CORPORATE SOCIAL RESPONSIBILITY

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EQUITY RESEARCH

"ITALIAN CORPORATES FOR SUSTAINABILITY" PORTFOLIO

LARGE

MID / SMALL

FOCUS ON RESPONSIBLE INVESTMENT GROWING AMID COVID-19 CRISIS

Interest in responsible investment has increased in the aftermath of Covid-19 crisis, led by growing sensitivity to social concerns, attractive risk adjusted returns and wider offer. Growing demand is matching an unprecedented supply of green and social investment opportunities, funded by domestic and European plans. We have selected a portfolio of "Italian Corporates for Sustainability", featuring companies which combine appealing fundamentals with the highest contribution to these sustainable development opportunities.

■ Focus on responsible investment growing amid covid-19 crisis

Interest in responsible investment has not been dampened by the Covid-19 outbreak and resulting health emergency but **has in fact increased**, as confirmed by **investment fund inflow figures for 1Q20 at international** (+USD 45. 6 bn for ESG fund vs. -USD 384.7 bn for traditional funds, according to Morningstar), **and domestic** (+€ 2.8 bn for ESG fund vs. -€15bn for non-ESG funds according to Assogestioni) **level**.

In our view the reasons for the disproportionate growth and resilience of ESG funds relative to traditional funds are:

- **Growing sensitivity to environmental and social concerns.** The pandemic has made it clear that social concerns are an integral part of sustainable development.
- Investors are increasingly starting to believe that **ESG funds provide an attractive risk/return profile**, as shown by 1Q20 performance.
- Asset managers have begun to provide retail investors with **more options to invest in ESG funds**.

■ Sustainability at the core of initiatives launched by Italian and European institutions to support citizens hit by the covid-19 crisis

In response to the Covid-19 outbreak, European and Italian authorities have introduced measures to provide their citizens with financial assistance and help revive the economy. The key EU initiative over the medium term, under discussion among Member States, is the **proposed "Recovery Fund" or "Next Generation EU"**, targeting €750 billion funding to be channelled through EU programmes, via grants and loans. The plan would provide the funding for key areas of investments drafted by the Italian government related to 1) development of **green infrastructure, alternative mobility solutions, circular economy and energy efficiency**; 2) **push of digital transition in Italy**; 3) **Modernisation of transport infrastructure and systems; 4) Promotion of investments in education and health services.**

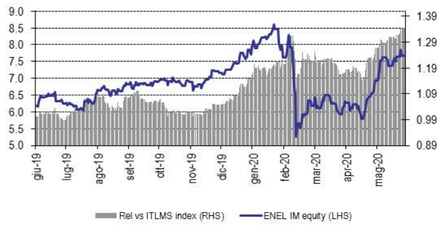
■ Italian corporates for sustainability

We decided to analyse Italian listed companies from a different perspective than our usual pure fundamental analysis**.** We therefore: 1) Selected what we believe are **the most tangible actions fostered by the Italian government** and EU institutions that will also have the **biggest impact on both environmental and social sustainability** and 2) Identified the **stocks that we believe will contribute most to achieving these objectives.**
After combining this sustainability perspective with our fundamental analysis of the selected companies, **we recommend a portfolio of 10 stocks** of "Italian Corporates for Sustainability" (see the companies on the left) composed of 5 large and 5 mid/small caps, which we believe offer **solid fundamentals** (a BUY rating) and **a contribution to sustainable development**.

"ITALIAN CORPORATES FOR SUSTAINABILITY" PORTFOLIO: LARGE CAP SELECTION

BUY		*(unchanged)*
Target:	8.1 €	*(unchanged)*
Risk:		Low
Price €		7.7
Market Cap. (€ mn)		77,663

PRICE ORD LAST 365 DAYS



Sustainability perspective

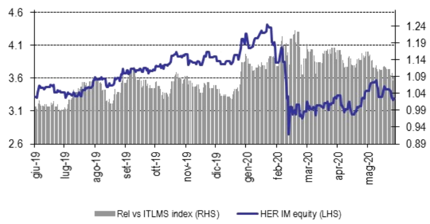
Enel is one of the worldwide leading companies in the ESG arena. Being ranked in the 95% percentile of the main global ESG indexes (AAA in the MSCI ESG index), Enel is contributing with a major **Renewables power generation** installation plan, the connection to smart energy grids, the installation of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

Fundamental analysis

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

BUY		*(unchanged)*
Target:	3.8 €	*(unchanged)*
Risk:		Low
Price €		3.4
Market Cap. (€ mn)		4,972

PRICE ORD LAST 365 DAYS



Sustainability perspective

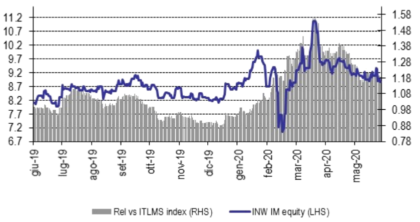
Hera is among the nation's largest multi-utilities and boasts a significant exposure to the themes of **Green Deal** and **circular economy** thanks to its involvement in Waste management and plastic recycling (Aliplast), Water services (heavy investments in the efficiency and the water losses reduction)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

Fundamental analysis

Hera is trading at the bottom of the historical range or around 14x PE as measured on 2022. Yield is below sector average of 3.5% but we believe **the group has relevant growth opportunities in the waste and water sector** in the coming years.

