

Sustainability Report 2024



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01 | Introduction

We are pleased to present FSSA Investment Managers' *Sustainability Report 2024*, using case studies to highlight our ongoing engagement with companies.¹

While issues relating to climate change, or people and communities, are often the ones that get the most attention, most of our company engagements relate to management quality and corporate governance systems, as we believe that good governance is the foundation on which great companies are built. Last year we engaged with management teams on capital allocation and strategy, remuneration structures and succession planning, board diversity and tenure, and ensuring high levels of transparency and company disclosure – to highlight just a few.

That said, we believe that companies will increasingly need to account for societal and environmental costs in the long run. Despite the backlash in some quarters, our view as long-term investors is that “sustainability” is simply the consideration of investment issues beyond the immediate term. We have long believed that incorporating sustainability into long-term strategy is, fundamentally, good business sense.

For instance, a high returning business with poor labour practices could lose its licence to operate; and high greenhouse gas emissions will have significant

implications on future profitability. Analysing the potential impact of these kinds of issues – in terms of the challenges and opportunities, and management's ability to respond to them – will have a significant bearing on our views of a company's quality. In turn, we recognise that our investment activities can have an impact on society and the environment and are committed to our role as stewards in this regard.

Analysing sustainability matters is therefore embedded into the investment process and is undertaken by our investment analysts, rather than outsourced to a separate team. It is the investment team that holds the relationship with company management teams, i.e., the people who understand their business best and can evaluate what is needed to combat climate change, biodiversity loss, modern slavery and other material factors. This often means that many of our engagement meetings cover multiple topics, rather than one specific issue.

We hope you will enjoy reading about our approach and we welcome any feedback. Thank you for your support.

¹ Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of FSSA Investment Managers' portfolios at a certain point in time, and the holdings may change over time. In addition, not all FSSA portfolios are available in all regions/jurisdictions. Please contact your local FSSA representative for more information.

02 | Our engagement process

At FSSA all of us are investment analysts first and foremost, with company engagement a key part of our responsibilities. We have integrated sustainability considerations into our research, and we engage with all investee companies periodically as they help to advance our understanding of a company's objectives and make management aware of our expectations as a long-term shareholder.

Some engagements aim to uncover more detailed information on certain issues, while others are focused on instigating change. In both instances, our engagement prioritises material issues where there is a benefit to communicating our views and influencing the management's behaviour or decision-making.

This is typically conducted through meetings, calls or letters to management teams. We may also choose to engage with broader stakeholders, including a company's board of directors, owners, other shareholders and employees. Our engagement is primarily with companies (not governments or regulators), and we aim to drive shareholder value by focusing on the most pressing issues at hand.

As long-term investors, our engagement takes place over years, not months or quarters. We focus on the stewardship of the businesses we own, as we believe that quality managers and good governance should ensure that environmental and social concerns are addressed appropriately. We consider every interaction with management as a potential opportunity for engagement.

Importantly, we believe that there is no such thing as a perfect company, and we are willing to own companies that are in the early stages of sustainability disclosure and target-setting if we believe the management are committed to change and there are measurable efforts to improve.

As such, it is not unusual to have a list of engagement points for any given holding in our portfolios. For companies that might have more acute sustainability challenges or are only beginning to improve disclosure and reporting, we focus on whether the direction of travel is positive, and whether the management is doing enough to implement change. To monitor this progress, we record our engagement activities in a centralised log and review this regularly.

In instances where we might be unsuccessful in our engagement, questions are inevitably raised regarding the management's approach to stewardship. We have found that management's responses to our questions are often very telling, and this contributes to our view of a company's quality. We are willing to divest, and have done so in the past, but it is usually the last resort.



03 | Corporate governance

Spotlight on China

A growing focus on total shareholder returns

As long-term investors in Asia and emerging markets, we have witnessed steady progress in corporate governance in China over the years. Since China instituted its first Code of Corporate Governance for Listed Companies more than two decades ago, the regulator has continued to introduce new corporate governance guidelines to instil modern management practices.

From the corporatisation of China's state-owned and collective enterprises to the introduction of independent directors, shareholder restructuring, mixed-ownership reforms, management and employee share-ownership plans and other market-oriented reforms, the government has, over time, sought to improve the alignment of managers and shareholders and foster a well-functioning capital market.

In recent years, the regulator has pushed for greater financial accountability, with shareholder return coming into sharp focus. Last year, guidelines to boost corporate value led Chinese companies to distribute 2.4 trillion yuan (US\$329 billion) of dividends and repurchase 147 billion yuan (US\$23 billion) of shares, both record highs.¹ For some companies, this has already been a multi-year endeavour, as managers took advantage of low valuations and large net cash piles to return cash to shareholders.

Chinese technology companies returning cash at record rates

Some of the largest repurchase programs have come from technology companies and those with US listings (in the form of American Depositary Receipts, or ADRs). For example, Alibaba and Tencent have each spent around US\$25 billion to repurchase shares since 2021, reducing their respective share count by around 9-10%, while JD.com and Yum China have repurchased around US\$5.6 billion and US\$2.4 billion worth of shares over the past few years.²

Share repurchases tend to increase earnings per share/dividends per share by reducing the share count, assuming earnings and dividends stay the same. (Although, one must also consider the dilutive effect of share issuances and share-based compensation, which is a particularly pertinent issue for internet companies.) They can therefore contribute to an attractive shareholder return, even if the underlying business is growing slowly at the topline.

On the other hand, share repurchases only create value if the shares are bought back at a price below the intrinsic value of the business. The bigger the discount, the larger the value creation that remaining shareholders benefit from. In that spirit, last year we engaged with one of our portfolio companies which has a good track record of returning cash to shareholders through dividends and buybacks – but as its price-to-book value was (and remains) above 1x book (unlike its financial sector peers), we raised our concerns about the value of its buybacks in that scenario.

1 http://english.scio.gov.cn/pressroom/2025-01/24/content_117683718.html

2 Source: Company reports, FactSet, as at 31 December 2024.

We are still in the early days of Chinese companies executing their repurchase programs and for the most part we have not yet seen a meaningful decrease in total shares outstanding. The good news is that valuations are low which means a larger percentage of shares can be bought back for the same dollar amount of earnings. We are optimistic that they will add to overall shareholder returns over the next few years.

