2023

Product Certification

ABC Equity

zielke research consult

Contents

Introduction

Zielke Research Consult is a consultancy firm specializing in financial and ESG analysis founded in 2013. We support insurance companies, banks, and institutional investors in dealing with the changing the regulatory environment in the areas of CSR and financial reporting. With our professional team of experts and over 27 years of experience, we provide our clients with independent research and analysis based on proven expertise in asset-liability management. We are always up to date on the latest trends in financial and sustainability accounting standards and regulations to provide our clients with tailored and needs-based advice. Our expertise enables us to qualify financial products as sustainable following the SFDR. We advise our clients on their investments and products portfolio in this matter. Our label is used by the leading insurance broker provider in Germany (Morgen & Morgen).

Zielke Research Consult audits the financial products of asset managers and insurance undertakings. The list of products analyzed includes "Insurance-based investment products" such as general accounts and a portfolio of equities, bonds, and funds of funds.

For the general account and the fund selection within the funds of funds, the ESG performance, as well as the consistent compliance with a taxonomy-alignment strategy, is investigated. In addition, harmful assets are identified. For individual funds, two aspects are under consideration. First, we assess whether any of the investee's economic activities can be considered taxonomy-eligible based on the publicly available data. Based on eligibility, activity is assessed for alignment. Then, an ESG score is calculated. This analysis enables the classification of financial products as article 8 or 9 following the SFDR definition.

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Methodology

Article 8 certification

The SFDR defines the article 8 classification as a financial product that promotes social and environmental characteristics. Sustainable investment is not the objective of this type of fund, but the companies selected must respect minimum ESG performance regardless of their economic activities.

We calculate an ESG score for each company as described in the following pages to verify if the financial product does not include harmful activities.

To grant the article 8 classification, our certification process considers the following threshold:

- A maximum threshold of 15% of companies with a low ESG score in the fund.

Article 9 certification

According to the SFDR, a financial product that has "a sustainable investment as its objective" classifies as article 9. Financial market participants that sell this type of product are subjected to a series of sustainability reporting requirements introduced by the SFDR and the EU taxonomy to describe how sustainable objectives are addressed.

In our certification process, the extent to which the fund addresses sustainable objectives is a key element of our analysis and final approval. However, due to the current unavailability of data about taxonomy alignment, it remains challenging to have a reliable picture of the sustainable activities included in the fund. Although we calculate the share of taxonomy-aligned revenue using the publicly available data at our disposal, this share usually remains low even though most of the companies in a fund address a sustainable objective.

Article 6	Article 8	Article 9
All Funds	**General ESG**	**Sustainable**
All managed products	Funds that's promote environmental or social characteristics	Funds that have sustainable investment objectives

Taxonomy Alignment Criteria

Eligibility

Is the activity Eligible? The first step consists of the identification of eligible activities of the company under taxonomy and its corresponding revenue. Also, capital expenditure (CapEx) in property, plant and equipment related to the taxonomy-eligible activity is identified.

Substantial Contribution

Does the activity substantially contribute to one of the environmental objectives? Each eligible activity must meet the specific requirement to demonstrate a substantial contribution to one or more of the six environmental objectives defined in the taxonomy regulation.

Do Not Significant Harm (DNSH)

Does the activity respect DNSH criteria? The DNSH criteria are specific requirements for economic activity that must respect in addition to the substantial contribution criteria to prove that it does not harm any other environmental objectives.

Minimum Safeguards (MS)

Does the company respect minimum social safeguards? Environmental objectives cannot be addressed at the cost of social impact. To have its activity deemed as taxonomy aligned, the company must respect globally recognized social standards.

Human Rights
Bribery/corruption
Fair competition
Taxation

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Sustainability Strategy

To assess if the company has a genuine potential to meet technical screening criteria of alignment, we look if its sustainability strategy goes in that direction. Multiple sub-parameters are under consideration in this assessment.