BUY		*(unchanged)*
Target:	10.6 €	*(unchanged)*
Risk:		Low
Price €		9.1
Market Cap. (€ mn)		8,527

PRICE ORD LAST 365 DAYS



Sustainability perspective

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

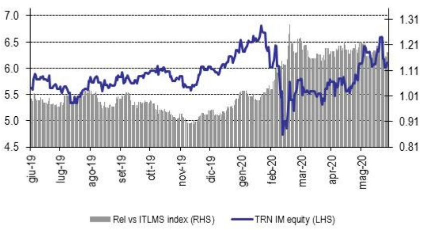
Fundamental analysis

The covid-19 crisis is accelerating the structural growth in data demand, improving the long-term perspectives for Tower Operators, and we expect TIM and Vodafone (85% of Inwit sales) to accelerate 5G investments. Inwit has underperformed its peers with a +10% in the last 3 months (including the DPS) vs. +19% for Cellnex and +24% for the US tower operators. **The stock trades at discount to Cellnex meaning a 2021E EV/EBITDA (IFRS16) of 17x vs 21x for Cellnex** and a Recurring FCF yield of 4%, which we estimate to go up to 6% in 2026-27 (4.7% for Cellnex in 2026).

Terna

BUY		*(unchanged)*
Target:	6.5 €	*(unchanged)*
Risk:		Low
Price €		6.2
Market Cap. (€ mn)		12,213

PRICE ORD LAST 365 DAYS



Sustainability perspective

Electricity transmission is at the heart of **Energy Transition**, considering the EU's objectives to electrify fuel consumption and increase electricity production from renewables up to carbon neutrality in 2050. Terna is called upon to act as a driving force to reach **Green Deal targets**; as a matter of fact, the electricity transmission grid will have to be **increasingly interconnected** to ensure that the system is flexible enough for **coal phase out** and **growth in renewables**.

Fundamental analysis

1- **We do not expect impact from Covid-19.** Electricity consumption are expected to shrink by 8-10%, but impact on Terna will be limited because around 90% of the grid fee is fixed and only 10% linked to volumes. No payments postponement from distributors are expected.

2- **The EU and the Government are pushing to speed up the electrification of consumption** and the development of renewables. **We therefore expect the regulator's approach to remain friendly**

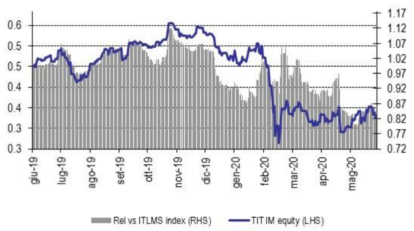
3- **Energy Transition will have to accelerate after 2030**, therefore, it will continue to have significant investment opportunities also in the long term.

4- Stock at 30% premium EV/RAB, at premium as compared to Snam (17%) due to the better investment perspectives of the electricity industry. 2021E PE of 16x and a yield of 4.4% (5.1% in 2022) still attractive

TIM

BUY		*(unchanged)*
Target:	0.47 €	*(unchanged)*
Risk:		Medium
Price €		0.35
Market Cap. (€ mn)		7,482

PRICE ORD LAST 365 DAYS



Sustainability perspective

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

Fundamental analysis

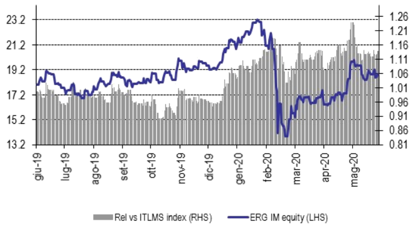
The stock trades at 5.0x EV/EBITDA and 10x PE 2020, with 20% FCF yield and dividend yield of 3% for ordinary share and 8% for saving shares. The key catalyst is the possible combination with Open Fiber to set up a single wireline network operator, able to accelerate the digital transition and reduce the competitive risk brought by OF.

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

ERG
EVOLVING ENERGIES

BUY		*(unchanged)*
Target:	22.8 €	*(unchanged)*
Risk:		Low
Price €		19.8
Market Cap. (€ mn)		2,829

PRICE ORD LAST 365 DAYS



Sustainability perspective

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

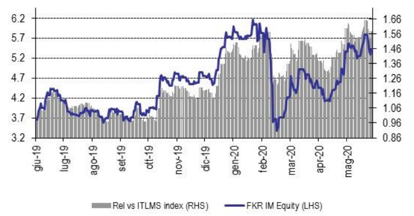
Fundamental analysis

The stock is trading at significant discount vs the average peers in the sector or 20x-21x PE as measured in 2021-2022 vs. 30x-40x PE of comparable groups. We believe the context remains favourable for the Renewables groups and ERG may partially close the valuation gap in the coming months with the approval of the regulatory changes for the repowering of renewables assets (which we believe will remove the merchant risk in the Italian wind fleet).

Falck Renewables

BUY		*(unchanged)*
Target:	5.7 €	*(unchanged)*
Risk:		Low
Price €		5.4
Market Cap. (€ mn)		1,590

PRICE ORD LAST 365 DAYS



Sustainability perspective

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

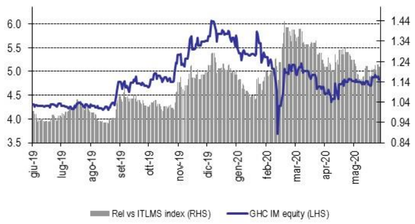
Fundamental analysis

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

GHC GAROFALO HEALTH CARE

BUY		*(unchanged)*
Target:	5.6 €	*(unchanged)*
Risk:		High
Price €		4.7
Market Cap. (€ mn)		398

PRICE ORD LAST 365 DAYS



Sustainability perspective

Garofalo might contribute to **strengthening of healthcare networks and services**. Garofalo Health Care Group is in fact a leading private accredited patient care group in Italy with ~1,430 accredited beds in 24 different patient care facilities.

