

**INTRODUCTION**

2023 was an eventful year for all facets of ESG, particularly in the United States, where a noticeable uptick in pushback to ESG principals threatened to unravel the significant momentum that ESG enjoyed over the past several years. On the investment side, political and regulatory backlash to ESG and impact investing gained steam, with multiple state legislatures proposing or passing ESG restrictions. At the corporate level, Diversity, Equity, and Inclusion policies came under scrutiny, perhaps best exemplified by Elon Musk’s public criticism of his own DEI team at Tesla. Backlash even reached the Supreme Court, which voted to strike down affirmative action programs in college admissions.

At ABS, we remain committed to the core values that we highlighted in our inaugural ESG report: that diversity and inclusion are defining characteristics of our business and our culture, that our diversity helps foster creativity, innovation, and open mindedness, and that our diversity is a true competitive advantage when investing in strategies across the globe. Similarly, we remain focused on our ESG investment objective, which is to advocate for thoughtful ESG integration in the investment process, based on the idea that ESG considerations can be an important tool in generating better risk-adjusted returns over time.

In line with our commitment to fostering inclusion and equity participation among our employees, we are excited to announce that we have added three new equity partners to the firm effective January 1, 2024: Jun Jang (quantitative investment team), Matt Frost (operations), and Yousif Al Shamali (qualitative investment team). As a majority employee-owned firm, we are excited by this opportunity to continue deepening the alignment between our firm and our employees. In addition to the new equity partners mentioned above, ABS also hired two new employees in our investment and operational teams. We enter 2024 with 37 employees, 26 of whom are equity partners in the firm. Our workforce continues to represent a diverse set of backgrounds, cultures, and perspectives - our 37 employees represent 12 nationalities and speak 12 different languages.

**Investment Experience**

**17** Avg years industry experience

**11** Avg years ABS tenure

**Diversity**

**12** Nationalities

**12** Languages spoken

**Ownership**

**26** Equity Holders

**13** Women/minority partners

**FIRM UPDATES**

Throughout the year we made additional progress in implementing our firm-level ESG and Diversity initiatives, both at the firm level and within our investment process. Starting with our firm-level updates, this report will highlight our carbon neutral efforts, volunteer work, and our charitable contributions. These efforts are led by our ESG & Diversity committee, which is composed of 5 members that span a wide range of backgrounds and experience levels, and includes representation from the investment due diligence, operations, and business development teams.

**Carbon Neutrality**

ABS continued our environmental efforts by maintaining our carbon neutral status in 2023. We followed the same general methodology as last year and used the carbon calculation tools provided by the Carbon Fund<sup>1</sup> to quantify our emissions. As a small financial services firm our primary carbon emission sources are business travel, employee commuting, and office building emissions. Given that most of these activities were once again below our historical expectations due to some structural changes brought on by the COVID19 pandemic (namely hybrid working and the prevalence of virtual meetings), we calculated our footprint based on our 2019 emissions. To further err on the side of conservatism, we multiplied the 2019 total by 1.25x to arrive at our final carbon offset amount.

<sup>1</sup> <https://carbonfund.org>



Once calculated, we partnered with Carbon Footprint<sup>2</sup> to identify three projects to offset our carbon emissions. In addition to vetting and monitoring each of the projects offered through their service, Carbon Footprint also makes sure the projects align with multiple UN Sustainable Development Goals. Details on the three projects we selected are provided below<sup>3</sup>.

### Toyola Cookstove Initiative (Nigeria)

The objective of this project is to replace the existing, inefficient cookstoves currently used by a large portion of Nigerian households with highly efficient and cleaner-burning models. Over 71% of Nigeria’s population, and particularly lower income individuals, cook with a solid fuel in inefficient traditional cookstoves or open fires, resulting in significant indoor air pollution. The Toyola Cookstove initiative specifically targets these higher-risk populations.

Since the inception of this project, women have been a driving force of implementation and education. The problems of rudimentary cookstoves disproportionately affect women, so the program enlists the help of female Community Agents, women who have been empowered with the information, knowledge, and skills to operate and deploy cookstoves, to help promote more widespread adoption.



