



## Article 10 (SFDR)

# Website disclosure for an Article 8 fund

### **AQR Sustainable Emerging Relaxed Constraint Equity UCITS Fund**

**Dated:** 20 August 2024

Version: 3



**Product name: AQR Sustainable Emerging Relaxed Constraint Equity UCITS Fund (the "Fund")**  
**Legal entity identifier: 222100S1PUXJS9WRPD13**

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 will make a minimum of <b>sustainable investments with a social objective: ___%</b>	<input checked="" type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of <u>10</u> % 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 checked="" 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 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.

### No Sustainable investment objective

This financial product promotes environmental or social characteristics, and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 10% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

### Environmental or social characteristics of the product

Through the stock selection portion of the portfolio, the Fund promotes environmental or social characteristics by utilising *inter alia* negative screens, exclusions, positive tilts and managing carbon emissions.

### Investment Strategy

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
✓	✓	✓	✓	✓	✓	✓	

In addition to the above, the Fund commits to make a minimum proportion of 10% of sustainable investments with an environmental objective as defined under SFDR. The Fund defined a set of criteria based, amongst others, on decarbonization targets and renewable energy generation or consumption, in order to assess the contribution of such investments to the sustainable environmental objective and will ensure that these investments do no significant harm to any of the objective.

**Proportion of investments**

The Fund plans to use 90% of its investments to attain the environmental or social characteristics promoted, while 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 10%.

**Monitoring of environmental or social characteristics**

A number of sustainability indicators 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.

**Methodologies**

A separate methodology is associated with each of the sustainability indicators, which 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.

**Data sources and processing**



The Portfolio Manager 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, such as raw data which is processed into proprietary ESG investment signals; MSCI ESG ratings data; and carbon-related data.

#### **Limitations to methodologies and data**

Data for ESG can face comparatively short time periods and sparse or inconsistent coverage. In addition, there is an ongoing due diligence of the 3rd party data solutions, and proactive due diligence of new data solutions. Such due diligence involves an economic analysis to help validate whether the data actually captures the dimensions of ESG that it is designed to capture.

#### **Due diligence**

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. AQR also hosts several exclusion lists, and portfolios are continuously monitored to ensure compliance with the precise exclusion criteria.

#### **Engagement policies**

AQR undertakes direct engagement with companies based on ESG concerns, and to improve companies' environmental-related data disclosures. 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.

#### **Designated reference benchmark**

No reference benchmark been designated for the purpose of attaining these characteristics promoted by the financial product.



## **B. No sustainable investment objective**

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

### **What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?**

The financial product will make sustainable investments, based on an environmental objective of climate change mitigation (not aligned with the EU Taxonomy), by investing a proportion of its assets in issuers that are aligned with this objective through assessment of whether the relevant issuer's firm characteristics meet established pre-determined criteria related to climate change mitigation aligned business processes approved decarbonization targets.

Issuers will be considered to be sustainable investments with an environmental objective (not aligned with the EU Taxonomy) by meeting one or more of the following criteria:

- At least 20% low carbon patents number share or low carbon patents in dollar share or green revenue
- Approved Science-Based Targets initiative (SBTi) decarbonization targets



- At least 50% renewable energy generation or renewable energy consumption
- At least 50% recycled waste

**How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?**

The Investment Manager utilizes proprietary and third-party data/scoring to systematically evaluate potential investments as to whether each issuer (a) meets the requisite criteria for alignment with the climate change mitigation objective (not aligned with the EU Taxonomy); (b) does no significant harm to other environmental and/or social investment objectives, and (c) follows good governance practices.

The Investment Managers will assess as to whether an investment “does no significant harm”. This will involve an assessment of each potential investment, on the long side of the portfolio, against the 14 mandatory principal adverse impact indicators as set out in Annex I of Commission Delegated Regulation (EU) 2022/1288 (the “RTS”).

If an issuer does not meet the minimum requirements , then it will not pass the “do no significant harm” test and will not be determined to be a sustainable investment.

Excluding investments based on screening for a number of principal adverse impacts, such as involvement in fossil fuels, controversial weapons and ESG controversies, while also considering remaining principal adverse impacts in the actual portfolio process.

Specifically, the Investment Manager will not consider an issuer “sustainable” if any of the following conditions or criteria apply:

- Involvement in Environmental or Social controversies: as identified using MSCI’s Impact Monitor (incl. environmental, but also worker relations, etc.)
- Involvement in fossil fuel production, identified using the investment strategy approach as set out below;
- UN Global Compact violators, identified using the Investment Manager’s UN Global Compact screen;
- Involvement in tobacco, identified using the investment strategy approach as set out below;
- Involvement in controversial weapons, identified using the investment strategy approach as set out below.

For the avoidance of doubt, an issuer which does not pass the “do no significant harm” test may still be deemed to be an investment which promotes an E/S Characteristic.

