

Clarity AI - SFDR Sustainable Investment

Methodology Document

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Table of Contents

Version History	1
Table of Contents	1
Overview	2
Glossary of Terms	3
1. Analytical Framework	5
1.1. Methodology Overview	5
1.2. Methodology Details	6
1.3. Weighting & Aggregation Logic	10
1.4. Customization Framework	10
1.5. Minimum Data Requirements	11
2. Rating Product Specifics	11
2.1. Materiality Objectives & Dimensions	11
2.2. Factor Scope & Specific Issues	12
2.3. Key Performance Indicators (KPIs)	12
2.4. Alignment with EU Reporting Standards	12
2.5. Assessment Model	14
2.6. International Agreement Alignment	15
2.7. Industry Classification Standards	15
2.8. Scientific Evidence	15
3. Data Sourcing & Revisions	16
3.1. Data Sources Overview	16
3.2. Data Quality & Reliability	16
3.3. Data Revision Policy	17
3.4. Missing Data & Estimations	18
3.5. Handling of major new information	18
4. Artificial Intelligence (AI) Usage	19

4.1. Methodology Implementation	19
4.2. Data Collection	20
4.3. Controversies screening	20
4.4. Data estimations	21
5. Assumptions & Limitations	22
5.1. Key Assumptions	22
5.2. Limitations in Data Sources	22
5.3. Limitations in Methodologies and Models	23
6. Methodology Governance	23
6.1. Engagement Process	24
Appendices	26
Appendix A: Full List of Key Performance Indicators (KPIs)	26
Appendix B: Sustainable Bonds	32

Overview

The Clarity AI SFDR Sustainable Investment Methodology provides a rules-based framework for assessing whether individual investments in organisations and/ or securities satisfy the sustainable investments (SI) criteria set out in Article 2(17) of Regulation (EU) 2019/2088 (SFDR). Its objective is to provide financial market participants with a consistent, transparent analytical input to support their own determination of the proportion of sustainable investments held within Article 8 and Article 9 funds, and to assist in the preparation of the related regulatory disclosures. The output of this methodology constitutes Clarity AI's opinion and does not represent a legal determination of regulatory compliance, which remains the responsibility of the financial market participant.

The methodology follows the three-part requirement established in Article 2(17) of SFDR:

- Contribute to an environmental or social objective,
- Do Not significantly harm any other environmental or social objective ("DNSH"), and
- Be made in an investee company that follows good governance practices.

Accordingly, the analytical framework is structured as three sequential screens applied at the entity level. For the assessment, we rely on four complementary frameworks:

- Relative performance on mandatory Principal Adverse Impact (PAI) indicators
- Alignment with the EU Taxonomy for Sustainable Activities
- Revenue alignment with the UN Sustainable Development Goals (SDGs)
- Violations of Global Norms

Clarity AI uses reported data wherever possible, supplemented by proprietary estimation models where reported data is unavailable.

The limitations and assumptions underlying this methodology are described in detail in the Assumptions & Limitations section.

Glossary of Terms

Term	Definition
Article 8/9 funds	Financial products classified under Article 8 ("light green") or Article 9 ("dark green") of the SFDR, represent the primary target funds for this sustainable investment methodology.
Binary outcome / Pass/fail logic	The classification structure used in the methodology categorizes an organization as either a "Sustainable Investment" (pass) or "Not a Sustainable Investment" (fail), with no intermediate scoring.
CSRD (Corporate Sustainability Reporting Directive)	Directive 2013/34/EU, which sets the framework for corporate sustainability reporting standards, is utilized here as a key data source.
Do No Significant Harm (DNSH)	The requirement that a sustainable investment must not significantly harm any environmental or social objective, as required under Article 2(17) SFDR.
EET	European ESG Template — Standardized template that allows product manufacturers (i.e., asset managers) operating in the European Union to publish fund-level ESG data in a structured and consistent manner.
EU Taxonomy	The classification system established by Regulation (EU) 2020/852 defines environmentally sustainable economic activities based on their contribution to one of six environmental objectives without significantly harming the others and meeting minimum social safeguards.
GICS (Global Industry Classification Standard)	An industry classification framework used to group companies with similar operational risk profiles, ensuring performance benchmarks are representative of their specific economic activities.
Good Governance	The requirement that investee companies of sustainable investments must follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff, and tax compliance, as required under Article 2(17) SFDR.
Principal Adverse Impact (PAI) Indicator	Mandatory and optional metrics defined in Annex I of the SFDR Regulatory Technical Standards (RTS) are used to measure the adverse impacts of investment decisions on sustainability factors.

SBTi (Science-Based Targets initiative)	A framework providing science-aligned targets for corporate emissions reduction, available as an optional pathway for assessing sustainable contribution.
SDG Revenue Alignment	The proportion of a company's revenues derived from products and services that directly or indirectly address the root causes of issues targeted by the SDGs.
SFDR (Sustainable Finance Disclosure Regulation)	Regulation (EU) 2019/2088, which establishes standardized sustainability disclosure requirements for financial market participants.
Sustainable Investment (SI)	As defined in Article 2(17) SFDR: an investment in an economic activity that contributes to an environmental or social objective, does not significantly harm any of those objectives, and is made in a company that follows good governance practices.
The European Supervisory Authorities (ESAs)	The three EU financial regulatory agencies — EBA, EIOPA, and ESMA — that jointly oversee financial markets and institutions across the European Union, and are responsible for issuing technical standards, guidelines, and clarifications on EU sustainable finance regulation, including the Sustainable Finance Disclosure Regulation (SFDR).
The Technical Expert Group on Sustainable Finance (TEG)	The advisory body was established by the European Commission in 2018 to develop the scientific and technical foundations of the EU Sustainable Finance framework, including the criteria and methodology underpinning the EU Taxonomy for environmentally sustainable economic activities.
UN Sustainable Development Goals (SDGs)	The 17 global goals adopted by the United Nations in 2015 as part of the 2030 Agenda for Sustainable Development cover environmental, social, and economic dimensions.
UNGC and OECD Guidelines	UN Global Compact principles and OECD Guidelines for Multinational Enterprises

1. Analytical Framework

1.1. Methodology Overview

The definition of sustainable investment is defined in Article 2(17)¹ of the SFDR regulation and states the following (emphasis added):

*"Sustainable investment" means **an investment in an economic activity that contributes to an environmental objective**, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water, and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, **or an investment in an economic activity that contributes to a social objective**, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, **provided that such investments do not significantly harm any of those objectives** and that **the investee companies follow good governance practices**, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance."*

Thus, as per Article 2(17), a sustainable investment has three main requirements:

1. It must contribute to an environmental or social objective;
2. It does not significantly harm other environmental or social objectives (DNSH); and
3. The investee company must follow good governance practices (GG).

This assessment applies across all rated item types covered by the methodology: corporate organizations and investment funds. Equity and fixed income instruments are assigned the rating of their issuer unless the securities are identified as Use-of-proceeds sustainable bond instruments — including Green, Transition, Social, and Sustainability Bonds — which are assessed under a dedicated framework detailed in Appendix B. Sovereigns are not covered by the SFDR Sustainable Investment assessment except for the sustainable bonds issued by them.

