SKERRYVORE GLOBAL EMERGING MARKETS EQUITY STRATEGIES

Sustainability Review

2024

Skerryvore

bennbridge

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Front cover: Lighthouse in the port of Alanya, Province of Antalya, 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.

Please refer to our general disclaimer at the end of this document.

Foreword

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].

Balancing Risk with Returns

At Skerryvore we have long believed that for a company to deliver valuable returns for shareholders over the long term, it has to behave sustainably. We always question whether any business we are considering for investment is doing anything that could threaten its long-term existence and future growth and returns. Our research process is designed to search for any hidden or unintended risks at either the business or portfolio level that would hinder the rate of return that we can produce for clients.

Our Sustainability & Stewardship Working Group

The drive to mitigate 'greenwashing' or even 'greenhushing' risk[2] and increase investor confidence has seen a rising burden of both mandatory and voluntary sustainability reporting, which has impacted companies, asset managers and asset owners alike.

Regulatory and client-driven requirements are developing at varying paces around the world, but are increasing quickly. Responding to these developments and managing them has kept our Sustainability & Stewardship Working Group busy over the past 12 months. This group is made up of colleagues from across the business, whose key purpose is to ensure compliance, clarity and consistency in our disclosures and communications across our global jurisdictions in line with our investment philosophy and strategies.

The group undertakes regular review and development of our sustainability policies and procedures, ensuring robust internal processes. They assess data needs and monitor data quality to ensure they are fit for purpose, to satisfy the scrutiny of independent risk oversight and meet the needs of our investment research.

1 12 months to end June 2024
2 'Greenwashing' is a term often used to call out inadequate or misleading sustainability efforts and disclosures. By contrast, 'greenhushing' is setting sustainability goals without making public announcements: an attempt to avoid greenwashing allegations by under-communicating or publicly reporting as little as possible regarding progress toward climate objectives.

What's in this Review?

With Scope 3[3] emissions reporting experiencing greater legislative interest of late, we continue our look at the challenges associated with measuring emissions in **Do you know your Scope 3 from your Scope 4?** In particular, we highlight the breadth of assumptions involved in attempting to quantify the energy consumed by end customers when they use a company's product. The good news is that even ostensibly large Scope 3 emitters, such as WEG and Voltronic, are able to make a substantial contribution to greener technologies and the transition to a lower-carbon world.

To avoid being deluged by ESG data, it's crucial to focus on what is material. We demonstrate our bottom-up attitude to sustainability risk analysis through this important lens in **A Material Approach to Sustainability**, using our recent review of Hindustan Unilever as a case study.

Lastly, in addition to providing a snapshot of the carbon emissions profile for our strategies, we have also included a more in-depth look at our stewardship activity over the past 12 months. Recognising and addressing sustainability issues is a key part of our engagement process. Although Skerryvore is not an activist investor, we do seek to keep the spotlight firmly on the most relevant issues as we see them and encourage behaviour that contributes to the long-term maximisation of shareholder value.

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.

> "As long-term investors with a fiduciary duty to be responsible stewards of our clients' capital we look to maximise returns and in doing so address any sustainability risks to overall performance from companies we are invested in."

3 Indirect emissions from a company's supply chain and customers.

Do you know your Scope 3 from your Scope 4?

Over the past few years, like many other investors, we have become fluent in the language of greenhouse gas emissions. As a reminder, Scope 1 emissions are those that a company directly owns and controls (coal in your power plant, fuel in your car). Scope 2 emissions are indirect (electricity supplied to your office or shop). So far, it's relatively simple, but a third dimension in the form of Scope 3 emissions is where things get a bit more complicated.

We discussed data challenges in our Sustainability Review last year and highlighted the wide range of Scope 3 numbers that different data providers will produce for the same company. The challenge starts with an array of different Scope 3 emissions categories (see Figure 1).

Figure 1. Scope 3 categories

	Category
Upstream	1. Purchased goods and services
	2. Capital goods
	3. Fuel- and energy-related activities not included in Scope 1 or Scope 2
	4. Upstream transportation and distribution
	5. Waste generated in operations
	6. Business travel
	7. Employee commuting
	8. Upstream leased assets
Downstream	9. Downstream transportation and distribution
	10. Processing of sold products
	11. Use of sold products
	12. End-of-life treatment of sold products
	13. Downstream leased assets
	14. Franchises
	15. Investments

Source: Greenhouse Gas Protocol (GHGP).

Scope 3 includes straightforward items such as the emissions produced from a company's business travel, which should be relatively easy to measure. Some items are more difficult to calculate, however, such as emissions from a company's third-party suppliers. And the 'use of sold products' category, an attempt at measuring the energy consumed by the end customer when they use a company's product, presents a significant challenge.

A good example is **Unilever**, one of our portfolio holdings and a large Scope 3 emitter. Part of the reason for its high Scope 3 figure is that Unilever estimates the energy used in heating water every time you use their *Dove* shower gel. This clearly involves estimates such as how long you shower, how hot you like your shower and how often you shower. A wide range of outcomes is inevitable.

