

# AIKYA

## Sustainability Statement



## Purpose

Aikya has a twin purpose:

1. To generate healthy long-term investment returns for our clients with strong downside protection.
2. To make a significant impact on the sustainable development problems facing Emerging Market countries by investing in responsibly run high-quality companies.

We believe that both elements of our purpose are aligned. Generating healthy long-term investment returns with strong downside protection is only possible if we invest in high-quality companies that are well-positioned to solve sustainable development problems.

## Investment Beliefs

### Quality of Stewardship

Establishing the quality of stewardship for the companies we choose to back is at the heart of our investment philosophy. We look for a strong sense of purpose, environmental and social stewardship, exemplary governance, and a well-aligned organisational culture. Our core belief is that high-quality stewards align their businesses with the interests of all stakeholders, and business groups that incorporate sustainable thinking into everyday decision-making are going to be the long-term winners.

### Integrated Approach to Sustainability

Analysing sustainability topics and engaging with companies on the most material issues is an integral part of our investment process. Therefore, every Aikya analyst is involved with stewardship and engagement activities. Our analysis of sustainability issues at a company level is as detailed and rigorous as our analysis of traditional financial metrics.

We think it is impossible to have a genuinely long-term focused investment approach if sustainability analysis is outsourced to a separate team. First and foremost, sustainability analysis is a key component when assessing the quality of a company and, therefore, should be performed by the investment team itself. Secondly, having a separate team perform sustainability assessments and conducting engagement activities usually means these functions are a few steps removed from portfolio management; so, whilst their analysis might be excellent, there is a lack of impact on the final portfolio. Moreover, when the engagement is driven by investment analysts themselves, company management is able to appreciate the relevance and urgency of these issues more clearly.

### Long Holding Periods

The long-term prospects of companies are seldom priced perfectly by the market, and high-quality stewards tend to sustain the compounding power of their businesses for far longer than most market participants anticipate. Our advantage is our willingness to hold shares in the companies we like, for a long time. As a result, we are sober in the good times and retain perspective during difficult periods. We use periods of difficulty to accumulate shares in our favourite companies.

### Deep Relationships with Investee Companies

In an Emerging Markets context, deep and long-lasting relationships with the key decision-makers of investee companies are crucial to making an impact through engagement. As a team, we have deep relationships with the management teams of our portfolio companies and extensive experience

engaging with them on stewardship related issues. Our long holding periods build a sense of partnership with investee companies, which, over time, become increasingly open to engagement. Our relationships allow us to discuss critical sustainability issues with top management; positive engagement on such issues becomes a powerful tool for enhancing the value of our client portfolios.

### **Active Engagement**

We engage for two primary reasons. Firstly, we believe that the purchase of a share in a business comes with both rights and responsibilities. Therefore, as part owners of the business, we have a responsibility to engage with senior management to nudge them towards better behaviour. Secondly, we see any sustainability issue as ultimately an investment issue. Positive engagement on these issues becomes a powerful tool in driving shareholder value and enhancing the value of our client portfolios. How management teams respond to our engagement requests also give us a good read on the quality of their stewardship.

### **Minimum Standards**

As an output of our bottom-up investment process, we do not invest in companies with material exposure to harmful products and services, and the companies which fail to demonstrate strong environmental and social stewardship. Our assessment on the quality of a company is holistic and is driven by combination of qualitative and quantitative measures. However, for harmful products and controversial industries, we appreciate that our clients may expect clarity on what exposures we may altogether avoid. Minimum standards of environmental and social stewardship which we demand from our investee companies are described in the following document:

<https://aikya.co.uk/wp-content/uploads/Position-Statement-on-Harmful-and-Controversial-Products-and-Services.pdf>

## **Sustainability Impact Goals**

Aikya's investment process incorporates both the 'art' and 'science' of sustainable thinking. 'Art' means asking the right high-level questions linked to sustainability impact issues, while the 'Science' is the means to back up this high-level thinking with hard data analysis.

At the company level, we have developed our own proprietary sustainability models, which combine various sustainability reporting standards and are as detailed as our financial models. Through these detailed models we can compare multiple companies within an industry and across the entire industry value chain; it allows us to analyse specific issues and determine whether a company might be underperforming its peers, which subsequently becomes an agenda item with the management team.

At the portfolio level, we have set clear Sustainability Impact Goals for the Aikya Emerging Markets Portfolio (Aikya Portfolio), translating to specific long-term goals for each of our investee companies. These impact goals sharpen our focus on sustainability issues when considering potential investment ideas. The goals also help us better define engagement agendas with our investee companies and in general, will make our judgement on the quality of stewardship in a company more robust.

The Aikya Portfolio Sustainability Impact Goals are as follows:

1. The portfolio should only be invested in companies that make a significant contribution to at least one UN Sustainable Development Goal (SDG) by 2030.

2. Carbon intensity, i.e., GHG (Scope 1 and 2) emissions to sales, for the portfolio should halve by 2030, with 2019 as the baseline year. Aikya Portfolio companies should achieve net-zero carbon emissions by 2040.
3. The environmental resource intensity for the portfolio should halve by 2030 (with 2019 as the baseline year). This is an Aikya defined metric that is customised for each industry. It refers to the amount of virgin natural resources (per unit of sales) that a business consumes, as well as its waste footprint.
4. None of the portfolio companies should have displayed more than one incident of poor social stewardship over the preceding three years by 2030.
5. Aikya Portfolio companies should either have a dominant shareholder whom we trust or a truly independent board by 2025.
6. Aikya Portfolio companies should have a healthy gender balance in their organisation by 2040.

