

# AIKYA

## Statement on Climate Change

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.

Aikya Global Emerging Markets (UCITS) fund is classified as an article 9 fund under European Union Sustainable Finance Disclosure Regulations (SFDR).

Climate change is one of the most urgent and widespread challenges of our time. It poses major risks but also opportunities for nearly every sector of the economy. The ways in which markets and individual organisations could be affected are varied and complex. This transition, already well underway, presents both risks and opportunities. Transition risks include market and technological shifts, policy and legal changes, and reputational damage, while opportunities may include falling costs of renewable technology and the need for investment in low-carbon alternatives.

Physical risks, on the other hand, refer to risks that are driven by the changing physical environment, such as rising sea levels, severe weather events, and more extreme temperatures.

### Our Commitment

Aikya, a certified B-Corp<sup>1</sup> and signatory to the Net Zero Asset Management initiative, has committed to the following as part of our Sustainable Investment Policy<sup>2</sup>.

1. Reduce by half the Carbon Intensity<sup>3</sup> for the Aikya Emerging Markets Equity Portfolio (Aikya Portfolio) by 2030 (with 2019 as baseline year) and achieve net zero carbon emissions by 2040. Carbon intensity of the Aikya Portfolio is already significantly lower than the MSCI Emerging Markets benchmark.
2. Reduce by half the Environmental Resource Intensity<sup>4</sup> for the Aikya Portfolio by 2030 (with 2019 as baseline year).
3. Seek high quality companies focused on developing solutions to alleviate climate change and biodiversity loss. We will not invest in companies involved in fossil fuel extraction.

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<sup>1</sup> <https://aikya.co.uk/wp-content/uploads/Aikya-Certified-B-Corp.pdf>

<sup>2</sup> <https://aikya.co.uk/wp-content/uploads/2020/09/Aikya-Sustainability-Statement-1.pdf>

<sup>3</sup> Carbon Intensity is defined as Green Gases (Scope 1 and 2) emissions to sales in any given year.

<sup>4</sup> 'Environmental Resource Intensity' is defined as the virgin natural resources such as water, non-renewable energy and material a business uses and the waste it generates for every unit of sales.

4. Provide full transparency to our investors on the performance of our portfolio companies in terms of Carbon Intensity and other climate change related metrics.
5. Engage with companies to take positive actions, both in terms of their own behaviour, and their influence over industry value chains.
6. Reduce emissions in our direct operations and offset whatever emissions we cannot remove. We aim to achieve net zero for Aikya by 2030.

## Climate Change Analysis

We actively consider the risks and opportunities presented by climate change for the Aikya Portfolio. We conduct a detailed analysis of climate change for every company on the Aikya Quality List.<sup>5</sup> When analysing climate change, we link impacts related to climate change with specific financial metrics.

We have also developed an understanding of how climate change might impact the stability of political and financial systems within Emerging Markets. These research conclusions leads to valuable insights when it comes to judging quality and valuation, and directly influence investment decisions. Questions relating to climate change feed into our engagement agendas with relevant financial institutions. We aim to take these issues up with key policymakers in these countries.

Our proprietary climate change models assess physical and transition-related risks, and conversely the opportunities presented by such change. These models consider the impact for the companies themselves, and their value chains. Company-level analysis is then aggregated at the portfolio level and discussed by the team. Given the minimal exposure of our portfolio to energy-intensive industries and hydrocarbons, our exposure to physical and transitional climate risk is very low.

### Transition Risks

The Aikya Portfolio is well positioned for transition risks related to climate change.

We used the Paris Agreement Capital Transition Assessment (PACTA) tool<sup>6</sup> to better understand the portfolio's potential climate-related risks and outcomes. This software analyses the alignment of equity, bond, and lending portfolios with various climate scenarios. Given the portfolio's strict focus on investing in companies with high-quality Environmental Stewardship, the PACTA output indicated that the portfolio would have limited downside risk in a policy scenario where climate action is primarily driven by carbon pricing. This is due to the portfolio's limited exposure to the highest emitting industries (i.e., companies that will be hit hardest by a carbon tax). Aikya's portfolio is absent from heavy emitting sectors, including coal, oil and gas, fossil-fuel power generation, cement, steel manufacturing, plantations, or industrial meat production.

### Physical Risks

While the portfolio has minimal transition risk due to the nature of our investment approach, even the most sustainability-focused companies are exposed to the risks of a changing physical

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<sup>5</sup> Recommendations of the Task Force on Climate-related Financial Disclosures, June 2017.

<https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>

<sup>6</sup> <https://www.transitionmonitor.com/pacta-for-investors/pacta-tool-for-investors/>

environment. These risks are mainly around water scarcity, flooding and changing weather patterns. Physical risks related to climate change are modelled for each investee company and analysed in detail.

## Engagement and Voting Strategy

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

Having set climate change related Sustainability Impact Goals for the Aikya Portfolio, we are able to set specific long-term goals for each of our investee companies. The goals help us better define engagement agendas with our investee companies, and make our judgement on the quality of stewardship more robust.

Our detailed engagement and proxy voting policy can be found here:

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

## Industry Collaborations

Aikya is part of the following industry initiatives on Climate change.

1. Net Zero Asset Management Alliance
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. Rio declaration on Environment and Development

## Additional Information

Aikya Sustainability Statement

<https://aikya.co.uk/wp-content/uploads/2020/09/Aikya-Sustainability-Statement-1.pdf>

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 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 September 30, 2022

[https://www.frc.org.uk/getattachment/2d7660e0-c6b0-4a70-995c-47506833d540/2022-Aikya-Stewardship-Code-Main-Report-App-\(Final\).pdf](https://www.frc.org.uk/getattachment/2d7660e0-c6b0-4a70-995c-47506833d540/2022-Aikya-Stewardship-Code-Main-Report-App-(Final).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>