Environmental, Social and Governance Report 2023

Contents

01 | A letter from our managing partners

Dear stakeholders,

Since the team's establishment in 1988, we have witnessed the changing aspects and importance of environmental, social and governance (ESG) analysis. In recent years, the rising regulatory requirements and the push towards greater disclosure have given raft to a new industry of ESG research and ratings providers, whose aim is to summarise all the complexities within a single, tidy "ESG risk score".

In today's output-driven climate, this can be used to back-solve for a positive ESG rating – it's all laid bare in the spreadsheet. But in our experience, it is clear when a company has embedded sustainability principles through its business, or if it is just paying lip-service to the matter. Unearthing the truth requires talking to management and asking questions, rather than accepting these arbitrary ratings (or in some instances, inaccurate ones) as strict and absolute measures.

There is also a growing backlash from parts of the investor community who believe that focusing on ESG is detrimental to investment returns. We strongly disagree. When ESG is not integral to the business or part of the culture, we have found that companies take shortcuts and management are not truly interested in building long-term value. Unsurprisingly, it is the poorly-behaving, badly-run companies that usually end up losing money.

Fortunately, our long-established investment process means that we do not often encounter bad-actor companies in our portfolios. As we have noted in previous reports, we believe that "quality" and "ESG" are synonymous, and this is reflected in our engagement with companies. For the most part, the management teams at our investee companies are open-minded and receptive when we offer examples of best practice and suggestions for improvement. This has been helped by our longstanding ownership of companies and the relationships we have built with management over time.

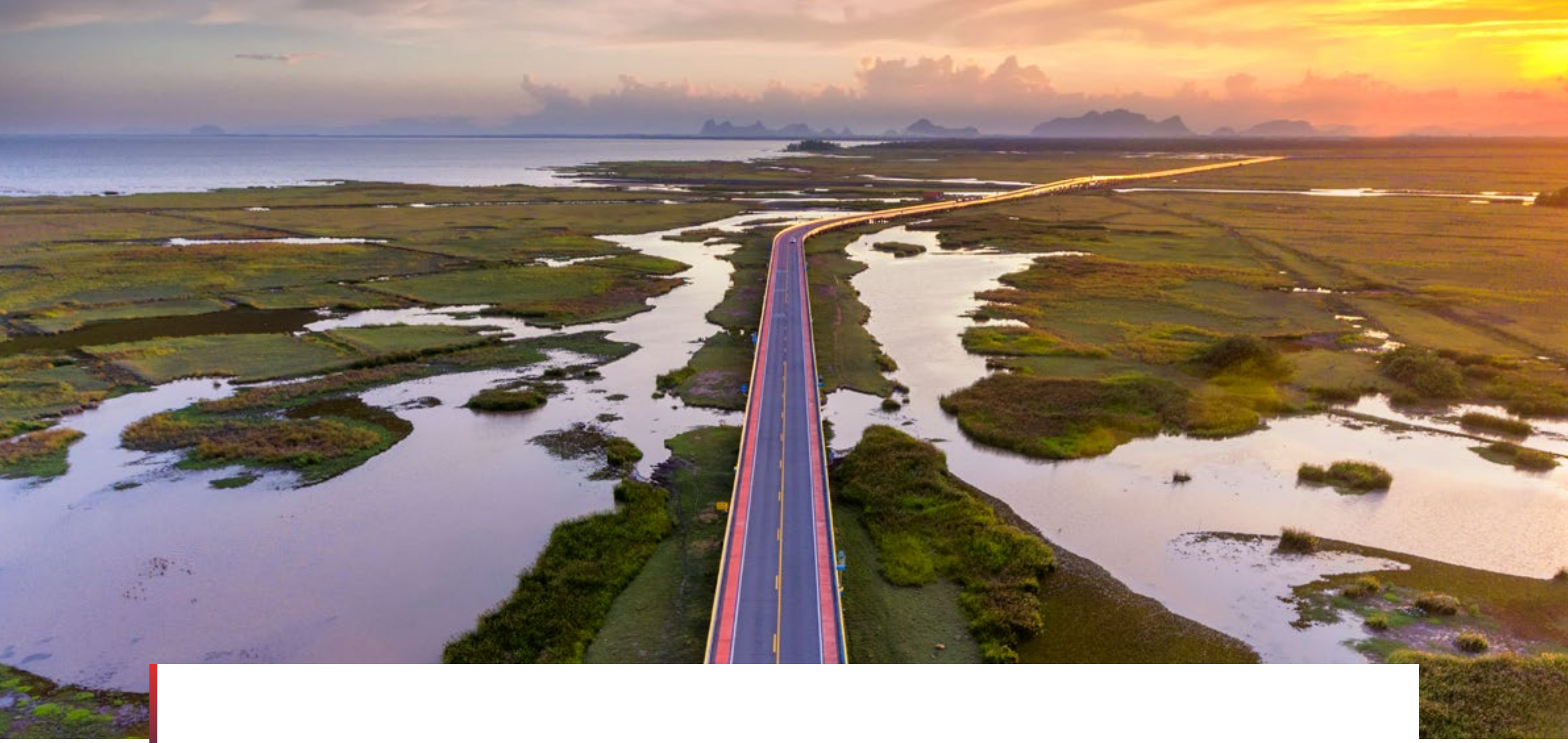
During the past year, we discussed issues ranging from board independence and effectiveness to remuneration policies, succession plans, quality of financials, related-party transactions, labour rights, food safety, carbon emissions and net-zero commitments. We have highlighted a few of these company engagements in this year's report.

We hope you will enjoy reading them. If there are any questions or feedback on our approach, we would welcome hearing from you. Thank you for your support.

Sincerely,

Martin Lau
Managing Partner

Michael Stapleton
Managing Partner



02 | Introduction

About this report

In this report, we provide an overview of FSSA Investment Managers' approach to responsible investing, using a series of case studies to highlight our ongoing engagement with companies. We also provide an update on the progress we have made in decarbonising our portfolios, and our priorities for 2024 and beyond.

Summary review of the past year

In 2023 we put in place the key elements to support our ongoing engagement efforts. Most notably, in the first half of the year we designed and adopted a centralised, web-based engagement tracking system to record material ESG concerns at investee companies, our engagement plans and actions towards them, and the results of our activities. This has begun to streamline our monitoring practices and should improve our engagement efforts and stakeholder reporting in the coming years.

We also continued our decarbonisation work over the course of the year, reviewing our investee companies' net-zero ambitions and covering 78% of assets under management (AUM) as at 31 October 2023. Our assessment is based heavily on the "net zero alignment maturity scale" from the Net Zero Investment Framework Implementation Guide (NZIFIG) produced by the Institutional Investors Group on Climate Change.

While there has been no shortage of dramatic headlines over the course of 2023, from mounting geopolitical tensions to the rise of new civil conflicts and more record-breaking weather anomalies, there have also been signs of progress. This includes the steady recovery of the ozone layer[1] and updated human rights guidelines for businesses.[2]

These events – the negatives as well as the positives – are a reminder of the responsibility and role we have in supporting sustainable capital markets. We believe the momentum has accelerated and we look forward to more thoughtful, purposeful change.

1 https://www.weforum.org/agenda/2023/09/ozone-layer-hole-update-nasa/
2 https://www.mayerbrown.com/en/insights/blogs/2023/06/a-new-era-for-human-rights-and-environmental-due-diligence-the-oecd-launches-updated-guidelines-for-multinational-enterprises

03 | Our investment approach

Our investment approach is focused on identifying quality companies, buying them at a reasonable price and holding for the long term, which we define as three to five years (though we often hold for longer).

We analyse each company on its individual merits and seek to invest in those with attractive growth potential. We manage concentrated portfolios and invest in a relatively small number of companies that we believe can generate sustainable growth, regardless of their inclusion (or otherwise) in benchmark indices. We aim to achieve long-term capital appreciation for our clients, while preserving capital in falling markets.

ESG embedded within the team

We are all primarily analysts; and some of us also have portfolio management responsibilities. We encourage all team members to research, analyse and propose new ideas from across our universe. This approach allows broader coverage of the investible universe and means that the entire team develops in-depth knowledge of each company prior to any stock position being initiated. We believe this team culture sets us apart in the investment management industry.

We also believe it is the responsibility of each investment team member to think about ESG issues as part of his or her daily decision-making. Just as we would not outsource the financial analysis to a team of accountants, or the franchise assessment to external business consultants, we see no reason to separate the ESG and sustainability elements from our fundamental research process. These factors are intertwined in our quality assessment, which in turn is core to our investment philosophy.

Quality assessment

We consider three main interrelated factors when assessing companies for potential investment: the company's management, business franchise and financials. Firstly, we seek out individuals who demonstrate a sense of stewardship and corporate responsibility. We want our investee companies to be run by people who think about long-term returns in the context of its broader impact on society and the planet. By choosing to invest with good people, we believe that good governance should ensure that environmental and social concerns are rightfully addressed. As for the franchise and financials, we look for markers of sustainable growth in earnings, cash flows and corporate value over the long term.

We assign each company we encounter an overall quality rating based on a comprehensive analysis of these considerations. Our views on its ESG practices are incorporated into this assessment. Broadly speaking, companies that we consider to be the highest quality form the core holdings of our portfolios.

Our core beliefs

1	We believe in quality.
2	We are bottom-up stock pickers.
3	We believe in the investment case for Asia and emerging markets.
4	We are long-term growth investors.
5	We define risk as the risk of capital loss, not underperforming an index.
6	We are pragmatic contrarians.
7	We invest in companies where we are an aligned partner.
8	Sustainability is a key part of our process.
9	We believe in the team.
10	We believe in our funds.

ESG integration and engagement policy

Evaluating ESG factors is part of our risk-mitigation approach. We seek to identify the most relevant ESG issues from a broader stakeholder and sub-industry perspective when choosing to engage with companies. In our research and analysis we have started to include an evaluation of a company's performance related to each key stakeholder groups. This evaluation provides us with a baseline understanding of how the company treats its key stakeholders and identifies areas that may require further research and engagement.

When we engage with management, we want to understand how a company is addressing its ESG challenges and opportunities in order to underwrite its long-term success. In this context, our goal is to persuade companies to consider the material issues in their business; and we are supportive of company leaders who are willing to address changing societal and environmental expectations on the way they operate.

That said, we believe that there is no such thing as a perfect company. ESG is a complex subject, and the markets we invest in are at varying stages of development. Instead of penalising companies in the early stages of incorporating ESG measures, we focus on the direction of travel and partner with companies to encourage them to improve. Ultimately, we aim for our engagement efforts to improve their trajectory, help them achieve their long-term objectives, and align those goals with their key stakeholders.

Key stakeholders				
Owners	**Employees**	**Suppliers**	**Customers**	**Society**
Minority owners (such as ourselves)	Headquarters and operational	All tiers	Business-to-business and business-to-consumer	"Average" person, both global and local

External ESG data and exclusions policy

We believe that external ESG ratings and data can be useful, but they have their limitations. We use them as a starting point for further analysis and debate amongst the team. Third-party ESG scores rely upon the standardisation and quality of data disclosed by companies – and this is still lacking, especially in emerging markets. We are optimistic that the ESG data industry will eventually converge, with encouraging developments such as the establishment of the International Sustainability Standards Board (ISSB) in 2021. These advancements will eventually enable us to compare companies more effectively.

We believe that not everything has a price and will not invest in companies unless they meet our quality standards. There are certain areas which we avoid for ethical reasons, such as gambling, or the production of tobacco[1] or armaments[2]. We also steer clear of companies where we have concerns with governance issues, excessive leverage, overcomplicated ownership structures, or are prone to government interference. Other issues to avoid include the short-sighted pursuit of business gains, reckless corporate conduct, or the exploitation of workers, regulatory loopholes and the environment.

Our full exclusions policy can be found on our website.

1 This includes all companies involved in the production of traditional cigarettes and other tobacco products (including cigars and chewing tobacco), but not including vaping or e-cigarette products, with an effective 0% revenue threshold. This does not extend to minority investments, where a parent company owns less than 50% of a company.

2 This includes all companies that manufacture controversial weapons and entities that own more than 50% of controversial weapons manufacturers, with an effective 0% revenue threshold. This does not extend to minority investments, where a parent company owns less than 50% of a company.

04 | Special report: Keeping score

A significant proportion of our time is dedicated to analysing and interpreting unquantifiable qualities. With this context, we are hesitant to endorse third-party sustainability metrics, or try to calculate a proprietary score to judge the sustainability of our investee companies. With such matters, we believe that addressing the nuances and being pragmatic is a far better way to approach responsible investing.

While the use of third-party datasets or proprietary scoring methods is one way to meet evolving market regulations, we believe that relying on a single output (usually a precise number) for measuring "sustainability" may not necessarily provide the full picture. These scores may be sophisticated and well intentioned, but they are inherently subjective, their methodologies sometimes opaque, and the data may not always be accurate or even up-to-date. Given their limitations, we use them only as a starting point for discussion, if at all.

Below, we illustrate the point with an example of a company that we regard as one of the best managed in our universe – in our view the owners and managers have displayed exceptional stewardship of the company and hold a considerable stake in it (approximately 17% of the shares); they have allocated capital with precision and generated attractive growth; and the result is a 24% compound annual growth rate (CAGR) in USD total returns over 20 years[1].

