

June 2023



IMPACT REPORT 2023

DEPLOYING CAPITAL TO SHAPE SOCIETY



LIFE CHANGING INVESTMENTS



Nature provides for our needs, but not for our greeds.

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PART 1 INTRODUCTION

In 20 years time, when we look back at the last year, it could be recognised as the first time that the world of investment was made to grasp its responsibility to the planet and its people. This period has seen the confluence of real political will, regulatory enforcement and investor-driven capital allocation that even an industry as entrenched as investment management has had to respond.

The showpiece COP27 in Egypt was a clear disappointment as once again due to selfish interests and lobby groups, no clear resolutions were agreed to substantially reduce GHG emissions in line with the scientifically required target. The single celebrated outcome was the financial agreement to assist poorer countries to deal with the consequences of climate change known as the Loss and Damages Fund. For all its importance without commitment to reduce emissions, this is the equivalent of a boxer offering to contribute towards your hospital bills as long as you let them continue to punch you! Despite this, we did see some successful moves at a political level with the US leading the way with the landmark, Inflation Reduction Act, committing over 400 billion dollars to slashing carbon emissions. The pressure clearly is now on other developed economies, especially Europe and the UK to follow suit. The electoral victory for Luiz Inácio Lula da Silva in Brazil also provides much needed optimism for the sustainability of the Amazon rainforest. COP15 on Biodiversity was much more successful with the Kunming-Montreal Global Biodiversity Framework (GBF) being adopted by 188 governments committing to conservation of 30% of the world's ecosystem by 2030.

The regulatory environment has also evolved to identify a clear separation between values-driven ESG investing and ESG as a pure risk management tool. Whether it's the EU based SFDR regulations or the prospective SDR regulations in the UK, it is clear that funds have to now make a choice about their intentionality and communicate this clearly and transparently to the marketplace. The focus has moved from what is said about a fund or investment to an actual analysis of the underlying stocks to see if they are consistent

with the promises made. A key aspect of this new legislation is drawing a line between ESG and impact thereby closing down the ambiguity that's allowed so called "greenwashing" to thrive over the recent years. This heightened focus on the fund manager's values and intentionality is critical for investors to be sure that when faced with the moral dilemmas that ESG investing inevitably presents, the choices made, will be aligned with their interests and objectives, rather than the fund manager's commercial priorities.

Investors both individual and institutional are clearer about their role in society and how their capital allocation shapes the future. They are therefore demanding approaches that deliver returns whilst either solving issues previous capital allocation has created or at the very least not making things worse. Driven by political will and regulatory clarity, opportunities are being created within the transformation of existing sectors, such as transportation, and in new sectors, such as battery storage and protein production that are leading the climate transition. This clarity has prompted us to be more explicit about how we enact our commitments to investing responsibly across all our asset classes. As you will see in this report, we have identified an additional 4th core theme for our Emerging Market strategies titled "Climate Transition", that provides our clients with our investment framework for delivering social and environmental impact from both our portfolios and our transforming lives programmes. We are excited to share these with you in this report and continue to communicate about the great companies our funds are investing in that will help drive progress we can all be proud of. Whilst not all our companies will fit neatly into these areas, we are committed to driving change through picking the best companies within traditional sectors and engaging with them to continue on their journey towards successful financial outcomes as well as tangible social and environmental progress. This is best displayed by our Key Progress Indicators (KPIs) which provide portfolio level insight into the improving ESG behaviours across our holdings.

For 2023 to be seen as the pivotal year when we altered the path of ecological destruction, we need to see fundamental cultural and strategic change at the heart of the investment industry. It will require courage from industry leaders to not only launch new and innovative investment vehicles, but also and more importantly stop or significantly reduce existing investments in companies and sectors that are detrimental to the climate transition. These products continue to remain the cash cows for many fund managers who hide behind new products to avoid scrutiny of their core businesses. Increasingly these conflicts are being exposed by activist groups, such as [Shareaction](#), as well as asset owner collaborations such as the [Net Zero Asset Owners Initiative](#).

As investors look across their entire asset allocations and not just ESG or impact sleeves, it will require asset managers to proactively alter fund mandates to truly reflect their espoused values or asset owners will seek alternative investments.

It is in this respect that Alquity aims to provide a reimagining of the asset management model. Where conflicts of interest are replaced by reinforcing feedback loops between the returns and impact desires of investors and the social and ecological needs of people and the planet. Taking an uncompromising values-based approach to ESG investing alongside a tangible commitment to deploy our own capital in accordance with our values, provides a blueprint for other asset managers to follow and build upon. We measure our success through not our just our own achievements, but those of others we have helped influence on our journey.



SURESH MISTRY,
HEAD OF SUSTAINABILITY

***We commit to deploy
our own capital in
accordance with our
values.***



We measure our success through not our just our own achievements, but those of others we have helped influence on our journey.

PART 2 OUR MISSION

ALQUITY'S INVESTMENT MODEL

“Alquity exists to transform the world of investment to create a fairer, more sustainable planet.”



Investors' short-term, profit-oriented mindset has driven businesses to prioritize shareholder returns for too long. Although this has led to remarkable improvements in our quality of life, innovative solutions, employment opportunities, and cross-border trade that have helped reduce poverty over the past century, these achievements came at a cost that was either not entirely comprehended or deliberately disregarded. The pursuit of just a financial metric is the root cause of catastrophic climate change, irreversible loss of biodiversity, striking inequality, devastating global pandemics, and avoidable healthcare crises, such as diabetes and obesity.

Alquity's virtuous circle business model presents an alternative way, which generates not only great financial returns but also environmental and social outcomes to be proud of. These outcomes are called 3-D returns. By investing in our range of award-winning listed equity funds, you align your decisions and values with working towards limiting global warming and preserving the natural world's diversity

and stunning beauty. You contribute to ensuring that everyone has equal opportunities in life, regardless of their birthplace, ethnicity, gender, sexual orientation, or physical ability, and that they live healthy, meaningful lives.

You prioritize more than just financial outcomes from your investments. You want to support and encourage companies that respect and take care of their environment, people, and communities and are run professionally with integrity and passion. You are concerned that your investments contribute to a just and rapid climate transition and demand an absolute guarantee that you do not invest in those that do not share your values. You want to share the same values as the people making those investment decisions. People who are unafraid to bring about change, exercise their discernment, and are willing to be accountable and fully justify their decision-making. You want to see a company that not only walks the talk but also allocates its own capital to shape society.

“

A company that not only walks the talk but also allocates its own capital to shape society.

PART 3 **ATTRACTIVE RETURNS:** COMBINING SUSTAINABILITY WITH PERFORMANCE

Despite facing another challenging and volatile market, heightened by concerns surrounding inflation worldwide, Alquity’s deep market expertise, both at a micro and macro level, rigorous ESG and business analysis processes, and enhanced quantitative risk management frameworks have enabled all of our funds to deliver strong returns over the past three years as displayed in the tables below.

We do not display the performance of our Alquity Global Impact Fund, which was launched on March 16th of 2021, because its track record is less than 3 years old. We look forward to also sharing its performance with you in next year’s Impact Report.

The Alquity Indian Subcontinent Fund has been a standout performer. Over the last 3 years the fund has delivered a return of 115.5%, placing it in the top percentile of funds in the Morningstar universe. In addition to achieving a 5-star performance Morningstar ranking, the fund also enjoys a 5-globe sustainability ranking. Recognition for the performance over the last 3 years was received with the fund winning the 2023 Hong Kong Lipper Fund award for India Equity.

We achieve at least a 4-globe ranking for all our funds, placing each of them well above the peer average for sustainability. Of course, this does not include the additional impact our funds deliver through our Transforming Lives programmes.

FIGURE 1: PERFORMANCE OF OUR INDIA, ASIA AND FUTURE WORLD FUNDS

	2021 performance	2021 percentile	2022 performance	2022 percentile	3Y performance	3Y percentile	Morningstar rating	Morningstar sustainability rating
Alquity India (GBP I)	45.8%	1.4	1.2%	42.0	115.5%	0.9	★★★★★	🌐🌐🌐🌐🌐
Alquity Asia (GBP I)	4.6%	11.1	-11.6%	51.0	34.4%	25.1	★★★★	🌐🌐🌐🌐
Alquity Future World (GBP I)	1.4%	30.2	-11.2%	46.0	25.8%	48.8	★★★	🌐🌐🌐🌐

Source: Source: Alquity, Bloomberg, Morningstar, as of 31st March of 2023. The performance shown is based on our GBP I class charging structure with an OCF of 1%. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, expressed or implied is made regarding future performance. Copyright © 2023 Morningstar™

