Cartica Management, LLC

ESG and Engagement Approach

THE IMPORTANCE OF ESG IN EMERGING MARKETS

Cartica Management, LLC is a concentrated active owner of public equities in Emerging Markets. ESG integration and active ownership is in Cartica's DNA. Our founders helped pioneer ESG and corporate governance strategies over many years at International Finance Corporation (IFC), and they brought their expertise to public equity investing in Emerging Markets.

Cartica aims to create value for portfolio companies by promoting improvements in environmental, social, and governance (ESG) management alongside capital markets-facing issues. We also focus on how a company's corporate culture supports or weakens its ability to continually improve in areas that are material to the business. We develop relationships with company leadership and ownership, and we tailor our engagement strategies to the nuances of Emerging Market companies and the capital markets in which they operate.

ESG management is overseen by the Investment Committee and Board of Directors, with day-to-day oversight led by the Managing Director, ESG and Sustainability. Because we believe that ESG management should be an integral part of the investment process, the ESG team is housed within the Investment Team and serves as a guide and expert resource to Investment Analysts and Chief Investment Officer during the diligence process and throughout the ownership period.

ESG IMPROVEMENT CAN CREATE VALUE FOR EMERGING MARKET COMPANIES

Cartica has observed that companies with strong ESG practices, policies, and disclosures can outperform their peers. Growing evidence suggests that integrating considerations of ESG factors into investment analysis offers investors long-term performance advantages through a better understanding of risk and opportunity.[i]

Cartica has seen that active engagement to help companies to improve on ESG and operational issues is particularly important in Emerging Markets, which are characterized by weaker public and private sector institutions and less effective regulatory oversight, which increases the cost of monitoring listed companies. Because of these factors, the potential for value addition through ESG and operational improvements is greater than in Developed Markets.

As an active owner, we hard-wire our ESG methodology into our investment process to drive improvements that we believe can add value. Through active ownership with a particular focus on promoting ESG and operational improvements, we believe that we can create long-term value for our portfolio companies and enhance risk-adjusted returns for our investors.

INVESTMENT PROCESS AND AREAS OF FOCUS

Cartica's analysis of ESG issues are tightly woven into our investment process. During portfolio company diligence, Cartica focuses on the business model, management quality, financial models, and valuation models, alongside ESG and non-ESG risks and opportunities. We also pay close attention to capital markets-facing issues and to how corporate culture might add or detract from a company's management of ESG and other factors.

During bottom up analysis, we use SASB and other industry-specific frameworks to develop lists of issues likely to impact a company. We use ESG ratings and scores as one of many resources to help us to understand the issues faced by companies as well as how they manage them, especially in context of peer performance and factors like industry sector and the macro environment.

We focus on the issues that are likely to be most material for each company. We evaluate the quality of a company's practices, policies, and disclosures. Based on the materiality assessment and quality evaluation, Cartica develops a strategy for how we would partner to help each company to create value.

OUR CORE AREAS OF FOCUS

GOVERNANCE

We believe that business and sustainability risks are best managed by companies with strong corporate governance. Strong governance practices also allow for better realization of value creation opportunities. Cartica focuses on a company's integrity and ethics, Board quality, oversight, fair treatment of shareholders, transparency, capital allocation, and other areas affecting ownership and control.

ENVIRONMENT

Cartica focuses on how a company uses energy and natural resources, considers water and waste management, and addresses physical and transition risks of climate change. We also address areas where a company could sell products or services that contribute to more sustainable communities and that meet the increasing corporate and consumer demands for "green" options.

SOCIAL ISSUES

We are focused on a myriad of social issues faced by portfolio companies, including a focus on employee engagement, retention, health, and safety. We are focused on how a company manages its data privacy and cybersecurity practices to keep customer data secure. We also assess how a company engages with its stakeholders, including local and global communities.

CAPITAL MARKETS

Beyond ESG, we are focused on how a company manages business strategy and market-facing issues, including capital structure, liquidity, debt raising, organic growth, and M&A. We focus on helping companies to improve disclosures and reporting. We often engage with companies on improving communications to the market, especially in crisis management situations.

CULTURE

Cartica is informed by the academic literature indicating that corporate culture can make companies more valuable. It is our experience that an aligned and strong culture can enhance a company's ability to pursue ESG and other improvements over time. We focus on whether a company's culture is aligned with its strategy; whether the culture permeates the company; whether it supports a focus on shareholders, employees, customers, and other stakeholders; and whether it incorporates elements of flexibility, adaptability, innovation, and a growth mindset.

ENGAGEMENT FOR VALUE-CREATING IMPROVEMENTS

Improvements in ESG and operational issues can create outsize value for public companies in Emerging Markets. Because of our concentrated portfolio, our team is able to spend time with all our portfolio companies to identify material issues that may be detracting from value, to build a compelling case for change, and to provide resources for companies as they seek to improve.

