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Emerging Markets Insights: Strengthening Data through Engagement

December 2024



Strengthening Data through Engagement

The mutually beneficial outcome between investors and investees through engagement efforts should not be underestimated. Stewardship is therefore embedded into Osmosis' investment strategy, and is guided and supported by an active engagement programme. Osmosis finds that investors' engagement efforts can greatly contribute to an improvement in the quality of data disclosed by companies and is a key element of long-term value creation.

Key takeaways

- **Engagement efforts.** In 2024, Osmosis engaged with 315 emerging market companies for the clarification and refinement of their disclosed data, promoting better sustainability reporting and to address specific issues through collaboration.
- **Engagement and data quality.** Sustainability reporting mandates increase disclosure levels, but we find that direct engagement plays a vital role in the quality of environmental data disclosed.
- **Measurement and continuous development of engagement strategy.** To achieve an effective engagement, measurement is necessary. Osmosis is continuously reviewing its engagement strategies, aiming to enhance the success of individual and collective forms of investor dialogue.

How does Osmosis define engagement?

At Osmosis, active engagement serves as one of the three core pillars of our investment philosophy.

As a sustainable investment manager, we believe our responsibility extends beyond just delivering financial returns to our clients. We are therefore committed to fostering well-functioning markets by promoting sustainable corporate practices, and engagement is one of the key methods we employ to achieve this goal.

Given the importance of corporate environmental data in our investment approach, our primary engagement focus is to enhance transparency in non-financial disclosures. Over the past two years, as part of our in-depth research into Emerging Market (EM) data, we have been evaluating entities' sustainability metrics and encouraging companies in these markets to adopt more comprehensive and comparable sustainability reporting. We believe that companies that disclose their environmental footprint are more likely to take proactive steps to measure, manage, and reduce their impact. As such, our engagement goals in EM centre on improving the clarity and quality of data collection in order to advance corporate sustainability reporting practices, through both individual and collaborative engagement practices. Outside of this, we are also involved in engagement campaigns on broader ESG issues.

Are engagement efforts leading to better data quality?

Within a dynamic and evolving regulatory landscape, engagement can help improve data quality over time.

Osmosis finds engagement with EM entities to be especially important given that environmental reporting practices are less established in some countries. On the whole, however, we have been impressed with corporate efforts to upgrade disclosure transparency and standardise their reporting methods, thereby ensuring data quality. This was evidenced through different constructive dialogues with corporates during the year; see case studies below.



Case study: Strengthening reporting

Issue:

A South Korean company from the automobiles sector disclosed inconsistent water metrics in its 2024 Sustainability Report. The total sum of tap water and groundwater withdrawals did not add up to total water withdrawals in 2023 and was not comparable to previous reporting years. This also made the data incomparable to its peers and therefore not fit for use in portfolio construction.

Outcomes and next steps:

The company highlighted to us that while it has historically provided figures separated by water sources, 2024's data was aggregated due to changes in its internal data management standards. Upon reviewing our suggestions, the firm has agreed to revert to the previous standardised reporting method for clarity. The outcomes of this engagement will be reflected in the next reporting period.

Case study: Data clarification and refinement

Issue:

We reached out to a Chinese company from the electronic and electrical equipment sector regarding water management metrics. The firm did not disclose water intake by water source; therefore, we asked if they could provide us with the breakdown by water source to take granular values for our model.

Outcomes and next steps:

The company explained that all water extraction comes from a single source: municipal water. It also confirmed that this detail will be clarified in future sustainability reports. Outcomes of this engagement will be reflected in the next reporting period.

Increased scrutiny allows investors to make more informed investment decisions

Osmosis believes that increased scrutiny of corporate reporting can lead to better data quality. Our team of environmental researchers offer extensive expertise, ensuring a deep understanding of corporate environmental disclosures and enabling us to identify both errors and gaps in the data. After identifying errors we reach out directly to companies, generally leading to productive conversations and the subsequent correction of reporting errors. Such dialogue improves the data quality that we feed into our Model of Resource Efficiency (MoRE), ensuring our investment decisions are conducted on high quality information, as well as encouraging best disclosure practices in the market.