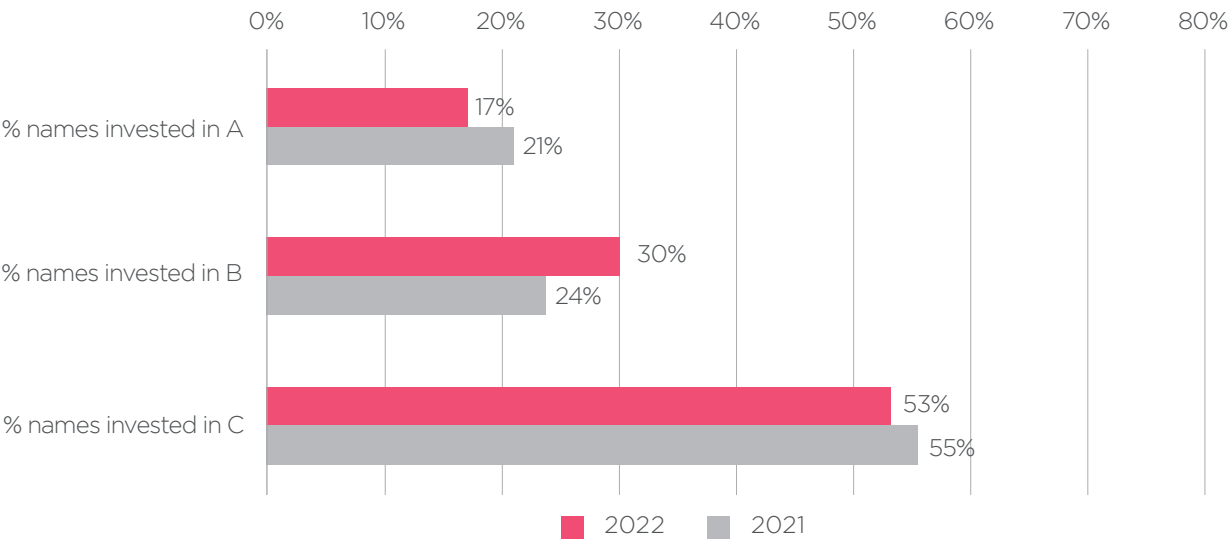
Fund ESG Ratings

We deploy our own proprietary ESG ratings system that assesses companies on the degree to which their behaviours have a positive impact on the environment, their employees and communities and the strength and independence of their governance procedures. The ratings are A-C based upon their ability to provide “demonstrable evidence” so unlike many external ratings agencies is not dependent on pure reporting only.

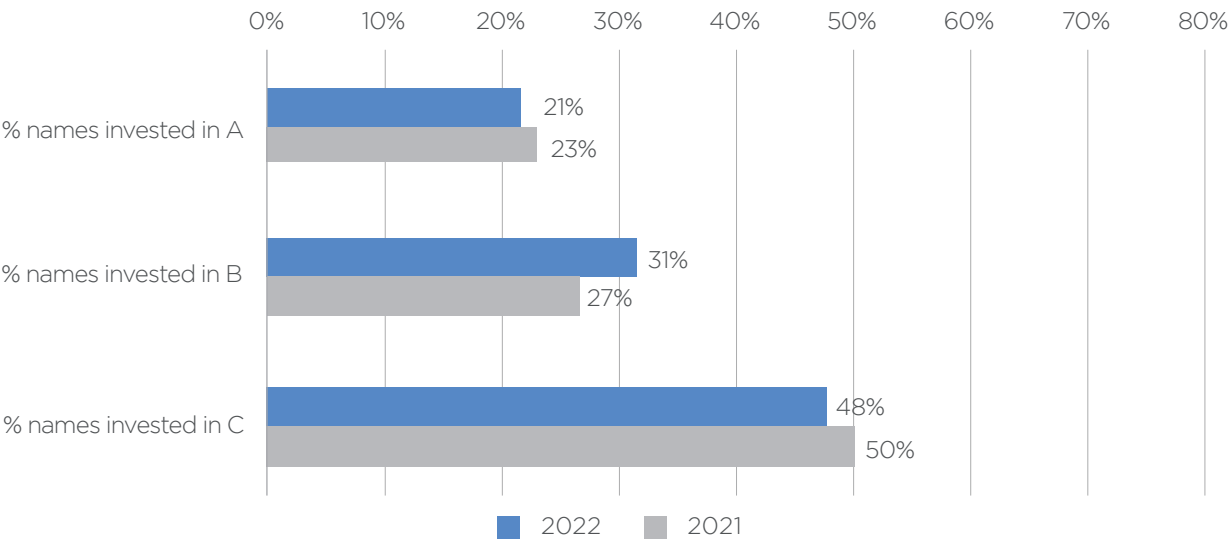
In addition, we have split the ratings between High Risk (sectors that have or have the potential to have significant environmental impact) and Low Risk (sectors that have a lower operational environmental footprint). This enables us to set more stringent criteria appropriate to the risk level as well as target our subsequent stewardship activity. Below we have detailed the ranking split for each of our portfolios:

FIGURE 2: ESG RATINGS BY FUND

Asia Fund – Company ESG ratings

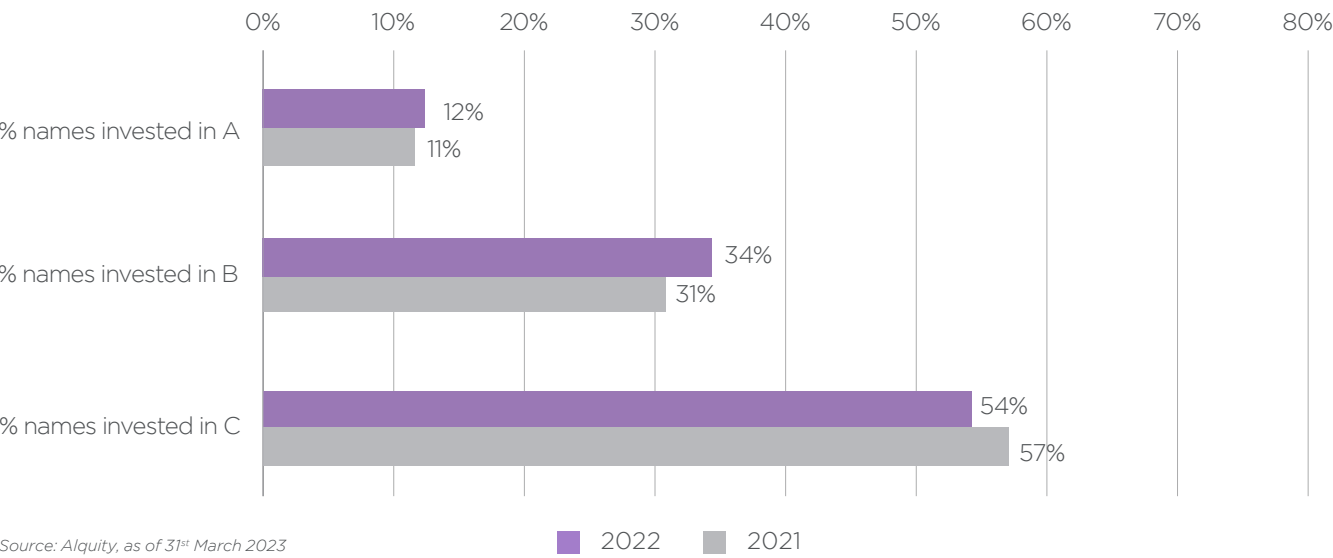


Future World Fund – Company ESG ratings



Source: Alquity, as of 31st March 2023

India Subcontinent Fund – Company ESG ratings



Source: Alquity, as of 31st March 2023

FIGURE 3: ALQUITY ESG RATINGS METHODOLOGY

ALQUITY ESG RATING	DESCRIPTION OF COMPANY ACHIEVING THIS RATING
A	High risk industry demonstrable global best practice performance in ESG** Lower risk industry demonstrable regional best practice in ESG.
B	High risk industry demonstrating regional best practice in ESG. Lower risk industry with satisfactory ESG performance better than regional peers; or in-line with regional peers but with a demonstrable intention to improve on material ESG factors.
C	High risk industry with satisfactory ESG performance in-line with regional peers, but demonstrating a meaningful commitment to improve on material ESG factors. Lower risk industry with satisfactory ESG performance in-line with or better than regional peers, but with no demonstrable intention to improve on material ESG factors.
**HIGH RISK INDUSTRY: those with extractive operations (Mining and Energy) heavy industry (Cement, Building materials, Steel, Chemicals), Livestock farming, Aviation and Shipping. LOWER RISK INDUSTRY: all other industries within the Alquity investable universe.	
FAIL	High or low risk industry with unsatisfactory ESG performance



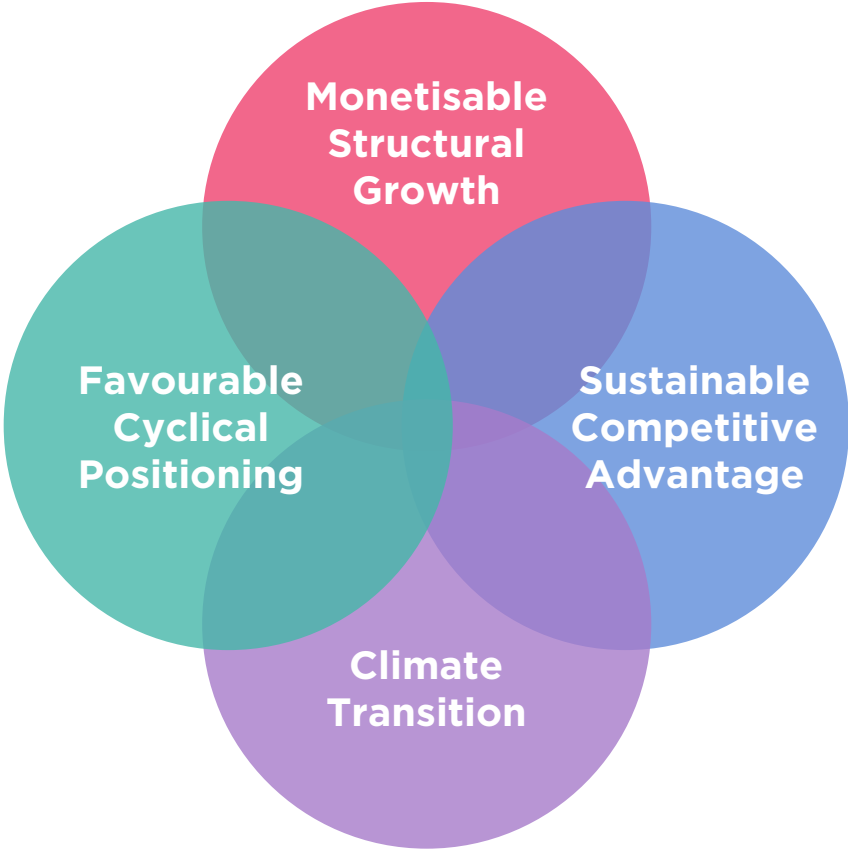
The clock is ticking. We are in the fight of our lives, and we are losing. Our planet is fast approaching tipping points that will make climate chaos irreversible. We are on a highway to climate hell, with our foot still on the accelerator.

