Intangible Value Assessment (IVA) Methodology

A Concise Explanation of Innovest’s Company Rating Model

Innovest’s research is focused on those factors which contribute most heavily to financial out-performance. Environmental, Social and Governance (ESG) performance measures are used as leading indicators for management quality and long-term financial performance, not as commentaries on the intrinsic ethical worth of the companies. Innovest’s Intangible Value Assessment platform combines more than 120 performance factors, including innovation capacity, product liability, governance, human capital, emerging market, and environmental opportunities and risk.

Our IVA model breaks down into four distinct components. These are set out in the table below, together with the main issues we assess under each of these four main headings:

<table>
<thead>
<tr>
<th>Stakeholder Capital</th>
<th>Strategic Governance</th>
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</thead>
<tbody>
<tr>
<td>Regulators and policymakers</td>
<td>Strategic scanning capability</td>
</tr>
<tr>
<td>Local communities/NGO’s</td>
<td>Agility/adaptation</td>
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<tr>
<td>Customer relationships</td>
<td>Performance indicators/monitoring</td>
</tr>
<tr>
<td>Alliance partners</td>
<td>Traditional governance concerns</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>International “best practice”</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Human Capital</th>
<th>Environment</th>
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</thead>
<tbody>
<tr>
<td>Labour relations</td>
<td>Board and executive oversight</td>
</tr>
<tr>
<td>Health &amp; safety</td>
<td>Risk management systems</td>
</tr>
<tr>
<td>Recruitment/retention strategies</td>
<td>Disclosure/verification</td>
</tr>
<tr>
<td>Employee motivation</td>
<td>Process efficiencies – “eco-efficiency”</td>
</tr>
<tr>
<td>Innovation capacity</td>
<td>Health and safety</td>
</tr>
<tr>
<td>Knowledge development &amp; dissemination</td>
<td>New product development</td>
</tr>
<tr>
<td>Progressive workplace practices</td>
<td>Environmental/climate risk assessment</td>
</tr>
</tbody>
</table>

OVERALL APPROACH

At the heart of Innovest’s analytical model is the attempt to balance the level of environmentally and socially driven investment risk with the companies’ managerial and financial capacity to manage that risk successfully and profitably into the future. Risk alone is only one-third of the equation; what is also crucially important to investors is how well that risk is likely to be managed, and what upside profit opportunities might be created and captured. The Innovest assessment criteria have been designed with these three parts of the equation in mind.
Research Process

The Innovest company rating methodology can be summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>In-Depth Sector Analysis</th>
<th></th>
<th>Company Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Collection of Company Data</td>
<td>5</td>
<td>Completion of Rating Matrix</td>
</tr>
<tr>
<td>3</td>
<td>Preliminary Work on Rating Matrix</td>
<td>6</td>
<td>“Reality Check”</td>
</tr>
</tbody>
</table>

**In-Depth Sector Analysis**

Analyst reviews general information on the sector which is being analyzed. Analyst assesses competitive dynamics, major risks and opportunities of the sector, which will determine the focus of the analysis.

Prior to an evaluation of any individual company, Innovest research analysts conduct an in-depth assessment of the competitive dynamics of that industry sector, with particular emphasis on the special risks and opportunities created by environmental and social factors. Only then do the analysts assess the relative performance and strategic positioning of any individual company. Innovest believes that this is the only way to properly appraise and weigh the risk and opportunity factors confronting any individual company. As a result, individual company analyses are preceded by an in-depth, 60–70 page Industry Sector Report. Individual factor weightings in investment models have been derived from years of actual stock market performance research.
Innovest Strategic Value Advisors  |  IVA Methodology  
www.innovestgroup.com  |  2007

2

Collection of Company Data
From Companies: Annual Reports, 10Ks, Sustainability Reports, Websites. From Government: EPA Data, DOE Data, Other government data. From NGOs, Industry Associations, “Think Tanks,” Other research organizations, and 750+ media sources.

Innovest obtains information from the following sources:

» Corporate documents: annual reports, environmental and social reports, securities filings, 10k and other, websites, etc.