### Pacajai REDD+ Project (Brazil)

The objective of the Pacajai REDD+ project is to prevent the unplanned deforestation of 150,000 hectares of native Brazilian rainforest, which translates to avoiding 22 million tonnes of carbon dioxide equivalent GHG emissions over a 40-year period. The project manages the land as a “private conservation reserve” and actively monitors the area through on-the-ground patrolling, strategic occupation, improvement of forest management practices, and encouraging sustainability.

The project also focuses on the local communities within the area, striving to improve their quality of life and empowering them as their own population. Communities will be involved in protecting and maintaining the area, since local natural resources provide the vast majority of food and income for local families. Villagers within the project area will be trained and employed as rangers to patrol the area to prevent illegal logging and deforestation.



### ACME Solar Project (India)

The ACME group supports the implementation and installation of grid-connected renewable energy power plants in India. The objective is to ensure energy security, diversification of the grid generation mix, and sustainable growth of the electricity generation sector in India. This particular initiative is the development of solar power projects in grid-connected plants that export their generated output to the regional/national electricity grid in India.

In addition to providing sustainable employment (reducing poverty) the project developer also provides improved healthcare, sanitation, and educational support to the communities where the projects are based.



<sup>2</sup> <https://www.carbonfootprint.com>

<sup>3</sup> <https://www.carbonfootprint.com/carbonoffsetprojects.html>



## Local Volunteering

ABS dedicates at least two days of the year to giving back to our community by volunteering with local charities. Our first event in 2023 took place in May, when ABS volunteered at The Food Bank of Lower Fairfield County, an organization that helps to provide meals to those who do not have the means to feed themselves. ABS volunteers spent a morning sorting, organizing, and shelving nonperishable food items. In conjunction with our volunteering effort we also held a food drive in the ABS headquarters, through which we collected and donated more than 150 pounds of food.



GREENWICH  
537 Steamboat Road, 4th Floor  
Greenwich, CT 06830  
+1-203-618-3700

ZURICH

HONG KONG

[www.absinv.com](http://www.absinv.com)

In October 2023, we held our second volunteering event alongside KPMG at Davenport Ridge Elementary School in Stamford, CT, where our employee volunteers spent the morning reading with 3rd grade students. Davenport Ridge Elementary is a Title I school, a federally funded program that provides financial assistance to school districts and schools with high numbers or high percentages of children from low-income families to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. Similar to our food drive earlier in the year, we paired our volunteer day with a multi-week school supply drive, with all the supplies going directly to Davenport Ridge. ABS was thrilled to have the opportunity to support a great cause and support a school that is local to our community.



### ABS Giving Program

In 2021 ABS introduced a charity matching program where ABS employees can donate to charitable groups of their choice and have their donation matched by ABS. Over the course of 2023, numerous ABS employees took advantage of the program and contributed to a total of 18 different charities. In addition to employee matching, ABS also donated directly to over a dozen other 501c3 charity groups throughout the year.