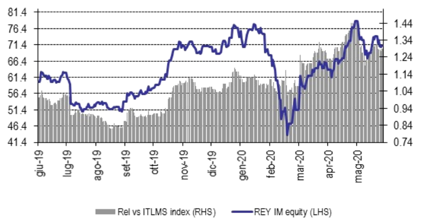
Fundamental analysis

Garofalo Health Care trades at 20.2x-16.2x PE 2020E-21E and 11.3x-9.3x EV/EBITDA 2020E-21E. **GHC has a good cash generation** (FCF Yield 2021 7.8%), **which leaves room to additional M&A.**

We expect a limited impact from Covid-19 outbreak in 2020 and **we are convinced that GHC will return to its growth path in 2021 even in a recessionary scenario**. In addition, in our opinion, the current health crisis will lead to a **greater willingness of the Italian government to increase the funding of the National Healthcare system improving the Group's medium to long-term outlook**.

BUY		(unchanged)
Target:	74.0 €	(unchanged)
Risk:		Low
Price €		72.6
Market Cap. (€ mn)		2,664

PRICE ORD LAST 365 DAYS



Sustainability perspective

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

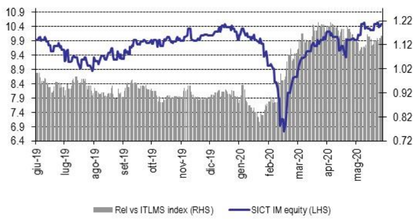
Fundamental analysis

The stock trades at 23.5x PE 2021 with 2020-2022 sales CAGR=10%. The financial structure is strong (2020 net cash ex IFRS 16 is about €250mn) as well as the management team (family run business).

This substantial growth is driven by: 1) Growing spending in digitalization by corporate, 2) Higher penetration of foreign markets such as Germany/France and UK and 3) Enlargement of the product/service offering.

BUY		(unchanged)
Target:	12.2 €	(unchanged)
Risk:		High
Price €		10.3
Market Cap. (€ mn)		207

PRICE ORD LAST 365 DAYS



Sustainability perspective

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

Fundamental analysis

The stock trades at undemanding multiples: EV/EBITDA c. 6.7x FY20. SICIT is exposed to fast growing products and it is in the middle of its expansion plan; revenues and EBITDA are expected to increase respectively by +12% and +13.5% CAGR over 2019-23 period. Its **sound profitability** (EBITDA margins ~40%) is the result of the **recycling activity and the superior production process**. Furthermore, its strong B/S and good CF conversion allow a **compelling dividend policy**.

ACTIONS FOR SUSTAINABLE DEVELOPMENT AND COMPANIES MOST INVOLVED

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

Source: Equita SIM

RESPONSIBLE INVESTMENT ON THE RISE DESPITE COVID-19-GENERATED VOLATILITY

In our opinion, **investor interest in responsible investment has not been dampened by the Covid-19 outbreak and resulting health emergency but has in fact increased**.

Our view is confirmed by investment fund inflow figures for the first few months of 2020, which show that **ESG funds far outperformed traditional funds in terms of net inflows**, despite the extreme market volatility.

■ INVESTMENT IN ESG FUNDS FAR EXCEEDS TRADITIONAL FUND INFLOWS DURING THE COVID-19 CRISIS

Based on Morningstar data[1], in the first quarter of 2020, when the COVID-19 outbreak began in Asia, then spread to Europe, leading to the collapse of the financial markets**, traditional funds reported outflows amounting $-384.7 bn worldwide. During the same period, ESG fund inflows stood at $+45.6 bn.**

Although overall 1Q ESG fund inflows were lower than the record levels seen in 4Q19 (-27%), their resilience relative to traditional funds warrants further analysis. As we can see from the following table, Europe continued to be the main market for ESG funds, with its assets representing more than 80% of total assets invested in ESG funds globally. However**, the United States is beginning to close the gap**, with record inflows in 1Q of $+10.45 bn, already at half of the total inflow level seen in 2019 ($20.6 bn). Globally, **ESG fund inflows were up 90% YoY in 1Q**.

GLOBAL ESG FUNDS INFLOWS AND TOTAL ASSETS (€ Billion)

Region	Q1 2020 Flows		Total Assets		Funds	
	USD billion	% Total	USD billion	% Total	#	% Total
Europe	33.14	72.5	683.87	81.3	2,528	76.7
United States	10.45	22.9	119.33	14.2	307	9.3
Japan	0.17	0.4	13.52	1.6	164	5.0
Australia/New Zealand	0.25	0.6	12.06	1.4	86	2.6
Canada	0.77	1.7	5.26	0.6	87	2.6
Asia ex-Japan	0.90	2.0	7.46	0.9	125	3.8
Total	**45.69**		**841.49**		**3,297**	

Source: Morningstar Direct. Morningstar Research. Data as of March 2020.

■ ITALY IS NO EXCEPTION IN TERMS OF ESG FUND INFLOW RESILIENCE

Data for the Italian market is in line with the international trend. Assogestioni reported net inflows of -€12bn in 1Q20. ESG fund inflows amounted to € 2.8bn vs. -€15bn for non-ESG funds. The number of ESG funds in Italy rose by roughly 13% from 221 to 251 in 1Q20. In line with global figures, ESG fund inflows in Italy were down in 1Q compared to 4Q19 (-22%). Nonetheless, the contraction was far less marked than for traditional funds, which moved from +€14bn in 4Q19 to -€15bn in 1Q20. **ESG fund net inflows in Italy were up +385% YoY in 1Q.**

ITALIAN ESG FUNDS INFLOWS AND TOTAL ASSETS (€ Billion)

Region	Q1 2020 Flows	Total Assets
Italy ESG	2.8	30.4
Italy non-ESG	-14.9	2,110.0
Italy Total	**-12.1**	**2,140.4**

Source: Assogestioni

1 https://www.morningstarfunds.ie/ie/news/202313/investors-back-esg-in-the-crisis.aspx

UNDERLYING REASONS FOR SUCCESS OF ESG FUNDS: GROWING AWARENESS OF SUSTAINABILITY ISSUES, GREATER UNDERSTANDING OF PRODUCTS AND WIDER OFFER

What are the **reasons for the disproportionate growth and resilience of ESG funds** relative to traditional funds?

