

***Defining and implementing the investment  
policy***



***Version of 17 November 2023***

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## 1. Introduction

Inarcassa – Italian National Pension and Security Fund for Engineers and Architects (hereinafter **Inarcassa**) is a non-profit organisation, which performs activities of public interest and is a legal entity under private law pursuant to Articles 12, 14 et seq. of the Italian Civil Code and in accordance with provisions of Legislative Decree No 509 of 30 July 1994.

According to the **Statute**, the purpose of Inarcassa is to provide social security and welfare for its members and other beneficiaries, identified by the rules of said statute. In addition, subject to budgetary availability, Inarcassa also provides additional support for its members.

Inarcassa is classified as a “non-commercial entity” pursuant to Article 73(1 c) of Presidential Decree No 917 of 22/12/1986 (TUIR, Consolidated Law on Income Tax) and, pursuant to Article 74, Paragraph 2 of the TUIR — as last amended by Article 38, Paragraph 11 of Legislative Decree No 78 of 31 May, converted into Law No 122 of 30 July 2010 –, *"The following do not constitute commercial activities: ... b) the pursuit of social security, welfare and healthcare activities by public bodies set up exclusively for this purpose, including local health authorities, as well as the pursuit of social security and welfare activities by private bodies of mandatory social security"*, while the income generated by the pursuit of "*de-commercialised*" activities falls into the other categories envisaged by the TUIR (mortgage, capital and other).

The use of resources deriving from the collection of compulsory contributions is a necessary and essential activity for the achievement of institutional goals.

In this context, this document, (hereinafter “**Document**”) aims to describe the process of investment of Inarcassa's **Assets**,<sup>1</sup> including both securities and real estate components, taking into account the internal practices adopted thus far, regulatory developments, the progressive diversification and complexity of the portfolio, the general guidelines of the Association of Private Social Security Institutions (AdEPP), instructions from Supervising Ministries and the Pension Fund Supervisory Commission (COVIP), as well as market best practices.

In particular, the Document has the purpose of defining the investment processes that Inarcassa plans to adopt in order to pursue, from the investment of the entrusted resources, efficient risk-return combinations over a period of time consistent with the long-term sustainability goals, defining:

- a) the tasks and responsibilities of the persons involved in the process;
- b) the objectives to be achieved in the financial management.
- c) the criteria for defining and implementing the investment policy;
- d) the stages of the investment process;
- e) the control system and the evaluation of the results achieved.

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<sup>1</sup> Inarcassa's revenue is made up of:

- mandatory personal and supplementary contributions paid pursuant to Articles 4 to 65 of the General Social Security Regulation (RGP);
- interest income and asset income;
- other revenues as provided for by law or regulatory provisions (Article 5.1, Statute).

Inarcassa's assets are made up of: (1) movable and immovable property belonging to the Italian National Pension and Security Fund for Engineers and Architects; (2) any bequests, donations or benefits, of any origin (Article 5.2, Statute). Moreover, according to Article 5.3 of the Statute, Inarcassa's available funds can be invested in:

- a) government or government-guaranteed bonds or mortgage bonds or securities equivalent to mortgage bonds, within the European Union;
- b) interest-bearing deposits with public-law or national credit institutions or savings banks within the European Union;
- c) urban or rural real estate, including in the form of share holdings representing such real estate.
- d) mortgages;
- e) other ways as decided by the National Committee of Delegates (CND), on the proposal of the BoD.

This version of the Document, prepared jointly by the competent corporate functions and specific consultants, was approved by the BoD on 23 April 2021.

Any contracts that Inarcassa enters into with external parties (fund managers, risk managers, custodian bank, ESG and others) to implement the financial strategy decided by the CND must be consistent with the indications in the Document.

## 2. Definitions

**AdEPP:** Association of Private Social Security Institutions;

**OAA:** operational asset allocation;

**SAA:** strategic asset allocation;

**Planner:** the document, in paper or electronic format, through which AM monitors significant corporate events relating to the financial instruments in the portfolio;

**AEC:** Inarcassa's Administration and Control Department;

**ALM (analysis):** asset and liability management (analysis);

**BD:** the custodian bank of the financial instruments managed by Inarcassa;

**BdI:** Bank of Italy;

**BT:** the bank where Inarcassa's treasury functions are carried out;

**BoD:** Board of Directors of Inarcassa pursuant to Articles 16, 15 and 16 of the Statute;

**CND:** the National Committee of Delegates of Inarcassa pursuant to Articles 11 and 12 of the Statute;

**Code of Public Contracts:** Legislative Decree No 50 of 18 April 2016;

**COE:** Inarcassa Ethics Committee

**COVIP:** Pension Fund Supervisory Commission;

**BoS:** the Board of Statutory Auditors of Inarcassa pursuant to Article 18 of the Statute;

**GM:** General Manager of Inarcassa pursuant to Article 21 of the Statute;

**Execution Manager:** Contract Execution Manager pursuant to Article 111(2) of Leg. Decree 50/16.

**Operational Managers:** assistants to the Execution Manager pursuant to Article 101 (6 bis) of Leg. Decree 50/16.

**Document:** this document, including its annexes, in the version in force from time to time;

**AM:** Inarcassa's Assets Management;

**ESG:** sustainable investment based on a framework of environmental, social and corporate governance criteria;

**ETF:** Exchange traded fund i.e. a form of UCITS listed on an exchange;

**AIF:** Alternative Investment Fund regulated by Directive 2011/61/EU;

**Fund:** the real estate mutual fund, reserved for qualified investors, named 'Inarcassa RE' established and managed by Fabbrica Immobiliare SGR S.p.A.;

**Study Department:** Inarcassa's Study and Research Department.

**Direct management:** investment in financial instruments without a delegated management contract;

**Indirect management:** investment in financial instruments following the signing of a delegated management contract;

**Asset Managers:** financial managers of parts of Inarcassa's assets;

**Inarcassa:** Inarcassa - Italian National Pension and Security Fund for Engineers and Architects;

**LAG:** Inarcassa's Legal and General Affairs Department;

**Liquidity:** cash holdings with intermediary banks or the custodian bank;

**Manual:** the financial management control manual in Annex 4;

**Supervising Ministries:** the Ministry of Labour and Social Policies and the Ministry of Economy and Finance;

**UCI:** Undertaking for Collective Investment;

**UCITS:** Undertaking for Collective Investment in Transferable Securities introduced to the Italian legal system by

Leg. Decree 84/1992 (Directive 1985/611/EEC) and then regulated by the Consolidated Law on Finance;

**Assets:** the sum of the assets invested and/or available for investment;

**Convergence Plan:** the plan for converging current asset allocation with SAA for each asset class;

**Plan:** the three-year Real Estate Investment Plan referred to in the Decree of the Ministry of the Economy and Finance of 10 November 2010 for the purposes of compliance with Article 8(15) of Decree-Law No 78 of 2010;

**Sustainability Policy Statement:** document approved by the BoD on 24/09/2021 that outlines the principles and methods guiding Inarcassa's investment choices, the subsequent monitoring of those investments and the reporting of its activities to all stakeholders. The Document is published on the Inarcassa website [www.inarcassa.it](http://www.inarcassa.it);

**President:** the President of Inarcassa pursuant to Article 9 of the Statute;

**Proportionality:** the principle according to which the organisational structure of investors varies depending on the level and type of financial products involved in the investment, together with the call for an appropriate level of professionalism of the **staff** employed

**RM:** the Risk Manager (who draws up the portfolio's risk indicators), selected according to the procedures indicated on page 13.

**RTO:** Reception and transmission of orders;

**RUP:** Project Manager pursuant to Article 31 of Leg. Decree 50/16;

**Statute:** Inarcassa's statute, in the version in force from time to time;

**TEV:** Tracking Error Volatility, as set out in Annex 1), Section C.

### 3. Relevant legislation

For the purposes of this Document, the relevant regulations in terms of Inarcassa's investment policy statement are identified as follows:

#### A. primary legislation:

- legislative Decree No 509 of 30 June 1994, which provided for the transformation of institutions managing mandatory forms of social security and welfare into private legal persons, associations or foundations;
- Article 3(12) of Law No 335 of 8 August 1995, as amended by Article 1(763) of Law No 296 of 27 December 2006 (2007 Finance Act), which orders that the social security funds of the institutions referred to in the legislative decrees cited above must be established for at least thirty years, requiring that the criteria for drawing up technical budgets be determined by a decree of the Minister of Labour and Social Security in agreement with the Minister of the Economy and Finance. This decree is to be issued after consulting the associations and foundations concerned, based on indications drawn up by the National Council of Actuaries and the Social Security Expenditure Evaluation Committee;
- Article 59(20) of Law No 449 of 27 December 1997, which establishes that, for the social security institutions cited therein, the technical reserves referred to in Article 1(4)(c) of Legislative Decree No 509 of 30 June 1994 refer to the amounts of the five existing pension annuities;
- Legislative Decree No 50 of 18 April 2016 provides for the implementation of Directives 2014/23/EU, 2014/24/EU and 2014/25/EU on the award of concession contracts, public contracts, and the procurement procedures of provider institutions in the water, energy, transport and postal services sectors, and the reorganisation of the existing regulations on public contracts for works, services and supplies;
- Article 14(1) of Decree-Law No 98 of 6 July 2011, converted into law by Article 1 of Law No 111 of 15 July 2011, which establishes, inter alia, that COVIP shall be entrusted with control of the investment of financial resources and the composition of the assets of the private-law institutions referred to in Legislative Decree No 509 of 30 June 1994.
- Article 24(24) of Decree-Law No 201 of 6 December 2011, converted into Law No 214 of 22 December 2011, which states that, by no later than 30 September 2012, private social security institutions must adopt measures that ensure the balance between contribution income and expenditure on pension benefits in accordance with budgets that refer to a fifty-year time span;
- Article 73(1c) and Article 74(2) of Presidential Decree No 917 of 22/12/1986 (TUIR);
- Inarcassa Statute;
- Legislative Decree No 58 of 24 February 1998 and subsequent amendments – Consolidated Law on Finance (TUF).

#### B. operational regulations:

- decree of 29 November 2007 issued by the Ministry of Labour and Social Security, which determines the criteria for drawing up the technical balance sheets of the institutions managing the forms of compulsory social security, and subsequent related legislative and regulatory measures;
- decree of 10 November 2010 issued by the Ministry of Economic and Financial Affairs, which requires that the social security institutions mentioned above send a Three-Year Investment Plan (hereinafter **Plan**) to the Ministry of Economy and Finance and the Ministry of Labour and Social Policies by 30 November of each year. This Plan should highlight, for each year, the total amount of real estate purchase and sale transactions, the sale of shares in real estate funds, and transactions using the liquid assets derived from the sale of real estate or the sale of shares in real estate funds. They must also communicate any updates to the Plan by 30 June of each year;

- Law No 190 of 6 November 2012 laying down the provisions for the prevention and repression of corruption and illegality in public administration (PA) and Legislative Decree No 33 of 14 March 2013 establishing the reorganisation of regulations on the obligations of publicity, transparency, and dissemination of information by PA, which are applicable to Inarcassa according to Resolution No 1134 of 08/11/2017, approved by the National Anti-Corruption Authority. “*New guidelines for the implementation of the regulations on the prevention of corruption and transparency by companies and private-law institutions controlled or owned by public administration and public economic bodies.*” Aware of the reference regulatory framework, Inarcassa deemed it in any case advisable to embrace the spirit of the law and take the opportunity to launch an internal corruption risk management process as well as voluntarily prepare the **Three-year Corruption Prevention and Transparency Plan**, approved by the BoD on 13 April 2018 and updated annually.
- Legislative Decree No 24 of 10 March 2023 implementing Directive (EU) 2019/1937 on the protection of persons who report breaches of Union law and the national regulatory provisions and the relevant guidelines approved by resolution of the National Anti-Corruption Authority No 311 of 12 July 2023,

### C. rules of self-regulation:

- Code of Self-Regulation on Social Security Fund Investments pursuant to Legislative Decree No 509 of 30 June 1994 and Legislative Decree No 103 of 10 February 1996. The AdEPP, and its member institutions, in full adherence to the principles of sound and prudent management, pursuing the collective interest of members and beneficiaries of pension benefits, has adopted investment regulations to ensure transparency, optimisation of results and the best protection of members in accordance with the best practices already adopted by Social Security Institutions. The Self-Regulation Code provides guidance on regulations and procedures of individual institutions on aspects not covered by existing legislation and ministerial regulations; Inarcassa formally adopted the code by resolution of the BoD of 22 September 2016.
- **Code of Ethics**, a document with which Inarcassa:
  - Determine in a clear and unambiguous manner the system of reference values and describe in a detailed, specific and unequivocal manner the behaviour expected of the persons to whom the code applies;
  - Improve transparency by informing stakeholders on the behaviour required of the persons to whom the code applies;
  - Limit excessive use of discretion;
    - Promote fairness, integrity, equity and professionalism in the actions of the persons to whom the code applies, in both internal relations at Inarcassa and relations with external parties.

