



**Arabesque Asset Management Ltd**  
**Part 2A of Form ADV**  
**The Brochure**

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This brochure provides information about the qualifications and business practices of Arabesque Asset Management Ltd. (“Arabesque” or the “Company”). If you have any questions about the contents of this brochure, please contact us at +44 (0) 20 39463710 or [info@arabesque.com](mailto:info@arabesque.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Arabesque is also available on the SEC’s website at: [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).



## **Item 2. Material Changes**

Since the last update of this Form ADV in July 2017, Arabesque has launched the Arabesque Systematic USA Fund, a US mutual fund which is part of the FundVantage Trust series.



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## **Item 4. Advisory Business**

Arabesque Asset Management Ltd. (“Arabesque” or the “Company”) was formed as a private limited liability company under the laws of England and Wales in August 2013. Senior management of the firm have been working together since 2011 at Barclays Bank PLC and in 2013 bought out all rights and intellectual property, establishing Arabesque as an independent firm. Arabesque has offices in London, UK and Frankfurt, Germany, and is authorized by the Financial Conduct Authority (“FCA”) in the UK. Arabesque Asset Management Ltd (Germany) is registered with the BaFin.

The Arabesque Partnership LLP is fully owned by the senior management of Arabesque, and owns 100% of Arabesque Asset Management Holding Ltd., which owns 100% of Arabesque. Small ownership stakes in Arabesque Asset Management Holding Ltd are currently being issued to select external shareholders. Asset management, legal, and compliance activities are performed by Arabesque in London. Advisory services are provided by Arabesque Asset Management Ltd (Germany) in Frankfurt am Main, Germany. Arabesque (Deutschland) GmbH is a limited liability company registered in Frankfurt am Main, Germany. It is responsible for ESG research and programming. Additionally, this entity is the provider of the Arabesque S-Ray<sup>®</sup> product.

As of 1 March 2018, Arabesque had approximately US\$154.94mm in assets under management on a discretionary basis and US\$4.90mm in assets under advisement (Total USD159.84mm).

At present, Arabesque provides discretionary portfolio management and investment services to pooled investment vehicles, namely two Société d'investissement à capital variable (“SICAV”) funds (“UCITS Funds”) and their respective sub-funds (“UCITS Sub-Funds”), which are domiciled and regulated in Luxembourg under the UCITS regime and the Arabesque Systematic USA Fund, a US mutual fund which is series of the FundVantage Trust (“Arabesque Systematic USA Fund”) (each of the ‘UCITS Funds’. ‘UCITS Sub-Funds’ and the ‘Arabesque Systematic USA Fund’ is a “Fund” and together the “Funds”) as defined in Item 7. The UCITS Funds are managed by IPConcept (Luxembourg) S.A. (“Manager”), which has delegated the investment management to Arabesque. In its role as investment manager, Arabesque is responsible for implementing the day-to-day investment policy of the respective UCITS Funds’ assets and managing the day-to-day transactions connected with asset management as well as other related services, subject to the investment policy principles and the investment restrictions of the respective UCITS Fund as described in the relevant offering documents of the relevant UCITS Fund (“Prospectus”) and to any legal investment restrictions. The Arabesque Systematic USA Fund is a series within the FundVantage Trust (the “Trust”). The Trust is a series trust authorized to issue separate series or classes or shares. The Trust has established the Arabesque Systematic USA Fund as a separate series of the Trust. Arabesque is the investment



adviser to the Arabesque Systematic USA Fund. Arabesque is also investment adviser to the Arabesque Systematic International Fund which has received SEC approval and is awaiting launch. Brace Young (a partner at Arabesque) and Jennifer Djaferis (an Arabesque employee) are registered representatives with Foreside Funds Distributors LLC. The Arabesque Systematic USA Fund is distributed by Foreside Funds Distributors LLC.

In addition to the management of the Funds listed above, Arabesque also provides strategy advice and investment management advice to a foreign fund manager in relation to their own foreign funds.

In addition to the management of the Funds listed above, Arabesque may also offer management and advisory services to:

- Private investment funds and other non-SEC registered investment vehicles (Other Pooled Investment Vehicles).
- registered investment companies for which Arabesque serves as a sub-adviser;
- separate accounts for institutional clients (Institutional Separate Accounts);
- separate accounts for private clients (Private Client Separate Accounts);
- wrap fee accounts of sponsored program accounts (Wrap Programs); and
- unified managed account programs (UMA Programs).

## Item 5. Fees and Compensation

### **(A) Private Funds**

As mentioned in Item 4, Arabesque is currently advising two UCITS Funds, each with a sub portfolio which pursues one of Arabesque's two main investment strategies. One of the UCITS Funds employs the following strategies in the sub-funds:

**Arabesque Prime Strategy (Smart Beta) (the “Arabesque Prime Strategy”):** a UCITS fund, charging 0.32% p.a. based on the NAV

**Arabesque Systematic Strategy (Long-only Alpha) (the “Arabesque Systematic Strategy”):** a UCITS fund, charging between 0.82% p.a. and 1.22% p.a. depending on minimum investment sizes based on the NAV

The management fees for the UCITS Funds are calculated on a pro rata basis for each monthly period in which an investor holds shares, and are billed in arrears at the end of each month. Value added taxes shall be added to these fees as applicable.

