AIKYA

Engagement and Proxy Voting Statement

Introduction

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 when it comes to the sustainable development problems facing Emerging Market countries by investing in responsibly managed 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.

Sustainability Impact Goals

We have set clear sustainability impact goals for the Aikya Emerging Markets Equity Portfolio (Aikya Portfolio).

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 baseline year). This is an Aikya defined metric which 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 ability to recycle waste.
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.

These impact goals sharpen our focus on sustainability issues when thinking about potential investment ideas.

The goals also help us better define our engagement agendas with investee companies and strengthen our judgement when it comes to assessing the quality of stewardship.

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 to our own sustainability performance track record over time. These goals will also act as rallying point for us to collaborate with other like-minded investors to achieve a greater impact on our investee companies.

Active Engagement

We pursue an active engagement agenda with companies held in the portfolio. As part of the ongoing research process, the investment team regularly debate and update the engagement agenda for each company.

We engage for a few reasons: Firstly, we believe that owning shares in a business comes with both rights and responsibilities. Therefore, as part owners of the business, we have an obligation to engage with senior management to nudge them towards better behaviour, rather than divesting our holding. Secondly, we see sustainability topics as investment issues and do not separate the two; positive engagement on such 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 gives us a good read on the quality of their stewardship.

Establishing the quality of stewardship in the companies we chose 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 sustainability thinking into everyday decision-making are going to be the long-term winners.

Integrated Approach to Sustainability

Analysing sustainability topics and then engaging with companies on the most material issues is an integral part of our investment process, and 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 traditional financial metrics.

We think it is not possible to have a genuinely long-term focused investment approach if sustainability analysis is outsourced to a separate internal 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 can 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 matters becomes a powerful tool for enhancing the value of our client portfolios.

Monitoring and Escalation of an Engagement

We closely monitor all the open engagements with the investee companies. Here we describe various stages an engagement goes through:

Stage 1: Decision to engage/define the scope: Aikya analysts draw the engagement agenda with a company based on specific issues they identify during their fundamental research on the company. These agenda items are logged in the company sustainability model and engagement log, with a clearly defined objective and next steps. We have sustainability models and engagement logs for all Aikya Portfolio companies.

Stage 2: Discussion with the company management: We then discuss these issues with a company management team and try to understand what they are doing to assuage our concerns.

a. If the company provides enough evidence that they are addressing our concerns, an analyst then closes the engagement item and marks the item as resolved in the company engagement log.
b. If the company responds, but does not provide a satisfactory answer, we continue to engage further. We may try to speak to our other industry contacts, ex-board members, competitors, etc., in order to better understand company's position in this matter.
c. If the company does not respond, we try to reach out to other members of the company management or try to establish a contact through the company's advisors (brokers).
d. Abstain from voting if this item comes up for proxy voting

Stage 3: Escalation to 'severe' category: If even after multiple discussions an analyst feels that the company is not making much progress on the issue, and the issue is material enough to make a change to our investment case, then the engagement item is escalated to 'severe' category. All engagement items classified as 'severe' are personally pursued by the Chair of the Aikya Stewardship Committee. We may do the following for 'severe' engagement items:

a. Vote against the management team if this item comes up for proxy voting.
b. Write a formal letter to management and/or to the board outlining our concerns and why the management should address this issue as soon as possible.
c. Seek collaboration with other like-minded shareholders and canvass support for the agenda items we are pursuing.
d. Collaborate with an industry body to nudge management towards better behaviour.

Stage 4: Revisit investment case: How management teams respond to our engagement requests offers an invaluable read on their quality. If they do not respond to our engagement requests around important sustainability issues, we revisit our assumptions on the quality of their stewardship and question our investment case. In certain more extreme cases, we may choose to divest shares.

Our Approach to Voting

We vote proxies in what we consider to be the best interests of our clients. Our approach to voting is investment-led and serves as a crucial component of our engagement and escalation strategy.

Prior to casting our votes, Aikya investment team reviews each resolution. Decisions can be taken quickly for non-contentious items, such as the approval of financial statements. More strategic voting decisions, such as the election of Board directors or issuances of new capital, often require further discussion amongst the team. If we feel the disclosure provided by the company is insufficient, we may seek additional information and clarification from the company before casting our vote.

Voting Guidelines

Detailed below are the principles which we consider when deciding how to vote. We reserve the right to vote contrary to these guidelines if doing so is acting in the best interests of clients.

