WORLDWIDE
ASSET MANAGEMENT

# ESG Report
# Asian Equities

Q4 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 and 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 |
|---|---|---|---|
| **Average Score** | 25 | 37 | 38 |
| | | **Exposure** | |
| **Management** | Low | Medium | High |
| Strong | 3% | 10% | 0% |
| Average | 29% | 40% | 2% |
| Weak | 5% | 9% | 0% |

*Source: Sustainalytics, December 2021*

## QUARTERLY HIGHLIGHTS

In October 2021, we released our first Annual Sustainability and TCFD report. Since committing to TCFD (Taskforce on Climate-related Financial Disclosures) as an official supporter about a year before releasing our initial report, we have worked with the framework to apply on firm-level as well as integrate into investments practices. Besides addressing climate-related financial implications, the annual sustainability report also includes insights on our stewardship activities. The report is available on our website https://cworldwide.com/downloads/sustainable-investing/

A significant ESG event during the last quarter of 2021 was the COP26 in Glasgow. Before the long-awaited climate summit, there was hope that governments and policymakers would agree on new sharpened and ambitious though feasible climate targets. Before COP26, the International Energy Agency (IEA) said that 40% of the world's existing 8,500 coal-fired power plants must be closed by 2030, and no new ones built, to stay within the 1.5 degrees limit from the Paris climate agreement.

The conference made progress on cutting GHG emissions. However, at the last minute of the summit, the final deal agreed upon dropped the wording calling for 'phase out' of coal-fired power to rather 'phase down', predominately due to pressure from fossil fuel-dependent countries such as China and India. But at least the deal included wording on cutting fossil fuels,

which despite being an obvious target of the climate future, has not until now been included in previous COP agreements.

Back from the COP26, the EU continues its work on the EU Taxonomy. Discussions are currently taking place on how to categorise energy sources, and in particular heavy discussions and lobbying about nuclear power – is it green and part of the solution for the energy transition or is it a classical brown fossil fuel? In a draft proposal issued on New Year's Eve, gas and nuclear energy projects could be included in the EU. Taxonomy under environmentally sustainable economic activities, allowing companies within these industries to receive funding to help the EU meet its goal of net-zero emissions by 2050. This is just one way to manage the global net-zero commitment. Corporates and asset managers continue to have to navigate in more or less developed regulation across the globe, where also the US, Hong Kong, Taiwan, Singapore, South Korea, China, and Australia, to name a few, are all working with different sustainable investment frameworks and codes.

The outcomes from COP26 and governmental regulations and frameworks will continue to affect companies and the global markets we invest in. For us specifically, climate and emission abatement plans are part of the ongoing engagements with our investee companies. As 2021 has seen an increased commitment from companies to commit to GHG emission reduction plans and targets, for 2022, we foresee that a lot more focus will be on how to actually reduce GHG emissions and on how climate focus will broaden to an environmental focus, in particular with a focus on biodiversity.

A few initiatives that we know from the recent years' strong focus on climate have been launched as nature initiatives. These include Nature Action 100 (as Climate Action 100+) and the Taskforce on Nature-related Financial Disclosures (TNFD) (as TCFD). We are still in the infancy stages, but we believe the initiatives will gain traction once the final framework has been published during 2022 and the beginning of 2023, respectively.

## DIRECT ENGAGEMENT

During the quarter, we had the following engagement calls.

**Sunny Optical Technology**
Related to environmental issues aspects of ESG, we questioned Sunny Optical on the fact that they have not signed up for Science-Based Targets and hence the company's strategy around reducing $CO_2$ emissions. The company merely mentioned that senior management is becoming more involved in ESG matters, and the company deferred to the Chinese government's overall $CO_2$ emission targets. We stressed that an increased focus on environmental issues is essential for us as shareholders. The company mentioned that it is a growing issue for an increasing number of shareholders. We will follow up on this development in future meetings with the company.

**Bank Central Asia (BCA)**
Despite having met BCA multiple times, this was our first dedicated ESG meeting. Our focus for the meeting was to understand the sustainability efforts at BCA better even though the bank is quite strong in the field already, especially considering its origin and standards in general in Asia might have thought otherwise. BCA was one of the first financial institutions in Indonesia to work with ESG, which has since been supported by governmental requirements introduced in 2017. We discussed sustainable finance, including lending to the palm oil industry, where BCA has set a target that all plantations must be sustainably certified to receive lending. Currently, 70% of the palm oil exposure has this certification. We also discussed data privacy and security and the emphasis that BCA puts on the education and training of all employees regularly to secure a strong knowledge level and tight safety net. Finally, we discussed the board structure and remuneration systems, where executive management KPIs, including the CFO’s, are linked to ESG.

## COLLECTIVE ENGAGEMENT

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

**Samsung Electronics**
*Bribery and Corruption*
Samsung has struggled with accusations regarding a corruption scheme with former high-level executives for several years. The reported practices could violate the UN Global Compact Principle 10 on corruption and the corresponding Guideline VII of the OECD Guidelines for Multinational Enterprises. Samsung has carried out various measures to strengthen its governance structure and compliance programme. In general, the company has been open and willing to discuss the issues related to the corruption scandal and its ethics and compliance work with Sustainalytics. The next step is to further assess Samsung based on their 2021 Sustainability Report, leading to

potential recommendations and strengthening measures to ensure sustainable progress.

