# STEWARDSHIP CODE - ANNUAL REPORT - 2023

## PRINCIPLE 1

*Signatories´ purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*

Polunin Capital Partners Limited ('PCPL', 'the Firm', or 'Polunin Capital Partners') manages assets for a range of institutional clients including pension funds, endowments and commingled investment funds. The Firm only invests in Emerging Market and Frontier Market equity securities. Investments in UK and European equity securities (which derive the majority of their revenues from, or have significant investments in, Emerging or Frontier Markets) form a small part of the Firm's investment universe.

The Firm's guiding principle is to maximise the long-term economic value of clients' holdings, using a proprietary replacement value methodology that has been successfully applied and refined over decades and through various cycles. As long-term investors, the sustainability of investees' business models can influence valuation, and issues such as climate change, resource constraints, diversity, and gender equality create risks and opportunities in our investment universe. Incorporating Environmental, Social and Governance ('ESG') criteria into our bottom-up investment process enables us to make better risk-adjusted investment decisions.

PCPL believes responsible investment can make a significant contribution to our ability to meet our fiduciary duty to our clients, who expect us to maximise the returns on their investments. Issues such as equality, sustainable development, and climate change affect not only societies, but potentially the long-term performance of companies, and outcomes for financial assets. The Firm's philosophy is to focus on direct engagement with a view to affecting operational changes that result in improvements to ESG factors that in turn will act as positive catalysts to share price performance.

In 2019 we established our first ESG policy, and ESG Committee. We began standardising ESG due diligence through in-house ESG scoring, covering a comprehensive range of ESG issues - from climate change to human rights and diversity, which are mapped to the United Nations Sustainable Development Goals ('UN SDGs') and are incorporated into investment analysis and active ownership when they are material. We seek to assess the current and future ESG risks and opportunities of a company, and how they affect a company's potential to reach fair value.

We became a signatory of the United Nations-supported Principles for Responsible Investment ('UNPRI') in Dec 2020, and fully revised our Responsible Investment, Climate Change, Proxy Voting, and Exclusion Policies in early 2021, to demonstrate our commitment to investing responsibly.

We monitor the progress of and continue to improve our ESG and Stewardship processes. For example, following our first UNPRI assessment, we began to publish our proxy voting on a quarterly basis, and in 2022 we published our first Taskforce on Climate-related Financial Disclosures ('TCFD') report.

In 2023 we fully revised our engagement approach to set targeted objectives on our investees, designed to improve the sustainability outcomes of companies over 4 years.

In early 2024 we joined Spring, UNPRI's stewardship initiative, in order to learn more about standards and methodologies in biodiversity to enable us to more effectively engage with investee companies in respect of these issues.

We are mindful of the risk that investment 'style drift' can arise from pursuing a too prescriptive, exclusion-based application of stewardship principles, which is why we prefer a methodology focused on engaging with investee companies to effect change and improve their ESG reporting and performance. We believe that this approach best serves the interests of our clients, who are mainly well-informed institutional investors; the client feedback we have received on our engagement approach has been broadly supportive.

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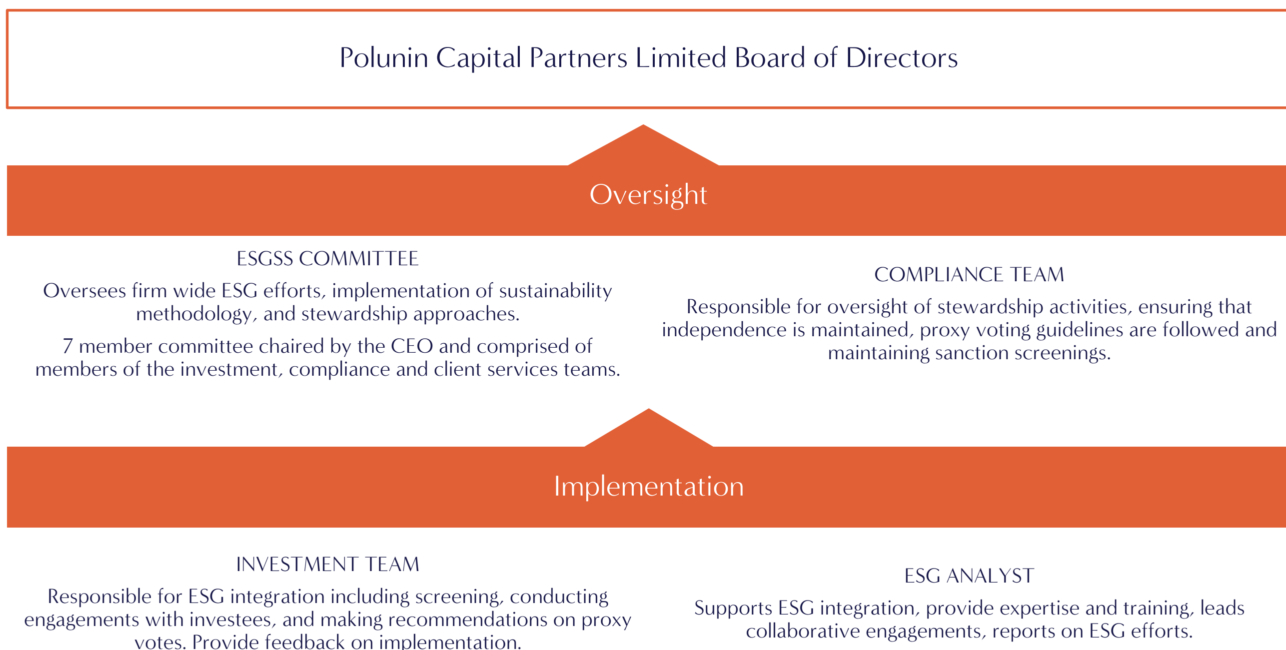
# PRINCIPLE 2

*Signatories' governance, resources and incentives support stewardship.*

**ESG & Stewardship governance structure**




The **PCPL Board of Directors** has oversight of the company's strategy and investment objectives and has ultimate responsibility for ESG integration into the investment process and portfolio construction.