It is vital that we feel confident with the accuracy and robustness of the data held in our model. Therefore, before launching our Emerging Markets Strategy, we focused on issues that presented themselves during the validation process, corporate engagement and subsequently on data refining. Some of the issues encountered included organisational and operational boundary reporting, definitions of key environmental performance indicators, data increase and/or decrease over time, reports missing, business models, time-lag data, and lack of granularity in the data disclosed. If we find that a particular company's data does not fit industry trends, it becomes part of an active and ongoing engagement process to sustain the accuracy and consistency of our model, MoRE.



Case study: Carbon data clarification

Issue:

A Chinese company from the electronic and electrical equipment sector has stopped disclosing emissions by scopes (location and market-based) in its 2023 Environmental, Social and Governance Report. We reached out to them trying to understand the reason why they stopped disclosing granularly by scopes, since in the previous 2022 ESG Report it was included.

Outcomes and next steps:

The company clarified to us that the change was due to the implementation of new processes to strengthen its verification and certification of greenhouse gas emissions in that year. The company had engaged with a third-party certification body to verify their emissions data for the past three years. This further improved the scope of the company's greenhouse gas inventory and standardised its calculation methods, as they work to rely on verified data and set more scientific carbon targets and pathways.

Outcomes achieved through engagement

Osmosis is increasing its regional, geographical and sectoral engagement efforts. Our engagement process is not run on a strategy or product level, we involve all entities of the MSCI Emerging Markets Index in our programmes.

In 2024, our environmental research team engaged with a total of 315 companies from the EM. 82% of our engagement effort was directed to the Asia-Pacific region, followed by EMEA and the Americas, shown in Figure 1. We contacted corporates from 21 countries out of the 24 countries from the Index. China, India, South Korea and Taiwan stand out as main countries for our engagement efforts as shown in the Figure 1, reflecting their importance within the Index by count and weight.

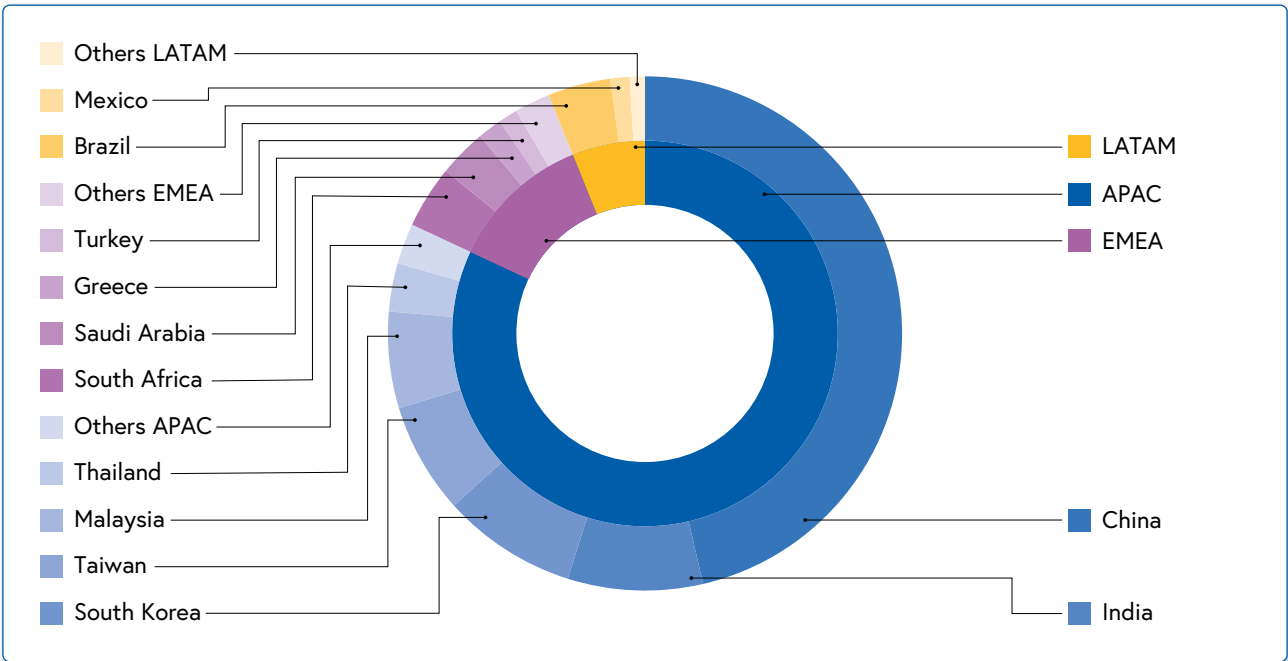


Figure 1. Geographical engagement efforts. Data as at end December 2024.



