RESPONSIBLE INVESTMENTS AT ALQUIITY

LIFE CHANGING INVESTMENTS
transformation
ESG analysis is a critical component of Alquity’s investment process. Having identified those firms we believe are best positioned, on the basis of structural growth drivers, cyclical positioning and competitive advantage, ESG determines our assessment of operational excellence, quality of management and value alignment. In other words, whether we believe individual firms can monetise their opportunity set for shareholders.

Correspondingly, our ESG focus encourages responsible corporate behaviour that benefits not only investors but also the employees, communities and environment in which our holdings operate. In this way, attractive financial returns can coincide with sustainable and inclusive economic growth.

The use of ESG in our investment process sits alongside our foundation activities. Recognising that the corporate sector is only a part of the economy, we set aside a minimum of 10% of our revenues for social mobility and development projects in the regions in which we invest. Collectively, responsible investment and this development work focused on financial inclusion, support economic opportunity for all. Moreover, they create a “virtuous circle” for investors, sowing the seeds of future growth.

**WHAT ARE RESPONSIBLE INVESTMENTS AT ALQUITY?**

*We consider our investments “responsible” because they incorporate transparency and ESG factors into our investment process in order to generate deeper insights and help deliver sustainable, long-term returns.*

This is differentiated from “sustainable investing”, “impact investing” or “socially responsible investing”, which may set financial returns as a secondary consideration, subordinate to social or environmental goals.

*We consider our business to have “impact” because we marry responsible asset management with targeted development projects to deliver better social outcomes.*

Our ESG focus encourages responsible corporate behaviour that benefits not only investors but also the employees, communities and environment in which our holdings operate.
We do not use ESG analysis as a pre, post or ad-hoc screening. Rather, it is a fundamental and fully integrated part of our investment process.

Our investment process starts by refining the investable universe to those firms we consider best positioned. We do this via 3 core themes: Monetizable Structural Growth, Favourable Cyclical Positioning and Sustainable Competitive Advantage.

Within this set of attractively positioned companies, we screen based on headline metrics/observations in the context of the particular core theme. This covers basic financials, the business model and valuation. In addition, we screen each of the companies for our red flag criteria. These are practices we believe are inconsistent with long-term financial returns and an overall positive societal impact. We do not carry out further analysis on those stocks that fail this sanity check.
**RED FLAGS:**

ESG analysis is a critical component of Alquity’s investment process. Whilst the majority of analysis and financial valuation must weigh each element of a business in an overall firm, country and sector context, there are certain practices we believe are inconsistent with long-term financial returns and an overall positive societal impact. These red flags are the standards we expect from every company we invest in and we will not consider any company that fails one or more of our red flags.

<table>
<thead>
<tr>
<th>ESG Factor</th>
<th>Red Flag</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>E</strong></td>
<td>Any high-risk industry holding where either no data is publicly available on emissions or they do not provide this to us when requested</td>
<td>By definition, high risk industries will be energy intensive and so we see action on emissions as a materially critical business priority</td>
</tr>
<tr>
<td><strong>E</strong></td>
<td>Any holding using significant volumes of water in the production process not reporting water usage or communicating a commitment to reduce water usage. At a minimum, all holdings must be local legislative disclosure requirements.</td>
<td>For stocks using water intensive production processes, we see action on water conservation and recycling as a materially critical business priority, especially if the production location is additionally water-stressed</td>
</tr>
<tr>
<td><strong>S</strong></td>
<td>Any high risk industry holding without an H&amp;S policy (this will also be extended to other sectors such as food production at the discretion of the portfolio manager)</td>
<td>Safe working conditions are a basic human right that must be maintained at all times. Accidents, fatalities and contaminated products can damage business profitability irretrievably</td>
</tr>
<tr>
<td><strong>S</strong></td>
<td>All companies with greater than 5% of revenues or profits attributed to tobacco, narcotics, armaments, adult entertainment, gambling or liquor. Zero tolerance for all “controversial weapons”</td>
<td>We do not share the social and business values of management prepared to operate in sectors that produce products proven to be unethical and/or directly contribute to material social harm.</td>
</tr>
<tr>
<td><strong>G</strong></td>
<td>No audited accounts or auditor not independent from business</td>
<td>We are unable to have confidence on the accuracy and independent validity of the financial information supplied</td>
</tr>
<tr>
<td><strong>G</strong></td>
<td>Holding doesn’t meet investors or arrange regular open-access calls</td>
<td>We are unable to assess management capability or values and risk that our investment will be subjugated to the interests of other “privileged” shareholders</td>
</tr>
<tr>
<td><strong>G</strong></td>
<td>No transparency on identity of majority shareholders</td>
<td>We are unable to confirm the motivations and intentions of controlling shareholders that could make decisions not in our interests as minorities</td>
</tr>
</tbody>
</table>
ESG RATINGS
Having refined the investable universe to those companies that we consider best positioned, and with no headline impediments, we seek to establish which are sufficiently well managed to monetise their opportunity and mitigate risk.

Specifically, we look at behaviours and practices across the firm relative to global or regional best practice. A sample list of such factors is shown in the ‘ESG: What we look for’ section at the end of this brochure.

