

GIB AM Emerging Markets Active Engagement Fund
Sustainability Report
2024



GIB AM

Emerging Markets Active Engagement Fund*

Total AUM

\$62m
31/12/2024**

Fund Launch Date

29/07/2022

Fund Team

Greg Konieczny
Marcin Lewczuk
Kunal Desai
Megan le

“The past year has reaffirmed our belief that meaningful engagement is a powerful lever in driving change. This is not solely limited to improving ESG outcomes, but to unlock long-term value in emerging markets. Every conversation, every action point, and every vote we cast is rooted in a genuine partnership with our portfolio companies. I’m proud of the progress we’ve made to date, and even more excited about the road ahead.”

Greg Konieczny, Head of Global Emerging Market Equities, GIB Asset Management



Greg Konieczny
Head of Global EM Equities



Marcin Lewczuk, CFA
Co Portfolio Manager



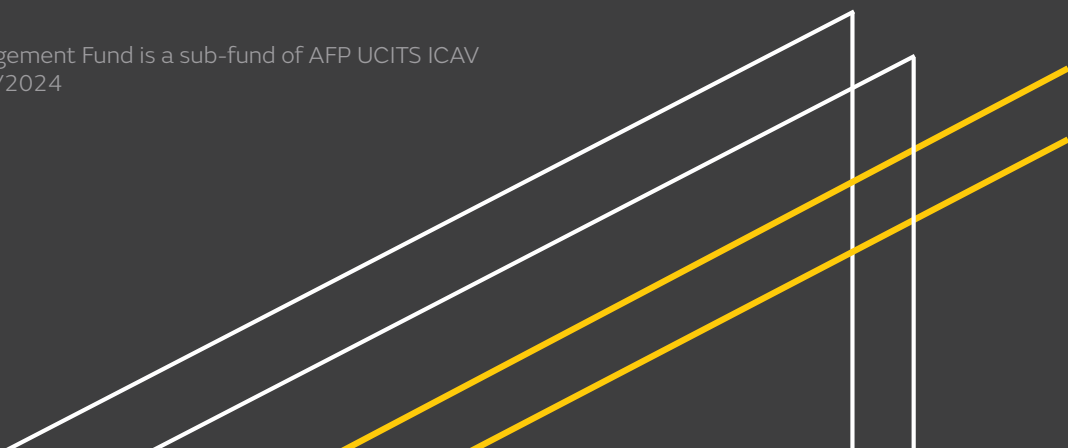
Kunal Desai, CFA
Co Portfolio Manager



Megan le
Senior Analyst

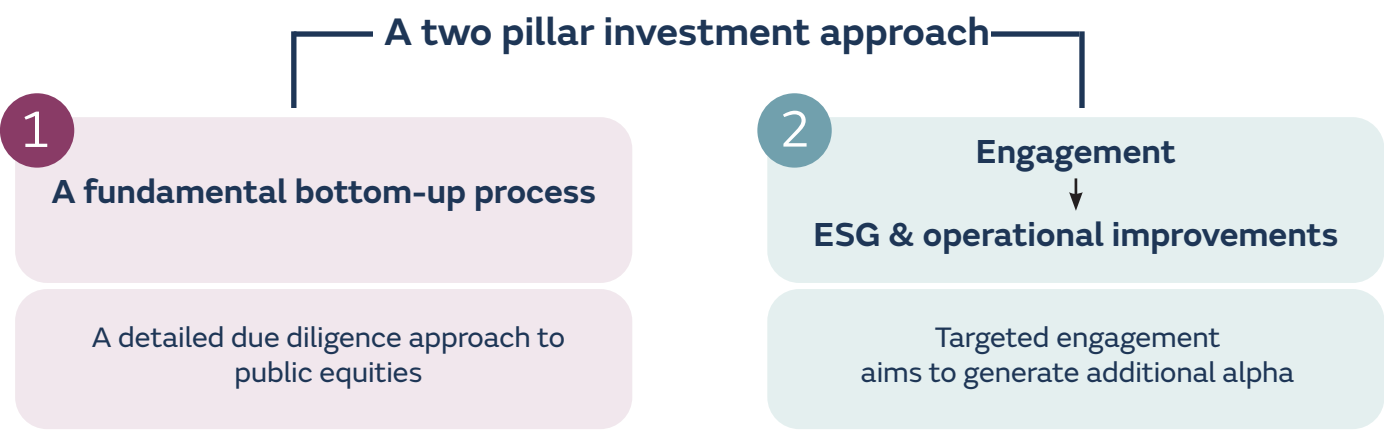
*GIB AM Emerging Markets Active Engagement Fund is a sub-fund of AFP UCITS ICAV

