Investing in Higher ESG Risk companies: The cement case

We believe it is possible and necessary to invest in higher risk segments, so long as the ESG performance is excellent and that the companies show continuous improvement.

We have compared our holdings in Ultratech and Heidelberg Cement with regional and global peers across many ESG factors, to demonstrate where our companies sit relative to global best ESG practice.

PRI Principles for Responsible Investment

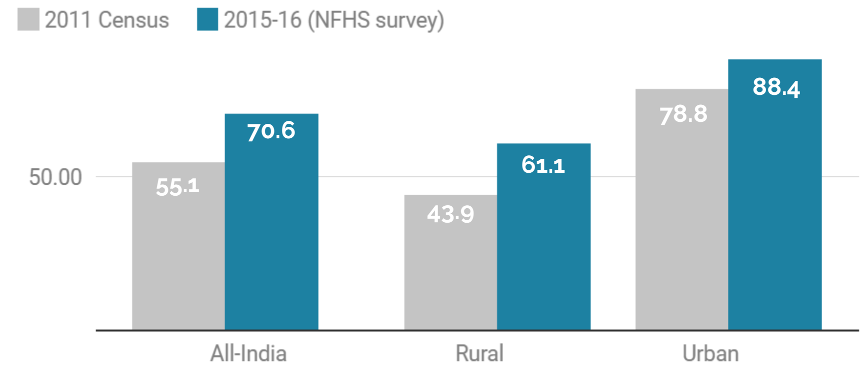
Label ISR Investissement Socialement Responsable

ULTRATECH AND HEIDELBERGCEMENT INDIA COMPARISON AGAINST GLOBAL PEERS

'India's infrastructure deficit in terms of roads, railways, powers and ports needs to be addressed on a fast-track basis' (Minister of Railways of India)

India has a serious infrastructure deficit. KPMG estimates that the urban housing shortage alone is projected to be 30m by 2022. The rural housing shortage is expected to be much wider requiring over 60m houses by 2022, representing approximately 60% of the total housing shortage. Furthermore, only 61% of the rural population live in permanent dwellings.

Percentage of households with permanent houses



Source: Livemint, 2018

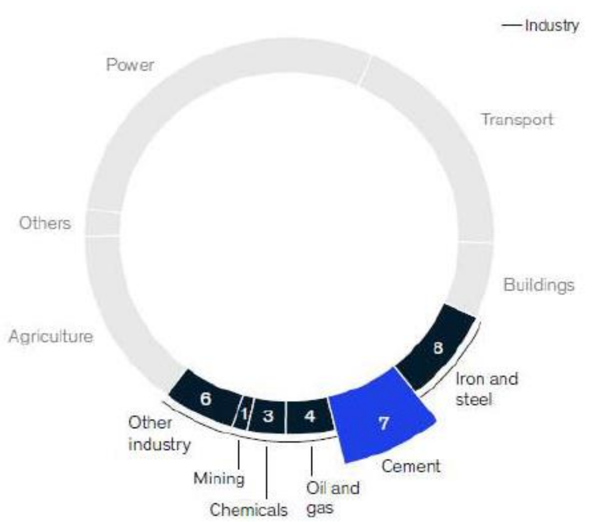
Share of permanent houses rose from 55% in 2011 to 71% in 2016

The government also estimates that it requires over $1.5 trillion in infrastructure investments over the next decade (roads, bridges etc.). As such, there is a requirement for the government to provide safe, hygienic and stable accommodation for everyone, as well as additional infrastructure to promote sustainable economic growth.

Whilst cement serves a necessity for social development, **we acknowledge that there is a genuine environmental concern: cement production is a major source of global CO_2 emissions**. In 2017 alone, cement production is estimated to have contributed approximately 7% of global carbon emissions. As such, the industry must evolve rapidly in order to meet global climate commitments (e.g. the Paris Agreement).

Given cement is a major source of carbon emissions, it is natural to question the need for cement, and if there exists a more environmentally friendly substitute. As such, Alquity has assessed many alternatives under a spectrum of factors including cost, scalability, safety and environmental impact.

