Mission Statement

Make sustainable investing financially attractive and available to the mainstream.

We integrate Environmental, Social and Governance (ESG) data with quantitative investment strategies to generate financial outperformance.
In this fast-changing world, people care more than ever before about how they invest their money, and precisely how financial return is generated.

By making this customizable approach accessible to all, we believe that public equity investments can be a catalyst of change, and allow investment through personalized values.
ESG Big Data

• Over 90% of all the world’s data was generated in the past two years

• Current level of ESG data is a fraction of what it will be in five years

• Investor demand for ESG is growing rapidly

• ESG to finance is what the X-Ray was to medicine

• A new dimension to investing
The Age of AI

- AI infiltrating into everything we do, from Apple’s Siri, to Amazon’s Alexa

- Arabesque’s quant models extract information out of data through pattern recognition and machine learning

- AI and sustainability big data combined

- Our mission is to make this technology accessible to more investors
How is anti-slavery disclosure, social performance and governance being assessed by investors?
How is anti-slavery disclosure, social performance and governance being assessed by investors?

<table>
<thead>
<tr>
<th>ENVIRONMENTAL (E)</th>
<th>SOCIAL (S)</th>
<th>GOVERNANCE (G)</th>
</tr>
</thead>
<tbody>
<tr>
<td>climate change</td>
<td>working conditions, including slavery and child labour</td>
<td>executive pay</td>
</tr>
<tr>
<td>greenhouse gas (GHG) emissions</td>
<td>local communities, including indigenous communities</td>
<td>bribery and corruption</td>
</tr>
<tr>
<td>resource depletion, including water</td>
<td>conflict</td>
<td>political lobbying and donations</td>
</tr>
<tr>
<td>waste and pollution</td>
<td>health and safety</td>
<td>board diversity and structure</td>
</tr>
<tr>
<td>deforestation</td>
<td>employee relations and diversity</td>
<td>tax strategy</td>
</tr>
</tbody>
</table>
The role of Technology and AI in adding visibility and transparency to modern supply chains

- Big Data
- More reporting
- Use of news and social media
- Traceability software
- Data Modelling
- Better monitoring of working conditions
- Software created to optimise errors
- Demand measuring enhanced
- Drones
- 3D & Microscopic Barcodes
- RFID (Radio Frequency Identification tags)
- Unique markers – physical or chemical (can be as small as atoms)
Three Lenses of S-Ray

S-Ray® allows anyone to monitor the sustainability of nearly 7,000 of the world’s largest corporations

**GC Score**
A normative assessment of each company based on the core principles of the United Nations Global Compact

**ESG Score**
A sector specific analysis of each company’s performance on financially material environmental, social and governance (ESG) issues

**Preferences**
A search tool that allows anyone to check the business involvements of companies against their personal values

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**Three Lenses of S-Ray**

- **Bad**
- **Neutral**
- **Good**

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**GC Score**

- **0**
- **50**
- **100**

**ESG Score**

- **0**
- **100**

**Preferences**

- **0%**
- **100%**

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**Preferences**

- **Revenues**
The “Top 20%” outperform the “Bottom 20%” by 3.4% annually*

- The portfolio of the “Top 20%” S-Ray® ESG scores outperforms the “Bottom 20%” scores by 3.4% p.a.*
- The volatility of the Top 20% is significantly lower than the volatility of the Bottom 20%
- The Bottom 20% companies underperform the overall investment universe by 2.2% p.a.
- Higher ESG normally correlates with lower borrowing costs
- Integrate environmental, social and governance data with quantitative investment strategies with an aim to generate financial performance.

*Performance from 01/02/2007 to 31/08/2019 in USD, gross of fees and transaction costs.
S-Ray® For Portfolio Managers

**Fundamental Analysis**
Gain a stronger understanding of a company’s management focus and its positioning for long-term profitability.

**Quantitative Analysis**
Receive quantitative sustainability data points that can easily be integrated into new and existing investment models and factor strategies.

