TT INTERNATIONAL

2023 Task Force on Climate-related Financial Disclosures (TCFD) Report

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Foreword

TT International Asset Management's inaugural TCFD Report explains our governance, strategy, risk management for climate change risks and opportunities, and discloses metrics and targets. The disclosures in the report comply with the requirements of the FCA's Handbook.

TT is dedicated to achieving the best possible risk-adjusted returns for our investors. We believe that responsible investment is essential for maximising returns for our clients and limiting reputational risk. Climate change is a systemic risk that we consider in our company analysis and engagements.

In 2023, we had 63 targeted ESG engagements with 58 companies. 22 of these engagements focussed on climate change, including deforestation and green capital expenditure.

Our Environmental Solutions Fund, an Article 9 investment strategy, reached its third anniversary in May 2023. The TT Environmental Solutions Fund seeks to generate strong long-term returns by investing in companies that enable the green transition and protect against ecosystem destruction. For this strategy, we won the ESG Investing Award for 'Best ESG Investment Fund: Global Thematic' second year in a row.

We manage assets for some of the world's most sophisticated institutional investors with long investment horizons. This requires us to understand and correctly interpret the investment implications of ESG issues surrounding our investments, including on climate change, so that we can preserve and enhance our clients' capital. By incorporating the ESG insights we glean from our stewardship activities into our investment decisions, we believe we can generate even stronger risk-adjusted returns for our clients. By serving our investors diligently as a responsible investor, we believe we fulfil our fiduciary duty to our investors such as pension plans, university endowments, and sovereign wealth funds, thus helping them to fulfil their own responsible investment and stewardship obligations.

Eric Mackay

Managing Director, TT International Asset Management

Governance

Disclose the organisation's governance around climate-related risks and opportunities.

• Describe the board's oversight of climate-related risks and opportunities.

TT International Asset Management ("TT") was founded in 1988 to manage assets for a highly regarded global macro strategy. Two years later we began managing long-only equities, using the same basic philosophy of combining informed top-down views with rigorous bottom-up company analysis. Over the ensuing three decades, we continued to harness this philosophy to build a suite of award-winning long-only equity and alternative products.

Our long-only strategies now span Asian, Environmental, Global SMID, Global Emerging Markets, International ex-US, and UK equities, while our alternative strategies comprise Equity Long/Short, Global Macro, and European Credit. Having achieved strong risk-adjusted performance and asset growth, particularly in our Emerging Markets strategies, we managed US$5.8 billion as of 31 December 2023 for some of the world's most sophisticated institutional investors. Headquartered in London, we also have an investment research office in Hong Kong, an office in New York specialising in marketing and client servicing, and a representative office in Tokyo.

After 27 years of being structured as an unlimited liability partnership, in early 2020 we were acquired by Sumitomo Mitsui Financial Group, a leading Japanese bank. As well as complementing our naturally conservative culture, this partnership provides us with a stable capital base and scope for growth in one of the world's largest institutional markets.

TT International has an ESG Committee, which is composed of individuals from different areas of the business – Investments, Risk, Operations, and Compliance – who meet on a monthly basis to keep the business and our management updated on ESG developments and ensure all ESG issues are being considered and all our obligations are consistently met. The ESG Committee reports to the TT Management Committee and Eric Mackay, our Managing Director and member of the Management Committee, is also a director on TT's board and oversees climate-related risks and opportunities.

TT International Asset Management Ltd - Board of Directors

Tim Tacchi | Eric Mackay | Hideyuki Omokawa | Yoko Chivers | Ian Jameson

TT Management Committee

Eric Mackay | Robert James | Matt Mason | Luke Poulter | Hideyuki Omokawa

TT ESG Committee

Basak Yeltekin
Head of ESG

Harry Thomas
Portfolio Manager

Chris Stoate
Head of Risk, Operations, and Technology

Rob Murray
Head of Corporate Actions and Proxy Voting

Matt Henry
Senior Compliance officer

• Describe management's role in assessing and managing climate-related risks and opportunities.

TT's management is responsible for assessing and managing climate-related risks and opportunities. In 2019, we identified climate change and biodiversity loss as market-wide and systemic risks that we seek to factor into our investment and risk management strategies; in fact, this was the motivation for us to launch our Environmental Solutions strategy in 2020, as per the approval of TT's Management Committee, and today we have a market-leading offering for clients seeking a pure environmental investment mandate, whilst for other clients looking to improve the ESG credentials of their investments, we help to implement their exclusions and objectives on portfolio decarbonisation.

