

Second-Party Opinion

OPEC Fund SDG Bond Framework

Evaluation Summary

Sustainalytics is of the opinion that the OPEC Fund SDG Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Access to Essential Services (Food Security, Health and Affordable Basic Infrastructure, Education, and Affordable Basic Infrastructure), Employment Generation and Socio-economic Advancement and Empowerment, and Renewable Energy – are aligned with those recognized by the Social Bond Principles 2021 and Green Bond Principles 2021. Sustainalytics considers that investments in the eligible categories are expected to lead to positive social and environmental impacts. These investments are expected to advance the UN Sustainable Development Goals, specifically SDGs 1, 2, 3, 4, 6, 7, 8, 9 and 11.



PROJECT EVALUATION / SELECTION OPEC Fund has established a committee, led by the Organization's Strategic Planning and Economic Services department, which comprises representatives from the Financial Operations, Public Sector Operations, and Private Sector departments. The committee will be responsible for evaluating and selecting eligible projects in line with the eligibility criteria. OPEC Fund has implemented an ESG risk assessment and mitigation process which is applicable to all allocation decisions. Sustainalytics considers the risk management system to be adequate and the project evaluation and selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS OPEC Fund's Strategic Planning and Economic Services department will track the allocation of proceeds through an internal tracking system. OPEC Fund intends to fully allocate the proceeds to eligible projects within 36 months of issuance. Pending allocation, proceeds will be held in OPEC Fund's treasury and be temporarily invested in cash or other short-term liquid instruments in accordance with the Organization's internal policies. This is aligned with market practice.



REPORTING OPEC Fund intends to report on the allocation of proceeds in its annual report or annual development effectiveness review report on an annual basis until full allocation. Allocation reporting will include information such as the allocation breakdown specified by SDG, country and year of disbursement. In addition, OPEC Fund is committed to reporting on relevant impact metrics. Sustainalytics views OPEC Fund's allocation and impact reporting as aligned with market practice.



Evaluation date October 4, 2022

Issuer Location Vienna, Austria

Report Sections

Introduction.....	2
Sustainalytics' Opinion.....	3
Appendices	12

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Introduction

OPEC Fund for International Development (“OPEC Fund”, the “Issuer” or the “Organization”) is an international development finance institution established in 1976 and headquartered in Vienna, Austria. The Organization supports projects located in low- and middle-income countries and operates across 11 sectors, including agriculture, education, energy, finance, health, industry, infrastructure, telecommunications, transportation, water and sanitation. To date, OPEC Fund has invested more than USD 22 billion in development projects in more than 125 countries across public and private sectors and through trade finance and grants.

OPEC Fund has developed the OPEC Fund SDG Bond Framework (the “Framework”), under which it intends to issue SDG bonds and use the proceeds to finance and refinance, in whole or in part, existing and future social and environmental loans and projects that are expected to help increase access to basic services and infrastructure and foster inclusive economic growth in low- and middle-income countries. The Framework defines eligibility criteria in six areas:

1. Access to Essential Services: Food Security
2. Access to Essential Services: Health and Affordable Basic Infrastructure
3. Access to Essential Services: Education
4. Access to Essential Services: Affordable Basic Infrastructure
5. Employment Generation and Socio-economic Advancement and Empowerment
6. Renewable Energy

OPEC Fund engaged Sustainalytics to review the OPEC Fund SDG Bond Framework, dated September 2022, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP), and Social Bond Principles 2021 (SBP).¹ This Framework has been published in a separate document.²

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent³ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2021, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of OPEC Fund’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. OPEC Fund representatives have confirmed (1) they understand it is the sole responsibility of OPEC Fund to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and OPEC Fund.

