Sustainable investment report:

ESG – a key tool for emerging and frontier market investments
Our investment teams base their investment strategy on in-depth knowledge of local markets, fundamental analysis and frequent company visits. Evaluation of ESG-related risks and opportunities forms an integral part of the investment process. We favour investments in companies that show long-term sustainable growth and have responsible owners.

East Capital is a leading active asset manager specialising in emerging and frontier markets

East Capital is part of East Capital Group - an independent asset management group that comprises several strategies and specialisations to offer active management solutions in equities, bonds and real estate assets with a clear ESG framework. Founded in Sweden in 1997, East Capital Group manages a total of EUR 5 billion for a broad range of international investors, including leading institutions, companies and private individuals. The main operations include East Capital – specialising in emerging and frontier market equity investments, East Capital Real Estate – managing commercial real estate investments in the Baltic region, Espiria – offering bespoke global and Nordic equities and fixed income strategies, and Adrigo – offering hedge fund strategies targeting absolute returns. East Capital Group also has a significant holding in the listed company Eastnine (OM-EAST), which owns, develops and manages sustainable, premium office space in the Baltic region.

In January 2021, East Capital Group acquired a 10% stake in Alquity - a leading impact investor with a decade-long track record of pioneering investment products. Its investment approach marries top-quartile performance targets with forward-looking ESG analysis, connecting investors to social progress through listed equities. The firm has a strong pipeline of next generation products, which will increasingly deploy quantitative tools, machine learning and AI as big data plays a greater role in identifying and measuring ESG and Impact. East Capital Group and Alquity work together on strengthening sustainable investment, impact practices and fostering ESG excellence through a joint ESG and Impact Council and cooperate on business development and distribution in some European markets, as well as on fund operations.

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Cover page: Ho Chi Minh City skyline, Vietnam.
## Our ESG journey

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<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. We start engagement and voting.</td>
</tr>
<tr>
<td>2002</td>
<td>We send our first annual letters to all portfolio companies, detailing our expectations as owners. Become active member of API (Association of Institutional Investors - the Russian corporate governance association).</td>
</tr>
<tr>
<td>2004</td>
<td>Launch of East Capital Awards, to reward the progress of outstanding companies in East Capital’s portfolios.</td>
</tr>
<tr>
<td>2007</td>
<td>We implement sector exclusion criteria (weapons, tobacco, pornography) for all fund products. Commercial gambling exclusion was added in 2020.</td>
</tr>
<tr>
<td>2009</td>
<td>We join ACGA (Asian Corporate Governance Association).</td>
</tr>
<tr>
<td>2010</td>
<td>We start semi-annual controversy screening of all funds using external research partner. We establish new role within investment team: Head of Corporate Governance and Sustainability.</td>
</tr>
<tr>
<td>2011</td>
<td>We expand voting and nomination and election of independent directors.</td>
</tr>
<tr>
<td>2012</td>
<td>We become signatory of UN-backed Principles of Responsible Investment, PRI. We become a climate-neutral company.</td>
</tr>
<tr>
<td>2013</td>
<td>Launch of East Capital Best Corporate Governance Award.</td>
</tr>
<tr>
<td>2015</td>
<td>Integra, a landmark court case, puts us on the map for protecting minority investors all over the world.</td>
</tr>
<tr>
<td>2016</td>
<td>Implementation of ESG scorecards, further integrating sustainability and SDGs in our investment process.</td>
</tr>
<tr>
<td>2017</td>
<td>We join SISD (Swedish Investors for Sustainable Development).</td>
</tr>
<tr>
<td>2018</td>
<td>We join Climate Action 100+, Tobacco-Free Finance Pledge.</td>
</tr>
<tr>
<td>2019</td>
<td>Launch of East Capital Global Emerging Markets Sustainable, awarded an ESG label by LuxFlag. We become a TCFD supporter.</td>
</tr>
<tr>
<td>2020</td>
<td>We join SWESIF (Sweden’s Sustainable Investment Forum), IIGCC (Institutional Investors Group on Climate Change) and Climate Governance Initiative Russia. Implement a tool for engagement management, Acty.</td>
</tr>
<tr>
<td>2021</td>
<td>Partnership with leading impact investor Alquity. We become an SASB Alliance User Member.</td>
</tr>
</tbody>
</table>
Our approach and framework

2020 was a year none of us will be able to forget. As most of us had to reconsider our way of working, travelling and socialising on an individual level, investors have had to rethink their convictions in terms of stocks and investment themes. The ESG and sustainable development investing spaces were also significantly shaken. Companies had to navigate a myriad of challenges in social aspects, such as health & safety and labour rights emerging as key topics, and the opportunity of greening their operations, due to changes in operational models and a momentum in terms of macro policies and investors’ interest coming higher up in their agenda. Corporate governance has remained a top priority, with capital allocation and dividend practices being closely monitored, while the quality of boards and management proved to be key in overcoming specific difficulties.

At East Capital, the year was very intensive. We expanded our negative screening list (adding commercial gambling) and refined our approach to norm-based screening. We ramped up in terms of coverage of assets with ESG integration across our strategies, added a momentum score to our ESG scorecards and updated several questions in our framework, including about biodiversity. We also implemented new proprietary tools for ESG assessment in fixed income and for analysing climate transition risks for strategies with significant exposure to vulnerable assets. We further intensified our engagement activities, either directly or in collaboration with other shareholders, and introduced a software to monitor and manage our increasingly-intensive level of engagement activities. All of the work and achievements are presented in this report.

The year 2020 will be remembered for many things. In Hong Kong, it has been remarkable to experience first-hand the quarantine rules that ranked among the world’s strictest, as well as Beijing tightening its grip on Hong Kong with a new national security law.

It was the best of times, it was the worst of times

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The impact of covid and the pandemic-related restrictions has not been homogenous across emerging and frontier markets. We once again proved the long-held view that a local and specific approach is required to assess the right level of risks, both in terms of company-level fundamental analysis and market analysis, incorporating ESG and sustainable development dimensions, which are strongly anchored in our investment approach. Our sustainable investment report includes some case studies that illustrate our approach and objectives.

Peter Elam Håkansson
Chairman and CIO

Karine Hirn
Partner and Chief Sustainability Officer
Our approach and framework

For investors in emerging markets, it all starts with KYO

As they do in developed markets, investors looking for promising equity investments in emerging economies typically begin their search by looking at a company’s P&L and other financial documents. Our experience has shown that’s the wrong place to start. In fact, it all begins with the owners.

Evaluating the ownership of a company means ensuring that the enterprise is driven by reliable, trustworthy stewards, with enduring vision and commitment. We call this “Know Your Owner,” or KYO.

Why is KYO so important? For one thing, good owners—majority shareholders or company founders—hold the key to positive environmental, social, and governance (ESG) performance. The reason: responsible owners have an outsized impact on good governance. And when the “G” is solid, then the “S” and “E” typically follow.

What’s more, research shows that companies with good owners have better financial outcomes. Consider recent research from Credit Suisse¹ into the performance of family-owned businesses during the COVID-19 pandemic. Such companies, which generally take a longer-term view in their decision-making, exhibited greater resilience than their non-family-owned counterparts through the pandemic. They also continued a pattern of generating stronger top-line growth and more profitability.

For investors, the KYO approach also requires that they act not just as financial backers, but responsible owners, themselves. That means assuming a long-range perspective and identifying visionary founders with the commitment needed to leverage key trends such as the growing global middle class, digitalisation, and efforts to achieve the Sustainable Development Goals.


Know Your Owner

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.
Shareholders first

At East Capital, we learned this lesson through our early work in Russia and Eastern Europe after the fall of the Berlin Wall. In the free-for-all of that time, as new companies started up and old ones tried to navigate an emerging economic paradigm, evaluating businesses was a Herculean task. Existing accounting systems were largely meaningless and often impenetrable. Under the old system, bartering for sugar and other coveted supplies had been a common method for transactions and was still in place for some companies in our investment universe.

The only solution for us was to adopt a highly hands-on approach—digging deep into not just financial records, but also the track record and reliability of company owners. As soon as we opened an annual report, the page we always turned to first was the one with the list of shareholders. Only after that would we look over the financial statements. In other words, without realising it, we were making decisions largely influenced by KYO and the “G” of each enterprise.

Tell-tale signs of good ownership

The hallmarks of excellence in ownership are all about collaboration, independence, and responsibility. For example, there’s the matter of how much is owned. When the largest shareholder owns no more than 25-30% of a company, it spurs cooperation and collaboration, because the individual has to rely on other shareholders to reach a majority decision. Other key ingredients: a proven track record of responsible ownership, and a board with truly independent directors.

Questions about the degree of independence - and the ability to represent the interests of minority shareholders - should be raised where any director has been an employee of the company within the last three years, has been a non-executive director of the firm for 10 years or more, or recently has had significant financial dealings with the company.

