

Product name:

CFM UCITS ICAV - CFM Quant Sustainable Absolute Return Fund ("the Fund")

Legal entity identifier:

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Summary

Environmental or social characteristics of the financial product and investment strategy

The Fund is managed through a quantitative approach, using a series of proprietary systematic trading models that aim to deliver well diversified long and short equity exposures on a mostly sector neutral basis. A significant portion of the signals underlying the models come from a variety of datasets describing the relative sustainability characteristics of any company in the investable universe, or of the product or services it sells. These datasets are obtained from sustainability data service providers. As a result, the Manager expects that sustainability should be one of the main drivers of performance.

Leaving aside the effects of engagement and voting rights, it is the Manager's belief that whether a position is carried through equity cash position or through derivative, the attainment of the environmental characteristic is strictly the same in terms of potentially modifying the cost of capital for the underlying company through a similar chain of consequences. What matters is the economic exposure, not whether the exposure is carried through one format or another. The Manager believes this to be true on the long side as well as on the short side.

Engagement

CFM does not currently engage directly with issuers, stakeholders and other shareholders. However, CFM may at times support collaborative engagements. A list of these engagements can be found below in the Engagement Policies section.

CFM votes by proxy in all shareholder meetings that it is notified of, using a third-party proxy voting adviser (the "Proxy Agent"), except when Clients' holdings in an issuer are insignificant. CFM has subscribed to the Proxy Agent's ESG Guidelines, and while it anticipates to follow the Proxy Agent's recommendations most of the time, CFM always retains the ability to determine for itself which vote is in its clients' best interests.

Reporting

The Fund will publish, on a monthly basis, its average carbon intensity (scope 1, 2 and 3), transition risk expressed in temperature, and physical risk. Depending on the indicator, these will be broken down between the long and the short side, sector, and/or type of hazard.

Risks and limitations

The methodology above may be subject to the following main limitations:

- Data quality, including assumptions and estimates already embedded within the data sourced by the Manager, and
- The sensitivity of price to different sustainability factors, which may not be the same between different issuers.

No sustainable investment objective

This financial product promotes environmental or social characteristics and will do so by relying substantially (but not exclusively) on sustainability drivers, which will condition the aggregated footprints at the portfolio level. However, it does not aim to allocate any specific percentage of its capital to "sustainable investments" within the meaning of the EU taxonomy.

Environmental or social characteristics of the financial product

Designed to deliver alpha

The Fund is managed as any other CFM fund using a quantitative approach, blending technical and fundamental signals with a view to deliver, in a long short format, and on a mostly sector neutral basis, robust financial performance over an investment horizon of multiple years.

Relies heavily but not only on a set of “sustainability signals”

A portion of these signals now come from a variety of datasets describing the relative sustainability characteristics of any company in the investable universe, or of the product or services it sells.

Some of these sustainability related datasets are based on past observations such as direct and indirect carbon emissions, power production technology mixes, exposures to carbon intensive assets, controversies, gender diversity scores. Other datasets are more forward looking and help estimate or corroborate a company's perceived ability and/or willingness to align itself to a 1.5°, a well below 2° or a 2° decarbonisation pathway and with what such pathways may mean in terms of technological disruptions and substantial shifts in regulations, carbon taxes, subsidies, bans and consumers preferences, i.e. in terms of shifting investment risks and opportunities compared to “business as usual” scenarios. Whilst some datasets allow ranking companies within a segment of the universe in terms of their ability to contribute to mitigation strategies, by aligning their production and/or products towards net zero, or enabling other companies to do so, other datasets relate to how they confront the need to adapt to the worst consequences of climate change in terms of supply chain disruption risks or growing risks of assets being impaired by acute meteorological events, or chronically affected, or made less effective or more costly to run, due to shifts in weather patterns.

In this particular Fund, the reliance of such sustainability related metrics has been magnified. There is a very strong chance that ultimately the product footprint, as can be seen by looking at reporting snapshots, will be strongly tilted towards holding lower carbon intense, green enabling and/or faster greening companies on the long than on the short side for many dimensions of greenness simultaneously.

