TT Asia ex Japan – ESG Reporting

Author

Basak Yeltekin,
Head of ESG

Basak is Head of ESG at TT. Working alongside the Investment, Risk and Marketing teams, she helps to integrate ESG across our long-only products. Before joining TT in 2020, Basak spent six years at Norges Bank Investment Management, where she collaborated closely with the Investment teams and senior management to integrate ESG into their investment process. Prior to Norges, she was a Portfolio Manager on Harvard University's endowment fund, investing in Emerging Markets in a long/short equity strategy. Basak graduated cum laude with an A.B in Economics from Princeton University. She also has an MSc in Management and Regulation of Risk from London School of Economics.

Firm ESG update

2023 was a year of growth for ESG at TT International. TT's new Article 8 funds – Sustainable EM and Global SMID – reached their one-year mark, outperforming their benchmarks. Sustainable EM is an Article 8 version of our existing EM strategy and actively targets alignment with the UN Sustainable Development Goals using a proprietary scoring framework and seeks to invest at least 80% of the fund's capital in companies that promote the SDGs through their operations and/or products. In our Global SMID strategy, we seek to invest in a diversified portfolio of small and mid-cap companies which present the opportunity for long-term growth, within the environmental, technological, demographic and sociological, top-down and opportunistic global themes. Our Article 9 Environmental Solutions strategy reached its 3rd anniversary, outperforming its benchmark by 4% gross per annum since inception.

We grew our ESG team with the hiring of new analysts. Mubaasil Hassan joined us from Curation, where he worked as a sustainable finance specialist for two years. He has a BSc (Hons) in Investment and Financial Risk Management from Cass Business School. Ella Chattock joined our team in December 2023 having achieved a First Class BA (Hons) in Human Geography from the University of Exeter.

ESG products: We won the ESG Investing award for 'Best ESG Investment Fund: Global Thematic' for our Environmental Solutions strategy for the second year in a row. We also achieved the Responsible Investment Association Australasia (RIAA) certification for this strategy where we were recognised as a Responsible Investment Leader, ranking in the top 20% of 272 investment managers.

Active ownership: We had 63 targeted ESG engagements with 58 companies. We voted at 435 meetings and published our voting records on our website.

We continued to engage with our investee companies on climate risk, biodiversity, human and labour rights, shareholder rights, capital allocation, and executive remuneration.

We became a signatory to the Net Zero Asset Manager Initiative in September 2023 and continued our Climate Action 100+ engagements with Petrobras and Samsung Electronics. We joined the Nature Action 100 engagement initiative in December 2023 and were selected for the Grupo Mexico, Glencore, Vale, Zijin Mining, and Inner Mongolia Yili engagements. Nature Action 100 is a global investor engagement initiative focused on driving greater corporate ambition and action to reverse nature and biodiversity loss. The initiative engages companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030.

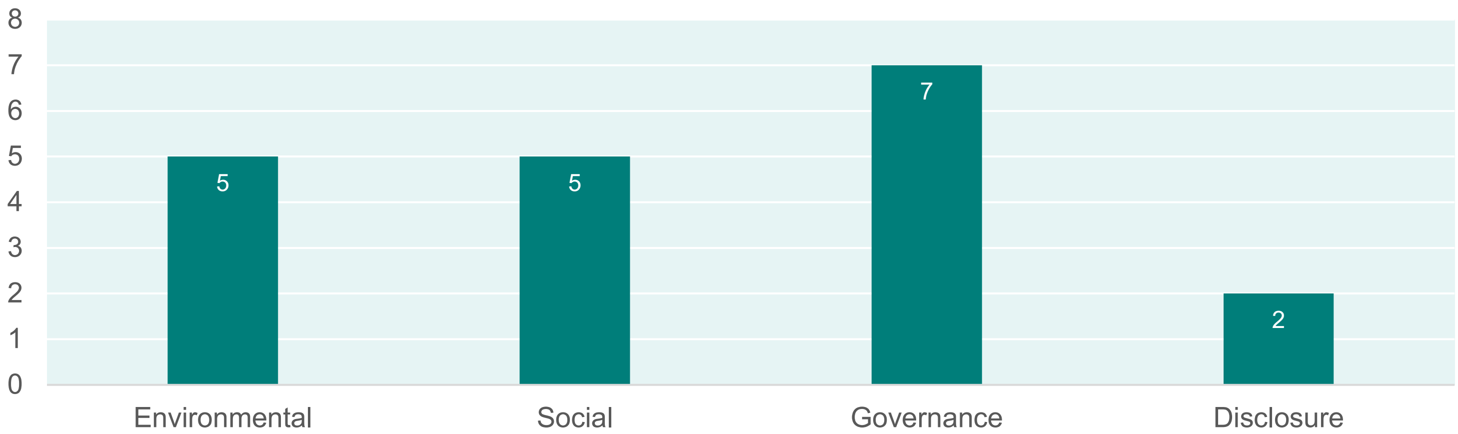
Processes: We held monthly ESG risk meetings on our long-only portfolios with the portfolio managers and TT Risk team. At these meetings, we review the portfolio companies with relatively high governance risks (including accounting flags), low ESG scores, controversies, and high carbon emissions.