### **Other Fund Fees and Expenses**

Each of the current UCITS Funds, and by virtue of their investment, the investors, are also subject to their share of any broker commissions, transaction fees, and other transaction costs arising in connection with the purchase and sale of assets, as well as the following expenses, provided they arise in connection with the management of the Funds' assets: management fee to the Manager of the Funds, custodial, transfer agent, administration, sales agent fees, costs incurred in relation to the acquisition, holding and disposal of assets, in particular customary bank charges for securities transactions and transactions involving other assets and rights of the Funds, and the safeguarding of such assets and rights, as well as customary bank charges for the safeguarding of foreign investment units abroad; all external administration and custody fees, which are charged by other correspondent banks and/or clearing agencies for the assets of each Fund, as well as all foreign settlement, dispatch, transaction, all fees incurred in connection with the securities transactions of each UCITS Fund in units of other UCITS or UCI; the transaction costs for the issue and redemption of bearer shares; taxes levied on the Funds' or the Funds' assets, income and expenses that are charged to the respective Fund; costs of legal advice incurred by the Funds, Arabesque, the Manager, or the custodian, if incurred in the interests of the shareholders of the respective Fund; costs of the auditors of the Funds; costs for the creation, preparation, storage, publication, printing, and dispatch of all documents required by the Funds; the administrative fees payable for the Funds to all relevant authorities, in particular the administrative fees of the Luxembourg and other supervisory authorities,

and also the fees for the filing of documents of the Funds; costs in connection with any admissions to listing on stock exchanges; advertising costs and costs incurred directly in connection with the offer and sale of shares; remuneration, expenses, and other costs of foreign paying agents, the sales agents and other agents that must be appointed abroad, that are incurred in connection with the Fund assets; expenses of a possible investment committee; any duties and expenditures of the Board of Directors of the Funds; costs connected with the formation of the Funds and/or the individual Funds and the initial issue of shares; further management costs including associations' costs; costs of ascertaining the split of the investment result into its success factors (known as performance attribution); and costs for credit rating of the UCITS Funds by nationally and internationally recognized rating agencies.

In addition, costs incurred for the founding of the UCITS Funds and the initial issue of shares will be amortized over the first five financial years against the assets of the UCITS Funds existing at the time of formation. The set-up costs and the aforementioned costs that are not directly attributable to a specific UCITS Fund shall be allocated to the respective UCITS Fund assets on a pro rata basis. Costs incurred as a result of the launching of additional UCITS Funds will be amortized over a period of a maximum of five financial years after launch against of the assets of the sub-fund to which these costs can be attributed.

Investors should consult the relevant UCITS Funds' prospectus for a complete listing and description of all fees and expenses charged to the Fund.

### **(B) US Mutual Funds**

As mentioned in item 4, Arabesque acts as the investment adviser to the Arabesque Systematic USA Fund which employs the Arabesque Systematic Strategy on US stocks. The Arabesque Systematic USA Fund charges a management fee of 0.75% p.a. for both the Investor and Institutional share classes and a Distribution (Rule 12b-1) fee of 0.25% p.a. for the Investor Class. No Distribution fee is charged for the Institutional Class. Arabesque has contractually agreed to reduce its investment advisory fee and/or reimburse certain expenses of the Arabesque Systematic USA Fund to the extent necessary to ensure that the fund's total operating expenses (excluding taxes, any class-specific fees and expenses (including Rule 12b-1 fees), interest, extraordinary items, "Acquired Fund" fees and expenses and brokerage commissions) do not exceed 1.20% and 0.95% (on an annual basis) with respect to the fund's average daily net assets of the Investor Class and the Institutional Class respectively (the "Expense Limitation"). The Expense Limitation will remain in place until 31 August 2020 unless the Board of Trustee of the Trust approves its earlier termination.

Investors should consult the Arabesque Systematic USA Fund's prospectus for a complete listing and description of all fees and expenses charged to the fund.

**Segregated Mandates**

Arabesque also offers advisory services on a segregated mandate basis. The fees for a segregated mandate client are negotiable on a client by client basis, and will depend on the size of the investment and the complexity of the mandate, among other factors. All fees payable to Arabesque and any third party costs will be outlined in the investment management agreement with each client.

The management fees charged to segregated mandates will be calculated and billed in accordance with the provisions of the relevant investment management agreement.





