

Arabesque S-Ray

Preferences Filter *Methodology*

(v.3.0) - September 2020

Introduction

The Preferences Filter is the lens of S-Ray that allows users to screen over 22,000 companies for alignment with their values. Our standard filter consists of 13 flags based on a companies' revenues and business involvement whilst our specialised filters follow separate unique methodologies.

The Preferences Filter enables investors and consumers alike to research the business activities of companies based on their own values, empowering everyone to make more informed decisions on how and where they invest their money. Alongside our new approach to calculating the preferences filter, comes our ability to alter each flag according to clients' individual requirements.

Glossary and terms

- Standard Filters: S-Ray's 13 flags for companies with revenues and/or involvement in: Adult Entertainment, Alcohol, Defence, Firearms, Fossil Fuels, Gambling, GMO, Nuclear, Pork, Recreational Drugs, Stem Cells, Thermal Coal and Tobacco
- Specialised Filters: S-Ray's flags for topics with more complex involvements. Currently this includes the Catholic Filter and the Controversial Weapons Filter.
- Revenue: Annual revenue associated with each business segment as reported by the company in, for example, 10-K reports or financial statements.
- Involvement: Actively tracked participation in each business segment through products and services sold/provided by the company.

Methodology

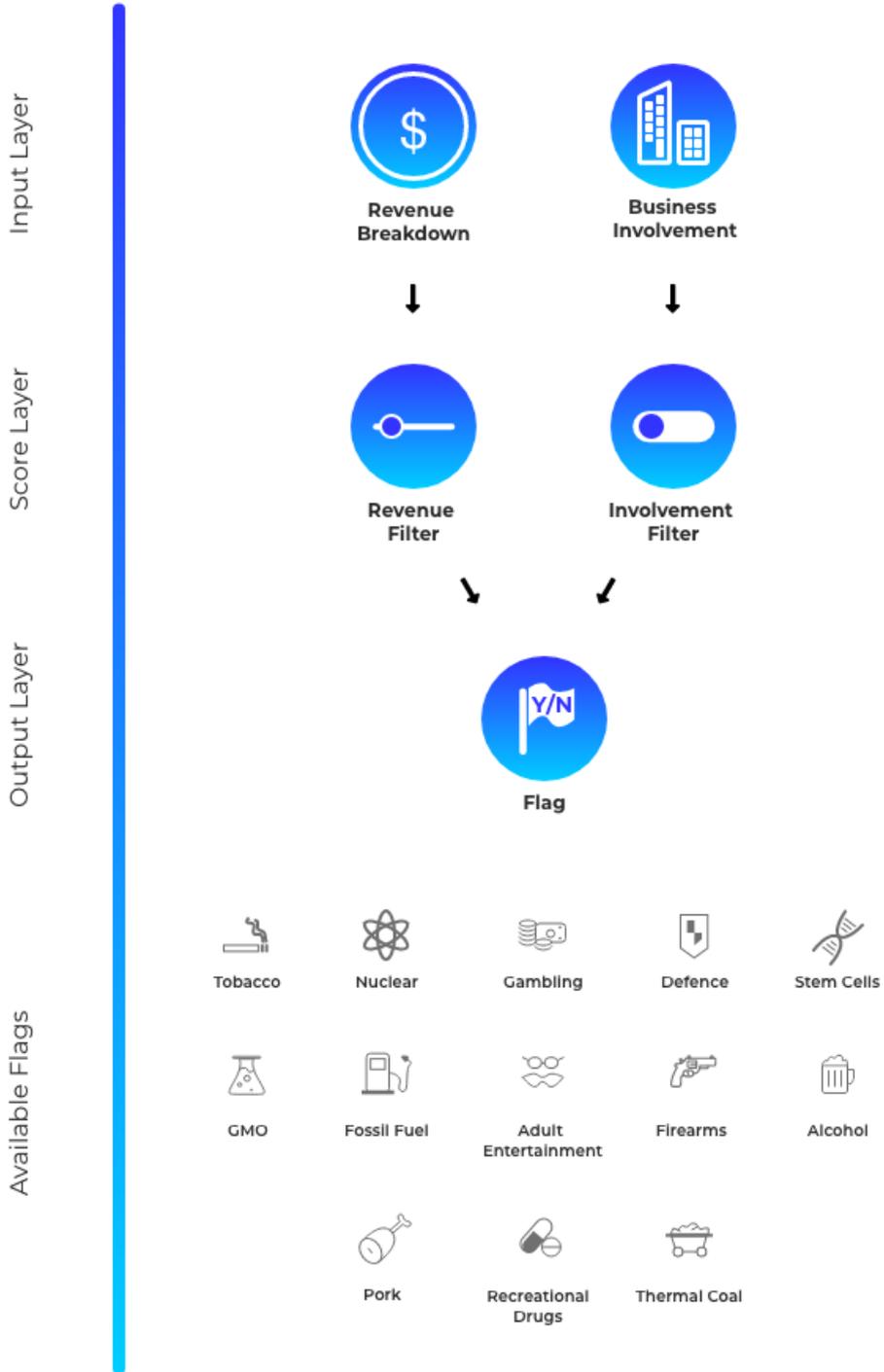
The Standard Preferences Filters

All companies in the Preferences Filter universe are checked daily for revenues from and business involvement in 13 different business segments.

