

# FIM Partners

## Annual Sustainability Report 2023







## Message from our CIO

I am pleased to present FIM Partners' 2023 annual Sustainability Report.

Dubbed as the 'Year of Sustainability' by the President of the United Arab Emirates, Dubai hosted the all-important 28<sup>th</sup> Conference of the Parties (COP28) in 2023. We were privileged to attend numerous summit events and hear firsthand from leading sustainability experts and policy makers on the critical challenges and opportunities emanating from climate change.

In anticipation of COP28, many countries, especially in the Gulf region, stepped up their goals and ambitions to tackle climate change. The private sector has also been motivated to make commitments that will help those countries achieve

their environmental targets. We are witnessing this with our portfolio companies, as the number of companies that have net zero and/or reduction targets has grown over 20% since 2022.

Our commitment to continuously improve our sustainability processes was reflected in our latest UN PRI Assessment Report, where our Fixed Income sovereign and corporate strategies improved to 5-star ratings.

As we go into 2024, we will continue to build on our existing sustainability platform and engage with our investments as we play our part in building a brighter sustainable future.

**Hedi Ben Mlouka**  
Founder and CIO



# The ESG Team

The day-to-day implementation of FIM Partners' Responsible Investment Policy is overseen by the ESG Team. Members include the firm's Sustainability Lead and senior investment

professionals. In late 2023, the ESG Team was expanded to include a member from our Real Estate investment team.



**Maryam Mughal**  
Sustainability Lead



**Mohammed Ali Hussain**  
Head of Equities Research



**Marten Bressel**  
Portfolio Manager



**Kia Williams**  
Portfolio Manager



**Ali Shirazi**  
Senior Associate



# 2023 IN REVIEW: FIM PARTNERS



The key updates and developments at the firm level are as follows:

**UN PRI Assessment**

Our latest UN PRI Assessment report showed improvements across all modules. The highlight was our Fixed Income SSA and Corporate Fixed Income strategies, which improved by 13 and 15 points respectively, and attained 5-star ratings. The Listed Equities score also improved by 8 points and sustained its 4-star rating.

We laud the team’s effort in meeting these milestones and remain focused on continuing to improve our processes with the goal of remaining leaders in our space.

**Real Estate**

This year we began implementing more streamlined ESG processes for our Real Estate (RE) investments with RE investment team members becoming part of our internal sustainability governance framework. Our RE Director was admitted to the ESG Committee and a RE investment team member joined the ESG Team.

**ESG KPI Database**

Our proprietary ESG KPI database, which includes sector specific sustainability metrics and KPIs, continues to expand and has grown to over 160 companies. This wealth of data provides a unique edge considering our markets remain heavily under researched by global ESG ratings providers.

**ESG Team Training**

In September, we held our annual ESG training which was an interactive team discussion on the firm’s ESG due diligence processes with a sector specific focus. These exercises are imperative in educating the investment team on material ESG risks and opportunities during their investment due diligence.

The session began with an overview of the ESG risks faced by banks and their integral role in promoting financial and social sustainability via their lending practices. To illustrate these points, we showcased two banks from Egypt and Indonesia that consistently score as ESG leaders.

**UN PRI Assessment 2023**

Direct – Listed equity – Active fundamental – Incorporation

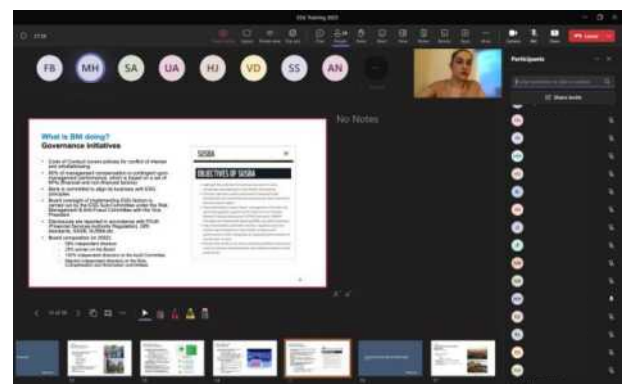
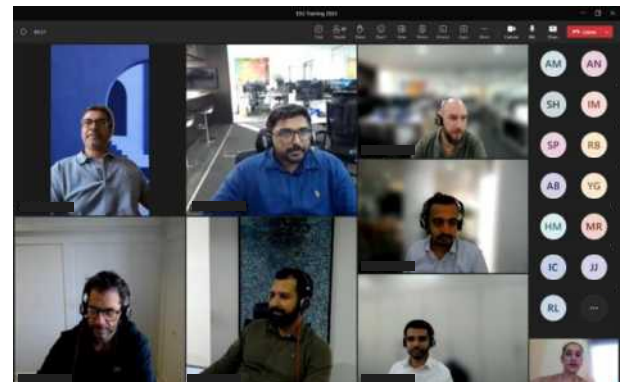
★ ★ ★ ★ ☆

Direct – Fixed Income – SSA

★ ★ ★ ★ ★

Direct – Fixed Income – Corporate

★ ★ ★ ★ ★



# Promoting Sustainability

The team participated in several panels and events during the year as we strive to enhance our knowledge set while contributing towards increasing sustainability awareness in our markets. Below are a few of the notable events that we participated in.

In June, FIM Partners' Head of Research Ali Hussain presented a case study at an ESG event titled "Mainstreaming ESG in the UAE" hosted by the Abu Dhabi Global Market (ADGM) and the Middle East

Investment Management Association (MEIMA). The event was organized to highlight the importance of ESG in investment decisions and discussing effective best practices.

Ali presented a case study highlighting our successful engagement with a Pakistani IT company where we designed a formal engagement roadmap following our initial assessment and subsequently collaborated with the management to rectify the identified deficiencies. The presentation



FIM Partners' Head of Research Mohammed Ali Hussain presenting case study at the ADX. Below: FIM Partners' Sustainability Lead Maryam Javaid Mughal participates in a Climate Risk Awareness roundtable discussion. (Photos: FIM Partners)

was well received and led to the ADGM seeking our input on their proposed Sustainable Finance Framework.

In October, the firm's Sustainability Lead Maryam Mughal attended a Climate Risk Awareness seminar organized by the Pakistan Business Council (PBC) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the Federal Ministry of Economic Cooperation and Development (BMZ).





Under this initiative, the PBC organized roundtables for local corporates to delve into sector-specific environmental issues to educate them on current and future climate risks. Maryam participated in the two-hour session which will result in the development of a guidebook aimed at assisting businesses in formulating their climate transition plans.

Lastly, the CFA Society of Pakistan invited Maryam to its 20<sup>th</sup> annual ceremony to be part of the judging panel for the ESG Reporting Award. The nominees included leading corporates from the financial, utility, manufacturing, and pharmaceutical sectors.



FIM Partners' Founder and CIO, Hedi Ben Mlouka participated as a panelist in a macroeconomic session related to Saudi Arabia during the Capital Markets & ESG Finance conference held in Riyadh in February 2023 (Photo: GFC Media). **Top:** CFA Pakistan's 20<sup>th</sup> Annual Ceremony (Photo: CFA Pakistan)

# FIM Partners at COP 28

In December 2023, we attended the 28<sup>th</sup> meeting of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC) in Dubai, UAE. At the end of the two-week negotiations, it was clear that the global momentum on climate action had been steadily building. However, there is considerable work required to limit warming to 1.5 Celsius above pre-industrial levels. Key takeaways from the different panels included:

## Importance of ESG for organizations

Panelists underlined the importance for companies to incorporate a robust ESG strategy; this builds investor confidence and shows management is aware of, and prepared for, risks such as climate change.

