ESG Scoring Methodology

Company: STILGAR Asset Management SAS
Headquarter: 64 rue de La Rochefoucauld, 75009 Paris RCS Paris: 106 686 686

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Introduction

Stilgar Asset Management is firmly convinced of its responsibility to contribute to the One Health objective. We also believe that companies improving their ESG (Environmental, Social, and Governance) impacts demonstrate better risk management and greater resilience to market volatility. The value creation driven by strong ESG practices is a performance enhancer that Stilgar AM seeks to capture as an active investor.

We integrate ESG criteria into our investment decisions to:

- Identify material extra-financial risks (climate, biodiversity, human rights, governance) that may impact financial performance and reputation.
- Identify opportunities linked to the sustainable transition (growth, cost reduction, access to financing, innovation).
- Fulfill our fiduciary duty by incorporating ESG into fundamental analysis and portfolio construction.
- Promote best ESG practices among issuers through engagement and voting, and encourage a positive contribution to the Sustainable Development Goals (SDGs).

This scoring methodology complements Stilgar Asset Management's broader Responsibility Framework, including:

- The ESG integration procedure in the investment process.
- The sustainability risk procedure.
- The exclusion policy.
- The shareholder engagement and voting policy.

This document is a simplified version of the scoring methodology and is available on the management company's website: www.stilgar-am.com.

ESG Scoring methodology for private issuers

Objective and Scope

The extra-financial management objective is an improvement-based approach: the weighted average ESG score of the portfolio must at all times be higher than the average ESG score of the initial investment universe.

Stilgar has developed a proprietary ESG analysis and evaluation methodology, inspired by sectoral materiality matrices and structured around five stakeholders: Governance, Planet, Employees, Suppliers, and Civil Society. This tool generates an ESG rating (0–100 scale) for each company in the investment universe.

General Framework

The process consists of five steps:

- Documentary collection

- Extraction
- Normalization
- Aggregation
- Reporting

A clear boundary is established between AI processing and deterministic processing. The model never assigns scores—it does not access weighting, scoring thresholds, or final scores. Safeguards are in place to govern AI usage.

Data Sources

The analysis relies on publicly available information from issuers, including:

- Annual and sustainability reports.
- Regulatory and governance documents.
- Recognized specialized sources.
- Market data.

No estimated data is used: missing data is not extrapolated.

Criteria Framework

The analysis is based on 42 qualitative and quantitative criteria, distributed across the three ESG pillars:

Pillar
• Pillar E : 15 criteria • Pillar S : 16 criteria • Pillar G : 11 criteria

- Each criterion is evaluated and converted into a sub-score (0–100), using:
  - Interpolation for quantitative data.
  - A five-level grid (leading / strong / adequate / limited / weak) for qualitative criteria.

Level	Sub-score	Interpretation
leading	**100**	Best-in-class practice
strong	**75**	Comprehensive and documented system
adequate	**50**	Existing but partial system
limited	**25**	Sparse or weakly supported elements
weak	**0**	No system or highly insufficient disclosure

- Each criterion is assigned a materiality coefficient (1–5) within its pillar, reflecting its relative importance.
- A penalty mechanism is applied at the pillar level in cases of controversies, negative impacts, or red flags (e.g., audit anomalies, environmental disputes, exposure to sensitive sectors).

Nature of Processing
• 39 criteria are scored positively. • 3 criteria are used for penalties.

- Missing disclosures (e.g., climate, business ethics, tax transparency, human rights) are penalized as a negative signal.
- Sub-scores are calculated for each pillar and aggregated via arithmetic mean, minus penalties. A missing criterion is not counted as zero; it is excluded from the denominator, increasing the relative weight of the remaining criteria. This avoids double-penalizing missing data.
- The ESG score is the weighted average of the three pillars, using industry-specific weightings.

Methodology notes

- Two criteria of carbon intensity are scored relative to their industry sector.
- Post-calculation normalization is applied across pillars to recompose the global score.
- Tow indicators support each score:
  - Coverage: Percentage of non-penalty criteria that generated a sub-score (unweighted, all pillars combined).
  - Relevant Coverage: Weighted coverage within each pillar, where each criterion is weighted by its industry coefficient.

Alignment with PAIs (Principal Adverse Impacts)

A mapping table links scoring criteria to PAIs (Principal Adverse Impacts on sustainability). PAIs are partially or fully covered by the scoring methodology.

