG Leaders performed exactly in line with its traditional benchmark, whilst the S&P500 ESG Leaders only marginally underperformed the S&P50 by -0.76%. Overall in both cases their year-to-date outperformance has been maintained, as already commented.

Now, when looking to ESG fund performance, this suggests the current phase of sector rotation might show how vulnerable returns can be for ESG strategies simply relying on pure sector allocation or exclusion policies, and possibly surface instead a better resiliency for more sophisticated and flexible approaches, such as best-in-class strategies, more able to adapt to the different market phases while confirming their commitment to responsible investing.

MAIN ESG VS. EQUIVALENT TRADITIONAL EQUITY INDEXES PERFORMANCE - NOVEMBER 2020



Source: Bloomberg

INTERNATIONAL AND NATIONAL PROPOSALS FOR A SUSTAINABLE RECOVERY: THE TODAY'S ACTUAL IMPLEMENTATION OF PLANS

The seriousness of the health crisis triggered by Covid-19 led the Italian government and European political institution to introduce a set of unprecedented measures for short-term financial support and economic recovery.

We will now examine which of the European initiatives announced in 1H20 have been activated to date and what are the difficulties and timeframes for a full mobilization of the instruments to support employment and the whole economy.

■ KEY EU INITIATIVES

EUROPEAN INITIATIVES ANNOUNCED IN RESPONSE TO THE COVID-19 CRISIS

SURE / ESM Pandemic Crisis Support / EIB Guarantee Fund for Workers and Businesses	€540 billion
Next Generation EU	Temporary reinforcement €750 billion
Multiannual Financial Framework	€1 100 billion

Source: European Commission – July 2020

So far, the EU has announced the following initiatives:

1. **SURE** (Support to mitigate Unemployment Risks in an Emergency). SURE is a European temporary support instrument (available until December 31st, 2022) to **mitigate the risks of unemployment** protecting jobs and workers affected the most by the pandemic through social schemes. Overall, SURE is expected to provide for up to €100bn in financial assistance in the form of loans, granted by the EU to Member States on favorable terms. To finance SURE program, the EU will issue up to € 100bn social bonds. Interest rates, costs and the duration of the loans are agreed individually by the applicant Member State and the EU.

   About 60% of the maximum € 100bn allocated by SURE will be distributed to the countries that have been affected the most by the crisis, including Italy, which is expected to receive up to € 27.4bn. Total resources approved by the EU council and additional funds proposed by the commission to support Ireland are already covering more than € 90bn of financial support to Member States.

SURE: MORE THAN € 90 BN SUPPORT ALREADY APPROVED

Source: European Commission

So far, the European Commission has already handled a € 31bn financial support to Member States, of which € 16.5bn to Italy.

On October 4th, EU issued a dual tranche social bond split over two distinct tenors: € 10bn due in October 2030 and € 7bn due in 2040. The issue, mainly thanks to the bond's social label benefit and appealing yield, has generated an outstanding € 233bn orderbook (approximately 13x the final offer) consisting of € 145bn on the 10Y tranche and over € 88bn on the 20Y tranche. The 10Y bond was priced at 3bps above mid-swap, which is equivalent to +36.7bps over the Bund due August 15th 2030 while the 20Y bond was priced at 14bps above mid-swap or +52.1bps over the Bund due July 4th 2040.

On November 4th, EU issued a second dual tranche social bond for a total amount of €14 bn split over two distinct tenors: € 8bn due in November 2025 and priced 18.5bps over the conventional 0% 5Y Bund and € 6bn due in November 2050 and priced 36.4bps over the Bund due 15th of August 2050. Once again, the issue generated an outstanding orderbook in excess of € 175bn, about 12.5x the offer.

Both tranches have been rated AAA/Aaa/AA by Fitch, Moody's and S&P.

Due to its "Social" nature, all proceeds received by European countries will be subject to strict terms and conditions of use and reporting protocols.

2. **ESM Pandemic Crisis Support** to promote domestic financing of healthcare services. The credit line will be available to all euro area Member States, with standardised terms agreed in advance by the ESM governing bodies, based on preliminary assessments by the European institutions. Access granted will be 2% of the respective Member States' gross domestic product as of end-2019, as a benchmark.

With ESM, Italy might have access to some € 36bn of funds to be used by the end of 2022 (with a possible extension under discussion), for a one-off upfront fee of 25bps, an annual spread of 10bps on the ESM cost of funding, a 0.5bps annual service fee and a 10 years maturity.

At the moment, no EU country has applied for ESM PCS funds, probably deterred by lack of clarity on conditions embedded in the credit line.

EIB GUARANTEE FUND

Source: EIB

3. **EIB approval of the new € 25bn Guarantee Fund for Workers and Businesses which will provide up to € 200bn in business loans, particularly for SMEs**. The funds are part of the European Guarantee Fund (EGF), launched in May and activated on October 13th.

It is not disclosed how many funds should be channeled to Italy as EIB does not publish official forecasts but it is reasonable to expect, based on comments from the Italian Minister of Economy and Finance Mr. Roberto Gualtieri, around € 35bn resources for Italy.

Currently, EIB has already approved financing under the EGF for € 2.6 bn (out the maximum € 25 bn available), **expected to mobilize investments worth more than € 11 bn.**

EIB has implemented other measures to support European countries, mobilizing in March € 40bn to provide guarantees and financing to SMEs and the Healthcare sector in Europe. Italy has received so far around € 7bn European loans, of which € 2bn devoted to the Healthcare sector with a 15 year maturity covering almost two-thirds of the € 3.25bn investments foreseen by the Italian government's "Relaunch Decree".

HEALTHCARE PROJECTS FUNDED BY EIB	
New beds for intensive care	3,500
New beds for semi-intensive care	4,225
New mobile structure for 300 intensive care places	4
Emergency rooms renewed	651
New temporary medical personnel	9,600
Undisclosed number of new medical supplies and health equipment, vehicles for medical transport	
Total amount of the 15Y maturity loan	**€ 2bn**

Source: EIB

4. **"Next Generation EU".** Next Generation Eu (NGEU) is a € 750 bn fund to finance economic recovery through the issuance of European Community Recovery Bonds to help countries affected the most by the pandemic crisis and to support a plan for the full economic recovery and transformation.

NGEU will act on top of the Multi-annual European Financial Framework (MFF) worth around € 1,100 bn over the 2021-2027 period.

MULTIANNUAL EUROPEAN FINANCIAL FRAMEWORK: € 1,800+ BN RESOURCES AVAILABLE

Multiannual Financial Framework 2021-2027 total allocations per heading*

	MFF	*NextGenerationEU*	*TOTAL*
1. Single market, innovation and digital	€132.8 billion	€10.6 billion	€143.4 billion
2. Cohesion, resilience and values	€377.8 billion	€721.9 billion	€1 099.7 billion
3. Natural resources and environment	€356.4 billion	€17.5 billion	€373.9 billion
4. Migration and border management	€22.7 billion	-	€22.7 billion
5. Security and defence	€13.2 billion	-	€13.2 billion
6. Neighbourhood and the world	€98.4 billion	-	€98.4 billion
7. European public administration	€73.1 billion	-	€73.1 billion
TOTAL MFF	€1 074.3 billion	€750 billion	€1 824.3 billion

** The amounts include the targeted reinforcement of ten programmes for a total of €15 billion, compared to the agreement from 21 July 2020. The programmes are Horizon Europe, Erasmus+, EU4Health, Integrated Border Management Fund, Rights and Values, Creative Europe, InvestEU, European Border and Coast Guard Agency, Humanitarian Aid.*

Source: European Commission

The bulk of NGEU is represented by the Recovery and Resilience Facility (RRF) worth € 672.5 bn, of which € 312.5bn grants and €360bn loans, to be channeled to Member States throughout the National Plan of Reforms (NPR) starting from 2H21 and repaid over 30 years starting from 2028.