## **Item 6. Performance Based Fees and Side-by-Side Management**

Neither the UCITS Sub-Funds nor the Arabesque Systematic USA Fund charges an incentive based fee. However, Arabesque may enter into performance based fee arrangements with other clients in the future. Arabesque's rules based and quantitative investment process ensures that all investors are treated the same and that Arabesque strictly follows the investment strategy as described in the fund documentation or the investment policy statement. For bespoke solutions, the fee structure is set out in the respective fund documentation or investment policy statement alongside the risk level. Arabesque's modular and rules based investment strategy ensures that Arabesque treats all investors equitable and fairly and that Arabesque executes on the investment strategy agreed with investors.

Charging a performance based fee may create a conflict in that it may incentivize Arabesque to make investments on behalf of clients that are riskier or more speculative than would otherwise be the case in the absence of such an arrangement. Such fee arrangements may also create an incentive for Arabesque to favor the clients paying a performance based fee over accounts that are assessed an asset based fee only, such as the UCITS Sub-Funds.

To protect against the favoritism of performance fee paying accounts, Arabesque maintains an allocation policy and procedures designed to ensure that allocations are made on a fair and equitable basis. As far as practicable, where two or more clients are equally suited to a type of investment opportunity and able and willing to participate, Arabesque will allocate such investment equitably in order to ensure that each client has equal access to the same quality and quantity of the investment opportunities that are deemed appropriate for the investment strategy implemented by multiple clients. For more information please see Item 12.



## **Item 7. Types of Clients**

Arabesque may provide portfolio management services to a variety of clients including:

- high net worth individuals
- corporations
- public pension and profit-sharing plans
- Taft-Hartley plans
- charitable institutions, foundations, endowments
- investment companies and other commingled funds
- trusts
- governmental entities
- Wrap Fee Programs
- Index calculators

Investors in a pooled vehicle are not permitted to place any restrictions or mandates on the management of the pooled vehicle. All investment objections and restrictions are outlined in the relevant fund's offering document.

For segregated mandates, Arabesque employs a modular investment approach which can be tailored to a specific investor's requirements in terms of investment universe, capitalization size, factor exposure or weighting mechanism etc.

The Funds have minimum amounts which must be invested dependent upon the specific share class. Investors should consult the prospectus of the relevant Fund for more information.

For segregated mandates, the client may terminate the account in line with the provisions of the investment management agreement. All the Funds offer daily liquidity.

## **Item 8. Methods of Analysis, Investment Strategies and Risk of Loss**

Arabesque offers a modular and rules based investment approach with products based on one or a combination of the following:

### **Arabesque Investment Universe:**

Arabesque uses its proprietary screening tool called the Arabesque S-Ray<sup>®</sup> to produce an investable universe for Arabesque's investment strategies. Arabesque S-Ray<sup>®</sup> is a tool which assesses non-financial risk factors such as Environmental, Social and Governance ("ESG") issues as well as alignment with the principles of the United Nations Global Compact. The inclusion of extra-financial criteria into the stock selection process can be used to help reduce portfolio risks and generate performance. Excluding companies that perform poorly based on the universally appealing values of the UN Global Compact can help reduce reputational risks. The integration of ESG criteria (first principle of the PRI) can help identify firms with lower overall risk and the potential to outperform over the medium- to long-term. Arabesque S-Ray<sup>®</sup> also considers liquidity parameters such as market capitalization, daily turnover and free float, and controversial business involvements to create an investment universe of eligible equity securities.

The UCITS Funds are based on a global all country and all cap universe whilst the Arabesque Systematic USA Fund is based on a universe of US stocks. Certain industry exclusions and balance sheet screenings are then applied for the Funds. For bespoke solutions, regional exposure, potential sector/industry exclusions, and balance sheet ratios can be determined by the investor.

Through Arabesque S-Ray<sup>®</sup>, Arabesque aims to identify a universe of companies with reduced exposure to tail-risk events and a higher likelihood of future financial outperformance, based on different sources of non-financial and sustainability information. The Arabesque Investment Universe is monitored on a daily basis, and rebalanced quarterly. The Arabesque Prime and Arabesque Systematic strategies are only permitted to invest into companies which have made it into the Arabesque Investment Universe, following the Arabesque S-Ray<sup>®</sup> analysis.

### **Arabesque Prime Strategy:**

The Arabesque Prime strategy is a long only, smart beta strategy. It combines sustainability data with fundamental equity analysis and Arabesque's proprietary earnings pressure technology. The strategy is rebalanced quarterly, and aims to be fully invested into a portfolio of stocks selected from the respective Arabesque Investment Universe.



The strategy is based on Arabesque’s quantitative approach to fundamental stock analysis, which aims to identify companies with strong balance sheets and cash flows as well as companies that show continued growth and increasing earnings.

Earning Pressure is a proprietary investment technology which leverages the cumulative knowledge of equity analysts through an analysis of behavioral patterns. Earnings Pressure identifies information before it is priced into equity valuations. It examines and tracks analysts’ views and their estimates in order to identify earnings surprises.

The objective of the Prime Strategy is long-term capital appreciation. The strategy’s assets are fully invested, however a minor cash position is held at all times to pay out fund outflows as and when they arise.

