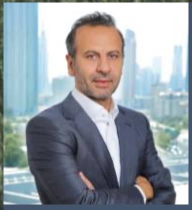
FIM Partners

Annual Sustainability Report 2022



Message from our CIO

I am pleased to present our third annual sustainability report.

Whilst 2022 was a challenging year for global financial markets, the firm's continued strides in its sustainability journey remained a bright spot.

I am happy to share that our Equities and Fixed Income strategies each received 4 out of 5 stars in our first UN PRI Assessment Report. This is a testament of the firm-wide effort of investing in our sustainability capabilities with the goal of being a leader in the space.

2022 was a year that saw the firm actively contributing to the overall realm of responsible investing with several team members participating in regional events and seminars to promote sustainability principles and sharing their insights on tackling material challenges.

As an investor in the MENA region for over 20 years, it is encouraging to see the heightened focus on climate change with ambitious net zero commitments in place in the UAE, Saudi Arabia, and Bahrain. Looking beyond the region, we are seeing progressive policy reform in terms of halting future coal power capacity additions in the Philippines and the push towards EV supply chain integration in Indonesia; all encouraging signs that the climate change threat is getting the serious consideration it deserves.

The outgoing year also saw us taking an important step towards augmenting our ESG integration framework with an impact lens for our public equities' investments. Our markets are the biggest laggards to the SDG targets and assessing the impact potential of our investments and more importantly being able to engage with our investees on magnifying their impact is a natural progression to our legacy sustainability efforts.

As we go into 2023, we continue to build on our existing sustainability platform and engage with our investments as we play our part in building a brighter sustainable future.

Hedi Ben Mlouka
Founder and CIO

The ESG Team

The firm's ESG Team is responsible for the implementation of the Responsible Investment Policy.

The Team meets on a monthly basis and is comprised of the firm's Sustainability Lead and senior investment members across the equities and fixed income teams.

Maryam Mughal
Sustainability Lead

Matthew Vogel
Fund Manager

Mohammed Ali Hussain
Head of Research

Marten Bressel
Fund Manager

Kia Williams
Senior Analyst

2022 IN REVIEW: FIM PARTNERS

UN PRI Assessment

In September, FIM Partners received its first UN Principles for Responsible Investment (PRI) Assessment report.

We are pleased to share that our Equities and Fixed Income strategies received 4 out of 5 stars each. Since then, we had a detailed feedback discussion with our UN PRI representative on identifying areas to improve our process and methodologies. We also used this opportunity to share our feedback on improving the efficiency of the assessment process and recommended realigning the assessment criterion based on asset owner size rather than a homogenous approach, which may unduly penalize smaller asset managers.

Sector Exclusion Update

During the year we underlined our commitment to climate change by further expanding our sector exclusion list to exclude entities that derive more than 25% revenue from coal-based power generation from our investment universe. An exception applies for companies that have clear strategies to transition to a low-carbon economy and do not plan further additions to their coal-based exposure. This is in addition to our existing blanket exclusion of entities engaged in coal mining.

By implementing this measure, we aim to align with global best practices to keep global warming below 1.5 degrees Celsius as underlined in The Paris Agreement, which we support.

ESG Team Training

As we continue to improve our internal processes whilst educating the team on the latest regulations and methodologies, our team training this year focused on assessing various social factors and their impact on investment decisions. The training also included sustainability updates from our markets with a special focus on climate change commitments and how they could impact our holdings.

As is the norm, the team provided detailed feedback on their practical experiences on addressing these issues with managements. They also provided their input on best practices for future engagements and shared suggestions for inclusion in our management questionnaires.

UN PRI Assessment

Direct – Listed equity – Active fundamental – Incorporation

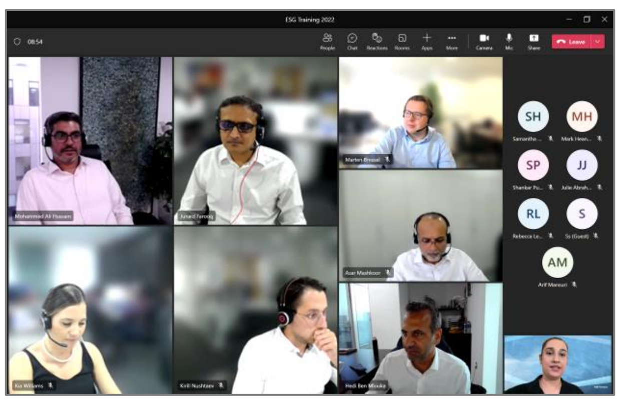
★★★★☆

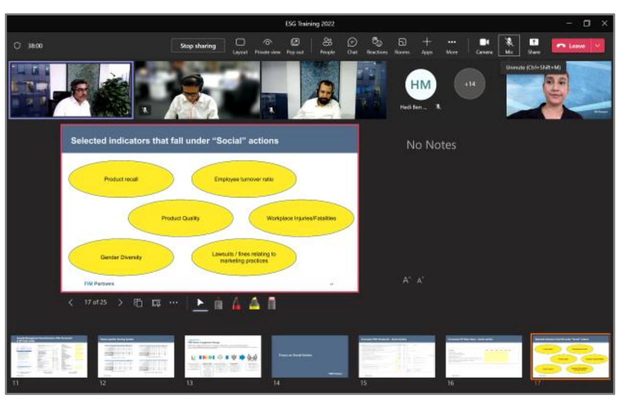
Direct – Fixed Income – SSA

★★★★☆

Direct – Fixed Income – Corporate

★★★★☆





ESG KPI Database

Our proprietary ESG KPI database which includes, sector-specific sustainability metrics and KPIs, has grown to 125 corporates (+56% since last year). This wealth of data provides a unique edge in an investment space which remains heavily under researched by global ESG Risk rating providers.

Employee Wellness Program

The Employee Wellness Learning & Development Subsidy Program was re-launched in 2022 for the welfare of FIM Partners staff members.

The program aims to encourage employees to consider their holistic wellbeing, from preventative health and lifestyles to personal and professional development needs.

GAIN Empower Investment Internship Program

In 2022, the firm signed on to become a part of the GAIN Empower Investment Internship Program. The GAIN initiative aims to empower female and non-binary students who seek a career in investment management. We will welcome our first intern this summer in our UK office.

Donation for Pakistani Flood Relief Victims

From June-Oct 2022, Pakistan faced its worst climate-induced disaster due to unprecedented torrential rains. The subsequent catastrophic floods submerged a third of the country impacting over 33 million people with over 1,000 lives lost. It has been reportedly estimated that around 4 million children still live near polluted flood waters and face countless diseases including acute malnutrition, malaria, and respiratory infections.

FIM Partners supported the flood relief cause by donating via The Citizens Foundation (TCF). The foundation's flood relief goals have been set in several phases. In its first phase, the NGO delivered over 5 millions meals to over 71,000 households in 382 locations in the Sindh and Balochistan provinces. Cash grants have also been provided to 20,000 families. TCF continues to work on home reconstruction and the rehabilitation of schools

Our employees recommended a personal donation initiative whereby individual employee donations would be matched at the firm level to maximize the overall contribution to the flood relief efforts.

The Climate Change Threat

Climate change risks have increasingly become the focal point of sustainability discussions. The recent catastrophic floods in Pakistan which submerged a third of the country, impacting over 33 million people, were a glaring reminder of its devastating implications.

Over the last few years, we have seen several countries in our investment remit stepping up their environmental commitments. The United Arab Emirates aims to achieve net zero emissions by 2050, while Bahrain and Saudi Arabia aim to make the net zero transition by 2060. Qatar, Oman and Kuwait have upgraded their GHG emissions reduction targets to 25%, 6%, and 2% respectively by 2030, while also aligning with other important climate targets such as renewables, EV, hydrogen, water efficiency, and energy efficiency.

This awareness is also transcending to the corporate level as several of our holdings have begun setting environmental targets whilst also showing positive results on reducing their carbon footprint.

21%

of our equities portfolio has committed to being Net Zero by or before 2050

33%

of our equities portfolio have established reduction targets

42%

of our equities portfolio is aligned with the UN SDGs

As discussed in our previous report, we launched an engagement strategy to address climate change risk within our holdings (please see methodology detail in Appendix II). Currently less than 4% of the equities portfolio is in heavy emitting industries, while less than 10% are in medium emitters. The remaining 86% are low emitters with minimal negative environmental impact.

During the year, we engaged with our holdings to share their GHG emissions, energy usage, and their strategies to address climate change. Companies that did not monitor their GHG emissions or energy use were recommended to do so and/or to seek the assistance of external consultants.

Based on the data provided, we calculated our portfolios' energy and GHG intensity ratios. However, we are cognizant that the 2021 figures available at this stage are unlikely to be an accurate depiction due to economic activity volatility at the behest of pandemic driven restrictions. As such, in the interest of accuracy, we intend to disclose the baseline metrics from next year.

Looking beyond metrics, we continue to see green shoots of increasing climate awareness amongst our holdings. For example, 87% of electricity purchased by a Romanian bank in 2021 came from renewable sources; they also achieved a 51% decrease in direct GHG emission intensity as compared to 2020. Similarly, a Saudi IT company reduced its GHG emissions intensity by 11% compared to the previous year through a renewable energy pilot project and general operational efficiency; the company has also been committed to the Science-Based Targets initiative since 2019.

Our holdings are also stepping up to set carbon emission reduction targets. For instance, our UAE-based real estate company has launched an ambitious energy management project to reduce its overall energy consumption by almost 20%; it has also implemented its first solar hybrid power plant which will contribute to reducing energy consumption related emissions by 25%.