NEXT GENERATION EU: KEY FACILITIES (€ bn)

Name of the Fund	Total Amount (€ bn)	Description
Recovery and Resilience Facility (RRF)	672.5	EU program to mitigate coronavirus economic and social impact and make Europe more sustainable and better prepared for **green and digital transitions**
of which, loans	*360.0*	
of which, grants	*312.5*	
ReactEU	47.5	REcovery Assistance for Cohesion and the Territories of EUrope program to extend the **crisis repair measures**
Horizon Europe	5.0	**Research and Innovation** program within 5 mission areas: Adaptation to climate change, Cancer, Climate-neutrality and Smart-cities, Healthy oceans, Soil health and food
InvestEU	5.6	Program for Strategic Investments to mobilize **public and private investment** by using EU budget guarantee
Rural Development	7.5	The EU program to strengthen the EU's **agri-food and forestry sectors**, environmental sustainability, and the wellbeing of rural areas in general.
Just Transition Funds (JTF)	10.0	Program to support EU countries in their **economic transition** process
RescEU	1.9	EU program to enhance both the protection of citizens from **disasters** and the management of emerging risks
TOTAL	**750.0**	

Source: Conclusions of the European Council of 21 July 2020

Since resources will be allocated according to the social and economic impacts of the Covid-19 crisis, which has had a disproportionate impact on the Southern European countries (Italy and Spain in particular), **Italy will be granted access to a significant portion of these resources with over € 65 bn of grants** (of which 70% in 2021-22 and 30% in 2023), provided that it is able to present credible and detailed measures – consistent with the EU framework - in its NPR.

RRF: € 65BN GRANTS AVAILABLE TO ITALY TO FINANCE NPR (€ bn)

	2021-2022 (70%)	2023 (30%)	Total
Total RRF grants	218.8	93.8	312.5
of which allocated to Italy	44.7	20.7	65.5

Source: European Commission

Draft of NPR may be sent to the EU commission as from October 15th and should address how the plan will contribute to the achievement of the following four general objectives:

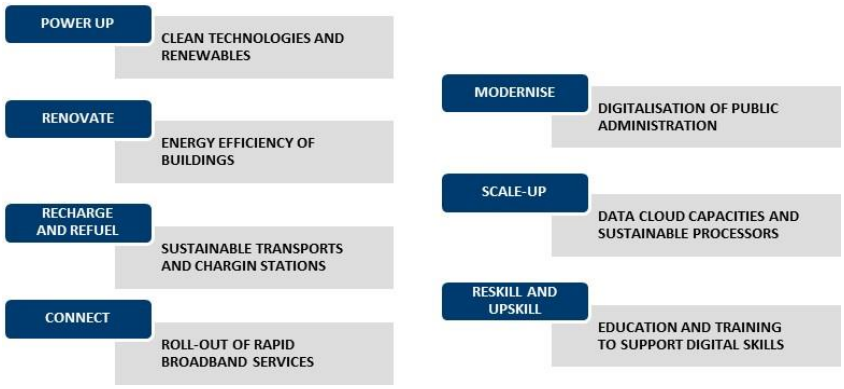
1. Promoting the Union's economic, social and territorial cohesion;
2. Strengthening economic and social resilience;
3. Mitigating the social and economic impact of the crisis;
4. Supporting the green and digital transitions.

In particular, NPRs will have to provide information on the contribution to the **seven European Flagship objectives**:

1) **Power up** (Support the building and sector integration of almost 40% of the 500 GW of renewable power generation needed by 2030, support the instalment of 6 GW of electrolyser capacity and the production and transportation of 1 million tonnes of renewable hydrogen across the EU by 2025)

2) **Renovate** (by 2025, contribute to the doubling of the renovation rate and the fostering of deep renovation of buildings)
3) **Recharge and Refuel** (by 2025, aim to build one out of the three million charging points needed in 2030 and half of the 1,000 hydrogen stations needed)
4) **Connect** (ensure that by 2025 there is the widest possible uninterrupted 5G coverage for all areas)
5) **Modernise** (by 2025, ensure the provision of a European digital identity and public administrations should be providing interoperable, personalised and user-friendly digital public services)
6) **Scale-up** (by 2025, double the production of semi-conductors in Europe, to produce 10 times more energy efficient processors and to double the share of EU companies using advanced cloud services and big date - from 16% today)
7) **Reskill and upskill** (by 2025, the share of Europeans aged from 16 to 74 with basic digital skills should increase to reach 70% and Member States should ensure that pupils' digital competence is significantly improved).

EUROPEAN FLAGSHIP OBJECTIVES



Source: European Commission

In each NRP, at least 37% of resources will have to be related to climate and 20% to digital investments and reforms.

NRPs have to be submitted by Member States by April 30th at the latest. Within 2 months of their final presentation, the NPRs shall be evaluated by the EU Commission with the support of the Economic and Financial Committee and approved by the European Council by qualified majority voting.

NATIONAL PLANS OF REFORMS: TIMELINE

Source: European Commission

If one or more Member States consider that there are serious deviations from the satisfactory achievement of the relevant milestones and targets of the project, they can exceptionally activate the *Emergency Brake* and request that the matter be referred to the European Council, which must discuss it at its next meeting.
Once the NPR is approved, Member State may request a 10% pre-financing on overall funds.

MFF ADOPTION TIMELINE

- **May 2020**
  Commission proposal for the revised Multiannual Financial Framework 2014-2020 & 2021-2027 and Own Resources Decision + sectoral legislation
- **By July 2020**
  European Council: Political agreement on Multiannual Financial Framework 2014-2020 & 2021-2027 and Own Resources Decision
- **By summer 2020**
  European Parliament's consultation on Own Resources Decision
- **Early autumn 2020**
  Adoption of the revised Multiannual Financial Framework 2014-2020 + corresponding sectoral legislation
- **October 2020**
  European Council
- **December 2020**
  Adoption of the revised Multiannual Financial Framework 2021-2027 (European Parliament's consent)
  Adoption of the Own Resources Decision (Ratification by all Member States in line with their constitutional requirements)
- **January 2021**
  Multiannual Financial Framework 2021-2027 implementation starts

Source: European Commission

Compared to the timetable initially planned (see the chart on the left presented in the July note), **the approval of the multi-annual financial framework for 2021-27 is being delayed** by political negotiations between EU commission and parliament and between the EU member states.

The most likely assumption remains that the agreement will be reached at the European Council meeting due on December 10-11, compared to the initial expectation of approval by October 2020.

ITALIAN RECOVERY PLAN

Italy has started negotiations with the EC on a draft NRP in the last few weeks. The plan is expected to be submitted by January/February 2021 and to be approved by the EU in early 2021. This would allow Italy to get initial funds by mid 2021.

