STANDARD ETHICS

Complying with the future

Security Standard Ethics Rating

General-Purpose Securities: why a Sustainability Rating?

- Standard Ethics has decided to launch a new category of non-financial sustainability rating, specifically dedicated to the evaluation of conventional **General-Purpose Bond** emissions or other kinds of General-Purpose debt securities: the ***Security Standard Ethics Rating***.

- Standard Ethics has introduced this type of rating to the market because debt financial products **-** unlike well-regulated Green Bonds and similar instruments - are **not covered** by specific and comparable **ESG** evaluations and form a significant gap in the market.

- In the aftermath of the pandemic and with the current transition towards a new economy, Standard Ethics believes that ***all debt must be sustainable*** and that all funding of industrial plans are coherent with global environmental and social policies.

General-Purpose Securities: why a Sustainability Rating?

In **Standard Ethics**' opinion, an "**EE-**" rating (or above) **qualifies** the debt instrument as **suitable** for an **ESG/SRI portfolio**

EEE	EEE-	EE+	EE	EE-	E+	E	E-	F
Full	Excellent	Very strong	Strong	Adequate	Non-compliant	Low	Very Low	Lowest level

Investment Grade	Lower Investment Grade	Non-investment Grade

How is a Security Standard Ethics Rating assigned?

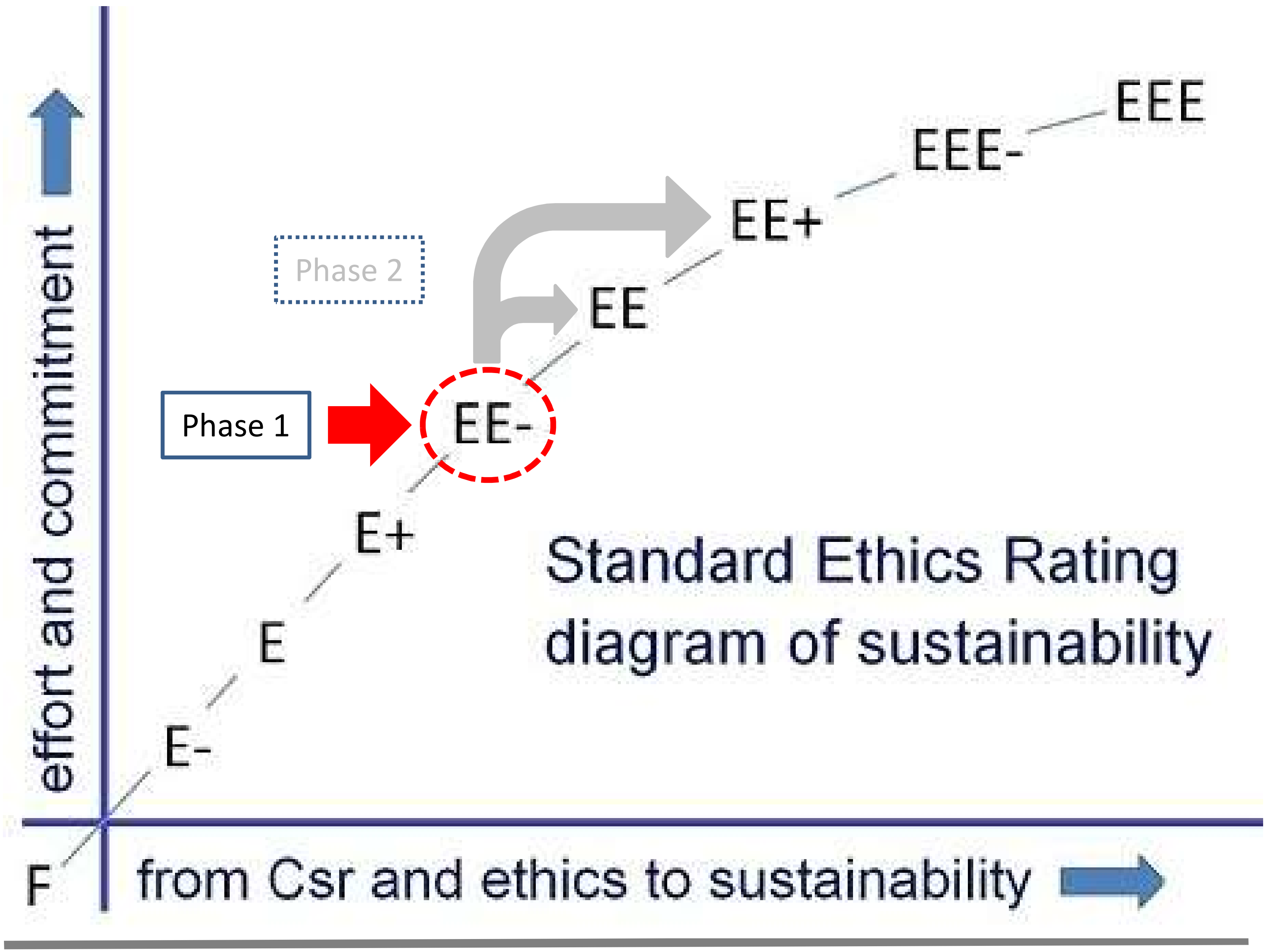
Phase 1: Issuer evaluation

- Issuer evaluation is carried out by analysts based on circa **40 standard markers** used to measure (according to the Standard Ethics methodology) the alignment of **ESG** policies and the **Governance of Sustainability** with **UN**, **OECD**, and **EU** indications concerning:

  - fair competition, market, dominant positions, market distortions
  - shareholders' agreements, ownership and shareholders
  - market weight, participation and voting at general meetings
  - directorships, board of directors, independence and conflict of interest
  - governance of sustainability, governance, ESG policies, ESG disclosure
  - human rights

- The result of the analysis is then synthesized and entered into the Standard Ethics Proprietary Algorithm.