Following this analysis, our overall view on the quality of Transparency and ESG on a forward-looking basis is then summarised on a scale from A (excellent) to E (fail). Our portfolios only include stocks graded A-C. To be clear, this means that we will only invest in firms where there is satisfactory quality and alignment of management. An overview of these ESG ratings can be found in Figure 3.

FUNDAMENTALLY INCOMPATIBLE EXPOSURES
We will not hold companies with business practices that are fundamentally inconsistent with our process. This includes companies with over 5% of revenues or profits in their most recent financial report attributed to:

1. Tobacco
2. Gambling
3. Narcotics
4. Adult Entertainment
5. Armaments
6. Liquor

With respect to the development, production, maintenance and trade of weapons that have a disproportional and indiscriminate impact on civilian populations (so called “Controversial Weapons”), we have operate a zero tolerance. These include:

- Anti-personnel landmines
- Biological weapons
- Chemical weapons
- Cluster munitions
- Cluster bombs
- Ammunitions containing depleted uranium
- Nuclear Weapons

EXAMPLE: HYUNDAI MOTORS
An example of destruction of shareholder value is Hyundai Motors, a South Korean auto manufacturer.

In 2014, the company paid USD 10 billion for a new headquarters, a price which was considered hugely excessive.

This illustrated that the company is run for the benefit of management rather than minority shareholders.

The stock halved over the following 12 months and irreparable damage was done to the company’s image.

EXAMPLE: VIETCOMBANK
An example of how we apply our ESG process in a frontier market setting, and were therefore able to generate additional conviction and enhanced returns, is Vietcombank.

Management’s attitude to minority shareholders, desire to increase the number of independent directors, high levels of transparency in face-to-face meetings, consideration of environmental impact in lending, and provision of some of the best staff benefits in Vietnam demonstrated a clear alignment of values and has led to substantial outperformance.
ON-GOING MONITORING AND TRACKING

We continuously track the ESG performance of holdings in the portfolio and engage with management when required. We do this both to help shape our overall assessment of the business, and also to manage the specific ESG related risks and opportunities.

In the first instance, we will always try to establish a constructive dialogue with the company, with the aim of resolving concerns over a reasonable time period. In cases where the ESG issues are serious, it is not possible to engage with management on a constructive basis and/or our fundamental assessment of the firm’s values is challenged, we will divest our holdings in that company.

EXAMPLE: ULTRAPAR

An example of persistent excellence in ESG standards, leading to consistent out-performance, is Ultrapar, a Brazilian company engaged in specialised distribution and retail, which embodies best in class processes in all aspects of its operations.

The execution of its strategy reflects the corporate culture. By treating their customers with respect, providing training and career paths for their employees and making decisions that deliver superior returns for their shareholders, there is a clear alignment of interest with their stakeholders. They also engage with their local communities and have apprentice schemes to provide skills to talented individuals and invest in innovation to decrease their usage of natural resources. For instance, decreasing their use of water by 45% on an annual basis by switching to treated refuse water in their specialty chemicals business, reduced both their environmental impact and provided a material reduction in costs for the business.

The cumulative impact of their strategy resulted in a total shareholder return of 750% in USD vs 60% in the Bovespa (31/12/2005 to 31/12/2017).

EXAMPLE: GLENMARK

An example of early indication of internal changes is with Glenmark, an Indian pharmaceutical company.

Management had historically used aggressive accounting techniques that resulted in the overstating of short-term profitability.

They realised this was counter-productive, destroying shareholder value by harming investor trust. A change in practices has supported a re-rating towards the valuation levels of peers.

EXAMPLE: VMART

An example of our engagement is with VMart, an Indian retailer.

We have advised on their supply chain policy over a number of years. This policy has now improved dramatically, with the company now undertaking surprise visits to suppliers to ensure there is no child labour present versus a “trust” policy beforehand.

We will always try to establish a constructive dialogue with the company.
Our analysis is based, almost exclusively, on proprietary work conducted internally from company meetings, conference calls, financial statements and other business reports. We make some use of information from third party sources, such as MSCI (ESG specific research) and ISS (shareholder voting) for external verification.

Having established those companies of interest, which we believe to be both well positioned and well managed, we seek to quantify the attractiveness of each firm on the basis of risk adjusted return potential on a 3-5 year time horizon. In particular, our valuation:

- Relies on a detailed financial analysis of the company’s annual reports and meeting with management approximately 2x per year.
- Integrates each preceding stage of the process; core themes and ESG analysis informing our assumptions. In this way, we are interested not only in the absolute standard of “ESG quality”, but also the ability of a firm to improve its judgement, communication and efficiency over the next 3-5 years.
- Works on a scenario basis (building a base case and understanding the potential variance around this central thesis), which combine to determine our conviction over risk-adjusted returns.

