

July 2020

# Alquity

LIFE  
CHANGING  
INVESTMENTS

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## Alquity India – Environmental and Social Impact Report

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## SUMMARY

- We believe our investment focus on the domestic rural economy is where environmental and socially conscious investing can have the most impact
- The rural areas present some of the best investment opportunities, but also face challenges
- Our investments are beneficiaries of and contributors to environmental and social progress, supporting sustainable economic development
- We only invest in companies which are the best in class for environmental and social performance, or those that are on the journey towards this
- Our Transforming Lives foundation supplements our investments by addressing those most in need, providing grants to help develop fairer, more sustainable economies focusing on SDG 8 (decent work and economic growth), amongst others

## INTRODUCTION – INDIA'S PROGRESS

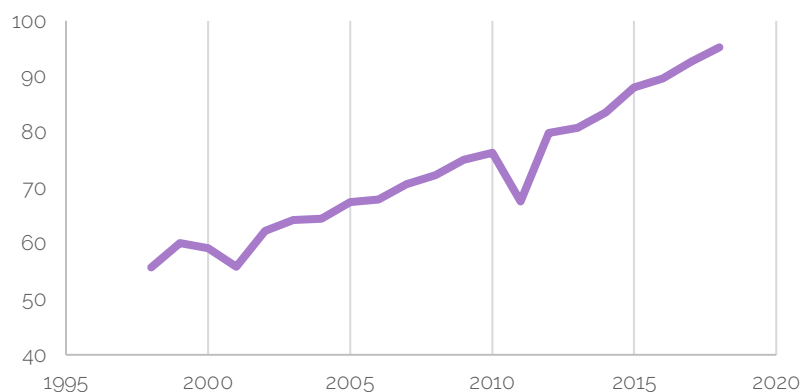
When the original concept for Alquity was created, we wanted our investment philosophy to reflect our vision: to be responsible investors that contribute to the sustainable economic growth of developing countries. **We sought a business model that could invest in great companies whilst simultaneously helping the poorest segments of society** to become healthy and educated, and to provide opportunities that would not be there otherwise.

We have been researching and travelling to India for over two decades, and we have been able to witness the environmental and social progress made in both urban and rural parts of India. We believe our investments are both beneficiaries and contributors of such reform, and we highlight a number of examples below.

## SOCIAL PROGRESS: ELECTRICITY

In 2018, the World Bank reported that access to electricity in India had risen sharply to 95.2% of the population. This represents a **substantial improvement of 20% from just a decade earlier**. Rural electrification in particular can improve education, as electric lighting enables children to study for longer in the evenings. Studies have also shown that electrification contributes to increasing employment, productivity, as well as household income levels.

### Access to electricity (% of population)



Source: World Bank, 2018

*"Energy is the golden thread that connects economic growth, social equity and an environment that allows the world to thrive."*

(United Nations, 2012)



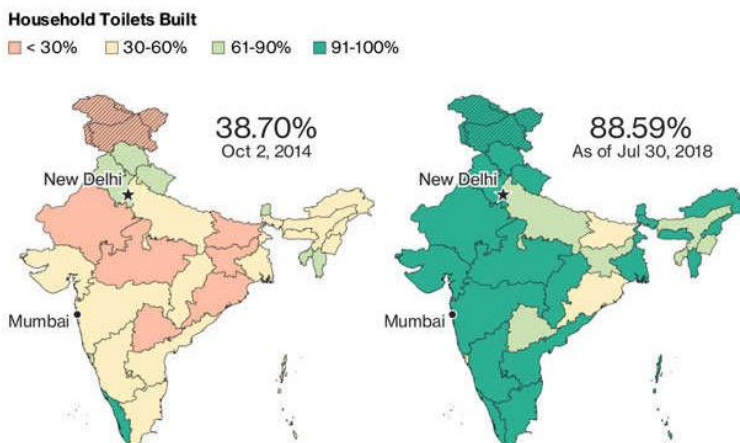
One of our holdings, Polycab, is the largest manufacturer of cables and wires in India and has been a key beneficiary of the progress in electrification, additionally commencing rural electrification projects eleven years ago. The company has consolidated a leadership position in wires and cables by targeting consumers as well as industries such as renewables, construction, agricultural and automotive. They are also innovators in safe, durable and energy efficient wiring.



## SOCIAL PROGRESS: SANITATION

Modi began the 'Clean India' program, known locally as the 'Swachh Bharat Abhiyan' mission, in 2014. Prior to this, the country accounted for more than half of the world's 1.1 billion people who routinely relieved themselves in fields, beaches and other open spaces. Approximately 80 million household toilets have been built since Modi's pledge to ensure universal sanitation coverage by October 2019.

Toilet-building Frenzy: Coverage has more than doubled since the mission began



*"The biggest, most successful behaviour-change campaign in the world"*

(London School of Hygiene and Tropical Medicine's EHG)

Source: Ministry of Drinking Water and Sanitation, Bloomberg, 2018

## Astral's campaign

[Click to watch the video](#)



Astral, a leading manufacturer and distributor of PVC pipes, joined hands with the Swachh Bharat Mission and released a social media campaign actively challenging the gender inequalities - in many parts of India women do not have the most basic rights, such as access to a toilet.

## ENVIRONMENTAL PROGRESS: RENEWABLES

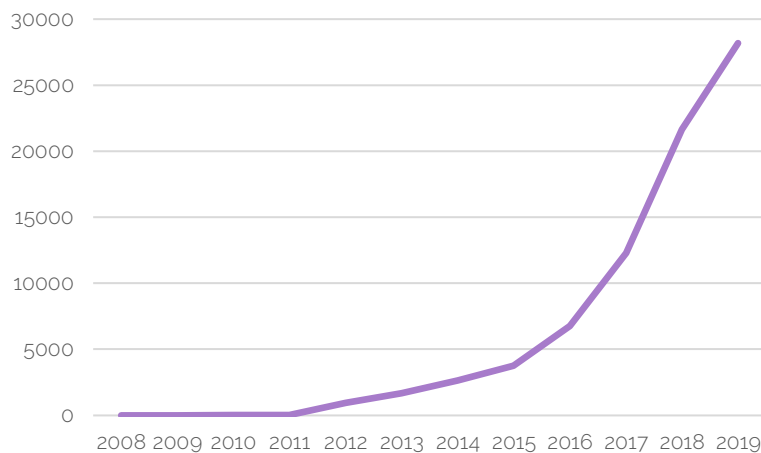
India's goal to have 40% of power capacity based on clean energy by 2030 is well under way thanks to government initiatives, subsidies, and the overall falling cost of renewable power. India ranks globally as the 4<sup>th</sup> largest wind capacity, and the 5<sup>th</sup> largest solar photovoltaic (PV) capacity.

