



**TELLCAP**

TELLIGENT CAPITAL MANAGEMENT JUNE 2021

*Our Approach to ESG in China*



*Telligent Capital Management*

## Telligent Approach to ESG

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### History

- ESG is now at the forefront of the financial markets. In many forms we have been using these tools in our Greater China markets since 2004. Investors that do not adapt are taking on hidden risk.
- Conventionally, investors in China have ignored social costs and assumed the government would turn a blind eye to pollution because they were singularly focused with economic growth. However, there is now a massive shift in policy toward sustainability.
- As a pioneer for more than 17 years in meeting with managements and assessing governance, Telligent is one of the experts focused on social, environmental, and regulatory analysis in Greater China markets.

***We invest in innovative companies with shareholder friendly governance, a good track record of environmental and regulatory best practices.***

# Why should ESG matter to investors?

51 billion tons of greenhouse gases are released into the atmosphere each year. These gases are believed to remain in the atmosphere for thousands of years.<sup>1</sup>

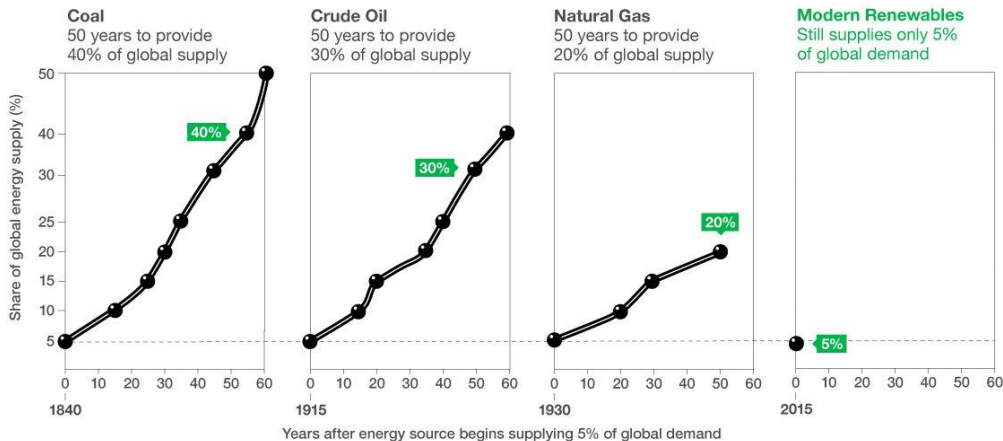
1. Doing nothing means climate change will worsen. The impact on humans could be catastrophic. As fiduciaries and stewards, one goal must be a **sustainable** future.
2. Incorporating ESG factors into an investment portfolio makes it more **resilient** to external shocks.
3. This transformation towards a low-carbon global economy will create **huge opportunities in innovation**.



California wildfire 2020. According to Munich Re, climate change has increased the wildfire risk.

## Energy Transitions Take (a Lot of) Time

It has taken decades for major energy sources to provide a significant share of global supply.



Source: Vaclav Smil. Modern renewables include: wind, solar, and modern biofuels

(1) Bill Gates, *How to Avoid a Climate Disaster*

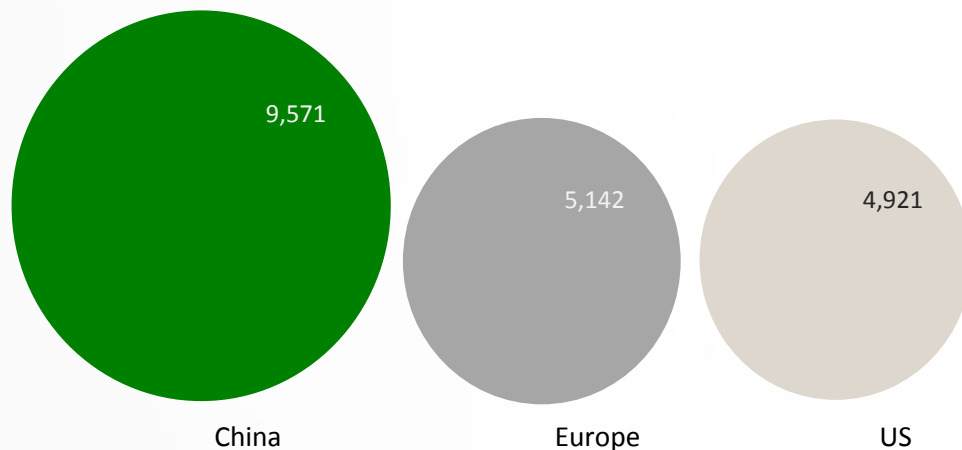
## Why ESG in China?