Our responsible investment methodology, policy and reporting are overseen by the **ESG & Sanctions Screening ('ESGSS') Committee**, which is chaired by our CIO, with seven members drawn from our investment, compliance and client service teams. The ESGSS Committee oversees the development of our responsible investment policy and the methodology for implementing ESG processes within the investment process. At its inception, the ESG Committee (as was) met on a quarterly basis. However, during 2021, as the number of ESG topics and sanctions matters grew rapidly, the remit of the Committee expanded to include the sanctions compliance of our portfolios, and the frequency of its meetings increased to monthly in order to enable more effective decision making and action.

Our 15 **investment professionals** groupwide are responsible for the ESG scoring of their sector and company coverage, for making proxy voting recommendations, and for leading engagement with companies. Our lead analysts have a deep understanding of the regulatory, cultural and competitive backdrop of the particular countries and sectors our investees operate in, and this knowledge forms an important part of gaining rapport with investees in engagement activities.

Within our **Investment team** there is a nominated **ESG analyst**, who has achieved the CFA Certificate in ESG Investing. The ESG analyst supports our CIO in the continued integration of ESG into the management of our portfolios, drawing upon their expertise and knowledge, keeping abreast of new ESG developments and policies, and delivering ongoing ESG training in-house. ESG training is provided to members of the investment team and client service team.

The **Compliance team** is responsible for oversight of stewardship activities, ensuring that independence is maintained, and proxy voting guidelines are followed. Compliance monitors and ensures that investment processes and products comply with regulations and investment management agreements.

We use ISS databases to support pre-investment checks for breaches of norms, and controversial weapons exclusions. Our internal ESG checklist analyses portfolio companies on their ESG preparedness based on eight sustainability outcome objectives (please refer to Principle 7), plus other company specific issues, and pertinent sectoral concerns. Our research is based on publicly available information such as annual reports, annual sustainability reports, news articles, regulatory disclosures, and risks identified by the Reprisk dataset. We combine the checklist with the Reprisk rating (reflecting controversy risk exposure) and Refinitiv ESG scoring (a quality measure) to prioritise investees for engagement, and to identify key engagement topics. The sector investment analyst files written reports on annual ESG review, and adhoc event-driven engagement.

Whilst Glass Lewis provides the Firm with proxy voting recommendations, and we often refer to their historical recommendations on governance-related engagements, our investment team performs its own assessment of the facts before determining how to vote a particular proxy.

Climate-related datasets from ISS are used in assessing portfolio climate impact and carbon emission exposures, in particular for TCFD reporting.

PCPL´s remuneration policy aims to align compensation with the interests of clients and long-term performance of the Firm. The Firm´s founders and controlling stakeholders only tolerate a low level of risk, and deferral of variable remuneration is employed to discourage excessive risk-taking. Each individual´s performance assessment includes consideration of their compliance with internal policies and procedures, including ESG policies and procedures, alongside their contribution to the strategic objectives of the Company. Polunin Capital Partners has incorporated ESG considerations into the management of our portfolios with the approach documented in our policies. The Board of Directors takes ultimate responsibility for the integration of these policies into our portfolio management process. Compliance with internal policies and procedures forms a part of annual fit and proper assessments (applicable to FCA Code Staff and Senior Managers) as well as performance reviews.

With our Emerging Markets focus it is advantageous for us to employ a highly diverse workforce, including many from the emerging market countries in which we invest, to properly execute our investment process. Across the Polunin group out of 25 employees and 2 independent contractors, a very wide range of nationalities are represented and mostly from developing countries. In response to our Firm´s 2023 Polunin group annual diversity survey over 44% of staff identified as racially or ethnically Asian, just under 4% identified as Black/ Sub-Saharan African/ Afro-Caribbean/Afro-Latinx/ African American, over 7% identified as Latino, and just over 11% identified as having mixed or multiple ethnic or racial groups. 33.3% of our employees, 33.3% of Board members and 20% of senior management identified as female in response to our 2023 survey. We offer flexible working opportunities, which we feel enables us to attract a wider range of applicants to the Firm. Prospective employees are interviewed by a series of different staff before an offer is made, ensuring diversity in the selection panel. Most of the Firm´s future growth in staffing is anticipated to be within our investment team where the benefits to the investment process of ethnic diversity have been self-evident to the Board for many years. Diversity -- including skills, experience, ethnicity and gender -- is just as important at Board level. The Polunin Group has promoted two female members of staff to Director level in recent years and we see scope for this Board diversity to increase further over time as senior members of the team progress to being appointed to Board positions.

Through the monthly ESGSS Committee meetings we continually assess the effectiveness of our governance structures and processes, and review whether internal requirements and client expectations are being met. We have Board level commitment to ensure that sufficient resources are deployed in support of our ongoing ESG and stewardship initiatives, from headcount to third party ESG data purchases from third party specialist ESG data providers.

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## PRINCIPLE 3

*Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.*

PCPL is a privately owned company, in which the majority of staff members own an equity interest, and in which the original founders and majority shareholders are closely involved in day-to-day management. PCPL recognises the importance of managing potential conflicts of interest on behalf of its clients when voting their shares and engaging with investee companies. PCPL will consider all potential conflicts of interest that it identifies, or which are brought to its attention, and will determine if a material conflict of interest exists. Our principal objectives when considering matters such as engagement and voting are always to act in the best interests of our clients and to treat them fairly.

The Firm's Compliance team and Board are responsible for implementing systems and controls designed to review potential and actual conflicts of interest on a quarterly basis. Conflicts can arise in situations when the Firm:

- Is likely to make a financial gain, or avoid a loss, at the expense of a client (including the funds managed by the Firm and their investors);
- Has an interest in the outcome of a transaction carried out on behalf of a client, distinct from the client's interest in that outcome;
- Has incentive to favour the interests of one client over another;
- Carries out the same business as the client; or
- Receives or will receive an inducement from a person other than the client in relation to services provided to the client in the form of monetary or non-monetary benefits or services.

Policies and procedures relating to conflicts of interest are available on the Firm's website (https://polunin.co.uk/conflicts-of-interest-policy/ ). If a potential conflict is identified, business functions will be segregated to maintain independence and to prevent the identified conflict from crystallising. This may include information barriers, separating functions and adding supervision, or reassigning functions altogether.

All staff members receive conflicts of interest training and are required to give a quarterly undertaking confirming their understanding of the Firm's conflicts of interest policy, including disclosing any personal conflicts such as their personal trading activities, the receipt of gifts, benefits or entertainment and outside business interests.

