Sustainable investment report: ESG – a key tool for emerging and frontier market investments
About East Capital

East Capital is an independent asset manager specialised in emerging and frontier markets, founded in Sweden in 1997, with offices in Dubai, Hong Kong, Luxembourg, Moscow, Oslo, Stockholm and Tallinn. We manage public and private equity funds, real estate funds and separate accounts, for a broad international client base, including leading institutions.

Our investment strategy is based on in-depth company knowledge gained through proprietary fundamental analysis and frequent company meetings. We carefully consider ESG-related risks and opportunities in our investment process, and favour companies with long-term, sustainable growth prospects and responsible owners.

Since day one, we have set out to be a long-term, active and responsible investor. Over the years, our investment teams have interacted with thousands of companies, management teams, regulators, governments and other investors. We have consistently worked on developing how we address sustainability and ESG to ensure that we are able to offer sustainable investment products to our clients. This has resulted in a unique and proprietary approach that has been diligently carried out by our investment teams for over 20 years.

Our ultimate goal remains the same: to make better informed investment decisions and enhance the value of our portfolio companies through active ownership, while contributing to the advancement of sustainability in our investment universe.

**Long-term**
We focus on companies with long-term growth prospects and position our strategies to outperform their respective benchmarks within three to five years. While we can make some short-term adjustments, we do so without sacrificing the overall long-term focus and the low core turnover of the portfolios.

**Local**
Meeting frequently with company owners, management teams and policymakers is an integral part of the investment process. Such meetings give us in-depth local knowledge that help us make better informed investment decisions.

**Assets under management: USD 4bn**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1997</td>
<td>East Capital is founded. Based on sound Nordic values, we set out to be long-term, active and responsible owners.</td>
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<tr>
<td>2002</td>
<td>Send our first annual letters to all portfolio companies, detailing our expectations as owners, become active members of Russian corporate governance association, API.</td>
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<td>2004</td>
<td>Launch of East Capital Awards, to reward the progress of outstanding companies in East Capital’s portfolios.</td>
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<td>2007</td>
<td>Implement sector exclusion criteria (weapons, tobacco, pornography) for all fund products.</td>
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<td>2010</td>
<td>Start semi-annual controversy screening of all funds using external research partner. Establish new role within investment team: Head of Corporate Governance and Sustainability.</td>
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<td>2011</td>
<td>Become signatory of UN-backed Principles of Responsible Investment, PRI.</td>
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<td>2012</td>
<td>Join likeminded investors in external engagement forum which engages on ESG controversies.</td>
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<td>2013</td>
<td>Create China Environmental, awarded the LuxFLAG Climate Finance label.</td>
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<tr>
<td>2015</td>
<td>Launch of ESG scorecard, further integrating sustainability in our investment process.</td>
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<tr>
<td>2016</td>
<td>China Environmental awarded the LuxFLAG Climate Finance label.</td>
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<td>2017</td>
<td>Launch of East Capital Sustainable Emerging Markets – our first global emerging market strategy.</td>
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* As of 29 December 2017

**Research-driven**
Diligent research is essential for identifying key performance drivers and correctly assessing risk. We rely on our own research, including risk scenarios and a proprietary ESG analysis, in our investment process.

**Active stock pickers**
We are index-agnostic in idea generation, contrarian at times, and invest by conviction on a company by company basis. Our portfolios typically have a high active share.

**Global research platform and regional teams with local know-how**
- 5 research/investment offices
- 28 investment professionals
- 20 languages
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Highlights 2017

- Launched our first global emerging markets product: East Capital Sustainable Emerging Markets
- Launched version 2.0 of our proprietary ESG scorecard, including a new module to ensure that our analysis addresses the Sustainable Development Goals (SDGs)
- Logged more than 1,000 company meetings
- Worked on 19 major company engagements, predominantly on governance topics...
- ... and contributed to an additional 12 engagements, predominantly on social issues, as members in an external engagement forum
- Participated in 4 engagements with governments, regulators and policy makers
- Nominated and elected 13 independent directors in 11 companies
- Expanded our voting activity from 64% to 70% of AUM
- Invited to join 15 likeminded asset owners and asset managers in Swedish Investors of Sustainable Development (SISD) and signed the Stockholm Declaration
- Received Funds Europe’s “Specialist Investment Fund of the Year” Award
- Successful renewal of our LuxFlag Climate Finance Label for East Capital China Environmental
- Celebrated 20 years as an independent asset manager and hosted the 14th East Capital Awards during which Globant, Argentinian provider of digital services, received the Corporate Governance Award
- Organized the East Capital Emerging Markets Conference dedicated to sustainable investment

Important information: Every effort has been made to ensure the accuracy of the information in this document, but it may be based on unaudited or unverified figures or sources. Full information about East Capital’s funds, such as the prospectus, key investor information document (KIID) and other fund documents can be obtained free of charge from East Capital, from our local representatives and are available on East Capital’s website. The availability of East Capital’s funds may be limited or restricted in some countries. The information about East Capital’s funds is only directed at those investors located where East Capital is authorized to make this information available, and is not intended for any use which would be contrary to local law or regulation.

Investment in funds always involves risk. Past performance is no guarantee for future performance. Fund units may go up or down in value and may be affected by changes in exchange rates. Investors may not get back the amount invested.

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# Top sustainability events in 2017 and their implications for 2018

<table>
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<tr>
<th>Event</th>
<th>What happened</th>
<th>Implications for 2018</th>
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<tr>
<td><strong>1.</strong> The EU High-Level Expert Group on Sustainable Finance's (HLEG) work and interim results during the year brought to life the important and overdue debate on the role of the financial system in contributing to sustainable development. This includes asking ourselves how we can eliminate current hurdles within the financial system to fuller-scale sustainable investment practices, such as how to eliminate the short-term nature of the investment chain in support of more patient capital; how asset owners and asset managers are incentivised; and rethinking the practice of using benchmarks that are backward looking rather than reflecting the future.</td>
<td>We hope that the European Commission’s “Action Plan: Financing Sustainable Growth” launched in March, the global financial industry and anyone with the ability to influence capital allocation, large or small, will make 2018 the year of bright and bold initiatives in support of more sustainable financial markets. Only when we decide to collectively take our “investor duty” to the core and actively shift investments away from the companies at the root of our costly sustainability-related challenges, to those that are ready to provide the solutions, will we see markets become truly efficient, and stock prices fairly reflecting the value of sustainable business models in both the short and long term.</td>
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<td><strong>2.</strong> When President Trump in June 2017 decided to ensure that the US steps out of the Paris Agreement, the blatant “Insubordination” displayed among US businesses, states, and cities, as well as the international support to power on with the agreement, was both encouraging and inspiring.</td>
<td>Climate change will remain firmly cemented on top of agendas. And although the COP23 and One Planet Summit did not present any major surprises, they importantly served as a reminder of the task at hand to, using President Macron’s words, “Make our Planet Great Again”. The roll-out of the reporting guideline from Michael Bloomberg’s Task Force on Climate-related Financial Disclosures will ensure that companies do not fall asleep, while California governor Jerry Brown’s initiative to convene “The Global Climate Action Summit” in San Francisco in September will show the world (at least parts of) how the US can rally together to reduce climate change.</td>
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<td><strong>3.</strong> The environmental reform in China powered on, further underscoring that stringent policy and regulatory support can turn the most dire situation into an opportunity. The country committed to spend USD 360bn on renewable energy by 2020, and to cut coal usage by 30%. “Green” was mentioned 15 times during President Xi’s speech at the national congress in November, and emphasising “quality” over “speed” for economic growth is something more countries should consider in support of sustainable development. Becoming the largest electric vehicle market in the world already in 2016, EV sales excelled during the year, increasing 53% to 777,000 vehicles sold. Volvo Car’s decision in July 2017 to phase out traditional combustion engines in 2019 and decisions by China (target 2020), France and the UK to do the same at the latest by 2040, illustrates just how quickly sentiment can change and traditional business models can be exposed as less sustainable.</td>
<td>“Blue skies over China” indeed looks to become a reality. At the beginning of 2018, the Beijing Environmental Protection Bureau announced that Beijing recorded 226 good air days in 2017, 28 days more than in 2016 and up 40 days from 86 in 2015. In 2017, PM2.5 density in 338 cities fell by 6.5% y-o-y. We think it is safe to forecast that the number of good air days will continue to increase in 2018. We expect that the EV revolution will continue to outpace all forecasts during 2018, and therefore will remain an interesting investment theme. It will also encourage self-scrutinisation in other sectors, as the modus operandi in a low carbon world will need to be very different. And it will become equally clear that not all companies will be attentive and fit enough to thrive from exponentially rapid and disruptive change.</td>
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<td><strong>4.</strong> In August, Kenya joined 40 other countries in the war on pollution from plastic waste. In what appears to be the world’s toughest plastic bag ban; producing, selling or even using plastic bags has become illegal. The punishment? Four years in jail or a USD 40,000 fine.</td>
<td>Minimizing plastic waste will be a key topic 2018. EU announced in January a clean-up plan that will hopefully ensure that Europe is able to reuse or recycle all plastic packaging by 2030, exacerbated by China’s recent decision to stop importing plastic waste from abroad (they have enough domestic plastic waste). The consumer goods and packaging industries will need to become truly circular. And smart waste management and recycling operators will become (even more) interesting as a growth theme.</td>
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<td><strong>5.</strong> The #MeToo movement spread like wildfire across the world, exposing the widespread and ingrained issue of sexual harassment and assault, leaving no sector, industry or corner of politics untouched, and forcing many powerful leaders to step down.</td>
<td>We have a new world order which importantly underscores zero tolerance against sexual harassment, but also against sexism, discrimination and general abuse of power. The movement is the starting point in the journey to what we hopefully will be able to call real equality at some point, while also making the world a much fairer and kinder place.</td>
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Insightful, committed and active investments for greatest impact

During 2017, we celebrated 20 years as an emerging and frontier markets specialist. It was a year full of trips and conferences across our investment universe, further operational improvements, an exciting new fund launch and many, many rewarding encounters with companies, management teams, boards and other investors. We were also proud to be awarded the Specialist Investment Firm of the Year Award by Funds Europe, and to see East Capital Global Frontier Markets become the best-performing fund globally in its category for 2017.