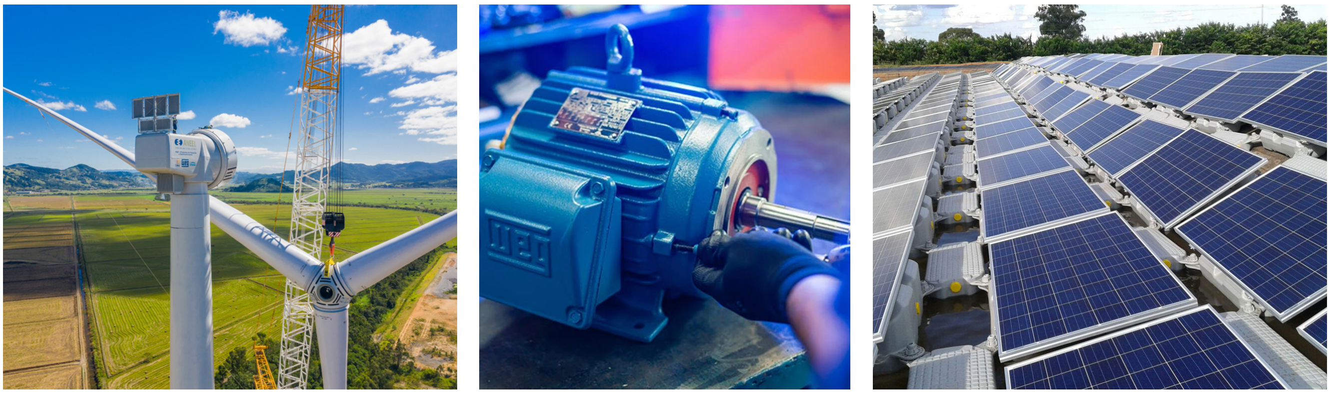
Given the breadth of underlying assumptions used in calculating this data, it is only natural to question its value. Boiling complex issues down into simple statistics should always come with a health warning – many small uncertainties multiplied together can yield significant aggregate uncertainty. Our preference is to heed the aphorism that 'all models are wrong – but some are useful'.

Seeking to understand risk and uncertainty is fundamental to planning for an outlook beyond our forecasting horizon and is why we also look for management teams and businesses that have demonstrated both adaptability and resilience in the past, and an open-minded attitude to the future.

> “All models are wrong – but some are useful.”

Saints Not Sinners

Looking across our portfolio, there are some companies that look bad but actually do good. **WEG** is a Brazil-based global manufacturer of electric motors used in products ranging from small kitchen appliances to large wind turbines.



Source: WEG

WEG began reporting Scope 3 emissions in 2021 and, on first inspection, their latest (2022) number is eye-watering: 21.75 million tonnes of CO2 equivalent (see Figure 2).

Figure 2. WEG emissions (tCO_2e/year) 2022

WEG Emissions 2022	tCO_2e/year
Scope 1	54,864
Scope 2	73,768
Scope 3	21,750,867

Source: WEG integrated annual report 2022

As noted above, Scope 3 emissions include customer use of all goods and services that a company sells. Every time you use your washing machine, for example, you might be powering a WEG electric motor and thus consuming energy and creating emissions that fall under Scope 3 for WEG. The company has told us that 70% of energy consumption involves an electric motor.

Focusing on Scope 3 emissions ignores the fact that WEG's products are continually becoming more efficient and that they may often be replacing a carbon-intensive combustion engine. Aside from wind power, WEG is developing products used in solar energy, gravitational storage projects and electric vehicle batteries. WEG is not quite the menace to society that its Scope 3 emissions number implies.

Emissions Avoided

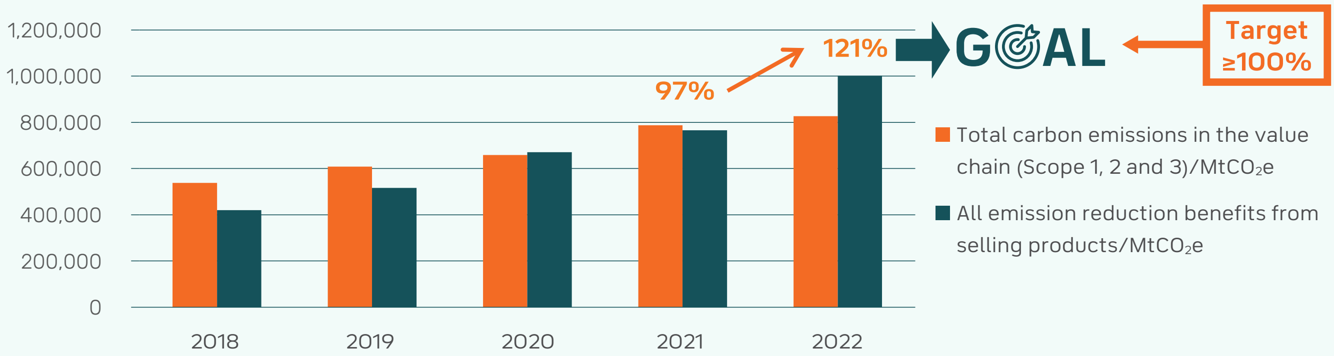
Clearly, developing a less power-hungry motor for a washing machine should be treated as a positive for the world. Proof that WEG is good may come in the form of Scope 4 emissions data, which estimates the 'avoided emissions' of a company's projects and products. It's not compulsory to report Scope 4 figures, but many companies choose to do so. Like Scope 3, Scope 4 emissions are not easy to calculate, again involving a number of assumptions about how often an end product is used. But were WEG to calculate it, which they are looking into, their Scope 4 emissions would probably offset some, if not all, of their Scope 1, 2 and 3 emissions.

Another of our portfolio holdings does attempt to measure its avoided emissions. **Voltronic**, based in Taiwan, makes uninterruptible power supply (UPS) products, photovoltaic (solar) inverters and energy storage systems. They stress in their sustainability reports that the products they make are all aimed at reducing the carbon emissions of their end customers, through either improved energy efficiency or direct use of renewable energy.

Voltronic calculates the 'emission reduction benefits' (ERB) of its product sales, which we believe is akin to Scope 4 avoided emissions. The big caveat when we look at these numbers is that it's not very clear exactly how they're calculated. However, the ERB figure for 2022 is greater than Voltronic's own total emissions (Scope 1, 2 and 3). Effectively that means that Voltronic is already net zero.

Figure 3. Voltronic emission reduction benefits

The relationship chart of all emission reduction benefits from selling products vs. total carbon emissions in the value chain:



Source: Voltronic TCFD Report 2022

Conclusion

At Skerryvore we always look to understand the why, not just the what. Despite the obvious flaws we've discussed in the data, analysing Scope 3 and Scope 4 emissions is an instructive exercise. As a starting point, it should help catch out those companies that are greenwashing by outsourcing what were once their own Scope 1 and 2 emissions to a third-party supplier. In the transition to a low-carbon economy, it also highlights that companies like WEG and Voltronic are part of the solution, not the problem. And finally, it might well also encourage some of us to take a cold shower once in a while!