Cash dividends generally on the rise, but some engagement needed

While share repurchases have been increasing in popularity, most Chinese companies still choose to return cash in the form of dividend payouts – and this has been rising steadily in recent years. Payout ratios have been increasing, and mid-term or interim cash dividends are becoming more common.

Where we have noted large net cash balance sheets, we have engaged with company management to encourage them to relook at their capital allocation strategy. One example of this is Trip.com. We have been disappointed that it had not returned any cash to shareholders via dividends since the 2000s, despite being highly cash flow generative. The company had also raised significant amounts of capital (both debt and equity) in the past.

We wrote a letter to request a meeting with the CEO to discuss the company's views on corporate governance, management compensation and capital allocation.

The meeting helped us to understand the management dynamics but did little to increase our confidence in the management alignment and capital allocation. The board has remained largely unchanged over the years, and while

management own a minority stake, we believe they have a controlling influence due to the close relationship with the board.

In our view, this situation mainly benefits the top management, who have been highly compensated through share-based incentives awarded on the basis of market share, revenue growth and profit metrics. We suggested the inclusion of a balance sheet component, but the company's view was that including capital return as a key performance indicator (KPI) may starve the business of capital.

On the other hand, on a purely forward-looking basis and given the company's profitability, the share-based compensation expense should increasingly look more tolerable as a percentage of earnings (though still large in absolute terms). The management now have material economic ownership in the business (the CEO has never sold any shares), and in theory, we should be more aligned with the management compared to in the past. The management committed to increasing the shareholder return via either buybacks or dividends, but the top priority is to grow the company, followed by paying down short-term loans.

After this meeting, which took place in December 2024, Trip.com subsequently announced a US\$600 million shareholder return plan for 2025, including US\$400 million of share repurchases and US\$200 million in dividends, indicating a Total Shareholder Return of 1.3%. This compares to US\$300 million worth of share buybacks in 2024. While still not particularly significant, we think it is a positive step. We think its capital allocation has room to improve and will continue to engage on the matter.



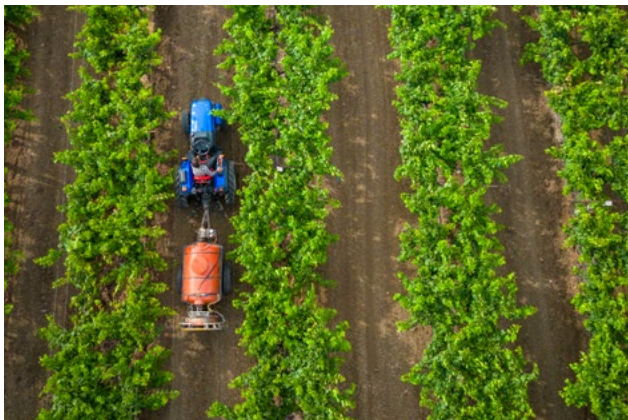
Capital market savviness could lead to potential share dilution

In some instances, we have found that companies are taking advantage of the capital markets to enhance shareholder returns. Anta Sports, which is the domestic market leader in Chinese sportswear, issued a EUR1 billion convertible bond in 2020 to finance its Amer Sports acquisition. This was due to mature in February 2025; but instead, the company issued a new EUR1.5 billion zero-coupon convertible bond in late 2024, using the proceeds to redeem the 2020 bond while keeping its significant cash holdings.

As the company's cash on hand was enough to redeem the existing bond, we raised our concerns about the new issuance – particularly as the new bond would lead to a potential 4% share dilution if fully converted and would be detrimental to existing shareholders. We thought the company was being overly savvy in trying to exploit the capital market in this way and put forward our views to management.

The management explained that the interest income from the proceeds of the bond would amount to a significant cash inflow, which would be “free” if the bond was not converted in 2029. The important factor was the zero-coupon bond structure – and the conversion price was set as a function of this. The company would use the cash to build on its share repurchases (separate to the HKD10 billion announced in mid-2024) and to finance potential overseas acquisitions.

Our general view is that raising capital when a company has significant net cash adds unnecessary risk and complexity to the balance sheet. However, Anta's focus on improving shareholder returns is constructive and there is an existing HKD10 billion share buyback program in place, which should largely offset the possible dilution from the 2024 bond conversion in 5 years' time. So far, the company has bought back HKD744 million of shares and committed to maintaining its dividend payout at more than 50%. The management had considered whether to increase the buyback program further, though recent developments around US tariffs have made the management more cautious about keeping cash on hand. We will continue to engage with management as part of our ongoing monitoring and review process.

**Case study:****New leadership and a renewed focus on capital discipline**

Mahindra & Mahindra (M&M) is an Indian conglomerate, with its core business in automobiles and farm equipment. The group has over 150 companies with 260,000 employees in 100 countries. We have always respected the Mahindra group for setting a high bar of corporate governance standards in India. Over the years, we have been shareholders of many Mahindra group companies, including Mahindra Lifespaces, Mahindra CIE Automotive, Tech Mahindra and M&M Financial Services.

In 2020 we noticed that capital allocation within the group had been deteriorating, and profits from the core business were being eroded by loss-making subsidiaries. We decided to engage on the matter and wrote a letter to the chairman, who responded promptly and arranged a meeting with the then CEO-designate, Dr Anish Shah. In that meeting, Dr Shah told us about his plans, which included a framework to categorise group businesses based on their potential to achieve a return-on-equity (ROE) threshold of 18%. The group would exit those that could not achieve this goal within a stipulated timeframe.

With the appointment of Dr Shah as group CEO in 2021 we started to see changes taking place. M&M's consolidated annual report 2021 – the first under Dr Shah's stewardship – reiterated the strict controls he had highlighted in our meeting and the clearly defined criteria in the capital allocation process. The report also publicly admitted to the mistakes made and the poor shareholder returns, which we found refreshingly candid.

Other than the appointment of Dr Shah, there was an ongoing generational change in M&M's board and management team. As longstanding directors and key senior executives retired, younger board members and managers took charge. High-quality independent directors such as Nisaba Godrej (executive chairperson of Godrej Consumer Products) and Muthiah Murugappan (a senior leader at the Murugappa group) joined the board. We believe the appointment of these key individuals also played a role in accelerating the group's turnaround.