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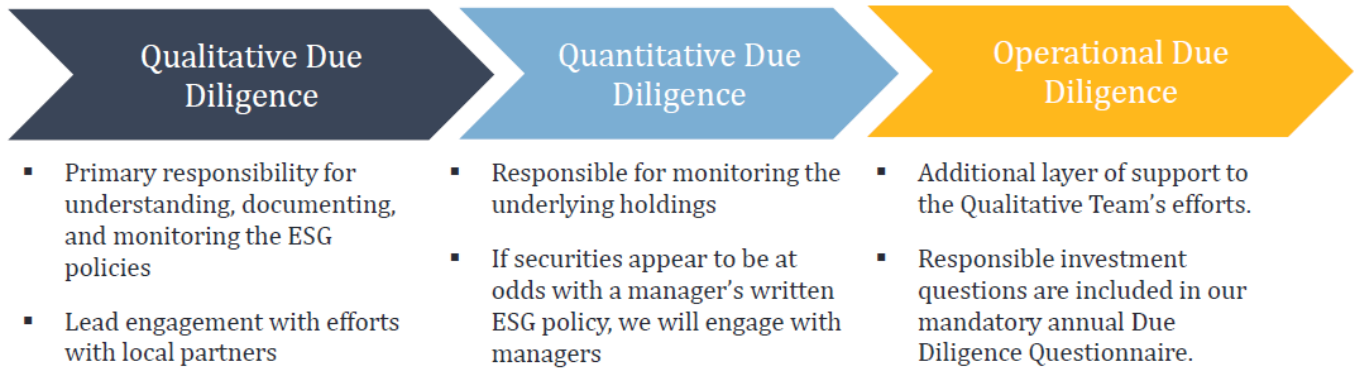
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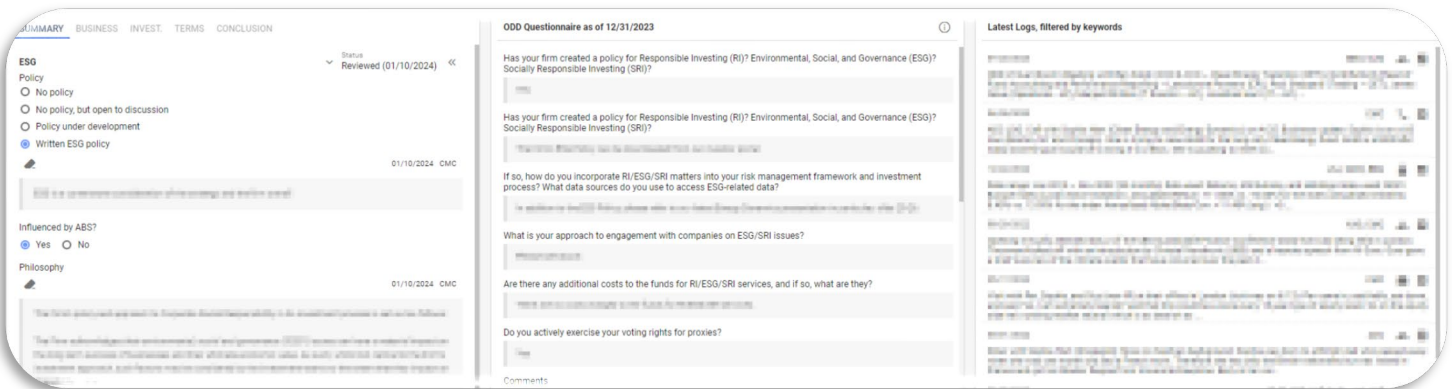
## INVESTMENT UPDATES

Before we begin the annual update of our 2023 ESG investment progress, we wanted to provide a quick reminder of how we approach ESG integration. ABS strives to find the most talented asset managers around the world. Our focus on local and niche managers means that ABS is often a significant investor in the earliest stages of a manager’s track record. Accordingly, our ESG investment policy focuses on engagement. We aim to use our influence to engage with all our managers and encourage adoption of an official ESG policy if one does not already exist. Not only does ABS benefit by ensuring all our managers are cognizant of ESG risks, but we are also able to positively influence the proliferation of ESG consciousness across the broader investment management community. Our ESG involvement spans all three pillars of the investment team – the qualitative research team, quantitative research team, and operational due diligence team all play a role in implementing or monitoring our ESG policy.

### Three-track Approach to Incorporating ESG in Our Investment Process



Additionally, all of our teams are assisted by a dedicated ESG module that we developed within our internal, proprietary research platform that powers our investment process. The module is designed to facilitate every stage of the ESG engagement process, from tracking ESG-related interactions with managers, to documenting ESG policy adoption, to aiding with ongoing monitoring of ESG policy implementation.



