

# Responsible investment policy

Last update: 30 Jun 2023

This policy applies to all ABC Arbitrage Asset Management's (ABAM) investments. It is reviewed and updated at least once a year or whenever any relevant event occurs.

## I. Philosophy

### A. Who we are and what we do

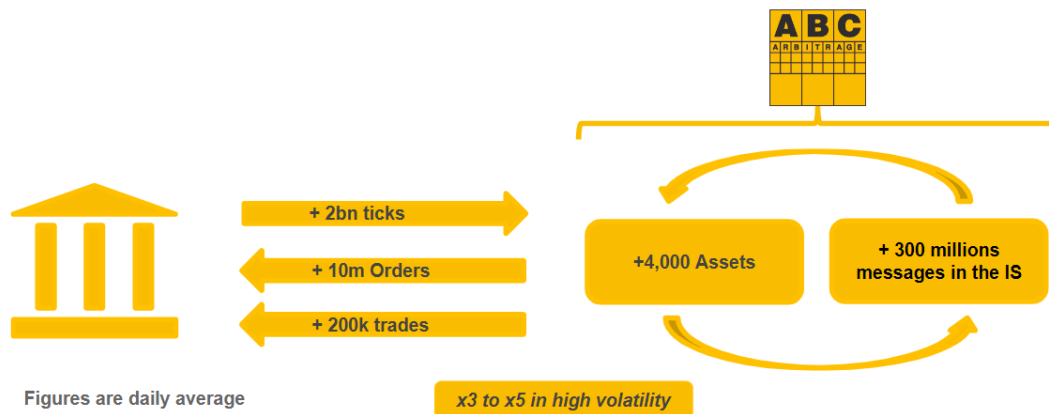
We are a team of enthusiastic technologists, building innovative trading systems and quantitative asset management strategies on a range of assets with a focus on niche and mid-short term trading opportunities. We operate in almost 100 markets around the world (24/5) where we provide liquidity with systematic mechanical or statistical signals.

We watch out for capital protection thanks to a thoughtful risk mitigation & risk management methodology.

### B. Complete and reliable data is at the heart of our systems

The quality and performance of our software and our technical infrastructure is absolutely key. The very essence of our activity means that our trading techniques are sophisticated and rely on a scientific and data driven approach to generate alpha.

As our algorithms constantly track inefficiencies over 5 continents, we process billions of data elements each day, including fundamental data. All of these signals help us build a deep understanding of the markets and have a unique insight on asset prices.



The information must therefore be complete and reliable. We firmly believe that environmental, social and governance (ESG) data is now an integral part of the market signals that need to be taken into account. Furthermore ESG data can be material, so this is crucial to strive for reliable data on the matter.

### C. We take responsibility for the impact materiality

The impact our company has on ESG factors is as important as the impact they have on our company. Although our main function is to provide liquidity to the markets, and we do not make any investments in the fundamental sense of the term, we want to further incorporate them into our

investment decisions to assess the social and environmental contribution of our investments and foster positive outcomes on these issues.

This is consistent with our mission to embody the group's motto "Positive finance" and with our CSR policy (see our [CSR report](#) starting on page 67).

Besides the environmental aspects, we consider that the development of human capital should also be a pillar of our responsible investment policy and an important criterion to incorporate in our investment strategies. Human capital is indeed our most valuable asset as the key factor of our sustainability and long term profitability.