These tangible results have flowed from its intangible and difficult-to-replicate competitive advantages and the unique culture permeating every facet of its business. In short, this company has created immense value for its stakeholders over the long term.

1 As at 31 December 2023. Financial metrics are from Bloomberg and Factset.

We have summarised the company's economic value-add in the table below, which strikes us as capitalism working well.

	2003	2023	Growth
Team members	1,819	11,311	6x
Team members' profit share	<$0.6mn	$50mn	80x
Income taxes paid	$3.3mn	$114mn	34x
Capital investment	$6.3mn	$191mn	30x
Net profit	$6.3mn	$269mn	43x
Dividend per share	$0.04	$1.08	25x
Market capitalisation	$57mn	$4,453mn	77x
Quote from the chairman's annual letter	"If business does not work with society, then the two parties are likely to work against each other."	"Every person, every business, and every country can and needs to contribute to reducing carbon dioxide into the atmosphere."	The same chairman!

Source: Company annual reports and Bloomberg. Local constant currency has been converted to USD as at 31 December 2023, using Oanda.com.

Yet, a third-party data provider's report had rated this company medium risk in terms of ESG. Based on its ESG risk score the company seems to be average, or even below average. While we don't take stock of every score on every company we own, this prompted us to look a little deeper at the report's findings. Was the company achieving such growth through the exploitation of resources or human capital? Were there other red flags that we had overlooked in our analysis?

The company was noted to have various Corporate Governance issues and average management of those risks. The three areas of concern relate to the company's board structure, remuneration, and audit and financial reporting.

First, on board structure, the primary issues were the board leadership, the long tenure of the directors, and the lack of a nominating committee. Whilst general corporate governance guidelines advise against long-serving board members on concerns about their lack of independence, the management have been very outspoken about such "perceived best practice guidelines" and resolutely rejected taking a "checklist" approach to corporate governance. They believed they had "adopted robust measures that support their efforts to grow the company, for the benefit of their team and shareholders around the world, for the next 100+ years."[1] In recent years the company has also been seeking to add to the board and improve the diversity of its members.

1 From the CEO's remarks at the company's Annual General Meeting in 2020.

As we noted in our research report on the company, written in 2020:

"The board and the company must commit to each other. Short-term boards make weak, short-term decisions. Instead of buying property, they lease. Instead of getting the best person you end up with the next best. Whereas, if you are never thinking about selling and making your money that way, you are focused on good business. Experience, that is what we want, experience. Let us not succumb to a named bureaucratic best practice that says experience, intelligence, dedication and committed contribution be replaced for the sake of 'independence'. – remarks made by the CEO"

Source: FSSA Company Report, 2020.

In this instance, having met with the management and having carried out a detailed review of the management's track record and the company's business franchise and financials, we agreed with this view. We wrote to the chairperson shortly after we initiated ownership: "We are fully supportive of the board and the standard of excellence which it upholds. In combination with a longstanding management team, insider ownership and a strong culture, we take no issue with the company's corporate governance standards and view much of it as the ingredients for its continued success."

In addition, the company's remuneration policy appeared to be lacking short-term incentive performance metrics. However, we would argue that its end-of-year bonus scheme – a 10% profit-share amongst all employees (not just executives) – was a simple way to motivate staff and foster a corporate culture where people are treated equally. In addition, while the report called out the insufficient disclosure to determine the proportion of variable pay in the CEO's remuneration, and the lack of disclosure around a clawback policy, we were comfortable with both of these issues after speaking to the management.

In our company report, we noted:

"For executives, the compensation falls within a narrow band with a salary and a performance bonus based upon profitability and some key performance indicators (KPIs). Neither the chairperson nor the CEO elect to receive their director fees."

Source: FSSA Company Report, 2020.

Finally, partly due to the extended tenure of its audit firm, the company seemed to underperform on audit and financial reporting. In addition, it was noted that there were no independent members of the audit committee with financial expertise, even though the chair has extensive experience in corporate finance and had advised on a wide range of acquisitions, business sales and structured finance. Moreover, the audit committee had met only two times or fewer during the year.

Our analysis concluded that the company runs a simple business and has no need to overcomplicate matters with bureaucratic processes and red tape. The management had reportedly commented that their accounting was "almost as simple as a domestic household budget".

In our company report, we noted:

"...The branches post their weekly profit & loss (P&L) on the wall of the canteen for every employee to see... the accounts are intentionally simple so that everyone can understand them. Every week a branch manager reports on their branch's performance so that adjustments can be made in a quick and timely manner. The balance sheet is wonderfully straightforward."

Source: FSSA Company Report, 2020.

The key message we wish to impart with these points is that the convenience of a single metric could be misleading and should not be relied on solely. Scoring also tends to value a static approach – the number says it all and then one can move on with other things. While we were satisfied with what we had uncovered, we talked to the CEO of the company in question to ensure that we were not missing any details in our own analysis of the ratings.

Our in-depth research process and our approach to company analysis show the importance of taking a good look at what lies underneath the bonnet, rather than relying on ESG ratings. Meeting with companies and management teams is key and allows us to uncover the kind of details third parties might overlook – and which even a propriety scoring system may fail to capture in the pursuit of reducing a business to a set of metrics.

With our investment approach, the work does not stop after the initial comprehensive analysis. In fact, it has only just begun. In our company report we might have analysed how a company has operated in the past and its business today, but the next step is to better understand and shape its evolution. As responsible owners this involves ongoing study of the issues at hand and considerable engagement with companies to offer our support. It is through this enduring practice that we truly begin to understand the quality of a company.

This approach, which we have adhered to for more than 30 years, helps us avoid mistakes and identify some of the best long-term investment opportunities in our universe. Companies are complex organisms and, thankfully for us active managers, they can never be reduced to a simple set of numbers. We have built our investment track record by focusing on the qualitative aspects of investing and looking for the stories behind companies, not just the scores imposed on them.

05 | Corporate governance

In our assessment of companies, we value the governance most highly; thus, the first step in our investment process is a thorough due diligence on the quality of the management team. We begin by building an understanding of how management have behaved in the past, looking far into a company's history and its key turning points to glean insights about the organisational culture.

We also seek a track record of sensible capital allocation – we are wary of acquisition-driven growth and teams that don't treat capital with respect. This exercise is inherently backward-looking, but our experience has taught us that leopards rarely change their spots. Investing, however, is necessarily forward-looking and therefore we carefully consider signs that might suggest a change in behaviour in the future.

Alignment of interest is another critical point. We pay close attention to the corporate structure, differential voting classes of shares and whether the incentive program encourages long-term behaviour. The board of directors acts to provide the proper checks and balances on executive behaviour; thus, we assess the quality and independence of directors by researching their reputations, other boards they may sit on, industry knowledge and whether they add much-needed diversity.

Once we have a reasonable sense of what management do, we want to reconcile it with what they say. We believe there is only so much one can learn from reading past annual reports and news articles. Meeting management teams regularly is a core part of our process, as we build our understanding and appreciation of a company's investment potential. In this regard, we prefer to conduct in-person meetings, where possible, at the company's premises to pick up clues about the culture. We have found that by discussing long-term issues such as strategy, capital allocation, succession, professionalisation, board quality and environmental/social impact, their replies often provide the best insights into the direction of travel.

Total no. of company meetings[1]

2019	2020	2021	2022	2023
1,602	1,534	1,641	1,558	1,553

Source: FSSA Investment Managers.

Proxy voting

Voting rights are a valuable asset that we believe should be managed with the same care and diligence as any other asset. We aim to vote on all resolutions at annual and extraordinary general meetings, with the votes being made in the best interests of our clients at the time of asking. All resolutions are reviewed with the respective portfolio manager/analyst making the recommendation. Controversial issues are flagged and discussed amongst the team, though the portfolio manager has the ultimate discretion on voting decisions for their portfolios.

1 In each calendar year.

While our votes against management appear to be low, it is rarely the first step in our engagement process. If we disagree with a proposal, we prefer to raise the issue through constructive dialogue with the management. If we are unhappy with the response, we can use a negative vote to voice our dissent.

Proxy voting record 2022–2023

	Management proposals 2022	Shareholder proposals 2022	Total	Management proposals 2023	Shareholder proposals 2023	Total
With management	4,210	3	**4,213**	3,917	3	**3,920**
Against management	198	0	**198**	248	6	**254**
Abstained	0	0	**0**	3	0	**3**
Took no action	15	0	**15**	0	0	**0**
Unvoted	0	0	**0**	0	0	**0**
Other	0	0	**0**	2	0	**2**
Total	**4,423**	**3**	**4,426**	**4,170**	**9**	**4,179**

Source: First Sentier Investors, as at 31 December 2023. FSSA's full proxy voting record is available on the First Sentier Investors website.

Spotlight on Japan

Accelerating reforms in Japan

Corporate governance standards in Japan appear to be taking a positive turn. In 2023 Japan rose to second place in the Asian Corporate Governance Association's CG Watch rankings, up from fifth place in the previous rankings in 2020.[2] Several reasons were cited for the improved result, with reform proposals from policymakers at the Financial Services Authority (FSA) as well as the Tokyo Stock Exchange (TSE) helping to lift Japan's overall scorecard.

Japan was one of the earliest Asian countries to develop a Stewardship Code and Corporate Governance Code, in 2014 and 2015 respectively, with several revisions that added to the Codes in subsequent years. The Codes suggest that asset managers should vote carefully on company agendas, build constructive dialogue with companies, and avoid conflicts of interest arising from a corporate governance perspective.

In 2023 the FSA stepped up the reform agenda with the publication of the "Action Program for Accelerating Corporate Governance Reform; From Form to Substance".[3] These draft proposals provided further guidance on the steps Japanese companies should take to improve. For example, the FSA said that management should be more aware of resource allocation and the cost of capital in order to promote sustainable corporate growth and increase corporate value over the medium to long term.

2 Asian Corporate Governance Association in collaboration with CLSA, CG Watch 2023: A new order, as at December 2023. Retrieved from https://www.acga-asia.org/cgwatch.php

3 Financial Services Agency, Action Program for Accelerating Corporate Governance Reform: From Form to Substance, as at June 2023. Retrieved from https://www.fsa.go.jp/en/news/2023/20230426.html

Meanwhile, in early 2022 the TSE restructured the stock exchange into three market segments: the Prime Market, the Standard Market and the Growth Market. To be included in the Prime Market, companies must adhere to higher levels of corporate governance, with minimum standards relating to board independence, English-language disclosures, and climate-related disclosures in line with the Taskforce for Climate-related Financial Disclosures (TCFD) being among the requirements.

By 2023 more than 95% of companies listed on the Prime Market had at least one in three independent directors on the board.[4] While this is a marked improvement, companies on the Standard Market and the Growth Market are still catching up. That said, the direction of travel looks positive as we believe many Japanese companies are starting to recognise the importance of improving corporate governance.

Encouraging change through dedicated ESG meetings

As long-term investors, we believe our engagement with management teams can bring about positive change in Japan. While ESG analysis is integrated into our process and discussed from time to time in our general meetings with company management, over the past few years we have arranged dedicated meetings with our investee companies to review ESG-related issues such as corporate governance, board composition and net-zero commitments.

Through these dedicated ESG meetings, we had the opportunity to provide advice and examples of best practice to companies still in the early stages of their ESG initiatives and disclosures. For example, in our engagement with Ajinomoto last year, we encouraged a more independent audit committee (now fully comprised of outside directors) and nomination committee (where the independence ratio has risen from three in five to two out of three).[5]

Through our meetings and follow-up research on Olympus, the largest gastro-intestinal endoscope manufacturer in the world with over 70% market share, we also noted the improvement in the quality of its board structure in terms of diversity and background experience. Of the 12 members on its board, nine are outside directors and four are non-Japanese.[6] The chairperson is an independent outside director; and there is one woman on the board. Its nomination, compensation and audit committees also exhibit high independence ratios.

At Amvis, the largest operator of medical hospice facilities in Japan, we discussed the company's seeming lack of disclosure and its environmental impact. The management told us that an external specialist had been appointed to organise and disclose environmental data using a dedicated platform and that it would soon be up and running. The company has a target to reduce CO_2 emissions to zero by 2050, though the management are still working out the details of a plan. While Amvis is still in the early stages of its ESG journey, we believe it will continue to improve in the future.

In 2023 at the annual general meetings of our investee companies in Japan, most of the proposals that we voted against were related to the independence of board committees. Through our voting decisions and engagement activities, these outcomes reinforced our belief that ESG should be a core part of the investment process. More importantly, we believe that taking an active approach to ESG can ultimately help to preserve our clients' capital.

---

4 Tokyo Stock Exchange report on the Appointment of Independent Directors, as at 14 July 2023. Retrieved from https://www.jpx.co.jp/english/equities/listing/ind-executive/01.html

5 Company reports, as at June 2023.

6 Company reports, as at June 2023.

Case study:
Concerns about capital allocation

Universal Robina Corp (URC) is a leading consumer goods franchise in the Philippines backed by the reputable Gokongwei family. In the mid-2010s the business struggled due to rising competition, the subsequent loss of market share in coffee (one of its core products) and a product recall in Vietnam on its ready-to-drink tea. As growth and profitability suffered, in 2018 the company hired its first outsider CEO, Irwin Lee (ex-Procter & Gamble), to right the ship.