The Firm has an order aggregation and allocation policy which governs the management of buy and sell orders across accounts sharing the same investment strategy; aiming to ensure fairness to clients through consistency in transaction prices and equitable allocation of part-dealt orders. The policy's implementation and adherence to it is overseen by the Firm's Operations and Compliance teams.

The ESGSS Committee comprises staff members from the broad range of departments at the Firm, and includes the CEO who is also the Chief Investment Officer. The structure of the Committee was deliberate with a view to ensuring the widest involvement in policy-making, but also to engender a consistent dissemination and implementation of policies and procedures throughout the organisation; aiming to minimise the risk of conflicting activities occurring.

Staff members are required to obtain prior approval from Compliance before engaging in any employment outside of their employment with the Firm. Staff members are also required to obtain the prior approval of Compliance before taking an interest in any outside business organisation, and in particular before becoming a director, an officer or adviser to a company or any other entity whether or not it is a paid position.

The review of conflicts of interest is dynamic, with the Compliance team raising any perceived or potential issues with senior management at the Firm whenever they arise; and as a standing item at the Firm's regular quarterly Board meetings.

The Compliance team retains control over the submission of proxy votes, in order to ensure that voting intentions do not come into conflict with the Firm's proxy voting policies, and that voting is consistent across all clients. Where the Firm is permitted to vote on behalf of client mandates, it has full discretion to do so; meaning that the potential for client voting instructions to come

into conflict with the Firm´s voting policies is very unlikely to arise. During the calendar year 2023 reporting period, the Firm has not identified any actual conflicts of interest in connection with its stewardship or engagement activities.

**Potential conflict case study 1**: Chief Investment Officer´s personal holdings in two of the Firm´s investment products.

**How it would be addressed**: We continue to monitor and manage carefully any potential conflicts of interest arising from senior management and client investors´ overlapping investment. Aside from measures to mitigate the risk of single-person bias in trading and investment activity, any potential conflicts with other shareholders on proxy voting matters are mitigated by the Compliance team having oversight of exercising the proxy voting.

**Potential conflict case study 2**: An analyst or fund manager is made an insider in the course of discussion with a company.

**How it would be addressed**: The Firm´s Restricted List is updated to include the company name, and reason for a trading restriction being imposed. Pre-trade restrictions are added to the trade management systems and personal account dealing register to ensure no trading in the name is possible. The Compliance team will seek confirmation from the analyst or fund manager that the suspected material non-public information is no longer an issue (i.e. it has entered the public domain before removing the trading restrictions. There were three positions removed from the Restricted List during 2023 following public disclosure of the information that had warranted restrictions being implemented the previous year.

## PRINCIPLE 4

*Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.*

PCPL´s investment methodology is bottom-up and focused on the fundamental value of a company using industry valuation techniques. There is no formal integration of macro-economic and geopolitical analysis in this process. However, as the valuation comparison of companies across Emerging Markets uses the US Dollar as a common currency, macro risks and events are identified and often can be captured through changes in FX rates and their effect on the relative valuation. By example, a company´s valuation relative to its peers will become more expensive if its local currency strengthens appreciably against the US Dollar (which will in turn be a function of top-down economic or political factors).

Political or social instability, or diplomatic developments could affect investment in certain countries. There are varying levels of government supervision and regulation of exchanges, financial institutions and issuers across countries. In addition, the way foreign investors may invest in securities in certain countries, as well as limitations on such investments, may increase the volatility and risk of loss to investments. As these risks develop, they are identified by our investment analysts, who have deep knowledge and expertise in emerging markets countries, through their ongoing fundamental value analysis and by keeping abreast of local and international news and announcements.

**Managing regulatory risks**: While the pace of change in listed companies facing direct financial sanctions eased over 2023 when compared to 2022, the spotlight fell instead on rising numbers of Specially Designated Nationals (SDNs) associated with listed companies being added to sanctions lists. As a result, the risk to the Firm of investing in a company in which an SDN held a controlling position, or was a beneficial owner, rose over the period. The Firm responded to this increased risk by increasing the frequency of our portfolio sanctions screening (using the Refinitiv Worldcheck database) to weekly, and by having Compliance run a sanction screen on any new security prior to it being approved for trading on our systems. The ESGSS Committee continues to review findings and consider proposals for action to be taken, with the Compliance team ensuring that any decisions are communicated to, and enacted by the relevant business areas within the Firm.

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**Managing sustainability risks**: Emerging Markets typically have greater exposure to sustainability risks than developed markets. Listed companies in Emerging Markets are often subject to less extensive sustainability-related reporting requirements making it challenging for the Firm and external providers to identify and assess the materiality of inherent sustainability risks. The assessment of sustainability risks of investees is carried out on an annual basis, the results of which are summarised and reviewed by the ESGSS Committee, to integrate into the investment decision-making, and monitor potential or actual material risk to long-term risk-adjusted returns. We summarise sustainability risks in our investment universe as follows:

1. Climate change management is at an early stage in Emerging Markets, most countries are at the beginning of establishing targets and action plans to reduce environmental impact, and government implementation and enforcement of policies to limit climate impacts are often lacking or non-existent. Climate impacts may include greenhouse gas emissions and climate change, water stress, biodiversity and deforestation, emissions and waste both toxic and non-hazardous, and environmental management in the supply chain.
2. Countries in Emerging Markets often lag developed markets in respect of labour and human rights practices, child labour, equal opportunity and pay, freedom of association, sexual harassment, occupational health and safety, code of ethics and conduct, confidentiality for whistle-blowers, anti-bribery and corruption, and supplier monitoring in respect of the aforementioned practices. There can be gaps in consumer rights and protection, including product quality assurances, prevention of mis-selling, monitoring inappropriate online content and behaviour, and consumer data protection, privacy and cybersecurity.
3. Governance risks may be more pronounced in Emerging Markets owing to less developed corporate governance frameworks, and a lack of legal protection or redress for stakeholders and minority shareholders.

The analysis performed in support of our TCFD reporting has focused our attention on engaging with investee companies to encourage the setting of medium-term emission reduction targets, as the alignment level remains low in Emerging Markets. Given our value-oriented investment style, the portfolio is naturally tilted towards carbon-intensive, hard to abate sectors such as materials (chemicals, steel, cement, aluminum), and transportation (aviation, shipping, rail). While we have seen some rapid progress in developing low carbon technologies amongst our investees, we continue to engage with investees on targets that will align with energy transition.

