



# ESG Report Asian Equities

Q3 2021





## ESG RISK RATING

The table below includes ESG Risk scores on the current holdings in the portfolio. The ESG Risk scores are the ESG rank assigned by Sustainalytics on a 1-to-100 scale (1 being the highest score and 100 being the lowest score).

Risk Management and Risk Exposure are the two main components of the overall score, assessing the ESG risk of the individual company and how well the company addresses and manages these risks. The table illustrates the aggregated portfolio scores, as well as the distribution of the holdings scored by Risk Exposure and Risk Management as a percentage of the total portfolio.

	ESG Risk Rating	Risk Management	Risk Exposure
<b>Average Score</b>	25	36	38
	<b>Exposure</b>		
<b>Management</b>	Low	Medium	High
Strong	3%	8%	0%
Average	27%	46%	2%
Weak	5%	8%	0%

*Source: Sustainalytics, September 2021*

## QUARTERLY HIGHLIGHTS

In the mist of the European summer holidays, IPCC, the UN Intergovernmental Panel on Climate Change released the first part of its Sixth Assessment Report (AR6) on the state of global climate. The full AR6 is expected to be released in September 2022. The current report addresses the urgent and necessary actions needed to be taken prior to the Paris Agreement deadline in 2050. According to the report, current evidence, and physical science modelling shows that already in 2040, the world will see warming of 1.5 degrees above pre-industrial levels. Therefore, crucial actions and emission-reduction target setting will need to already take place this decade if we are to meet net-zero by 2050. The newly released report finds an unequivocal link between human activity and global warming, and flags the increased risk of massive heat waves, floods, wildfires, and other acute physical risks that potentially have damaging effects to millions of people.

The changes are not only happening in a distant future or in a distant world (ice sheets melting in Arctics, rising sea levels in far-away archipelagos), but have directly affected (from a natural disaster point of view) the somewhat calm lands of Europe this summer with wildfires across southern Europe and severe mudslides and floods in Germany.

In order to minimise the risks of these catastrophic outcomes, some crucial actions are necessary as per scientists behind the AR6 as well as suggested by the IEA (International Energy Agency), e.g.:

- Coal and gas power plants must be closed within 10 years, and no new oil and gas developments should take place.



- Significant lifestyle changes regarding eating meat, driving SUVs and flying are required with rich countries overwhelmingly responsible and needing to change.
- Cutting methane would have a major positive impact

These findings will undoubtedly influence corporates and thus our investments. E.g., a premium on immediate carbon reduction will impact utilities, such as renewable energy companies. Likewise, more focus on physical climate risk will affect insurance companies (AIA Group, ICICI Lombard General Insurance, Ping An Insurance). Additionally, lifestyle changes and (over)consumption negatively impact consumer goods (Geely Automobiles, CP All) as well as consumer spending across all sectors and geographies.

The above are also reasons why we take climate-related risk into consideration when reviewing potential and current investments and will likely also be topics on the agenda for the COP26 in Glasgow this November. Governments and policymakers are expected to take action. While a lot is still to be done, some initiatives are already adopted or are about to be:

- The EU has its ambitious Green Deal in place with the overarching target to be the first net-zero continent. Currently, the much covered 'Fit for 55' programme for corporates to reduce GHG emission by 55% by 2030, is getting the attention.
- Earlier this year, the Biden Administration presented its suggestion to a huge USD 3.5 trillion budget bill for new investments in climate-related solutions. A bill, that together with a bipartisan infrastructure bill, should help the US meet its target to reduce GHG emissions by 50% by 2030.
- In Asia, focus is also on the energy transition and limiting GHG emissions. Recently China announced that it will not build new coal-fired power plants abroad and will increase support for other countries to develop low-carbon energy. This pledge follows similar announcements from South Korea and Japan earlier this year, who together account for more than 95% of all overseas financing for coal plants. Additionally, we recently witnessed that Chinese companies were instructed to switch off power and thus production due to energy shortages, but then only for the government to fire up the coal kettles again to meet power demand.

The path to net-zero is by far not linear.



## DIRECT ENGAGEMENT

We participated in a few calls with companies during the quarter where we had the chance to discuss various ESG issues including with UltraTech Cement and Godrej Properties.

### *UltraTech Cement*

UltraTech Cement produces and sells cement and cement-related products and has one of the largest production capacities of any firm in India. The company's carbon footprint is affected by the nature of its operations and the source of energy used to power these operations.