Antonio Guterres, UN Secretary-General

PART 4 **RESPONSIBLE INVESTMENTS:** OUR NEW CORE THEME: CLIMATE TRANSITION

Since Alquity was founded, we have remained steadfastly committed to achieving a just climate transition whether that be through our funds or our transforming lives projects across the emerging world. Our focus during this time has been on supporting traditional business sectors to transition through improvements in their environmental and social impact in line with the 1.5 degree global warming target set in Paris. During this time many of the sectors associated with direct environmental solutions, such

as renewable energy, have either been inaccessible to us as not available in listed markets or have failed our ESG ratings due to significant ESG concerns. We have, however, continued to seek out opportunities with companies providing environmental solutions when appropriate. As these sectors have evolved, we have seen increasing numbers of investment opportunities and have identified holdings that are directly contributing to the climate transition.



To enable our clients to have a more explicit understanding of how we identify these companies we have defined two categories under our new Climate Transition core theme. We have focused on **Cleaner Energy**, power production and distribution solutions that eliminate or reduce fossil fuel use. Secondly, **Green Infrastructure**, solutions in construction materials, buildings, and transportation, which develop sustainable cities.

POSITIVE ENVIRONMENTAL OUTCOMES

Cleaner Energy: Power production and distribution solutions that eliminate or reduce fossil fuel use.

Green Infrastructure: Solutions in construction materials, buildings, and transportation, which develop sustainable cities.

FIGURE 4: COMPANIES IN OUR PORTFOLIOS ALIGNED WITH THE CLIMATE TRANSITION THEME

COMPANY	SUB-THEME	SECTOR	SDG IMPACT
	Cleaner Energy / Green Infrastructure	Materials	
	Cleaner Energy / Green Infrastructure	Materials	
	Cleaner Energy	Industrial	
	Cleaner Energy	Industrial	
	Green Infrastructure	Industrial	
	Green Infrastructure	Automobiles	
	Cleaner Energy	Tech hardware	
	Green Infrastructure	Tech hardware	



Century Iron and Steel
(Cleaner Energy Production)

Century Iron and Steel (CIAS) is a prominent Taiwanese manufacturer specializing in offshore wind turbine pins and jackets. The company benefits from the decarbonisation efforts across Taiwan. For instance, the country has set a target of achieving 5.5 GW of offshore wind energy by 2025 and an additional 10 GW by 2035, presenting promising opportunities for CIAS.



Wuxi Lead
(Green Infrastructure)

Wuxi Leads is China's number 1 lithium-ion battery equipment supplier, boasting a market share of approximately 20%. Wuxi has greatly benefited from the structural growth of electric vehicles, particularly in China, where it serves major customers such as CATL and BYD. The company stands to attract new customers, especially as European OEMs consider bringing battery production in-house.

ACCREDITATION

In 2022, our Asia, Indian Subcontinent, Global Impact and Future World funds once again passed the ISR label certification audit. Our EM funds have passed this rigorous yearly audit since 2018, while our Global Impact Fund, which is one year and a half old, passed the certification for the second time. The 2022 audit was passed with flying colours with all our funds meeting or exceeding the required standard for all 6 pillars of the label. To read this report, please visit our website or click below:



ISR LABEL 2022 AUDIT REPORT

The Global Impact Fund is designated SFDR Article 9, while our Asia, India and Future World funds are designated SFDR Article 8. All of the funds have full product templates within our prospectus and report in accordance with SFDR disclosure requirements. To see the details, please visit our website or click the following link:



SFDR DISCLOSURES

In 2022, we received our PRI Framework reporting assessment for 2021. This was delayed due to technical difficulties experienced by the PRI. All our funds once again achieved high ratings across the three key areas: Investment Policy, ESG Integration and Voting. To read the full report, please visit our website or click below:



PRI 2021 ASSESSMENT

In addition, we are members of the Eurosif Transparency Code. Our transparency code submission is available on our website and can be accessed using the link below:



EUROSIF TRANSPARENCY CODE

In 2022, we were also awarded the ESG Clarity Best Social Initiative Award. Upon presenting the award, the judges commented that our pledge to donate 10% of our revenues to social causes "...takes commitment to a sustainable future to the highest level".



IMPACT CUBED

Each year we have our portfolios independently assessed by Impact Cubed for their alignment with 14 sustainability metrics. Below, please see the overview for our Future World Fund, which shows the impact of investing USD 1m in our fund versus the EM index as a whole.

It shows that across the vast majority of metrics, our fund delivers much better environmental, social and governance outcomes reflecting the high standards within our ESG process.

Some key metrics that provide a real insight into how we invest are:

- 1. Avoiding environmental and social harm: This reflects our extensive exclusion list where we are ruling out highly polluting and socially detrimental sectors from our investment universe.
- 2. Economic Development: we have always sought investment opportunities ‘off the beaten path” in the smaller, frontier counties across Emerging Markets. Countries such as Bangladesh, Pakistan, Peru and Egypt feature in our portfolios providing a differentiated source of returns but also the ability to direct capital to less developed economies. By working with the highest ESG quality companies in these markets, we not only protect our investors interests but help shape sustainable and equitable economic development.
- 3. Gender Equality: Whilst significant strides have been made across many countries and sectors on all forms of equality, gender equality at board and senior levels still lags due to entrenched cultural practices, archaic views and the lack so far of a large cohort of future women leaders. Alquity has a clear policy within its Principles of Governance to always vote against the re-election of all male boards and regularly engages with companies on gender equality progress.

FIGURE 5: IMPACT OF \$1M INVESTED IN THE FUTURE WORLD FUND AGAINST ITS INDEX

METRIC	IMPACT	
Carbon efficiency	88.09	fewer tons of GHG emissions
Waste efficiency	69.69	fewer tons of waste generated
Water efficiency	3.5	fewer thousand cubic metres fresh water used
Gender equality	1.3%	more women in top management
Executive pay	3.4	fewer multiples of average employee pay for top executives
Board independence	0.5%	more board independence
Environmental good	0.7%	more more invested in industries helping alleviate environmental issues
Social good	0.3%	more invested in industries helping alleviate social issues
Avoiding environmental harm	7.4%	less invested in industries aggravating environmental issues
Avoiding social harm	1.2%	less invested in industries aggravating social issues
Economic development	\$2,700	more economic activity in less developed economies
Avoiding water scarcity	-0.03	more water used in water scarce localities
Employment	-0.1%	less economic activity in high unemployment geographies
Tax gap	0.3%	more tax paid

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The duty we owe to others comes before the freedom to do what we want.



PART 5 **ENGAGEMENT AND ADVOCACY**

INVESTING IN SUSTAINABLY THEMED LISTED EQUITIES ALONE DOES NOT DELIVER REAL WORLD IMPACT

Alquity is founded on the belief that the way you deploy capital shapes society. In the listed equity space, excluding sectors that are either detrimental to the environment or provide no positive societal value can over time help influence their behaviour and increase the cost of capital. Likewise, by selecting companies with positive ESG practices you can encourage others to follow suit. However, this is not sufficient to deliver real world impact within the timeframe needed to avoid catastrophic climate

change. For this, investors must use their position as shareholders to influence and drive timely change in companies and the economies in which they invest. This can either take the shape of engagement on material ESG and impact issues that companies can make improvements to or through using their voting rights to support or reject management resolutions. In addition, investors have a wider role to play within their own industry and the wider economy to act as role models and change agents.

Engagement in multiple dimensions

Despite our small size versus many peers, Alquity, has since inception prioritised active engagement with holdings. We have delivered this through direct company engagement on ESG issues identified by our analysis, direct company engagement on broader environmental and social issues and collaborative engagement through industry initiatives.

Direct, company specific engagement

Our deep fundamental ESG analysis helps to identify areas where companies can improve their policies and activities that can have a material impact on their financial performance and just as importantly the environment and communities in which they operate (known as “double materiality”). The topics can range from supply chain auditing for say, a clothing retailer or restaurant chain through to responsible lending policies for a bank. Of course, if any aspect was so significant that it fell below our

minimum standards, the company would fail our ESG ratings. Once the analysis has identified key engagement topics, these are recorded on our stock notes and reviewed when we meet management during our monitoring of the investment.

An example of our engagement activities in the automotive and mining sectors

In response to the Hyundai scandal in the US, where it was discovered that child labor had been systematically utilized by four suppliers to the Hyundai Motor Group in Alabama over the past few years, we engaged with all of our automotive companies. We inquired about the measures they have in place to prevent such human rights violations within their supply chains, how they monitor the hiring practices and labor standards of their suppliers, and whether they have further strengthened their preventive measures in light of the Hyundai scandal. Additionally, we requested our auto companies to enhance the transparency of their sustainability reports by disclosing the number of visits conducted to monitor labor rights violations, any incidents found within their suppliers (if any), and the corresponding remedial actions taken.

