REPORT ON ESG FACTORS EMERGING MARKET EQUITIES Q4 2024

HEXAVEST BY Desjardins Global Asset Management

ESG METRICS

	Statistic	Portfolio	MSCI EM
E	Carbon emissions (t CO_2/$B)	91	255
E	Carbon intensity (t CO_2/sales)	108	285
E	Water use (m^3/$M of revenue)	2,242	29,567
E	Waste-recycling rate	70%	70%
E	CO_2 emissions coverage (disclosure)	97%	95%
E	Use of renewable energy	14%	15%
S	Fatality rate per 100,000 employees	1.5	1.9
S	Senior management gender diversity	28%	25%
S	Wage gap (USD)	198	177
S	Access to low-cost products	26%	21%
G	Director independence	54%	52%
G	Sustainability-linked compensation	31%	30%
G	Board diversity	18%	17%

The calculations are based on the invested portion of the portfolio only. Source: LSEG, December 31, 2024

INVESTMENTS WITH HIGH ESG RISK (40+, CCC)

Company	Country	Sector	Active position	ESG risk	ESG rating
PDD HOLDINGS	China	Consumer discretionary	0%	28.9	CCC
HYUNDAI MOTOR	Korea	Consumer discretionary	-0.11%	24.6	CCC

Note: Excludes securities held indirectly via exchange-traded funds (ETFs) or futures.
Source: Sustainalytics, MSCI, December 31, 2024

The portfolio's carbon footprint is still significantly lower than that of its benchmark, in terms of both emissions and intensity, with an intensity 62% lower than the index.

At the end of the quarter, the portfolio held no stocks with a severe ESG risk according to Sustainalytics. One new company with a high score according to MSCI (CCC) was added during the quarter, for a total of two high-ESG-risk companies. The two stocks represent 1.1% of the portfolio, whereas securities with a severe ESG risk account for 7.1% of the index according to the two data providers.

PDD Holdings saw its MSCI rating deteriorate. It is the parent company of Temu, which is involved in several controversies related to its business practices, including the sale of dangerous or prohibited products on its platform as well as to its advertising practices. The company faces several lawsuits on these matters, including one by the European Union. Its governance practices are also lagging, with a lack of independent members on its board. We have a positive view on the consumer discretionary sector with the stimulus geared to the Chinese consumer but have maintained a neutral position in PDD Holdings for ESG reasons.

The position in China Petroleum & Chemical Corp was liquidated during the quarter. The stock was in the Sustainalytics severe-risk category. In the current context of a global economic slowdown and high exposure to chemicals, the security was sold. Adani Ports & Special Economic Zone was also liquidated as a result of corruption and fraud charges against the founder, Gautam Adani.

Shareholder engagement during the quarter

Our partner Æquo carried out an engagement initiative involving China's e-commerce giant Alibaba Holdings, which also offers online financial services as well as digital-media, entertainment, and cloud-computing solutions. The company is open to discussion but does not necessarily disclose how it applies its policies, or whether they are effective. The next follow-up with Alibaba will focus on good practices around human rights impact assessment.

Company	Country	Sector	**Current position**
Alibaba Holdings	China	Consumer discretionary	Overweight

POINTS TO BE IMPROVED:

Employee relations

- Expand the scope of the employee survey to include subjects such as well-being and mental health and disclose the results.

Data management, cybersecurity and artificial intelligence.

- Adopt and disclose a policy on the responsible use of artificial intelligence.
- Ensure good governance for issues related to artificial intelligence.
- Adopt and disclose a policy to ensure customers use its artificial intelligence technology responsibly.

Focus on Philippine governance and capital markets

In our emerging markets ESG ranking, the country's governance places at the bottom of the pack. A recent OECD analysis of the situation confirms the significant challenges facing Philippine capital markets.

