

# SUSTAINABILITY RELATED DISCLOSURES

## Summary

The Sub-Fund does not have as its objective sustainable investment. The investment manager uses ESG ratings provided by its proprietary ESG Traffic Light System as an additional layer of information and insight in the investment decision making process . The investment manager also believes that, as stewards of capital, it has a duty to direct capital to companies that are good corporate citizens. Exclusions include Coal, Palm Oil, Controversial Weapons, Tobacco, Gambling, Predatory Lending, Cannabis and Adult Entertainment.

The investment team understand that ESG issues have the potential to influence returns meaningfully over the short, medium and long-term, and recognise the importance of a formalised approach towards evaluating and integrating them into the investment strategy. Using industry specific Material Risk Factors, the investment manager's proprietary Traffic Light System is integrated across the entire investment process – research, portfolio construction and risk management - with accessibility maximised by a proprietary application, ViA, which actively monitors and displays the ESG colour and key ESG risks that a particular company is facing.

Active engagement is implemented predominately through the longer-term Fundamental strategies. It enhances understanding of a company's exposure to key ESG risks and opportunities. In addition, the investment manager follows the SASB framework to direct companies to provide standardised, industry-specific, and materiality-based disclosures.

## No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

## Environmental or social characteristics of the financial product

The investment manager uses ESG ratings provided by its proprietary ESG Traffic Light System as an additional layer of information and insight in the investment decision making process. The Traffic Light System allows for the identification and mitigation of environmental, social and governance risks ("Key Issues"), directing capital away from the worst performers whilst simultaneously promoting the top performers. Specifically, the environmental and social Key Issues which form the basis of the Traffic Light System are the following:

Key Issue	Theme	Pillar
Biodiversity & Land Use	Natural Resources	Environmental
Carbon Emissions	Climate Change	Environmental
Climate Change Vulnerability	Climate Change	Environmental
Electronic Waste	Pollution & Waste	Environmental
Energy Efficiency	Pollution & Waste	Environmental
Financing Environmental Impact	Climate Change	Environmental
Opportunities in Clean Tech	Environmental Opportunities	Environmental
Opportunities in Green Building	Environmental Opportunities	Environmental
Opportunities in Renewable Energy	Environmental Opportunities	Environmental
Packaging Material & Waste	Pollution & Waste	Environmental

Product Carbon Footprint	Climate Change	Environmental
Raw Material Sourcing	Natural Resources	Environmental
Toxic Emissions & Waste	Pollution & Waste	Environmental
Water Stress	Natural Resources	Environmental
Access to Communications	Social Opportunities	Social
Access to Finance	Social Opportunities	Social
Access to Health Care	Social Opportunities	Social
Chemical Safety	Product Liability	Social
Controversial Sourcing	Stakeholder Opposition	Social
Financial Product Safety	Product Liability	Social
Health & Safety	Human Capital	Social
Human Capital Development	Human Capital	Social
Insuring Health & Demographic Risk	Product Liability	Social
Labor Management	Human Capital	Social
Opportunities in Nutrition & Health	Social Opportunities	Social
Privacy & Data Security	Product Liability	Social
Product Safety & Quality	Product Liability	Social
Responsible Investment	Product Liability	Social
Supply Chain Labour Standards	Human Capital	Social

The investment manager also believes that, as stewards of capital, it has a duty to direct capital to companies that are good corporate citizens. The investment manager therefore excludes investments in companies in the following industries:

Exclusion	Detail	Direction excluded
Coal	Exclude companies involved in the mining of coal and those that are generating any power from thermal coal - allowing a concession for generators active in renewables (>5% of revenue).	Long & Short
Palm Oil	Exclude companies that derive more than 10% of turnover from non-sustainable palm oil production.	Long & Short
Controversial Weapons	Exclude companies that derive more than 10% of turnover from production of controversial weapon systems or critical components of these.	Long & Short
Tobacco	Exclude companies that license or produce tobacco or related products with a revenue threshold of 0% and companies that get more than 10% turnover from tobacco distribution or supply.	Long & Short
Gambling	Exclude long holdings in companies that derive more than 10% turnover from management of, ownership of or supply to gambling facilities.	Long only
Predatory Lending	Exclude long holdings in companies that get more than 10% turnover from predatory lending activities.	Long only
Cannabis	Exclude companies that get more than 10% turnover from cannabis production or distribution.	Long & Short
Adult Entertainment	Exclude companies that get more than 10% turnover from production, distribution or retailing of pornographic content.	Long & Short

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the financial product.