Sustainability should be one of the main drivers of performance

Our expectation is that the performance of the Fund will be significantly impacted by the magnitude and speed at which the transition will unfold. If governments introduce more (less) than currently anticipated measures to curb the reliance on carbon intensive products in the economy, via increased carbon prices, carbon taxes, bans and/or incentives of various kind, the performance of the Fund should be positively (negatively) impacted. This is why the Fund has strong “environmental characteristics”.

Investment strategy

CFM Quant Sustainable Absolute Return Program (the “Program”) is composed of a series of systematic trading models which invest in a well-diversified portfolio of equities and derivative instruments, as described below. The models used by the Program apply algorithms which are proprietary to the Manager that seek to predict the future prices and risks of financial instruments. The models have been developed, tested and validated using the Manager's proprietary tools. In the production phase of the Program, the models are fed with market data (such as price and volatility), fundamental data (such as company financial information) and sustainability data (for example, issuers with low or reducing carbon emissions) that is collected electronically from several providers and markets.

Sustainability considerations are fully integrated into the investment process and used to evaluate companies' behaviour and impact in relation to their significant stakeholders and efforts with sustainability.

The Manager will use third-party sustainability data from sustainability data service providers (which at the date of this Supplement may include, but are not limited to, Carbon4Finance, TruCost, Impact-Cubed, Equileap and MSCI), who assess risks relating to climate change, natural resource constraints, and broader sustainability factors and the impact on issuers (whether generalist or specialized in environmental topics such as greenhouse gas emissions and/or biodiversity) in the

same way as it will use other types of data, meaning that it is one of the factors analysed by the Program when generating signals and selecting investments.

For the avoidance of doubt, such service providers provide advice and recommendations only, full discretion in asset selection is retained by the Manager.

Promotion of investments

The Fund invests in equities, both on the long and on the short side.

The investment process seeks to identify companies that, on a variety of metrics, already appear to be or are likely to soon be perceived to be the greenest, or fastest greening, or best contributors to alignment strategies, as well as companies on the other side of the spectrum, within each segment of the universe in which climate related concerns are or are likely to become financially material. In comparison, the investment process allows for more limited sectorial or outright market risk.

Leaving aside the effects of engagement and voting rights, it is the Manager's belief that whether a position is carried through equity cash position or through derivative, the attainment of the environmental characteristic is strictly the same in terms of potentially modifying the cost of capital for the underlying company through a similar chain of consequences. What matters is the economic exposure, not whether the exposure is carried through one format or another.

The Manager believes this argument to be true both (a) on the long side of the balance sheet, where stocks are held, and the economic activities the underlying companies engage in are promoted, as their financing is made easier everything else being equal, and (b) on the short side of the balance sheet, where stocks short-sold, and the economic activities the underlying companies engage in, are negatively impacted, as the equity or debt financing they, or any of their peer, may seek in the future will prove to have been made more expensive everything else being equal.

Monitoring of environmental or social characteristics

We publish, on a monthly basis, the average value attained on four carbon related indicators (long and short positions separately).

Three indicators are reported with a sector breakdown:

- ▶ carbon intensities Scope 1 & 2
- ▶ carbon intensity scope 3, and
- ▶ transition risk expressed as "temperature"

Physical risk is also reported separately on long and short positions, broken down by type of hazards.

Methodologies

Environmental and sustainability-related characteristics are embedded within the Program's model. Please refer to the section above ("Investment Strategy").

Data sourcing and processing

The Fund has a strong characteristic to financially allocate to and benefit from the energy towards a lower carbon and more generally more sustainable economy.

In order to do so, its investment process is designed to select stocks and construct positions on both the long and short side by paying attention to a large number of considerations helping differentiating stocks within each segment of the investable universe. Some of these considerations are purely financial and fundamental, some are based on price and

other technical signals, and some, regrouped in a “sustainability set” of signals, or “S-program”, are deployed across all equity programs ran by CFM but is deployed with a higher intensity in this financial product.