Reporting: We published our third stewardship report and renewed our status as a signatory to the UK Stewardship Code. In our UN PRI assessment, we scored very strongly on ESG incorporation for long-only equities (5 stars/94%) and achieved 4 stars on Policy, Governance, and Strategy and for Hedge Funds, improving our scores and ranking ahead of our peers in these categories.

Regulatory: We completed the first year of detailed SFDR reporting for our Article 8 and 9 funds.

Engagement Breakdown by Theme

- 14 targeted engagements in 2023 with 13 companies in the Asia ex Japan strategy covering environmental, social, governance topics and ESG disclosure (at some engagements, we discussed multiple topics across environmental, social, and governance areas.)



Engagement highlights

We engaged with **Zomato** in March 2023 on labour relations, focusing on the findings of the NGO Fairwork India which assessed Indian digital labour platforms on labour conditions. We wanted to understand the initiatives Zomato was undertaking with respect to its delivery drivers, including providing insurance and holding an external audit of its algorithms to ensure fairness. The company also outlined its road safety initiatives (safety training, telematic solutions, SOS system improvement, and working with public works department to reduce accidents). Our conclusion was that the company was working hard to improve its practices in response to the Fairwork India assessment, and our focus on this topic as investors also helped Zomato's sustainability team to raise this issue internally.

In July 2023, we met with **Bank Negara** and discussed the bank's financing of coal and how it has been addressing fraud risks. The bank outlined that between January to April 2023 fraud cases had dropped by 30% vs 2022 due to severe penalties. We enquired why the bank is financing the Adaro coal-fired aluminum smelter despite previous commitments against increasing its coal lending. Negara said that the smelter would be powered by hydropower only for 6 years but could not explain why Adaro would make a significant investment in a coal-fired plant that would be operational only for a short period. We asked if the bank would consider setting a stricter coal lending policy, but this was not contemplated due to potential loss of business opportunities. The company's approach to coal lending was one of the factors in our decision to exit the investment.

We engaged with **Fila** in July 2023 on the company's forced labour supply chain risks and cotton sourcing policy after conducting a benchmarking assessment vs other sports apparel peers. Fila confirmed that it does not and will not source from Xinjiang and explained that it was in the process of developing a traceability system for its cotton. The company also expects to implement Tier 3 audits of its supply chain in the beginning of 2024 to increase surveillance of suppliers' compliance with the labour standards.

We met with **Alibaba**'s Sustainability and IR teams during the company's ESG roadshow. Most importantly, we wanted to understand the company's governance changes following the restructuring of the business into six divisions. The Alibaba board will continue to oversee the boards of the individual business units. Two new board committees have been formed (Compliance & Risk Committee and Capital Management Committee), highlighting the company's focus on risk and capital management. On the social side, we sought to understand how the company identifies human rights risks in its supply chain. Alibaba explained that its supplier ESG Code of Conduct has specific guidelines on labour rights and health & safety, and as of March 2023, more than 14,000 suppliers had signed their Code of Conduct. Alibaba has undertaken efforts to improve safety and security for gig workers as well; for instance, the firm helps delivery drivers optimise their rides during severe weather to improve occupational safety. Alibaba also provides insurance for delivery workers; although there is not universal coverage at this time, the firm will expand its coverage in the future. Finally, we discussed the firm's cybersecurity risk management – the company explained that it formulated and released a series of internal policies for cybersecurity and data security and requires all employees to undergo trainings and exams. We asked Alibaba about its child online safety measures; the company said it recently established a "green net" programme where Taobao activates a layered product mode to protect children. Our overall impression of the company's ESG practices was strongly positive

Engagement highlights cont.

We spoke to **Samsonite International** in December 2023 to discuss listing options for the company, as the liquidity continues to decrease in Hong Kong and the market has derated significantly. We also discussed the uses of cash and how the company may be able to improve returns to shareholders

We discussed the solar supply chain with **Sungrow's** board secretary and did more due diligence into their suppliers to assess any human rights related risks.

