radicant's SDG Impact Rating Methodology

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1. Rationale

Our SDG Impact Rating aims to measure an issuer's (e.g., a company's) impact (positive and negative) on society and the environment as comprehensively as possible. The UN Sustainable Development Goals (SDGs) are the framework for the assessment; hence, the impact of an issuer is mapped against the 17 SDGs. All UN member states have agreed on the SDGs in 2015 with the goal of achieving them by 2030. While they implicitly also define humanity's biggest challenges, the broad consensus makes them unique and a meaningful framework to measure impact against.

2. Data Input

radicant bank ag (radicant) has the goal to measure the SDG alignment of issuers as holistically as possible and thus uses a wide range of data inputs. The comprehensive datasets provided by ISS ESG[1] currently constitute the basis of our assessment of issuers such as public companies, private companies, and governmental/supranational organisations. Furthermore, we use public sources and company reports to enrich the data and will integrate additional, state-of-the-art data from other providers into our assessment going forward.

3. Rating Calculation

3.1. Calculation of Single-SDG scores and assigning SDG flags

For each of the 17 SDGs, a single rating score is calculated ranging from strong negative to strong positive on a scale from -100 to +100. -100 means that an issuer (e.g., a company) is significantly harming/hindering the achievement of the respective SDG. A score of +100 (or simply 100) means that an issuer is significantly contributing to the achievement of the respective SDG. 0 means the issuer has a neutral or no effect.

The single SDG ratings are based on the following inputs:

- Alignment of an issuer's products and services with the respective SDG (e.g., generation of wind power has a high positive impact on SDG 7 "Affordable and Clean Energy" and SDG 13 "Climate Action", while oil production has a strong negative impact on the same SDGs)
- Alignment of an issuer's operations with the respective SDG (e.g., CO_2 emissions, gender ratio, accident rates, gender policy).
- Controversies – public reports, news articles, NGO reports, lawsuits etc. – as signals of misalignment with the respective SDG

[1] ISS – Institutional Shareholder Services Inc.

Products and services are judged in terms of their impact potential per SDG (strongly negative, negative, neutral, positive, strongly positive) and are combined with the estimated revenue share of the respective product or service of the issuer.

For each industry, operations are judged in terms of their potential impact on an SDG (weak, medium, strong) and operational metrics material to relevant sectors are considered.

Controversies are judged on their severity and the mitigating action taken by the issuer.

The three inputs per SDG are then combined:

a) First, a weighted average of the Products & Service Score and the Operations Score is calculated where Products & Services have 2/3 of the weight and Operations 1/3. The reason for this weight distribution is that Products & Services are a much better indicator of an issuer's impact on society and the environment than operations.
b) Second, controversies are deducted from the combined score of a).
c) Third, a slight mathematical stretching of the Single SDG scores makes better comparability possible. This step is necessary, as some SDGs do not have associated Product & Service scores.
d) Finally, additional data is considered for SDG 5, 8, 9 and 17 to improve the quality of the assessment.

Based on the Single SDG scores, specific SDG Flags (positive and negative) are assigned:

- Generally, issuers with a single SDG Score higher than 25 (20 for SDG 5, 8 and 9 and 30 for SDG 17) will get the respective positive SDG Flag assigned. We consider ratings above the mentioned thresholds of 25 as relevantly positive.
- Generally, issuers with a Single SDG Score lower than -20 will get the respective negative SDG Flag assigned. We consider ratings below the mentioned threshold of -20 as relevantly negative.

The SDG Flags help our clients to quickly grasp if and where an issuer has a relevant positive or negative impact. To avoid confusion, we either show only positive or negative SDG flags of a company depending on the Overall SDG Rating.

3.2. Aggregate SDG Score

The issuer's 17 single SDG scores are combined resulting in the aggregate Overall (or Net) SDG Impact Rating score, which also has a scale of -100 to +100. Extreme values are overweighted so that strong alignments and misalignment count more than neutral scores. The reason for overweighting extreme values is that issuers usually have a relevant impact (positive or negative) on only one to three SDGs and no relevant impact on other SDGs based on their business model (i.e., a solar producer has a high positive impact on SDG 7 and 13, but most likely no relevant ones on other SDGs). As a result, the overweighting is required to model the relevant impact and not dilute it with neutral impact scores.

We consider the following ranges of our SDG Impact Rating:

-100 to -60	Issuer has a strong negative net alignment with the SDGs / hinders the SDGs significantly
-60 to -20	Issuer has a negative net alignment with the SDGs / hinders the SDGs
-20 to 20	Issuer has a neutral net alignment with the SDGs / has no relevant impact on the SDGs
+20 to +60	Issuer has a positive alignment with the SDGs / contributes to the SDGs
+60 to +100	Issuer has a strong positive alignment with the SDGs / contributes significantly to the SDGs

3.3. Assigning the "#radiTags"

If an issuer has at least one positive SDG Flag assigned (and hence has a relevant positive impact on one of the SDGs), it is also assigned at least one #radiTag per SDG Flag. #radiTags are a group of economic activities through which issuers contribute to the SDGs (e.g., a photovoltaic cell producer gets the #radiSolution #solar, a water utility company that cleans water gets the #radiSolution #WaterTreatment). A #radiTag can be understood as a "solution" the issuer is providing. With few exceptions, we primarily refer to the provision of products and services. These often reflect a company's main impact on society and the environment more accurately than looking only at business practices. We currently consider approximately 65 different #radiTags. However, the model is adaptable, and #radiTags can be added or removed as new solutions emerge or are no longer available in the market.