The discussions highlighted the regulatory shift towards ESG along with consumer preferences which have also evolved towards sustainable products/services. As such investors are encouraging companies to be more cognizant of their ESG policies and initiatives.



A panel discussion inside the Energy Transition hub.. Photos: FIM Partners



Assessing ESG risks is now considered a part of risk management and Board-level oversight on these matters is considered essential. We were pleased to see local companies like Dubai Electricity & Water Authority (DEWA) and DP World being showcased as ESG leaders on these fronts and more.

**Decarbonization of Cities**

- a) Integrated solutions for Net Zero: Need holistic approaches to decarbonization that tackle not only climate change but other social and economic challenges that are faced by cities.
- b) Measurement: Efficient cities can drive down emissions dramatically and city-level emissions need to be measured in a consistent way. Guidelines such as the Global Protocol Community Protocol and PAS 2070 present a uniform and consistent subnational government reporting and climate action planning standard that can be adopted by all cities.

**Carbon Credits**

The Dubai Financial Market ran its pilot program for trading carbon credits during COP28 with 17 large corporations. Their verification partner is VERRA, the world’s biggest verifier of voluntary carbon offsets. The goal of the initiative is to encourage carbon emission reduction and reinforce the importance of climate action in the region.

**Gender**

On the gender equality themed day during the conference, the UN Climate Change representative underlined the importance of including gender equality in ‘just transition’ policies to strengthen women’s meaningful participation, leadership, and livelihoods in climate action.

A call to action was also announced which aims to push for investing and prioritizing in gender and environmental data to ensure that just transition policies and processes are inclusive.



Different panel discussions during COP 28. Photos: FIM Partners

# 2023 IN REVIEW: EQUITIES





A comparison across key ESG metrics for EM Frontier and MENA equities are depicted below. We recognize that time series comparisons are not informative given evolving portfolio holdings. However, they do offer insights on the sustainability trends of our investment universe and the qualitative attributes of our investment underwriting process.

There is positive momentum across most indicators although room for improvement remains with regards to environmental factors. However, we are optimistic as sovereign initiatives such as Vision 2030 in Saudi Arabia and UAE’s 2030 Green Agenda are enhancing corporate environmental

awareness and will eventually translate to improved scores.

A good example of the ripple effect of sovereign initiatives is the success of gender parity reforms in the GCC region which have contributed to female board representation improving from 34% in 2021 to 55% in 2023 in MENA equities.

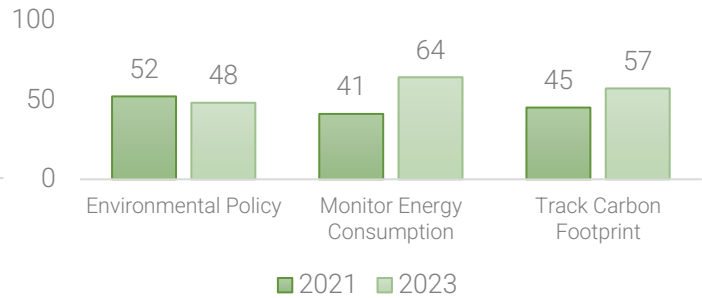
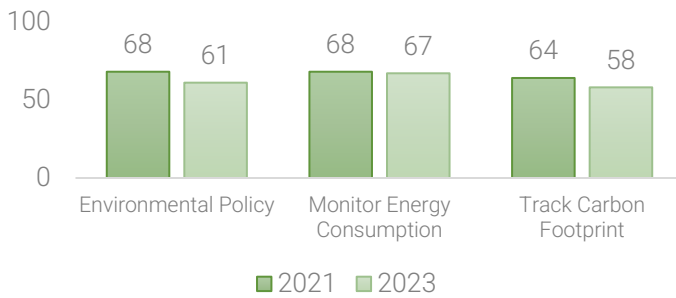
At a consolidated level, overall scoring increased by 3 to 4 points. Going forward, we will continue to engage with our portfolio companies maintaining our overall mantra of “educate not dictate” as we strive to bring positive change through the power of engagement.

**EM Frontier Equities**

**MENA Equities**

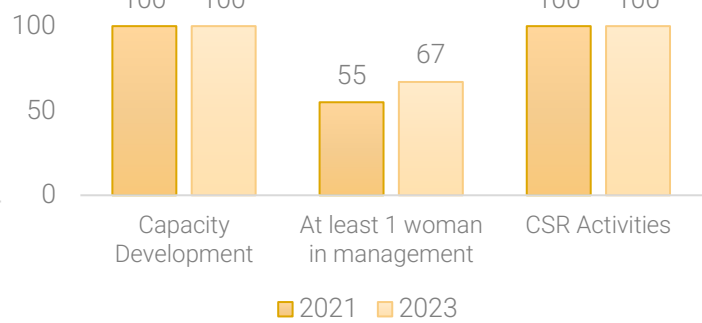
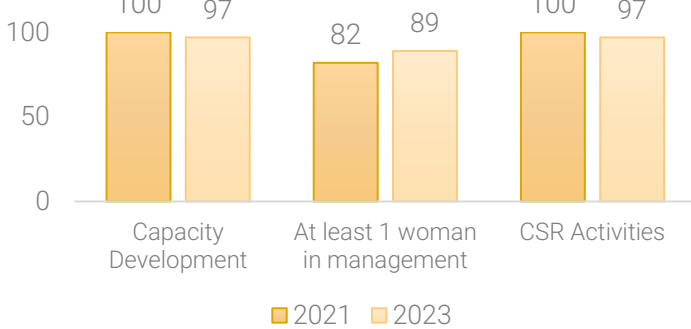
Environmental Scores (% of companies)

Environmental Scores (% of companies)



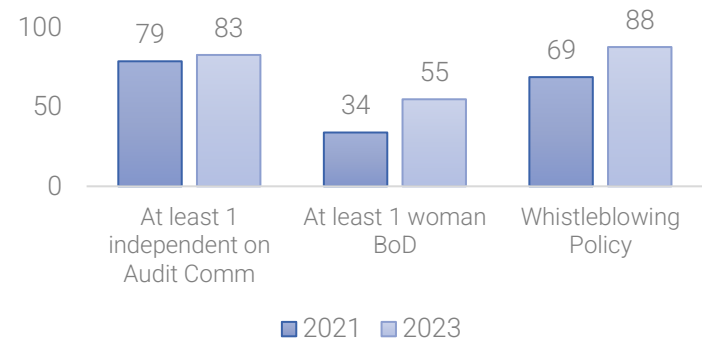
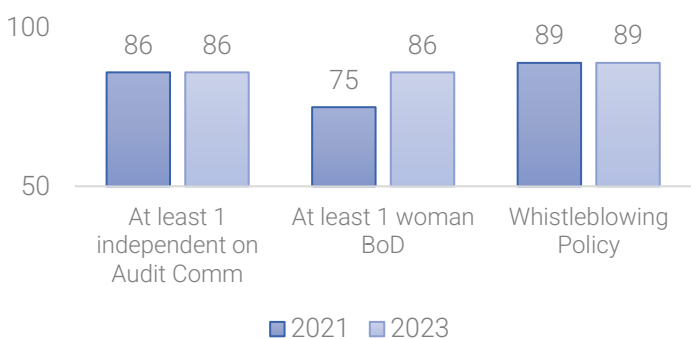
Social Scores (% of companies)

Social Scores (% of companies)



Governance Scores (% of companies)

Governance Scores (% of companies)



# Climate Change

The importance of the private sector’s contribution to climate change has been continually underlined by experts for years. This was also highlighted during the two-week international negotiations of the 28<sup>th</sup> meeting of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC).