- Net Zero targets validated by SBTi or other third parties
- Disclosure of short- and long-term goals
- Inclusion and diversity within the organization
- Waste reduction, water conservation, and biodiversity initiatives
- Investment in renewable energy projects

Social Objectives

To assess whether the company fulfills a social objective, analysis based on SDGs. Following KPIs are considered.

- Community engagement programs
- Investment in the development and well-being of society
- Educational and professional opportunities for local communities
- Donations, charities, and other community support funds.

ESG-Score

Our research team has developed a holistic framework for ESG rating. Funds are analyzed from environmental, social, and governance perspectives, leading to ESG scores that consider the transparency, minimum social safeguards, and adverse impact of the companies included in the fund.

Transparency

Our overall ESG score includes a "minimum" transparency assessment. For each investee, we look if its annual report includes sustainability information or if it published a standalone sustainability report. The disclosures must at least integrate both environmental and social quantitative and qualitative data and the GHG emissions amount reported by scopes.

Controversies

For controversies, we consider the controversy score provided by a third-party data provider. When the absence of a score for one company occurs, we assess the presence of controversy regarding the following two parameters:

- A number of controversies reported by the press/NGOs since 2018.
- Year of occurrence of the controversy considering that a company had more time to mitigate the negative impact of corporate misbehavior that happened five years ago than during the past year.

ESG rating

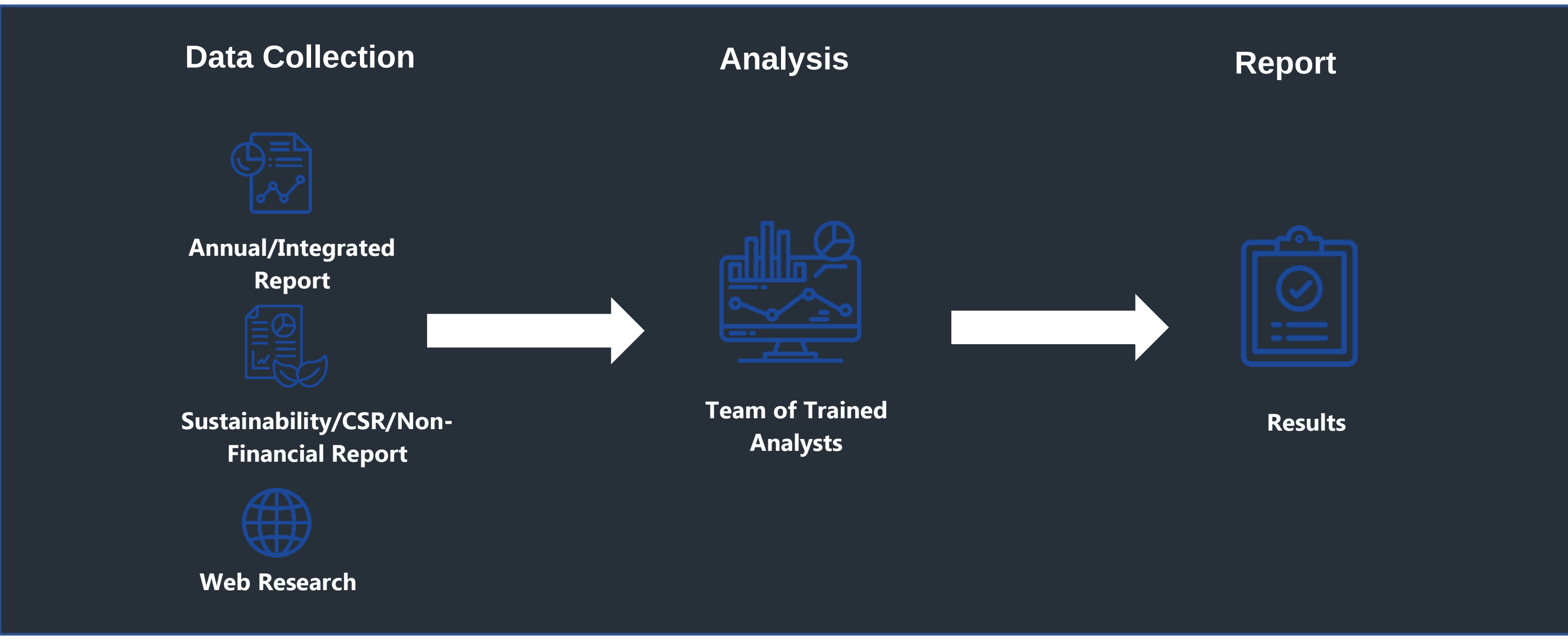
We used ratings from three third-party providers. We observe that discrepancies may occur from one rating agency to another due to the difference in methodologies. By calculating the average of three different scores, we increase the reliability of the ESG score of a company by broadening the number of criteria under assessment.