■ Focus on digital and green but with limited details at the moment

Many projects have been presented by the ministers in the last few months. The key areas of interest are:

- **Digitization**, covering – in line with EU directive – at least 20% of Recovery Fund resources and focused on the following targets:
  - **more and better connectivity**, especially in the rapid **deployment of 5G networks and industry 4.0**;
  - A stronger industrial and technological presence in strategic sectors, including **artificial intelligence**, **cybersecurity**, **supercomputing** and **cloud**;
  - Building a real **data economy** as a motor for innovation and job creation;
  - Increased **cyber resilience**.
- **Strengthening of public transport network and green mobility**, a target covering around 10% of NGEU funds, by promoting cleaner transport and logistics, including the installation of one million charging points for electric vehicles and a boost for rail travel and clean mobility in cities and regions.
- **Development of the Green economy**, a target attracting 37% of NGEU funds, via
  - A massive wave of **building and infrastructure renovation** and a more circular economy;
  - Roll-out of **renewable energy projects**, especially wind and solar, and kick-starting a clean hydrogen economy in Europe.
- Strengthening the Just Transition Fund to support **re-skilling of workers**, helping businesses create new economic and job opportunities through 100% de-contribution for the employment of under 35 years age people.
- Greater public and private investments by **increasing the transparency of the public tender mechanism** through a reform of the procurement code and **tax credits for innovative and green investments.**
- **Reform of schools, universities and culture** through the allocation of € 6bn to be divided into teaching staff and upgrading of school and university buildings.
- Support (€ 5bn for companies to tackle Covid-19 crisis) and consolidation of the **capitalization of Italian companies** with € 4bn grants for SMEs, plus a € 1.5bn fund to support internationalization activities.
- **Recruitment of new temporary medical staff** and the establishment of a c€4bn fund for the purchase of **Covid vaccines and medical equipment** in addition to the €1bn increase in the National Health Fund.
- €2bn plan for the **development of e-commerce platforms**.
- **Tax reform** to boost the Italian economy through a shift in tax collection from work to consumption, with a tax reduction plan between €8bn and €10bn.
- Fight against tax evasion through incentives for **digital payments** and **tax compliance**.

Unfortunately, details for the Italian NPR and the process for the evaluation and selection of projects to be included in the NPR have not been disclosed. This is leaving limited room for a critical review of the proposals by the different stakeholders and for suggestions that could improve the quality of the plan.

At the moment, we can rely our analysis on some **comments provided by the government and** on **measures already introduced in the 2021 Budget Law** that can be financed by the NGEU fund once approved. In particular, the Budget Law foresees the set-up of a new "revolving fund for the execution of the NGEU" worth around € 35 bn in 2021, € 41 bn in 2022 and € 45 bn in 2023 (for a total of more than € 120 bn) to finance objectives that will be included in the NRP submitted to the EU for approval.

A key target of this new revolving fund, already disclosed in the Budget Law, will be the extended "Industry 4.0" plan, financed with € 5.3 bn in 2021, € 6.6 bn in 2022 and € 3.5 bn in 2023 (for a total of € 15.4 bn) and focused on:

- **Renewal of fiscal incentives for investments in capital goods** (so called "super-ammortamento" and "iper-ammortamento");
- **Fiscal incentives for investments in software and intangible assets**;
- **Fiscal incentives for R&D spending**;
- **Tax advantage for employers in the South of Italy**;
- **Support to technological investments**.

ITALIAN 2021 BUDGET LAW (€ mn)

	2021	2022	2023
Revolving fund for the NGEU implementation - Italy	**34,775.0**	**41,305.0**	**44,573.0**
of which:	3,271.6	2,214.1	1,745.3
Tax credit for investments in new capital goods (former "Super-ammortamento")	1,715.8	3,392.4	3,704.3
Tax credit for investments in new capital goods (former "Iper-ammortamento" -Annex A law 232/2016)	185.5	411.7	456.6
Tax credits for software investments (Annex B law 232/2016)	105.7	76.4	62.5
Tax credits for non 4.0 intangible assets investments	105.7	76.4	62.5
Tax credits for R&D		420.0	840.0
Tax credits for industry 4.0 training		150.0	150.0
National Agency for New Technologies Consulting Activities	1.0	1.0	
Support for investments in high-tech products, within the NPR framework	250.0	250.0	250.0
Tax relief for employment in disadvantaged areas	3,500.0	3,500.0	

Source: 2021 Budget Law summary table

Additional projects expected to be included in the NPR, according to press articles, are:

- Strengthening of the **advanced technical institutes** (ITS);
- Support for the **new national hydrogen plan**;
- Support to the **development of 5G/6G** and **Ultra-broadband infrastructure**;
- Strengthening of **cybersecurity**.

We remind that, in line with the framework governing the NGEU fund, the Italian Recovery Plan has been structured into two different phases:

1. 70% of resources to be deployed by 2022 on projects identified in the NRP and approved by the EU Commission;
2. remaining 30% of the resources to be invested no later than 2023.

The repayments of received loans will begin in 2027 and will last for thirty years. The loans granted to Member States will have the same conditions (coupon, maturity and nominal value) as EU funds borrowed on the market so that the country will indirectly benefit from the EU's higher credit standing.

KEY MESSAGES FROM "ITALIAN CHAMPIONS" FOR SUSTAINABILITY

In the previous paragraphs we highlighted how:

1) **demand for responsible investments has been growing faster than ever in 2020**;
2) **returns for responsible investors have remained attractive** both in absolute and in relative terms compared to non-ESG funds;
3) **some EU initiatives have been much more successful than others** (e.g. Sure vs. ESM PCS) and have been able to attract strong investors' interest;
4) the key **Next Generation EU project** is progressing with some delays and frictions but **remains crucial for an effective support to EU economies.**

In this scenario, on December 3rd we held the "ITALIAN CHAMPIONS FOR SUSTAINABILITY" conference in which we hosted a speech by Prof. Del Giudice from Altis (Cattolica University's Graduate School of Business and Society), and a round table with 4 Italian corporates at the centre of the sustainable development projects in 4 key areas:

- **DiaSorin**, reference player for health emergency response thanks to the ability to quickly develop solutions for virus detection;
- **Iren**, leading player for the development of projects focused on the circular economy and smart grids;
- **SeSa**, key enabler of digital transformation of Italian medium enterprises;
- **Snam Rete Gas**, at the centrepin of the national strategy for leading the energy transition toward a higher hydrogen utilization.

We highlight the key messages provided by Prof. Del Giudice and by the top management of the four "Italian Champions".

Alfonso Del Giudice (Altis – Graduate School of Business and Society)

Prof. Del Giudice underlined how the mobilization of public and private capital for sustainable growth objectives can lead to a strong improvement in companies' productivity, activating a restructuring of the entire economic system.

He also stated that *"sustainability and performance should no longer be considered as two alternative but synergic elements. It is possible to observe it by analyzing a sample of companies identified by an MSCI study, in which the **best performing companies are those with the highest ESG scores**. The same analysis has been repeated for the single pillars E, S and G respectively, confirming the same trend".* As Prof. Del Giudice stated during his speech, *"within each pillar, **Carbon emissions, Water stress and Toxic Emissions as regards E, Health and Safety, Labor management and Human capital development regarding S and Corporate Governance and Anticorruption policies as regards G, are the elements of materiality** that brought the greatest benefit to stock performances in the last 7 years. This shows that today markets no longer use dichotomous models but integrate financial and sustainable information".* Finally, Del Giudice pointed out that *"based on **the empirical evidence emerging from a research currently underway, Carbon Emissions and Labor Management are the most relevant overall risk mitigating factors**. In conclusion, those in finance who ignore these aspects are neglecting to analyze a fundamental part of a company's business, able to improve returns while reducing the level of risk".*

Piergiorgio Pedron (CFO, DiaSorin)

Mr. Pedron stressed the need to provide diagnostic solutions able to offer a combination of reliability and scalability, integrating molecular and antigenic testing. Furthermore, governments should set guidelines to collect data on the vaccine efficacy, something not yet envisaged by national regulations.