- ### GROWING AWARENESS, PARTICULARLY OF SOCIAL CONCERNS, ON THE BACK OF THE PANDEMIC

In our view, **the first reason for the success of ESG funds is a growing sensitivity to environmental and social concerns**.

Before the Covid-19 outbreak and ensuing health crisis, **appetite for socially responsible investment was mainly driven by an interest in environmental protection**, particularly the development of green technologies and mitigation of climate change risks.

As shown by our research study in partnership with Altis, Cattolica University's Graduate School of Business and Society, "Sustainability: Made-to-measure rating approach for SMEs (for a summary of the conclusions, please see note n° 383 dated 25th October 2019), **"S" factors (i.e. social criteria) were not monitored as thoroughly by ESG rating providers, investors or asset managers**, despite companies (particularly SMEs) being very active in this area. One of the reasons that the "Social Pillar" is monitored less closely was brought to light by the survey we conducted with the main investment houses operating in Italy (see note n° 14 dated 5th February 2020): opinions differ on which social issues are most relevant and the methods used to measure social KPIs vary to a greater extent.

The pandemic has made it quite clear that social concerns are an integral part of sustainable development. In a post- Covid-19 scenario, given the health emergency triggered by the outbreak of the virus and the severe impact from the lockdown measures introduced by governments on the social and economic activities of millions of people around the world, **social criteria are now deemed to be just as relevant as environmental concerns.**

Far from reducing it, **the current crisis has only served to increase appetite for responsible investment, and investors are focusing just as closely on social and governance concerns as they are on environmental aspects**.

This is confirmed by a recent article featured in the Financial Times, "ESG passes the Covid challenge[2]", in which the newspaper gives many different examples of ESG fund resilience during the global pandemic. The article mentions research conducted in collaboration with Savanta that found that "almost nine in 10 wealth managers polled believed that the Covid-19 pandemic would result in increased investor interest in ESG investing". Furthermore, **35% expected the pandemic to cause "significant increases" in interest in ESG investing**. Another UK poll showed that "more than three-quarters of respondents (Independent Financial Advisors or IFAs) believed investors would be motivated to divest from companies that have failed to support their employees or wider society through the crisis." The same survey also found that "**85% of UK IFAs had seen a rise in client requests to allocate capital to ESG-integrated funds since the start of the Covid-19 outbreak**."

[2] https://www.ft.com/content/50eb893d-98ae-4a8f-8fec-75aa1bb98a48?accessToken=zwAAAXKkKX1Qkc9Q64k9mK5Kj9OP7HWqG7mKSA.MEYCIQDBchmH0myoFyvG4AGNU2aHhN6ftzPj4t9tGLC09DF4BglhALSwa68Hc87KeO-LK0yrhLHLTZ8BQXlvKcf8jUAiBQBj&sharetype=gift?token=f6b369ea-821d-4842-b455-f2f3921e93b0

BETTER UNDERSTANDING OF PRODUCTS: ESG DOES NOT MEAN LOWER RISK-ADJUSTED RETURNS

Another reason retail investors poured more money into sustainable funds is that they now have a better understanding of the products and their expected returns. Given that ESG funds are relatively new products, information on whether they are more, less, or equally profitable compared to traditional funds has been unclear. **However, there are far more studies available now than there were a few years ago on whether ESG investing can match traditional fund returns, or possibly even outperform them**.

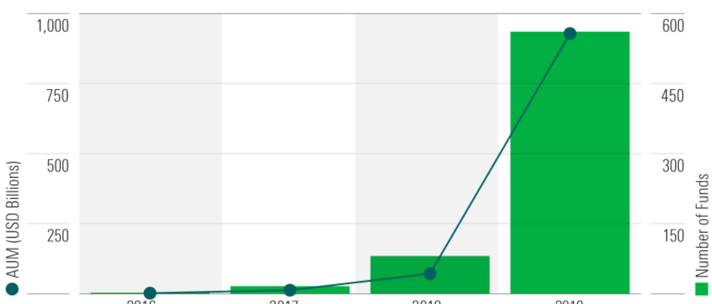
In terms of the correlation between low sustainability and high risks, **BlackRock's CEO Lawrence Fink, in his famous letter to CEOs in January 2020, expressed the fund's commitment to divesting from low sustainability businesses** not only as a way to positively impact the planet through their investments, but especially as a way to decrease their long-term risks. In his letter, the CEO of the world's #1 fund by AUM mainly discussed the environmental side of ESG investing and the risk that climate change poses to the economy in the long term, especially to unsustainable companies, therefore suggesting to invest in more sustainable businesses for better long-term returns.

Furthermore, with some of the biggest ESG funds outperforming indexes YTD, investors are increasingly starting to believe that ESG funds are able to provide an attractive risk/return profile. For example, during the pandemic BlackRock found that "**sustainable strategies have outperformed during this period of intense volatility**, with 94 per cent of a globally representative selection of widely-analysed sustainable indices outperforming their parent benchmarks in the first quarter." More recently, **"Pension&Investment online" reported that out of the 17 U.S. ESG funds with at least $250 mn in assets, 14 outperformed the S&P [3] YTD as of May 20th.**

WIDER OFFER

The third reason is undoubtedly the supply-side of ESG funds; due to the growing interest in sustainable investments, especially from younger generations**,** asset managers have begun to provide their retail investors with more options to invest in ESG funds. As shown below, **the number of ESG consideration funds in the United States grew five-fold in 2019,** meaning that more than 500 traditional funds added ESG criteria to their yearly prospectuses. Even though ESG consideration funds represent a broader range when compared to ESG funds, since they are comprised of all funds that have any sort of ESG consideration in their yearly prospectus, this exponential increase shows the trend behind ESG investing in recent years.

THE NUMBER OF ESG CONSIDERATION FUNDS EXPLODED IN 2019



Source: Morningstar (author). Data as of 12/2019.