<table>
<thead>
<tr>
<th>Alquity ESG rating</th>
<th>Description of company achieving this rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>High risk industry demonstrating global best practice performance in ESG</td>
</tr>
<tr>
<td>B</td>
<td>High risk industry demonstrating regional best practice in ESG</td>
</tr>
<tr>
<td>C</td>
<td>High risk industry with satisfactory ESG performance, in line with regional peers, but demonstrating a meaningful commitment to improve</td>
</tr>
<tr>
<td>D</td>
<td>High risk industry with unsatisfactory ESG performance but with a credible intention to improve communicated to an Alquity fund manager</td>
</tr>
<tr>
<td>E</td>
<td>High risk industry with unsatisfactory ESG performance and no intention of improving</td>
</tr>
</tbody>
</table>

**High Risk Industry**: those with extractive operations (mining & energy) and heavy industry (cement, building materials, steel, chemicals).

**Lower Risk Industry**: all other industries within the Alquity investable universe.
KEY PROGRESS INDICATORS
The majority of our engagement and ESG focus is on the issues specific to an individual firm, sector and country, which we believe are of the greatest financial materiality. This engagement is reported each quarter and is an ongoing and important part of our analysis. Further, for all portfolio holdings, we track a set of Key Progress Indicators “KPIs” that represent a general set of transparency and ESG standards we want all firms to meet over time. In each case, the assessment has a financial motivation and an associated positive potential impact. We have also identified the relevant principles with the UN Global Compact that the KPIs support.

STRATEGIC ENGAGEMENT AND ADVOCACY
We are actively involved at a strategic level in encouraging companies to improve their ESG disclosure practices. This includes support for the UN Principles for Responsible Investment (PRI), the Global Reporting Initiative (GRI), and the EUROSIF Transparency Code. We also track and maintain dialogue with other key actors.

Points we would like to see improved over time, and commitment by management to enhance their ESG practises, are recorded on the “Engagement” section of our stock notes. These areas of improvement and commitment are reviewed on a regular basis when the investment team engage with the management of these companies. These notes can be made available to the investors upon request.

PROXY VOTING
Exercising our voting rights is an important aspect of Alquity’s investment process, as we must ensure our interests as minority shareholders are well represented. As research-driven investors, we approach our proxy voting responsibilities with the same commitment to rigorous research and engagement that we apply to all of our investment activities, and we systematically vote on all issues at company meetings where we have the authority to do so.

We subscribe to the proxy research services provided by Institutional Shareholder Services (“ISS”). The invitations to vote are monitored and exercised by the investment team on a weekly basis. When we have insufficient information to cast our vote, we will engage with the management of the company to get more insight and make an informed decision. We maintain records of all proxy voting decisions in a format which will allow the dissemination of this data to relevant customers.

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10 PRINCIPLES OF UN GLOBAL IMPACT

HUMAN RIGHTS
PRINCIPLE 1: Businesses should support and respect the protection of internationally proclaimed human rights: and
PRINCIPLE 2: make sure that they are not complicit in human rights abuses.

LABOUR
PRINCIPLE 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
PRINCIPLE 4: the elimination of all forms of forced and compulsory labour;
PRINCIPLE 5: the effective abolition of child labour; and
PRINCIPLE 6: the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT
PRINCIPLE 7: Businesses should support a precautionary approach to environmental challenges;
PRINCIPLE 8: undertake initiatives to promote greater environmental responsibility; and
PRINCIPLE 9: encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION
PRINCIPLE 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Source: UN
Figure 4: Summary of Alquity Key Performance Indicators

<table>
<thead>
<tr>
<th>Factor</th>
<th>UN Compact</th>
<th>Investment rationale</th>
<th>Impact</th>
<th>KPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>7, 8 and 9</td>
<td>Better use of resources so reducing costs and supporting future sustainability</td>
<td>Reducing impact on climate change and maintaining supplies of key resources such as water</td>
<td>1. Are emissions disclosed publicly?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Is water usage disclosed publicly?</td>
</tr>
<tr>
<td>Social</td>
<td>1, 2, 3, 4, 5, and 6</td>
<td>Engaged and better skilled employees delivering higher productivity.</td>
<td>Safe and dignified working conditions and universal protection of human rights.</td>
<td>1. Is there a health and safety policy in place?</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Is there an equal opportunities policy in place?</td>
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<td></td>
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<td></td>
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<td>3. Is there a staff training policy in place?</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>4. Is staff turnover reported publicly?</td>
</tr>
<tr>
<td>Governance</td>
<td>10</td>
<td>Businesses operate legally, ethically and for the interests of all stakeholders</td>
<td>Reducing corruption, increasing transparency and fostering high ethical standards in corporate behaviour</td>
<td>1. Is there an anti-corruption/whistleblowing policy in place?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Is the proportion of independent Directors at least equivalent to the percentage free float?</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3. Is management remuneration disclosed publicly?</td>
</tr>
</tbody>
</table>
RESPONSIBLE INVESTMENTS OVERSIGHT AND CONTROL

Meeting quarterly, the Alquity Investment Committee oversees the investment process. This includes actively challenging portfolio managers on their ESG rating decisions. Specifically, the committee review improvements in ESG performance of our holdings versus our expectations. Moreover, the committee hold a veto right over any position, for which they have material ESG concerns.