He commented: *"2020 is a year marked by the pandemic and, in this context, diagnostics is playing an increasingly important role to contain the contagion and help clinical decisions. Among all the available diagnostic solutions, molecular tests are the "gold standard" as they allow to identify patients who are infected by SARS-CoV-2 along the entire curve of the infection, from onset to complete recovery. However, being able to provide a large number of instruments to test the population is very important. In this sense, molecular testing has a limit related to the possibility of rapidly expanding its production volumes. For this reason, diagnostic companies are launching antigenic tests (also known as rapid tests) to detect the virus during the acute phase through processable tests on immunodiagnostic instruments.* ***The combined offer of higher volumes of tests is the key for the early identification of new outbreaks, for the correct diagnosis of patients and, in conclusion, for the management of the current situation in view of a desirable return to normal"****.*

As regards 2021 after the recent announcement about vaccines, he added: *"It is difficult to comment on vaccines, when clinical trials and related scientific evidence have not yet been made public. We hope that with the data made available, more accurate forecasts can be made. At DiaSorin, however,* ***we are working to launch a test designed specifically to assess the efficacy of these vaccines.*** *COVID has pushed all healthcare companies to respond very quickly to the health emergency,* ***with exceptional results so far****. We are, like everyone else, waiting for new developments both as citizens and as a company".*

Massimiliano Bianco (CEO, IREN)

In a context of national shortage of waste treatment and disposal plants, Mr. Bianco underlines how Iren is one of the main players in the sector by investing to fill up the Country lack of plants through a **multi-circle economy** path. This €2bn strategy is one of the main growth levers of the 2025 industrial plan and it is structured along the waste cycle, water cycle and district heating drivers.
The CEO commented: *"As regards the* ***coverage of the entire waste cycle****, the Group plans to develop the* ***expansion of collection systems*** *over the next few years through* ***Just Iren*** *digital system which, in parallel with new technologies, will make it possible to achieve a recycling rate of over 70% by 2025. In addition, the Group aims to create 9 new treatment plants in the paper, plastic, organic fraction, wood and sludge supply chain.* ***Concerning the water cycle****, Iren has started a* ***districtization*** *process of the managed areas, which will cover up the 80% of the network in 2025 for the monitoring and continuous analysis of hydraulic parameters, ensuring a reduction in network losses, already well below the national average. Iren also plans to build* ***7 new wastewater treatment plants*** *to increase the purifying capacity and reduce biological sludge.* ***Finally, through the district heating network,*** *Iren has been recycling the heat produced by cogeneration plants for years, distributing and replacing it to the use of domestic boilers. The effect is a reduction in heating-related atmospheric emissions and a better air quality in the cities in which we operate".*

On integrating Sustainability within the industrial strategy, Mr. Bianco reported the 5 main guidelines on which Iren bases its strategy at 2035: *"The firs 3 drivers are strictly related to multi-circle economy:* ***circular economy, water resources and resilient cities*** *are based on our view to manage businesses with an integrated approach, to optimize energy and materials recovery with a great attention to all the other "components" of the system. As 4th driver,* ***decarbonization*** *involves multiple activities such as hydrogen and other multi-circle economy initiatives like the extension of*

district heating, the production of biomethane from organic fraction treatment plants, as well as energy efficiency related projects". Finally, given the change in habits imposed by Covid-19, Mr. Bianco states he pays *"great attention to **people**, foreseeing an evolution of working methods that have to be supported by a strong development of digitization combined with a process re-engineering and simplification. This will be promoted by widespread training programs".*

Alessandro Fabbroni (CEO, SeSa)

Mr. Fabbroni underlined the opportunities to **accelerate competitiveness of Italian corporates through digitization of manufacturing and sale processes,** having full awareness of the **essential role played by data security**.

He commented: *"The 1st area of intervention to support productivity of Italian corporates is undoubtedly **the digitization of processes and digital transformation of the manufacturing districts of Made in Italy** (which express about 20% of the Italian GDP). We have entered the 4th phase of the manufacturing transformation: after steam, electricity, microprocessor, **the 4.0. industry is focused on the cyber-physical connection and the exchange of information between machines** with the management of digital twin (at product, production and performance levels) and the integration of IoT systems and cognitive-A.I. solutions.*
*A 2nd macro theme of investment is the **omnichannel approach of sales processes** and the **digitization of customer experience** with models integrating physical with digital experience and the interconnection of contact points and experience, with a transfer of data between different channels and consistent content strategies.*
*A 3rd macro theme of investment and perhaps most important as a gap to fill is **data security**. The sharp growth in the need for data management and analysis and the spread of hybrid organizational models, has led to the multiplication of cyber-attacks. This makes **a systematic investment plan in security more and more essential** in the Italian medium enterprise. In the sector of the security moreover it is crucial to have a **holistic approach that span from the physical to the cyber surveillance**".*

As regards the most effective measures that can be introduced by governments, also thanks to the "NGEU" scheme, Mr. Fabbroni stressed: *"Incentives aimed at supporting digital transformation projects are relevant for the impact on GDP growth. Digitization drivers can be not only software but also applications for industry 4.0, cloud and cognitive solutions. It is fundamental, to support the evolution of organizations and enterprises towards sustainable models, the **support to smart working inserted in hybrid work organizations**: remote working can be smart only if inserted in digital organizations. Otherwise, it loses quality and is not sustainable in the long term. **A hybrid and smart organization model is crucial for sustainability**: it allows great savings in terms of natural resources and greater protection of the environment. Other areas for incentives, fundamental for sustainability, are the **regeneration solutions of technology parks and energy efficiency technologies that are increasingly converging vs. digital technologies** with the widespread adoption of IoT and A.I. applications. These are **areas where the Sesa Group has been systematically activated also thanks to recent acquisitions** to support the strong demand for digitization by companies and organizations".*

Cosma Panzacchi (Executive VP Hydrogen Business Unit, Snam Rete Gas)

Mr. Panzacchi presented its **key commitments for higher hydrogen utilization**, centred on **mobility**, **technology** and **transport capacity**. EU initiative, crucial to kick start the project, has to focus on coordination among Member States and development of a European value chain.