PAI	Regulatory Title	Correspondence
1	Greenhouse gas (GHG) emissions (Scope 1, 2, 3, total)	Partial
2	Carbon footprint (GHG / EVIC)	Quantitative
3	GHG intensity of investee companies	Quantitative
4	Exposure to fossil fuel sector companies	Quantitative
5	Share of non-renewable energy consumption and production	Qualitative
6	Energy consumption intensity in climate-impact sectors	Partial
7	Activities negatively impacting biodiversity-sensitive areas	Qualitative
8	Water discharges	Partial
9	Hazardous and radioactive waste ratio	Qualitative
10	Violations of UN Global Compact and OECD Guidelines	Quantitative
11	Lack of compliance processes to monitor UN Global Compact/OECD adherence	Qualitative
12	Unadjusted gender pay gap	Qualitative
13	Gender diversity on the board	Quantitative
14	Exposure to controversial weapons	Excluded (covered by exclusion policy)

Alignment with SDGs (Sustainable Development Goals)

A mapping has also been established between scoring criteria and the UN Sustainable Development Goals (SDGs), based on a double materiality approach.

SDG	Title (2030 Agenda)	Correspondence

1	No Poverty	Yes
2	Zero Hunger	Yes
3	Good Health and Well-being	Yes
4	Quality Education	Yes
5	Gender Equality	Yes
6	Clean Water and Sanitation	Yes
7	Affordable and Clean Energy	Yes
8	Decent Work and Economic Growth	Yes
9	Industry, Innovation, and Infrastructure	Yes
10	Reduced Inequalities	Yes
11	Sustainable Cities and Communities	Yes
12	Responsible Consumption and Production	Yes
13	Climate Action	Yes
14	Life Below Water	Yes
15	Life on Land	Yes
16	Peace, Justice, and Strong Institutions	Yes
17	Partnerships for the Goals	Yes

ESG Scoring methodology for sovereign issuers

This methodology generates a proprietary ESG score (from 0 to 100) to assess ESG responsibility and risks for each UN member state.

Scope and key principles

- **Rated issuers:** The universe consists of the 193 UN member states. Non-member territories (e.g., Hong Kong, Greenland), local authorities, and supranational entities are excluded.
- **100% deterministic calculation:** Algorithms rely exclusively on verifiable official data. If data is missing, it is neither guessed nor fabricated: the country is reweighted based on its available published data.

Double materiality: risk and impact

Each indicator carries two independent weightings expressed in points: one for the risk score and one for the impact score. Both sets total 100 points. The risk score measures what the state undergoes that could affect its creditworthiness. The impact score measures the externalities it generates relative to its wealth level.

The methodology computes two independent scores based on 20 indicators:

Pillar	Risk Weight	Impact Weight	Key Indicators
Governance	45	20	Corruption, rule of law, public effectiveness, democracy.

Social	15	30	HDI (excluding income), gender equality, youth unemployment.
Environment	5	15	PM2.5 particulate matter, protected areas, 10-year deforestation.
Climate	35	35	Per capita GHG emissions, carbon intensity of GDP, carbon market.
Total	**100**	**100**	

Calculation Steps

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None
Raw Value ➔ Level Percentile (P) ➔ Wealth Adjustment (Q) ➔ Final Score
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1. **Relative ranking (P):** Raw values are converted into a rank from 0 to 100 relative to other countries.
2. **Wealth adjustment (Q):** Wealthy countries naturally have better infrastructure. To avoid penalizing a developing country that is making efforts, impact measures the gap between what a country produces and what it should produce given its GDP.
3. **Indicator score:** Impact combines 50% absolute level (P) and 50% relative effort to GDP (Q).
4. **Final score:** Combination of the Risk score (40%), Impact score (40%), and progress Trend over 3 to 5 years (20%).

Adjustments, penalties, and exclusions

Order of penalty application:

1. FATF grey list penalty (-5 pts) and EU list penalty (-3 pts).
2. Automatic capping at 40/100 for authoritarian regimes and 30/100 in case of severe controversies.
3. Score reduced to 0/100 for countries on the FATF black list.

Investment exclusion: 28 states are subject to a strict prohibition on debt holding (EU/UN sovereign sanctions, arms embargoes, or repressive dictatorships), regardless of their calculated score.

Governance and Quality Control

All scoring elements are recorded and archived.

Second-level control focuses on score quality audit. Reproducibility of results is tested on a sample of companies, varying by market capitalization, sector, and country of origin.

The entire universe is scored at least annually.

The scoring methodology is reviewed annually, unless otherwise specified.

This document is the public version of the internal scoring methodology.