The Code of Ethics was adopted by the National Committee of Delegates at its meeting from 3 to 5 March 2021.

- 'Whistleblowing Policy - Regulations on channels for reporting breaches of EU law and provisions of national legislation' adopted pursuant to Article 5 of Legislative Decree 24/2023 approved by the Board of Directors by Resolution No 28173 of 21-23/06/2023.
- Resolution of the National Committee of Delegates of 11/12 October 2012 which seeks to limit investments and/or trading with “Banks” in the event that members of the BoD of Inarcassa are also members of the governance bodies of entities and institutions that hold in these 'Banks' controlling interest or shareholdings of a market value of over EUR 10 million.

The specific rules regulating the financial market applicable to the actual investment made shall also apply.



#### 4. Tasks and responsibilities of persons involved in the Investment Process

The definition and implementation of Inarcassa's Investment Process (composed of “strategic asset allocation” - SAA, “operational asset allocation” - OAA, “investment policy implementation” and “monitoring & reporting”) features a set of activities involving corporate bodies, different departments and roles, financial institutions - which are in turn supervised by sector authorities -, other third parties who act as contract counterparties, external consultants where specific internal expertise is lacking or where, by law or for convenience, external supervision is preferred over internal supervision.

With exclusive reference to the process of asset investment, disinvestment monitoring, the tasks and responsibilities at Inarcassa, considering the statutory provisions of governance, are assigned as follows:

##### A. BODIES

###### 1. The National Committee of Delegates (referred to above as CND):

In the context of the explicit statutory provision that assigns the CND the function of establishing the general criteria with which the administration should comply, it approves, including from the perspective of integrated Asset and Liability Management (ALM), the SAA (by macro asset class: monetary, bond, equity, absolute return and real and real estate investments), i.e. strategic asset investment plan, the maximum expected risk and the related investment limits, taking into account the analysis of social security flows and risks.

###### 2. The Board of Directors (referred to above as the BoD):

2.1. proposes the SAA to the CND and its periodic review;

2.2. defines and adopts the investment policy necessary to achieve strategic objectives with medium-term, annual, and infra-annual targets;

2.3. defines and adopts the sustainability policy for financial investments;

2.4. examines the reports provided by competent departments and/or suppliers on the management of moveable and immovable property - detailing asset allocation, performance, risk measurement and deviations from expected results - with the purpose of taking subsequent tactical and strategic decisions according to the objectives in the current SAA;

2.5. approves and passes resolution on the Plan;

2.6. approves the use of funds according to the general criteria set by the CND and in compliance with the Statute, based on the proposals formulated and brought to its attention, and in particular but not limited to the following:

2.6.1. approves the procedures for selecting contractors for awarding management mandates and their revocation;

2.6.2. approves the investment and disinvestment in financial instruments not covered by a delegated management contract (direct investment in movable assets and UCIs, liquidity, hedging derivatives); in the case of direct investments in bonds and equity, it can decide on the maximum purchase or minimum sale price;

2.6.3. approves the direct investment or disposal of real estate assets and investments in real estate funds or comparable financial structures (in accordance with the pro tempore Plan in force);

2.6.4. approves nominations for the collegial bodies of companies directly owned by Inarcassa and nominations for governance bodies of unlisted investment vehicles;

2.7. assesses whether the head of AM has an adequate level of expertise given the nature and content of their role, the variations in composition of the portfolio and the context.

2.8. approves the procedures for selecting contractors with reference to consultants/third parties involved in the investment process;

**3. The President of Inarcassa (referred to above as President):**

3.1. the legal representative of Inarcassa and as such authorised to sign official documents and deeds on behalf of Inarcassa, including declarations to third parties and authorities;

3.2. executes decisions taken by the BoD. The President has the authority to sign all contracts for the trading of securities or real estate instruments authorised by the BoD, without prejudice to the possibility of delegation especially in cases where trading involves the use of telematic networks (listed securities and UCIs) and/or for the parts of execution that have to be delegated to an intermediary;

3.3. has the authority to provide instructions for the transfer of liquidity from the custodian bank account to the current accounts specified by the BoD for managing liquidity and to the current accounts held with the pro tempore custodian bank entrusted with this responsibility.

**4. The Board of Statutory Auditors (referred to above as BoS)**

Exercises the control functions established under Article 2403 of the Civil Code and signs tax declarations pursuant to Article 1(5) of Presidential Decree No 322 of 22 July 1998.

The following tasks and responsibilities are also assigned to:

**B. THE OPERATIONAL FUNCTIONS OF INARCASSA**

**1. General Manager (referred to above as GM):**

1.1. adopts appropriate organisational measures within the limits of the statute, proposes measures of organisational adjustment to the BoS within the scope of its authority and any measures that are considered useful and/or necessary for efficient and effective management;

1.2. carries out the function of verification and guarantee of the measures instructed by the company managements/departments that report to the GM directly, without prejudice to the responsibilities outlined in organisational documents and attributed to the heads of those managements/departments.

**2. Asset Management (referred to above as AM):**

**2.1. Head of AM**

The Head of AM is responsible for all activities carried out within their Management team. They are the person to whom all the organisational units that make up the management team report. They are responsible for coordinating internal divisions and achieving the objectives and corporate mission assigned to the Management, as well as ensuring correct supervision and organisational and procedural compliance.

They:

2.1.1. are accountable to the top management and the Fund for the complete supervision of the integrity and adherence to processes governing the different stages of Asset Management: custody, monitoring, selection and proposal of new investments, and execution of resolutions, all as described in more detail in the annexed processes.

2.1.2. in compliance with the principle of 'proportionality', they verify and certify the appropriateness of the capacity of the organisational unit dedicated to the management of financial instruments, as well as the proposals to be presented to the BoD;

2.1.3. assess the professional adequacy of the individual staff assigned to AM in relation to the performance of the role given.

2.1.4. are responsible for the documentation prepared by AM for subsequent presentation to the BoD;

2.1.5. in compliance with the regulations regarding the selection of a contractor, they prepare the essential elements of the specifications for third parties used by the Management and/or the Fund.

2.1.6. are responsible for preparing impairment tests for investment securities, reports on derivative instruments and any additional reports and/or certificates required by the regulations in force in relation to the activities carried out by AM.

AM is divided into the following Organisational Units:

2.2. The **Investment Department**, reporting to the Head of AM, ensuring maximum synergy and brainstorming with AM, has the following primary responsibilities:

- formulating investment proposals to the BoD, taking into account the provisions of the Sustainability Policy.
- conducting the financial analysis of investment instruments and the qualitative analysis of counterparties;
- supporting the Departments of Legal and General Affairs and Administration and Control in the conduct of legal and tax due diligence, as specified in point 6 below.
- obtaining in advance the opinion of the Monitoring, Benchmarking & Reporting Office on individual instruments and the proposed portfolio structure. This opinion is not formalised but discussed during the preparation of the reports that contain the investment proposals presented to the Board of Directors.

The Liquid Investments Office, the Real Estate Investments Office and the Alternative Investments Office report to the Investment Department in order to guarantee maximum investment specialisation.

The Investment Department, with its three specialised offices, aims to identify the proposals/objectives underlying the construction of investment strategies and the operational and tactical decisions to define the composition of the portfolio. In particular:

2.2.1. it formulates proposals on new market developments and possible changes required to support the drafting/revision of the investment policy, as referred to in the following section (see Investment Policy Governance);

2.2.2. it performs due analyses to identify any tactical decisions that allow the portfolios identified to deviate from the strategic composition and prepares the Convergence Plan;

2.2.3. it analyses, evaluates and selects the proposals to be presented by AM to the BoD, seeking the necessary legal and/or tax advice from supporting corporate functions and contracted third parties, within their respective responsibilities. The proposals must clearly identify the what the investment is in and the typical necessary requirements, including, but not limited to:

- identification of the counterparty;
- ISIN (International Securities Identification Number) or other identification;
- quantity, value, units, and possible indication of the limit price.

Additionally, where certain conditions are met, the specific tax treatment applied.

2.2.4. Together with the Head of AM, it participates in drafting the proposal for the Plan, based on the overall information from AM and with objectives in line with the SAA;

2.2.5. it verifies the correct valuation and profitability of both unmovable and movable assets by the BD;

2.2.6. it collaborates with the RM and other persons involved in the investment process (financial managers, custodian bank, ESG advisor), providing them with the necessary support and information required for them to operate correctly.

2.3. The **Execution Office** reporting to the Head of AM, is responsible for making investment/disinvestment decisions and post-trading activities. In particular:

2.3.1. it executes the investment and disinvestment transactions approved by the BoD based on the area of expertise of the operating desks<sup>2</sup> and in compliance with the authorisations, laws and regulations.

2.3.2. with reference to direct management, it executes resolutions of investment and disinvestment to be carried out through authorised intermediaries according to the principle of best execution as detailed Annex 3.

2.3.3. acquires legal and fiscal due diligence, with reference to Article 6 below;

2.3.4. prepares, checks and negotiates contracts, regulations and whatever is necessary for the legal definition of the respective rights and duties following the resolution of the BoD. For this activity, the head of the Execution Office may seek the necessary legal and/or tax advice from supporting corporate functions and contracted third parties within their respective responsibilities.

2.3.5. prepares appropriate reports for the BoD on the execution of approved actions and resubmits to the board for review any resolutions for which contractual problems emerge during execution;

2.3.6. serves as the interface of the BD for the functions and activities contractually foreseen and that fall within its area of expertise;

2.3.7. collaborates with the Investment Department by providing useful information within its domain to support the department's activities;

2.3.8. prepares and provides AEC with the reports of impairment tests on investment securities as well as assessment reports on hedging instruments.

2.4. The **Monitoring, Benchmarking and Reporting Office**, reporting to the Head of AM, is responsible for portfolio performance monitoring and related reports. In particular:

2.4.1. monitoring current and historical financial management;

2.4.2. monitoring the work of fund managers;

2.4.3. providing the offices pertaining to the Investment Department and other internal users with useful information for the implementation of the investment policy, with specific reference to the data required for the selection of financial instruments;

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<sup>2</sup> **Direct management desk:** Trading in shares, bonds and ETF/ETC instruments, both listed and OTCs; listed derivatives and OTCs, forward exchanges, spot exchanges, payment cycles for the various transactions, setting margins for derivatives and forward exchanges, managing the corporate actions of portfolio securities.

