

# REPORT ON ESG FACTORS EMERGING MARKET EQUITIES Q4 2025

# HEXAVEST

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## ESG METRICS

Statistic	Portfolio	MSCI EM
E Carbon emissions (t CO <sub>2</sub> /\$B)	86	186
E Carbon intensity (t CO <sub>2</sub> /sales)	120	269
E Water use (m <sup>3</sup> /\$M of revenue)	7,954	15,661
E Waste-recycling rate	68%	68%
E CO <sub>2</sub> emissions coverage (disclosure)	98%	97%
E Use of renewable energy	18%	18%
S Fatality rate per 100,000 employees	2.0	2.1
S Senior management gender diversity	26%	25%
S Wage gap (USD)	224	188
S Access to low-cost products	21%	19%
G Director independence	56%	54%
G Sustainability-linked compensation	25%	29%
G Board diversity	21%	20%

Calculations are based on the invested portion of the portfolio only.  
Source: LSEG, December 31, 2025

## INVESTMENTS WITH HIGH ESG RISK (40+, CCC)

Company	Country	Sector	Active position	Sustain. ESG risk	MSCI ESG rating
PDD HOLDINGS	China	Consumer staples	-0.01%	24.4	CCC
RELIANCE INDUSTRIES	India	Energy	0.50%	40.0	A
KIA CORPORATION	South Korea	Consumer staples	0.01%	20.5	CCC

Note: Excludes securities held indirectly by exchange-traded funds (ETFs) or futures.

Sources: Sustainalytics, MSCI, December 31, 2025

The portfolio's carbon footprint is still significantly lower than its benchmark in terms of emissions and intensity, with an intensity 56% below that of the index.

At the end of the quarter, one of the portfolio's holdings had a severe ESG risk according to Sustainalytics, a number that was unchanged from the previous quarter. The portfolio held two companies with an MSCI high-risk rating (CCC), one more than in the previous quarter. These holdings represent 2.5% of the portfolio, whereas securities with severe ESG risk account for 6.7% of the index according to the two data providers.

PDD Holdings, Temu's parent company, and Reliance Industries are still in the portfolio, and their ratings remain unchanged.

Kia, a South Korean automaker whose ESG rating was revised downward during the quarter, was added to the portfolio. The company lags its peers in reducing GHG emissions per vehicle and does not appear to have clear targets to that end. Stronger business ethics policies would also be a lever for improvement. In addition, Kia faces a number of lawsuits on matters such as engine defects and allegations of misleading consumers about its compliance with emission standards.

An increase in exposure to the South Korean market led to an increase in the number of securities in the portfolio to better reflect the index weighting during the quarter. This change was also due to an agreement with the United States concerning tariffs on Korea's automotive sector, which are now aligned with those on the Japanese automotive sector.

## Shareholder engagement during the quarter

For the first time, our partner Æquo was able to meet with Samsung Electronics, a South Korean company specializing in household appliances as well as electronic devices and components. The discussion focused mainly on artificial intelligence. Samsung has taken a cautious approach to AI and lags the rest of the industry somewhat.

Company	Country	Sector	Current position
Samsung Electronics	South Korea	Information technology	0.98%

## POINTS ADDRESSED

### Data management, cybersecurity and AI:

- Samsung has updated its AI Ethics Principles to align them with international human rights standards. Even so, it should provide specific information on the impact of AI-embedded products on such rights.
- Samsung discloses some of the measures it takes to support implementation of its responsible AI due diligence process but should demonstrate concretely how the measures apply to its operations and products, with specific examples.

# Update on South Korea's Corporate Value-Up Program

Two years after its launch, key milestones will promote better governance.

Amendments to the Korean Commercial Code were enacted in July 2025 to lay the groundwork for a major reform of the governance of publicly traded companies. The amendments significantly strengthen minority shareholder rights, notably by expanding directors' fiduciary duties to include protection of shareholder interests, rather than corporate interests only. Moreover, the so-called 3% rule will take effect in July 2026 to limit the voting rights of the largest shareholder and of related parties to 3% when audit committee members are elected. The reform also authorizes electronic general meetings of shareholders to promote access for all.

The government's reforms also aim to improve shareholder returns by encouraging share buybacks and dividend payouts. The taxation of dividends has been revised significantly and is now separate from the calculation of personal income tax. The maximum tax rate on dividends has been reduced from nearly 50% to 35%. To be eligible for the new regime, dividends must come from firms with payout ratios of more than 40% or more than 25% if sufficient growth has been recorded in recent years. The reform encourages companies to increase their dividend payouts.

Historically, Korean companies have paid out fewer dividends owing to tax disincentives. Although their dividend payout ratio is increasing, it is still very low relative to other emerging Asian countries. Let's hope the recent announcements continue the momentum. The situation is similar for share buybacks.

