TT Global SMID – 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. Global SMID increased 26.9% from inception, outperforming its benchmark by 10.1% by the year end. 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.

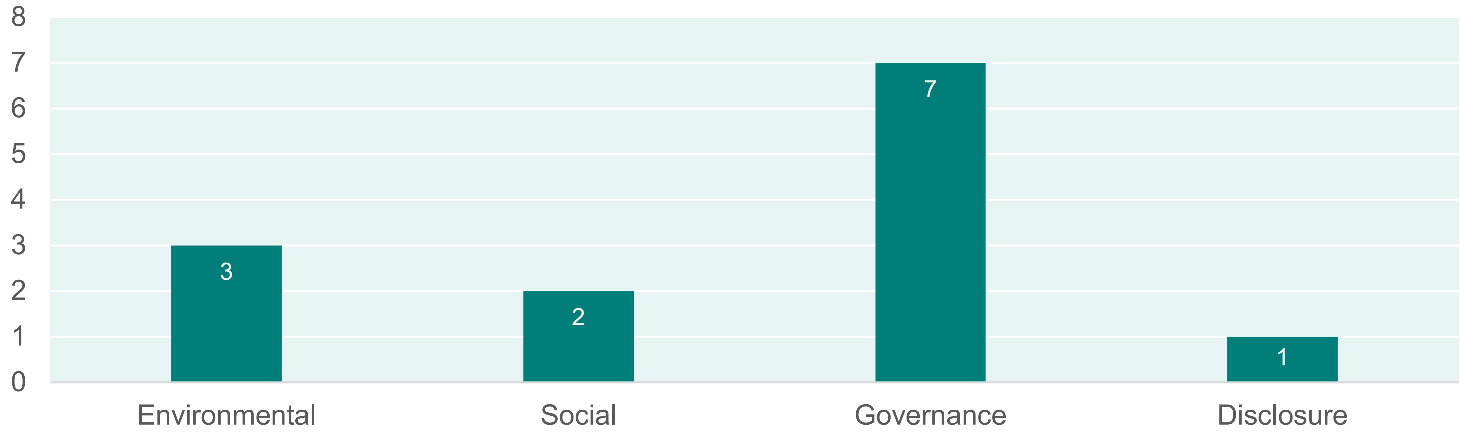
Processes: We held monthly ESG risk meetings on our long-only portfolios with the portfolio managers and TT Risk team. At these meetings, we review the portfolio companies with relatively high governance risks (including accounting flags), low ESG scores, controversies, and high carbon emissions.

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

- 9 targeted engagements in 2023 with 8 companies in the Sustainable Thematics 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 **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 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 spoke to **Helios Towers PLC** in March 2023 about the changes to LTIP metrics where adjusted EBITDA targets were lowered from 10-15.5% to 8-14% and ROIC targets were reduced from 11-13.4% to 8-14%. The company explained that this was the result of expansion into four new markets during the three-year performance period (2020-2022). We also engaged with the company about their target to reduce carbon intensity per tenant by 46% by 2030, which would translate to keeping absolute emissions at 2020 levels. The company explained that optimising grid utilisation and increasing battery usage were the key enablers for their decarbonisation strategy, and they had committed to invest US$100 million through 2030 to achieve their targets.

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 again 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.

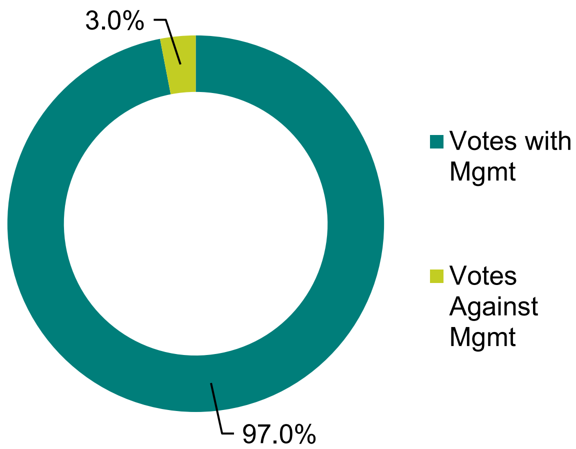
In July 2023, we met with **Bank Negara** and discussed the bank's financing of coal and how it has been addressing fraud risks. The bank outlined that between January to April 2023 fraud cases had dropped by 30% vs 2022 due to severe penalties. We enquired why the bank is financing the Adaro coal-fired aluminum smelter despite previous commitments against increasing its coal lending. Negara said that the smelter would be powered by hydropower for

Engagement highlights cont.

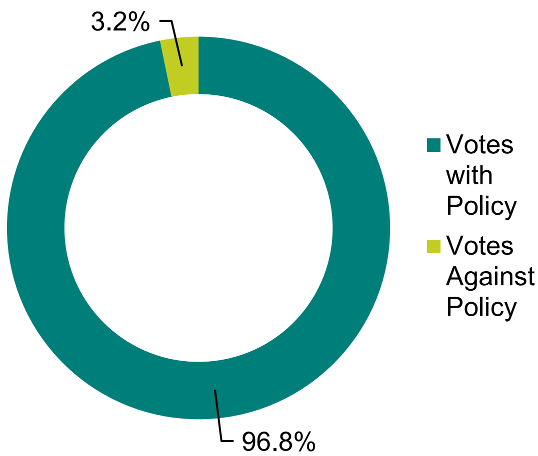
only 6 years but could not explain why Adaro would make a significant investment in a coal-fired plant that would be operational only for a short period. We asked if the bank would consider setting a stricter coal lending policy, but this was not contemplated due to potential loss of business opportunities. The company's approach to coal lending was one of the factors in our decision to exit the investment.