Another example is our engagement with our mining companies, Kumba Iron Ore and Anglo American Platinum. Despite operating in a high-risk industry, both companies have implemented ESG standards that represent global best practices in the extractive sector. As a result, we assigned both companies an A rating. In the past year, we have actively engaged with both companies to set a target of achieving net-zero emissions by 2030, advancing the timeline from their goal of 2040.

Direct, issue specific engagement

There are some issues which we determine are relevant and important to all holdings, regardless of sector or region. These include GHG emissions and water usage, and in relation to social change, gender diversity at board and senior management levels, as well as controversies. For these topics, we engage in two manners: one for our Global Impact Fund, and another for our Emerging Markets funds.

Global Impact Fund

Within our Global Impact Fund, our primary objective is to identify stocks that raise concerns across various issues. Subsequently, we actively engage with these companies, initiating discussions to understand their current position on these matters and inquire about their strategies to address them. While we have engaged with some of our holdings concerning social issues such as worker safety, particularly within the industrial sector, we have specifically directed our engagement efforts toward gender equality and water management.

Regarding gender diversity, we have engaged with companies like Yaskawa Electric and Daikin, as well as Goldman Sachs in response to several controversies over the last years. In the area of water management, we have actively engaged with companies such as Nvidia and West Fraser. Our engagement efforts have centered around urging these companies to enhance their disclosure practices and implement additional initiatives aimed at preserving water resources.

transformation



Achieve gender equality and empower all women and girls



Ensure availability and sustainable management of water and sanitation for all

Emerging Markets Funds: Key Progress Indicators

In Emerging Markets we want to support system/economy wide change where possible. So, we developed a set of Key Progress Indicators (KPIs), aligned with the principles enshrined in the UN Global Compact and the UN Sustainable Development Goals. These KPIs are designed so that they can be applied to every holding and provide a factual snapshot of the current position at both a holding level and portfolio level for each of our funds. Currently, there are 15 KPIs, which have evolved from the original 9 we developed

in 2018. Our objective here is to constantly evaluate and add to these over time as emerging economies evolve their ESG reporting standards. An example, is the disclosure of Health and Safety policies. As an increasingly larger proportion of our holding have a policy in place, we have added an additional KPI on the tracking of lost time injury rates. This enables us to ensure that disclosure leads to reporting that we can track and seek improvements on over time.

ALQUITY KEY PROGRESS INDICATORS

ENVIRONMENTAL

- Emissions and/or climate impact disclosure
- Water usage and mitigation efforts disclosure
- Production of waste material disclosure
- Disclosure of environmental impact reduction plan over a defined period
- Prevention of biodiversity loss actively considered in the strategic plan
- Reporting in line with TCFD recommendations

SOCIAL

- Health and safety policy
- Staff development plan and equal opportunities policy
- Staff turnover data disclosure
- 'Lost Time Injury' rates available
- Gender diversity policy at senior management and board level

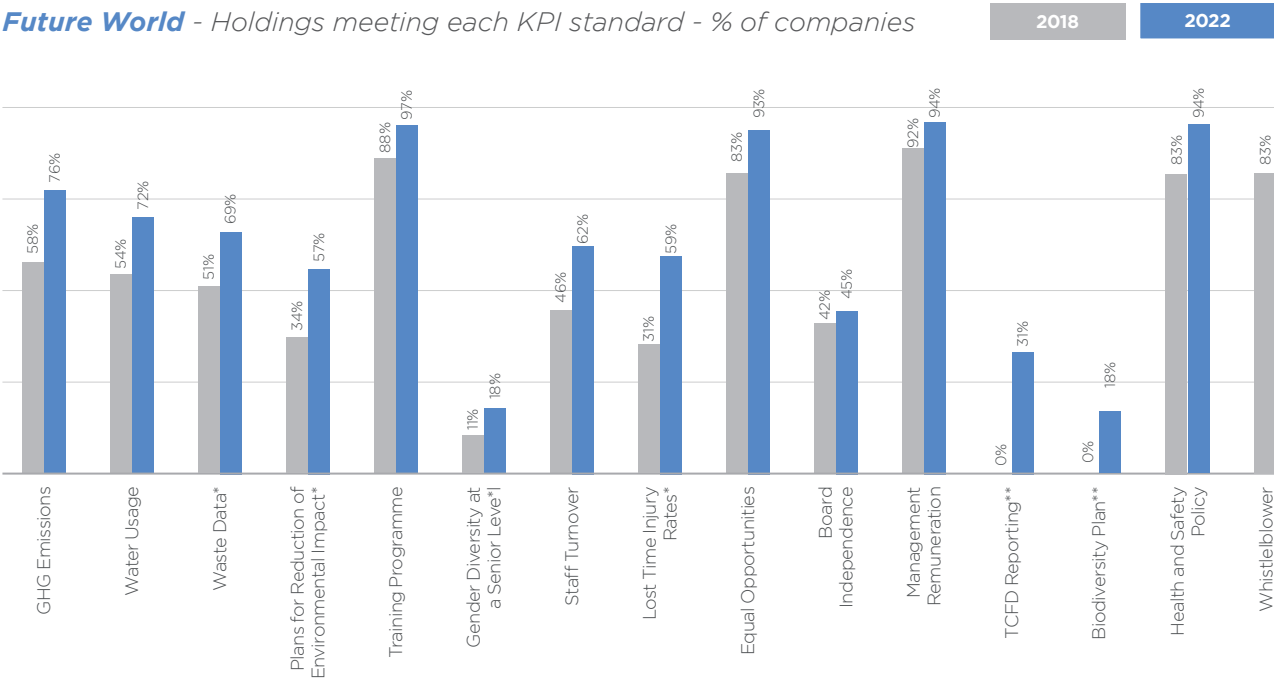
GOVERNANCE

- Whistleblowing policy available to all employees
- Percentage of independent directors on the board ≥ than the free floating share percentage of the holding
- Management remuneration packages disclosure

The charts below display the changes in our Future World fund portfolio in relation to our 15 KPIs between 2018 and 2022. Whilst these are not direct like for like comparisons, what they do show the positive trends we see across all our KPIs during this period. Particular highlights include:

The fund now has 76% of the holdings disclosing greenhouse gas emissions and 57% also having plans in place for reducing environmental impact. This justifies our policy of pushing for disclosure which then enables us to engage on actual actions being undertaken in accordance with our environmental and social goals. In this regard, it is also great to see that we already have 18% of the portfolio considering biodiversity in their strategic planning and 31% reporting in line with the Task Force for Climate Related Financial Disclosure (TCFD) guidelines.

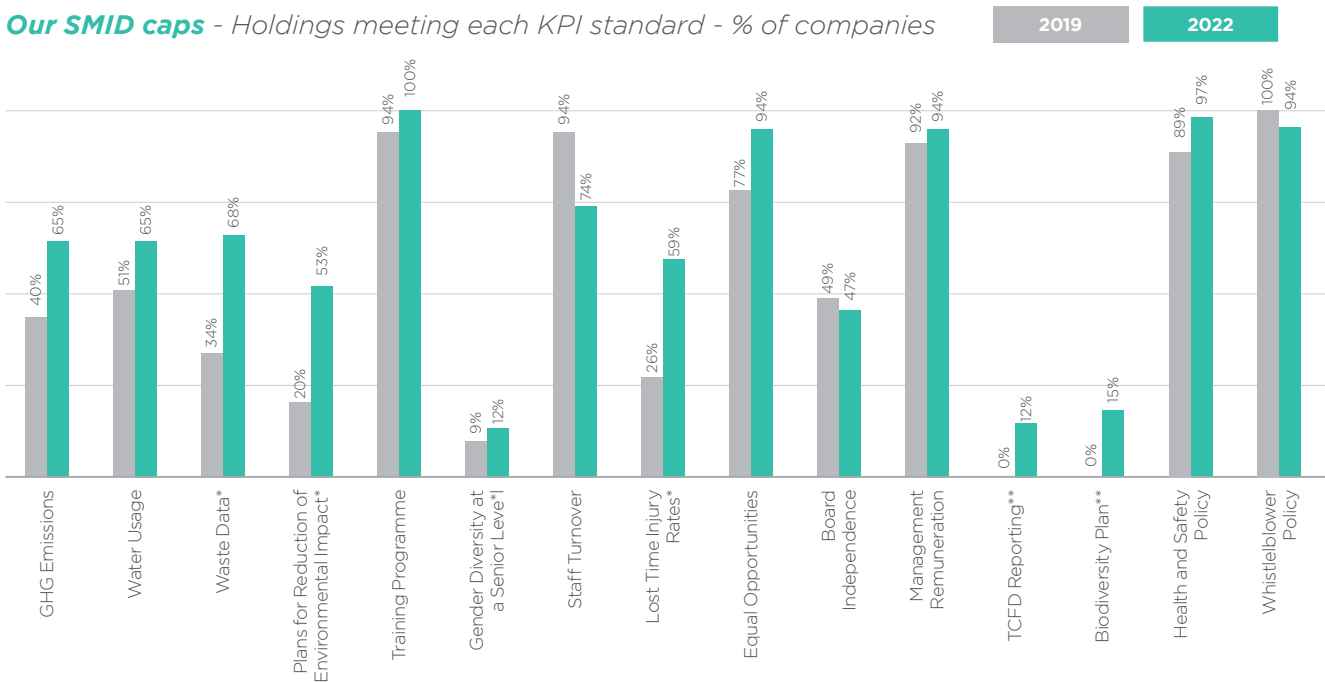
FIGURE 6: MONITORING THE ESG IMPROVEMENTS OF OUR HOLDINGS



Source: Alquity, as of 31st of December 2022. *KPIs launched in 2019. **KPIs introduced in 2020

One of the strengths of the Alquity investment process is our ability to identify potential opportunities in the small and mid capitalization market sectors across emerging markets. It is in these companies that we can often make the biggest difference through our engagement both on a stock specific basis but also through our broader KPI-led activity. To help show the significant improvements in these smaller holdings, the chart below highlights the changes in KPIs between 2019 - 2022 for all companies with a smaller than US\$10billion market capitalization.