TT's management also sought to build ESG competencies by hiring the Head of ESG in 2020, then a new role at the firm. Today we have two additional team members and the team is expanding ESG engagements and company analysis. The ESG team is responsible for the operationalisation of the climate assessments at the firm. The team's responsibilities with respect to climate change include:

- Undertaking ESG assessments of investment portfolios and highlighting risks to the investment teams
- Engaging with portfolio companies
- Evaluating and joining collaborative engagements these when we believe we can achieve better outcomes on systemic issues working with other investors
- Voting on climate-related resolutions
- Reporting to clients on ESG, including on climate change

Strategy

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

The 2018 "IPCC Special Report on the Impacts of Global Warming of 1.5°C Above Pre-Industrial Levels and Related Global Greenhouse Gas Emission Pathways, In The Context Of Strengthening the Global Response to the Threat of Climate Change, Sustainable Development, and Efforts to Eradicate Poverty" was instrumental in shaping our thinking that climate change and biodiversity loss pose a systemic risk to our lives, as well as to financial markets. We consider climate change and biodiversity as market-wide and systemic because these risks can result in the degradation of life on earth and can also cause involuntary migration, geopolitical strife, loss of food, and pandemics.

In 2019, we formally identified climate change and biodiversity loss as market-wide and systemic risks that we seek to factor into our investment and risk management strategies and launched our Environmental Solutions strategy in 2020, as per the approval of TT's Management Committee. We believe that this thematic is the biggest structural growth opportunity of a generation where we can find investment opportunities across global markets.

When we created this strategy, we also created an external Research Advisory Board with experts on renewable energy, clean tech, and ecology and conservation to help us understand and navigate these risks better. We also look to leverage our expertise in environmental investing to include such investment opportunities in our other strategies as appropriate.

Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning.

TT's investments:
In May 2020, we launched the TT Environmental Solutions Fund, where *all* investments must produce products or services that tackle an environmental problem, with 80 percent of the capital invested in companies that derive the majority of their revenues or operating profit from environmental solutions. This strategy has three key objectives:

- generate strong long-term returns by investing in the leading global structural growth theme,
- drive capital to companies delivering the green transition and protecting against ecosystem destruction,
- directly benefit the environment by directing 33 percent of all management fees to a select number of environmental charities.

The charities we are supporting are Heal (Rewilding Charity), The University of Western Australia – Oceans Institute, The Global Returns Project, and the Thousand Year Trust:

- Heal's primary focus is on rewilding and restoring ecosystems so that nature can take care of itself. Heal also aims to promote conservation, and economic and community development. In January 2023, Heal acquired its first landholding of 460 acres near Bruton in Somerset, where it will create a new nature reserve. TT International was the largest single donor to the equity for the purchase of the Somerset site.
- The University of Western Australia – Oceans Institute addresses challenges facing the world's oceans, including climate change, marine biodiversity loss, and unsustainable human use. It does this through research innovation and education of future ocean leaders. We are supporting three academic projects at the Oceans Institute:
    - *Eggs in Two Baskets: Exploring a Climate Change Adaptation Option for Sea Turtles*
    - *Developing a Low-cost Approach to Regional Scale Coastal Hazard Monitoring*
    - *Understanding the Social License of Offshore Renewables in Australia for a Smooth Renewable Energy Transition*
- The Global Returns Project aims to channel private investor capital – a significant but largely untapped source of funding – into a selection of the most effective not-for-profit organisations tackling the climate and nature crisis.
- The Thousand Year Trust aims to triple the amount of Atlantic temperate rainforest growing across the UK over the next 30 years from the current assessed 330,000 acres to one million acres.

We selected these charities because of their alignment with our strategy, and because our support can make a difference for their mission. Heal's, The University of Western Australia – Oceans Institute, The Global Returns Project, and the Thousand Year Trust address biodiversity on land and in the oceans through active programmes as well as academic research. We have interviewed a number of environmental charities and required them to complete a detailed due diligence questionnaire in our selection process.

During 4Q 2022 we launched our Global SMID strategy, where we seek to invest in a diversified portfolio of small- and mid-cap companies which present the opportunity for long-term growth, within the environmental, technological, demographic and sociological, and top-down and opportunistic global themes. This strategy also explicitly offers exposure to climate-related investments.

