



Learning to invest responsibly.

ESG Investing at Research Affiliates

Overview

Research Affiliates and our affiliated entities support investors who wish to promote responsible environmental management, active social engagement, and good governance practices (ESG) with their investment choices. We define the elements of ESG as practiced by an entity as follows:



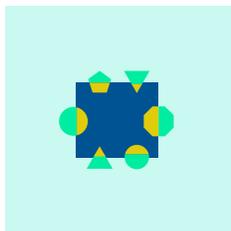
Responsible Environmental Management

Performing as a good steward of the natural environment, measured using a broad array of environmental metrics.



Active Social Engagement

Managing relationships with employees, suppliers, customers, and the community with respect for and appreciation of diverse viewpoints.



Good Governance Practices

Focusing on long-term value creation and appropriately balancing the interests of a company's many stakeholders.

We are committed to putting responsible practices to work in our own day-to-day operations, as well as to collaborating on ESG investing with our partners—data providers, index calculators, asset managers, and industry groups, for example — to offer well-designed ESG strategies for investors. As a research-centric firm, we are also committed to ongoing research activities that will extend our understanding—and the investment industry's—of the benefits and challenges associated with ESG adoption in order to help improve ESG practices both within and outside the financial industry.

Our Goals

As an investment strategy provider, Research Affiliates is eager to offer investment strategies that meet a diverse set of investor preferences while delivering superior expected investment returns over a full investment cycle. We embrace the importance of ESG investing and contribute to this space through our own dedicated research, through the development of investment strategies that incorporate ESG factors into our investment processes, and by engaging with our partners and clients on the topic of ESG investing.

Our Research in ESG

Given the fiduciary responsibilities faced by institutional investors, we recognize that the risk and return consequences of various ESG strategies are extremely important

as they relate to investment outcomes. Thus, we are particularly interested in the research related to this issue. Our own research as well as the research of others has led us to conclude that certain measures closely related to ESG tenets can be additive to returns and company performance, particularly in the areas of governance and diversity.

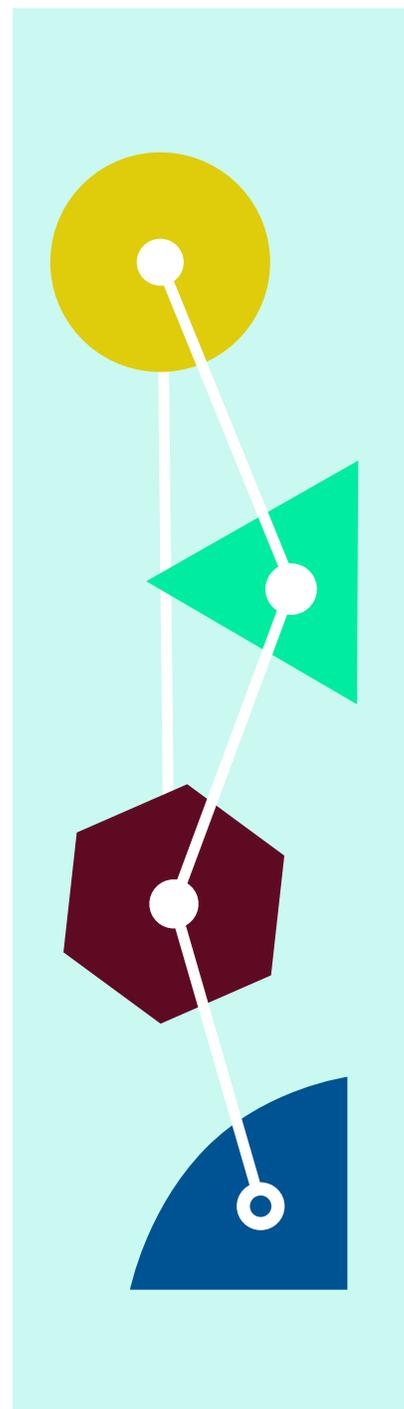
We have found that financial metrics related to corporate governance are associated with better investment performance as measured by low accounting accruals; conservative issuance and dilution practices; high profitability; and conservative investment.¹ These metrics have been incorporated in multiple Research Affiliates product suites since 2005 as well as in our dedicated ESG products.

At Research Affiliates, diversity has long been an important topic in our research and in the management of our own business. Diversity in background, education, culture, frame of reference, and experience, leads to diversity in thinking and ideas, and strengthens the foundation of our firm. A growing body of literature documents a positive relation between greater diversity and outcomes measured as a level of collective intelligence and firm financial performance.²

Whereas an academic consensus on the investment benefits of other ESG factors has not emerged, Research Affiliates believes that thoughtfully designed systematic ESG strategies can improve performance and/or reduce risk while delivering on the objectives of ESG investing.



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¹ "What Is Quality?" (2019) Hsu, Kalesnik, and Kose.

² A broad list of research on the topic of diversity is available from Research Affiliates upon request.

Integrating ESG

Research Affiliates has an extended history of being respon-

sive to client requests to amend index constituent lists to satisfy specific ESG requirements. Research Affiliates' first ESG index strategies were created in 2005 as custom indices for institutional asset owners to exclude controversial industries. In recent years we have gone further by creating investment strategies that incorporate ESG metrics into certain index methodologies:

RAFI Diversity & Governance Index Series

Launched on 9/28/2018, RAFI Diversity & Governance combines the Fundamental Index™ methodology with measures of diversity, good governance, financial discipline, and low volatility to allocate to well-managed companies. We find these metrics create a proxy for quality that can identify companies with sound management practices and a healthy corporate culture.

RAFI ESG Index Series

Launched on 3/31/2018, RAFI ESG is a thoughtfully designed smart beta strategy that helps investors achieve the dual objectives of social responsibility and long-horizon outperformance. This integrated ESG approach uses fundamental weighting and supplements traditional ESG metrics with both financial discipline and diversity for improved return potential. The index series excludes fossil fuel, weapons, tobacco, and gaming companies.

RAFI Multi-Factor Global ex Switzerland Index

Launched on 11/3/2017, this index, designed for investors who seek global exposure outside of Switzerland, also excludes companies identified by the *Swiss Association for Responsible Investments* (SVVK-ASIR) as not meeting the normative criteria of holistically acting responsibly toward the environ-

ment, the economy, and society through their investment decisions. More information regarding the SVVK-ASIR is available at:

<http://www.svvk-asir.ch/en/about-us/>

FTSE4Good RAFI Index Series

Launched on 11/30/2016, the FTSE4Good RAFI Index Series includes companies based on their FTSE4Good ESG ratings, which measure companies on over 300 ESG indicators.

FTSE RAFI ex Fossil Fuels Index Series

Launched on 11/30/2016, the FTSE RAFI ex Fossil Fuels Index Series excludes companies that are involved in, or have revenues arising from, coal mining, crude petroleum, and natural gas.

Principles for Responsible Investment (PRI)

Research Affiliates became a signatory to the United Nations-supported PRI in 2017. The UN PRI is an international network for investors and financial industry participants who are committed to integrating ESG considerations into their investment practices.

Membership to the UN PRI affirms our ongoing commitment to integrating ESG factors into both our day-to-day operations and our investment strategies, where applicable.



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