At the organization level, the methodology produces a binary outcome: an organization either qualifies as a Sustainable Investment or it does not. An organization is classified as a Sustainable Investment when it satisfies all three requirements of Article 2(17) of SFDR — contributing to a sustainable objective, avoiding significant harm to other objectives, and demonstrating good governance practices — based on either Clarity AI's default thresholds or a user's customized configuration. Failing any one of the three screens results in a "Not a Sustainable Investment" classification.

At the fund level, the output shifts from binary to quantitative: the result is a percentage reflecting the share of the portfolio classified as sustainable investments, weighted by allocation.

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088#page=8>

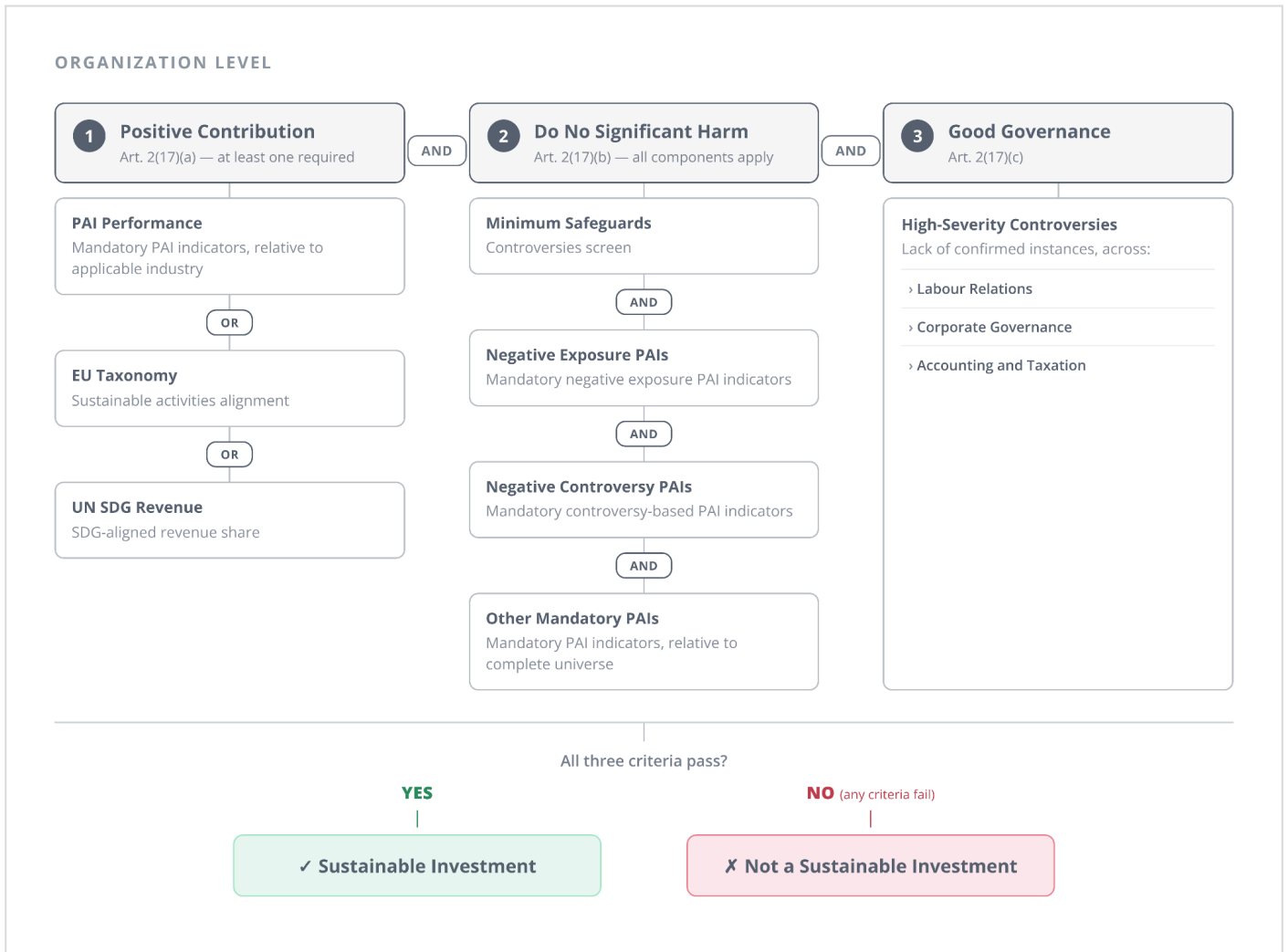
Across all entity types and instruments, the analysis is backward-looking, drawing on the most recently reported or estimated data for SFDR PAI indicators, EU Taxonomy alignment figures, SDG revenue data, and the controversies screen. Where a subsidiary lacks sufficient standalone data, Clarity AI assigns it the assessment of its parent company.

This rating is primarily rules-based, rather than analyst-driven assessments. Humans are only involved in data quality and controversies review, where their role is to compare the outcome of automated models against detailed and standardized rubrics to ensure model accuracy..

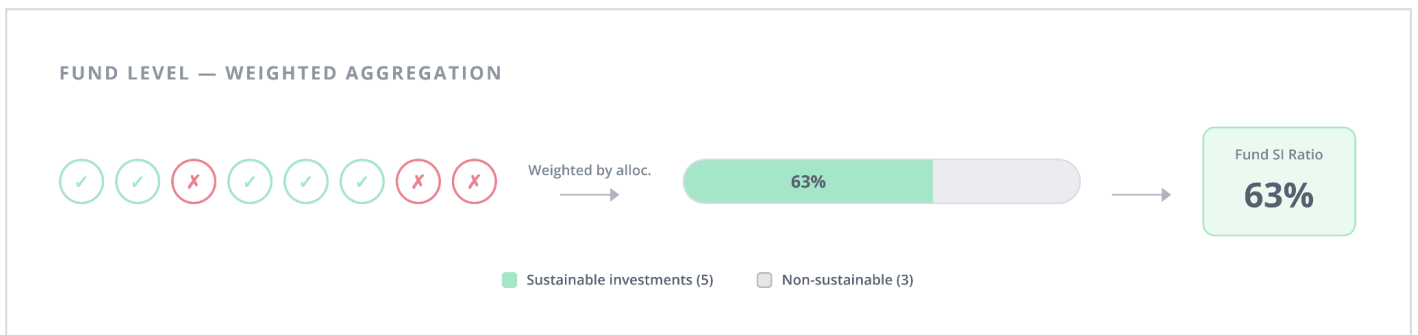
The rating is updated and made available to users at regular intervals through the Clarity AI platform, following the data releases process and calendar (typically every two weeks, aligned with underlying data updates). A change in an entity's rating between scheduled updates will only occur if new entity-specific information becomes available or if there is a material change to the methodology.

1.2. Methodology Details

The following table summarizes the default methodology for the SI assessment for organizations which is detailed in this section:



Similarly, the following table summarizes the default methodology for the SI assessment for funds:



1.2.1. Sustainable Investment Positive Contribution Assessment

Clarity AI utilizes three primary criteria to determine the organizations that qualify as contributing to a sustainable objective:

1. Positive contribution through relative performance on the applicable Principal Adverse Indicators
2. Alignment with the EU Taxonomy

3. SDGs Revenue Alignment

An organization is classified as having a positive contribution if it meets at **least one** of the criteria's thresholds, as described below.