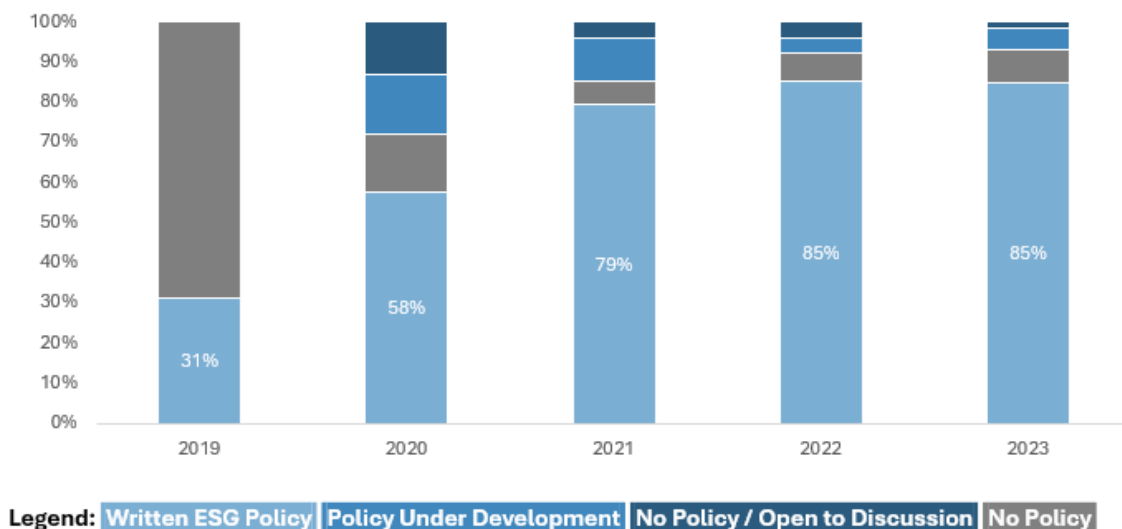
## IMPACT OF ABS ENGAGEMENTS

### Firm-wide ESG Progress

2023 was a noteworthy year for ESG principals, particularly in the United States. While ESG awareness has experienced widespread growth and support for most of the past decade, the momentum recently started to swing in the other direction. Particularly in the United States, resistance reached a breaking point in 2023, with several states passing legislation that is specifically intended to limit or restrict ESG investing principles. Our view at ABS remains consistent: we believe using an ESG lens in the investment process is a useful tool in the fundamental toolbox, and we want all of our managers to be aware of any potential risks or opportunities that an ESG investment framework may uncover.

Across our total firm AUM, our ESG policy coverage held steady at 85% over 2023. When we first set out to implement our ESG policy in early 2020 only 31% of our firm assets were managed with an ESG policy, meaning we have increased our ESG coverage by more than 2.5x in the three years since. Of the 15% of ABS assets that are not covered by an ESG policy, we've had productive engagements with roughly half (7%), and we remain focused on converting those managers over the course of 2024. Given ABS often invests early and with smaller-scale managers, it is very common that when we first invest with a manager, they do not yet have an ESG policy in place. As outlined previously, our policy is to work closely with those managers to help them adopt a policy. However, the natural churn of selling more established managers (that often do have ESG policies) and buying newer, more niche managers (that often do not have policies), means it is likely that some portion of our AUM is managed without an official ESG policy in place.

Figure 1: ABS Investments by ESG Policy Status



### Engagement Results

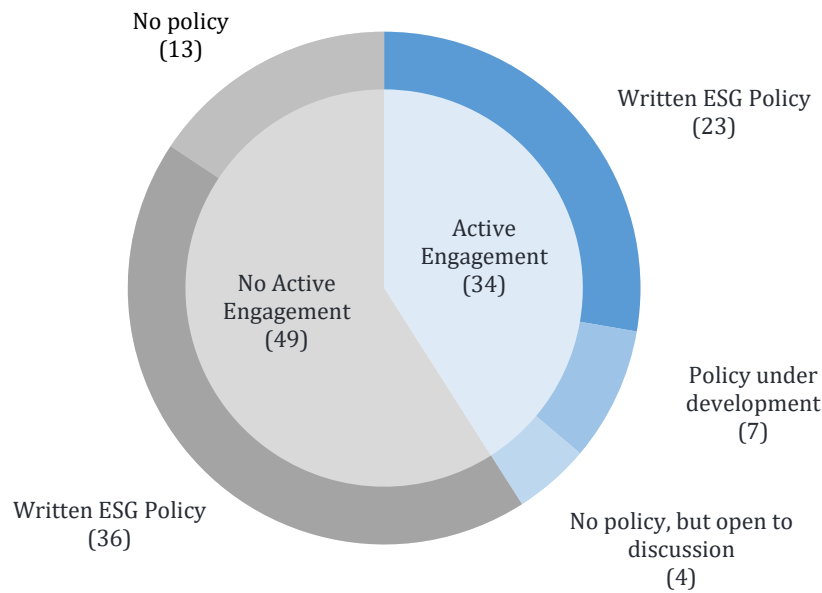
Given engagement with managers underpins our ESG approach, we are keen to understand the impact our engagements thus far, and to understand the context around situations where we have not had an active engagement. To better distill the results of our engagement, we divide managers into two general buckets: those with whom we have had an active ESG engagement, and those with whom we have not. Consistent with our prior findings, the majority of our active engagements have already yielded ESG policies (68%). For active engagements that have not yet resulted in an ESG policy, most managers are currently working on developing a policy (21%). As for the remainder (12%), these managers are receptive to a dialogue around formal ESG integration and we are optimistic that implementation of an ESG policy is feasible, but they have not yet begun to draft a policy.