The use of solar power has grown 14-fold in the five years to the end of 2019, from 2630MW to 37505MW, encouraged by a government scheme paying between 30% and 70% of installation costs for rooftop PV systems. As such, **India's renewable capacity is likely to double over the next four years.**

India has also ratified the Paris Agreement. They are reportable on track to achieve their Nationally Determined Contributions, which means that the country's actions are compatible with the goal of limiting the world to a temperature increase of less than 2°C. This is largely driven by the decreasing costs for renewable energy, which is likely to result in India scaling back its use of coal. If India abandons new coal projects, they could become a global climate change leader with a "1.5°C Compatible" rating.



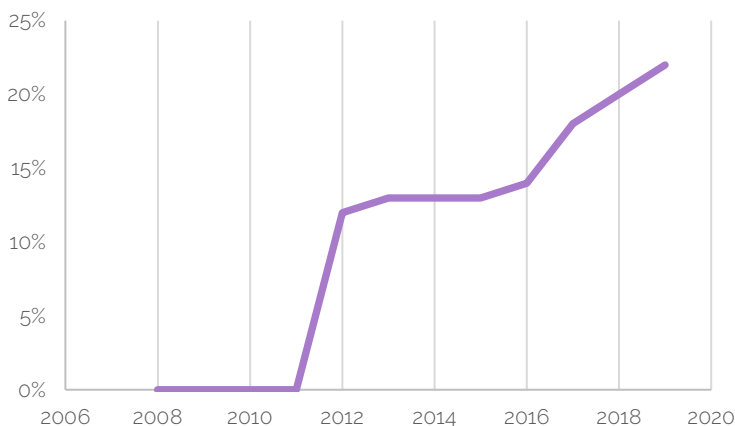
### Solar Installed Capacity (MW)



Source: HSBC, 2019

This, amongst other initiatives have rapidly moved India's total renewable energy capacity to more than 20% from 12% just a few years prior.

### India's Renewable Energy Capacity (%)



Source: HSBC, 2019



At Alquity, we are cautious with regards to investments in the generation sector, as these companies typically sell electricity to the local governments. There have been many issues both historically and recently, that include varying degrees of corruption, as well as counterparty risks (where the state was slow to pay, or it reduced payment terms mid-contract). We believe that these investments involve an unreasonable degree of risk - thus, we only focus on companies where management are aligned with shareholders. **We prefer to have impact through investing and engaging with corporates in this area.**

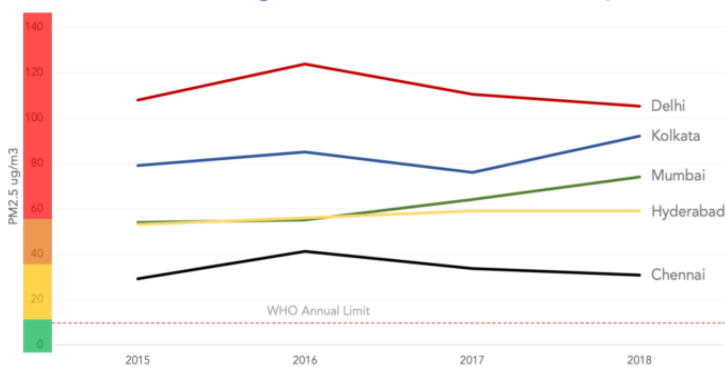
For example, **Ultratech**, the largest Indian cement company, consumes 10% of its total energy from renewables – this is more than double that of Indian peers, and significantly higher than global peers. Another investment, **Asian Paints**, derives over 50% of its electricity requirements from renewable sources. **Hero Motocorp**, a two-wheeler manufacturer had increased their solar footprint by 24% in FY19 alone and has targeted to be carbon neutral by 2030. **These are all encouraging trends** and we regularly engage with our companies to ensure they remain on the right track. For example, we have engaged with our holding **Escorts** (tractor company) several times and set specific goals for them to publish a sustainability report and pleasingly, they will meet this target soon.



## ENVIRONMENTAL PROGRESS: AIR POLLUTION

While air pollution remains an issue in many Indian cities, the government has taken encouraging steps to tackle this. Ongoing initiatives include a National Air Quality Monitoring Programme (NAMP) in 307 cities and towns in 29 states; setting up National Ambient Air Quality Standards (NAAQS) and measures such as an old vehicle scrappage programme, as well as improving public transport. Some cities have shown improvement, however, others like Mumbai require more work.

### Pollution in Major Indian Cities (2015-2018)



Nevertheless, India is still one of the worst countries in the world for air pollution. The 2019 World Air Quality Report ranked India as the 5<sup>th</sup> worst country in the world with 21 of the world's 30 most polluted cities. In comparison, Mainland China is ranked 11<sup>th</sup> and has just 2 out of the 30 most polluted cities in the world.

In 2019, the Indian Government launched the National Clean Air Programme (NCAP) under the supervision of the Ministry of Environment, Forests and Climate Change. The much-anticipated plan is an acknowledgement of the need for close collaboration between states and government ministries to tackle the problem of air pollution. The plan will expand India's capacity to monitor air pollution, which is currently limited, and will also seek to raise awareness of air pollution amongst the population.