Our whole economy approach means that we engage with entities across all GICS sectors except for financials and REITs, as illustrated in Figure 2 below. The materials, consumer discretionary, energy, and industrial GICS sectors had the highest number of engagements as of the end of December 2024. This is notable due to these sectors being 'heavier', in general emitting high levels of carbon and consuming high quantities of water in their operations, of particular relevance in the construction & materials and chemicals Osmosis sectors (sitting within GICS materials). The consumer discretionary GICS sector generates particularly high quantities of waste, largely driven by contributions from the beverages Osmosis sector.

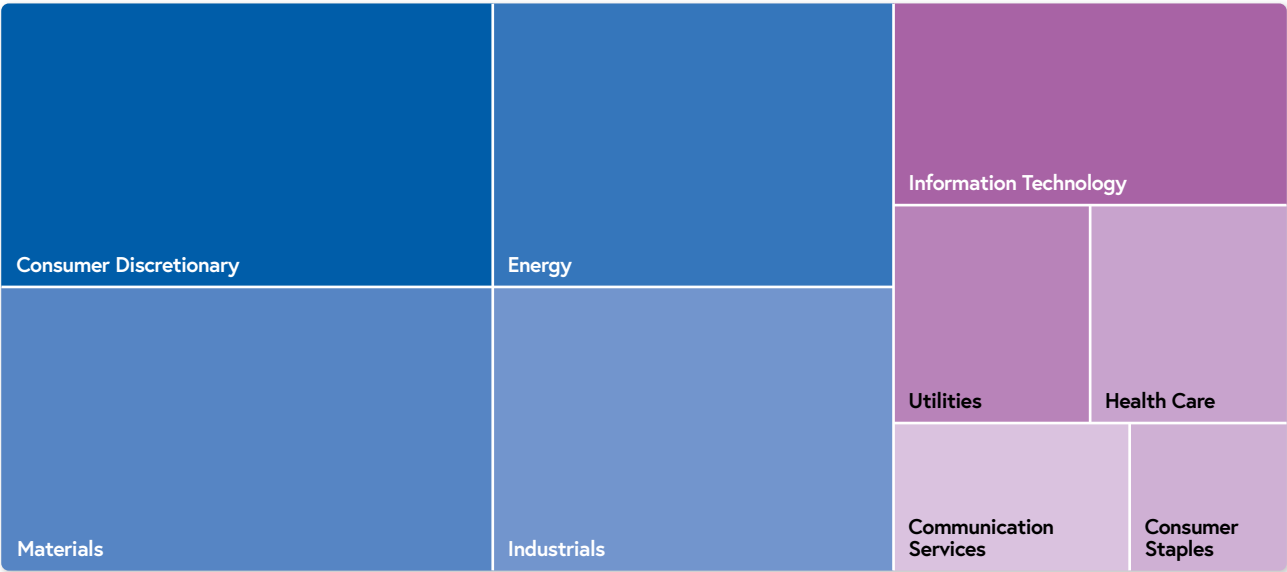


Figure 2: Sectoral engagement efforts. Data as at end December 2024.

The power of joining forces to achieve meaningful impact

Osmosis works in collaboration with key organisations in the responsible investment community. The United Nations Principles of Responsible Investment, Climate Action 100+, the Carbon Disclosure Project and the Oxford Martin Principles are some of the campaigns we actively cooperate with in both developed and emerging markets. Our joint objectives include:

- Supporting a global network of investor signatories in incorporating ESG factors into investment decisions;
- Climate-conscious engagement with highly polluting sectors;
- Ensuring the largest corporate carbon emitters take required action on climate change;
- Incentivising corporations to disclose their impacts on material environmental topics.

In 2024, as part of the annual CDP Non-Disclosure Campaign, Osmosis, as a lead investor, engaged with a total of 11 companies from the EM: five companies from China, four from South Korea, two from India. The campaign targeted high impact companies that failed to disclose information regarding environmental issues in previous years and invited signatories to directly engage with companies to obtain relevant climate, water and forest data. **In total, three recipients responded** to the questionnaires that Osmosis sent out. With the data received, the CDP was able to add relevant water and climate data points on several new companies and we were able to inform and update our model.