Governance Matters

Board composition and role of directors

We believe boards should act in shareholders' best interests and possess the relevant skills to implement the company's strategy. We expect directors to have the time and energy to fully commit to their board-related responsibilities and not be overstretched with multiple external directorships. We expect companies to refresh their board membership every five years and may vote against the head of the nominating committee for failure to implement. We believe this succession allows companies to strengthen board diversity and add new skillsets to the board to enhance their oversight and adapt to evolving strategies. Directors should also attend at least 75% of scheduled board meetings and we may vote against their re-election unless they disclose a valid reasoning. We do not have specific voting policies relating to director age or tenure. We prefer to take a holistic view, evaluating whether the company is balancing the perspectives of new directors with the institutional knowledge of longer serving board members.

Board independence

We believe that majority of board members should be truly independent. This is particularly true of audit, remuneration, and nominating committees. Truly independent boards can best represent shareholders when enough directors are present to challenge the management team. We believe that having an independent chair is the preferred structure for board leadership. Having an independent chair avoids the inherent conflict of self-oversight and helps ensure robust debate and diversity of thought in the boardroom.

Board diversity

We think it is not in shareholders' best interests for the full board to be comprised of directors from the same industry, gender, race, nationality, or ethnic group. We would like to see board members of our investee companies come from diverse backgrounds. Diverse boards encourage an organizational culture that promotes diverse thinkers, enabling better strategic decisions and the navigation of increasingly complex issues facing companies today.

Executive Remuneration

In our view, the most effective remuneration plans attract and retain high calibre executives, foster a culture of performance and accountability, and align management's interests with those of long-term shareholders. We support plans that we believe lead to long-term value creation for our clients and the right to vote on compensation plans annually. In evaluating remuneration plans, we consider the following attributes:

1. Alignment: Are executives truly aligned with the interests of long-term shareholders?
2. Transparency: Does the remuneration plan articulate the decision-making process and rationale behind the plan structure? Disclosure should also include how key performance metrics, targets and time frames are chosen and detail desired outcomes. We also seek to understand how the remuneration committee determines the target level of remuneration and constructs the peer group for benchmarking.
3. Structure: The plan should be simple, clear, and comprehensible.
4. Accountability: Remuneration provided to executives should align with performance. We oppose one-time rewards aimed at retention with no clear ties to achieving performance objectives.
5. Sustainability: We would like remuneration plans to include sustainability related issues which are critical to the long-term health of the business.

Audit quality and oversight

We do extensive due diligence on the quality and reputation of auditors preparing financial statements of our investee companies, especially if these auditing firms are not big global firms. We generally support management's choice of auditors, unless the auditors have demonstrated failure to act in shareholders' best interest. We pay close attention to the non-audit services provided by auditors and consider the potential for the revenue from those services to create conflicts of interest that could compromise the integrity of financial statement audits. We support periodic rotation of auditors.

Shareholder Voting Rights

We generally support one share, one vote structures.

Mergers and acquisitions

We approach votes to approve mergers and acquisitions on a case-by-case basis, considering the specific circumstances of each proposal to determine what we believe to be in the best interest of clients. We generally do not like large acquisitions by our investee companies, especially if they are funded through debt.

Environmental and social issues

We expect our portfolio companies to uphold the highest environmental and social standards in their industries.

Climate change

Proxy voting is one tool we use to drive accountability for managing climate risks, as part of our stewardship escalation process. We expect companies to have credible transition plans communicated using the recommendations of the Task Force for Climate Related Financial Disclosure (TCFD).

Emissions disclosure
We view disclosure of Scope 1 and 2 emissions as a minimum expectation where measurement practices are well defined and attainable. We encourage all companies to disclose Scope 1, 2, and 3 emissions.

Net-zero targets
We would like all our companies to achieve net zero emissions by 2040 or sooner. We support any board resolution in this regard. We generally support shareholder proposals asking for improved disclosure on climate risk management and we support those that request alignment of business strategies with the Paris Agreement.

Human rights
We seek to assess companies' exposures to Human rights and modern slavery risks, determine the sectors for which this risk is most material (highest possibility of supply-chain exposure), enhance our own engagement questions, and potentially work with external data providers to gain insights on specific companies or industries. We support board proposals requesting enhanced disclosure on companies' approach to mitigating the risk of human rights violations in their business or supply chains.

Political Contributions and Lobbying
We support proposals asking for board oversight and fully transparent disclosures of a company's political contributions and lobbying activities.

Gender Balance
We may support proposals asking for improved transparency on a company's gender mix and pay-gap at various levels of organisation

Recording Proxy Voting

We maintain records of all shareholder proposals and votes, including supporting rationales. We consider these records a useful tool for monitoring the behaviour of company management teams.

Conflicts of Interest

Please refer to Aikya's Stewardship Conflict of Interest policy.