**Indirect UCITS management desk:** UCITS fund trading (subscription, redemption and switching funds) through the RTO (Reception and Transmission of Orders) service carried out by the Custodian Bank: request for a fund survey to the Custodian Bank by sending the main information on the fund (fund name, ISIN, investment class, amount approved, variable capital investment company or SICAV, Transfer Agent, contact person) and the essential documents for registering funds such as regulations and KIIDs - Simplified Prospectus; sends the order to the Custodian Bank based on the amount specified in the resolution of the BoD; following the contract note from the T.A. to the Custodian Bank, it verifies that which has been executed. If the contract note is found to be inconsistent with the order sent, the Execution Office must cancel the contract note and have it reissued with corrections. It defines and drafts the Rebate Agreements, where an improved economic proposal is foreseen as compared to the current commission.

**Indirect AIF management desk:** Compiles the set of forms, and has them signed by the legal representative, that are needed applying to the AIF for direct share subscription; sends requests for fund surveys to the Custodian Bank in the event that the RTO service is used.

**Liquidity management desk:** Prepares letters signed by the legal representative for the movement of liquidity between current accounts held in the association's name outside of the custodian bank and general manages liquidity in support of approved purchases and sales and subsequent movements.

2.4.4. collaboration with the Risk Manager, for whom it is the contract coordinator, with the Custodian Bank and other involved persons involved in the process (fund managers, ESG consultant, etc.) in order to provide the essential support for measuring investment performance;

2.4.5. preparing periodic reports on the measurement of parameters relevant to asset management (risk, performance, allocation, etc.) to be submitted to the Board of Directors;

2.4.6. preparing monthly monitoring reports on the performance of illiquid funds (private equity, private debt, real estate and infrastructure) to support the analysis by the offices pertinent to the Investment Department.

2.4.7. monitoring daily the performance of foreign exchange hedges in order to verify both their degree of hedging and the margining flow with the custodian bank;

2.4.8. analytical support to the offices pertaining to the Investment Department for the look through analysis of funds and ETFs in the portfolio;

2.4.9. quantitative analysis of the consistency between the financial instruments held in the portfolio and the relative benchmarks of the SSA.

It obtains necessary information from the Custodian Bank, the RM, ESG, AEC, etc. to achieve its objectives.

**3. The Study and Research Department** (referred to above as the Study Department), which:

3.2. supports and carries out studies and research on the evolution of the macro-economic landscape and the social security sector for the self-employed (including at the regulatory level) in order to contribute to defining the lines of strategic development and sustainability in Inarcassa's social security and welfare model;

3.3. as the interface between Inarcassa and the external actuary entrusted with preparing the periodic BTA, it makes available actuarial data useful for medium/long-term financial forecasts, for the purposes of this Document.

**4. The Administration and Control Department** (referred to above as AEC) which:

4.2. provides AM with data on the available financial resources (surpluses or cash requirements) for the operational investment programme and provides forecasting elements for best estimating cash flow for planning during the course of the year;

4.3. performs tax due diligence on investments in AIFs that approved by the BoD, verifying both compliance with Inarcassa's tax policy and the relevant accounting- and tax-related contractual elements, also referring to external consultants, where appropriate, according to that established in point 6 below;

4.4. provides tax assistance to AM upon specific request, where deemed necessary and useful to existing investments;

4.5. assists AM in identifying the elements needed to qualify significant investments for the purposes of tax concessions;

4.6. verifies the compliance of AM's activities with the investment resolutions of the BoD on the basis of the principle of segregation and offers support in the drafting of tax-related AIF subscription models;

4.7. receives information flows on the management of the portfolio managed by the BD from the bank and processes it within the association's accounting area;

4.8. receives information flows on all the instruments not managed by the BD from the AM and processes it within the association's accounting area;

4.9. provides regular accounting valuation and profitability data on assets;

4.10. handles end-of-period valuations for all instruments classified as current assets, for which the valuation must be taken as whichever is lower between cost and value and acquires from AM the reports on impairment tests on investment securities from AM in order to enter the correct valuation (UCI No 20 and No 21).

4.11. draws up the association's draft final balance;

4.12. drafts tax declarations for financial instruments under the declaratory scheme;

4.13. supports AM in compiling the periodic data required by COVIP.

**5. The Legal and General Affairs Department (referred to above as LAG) which:**

5.2. Acts as consultant in support of AM in assessing the legal risks associated with asset management and negotiating contracts for investments and asset management. To this end, the department can seek assistance from specialist consultants;

5.3. provides prior legal support to the AM, upon specific request, on investment proposals to be presented to the BoD.

5.4. performs legal due diligence on investments in AIFs approved by the BoD, as set out in point 6 below;

5.5. organises third-party selection tender procedures.

**6. Joint LAG – AEC operations**

The Legal and General Affairs Department and the Administration and Control Department perform legal and tax due diligence on the investments in AIFs approved by the BoD and, if the results indicate a need for improvement in contractual conditions or compliance with tax policy, the department engages in negotiations with the AIF managers. The Legal and General Affairs Department and the Administration and Control Department are supported by the Investment Department during these negotiations.

If the legal and tax due diligence

- i) does not reveal any critical issues, reveals non-obstructive critical issues, or if the critical issues that have emerged have been resolved through negotiations, then subscription (execution) of the AIF goes ahead. The Legal and General Affairs Department and the Administration and Control Department, together with the Investment Department and the Execution Office, provide the BoD with a summary on the absence, non-obstructiveness, or overcoming of the aforementioned critical issues;
- ii) reveals obstructive critical issues, which could not be resolved during negotiations, the Legal and General Affairs Department, the Administration and Control Department, the Investment Department, and the Execution Office present these critical issues to the BoD for appropriate decisions.

Exceptionally, when AM, LAG and AEC collectively agree, legal and tax due diligence is conducted before the resolution of investment by the BoD.

**7. Internal Auditing**

Conducts an independent and unbiased audit of the investment and asset management processes, also with a view to monitoring the correct implementation of the Prevention of Corruption and Transparency Plan and in execution of the annual Audit Plan approved by the BoD, reporting the results to Top Management.

**8. *Ethics Committee - Inarcassa's Role***

Inarcassa's Ethics Committee is responsible for overseeing compliance with the values that must guide the fund's actions, for the purpose of ensuring that these values inspire the fund's management. In particular, the committee:



- promotes the internal and external dissemination of the Code of Ethics;
- monitors the application of the code;
- ensures compliance with the code by collecting reports of conduct that is inconsistent with the code;
- investigates these reports to determine whether actual violations of the code have occurred. Decisions are transmitted to the competent figures in governance and the corporate departments for the application of the contractually or ethically foreseen sanctions; in the absence of such sanctions, the committee defines how they should be applied;
- defines the investigation procedure for reported incidents, approves them and proposes response measures;
- proposes to the competent figures the adoption of conduct and measures to resolve situations that are not in line with the provision of the code, initiating the necessary monitoring with the help of the various corporate departments concerned;
- manages the internal whistleblowing system envisaged by Leg. Decree No 24/2023 (role assigned by the Board of Directors with resolution No 28173 of 21-23/06/2023)

The members of the Ethics Committee were appointed by resolution No 27026/21 of the Board of Directors of 28/05/2021 on the proposal of the National Committee of Delegates (meeting on 29/30 April 2021) and the General Management.

## C. CONSULTANTS AND SUPPLIERS

Consultants and suppliers are selected by means of a Public Tender, pursuant to Leg. Decree 50/2016 (Procurement Code), choosing the most economically advantageous offers<sup>3</sup>.

### 1. **Risk Manager** (referred to above as RM):

*1.1.* supports AM in proposing efficient Strategic Asset Allocations to the BoD, consistent with the fund's institutional objectives, having considered the Sustainability Policy, and compatible with the consistency and structure of the assets;

*1.2.* monitors the risk of the fund's investment portfolio, and in particular:

- a) aggregate risk in relation to the overall strategic benchmark
- b) aggregate risk by individual investment class/compartment;
- c) risk by investment strategy of external management;
- d) risk by investment strategy of the invested UCIs;
- e) risk by investment strategy of direct management.

In the execution of their tasks, the RM is strictly prohibited from taking initiatives aimed at identifying and proposing financial instruments to Inarcassa.

Selecting the RM is a delicate element of Inarcassa's asset management policy, as this figure performs extremely important tasks that serve to enable Inarcassa to determine the risk-return objectives set by the Document.

As part of the selection criteria, particular attention is paid to the experience of the candidate companies, their track record in financial risk measurement and control, as well as their degree of independence in

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<sup>3</sup> This selection criterion was adopted following the publication of the opinion by ANAC (National Anti-Corruption Authority) on 10 December 2015, which shared the guidance provided by the Council of State in its interim opinion of 22 October 2015.

relation to the investment companies involved in asset management.

2. The **Custodian Bank** (referred to above as BD) carries out all the activities covered by the signed contract and in compliance with the regulations in force, in particular:

- 2.1. custody and administration of financial instruments and liquid assets resulting from coupon payments and/or transfers and capital redemption transactions;
- 2.2. settling transactions to buy or sell financial instruments (securities, foreign exchange and derivatives);
- 2.3. taxation: the BD serves as a substitute for tax purposes under the administered savings regime, pursuant to Article 6 of Leg. Decree 461/97;
- 2.4. periodically reporting and inputting data into the AEC's accounting programme (SOFIA);
- 2.5. controlling the activities of the managers;
- 2.6. determining the value of assets and calculating performance and risk measures: it sends portfolio data to the RM on a monthly basis and provides Inarcassa with a monthly report containing daily data, the performance at market values of the assets and all the individual portfolios that make it up, accompanied by descriptive statistics.

3. The **Treasury Bank** (defined above as BT)

- 3.1. handles both incoming receipts from and payments due to members and suppliers of works and services and, more generally, the BT accounts receive the incoming financial flows and funds are withdrawn from its cash holdings for lending;
- 3.2. makes available exclusively to Inarcassa the essential data required to input into the verification and control system.

4. The **ESG Consultant**

- 4.1. processes, compatibly with the information available on the market, and provides through appropriate reports the measurement and assessment of the ESG score and ESG risk of the Association's assets with particular reference to the Italian listed companies in which Inarcassa has direct investments;
- 4.2. measures, compatibly with the information available on the market, the carbon footprint corresponding to the investments made and the degree of energy transition.
- 4.3. calculates the impact of each SDG on Inarcassa's portfolio and illustrates the percentage of the portfolio that aligns with sustainability goals, with specific emphasis on the SDGs selected by Inarcassa (7-9-11-12-13-17).

5. **Legal and Tax Advisers**

To assist the internal LAG and AEC departments, Inarcassa may refer to specific external legal and tax professionals to supplement the expertise required to manage contractual and pre-contractual events subsequent to investment proposals and the management of investments made.

6. **ALM Adviser**

- 6.1 assists the association in the definition of its own Asset & Liability Management (ALM) model based on the Fund's characteristics, in support of both the investment policies and the social security policies of the institution;
- 6.2 enables the integration of the Strategic Asset Allocation and the Asset & Liability Management (ALM) by providing the inputs required for the revision of the SAA definition process and its monitoring over time, integrating the return-risk objectives of the assets with the flow and risk analyses of social security.

The Risk Manager and the ALM Adviser roles may be covered by the same person, as it the case at the moment, in



order to enable more efficient preparation of the SAA.

#### **D. MANAGERS**

Managers are selected by means of a Public Tender, pursuant to Leg. Decree 50/2016 (Procurement Code), choosing the most economically advantageous offers<sup>4</sup>.