**Source: GIB AM Analysis , as at 29/12/2024



Process

The GIB AM Emerging Market Active Engagement Fund’s investment objective is to achieve capital growth. The strategy is underpinned by a two-pillar process, which firstly identifies undervalued businesses through its fundamentally driven bottom-up approach, and secondly engages with all portfolio companies to generate additional alpha from material ESG and operational improvements. This is reflected in a high-conviction, concentrated Fund that is both style and benchmark agnostic, with a long-term focus to harness the power of compounding cashflows and active ESG and operational improvements. The GIB AM Emerging Markets Active Engagement Fund is a global Emerging Markets Equity Fund classified as SFDR Article 8¹.



High conviction, scalable strategy	Long Term Ownership Mind-set	Established Emerging Markets team
A concentrated long term strategy with low turnover	Value creation from the power of compounding	>65 years’ combined EM experience with proven track record & clear alignment

The team believe that active engagement should remain the central driver of a business’s investment thesis and return profile rather than an afterthought once something has gone wrong. As such the investment team craft bespoke action plans for each company in the portfolio. These action plans address the most material issues to unlock hidden value and drive greater market recognition of it.

As part of these bespoke action plans, the investment team recommend targeted initiatives designed to enhance each company’s environmental and social performance. Progress is actively monitored with the goal of driving meaningful change not only in sustainability metrics but also in other goals like operational efficiency. This approach helps to reduce or mitigate environmental and social risks while minimising negative impact on stakeholders. All recommended actions and interactions are carefully tracked to ensure consistent progress and measurable improvements across every portfolio company.

¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.



Portfolio exclusions

The Fund also excludes any company with above threshold revenue exposure to the following excluded activities:

Weapons	Companies with more than 0% revenue exposure to the production of nuclear weapons, nuclear warheads, whole nuclear missiles, and/or the manufacture and retail of civilian firearms and ammunition. Companies with more than 5% revenue exposure to weapons systems, components, and support systems and services.
Tobacco, Adult Entertainment, Alcohol and Gambling	Companies with more than 5% revenue exposure to adult entertainment, to manufacturing, distributing, retailing, licensing, and/or supplying alcoholic products, to gambling-related business activities, and/or companies with more than 5% to tobacco-related business activities.
Coal	Excludes all coal power generation and coal mining extraction companies that have a threshold above 20% of revenue. Exclusion of companies with more than 0% revenue exposure to the mining of thermal coal (including lignite, anthracite, and steam coal) and its sales to external parties. Excludes all companies with annual thermal coal extraction of 70MT or more, and/or thermal coal power generation that accounts for more than 50% of revenue.
Oil & Gas	Companies with more than 0% revenue exposure to conventional oil and gas, including Arctic onshore/offshore, deep-water, shallow-water and other onshore/offshore. Excludes all companies with more than 0% revenue exposure to shale gas production, shale oil production, and/or oil sands extraction for a set of companies that own oil sands reserves and disclose evidence of deriving revenue from oil sands extraction. Also excludes any company with evidence of owning fossil fuel reserves used most likely for energy applications as determined by MSCI.
Controversy and Global Norms	The Fund excludes companies with a recent 'very severe controversies' flag as defined as an MSCI Red Flag, and companies with a 'Fail' for compliance with the United Nations Global Compact principles according to MSCI.

Case study: Pharmaceutical and personal care company²

The company is Mexico's largest pharmaceutical company; it develops, sells, and markets a range of OTC and personal care brand products. The firm's competitive advantages stem from brand loyalty, an industry-leading marketing team, and the breadth of its distribution system.

