SKERRYVORE GLOBAL EMERGING MARKETS EQUITY STRATEGIES

Sustainability Review

2023

Skerryvore

bennbridge

Contents

Front cover: Kiz Kulesi (Maiden's Tower) in the Bosphorus Strait, Turkey

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Stock examples
The information provided in this document relating to specific stock examples should not be considered a recommendation to buy or sell any particular security.

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Foreword

We are long-term investors. A consequence of this is that the businesses we invest in must be sustainable. It's a fundamental part of our far-sighted and fair-minded investment philosophy and process. This sustainability review aims to give you greater insight into how we have been thinking about and assessing sustainability issues for the businesses we have considered, invested in and engaged with over the past 12 months[1].

Substance Over Style

The terms 'sustainability' and 'ESG' are often poorly defined, both in terms of what they stand for and what their purpose is, which has allowed these issues to be drawn into a broader and highly politicised values-based debate. From our perspective, this misses the fundamental point of investing sustainably, which is to maximise investment returns by reducing foreseeable risks within the portfolio.

It is important to make clear what we mean when we talk about sustainability. As long-term investors we are looking to assess whether a business will continue not only to exist but to thrive without jeopardising the needs and requirements of future generations. We believe this is the essence of sustainability. The question we ask in its most basic form is whether a business we are considering investing in is doing anything that could threaten its long-term existence.

If a company abuses its customers, dumps toxic waste in a river or has questionable governance, we see that as a warning signal that it does not care about the long-term future of its business. This typically reflects a lack of alignment between the people controlling the business and us as minority shareholders. We believe this should ultimately be reflected in the company's valuation and long-term return potential. A business that exploits its stakeholders for the sake of improving short-term returns is likely to be caught out when customers or the government respond, resulting in profound damage to the long-term economics of the business. Even if this does not happen, a management team that is prepared to mistreat one set of stakeholders is more likely in our experience to exploit us as minority investors too. Their primary interest is near-term profit, not long-term value maximisation.

Our purpose is to be an investment-led boutique that is able to meet its clients' needs – both in terms of investment returns and investing sustainably. We have organised ourselves in a way that fuses and mirrors these requirements by establishing our Sustainability Working Group. This brings together the investment, client and regulatory focused members of the business to establish and monitor research and business processes to support this purpose.

> "Sustainability is an integral part of our investment philosophy."

We see two key benefits to this working group. First, it means that we do not have a separate ESG team or a designated 'head of ESG'. In the same way that sustainability is integrated into our investment process and analysis, so it is integrated into the daily working lives of our investors. By instructing proxy votes, noting areas for follow-up within our research database and conducting meetings with the businesses we engage with, we can produce valuable insights on sustainability issues for our clients. This process also allows us to raise any concerns or recommendations that we may have with a business in a proactive and timely manner. Client outcomes benefit from having a team willing and able to challenge a business on its sustainability stance from a position of knowledge and empowerment, rather than these issues being delegated upwards to a titular head. Second, it means that when communicating with regulators, consultants or clients we have an investment team rather than marketing communicating our approach to sustainability.

1 12 months to end June 2023

The perils of a marketing-led approach to sustainability have become visible across the globe over this past year: for example, in Europe 'Some 307 SFDR Article 9 funds were downgraded to Article 8 in the fourth quarter of 2022, with a combined value of €170.1 billion, according to the latest Morningstar data. And the trend has continued into 2023, with €99 billion of ESG funds downgraded to Article 8 in the first month of the year'[1]. We believe that these downgrades are indicative of marketing-led processes that are focused on meeting the needs of a business, rather than the investment return needs of its clients.

This is one of the reasons we haven't followed the industry trend for re-naming funds or strategies to make them 'sustainable' or 'ESG-focused'. Sustainability is an integral part of our investment philosophy and process, not something we do just for particular funds. We consider ESG factors to be a subset of a more holistic definition of a sustainable business – a means of managing both foreseeable and potential future risks to maximise long-term returns. They are two sides of the same coin. Our hope is that over time this more holistic interpretation will be adopted by those seeking to politicise this debate.

We welcome the growing requirement to share our underlying sustainability and stewardship data and processes and strongly believe that data and actions are more important than words. It is in this spirit that we have produced this annual review.

What is in this Review?

As one would expect from a bottom-up focused investment process, in **The Data Challenge** we highlight some of the real and interesting data challenges that we face when trawling through company reports, NGO materials and sustainability databases when writing our research reports. There are a number of commercial sustainability data aggregators, and our concern is that the aggregated top-down tables and easily digestible graphics can at times give an overly simple and potentially untrustworthy representation of a portfolio's true sustainability positioning without the disclosure of the strengths and weaknesses of the underlying data.

The drawing to the end of the Covid-19 pandemic in this period and the easing of travel restrictions have enabled the investment team to get back out on the road conducting investment trips. In **Diversity Matters** we highlight both the challenges and opportunities with regards to greater representation of women in the Indian workforce and on-the-ground findings from a recent research trip to India. As a small and expanding investment boutique we also discuss our own challenges in this area in **Questioning the Balance** and highlight the actions we're taking both to improve our own business and to contribute to the broader industry.

Finally, we present a snapshot of the carbon emissions profile for our strategies and highlight some of the areas on which we have been engaging with portfolio holdings over the past 12 months.

We hope you will find this document interesting and useful. Should you have any follow-up questions or thoughts, please do feel free to get in touch.

1 Morningstar. (2 February 2023). ESG Fund Downgrade Accelerates. www.morningstar.co.uk/uk/news/231438/esg-fund-downgrade-accelerates.aspx

The Data Challenge

It's been nearly 18 months since we wrote about the benefits of standardisation in ESG data[1]. Since then, the formation of the International Sustainability Standards Board (ISSB), with the purpose of developing a global baseline for sustainability disclosures, signified a historic moment for the future of ESG data reporting[2].

Sustainability considerations continue their move to the forefront of investment decision-making and reporting, spurred on by inexorable advances in ESG regulation and client requirements. The need for transparent and comparable frameworks and methodologies is intensifying.

At the same time, we notice some interesting challenges when we review company reports, NGO materials and sustainability databases when writing our research reports.

With all this in mind, we've therefore spent more time with our sleeves rolled up, to better understand various data sets, providers and costs. The process has yielded a number of important takeaways, some obvious, some less so.

1. **Different conclusions from different providers:** The lack of consistency and quality can be stark and is a reminder that these data points are generally estimates, usually based on separate and distinct approaches. For example, Figure 1 below shows the wide range of estimates in Scope 3 greenhouse gas (GHG) emissions for **Universal Robina**. Timeliness and freshness of data here is also a constraint, with the level of precision very different from what we have become accustomed to in traditional financial statements. In both cases, monitoring strategic change to business models is crucial.