In addition, as a signatory to the UN Principles for Responsible Investment, and through its commitment to best practice in ESG application, Alquity follows a comprehensive audit and control process. The objective is not only to ensure that all investments meet our minimum standards, but also to continually support engagement, advocacy and learning.

Across our investment process, there are four critical “checkpoints” at which we support our investment teams with independent validation and input, using each as an opportunity to refine decision-making and ensure consistent ESG application across our portfolios.

The diagram below provides a “shadow” of our investment process, highlighting the key ESG related activities. The checkpoints are numbered 1-4 and explained in detail below:

Control Point 1: ESG driven exclusion
We review specific criteria for all stocks in our investable universe and failure to meet our minimum ESG standards (represented by a Grade A-C), will result in exclusion. Such factors include:
1. Well documented history of ESG related incidents observed through media reporting and portfolio manager experience.
2. Failure to comply with one or more of the Red Flags we have described in our Responsible Investment brochure.
3. Deeper ESG analysis and/or engagement that raises sufficient issues so that the holding does not meet our minimum criteria for a C rating, described below:

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Figure 5: ESG thread and control within investment process
• High risk industry with satisfactory ESG performance, in line with regional peers, but demonstrating a meaningful commitment to improve
• Lower risk industry with satisfactory ESG performance, in-line with or better than regional peers, but with no credible intention to improve

Control Point 2: Portfolio Construction
Portfolios can only be constructed of stocks that meet our A-C ESG rating. To ensure this is the case:
  a. Our Operations Team are only authorised to set up securities for trading if the request is supported by a stock note incorporating an A-C rating.
  b. At each quarterly IC meeting, every new security added during the previous quarter is circulated with supporting justification for the A-C rating.

The IC conducts an annual audit of the above to ensure compliance.

Control Point 3: Material ESG Management
As a part of on-going management and engagement with holdings, the investment team review the ESG rating when any new or additional information comes to light. At a minimum this is upon each quarterly earnings report and after company meetings (approximately twice a year). The investment team have the authority to adjust ratings of holdings at any time.

Where there are beyond “business as usual” activities (i.e. a significant ESG incident leading to a >20% share price adjustment), the investment team will make the IC immediately aware and report any actions and impact on ESG ratings. If this includes a re-rating to D or E, the report must include an explanation as to why this issue was not envisaged or brought out by our research and a plan for selling the holding.

The IC conducts a quarterly audit to ensure all major ESG related incidents have been reported and any re-ratings to D or E have been sold punctually.

Control Point 4: KPI Progress Tracking
As described earlier, our goal is for all holdings to meet our KPIs. These are not a requirement but an aspiration and a driver of our engagement and advocacy work at a company level.

Progress on KPIs is assessed annually, via reporting to the IC. For each holding, the investment team will determine which KPIs are significant (material). If no progress has been made, this must be reported to the IC with an explanation and action plan as described in the KPI process document.

Our proxy voting activity must also be conducted in accordance with our proxy voting policy, our KPIs and our wider ESG assessment of the holding. Each quarter, proxy voting statistics are reported and any with a significant impact on our rating or KPI attainment are to be reported to the IC and where appropriate detailed in the minutes.

Annually after the KPI review conducted by the IC, the IC will independently verify that the above has been conducted comprehensively for each portfolio.
The use of ESG in our investment process sits alongside our transforming lives activities. Recognising that the corporate sector is only a part of the economy, we set aside a minimum of 10% of our revenues for social mobility and development projects in the regions in which we invest. Collectively, responsible investment and this development work focused on financial inclusion, support economic opportunity for all. Moreover, they create a “virtuous circle” for investors, sowing the seeds of future growth.

**THE ALQUITY TRANSFORMING LIVES FOUNDATION**

The Alquity Transforming Lives Foundation (the Foundation) is a UK registered charity (Number: 1162494) that distributes the revenues set aside by the Alquity business through grants to charities in the regions in which the Alquity funds invest. The focus of the Foundation is on social and economic challenges that changes in corporate behaviour alone cannot address. In so doing, the Foundation grants help develop fairer, more sustainable economies that deliver inclusive long-term growth. Specifically, the Foundation focuses on:

a. Providing access to formal education and employment

b. Targeting sections of the community discriminated against or excluded due to social norms and pressures

c. Providing support and access to finance to overcome poverty traps and help responsibly run small and medium enterprises to scale and create employment opportunities.

The above focus enables the Foundation to directly contribute to the following UN SDGs:

**SDG 4: Quality Education:** obtaining a quality education is the foundation to improving people’s lives and sustainable development.

**SDG 5: Gender Equality:** achieve gender equality and empower all women and girls

**SDG 8: Decent Work and Economic Growth:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

**SDG 10: Reduced Inequalities:** Reduce inequality within and among countries

The Foundation is governed separately from the Alquity business. The board of trustees consists of independent charity and business impact experts alongside Paul Robinson, Executive Chairman and Founder of Alquity and Chris Wehbe, Alquity CEO. Full details of the current Board of Trustees are available on the Foundation website.