It is worth noting that the quantification of physical climate risks remains a challenge for our investees, and also for us at a portfolio level, due to the lack of detailed geospatial data, and difficulty in modelling extreme weather patterns. However, we stress the importance of physical climate risks in our annual sustainability review with investees.

**Participation in industry initiatives**: Since 2021, we have been a participant in CA100+. Please refer to Principle 11 for the case study on KEPCO of South Korea.

As an investor signatory to ShareAction's Workforce Disclosure Initiative ('WDI', an annual survey and engagement programme to provide data on workforce practices, we gained practical insights on how to engage investees on managing human and labour rights issues in the supply chain. Since 2022, two of our investee companies have participated in the survey, and every year we actively encourage further investees to join. In 2023 we also co-signed WDI's joint letter to ISSB reporting standards to consider human rights and labour rights as a single sustainability standard.

We also joined PRI's Advance stewardship initiative on human rights in 2022, and engagement with Peñoles of Mexico commenced in 2023.

In the future we will focus our efforts on:

**Identifying and managing climate risks**, both transition and physical. To increase the proportion of portfolio companies that are climate resilient and transition aligned, we engage annually with companies to focus on setting interim carbon reduction targets, and identify sector-specific physical climate risks.

**Sustainability processes and reporting**, encouraging companies to improve material sustainability processes, governance, and disclosures, with a particular emphasis on supply chain human and labour rights.

**Diversity and inclusion ('D&I'),** introduce measures to improve D&I at board and senior management levels.

**Governance best practices**, improving independence of board structures, preventing corporate actions that disadvantage minorities.

## PRINCIPLE 5

*Signatories review their policies, assure their processes and assess the effectiveness of their activities.*

PCPL´s long-term investment horizon, typically 3 to 5 years, is intertwined with our approach to stewardship, looking to enhance investor´s value through engagement with our portfolio holdings to minimise reputational and sustainability risks. Our approach, policies and reporting are overseen by the ESGSS Committee, chaired by our CIO, and reporting to our Board of Directors which ensures the implementation of responsible investment at the Firm, this includes the review and approval of all related policies and procedures or updates to existing documents.

The Firm´s ESGSS Committee meets formally on a monthly basis, or on an ad-hoc basis whenever more urgent action needs to be considered. This allows for timely review of updates from our sanctions screening, as well as greater responsiveness to outcomes from norms-based and exclusionary screening. Engagement with companies on ESG and proxy voting matters, including collaborative efforts with other investors, are also discussed at the meetings.

The ESGSS Committee has also increased its number of members to seven including portfolio managers, representatives of the investment, compliance, and client services teams. It regularly invites guest attendees to report to the Committee and lend specialist insights, and also to promote the Firmwide understanding of ESG goals and objectives.

The Firm´s stewardship policies are reviewed annually by the ESGSS Committee and approved by the Compliance team, to ensure that they are fair and balanced, and that best practices and up-to-date climate guidelines are adhered to. Our responsible investment and ESG policies are published on our website at https://polunin.co.uk/#responsibility.

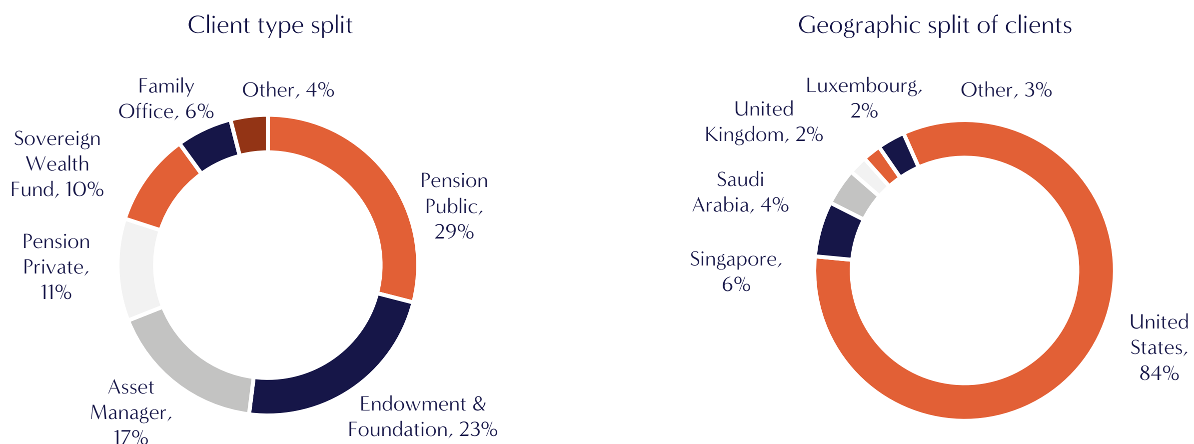
We aim to ensure that our stewardship reporting is fair, balanced and understandable. Quarterly proxy voting reports and annual engagement reports are written in plain English and are subject to review and approval by the ESGSS Committee with our annual TCFD report additionally reviewed by the Board and signed off by the CEO. Once approved they are further reviewed by our Compliance team before being published on our website and are available to all members of the public. In 2023 we started to provide examples that show clear objectives and outcomes in our engagement report, and focused our stewardship efforts on setting objectives and demonstrating outcomes going forward.

PCPL is a small firm and as such does not maintain an Internal Audit department. Instead we engage external auditors, experts and consultants to ensure that our compliance framework is subject to regular independent assessment; and our governance and operational structure is subject to a full systems and controls audit. The Firm does not use external assurance to evaluate its ESG policies and processes, but we continue to assess the most appropriate method for assuring the effectiveness of our stewardship activities.

## PRINCIPLE 6

*Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.*

PCPL manages assets for a range of professional clients (and fund investors) including pension funds, endowments and comingled investment funds. Below is a breakdown of our clients/fund investors by geography and type as at 31 December 2023:




Our client base is predominantly US focused (84%), but we also have significant investment from institutions in Singapore (6%) and Saudi Arabia (4%). We are more diversified in terms of institutional client type with public pensions, wealth managers and endowments representing 69% of our total assets under management ('AUM'). Private pensions, sovereign wealth funds and foundations are the primary source of the remaining balance, representing a further 27% of our AUM. PCPL's invested AUM is typically over 99% in Emerging Markets listed equities.

