TT INTERNATIONAL

TT Sustainable EM – ESG Reporting

Author

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Basak is Head of Sustainability and Stewardship 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

We strongly increased our collaborative engagements in nature and climate in 2024, including through the Nature Action 100 initiative and our involvement in Climate Action 100+'s first sector policy engagement.

ESG products: We won the ESG Investing award for 'Best ESG Investment Fund: Global Thematic' for our Environmental Solutions strategy for the third year in a row in 2024. We successfully completed audit for 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. We finalised our sovereign SDG scoring and our Sustainable Bond Framework ahead of the launch of the EM Debt strategies, which are Article 8 strategies.

Active ownership: We had 83 targeted ESG engagements with 67 companies. We voted at 378 meetings and published our voting records on our website.

We most often engaged with our investee companies on climate change, natural resource use/impact (biodiversity and water), executive remuneration, human and labour rights, conduct, culture and ethics (tax and anti-bribery), capital allocation, and reporting (accounting and sustainability disclosure).

We started the Nature Action 100 collaborative engagements with Grupo Mexico, Glencore, Vale, Zijin Mining, and Inner Mongolia Yili. 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. Our team prepared detailed assessments of each of the companies, and we are an active participant in all these engagements.

We joined Climate Action 100+'s first collaborative sector policy engagement on green steel, working with the Institutional Investors Group on Climate Change (IIGCC) and two other asset managers on a "green steel" policy paper. TT's focus was on stimulating demand for green steel and what measures policy makers can take. In July 2024, we travelled to Brussels to meet with DG Energy, the European Commission department responsible for the EU's energy policy, and Eurofer, European Steel Association which represents the entirety of steel production in the European Union. The policy paper titled "Investor Priorities for Transitioning the European Steel Sector" was published in September 2024.

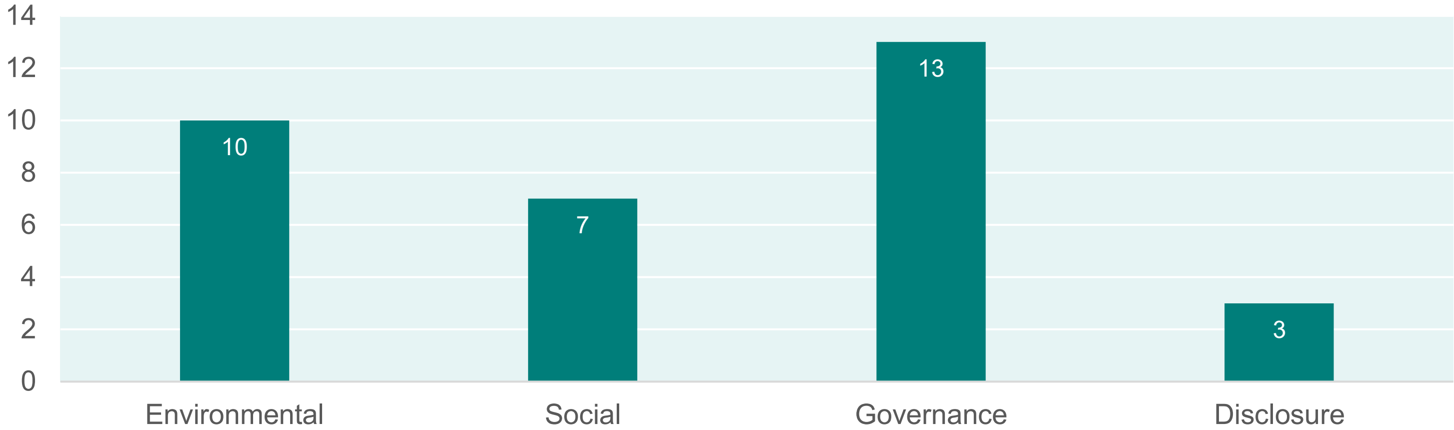
We participated in Jefferies EU Policy Trip to Brussels in November 2024 with policymakers in defense, agriculture, sustainability reporting, and climate adaptation and resilience. We also had two calls with DG Energy on the financial market barriers to energy transition in the EU and highlighted where the EU loans could be utilised with the greatest impact and where regulation was holding back investment.

Targets: We submitted our initial net zero commitment to the Net Zero Asset Managers initiative. We anticipate that the total AUM for our sustainable funds and assets managed for clients with net zero targets will reach 51.3% of the total AUM under our long-only equity strategies by 2030. Our 2030 target is that 50.5% of the AUM for our sustainable funds and assets managed for clients with net zero targets will have adopted science-based targets.