Mr. Panzacchi stated: *"Snam Rete Gas aims to lead the Energy Transition in Italy and Europe towards a green gas supercycle. The company has just presented its 2020-24 Business Plan envisaging three main investment areas on hydrogen development:*

- ***Mobility**: the plan includes € 150 mn investments largely devoted to hydrogen trains, with expected returns in terms of both economic benefits and reduction of CO2 emissions. We have already signed important agreements to develop this business with the Italian Railway company and with Alstom, there are some talks also with Ferrovie Nord Milano, and other collaborations will come in the future;*
- ***Technology**: the company has recently invested in De Nora (a 33% stake) and ITM (2% stake), two companies specialised in electrolysis technologies where we expect a significant development in the future as the increasing demand for hydrogen is set to drive a capacity shortage going forward and the need to reduce the cost of electrolysis.*
- ***Transport**: 70% of Snam gas transportation network is already "hydrogen ready" and the aim of the company is to use its network for hydrogen transportation in Italy and to become an important hydrogen hub for Europe while allowing local multiutility to play a more effective role in the energy transition of our country".*

As regards how European institutions are supporting the hydrogen development, Mr. Panzacchi said: *"Europe has played an important role to stimulate activities and investments in this direction. Nevertheless, it is now crucial to ensure:*

- ***Coordination,** to avoid the risk of having a fragmented system of rules and markets in the different Member States of the EU, with potentially higher costs for all European citizens. The company is acting in this direction by promoting a coordinated approach of the Transport System Operators at European level;*
- ***A consistent approach on logistics,** to avoid inefficiencies in hydrogen production. As a way of example, with the cost of green hydrogen in Germany 30-40% higher than in Southern Italy, an integrated logistic approach at European level would allow to transport lower-cost hydrogen from Southern Europe to the rest of Europe.*
- ***The creation of a European supply chain for hydrogen** rather than relying on extra-European industrial systems, in order to create a virtual impact in terms of GDP and employment".*

APPENDIX

ITALIAN CORPORATES FOR SUSTAINABILITY

European governments are now committed to submit national recovery plans to be analyzed by the European Commission in order to be financed by the NGEU. Companies will then play an essential role in the implementation of these projects by deploying managerial and executional skills.
We therefore believe that many companies exposed to the issues funded by European projects will be both important players in ensuring a sustainable development of the European economy and beneficiaries of attractive investment opportunities thanks to the returns that might be generated by the implementation of these projects.

Although detailed projects specifically financed by NGEU are still missing, we have therefore updated our Italian companies selection - for the first time presented in July's note - **that we believe will contribute the most to achieve these objectives.**

In the table of the next page we have

- **Indicated what we believe are the most tangible actions fostered by the Italian government and EU institutions that will also have the biggest impact on both environmental and social sustainability.** We have also highlighted the Sustainable Development Goals that we think will be implemented in each area.
- **Identified the stocks that we believe will contribute most to achieving these objectives.**

For each of the companies mentioned we highlight here below **the reasons why we believe it can be a contributor to the objectives of sustainable development** targeted by the different selected area of actions.

a2a

a2a is one of leading multi-utility companies in Italy. It is involved in projects exposed to **Smart grid and services** (EV charging stations, the installation of smart meters on its energy networks and LED lighting points), to **Circular Economy** (increase sorted collection, new recycling plants, treatment of waste water, reduction in water network losses etc), **decarbonization** (management of hydro-electricity plants, investments in renewables, energy efficiency projects, expansion in the district heating networks and clients, dispersed heat recovery projects, etc) and **smart cities**.

Acea

The company is highly exposed to businesses linked to **Green Deal**, **Climate Change** and **Circular Economy**, like the **water and electricity distributions** and the **Waste Treatment** (85% of group EBITDA). In the water distribution, the 2020-24 capex plan is mainly focused for repairing and widening water and sewage pipes, rationalize small purification facilities, the resiliency of Rome aqueduct system reduce network losses. As regards the Energy transition the company is investing in the efficiency and resiliency of electric grids and in many projects enabling the decarbonization of the system (new photovoltaic capacity, smart meters, remote control of Low & Medium Volt secondary stations, etc).

Amplifon

Amplifon mission is to improve the quality of lives of people suffering hearing losses, promoting the adoption of hearing aids in a still underpenetrated market. The execution of its strategy could contribute to **strengthening of healthcare networks and services** and to reduce the social divide of elderly people. Amplifon is a worldwide leader in hearing aid retail with a market share of around 11%.

Aquafil

The company is at the forefront of innovation in the **recycling/circular economy**. Aquafil has built up a unique value chain which collects, transforms and recycle waste carpets and fishnets worldwide in regenerated nylon 6 fibres under the ECONYL brand. Aquafil is currently the only company worldwide producing 100% recyclable nylon 6 fibres on around 40% of its sales and with a 100% closed circular production process. The process benefits include sea cleaning and relevant waste reduction for one of the most polluting industry worldwide (textile).

CIR

CIR is the majority shareholder of KOS, leading player in long-term care services with more than 12k beds of which 8k in Italy and 4k in Germany. KOS may contribute to **strengthening the healthcare networks and services**.

CNHI

CNHI has a world leading position in Agricultural equipment which is evolving towards **precision farming**, an innovation significantly improving the efficiency of the farming process. It also owns Iveco which, through the JV with the US player Nikola, is among the first movers in **electric and hydrogen engines trucks.**

CY4Gate

CY4Gate is a pioneering company active in the **Cyber Security** and **Cyber Intelligence** fields. In particular in the Cyber Security market (we estimate about 50% of Group sales), CY4G's offer is made up of one proprietary software (RTA, Real Time Analytics) specifically designed to protect infrastructure from cyber-attacks.

DiaSorin

DiaSorin is a global leader in the laboratory diagnostics, specializing in the immunodiagnostics and molecular diagnostics segments. DIA's products serve to help physicians diagnose a series of pathological conditions (including hepatitis, HIV, forms of cancer, infectious diseases, and heart disorders). DIA may contribute to **strengthening the healthcare networks and services.**

ENEL

Enel is one of the worldwide leading companies in the ESG arena. Being ranked in the 95% percentile of the main global ESG indexes (AAA in the MSCI ESG index), Enel is contributing with a major **Renewables power generation** installation plan, the connection to smart energy grids, the installation of electricity recharging points for the **electric mobility** and a full decarbonization plan within the next decade.

ERG

As a pure Renewables operator ERG is contributing with relevant growth in new **green electricity production** capacity. Being present in Hydro, Wind and Solar in both Italy and Europe, Erg is currently the biggest Italian wind player, with projects based on both new installation and repowering of old assets.

Falck Renewables

As a pure Renewables operator, Falck Renewables is contributing with relevant growth in **new green electricity production capacity**. The group is active mainly in Wind and Solar with a relevant presence across Italy, Europe and the US. Falck is also managing Wte and Biomass plants in Italy.

Ferrovie Nord Milano

The company is a reference player in **sustainable and integrated mobility**, incentivising the use of collective transportation and modal shift to reduce polluting. FNM is investing to upgrade Rolling stock to **modernise the Local Public Transport** (LPT) infrastructure to switch to more energy efficient way of transport.

Garofalo Health Care

Garofalo might contribute to **strengthening of healthcare networks and services**. Garofalo Health Care Group is in fact a leading private accredited patient care group in Italy with ~1.5k accredited beds in 26 different patient care facilities.

Hera

Hera is among the nation's largest multi-utilities and boasts a significant exposure to the themes of **Green Deal** and **circular economy** thanks to its involvement in Waste management and plastic recycling (Aliplast), Water services (heavy investments in the efficiency and the water losses reduction) and Energy sector (small presence in the electricity distribution and biogas).

Inwit

Inwit is the leading mobile tower operator in Italy. Its business will be at the core of the **digital transition**, underpinning the development of 5G coverage, enabling the launch of IoT and smart cities services. The company target is to be carbon neutral by 2025.

Iren

Iren is one of the leading multi-utilities companies in Italy. It is one of the few taking ahead **a "multi-circular" approach** which applies circular economy concepts to all the business lines (Waste, Water, Heating and digital services). Iren is aiming to contribute with significant emissions reduction through the increase of sorted collection, new recycling plants, treatment of water, reduction of water network losses as well as energy savings through both clients and cities. Iren is also exposed to the themes of **decarbonization** through the management of hydro-electricity plants as well as significant investments in the district heating networks and co-generative plants as wel as of **smart cities** with increasing penetration of digital services.