TT's own operations:
We aim to create a positive impact for not only for the companies and countries in which we invest, but also the wider society. As such, we have our market-based carbon footprint independently calculated and assessed by an external body – Carbon Footprint Ltd – and choose to offset it on an annual basis.

In 2023, our carbon footprint was 970 tonnes of CO2e, 80.1 percent of which was air travel. We chose to fund two projects in China and Zambia that also fulfil many of the United Nations' Sustainable Development Goals:

- **Zhangye Improved Grassland Management in China (582 tCO2e):** The project aims to restore the local degraded grassland ecosystem by seeding grass and building fences on the degraded grassland, increase carbon sequestration and contribute to local development by introducing sustainable grazing and management of grassland. Before the implementation of the project, the grassland in the region has been facing serious degradation and even desertification due to the impact of climate change and human activities. 261,060 ha of degraded grassland have been managed sustainably by fence building and reseeding of local high-quality forage. There are three main restoration measures as followed in the project: - Rotational grazing of 76,609 ha of degraded grassland - Rest grazing of 107,449 ha of degraded grassland. - Reseeding grass was implemented of 77,002 ha of seriously degraded grassland. Besides these main restoration measures, the project also alleviates soil desertification and restore grassland vegetation to improve soil carbon storage and local biodiversity through grassland management measures, such as daily management measures from other protect projects like rodent and pest control and grassland fire prevention to ensure the long-term sustainable management of the project area. This project also has achieved the Climate Community and Biodiversity Standard (CCB) and is also one of the only carbon removal projects certified for the CORSIA – Pilot Phase.
- **Zambia Western Province Safe Water Project (388 tCO2e):** Although progress has been made over the last decade, less than 50% of the rural Zambian population have access to safe water, with the majority having to rely on unsafe water sources such as hand dug wells or streams. The consumption and use of unsafe water have significant health impacts, with water borne and diarrheal diseases being the third highest cause of death and disability in the country. The high climatic variability in the region, resulting in frequent flooding and droughts, further compounds the stress on local communities. Nearly 90% of the rural population rely on wood as their primary energy source, and for those that have no choice but to boil water for purification, this contributes to a major source hazardous household air pollution as well as carbon emissions. Borehole handpumps offer communities a reliable means of accessing clean groundwater aquifers, and many have been installed over the past few decades. However, without regular maintenance they have often fallen into disrepair. The project rehabilitates and maintains these vital safe water sources, trains the communities on best WASH practices, and builds the capacity of local communities to manage and maintain the water sources into the future.

In selecting these projects, we prioritised projects that protected biodiversity and the human right to water. In addition to fully offsetting our carbon footprint, we planted 100 saplings in Peterborough, one of the most biodiversity depleted regions in England[1].

[1] https://www.cambridgeshire.gov.uk/residents/libraries-leisure-culture/biodiversity-and-greenspaces/cambridgeshire-and-peterborough-local-nature-recovery-strategy

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We apply the NGFS 2-degree orderly scenario with average physical climate risk, along with the NGFS 3-degree hot house worlds scenario with aggressive physical climate risk. At the end of 2023, all our long only funds showed less value-at-risk than their benchmarks in an NGFS 2-degree orderly scenario with average physical climate risk. Our Environmental Solutions as well as our Global SMID strategies would be strong beneficiaries of coordinated action and policy in a less than 2-degree scenario.

Risk Management

TT's hedge fund heritage ensures that our risk management capabilities are outstanding and are thus able to play an important role in the investment process. Risk reduction is embedded in the philosophy of our funds, as our teams place significant emphasis on balance sheet strength and robust governance. The teams also focus heavily on valuation as they believe that stocks that trade at a significant premium to their intrinsic value are inherently risky. ESG factors are considered and analysed separately, as we believe these can constitute material risk factors that require a different set of analytical tools. The focus on all these risk factors is enhanced by the fact that our portfolio managers have a significant portion of their wealth invested in our funds. This helps to ensure that absolute, as well as relative, risk is considered.

We hold regular ESG risk meetings on our portfolios with the portfolio managers and TT Risk team. At these meetings, we review the holdings with relatively high governance risks including accounting and audit flags, low external ESG scores, and controversies and ESG developments. We also calculate the portfolio's weighted average carbon intensity and analyse the companies that contribute most substantially to this metric, as well as their decarbonisation plans and commitments.