**Risk Management & Reporting**
Get a more holistic view of the various types of risks your portfolio is facing and be able to communicate about it more concisely.

**Portfolio Management**
Access the sustainability characteristics of investment portfolios and track momentum scores overtime – or develop new screening and integration models all together.

**Active Ownership**
Exercise your sharehold rights based on data-driven insights to better align your portfolio with your market view.
How do we arrive at top level scores?

There are 3 layers to our process:

- **Input layer**: Analyzes over 250 raw data points. Data is measured for quality, cleaned and normalized before being mapped to the “feature layer”

- **Feature layer**: +30 sustainability themes that serve as building blocks for top level scores

- **Top Level Scores**: Combine features into easy-to-use S-Ray® scores:
  
  **GC Score**: The GC Score provides a normative assessment of companies based on the four core principles of the United Nations Global Compact (GC) to approximate reputational risk: human rights, labor rights, the environment and anti-corruption.

  **ESG Score**: Identifies companies that are better positioned to outperform over the long term by measuring what is financially material for future profitability.
S-Ray® draws data from three main sources: sustainability reports, news-based controversies, and NGO campaigns.

- Reports: Over 250 reported metrics from sustainability and integrated reports
- News-based controversies: Natural Language processing scans over 80,000 public news sources across over 20 and growing languages daily for sustainability-related controversies
- NGO campaigns: Tracks NGO campaign activity over 400 sustainability features, both positive and negative in nature
Two years after Bangladesh factory collapse, a struggle to set things right

<table>
<thead>
<tr>
<th>Item</th>
<th>Date</th>
<th>News value</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>News</td>
<td>25/04/2015</td>
<td>-0.66</td>
<td>Violation of International Standards; Violation of National Legislation; Human Rights Abuses and Corporate Complicity; Occupational Health and Safety Issues; Poor Employment Conditions; Freedom of Association and Collective Bargaining; Forced Labour; Child Labour; Discrimination in Employment</td>
</tr>
</tbody>
</table>

H&M factories in Myanmar employed 14-year-old workers

Fashion retail giant says it has taken action against its two factories after new book in Sweden raises fears about working conditions in the country

<table>
<thead>
<tr>
<th>Item</th>
<th>Date</th>
<th>News value</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>News</td>
<td>30/08/2016</td>
<td>-0.44</td>
<td>Violation of international standards; Violation of national legislation; Human rights abuses and corporate complicity; Child labour</td>
</tr>
</tbody>
</table>
H&M supply factory in Myanmar damaged in violent labour protest

Workers destroy production line of Yangon factory making clothes for the Swedish fashion chain, in month-long dispute over conditions and benefits

<table>
<thead>
<tr>
<th>Item</th>
<th>Date</th>
<th>News value</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>News coverage</td>
<td>10/03/17</td>
<td>-0.66</td>
<td>Violation of national legislation; Human rights abuses and corporate complicity; Supply chain issues; Poor employment conditions; Child labour</td>
</tr>
</tbody>
</table>

H&M accused of failing to ensure fair wages for global factory workers

Employees forced to work excessive hours in order to survive, Clean Clothes Campaign says

<table>
<thead>
<tr>
<th>Item</th>
<th>Date</th>
<th>News value</th>
<th>Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>News coverage</td>
<td>28/09/18</td>
<td>-0.22</td>
<td>Human rights abuses and corporate complicity; Supply chain issues; Occupational health and safety issues; Poor employment conditions; Forced labor; Child labor</td>
</tr>
</tbody>
</table>
Input Layer

Once the data is inputted into the database, S-Ray® cleans and organizes the data:

- **Cleaning**
  - Inputs are subjected to a set of data quality checks (e.g. false outlier detection)
  - Poor quality data is discarded
  - Inputs are scaled and normalized to allow for comparison and aggregation
  - Sparse and infrequent time series are imputed and resampled to accommodate daily calculations