We live in a time where things are changing at an exponential rate. This requires a lot from investors. We need to be well-grounded in what we believe makes sense for the long term, while being nimble and creative enough to identify and act on the opportunities we believe will arise along the way. Never before during my career as an investor, has the state of the world been as challenging. At the same time, I am the most hopeful I have ever been. As an investment firm, we have the potential to really act as a catalyst for change, which is both important, but also desirable - from both a return perspective, and a personal perspective. I do believe that insightful, committed and active investments are the only way forward, and that the impact of making these investments will be the greatest in emerging and frontier markets.

We welcome the fact that the Sustainable Development Goals (SDGs) have been further cemented during the year as the key reference for understanding, defining and aligning the sustainable development agenda. Well executed, the SDGs will mean that we achieve economic growth, social inclusion and environmental sustainability. Who is not willing to subscribe to that? Wrongly executed, they will pose risks to macroeconomic development and even our financial stability. Things that investors clearly detest.

By understanding how the SDGs influence policy makers’ priorities and consumer preferences in different markets, investors can also identify key drivers and risks to growth and development. This, in turn, provides us with important clues as to where to expect the most attractive investment opportunities - and what to avoid - in the years ahead. We believe emerging and frontier markets are uniquely positioned to benefit from the opportunities that achieving the SDGs will present. Based on this belief, we have, as a starting point, decided to ensure that the SDGs are integrated into East Capital’s proprietary ESG Scorecard, which we use to assess and address ESG opportunities and risks in the companies in which we invest. Read more about this on page 18.

We also had the privilege to gather top-level speakers and delegates for a conference dedicated to this topic in Stockholm in January 2018, which you can read more about on pages 8-9.

» We believe emerging and frontier markets are uniquely positioned to benefit from the opportunities that achieving the UN Sustainable Development Goals will present.

Looking at the 17 SDGs, we can also confirm that we were right when we developed our investment strategy when East Capital was launched more than 20 years ago, starting to invest in Eastern Europe. When peer investors focused on gaining exposure to the largest index names and index sectors, such as oil fields and coal mines, we strived to find the main beneficiaries of the transition process to more developed economies and of the growing middle class. Examples included the mobile operators, juice producers, food retailers and banks, as well as housing, healthcare and education providers. Today, more than ever, we specifically like identifying the companies we see as “solution providers” to global sustainability-related challenges - the companies that will contribute to us successfully achieving the 17 Sustainable Development Goals and ensuring that future generations will be able to live in “the world we want”.

This also provides the important context to our newest and most exciting strategy launched to date: East Capital Sustainable Emerging Markets. The fund invests in companies characterised by high growth potential and strong ESG profiles, with a clear overweight in themes relating to domestic growth and the emerging consumer. The investment universe comprises the best ideas from our regional strategies, and will also actively seek investments in renewable energy, rapidly-growing clean technologies and other solution providers. Read more about this strategy on pages 10-11.

SDG number 17 is about looking beyond traditional partnerships. We were therefore happy to be invited to join Swedish Investors for Sustainable Development (SISD), which convenes asset owners and asset managers who are committed to working in support of mobilising more assets towards the SDGs. You can read more about this and other investor initiatives on page 24. We encourage new types of cooperation as well as novel and creative ideas on how to mobilise more assets towards achieving the SDGs in emerging and frontier markets. If you have any such ideas, feel free to get in touch.

Peter Elam Håkansson
Chairman and Chief Investment Officer
Sharing our perspectives on ESG

During the year, members of East Capital’s investment team were frequently quoted in the media on sustainability and green finance related topics. We were also invited to speak to share our investor perspective on ESG at numerous conferences and other relevant events in our investment universe. Notably during 2017, we engaged in the important discussion on how to mobilise more assets toward achieving the Sustainable Development Goals as well as presenting our views on the impact of an Emission Trading Scheme in China (see next page).

In April, Louise Hedberg, Head of Corporate Governance and Sustainability, was invited to the OECD in Paris to present the investor perspective at a session on “Better Corporate Governance for Better Investment” at the “High-level Conference on Fostering Investment for Competitiveness in South East Europe”. The 200 delegates included both representatives from all the current OECD members, as well as several prospective member-nations-to-be.

In July, we organised a well-visited seminar and panel discussion on “Mobilising Assets for Sustainable Development” during the annual Swedish Almedalen week in Visby, Gotland. With its speeches, seminars and other political activities, Almedalen is considered to be one of the most important forums in Swedish politics. Panel from left to right: Peter Elam Håkansson, CIO East Capital, Carl-Henrik Arosenius, Head of IR at Kommuninvest, Lena Ingelstam, Head of Partnerships and Innovation at Sida, Magnus Billing, CEO of Alecta and Göran Lannebo, Chairman of Lannebo Fonder.

In November, David Nicholls, Senior Analyst based in Moscow, was invited to speak to Russian issuers on “How do ESG factors influence our investment decisions?” at a conference organised by the Moscow Exchange and OECD.

ESG issues are increasingly in the spotlight globally and not the least in Asia. Karine Hirn, Partner, is often requested to comment on sustainable investing both in conferences and in media.
China’s climate ambitions

During the year, East Capital worked together with China CDP to encourage more companies to attend their local reporting workshops and thereafter start reporting. We were also invited to present at two of these workshops to talk about our views as investors on the lessons learned during the initial phase of the EU Emission Trading Scheme (2005/2008) and the implications for China.

Climate change has risen up on the political and economic agendas in China. In June 2015, the government released a climate pledge prior to the 21st Conference of the Parties (COP 21) that led to the Paris Agreement in December that year. China’s pledge reiterates targets of a 40-45% reduction in carbon intensity (emissions/GDP) by 2020 from 2005 levels, and has been extended to 60-65% by 2030, the year around which they plan for emissions to peak.

A number of policy tools can be used to achieve these goals. They can be either penalty-driven type tools, like carbon taxes, or market-driven, like carbon market and emission trading schemes (ETS).

China is considering the imposition of a carbon tax at the horizon of 2020, but will first leverage on its initial experience of developing regional ETSs since 2013. The launch of a nationwide carbon market is in the pipeline. Over the last 12 months, we met with Shanghai Energy Exchange, Tianjin Climate Exchange, Shenzhen Carbon Exchange and CSRC (China Securities and Regulatory Commission) to discuss the opportunities offered by green finance initiatives in China.

Which incumbent companies will survive the carbon shock? Who can benefit from China’s commitment to tackling climate change? In order to answer these questions, fundamental analysis should challenge assumptions related to capital and operational expenditures as well as the cost of equity. Carbon exposure through products and production processes, product substitution to less carbon-intensive products, impact on current competitive position, barriers to entry and investments required by the carbon constraint, pricing and purchasing power and capacity to pass through the carbon costs are all key determinants of a performing climate risk mitigation and strategy.

One of the critical elements for analysts and portfolio managers lies in the ability to get access to correct GHG emission data; but reporting of emissions is still in its infancy in emerging and frontier markets. In East Capital’s portfolios, less than 30% of the companies report their emissions externally. East Capital therefore strongly encourages companies to formalise their carbon strategy and start reporting emissions externally and to the CDP.
Mobilising assets for sustainable development

The 2030 Agenda for Sustainable Development (SDGs) has been called “A gift from the UN to the world” and “A global to-do-list for getting to the world we want”. But what does it imply for the investment industry overall, and for the way investors look at emerging markets? What are the practical implications in terms of decisions on strategic allocation, investment risks and opportunities? How can investors gain investment exposure to the SDGs and what should be avoided? These are questions that approximately 80 investment professionals, comprising CIOs, CEOs, chief sustainability officers and fund selectors from across Europe convened to discuss at the East Capital Emerging Markets Conference on 23 January 2018 in Stockholm.

The SDGs pick up on the unfinished agenda where the Millennium Development Goals left off. Adopted by 193 countries, it comprises 17 Goals and 169 targets, and - well executed - it will mean that we will not only achieve economic growth, but importantly also social inclusion and environmental sustainability. But to achieve the 17 goals by 2030, UNCTAD estimates that annual investments of USD 6 trillion, i.e. a total of USD 90 trillion, will be required until 2030. Of this, USD 3.9 trillion will be needed in developing countries – per year, which compared to current state budgets, equates to an annual investment gap of USD 2.5 trillion in these countries alone.

The timing of the East Capital conference was opportune. Two and a half years after being adopted, we see very broad and strong buy-in for the purpose and importance of the Sustainable Development Goals in the investment industry at large. At the same time, clients are witnessing frustrating hurdles that keep them from actively increasing their investment exposure to the many interesting investment opportunities that are expected to arise along the path to 2030.

Finance has a key role to play

Under the headline “What is finance for?”, Paul Smith, President of the CFA Institute, whose membership globally numbers 150,000 financial analysts and investment professionals, effectively set the scene for the conference by thundering that “if the financial industry cannot prove that it has a place in society - and add value - then it is doomed!”. Conversely, if things are done right, Smith reminded us that the finance profession can have significant positive societal impact. “The absence of a well-working financial system is a key thing that will hold a country back. The fundamental role of the finance industry is to direct capital where it needs to be, and without us, roads and hospitals don’t get built”. Smith also warned the audience away from letting passive investments become the default option for not thinking; “there has never been a time when active asset management could bring more value than now”.

Navigating investment risks and opportunities along the way

In order to hear more about the strategic investment aspects of Agenda 2030, the conference also convened representatives from asset owners, asset managers and fund consultants. In the first panel, Hans Fahlin (CIO, AP2), Magnus Billing (CEO, Alecta), Katherine Husvaeg (Portfolio Manager Emerging Markets, Russell Investments), and Peter Elam Håkansson (Chairman and CIO, East Capital) engaged in a lively discussion moderated by Louise Hedberg, Head of Corporate Governance and Sustainability at East Capital, on the investment risks along the way to 2030, and how to strategically allocate based on these insights. Drawing on these conclusions, a second panel moderated by Karine Hirn, Partner at East Capital, and comprising Olivier Rousseau (Member of the Executive Board, Fonds de Réserve pour les Retraites), Niina Bergring (CIO, Veritas Pension Insurance Company), Francois Perrin (Portfolio Manager, East Capital), Sophie Robé (Founder and CEO,
Phenix Capital) and Egon Vavrek, (Senior Portfolio Manager, APG), focused on identifying attractive investments within the SDGs framework.