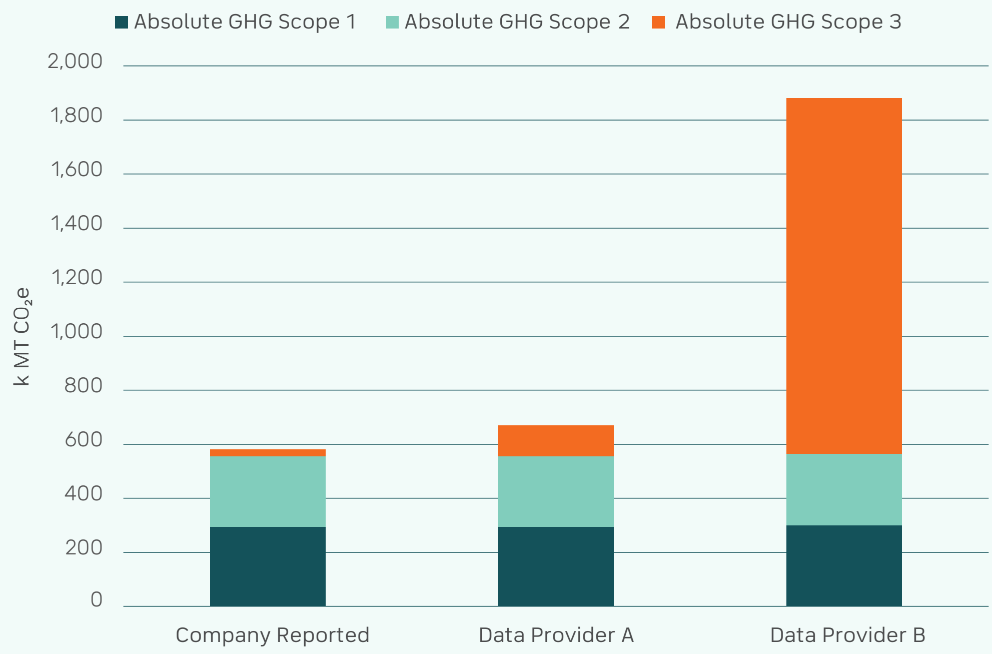


Figure 1
Universal Robina GHG emissions by various data providers

1 Skerryvore. (January 2022). Raising the Standard. www.skerryvoream.com/uk/insights/long-view/raising-standard

2 Liikanen, E. (2021). IFRS Trustees Chair Erkki Liikanen announces ISSB at COP26 [recorded by IFRS Trustees]. Glasgow, UK. www.youtube.com/watch?v=6kMRAsJQIj8

2. Emerging markets have some material ESG data gaps that will probably persist: Whether it's a function of resource or hesitation, we find some emerging markets businesses slower to meet the rising bar of ESG reporting. As a boutique business, we appreciate the limitations of time and resource. That said, large economies like China and India have yet to fully embrace reporting standards as seen elsewhere[3]. Considering their impact on global emissions, a lack of data is akin to flying blind.

3. Lack of control over indirect Scope 2 emissions: The defining of and action to reduce Scope 2 emissions from power consumption is of particular concern relative to most manufacturing businesses throughout emerging markets. Unfortunately, this is often outside the control of business owners beholden to local grids and regulation. By comparing location-based and market-based Scope 2 emissions we can better understand the position on emissions as a result of geography and those within company control. This is further illustrated in the chart below detailing the relative demarcation and trend in **Unilever**'s emissions on a location and market basis between 2016 and 2021 (Figure 3).

GHG Emissions

Scope 1	Direct emissions from owned or controlled sources
Scope 2	Indirect emissions such as the energy purchased and used
Scope 3	Indirect emissions that are not included in Scope 2
Scope 4[4]	Avoided emissions or emissions reductions

Figure 2 GHG emissions by scope
NB: the popularity of Scope 4 reporting is growing despite the complexity in its methodology

> "These data points are generally estimates, usually based on separate and distinct approaches."

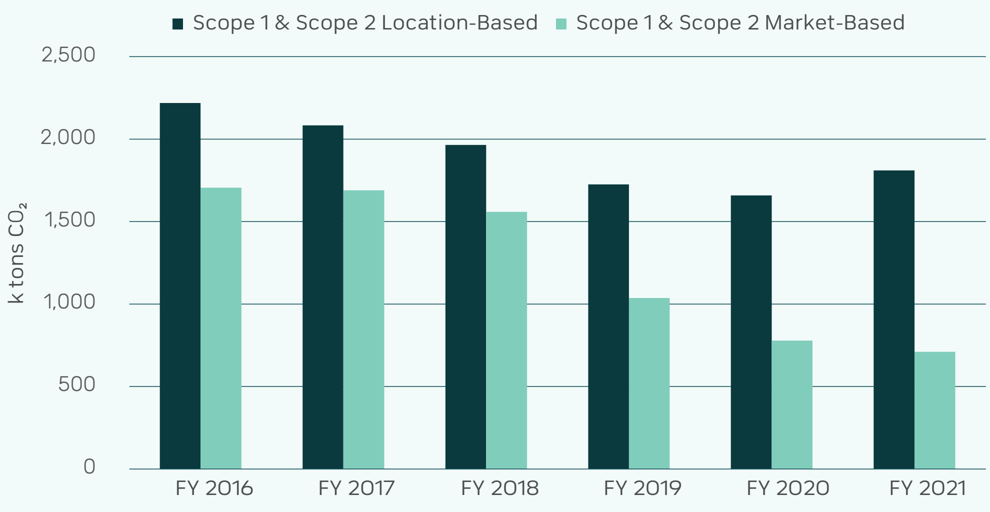


Figure 3
Unilever Scope 1 & 2 emissions by methodology (Source: Unilever)

3 Osborne Clarke. (January 2023). How the ESG agenda is shaping international supply chains in Asia. www.osborneclarke.com/insights/how-esg-agenda-shaping-international-supply-chains-asia

4 Agenda (FT). (11 July 2022). Measuring Scope 4 emissions – what boards need to know. https://enterprise.ft.com/en-gb/blog/measuring-scope-4-emissions-what-boards-need-to-know/

4. Corporate actions can cloud ESG reporting: Just as we are familiar with the impact of corporate actions on financial reporting, the addition or subtraction of resource-intensive businesses reduces the usefulness of track record analysis. Here remains a big opportunity for greenwashing. Examples could include the divestment of carbon-intensive upstream operations in favour of outsourcing or procuring materials. Actions like this can shift emissions between different scopes and give the appearance that goals have been met more quickly than may actually be the case.