» Government data: U.S. Toxic Release Inventory, Comprehensive Environmental Response and Liability Information System (CERCLIS), RCRA Hazardous Waste Data Management

» System, etc. We are currently assessing the value of information contained on the newly launched Eper website, Europe’s first industrial pollution register.

» On-line databases such as Factiva.

3

Preliminary Work on Rating Matrix
Sector Analyst fills in data and scores each of 100+ factors in the rating matrix for each company in a sector.

We also use interactive, real-time interviews with company executives; we consider the resulting information much more complete and reliable than that provided by questionnaires.

4

Company Interview
Analyst interviews each company, honing in on questions resulting from preliminary analysis.

Once the interview/data gathering process is completed, each company is rated relative to its industry competitors. Companies are rated against the Innovest performance criteria, and given a weighted score, as well as a letter grade (AAA, BB etc.). As noted above, each of the factors has an industry-specific weighting, based in part on a regression-based factor attribution analysis examining recent (5 year) stock market performance.
5

**Completion of Rating Matrix**
Analyst fills in data and scores each of 100+ factors in the rating matrix for each company in a sector. Industry-specific factor weightings are determined by empirical stock market research, and vary over time.

Intangible Value Assessment ratings are ultimately expressed on a relative scale similar to those currently in use by conventional credit rating agencies such as Moody’s and Standard and Poors: It is important to note that judgments on company performance are not in any sense absolute; they are explicitly intended to be made relative to the standards and performance of the company’s industry peers.

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAA</td>
<td>A company with minimal, well-identified environmental/social risks and liabilities, and with a strong ability to meet any losses which might materialize. Extremely well-positioned to handle any foreseeable tightening of regulatory requirements, and strongly positioned strategically to capitalize on environmentally/socially-driven profit opportunities.</td>
</tr>
<tr>
<td>AA</td>
<td>A company with environmental/social risks and liabilities which have been well-identified and provided for. This position is unlikely to be impaired by any foreseeable tightening of regulatory requirements. The company is well-positioned strategically to capitalize on environmentally/socially-driven profit opportunities.</td>
</tr>
<tr>
<td>A</td>
<td>A company with large but well-identified environmental/social risks and liabilities, and sufficient financial and managerial strength to absorb all but exceptional risks. Able, also, to finance any currently proposed regulatory requirements. Above-average positioning with respect to profit opportunities.</td>
</tr>
<tr>
<td>BBB</td>
<td>A company with strong managerial capability, but one where environmental/social risks and liabilities are a potential source of loss, though not on any material scale. Average level of positioning vis a vis profit opportunities.</td>
</tr>
<tr>
<td>BB</td>
<td>A company with good managerial capability, but one where environmental/social risks and liabilities are a potential source of material loss. Below-average level of strategic positioning.</td>
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<tr>
<td>B</td>
<td>A company whose environmental/social risks and liabilities create a strong likelihood of material losses in both profitability and competitive position. Significantly below-average strategic positioning.</td>
</tr>
<tr>
<td>CCC</td>
<td>A company where there are significant doubts about management’s ability to handle its environmental/social risks and liabilities, and where these are likely to create a serious loss. Well below-average ability to capitalize on environmentally/socially-driven profit opportunities.</td>
</tr>
</tbody>
</table>

6

**“Reality Check”**
Analyst defends final ratings in front of Directors or MD of Research. Process analogous to a presentation to an Investment Committee at an asset manager.
The Environmental Assessment Criteria

MANAGEMENT SCORES

Environmental Strategy
Policies
Integration with Core Business
Profitability Linkages
Consistency – All Operations/International
Culture

Corporate Governance
Board Structure
Senior Environmental Officer Level
Environmental Factor in Compensation

Environmental Management Systems
Number and Qualifications of Environmental staff
ISO 14000 or other certified EMS
Environmental Performance Indicators

Audit
Existence
Adequacy
Frequency
Impartiality

Environmental Reporting
Environmental Reporting
Environmental Accounting

Environmental Training & Development
Environmental Training & Development

Certification
CERES
Other outside code
Voluntary EPA programs

Products/Materials
Life cycle analysis
Suppliers – environmental screen
Eco-labels

