



# ESG Report Asian Equities

Q2 2021



## ESG RISK RATING

The table below includes ESG Risk scores on the current holdings in the portfolio. The ESG Risk scores are the ESG rank assigned by Sustainalytics on a 1-to-100 scale (1 being the highest score and 100 being the lowest score).

Risk Management and Risk Exposure are the two main components of the overall score, assessing the ESG risk of the individual company and how well the company addresses and manages these risks. The table illustrates the aggregated portfolio scores, as well as the distribution of the holdings scored by Risk Exposure and Risk Management as a percentage of the total portfolio.

	ESG Risk Rating	Risk Management	Risk Exposure
<b>Average Score</b>	25	35	38
	<b>Exposure</b>		
<b>Management</b>	Low	Medium	High
Strong	2%	7%	0%
Average	30%	43%	2%
Weak	7%	11%	0%

Source: Sustainalytics, June 2021

## QUARTERLY HIGHLIGHTS

The debate on environmental issues, excluding climate, has been moving from being mostly single issue focused (e.g., deforestation, water, plastic waste etc.) to increasingly being seen through a more holistic and systemic lens. This has largely been driven by rising acknowledgement of the importance of biodiversity and more broadly natural capital and its interconnectedness with climate change and the inherent feedback loop between these.

Over the past year we have seen several developments and new initiatives pointing in this direction. In June last year, De Nederlandsche Bank became the first central bank to highlight biodiversity as a material financial risk, estimating that the Dutch financial sector alone has USD 600 billion of exposure to biodiversity risks.

We have also seen key tools and frameworks, like those increasingly adopted for climate change, being designed for natural capital. Most prominent examples include:

- 1) The Taskforce on Nature-related Financial Disclosures (TNFD) launched in June 2021 with the goal to build a framework similar to the TCFD (Taskforce on Climate-related Financial Disclosures) to measure and address financial risks derived from biodiversity loss.



2) The Science Based Targets Network initiated the creation of science-based targets for nature, like the science-based climate targets (SBTi) that have become the gold standard when it comes to setting climate targets.

3) Finally, we have also seen an emergence of tools to help investors assess biodiversity risk and natural capital footprint at the investment and portfolio level. One of the more popular is the ENCORE framework developed by the Natural Capital Finance Alliance.

We think it is inevitable that we will see an increase in the adoption and push for the use of tools like this, much like calculating portfolio carbon footprints is common today. Based on our own initial assessment of the ENCORE tool we like offer a few observations:

- The idea behind ENCORE is quite powerful. Assessing investments at the sub-industry level on the degree of dependency on ecosystem services on the one hand (e.g., surface water, soil quality), and on the other hand, the environmental impact resulting from the output from production processes on natural resources (e.g., emissions, and waste).
- However, from a practical perspective it is still too early for the analysis to be directly applicable to our portfolio. Firstly, the model does not cover all sub industries and secondly, many environmental factors are very company specific and dependent on the geographic location (e.g., high water stress areas) of the company's operations, which is not captured in the model.
- That said, when assessing the portfolio on these dimensions water is one of the most critical nature-based input at the aggregate portfolio level, and a material risk factor for several companies in the portfolio e.g., **TSMC** and **Samsung Electronics**.

## FOCUS: WATER RISK

The importance of water in semiconductor production and increased need to mitigate the risk of disruption to water supply has been highlighted this year as Taiwan has experienced its worst drought in 50 years which on June 1 led the government to starting rationing water supply for the major chip hub Taichung.

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**TSMC** has seen its water consumption increase by more than 80% over the past 5 years and today uses more than 200,000 tons of water per day. While



TSMC has not had any disruption to operations due to the current water crisis, as it has been able to secure supply by trucking in water from other regions.

This is an issue that is only set to become more material in the future. Taiwan belongs to the high climate risk group according to Swiss Re and exposure to water shortage is expected to increase dramatically due to climate change. Aside from the short-term truck solution, TSMC is continuously taking steps to mitigate longer-term water resource risk including both short- and long-term target setting on reduction of water intensity and increase water reclamation.

