ESG REPORT
EMERGING MARKETS EQUITIES
Q1 2024

HEXAVEST BY Desjardins Global Asset Management

ESG METRICS

	Statistics	Portfolio	MSCI EM
E	Carbon emissions (t CO_2/\$B)	72	269
E	Carbon intensity (t CO_2/sales)	112	314
E	Water use (m^3/\$M of revenue)	1,644	20,796
E	Waste recycling rate	75 %	71 %
E	CO_2 emissions coverage (disclosure)	95 %	92 %
E	Use of renewable energy	14 %	15 %
S	Mortality rate per 100,000 employees	1.2	2.0
S	Gender diversity of management	26 %	25 %
S	Wage gap (USD)	166	147
S	Access to low-cost products	20 %	20 %
G	Director independence	53 %	51 %
G	Sustainability-linked compensation	13 %	16 %
G	Board diversity	16 %	15 %

The calculations are based solely on the invested portion of the portfolio. Sources: Sustainalytics and Refinitiv, March 31, 2024

The portfolio's carbon footprint remains significantly lower than that of its benchmark in terms of emissions and intensity, with an intensity 64% lower than the index.

At the end of the quarter, two stocks in the portfolio had a severe ESG risk, unchanged from the end of the fourth quarter of 2023. They represent 2.1% of the portfolio, whereas the securities in the index with a severe ESG risk account for 5.7%. This 3.6% under-representation in risky securities represents a deterioration from the previous quarter, when it was 4.7%. Some of the stocks in the index saw their ratings improve, and the position in Reliance Industries was increased slightly, given its attractive structural growth outlook. Reliance Industries and China Petroleum & Chemical Corporation, both energy companies, continue to be the portfolio's high-risk investments.

HOLDINGS WITH SEVERE ESG RISK (40+)

Stock	Country	Sector	Total weight	ESG risk
CHINA PETROLEUM & CHEMICAL CORP	China	Energy	0.55%	53.0
RELIANCE INDUSTRIES	India	Energy	0.12%	40.2

Note: Excludes securities held indirectly via ETFs or futures.
Source: Sustainalytics, March 31, 2024

The scope of Reliance Industries' operations has changed significantly over the years. Although the company is classified in the energy sector, it offers much broader exposure to the Indian economy. For example, Jio, its telecom subsidiary, has become the industry leader in India. It is also present in the retail sector through its subsidiary Reliance Retail. We think the company will continue to diversify and that the importance of its petrochemical business will decline. In the longer term, Reliance Industries also plans to increase its presence in the renewable energy sector.

Shareholder engagement during the quarter

Our shareholder engagement partner Æquo initiated discussions with Brazil's Ambev, a company that produces, distributes and sells beer, soft drinks and other non-alcoholic beverages across America. Ambev operates in 18 countries, some of which face environmental challenges, such as water shortages or deforestation.

Stock	Country	Sector	Current Position
Ambev SA	Brazil	Consumer Staples	Overweight

POSITIVES:

- Implementation of measures to reduce the impact of its operations on biodiversity and water consumption.

AREAS FOR IMPROVEMENT:

- Disclosure in accordance with the standards of the Taskforce on Nature-related Financial Disclosures with respect to impacts, dependencies, risks and opportunities related to biodiversity.
- Adoption of targets to protect biodiversity.
- Adoption of a target to conserve water resources, given the company's operations in regions with high water stress.
- Disclosure of gender-diversity indicators by job level for all employees.