¹ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² OPEC Fund, “OPEC Fund SDG Bond Framework”, (2022), at: <https://opecfund.org/investor-relations/sdg>

³ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. Upon twenty-four (24) months following the evaluation date stated herein, OPEC Fund is encouraged to update the Framework, if necessary, and seek an update to the Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that OPEC Fund has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the OPEC Fund SDG Bond Framework

Sustainalytics is of the opinion that the OPEC Fund SDG Bond Framework is credible, impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of Issuer's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories, Access to Essential Services (Food Security, Health and Affordable Basic Infrastructure, Education, and Affordable Basic Infrastructure), Employment Generation and Socio-economic Advancement and Empowerment, and Renewable Energy – are aligned with those recognized by the SBP and GBP. Sustainalytics views these expenditures as having the potential to help increase access to basic services and infrastructure, foster inclusive economic growth and facilitate a shift to low-carbon economy in low- and middle-income countries (LMICs).
 - OPEC Fund intends to use the proceeds to finance or refinance eligible loans linked to specific projects expected to provide environmental and social benefits and contribute to the achievement of the SDGs in LMICs. According to the Issuer's mandate and Establishment Agreement (Article 3.01a),⁴ the proceeds will not be used in OPEC Fund's member states.⁵
 - Sustainalytics notes that OPEC Fund provides loans to eligible projects that are executed by partner countries and does not make any distinction at a loan level of opex or capex required for completion of the project. Given this, the Framework does not define a look-back period for opex. Further, Sustainalytics notes that it is good practice to define a look-back period of no more than three years for the refinancing of opex.
 - Under the Access to Essential Services: Food Security category, OPEC Fund may provide loans to finance: i) sustainable agricultural development, small-scale irrigation and agricultural value chain development, including the provision of farm infrastructure, financial services and agricultural inputs for smallholder farmers;⁶ and ii) medical nutrition projects for vulnerable groups.⁷ Sustainalytics notes the following:
 - Eligible sustainable agriculture development may include financing agricultural projects supporting sustainable techniques such as no-till farming and crop rotation, among others. OPEC Fund communicated that the focus would remain in supporting sustainable agricultural techniques, but it may also finance sustainable agricultural production targeting smallholder farmers only and in line with technical criteria laid

⁴ OPEC Fund, "The Agreement Establishing the OPEC Fund for International Development", (1980), at: <https://bit.ly/QFAEA>

⁵ The OPEC Fund has 12 member countries: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates and Venezuela.

⁶ OPEC Fund confirmed that smallholder farmers will be defined as per national definitions of the respective countries where eligible projects are financed.

⁷ OPEC Fund confirmed that vulnerable groups would include the following: excluded and/or marginalized population and communities, people with low incomes, smallholder farmers, aging population, vulnerable youth, and victims of natural disasters.

down by the agricultural ministry or equivalent in each respective country. In addition, eligible small-scale agricultural value chain development projects will include the provision of agricultural inputs such as non-GMO seeds, organic or natural pesticides and fertilizers, farm machinery,⁸ and storage facilities and warehouses. Given the food security challenges in LMICs, Sustainalytics considers that OPEC Fund's financing is expected to increase access to agricultural support, enhance food productivity and provide positive socio-economic benefits for smallholder farmers in the countries where the projects in this category are carried out.

- Financial services to smallholder farmers will be in form of loans channelled through government institutions or private or public financial institutions linked to specific purposes. The purposes of the loans may include improving poor rural people's access to production and productivity-enhancing technology, engagement in agricultural value chain, marketing sustainable and climate change adapted agricultural practices and small rural businesses.
 - Medical nutrition projects are intended to support interventions to increase access to improved health and nutrition. Potential examples may include programs targeting mother and child nutrition and general malnutrition among the identified vulnerable groups. In addition, OPEC Fund has confirmed to Sustainalytics that affordability will be ensured for the targeted groups. Sustainalytics considers this investment to be in line with market practice and encourages the Issuer to report on impacts to beneficiaries.
- Under the Access to Essential Services: Health and Affordable Basic Infrastructure category, the Issuer may provide loans for financing: i) medical equipment; ii) vaccination campaigns; iii) the development or expansion of public health infrastructure such as hospitals, clinics, elderly care facilities, specialized labs and diagnostic centres; and iv) capacity building. The related expenditures are intended primarily for the target population, comprising excluded and marginalized groups, people with disabilities, undereducated people, low-income populations,⁹ aging populations and vulnerable youth in LMICs. Sustainalytics considers that OPEC Fund's investments are expected to help improve access to healthcare in LMICs and notes the following:
- Related to vaccination campaigns, OPEC Fund has confirmed it will ensure accessibility and affordability of the financed projects for the targeted population.
 - The capacity building programmes will include training related to healthcare, such as healthcare worker training, training households on first aid, safe water and sanitation practices, and adoption of new technologies aimed at improving the accessibility or efficiency of health care services.
- Under the Access to Essential Services: Education category, OPEC Fund may finance the construction, expansion and refurbishment of facilities, and capacity building¹⁰ of public educational institutions, including early childhood, primary, secondary and higher education, and vocational training in LMICs. The targeted population for these activities comprises excluded and marginalized groups, people with disabilities, undereducated people and low-income populations.¹¹ Sustainalytics considers these as credible social investments expected to improve access to education in the countries where the projects are carried out.
- Under the Access to Essential Services: Affordable Basic Infrastructure category, OPEC Fund may finance loans for a range of projects for underserved populations lacking access to essential goods and services in LMICs. These projects may include:
- Water and sanitation projects, including the construction, extension and operation of water collection, treatment and supply systems. Sustainalytics considers these investments to be aligned with market practice.

