



Article 10 (SFDR)

Website disclosure for an Article 8 fund

**AQR Sustainable Corporate Arbitrage UCITS Fund**



**Product name: AQR Sustainable Corporate Arbitrage UCITS Fund**  
**Legal entity identifier: 5493006PE2Z1YKVCVR02**

Does this financial product have a sustainable investment objective?

<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective: ___%</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul>	<input type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it had a proportion of ___% of sustainable investments <ul style="list-style-type: none"> <li><input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> with a social objective</li> </ul>
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective: ___%</b>	<input checked="" type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>



### A. Summary

The Fund has been classified as an Article 8 fund under Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“**SFDR**”). Terms used but not defined herein shall have the respective meanings given to them in the prospectus of the Fund.

The Investment Manager, AQR Capital Management, LLC (“**AQR**”), is a U.S. domiciled investment adviser registered with the U.S. Securities and Exchange Commission (“**SEC**”). AQR offers dedicated environmental, social and governance (“**ESG**”) solutions including ESG investing strategies that focus on broad ESG implication (incorporating negative screens and positive tilts), low-carbon portfolios, or portfolios customized for other client specific ESG priorities.

The Fund implements the following ESG characteristics and indicators into its investment policy. In this context the Fund’s objective would in particular be to better manage risk, generate sustainable, long-term returns and promote environmental or social characteristics. For further details investors should refer to the Fund’s prospectus.

Exclusions				ESG Characteristics	Good Governance		
Static screen: excluding tobacco	Static screen: excluding controversial weapons	Static screen: excluding fossil-fuels related stock	Dynamic screen: excluding issuers with weakest ESG scores	Managing carbon emissions footprint	Active tilt towards securities with superior ESG characteristics	Good governance signals	Excluding issuers with inferior governance
✓	✓	✓	✓		✓		✓



## B. No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective a sustainable investment.



## C. Environmental or social characteristics of the financial product

### What are the environmental or social characteristics promoted by this financial product?

Through the convertible bond and merger strategy sleeve of the portfolio, the Fund promotes environmental or social characteristics by utilising (i) negative screens aiming at excluding issuers with weakest ESG scores, (ii) principles-based exclusion framework and (iii) positive tilts towards securities with superior ESG characteristics. The Fund will also invest in companies which follow good governance practices, as further described below.

No reference benchmark has been designated for the purpose of attaining the promoted environmental and social characteristics.



## D. Investment strategy

### What investment strategy does this financial product follow and how is the strategy implemented in the investment process on a continuous basis?

The Fund will adhere to a principles-based exclusion framework consisting in the application of a proprietary ESG filter, on the basis of which certain issuers are excluded from the Fund's investment universe with respect to convertible bond and merger strategies.

The Investment Manager will exclude long positions in fossil-fuels related issuers and tobacco and controversial weapons related securities. In this context, the Investment Manager will exclude issuers with the weakest ESG scores.

To determine such issuers in its investment universe, the Investment Manager will compare them to issuers represented in the broader market indexes such as for example MSCI World IMI.

In addition, the Investment Manager's security selection process will actively tilt toward those with superior ESG characteristics. This will involve targeting an improved ESG rating or overweighting securities with attractive ESG ratings relative to the investable universe.

ESG characteristics shall be determined by ESG ratings data (selected at the Investment Manager's discretion), with the aim of identifying the extent to which each company in the universe is exposed to, and how well it manages, a range of Environmental, Social, and Governance factors.

ESG factors taken into account with respect to this approach include amongst others:



- **Environmental:** gas emissions, resource depletion, waste and pollution, deforestation, carbon footprint;
- **Social:** working conditions, relation to the local communities, health and safety, employee relations, diversity considerations;
- **Governance:** executive pay, bribery and corruption, political lobbying and donations, tax strategy.

The ESG characteristics are generated using a combination of the Investment Manager's proprietary models, as well as third party models and data. Such models mainly take into account the ESG scoring as well as other metrics integrated in and applicable to the models of the target companies. Investors should note that assessment criteria may change over time or vary depending on the sector or industry in which the relevant issuer operates.

Applying ESG criteria to the investment process may lead the Investment Manager to invest in or exclude securities for non-financial reasons, irrespective of market opportunities in order to achieve the ESG characteristics of the Fund following the approach described above.

**What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

The Investment Manager will exclude deals by issuers that the Investment Manager identifies as having the weakest ESG scores compared to peers. Historically this exclusion captured 5-12% of issuers in universes similar to that used in this strategy and the Investment Manager expects it to capture 10% of issuers going forward.