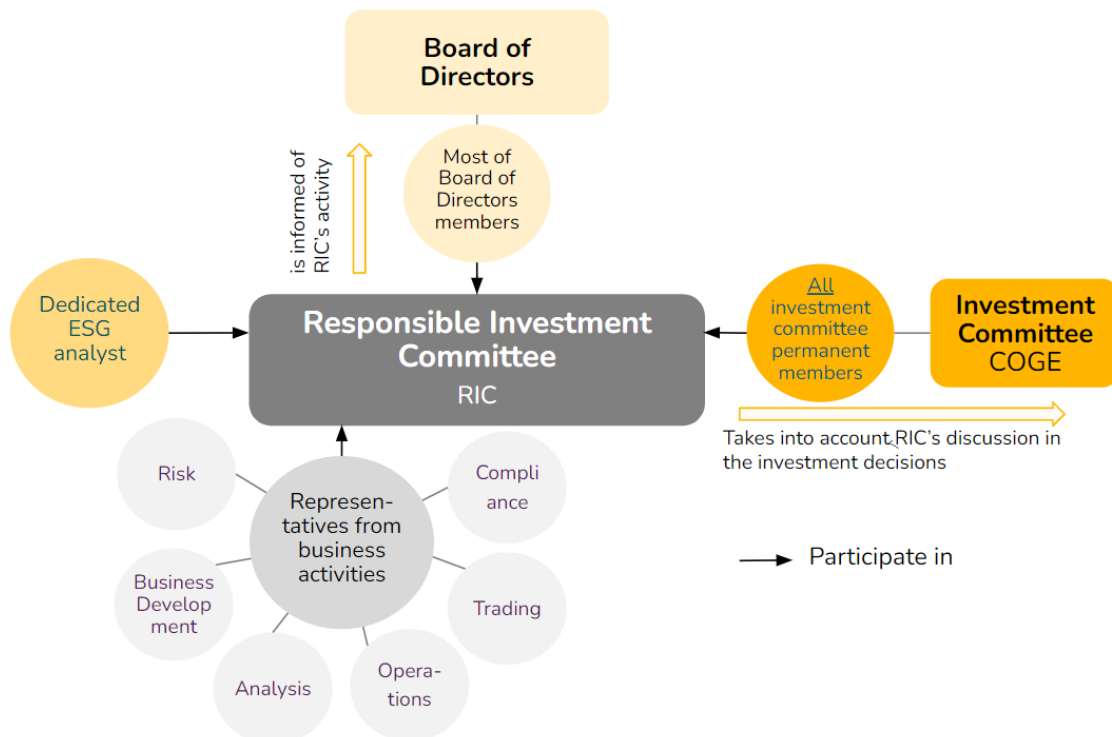
### D. Our approach

The existing and traditional responsible investment pillars and principles are not necessarily relevant to an activity based on quantitative et systematic models, looking for short term alpha as the resulting positions and / or exposures thereafter can vary very quickly and over cycles which can be very short.

There is a need to be creative and to come forward with new solutions that will enable us to provide liquidity to the international markets while preserving capital and always further taking into account the ESG factors.

We want to support change in the investment management industry to foster a fair transition by bringing our expertise and creating new solutions to truly incorporate ESG factors in the systematic and quantitative strategies universe.

## II. Resources and Governance



## **A. Responsible Investment Committee (RIC)**

The Board of Directors gives mandate to the RIC to discuss issues related to responsible investment and is informed of significant developments.

The RIC was formed seeking a diversity of experiences, backgrounds and genders so that it is truly representative of our values and identity and benefits from various opinions and experiences.

It is therefore composed of employees at different functions or hierarchical levels, up to C-suite executives, including the CEO, CIO (Chief Investment Officer) and Group CCO and gathers experts from all the relevant business activities.

The RIC takes place at least every two months and more often if necessary (whenever a significant event occurs). Its role is to:

- prioritise and choose between RI pillars and propose to the Investment Committee and / or Board of Directors the implementation of these choices;
- build and drive the RI policy, endorsing the strategic orientations and overseeing the implementation;
- discuss main innovations and changes (scientific, regulatory, etc.) relating to sustainable finance and ESG;
- define the topics and areas of research to further expand the RI policy.

## **B. Dedicated Staff**

An experienced ESG analyst is dedicated to all the ESG thematics, such as UN PRI membership, investment analysis, training to employees or regulatory watch.

She is responsible for:

- proposing RI actions (themes, actions, scope, etc.)
- implementing and coordinating the RI policy actions that are validated by the RI committee
- following up on these actions
- monitoring the implementation of the RI policy

She works in close collaboration with all the teams involved in the investment process. As a result, there are several other employees also partially working on ESG issues. This enables a transversal approach, which is crucial for ESG factors to be well taken into account at all stages of the investment process.

## **C. Investment Committee (COGE)**

All Investment Committee members participate in the RIC and therefore all are fully informed of the discussions and conclusions of the RIC.

ESG issues are thus incorporated into investment analysis and decision-making in a systematic way as the Investment Committee has the final say on investment decisions.

## **D. Tools and safeguards**

Several tools and safeguards help ensure that our RI policy is fully implemented:

- Pre and post-trade tools: Our IT systems are set to prevent any trading on securities flagged as in ABAM's exclusion list. When a security is flagged, the risk management team is alerted and adds the security to the restriction list, which prevents trading in that security. Our system ensures that we have no position on corporations subject to sanctions that are applicable to us as it allows us to:
  - detect a corporation subject to a sanction;
  - be alerted when a new sanction is applicable to a corporation;
  - give instruction to the operational teams in order to block trading on the securities of the corporation targeted by these sanctions.