Credible corporate actions take the form of net-zero targets which must include holistic approaches to climate action. This means working towards transitioning to lower carbon economies while ensuring that those that may potentially lose out economically are protected – this is the principle of “leave no one behind”. Thus, businesses need to not only focus on investing in renewables, adaptation methods, biodiversity conservation etc. but also need to engage with their workers and communities to build awareness on tapping into different opportunities.

In that regard, we evaluate our portfolio holdings via our Climate Change Risk Framework, the methodology of which was explained in our [2022 Sustainability Report](#). As illustrated below, more than 80% of the companies in our portfolios are in low emitting sectors with high emitters accounting for just 5% of holdings.

We are also pleased with the progress of companies that are embracing Net Zero and emission reduction targets whilst recognizing the SDGs as part of their long-term strategy. The biggest improvement has been the number of portfolio companies adopting Net Zero targets which stands at 47% in 2023 versus 21% last year.

**47%** as compared to 21% in 2022

of our equities portfolio is committed to being Net Zero by or around 2050



**50%** as compared to 33% in 2022

of our equities portfolio has established reduction targets

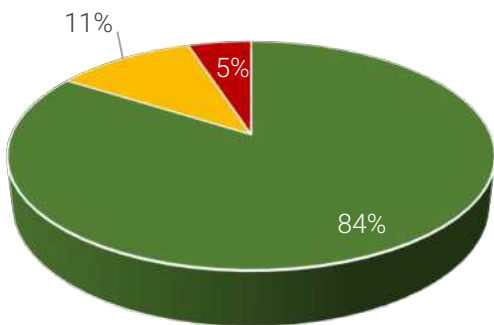


**64%** as compared to 42% in 2022

of our equities portfolio is aligned with the UN SDGs

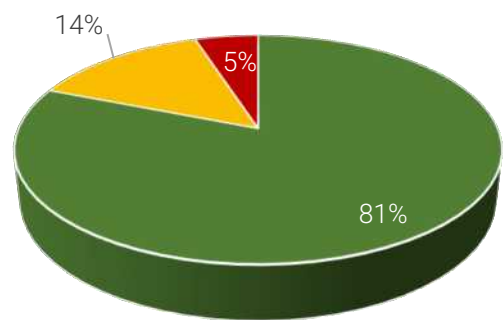


**EM Frontier Equities**



- Low Emitting Sector
- Medium Emitting Sector
- High Emitting Sector

**MENA Equities**



- Low Emitting Sector
- Medium Emitting Sector
- High Emitting Sector



## Engagement Highlights

### **African Telecom Operator**

*Issue: Data privacy breach*

The telecom operator faced a class action lawsuit based on a clause in their data privacy statement which allowed the collection and storage of customers' banking information. Such lawsuits are detrimental to brand equity and carry the potential for material financial losses.

We had been engaging with the company since the incident occurred but because it was an on-going litigation the company was unable to discuss the matter in detail. Towards the end of the year, the class action suit was suspended by the Court of Appeal. However, we have since divested our holding on fundamental grounds and have ceased to further pursue this engagement.

**Outcome:** Divestment (due to unrelated reasons)

### **Indonesian Packaged Foods Producer**

*Issue: UN Global Compact (Labor rights violation)*

News of labor violations in the company's subsidiaries palm oil plantations were reported by certain NGOs. Allegations included incidents of child labor, exposure to pesticides, and pay below minimum wage.

Given the severity of the allegations, we immediately engaged with the company representatives who confirmed that there was not any substantial evidence to support the allegations. Nonetheless, the company retained third-party consultants which concluded that the above-mentioned allegations were unfounded and that the company remained in compliance with local labor laws; a conclusion also supported by local NGOs. We continue to monitor the situation.

**Outcome:** Engagement on-going

### **Indonesian CVS Operator**

*Issue: Investor Communication*

During an investor update call held by our portfolio company's public listed parent, the management alluded to a material scale back of the expansion plans of our portfolio company which contradicted our recent in-person management meetings and prior investor communication.





We immediately engaged with our portfolio company and organized a joint call with the parent company management to clarify the matter. The parent company management acknowledged it had misstated the expansion numbers and that the original expansion plan was intact. However, we urged management to issue a public clarification that led to both companies issuing clarifications on the local stock exchange and organizing a special joint investor briefing to clarify the misstatement.

**Outcome: Engagement successful**

**Egyptian Payments Platform**

*Issue: ESG initiatives*

We have been engaging with the company for the past few years on several matters including: monitoring and disclosing their carbon footprint, issuing a sustainability report, and having a gender balanced board, to name a few. During the year, the company hired an external consultant to measure their carbon footprint, released a Code of Conduct which included social responsibility practices, and increased female board members from one to two.