5. Proprietary data sets run counter to the spirit of goals: We highlighted in our previous note that these data providers are more than willing to summarise conclusions for stakeholders through the use of proprietary scoring systems[5, 6]. The results often praise companies who don't always look sustainable to us, and often conflict with other providers' views. Unfortunately, the relative infancy of regulated disclosure requirements provides a market opportunity for such companies for the time being. We have no issue with ratings providers selling a value-added service, but the value-add remains suspect. Over the longer term we hope some of these providers open their data sets up in the spirit of collaboration and progress. If the stakes are as high as they seem, regulation should hurry to reach common disclosure by companies.

6. Reliance on pending innovation: With a stronger appreciation for what is required and a fair understanding of human behaviour, technology is the obvious leveller in this war of change. The economy and most behaviours as they stand are insufficient to deal with the problem we face. A recent meeting with a steel company demonstrated the need for a yet-to-be-proven hydrogen-based production technology to meet long-term carbon-neutrality goals. Many companies are probably in the same situation. Technology and businesses that facilitate investment in a solution are now more valuable. Companies' resilience has also grown in importance in our view.

Scope 2 Emissions

Location-based	Emissions based on the emissions intensity of the local grid area where the electricity usage occurs
Market-based	Emissions based on the electricity that a business has chosen to purchase, often detailed in contracts or instruments such as renewable energy certificates

Figure 4 Scope 2 methodology

These factors show that aggregated top-down tables and easily digestible graphics can at times give an overly simple and potentially untrustworthy representation of a portfolio's true sustainability positioning without the disclosure of the strengths and weaknesses of the underlying data.

> "The addition or subtraction of resource-intensive businesses reduces the usefulness of track record analysis."

5 The SustainAbility Institute. (5 October 2022). Rating the raters yet again: 6 challenges for ESG ratings. www.sustainability.com/thinking/rating-the-raters-yet-again-six-challenges-for-esg-ratings

6 EY.com. (21 March 2023). How ESG data markets have evolved for financial services. www.ey.com/en_gl/financial-services-emeia/how-esg-data-markets-have-evolved-for-financial-services

Our Focus is Unchanged

Our investment process remains focused on separating the wheat from the chaff. A long-term approach to managing a business is something we hold at the centre of our definition of quality. Among the struggles of ESG data and reporting, we believe qualitative approaches to finding investible businesses remain the most important filter. Analysis of capital allocation, reporting quality and attitude towards risk continues to be the bedrock of our investment research.

When we do draw on ESG data we scrutinise its quality, materiality and comparability. Beyond that, we choose to engage with companies to better understand the data they provide, what it means and how it could evolve. We appreciate the evolution of ESG reporting remains in its early days, but are encouraged by the refinement and broader participation we see.

Coca-Cola Andina electric truck, Chile. Source: Skerryvore

> "Aggregated top-down tables and easily digestible graphics can at times give an overly simple and potentially untrustworthy representation of a portfolio's true sustainability positioning."

Diversity Matters

'Our factory is so automated even a woman could work there.'

This remark which we heard on a recent research trip to India demonstrates that significant work remains for the value of gender diversity to be clearly recognised. Notwithstanding benefits to societal fairness, in purely economic terms the IMF estimates that if India were to achieve parity in male and female participation in the workforce, the country would be 27% richer. This is a result of another 235 million workers entering the economy – more than the total working population of Europe[1].

On a more micro scale, research reviewed by McKinsey and others shows that a better gender balance is associated with better financial performance[2] – and although correlation and causation are two different things, this does imply that companies with higher female participation may have a cultural edge over others.

Our view has always been that sustainability initiatives that help deliver shareholder returns should themselves be sustainable. Much of the conversation about ESG seems to miss the point that, if done well, changes in companies to address diversity issues can result in better returns for shareholders. Here the evidence seems compelling.

Nonetheless a recent survey by McKinsey of more than 1,000 companies in 15 countries found 31% of respondents don't believe diversity is important[3]. This suggests a significant contingent don't yet understand the potential benefits of change – or feel threatened by it.

Although diversity by its nature covers many different attributes, we chose on a recent trip to India to focus specifically on gender. Women's participation in the workforce in India fell from 35% in 2005 to 23% in 2021[2], the lowest in the G20 with the exception of Saudi Arabia[4]. This figure probably understates the work that women do in the informal sector, including in small businesses, domestic help or agriculture. Still the fact remains that formal participation is low and has declined over time. In China women's participation is closer to 60% as of 2020[5], so it does seem that something is amiss in India.

There are, however, a number of significant challenges in trying to increase participation even if companies are willing.

The first is cultural. In India as wealth rises women's participation in the workforce actually drops. City-dwelling women are half as likely as their rural counterparts to have a job. This is thought to be because in urban areas where the man is the primary earner women are discouraged from working, in part because of social standing[5].

Second is a lack of jobs. Where women have been displaced from agricultural jobs because of mechanisation, there is a lack of alternatives because India doesn't have the huge factories of Bangladesh, Vietnam and China.

Third are the threats that women feel to their personal safety. A Thomson-Reuters Foundation survey in 2018 found that India was the most dangerous country globally for women[6]. Not only did this cause women to leave the workforce, but those who did work were

1 *The Economic Times*. (21 January 2018). Gender parity can boost India's GDP by 27%: WEF Co-Chairs. https://economictimes.indiatimes.com/news/economy/policy/gender-parity-can-boost-indias-gdp-by-27-wef-co-chairs/articleshow/62589586.cms?from=mdr

2 DW.com. (10 May 2023). Women's participation in Indian workforce is shrinking. www.dw.com/en/as-indias-population-booms-female-participation-in-workforce-shrinks/a-65575106

3 McKinsey & Company. (17 August 2022). What is diversity, equity, and inclusion? www.mckinsey.com/featured-insights/mckinsey-explainers/what-is-diversity-equity-and-inclusion

4 *The Economist*. (5 July 2018). Why India needs women to work. www.economist.com/leaders/2018/07/05/why-india-needs-women-to-work

5 Aaree.com. (22 April 2019). The changing status of working women in India. www.naaree.com/working-women-india-problems-status/

6 Reuters. (26 June 2018). From managers to maids – India's working women all face sexual abuse. www.reuters.com/article/us-women-dangerous-poll-india-exclusive-idUSKBN1JM029

inclined to avoid evening events and opt for private transport because of concerns around harassment.

The creation of jobs for women and women-friendly workplace policies are key in addressing this imbalance and IT services are at the forefront of this initiative.

Gender Balance at Infosys and Bajaj Auto

In most countries, it is difficult to find suitably qualified female candidates for STEM (science, technology, engineering and mathematics) jobs because female participation in these subjects is very low. In the US, for example, women make up 34% of STEM students; in Germany, it's only 27%[7]. In India, however, it is 43% – one of the highest in the world. Despite this, in universities and research & development organisations women make up only 14% of the employees in STEM roles.

