

Our Approach to Sustainable Investing

For professional investor only



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Purpose and Scope

For Arabesque, a sustainable company is one that positions and manages itself for long-term financial success while accounting for all stakeholders' interests. We believe Environmental, Social, and Governance ('ESG') data are the means to quantifying this corporate strategy, purpose and management quality. Thus, incorporating ESG factors into investment decisions forms the foundation of sustainable investing.

Our Approach to Sustainable Investing is intended to provide a comprehensive framework that describes how Arabesque Asset Management incorporates ESG across our investment strategies and solutions. Our approach to sustainable investing, and the practices described herein, equip us to design and provide products that reflect our investment philosophy and enable clients to align their investment objectives with their values.

ESG factors are embedded within every investment solution to enhance our information environment and actively allocate capital responsibly. The specific ESG methodology utilized within our product range is dependent upon multiple factors, including the objectives of a specific investment product, subject-specific research, portfolio construction, and model processes. The following sections detail our firm, investment philosophy, and our varying approaches to ESG incorporation across our strategies.

"ESG data is increasingly important to identify those companies that are well positioned for the future and to avoid those which are likely to underperform or fail."

Georg Kell, Chairman of Arabesque

About Arabesque

The Arabesque Group's evolution is a story of partnership between leaders in finance, mathematics and sustainability, working together to mainstream sustainable finance. Arabesque Asset Management harnesses the technological and ESG expertise developed within the Arabesque Group to provide investment products and services designed to meet the long-term financial objectives of investors.

Arabesque S-Ray® was designed as a proprietary tool to analyze ESG data as a part of Arabesque Asset Management's investment strategies. S-Ray®'s expertise on financial materiality, its algorithmic approach, and proprietary daily scoring provides our products with rigorous insight into ESG. Arabesque Asset Management continues to collaborate closely with Arabesque S-Ray® in order to enhance the incorporation of ESG-related data within our investment processes.

Arabesque AI was born out of a desire to apply artificial intelligence (AI) technology into our investment strategies. Arabesque AI enhances our proprietary, technological capabilities and continues to advance research in the AI field.

Arabesque Asset Management continues to develop its product and service offering in collaboration with its sister companies within the Arabesque Group, with the aim of making sustainable finance available to all.

arabesque s-ray

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asset management

arabesque ai

The name 'Arabesque' represents geometric colours and patterns drawn with mathematical equations. It reflects what we believe is a pioneering approach to finance — leveraging technology and ESG information with our quantitative investment strategies.



Our Investment Philosophy

Arabesque Asset Management was founded on the belief that deploying technology and ESG analysis can provide investors with a new experience to investing. Both our systematic investment process and ESG approaches lie at the core of Arabesque's investment philosophy.

All of our investment strategies follow a rules-based quantitative investment process. Quantitative strategies are able to process ever-increasing volumes of data, and capture inherent structural opportunities in the market. By implementing a systematic investment process, we aim to avoid typical behavioural biases and ensure a disciplined implementation of the investment strategy.

Arabesque S-Ray® scores are utilized across our strategies to capture a company's long-term potential for financial performance and sustainability. We believe incorporating material ESG (i.e. extra-financial) information into the investment process can reduce risk and increase returns.

Arabesque is guided by a vision to empower people through transparency and insight. Through our rules-based approach and incorporation of ESG, our products provide a new level of data-driven transparency and extra-financial insights for our clients. Our investment solutions offer alignment across a spectrum of investors' ESG, business and faith-based preferences, ultimately allowing our investment offerings to mirror our clients' values across both financial and non-financial terms.

Oversight

Board

At Arabesque, sustainability is part of our DNA and we incorporate ESG considerations throughout the organization and across all products. As such, we believe that having a strong Board plays a key role in setting the right tone at the top.

Arabesque benefits from a Board comprised of global leaders in the areas of corporate responsibility, sustainable investing, environmental activism, human rights and gender equality. The Board is chaired by Georg Kell, the founding Executive Director of the UN Global Compact, who plays an active role in promoting sustainable finance.



Georg Kell

Chairman of the Arabesque Group and founding Executive Director of the UN Global Compact



Barbara Krumsiek

Former CEO and President of Calvert Investments



Dr. Carolyn Woo

Former CEO and President of Catholic Relief Services



John Ruggie

Berthold Beitz Professor in Human Rights and International Affairs, Harvard Kennedy School



Yolanda Kakabadse

Former President of WWF International

Sustainability Committee

The overall responsibility for implementing our ESG approaches in investment strategies lies with Arabesque's Sustainability Committee. The Committee consists of six members and is chaired by Ulrika Hasselgren, Partner, Head of Nordics and Head of Europe for Corporates and Sovereigns.