**MEASURING LIVES TRANSFORMED**

As the Foundation supports a range of projects in different regions, it takes a pragmatic approach, leveraging the expertise of its charity partners alongside its own monitoring and evaluation process to amalgamate the numbers into meaningful measures that are comparable and transparent.

The Foundation uses two key metrics to assess projects, both or just one may apply:

1. **Direct Lives Transformed:** We define a “life transformed” as one where the intervention has made a significant, tangible and lasting improvement in the life and future prospects for that individual”. This is defined with specific metrics for each project. For large projects, we expect representative sample data to enable us to confidently state the number of lives transformed.

2. **Indirect Lives Impacted:** We define a “life impacted” as one where the intervention has directly or indirectly improved the life or future prospects for that individual. We will define this for each project along with metrics already provided by the charity partner.

We combine these numbers to give a total figure for the foundation activities as a whole.
The Foundation is currently developing a third metric, which has been provisionally called Economic Value Released (EVR). Our impact premise is that we are creating the opportunities for individuals to deliver the latent potential in themselves and the community in which they live, which otherwise would have remained untapped. The EVR will be expressed in USD. The intention is for this metric to be calculated directly from the “lives transformed” number but may also include other network effects (i.e. the sum of the whole may be more than of the individual parts). The Foundation is actively working with existing charity partners to define and measure the EVR for their projects. For example, our charity partner Shivia provides training and poultry development toolkits to rural villagers in Northern India. We have recently calculated that our donation of £10,000 will provide 925 toolkits, which will (based upon their historical impact) release an estimated £24,960 of economic value over two years, transforming 135 lives directly and 675 indirectly.

It is critical for the Foundation that all the metrics reported are evidence-based and represent an accurate assessment of the impact of the projects. All projects are established with phased targets that are tracked; with any significant divergence addressed directly with the charity partner.

**OUR IMPACT METRICS**

As at end of April 2018:

<table>
<thead>
<tr>
<th>Metric</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct lives transformed</td>
<td>17,604</td>
</tr>
<tr>
<td>Indirect lives impacted</td>
<td>40,886</td>
</tr>
<tr>
<td><strong>Total lives</strong></td>
<td><strong>58,469</strong></td>
</tr>
</tbody>
</table>
FROM THE TABLE ABOVE, YOU WILL SEE THAT WE HAVE SUPPORTED A RANGE OF PROJECTS. SOME ARE FOCUSED ON DEEP ENGAGEMENTS WITH “AT RISK” INDIVIDUALS TO PROVIDE THEM WITH THE ASSISTANCE AND FINANCE TO REINTEGRATE INTO SOCIETY AND PLAY MEANINGFUL ROLES. THESE INTERVENTIONS CAN TAKE SEVERAL YEARS AND HAVE A HIGHER RELATIVE COST, HOWEVER THE OUTCOMES ARE MORE ECONOMICALLY ACTIVE INDIVIDUALS WHO ARE ALSO COMMITTED TO GIVING BACK AND SUPPORTING OTHERS. OTHER PROJECTS ARE LESS INTENSIVE AND COVER LARGER GROUPS. THEY PROVIDE THE IMPETUS FOR INDIVIDUALS WHICH LEADS TO A GENERAL IMPROVEMENT IN THEIR AND THEIR DEPENDENTS’ SITUATION. WHILST THIS HELPS MANY OUT OF POVERTY, FURTHER SUPPORT IS SUBSEQUENTLY REQUIRED TO HELP THEM MAKE A SUSTAINABLE CHANGE. MORE DETAILS CAN BE FOUND ON THE FOUNDATION WEBSITE: WWW.ALQUITYFOUNDATION.ORG
CASE STUDY: KPARIB PILINBA - SEAMSTRESS

Kparib was introduced to the AfriKids Microfinance Loan Scheme (FLiSP) when staff approached her community and formed the cooperative group she is now a part of. Kparib was given business and life skills training in preparation for her to receive her first loan of 200 Ghanaian Cedi. She was able to set up a business of her own in the form of a small shop in the local market which she stocked with fabric to start her trade.

Just 12 months after she began running her shop, Kparib had saved enough money from her profits selling fabric to fully repay her loan to AfriKids in preparation to receive a second loan of 250 Ghanaian Cedi, this time to expand her business. Her customers are very happy with the service that she offers expressing how her shop provides for all of their needs so that they do not have to travel far to get their goods.

Having her own business has allowed Kparib to better support both her husband and her family who have benefitted from a dramatic improvement in their living standard due to Kparib’s increased income.

CASE STUDY: TINKU DHARA, KOLAGHAT, INDIA

Tinku is 38 years old and married with two children aged 11 and 16. With the extra income she has earned by selling eggs and chickens, Tinku has been able to pay for some private tuition for her children. By our standards, this might sound unaffordable for a family living in poverty in rural India, but in her small village where the government schools are not providing a good education (often due to teacher absenteeism), the goal of many parents is to seek and pay for some extra tuition for their children. A good-sized chicken or a tray of fresh eggs can pay for one of those valuable lessons. Like parents the world over, Tinku and her husband know that a good education is the key to success in later life.