⁸ Eligible farm equipment that is not primarily reliant on fossil fuels.

⁹ Low-income as per national definitions where projects will be financed

¹⁰ The capacity building activities may include training related to education, such as staff training for all types of education, adoption and implementation of new technologies aimed at increasing the education coverage or the efficiency of delivering educational services as well as training related to institutional management.

¹¹ Low-income as per national definitions where projects will be financed

- Transport projects may include: (i) construction or upgrade of roads, bridges, railroads and small rural roads; and (ii) public transportation systems, including vehicles such as trams and buses. Construction and upgrade of highways are excluded.
 - For construction of roads and bridges, eligible projects will be selected in countries with a Rural Access Index (RAI)¹² 60%, which reflects poor rural connectivity in LMICs. For countries above RAI 60%, OPEC Fund will target areas: (i) with no or inadequate connectivity; or (ii) regions with higher poverty rates or lower Human Development Index (HDI)¹³ than the country's average. Sustainalytics considers it impactful to further limit the financing of such projects to bridges, roads and railroads in underdeveloped or rural regions in such countries, which are generally in need of increased connectivity. Sustainalytics notes that OPEC Fund's targeted country approach is based on credible and impactful third-party thresholds but further notes that the Issuer's targeted approach and measures may not always ensure that the populations and regions with the most need of increased transport connectivity are directly targeted. Sustainalytics encourages the Issuer to report on the regions that eventually receive financing in this category and the impact created for the populations lacking access to connectivity.
 - Regarding public transportation, OPEC Fund has confirmed that projects will be selected case by case through an assessment of where strong social impacts are demonstrated, considering regions with gaps in existing public transport systems and factors such as reach, number of vehicles, connectivity for rural, low-income¹⁴ and vulnerable populations, affordability and safety. OPEC Fund has also confirmed that all vehicles financed will be electric or comply with local emissions requirements. Sustainalytics notes that public transport represents the best option for transportation for the local population in many LMICs and encourages OPEC Fund to report on the social benefits of the financed projects.
 - Energy projects include transmission and distribution (T&D) infrastructure limited to areas where there is no access to electricity or access is not stable. The Issuer has confirmed that the T&D projects will not be dedicated to fossil fuel plants, which is aligned with market practices.
- Under the Employment Generation and Socio-economic Advancement and Empowerment category, expenditures may include loans to underserved micro, small and medium-sized enterprises (MSMEs) and the financing of job training programmes to generate income for low-income groups and vulnerable populations in LMICs. OPEC Fund has confirmed that it will follow the definition of MSMEs of the respective countries where the projects are financed. Sustainalytics views this investment to be in line with market practice.
- Under the Renewable Energy category, OPEC Fund intends to finance loans for the development of energy generation projects in LMICs. The expenditures may include developing basic infrastructure for electricity production from solar, wind, ocean, hydropower, geothermal and biomass energy. Sustainalytics views the eligible projects positively, noting the following:
 - For solar energy projects, OPEC Fund may finance solar photovoltaic and concentrated solar power (CSP) plants. With respect to solar CSP projects, Sustainalytics notes that, in order to align with international climate goals, reliance on non-renewable energy backup should be limited to 15% of the facility's electricity production. Sustainalytics acknowledges that OPEC Fund has limited control over the execution of projects and may not be able to ensure a threshold for fossil fuel backup in such projects, thus encourages OPEC Fund to report on the rate of use of non-solar energy backups, especially fossil fuel sources.
 - Regarding ocean energy, Sustainalytics considers as best practice limiting fossil fuel backup to restart capabilities and monitoring, operating and resilience measures in the absence of renewable power in the system. Sustainalytics notes OPEC Fund's limited

¹² The World Bank, Data Catalog, "Rural Access Index (RAI)", at: <https://datacatalog.worldbank.org/search/dataset/0038250>

¹³ UNDP, Human Development Index, at: <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI>

¹⁴ Low income as per national definitions where projects will be financed.

