CLARITY AI
Add Clarity. Choose Sustainably ™

Regulatory and public scrutiny around greenwashing will increase in 2023

Selected press coverage and/or statements

The market is full of unreliable sustainability data and regulators are already scrutinizing professional investors; SFDR gives license for more formal audits

FT FINANCIAL TIMES

DWS chief resigns after police raid over greenwashing claims
"**DWS** has denied any wrongdoing, but has changed its ESG criteria since Fixler's revelations. In its 2021 annual report, published in March 2022, DWS reported just €115bn in "ESG assets" for 2021 — 75% less than a year earlier when it stated that €459bn in assets were "ESG integrated". **The group's shares had fallen 6.2%...**"

CITYWIRE

One in four Mifid II firms filed 'inaccurate' returns in 2018
Goldman Sachs and UBS were **fined £34M and £27.6M** respectively for reporting failures under original Mifid rules."

esma

MiFID II penalties quadrupled in 2020
ESMA's fines are a wakeup call for financial institutions to begin re-evaluating what more can be done with their reference and market data. **Embracing a standardised, more scalable service** which enables firms to extract the information needed **is an obvious next step.**

SFDR data providers have limited and incorrect data coverage, which will lead to incomplete & inaccurate reporting

Providers	1	2	3	4	5	⟲
Data Coverage	**10k**	**12k**	**7k**	**4k**	**30k**	**50k**
PAI 4 (Exposure to cos. in the fossil fuel sector)	Leverages their existing metrics for fossil fuel exposures data without considering the specifications of the SFDR regulation (e.g.distribution, trading)					
PAI 7 (Negative effect on areas of biodiversity)	Only considers companies biodiversity protection policies and does not incorporate controversies or proximity to protected areas					
PAI 9 (Hazardous waste ratio)	Does not consider radioactive waste, as required by regulation					
PAI 10 (Violations of UNGC & OECD guidelines)	Uses controversies that are not proven violations, does not use controversies at all or does not include OECD guidelines (only UNGC)					
PAI 11 (Lack processes to comply w/UNGC & OECD)	Only considers if companies are signatories, does not evaluate if they have processes in place					

☐ Providers with inaccurate PAI metric

Case Study: Other providers use inaccurate data, which will lead to inaccurate reporting

Inaccurate reporting leads to increased regulatory scrutiny which may cause reputational risk and can lead to costly enforcement actions

What others are doing

Data providers pull ESG data from publicly available sources without tailoring it to the EU regulatory requirements

Implications

1

Reports for sustainability data are often formatted for marketing purposes, not for standardized data collection

2

Humans pulling data from tens of thousands of sources can lead to data quality issues

3

Companies don't necessarily report in exact accordance with the investor regulatory requirements

How Clarity can solve it

Combines advanced technology with sustainability expertise to gather, clean and cross-check data – without bias and at scale

Example 1: Incorrect data pull for PAI 8, emissions to water

- For Covestro, some providers are using the value 728kt.

- The value should be 0.29kt (2.5k times smaller), which corresponds only to phosphate, nitrates and heavy metals values.

- 728kt includes inorganic salts, which should not be included as per the regulation.

Example 2: Incorrect data pull for PAI 9, hazardous waste

- For CEZ group some providers are using the value 3035t.

- While the regulation is very clear that the value should include radioactive waste.

- This increases the value to 3348t, which is the correct number to report to regulators.

Report accurately with the broadest, most reliable data coverage available for SFDR PAIs

Using reliable data will help to increase the accuracy of reporting

> *Where information relating to any of the indicators used is not readily available, the section referred to in point (c) of Article 4(2) shall also contain details of the **best efforts** used to obtain the information either directly from investee companies, or by carrying out additional research, cooperating with third party data providers or external experts...”*
>
> *–ESMA Regulatory Technical Standards*

The regulation requires a "best efforts" approach, which Clarity AI best delivers on with the most comprehensive and accurate data available

Can be integrated via API or accessed via an off-the-shelf web platform

Data Coverage

- More than 50,000 companies
- >98% of the ACWI
- **2-13x that of other providers**, including all legacy brands

Data Accuracy

- Processing more than 1M data points each week via **machine learning algorithms to contrast overlapping reported data to select the best option and to estimate missing data in a best effort** to increase quality coverage
- Leveraging Natural Language Processing to assess more than 100,000 articles from 33,000 trusted news sources every day to **ensure company controversies are up to date and included** in an unbiased way

Independent analysts and current clients agree that Clarity AI is a Leader and stands apart from competitors