In URC's 2017 annual report the company announced a wide-ranging, five-year plan to reinvigorate the business, focusing on strengthening the core business (by streamlining the product portfolio, improving supply chains and partnering with retailers), improving efficiency (by reducing structural costs) and pushing harder on ESG (which included publishing the company's first sustainability report). We were encouraged by this turnaround plan and arranged to meet Mr Lee in person on our next visit to the Philippines.

Then, in November 2021 URC announced a large acquisition of Malaysian biscuit company Munchy's. Several things about the deal concerned us: first, it was being sold by CVC Capital Partners, a private equity firm (the type of seller that tends to maximise short-term profitability rather than invest in the long-term success of a business); second, sweet biscuits were a low-growth category and would likely face headwinds in the longer term; and third, we thought URC had paid a high price for the business, at almost double the price that CVC had paid for it in 2018.

We are generally sceptical of mergers & acquisitions (M&A) as we think that transactions tend to distract management attention and destroy rather than create value for shareholders (though there are always exceptions). URC previously experienced this when it acquired Griffin's Food in 2014. Fortunately, Griffin's financial performance eventually improved, and the business was subsequently sold. We had hoped that management had learned their lesson; but here was seemingly a repeat of an earlier mistake.

Following the news of the Munchy's acquisition, we wrote a letter to both the chairman and the CEO highlighting our concerns. We were offered a follow-up call, wherein the management explained that their due diligence had been very thorough. URC had studied the Malaysian market for some time and had even looked at Munchy's five or six years prior. We also learned that Munchy's CEO was a professional who had worked closely with the founder and was kept on after CVC acquired the business. Whilst we still didn't agree with the acquisition, we were reassured.

Fast forward to March 2023; we re-visited the Philippines and met with URC's chief investment & strategy officer. The main message from that meeting was that the core business still needed more work. URC's operating margin was lower than when Mr Lee joined as CEO in 2018 and remained far below his longer-term target of mid-teens. Some of the turnaround initiatives had been executed, but financial improvement remained elusive – partly due to the pandemic and the subsequent cost inflation and weak consumer sentiment.

Despite the ongoing weakness, the management seemed open to further acquisitions and appeared to be happy to gear up the balance sheet to do so. This was disappointing and we wrote another letter setting out our concerns, as we thought the risks involved could not be overstated. In addition, we pointed out that the low level of debt on the company's balance sheet could serve as a ballast in these turbulent times and allow them to acquire strategically in a downturn, should the opportunity arise.

URC's chairman, Lance Gokongwei, responded to our letter and emphasised that URC intended to prioritise profitable organic growth and would remain disciplined with capital allocation. He also argued that M&A can create value, highlighting that Munchy's had been successful so far and that growth and synergies were both ahead of the company's expectations and acquisition economics.

Since then, URC has not announced any other major M&A. We are cautiously optimistic that the core business will improve, and the company will indeed be disciplined with capital allocation. On the other hand, we believe this bears close watching, and we adjusted our position size to reflect the potential risk.

Case study:
Sharing constructive feedback to encourage reform

Kasikornbank, formerly Thai Farmers Bank, is one of the largest private banks in Thailand. Founded in 1945 and listed in 1976, it is closely associated with the Lamsam family, in particular Banthoon Lamsam, who was the bank's CEO from 2002 until he became chairman in 2013 up to his retirement in 2020. The FSSA team has a 20-year history of meeting the bank's management team and were shareholders for a significant portion of this time.

Kasikornbank, like most of the Thai banking system, was significantly affected by the Asian Financial Crisis during the late '90s. Banthoon, who had been Kasikornbank's president since 1992, steered the bank out of the crisis with the support of investors who helped recapitalise it (including FSSA). After taking over the CEO position in 2002 he continued the reform process, resulting in strong performance over the subsequent 15-year period. From 2002 to 2017, the bank's book value per share grew at 16% CAGR. Average return on equity during this period was around 18% due to prudent asset quality management and cost controls. Valuations accorded to the bank re-rated, further boosting shareholder returns to an impressive 20% CAGR in USD terms over this 15-year period.[7]

There are repeated references to ESG in its filings, and the bank has been publishing a sustainability report since 2012. From its FY2022 sustainability report we note that it scores well on gender diversity, with 62% of women in leadership positions, including both the chairperson and the CEO as well as eight of the board's 18 directors. There are clear climate targets and disclosures too – with net-zero targets for Scope 1 and 2 carbon emissions by 2030, and Scope 3 by 2050.[8] To that end, the bank has stopped financing new coal projects and expects to exit existing coal projects by 2030. In many aspects, the bank was well ahead of disclosure requirements set by Thai Stock Exchange (SET) years later.

However, after 2017 things started to go wrong for Kasikornbank. This coincided with central bank initiatives which disrupted the Thai banking system (for example, the launch of a payment interchange system, PromptPay, made bank transfers almost free) and a poor macroeconomic environment which led to rising levels of non-performing loans. As a result, we sold our shareholding in the bank.

In 2020 the Covid-19 pandemic resulted in further problems for the bank and asset quality deteriorated. Meanwhile, the senior management of the bank was reshuffled, with Banthoon retiring from the chairmanship and a new CEO, Kattiya Indaravijaya, taking over in the same year.

When we met the management in early 2023 valuations had de-rated significantly, to as low as 0.6x price-to-book. We believed the risk-reward looked attractive and re-initiated a small position, with the intention to engage with the management about our concerns. Our prior experiences with the bank suggested that the management might listen to constructive feedback from long-term minded shareholders.

---

7 From 31 December 2002 to 31 December 2017. Financial metrics are from Bloomberg and Factset.

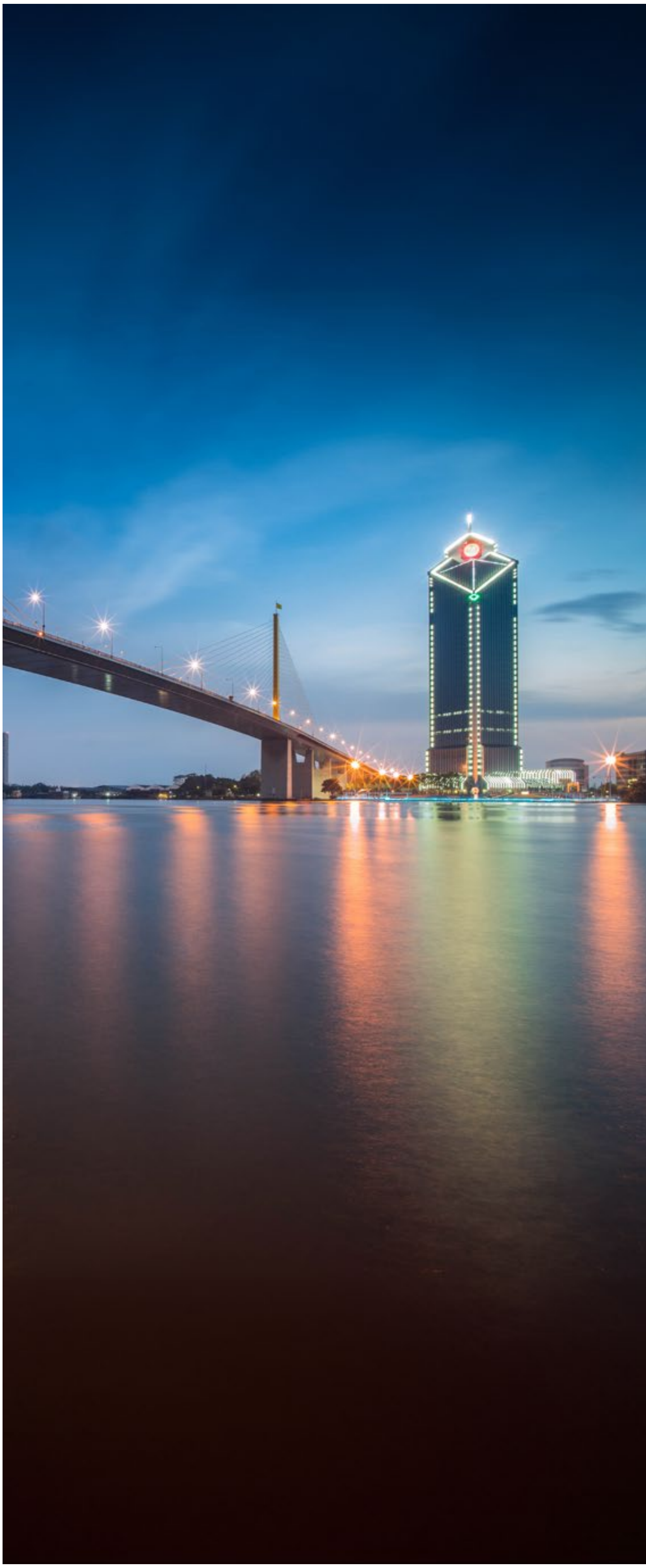
8 Scope 1 emissions are greenhouse gas (GHG) emissions caused directly by a company in the normal operations of its business. Scope 2 emissions are indirect GHG emissions created through a company's use and purchase of energy, while Scope 3 emissions are indirect GHG emissions throughout a company's value chain – from suppliers to end users. For more information on GHG emissions categories, please click here.

In August 2023 we wrote a detailed letter to the management with the following points:

- **Focus on asset quality:** We suggested that the culture surrounding asset quality decisions needed to change from the top, with an emphasis on tightening underwriting even if that meant lower growth in the near term.
- **Simplification of KPIs and structures:** The bank had 18 members on its board; and senior leaders were evaluated on more than 15 KPIs. In our opinion, the bank's focus would improve by simplifying and rationalising such matters.
- **Capital allocation:** With a low dividend payout ratio of around 27%, the bank lagged regional peers (typically in the 50–80% range). Further, we pointed out that the current valuation made a share buyback an especially good use of the bank's excess capital.
- **Employee stock ownership plans (ESOPs):** We pointed out that providing stock options to senior leadership might lead to more owner-like behaviours, much like the Lamsam family in the early years.
- **Better disclosures:** Whilst we remain impressed with most aspects of Kasikornbank's reporting on ESG matters, we pointed out that there were some shortcomings on financial disclosures, particularly in the Life Insurance business, where the return ratios had dipped significantly without explanation.

We received an encouraging response to our letter and the CEO requested a call with us. During that meeting, we offered an introduction to the senior leadership of one of our portfolio companies which had witnessed a remarkable cultural transformation over the past five years.

We recognise that cultural changes will take time to show up in financial statements, but we are optimistic that Kasikornbank is on the road to reform. We remain patient shareholders and will continue to monitor its progress in the coming years.



06 | Climate change and the environment

Climate change is highly interconnected to other environmental and social issues, from the more obvious, such as the impact of mass coral bleaching on marine ecosystems, to the more granular, such as the strain on India's wheat production caused by its food systems. It is a complex challenge that affects us all and is becoming increasingly urgent, as global temperatures briefly crossed 2.0 degrees Celsius of warming since pre-industrial times for the first time last year.[1]

Due to the scale and complexity of the issue, addressing climate change requires a long-term and holistic approach, while seeking pragmatic solutions in the interim. For instance, the decarbonisation process is resource-intensive, requires commodities that are knowingly contributing to greenhouse gas (GHG) emissions and can cause further environmental damage such as land degradation. On the social side, the extraction of these commodities needs to be carefully managed, with issues like employee safety, or the drying out of water sources and poor soil health affecting local communities, to be kept in mind.

Our approach to addressing climate change focuses on investing in companies led by forward-thinking leaders who we believe have placed the climate change agenda at the centre of their businesses. A large part of our investment process involves assessing the quality of management and its ability to sustain a company through the challenges it may face. As such, we have built a great amount of trust with management teams over the years and, on behalf of our stakeholders, play an active role in managing the physical, financial, regulatory and reputational risks associated with climate change and the transition to a low carbon economy.

We have set our decarbonisation targets to align our portfolios with the Paris Agreement's 1.5°C temperature goal,[2] but we recognise there is no simple solution to prescribe, especially for higher-risk/exposed companies that are reliant on commodities in hard-to-abate sectors. To that end, our engagements are focused primarily on decarbonisation, while at the same time we have been increasing our understanding about the role of biodiversity and nature, and the impact of human development on the environment. With so many issues intertwined with climate change we strive for a multi-faceted approach that recognises the diverse challenges that Asia and emerging markets are particularly exposed to.

1 https://climate.copernicus.eu/global-temperature-exceeds-2degc-above-pre-industrial-average-17-november

2 We expect our holdings to align with the IPCC's recommendation of limiting global warming to below 1.5° Celsius and to reach net zero emissions by 2050. More details can be found in the decarbonisation commitment section in this report.

Case study:
The irony of cooling

What once began as a bottle-cap business in 1968 is now the largest home appliance company in China and a core holding in our portfolios. We have been meeting Midea Group and its management over many years and have borne witness to the group's growth in both size and scale. Its product portfolio now includes smart home devices, industrial technology, building technologies, robotics and automation, and other businesses. In 2022 the group ranked first in multiple home appliance categories, one of which was residential air conditioners (ACs) with around 34% market share.

