

ALQUITY'S APPROACH TO SUSTAINABILITY

ANTICIPATING QUIET STORMS THAT BUILD OFFSHORE

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June 2026

OUR APPROACH TO SUSTAINABILITY

At Alquity, our approach to sustainability is grounded in what we call **rational sustainability**: an evidence based discipline focused on outcomes rather than ESG theatre. Nowhere is this more clearly expressed than in the Alquity Future World strategy.

When we first began integrating sustainability into investment decision making, MSCI ESG described ESG risks as “**quiet storms building offshore, waiting to hit landfall.**” The analogy has endured because it captures a central truth of rational sustainability: the most material risks to long term returns are often non financial, poorly disclosed and ignored until value has already been destroyed.

Over more than a decade of investing through the Future World strategy, we have repeatedly seen these storms make landfall. Environmental disasters, social failures and product related controversies (ranging from pollution incidents and labour abuses to consumer harm) have driven sharp and lasting value destruction. While the surface manifestation may be environmental or social, our analysis consistently shows that **the root cause is governance failure.**

GOVERNANCE AS THE FOUNDATION OF RATIONAL SUSTAINABILITY

Rational sustainability starts with a simple question: *what actually works?* Across our investment history, almost every major ESG failure we have examined can be traced back to governance weaknesses - ineffective boards, misaligned incentives, opaque ownership structures or weak accountability.

Governance is not merely one pillar of ESG; it is the **foundation** that determines whether environmental and social commitments are credible, data can be trusted and minority shareholder interests are protected. Without robust governance, sustainability disclosures risk becoming aspirational rather than actionable.

This conviction underpins the Future World investment process. Before we consider exposure to long term structural themes (such as domestic consumption, digitalisation, artificial intelligence or the climate transition) we require clear, evidence based proof of **governance quality**. Where integrity, transparency or alignment with minority shareholders is lacking, no amount of disclosure is sufficient. This is how rational sustainability is applied in practice.

HOW THE FUTURE WORLD PROCESS EMBEDS GOVERNANCE DISCIPLINE

Our governance assessment begins with **clear exclusions**. The Future World Fund removes sectors that provide no meaningful social benefit or contribute directly to climate change, including fossil fuel extraction, gambling, tobacco and other harmful industries.

From there, governance analysis sits at the core of our bottom up stock selection. We actively prioritise companies that display observable “green flags” of good governance, including meaningful investor engagement, open access to management where possible, and transparent ownership and control structures. This assessment is practical rather than theoretical: **we will not invest unless our governance criteria are met**.

Board composition and independence are scrutinised in depth, this is particularly important as many companies are run by first or second generation entrepreneurs. We look beyond headline independence to assess director quality, tenure and effectiveness. This includes how boards think about diversity: representation matters, but only when it reflects genuine capability and contribution rather than box ticking. Appointments must strengthen decision making, not merely optics.

We apply the **same rigour to past controversies**. Severity, management response, remediation and the likelihood of recurrence over our typical three to five year holding period are all assessed. Where governance risks remain unresolved, companies are excluded from the investable universe.

ENGAGEMENT TO DISSIPATE STORMS BEFORE LANDFALL

Once governance standards are met, we deepen our assessment of environmental and social factors, recognising that practices (particularly in Emerging Markets) continue to evolve. **Engagement is central** to this process.

We track a defined set of **governance led progress indicators** across the portfolio, including effective whistleblowing mechanisms, appropriate levels of board independence relative to free float, transparent disclosure of senior management remuneration, and explicit linkage between ESG objectives and executive pay. These indicators are monitored, measured and aggregated at portfolio level.

Our **voting activity is fully aligned with these standards**. For example, we apply a maximum nine year tenure for independent directors and vote against those that fall short of independence or accountability thresholds. Strong governance oversight allows us to assess environmental metrics, such as emissions or water usage, and social practices with far greater confidence, because disclosures are more likely to be reliable and acted upon.

While no process can identify every risk, this integrated approach materially improves our ability to identify and engage with potential “quiet storms” before they reach landfall. In several cases, **early governance red flags** (such as weak board oversight or misaligned incentives) have preceded later environmental incidents or social controversies that ultimately resulted in **significant shareholder value destruction**.

GOVERNANCE DRIVES CULTURE; CULTURE DRIVES STRATEGY

The Future World Fund invests in companies where we believe long term growth potential is **under appreciated by the market**; often because they are under researched, smaller cap names or alternatively because the market has underappreciated the size of the structural growth opportunity. These include themes such as consumption, travel, digital infrastructure, financial inclusion and the expanding role of AI.

We believe **governance shapes culture**, and culture ultimately determines whether strategy is executed successfully. Culture influences how companies treat employees, customers and communities, how risks are escalated and how capital is allocated over time.

At Alquity, engagement extends beyond traditional stewardship. Through the **Transforming Lives Foundation**, we actively **connect portfolio companies with social enterprises and community initiatives**. Examples include linking an Indian retailer with a waste to value social enterprise and partnering with a South African investee's foundation to support disadvantaged young people into employment. These relationships deepen our understanding of emerging consumers and strengthen investment conviction.

This depth of engagement is rare within asset management and reinforces our belief that well governed companies can **deliver double materiality**: strong long term returns alongside measurable, real world impact.

CONCLUSION

Rational sustainability is built on a simple premise: **sustainable investing must improve outcomes, not just intentions**. As our experience in the Future World Fund demonstrates, the most damaging ESG risks are rarely those that are already visible or easily measured. Time and again, the “quiet storms” that destroy shareholder value originate in weak governance, with **environmental and social failures acting as symptoms** rather than root causes.

At Alquity, **governance is therefore not a box ticking exercise, but the cornerstone** of an outcome focused investment philosophy. Through disciplined exclusions, green flag selection, direct engagement and voting standards, we focus sustainability efforts where evidence shows they make the greatest difference; aiming to both mitigate long-term risks while generating alpha.

Ultimately, governance shapes culture, and culture drives strategy. By applying rational sustainability to **identify well-governed businesses aligned with structural growth themes**, the Future World Fund seeks to deliver durable long-term returns while contributing to a more robust and equitable economic system. **The objective is not to do more ESG, but to do what works - and to make it count.**

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