FORRESTER®
NEW WAVE LEADER 2022
ESG Ratings, Data, And Analytics

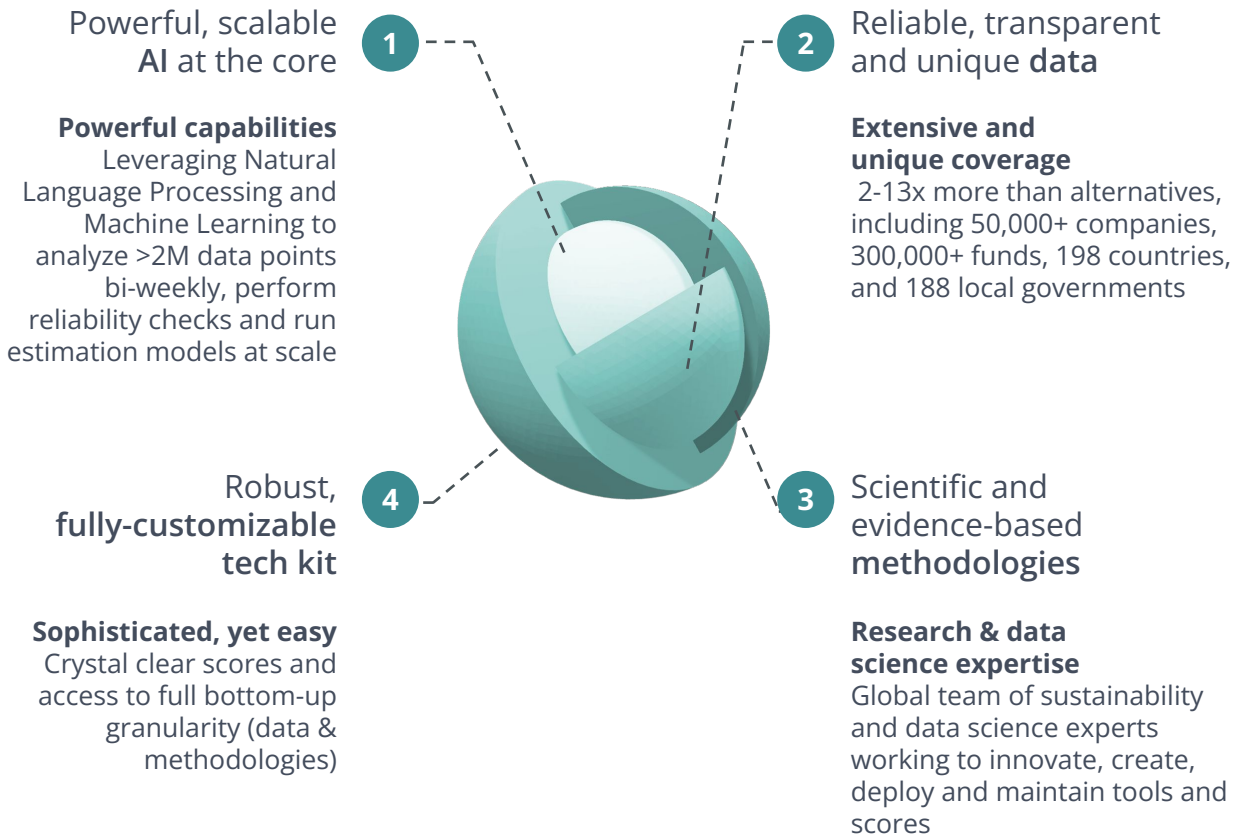> *It's very easy to see a company's alignment with technical standards”*

> *They understood nuances that their competitors didn't even know existed”*

> *- Clarity AI customer quotes about EU Regulation from The Forrester New Wave™: ESG Ratings, Data, And Analytics, Q3 2022*

Clarity AI's best-in-class sustainability capabilities can be built-in to any workflow

1 Powerful, scalable **AI** at the core

Powerful capabilities
Leveraging Natural Language Processing and Machine Learning to analyze >2M data points bi-weekly, perform reliability checks and run estimation models at scale

2 Reliable, transparent and unique **data**

Extensive and unique coverage
2-13x more than alternatives, including 50,000+ companies, 300,000+ funds, 198 countries, and 188 local governments

4 Robust, **fully-customizable tech kit**

Sophisticated, yet easy
Crystal clear scores and access to full bottom-up granularity (data & methodologies)

3 Scientific and evidence-based **methodologies**

Research & data science expertise
Global team of sustainability and data science experts working to innovate, create, deploy and maintain tools and scores

Testimonial: Client using Clarity AI SFDR and EU Taxonomy modules

> *We have used the EU Taxonomy eligibility reporting tool since January, as well as the SFDR disclosure reporting tool. We wanted to keep a close eye on the evolving ESG data landscape – and to work with innovative technology providers. **Clarity AI stands out from its peers** because of the level of machine learning, multiple sources of ESG data and usage of big data rather than relying on data analysts.*
>
> *We are now spending less time on data gathering and instead focusing more on developing our ESG analysis** as well as integrating Clarity AI's data into our portfolio management system even more broadly."*
>
> *–Head of Responsible Investments, Large Nordic Insurer*

About Clarity AI

Clarity AI is a sustainability technology platform that uses machine learning and big data to deliver environmental and social insights to investors and organizations. As of July 2022, Clarity AI's platform analyzes more than 30,000 companies, 300,000 funds, 198 countries and 187 local governments, and delivers data and analytics for investing, corporate research and reporting. Clarity AI has offices in the US, Europe and Middle East. Clarity AI's client network manages more than $30 trillions in assets under management.

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