

# arabesque

**Sustainability Risk Policy – Disclosure Statement**

March 2021

# 1. Introduction

The initial obligations imposed upon certain financial services providers under the European Union's ("EU") Sustainable Finance Disclosure Regulation ("SFDR") came into effect on 10 March 2021<sup>1</sup>. The SFDR introduces certain disclosure obligations on European Economic Area ("EEA") financial services providers and/or non-EEA firms which provide investment services and/or products to EEA investors/clients.

The objective of SFDR is to create a harmonised disclosure framework pursuant to which firms disclose to investors how sustainability risks are integrated into investment decision making and/or investment advisory processes. Such disclosures, in broad terms, relate to the consideration of adverse sustainability impacts and the provision of standardised information in relation to sustainability investment objectives or environmental and/or social characteristics that are relevant to specific products and/or services.

This disclosure statement (the "**Disclosure Statement**") is made in accordance with Article 3 of SFDR and is made on behalf of the following entities within the Arabesque group of companies (the "**Arabesque Group**"):

- Arabesque Asset Management Limited ("**AAML**") which is authorised and regulated by the United Kingdom's ("**UK**") Financial Conduct Authority ("**FCA**"); and
- Arabesque (Deutschland) GmbH which is authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht (the "**BaFin**").

## 2. Arabesque's Investment Philosophy

The investment philosophy of the Arabesque Group's funds is to deliver attractive, risk-adjusted returns to its investors over the long-term. Our investment approach to achieve the investment return objectives is characterised by the following investment principles:

- Focus on absolute returns across our funds;

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<sup>1</sup> Please refer to Appendix 1 hereto which sets forth a timetable of the introduction of the various obligations under SFDR.

- Strong emphasis on capital preservation;
- Dynamic, research-driven approach;
- Disciplined, risk-controlled environment; and
- Active management (both top-down and bottom-up inputs).

## 2.1 Consideration of Sustainability Factors in Arabesque's Investment Process

Investment analysis of non-financial factors, especially in relation to sustainability factors, occurs as a part of Arabesque defined investment process. Investment analysis of non-financial factors, including key Sustainability Factors<sup>2</sup> takes place as part of Arabesque's pre-investment and ongoing quantitative investment research and analysis processes. The Arabesque Group believes that such factors materially impact upon investee companies' financial performance and ability to meet its financial obligations in the long term. The Arabesque Group views the incorporation of these non-financial factors, as a key part of its investment process, in accordance with its duty to act as an agent for its clients and investors.

An overview of the Arabesque Group's approach to sustainable investing can be found here: [https://www.arabesque.com/docs/Research/Sustainability/Sustainable\\_Investment\\_Approach.pdf](https://www.arabesque.com/docs/Research/Sustainability/Sustainable_Investment_Approach.pdf).

## 3. Governance

Each entity within the Group maintains its own Board of Directors and/or an Advisory Board. The Board of Directors of the ultimate holding company functions as the Board of Director of the Arabesque Group. The Boards of Directors have delegated responsibility for oversight of AAML and ADG's compliance with its obligations under the SFDR to the Group's Compliance Function. The Compliance Function is responsible for maintaining the policies, processes, systems and controls that the Group has adopted to comply with its obligations under the SFDR and actively monitors – and reports on – its oversight of SFDR compliance on a quarterly basis.

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<sup>2</sup> Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

The ESG factors that form a part of the Group's investment strategies are integrated into the quantitative strategies that it deploys, via the use of the Group's proprietary ESG tool, S-Ray. The Portfolio Management team are responsible for overseeing the quantitative investment strategies.

Arabesque S-Ray and its staff are responsible for maintaining and developing the S-Ray tool.

## **4. Use of Data, Tools and Third Parties**

### *Gathering data*

During the first step, S-Ray collects a wide range of data from three types of sources. Report-based metrics: to obtain a first understanding of a company's sustainability performance, S-Ray collects over 250 reported metrics from non-financial disclosures (e.g. sustainability or integrated reports). Following typical reporting cycles, report-based metrics are only available on an annual basis. News-based controversies: to get a more up-to-date analysis of sustainability performance, S-Ray uses natural language processing (NLP) to scan over 30,000 public news sources published in over 170 countries daily for sustainability related controversies. NGO-based activity: Alongside the news-based controversies, S-Ray also tracks NGO campaign activity across over 400 sustainability issues. NGO campaigns can be both positive or negative in nature.

### *Cleaning data*

The data are gathered daily and cleaned to allow for further operations. For example, all inputs are subjected to a set of data quality checks (e.g., false outlier detection), and poor-quality data gets discarded. In addition, inputs are scaled and/or normalized to allow for comparison and aggregation of data across various sources. Sparse or infrequent time series are imputed and resampled to accommodate daily calculations. Additional checks also take place to ensure that data is up to date.

### *Organizing data*

The cleaned inputs are further organized and labelled according to an internal taxonomy, which prepares the data for further calculations in the feature and score layers.

Further information in relation to how the Arabesque Group uses data can be found here: <http://arabesque.com/docs/sray/S-Ray%20Methodology%20v260.pdf>.

## **5. Related Policies**

The Arabesque Group maintains the following complementary policies which form part of its compliance framework:

- Proxy Voting Policy;
- Stewardship Code Disclosure Statement;
- Statement of the UK Modern Slavery Act; and
- SRD II Engagement Policy.

## **6. Transparency and Reporting**

Arabesque is a signatory to the UN Principles for Responsible Investment (UN PRI) and fulfils the reporting requirements that being a PRI signatory entails, in the form of the annual Transparency Report which is available on the PRI website ([www.unpri.org](http://www.unpri.org)).

Furthermore, the Arabesque Group is a signatory of the UNGC and participates in the annual COP submission process, as outlined here: <https://www.unglobalcompact.org/what-is-gc/participants/23321-Arabesque-Asset-Management-Ltd>.

## **7. Remuneration Policy**

Arabesque has reviewed its Remuneration Policy in accordance with the requirements of Article 5 of SFDR to ensure consistency with the Firm's integration of sustainability risks as described above. The relevant details incorporated in that respect are featured below:

- Central to Arabesque's remuneration policy is the promotion of sound and effective risk management and this has now been extended beyond financial risks to encompass sustainability

risks. In summary, relevant individuals who are involved in implementing and/or overseeing Arabesque's Sustainability Risks Policy will be assessed in this respect as part of the determination of variable remuneration awards by reference to their risk-adjusted performance. Arabesque does not have any quantitative sustainability-focused performance targets at either a portfolio or asset level and therefore this is a qualitative assessment in respect of adherence to the Firm's internal procedures for integration of sustainability risk as outlined above.

- Further, another key aspect of Arabesque's remuneration policy is with respect to avoiding creating an environment which rewards or encourages excessive risk-taking. Again, this principle has been extended beyond financial risk to incorporate sustainability risks and for those individuals who have a role in ensuring or overseeing that the Firm's sustainability risk policy is adhered to this is factored into decisions in respect of variable remuneration awards.