We recently visited the **Infosys** campus in Bangalore, where women make up 40% of the workforce in a company that employs over 300 thousand people[8]. Infosys therefore clearly stands out for having an employee gender balance almost in line with that among university students.

There is still room for progress. Given the company's overall gender mix, we asked why only two of the 10 highest-paid people in the company were women and only one of the eight designated as key management. What followed was an interesting conversation about the challenges of retaining women, particularly after they start a family. The company is very focused on convincing women to return to work and the return-to-work rate for women and men after parental leave is almost equal at around 90%. Women who return to work are assigned mentors and receive support in preparing and applying for promotions to make up for the time they were absent.

Infosys acknowledged that changing the gender make-up of senior management was a challenge but at lower levels the numbers were improving, which should lead to more balance over time.

On the same trip we also went to visit **Bajaj Auto**, a maker of two- and three-wheelers, including the ubiquitous tuk-tuks that cruise the streets of Indian cities. We asked Bajaj what they were doing to encourage more women into work, and they pointed out to us that their new EV factory was staffed entirely by women. Though there is still a way to go, Bajaj have increased the number of women working in their business by four times since 2014 and 64% of those work in either manufacturing or engineering[9].

Doing Well by Doing Good

It seems self-evident that a company that broadens the pool of talent it can attract and retain should have an advantage over those that don't. Like many other sustainability initiatives, building diversity in a firm isn't just a question of doing the right thing – it is good for business. We are pleased to see some of the best companies in India continuing to improve in this regard and figuring out ways to adapt to get the best from their people.

> “A better gender balance is associated with better financial performance.”

7 IndiaTogether.com. (3 December 2021). Women choose STEM, but opt out later. https://indiatogether.org/stem-gap-women#:~:text=Women%20make%20up%20nearly%2043%20per%20cent%20of,and%20technologists%20in%20research%20development%20institutions%20and%20universities.

8 Infosys Annual Report 2022.

9 Bajaj Auto Annual Report 2022.

Questioning the Balance

When it comes to the sustainability of companies, we think there is often a clear differentiation between the best and worst. Ultimately those businesses that value diversity and inclusion benefit from a broader pool of talent to choose from. If the best businesses we look at are making strides in this area, we would be remiss if we weren't doing something about this in our own business, too.

One of the principles of our sustainability efforts has always been that we should represent the change we would like to see in the world. When we opened our business in 2019, however, we were a team of nine, only two of whom were women.

The fund management industry more broadly reflects this state of affairs. Only 12% of portfolio managers in the industry and in emerging markets specifically are women[1]. We have noticed over the years that, unlike in India (see previous article), the issue seems to start with a failure to attract female applicants at the graduate entry stage. Only 16% of CFA charterholders (which is a fairly standard industry qualification completed in the early years of one's career) are women[1]. Although an easy win for our business would have been to hire women from other firms, that would not therefore improve the overall state of the industry.

Instead, to create sustainable change we (and others) needed to start by trying to improve the balance of the pipeline of candidates coming into the industry. In looking for ways to do this we came across the work of GAIN[2]. This is a charity founded by women in the industry that promotes fund management to women in their final year of secondary school and university in the UK through presentations and internships with member firms.

Nearly two years ago we signed up to take on two undergraduates as summer interns. This was with a view to providing training in investing that we hoped would help them make an informed decision about joining the industry, as well as some useful preparation for the application process they would undergo if they did decide to apply. As we grew as a business this would also expose us to a pool of talented candidates, which is clearly a benefit to the firm and aligns with the idea of doing well by doing good. Both of our previous interns are now working in the industry, and we have just been joined by two more.

Our firm has also expanded to 12, five of whom are women, so we continue to make progress.

Trying to apply the standards we hold companies to, ourselves, as we continue to learn, isn't just about ticking boxes – our business is noticeably better for our efforts.

1 Flowspring.com. (March 2019). Women in Asset Management. www.flowspring.com/research/Women-in-Asset-Management

2 www.gainuk.org/

> "To create sustainable change we (and others) needed to start by trying to improve the balance of the pipeline of candidates coming into the industry."

Considering Carbon Risk

We believe that both scientific and physical evidence suggest our planet's average surface temperature is rising. For long-term investors this poses considerable structural risks to companies in all industries, from insurance to consumer staples.

Our far-sighted and fair-minded investment philosophy is focused on managing and reducing these risks, and as a result we look for businesses with risk-aware leadership that are committed to reducing their environmental impact on the planet. The risk is that if owners and management teams do not act, then the cost of regulatory direction is likely to be even greater.

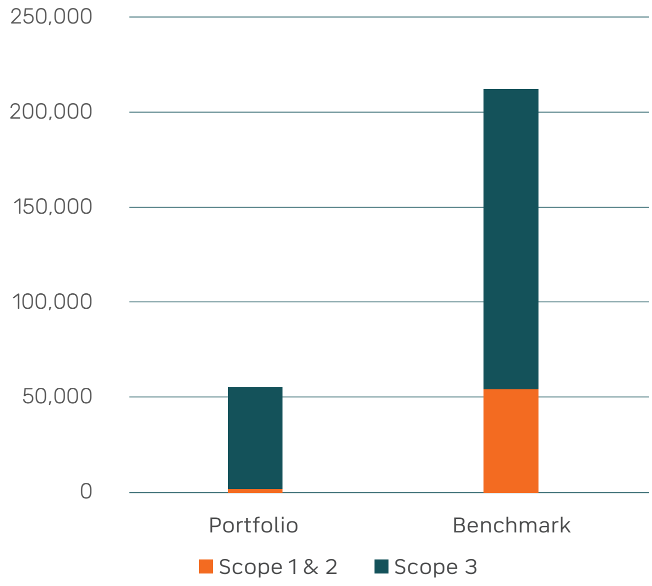
We support the Paris Climate Agreement and the overall objective of limiting temperature rises. In recognition of this support, we are focused on aligning our strategies to a target of carbon-neutrality by 2050.

Portfolio Emissions Exposure vs Benchmark[1]

Independent analysis of the Skerryvore Global Emerging All-Cap Equity Strategy conducted by the ISS Climate Change model highlights that the strategy has a significantly lower emissions exposure than an emerging markets benchmark.

Seeking and providing this information is consistent with our desire to understand the intended risks in a portfolio and avoid unintended risks. We wish to reiterate that the portfolio's carbon emission profile is an output rather than an input into our broader bottom-up investment process.