1.2.1.1. Positive contribution through relative performance on applicable Principle Adverse Impact indicators (PAIs)

Our approach relies on positive screening for top performers on the mandatory PAIs. Organizations must have at least two PAI indicators in the top quartile of the applicable universe to be considered as contributing. The applicable universe is defined as all companies belonging to an industry for which the PAI is material. This threshold is based on an analysis of the performance of investments in Article 9 funds.

The use of PAI indicators to measure contribution is acknowledged by the Clarifications on the ESAs' draft RTS under SFDR². The regulation does not, however, provide guidance as to how these indicators should be used to define a sustainable investment.

1.2.1.2. Alignment with the EU Taxonomy for Sustainable Activities

Organizations that have any revenue derived from activities aligned with the EU Taxonomy are considered to contribute towards environmentally sustainable objectives. To meet the necessary requirements of the EU Taxonomy, an activity must satisfy three criteria:

- Make a substantial contribution to one environmental objective
- Do Not Significant Harm (DNSH) to the other objectives within the EU Taxonomy framework
- Meet minimum Social Safeguards within the EU Taxonomy framework

Details on the complete EU Taxonomy methodology can be made available upon request.

1.2.1.3. UN Sustainable Development Goals Revenue Alignment

Companies can be considered to contribute to a sustainability objective if they have 20% or more of their revenue derived from activities that contribute to the achievement of the Sustainable Development Goals (SDGs). This contribution can be either direct - through Products & Services that directly address one of the causes identified - or indirect, (i.e., supply chains) - through products and services sold to companies that are direct contributors.

The complete UN Sustainable Development Goals Revenue Alignment methodology can be found on the Clarity AI website.

1.2.2. Do Not Significant Harm (DNSH) check

Clarity AI applies a negative screening to exclude poor performers, using the indicators required by the

² [The Clarifications on the ESAs' draft RTS under SFDR point 6](#) indicates that PAI indicators can be used to measure sustainable investments.

regulation³. To pass the DNSH check, an organization must satisfy **all** of the following criteria:

1.2.2.1. The company must meet the minimum safeguard screen

The minimum safeguards screen assesses an organization's involvement in **violations** of human rights standards and labor rights, ensuring alignment with global norms regarding societal and employee welfare.

A **violation** is a controversy that meets all of the following conditions:

- The incident meets the thresholds for materiality in terms of scale (gravity of harm) and scope (extent of the harm).
- It is mapped to at least one UNGC Principle, OECD Guideline chapter, or UNGP Principle
- The latest evidence date falls within the past four years
- The initial allegation date is older than 4 months
- The origin of the allegation is an official source, a reputable institution or NGO
- The investigation status reflects confirmed findings of wrongdoing (official or other type) or an active appeal
- The company's response is not sufficient to suppress the violation

More details on the Global Norms violation methodology can be found on the Clarity AI website.

1.2.2.2. Not flagged under the exposure PAIs:

Exposure PAIs refer to PAI 4 (Exposure to Fossil Fuels), and PAI 14 (Exposure to Controversial Weapons).

1.2.2.3. Not flagged under the controversy PAIs:

Controversy PAIs include PAI 7 (activities negatively affecting biodiversity sensitive areas), PAI 10 (violations of UNGC and OECD guidelines for multinational enterprises), and PAI 11 (lack of mechanisms for conformance with UNGC and OECD guidelines for multinational enterprises).

1.2.2.4. No other mandatory PAIs fall below the threshold within Clarity AI's universe:

No other mandatory PAIs applicable to organizations fall below the 5th percentile within Clarity AI's universe. For this condition, we check all the mandatory PAI indicators in Table I, Annex I of the SFDR regulation.

1.2.3. Good Governance Check

Clarity AI excludes organizations with good governance **violations** around labour relations, corporate governance, and accounting and taxation (leveraging Clarity AI's Global Norms Screening product).

³ The Clarifications on the ESAs' draft RTS under SFDR point 7.a indicate that PAI indicators in Table 1 of Annex I of the SFDR regulation should be used to demonstrate DNSH.

This approach is in line with Article 2(17), which references “*sound management structures, employee relations, remuneration of staff and tax compliance*” in the context of good governance practices.

1.3. Weighting & Aggregation Logic

The SFDR Sustainable Investment Methodology does not aggregate E, S, and G categories into a single numerical score. Instead, it applies a binary pass/fail logic across three screens.

An organization that passes all three screens is classified as a Sustainable Investment. One that fails any screen is classified as not a sustainable investment. There is no intermediate scoring: the assessment is binary at the entity level.

A fund's proportion of sustainable investments is calculated as the weighted average of holdings classified as sustainable investments, based on their portfolio weights.

1.4. Customization Framework

Through the Custom Profile feature, Clarity AI allows users to customize their Sustainable Investment (SI) definition within a range of predetermined options to better align with their specific interpretation of Article 2(17). These customization options apply directly to both the contribution criteria and the Do No Significant Harm (DNSH) criteria.

1.4.1. Contribution Criteria Customization

Through a customized profile, users can tailor their framework via two core mechanisms:

1. **Contribution Framework Selection:** User can choose to include or exclude individual sources for contribution, provided that at least one source of contribution remains active.
 - Within this functionality, users can also choose another contribution option: whether the company has an approved Science-Based Target (SBTi) for emissions reduction. This criterion is not enabled by default.
2. **Threshold Fine-Tuning:** Contribution thresholds can be customized for each source. Investors can define:
 - The minimum number of PAIs required to be in the top 25th percentile.
 - The minimum percentage of alignment with the EU Taxonomy.
 - The minimum SDG Revenue Alignment required to consider a company as "contributing."

1.4.2. DNSH (Do No Significant Harm) Criteria Customization

In the same regard, investors can customize the strictness of their Do No Significant Harm (DNSH) assessments. Users have the option to determine:

- The specific number of mandatory PAIs that must fail the DNSH assessment before a company is flagged, with a minimum of one.

- The threshold for the bottom percentile for failing the PAI-based criteria (it cannot be set lower than the bottom 5th percentile).

1.4.3. EET as Data Source Customization

Users may elect to use EET-reported data as their primary source for fund-level assessments. Where this option is enabled, the fund's EET-reported figures take precedence over Clarity AI's calculated sustainable investment data.

1.5. Minimum Data Requirements

For a sustainable investment assessment to be produced, the assessed company must meet the following minimum data availability thresholds:

- **Contribution Assessment:** The company must have data for at least one active contribution source: relevant mandatory PAI indicators, EU Taxonomy alignment, or SDG revenue alignment. Where an SBTi-approved emissions reduction target has been enabled via the Custom Profile, it also qualifies as a contribution source.
- **DNSH Assessment:** The company must have data for at least one relevant SFDR PAI indicator used in the DNSH screen, and must fall within the scope of the controversies screen for the minimum safeguards assessment.
- **Good Governance Assessment:** The company must fall within the scope of the controversies screen.

Clarity AI uses reported data wherever possible, supplemented by proprietary estimation models. If a company has no reported or estimated data, but is a majority-owned subsidiary of another one that does, the data may be "inherited", meaning that the data from the parent is assigned to the subsidiary.