A Material Approach to Sustainability

Source: Skerryvore (2023). A typical kirana (small store) in Mumbai. These stores make up 88% of the bricks-and-mortar retail market.[1]

The explosive growth in environmental, social and governance (ESG) data sets, which are available to investors both from third parties and from companies themselves, means that there is a risk that important signals get lost in the increasing noise.

Sustainability reports have burgeoned from pamphlets into novels. However, just because you are able to report something and it can be measured doesn't always mean it's important. And companies can easily distract from what really matters by swamping sustainability reports with immaterial charts and figures. This is less blatant than some forms of greenwashing, but is still a persistent problem. Take the example of an Indian power company that buries its carbon emissions at the back of its sustainability report. And it's not just the quantity of data that can cloud issues, but also the relevance – a Brazilian bank and a Taiwanese chip manufacturer have very different material sustainability issues.

To illustrate Skerryvore's approach, we will outline our analysis of the material sustainability issues at **Hindustan Unilever** (HUL). This is a subsidiary of Unilever and the largest fast-moving consumer goods (FMCG) company in India. The company is more than 90 years old, has more than 50 brands and is the number-one employer of choice in the country[2]. We were drawn to the business initially when we discovered that other companies had developed a habit of hiring HUL's senior people due to their quality – clearly they were doing something right if their people were in such demand. The analysis of the company's material sustainability issues below formed part of our bottom-up focused research process.

1 *Financial Times* (6 May 2021). 'Mom-and-pop stores at centre of India's $850bn retail evolution'. www.ft.com/content/2784a13d-c942-4efe-bc7a-c0b2b9a8fb4c
2 Hindustan Unilever website: www.hul.co.in

A Case Study: Hindustan Unilever

We started by comparing what the company identifies as its material sustainability issues with those that we believe to be material. SASB, a standards organisation now under IFRS[3], has done some great work in promoting this idea and produced a handy tool to help assess various industries[4].

Figure 1 shows HUL's choice of priority topics. The ones we identified were a smaller subset of these. We focused the weight of our analysis on plastic packaging, emissions, sourcing and management oversight, because we believe these areas will have the greatest material impact on the health of the business over the long term. We discuss each topic in more detail below.

Differentiated sourcing can provide a long-term competitive advantage and reduce reputational risk. Carbon emissions need to be reduced as governments, regulators and consumers will ultimately pass on the external costs of carbon emissions to the producers, just as they will for plastic packaging and its effects on the environment. Therefore, any failure to address these issues now would be likely to impact the long-term operating margins of the business.

Importantly from a visibility perspective, there was no evidence of the company trying to distract us from its sustainability issues – unlike one manufacturer of baby nappies, which did so by excluding waste entirely from its sustainability report.

Figure 1. Hindustan Unilever's materiality assessment

Source: Hindustan Unilever annual report 2023

Plastics

Packaging is a large and growing problem for every FMCG. Around 855 billion plastic sachets are sold globally every year, enough to cover the entire surface of the Earth[5]. HUL is often credited with popularising sachets in the 1980s, when it sold tiny portions of shampoo for 1 Indian rupee (around 1 US cent) to make personal care products more affordable to a low-income population. By the turn of the century, nearly 70% of shampoo sold in India came in sachets[6].

The problem with sachets is that they are normally made of several materials, including plastic and aluminium, bonded together. These layers are costly and difficult to separate, meaning it's easier to burn or bury sachets than it is to recycle them. The sheer volume of them has created a growing environmental issue that cannot be ignored.

The good news is that the company openly recognises this problem[7]. HUL is targeting 100% reusable, recyclable or compostable plastic packaging by 2025. This is a big commitment, given the company produces around 120 thousand tons of plastic packaging a year[8]. As part of a bigger group, HUL also has access to pioneering technologies, such as monomaterial-based sachets, which are under trial in Vietnam, and a recycling facility that can handle sachets in Indonesia[7].

The company has already made a significant impact by collecting over 110 thousand tonnes of plastic a year, which is more than the plastic packaging it is responsible for since 2021. This was ahead of India's Extended Producer Responsibility, which required companies to collect and recycle 70% of plastic usage in 2023.

There is a distance to go, however: only about 3% of the plastic in HUL packaging is recycled, with a target of 15% by 2025, suggesting the company will continue to introduce virgin plastic for the foreseeable future. This also has a social implication, because poorer Indians still work as waste pickers to help big companies meet their environmental targets, so every change has a knock-on effect. Unlike some other companies we have spoken to, HUL does not duck this issue, openly discussing it and working with the United Nations Development Programme to try and improve the lives of those affected.

3 IFRS Foundation web page on SASB Standards: www.ifrs.org/issued-standards/sasb-standards
4 SASB materiality finder: https://sasb.ifrs.org/standards/materiality-finder/find
5 Reuters (22 June 2022). *'Unilever's Plastic Playbook'*: www.reuters.com/investigates/special-report/global-plastic-unilever/#:~:text=Now%2C%20855%20billion%20plastic%20sachets%20are%20sold%20every%20year%2C%20enough,high%2Dquality%2C%20safe%20products
6 Prahalad, CK (2004). *The Fortune at the Bottom of the Pyramid*.
7 Hindustan Unilever (25 January 2022). 'Why do you continue to sell plastic sachets?'www.hul.co.in/news/2022/why-do-you-continue-to-sell-plastic-sachets/
8 Hindustan Unilever: Waste free world. www.hul.co.in/sustainability/waste-free-world/