**Outcome: Engagement Ongoing**

**EXTERNAL ENGAGEMENT**

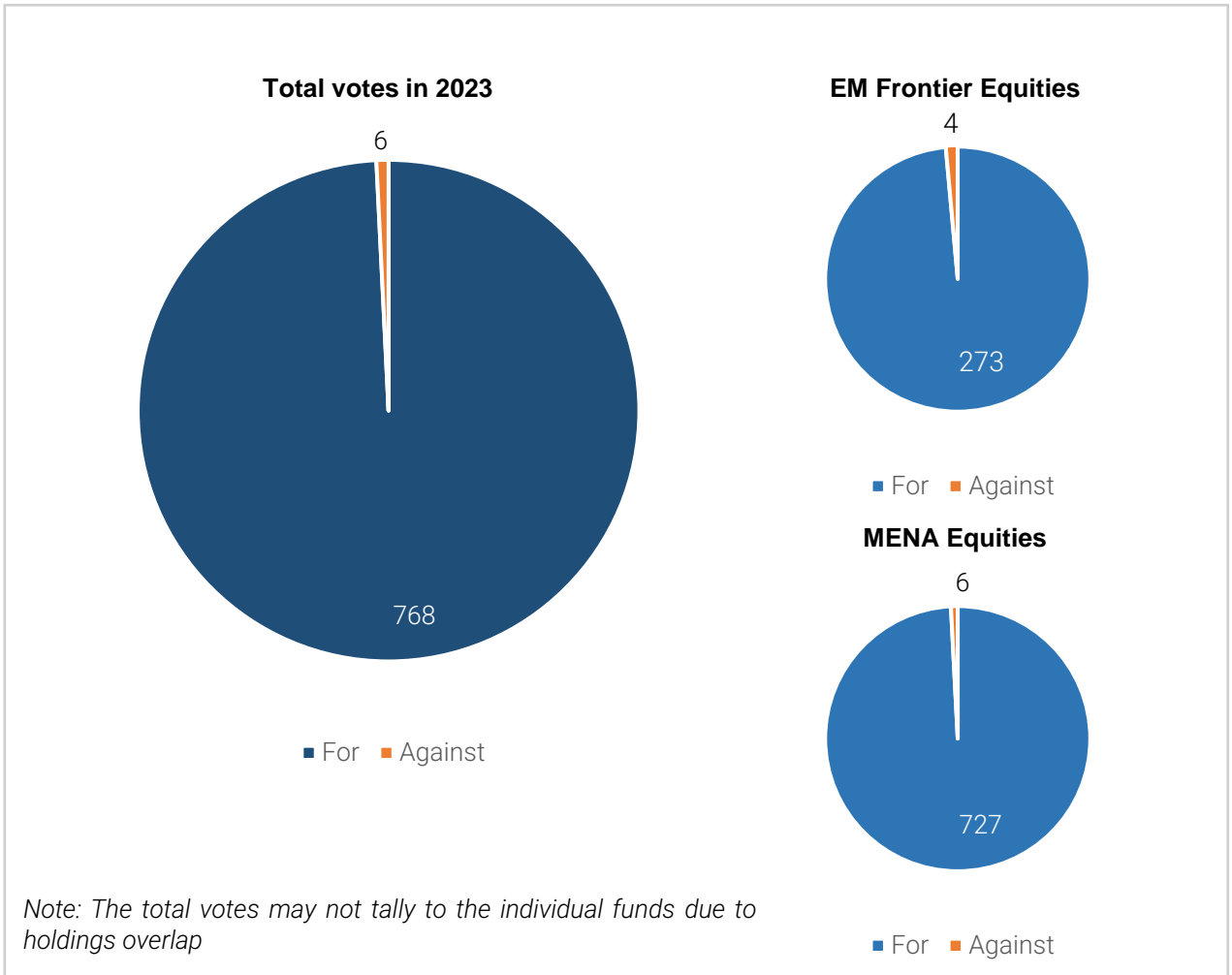
We are pleased to share that we were invited by the Saudi Arabian stock exchange (Tadawul) to participate in a consultation to a listed Saudi chemicals company seeking to become more sustainable but were not cognizant of the material ESG factors of their industry. The Tadawul’s recommendation stemmed from our past interactions on sustainability matters with the regulator and our engagements with local companies.

We were honoured by the regulator’s invitation and held numerous discussions with the company on devising an ESG roadmap based on their sector profile and encouraged them to adopt a decarbonisation pathway, which was well received.

Collaborating with stakeholders and sharing our expertise aligns with our goal to enhance sustainability awareness in our markets.



## Proxy Voting



FIM Partners’ voting activity for the year is highlighted above.

To encourage greater transparency in the industry, we will seek to provide a summary of our voting records at least annually in a format and level of detail that we see appropriate and in line with the requirements or limitations set by our clients. Where required by law, we disclose detailed voting records.

All proxy voting activities are carried out in house by the FIM Partners investment team. Our investment professionals formulate their vote recommendation based on research of the company and assessment of the specific proposal. Our investment professionals may seek to engage with the company’s executives or board members to

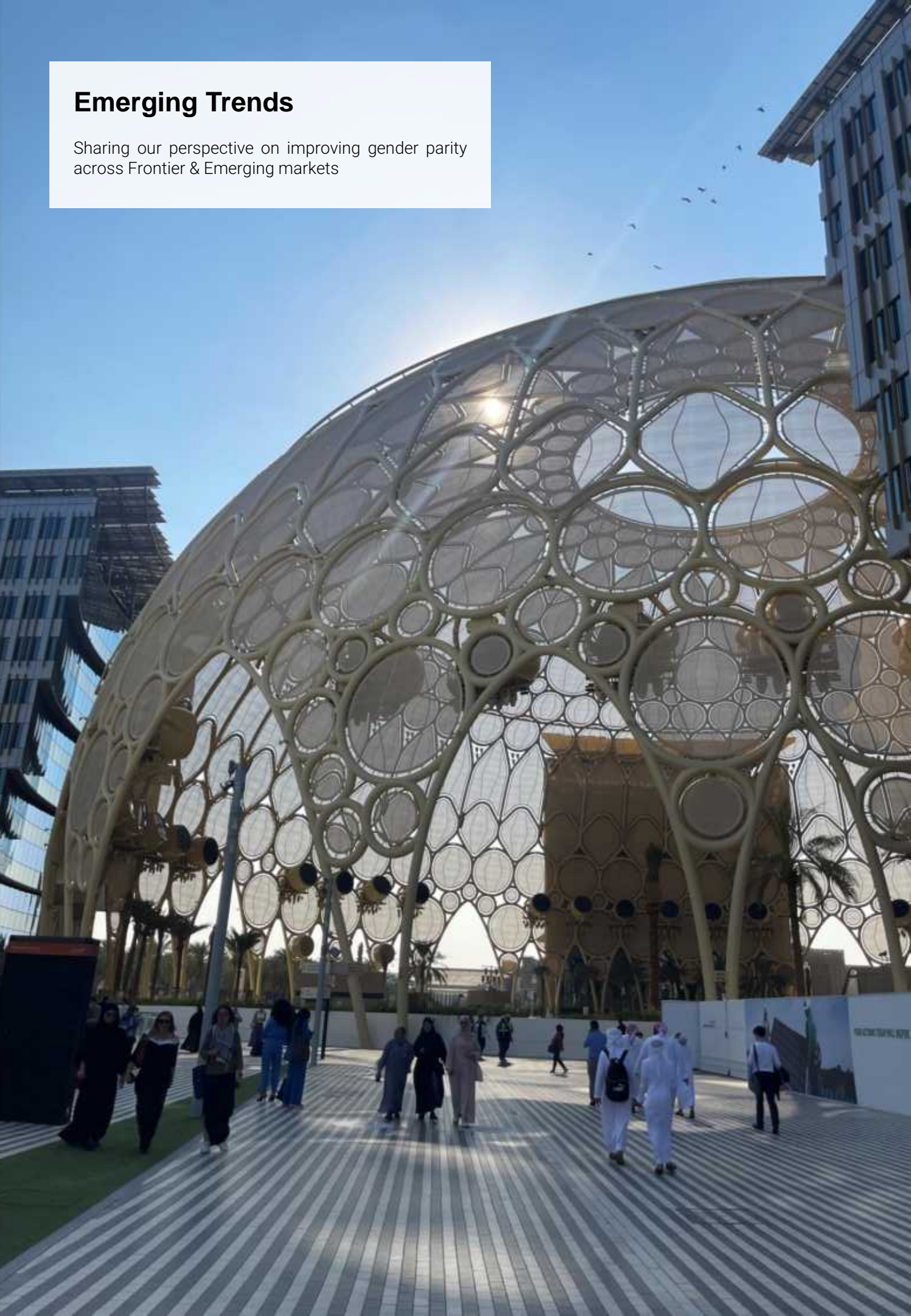
improve their understanding of a proxy proposal and/or to provide our advice on how a company can enhance their ESG practices.