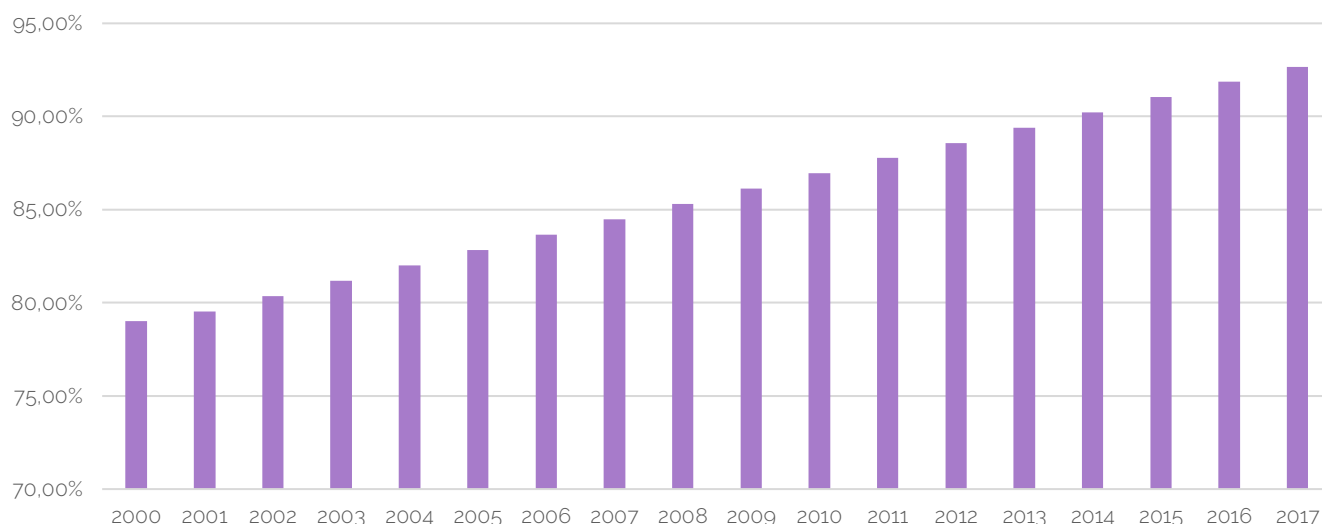
Clearly the manufacturing sector will have a key role to play in reducing air pollution. Our holding **HeidelbergCement India**, ensures that all its plants strive to minimise the discharge of emissions and are well-maintained within regulatory norms. The company goes far and beyond with regards to transparency, as it publishes a monthly ambient air quality report that includes CO<sub>2</sub>, NO<sub>2</sub> and SO<sub>2</sub> emissions for each of their plants on their website and has been successful in reducing their pollution intensity.

**HEIDELBERGCEMENT**  
INDIA

## SOCIAL PROGRESS: WATER

The World Bank reports that **access to drinking water has risen from 79% of the population in 2000 to 93% by 2017**. In addition, the government had clearly signalled its intention to further improve this by setting up a new 'Jal Shakti' Ministry in 2019 with the aim of ensuring universal access to clean drinking water. They have partnered with the World Bank on multiple projects to combat water scarcity such as the National Mission for Clean Ganga and the Dam Rehabilitation Scheme.

### Access to Drinking Water (%)



Source: Unicef and WHO, 2018

Nonetheless, water scarcity will continue to pose a challenge and is particularly crucial for India. The monsoons are deeply important as they dictate the strength of the harvest - this strongly influences the economy as 70% of the population's employment is dependent on agriculture. At Alquity, one of our ESG red flags is that **significant users of water** (e.g. beverages companies) are required to provide disclosure on usage levels and conservation measures - if a company fails any red flag, we will not invest.





In addition, we expect other companies where water is a material, but less significant, component of the production process (e.g. cement) to demonstrate an awareness of their water usage and conservation. Our cement holdings Ultratech Cement and HeidelbergCement India reported that they are both net water positive (2x and 6x, respectively), meaning that they collect more water than they use by recycling water as well as capturing rainwater in their reservoirs. This is operationally advantageous, as their production would not be disrupted in the event of a drought.

In December 2019, we visited the region and engaged with all of our companies to increase their disclosures on water usage, and to have active water intensity reduction targets. Pleasingly, many of our holdings were recording the information, though some were not disclosing it. We have actively engaged these companies to publicly disclose this information, in order to increase transparency and accountability.

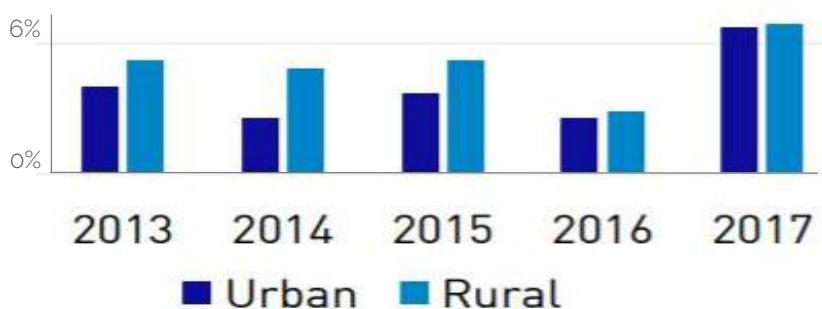
***Overall, India has made substantial environmental and social advancements. Given continued initiatives and spending, we expect a continuation in the years to come.***

## ALQUITY'S CURRENT RURAL FOCUS

Progress in the aforementioned fields is particularly important for the rural economy. With an estimated population size of over 800 million, making up 70% of the total workforce and generating about half of India's annual GDP, the rural economy is a salient contributor to the overall development of the entire country.

We believe that many of the best opportunities in India lie within the rural areas. The rural economy can generate much faster growth rates due to under-penetration in areas such as infrastructure. The rural areas have currently also been significantly less impacted by COVID-19 and the lockdown, given drastically fewer cases as well as a faster return to normalcy. In addition, a very good monsoon last year and above average monsoons in previous years have benefited the rural economy as agricultural yields have been strong, resulting in strong cash flows for the farmers.