Both panels agreed that maintaining the current momentum for the SDGs is important. Failing to meet the SDGs will create macro risks and risks to financial stability, while achieving them will, indeed, be a key driver of growth. Agenda 2030 should be seen as a map and a language, that encourage us to think differently about risks and new opportunities that require a longer-term horizon. Although still largely a mapping exercise, the framework has become a useful way of thinking of investments and can be used to mitigate risks but also to explore new opportunities. The panels also confirmed that there is a clear growing interest among both asset owners and asset managers to potentially also understand their investment impact, beyond pure returns, in the future.

In discussing the investment risks and opportunities that the speakers envisaged from short vs long-term perspectives, goal 13 on Climate Action was unanimously seen as the most tangible risk, but also the easiest to address. For example, the realisation of the imperative impact of climate change has created an energy revolution and an annual USD 300bn+ investment market in renewable energy technology, comprising 60% new capacity added and 12% global electricity generation in 2017, according to Bloomberg New Energy Finance. This will not only help improve the lives of the more than one billion people who still lack electricity, it will also create new jobs and commercial opportunities. And importantly, it will also help decrease both outdoor and indoor air pollution, which – according to the WHO – contribute to more than 7 million premature deaths every year.

But Goal 13 on Climate Action also implies valuation risks that are not deemed to be fully or correctly priced into the market, according to the panelists. Under the assumption that we manage to effectively transition into a low carbon economy, certain assets could end up with worthless terminal values. From a return on equity (ROE) perspective, the panelists concluded that traditional sectors, such as energy and basic materials, offered the least exciting ROEs, while sectors such as information technology, healthcare and education enjoyed both higher, and less volatile, ROE over a business cycle.

Looking to the future, the panels unanimously agreed that there is no conflict between good returns and a good planet. Anyone with decision-making powers should use their responsibility wisely to step up investments. Getting governments and regulators on board, creating investable products and ensuring low transaction and due diligence costs, getting more relevant ESG reporting and data from the issuers, as well as changing benchmark indices to ESG indices were also added to the wish list for facilitating more sustainable investment. Also on this list was the need to educate not only the finance industry, but society at large, in sustainable development. The speakers also expected much more focus and discussion on the actual impact of investments. We may simply need to redefine what we mean by a “good asset” and what is “acceptable risk”.

Wrapping up the conference, Aivaras Abromavicius, former minister of Economy of Trade in Ukraine, and prior to that Portfolio Manager and Partner at East Capital, shared his reflections on the curious relationship between politics and financial markets. While there is unprecedented political turmoil in many places in the world, financial markets tend to react short term, but are then quick to shrug off their concerns. Abromavicius also advised trying to engage with politicians on the importance of improving local financial markets in emerging markets. Abromavicius reminded the audience to sift out the noise made by politicians (who are even more short term than markets) and focus on what really matters the most: the macroeconomic environment and growth drivers, as well as actively picking stocks that offer attractive investment exposure.

Contributing with a different perspective on sustainable development, Alexander Stubb, the newly appointed Vice-President of the European Investment Bank and former Prime Minister of Finland, reminded the audience to not forget about their personal sustainability. Stubb advocates the 8+8+8 model; splitting each day into equal parts of sleep/work/play. He also reflected on the impact of AI and machine learning on our lives. Stubb takes a stance that tech development is good, and when wisely used will create free time. But that regulation/frameworks will be key to ensuring that it is used responsibly. All the incorrect information available and spread through social media has generated an incredible premium for using your own mind. The fact that the likes of Facebook and Google know more about you than authorities and, even possibly yourself, requires ethical standards and rules to control this power, which the recent Facebook/Cambridge Analytica scandal came to illustrate.

As a suitable final recommendation to the conference, the panelists reminded the audience of the importance of Goal 17 on Partnership and Cooperation. They welcomed a paradigm shift in international cooperation within and between sectors and disciplines, and daring to collaborate with new partners in new formats. In conclusion, they urged the audience to go back to their respective organisations and think about how each of us can contribute in our daily work.
East Capital Sustainable Emerging Markets – selecting top companies for the world we want

Our latest fund, launched in June 2017, is characterised by strong ESG profiles and attractive growth, focusing on sustainable business models and companies that actively deliver solutions to global sustainability issues.

Investing solely in emerging and frontier markets, we have seen an active approach to sustainability as a natural and important component of our investment process, which is based on our strong knowledge of the companies and industries in which we invest.

It is not about ticking boxes; it is about assessing the factors that we believe will impact the performance of a company from a short, mid and long-term perspective. It is about making better-informed investment decisions in markets that lack transparency and where research is often scarce and of poor quality. It is our main guiding principle that investing in emerging and frontier markets calls for a true hands-on approach based on proprietary fundamental analysis, careful stock selection, active ownership, and a long-term investment horizon.

The world is changing rapidly, with growing regulatory and social pressure to address global ESG issues. We are convinced that companies adopting sustainable practices over time will enjoy competitive advantages. At the same time, structural growth continues in emerging and frontier markets, especially in the consumer discretionary and staples, healthcare and information technology sectors, on the back of growing disposable income, innovation and new technologies. We therefore continue to believe that the most interesting investment ideas are to be found outside of extractive industries - the same principles we applied in Russia two decades ago.

Sustainability-related challenges also offer attractive opportunities in terms of solution providers. The number of companies in the environmental universe of emerging markets has almost doubled during the past ten years. An extraordinary example is China’s “war on pollution,” a fight which is expected to reach RMB 2.5 trillion of investments (more than the whole GDP of Denmark) per year by 2020. Due to its unparalleled environmental challenges and subsequent investment program, China’s environmental companies’ market capitalisation today represents one third of the global clean-tech universe market capitalisation.

Against this background we have launched East Capital Sustainable Emerging Markets.
Structural growth continues in emerging and frontier markets, especially in the consumer discretionary and staples, healthcare and information technology sectors, on the back of growing disposable income, innovation and new technologies. The most interesting investment ideas are therefore to be found outside of extractive industries – the same principles we applied in Russia two decades ago.

**Portfolio characteristics**

- 60-80 stocks characterised by high growth and strong ESG profiles.
- Low portfolio turnover.
- Clear overweight in themes relating to domestic growth and the emerging consumer.
- Low exposure to conventional energy and significant overweight in renewable energy and clean technologies.
- Significantly lower carbon intensity than its benchmark.
- Off-benchmark exposure includes allocation to frontier markets and China A-shares.

**What we focus on**

- Companies that can deliver sustainable earnings growth over the mid- to long-term.
- Strong and predictable growth profiles, high and consistent return on equity, high free cash flow and high capital efficiency.
- Primarily consumer staples and discretionary, IT and healthcare sectors.
- Solution providers to sustainability-related challenges, primarily environmental technologies (clean energy, energy efficiency, clean water and air, waste management and clean transportation).
- Strong or rapidly improving sustainability ratings based on proprietary ESG scorecard.

**Fund facts**

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<thead>
<tr>
<th>Investment focus</th>
<th>Global Emerging Markets</th>
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<tr>
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<tr>
<td><strong>NAV frequency</strong></td>
<td>Daily</td>
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**Examples of holdings**

- **GEM (China)**: The largest used battery and cobalt/nickel/tungsten rare metals recycling company in the world. Strong synergy between recycling and its new EV battery material business.
- **Globant (Argentina)**: A leader in providing innovative software services, demonstrating high standards in corporate governance, people management and supporting sustainable development.
- **NMC Health (UAE)**: Largest private healthcare provider in the United Arab Emirates, owns and manages over 135 facilities in 12 countries with sincere commitment to the overall well-being of the society.

**ESG dashboard**

- **Board composition**
  - 67% of the portfolio has at least one woman on the board
  - 32% of the portfolio have two or more women on the board
  - 80% average board size
  - 84% of the portfolio has a board where independent non-executive directors comprise at least 33%
  - 46% of the portfolio has a board where independent non-executive directors comprise at least 50%
  - 44% of total number of directors are independent non-executive directors

- **Contribution to sustainable development**
  - 89% of the portfolio is engaged in offering goods or services that have potential to contribute to at least one of UN’s 17 Sustainable Development Goals

- **Shareholders and management**
  - 82% of the portfolio has a class of shareholders whose aims are aligned with minority shareholders
  - 48% of the portfolio has a best-in-class incentive program encouraging management to maximise value for all shareholders

- **Reporting and transparency**
  - 64% produce sustainability report based on GRI or EMIR
  - 33% report emissions data to CDP
  - 11% are active participants of UN Global Compact

**Portfolio characteristics**

- 60-80 stocks characterised by high growth and strong ESG profiles.
- Low portfolio turnover.
- Clear overweight in themes relating to domestic growth and the emerging consumer.
- Low exposure to conventional energy and significant overweight in renewable energy and clean technologies.
- Significantly lower carbon intensity than its benchmark.
- Off-benchmark exposure includes allocation to frontier markets and China A-shares.

**What we focus on**

- Companies that can deliver sustainable earnings growth over the mid- to long-term.
- Strong and predictable growth profiles, high and consistent return on equity, high free cash flow and high capital efficiency.
- Primarily consumer staples and discretionary, IT and healthcare sectors.
- Solution providers to sustainability-related challenges, primarily environmental technologies (clean energy, energy efficiency, clean water and air, waste management and clean transportation).
- Strong or rapidly improving sustainability ratings based on proprietary ESG scorecard.