All the Firm's investment strategies are underpinned by a common, deep-value investment methodology and process, which is best suited to a longer-term investment horizon (3 to 5 years). The deep-value philosophy is aligned with our stated goal of seeking ESG improvements in investee companies over multiple years, a process that requires investment analysts to engage regularly with the companies they are responsible for valuing. Our deep-value investment style tends to have a higher weighting toward hard-to-abate sectors, and Emerging Markets companies often have to contend with national energy policies that do not always align with the energy transition expectations of investors from developed markets. Our engagement with investees often involves educating them on investor expectations, and urging them to implement a reporting roadmap alongside improving governance and oversight on sustainability risks. The decarbonisation difficulty in Emerging Markets is generally well understood by clients, but portfolio risks need to be well-managed, and since 2022 we have published carbon emissions and climate risks data of our holdings in an annual TCFD report. Continued engagement with companies on climate risks forms an important part of stewardship approach.

PCPL also provides investment management services to a number of segregated mandates and for these clients we are able to provide an ESG approach that is tailored to their individual stewardship and internal investment policies; we have implemented wider ESG exclusion lists in respect of these mandates.

In 2023 there were no cases where we did not manage assets in alignment with clients' stewardship and investment policies.

**Case Study – Banpu PCL (Thailand)**

Founded in 1983 as part of Thailand's national energy strategy, Banpu is a coal miner which has diversified into power generation, LNG and renewables in recent years. We invested in the company in late 2020.

**Engagement objectives:**

In 2021 Polunin established a Coal Exit Policy as part of the Climate Change Policy, requiring all thermal coal-related investees to establish a coal phase-out plan by 2030 in OECD countries, and 2040 worldwide, within 3 years from our initial engagement.

In 2022 one of our separate account clients formalised their exclusion policy to exclude securities of companies that derived more than 10% of their revenue from thermal coal, with a 5-year grace period of 20% cap.

**Process:**

In 2021 we carried out 3 engagements with Banpu management -- including the CEO -- drawing attention to the company's current target of less than 40% EBITDA contribution from coal mining by 2025 as being insufficient as a reduction target. We stressed to management the need to articulate more measurable and concrete targets, including facility-by-facility closure plans and interim metrics.

In 2022 Banpu announced the following commitments:

- Zero allocation towards any capital investment in coal mining. Commitment to only maintain operations in their current coal assets during the duration of mine life.
- New investments in renewables, electric vehicles, and other alternative energy assets.
- Publication of the first TCFD report by 2023.
- GHG emission reduction from 2021 to 2025 by 7% from BAU for mining, and 20% from BAU for power generation, respectively.
- A climate working team to conduct scenario analysis, including one aligned with the 2°C pathway.
- Appointment of an ESG Committee with Board representation.
- Establishing business targets in line with the 7 most relevant UN Sustainable Development Goals (SDGs), focused on environmental issues.

**Outcomes:** While the company made some significant progress, sufficient for exemption from exclusion in 2022, its commitment to more ambitious targets and a detailed pathway to phase-out was lacking. In early 2023 we exited the position for all clients.

We also monitor ESG and stewardship related questions and topics arising within RFPs, with these feeding into wider discussions on areas where our stewardship activity and reporting may have scope for improvement.

Our client services team meet with our clients regularly in performance reviews and due diligence meetings, answering any ESG and stewardship-related queries that may arise. Clients generally receive monthly updates on portfolio performance and attributions, with a more detailed quarterly or semi-annual report with portfolio manager commentary. Voting activity is reported on a quarterly basis via our website, and we engage with investees on controversial votes and proposals where we have concerns where timing allows, with rationale of our voting decision is disclosed publicly. We have committed to publishing our engagement report on an annual basis from 2023 onwards, providing greater detail on our engagement activity and outcomes.

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## PRINCIPLE 7

*Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.*

Our core asset class is listed equities, comprising approximately 99% of invested AUM, and it is important to note that our approach to the integration of stewardship through engagement does not differ across our clients, asset classes or geographies.

Company level ESG analysis (monitoring through holding and exiting) and engagement (monitoring through holding and exiting) are conducted by the investment team directly; we do not have a separate sustainability research team. The lead analysts are responsible for both financial and ESG analysis, and engagement of investees. This approach is the same across all geographies within our investment universe. We ask analysts to focus on:

- Companies´ environmental and social policies, processes and disclosures, focusing on material risks of particular sectors, e.g. water use in the semiconductor industry, human rights in the construction industry;
- Whether past controversies have been addressed through improvement in processes; and
- Companies´ governance structure and historical track record.

Whilst we have developed our own methodology to analyse companies on ESG matters, we use external research to monitor ESG related controversies. This includes both normative issues such as human and labour rights, and revenues from controversial weapons, and forms part of the screening process prior to investment. Companies with a verified failure to respect established norms are excluded for investment purposes. Existing investees undergoing remediation or that have alleged failures are prioritised for engagement. In the year 2023 we did not have any investees with alleged breaches.

We have identified Coal Exit as an engagement priority, due to the significant stranded asset risk associated with a long-term investment horizon. Portfolio companies deriving 10% or more of their revenue from thermal coal-related activity have been identified. In 2023 we continued engagement with PGE in Poland, as part of the 3-year engagement process with coal-related investees on their commitment to a Coal Exit strategy.

PGE indicated that the creation of a national energy agency in Poland (´NABE´, which would own all the lignite mines, hard coal and lignite-fired generation assets in Poland) was still under development and pending EU approval. Following the coal assets spin-off, PGE would focus on the transition of the remaining lignite-fired heating assets. Shortly after agreeing to sell coal assets to the Polish treasury and moving forward a carbon neutrality target from 2050 to 2040 in August 2023, PGE reversed the decision due to a political fallout prior to parliamentary elections. We continued to monitor progress.

