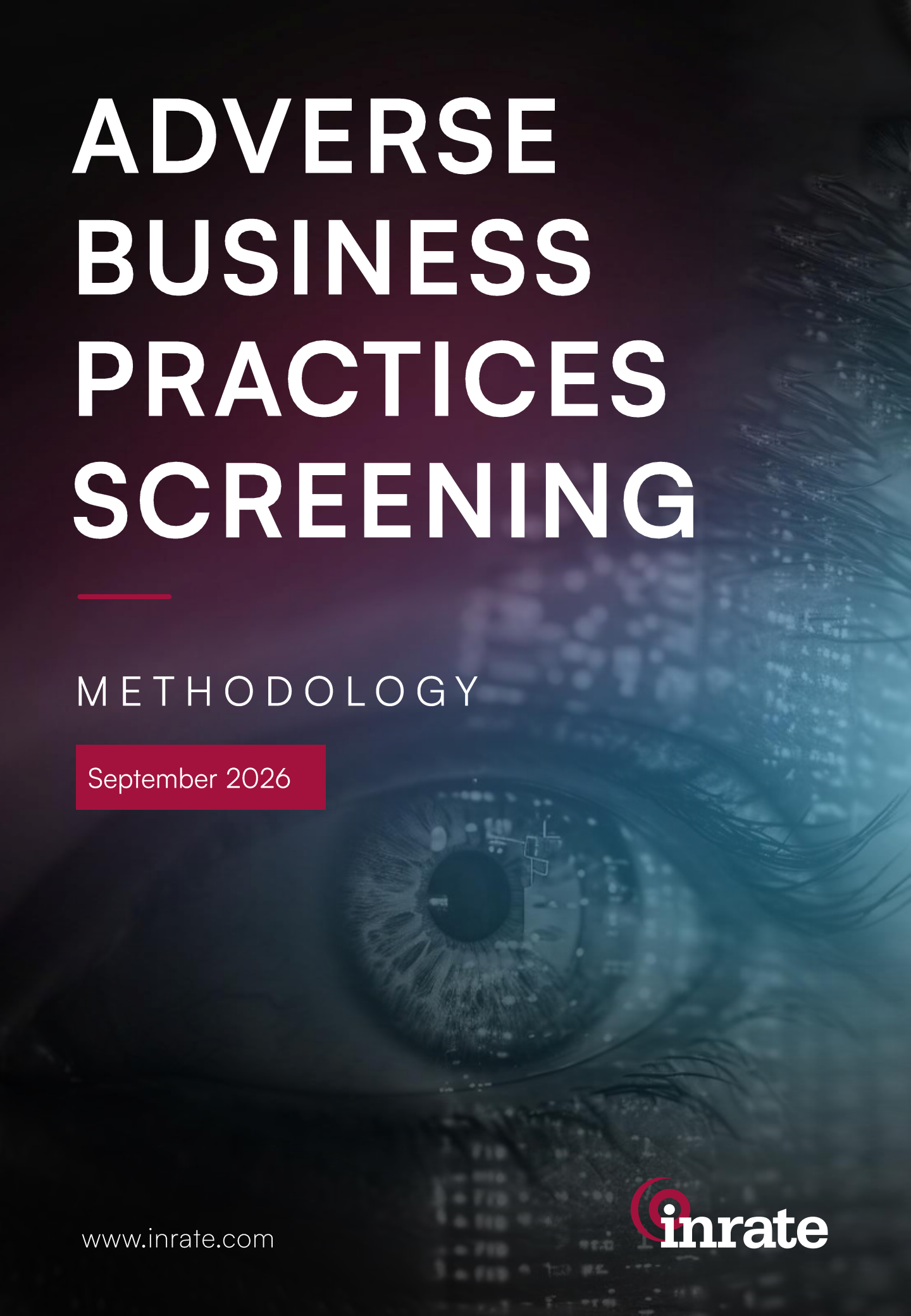
ADVERSE BUSINESS PRACTICES SCREENING

METHODOLOGY

September 2026



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Adverse Business Practices



Assessment Components

To identify investments involved in conflicts with established values & principles, the screening framework computes controversy scores based on comprehensive criteria.

The following section provides a detailed explanation of the elements in this assessment.

CS Event Score

The CS Event Score represents Inrate's assessment of the adverse impact of a company in a specific event.

CS Indicator Score

The CS Indicator Score reflects Inrate's assessment of a company's involvement in a controversial issues such as bribery and corruption.

Controversy Involvement Score

The Controversy Involvement Score reflects Inrate's assessment of a company's overall involvement in controversies.