Investment case – An undervalued compounder business with multiple strategic growth opportunities and value unlocking catalysts including:

1. Clear economic moats driven by marketing skills and the breadth of the distribution system
2. Capability to improve business profitability in the future
3. Discounted valuation versus peers despite strong profitability profile

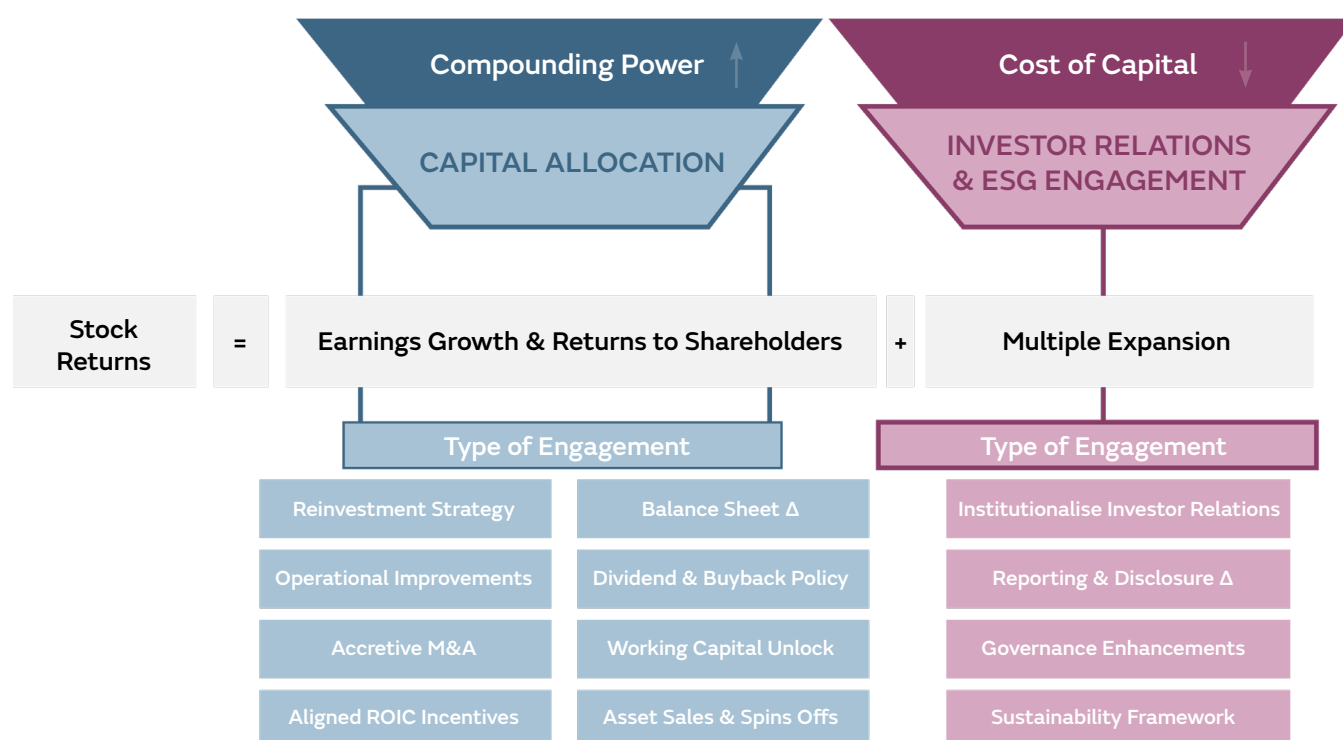
As part of the company's bespoke action plan, engagement has focused on capital efficiency, improving governance and transparency, investor relations and the evolution of the sustainability story, which should drive a deserved re-rating. This includes:

1. Working capital improvements
2. Non-core asset disposals
3. ESG KPI incorporation into management variable compensation matrix – accelerate integration of sustainability metrics (stated two year timeline) into management variable compensation (pathway to 20% contribution), and providing greater disclosure on contribution weightings
4. Net Zero plan – encourage the company to set long-term and interim SBTi approved Net Zero targets
5. Cancellation of all existing treasury shares

² GIB AM Analysis, as at 31/12/24

Engagement framework

The investment team has developed a proprietary active engagement approach to guide companies towards stronger ESG practices and improved financial performance. The goal is to enhance compounding power and reduce cost of capital, increasing economic value added and justifying higher valuations.