**Samsung Electronics** is another example of a company that has been directly impacted by water shortage. Its semiconductor plant in Austin, Texas was shut down following the power outage and extreme cold weather conditions earlier this year. The company has continuously taken steps to improve its water management and recycling of wastewater generated in the production process.

We have also seen **Hua Hong Semiconductor**, China's second largest semiconductor foundry, taking steps to improve its water management and mitigate water related risk. The company's fabrication plants in Shanghai and Wuxi are in high water stress areas, and we see an increased awareness of the importance of water resource utilisation in the company's most recent 2020 materiality analysis compared with the previous years. Last year the company also conducted its first water footprint assessment and set its first long-term water saving targets for 2030.

## DIRECT ENGAGEMENT

We participated in a few company calls during the second quarter where we had the chance to discuss various ESG issues including with **Sri Trang Glove** and **Longi Green Energy Technology**.

### *Sri Trang Gloves*

Sri Trang Gloves (Thailand) is a leading manufacturer of rubber products such as hand gloves, which is an industry that does not have the best ESG reputation. However, while Sri Trang is not covered by mainstream ESG providers such as Sustainalytics and MSCI, the company is in our view among best-in-class in the industry and not linked to human rights controversies as some of its competitors.

Sri Trang was represented with the CFO, as well as members from its Sustainability team. Our impression of how management approach ESG issues and its plans for future improvements was overall very good and there is a clear positive direction.

Sri Trang conducted its first materiality analysis in 2020 and are looking to expand its efforts over the coming years, which include integration of



the sustainable development goals (SDGs) across the organisation. Among key focus areas identified in the materiality analysis is employee care and development. The team was very proud and confident of its management and performance on this issue.

Its 13 factories are assessed biannual by an independent third-party on various working condition metrics such as health and safety. All by one factory received the highest A ranking in the most recent assessment putting them on top in terms of factories in Thailand according to management.

We also discussed its environmental 2025 targets and considerations around science-based climate targets, which were not yet on the radar. Finally, we discussed emerging risks. They highlighted that they as a company were getting better at thinking ahead – also in terms of mitigating potential risks.

Cyber security was identified as a top 5 risk and an important topic for the business continuity management committee that was established in 2020 and set to implement a business continuity plan according to international standards during 2021.

#### *Longi Green*

As the world's leading solar technology company and largest solar PV manufacturer Longi Green (China) is very well positioned to benefit as the energy transition and green wave unfolds over the coming decades.

In the call we had the chance to get an understanding of the company's overall integration of ESG and sustainability. Over the last few years, the company has improved both on disclosures but also on the operational side. In 2020 the company committed to setting science-based climate targets, and joined the UN Global Compact, as well as global initiatives such as RE100.

We also touched upon the controversy linked to the potential use of forced labour in the Xinjiang province, which the company argued there was no evidence of. This nonetheless remains an issue that receives a lot of attention and remains very political sensitive as the US administration has put Chinese solar products and companies from Xinjiang under increased scrutiny for potential human rights violations. This is an issue we continue to follow closely.



## COLLECTIVE ENGAGEMENT

Through our cooperation with Sustainalytics, we are currently actively engaging with the following companies in the Asia portfolio:

### **Samsung Electronics**

*Business Ethics – Corrupt Practices*

In 2017, the vice chairman of Samsung was arrested in a corruption scheme involving the impeached president of South Korea. In 2020, Samsung presented an external Compliance Committee to provide recommendations to the Board. Samsung updated its internal anti-corruption policy and provides tailor-made compliance training to employees and executives covering awareness and compliance risks. The external Compliance Committee is operating an independent whistle-blower channel and is reviewing the effectiveness of the compliance program. Sustainalytics will continue to monitor news about any recommendations provided by the Samsung Group and follow up on the latest enhancements implemented to strengthen the compliance program management system.

## NEW POSITIONS DURING Q2 2021

### **Hansol Chemical**

Hansol Chemical (South Korea) is a supplier of key semiconductor material and materials to EV battery producers such as Samsung SDI and SK Innovation. Hansol Chemical operates in a relatively high risk ESG industry but has no significant controversies. Key material ESG issues include responsible sourcing, health and safety, and waste management.