Their tasks are defined in the contracts entered into for the execution of the management mandate, and include, but are not limited to:

- a) investing financial resources with the objective of replicating the performance of the reference market, in the case of passive management and achieving excess returns, in the case of active management, in accordance with the received mandate;
- b) submitting periodic reports to Inarcassa on the decisions made and the performance achieved;
- c) if requested, exercising their voting rights in relation to the securities they manage in accordance with the binding instructions issued by the BoD;

For tax purposes, Italian managers operate as withholding agents under the asset management scheme, pursuant to Article 7 of Leg. Decree 461/1997, while foreign managers use the BD as withholding agent.

#### **E. CONTRACT MANAGEMENT**

The Execution Manager, who reports to the RUP, is responsible for managing contracts with consultants, suppliers and fund managers and, also with the support of one or more Operational Managers, they organise the coordination, direction and technical-accounting control of the execution of the contract, ensuring the proper execution by the contractor, in compliance with the contractual documents.

The RUP, the Execution Manager and the Operational Managers are appointed by resolution of the BoD or executive decision.

## **5. Governance of Investment Policy**

### ***5.1 Objectives of the investment policy and criteria for its implementation***

The financial strategy that Inarcassa intends to pursue, through the use of resources, is to identify the efficient risk-return combinations in a time period consistent with the commitments made with regard to the members as envisaged by the Actuarial Technical Audit prescribed by the Supervising Ministries and by COVIP, taking into account the provisions of the Sustainability Policy.

In this context, considering the social nature of the objectives pursued, Inarcassa, with a view to the sound and prudent management of its assets, employs all the strategies useful to ensuring risk containment, first and foremost through due diversification of investments across asset classes, types of instruments, geographical locations, business sectors, counterparties and management styles.

In any case, the ultimate goal of Inarcassa's investment policy is to ensure efficient risk-return combinations with a view to pursuing long-term objectives, in particular the contribution and support that the assets and their returns must guarantee to pensions. Indeed, these combinations must maximise returns on the accumulated pension capital while maintaining a risk level deemed acceptable by the CND.

The management objectives, both general and for individual asset classes, are given definite form at the time of the construction of the Strategic Asset Allocation and reviewed on a monthly basis with the prospective Tactical Asset Allocation.

The CND of 12-13 October 2023, after a broad and detailed discussion that also involved representatives from the

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<sup>4</sup> See note 2.

Supervising Ministries, concluded that, among the various efficient allocations proposed, that presented by the BoD best met Inarcassa's performance needs, defined according to the results of integrated ALM analysis. The decision took into account the macroeconomic framework described by the external consultant Prometeia, who also provided metrics on the risk-return combinations for the different solutions having taken into due account the potential costs in terms of management and taxes. The portfolio composition of the selected proposal:

- improves efficiency compared to the current SAA 2023 by increasing the prospective return, with the same risk, increasing the probability and expected amount of excess return (the probability of achieving a net return higher than 5% is close to 50%);
- in terms of capital returns for the institution, and consequent adequacy of benefits for members, the chosen proposal is deemed more in line with the risks taken.
- the allocation considered increases the portfolio's exposure to illiquid asset classes, mainly Italian real investments (improving correlation to the country's growth) and infrastructures, while decreasing exposure to share classes (excepting Italy), compared to the SAA 2023;
- in the most adverse scenarios (5th percentile), the risk profile of the chosen proposal may expose the institution to recording a slightly negative market balance, though better than that expected under the current SAA;
- the chosen allocation obtains a high ESG Quality Score, at least equal to that of the 2023 SAA;
- The portfolio turnover required to align the current composition with the chosen composition is lower compared to other proposals with clear cost benefits.

The following risk-return targets have thus been set for the Strategic Asset Allocation for 2024:

- Expected Gross Nominal Yield: 6.5%
- Expected degree of risk expressed in terms of expected shortfall: 5.7%

corresponding to the following composition by macro asset class:

- monetary investments 3.5% of total assets;
- bonds and BdI 40.3% of total assets;
- shares 21.0% of total assets;
- real investments 16.2% of total assets;
- real estate 19.0% of total assets;

The CND also decided the following investment constraints and limits:

- a) asymmetric fluctuation bands of the Tactical Asset Allocation with respect to the percentages defined for each class that takes into account differently the level of risk of each investment class, as described in the table below. The fluctuation bands on currency exposure were maintained to allow the exposure to exchange rate risk to be over/underweighed according to both market expectations and the relationship between hedging costs and risk reduction;

	min	max
<b>Cash</b>	<b>-3%</b>	<b>8%</b>
<b>Bonds and Bdl</b>	<b>-4%</b>	<b>6%</b>
<b>Equities</b>	<b>-8%</b>	<b>4%</b>
<b>Real Investments</b>	<b>-5%</b>	<b>3%</b>
<b>Real Estate.</b>	<b>-3%</b>	<b>3%</b>
<b>Net exposure to exchange rate risk</b>	<b>-10%</b>	<b>5%</b>

b) currency exposure, net of hedging, up to 30% of assets;

c) investment limits:

- bonds:
  - possibility of investing in bonds defined as High Yield up to a maximum of 7% of Inarcassa's assets;
  - for investments in High Yield through UCIs or management mandates, the possibility of investing also in bonds with rating lower than “B”;
  - High Yield investment limit not applied to Italian government bonds in the event of downgrading below “BBB”;
  - for investments in the 'Emerging Market Bonds' compartment, the possibility of investing in government or similar bonds of Emerging Countries up to a maximum of 4% of the institution's assets.
- actions:
  - investment in 'Emerging Markets’ equity markets up to a maximum of 5% of Inarcassa's assets.

## ***5.2 Criteria for defining and implementing the investment policy***

The preparation of the SAA proposal requires the following principles to be observed by AM:

**a. strategic allocation of assets**, with the identification of the proportions to be invested in the various asset classes (for which the geographical areas, the sectors of activity, the reference currencies and the margins of fluctuation to be maintained).

The current macro asset classes identified by Inarcassa are:

- cash;
- bonds and Bdl;
- equities;
- real investments;
- real estate.

In turn, some of these macro asset classes are subdivided into individual sub-categories, which in order are:

- for the bond and Bdl component;
  - Italian government bonds;
  - Global government bonds;
  - Emerging Market government bonds;
  - Euro corporate bonds;
  - Global corporate bonds;
  - high yield corporate bonds;
  - Equity investment in Bdl

- for the equities component:
  - Italian Equities;
  - Global Equities;
  - Emerging Markets Equities;
- for the real investment component:
  - private equity;
  - private debt;
  - Infrastructure
  - Italian real investments;
- for the real estate component:
  - domestic real estate;
  - global real estate.

Changes have been made to the Strategic Asset Allocation 2024:

- given the different nature of the equity investment in Bank of Italy, both in terms of risk profile and ties with the real economy, the investment is no longer included under Real Investments Italy but is given its own asset class included in the bond macro-class, which is therefore renamed 'Bonds and BdI';
- a separate asset class for non-Italian 'infrastructure', previously included under private equity or private debt, has been created to improve risk mapping.
- given its very small contribution to the optimisation and construction of efficient portfolios, the asset class 'liquid alternatives' has been eliminated; as a result, the macro asset has been renamed 'Real Investments'.

For each of the aforementioned sub-categories, and consequently for the entire portfolio, the BoD governs on the basis of reports by the RM, the expected average annual return and variability within the management time horizon.

The BoD, based on the indications provided by AM, must ensure that the average duration of the bond portion of the portfolio is consistent with the risk profile decided by the CND.

The BoD, guided by AM, must ensure that the foreign exchange exposure resulting from investments in non-euro-denominated financial assets is consistent with the portfolio risk profile decided by the CND.

In any case, it remains that Inarcassa's investment decisions shall be guided by environmental, social and ethical principles, among others.

**b. nature and related risks of the financial investments in which the fund intends to invest**

These instruments can be identified as;

1. management mandates for any the investment categories described above;
2. 'UCITS compliant' UCIs that invest in any of categories described above;
3. bonds issued by sovereign states or supranational bodies;
4. bonds issued by private companies belonging to the euro area;
5. shares listed on any European list;
6. AIMF compliant real estate funds;
7. Alternative UCIs in Italian AIFs, EU AIFs, and non-EU AIFs authorised for the Italian market in accordance with Article 44(5) et seq. of the TUF;
8. Alternative UCIs in non-EU AIFs not marketed in Italy despite existing cooperation agreements between the competent authority in the country of origin of the alternative UCI and the Italian authorities;
9. repurchase agreements and time deposits;
10. derivative instruments used for hedging and/or reducing financial risks, or for efficient management.

The following risks are associated with all these instruments: interest rate, capital, exchange rate, liquidity, counterparty, volatility, creditworthiness and operational.

**c. direct or indirect management method to be adopted and style**

The following types of investment can be used for each asset class included in the SAA, in accordance with the regulations in force:

- direct investment through trading carried out directly by the Execution Office as described in Annex 3);
- subscription of UCIs (UCTISs and AIFs)
- indirect investment through the granting of a management mandate:
  - a) passive (if it replicates a given benchmark);
  - b) active (if it does not replicate a given benchmark);

In order to pursue the investment objectives described above, Inarcassa opts for a combination of different management methods and styles (direct and indirect, active and passive): practical experience has shown that this can optimise the cost-benefit ratio, taking into account the efficiency of the individual markets in which the assets are invested.

In particular, direct investment typically involves government bonds from primary geographical areas and equities from the euro area, in relation to which Inarcassa's departments have the necessary expertise to both select and monitor investments. This achieves cost savings in terms of management for these instruments.

Liquidity management is direct (in the sense described above) for securities with a maturity typically less than three months, time deposits and repurchase agreements with financial counterparties with high credit standing.

The passively managed component makes up a substantial portion of the portfolio, following a core-satellite approach<sup>5</sup>.

As concerns the portion of the assets to be managed actively, the reasons why Inarcassa believes this will generate additional returns are as follows:

- a) proven experience in the asset class in question;
- b) significant diversification of the benchmark of the asset class in question;
- c) specific investment activities with a focus on sustainability.

Annex 1 details the parameters applied to the assessments for identifying asset classes, products and managers consistent with implementation of the SAA.

**d. criteria for the exercise of voting rights**

The strategy adopted by Inarcassa for the exercise of attendance and voting rights pertaining to the financial instruments in the portfolio aims to ensure that these rights support the pursuit of the investment objectives as foreseen in Chapter 8 of the Sustainability Policy.

AM oversees the significant corporate events related to the financial instruments in the portfolio, keeping the Planner up to date and coordinating with the BD if necessary.

The compilation and updating of the Planner primarily rely on information from (i) legal-corporate secretariats of companies in which financial instruments are directly held by Inarcassa, with whom AM stays in constant contact, or (ii) Managers if the agreement explicitly delegates this responsibility.

Without prejudice to the need for very careful monitoring of significant corporate events and for the AM to guarantee a high level of completeness and detail of the Planner, the BoD pursues an approach of active engagement according

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<sup>5</sup> The core-satellite approach foresees a substantial portion of the portfolio being managed passively by replicating benchmarks with a particular reference to traditional asset classes. The satellite component also intends to generate additional returns with instruments and management styles that are not necessarily index-linked;

to the Principles for Responsible Investment (UN PRI).

Following AM's proposal for each significant corporate event, the BoD evaluates the appropriateness of exercising the attendance and voting rights pertaining to Inarcassa's financial instruments, taking into consideration (i) general investment objectives and individual compartments, (ii) the interest of Inarcassa's members, (iii) a cost/benefit analysis of Inarcassa's participation in the significant corporate event. AM refers to the first available BoD on how to exercise attendance and voting rights. The BoD decides on the method of exercise, while the Chairperson, or their delegate, represents Inarcassa during the voting process.