We continued to monitor the business and met with the management regularly to discuss the group's progress. In 2024 we met with Dr Shah to discuss his achievements since our first meeting with him. On the group executive board, 15 out of 21 members had joined in the last three years, as many of the old guard retired in this period. In addition, the group had exited 15 loss-making businesses, while the market capitalisation of the group's growth gems has risen from US\$800 million to US\$3.2 billion.³

Dr Shah believes that the most important change he has instilled in the business is the renewed focus on discipline and performance. He has tried to maintain the sense of purpose, integrity, empowerment and entrepreneurship from the Mahindra of the past and reintroduced the financial discipline which had disappeared from the group. The numbers tell us that he has been successful so far; M&M's corporate value has grown multiple times over since his appointment.

M&M is now shifting back into growth mode again. The group has increased its focus on its core businesses – automotive, farm, financial services and IT services – which have long track records of profitable operations and the opportunity to scale up significantly in the coming years. The management are clear about where they have the right to win, and the mindset has become bolder and more agile.

When asked about how he measures success, Dr Shah replied that it was about shareholder returns, leadership in their industries, a friendly and performance-driven culture, and being a technology leader. In our view, it is now already a better-quality group of businesses. But the nature of the issues means that results won't happen in a straight line. On the other hand, having met the management repeatedly in recent years, we believe the direction of travel is positive.

3 As at 31 March 2024.



Case study:

Seeking clarity on acquisitions and incentive plans



CSL is a global franchise whose roots go back more than 100 years. It develops, manufactures and markets pharmaceutical products of biological origin. The main business is plasma therapeutics, as well as vaccines for influenza and HPV (for cervical cancer). There are currently no alternatives to plasma derivatives, and CSL is one of the leading companies in the industry.

We have owned CSL in our regional portfolios for several years. We believe its core business is attractive, as plasma therapies are simple and scalable with long-term growth tailwinds and high barriers to entry. However, we were concerned that the acquisition of Vifor in 2021 was a sign that the plasma business was slowing, and the company was having to look for future growth inorganically. The acquisition of Vifor, which specialises in iron deficiency therapies, had changed the company's make-up. CSL was becoming more complex and difficult to understand.

We were also concerned that CSL's culture of prudence appeared to be eroding. After Vifor reported disappointing results, we noticed that the calculation of return on invested capital (a key metric for the management's incentive payout) appeared to exclude the acquisition – which is poor practice.

We decided to engage with the management to better understand its capital allocation strategy and business focus. We held meetings with the management and members of the executive team to discuss our concerns.

First, the management reassured us that the core franchise is still growing; as initial costs fall off, capacity is being utilised and returns are rising. The management still spend most of their time on the plasma business and reiterated that there would be no further large-scale mergers & acquisitions. They plan to hold on to Vifor, as the management thinks that there is still long-term growth and margin potential to unlock.

Regarding the management incentive payouts, the CFO explained that the remuneration committee decided to disregard Vifor in the case of the 1st tranche, while choosing to make a discretionary/judgement call on Vifor for the 2nd and 3rd tranches. Consequently, due to Vifor's performance being worse than expected, a 20% reduction was reflected in the incentive payments to five executives in 2024. The management noted that they would increase the transparency of the reporting in future.

Although the remuneration committee's decision might seem fair from certain angles, our view is that a 20% haircut is an insufficient penalty for such a costly mistake (Vifor accounts for 50% of the invested capital). We also remain unconvinced about the direction that CSL's corporate culture appears to be taking. We will continue to monitor and engage on these points.



Update:
Encouraging progress at Kasikornbank



Our annual report review on Kasikornbank in 2023 highlighted several issues, which led to our decision to write a letter to the chairman and CEO about board structure, capital allocation, employee stock ownership plans and financial disclosure, among other things. One of our key points was that the board was too big, at 18 members, and only a third of directors were independent. While we don't wish to overstate our influence or role, we were pleased to see changes being made, with the overall size of the board reduced and the share of independent directors increased.

In 2024 we wrote another letter to the CEO, this time to express our appreciation that our comments as minority shareholders were being taken on board. We believed the appointment of new independent directors would help to shape the bank's culture and performance going forward, and a smaller board would make decision-making more effective.

In our letter we took the opportunity to ask about the bank's decision to deploy significant capital back into the business, rather than returning it to shareholders. Kasikornbank had recently committed to a minimum dividend payout policy of 25%, but we thought that this could be higher still. The best banks in the region return over 50% of their profits as dividends and we suggested that a similar commitment would demonstrate that the bank is serious about creating enduring value for shareholders.

We had a follow-up meeting with the senior management to discuss the points raised in our letter. The continued progress on our engagement topics over the last year has been encouraging – the board has been restructured to make it more effective, the incentives for management are changing, there is progress on fee income streams and credit costs have started coming down. The direction of travel for Kasikornbank looks positive after what has been a few tough years.

04 | Climate change and the environment

Our decarbonisation commitment

At FSSA, climate change is a key consideration in our investment process. We consider it our duty to assess climate-related risks and opportunities in our investment decision-making and ownership practices. We remain committed to increasing our engagement on climate change matters and to underscore the importance of having credible transition plans. Through our ongoing engagement with management, we aim to reduce the absolute amount of carbon emitted by companies in our portfolios and have short-, medium- and long-term goals with this in mind.

Our methodology and climate goals

Our decarbonisation process incorporates three phases which are repeated annually. As our portfolio holdings change and new companies are added or removed, the companies within each phase will also change accordingly.

- **Phase 1:** Companies are selected for assessment, based on the team's holding sizes, geographical representation and association to high-emitting sectors, among other factors. In 2024 we covered 82% of our assets under management (AUM),¹ up from 78% in the prior year. We aim to expand the AUM under assessment each year until 100% is covered.

- **Phase 2:** All assessed companies are assigned to a tier between 1 and 4 to represent their progress towards net zero. Previously assessed companies are reassessed annually (unless they are no longer held in our portfolios) to monitor their ongoing progress.
- **Phase 3:** Company engagements are conducted throughout the year based on these results.

In 2024 we enhanced our net-zero assessment model to align with the criteria set forth in the [Net Zero Investment Framework 2.0 \(NZIF\)](#), an update on the Net Zero Investment Framework Implementation Guide from the Institutional Investors Group on Climate Change. We have refined the qualitative questions in our original assessment to include capital expenditure, social impact (just transition) and the calculation of absolute emissions relative to targets. Our new assessment model should allow us to better track the growing number of companies in scope and improve the consistency across the team's net-zero assessments.