Incentives must also be well aligned between owners and shareholders. This should be reflected through the compensation structure of both the board and management (something that is actually quite rare to find even in developed markets).

KYO kick-starter

So, how do you put KYO into practice? A good place to start is by investigating companies with strong founders at the helm, as well as the largest shareholders: They tell you a lot about how the company is run. A bedrock of reputable shareholders will be critical should investors need to team up when engaging with the company. Keep in mind that ownership in emerging and frontier markets is less institutionalised than in developed markets. As a result, it’s more personal than the “ownerless” capitalism seen especially in the US. For that reason, investors need boots on the ground—meaning, you have to meet the owners, virtually if not physically. While some shareholders may be reluctant to engage, those in it for the long haul will most likely be glad to establish a dialogue.

Next comes meeting the management team, and posing the same questions you ask owners, to see if there are discrepancies and to understand how pervasive the corporate culture is.

Of course, it’s also important to understand what characterises bad owners. A few common traits should raise alarm bells: mistreating minority shareholders, engaging in unfavourable related-party transactions, not acting in an environmentally and socially responsible way, and, at the worst, breaking laws.

To be sure, KYO-orientated investors should be braced for multiple challenges, from encountering corruption and fraud to directors who are independent from a strong founder in name only. Companies in emerging and frontier markets tend to be covered by fewer analysts than in more developed markets, and some aren’t followed at all. Also, due to less-rigorous regulatory disclosure requirements, information might not be reliable—or even available. Meanwhile state-owned companies, though risky, often can’t be avoided, and their quality levels differ substantially from one to another and from country to country.

The issue of good ownership is a soft area that is difficult to quantify. As a result, ESG data providers and many fund managers, including less dedicated ones and those that are quant-driven, tend not to include such criteria in their evaluations. KYO is an approach that, when done thoroughly, takes a lot of time and commitment. But for anyone serious about finding risk-adjusted value in emerging and frontier markets, it should be the foundation of their investment strategy.

Why is KYO so important? For one thing, good owners—majority shareholders or company founders—hold the key to positive environmental, social, and governance performance. The reason: responsible owners have an outsized impact on good governance. And when the “G” is solid, then the “S” and “E” typically follow.
Our approach and framework

Net zero and what it means for East Capital

“Net zero” is a deceptively simple concept, because while the eventual target is clear, the pathway to achieving this is much more complicated. This presents a significant challenge to all stakeholders, from governments to companies, and to asset managers such as ourselves. After a short summary of the underlying issues, we will present our framework for analysing the risks and opportunities presented by the pivot towards net zero.

The race to Net Zero

Net zero implies that the net of global greenhouse gas emissions (additions + removals) will be equal to zero. The sooner we reach this, the less the world will heat up. And in order to ensure global warming is kept below 1.5°C compared to pre-industrial levels, we would need to achieve this by around 2050. The consequences of warming above 1.5°C are serious and alarming, and these consequences multiply the more the temperature rises above this. Figure 1 gives a schematic indication of level of impact/risk at different temperature levels, broken down by the five top areas of concern as identified by the Intergovernmental Panel on Climate Change (IPCC).

Figure 1. The top 5 areas of concern at various warming levels

Source: IPCC (2018), Global Warming of 1.5 °C. M and H indicates confidence levels, M-medium, H-high
As this becomes accepted and understood by the general public, countries and companies are increasingly setting net zero targets. Currently, 44 countries covering 73% of global emissions have some sort of net zero commitment, as shown in Figure 2. Of course, the devil here is in the detail, with the biggest risk being pushing the significant changes into the later decades and basing strategies around solutions and technologies that aren’t yet proven at an economic level. It is clear that Greta has a point here – any delays in making the type of disruptive wholesale changes that are required will just serve to increase the damage done and potentially trigger climate tipping points, which can irreversibly damage the climate equilibrium1. It will also require more extreme action when the world does finally decide to get its act together. For this reason, short-term action and target setting is increasingly in focus in the lead up to COP26 in November 2021.

It is also important to highlight that carbon dioxide is not the only greenhouse gas that the world should be focusing on. Methane is more than 80 times more harmful than carbon dioxide on a 20-year basis (28 times on a 100-year basis as it breaks down quicker) and nitrous oxide is 265 times more harmful on a 100-year horizon. Some of these emissions should fall as carbon dioxide emissions fall. Methane emissions for example, will fall as fossil fuel production falls. However, there is still a lot of work to be done, for example regarding the use of synthetic fertiliser in agriculture which is large producer of nitrous oxide.

**Asset managers’ role: investing in and for decarbonisation**

Asset managers have an important role to play as providers of capital, both in terms of capital allocation and crucially engagement. Equally important and often overlooked is that whether asset managers like it or not, global decarbonisation will be one of the most significant structural themes in the next decades. It is therefore of crucial importance to have a deep understanding of the issues to look through the hype and identify the true winners and losers, just as it is important to understand disruptive technologies such as cloud computing and artificial intelligence.

Almost 50% of the technologies required to reach net zero in the IEA scenario are only in demonstration or prototype stages. While this has been criticised (essentially it means the scenario is based on unproven technology), to us it just highlights the huge amount of innovation that the transition will require and will drive. As emerging markets investors, we expect that a lot of this innovation will take place in Asia, with China already a clear leader in equipment for renewable energy, electric vehicles and hydrogen fuel cell transport, while many leading fuel cell and battery companies are based in South Korea.

Bearing this in mind, annual investment in energy and associated infrastructure (transport/grid etc) will need to increase from USD 2 trillion globally to almost USD 5 trillion by 2030, and to USD 4.5 trillion by 2050 in a net zero scenario, according to the IEA. Any company exposed to this spending will likely have access to decades of structural growth - one of East Capital’s six investment criteria - and hence certainly be on our radar screens.

Asset managers also need to be aware that even if we are successful in moving to net zero, the world will continue to heat up. This will have significant implications on many of our portfolio companies, particularly in emerging and frontier markets. As a result, it is important to have a deep understanding of physical risk mitigation, as well as transition risks. This former is tricky to integrate in a systematic way across all our portfolios, although it is something we continue to work on.

Therefore, by far and away East Capital’s biggest priority in relation to climate is to ensure that the entire investment management team has a nuanced and detailed understanding of the opportunities and threats presented by global decarbonisation and the likely highly-disruptive move to net zero. The next steps are to integrate this thinking into our investment decisions and also engagements. This is something we are putting a large emphasis on and will continue to do so. A significant part of this work involves ensuring we have the correct tools and governance systems in place, and this is what we discuss next.

1 “The EU climate target: What’s in the numbers?” Institute for European Environmental Policy, November 2020
Our approach and framework

As we mentioned earlier, while everyone understands what net zero strives for, it is not easy to translate that into tangible numbers in order to quantify risks and opportunities and hence to set expectations for our portfolio companies. For example, what should a retail company be doing now to ensure their strategy is aligned with a net zero scenario? Historically, unless the company has a 1.5°C aligned strategy approved by the Science Based Target Initiative (something we encourage all our companies to do), estimation has been fairly difficult because there hasn’t been any one widely accepted net zero pathway.

Luckily, in May 2021, the International Energy Agency (IEA) published their long-awaited net zero scenario, which pulls together a huge range of experts and science to offer a view on how net zero could be reached for the energy sector, which represents 75% of overall GHG emissions. We have already started discussing this with our portfolio companies and our message is consistent - this is not a forecast, but a scenario, and a highly ambitious one at that. Our question to portfolio holdings is simple - how would they be affected if this scenario was to play out?

We have collated the main findings of the report to create the net zero roadmap as shown in Figure 3. We expect that we will constantly develop this tool as more science and data becomes available, and expand the scope to include the non-energy sectors (predominantly agriculture and forestry) and add key biodiversity metrics.

We have also added to our proprietary ESG scorecard a crucial question “is the company’s strategy resilient to a net zero scenario, as set out in our net zero roadmap?” Like several other questions in the scorecard, this requires considerable thought and thorough understanding of the company. For most sectors, this would also require running our proprietary carbon price model. While the carbon prices in the roadmap seem extremely high, when one considers that European carbon prices are up 61% YTD to USD 64/t (by end of May 2021), the numbers don’t seem so unreasonable.