Each standard preferences filter is made of two parts: a **revenue filter**, and an **involvement filter**. Revenue associated with each business segment is calculated, and an allowed revenue threshold is set. Separately, company involvement associated with each business segment is recorded. Then, both revenue and involvements can be combined, as desired, to create the final preference filter.

The revenue breakdown data tracks **reported** company revenue from financial statements and 10-K reports. The business involvement data tracks products and services sold by companies as reported on company websites or in company reports and presentations. It is possible for a company to have a recorded involvement in a particular business segment, but no reported revenue, or vice versa.

The standard preference filters flag companies that are over a **5%** revenue threshold or that have recorded involvement in each business segment. When a company receives a flag, the reason is provided. Customised versions of the filters are also available.



The Specialised Preferences Filters

In addition to the Standard Preferences Filter S-Ray is able to build bespoke tools that are specific to individual sustainability preferences. Whether this is as simple as altering the threshold on a revenue screen, or as complex as developing a whole toolkit, we are happy to explore ways in which we can accommodate your requirements. For more information regarding the build-out of bespoke filters please contact your S-Ray sales representative or get in touch at s-ray@arabesque.com.

Our current specialised filter offerings include:

- The Controversial Weapons Filter
- The Catholic Filter

The Controversial Weapons Filter

The Controversial Weapons Filter identifies companies with an involvement in controversial weapons, which could be through direct investments or direct involvements. Involvement in controversial weapons is taken to mean involvement in the manufacturing and supply-chain, either through products or services related to any of the following:

- a) Landmines,
- b) Cluster bombs,
- c) Chemical and biological weapons, or
- d) Nuclear weapons; either whole strategic parts or platforms for the use of.

Direct investments can include providing loans to or issuing bonds to companies that fall in the above categories, as reported by both news outlets and non-governmental organisations.

The Catholic Filter

The Catholic Filter is one of the specialised filters, which checks the business involvements of companies, and flags those involved in certain activities.

To assess whether a company is Catholic-compliant, S-Ray uses the United States Conference of Catholic Bishop's (USCCB) 2003 Investment Policies¹ as its rulebook:

1. Protecting Human Life - Investors shouldn't invest in companies which seek to harm human life (abortion, contraceptives, embryonic stem cell research / human cloning)
2. Promoting Human Dignity - Investors should promote the protection of human rights, gender and racial equality and general respect to human life (human rights, racial discrimination, gender discrimination, access to pharmaceuticals, curbing pornography)
3. Reducing Arms Production - Investors should seek to curb investment from military spending to more peaceful solutions (production and sale of weapons, antipersonnel landmines)
4. Pursuing Economic Justice - Investors should promote the labour rights of workers as well as responsible finance initiatives (labour standards/sweatshops, affordable housing / banking)

¹ Please find the United States Conference of Catholic Bishop's (USCCB) 2003 Investment Policies [here](#)

5. Protecting the Environment - Investors should promote corporations which encourage the preservation of the environment
6. Encouraging Corporate Responsibility - Investors should seek to promote the reporting of CSR as well as adoption of ESG guidelines

S-Ray has produced two proprietary tools designed to assess the compliancy of companies based on the USCCB Investment Policies:

I. The Catholic Filter

A filter which examines the revenue streams of over 22,000 public companies to identify whether a company has business involvements in USCCB non-compliant industries. Companies are considered non-compliant if they are found to have any business involvements in Adult Entertainment, Abortion, Contraceptives, Landmines, Embryonic and Stem Cell Research, Biological, Chemical and Nuclear Weapons. Additionally, companies are also non-compliant if they are found to have more than 5% of total revenue² from business involvements in the firearms industry.

II. The USCCB Values Rankings

The second tool assesses companies against the USCCB Investing Policy and is based on five core Catholic values outlined by the USCCB; Human Rights, Environmental Preservation, Labour Rights, Community Relations and Diversity. Five scores are calculated for each company using the S-Ray feature layer. These scores are then used to calculate a company's percentage ranking for each core Catholic value.

This allows investors to promote core Catholic values through best-in-class screening, as well as prioritize particular dimensions of the USCCB's Investment Policies. Clients may specify their own thresholds for which companies are deemed compliant in promoting strong social and environmental responsibilities.

Both tools can be used to assess the compliancy of over 22,000 of the world's largest corporations.

² The USCCB's principles forbid investment in companies "primarily" involved in the production of weapons/firearms.

