

EU TAXONOMY SOLUTION

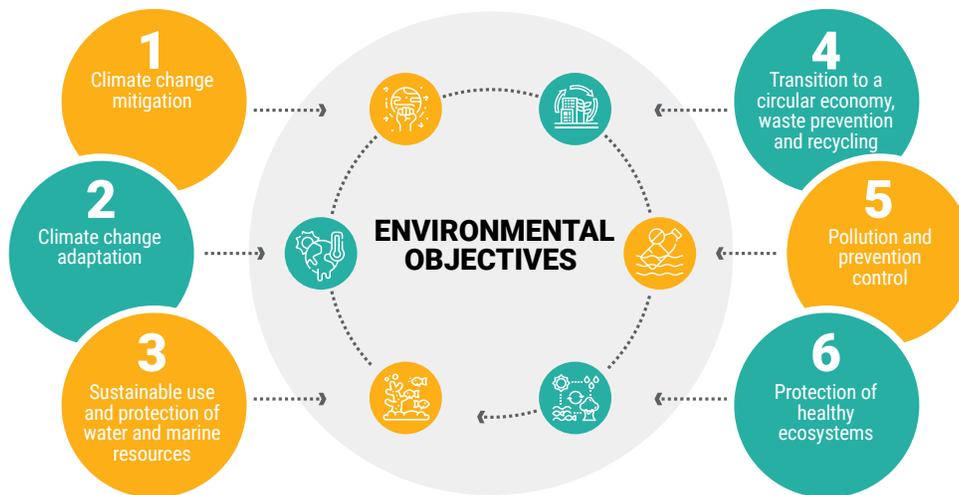
Assess companies against EU Taxonomy criteria to report on your portfolios' contribution to environmental objectives.

One of the cornerstones of the EU Sustainable Finance Action Plan is to bring clarity to the market regarding which economic activities can be considered environmentally sustainable to direct investments towards sustainable projects and activities. The EU Taxonomy is an ambitious attempt to define these activities and the related technical standards for six environmental objectives (see diagram below).

The economic activities and standards have been currently defined for the Climate Change Mitigation and Climate Change Adaptation objectives.

Sustainalytics' EU Taxonomy Solution assesses companies' eligibility and alignment to the Climate Change Mitigation and Climate Change Adaptation objectives, supplementing reported data with estimations. It will continuously evolve to capture updates to the regulatory requirements.

The EU Taxonomy framework defines eligible economic activities and science-backed criteria for six environmental objectives



The following three factors are considered when assessing a company's alignment to the EU Taxonomy:



1. Substantial Contribution: Is the company involved in a Taxonomy-eligible activity for one of the objectives? Does it conduct this activity in a way that meets the technical screening criteria? For example, a company that constructs green buildings must meet specific criteria stipulated for this activity.

2. Do No Significant Harm: Does this activity detrimentally affect the other five objectives? For example, when constructing green buildings, is it done in a sustainable way that does not cause excessive pollution (Objective 5)?

3. Minimum Safeguards: Is the company conducting its business in a way that respects global standards for responsible conduct? For example, does the company respect the rights of its employees and the local community?

How Does Sustainalytics Assess Companies' Alignment to the Climate Change Mitigation and Climate Change Adaptation Objectives of the EU Taxonomy?

Our EU Taxonomy Solution includes both Taxonomy-specific data reported by companies and estimated assessments based on industry-leading estimation models. It has been constructed using our dedicated cutting-edge Activity-Based Research, which goes beyond traditional ESG data – which is typically at company level – by providing a granular breakdown of company involvement in Taxonomy-eligible activities (based on the Climate Delegated Act and NACE classification system). We then assess these activities for their environmental sustainability, according to the EU Taxonomy framework:

STEP 1 Identify Company Involvement in Taxonomy-Eligible Activities



What percentage of a company's revenues, capex, or opex is associated with eligible economic activities that could make a Substantial Contribution to the EU Taxonomy's Climate Change Mitigation and Climate Change Adaptation objectives?

Example

Production of energy by coal (not eligible) vs the production of energy by solar panels (eligible).

Output

Looking at company reporting and using sophisticated estimation approaches, we provide the percentage of eligible revenue, capex and opex (each broken down by reported data vs estimated data).