#### **Arabesque Systematic Strategy:**

The Arabesque Systematic strategy is a balanced equity strategy which aims to provide a risk-controlled upside by dynamically allocating between cash and stocks from the respective Arabesque Investment Universe. The Funds following the Arabesque Systematic Strategy are monitored on a daily basis. The objective of the investment policy of the Arabesque Systematic strategy is long-term capital appreciation through investments into the Arabesque Investment Universe and cash instruments. Asset allocation and stock selection are determined by a quantitative approach. Limiting the maximum drawdown is a high priority objective for the Arabesque Systematic Strategy.

The Arabesque Systematic Strategy employs an analytical process (Adaptive Risk Technology) that selects the actual investments out of the respective Arabesque Investment Universe. The goal of the trading system is, given certain risk limits, to maximize the exposure to equities that are in up-trends. To achieve this, the trading system applies three technologies: (i) a trend recognition engine, (ii) a portfolio optimizer, and (iii) continuous position management.

#### **1. Trend-Recognition:**

The trading system uses indicators that are effective in detecting when trends change direction. The main parameters of the indicators represent “acceleration factors”, which determine how rapidly the indicator adapts to price changes.

#### **2. Portfolio-Optimization:**

A constrained CVAR optimization procedure is used to calculate the risk budgets for each of the assets. The optimization maximizes the portfolio’s “performance

expectation”, which is derived from the relative strength of the current trend and Arabesque’s fundamental analysis methodology.

### **3. Position Management:**

The positions are managed daily. Every position has a series of stop levels assigned to it, resulting from the trend signals. If the trading signals indicate a trend-change in a position, the size is adjusted accordingly. Apart from trend-monitoring, the individual positions are continuously monitored for compliance with their risk budgets. If its risk goes up, the position is reduced to comply with its risk limit and vice versa.

## **Risk of Loss**

### **General Investment Risks**

**This section contains a discussion of the risks common to the strategies of some of the Funds and the types of investments in which they will be invested, but does not encompass a full list of all risks which may be present in the strategies. Some of the risks below may not be relevant for a particular Fund. For a complete discussion of all risks associated with investing in the Funds, investors are advised to consult the prospectus for the relevant Fund.**

**As with all investing, an investor in the strategies may lose a portion, or the entire amount invested. The strategies are only appropriate investments for those investors who can bear the risk of loss.**

### **General market risk**

The assets in which Arabesque invests for the account of each client involves risks as well as opportunities for growth in value. If a strategy invests directly or indirectly in securities and other assets, it is subject to many market uncertainties, which are sometimes attributable to irrational factors, in particular on the securities markets. Losses can occur when the market value of the assets falls below the cost price. If a client sells out of a strategy at a time at which the value of assets in the strategies have decreased compared with the time of the share purchase, the client will not receive the full amount invested in the strategies. Despite the fact that each strategy aspires to achieve constant growth, this cannot be guaranteed. However, the investor’s risk is always limited to the amount invested. There is no additional funding obligation concerning the money invested.

### **Interest rate risk**

Investing in securities at a fixed rate of interest is connected with the possibility that the current interest rate at the time of issuance of a security could change. If the current interest rate increases as

against the interest rate at the time of issue, fixed rate securities will generally decrease in value. Conversely, if the current interest rate falls, fixed rate securities will increase in value. These developments mean that the current yield of fixed rate securities roughly corresponds to the current interest rate. However, such fluctuations can have different consequences, depending on the maturity time of fixed rate securities. Fixed rate securities with shorter maturity times carry smaller price risks than fixed rate securities with longer maturity times. On the other hand, fixed rate securities with shorter maturity times generally have smaller yields than fixed rate securities with longer maturity times. This section applies equally to securities that are based on, or benchmarked to, an underlying interest rate.

#### Credit risk

The creditworthiness of the issuer (its ability and willingness to pay) of a security or money-market instrument directly or indirectly held by a client may subsequently fall. This normally leads to a fall in the price of the respective financial instrument greater than that associated with general market fluctuations. The cash allocations for the Arabesque Systematic USA Fund are held overnight with the fund's trading partners (i.e., banks). The fund will hold no more than 25% of the fund's NAV with any single trading partner. In case there is a default overnight where cash is held, a fund may incur losses.

#### Company-specific risk

The performance of securities and money-market instruments directly or indirectly held by a client also depends on company-specific factors, for example, the business position of the issuer. If the company-specific factors deteriorate, the market value of a given security may fall substantially and permanently, even if stock market movements are otherwise generally positive

#### Risk of Counterparty Default

The issuer of a security held directly or indirectly by a client, or the debtor of a claim belonging to a client, may become insolvent. The corresponding assets of the client may become worthless as a result of this.