We subscribe to the MSCI Climate Value-at-Risk data and research and use the information in our analyses. We internally discuss the climate scenarios that are utilised by MSCI and regularly assess which ones are most aligned with our perspectives on renewables penetration. We also sought input on this topic from the Research Advisory Board for our Environmental Solutions strategy. We also have an internal real-time carbon measurement tool which calculates the weighted average carbon intensity of our long-only strategies vis-à-vis their benchmark.

Identification of climate-related factors that have investment implications:

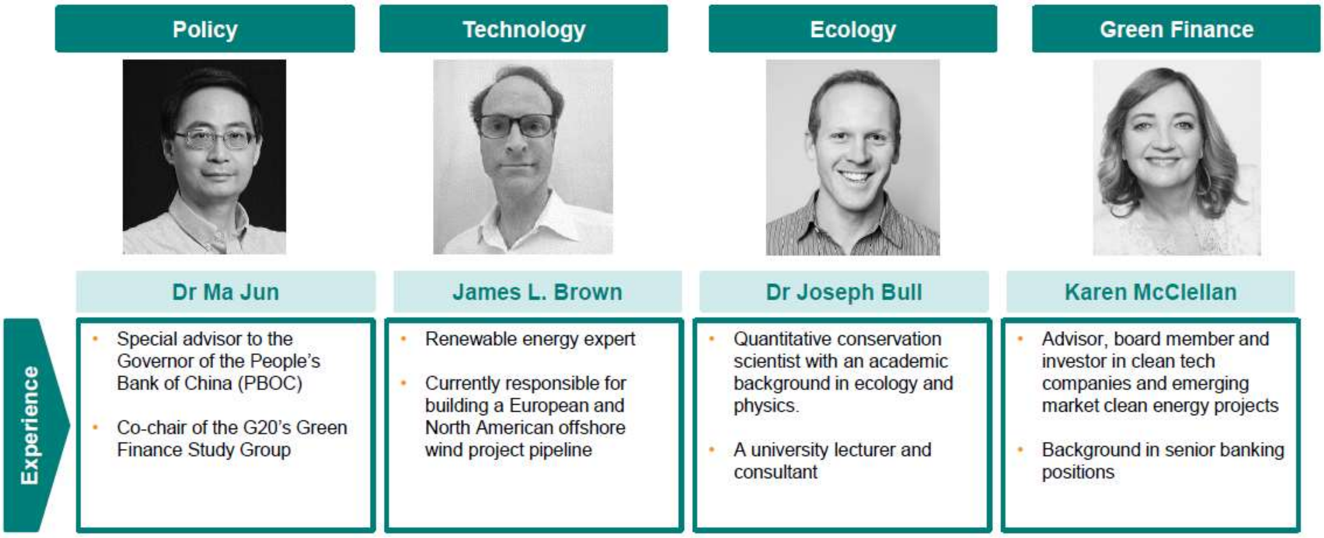
Examples of financially material climate related factors that our investment teams and ESG team consider as part of their company and industry analysis include:

- Changes to regulation (e.g. carbon taxes)
- Physical climate risk (e.g. extreme weather, flooding, drought) and transition climate risk (e.g. decarbonisation strategy and degree of alignment with the Paris Agreement, net zero commitments)
- Product evolution (e.g. energy-efficient products)

- Cost and balance sheet implications (e.g. environmental and legal liabilities)
- Brand and reputational issues (activities or financing related)
- Access to raw materials (e.g. biodiversity risks; risks to the green transition)

In terms of our assessment of the highest risks for our investment portfolios, we see increasing instances of acute physical risk materialising and have thus far been successful in translating this into our company assessments and portfolio management decisions. We review company disclosures to the CDP outlining potential impacts from physical and transition risks. In the short term, we are seeing policy actions being rolled back globally and companies walking away from their climate targets, which is heightening reputational risk but reducing market risks. We believe that in the longer term, chronic physical risk and legal risk will be heightened.

Our Environmental Solutions fund has a Research Advisory Board comprised of world-class experts on regulation, technology, ecology, and green finance. We leverage their expertise to understand climate transition opportunities and risks; the backgrounds of the directors on the Research Advisory Board as of end of 2023 are detailed below.



The topics we discussed with the Research Advisory Board in 2023 included disruption from AI and tangible evidence of AI use in the environmental sectors, implications of negative European power prices for generation companies and storage, outlook for geothermal and hydrogen, implications of El Niño, wind turbine manufacturing quality issues, backlash on climate policies in the US and Europe, protection of the EU EV market, the implications of higher interest rates on environmental space, future renewables mix, and biodiversity credits.