Issues identified during the internal scoring process form the basis of the engagement discussion with investees. In addition, the process of producing periodic ESG reporting to clients, and filling in requests for proposals, provides feedback on clients´ focus topics in sustainability. From these sources, we have identified the following eight sustainability outcome objectives:

- Start publicly reporting on environmental impact such as greenhouse gas (´GHG´) emissions, water usage, and waste generation;
- Set targets on reduction of the above, in particular absolute GHG emission over 2026-35, and report on progress;
- Report on and commit to mitigating processes for physical climate risks;
- Introduce board-level oversight of sustainability risk management;
- Disclose diversity and inclusion data at different seniority levels;
- Introduce time-bound targets and measures to improve diversity and inclusion performance;
- Achieve greater levels of board and senior management level diversity over time;
- Report annually on labour and human rights due diligence to identify, prevent, and mitigate risks at the company, as well as at the suppliers and contractors levels.

We believe the above topics will become more material to investors over time, and therefore it is paramount that investees have policies in place and improve disclosure on such matters. Furthermore, it is our belief that weakness noted in respect of a company´s

ability to deliver against the eight sustainability outcome objectives above could foretell an increased risk of controversies, so the engagement process with companies acts as part of our risk management process

Regarding climate engagement, we are a supporter of TCFD, a signatory of UNPRI and a participant of CA100+.

As an investor signatory to WDI – an annual survey and engagement programme to provide data on workforce practices – we have gained practical insights on how to identify and address workforce issues, a pressing but under-addressed area in Emerging Markets.

Although our proxy voting is mostly related to governance issues, such as board composition, remuneration, and corporate actions that may disadvantage minority investors, we have encouraged our team to engage prior to voting on significant items, and investees have found the feedback and suggestions helpful. With more systematic record keeping of engagement, tracking and reviewing historical voting records on proxy voting platform, we have had more active dialogue with investees on our views on governance, diversity and climate.

## PRINCIPLE 8

*Signatories monitor and hold to account managers and/or service providers.*

In tandem with the development of our own ESG methodology to analyse companies, we have continued to purchase external research to monitor ESG related controversies. This includes both normative issues such as human and labour rights, and exposure to controversial areas such as controversial weapons. We also buy in third party data and estimates on carbon emissions. We conduct reviews of our external ESG research providers on an annual basis, to understand changes in methodologies and research focus areas. The predominant theme of discussion with our providers during 2023 has been climate scenario alignment and the need to ensure this is updated to the International Energy Agency ('IEA') 1.5°C scenario, and the presentation of physical climate risk analysis that is difficult to understand, by sector and geographic attribution. We have since received updates from the relevant providers to show net zero scenario analysis; however on physical climate risk we continue to review research providers with regional downscale climate models. The additional difficulty for our diversified small mid cap portfolio is the availability of corporate geo-location data which limits the physical climate risk coverage.

Since December 2022 the Firm has engaged the proxy voting platform services of Glass Lewis in order to meet increasing client voting disclosure requirements. Aside from the enhanced reporting capability available with this platform, access to Glass Lewis' voting policy recommendations, and the systematic implementation of our voting policy has ensured more consistent decision-making. In certain Emerging Markets there have been some issues with the timely publication of voting policy recommendations by Glass Lewis, as the disclosure of investee meeting agendas at short notice is allowed locally. We have reflected our concerns in our regular meetings with Glass Lewis with a view to working around market inefficiencies.

In 2023 we added Reprisk as a data provider to better monitor and assess material ESG risk, aware that data was lacking in certain jurisdictions. The provider was selected as its broad coverage was better suited to our Emerging Markets small mid cap universe than other providers, and it was using public sources and stakeholder reports that complimented our own research approach. However, we did feedback that the data content was lacking information publicly available in certain languages.

# PRINCIPLE 9

*Signatories engage with issuers to maintain or enhance the value of assets.*

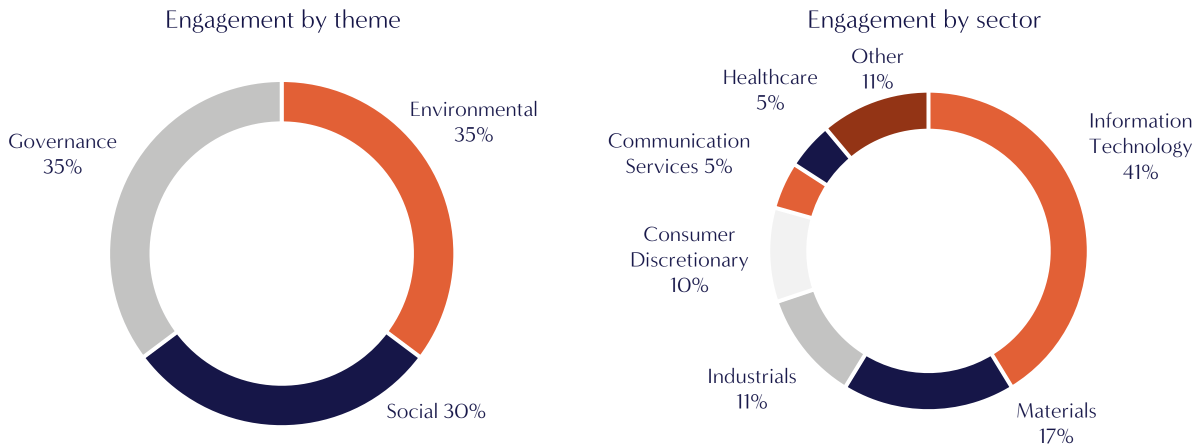
Regular meetings with investee companies are an important part of the Firm´s investment philosophy and provide the opportunity to discuss issues that affect corporate values with senior management. Engagement in respect of ESG issues builds on this by identifying and mitigating material ESG issues, and strengthening investees improving commitment to processes, transparency, and reliance.

Engagements with portfolio companies can be summarised as follows:

1. **Company specific monitoring** (bottom up): investment analysts work with portfolio companies to improve how they manage or disclose ESG performance or issues, as identified in the internal monthly screening processes, or in response to events or queries. Investee companies are prioritised by the level of risk and size of position.
2. **Strategic engagement priorities** (top down): based on the eight sustainability outcomes (see Principle 7), we engage with investees on an annual basis, taking into consideration material issues for our companies, clients´ focus topics, and market and regulatory developments. The current priorities are carbon reduction target-setting, diversity and inclusion at board and senior management levels, and supply chain labour and human rights monitoring. We identify the companies most exposed to these topics for engagement, prioritising larger positions and larger companies who are more likely to be able to lead change in the sector.
3. **Proxy voting engagements**: as the vast majority of proxy voting issues are related to governance within Emerging Market listed equities, this is often the best opportunity to discuss governance structures and diversity and inclusion related matters with companies, prior to voting, and also throughout the year.