**e. criteria for the immobilisation of financial assets and value adjustments**

On 27/07/2018, with Resolution No 24478/18, the BoD revised the general criteria for classifying investment instruments in the financial statements, deciding that they should mainly be accounted for as current assets. In particular, it established that the financial instruments to be accounted for as fixed assets must be expressly approved by the BoD.

With regard to the criteria for value adjustments, it specifies that securities categorised as 'financial fixed assets' must be accounted for and valued at their purchase price and are only written down if they show impairment.

In terms of the selection and assessment of impairments in movable securities, with Resolution No. 18281/11, the BoD established the following criteria: for equities, shares in mutual funds and private equity funds, the loss of value is considered permanent if all of the following conditions are met;

- a) reduction in market value of more than 30% of the book value at the balance sheet date;
- b) market value below the purchase price for an uninterrupted 24-month period (taken from the value as at 31/12 in the last three years)

Except for exceptional circumstances, where both thresholds are exceeded, impairment is recorded for the securities and fund units in the income statement.

For debt securities, qualitative analyses are conducted to check for impairment. These analyses in particular aim to verify the presence or absence of the following impairment indicators:

- Significant financial difficulties of the obligor;
- Breach of contractual agreements, such as non-performance or non-payment;
- Extension granted by the lender to the debtor for economic or legal reasons relating to the financial difficulties of the beneficiary of a concession that the lender had never taken into consideration;

**f. tax policy**

Inarcassa's investment policy must also ensure compliance with the tax regulations in force.

In particular, taking into account the fact that, for tax purposes, in relation to its institutional purpose and instrumental activities, Inarcassa is classified as a "Non-commercial entity", this classification must always be guaranteed in its investment choices.

In this context, with a view to the sound and prudent management of its assets, with Resolution No 25762/19, the BoD set the following general criteria for the correct evaluation of investment proposals:

- 1) Inarcassa fulfils its tax obligations in accordance with Italian law, operating under the three foreseen tax schemes (declaratory scheme, administered savings scheme and asset management scheme);
- 2) Inarcassa diligently monitors investment operations for the specific purpose of identifying promptly the risk of incurring tax declaration obligations in a foreign country (tax risk) and adopts appropriate instruments and controls to minimise the tax risk and deal with any consequences;

To this end, below we detail the appropriate instruments listed **in order of increasing** fiscal risk for Inarcassa:

- a) for a fund established in Italy or a third country other than the United States, the requirement of the mandatory automatic exclusion of investment in the United States;

- b) for investments in funds more generally, the obligation of making investments in the United States exclusively through a fund classified as a 'corporation' for federal tax purposes, or through the interposition of a vehicle between the fund and the investment in the United States classified as a 'corporation' for federal tax purposes ('Blocker').
- c) the limitation of investments in the United States in funds that are simultaneously obliged to (i) generate exclusively capital gains from real estate and equity investment in real estate companies referred to in the FIRPTA legislation and (ii) refrain from engaging in other activities that could generate Effectively Connected Income (ECI) in the United States.

In any event, it must be prohibited to distribute income in kind derived from underlying commercial investments considered pursuant to US tax legislation.

In addition, and without prejudice to the considerations set out above, in the event of a breach of contract, two further protection tools are provided:

- at the contractual level, Inarcassa will negotiate as far as possible clauses to protect it from the harmful consequences of the counterparty's non-performance (inter alia, damages, costs, expenses related to fulfilling foreign tax obligations, including the fees of legal and tax advisers);
- in terms of tax, however, Inarcassa will engage external consultants to whom it can refer to promptly for the fulfilment of foreign declaration obligations.

#### **(g) criteria for managing conflicts of interest**

In the fulfilment of their duties required by law and by the statute, the directors of the institutions pursue the collective interests of the members and beneficiaries of institutional services.

Article 2391 of the Civil Code applies to the administrative bodies of the institutions and their members.

The governing bodies of the institutions shall take all reasonable steps to identify and manage conflicts of interest in order to prevent any adverse impact on the interests of members or beneficiaries. The conflicts considered include those relating to both persons within and outside the institution, in relation to the performance of tasks by such persons on behalf of the institution.

The 'Code of Ethics', adopted voluntarily by Inarcassa at the meeting of the National Committee of Delegates from 3-5 March 2021, plays a crucial role in the strategy to prevent corruption and promote ethics and integrity.

#### **h) procedure for selecting candidates for corporate bodies (board of directors and board of statutory auditors) of directly owned companies listed on regulated markets**

Pursuant to the applicable regulations on the corporate governance of listed companies, when electing or renewing the offices of corporate bodies and in relation to its percentage shareholding in the share capital, may have the right to present one or more candidates for the corporate bodies of the investee companies.

Inarcassa adheres to specific principles of transparency throughout the process of searching, selecting, and nominating individuals to serve on the corporate bodies of directly owned listed companies.

As part of the candidate selection process, Assets Management:

- i. monitors the renewal of corporate offices in investee companies;
- ii. verifies, with the support of the Legal Department where necessary, the possibility of presenting its own list of candidates, in relation to its shareholding in the company.

The process for the search and selection of candidates is conducted using companies, duly selected through competitive procedures approved by the BoD, that are specialised in the search and recruitment of senior management figures, which must take into account specific criteria, namely:

- i. the business sector in which the investee company operates
- ii. the qualitative and aptitude assessment of each potential candidate, also taking into account the candidates'



possession of proven and qualified professional skills, as well as having held a number of offices compatible with the effective performance of the role, in relation to the size, complexity and specificity of the investee company and the business sector in which it operates;

- iii. prior verification, for each candidate, of the eligibility requirements provided for by the reference legislation for the specific company (including professional requirements, gender requirements, absence of incompatibility and conflicts of interest, compliance with the limits on the cumulation of offices, etc.);
- iv. a balanced combination of gender, expertise and professional skills to ensure the adequate overall composition of the corporate body.

Each candidate profile is evaluated by Inarcassa's BoD, which decides on the candidate in accordance with the procedures and times foreseen by the corporate governance rules applicable to each company.

If elected, candidates are expected to perform their duties free of any mandate constraints, exercising their activities in a purely fiduciary capacity.

**(i) procedure for selecting candidates for the corporate and advisory bodies of companies not listed on regulated markets and investment undertakings.**

For the purposes of the statutory provisions of directly owned unlisted companies and the constitutive documents of investment undertakings, Inarcassa may have the right to propose one of its own candidates to the corporate and/or advisory bodies.

In both cases, Asset Management, with support from the Legal Department where necessary, prepares a memorandum to be submitted to the Board of Directors that reports the provisions of the statute and/or contractual provisions governing the election procedures, requirements, duties and responsibilities of the candidates, as well as all further information deemed necessary or appropriate for the purposes of correct information transparency, including any remuneration or reimbursement of expenses, the place where the meetings will be held and the language used. The Board of Directors decides whether or not to put forward its own candidate and, if so, identifies the candidate it deems suitable to hold the specific position in compliance with the applicable regulatory, statutory and/or contractual provisions, as well as on the basis of criteria of integrity, competence, professionalism and independence with respect to the company, the investment undertaking or the company managing it.

Asset Management send the candidates name to the contact persons of the company or investment undertaking.

Through the persons appointed for this purpose, the companies, investment undertakings or the companies that manage them verify that the candidate meets the requirements of the applicable legal and regulatory provisions, compliance with which is subject to due sector supervision.

If elected, candidates shall perform their duties free of any mandate constraints, exercising their activities in a purely fiduciary capacity, also with the support of the institution's operational divisions, where requested.

Appointments of candidates who also hold positions in the institution's governing bodies are communicated to the Internal Audit Department, in order to implement all the necessary measures to ensure transparency and prevent corruption.

**1) Principles for Responsible Investment (PRIs) and integration of ESG criteria**

With Resolution No 23422/17 of 15 June 2017, the BoD of Inarcassa approved the adoption of principles of responsibility into its investment and governance processes and joined the PRI (Principles for Responsible Investment) Association, which brings together investors ("asset owners") and managers ("asset managers") who incorporate environmental, social, and governance criteria within their investment and business processes.

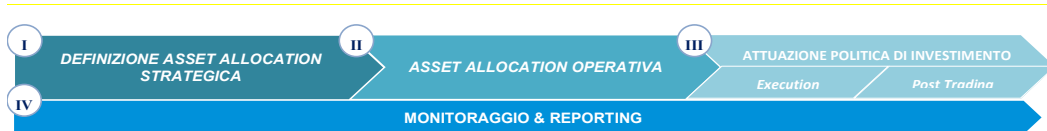
With Resolution No 27223/21 of 24 September 2021, the BoD of Inarcassa approved the adoption of the Sustainability Policy, which outlines the principles and methods guiding Inarcassa's investment choices, the subsequent monitoring of those investments and the reporting of its activities to all stakeholders.



### 5.3 Investment Process

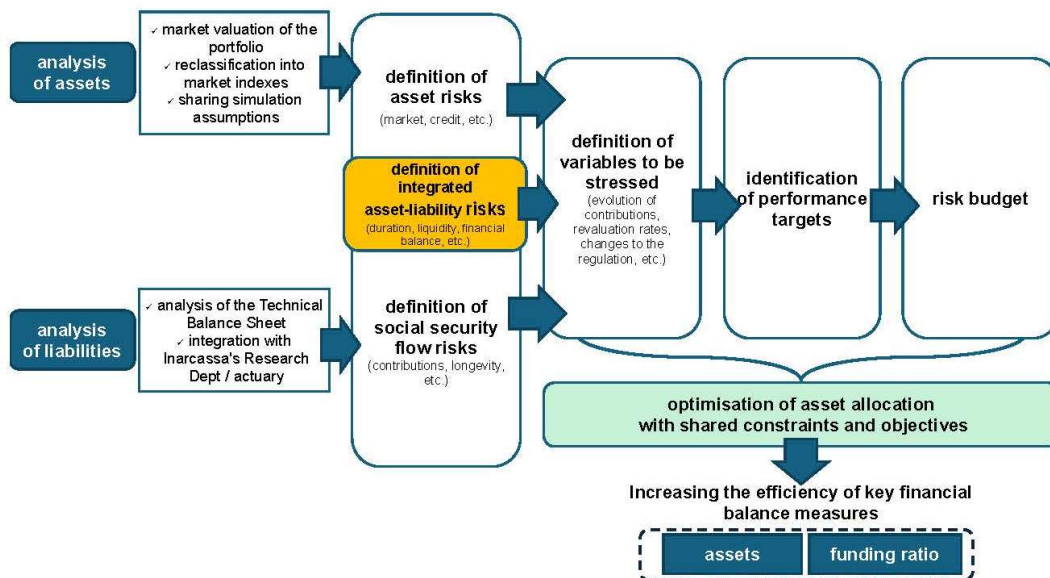
The activities for each identified sub-process are described below:

- I. Defining Strategic Asset Allocation from an ALM perspective;
- II. Defining Operational Asset Allocation;
- III. Implementation of investment policy
  - i. Execution;
  - ii. Post Trading;
- IV. Monitoring & Reporting.