Data Process

Our calculation of eligibility is fully based on publicly available data as required by the European Supervisory Authorities. We gather all relevant information published by companies as the annual, integrated, sustainability, or financial report.

First, we look if the company discloses the KPIs described in article 8 of the Taxonomy regulation which is the share of eligible revenue and the share of eligible Capex. These indicators can be found in the report of all European companies within the scope of the Non-Financial Reporting Directive. A small number of companies that are not part of the NFRD scope publish the taxonomy KPIs voluntarily.

If the eligibility percentages are not available, we use equivalent data to calculate them. Regarding the revenue-based KPI, the first step in the process is activity screening. We identify what are the products and/or services that each company delivers based on the information provided on its website or in its corporate reports to sort out what is eligible and non-eligible. Then, we use the segmented reporting information disclosed in the financial statements to define the revenue derived from the identified eligible activities. We do not use estimates if the data are not sufficiently detailed to calculate the accurate proportion of eligible revenue. Regarding the Capex-based KPI, it is challenging to calculate the percentage when a company does not disclose it directly. Indeed, financial statements do not provide detailed information about the exact nature of all additions to property, plant, and equipment. To avoid errors, we did not calculate the eligible Capex when it was not directly provided by the company itself.



Quality of data is an essential part of our research and collection process which is why we use a combination of both report and web searching to make sure we achieve as close to 100% data quality as possible.

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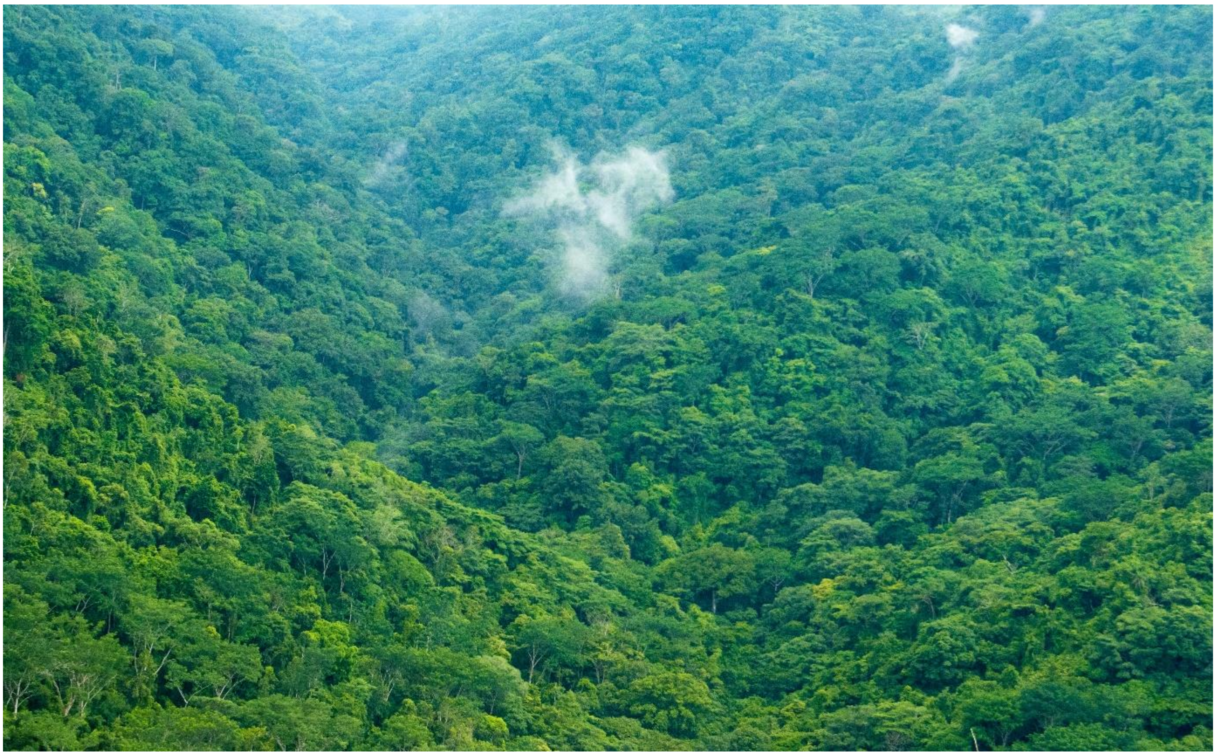
Limitations