A key pillar of the strategy's engagement is dialogue with portfolio companies on topics related to sustainability. The investment team believes that companies that can improve on their ESG standing and address their most relevant and material sustainability risks will, eventually, benefit from reduced cost of capital and in return, higher valuation multiples.

How the investment team partners with portfolio companies on sustainability

The team's initial sustainability engagement is typically a 12-18 month process and will involve some of the following steps depending on the company's progress:

1. **Accountability:** Create a sustainability committee led by senior members of the Management team to drive the process;
2. **Materiality Matrix:** Use a deep stakeholder analysis and survey in order to identify what the most relevant and material ESG risk factors are;
3. **Sustainability Strategy:** Establish an ambitious long-term sustainability plan with a focus on four or five areas identified in the Materiality Matrix analysis;
4. **Management Alignment:** Incorporate ESG/sustainability Key Performance Indicators (KPIs) into executive compensation (initial weight should be no less than 10%; pathway to 30% contribution)

The investment team also provides the company with examples from a relevant peer group.



12-18 month process



Action

- Present **ESG engagement deck** to **company**
- Showcase **prior experience** in driving **higher sustainable returns** through **economic value added**
- Encourage a '**Sustainability Materiality Survey**' to be conducted amongst key stakeholders
- Introduce **Sustainability Committee** at Board level, or
- Appoint **Board member** responsible for **sustainability**
- Formulation of the long-term **sustainability strategy**
- Focus on **key 4-5 material areas** (aligned with UN SDG) previously identified by '**Materiality Matrix**'*
- Modify **management. Long-term incentives** to include a significant portion linked to **long-term sustainability KPIs**

Outcome

- Portfolio company creates a '**Materiality Matrix**' 2 based on the findings from their own internal survey
- Seeks to create ambitious **long-term ESG KPIs** to shape incentivisation and **alignment**
- Communication to key stakeholders and investors helps drive a **structurally lower Cost of Capital**
- Proper **alignment of management incentives** with key stakeholders
- **Ownership mentality culture**

This tailored approach is applied across all portfolio companies, enabling customised ESG targets that help to unlock hidden value and support market recognition. The purpose of the engagement plan is to reduce the exposure to the identified risk factors that might negatively impact the company's operations, the environment or broader stakeholders. For example reducing carbon emissions, increasing gender diversity, or introducing mechanisms that may improve human capital engagement levels. By linking KPIs to executive incentives, the likelihood of delivering on these sustainability goals is significantly increased.

Engagement case study: Chinese travel company³

Engagement topic: Long-term sustainability KPIs linked to remuneration

Engagement objective: The company has made notable strides in positioning itself as an emerging sustainability champion within its industry. This has been achieved by establishing a Sustainability Committee, conducting a materiality assessment, publishing a sustainability report and setting short -, medium-, and long-term targets. The investment team engaged with the company to recommend the integration of these targets into management variable compensation.

Engagement outcome: In June 2024 the Board of Directors reviewed and approved the ESG Committee's recommendations on Board compensation and sustainability-related issues, including the future ESG management plan. The company's remuneration policy now states that compensation for Board members shall be linked to the sustainable development performance of the Group. It also states that annual or long-term incentives are also based on sustainability indicators.

Next steps: These positive outcomes were disclosed in the company's latest Sustainability Report, which was published in January 2025.

³ GIB AM Analysis, as at 31/12/24

*Materiality matrix in this context refers to an organization's significant economic, environmental and social impacts, or to issues that substantively influence the assessments and the decisions of stakeholders.

Carbon emissions and intensity

A fundamental pillar of the Fund's sustainable engagement is to encourage companies to take a proactive approach to managing their total emissions. The investment team advocates for transparency and accountability, ensuring that companies are well positioned to succeed amid growing scrutiny from investors, regulators, and customers alike.

The net zero framework outlined below helps guide companies and includes a series of steps for each organisation to follow, depending on their level of progress. The investment team also provides companies with examples from a relevant peer group.

Our net zero framework



For illustrative purposes only

The investment process often results in an overweight towards asset-light companies in industries that tend to have lower emission profiles, whilst avoiding those with a more intense carbon footprint such as Energy, Utilities, and Materials. This can help to explain why the Scope 1 and 2 emissions intensity is considerably lower than that of the benchmark. However, companies can still have an outsized carbon footprint via their global value chain. So, whilst the Fund's emissions may exceed those of the benchmark in certain categories, this provides fertile ground for constructive engagement, and ultimately, investment outperformance.