For managers where we have not had an active ESG engagement, the overwhelming reason is because the manager has already integrated ESG considerations and documented that integration in an ESG policy (73%). In these cases, the existing policy was collected, reviewed, and recorded in our internal research system, and is reviewed on at least an annual basis. Interestingly,



that percentage of “No Engagement” managers that already have an ESG policy (73%) is the highest on record, which suggests that more managers are adopting ESG policies prior to ABS engagement – a positive indication for ESG adoption across the industry. Within the remaining managers, those where we have not had a productive engagement and who do not have a policy (27%), we have primarily found two categories of managers: 1) managers who are resistant to ESG adoption for a variety of reasons (regulatory pushback in the US being a prescient example), and 2) small, early-stage managers where our engagement has been focused more on mission critical operational and back-office improvements, but where we expect ESG engagement in the near future. In both cases, we will continue to advocate for formal ESG integration and work with these managers towards that goal.

**Figure 2: Engagement Outcomes Among Current Managers**



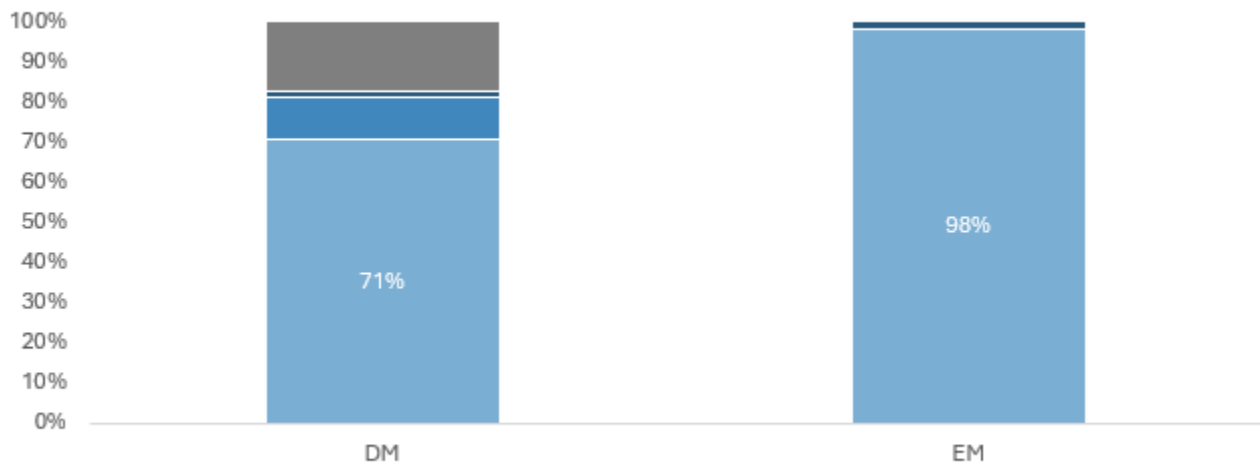
**Regional ESG Integration**

ABS is an active investor in both emerging (EM) and developed (DM) markets which provides a unique vantage point on ESG adoption trends across geographies. In a continuation of a trend that we have seen since we began publishing this annual ESG report, ESG adoption among emerging markets-focused managers remains well ahead of their developed market peers (Figure 3). In our 2022 report, we highlighted that ESG adoption within EM had reached 100%. This year we had a slight drop, from 100% down to 98%, which was driven entirely by the addition of a new local specialist in Brazil (Figure 3). We have already engaged with this manager on ESG adoption, and they are in the process of drafting a formal policy. As such, we expect our ESG coverage within EM to return to 100% in the coming months.