Controversy exclusion based on client-specified threshold

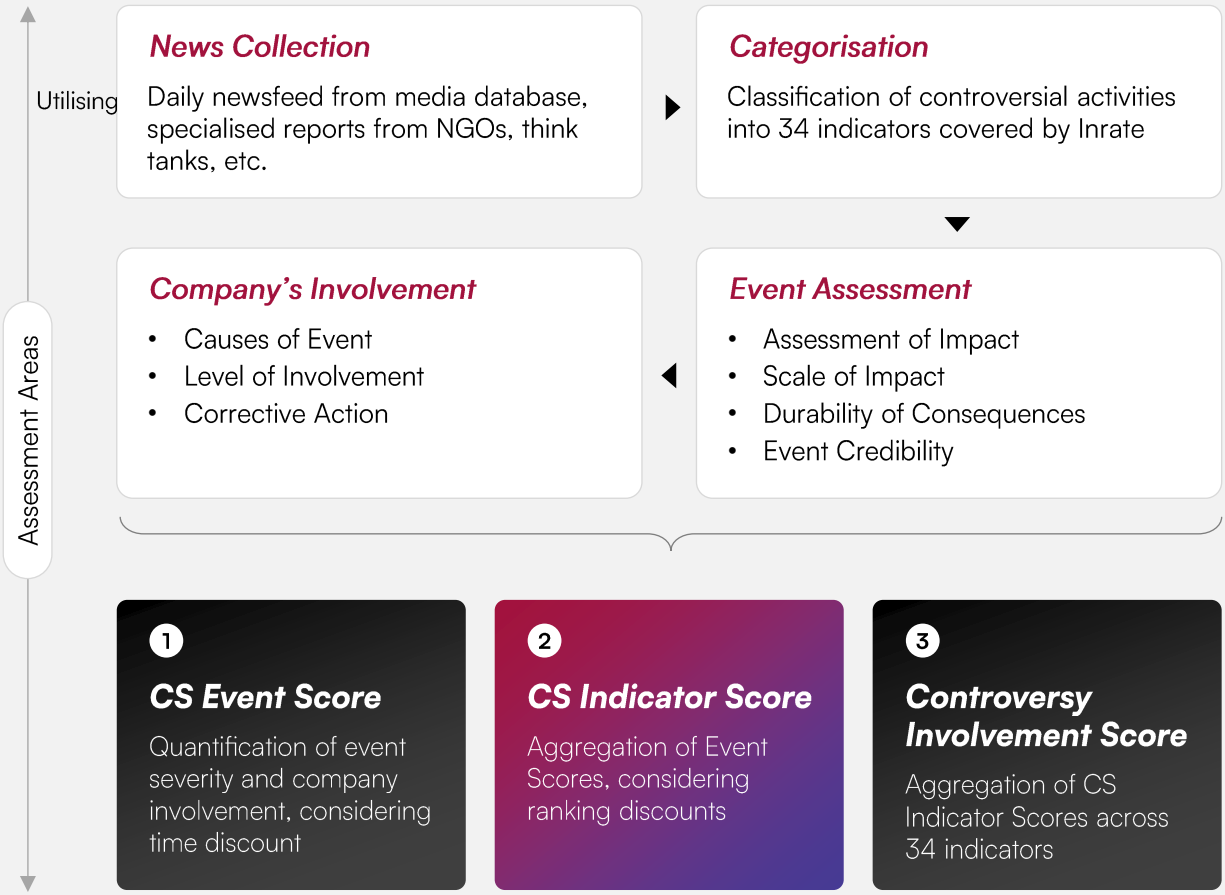
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Method

This section integrates the components of Inrate's ESG screening introduced in the preceding chapters to explain the framework used for highlighting companies that are not aligned with norms, values or international conventions.

Inrate maintains a database containing over 25,000 controversies related to listed companies globally, spanning developed and emerging markets. The controversy research is the basis for the CS Event Score, the CS Indicator Score and the Controversy Involvement Score.

Fig 2: Controversies assessment process



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CS Event Score

Inrate performs daily media screening to identify an event. An ‘event’ illustrates an ethical breach, such as pollution or violation of labor laws, involving one or multiple companies.

Inrate assesses whether it is a new event or an update to an existing controversial event. Each event must then be categorised by the 'type of controversy'. Therefore, the controversial activity is classified under one of the 34 indicators covered by Inrate. Each event is accompanied by a summary.

The actual impact of an event is evaluated based on the following four features:

- **Assessment of Impact** looks at the severity of an impact.
- **Scale of Impact** assesses the extent to which an adverse impact affects the stakeholders, including society, employees and the environment, quantifying the number of people or the area impacted.
- **Durability of Consequences** considers the impact's durability, or how long it takes to repair, reverse or cure an impact.
- **Event Credibility** is meant to account for the fact that not all events or allegations are completely credible. This could be because the facts of an event have not been fully revealed yet.

The following features assess the company’s involvement in an event:

- **Causes of Event** looks into the company's conduct that led to the controversy, such as deliberate ethical violations, poor management traits or whether it was just a coincidence.
- **Level of Involvement** considers the extent of a company's involvement in an event (based on factors such as whether it occurred within its operations or supply chain) and consequently, its potential accountability for the outcomes.
- **Corrective Action** examines the actions/measures taken by a company to mitigate an impact (if the company is directly involved in an event) or stop its involvement (if the company is indirectly involved). The measures should not only remove an impact or involvement, but also prevent future occurrences.

Event assessment and company involvement, accounting for time discount[1], produce the CS Event Score (between 0 and 1). It is an intermediate calculation result that is used to calculate subsequent scores such as the CS Indicator Score.