Landi Renzo

Landi Renzo is global leader in the niche market of **eco-mobility** thanks to a consolidated experience in the design, manufacture and marketing of LPG, CNG (compressed natural gas), RNG (renewable natural gas) and LNG fuel systems for vehicles and development of systems and components for heavy-duty hydrogen fuel cells and piston compressors for private/public refuelling hydrogen stations.

Maire Tecnimont

Maire Tecnimont is exposed to the energy transition thanks to its relatively new subsidiary **NextChem which developed technologies for green projects** in the fields of circular economy, biofuel, power to energy. MT will also develop technologies to produce green, blue and circular hydrogen, three technological pillars with different feedstock, which achieve the same goal of decarbonization and the emissions reduction. MT targets €50 mn in EBITDA for its Green Energy division by 2023.

Nexi

Nexi is exposed to actions aimed at fostering the **use of electronic payment** methods. Nexi is in fact the leading digital payment company in Italy with 72% market share in merchant acquiring and 60% market share in card issuing. The recently announced merger with SIA and Nets will further strengthen Nexi positioning in the value chain with increased competencies in processing and ecommerce.

Openjob Metis

Openjob Metis is exposed to actions aiming at fostering **competitiveness and job flexibility**. Staffing (98% of 2019 sales) is in fact its core business: temporary work contracts help corporates to become more flexible and to manage business peaks as efficiently as possible while offering people (from students to professional white collars) a regular and law-compliant job contract. On top of that, OJM, through its Family Care business (3% of 9M20 sales) helps family carers to assist the elderly and non-self-sufficient people (**good health and well being**).

Prysmian

Prysmian is exposed to **the digital transition** (fibre optics and copper cables, accounting for 27% of group's FY19 revenues) and to the **energy transition** (HV terrestrial and submarine cables for generation of electricity by offshore wind farms: based on the Climate Bond Initiative taxonomy, in 2019 48% of total Group revenues were attributable to products that facilitate achievement of the targets set by COP 21 in the 2015 Paris Agreements).

Reply

Reply is set to contribute to the **digital transition** of the country. Reply is a IT system Integrator which support leading industrial groups in defining and developing business models to optimise and integrate processes, applications and devices, using new technology and communication paradigms, such as Big Data; Cloud Computing; Digital Communication; Internet of Things; Mobile and Social Networking.

Saipem

Saipem is exposed to the **development of hydrogen** through its XSIGHT and E&C onshore divisions. Today the Hydrogen technology does not represent relevant revenues, but it might represent a part of the divisional growth. In hydrogen, SPM will focus on both the production of blue hydrogen (as equipment provider), utilizing energy from decarbonized fossil fuel, and green hydrogen from renewables.

SeSa

SeSa Group is a key player of the IT value chain, accompanying businesses, especially Enterprises and SMEs, in their **digital transformation** journey. SeSa is a reference partner in offering technological and digital solutions in partnership with the major global vendors in the IT sector (IBM, Oracle, Microsoft, etc.). It plays a crucial role as system integrator and IT service provider, with focus on strategic areas such as cloud computing, enterprise software, security, cognitive analytics, digital services, customer experience, Internet of Things, and many others.

Sicit

Sicit is exposed to government's initiatives aimed at fostering **precision farming** as 55% of its revenues stem from biostimulants produced through the recycling of waste from the tanning industry. Precision farming allows to detect stress areas of farmlands which can be treated with biostimulants instead of usual chemical fertilizers and agro-medicines.

Snam Rete Gas

The company commitment is to reduce CO2 emission by 50% in 2030 and to **Net Zero emission in 2050. Snam invests in Energy Transition supporting the evolution of Green Gas** like the biomethane (€220 mn capex in the 2020-24 Business Plan), development of hydrogen (70% of the gas transport network is "hydrogen ready"; €150 mn investment in pilots projects by 2024; new ventures through agreements and acquisition of minority stakes to enter the value chain of hydrogen) and Energy Efficiencies projects (€200 mn investments in the 2020-24 Plan).

Terna

Electricity transmission is at the heart of **Energy Transition**, considering the EU's objectives to electrify fuel consumption and increase electricity production from renewables up to carbon neutrality in 2050. Terna is called upon to act as a driving force to reach **Green Deal targets**; as a matter of fact, the electricity transmission grid will have to be **increasingly interconnected** to ensure that the system is flexible enough for **coal phase out** and **growth in renewables**. Finally, 95% of investment projects included in the 2021-25 Strategy Plan are sustainable according to the EU Taxonomy criteria

TIM

TIM's contribution can be crucial to accelerate the **digital transition** of the country, through a faster roll-out of 5G and ultrabroadband services, reduction of the digital divide for poorer families and rural areas and support to digitalize the PA. TIM is the largest player in Italy in fixed and mobile services.

Webuild

Webuild is the largest Italian group in the construction industry as well as one of the leading players in the world specialising in large complex infrastructure. 88% of group's revenues in 2019 were from projects that contribute to the achievement of the SDGs (Sustainable Development Goals): **sustainable mobility, clean hydro energy, clean water, green buildings**. In addition, WBD is committed to fight against climate change with 59% of FY19 revenues from low-carbon projects.

ACTIONS FOR SUSTAINABLE DEVELOPMENT AND COMPANIES MOST INVOLVED

Area of action	Activities	SDG	Stocks involved
European Green Deal	Development of green infrastructures (renewables, repowering, networks)	7 AFFORDABLE AND CLEAN ENERGY	Enel ERG Falck Renewables Iren Prysmian
	Development of power and water networks	6 CLEAN WATER AND SANITATION	a2a Acea Hera Iren Terna
	Alternative mobility solutions, development of hydrogen	13 CLIMATE ACTION 11 SUSTAINABLE CITIES AND COMMUNITIES	CNH Industrial Ferrovie Nord Milano Landi Renzo Maire Tecnimont Saipem Snam Rete Gas Webuild
	Funding for the circular economy	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	a2a Acea Aquafil Hera Iren
	Development of precision farming	2 ZERO HUNGER	CNH Industrial Sicit
	Improvement in the energy efficiency of public buildings.	13 CLIMATE ACTION	A2A Enel Iren Hera
Digital transition	National FTTH coverage plan Connection of public administration offices 5G roll-out Investments in cybersecurity/robotics/AI/Cloud	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	CY4Gate Inwit Prysmian Reply TIM SeSa
	Incentives for internet access to low-income households	4 QUALITY EDUCATION 11 SUSTAINABLE CITIES AND COMMUNITIES	TIM
	Fostering the use of electronic payment methods	8 DECENT WORK AND ECONOMIC GROWTH	Iren NEXI
Modernisation of transport infrastructures and systems	Smart urbanisation	11 SUSTAINABLE CITIES AND COMMUNITIES	a2a Hera Inwit Iren
	Strengthening rail hubs and regional transport Completing the high-speed rail network	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Webuild
Incentives for private investments in public infrastructures	Strengthening of healthcare networks and services	3 GOOD HEALTH AND WELL-BEING 4 QUALITY EDUCATION	Amplifon DiaSorin Garofalo Health Care CIR OpenJobMetis
Investments in competitiveness	Staff training for the digital transformation of the businesses	4 QUALITY EDUCATION	Reply SeSa TIM
	Support to job flexibility and quality of work	8 DECENT WORK AND ECONOMIC GROWTH	OpenJob Metis

Source: Equita SIM

After combining this sustainability perspective with our fundamental analysis of the selected companies, **we updated our portfolio of "ITALIAN CORPORATES FOR SUSTAINABILITY" composed of 5 large and 5 mid/small caps,** which we believe offer solid fundamentals (a fundamental BUY rating) and an active contribution to sustainable development.