Like the SDG Flags, our customers can easily understand how an issuer is positively contributing to the SDGs with the help of the #radiTags

3.4. Assigning the "radiThemes"

The "radiThemes" are our thematic investment solutions that relate to one or a group of SDGs. Based on the positive SDG Flags, radiThemes are assigned to the issuers and make them investable for the respective radiTheme AMCs (Actively Managed Certificates – see 5.2.). If an issuer holds at least one SDG Flag, the respective radiTheme is assigned:

SDG or SDGs		radiTheme
SDG 1, 2, 16	→	Basic Needs
SDG 7, 11, 13	→	Climate Stability
SDG 8, 9, 10	→	Societal Progress
SDG 12, 14, 15	→	Healthy Ecosystems
SDG 3	→	Good Health and Well-Being
SDG 4	→	Quality Education
SDG 5	→	Gender Equality
SDG 6	→	Clean Water and Sanitation

Issuers can be assigned to several radiThemes.

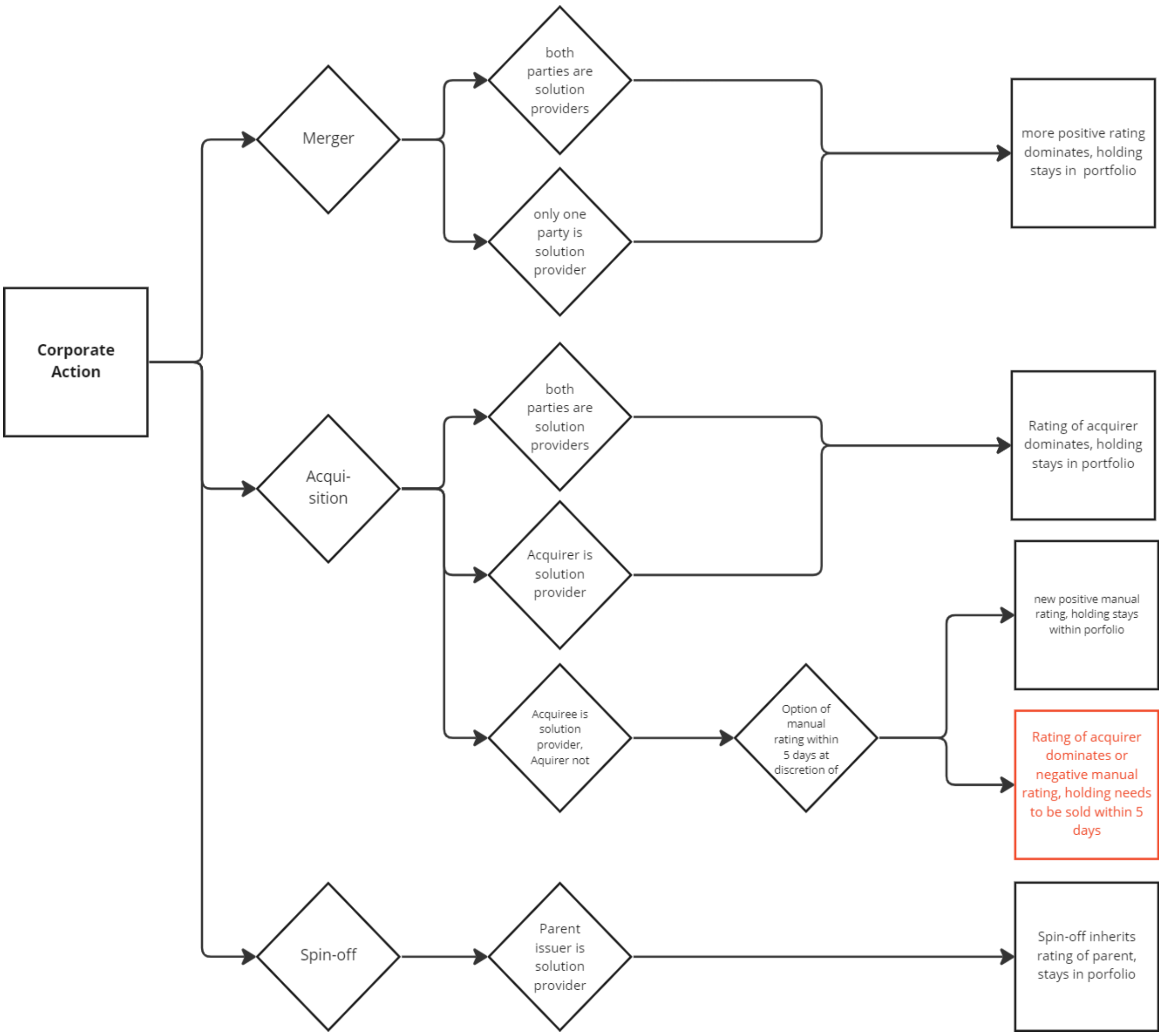
3.5. Subsidiary mapping and principle of subsidiarity

Our goal is to have an SDG Impact Rating and the exclusion flags on the lowest level of a capital structure as possible. So, if a company's subsidiary has data for a rating, it will not be overwritten. If a subsidiary has no data to do a rating, it is mapped to the parent organisation and inherits its rating.