Preference Filter Descriptions

Filter	Areas covered
Adult Entertainment	Web sites that generate revenues by providing erotic content. Companies which produce, distribute, and exhibit adult-oriented content, including the production of Adult-oriented content for the cable television, Video/DVD, and internet market Magazines that generally contain explicit sexual content.
Alcohol	Alcoholic beverage manufacturing, including breweries, distilleries, wineries and manufacturers of other alcoholic beverages. Wholesalers of beer, wine and distilled alcoholic beverages. Alcohol-serving bars and pubs.
Defence	Manufacturers of advanced equipment and providers of services targeted at combat, national security, and other defence applications, including defence contractors, advanced weaponry and combat equipment and support systems, autonomous military drone manufacturing, and advanced electronic hardware targeted at military and intelligence applications. Military and defence functions testing equipment. Propulsion launch used in vehicle and missile launch, and computer systems, electrical components, IT solutions and software tailored and designed for the defence industry (note - such technology can also have applications in the aerospace sector).
Firearms	Companies that sell small arms and ammunition, generally comprised of personal, non-military firearms and ammunition.
Fossil Fuels	Companies in the energy industry, encompassing oil and gas exploration and production, pipeline transportation, refineries, and oil and gas equipment and services. Wholesalers which provide electricity generated by hydrocarbon and nuclear technologies. Natural Gas Utilities which offer service to residential and commercial customers. Companies involved in the leasing of coal mines and the mining and processing of coal. Companies producing coke for sale to others are included.
Gambling	Companies in the casino, casino hotel, gaming equipment, and horse racing industries. Software with functionality specific to the casino industry.
GMO	Companies engaged in plant and animal breeding, genetics and genomics, including animal and plant DNA testing services.
Nuclear	Wholesalers which provide electricity generated by nuclear power. Nuclear (radioactive) waste processing, including mixed waste, which is waste that contains both low-level radioactive and hazardous waste. Companies engaged in uranium, radium, and vanadium mining.
Pork	Hog and Pig Farming for food consumption (e.g. bacon, pork, ham). Companies which manufacture beef and pork into meat products or edible casings ready for consumption, or as ingredients for further processing.
Recreational Drugs	Farms which cultivate marijuana, including products for both medical and non-medical use.

Stem Cells	Companies that use adult stem cells obtained from adult human cancellous bone and bone marrow to aid bone regeneration, and autologous stem cells that are harvested from the patient's own body and implant back for repair and healing, including systems used for the collection, cryopreservation, and archive storage of stem cells to be used in stem cell therapy. Companies that offer bioanalytical services that are used to produce identical DNA or RNA molecules (cloning), and bioanalytical services that identify and isolate clones based on DNA fragments.
Thermal Coal	Companies involved in the leasing of coal mines and the mining and processing of thermal (steam) coal.
Tobacco	Leaf Tobacco sold to manufacturers of finished tobacco products. Manufacturers of cigars, cigarettes and other tobacco products, including e-cigarettes, rolling tobacco, and cigarette papers. Wholesalers of tobacco and tobacco products.

Catholic Filter Exclusion Categories

Filter	Areas covered
Adult Entertainment	Companies who are involved with web sites that providing erotic content, such as pornography.
Adult Entertainment	Companies who are involved with the production of Adult-oriented content for the cable television, Video/DVD, and internet market.
Adult Entertainment	Companies who are involved with producing, distributing and exhibiting Adult-oriented content.
Adult Entertainment	Companies who are involved with magazines that generally contain explicit sexual content.
Abortion	Companies who are involved with therapeutics that prevent pregnancy, terminate pregnancy, or induce childbirth.
Abortion	Companies who have investment related controversies related to abortion.
Contraceptives	Companies who are involved with therapeutics that reduce the possibility of conception.
Contraceptives	Companies who are involved with medical devices used by women to prevent pregnancy.
Contraceptives	Companies who are involved with non-medicinal birth control that does not require a doctor's supervision or prescription.

Landmines & Cluster Munitions	Companies who are involved in cluster bombs manufacturing, and suppliers involved in providing relevant products or services related to cluster bombs manufacturing
Landmines & Cluster Munitions	Companies who are involved in land-mines manufacturing, and suppliers involved in providing relevant products or services related to land-mines manufacturing
Embryonic Stem Cell Research	Companies who are involved with bioanalytical services that are used to produce identical DNA or RNA molecules.
Embryonic Stem Cell Research	Companies who are involved with embryonic stem cell research.
Biological & Nuclear Weapons	Companies involved in chemical and biological weapons manufacturing, and suppliers involved in providing relevant products or services related to chemical and biological weapons manufacturing
Weapons	Companies who generate revenue from Advanced Combat and Support Systems is comprised of advanced weaponry and combat equipment and systems. Examples include artillery equipment and other heavy weaponry, combat and combat-support vehicles, missile systems, attack submarines, military aircraft, unmanned aerial vehicles (UAVs), and other combat equipment and systems.
Weapons	Companies who generate revenue from personal, non-military firearms and ammunition.
Weapons	Companies who generate revenue from the manufacture of military unmanned aircraft that can be controlled manually by an operator on the ground or automatically using a prerecorded flight plan.

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