The Sustainability Committee's responsibilities with regards to Sustainable Investment include, but are not limited to:

- Monitoring the integration of ESG across all investment strategies and products
- Authorizing the development and enhancement of ESG research and methodologies in investment strategies and products
- Overseeing external reporting, such as the UN PRI, as well as proxy voting and engagement activities



Our Approaches

The Arabesque Group has developed proprietary tools for capturing and quantifying companies' long-term financial success and sustainability performance. S-Ray® measures the sustainability of publicly listed equities worldwide, applying a quantitative and AI-driven approach to ESG information. Developed for Arabesque's investment process, S-Ray® provides a unique investor perspective and a deep understanding of materiality. The Arabesque S-Ray® gathers raw information from a variety of sources, including company reports, public information, specialized data providers, news and NGO campaigns, to create proprietary scores based on financial materiality. The S-Ray® tool evaluates companies' sustainability performance across a spectrum of ESG dimensions to create a suite of proprietary scores: S-Ray® ESG Score, United Nations Global Compact (UNGC) Score and Temperature Score™, in addition to a Preferences Filter, that allows for the screening of companies to align with one's values.

We apply these tools throughout our investment strategies in the following approaches: Screening, Integration, and Thematic Investing approaches.

Screening

All of our investment solutions leverage S-Ray® ESG and UNGC scores to analyse different aspects of corporate sustainability. Companies with low S-Ray® scores are removed from our investment universe.

S-Ray® ESG Score: The S-Ray® ESG Score identifies companies that are better positioned to outperform over the long term. The S-Ray® methodology is based on the principle of financial materiality, only using data that significantly helps explain future risk-adjusted financial performance. The total ESG score is calculated as a weighted sum of the underlying ESG input data adjusted using materiality-based weights.

S-Ray® UNGC Score: The S-Ray® UNGC score assesses a company's performance against the 4 core principles of the United Nations Global Compact (UNGC), human rights, labour rights, environment, and anti-corruption. The result is a reflection of both the long-term performance of a company and the short-term reputational risk. The S-Ray® UNGC score is derived from report-based data, news articles and NGO campaigning information..

Our norms-based screening based on the UN GC principals exclude companies that violate minimum standards of business practice from our investment universe. Coupled with S-Ray® ESG analysis, our screening aims to create a strong investment universe.

We believe this ESG screening approach can be used to reduce portfolio risks and generate performance by:

- Identifying firms with reduced ESG risk and a potential to perform well over the medium- to long-term. Performance can be generated through growth related to sustainable products, cost savings with regards to sustainability-related innovation, and reduced operational, regulatory and reputational risks
- Excluding companies that violate the norms-based principles of the UN Global Compact, which results in lower reputational risks

Preference and Faith-Based Screening

We acknowledge that investors are increasingly interested in aligning their investment strategies with their personal and ethical values. Our S-Ray® Preferences Filter enables clients to tailor their investment approach based on preferences and/or faith-based factors.

Preference Filter: The S-Ray® Preferences Filter is based on revenue segmentation data and provides flags for a set of controversial business involvements. Filters available include adult entertainment, stem cells, alcohol, defence, weapons, gambling, pork, tobacco, nuclear, fossil fuel, and GMO.

The Preference Filter provides a threshold exclusion based on corporate activity. Should 5% or more of a company's revenue be affiliated with any selected filter, that company can be excluded from the client's investment universe.

Faith-based investment solutions leverage our sustainability screening capabilities by complying with standards, such as Catholic and Shariah-compliance standards. For example, Arabesque's Shariah-compliant investment products comply with the AAOFI Shariah Standard No 21 and Malaysia Securities Commission guidelines. Furthermore, in line with Shariah requirements, we do not invest in any preference shares, warrants, derivatives, or interest-based investments. In screening a Catholic-compliant portfolio, S-Ray® uses the United States Conference of Catholic Bishops' (USCCB) 2003 Investment Policies as its rulebook. The rulebook covers topics such as protection of human life, promoting human dignity, or protecting the environment, amongst others.

ESG Integration

ESG integration involves explicitly and systematically integrating Environmental, Social and Governance (ESG) related considerations in our investment analysis and portfolio construction. Our material S-Ray® ESG Scores are assessed alongside other traditional financial factors such as momentum, value, quality, growth, when forming an investment decision. While our screening approach is targeted at the investment universe phase, Arabesque's ESG integration approach goes further in the way we select securities and weight them during portfolio optimization. As a result, investors' capital allocation is focused towards companies that explicitly and consistently perform well both in financial and extra-financial terms.

In addition to ESG screening, applying ESG integration within selected investment solutions also aims to:

- Explicitly weight ESG risks and opportunities, alongside traditional factor analysis in our target functions.
- Strengthen the exposure of companies that perform best on ESG-related characteristics.

Thematic and Impact Investments

Thematic investing seeks to combine attractive risk- return profiles, while contributing to a specific environmental or social outcome. Funds can be single-themed or multi-themed, which may allow investors elevated insight and focus into specific ESG topics and their impact.

Arabesque recognizes the greater awareness and focus around companies' impact on climate change, as well as the urgent need for the transition to a low-carbon economy. Traceability regarding companies' historical impact on climate, as well as future emissions reduction trends become essential in this effort. In response, the Arabesque S-Ray® Temperature Score™ was developed to provide investors with this specific insight.