**Fund facts**

<table>
<thead>
<tr>
<th>Investment focus</th>
<th>Global Emerging Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benchmark</strong></td>
<td>MSCI EM Index</td>
</tr>
<tr>
<td><strong>Launch date</strong></td>
<td>30 June 2017</td>
</tr>
<tr>
<td><strong>Domicile</strong></td>
<td>Luxembourg</td>
</tr>
<tr>
<td><strong>Type</strong></td>
<td>UCITS</td>
</tr>
<tr>
<td><strong>NAV frequency</strong></td>
<td>Daily</td>
</tr>
</tbody>
</table>

**Examples of holdings**

- **GEM (China)**: The largest used battery and cobalt/nickel/tungsten rare metals recycling company in the world. Strong synergy between recycling and its new EV battery material business.
- **Globant (Argentina)**: A leader in providing innovative software services, demonstrating high standards in corporate governance, people management and supporting sustainable development.
- **NMC Health (UAE)**: Largest private healthcare provider in the United Arab Emirates, owns and manages over 135 facilities in 12 countries with sincere commitment to the overall well-being of the society.

**ESG dashboard**

- **Board composition**
  - 67% of the portfolio has at least one woman on the board
  - 32% of the portfolio have two or more women on the board
  - 80% average board size
  - 84% of the portfolio has a board where independent non-executive directors comprise at least 33%
  - 46% of the portfolio has a board where independent non-executive directors comprise at least 50%
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  - 11% are active participants of UN Global Compact
East Capital as owner

Since day one, we have set out to be a long-term, active and responsible owner.

**We are long-term**
We see beyond the short-term gain and look for long-term investment value

**We are active**
Face-to-face involvement through company visits helps us make better-informed investment decisions, and we constructively engage on issues that are important to us as owner

**We are responsible**
Our fundamental bottom-up research process addresses and integrates investment risks and opportunities associated with relevant and material environmental, social and corporate governance factors

Confirming alignment with the main owner

When contemplating an investment in a new company, understanding the shareholder structure is key. So, the first page we turn to in the annual report is the list of shareholders. Is there a controlling shareholder? What are the incentives and goals of this shareholder and how do they align with those of us as minority investors? Meeting the main shareholder constitutes an important part in determining alignment. We also aim to use such meetings to build trusting relationships for the future where we can maintain an open dialogue on the company’s progress and, if needed, also be able to convey any constructive suggestions we believe may generate and support shared value creation for all shareholdes.

We encourage all companies’ management teams and boards to make sure that rigorous analyses are done to 1) identify and prioritise their relevant and material environmental and social factors on a market, sector and operational level, and 2) address and integrate these into the company’s strategy. We see this as an additional responsibility under good governance, making companies better positioned to react to changes in regulation, consumer demand and other developments, thereby ensuring that they remain relevant in the long term.

Putting theory into practice

In 2010, East Capital decided to evaluate and formally structure and document the more practical ESG-related tools that were being used in our investment activities. A new global specialist function – Head of Corporate Governance and Sustainability – was added to the investment team. This role reports to the CIO and is responsible for overseeing the implementation of the ESG perspective in East Capital’s investment activities, from practically managing the ESG tools, such as screening, voting and engagement, to supporting the investment team in identifying and interpreting the impact and consequences of existing and emerging ESG related factors on issuers and portfolios. Instead of having a dedicated ESG team, all analysts, portfolio managers and portfolio advisors are actively involved in ESG matters as part of their everyday work; through the completion of ESG scorecards, participating and contributing in engagements and proposing and deciding on voting instructions.

As part of the investment team, the Head of Corporate Governance and Sustainability also ensures that relevant and material ESG matters are reported and discussed in daily morning meetings, as well as the regional monthly meetings. An ESG report, updating on the status and results of each of our ESG pillars, is presented to both the Board of Directors and the Investment Committee on a quarterly basis.

A number of policies guide us in our everyday work as responsible investors:

- Ownership policy (since 2010 merged with our Responsible Investment Policy as responsible investment was formally integrated into our investment process and our role as owners)
- Exercising Voting Rights policy
- Conflicts of Interest policy

Internally, we are furthermore guided by a number of documents, including:

- Code of Business Conduct
- Procedures against money laundering and terrorist financing policy
- Whistleblowing policy
- Gifts and benefits in external relations policy
- Equality and diversity policy
- Personal trading policy
- Environmental instructions
How we generate value

Through our bottom-up approach, we generate most value added from stock decisions. These decisions are in turn aided by the following key characteristics of our portfolio management approach.

Local
Regional specialisation improves returns
Emerging markets are converging towards developed markets, resulting in long-term growth prospects and structural growth in many sectors. However, emerging and frontier markets are not fully efficient and information is often not complete, timely available or easily accessible. There are large discrepancies in the performance of companies and in their ESG standards. It is often difficult to access the “right” people and companies and valuations, as well as risk perception, are frequently distorted. We have a true regional presence, with local investment expertise in Moscow, Dubai and Hong Kong, and can establish and maintain unique access to management teams, owners and policy makers, which is vital to making informed investment decisions and monitoring existing holdings.

Long-term
Fundamentals matter over time
We focus on high-quality companies benefiting from structural growth, as we believe that middle-class expansion and broad wealth creation allow superior growth outside of the energy and commodity spaces in a post super-cycle world. These companies have strong and predictable growth profiles, high and consistent return on equity, high free cash flow and high capital efficiency. Businesses with these attributes are primarily found within consumer staples and discretionary, information technology and healthcare sectors, but also among the solution providers to sustainability-related challenges; primarily environmental technologies such as clean energy, energy efficiency, clean water and air, waste management and clean transportation. We position our strategies to outperform the respective benchmark over a period of three years.

Broad investment universe
Including tomorrow’s stars
We believe that a wider investment universe creates more alpha opportunities. Our off-benchmark exposure includes allocation to smaller companies, frontier markets and local Chinese shares (so-called A-shares). Smaller companies offer a larger exposure to certain fast-growing sectors responsive to local market dynamics (such as consumer discretionary, industrials and health care), compared to the smaller subset of companies represented by the broad MSCI EM index. Frontier markets are in general both faster-growing and less correlated to the developed world than the main emerging markets, and thereby offer interesting opportunities for well-informed investors. To find meaningful exposure to sustainability-related challenges in emerging markets (renewable energy and clean technologies), allocation to local Chinese shares is critical. China today offers the largest cleantech universe of all emerging markets by a wide margin, and most of these companies are listed on the local exchanges in Shanghai and Shenzhen.

Active
Stock-picking integrating ESG key to success
We are index-agnostic in idea generation, and invest by conviction on a company-by-company basis. As companies in emerging markets hugely differ in terms of ESG and performance standards, one needs to be selective, and diligent research is essential for identifying key performance drivers and assessing risk correctly. We rely on our own research, including risk scenarios and a proprietary ESG analysis, in our investment process. Significant overweight positions should have strong or clearly improving sustainability ratings based on a proprietary ESG scorecard with critical ESG areas relating to main shareholders, management, placements, dividends, extraordinary events, accounting, audits, environmental and social factors, corruption and ethical issues.
ESG in each step of the investment process

East Capital’s investment process is designed to systematically select the companies with the best risk/return profile. All East Capital strategies are following the same investment process, adopted for local market conditions.

Our research agenda is prioritized through a number of formalized meetings throughout the year:

- **Global Advisory Committee**: Macro and political trends; regular discussions with advisors, through physical meetings and continuous dialogue on specific issues
- **Investment Management Team conferences** twice per year: Macro and political trends; impact on various strategies; ESG update and training
- **Regional team offsites** once a year: Comprehensive review of entire investment universe and portfolio positioning in regional teams.
- **Regional portfolio review meetings** every second month: Full portfolio review in regional teams. ESG topics including review of current engagements.
- **Weekly meetings**: Short overview of attribution and positioning in regional teams. Discussion and analysis of recent events (reporting/news/meetings) and also ESG issues such as voting or board appointments
- **Daily meetings**: Company results, macro, ESG and any other general news that may impact our portfolios.

By combining both proprietary financial analysis and our ESG scorecard, our fundamental analysis helps us identify sustainable companies with capacity to perform and create value over the long-term:

- **Positioning** - Is the company well positioned in a market we believe has solid structural growth prospects? Will the company benefit from disruption in certain industries?
- **Corporate Governance** - Who are the main owners? Are their incentives fully aligned with minorities? Is appropriate accountability ensured and capital allocated in a transparent, efficient way? Does the company act with integrity in a way which minimises risk for corruption?
- **Environmental & Social factors** - Does the company demonstrate a clear understanding of relevant and material environmental and social issues, and how these are likely to change over time? Is the company able and willing to adapt to these issues?

* Key active positions (“KAP”) are our largest overweight positions, several of which are not in the benchmark or, in other words, represent how we deviate from the broad market.
ESG related tools at East Capital

The practical ESG tools currently used in our investment activities are organised in four pillars: sector exclusions (negative screening), controversy (norms-based) screening, proprietary ESG scores, as well as voting and engagement. The third pillar was introduced in 2016 and it further structures, refines and documents how we assess and integrate ESG-related risks and opportunities in our investment process. All tools apply to all East Capital strategies.

<table>
<thead>
<tr>
<th>ESG pillar 1:</th>
<th>ESG pillar 2:</th>
<th>ESG pillar 3:</th>
<th>ESG pillar 4:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector exclusions (negative screening)</td>
<td>Controversy (norms-based) screening</td>
<td>Proprietary ESG scores</td>
<td>Voting and engagement</td>
</tr>
<tr>
<td>Since 2007</td>
<td>Since 2010</td>
<td>Since 2016</td>
<td>Since 1997</td>
</tr>
</tbody>
</table>

**WHAT:**
- All portfolios exclude companies that are known to generate significant share of revenues from:
  - Weapons
  - Tobacco
  - Pornography

**HOW:**
- Screening implemented in analyst’s/PM’s initial analysis
- External screen available if uncertain
- Portfolios re-confirmed annually, controversial weapons confirmed semi-annually

---

### ESG pillar 1: Sector exclusions (negative screening)

**Background**

More than ten years ago, in 2007, we decided to exclude certain sectors that we do not believe offer our clients attractive prospects of long-term returns. The sectors we identified were tobacco, weapons and pornography. The obvious negative social impact of these sectors, and the significant costs they generate for society, have convinced us that they do not make for appealing long-term investments.

In view, these exclusions have resulted in a non-significant reduction of our investment universe. And rather than creating a “special” fund that excludes these sectors, we decided from the outset that it made better sense to apply this restriction to all our fund products.