We are committed to providing full transparency on how our portfolio companies contribute towards (or detract from) achieving each of these goals. This enables our investors to hold us accountable for our own sustainability performance over time. These goals will also act as a rallying point for us to collaborate with other like-minded investors to better impact our investee companies.

## Guiding Principles

As we assess, measure, manage and report sustainability impact for the Aikya Portfolio, we are guided by the following principles.

### **Evidence-Based**

We focus on the actions of our investee companies and the results they achieve, rather than their policy or strategic statements. We bring the same critical approach with which we analyse the financial statements of a company to analysing sustainability impact. Our engagement agenda with companies are also based on hard evidence and designed to achieve specific objectives.

### **Reliability**

Our sustainability impact assessment and reporting methodology is transparent, reproducible, verifiable, and largely based on publicly available information. We do not 'cherry pick' only anecdotes of positive impact from our portfolio while omitting the harmful effects our portfolio companies might have on the environment and society. Portfolio-level performance measures are backed by detailed company-specific sustainability models developed for each of our investee companies.

### **Double Materiality**

Our approach to sustainability incorporates 'double materiality', as described by the European Union's guidelines on Sustainability Related Disclosures. We not only assess how material social and environmental factors affect the value of a company (impact inwards), but we also think how a company's activities impact the environment, civil society, broader stakeholders and the economy at large (impact outwards).

### **Comprehensiveness**

The sustainability impact categories through which we assess our companies and portfolio are comprehensive and cover all major aspects of a business's social or environmental impact. We routinely analyse the trade-off between various impacts (positive or negative) and make judgements on what is useful for the greater good of society and the planet. Given our deep knowledge of the

companies we invest in, we are in a good position to apply qualitative judgement in areas where well accepted quantitative metrics are not available.

### **Intentionality**

We ask ourselves whether an impact is a deliberate consequence of a company's strategy and actions, or is it coincidental? We critically analyse the intentionality before attributing impact (especially positive impact) to a company.

### **Life Cycle Considerations**

We adopt a lifecycle approach when assessing the impact of a product or service, and we consider the impact of the entire value chain within which a company is operating. For example, a critical aspect of our engagement approach is to encourage companies to report on their Scope 3 environmental footprint (in addition to scope 1 and 2).

### **Prospectiveness**

We regularly model the future sustainability impact of our investee companies based on their capital commitments and constantly test whether they can meet their own targets. This is similar to how we assess whether a company can meet its future goals from a financial perspective, in terms of sales growth and profitability.

### **Transparency**

We are committed to providing 100% transparency to our investors on the sustainability impact of our portfolio. We expect our investors to hold us to account on our sustainability impact performance, with the same level of rigour applied to our investment performance.

### **Additionality**

We regularly assess whether our engagement process is having an 'additional' impact on our investee companies' management teams. Our detailed sustainability models compare various companies within an industry and across entire industry value chains; the models allow us to track a company's progress on key sustainability issues over time. In addition, we keep a detailed log of our engagement activities within each company model, which allows us to periodically review the progress with regard to each company's engagement agenda.

## **Reference to International Standards**

Our application of Sustainability standards builds on the United Nations Sustainable Development Goals (UN SDGs) and relevant international conventions and norms including, but not limited to:

1. United Nations Principles for Responsible Investment (PRI)
2. UN PRI - Montreal Pledge
3. Paris Agreement under the United Nations Framework convention on Climate Change
4. Carbon Disclosure Project (CDP)
5. Task Force on Climate Related Financial Disclosures (TCFD)
6. United Nations Global Compact
7. OECD principles of Corporate Governance
8. OECD Guidelines for Multinational Enterprises (recommendations on responsible business conduct)
9. Universal Declaration of Human Rights

10. World Health Organisation Framework on Tobacco Control
11. UN Guiding Principles on Business and Human Rights
12. Children’s Rights and Business Principles
13. ILO conventions of labour standards
14. Rio declaration on Environment and Development
15. UN Convention on Corruption
16. Convention on Cluster Munitions (Oslo convention)
17. Convention related to the manufacturing of anti-personnel mines (Ottawa convention)
18. CCLA. Find it, Fix it, Prevent it (Modern Slavery)
19. FAIRR Initiative (ESG risks in global food sector)
20. Aikya is a signatory to UK Stewardship Code

## Additional Information

Aikya EU SFDR Disclosures

<https://aikya.co.uk/sustainable-finance-disclosure-regulation/>

Aikya’s Position Statement on Harmful and Controversial Products and Services (Exclusion Policy)

<https://aikya.co.uk/wp-content/uploads/Position-Statement-on-Harmful-and-Controversial-Products-and-Services.pdf>

Aikya Statement on Climate Change

<https://aikya.co.uk/wp-content/uploads/Aikya-Statement-on-Climate-Change.pdf>

Aikya Engagement and Proxy Voting policy

<https://aikya.co.uk/wp-content/uploads/2020/09/Engagement-and-Proxy-Voting-Statement.pdf>

Aikya report to UK Stewardship Code for year ending June 30<sup>th</sup>, 2021

<https://www.frc.org.uk/getattachment/2d7660e0-c6b0-4a70-995c-47506833d540/Aikya-2021-Stewardship-Report.pdf>

Supplement to the Prospectus of Aikya Global Emerging Markets UCITS Fund

<https://aikya.co.uk/wp-content/uploads/2020/10/Prospect-Supplement-Aikya-Global-Emerging-Markets-UCITS-Fund.pdf>