S-Ray® Temperature Score™: The Temperature Score™ translates greenhouse-gas (GHG) emissions from each company to a score based on sector-specific emissions pathways. Companies can receive a score of 1.5°C, 2°C, 2.7°C, >2.7°C or 3°C, identifying companies' climate change impact and action.

The Temperature Score attempts to capture a company's climate impact and the action, or lack thereof, it is taking to mitigate climate change. The score utilizes the most recently reported emissions data to evaluate a company's climate ambition and transparency. The Temperature Score™ can be used as a climate risk management tool for investors.

Arabesque Asset Management's investment research team is developing climate-focused investment strategies in line with the S-Ray® Temperature Score™. In doing so, Arabesque will extend its Sustainable Investment offerings across the broad spectrum of ESG preferences: from screening and ESG integration, to thematic and impact-focused investment solutions.

Active Ownership

Arabesque views active ownership as an integral part of its business and fiduciary duty as a responsible investor. As such, we engage on and promote ESG matters within the wider market and across companies we invest in. Being a Principles for Responsible Investment (PRI) signatory and advocate, our approach to stewardship is in line with the second principle stating that “We will be active owners and incorporate ESG issues into our ownership policies and practice.”

As a quantitative asset manager, our investment decisions are driven by rules embedded within the quantitative models rather than by the discretions of portfolio managers. Hence, we focus on collaborative engagements around areas that are aligned with Arabesque’s mission. Our engagement activities are also informed by our foundation in technology and sustainability.

Arabesque utilizes advancements in technology for attaining increased transparency into corporate behaviour. In turn, such data improve our information environment beyond just financial metrics and enhances our investment decisions. We seek to engage with corporations on issues that are aligned with the company’s critical concerns. The following guiding principles:

Information Transparency	Environment
Businesses should support increasing information transparency and enhanced disclosures. We believe this leads to improved data quality, data availability, and transparency.	Businesses should support a precautionary approach to environmental challenges and undertake initiatives to greater responsibility around climate change, biodiversity, energy, water efficiency, amongst others.
Governance	Social
Businesses should have a sound governance and capital structures, with accountability at the top, with strong risk management and anti-corruption.	Businesses should uphold human and labour rights, promoting sound employee rights, diversity, customer care and eliminating discrimination, child or force labour, or any harmful practices.



Active Ownership Approaches

In line with the above-described principles, Arabesque aims to encourage companies to improve their ESG performance and risk management practices. Our approach to active management focuses on Proxy voting and Collaborative action.

Proxy Voting

We believe that companies with strong governance practices, considering stakeholders' interests are better positioned to perform in the long run. By voting, shareholders can influence a company's corporate governance practices, its management suitability, as well as company's operations. As part of the transitioning to a more sustainable economy, we see proxy voting as vital responsibility of shareholders.

Arabesque has partnered with ISS Governance to carry out proxy voting activities. We follow the ISS Sustainability Policy. Voting in line with these sustainability guidelines and maintaining key stances on best practices upholds our belief that material ESG factors can affect companies' risk profiles and long-term financial performance.

We utilize the ISS platform to produce annual reports on the fund's voting, which can be further shared with investors

Collaborative Action

Given the rules-based, quantitative investment process used by our funds, we acknowledge the limited holding period for securities in our funds' respective portfolios. As such, we focus on collaborative engagement with other investors and asset owners because we believe that working with like-minded investors on engagement matters is likely to enhance its outcomes. Indeed, due to the collective reputation, size and weight of participating investors, collaboration will be more likely to influence change. This approach is in line with the 5th principle of PRI, which encourages signatories to work together collaboratively to enhance their effectiveness in implementing the principles.

In terms of collaborative actions, Arabesque:

- Leverages relationships with non-profit(s) organizations to co-sign engagement efforts and opportunities with other asset managers (i.e., ShareAction and others)
- Identifies pooled engagement opportunities via electronic platforms (i.e., UN PRI Collaboration Platform).

Arabesque's Sustainability Committee identifies collaboration opportunities on applicable thematic concerns that are in line with our guiding principles on engagement. The Committee is responsible for maintain a log and document repository of the engagement activities.

Arabesque subscribes to the Principles for Responsible Investment (PRI), the world's leading platform for sustainable investment. Guided by these principles, Arabesque reports annually on its progress of incorporating PRI within its investment process.

Arabesque is a proud affiliate of the following organizations and thought leaders:



Future engagement developments

We recognize that we are on a journey and that our active ownership will evolve over time. Arabesque is currently working on a flagship initiative called ESG Book. ESG Book aims to connect market stakeholders through a platform for universally accessible, digital, corporate sustainability data. ESG Book will enable companies to report emissions and other relevant ESG data and will serve as a platform for engagement and dialogue between companies and investors.

Reporting

In line with our commitment to transparency, we strive for client servicing to include regular reporting that details the ESG approach specific to each of our Funds.

Additional ESG reporting is available to clients on request, and the S-Ray® scores of our investment universe are publicly available through the Arabesque S-Ray website: <https://sray.arabesque.com/>.



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