### Figure 3. Net zero roadmap

<table>
<thead>
<tr>
<th>Year</th>
<th>Reduction in CO2 vs 2020</th>
<th>Carbon price in developed markets</th>
<th>Carbon price in key emerging markets*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>41%</td>
<td>75</td>
<td>45</td>
</tr>
<tr>
<td>2025</td>
<td>-38%</td>
<td>130</td>
<td>90</td>
</tr>
<tr>
<td>2030</td>
<td>-62%</td>
<td>205</td>
<td>160</td>
</tr>
<tr>
<td>2035</td>
<td>-91%</td>
<td>250</td>
<td>200</td>
</tr>
<tr>
<td>2040</td>
<td>-93%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2045</td>
<td>-99%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2050</td>
<td>-100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Buildings**
- No new fossil fuel boilers
- All new buildings zero carbon ready
- Space heating/cooling temps 19-20°C and 24-25°C
- Best-in-class appliances/cooling systems
- 50% existing buildings retrofitted to zero carbon
- 50% of heating demand met by heat pumps
- More than 85% of buildings are zero-carbon

**Transport**
- 60% of global car sales are electric
- 50% of heavy truck sales are electric; no new ICE car sales
- 50% of fuels used in aviation are low-emission

**Industry**
- Most new clean tech demonstrated at scale
- Global average plastics collection 27%
- All industrial electric motor sales are best-in-class
- 90% of existing capacity reaches end of investment cycle
- 90% of heavy industrial production is low emission
- Global average plastics collection rate 54%

**Electricity**
- No new coal power plants (2021)
- No new investment in oil or gas projects
- 150 Mt low carbon hydrogen
- Net zero emissions in advanced economies
- Net zero emissions globally
- Phase out of all unabated coal and oil power plants
- 435 mt of low carbon hydrogen
- 70% of generation globally from solar PV and wind

Our approach and framework

Specific questions in our proprietary ESG scorecard help us understand and consider a company’s exposure and response to climate change within the context of its operations and its physical locations to make an assessment of potential financial implications, but also potentially make adjustments to our assumptions of future revenues, assets and liabilities. Our conclusions may lead us to avoid investing, adjust our level of conviction or to start an engagement.

Target setting and governance

The natural next step following this analysis is to set clear emissions intensity targets for our portfolios that are in line with this scenario, for example, a 38% fall in emissions intensity by 2030 versus 2020. We anticipate doing this in the next 12 months. Yet, we are mindful that one of the most significant impacts investors can have is through engagement, whereas just selling out of non-aligned companies to reduce intensity is unlikely to have any real-world impact, at least in the short run. Investor initiatives such as Climate Action 100+ (that we are a part of) have had incredible success in engaging with companies such as Glencore and BP, and we believe this approach also works in emerging markets. Indeed, we are starting to see our engagements bear fruit, and our Russian companies have already announced cumulative emissions reductions of 72 mt of GHG in the peak year (the equivalent of 118% of Sweden’s total GHG emissions).

Therefore, we like the approach outlined by the Net Zero Asset Managers Initiative, which makes a distinction for “assets under engagement”. When we do have constructive dialogue with a company on climate change, we believe the most impact we can have is to continue this engagement rather than just divest in order to reach a target. This is especially true in Russia, where we are co-lead investor for three Climate Action 100+ mandates and Chair of the IIGCC working group, though it also applies in other regions, even though we do not invest in fossil fuel producers outside of Eastern Europe. In China, for example, we are playing a lead role in pushing for CDP-aligned environmental disclosure for several companies across sectors, which we see as an important step in understanding climate risks and opportunities.

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 reporting.

From a broader governance perspective, our Chief Sustainability Officer is the chairperson of our SICAV and management company boards, ensuring, together with an external director with extensive knowledge of sustainability and climate change, that these topics are always part of the agenda. We ensure that all board and investment committee meetings receive detailed information about our engagement activities (with companies as well as regulators and government representatives), as well as carbon footprint analysis and details about significant strategy updates from material portfolio companies. For the investment management staff, engagements already form a part of the KPIs used when determining variable compensation, and we plan to expand these KPIs to include climate-specific metrics in the next few years. During 2021, we will publish our climate policy that will confirm our commitment to a net-zero emissions portfolio by 2050 and to joining the Net Zero Asset Managers Initiative, which we have been thoroughly reviewing and assessing.

Our main limitation to assessing carbon impact is the lack of reliable self-reported emissions data, although we are starting to see companies report in accordance with the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). Since we became a supporter of the TCFD in 2019, we have increased our level of activities in terms of engagement with portfolio holdings on the topic of climate risks, directly or in collaboration with others, including through Climate Action 100+ and CDP, as well as with governments and together with other investors.

Of our portfolio companies that have been requested to report to CDP (representing 63% of our AuM), 66% have reported, which means that 42% of our portfolio holdings report emissions data to CDP. Moreover, 52% of our requested portfolio holdings reported on their water security supply and 40% on their impact on deforestation. Some companies might report emission data outside of the CDP framework, but in general there is still a lack of disclosure in our investment universe. Therefore, our conclusions are still largely our own qualitative assessment of the managements’ and boards’ awareness, understanding and readiness to effectively strategise around and manage both risks and opportunities related to climate change.

42% of our portfolio holdings report emissions data to CDP.
Our approach and framework

Engagement priorities

As with our expectations of ourselves, discussed above, we structure our company analysis, and accordingly engagement and voting activities to drive improvement around the building blocks of the TCFD, i.e. governance, strategy, risk management and metrics & targets. We are convinced that climate risk and resilience to a net zero strategy are at the core of board and management responsibility and we include these components in our ESG scorecard analysis while assessing the track record, capability and composition of directors and management. We do believe that climate-related KPIs should form part of compensation for the majority of companies, although we accept this is still extremely rare even in developed markets.

In Eastern Europe where we are particularly active nominating independent directors, their understanding of what a net zero aligned strategy implies will be checked when assessing candidates. We are also an active supporter of WEF-backed Climate Governance Initiative Russia and Climate Governance Initiative Poland, which aim to educate and train independent directors on climate.

Besides active ownership, we see that an increasingly-important role for us is sharing our views and advocating for better climate governance with governments and regulators. To this end, we have been participating in consultations related to disclosure requirements (most recently in China and in Hong Kong), in private and semi-public dialogue with government representatives (for instance in Russia and in Hong Kong) and in investor statements, such as the 2021 Global Investor Statements to Governments on the Climate Crisis, where we are one of the 456 investors (combined AUM of USD 41 trillion) coming together for a strong call to action, sent to heads of state ahead of the G7 Summit (11-13 June). They are requested to commit to a domestic mid-century, net-zero emissions target and to outline a pathway with ambitious interim targets, including clear decarbonisation roadmaps for each carbon-intensive sector, as well as to commit to implementing mandatory climate risk disclosure requirements aligned with the TCFD recommendations.

Conclusion

Achieving net zero is one of the defining challenges of our generation, and if governments and companies do step up to the challenge, it will leave almost no sector untouched in terms of its disruptive impact. Asset managers like ourselves also need to step up, and we are putting in a lot of time and effort to make sure we do it right. Now that there is an increasing consensus on what a “net zero” scenario would need to look like, we believe we have a good tool box to properly assess the opportunities and risks for our portfolio companies. This will be helpful in both stock selection and engagement, though we remain of the belief it is on the latter point that we have more potential for real-world impact.

David Nicholls
Assistant Portfolio Advisor, Moscow
How we generate value

Key characteristics of our portfolio management approach

Since day one, we have set out to be a long-term, active and responsible investor. Our investment teams base their investment strategy on in-depth knowledge of local markets, fundamental analysis and frequent company visits. Evaluation of ESG-related risks and opportunities forms an integral part of the investment process. We favour investments in companies that show long-term sustainable growth and have responsible owners.

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 look beyond the short term. 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. We focus on companies with long-term growth prospects. Companies that are benefiting from structural growth outside of the energy and commodity spaces. Companies with 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. Fundamentals matter over time.

**Active stock pickers**

We look beyond index compositions and invest by conviction on a company by company basis. Our portfolios typically have a high active share. Our off-benchmark exposure includes allocation to smaller companies, frontier markets and local Chinese A-shares. Smaller companies offer a larger exposure to certain fast-growing sectors responsive to local market dynamics (such as consumer discretionary, industrials and healthcare). Frontier markets are in general both faster-growing and less correlated to the developed world than emerging markets, and thereby offer interesting opportunities for well-informed investors. To find meaningful exposure to renewable energy and clean technologies in emerging markets, allocation to local Chinese shares is critical. China is 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.

**Responsible**

ESG factors are an important driver of long-term investment returns from both an opportunity and a risk-mitigation perspective. Significant overweight positions 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, auditing, environmental and social factors, corruption and ethical issues.

**Active owners**

We are enforcing improved ESG standards and strengthening the chain of accountability in portfolio companies through our monitoring capacity and constructive engagement. 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. Our experience has shown that an engaged and constructive dialogue will more often lead to convincing the company to initiate positive change, while simply exiting the investment achieves nothing. Voting at AGMs/EGMs is another important way for us to communicate our views to the companies and their management.

Throughout the years, we have also 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.