At the meeting, we discussed the company's environmental strategy. UltraTech Cement's CO<sub>2</sub> emissions are a bit higher than peers, as it has a lower ratio of blended cement (72% vs others are around 80%), the reason being most cement is sold for infrastructure projects which require a certain quality. Nevertheless, the company is improving on this matter and has committed to the Science-Based Targets Initiative (SBTi). Current targets are to reduce scope 1 emissions by 27% and scope 2 emissions by 69% per ton of cementitious material by 2032, respectively. Additionally, we discussed options for carbon capture, however the company is only in a very preliminary stage on this topic.

Energy management is another focus area for UltraTech Cement. The company has taken several initiatives in recent years to improve energy efficiency and lower energy consumption, e.g., initiatives like cooler upgradation, calciner modification, and burner modification across manufacturing plants. The company's energy consumption is now one of the lowest amongst peers.

Finally, we discussed the impact of Covid-19 on operations. UltraTech Cement has not faced any labour availability issues as such; however the company lost a few employees to Covid-19. 70% of employees are now fully vaccinated.

### *Godrej Properties*

Godrej Properties develops residential, commercial, and township properties in multiple cities across India. The company's operations take place in two main business areas Residential Real Estate and Commercial Real Estate.

We were excited to see that Godrej Properties released its first ESG report earlier this year. The report is in accordance with GRI, a global standard for ESG reporting. We discussed the initiative and the company's so-called 6P model focusing on the Planet, People, Partnership, Product, Process, and Profile.

One of the key focus areas for Godrej Properties is *green construction*. The company is taking steps to optimise the use of building materials. An example being the increased usage of energy-efficient lighting and equipment along





with usage of renewable energy has led to energy savings of 12-15% and is expected to further increase the coming years. Additionally, local sourcing contributes to 65-70% of the raw materials used limiting carbon emissions from transport. Godrej Properties is also trying to increase the level of biodiversity on and around its sites by establishing green areas and planting trees and greens.

A further part of the company's sustainability plan is increased worker safety at construction sites and adherence of stringent standards at these sites. Godrej has established a system where all workers are trained in operational safety requirements through different programmes. Workers are also encouraged to report unsafe act or condition to their immediate supervisor.

We are pleased to see these developments with Godrej Properties as it also shows the willingness of further disclosure, transparency, and interaction with stakeholders on ESG matters.

## COLLECTIVE ENGAGEMENT

Through our cooperation with Sustainalytics, we are currently actively engaging with the following companies in the Asia portfolio:

### **Samsung Electronics**

#### *Business Ethics – Corrupt Practices*

In 2017, the vice chairman of Samsung was arrested in a corruption scheme involving the impeached president of South Korea. In 2020, Samsung presented an external Compliance Committee to provide recommendations to the Board. Samsung updated its internal anti-corruption policy and provides tailor-made compliance training to employees and executives covering awareness and compliance risks. Since the company recently published the 2021 Sustainability Report, Sustainalytics will assess any updates on the compliance program, recommendations from the external Compliance Committee, and any measures to strengthen the corporate governance. Sustainalytics will also assess any initiatives to promote a culture of integrity across all business units and top management.

## NEW POSITIONS DURING Q3 2021

### *Sungrow*

Sungrow is a Chinese company that operates as an inverter solution supplier for renewables. It specialises in the research, development, marketing, and sale of renewable solar and wind-powered products. Smart inverters are an indispensable part of all solar projects to convert raw solar electricity (DC) into energy that can be fed into grids (AC). Without these inverters, a solar project cannot continue. Additionally, the inverters can be used in energy storage solutions and electric vehicles. The company ranks as medium ESG risk by Sustainalytics, which is similar to its industry. Most material ESG



issues are product governance, business ethics and human capital management.

## QUARTERLY VOTING STATUS

For the third quarter, the AGMs has an overweight to the Indian companies in our portfolio. A decent amount of the Asian companies uses stock option programmes for remunerations purposes. We are not fond of this tool and thus vote against such items. Specifically, this was present at the AGMs of My E.G. Services and Aavas Financiers.

Furthermore, several of the companies has recommendations from ISS against management on re-election of directors. From our ongoing dialogue and knowledge of the companies we have good faith in the companies and thus voted for the proposed directors in the following companies Godrej Properties, UltraTech Cement, and Petronet.

### *The Phoenix Mills*

For the directors of Phoenix Mills the estimated pay is considered to be aggressively positioned against market practices and there is lack of sufficient justification for the minimum remuneration in the event of loss or inadequacy of profits. Additionally, there is no disclosure on the amount of stock options that executives are entitled to receive each year, we thus voted against management on these proposals.

A full list of all votes cast during the quarter is available upon request.