All voting activity is carried out in accordance with the firm’s Proxy Voting and Corporate Action Policy. We vote in the best interest of our clients based on what we believe will amplify shareholder value as a long-term investor. We generally support proposals that require reasonable disclosure of information related to ESG or overall sustainability factors. We also support the adoption of more robust environmental or social policies.

Information on how FIM Partners voted securities within a reporting period and information regarding the rationale for proxy-voting decisions in a client’s portfolio may be provided upon request.

## Emerging Trends

Sharing our perspective on improving gender parity across Frontier & Emerging markets



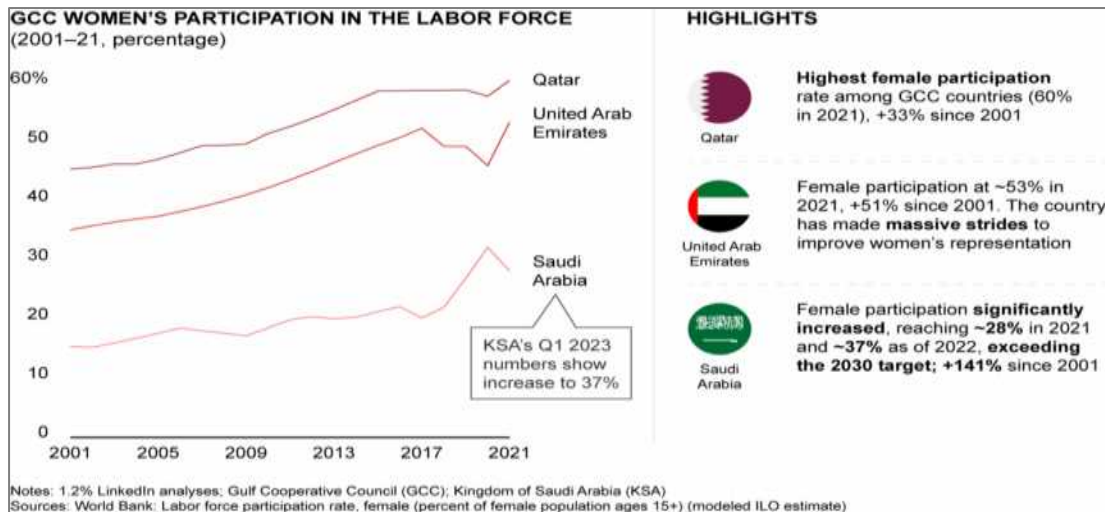
# Gender Parity: The Tide is Turning

Emerging & Frontier Markets have historically lagged their developed peers on workplace gender parity as corporates face relatively less regulatory and shareholder pressure to uphold fundamental ESG standards such as better female representation in the workforce and senior leadership<sup>(1)</sup>. However, the combination of policy reform and recognition of the importance of gender diversity across our key markets is translating to notable improvements that deserve due recognition.

The female labor force participation rate is at a wide spectrum across Emerging & Frontier markets with the likes of Pakistan, Sri Lanka, and Saudi Arabia lagging developed markets whilst Indonesia and Vietnam exceed that of the EU. Philippines is one of the highest-ranking countries in the East Asia and Pacific region that has closed almost 80% of its gender gap<sup>(2)</sup>.

It would surprise many though that it is the GCC region which is making the most notable strides in improving female workforce participation and representation in corporate leadership. Today, 62% percent of Qatari women and 55% of Emirati women are employed in the workforce, outpacing the current global average of 50%.

These achievements stem from a combination of policy reforms and commitments to internationally recognized gender equity best practices, such as the United Nation's Women's Empowerment Principles. Although there is substantial headroom to improve female representation in senior leadership positions, considering only 15 out of the 500 Fortune 500 Arabia companies are led by women, there are reasons to be optimistic. For instance, the UAE's Women on Boards initiative, launched in 2012, requires all companies to have at least one female board member and the recently

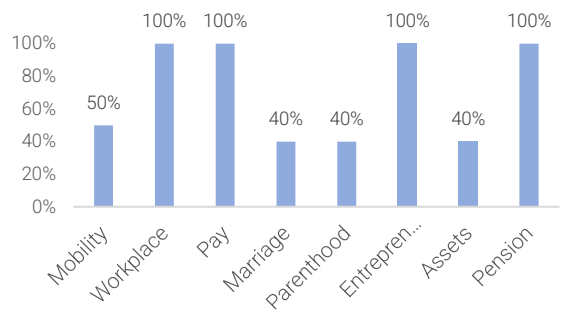


Source: Bain & Company, "Advancing Gender Equity in the Middle East Workforce," 2023

launched Gender Balance Council aims to increase women's participation in corporate leadership roles to 30%.

Saudi Arabia is a prime example of how seamless reform execution can rapidly bridge gender gaps; a feat cited in the recent World Bank Women, Business and Law publication (WBL)<sup>(3)</sup>. Saudi, which scored a poor 31.8 out of 100 in the 2017 WBL assessment, has since seen its score catapult to 71.3 in 2023. This drastic improvement stems from the implementation of several gender parity reforms

## Saudi Arabia's scores on WBL indicators



Source: World Bank database

1. Credit Suisse, "The CS Gender 3000 in 2021: Broadening the diversity discussion," 2021  
 2. World Economic Forum, "Global Gender Gap Report 2022: Insight Report," 2022  
 3. World Bank Group, "Women, Business and the Law 2024," 2024



pertaining to mobility, workplace, etc., that have improved female labor-force participation leading to more dual-income households and most importantly improved overall female financial independence<sup>(4)</sup>. In fact, Saudi Arabia’s Vision 2030 target of 30% female workforce participation was met ten years in advance in 2020.

Gender parity is also gaining momentum in the corporate leadership ranks. In 2017, the Saudi Stock Exchange appointed a woman as its Board’s chairperson for the first time and the Kingdom’s Ministry of Human Resources and Social Development signed an MoU with the Capital Market Authority to support the presence of more women on the boards of listed companies in 2020.

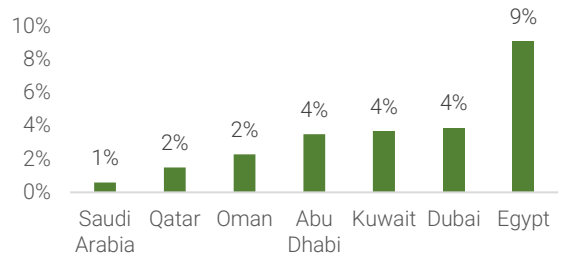
As investors in the GCC region for over a decade, we have witnessed this momentum shift across our investments. For instance, the percentage of companies in our MENA Equities strategy with at least one female board member has jumped from 34% in 2021 to 55% in 2023.

Indonesia is another noteworthy example. The country’s laws and reforms have not always been linear in the path to gender equality. There were no reforms that promoted legal equality for women between 1975 and 1995. However, in the 2000s, the country began enacting laws that empowered its female workforce. Most recently, in 2022, Indonesia enacted a regulation that protects women from sexual harassment at the workplace, which reinforces their right to safety during employment.

While supportive government policies, as seen in the GCC, can be a positive catalyst, it is important that investors such as ourselves also play a part in supporting corporates that are championing these initiatives on their own accord. This is why engaging with our portfolio companies is such a vital part of our ESG strategy. Our decade-long presence and relationships with companies in our markets has borne fruitful results.