**How have the indicators for adverse impacts on sustainability factors been taken into account?**

The Investment Manager will evaluate whether an investment does no significant harm in relation to its environmental objective. This evaluation will be based on the 14 principal adverse indicators set out in Annex I of the RTS and therefore includes consideration of an issuer against factors relating to greenhouse gas emissions; biodiversity; water; waste; and social and employee matters. An issuer must meet certain minimum requirements against each of the 14 principal adverse impact



indicators, given the data available, and will be deemed to pass the “do no significant harm” test if such data does not violate the Investment Manager’s predefined minimum criteria, or where such data does not lead to a material deterioration of the issuer’s broad ESG characteristics, as measured by third-party providers.

**How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:**

The Investment Manager will take a dual approach to aligning its sustainable investments with such normative codes. The Fund is subject to a screen against violators of the UN Global Compact. Additionally, the investment process incorporates third-party data on E, S, and G-related controversies. This data serves to identify companies that may be at odds with the OECD Guidelines and the UN Guiding Principles.



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

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

Through its stock selection strategy, the Fund promotes the environmental or social characteristics of having (i) carbon intensity lower than the Fund’s benchmark, (i) Fund’s average ESG score higher than that of the benchmark and (iii) the application of sectoral exclusions. The promotion of environmental or social characteristics will be made by (i) utilising negative screens aiming at excluding issuers with weakest ESG scores, (ii) principles-based exclusion framework and (iii) positive tilts as well as (iv) managing carbon emissions (as described below). 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 Investment Manager will not purchase long positions in 5-12% of issuers with the weakest ESG scores in the given universe, targeting an exclusion rate of 10%. Additionally, the Investment Manager will not purchase long positions in fossil-fuels related issuers and tobacco and controversial weapons related securities.

In addition, the Investment Manager will explicitly manage the portfolio’s carbon intensity, so as to achieve a reduction compared to the equivalent measure computed for the Fund’s benchmark at the time of rebalance.

In addition to good governance signals and the exclusions prerequisites, the Investment Manager’s stock selection process will actively tilt toward securities with superior ESG characteristics. This will involve targeting an improved ESG rating or overweighting securities with attractive ESG rating relative to the Fund’s benchmark. The portfolio weighted ESG scores of the securities in the portfolio is managed so as to exceed the equivalent measure computed for the Fund's benchmark.



With respect to the stock selection portion of the portfolio, the positive tilt towards securities with superior ESG characteristics will apply to some of the derivative instruments in which the Fund invests. The Investment Manager screens single-name positions, whether held in cash or in single-name swaps (such as CFDs), and assesses their ESG characteristics.

ESG characteristics shall be determined by third party ESG ratings data 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.

Note that ESG-related data received from third parties may be incomplete, inaccurate or unavailable from time to time. As a result, there is a risk that the Investment Manager may incorrectly assess a security or issuer, resulting in the incorrect direct or indirect inclusion or exclusion of a security in the portfolio of a Fund.

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.

In addition to the preliminary assessment of investment opportunities against the ESG characteristics described herein, the Investment Manager will monitor the invested positions on an ongoing basis. Should an invested security not fulfil or meet the ESG criteria, the Investment Manager will take appropriate actions deemed necessary (including but not limited to portfolio rebalancing), within a reasonable timeframe and in such manner that is line with the interest of the Fund.

**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 not purchase long positions in 5-12% (but targeting 10%) of issuers with the weakest ESG scores in the given universe. Additionally, the Investment Manager will not purchase 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.

The Investment Manager will explicitly manage the portfolio's carbon intensity, so as to achieve a reduction compared to the equivalent measure computed for the Fund's benchmark, at the time of rebalance.

The Investment Manager's security selection process will actively tilt toward issuers with superior ESG characteristics. The portfolio weighted ESG scores for the securities the Investment Manager holds on the long side of the portfolio (treating long positions as a standalone portfolio) is managed so as to exceed the equivalent measure computed for the Fund's short portfolio.

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

The Fund will systematically integrate one or more governance-related signals, as defined by the Investment Manager, into its investment view. Such signals are designed to capture various dimensions of target companies' governance in order to assess that the companies in which the investments are made follow good governance practices.

