

AIKYA

Position Statement on harmful and controversial
products and services

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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 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.

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.

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.

This document lists the minimum standards of governance, environmental and social stewardship which we demand from our investee companies.

Guiding Principles

Materiality thresholds

We have set a materiality threshold for direct involvement in the relevant activities of 5% of revenues for the companies being analysed. Beyond this threshold, we have zero tolerance for certain unsustainable products and services such as Tobacco Production, Controversial Weapons and Casinos, which do not align with our investment approach. We have listed all of our thresholds in this document.

Universality of standards

Stewardship standards we expect from our companies are applied universally, with no leniency across geographies. For example, respect for Human Rights is as important in a remote corner of Africa, as it is in an advanced country such as the United States.

Transparency and Exceptions

We believe that 100% transparency is the first prerequisite to developing a long-term relationship of mutual trust with our clients. In rare cases where our investee companies may have some exposure to economic activities described in this document, we will disclose our reasoning for maintaining that investment.

Reasons for such an investment could include indirect involvement of our investee companies. For example, one of our investee companies provide IT services to a wide range of industries including Fossil Fuels industry. Exceptions may also relate to legacy activities which are being wound down or the company is not putting any fresh capital into. In both these cases, the purpose of the investee company should be aligned with one of the UN Sustainable Development Goals, and therefore, it should be making a net positive contribution towards sustainable development.

Monitoring and Engagement

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 regularly track our investee companies on any possible involvement in harmful activities and breaches of social stewardship norms, as listed in conventions such as (but not limited to): UN Global Compact, OECD Guidelines for Multinational Enterprises (recommendations on responsible business conduct), Universal Declaration of Human Rights, UN Guiding Principles on Business and Human Rights, OECD principles of Corporate Governance and CCLA - Find it, Fix it, Prevent it (Modern Slavery).

In case an investee company is found to be in breach of any of these principles, we first assess the materiality of the breach, and whether it would prompt us to revise our view on the quality of stewardship at the company in question. In almost all cases, we endeavour to engage with the company, and if the engagement shows no prospect of change, and the issue is material we will eventually divest it from the portfolio.

Minimum standards for Environmental Stewardship

Developing countries face complex environmental challenges in the pursuit of their economic growth. Air and water pollution, degradation of natural habitats, and scarcity of freshwater are just some of the challenges facing Emerging Markets. The true costs of such 'externalities' need to be accounted for when assessing the investment case for any business operating in these countries.

Fossil Fuels

We stand in accordance with the Paris Agreement and the Glasgow Climate Pact of limiting global temperature rise to 1.5 degrees. In this context, we do not invest in companies materially involved in exploration, production, or generation of fossil fuel energy. Moreover, we believe businesses should be progressive and transparent in terms of setting targets to transition to low carbon technologies.

Natural Resources and Mining

While the minerals such as Copper are critical for achieving Sustainable Development Goals, the extraction of these minerals, especially in developing countries is poorly regulated and often destroys the environment and local communities. We do not invest in any natural resources companies which persistently neglect their environmental stewardship responsibilities.

Biodiversity

We use the UNPRI framework to evaluate the potential biodiversity loss impact for the Aikya Portfolio. Biodiversity impact is assessed for each Aikya investee company, and then aggregated at the portfolio

level. We do not invest in companies that are proven to be impacting biodiversity and ecosystems because of their regular business practices, in a systematic and persistent manner.

Minimum Standards for Social Stewardship

Businesses do not exist in isolation. Their fortunes are inextricably linked to the communities they inhabit, and to those whom they are obligated to behave in a fair manner. The first question we ask is 'What will it take for a business to lose its social license to operate?'. In our experience companies that create more problems than solutions for local communities often risk losing their social license to operate, which can have disastrous consequences for both the business and shareholder returns.

Alcohol Production

We do not invest in companies materially involved in the production of alcohol products.

Tobacco Production

We do not invest in companies involved in the production of tobacco.

Gambling

We do not invest in companies materially involved in gambling operations (Casinos).

Armaments

We do not invest in companies that are materially involved in the manufacture of armaments. This includes both controversial weapons such as landmines and cluster munitions, and other armaments such as handguns. We have zero tolerance for weapons covered under the Ottawa (anti-personnel mines) and Oslo (cluster munitions) conventions.

Human Rights

Human rights considerations are integral part of our bottom-up research process. We do not invest in companies with poor records in relation to globally accepted human rights and standards. This includes issues such as modern slavery, child labour, capital punishment, land grabs, indigenous rights and community impacts.

Sex Industry

We exclude all companies that promote pornography or are otherwise connected to the sex industry.

Animal Testing

We understand that animal testing is legally required under specific circumstances, for example medical purpose or when there are no alternative methods of testing available. We ensure the following in our investee companies: 1) Animal testing is done in accordance with ethical principles and standards for the responsible treatment of animals; 2) Animal testing is required by regulatory agencies to limit risk to human lives; 3) Products require ingredients for which no suitable alternative methods of testing are available.

Genetic Engineering

Nature is complex and interfering in natural processes can lead to unpredictable consequences, as well as a series of hard to answer ethical questions. We do not invest in companies involved in the genetic modification of animals or crops.

Unsustainable Farming or Fishing

Industrial farming and commercial fishing both pose a threat to global food chains and the broader environment. We exclude any companies in these industries that are found guilty of unsustainable practices or do not have credible improvement programs in place.

Minimum Standards for Governance

Political Cronyism

Integrity and ethical behaviour is one of the most important considerations for us while judging quality of stewardship in companies during our bottom up investment process. We do not invest in companies where there is material evidence that they have systematically benefitted from political cronyism in the country they operate in.

Bribery and Corruption

We also see many businesses in Emerging Markets that owe at least part of their success to bribery and their organisation's ability to exploit systematic weakness. We avoid companies where there appears to be a culture or system-wide occurrence of bribery and corruption.

Complex Ownership Structure

In certain Emerging Markets ownership structures are especially complicated which only broadens the scope for misalignment with various stakeholders. We do not invest in overly complex ownership structures since they tend to be designed to disadvantage minority investors and other stakeholders.

Tax Avoidance

We believe that corporates must pay their fair share of tax as part of their social licence to operate within countries and communities. We therefore exclude companies that are deliberately avoiding tax through sharp accountancy practices. We believe that the underpayment of tax exposes companies to the risk of regulatory or consumer backlash, even where it may meet the letter of the law.

Accounting and Remuneration

Solid accounting and remuneration policies and compliance therewith are essential for companies' long-term health and reputation. We do not invest in companies with especially aggressive accounting and remuneration policies, for it tends to be a signal for deeper issues.