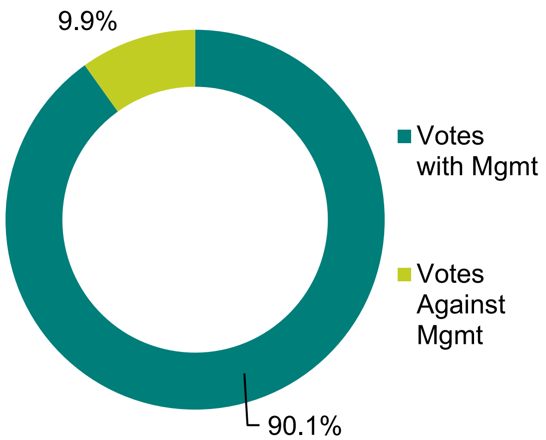
We met with **Orion**'s management team and asked them on steps being taken to ensure that raw materials procurement does not negatively impact the environment and human rights and why the firm does not have a biodiversity policy even though it uses palm oil. Orion said that they have an ESG procurement team who are considering this issue. Regarding palm oil, Orion said that they only acquire palm oil from Roundtable on Sustainable Palm Oil (RSPO) certified firms.

In September 2023, we had a meeting with the **360 One Wam**'s CFO on the allegations that Mauritius structures were masking beneficial owners of Adani shares, as well as the UK court case against them for facilitating an asset sale to Wirecard at inflated valuations. 360 One Wam said that the Indian government became uncomfortable with these structures, and the firm stopped offering them in 2019. On Wirecard, we understood that the executive who had facilitated the sale – Amit Shah, a cofounder – had resigned in 2018 and has no managerial input or any involvement in the company.

In December 2023, we engaged with **360 One Wam**, this time on remuneration and board independence. Due to the long tenure of the chairman, we encouraged the company to appoint a new independent director to this important role. We also noted that the chairman and chair of the audit committee both sit on 6 additional company boards and conveyed that we would like to see a lower number of commitments. On remuneration, we encouraged the company to disclose the key performance indicators underlying the performance shares and ideally not issue the Employee Stock Ownership Plan (ESOP) shares at a discount to market price in the future.

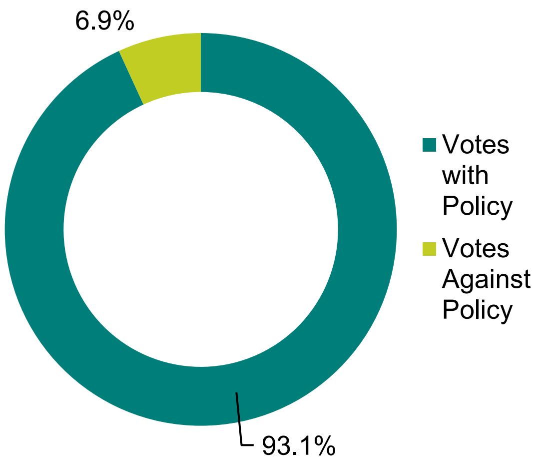
In November 2023, we joined the Climate Action 100+ engagement with **Samsung Electronics**. This collaborative engagement allowed us to gain a greater understanding of the company's climate strategy and highlight the areas where we believe their climate strategy can improve. There are still some areas of uncertainty which we should continue to monitor; for instance, the company said it is looking at the possibility of introducing a Scope 3 target, but it did not commit to setting one. The third largest source of the company's Scope 3 emissions is from the logistical side, but Samsung said they are not doing much on this yet. We plan to monitor these emissions and follow-up on whether Samsung introduces any steps to address them. We also plan to monitor progress on the sectoral emissions roadmap the company is developing with its peers and on any developments from the Carbon Free Alliance. On renewable energy procurement, Samsung said it is trying to move from RECs to PPAs, we will continue to monitor the firm's progress on this.

Proxy voting – Alignment with management



Source: ISS

Proxy voting – Alignment with Policy



Proxy voting - Highlights

- We voted at 96 meetings (out of 96 meetings, or 100%) in the twelve months ending 31-December-2023.
- Votes cast during the reporting period were least in line with management on strategic transactions (loans and loan guarantees).