Figure 5 Emissions Exposure (tCO_2e)



1 ISS Climate Impact Report & MSCI EM Benchmark as at 30 June 2023.

Climate Scenario Analysis

The scenario analysis conducted by ISS for the Skerryvore Global Emerging All-Cap Equity Strategy compares current and future portfolio greenhouse gas emissions with the carbon budgets for a below 2 degrees Celsius scenario as well as warming scenarios of 4 degrees Celsius and 6 degrees Celsius until 2050. The Skerryvore Global Emerging Markets Equity Strategy in its current form is aligned with a 2 degrees scenario up until 2037.

The ISS analysis comes with a 'health warning', though. We have philosophical and practical doubts about the accuracy and weight that one should attach to models attempting to predict the future. Many small uncertainties multiplied together yield significant aggregate uncertainties. Our preference is to heed the aphorism that 'all models are wrong – but some are useful'. To plan for a future beyond our forecasting horizon we must plan for uncertainty. It is why we look for far-sighted management teams and businesses that have demonstrated adaptability and resilience in the past, and a fair-minded attitude to the future. We believe this approach is risk-aware and should serve clients well over the long term.

Engagement Highlights

Part of the responsibility that comes with being a long-term investor is to engage with companies on matters that may affect long-term returns. It also requires us to actively listen, rather than simply instruct. Understanding why a course of action has been followed creates the foundation on which meaningful engagement can occur. We are looking for corporate owners and management teams who practise what they preach. It is why we look beyond the glossy sustainability report and discuss with the leaders of a business how they view their specific sustainability challenges.

Good management teams should be continually assessing the threats facing their businesses – be they competitive, industrial, societal or environmental. Doing so leads to a different style of interaction with management. It also helps us to build long-term relationships because the management teams we engage with understand that our interests are broader than simply trading in their paper.

Please find below some examples of the significant engagements that we have conducted during the past 12 months.

Holding	Engagement Type	Engagement Detail	Investment Outcome
Advantech	Environmental	The company has made good progress on lowering its carbon intensity with regards to Scope 1 & 2 emissions, though the progress on Scope 3 emission reductions was less clear. A meeting at their offices in Taiwan provided the chance to engage further on this area.	Advantech has set challenging Science-Based Targets for reducing its carbon intensity and will work to broaden the scope of its supply chain coverage in the coming years to ensure all indirect emissions are being considered. We will continue to monitor their progress.
Arca Continental	Environmental	Discussed water risk and how the company evaluates severity.	In high-stress regions like NW Mexico, they have already reached 1.1 litre of water per litre of product produced level. The process involves heavy treatment of rain water, which they can use for sanitation, gardening and drinking water. Coke quality standards mean the treated water cannot be used in production of most products (e.g. bulk water). In those regions they also offer free water to consumers if they collect it themselves. Overall they see 1.5 litre level as their ultimate target for the entire business. Usage is impacted by product mix, and this requires further follow-up as the long-term target somewhat conflicts with what they've achieved in NW Mexico. We intend to follow up with their sustainability team to give us more insight into the level of challenge behind the overall corporate target.

Holding	Engagement Type	Engagement Detail	Investment Outcome
	Environmental	Discussed plastic targets and recent investments to improve use of renewables.	Collections are the most important factor in improving their recycling system. The PetStar system, in which they alongside The Coca-Cola Company have invested USD $150 million, helps create more appropriate incentives and provides formal protections to the collection industry. They expect to expand it further in the next year to bring their internal sourcing of reusable PET to 80%. It will cover needs in the US & Mexico. The addition of the US is part of the expansion. Product is just pellets. They ship to the bottle maker, who blows them into the needed forms. In addition, Mexico is now over 30% returnable bottles.
CCU	Environmental	Water rights, particularly in Santiago, are a challenge so the company continues to work on efficiency. They own most of their water sources but this may not be sufficient to protect the business as water rights were raised in the recent constitutional redraft that was ultimately rejected.	The company has made significant progress over the last three years and is clearly cognisant of the challenges water rights could present. We will continue to monitor and will consider the additional costs that the company may need to bear in our next fair value assessment.
Clicks	Social	Further discussion on importance of more patient outcome disclosure and SASB/IASB focus on materiality.	Management is receptive to further SASB/IASB disclosure, particularly related to patient outcome and consumer health. We will continue to look for evidence of more disclosure and commentary.
	Governance	Management also brought up the vote on remuneration at the last AGM where they had received less backing from shareholders than expected.	Following the meeting we reviewed the newly released remuneration report, which provided increased transparency around executive pay. We had voted in favour of the policy, although felt that more detail could be provided to meet best global practice and welcome the increased disclosure.

Holding	Engagement Type	Engagement Detail	Investment Outcome
Coca-Cola FEMSA	Governance	Discussed evolution of decision-making structure and incorporation of operational oversight into board committee.	Await further updates and continue to engage post strategic review results.
	Environmental	Discussed water risk and how the company evaluates severity.	Overall Coca-Cola FEMSA is ahead of many companies in Mexico and the overall Coca-Cola system on this issue. Their plant in Ciudad de Mexico (Mexico City) is their largest plant and operates with 100% clean energy and returns 100% of its water utilised.
Colgate India	Environmental	Colgate India follows its parent's target to achieve net zero carbon emissions by 2040. We asked what actions are being pursued at production sites to reduce reliance on fossil fuels.	Colgate India is increasingly adopting renewable sources of energy at its plants. Management highlighted that plastic waste is a more material concern to the business than emissions.
	Environmental	Plastic consumption is one of the most material environmental concerns to Colgate India. We asked how plastic waste reduction will be continued.	Colgate India confirmed that its mass toothpaste brands will soon also have recyclable tubes, which were rolled out earlier this year in its Naturals portfolio.
	Environmental	Challenged claims that Colgate-Palmolive developed the first 100% recyclable toothpaste tube given that metal tubes have existed for some time.	Colgate India clarified that existing metal tubes had not been 100% recyclable as there still is some plastic content. Colgate invented a technology that took over five years to develop where every component of the tube (including the cap) is recyclable. This technology will be rolled out across the portfolio and also shared with the wider industry.