Engagement

Engagement is a cornerstone of our risk management for our portfolios. Our targeted climate change engagements in 2023 involved 20 companies across 22 separate engagements. These companies accounted for 250 million tonnes of Scope 1 and 2 emissions and had a combined market capitalisation of USD 1.1 trillion as of end-2023, ranging from USD 438 million to USD 364 billion.

Company engagements:

Some of the climate-related topics we discussed with our investee companies were as follows:

- We engaged with **Renewi** in May 2023, requesting an update on the company's net zero emissions roadmap, the new targets for the carbon intensity of its sites, and the project to set SBTi-aligned targets. Renewi said it reduced Scope 1 & 2 emissions by 60kT / 9% to 580kT CO_2e in FY23 year-on-year and is targeting a 50% reduction by 2030. The firm also reiterated its commitment to the SBTi and has started the process with them.
- In June 2023, we engaged with **Befesa** on its decarbonisation plan, noting that the firm's absolute and relative emissions have been rising steadily since 2017, and asked Befesa whether it expects this trend to continue. We also asked the firm whether carbon offsets will be used to reach net zero targets and what the firm's plans are regarding reducing reliance on coking coal. Finally, we asked Befesa which technologies it will rely on to achieve its net zero target. Befesa provided limited additional information compared to what we had previously gleaned from its sustainability report. The firm said it has explored multiple options to increase its renewable electricity consumption and that it is confident it will achieve the CO_2 reduction target by 2030. The firm said the 2050 target relies on enabling technologies including solar, biocoke, hydrogen, and potentially new recycling technologies. With regards to coking coal, Befesa said it has seen promising early-stage outcomes from testing hydrogen in one of its plants, but that it will need to see how this evolves over time. Befesa did not confirm if carbon offsets will be required to reach its 2050 target.
- In June 2023, we met with **Vale**'s Vice President who is responsible for sustainability at the firm. With respect to climate change, we discussed the firm's iron solutions and how the focus on reducing scope 3 emissions is an opportunity for Vale to grow in high-grade agglomerates.
- In June 2023, we met with **SABESP**'s management and discussed environmental, social, and governance topics following a potential privatisation. With respect to climate impacts, we focussed on the environmental capital expenditure needed to increase treatment coverage from 84% to 100%, as well as potentially designing the future tariff structures to adjust for hydrological problems in a more unpredictable future due to climate change.
- In July 2023, we met with **Bank Negara** and discussed the bank's financing of coal. We specifically enquired why the bank is financing the Adaro coal-fired aluminum smelter despite previous commitments to not increase its coal lending. Negara said that the smelter would be powered by coal power only for 6 years but could not explain why Adaro would make a significant investment in a coal-fired plant that would be operational only for a short period. We asked if the bank would consider setting a stricter coal lending policy, but this was not contemplated at the time due to potential loss of business opportunities. The bank's approach to coal lending was one of the factors in our decision to exit our investment.
- In June 2023, we spoke to Pedro Batista, an independent board member at **Eletrobras** and discussed the utility's climate risk management. Soon after our engagement, Eletrobras adopted net zero targets and announced the sale of its thermal coal plant. Later in the year we met with the company's chief financial officer and enquired whether Eletrobras had obtained any assurances that the thermal coal assets would be managed in a responsible way by the acquirer.
- In September 2023, we had an in-depth engagement about **SABESP**'s decarbonisation strategy and followed up with a letter to the CEO where we emphasised that SABESP should set SMART (specific, measurable, achievable, relevant, and time-bound) targets on its carbon emissions, along with a publicly-communicated

target for methane capture, and that this would be taken very positively by the market and would enhance the company's investability.