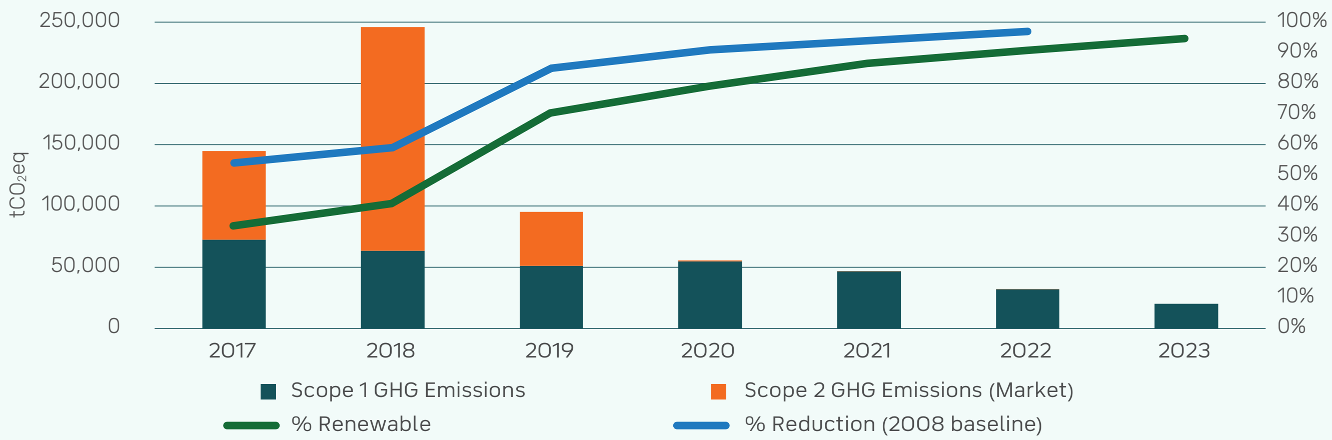
Emissions

A company with the scale of manufacturing and distribution of HUL also has to consider the impact of its emissions. HUL has a large manufacturing footprint, owning 29 factories and working with over 50 manufacturing partners that produce 65 billion units globally using materials and services from over 1,300 key suppliers.

HUL has targets to reduce emissions in its operations to zero by 2030 and achieve net zero emissions from sourcing to point of sale by 2039. It has already made significant and meaningful steps towards achieving these goals, with a 97% decline in emissions intensity per tonne of production volume compared with 2008, and it seems to be accelerating: most of this improvement has come since 2018. This is a direct result of HUL's efforts to fully eliminate Scope 2 emissions[9], which it achieved in 2023. All of its electricity comes from renewable sources, with a combination of solar plants and windmills and the purchase of IREC Green Certificates to offset the company's emissions footprint due to the makeup of India's grid. Scope 1 emissions[10] have also been significantly reduced by eliminating all coal from operations in 2021.

Given India's national target of net zero for 2070, HUL's target of 2039 puts it in a significant leadership position, which we believe enhances its reputation.

Figure 2. Hindustan Unilever's Scope 1 and 2 emissions



Source: Hindustan Unilever annual report 2023

Sustainable Sourcing

An important target for the whole Unilever ecosystem is the sustainable sourcing of key ingredients; palm oil in particular receives a lot of attention because of its effects on biodiverse habitats. Initially, HUL aimed to source 100% of its agricultural raw materials sustainably by 2020. But in 2022, sustainable sourcing only stood at 43% and HUL's sustainability goals no longer mention a timeframe for achieving 100% sustainable sourcing. The company also mentions that it is progressing towards its goal of 100% sustainable palm oil, but it fails to report any figures to support this, unlike its parent Unilever, whose figure stands at 90%.

HUL acknowledges that it has been difficult to gain full visibility of its supply chain.

Another area of risk is the sustainable sourcing of tea, which currently stands at 69%. This is defined by HUL as certified by the Rainforest Alliance or verified by trustea[11], which is a local programme to achieve sustainable tea in India and includes partners like HUL and Tata Consumer. For the remaining 31%, HUL has traceability up to the factory level, but not on the sourcing of the tea by the factory.

9 Scope 2: indirect emissions from purchased energy.
10 Scope 1: emissions that a company directly owns and controls.
11 Find out more on trustea.org

Figure 3. Hindustan Unilever's sustainable sourcing

Key Crops	2014	2015	2016	2017	2018	2019	2020	2021	2022
Palm Oil (RSPO Certification)									
Paper and Board (FSC Certification)			98%	99%	100%	100%		98%	95%
Tea		28%	46%	52%	65%	78%	67%	68%	69%
Tomatoes in Kissan Ketchup	85%	100%	100%	100%	100%	76%	93%	93%	100%
Chicory						100%	100%	100%	100%
Soy									
Cocoa									
Total (12 Key Crops)	**>50%**								**43%**

Source: Hindustan Unilever annual report 2023

HUL is in the main addressing its sourcing risks. However, we have some concerns about the omission of a timeframe for these targets and it's an area we intend to discuss with the management team. No company is perfect. However, there is a risk that the business deprioritises this target, and the lack of a timeframe lowers the pressure for action.

Management Oversight

Our analysis also considers the oversight mechanism a company has in place, because this can demonstrate how serious a company is about addressing its sustainability challenges. All too often we see companies adding the designation chief sustainability officer to the existing head of public relations or marketing. By contrast, HUL introduced an ESG committee in 2022, which involves the CEO and independent directors.

We also like to see long-term incentive plans that include sustainability targets. Management at HUL have specific targets for sustainability that drive payouts, such as the percentage of tea sourced sustainably for the director of foods and refreshments.

Conclusion

We believe that behaving sustainably is a key determinant of compounding shareholder value. Increasing scrutiny is gradually making it harder for companies to hide and those that lead the way should see their enhanced reputation reflected in greater intangible value over time and lower long-term business risk.

Recognising and addressing sustainability issues also reduces the risk of governments and regulators levying the external costs of environmental pollution on businesses, so makes existing profit margins more sustainable.

We recognise that there is no such thing as a perfect company so focus on a bottom-up approach that considers materiality and alignment. HUL represents a good example of a company which, although far from perfect, appears to be focusing on the right things and not hiding difficult truths about the challenges it faces. As minority shareholders, we can't force change in a company like this but we can remind management that we are watching and that we believe this is a critical part of delivering value for shareholders.

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.