Our SMID caps - Holdings meeting each KPI standard - % of companies



Source: Alquity, as of 31st of December 2022. *KPIs launched in 2019. **KPIs introduced in 2020

What is particularly pleasing from this data is the significant strides smaller companies have made in terms of their environmental disclosure and activity to reduce impact. In just over 3 years, companies disclosing GHG emissions have grown from 40% to 65% and more importantly companies with plans for reducing their environmental impact have grown from just 20% to now over 50%. While clearly there is still significant room for further progress, this data is encouraging and provides further support for the engagement activity undertaken by our investment team. Additionally, another area of strong focus for Alquity has been health and safety. Over the last three years we have now seen that almost 60% of our smaller holdings monitor and report lost time injury rates compared to just 26% in 2018. This alongside improvements in other areas, such as equal opportunities, provide encouraging evidence that across emerging markets employee protections are being increased.

Alicorp
A company improving
its ESG disclosure



Peruvian consumer goods company with leading market share in virtually every single product category from cereals to sauces and detergents. The firm enjoys a sustainable competitive advantage due to its low cost of production, as the largest wheat and oils buyer in Peru, its nationwide distribution network and significant brand recognition. It implements waste management savings initiatives, respects minority shareholders and focused on communicating their CSR program internally and externally. In 2018 they hired a director of sustainability to improve the process to ensure the firm implements responsible sourcing regarding locally produced palm oil, sets and measures waste management and energy efficiency goals, and takes an active role towards the eradication of iron deficiency in childrens' diet. Our engagement began in 2015 regarding initiatives to improve corporate communication by encouraging the production of a sustainability report, to show the breadth of their processes.



Edita
Leading ESG in its
country

Edita is an Egyptian packaged snack company based in Egypt established in 1996 with 101 products with strong brands. Edita compares favourably with regional best practices in Africa and leads the Egyptian market in ESG with material initiatives; best level of transparency in Egypt with an intention to improve to London Stock Exchange standards where company has a secondary listing. They were the first Egyptian company to be audited under the ILOs Gender Audit Program and has high job satisfaction rates with a very low turnover. The company is also mindful of environmental sustainability through its investments in a waste water treatment plant. The company has even gone as far as investing and educating the consumer on sugar-free snacks in a market that is still dominated by high sugar consumption. Additionally, it was one of the first companies in Egypt in publishing an ESG report.

Pacific Basin
Excelling in ESG
standards



Pacific Basin

Pacific Basin operates the largest global fleet of Handymax ships focusing on minor bulks. Pacific Basin will benefit from cyclical tailwinds due to rising freight rates, driven by increasing environmental standards. In January 2020 a 0.5% sulphur emissions limit was introduced, resulting in inefficient ships being scrapped, as well as higher fuel costs. Only the cleanest shipping companies were able to continue sailing operations, and Pacific Basin excels in this regard. ESG is very strong and we rate Pacific Basin as an A. Governance is exemplary and there is a high level of disclosures.

Collaborative engagement – Direct and indirect

Where our size and ability to influence limits the direct engagement channels for us, we work with likeminded peers and industry initiatives to ensure we continue to have some positive influence. Examples of this include:

1. Leading an asset manager group direct engagement initiative with ICICI Bank

We were keen to see more disclosure and encourage more action from the bank in setting out its responsible lending policies and practices. We partnered with Ashmore Asset Management and East Capital to lead this initiative. We have subsequently spoken to management about the importance of implementing such a policy and are awaiting a response from them on their plans for this. An excerpt from the letter can be found below:



EAST CAPITAL

Ashmore

“We are shareholders in ICICI Bank through various funds managed by our respective investment management companies, which collectively are responsible for total assets of above \$100 billion. Our clients are increasingly concerned about the environmental impact of their investments and we believe that our portfolio companies need to be on the forefront in terms of management and disclosure of their environmental footprint.

ICICI being one of the leading Indian financial institutions, we are writing to you in your roles as CFO and Chairman of the Stakeholders Relationship Committee regarding the increased incorporation of environmental factors within your lending decisions. We congratulate you on the production of the FY21 ESG report, and the publication of GHG emissions data, but urge you to go much further in terms of both your policies and their disclosure.

India has committed to produce net-zero carbon emissions by 2070, and to reduce carbon dioxide emissions by 1 million tonnes by 2030. We would therefore request greater information in terms of the alignment of your lending policies to support this goal, particularly in regard to financing of GHG intensive projects (such as coal-fired power stations). We recognise that you are already lending to the renewable energies sector, with outstanding lending of INR 31.5 billions as at the end of March 2021, but we would also suggest that the financing of GHG intensive projects that are not aligned with India’s carbon reduction goals should be rapidly phased out. We would be grateful if you could consider publicly committing to a timeframe to achieve this goal.”

AN ENGAGEMENT EXAMPLE



We are members of the FAIRR initiative. FAIRR is an investor coalition comprising more than 100 asset owners and investors who collectively represent over 70 trillion USD in assets. FAIRR has already worked with more than 60 companies, including Walmart, on numerous issues.

We commend Walmex for its commitments to net-zero and reducing emissions and waste across its supply chains. FAIRR’s research shows that animal agriculture accounts for about 33% of the median company’s total GHG emissions. Thus, we believe companies must robustly address emissions from animal agriculture if they are to achieve their carbon reduction targets. Currently, absolute GHG Scope 3 emissions are excluded from your calculations, including only transportation-linked emissions, and Walmart estimates that 95% of its emissions are Scope 3.

Therefore, we request you to publish further details on how Walmex assesses and reports on Scope 3 emissions, including those emissions linked to farming and animal agriculture. Specifically:

- What percentage of Walmex’s current emissions (total value chain and scope 3) result from farming and animal agriculture (including feed production)?
- If you track them internally, how have these scope 3 emissions changed over the past 3-5 years and why?

Additionally:

- We would like to know if the company has sustainable farming and animal sourcing programs in place to reduce environmental and health impacts, as it does with palm oil and fishing.
- Can the company provide further details on how it assesses risks and environmental KPIs to measure the sustainability of its dairy and meat sourcing?
- On food safety; do you plan to require a GFSI certification to all your private label suppliers? As currently is 87%.
- On animal welfare; do you encourage your suppliers to report on sow management? Your parent has also committed to have a 100% cage-free supply chain by 2025. Have you set any targets on this?
- Also, has the company updated its TCFD-aligned risk assessment?

Moreover, Walmart has committed to restoring at least 50 million acres of land and one million square miles of ocean by 2030. It has also pledged to improve beef sustainability by 2025, prioritizing soil health alongside animal welfare and a more responsible use of antibiotics. We would like to ask Walmex whether has set up similar plans, following its parent.

Regulator Advocacy

At Alquity, we believe that we have a responsibility to drive change which does not just stop at our investments. Whilst we have limited resources compared to our larger peers, this does not stop us from advocating for improvements in ESG practices with regulators, industry associations and directly within the asset management industry.

An example of this, is the recent letter to the CMA (Capital Markets Authority of Saudi Arabia), asking to adopt the GRI standards (an excerpt is displayed below). We have also engaged with the capital markets authority of Indonesia (OJK).



As you would acknowledge, there is an increasing demand for ESG all over the globe, and the concept of sustainability investing is gaining momentum. Currently, there are more than 50 exchanges in the world that require ESG reporting standards. As investors in Saudi Arabia, we believe that the CMA should follow Bahrain and UAE regulators steps, who have taken initiatives to enhance sustainability disclosure by following the Global Reporting Initiative standards, the Integrated Reporting Council standards to voluntarily disclose more information as well as the Sustainability Accounting Standards Board standard. We urge the CMA to follow these guidelines, such as the GRI standards, providing proper ESG reporting guidelines to all the Saudi companies listed. The GRI guidelines include crucial disclosures that we expect all of our companies to provide to investors, such as:

- GHG emissions intensity and reduction measures, which are essential for achieving net zero by 2050.*
- Water management, which we believe is very important, particularly in water-scarce regions like Saudi Arabia, and disclosures should cover consumption we acknowledge is even more important in nations such as Saudi Arabia, given the water scarcity and water-related risks.*

- Waste management is another critical area, and companies should disclose their policies for collection, transportation, recovery, recycling, and disposal of waste, as well as any waste prevention criteria from suppliers.*
- Occupational health and safety disclosures. Such as lost-time injury rates, number and rate of high-consequence work-related injuries, number and rate of recordable work-related injuries, main types of work-related injury, and number of median hours worked.*
- We expect equal opportunities policies and disclosure on governance bodies and employee diversity, so that we can measure diversity within a company and compare it against sectoral or regional benchmarks.*

Industry Associations

We have been active contributors in the recent strategy review conducted by the PRI. As well as contributing directly through interviews between our Head of Sustainability and the PRI CEO, we have also participated in signatory workshops and consultation questionnaires. We have also worked with the PRI on promoting ESG investing in other parts of the world, including a joint webinar with the PRI to new signatories in the Gulf region.