Our analysis is a preliminary taxonomy eligibility and alignment assessment. Companies within the scope of the NFRD are required to publish eligibility KPIs. In addition, companies not within the NFRD scope are not required to publish the relevant KPIs, and very few report them voluntarily. Therefore, we endeavor to fill this gap by calculating the percentages when they are not available. However, publicly available data are usually insufficient to fulfill this process without estimates. As a result, when the activity screening shows the presence of both eligible and non-eligible activities, but the segmented reporting is not accurate enough to calculate the revenue-based KPI, 0% eligibility will be assigned in this scenario. Then, the final portfolio taxonomy indicator does not currently reflect the effective eligibility. We expect to see an increase in the accuracy level correlated with an increase in transparency in the coming years.

The configuration of a financial product regarding the size and location of investees may influence the results. Indeed, this is more challenging to calculate the proportion of eligible revenue of a company that falls into many NACE code categories. In addition, a fund composed of mainly European companies would tend to have a higher eligibility share due to the higher level of publicly available data



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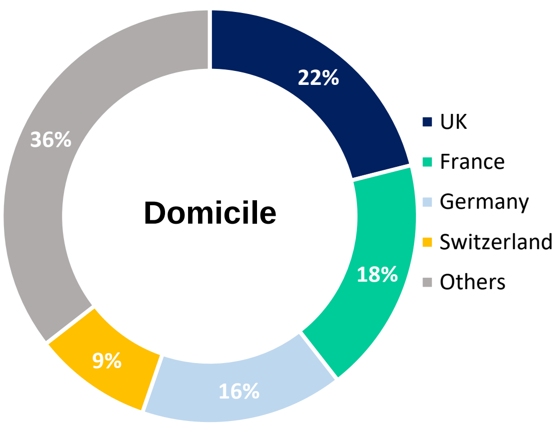
EU Taxonomy Results

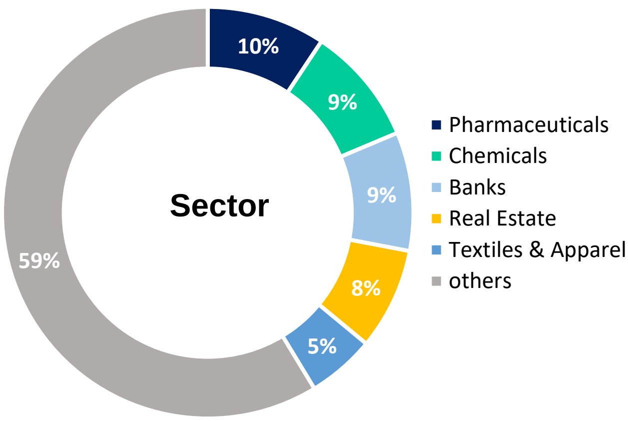
ABC Equity is an article 9 product i.e., they are classified as a “Dark Green” financial product. According to EU sustainability-related disclosure, funds with an article 9 classification must pursue explicitly sustainability goals with their investment instrument.