#### Counterparty risk

In the case of transactions not conducted via a stock exchange or a regulated market ("OTC Transactions") or securities lending transactions, there is, in addition to the risk of default, the risk that the counterparty to the transaction may fail to meet its obligations or fail to do so to the fullest extent. This applies in particular to transactions which are mentioned in section "Information on techniques and instruments" in the prospectus of the UCITS Funds. In order to reduce the counterparty risk in the case of OTC Transactions for the UCITS Sub-Funds, the Manager is

authorized to accept collateral in accordance with the requirements of ESMA Guideline 2014/937. This collateral may take the form of cash, government securities, securities issued by international bodies under public law, and covered bonds. Collateral in the form of cash may not be reinvested. Collateral received will not be sold, reinvested, or pledged.

#### Currency risk

If a client directly or indirectly holds assets which are denominated in foreign currencies, unless the foreign currency positions are hedged, it shall be subject to currency risk. In the event of a devaluation of the foreign currency against the reference currency of the strategies, the value of the assets held in foreign currencies shall fall. Investors may choose to invest in a hedged or an unhedged version of Arabesque's investment strategies.

#### Industry risk

If a strategy focuses its investments on specific industries (e.g., natural resources) this shall reduce the benefits of diversification. As a result, the strategy shall be particularly dependent on both the general development and the development of the company profits of individual industries or influential industries.

#### Country and regional risk

If a strategy focuses its investment on specific countries or regions, this shall also reduce the risk diversification. Accordingly, the strategy shall be particularly dependent on the development of individual or mutually interlinking countries and regions, and on companies which are located and/or are active in these countries or regions.

#### Country and transfer risk

Economic or political instability in countries in which a strategy invests may mean that a client does not receive, in whole or in part, in time or only in a different currency the monies owing to it due to the insolvency of the issuer of the respective security or other form of assets. The reasons for this may include, for example, currency or transfer restrictions, nonexistent transfer ability or preparedness or other forms of legal changes. If the issuer pays in a different currency the security position is exposed to an additional currency risk.

#### Liquidity risk

Particularly relevant to illiquid (restricted market) securities, even moderately-sized orders may lead to considerable changes in prices for both purchases and sales. If an asset is not liquid, there is a risk that it may not be possible to sell the asset or to sell it only at a considerable discount. In the case of purchase, the illiquidity of an asset may cause the purchase price to rise considerably.

### Custody risk

Custody risk describes the risk arising from the fundamental possibility that the clients' access to the assets held in custody may be partly or fully withdrawn to its detriment in the event of insolvency or negligent, deceitful, or fraudulent dealings by the custodian or a sub-custodian.

### Emerging markets risks

Investing in emerging markets entails investing in countries that are not included in the World Bank's category of "high GDP per capita" – i.e., not classified as "developed" – countries. In addition to the risks specific to the asset class, investments in these countries are generally subject to higher risks, in particular heightened liquidity risk and general market risk. In emerging markets, political, economic, or social instability, or diplomatic incidents may hamper investments in these countries. Moreover, the processing of transactions in transferable securities from such countries may entail greater risks and be harmful to the investor, particularly due to the fact that it may not be possible or customary for transferable securities to be delivered immediately upon payment in such countries. The country and transfer risks described above are also significantly greater in these countries.

In addition, the legal and regulatory environment and the accounting, auditing, and reporting standards in emerging markets may differ significantly from the level and standards which are otherwise customary on an international scale, to the detriment of an investor. This may not only lead to differences in government monitoring and regulation, but also to additional risks in connection with the assertion and settlement of claims of the strategy. In addition, a higher custody risk may exist in such countries, which can result in particular from different forms of the transfer of ownership of acquired assets. Emerging markets are generally more volatile and less liquid than markets in developed countries, which can entail greater fluctuations in the unit values of the relevant strategies.

### Investments in Russia

Individual strategies may, in accordance with their investment policy, invest in securities of Russian issuers. The Russian stock exchange (OJSC, Moscow Exchange MICEX-RTS) is a regulated market within the meaning of point 1(a) of Article 4 (General provisions of the investment policy) of the Articles of Association of the UCITS Funds. In Russia, securities held in safe keeping present certain risks with respect to ownership and custody, as evidence is kept for the legal claim on shares in the form of delivery by book entry. This means that, in contrast to the common practice in Europe, evidence of ownership is made through an entry in the books of a company or an entry in a Russian registration office. Since such a registration office is not subject to any real state supervision or liable to custodian banks, there is a danger that the client might lose the registration and ownership of



Russian securities through negligence, carelessness, or fraud.

#### Inflation risk

Inflation risk involves the risk of asset losses as a result of the devaluation of the currency. Inflation will reduce the income of a strategy as well as the value of the asset in terms of its purchasing power. A number of currencies are subject to inflation risk to varying high degrees.

#### Preference Based Investing

A further risk factor is the performance impact of the execution of specific preference-based compliance restrictions, which may be based on environmental, social, governance, religious, moral, or other preferences. The investment performance of such portfolios may differ compared to similar portfolios without the preference based compliance restrictions. The respective fund documentation or the investment policy statement provides full details in case preference-based compliance restrictions have been implemented.