Reputational and governance risk⁴

As explained earlier in this report, the portfolio excludes companies that are in breach of the UN Global Compact (which refers to OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights) through the exclusion policy.

	GIB AM Emerging Markets Active Engagement Fund	MSCI Emerging Markets Index	Active
Very Severe Controversy Exposure (%)	0.0	0.9	-0.9
UN Global Compact Compliance Violation (%)	0.0	0.9	-0.9

⁴MSCI One, as at 31/12/24



The team assesses each company's governance practices and will actively engage where enhancements can be made. Topics assessed include, but are not limited to, Board structure, Board independence, personnel/relevant experience, gender diversity, chair/management separation, committee independence, incentive structures, and related party transactions.

2024 Engagement statistics⁵

Interactions represent the total number of meetings the team have had with investee companies during 2024:

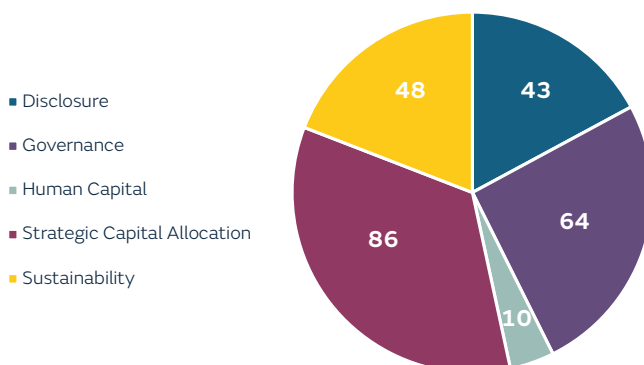
Interaction type	Count
Meeting	40
Call/presentation	37
Letter	2 ⁶
Total	79

The team identifies and engages companies on specific Action Points as part of the bespoke engagement plan developed for each portfolio company. As at 31/12/24, the team had identified and engaged on 251 engagement Actions Points across companies held within the portfolio. These Action Points target an improvement in Disclosure (17%), Governance (25%), Human Capital (4%), Strategic Capital Allocation (34%), and Sustainability (19%). They include the Action Points that have been raised with each investee company since investment, including those that are still pending, in progress, or have been successful. The purpose of raising each suggestion is to ultimately achieve one of two things:

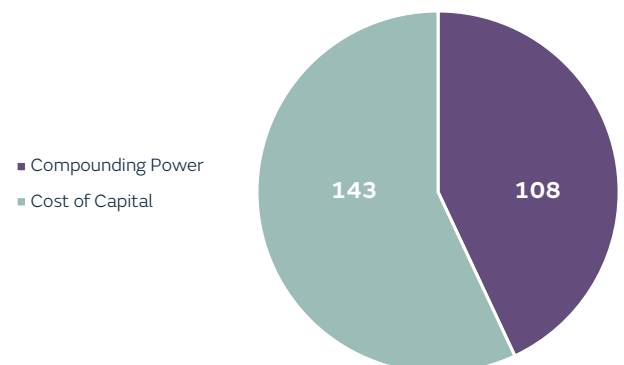
1. Augment the company's ability to compound returns; or
2. To drive a re-rating of the company's valuation multiple

As a result, the Action Points seek an improvement in either the compounding power of the business (43%) or to reduce the company's market implied cost of capital (57%).

Engagement topics



Compounding Power Vs. Cost of Capital



⁵ GIB AM Analysis, as at 31/12/24

⁶ We do not track the numbers of emails

If we examine the portfolio from a geographical perspective, Chinese and Indian companies dominate, with 62 and 43 Action Points respectively, by South Korea, Taiwan, and Brazilian companies with 37, 31, and 21 Action Points respectively.