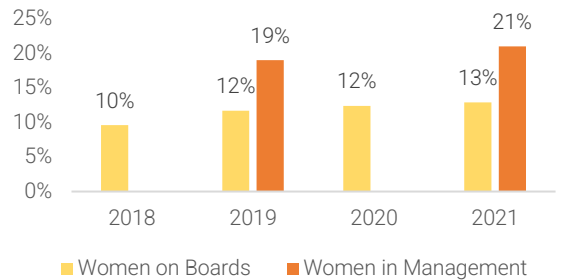
In conclusion, we continue to see positive tailwinds towards improving workplace gender diversity and enhancing female leadership representation in our investment universe. With positive regulatory changes that prioritize inclusivity and diversity at the workplace as well as stakeholder expectations from investors like ourselves, we are hopeful that this positive trend will continue.

### % of Board Seats held by Women in the GCC (2020)



Source: Credit Suisse, “The CS Gender 3000 in 2021: Broadening the diversity discussion,” 2021

### % of Women on Boards and Management in Indonesia



Source: Credit Suisse, “The CS Gender 3000 in 2021: Broadening the diversity discussion,” 2021



FIM Partners’ Head of Research, Mohammad Ali Hussain visits a female-led distribution center of Indonesian packaged food & dairy manufacturer, Cisar Mountain Dairy in Jakarta

4. Morgan Stanley Research, “The Future of Saudi Arabia: Emerging at ‘Giga’ speed,” 2022

## In the Spotlight

This year we showcase our investment in Emirates NBD PJSC, a leading United Arab Emirate bank which is deemed a sustainability leader in the region.





## Spotlight: Emirates NBD

Emirates NBD PJSC (ENBD) is a leading United Arab Emirates (UAE) based financial services group with over 9 million active customers and a presence in 13 countries including the UAE, Egypt, Kingdom of Saudi Arabia, India, the U.K., and Singapore.

The company scores an 74/100 in FIM's ESG Scorecard, making it a top decile investment. The company's sustainability strategy is aligned with the United Nations Sustainable Development Goals (UN SDGs) United Nations Global Compact (UNGC), the United Nations Principles for Responsible Investment (UN PRI) as well as the UAE's Vision 2030 including the Net Zero Action Plan which underlines ENBD's commitment to upholding sustainable development.

### Environmental initiatives

In 2023, ENBD launched a Sustainable Finance Framework which is supported by Institutional Shareholder Services ESG's Second-Party Opinion, a service that provides an independent assessment of the accuracy of bonds or loans. Consequently, the bank raised USD 750 million with the largest green bond ever issued by a bank in the MENAT region. In

the same year, the company launched a carbon trading program to facilitate customers with offsetting solutions.

Other key environmental sustainability initiatives and achievements include:

- a commitment to enhancing water efficiency by 5% every year
- a 20% decrease in absolute Scope 2 emissions in 2023 (as compared to 2022)
- utilizing solar technology to build a parking lot that will offset 50% of non-renewable energy consumption
- supporting the Government of Dubai to reduce single-use plastic water bottles by funding three water stations across the city which provided free water to communities and encouraged adoption of reusable bottles.

### Social initiatives

The company has a dedicated diversity and inclusion department since 2021. Women comprise 40% of the Group's total employees and by signing the UAE Gender Balance Pledge, there is a commitment for women to fill 25% of leadership



ENBD at COP 28: ENBD was the official banking partner at COP 28 being held in Dubai Expo City in Dubai. The company used palm strand board – which is produced from upcycled date palm biomass – to create its stand at COP 28. Photo Credit: ENBD



roles by 2027 (aligned with SDG 5 Gender Equality). The Group also has over 90 different nationalities in its 30,000 strong workforce. Recently the company also launched a career comeback program which supports women’s reintegration into the workforce after a career break for two or more years.

ENBD’s strategy supports the development of the small and medium-sized enterprises (SME) ecosystem and economic output in the UAE, especially with regards to lending to women-inclusive SMEs. Initiatives include launching an online platform specifically for SMEs, providing trainings on topics such as developing prospects, and leveraging online channels for successful business management. In 3Q2023, the bank reported a 34% increase in lending facilities towards SMEs as compared to the previous year.

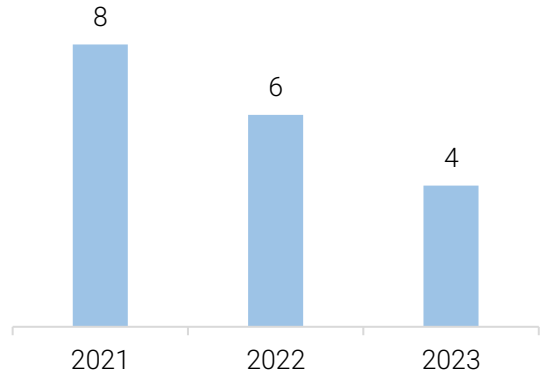
Under its social and financial inclusion policy, ENBD has over 40 disability-friendly branches across the UAE with over 2,400 staff trained in disability etiquette and sign language. Utilizing assistive technology, the bank caters to the hearing and visually challenged through several different services. The company also issues a smart card to these clients which provides access to services which include easily opening bank accounts, preferential loan rates, dining discounts, rewards, etc.

The company’s cybersecurity strategy is aligned with international standards and is managed by different functions (business units, security offices, cyber risk office etc.) to ensure a multi-layered line of defense which is overseen by senior leadership. The company also has a dedicated data privacy office that complies with international and local laws. Training programs are held for key stakeholders on these laws as well.

**Corporate governance**

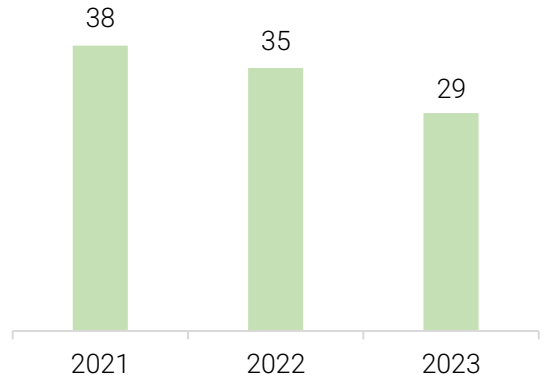
ENBD’s Board of Directors and committees are responsible for the ESG strategy for the company. The Board of Directors also monitor how evolving global standards are selected and incorporated in the company’s ESG framework. The Group is in the process of instituting a governance framework concerning matters that pose potential environmental and social risks. Currently the company’s Board of Directors is 44% independent and has 11% female representation.

**Energy Intensity  
(MWh/US\$ mn Sales)**



Source: ENBD public disclosures

**Carbon Intensity\*  
(CO2 tons/US\$ mn Sales)**



\* Scope 1, Scope 2 and Scope 3 emissions

Source: ENBD public disclosures

**SME Initiative**

In January 2024, the Government of Dubai launched an SME initiative worth AED500 million in collaboration with Emirates NBD. The ‘Dubai International Growth Initiative’ aims to support Dubai-founded SMEs in order to accelerate their global expansion.