Ratings and exclusion flags can only be inherited downwards not upwards.

3.6. Corporate Action

Corporate actions, more specifically mergers, acquisitions, and spin-offs, can alter the fundamental components that determine an issuer's SDG rating as well as the composition of the portfolio. For instance, if a company in our portfolio spins off a portion of its operations, the portfolio is automatically exposed to the new, spun-off issuer, which lacks an SDG rating. In the case of a corporate action, the following process applies:



"Solution provider" in this context means we assessed the company to be investable from an SDG Impact perspective (see 5.).

4. SDG Rating Validation, up- and downgrades, manual ratings

The limitations of sustainability data are known to us. As a result, before we invest in an issuer, our sustainability experts qualitatively verify all their SDG ratings. If alternative evidence may support a rating, it can be manually up- or downgraded based on the sustainability experts' findings. (e.g., from company reports or other data from other providers).

Our sustainability experts can manually rate an issuer based on SDG Impact Rating approach and company-specific or other available data if available if we lack the necessary information from our data providers.

5. Definition of the investment universe

5.1. Positive selection

At radicant, we aim to only invest in companies that have a positive impact on nature and/or society. In other words, we aim to invest in companies that contribute positively overall to the achievement of the SDGs. As a result, our portfolio managers are only permitted to make investments in companies that have a positive Overall Net SDG Impact Rating (aggregated SDG Score, see 3.2), are identified as solution providers for at least one SDG, are not excluded, and do no significant harm. Additionally, our investment process includes minimum governance safeguards. In detail, this means the following:

Net SDG Rating above 20	The Overall (Net) SDG Rating of an issuer needs to be above +20 (see 3.2.).
Identified solution provider	An issuer must have at least one SDG Flag (see 3.1.).
No exclusion flag	Investments in excluded issuers (see radicant's Exclusion Policy) are not allowed.
Do-No-Significant-Harm (DNSH) Safeguards	Besides our SDG Rating, the norm-based exclusions, and the activity-based exclusions, we also exclude issuers that do significant harm to one of the SDGs but have a net/overall SDG score above 20. Such a violation of the Do-No-Significant-Harm principle exists if the rating score of one of the 17 SDGs for an issuer shows a rating below -60.

5.2. radiThemes AMCs

Besides the above-mentioned criteria, all invested issuers within the AMCs need to have the respective radiTheme assigned.

5.3. Minimum Governance Safeguards

While the Minimum Social Safeguards requested by the EU Sustainable Finance Disclosure Regulation (SFDR) are covered through our norms-based exclusions, the Minimum Governance Safeguards are covered through the integration of governance scores into our investment process. Our portfolio managers integrate the assessment on different governance topics (e.g., pay or board composition) into their investment decisions. The integration is supported by our Governance Dashboard and by a close exchange with our SDG Methodology Team, the SDG Transparency Team and the SDG Evangelist and Research Team.

6. SDG Rating for other securities

6.1. Treatment of Green and other Labelled Bonds from organisations

At radicant, we strive to identify financial securities that make a positive contribution to the UN Sustainable Development Goals (SDGs). We focus our assessment on the issuer level and not on the financial instrument given it is the issuer which is having an impact on the real world. For equities and plain vanilla bonds from organizations, we do only take the issuer impact into account.

Labelled bonds are an exception and require a separate rating step. While the real-world impact of labelled bonds is debatable, we believe that the instrument has its justification and can have a positive impact. But assessments need to be careful and balanced. Hence, the rating of a labelled bond is based on the issuer rating, but the labelled bond gets a bonus on the respective SDGs based on the use of proceeds category or in the case of sustainability-linked bonds the KPI category. The rating needs to be above +20 to be investable. For example, a green bond with a focus on solar energy does get a bonus in SDG 7 "Affordable and Clean Energy" and SDG 13 "Climate Action".

Hence, issuers which are not investable for equities or plain vanilla bonds might be investable with a labelled bond if the issuer rating is already close to the threshold of 20. On the other hand, labelled bonds from issuers with a strong negative impact on the SDGs will not be investable and hence, bonds for greenwashing are avoided.

6.2. Eligibility of Funds

Currently, we do not allow investments in third-party funds. The assessment of third-party funds and their alignment to the SDGs would not only require a look-through on all the holdings, but also a qualitative assessment of the provider's sophistication on sustainability guidelines and methodology.

6.3. Eligibility of other Asset Classes

Currently, we do not allow investments in other asset classes except cash. Cash is seen as not having an impact on the SDGs. All portfolio-related sustainability metrics are calculated excluding cash.