- **Organizing**
  - The cleaned inputs are organized and labeled, according to an internal taxonomy. Labelling is based on two questions:
    
    a) What is the focus of the input?
    - Preparation, outcome, business involvement, news, NGO campaign (e.g. Preparation – Does the company have a human rights policy?)
    
    b) What is the topic of the input?
    - Based on 22 sustainability topics (e.g. employee diversity) and 12 business involvements (e.g. tobacco)

  These directly correspond to the features in the feature layer

S-Ray® Methodology

- **Input Layer**
  - Reports
  - News
  - NGOs

- **Feature Layer 30+ Sustainability Topics**
  - GC Score
  - Normative Behaviour
  - ESG Score
  - Long-Term Outperformance
  - Preferences
  - Business Involvements

- **Score Layer**
  

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Feature Layer

As there can be correlation and overlap between inputs, semi-supervised dimensionality reduction techniques are used to further structure the topics. Measures are also taken to ensure there is no single or dominant reliance on any one data provider.

- We first construct two types of feature sub-scores reflecting the frequency of data input:
  1. Long-term trend
     - This score pulls together all available report-based metrics from the input layer, which are then aggregated based on several considerations, including focus, dimensionality, and expert input
  2. Short-term correction
     - Based on news-controversies and NGO campaigns, S-Ray® constructs a short-term signal using a proprietary present news value. This is a function of an article’s controversy level, how long ago it occurred, and the impact of the source
- These sub-scores are then aggregated into a final feature score
Example: Business Ethics

- 18 report-based inputs are aggregated into the long-term trend score (e.g. 65).
- All business ethics-related news controversies and NGO campaigns over the past year are combined into a short-term correction (e.g. –10%).
- Final daily business ethics score found by multiplying the long-term trend score with the controversy correction (i.e. 65 x (100-10)% = 58.5).

<table>
<thead>
<tr>
<th>E</th>
<th>S</th>
<th>G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emissions</td>
<td>Diversity</td>
<td>Business Ethics</td>
</tr>
<tr>
<td>Environmental Stewardship</td>
<td>Occupational Health and Safety</td>
<td>Corporate Governance</td>
</tr>
<tr>
<td>Resource Use</td>
<td>Training and Development</td>
<td>Transparency</td>
</tr>
<tr>
<td>Environmental Solutions</td>
<td>Product Access</td>
<td>Forensic Accounting</td>
</tr>
<tr>
<td>Waste</td>
<td>Community Relations</td>
<td>Capital Structure</td>
</tr>
<tr>
<td>Water</td>
<td>Product Quality and Safety</td>
<td></td>
</tr>
<tr>
<td>Environmental Management</td>
<td>Human Rights</td>
<td></td>
</tr>
<tr>
<td>Labour Rights</td>
<td>Compensations</td>
<td></td>
</tr>
<tr>
<td>Employment Quality</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business involvements</td>
<td>Weapons</td>
<td>Nuclear</td>
</tr>
<tr>
<td>Adult Entertainment</td>
<td>Stem Cells</td>
<td>Fossil Fuel</td>
</tr>
<tr>
<td>Stem Cells</td>
<td>Gambling</td>
<td></td>
</tr>
<tr>
<td>Alcohol</td>
<td>Pork</td>
<td>GMO</td>
</tr>
<tr>
<td>Defense</td>
<td>Tobacco</td>
<td></td>
</tr>
</tbody>
</table>
Building from the 22 topics and 12 business involvements tracked in the feature layer, we currently offer three complementary S-Ray® scores. The GC is calculated using the following steps:

1. The relevant features are mapped out into the four GC categories, as seen in the table below.
2. S-Ray®’s algorithm weighs the features that focus on negative aspects over those that are positive in nature.
3. The features are then aggregated into scores (0-100) for the four GC categories.

