TT EM Unconstrained – ESG Reporting

Author

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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 in 2023. 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.

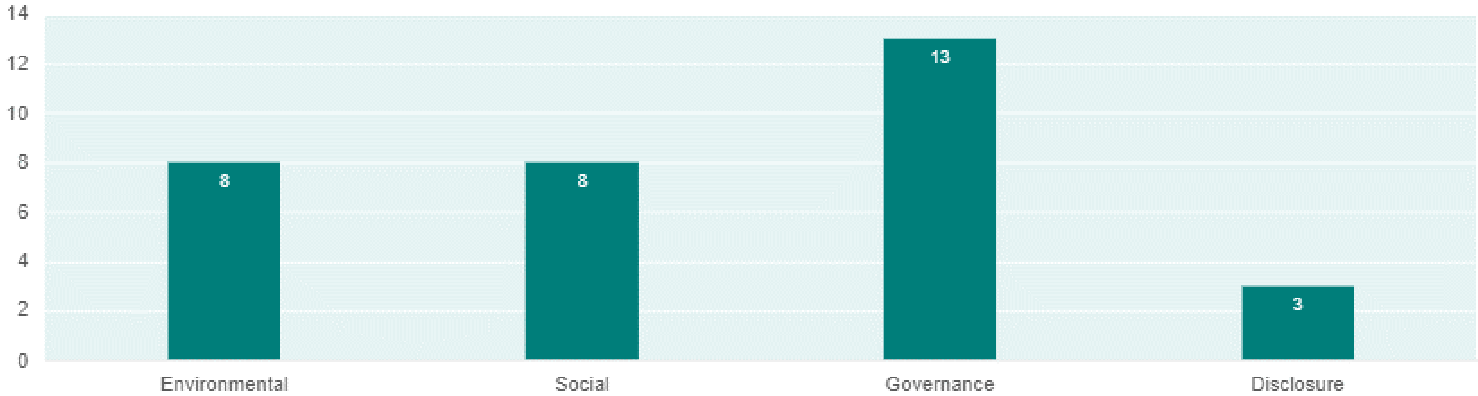
Processes: We held monthly ESG risk meetings on our long-only portfolios with the portfolio managers and TT Risk team. At these meetings, we review the portfolio companies with relatively high governance risks (including accounting flags), low ESG scores, controversies, and high carbon emissions.

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

- 22 targeted engagements in 2023 with 19 companies in the Emerging Markets Unconstrained 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 asked **Savannah Energy** about reporting more meaningfully on climate change by disclosing its Scope 3 emissions, outlining the physical impact from climate change, and greater detail around their biodiversity action plans. We also raised the topic of ethics and anti-corruption/bribery policies as the company is entering into new geographies in Africa.

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 June 2023, we spoke to Pedro Batista, an independent board member at **Eletrobras**, who is also a minority investor in the company. We discussed the poison pill protection for the minority shareholders should the Brazilian state decide to reverse the nationalisation; the risk of a statutory amendment resulting in withdrawal rights which will be decided by the Supreme Court, board composition, and the eventual migration to Novo Mercado, which is Brazil's highest corporate governance listing tier with only one voting share class, 100% tag-along rights and higher protection for minority shareholders. We also discussed climate change risk management. Soon after our discussion, Eletrobras adopted net zero targets and announced the sale of its thermal coal plant. Later in the year we met with **Eletrobras**' CFO following the news of the CEO resignation; this was a negative governance development, as the outgoing CEO Wilson Ferreira Jr. was highly regarded and had been appointed following the 2022 privatisation to restructure the business. We sought to understand the dynamics that led to this situation and understand the strategic and governance implications for Eletrobras. We also discussed the announced sale of the thermal plant and whether Eletrobras had obtained any assurances that the assets would be managed in a responsible way by the acquirer.

We met with **SABESP**'s CEO and CFO and discussed environmental, social, and governance topics following a potential privatisation. Specifically, we focussed on the environmental capital expenditure needed to increase waste treatment coverage from 84% to 100%, as well as potentially designing the future tariff structures to adjust for hydrological problems in a more unpredictable future due to climate change. On the social side, we discussed employee relations and how the company may conduct a cost-cutting programme. On the governance side, we sought to understand what the privatisation may mean for corporate governance, golden share, voting limits, and changes in remuneration structure. In September 2023, we had an in-depth engagement about **SABESP**'s decarbonisation plans and followed up with a letter to the CEO where we emphasised that SABESP should set SMART (specific, measurable, achievable, relevant, and time-bound) targets on its carbon emissions, along with a publicly communicated target for methane capture rate, and that this would be taken very positively by the market and would enhance the company's investability.

We discussed tailings dam safety with **AngloGold Ashanti** and asked whether the company may use the Mining Association of Canada (MAC) standards across all its jurisdictions. We also discussed the Colombian government's announcement that it will block mining projects that threaten water sources, which have impacted AngloGold Ashanti's Quebradona copper-gold project.

Engagement highlights (cont.)