[3] https://www.pionline.com/esg/esg-funds-outperforming-sp-500-year

CONCLUSION: ESG FUNDS TO CONTINUE TO TAKE A LARGER SHARE OF FINANCIAL ASSETS

To conclude, those who believed that high ESG inflows were only a function of a bull market, when investors are more willing to settle for lower returns in exchange for doing good, are beginning to change their minds. This is because both the assumptions of the argument made above are proving to be incorrect since **ESG inflows are proving far more resilient than traditional fund inflows and ESG funds are outperforming their respective market indexes and traditional funds[4].**

SUSTAINABILITY AT THE CORE OF INITIATIVES LAUNCHED BY DOMESTIC AND EUROPEAN INSTITUTIONS TO SUPPORT CITIZENS DURING THE COVID-19 CRISIS AND BEYOND

In response to the Covid-19 outbreak and ensuing health crisis, Italian and European authorities have introduced measures to provide their citizens with financial assistance and help revive the economy. In addition to short term income and employment support, the proposed measures are aimed at financing reforms and investment, particularly for the transition towards sustainability and digitalisation and to strengthen anti-crisis procedures.

EU INITIATIVES

RECENT EUROPEAN INITIATIVES IN RESPONSE TO THE COVID-19 CRISIS

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

Source: European Commission

So far, the EU has announced the following initiatives:

1. **SURE** (Support to mitigate Unemployment Risks in an Emergency), a pan-European instrument that enables solidarity loans to preserve jobs in Member States. When Member States adopt short-term work schemes to preserve employment and assist self-employed citizens, they can request that SURE finances their expenditures in the short term so that their public expenditure does not increase too steeply. The funds available through the SURE plan amount to roughly €100 bn. Italy is currently estimated to be eligible for loans amounting to up to € 20bn under the SURE scheme. Interest rates, costs and the duration of the loans are agreed individually by the applicant Member State and the EU.[5]
2. **ESM Pandemic Crisis Support** to promote domestic financing of healthcare services. The credit line will be available to all euro area member states, with standardised terms agreed in advance by the ESM governing bodies, on the basis of preliminary assessments by the European institutions. Access granted will be 2% of the respective member states' gross domestic product as of end-2019, as a benchmark. It is not yet clear whether Italy will apply for the ESM credit line given the ongoing political debate within the government regarding the possible rules

[4] https://www.morningstar.com/articles/976361/sustainable-funds-weather-the-first-quarter-better-than-conventional-funds

[5] https://www.econopoly.ilsole24ore.com/2020/06/08/italia-europa/

governing use of the loan. Should parliament vote in favour, Italy will have access to some € 36bn of funds to be used by the end of 2022, for a one-off upfront fee of 25bps, an annual spread of 10bps and annual service fee of 0.5bps.

3. **EIB approval of the new € 25bn Guarantee Fund for Workers and Businesses** which will provide up to € 200bn in business loans, particularly for SMEs.
4. **Proposed plan to revive the European Economy: "Recovery Fund" or "Next Generation EU".** Next Generation EU will raise money by temporarily lifting the own resources ceiling to 2.00% of EU Gross National Income, allowing the Commission to use its strong credit rating to borrow €750 billion on the financial markets. This additional funding will be channelled through EU programmes, via grants and loans, and repaid over a long period of time throughout future EU budgets – no earlier than 2028 and no later than 2058. The Recovery Fund will act on top of the long-term European Financial Framework worth € 1,100 bn over the 2021-2027 period.

EU resources will be deployed on three key pillars:

- **The European Green Deal**, targeting:
  - A massive wave of building and infrastructure renovation and a more circular economy, bringing local jobs;
  - Roll-out of renewable energy projects, especially wind and solar, and kick-starting a clean hydrogen economy in Europe;
  - Cleaner transport and logistics, including the installation of one million charging points for electric vehicles and a boost for rail travel and clean mobility in cities and regions;
  - Strengthening the Just Transition Fund to support re-skilling, helping businesses create new economic opportunities.

- **Reinforcing the Single Market and adapting it to the digital age**:
  - Investing in more and better connectivity, especially in the rapid deployment of 5G networks;
  - A stronger industrial and technological presence in strategic sectors, including artificial intelligence, cybersecurity, supercomputing and cloud;
  - Building a real data economy as a motor for innovation and job creation;
  - Increased cyber resilience.

- **A fair and inclusive recovery for all**:
  - The short-term European Unemployment Reinsurance Scheme (SURE) will support workers and businesses;
  - A Skills Agenda for Europe and a Digital Education Action Plan will ensure digital skills for all EU citizens;
  - Fair minimum wages and binding pay transparency measures will help vulnerable workers, particularly women;
  - The European Commission is stepping up the fight against tax evasion and this will help Member States generate revenue.

Since resources will be allocated according to the social and economic impacts of the Covid-19 crisis, which has had a disproportionate impact on the Southern European countries (Italy and Spain in particular), **Italy will presumably be granted access to a significant portion of these resources** (according to European Commissioner Gentiloni, Italy may be the main beneficiary among the Member States, with over € 81 bn of grants and roughly € 91 bn in loans), **provided that it is able to define and implement credible and detailed measures.**

The Recovery Fund must be approved unanimously by Member States and is therefore still somewhat of a question mark given that some European countries have voiced their opposition to what they see as an excessively generous initiative, as well as the form that funding will take (non-repayable grants vs loans) and the guarantee mechanisms governing how the resources will be spent. Despite pressure from the Commission to approve the plan by the end of July, negotiations may therefore take longer.