We sought to engage with **Breville Group** on gender diversity, supply chain auditing, and waste management. We asked the company whether it had any goals about expanding its audits from currently 20 audits covering 67% of purchases and which geographic locations still needed to be audited. We also asked the company about its conflict minerals tracing and what kind of information and assurances it gets from suppliers and whether the company undertakes any specific recycling efforts for Breville-branded household goods. We did not get satisfactory responses on our questions, and the company’s unwillingness to engage on these ESG topics played a factor in our decision to exit our investment.

Proxy voting – Alignment with management



Proxy voting – Alignment with Policy



Source: ISS

Proxy voting - Highlights

- We voted at 49 meetings (out of 51 meetings, or 96%) in the twelve months ending 31-December-2023.
- Votes cast during the reporting period were least in line with management on director election matters, where 93% of votes followed management recommendations.

Proxy voting – Significant examples

- **Helios Towers Plc (04/23) Advisory Vote to Ratify Named Executive Officers' Compensation**
  ISS recommended a voted against the resolution over a discretionary uplift to vesting of the LTIPs granted in FY2020 and found the timing of the change inappropriate. We met with the company to discuss the new targets and Helios explained that this was a function of M&A. Whilst we believe that changes to in-flight LTIP awards is not good practice, as this is due to M&A, we followed management and voted in favour. In the past, we have voted against changes to payouts or threshold levels due to COVID because FTSE companies were explicitly advised not to do this.

- **Instructure Holdings, Inc (04/23) Elect Erik Akopiantz and James Hutter**
  ISS recommended withholding votes for non-independent director nominees Erik Akopiantz and James Hutter over failing to establish a board that is majority independent or racially/ethnically diverse. Furthermore, Akopiantz serves as a non-independent director of a key committee (Audit) and the board failed to remove, or subject to a sunset requirement, the pop-up supermajority vote requirement to enact certain changes to the governing documents and the classified board, each of which adversely impacts shareholder rights. Our analysis also found that only 12.5% of the board were female directors, thus the company was lacking gender diversity. As such, we followed this recommendation and withheld our votes from these candidates.

- **PT Bukalapak.com Tbk (05/23) Approve Executive Share Option Plan**
  ISS found that the exercise share price could be at a maximum discount of 10% to the market price and recommended voting against the executive share option plan. We are mindful that the existing ESOP plan been exhausted, which is not effective in retaining staff. We did not consider the ESOP issuance to be overly excessive, and we voted in favour considering the company guided that the 4% of shares outstanding would be sufficient for at least two years.

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

	Portfolio	Benchmark
Weighted Avg. Carbon Intensity	63	182

Source: MSCI
Carbon intensity: Portfolio coverage 83%, Benchmark coverage 99% (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	Gerresheimer	3.6%	Life Sciences Tools & Services	328	18.5%
2	Hyatt Hotels	1.6%	Hotels, Resorts & Cruise Lines	616	15.6%
3	Accor	1.5%	Hotels, Resorts & Cruise Lines	650	15.5%
4	Lemon Tree Hotels	1.4%	Hotels, Resorts & Cruise Lines	503	11.0%
5	Owens Corning	1.3%	Building Products	358	7.4%

Source: MSCI

Comments

- **Gerresheimer AG** (19% of the portfolio's carbon intensity) is a pharmaceuticals company providing packing products made from plastic and glass. By 2030, the company has committed to a 50% reduction in Scope 1 & 2 emissions vs 2019, which is in the process of being SBTi validated. In the meantime, Gerresheimer plans to use state-of-the-art production technology to reduce energy demand while meeting 100% of its electricity needs from renewable sources by 2030.

- **Hyatt Hotels** (16% of the portfolio's carbon intensity) is a global hospitality company that manages, franchises, owns and develops branded hotels. The firm has 2030 SBTi-confirmed targets which include an absolute reduction of Scope 1 & 2 emissions by 27.5% from a 2019 baseline. The target will be achieved through a combined focus on energy efficiency and renewable energy, including Environmental Attribute Certificates (EACs). Carbon intensity figures for hotel companies are overstated because the revenues only reflect a proportion of the revenue generated from managed and franchised hotels, but the emissions include the entire carbon emissions of managed and franchised hotels.

- **Accor** (16% of the portfolio's carbon intensity) is a French multinational hospitality company. The company adopted SBTi approved targets compatible with 1.5 degrees Celsius warming trajectory. Like leading peers, Accor plans to reduce absolute Scope 1 & 2 GHG emissions by 46.2% by 2030 compared to 2019 level, and to be carbon neutral by 2050.

- **Lemon Tree Hotels** (11% 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 (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.

- **Owens Corning** (7% of the portfolio's carbon intensity) is a global building and construction materials leader. As a major provider of residential insulation, the company helps improve the thermal efficiency of buildings and thus reduce their CO2 footprint. In 2023, over 59% of revenue came from products that help customers save energy and avoid emissions. Owens Corning has an SBTi approved target for a 50% reduction in absolute Scopes 1 and market-based Scope 2 GHG emissions by 2030 (against a 2018 baseline year).

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