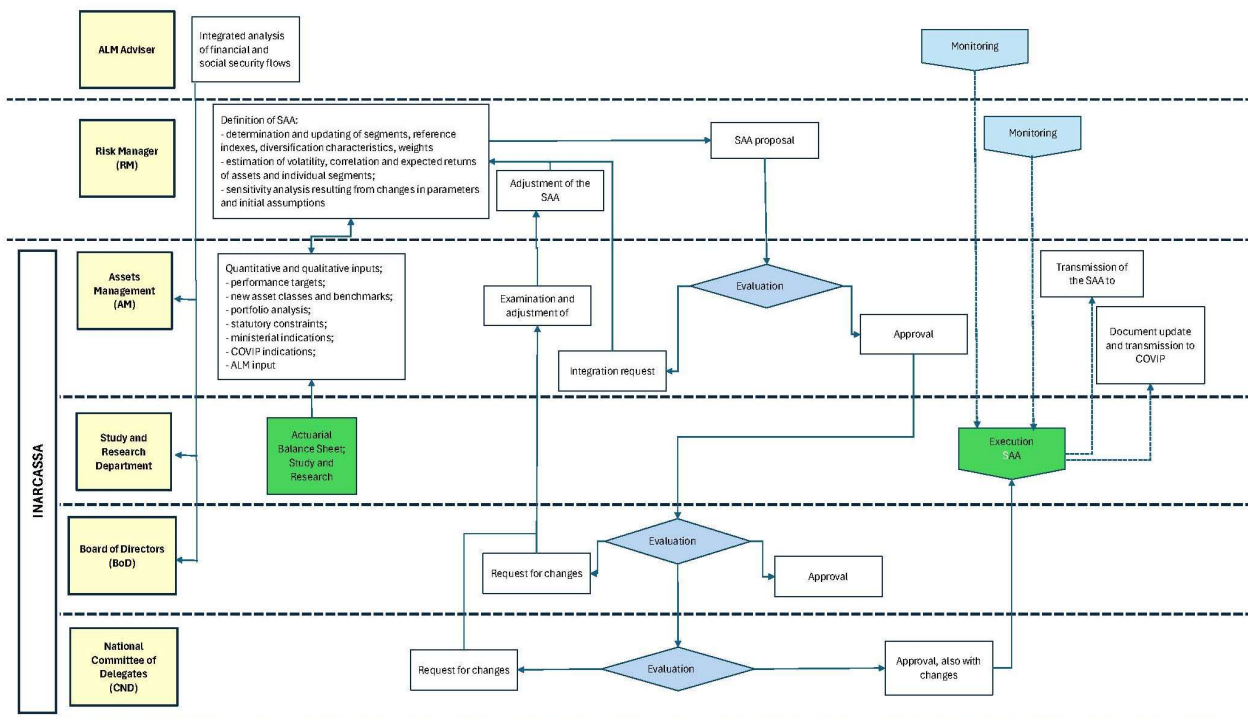


#### Defining Strategic Asset Allocation from an ALM perspective

#### Stages of the integrated active-passive analysis process



## Approval workflow



1. The Study Department, prepares (i) the Actuarial Balance Sheet and (ii) carries out specific studies and research concerning, among other things, the evolution of the macro-economic framework and of the social security sector of self-employed professionals, the possible evolution of Inarcassa's social security and welfare services as well as the evolution of social security regulations.
2. The ALM adviser provides the inputs required for the revision of the SAA definition process and its monitoring over time, integrating the return-risk objectives of the assets with the flow and risk analyses of social security.
3. At least once a year, the Investment Department, which is part of AM, proposes quantitative and qualitative inputs for the SAA, also based on information provided by the Research Department and ALM adviser, which are sent to the RM. These inputs include various factors, including, but not limited to:
  - (i) the performance targets pursued;
  - (ii) inclusion of new asset classes in the portfolio and setting the relative benchmarks;
  - (iii) analysis of existing asset classes in the portfolio and of the instruments used to implement the SAA;
  - (iv) analysis of the evolution of financial and real estate markets with reference to the social security sector;
  - (v) the constraints foreseen by the Statute;
  - (vi) the regulatory and administrative constraints established by Supervising Ministries and COVIP;
  - (vii) Analysis of asset and liability flows

Annex 1) lists the criteria that Inarcassa normally applies to determine the factors indicated in point (iii) above. Any exceptions must be adequately justified by AM.

4. The RM, also with the support of AM - Investment Department, is responsible for defining an efficient asset allocation, by:
  - (i) determining and updating the different categories of movable and immovable assets, reference indices for each category, the diversification characteristics of each category and the weights of the different asset classes;

- (ii) estimating VaR and the expected returns of individual asset classes, and of Inarcassa's overall portfolio and estimating the correlations between individual categories.
- (iii) analysing the sensitivity of results to the variation in estimated parameters (expected returns, volatility, correlations) and assumptions made (inflation, taxation, credit events, etc.).

The optimisation of the portfolio by the RM defines the optimal combinations of the selected financial and real estate asset classes, taking into account the constraints imposed, according to the best return-risk profile, through the identification of deviations in weight, return, and volatility for individual asset classes, taking into account the constraints imposed, including in terms of sustainability.

The RM sends the proposed SAA or a possible range of SAAs to AM. AM evaluates the proposed SAA and proceeds as follows:

- (a) if it finds that the SAA requires the addition of further information, it sends it back to the RM, who makes the necessary changes and sends it back to AM;
- (b) if it is approved, with the proposal of the Asset Manager, it is forwarded to the BoD

5. The BoD examines the proposed SAA and proceeds as follows:

- (a) if it finds that the SAA requires the addition of further information, it sends it back to AM, which examines the request for additional information by the BoD and forwards it to RM. RM makes the necessary changes to the SAA and resubmits the completed version to AM, which assesses it pursuant to point 4 above;
- (b) if it is approved, the BoD approves its transmission to the CND.

6. The CND examines the proposed SAA<sup>6</sup> and proceeds as follows:

- (a) if it finds that the SAA requires the addition of further information, it sends it back to the BoD, which makes the required changes pursuant to point 5(a) above;
- (b) if it approves the proposed SAA, even making some changes, it approves its execution choosing the chosen SAA in the case of a proposal with several options.

7. The document on the approved SAA is sent to the Supervising Ministries for information;

8. Once the CND has given its approval, the Document is updated with the new SAA and sent to COVIP.

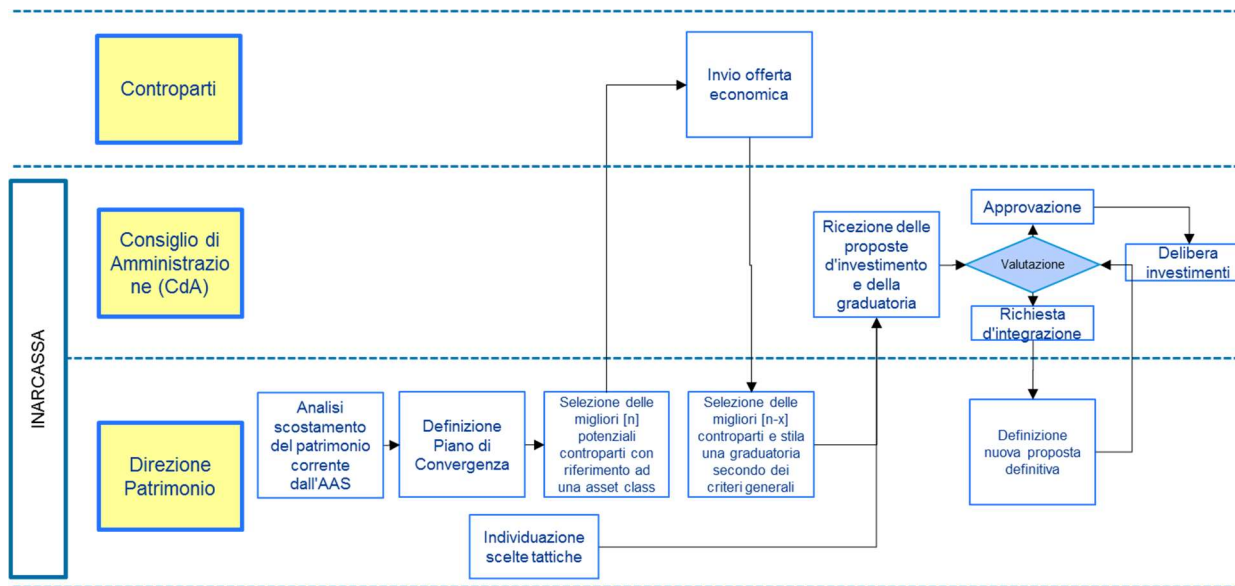
9. The data on the expected returns based on the composition of the SAA are included in the budget for the reference year, and the resolution on the SAA is also added to the budget document.

The implementation of the SAA must take into account both cash flows and the impacts of financial market movements on the assets in the portfolio.

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<sup>6</sup>The proposed SAA is submitted to the CND by the Chairperson of Inarcassa, possibly assisted by the Head of AM and the RM.

## I. Defining Operational Asset Allocation



1. On the basis of the information received from the Monitoring, Benchmarking & Reporting Office on the deviation – in terms of quality and quantity – of current assets from the SAA, the Investment Department supports the Asset Manager in the preparation of the Convergence Plan, taking into account the following elements:
  - (a) market and scenario analysis,
  - (b) risk profiles,
  - (c) performance options,
  - (d) potential investment instruments,
  - (e) ESG metrics,
  - (f) maximum percentage deviation for each asset class as set by the CND.
2. The Investment Department also identifies any tactical decisions that allow the identified portfolios to deviate from the strategic composition in order to exploit the opportunities offered by the market in the short to medium term and defines the portfolio through the selection of financial instruments in compliance with the weights and composition by asset class defined in the asset allocation;
3. With regard to direct securities, the Investment Department carries out an analysis and evaluation based on different screening criteria:
  - 3.1 Identification of the universe of investable listed issues/companies consistent with the asset class and investment adherence to the portfolio benchmark; related acquisition of significant data for each security under analysis using databases provided by leading financial platforms.
  - 3.2 Screening of securities on the basis of criteria established according to type (direct equity or bond instrument). Examples include, but are not limited to, the business growth prospects, financial information, market data, credit rating, business reports, liquidity indicator, historical performance, ESG profile (environmental, social, governance), available reports from third parties not in conflict of interest with the listed company or issuer.
4. With regard to UCIs, the Investment Department selects the investment proposals according to a standard procedure that includes:
  - 4.1 Identification of the universe of investable products consistent with the asset class, using databases provided by leading info providers and information gathered during meetings with financial counterparties.
  - 4.2 Screening of instruments based on minimum quantitative criteria such as—depending on the instrument and by way of example—AUM, track record, liquidity, volatility, yield, etc.;
  - 4.3 Screening of funds according to ESG/SRI criteria;

4.4 Sending a due diligence questionnaire (DDQ) to the managers of the UCIs after screening in order to gather more information for the overall analysis of the instrument.

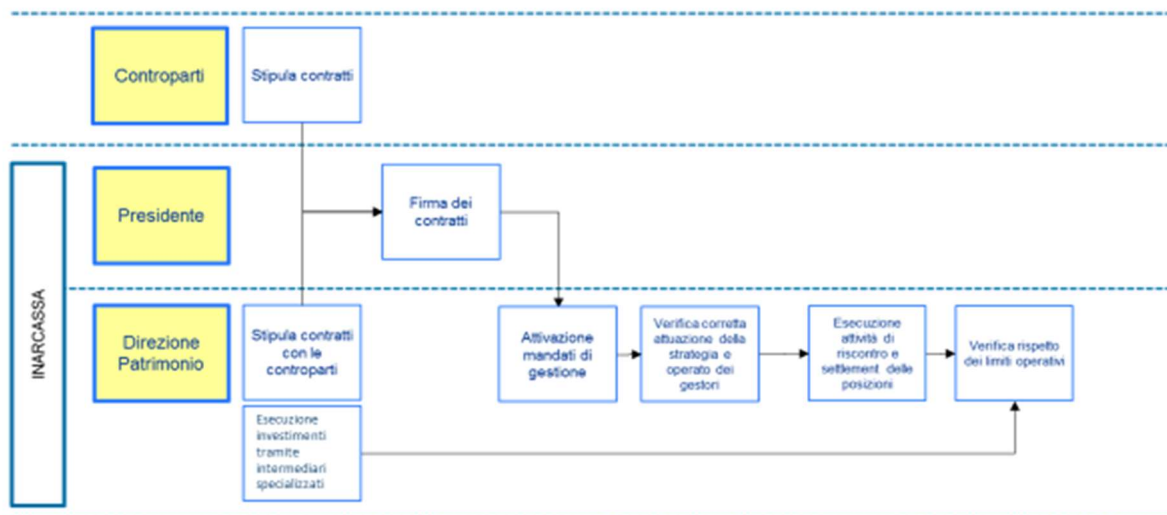
If less than one year has passed since the previous selection presented to the BoD, the results of the preceding selection may be updated.