EXPECTED TIMELINE FOR NEXT GEN. EU

May 2020
Commission proposal for the revised Multiannual Financial Framework 2014-2020 & 2021-2027 and Own Resources Decision + sectoral legislation

By July 2020
European Council: Political agreement on Multiannual Financial Framework 2014-2020 & 2021-2027 and Own Resources Decision

By summer 2020
European Parliament's consultation on Own Resources Decision

Early autumn 2020
Adoption of the revised Multiannual Financial Framework 2014-2020 + corresponding sectoral legislation

October 2020
European Council

December 2020
Adoption of the revised Multiannual Financial Framework 2021-2027 (European Parliament's consent)

Adoption of the Own Resources Decision (Ratification by all Member States in line with their constitutional requirements)

January 2021
Multiannual Financial Framework 2021-2027 implementation starts

Source: European Commission

ITALIAN GOVERNMENT INITIATIVES

The measures proposed by the Italian government in response to the health emergency are mainly contained in the "Cura Italia" decree (March 17th), "Liquidity" decree (April 8th) and "Relaunch" decree (issued on May 19th and currently being converted into law).

The first two decrees mainly dealt with **emergency measures to shore up the national health service, preserve employment levels, and to protect employee** and **self-employed workers' income and corporate liquidity.**

The "Decreto Rilancio" introduced initiatives to provide liquidity to businesses and **new measures to help restart manufacturing activity.** Some of the measures included in the decree:

- Grants for SMEs hit by the crisis;
- **Incentives to boost exports** and investment in start-ups and innovative SMEs;
- **Incentives to increase the capital of SMEs** affected by the crisis;
- Creation of a dedicated fund, managed by the CDP (Cassa Depositi e Prestiti) to provide funding for **medium and large enterprises** or to encourage strategic transactions;
- Introduction of **tax credits** for commercial leases, for the cost of adapting to new anti-Covid regulations, advertising investments, and measures to boost tourism demand;
- Increased tax deductibility of investments in anti-seismic and energy renovation work on buildings in Italy.

The decree therefore incorporates some of the points that were raised by business people and managers of the so called "Italian Champions" in our report n° 146, "Italian Champions for an effective reopening strategy" dated 27th April 2020, such as tax incentives aimed at strengthening the equity of Italian companies and supporting investments in R&D, digitalisation and internationalisation processes, as well as incentives to encourage Italians to channel their ample private savings into Italian companies.
The government also appointed a taskforce led by former CEO of Vodafone, Vittorio Colao to draw up **proposals to accelerate economic growth in Italy and improve economic, social and environmental sustainability**, in line with the Agenda 2030 and United Nations Sustainable Development Goals (SDG), as well as strategic targets set by the European Union. Following the proposals put forward by Colao and his team, the government drafted a list of reforms that it intends to introduce under the 'Progettiamo il Rilancio" plan presented at the so-called "Stati Generali" meetings with government ministers, opposition parties, international representatives and labour unions.

ITALIAN GOVERNMENT'S RELAUNCH PLAN: MAIN PRIORITIES

A fully digital Country	A Country with safer and more efficient infrastructures	A more sustainable and green Country	A more competitive and resilient economic framework (Jobs and Enterprises)	Integrated plan to support all Italian manufacturing sectors	A Public Administration supporting citizens and enterprises	We invest in education and research	A fairer and more inclusive Country	A more modern and attractive legal system

Source: Italian Government

We believe the most important aspects are as follows:

- **A wide range of proposals concerning measures supported by the "European Green Deal"**, focusing in particular on:
    - development and expansion of green infrastructure (renewables, repowering, networks);
    - development and expansion of power and water networks;
    - encouraging more widespread use of alternative mobility solutions (biofuels, electric vehicles, recharging stations) and development of hydrogen, as well as providing incentives for the modernisation of Local Public Transport (LPT) infrastructure by switching to more energy efficient modes of transport;
    - funding for the circular economy (waste management, biogas, treatment facilities) and development of precision farming;
    - improvement in the energy efficiency of public buildings.
- **Heavy focus on digital transition in Italy:** national FTTH coverage plan, connection of public administration offices, 5G roll-out, investments in cybersecurity, robotics, Artificial Intelligence and Cloud, incentives to provide internet access to low-income households, fostering the use of electronic payment methods.
- **Modernisation of transport infrastructure and systems (airports, ports, railways)** by promoting a smart urbanization, completing the high-speed rail network, strengthening rail hubs and regional transport, improving links between ports and airports and other transport systems, modernising schools, courthouses and prison buildings, upgrading sports facilities.
- **Incentives for private investment in public infrastructure:** investments to modernise public buildings - particularly schools and hospitals – and strengthening of healthcare networks;
- **Investment in competitiveness:** ramping up the 4.0 transition that provides tax credits to companies that invest in capital goods, R&D and 4.0 Training (staff training on technological and digital transformation of businesses), fostering quality of work and protection of workers.
- **Companies to be granted tax incentives to increase capital:** introducing incentives for capital increases, e.g. by enhancing the appeal of the ACE (allowance for corporate equity), introducing a "Super-ACE" for firms that invest in green technology, making it easier to access, and reducing the time required and cost of capital increase procedures for listed companies.
- **Strengthening SMEs and supply chains:** enhancing and facilitating new ways of collaboration among corporates (e.g. Business networks, Temporary Business Associations, etc.), encouraging business combinations (e.g. by re-introducing goodwill amortisation), reviving Italian exports, tax incentives for high value-added companies that resettle in Italy.
- **Simplifying bureaucracy:** reviewing the procurement process and streamlining bureaucracy by changing the regulations concerning the liability of public officials for loss of tax revenue.
- **Incentives to boost the tourism sector and promote Italy's heritage:** tax exemptions and grants for sector operators. Loans and tax credits for redevelopment and refurbishment of tourist accommodation and consolidation of the sector. Attracting private capital for the management of Italy's artistic and cultural assets.
- **Reform of the legal system:** acceleration and standardisation of legal procedures between the state-regions-local authorities, reform of special administration procedures for large companies, corporate law reforms, tax reforms and efforts to combat tax evasion.