Engaging Thought Leaders

The team engaged and participated in several panels and events during the year, with notable instances highlights below:

In January, Matthew Vogel (Fund Manager) participated in a webinar hosted and moderated by the UN PRI.

The webinar explored how sovereign debt investors incorporated human rights issues in their decision making. It covered several areas including the rationale for considering human rights, factors that should be considered in the investment process, engagement with sovereigns, and the value of communication and collaboration.

The other three notable panelists were Troels Børrild, Head of Responsible Investments from AkademikerPension; Lee Clements, Head of Sustainable Investment Solutions from FTSE Russell and Lene Wendland, Chief, Business and Human Rights for the Office of the United Nations High Commissioner for Human Rights.

To view a recording of the webinar, please email us at info@fimpartners.com.

Top: UN PRI webinar with Matthew Vogel on top left. Below: Maryam Mughal participates in CFA Society's 19th Annual Excellence Awards in Karachi, Pakistan

The CFA Society's Pakistan chapter recognizes and awards outstanding financial institutions, corporates and professionals on an annual basis. For their 19th annual ceremony, the CFA Society introduced an ESG Reporting award for the first time.

Our Sustainability Lead, Maryam Mughal was invited to be part of the judging panel which included Dr Alan Lok, Director of the CFA Institute Hong Kong; Dr Shamshad Akhtar, Chairperson of the Pakistan Stock Exchange, and Mubashir Zuberi, senior analyst at a leading asset management company.

Engaging Thought Leaders

In January 2022, the Gulf Bond & Sukuk Association (GBSA) held the 4th Debt Capital Market summit in Abu Dhabi, UAE in which Kia Williams (member of the FIM ESG Team) participated in a panel titled “Integrating MENA into the Global ESG Movement”. Panelists highlighted their respective approaches to ESG matters keeping the region’s nuances into perspective. Panelists also discussed the external drivers impacting increased attention on ESG by the investor and banking communities. They also discussed how regulators, policy makers, and other stakeholders were driving the ESG agenda from a financial markets perspective and the impact it would have on the MENA region.

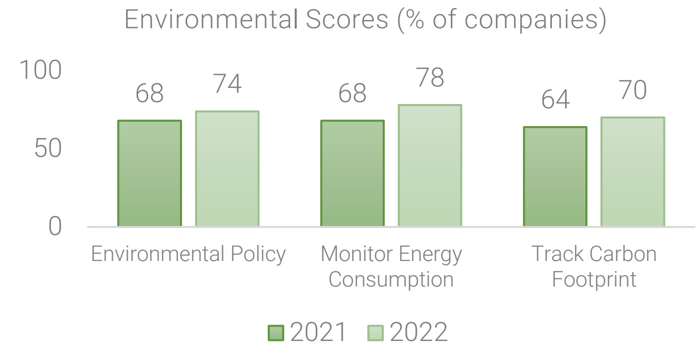
Xenith Public Relations (a leading Pakistani communications agency affiliated with renowned PR company FleishmanHillard) launched a cross industry platform to raise awareness on environmental issues in Pakistan and what corporates/citizens can do to mitigate negative impacts. Our Sustainability Lead was invited to participate in a panel titled “A Cycle of Waste: Finding Solutions to the Pollution”.

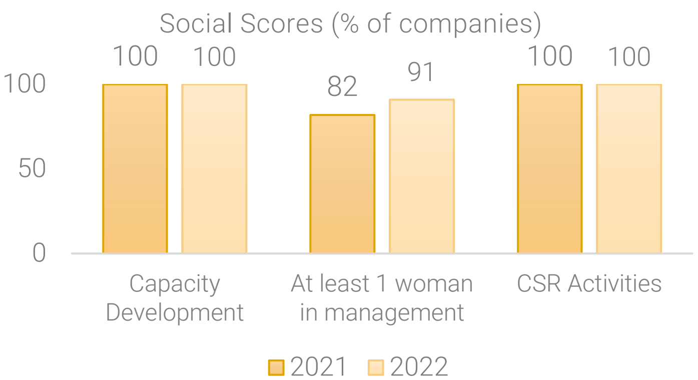
Lastly, The Express Tribune (a leading Pakistani media outlet) invited our Sustainability Lead to share her insights about sustainable business practices. During the live webinar, panellists highlighted how different local businesses should integrate sustainable practices which would result in tangible mitigation of negative impact.

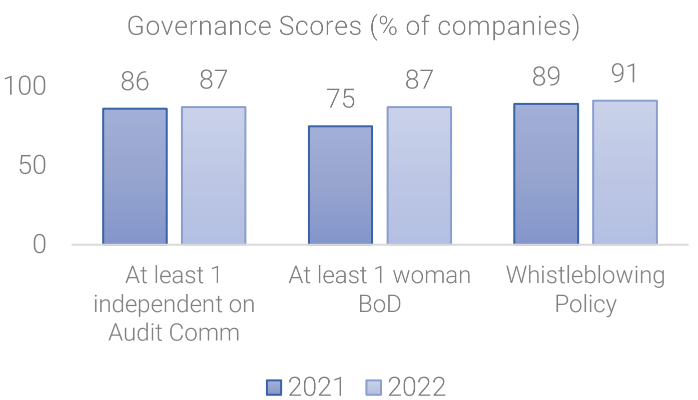
Maryam Mughal participated in the live webinar in collaboration with The Express Tribune. Top Right: Kia Williams participates in the 4th GBSA Debt Capital Market Summit in Abu Dhabi, UAE

2022 IN REVIEW: EQUITIES

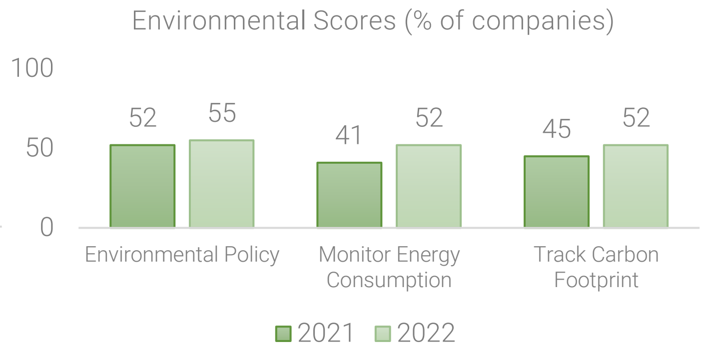
FIM EM Frontier

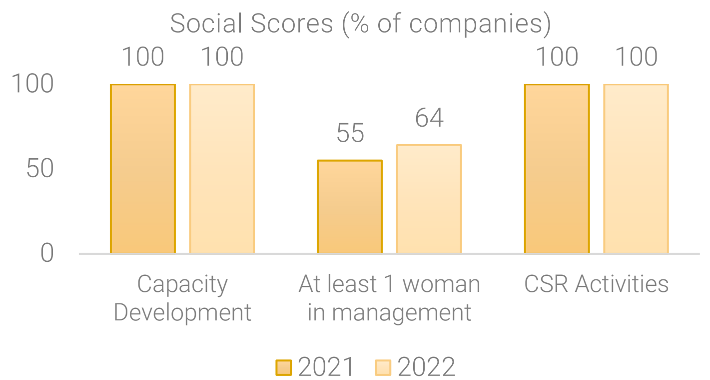


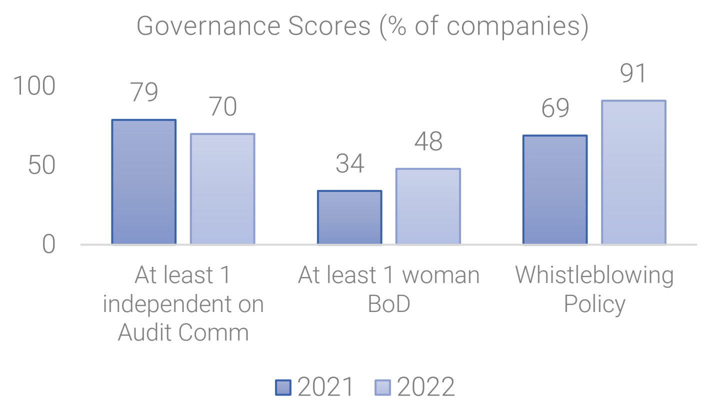




FIM MENA Horizon







A comparative analysis of select ESG metrics for the EM Frontier and the MENA Horizon funds for the last two years are illustrated above. We recognize that year on year overall portfolio score comparisons are not highly informative given the evolving nature of holdings.

Individual metrics, on the other hand, can be more informative on broad sustainability trends. In that regard, both funds continue to show positive momentum across all metrics with gender diversity showing a significant improvement for the MENA Horizon fund. Moreover, with environmental awareness garnering steam in the MENA region, we are optimistic that the same will begin reflecting in our portfolio companies in the future.

At a consolidated level, the EM Frontier Fund's overall score remained stable at 70 in 2022, while MENA Horizon showed positive momentum with the overall score increasing to 66 from 64 in the previous year.

Going forward, we will continue to engage with our portfolio companies maintaining our overall mantra of "educate not dictate" as we strive to bring positive change.