Share of global CO_2 emissions (% in 2017)



Source: McKinsey, 2017

Despite seemingly promising new materials and advancements, the reality is that all alternatives fail on at least one of the given metrics. As such, cement (as an input for concrete) is likely to remain one of the most widely used materials in construction. **In the absence of suitable alternatives, it is clear that cement is a requirement for India's economic development**.

At Alquity, we have made a conscious decision to invest in cement companies as it is a necessary material to further India's development, in particular the rural segment where the infrastructure deficit is greater. However, **we believe that it is only appropriate to invest in the cement companies that we regard as being amongst the best globally with regards to environmental and social performance**.

We invested in Ultratech Cement (the largest cement company by capacity) and HeidelbergCement India, a much smaller company with significant potential. **Both companies are amongst the best globally (not just by Indian standards) in terms of carbon intensity, water intensity and waste management**, and both actively pursue mitigation strategies such as rapidly increasing the use of renewable energy sources including solar and waste heat recovery.

Ultratech and HeidelbergCement India against peers

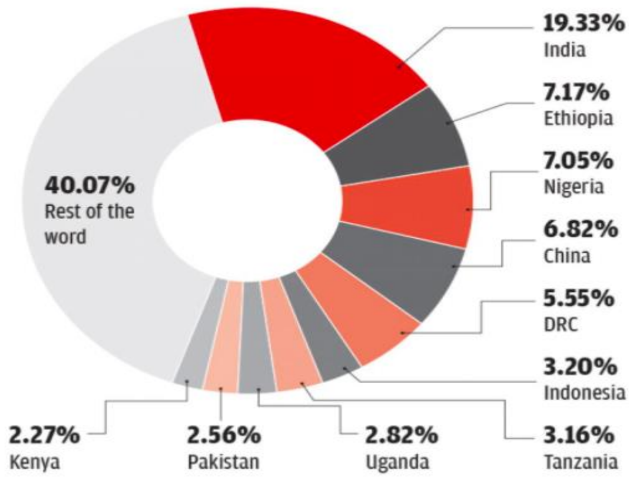
	Ultratech	HeidelbergCement India	Indian Peers (average)	Global Peers (average)
Co2 intensity (kg/ton)	619	585 #	670	925
Water intensity (litres/ton)	299	NA***	500	799**
Thermal Energy intensity (kcal/kg of clinker)	704	Adapts best practice from German parent	731	843
Renewable energy	10%	Long lease solar power and renewable wind power agreements in place	0-5%*	Median 6% *
Carbon pricing	Yes	No – Alquity engaged and this will be implemented in the future	Only 20 Indian companies incorporate carbon pricing	40 countries use carbon pricing mechanism (World Bank)
Lost time injury rate (per million hours worked)	0.5	0	-	0.65*
Direct fatalities	0	0	-	4*

Sources Bloomberg, Globalcement, company annual reports. All data is the most recent year available
*aggregate over all those reporting, Bloomberg data
**average over largest 15 companies only
***HeidelbergCement India is 6x net water positive (collects 6 times more water than it withdraws from the environment). Ultratech is 2.5x net water positive.
HeidelbergCement India also publishes a monthly ambient air quality report that includes CO2, NO2 and SO2 emissions for each of their plants.

At Alquity, **we believe that social factors are extremely important to the investment decision**. One of our red flags is that companies must have a health and safety policy if they operate in a high-risk industry; without this, we simply would not invest. The data above reflects our ethos, as it demonstrates that our holdings are more conscious of their employees' health and wellbeing relative to peers, given the lower lost time due to injury rate and fatalities.

Another environmental concern is that of water scarcity, where cement companies are typically large consumers of water. **India ranks as the 13th worst country in the world for water stress** where more than 80% of the available groundwater has been withdrawn. However, **our cement holdings report a net water positive position** (both collect multiple times more water than they consume, as can be seen below, thus having a positive impact on the water situation).