RISK & IMPROVEMENT

Historic Liabilities
Contaminated Site Liabilities
Other Historic Liabilities

Operating Risk
Spills and Releases
Regulatory Compliance* scores include NYU data
Toxic Emissions
Hazardous Waste
Other Operating Risk

Sustainability Risk
Resource Use Efficiency/Recycling
Energy Efficiency
Market Risk – Incl env sensitivities of customers
Regulatory/Legal Risk
Other Emissions Risk
Other Sustainability Risk – Operations

Industry Specific Factors
Performance Improvement Vector
Strategic Competence
Environmental Opportunity
Other etc

PROFIT OPPORTUNITY SCORES

Strategic Competence
Environmental Business Development Strategy/ Planning
Organizational Structure

Environmental Opportunity
Environmental Sensitivity of Geographic Regions Served
Environmental Sensitivity of Demographic Groups Served
Phase-out Risk of Products and Services
Environmental Improvement Potential
Environmental Positioning Within Sector

Performance
Current Environmental Businesses
Environmental Businesses Under Development
The Social Assessment Criteria

STRATEGY AND MANAGEMENT

- Strategic capability/direction
- External Stakeholder Input/Advisory Boards
- Shareholder Activism Response
- Board Structure
- Board/Management Diversity
- Senior CSR/Social Officer
- Social Factor in Compensation
- Integration with Core Business
- Consistency – All Operations/International
- Performance Indicators and Targets/Accounting Reporting/Disclosure/Transparency
- Auditing
- Social/Ethical Standards
- Sustainability Charter Signatory/Council Member
- Codes Signatory – Global Compact, OECD, Child Labor, UND Human Rights, SA 8000, ETI, ILO, etc.
- Investment Policy/Screening
- Charitable Giving Policy and performance
- Bribery Policy/Enforcement

HUMAN CAPITAL DEVELOPMENT

- Employee Retention Rate
- Work Policies – Job Sharing, Flexible Schedule/Location, etc.
- Training and Knowledge Dissemination
- Benefits – Health Care, Wellness Programs, Child Care, etc.
- Monitoring of employee satisfaction rates
- Health & Safety Policy/Auditing
- Health & Safety Performance – Absentee and Injury Rates, etc.
- Access to Management/Grievance Procedures/
  Whistleblower Protection
- Union Policy/Issues
- Claims/Litigation/Fines

STAKEHOLDER CAPITAL

- Community Support Programs – Volunteer, Local Development, etc.
- Policy on Using Local Suppliers/Contractors
- Plant Closure Policy/Impact
- Disaster Planning/Local Approval/Third Party Audit
- Controversy/Protests/Claims/Litigation/Fines
- Awards
- Stakeholder Engagement Activities/Stakeholder Access

PRODUCTS/SERVICES

- Product Social/Ethical Impact
- Boycotts
- Claims/Litigation
- Product Certification/Labels
- Safety/Quality Issues
- IPRs – Patents

SUPPLY CHAIN

- Supplier Screening Policy – CSR Performance, Ethnicity, Gender, Size, etc.
- Required Code of Conduct
- Supplier Training and Development Programs
- Supplier Social Audits
- Third Party Review

INTERNATIONAL

- Developing Country (DC) Policy/Programs – Benefit Sharing, Local Input, etc.
- DC Strategy/Market Dev. – Investment, Technology/Skills Transfer, etc.
- DC Share of Production/DC Share of Revenue
- Advertising Policy/Respect for Local Culture
- Controversy/Protests/Claims/Litigation/Fines
- Implementation of policies relating to human rights, child labour, forced labour, equal opportunities

ABOUT INNOVEST

Innovest Strategic Value Advisors was founded in 1995 with the mission of integrating sustainability and finance by identifying non-traditional sources of risk and value potential for investors. Our analysis is designed to assist our clients in constructing and managing portfolios that outperform the market. We do this by tracking company performance and strategic positioning on over 120 factors that are not captured or explained by the traditional, accounting-driven securities analysis. To learn more about Innovest please see the contact information listed below, or visit us online at www.innovestgroup.com. We look forward to assisting you.