This year we included temperature alignment (based on ISS information) in our assessments for the first time, to evaluate company performance relative to the 1.5°Celsius pathway put forward by the Paris Agreement. Given that the majority of our holdings are Chinese and Indian companies, we set a 1.7°Celsius variance to allow for decarbonisation plans set at the country level (China aims to reach net zero by 2060; India, by 2070), as there are substantial hurdles for companies to transition significantly (i.e. decades) faster than their country's policy settings allow. Companies falling outside of this range were deemed to be not aligned.

1 As at 31 October 2024.

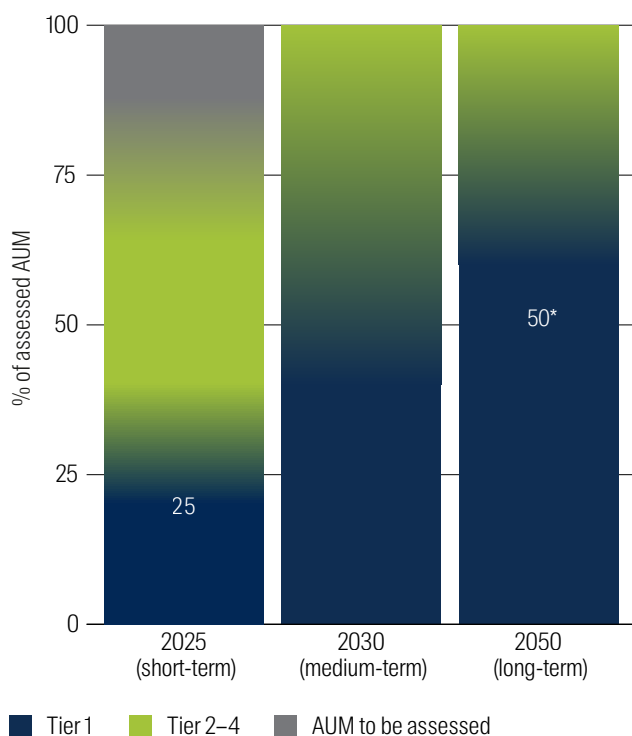
We also updated our tier definitions to reflect the new framework:

FSSA tier	FSSA definition	NZIF Category	Characteristics
Tier 1 Leader, track progress	A "Leader" is either achieving net zero with its current emissions intensity performance at, or close to, net-zero emissions; or those with adequate emissions reduction over three or more years.	"Achieving net zero" or "Aligned to a net-zero pathway"	<ul style="list-style-type: none"> • Ambition: has set long-term goal to achieve net zero by 2050 (or earlier) • Targets: announced short, medium and long-term targets • Checked for alignment with the Science Based Targets initiative (SBTi) or other similar frameworks (e.g., the Transition Pathway Initiative or Climate Action 100+) • Disclosure: Scope 1 + 2 + material Scope 3 for three or more years² • Performance: achieved genuine reduction and/or performance relative to targets for three or more years • Strategy: business model is an enabler of emissions reductions internally and externally; strategy/investment plan expected to achieve goals • Capital allocation: strong capital allocation plan as part of transition plan
Tier 2 Committed, track progress	"Committed" means aligning to net zero, with short, medium or long-term goals (but not all), and disclosure of Scope 1 & 2 emissions data for two or more years (with an option to include material Scope 3 emissions data)	"Aligning to a net-zero pathway"	<ul style="list-style-type: none"> • Ambition: has a net-zero target, but is set beyond 2050 (i.e., not within the science-recommended timeframe) • Targets: has a mix of short, medium or long-term targets, but not all • Disclosure: Scope 1 + 2 for two or more years; may have begun to track material Scope 3 • Performance: achieved emissions reductions for two years and has a plan to achieve targets • Strategy: at least part of the business is an enabler of emissions reductions internally and externally • Capital allocation: has a component on capital allocation, but very low
Tier 3 Laggard, planning	"Laggard, planning" means committed to aligning towards a net-zero pathway with the intention to set clear targets, and disclosure of Scope 1 + 2 emissions data for at least one year, but with little to no progress over time	"Committed to Aligning"	<ul style="list-style-type: none"> • Ambition: may have declared an intention to set net-zero targets, or have language supporting net zero, but there are no time-bound ambitions and key elements are missing (e.g., no organisational support, no strategy to achieve) • Targets: no clear targets have been set. May have an internal target, but it is not tied to credible guidance (i.e., targets have been set randomly) • Disclosure: Scope 1 + 2 for a minimum of one year • Performance: may have disclosure and operational metrics, but little to no progress over time • Strategy: may have emissions reduction as a headwind, but opportunities to reposition or evolve the business exist • Capital Allocation: no capital allocation plan
Tier 4 Laggard, needs support	"Laggard" means not aligned; those with the intention to set targets have no defined timeframes or metrics. There is poor disclosure and thus an inability to measure progress. Their business models may be structurally challenged due to a reliance on carbon-intensive resources.	"Not aligning"	<ul style="list-style-type: none"> • Ambition: may or may not have the intention of setting a target, but no timeframe or metrics have been defined • Targets: No short, medium or long-term targets defined • Disclosure: Poor disclosure (minimal to none), thus an inability to measure progress • Performance: history of environmental malpractice and little to no improvement • Strategy: may be structurally challenged due to reliance on carbon-intensive sources • Capital allocation: no capital allocation plan

2 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](#).

Our short-, medium- and long-term climate goals through to 2050 remain unchanged and 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 2024.

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 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 tier 1 holdings to align with the recommendation from the Intergovernmental Panel on Climate Change (IPCC) to limit global warming to below 1.5° Celsius (or 1.7° Celsius for Chinese and Indian companies), reach net-zero emissions by 2050, and to disclose actual emissions reductions aligned to this pathway.

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. We will achieve this through purposeful engagement with company management with the aim of moving towards genuine reductions in carbon emissions as well as meaningful targets in the interim.

We are initially aiming for 50% of our AUM to be aligned to net zero by 2050 (assigned to Tier 1), with the goal of increasing that towards 100% as economies gradually decarbonise.³

In considering these climate goals 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 goals will depend on the ongoing accuracy and representation of this information as well as the realisation of such matters in the future.