The first phase of the initiative is open to select sectors which includes food and beverage, fast moving consumer goods, retail, commerce etc. The initiative will facilitate up to AED15 million in financing to eligible businesses for up to seven years so that they can manage cashflow effectively during their expansion phase.

# 2023 IN REVIEW: FIXED INCOME



## Sovereign ESG Update

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FIM Partners' Sovereign ESG framework is based on an exclusionary and scoring methodology as discussed in detail in our [2022 Sustainability Report](#).

Our dynamic scoring model is based on indices tested for materiality which help identify inflection points. In our year-end revision, we found that the Yale Environmental Performance Index (YEPI) – which was being utilized to determine environmental sustainability – had not been updated since 2022, and the underlying data being utilized was from 2019.

Thus, until the YEPI releases an update, we have revised the model to include the two most important dimensions from different sources, namely:

- Carbon Intensity i.e., CO<sub>2</sub>/capita from EU Edgar
- Access to Water i.e., % of Population using at least basic drinking water services from The World Bank

As a result of the ongoing global conflicts but also partly the updates in the framework's underlying data, certain changes mostly in line with expectations have been observed in the top and bottom deciles of our framework.

Within the 15 lowest-scoring countries in our model, we saw Russia, Belarus, and the Ukraine slip a few points down due to Governance and the World Happiness Report (WHR) as part of the Social section. Pakistan saw a positive momentum mainly due to higher scores in environmental factors as well as an improvement in social factors such as health and certain indicators relating to the WHR.

In the top countries, Costa Rica further improved its score due to improvements in the Women, Banking and Law (WBL) index. Specifically, the country worked on initiatives and scored well on pay, wealth, pension and marriage factors.

### Restricted List

As far as the most notable changes to our Restricted Lists are concerned, the US lifted the secondary trading ban on various securities including Venezuela sovereign and Petroleos de Venezuela (PdVSA) bonds however the country remains in the bottom decile of our framework. On the other hand, Pakistan is no longer part of the bottom decile given the aforementioned improvements.





## Sustainable Financing Update

Following a year of interesting developments in the GCC ESG-labeled bond and sukuk market during 2022, including the debut ESG-labelled issuance by Public Investment Fund (PIF), the market continued to evolve in 2023. Sustainable bond issuance from the region gained pace during the year, especially from UAE issuers who continue to align their framework with the country’s net-zero commitments.

Close to \$20 billion of sustainable bonds and sukuk were issued in 2023, more than double the amount issued in 2022 and taking the outstanding GCC ESG-labeled bond and sukuk market to over \$40 billion. As expected, regional government-related entities (GREs) who have undertaken numerous green initiatives in recent years were major issuers in green format during the year given the large capex needs and increasing role as engines of public investment, specifically to finance and drive green projects. The market witnessed sustainable issuance from regional GREs including DP World, Aldar, PIF, Masdar, Mubadala, SECO, and Taqa, many of which were debut issuers in the sustainable format.

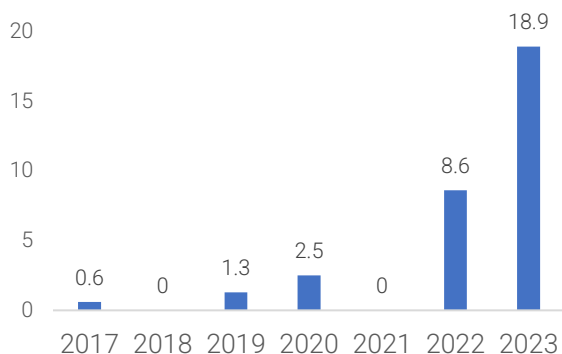
COP28 which was held in the UAE during 4Q2023 and concluded in the delivering of the UAE Consensus which has the first Global Stocktake (GST) setting out the ambitious actions needed to keep 1.5°C within reach. In addition, the UAE

Consensus includes the following targets/conclusions:

- an unprecedented reference to transitioning away from all fossil fuels in energy systems, in a just, orderly and equitable manner in this critical decade to enable the world to reach net zero emissions by 2050
- encourages parties to accelerate “ambitious, economy-wide emission reduction targets” in their next nationally determined contributions
- offers a new, specific target on tripling renewables and doubling energy efficiency by 2030
- recognizes the need to significantly scale adaptation finance beyond doubling, to meet urgent and evolving needs
- builds momentum towards reform of the global financial architecture, recognizing the role of credit rating agencies for the first time, and calling for the scaling up of concessional and grant finance

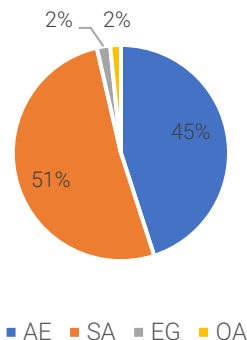
The hosting of COP28 and the outcomes thereof were a major development in the region’s sustainability journey and witnessed significant announcements from local banks and corporates which will continue to support ESG issuance in the years ahead. Given this context, we expect ESG bond issuances from the GCC to further gather pace in 2024 and beyond.

**ESG-Labeled Bonds and Sukuk by GCC Issuers (\$bn)**



Source: Bloomberg

**Major ESG-Labeled Bonds and Sukuk by Geography**



Source: Bloomberg

## Case Study: Saudi Electricity Company

The Saudi Electricity Company (SEC) is the largest producer, transmitter and distributor of electrical energy in the Middle East and North Africa. In the Kingdom of Saudi Arabia (KSA), the company has a near monopoly on electric supply.

In alignment with the KSA’s sustainability goals, the SEC developed a comprehensive ESG strategy in 2023 that prioritizes a sustainable transition to a

decarbonized economy and has been developed after conducting materiality tests, establishing crucial short-term and long-term targets as well as actionable plans such as a detailed roadmap for focused ESG projects during the next three years.

The company’s key targets and initiatives are laid out below.