In June 2023, we met with **Vale**'s Vice President who is responsible for sustainability at the firm. We discussed the change in corporate culture, the status of Brumadinho and Samarco reparations and environmental restoration, dam decommissioning, as well as the Samarco civil action lawsuit in the UK to which Vale was not a party to at the time (but since then has become one). We also discussed iron solutions and how the focus on reducing scope 3 emissions is an opportunity for Vale in terms of growing in high-grade agglomerates.

In August 2023, we engaged with **Atacadao** about the measures adopted in the aftermath of the murder of a black person by two outsourced security guards at a store in Porto Alegre in November 2020. The company reiterated that it immediately fired the security firm following this tragic incident and provided substantially more training to all employees and contractors. It made more investments into technology including store cameras to minimise biased interactions and requires all security guards to use body cameras. Atacadao also undertook a special initiative to promote black employees to leadership positions, reaching 30% at management level. The company also appointed one black person to the board.

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 groups. 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 chains. Alibaba explained that its supplier ESG Code of Conduct has specific guidelines on labour rights and health & safety, and as of March 31, 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.

We engaged with **Samsung SDI** on the environmental practices at their Hungarian factory and posed the following questions.

1. Environmental study at the God factory: You have been carrying out a comprehensive environmental impact study at the God factory in Hungary – what are your findings? You have received state aid from the Hungarian government – are they requiring this environmental impact study, or did you decide to perform it yourself? You mentioned that you are operating the Hungary plant at full capacity now; were environmental studies undertaken before you converted the factory or were they not deemed to be necessary because the factory was already operational?

2. Water pollution: There have been allegations that NMP solvent was found in waterways near God. Do you operate a network of monitoring wells for the assessment of underground water pollution?

3. Waste: What happens with the 40,000 tonnes of waste produced, also including hazardous waste? All of operations in Korea achieved the high status of Zero Waste to Landfill certification. Why can this not be achieved in Hungary?

4. Permits, emission limits, fines: The opposition party Parbeszed-Greens has called for the suspension of operations of the God factory until the plant receives legal permits. They are alleging the plant has operated for five years without the proper legal permits. Is there any truth to their allegations? Has the plant exceeded emission limits and have there been any fines issued?

5. Infrastructure decisions: Do you decide who to award the infrastructure for the project such as sewage systems, or are these decisions made by the local or national authorities? Are there any stipulations of the Hungarian state aid that you use certain providers?

The company responded to all our questions. They have a goal to reach "gold status" for their Hungarian factory in terms of waste management. They also said there has been no evidence of leakage from their factory, and the NMP solvent had not been detected during their internal investigation. The company also has participated in external forums with other stakeholders on this issue.

Engagement highlights (cont.)

We participated in a collaborative engagement within the Climate Action+ with **Petrobras** where we contributed to a letter that was sent to the company's government-appointed board directors. In our feedback, we highlighted Petrobras's increasing capital expenditure to low carbon-carbon businesses from 6% to a range of 6 to 15% of revenues for FY24-28, and that at the top end of this range, this business can become increasingly meaningful for the firm.

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.

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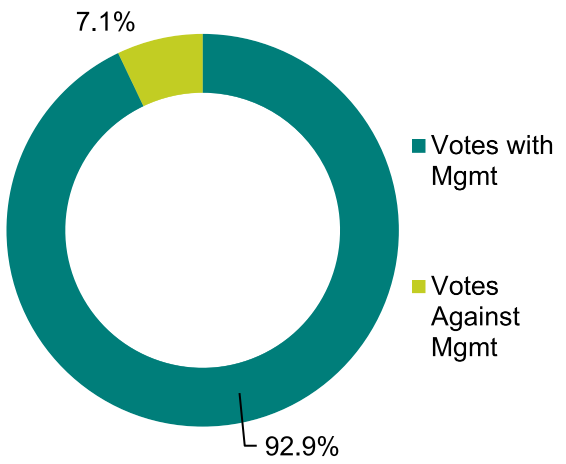
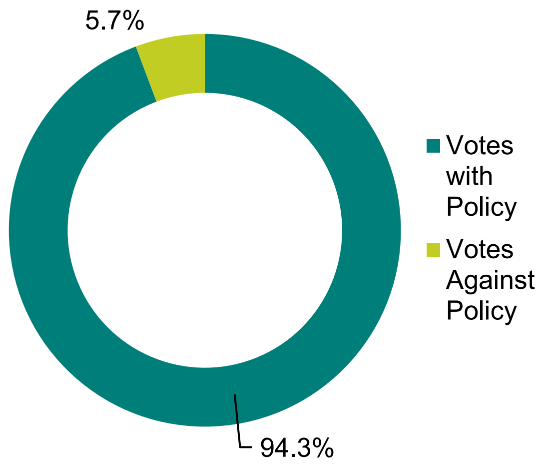
Proxy voting – Alignment with management



Proxy voting – Alignment with Policy



Source: ISS

Proxy voting - Highlights

- We voted at 127 meetings (out of 128 meetings, or 99%) in the twelve months ending 31-December-2023.
- Votes cast during the reporting period were least in line with management on strategic transactions.