- control over the execution of the projects and encourages OPEC Fund to report on the use of fossil fuel backups.
- For hydropower projects, financing will be limited to projects with maximum capacity of 25 MW. For new facilities, the Issuer will require an environmental and social impact assessment by a credible body and is also committed to ensuring the absence of significant risk and material controversies associated with the projects. Sustainalytics notes that OPEC Fund has defined the emissions intensity threshold at below 100 gCO₂e/kWh. Given the longevity of hydropower assets, newly constructed facilities effectively lock in energy generation for a very extended period, lower thresholds are favoured for new facilities. Sustainalytics encourages OPEC Fund to favour projects with emissions intensities below the 50 gCO₂e/kWh threshold.
 - Financing of geothermal projects will be limited to power plants with direct emissions threshold of 100 gCO₂e/kWh.
 - For electricity generation from bioenergy, OPEC Fund will limit the financing to facilities with at least 80% reduction in life cycle GHG emissions as compared to fossil fuels and emissions intensity threshold below 100 gCO₂e/kWh. The Issuer has further confirmed that the feedstock will be limited to agricultural and forestry wastes, excluding wastes from palm oil production.
- Sustainalytics notes that OPEC Fund excludes the financing of projects associated with fossil fuels, mining, nuclear, alcohol, tobacco, gambling, livestock management projects for industrial-scale meat or dairy farms and processing units. Projects with potentially negative environmental impacts and no specific targeted populations will also be excluded. Sustainalytics is of the opinion that the presence of these exclusionary criteria strengthens the Framework.
- Project Evaluation and Selection:
 - OPEC Fund has established a committee which will be responsible for evaluating and selecting eligible projects in line with the Framework's eligibility criteria. This committee is led by the Organization's Strategic Planning and Economic Services department and comprises representatives from its Financial Operations, Public Sector Operations, and Private Sector Operations departments.
 - OPEC Fund evaluates potential projects on a case-by-case basis, focusing on its social and environmental benefits and developmental impacts.
 - In accordance with the Issuer's mandate and Establishment Agreement (Article 3.01a)¹⁵, the eligible beneficiaries of financing provided by OPEC Fund are developing countries other than the Organization's member countries, with the primary target being LMICs. Therefore, none of the expenditures financed under the Framework will be assigned to OPEC Fund's member countries, which is the same case of all other OPEC Fund lending operations. OPEC Fund has in place ESG policies and risk management procedures which are applicable to all allocation decisions made under the Framework. Sustainalytics considers these environmental and social risk management systems to be adequate and aligned with market expectation. For additional detail, see Section 2.
 - Based on the cross-functional oversight for project evaluation and selection and the presence of a risk management system, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:
 - OPEC Fund's Strategic Planning and Economic Services department will be responsible for the management and allocation of proceeds using an internal tracking system.
 - OPEC Fund intends to allocate all proceeds within 36 months of issuance. Pending allocation, unallocated proceeds will be held in OPEC Fund's treasury and invested in cash or other short-term and liquid instruments according to the Organization's internal policies.
 - Based on the use of an internal tracking system and disclosure of temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
 - Reporting:
 - OPEC Fund intends to report on the allocation of proceeds and corresponding impact in the Organization's annual report or annual development effectiveness review report on an annual basis until full allocation.

¹⁵ OPEC Fund, "The Agreement Establishing the OPEC Fund for International Development", (1980), at: <https://bit.ly/OFAEA>

- Allocation reporting will include the allocation breakdown specified by SDG, country and year of disbursement.
- Impact reporting may include key performance indicators, such as the number of people with improved access to healthcare services, number of infrastructure projects completed and number of MSME loans. Please refer to Appendix 1 for a complete list of impact indicators.
- Based on the commitment to both allocation and impact reporting, Sustainabilitytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainabilitytics has determined that the OPEC Fund SDG Bond Framework aligns with the four core components of the GBP and SBP. For detailed information please refer to Appendix 1: SDG Bond/ SDG Bond Programme External Review Form.