- Strategies' parameters, including ESG factors, are monitored according to the “three lines of defense” (3LoD) model. Thus, the following three groups work together at different stages to provide increased protection and ensure that the agreed parameters are properly implemented:
  - 1st line of defense: business managers / portfolio managers, who define and manage processes and are primarily responsible for the risks the business units take, including identifying, assessing and communicating on risks and the group risk team, who supports the portfolio managers by defining and establishing controls and assessment methodologies;
  - 2nd line of defense: compliance team who realises the second level controls;
  - 3rd line of defense: the Group internal control.
  
- As an asset management company our business is regulated, subject to authorisation and supervised by the *Autorité des Marchés Financiers* (AMF). Employees undertake to comply with all of the mandatory rules and regulations governing asset management activities immediately upon signing an employment contract, including the primacy of the client's interests and the fight against bribery and money-laundering and terrorism. Our principles thus also translate into several safeguards and rules that apply to everyone of us, namely:
  - A code of Ethics
  - An internal conflicts of interest policy
  - Fair business practices
  - Strict procedures and rules governing the handling of orders and primacy of the client interest
  - A whistleblower system
  
- Live controls and daily monitoring are carried out by the execution support team to detect any inadequacies or deviations and to immediately correct them. This enables us to comply with all the relevant rules and regulations at any time.
  
- The security and integrity of our systems has always been a very serious preoccupation. We apply state of the art policies for securing our infrastructure, networks and data. Cyber security is treated with the same importance as other security layers.
  - We train our employees in security principles (in particular to detect phishing).
  - We protect information, computers and networks based on Zero Trust recommendations: strong & context based authentication, device posture, web proxy, network isolation and network encryption with TLS.
  - Important backup and information are replicated over at least two locations.
  - We also use 'Google Apps for Work' for emails and documents.
  - We have implemented multi factor authentication for every users.
  - Penetration testing is carried out by external contributors every 12 months and phishing tests are carried out several times per year by changing contributors regularly for better control.
  - Daily internal and external vulnerability scans are used.

## **E. Training**

We believe it is of utmost importance to provide training to raise awareness on ESG issues and to build a common understanding and standard of how ESG should be further incorporated into our activity. We therefore:

- Send an ESG Internal Newsletter every 2 months to all employees. It sums up regulatory trends, best practices and highlights relevant reports and findings.

- Organise targeted presentations of ESG issues and main challenges upon request or whenever necessary, for instance to the portfolio managers.
- Offer dedicated training on ESG issues as part of our global training program, “ABC university”, available for the entire staff.
- Present the ESG approach to each new recruit, whatever their position, when they join the company.
- Carry out awareness-raising operations on a regular basis through our CSR policy and CSR working group of employees. In the past year, they included for instance active discussions relating to the calculation of our carbon footprint, ecological challenges thanks to the “My Little Planet” serious game, initiatives during the sustainable development week, a “Fresque du Climat” workshop, e-mails recalling good practices, etc. More details are available in our [CSR report](#) (starting on page 67).

## III. Concrete Actions

### A. Collective initiatives

ESG challenges are such that they must be dealt with collectively. We participate in several collective initiatives to work as closely as possible with the relevant stakeholders and foster a coordinated and coherent approach on ESG issues:

- ABC arbitrage Asset Management joined the **United Nations initiative for the promotion and implementation of principles for responsible investment (UNPRI)**, [UN-supported Principles for Responsible Investment](#)) in 2022. Through this voluntary approach, we intend to pursue our commitment to contribute to a sustainable financial system that takes into account the extra-financial criteria.
- We joined the **Standards Board for Alternative Investments (SBAI)** Responsible Investment Working group. This working group is made up of over 200 representatives from asset managers and institutional investors and meets regularly to discuss specific ESG issues and broad Responsible Investment principles.
- We are also an active member of **AFG - Association Française de la Gestion Financière** - which represents and defends the interests of professional portfolio managers on behalf of third parties. It provides its members with ongoing assistance in the legal, tax, economic, accounting and technical fields and leads the reflection of the profession on the evolution of management techniques, research and the protection and orientation of savings. We participate in the responsible investment plenary of the AFG.
- Finally, ABC arbitrage is an active member of MiddleNext (an association of mid-caps listed on the Paris marketplace) and has joined **Middlenext’s CSR working group**, which aims to collectively brainstorm on tools to be implemented, organise the regulatory watch or share best practices, including on ESG issues.

### B. Exclusions

Exclusions are decided based on our values and our overall responsible investment policy approach.

