



KWI Asset Management Company Limited

ESG Framework and Policy

1) Background

KWI Asset Management Company Limited was granted a license to undertake Mutual Fund and Private Fund management businesses by the Ministry of Finance under the supervision of the Office of the Securities and Exchange Commission (SEC). The company officially commenced operations on May 10, 2007. We currently operate 3 core businesses, which include Mutual Fund Management, Private Fund Management, and Provident Fund Management. The mutual funds under management consist of Foreign Investment Fund (FIF), Thai Equity Fund, Fund with a tax benefit (LTF/RMF/SSF), and Money Market Fund.

Our core principles are set to focus on high quality investments for our clients. We emphasize quality over quantity to create sustainable performance. When it comes to the concept of sustainability, we believe it goes way beyond the concept of just financial strength or attractive valuation. We embrace the investment that helps make the world a better place by focusing on the environment, social, and governance. We believe Environmental, Social, and Governance (ESG) is a key factor in helping us find high quality investment that would yield sustainable performance.

2) Risk and Challenge

While we pay close attention to all ESG risks for our investment universe, we believe Corporate Governance is the most important aspect of ESG issues for companies in Thailand. As Thailand is a developing country, policies on corporate governance could be considered weaker compared to some developed countries. Therefore, it's very important to look for companies that demonstrate strong ethical conduct. We pay close attention, but not limited, to companies' anti-corruption policies, minority shareholders' treatment behavior, political lobbying and donations, and insider transactions. We believe companies that show inadequacy in these policies, not only reflect their bad reputation, but it also bodes badly for their future competitiveness.

The key challenge for Thai companies is the corporate governance culture where most of the corporates, especially mid-sized and small companies, are family-owned and in some cases may not treat minority shareholders fairly. The cases are usually evident through the related party transactions that companies conduct. This is an area we pay particular attention to when evaluating investment opportunities.

Nevertheless, the situation of the mentioned challenge has been improving, thanks to the effectiveness of regulatory enforcement mechanisms (i.e. reporting, public sanctions, and others). Thai regulators, including the SEC and related investment management associations, are also playing active roles in driving improvement in the corporate governance of Thai companies in every way.

3) ESG integration

We **integrate ESG** factors into our investment process. Risks and opportunities related to ESG issues are among the factors we consider when evaluating investment opportunities. We consistently develop our in-house ESG framework, which we use to screen our investments and incorporate them into our investment process. When having a conference call with company management, we discuss ESG issues. If a company shows through their actions that they care and are responsible for these factors, we will consider including the company in our investment universe. If not, we will continue to monitor and encourage the company to improve its practices. Until the company improves its actions, we will add it to our investment universe.

As part of the bottom-up analysis, the portfolio managers and analysts take ESG issues into account when making investment decisions. Our factors include, but are not limited to, the following 19 **ESG key factors**:

- Environment
 - Carbon Emission
 - Climate Change
 - Water Use
 - Land Use
 - Raw Material Sourcing
 - Toxic Emission and Waste
 - Electronic Waste
 - Packaging Material and Waste
- Social
 - Human and Labor Management
 - Human and Labor Health and Safety
 - Product Safety and Quality
 - Private and Data Security
 - Demographic
- Governance
 - Board Structure
 - Ownership Transparency
 - Board and Management Pay
 - Corruption and Instability
 - Anti-Competitive Practices
 - Stakeholder Controversy

We evaluate these factors during the due diligence process of our investment process after a portfolio manager or analyst comes up with an investment idea. After evaluating each issue, we come up with our own in-house ESG score out of ten. The goal is to identify exposed risks and the possibility that the risks will occur. The key challenge lies in the fact that many companies in

Thailand do not publicly report on these factors as there's no regulatory requirement to do so. If there could be a reliable source that leads us to believe that the risk is measurable and the possibility is high over the near horizon, our portfolio managers and analysts would measure the event and input it into the forecast and scoring model. However, if the risk is not measurable, the discount or premium in valuation would be adjusted case-by-case as the portfolio manager or analyst see appropriate. In the worst case, a company that doesn't seem to fit within our ESG framework will not be included in our investment universe. These actions allow us to effectively integrate ESG factors into our investment process.

Our main sources to assess company or fund exposure to, and performance in relation to relevant ESG issues include, but are not limited to:

- **Company meeting notes:** we have direct conversations with the company's management and discuss ESG issues. This allows us to obtain comprehensive insight and broaden our knowledge of ESG issues specific to the company.
- **Company annual report:** we use the company's annual report to monitor the ESG performance of the company. We look for companies that take ESG issues into consideration both in corporate strategy and risk management.
- **Sustainalytics a Morningstar company:** we subscribe to Morningstar to get measurable, standardized, and reliable data on ESG as well as overall sustainability ratings and scores on equities and funds.

We use **negative screening** to omit companies that show red flags or are involved in actions that go against the ESG factors. Red flags usually appear when information provided by management and the data presented in the report appears to be in conflict. In some cases, red flags can be seen from the SEC announcement or newspaper whereby a certain company is involved in a grey course of action or is prosecuted.

4) Portfolio breakdown in the eyes of ESG

- **Equity**

- We use a bottom-up approach to actively manage our portfolios with varying risk metrics based on the risk tolerance of fund unit holders or as stated by the fund policy. ESG scores are evaluated during our investment idea generation phase. With a total **ESG score** of ten, we aim to invest in companies with an ESG score of at least 6, which means the level of the company's commitment towards ESG is average or above. After investing, we continue to monitor the company's commitment towards ESG as well as discuss and give suggestions to the management on how to address certain ESG issues. Serving **stewardship**, we actively engage with company management to maximize the company's ESG value to generate **long-term value and sustainable growth**, which is aligned with our core investment principle. We avoid companies that show red flags, put them on our negative screening list, and continue to monitor them if we find the valuation attractive.

- **Fixed Income**

- For the fixed income strategy, we aim to only invest in investment grade bonds rated by at least one organization from S&P, TRIS, or FITCH(th). As of March 30th, 2023, over 40% of our fixed income overlaps with the universe of our equity fund, which has been ESG screened. Similar to our equity investment process, we use **negative screening** to omit companies that show red flags or are involved in actions that go against the ESG factors.

- **Foreign Investment Fund (FIF)**

- The funds that we choose for our feeder funds to invest in are managed externally by master funds that are signatory to the UN-supported Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment. These funds have a well-established ESG framework and passed the ESG requirements laid out by PRI.

5) Declaration of Signatory

Regarding the cause of sustainability and responsibility in investment, we are currently signatory to the “**Statement of Commitment to Sustainable Thailand 2021**” with the Thailand Government Pension Fund and the “**Investment Governance Code (I-CODE)**” with the Thai SEC.

- As a signatory to the Statement of Commitment to Sustainable Thailand 2021, we pledged to commit to building our capacity and awareness of the UN Sustainable Development Goals and the Paris Climate Agreement. We also seek to utilize the Principles for Responsible Investment (PRI) and the Principles for Responsible Banking as a global framework for embedding sustainability into the business practices of institutional investors, asset management companies, and banks in Thailand through guidance and support provided by the United Nations, policy makers, and regulators, in particular the Ministry of Finance of Thailand.
- As a signatory to the Investment Governance Code (I-CODE), we encourage investment in companies that incorporate ESG factors into their business strategies and practices that will lead to sustainable long-term value creation to our clients, unit holders, and beneficiaries. We adopted 9 Principles listed in the I-CODE to strengthen our commitment to consistency with our role and fiduciary responsibilities.