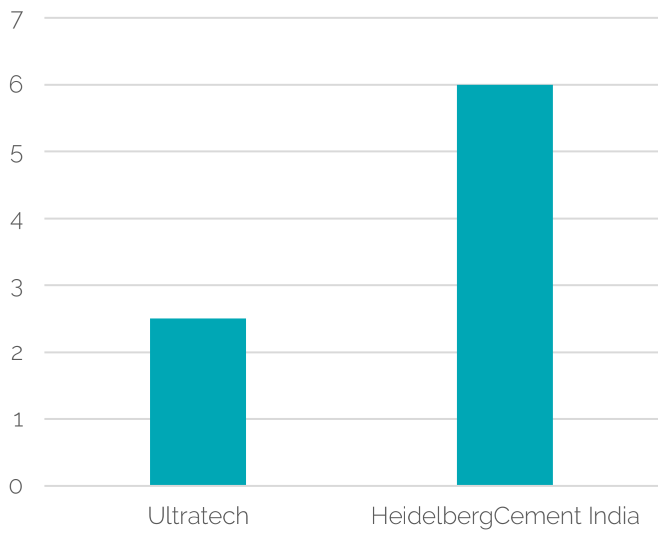
Waterless countries (% of population without access to clean water)



Source: WaterAid, 2018

India ranks as the 13th worst country in the world for water stress, with 19.3% of their population without access to clean water

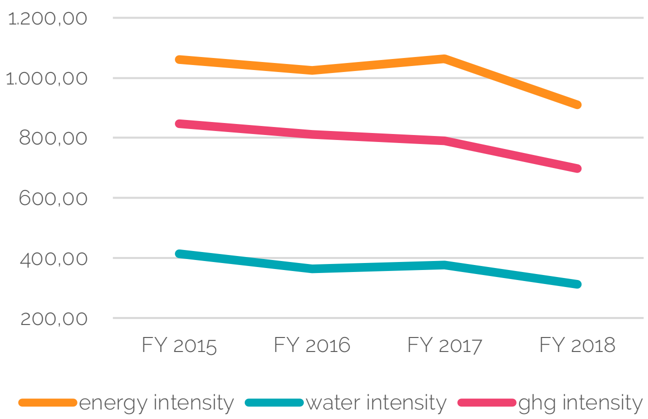
Net water positive (x)



Source: Company sustainability reports, 2019

Both Ultratech and HeidelbergCement India collect multiple times more water than they consume

Ultratech: improving consistently



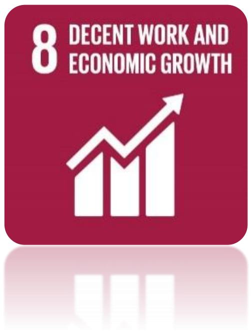
Source: Company sustainability reports, 2019

CONCLUSION

Many ESG funds choose to not own cement companies, often citing environmental concerns. At Alquity, we understand that as a whole, the cement industry is a large contributor of greenhouse gases. However, we believe that this is one dimension to a multi-faceted set of issues.

We take a holistic approach towards ESG – **we believe that it is necessary to actively invest in these sectors in order to achieve sustainable economic and social development**.

Cement is a requirement for safe and permanent housing. It is necessary for roads and bridges that connect cities and promotes economic growth. **In the absence of alternatives, it would be impossible to achieve the SDGs**, in particular, SDG8 (decent work and economic growth) and SDG 11 (sustainable cities and communities) which includes access to basic services, housing and transportation.



Whilst we believe that these are compelling reasons to invest in cement companies, we do acknowledge that cement companies are higher risk. At Alquity, we wanted to ensure that this could be captured in our valuation methodology. Therefore, **we add an additional 1% to the risk premia for all such companies**. Furthermore, **we will not reduce this risk premia until there is tangible evidence that these companies develop or invest in technologies that would substantially reduce their carbon output**.