While air conditioners are a necessity in growing areas of the world, the irony is that cooling products are actually warming the planet. Conventional cooling appliances are currently responsible for over 7% of annual greenhouse gas emissions, which cause global warming. Due to rising temperatures, the installed capacity of cooling equipment is expected to triple by 2050, causing electricity consumption from this segment to double and emissions to rise even further.[3]

A large contributor to these emissions and a key component in ACs is refrigerant, a working fluid that repeatedly transitions between a gaseous and liquid state to absorb heat – this is the science behind making and keeping things cool. Midea, which aims to reach peak carbon in 2030 and net zero by 2060, has been leading the transition to environmentally-friendly refrigerants to reach its decarbonisation goals.

For example, R290, a propane refrigerant Midea has been studying since 2008, has such high energy efficiency it has a negligible Global Warming Potential (GWP),[4] calculated as being just 0.02 GWP.[5] To put that into perspective, R32 – the standard industry refrigerant commonly perceived as being environmentally-friendly compared to its counterparts – has a GWP of 771.

First launched in 2014, Midea has continued to develop and improve the energy efficiency of its R290 products. In 2022 it produced the world's first "Energy Efficiency Grade 1" air conditioner using R290, with an annual performance factor (a measure of average annual energy consumption efficiency) that is almost 6% higher than the new Class I national standards in China.

Midea's focus on innovation and eco-efficiency has other economic benefits too. It has been unaffected by the various refrigerant bans implemented over the last few decades, from the banning of chlorofluorocarbon refrigerants (CFCs) depleting the planet's ozone layer to the phasing out of hydrofluorocarbons (HFCs) due to their high GWP. Midea is well positioned in that regard, as we believe regulations will undoubtedly continue to tighten and companies that fall behind will become obsolete.

Evidently, there are several challenges and opportunities ahead, particularly given the scale of the group. In Midea's 2022 annual report, the board of directors muse on the cyclical nature of industries, the economy, technology and even globalisation. And yet, they remark, some companies go on to sustain earnings and create long-term value.

With Midea's focus on energy-efficient products, we believe it is well placed to help consumers keep cool while lowering the impact of refrigerants on the environment. Given that only 8% of the 2.8 billion people living in the hottest parts of the world own an AC, and by 2050 around half of that population is projected to need cooling systems in order to save lives,[6] Midea's innovation in green technologies will be critical in keeping global emissions under control.

---

3 United Nations Environment Programme (2023). Global Cooling Watch 2023: Keeping it Chill: How to meet cooling demands while cutting emissions. Nairobi. https://www.unep.org/resources/global-cooling-watch-2023

4 Global Warming Potential (GWP) is an index that measures how much energy the emissions of 1 tonne of a gas will absorb over a given period of time relative to the emissions of 1 tonne of carbon dioxide (CO_2).

5 https://www.prnewswire.com/news-releases/mideas-sets-vision-for-a-greener-future-with-debut-of-new-r290-product-lineup-at-ifa-2023-301919465.html

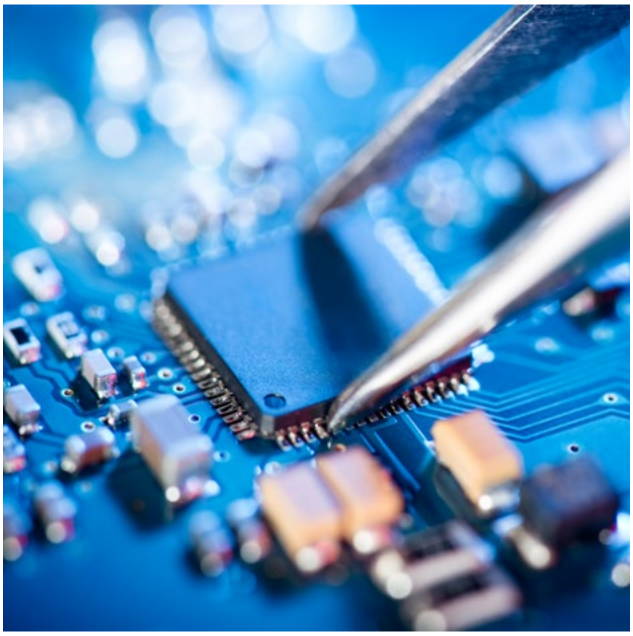
6 Peter Sherman, Haiyang Lin & Michael McElroy, Projected global demand for air conditioning associated with extreme heat and implications for electricity grids in poorer countries, Energy and Buildings Volume 268, August 2022. Retrieved from ScienceDirect https://www.sciencedirect.com/science/article/pii/S0378778822003693

Case study:
Not all emissions are equal

There is a general view amongst companies, asset managers and allocators that lower emissions are good; and higher emissions, bad. Whilst the premise is indeed something we support, and our portfolios do tend to have significantly lower emissions intensity than their respective benchmarks, we are cautious to tout this performance or even set portfolio-level carbon targets to achieve.

We fully expect that some of our portfolio companies' emissions will continue to rise in the medium term before falling. In certain instances, this is a necessary step in the transition to a low-carbon economy.

Taiwan Semiconductor Manufacturing Company (TSMC) illustrates this quandary well. TSMC is the world's largest dedicated semiconductor manufacturer with over 50% market share. Its chips power iPhones, supercomputers, electric cars, artificial intelligence (AI) and even a NASA rover on Mars.



In our view, TSMC is one of the most important companies in Asia (perhaps even the world). The company is a top position in many of our portfolios and we have held the shares for the better part of 20 years.

During this time, TSMC's emissions have climbed. Back in 2005, being the first semiconductor company in Taiwan to report greenhouse gas emissions, TSMC generated 3.7 million metric tonnes of carbon dioxide equivalent units. By 2022, as highlighted in its annual sustainability report, this had risen to 11.6 million metric tonnes[7]. While this represents an increase in emissions of around 7% per year, TSMC's revenues have grown at 14% annualised in USD terms over the same period. On an intensity basis, TSMC has therefore reduced emissions per dollar of sales by an average of 6–7% per year.

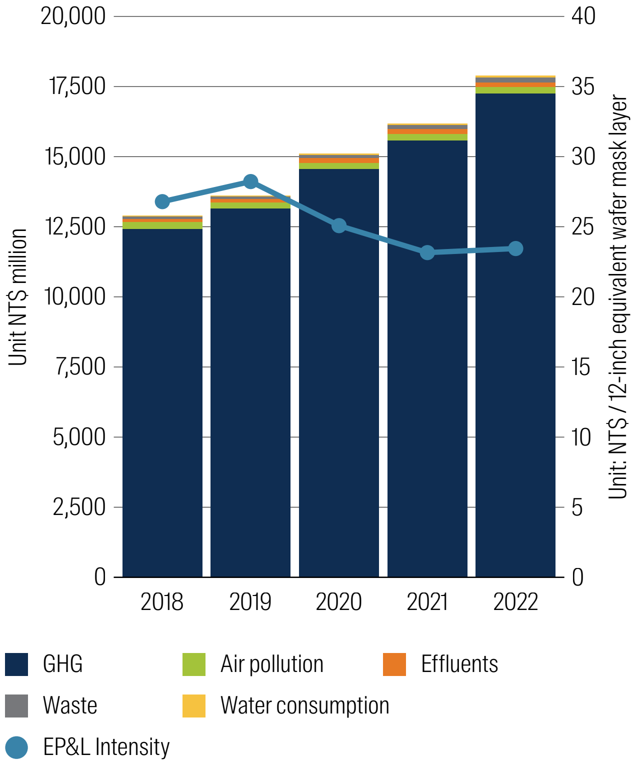
Many companies, like TSMC, can make a positive case for rising emissions based on intensity metrics. But how does one distinguish between a justified rise in emissions and complacent business practices? In TSMC's case, its business model is about developing cutting-edge technology products that allow its customers to do things more efficiently and sustainably. It manufactures the most advanced chips in the world, and delivering this at scale means that its carbon intensity per output is just 50% of its closest peer.

Whilst this does not excuse the company's absolute leap in emissions, it is worth acknowledging that TSMC's products are directly powering and enabling the energy transition. By its very design, an advanced chip is one which can pack more transistors (processing power) whilst operating with lower energy consumption. Increased production at TSMC should therefore be positive for emissions globally.

Suffice to say, a portfolio filled with companies like TSMC might see rising emissions each year. Whilst we see this as an acceptable trade-off, others focus on the data, which show the company's greenhouse gas emissions increasing year on year.

7 Greenhouse gas emissions (metric ton-CO_2 equivalent) (Scope 1 and Scope 2 market-based).

Environmental externalities trends



Source: TSMC Sustainability Report 2022. TSMC has adopted an Environmental Profit & Loss (EP&L) valuation model since 2018. The above chart shows that greenhouse gas (GHG) emissions and other environmental externalities from its manufacturing operations have increased over the past five years. This is largely due to the expansion of its business as it continued to build new manufacturing facilities to meet increasing demand for its products. However, its EP&L intensity, as measured per unit of product, has fallen due to its focus on innovative technologies and green practices.

In an attempt to quantify the emission-offsetting benefit inherent in its products, since 2015 TSMC has collaborated with the Industry, Science and Technology International Strategy Center (ISTI), a world-leading technology research institute in Taiwan, to produce an annual assessment of its resource utilisation. The latest findings, as per TSMC's Sustainability Report 2022, shows that by 2030 every 1GWh of energy used by TSMC in its production is expected to abate roughly 4GWh globally.

In TSMC's words: "*We are producing emissions so that others may produce less.*"

And yet, despite its attractive return on emissions, TSMC is setting ambitious targets to reduce them. The company is using a variety of methods to improve efficiencies and conserve energy. These measures achieved a 13% energy savings rate and conserved 700GWh in electricity in 2022, the equivalent of reducing 360,000 metric tons in carbon emissions.

The management's view is that emissions will continue to increase until 2025, then the aim is to return to 2020 levels by 2030. That, considering the likely growth over this period, will be quite an achievement. Beyond these mid-term targets the company is investing 2% of revenue towards green investments (transition costs)[8] and aims to achieve net zero by 2050.

TSMC continues to face many challenges, from geopolitics to water scarcity. Emissions too, will matter; but we believe it is necessary to consider a company's purpose before blankly judging performance. Not all emissions are equal. Understanding the context around TSMC's emissions provides the nuance greatly needed in ESG analysis, even if it is being neglected by others.

8 https://asia.nikkei.com/Spotlight/Supply-Chain/TSMC-says-up-to-2-of-revenue-will-go-to-green-initiatives as at March 2022.

Case study:
Beyond a tick-box exercise

Kansai Nerolac Paints is a leading paints company in India, 75%-owned by Kansai Paints of Japan. Over the last two decades, it has been dominant in automotive coatings with around 60% domestic market share. The company is also one of the largest manufacturers of decorative wall paints with the iconic Nerolac brand, which has been present in India since the 1950s.

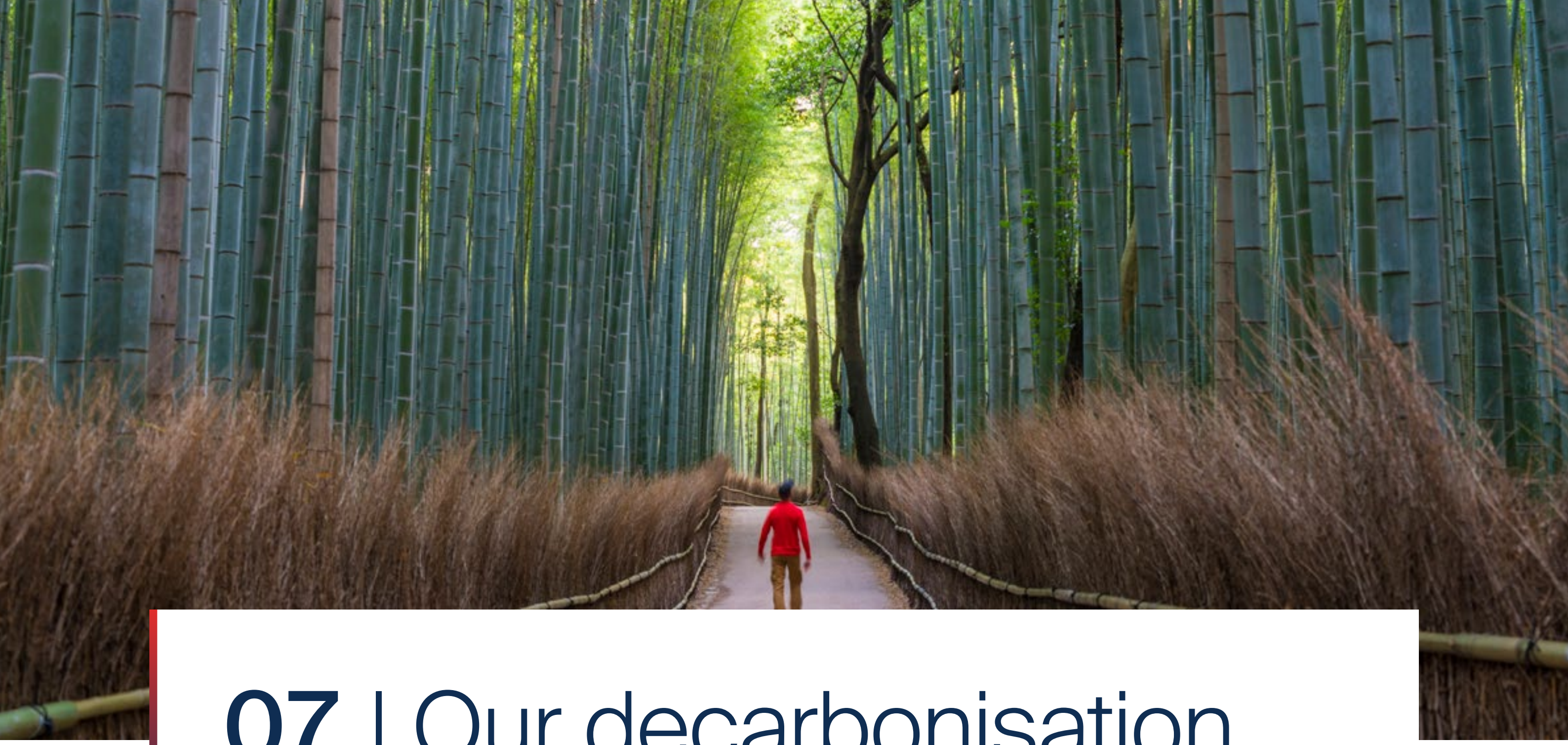
We have been shareholders for most of the last decade and hold the management team in high regard for the way they have built the business over time. We believe their track record of growing consistently and generating significant operating cash flows is commendable – over the past 20 years, the company has grown sales nearly eleven-fold while generating returns on capital employed of 24% on average.