³ This may differ between portfolios as our climate goals are set at the team level and not at the strategy or fund level.

Our progress

This is the fourth year we have undertaken net-zero assessments on our portfolio holdings and conducted climate-specific engagements. In 2024 we added 27 new companies to the assessment, while nine companies had been sold and were duly removed.

Company decarbonisation assessment by tier

Tier Levels	Percentage of assessed companies ⁴
Tier 1	11%
Tier 2	28%
Tier 3	22%
Tier 4	39%
Grand Total	100%

Our results suggest that a few stand-out companies like TSMC and Tencent are steadily advancing towards their net-zero goals, but in general, progress has stalled. More than half the companies under assessment either showed no improvement in ranking (not counting those that were already in tier 1) or had deteriorated compared to their 2023 assessment. Just 11 companies had improved, with the majority of those moving up to tier 2, and a handful moving up to tier 1.

In China, we note that companies generally fit into one of two categories: those that have set internal goals that align closely with China's goals for decarbonisation at the country level, and others that have adopted qualitative strategies due to internal factors. We would include Anta Sports, China Mengniu Dairy and SF Holding in the first group, as they have made public commitments and disclosed their plans to achieve carbon neutrality by 2050, ahead of national targets.

The latter group, most of which are currently sitting in tier 3, suggests that significant engagement may be required. The current level of disclosure at these companies is lacking, and it is unclear when we might expect their decarbonisation efforts to translate into absolute reductions.

In India, the majority of companies under assessment continued to lag despite improvements in disclosure and companies expecting peak emissions by 2030. The exceptions are Bosch India and Infosys (both tier 1), which achieved net zero (in terms of Scope 1 and 2) in 2020 and 2019 respectively, after an extensive shift to renewable energy sources and the use of carbon offsets for their residual emissions.

Our priorities

Given our short-term goal is to have 25% of assessed companies assigned to tier 1 by the end of 2025, our engagement this year prioritised tier 2 companies that were missing just one or two components required to achieve a tier 1 ranking. Pleasingly, these companies also represented some of the largest holdings across the team, where our conviction in the management and franchise is high, and we believe our engagement has the potential for greater impact. Additionally, as 89% of our assessed companies disclose Scope 1 and 2 emissions, we will be engaging with those not yet doing so in our efforts to see 100% disclosure at this level.

Engagement priority level	Tier level	Objective
First	2	Engage with company on the specific components needed to reach tier 1.
Second	4	Prompt company to begin formalising their decarbonisation approach – usually by improving disclosure and setting targets for Scope 1 & 2 as a minimum.
Third	3	Improve our understanding of the company's decarbonisation strategy and consider the gaps in reaching tier 2.
Fourth	1	Verify tier standing annually by validating performance against targets.

4 Based on approximately 82% of AUM, calculated as at 31 October 2024.

However, while we have made some progress towards our decarbonisation goals, our 2025 target is looking increasingly ambitious from where we currently stand, and it seems unlikely that we will meet this short-term goal. In hindsight, we were overly optimistic in what we believed could be achieved in the timeframe.

There have also been nuances in the assessment process, and we have had to adjust accordingly. Each year we have built on the foundation of previous years, which has led to improvements in our methodology. This year's broader assessment model, particularly the inclusion of emissions relative to targets and temperature alignment to a net-zero pathway, has meant that the criteria for a tier 1 ranking has been tightened. This too has impacted our progress toward our goals.

On the positive side, our portfolios are now 11% aligned to a net-zero pathway by 2050, which is in line with MSCI's research indicating that 11% of the world's listed companies (as at 31 August 2024) were aligned with a projected warming of 1.5° Celsius.⁵ Many of our portfolio companies are making good progress and are taking sensible steps to transition their business to a low-carbon economy – though they still need to demonstrate more evidence of emissions reductions. We will continue to focus on the quality of engagement with management, which should propel companies up the rankings more quickly going forward.



Case study: China Mengniu Dairy

China Mengniu Dairy is one of the two largest dairy companies in China. We have been shareholders in Mengniu for over a decade, given its strong market position in segments such as premium ultra-high temperature (UHT) milk, fresh milk and cheese.

As part of our decarbonisation process, we have been monitoring Mengniu's environmental and climate-related strategy. We have found its sustainability reports both informative and comprehensive, with plenty of detail on its disclosures, net-zero targets and decarbonisation strategy, which includes investments into reducing its carbon footprint.

Mengniu aims to reach peak carbon emissions by 2030 and carbon neutrality by 2050. It has set short-, medium- and long-term targets which include quantitative targets for Scope 1, 2 and 3 greenhouse gas emissions (though it does not yet disclose its Scope 3 emissions).

To reach these targets, Mengniu has taken steps to improve its production-related energy usage. It has enhanced its capacity utilisation, recycled surplus energy and upgraded its energy structure with low-carbon energy sources like photovoltaic power. At the same time, Mengniu has committed to building low-carbon factories, offices and pastures to reduce the environmental impact of its operations. It has also optimised its logistics to reduce the mileage in its transportation network and prioritised the utilisation of new energy vehicles where possible. Packaging is another area in which Mengniu looks for opportunities to reduce its carbon footprint.

As a result of its actions, total greenhouse gas emissions (Scope 1 and 2) levelled off in 2022/23 and dropped in 2024. Emissions intensity has also reduced as it moves steadily towards its 2030 goal of achieving 160kg of CO₂e (carbon dioxide equivalent) per ton of dairy products.

As part of our engagement, we wrote a letter to Mengniu to commend the progress already made in what is inherently a challenging sector. We also took the opportunity to ask about the company's roadmap and targets for Scope 3 reductions. We are optimistic that Mengniu's continued journey towards its net-zero goals should translate into material improvements over time.



⁵ Source: MSCI Sustainability Institute Net-Zero Tracker report, November 2024.