### **Beijing Oriental Yuhong**

Beijing Oriental Yuhong (China) provides waterproofing solutions for a variety of applications, including infrastructure projects and commercial and industrial buildings, and is the largest and best-in-class waterproofing company in China. Beijing Oriental Yuhong operates in a relative high risk ESG industry but has no significant controversies. Key material ESG issues includes emissions, waste, and business ethics.

## QUARTERLY VOTING STATUS

The second quarter of the year is traditionally the proxy voting season. Last year was affected by Covid-19, which postponed several AGMs, but 2021 seems to be back to normal. Many of our portfolio companies held their AGMs during the quarter.



For the majority of the AGMs in the portfolio, the agenda items where the company seeks a general mandate to issue shares without pre-emptive rights, as well as the company often also seeks approval to authorise the board to reissue repurchased shares were present. We have decided to vote against such items if the aggregate share issuance limit is greater than 10% as well as if the discount limit for the share reissuance exceeds 10%. This has been the case in many of the companies listed in the table below.

This was the case for companies such as Hua Hong Semiconductor, Tencent, Sands China, Sunny Optical Technology, Sunac China, Sunac Services, Anhui Conch Cement, Shenzhou International, Xinyi Solar, Yuzhou Properties, Meituan, China Merchants Bank, and Weimob.

Additionally, we saw a few meetings where ISS recommended voting against election of certain directors if the composition lacks gender diversity. We do not think we should vote against a board member because of gender diversity, we think the best qualified person should have the position. This was the case for Sunny Optical, Xinyi Solar, Meituan, Weimob, and Balkrishna Industries.

For other items addressed during the proxy season, please see below.

#### *Ayala Land*

Despite the sound rationale and potential benefits of the proposed merger between Ayala Land and Cebu Holdings, we voted against due to the lack of documents/analysis supporting the exchange ratio, as well as the non-disclosure of independent valuation analysis and fairness opinion conducted by Isla Lipana & Co on the Merger. We would need further information disclosed before being able to support.

#### *Sany Heavy Industry*

Also for Sany Heavy Industry there was a lack of information on the item to establish the Sanyi Jinpiao Supply Chain Collective Fund Trust Plan whereby funds will be used to purchase receivables of suppliers due from the company and its subsidiaries. In particular information about the company's percentage ownership in the said subsidiaries was not disclosed.

#### *Realtek Semiconductor*

We voted against the non-independent director nominees as the independence level would be below market standard, which is a minimum requirement of one-third non-independent directors.

For further details on the abovementioned voting items, please see the table below. A full list of all votes cast during the quarter is available upon request.