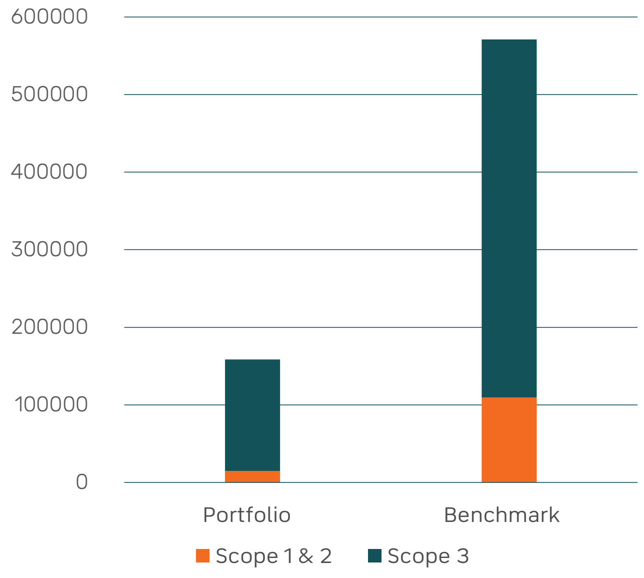
We support the Paris Climate Agreement and the overall objective of limiting temperature rises. In recognition of this support, we are focused on aligning our strategies to a target of carbon-neutrality by 2050.

Portfolio Emissions Exposure vs Benchmark[1]

Independent analysis of the Skerryvore Global Emerging Markets 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 2024.

Climate Scenario Analysis

The scenario analysis conducted by ISS for the Skerryvore Global Emerging Markets All-Cap 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 All-Cap Equity Strategy in its current form is aligned with a 2 degrees scenario up until 2031.

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 Case Studies

Topic: Environment – Emissions

WEG

A high quality global industrial business based in Brazil. The investment team have followed the company for many years and invested in WEG shares at different times during that period. Over multiple interactions and visits to their operations, respect has grown for the long-term mindset held by the company's management and ownership. Being a manufacturer of industrial equipment, WEG has a higher emissions profile than other businesses in the portfolio. WEG's products consume large amounts of energy but are also critical in the fight against climate change. Most recent engagement – Q4 2023.

		Rationale	Targets	Progress
Engagement		▪ Update required on company carbon emission strategy ▪ Emissions reduction targets to be reviewed ▪ Impact from reliance on hydro power to be examined ▪ Methodology for Scope 3 emissions to be discussed	▪ Reduction in GHG emissions by >50% by 2030 ▪ Net Zero by 2050 ▪ 90% of energy needs in Brazil to be self-generated by 2024	▪ Scope 1 & 2 emissions reporting since 2009. Scope 3 since 2021 ▪ Rising use of renewable energy ▪ Self-generation energy projects in large manufacturing hubs ▪ Announced self-generation energy target for Brazil in 2023
Action	Outcome	▪ Reduction in emissions in WEG's own operations has a positive environmental and social benefit and should help reduce energy cost volatility in a market where weather patterns can impact the cost of hydro power ▪ The company continues to make visible progress in this area which further supports the investment team's conviction and positive sustainability assessment ▪ Ongoing monitoring of targets to continue		

Topic: ESG – Disclosure

Merida Industry

A leading Taiwanese bicycle manufacturer and prominent supplier to the global market. This quality business is exposed to the long-term trend in e-bike adoption. Not only does growing demand for e-bikes support revenues but these products are also higher margin than traditional pedal versions. The team have engaged with company management on a number of occasions, particularly around the publishing of emissions and other ESG data given the business has been exempt from doing so per the local listing requirements due to its smaller size. Most recent engagement – Q2 2023.

	Rationale	Targets	Progress
Engagement	▪ To encourage management to publish regular emissions and other ESG data ▪ To clarify impact of assembly process on emissions, wastewater treatment and on employee well-being ▪ To establish ESG related targets	▪ To publish a corporate sustainability report addressing material ESG risks to the business by 2024 ▪ To prepare this in accordance with GRI Sustainability Reporting Standards and SASB standards ▪ To provide an English language version	▪ Founding family member direct control of reporting project ▪ Internal ESG committees established ▪ Data collection processes developed ▪ Delivery of corporate sustainability report ahead of target in September 2023
Action	**Outcome**	▪ The company worked with a local university to produce a thorough sustainability analysis and have committed to follow best practices in the provision of this reporting on an annual basis ▪ Merida has responded well to encouragement in this area, and this has underpinned the investment team's positive sustainability assessment ▪ Monitoring of the company's short- medium- and long-term targets, including for GHG emissions, to be observed	

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 engagements that we have conducted during the past 12 months.

Name	Engagement Type	Engagement Detail	Investment Outcome
Arca Continental	Environmental	Water is the main raw material, making it central to all efforts to grow volumes and improve efficiency. Efficiency targets are impacted by technology and product mix at various plants. Water supply security forms a central part of internal planning. Most of the water they consume for production is ground water; there is very little use of municipal water. Water supply is managed just like any other raw material including a five-year vulnerability assessment. The water pricing concept (like carbon pricing) isn't something that has impacted them to date. Actual costs associated with water have more to do with treatment and quality.	Useful discussion that helped improve team understanding of key sustainability risks. Impressed by managerial quality and long-term focus. Ongoing monitoring and remains on the watchlist.
	Social	Labour within the collection supply chain is a concern. This is an industry moving from very informal (often criminal in some markets) to formal. This comes with many challenges. The Coca-Cola Company is very sensitive to issues on child labour. PetStar developed a 'social inclusion model' called MAIP that partners with NGOs to provide support to families. Formalising the industry in a professional way creates loyalty to their ecosystem which supports long term supply chain development. They acknowledge there are still issues and like all supply chains they sometimes have to remove suppliers.	Useful discussion that helped improve team understanding of key sustainability risks. Impressed by managerial quality and long-term focus. Ongoing monitoring and remains on the watchlist.

