

AIKYA

Transparency of Sustainability Risk Policies
Article 3 Disclosure under
Sustainable Finance Disclosure Regulations (SFDR)

June 2022

Introduction

In accordance with the requirements of Article 3 of Regulation EU 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”), Aikya Investment Management Limited (Aikya) discloses its policy on the integration of sustainability risks into its investment decision-making processes.

“Sustainability risk” is defined by SFDR as an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

Examples of sustainability risks which may have a material negative impact on the value of an investment, should those risks occur, are as follows:

- Environmental sustainability risks: climate change, air pollution, coastal flooding
- Social sustainability risks: human rights violations, child labour, gender discrimination
- Governance sustainability risks: lack of diversity at board or governing body level, infringement or curtailment of rights of shareholders, health and safety concerns for the workforce

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 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.

Investment Beliefs

Stewardship

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

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.

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. Every investment decision is analysed through a rigorous sustainability analytical framework.

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.

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.

Active Engagement

We engage for two primary 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. 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.

Sustainability Impact Goals

We have set clear sustainability impact goals for the Aikya Emerging Markets Equity Portfolio (Aikya Portfolio), which are linked to specific long-term goals for each of our investee companies

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.