Section 2: Sustainability Strategy of OPEC Fund

Contribution of Framework to OPEC Fund's sustainability strategy

Sustainabilitytics is of the opinion that OPEC Fund demonstrates a commitment to sustainability by providing financing solutions to development projects in LMICs. Some of OPEC Fund's focus areas include: (i) agriculture, (ii) education, (iii) energy, (iv) financial, (v) health, (vi) transportation, and (vii) water and sanitation.¹⁶ In 2019, the Organization established a Strategic Framework for lending through to 2030,¹⁷ having approved USD 352 million in support of sustainable development projects as at 2021.

Regarding the agriculture sector, OPEC Fund allocated USD 211 million in 2021 in financing for climate resilience agriculture, supporting smallholder farmers, improving irrigation systems and connecting rural communities to local markets.¹⁸ In the education sector, the Issuer provided USD 50 million to support education projects in different parts of the world, such as vocational education projects in China, scholarship awards in Africa and education for children with disabilities in Palestine.¹⁹ On energy, the Organization has developed an integrated approach to address energy challenges, focusing on comprehensive solutions to support energy access and transition. In 2020, OPEC Fund allocated USD 153 million to the energy sector.²⁰ As for the financial pillar, the Issuer focuses on generating decent work opportunities and economic growth by supporting MSMEs, having committed USD 496 million to the financial sector in 2021.²¹ The Organization has also invested in global, regional and national health initiatives, as well as the development of healthcare and training facilities, allocating USD 15 million to the health sector in 2021.²² Additionally, OPEC Fund provided USD 205 million to support transportation infrastructure, including roads, bridges and highways that help increase connectivity in remote regions, as well as another USD 20 million to water and sanitation projects.^{23,24}

Sustainabilitytics is of the opinion that the OPEC Fund SDG Bond Framework is aligned with OPEC Fund's overall sustainability commitments and will further the Organization's action on its key social priorities. Sustainabilitytics also notes that OPEC Fund has not released a publicly accessible sustainability strategy and encourages the Organization to develop a comprehensive sustainability strategy with quantifiable time-bound targets to further strengthen its sustainability commitments.

Approach to managing environmental and social risks associated with the projects

Sustainabilitytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have positive social impacts. However, Sustainabilitytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects could include issues related to land use and biodiversity, occupational health and safety, emissions and waste generated during construction, stakeholder relations and the exacerbation of inequalities if underserved groups are not appropriately targeted.

¹⁶ OPEC Fund, "Focus Areas Overview", at: <https://opecfund.org/focus-areas/overview>

¹⁷ OPEC Fund, "Annual Report 2020", at: https://content.yudu.com/web/435ju/0A43i6u/OPECFund2020EN/html/print/OPEC_FUND_2020_EN-web_DL.pdf

¹⁸ OPEC Fund, "Agriculture", at: <https://opecfund.org/focus-areas/agriculture>

¹⁹ OPEC Fund, "Education", at: <https://opecfund.org/focus-areas/education>

²⁰ OPEC Fund, "Energy", at: <https://opecfund.org/focus-areas/energy>

²¹ OPEC Fund, "Financial", at: <https://opecfund.org/focus-areas/financial>

²² OPEC Fund, "Health", at: <https://opecfund.org/focus-areas/health>

²³ OPEC Fund, "Transportation", at: <https://opecfund.org/focus-areas/transportation>

²⁴ OPEC Fund, "Water & Sanitation", at: <https://opecfund.org/focus-areas/water-sanitation>

Sustainalytics acknowledges that the activities financed under the Framework will not be carried out by OPEC Fund itself but rather by the companies and organizations receiving financing. Nonetheless, Sustainalytics is of the opinion that OPEC Fund is well positioned to manage or mitigate potential risks through the following policies and processes:²⁵