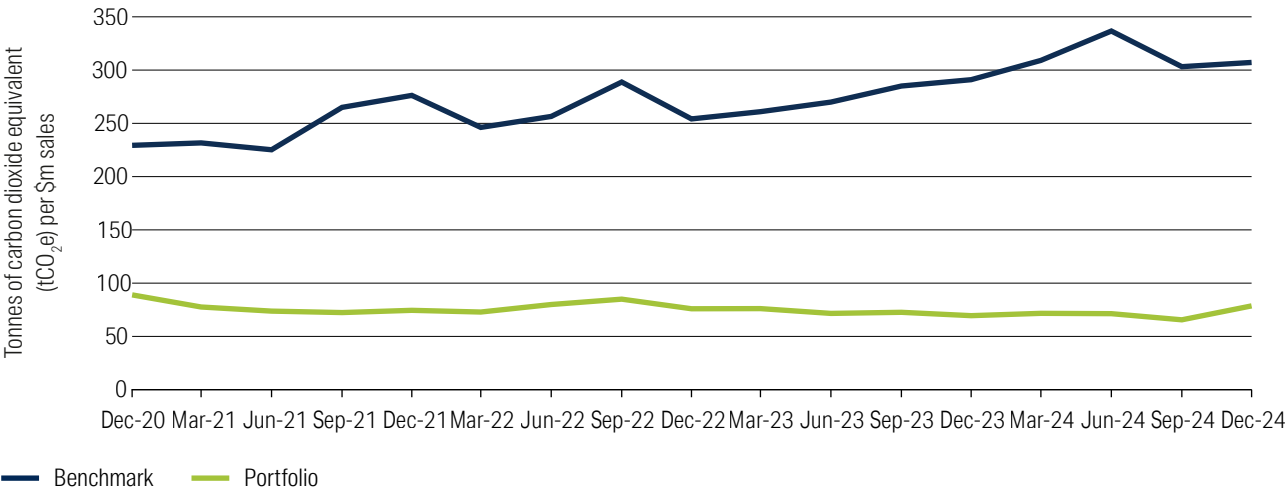
Portfolio carbon metrics

Our portfolios have a significantly lower carbon footprint and carbon intensity than their respective benchmarks. Given the complexity of the inputs for which these metrics are measured, we frequently remind ourselves and our readers 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 greenhouse gas-emitting companies.

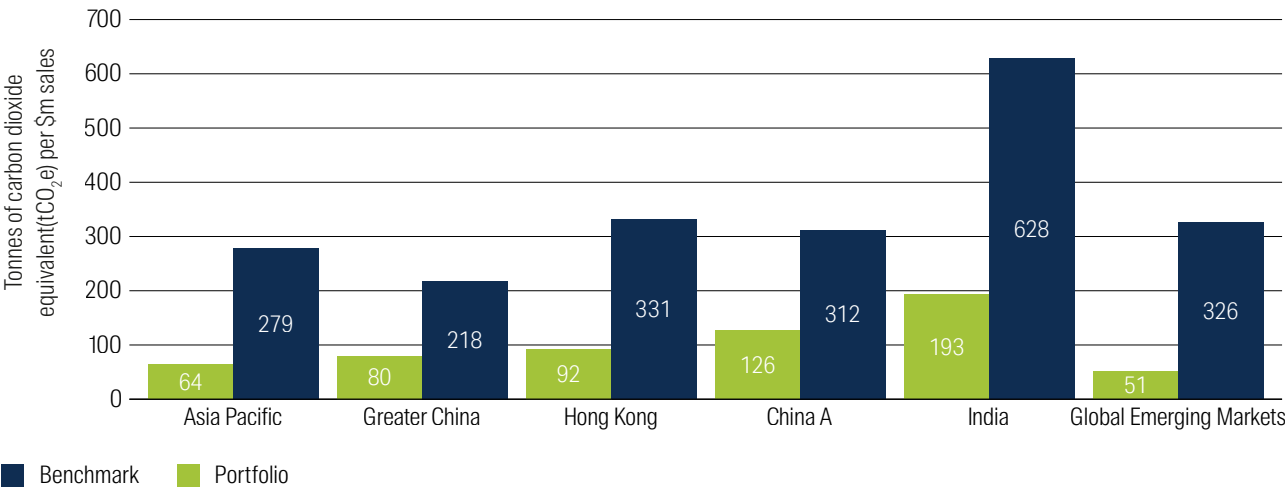
Our portfolios' carbon footprint as well as their carbon intensity are updated quarterly on the FSSA website.

Average emissions intensity of FSSA's strategies, 2020-2024

The line chart below shows the weighted average 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, 2024



Source: First Sentier Investors, ISS ESG. Data as at 31 December 2024. 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

How we report our GHG emissions

First Sentier Investors (FSI)'s Corporate Sustainability function supports the FSSA team and the broader firm in managing operational climate-related risks and impacts. In 2024, FSSA operated from offices in Hong Kong, Singapore, London, Edinburgh and New York.

We calculate our emissions in alignment with the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI) Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition).

Scope 1 emissions are direct emissions from FSSA owned or controlled sources. 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 have limited Scope 1 emissions as we do not have any activities that directly generate emissions such as the combustion of natural gas, nor company fleet.

Scope 2 emissions are indirect emissions from the generation of purchased energy consumed by FSSA or FSI, including electricity, heat and steam. We have reported using both the location and market-based method. As with Scope 1, an apportionment based on the FTE has been applied to these emissions to reflect this.

Scope 3 emissions are indirect emissions that occur in FSSA's value chain. Emissions from portfolio companies constitute by far our most material Scope 3 emissions (Category 15: Investments). However, we also calculate aspects of Scope 3 emissions arising from FSSA's operations. FSSA's material operational Scope 3 emissions arise from our team's business travel (by air, rail, accommodation and car hire).

Biogenic emissions are the emissions arising from the green gas in our UK offices.

Our approach to carbon offsets

We commit to offsetting emissions in categories that cannot be avoided. To do this, we purchase and retire voluntary carbon credits from leading offset projects, which are verified under internationally recognised carbon verification schemes. Certificates verifying the carbon credit retirements are available upon request.

FSSA emissions ⁶		tCO ₂ e
	2024	2023
Scope 1 (direct emissions)	0.08	0.20
Scope 2 (indirect emissions)		
Purchased electricity – location method	26.58	31.50
Purchased electricity – market method	0	0.03
Purchased heat and steam	0.61	0.60
Scope 3 (indirect emissions – value chain)		
Category 1 – Purchased Goods and Services (Water only)	0.03	0.31
Category 3 – Fuel and Energy related activities (not included in Scope 1 or 2)	7.01	9.26
Category 5 (Waste generated in Operations)	0.09	0.17
Category 6 – Business travel	672.10	703.55
Category 7 – Employee commuting	14.69	16.60
Biogenic emissions	0.84	0.55
Total emissions (Scope 1 & 2 – location based, Scope 3 and biogenic)	722.04	762.73
Total emissions (Scope 1 & 2 – market based, Scope 3 and biogenic)	695.45	731.27

6 Emission factors reference published emissions factors databases. Our Scope 1 and Scope 2 emissions reflect our typical occupation as an office tenant. Where we are a tenant, we have included the energy consumed within the leased space and in Edinburgh, energy consumption for the building has been included to reflect our operational boundary of this facility.