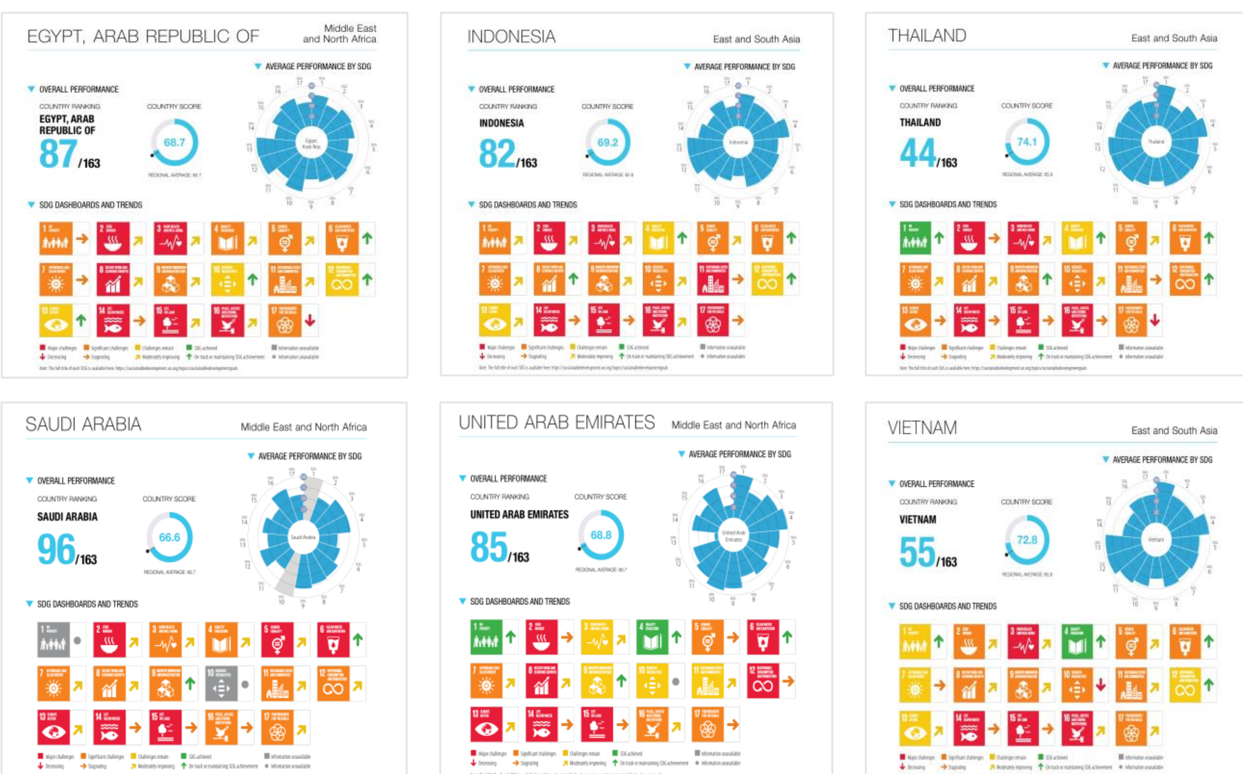
Understanding Our Impact

Whilst emerging markets in general are laggards towards achieving the UN Sustainable Development Goals (SDGs) targets, these deficits are more pronounced in our investment universe which comprises a diverse array of small emerging & frontier markets. The impact magnitude of this emerging market sub-set comes down to one number: 4 billion; which is the population of our markets. These markets are home to the majority of the world's 1.7 billion unbanked population, with the weakest healthcare infrastructure (less than 2 beds per 1,000 vs. 5 for OECD countries), lowest digital connectivity levels with less than 40% of adults having internet access and are among the most susceptible regions to physical climate change risks. Hence, being able to understand the impact of our investments and more importantly being able to engage with our investees on how to magnify this impact is a natural progression to our legacy sustainability efforts.

Over the last year, the team diligently worked on testing various methodologies on how to best assess this impact, keeping the higher information asymmetries of our investment universe in perspective. Given the historical legwork we had put in over the years to build our proprietary ESG KPI database, we were already extracting several metrics in line with the Sustainable Finance Disclosure Regulation (SFDR) Principle Adverse Indicators.

In addition, we have augmented our original management questionnaires and KPI data sheet to include sector specific impact metrics in line with the Global Impact Investing Network catalog of metrics. We are pleased to share that we now have a proprietary impact assessment framework in place which adds an additional lens to evaluate our investments whilst also allowing us to identify the impact leaders of our investment remit.

While the impact credentials of companies such as Airtel Africa (discussed in detail on pages 21-22), through its mobile money platform which is driving financial inclusion across Sub-Saharan Africa is straightforward, our framework also recognizes businesses that generate positive impact beyond their products and services. A good example is Cisaru Mountain Dairy (Cimory), an Indonesian dairy and packaged food manufacturer which is enhancing gender diversity through a unique distribution program called Miss Cimory (MCM), in which women from the neighborhood around their Centers engage in door-to-door sales under a lucrative commission structure.



Source: Sustainable Development Report 2022

Understanding Our Impact

The company has grown the MCM program from 1,000 in 2018 to over 4,000 women in 2022 with close to 400,000 homes served weekly. There are currently 180 MCM centers across the country with the MCM accounting for 9% of firmwide sales in 2022.

During the year, we had the opportunity to visit a MCM Distribution Center in Jakarta to partake in a sales training class and speak with the women to understand their experience. The overall feedback was that the MCM was a great avenue for enhancing household income and encouraging mobility as owning a scooter is an employment requirement. The company plans to double the MCM agents to over 8,000 in the next 3 to 4 years as the company enhances its rural distribution footprint.

This showcases a prime example of the hidden impact leaders in our investment remit whose impact credentials remain largely undiscovered. By investing in such businesses, there is an opportunity to generate meaningful impact in parts of the world which remain the biggest laggards to the achievement of the SDG targets.

FIM Partners Head of Research Mohammed Ali Hussain meeting the Miss Cimory salesforce

Engagement Highlights

Pakistani IT company
Issue: ESG disclosures

We had been engaging with the company for over a year to provide public ESG disclosures as part of its annual report. After sharing our feedback to their response to our Management Questionnaire and having a detailed sustainability teach-in with management, the company retained an external consultant and established an ESG strategy and framework. We are happy to report that the company provided ESG disclosures in its latest annual report.
Outcome: Engagement successful

UAE logistics company
Issue: Labor rights

We received a Controversy Alert pertaining to a labor relations incident at the company where 100 delivery workers initiated a 24-hour strike pertaining to wages. We immediately contacted the company to understand the context of the issue. The company stated that there were not 100 but a small number of courier franchises that took the strike action which accounted for 4 hours of lost time. Since then, the company has proactively engaged with the concerned franchises and reshared points of contact including whistle-blower links, where the feedback has been reportedly positive. Given the pro-active management action and no further reports on similar matters, we have successfully closed this engagement.
Outcome: Engagement successful

African telecom company
Potential Issue: Environmental sustainability

We have been engaging with the company as part of our Climate Engagement Strategy to understand their strategy on curtailing carbon emissions from their telecom tower network, which primarily utilize diesel power generators. The company responded by confirming that they were cognizant of their carbon footprint and will also be publishing their path to net zero. To curb emissions from the diesel generators , the company has taken several actions including shifting to solar power and enhancing battery capacity of the tower infrastructure.
Outcome: Engagement on-going

UAE real estate company
Issue: Labor rights

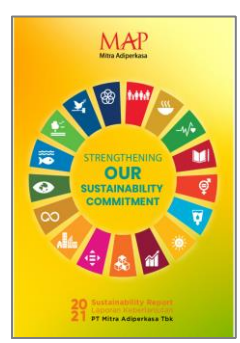
An accident at one of the company's foreign sites led to the tragic death of 4 employees for the first time in 2022. The company confirmed that essential trainings had been carried out at the site regularly, but after the incident the company indicated that they have doubled down on safety and compliance audits across their projects. Specifically, these audits include safety trainings, enhanced on-site deployment of safety and quality teams, daily safety reminders for laborers, and project heads etc. The company also assured us that all necessary precautions are being taken to avoid such incidents in the future. We continue to monitor the situation.
Outcome: Engagement on-going

Egyptian Payments Platform
Issue: ESG disclosure

We continue to engage with the company to include better ESG disclosures in publicly available reports. We also provided comprehensive feedback to the company regarding their ESG framework and associated policies. The company planned to release its first sustainability report in 2022 but was delayed due to unforeseen circumstances.

However, the company is working on the release of its sustainability disclosures and have also conducted a third party ESG audit of its policies
Outcome: Engagement on-going

In 2022, several of our portfolio companies published sustainability reports and/or highlighted key ESG metrics in their annual reports for the first time. We are pleased with the momentum that has been generated by our efforts as well as regulatory requirements.



Proxy Voting

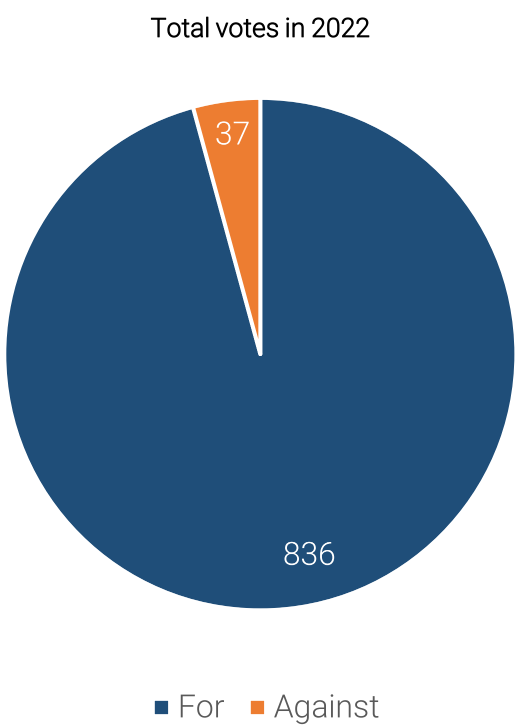
All voting activity is carried out in accordance with the firm's Proxy Voting and Corporate Action Policy. We vote in the best interest of our clients based on what we believe will amplify shareholder value as a long-term investor. We generally support proposals that require reasonable disclosure of information related to ESG or overall sustainability factors. We also support the adoption of more robust environmental or social policies.

