

AIKYA

Principal Adverse Impacts (PAI) Statement

Article 4 Disclosure under
Sustainable Finance Disclosures Regulations (SFDR)

June 2023

1. Background and Scope

The Sustainable Finance Disclosure Regulation (SFDR) defines sustainability factors as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Principal adverse impact is generally understood to mean the negative impact, caused by an investment decision on these factors. This document describes how we consider Principal Adverse Impacts (PAI) of our investment decisions on sustainability factors as per SFDR.

2. Description of Principal Adverse Sustainability Impacts

Almost all economic activity has the potential to impact various sustainability indicators, both positively and negatively. PAI indicators are a way to measure how companies negatively impact sustainability factors. Our investment approach is highly selective and focused on picking the highest quality companies in our universe which should also have a positive impact towards UN Sustainable Development Goals. We have detailed sustainability models on our investee companies, backed by extensive proprietary data collected through our investment research. In addition, we closely monitor, report on any norms breaches and evaluate a range of PAI indicators.

PAI indicators currently monitored and evaluated (to an extent possible with the current level of company level disclosures) include¹:

CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Adverse Sustainability Indicator		Metric
Green House Gas Emissions	1. GHG emissions	Scope 1 GHG emissions
		Scope 2 GHG emissions
		Scope 3 GHG emissions (wherever disclosed)
		Total GHG emissions
	2. Carbon Footprint	Carbon Footprint
	3. GHG Intensity of investee companies	GHG intensity of investee companies
4. Exposure to companies active in the fossil fuel sector	5. Share of non-renewable energy consumption and production	Share of investments in companies active in the fossil fuel sector
		Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
		Energy consumption intensity per high impact climate sector
6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/ operations located in or near to biodiversity-

¹European Union Final Report on draft Regulatory Technical Standards, 2nd February 2021

https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf

		sensitive areas where activities of those investee companies negatively affect those areas
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million Euros invested, expressed as a weighted average
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average
SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Adverse Sustainability Indicator		Metric
Social and employee matters	10. Violations of UN Global Compact (UNGC) principles and Organisation of Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	13. Board gender diversity	Average ratio of female to male board members in investee companies
	14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

3. Description of policies to identify and prioritise principal adverse sustainability impacts

Identification and prioritisation of Principal Adverse Sustainability Impacts are dealt with at the following levels:

A: At the investee company level:

Every investment analyst at Aikya is also a Sustainability Impact analyst. Our analysis of sustainability issues which includes Principal Adverse Impacts of the business operations of a company is as detailed and rigorous as our analysis of traditional financial metrics. We continuously monitor the companies held in the Aikya Portfolio. We do this through regular meetings with the management teams, as well as periodic Annual Report Reviews (ARRs) and Fair Market Value (FMV) assessments on these companies. We have detailed company specific sustainability impact models that provide a transparent guide to principal adverse impacts of the company, set Sustainability performance targets at company level, and it gives us a platform from which to engage with company management teams.

B: At Aikya portfolio level:

We have set clear Sustainability Impact Goals for the Aikya Emerging Markets Portfolio (Aikya Portfolio), which cover majority of Principal Adverse Impacts of a company. 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.

More information on Aikya Sustainability Impact Goals could be found in the following documents:

Aikya Statement on Climate Change

<https://aikya.co.uk/wp-content/uploads/Aikya-Statement-on-Climate-Change-September-2023.pdf>

Aikya Sustainability Statement

<https://aikya.co.uk/wp-content/uploads/2020/09/Aikya-Sustainability-Statement-September-2023.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>

C: At Aikya firm level

Impact investing forms the part of our purpose, as we believe that 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's board is legally obliged, as per Aikya's Articles of Association, to consider the impact of our business on all stakeholders. Aikya's board monitors Aikya's approach to stewardship, including the progress of Aikya portfolio companies in relation to the sustainability impact goals and ensures that our investment and stewardship activities remain well resourced.

4. Engagement policy summary

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.

Engagement forms a crucial part of our long-term investing approach. We engage for two primary reasons.

1. 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.
2. 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.

Our Engagement and Proxy Voting policy can be accessed at:

<https://aikya.co.uk/wp-content/uploads/2020/09/Engagement-and-Proxy-Voting-Statement-September-2023.pdf>

More information on our engagement activities during prior year could be found at:

Aikya report to UK Stewardship Code for year ending September 30th, 2023

https://aikya.co.uk/wp-content/uploads/2023_Aikya_Stewardship_Code_Report_FINAL-1.pdf

5. Reference to International Standards

Our application of PAI 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

6. Additional Information

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