The criteria are confirmed upon investment in a new company and the process and exclusion thresholds are reviewed annually in conjunction with reconfirming that all portfolios are still in compliance with the exclusion criteria. Compliance with the controversial weapons criteria, i.e. Cluster munitions, Anti-Personnel Landmines, ABC weapons, Nuclear Weapons, and similar, is confirmed semi-annually by our external research consultant, GES Investment Services. If the investment team was to come across a breach of any of the exclusion criteria, the team would initiate a divestment of such holdings.

**Results 2017**

No breaches were identified during 2017.
ESG pillar 2:

**Controversy (norms-based) screening**

Since 2010, East Capital has been conducting controversy screening on all portfolios, using an external research partner, GES Investment Services. The screening alerts us of any holdings that are alleged to conduct business in a manner contrary to well-established and generally agreed international norms on ESG issues, based on the prerequisite that companies have a responsibility to comply with international norms even though they are not legally bound to.

We use screening results and conclusions as an input to initiate a dialogue with the company, either on our own or together with other investors, in order to suggest and encourage that the company improves on the specific issue. Our experience has shown that an engaged and constructive dialogue will more often lead to convincing the company to initiate positive change – as opposed to simply exiting the investment.

Companies are systematically monitored regarding their compliance with international conventions and guidelines on human rights, labour rights, environment, corruption and controversial weapons. The scope is based on the ten principles of UN Global Compact, which are derived from: the Universal Declaration of Human Rights, the International Labour Organization’s (ILO) Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

GES’ research process seeks to deliver timely, actionable information on issues identified as having severe consequences from an environmental or social perspective. The analysis includes an assessment of the company’s response to the event, as well as an evaluation of relevant policies, management systems and the company’s implementation thereof, in order to understand the risk of the company being involved in similar controversies in the future. The criteria for the controversy screening process are decided, reviewed and updated by GES, whose team has a long experience of this type of norms-based assessments.

Rather than automatically divesting companies with reported allegations, East Capital has decided to use the screening results and conclusions as an input for any decision to initiate an engagement dialogue with the company, either on our own or together with other investors, in order to suggest and encourage that the company responds to and, if needed, improves on the specific issue. East Capital’s experience has shown that an engaged and constructive dialogue will more often lead to convincing the company to initiate positive change – as opposed to simply exiting the investment. We are, however, upon severe and systematic breaches or where active shareholder engagement is deemed to have limited effect – as a final resort – either ready to refrain from investing, or exit our holding. Read more under Engagement on page 21.

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**UN Global Compact’s ten principles**

<table>
<thead>
<tr>
<th>ALL BUSINESSES SHOULD</th>
<th>Human rights</th>
<th>Labour standards</th>
<th>Environment</th>
<th>Anti-corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Support and respect the protection of internationally proclaimed human rights</td>
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<td></td>
<td></td>
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<tr>
<td>2. Make sure that they are not complicit in human rights abuses</td>
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<td></td>
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<tr>
<td>3. Uphold the freedom of association and the effective recognition of the right to collective bargaining</td>
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<tr>
<td>4. Uphold the elimination of all forms of forced and compulsory labour</td>
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<tr>
<td>5. Uphold the effective abolition of child labour</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>6. Eliminate discrimination in respect of employment and occupation</td>
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<td></td>
<td></td>
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<tr>
<td>7. Support a precautionary approach to environmental challenges</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>8. Undertake initiatives to promote greater environmental responsibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Encourage the development and diffusion of environmentally-friendly technologies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Work against all forms of corruption, including extortion and bribery</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
### Results 2017

During 2017, we were alerted that GES was working on evaluating a total of 15 cases of potential norms-based violations in 12 different companies in our portfolios, see split in the graph below. Of these, 10 cases were old cases that emerged before 2017, while 5 new cases emerged during the year.

<table>
<thead>
<tr>
<th>Case description</th>
<th>Related norms/principles</th>
</tr>
</thead>
</table>
| In recent years, one of our Asian holdings has been associated with purchasing tin from Bangka and Belitung Islands in Indonesia. Tin mining in these areas is reported to destroy coral reefs, forests and farmlands, as well as deprive certain areas of clean water. There are also certain allegations of human rights violations and child labour in relation to tin mining on the islands that need to be addressed. | • UNGC Principle: 2, 7-9  
• OECD Guidelines for Multinational Enterprises: IV and VI  
• UN Guiding Principles on Business and Human Rights: Chapter 2 |
| **Action:** The company has become more open to discussing concerns around labour standards, and our external engagement forum had two positive meetings with the company during the year. Although the company denies purchasing tin from these areas, it has yet to start following best practice of joining existing multi-stakeholder initiatives that have been created to improve the situation in the region. | |
| In recent years, one of the Asian companies in our portfolios has been identified as a large corporate buyer of cotton sourced in Uzbekistan where child labour is frequently reported in the harvesting process. It has been reported by numerous NGOs and acknowledged by e.g. the International Labour Organization (ILO) that there has been a state-driven practice of forcing possibly millions of children, students and public employees to harvest cotton. However, an ILO report published during 2017 indicates that systematic child labour in cotton harvesting has been eliminated. | • UNGC Principle: 4 & 5  
• OECD Guidelines for Multinational Enterprises: V  
• UN Guiding Principles on Business and Human Rights: Chapter 2 |
| **Action:** The company has admitted buying Uzbek cotton, but argues that the situation on the ground is improving thanks to the Uzbek government’s actions. Our external engagement forum was in dialogue with the company throughout the year. Although the company claims that it is developing its human rights guidelines and human rights due diligence, it is being kept under evaluation, until there is further evidence and confirmation. | |
| According to media reports, the management team of one of the Balkan companies is accused of bribery and money laundering in connection with securing certain contracts. | • UNGC Principle: 10  
• OECD Guidelines for Multinational Enterprises: VII |
| **Action:** The company has confirmed that it is fully cooperating with the investigation and believes that it has acted in compliance with the law. The company is being kept under evaluation until there is further clarity. | |

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**Open evaluation cases split by type of issue, %**

- Environmental issues: 60%
- Social issues: 20%
- Governance issues: 20%

As of 31 December 2017

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Economic growth alone is not enough to ensure equality, social progress and to eradicate poverty. Companies need to uphold labour standards across their operations and value chains. All employees around the world should have decent working conditions - employment that delivers a fair income, but also ensures workplace security and social protection.
In 2016, East Capital took the next major step to further integrate ESG into our investment process by developing and launching a proprietary ESG scorecard. The decision to develop our own scorecard was mainly driven by the desire to formalise and structure our own knowledge, experience and views of relevant and material ESG-related risks and opportunities. It was further compounded by the lack of coverage of external ESG research on emerging and frontier markets.

Our scorecard guides us in our assessment of relevant and material ESG risks and opportunities from an emerging and frontier markets’ perspective. As the scorecards are filled in by the relevant research analysts, portfolio managers and portfolio advisors, with the support of our Head of Corporate Governance and Sustainability, we ensure that the entire investment team integrates relevant and materials risks and opportunities in their fundamental analysis, ensuring a more holistic analysis of company quality.

The scorecard comprises 10 Red Flag questions and 50+ additional questions within E, S and G, which structures our review to consider relevant and material ESG risks and opportunities. As of 2017, it also includes a separate SDG-module to ensure that we integrate risks and opportunities related to these goals on the path to 2030.

Some of the main benefits of the ESG scorecard are that it:

• ensures that we consider relevant and material E, S, and G related factors, including risks and opportunities related to the SDGs;

• generates a list of issues/questions to research further or raise with the company;

• identifies areas of improvement that we can address through constructive engagement;

• helps to focus our internal resources and ensures that we bring sustainability topics onto corporate agendas;

• also ensures an integrated approach and a holistic analysis of company quality due to its being executed by the investment team;

• allows us to adjust our scenarios and modelling assumptions, if needed;

• helps to determine a level of conviction (together with financial quality, significant upside, etc.).

**Results 2017**

In 2017, a new, updated version of the Scorecard was developed and rolled out during late autumn. Among certain other updates and additions, we also wanted to ensure that our scorecard integrates the perspective of the 17 SDGs, and decided to add a separate SDG-module to our process. Following an interactive workshop with East Capital’s entire investment team, the 17 SDGs were grouped into two categories:

1. Goals that we believe may impact demand

   - BENEFIT due to greater demand in order to achieve the SDGs, e.g. g clean energy, education, health OR

   - SUFFER due to lower demand or total substitution in order to achieve the SDGs, e.g. fossil assets or unhealthy food.

2. Goals that are our universal responsibility

   For the second category of goals, our expectation is that companies should act and operate in a manner that is supportive of achieving these SDGs, e.g. work toward gender equality and decent work (and not actively contribute negatively).

To ensure that these goals are addressed in our overall ESG assessment of the company, our proprietary scorecard was reviewed and cross-referenced against each of these goals. If needed, questions were adjusted or added within the E, S and G sections, as applicable.

**Identifying sustainable companies**

**Case: Yandex**

Russia’s largest technology company, one of the best attributors in our portfolios 2017, up 40%, outperforming the Russian market by 22%.