Proxy voting – Significant examples

- **Axis Bank Limited (01/23) Approve Axis Bank Employees Stock Unit Scheme, 2022**
  ISS recommended voting against the employee stock unit scheme, as it permits a discounted exercise price; the exact performance conditions and targets for vesting had not been disclosed, and the proposals include grant of units to employees of associate companies without a compelling rationale. Axis communicated that they designed the scheme to exclude its managerial personnel up to four levels below the Board of Directors, including the MD & CEO. We considered this plan to be beneficial for the incentivisation and retention of the broader workforce. We corresponded with the company during the vote process and reviewed the ISS addendum that contained the bank's comments, which provided greater clarity on grant, vesting and rationale for inclusion of associates in the scheme, clarifying with the bank which associate would be included in the plan (Max Insurance).
- **PVR Limited (06/23) Approve Remuneration and Other Terms of Appointment of Ajay Bijli as Managing Director**
  We were initially going to vote against the remuneration proposal as the company wanted to sever the link between profit and pay - the company proposed going from a fixed pay of INR 55m per annum to INR 139m and variable pay of 3.9% of net profit to 50% of fixed pay. As a minority shareholder, we deemed this change to be against our interests. However, the company amended this plan and reduced fixed pay from the originally proposed INR 139m to INR 104m and raised variable pay to 100% of fixed pay, also disclosing the performance drivers for the remuneration. Due to the mix of fixed and variable pay improving from 67-33% to 50-50% and fixed pay being reduced by 25%, we supported the proposal.
- **PVR Limited (05/23) Elect Haigreve Khaitan as Director**
  ISS recommended voting against Haigreve Khaitan as he served on more than six public company boards, which could potentially compromise his ability to commit sufficient time to his role in the company, and as he was reclassified as non-independent given his tenure on the board of Inox Leisure is more than ten years and in light of the merger of Inox Leisure with the company. Mr. Khaitan is a Partner and heads the Corporate / M&A and Private Equity practice at the eponymous Khaitan & Co. where he advises companies, boards of directors and financial institutions on M&A, PE investments, corporate governance, corporate restructuring and other corporate and securities laws matters. While he may be highly knowledgeable in his field, he is already serving on 6 public company boards, and he would also sit on three board committees at PVR. Therefore, we voted against his appointment. He stepped down from the board in 2024.

Weighted average carbon intensity – (t CO_2E/$m sales)

	Portfolio	Benchmark
Weighted Avg. Carbon Intensity	87	295

Source: MSCI
Carbon intensity: Portfolio coverage 88%, Benchmark coverage 100% (not scaled to 100%)

Top 5 contributors to weighted average carbon intensity

Rank	Company	Portfolio weight	GICS Subsector	Carbon intensity	Contribution to weighted average carbon intensity
1	TSMC	10.0%	Semiconductors	175	20.4%
2	Chemplast Sanmar	0.8%	Specialty Chemicals	1,307	12.0%
3	Lemon Tree Hotels	1.6%	Hotels, Resorts & Cruise Lines	503	9.1%
4	Samsung Electronics	7.7%	Technology Hardware, Storage & Peripherals	83	7.4%
5	Karoon Energy	2.7%	Oil & Gas Exploration & Production	226	7.0%

Source: MSCI

Comments

- **TSMC** (20% of the portfolio's carbon intensity) is the world's leading semiconductor foundry. The company joined the RE100 climate group in 2020 and has a 2050 net zero emissions target. TSMC aims to reach peak emissions in 2025 before decreasing emissions to the 2020 level by 2030. The GHG reductions will be achieved through increased renewable energy usage and the reduction of direct emissions from manufacturing processes.
- **Chemplast Sanmar** (12% of the portfolio's carbon intensity) is historically largely a PVC producer and is one of the leading producers of both suspension and paste PVC in India. While the company has not set emissions reduction targets, it is introducing steps to reduce emissions such as the blending of biomass with coal in the production process, the use of alternative fuels and renewable energy, and the use of natural gas instead of coal.
- **Lemon Tree Hotels** (9% of the portfolio's carbon intensity) is one of the largest hotel chains in India, having established itself in the mid-market hospitality segment and now expanding into the luxury segment. The company is aiming to reduce emissions intensity by 40% by 2026 and energy intensity by 15% from 2019 levels. It is aiming to procure 35% of electricity from renewable sources by 2026 and 50% by 2030. Lemon Tree is also taking steps to reduce the emissions from buildings via thermal insulation, LED lighting, and use of recycled materials.
- **Samsung Electronics** (7% of the portfolio's carbon intensity) is the largest global manufacturer in handsets, semis memory, display and TVs. The company is aiming to achieve net zero Scope 1 and 2 emissions by 2050. It plans to achieve net zero for the DX (Device eXperience) division by 2030 and company-wide, including the DS (Device Solutions) division by 2050. In November 2023, we took part in a Climate Action 100+ engagement with Samsung Electronics where we asked the firm whether it plans to set Scope 3 emissions reduction targets and where it expects technical challenges in reducing emissions.
- **Karoon Energy** (7% of the portfolio's carbon intensity) is an Australian listed oil & gas exploration and production company focused on oil assets offshore Brazil. The company has an overall target of net-zero by 2035 across scope 1 & 2 emissions. Karoon anticipates being carbon neutral for Scope 1 and 2 emissions in FY23 through the purchase of carbon credits.

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