- OPEC Fund has a mandate focused purely on international development. Furthermore, OPEC Fund's Ministerial Council is composed of finance ministers of OPEC Fund's member countries²⁶, who are responsible for major policy decisions and guidelines, approving the replenishment of the Organization's resources and authorizing the administration of special funds. In addition, its Governing Board, responsible for the Organization's general operations and policies, includes representatives from each of OPEC Fund's member countries. Moreover, the Issuer is governed by its Establishment Agreement, which mandates independence from the member countries and is required to follow provisions that ensures that the proceeds will not be used in OPEC Fund's member states. In addition, such provisions, including Article 2.01 provides a clear objective, including focusing on the social, economic and environmental viability of projects, as well as the contribution to sustainable development objectives in the countries where the projects are implemented.²⁷
- OPEC Fund has established an ESG Framework which outlines the Organization's policies, standards and procedures used to identify and mitigate environmental and social risks associated with the Organization's operation and financing activities. For any new transactions, the Organization applies the following risk mitigation procedures: (i) screening and classification of associated E&S risks; (ii) conducting due diligence in the context of E&S assessment; and (iii) implementing and monitoring mitigation measures for the E&S risks.
- OPEC Fund integrates internationally recognized risk mitigation processes and practices in its E&S risk management system. Such practices include the World Bank Environmental and Social Safeguard Policies²⁸ and the International Finance Corporation's Performance Standards²⁹ and Corporate Governance Development Framework.³⁰
- OPEC Fund's E&S policy requires its borrowers to comply with the legal, regulatory, environmental, social and corporate governance requirements which are applicable in the jurisdictions where they operate. Borrowers should also comply with the OPEC Fund's Exclusion List³¹ to not conduct business in excluded areas.
- Additionally, OPEC Fund requires borrowers to implement an environmental and social management system with integrated plans and standards to manage E&S risks from their activities in private and trade finance operations. For public sector operations, OPEC Fund requires borrowers to assess, manage and monitor environmental and social impacts associated with each stage of the financed projects.

Based on these policies, standards and assessments, Sustainalytics is of the opinion that OPEC Fund has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All six use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainalytics has focused on two below where the impact is specifically relevant in the local context.

Impact of increasing access to essential health services in low and middle-income countries

At least half of the world's population still lacked access to essential health services up to 2017.³² Healthcare service coverage in LMICs is well below that of wealthier countries due to barriers such as the lack of good quality infrastructure and basic amenities, lack of qualified health workers and lack of access to digital and

²⁵ OPEC Fund's ESG Framework, ESG Policy and ESG Procedure have been shared with Sustainalytics confidentially.

²⁶ Sustainalytics notes that the member countries are oil producing countries and may be exposed to social risks such as human rights, environmental and governance risks.

²⁷ OPEC Fund, "The Agreement Establishing the OPEC Fund for International Development", (1980), at: <https://bit.ly/OFAEA>

²⁸ The World Bank, "Environmental and Social Policies", at:

<https://www.worldbank.org/en/projects-operations/environmental-and-social-policies#safeguards>

²⁹ IFC, "IFC Performance Standards on Environmental and Social Sustainability", at: https://www.ifc.org/wps/wcm/connect/c02c2e86-e6cd-4b55-95a2-b3395d204279/IFC_Performance_Standards.pdf?MOD=AJPERES&CVID=kTjHBzk

³⁰ Corporate Governance Development Framework, "The Framework", at: <https://cgdevelopmentframework.com/cg-development-framework/>

³¹ OPEC Fund, "OPEC Fund SDG Bond Framework", (2022), at: <https://opecfund.org/investor-relations/sdg>

³² World Health Organization, "World Health Statistics 2020", (2020), at: <https://www.who.int/publications/i/item/9789240005105>

innovative health technologies.³³ The cost of out-of-pocket expenditures also hinders access for low-income groups.³⁴

The COVID-19 pandemic disrupted essential health services and widened inequalities, particularly in LMICs, due to low availability of resources, poor supply chains and limited finances.³⁵ As of May 2021, for example, only 1% of the world’s COVID-19 vaccine doses had been administered in low-income countries, 19% in lower-middle-income countries and 33% in upper-middle-income countries.³⁶ The pandemic has also hindered efforts to address other health problems, such as HIV/AIDS, which remained in the top-10 causes of death in low-income countries as of 2019.³⁷ The UNAIDS Programme goal to end AIDS as a public health threat by 2030, for example, requires annual investments in LMICs of USD 29 billion by 2025.³⁸

Based on the above context, Sustainalytics is of the opinion that the loans provided through the Framework to finance healthcare infrastructure, including medical equipment and vaccination campaigns, have the potential to improve access to affordable and good quality healthcare in low- and middle-income countries.

