FSSA Investment Managers

Environmental, Social, and Governance

Our ESG Approach Update

October 2021

Introduction

As we work our way through a new sense of normality, we thought it was best to pause and reflect on the year gone past. We could never have predicted the events of 2020. But our investment approach avoids the need to make such predictions as it focuses on investing in high-quality companies and holding them for the long term. During the early days of the pandemic, our conviction that our portfolios would preserve capital in a down market was put to the test as markets sold off almost indiscriminately. However, they bounced back relatively quickly with quality companies leading the fore.

From an ESG perspective it was an especially pivotal year as the global focus shifted, firstly to the health and safety of communities, and then to the health of global markets and the physical environments we live in. In this document, we have taken the opportunity to provide an update to our ESG approach and highlight a few of our engagement activities against the backdrop of a global health crisis.

By the very nature of where we invest – Asia Pacific and Global Emerging Markets – an awareness of the veritable ESG issues might not be well-established, even among the best management teams. We see it as our duty – to ourselves, our clients and the generations that follow – to continue to learn and apply our understanding of environmental and social issues, engage with companies and share best practice as much as possible. It is a far easier process when management teams are forward-thinking and receptive to our overtures.

One challenge with investing in these regions is understanding how global ESG strategies and reporting standards in more developed markets should apply to our portfolios. Mainstream third-party research and ratings are overly focused on whether a company has mandated policies and regular reporting, which in our view overlooks whether there is a fundamental belief in and commitment to sustainable practices.

In our experience, the way that a company responds to our questions can be a much more telling exercise. Companies that have been less than forthcoming to our engagement are often the ones that are plagued by issues such as corruption, labour disputes and human rights indictments. These same companies are often the first to produce an extensive collection of ESG policies in an attempt to ward off a deeper investigation. While this might signal that there are major changes underway, we are looking for a more genuine belief in best practices.

Ultimately, we believe successful engagement is achieved not with lectures or demands, but with constructive and thoughtful discussions with trusted management teams over time. The changes we see at some of these companies might seem small, but a recent re-read of Hans Rosling's book *Factfulness*[1] is a timely reminder that small changes compounded over time can solve challenges that might previously have seemed insurmountable. It is these small, but meaningful changes that we continue to seek. This, we feel, is the best way to approach ESG in our rapidly evolving world.

As always, we welcome your views and feedback.

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 and always has been.	9 We believe in the team.	10 We believe in our funds.

*For full details on Our Core Beliefs, please visit our website www.fssaim.com.

[1] Factfulness: Ten Reasons We're Wrong About the World—and Why Things Are Better Than You Think, by Hans Rosling, Anna Rosling Rönnlund and Ola Rosling

Our Priorities

We believe good corporate governance is highly dependent on the quality of a company's leadership. This is an integral and fundamental ingredient to a company's long-term success. As part of our bottom-up approach, we see our role as finding good people with whom we are aligned and who have the capabilities to navigate the opportunities and challenges that lie ahead.

> Our decades of investment experience, combined with frequent meetings with management teams, have given us a strong notion about what quality leadership looks like.

To us, this cannot be assessed by building financial models; it can only be done through building relationships. It is why we conduct about 1,500 company meetings year after year. We believe that if we can identify quality management teams, then improvements on "environmental" and "social" factors will naturally follow because a quality management team understands that progression in these areas should lead to sustainable and successful outcomes for their business.

Furthermore, assessing the corporate culture and other "soft factors" allows us to differentiate between a company's box-ticking mentality and annual disclosures purely for the sake of "greenwashing", and an actual adherence to ESG beliefs and priorities.

While we consider ourselves adept at evaluating what constitutes quality managers, we admit we are not experts on specific environmental and social issues. For example, our knowledge of carbon capture technologies is imperfect and the solution to complex human rights challenges is beyond our reach.

To bridge this gap, we ask qualitative questions and listen to the management's underlying message. Our process is first to understand the people, culture and incentives that form a business. To do this and to understand how management teams react during times of stress, we may ask them: What went wrong in this specific instance? Did the team accept responsibility? What are the lessons learned and/or changes made as a result?

As we check our assumptions on the company and industry, we often enquire: What do investors misunderstand about the business and why? From there, we build a considerable understanding of a company, what is material to the business and the environmental and social factors that relate to the risks and opportunities the company faces.

We also review third-party ESG ratings and rankings, but given the dissimilar nature of emerging markets and the probability that these values do not apply justly to our portfolio, we consider these as part of the whole research methodology rather than a deciding factor. When combined, we create a well-informed view of the likelihood of an investment opportunity being successful and its sustainability over the long term. We discuss our findings with our colleagues, seeking additional opinions during our twice-weekly team meetings, where our open communication culture means that every team member, regardless of seniority, is encouraged to share their voice.

The ESG space is continually evolving and we are aware that we must strive to stay well-informed on topics of interest. We do this by:

- Inviting management teams to have an open and direct dialogue with us, so that we can build an appreciation of a company's objectives and challenges.
- Discussing our company meeting notes at our investment team meetings to gain a broader perspective on the issues at hand.
- Designating specific team members to attend webinars, forums and fireside chats to learn about various ESG topics, and to share that knowledge with the entire team.
- Engaging with non-governmental organisations (NGOs) and third-party experts such as the World Wildlife Fund and The Purpose Business, and sharing relevant resources with clients.
- Collaborating with like-minded peers to learn about topical issues and amplify possible solutions – for example, raising the profile of the Marine Conservation Society's #StopOceanThreads campaign in concert with Ibercaja Gestión based in Zaragoza, Spain and Trinetra Investment Management based in London.