The following companies / assets have been excluded from our investment universe:

- **Sanctioned countries:** we strictly comply with international regulations by excluding countries and organisations (and issuers from these countries) sanctioned by the European Union and the United Nations. We also implement exclusions based on our investors' jurisdictions, such as the Canadian regulation.
- **Other countries:** we do not invest in countries that are the most at risk in terms of corruption, money laundering and terrorist financing. Besides, for each new country in which we want to

trade, we include inputs on ESG aspects, such as the geopolitical risks, exposure to natural disasters, transparency, etc.

The process to decide exclusions based on ESG criteria is the following :

- Preliminary identification of assets that could be excluded from our investment universe is done by dedicated staff as part of ESG research.
- Proposals, themes and scopes are discussed within the RI Committee.
- Once an exclusion is decided, ESG staff assesses the solutions to identify assets to be excluded. Whenever relevant / possible, and in order to give more weight to collective initiatives, we rely on existing exclusion lists. In this case, ESG staff reviews the external providers as well as the data used to confirm the robustness and that the lists fulfil the need and will help to reach the target.
- Implementation of exclusions are validated by the Investment Committee, after full analysis, and then done in coordination with all involved parties (portfolio managers, risk, etc.).

Screening policy is regularly updated to exclude assets based on new criteria and to reflect updates in the sourced lists, if any.

## **C. Engagement / stewardship**

### **1. Voting and engagement**

Due to the nature of our business, which is characterized by management via alternative strategies known as arbitrage, our AIFs don't intend to hold positions over time. Moreover, most financial instruments aren't held directly as Financial instruments can be held under synthetic format (CFDs, swaps). As a result, AIFs can't acquire voting rights.

Nonetheless, we reserve the right, if possible and necessary, to take the appropriate decisions in order to use the voting rights or to table a draft resolution. For example, when a position is taken, we are not excluded from supporting resolutions or votes relating to ESG issues<sup>1</sup>.

### **2. Lobbying / contribution to the public debate**

We seek to contribute to the global thinking about how ESG can be integrated into our particular type of activity, i.e. hedge funds' activity and alternative strategies. Indeed many traditional means of action to invest in a responsible way are simply not implementable (ex: voting, see above)

In that respect, the hedge fund industry needs to be innovative to better integrate ESG considerations. We are committed to contribute to the public debate and emergence of common best practices and standards. To do so, we will participate in conferences and events on the topic, make public the challenges we face to incorporate ESG and share our findings. When relevant, we also respond to public consultations on the matter.

Whenever possible and impactful we will seek to foster and support a better integration of ESG factors into our stakeholders' activities, such as organisations like Trading, Prime Brokers and Administrators.

## **D. Sustainability risks**

The investment and divestment process on financial instruments is governed by the "investment committee" procedure. An investment committee can be organized within the framework of a specific operation aiming to adapt the positions following specific opportunities or risks encountered in order to guarantee the adaptability of the limits to a given context and the consistency in considering risks on

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<sup>1</sup> See our [Shareholder engagement policy](#)

all strategies. A specific risk in relation to environmental, social or governance matters could arise that could impact an issuer and thus the financial instrument on which a position is taken or may be taken. More generally, exogenous risks including environmental, social risks or risks related to governance issues are well taken into account in the risk mapping

## IV. Our Path Forward

### A. Excluded Companies

One of our next objectives is to enrich our exclusion list to ensure that our investment strategies, if relevant, won't support companies or activities that we deem unethical, socially or environmentally harmful or against our values.

### B. ESG Integration

We are now working on measuring the carbon footprint of our portfolios. The carbon footprint of a portfolio refers to the total amount of greenhouse gas emissions associated with the companies and assets that make up the portfolio.

Measuring the carbon footprint of a portfolio can be a complex process, as it requires analysing the emissions associated with every company and asset in the portfolio. It also requires reliable and accurate data and to set a suitable methodology for the specificities of our portfolio.

We will progressively seek to build an "ESG dashboard" to monitor and include in our investment decisions - where relevant - indicators such as CO<sub>2</sub> and biodiversity footprint. Besides, Taxonomy information and data from Corporate Sustainability Reporting Directive (CSRD) will become available for more and more underlying assets in the coming years. This will enable us to have a more comprehensive and coherent overview on ESG factors.

### C. Research & development

Here are the three main areas of research that we would like to explore:

- **Risk Management**

Better incorporating ESG criteria into risk management is an important step towards achieving sustainability and responsible business practices.