Companies that do not meet these requirements are assigned an "n/a" result.

2. Rating Product Specifics

2.1. Materiality Objectives & Dimensions

The objective of the methodology is to provide a structured, rules-based opinion on whether an individual investment satisfies the criteria set out in Article 2(17) of Regulation (EU) 2019/2088 (SFDR), having regard to the interpretive guidance published by the European Supervisory Authorities. This opinion is designed to support investment decision-making and fund-level disclosure processes; it does not constitute a legal determination of regulatory compliance.

The SFDR Sustainable Investment Methodology assesses impacts — specifically, the positive contributions that investee companies make to environmental and social objectives, and the negative impacts those companies may cause on the same objectives while maintaining good governance practices. The methodology does not assess financial risks to the rated entity (i.e., it

does not apply an "outside-in" or financial materiality lens). It is therefore grounded in an **impact materiality** dimension.

2.2. Factor Scope & Specific Issues

The methodology provides a comprehensive ESG assessment, covering environmental, social, and governance factors across a broad range of thematic areas within the meaning of Article 2(17) of SFDR.

The framework incorporates environmental, social, and governance factors in the following roles:

- **Environmental factors** are assessed through the EU Taxonomy contribution screen, the environmental PAI contribution screen, environmental SDGs revenue alignment as well as the DNSH screen which includes environmental PAIs.
- **Social factors** are assessed through the social PAI contribution screen, social SDGs revenue alignment, and DNSH screen elements related to labour rights and UNGC/OECD compliance.
- **Governance factors** are assessed exclusively through the Good Governance screen, which covers management structures, employee relations, remuneration, and tax compliance.

2.3. Key Performance Indicators (KPIs)

The methodology draws on a broad set of KPIs spanning environmental, social, and governance dimensions, including 14 of the SFDR mandatory PAI indicators, EU Taxonomy alignment percentages, SDG revenue alignment percentages, and controversies. A full list of KPIs and their role in the assessment is provided in Appendix A.

There is no weighting across the three pillars. A company has to meet all three criteria (contribution, DNSH, and good governance) to be considered sustainable.

2.4. Alignment with EU Reporting Standards

The table below maps the topics covered by the methodology to the relevant topics from the sustainability reporting standards under Article 29b of the Corporate Sustainability Reporting Directive 2013/34/EU (CSRD):

CSR Topic	SFDR SI Methodology Component
Climate Change	<ul style="list-style-type: none"> ● EU Taxonomy Alignment ● Science-Based Targets initiative (SBTi) ● PAI 1: GHG emissions (Scope 1, 2, 3, and Total) ● PAI 2: Carbon footprint ● PAI 3: GHG intensity of investee companies ● PAI 4: Exposure to companies active in the fossil fuel sector ● PAI 5: Share of non-renewable energy consumption and production ● PAI 6: Energy consumption intensity per high-impact climate sector ● SDG 7: Affordable & Clean Energy ● SDG 13: Climate Action
Water & Marine Resources	<ul style="list-style-type: none"> ● PAI 8: Emissions to water (tonnes per million EUR invested) ● SDG 6: Clean Water & Sanitation ● SDG 14: Life Below Water
Circular Economy	<ul style="list-style-type: none"> ● SDG 11: Sustainable Cities ● SDG 12: Responsible Consumption and Production
Pollution	<ul style="list-style-type: none"> ● PAI 9: Hazardous waste and radioactive waste ratio
Biodiversity	<ul style="list-style-type: none"> ● PAI 7: Activities negatively affecting biodiversity-sensitive areas ● SDG 15: Life on Land
Equal Opportunity	<ul style="list-style-type: none"> ● PAI 12: Unadjusted gender pay gap ● PAI 13: Board gender diversity (ratio of female to male board members) ● SDG 5: Gender Equality ● SDG 10: Reduced Inequalities ● Diversity opportunity controversies
Human Rights	<ul style="list-style-type: none"> ● PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises ● PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises

CSRD Topic	SFDR SI Methodology Component
	<ul style="list-style-type: none"> • SDG 16: Peace, Justice & Strong Institutions • society human right controversies
Working Conditions	<ul style="list-style-type: none"> • Employees' human rights controversies
Labor Relations	<ul style="list-style-type: none"> • SDG 8: Decent Work & Economic Growth • Labour relations controversies
Corporate Oversight	<ul style="list-style-type: none"> • Corporate governance controversies
Business Conduct	<ul style="list-style-type: none"> • PAI 14: Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons). • Accounting and taxation controversies

2.5. Assessment Model

The module performs a final pass or fail assessment that evaluates investments on absolute terms, but to arrive at it, it uses components that measure performance on both a relative and absolute basis.

Relative assessments benchmark performance against a peer group:

- **Positive Contribution (PAI):** an organization must have at least two applicable PAI indicators in the top quartile (≥ 75 th percentile) of its industry peer group.
- **DNSH (PAI):** performance is ranked against the fully covered universe; organizations falling in the bottom 5% of any mandatory PAI do not pass.

Absolute assessments apply fixed thresholds regardless of peer performance:

- **EU Taxonomy alignment:** any positive alignment ($>0\%$)
- **SDG revenue alignment:** $\geq 20\%$ — the minimum level at which exposure to SDG-contributing activities is considered material
- **Controversies screen:** zero exposure-based PAI, controversy-based PAI, and relevant violations.

2.6. International Agreement Alignment

The methodology takes into account the following international frameworks:

- **EU Taxonomy:** EU Taxonomy alignment is one of the pathways through which an organization can satisfy the Positive Contribution criterion.
- **UN Sustainable Development Goals (SDGs):** UN SDG revenue alignment is one of the pathways through which an organization can satisfy the Positive Contribution criterion.
- **UN Global Compact (UNGC) and OECD Guidelines for Multinational Enterprises:** Used in the DNSH check via PAI 10 and 11 to identify violations of international standards on social and governance-related practices.

2.7. Industry Classification Standards

Company-to-sector mapping is facilitated through Clarity AI's proprietary internal classification system, which comprises 169 sub-industries. This system is technically anchored in the Global Industry Classification Standard (GICS⁴) level 4, but features refined categorizations designed to more granularly capture specific sustainability and impact characteristics in key carbon-intensive industries.

2.8. Scientific Evidence

We prioritise aligning our methodology and selecting metrics in accordance with science-based standards. Where such scientific standards are lacking, we rely on recognised industry standards wherever possible. Any gaps or ambiguities in standards are addressed on the basis of scientific findings from reputable publications.

The following industry standards inform this methodology:

- SFDR RTS (Annex I, Table 1): The 16 mandatory PAI indicators are sourced directly from the SFDR Regulatory Technical Standards published by the European Supervisory Authorities.
- EU Taxonomy Regulation and Technical Expert Group (TEG) Reports: The EU Taxonomy technical screening criteria and the five-step assessment approach are grounded in the TEG's scientific assessment of environmentally sustainable activities.
- ESAs' Clarifications on SFDR RTS: Point 6 of the ESAs' clarifications acknowledges the use of PAI indicators to measure overall sustainable impact, which forms the basis for Clarity AI's contribution-to-objective assessment. Point 7(a) mandates the use of PAI indicators for DNSH demonstration.