When appropriate, we utilise our network to share knowledge with fellow asset owners, investment managers and company management teams. One example is our introduction of Polymateria[2], a technology provider working on plastic packaging that fully biodegrades without creating microplastics, to an Indian Consumer Products Company and a Capitalise Food and Beverages Conglomerate based in Taiwan. Both companies share a desire to find long-term sustainable solutions to their plastic usage.

Encouragingly, after our introductions, the Indian Consumer Products Company started trialling Polymateria products in its packaging, with a goal to use at least 10% of the post-consumer waste it collects in its new packaging materials and 100% recyclable/reusable material by 2025. A subsidiary of the Food and Beverages Conglomerate, which operates convenience stores in Taiwan, has also started to use Polymateria's technology for some of its food products.

[2] For illustrative purposes only. Reference to the names of each company mentioned in this communication is merely for explaining the investment strategy and should not be construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of FSSA.

2020 Snapshot

While 2020 was unique in its own right, **our portfolios were largely unaffected by the year's events** – a testament to the resilience of our core beliefs and our investment approach. If anything has changed, it is the urgency and importance of our role in helping our portfolio companies get it "right." We have summarised our key activities below and will elaborate on these in our biannual ESG report (covering 2020-2021) to be released next year.

4,368

Total Proxy Votes

We believe that voting is an important investor right and should be exercised whenever possible. While our votes against management appear to be low, casting a negative vote is rarely the first step in our engagement process. Where we disagree with a proposal, we prefer to raise the issue through constructive dialogue with the management, and if we are unhappy with the response then a negative vote can be used to voice our dissent. We usually send a follow-up communication to explain our decision and plan to make this a formal part of our process.

Proxy Voting Record*:

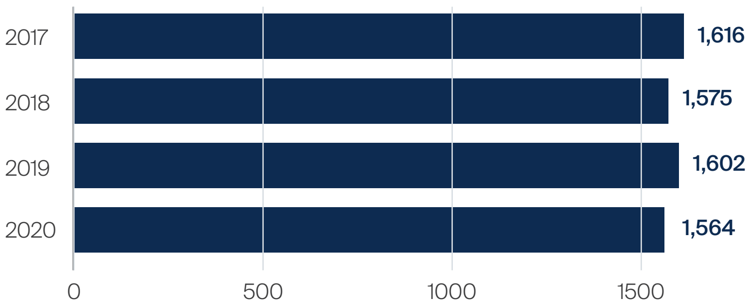
	Management Proposals	Shareholder Proposals	Total
With Management	4,194	1	4,195
Against Management	129	2	131
Abstained	1	0	1
Take no action	25	0	25
Unvoted	16	0	16
Total	**4,365**	**3**	**4,368**

* FSSA's full proxy voting record is available on the First Sentier Investors website.
For Hong Kong investors, please see https://www.firstsentierinvestors.com/hk/en/retail/responsible-investment/responsible-investment-proxy-voting.html
For Singapore investors, please see https://www.firstsentierinvestors.com/sg/en/retail/responsible-investment/responsible-investment-proxy-voting.html

1500+ Company Meetings

While we made few visits to companies in their own offices last year, we were able to maintain the team's overall number of company meetings largely through calls and video-conferences (some in-person meetings took place when restrictions were lifted). The transition to virtual meetings was relatively seamless due to the strong relationships we have built with company management teams over the years. In the midst of the pandemic, these management teams continued to answer our questions and made time to share their thoughts about how their businesses were responding to Covid-19.

Total Number of Meetings



Modern Slavery Toolkit launched in June 2020[2]

Modern Slavery Toolkit launched in June 2020[2] identified the main issues and provided investment teams with a better understanding of the risks, the regulatory environment and their relevance to the companies we invest in. The toolkit also includes how to engage company management teams on these issues.

2 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.

2020 Snapshot cont'd

As long-term investors, we are not just advisers and partners to our clients; we are part of the ecosystem of markets where we invest. Here we highlight the evolution of two markets in 2020 and their effect on our portfolio holdings' ESG activities.

China's Growing ESG Ambitions

In September 2020 at the UN General Assembly meeting, President Xi announced a commitment to peak CO_2 emissions by 2030 and achieve carbon neutrality before 2060. As the government owns more than 50% of companies in China, this announcement set off a series of domestic carbon emission policies to be adopted, which had a direct effect on our China equity portfolios.

We witnessed a sharp increase in the number of companies and the diversity of sectors working to meet these new regulatory expectations.

Hand in hand with these carbon commitments, we have also seen the adoption of social regulations, such as increasing workers' rights and protections.

We believe that such rapid implementation is uniquely possible in a market such as China, where companies are able to adjust fairly quickly to comply with the new rules, given their state ownership.

We anticipate more standardisation in carbon intensity reporting and more regular discussions of social factors in our company meetings. This lends to portfolio opportunities as well headwinds as China sets its own ESG standards.

Japan's ESG Performance Beyond the Data

The lack of disclosure and standardised taxonomy in Japan has made it challenging to assess Japanese companies' ESG values. As a result, many companies have been penalised in their ESG ratings when in reality, they are not actually poor performers.

For example, after Prime Minister Suga pledged in October 2020 to cut greenhouse gas (GHG) emissions to "Net Zero" by 2050, around 40% of Nikkei 225 companies set their own "Net Zero" goals (as of April 2021). This includes large, well-known companies.

However, the pledge is a challenge for smaller and less-resourced companies, as they struggle with structural issues such as Japan's ageing population or the lack of a suitable succession plan.

Through our engagement efforts, we find that many of these companies already adhere to some environmental operational standards; and they are willing to improve and seek advice on other ESG matters. Thus, our bottom-up approach looks beyond the nominal ESG metrics and financial data to uncover these misperceptions.

We expect these regulatory developments and our ongoing communications with management will continue to improve Japanese companies' ESG reporting and activities over time.