Data for our Scope 1 and 2 energy and emissions for our global offices is sourced from utility billing and landlord-supplied extracts. Where data is not readily available to us, we use estimates as outlined in the notes below.

Our Scope 1 reporting currently excludes diesel (as part of stationary combustion) and refrigerants due to their relative immateriality. FSSA does not own any company fleet, and therefore there is no associated transport fuel for Scope 1 (mobile combustion). For 2023, First Sentier Investors purchased Green Gas (via tariff) in place of natural gas in our Scope 1 emissions in our Edinburgh office. For 2024, due to market constraints, between July-September the gas contracted reverted to natural gas, before resuming a Green Gas contract in October.

Between November 2023 – March 2024, First Sentier Investors relocated to a temporary London office while our primary London office underwent refurbishment. At the time of the 2023 reporting disclosure, the data for this temporary office was not yet available, and so average monthly office consumption data was extrapolated to estimate this period, using the floor area of the original office. For this 2024 disclosure, the gas and electricity consumption data provided by the temporary London office has been included. The landlord of our temporary London office purchased renewable energy via Renewable Energy Guarantees of Origin (REGOs) and Renewable Gas Guarantees of Origin (RGGOs), covering the period that we occupied the space. The greenhouse gas emissions arising from Green Gas are represented as our Scope 1 and biogenic emissions.

Our Scope 2 reporting includes the renewable electricity First Sentier Investors purchases either via the energy retailer or through contracted Renewable Energy Certificates (RECs), which is reflected in the market-based method reporting.

Emissions from heat and steam reflect our occupancy at our New York facility.

Biogenic emissions arise from the Green Gas contract for our Edinburgh facility and temporary London office.

Changes in reporting since prior year statement:

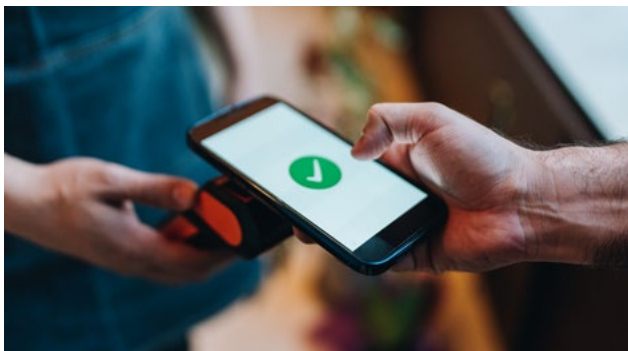
- Our 2024 reporting reflects the AR5 methodology, while 2023 reporting follows AR4. The estimated impact to our 2023 data is <2%.
- We have updated the location-based emissions factors for our New York office from US EPA in 2023 to IEA in 2024. The estimated impact to our 2023 location-based emissions is <2%.



05 | Broad engagement with companies



Case study: **MercadoLibre**



MercadoLibre is Latin America's leading e-commerce company with a growing fintech business. Founded in 1998, the company has demonstrated a long track record of growth, innovation and market share gains. With an early mover's advantage, the company has built a comprehensive ecosystem that includes an online marketplace, in-house logistics infrastructure, digital payment networks and a suite of financial services.

Our ongoing monitoring of the company's performance suggests that the management continues to execute well on multiple fronts. The company has delivered consistent growth in sales and gross merchandise value, reflecting increased consumer adoption and engagement as well as market share gains. This has been backed

by strong cash flow generation (as its asset-light model doesn't require much working capital), which it can reinvest into the business to strengthen the franchise.

In 2023 we wrote a letter to the company to clarify a few points on board diversity and climate-related disclosures. First, we noted that Mr Henrique Dubugras, aged 26, had been elected to the board, as noted in the company's annual filing for 2021. Due to his age, we wanted to better understand the suitability of his appointment. We also encouraged the company to continue to refresh and increase the diversity of its board.

The company responded that Mr Dubugras has been a valuable member of the board, bringing new and fresh views to the group. He is a successful payments entrepreneur, starting from before he was 18 years old, and brings valuable fintech experience to the group's discussions – even at a young age.

Our letter also sought to clarify the company's climate-related ESG disclosures. We asked if there were plans to set targets for Scope 1, 2 and 3 greenhouse gas emissions and whether the company was seeking advice from any external experts on the matter. Additionally, based on a combination of historical and estimated emissions data, MercadoLibre's greenhouse gas intensity seemed to be higher than peers – we were surprised to see the company faring higher in this area than Amazon, for example, given the difference in their business models.

The company's answers provided us with a good understanding of how the company manages climate risk. MercadoLibre has been measuring its carbon footprint since 2016, with constant improvements on how this is carried out. It follows the Greenhouse Gas Protocol standard and works with a third-party consultancy to validate its metrics. For disclosure, the company has worked with the Task Force on Climate-related Financial Disclosures (TCFD) and Sustainalytics and is following SBTi guidelines for its target setting. It has a highly specialised team as well as consultants to provide advice on climate risks.

In our follow-up in 2024 we noted that MercadoLibre's ESG report was more comprehensive than the last. The board had shrunk from ten members to nine and now has only one executive representative (the chairman). Among the independent members, two had been refreshed, with a respected female finance professional and a former co-founder joining the board.

On environmental issues, we thought that its climate-related disclosures were reasonably well documented. The company provided a detailed breakdown of how the proceeds of its 2021 US\$400 million Sustainability Bond was spent (fully deployed by 2024), with 70% going towards energy and environmental investments. Encouragingly, emissions intensity showed a declining trend due to its increasing use of renewable energy, the shift towards green vehicles for its delivery fleet, and other local initiatives.

On the other hand, the absolute level of emissions continues to rise given the company's high rate of growth. While the company had previously committed to SBTi, there is still a lack of known targets towards decarbonisation goals. We will continue to monitor and engage with the company to encourage better alignment with the NZIF framework.