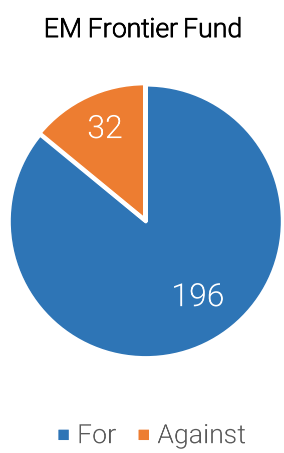
All proxy voting activities are carried out in house by the FIM Partners investment team Our investment professionals formulate their vote recommendation based on research of the company and assessment of the specific proposal. Our investment professionals may seek to engage with the company's executives or board members to improve their understanding of a proxy proposal and/or to provide our advice on how a company can enhance their ESG practices.

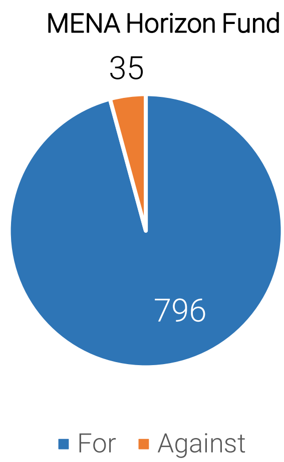
Information on how FIM Partners voted securities within a reporting period and information regarding the rationale for proxy-voting decisions in a client's portfolio may be provided upon request.

To encourage greater transparency, we will seek to provide a summary of our voting records at least annually in a format and level of detail that we see appropriate and in line with the requirements or limitations set by our clients. Where required by law, we always disclose detailed voting records.

Our voting pattern for 2022 is highlighted below.





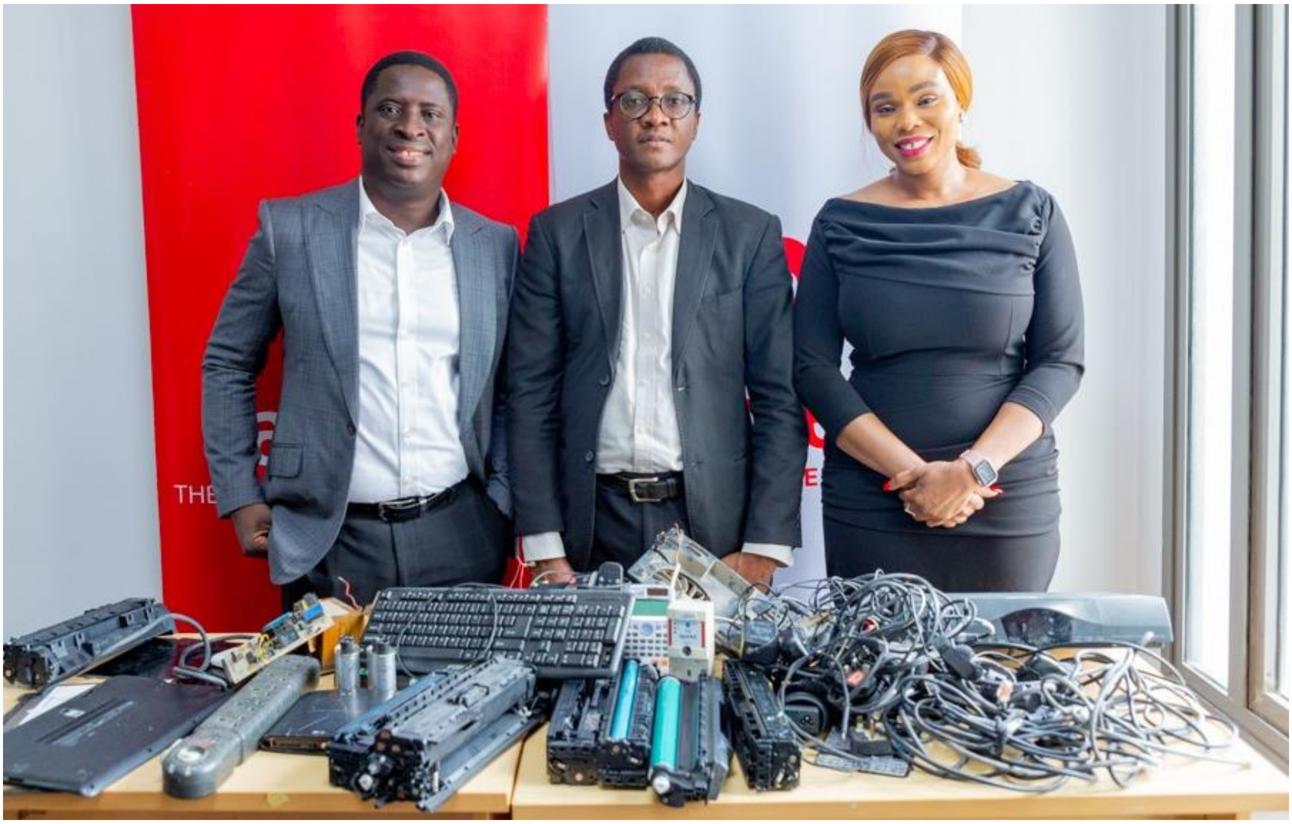


Note: The Total votes may not tally to the individual funds due to holdings overlap and holding period differential

In the Spotlight

This year we showcase our investment in Airtel Africa, a leading Sub-Saharan Africa mobile telecom operator which is an impact leader towards enhancing financial inclusion and digital connectivity.

Spotlight: Airtel Africa



Airtel Africa marked World Environmental Day on 7 June 2022 in all its markets by hosting an e-waste awareness and collection event. Certified recyclers collected and recycled 550kg of e-waste on the day. Photo Credit: Allcity News

Airtel Africa (Airtel) is a leading Sub-Saharan Africa mobile telecom operator providing affordable voice, data, and mobile money services across 14 countries.

The company scores an 80/100 score in FIM's ESG Scorecard, which is well above the portfolio average of 70. The company's sustainability strategy is aligned with the United Nations' Sustainable Development Goals (UN SDGs) which aims to generate positive impact on the people and the environment. In 2021, the company also became a signatory to the UN Global Compact Principles.

Environmental initiatives

Airtel Africa has several comprehensive programs in place for environmental stability around two key material topics: climate change and circular economy. The company has committed to addressing climate change by aligning with the Paris Agreement and achieving net zero emissions by 2050. Key initiatives in this regard include improving energy efficiency, reduction in diesel consumption, increasing renewable energy usage, update cooling systems, reduction in harmful waste, and decrease/offsetting of business travel.

For circular economy initiatives, Airtel Africa relies on a four-pronged approach: eliminating all hazardous waste from operations (with a focus on lead), minimizing non-hazardous waste through recycling and safe disposals, protect natural resources such as water and minimize e-waste, and a commitment to preserve water by reducing consumption in its offices and sites.

Social initiatives

Airtel aims to enhance financial inclusion across its markets via Airtel Money, its rapidly growing e-wallet and fintech platform. With 300 million unbanked in the company's target markets, combined with only 21% of Airtel's 145 million subscribers utilizing Airtel Money, a significant opportunity to bridge the financial inclusion gap exists. Adoption levels continue to rise exponentially with Airtel Money transaction value up 2.6x to $81 billion in 2022 vs. 2019. Airtel has set targets to achieve over 75% penetration of mobile money users in rural and semi -rural areas. To drive female

Spotlight: Airtel Africa (contd.)

economic empowerment, the company has a target to extend microcredits to 2 million women by 2025. The company also aims to increase its female Airtel Money subscriber base to 20 million users by 2025; this will primarily be achieved by changing rules that keep women from creating accounts such as proper documentation.

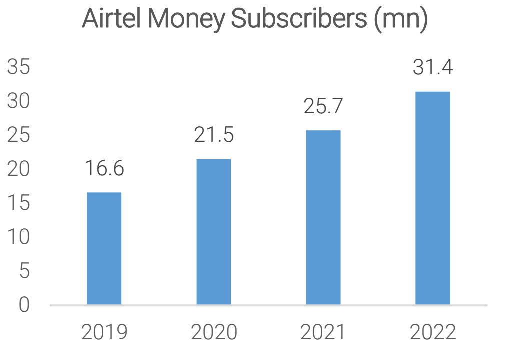
The company also works on building awareness and educating the customer regarding the usage of financial products. The company aims to push digital inclusion to fill the gaps for those segments that have low or no access to the internet. Airtel Africa will tackle this issue by focusing on rural penetration of mobile telephony, providing affordable services and developing more accessible payment solutions in pre-paid markets.

Customer privacy or data security is one of the key risks that a company can face in the telecommunications sector. In 2021, Airtel Africa achieved certifications relevant for mobile communication and mobile money operations, namely the ISO 27001 Information Security Management System and the ISO 22301 Business Continuity Management System for all its 14 markets.