As part of our regular portfolio monitoring and reviews, we recently sought to improve our understanding of Kansai Nerolac's sustainability challenges and opportunities, as well as their approach to the subject. As we compared its data on Scope 1 and 2 emissions intensity, water intensity and its share of renewable energy versus some listed peers, we observed that it was lagging on a few metrics. As the company has historically been a pioneer on sustainability initiatives, including being the first company to produce lead-free decorative paints in India, we decided to write a letter to the management team to seek clarity on the current situation.

We received a prompt and proactive response from the company, which highlighted the difference in Kansai Nerolac's business mix compared to peers. A significant proportion of its business is industrial automotive paints which by nature are more energy intensive. In that context, the company's emissions intensity was only marginally higher than peers, despite it not being a like-for-like comparison. Further, the management team wanted to measure and validate its current environmental impact against global frameworks. Although this undertaking would take longer, the result would be more concrete plans towards its long-term decarbonisation goals.

The company has now undertaken several short-term and long-term decarbonisation initiatives and is the only paints company in India to have targets verified by the Science Based Targets initiative (SBTi) across Scope 1, 2 and 3 emissions. For example, it aims to reduce its power consumption while increasing the contribution of energy from renewable sources – from the current 30% of electricity from renewable sources to 70% by 2030. It also aims to reduce its water footprint by increasing its water efficiency, and using rainwater and recycled water in its operations, with the goal of being water positive by FY2024–25.

Overall, we were encouraged by the company's response. While its current emissions intensity and renewable energy consumption metrics appear less impressive than peers, the direction of travel is positive. Kansai Nerolac has chosen to approach sustainability in a comprehensive, long-term manner rather than simply ticking the boxes. We look forward to continuing our dialogue with the management team in the coming years and tracking the progress of their climate-related initiatives.



07 | Our decarbonisation commitment

As long-term investors, protecting and growing our clients' capital requires us to understand how our investee companies are adapting to a lower carbon future. Encouragingly, in the last year more of our investee companies had expanded disclosure on climate-related information and announced climate and environmental targets. Much of this was preceded by commitments from government bodies, which included narrowing the scope of neutrality on carbon emissions and focusing reductions on Scope 1 and 2 emissions. With more companies now having targets in place, we note a welcome increase in capital allocation towards decarbonisation solutions.

As the world adapts to an ever-changing environment, we fully expect companies will need to increase efforts to protect their businesses, and stakeholders, from the impacts of climate change. This includes the consideration of emissions-related taxes and the implementation of business resiliency measures to safeguard against a rapidly changing climate. Thus, we believe it is all the more important to identify leading and reputable management teams who can meet these changing demands over the long term.

As such, we remain committed to increasing our engagement on decarbonisation issues to underscore its importance, and to reinforce our belief that these efforts are fundamental to the long-term viability of companies' business models and their impact on society. Below we provide an update on our decarbonisation process, which aims to reduce the total amount of carbon emitted by companies in our portfolios and includes an ongoing review of our portfolios' carbon footprints as well as their weighted average carbon intensity (WACI).

Decarbonisation process and climate targets
We began our decarbonisation process in late 2021 with the following objectives: to preserve our bottom-up and engagement-led approach; focus on reducing the absolute or total carbon exposure of our investee companies; and create a baseline understanding of our investee companies' climate goals and their plans and progress towards decarbonisation.

Whilst climate issues are a regular topic of discussion with all our investee companies, we have undertaken a formal assessment of the largest and most significant emissions contributors across our portfolios.

There are three phases to our decarbonisation process, which started in 2021 and will be repeated annually going forward.

- **Phase 1:** We divided our portfolio holdings into several priority groups for assessment. In mid-2021 we covered approximately 50% of the team's AUM, rising to 75% by the end of 2022. In 2023 we covered 78% of AUM.[1] We aim to cover 100% of AUM by 2030.
- **Phase 2:** Previously assessed companies will be reviewed annually going forward (unless they are no longer held in our portfolios).
- **Phase 3:** We prioritised engagement with investee companies based on their assigned tier and conducted those meetings throughout the year

Companies were selected for assessment based on their position size and geographical representation across our strategies, association to high-emitting sectors, and other factors. As our portfolio holdings change and new companies are added to our decarbonisation process, the number of companies within each phase will fluctuate accordingly.

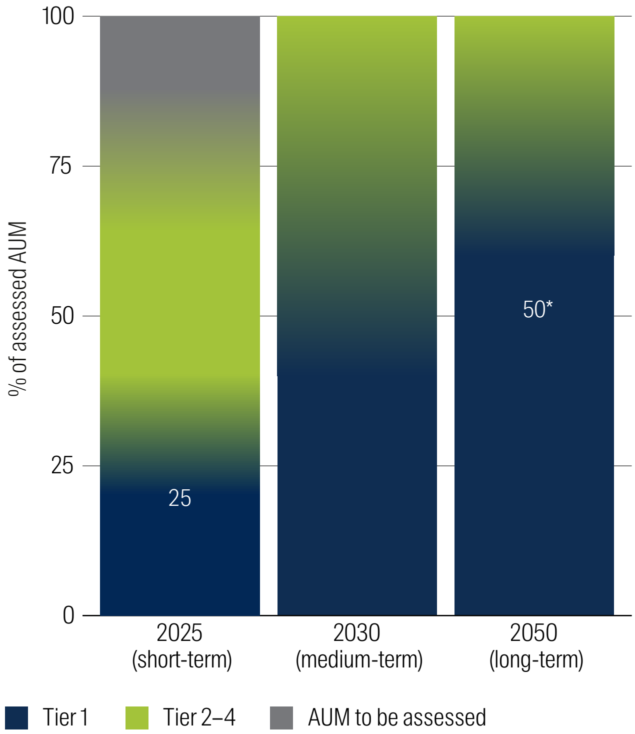
Each company was assessed on criteria based heavily on the "*net zero alignment maturity scale*" from the Net Zero Investment Framework Implementation Guide (NZIFIG), produced by the Institutional Investors Group on Climate Change. We then assigned them to one of four tiers, ranging from leader to laggard. The nuance in our tiers provides flexibility around a company's direction of travel, resource constraints and its purposefulness, which we believe is essential in an emerging market context.

1 As at 31 October 2023.

FSSA tier	FSSA definition	NZIFIG maturity scale	Differences
Tier 0	Not applicable.	Achieving net zero.	FSSA does not define this tier level. Companies achieving net zero are included in the Tier 1 definition.
Tier 1	"Leader" is defined as either **achieving** net zero with current emissions intensity performance at, or close to, net zero emissions; or those **aligned** to net zero with adequate emissions reduction performance over three or more years.	Aligned to a net zero pathway.	FSSA includes both those achieving net zero or those aligned to net zero in this category. NZIFIG only considers those with current intensity emissions at or close to net zero to be achieving net zero or aligned. NZIFIG recommends checking the proportion of green revenue and if there are relevant increases over time as part of the company's decarbonisation plan. FSSA does not include this criteria.
Tier 2	"Committed" is defined as **aligning** with short-, medium- or long-term goals (but not all), and disclosure of Scope 1 and 2 emissions data for two or more years (with an option to include material Scope 3 emissions data).	Aligning towards a net zero pathway.	NZIFIG recommends checking the proportion of green revenue and if there are relevant increases over time as part of the company's decarbonisation plan. FSSA does not include this criteria. FSSA checks for any combination of Scope 1, 2 or material Scope 3 emissions reduction targets, defines adequate progress over two or more years, and how the business model may contribute to decarbonisation or how it may be structurally challenged. NZIFIG does not state progress over a specific time frame.
Tier 3	"Laggard, Planning" is defined as **committed to aligning** towards a net zero pathway with the intention to set clear targets, and disclosure of Scope 1 and 2 emissions data for at least one year, but with little to no progress over time.	Committed to aligning.	NZIFIG specifies having a long-term goal to achieve net zero by 2050. FSSA checks for a clear foundation to set a target and will engage on this. FSSA checks for disclosure of Scope 1 and 2 emissions for at least one year and any progress over that period, as well as how the business model may contribute to decarbonisation or how it may be structurally challenged. NZIFIG recommends transition plan methodologies with a progress time frame defined according to the target(s) set.
Tier 4	"Laggard, Needs Support" is defined as **not aligned** and may have the intention to set targets but with no time frames or metrics defined. These companies have poor disclosures leading to the inability to measure progress and their business models may be structurally challenged due to a reliance on carbon intensive resources.	Not aligned.	NZIFIG designates this scale for all other companies. FSSA checks the level of disclosure, the intention to set a target, history of environmental malpractice, and how the business model may contribute to decarbonisation or how it may be structurally challenged. NZIFIG does not include this criteria.

In last year's report we announced our climate targets through to 2050, which remains unchanged. Our short-, medium- and long-term targets are represented in the graphic below.

FSSA's climate targets



*The 50% AUM target is subject to increase as economies decarbonise over time.
Source: FSSA Investment Managers, as at 31 December 2023.

By 2025, we aim for 25% of assessed companies to be assigned to Tier 1, aligned to net zero by 2050. We will engage with all companies under assessment to meet 100% disclosure of Scope 1 and Scope 2 emissions by 2025 and encourage the alignment of targets to the Science Based Targets initiative (SBTi).

For companies to be considered aligned to net zero, they must disclose their emissions performance and have short-, medium- and long-term targets. We recognise that companies in our portfolios are subject to different timeframes (i.e., carbon neutrality by 2060 for China and by 2070 for India). We expect our holdings to align with the IPCC's recommendation of limiting global warming to below 1.5° Celsius and reaching net-zero emissions by 2050.

By 2030, we aim to have increased our assessment of companies to 100% of our AUM. Through our ongoing engagement, we also aim to increase the percentage of AUM assigned to Tier 1, aligned to net zero by 2050, from the initial 25%.

Rather than penalise companies that are less advanced towards their net-zero goals, we aim to make and measure progress over the years, and move all companies towards the top tier through purposeful engagement with company management. We will encourage companies to set meaningful targets with defined plans to achieve genuine reductions in carbon emissions.

We are initially committing 50% of our AUM to be aligned to achieving net zero in 2050 (assigned to Tier 1), with an aim to increase the portion of AUM towards 100% as economies gradually decarbonise.

In considering these targets it is important to remember that they are based on:

- information provided by, and representations made by, investee companies to us, which may ultimately prove to be inaccurate; and
- reasonable assumptions in relation to future matters such as government policy implementation in ESG and other climate-related areas, enhanced future technology and the future actions of investee companies, all of which are subject to change over time and are not guaranteed to occur.

As a result, achievement of these targets will depend on the ongoing accuracy and representation of this information as well as the realisation of such matters in the future.

Our progress

Decarbonising our portfolios is a multi-decade commitment that requires a careful and consistent increase in effort over the years to come. We continued the process we started in 2021 with minimal changes to our engagement-led approach. We have, however, refined our company assessments to consider additional information including more details on transition plans based on NZIFIG's recommendations and the availability of new data and sector pathways.

This year we set 31 October as the date for Phase 1 of the decarbonisation process and covered approximately 78% of the team's AUM. This included removing companies no longer held in our portfolios and adding new ones. We intend to adhere to this timeline going forward to allow sufficient time to conduct the analysis and plan for engagements in the upcoming year.

All in-scope companies from previous years were reassessed using our refreshed assessment template to allow for two full years of information per company (beginning from the end of 2021 through 2023).
Each company was again assigned to a FSSA net-zero maturity tier based on a combination of their average data score as well as a qualitative assessment.

Newly assessed companies included those from high emissions sectors such as Indocement Tungaal Prakarsa, which represents less than 0.1% of total portfolio weight but is one of the highest greenhouse gas emitters in our portfolios.