All results are based on the information extracted from publicly available data and our methodology. Under the EU taxonomy, European companies have to disclose their financial KPIs. Our certification process is based on a multi-layered screening process in which we analyzed the companies through strict ESG criteria. The EU Taxonomy mandates an assessment against its minimum safeguards, a set of defined UN, EU, and other international human rights and code of ethics guidelines, in order to confirm alignment of their economic activities.

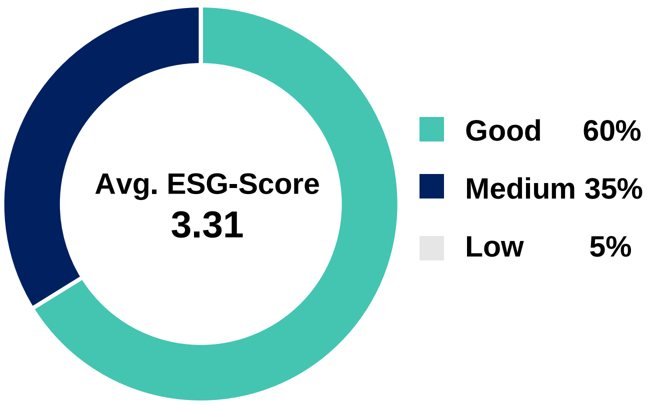
Breakdown of equity by Domicile and Sector

The equity fund has a stake in European companies.

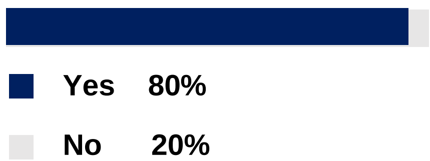




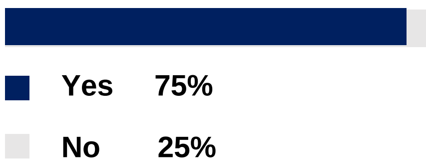
ESG Score



Social Objectives



Sustainability Strategy



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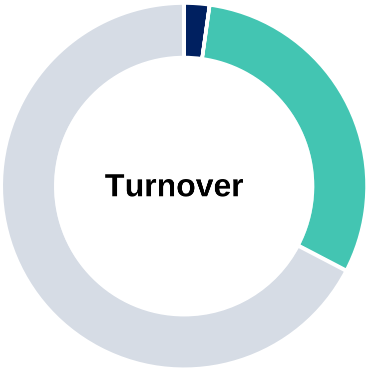
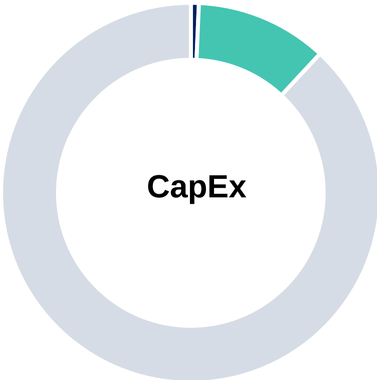
Taxonomy Revenue & CapEx





	Taxonomy Aligned (%)	Taxonomy eligible but not aligned (%)	Taxonomy non-eligible (%)
Turnover	5.00	35.00	60.00
CapEx	2.00	20.00	78.00

Environmental Objectives	Turnover - Eligible but not aligned (%)	Turnover aligned (%)
Climate Change Mitigation	15.00	5.00
Climate Change Adaptation	----	----
Water	----	----
Circular Economy	10.00	----
Pollution	5.00	----
Biodiversity	5.00	----

Fossil Fuel	0.50%
Natural Gas	----
Nuclear	----
Coal	----
No Controversial Activity	99.50%

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The ESG performance of the fund is well. Two-thirds of the companies have good ESG scores while non-have high risk related to ESG. The companies in the fund have a sustainability strategy, which includes net zero targets approved by SBTi, employee engagement programs, and governance goals. Also, more than 95% of portfolio companies have social objectives, implicating that they have a positive impact on society.

Hence, Zielke Research Consult certifies the 'ABC Equity fund for Article 9.

Disclaimer

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