ESG adoption within developed markets was generally flat in 2023, with ESG policy coverage decreasing slightly from 72% to 71% over the course of the year. This was partially offset by a greater portion of managers who are actively developing a policy (11%), and we are working with these managers to finalize policies in 2024.



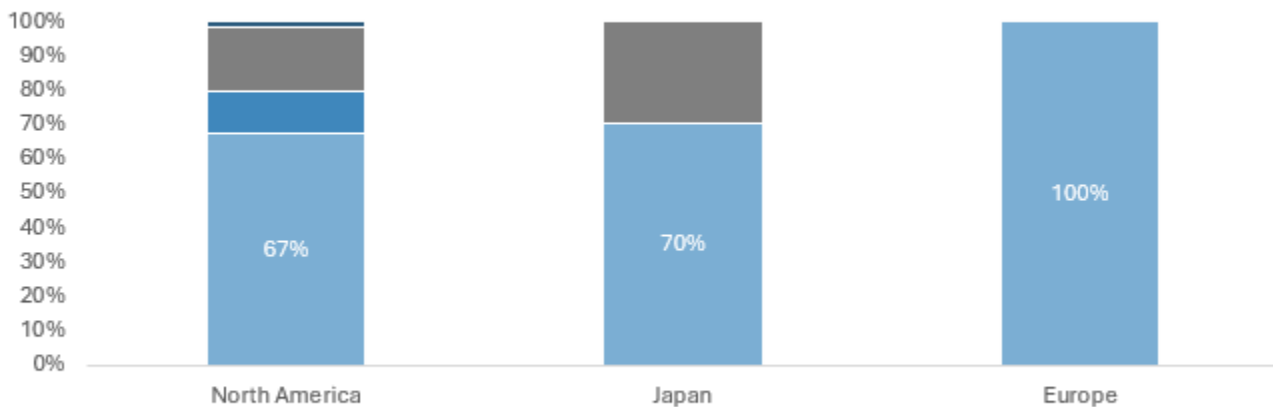
**Figure 3: ESG Status: DM vs. EM**



**Legend:** Written ESG Policy | Policy Under Development | No Policy / Open to Discussion | No Policy

Within the broader DM cohort, ESG adoption among North American managers has lagged adoption among European and Japanese-focused managers (Figure 4). This is not a new trend, and given the social, regulatory, and legislative backlash to ESG that has been growing in the United States, this gap is likely to persist. While clearly a headwind, we also view this as an opportunity to continue our engagement efforts and do what we can to steer the industry towards practical, productive integration of ESG concepts.