<table>
<thead>
<tr>
<th>Human Rights</th>
<th>Labour Rights</th>
<th>Environment</th>
<th>Anti-Corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Rights, Labour Rights, Occupational Health and Safety, Employment Quality, Diversity; Product Quality and Safety, Controversial Countries Involvement, Product Access, Community Relations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour Rights, Occupational Health and Safety, Diversity, Compensation, Training and Development, Employment Quality</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Ethics, Corporate Governance, Transparency</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### GC Score

**Normative Behaviour**

**ESG Score**

**Long-Term Outperformance**

**Preferences**

**Business Involvements**

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When computing the ESG score of a company, the S-Ray® algorithm will only use information that significantly helps explain future risk-adjusted performance.

Each quarter for every company, materiality is assessed on a sector- and industry-level, using both equal- and marketcap-weighted monthly index returns, over a period of the past 1, 3 and 5 years. This results in 12 different portfolio index returns for each company.

<table>
<thead>
<tr>
<th>e.g. Facebook</th>
<th>Sector: Technology Services</th>
<th>Industry: Internet Software/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equal Marketcap</td>
<td>Equal Marketcap</td>
<td></td>
</tr>
<tr>
<td>1 year</td>
<td>Portfolio 1</td>
<td>Portfolio 2</td>
</tr>
<tr>
<td>3 years</td>
<td>Portfolio 5</td>
<td>Portfolio 6</td>
</tr>
<tr>
<td>5 years</td>
<td>Portfolio 9</td>
<td>Portfolio 10</td>
</tr>
</tbody>
</table>
Score Layer: ESG Score

Features with higher materiality are weighted more heavily, and weights are rebalanced on a rolling quarterly basis.

For each portfolio, materiality is calculated using supervised and unsupervised learning:

1. Static materiality is assessed: our model assigns a baseline materiality (based on third party research) to each feature in each portfolio, which provides a first understanding of which categories are material in a company’s ability to outperform in the long run.

2. Data-based materiality adjustments: the model then considers how much of the variation in returns can be explained by each of the features. Features found to be material in this process are assigned more weight.

3. Total ESG score is calculated as a weighted sum of the feature scores using materiality-based weights (0-100).
Score Layer: Preferences Filter

S-Ray® collects revenue-based inputs to determine business involvement for 12 categories:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Entertainment</td>
<td>Does the company derive significant revenues from adult entertainment products?</td>
</tr>
<tr>
<td>Alcohol</td>
<td>Does the company derive significant revenues from the production and/or sale of alcohol?</td>
</tr>
<tr>
<td>Defense</td>
<td>Does the company derive significant revenues from defense contracting?</td>
</tr>
<tr>
<td>Fossil Fuel</td>
<td>Does the company significantly exploit fossil fuel-based energy sources?</td>
</tr>
<tr>
<td>Gambling</td>
<td>Does the company derive significant revenues from gambling?</td>
</tr>
<tr>
<td>GMO</td>
<td>Does the company significantly engage in research and/or production of genetically modified organisms (GMO) based products?</td>
</tr>
<tr>
<td>Nuclear</td>
<td>Does the company significantly rely on nuclear power and/or the non-military use of uranium?</td>
</tr>
<tr>
<td>Pork</td>
<td>Does the company derive significant revenues from the sale and/or production of pork-based products?</td>
</tr>
<tr>
<td>Stem Cells</td>
<td>Does the company derive significant revenues from stem cell (research)?</td>
</tr>
<tr>
<td>Tobacco</td>
<td>Does the company derive significant revenues from the sale and/or production of tobacco?</td>
</tr>
<tr>
<td>Weapons</td>
<td>Does the company significantly engage in the sale and/or production of weapons?</td>
</tr>
</tbody>
</table>

S-Ray® Methodology

- Reports
- News
- NGOs

Input Layer

Feature Layer 30+ Sustainability Topics

- Long-term trend
- Short-term trend
- Internal Taxonomy

Score Layer

GC Score
Normative Behaviour

ESG Score
Long-Term Outperformance

Preferences
Business Involvements
S-Ray is free for everyone to access and assess companies online
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