Company decarbonisation assessment by tier

Tier levels	Percentage of assessed companies[2]
Tier 1	9%
Tier 2	38%
Tier 3	45%
Tier 4	8%
Grand Total	100%

By 2023 climate change was no longer a new engagement topic for our investee companies, but we noted a clear demarcation between companies that had made efforts to embed it as an ordinary part of their businesses and those that were buying time – perhaps until they are forced to change. For the former, we believe this has much to do with the presence of long-term minded management teams.
Encouragingly, almost half of the companies under assessment had made improvements, primarily those in tiers 3 and 4. Further, the majority were not relying on carbon offsets as part of their decarbonisation strategies, and most were receptive to our engagements.

Out of the previously assigned tier 4 companies, six were reassigned to tier 3. Of these, we noted their investments in people resources, efforts to identify gaps and the alignment of their decarbonisation strategies to the broader goals of the organisation. Those remaining in tier 4 were challenged by the lack of managers focused on the issue and thus an inadequate ambition to decarbonise, as well as limited or no disclosure.

2 Based on approximately 78% of AUM calculated as at 31 October 2023.

Of the companies previously assigned to tier 3, seven were moved up to tier 2. Those that were firmly in tier 2 were Indian companies that, over the years, have been dedicating resources to the issue and had a clear strategy formulated. Having devoted the time to understand themselves better, these companies had announced initial decarbonisation goals that were aligned to their business models. On the other side, we noted improvements from Chinese companies that had announced net-zero ambitions, or had set a mix of short-, medium- or long-term goals aligned to the country's dual carbon targets of reaching peak carbon emissions by 2030 and carbon neutrality in 2060; however, few offered details on their plans.

Unfortunately, most companies that had been assigned to tier 2 did not make enough progress to merit a higher tier. Additionally, TSMC was reassigned to tier 2 (after previously being in tier 1), due to a second year of rising GHG emissions. As we noted earlier, this will continue through to at least 2025, in line with the company's growth, with emissions to start falling towards 2020 levels thereafter. In many ways, this stagnation was to be expected, as businesses must continue to grow while also decreasing total GHG emissions. Financing the transition is proving especially challenging in tough market conditions. Ultimately, this means we may fall short our 2025 target of having 25% of assessed companies assigned to tier 1, aligned to net zero by 2050.

Additionally, for tier 2 companies we recognised the need to distinguish between those that are borderline tier 1, requiring only one or two more years of data to be aligned to net zero, and those that were missing several components, such as not having validated science-based targets and needing more years of disclosure and evidence of progress. Of the 28 companies within tier 2, we believe 13 are on a comfortable path to tier 1 in the next few years.

Our priorities

Although we assessed all companies in scope, this was a time-consuming process, and we were unable to increase our engagement on climate change meaningfully. Where we did engage with companies on the matter, we found that it was most effective when we provided a benchmark against regional and global peers. In most cases, companies also appreciated having a dedicated meeting or follow-up communication on the topic to ensure that the right individuals were available to respond.

At the end of 2023 we introduced an engagement plan for each tier, prioritising tier 4 companies, which need to take larger steps in the right direction; and tier 2 companies, to help them move into tier 1. Each engagement plan includes a clear objective and planned method of engagement, with a calculation of the GHG emissions rate of change needed to meet stated targets (for tiers 1 and 2). These plans are critical to our decarbonisation process and will allow us to engage more effectively on the issue going forward.

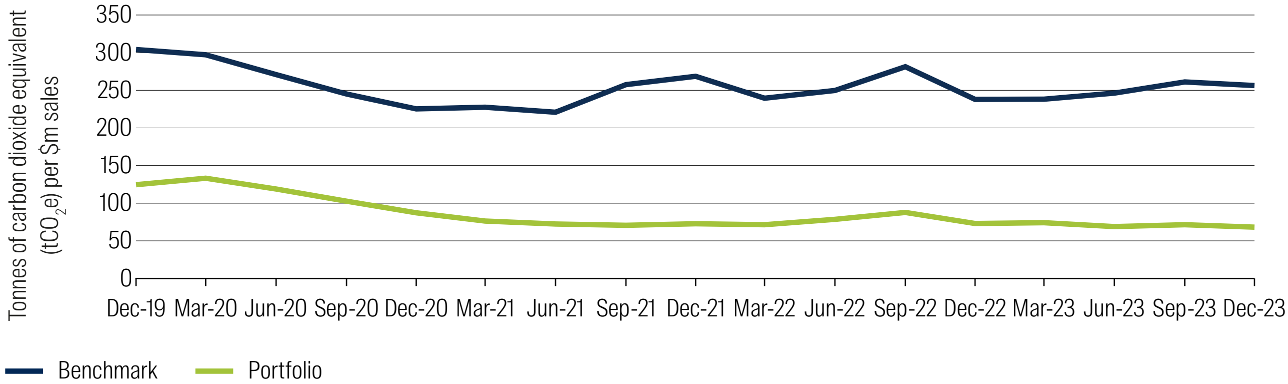
Engagement priority level	Tier level	Objective
Top	4	Inform the company of our expectations and push for rapid change.
	2	Remind the company of our expectations, present research and determine a quantified plan to deliver on target(s). Understand its specific challenges for reaching tier 1.
Second	3	Improve our understanding of the company's decarbonisation strategy, determine missing components for tier 2 and understand the support needed.
Third	1	Verify tier standing annually by validating performance against targets.

Portfolio carbon metrics

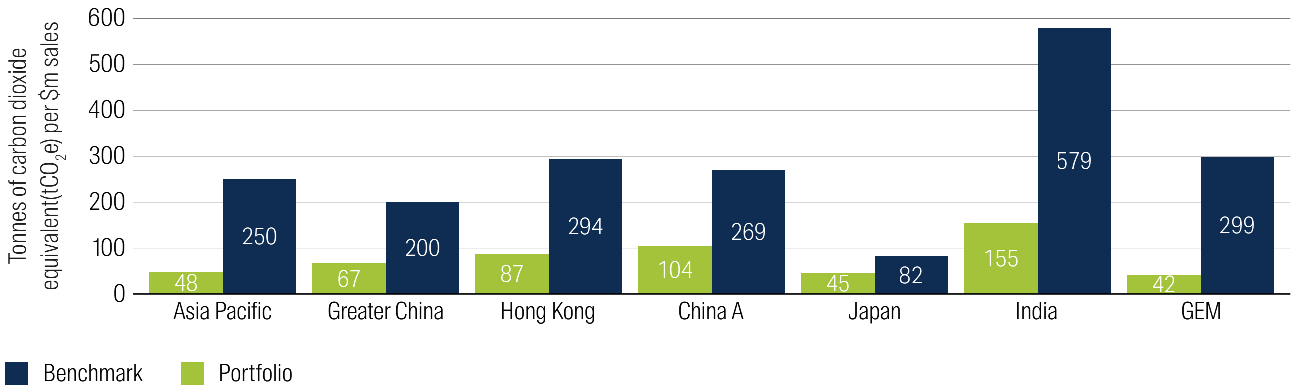
Our portfolios have had significantly lower carbon footprints and carbon emissions intensities than their respective benchmarks for the past five years that we have calculated the data. But given the complexity of the inputs for which these metrics are measured, we frequently remind our stakeholders that we cannot draw conclusions from these results alone. We believe the data is best viewed as an output of our investment philosophy rather than an intentional screen for low GHG-emitting companies. The first step in our process is still focused on investing in high-quality companies. Based on the weighted average carbon intensity of FSSA's portfolios and their respective benchmarks, we would expect to see a convergence between the two over time, as economies decarbonise.

Average emissions intensity of FSSA's portfolios in USD, 2019–2023

The line chart below shows the weighted average carbon emissions intensity (Scope 1 + 2) for FSSA's combined portfolios (green line) compared to the respective benchmark (blue line).



FSSA emissions intensity by portfolio in USD, 2023



Source: First Sentier Investors, ISS ESG. Data as at 31 December 2023. The weighted average carbon intensity (WACI) in each of the above portfolios calculates a weighted average of each company's greenhouse gas emissions intensity (Scope 1 & 2) per $million of revenue, weighted by the value in the portfolio using a mix of reported and modelled data. We compare this to the weighted average carbon intensity for the companies in the aggregated benchmark. It measures how efficient companies are in controlling their carbon emissions per unit of economic output.
The benchmarks of the respective portfolios are MSCI AC Asia Pacific ex Japan Index, MSCI Golden Dragon Net Index, MSCI Hong Kong Net Index, MSCI China A Onshore Net Index, TOPIX Net Total Return Index, MSCI India Net Index and MSCI Emerging Markets Net Index.

FSSA's operational carbon footprint

In 2023 we report on the team's carbon footprint from an operational perspective for the first time. We have calculated our emissions in alignment with the WRI/WBCSD[3] Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition).

FSSA emissions	tCO_2e
	2023
Scope 1 (direct emissions)	0.20
Scope 2 (indirect emissions)	
Purchased electricity – location method	31.50
Purchased electricity – market method	0.03
Purchased heat and steam	0.60
Scope 3 (indirect emissions – value chain)	
Water	0.31
Fuel and energy related activities (not included in Scope 1 or 2)	9.26
Waste	0.17
Business travel	703.55
Employee commuting and working from home emissions	16.60
Biogenic emissions	0.55
Total emissions (Scope 1 & 2 – location based, Scope 3 and biogenic)	762.73
Total emissions (Scope 1 & 2 – market based, Scope 3 and biogenic)	731.27

Source: First Sentier Investors, as at 31 December 2023.

We have focused our reporting on Scope 1, Scope 2 and aspects of Scope 3 emissions arising from our operations. Scope 1 emissions are from sources that are owned or controlled by First Sentier Investors (FSI). We have limited Scope 1 emissions as we do not have any activities that directly generate emissions, such as the combustion of natural gas or a company fleet. Since 2022, FSI has purchased 100% green gas from our energy retailer for our Edinburgh office, which is reported within Scope 1 and biogenic emissions. Our Scope 1 reporting currently excludes diesel (as part of stationary combustion sources) and refrigerants. While they are immaterial to our operational GHG inventory, we will look to include them in the future for completeness.

Scope 2 emissions are from the generation of purchased energy consumed by FSI, including electricity, heat and steam. We have reported using both the location and market-based method. In 2023 FSI sourced renewable electricity for our global offices in Hong Kong, London, Singapore, Edinburgh and New York via energy retailer contracts or locally generated Renewable Energy Certificates ("RECs"). Our New York office is supplied with precinct steam for heating. As we continue to decarbonise our operations, we continue to transition our office operations to renewable energy.

Our Scope 1 and Scope 2 emissions reflect our typical occupation as an office tenant. As FSSA shares office space with the broader FSI Group in several locations, an apportionment based on the full-time equivalent (FTE) has been applied to these emissions to reflect this.

We calculate Scope 3 emissions arising from FSSA's operations. Our reported operational Scope 3 emissions have previously focused on our corporate business travel including flights, accommodation and car hire. In 2023 we expanded our Scope 3 reporting to include emissions arising from employee commuting, working from home, water, waste and fuel and energy-related emissions not included in Scope 1 or Scope 2 (defined as category 3 by the GHG Protocol). We continue to evolve our material Scope 3 emissions reporting alongside more accurate data.

Biogenic emissions are the emissions arising from our procured 100% green gas contract in our Edinburgh facility.

3 World Resources Institute/World Business Council for Sustainable Development.

Our approach to carbon offsets
We offset part of operational Scope 3 emissions calculated for Category 6 – Business Travel and Category 7 – Employee Commuting/Telecommuting,[4] and our estimated proportion of remaining Scope 1 and Scope 2 emissions generated in the 12-month period (that are not sourced through renewable energy). To do this, we purchase and retire voluntary carbon credits, which are verified under internationally recognised carbon verification schemes. Certificates verifying the carbon credit retirements are available upon request.

FSSA has chosen two offset projects this year:

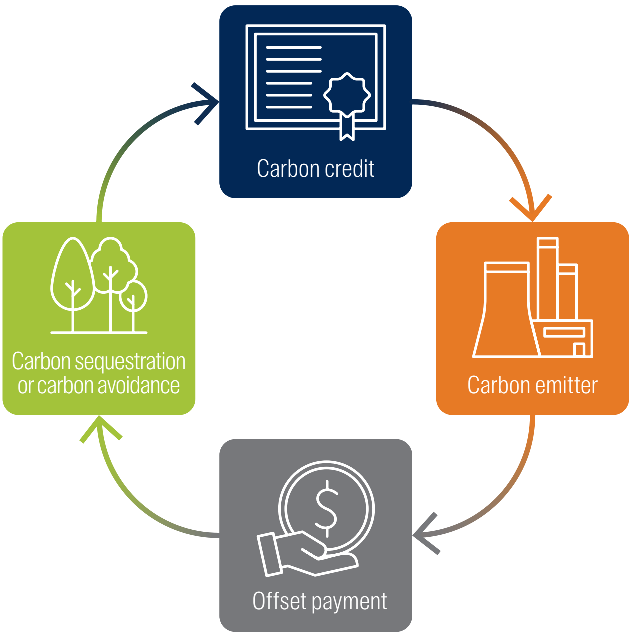
1. Boone Forestlands Improved Forestry, USA

Spanning a vast area of almost 17,000 hectares, the Boone Forestlands project sits in one of the most ecologically diverse regions of North America: the Southern Appalachia. Characterised by its steep, forested mountain slopes and narrow valleys, the region's unique geology and evolutionary history has led to a rich assemblage of plant and animal species. Focusing on sustainable forestry management practices, the project aims to protect and preserve rare and threatened species that inhabit the woodlands.