The Investment Manager's security selection process will actively tilt toward issuers with superior ESG characteristics. This will involve allocating relatively more capital to those corporate deals that are undertaken by issuers with relatively more attractive ESG scores, compared to the capital allocated to otherwise similar deals undertaken by other issuers. The issuers with relatively more attractive ESG scores are equivalent to best 10% of issuers in broad investment universes such as Russell 2000.

Additionally, the Investment Manager will exclude long positions in fossil-fuels related issuers, tobacco and controversial weapons related securities.

A company is deemed to be a fossil-fuel related company if it owns fossil fuel reserves, derives 10% or more revenue from thermal coal, or derives 10% or more revenue from oil sands.

A company is deemed to be a tobacco-related company if it derives 5% or more revenue from tobacco-related business activities.

A company is deemed to be a controversial weapons related company if it is involved in the manufacturing of cluster munitions, anti-personnel landmines, depleted uranium, or biological weapons, or derives 5% or more revenue from the manufacturing of nuclear weapons.

**What is the policy to assess good governance practices of the investee companies?**

The Investment Manager incorporates information about the issuers' corporate governance in the investment process with respect to convertible bond and merger strategies.

The Investment Manager restricts the universe to issuers whose businesses are, in its view, more aligned with the governance dimensions that the Fund's investors care about most and who have relatively more



attractive governance characteristics. These characteristics include corporate governance of the issuer (such as shareholder structure, depth of shareholder dispersion, ownership history, board composition and independence, quality of management, financial communication, business ethics, compensation policies); issuers who have particularly weak governance relative to peers will not be allowed into the Funds' investment universe.

**Is there a commitment to reduce by a minimum rate the scope of investments considered prior to the application of the strategy? (Including an indication of the rate)**

Yes. On the long side of the portfolio, the Investment Manager will exclude issuers with the weakest ESG scores compared to peers, in addition to restricting all issuers with tobacco, fossil fuel, and controversial weapons involvement (as defined above) with respect to convertible bond and merger strategies. These exclusions typically exceed 5% of deals by issuers in a given investment universe.

**Does this financial product consider principal adverse impacts on sustainability factors?**

- Yes
- No

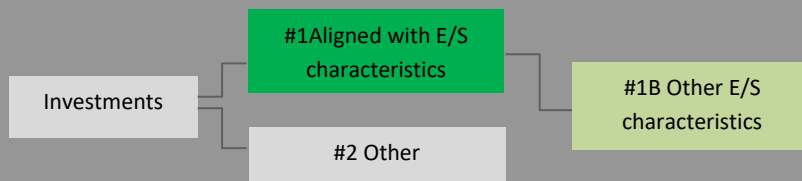


**E. Proportion of investments**

**What is the planned asset allocation for this financial product?**

The Fund plans to use **67%** of its investments to attain the environmental or social characteristics promoted (#1 Aligned with E/S characteristics).

The remaining investments of the Fund which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments are planned to be **33%** (#2 Other).



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

**How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**



The Investment Manager expects to use derivatives to achieve particular E/S characteristics via exposure to single name swaps or CFDs.

**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

Investments in Special Purpose Acquisition Corporations as well as other instruments subject to the Event Driven strategy sleeve of the portfolio, and instruments held for cash management purposes which are not subject to minimum environmental or social safeguards.



## F. Monitoring of environmental or social characteristics

**What sustainability indicators are used to measure the attainment of the environmental or social characteristics promoted by this financial product?**

The indicators used include:

- the ESG scores of the Fund's portfolio companies;
- revenue share from activities including tobacco, fossil fuel, and controversial weapons involvement, as further described below.

**How are the environmental or social characteristics and the sustainability indicators monitored throughout the lifecycle of the financial product and the related internal/external control mechanism?**

ESG-related investment guidelines and constraints, namely the sustainability indicators just noted, are coded directly into the portfolio optimization process. Adherence to the ESG characteristics and indicators is monitored on a regular basis as part of the investment process and compliance controls of the Sub-Fund. Reporting is provided to Fund clients relating to the sustainability indicators noted.



## G. Methodologies

**What is the methodology to measure the attainment of the environmental or social characteristics promoted by the financial product using the sustainability indicators?**

The Investment Manager has a methodology associated with each of the sustainability indicators above, for example an ESG score threshold determined from third-party ESG ratings data or a carbon intensity formula consistent with industry frameworks. This facilitates codification of the indicators into the portfolio construction process. Reporting is provided to clients consistent with the methodologies, and the portfolio management team is able to monitor the same data.