Reporting: We completed our inaugural TCFD report which covers TT's governance, strategy, risk management for climate change risks and opportunities, and metrics and targets. We published our fourth stewardship report and successfully renewed our status as a signatory to the UK Stewardship Code; we have now been a signatory to the UK Stewardship Code since 2021.

Engagement Breakdown by Theme

- 22 targeted engagements in 2024 with 18 companies in the Sustainable Emerging Markets strategy covering environmental, social, governance, and disclosure topics (at some engagements, we discussed multiple topics across environmental, social, and governance areas.)



Engagement highlights

Environmental

Environmental Impact

In January 2024, we spoke to **Lundin Mining** about the sinkhole incident at the Candelaria mining complex, the company's relationships with regulators, and the ongoing litigation.

In October 2024, we met with **NTPC** and **NTPC Renewable Energy** ahead of the NTPC Renewable Energy IPO. We enquired about the company's plans to increase the renewable energy capacity in India. NTPC Renewable Energy reiterated its 2032 60GW renewable energy capacity target whilst emphasising that it will likely reach this target well ahead of schedule. The company also explained how it is addressing land and connectivity challenges facing renewables by partnering with PSUs (Public Sector Undertakings) and purchasing private land. We asked NTPC about its plans for green hydrogen development; the company sees green hydrogen adoption as still 6 to 7 years away, but it has been conducting several pilot projects with the plan to use solar energy to power the electrolysis process for green hydrogen production.

Biodiversity

In April 2024, we engaged with **Oceanagold Philippines** regarding concerns about water discharge from its Tailings Storage Facilities into the Dinauyan River during periods of heavy rainfall. We inquired about discharge types, biodiversity programmes, and community relations, particularly regarding indigenous opposition to a 2021 project extension. The company confirmed that water discharge quality consistently meets recreational-class standards, monitored by the Department of Environment and Natural Resources, an improvement from pre-mining conditions. Oceanagold also gathered baseline data in 2024 to enhance biodiversity management from 2025 onwards. Regarding community concerns, the company clarified that the group opposing the contract renewal refuses to engage via the grievance mechanism, and it is encouraging direct dialogue instead of legal action.

After conducting a biodiversity review of our clean energy holdings, we engaged with **Serena Energia** in June 2024 to discuss its biodiversity strategies and commitments. The company confirmed that it achieved 100% Environmental Management System implementation and will conduct an environmental audit in 2024 to identify areas for biodiversity improvement, followed by an action plan in 2025. The company also clarified that its wind park designs minimise environmental impacts and comply with legislation, with compensatory measures sometimes proposed by environmental agencies, such as payments up to 0.5% of CAPEX or further studies.

Engagement highlights (cont.)

Social

Health and Safety

In June 2024, we engaged with **OceanaGold Philippines** again to ask about health and safety practices following its first fatality at its Didipio mine and a notable increase in total recorded injuries in 2023. The company clarified that Didipio's injury rate is not above average, and a new health and safety programme improved injury rates by 40% in 2024. The fatality will also negatively impact the safety metric in the short-term incentive of the executive remuneration plan for 2024.

Governance

Shareholder Rights

Following a meeting with **SK Square** in June 2024, we sent a letter to the company's chairman about capital allocation, where we asserted that SK Square has the capacity to increase its returns to shareholders with KRW 2 trillion in available funds through 2025 after accounting for debt repayments. We also encouraged the company to ask for higher dividends from SK Hynix, continue to divest non-core assets, and utilise the proceeds for further share buybacks. As a way of escalation, we requested to discuss this topic with the chairman via a call or virtual meeting and asked that the letter be shared with the rest of the board members. Our letter was shared with the rest of the board and the company released its Value-up disclosure in November 2024. Narrowing the NAV discount to 50% was included as a core management KPI, and the company adopted a target to bring the price/book value above 1x by 2027.

Board Diversity

We discussed board composition and the company's efforts to increase gender diversity in a meeting with **Serena Energia**'s CFO in April. The company explained it has started a board refreshment process via an external agency and has had discussions with two senior executives for the independent NED role.

Audit

In October, we engaged with **Serena Energia** about the auditor concerns over restatements of FY23 financial statements. The company said it historically restated statements for the three previous years to better present the market-to-market value of its energy platform in the balance sheet, clarifying that there were no changes in the net income, nor in the net position between assets and liabilities.