By employing a suite of sustainable harvesting techniques, the project reduces GHGs as well as ecological disturbance that comes with conventional logging practices. Protecting these forestlands plays a vital role in ensuring landscape connectivity and ecological resilience throughout Southern Appalachia, allowing populations of animals such as elk, deer and black bears to thrive.

2. Jawoyn Fire, Indigenous Savanna Fire Management, Australia

Without fire management, the savannas of northern Australia experience widespread "hot" fires late in the dry season. Savanna-burning projects reduce emissions from these blazes by planning and implementing "cool" burns early in the dry season that reduce the intensity of late season fires. These projects employ the knowledge of local Indigenous communities who have cared for the country for millennia, creating job opportunities and additional revenue streams for Traditional Owners. In addition, the habitat is protected for native Australian wildlife and fire-dependent ecosystems. This project also forges a partnership between non-Indigenous Australians and Traditional Owners. All revenue from the sale of the Australian Carbon Credit Units (ACCUs) is reinvested in managing the countryside, supporting jobs and training for land owners and custodians, and connecting people back to the countryside.



4 The Greenhouse Gas Protocol identifies 15 categories of Scope 3 emissions: https://ghgprotocol.org/scope-3-calculation-guidance-2

08 | People and communities

There was no shortage of human rights events last year, affecting people and communities around the world. The tragic wars, conflicts and natural disasters are perhaps top of mind, with millions being displaced from their homes as a result. The global crisis of refugees and migrants is one we are becoming all too familiar with and has affected countries both rich and poor.

Meanwhile, in some areas of the world the impact of Covid-19 still lingers. The global Human Development Index (HDI), which assesses countries on measures beyond economic growth, fell in value for the first time ever in 2020 and 2021.[1] This was unsurprising, given the scale of the pandemic and far-reaching consequences of isolation policies and shutdowns. While the index in aggregate has largely recovered, inequality abounds – a full 100% of OECD countries,[2] but only 49% of Least Developed Countries, have recovered from the setback.[3]

As investors focused on Asia and emerging markets, this is another issue to worry about. Apart from the very human impact, much of a company's growth prospects is dependent on people and communities improving their lot. We have no doubt that in the long run, secular drivers such as demographics, urbanisation, rising incomes, more women entering the labour force, etc., will continue to create large and growing profit pools that our investee companies can tap into. But our experience on the ground suggests that some caution and a dose of realism – at least in the short term and for certain companies – may be warranted.

Spotlight on the Philippines

Gaining perspectives from beyond the corporate world

Being a good investor requires the ability to look at things from a different perspective – this means going beyond the headlines, the regulatory returns and financial reports, and anything else that may have already been digested by the market. When visiting countries in Asia and emerging markets as part of our research process, we sometimes visit non-governmental organisations (NGOs), which are partners, or potential partners, of Manan Trust.

These visits to projects in Cambodia, the Philippines, Thailand, India, Malaysia, Hong Kong and Singapore show a different side to what we would normally see in a corporate environment. By spending time with these organisations, we hope to gain a deeper understanding of the challenges faced by the companies we invest in.

1 The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living. The HDI is the geometric mean of normalised indices for each of the three dimensions. For more information, see https://hdr.undp.org/data-center/human-development-index#/indicies/HDI

2 Organisation for Economic Co-operation and Development countries are generally considered to be high-income developed economies.

3 United Nations Development Programme, 2024. Human Development Report 2023/2024. United Nations: New York. https://hdr.undp.org/content/human-development-report-2023-24

In the Philippines, for example, despite being touted for its large population (117 million people) and young demographics (30% of its population is aged below 15; 64% is aged 15–64),[4] we were struck by the poverty we saw in the slums. There was a steep contrast between the garbage mountains ("Smokey Mountain") we visited in Manila with Manan Trust and the luxury stores in Makati.

In the narrow lanes of Tondo, Manila's largest slum, we passed Wi-Fi vending machines where people paid one Philippine peso for 10 minutes of internet – this was, for many children, the only way to access the internet, and therefore online classes, during pandemic school closures. We also saw shops for residents to buy clean water, because there were no potable taps in the neighbourhood.

The minimum wage in the Philippines is only PHP 610 (or about USD 10) per day.[5] On the other hand, a few exceedingly wealthy families dominate most of the country's business and politics. It has been argued that only the wealthy and the poor live in the Philippines, as the "middle-income class", such as nurses, teachers and domestic helpers, are mostly working overseas. According to the Philippine government two million people worked abroad in 2022,[6] while there was a total of 26 million households counted at the last population census.[7] Regardless of what the actual numbers may be, it seems obvious that the absence of one or both parents has led to various family and social issues.

In addition, the state of education has declined significantly over the last decade. In a recent analysis by the Program for International Student Assessment (PISA), the Philippines ranked sixth lowest out of 81 countries for mathematics and reading comprehension, and third lowest in science.[8]

We were told that the average class size can be as big as 50–60 children and there is a high attrition rate for teachers because of low pay. Anecdotally, many teachers choose to go to Hong Kong to work, as the pay is over 5–6 times higher than at home.

This is likely to be an issue when hiring staff, as companies will have to invest in additional training to make up the gap. Lack of educational attainment also makes upward mobility much more difficult, as we learned through Teach for the Philippines (TFP), a non-profit organisation focused on improving the quality of teachers and addressing system-wide education challenges in the country.

One of TFP's projects is located in Negros Occidental, a province in the Western Visayas region of the Philippines. Here, one could see the poverty cycle in action. Mothers shared stories about their teen pregnancies, which led to them dropping out of school with limited job opportunities. The difficult financial state of these families resulted in poor nutrition, poor physical and mental health, and in some cases even substance abuse or domestic violence. And the cycle was already repeating, with their own daughters pregnant at 14 and 15.

Our trip to the Philippines highlighted other structural challenges within the country. For example, it seems that the cost of electricity is the highest in Asia – even higher than Japan. Local food produce is also highly priced due to the intermediaries (farmers barely make a living) and poor infrastructure. We saw sugar and onion prices that were 2–3 times international levels. With higher input cost pressure, many companies have seen their gross margin under pressure despite raising prices. Meanwhile, traffic congestion costs the economy PHP 3.5bn (or USD 62m) every day in lost productivity.[9]

4 United Nations World Population Dashboard, Philippines: https://www.unfpa.org/data/world-population/PH
5 National Wages and Productivity Commission, Philippines: https://nwpc.dole.gov.ph/ncr/
6 2022 Survey on Overseas Filipinos (Final Result), 2023: https://psa.gov.ph/statistics/survey/labor-and-employment/survey-overseas-filipinos
7 Household Population, Number of Households, and Average Household Size of the Philippines (2020 Census of Population and Housing): https://psa.gov.ph/content/household-population-number-households-and-average-household-size-philippines-2020-census
8 https://www.philstar.com/headlines/2023/12/06/2316732/philippines-still-lags-behind-world-math-reading-and-science-pisa-2022
9 https://www.philstar.com/headlines/2018/02/22/1790323/metro-manila-traffic-mess-costs-p35-billion-daily quoting the Japan International Cooperation Agency (JICA), using 2017 figures.

Based on these personal observations, we reflected on our holding in a Philippine air-conditioning company, which we thought to be attractive because air-conditioning penetration is still low, and its market cap is small compared to other Asian peers. But perhaps it is still small for good reason. Similarly, restaurant penetration might not increase as much as we previously thought; and convenience stores in the Philippines may never have the same penetration as, say, Thailand or Taiwan.

These stories and insights are why in-person visits are a key part of our due diligence process. They help us gain a deeper understanding of the countries in which we invest and put real faces behind the complex social problems that we otherwise only read about.

Case study:
Engaging on quality control and product safety

Since the collapse of the asset price bubble in the early 1990s, Japan had been stuck in a prolonged deflationary environment – the so-called “Lost Decades”, when consumer prices stagnated, and average annual gross domestic product (GDP) growth was just 0.7%.[10] Then, in 2023 inflation finally picked up but real wage growth declined, implying that Japanese household consumption power had weakened. From this perspective, it seems only natural that Japanese consumers have been downgrading their spending behaviour. We expect this to be an ongoing structural trend in Japan over the long term.

Kobe Bussan, one of our key portfolio companies in Japan, operates the popular discounted supermarket chain, Gyomu Super. Its stores attract large numbers of customers on the back of its competitive pricing on both regular brand names and private-brand product offerings, which includes fresh food items, packaged foods and groceries, and household goods. For example, Gyomu Super sells a particular brand of dishwashing detergent at JPY 70, while the same product costs JPY 140 on Amazon. Thanks to its popularity among Japanese consumers, the company has been expanding its reach and opening more stores (it now operates more than a thousand stores in Japan), with nationwide expansion one of its key targets in the medium term.

Against this backdrop, in 2023 we discovered that the company had reported a series of food product recalls. Left unchecked, we believed this could turn into a serious problem as it directly relates to consumable goods and risks its customers’ safety. We met Kobe Bussan’s management to engage on the topic and to ask whether the company had preventative measures in place to screen for potential product risks. In that meeting the management explained that they had strengthened the quality assurance team and now conduct thorough supply chain audits on existing food product suppliers with on-site visits. The company also committed to a more detailed audit of overseas food product suppliers in the future.

We believe that building trust in the local community is one of the most important points for a business to be sustainable, especially in the case of direct-to-consumer businesses like Kobe Bussan. Our engagement case with Kobe Bussan is a small but significant action which we hope will serve to maintain the company’s reputation and help sustain its growth in the long term. We believe it also has a positive impact on the people and communities in the countries where we are invested.

10 World Bank national accounts data, average annual percentage growth rate of GDP at market prices based on constant local currency, from 1992–2022. https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=JP

09 | Priorities for 2024

Our priorities for 2024 are a continuation of those we set in 2023. They reflect our ongoing commitment to refining our process, being more effective in our engagement activities and continually improving the way we articulate our approach.

Engagement themes

In our company engagements, we intend to focus on a few key areas where we are most exposed, and where the team has built up the most knowledge and insight. We think this targeted approach will allow us to be more effective in our engagement plans, rather than stretching ourselves too thinly across different areas.

Our first priority is to continue the work on climate change and decarbonisation. This topic is material to all investors and stakeholders and requires a determined effort to move the agenda forward. As a multi-decade undertaking, we will review our decarbonisation commitments and targets each year to ensure that we continue to make progress on this important task.

We also aim to build out our approach to modern slavery risks, leveraging FSI's Modern Slavery Toolkit[1] to identify and address these risks in our portfolios. Modern slavery exists in some shape or form in every country and region around the world, though there are certain areas and industries which are particularly high risk. We believe it is important to be vigilant about the potential exploitation of the people in our societies who are most vulnerable.

Setting these priorities does not mean that we have limited our engagement to these topics. Materiality varies across industries, regions and stakeholders and we will continue to engage on relevant issues on a company-by-company basis as they arise. However, we intend to make a concerted effort on these two particular themes in the coming year, and build on them in the years to come.

1 FSI's Modern Slavery Toolkit was launched under the banner of First Sentier Investors ("FSI"). FSSA Investment Managers is an autonomous investment team and part of the investment management business of FSI, which is ultimately owned by Mitsubishi UFJ Financial Group, Inc. ("MUFG"), a global financial group.

Tracking and reporting

Over the course of the past year, we have had several conversations with external stakeholders seeking to clarify our approach to ESG. As ESG reporting becomes more prevalent, we strive to improve the way we report on ESG integration and our related engagement with companies, to meet the requirements of stakeholders.