## **Item 9. Disciplinary Information**

Neither Arabesque nor any of its advisory affiliates have any disciplinary issues to report.



## **Item 10. Other Financial Industry Activities and Affiliations**

The Manager and/or employees, representatives or associated companies may act as a member of the Board of Directors, Board of Trustees of the Fund, investment manager, custodian or depository bank, fund administrator, registrar and/or transfer Agent, or as any other service provider on behalf of the Fund/sub-funds.



## **Item 11. Code of Ethics, Participation or Interest in Client Transactions, and Personal Trading**

Arabesque has implemented a Code of Ethics (“Code”), and a personal account dealing policy (“PAD Policy”) which covers employees, their spouses, co-habitee partners, and children. The PAD Policy provides that no employee may invest in listed single name equities without express approval from the Compliance department. Employees may only deal once in any seven-day period without express Compliance approval. If an employee, exceptionally, holds an individual security which is also in the Arabesque Investment Universe, he or she may not deal in that equity for two days before or two days after a rebalancing of the Arabesque Investment Universe. Employees may not invest in instruments or strategies which could cause Arabesque reputational damage. In addition, the PAD Policy includes provisions requiring the quarterly reporting of transactions and annual holdings reports. To obtain a copy of Arabesque’s Code and PAD Policy, investors can contact Arabesque at the number on the front of this brochure.

## Item 12. Brokerage Practices

### Best Execution

To ensure that Arabesque takes all sufficient steps to obtain the best possible result for its clients, it has considered the relative importance of execution factors, taking into account:

- Characteristics of the client – including its investment objectives, policy, and risk appetite;
- Characteristics of the client order;
- Current market circumstances;
- Characteristics of the financial instrument or products that are subject to that order; and
- Characteristics of the execution venues to which that order can be directed.

To achieve best execution, Arabesque takes into account and, in general, prioritizes factors including price, costs, speed, likelihood of execution and settlement, and the size, nature, and any other consideration relevant to the execution of that order. The best possible result for the execution of a particular transaction of its clients' orders is determined by the relative importance given by Arabesque to these factors, which in turn result in the choice of a specific benchmark, trading strategy, executing broker, and execution venue. In determining the relative importance of these factors, Arabesque considers the criteria mentioned above.

Under certain circumstances, orders may be executed outside a regulated market or a multilateral trading facility to obtain the best possible result for Arabesque's clients. When trading OTC or in dealer markets, Arabesque uses request for quote procedures or trade on quotes provided by market makers, brokers, or other liquidity pools. This may apply to fixed income and OTC derivatives. The ability to apply best execution in these circumstances may be limited to the availability of alternative liquidity provision and reference points.

Arabesque primarily deals in liquid stocks. Therefore, Arabesque, in general, assumes that the price of the financial instrument and the overall transaction cost have a high degree of importance relative to the other specified factors, given its investment strategy.

Arabesque monitors the effectiveness of the order execution process and its best execution policy to identify and, where appropriate, correct any deficiencies. Arabesque monitors best execution on a quarterly basis to ensure that the policy is being complied with.

Arabesque takes all sufficient steps to select the broker or execution venue most likely to deliver the best possible result on a consistent basis. To cater for all asset classes, order types, and markets, Arabesque uses a range of brokers and execution venues to execute client transactions, including:

1. Full service brokers;
2. Systematic internalizers;
3. MTFs or Electronic Communication Networks (ECNs); and/or
4. Broker dealers or market makers.

Arabesque only uses pre-approved counterparties, which may include non-EEA counterparties, which are set out in the approved counterparty list (“Approved Broker List”). The broker selection process pre-selects counterparties viable to deliver best execution in respect of each asset class, the full range and quality of the broker’s services and its financial reliability. When selecting brokers for the Approved Broker List, the following different factors are considered:

- Markets and Products Coverage: Arabesque requires global execution capabilities and market specialists in different regions. In addition, brokers must be able to execute through modern technological means such as algorithms and portfolio trading;
- Research: a broker’s breadth and depth of research expertise can be an additional differentiating factor. Experience and additional views from a research perspective can be beneficial for execution, e.g., of block orders;
- Execution: a broker’s execution capability is at the heart of the selection process. This section takes an in-depth approach to analysing and assessing execution mechanisms;
- Settlement: Arabesque takes settlement quality into the execution evaluation, as poor settlement processes can lead to risks in the delivery or payment of financial instruments and can be time-consuming and therefore cost-intensive for all parties involved.

The selection of a particular broker to execute a particular client trade will vary by the nature of the product or financial instruments and will depend on the broker’s ability to consistently obtain best execution of the client transactions. Factors to consider in obtaining best execution are, amongst others:

1. Price and costs;
2. Market and product coverage;
3. Access to or provision of liquidity;
4. Speed and reliability of execution; and/or
5. Reliable operations and settlement.

On an annual basis, Arabesque summarises and makes public, for each class of financial instrument, the top five entities in terms of trading volumes where the Firm transmitted or placed orders for execution in the preceding year.