Proxy voting – Significant examples

- **Petroleo Brasileiro SA (11/23) Amend Articles and Consolidate Bylaws**
  Petrobras sought to put in place amendments to create a reserve to remunerate capital and exclude certain rules that address conflicts of interests in the appointment of managers. The first change increases the risk of lower extraordinary dividend payments, as excess cash could be funnelled towards this reserve. The second change was negative for corporate governance. Finally, Petrobras bundled unrelated bylaw amendments under a single agenda item, thus preventing shareholders from voting on each proposed change individually. We opposed these amendments.
- **Sendas (04/23) Re-Ratify Remuneration of Company's Management for 2022 and Approve Remuneration of Company's Management**
  ISS objected to the substantial year-on-year increase in the global compensation cap, while Glass Lewis pointed out the structural deficiencies of the design of the remuneration plan - lack of performance-based LTI plan, lack of disclosure of the STI and LTI targets; lack of recovery provisions for STI and LTI plans; no share ownership guidelines or deferral provisions, and exercise price below market price. We felt the retrospective change in the shareholder-approved compensation cap was unwarranted and the remuneration design was flawed, and therefore voted against. This proposal met with 74% dissent; in response, Sendas removed the discounted stock options for 2023; however, they did not meaningfully change the amended 2022 global remuneration cap. We voted in favour of the 2023 plan but against the retrospective increase in the 2022 global compensation cap.
- **Savannah Energy (06/23) Re-elect David Clarkson as Director**
  ISS recommended voting against David Clarkson, who is a member of the Audit Committee and the Chair of the Remuneration Committee because he was not considered as independent, as he previously served as COO of the Company until December 2019 and received additional remuneration from the company in the form of other benefits amounting to USD 33,900 during the year. Clarkson was already an independent director when he stepped into the COO role during the closing of the Seven Energy deal. The additional payment to him was the payment of accrued benefits which date back to his time as COO in 2018/19, and do not relate to his current appointment as a non-executive director. We therefore supported his re-election to the board.

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

	Portfolio	Benchmark
Weighted Avg. Carbon Intensity	215	322

Source: MSCI
Carbon intensity: Portfolio coverage 92%, 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	Transportadora de Gas del Sur	1.4%	Oil & Gas Storage & Transportation	3,624	24.3%
2	Pampa Energia	0.5%	Electric Utilities	5,088	10.7%
3	GMR Airports Infrastructure	2.0%	Airport Services	1,128	10.3%
4	TSMC	9.6%	Semiconductors	175	7.8%
5	YPF	1.7%	Integrated Oil & Gas	597	4.7%

Source: MSCI

Comments

- **Transportadora de Gas Internacional** (24% of the portfolio's carbon intensity) is the major natural gas transporter in Argentina, leader in the production of derivative liquids and the first mid-streamer of Vaca Muerta. The majority (68%) of the company's emissions are caused by natural gas combustion from operations, followed by methane venting (30%). TGS aims to reduce 50% of its methane emissions by 2030 by eliminating gas leaks that contribute to flaring. Whilst this goal addresses 36% of the company's total greenhouse gas emissions, TGS is also undertaking gap analysis to achieve carbon neutrality by 2050.
- **Pampa Energia** (11% of the portfolio's carbon intensity) is one of Argentina's largest electricity companies; it generates electricity and produces gas, oil, and petrochemical products. The bulk of Pampa's carbon dioxide emissions come from its thermal power business. Whilst the company has no public carbon reduction targets, its exploration and production department have conducted studies to identify opportunities for reducing CO2 emissions from venting and carbon capture. In 2022, the company increased its renewable energy generation by 7% compared to 2021. The firm's high carbon intensity can be attributed to energy subsidies from the Argentinian government which mean that Pampa's revenues are curtailed. In terms of oil and gas GHG intensity and power generation GHG intensity, the company's figures are in line with global peers.
- **GMR Airports** (10% of the portfolio's carbon intensity) is an infrastructure company with interests in airports, power, and road projects. The company states that airports under GMR's control are on track to be Net Zero emissions by 2030 and has affirmed its alignment with national and global ambitions of limiting global warming to 1.5 degrees Celsius through a net zero emission economy by 2070. The company's two major assets, Delhi and Hyderabad International airports, are now sourcing all their energy requirements from renewables.
- **TSMC** (8% 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.
- **YPF** (5% of the portfolio's carbon intensity) is Argentina's state-owned integrated oil & gas company. Production at YPF's Vaca Muerta, which holds the world's second largest unconventional gas reserves and fourth largest unconventional oil reserves, is very competitive in terms of CO2e per barrel of crude oil. In the short term, YPF targets a 30% reduction in greenhouse gas direct emissions intensity by 2027 vs a 2017 baseline, whilst also purchasing 50% of electricity from renewable sources by 2026. It has also committed to a 30% reduction in methane emissions (vs 2021 baseline) and zero routine flaring by 2030.