⁴ The [Global Industry Classification Standard](#) (GICS) is an industry taxonomy developed by MSCI and Standard & Poor's (S&P).

3. Data Sourcing & Revisions

3.1. Data Sources Overview

In line with its data quality standards, Clarity AI sources company data directly from a variety of corporate disclosures, including but not limited to sustainability and integrated reports. This includes, where applicable, regulatory disclosures prepared under frameworks such as the Corporate Sustainability Reporting Directive (CSRD), as well as other reporting standards. These reports may or may not have been subject to an external assurance assessment.

For primary data collection, Clarity AI has developed a proprietary platform that allows custom data collection combining human collectors and automatic collection (natural language processing): Igloo. Human collectors are typically a mix of external resources (outsourced service) and internal resources that are in charge of quality controls and collection of more complex data that requires in-depth expertise or has a high error rate when outsourced. The platform has embedded quality controls supported by machine learning models and a menu of different workflows (e.g., double manual entry; comparison of automated extraction with manual entry) to ensure only high-quality data inputs are processed further.

Clarity AI also uses third-party data (i.e., information collected by others and licensed as a data package to Clarity AI) for certain metrics, primarily company reference data (e.g., industry code) and fundamental data (e.g., revenues, headcount). The selection of third-party data follows a specific outsourcing procedure. Clarity AI performs a lifecycle assessment of third-party providers (“Data Vendors”) to ensure competent, duly authorized, and capable provider selection and supervision, as well as effective monitoring and control of outsourced collection activities and associated risks.

For this methodology, Clarity AI draws on a combination of primary and third-party data sources across all three criteria. PAI indicators are sourced primarily from company sustainability reports and regulatory disclosures, supplemented by Clarity AI's proprietary machine learning estimation models where reported data is unavailable. EU Taxonomy alignment data is drawn from company disclosures under Regulation (EU) 2020/852, where available, and supplemented by Clarity AI's internal EU Taxonomy assessment methodology. SDG revenue alignment is derived from Clarity AI's internal mapping of company segment-level revenue information to SDG-contributing activities, using publicly available data from company reports and third-party providers. Violation assessments rely on Clarity AI's in-house NLP monitoring of global news sources to identify and flag relevant controversies. EET data at the fund level is sourced directly from product manufacturers (i.e., asset managers) disclosures.

3.2. Data Quality & Reliability

Clarity AI operates a data validation and quality control framework applied at each stage of the data ingestion, processing, and release process. The framework covers pre-release validation of raw data, validation of ratings, a defined remediation process, and a policy for the revision of historical data. The validation process is reviewed and updated at least annually.

Before each data release, the dedicated Raw Data Team performs a validation of the candidate raw data dataset proposed for release. The validation covers all metrics in scope for the release. The following checks are applied:

- Coverage checks: unexpected losses in metric, provider, or entity coverage relative to the prior release are investigated. Losses affecting priority metrics are treated as release blockers;
- Value range checks: data points are verified against pre-defined acceptable ranges for each metric. Points outside those ranges are flagged for review;
- Absolute value change checks: individual data point values are compared between the candidate release and the version in production. Unexpected deviations are flagged for review;
- Historical series consistency: Z-scores are calculated per metric for each entity across all available years. Year-on-year changes are also monitored, with large deviations between consecutive years triggering a flag on both affected data points;
- Related metrics consistency: internal consistency across logically related metrics is verified, for example, by checking that the sum of component values does not exceed the corresponding total;
- Policy metric checks: transitions in policy values are monitored, with particular attention to losses of previously reported policies. Data points inconsistent with the prevailing industry profile are subject to sample-based review.

Data points that fail validation checks are added to a provisional blacklist, blocking them from the release. All blocked data points are documented and tracked in dedicated tickets. Issues that cannot be resolved within the validation window result in a rollback to the previously released version of the affected dataset, on a case-by-case basis. Following raw data validation, relevant experts perform additional product-level checks on ratings, which include, but are not limited to, coverage checks, data freshness, methodology alignment, and an in-depth review of sampled data.

Data is updated through full releases, which follow the complete validation process described above, and targeted releases, which cover specific datasets or corrections and follow an accelerated validation timeline. Urgent corrections addressing factual errors in the data are incorporated on an ad hoc basis through the quality inventory, subject to prioritization and verification.

3.3. Data Revision Policy

Clarity AI maintains a policy for the revision of historical data, reflecting the fact that companies regularly restate previously reported figures. Restatements are classified by reason — corrections, methodology updates, boundary updates, fiscal year adjustments, or unspecified — and are identified during the collection process. For GHG emissions metrics, automated tooling is used to detect restated values at source. For other metrics, the standard approach is to collect the first published value, with restatements incorporated upon identification. All restatements are documented and traceable, and restated values undergo the same quality controls as current-year

data before being reflected in the platform. Where a restatement is material, it may trigger a broader review of affected ratings.

3.4. Missing Data & Estimations

In this methodology, estimations are used for EU Taxonomy alignment, SDG revenue alignment, and SFDR Principal Adverse Impact (PAI) values where reported data is not available. Below is a brief description of how the estimations are performed. Their respective methodology documents contain further details.

3.4.1. EU Taxonomy

Estimations in EU Taxonomy are based on public segment-level revenue segmentation of companies, which Clarity AI maps to EU Taxonomy activities based on how well those segments reflect the regulation's activity descriptions. After that, estimations are done to evaluate how well the activities meet the technical requirements in the regulation, based only on publicly available information published by the company. Beyond that, DNSH and Minimum Safeguard assessments are a risk-based assessment based on publicly available information from reliable sources on violations of UNGC and OECD guidelines.

3.4.1. SDG revenue alignment

SDG revenue alignment is based on revenue segmentation estimations provided by a third-party vendor, which we map to the UN Sustainable Development Goals to determine the entity's alignment. As a result, UN SDG Revenue alignment is estimated for all organizations for which it's assessed.

3.4.1. SFDR Principal Adverse Impact (PAI)

Estimated data may be used when a company does not report the data needed to calculate the quantitative PAI. The main inputs for the estimation are the sector a company operates in, the size of the company (measured by its revenue or enterprise value), and the behaviour of other companies in that sector. The PAI metrics for which estimations are available are the environmental PAIs, as described in the first table of Appendix A.

3.5. Handling of major new information

The valid time horizon of the rating is defined as the time between Clarity AI data releases, which is typically two weeks. Please note that our ratings are rules-based, rather than analyst-driven assessments. They are updated and made available to users at regular intervals through the Clarity AI platform, following the data releases process and calendar (typically every two weeks, aligned with underlying data updates).

A material change to an individual rating can be triggered by:

- the ingestion of updated corporate disclosures
- significant modifications to the rules-based analytical framework
- the remediation of identified data errors
- changes to the estimation model or the estimation model inputs
- new controversies that result in an applicable violation, or the expiration or remediation of existing ones

4. Artificial Intelligence (AI) Usage

4.1. Methodology Implementation

Clarity AI integrates AI-assisted software development tools to facilitate the translation of approved ESG rating methodologies into production-ready code. In this capacity, AI functions as an engineering support tool to optimize efficiency and code quality by assisting with logic drafting, unit test generation, refactoring, and the systematic identification of potential edge cases or implementation defects.