[1]*The time discount is automatically applied based on the date of an event's treatment. The reason for applying a time discount is to account for the fact that it requires time for a company to reform and rectify adverse business practices.*

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CS Indicator Score

- Inrate compiles all events attributed to a company and the respective CS Indicator.
- Events are arranged by their level of severity, prioritising those with the highest CS Event Scores first.
- A ranking discount is applied from second-highest event onwards, with discounts of 25%, 50%, 75% and 90% applied as appropriate.
- Following the application of ranking discounts, the aggregated discounted event scores result in the CS Indicator Score. The CS Indicator Scores range from 0 to 1 and are used as exclusion thresholds for customers.

Controversy Involvement Score

Inrate computes the Controversy Involvement Score by adding up the CS Indicator Scores for all 34 indicators. The Controversy Involvement Scores are used as an overall score on entity controversy reports.

Data Basis and Sourcing

Screening for adverse business practices utilises media database (iNava), and specialised reports from NGOs and think tanks.

Adverse Business Practices: Result and Scale

The overall results of adverse business practices are presented as the Controversy Involvement Score for an entity. The scale illustrating the significance of various scores is given below:

Minimal (0 - 0.01)	Low (0.01 - 0.1)	Medium (0.1 - 0.5)	High (0.5 - 1)	Very high ≥1
The company's involvement in controversial business practices has a minor impact on society and the environment. The controversial business practices are rather insignificant and not extraordinary at all.	The company's involvement in controversial business practices has a low impact on society and the environment. The controversial business practices are widespread and therefore do not stand out.	The company's involvement in controversial business practices have a significant impact on society and the environment. The controversial business practices are extraordinary.	The company's involvement in controversial business practices have a serious impact on society or the environment. These are very unusual and significant.	The company has an unusually high involvement in controversial business practices. This category is used for the worst performing companies.

Clients can customise exclusion thresholds, such as choosing to exclude companies with Controversy Involvement Scores exceeding 0.1.

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Representative Result of Inrate's Screening for Controversies

- This section demonstrates a working example, showcasing the assessment results of a healthcare company, referred to as 'Company X', drawn from Inrate's universe of screening for adverse business practices.
- A controversial event involving Company X took place. The event titled '**Continued operations in Russia despite breach of international law**' was categorized under Inrate's indicator **Controversies over activities in sensitive countries.**

Event Assessment

Assessment of Impact
(Severe, Major, Moderate, Minor)

Scale of Impact
(Large, Extensive, Medium, Small)

Durability of Consequences
(Irreversible, Long-term, Medium-term, Short-term)

Event Credibility
(Highly Credible, Reasonably Credible, Not Credible)

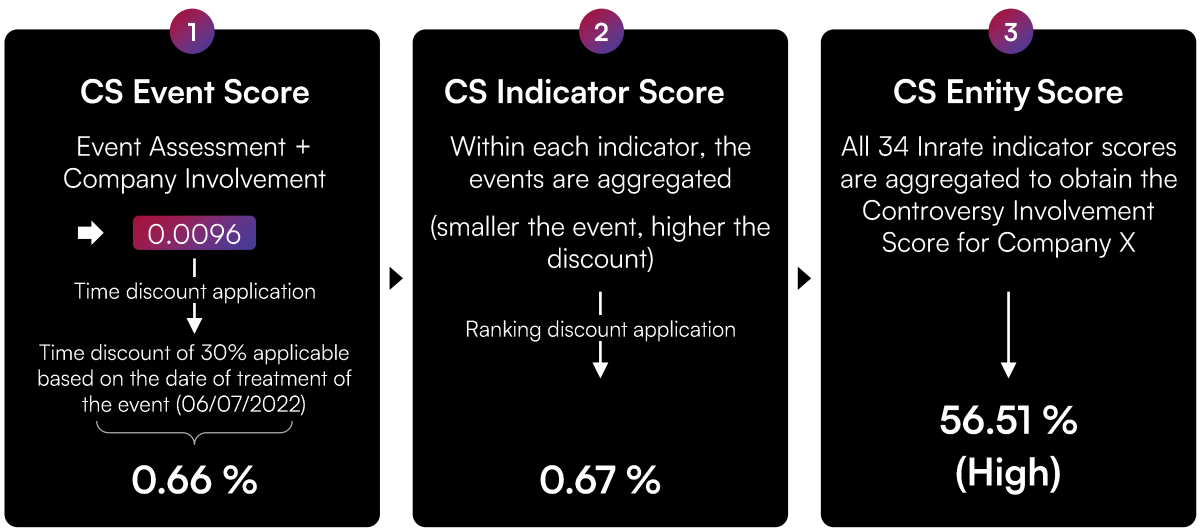
Assessment of Company X's Involvement

Causes of Event
(Purposeful ethical breach, Insufficient management features, Chance/random circumstances)

Level of Involvement
(Direct or lead, Indirect and major, Indirect and moderate, Indirect and minor, Indirect and negligible)

Corrective Action
(Unknown/too recent to react, Not relevant, No corrective action, Unconvincing measures taken, Standard measures taken, Highly effective measures taken, Impact removed)

Each feature receives a score from 0 to 1, and all the scores are multiplied together.



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