## H. Data sources and processing



**What are the data sources used to attain each of the environmental or social characteristics including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?**

The Investment Manager is quantitatively-oriented and makes use of a variety of data sources. Specific to ESG-related data, this Fund’s portfolio construction process deploys a combination of proprietary models and a variety of third-party data sources in its portfolio construction process. Data sources include:

- Raw data which we process into proprietary ESG investment signals;
- MSCI ESG ratings data;
- Carbon-related data (e.g., emissions, reserves, etc.) from Trucost and MSCI; as a CDP signatory, we also have access to their climate-related data; and
- Screening lists based on industry codes, restricted activities, etc.

Data integrity has been a well-known historic research issue for ESG, and we carefully analyze the quality and scope of third-party ESG data we consume. The Investment Manager maintains a regular dialogue with its data providers, and is vigilant in pointing out any issues in the data for resolution.

Data is never taken in “as is”, but rather is subject to coverage checks and the Investment Manager imputing gaps where possible. This may include estimating carbon emissions for companies in the investment universe that are not yet covered by providers. Estimations vary by data provider and investment universe, although for the sustainability indicators noted above, the Investment Manager finds existing coverage suitable and observes improving trends.

In addition to checks to promote data integrity, the Investment Manager seeks to proactively identify and address omissions or errors in individual data points provided by vendors, enriching the data set for all consumers.

Moreover, the Investment Manager participates in broad consultations with data providers to improve the usefulness of their current and future offerings as the ESG landscape evolves and matures.



**I. Limitations to methodologies and data**

**What are the limitations to the methodologies and data sources? (Including how such limitations do not affect the attainment of the environmental or social characteristics and the actions taken to address such limitations)**

Data for ESG has its limitations, with, for example, comparatively short time periods and sparse or inconsistent coverage. We view handling potentially incomplete and noisy data as one of our competitive advantages, further described in our response to point H above.

In addition, we have ongoing due diligence of the 3<sup>rd</sup> party data solutions we utilize, and proactive due diligence of new data solutions that may further strengthen our process. This due diligence



involves an economic analysis to help validate whether the data actually captures the dimensions of ESG that it is designed to capture. We believe this economic analysis is not always undertaken by data providers, but we consider it critical to inform us about the potential usefulness of the data. Examples of the types of analyses we undertake can be found in our public whitepapers, for example “Supply Chain Climate Exposure” or “Assessing Risk through Environmental, Social and Governance Exposures.”



## J. Due diligence

### What is the due diligence carried out on the underlying assets and what are the internal and external controls in place?

Third-party and internal ESG data monitors assets in our investment universe, and any changes with such data are dynamically reflected in our models’ views. AQR also utilizes an ESG company monitor that identifies problematic exposures, and for the largest positions we engage the company to better understand the risks and improve transparency. AQR also hosts several exclusion lists, e.g., for controversial weapons, that can be applied to portfolios; such companies are identified using, for instance, MSCI’s controversial weapons flag, and portfolios are continuously monitored to ensure compliance with the precise exclusion criteria.

Additionally, AQR’s Compliance team utilizes ION Sentinel to monitor relevant UCITS guidelines on a daily basis (T+1) and is AQR’s compliance processing system. Guidelines and restrictions are input into Sentinel for post-trade compliance review. AQR also utilizes ION Sentinel for compliance monitoring on a pre-trade basis for exclusionary tests. Alerts generated by Sentinel are reviewed and resolved by the Investment Management Compliance team. Additionally, UCITS guideline testing is separately performed on a daily basis by the Fund’s Management Company, FundRock.



## K. Engagement policies

### Is engagement part of the environmental or social investment strategy?

Yes

No

### If so, what are the engagement policies? (Including any management procedures applicable to sustainability-related controversies in investee companies)

The Investment Manager’s engagement policy can be found on AQR’s [ESG webpage](#).

AQR’s engagements are conducted at the firm level, not specific to individual portfolios, and are focused on transparency.

AQR undertakes direct engagement with companies either based on ESG concerns or through CDP, where the Investment Manager leads engagements on behalf of the CDP signatory group to improve companies’ environmental-related data disclosure. AQR’s Stewardship Committee is responsible for monitoring and tracking its engagement activities. Each engagement has a defined





objective, and failure to attain this objective over a given time horizon can trigger our escalation process.



#### L. Reference benchmark

**Has a reference benchmark been designated for the purpose of attaining these characteristics promoted by the financial product?**

Yes

No