Osmosis also directly targets decarbonisation within the EM, demonstrated through our engagement with a total of 72 companies for the Oxford Martin Principles program, which ran from January to December 2024 and seeks climate-aware engagement with highly polluting sectors, including oil & gas, industrial metals and mining, as well



as the chemicals sector. We will continue targeting companies within this group, as EM have greater sectoral intensities, partly due to a larger dependence on fossil fuels, and therefore greater potential for environmental footprint savings. We believe that over the longer term, systematically engaging with corporates in highly polluting sectors is a better solution than divesting, and supports the much needed transition to a lower carbon and more sustainable economy.

In December 2024, we launched an investor-driven Non-Disclosure + Campaign to address incomplete and/or inadequate environmental data disclosures at the world's leading corporations. We are planning to launch the same campaign to target the largest companies from the EM that have not previously reported data on either carbon, water or waste.

Our engagement through a thematic lens

Viewing our engagement by theme allows us to identify specific areas of focus. The theme 'water' was one of the main topics of our engagement program this year, as observed in Figure 3 below. Osmosis considers corporate water management to be a material issue for our MoRE, and as a result we seek to improve corporate disclosure of water-related metrics across high-impact industries. In certain sectors, such as tech hardware, where water consumption in data centres has spiked dramatically in the last few years, we have seen an increase in the amount of water required to maintain daily business operations. A holistic view of water impacts by sector is therefore important and allows us to understand how companies define their water withdrawal, water consumption, water usage, water reused/recycled as well as help us identify opportunities and trends within particular industries.

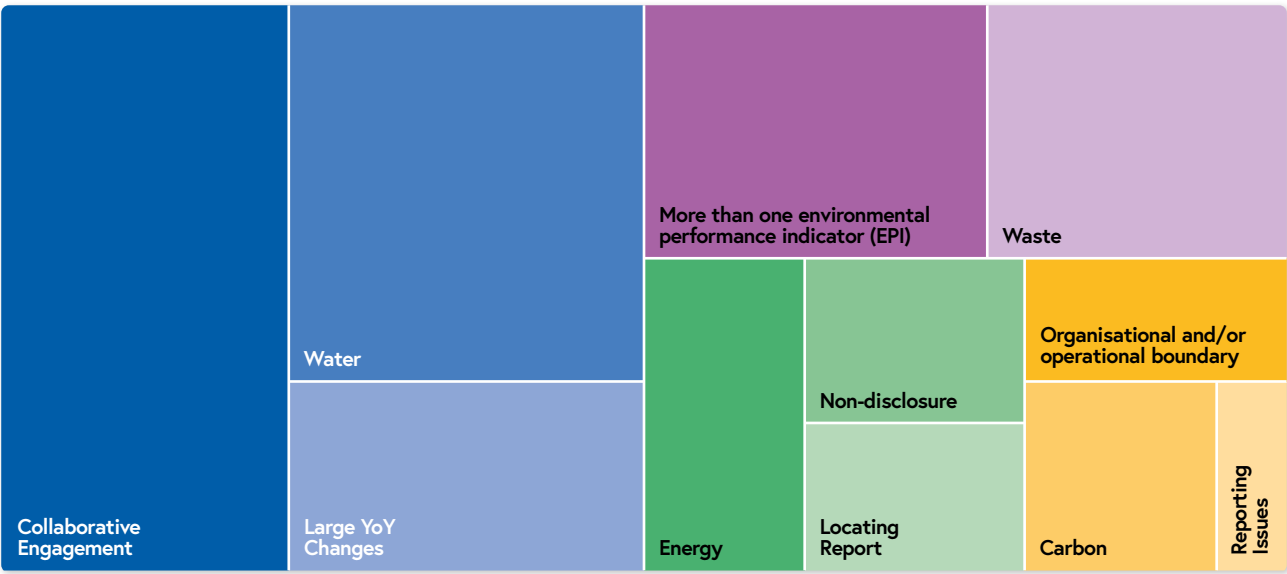


Figure 3: Engagement efforts by themes. Data as at end December 2024.

Leveraging expertise for effective engagement in the EM

Expert knowledge and experience of EM is important for successful engagement. As a firm we continue to work as a team to balance individual, collective and thematic engagements, as well as refine and improve our engagement programme policies, objectives and accountability mechanisms. This approach allows us to prioritise engagement issues in line with our objectives and to measure our progress to effectively deliver engagements across different markets, geographies and economic sectors.



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