- A **Baseline Rating** on the company is then internally calculated.


effort and commitment
Phase 2
Phase 1
EEE
EEE-
EE+
EE
EE-
E+
E
E-
F
Standard Ethics Rating
diagram of sustainability
from Csr and ethics to sustainability

Phase 2: Issue evaluation

- Phase 2 is about the Issue and uses the **Baseline Rating** as a starting point. It is carried out by analysts through the application of other **standard markers** in order to evaluate whether the **strategic & industrial plans** and **sustainability plans** (financed by the debt instrument) are aligned with **Sustainability Policies** determined by **UN**, **OECD**, and **EU**.

- The evaluation points are the following:

    - main features of the financial instrument
    - futures ESG and financial impacts – in compliance with the **EU DNSH** principle ("Do No Significant Harm") – with particular regard to the following strategic macro-areas:
        - carbon neutrality (based on the strategic & industrial plans & ESG reporting)
        - circular economy (based on the strategic & industrial plans & ESG reporting)
        - gender equality (based on the strategic & industrial plans & ESG reporting)
        - additional targets

Phase 2: Policy for increasing Baseline Ratings

- If a very substantial* part of proceeds is allocated to value-added sustainable activities (given the company industry), then the **Baseline Rating** could be raised by **two notches.**

- If a substantial** part of proceeds is allocated to value-added sustainable activities (given the company industry), then the **Baseline Rating** could be raised by **one notch.**

- If there is no traceable report or specification on the allocation of the proceeds, or if the company's strategic & industrial plans do not improve the future positioning of the issuer with respect to the principles of **Sustainability**, according to analysts, the final **Security Standard Ethics Rating** will correspond to the **Baseline Rating**.

* This variable is calculated on the basis of the business of the company, its geographical position, sector of activity and the extent and duration of the issue.