We also partnered with the Association of Canadian Pension Managers (ACPM) to host and moderate a webinar titled “ESG Clarity, Concepts and Considerations” which included Michael Jantzi, the founder of the global ratings provider, Sustainalytics.



Advocating industry change

Over the year, we have spoken at numerous industry conferences, both in-person and virtually, advocating “entity-level” change, which we feel is critical if the investment industry is going to deliver real world impact from its investments. Our core message is that whilst the proliferation of ESG and sustainability-driven funds is a good thing, it does distract from the real challenge, which is transforming existing funds that do not employ responsible investing approaches. These are significant revenue drivers for many large asset managers and until we see the values espoused in ESG fund literature translated across the entire fund range, the industry will remain a laggard in the fight for a just climate transition.

Our Head of Sustainability, Suresh Mistry, wrote the following [article](#) for Investment Week on his experiences of discrimination throughout his life and career.

How Reboot opened my eyes to my unconscious ignorance of discrimination

INVESTMENT WEEK

VOTING

In 2022, for our EM funds we voted on 1049 occasions, of which 170 were against management. We voted in line with the Alquity Principles of Governance, which can be accessed [here](#). The following table below details our voting by country:

FIGURE 7: VOTING BY COUNTRY

Country	Total votes	Votes against management (%)
India	359	16%
China	278	19%
Mexico	65	18%
Taiwan	41	5%
South Korea	35	3%
South Africa	34	0%
Poland	32	25%
Indonesia	29	21%
Philippines	28	32%
Brazil	28	21%
Vietnam	23	22%
Egypt	21	5%
Chile	20	0%
Bangladesh	13	39%
Peru	9	11%
Thailand	7	0%
Singapore	6	0%
Pakistan	4	25%
Italy	3	0%

An analysis of the reasons we voted against management is provided below:

FIGURE 8: REASONS OF VOTING AGAINST MANAGEMENT

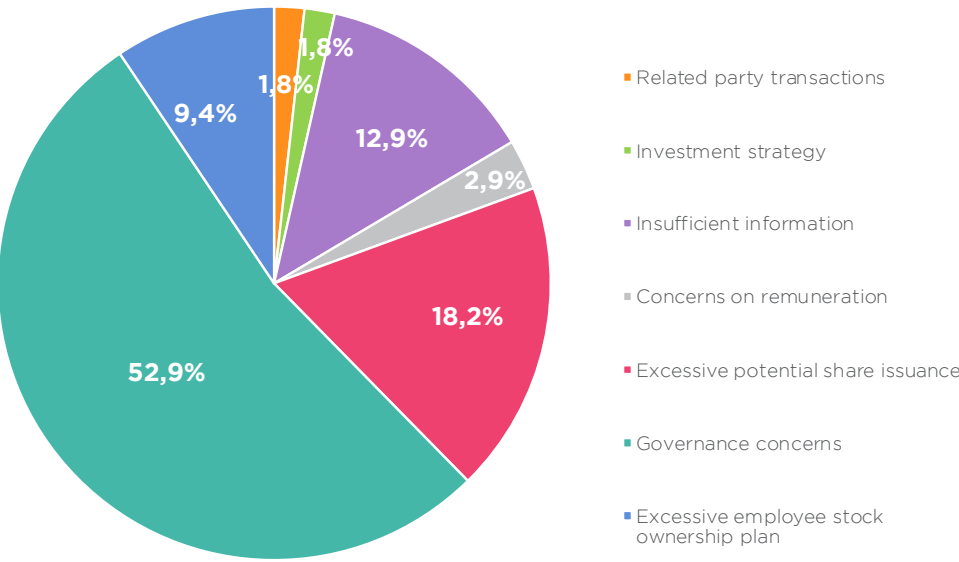
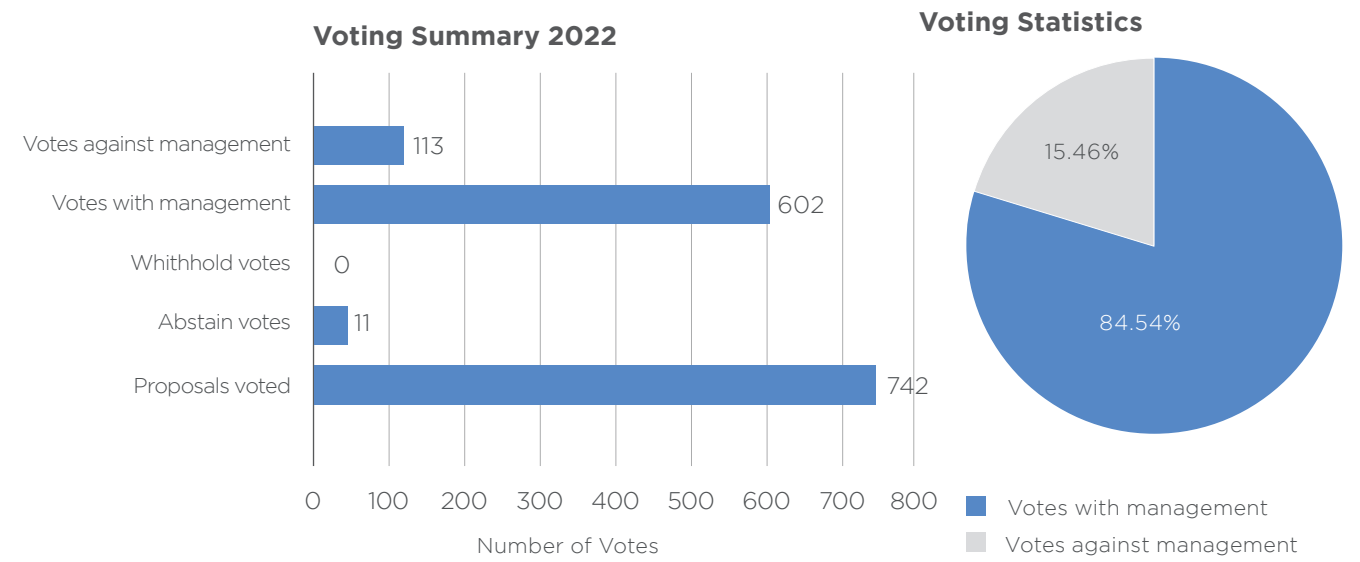


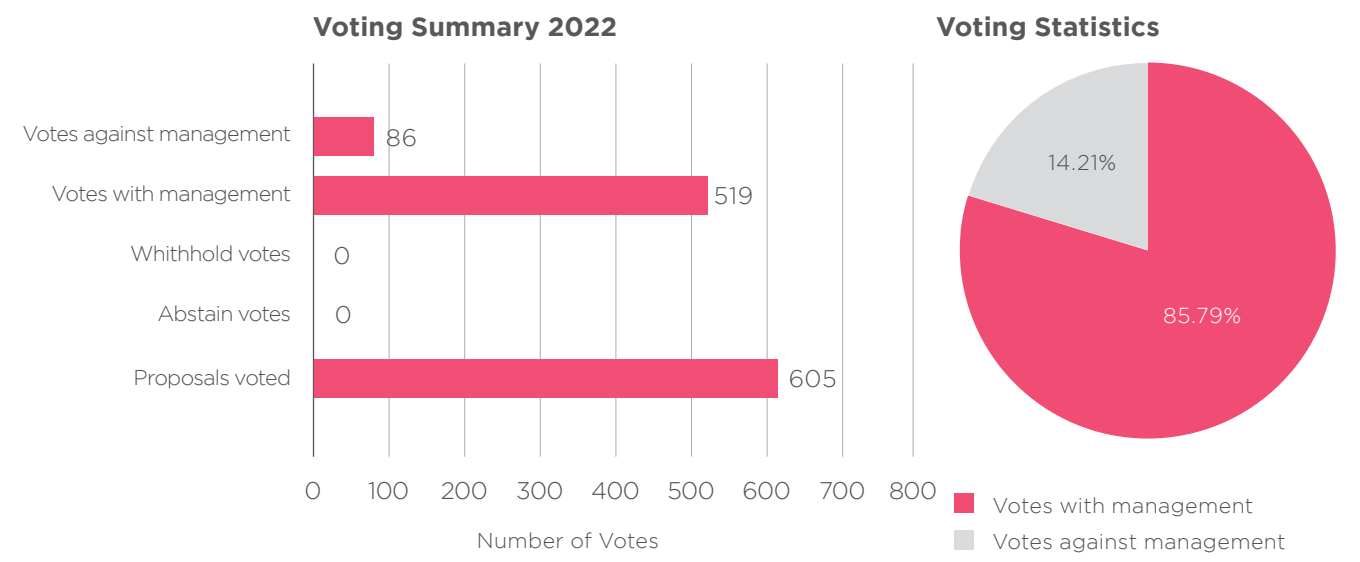
FIGURE 9: VOTING BY FUND

Below we have detailed our voting statistics for our Future World, Asia and Indian Subcontinent funds.