## Investment strategy

The Sub-Fund manages an ESG integrated long-short market neutral investment strategy that aims to create a diversified, defensive portfolio that can generate consistent positive absolute returns, with low-volatility and minimal correlation to equity market movements and other L/S Funds.

It incorporates an investment process which revolves around integrating technicals, fundamentals, ESG, sentiment and catalysts in order to find repeatable patterns of market behaviour within a controlled environment of risk disciplines.

The Sub-Fund does not target environmental or social objectives but understands that ESG issues have the potential to influence returns meaningfully over the short, medium and long-term, and recognise the importance of a formalised approach towards evaluating and integrating them into the investment strategy.

The Traffic Light System works in tandem with the current investment process to provide another layer of information to mitigate risks arising from ESG factors on any potential holding by assigning Red, Green and Amber flags to all companies in the investment universe. Flags are computed by assessing the industry-based material key issues for each company, determining how exposed that company is to each risk factor and how its management are prepared to deal with the risks. The company is assessed against its industry peers on its key issues. See the “Methodologies” section for full details on how flags are assigned.

In addition, the investment manager employs an ESG exclusions list.

## Proportion of investments

The Sub-Fund is expected to invest at least 60% of its gross asset value (“GAV”) in companies that qualify as aligned with E/S characteristics.

The Sub-Fund is allowed to invest up to 40% of its GAV in financial derivatives instruments, depositary receipts, cash, cash equivalents such as money market instruments, short-term government bonds, treasury bills and commercial papers that do not qualify as aligned with E/S characteristics.

## Monitoring of environmental or social characteristics

The investment manager embraces technology to organise processes and aggregate market data to prepare for efficient analysis as it is imperative to quickly identify a change in a company’s ESG characteristics. The investment manager has developed a bespoke application, ViA, which actively monitors and displays the ESG rating and key ESG risks that a particular company is facing.

Additionally, ESG factors are fully integrated into the investment manager’s research notes. All research notes include a section detailing the key ESG risks the company is facing after being thoroughly researched and assessed. As such the investment manager’s research team can have a holistic view of the risks faced by the company.

External monitoring is provided through the investment manager’s semi-annual Sustainability Report. The following sustainability indicators are published, which measure the attainment of the E/S characteristics promoted:

1. Number of Green investments (as defined by the Investment Manager's Traffic Light System)
2. Number of Red securities shorted (as defined by the Investment Manager's Traffic Light System)
3. Performance of Green securities versus MSCI equivalents (AAA rated)
4. Volatility of Red securities versus MSCI equivalents (B & CCC rated)
5. Number of company engagements (one-to-one meetings with company management) on a specific topic related to E, S or G factors
6. Tonnes of CO2 equivalent saved by the investment strategy versus carbon emissions of MSCI Europe, as at time of reporting. Carbon Emissions are calculated as Scope 1 + Scope 2 emissions per million USD revenue

## Methodologies

The Traffic Light System uses industry specific material risk factors. The concept of materiality recognises that there are differences in the importance of information in making investment decisions across different industries and time frames. Materiality, in the context of ESG, considers the likelihood of an ESG factor having a substantial impact on the future prospects, financial condition and operating performance of a company.

Using MSCI and Bloomberg raw data and an industry-based materiality framework, the investment manager has identified a subset of Environmental, Social and Governance factors that are material for each industry in the investment universe. These factors are constantly monitored and reviewed by the ESG committee.

The materiality of ESG factors can differ by industry and region, and the response to those factors can differ by company. The team constantly evaluate a company's exposure to a material factor alongside the management's policies to mitigate the risk.

A list of the factors is included in the 'Environmental or social characteristics of the financial product' section.

For each material key issue, the Traffic Light System assesses at how exposed that company is to that risk factor and how its management are prepared to deal with the risk. Using both these factors the team score the company against its industry on its overall key issue.

- Red (Longs prohibited, Shorts permitted): Companies have material risks that are destructive to society, environment or other stakeholders. The investment strategy is prohibited from going long any Red security. For a company to be classified as Red, more than half of its material key issues should be ranked in the bottom quartile.
- Amber (Longs and Shorts permitted): Companies have some risks associated with ESG. The investment manager is mandated to consider any risks associated with material ESG issues.
- Green (Longs and Shorts permitted): Companies are leading the way in their interactions with society, environment and their stakeholders. The investment strategy can go long this security without any further ESG considerations. Greens have no material key issues in the bottom quartile and at least 3/4 of its key issues in the top 2 quartiles.