**Local**

Frequent on-the-ground meetings with company owners, management teams and policymakers is an integral part of the investment process, providing us with in-depth local knowledge, access to information and an extensive network. In emerging and frontier markets, a true regional presence is vital in making better-informed investment decisions and monitoring existing holdings.

**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.
**ESG in each step of the investment process**

All East Capital strategies follow the same investment process, designed to systematically select the companies with the best risk/return profile.

<table>
<thead>
<tr>
<th>Definition of investable universe</th>
<th>Company focus</th>
<th>Fundamental research</th>
<th>Portfolio construction</th>
<th>Implementation &amp; monitoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall investment universe</td>
<td>Investable universe</td>
<td>Focus list</td>
<td>Focus list with conviction and views</td>
<td>Model portfolio</td>
</tr>
</tbody>
</table>

The overall investment universe is divided into regions, countries and themes, and screened by market cap and ESG exclusion criteria.

- Identifying quality companies with long-term growth prospects
- Six investment criteria:
  1. Access to structural growth
  2. Long-term competitive position and strong management
  3. Strong FCF or highly-profitable investments
  4. 1-3 areas where we differ from consensus
  5. Reasonable valuation or significant upside
  6. High East Capital ESG Score

Company meetings are an integral part of the investment process to support and complement the fundamental analysis. Proprietary research is performed on revenue drivers, cost drivers, competitive strength, financial capabilities and management, and on ESG factors such as ownership and management, placements, dividends, extraordinary events, accounting, audit, environmental and social factors, corruption and ethical issues.

Key Active Positions:
- Overweight (> versus benchmark, level of overweight varies between the regional strategies) meet several criteria: quality companies with a significant upside, quality management/owners and strong ESG standards in accordance with the proprietary ESG scorecard. These companies we endeavour to meet four times each year, we engage as active shareholders, create our own model and research to understand key performance drivers in detail.

Detailed performance and risk analysis. Monitoring of ESG factors, proxy voting and ESG engagement. Our ESG scorecards are reviewed annually, or upon a major event, and voting and engagement activities are carried out continuously throughout the year.

**Article 6, 8 and 9 funds**

Article 6, 8 and 9 funds are the three product classifications that apply to East Capital’s investment strategies under the EU’s Sustainable Finance Disclosure Regulation. All our UCITS funds are classified as Article 8, except East Capital Global Emerging Markets Sustainable, which is classified as Article 9.

Our real estate fund under scope which integrates sustainability risks in the investment decisions was classified as Article 6. Article 8, also known as ‘environmental and socially promoting’, applies where a financial product promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.” Article 9, also known as ‘products targeting sustainable investments’, covers products targeting bespoke sustainable investments and applies where a financial product has sustainable investment as its objective and an index has been designated as a reference benchmark.”

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1 Key active positions are our largest overweight positions, several of which might not be in the benchmark or, in other words, represent how we deviate from the broad market.
## Snapshot of our ESG tools

The practical ESG tools used in our investment activities are organised in four pillars: sector exclusions (negative screening), controversy (norms-based) analysis, proprietary ESG scores, as well as active ownership.

<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><strong>Sector exclusions (negative screening)</strong></td>
<td><strong>Controversy (norms-based) analysis</strong></td>
<td><strong>Proprietary ESG scores</strong></td>
<td><strong>Active ownership</strong></td>
</tr>
<tr>
<td>Since 2007</td>
<td>Since 2010</td>
<td>Since 2016</td>
<td>Since 1997</td>
</tr>
<tr>
<td><strong>What:</strong></td>
<td><strong>What:</strong></td>
<td><strong>What:</strong></td>
<td><strong>What:</strong></td>
</tr>
<tr>
<td>All portfolios exclude companies that are known to generate significant share of revenues from:</td>
<td>Monitor suspected breach of international conventions and norms on human rights, labour standards, environment, health &amp; safety or bribery</td>
<td>10 Red Flags section + more extensive ESG scoring section</td>
<td>Active ownership to add value post investment</td>
</tr>
<tr>
<td>– Weapons</td>
<td>– International conventions</td>
<td>Separate SDG module</td>
<td>Communicate our views and expectations as owner</td>
</tr>
<tr>
<td>– Tobacco</td>
<td>and norms on human rights</td>
<td>Momentum score (1-3 years outlook)</td>
<td>Initiate engagement where relevant, primarily based on our proprietary analysis</td>
</tr>
<tr>
<td>– Pornography</td>
<td>– Labour standards, environment</td>
<td>Leverage our unique resources, experience and track record in emerging and frontier markets</td>
<td></td>
</tr>
<tr>
<td>– Commercial gambling</td>
<td>– Health &amp; safety or bribery</td>
<td>Focus on most relevant and material ESG risks AND opportunities in our markets</td>
<td></td>
</tr>
<tr>
<td>No investment in any company with any exposure to controversial weapons</td>
<td>Input for dialogue and engagement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Emerging Markets Sustainable and Multi-Strategy also exclude companies generating significant share of revenues from:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Fossil fuel</td>
<td>– Fossil fuel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Alcohol</td>
<td>– Alcohol</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>How:</strong></td>
<td><strong>How:</strong></td>
<td><strong>How:</strong></td>
<td><strong>How:</strong></td>
</tr>
<tr>
<td>Screening implemented in analyst’s/PM’s initial analysis</td>
<td>Screening implemented in analyst’s/PM’s initial analysis</td>
<td>Scoring done by analysts/PMs: own judgment remains critical</td>
<td>Proxy voting</td>
</tr>
<tr>
<td>External screening available if uncertain</td>
<td>External screening by Sustainalytics</td>
<td>Calibration performed with ESG team</td>
<td>Nominating and electing independent directors</td>
</tr>
<tr>
<td>Portfolios re-confirmed annually</td>
<td>Ongoing monitoring by analysts/PMs</td>
<td>Start with Red Flags for all holdings, full ESG score and SDG module score for all Key Active Positions and largest holdings</td>
<td>Shareholder resolutions</td>
</tr>
<tr>
<td></td>
<td>Portfolios checked twice a year</td>
<td>Scores reviewed annually or upon major event</td>
<td>Letters to portfolio companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Engaging on our own</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Collaborating with other investors, associations, initiatives if relevant</td>
</tr>
</tbody>
</table>
Zooming in on our proprietary ESG scorecards

In 2016 we developed and launched a proprietary ESG scorecard to further integrate ESG into our investment process. 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. Since 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. In 2020 we added a momentum score and made several updates to questions in all three sections.

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 Chief Sustainability Officer, we ensure that the entire investment team integrates relevant and material 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 and an SDG module.

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;
- 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), reflected in the stock allocation;
- includes a forward-looking assessment through the momentum score.

The 17 SDGs are grouped into two categories:

1. Goals that we believe may impact the demand for, or attractiveness of, a company’s products, services or technologies.

In order to assess the impact of these goals in a structured way, the SDG module contains questions and examples per goal that help us 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
- SUFFER due to lower demand or total substitution in order to achieve the SDGs, e.g. fossil assets or unhealthy food.

2. Goals that we see as the universal responsibility of all companies to address in their operations, regardless of size, market or sector.

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). These goals are addressed in our overall ESG assessment of the company, as the proprietary scorecard is cross-referenced against each of these goals, with questions within the E, S and G sections.
### Red flag score

<table>
<thead>
<tr>
<th>Holdings</th>
<th>Aim</th>
<th>Area covered</th>
<th>Score levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>All existing holdings When initiating research on new companies</td>
<td>At the outset, considers the 10 most critical ESG questions in emerging and frontier markets</td>
<td>Focuses on major Red Flags related to corporate governance, ethics and corruption</td>
<td>Maximum 2 Red Flags for Key Active Positions</td>
</tr>
<tr>
<td></td>
<td>Gives quick ESG overview and understanding</td>
<td>Covers international norms and standards and severe systematic environmental or social controversies</td>
<td>More than 3 Red Flags should not warrant further research or investment unless specific reason to accept higher ESG risk is warranted, accepted and documented</td>
</tr>
<tr>
<td></td>
<td>Helps focus research resources</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### ESG score

<table>
<thead>
<tr>
<th>Holdings</th>
<th>Aim</th>
<th>Area covered</th>
<th>Score levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Key Active Positions and top holdings as a minimum All holdings in some selected strategies (Global Emerging Markets Sustainable)</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, momentum 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>
<td>Key Active Positions should have an ESG score of at least 70</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other holdings typically score above 60</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>However, specific insight or reason may allow us to accept a lower score - and higher ESG risk - if warranted, accepted and documented, for example, if we have sufficient evidence and tangible triggers for near-term ESG improvements. We may, for certain reasons, such as liquidity requirements, be forced to hold certain companies that we see as laggards from an ESG perspective.</td>
</tr>
</tbody>
</table>

### SDG module

<table>
<thead>
<tr>
<th>Holdings</th>
<th>Aim</th>
<th>Area covered</th>
<th>Score levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Key Active Positions and top holdings as a minimum All holdings in some selected strategies (Global Emerging Markets Sustainable)</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>Goals: 1-4, 6, 7, 9 and 11-15 12 Goals that we believe may impact the demand for, or attractiveness of, a company’s products, services or technologies. Goals: 5, 8, 10, 16 and 17 The remaining 5 Goals that we see as the universal responsibility of all companies to address in their operations, regardless of size, market or sector are assessed in the E, S and G sections of our scorecard.</td>
<td>Determine to which extent an issuer can be categorised as being a “solution provider”</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Adjust modelling assumptions, level of conviction or stock selection</td>
</tr>
</tbody>
</table>
## Zooming in on active ownership

Anchored by East Capital’s on-the-ground team and extensive local networks, our approach includes continuous dialogue with company representatives, annual letters to all portfolio holdings encouraging them to improve on ESG and highlighting priorities, proxy voting, nomination of board members, legal action, and last but not least, active cooperation with other investors, associations and initiatives, such as Climate Action 100+.

