

Sustainable Investing Statement

Sustainable Investing Reimagined.

INTENTIONALITY | RESEARCH | INNOVATION | LONG-TERMISM

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Introduction

V-Square Quantitative Management LLC (V-Square) has been established with sustainability at the core. The roadmap for sustainable economic growth and opportunities requires innovative investment solutions mobilizing hybrid sources of capital across sectors. More than ever, we need to invest in entrepreneurs, businesses and technologies addressing the sustainability conundrum. This is the way we think and do business!

We are a global asset manager that takes a long-term view and seeks to be a new vector of change in the way we generate investment returns for investors in alternative asset classes, core equity and fixed income.

Our approach focuses on four pillars:

- **Intentionality.** The integration of material sustainability factors into investment portfolios needs to be intentional and not accidental. As part of our investment process, relevant economic, sustainability and market variables are assessed, deciphered, and processed. Scoring methodologies are employed to translate the research into actionable selection of risk factors, sector, countries, and securities. Our modified Brison Hood Beehrower* (BHB) attribution integrates sustainability materiality metrics and carbon footprinting. Performance attribution is more than an ex-post exercise for us. It informs our embedded research approach and the evolution of our quantitative models.
- **Research.** The V-Square approach to research follows the same framework as “embedded research” in academia where the benefits of our multidisciplinary researchers working in tandem with portfolio managers are compounded. V-Square has formed partnerships with the best engineering and business schools in the world, as we believe that creating a two-way bridge between theory and practice fuels innovation.
- **Innovation.** Our approach to innovation combines embedded investment research with a human-centered design framework, placing investors’ desired risk-adjusted and sustainability outcomes at the heart of what we do.
- **Long-Termism.** We integrate a long-term outlook when making investment decisions. Our global macro model integrates long-term sustainability themes such as climate change and population dynamics.

Founder, President and CEO, Mamadou-Abou Sarr, says: “The notion of intentionality when it comes to sustainable investing is a critical part of our vision. We strongly believe that the integration of material sustainable investment factors in portfolios should be intentional and not accidental.”

The company aims to invest with sustainability embedded into its thought processes because we believe that this approach can lead to superior risk-adjusted returns and make investments work harder on a set of metrics. We believe this approach is in line with our fiduciary responsibility.

This policy therefore represents an alignment of values with risk mitigation and returns maximisation. In other words, squaring our commitment to generate Sustainable financial returns.

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The Sustainability Megatrend

There has been an evolution in attitudes towards sustainability in recent years. This can be seen in the actions of consumers, businesses, regulators, and policymakers – from across society.

Numerous developments underpin the need for sustainable financial solutions. Here are some of the main ones:

- At the Paris climate agreement in 2015, almost every country signed up to limit global warming to “well below 2°C”, and to pursue efforts of limiting it to 1.5°C. The climate is already about 1°C warmer than pre-industrial times, with incidences of extreme weather becoming increasingly common, highlighting the urgent need for radical action.
- The UN’s Sustainable Development Goals, which have also won the support of most countries, are a set of 17 ambitious goals to improve society and the environment by 2030. They include ending poverty, hunger and gender inequality. The agenda recognizes that ending poverty must go together with a plan that builds economic growth and addresses a range of social needs, while tackling climate change.
- At national and regional level, policymakers and regulators are beginning to embed sustainability concerns into the financial system. Most of the biggest regulators and supervisors from across the globe have joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), a collaborative effort to share best practice which has already resulted in some of its members, such as the Bank of England and the Banque de France, devising climate stress tests.
- Meanwhile, the EU is leading the way among policymakers, with its ambitious Sustainable Finance Action Plan. This has led to a raft of ground-breaking measures, including the creation of a proposed list of activities that can be considered sustainable, and an accompanying expectation that companies will report the proportion of their revenues that are in line with these activities. A separate part of the action plan has set requirements for low carbon indexes and requires all benchmark providers to report ESG data about their constituents.

- Stewardship codes around the world are increasingly making it clear to investors that taking environmental, social and governance (ESG) credentials into account is in line with their fiduciary duty. For example, the recently updated UK Stewardship Code says that ‘environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship’. Japan’s stewardship code was revised in March 2020 and now explicitly asks signatories to consider medium- to long-term sustainability considerations, including ESG factors, in their engagements.

The coronavirus pandemic has only served to intensify the focus on both these agendas, as exemplified by a call to ‘Build back better’.

