JK Capital Management Ltd.

EXCLUSION POLICY

January 2022

Background

Negative Screening is commonly considered as the first step towards ESG integration. It is easy to understand, straightforward to implement and it has a direct impact on portfolio construction under all strategies considered. It is arguably the most popular "ESG Tool" used by asset managers when building a responsible investment approach. According to the United Nations Principles for Responsible Investment (UN PRI), funds using Negative Screening collectively managed USD19.8 trillion of assets. By comparison, funds using Positive Screening (i.e. funds that only invest in companies featuring specific criteria) collectively managed USD1.8 trillion of assets while Norms-based screening (i.e. funds that only invest in companies that comply with international standards and norms) represented USD4.7 trillion of assets under management.

At JK Capital Management Ltd., Corporate Governance had been the bedrock of our investment strategy since the inception of the firm in 1997. Later on we added Environmental and Social considerations to all our investment decisions, leveraging on the experience of, and on the specific requests made by certain clients, with a special mention of Scandinavian clients.

Policy

Driven by these core values and by our considerations to mitigate Environmental, Social and Governance risks, we opted for the implementation of a strict and evolutive Negative Screening in our daily work.

JK Capital Management Ltd.'s negative screening policy currently covers:

- Controversial weapons
- Tobacco
- Thermal coal
- Regional exclusion

Controversial weapons

The production and use of controversial weapons have been deemed unacceptable under international conventions, and even illegal within certain jurisdictions. The Ottawa Convention of 1997 featured the exclusion of anti-personnel landmines when the Oslo Convention of 2008 targeted cluster munitions.

Controversial weapons have an indiscriminate and disproportional humanitarian impact on civilian populations, the consequences of which being often seen decades after military conflicts have ended.

At JK Capital Management Ltd. we are deeply concerned by the devastating impact of controversial weapons that members of our team have witnessed first-hand in countries including Cambodia, Vietnam and Laos. We decided to exclude from our investment universe all companies involved in the manufacturing of controversial weapons, and more specifically of:

- anti-personnel landmines
- cluster munitions
- chemical and biological weapons
- white phosphorus
- depleted uranium

Tobacco

At JK Capital Management Ltd., we exclude from our investment universe all tobacco companies on public health grounds. It is estimated that tobacco kills more than 7 million people per year (Source: The Tobacco Atlas). Based on a 2019 World Health Organisation report (WHO Report on the Global Tobacco Epidemic[1]) and on the 2014 Global Adult Tobacco Survey[2], such exclusion is even more relevant in Asia than it is in any other part of the world for the reasons that:

- The “Quit ratio” (adults who no longer smoke as a percentage of adults who have smoked daily), are the lowest in three of the four most populated countries in the world which happen to be all three under our investment universe: China, India, and Indonesia.
- Among the top ten countries with the lowest proportion of smokers who intend to quit, five are in Asia (Pakistan, China, Indonesia, India, and Vietnam).

We have decided at JK Capital Management Ltd. to exclude from our investment universe all companies involved in the production of cigarettes and tobacco products.

[1] https://www.who.int/teams/health-promotion/tobacco-control/who-report-on-the-global-tobacco-epidemic-2019

[2] http://gatsatlas.org/

Thermal coal

The combustion of coal is the largest single source of global warming, accounting for 29% of total manmade greenhouse gas (GHG) emissions and for 44% of total manmade CO_2 emissions. Reducing emissions from coal is therefore the single most effective way of moving towards an energy system consistent with the Paris Agreement.

According to a report prepared by the Stanley Center for Peace and Security[3], while the European Union and the United States have been decommissioning their coal power plants, the Asia-Pacific region is responsible for almost 80% of the world's newly added coal power production capacity. If made operational, it would derail efforts to limit global average temperature rise to 1.5°C. UN Secretary General Antonio Guterres has called for no more coal plants to be built after 2020 and for fossil fuel financing to be phased out. However, other than the carbon-neutrality commitment recently made by China, limited efforts were shown by other major economies across Asia such as South Korea and Japan.

At JK Capital Management Ltd., we believe that asset managers play a vital role in fighting climate change by investing capital in cleaner forms of energy. Therefore, we are committed to the following principles:

- We do not make any new investment in any mining company that has more than 25% of its revenues derived from the extraction of thermal coal;
- We do not make any new investment in any utility that derives more than 25% of its revenues from coal-fired power plants;
- We will gradually phase out our existing exposure to such companies and exit them entirely by the end of 2023.

[3] https://stanleycenter.org/

Regional Exclusion

In addition to exclusions based on sectors and industries, portfolio companies have been also carefully screened to exclude those that are doing business with certain **blacklisted countries**. The list of blacklisted countries is compiled by the Financial Action Task Force (FATF) which publishes three times a year its list of "***High-Risk Jurisdictions subject to a Call for Action***" *(previously called "Public Statement")*.

FATF issues recommendations that are a comprehensive framework of measures which countries should implement to combat **money laundering, terrorist financing**, as well as the financing and the proliferation of **weapons of mass destruction**.

The United Nations estimate that the amount of **money laundered** globally every year is within 2 to 5% of the global GDP[4].

At JK Capital Management Ltd., we use multiple global databases[5] to ensure that we are properly monitoring our portfolio companies to either prevent any exposure to such blacklisted countries or to mitigate our risk in an appropriate manner.

[4] United Nations – Money Laundering

[5] These databases include *Factiva* by *Dow Jones* in addition to our internal research