### Identify

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.

### Dialogue and engagement with companies

Our experience has shown that an engaged and constructive dialogue will more often lead to convincing the company to initiate positive change, while simply exiting the investment achieves nothing.

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.

When contemplating an investment in a new company, understanding the shareholder structure is key. So, the first section 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? Assessing the main shareholders’ incentives constitutes an important part in determining alignment. When possible, we aim to directly engage with other shareholders to build trusting relationships 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 shareholders.

When adding a new portfolio holding, we initiate dialogue with the management by sending a “Letter from your new shareholder” to the CEO and the Chairperson. 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

### 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 ESG scorecards.</td>
<td>Engagements are prioritised based on East Capital’s ability to influence a company and add value.</td>
<td>We engage directly with either the management team, the board or other shareholders through:</td>
<td>Discussed in team meetings.</td>
</tr>
</tbody>
</table>
| Reactive based on:  
  • current events  
  • norms-based analysis  
  • invitation from other investors | Portfolio weighting is also considered when prioritising engagements. |  
  • on-the-ground meetings with companies as well as our extensive local networks  
  • letters, phone calls or emails to companies | Progress is monitored on a case-by-case basis. |
|  | Main goals of the engagement are identified. | We collaborate with other investors and stakeholders | Where there are no signs of progress, there may be changes to the portfolio (depending on the materiality of the issue). |
|  | | | Sustainable Investment Report is produced annually. |
|  | | | Engagements are logged in Acty. |
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.

Engagement resources
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.

Since 2010, the Head of Corporate Governance and Sustainability (succeeded in 2019 by Partner Karine Hirn as Chief Sustainability Officer, with the help of an Analyst, Paul Nissan) has been evaluating and structuring the practical ESG-related tools used in investment activities, supporting the investment team in identifying and interpreting the impact and consequences of existing and emerging ESG related factors on issuers and portfolios, as well as ensuring relevant and material ESG matters are reported and discussed in investment team meetings and reported to the investment committee and board meetings.

The number of conducted company meetings is one of the data sets provided to the monthly investment committee meetings.

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

Nomination of board members
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 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 10-20 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 (API). Over 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 value-eroding deals.

Prioritising engagements
We have a formalised approach for how we allocate our internal engagement resources:

- Prioritise engagements in key active positions and 10 largest holdings of any strategy;
- Prioritise ESG topics seen as especially important to our EM/FM investment universe.

Company meetings frequency is structured according to the following:

- 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

Company meetings frequency is structured according to the following:

- 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

Our approach and framework
Voting

The majority of our portfolio holdings 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 should exercise their voting rights at annual and extra-ordinary 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 one important way to communicate our views to the companies and their management.

East Capital uses an external proxy voting platform, which provides an efficient voting interface, 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 our team on a weekly basis. In determining if and how the voting rights 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 team 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. Follow-up and the results of voting are presented at team meetings and board meetings.

Legal action

Since its founding in 1997, East Capital has invested in more than one thousand companies in emerging and frontier markets. 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 25-30 legal disputes, some of which have carried on across more than one year. Not all legal disputes have gone to court.

Recognising excellence among portfolio companies

East Capital firmly believes in recognising exceptional companies in our investment region, which we do 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” recognises 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 2020, East Capital presented the Best Corporate Governance award to the Russian retail group X5, who has consistently demonstrated best-in-class governance, as evidenced by its industry leading returns on invested capital and strong growth. X5’s emphasis on transparent capital allocation, its strong management team, which is one of the most gender diverse in Russia, and commitment to sustainability establish it as a leader in the Russian retail industry. X5 integrated material sustainability issues into its strategy in 2020, in part thanks to engagements from active investors such as East Capital, including a pledge to cut emissions by 30% by 2030 and to achieve carbon neutrality by 2050. As the largest retailer in the country, this will have a profound impact throughout the retail value chain and hopefully set a standard for other companies to follow.
We see active ownership as a key element in our work in contributing to alpha creation for our investors and developing sustainability standards in our investment universe. Active ownership efforts focus on specific ESG topics which have been identified through our scorecard and which are relevant and material. Besides engagement with companies, we also work actively with policy makers and regulators.

During 2020, East Capital engaged with 128 companies, totalling 191 different engagements during the year.
Active ownership:

Examples of East Capital’s direct engagement with companies

CCC Group is one of the largest footwear retail companies in Central Europe and one of the largest footwear manufacturers in Europe, selling nearly 50 million pairs of shoes annually.

A selection of engagements from 2020-2021:

- Russian leading freight rail transportation group Globaltrans completed its local MICEX listing, a project we initiated, pitched for and helped them drive to completion. Discussion around climate issues, pushing for improved disclosure and metric-based emissions reductions targets.

- We successfully nominated and elected an independent non-executive director for Bank of Saint Petersburg.

- Our proposed independent non-executive director of Russian oil major Lukoil was re-elected.

- An independent non-executive director was nominated by Russian real estate operator Etalon on our behalf.

- Chinese real estate developer COLI appointed a new auditor following our recommendation.

- AGM of Russian Sistema voted against the additional compensation to INED following our recommendation.

- AGM of Romanian resort operator THR Marea Neagra approved a shareholder’s resolution we suggested, calling for the appointment of an independent asset appraiser and publishing the final report of the appraiser.

- Turkish retail discount store operator Sok Marketler Ticaret initiated dividend payments from 2020FY profit, which we previously engaged on.

Engagement case:

CCC is a leading footwear manufacturer and retailer from Poland, which has been in our portfolio since 2005. We have had a constructive and positive dialogue with the management team to support and accelerate CCC’s sustainability journey.

CCC’s first ever sustainability strategy, published in 2020, was a positive step in the right direction. It was however lacking depth and ambition in several targeted Sustainable Development Goals, despite the company operating in a sector known for several SDG-related risks, such as labour risks in the supply chain, a high climate impact, as well as the impact and dependency on nature. For instance, CCC was aiming to reduce Scope 1 and 2 greenhouse gas emissions by just 2% annually by 2022, with neither a Scope 3 calculation before 2022 nor any long-term science-based emissions goals.

Several discussions were conducted with the CEO, during which we highlighted the importance of making more ambitious commitments when it comes to SDGs and becoming a leader - not only in the CEE footwear market, but also in terms of sustainability. As a result of this engagement, CCC is expected to publish an updated sustainability strategy in 2021, with much deeper commitments to environmental goals. With SDG3 in focus for an FMCG shoe & apparel company, CCC has now committed to starting to calculate and report Scope 3 emissions in 2021, one year earlier than previously communicated. Reduction targets being discussed are currently in the range of 65% for Scope 1 and 2, and 30% for Scope 3, and we expect the company to soon release some exciting details in terms of science-based targets and commitments. Meanwhile, we had also been requesting for them to respond to the CDP climate change questionnaire, which they started doing last year. Another initiative they took was to become Poland’s first signatory to the UN-backed Fashion Industry Charter for Climate Action, a charter that goes beyond previous industry-wide commitments and includes a target of 30% GHG emission reductions by 2030, and a commitment to analyse and set a decarbonisation pathway for the fashion industry, drawing on methodologies from the Science-Based Targets Initiative.

Furthermore, we urged the company to consider what could be done to increase its exposure and contribution to the circular economy, by reporting the content and percentage of recycled or sustainable materials being used upstream. The company has committed to launching a circular economy initiative, which they started by introducing a sustainable Go For Nature product line, with more circular economy initiatives to be announced soon. Last, but not least, facing increasing attention and awareness from all kinds of stakeholders - including shareholders and consumers, and soon EU regulators - about social factors in the value chains of European companies, we advised CCC to improve the supply chain transparency and report the findings from the supply chain audits that CCC S.A. is performing on certain priority issues. We recommended setting Zero child labour and Fair/Living wage as priorities. A new suppliers’ code is to be rolled out 2021-2022, which will address human rights and labour rights issues.