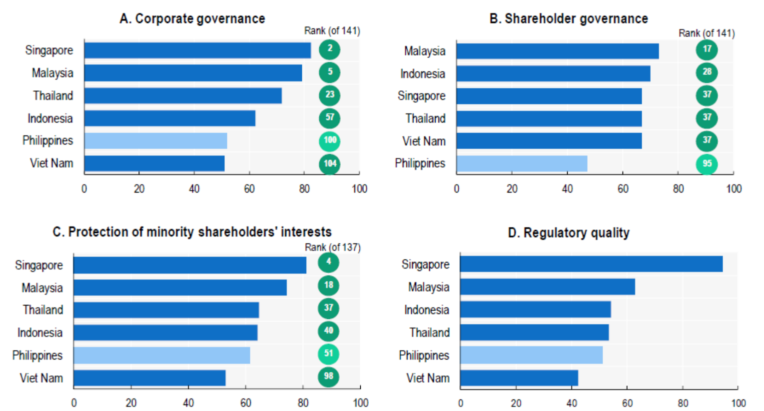
From the outset, the analysis raises the issue of board member independence at Philippine firms. Companies are required to have a minimum of 20% independent members on their boards. This threshold is lower than the 33% required in most other Southeast Asian countries. The Philippine code of corporate governance should be revised to bring it closer to the standards of the OECD countries. Moreover, the application of the code is deficient and needs to be strengthened.

Like South Korea, the Philippines has many conglomerates in its economy. In 2018, the country's 15 largest conglomerates accounted for 20% of its GDP.[1] These companies often have governance shortcomings, such as a lack of transparency, unclear links between divisions and transfers of earnings between entities. Moreover, cross-shareholding between entities results in lower liquidity in the stock market. The presence of a bank in some conglomerates adds a layer of financial and governance risks to the group. Seven of the 10 largest banks in the country are part of a conglomerate. In can be seen that the current regulations lack teeth; as a result, minority shareholders often find themselves at a disadvantage.

The OECD also points out that the Philippine stock market lacks depth and liquidity. High fees, long lead times and a complex listing process make it difficult for new companies to go public. In fact, the Philippines has seen relatively few initial public offerings since the turn of the century.

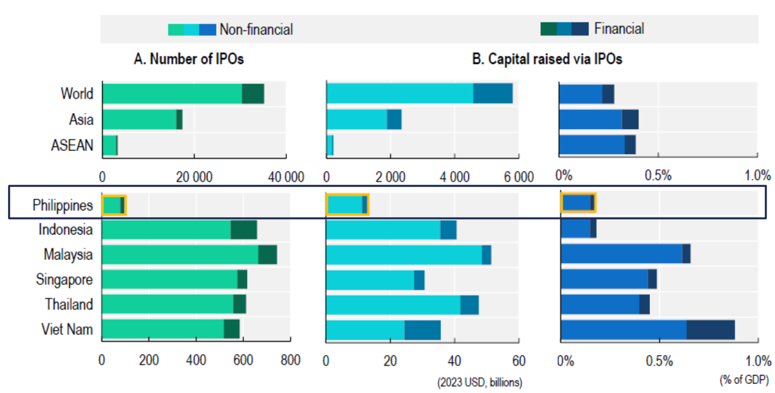
These are several challenges that the Philippine authorities could address in order to improve the strength and attractiveness of its capital markets. Such improvements would improve the valuation of the Philippine stock market, reduce financing costs and even support the country's economic growth.

Figure 1.1. Governance indicators for Philippines and peer countries (100 = highest quality)



Note: In Panel A, the index assesses the broad scope of corporate governance issues including the strength of auditing and accounting standards, regulations on conflicts of interest and shareholder governance. Panel B focuses on shareholder governance, assessing specific issues related to shareholder rights including 1) shareholders' roles and rights in major corporate decisions; 2) governance safeguards that protect shareholders from excessive board control and entrenchment; and 3) corporate transparency concerning ownership stakes, compensation, audits and financial projections. In Panel B, Singapore, Thailand and Viet Nam share the same value, thus ranking equally. Values and rankings for Panels A, B and D are for 2019. Those in Panel C are for 2017. Panels B and C have been rescaled to a range of 100 from initial values between 1 to 7. Panel D has been rescaled to a range of 100 from initial values between -2.5 and 2.5. Panels A, B and C data is retrieved from the WEF Global Competitiveness Index 4.0. Panel D data is retrieved from World Bank Worldwide Governance indicators.
Source: World Bank (2023[3]), WEF (2019[4]) Global Competitiveness Index 4.0, https://prosperitydata360.worldbank.org/en/dataset/WEF+GCI Kaufmann and Kray (2023[5]), Worldwide Governance indicators, www.govindicators.org.

Figure 3.4. IPOs, 2000-23



Note: Capital raised as a share of GDP is the annual average of the ratio between 2000 and 2023.
Source: OECD Capital Market Series dataset; see Annex for details.

[1] Torio, P. et al. (2021), Philippine Conglomerates: Their Role in Promoting Inclusive Development

Source of all data and information: DGAM, OECD, December 31, 2024, unless otherwise indicated.