AI is not deployed as an autonomous decision-maker; it does not independently define or modify rating methodologies. All methodology design, regulatory interpretation, and final deployment decisions remain the sole responsibility of our engineers and methodology owners, governed by established review protocols.

The integration of AI into methodology implementation introduces specific risks, including potential misinterpretation of requirements, subtle calculation errors, or the creation of technical debt through unmaintainable logic. Furthermore, there is a risk of over-reliance leading to insufficient independent validation or reduced traceability if implementation decisions are not rigorously documented and peer-reviewed.

These implementation risks are systematically mitigated through our standard software development lifecycle (SDLC) and rigorous engineering controls.

Human Accountability and Review: All AI-assisted implementations are fully owned and validated by Clarity AI engineers. AI tools are prohibited from approving code or deploying changes. Every methodology-related code change undergoes mandatory peer review to ensure correctness against approved requirements, architectural consistency, and data integrity.

Testing and Validation: AI-assisted code must adhere to a comprehensive testing pyramid, including unit tests for specific calculations, integration tests for data pipelines, and regression tests to ensure historical stability. Deterministic logic is validated against predefined test cases and controlled datasets to confirm that the implementation aligns with the intended methodology behavior.

Good Engineering Practices: We apply standardized MLOps and engineering safeguards, such as version control, continuous integration, and static analysis. By enforcing small, reviewable pull

requests and clear ownership of code changes, we maintain high standards of transparency and allow for the rapid rollback of production changes if anomalies are detected.

Traceability and Governance: Every technical implementation is transparently linked back to its underlying methodology documentation and acceptance criteria. AI-generated suggestions are only promoted if they are traceable to approved inputs, ensuring that AI remains a constrained tool within our broader methodology governance framework.

4.2. Data Collection

Clarity AI uses AI, specifically Large Language Models (LLMs), to support the extraction of ESG data points from unstructured corporate disclosures (e.g., annual and sustainability reports). This extraction process is always grounded in the underlying source document.

The use of AI in this context involves inherent limitations and risks. These include the risk of "hallucination" (producing a plausible but unsupported value), "misinterpretation" (confusing units or materially different figures), and performance degradation over time ("drift") as reporting formats or the underlying LLMs evolve. Additionally, accuracy may be uneven across different sectors, languages, or company sizes (disparate performance). Extractors are also limited by the quality and content of the source documents provided.

These risks are mitigated by designing our internal data extraction platform around the principle that AI outputs must be measured, reviewed, traceable, and reversible.

Quality and Consistency: Every new extractor version is rigorously tested against human-verified "ground-truth" annotations before deployment. All extractors running in production are under ongoing human monitoring, with review intensity adapted based on the extractor's historical performance. This continuous monitoring helps us catch drift and disparate performance proactively.

Transparency and Governance: Every value is transparently linked back to its source; most values are returned with the supporting quote and page location, ensuring full traceability. Strict human oversight on the extractor version is enforced through a two-stage workflow where only designated experts can approve and deploy an extractor version. This creates an auditable record of which AI configuration produced any given data point at any time, and allows for the quick disabling or downgrading of an extractor if input distributions change.

4.3. Controversies screening

Our ESG rating methodology integrates a specialized AI/ML pipeline to monitor global news and convert unstructured text into structured sustainability signals. The system processes high volumes of news through distinct models that handle entity extraction, company attribution, controversy detection, category mapping, severity scoring, and episode clustering to prevent double-counting. Additionally, LLMs filter borderline content, summarize events, and evaluate data quality.

While highly efficient, using AI for controversy tracking involves inherent limitations. These include potential false positives or negatives, ambiguity in mapping multi-company news, classification or clustering errors, source coverage gaps, and LLM-specific risks like hallucination. If unmitigated, these limitations could present operational risks, such as score volatility, bias against highly covered organizations, and reputational or investment decision errors due to misattribution or missed controversies.

To safeguard data integrity, we employ a two-tiered mitigation framework combining technical and human-in-the-loop validation. Structurally, all AI models are benchmarked against human-labeled datasets, alternative approaches are systematically logged, and company names are masked during training to eliminate brand bias. Performance is continuously tracked using automated quality dashboards.

Crucially, human oversight guides the system.

In addition, a dedicated team of subject-matter experts performs daily reviews of incidents using documented methodologies. For global norm violation cases, we enforce a strict four-eyes review and a formal 3-tier review process. Human expert labels permanently override model predictions, correcting immediate data points while simultaneously retraining and refining future AI model iterations.

4.4. Data estimations

The deployment of advanced Machine Learning (ML) models is necessary to close data gaps, introducing specific methodological risks which we manage through a standardized operational and Data Governance framework designed to validate model outputs.

Advanced ML models, while highly accurate, capture complex relationships but can sometimes obscure the reasoning behind an output (the "black box" problem). To ensure auditability and trust, we enforce strict documentation protocols and invest in systematic explainability tools.

Furthermore, every automated validation check is mapped back to clear, real-world domain knowledge, ensuring the rejection or flagging of any estimate can be diagnosed.

We actively prevent the generation of unreliable data for industries with low public disclosure by enforcing strict minimum reporting thresholds. If an industry falls below the required data volume, the ML estimate is automatically suppressed to prevent unwarranted statistical extrapolation.

To prevent algorithms from predicting impossible scenarios, we integrate "Essential" validation checks that enforce physical constraints, automatically blocking outputs that violate physical realities, such as estimations of negative waste generation.

To ensure stable historical trends for financial applications, we apply temporal validations that detect and cap extreme year-on-year variations against expected industry distributions. This prevents artificial volatility and enforces trend consistency.

Finally, to actively mitigate the risk of algorithmic bias that could inadvertently facilitate greenwashing, our models are not solely optimized for prediction error minimization. Instead, we prioritize the accurate differentiation between industry leaders and laggards (relative rank preservation). We only deploy a complex ML model if it achieves a substantial performance gain (defaulting to a >20% improvement) over simpler, existing methods, ensuring the investment in complexity is justified.

5. Assumptions & Limitations

5.1. Key Assumptions

The methodology rests on several key assumptions:

- **Self-disclosure validity:** Reported data from company disclosures is assumed to provide a sufficiently reliable basis for assessment. At the fund level, self-disclosures collected through European ESG Templates (EETs) are treated as a valid and reliable representation of fund-level sustainability characteristics.
- **Activity-based revenue alignment as a contribution proxy:** Activity-based revenue alignment — as measured through the EU Taxonomy and SDG frameworks — is considered a valid proxy for an organization's contribution to sustainable objectives.
- **Relative PAI performance as a meaningful signal:** Relative PAI performance within an applicable universe is assumed to be a reliable basis for assessing positive contribution, while relative PAI performance assessed against the broader Clarity AI universe is considered a valid basis for identifying organizations that cause significant harm under the DNSH assessment.
- **Controversial incidents as a governance proxy:** Controversial incidents, as identified and verified through Clarity AI's controversies model, are assumed to serve as a reliable proxy for an organization's underlying governance practices.