Aside from raising chickens, Tinku has used her newfound sales and marketing skills to start a second micro-enterprise. She is now buying inexpensive saris from a local wholesaler and selling them for a small profit in her village. She is managing to earn an additional £12 a month as a result of her efforts.
APPENDIX
ALQUITY ESG ANALYSIS

ESG STOCK NOTE EXAMPLE: VMART
OVERALL ALQUITY ESG GRADE: C

<table>
<thead>
<tr>
<th>Ticker:</th>
<th>VMART.IN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date:</td>
<td>26.2.18</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share Price:</th>
<th>INR 1,595.10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Review Point:</td>
<td>2,958.9</td>
</tr>
<tr>
<td>DCF:</td>
<td>85%</td>
</tr>
<tr>
<td></td>
<td>2,425.6</td>
</tr>
<tr>
<td>Historic p/e:</td>
<td>52%</td>
</tr>
<tr>
<td></td>
<td>5,543.3</td>
</tr>
<tr>
<td>Peer p/e:</td>
<td>248%</td>
</tr>
</tbody>
</table>

| 3mth Average Daily Trading Volume (USD, mn): | 0.6 |

TRANSPARENCY
Clear website, with very detailed quarterly investor presentation.
Quarterly consolidated accounts (and cash flow) - very rare.

We last met management in February 14, February 15, February 16 (2x - including the founder), May, August 16, November 16, June 2017, October 2017.

No CSR report, but management very open to engagement in this area (child labour / supply chain supervision - and we have seen significant improvements prior to investing following our engagement). Further granularity on the supply chain, especially in relation to E & S issues is required.

KPMG have been appointed as internal auditors, in addition to Walker Chandiok (Grant Thornton) as external auditors.
Audit cost was INR 2.4mn in FY15 vs 1.9mn the previous year, and minimal non-audit fees. In FY16, the audit cost rose to 2.9mn. In FY17, the audit fee was INR2.5mn, 0.6mn ‘other matters’, 0.2mn for out of pocket expenses. This is not unreasonable.

INR274 lakh of intangibles on FY16 and FY17 balance sheet, carried at cost less accumulated amortisation (which is on a straight line basis over the estimated life). Fittings are depreciated faster than per accountancy rules. All assets are tested for impairment annually. We do not have any issues with the accounting policies.

August 16 - 6 votes, all in favour. October 2017 - 7 votes, 6 in favour (against stock option plan as insufficient information provided - topic for engagement).

GOVERNANCE
Vmant has 5 directors - 3 independent, 2 executive.

Lalit Agarwal (Chairman and MD) ; Madan Gopal Agarwal (executive - and father of Lalit)- partner at Shreeman Shreemati ; Aakash Moondhra (independent) - private equity background and CFO of PayU (Naspers) ; Murli Ramachandran (independent) ; Sonal Mattoo (independent) - Director of Ashiana Housing, Vatika Marketing, Ashiana Maintenance, OPG Realtors and HR specialist.

High level of board meeting attendance. No directors are on more than 3 other boards.

Birlas changed the culture to focus much more on corporate governance.

Audit committee is comprised of Mr Moondhra, Mr Ramachandran and Mr Mattoo ; 100% attendance and all independent.
Remuneration committee is comprised of Mr Moondhra, Mr Ramachandran and Mr Mattoo ; 100% attendance and all independent.
Independent directors hold a separate meeting.

Max D/E of 75% per Board ; Mgmt explicitly talk about ROCE ; no issues with the treatment of minority shareholders.

Hemant Agarwal has become non-executive, and then left the board in FY16. Vmart also added 2 experienced non-executives to beef up the board in FY15. The well respected CFO resigned in May 2017. This was discussed in recent meetings, along with the background and history of the replacement.

Code of conduct in place for senior management.
Share options were issued at a slight discount to market price in FY16 (7%), and again in January &
November 2017 (10% discount). We will engage on this.

No issues with remuneration - Lalit Agarwal’s salary was INR6.2mn pa in FY15 (plus 1pc of net profit - so INR11.2mn in total vs 8.5mn the previous year); Madan Agarwal’s salary was INR2.1mn and 0.33pc. In FY16 these salaries rose to INR6.8mn and INR 2.3mn and total compensation INR12.5mn and INR3.5mn. In FY17 Lalit Agarwal’s remuneration was INR 16.3mn.

No promoters’ shares are pledged.

No issues with related party transactions (only INR 44 lakh to Wesbok Lifestyle in FY17).

One instance of fraud (Mr Singh - store manager - stole INR75k, and was subsequently fired); this was discussed in June 2017. Some pilferage is inevitable, but internal controls have been enhanced - this can be evidenced by reducing ‘shrinkage’ levels reported quarterly.

ENVIRONMENTAL & SOCIAL
Whistleblower policy.

CSR report, focusing on health, disability (eg retail training for the disabled; train underprivileged women to sew), women empowerment, education, donate clothing etc.

Management culture is as follows: ‘We want to grow our business. But we know that long-term success is only achieved if we are able to add value to your life while acting responsibly towards the environment and the communities we’re a part of’.