We also believe that there is an opportunity to use our voice as an investor to influence companies to improve their sustainability and governance credentials. Our active stewardship model allows us to engage with companies on sustainability and governance issues.



Our Approach

V-Square aims to incorporate these considerations into its approach to investment, using the Sustainability and Stewardship Policy outlined below. This policy has four main strands

- Materiality
- Climate Change
- Human Capital and
- Governance.

Materiality

While a myriad of ESG data is available, we aim to identify the data points that are most likely to be material to a company's valuation.

We will use ESG data from numerous sources, including established ESG data providers, but we will also use so-called alternative sources derived from 'big data', satellite imagery and artificial intelligence (AI).

As a member the Sustainability Accounting Standards Board (SASB) Alliance we are applying their materiality map into our models.

V-Square is also partnering with leading academics from across the globe to help identify the latest thinking related to sustainability, science, and quantitative models.

Climate Change

Climate change creates risks and opportunities for investors. A science-based approach to climate calls investors to take action to transition to a low-carbon economy. At the portfolio level, climate risk will have a disproportionate impact across asset classes.

As a member of The Institutional Investors Group on Climate Change (IIGCC), V-Square is aligned with the IIGCC's mission to mobilize capital for a low-carbon transition and to ensure resilience to the impacts of a changing climate by collaborating with business, policy makers and fellow investors.



We believe that the underlying risks and opportunities are not currently fully ‘priced in’ in valuations, and a significant opportunity exists to exploit these inefficiencies.

V-Square aims to understand and quantify these trends, thereby reducing risks and maximising returns. We are also actively engaging with companies to help them, quantify, disclose, and mitigate these risks.

We are a signatory to the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD), which aims to encourage companies – including investors – to disclose these risks and opportunities.

We will also take companies’ TCFD reports into account in our investment process and encourage them to file such reports.

Human Capital & Technology

Human capital and technology are a key focus of V-Square, as we look to assess the strength of companies holistically. All forms of capital derive their value one way or another by integrating the critical role of human and technological capital in operations, supply chains, services and driving innovation.

A company’s ability to create value, hold financial sustainability, remain relevant and growth cannot be achieved without maintaining sustainable human capital practices whilst capitalising on new technologies.

V-Square therefore seeks to identify data related to material human capital and technology factors and integrate these metrics into its investment decision-making process.

We will also invest in our own company’s human capital and technology platform to ensure that we attract, train, and retain the best talents.



Governance

Understanding how a company is run is clearly important to assessing it as a potential investment opportunity.

Companies need to put the right governance structures in place if they are to manage disruptive issues such as climate change.

Investors have an important role to play in engaging with companies to help them adopt best practices, to capture opportunities and mitigate risks.

Themes on which investors can engage with companies to bring about positive change include executive pay and long-term incentive packages, governance oversight on strategic issues such as climate change, board diversity, and succession planning.

Ultimately, V-Square will disinvest or can vote at AGMs for progressive shareholder resolutions.

V-Square takes seriously its responsibility as a steward of the assets in which it is invested. It will engage with companies, using the International Corporate Governance Network (ICGN) Global Stewardship Principles as a guiding framework.

We are a member of the ICGN, and we will use the services of specialist engagement firms, when appropriate, to help us engage effectively and collaboratively.

Advocacy

Our core philosophy and approach to investments is based on a simple mathematical relationship:

“The Square of the Whole of positive contributions is even Greater than the Sum of its Squared Parts”. Advocacy for us means playing an active role in the industry to advance standards, learn from our peers and drive change in the asset management industry. V-Square is a member of the following organizations:

Collaborative Organizations and Initiatives:

- V-Square is a signatory of the Principles for Responsible Investment (PRI) since August 2020
- US Sustainable Investment Forum (USSIF)
- International Corporate Governance Network (ICGN)
- Institutional Investors Group on Climate Change (IIGCC)
- Sustainable Accounting Standard Board (SASB)
- Responsible Investment Association Australia
- VBDO (Vereniging van Beleggers voor Duurzame Ontwikkeling) - Dutch Association of Investors for Sustainable Development
- Task Force on Climate-related Financial Disclosures (TCFD)
- The FAIRR Initiative
- Principles for Responsible Investment (Member of Listed Equity Advisory Committee, Passive Equity Working Group, Listed Equity Integration Sub-Committee).