Engagement is an important part of the investment process for listed equities, which accounts for over 99% of our invested AUM. Our engagement approach does not differ across strategies or geographies. Our investment team carries out engagement activity directly, so we can combine the monitoring of ESG risks with our nuanced understanding of companies´ operations and sector issues. The investment team engages as part of our regular meetings with companies, phone calls, and emails, or by taking part in collaborative engagements. We maintain records of our engagements internally, the progress of which are regularly reviewed by the ESGSS Committee. If progress has stalled, then matters are escalated.

We carried out 63 engagements in 2023, five of which were undertaken by external providers in collaborative engagements. This is the first year we carried out annual ESG reviews with investees based on our eight defined sustainability outcomes; only five engagements were concluded under this new approach. Engagement by theme is shown in the following pie chart for those engagement:




**35% of on climate-related risks**: asking investees to set clear mid-term carbon reduction targets, and clarify the method of reduction; gain better understanding of sector-specific physical climate risks.

**35% on governance issues:** board independence and diversity, capital issuance, related-party transactions, director remuneration, and ESOP.

**30% on social issues:** to identify obstacles to improving D&I at senior management levels, supply chain human and labour rights monitoring.

We have implemented the new engagement approach across Asian large caps in 2023; a geographic breakdown in 2024 will be provided as we roll out the approach to other regions. The following split by sector reflects our portfolio exposure, although there are more engagements carried out in the IT sector.

### Case Study - COSCO Shipping Ports (China)

COSCO Shipping Ports is a leading container port operator of 38 ports globally.

**Engagement objectives:**

1. Start publicly reporting on environmental impact such as greenhouse gas ('GHG') emissions, water usage, and waste generation;
2. Set targets on reduction of the above, in particular absolute GHG emission over 2026-35, and report on progress;
3. Report on and commit to mitigating processes for physical climate risks;
4. Introduce board-level oversight of sustainability risk management;
5. Disclose diversity and inclusion data at different seniority levels;
6. Introduce time-bound targets and measures to improve diversity and inclusion performance;
7. Achieve greater levels of board and senior management level diversity over time;
8. Report annually on labour and human rights due diligence to identify, prevent, and mitigate risks at the company, as well at the supplier level

**Process:** Since 2019, we have had several engagements with the company to discuss a range of issues, including environmental disclosures, climate risks, gender disclosures and inclusion data.

During our engagements, we discussed the lack of Scope 3 carbon emissions disclosures, which was not available prior to 2022. We also highlighted to the company that its 2030 greenhouse gas emission intensity reduction target, set in 2020, was attained

way ahead of schedule in 2022. There were inadequate disclosures on the measures taken by the company in response to more frequent floods and typhoons arising from climate change. There are gender-related disclosures but lacked details on seniority. The company was in the process of forming an assessment panel to review its suppliers and conduct on-site inspections.

Following our ongoing engagements, COSCO Shipping Ports has now included Scope 3 carbon emissions data since 2022. The company has now included preventive measures taken against typhoons, along with measures against heatwaves and cold weather in its 2023 ESG report. Concurrently, in 2023 the company started to include gender distribution by employee category (managerial/supervisory/general position) and also formed its supplier assessment panel.

**Outcomes:** Objectives 1,4, 5, and 8 are met, with objectives 2, 3, 6, and 7 remain ongoing, as at 31 Dec 2023.

### Case Study – PTT Global Chemicals ('PTTGC', Thailand)

Formed through the merger of PTT Aromatics and PTT Chemical in 2011, PTTGC is an integrated petrochemical and refining company.

**Engagement objectives**:

1. Start publicly reporting on environmental impact such as greenhouse gas ('GHG') emissions, water usage, and waste generation;
2. Prepare TCFD report, set targets on reduction of the above, in particular absolute GHG emission over 2026-35, and report on progress;
3. Board composition improvements: size, tenure, and diversity.

**Process:** We began engaging with PTTGC in 2020, asking for better climate disclosures and targets, and improvements in board structure.

In 2020, PTTGC showed basic disclosures with Scope 1&2 data, and no Scope 3 reporting. The company had yet to compile TCFD reporting, and had only weak commitment to carbon reduction. Since our initial engagement highlighting the gaps in disclosures and making suggestions for improvements, the company had made more detailed emissions disclosures, including Scope 3, which became available during 2023, it published its first TCFD report in 2023, providing details on transition scenario analysis, physical climate risks, and clarified pathway to 50% Scope 3 reduction by 2050. PTTGC said that it is working towards Science Based Targets initiative ("SBTi"), and is engaging with suppliers to ensure decarbonisation is being implemented by the supply chain.

On Board structure, we communicated the need to refresh the longest tenured board seats with a 10-year limit on each member, and improve diversity at the board level. PTTGC has acknowledged all of these concerns, and has improved its tenure limits when compared to those in operation in 2021, but diversity had deteriorated (the only female director was replaced by a male in 2023), and the Board size remained at 15 members.

**Outcomes:** objectives 1 and 2 are met, objective 3 remains ongoing, as at 31 Dec 2023.

## PRINCIPLE 10

*Signatories, where necessary, participate in collaborative engagement to influence issuers.*

The Firm often engages on issues of concern directly with the smaller capitalization companies, as we believe such an approach is better suited to companies where we can be one of the larger minority shareholders. In some circumstances, particularly with larger companies and on sector or policy issues, collaboration with other investors can be the most effective way to engage. We find this useful in those situations where independent escalation has not produced a desirable outcome or during times of significant corporate or economic stress.

As a Firm we believe there is strength in numbers when it comes to engaging with our holdings on certain topics, and for this reason we have chosen to join several collaborative engagement efforts.

The Firm is a signatory to the UNPRI and a participant of the CA100+ and Advance (PRI-led collaborative engagement on human rights). We are also a member of the WDI.