Holding	Engagement Type	Engagement Detail	Investment Outcome
CR Beer	Governance	We raised the issue of length of tenure of the board and how the business evaluates the need for board member experience versus independence in the context of 2023 AGM and proxy vote.	We hope to see increased board turnover over the next two years in order to have greater challenge and independence. There were some changes last year in board membership but this year was focused on promotion of a new chairman. We continue to monitor this important issue.
Dexco	Environmental	Discussed the opportunity to monetise carbon credits given the fact the company owns huge carbon sinks in the form of forests.	There is currently no market for carbon credits in Brazil and although it is in development the company currently balances the carbon absorbtion of its forests with emissions from some of its other businesses. They are committed to reducing these over time but there does not appear to be a near-term opportunity for the business to generate additional income from this source.
Franco Nevada	Governance	Discussed handling of potential conflicts of interest between board members and business transactions. Board members with any potential conflicts are recused from participation in deal evaluation.	We are satisfied that adequate measures are in place to ensure conflicts of interest are prevented.
	Environmental & social	Discussed social and environmental issues related to the Tocantinzinho asset.	Professional mining can help address 'artisanal mining' that often comes with lower environmental and labour standards. We will continue to monitor.
Fuyao Glass	Governance	Discussed succession planning as founder and chairman Cho Tak Wong is 76.	Chairman Cho Tak Wong's son Tso Fai will take over as chairman when the time is right. As executive director and vice chairman, he is very involved in day-to-day management and investment plans.

Holding	Engagement Type	Engagement Detail	Investment Outcome
Heineken	Environmental	Explored water management activity. This is undertaken at a local level and reducing consumption is prioritised in high-stress areas.	Decision to return water rights in Northern Mexico will not impact capacity or growth in the region. We received subsequent follow-up on the mapping of water risk.
	Social	Discussed the high alcohol beer market in India, seen as more functional versus aspirational. Efforts to drive more healthy consumer behaviour are multi-year and include pursuing outlets which promote moderation, as well as changes in excise.	For beer to become a more commonly consumed product with a healthier consumption pattern in India, high alcohol beer should decline in mix. We will continue to monitor progress.
Infosys	Social	Interested in Infosys' view on advancing gender diversity within management positions.	Infosys recognises the retention of women as the challenge, rather than hiring women. So, Infosys has introduced training programmes, tie-ups with nearby day care facilities, and allowed acceleration to encourage employees to come back to work after having children. 90% of women re-join after maternity leave.
Koç Holdings	Environmental & governance	Koç has significant earnings exposure related to refining oil. This business will have to evolve so our conversation was around the long-term strategy for this business.	The company is committed to becoming net carbon neutral by 2050. 90% of this will come from investments in Tupras and Entek (a renewables subsidiary). They aim to have 1GW of clean power production by 2030 and 2.5GW by 2035. The CEO and CFO of the holding company have ESG incentives as KPIs. We recently exited this position because we increased our required rate of return due to concerns regarding the currency but would be comfortable owning again on the basis of their clear commitment to change.
LG H&H	Environmental & social	Further engagement on the processes in place for monitoring human rights and environmental protections within the company's supply chain.	LG H&H has provided good detail on oversight and expanded scope of supplier assesments. We will discuss progress in future meetings.

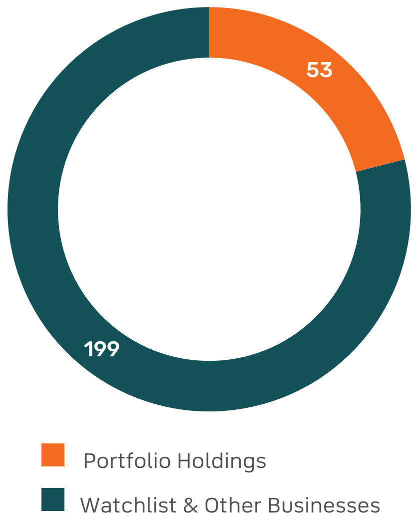
Holding	Engagement Type	Engagement Detail	Investment Outcome
Merida	Environmental, social & governance	Followed up on previous discussion with Merida regarding their lack of a CSR report.	Merida have made progress in the last year, with internal ESG committees established, and are collecting data in order to be able to publish a CSR report in 2024. We will continue to monitor this situation and, while recognising the progress being made, the pace of change is still relatively slow.
Syngene International	Environmental, social & governance	Discussed the company's FY2022 Sustainability Report including the updated Supplier Code of Conduct. A detailed evaluation/audit of 45 critical or 'high risk' suppliers had been undertaken, with procurement from five suppliers discontinued for reasons of safety/quality during the period.	Management are implementing the Supplier Code of Conduct effectively along with the company's broader annual Sustainability Review.
		Engaged on diversity both of gender and nationality as company is unusual in an Indian context with a non-Indian CEO.	Syngene recognises that there is advantage to be built in becoming a leader in ESG as more clients require it. They are actively seeking improvements to move into the first quartile relative to peers and also pushing their supply chain to improve. Overall reinforces our view of the company as a potential global leader.
TCS	Environmental	Requested additional information on the strategy TCS has implemented to achieve net zero by 2030.	TCS is focusing on reducing its largest contributors to emissions. TCS is actively increasing its renewables mix to reduce the emissions from purchased electricity, and TCS is also working toward increased working from home to reduce employee commuting.
	Social	Requested further insight into why gender diversity in senior management remains low at 13%.	TCS is actively working to increase the talent pool available by adopting a long-term attitude, focusing especially on retaining women at lower levels. We should see diversity numbers in senior management expand over time. We will continue to monitor and engage on this issue.

Holding	Engagement Type	Engagement Detail	Investment Outcome
Vinda International	Environmental	Addressed the subject of emissions and water usage. Target levels for both are set by management. Emissions are the larger headwind. Shorter-term improvements continue to come from switching boilers from coal to steam. Pace of change is constrained by useful plant life and smaller overall impact of energy cost on operations.	We recognise the emission reduction activity of the company and continue to engage on the pace of change. A full switch to steam boilers would effect a 1–2% increase in costs.
Wal-Mart de México	Governance	Discussed response and lasting changes to the 2012 allegations of bribery in early 2000s.	There were no illegal findings in Mexico (not the case in Brazil). As a result they added a compliance chairperson. She reports directly to the board and Bentonville. Process for paying invoices is now far more comprehensive on KYC. All suppliers including service suppliers need formal agreements that are amended for any/all changes. Expanded internal and external audits. Walmex now has more people internally who work on licensing than government has in terms of issuance. Overall satisified with response and organisational changes.
WEG	Governance	Followed up on prior discussion with WEG around gender diversity due to a lack of women in senior roles.	A female board member was appointed in 2022. WEG aims to develop more women into senior exec roles and recognises that this may take some time. We will continue to engage on this issue.
	Environmental	Useful discussion on WEG emissions given large Scope 3 number published in 2022.	Given the nature of WEG's products, assessing WEG on Scope 3 emissions somewhat misses the point. WEG is rightly targeting Scope 1 and 2 improvements while developing products that encourage energy efficiency and the use of renewable energy.