Company	Type	Date	Proponent	Proposal number	Votable proposal	Proposal text	Management recommendation	Voting policy recommendation	Vote instruction	Vote against management
My E.G. Services Berhad	Extraordinary Shareholders	01/07/2021	Management	Yes	1	Approve Allocation of ESOS Options to Norraesah Binti Haji Mohamad	For	Against	Against	Yes
My E.G. Services Berhad	Extraordinary Shareholders	01/07/2021	Management	Yes	2	Approve Allocation of ESOS Options to Wong Thean Soon	For	Against	Against	Yes
My E.G. Services Berhad	Extraordinary Shareholders	01/07/2021	Management	Yes	3	Approve Allocation of ESOS Options to Muhammad Rais Bin Abdul Karim	For	Against	Against	Yes
My E.G. Services Berhad	Extraordinary Shareholders	01/07/2021	Management	Yes	4	Approve Allocation of ESOS Options to Mohd Jimmy Wong Bin Abdullah	For	Against	Against	Yes
My E.G. Services Berhad	Extraordinary Shareholders	01/07/2021	Management	Yes	5	Approve Allocation of ESOS Options to Wong Kok Chau	For	Against	Against	Yes
My E.G. Services Berhad	Extraordinary Shareholders	01/07/2021	Management	Yes	6	Approve Allocation of ESOS Options to Mohd Mokhtar Bin Mohd Sharif	For	Against	Against	Yes
Godrej Properties Limited	Annual	03/08/2021	Management	Yes	2	Reelect Nadir B. Godrej as Director	For	Against	For	No
Godrej Properties Limited	Annual	03/08/2021	Management	Yes	3	Approve Reappointment and Remuneration of Pirojsha Godrej as Whole Time Director Designated as Executive Chairman	For	Against	For	No
Godrej Properties Limited	Annual	03/08/2021	Management	Yes	4	Approve Reappointment and Remuneration of Mohit Malhotra as Managing Director & Chief Executive Officer	For	Against	For	No
Godrej Properties Limited	Annual	03/08/2021	Management	Yes	5	Approve Additional Provision Towards Long Term Incentive in the Managerial Remuneration to Mohit Malhotra as Managing Director & Chief Executive Officer	For	Against	For	No
Godrej Properties Limited	Annual	03/08/2021	Management	Yes	6	Approve Increase the Quantum of Stock Options under the Godrej Properties Limited Employees Stock Grant Scheme, 2011	For	Against	For	No
Aavas Financiers Limited	Annual	10/08/2021	Management	Yes	8	Approve Equity Stock Option Plan For Employees 2021 (ESOP-2021) and Grant of Options to Eligible Employees of the Company	For	Against	Against	Yes
UltraTech Cement Ltd.	Annual	18/08/2021	Management	Yes	3	Reelect Kumar Mangalam Birla as Director	For	Against	For	No
UltraTech Cement Ltd.	Annual	18/08/2021	Management	Yes	7	Approve Reappointment and Remuneration of Atul Daga as Whole-time Director and Chief Financial Officer	For	Against	For	No
Alibaba Group Holding Limited	Annual	17/09/2021	Management	Yes	1.1	Elect Director Joseph C. Tsai	For	Against	Against	Yes
Alibaba Group Holding Limited	Annual	17/09/2021	Management	Yes	1.2	Elect Director J. Michael Evans	For	Against	Against	Yes
The Phoenix Mills Limited	Annual	24/09/2021	Management	Yes	4	Reelect Rajendra Kalkar as Director	For	Against	Against	Yes
The Phoenix Mills Limited	Annual	24/09/2021	Management	Yes	5	Approve Reappointment and Remuneration of Shishir Shrivastava as Managing Director	For	Against	Against	Yes
The Phoenix Mills Limited	Annual	24/09/2021	Management	Yes	6	Elect Rajesh Kulkarni as Director	For	Against	Against	Yes
The Phoenix Mills Limited	Annual	24/09/2021	Management	Yes	7	Approve Appointment and Remuneration of Rajesh Kulkarni as Whole-Time Director	For	Against	Against	Yes
Petronet Lng Limited	Annual	28/09/2021	Management	Yes	3	Reelect Sanjeev Kumar as Director	For	Against	For	No
Petronet Lng Limited	Annual	28/09/2021	Management	Yes	4	Reelect Manoj Jain as Director	For	Against	For	No
Petronet Lng Limited	Annual	28/09/2021	Management	Yes	5	Elect Pramod Narang as Director and Approve Appointment and Remuneration of Pramod Narang as Whole-Time Director and Designated as Director (Technical)	For	Against	For	No
Petronet Lng Limited	Annual	28/09/2021	Management	Yes	7	Elect Subhash Kumar as Director	For	Against	For	No

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