

# ESG REPORT

## EMERGING MARKETS EQUITIES

### Q3 2023

# HEXAVEST

BY  **Desjardins**  
Global Asset Management

## ESG METRICS

Statistics	Portfolio	MSCI EM
E Carbon emissions (t CO <sub>2</sub> /\$B)	69	282
E Carbon intensity (t CO <sub>2</sub> /Sales)	99	275
E Water use (m <sup>3</sup> /\$M revenue)	4 144	17 084
E Waste recycling ratio	72 %	68 %
E CO <sub>2</sub> emissions coverage (reporting)	91 %	88 %
E Renewable energy use	15 %	14 %
S Employee fatality per 100k employees	1,7	1,9
S Women managers	27 %	25 %
S Salary gap (USD)	166	145
S Access to low-price products	22 %	19 %
G Independent board members	52 %	51 %
G Sustainability compensation incentives	11 %	13 %
G Board gender diversity	16 %	15 %

Values are calculated only on the invested portion of the portfolio.  
Source: Refinitiv, September 30, 2023

## HOLDINGS WITH SEVERE ESG RISK (40+)

Stock	Country	Sector	Total Weight	ESG Risk
CHINA PETROLEUM & CHEM	China	Energy	0.57%	52.9
RELIANCE INDUSTRIES	India	Energy	-0.34%	41.0

Note: Excludes securities held indirectly via ETFs or futures.  
Source: Sustainalytics, September 30, 2023

## Shareholder engagement during the quarter

Our partner, Sustainalytics, continues to engage with Hyundai Motors. The company manufactures automobiles and auto parts and operates plants around the world. We're paying particular attention to this company following recent allegations of child labour in parts plants in the southern United States. This topic has been discussed several times at board meetings.

Stock	Country	Sector	Current Position
Hyundai Motor Corp	Korea	Consumer discretionary	Neutral

The portfolio's carbon footprint remains well below that of its benchmark index for emissions and intensity, with an intensity 64% below the index as at September 30.

At the end of the quarter, only 2 securities in the portfolio had severe ESG risk, 2 fewer than at the end of Q2 2023. The total weight of these 2 securities represents 1.8% of the portfolio, whereas the benchmark index holds 6.4% in securities with severe ESG risk levels. This 4.6% under-representation of risky securities is an improvement over the previous quarter (-3.9%).

Innovent Biologics was sold during the quarter. We reduced exposure to the health care sector in China due to an anti-corruption campaign by the government. Further government intervention is possible, so we chose to be cautious and reduced our exposure to the sector. In the materials sector, Jiangxi Copper was also sold. We will reconsider this security once its ESG score has improved.

Petroleiro Brasileiro (Petrobras) saw a significant improvement in its score, which now stands at 34.8. The company recently published its latest CDP report. They have improved their management of offshore drilling, biodiversity and greenhouse gas emissions. Although the company has seen its rate of lost-time incidents deteriorate, it has since improved its health and safety management system. The company has also strengthened its human rights and Indigenous rights policies and community development programs.

## Topics covered:

- Leadership in the electric vehicle industry
- Board structure: Following an independent review of the Board's effectiveness, 2 independent members were added to the Board during the year
- Quarterly Board review of ESG issues with feedback loop
- Product reminders and coverage costs
- Relationship with unions and application of HR management tools across global operations

## Update of our ESG ranking of countries

### Main changes in 2023

Vietnam has been added to the ranking. Although not part of the MSCI EM Index, Vietnam is gaining in importance within Southeast Asia. Furthermore, country data is available on most of the ranking's indicators. Vietnam sits in the bottom half of the list, ranking 18 out of 26 countries.

Publication of the *Ease of doing business* indicator was suspended due to data irregularities published by certain countries, including China. The World Bank is currently studying this issue and is developing a new methodology so that a new ranking can be released. In the meantime, the World Bank offers alternatives. As a result, we replaced the indicator with the *Heritage Foundation's Economic Freedom Index*.

Taiwan's ranking is now more representative, as we increased coverage of the Social component's indicators. In total, the country's coverage increased from 25% to 43%.

### 2023 ESG ranking of emerging countries

Country	Rank	Environment (25%)		Social (25%)		Governance (50%)	
		E	Momentum E	S	Momentum S	G	Momentum G
		20%	5%	20%	5%	40%	10%
South Korea	1	15	3	4	24	1	3
Czech Republic	2	5	6	3	26	2	16
Hungary	3	4	11	10	16	6	14
Greece	4	6	2	6	21	8	2
Taiwan*	5	9	7	15	20	3	1
Poland	6	8	4	7	18	7	21
Malaysia	7	16	19	11	19	4	8
Qatar	8	26	23	5	12	5	4
United Arab Emirates	9	20	5	1	8	10	17
Chile	10	7	1	9	22	9	26
Thailand	11	18	10	14	7	12	9
Brazil	12	3	20	20	10	11	24
Kuwait	13	25	26	2	23	15	7
China	14	22	9	13	5	17	5
Peru	15	1	14	22	9	19	25
Saudi Arabia	16	24	16	8	4	20	6
Indonesia	17	13	24	23	1	13	12
Vietnam	18	17	13	18	15	18	11
Turkey	19	11	12	16	6	21	13
Colombia	20	2	15	21	25	22	19
South Africa	21	19	8	25	13	16	22
India	22	23	21	26	3	14	15
Russia	23	21	22	12	14	25	18
Mexico	24	10	18	19	17	24	23
Philippines	25	14	25	24	11	23	20
Egypt	26	12	17	17	2	26	10

Sources: DGIA, National Bank, UN, Refinitiv, Our World in Data, August 31, 2023

\*Limited data availability

### Highlights

Some country rankings changed significantly compared to 2022. For example, Mexico was ranked 17th in 2022 and is now in 24th position. This drop of 7 ranks is explained by the country's deterioration in the Environment and Governance components. More specifically, the Governance component's *Government Effectiveness* indicator—which measures the quality of policy-making and implementation, as well as the government's credibility regarding these policies—has weakened significantly over the last 5 years.

South Korea topped the rankings once again in 2023, thanks to its exemplary governance. Note that governance is given more weighting in the overall ranking due to its political and economic importance. However, we will be monitoring the country's Social component, as its trajectory was one of the worst among emerging countries.

### Integration into the investment process

The updated ESG ranking allows us to review which countries we discriminate against positively and negatively when allocating vectors by country. We now favour South Korea, Taiwan and Eastern European countries because of their high ranking, and penalize India, Mexico, South Africa and the Philippines for the opposite reason.



Source of all data and information: DGAM as at September 30, 2023, unless otherwise specified.

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