



Responsible Investment Statement - 2023

Introduction

Acadian has a long history and deep experience with Responsible Investing. Our commitment to ESG innovation is focused on enhancing returns. This is underpinned by our proprietary empirical research which finds that investors typically underreact to a range of non-financial information, resulting in security mispricings. We believe these mispricings are, in part, attributable to ESG factors, given the difficulties associated with collecting, processing and deciphering the materiality of sustainability considerations. In our view, a systematic process is the most effective way to analyse ESG return drivers and implement them successfully in portfolios. Systematic investing's central features—its use of alternative data, structured forecasting methods, and flexible portfolio construction—help us extract alpha from ESG concepts and align portfolios with clients' ESG-related needs.

Investment Approach

Acadian's investment process is founded on the principle that market inefficiencies are caused by behaviorally-based mispricings, information asymmetry, and market frictions. We seek to systematically exploit these inefficiencies by leveraging data and technology to apply our fundamental and market insights. This empirical approach readily aligns with Responsible Investing considerations.

Acadian's approach to Responsible Investing is centered around three pillars – signals, solutions, and stewardship:

1. SIGNALS

The first pillar of our Responsible Investing approach relates to the integration of material ESG metrics into the core investment process. Acadian will only integrate signals into its investment process when there is strong evidence that they will enhance the efficacy of risk-adjusted returns. In this respect, ESG signals are considered no differently from any other alpha signal. They undergo the same rigorous testing to evaluate their contribution to the investment process, efficacy across sectors and regions, and persistence over time. Our research efforts are focused on creating proprietary ESG metrics using alternative datasets and machine learning techniques.

In particular, we find that companies are more likely to be positioned for success when they exhibit the following characteristics:

- Strong corporate cultures -- investors typically underestimate the value-relevance of human capital management, gender diversity and labor practices.
- Stable, independent boards with sound corporate governance structures and a diversity of experience and qualifications.
- Investors' perceptions of carbon pricing that may impact high/low carbon emitters.

2. SOLUTIONS

The second pillar is Acadian's commitment to offer dedicated solutions to clients who have specific ESG values or norms-based preferences. Upon request, Acadian can tailor and integrate ESG exclusions and portfolio tilts via its sophisticated portfolio construction process. Around 40% of Acadian's AUM integrates ESG exclusions, the most common exclusions being tobacco, weapons, perceptions of UN Global Compact violators and fossil fuel exposure.

Acadian is further committed to offering solutions to clients with climate goals. For example, our dedicated sustainability funds combine product revenue exclusions to identify companies with fossil fuel exposure that are either unable or unwilling to transition to the low carbon economy, combined with the integration of a Net Zero glidepath to ensure absolute portfolio decarbonization. This solution is not integrated within the core investment process, but is separately available upon request. In addition, Acadian has developed in-house portfolio analytics to monitor the sustainability characteristics of portfolios, including companies' carbon trajectories and alignment to different IPCC socio-economic pathways.

3. STEWARDSHIP

The final pillar is Stewardship which consists both of company engagements and proxy voting. We have built a process to engage with companies that plays to our strengths of using data science techniques to provide unique insights into companies. Acadian's primary motivation for engaging with a company is based on our finding that material sustainability issues are typically overlooked by the market and offer a potential source of investment value. Engagements can offer insights that are not fully captured by data. Our objective is to further our understanding of how companies perceive material ESG issues within Acadian's investment process and their views on 'unattended risks' - issues that may materially impact a firm if they are not sufficiently managed. One such example is regulatory pricing of negative externalities that are otherwise overlooked by financial accounting standards, and therefore possibly mispriced by investors.

In the case of proxy voting, Acadian partners with ISS to receive research and to execute votes. For separately managed accounts, Acadian clients can request specific or custom policies. At the outset of each investment relationship with a client, there are three options to choose from in connection with how shares are voted. First, a client may independently select to retain full voting discretion to itself cast votes for its portion of shares. Second, a client may independently choose to have Acadian vote its shares consistent with Acadian's disclosed policy, whereby Acadian delegates voting to ISS and those votes are cast by ISS in accordance with its benchmark voting policy. Finally, a client may provide Acadian with its own customized proxy voting policy.

Responsible Investing Governance

Acadian's Director of Responsible Investing oversees the firm's Responsible Investing policy. The primary objective of the policy is to integrate material ESG considerations into the investment process to enhance investment returns and mitigate potential risks, with the goal of delivering better outcomes for Acadian's clients. A further objective is to develop customized solutions to meet clients' specific ESG needs. Ultimate accountability for these objectives lies with Acadian's CEO and Board of Managers. From a governance perspective, Acadian regularly discusses ESG considerations across firm-wide committees.

Reporting

Responsible Investing reporting is available to clients and includes an overview of portfolio characteristics, carbon related metrics, ESG ratings, proxy voting results and engagement outcomes. Carbon reporting includes portfolio weighted Scope 1 & 2 carbon emissions and carbon intensity compared to benchmark exposure, with details of exposures by industry and region.

Acadian publicly reports on Responsible Investment activities via the Transparency Report available on the PRI's website, and reports on activities via its website. This includes the publication of thematic research covering decarbonization, greenwashing and green opportunities, and a TCFD report.

More information about Acadian's approach to Responsible Investing can be found [here](#) or by contacting: information@acadian-asset.com.

Signatory of:



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Acadian's quantitative investment process is supported by extensive proprietary computer code. Acadian's researchers, software developers, and IT teams follow a structured design, development, testing, change control, and review processes during the development of its systems and the implementation within our investment process. These controls and their effectiveness are subject to regular internal reviews, at least

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