In addition to the above, Arabesque publishes for each class of financial instrument, a summary of the analysis conducted and conclusions drawn from the monitoring of the execution venues utilised. Specifics of what the analysis is to cover include:

- relative importance the Firm gave to the execution factors when assessing quality of execution;
- description of any close links, conflicts, common ownerships with respect to any execution venues used;
- description of any specific arrangements with execution venues regarding payments made/received, discounts, rebates or non-monetary benefits;
- explanation of factors that led to a change in the list of execution venues used by the Firm;
- explanation of how order execution differs according to client categorisation; and
- an explanation of how the Firm has used any data or tools relating to quality of execution published by execution venues.

Arabesque publishes this information on the Firm's website in a machine-readable electronic format available for download by the public.

### **Soft Dollars/Commission Sharing Arrangements**

Arabesque's principles are independence, transparency, and alignment of interests. Arabesque will not enter into any commission sharing or soft dollar agreements with its prime brokers or any other counterparty.

### **Aggregation and Allocation**

In order to ensure that the Firm treats every client fairly and equally and to optimize buying power, the Firm executes trading orders for clients together if the firm receives them at the same time. As a general rule, the Firm will not execute any trading orders for a client together with an order for the Firm's own account ("own business"). In exceptional circumstances, this principle may be waived if it is unlikely that merging orders for funds with the Firm's own business would have a detrimental effect on clients.

If Arabesque merges its own transactions with one or more orders for clients, it will not proceed in a manner that is detrimental to the clients. This means:

1. If the collective order is only partially executed, then execution of the individual orders of the client (s) will take precedence over Arabesque's own business transactions.
2. In cases where the individual orders could not have been executed at all, or not executed under the same favourable conditions, without merging orders for client(s) with Arabesque's own transactions, then, where the aggregated order is only partially filled, the individual orders

will be executed on a pro-rata basis in proportion to the collective order, relative to each account's AUM.

In order to achieve the best possible result for a client order, regulation requires this is determined in terms of 'total consideration' of both execution price and all execution related costs. Arabesque will consider execution related costs such as but not limited to, execution fees & commissions, give-up fees, custodian fees, and whether fixed or a function of order size.

Where Arabesque has an arrangement with a third party (a "Third Party Partner") by which Arabesque offers replications, or partial replications, of its strategies to those Third Party Partners in order for those Third Party Partners to trade those strategies on behalf of their clients, Arabesque may be required to comply with certain compliance policies and procedures of such Third Party Partners with regard to conflicts of interest, compensation and remuneration of the Third Party Partners' staff, and marketing materials, among others. Where such a situation occurs, the relevant provisions of the Third Party Partner's policies and procedures will take precedence over Arabesque's policies and procedures in these areas. Arabesque's CCO will be responsible for distributing such policies to staff and ensuring that all staff adhere to those policies when conducting business with the Third Party Partner.

Additionally, in this type of situation, Arabesque will seek to ensure that all investors are at all times treated fairly, equitably and transparently. This may require Arabesque to take the Third Party Partner Trades into account when Arabesque executes trades for its own clients ("Arabesque Trades"). Arabesque will therefore monitor the volume of both the Arabesque Trades and the Third Party Partner Trades and will implement procedures in which the Arabesque Trades and the Third Party Partner Trades may be sequenced for execution or limited in volume participation in order to ensure that no investors into Arabesque strategies are disadvantaged in the execution of trades. For the avoidance of doubt, no individual group of investors, regardless of regulatory jurisdiction, whether investing via SICAVs, other open-ended investment vehicles, wrap fee programmes, segregated mandates, or any other format, will be advantaged or disadvantaged. All steps taken to ensure fair and best execution for all parties involved must be in line with the rules and regulations of all regulators involved.

As such Arabesque may determine that multiple client orders across different funds, SICAV or share classes will not be merged if the use of different execution venues will result in the best possible overall transaction cost for all clients.

## **Cross Trades**





A cross trade is generally a transaction between two client accounts managed by the same adviser. Cross trades can be beneficial to both clients in certain situations. For example, a cross trade can facilitate the transfer of securities among accounts without exposing the trade to the market, thereby saving transaction costs for both clients. But cross trades also pose fiduciary duty issues. For example, if the adviser obtains a more favorable price for one client in the cross, favoring one client over another can constitute a breach of fiduciary duty. Similarly, a cross trade must be in the best interest of both clients and cannot be undertaken merely to provide liquidity to one client. In addition to these fiduciary duty requirements, there are additional requirements or prohibitions on cross trades involving an ERISA account, a US '40 Act fund, or an account that is considered a principal account. It is Arabesque's policy to comply with its fiduciary duty and regulatory requirements related to cross trades. The procedures below are designed to facilitate that compliance.