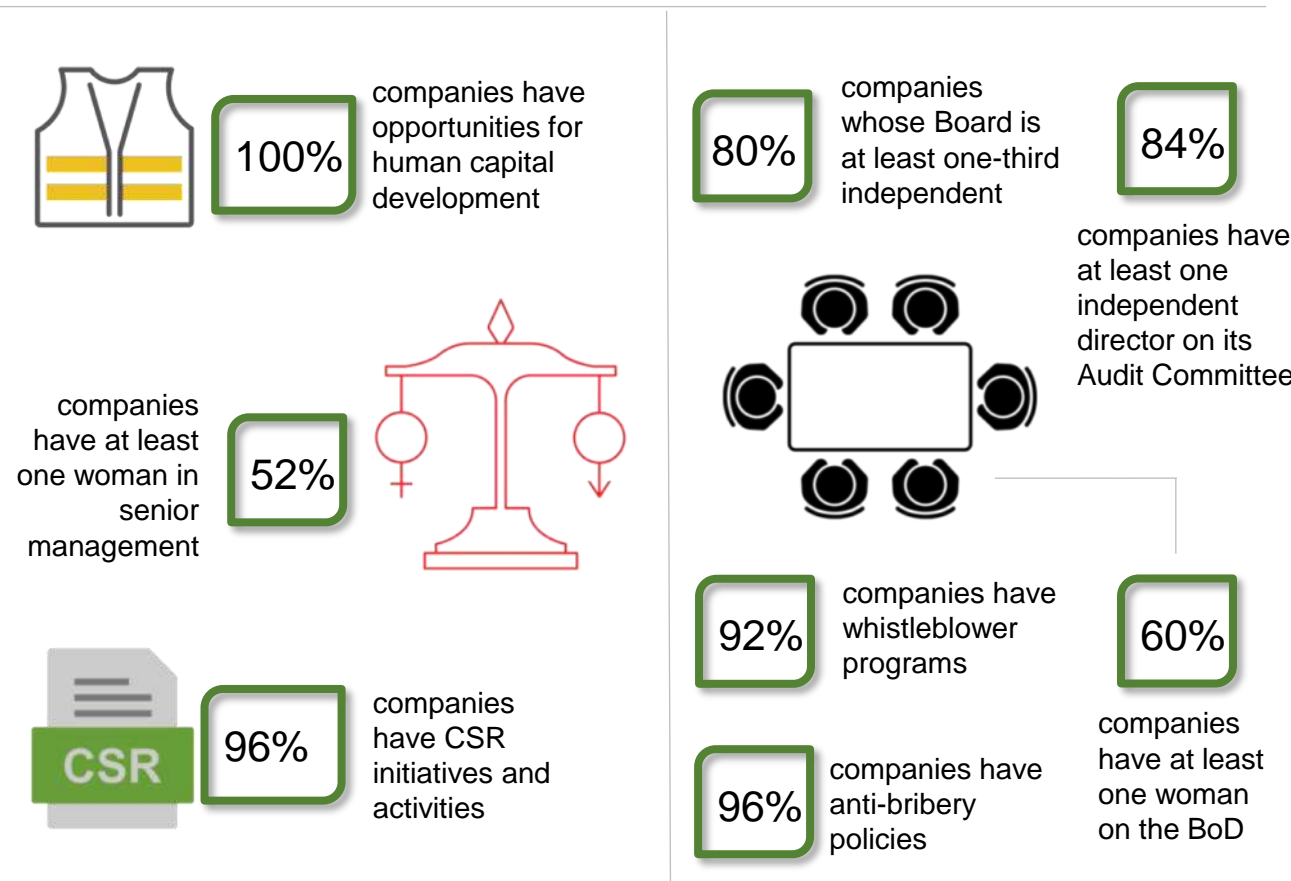
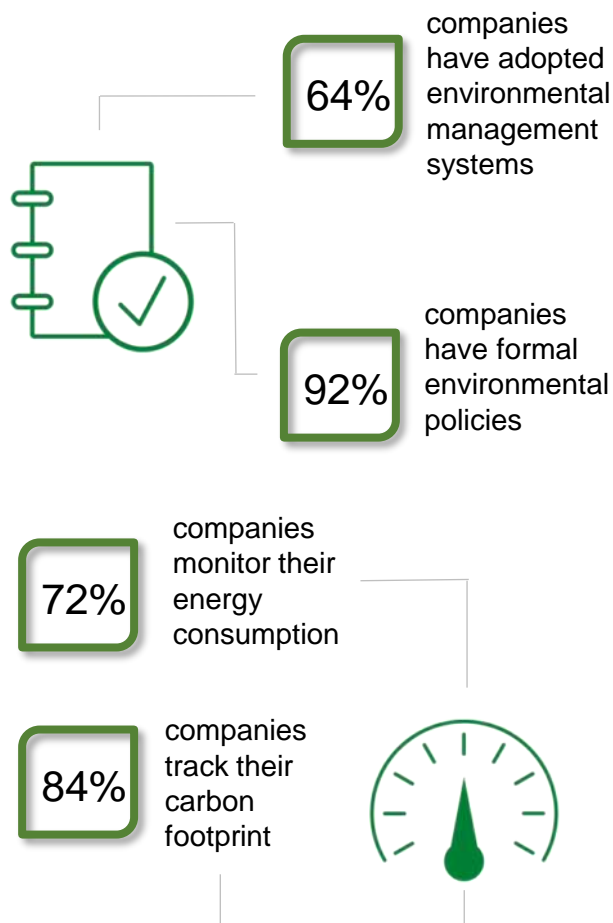
	SEC’s Targets	SEC’s Key Initiatives
<b>Environmental</b>	<ul style="list-style-type: none"> <li>Achieve net zero emissions by 2050</li> <li>Ensure grid-readiness to handle up to 16 GW renewable energy by 2025</li> <li>Decrease grid emissions intensity to 0.40 tCO2eq/MWh by 2030</li> <li>Publish Water Management Policy by 2025</li> <li>Plant 5 million trees by 2030</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration on a cryogenic carbon capture pilot project with the Ministry of Energy, King Abdullah University and NEOM</li> <li>Purchase of carbon credits from Regional Voluntary Carbon Market Company for offsetting emissions</li> <li>Investment of SAR 11 billion by 2026 in 22 renewable energy projects</li> <li>Employment of toxic emissions reduction technologies such as dry low-Nox combustion systems</li> <li>Measuring and reporting of the air and water quality and its impact</li> <li>Signing of MoU to plant 5 million trees by 2023 with the National Center for Vegetation Cover Development and Combating Desertification</li> </ul>
<b>Social</b>	<ul style="list-style-type: none"> <li>Aim for 41 hours of training per employee by 2025</li> <li>Achieve better transmission and distribution metrics (System Average Distribution Index and System Average Interruption Frequency Index)</li> <li>Achieve higher customer satisfaction scores</li> <li>Automate 40% of the distribution network feeders by 2025</li> </ul>	<ul style="list-style-type: none"> <li>Conduct training programs for specialized and targeted trainings</li> <li>Improve reliability of electricity supply by investing SAR 44 billion in strategic agreements and smart meter project</li> <li>Launch initiative dedicated to a better and transformational customer experience</li> <li>Volunteer for social activities such as beach cleaning, tree planting etc</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>Reduce incidents of non-compliance with laws and regulations by 50% by 2026</li> <li>Achieve zero data breaches by 2026</li> <li>Achieve 72% localization by 2025</li> <li>Enhance the research, development and innovation department by spending 0.12% of total revenues by 2025</li> </ul>	<ul style="list-style-type: none"> <li>Conduct anti-corruption and employee governance awareness programs for all employees to reduce non-compliance</li> <li>Ensure zero data breaches through enhanced data privacy and cybersecurity policies and practices</li> <li>Invest in research centres for generation and renewable energy as well as research on transmission and distribution</li> </ul>

## Fixed Income Corporates

All corporates within the fixed income (FI) strategy that are to be held in our portfolio for three months or longer are sent FIM's proprietary management questionnaire which informs our ESG scoring process for each investment. These corporates are also subject to the same RI processes, including climate change risk assessment, as the equity strategies.

Accordingly, over 90% of the corporates held in the FI sukuk and credit portfolio are invested in low-emitting industries with negligible impact on the environment. The remaining 8% of corporates held in the funds are from what are considered medium emitting industries.

Please see the ESG highlights of our portfolio below.





Signatory of:



FIM Partners has been a signatory of the United Nations Principles for Responsible Investing (UN PRI) since 2019. We are committed to integrating ESG factors into our investment processes, decision making and active ownership practices.

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