In addition to this, we believe that **it is only right to invest in the companies that are best versus peers** with regards to environmental and social performance. **We will only invest in companies that have already made a significant commitment to reducing their global footprint and will continue to strive towards a more sustainable world**. We believe that the analysis included in this report demonstrates this.

transformation

FOR MORE INFORMATION ON ALQUITY, PLEASE CONTACT:

Europe	Asia	United Kingdom	Latin America	North America	United Kingdom
Benoit Ribaud	Suresh Mistry	Susannah Preston	Cyn Cano	Renee Arnold	Alex Boggis
+44 207 5577 862	+44 207 5577 854	+44 207 5577 850	+44 207 5577 871	+1 215 350 9063	+44 207 5577 850
benoit.ribaud@alquity.com	suresh.mistry@alquity.com	susannah.preston@alquity.com	cyn.cano@alquity.com	renee.arnold@alquity.com	alex.boggis@alquity.com

www.alquity.com /Alquity Alquity Investment Management @Alquity

DISCLAIMER

The information in this document (this "Document") is for discussion purposes only. This Document does not constitute an offer to sell, or a solicitation of an offer to acquire an investment (an "Interest") in any of the funds discussed herein. This Document is not intended to be, nor should it be construed or used as, investment, tax or legal advice. This Document does not constitute any recommendation or opinion regarding the appropriateness or suitability of an Interest for any prospective investor.

This material is for distribution to Professional Clients only, as defined under the Financial Conduct Authority's ("FCA") conduct of business rules, and should not be relied upon by any other persons. Issued by Alquity Investment Management Limited, which is authorised and regulated in the United Kingdom by the FCA and operates in the United States as an "exempt reporting adviser" in reliance on the exemption in Section 203(m) of the United States Investment Advisers Act of 1940.

The Alquity Africa Fund, the Alquity Asia Fund, the Alquity Future World Fund, the Alquity Indian Subcontinent Fund and the Alquity Latin American Fund are all sub-funds of the Alquity SICAV ("the Fund") which is a UCITS Fund and is a recognised collective investment scheme for the purposes of the Financial Services and Markets Act 2000 of the United Kingdom (the "FSMA"). This does not mean the product is suitable for all investors and as the Fund is invested in emerging market equities, investors may not get back the full amount invested.

This Document is qualified in its entirety by the information contained in the Fund's prospectus and other operative documents (collectively, the "Offering Documents"). Any offer or solicitation may be made only by the delivery of the Offering Documents. Before making an investment decision with respect to the Fund, prospective investors are advised to read the Offering Documents carefully, which contains important information, including a description of the Fund's risks, conflicts of interest, investment programme, fees, expenses, redemption/withdrawal limitations, standard of care and exculpation, etc. Prospective investors should also consult with their tax and financial advisors as well as legal counsel. This Document does not take into account the particular investment objectives, restrictions, or financial, legal or tax situation of any specific prospective investor, and an investment in the Fund may not be suitable for many prospective investors.

An investment in the Fund is speculative and involves a high degree of risk. Performance may vary substantially from year to year and even from month to month. Withdrawals/redemptions and transfers of Interests are restricted. Investors must be prepared to lose their entire investment, and without any ability to redeem or withdraw so as to limit losses.

The Fund's investment approach is long-term, investors must expect to be committed to the Fund for an extended period oftime (3-5 years) in order for it to have an optimal chance of achieving its investment objectives. This Document may not be reproduced in whole or in part and may not be delivered to any person (other than an authorised recipient's professional advisors under customary undertakings of confidentiality) without the prior written consent of the Investment Manager.

SWISS INVESTORS:

The prospectus, the Articles of Association, the Key Investor Information Document "KIIDs" as well as the annual and semi-annual report of the Fund is available only to Qualified Investors free of charge from the Representative. In respect of the units distributed in Switzerland to Qualified Investors, place of performance and jurisdiction is at the registered office of the Representative. Funds other than the Luxembourg domiciled Alquity SICAV mentioned in this document may not be admitted for distribution in Switzerland.

Swiss Representative: FIRST INDEPENDENT FUND SERVICES LTD.,
Klausstrasse 33, 8008 Zurich
Swiss Paying Agent: Neue Helvetische Bank AG, Seefeldstrasse 215
CH-8008 Zurich