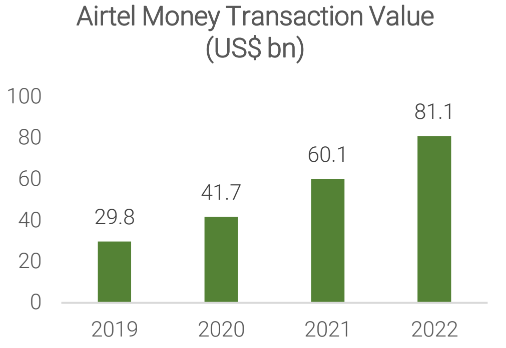
To promote access to education, Airtel has entered a five-year partnership with UNICEF through a $57 million investment to provide access to quality education in 13 of its markets. This will be carried out by advocating for digital education, providing access to learning platforms, and connecting schools to the internet.

Corporate governance

Airtel Africa aligns its sustainability strategy with the UN SDGs and the UNGC. The company's Board of Directors is 46% independent and has 31% female representation. The Board also has a Sustainability Committee which reviews, approves, and oversees the implementation of the company's sustainability strategy. The firm does not tolerate any form of corruption, bribery, or money laundering. To limit potential exposure to corruption, mandatory training on anti-corruption policies and procedures is provided to employees.



Source: Airtel Africa disclosures



Source: Airtel Africa disclosures

Water sustainability initiative in Seychelles
Seychelles has been hit by climate change related droughts. In order to adapt to the water shortage, Airtel Africa – along with the Department of Environment – initiated a project for harvesting rainwater in October 2021. Eight schools received water tanks which harvested rainwater from the roof for daily use.

Source: FIM's ESG Scorecard & Airtel Africa Annual Reports/Website

2022 IN REVIEW: FIXED INCOME

Sustainability in Fixed Income

Introduction

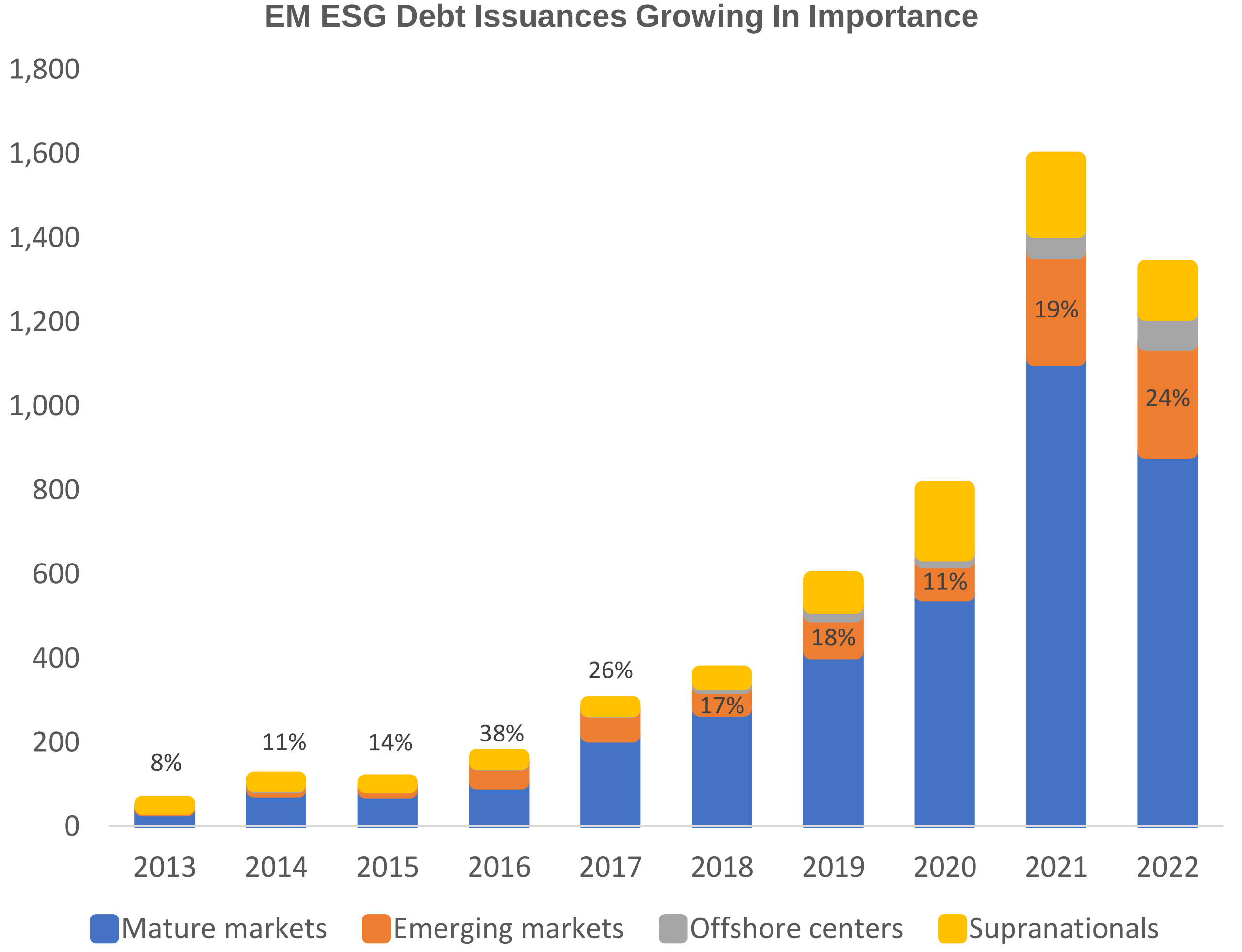
The previous year has reaffirmed the importance of ESG in the Emerging Markets (EM) Fixed Income space, despite the various headwinds faced by the asset class in a rising rates environment.

Even though total ESG-related bond issuance fell by ca. $260bn, EM issuers still managed to print ca. $250bn in 2022, in line with the preceding year. As a result, EM made up 24%, of total issuances (up 5% from previous year).

Furthermore, the number of countries and types of issuers from different sectors, be it sovereign, GRE or corporates, is ever growing, with approximately 40 countries now having ESG-related bonds in their debt stock. Sovereign issuers are also exploring various types of instruments for issuance, be it green, social, sustainability-linked or even blue bonds.

This means that for the first time it is possible to construct a well-diversified purely sustainable bond portfolio without facing severe liquidity constraints. In fact, ESG bond funds overall saw positive inflows in 2022 across all regions, in the context of significant outflows for non-ESG bond funds. Globally, ESG bond funds saw $21bn in inflows for the year compared to $499bn in outflows from non-ESG funds.

It is also worth noting that an erosion of the 'greenium', or rather premium associated to ESG-related issuance, has been waning both in Global Credit and Emerging Markets, most likely driven by larger issuances. As a result, over the year we have reviewed and actively participated in various new deals, steering the growth of the asset class with our ESG Framework in perspective, and benefitting from attractive opportunities.



Source: Sustainable Debt Monitor

Sovereign ESG Update

The detailed methodology of our Sovereign ESG framework can be found in Appendix III. Important revisions to the process include the reliance on World Bank's Worldwide Governance Index, since the World Economic Forum dropped its Global Competitiveness Index, which was the key factor responsible for the change in ESG scores. We also added the Women in Banking and Law Index to incorporate an additional social index into our scoring model.

As far as Restricted Lists are concerned, our investible universe currently excludes the following countries (based on Fragile States Index and the US Treasury's Office of Foreign Assets Control): Belarus, Cuba, Iran, Myanmar, Russia, and Venezuela. We place the bottom decile of our ranked countries into a hard-coded restricted list that cannot be invested in barring an exceptional analysis of the country, that requires an Investment Committee (IC) approval.

Case Studies

This section will detail two examples of countries that dropped into the bottom decile in our ESG framework. When this occurs, our process dictates an in-depth IC review with a view to divest from the positions, unless there is a strong case to be made to remain invested.

Cameroon

At the time of review, Cameroon's macro score and valuations looked interesting. They had only two outstanding Eurobonds and debt ratios were generally low despite a stock of contracted debt around 14.1% and fiscal consolidation taking shape. The IMF was probably going to require a further subsidy phase out, however, the existing program was broadly on track. The country planned a 0.9% of GDP budget deficit in 2023 vs 2% in 2022. Cameroon generally trades as a safe haven play with a couple of large sponsors in seconding ensuring bonds remain big. However, the drop in ESG score was pronounced by the Women, Business and the Law (WBL) rank falling from 21 in 2021 to 8 in 2022 (a 49% decrease). In terms of its strengths, Cameroon got a perfect score where laws regarding the size of a woman's pension are concerned. However, the country should consider reforms in the following spheres:

- Constraints on women's freedom of movement
- Laws affecting women's decisions to work
- Laws affecting women's pay
- Constraints related to marriage

- Laws affecting women's work after having children
- Constraints on women starting and running a business
- Gender differences in property and inheritance

The country's trends are also weak in the Fragile States Index. The indicators that stood out were:
- Democratic pressures and refugees under social indicators
- Factionalized elite / security apparatus
- State legitimacy or dictatorship with ailing leader

Cameroon had left-tail risks from politics which led us to eliminate our position due to the following reasons:
- Concerns around succession with President Paul Biya having served since 1982 and turning 90 years old (the previous presidential election in 2018 heightened political tensions on and offline around ethnic discourse).