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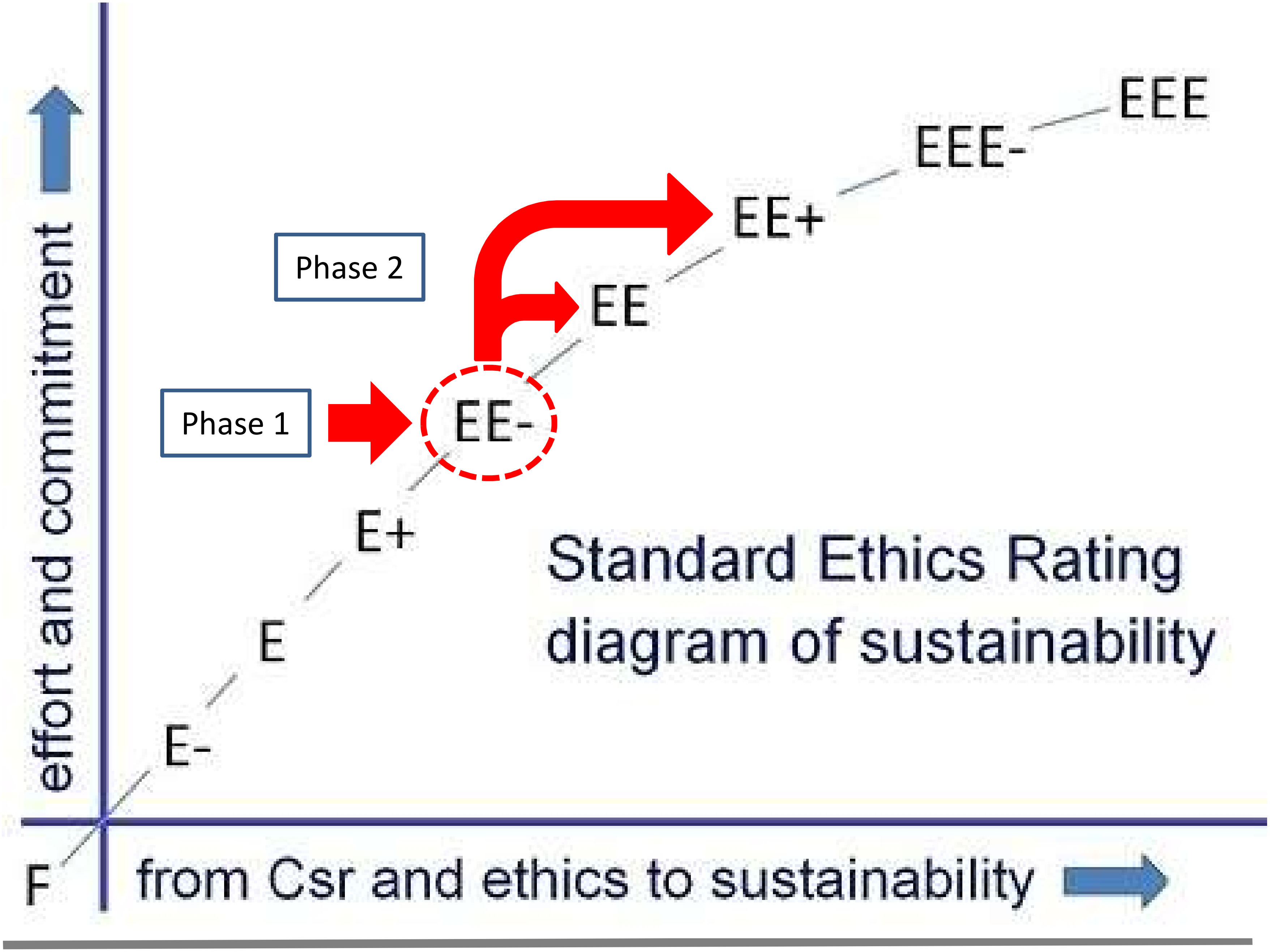
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Technical Note: Security Standard Ethics Rating Algorithm

$$\underbrace{\left(\frac{(Fc_{EU}+Sa+Id_{EU\text{-}OECD}+Mw \ast f(Sa) \ast f(Id_{EU\text{-}OECD})+Cg_{UN\text{-}OECD\text{-}EU} \ast f(Fc) \ast f(Id_{EU\text{-}OECD}))}{10}+k\right)}_{\text{Phase 1}} + \underbrace{g\,(Cg_{UN\text{-}OECD\text{-}EU})}_{\text{Phase 2}}$$

To ensure accuracy and comparability, Standard Ethics does not use weights and KPI based analyses or indicators, but uses a more sophisticated method based on its own **proprietary six-group variable algorithm**. The first variable of the formula (**Fc**) is related to competition, which positively evaluates the company that competes and faces the market in an appropriate way. While it views negatively risky elements such as antitrust, investigations, fines or sanctions, tax evasion or simply a position of privilege that could, in the long run, prove problematic. The metric of the second and third variables (**Sa** and **Mw**) is also linked to typical considerations for many long-term institutional investors and analyses the importance of sensitive aspects for minority shareholders or for new shareholders, for example, with regards to shareholder agreements (not justified by operational needs), double voting rights, the presence of a controlling shareholder, conflicts of interest, and low contendibility. The fourth variable (**Id**) looks at managerial scope, risk management and control as well as the reporting models and the composition of the Board of Directors, including areas such as independence and gender equality. The fifth (**Cg**) focuses on ESG factors: to see if the company is aligned with strategies such as the Paris COP21 for the reduction of climate effects or the OECD guidelines for multinational enterprises as examples. **k** = Sustainability at Risk (SaR). **g** = Use of General-Purpose Bond proceeds.

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Important Legal Disclaimer

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