Company	Date	Type	Proponent	Proposal number	Votable proposal	Proposal text	Management recommendation	Voting policy recommendation	Vote instruction	Vote against management
Sri Trang Gloves (Thailand) Public Co. Ltd.	4/2/2021	Annual	Management	8	Yes	Other Business	For	Against	Against	Yes
Ayala Land, Inc.	4/21/2021	Annual	Management	4	Yes	Approve Merger of the Company and Cebu Holdings, Inc. and Its Other Subsidiaries	For	Against	Against	Yes
Ayala Land, Inc.	4/21/2021	Annual	Management	8	Yes	Approve Other Matters	For	Against	Against	Yes
Sany Heavy Industry Co., Ltd.	4/23/2021	Annual	Management	9	Yes	Approve Related Party Transaction in Connection to Establishment of Sany Jinpiao Supply Chain Collective Fund Trust Plan	For	Against	Against	Yes
Sany Heavy Industry Co., Ltd.	4/23/2021	Annual	Management	12	Yes	Approve Use of Idle Own Funds for Financial Products	For	Against	Against	Yes
Hua Hong Semiconductor Limited	5/13/2021	Annual	Management	9	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Hua Hong Semiconductor Limited	5/13/2021	Annual	Management	10	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Tencent Holdings Limited	5/20/2021	Annual	Management	5	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Tencent Holdings Limited	5/20/2021	Annual	Management	7	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Tencent Holdings Limited	5/20/2021	Annual	Management	1	Yes	Adopt Share Option Plan of China Literature Limited	For	Against	Against	Yes
Sands China Ltd.	5/21/2021	Annual	Management	5	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Sands China Ltd.	5/21/2021	Annual	Management	6	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Sunny Optical Technology (Group) Company Limited	5/25/2021	Annual	Management	5	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Sunny Optical Technology (Group) Company Limited	5/25/2021	Annual	Management	7	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Sunac China Holdings Limited	5/27/2021	Annual	Management	3A3	Yes	Elect Poon Chiu Kwok as Director	For	Against	Against	Yes
Sunac China Holdings Limited	5/27/2021	Annual	Management	5A	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Sunac China Holdings Limited	5/27/2021	Annual	Management	5C	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Sunac China Holdings Limited	5/27/2021	Annual	Management	6	Yes	Amend Existing Memorandum of Association and Articles of Association and Adopt the Amended and Restated Memorandum of Association and Articles of Association	For	Against	Against	Yes
Sunac Services Holdings Ltd.	5/27/2021	Annual	Management	5A	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Sunac Services Holdings Ltd.	5/27/2021	Annual	Management	5C	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Anhui Conch Cement Company Limited	5/28/2021	Annual	Management	8	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Shenzhou International Group Holdings Limited	5/28/2021	Annual	Management	10	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Shenzhou International Group Holdings Limited	5/28/2021	Annual	Management	12	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Xinyi Solar Holdings Limited	5/28/2021	Annual	Management	5B	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Xinyi Solar Holdings Limited	5/28/2021	Annual	Management	5C	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Yuzhou Properties Company Limited	5/28/2021	Annual	Management	6	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Yuzhou Properties Company Limited	5/28/2021	Annual	Management	8	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Realtek Semiconductor Corp.	6/8/2021	Annual	Management	3.2	Yes	Elect Yeh Po Len, a Representative of Sonnen Limited, with Shareholder No. 239637, as Non-Independent Director	For	Against	Against	Yes
Realtek Semiconductor Corp.	6/8/2021	Annual	Management	3.4	Yes	Elect Chen Kuo Jong, a Representative of United Glory Co., Ltd, with Shareholder No. 65704, as Non-Independent Director	For	Against	Against	Yes
Realtek Semiconductor Corp.	6/8/2021	Annual	Management	3.5	Yes	Elect Huang Yung Fang, with Shareholder No. 4926, as Non-Independent Director	For	Against	Against	Yes
Realtek Semiconductor Corp.	6/8/2021	Annual	Management	3.6	Yes	Elect Yen Kuang Yu, with Shareholder No. 36744, as Non-Independent Director	For	Against	Against	Yes
Realtek Semiconductor Corp.	6/8/2021	Annual	Management	3.7	Yes	Elect Ni Shu Ching, with Shareholder No. 88, as Non-Independent Director	For	Against	Against	Yes
Meituan	6/23/2021	Annual	Management	6	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Meituan	6/23/2021	Annual	Management	8	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
China Merchants Bank Co., Ltd.	6/25/2021	Annual	Management	14	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Weimob Inc.	6/29/2021	Annual	Management	4A	Yes	Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Against	Yes
Weimob Inc.	6/29/2021	Annual	Management	4C	Yes	Authorize Reissuance of Repurchased Shares	For	Against	Against	Yes
Weimob Inc.	6/29/2021	Annual	Management	5	Yes	Approve RSU Scheme Annual Mandate	For	Against	Against	Yes
Sunny Optical Technology (Group) Company Limited	25/5/2021	Annual	Management	3b	Yes	Elect Feng Hua Jun as Director	For	Against	For	No
Xinyi Solar Holdings Limited	28/5/2021	Annual	Management	3A3	Yes	Elect Cheng Kwok Kin, Paul as Director	For	Against	For	No
Meituan	23/6/2021	Annual	Management	2	Yes	Elect Wang Huiwen as Director	For	Against	For	No
Weimob Inc.	29/6/2021	Annual	Management	2A1	Yes	Elect Sun Taoyong as Director	For	Against	For	No
Balkrishna Industries Limited	30/6/2021	Annual	Management	4	Yes	Approve Reappointment and Remuneration of Arvind Poddar as Chairman & Managing Director	For	Against	For	No

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