This S-program relies on a number of sustainability related data sources in order to attain its environmental characteristics:

- ▶ One leading ESG data provider, who has recently acquired a carbon specialist firm, and has developed a wide range of backward and forward looking indicators related to the potential financial impact of the transition
- ▶ One leading environmental data provider
- ▶ One carbon and biodiversity specialist
- ▶ One controversy risk specialist
- ▶ One gender equality specialist
- ▶ One specialist in SDG and green revenue breakdown
- ▶ Various datasets maintained by not for profit organizations providing insights into various transition related topics and/or behavioural characteristics.
- ▶ News flow from various sources allowing to extract close to real time information on recent partnerships, acquisitions, technological breakthrough, contracts or other relevant events indicative of companies efforts to transition which can be processed using natural language processing (NLP)
- ▶ Specific industry specialists for high stake sectors

Limitations to methodologies and data

- ▶ Data quality is potentially a significant issue on sustainability related issues given how recent these concerns are, how much modelling is necessary, given the limited amount of disclosure in certain dimensions, and given that no stringent audit obligation exists at the moment. However, the trend towards better disclosure seems firmly in place now, and by diversifying the sources and cross-checking both the figures themselves and the methodologies, which a quant firm is particularly well equipped to do in size, one can probably avoid most of the pitfalls linked to data quality issues
- ▶ The S-Program is a selection of signals and of relative weights put on these signals which can vary from one segment to another, depending on how financially material the corresponding topic is perceived to be for the price action in this segment.
 - > For instance Scope 3 considerations are likely to be more important today for automakers and energy companies than they may be for Tech or Utilities companies. Scope 3 considerations are not yet a price driver today within financial firms, because the elements being reported (like business travels) are obviously not the ones that really matter. But when banks start disclosing exhaustively on the carbon intensity of their loan portfolios, and the specific brown technology they allocate to, their Scope 3 will come under more intense investors’ scrutiny.
 - > Once any specific subset of dataset is retained, and its weight for various segments of the universe is determined, it undergoes a series of cleaning and normalization steps before being turned into a set of segment specific rankings, which then feed the investment process together with many other signal generated rankings, either used to tilt positions, to manage risks or create conditionality for other signals
- ▶ Whether or not the dataset is obtained directly from the company’s statements or website, from audited sources, from a data provider or from the Manager’s own processes, it is quite likely that it has been obtained by applying some simplification assumptions and a modelling approach. Even Scope 1 emissions for simple processes are today mostly based on rule of thumb estimations. With the arrival of satellite data, one can imagine this will gradually improve, but certain elements of the datasets, especially those having to do with assessing future risks, or complex supply chain derived data will continue to have to be modelled for quite some time.

Due diligence

The Fund trades within a large pool of equities and related derivatives. All such investments are listed on major regulated stock exchanges. All instruments within the pool are screened on a daily basis against sanctions lists sourced from a first-tier provider, as well as against lists of manufacturers and key suppliers of controversial weapons. These controls are automated, and subject to periodic review by the Manager’s internal control team

Engagement policies

Given that CFM's trading activities are based on quantitative strategies, CFM does not currently engage directly with issuers, stakeholders and other shareholders. However, CFM may at times support collaborative engagements. For instance, the Firm is a signatory of the Carbon Disclosure Project, which urges issuers to provide more transparency as to their carbon emissions. The Firm has also signed the letter addressed by the Swiss Sustainable Finance organisation to index providers asking them to remove controversial weapons manufacturers from their mainstream indices. Finally, CFM has also joined the CAI 100+ initiative, is a member of CDP, a signatory of the 2021 DCP Science-based Targets Campaign, a member of FAIRR and a signatory of the "Where's the beef?" statement..

CFM votes by proxy in all shareholder meetings that it is notified of, using a third-party proxy voting adviser (the "Proxy Agent"), except when Clients' holdings in an issuer are insignificant. CFM will generally vote by proxy in line with recommendations of the Proxy Agent. To this end, CFM has subscribed to the Proxy Agent's ESG Guidelines (included as an Appendix to the Proxy Voting Procedure) and has verified, based on general guidelines and principles, that it rather systematically supports shareholder motions that demand more transparency from companies in terms of strategy for climate change and handling of related risks, in terms of lobbying money being spent on climate change related initiatives, and in terms of linking management remuneration to achieving ESG related targets. For position above a certain size, for ballots relating to particularly sensitive topics, the CFM ESG team will furthermore from time to time verify that the Proxy Agent's recommendation fits its clients' best interest.

For more detail on CFM's engagement policies, please refer to the Engagement Policy published on our website.

Designated reference benchmark

N/A: the Fund has not designated a reference benchmark index.

For further details



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Based in Paris with staff in London, New York and Sydney, we work in partnership with our clients worldwide. Find out more at: www.cfm.fr