Importance of enhancing access to education in low- and middle-income countries

Despite significant progress in recent decades, meeting the UN SDG 4 to provide inclusive and equitable quality education for all by 2030 will not happen, according to UNESCO, which estimates that globally, at current rates only six out of 10 young people will be completing secondary education by 2030. In low-income countries more specifically, only 4% of the poorest and 36% of the richest adults complete upper secondary school.³⁹

Current government spending in LMICs is not enough to achieve SDG 4, according to the World Bank.⁴⁰ Compounding the problem, the COVID-19 pandemic resulted in even further reduced education budgets,^{41,42} and exacerbated inequalities in practically every low- and middle-income country.⁴³

In this context, Sustainalytics is of the opinion that the OPEC Fund’s financing of education infrastructure has the potential to improve access to education in low- and middle-income countries.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The bonds issued under the OPEC Fund SDG Bond Framework advances the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Access to Essential Services: Food Security	1. End poverty in all its forms everywhere	1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions
	2. Zero Hunger	2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round

³³ WHO and World Bank, “Tracking Universal Health Coverage – 2021 Global Monitoring Report”, (2021), at: https://cdn.who.int/media/docs/default-source/world-health-data-platform/events/tracking-universal-health-coverage-2021-global-monitoring-report_uhc-day.pdf?sfvrsn=fd5c65c6_5&download=true

³⁴ Ibid.

³⁵ Frontiers in Public Health, “COVID-19 Vaccination in Lower-Middle Income Countries: National Stakeholder Views on Challenges, Barriers, and Potential Solutions”, (2021), at: <https://www.frontiersin.org/articles/10.3389/fpubh.2021.709127/full>

³⁶ WHO, “World Health Statistics 2021”, (2021), at: <https://apps.who.int/iris/bitstream/handle/10665/342703/9789240027053-eng.pdf>

³⁷ Ibid.

³⁸ UNAIDS, “UNAIDS Board adopts new global AIDS strategy which paves the way to end AIDS by 2030”, (2021), at: https://www.unaids.org/en/resources/presscentre/pressreleaseandstatementarchive/2021/march/20210325_new-global-aids-strategy

³⁹ UNESCO, “New Projections Show the World is Off Track in Meeting its Education Commitments by 2030,” (2019), at: <http://uis.unesco.org/en/news/new-projections-show-world-track-meeting-its-education-commitments-2030>

⁴⁰ World Bank and UNESCO, “Education Finance Watch 2021”, (2021), at: <https://documents1.worldbank.org/curated/en/226481614027788096/pdf/Education-Finance-Watch-2021.pdf>

⁴¹ World Bank, “Education”, at: <https://www.worldbank.org/en/topic/education/overview#1>

⁴² World Bank and UNESCO, “Education Finance Watch 2021”, (2021), at: <https://documents1.worldbank.org/curated/en/226481614027788096/pdf/Education-Finance-Watch-2021.pdf>

⁴³ World Bank, “The State Of The Global Education Crisis: A Path To Recovery”, (2021), at: <https://documents1.worldbank.org/curated/en/416991638768297704/pdf/The-State-of-the-Global-Education-Crisis-A-Path-to-Recovery.pdf>

		2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment
Access to Essential Services: Health and Affordable Basic Infrastructure	3. Good Health and Well-being	3.3 By 2030 end the epidemics of AIDS, tuberculosis, malaria, and neglected tropical diseases and combat hepatitis, water-borne diseases, and other communicable diseases 3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all
Access to Essential Services: Education	4. Quality Education	4.5 By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations
Access to Essential Services: Affordable Basic Infrastructure	1. End poverty in all its forms everywhere 6. Clean Water and Sanitation 9. Industry, innovation and infrastructure 11. Sustainable cities and communities	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance 6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all 6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations 9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all 11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Employment Generation and Socio-economic Advancement and Empowerment	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity, and innovation, and encourage the formalization and growth of micro-, small- and medium-sized

		enterprises, including through access to financial services
Renewable Energy	7. Affordable and Clean Energy	7.b By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support

Conclusion

OPEC Fund has developed the OPEC Fund SDG Bond Framework, under which it intends to issue SDG bonds and use the proceeds to finance renewable energy projects and projects that increase access to essential social services and contribute to the UN SDGs. Sustainalytics considers that the projects funded with proceeds from the SDG bonds issued under the Framework are expected to provide positive environmental and social impacts.

