



## Responsible Investing Overview

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### Philosophy

Our research focuses on identifying, testing, and incorporating investment signals into our quantitative return and risk models. While we do not believe that stocks with desirable environmental, social, and corporate governance (ESG) characteristics will systematically outperform, we understand that ESG considerations can impact businesses' profitability and sustainability of earnings, in addition to the risks associated with their securities.

In 2016, we became a signatory to the Principles for Responsible Investment ("PRI") demonstrating our recognition of the importance of these issues.

We have established a Responsible Investing Committee, which is comprised of our Chief Investment Officer and senior members of the Portfolio Management, Research, Investment Analytics, Legal and Compliance, and Business Development and Client Relationship Management teams. The committee meets periodically to discuss our approach to various ESG related issues, both in our investment process and in our internal business practices.

### Investment Process

We incorporate what we believe to be the best investment insights into our clients' portfolios with the objective to deliver sustainable alpha on a risk-controlled basis. Consistent with this objective, all alpha and risk signals, including those associated with ESG information, are evaluated in a systematic and rigorous manner prior to inclusion in our process. We have found that some of our existing expected return signals are correlated with ESG measures. The most conspicuous examples are our quality signals, which tend to be somewhat correlated with the "G" component of ESG. Additionally, we include signals derived from ESG and carbon information in our risk model.

When directed to do so by clients, we can also employ exclusionary screens, group restrictions, continuous penalties, ESG-tilted benchmarks, or a combination of these approaches to accommodate a variety of responsible investment considerations. We believe that we have developed effective tools to allow for the inclusion of these additional considerations with the lowest cost to the other investment considerations, and we manage a number of portfolios that use these approaches to help satisfy clients' ESG-related objectives.

### Stewardship

We have retained Institutional Shareholder Services (ISS), a leading proxy service provider, to provide proxy voting services. Standard proxy voting policies (which we typically subscribe to)

take into account certain ESG-related matters. In addition, upon request, we can implement enhanced ESG-specific voting policies with respect to the securities held in a client's account.

Engagement activities are fully outsourced through Sustainalytics, offering an established, standardized and systematic global engagement program. The engagement framework is incident and compliance based, addressing offenses of international norms and standards involving the following issues: labor, environment, business ethics and human rights. Reporting from Sustainalytics regarding their engagement activities is available.

## Reporting

We are generally able to support reporting requests on a broad range of responsible investment topics, including the ESG score and carbon footprint of the portfolio as well as reporting relating to the Task Force on Climate Related Financial Disclosures (TCFD). Lastly, further to our partnership with Sustainalytics, we offer reporting connected to ongoing engagement activities. Note that engagement activity performed by Sustainalytics is not dependent upon or impacted by the holdings of the applicable portfolio or our trading activity.

## Continued Commitment to Research

One of our core beliefs is that active management is an intrinsically dynamic activity, and we continually reinvest in research, including research related to ESG concepts and characteristics. To this end, we recognize that the risks and return potential related to ESG issues change and evolve over time. To identify potential return or risk implications associated with ESG information, we are therefore committed to considering ESG-related signals as well as related third-party academic research.



## Risk Disclosures

All investment strategies have the potential for profit or loss. Past performance may not be indicative of future results. It should not be assumed that the future performance of any specific investment or investment strategy (including those described herein), will be profitable or equal to past performance levels. Changes in investment strategies, investable assets, or contributions or withdrawals may materially alter the performance and results of a client's portfolio.

Economic factors and market conditions will affect the performance of any portfolio and there are no assurances that it will match or outperform any particular benchmark. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment will be profitable for a client's portfolio.

Our equity investment strategies involve the risks of investing in equities and currencies (which may include entering contracts over the counter) globally. In addition, our alpha extension strategies and long/short strategy involve the risk of shorting equities and leverage.

We actively manage our client assets and therefore the performance of a portfolio will reflect, in part, our ability to make investment decisions that seek to achieve a given strategy's investment objectives. Due to the active management, a portfolio could underperform the target benchmark and/or investment mandates with similar investment objectives.

We use proprietary quantitative models in our investment process. While we expect these models to perform as expected, deviation between model predictions and the actual events can result in either no advantage or in results opposite to those desired by us and our clients. In particular, these models draw from historical data that may not predict future returns, volatilities, correlations or market performance adequately. In addition, market conditions may be such that they are outside of the confidence level employed by the models. There can be no assurances that the models behave as expected. An error in the coding of data or formulas within the models could be magnified by the model and may be difficult to detect. While we maintain internal controls and human oversight of our investment models, no guarantee or warranty can be provided that any quantitative investment model is or will be completely free of errors. Any such errors could have a negative impact on investment results.

Unexpected market turbulence or unanticipated extraneous events could also cause the actual results to fall outside of the range predicted from the models' forecasts.

Applying an investment strategy that orients a portfolio on the basis of ESG characteristics carries the risk that the portfolio may underperform funds that do not pursue an investment strategy with this constraint. Applying ESG-related factors to investment decisions is qualitative and subjective by nature, and there is no guarantee that the criteria utilized in incorporating such factors or any judgment exercised will reflect the beliefs or values of any particular investor.

Our equity strategies invest in equity securities of companies with varying market capitalizations. Investment in companies with relatively small market capitalizations generally involve greater risk and price volatility than investment in larger, more established companies, and the equity securities of such companies are typically less liquid than larger capitalization companies.

Where investment in an Arrowstreet Sponsored Fund is contemplated, please refer to the corresponding fund's offering materials for further details on risks specific to such fund.

## Important Information and Legal Disclosures

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