Name	Engagement Type	Engagement Detail	Investment Outcome
Bank Central Asia	Environmental	Scope 3 data disclosure will come this year. The need to collect more data to provide a more accurate picture will be a challenge. Only 20% of corporates are 'blue chip'. The rest are local and private companies, meaning they raise funds onshore, where sustainability requirements can differ. Overall, Indonesia needs more co-ordination at a country level to achieve goals.	Ongoing monitoring and remains a holding in all strategies.
China Resources Beer	Environmental & Social	Broad conversation with the Company at headquarters in Hong Kong on the efficiency of the production footprint and guarding against risks within the supply chain. Progress is being made on moving suppliers to sign up to its code of conduct and the carbon emissions reduction roadmap is in the process of being updated. We were informed that Heineken, which partners with CR Beer in China, is also pushing them hard on this front.	A reassuring discussion highlighting progress on a number of fronts. Ongoing monitoring and remains a holding in all strategies.
Cipla	Governance	Independent Director Peter Mugyenyi resigned from the Board on 13 May 2023. Board remains independent as per management (55%), although proxy advisors disagree (45%) given long tenure (>10 years) of Ashok Sinha. We discussed the upcoming retirement of Ashok Sinha with management during the meeting. CEO remuneration relating to specific subsidiaries was also addressed in a separate discussion following an earlier flag.	Continue to monitor for board evolution. New members should reflect strategy. Feedback on CEO remuneration was sensible and aligned with shareholders. Remains a holding in all strategies.

Name	Engagement Type	Engagement Detail	Investment Outcome
Cipla	Governance	Discussed CEO remuneration with the company owing to the proposal at an EGM for a large one-off bonus payment being added to the CEO Umang Vohra's pay package when he completes his current term. Retention is clearly front of mind for the board of directors (BoD), particularly in light of Samina Hamied, one of the promoters, deciding to step back from her executive role, where she had significant input into strategic decision-making. This has led to additional responsibilities being pushed onto the CEO. A salary revision was not due until 2026 and the BoD felt his current package was not fully reflecting both his very strong performance as MD of Cipla and his increased responsibility.	Retaining the CEO is important to us as shareholders and we agreed to vote for this change in remuneration. Remains a holding in all strategies.
Clicks	Governance	Followed up on changes to remuneration key performance indicators and the reasons for them. Also, a broader discussion about pressures on attracting/retaining talent in South Africa as a listed corporate.	Ongoing monitoring and remains a holding in all strategies.
Coca-Cola HBC	Social & Governance	Discussion around energy drink regulations.	Further work required on the risk global regulation may pose for this business. Remains a holding in all strategies.
	Social & Governance	Operations in Russia continue despite The Coca-Cola Company suspending sales of their brands or products. CCH business has shifted to focus on sale of local brands in support of local staff and communities, renaming their business Multon Partners. No plans to increase investment but no plans to sell either. They have not seen any negative brand implications in other markets to date.	Continue to engage with management to better understand the rationale for not fully exiting the Russian market and how they are assessing potential negative brand impact. Remains a holding in all strategies.

Name	Engagement Type	Engagement Detail	Investment Outcome
Coca-Cola HBC	Social & Governance	Further discussion on the risks and realities of operating a business in Russia today: we engaged with the CEO on the options available and the risk of reputational damage to the wider business. The wellbeing of employees and the prevention of misuse of company assets and cash flow have led the company to believe the best course of action for now is continuing to own the local business. For context, Russia was 12% of 2023 group revenue.	Continue to monitor CCH approach to managing local Russian business in support of local employees. Not profiteering and staff are remunerated on a discretionary basis, not linked to volume or profit increase. Remains a holding in all strategies.
Franco Nevada	Environmental	Oil sands exposure limits. Franco Nevada will not undertake further deals for oil sands. The principal asset here is the 'Orion' project which they invested $74m (CAD 92.5m) in 2017. It is operated by Strathcona Resources. This asset is not conventional shovel-and-extraction mineral sands and therefore has far less emissions. Overall exposure to energy should remain at/or below 20% of revenues max. They still see opportunities in natural gas as a key transition and base-level energy source. Oil is much tougher to justify. Precious metals should remain 70% of overall exposure. The remaining 30% can be any other commodity.	Maintain holding for all eligible accounts; continue to monitor. Follow-up call to be arranged with their sustainability team.
Hangzhou Tigermed Consulting	Governance	Followed up on proposed amendments to the Articles of Association during our meeting in Shanghai. We wanted to better understand the board's rationale for proposing these changes at the upcoming AGM and how they may affect the rights of minority shareholders. The amendments will bring Tigermed in line with recent listing rule changes by the Hong Kong Exchange, but the company conceded that information could be communicated more clearly ahead of time.	We should see an improvement in disclosure on future votes and importantly the rights of minorities will not be adversely impacted. Remains a holding in all strategies.

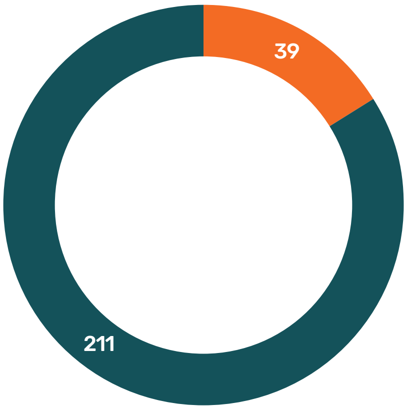
Name	Engagement Type	Engagement Detail	Investment Outcome
Jerónimo Martins	Governance	Discussed remuneration reporting requirements and continued conflict with proxy advisers. Portuguese legislation is not in line with best practice and they are aware of this.	We are comfortable with the governance of this family-owned business, which is evidenced by their long track record of good management and returns. Ongoing monitoring and remains a holding in all strategies.
Koh Young Technology	Governance	Encouraged Koh Young to look at expanding the size of the board (currently seven) through added expertise in software and medical for example – areas where they are looking to grow.	Our feedback was acknowledged and a commitment made to relay this back to the board. Ongoing monitoring and remains a holding in the GEM All-Cap strategy.
	Governance	Discussion on impact of new remuneration structure. This appears to be driving a more balanced approach to capital allocation, though hard to evaluate in short term.	We will continue to monitor progress on capital allocation, particularly with respect to the productivity of the company's sizeable research & development spending. Ongoing monitoring and remains a holding in the GEM All-Cap strategy.
Kotak Mahindra Bank	Social	Addressed the significant increase in staff turnover that we noted from a sustainability review conducted last year. This was mainly driven by young workers post-Covid. In response Kotak has modified incentive structures and training programmes, providing more of a fixed component to pay for new starters in their first year before adding more of a performance-based component as they reach higher productivity. It is also providing more training for branch managers to keep new starters engaged.	Ongoing monitoring and remains a holding in all strategies.

