

Gateway Partners

Position statement on managing ESG risks in the portfolio

April 1, 2022

We recognise that environmental, social, and governance (“ESG”) considerations can have a substantial influence on the value of our investments and on the community at large. We think about our impact from a tactical and strategic perspective:

- In terms of our tactical focus, we identify areas for improvement, set targets, and track ESG KPIs throughout our investment, and
- As to longer-term strategies for sustainable development, we align our approach with the United Nation’s Sustainable Development Goals (SDGs). We recognise the development challenges in our footprint – emerging and developing markets of South and Southeast Asia, the Middle East, and Africa – where companies and countries are dealing with the challenges of accelerating economic development and opportunity.

This dual objective of balancing tactical ESG focus with longer-term development considerations in our investments has shaped our thinking on ESG risk management in the following ways:

- We fundamentally believe that ESG compliance is a journey for portfolio companies in our diverse, emerging and developing footprint and we are committed to playing our role in fostering best practice and high standards. In the past, we have invested in companies with low-to-high unmanageable risks, as defined by the industry, with the objective of working with portfolio companies to improve their ESG awareness, process, and outcomes. We want our investee companies to move towards best-in-class ESG processes, even within sectors with higher risk. We believe our approach will **help companies achieve high standards of governance, and positive environmental and social impact.**
- These considerations are driven by the reality that our footprint markets have basic economic development needs (energy security, food, building materials, among many others). Under conventional ESG risk management approaches, investing in these sectors from an environment perspective would be considered unmanageable, but from a social perspective, no country can achieve any development progress and related social benefits without basic goods and materials being available. For example, without cement, a country cannot achieve a basic level of industrial development and housing infrastructure. In achieving sustainable development, there are trade-offs between environmental and social objectives as this example illustrates.

Gateway is continuing to shape its ESG approach in Fund II, with a focus on driving impact and investing in priority sectors for the global economy – in healthcare, digitalisation, and in the green economy. Our objective in Fund II is to diligently deploy pre-investment ESG screening tools and align with our focus on impact and investment in priority sectors. We have a strong commitment to work with portfolio companies to strengthen their ESG approach and compliance during our investment. However, we are prepared to withdraw our participation if we observe a lack of similar commitment on the part of the portfolio company.

Some of the specific steps we have taken include:

- **ESG performance of portfolio companies:** As noted earlier, Gateway is committed to playing a responsible role in educating and advising companies on our expectations and in bringing about change through the investment cycle. As a result, we have introduced

an active and consistent monitoring of core ESG KPIs across our portfolio companies to better assess their ESG performance and improve our ESG risk management.

- **ESRA Framework:** The proprietary Environmental and Social Risk Analysis (ESRA) tool, which we rolled out in 2020, is now fully embedded in the investment process for both Funds I and II. We also carried out for the first time an ESRA portfolio review with our investment teams updating ESG information and data insights, including for the first time a comparator review of all companies in the portfolio.
- **Sustainability Outcomes:** While the ESRA has a clear set of measurements to help us assess the ESG performance of existing and upcoming investments, we added an additional layer by setting out clear targets on three key metrics – female staff representation at Gateway, Board diversity in our portfolio companies, and overall AUM exposure across three newly defined categories: Carbon intensity, Climate transition risks, and the Green economy.
- **New Policies:** While aligning the investment approach of Funds I and II with our ESG commitments was a necessary first step, they had to be validated by strong execution across the firm. Key to these are policies and processes. We have introduced several new policies, governing climate change and strong stewardship of our investments, both of which have been integrated into our standard operating procedures (“SOP”).

We believe that all these changes further strengthen Gateway’s investment approach and in the management of ESG risks across our portfolio.