ITALIAN CORPORATES FOR SUSTAINABILITY

Now more than ever, some companies and economic sectors are in the position to play a key role in social sustainability, which has been put under enormous strain by the Covid-19 health emergency: these companies can in fact work towards meeting environmental and social sustainability targets by making investments financed by governments and EU institutions, thereby helping to revive the economy and safeguard jobs in Italy.

Consequently, we have decided to analyse Italian listed companies from a different perspective than our usual fundamental analysis, focusing on the **contribution that Italian companies could make to achieving sustainability objectives.**

In the table of the next page we have therefore

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

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

a2a

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

Acea

The company is highly exposed to businesses linked to **Green Deal**, **Climate Change** and **Circular Economy**, like the **water and electricity distribution** and the **Waste Treatment** (85% of group EBITDA). In the water distribution, the 2019-22 capex plan is mainly focused for repairing and widening water and sewage pipes, rationalize small purification facilities, reduce network losses. As regards the Energy transition the company is investing in the electricity distribution in many projects enabling the decarbonization of the system (new photovoltaic capacity, smart meters, remote control of Low & Medium Volt secondary stations, etc).

Amplifon

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

Aquafil

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

CIR

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

CNHI

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

CY4Gate

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

ENEL

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

ERG

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

Falck Renewables

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

Ferrovie Nord Milano

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

Garofalo Health Care

Garofalo might contribute to **strengthening of healthcare networks and services**. Garofalo Health Care Group is in fact a leading private accredited patient care group in Italy with ~1,430 accredited beds in 24 different patient care facilities.

Hera

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

Inwit

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

Landi Renzo

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

Nexi

Nexi is exposed to actions aimed at fostering the **use of electronic payment** methods. Nexi is in fact the leading digital payment company in Italy with 72% market share in merchant acquiring and 60% market share in card issuing.

Openjob Metis

Openjob Metis is exposed to actions aiming at fostering **competitiveness and job flexibility**. Staffing (98% of 2019 sales) is in fact its core business: temporary work contracts help corporates to become more flexible and to manage business peaks as efficiently as possible while offering people (from students to professional white collars) a regular and law-compliant job contract.

Prysmian

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

Reply

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

Saipem

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

Sicit

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

Snam Rete Gas

Snam invests in **Energy Transition** supporting the evolution of **Green Gas** like the biomethane (€250 mn capex in the 2019-23 Business Plan) and development of **hydrogen** (70% of the gas transport network is "hydrogen ready"; H2 blending transport tests up to 10% already got and studies ongoing on asset readiness and power to gas projects).

Terna

Electricity transmission is at the heart of **Energy Transition**, considering the EU's objectives to electrify fuel consumption and increase electricity production from renewables up to carbon neutrality in 2050. Terna is called upon to act as a driving force to reach **Green Deal targets**; as a matter of fact, the electricity transmission grid will have to be **increasingly interconnected** to ensure that the system is flexible enough for **coal phase out** and **growth in renewables**.

TIM

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

Webuild

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

ACTIONS FOR SUSTAINABLE DEVELOPMENT AND COMPANIES MOST INVOLVED

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

Source: Equita SIM

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

"ITALIAN CORPORATES FOR SUSTAINABILITY" PORTFOLIO: LARGE CAP SELECTION

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

Source: Equita SIM

APPENDIX 2: THE "EU GREEN DEAL" (EUGD)

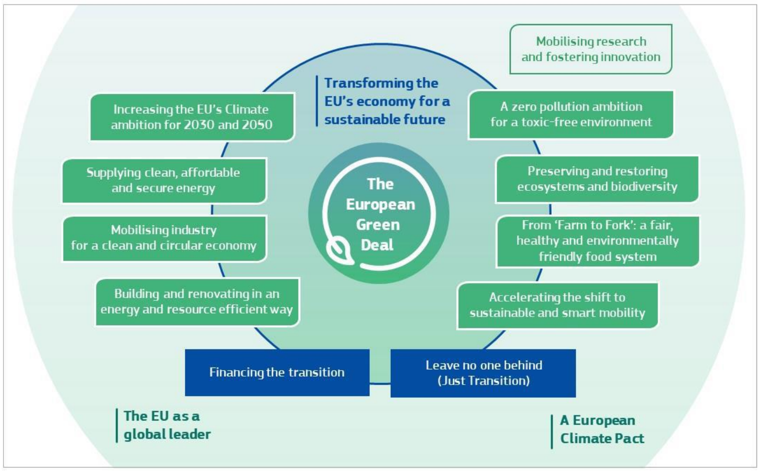
As a main reference of the EUGD, we believe it is worth underlining the following EU Commission targets:

1. **Ensuring Europe continues to be a global leader in the de-carbonisation process;**
2. **Increasing the EU climate ambitions for 2030 and 2050, by maintaining affordable and secure energy;**
3. **Mobilising industry on the themes of circular economy;**
4. **Changing building and renovation criteria in the Real Estate segment, aiming at higher efficiency targets;**
5. **Targeting a zero-pollution environment;**
6. **Accelerating the shift to sustainable and smart mobility;**
7. **Preserving and restoring ecosystems and biodiversity;**
8. **Starting to address the food system.**

The EUGD includes measures needed to "Finance" the transition and also takes into consideration the negative externalities that the energy transition will inevitably create in the coming years. The creation of a dedicated fund of up to €100 bn (including both public and private contributions) will finance projects in order to support the elimination of restrictions, negative externalities and penalisation of specific industries.

Below is a summary of the key objectives of the EUGD.