Engagement action points by geography



Engagement progress

Engagement progress	Pending	Success	In progress
Disclosure	5	21	17
Governance	15	14	35
Human capital	5	3	2
Strategic capital allocation	13	24	49
Sustainability	2	15	31



Engagement case studies⁷

Company: South Korean Graphics Processing Unit (GPU) test socket manufacturer

Engagement topic: Reduce low-margin business activities, identify sustainability risks and set SBTi approved Net zero targets

Engagement objective: The investment team engaged frequently with the company to address concerns that were contributing to its derating in 2024. These were uncovered through calls with management and industry experts, and included the company's exposure to memory semiconductors, operational inefficiencies, and governance practices. As a result, the company was urged to phase out its lower-margin memory semiconductor business in favour of higher-margin logic-exposed operations. Recommendations were made to optimise its large cash position and Selling, General and Administrative (SG&A) cost structure, alongside enhancing governance, remuneration, and investor relations practices. To address sustainability, management was encouraged to conduct a materiality assessment and set SBTi-approved net-zero targets.

Engagement outcome: Following the engagement, the company confirmed initiatives to improve SG&A and capital efficiency, governance structure, and disclosures. Plans were disclosed to phase out its memory business while boosting short-term profitability.

Next steps: The team will continue to monitor Board nominations, value-up releases, and financial performance to assess progress.

Company: Gym operator in Saudi Arabia

Engagement topic: Sustainability risk identification

Engagement objective: The investment team engaged with the company to implement sustainability initiatives, as it lagged global peers. Engagement focused on proposing a three-step sustainability framework, beginning with a materiality survey to assess key ESG priorities among shareholders. Objectives were uncovered through research on best practices among peers and the industry. Addressing these priorities was expected to lower the company's implied cost of capital, attract sustainability-focused investors, and diversify its shareholder base.

Engagement outcome: As a result of the dialogue, the company initiated a materiality assessment to identify and tackle critical ESG concerns, marking a significant milestone in its sustainability journey.

Next steps: The investment team continues to maintain an open dialogue with the investor relations team and management to monitor the company's advancements on its ESG journey.

⁷ GiB AM Analysis, as at 31/12/24



Escalating issues

By closely tracking company developments and maintaining regular dialogue with management, the team can identify material issues early and determine the right course of action to drive meaningful change.

This direct engagement allows the team to assess whether management is addressing critical investor concerns in a timely and effective manner. Material issues are selected based on their impact on long-term value creation, the company's position relative to market expectations, and peer practices. If management is slow or insufficient on an important matter, a discussion is held to determine whether an escalation is necessary.

In the case that it is, the team formally sends a letter to the Board of Directors, and if needed, exercises voting rights in line with the Fund's objectives. Any letters sent to companies will present refined, actionable objectives directed to the board, as well as articulate the view on why the issue is material to long-term value creation, including comparative analysis with close peers where applicable.

Escalation case study⁸

Company: Manufacturer of image sensors and semiconductor products

Engagement topic: Board composition and sustainability target setting

Engagement objective: Engagement primarily focused on the implementation of improved governance practices, particularly relating to Board composition and an ESG committee to coordinate disclosure and target setting. Other key Action Points included clear articulation of the automotive CIS strategy and a review of the distribution business. Between Q4 2022 and Q2 2024, the team engaged with the company eight times through calls and meetings, including an in-person trip to Shanghai.

Escalation: Following slow progress on engagement Action Points, the team escalated matters via a letter, urging management to address key governance issues around Board independence. The team believed that the company should have been uniquely incentivised to improve Board governance given its plan to list in Europe. The extraordinary general meeting in October 2023 presented an ideal opportunity to raise these issues, given it was the company's last chance to ensure its corporate governance policies aligned with European standards.

Engagement outcome: The team decided to divest in Q2 2024, after no independent director candidates were proposed at the company's extraordinary general meeting, or at its subsequent annual general meeting in 2024. In addition, there was disappointing progress on other Action Points.

Next steps: No further action taken.