### Urban vs Rural Growth for Hindustan Unilever



*The rural economy can generate much faster growth rates*

Underlying volume growth  
Source: Hindustan Unilever company presentation, 2018

Despite the importance of this segment of the economy, the rural areas are less developed and face challenges. For example, **only 60% of rural houses are made of permanent structures**, leaving many in unhygienic and dangerous conditions particularly during the monsoon season. In addition, **more than 80% of rural households have no formal arrangement for the collection of household garbage** and **34% do not have access to a bathroom**. Furthermore, the World Bank reports 10% of households still do not have sufficient drinking water.

Sanitation is also a key issue. According to the World Bank, the mortality rate attributed to unsafe water, unsafe sanitation and lack of hygiene is 18.6 per 100,000 population. Whilst significantly lower than the average of the lower income countries, this is still almost 60% higher than the global average.

*10% of households still do not have sufficient drinking water according to the World Bank*

### Mortality rate attributed to unsafe water, unsafe sanitation and lack of hygiene (per 100,000 population)



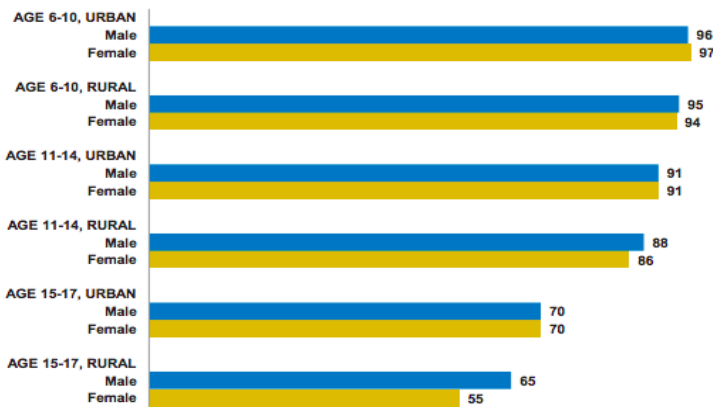
Source: World Bank, 2018



*The mortality rate attributed to these factors is 18.6 per 100,000 people*



## School attendance by age, sex and residence



Source: National Family Health Survey, 2019

In addition, literacy rates in rural areas lag behind their urban counterparts by about an estimated 16% at 67.8% vs 84.1% in urban. This chart shows that rural school attendance is consistently below that of urban, particularly as students become older.

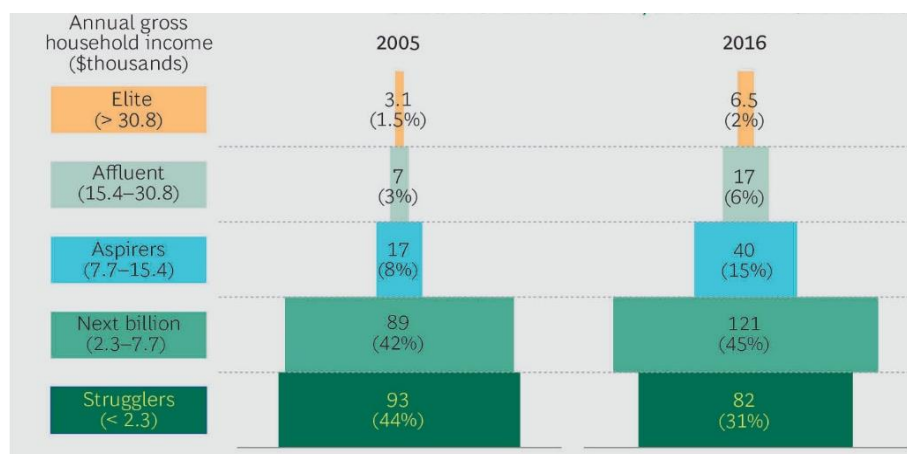
Another significant issue is that of financial exclusion; a large proportion of Indians are omitted from traditional financial institutions. This is problematic as it makes it difficult for people to save, as well as purchasing services such as insurance and school fees. In addition, it stifles entrepreneurship as it inhibits people from accessing credit. Whilst the number of individuals who are "formally banked" have increased rapidly, they are still largely excluded from functions such as borrowing - as the World Bank (2019) reported that less than 7% of people in India borrowed from a licensed financial institution.

Non-Bank Financial Companies (NBFC) like our holding Mahindra Mahindra Financial Services (MMFS) play a very important role in financial inclusion. NBFCs typically target the customers that banks are unwilling to lend to ('aspirers' and below), given their lower incomes, having lower assets as collateral and/or limited credit history. NBFCs make up 80% of equipment leasing and hire purchases in India. In addition, 75% of vehicles are bought through finance which rises to 90% when only considering commercial vehicles.

**Mahindra FINANCE**

*A rated in Alquity's  
ESG process*

## Indian households by income (in millions)



Source: BCG, 2016

*Income distribution  
is improving as  
affluence rises,  
though there is still  
a long way to go*

MMFS focuses predominantly on lending in rural areas and providing loans for cars, utility vehicles and tractors, as well as personal and business loans, insurance broking and housing finance. **MMFS addresses the lower part of the income pyramid and provides financial opportunities for those ignored by private banks**, as these institutions only focus on the higher end of 'aspirers' and above. Thus, the core function of MMFS is significantly advantageous to social development.



*Increasing financial inclusion can contribute to poverty alleviation in rural areas by fostering entrepreneurship*



MMFS management have set clear targets to achieve carbon neutrality by decreasing CO<sub>2</sub> emissions per employee by 10% every year. The company has initiated waste recycling practices across all of their locations and **promotes biodiversity by targeting to plant more than 120,000 trees every year**. In addition, MMFS are one of the few lenders to incorporate climate risk as part of their operational risk management framework, additionally having specific targets to increase financing to electric vehicles and precision farming equipment (which improves agricultural efficiency). The company also actively promotes women in the workplace and have increased the percentage of women in management each year for the last 5 years by 50% (although starting at a low base). These measures are well above the standard of the rest of the industry.

*transformation*

## HERO MOTOCORP

Hero Motocorp is the largest manufacturer of two-wheeled vehicles (predominantly motorbikes) in the world and has held that title for the last 16 years in a row. Two-wheelers have been gaining significant share in the rural areas as an important method of transportation, and approximately half of Hero's sales are now derived from the rural areas. Hero is one of the most environmentally conscious companies in India.