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South Korea tackles corporate governance issues

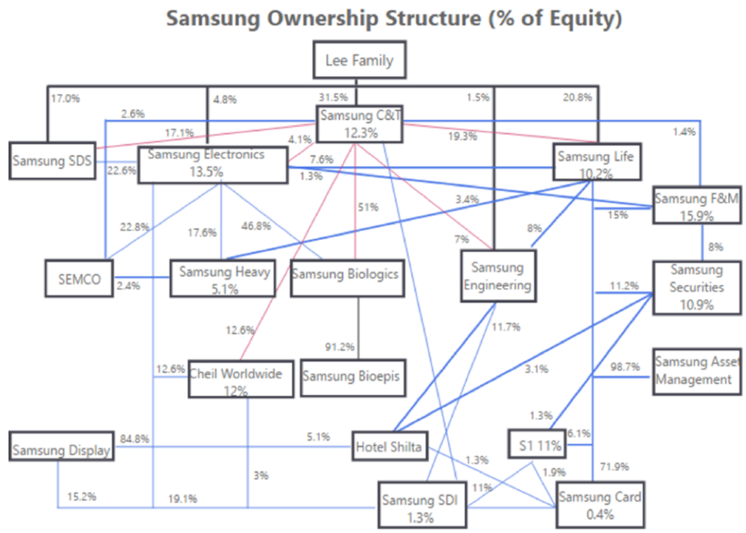
Government launches its Corporate Value-up Program

Even though South Korea takes top spot in our ESG ranking of emerging markets, it still has corporate governance deficits. Moreover, the country's "chaebols" hurt the valuation of Korean stocks relative to their peers. These mostly family-owned conglomerates give minority shareholders very little influence over strategic decisions. South Korea has 82 chaebols, with the earnings of the five largest accounting for more than half of the country's GDP. Leading the way is Samsung, which represents 20% of South Korea's GDP. Other important players are SK, Hyundai, LG and Lotte.

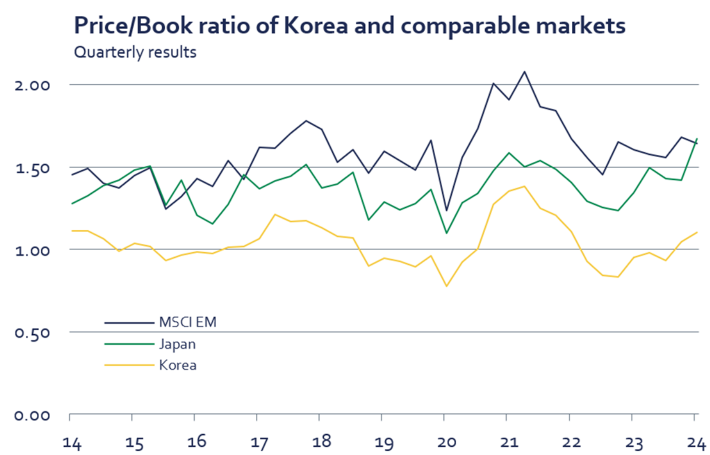
When the Korean War ended in 1953, the country's military dictators guaranteed loans to some families in order to restart the economy. After the 1979 coup, the companies that emerged were later supported by the rise to power of Park Chung-hee. In an effort to eradicate poverty, he channelled funds from foreign private banks to companies that cooperated with him and were able to export domestically manufactured products. The government wanted to encourage job creation and a transition to new sectors, even if it meant protecting the companies from competition and exempting them from certain sanctions. As a result, the companies grew rapidly and moved into various industries, eventually becoming conglomerates. But conglomerates tend to transfer earnings between their various entities, which makes it difficult to assess their governance practices.

The Corporate Value-up Program aims to address some of these governance deficits through tax incentives (such as lower taxation of dividend income) and further modernization of capital market regulation. In short, the Korean authorities intend to use a carrot-and-stick approach to change corporate behaviour. Even the country's public pension fund, the third-largest in the world, has added its voice to the government's, letting it be known that recalcitrant companies will be excluded from the equity index it is developing with the Korea Exchange.

If the program achieves its objectives, improved governance could ultimately pave the way for the country to be reclassified as a developed market by MSCI.



Sources: Samsung, One Road Research, May 31, 2018



Sources: DGAM, Bloomberg, March 31, 2024

Source of all data and information: DGAM as at March 31, 2024, unless otherwise specified.

PRI Principles for Responsible Investment | Member RIA | Climate Action 100+

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