"ITALIAN CORPORATES FOR SUSTAINABILITY" PORTFOLIO: LARGE CAP SELECTION

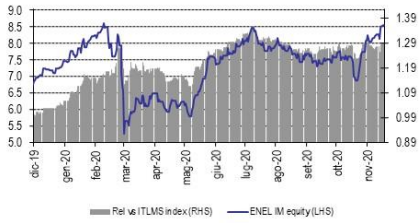
"ITALIAN CORPORATES FOR SUSTAINABILITY" PORTFOLIO: MID/SMALL SELECTION

Source: Equita SIM

"ITALIAN CORPORATES FOR SUSTAINABILITY" PORTFOLIO: LARGE CAP SELECTION

BUY		*(unchanged)*
Target:	9.3 €	*(unchanged)*
Risk:		Low
Price €		8.3
Market Cap. (€ mn)		84,200

PRICE ORD LAST 365 DAYS



Sustainability perspective

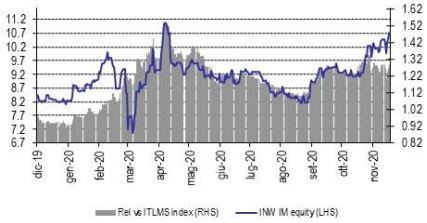
Enel is one of the worldwide leading companies in the ESG arena. Being ranked in the 95% percentile of the main global ESG indexes (AAA in the MSCI ESG index), Enel is contributing with a major **Renewables power generation** installation plan, the connection to smart energy grids, the installation of electricity recharging points for the **electric mobility** and a full decarbonization plan within the next decade.

Fundamental analysis

Enel is trading at around 13.4x PE in 2022 with an attractive 5.2% dividend yield with minimum granted DPS. We believe Enel may further re-rate also thanks to the strong attention on the themes of energy transition and ESG and the progressively growing liquidity into the sector.

BUY		*(unchanged)*
Target:	12.2 €	*(unchanged)*
Risk:		Low
Price €		10.6
Market Cap. (€ mn)		10,217

PRICE ORD LAST 365 DAYS



Sustainability perspective

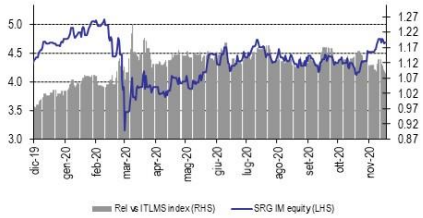
Inwit is the leading mobile tower operator in Italy. Its business will be at the core of the **digital transition**, underpinning the development of 5G coverage, enabling the launch of IoT and smart cities services. The company target is to be carbon neutral by 2025.

Fundamental analysis

Inwit is a unique asset for the positioning of its towers, in a sector such as mobile telephony where demand for data is rising high-double digits. **The 2020-23 Plan targets are attractive** (revenues cagr of 7.8% and EBITDA after leases margin up from 63% to 71%) **and visible** thanks to the agreements with TIM/Vodafone (11k new tenants in 3 years) and the opening of 3k towers to third parties. **The dividend policy is very sound and ensures a yield of 3%, which will rise to 3.6% in 2023** (up to €1 bn available for M&A or shareholder remuneration). **The stock trades at a significant discount to Cellnex** because it does not have a short-term M&A growth option. At current prices, the stock trades at an EV/EBITDA 2023 of 16x (Vs 20x) and an RCFC yield of 5.5% (Vs 3.1%).

BUY		*(unchanged)*
Target:	5.3 €	*(unchanged)*
Risk:		Low
Price €		4.6
Market Cap. (€ mn)		15,557

PRICE ORD LAST 365 DAYS



Sustainability perspective

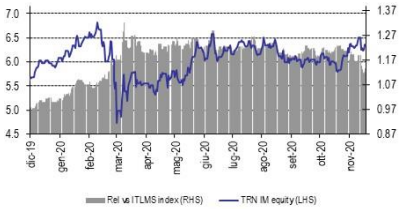
The company commitment is to reduce CO2 emission by 50% in 2030 and to **Net Zero emission in 2050. Snam invests in Energy Transition supporting the evolution of Green Gas** like the biomethane (€220 mn capex in the 2020-24 Business Plan), development of hydrogen (70% of the gas transport network is "hydrogen ready"; €150 mn investment in pilots projects by 2024; new ventures through agreements and acquisition of minority stakes to enter the value chain of hydrogen) and Energy Efficiencies projects (€200 mn investments in the 2020-24 Plan).

Fundamental analysis

The opportunities for growth in Energy Transition and hydrogen are starting to be visible for Snam. Its **strategy to enter the hydrogen production value chain creates an additional value option** and increases visibility on the potential use of gas transport network for the transport of hydrogen. T**he stock trades at a premium of 22% EV/RAB 2021 (at a discount compared to Terna and Italgas),** a PE of 14x and an **appealing yield of 5.5%, which rises to 6.1% in 2024**, one of the highest in the sector.

BUY		*(unchanged)*
Target:	7.3 €	*(unchanged)*
Risk:		Low
Price €		6.2
Market Cap. (€ mn)		12,402

PRICE ORD LAST 365 DAYS



Sustainability perspective

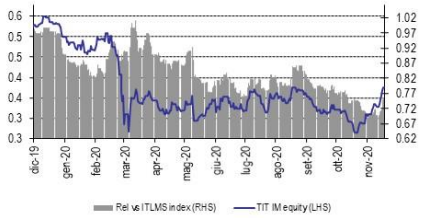
Electricity **transmission is at the heart of Energy Transition**, considering the EU's objectives to electrify fuel consumption and increase electricity production from renewables up to carbon neutrality in 2050. Terna is called upon to act as a driving force to reach **Green Deal targets**; as a matter of fact, the electricity transmission grid will have to be **increasingly interconnected** to ensure that the system is flexible enough for **coal phase out** and **growth in renewables**. Finally, 95% of investment projects included in the 2021-25 Strategy Plan are sustainable according to the EU Taxonomy criteria.

Fundamental analysis

The company will play a key role in the Energy Transition to reach the EU's zero emission targets by 2050. The company will be an enabler for the development of renewables in Italy and, finally, **95% of Terna's investments are sustainable according to EU taxonomy criteria. The Capex Plan to 2025 envisages *a significant increase in investments on the grid to €8.9 and a* 6% RAB cagr. The stock trades at an EV/RAB 2021E premium of 32%**, at a premium compared to Snam (21%) and Italigas (24%), due to the **better prospects for electricity transmission in Energy Transition**. In the current interest rate scenario, **the 2023 PE of 16x and the yield of 5.3% are still appealing for a stock like Terna.**

BUY		*(unchanged)*
Target:	0.47 €	*(unchanged)*
Risk:		Medium
Price €		0.39
Market Cap. (€ mn)		8,356

PRICE ORD LAST 365 DAYS



Sustainability perspective

TIM's contribution can be crucial to accelerate the **digital transition** of the country, through a faster roll-out of 5G and ultrabroadband services, reduction of the digital divide for poorer families and rural areas and support to digitalize the PA. TIM is the largest player in Italy in fixed and mobile services.