Litigation

On 18 January 2024, the Sao Paulo prosecutor's office opened an investigation into **Hapvida Participacoes** for allegedly failing to comply with court decisions favourable to the company's healthcare beneficiaries. We subsequently spoke to the company to understand the implications of this investigation and were satisfied by their explanation that over-judicialisation has been a key industry theme and the lawsuits often request services that are not within the health plan contract scope.

Ethics

In February 2024, we spoke to **Nuvama Wealth Management** to discuss its ethics practices as we believed the company lagged peers in adopting robust staff management practices and a business ethics framework. Nuvama illustrated that it has appropriate ethics mechanisms in place to help pre-empt potential unethical business conduct, such as oversight at board level, internal and external audits every quarter, annual risk assessments and training on ethics for all staff. In response to our questions on board diversity and independence, Nuvama disclosed its intentions to hire another independent member but noted the challenge of hiring a female candidate due to pipeline shortages of female directors.

In January 2024, we enquired about **MLP Saglik's** guardrails around organ transplants. The company outlined how organ transplants are under police checks so that organs cannot be donated unless the donor and the recipient are related by blood.

Engagement highlights (cont.)

Anti-Corruption and Anti-Money Laundering

In July, we discussed anti-money laundering (AML) and counter-terrorist financing (CTF) topics with **Emaar Properties**. Emaar outlined its strict payment policies, including rejecting cash over 40,000 Dirham (USD ~$11,000) and cryptocurrency, with AML checks handled by banks. Its security team screens customers for personal and sanctions compliance, and the company plans to release its whistleblowing policy in 2025.

Sustainability Disclosure

We engaged with **Hansol Chemical** on the company's ESG disclosure and target setting in March 2024. We highlighted the company's lack of communications with MSCI since June 2022, as some potentially erroneous areas may need to be clarified. We also stressed that there was no disclosure on the registrations for the chemicals used in Hansol's operations and provisions for developing alternatives to potentially hazardous chemicals. As Hansol also lacks quantitative targets to reduce key air pollutants, we encouraged the company to set these alongside water targets. We sent Hansol a follow-up email in August because while we found improvements in the company's energy intensity and waste recycling, we still had concerns on hazardous chemicals and air pollution which were not addressed.

In June, we responded to **Capstone Copper**'s ESG reporting investor questionnaire, highlighting the reporting and certification standards we would like the company to adopt. We suggested the company pursue IRMA certification, achieve ISO certification at its sites, and report in accordance with the TNFD. We also recommended that the company set toxic emissions reduction targets and site-specific water targets.

After our initial meeting with **MLP Saglik** in January, we had a further discussion on ESG disclosure and provided the company guidance on how they could improve their sustainability reporting. MLP disclosed that they are planning to use renewable energy to power their hospitals within the next 7 years through an energy agreement for seven solar energy fields, incentivised by the government. We provided recommendations on ESG disclosure, including reducing medical waste, carbon emissions, quality performance and patient satisfaction, employee engagement, accessibility of services, and privacy and data security.

Cross-cutting

Following the appointment of **Samsonite**'s new Head of Sustainability, we discussed the company's carbon emissions targets, raw material traceability, and human rights due diligence in February 2024. After the company's poor assessment by Forest500, we wanted to discuss the deforestation risks in the company's leather supply chain. Samsonite clarified that leather is not a large material risk for them considering the volume used (low-single digits in terms of sales) and that it is expected to be Gold-standard certified through the Leather Working Group. The company recognised that its supply chain poses its biggest human rights risk, and we asked about mitigation practices through its social compliance programme. Samsonite explained its risk-based approach, which includes announced and unannounced audits, with a focus on Tier 2 suppliers. The company also highlighted its circularity strategy, which reduces the reliance on virgin raw materials, further mitigating potential risks. The company followed up later in the year to share its new science-based emissions reduction goals with us. The company is pursuing SBTi certification, as we recommended, which is particularly encouraging given that these targets address Scope 3 emissions, which constitute over 95% of the company's total emissions.

In September, we discussed board diversity and sustainable financing targets with the Sustainability and IR teams at **Akbank**. The company reassured us that it is addressing our concerns about board diversity with a formal target to improve this to 30 percent by 2027, up from 10 percent today, and also indicated that more than half of the direct reports to the CEO are female. Regarding our questions on the controversial Ilisu dam, Akbank clarified it did not directly finance the project and now has stricter loan assessments, citing its decision not to finance a new airport in Turkey.