**Figure 4: ESG Status Across DM Regions**



**Legend:** Written ESG Policy | Policy Under Development | No Policy / Open to Discussion | No Policy



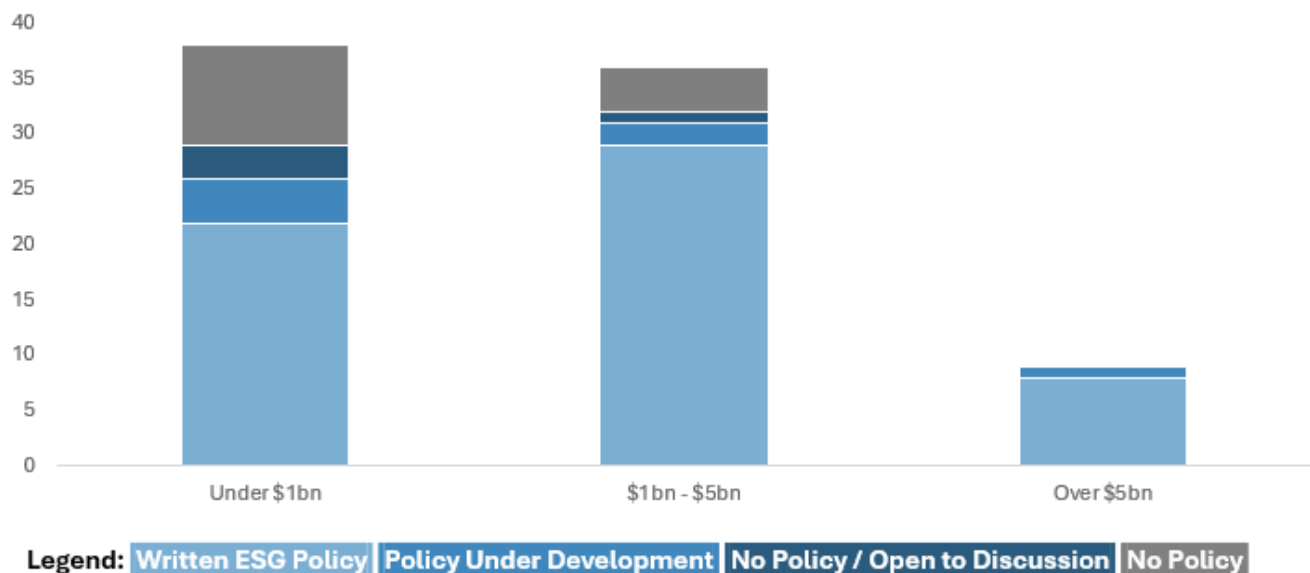


## ESG Status by Firm AUM

ABS typically gravitates towards early stage and niche managers, which means we are often involved with firms with under \$1bn in AUM. While smaller-scale managers have historically been an attractive cohort from an alpha perspective, managers with <\$1bn in AUM also tend to lag their larger peers in ESG adoption. There are many valid reasons for this, ranging from niche investment mandates (a small cap bank strategy likely benefits less from ESG considerations than a global all-cap mandate) to resource availability (smaller funds typically have lean teams where formalizing an ESG policy could detract from focus elsewhere). However, it is also within this cohort of smaller managers that ABS, typically a large and important investor for these managers, often has more influence. So, although this subset of managers accounts for the majority of “No Policy” investments, it’s also where we believe we can have the greatest impact. As managers organically progress out of the “under \$1bn, no ESG policy” cohort they are naturally replaced by new investments, and thus we do anticipate this cohort to consistently represent an outsized proportion of “no policy” managers. At the end of 2023, firms managing under \$1bn accounted for 69% of ABS investments that do not have ESG policies, a proportion that has been relatively stable for several years now.

Using a slightly different lens to emphasize the point, 58% of managers under \$1bn in AUM have an ESG policy, vs. 81% of managers between \$1bn-\$5bn AUM, and 89% of managers >\$5bn AUM. This lens highlights the idea that scale is beneficial in ESG adoption: as funds grow, they have more resources available to dedicate to ESG integration, and ESG adoption increases accordingly.

Figure 5: ESG Status by Manager AUM



## CONCLUSION

In 2023 we continued to build upon the ESG foundation we’ve built in years prior, further establishing and expanding upon multiple firm-level initiatives while continuing to implement our ESG policy on the investment side. On the firm side, we maintained our Carbon Neutral certification; expanded our local volunteering work; and continued to support a host of charitable organizations, both as a firm and in concert with our employees. While we remain committed to the initiatives we have already launched, we are also constantly looking for additional ways to improve, and we welcome any and all suggestions!

On the investment side, we continued our efforts towards increasing ESG integration across our invested managers. At the end of 2023, 85% of our firm AUM is covered by an ESG policy. In 2023 we aim to further expand ESG coverage across our Developed Markets managers, while re-claiming our 100% coverage in Emerging Markets. We are proud of the progress we have made since we launched our ESG and Diversity initiatives, and are excited to continue finding ways to better serve our investors, employees, partners, and communities in the coming years.



## DISCLOSURES

This document is intended to provide general information regarding ABS's ESG strategy and not for the purpose of soliciting investors for any ABS Fund. This document shall not constitute an offer to sell or the solicitation of any offer to buy which may only be made at the time a qualified investor receives a final confidential private offering memorandum (the "Fund Documents") describing an investment fund (each an "ABS Fund", or in the plural, the "ABS Funds"). The information contained herein is preliminary, is provided for discussion purposes only, is only a summary of key information, is not complete, is subject to change without notice, and does not contain certain material information including important conflicts disclosures and risk factors associated with an investment which are described in the Fund Documents. In the event of any inconsistency between this document and the Fund Documents, the Fund Documents will govern.

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