Recent suppliers meeting resulted in suppliers being asked to guarantee no child labour and appropriate factory conditions. Spot checks also discussed and now implemented (see meeting notes).

See meeting note for attrition commentary (high levels are an industry wide phenomenon).

Accident rates are tracked by management (but not disclosed - topic for engagement).

Outstanding points from IPO documentation (eg fire certificates) discussed with management October 2017. Will not pay bribes for paperwork, have introduced fire alarms and annual safety audit of each store.

Code of conduct ensures zero tolerance for bribery.

Looking to replace diesel gensets with renewable energy; looking at solar power.

Recycling waste paper, and looking to do the same with packaging.

Replacing all lighting to LED.

Charging for plastic bags, and focusing on using less packaging (meeting November 2016).

Discussed cleanliness of transportation fleet in October 2017, and engaged on applying same standards to outsourced logistics providers.

EXTERNAL CHECKS
No Bloomberg ESG disclosure score.

No issues from Google checks.

MSCI do not produce an IVA report, but scores the company as 5/10 (previously 8/10) in their impact monitor report (minor tax issues).

ICRA A+ (stable) credit rating for long term bank lending, and A1+ (revised up March 2017) for short term bank lending.

ENGAGEMENT
Since 2014 have engaged with management on tightening checks on their supply chain, to ensure child labour is not used. Management previously relied on self-certification, but have improved this in subsequent years to site visits, and now unannounced visits as well. We will continue to engage in this area, given the potential significant reputational risk (which would translate into a sales drop) in case of any slippage.

We also seek to continue to focus on E & S issues to ensure there is no reduction in product quality, and to achieve greater disclosure of resource usage and accident rates (both at Vmart stores and in the supply chain). On our next trip, we intend to share the best practices of Woolworths South Africa, as we have already done with retail companies in Indonesia and the Philippines.

We will engage on pricing of the employee share ownership scheme (which was at a small discount to market price), and inadequate disclosure at the AGM of the scheme details. This has the potential to dilute returns for minority shareholders, although the scheme is currently relatively small. Best practice is to issue share options at market price.

Additionally, we intend to continue to focus on any attrition within the management team. If other
senior team members were to follow the CFO and exit, we would be concerned about insufficient management bandwidth and Vmart’s ability to monetise the structural growth opportunity in the sector.
The following pages comprise a non-exhaustive list of the type of factors we consider as part of our fundamental analysis.

**TRANSPARENCY**
- Management – Accessibility (we aim to meet at least twice per year)
- Disclosure – On websites and in accounts
- ESG – Detailed policies and reporting
- Culture – Openness, honesty and engagement with shareholders
- Corporate Structure – Complexity and logic of overall group

**ENVIRONMENTAL**
- Waste and Wastewater – Minimisation of discharges, efficiency and safety of disposal
- Energy and Water – Efficiency of use, on-going cost saving plans, type of fuel used including focus on renewables and managing water scarcity
- Greenhouse Gases – Policies to track and reduce emissions, impact of carbon trading and pricing schemes
- Track record – History of accidents or malpractice
- Conflict Minerals – Policies
- Climate Change – Management of effects (e.g. in areas at risk of flooding)

**SOCIAL**
**Labour Force**
- Policies and procedures to ensure exclusion of child or forced labour
- Employee training
- Employee satisfaction surveys.
- Staff turnover rates and retention policies
- Employee absenteeism
- Whistle-blowing policies, with accompanying examples
- Measurement of employee engagement, ie ‘Great Place to Work’
- Selling incentives and alignment with customers

**Business Practices**
- Health and safety standards
- Recording of accidents and policies to reduce them
- ISO and OHSAS standards
- Business continuity planning
- Industrial conflicts
- Cyber security

**Supply Chain**
- Auditing of supply chain and contractors to maintain standards including unscheduled visits, frequency of checks, average length of relationship with supplier, integration of own staff
- Independent checks on safety of premises and employment practices

**Community**
- Outreach & CSR programmes to local communities
- Interaction with local communities and managing disruptions

**Customers**
- Product safety issues and prevention management measures
- Customer satisfaction surveys

**GOVERNANCE**
- Accounting Policies – Sales recognition, goodwill, amortisation etc. Is the tax rate paid approximately consistent with other firms in the industry over time?
- Auditors – Reputation of auditors, audit fee paid (amount/non-audit fees), independence
- Board and Senior Management
  - Number of independent board directors (and are they really independent)
  - Independence of audit and remuneration committees - are the directors on too many boards, have they been “independent” for too long
• Separation of Chairman and CEO role
• Board refreshment policy (over and above the term limits of each director and maximum retirement ages)
• Policies of the nomination committee well disclosed as it applies to appointing new directors

- Remuneration Policies – Alignment with shareholders, pricing of share options (particularly in family owned businesses)
- Anti-bribery /whistleblowing policies
- Related party transactions
- Treatment of minority shareholders – Dividends, capital raisings
- Shareholder Votes
  - Responsibility for hiring next CEO
  - Frequency of succession plans review
  - Gap between CEO pay and next in line
  - Executive development plan to develop internal candidates