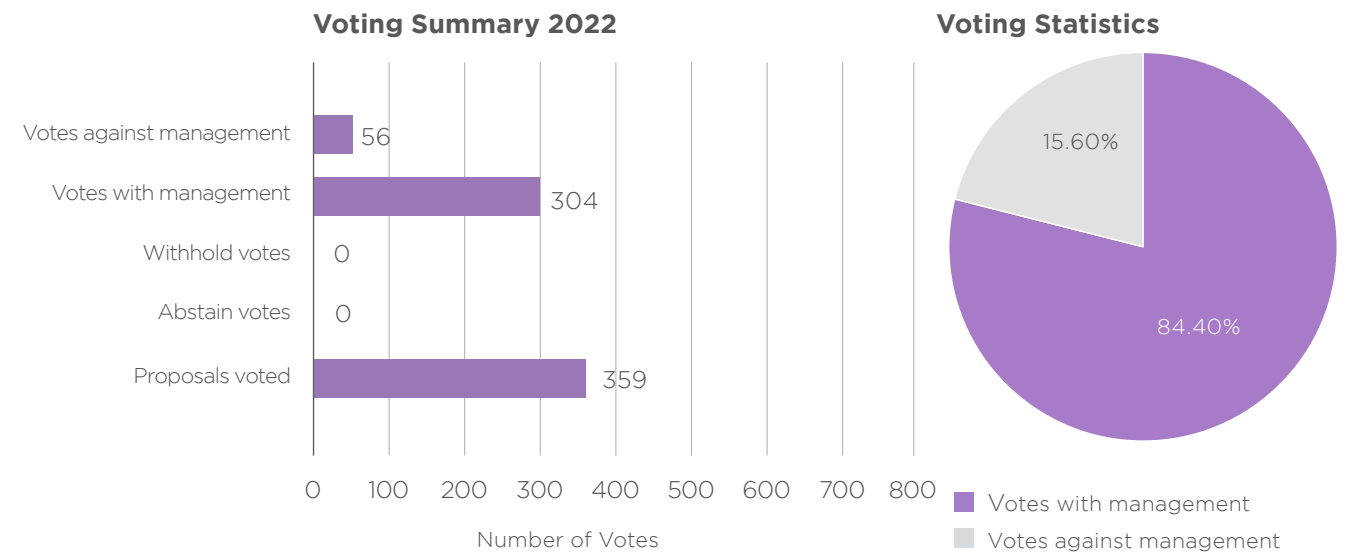
Future World Fund



Asia Fund



Indian Subcontinent Fund

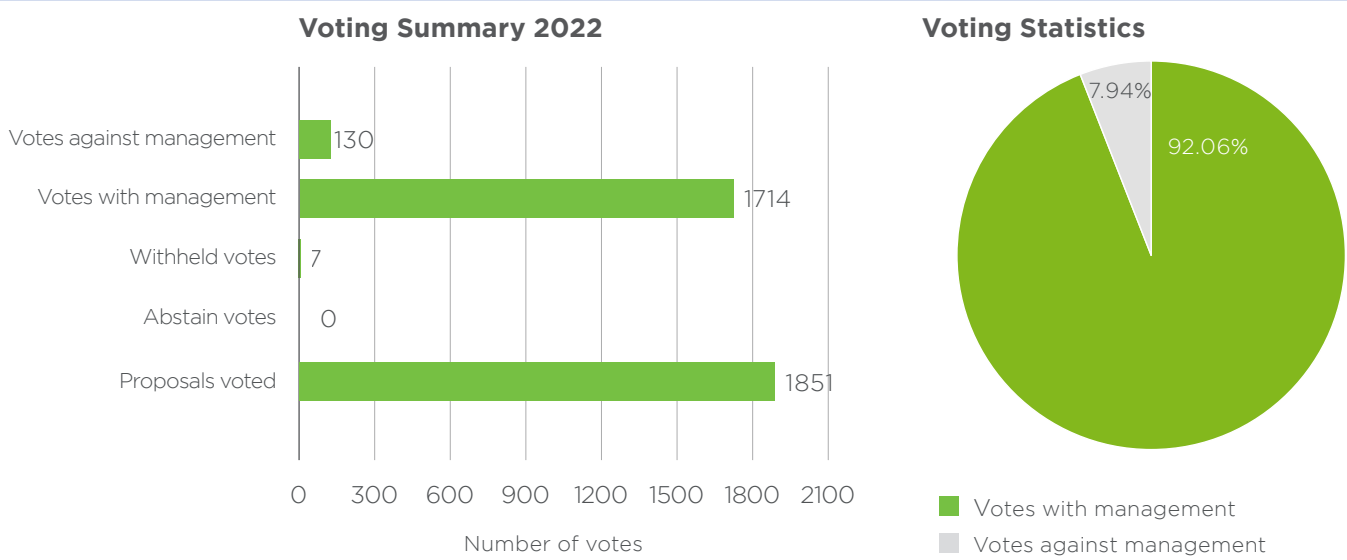


Source: Alquity, as of 31st of December 2022.

And below, our voting statistics for the Global Impact Fund. We participated in a total of 1851 voting instances, with 130 votes cast against management. Additionally, we voted contrary to the ISS view on 6 occasions.

FIGURE 10: VOTING STATISTICS FOR THE GLOBAL IMPACT FUND

Global Impact Fund



Source: Alquity, as of 31st of December 2022.

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We believe that we have a responsibility to drive change which does not just stop at our investments.



Our transforming lives projects are a cornerstone of our approach which delivers tangible impact whilst helping our fund managers glean investment insights.



PART 6 **TRANSFORMING LIVES**

PUTTING SUSTAINABILITY AT THE HEART OF BUSINESS

The Alquity Virtuous Circle represents a reimagining of the asset management business model to bring investment, sustainability and impact together. Our transforming lives projects are a cornerstone of our approach which delivers tangible impact whilst helping our fund managers glean investment insights, not available to our more traditional peers. To illustrate this, please find below three short summaries of meetings that our team have held with our project beneficiaries in Brazil, India and Vietnam.

LUTA PELA PAZ: FIGHTING TALK IN BRAZIL'S ELECTION YEAR

Dan Billis, our Senior Emerging Markets Analyst, undertook a research trip to Brazil last August. In addition to the typical site visits and company meetings, he met with the one of Alquity's Transforming Lives programme beneficiaries: 'Luta Pela Paz' (part of a global organisation - Fight For Peace). Luta Pela Paz uses boxing and martial arts, combined with education and personal development, to realise the potential of young people in communities affected by crime and violence.

The organisation works in the Maré favela, Rio de Janeiro, where they give young people the tools to build peaceful, positive and productive lives. Dan conducted one of our regular consumer panels and sat down with several of the Luta Pela Paz coordinators in order to gain a greater insight into their consumer habits. We view these consumer panels as a key differentiator in our research process, allowing us to ascertain what is really happening on-the-ground, something that is rarely found in sell-side reports.

The discussion around the cost of living certainly confirmed what we had been hearing from companies; that less-affluent consumers are feeling the pinch of inflation (which reached a high of 12.13% in April of 2022). Most participants noted that food, bus tickets and clothing had all increased substantially over the year. In response, many people in the panel were changing their habits – such as shopping in local markets rather than branded stores, or downtrading to generic medicines.



Dan Billis (centre) visiting a Luta Pela Paz martial arts academy in Brazil

As the conversation turned to the rise of e-commerce, we were surprised at the extent of brand awareness and savviness amongst the panel when shopping online – everyone used multiple e-commerce sites based on price/delivery/quality/ trust/assortment. We also discovered just how disruptive the challenger banks have been in Brazil – everyone in the panel used Nubank, for example. Although interestingly, only half the panel would trust them for a loan as they didn't have a physical presence. The challenges from high inflation, tighter credit conditions, expectations of slower growth and upcoming political uncertainty led to our cautious view on Brazil in 2022. However, as these headwinds begin to recede, and following this investment trip and consumer panel, we have identified a number of interesting potential opportunities for future investment.

PHOOL: WILL THE INDIAN ECONOMY COME UP SMELLING OF ROSES?

Kieron Kader, our Associate Portfolio Manager for Emerging Markets, was in India in May to conduct one of our regular consumer panels with Phool, a beneficiary of the Alquity Transforming Lives programme. Phool collect floral waste from the temples in Uttar Pradesh, that otherwise would be thrown into rivers, and converts the waste into incense sticks via ‘flowercycling’. They employ local women from the rural communities who otherwise would not be a part of the formal economy. We are proud to see that Phool has flourished in a difficult environment and has grown into a multi-product operation which now includes biodegradable packaging and bio-leathers.

Kieron met with 11 women and had a detailed discussion about the impact of covid on their lives, and how they are coping in the post-covid world. The topic of inflation unfortunately dominated the conversation. The participants all mentioned that food prices, transportation and utility costs had risen substantially in the last six months. In response, they had scaled back their consumption, particularly on discretionary items, but also on certain essentials as well.



Kieron Kader with Phool's team

Whilst headline inflation has accelerated to ~7.4% (slightly higher than the historical average of 6%), the data is particularly difficult to measure given the highly informal nature of the Indian economy. This is unfortunately further combined with low levels of granularity. However, the consumer panel allowed us to ascertain information that would not be found in traditional datasets.

In our view, Indian economic growth will remain firm but there may be headwinds for companies with customer bases that are predominantly at the lower-income level (such as our consumer panel), and thus disproportionately hurt by high inflation. We have adjusted our portfolios accordingly. However, we remain confident in our positions in sectors such as financial services and autos, where the growth outlook is robust because they cater to the more-affluent consumers.