- Two major violent conflicts took place:
    - (i) Anglophone conflict between the government and separatists from the English-speaking minority, started in 2017 and has killed over 6,000 people, displaced 765,000 people
    - (ii) Jihadist insurgency from Boko Haram which has killed over 3,000 Cameroonians and displaced 250,000 people

There were also regular red flags raised around human rights violations, especially with regards to the suppression of the opposition party and inappropriate tribunals followed by jail sentences.

Angola

When we looked into Angola, ESG metrics for the country were improving and were generally solid in Sub-Saharan Africa. Oil dependency remained a major macro risk for the country. The UN Human Development Index score, a change variable for our ESG model, reflected the post-pandemic growth hit. A key governance improvement was ongoing with the violence-free transition in a fair election in 2017 leading to a period of improved governance, despite significant economic challenges (oil/pandemic and debt restructuring). The new president was re-elected for a second term in August 2022, ensuring economic policy continuity and a basis for expected governance and social score improvements in our ESG framework.

We saw an upside risk to ESG score and wanted to

keep the position based on a fundamental assessment of valuation and risk as outlined in the following:

- Angola's gross public sector debt will have fallen from 135.1% of GDP in 2020 to 78.9% of GDP in 2022. While still very elevated, IMF projections foresee a decline to below 60% of GDP in 2025.
- A World Bank program loan to create a permanent social safety net is being disbursed.
- Ongoing procurement reform is addressing a key graft area of the past. The Transparency International Corruption Score is likely to improve as the program is fully deployed given the continued prominence of state-owned enterprises in the economy.
- Economic diversification remains a key issue for boosting growth and job creation. Initiatives on privatization and improving investment climate have been blunted in terms of results by the pandemic and are expected to remain challenging.
- Interest payments to total revenues have fallen from 27.4% in 2019 to 21.7% in 2022 on budget law, but now expected to be 17% on revenue outperformance.

Fixed Income Corporates

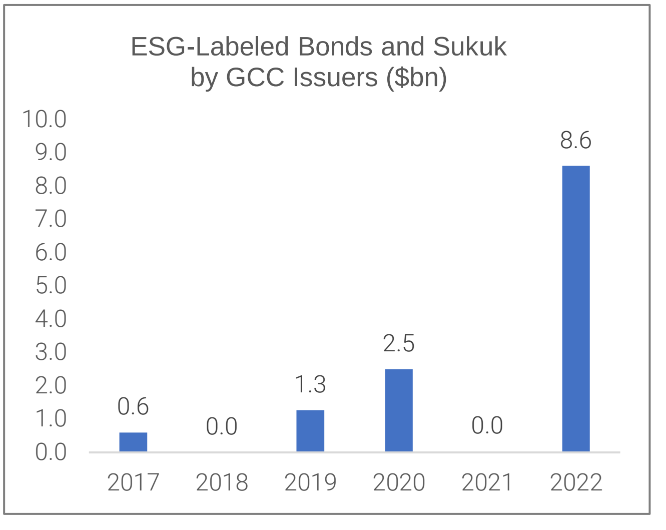
GCC ESG-labeled bond and sukuk market: is 2022 a turning point?

While the GCC ESG-labeled bond and sukuk market is still in very early stages of development, the market saw some interesting developments during 2022.

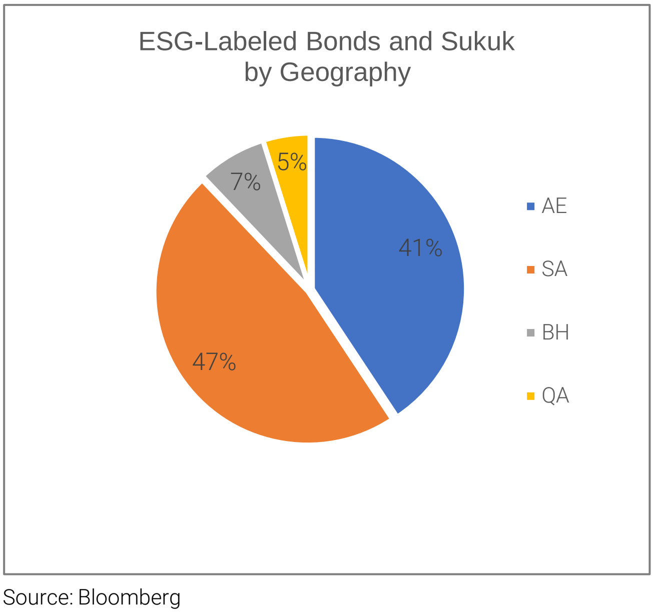
The first ESG labeled bond issued regionally matured in 2022 after being issued by First Abu Dhabi Bank in 2017. Historically, banks have been the largest issuers of green bonds while select corporates including Dubai-based Majid Al Futtaim have also tapped the market in recent years.

The market has, however, seen very little new issuance until 2022 when various UAE-based banks (including ADCB, DIB and FAB) issued bonds and sukuk in green format while Saudi Arabia's Public Investment Fund (PIF) issued $3bn worth of ESG-labelled bonds over 3 tranches, including an inaugural 100-year bond, now the longest maturity bond outstanding in the region.

This has taken the outstanding GCC ESG-labeled bond and sukuk market to $13bn. While this still represents under 5% of the total GCC bond and sukuk market outstanding, the PIF issuance opens the door to further issuances from regional government-related entities (GRE's) which have undertaken numerous green initiatives in recent years. The large capex needs and increasing role of GRE's and sovereign wealth funds as engines of public investment, specifically to finance and drive green projects will drive the issuance pipeline going forward. We look forward to seeing this market develop further in the GCC, a region that has become one of the fastest growing debt markets in EM in terms of both depth and breadth.



Source: Bloomberg



Source: Bloomberg

Case Study: Public Investment Fund

The Kingdom of Saudi Arabia (KSA) is committed to their ambitious ESG targets, and the Public Investment Fund (PIF) has been identified as the Kingdom's vehicle to achieve them. The central importance of PIF in the sustainability plans of KSA has been clearly set out in the mandate assigned by Vision 2030 with an additional focus on climate related risk and climate finance.

The PIF has also established a Green Finance Framework under which it intends to issue green bonds, sukuk, loans, and other debt instruments. The net proceeds from the debt raised including the recently issued $3bn 3-tranche green bonds will be allocated to finance/refinance Eligible Green Projects. Eligible Green Projects are expected to provide significant environmental benefits and PIF intends to comply with the best green finance market practices and will follow the development of official taxonomies defining sustainable activities.

The use of proceeds categories defined in the Green Finance Framework include:

- Renewable energy
- Energy efficiency
- Green buildings
- Clean transportation
- Sustainable water management
- Pollution prevention and control
- Sustainable management of living natural resources and land use

PIF expects to invest more than $10bn into eligible green projects by 2026, all of which have been clearly defined. PIF will remain a relatively regular issuer, issuing once per year to fund the pipeline of projects with the majority to be allocated to the Kingdom's giga-projects including $4.4bn of eligible investment in Neom (an innovation hub in Northwest KSA to develop key economic sectors for the future) with a focus on climate change adaptation, clean transportation and sustainable water management as well as $1.6bn of eligible investments in The Red Sea Development Company (a new cornerstone of eco-responsible tourism in KSA) focused on green buildings, 100% reliance on renewable energy, and aspirations of carbon neutrality.

	KSA's Initiatives and Achievements	PIF's Contribution
Environmental	• Achieve net zero emissions by 2060 and curb methane emissions by 30% • Reduce carbon emissions by >4% of global contributions, plant 10 billion trees across KSA and raise protected areas to more than 30% of land area	• Mandated to develop 70% of KSA's renewable projects pipeline • Founding member of One Planet Sovereign Wealth Fund (OPSWF) working group in 2017
Social	• Over 50% of university graduates currently are women, and the participation rate of Saudi women in KSA's labour market nearly doubling from 17.4% to 33.6% over 2017-2022	• Committed to leading the change on gender equality and diversity in the workforce • 30% female employees in 2022 (from 24% in 2018) • Extensive labour regulations and anti-harassment guidelines as well as improving access to high-quality career opportunities for women
Governance	• Launched in 2016, Vision 2030 seeks to leverage KSA's unique strengths. The Vision was cascaded into 96 strategic objectives with specific KPI's to track achievements • KSA's anti-corruption agency Nazaha to play a key role in promoting transparency and achieving Vision 2030 objectives	• Improved Global SWF governance score of 60% in 2022 (from 40%) • Commitment to transparency (including capital market disclosure) • One of the largest SWF's to get standalone credit ratings

Fixed Income Corporates

All corporates within the fixed income strategy that are to be held for three months or longer are sent FIM's proprietary management questionnaire which informs our ESG scoring process for each investment. These corporates are subject to the same RI processes, exclusions, scoring, and engagement methods as the public equity strategies.

Addressing climate change risk is important for us. Utilizing the SASB materiality map and standards, we have split the portfolio into three tiers: high emitting industry, medium emitting industry or low medium emitting industry.

Accordingly, 77% of the corporates held in the FIM Global Sukuk and MENA Credit funds are invested in low-emitting industries with negligible impact on the environment. The remaining 23% of corporates held in the funds are from what are considered medium emitting industries.

Please see the ESG highlights of the Global Sukuk Fund and MENA Credit Fund below.