**Tencent Holdings**

*Involvement with Entities Violating Human Rights*

In recent years, Tencent has been linked to allegations of surveilling its users on behalf of the Chinese government and related to allegations of severe violations of freedom of expression in China and abroad. In its 2020 report, Freedom House flags China as the "worst abuser" of Internet freedoms globally. Through the engagement, Sustainalytics is engaging with the company to understand the steps Tencent is taking to protect the relevant human rights of its users, especially privacy and freedom of expression. As of December 2021, Tencent has been responsive to Sustainalytics and is willing to engage. However, a conference call in December 2021 was postponed due to confusion concerning Tencent's openness to engage with Sustainalytics and its clients. Tencent's rationale for this position is not clear. Efforts to coordinate a new time are underway and will hopefully be held in January 2022.

## NEW POSITIONS DURING Q4 2021

We initiated positions in KEC International, Airtac, OZ Minerals, and DBS Group during the quarter.

**KEC International**

KEC International is a professionally managed Indian infrastructure engineering, procurement, and construction company with a dominant presence in high growth areas such as transmission towers, railway electrification and civil engineering. Roughly half of the company's business occurs in India, with the rest taking place in countries worldwide. The company has a high risk score with Sustainalytics due to its industrial activities, subindustry exposure, and poor disclosing practices. The most material ESG issues include potential exposure to bribery and corruption, due to sector bias, environmental and social impacts of its products and services, and human capital. However, as part of the well-respected RPG group, its corporate governance standards are visibly above the rest of the industry. Additionally, the company has not been involved in any ESG-related controversies.

**Airtac International Group**

Taiwanese Airtac International Group specialises in producing actuators, control components, air preparation products, and accessories, which are widely used in industrial automation, including automotive, machinery manufacturing, electronics, lighting and textile, medical equipment and food and packaging. The company currently has a high-risk score with Sustainalytics predominantly due to its weak product and service safety risks management. However, we see recent improvement with the company in commitment to sustainable development by management and reporting

following the GRI standard. Product governance, human capital, and business ethics are material ESG issues. The company has not been involved in any ESG-related controversies.

**OZ Minerals**
OZ Minerals is a copper mining company and, therefore, a direct beneficiary of the ongoing green transition through electrification. Demand for copper will increase significantly from EV's, charging stations, solar energy systems, wind turbines, transmission, and distribution lines. The company has a medium ESG risk score; however, a relatively favourable score compared to its peers. Community relations, emissions, effluents & waste and occupational health & safety are material ESG issues. The company has not been involved in any ESG-related controversies.

**DBS Group**
DBS Group is amongst the most well-regarded banking franchises in Asia, with a dominant presence in its home market of Singapore. The bank engages in commercial banking and financial services, and the bank's wealth-management business is one of the largest in Asia. It operates primarily in Singapore, Hong Kong, and Greater China. The bank has a strong ESG profile, a decent level of disclosures, a low ESG risk score and no significant ESG controversies. The most significant material ESG issues are product governance, data privacy & security and business ethics.

## QUARTERLY VOTING STATUS

There were a few AGMs and EGMs in Chinese companies during the quarter.

**Hua Hong Semiconductor**
We voted against the proposals to amend and refresh the share option programme. The suggested amendment would allow 50% of the relevant options to vest if either of the financial performance targets had been achieved, thereby easing the overall performance conditions for the 2018 Options and 2019 Options. Similarly, we voted against renewal of the limits in the option programme, as insufficient information was disclosed. The directors eligible to receive options under the scheme are involved in the administration of that same scheme.

**Geely Automobile**
We voted against the proposal to renew the Volvo Finance Cooperation Agreements as such agreements would expose Geely to unnecessary capital risks.

**Sungrow Power Supply**
We voted against the proposal to approve a capital injection in the controlled subsidiary, the implementation of an Equity Incentive Plan, and Related Party Transaction. The terms in the proposals were not considered in the best interest of shareholders, primarily because the company failed to include positive

features, such as challenging performance criteria and meaningful vesting conditions to mitigate concerns over discount on the injection price for the participants in the equity incentive plan.

**Sany Heavy Industry**

We voted against the approval of the Provision of Guarantee as the level of guarantee to be provided to some of the company's subsidiaries seemed disproportionate to the level of ownership in the said subsidiaries.

| Company | Type | Date | Proponent | Proposal number | Proposal text | Voting policy recommendation | Vote instruction | Vote against management |
|---|---|---|---|---|---|---|---|---|
| Hua Hong Semiconductor Limited | Extraordinary Shareholders | 26-nov-21 | Management | 1 | Approve Amendments to the Terms of the 2018 Options and the 2019 Options Under the Share Option Scheme | Against | Against | Yes |
| Hua Hong Semiconductor Limited | Extraordinary Shareholders | 26-nov-21 | Management | 2 | Approve Refreshment of the Limit on the Grant of Options Under the Share Option Scheme | Against | Against | Yes |
| Geely Automobile Holdings Limited | Extraordinary Shareholders | 06-dec-21 | Management | 3 | Approve Renewal of Volvo Finance Cooperation Agreements, Volvo Annual Caps (Wholesale), Volvo Annual Caps (Retail) and Related Transactions | Against | Against | Yes |
| Sungrow Power Supply Co., Ltd. | Special | 20-dec-21 | Management | 1 | Approve Capital Injection in Controlled Subsidiary, Implementation of Equity Incentive Plan and Related Party Transaction | Against | Against | Yes |
| Sany Heavy Industry Co., Ltd. | Special | 27-dec-21 | Management | 5 | Approve Provision of Guarantee | Against | Against | Yes |

A complete list of all votes cast during the quarter is available upon request.

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