In June, we met with the ESG and IR teams of **Sabanci Holding**, the Turkish conglomerate with substantial banking, cement, and energy businesses. We discussed the company's investments in the new economy and renewable energy. We also discussed the company's executive remuneration incentives and potential ways of closing the holding discount.

Engagement highlights (cont.)

Russian exposure

We engaged with **LPP SA** in February 2024 on the company's Russian exposure, governance, remuneration practices and human rights exposure in Myanmar. We specifically asked the following questions on the company's transition out of Russia:

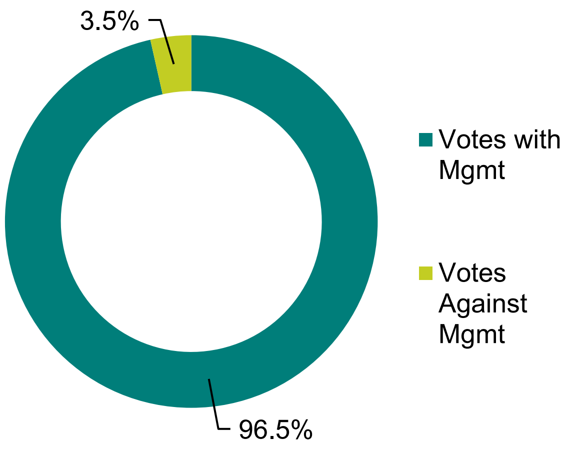
- What receivables are still due from the Russian business? (PLN804m receivables at Q323). Are you still co-operating with the Russian buyer?
- Did you recognise the revenue on Russian sale? (With COGS being the value of divested inventory?) Was the revenue booked in continuing operations?

The company's responses on these did not indicate that they continued to consolidate the Russian sales. However, on 15 March 2024, Hindenburg Research published a short-seller's report on **LPP SA**, alleging that the company had not truly divested its Russian operations and that these operations were still directly controlled by LPP and its board. We engaged with LPP again who strongly denied the claims and explained that the sales to the entity were as a part of the Transition Plan. We ultimately exited our investment as our conclusion was that the company's reporting was not sufficiently transparent about the Russian sales through the Transition Plan.

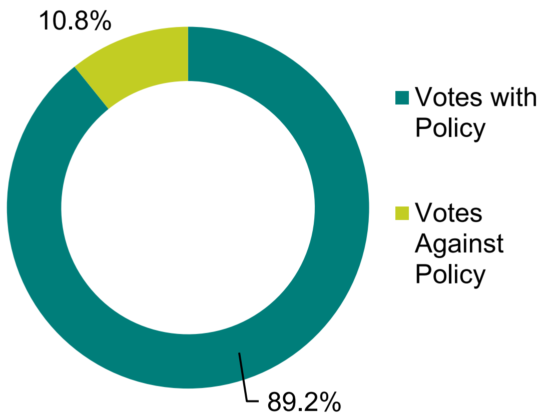
Collaborative Engagements

In our Climate Action 100+ collaborative meeting with **Samsung Electronics** in May 2024, the company reiterated its plans to increase power purchase agreements and said that it recently signed two renewable projects, one with 15MW capacity and the other with 10MW capacity. 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. In November 2024, we discussed Samsung's energy procurement priorities, including its advocacy for infrastructure reform in Korea to strengthen the grid and the company's focus on carbon-free energy. The company is pushing for broader acceptance of nuclear energy as part of its decarbonisation efforts, especially in Korea where the nuclear value chain is already established, and the levelised cost of electricity is competitive. We also discussed the company's supply chain initiatives. Although regulations in Korea limit Samsung's ability to explicitly demand decarbonisation from its suppliers, the company is encouraging suppliers to set their own decarbonisation goals and launched an ESG partnership fund to support its suppliers.

Proxy voting – Alignment with management



Proxy voting – Alignment with Policy



Source: ISS

Proxy voting - Highlights

- We voted at 59 meetings (out of 60 meetings, or 98%) in the twelve months ending 31-December-2024.
- Votes cast during the reporting period were least in line with management on director election (lack of disclosure on director candidates, bundled elections).

Proxy voting – Significant examples

- **Hapvida Participacoes e Investimentos SA (04/24) Approve Remuneration of Company's Management**
  ISS recommended voting for this proposal, on the basis that the company provided reasonable disclosure of its remuneration practices. In 2023, we had voted against the egregious BRL 224 million cap against a backdrop of expected loss and liquidity problems to which the company ultimately awarded BRL 176 million for 2023 against a loss of BRL 734 million. While the current year's policy reduced the global remuneration cap to BRL 167 million, we considered this to be still high on an absolute basis (USD 32 million) and therefore voted against.