5. For UCITS other than the selected ETFs, the Investment Department invites potential counterparts to submit an improved economic offer for the management fees compared to those established in the Prospectus;
6. The Investment Department, through the Asset Manager, sends to the BoD the proposals of investment (and disinvestment) in the financial instrument for each asset class, along with the order of presentation stating the order criterion adopted.
7. The BoD examines the investment proposals and proceeds as follows:
  - (a) if it finds that changes need to be made to the proposals, it sends them back to Asset Management, which examines the BoD's request for amendments and formulates a new, final proposal, which is then submitted to the BoD.
  - (b) if it approves the proposals, it initiates the investment approval.

## II. Implementation of investment policy

Following the adoption of the investment resolution, the AEC department verifies that that the investment resolution contains elements that ensure the consistency of the investment with any parameters established in the preliminary and preparatory stages prior to the conclusion of the contract.

If the resolution lacks one or more required elements, it is sent back for a more detailed evaluation in a subsequent BoD meeting.



### i. Execution

Investment decisions, once approved, must be executed.

For all types of financial instrument, this activity is the responsibility of the Execution Office.

Depending on the type of investment, the Execution Office formalises the relative contracts with the counterparties and has them signed by the Chairperson. In particular:

1. It ensures that the necessary funds are available to execute the decision made by the BoD in compliance with the financial transaction procedures in force at Inarcassa;

2. It executes investments by means of telematic circuits in compliance with the principles of best execution outlined in Annex 3;
3. It grants management mandates and draws up contracts for the selected mandates.
4. In the execution steps two and three above, it interfaces with internal departments – where necessary – for support in consultancy and/or negotiations requiring specialist tax, accounting and legal expertise.
5. Once the contract is in effect, the Execution Office ensures the correct implementation of the investment strategy and the work of the financial managers.
6. For investments in UCIs (UCITS and AIFs), once selected by the Investment Department and approved by the BoD, the Execution Office organises the underwriting of the investment, possibly using the RTO system provided by the BD.

Annex 3 details the process for transmitting orders for financial instruments for the execution of the investment and disinvestment transactions covered by this procedure.

#### ii. Post Trading

1. For each transaction, the Execution Office performs the necessary post-deal activities (validation of confirmation, settlement of purchase and sale transactions, etc.).
2. The Execution Office verifies compliance with the operating limits established in the investment strategy.

### III. **Monitoring & Reporting**

The monitoring of assets is a fundamental aspect of Inarcassa's financial and real estate management and is conditional on the information/data provided by external figures, such as the BD and RM.

At least once a month, the BD sends to the Monitoring, Benchmarking & Reporting Department data on the financial instruments and the liquidity in the portfolio.

1. The RM prepares a monthly report and a more detailed quarterly report, identifying and measuring all aspects of the risk-return profile using (ex-ante) methods of analysis of the results intended to attribute the management result (i.e., the difference between the expected outcome and the actual outcome) in terms of risk to the different factors of risk contribution.
2. The Monitoring, Benchmarking & Reporting Office prepares a diagram representing the analytical breakdown of each investment within Inarcassa's portfolio into the same investment classes and compartments as adopted in the SAA. This evidence, in terms of deviation of assets from SAA, is made available to the Investment Department for relevant analysis.
3. The Monitoring, Benchmarking & Reporting Office, assisted by the BD, produces a periodic report (usually monthly) that is submitted to the BoD containing a detailed description of the performance of each individual compartment, together with an assessment of the degree of risk assumed in relation to the returns generated. This detail also identifies the different factors that determined the overall performance.
4. The Monitoring, Benchmarking & Reporting Office monitors the costs incurred in management and negotiation (explicit and implicit in the purchase and sale price of the securities); management style and asset turnover rate can help to reduce costs. If the observed costs deviate significantly from expected values or industry benchmarks, the department seeks clear explanations for the discrepancies. Clear explanations are required in the event of misalignment with the indicators.
5. The Monitoring, Benchmarking & Reporting Office coordinates, on behalf of AM, the activities requested by COVIP for data reporting.

In the case of the use of management mandates for UCIs, the Monitoring, Benchmarking & Reporting Office verifies that the costs charged are consistent with that foreseen in the management agreements. In general, given the significant recourse to UCIs, the Monitoring, Benchmarking & Reporting Office also regularly verifies the impact of the costs on profitability, taking this into account at the time of formulation as well as the individual investment proposals.



The Monitoring, Benchmarking & Reporting Office uses the information collected by the BD from the counterparties, in the case of direct investment, and from Managers, in the case of indirect investment and UCI subscription, in order to monitor the truthfulness, fairness, completeness and alignment of the data, including accounting and tax data, for the purposes of the controls that Inarcassa is required to implement.

Where the source of the data feeding the entire control system is other than the BD, this data must align with the information held by the BD.

In order to achieve effective financial management control, Inarcassa accesses market data through supply contracts with specific information providers.

#### ***5.4 Real estate investment through the 'Inarcassa RE' fund***

In 2009, Inarcassa launched a public tender in order to select an asset management company to set up, constitute and manage a mutual real estate investment fund, reserved for qualified investors as defined in Article 1(1h) of Decree No 228 of the Minister of the Treasury, Budget and Economic Planning of 24 May 1999.

The winner of the tender was Fabrica Immobiliare SGR S.p.A., which set up the 'Inarcassa RE' fund (defined above as Fund), whose investment objective is outlined in its business plan. This business plan is approved by the SGR upon the binding opinion of the Fund's Advisory Committee.

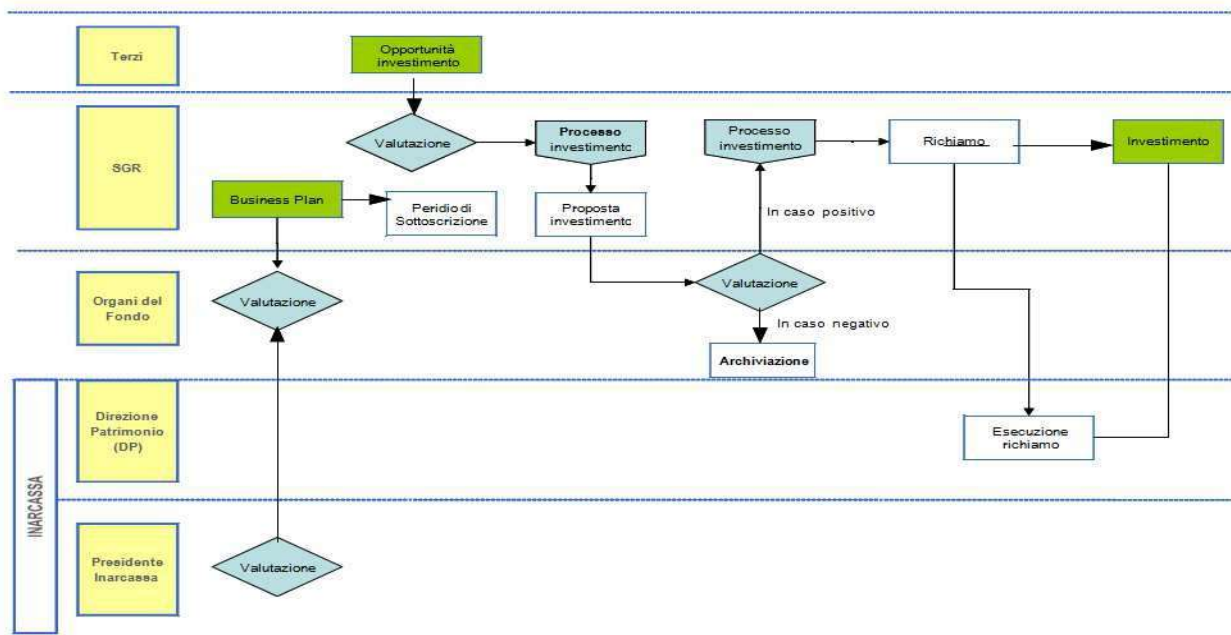
Since the fund has only one shareholder, the Investment Committee represents and expresses the interests of that single shareholder.

Considerations relating to the methods of asset management, their effectiveness and the obligation to pursue profitability imposed by the institutional purposes, already illustrated multiple times over the past few years, have made it inescapable also for the real estate component to make the gradual transition from direct to indirect investment, as can be seen in real estate funds.

This awareness has led to the full delegated management of real estate assets, with the allocation of real estate assets, over the year, to the Fondo Inarcassa RE, which is fully subscribed by Inarcassa. The fund is multi-compartment:

- Compartment One pursues the plan of real estate investments in the domestic market that began in November 2010. The management policy of Compartment One focuses on achieving a combination of real estate investments with a low to medium risk profile and a medium to long-term investment horizon that can generate steady cash flows.
- Compartment Two is dedicated to improving the value of real estate already directly owned by Inarcassa and allocated to the Fund, whose management policy must be focused on maximising the value of these assets through the adoption of all appropriate strategies and using, where necessary, radical transformation or trading. Compartment Two follows a strategy of distribution of the income generated.

The following procedure refers to investments made through the Fund.



1. In accordance with the annual business plan, the SGR decides, upon the binding opinion of the General Meeting of Fund Investors (in this case, represented solely by Inarcassa or the Chairperson of Inarcassa or their delegate), on the subscription period for new shares, in line with the provisions of the Budget.
2. The origination of investment opportunities can take place: (i) at the initiative of third parties who present these investment opportunities to Asset Management, which transmits them to the SGR, (ii) at the initiative of third parties who submit these investment opportunities directly to the SGR, or (iii) on the basis of scouting undertaken directly by the SGR.
3. The SGR investigates and evaluates investment opportunities according to its internal procedure.

If it finds an investment opportunity interesting, it submits it to the Fund Investment Committee, which plays an important role in investment selection.

After obtaining the opinions of the Fund's governing bodies, on the basis of the management rules, the SGR proceeds with further investigation of the investment proposal, according to its internal procedure.

If the investment proposal is approved by the competent bodies of the SGR, the SGR, in accordance with the Fund's management regulations, determines the return of the funds to be invested.

4. AM makes the funds available within the time set by the request for return.
5. Having made the request for return of the stock subscribed on the basis of the Fund's management regulations, the SGR proceeds with the execution of the investment.

## 6. Document storage and traceability

AM produces a comprehensive record detailing the checks conducted on investment activities, which is stored in Inarcassa's archives for ten years, in order to enable the reconstruction of events that determined past income situations.

Particular attention is paid to the verification and evaluation of investments in alternative instruments and derivatives.



## 7. Document Revision

The Document is transmitted upon first drafting and, subsequently, following any amendment:

- a) to all Inarcassa stakeholders involved in the document (as soon as possible);
- b) to COVIP when it requests data and information for investment control activities;
- c) to all ministerial control bodies that request it.

The Document is subject to periodic review, at the initiative of AM or any of the parties involved in the investment process

The changes made during the last update are noted below, with a brief description.

