



## Responsible Investing Policy Statement

Los Angeles Capital's investment philosophy is rooted in the belief that markets are dynamic and Investor Preferences for stock characteristics evolve continuously. The Firm's investment technology is adaptive and well-suited to capture insights into how non-traditional financial metrics, related to ESG, influence a stock's expected return. The Firm believes that ESG is both a return and a risk factor and that consideration of ESG criteria within a multi-factor framework in the stock selection process enhances a portfolio's risk and return profile. Los Angeles Capital also believes that companies with improving governance characteristics will outperform over time, and that the management of a company's human capital and natural resources plays an important role in creating long-term value for shareholders. While ESG criteria is integrated across all client portfolios through factors within the Firm's quantitative stock selection Model, the Firm also provides customized ESG solutions for investors seeking a more targeted Responsible Investment approach. Accordingly, the Firm takes a comprehensive approach to Responsible Investing through the Firm's innovative factor modeling, custom ESG solutions, risk management considerations, and active ownership as described below..

### Comprehensive Approach to Responsible Investing

#### 1. Innovative Factor Modeling

The Firm's Dynamic Alpha Model incorporates a variety of ESG metrics including Governance/Management Quality measures, valuation adjustments for ESG news events, dynamic peer group assessments utilizing machine learning techniques to capture ESG themes, and other linkages across companies; and an explicit ESG factor which captures the sentiment associated with ESG. ESG criteria is integrated in the investment process for all clients via factors in the Firm's quantitative Model. Exploring additional ESG metrics remains a priority of the Firm's research agenda.

The Firm has also developed a proprietary, multi-factor ESG Model which incorporates the Sustainability Accounting Standards Board's ("SASB") framework to emphasize the financially Material key issues most relevant within each sub-industry, and therefore most likely to impact the company's financial performance or condition over the long term.

#### 2. Custom ESG Solutions

Upon client request, the Firm builds bespoke portfolio solutions to help clients achieve their unique ESG objectives.

- **Sustainability-focused Objective:** The Firm has developed a proprietary ESG Model which can be used as an explicit input to the portfolio construction process in order to identify high quality companies with attractive risk, return, and sustainability characteristics. This approach emphasizes the long-term value creation prospects for a company through the lens of sustainability and results in an improved ESG profile while harnessing the benefits of the Firm's adaptive alpha generation strategy.
- **Climate Considerations:** To meet the needs of client carbon budgets, **Low Carbon** optimization techniques are applied to achieve specific carbon emission levels or reduction targets. The Firm provides carbon footprint reporting and scenario testing for various warming scenarios, and is able to implement considerations for **forward-looking climate-related risks and opportunities**.

- **Exclusionary Screening:** The Firm incorporates exclusionary screens for investors seeking to restrict specific securities for religious, ethical, environmental or other values-based considerations. The Firm works closely with clients to understand the impact of restrictions on portfolio risk and performance and has systems in place to ensure compliance with the client's investment policy.
- **Custom Benchmarks:** The Firm manages mandates against custom benchmarks upon client direction. This may include the omission of certain securities or industries, or the utilization of third party benchmarks with a low carbon or ESG orientation. The Firm's proprietary portfolio system offers seamless integration with data feeds from third party vendors.

### 3. Risk Management

Los Angeles Capital believes that ESG and climate considerations are important aspects of a comprehensive risk management approach. The Firm evaluates how ESG and climate criteria may help to better manage both short-term and long-term portfolio risks. ESG controversies are incorporated into factors that are part of the Firm's systematic investment process and the Firm has developed in-house ESG and Carbon Footprint reporting suites to monitor investment risks through the lens of ESG and climate. Additionally, the Firm works with a third party vendor to scenario test portfolios for both Transition and Physical risks, as well as the opportunities associated with climate change.

### 4. Active Ownership

As a quantitative manager, data is at the heart of the Firm's investment process. As such the Firm has adopted a multi-dimensional approach to active ownership which emphasizes the Firm's support of a consistent and transparent framework for the disclosure of material financial information. The Firm seeks to promote long-term value creation and stewardship from three primary vantage points: proxy voting, collaborative engagements, and improving disclosure of material, decision-useful financial information through our participation in global investor initiatives that will help to inform investment risks and investment opportunities.

#### **Proxy Voting:**

Los Angeles Capital's third party proxy provider is highly experienced in implementing ESG and client's other custom proxy voting guidelines upon request. The institutional guidelines adopted by the Firm call for evaluation of shareholder initiatives regarding ESG issues with environmental and social issues considered in the context of the financial materiality to a company's operations.

#### **Engagement:**

The Firm has signed on to the Climate Action 100+ initiative to strengthen climate-related financial disclosure, improve governance and reduce emissions. Los Angeles Capital has developed a proprietary set of investment criteria to assess potential engagement opportunities and works collaboratively with other investors committed to reducing and disclosing climate risks, while simultaneously embracing the opportunities presented by climate change.

#### **Global Investor Initiatives:**

In addition to participating in Climate Action 100+, Los Angeles Capital is a signatory of the Principles for Responsible Investment (PRI) and has publicly supported the Task Force for Climate-related Financial Disclosures (TCFD). The Firm works with a variety of vendors and actively engages with its service providers regarding ESG data. The Firm incorporates the Sustainability Accounting Standards Board (SASB) framework in the Firm's proprietary ESG Model, and is a member of the SASB alliance, highlighting the Firm's support for the disclosure of relevant ESG criteria in accordance with the SASB framework.

Please refer to the Firm's Active Ownership Policy Statement for additional details on the Firm's Active Ownership approach.

## Governance, Accountability and Transparency

Los Angeles Capital Management has established a Responsible Investment Solutions Group ("RISG") to manage responsible investment activities within the organization. The Group's objective is to develop, oversee and promote ESG integration, keep abreast of the political and economic landscape with regard to ESG, and to educate both internal staff and other investors on the subject. The RISG reports to the Board who believes the consideration of key ESG and climate-related factors are integral to the Firm's core business strategy given both the fiduciary responsibility to consider material risks and given the Firm's core investment philosophy to build adaptive and forward-looking portfolios that capture shifting investor preferences.

The Responsible Investing Solutions Group ("RISG") consists of members across the Firm's Portfolio Management, Research, Legal and Relationship Management (US and UK) teams and is chaired by the Director of Portfolio Strategy and Responsible Investing, who is also a senior member of the Portfolio Management team and member of the Investment Committee. Additionally senior research team members, including the Co-Director of Research, are members of the RISG highlighting the Firm's integrated ESG approach. The Firm's Investment Committee approves all enhancements to the Firm's quantitative Model and ESG projects are managed by the Research Directors and Chief Investment Officer with guidance from Portfolio Managers and the Responsible Investment Solutions Group.

The team intentionally takes a holistic approach to Responsible Investing efforts in order to integrate ESG in the investment process. The broad representation from different functional areas of the Firm brings diverse perspectives. Additionally, the Firm's CEO, CIO and President are part of the Portfolio Management team and are actively involved in ESG issues and discussion both internally and externally. The RISG team generally meets monthly to review and continue the development of various aspects of the Firm's responsible investing initiatives.