- **Serena Energia (04/24) Elect Directors (Bundled)**
  Having previously engaged with the company on gender diversity and independence, Serena subsequently tried to appoint an independent female director to the board. Neither of the two candidates for the role succeeded due to the demands of the director position, including site visits and monthly meetings – commitments neither candidate could make. Glass Lewis recommend voting for the directors, noting that the board meets the Novo Mercado requirements of having more than 20% independence or at least 2 independent directors. We diverged from ISS policy which had advised voting against the bundled elections due to concerns about independence and gender diversity. Our rationale was that the company was taking steps to address both issues. Going forward, we will monitor the company's board appointments.

- **Capstone Copper Corp. (05/2024) Amend Restricted Stock Plan**
  ISS recommended voting against the treasury share unit plan, equivalent to 3.5% of the company's capital, having calculated an implied 11% dilution from all remuneration plans and noting that the scheme provides the board with discretion to accelerate the vesting of time-based awards in the event of a change of control. Considering the company's growth trajectory and general alignment of pay and performance, we did not oppose the dilution. Whilst we believe the company could retrospectively disclose the threshold, target, and maximum levels for the STIP, we did not find the amendments to the stock plan concerning and voted in favour of the proposal.

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

	Portfolio	Benchmark
Weighted Avg. Carbon Intensity	63	225

Source: MSCI
Carbon intensity: Portfolio coverage 89%, 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	9.7%	Semiconductors	167	25.7%
2	InterGlobe Aviation	0.9%	Passenger Airlines	1,020	14.3%
3	Capstone Copper	1.5%	Copper	455	11.1%
4	SK Hynix	2.0%	Semiconductors	288	9.0%
5	King Yuan Electronics	0.9%	Semiconductors	390	5.3%

Source: MSCI

Comments

TSMC (25.7% of the portfolio's carbon intensity) is the world's leading semiconductor foundry. TSMC aims for renewable energy to account for more than 60% of its energy consumption by 2030 and net zero emissions by 2050. The GHG reductions will be achieved through increased renewable energy usage and the reduction of direct emissions from manufacturing.

InterGlobe Aviation (14.3% of the portfolio's carbon intensity) ,operating under the brand name IndiGo, is India's largest passenger airline and one of the leading airlines globally. InterGlobe's decarbonisation plan focusses on fleet mix, SAF adoption, and the electrification of ground operations. In FY24, the company reduced its GHG emissions intensity by 19% and allocated 84% of its total capex to acquiring the latest generation fuel-efficient aircraft.

Capstone Copper (11.1% of the portfolio's carbon intensity) is a leading copper mining company with operations in the US, Chile, and Mexico. Capstone Copper has a climate target to achieve a 30% reduction in GHG emissions from fuel and electricity by 2030, from a 2021 baseline. The company aims to reduce emissions by focusing on energy conservation and electrifying equipment and processes. The company has purchased four electric shovels at one of its facilities which are expected to displace 5 million litres of diesel fuel annually. The company aims to transition to 90% renewable electricity across Capstone by 2030.

SK Hynix (9.0% of the portfolio's carbon intensity) is the world's second-largest DRAM chip manufacturer and the third-largest NAND flash vendor. It has a target to reduce GHG emissions from process gases by 40% by 2030 via alternative gases and process optimisation. The company has completed the optimisation of 13 processes that involve the use of nitrogen trifluoride for cleaning, this optimisation resulted in a reduction of 25 tons of the gas and subsequently decreased annual GHG emissions by 12,029 tCO_2e. To reduce Scope 2 emissions, SK Hynix has an interim target to power 33% of its global operations using renewable electricity by 2030 as part of its roadmap to achieve RE100 by 2050.

King Yuan Electronics (5.3% of the portfolio's carbon intensity) provides testing and related services for various semiconductor products, including integrated circuits. The company's main source of carbon emissions is Scope 2 emissions from power consumption. King Yuan Electronics' has said that it is committed to reducing Scope 2 carbon emissions by setting greenhouse gas reduction targets, promoting energy-saving projects, expanding the usage of renewable energy, and actively installing photovoltaic power generation systems at each plant. The company has a target to reduce its Scope 1 & 2 emissions by 15% by 2030 from 2022 levels.

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