*Huge focus on environmental issues*

Hero has consistently improved its carbon footprint over several years and **has also targeted to become carbon neutral by 2030**. It was also the first auto company in India to achieve the "GreenCo Platinum" status. In addition, Hero was one of the first companies to release an electric vehicle model in India and continues to work on new models and battery technology.



Hero was also a first mover with regards to meeting the latest emission standards. The BS-VI regulations were introduced by the Indian government to reduce air pollution, bringing vehicle engines equivalent to the highest standards used in Europe. Hero became the first manufacturer in India to receive a BS-VI certificate in 2019 for its Splendor bike and since then they have introduced BS-VI compliant models across their range. **Hero Motocorp has the goal of eliminating single use plastic from its operations** and has so far eliminated 20% of its single-use plastic, the equivalent of 5 metric tonnes/month.

Furthermore, Hero Motocorp runs a Women in Leadership (WIL) Program which aims to build a **pipeline of female leaders** from low and middle management and offers an enhanced maternity leave policy which is significantly better than Indian peers. These initiatives have resulted in a significant increase in women employees.





## HINDUSTAN UNILEVER

*"Cleanliness and good sanitation are a matter of high importance" – Modi*

According to the World Bank, one in ten deaths in India are linked to poor sanitation. *"Globally, the lack of access to safe, clean drinking-water and basic sanitation, as well as poor hygiene, cause nearly 90% of all deaths from diarrhoea, mainly in children."*

UNICEF also reports: *"inadequate water, sanitation and hygiene (WASH) services in India's health facilities contribute to the high neonatal mortality rate, which is currently 24 deaths per 1000 live births, and much higher than the global average."*

There is a clear need for hygiene products that are affordable, readily available, and for improvements in the awareness of hygiene and sanitation. Consumer goods companies such as our investment Hindustan Unilever (HUL) address this particular problem, being India's largest consumer goods company with a presence in the country for over 80 years. Some of their core products include household care, personal wash, skin care, hair care, and oral care – thus producing important products to combat the spread of illness and disease.



Hindustan Unilever Limited



It is also essential that there are improvements in the awareness of hygiene and sanitation. Hindustan Unilever have attempted to address this issue and have educated over 150 million people through programmes on handwashing, safe drinking water and sanitation. The company aims to reach more than a billion people by the end of 2020, significantly reducing the spread of life-threatening diseases.

6 CLEAN WATER  
AND SANITATION



Hindustan Unilever is also one of the most environmentally conscious companies in India and has made major commitments to halving their environmental footprint by 2030. The business has already achieved a 52% reduction in CO<sub>2</sub> emissions, a 44% reduction in water abstraction and a 97% reduction in total waste (all per tonne of production) since 2008. The company also achieved renewable energy share of 43% in FY19, through converting agricultural process waste into fuel.

## Hindustan Unilever Sustainable Living Plan 2019

### IMPROVING HEALTH & WELL-BEING

- Over 72 million people reached through Lifebuoy Handwashing Programme in India since 2010
- Over 94.8 billion litres of safe drinking water provided by Pureit
- Over 1 million people impacted through Domex Toilet Academy (DTA)
- 50% of our total food and refreshment portfolio met the highest nutritional standards

### REDUCING ENVIRONMENTAL IMPACT

In manufacturing,

- CO<sub>2</sub> emissions reduced by 85%\*
- Water usage reduced by 58%\*
- Total waste generated from factories reduced by 63%\*
- Over 59,000 tonnes of plastic waste disposed in an environment friendly manner since 2018
- Maintained the status of 'zero non-hazardous waste to landfill' in all HUL factories and offices
- 100% non-hazardous waste generated at our factories recycled in environmentally friendly ways
- Share of renewable energy at our sites increased to 71% in 2019
- Over 980 billion litres of water conservation potential created by Hindustan Unilever Foundation partnerships

### ENHANCING LIVELIHOODS

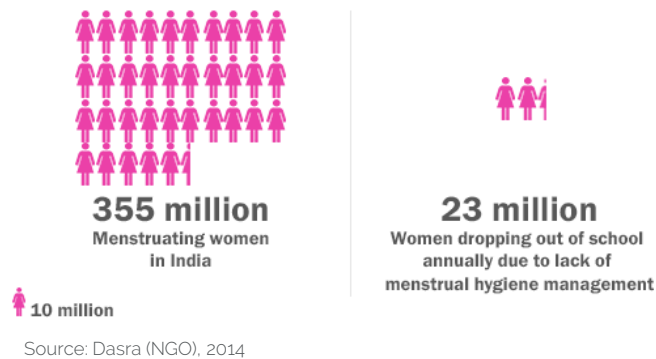
- Project Shakti network grew to nearly 120,000 Shakti Entrepreneurs
- Over 4.5 million people benefitted from Prabhat's USLP-linked programmes in areas of enhancing livelihoods, water conservation and health and hygiene
- Over 557,000 people benefitted from Rin Shine Academy that provides career readiness skills to youth
- Over 730,000 women registered on the Fair & Lovely online platform for career guidance and skill-based courses

Source: Hindustan Unilever, 2019

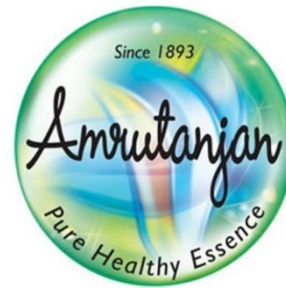


## AMRUTANJAN

Delving deeper into the rural areas, another key issue is menstrual hygiene. Globenewswire reports that out of the 365 million menstruating women in India, only ~18% of them use sanitary napkins. The vast majority of the remainder live in rural India, and typically use unhygienic products like newspapers, cloths, rags, plastics, dried leaves, and wood shavings. Approximately 60% of women are diagnosed with vaginal and urinary tract diseases and infections every year as a result of poor menstrual hygiene.