A bill is expected to be introduced soon on mandatory cancellation of the many treasury shares that allow controlling shareholders to maintain control over a company at the expense of shareholder returns.

Other topics that could be on the agenda in 2026 include the inheritance tax. Controlling shareholders are incentivized to keep share prices artificially low because of the high inheritance tax. This matter is delicate but could better align the interests of all shareholders.

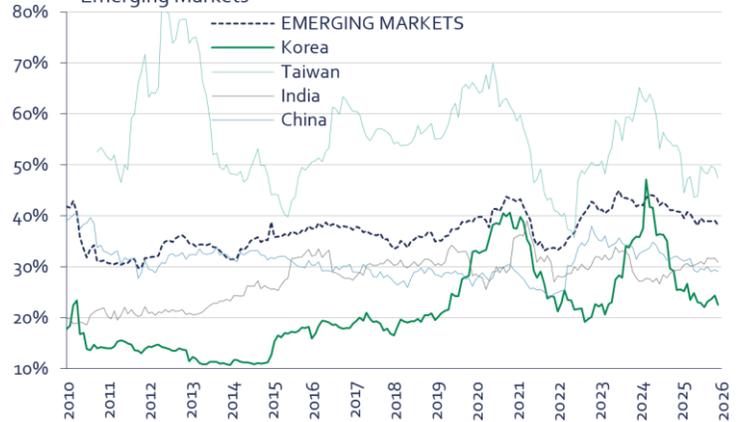
Exhibit 1: Timeline for Policy Execution (2024-25)

Measure/Event	Remarks	Timeline
<b>2024</b>		
KRX Value-up Index	Value-up index constitutes 100 stocks but adjustment expected within 2024	Sep 24, 2024
Launching of Value-up Index Based ETF and ETN	Local asset managers launched 12 ETFs and 1 ETN	Nov 4, 2024
Special adjustment of Value-up Index	KRX added on 5 stocks as of December 20 increasing the total count to 105 stocks	Dec 20, 2024
Regulatory reforms around treasury shares (shareback rules)	The government passed the rule changes related to treasury shares on December 24, 2024 and they have been implemented as of Dec. 30, 2024	Dec. 31, 2024
Bill proposal to change quarterly dividend process	The National Assembly passed the bill to amend the Capital Markets Act regarding quarterly dividends	Dec. 27, 2024
<b>2025</b>		
Lifting of short-selling ban	Short sell ban was lifted as of March 31, 2025 with a real-time monitoring system in operation	March 31, 2025
KRX Value-up Index rebalancing	The Korea Exchange (KRX) announced the results of rebalancing of Value-up Index constituents on May 27, with 27 new stocks added, while 32 were removed, following the latest review in December 2024. For this review, companies that disclosed Value-up plans received relaxed requirements for market cap, PBR and ROE. The new index composition took effect on June 13.	Index rebalanced as of June 13, 2025
Commercial Code 1.0 amendment	The National Assembly passed the Commercial Code amendment bill on Jul 3. Key revisions include (1) expanding directors' fiduciary duties to shareholders (effective immediately upon promulgation), (2) auditor appointment rules and (3) electronic general meetings for large listed companies.	Promulgated on July 15, 2025
Additional Commercial Code 2.0 amendment	The finalized Commercial Code amendment excluded the measures, including (1) cumulative voting and (2) separate elections for audit committee which were included in the initial draft. The ruling party plans to push for the follow-up amendment to the Commercial Code, which will include omitted items. The bill was passed by the National Assembly on August 28, 2025 and promulgated by the State Council and the President on September 9.	Promulgated on September 9, 2025
Tax proposal linked to shareholders' dividend tax	MOEF announced the draft for 2026 tax proposal on July 31, 2025. The final version of the bill includes: Dividend income from high-dividend-paying companies will be taxed separately at 14-30%, where the listed companies who meet the following requirements will be eligible: 1) Maintain or increase dividend amount Y/Y, and either 2) dividend payout ratio at 40%+, or 3) dividend payout ratio at 25%+ with annual dividend increasing 10% or more from the previous year. Compared to the initial proposal, requirements for minimum payout ratio and highest tax rate have been changed. The bill was submitted on November 28, 2025 and was passed by the National Assembly on December 2, 2025. To be implemented from 2026 applying FY2025 dividends.	Promulgated on December 16, 2025

Source: Morgan Stanley Research

January 6, 2026

## Dividend Payout Ratio Emerging Markets



Sources: DGAM, LSEG, December 31, 2025

Figure 84: Buybacks in Korea have surged



Source: Bloomberg Finance L.P., J.P. Morgan Equity Macro Research. November 27, 2025

Source of all data and information: DGAM as at December 31, 2025, unless otherwise stated.

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