EXTERNAL CHECKS
- ESG ratings – Including MSCI
- Media searches – Web and news agency
- ISS – Voting recommendations
- Global Benchmarking – Across similar companies, with an emphasis on high-risk industries
- Global Sustainability and Accounting Initiatives
- Site visits – By Alquity and trusted contacts

UNPRI CONDITIONS
As signatories to the United Nations Principles for Responsible Investment (UNPRI) Statement on Working Conditions we look for:
• Supplier code of conduct reflecting ILO standards that is reviewed by senior management regularly (applies to all suppliers, sub-suppliers and labour brokers)
• Board regularly discuss these issues, receive training and have assigned responsibility to a senior member of staff
• Sourcing can be fully disclosed, by product and geography
• Labour performance of suppliers is assessed and action is taken when there is non-compliance over a reasonable time period

SECTOR SPECIFIC FACTORS
AGRICULTURE, FORESTRY AND PLANTATIONS
• Planting on peat or virgin land
• Policy on chemical fertilisers and weed killer including phasing out of paraquat
• Regular testing of soil and foliage
• Water management plan
• Soil management plan (such as planting on steep slopes)
• Round table on sustainable soy
• Bonsucro – sustainable sugar
• Global Roundtable on Sustainable Beef
• Marine Stewardship Council.
• Aquaculture Stewardship Council
• Global Forest and Trade Network (market for environmentally responsible forest products)
• Sustainable cocoa - meeting UTZ criteria, Fairtrade
• Rainforest Alliance, Trustea – tea
• Slavery in fishing
• China Sustainable Paper Alliance

BANKS
• Regulator visits and findings
• Environmental lending policies
• BEI (Banking Environment Initiative) – sustainable shipment letter of credit (lower rates from IFC)
• Debt recovery procedures

CEMENT
• Membership of the Cement Sustainability Initiative, part of the World Business Council for Sustainable Development
• Switch to petcoke (petroleum coke, a cheaper fuel source than burning coal) to reduce costs. Petcoke can have high sulphur content and generate high levels of NOx. Companies can help to mitigate these effects with:
  • Multi stage combustion techniques
  • Lime injection process
  • Managing the alkaline balance

FARMING
• Use of anti-biotics
• Carbon emissions – Livestock sector responsible for 14.5% of man-made greenhouse gas emissions
• Full traceability of inputs – Rabobank (one of world’s largest investors in
factory farms) has a livestock farming position statement
• Compliance with EU welfare laws
• IFC good practice note on animal welfare
• Fair Initiative on factory farming instigated by Aviva, Rathbone Greenbank etc.
• Business benchmark for animal welfare

FOOD AND COSMETICS
• Sustainable sourcing of raw materials (such as palm oil)
• Animal testing – compliance with local laws and international best practice
• Government focus on healthy eating
• Membership of the Consumer Goods Forum
• Food ingredient traceability
• FSC certification for packaging
• Plastic disclosure project (manage and reduce waste)
• Measures to increase recyclable materials used in production
• Sustainable packaging coalition
• Global packaging protocol
• FSC-certified Tetra Pak
• Healthy eating products
• Fairtrade wine
• Sustainability of sea and fresh water – marine stewardship council
• Audit and certification scheme for farms -sustainable pesticide, fertiliser, efficient irrigation, soil conservation
• Animal welfare
• Biodegradability (microbeads)
• Traceability of organic ingredients
• Ensuring sustainable sourcing of organic materials (e.g. cinnamon)

PHARMA
• FDA (or equivalent) site inspections
• Policies on access to medicines for those that cannot afford them (e.g. not enforcing patents in some countries, product donations etc)
• Product recall procedure and policy
• Support for disadvantaged/small suppliers in supply chain
• Transportation to stores - ways to reduce emissions
• Dying of clothes - responsible impact on environment – zero discharge
• Ban sandblasting using crystalline silica for denim
• Better Cotton Initiative
• Leather - use of hazardous chemicals.
• Member of supplier ethical data exchange
• Angora -sourced ethically?

ACCOUNTING RED FLAGS AND HISTORICAL SCANDALS FOR REFERENCE
• Bill and hold – book as sales, but keep the goods in factory warehouse
• Transfer of cash between entities
• Debt or equity raising with substantial cash balances
• Excessive off balance sheet items
• Too much reliance on vendor credit as hidden financing
• Making an acquisition from a related party, using up cash and then going bankrupt and being bought by the related party for a song (eg. Tack Fat in Hong Kong)
• Loans to business associates at Peacemark (Hong Kong) - very large and actually to related parties
• Recording gross sales through intermediaries rather than actual commission received (eg. Sinoforest)
• Early recognition of vendor incentives (eg. Tesco)
• Excessive capitalisation on the balance sheet (eg. Worldcom)
• Own (not market) pricing of contracts with customers (eg. Enron)
• No impairments on assets (eg. Olympus for 25 years)

RETAILING
• Packaging - Policies to reduce packaging and use of plastic carrier bags
• Waste generation – stores and suppliers
• Food waste and safety including independent audit of suppliers
• GM products policy
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