30% companies have adopted environmental management systems

77% companies have formal environmental policies

53% companies monitor their energy consumption

50% companies track their carbon footprint*

97% companies have opportunities for human capital development

73% companies have at least one woman in senior management

97% companies have CSR initiatives and activities

CSR

43% companies whose Board is at least one-third independent

67% companies have at least one independent director on its Audit Committee

60% companies have whistleblower programs

53% companies have at least one woman on the BoD

73% companies have anti-bribery policies

Appendix I: Public Equities & Corporate Fixed Income

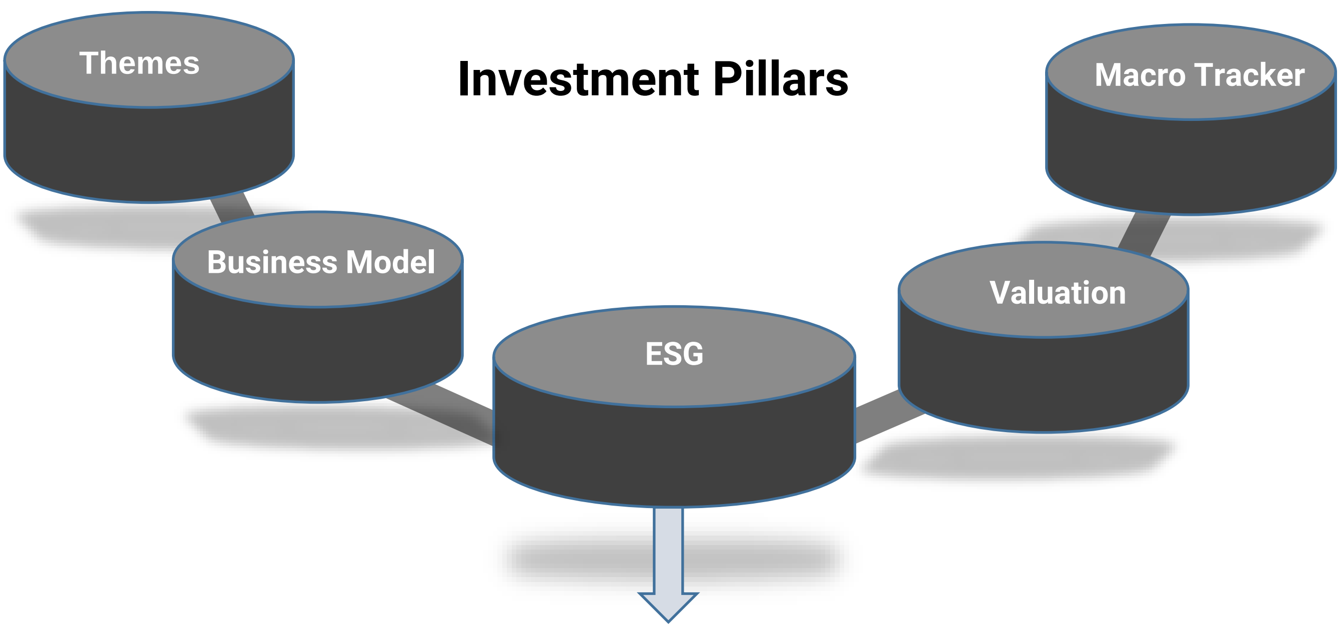
Our Approach

At FIM Partners, the integration of sustainable or more specifically, environmental, social and governance (ESG) factors is an integral pillar of our investment approach. Our due diligence process mandates developing a holistic view of the entire ecosystem surrounding our investments and this would not be complete without an assessment of their long-term sustainability.

We firmly believe that applying an overlay of sustainability factors over financial attributes provides an added level of scrutiny that ultimately leads to better investment decisions. ESG should not be a mere box ticking exercise but rather an engine to facilitate positive change. Our decade long experience in these markets has taught us that engagement via constructive dialogue can be a powerful platform to do so. Engaging, and more importantly, educating our companies about global best practices allows us to understand how managements perceive and manage non-financial factors which in turn feeds into our information edge.

We also align with the six principles of the UN Principles of Responsible Investment and have been committed to embedding them in our strategy and decision-making processes.

ESG in the Investment Process



Exclusion

- Countries facing sanctions
- UNGC violators
- No-go sectors such as illegal weapons, adult entertainment, gambling, alcohol and tobacco etc

Integration

- FIM ESG Scorecard
- Annual Management Questionnaire
- Site Visits / Management Meetings
- FIM ESG KPI metrics database
- Controversy Alert tool

Engagement

- Proxy voting
- Direct engagement with managements
- Emphasis on constructive dialogue
- ESG-focused awareness events

Pillar 1: Exclusion

There are three clearly defined levels of exclusion applied to our investment universe:

Country exclusion: Countries that are facing sanctions by one or more Sanctions Authorities are excluded from our investment universe. The sanctions can be economic or financial and can even include trade embargoes that are administered or enforced from time to time.

UNGC violations: We exclude companies that have consistently breached one or more of the Ten Principles of the UN Global Compact (UNGC) without introducing any measures to mitigate the effects. However, we monitor violators on an annual basis and those companies that have taken concrete measures to rectify the original violations and carry a low probability of future violations may be allowed to become part of our investment universe.

Sector exclusion: We exclude certain sectors based on our norms and values that we perceive as having a detrimental impact on the environment or society whilst also carrying long-term ESG tail risks. Some of the key excluded sectors include adult entertainment, alcohol, gambling, illegal & nuclear weapons and tobacco*.

UNGC Principles

- Human Rights
- Labor Standards
- Environment
- Anti-Corruption & Bribery

No-Go Sectors

- Alcohol
- Adult Entertainment including pornography
- Coal Mining
- Gambling
- Illegal & Nuclear Weapons*
- Radioactive materials
- Tobacco
- Unbonded asbestos fibres
- Coal Power Generation (25%)

**The complete list of our exclusion criteria can be found in the FIM Partner's Responsible Investment Policy*

Pillar 2: Integration

Integration entails evaluating all potential investments on a range of quantitative and qualitative criteria through our proprietary ESG Scorecard. The Scorecard measures each company performance across a range of quantitative and qualitative criteria in the ESG spectrum. The purpose of the scorecard is not to feed into another layer of exclusion per se but rather to identify material risks that could lead to future areas of engagement. Scorecards are updated annually unless a material event occurs in the interim in which case the matter is immediately flagged to the Sustainability Lead and raised to the Investment Committee to ascertain the next steps.

Our scoring methodology employs a Low risk/Best practice to High risk/Minimum criteria with a scoring range of 0-100 with 50 deemed as a minimum inclusion score. Exceptions to the rule are potential investments for which there is strong evidence that the company's score will exceed the minimum threshold in the near term.

External Resources

We have retained the services of Sustainalytics, a leading global ESG risk rating provider, primarily to assist in flagging controversies for potential and existing investments through their proprietary Controversy Alert Tool. We also rely on their global expertise to strengthen our internal methodologies, especially when it comes to sector materiality issues and global best practices. However, given their relatively low coverage of our investment universe, coupled with its inherent public information deficit, we do not rely on their risk ratings.

Pillar 3: Engagement

Voting

Where the power to vote proxies or to take shareholder actions on other corporate actions has been delegated to FIM Partners, we vote proxies and act in the best interest of our clients based on what we believe will maximize shareholder value as a long-term investor, all in accordance with our Proxy Voting and Corporate Action Policy.

Direct Engagement

In our experience, engagement enhances business practices and helps to identify leading managements. Building awareness about sustainable practices in the markets we invest in may take time but ultimately will bear fruit. We do not delegate the responsibility of connecting with our shareholdings to external consultants.

Our engagements are designed to elicit constructive dialogues with managements where we focus on educating versus dictating as we are cognizant that change is a gradual process. Our engagement priorities are centered on material ESG risks and/or the development of controversies. If the team does not see any signs of improvement from its engagement efforts following the passage of a reasonable amount of time, the team will consider divesting from an investment keeping the materiality of the engagement matters in perspective.

Sample letters sent to Managements and Boards

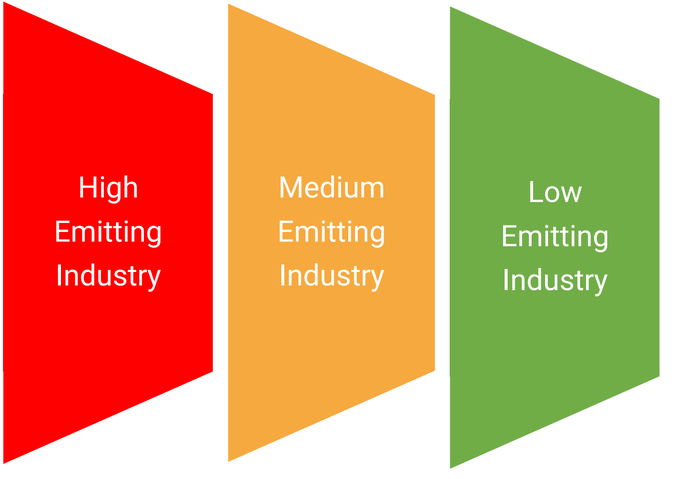
Appendix II: Climate Change Framework

Addressing Climate Change Risk

In the last few years, extreme climate change related events are becoming more frequent leading to devastating global losses. It is also important to consider the potential wide-ranging impact on future asset valuations if climate change risks remain ignored.

Hence, an effective strategy that addresses climate change related risks for our investments has become increasingly imperative. While our management questionnaires capture significant information regarding a company's environmental profile, we felt that monitoring alone is not enough. Rather an approach that prioritizes climate change risk in an engagement framework was required.