*Menstruation taboos in India forces girls to drop out of school*



A core investment of ours is Amrutanjan, an Indian health care company founded in Mumbai in 1893. Their primary product lines are natural pain balm and female hygiene products. Their sanitary napkin brand 'Comfy' is more than 10% cheaper than equivalent brands. In addition, the company has superior distribution networks in the rural areas, which means the product can reach those most in need.



*Amrutanjan runs social media campaigns for women empowerment and menstrual education*



Typically, smaller companies in India disclose less ESG information compared to very large companies like Hindustan Unilever. However, this does not mean that all small companies are uninterested in ESG. We believe Amrutanjan falls into this category – for example, the company recycles 100% of wastewater and has invested in efficient waste management systems. The company only uses natural ingredients and has a strong focus on promoting biodiversity. We believe that Amrutanjan's vision is aligned with ours, and that they are on the journey to ESG excellence. We will continue to engage with them on how to improve.



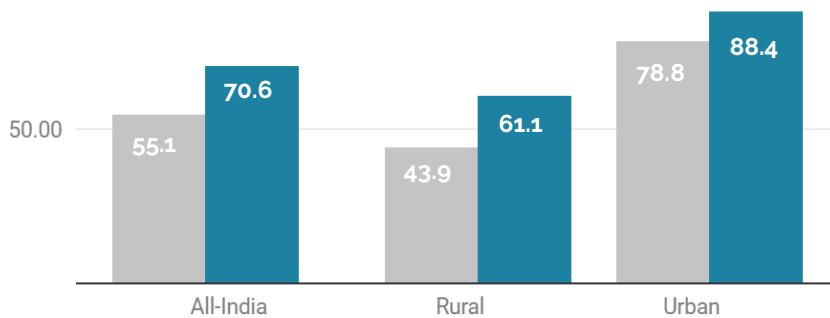
## ULTRATECH AND HEIDELBERGCEMENT INDIA

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

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 60% of rural population lived in safe and permanent houses.

### Percentage of households with permanent houses

■ 2011 Census ■ 2015-16 (NFHS survey)



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

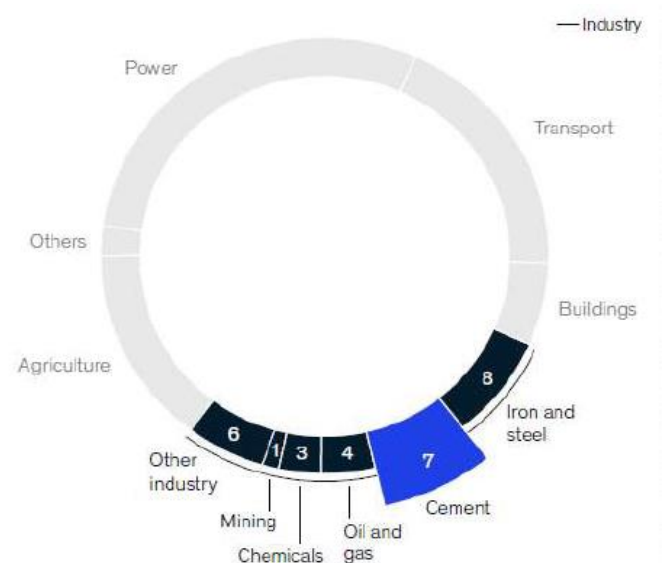
Source: Livemint, 2018

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<sub>2</sub> 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<sub>2</sub> 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 among the best global 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 <sup>#</sup>  | 670   | 925  |
| Water intensity (litres/ton)                     | 299       | NA <sup>***</sup>   | 500   | 799 <sup>**</sup>                                      |
| 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% <sup>*</sup>                                   | Median 6% <sup>*</sup>                                 |
| 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 <sup>*</sup>                                      |
| Direct fatalities                                | 0         | 0   | -   | 4 <sup>*</sup>   |

Sources Bloomberg, Globalcement, company annual reports. All data is the most recent year available.

<sup>\*</sup>aggregate over all those reporting, Bloomberg data

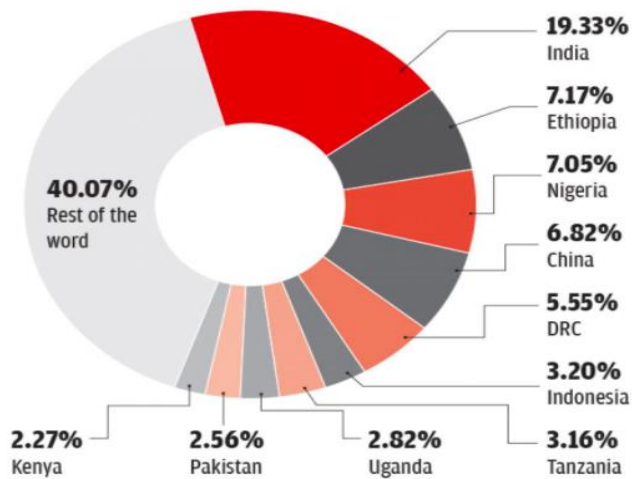
<sup>\*\*</sup>average over largest 15 companies only

<sup>\*\*\*</sup>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.

<sup>#</sup> HeidelbergCement India also publishes a monthly ambient air quality report that includes CO<sub>2</sub>, NO<sub>2</sub> and SO<sub>2</sub> emissions for each of their plants.