The OPEC Fund SDG Bond Framework outlines a process by which proceeds will be tracked, allocated and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that OPEC Fund SDG Bond Framework is aligned with the overall sustainability strategy of the Organization and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 1, 2, 3, 4, 6, 7, 8, 9 and 11. Additionally, Sustainalytics is of the opinion that OPEC Fund has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that OPEC Fund is well positioned to issue SDG bonds and that the OPEC Fund SDG Bond Framework is robust, transparent and in alignment with the core components of the Sustainability Bond Guidelines 2021, Green Bond Principles 2021 and Social Bond Principles 2021.

Appendix

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	OPEC Fund
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	OPEC Fund SDG Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	October 4, 2022
Publication date of review publication:	
Original publication date <i>[please fill this out for updates]</i> :	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other <i>(please specify)</i> : | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW *(if applicable)*

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – Access to Essential Services (Food Security, Health and Affordable Basic Infrastructure, Education, and Affordable Basic Infrastructure), Employment Generation and Socio-economic Advancement and Empowerment, and Renewable Energy – are aligned with those recognized by the Social Bond Principles 2021 and Green Bond Principles 2021. Sustainalytics considers that investments in the eligible categories are expected to lead to positive social and environmental impacts. These investments are expected to advance the UN Sustainable Development Goals, specifically SDGs 1, 2, 3, 4, 6, 7, 8, 9 and 11.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input checked="" type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify): Access to Essential Services (Health and Affordable Basic Infrastructure and Education) |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

OPEC Fund has established a committee which is led by the Organization's Strategic Planning and Economic Service department and comprised of representatives from the Financial Operations, Public Sector Operations, and Private Sector departments. The committee will be responsible for evaluating and selecting eligible projects in line with the eligibility criteria. OPEC Fund has implemented an ESG risk assessment and mitigation process which is applicable to all allocation decisions. Sustainalytics considers the risk management system to be adequate and the project evaluation and selection process to be in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

OPEC Fund's Strategic Planning and Economic Services department will track the allocation of proceeds through an internal tracking system. OPEC Fund intends to fully allocate the proceeds to eligible projects within 36 months of issuance. Pending allocation, proceeds will be held in OPEC Fund's treasury and be temporarily invested in cash or other short-term liquid instruments in accordance with the organization's internal policies. This is aligned with market practice.

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|---|--|
| <input type="checkbox"/> Allocations to future investments only | <input type="checkbox"/> Allocations to both existing and future investments |
|---|--|

- | | |
|--|---|
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (please specify): |

4. REPORTING

Overall comment on section (if applicable):

OPEC Fund intends to report on allocation of proceeds in its annual report or annual development effectiveness review report on an annual basis until full allocation. Allocation reporting will include information such as the allocation breakdown specified by SDG, country and year of disbursement. In addition, OPEC Fund is committed to reporting on relevant impact metrics. Sustainalytics views OPEC Fund's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Allocated amounts | <input type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (please specify): | |

Frequency:

- | | |
|--|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (please specify): | |

Impact reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (please specify): |

Information reported (expected or ex-post):

- | | |
|--|---|
| <input type="checkbox"/> GHG Emissions / Savings | <input type="checkbox"/> Energy Savings |
| <input type="checkbox"/> Decrease in water use | <input checked="" type="checkbox"/> Number of beneficiaries |
| <input type="checkbox"/> Target populations | <input type="checkbox"/> Other ESG indicators (please specify): Number of infrastructure built, Number of kWh energy produced, Number of new households' water connections, power connections, Number of SME or microfinance loans, Number of loans to women- |

owned micro, small or medium-sized enterprises.

Frequency:

- Annual Semi-annual
 Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
 Information published in ad hoc documents Other (please specify): Information published on annual report or annual development effectiveness review report
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion) Certification
 Verification / Audit Rating
 Other (please specify):

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of

funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.

- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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