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Score</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>89%</td>
<td>75.0%</td>
</tr>
<tr>
<td>Capital allocation</td>
<td>100%</td>
<td>30.0%</td>
</tr>
<tr>
<td>Ownership/board management</td>
<td>72%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Transparency</td>
<td>89%</td>
<td>22.5%</td>
</tr>
<tr>
<td>Environmental</td>
<td>63%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Social</td>
<td>88%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Total ESG score</td>
<td>85%</td>
<td></td>
</tr>
</tbody>
</table>

Comfortable with overweight position of 5%

- Efficient, transparent and value accretive capital allocation process
- Limited ability of minority shareholders to influence the company is a risk, as B-class (held by founder) enjoys 10 votes per share
- Transparency improving, now reporting EBITDA per segment, partly thanks to us raising the issue with CFO
- Lacking in environment area, though less important for tech companies
- Investment in employees: constantly ranks in top 1-2 of desirable companies for Russian IT graduates

*As of August 2017.*
## East Capital’s proprietary ESG scoring model

<table>
<thead>
<tr>
<th>Holdings</th>
<th>Aim</th>
<th>Areas covered</th>
<th>Score levels</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Red Flag score</strong></td>
<td>All existing holdings When initiating research on new companies</td>
<td>At the outset, consider the 10 most critical ESG questions in EM and FM Gives quick ESG overview and understanding Helps focus research resources</td>
<td>Focuses on major Red Flags related to corporate governance, ethics and corruption, and severe or systematic environmental or social controversies</td>
</tr>
<tr>
<td><strong>ESG score</strong></td>
<td>All Key Active Positions and top holdings to start Over time, other relevant long-term holdings and new investments</td>
<td>50+ questions to consider relevant and material ESG risks and opportunities in EMs and FMs Helps to determine level of conviction (together with financial quality, significant upside, etc.) Generates a list of issues/questions to research further or raise with the company Allows us to adjust our scenarios and modelling assumptions, if needed</td>
<td>Governance (75%) • Shareholders/board/management • Dividend policy • Capital allocation • Ethics and corruption • Transparency Environment (12.5%) • Impacts on CapEx/OpEx next 5 years • Management’s understanding of relevant risks and opportunities, incl. climate change • Significant controversies Social (12.5%) • Impacts on CapEx/OpEx next 5 years • Supply chain • Health &amp; safety • Significant controversies</td>
</tr>
<tr>
<td><strong>SDG module</strong></td>
<td>All Key Active Positions and top holdings to start with Over time, other relevant long-term holdings</td>
<td>Framework to identify streams of revenue from a company’s products/services or technologies that are expected to either: BENEFIT due to greater demand in order to achieve the SDGs, e.g. clean energy, education, health; OR SUFFER due to lower demand or total substitution in order to achieve the SDGs, e.g. fossil assets or unhealthy food</td>
<td>17 SDGs, categorised in two groups: • 12 Goals that we believe may impact the demand for, or attractiveness of, a company’s products, services or technologies. <em>Goals: 1- 4, 6, 7, 9 and 11-15</em> • 5 Goals that we see as the universal responsibility of all companies to address in their operations, regardless of size, market or sector. Assessed in the E, S and G sections of our scorecard. <em>Goals: 5, 8, 10, 16 and 17</em></td>
</tr>
</tbody>
</table>
Voting and engagement

As active investors, we hope to play a key role in implementing and enforcing improved ESG standards and strengthening the chain of accountability in portfolio companies through our monitoring capacity and constructive engagement – or in the worst case, through litigation or exit.

VOTING

Background

The majority of the companies in which East Capital invests on behalf of our clients are limited liability companies, where the ultimate decision-making body is the shareholders’ meeting. Although a still highly manual, complex and costly process, we believe investors can and should exercise their voting rights at annual and extraordinary shareholders’ meetings (AGMs/EGMs) where this makes sense for their investment. Shareholder participation in AGMs and EGMs serves as a monitoring effect on the company’s management and board and instils respect for the highest decision-making body – and ultimately the entire governance structure of the company. We see voting as a key component of active ownership and one important way for us to communicate our views to the companies and their management.

East Capital uses an external proxy voting platform, which provides an efficient voting interface towards our custodians who then forward our voting instructions to the issuer, via their sub-custodian network. The platform is also an important source of information on upcoming AGMs/EGMs and their respective agendas, as well as a tool for tracking and reporting on voted meetings. Given that East Capital’s funds are highly diversified, comprising mainly minority stakes in a large number of markets, we are unable to attend all AGMs/EGMs in person. More often, we vote by proxy or issue a power of attorney and voting instructions to someone who can represent East Capital at the meeting.

Agendas for upcoming AGMs and EGMs are sent to each regional team on a weekly basis. Voting is discussed and agreed at the respective regional weekly meeting. Follow-up and the results of voting are presented at relevant monthly meetings and board meetings.

In determining if and how the voting rights related to a meeting shall be exercised, relevant members of the investment team, comprising research analysts, portfolio managers and portfolio advisors, will consider all available information related to the meeting as well as our own analysis of the specific company, including contacting the company to get further clarification on specific resolutions. East Capital’s general views on typical resolutions and other ownership-related issues are described in East Capital’s Ownership Policy. The investment teams will use this policy as a basis for deciding on how to vote in a meeting, while taking into account relevant market specifics.

Voting decisions are independently reached within the investment team and East Capital will not delegate decision making to any third party, although we may take third party recommendations into consideration. Ultimately, all voting decisions are made on a case-by-case basis, in the best interest of clients.

Results 2017

We have increased our voting activity significantly over the past couple of years. During 2017, we voted at 198 AGMs and/or EGMs, in 126 different companies (out of a total of approximately 280), corresponding to 70% of the market value of our assets under management, which is a very high coverage ratio given the complexities of voting often encountered in our markets. Historically, East Capital has focused on voting in Russia, Turkey, the Balkans, the Baltics and the CIS countries. In early 2016, we expanded our voting activities to include shareholder meetings in Asia, as well as certain other frontier markets on the African continent and in the Middle East.

As illustrated in the table below, we maintained or increased our voting in all of our funds during the year, measured as a percentage of the funds’ respective AUM. In East Capital Russia and East Capital Eastern Europe, we increased slightly from 67% to 68%*, and from 75% to 76%*, respectively. In East Capital Turkey, voting increased from 77% to 91%, in East Capital Baltics from 40% to 72%, and in East Capital Balkans, from 81% to 86% of the funds’ respective AUMs. In the regions where we have a shorter history of voting, we are pleased to note that our voting in East Capital Emerging Asia increased from 34% to 38% of the AUM, while voting in East Capital China Environmental increased from 26% to 57%, and in East Capital Global Frontier Markets from 19% to 29% of AUM. Starting in 2017, we decided to formalise our voting priorities and now aim to vote at all AGMs and EGMs in all of our most significant holdings, defined as our Key Active Positions (“KAPs”) and the 10 largest holdings in all fund strategies. We will also vote in any additional holdings where it makes sense and is important from a shareholder perspective.

* Voting was attempted in two Russian companies corresponding to an additional 6% of AUM, but was blocked due to US sanctions.

<table>
<thead>
<tr>
<th>Fund</th>
<th>% of AUM voted 2016</th>
<th>% of AUM voted 2017</th>
<th>% of votes with mgmt 2017</th>
<th>% of votes against mgmt 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balkans</td>
<td>81%</td>
<td>86%</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>Baltics</td>
<td>40%</td>
<td>72%</td>
<td>99%</td>
<td>1%</td>
</tr>
<tr>
<td>China Environmental</td>
<td>26%</td>
<td>57%</td>
<td>85%</td>
<td>15%</td>
</tr>
<tr>
<td>Eastern Europe *</td>
<td>75%</td>
<td>76%</td>
<td>96%</td>
<td>4%</td>
</tr>
<tr>
<td>Emerging Asia</td>
<td>34%</td>
<td>38%</td>
<td>95%</td>
<td>5%</td>
</tr>
<tr>
<td>Global Frontier Markets</td>
<td>19%</td>
<td>29%</td>
<td>96%</td>
<td>4%</td>
</tr>
<tr>
<td>Russia *</td>
<td>67%</td>
<td>68%</td>
<td>93%</td>
<td>7%</td>
</tr>
<tr>
<td>Turkey</td>
<td>77%</td>
<td>91%</td>
<td>98%</td>
<td>2%</td>
</tr>
</tbody>
</table>

ESG pillar 4:
During the year, together with the Russian Association of Institutional Investors (API), we continued our dialogue with certain international custodians and investors to address the fact that shareholders’ votes are blocked from the AGMs/EGMs of Russian companies under US sanctions or in companies where an individual named under US sanctions appeared among the candidates nominated to the board. Although we note the custodian’s aim to remain compliant with sanctions, we continue to believe that the very blunt practice of altogether blocking shareholders from voting at such meetings disenfranchises these shareholders of their right and ability to vote on other important matters, such as approving dividends, blocking certain negative proposals and electing competent independent directors. Ironically, blocking these investors from voting at these meetings actually actively assists the sanctioned individuals in getting elected, as all the votes intended for the non-sanctioned independent director are never cast at the meeting, allowing the sanctioned individual to gain a greater relative share of the votes actually cast at the meeting.

**Further reading:**
East Capital’s Voting Policy

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**ENGAGEMENT**

There are numerous examples where our assessment of ESG standards has helped us avoid investments in companies that later failed, or where we have preserved value by blocking unfavourable resolutions at shareholder meetings. But more importantly, East Capital has decided to use its role as an active owner to engage with portfolio companies to ensure that the ESG risks and opportunities that, in East Capital’s view, are relevant to a company’s operations, are strategically assessed and integrated. East Capital’s experience has shown that an engaged and constructive dialogue will more often lead to convincing the company to initiate positive change – as opposed to simply exiting the investment. We are – as a final resort – either ready to exit our holding or willing to take the legal route, if such is deemed to be part of our fiduciary duty.

**Prioritising engagements**
We have a formalised approach for how we allocate our internal engagement resources:
- Prioritise engagements in our key active positions and 10 largest holdings;
- Prioritise any ESG topic seen as especially important to our EM/FM investment universe;

Engagement resources
East Capital’s on-the-ground team and extensive local networks provide us with a range of valuable tools that can be used to initiate and advance engagement. These include:
- own dialogue with company representatives;
- a letter from our CIO to new portfolio companies, communicating our role and aim as an active owner;
- membership in an external engagement forum that unites the interests of asset owners and asset managers with more than USD 1 tr in AUM;
- dialogue with governments, stock exchanges and other authorities and institutions on longer term and more universal improvements in the market framework;
- legal action.

Engagements are formally logged and developments and follow-ups are discussed at each regional portfolio meeting, held every second month. The board of directors is updated on notable developments on a quarterly basis, in addition to receiving the full engagement log.