STEP 2 Assess Whether Eligible Activities Meet EU Taxonomy Criteria



Does the eligible activity meet the EU Taxonomy's rigorous technical screening criteria? We use Taxonomy-specific data reported by companies or, in cases where reported data is not available, we produce estimates of alignment:

For Climate Change Mitigation, Sustainalytics uses our leading-edge Sustainable Activities Involvement Research as a proxy to assess the "greenness" of eligible economic activities, similar to the technical screening criteria.

For Climate Change Adaptation, we use Taxonomy Alignment Coefficients.

Example

Building energy-efficient houses vs building energy-efficient houses that meet green building certification standards

Output

Types of activities that can be considered aligned to the EU Taxonomy are:

- Enabling, Transition or Own Performance for Climate Change Mitigation.
- Enabling and Own Performance for Climate Change Adaptation.

STEP 3

Assess Do No Significant Harm Criteria



Does the activity negatively impact the EU's other environmental objectives?

Example

When constructing green buildings, does the company prevent excessive pollution (objective 5) and safeguard the ecosystem (objective 6)?

STEP 4

Assess Minimum Safeguards Criteria



Does the company operate in a way that complies with global standards for responsible business, including the UN's Global Compact Principles and OECD's Guidelines for Multinationals?

Example

Is the company operating in a way the respects global standards for responsible business conduct?

Alignment Conclusions

Clear assessments and individual qualitative summaries of each involved activity are provided for every company:

- Delineation between reported alignment and estimated alignment is made in client deliverables, so that these datasets can be used for both regulatory and non-regulatory use cases.
- Breakdown of alignment to Climate Change Mitigation, Climate Change Adaptation and Overall is provided for each company.

Granular Reporting

We collect and estimate data across all 3 key Taxonomy KPIs, including revenues, capex and opex.

01

REVENUES

The percentage of revenue a company earns from products and services that mitigate climate change.

Does it generate revenue from green products and services?

02

CAPEX

The percentage of a company's capital investments that would enable it to become more sustainable.

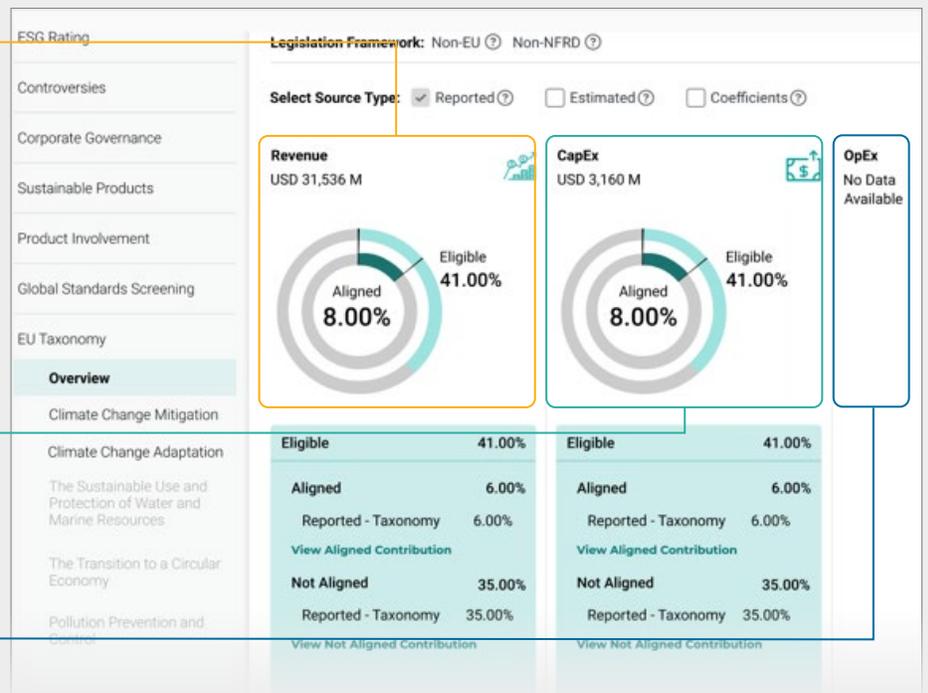
Is the company investing in equipment or machinery that would make it more sustainable?

03

OPEX

The percentage of a company's operating expenses that is aligned to a low carbon economy.

Is the company spending money to lower the CO2 footprint of its operations?



Key Benefits



Research Quality: In 2022, we strengthened our existing EU Taxonomy research capabilities. The collection, qualification and integration of reported and estimated data is done by a team of over 100 analysts. We leverage AI models and analyst expertise to qualify data before making it available in the product.