Corporate Engagements

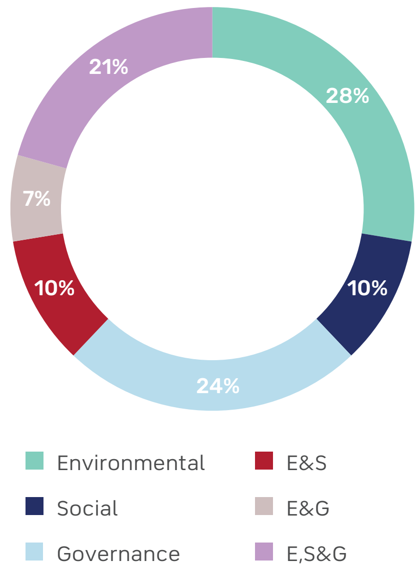
Company Meetings[1]

12 months to end June 2023



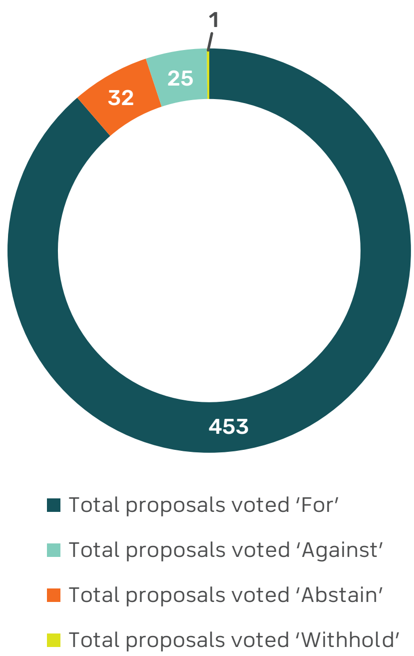
Sustainability Engagements – Portfolio Holdings[1]

12 months to end June 2023



Proxy Voting Overview[2]

12 months to end June 2023



Votes Against Management Rationale[2]

Audit related	0
Capitalisation	11
Company articles	1
Compensation	1
Corporate governance	0
Director election	6
Director related	2
E&S blended	0
Environmental	0
Miscellaneous	0
Mutual funds	0
No research	0
Non-Routine business	0
Routine business	4
Social	0
Strategic transactions	0
Takeover related	1
Total	**26**

1 Skerryvore GEM Strategies. Skerryvore.

2 Skerryvore GEM All-Cap Equity Strategy. ISS ProxyEdge.

About Us

Introduction

The Skerryvore lighthouse marks a treacherous reef of rocks that lies off the west coast of Scotland, built to stand the test of time. Skerryvore Asset Management (Skerryvore) is an independent, employee-controlled investment partnership established in Edinburgh with BennBridge Ltd (BennBridge) in 2019. The partnership was set up to create a business with the independence to pursue its own investment philosophy.

Our strategies aim to generate absolute long-term returns by investing responsibly in emerging markets. This is based on an unwavering focus on the quality of the businesses in which we invest. We believe in managing clients' money as we would our own, aligning our interests with our clients' and never losing sight of the trust that is put in us to be responsible stewards of capital.

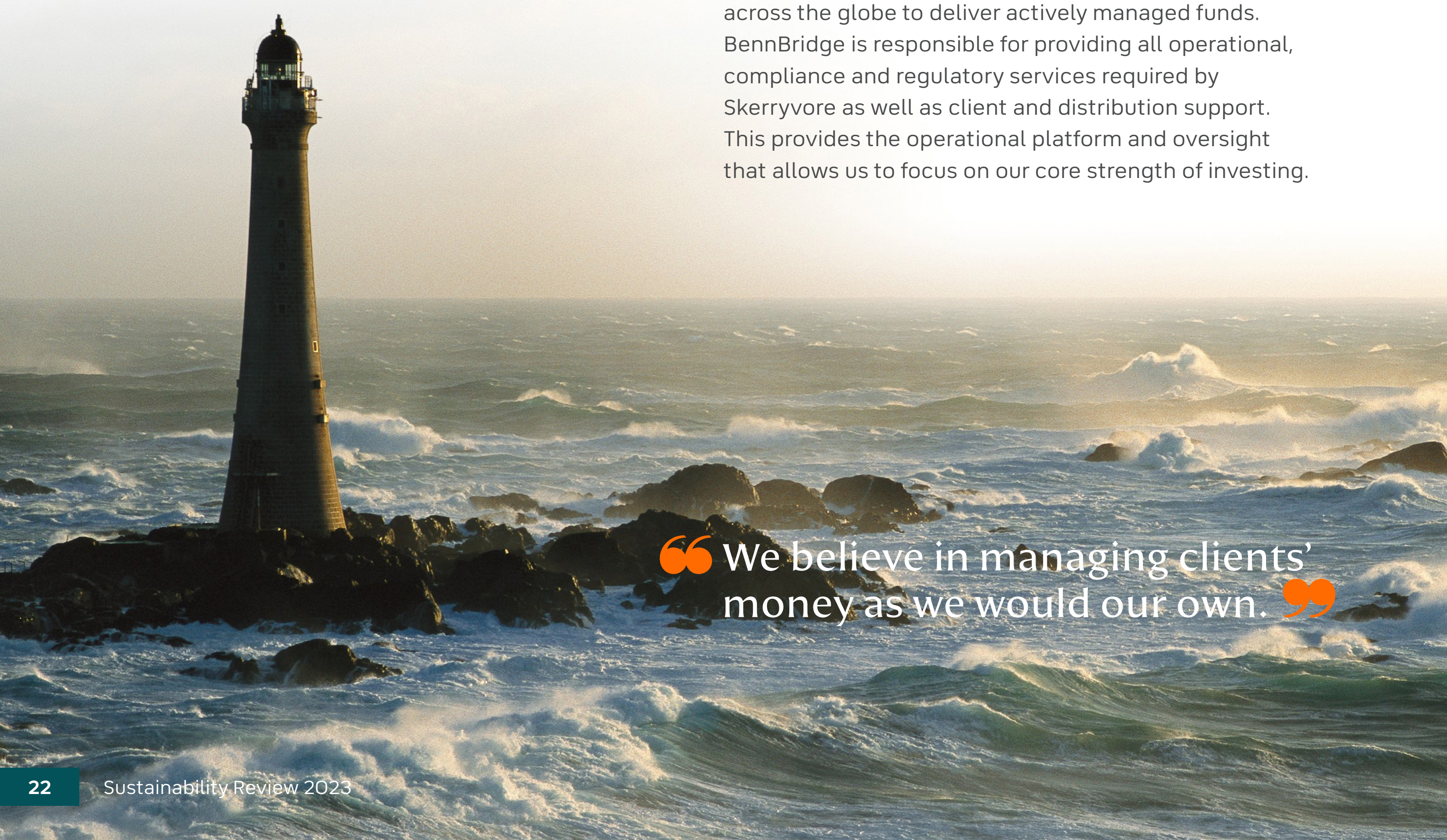
Alignment

Our investment philosophy stresses the importance of alignment. Emerging markets present a distinctive context in which to operate a business, with constant evolution – and sometimes revolution – in economic, political, regulatory and financial conditions. Investing alongside managers and owners with good reputations that share our belief in a long-term approach to investment is an important way to align interests.