Name	Engagement Type	Engagement Detail	Investment Outcome
Mega Lifesciences	Social	Discussed management's approach to operating in Myanmar given ongoing conflict and attacks by the ruling military junta on ethnic minorities.	We continue to monitor this difficult situation. The Company imports products that are critical to the healthcare needs of the Myanmar population. Therefore, we do not view their ongoing presence as a threat to their reputation. Ongoing monitoring and remains a holding in the GEM All-Cap strategy.
Nexon	Governance	Review of remuneration structure with company given proxy advisor pushback. Overall the discussion highlighted Nexon pays for performance and is aligned with shareholders. Though it did highlight differences in pay between subsidiaries and various teams.	Continue to monitor and discuss with company management. Remains a holding in eligible accounts/ strategies.
Tiendas 3B	Governance	Discussed governance structure with the founder given there are 3 different share classes, one with super-voting rights and significant share dilution to come from options programs. The founder believes they need control of the board to be allowed to pursue the long term strategy and that early employees should participate in the success of the business since they were poorly paid in the company's early years.	The Company is being transparent but the level of control seems extreme. Would need further comfort on alignment for this company to make it on to our watchlist.
Vitasoy	Governance	Continued engagement on board refresh, with progress on more experience from mainland China in senior management. No changes appear to be occurring during this election, with several proxy services against reappointments due to lack of refresh and lack of independence on nominating committee.	Next AGM presents an opportunity for further changes when a few individuals come up for board retirement. Ongoing monitoring and remains a holding in all strategies.
Wal-Mart de México	Governance	Discussion about further remuneration disclosure. An issue across the Mexican market as a result of safety concerns.	Scheduling a follow-up call with their sustainability team. Ongoing monitoring and remains a holding in all strategies.

Corporate Engagements

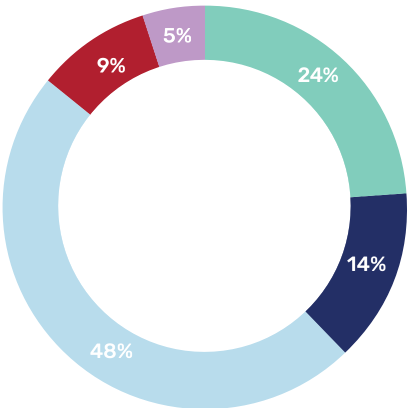
Company Meetings[1]

12 months to end June 2024



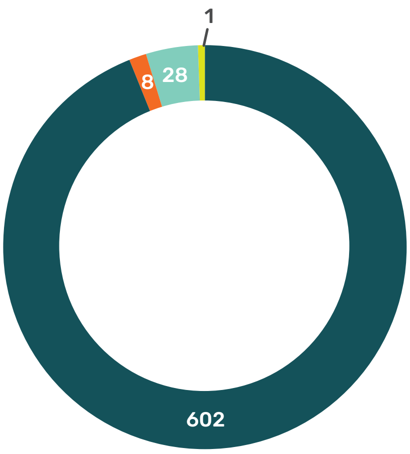
Sustainability Engagements – Portfolio Holdings[1]

12 months to end June 2024



Proxy Voting Overview[2]

12 months to end June 2024



Votes Against Management Rationale[2]

Audit related	1
Capitalisation	8
Company articles	3
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	3
Social	0
Strategic transactions	0
Takeover related	1
Total	**25**

1 Skerryvore GEM Strategies. Skerryvore.

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

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 our initial assessment has changed. 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.

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, the trading name of Skerryvore AM LLP (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.