5.2. Limitations in Data Sources

The primary data limitations affecting this methodology include:

- **Annual Reporting Lag:** Company sustainability reports are typically published annually, introducing a time lag between actual performance and the data reflected in the assessment.
- **EU Taxonomy Disclosure Coverage:** Mandatory EU Taxonomy disclosure requirements currently apply to a subset of companies (primarily large EU-listed entities subject to CSRD/NFRD). For companies outside this scope, Taxonomy alignment is estimated by Clarity AI's own methodology rather than being sourced from regulatory disclosures, which may affect comparability.
- **Positive Disclosure Bias:** The methodology is subject to an inherent disclosure bias, whereby companies may disproportionately report positive sustainability metrics while omitting or downplaying adverse impacts. This asymmetry may result in an overstatement of

sustainability performance for more transparent issuers relative to less transparent ones, and should be considered when comparing assessments across entities with differing disclosure practices.

5.3. Limitations in Methodologies and Models

In addition to data limitations, the following methodological limitations apply:

- **Regulatory Ambiguity:** Article 2(17) of SFDR does not prescribe specific thresholds or metrics, leaving the definition of sustainable investment subject to interpretation. Clarity AI's methodology represents one defensible interpretation, but other interpretations are permissible under the regulation.
- **Binary Classification:** The pass/fail structure of the sustainable investment assessment does not capture gradations of sustainability performance. Organizations that narrowly pass or fail a threshold are treated identically to strong performers or clear non-qualifiers.
- **Backward-Looking Bias:** Organizations undergoing significant operational transformations may be misclassified if their current performance has improved materially relative to the data reflected in the assessment.
- **Percentile Ranking Stability:** The percentile thresholds used for contribution assessment are recalculated periodically as data is updated. New data updates may shift threshold values, potentially altering the classification of organizations at or near the boundary without any change in their underlying performance.
- **Relative performance universe:** The DNSH assessment uses PAI relative performance of companies against the full universe of companies covered by Clarity AI. As a result, companies that may perform well within their sector but underperform against the full universe may be penalized with respect to peer-based comparison approaches.
- **Controversy Model Sensitivity:** The LLM-based incident detection model is trained on a defined corpus of news sources and may exhibit lower sensitivity to controversies reported in languages or media markets not well-represented in the data.

6. Methodology Governance

Clarity AI maintains a robust methodology governance framework designed to ensure that all rating methodologies remain independent, rigorous, systematic, and impartial. To uphold these core principles, Clarity AI subjects its methodologies to a structured development, review, and approval process overseen by dedicated internal governance bodies, in line with our ESG Ratings Governance Policy.

Process and Frequency for Revising Methodologies

Methodologies are reviewed on a regular basis and at least annually to verify that they remain fit for purpose, aligned with emerging regulatory requirements, and reflective of market trends. The

revision process follows a systematic approach divided into three core phases: Preparation, Development & Testing, and Review & Approval.

The Review & Approval Phase includes a formal peer review and mandatory final approval by the Methodology Committee before any update can be deployed.

Clarity AI is committed to transparent communication with users and rated entities and makes information about its methodologies publicly available. The Chief Research Officer (CRO) oversees that methodology-related documentation intended for disclosure meets external transparency requirements.

Clarity AI does not run market consultations with respect to its methodologies. Once the methodologies are disclosed, users, rated entities, and other stakeholders may submit their feedback in respect thereof via the existing communication channels.

Conditions for Determining a Revision

Clarity AI has established specific conditions that trigger an official review and potential material modification of its rating methodologies. A review is initiated when there are updates to external sustainability standards or regulatory frameworks that directly impact the assessment criteria. It can also be driven by the availability of new or improved data sources, or conversely, by modifications, additions, or the discontinuation of data from third-party providers. Furthermore, enhancements to internal quantitative engines or underlying assessment models necessitate a review. Lastly, the governance framework mandates that formal complaints or external stakeholder feedback are reviewed by the Methodology Committee to determine if specific methodological adjustments are required.

Assessing Rating Impact

To prevent arbitrary adjustments, changes to existing methodologies are implemented via new or adapted algorithms and are automatically applied across the entire rated sample, including corporate or financial instruments scores. When a methodology modification is deemed material, Clarity AI mandates that a comprehensive impact assessment be conducted prior to the scheduled data release. This ensures that any subsequent rating shifts are fully traceable to verifiable data processing or predefined methodological adjustments rather than qualitative overrides. Information about material changes to the methodologies is made available to users and rated entities, accompanied by a clear explanation of the change's motivation and its expected impact analysis.

6.1. Engagement Process

The methodology is applied to the assessed universe on an unsolicited basis, relying exclusively on publicly available information. Rated items do not participate in the assessment process. Once the rating is issued, rated items can access Clarity AI's platform for free to review it, including the underlying data used to calculate the rating, and to submit complaints in case there are any errors.

Appendices

Appendix A: Full List of Key Performance Indicators (KPIs)

This appendix provides a comprehensive list of all KPIs used in the SFDR Sustainable Investment Methodology, organized by their role in the three-step assessment framework. For each KPI, the table specifies the assessment screen in which it is used, the evaluation logic applied, and the sustainability objective it addresses.

Positive Contribution KPIs

The following KPIs are used to determine whether an organization contributes to an environmental or social objective. An organization must satisfy at least one of the four contribution frameworks at the applicable threshold.

PAI-Based Relative Performance

KPI	PAI Ref.	Objective	Evaluation Logic	Applicability
Carbon Footprint	PAI 2	Environmental	Top Quartile	Industry-specific
Share of non-renewable energy consumption	PAI 5.1	Environmental	Top Quartile	Industry-specific
Share of non-renewable energy production	PAI 5.2	Environmental	Top Quartile	Industry-specific
Energy consumption intensity per high-impact climate sector	PAI 6	Environmental	Top Quartile	Industry-specific
Emissions to Water	PAI 8	Environmental	Top Quartile	Industry-specific
Hazardous Waste	PAI 9	Environmental	Top Quartile	Industry-specific
Unadjusted gender pay gap	PAI 12	Social	Top Quartile	Universal
Board Gender Diversity	PAI 13	Social	Top Quartile	Universal

Note: PAI 1 (Carbon Emissions) and PAI 3 (GHG Intensity of Investee Companies) are excluded from the contribution screen due to substantive overlap with PAI 2 (Carbon Footprint), which is retained as the primary carbon performance indicator. PAIs 1 and 3 are applied in the DNSH screen only.

EU Taxonomy Alignment

KPI	Objective	Evaluation Logic	Applicability	Default Threshold
EU Taxonomy Alignment (% of revenues)	Environmental	Revenue Alignment	Universal	>0%

SDG Revenue Alignment

KPI	Objective	Evaluation Logic	Applicability	Default Threshold
SDG Revenue Alignment (% of revenues from contributing activities)	Environmental & Social	Revenue Alignment	Universal	≥20%

The SDGs addressed through this criterion, and their classification as environmental or social, are as follows:

SDG	Objective
SDG 1 — No Poverty	Social
SDG 2 — Zero Hunger	Social
SDG 3 — Good Health and Well-being	Social
SDG 4 — Quality Education	Social
SDG 5 — Gender Equality	Social
SDG 6 — Clean Water and Sanitation	Social
SDG 7 — Affordable and Clean Energy	Environmental & Social
SDG 8 — Decent Work and Economic Growth	Social
SDG 9 — Industry, Innovation and Infrastructure	Social

SDG 10 — Reduced Inequalities	Social
SDG 11 — Sustainable Cities and Communities	Social
SDG 12 — Responsible Consumption and Production	Environmental
SDG 13 — Climate Action	Environmental
SDG 14 — Life Below Water	Environmental
SDG 15 — Life on Land	Environmental
SDG 16 — Peace, Justice and Strong Institutions	Social
SDG 17 — Partnerships for the Goals	Social

Science-Based Targets initiative (SBTi)

KPI	Objective	Evaluation Logic	Applicability	Configuration
SBTi-approved emissions reduction target	Environmental	Pass/Fail	Universal	Optional; enabled via Custom Profile

Note: SBTi approval serves as a forward-looking, science-aligned signal of an organization's commitment to decarbonization consistent with limiting global warming to 1.5°C. This criterion is not enabled by default and must be activated through the Clarity AI Custom Profiles feature.