Another environmental concern is that of water scarcity, as cement companies are typically large consumers of water. **India ranks as the 13<sup>th</sup> 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)

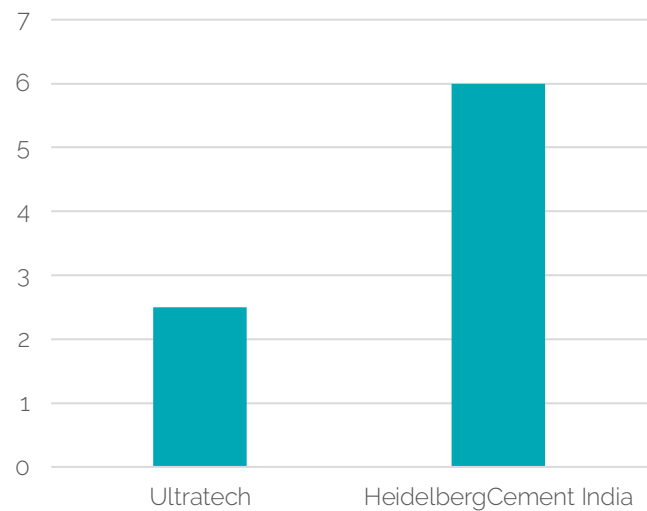


Source: WaterAid, 2018

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

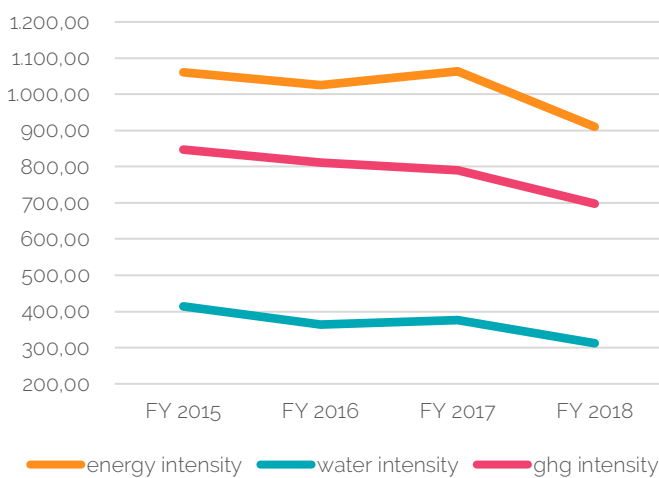
*Both Ultratech and HeidelbergCement India collect multiple times more water than they consume*

## Net water positive (x)



Source: Company sustainability reports, 2019

## Ultratech: improving consistently



Source: Company sustainability reports, 2019

## Positive impact



VS



## Negative impact



## CORPORATE RESPONSES TO COVID-19

The coronavirus pandemic has brought to the fore a company's relationship with its employees and communities, and how it will help their ability to survive through the pandemic. Throughout this troublesome period, we engaged with all of our companies to understand what they were doing in response to the pandemic and highlight several cases below.

- 1) Cholamandalam is a rural Indian financial services company which is providing company-wide insurance that covers COVID-19. In addition, they have established an Employee Assistance programme which includes counselling support to deal with anxiety and other issues caused by the pandemic. Their HR Department has also conducted one-to-one calls with all employees.



- 2) Ultratech Cement provided meals to over 180,000 people in need and supplied 600,000 face masks and hand sanitisers. The company also facilitated two quarantine centres, as well as created awareness camps amongst local communities near their manufacturing facilities. The company reached out to over 500,000 people.



- 3) Hindustan Unilever did not increase prices of any hygiene products (soaps, hand sanitisers...), and actually decreased the price of some products during the outbreak of COVID-19. The company also donated 100,000 hygiene products to those most in need and leveraged a huge social campaign to create large scale awareness. Furthermore, the company made no cuts to jobs or salaries of employees to date.

- 4) TCI Express (logistics company) has created regular awareness in their facilities by screening using infrared thermal thermometers as a mandatory practice, as well as providing face masks for employees and sanitiser and food for their outsourced drivers.

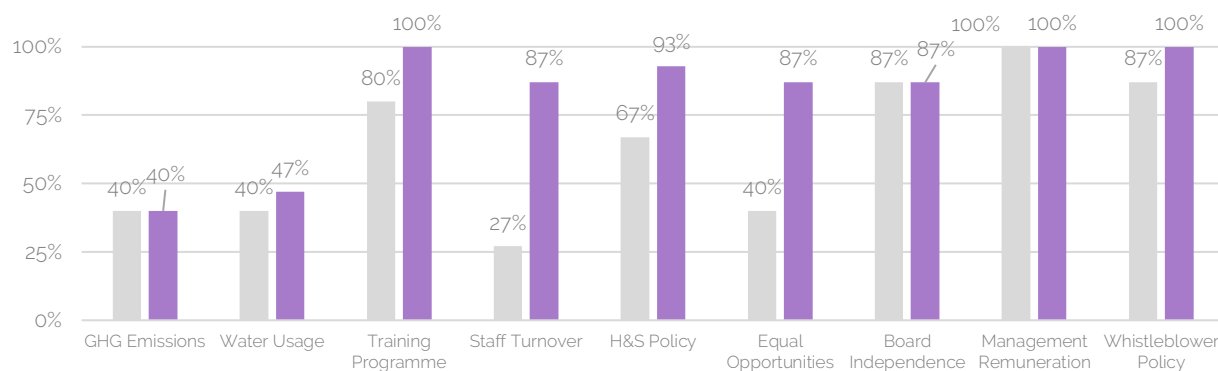


## ALQUITY INDIA – ESG PERFORMANCE

The aforementioned case studies illustrate that our companies play an important part in the environmental and social development of India and also demonstrate that we only invest in companies that are already considered best in class – or on the journey towards this. **We believe that investing in domestic rural-focused companies with positive ESG considerations can generate attractive investment returns, as well as having a positive impact on society.**

We also track a set of KPIs that represent a general set of transparency and ESG standards we want all firms to meet over time. In each case, the assessment has a financial motivation and an associated positive potential impact. As below, **we can see that the majority of our companies report well on social and governance factors.** However, given that we have a large percentage of smaller companies, the environmental disclosures tend to be lesser, and we continue to engage with these companies.