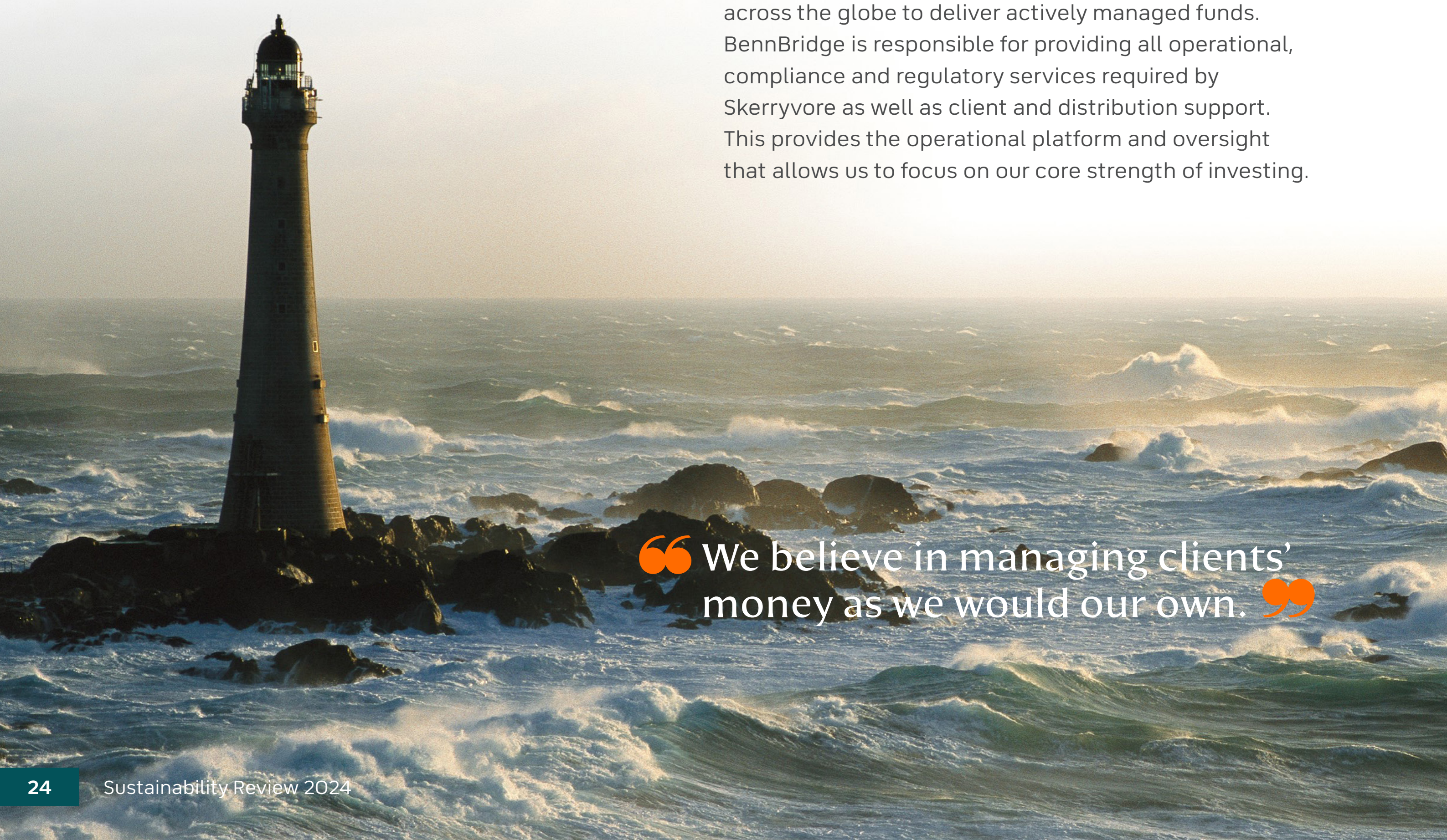
Alignment

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.



"We believe in managing clients' money as we would our own."

Important Information

For professional investors only

This document is issued and approved by BennBridge Ltd ("BennBridge"). Effective August 1, 2024, following regulatory approval, from the UK's Financial Conduct Authority, BennBridge became a wholly owned subsidiary of Skerryvore AM LLP ("Skerryvore"). Collectively, BennBridge and Skerryvore are referred herein as the Investment Manger or Firm. The Firm is based at 45 Charlotte Square, Edinburgh EH2 4HQ in the United Kingdom. The registered office of the Firm is Windsor House, Station Court, Station Road, Great Shelford, Cambridge CB22 5NE.

Skerryvore Asset Management, the new trading name of BennBridge, is an investment manager authorised and regulated by the Financial Conduct Authority in the UK and is registered as an investment adviser with the US Securities and Exchange Commission ("SEC").

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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.

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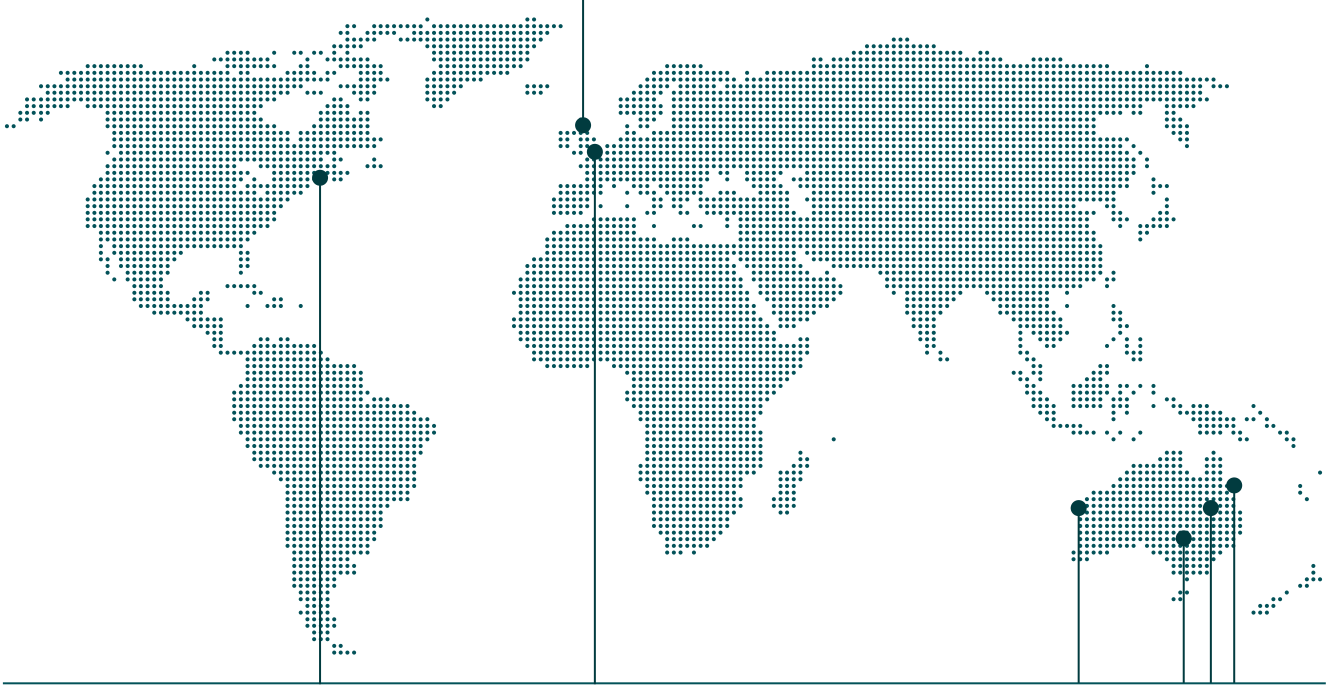

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As at June 28, 2024 Skerryvore AM LLP ("Skerryvore") was an appointed representative of BennBridge Ltd ("BennBridge"). Effective August 1, 2024, following regulatory approval, from the UK's Financial Conduct Authority, BennBridge became a wholly owned subsidiary of Skerryvore and now trades as Skerryvore Asset Management.

Skerryvore

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