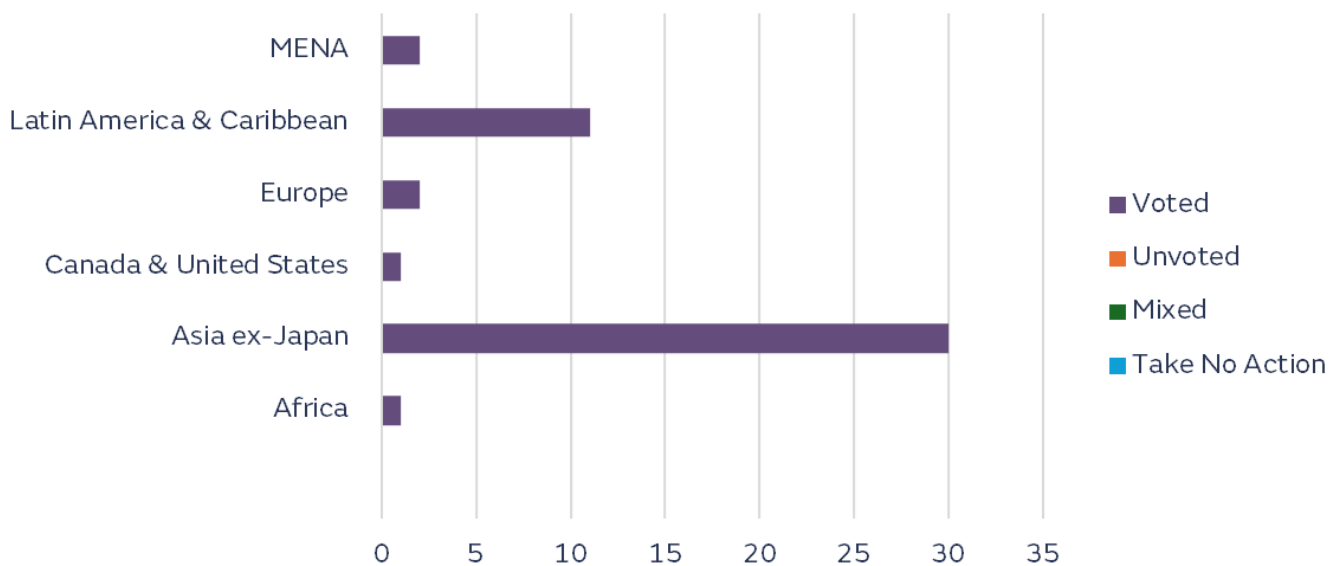
⁸ GIB AM Analysis, as at 31/12/24



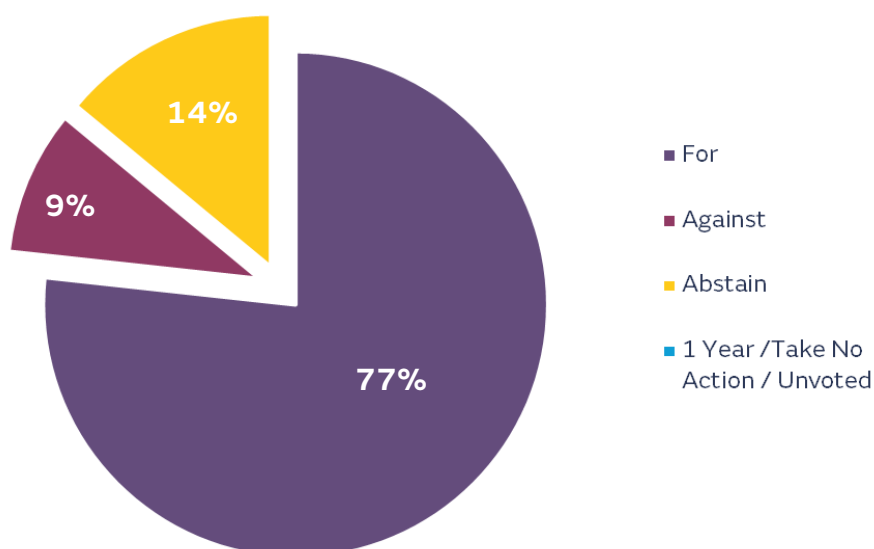
Proxy Voting⁹

The team exercises its shareholder voting rights at all meetings of investee companies. Each agenda of shareholders' meetings and all proposed resolutions are carefully analysed and reviewed by the team. In the case of any concerns, proposed meeting agendas are discussed with respective companies directly. The investment team votes with the intention of creating long-term value for clients. This is achieved by supporting motions that are expected to either lower the implied cost of capital for the company or increase the long-term compounding power of the business. As a result, votes will be cast against both management and Glass Lewis if recommendations are not considered supportive of long-term value creation. The team aims to vote on 100% of the portfolio's holdings.