When we invest in a company, we engage with leadership to learn more about the issues relevant to our engagement strategy and also to build trust. We offer ourselves as a partner who can provide expertise on the evolving expectations of global investors, especially regarding ESG management.

CONCENTRATE ON PRACTICES AND POLICIES

Cartica concentrates our engagement efforts on areas that we believe are material to the company and that could lead to growth and repricing by the market if improved. Typically, we are focused on the practices that a company has in place – or should have in place – to manage material risks and opportunities, and the policies that inform internal and external stakeholders of those practices.

Good practices in corporate governance tend to be similar across companies and geographies, but the need to focus on particular environmental and social practices can vary widely by company and industry. Our focus on material issues is not fixed at our initial investment. As companies change over time, we reevaluate areas of importance, as well as our engagement strategy.

PROMOTE DISCLOSURES

Cartica also focuses on helping portfolio companies to improve ESG disclosures, which we believe can lead to greater price discovery, analyst coverage, liquidity, and value creation. As investment in Emerging Markets grows, and especially as passive strategies that use ESG ratings or other scores expand, we want our portfolio companies to get credit for the practices and policies that they have in place to manage ESG.

MONITORING AND REPORTING

Cartica tracks our engagement efforts with portfolio companies over time, as well as results from those efforts, including stock price changes when possible. We report quarterly to our investors and to our Board of Directors. Cartica also monitors the carbon intensity of our portfolio as a whole. We use the Institutional Shareholder Services (ISS) Climate Impact Assessment to track portfolio-wide emissions and other climate and carbon data.

EXCLUSIONARY SCREENING

Cartica has two areas of potential exclusion. First, Cartica seeks to avoid companies of low integrity. Cartica undertakes an integrity check of management and owners during diligence to understand if they are ethical, committed to playing by the rules, and fair to minority investors. In certain countries and when public information is hard to find, we may use outside consultants to help us to ensure thorough diligence on integrity. Second, Cartica seeks to avoid investments in companies that derive significant revenues from the fossil fuel, tobacco, and firearms industries.

PROXY VOTING POLICIES

Cartica votes our shares to signal approval or disapproval of Board and management practices or policies. Cartica votes our shares in line with our Proxy Voting Process and Guidelines. We attempt to have constructive conversations with portfolio companies before casting votes and to inform companies when we are likely to vote against management recommendations.

PARTNERSHIPS AND FIELD-BUILDING

Cartica is a supporter of the UN Sustainable Development Goals (SDGs), which we believe have outsize importance in Emerging Markets. We also believe that the behavior of companies is an important factor in meeting the SDGs as well as the goals of the Paris Climate Agreement. We recognize that organizations like the Task Force on Climate-related Financial Disclosures (TCFD) are important to help investors to track climate-related risks and improvements over time.

We are a signatory to the Principles for Responsible Investment (PRI), and we are an active member of several other organizations that keep us informed and help us to influence the field globally and in key geographies. We also take an active role in multi-stakeholder initiatives when doing so is in Cartica's and our clients' interest.

CARTICA'S OWN ESG PRACTICES

Cartica was founded to create long-term value, and we strive to undertake the same diligent approach to managing our own ESG practices that we compel among our portfolio companies.

GOOD GOVERNANCE

Cartica is transparent with our clients about our own corporate governance practices. Cartica's Board of Directors is responsible for managing the business and affairs of the General Partner, including any conflicts of interest that may arise. Our Board includes three Independent Directors, plus Cartica CEO Teresa Barger and Cartica COO and President Steve Quamme. Three out of five Board members are women.

DIVERSITY AND INCLUSION

Cartica is majority women-owned and women-led, and we believe that our human capital is the most valuable asset we have. Cartica is committed to nurturing an environment where everyone can thrive, and we seek to integrate diversity, equity, and inclusion into our investment activities and organizational practices.

SUSTAINABILITY

Cartica measures the carbon emissions of our own business operations, and we partner with CarbonFund.org to offset the negative environmental impact of those emissions. Our sustainability efforts are led by the Sustainability Committee, which reports to the Investment Committee and the Board. Please see the Cartica Sustainability Policy for more information on how we seek to reduce and offset our emissions over time.

CULTURE

Cartica seeks to promote a corporate culture that supports our strategy and collective values. Cartica's Culture Committee is led by CEO Teresa Barger. The committee works to promote Cartica's culture, increase employee understanding of our strategy and values, and support employees so that they can embody the culture at work.

VOTING

Cartica has taken the Day for Democracy pledge, and we give all employees time off to register to vote and to participate in local and national elections.

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[i] Friede, Busch, & Bassen. ESG and financial performance: aggregated evidence from more than 2000 empirical studies (https://www.tandfonline.com/doi/full/10.1080/20430795.2015.1118917)