Case study: Haitian International



Haitian is the largest maker of plastic injection moulding machines (PIMM) globally. We bought the shares in 2020 as we thought the company had a good long-term track record, and its order book suggested that it was emerging from an industry down-cycle. We believed the company should continue to gain domestic market share, while product upgrades and overseas expansion (where its market share is still small) could fuel its future growth.

While Haitian is still a family-run company, it has managed the transition to the younger generations relatively well. The family places strong emphasis on succession planning and believes the process takes at least a decade. All second- and third-generation family members in the business have worked in the group for a long time – the current chair, Jianming Zhang, and his younger brother both started as entry-level workers when they were 15 years old; the CEO joined at the age of 28 after securing a master's degree in London; and the two sons-in-law (current non-executive directors) have been with Haitian since they were 18 years old.

Our research suggested that the board's independence and diversity could be improved in terms of gender and experience. It comprised five executive directors (four of which were family members) out of a total of 11. Only one independent director was female. Of the independent directors, three had been with Haitian Group for over a decade and are all of them were accountants.

In our meeting discussions, the company representative highlighted the addition of Ms Chen Lu to the board in 2023 (which made it two women on the board). He also mentioned that the company is looking to add independent directors with relevant industry expertise. That said, as a family-controlled company, the changes would be gradual.

We also discussed our concerns about the family's alignment with the listed parent company since there are different businesses under the parent. The family has now committed to conducting all new business in the listed company and will consider consolidating some of the parent's smaller businesses into the listed company as well. Aside from Haitian Precision (already listed) and Haitian Die Casting (run by an external team, with an initial public offering envisaged for 2026), everything is on the table. The family is otherwise well aligned.

Positively, Haitian has a strong balance sheet and is highly cash generative, with excess cash being invested in fixed income and wealth management products. We engaged with the company on setting a higher dividend payout, which was well received by the representative as the company had already discussed doing so.

On climate change and decarbonisation, Haitian does not have a net-zero target. Instead, the company targets three "7.5% decreases" by 2025 vs. 2021 – 7.5% decrease in carbon emissions per RMB10,000 production value, 7.5% decrease in energy consumption per RMB10,000 production value, and 7.5% decrease in total hazardous wastes. In 2022, it achieved 6.4%/15%/14% reduction in each of these respective areas. Clean technology is one of Haitian's core product strategies.

We encouraged the company to introduce a long-term carbon-neutrality target, to disclose its Scope 3 carbon emissions, and to set a renewables target. But the company representative explained that the family's conservative nature means committing to a 30-year target without knowing the intermediate steps was considered irresponsible – the family prefer to take a step-by-step approach. That said, the company intended to re-evaluate and prospectively raise its target.

Given the family's long-term thinking and our shared values around sustainability, we think Haitian has been moving in the right direction; however, progress may be slow. We intend to monitor its governance and sustainability practices and continue to engage with the management on its journey.



Case study: ZTO Express



ZTO Express is the biggest parcel delivery company in China, and a key beneficiary of the rise in e-commerce spending. We have owned the shares for several years and believe that ZTO's industry leadership is likely to persist given its strong track record and management quality. The company is relatively asset-light thanks to its "network partner model" where the first-mile pickup and last-mile delivery are handled by smaller local companies. The advantages of this include the potential for rapid expansion, flexible decision-making at local levels, and lower costs for first- and last-mile logistics.

During our research and analysis, we have been positively surprised by ZTO's environmental, social and governance (ESG) disclosures. The company publishes an annual ESG report as well as quarterly updates and has various policies covering anti-corruption, environmental issues, human rights protection, supplier principles and green procurement on its website.

The ESG committee is formed by two senior executives and two independents who track ZTO's ESG ratings from four research providers. While the company believes its ESG practices are above industry standards as well as other listed companies, there are still improvements to be made. Feedback from these agencies has helped to direct the company's efforts.

For example, on governance, ZTO is conscious that gender diversity at the board and senior management level is lacking (only one out of ten board directors and the CFO are female). And on environmental matters, the company discloses various figures, including Scope 1 and 2 emissions data, but not Scope 3. According to the company representative, the ESG committee regards having a 5-year decarbonisation plan as the top priority and they are working on the targets. When asked about longer-term targets and peak carbon/carbon neutrality targets, the representative believed it was too early to say. For logistics companies like ZTO, much will depend on the infrastructure in place as well as government policies. ZTO will comply with the country's standard as it develops.

Regarding supply chain issues, ZTO has relevant policies such as its Supplier Guiding Principles and Green Procurement Policy. We asked about the welfare system for its delivery people, but that is currently decided by franchisees. There are complexities such as high turnover and household registration in the countryside (meaning, social insurance may be paid at the home location). ZTO believes it is compliant with government policy and is willing to change if new social policies are introduced.

Overall, we think ZTO is on the right track and should continue to improve over time. We will continue to engage and monitor its progress.

06 | 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 eligible 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.

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 2023–2024

	Management proposals 2023	Shareholder proposals 2023	Total 2023	Management proposals 2024	Shareholder proposals 2024	Total 2024
With management	3,917	3	3,920	3,618	2	3,620
Against management	248	6	254	175	0	175
Abstained	3	0	3	5	0	5
Other	2	0	2	3	0	3
Total	4,170	9	4,179	3,801	2	3,803

Source: First Sentier Investors, as at 31 December 2024. FSSA's full proxy voting record is available on the First Sentier Investors website.

07 | 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 US\$21.8 billion¹ of assets. Our investment team is comprised of around 15 people who come from diverse backgrounds and are all generalists.

Our investment approach focuses on analysing the fundamentals of individual companies, and we construct relatively concentrated portfolios of our best ideas. 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 sustainability 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.

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](#).

1 As at 31 December 2024.

Our ESG partnerships



As an investment team within First Sentier Investors (FSI), we share 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+.

FSSA participates in Investors Against Slavery and Trafficking Asia Pacific (IAST-APAC), a collaborative effort chaired by FSI. We also participated in the Natural Capital and Biodiversity Working Group, which contributed to the development of a Nature and [Biodiversity Toolkit](#), published in 2023.

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.

08 | Contacts

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Any commitments and targets set out in this material may be subject to change without notice in the event of future review by the relevant team.

About First Sentier Investors

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