As a first step, utilizing the SASB industry materiality map, we have devised a strategy by splitting our portfolio sectors into three color-coded tiers: high emitters, medium emitters, and low emitters. These tiers will define the engagement road map for each invest based on their climate risk profile, with high emitters getting the highest priority. Most of our investments are in medium and low-emitting industries, thereby reducing climate change risk from the outset. A sample engagement road map of a medium-emitting industry has been outlined below.



Engagement road map for a Medium Emitting Industry

Stage 1

0 – 12 months

- Build awareness regarding material ESG risks
- Recommend changes and the adoption of international guidelines of sustainability
- Recommend a dedicated resource (internal or external consultant) for calculating / reporting on company's carbon footprint

Stage 2

12 – 18 months

- Review progress on annual or sustainability report on ESG metrics
- Review progress on aligning with a sustainability framework or guideline
- Gauge management willingness to change/adapt through regular meetings

Stage 3

18 – 36 months

- Company reports on Scope 1, Scope 2 and Scope 3 emissions, preferably in a publicly-available annual report
- If management achieves 2 out of 3 initiatives outlined below, we remain invested: (i) Reports on ESG metrics, (ii) aligns with an international guideline or, (iii) hires a dedicated sustainability resource.

Appendix III: Sovereign Fixed Income

Our Approach

Sustainable investing is embedded in all our investment processes at FIM Partners including fixed income securities, where we believe that there are multiple topics that need to be focused on from an ESG perspective. From the investment team's background in policy and development economics formed at the World Bank and IMF, there is inherently a strong emphasis on institutional strength and reform orientation, which is endogenized in our assessment of key macro-political credit drivers.

The ESG framework, made dynamic with measurements of change in the input indices, further strengthens in a quantitative and qualitative way the rigorous country risk assessment conducted with more traditional tools.

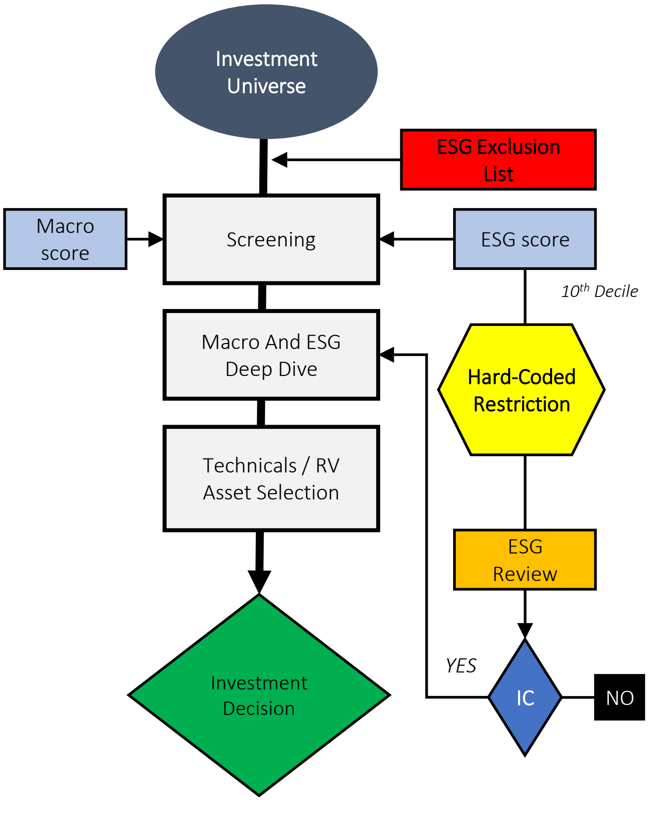
Our sovereign ESG framework: Active, dynamic and material

As a starting point, we identify the essential ESG factors. Governance naturally comes first. Run a country well, and you get good results – you conduct transparent and orthodox policies, have institutional strength and flexibility to face challenges, and have a sense of social contract that works for the long-term benefit of the population and achieves sustainable and equitable growth.

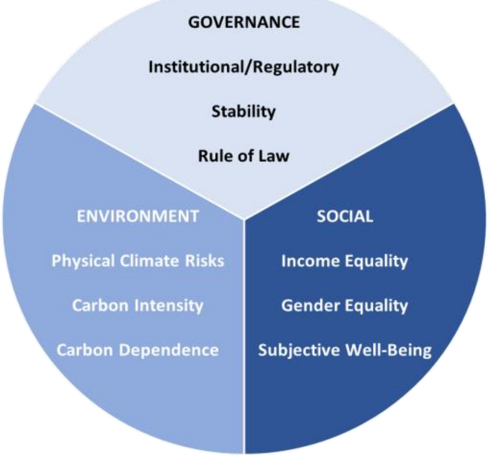
In the scope of environmental factors, we tend to look more at physical climate risks, carbon intensity, and human health matters at the country-level, while being cognizant of financing risks to sovereigns and corporates that do not progress in carbon reduction strategies.

In the social sphere, we consider the social contract essential. We find the concept of subjective well-being as a useful complement to the metrics of income, life expectancy, education and health, in that it can provide greater understanding about whether people believe that the government acts in its interests to feel safe and taken care of. Subjective well-being is also effective in "localizing" for those human rights issues most important to the average person or family.

Thus, our framework seeks to capture factors which are going to drive country risk and its manifestation in asset prices. We have added a number of tools to maximize the impact our assessment can have on returns.



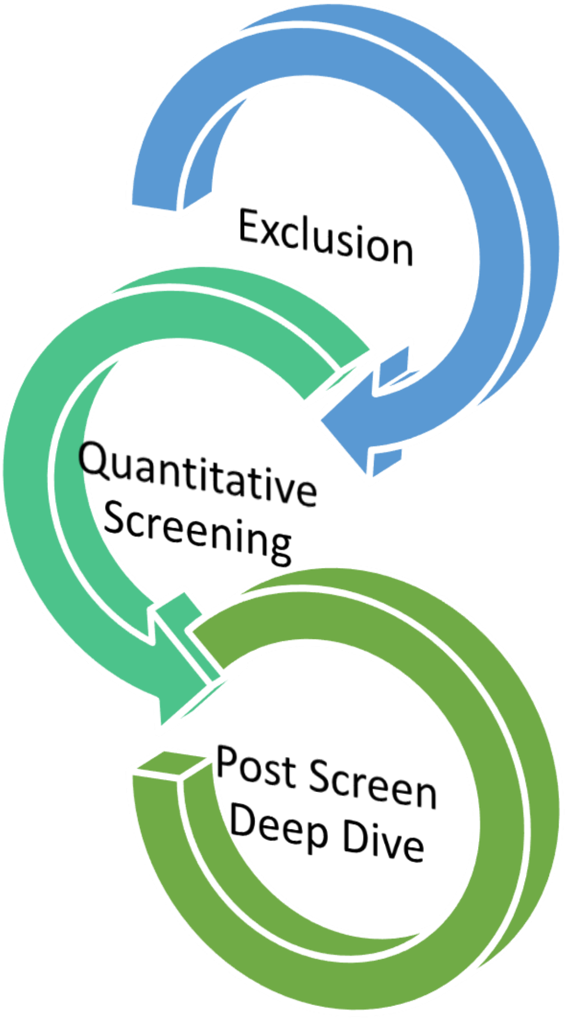
The Investment Process



ESG factors influencing country risk

First Level: Exclusion

First, we exclude a limited set of countries from the prospective investment universe. We use the countries in the US sanctions list and the bottom 10 countries in the Fragile States Index (FSI). The frequency of revision in this list is whenever sanctions changes occur and for the FSI, annually at the time the index is updated. With respect to the FSI, countries in the lower deciles are also subject to enhanced analysis; fragilities often lead to credit events triggered. A bottom decile FSI might be in a state of civil war or unrest and countries close to that threshold are susceptible to enter into unrest.



Second Level: Dynamic Quantitative Screening Process

The countries that are not excluded then enter into the Dynamic Quantitative Screening Process. We utilize indices that capture critical indicators for E, S and G. Our index inputs may change over time, but we have a strong preference for more simple series with a longer history and, of course, cover as many of the 100 countries we assess as possible. We analyze these components of our index against several return horizons using multivariate regressions. Furthermore, rather than using static index scores alone, we include the change in the scores to this analysis, then select weightings and whether we use the static or change in the variable. The level is important, but the direction is often most critical in credit spread movements. In fact, over the last year the EM countries with the largest improvement in our EM score exhibited a normalized average spread tightening of 30bps whereas the countries showing a deteriorating score widened 160bps on average. We augment the exclusion list with the bottom decile performers from our scoring system, adding them to a compliance-coded restricted list that requires a special investment committee discussion should we want to “override” the restriction.

Third Level: Post Screening Deep Dive & Supplemental High Frequency Metrics

Frontier and Emerging Markets score lower than Developed Markets in ESG. Denmark’s ESG score never changes and tells us nothing about its bond yields.
When Pakistan or Turkey’s ESG changes, it tells us a lot about the respective bond yields. The indices and our model are simply not sufficient for us to generate alpha without additional work. We therefore conduct “deep dives” and the use of an events calendar and high frequency socioeconomic data. Any number of factors may trigger a requirement for a deeper analysis, which may focus on the overall ESG picture, on one pillar or on one specific issue.

Signatory of:

PRI Principles for Responsible Investment

FIM Partners has been a signatory of the United Nations Principles for Responsible Investing (UN PRI) since 2019. We are committed to integrating ESG factors into our investment processes, decision making and active ownership practices.

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