As a business, we aim to put our investment philosophy into practice. Our remuneration policy is designed to ensure alignment with client outcomes. Partners will co-invest in strategies run by Skerryvore, and the terms of co-investment require holding these investments for a minimum of three years. Consistent with our investment philosophy and process, this underpins an absolute rather than a relative return mindset that clients can expect from us.

Partnership with BennBridge

BennBridge is a strategic partner, minority owner and the appointed investment manager for Skerryvore Asset Management. It is part of the Bennelong Funds Management Group, a privately owned Australian investment company that partners with boutiques across the globe to deliver actively managed funds. BennBridge is responsible for providing all operational, compliance and regulatory services required by Skerryvore as well as client and distribution support. This provides the operational platform and oversight that allows us to focus on our core strength of investing.



Our Sustainability Principles

1. We will only own businesses we believe to be sustainable

As with accounting data, sustainability metrics rarely tell the full story. We look at the why and the how behind the published numbers to better understand the behaviour of a company and whether this can be sustained.

2. We will seek far-sighted companies that recognise sustainability as an advantage

Consistently we find that the best companies recognise that behaving sustainably gives them a long-term advantage over those that do not. Most often this is to do with the power of a positive reputation and the benefits that confers.

3. We will seek to correct mistakes through engagement or divestment

While we try, before making an investment, to avoid companies with sustainability-related issues, as we get to know companies over time we may come to realise that we have made a mistake. Where we can engage with the company to promote change we will attempt to do so, but where this is not possible we will choose to sell.

4. We will actively engage with our companies to promote global best practices

For a long time standards in companies have been relative – meeting the local laws or adhering to the country of domicile's social norms. The most successful firms grow outside the country in which they started and to do so must judge themselves against the best companies globally. International investors are increasingly applying global standards to the firms they look at, so this can have a material effect on share price.

5. We will encourage better transparency and seek to work with those who promote it

In general the direction of travel in terms of better disclosure is positive – but not all disclosure is useful. We will encourage the companies in which we invest to improve their disclosure so that it is comparable with the best globally and encourage facing up to and being open about the material challenges that operating sustainably presents.

6. We cannot ask companies to behave sustainably if we do not ourselves

It is important that we live up to the standards that we encourage others to develop by looking closely at our own business and improving our impact. We are a small firm but this cannot be an excuse when we seek to influence others.

Important Information

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Risk Factors

- Capital is at risk and there is no guarantee the investment or Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of their investment, however made.
- Past performance does not predict future returns. The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.
- Equity prices fluctuate daily, based on many factors including general, economic, industry or company news. In difficult market conditions, BennBridge may not be able to sell a security for full value or at all. This could affect performance of the investment and with regards to investment via a fund, could cause the fund to defer or suspend redemptions of its shares.
- Investments in emerging markets can involve a higher degree of risk.

Skerryvore Asset Management LLP ("Skerryvore")
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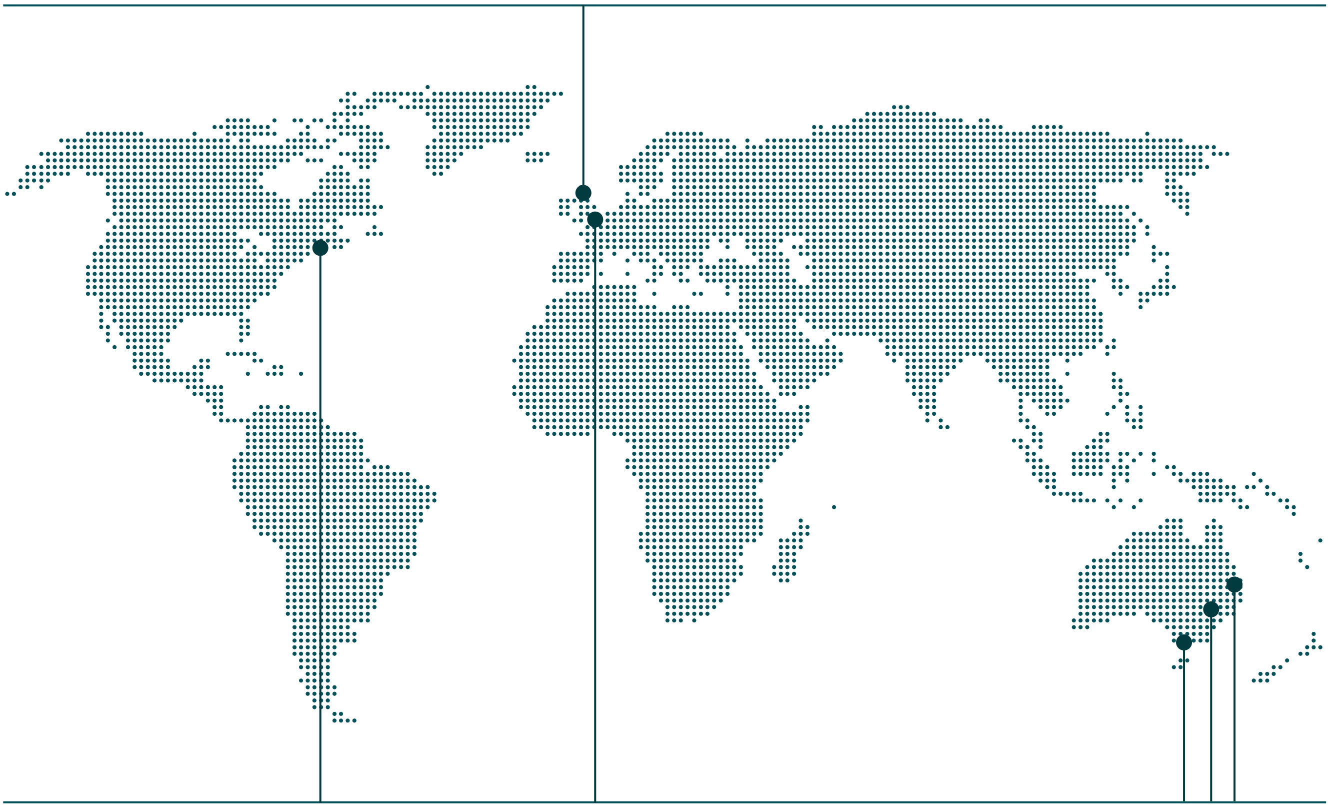

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