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**Engagement process**

<table>
<thead>
<tr>
<th>Identify</th>
<th>Assess</th>
<th>Engage</th>
<th>Monitor/Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proactive based on issues or areas of improvement identified in East Capital’s proprietary research process, which includes our ESG scorecards.</td>
<td>Engagements are then prioritised based on East Capital’s ability to influence a company and add value.</td>
<td>We engage with either the management team or the board through: on-the-ground meetings with companies as well as our extensive local networks</td>
<td>Discussed in team meetings and monthly meetings.</td>
</tr>
<tr>
<td>Reactive based on: current events, norms-based screening, invitation from other investors.</td>
<td>Portfolio weighting is also considered when prioritising engagements.</td>
<td>• letters, phone calls or emails to companies • collaboration with others</td>
<td>Progress is monitored on a case-by-case basis.</td>
</tr>
<tr>
<td></td>
<td>Main goals of the engagement are identified.</td>
<td></td>
<td>Where there are no signs of progress, there may be changes to the portfolio (depending on the materiality of the issue).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sustainable Investment Report is produced annually.</td>
</tr>
</tbody>
</table>
Continuous dialogue with portfolio companies includes developing a clear and consistent dividend policy, professionalising board work and processes, raising and addressing environmental concerns, improving transparency, reporting and investor relations, improving rights for minority shareholders or reaching a better fair-value in buyouts.

Own dialogue with company representatives

Background
In addition to numerous telephone conferences and written correspondences, East Capital's research analysts, portfolio managers and portfolio advisers maintain a continuous dialogue with management teams, board members and other owners through more than 1,000 company meetings every year. Typical ESG topics may include working with companies to develop a clear and consistent dividend policy, professionalising board work and processes, raising and addressing environmental concerns, improving transparency, reporting and investor relations, improving rights for minority shareholders or reaching a better fair-value in buyouts. These meetings also provide an opportunity to discuss and understand how the company is positioned in relation to current and future ESG issues.

As part of our review of the investment process and our use of internal resources during the year, we also decided to formalise how we prioritise company meetings:

- Key Active Positions: meet 2-4 times/year
- Any other top 10 holding: meet 1-2 times/year
- Other holdings: at least 1 time/year

Results 2017
During 2017, East Capital pursued 19 company engagements, predominantly on governance issues. Some examples are provided in the table below.

Further reading:
East Capital's Ownership Policy

### Some examples of engagement cases in 2017

<table>
<thead>
<tr>
<th>Topic of engagement</th>
<th>Objective</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reporting of CO2 and other greenhouse gas emissions remains low in emerging and frontier markets, read more on page 24.</td>
<td>It is key for investors to get access to real and transparent company reporting of important ESG issues. We were actively involved in attracting further participants to CDP China’s reporting workshops and through our presentations at the workshops, we endorsed the importance of CDP reporting to investors and encouraged them to start reporting.</td>
<td>Managed to attract additional participation in CDP reporting workshops in Beijing and Shanghai. Certain companies expressed commitment to start reporting.</td>
</tr>
<tr>
<td>Ineffective corporate governance standards in a central European issuer.</td>
<td>Long-term engagement to develop corporate governance standards, improve investor relations practices and ensure more independence in the board.</td>
<td>Company immediately sought to implement better investor relations, which included increased presence at international investor conferences and other roadshows. Had a positive stance on seeing minority investors nominate an independent director who was then elected at the subsequent AGM.</td>
</tr>
<tr>
<td>Address the health and safety situation in a Russian materials company.</td>
<td>After a major accident in one of the company’s mines, East Capital initiated an engagement on both company and board level to ensure that the company swiftly moves to investigate, understand and address the factors behind the cause of the accident, as well as externally communicate these actions along with progress.</td>
<td>The company has responded positively so far; although the case remains open. East Capital continues its engagement to ensure continued progress.</td>
</tr>
</tbody>
</table>
We strive to influence companies to ensure that each board of directors represents a diverse range of skills and backgrounds, and an appropriate ratio of independent directors with a proven ability to exercise objective judgment in making decisions that are in the best interests of all shareholders.

Nomination of board members

Background
East Capital encourages all portfolio companies to appoint a board of directors that represents an appropriate and diverse range of competencies and backgrounds to enable it to effectively carry out its duties.

Board members should be selected based on skill, integrity and the ability to devote a sufficient amount of time to their work. East Capital also strives to influence companies to ensure that an appropriate ratio of the board of directors/supervisory board is independent in relation to the company and its executive management. Although the definition of independent director may vary between markets, the essence is the same – that directors should have a proven ability to exercise objective judgment in making decisions that are in the best interests of all shareholders.

Over the years, East Capital has participated in the nomination and election of 20-30 independent directors per year in our investment region, primarily in Russia, South East Europe and the Baltics. In Russia, we either nominate directors on our own or in collaboration with other minority investors through our membership in the Russian Association of Institutional Investors of Moscow (API). Throughout the years, the API and its members have contributed to nominating and electing approximately 500 independent directors to Russian boards.

Our experience has shown that independent directors are able to contribute with many improvements to the work of the boards, including:

- establishing board committees and improving board practices;
- improving transparency and investor relations;
- proposing revised dividend policies;
- implementing KPI-based executive compensation plans and new, financials-based KPIs;
- challenging and blocking problematic deals.

Results 2017

In 2017, East Capital contributed to nominating and electing 13 independent directors in 11 companies: Russia (6), the Balkans (4), Georgia (2) and Poland (1). Although this is fewer in number than in previous years, especially for Russia, it should be noted that the size of these holdings remains quite significant. In Russia, East Capital notably contributed to electing two independent directors in both Alrosa and Aeroflot. We have, for several years, attempted to elect two directors in Aeroflot, and this year, minority shareholding was sufficient to achieve this.

Compared to last year, where we were active in 7 companies, we have sold two of the holdings, and in the third holding the director had to resign for technical reasons. We have also initiated a dialogue with three new companies in the region to see if these boards could be strengthened further. We were also pleased to nominate and elect our very first independent director in Poland.

All in all, we have actively influenced the board composition in companies corresponding to approximately 19% of the market value of our assets under management, and 28% of East Capital Russia and 20% and 16% for East Capital Eastern Europe and East Capital Balkans respectively.

External engagement forum

Background
Since 2013, East Capital has been a member of the GES Engagement Forum managed by GES, our external partner for norms-based screening. This forum engages on all confirmed controversies identified through the Controversy screening process described above. The forum provides East Capital with access to an experienced team of ESG analysts with specific sector competence, which is a key strength, specifically with regards to assessing more complex environmental and social issues. Engaging through a forum also means strength in numbers, which is valuable in markets where we are smaller shareholders or have a shorter track record of engagement.

As incidents are identified, they are assessed and researched in order to confirm the incident and understand the potential impacts and underlying causes. If the incidents are severe and systematic, the forum, on behalf of its institutional investor members, will initiate a constructive dialogue directly with the company in order to suggest that the company addresses and improves on the specific issues, and encourage it to do so. The forum focuses on company actions that will contribute to durable change and support continued investment in the company.

Results 2017

During 2017, GES Engagement Forum managed 12 structured engagements in 10 different issuers that were part of East Capital’s portfolios. In addition to this, the GES team logged numerous telephone meetings, written correspondences and physical meetings related to 15 cases of potential norms-based violations in 12 different companies in our portfolios as an integral part of the process to research and assess indications of violations generated in ESG pillar 2, the Controversy screening process.
Collaborating with others

East Capital sees a significant potential in collaborating with other investors on specific ESG topics, especially when issues are more complex. We have identified a number of initiatives that we have decided to support as signatories or active members.

Local governance associations

The Association of Institutional Investors in Moscow (API), the Asian Corporate Governance Association (ACGA) and the Baltic Institute of Corporate Governance (BICG) have all contributed to improved standards and initiated dialogue around new legislation in their respective regions. Common strengths for these associations are broad networks, a deep understanding of the local financial market, significant knowledge of international best practice, legal competence, a desire to contribute to educational efforts, active investor members, and not least, a constructive and collaborative approach.

Results 2017

During 2017, East Capital continued to participate in several engagements initiated and led by investor members of these associations, not least the Independent Director programme coordinated by the API in Russia.

During the year, we also decided to accept an invitation to join a new initiative, Swedish Investors for Sustainable Development (SISD); read more below.

Further reading: api-russia.org
acga-asia.org
bicg.eu
cecc-china.org

Swedish Investors for Sustainable Development (SISD)

In May, East Capital became the first independent Nordic asset manager to accept an invitation to join a new initiative called “Swedish Investors for Sustainable Development (SISD),” originally convened by Sida (the Swedish development agency) in December 2016.

The members of the initiative are committed to working together to address and support Agenda 2030 and the 17 Sustainable Development Goals (SDGs) in their investment activities. East Capital is currently part of three working groups; one around goals 6/14: Clean water and sanitation/Life below water; one around goal 11: Sustainable Cities; and a third group that focuses on identifying and removing hurdles for mobilising further investment towards the SDGs. The aim of the working groups is to promote learning, support each other in developing processes that address these goals in our respective investment processes, but also to explore and brainstorm around future (and potentially collaborative) investments in support of the goals.

At the beginning of May, Sida also hosted a two-day event called “Investing for sustainable development and sustainable impact towards 2030,” in Stockholm, which was co-convened by UN Global Compact, GRI (Global Reporting Initiative) as well as the PRI. One of the prime conclusions of the meeting was that corporate reporting on SDGs needs to be current, comparable, coherent, and concise; as investors often rely on data analysis in their decision making, it is vital that companies provide ESG information and impact in a uniform manner. In addition to formulating practical project proposals for SDG reporting tools, the meeting group also drafted and committed to “the Stockholm Declaration,” emphasising the commitment of the gathered investment community towards contributing to the 17 SDGs.


CDP

Since 2014 East Capital has been an investor signatory of CDP (formerly Carbon Disclosure Project), an independent, not-for-profit organisation. CDP has made an important contribution to increasing awareness of and attention to climate, water and forest issues by providing a transformative global system that helps and motivates companies to measure, disclose, manage and share relevant environmental information (emissions data, water data and most recently, forest data). This is done through sending questionnaires to thousands of listed companies around the world. The response rate from companies in our investment universe is unfortunately still very low, with companies representing less than 30% of our AUM reporting to CDP in 2017. East Capital therefore works actively to contribute to an improved response rate through direct engagement with portfolio companies, encouraging them to respond, and highlighting the growing importance of carbon disclosure to investors.

During 2017, East Capital supported CDP China in encouraging more Chinese issuers to attend reporting workshops held in Beijing and Shanghai during spring of 2017. We were also invited by CDP China to talk at two workshops; read more on page 7.