- We participated in a collaborative engagement within the Climate Action 100+ initiative with **Petrobras** where we contributed to a letter that was sent to the company's government-appointed board directors. In our feedback, we highlighted Petrobras's increasing capital expenditure to low carbon-carbon businesses from 6% to a range of 6 to 15% of revenues for FY24-28, and that at the top end of this range, this business can become increasingly meaningful for the firm.
- In November 2023, we joined the Climate Action 100+ engagement with **Samsung Electronics**. This collaborative engagement allowed us to gain a greater understanding of the company's climate strategy and highlight the areas where we believe their strategy can improve. There are still some areas that we will monitor; for instance, Samsung said it is looking at the possibility of introducing a Scope 3 target, but it did not commit to setting one. The third largest source of the company's Scope 3 emissions is from logistics, but Samsung had not yet developed an action plan to reduce these. We plan to monitor these emissions and follow-up on whether Samsung introduces any steps to address them. We also plan to monitor progress on the sectoral emissions roadmap the company is developing with its peers and on any developments from the Carbon Free Alliance. On renewable energy procurement, Samsung said it is trying to move from renewable energy certificates to power purchase agreements; we will continue to monitor the firm's progress on this.
- We engaged with **Shell** on its climate strategy as part of an investor event. We asked the company why its climate strategy does not emphasise renewable energy, noting that the firm has not set any renewables capacity targets. We also asked Shell for detail on its efforts to control and measure methane emissions in light of the new rules from the EU which will require fossil fuel companies to measure, monitor, report, and verify their methane emissions. We were pleased to hear that Shell had strengthened its targets for methane emissions and is now aiming for a methane intensity of near zero, as for natural gas to be an effective transition fuel, methane emissions have to be controlled. Shell added that it is making use of infrared technology, satellites, and drones to measure methane emissions.

Collaborative company engagement:

We also participate in collaborative engagements with companies on climate change. We joined the Climate Action 100+ collaborative engagement in October 2021. CA100+ focuses on 170 companies that are critical to the net-zero emissions transition. Investors are responsible for driving engagement and developing and implementing company-specific engagement strategies. We were engaging with Gazprom through this engagement; however, we ceased to be shareholders in Gazprom following Russia's invasion of Ukraine, and CA100+ suspended engagements with Russian companies. In 2023 we started engaging with Petrobras and Samsung Electronics through CA100+ as detailed above.

Sector engagements:

We have been working with the Institutional Investors Group on Climate Change (IIGCC) and other investors on a policy paper on supporting green steel. The four priority areas discussed in the paper include industrial policy considering the significant capital intensity of the steel sector, measures to improve circularity, demand stimulation, and just transition for steel industry workers. TT focussed on the demand stimulation topic for this research. We integrated feedback on this topic from NGO and investor roundtables and are in the process of finalising our policy paper before making an engagement trip to Brussels to discuss it with European policymakers in July 2024.

Metrics and Targets

Metrics

In 2023, our operational carbon footprint was 970 tonnes of CO2e, 80.1 percent of which was air travel. We seek to use other modes of transport where possible; however, visiting existing and potential investee companies can be very helpful for our investment process, and we therefore do not look to target a reduction on absolute emissions. However, we fully offset our carbon footprint on an annual basis, and we additionally planted 100 saplings in England in 2024.

Portfolio Carbon Footprint

We regularly measure scope 1 and 2 emissions on our portfolios for reporting to our investors and assessing our portfolios vs their benchmarks. The weighted average carbon intensities (WACI) for our portfolios and their benchmarks are as follows:

Portfolio	Portfolio WACI	Portfolio Coverage (%)	Benchmark WACI	Benchmark coverage (%)
Asia ex Japan	87	88	295	100
Asia Pacific	86	88	268	100
TT China Focus	66	92	222	100
EM Unconstrained	215	92	322	100
TT Environmental Solutions	78	100	128	100
Global Emerging Markets	105	95	322	100
TT UK	94	97	81	94
TT World ex US	122	94	113	100
Sustainable EM	124	95	229	100
TT Global SMID	63	83	182	99
Midcap Long	25	45	93	100
Midcap Short	38	41	93	100

Source: MSCI and company reports

All our funds except TT UK and TT World ex US had lower weighted average carbon intensities vs their benchmarks at the end of 2023.

Targets

Following discussions with the UN PRI in August 2023, we have become a signatory to the Net Zero Asset Manager Initiative. This is an initiative that asks the signatories to:

- Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all AUM,
- Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner, and
- Review the interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.

We will submit an interim target for the year 2030, consistent with a fair share of the 50% global reduction in CO2 identified as a requirement in the IPCC special report on global warming of 1.5°C. Initially we aim for net zero in our sustainable mandates (Sustainable EM, Global SMID, and Environmental Solutions strategies). We will work with our asset owners that are invested in non-sustainable strategies that have adopted a net zero target. In line with this objective, we systematically review the largest emitters in our portfolios and engage with them on climate change.