Meetings by region and GIB AM EMAE voting decision

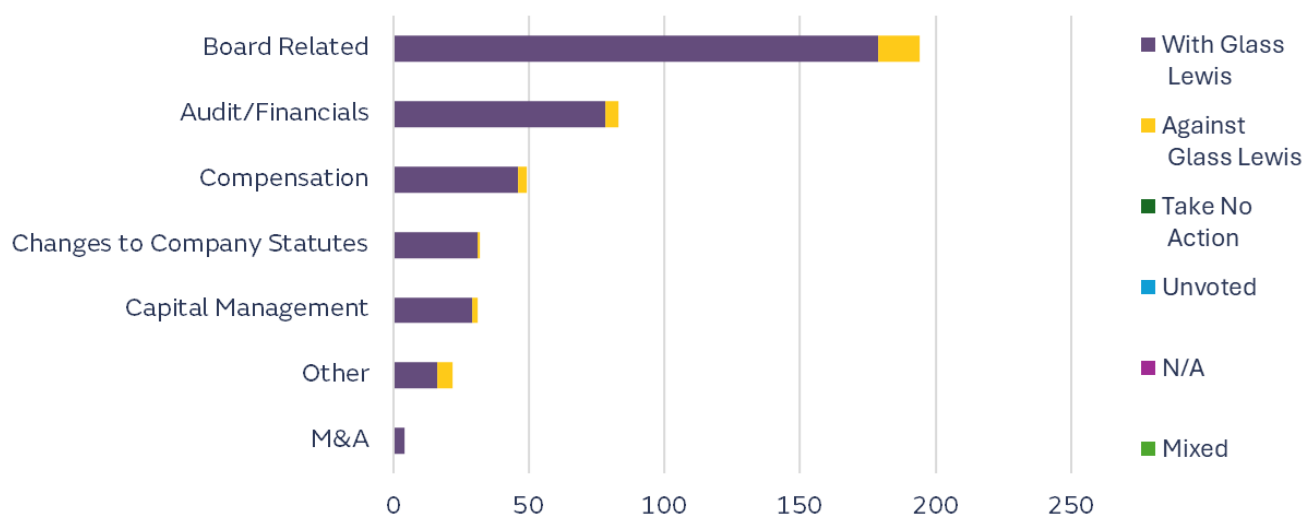


GIB AM EMAE Votes Vs Management Proposals



⁹ GIB AM Analysis, as at 31/12/24

AGM proposal topics and GIB AM EMAE voting decision



The number of resolutions proposed by shareholders is increasing around the world, particularly on environmental and social issues, although they remain relatively uncommon in emerging markets.

Proxy voting case study¹⁰

Company: Chinese financial technology company

Vote Proposal: Approve investments in listed securities.

Vote Instruction: AGAINST

Consideration: This decision was driven by concerns that the proposal conflicted with the investment team's stated capital allocation priorities. This decision was reached after extensive research on the company's prospects, and had previously been communicated to the company. Additionally, the lack of adequate disclosure regarding the rationale and strategy for these investments undermined transparency and investor confidence.

Outcome: Despite the team's opposition, the resolution was passed, prompting a re-evaluation of the position.

Next steps: This outcome ultimately contributed to the decision to exit the holding. The investment team remains committed to aligning investments with governance standards and capital allocation practices that enhance shareholder value.

To view GIB Am's proxy voting activity, please use the following [link](#)

Looking ahead to 2025, the team remain committed to continuously evaluating and enhancing the proprietary active engagement approach. Engagement with investee companies continues to be an effective and efficient way to drive change. The investment team will continue to build constructive partnerships with company management teams to guide companies towards stronger ESG practices and improved financial performance.

Themes in focus: further insights and research from the team

[Scoring beyond cycles: Brazil's equity market and the secular growth play - GIB Asset Management](#)

¹⁰ GIB AM Analysis, as at 31/12/24



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The legal documents in respect of the ICAV and each of the funds are available from www.gibam.com or directly from GIB Asset Management - the Prospectus and supplements in English, and the Key Information Document (PRIIPs KID) in the local languages of each of the EU Countries of Registration.

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