Further reading: cdp.net
**Principles of Reponsible Investment (PRI)**

In 2012, we decided that we were ready to become a signatory of the Principles of Responsible Investment (PRI), as an important next step in our work to integrate the ESG perspective into our investment process. The PRI, which was initiated in 2006 with the support of the United Nations, has over the past 10 years quickly developed into the world’s largest investor initiative for responsible investment, representing more than 1,700 investors, from over 50 countries, together managing more than USD 62tr (unpri.org, April 2017). The PRI works to support its international network of investor signatories in understanding the investment implications of environmental, social and governance (ESG) factors, and to support them in integrating these factors into their investment and ownership decisions.

The PRI also offers access to an organised clearing house that facilitates investor collaborations on various topics, as well as the important annual “PRI in Person” event, the world’s largest responsible investor conference, which offers an important platform for exchanging ideas about ESG and establishing valuable new contacts for future collaboration and engagement.

**Further reading:**

unpri.org  
Our latest PRI Transparency Report and Assessment Report are available here: eastcapital.com/esg

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**Dialogue with regulators and other market participants**

Our experience from 20 years in emerging and frontier markets is that an effective corporate governance system, not only within individual companies, but across the entire capital market, is a clear prerequisite to stand out in what today has become a truly global competition for capital. It also makes life easier for investors who can spend time on performing investments, and creating value, rather than fighting to protect and regain investments in companies where they have been mistreated.

Throughout the years, East Capital has, by invitation or through own initiative, engaged in numerous dialogues with governments, stock exchanges, regulators, standard-setters, industry initiatives and other market participants to promote improvements in the institutional and legal framework of specific markets. We appreciate the opportunity and see it as a very worthwhile investment of our time and knowledge to constructively contribute with our views on what we as investors believe could strengthen the attractiveness of that particular financial market in the eyes of the international investor community.

**Legal action**

Since its founding in 1997, East Capital has invested in more than 1,300 companies in emerging and frontier markets. As detailed above, we always prefer active engagement above exit or legal action and have a long track record of successfully resolving issues and preserving minority shareholder rights through open and constructive dialogue. However, if dialogue fails and East Capital deems that it has a responsibility and duty to take further steps to protect the capital that our clients have entrusted us with, we will evaluate the cost-benefit of initiating legal action. On average, East Capital is involved in one to two legal processes per year. This means that East Capital, since 1997, has been involved in 20-25 legal disputes, some of which have carried on across more than one year. Not all legal disputes have gone to court.

**Results 2017**

During 2017, East Capital was engaged in two separate legal disputes against portfolio companies where the transgressions against us as minority investors led us to conclude that it is our duty to pursue a legal remedy on behalf of our funds and clients. One dispute was related to a Russian company where we, together with a small consortium of investors, contested a management buyout at a price below fair value in an offshore jurisdiction. In July, we managed to favourably settle this dispute out of court at a premium. The other dispute was in the Baltics where we, for several years, have legally contested several serious corporate governance-related transgressions. In October, East Capital Baltics exited its full holding in the Baltic issuer to another financial investor at a significantly higher price than at the launch of the legal dispute, implying an additional total return of 91%, including dividends, for our efforts.

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*In September, a team comprising Peter Elam Håkansson, Chairman and CIO, Louise Hedberg, Head of Corporate Governance and Sustainability and Olle Olsson, Head of Sales, Europe & Latin America, attended the annual “PRI in Person” event, this year in Berlin. We welcomed the fact that this year, the SDGs were made central to both panels and presentations throughout the conference.*
Understanding climate change related impact

Climate change is a global challenge, shared by all nations. The Paris agreement, reached among more than 190 nations in Paris in December 2015, was a major positive milestone in addressing climate change. Agreeing that temperature increases must be capped at two degrees at the very most, ideally closer to 1.5 degrees, will now allow governments, companies and individuals to shift focus to executing on national action plans detailing how they intend to decrease national emissions in contribution to the common global goal.

From a fund perspective, we need to consider how we can invest in support of the generally agreed two-degree goal. When looking more closely at all of our funds, we can conclude that East Capital’s investment strategy typically results in an active underweight in the energy sector, which translates into lower carbon intensity than the funds’ respective benchmarks. For example, as at 31 December 2017, East Capital’s Sustainable Emerging Markets, East Capital Eastern Europe and East Capital Russia, were 7, 15 and 21 percentage points underweight in the traditional fossil based energy sector, respectively.

In terms of climate-related risks and opportunities on a company level, we have included specific questions in our proprietary ESG Scorecard to help us to understand and consider a company’s exposure and response to climate change within the context of its operations, its business and its physical locations in order to make an assessment of the potential financial implications in terms of CapEx or OpEx, but also potentially make adjustments to our assumptions of future revenues, assets and liabilities. Our main limitation to assessing carbon impact, currently, is the lack of reliable self-reported emissions data and we are yet to see companies start reporting according to the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

When looking at our portfolio companies, less than 30% of the companies that we have invested in (measured as % of total AUM) report relevant emissions data, so our conclusions are still largely our own qualitative assessment of the management’s and board’s awareness, understanding and readiness to effectively strategise around and manage both risks and opportunities related to climate change. Our conclusions from our ESG Scorecard may lead us to avoid investing, adjust our level of conviction or reassess our modelling assumptions.

In order to increase the level of self-reporting in our markets, we actively engage with companies in our portfolios, both through letters and/or company meetings, to highlight the importance of this information to investors. We have also been an investor signatory to CDP since 2014, and in addition to publicly endorsing their work as widely as we can, we have participated in some of their more specifically targeted company engagements and workshops for reporters. Read more on page 7.

Carbon footprints

Due to limited coverage of carbon data for our markets, East Capital has previously been unable to produce relevant carbon footprints. In 2017, with the help of S&P Trucost, we were able to confirm that four of our funds reached sufficient coverage. The remaining funds still lack sufficient coverage, defined as at least 75% of the fund. As anticipated given our investment strategy, all four funds were reported to be more energy efficient than their respective benchmarks.

Best Corporate Governance Award

East Capital firmly believes in recognising exceptional companies in our investment region through the annual East Capital Awards, which were initially launched in 2004. The Awards are presented in the following four categories: Best Growth, Best IPO, Best Corporate Governance, and Discovery of the Year. The “Best Corporate Governance Award” was added to our awards in 2013 – to recognise a company that demonstrates a clear aim to create value for all shareholders by demonstrating strong standards in the area of corporate governance, and addresses the opportunities and risks related to environmental and social concerns.

In 2017, East Capital decided to present this award to Globant, a leader in providing digital services. Headquartered in Argentina and listed on the New York Stock Exchange, Globant is touching the lives of millions of users on a daily basis. Globant’s strong management team has demonstrated a clear ambition to aim for international best practice by continuously improving corporate governance, its people management and overall role in supporting sustainable development. With a steady +20% revenue growth over the last three years and an 82% customer satisfaction level, East Capital is confident Globant will continue to be a reference company in the technology industry for many years to come.
A matter of course

Climate neutral company since 2012

East Capital is a climate-neutral company in accordance with the UN definition of climate neutrality. The Stockholm office pioneered this effort by becoming a climate neutral office already in 2010, and as of 2012, all offices are included in emission calculations and our efforts to reduce climate impact. Our clear ambition is to actively decrease our negative climate impact. This means that we every year calculate our greenhouse gas emissions, according to the international standard Greenhouse Gas Protocol, implement measures to reduce our emissions and offset any remaining emissions. Our emissions are mainly related to our business travel and offices.

During the past couple of years we have taken several systematic steps to reduce our environmental impact and choose more sustainable alternatives where possible. Good examples include:

- Use of video conference calls as the preferred venue for most internal meetings requiring participation of more than one office, limiting unnecessary travel
- Use of tablets and software for meeting notes and materials, to facilitate knowledge sharing and eliminate unnecessary printing
- Recycling of waste in our offices
- Choosing eco-friendly options when procuring office supplies, fruit, beverages and other catering
- Imposing environmental criteria on our suppliers regarding their policies on low-emission company vehicles
- Using only eco-labelled electricity, heating and cooling on our business premises
- When travelling by taxi, using eco-certified taxi companies

The emissions that we are unable to eliminate are offset by carbon credits in various projects that create renewable energy or have other positive sustainability effects in our investment universe. During the years, the projects that East Capital has selected have contributed to several environmental and social benefits, including:

- Supporting the shift to low carbon renewable energy in Turkey, while the country meets growing electricity demand through wind farms
- Reducing deforestation while improving local health and safety in Uganda through improved cooking stoves
- Increasing biodiversity and carbon sequestration capacity while supporting local employment in Georgia through reforestation using hazelnut forests

Investing in the community

Our social contributions to support our investment universe are primarily focused on helping children and young people to ensure a better future. We prefer to build long term relationships and we actively ensure that any initiative that we support is efficiently run with lasting positive effects that are congruent with the aim of our support.

SOS Children’s Villages

Since 2007, East Capital has been a proud partner of the SOS Children’s Village in Keila, Estonia. SOS Children’s Villages is providing a loving home to children who do not have the opportunity to grow up with their biological family. SOS Estonia is part of SOS Children’s Villages International, with high standards in operations, quality control and organisation. Throughout these years, we have been funding a family with five children who live with their SOS mother in the SOS Children’s Village in Keila. Our relationship with the family offers our employees a lot of joy, as we regularly visit the family in Keila, and they also have come to Stockholm to stay with us on a couple of occasions.

RAOUL

Since 2014, we have been engaging with the charity foundation RAOUL in St Petersburg, founded in honour of Raoul Wallenberg, a legendary Swedish businessman and diplomat. East Capital is focusing on a special project, which aims to help young people with special needs and orphanage graduates to enter the workplace. The support involves education, arranging employment, and provides training in social adaptation and self-organisation. Over 1000 young men and women have been coached, aiming to enable them to get and retain a job with an official income.

Little Angel

In 2016 and 2017, we supported the victims of the war in Iraq and Syria by engaging with “Little Angel”, an initiative to build an orphanage outside of Damascus in Syria. Here, children who have lost their families will get accommodation, food and schooling. The goal is a safe home for 100 children, regardless of religion.
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