The WDI aims to increase transparency around workforce practices by encouraging companies to report data on topics such as decent work and human rights. We have actively engaged with our holdings, as we believe the need for Emerging Markets corporates to align their workforce practices to international standards will only become more pressing over time.

In 2022 our investee Sun Art Retail Group Ltd, a major grocery chain in China with 100,000 employees, became one of the first Chinese participants in WDI. In 2023, COSCO Shipping Ports participated in the WDI, as the first Chinese state-owned enterprise. We were extremely heartened by the leadership shown by these companies, and hope this will encourage others to follow, and improve workforce reporting and practices in Emerging Markets.

In 2023 we participated in WDI's joint letter to ISSB reporting standards to consider human rights and labour rights as a single sustainability standard.

## PRINCIPLE 11

*Signatories, where necessary, escalate stewardship activities to influence issuers..*

The Firm undertakes a four-year process of engagement, with escalation after 18 months at the latest. This may include public engagement with the board, withholding support on standard governance-related resolutions (such as director re-elections or approving the reports and accounts) or by filing or co-filing shareholder resolutions. If remediation remains inadequate or ineffective after the engagement process, the Firm will consider whether the residual ESG risk is significant enough to trigger a divestment.

Whist the escalation approach is uniform across all of our funds and geographies, as long-term investors in Emerging Markets equities, we are mindful of cultural sensitivities, and the need for long term co-operation, whilst maintaining independence and avoiding conflict of interest. Escalations may take the form of voting against directors on governance-related resolutions, and in some cases, divestment. We try to find different avenues to engage with companies, through alternative contacts or collaborative platforms, to keep the dialogue alive. However, in cases where there is a significant deterioration in the ESG risk of the company, the position is considered for exclusion or divestment.

### Case Study – Korea Electric Power Corp ('KEPCO', South Korea)

As a participant in collective engagement with KEPCO through CA100+, as well as in one-on-one meetings, we have been sharing our concerns regarding the company's ongoing investment in coal-fired power plants locally and overseas for some years. In the early years KEPCO showed no change in strategy. To escalate the issue, we along with other CA100+ investors wrote a public letter to the Presidential Committee of Carbon Neutrality of the South Korean government, who is KEPCO's controlling shareholder, urging for more ambitious decarbonisation.

Following this investor engagement and escalation, KEPCO and its six subsidiaries have committed to carbon neutrality and a complete phase out of coal by 2050 following the development of national plans by the South Korean Presidential Committee on Carbon Neutrality. It has established a new Power Innovation Division, together with the Carbon Neutrality Strategy Department, to develop strategies and an action plan relating to carbon neutrality in the company. And in December 2021, it launched the "KEPCO Carbon Neutrality Promotion Committee" to discuss strategic directions and major policies for the generation sectors in achieving carbon neutrality.

In 2022 with rising coal prices and cost of living political pressures, the company's financial health had worsened substantially, causing a slow-down in investments in renewable energy. In 2023 during the collaborative engagement process the company advised us that it had signed more direct PPAs for renewable energy with customers: Samsung and SK Groups. However the planned phase out of coal power over the next 10 years would largely be replaced by LNG, rather than renewables. KEPCO's progress in offshore wind remains slow. As KEPCO is the main electricity provider in South Korea, accounting for 37% of GHG emissions in the country, this engagement has helped set clearer targets and commitments for decarbonization efforts in Korea.

## PRINCIPLE 12

*Signatories actively exercise their rights and responsibilities.*

The Firm aims to vote all proxies on behalf of clients that permit it to do so. On request we will discuss with clients the rationale of our decisions when they differ from those of their own proxy advisors. To publicly demonstrate our commitment to stewardship, we publish proxy voting summaries on our website on a quarterly basis.

Our proxy voting policy is aligned with our ESG criteria, which is applied to all companies in all funds. However individual country governance codes are often less demanding about board tenures and board diversity. In such cases the lead analyst making recommendations on the vote will take into account the company's circumstances and general corporate governance track record. The lead analyst is also responsible for analysing and making recommendations on proxies regarding complex transactions and controversial votes, and will engage with the company before or after when possible. Members of the compliance team exercise oversight on the final voting decision.

We coordinate with custodians and our proxy voting service during the account set up process to ensure that ballots for all the shares we are eligible to vote are received in a timely manner. The custodians are linked to our proxy voting service such that ballots reflect up-to-date client/fund stock positions. We monitor any discrepancies which are dealt with by the custodians or ballot distributors.

None of our funds participated in stock lending during 2023. There are plans to participate in stock lending programmes from 2024, and in advance of this we have ensured that securities can be recalled as required to enable us to continue to actively participate in material proxy votes.

In 2023, we voted 94% of the eligible 3,931 resolutions in 476 meetings, of which 18% were voted either Abstain or Against. In total, we voted Against or Abstain in 708 resolutions, most of which were against Board directors, from low levels of Board independence, over-boarding, no audit or remuneration committee independence, or lack of Board diversity. Another frequent reason for lodging Against votes was a lack of rationale being provided by a company when seeking a general mandate for dilutive capital raising.

Our proxy voting policy and voting summary, including rationale on Against and Abstain votes, can be found on www.polunin.co.uk/#stewardship

**Case Study – Hyundai Department Store ('HDS', South Korea)**

HDS is a top 3 department store chain operator in Korea, which also operates outlets and duty free stores.

In February 2023, we voted against HDS' proposal to transform into a holding company structure, which involved separating the operating assets and the property holding company ('Holdco'). We had detailed discussions with management in November 2022 and February 2023 regarding its structure, strategy and shareholder return policy. From our analysis it was unclear whether Holdco would fetch a higher valuation given historical precedence and noting that the split would divert dividends which were originally paid from the property holding company to the department store business, and increase operating costs by duplicating functions,

as Holdco was going to expand its premium outlet business on its own. Although the company agreed to cancel treasury shares and increased dividends when minority shareholders raised concerns over the voting rights of treasury shares due to be revived in the process of the spin off, it was not a significant enough factor to change our decision to vote against the proposal. The proposal was rejected in a rare win for minority shareholders.

In July 2023, it was announced that a single holding company would henceforth control all of the group affiliates, and that it would issue new shares through investment in kind and increase its stake in Hyundai Green Food and HDS through tender offers. The governance restructuring paved the way for better management led by the brothers at the helm of HDS and Hyundai Green Food.