**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)**

On the long side of the portfolio, the Investment Manager will not purchase issuers with the weakest ESG scores in the given universe, in addition to restricting all issuers with tobacco, fossil fuel, and controversial weapons involvement, as defined above. These exclusions typically exceed 5% of stocks in a given investment universe

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

- Yes
- No





## E. Proportion of investments

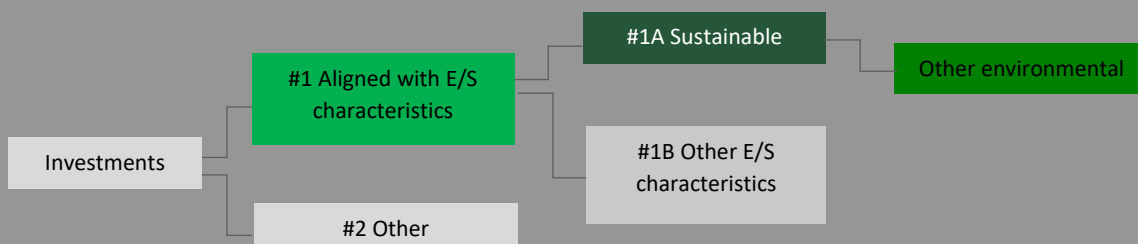
### What is the planned asset allocation for this financial product?

The Fund plans to use at least **90%** of its investments to attain the environmental or social characteristics promoted (#1 Aligned with E/S characteristics).

As part of the #1 Aligned with E/S characteristics investments made by the Fund, the Fund will make at least 10% of sustainable investments with an environmental objective not aligned with the EU Taxonomy.

The remaining investments of the Fund which are not aligned with the environmental or social characteristics are planned to represent up to **10%** (#2 Other).

Investments falling under ' #2 Other ' are held for liquidity management purposes and are not subject to minimum environmental or social safeguards.



#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.

The category #1 Aligned with E/S characteristics covers:

- The sub-category #1A Sustainable covers sustainable investments with environmental or social objectives.
- The sub-category #1B Other E/S characteristics covers investments aligned with the environmental or social characteristics that do not qualify 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 the promotion of E/S characteristics as well as the minimum share of the net asset value of the Fund constituting environmentally sustainable investments, in particular via exposure to single name swaps or CFDs.

### To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

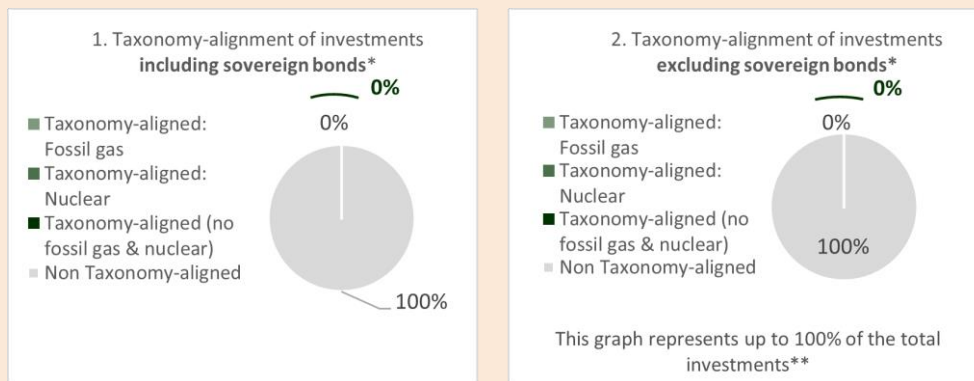


Whilst the Fund makes sustainable investments within the definition set out in SFDR, the Fund does not seek to make Taxonomy aligned investments and therefore the minimum extent to which the sustainable investments with an environmental objective are aligned with the EU Taxonomy is 0%.

**Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy <sup>1</sup>?**

- Yes:  
 In fossil gas     In nuclear energy  
 No

**The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.**



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.  
 \*\* As the Fund does not commit to making sustainable investments aligned with the EU Taxonomy, the proportion of sovereign bonds in the Fund's portfolio will not impact the proportion of sustainable investments aligned with the EU Taxonomy included in the graph

**What is the minimum share of investments in transitional and enabling activities?**

The Fund does not commit to making any "sustainable investment" within the meaning of the EU Taxonomy, therefore, the minimum share of investments in transitional and enabling activities within the meaning of the EU Taxonomy is also set at 0%.

**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

At any one time, the minimum share of the net asset value of the Fund constituting environmentally sustainable investments as defined under the SFDR will be 10% on the long side of the portfolio. Certain sustainable investments could be aligned with the environmental objectives as set out in the EU Taxonomy, but the Investment Manager is not currently in a position to specify the exact proportion of the Fund's underlying investments which may take into account the EU criteria for environmentally sustainable economic activities.

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

<sup>1</sup> Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.



Instruments such as cash and cash equivalents held for liquidity management purposes are not subject to minimum environmental or social standards due to the nature of the holdings of such instruments.



## 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 sustainability indicators used are:

- the carbon intensity of the Fund's portfolio;
- the carbon intensity of the Fund's benchmark;
- the ESG score of the Fund's portfolio
- the ESG score of the Fund's benchmark; and
- percentage of investments in companies that do not comply with the exclusion criteria.

**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 analyse 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 third 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.



## 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 and relevant holdings are considered within the overall assessment for engaging with a company.

AQR undertakes direct engagement with companies based on ESG concerns, and to improve companies’ environmental-related data disclosures. 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