*“China has the most progressive and pro-environmental rules of any large economy. They are super supportive of electric vehicles, solar power, wind.”<sup>1</sup>*

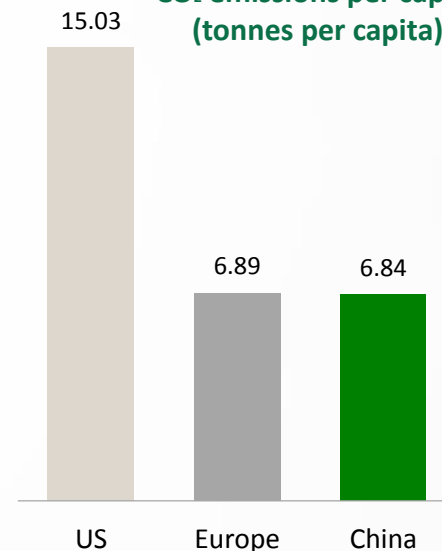
*- Elon Musk, February 2021*

- **Governance** is and will continue to be the **greatest driver of shareholder returns** and alpha generation.
- The government is serious. There is a huge regulatory push. Carbon neutrality by 2060 is a line in the sand. China will need to play a key role in solving global climate change.
- China is however currently behind advanced economies in implementing and using ESG in financial markets. **There is a massive transition underway.**

CO<sub>2</sub> emissions by region  
(million tonnes)



CO<sub>2</sub> emissions per capita  
(tonnes per capita)



Source: IEA, CO<sub>2</sub> Emissions from Fuel Combustion 2018  
(1) Elon Musk interview on Joe Rogan Experience podcast #1609

## 3 ways we implement ESG at Telligent



### 1. Exclusion list

Sectors we decide to exclude because of unanalyzable risk, regulatory exposure, or risks of stranded assets.



### 2. ESG integration

Incorporating ESG data and factors into our fundamental analysis with a focus on materiality.



### 3. Engagement

Aligning with leading organizations and also directly working with portfolio companies.

## Exclusion List

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As signatories of **United Nations Principles of Responsible Investment**, we adopt a principles-based approach to ESG matters. As part of this process, we place companies or industries which we regard as unsuitable investments on an Exclusion List.

These are sectors where there are risks of stranded assets or potential regulatory exposure.

Industries we do **NOT** invest in:



## ESG Integration

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- In our experience, of the 3 factors, E, S, and G. - Governance has been the most significant driver of shareholder value. *Especially* since we invest in China a place known for inconsistent corporate governance. **Focusing on good governance can generate alpha.**
- There are numerous studies looking at the different factors, and how they impact shareholder returns. A recent MSCI study from last year looked at data from 2006-2019. One of their findings was Governance was a better indicator alone than equal weighting E, S, and G combined.<sup>1</sup>
- Each sector has different material factors. **We integrate materiality into our analysis.** In some sectors, environment factors have much more impact than others. We use our experience across different sectors to determine materiality. These are the factors that have the most impact on shareholder returns.

<sup>1</sup> *The Journal of Impact & ESG Investing, Fall 2020. Combining E, S, and G Scores: An Exploration of Alternative Weighting Schemes, MSCI.*

# Telligent ESG Materiality Map

Our analysts extend the work of Sustainable Accounting Standards Board (SASB) and modify it to include local realities. We identify and analyze industry specific risks and materiality for each company depending on the industry.

ESG issues		Investing industries					
		Apparel, Accessories & Footwear	Biotechnology & Pharmaceuticals	Industrial Machinery & Goods	Internet Media & Services	Technology Hardware	Real Estate
Environmental	Greenhouse gas emissions			●			
	Energy management			●●●	●●●		●●●
	Waste management	●●	●●	●●		●●	●●●
	Ecological impacts of supply chain and products	●●		●●		●●	●●●
Social	Customer privacy & data security				●●●	●●●	
	Product quality & safety	●●●	●●●	●●●	●●	●●	●●
	Human rights & community relations	●●	●●●	●		●	●●
Governance	Management reputation	●●●	●●●	●●●	●●●	●●●	●●●
	Business ethics	●●	●●●	●●	●●	●●	●●
	Legal regulation management		●●		●●	●●	●●
	Critical incident risk management		●●		●●		●●
	Systemic risk management		●		●	●	●●
	Board structure and gender diversity	●●	●●	●●	●●	●●	●●



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## Engagement

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*In the latest PRI 2020 Assessment, Telligent Capital Management was “A” rated\**

- Sustainability and ESG is larger than any one firm or country.
- There is still tremendous progress to be made around the world.
- It's important to collaborate and benefit from collective wisdom of partners.



*We're working with thought leaders*

Signatory of:



The Forum for Sustainable and Responsible Investment



*\*A copy of the PRI 2020 Assessment Report can be provided upon request*



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## Why ESG now?

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- If you invest in China without ESG, you are taking serious and potentially costly risks. There is seismic change in public attitudes and government regulations and policies.
- A shift to a more sustainable economy is underway. There will be massive opportunities created in this transformation.
- We use sustainable investing to both lower risk and find opportunities.

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