Eglé Fredriksson
Portfolio Manager, Stockholm
Engagement objectives

In 2020, we defined the following engagement objectives, to help improve the ESG profile of Severstal based on several material issues that had been identified in our proprietary research, primarily our ESG scorecard.

1. Replace the auditor, as current auditor had worked with the company for 23 years.
2. General improvement around climate strategy and reporting, given the company’s sizeable emissions (23.4 MT CO2e in 2019 for Scope 1 emissions).
3. Improve safety record, including appointment of external auditor for mines where there have previously been H&S issues.

Process

Throughout 2020, we enjoyed extensive dialogue with various representatives of the company, including the Chairman of the Audit Committee and Independent Director, Alun Bowen. We explained our concerns regarding the lack of audit rotation and also provided our input regarding the audit policy, in particular the importance of recognising the materiality of climate-related risks. We also had discussions with the company’s ESG team, where we presented the results of our proprietary transition risks analysis, which shows how potential EU border taxes could significantly impact the company’s valuation. This work was also shared with the company’s executive team and board, and was helpful in demonstrating the importance of reducing emissions. Finally, we proposed an independent H&S auditor for the company’s assets, including coal mines where several fatal methane explosions have taken place in the past. The external audit was intended to confirm to all stakeholders the significant progress in safety performance made by the company.

Results

| The company announced a 3% reduction in emissions intensity over the coming three years, implying a 1 MT CO2 reduction in GHG emission (equivalent to 35% of GHG emissions from transport in Stockholm in 2018). They also informed us that they are working on much more ambitious mid-term reduction forecasts that are likely to be announced in 2021. |
| The company has agreed to change its auditor; to be appointed at the 2022 AGM. |
| The company will soon release its first “resilience statement,” including a carbon tax risk assessment. |
| At our invitation, Mr Bowen, chairman of the audit committee, presented at a seminar organised by Russian Chapter Zero (now called Climate Governance Initiative Russia), which is a WEF initiative designed to educate board members about climate change. |
| The company has carried out ISO certification of two of its most troubled mines, and will certify all mines by 2023. |
| Finally, although we do not use any external ESG ratings ourselves (favouring our proprietary scorecard), it is pleasing to note that MSCI recently revised the company’s rating from CCC to B, which reflects the overall improvement of sustainability performance, to which we have contributed through our extensive engagement. |

Severstal is a vertically-integrated steel and steel-related mining company in Russia, and a holding in our Russia and Eastern European strategies. We have had a good relationship with the company for a long time. We presented Severstal our Corporate Governance award in 2019, based on best-in-class capital allocation and the company’s focus on integrating material ESG metrics into its strategy, including links to executive remuneration.

Engagement case: Severstal

The Severstal engagement was short-listed as one of the top three “Sustainable Fund Achievements of the Year” by leading insurance platform Länsförsäkringar in Sweden.

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## ESG & Covid-19 in our dialogue with companies during 2020

A list of questions was compiled by the ESG Internal Integration Group and provided to the investment teams to support their dialogue with portfolio holdings during the first half of 2020. We could not travel during the year, but did manage to maintain close dialogues with the management teams of our portfolio holdings.

<table>
<thead>
<tr>
<th>Question 1: DIVIDENDS</th>
<th>Question 4: ACCOUNTING PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Is the dividend policy (or any deviations from the existing policy) clearly communicated and suitable for the current situation, and is it clear how the company justifies a distribution and the financing thereof (not putting the company in a liquidity squeeze)?</td>
<td>Companies can sometimes use their balance sheet to support earnings or cash flows during difficult times. Areas to consider: revenue recognition, cost deferral, working capital issues and interest and net debt.</td>
</tr>
<tr>
<td>• How are companies dealing with keeping or not of employment levels, keeping or not of executives and staff pay? Do they let people work from home (if relevant and possible)?</td>
<td>• How has the audit work been impacted YTD, and what stage are the company and the auditor at?</td>
</tr>
<tr>
<td>• How does covid-19 impact full time employees' and contractors' health and safety (H&amp;S) and do they have a system in place to mitigate H&amp;S risks?</td>
<td>• Can we expect any delay in the audit conclusion and the release of financial information?</td>
</tr>
<tr>
<td>• Is the capital allocation approach still efficient and transparent, and beneficial to shareholders? If buybacks have been announced, consider whether these are genuinely in the long-term interest of all shareholders, as opposed to being aimed at executives' options packages.</td>
<td>• Can we expect a change of auditor conclusion due to an inability to carry out on-site visits?</td>
</tr>
<tr>
<td>• If relevant - will government support imply restrictions in capital allocation for the company? (dividends/buybacks/opex/capex)</td>
<td>• Is there any contingency in the timetable and will the AGM be held as planned?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 2: CAPITAL ALLOCATION</th>
<th>Question 5: PAY AND LABOUR PRACTICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Has the company provided updates to the market regarding the impact that the pandemic could have on its business, and are IR/relevant contact persons available to discuss such questions?</td>
<td>• How are companies dealing with keeping or not of employment levels, keeping or not of executives and staff pay? Do they let people work from home (if relevant and possible)?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question 3: DISCLOSURE AND INFORMATION</th>
<th>Question 6: HEALTH &amp; SAFETY</th>
</tr>
</thead>
<tbody>
<tr>
<td>• How has the audit work been impacted YTD, and what stage are the company and the auditor at?</td>
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</tr>
<tr>
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<td>• Is there any contingency in the timetable and will the AGM be held as planned?</td>
</tr>
<tr>
<td>• Is there any contingency in the timetable and will the AGM be held as planned?</td>
<td>• If relevant, how will any government measures that impact the company (for example loan holidays for banks) be reflected in the company’s financials (regulatory forbearance/relaxed provisioning rules etc.)?</td>
</tr>
</tbody>
</table>

We could not travel during the year, but did manage to maintain close dialogues with the management teams of our portfolio holdings.
Active ownership: Voting

We 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.

During 2020, we voted at 277 AGMs and/or EGMs in 201 different companies out of approximately 265, corresponding to 85% of the market value of our assets under management, in securities carrying voting rights in our UCITS funds. Historically, East Capital has focused on voting in Russia, Turkey, the Balkans, Baltics and the CIS countries. In 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. In 2019, we started investing in South American holdings, and our voting activity in Russia remained the largest, with more than half of the proxy voting taking place in Russian companies. The next biggest regions by importance of voting activity were the Balkans (11%), China (7%) and Africa (7%).

We see voting as an important way to make our voice heard and to influence the strategic direction and governance of the businesses we own.

<table>
<thead>
<tr>
<th>Fund</th>
<th>% of AUM voted 2020</th>
<th>% of votes with mgmt 2020</th>
<th>% of votes against mgmt 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balkans</td>
<td>80%</td>
<td>100%</td>
<td>0%</td>
</tr>
<tr>
<td>China A-Shares</td>
<td>78%</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>89%</td>
<td>95%</td>
<td>5%</td>
</tr>
<tr>
<td>Global Emerging Markets Sustainable</td>
<td>50%</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>Global Frontier Markets</td>
<td>64%</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>Multi-Strategy</td>
<td>61%</td>
<td>97%</td>
<td>3%</td>
</tr>
<tr>
<td>New Europe</td>
<td>80%</td>
<td>98%</td>
<td>2%</td>
</tr>
<tr>
<td>Russia</td>
<td>97%</td>
<td>91%</td>
<td>9%</td>
</tr>
</tbody>
</table>

AuM including assets with voting rights
Advancing common interests through collaboration with industry peers

A very important element of our sustainability efforts within the East Capital Group is the collaboration with our industry peers to advance common interests. One of the key engagements in this respect is our participation in the network, Swedish Investors for Sustainable Development (SISD), and its international counterpart, Global Investors for Sustainable Development (GISD), backed by the UN.

Swedish Investors for Sustainable Development (SISD)

Established in 2016, the network now comprises 20 members, all leading asset management and asset owners on the Swedish financial markets. Its members, besides East Capital Group, include private pension and insurance institutions such as Alecta, AMF, Folk sam, Skandia, SEB, Nordea and SPP, as well as the state pension schemes, AP2, AP3, AP4 and AP7, and the asset management arms of Swedbank (Robur), Handelsbanken and Nordea, as well as investment companies (Investor, Kinnevik, Industrivälden and Carl Bennet AB), and Church of Sweden and state-backed investment organisation, Swefund.