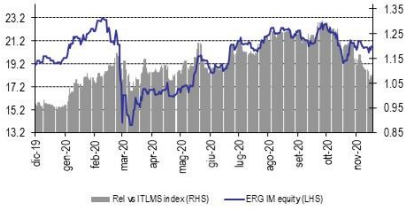
Fundamental analysis

The stock trades at 5.0x EV/EBITDA and 11x PE 2020, with 18% FCF yield and dividend yield of 3% for ordinary share and 7% for saving shares. The key catalyst is the possible combination with Open Fiber to set up a single wireline network operator, able to accelerate the digital transition and reduce the competitive risk brought by OF.

"ITALIAN CORPORATES FOR SUSTAINABILITY" PORTFOLIO: MID/SMALL SELECTION

BUY		*(unchanged)*
Target:	23.5 €	*(unchanged)*
Risk:		Low
Price €		20.1
Market Cap. (€ mn)		3,021

PRICE ORD LAST 365 DAYS



Sustainability perspective

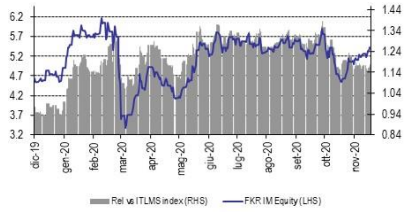
As a pure Renewables operator ERG is contributing with relevant growth in new **green electricity production** capacity. Being present in Hydro, Wind and Solar in both Italy and Europe, Erg is currently the biggest Italian wind player, with projects based on both new installation and repowering of old assets.

Fundamental analysis

The stock is trading at significant discount vs the average peers in the sector or 20x-21x PE as measured in 2021-2022 vs. 30x-40x PE of comparable groups. We believe the context remains favourable for the Renewables groups and ERG may partially close the valuation gap in the coming months after the approval of the regulatory changes for the repowering of renewables assets. Erg could participate in new tenders for wind repowering already in May 2021.

BUY		*(unchanged)*
Target:	6.25 €	*(unchanged)*
Risk:		Low
Price €		5.4
Market Cap. (€ mn)		1,562

PRICE ORD LAST 365 DAYS



Sustainability perspective

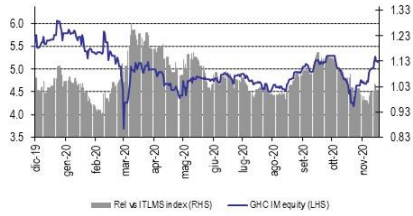
As a pure Renewables operator, Falck Renewables is contributing with relevant growth in **new green electricity production capacity**. The group is active mainly in Wind and Solar with a relevant presence across Italy, Europe and the US. Falck is also managing Wte and Biomass plants in Italy.

Fundamental analysis

The group is trading at discount vs the comparable RES operator in Europe or 30x PE in 2022 vs. 40x of Aventron and Neon. We believe the stock may further re-rate in coming months also on the possible political changes in US which may favour strong investment ramp up. Falck is significantly exposed to US thanks to the recent JV signed with ENI for the asset development in coming years. We also believe **M&A in the market will continue to sustain premium valuation for the sector**.

BUY		*(unchanged)*
Target:	5.8 €	*(unchanged)*
Risk:		High
Price €		5.1
Market Cap. (€ mn)		420

PRICE ORD LAST 365 DAYS



Sustainability perspective

Garofalo might contribute to **strengthening of healthcare networks and services**. Garofalo Health Care Group is in fact a leading private accredited patient care group in Italy with ~1.5 accredited beds in 26 different patient care facilities.

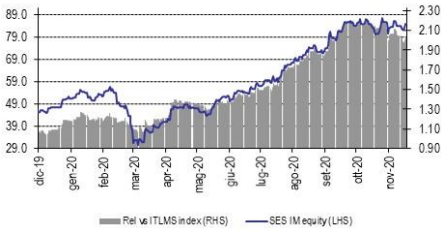
Fundamental analysis

Garofalo Health Care trades at attractive multiples (17.0x-15.8x PE 2021E-22E and 10.0x-8.9x EV/EBITDA 2021E-22E) with **a good cash generation** (FCF Yield 2021 >7%), **which leaves room to additional M&A.**

The 3Q results highlighted the **group's ability to quickly recover medical activities postponed from 1H**, thus confirming **our view of rapid post Covid-19 business normalisation**. In addition, we believe that **GHC is well positioned to seize the growth opportunities** arising from the greater propensity to invest on the healthcare system both at national and regional level.

BUY		*(unchanged)*
Target:	110.0 €	*(unchanged)*
Risk:		Medium
Price €		89.2
Market Cap. (€ mn)		1,382

PRICE ORD LAST 365 DAYS



Sustainability perspective

SeSa Group is well positioned to promote the digital transformation of Italian companies, especially SMEs and Enterprises, the backbone of the Italian economy. SeSa's products and solutions enable business clients to adopt advanced technological solutions (IoT, Cloud computing, AI, big data, etc.) aimed at improving and streamlining digital processes and IT infrastructure. **Furthermore, through its subsidiary Service Technology, it also operates in reverse logistics services, management and reconditioning of IT products**, dealing with the regeneration and refurbishment of technology tools at the end of their first life cycle, **thereby pursuing the sustainability of the IT infrastructure chain.**

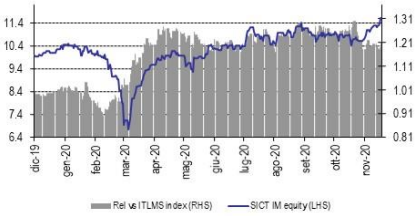
Fundamental analysis

SeSa offers an appealing valuation vs its peers operating in the ICT Value Chain (SeSa's 2022-23E adj. P/E = 20.3- 16.7x vs. Peers' 2021-22E P/E 21.8-19.3), **as well as vs best in class German peers**, namely Bechtle and Cancom (21E P/E within a range of 30-37x, and 22E P/E within a range of 25x-33x).

We believe SeSa should be rewarded for its superior growth profile (2020-23E adj. EPS CAGR of +24% vs. <=20% for best-in-class peers), relying on structural trends and company-specific drivers: higher than average sales growth, gradual increase in EBITDA margins, as well as resilient performance in unfavorable economic conditions (such as the recent Covid19 crisis), both in terms of top-line growth and profitability.

BUY		*(unchanged)*
Target:	12.2 €	*(unchanged)*
Risk:		High
Price €		11.9
Market Cap. (€ mn)		235

PRICE ORD LAST 365 DAYS



Sustainability perspective

Sicit is exposed to government's initiatives aimed at fostering **precision farming** as 55% of its revenues stem from biostimulants produced through the recycling of waste from the tanning industry. Precision farming allows to detect stress areas of the soil which can be treated with biostimulants as a coadjuvant to traditional farming practices, reducing the input of chemical fertilizers and crop protection products.

Fundamental analysis

The stock trades at undemanding multiples: EV/EBITDA c. 8x FY21. SICIT is exposed to fast growing products and it is in the middle of its expansion plan; revenues and EBITDA are expected to increase respectively by +12% and +13.5% CAGR over 2019-23 period. Its **sound profitability** (EBITDA margins ~40%) is the result of the **recycling activity and the superior production process**. Furthermore, its strong B/S and good CF conversion allow a **compelling dividend policy**.

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EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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