Do No Significant Harm (DNSH) KPIs

The following KPIs are used to determine whether an organization causes significant harm to any environmental or social objective. Failure of any mandatory DNSH indicator results in disqualification from the sustainable investment classification, irrespective of contribution screen performance.

Exposure Indicators (Pass/Fail)

These indicators assess an organization's direct involvement in activities or products that are inherently harmful. Exposure to any of the following constitutes an automatic DNSH failure.

KPI	PAI Ref.	Objective	Evaluation Logic	Applicability
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Exposure to companies active in the fossil fuel sector	PAI 4	Environmental	Pass/Fail Exposure	Universal
Exposure to controversial weapons	PAI 14	Social	Pass/Fail Exposure	Universal

Controversy and Compliance Indicators (Pass/Fail)

These indicators assess an organization's confirmed involvement in controversial activities or its failure to maintain adequate compliance mechanisms. Confirmed involvement in any of the following constitutes an automatic DNSH failure.

KPI	PAI Ref.	Objective	Evaluation Logic
Activities negatively affecting biodiversity-sensitive areas	PAI 7	Environmental	Pass/Fail Controversy
Violations of UNGC principles and OECD Guidelines	PAI 10	Social	Pass/Fail Controversy
Lack of UNGC and OECD compliance mechanisms	PAI 11	Social	Pass/Fail Controversy

Quantitative Indicators (Relative Screen)

These indicators assess an organization's quantitative PAI performance relative to the broader Clarity AI universe. Organizations falling below the bottom fifth percentile on any of the following indicators fail the DNSH quantitative screen. This threshold is configurable.

KPI	PAI Ref.	Objective	Evaluation Logic	Applicability
Carbon Emissions	PAI 1	Environmental	Bottom 5th Percentile	Universal
Carbon Footprint	PAI 2	Environmental	Bottom 5th Percentile	Universal
GHG Intensity of Investee Companies	PAI 3	Environmental	Bottom 5th Percentile	Universal

Share of non-renewable energy consumption	PAI 5.1	Environmental	Bottom 5th Percentile	Universal
Share of non-renewable energy production	PAI 5.2	Environmental	Bottom 5th Percentile	Universal
Energy consumption intensity per high-impact climate sector	PAI 6	Environmental	Bottom 5th Percentile	Universal
Emissions to Water	PAI 8	Environmental	Bottom 5th Percentile	Universal
Hazardous Waste	PAI 9	Environmental	Bottom 5th Percentile	Universal
Unadjusted gender pay gap	PAI 12	Social	Bottom 5th Percentile	Universal
Board Gender Diversity	PAI 13	Social	Bottom 5th Percentile	Universal

Minimum Safeguards Screen (Controversy-Based)

Separately from the PAI-based screens above, the DNSH assessment includes a minimum safeguards screen that evaluates an organization's confirmed involvement in violations of human rights and labour rights standards. A violation in any of the following categories results in an automatic DNSH failure:

Minimum Safeguard Topic	Description	Evaluation Logic	Applicability
Society Human Rights	An analysis of incidents relating to non-compliance with human rights within the company's operations or in the services it provides. Incidents may include the use of child labor and forced labor, trafficking, torture, blocking/handicapping unionization rights, or collaboration with terrorist groups or dictatorial regimes.	Pass/Fail — Violation	Universal
Employees Human Rights	An analysis of incidents relating to violations of employee human rights within the company's operations. This indicator includes incidents relating to the use of	Pass/Fail — Violation	Universal

	forced labor and child labor in the company's own operations		
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Good Governance KPIs

The following KPIs are used to assess whether an organization follows good governance practices in accordance with Article 2(17) SFDR. A violation in any of the following topic categories results in disqualification from the sustainable investment classification.

Good Governance Topic	Description	Evaluation Logic	Applicability
Labour Relations	An analysis of incidents that relate to activities within a company's operations that have a negative social impact, such as discrimination, wage, and other labor violations.	Pass/Fail — Violation	Universal
Corporate Governance	An analysis of incidents relating to corporate governance, including questionably high management compensation, shareholder rights issues, and concerns over insider dealings.	Pass/Fail — Violation	Universal
Accounting and Taxation	An analysis of incidents relating to tax avoidance (the use of legal means to reduce tax liabilities through, among others, artificial transactions, the use of shell companies, change in domicile to a tax haven), tax evasion (use of illegal means to evade taxes), and misconduct relating to the company's financial accounting.	Pass/Fail — Violation	Universal

Appendix B: Sustainable Bonds

Sustainable Bonds are fixed-income instruments issued with a sustainability-related objective. This appendix describes how Clarity AI applies the three-step sustainable investment assessment to different types of sustainable bond instruments.

Instrument Types:

- **Green Bonds:** Proceeds finance new or existing Green Projects.
- **Transition Bonds:** Proceeds finance the transition to a low-carbon economy.
- **Social Bonds:** Proceeds finance social projects.
- **Sustainability Bonds:** Proceeds finance both social and green projects.
- **Sustainability-Linked Bonds (SLBs):** Not tied to specific projects; linked to the issuer's commitment to improve sustainability KPIs.

Assessment Treatment:

Contribution: For Green Bonds, Transition Bonds, Social Bonds, and Sustainability Bonds, the use-of-proceeds requirement signals that the investment is directed toward activities contributing to a social or environmental objective. These bond types are therefore classified as *contributing* under the Clarity AI Sustainable Investment framework by virtue of their use-of-proceeds designation.

SLBs do not finance specific sustainable projects. Accordingly, SLBs are assessed based on the sustainability characteristics of the issuer itself, applying the standard three-step entity-level assessment.

DNSH: For use-of-proceeds bonds (Green, Transition, Social, Sustainability), the DNSH check is applied at the project level. Since these bonds require the issuer to identify and manage risks to environmental and social objectives as part of the bond framework, the bond-level DNSH assessment is considered equivalent to the project-level DNSH. For SLBs, the DNSH check is applied at the issuer level using the standard entity-level DNSH screen.

Good Governance: The Good Governance check applies to the bond *issuer* (investee company), regardless of bond type. Sustainable Bond issuers must meet the same Good Governance requirements as any other assessed entity.

Exception for Government Issuers: For Sustainable Bonds issued by governments and other public entities, the Good Governance check is not applicable, consistent with ESMA's clarification that good governance practices under Article 2(17) SFDR do not apply in the case of investments in government bonds. Government-issued sustainable bonds are therefore classified as sustainable investments provided they meet the DNSH requirements.

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