REACH: IS THE VIETNAM ECONOMY DUE A HAIRCUT?

Kieron also visited Hanoi to conduct one of our regular consumer panels with REACH. REACH is a Vietnamese non-profit organisation that provides vocational training, career advice and job placement services for Vietnam's most marginalised young people. REACH annually trains about 1,200 students, with over 80% of them in employment six months after graduation. REACH directly contribute to SDG 4 as they enable inclusive and equitable quality education for their students.

Kieron met with 14 students and recent graduates of REACH and had a detailed discussion about the impact of Covid on their lives. It was pleasing to see that all students felt that their lives were back to normal - they were going to work or school in-person, shopping at physical stores and regularly meeting up with friends and family. There was particular optimism for the hospitality sector; restaurants and hotels were faring much better since the removal of travel restrictions in April, albeit still some way away from the pre-covid peak. Several of the students had trained as hairdressers and were in their first few months of working and reported that demand for hair services had been remarkably resilient after lockdowns.



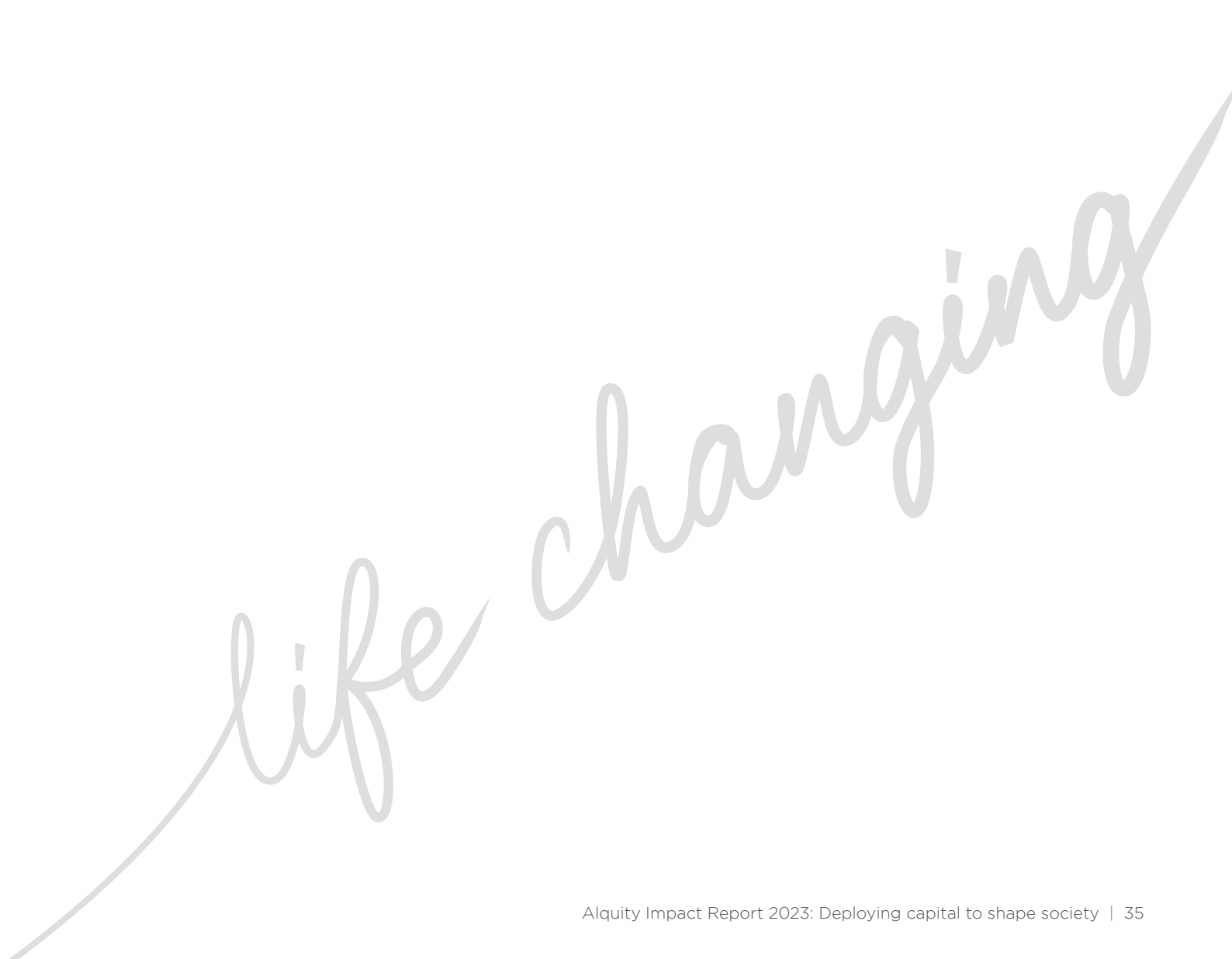
Kieron Kader (centre) with REACH's students

We had also learnt about their spending habits and how this had changed post-Covid. Many had started shopping online during lockdowns and continued to do so given the convenience and availability of good value items. All participants mentioned that the most common method of transacting was cashless, favouring debit cards and super-apps such as MoMo.

A less positive discussion point was that of inflation. All participants mentioned that there had been substantial increases in the prices of food and basic utilities. In response, they had reduced or delayed discretionary spending, and were downtrading by purchasing at the cheaper local markets as opposed to shopping at malls. This was confirmed by a corporate meeting with Vinamilk, the largest dairy company in Vietnam who confirmed that the mid-to-low end segments were downtrading. In addition, MBB one of the largest banks in the country had mentioned that their consumer financing division which lends to the bottom of the income pyramid has already seen stress as borrowers struggle to repay. We own neither company, as Vinamilk is a fail on our proprietary ESG rating system, and we believe there are higher quality banks than MBB in the region.

What is perhaps puzzling is that the official inflation figures show that inflation is relatively contained in Vietnam at 3.4%. We would argue that there is clear evidence that the calculation is not measuring inflation sufficiently and thus is artificially low. We would expect this to potentially increase significantly in the coming months, further pressuring companies such as Vinamilk and MBB.

Whilst we have historically held significant weightings in Vietnam due to the favourable structural growth dynamics such as demographics and urbanisation, we believe that there are underappreciated headwinds to some aspects of the economy. This has led us to be cautious on our weighting in Vietnam nearer term and we will look to add incrementally when these risks have been adequately priced in.



AN UPDATE FROM GJENGE MAKERS

Gjenge Makers has set its sights on becoming the leading supplier of robust, recycled construction materials across Kenya and the African continent. With a mission to deliver sustainable and affordable housing while fostering a culture of recycling and upcycling, they are currently producing bricks made from discarded plastic. As the company continues to expand, they have responded to the growing workload by hiring additional staff. Nzambi, the founder of Gjenge Makers, was honored with the Woman of the Year nomination by Elinor. The company is making significant progress, gaining substantial traction, and is expanding its reach and impact.

Gjenge is currently exploring the possibility of establishing a second production line to boost output and fulfill the growing demands of its clients. Over the past two years, Gjenge has witnessed remarkable growth, with sales doubling in 2022. In comparison to 2020, the company has achieved an eight-fold increase in revenue.

Recently, we hosted an interview with Nzambi Matee, its founder. The interview can be found below.



INTERVIEW WITH NZAMBI MATEE



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Our innovative business model brings sustainability, investment and real social and environmental impact together.



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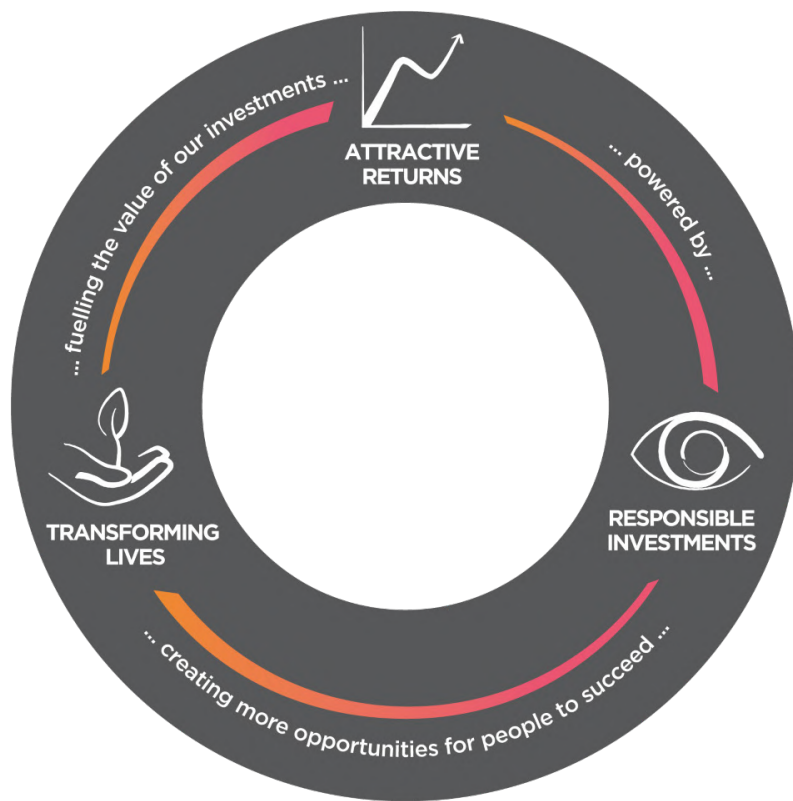
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