SISD was formed around the idea of addressing the role of investors, risks and opportunities related to the UN Agenda 2030 and the seventeen Sustainable Development Goals (SDGs), through learning, sharing experiences, voluntary projects and communication. The partnership promotes active ownership and engagement around SDGs, and seeks to contribute to the international dialogue on the role of asset owners and asset managers in advancing the Agenda 2030 goals, in tandem with fiduciary duties, towards investors and other stakeholders.

The work of SISD has centred on collaboration and the creation of momentum at the CEO level, and more operative participation in several working groups around SDGs (such as gender diversity, clean water, sustainable cities, anti-corruption, climate change etc.), with one group addressing in particular the hurdles and challenges of increasing sustainable investing in the financial system. The outcome of this work is quite different in character - some more related to knowledge sharing and inspirational how internal polices among the members can be adapted and developed more in line with the SDGs, joint communication initiatives to push common agenda points, the offering of concrete investment opportunities, or ideas of investment product designs and approaches, with or without partnerships with development agencies.
SISD leading the way for GISD

It’s safe to say that the SISD network has been a tremendous success so far. Finding the model of cooperation among institutions and asset managers - ordinarily competitors - and addressing the common challenge embodied within the Agenda 2030 has been inspirational internationally, constituting a role model for the launch of its global counterpart - Global Investors for Sustainable Development (GISD). Convened by Secretary-General António Guterres, the GISD was formed in the autumn of 2019, very much with the SISD network design as the model.

The network of 30 selected international institutions has since then been operating in a similar fashion as SISD, with collaboration and momentum created at the CEO level, and with several operative Task Teams addressing common challenges or initiatives, all with the idea of better facilitating investments aligned with Agenda 2030 and the SDGs. This work is directed at, for example, the overall scaling up of sustainable investments, the post-pandemic build-up, the development of investment platforms, and new ways of designing collaborations and partnerships with development institutions.

The definition of Sustainable Development Investing

As a very concrete - and important - deliverable from the Task Teams’ work during 2020 is a joint agreement of all members on a definition of “Sustainable Development Investing,” which could potentially have a significant impact on how assets are allocated within the membership institutions, and beyond that into the financial system in general.

What makes us particularly proud is that we managed, with the assistance of our SISD colleagues, to include the importance of active ownership and engagement in investment activities as part of the definition, bringing it to the forefront in this context. This may also impact the overall view on engagement and how we as an active manager are perceived as contributing value in our investment activities.

You can find more details in “Definition of Sustainable Development Investing”.¹

Further reading:
GISD Report “Renewed, Recharged and Redefined - Urgent Actions to Harmonize and Scale Sustainable Finance”.²

¹https://www.gisdalliance.org/sites/default/files/2020-08/SDI%20Definition%20%20Final%202020%20%2006%20%2004.pdf

Convened by Secretary-General António Guterres, the Global Investors for Sustainable Development (GISD) Alliance is co-chaired by Oliver Bäte, CEO of Allianz, and Leila Fourie, CEO of the Johannesburg Stock Exchange, and includes the heads of Bank of America, Citigroup, ICBC, Infosys, Investec, Santander, UBS and other prominent international corporations.

Definition of Sustainable Development Investing:
Sustainable Development Investing (SDI) refers to deploying capital in ways that make a positive contribution to sustainable development, using the Sustainable Development Goals (SDGs) as a basis for measurement. The contribution can be made through products, services, and/or operations, or through projects financed across asset classes and in multiple sectors or themes. The positive contribution of an investment should not be outweighed by negative impacts from the same investment over the life of this investment. Investors can strengthen their positive contribution through active ownership, such as engagement for more sustainability in companies, sectors and projects they invest in, as well through greater investment in developing countries.
Active ownership:
Support to associations and initiatives

East Capital sees significant potential in collaborating with other investors on specific ESG topics, and is supporting these as signatories or as an active member.

<table>
<thead>
<tr>
<th>Associations</th>
<th>Initiatives and Pledges</th>
</tr>
</thead>
</table>
| Asian Corporate Governance Association (ACGA)  
Member since 2009  
acga-asia.org | Baltic Institute of Corporate Governance (BICG)  
Supporter since 2009  
bicg.eu |
| The Association of Institutional Investors (API)  
Member since 2002, Deputy Chairman  
api-russia.org | CDP  
Signatory since 2014, supporter of the annual disclosure campaign since 2019  
cdp.net |
| Association of the Luxembourg Fund Industry (ALFI)  
Member of the responsible investing working group since 2016  
alfi.lu | Climate Action 100+  
Joined in 2018, co-leader on 3 engagements in Russia  
climateaction100.org |
| Swedish Investment Fund Association  
Member of the working group for ownership issues and sustainability since 2011  
fondbolagen.se | Climate Governance Initiative Russia  
Supporter since 2020  
eng.cgi-russia.ru/ |
| Institutional Investors Group on Climate Change  
Member since 2020, Chair of the Russia working group | Swedish Investors for Sustainable Development (SISD)  
Member since 2017  
sida.se |
| UN Principles for Responsible Investment (PRI)  
Signatory since 2012  
unpri.org | Task Force on Climate-related Financial Disclosures (TCFD)  
Supporter since 2019  
fsb-tcfd.org |
| SASB (Sustainability Accounting Standards Board)  
Member User since 2021  
sasb.org | Tobacco-Free Finance Pledge  
Supporter since 2018  
unepfi.org/psi/tobacco-free-finance-pledge/ |
| Sweden’s Sustainable Investment Forum  
Member since 2020  
sweisf.org | |
We joined the CDP 2020 disclosure campaign, with 93 companies on our list. East Capital was lead for 47 of them, prioritising our key active positions, top 10 holdings, holdings in Global Emerging Markets Sustainable and companies which are "top priority" for CDP. The 2020 campaign gathered a total of 105 investors, representing USD 10 trillion for 1051 targeted companies.

2020-2021 has seen strong momentum for collaborative engagement around the world, both towards corporates but also towards governments. East Capital joined several of them, such as the following:

- We joined the CDP SBTi campaign as one of a group of 137 financial institutions, representing assets of USD 20 trillion. The group is urging 1,800 of the most high-emitting companies to set science-based emission reduction targets (SBTs) aligned with the Paris Agreement. The purpose of the campaign is to enable investors and companies to raise climate ambitions that can be measured in a uniform, comparable way. According to the CDP, the companies targeted in the campaign are the source of 13.5 gigatons of emissions (Scope 1+2) each year, or 25% of total global emissions. Furthermore, through their supply chains, these firms have “influence over” three times this amount of emissions. By requiring companies to rapidly reduce both direct and indirect emissions (Scope 1+2), SBTs can become crucial in phasing out carbon dioxide emissions throughout entire value chains (October 2020).

- We were a signatory to the Open letter to EU Leaders1 prepared by the CDP, IIGCC and PRI ahead of the European Council meeting on 18-19 June 2020, demonstrating the readiness of the investor community to offer their support to help the EU deliver on a sustainable recovery from covid-19

- East Capital joined the PRI’s Investor Statement in support of an effective, fair and equitable global vaccine response.

- As a signatory to the Climate Action 100+ we joined an initiative calling for net zero business strategies and setting up the benchmark of the largest corporate emitters, targeting the CEOs and chairs of the board at 161 global companies.

On the fifth anniversary date of the Paris Agreement, the French consulate, together with the Hong Kong University for Science and Technology, organised a hybrid conference to take stock on the progress made in terms of climate action and outlook. Together with Johannes Hack (DZ Bank), Tracy Wong Harris (HKGFA), Hugo Leung (BNP Paribas), Alicia Garcia-Herrero (Natixis), Michel Roy (Crédit Agricole CIB) we explored in what way green finance can (should) help fight climate change. We discussed the landscape in terms of achievements and big trends, product innovation, challenges, regulatory realities and expectations, in Europe and in Asia.

Active ownership:
Specific highlights of collaborative engagements

Promoting ESG standards

Dialogue with regulators and market participants

Our experience from over 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.

Over 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 see it as a 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.

Advocacy across borders

In 2020, we supported several efforts to strengthen sustainable finance across our markets, as well as in some global initiatives.

- We participated in an ACGA-driven initiative to answer to the consultation on Hong Kong Exchanges and Clearing (HKEX)’s proposal to allow listing applicants to allocate dual-class shares, called weighted voting rights (“WVR”) in Hong Kong, to corporate shareholders. The consultation sets out some quite detailed eligibility criteria for the adoption of corporate WVR, together with some safeguards on their use in practice. One of the key concepts that the consultation seeks to introduce is the notion of a shared business ‘ecosystem’ between the corporate entity that holds the WVR and the candidate for listing, which must exist in order for the WVR structure to be permissible under the listing rules. In short, the idea is that some applicants for a listing (such as unicorns) might have a pre-existing synergistic relationship with other companies in their group, most likely a parent company, and the granting of WVR to one or more of those companies is considered appropriate if that would facilitate this continued synergy, to the benefit of the listing applicant. Such a proposal would likely introduce a highly subjective and rather vague standard into the listing eligibility criteria, and one that could be problematic to implement. Other proposals, such as a market cap threshold of HKD 200bn for the listed entity seeking corporate WVR, should be easier to police.