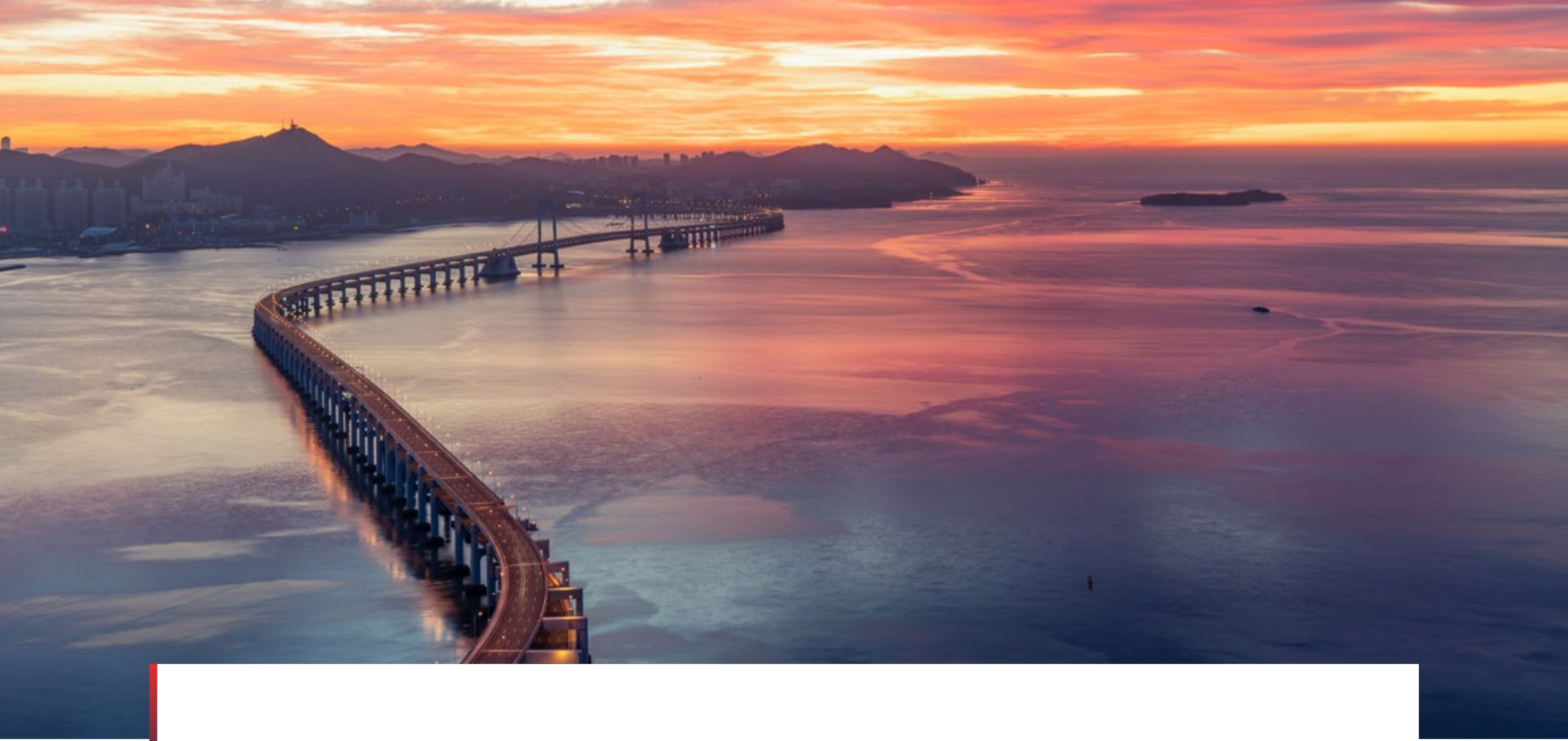
Firstly, we aim to better align our centralised engagement tracking system, launched last year, with the reporting systems our stakeholders use. This should further streamline the reporting process and provide better quality data on our engagement activities.

At the firm level, we are exploring which ESG metrics and data from third-party data providers can be automated throughout the year. These metrics will specifically aid in our regulatory reporting requirements, as well as that of our clients.

Most importantly, our ability to track and report on our ESG activities will allow us to track the evolution of our engagement with companies. This will allow for better coordination across multiple companies and portfolios and means that we can engage on similar issues more deeply and methodically.

We have begun to pilot a system to house certain quantifiable environmental and social metrics, such as employee safety metrics, board gender representation and effective tax rates. We anticipate this will help focus our engagement efforts and improve the benchmarking on material topics in a way that is more relevant, in a region-specific and portfolio context, with our company shareholdings.

Thank you for reading. As always, we welcome any feedback or questions on our investment approach and engagement activities and look forward to sharing our growth with you in future reports.



10 | About us

FSSA Investment Managers has been investing in Asia Pacific and Global Emerging Market (GEM) equities for more than 30 years and now manages USD 25.8bn[1] of assets. Our investment team is comprised of around 20 people who come from diverse backgrounds and are all generalists.

We are bottom-up investors, using fundamental research and analysis to construct relatively concentrated portfolios. We conduct more than a thousand direct company meetings a year, seeking to identify high-quality companies that we can invest in for the long term.

As responsible, long-term shareholders, we have integrated ESG analysis into our investment process and engage extensively on environmental, labour and governance issues.

We sponsor social impact initiatives through the strategic philanthropic work of Manan Trust, a charitable foundation that aims to drive long-term change in communities across Asia. Manan Trust provides multi-year unrestricted grants as well as strategic support to their portfolio of more than 30 non-profit organisations.

As an autonomous investment unit within First Sentier Investors (FSI), we share in the commitment to be a leading advocate and agent of responsible investing. We are a signatory of the Principles for Responsible Investment (PRI) at the firm level, and have committed to the same firm-wide initiatives such as eradicating modern slavery, taking climate action, and protecting biodiversity and human health.

FSI's Responsible Investment team provides specialist knowledge and support to the firm's global investment teams, including FSSA. At the firm level, we are signatories of the Finance for Biodiversity pledge, Tobacco Free Portfolios Pledge, Net Zero Asset Managers Initiative and Climate Action 100+.

Furthering our involvement, two FSSA representatives participate in Investors Against Slavery and Trafficking Asia Pacific (IAST-APAC), a collaborative effort chaired by FSI. FSSA also participated in FSI's Natural Capital and Biodiversity Working Group, which contributed to the development of a Nature and Biodiversity Toolkit, published in 2023.

Our ESG partnerships

MANANTRUST

TOBACCO-FREE FINANCE PLEDGE SIGNATORY

PRI Principles for Responsible Investment

1 As at 31 December 2023.

We invite you to learn more about FSSA Investment Managers through our website and social channels.

Investment insights
We have written short articles on companies, investment trends and market themes across our various strategies, which are available on our website.

LinkedIn page
Follow our LinkedIn page for the latest news and investment insights from the team.

Exclusions policy
We invest where we perceive the management operates the business effectively and acts in the interests of all stakeholders. To guide us, our exclusions policy rules out specific industries or applies thresholds where appropriate. Our latest exclusion policy is available on our website.

Carbon footprint
The carbon footprint of FSSA's portfolios and related metrics are updated quarterly and available on our website.

Alignment with the Sustainable Finance Disclosures Regulation (SFDR)

The European Union (EU) Sustainable Finance Action Plan supports the transition to a sustainable economy. The Plan mandates financial service providers to publicly report and disclose ESG considerations. These are included in the Sustainable Finance Disclosures Regulation (SFDR).

FSSA's investment products under the EU's jurisdiction are categorised as Article 8, which are defined as funds that "promote environmental or social characteristics". In accordance with SFDR, we incorporate certain environmental and social characteristics in all of our bottom-up company analysis.

Further, the Principal Adverse Impact (PAI) indicators are designed to measure and disclose the negative impacts of investment decisions based on certain environmental and social factors, with the intention of minimising significant harm.

As part of our investment process, we consider PAIs as part of our decision-making and monitor our portfolio holdings against the 14 required PAIs. We have also elected to report additionally on PAI #15, the share of investments in investee companies without carbon emission reduction initiatives aligned with the Paris Agreement, and PAI #16, the number and nature of severe cases of human rights issues and incidences.

Out of the PAIs, we regard those that monitor the impacts of climate change and the harm to human or social rights as critical components of our investment philosophy.

We also review and consider PAIs on sustainability factors across our portfolios and disclose them as part of the periodic SFDR report filings. The assessment of key adverse impacts relevant to each portfolio is based on coverage and availability of reliable data. Where adverse sustainability impacts are identified, we will engage with the company in accordance with the commitments made under the firm's Responsible Investment and Stewardship Policy and Principles.

12 | Contacts

Hong Kong

First Sentier Investors (Hong Kong) Limited
Level 25
One Exchange Square
Central, Hong Kong
T +852 2846 7555
infoHK@firstsentier.com

Singapore

First Sentier Investors (Singapore)
79 Robinson Road
#17-01 CapitaSky
Singapore 068897
T +65 6538 0008
infoSG@firstsentier.com

Edinburgh

First Sentier Investors Management (UK) Limited
23 St Andrew Square
Edinburgh EH2 1BB
United Kingdom
T +44 (0) 131 473 2200
infoUK@firstsentier.com

London

First Sentier Investors
Finsbury Circus House, 15 Finsbury Circus
London, EC2M 7EB
United Kingdom
T +44 (0) 20 7332 6500
infoUK@firstsentier.com

New York

First Sentier Investors (US)
10 East 53rd Street, Floor 21
New York, 10022
United States of America
T +(1) 212 497 9980
infoNA@firstsentier.com

Sydney

First Sentier Investors
Level 5, Tower 3
300 Barangaroo Avenue
Barangaroo NSW 2000, Australia
T +61 2 9010 5200
AUenquiries@firstsentier.com

Important Information

This material is for general information purposes only. It does not constitute investment or financial advice and does not take into account any specific investment objectives, financial situation or needs. This is not an offer to provide asset management services, is not a recommendation or an offer or solicitation to buy, hold or sell any security or to execute any agreement for portfolio management or investment advisory services and this material has not been prepared in connection with any such offer. Before making any investment decision you should consider, with the assistance of a financial advisor, your individual investment needs, objectives and financial situation.

We have taken reasonable care to ensure that this material is accurate, current, and complete and fit for its intended purpose and audience as at the date of publication. To the extent this material contains any measurements or data related to environmental, social and governance (ESG) factors, these measurements or data are estimates based on information sourced by the relevant investment team from third parties including portfolio companies and such information may ultimately prove to be inaccurate. No assurance is given or liability accepted regarding the accuracy, validity or completeness of this material and we do not undertake to update it in future if circumstances change.

To the extent this material contains any expression of opinion or forward-looking statements, such opinions and statements are based on assumptions, matters and sources believed to be true and reliable at the time of publication only. This material reflects the views of the individual writers only. Those views may change, may not prove to be valid and may not reflect the views of everyone at First Sentier Investors.

To the extent this material contains any ESG related commitments or targets, such commitments or targets are current as at the date of publication and have been formulated by the relevant investment team in accordance with either internally developed proprietary frameworks or are otherwise based on the Institutional Investors Group on Climate Change (IIGCC) Paris Aligned Investment Initiative framework. The commitments and targets are based on information and representations made to the relevant investment teams by portfolio companies (which may ultimately prove not be accurate), together with assumptions made by the relevant investment team in relation to future matters such as government policy implementation in ESG and other climate-related areas, enhanced future technology and the actions of portfolio companies (all of which are subject to change over time). As such, achievement of these commitments and targets depend on the ongoing accuracy of such information and representations as well as the realisation of such future matters. Any commitments and targets set out in this material are continuously reviewed by the relevant investment teams and subject to change without notice.

About First Sentier Investors

References to 'we', 'us' or 'our' are references to First Sentier Investors, a global asset management business which is ultimately owned by Mitsubishi UFJ Financial Group. Certain of our investment teams operate under the trading names FSSA Investment Managers, Stewart Investors, RQI Investors and Igneo Infrastructure Partners, all of which are part of the First Sentier Investors group.

We communicate and conduct business through different legal entities in different locations. This material is communicated in:

- **Australia** and **New Zealand** by First Sentier Investors (Australia) IM Ltd, authorised and regulated in Australia by the Australian Securities and Investments Commission (AFSL 289017; ABN 89 114 194311)
- **European Economic Area** by First Sentier Investors (Ireland) Limited, authorised and regulated in Ireland by the Central Bank of Ireland (CBI reg no. C182306; reg office 70 Sir John Rogerson's Quay, Dublin 2, Ireland; reg company no. 629188)
- **Hong Kong** by First Sentier Investors (Hong Kong) Limited and has not been reviewed by the Securities & Futures Commission in Hong Kong. First Sentier Investors, FSSA Investment Managers, Stewart Investors, RQI Investors and Igneo Infrastructure Partners are the business names of First Sentier Investors (Hong Kong) Limited.
- **Singapore** by First Sentier Investors (Singapore) (reg company no. 196900420D) and this advertisement or material has not been reviewed by the Monetary Authority of Singapore. First Sentier Investors (registration number 53236800B), FSSA Investment Managers (registration number 53314080C), Stewart Investors (registration number 53310114W), RQI Investors (registration number 53472532E) and Igneo Infrastructure Partners (registration number 53447928J) are the business divisions of First Sentier Investors (Singapore).
- **Japan** by First Sentier Investors (Japan) Limited, authorised and regulated by the Financial Service Agency (Director of Kanto Local Finance Bureau (Registered Financial Institutions) No.2611)
- **United Kingdom** by First Sentier Investors (UK) Funds Limited, authorised and regulated by the Financial Conduct Authority (reg. no. 2294743; reg office Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB)
- **United States** by First Sentier Investors (US) LLC, authorised and regulated by the Securities Exchange Commission (RIA 801-93167)
- **Other jurisdictions**, where this document may lawfully be issued, by First Sentier Investors International IM Limited, authorised and regulated in the UK by the Financial Conduct Authority (FCA ref no. 122512; Registered office: 23 St. Andrew Square, Edinburgh, EH2 1BB; Company no. SC079063).

To the extent permitted by law, MUFG and its subsidiaries are not liable for any loss or damage as a result of reliance on any statement or information contained in this document. Neither MUFG nor any of its subsidiaries guarantee the performance of any investment products referred to in this document or the repayment of capital. Any investments referred to are not deposits or other liabilities of MUFG or its subsidiaries, and are subject to investment risk, including loss of income and capital invested.

Designed by the EMEA/US Design Team – PC0612