No	Date	Changes applied to	Description
1	17 November 2023	Whole document	Adoption of the aspects highlighted by the Ministry of Labour following the COVIP report
		Paragraph 3 Relevant legislation	Update to operational regulations and rules on self-regulation
		Paragraph 4. Tasks and responsibilities of persons involved in the Investment Process	Inclusion of the Ethics Committee
		Section 5.1 Objectives and criteria of the investment policy	Update to SAA objectives from an ALM perspective
		5.2 Criteria for defining and implementing the investment policy	Changes to investment classes consistent with SAA 2024
		Annex 1 Criteria for determining asset classes and relative benchmarks. Precautions and parameters for evaluating management styles.	Update of the SAA 2024 table of indicators
		Annex 4 Financial management control manual	Update of the table of performance parameters, expected volatility and maximum acceptable loss

***Annex 1) Criteria for determining asset classes and relative benchmarks. Precautions and parameters for evaluating management styles.***

- A. With regard to the strategic asset allocation, the definition of the appropriate number of asset classes, taking into account the competencies of Inarcassa's departments, according to the following criteria:
1. composition of the SAA and the realignment plan;
  2. market conditions;
  3. portfolio diversification;
  4. minimum trend threshold of passive management and availability on the market of counterparties who can achieve it;
  5. portfolio composition based on a sufficiently high proportion of investments available on the international market;
  6. compliance with internal constraints in the investment options approved in the SAA existing pro tempore in the following dimensions:
    - 7.1 quantitative limit for individual financial instruments: 3% of the total. This limit does not apply to the INARCASSA RE fund, government bonds and the holding of liquidity with BT;
    - 7.2 limit on investment in the same issuer: 5% of the total. This limit does not apply to government bonds;
  7. identification of investment classes ensuring the maximum possible efficiency consistent with the sustainability principles defined in the Sustainability Policy;
  8. rapid and secure marketability for the component reserved for treasury needs;

The margin of fluctuation among the various asset classes is set annually by the CND during approval the SAA.

The identification of benchmarks aims to achieve optimum balance among the following criteria:

- a) representativeness;
- b) replicability at low cost;
- c) transparency.

The market indicators currently chosen to represent the above asset classes and their weight of the assets are as follows:

**Table 1: indicators of Strategic Asset Allocation 2024**

Macro Asset Class	Asset class	Benchmark	Exchange rate risk	Strategic 2024
Cash	Cash	Euribor 3m	euro	3,5%
Bonds and Bdl	Italian Government Bonds	JPM GBI Italy	euro	14,0%
	Global Government Bonds;	JPM GBI Global Hedged EUR	euro/hedged	7,0%
	Emerging Market Government Bonds	JPMorgan EMBIG Diversified EUR	open	2,0%
	Euro Corporate Bonds;	Bloomberg Euro Corporate IG TR EUR	euro	7,5%
	Global Corporate Bonds;	Bloomberg Global Corporate IG TR EUR hdg	euro/hedged	4,0%
	Corporate High Yield	Bloomberg Global High Yield TR EUR	euro/open	3,0%
	Equity Investment Bank of Italy	450 bps	euro	2,8%
Equities	Italian Equities	MSCI Italy in euro	euro	8,0%
	Global Equities;	MSCI World NR in euro	euro/open	11,5%
	Emerging Markets Equities	MSCI Emerging Markets NR in euro	open	1,5%
Real Investments	Private Equity	50% CA US + 50% CA EUR	euro/open	4,0%
	Private Debt	SP Global Leveraged Loan Index	euro/open	2,0%
	Infrastructure	MSCI Global Quarterly Private Infrastructure	euro/open	3,5%
	Italian Real Investments	Real GDP + 300bps	euro	6,7%
Real Estate	Domestic Real estate;	MSCI Italy Biannual Property Fund Index	euro	14,5%
	Global Real Estate.	MSCI Global Quarterly Property Fund Index	euro/open	4,5%

The above indicators are inclusive of dividends and coupons.

**B.** Inarcassa takes the following precautions when investing in the following financial instruments:

- alternative instruments: extensive due diligence by the Investment Department on closed-end funds and real estate AIFs, including using the timely information provided by the specialised database provided by Prequin;
- derivative instruments: use only for the purposes of financial risk hedging;
- UCITS: new acquisitions concern exclusively those that comply with the UCITS regulation, so new direct purchases in non-harmonised hedge funds are precluded;
- In addition, Inarcassa has adopted, as part of its bond investment policy, assessments that do not rely solely on ratings expressed by specialised agencies.

In the area of government bond investments, according to the CND's resolution on the constraints and limits applied to investments, the High Yield investment limit is not applied to Italian government bonds in the event of downgrading below 'BBB'.

As part of its investment in corporate bonds, Inarcassa has chosen to take into consideration (based on independent evaluations) certain bonds issued by Italian companies with ratings between investment and sub-investment grade.

On the non-domestic bond market, both supranational and corporate, Inarcassa makes its investments mainly through UCITS and specialised managers and therefore relies on their professional evaluation within precise operational constraints appropriate to the nature of the mandates in question.

**C.** Parameters for assessing the management style adopted:

1. maximum level of annual asset turnover so as to avoid excessive asset turnover due solely to the need for continuous rebalancing among assets.
2. in relation to benchmark strategies, maximum level of annual variability of differences in return between the managed portfolio and the benchmark portfolio (referred to above as TEV): the agreements with the

Managers foresee that the values for the calculation of the TEV are obtained on a quarterly basis.

3. appropriate assessment of specific management styles related to particular sustainability issues.

## ***Annex 2) Benchmarks for selecting UCITS and security and real estate AIFs***

1. *General criteria:*
  - a) affordability;
  - b) effectiveness;
  - c) counterparty diversification according to the principle of avoiding excessive concentration risk both on the individual manager and on the individual product;
  - d) adherence to ESG principles in their investment process.
2. *Specific criteria:*
  - a) risk-return profile over a time horizon of at least three years (this limit may be waived if it significantly limits the investable universe or when particular market situations require a different time horizon);
  - b) adherence to the benchmark;
  - c) managed assets;
  - d) promptness in the execution of orders;
  - e) quality of management and track record;
  - f) level of commission;
  - g) quality, transparency and promptness of reporting on performance and portfolio composition;
  - h) consistency of the risk/return profile of the proposed instrument with all instruments belonging to the same investment category.
  - i) ESG scoring.
3. *Procedural criteria for selecting counterparties:*
  - a) impartiality;
  - b) equal treatment;
  - c) transparency;
  - d) proportionality;
  - e) affordability.

It is at the discretion of AM to add to or provide more detail to the general and special criteria for selecting counterparties given in this Annex to the Document.

AM does not formulate a ranking of preference but highlights, in the proposal to the BoD, a basket of opportunities that at least meet the majority of the parameters listed above, which thus become discriminatory for inclusion on the list presented to the BoD. The BoD is then free to make an informed choice based on what it considers to be most consistent with its investment policy.

### ***Annex 3) Order transmission process in direct management***

The recipient counterparties for orders implementing portfolio construction are selected in accordance with the general principles of affordability, effectiveness, impartiality, equal treatment, transparency and proportionality. Subsequently, with the counterparties selected for trading on the regulated markets, Inarcassa signs specific contracts for trading

With regard to the transmission of orders, Inarcassa has deemed it appropriate to take into account the following factors: affordability, speed and probability of execution and settlement, size, nature of the order or other considerations pertinent to the execution of orders.

The relative importance of each of the above factors takes into account the following criteria:

- (a) characteristics of the order;
- (b) characteristics of the financial instruments that are the subject of the order and characteristics of the conditions of marketability of the financial instruments;
- (c) characteristics of the intermediaries to whom the order may be directed.

In addition, certain qualitative and quantitative principles shall be taken into account in the selection of trading counterparties, namely:

- affordability;
- high operational standing;
- operational efficiency, with particular reference to:
  - promptness and accuracy/correctness by traders in the execution and settlement of orders;
  - administrative efficiency of back offices;
- counterparty rotation.

For derivatives trading, given the need to enter into ad hoc contracts and manage daily margining, it is considered more efficient from an operational, accounting and administrative point of view to manage it through the entities of the existing custodian bank group. For derivatives used to hedge exchange rate risk, as specified in the Strategic Asset Allocation (Table 1, Annex 1), the trading is governed by a resolution framework set by the Board of Directors, which defines the general criteria for hedging exchange rate risk to be established before the entry into force of the new Strategic Asset Allocation that changes the asset classes subject to exchange hedging.

### ***Annex 4 Financial management control scheme***

The purpose of this scheme is to allow verification of the procedures followed in formulating and implementing Inarcassa's investment policy.

The monitoring of financial management is entrusted to AM and its subordinate offices. The financial management monitoring system refers to the risk thresholds and main management parameters adopted by Inarcassa and are calculated as follows:

- (a) at individual asset level
  - i. variability of average yield and maximum acceptable loss (expressed in terms of shortfall):

Macro Asset Class	Asset class	Expected gross return	Expected volatility	Shortfall @5%
Cash	Cash	3,4%	0,9%	1,5%
Bonds and Bdl	Italian Government Bonds	4,0%	5,4%	-5,7%
	Global Government Bonds;	3,0%	4,8%	-7,6%
	Emerging Market Government Bonds	6,3%	11,3%	-14,9%
	Euro Corporate Bonds;	4,6%	3,1%	-0,9%
	Global Corporate Bonds;	4,8%	4,6%	-4,7%
	Corporate High Yield	7,6%	9,3%	-10,3%
	Equity Investment Bank of Italy	4,5%	0,0%	4,5%
Equities	Italian Equities	9,8%	19,4%	-22,7%
	Global Equities;	7,9%	13,5%	-16,9%
	Emerging Markets Equities	9,1%	14,2%	-15,4%
Real Investments	Private Equity	9,9%	16,5%	-18,2%
	Private Debt	8,8%	8,9%	-8,1%
	Infrastructure	8,6%	12,9%	-13,3%
	Italian Real Investments	8,9%	13,7%	-14,4%
Real Estate	Domestic Real estate;	6,5%	10,0%	-11,1%
	Global Real Estate.	6,9%	12,8%	-16,0%
<b>Total</b>	<b>Total</b>	<b>6,5%</b>	<b>6,5%</b>	<b>-5,7%</b>

(b) in relation to the type of active management:

- i. average residual life (duration) of bonds: in line with benchmark parameters
- ii. tracking error limit specified in the management delegation agreement
- iii. asset turnover rate: not set for active segregated management
- iv. any qualitative and quantitative limits: leverage of 1, prohibition of securities lending unless specifically stated in the agreement, maximum limit of investment in securities outside the benchmark of 10% of the market value of the assets under management.

(c) in relation to the type of passive management:

- i. average residual life (duration) of bonds: in line with benchmark parameters
- ii. asset turnover rate: depending on the rebalancing of the benchmark
- iii. tracking error limit specified in the management delegation agreement
- iv. any qualitative and quantitative limits: leverage of 1, prohibition of securities lending unless specifically stated in the agreement, prohibition of investment in securities outside the benchmark, maximum limit of liquidity on hand in the mandate.

(d) at the level of the individual operator: the constraints placed on its activities set out in the agreements.

AM verifies the above parameters on a monthly basis based on the indicators set out in the document.

On a quarterly basis, AM, with the support of the RM, also verifies the consistency of the risk thresholds with the financial target and the strategy adopted, adjusting the thresholds if necessary to changing circumstances and/or market trends.

In principle, Inarcassa does not adopt automated systems to correct deviations of risk thresholds from the set targets, preferring to evaluate on a case-by-case basis the remedial measures to be taken.

There is also a methodology for analysing results (ex-post) in order to attribute the management result (i.e. the differential with respect to what was expected) in terms of risk and return to the various factors that contributed to generating it (performance and risk attribution).