Further analysis is available to the team through MSCI, Bloomberg and broker reports. Additionally, ESG factors are fully integrated into research notes. All research notes include a section detailing the key ESG risks the company is facing after being thoroughly researched and assessed. As such, the investment manager's research team can have a holistic view of the risks faced by the company.

The investment manager's research team consider ESG factors equally and alongside the traditional metrics of active investment, such as financial impact and risk, legal, regulatory and policy drivers, industry norms and competitive drivers, opportunities for innovation as well as other factors related to macroeconomics and valuation.

## Data sources and processing

Data Sources: MSCI Ratings, MSCI Business Involvement Screening, MSCI Carbon and Bloomberg for Carbon.

To ensure data quality, checks are implemented on the following levels:

- Traffic light colour changes
- Quartile changes
- Changes in availability of company data in concurrent FTP file
- Missing company data for securities in coverage universe and investment universe.
- Manual data points when issues are highlighted through engagement

Data is provided via FTP location from where it is locally downloaded to perform VBA based checks. Once the data is checked and cleaned, the overall rating is calculated. The overall rating and exclusion list is exported to ViA, Bloomberg Quoteline, RAID compliance lists, worksheets, watchlists and alerting tools.

## Limitations to methodologies and data

For companies with missing data on Key Issues, the industry wide material Key Issues will be highlighted within ViA. The investment manager's research analysts can then engage with company management, speak to sell side brokers or make their own judgements on the company's exposure to those issues.

The ESG Traffic Light System does not apply to the Arbitrage strategy. The Arbitrage strategy looks at pricing dislocations in the market and lasts a maximum of 48 hours. The investment manager does not feel that ESG risks will manifest in such a short period of time and are therefore inapplicable to this strategy.

The ESG Traffic Light System does not apply to hedges. The investment manager uses a combination of market and factor indices to hedge out unwanted market and factor exposures in the book. Since these are created by brokers or index providers, the investment manager does not have control over the constituents and as such cannot apply the Traffic Light System to them.

## Due diligence

To provide continuous oversight of the investment manager's efforts, its board have appointed an ESG committee and also integrated ESG factors into the duties of the Risk Committee.

The ESG Committee assists in the fulfilment of responsibilities and duties towards the implementation and management of environmental, social and governance initiatives.

The committee comprises of at least four members. Members of the committee are appointed by the board in consultation with the chairman of the ESG committee. Members represent CSR, investment, risk and management in order to align incentives across the investment manager.

The committee meets quarterly, and otherwise as required. Ongoing monitoring on ESG parameters, limits and exposures for the purpose of the investment strategy will sit with the Risk Committee, which meets weekly.

The purpose of the Risk Committee is to assist the team in the fulfilment of their corporate governance duties in relation to risk management, internal controls and financial reporting, with respect to the investment manager.

Risks arising from an investment company's conduct towards the Environment, Society and its own Corporate Governance can be highly correlated to its performance. Controversial behaviour is increasingly penalised and can pose a material risk to the performance of a security. Hence, the investment manager has taken a calculated step to integrate risk assessment from an ESG perspective into the duties of the risk committee.

The risk committee meetings address the below ESG duties:

- Monitor, question and evaluate any long positions that have moved to red according to the Traffic Light System and manage the subsequent divestment;
- Monitor and flag any holdings that have moved from one colour to another;
- Discuss and evaluate the key ESG risks for the mid-long term holdings of the portfolio; and,
- Discuss ongoing key issue ESG controversies on the holdings in the portfolio.

## Engagement policies

The investment manager strongly believe in the importance of active engagement, which is predominately implemented through the longer-term Fundamental strategies. By engaging in dialogue with companies on their business practices, the investment manager's research team can enhance understanding of a company's exposure to key ESG risks and opportunities, providing an additional layer of insight that feeds into investment decision making. The investment manager also follows the SASB framework to direct companies to provide standardised, industry-specific, and materiality-based disclosures as they believe that to better evaluate ESG related risks and opportunities within the investment universe, more complete and reliable information is necessary. These efforts help direct capital to influence more sustainable business practices.

## Designated reference benchmark

The Sub-Fund does not use an index as a reference to benchmark to attain the environmental or social characteristics promoted.