- EBRD survey “The Investor Base of Securities Markets in the EBRD Regions”. The EBRD was exploring the connection between privatisation and capital market development and wanted to hear East Capital’s views about planned privatisations in Kazakhstan from an investor’s perspective.

- Survey by the Hong Kong Green Finance Association regarding the priorities for Hong Kong in terms of development for green and sustainable finance.

- UNDP China’s assessment study to evaluate the impact of covid-19 on investment aligned with the Sustainable Development Goals (SDGs) in different industries and regions.

- MSCI’s consultation on a proposal for a potential reclassification of the MSCI Lebanon Index from Frontier Market to Standalone Market status. In our answer we focused on areas related to accessibility and a fair exchange rate.

- Survey by the Climate Disclosure Standards Board (CDSB) regarding the decision-usefulness of climate and environmental information and how its integration into mainstream reporting drives allocations towards low-carbon investments. The CDSB is hosted by CDP and is an international consortium of business and environmental NGOs set up in 2007 at the World Economic Forum in Davos.

Assistant Portfolio Advisor Sumeet Bhalla and Deputy CIO Jacob Grapengiesser in New Delhi, India.
PRI & ACGA on China corporate governance

Karine Hirn, East Capital Partner & Chief Sustainability Officer, participated in a webinar hosted by PRI and ACGA (Asian Corporate Governance Association) on corporate governance in China together with some one of the largest Chinese domestic asset managers and Ziding Proxy, the leading proxy voting firm in China. Here are some key takeaways from the webinar.

- There is still lots to be done but China is clearly moving in the right direction. There has been a lot of progress and important steps taken for improvement during recent years. We are pleased to see collaboration between domestic and foreign investors in initiatives like Climate Action 100+, while institutionalisation of the capital markets is a positive development for ESG standards.

- Many younger companies are still controlled by founders/majority shareholders, hence checks and balances are often relatively weak. Most boards do have 1/3 independent members, but investor communication is not up to Western standards. Other issues are low auditor rotation and low representation of women in boards.

- Engaging with Chinese companies is getting easier, thanks to increasing ownership by foreign investors, but also local investors’ growing focus on ESG.

- We do not find the Chinese market to be more challenging than other emerging markets. Companies are learning and becoming familiar with investor expectations. We are, however, more concerned about the opaque ownership structure of certain state-owned enterprises.

- As an active EM investor focused on ESG for more than two decades, we find the same recipe applies in China as elsewhere. Local presence, boots-on-the-ground, speaking the language are key when building strong relationships with management.

- If and when we identify areas of improvement, we find applying tailor-made solutions to be much more effective than broader campaigns.

Further reading:
ESG investing in China A-shares

Case study in a book

In 2020, East Capital was featured in “Modern China, Financial Cooperation for Solving Sustainability Challenges” by Cary Krosinsky. The book gives an on-the-ground perspective of what’s really happening in China on the back of its recent economic rise, its desire and need to solve environmental challenges and the new positive dynamic created by its need for foreign capital. The book portrays two asset managers as case studies: East Capital and China AMC (one of the largest asset managers in China). The case study covers our history, our approach to responsible investing and a specific focus on the solar power sector.

Cary Krosinsky is the co-founder of the Sustainable Finance Institute and teaches sustainable finance at universities such as Brown and Yale. He is a leading author and editor of books and papers on sustainable investing, including his recent book “Sustainable Investing: Revolutions in Theory and Practice.” Furthermore, Krosinsky is a member of the 70-strong expert group that created the UN Principles for Responsible Investment (PRI).
PRI results and commitment

Supported by the United Nations, the Principles for Responsible Investment (PRI) provide a voluntary and aspirational set of six investment principles to reflect the increasing relevance of ESG issues to investment practices. The six principles offer a menu of possible actions for incorporating ESG issues into investment practice, and have been developed by investors, for investors.

Examples of what East Capital does

1. ESG factors and SDGs are an integral part of our investment approach. No deviations or exceptions.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the principles.

6. We will report on our activities and progress towards implementing the principles.

- ESG factors and SDGs are an integral part of our investment approach. No deviations or exceptions.
- We engage with companies on ESG issues on our own or in collaboration with others.
- We cast our (proxy) votes directly or via dedicated voting providers.
- We monitor portfolios to detect violations of international conventions and guidelines.
- Typical ESG topics 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.
- We promote responsible investments independently, as well as together with collaborative organisations/initiatives. This includes participating as speakers in different forums and providing media comments.
- We collaborate with other shareholders and take part in relevant stakeholder and investment associations.
- Dialogue with governments, stock exchanges and financial regulators to promote improvements in the institutional and legal framework.
- We publish an annual Sustainable Investment Report, as well as PRI Transparency Report and Assessment Report.

www.eastcapital.com/esg
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.

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 through wind farms, 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

In the recent years East Capital has also worked on developing projects in other sectors to become climate neutral. For example, the company has invested in crowd funding campaigns for local solar entrepreneurs in emerging nations to electrify the world. Read more about TRINE on www.trine.com.

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 have also come to Stockholm to stay with us on several 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 people have been coached, aiming to enable them to get and retain a job with an official income.

Since 2007, East Capital has been a proud partner of the SOS Children’s Village in Keila, Estonia, a small town 30 kilometres west of Tallinn. 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.

A matter of course
East Capital Real Estate currently has 10 BREEAM-certified buildings:

- Metro Plaza Office Building
- A13 Office Building
- Vesse Retail Centre
- Jankiskiu 52 Center
- Nehatu Logistics Park
- Hilton Tallinn Park Hotel

East Capital Real Estate
ESG as a tool to enhance returns
Carbon emissions targets and environmental considerations are leading priorities for us as investors and real estate managers. ESG considerations play a significant part in the fundamental analysis process we use to create risk-adjusted returns for our investors. Our careful attention to health, environmental and energy-efficiency considerations ensures all of our properties are inherently more attractive and beneficial to the tenants. This approach also adds value by reducing operational running costs, which in turn results in higher returns for our investors.

Long-term goals: net-zero carbon emissions by 2050
Our immediate and longer-term ESG goals are to ensure all of the buildings in our portfolio are carbon emission-free. This includes making improvements to our existing stock of buildings to bring these into line with net-zero carbon emissions targets by 2050. We expect accelerating technological developments will change the ways existing properties need to be redeveloped in terms of climate change risk, and are proactively developing methodologies to implement these speedily.

BREEAM®
BREEAM (Building Research Establishment Environmental Assessment Method) is the world’s leading sustainability assessment method for masterplanning projects, infrastructure and buildings. It recognises and reflects the value in higher performing assets across the built environment lifecycle, from new construction to in-use and refurbishment. BREEAM does this through third party certification of the assessment of an asset’s environmental, social and economic sustainability performance. This means BREEAM-rated developments are more sustainable environments that enhance the well-being of the people who live and work in them, help protect natural resources and make for more attractive property investments.

A proprietary analysis framework
In 2019, we introduced a proprietary ESG scorecard, applicable to all existing investments, serving both as a benchmark against peers or market averages, and as a tool to identify required improvements on an ongoing basis.

The properties are assessed on various aspects of sustainability issues, closely aligned with the UN Sustainable Development Goals. For example, the properties are assessed with regards to energy efficiency, water consumption, waste management, accessibility, ecology and green areas, indoor climate and air quality, noise or light pollution, governance issues and so on. The scorecard also includes a Red Flag section, highlighting material ESG topics and any aspects not in line with sustainability goals and best practices. Internal thresholds have been set for the scores, and improvement areas are mapped accordingly.

The scorecard is also crucial when assessing any new buildings or property acquisitions in terms of understanding material risks and opportunities.

From analysis to action
The wide diversity in types and ages of buildings in our portfolio demands different approaches for measuring, managing and optimising energy use and reducing carbon emissions. We seek to source renewable energy solutions for water and energy use wherever possible, for example, by adding solar panels, especially for the logistics parks, or by implementing heating, ventilation and air conditioning (HVAC) and other automation systems that can help reduce energy use, while improving the environment for the tenants.

Our properties’ social characteristics take tenants’ health, safety and well-being into consideration by ensuring buildings are assessed for air quality, light and sound pollution. We also strive for and value access to sporting and recreational facilities.

Hilton Tallinn Park Estonia obtained BREEAM “In-Use Very Good” rating in 2020, a first for a hotel in Estonia.