### Percentage of holdings meeting our KPIs - Evolution

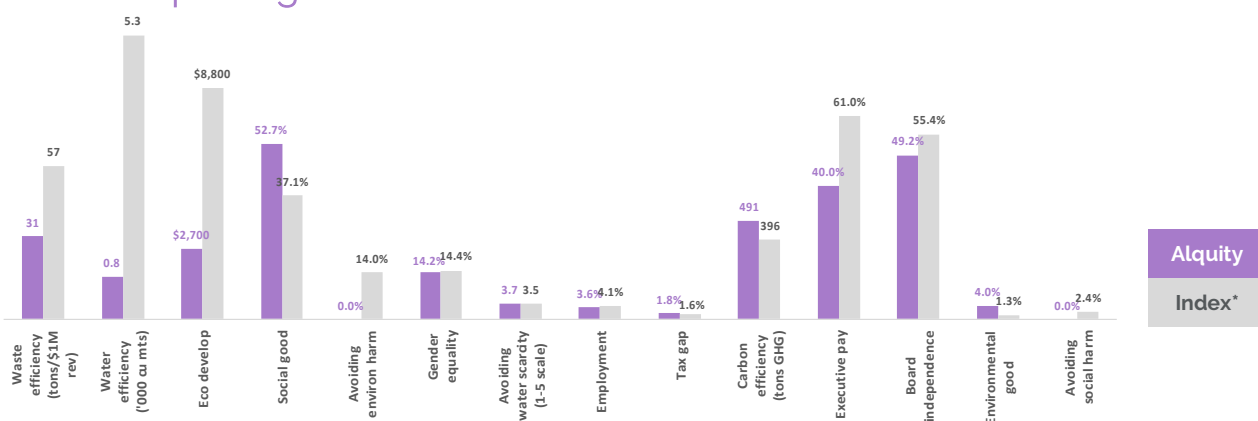


Source: Alquity, May 2018 vs December 2019 figures

From the graph, it is clear that our portfolio characteristics have improved, driven by our engagement process.

Further to this, we look at our portfolio using tools provided by independent ESG data source provider Impact Cubed, which shows that our investment process results in a portfolio that is completely differentiated from the Indian index. As demonstrated below, **our portfolios are constructed to be more conscious of waste, water, environmental good and to avoid social harm, relative to the index.** Our higher carbon output is due to our cement holdings, and our lower board independence is explained by relatively higher weighting of smaller companies compared to the index (as they are typically run by the founding family).

### Fund's impact against the Indian index



Source: Impact Cubed Assessment, as of 31<sup>st</sup> March 2020

\*Index: iShares MSCI India ETF

## ENGAGEMENT – A CORE PART OF OUR PROCESS

We have previously highlighted that Indian corporates appear to lag behind their counterparts in Asia in terms of ESG disclosures. However, from our conversations with corporates, it is clear that most are recording the data, but have not been disclosing this information as they were not required to do so. Other corporates believed that investors simply did not care about this information. During our latest trip to India in December 2019, we engaged with every single company on a multitude of factors, and not just our KPIs.

We had extended conversations with ICICI Bank, relating to global standards, peer examples, overview of ESG investor types, acceptability of various potential loans (defence, coal, etc.) and incorporation of environmental factors in lending decisions.

We also engaged with ICICI Prudential (life insurance company) to incorporate ESG in their stock purchase decisions, as they are one of the largest institutional equity investors in India. Management were receptive to this idea and recognised that this was an opportunity to pursue, and we will continue to engage with them on that. They have started producing an ESG report, following our meeting with them last December.



Furthermore, Escorts (tractor company) will be publishing an ESG report after engaging with them for several years. Similarly, HDFC (housing financier) has been working on an ESG report and has hired additional resources.

*We see encouraging signs that India is taking ESG more seriously going forward*

## TRANSFORMING LIVES

The original concept for Alquity meant creating a new type of investment business. One that would not just invest in responsible, well positioned businesses, but also contribute to sustainable economic growth by providing the opportunity for those in the very poorest segment of society to climb out of poverty. The focus of the Foundation is on social and economic challenges that changes in corporate behaviour alone cannot address.

Alquity's Transforming Lives Foundation sits alongside the use of ESG in our investment process, and we set aside a minimum of 10% of firm-level revenues for social mobility and development projects in the regions in which we invest. We provide grants to help develop fairer, more sustainable economies that deliver inclusive long-term growth.

The Foundation focuses on SDG 4 (Quality Education), SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities).

### Our impact track record

| Our commitment      |                                | Plastics for change, India  |
|---------------------|--------------------------------|---|
| 60,000+             | Lives transformed              | 1,016 fair jobs created   |
| 20,200              | Direct                         | The logo for the Alquity Transforming Lives Foundation, featuring the word 'Alquity' in a stylized script font, with 'TRANSFORMING LIVES FOUNDATION' in a sans-serif font below it. |
| 42,274              | Indirect                       |   |
| Donations generated |                                |   |
| \$2.0m              | \$1,500 Daily                  |   |
| \$500k+             | Transforming Lives Awards 2019 |   |

This responsible investment and development work create a “virtuous circle” for investors, sowing the seeds for future growth. To date, we have donated more than USD 2,000,000, positively impacting more than 60,000 lives.



We have funded Phool via our Transforming Lives program. They employ 260 lower caste Indian women (targeted to be 5,000 by 2022) who collect temple flowers, preventing pollution of the Ganges river, and recycle them into incense sticks.

*Mike and Kieron with the team at Phool*



### *Alquity's Virtuous Circle*



*The growth in AuM benefits all stakeholders*

We also conducted a panel survey with some of their employees and we were able to understand their journey from minimal employment to having a regular decent living wage. We understood their interactions with our investments such as V-Mart (clothing retailer) and Bata (shoe retailer) and learned that all had shopped or been to these stores. The foundation granted opportunities for some of the most underprivileged people in society, who may then become future customers for some of our companies, thus fulfilling the virtuous circle.

## CONCLUSION

We have highlighted the progress that India has made in both social and environmental issues and that our investments are contributors but also beneficiaries of further changes. The trajectory has undoubtedly been positive, though we recognise that there is still plenty of room for further development. The challenges remain particularly prevalent in the rural areas, however, therein lies some of the best investment opportunities within India.

Our goal is to deliver attractive returns versus peers, but with ESG and impact. The Alquity India fund has positioned the portfolio to capture India's domestic growth potential by currently investing in rural focussed companies which are the key beneficiaries of reform and growth, and where management are completely aligned with our high ESG standards. This is supplemented with our Foundation where we donate to causes that would be unaddressed by the private sector, and thus enriching the lives of people most in need.

We see plenty of growth potential in India and see a continuation of this for many years. We are proud to be play a role in India's development.



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