We would like to explore further how to integrate ESG into risk management frameworks and how to modify existing risk management frameworks to better include ESG criteria and ensure that all ESG risks and opportunities are properly identified and addressed in the risk management process.

- **Alpha Generation**


Incorporating ESG data can help generate alpha by providing insights and a more comprehensive view of a company and enrich the fundamental data used in our quantitative models.

- **Voting and engagement**

We are investigating the possibilities for AIFs to vote and ask questions in relation to resolutions.

## V. Exemplarity

We strive for exemplarity and apply to ourselves all the above mentioned principles. We voluntarily report on our CSR (Corporate Social Responsibility) actions and progress since 2015 and we have set up a CSR working group at the Group level in 2022. Here is an overview. find out more in our [CSR report](#) (starting on page 67)!



✓ Extensive Carbon footprint of operations covering scopes 1, 2 and 3  
 ✓ Updated every year  
 ✓ Lever to identify the most impactful actions

**Carbon footprint**

### Diversity and Inclusion Policy

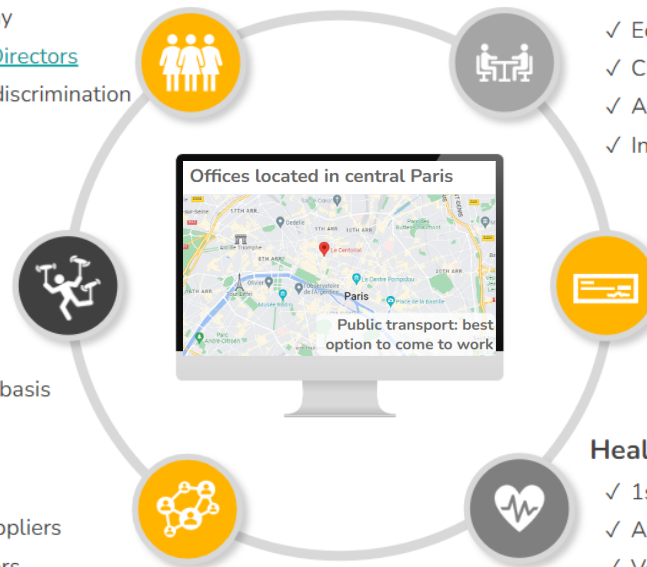
- ✓ Action Plan for equity, incl. equal pay
- ✓ Gender equity within the [Board of Directors](#)
- ✓ Hiring Policy free from any form of discrimination
- ✓ Training : core business & soft skills
- ✓ Internal alert procedure

### Work and personal life balance

- ✓ Part-time possible
- ✓ Flexibility in working hours
- ✓ Parental Leave Policy, childcare facilities
- ✓ Possibility of remote working on a regular basis

### Other stakeholders

- ✓ Subcontracting and suppliers
- ✓ Shareholders & investors
- ✓ Local, economic and social impact of our business



### Social dialogue

- ✓ Economic and Social Committee
- ✓ CSR working group and task forces
- ✓ Annual & regular professional interviews
- ✓ Intranet platform

### Sponsorship Actions

- ✓ *Maisons des Jeunes Talents* & basis.point: educational programmes to disadvantaged youths
- ✓ Sport : Jean-Pierre Dick, Charly Quivront, *Young Multi Talented of ABC arbitrage*
- ✓ French artists

### Health

- ✓ 1st aid training
- ✓ Awareness : incentives for healthy food, sport
- ✓ Voluntary vaccination campaigns
- ✓ 100% of the basic cost of their top-up health plan covered




✓ reminders about good environmental practices based on indicators  
 ✓ maximum use of new technologies, train, business meetings grouped, etc.  
 ✓ Serious game (*Ma Petite Planète*)

**Internal communication**

### Sustainable use of resources

- ✓ Energy saving plan, in partnership with Ecowatt (French TSO)
- ✓ Environmental criteria for data center choice
- ✓ Automatic setting of printers
- ✓ Group's processes digitized



- ✓ Recycling points
- ✓ Les Joyeux recycleurs
- ✓ Cups, containers, etc.
- ✓ Outlet for used computer equipment

**Waste management**

## VI. More information

ABC arbitrage Asset Management complies with all the applicable regulations, namely:

- The French "Loi-énergie climat" (n° 2019-1147 du 8 novembre 2019): see [our report](#);
- the Sustainable Finance Disclosure Regulation, (EU) 2019/2088, introduced to improve transparency for sustainable investment products and prevent greenwashing: see [our report](#);
- As a signatory of UNPRI we will publicly report annually on key features of its RI policy.