If any account in a contemplated cross trade is an investment company registered with the SEC (a '40 Act Fund), the cross trade must comply with Rule 17a-7 under the Investment Company Act of 1940. If Arabesque is considering a cross trade involving a '40 Act Fund, the CCO should be alerted before the cross trade is effected. The CCO will take steps to monitor the firm's compliance with Rule 17a-7 procedures with respect to cross trades involving the FundVantage Fund.

### **Trade Errors**

It is Arabesque's policy to aim to act in the best interests of the client. Arabesque periodically reviews past trade errors to evaluate the performance of Arabesque's trading function, the executing brokers (and other parties to the trade) in each case to understand the causes of such errors and to ensure that any procedural changes are correct and effective in improving Arabesque's controls. To the extent that Arabesque can demonstrate that a broker or any other party was partly or entirely responsible for a trade error, the party-at-fault may be asked to bear part or all of the cost of the error. Any loss or profit for a trading error will only be borne by the party-at-fault. This could either be the broker, the Manager, which is responsible for pre-trade compliance checks, or the Firm. The parties will determine the compensation amount, and any loss payable from the trading error will be borne by the party-at-fault. The fund or client will never bear the loss of a trading error. The Firm has in place PII insurance which it can claim against in the event of a material loss to the fund or the Firm. The insurance excess is USD\$25,000 whilst the insurance cover is up to USD\$10mm.

Arabesque has in place systems to identify and record where an error has occurred in its trading activity. In the event that Arabesque identifies a failed trade (for example, where the transaction has failed as a consequence of a system failure) or a dealing error (for example, the trade was executed incorrectly) and regardless of the party at fault, this must be reported to Arabesque's Compliance, who will review the circumstances of the error (including determining the party at fault) and report to

the Head of Trading, who will decide upon the course of action and whether to disclose the error to the client. This decision is then reported to the Board. Any attempt made by staff to conceal a dealing error will be taken very seriously and relevant staff will be subject to disciplinary procedures.

In the event that a trade error has occurred, the executing broker is immediately contacted to research the trade in question. A decision will be made as to the party- at-fault and the consequences to follow (as set out above). Arabesque will seek to correct any error promptly in order to mitigate any loss.

On a case by case basis, Arabesque will endeavour to ensure that no fund or client is disadvantaged by a trade error. If the counterparty is at fault, Arabesque will seek for the counterparty to make good any costs/losses to its client.

In the event that a profit occurs as a consequence of a trade error, this profit will be passed on to the client.

### **Item 13. Review of Accounts**

The UCITS Sub-Funds are reviewed on an ongoing basis by Arabesque's investment staff. Investors in the UCITS Sub-Funds receive a monthly report including performance and risk report and portfolio analysis. In addition, full portfolio holdings are available on a monthly basis on Morningstar and Bloomberg (with a lag). No later than four months after the end of each financial year, the Board of Directors published an audited annual report in accordance with the regulations applicable in the Grand Duchy of Luxembourg.

Two months after the end of the first half of each financial year, the Board of Directors publishes an unaudited semi-annual report. Insofar as this is necessary for an entitlement to trade in other countries, additional audited and unaudited interim reports may also be drawn up.

BNY Mellon Investment Servicing (US) Inc provides certain administrative and accounting services to the Arabesque Systematic USA Fund such as preparing shareholder report, assisting Arabesque in compliance monitoring activities and maintaining records relating to the securities transactions of the Arabesque Systematic USA Fund.

For segregated mandates, reporting is negotiable and is subject to the investment management agreement.



## **Item 14. Client Referrals and Other Compensation**

Arabesque works with capital introducers. 10% of gross revenues from clients which have been introduced to Arabesque externally is paid to the introducing party on an ongoing basis for as long as the client is invested in Arabesque's products. Information about the introducers' agreements is available to the respective investors which are introduced by a particular introducer.

For the avoidance of doubt, Arabesque does not outsource the sales or client management process. Capital introducers are paid for introducing opportunities to Arabesque which will be solely pursued by Arabesque full-time personnel.



## **Item 15. Custody**

Arabesque does not have custody of any client funds or securities.



## **Item 16. Investment Discretion**

Arabesque exercises full investment discretion over its products subject to the terms and conditions outlined in the relevant prospectus. However, Arabesque may enter into non-discretionary mandates in the future.



## **Item 17. Voting Client Securities**

Arabesque has put in place an active ownership process aiming to incentivize companies to improve their processes in line with ESG principles. Arabesque has mandated ISS Governance Services (“ISS”) to perform proxy voting on behalf of both the US mutual funds (mainly the Arabesque Systematic USA Fund and the Arabesque Systematic International Fund). Arabesque has mandated BNY Mellon to undertake class actions on behalf of the Arabesque Systematic USA Fund. Investors may contact Arabesque at the number on the front of this brochure for a copy of the proxy voting policy and information on how the UCITS Sub-Funds’ and the Arabesque Systematic USA Fund’s equities were voted.



## **Item 18. Financial Information**

Arabesque has never filed for bankruptcy, and is not aware of any financial condition that is expected to affect its ability to manage client accounts.