Holistic View of Alignment: Sustainalytics' dataset includes Taxonomy-specific eligibility and alignment data as reported by companies. In cases where reported data is not available, Sustainalytics leverages its highly sophisticated estimation models using our industry leading Activity Based Research and other existing ESG and Controversy products.



Extensive Coverage: We cover ~9,500 companies across 89 Taxonomy activities for Climate Change Mitigation and 96 for Climate Change Adaptation. We collect and estimate data across all 3 key Taxonomy KPIs including revenue, capex and opex.



Transparency: We ensure investors have full view of our methodology, research processes and quality controls.



Ease of Access: Intuitive company reports with activity-level analyst write-ups, integration across Sustainalytics, Morningstar and 3rd party platforms, variety of reporting solutions.



Team of Experts: Team of dedicated experts focused on monitoring regulation & policy and ensuring Sustainalytics research fits the regulatory requirements as they evolve. Senior team members participating in expert groups including Platform on Sustainable Finance, FinDatEx, ESMA and EUROSIF.

Delivery Options

Online Client Platform: The report can be accessed via user-friendly interface at company and portfolio level in PDFs or Excel format.

Data Services: Company Level, Activity Level and Input Data Assessments in Sustainalytics Data Feeds (API or FTP) in .txt or Excel. Morningstar: available in Equity Data Feed, API and OnDemand.

Use Cases

Regulatory Reporting: Leverage EU Taxonomy Solution to meet regulatory reporting requirements under the EU Action Plan or other regulations.

Sustainability & Impact Reporting: Enable investors to credibly quantify and report on the real-world contributions of their investments through this framework.

Ex Ante Research and Stock Selection: Use Taxonomy research as an input to stock selection, particularly for those funds looking to achieve impact on environmental objectives or attain environmental characteristics.

Product Creation: Leverage the EU Taxonomy framework and our alignment research to build credible green products and portfolios.

Ex Post Monitoring and Stewardship (Engagement): Clients can use our solution to engage their holding companies to improve their alignment with the EU Taxonomy.

¹ The first environmental objective defined in the EU taxonomy as "the process of holding the increase in the global average temperature to well below 2 °C and pursuing efforts to limit it to 1.5 °C above pre-industrial levels, as laid down in the Paris Agreement".

² The second environmental objective defined in the EU taxonomy as "the process of adjustment to actual and expected climate change and its impacts".

Learn More About Sustainalytics

contact@sustainalytics.com | www.sustainalytics.com

Europe: Amsterdam (+31) 20 205 00 00 | Copenhagen (+45) 32 72 52 81 | London (+44) 20 3514 3123
Frankfurt (+49) 69 3329 6555 | Paris (+33) 1 184880642 | Stockholm (+46) 8 505 323 33

Americas: Boston (+1) 617 603 3321 | New York (+1) 212 500 6468 | Toronto (+1) 416 861 0403

Asia Pacific: Sydney (+61) 2 8320 9436 | Tokyo (+81) 3 4510 7979

Copyright ©2023 Sustainalytics. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein are proprietary of Sustainalytics and/or content providers, and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. By way of exception, the company level data contained may not be copied, distributed or used in any way, including via citation, unless otherwise explicitly agreed in writing.

They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, nor represent an expert opinion or negative assurance letter; (3) are not part of any offering and do not constitute an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) are not an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; (5) are not a substitute for a professional advice; (6) past performance is no guarantee of future results; (7) have not been submitted to, nor received approval from, any relevant regulatory bodies. These are based on information made available by third parties, subject to continuous change and therefore are not warranted as to their

merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflects Sustainalytics' opinion at the date of its elaboration and publication.

Sustainalytics nor any of its content providers accept any liability for damage arising from the use of the information, data or opinions contained herein, or from the use of information resulting from the application of the methodology, in any manner whatsoever, except where explicitly required by law.

Any reference to content providers names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

A list of our content providers and their respective terms of use is available on our website. For more information visit <http://www.sustainalytics.com/legal-disclaimers>

Sustainalytics may receive compensation for its ratings, opinions and other deliverables, from, among others, issuers, insurers, guarantors and/or underwriters of debt securities, or investors, via different business units. Sustainalytics has put in place adequate measure to safeguard the objectivity and independence of its opinions. For more information visit Governance Documents or contact compliance@sustainalytics.com