EUGD MAIN OBJECTIVES



Source: Company presentation

■ RAISING THE EU'S CLIMATE AMBITIONS FOR 2030 AND 2050

Within the strategy to achieve climate neutrality by 2050, the EU Commission proposed the first "Climate Law" in March 2020 and will propose an "Impact Plan" by Summer 2020 with the aim of:

1. **Increasing the EU's GHG emission reduction target for 2030 to at least 50% and towards 55%** compared with 1990 levels, in a responsible manner (from 40% previously targeted);
2. **Revise all relevant climate related policy instruments**, including the Emission Trading System (ETS), through the potential inclusion of new sectors and ensuring that carbon pricing will effectively change consumer and business behaviour;
3. **Neutralise the carbon leakage effect** thanks to the introduction of green taxes at the borders;
4. **Modify taxation systems in order to introduce measures which place a greater burden on more polluting industries**.

As indicated also by the EU Parliament, the above-mentioned ambitions should be further reinforced through:

- **The introduction of "binding" targets for climate neutrality in 2050 as well as intermediate targets in 2030 and 2040,** in order to move all the required forces (social, political, technological, economic) towards the transition;
- **Even more ambitious targets** with a 55% GHG reduction in 2030 (vs previous 40%);
- **Reduction in the amount of free CO2 allowances** and introduction of a "minimum" price for the ETS scheme.

SUPPLY CLEAN, AFFORDABLE AND SECURE ENERGY.

A specific focus of the EUGD is addressed to the decarbonisation of energy use, considering that the production and use of energy across economic sectors accounts for more than 75% of the EU's GHG emissions. As regards "energy", the EUGD envisages:

1. **The presentation of the new climate plans at the end of 2020** (preparation is in due course for Italy), with the description of the countries' contributions to emission reductions, highlighting the measures required to reach the targets;
2. **The essential role of Renewable Energy Sources (RES),** including a greater usage of offshore wind and a higher integration of RES in the grids;
3. **Promotion of deployment of innovative technologies and infrastructure**, smart grids, hydrogen networks, carbon capture and energy storage.

The EU Parliament is also asking for some reinforcements in terms of:

- **Full integration of EU energy markets,** with investments in country interconnections;
- **Cancellation of all direct and indirect subsidies to fossil fuel industries** both at the EU level and for country members;
- **A push for energy savings** in the Real Estate segment with investments and incentives for renovation and reconstruction.

MOBILISING INDUSTRY FOR A CLEAN AND CIRCULAR ECONOMY.

As indicated in the EUGD, in March 2020 the Commission adopted an EU Industrial Strategy to address the challenges of the green and digital transformation. Together with the industrial strategy**, a new "circular economy action plan" will also be used** to stimulate the transition. These measures will help to accelerate the transition of EU industry to a sustainable model:

1. **Industry will be pushed to support the circular design of all products** based on a common methodology and principles. The action plan will prioritise the reduction of and reuse of materials;
2. **Special attention will be paid to resource-intensive sectors such as textiles, construction, electronics and plastics;**
3. **All packaging in the EU market will be reusable and recyclable by 2030;**
4. **New rules will be introduced for biodegradable and bio-based plastics;**
5. **Industry will be encouraged to offer, and to allow customers to choose, reusable, durable and repairable products.**
6. **Reduction of waste will be achieved** with new targets and measures for tackling over-packaging and waste generation.
7. **Monitoring of air and water pollution will be digitalised**.

The EU Parliament is demanding more efforts with:

- **Stronger targets in terms of sorted collection, waste reduction, and recycling of materials;**
- **Introduction of extended producer responsibility,** which should shift the cost of disposal to the material producers;
- **Development of specific markets** for recycled materials;
- **Border measures to reduce imports** of materials with prohibited substances in Europe;
- **Development of a unique green market** in the EU that will stimulate demand for sustainable products.

Accelerating the shift to sustainable and smart mobility.

Transport accounts for a quarter of the EU's GHG emissions and is growing progressively. The EUGD addresses the issue with the aim to achieve:

1. **A 90% reduction in transport emission by 2050**. Road, rail, aviation and waterborne transport will all have to contribute to the reduction. The Commission will adopt a strategy for sustainable and smart mobility in 2020;
2. **A boost in multimodal transport,** to increase the efficiency of the system. The aim is to shift a substantial part of inland freight carried by road to railways and waterways;
3. **A push towards digitalisation of the mobility infrastructures;**
4. **A reflection of the level of pollution in the price of transport**. This will also imply the cancelation of all fossil fuel subsidies as well as a revision of the energy taxation directives;
5. **Extension of the ETS scheme to the maritime sector and reduction of the free ETS allowances allocated to airlines;**
6. **Increase in the production of alternative fuels**. The EU will support the deployment of public recharging and refuelling points. The Commission will consider legislative options to boost the production and uptake of sustainable alternative fuels for the different transport systems;
7. **Promotion of more stringent air pollution standards** for combustion-engine vehicles.

As for the other aspects of the EUGD, the EU Parliament is also asking for:

- Expansion of investment in railway systems;
- Decarbonisation of the aviation sector;
- A dedicated plan for urban mobility.

FINANCING AND PROTECTING AGAINST EXTERNALITIES

The efforts envisaged in the EUGD require a significant level of investments, which are estimated in the region of €260bn per year or 1.5% of EU28 GDP. The amount of investments will require mobilisation of both the public and private sectors, which will require the Commission to present a EU investment plan to help meet the additional funding needs. This may imply:

1. **20% of revenues from ETS trading system to be dedicated to the budget of the EUGD plan;**
2. **Increased financing of the EIB group from 25% to 50%**
3. **Introduction of a Just Transition Mechanism and Fund** to allow for a fair transition, thus eliminating possible externalities arising from the changed business mode, skill requirements, price increases, plant reconversions. As recently announced, the fund will start with a €7.5bn contribution (Italy will have access to €400mn), but will grow up to €100bn.
4. **Revision of the tax reform** in order to provide the right price signal and to provide incentives for producers, users and consumers. The tax burden will have to move from labour to pollution. This will imply the possibility to use VAT increases for individual countries to push for transition achievement.

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

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

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