Dalton Investments

Sustainability Policy – 2024 and beyond

Table of Contents

A. Background: Dalton & Sustainable Investment

1. Introduction

Since Dalton Investments (Dalton) first published its sustainability policy in 2019, there has been material evolution in how market participants view sustainable investments. The regulatory landscape has developed, most notably within Europe. Investors' expectations on tackling climate change related risk have rapidly progressed, and companies have been making substantive changes to their reporting regimes and goal setting as they commit policies towards compliance with the Paris Climate Accord.

The Paris Agreement is a legally binding international treaty and one of the most ambitious agreements ever reached. The agreement has set clear long-term goals, the most important of which is to, "substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2C while pursuing efforts to limit the increase even further to 1.5C."

More recently, in 2021, European regulators implemented the Sustainable Finance Disclosure Regulation (SFDR), a fundamental pillar in the EU's sustainable finance agenda, including the EU Taxonomy Regulations. Looking ahead, we expect further global collaboration on a consistent framework for reporting and analysing climate-related risk via the Task Force on Climate Related-Disclosures (TCFD), Task Force for Nature-Related Disclosures (TNFD), and International Accounting Standards Board (IASB) sustainability-related reporting.

With this backdrop, Dalton believed it timely to review its sustainability policy to reflect the current framework, while considering how the landscape might shift further in the coming decade.

Finally, while sustainability is notably about climate-related risk, our intention is to address how Dalton views sustainability as a whole and outline the policies and processes we have established to align ourselves with the long-term success of all our stakeholders. The scope of this policy extends to our entire Asia, Japan, and emerging market equity business[1].

2. Our Firm

Dalton Investments is a disciplined, value-oriented, global investment management firm committed to capital preservation and long-term growth. Dalton's strategies focus on Asia, Emerging Markets, and Global equities. Headquartered in Las Vegas, with offices in Los Angeles, New York, Tokyo, Hong Kong, Sydney and Mumbai, Dalton actively manages long only and long/short strategies for institutional investors, including pensions, endowments, foundations, sovereign wealth funds, financial institutions, and family offices.

The firm is entirely employee-owned by senior executives and investment professionals, and its investment team members are strongly encouraged to invest in its strategies alongside clients. Since its inception, Dalton's investment philosophy has valued insight and agility as its investment professionals seek opportunities in an ever-changing global market environment.

The depth of our research, combined with experience and sound risk management, enables Dalton to seize attractive investment opportunities when they appear and gives the flexibility to walk away when an investment proves less compelling.

1 The "Global Equity" strategy at Dalton Investments, constituting approximately 1% of the assets under Dalton Investments' discretionary management as of the date of this document, does not comply with this policy.

3. Our History of Stewardship and Environmental, Social and Governance (ESG)

Since the firm's incorporation in 1999, its principals have taken their roles as stewards of capital seriously. The company has always advocated for corporate governance engagement and sought to advance practices and maximise outcomes for shareholders.

We are long-term investors and form lasting partnerships with both the companies we invest in and our customers. This approach enables us to engage constructively with the companies we invest in and generate value for all our stakeholders. Indeed, Dalton is often labelled as an engagement-focussed or activist investor, due to our long history of pushing (both privately and publicly) management teams for better results for shareholders.

Dalton's first notable external commitment to stewardship was to sign the Japan Stewardship Code in 2015, while we later joined the Korean Stewardship Code (2017), and attainted membership of the UN Principles for Responsible Investment (2019).

Dalton decided at the end of 2019 to appoint a Chief Sustainability Officer (CSO). The CSO is tasked with formalising the approach to sustainable investment and overseeing its implementation and integration into the investment discipline and framework.

4. How Does Dalton Define Sustainability?

Sustainability is the intersection of a sustainable workplace and firm, the alignment and partnership with our customers' success, and investing responsibly over the long term.

A sustainable workplace and firm:

- It is the goal of the owners of Dalton to operate a business that has a sustainable revenue base that allows long-term strategic decision-making.
- We will foster a healthy working environment that is diverse and encourages collaboration and teamwork.
- A business that rewards its staff for long-term success of meeting its clients' objectives.

Customer success:

- Putting the clients' needs first and acknowledging the importance of our role both as a steward of their capital and as a fiduciary.
- Developing and managing investment strategies that meet the long-term expectations of our clients.
- Establishing incentive structures that align with our customers' long-term success, including ownership interests in the firm and investing alongside our customers.

Investing responsibly:

- We believe a long-term investment horizon, typically over a 5 to 10-year period, is essential in being a responsible investor.
- Investing in such a way as to maximise the long-term risk-adjusted returns of our customers.
- Investing in businesses that provide sustainable long-term returns where sustainable returns can only be derived by a business that incorporates and assesses ESG factors in its long-term planning.
- Taking steps to avoid investing in businesses that harm the environment or endanger its employees over the long-term.
- Being an active owner, where engagement is essential to supporting change.

5. Why Do We Believe That Investing Responsibly Is Important?

It is our belief that sustainable investment or ESG focused investment is not only good for the planet but good for long-term investment returns. We believe that over the long-term, companies with a superior approach to managing all the associated risks of ESG will have lower costs of capital, higher profitability and, therefore, more sustainable returns. This belief is strongly supported by academic evidence[2].

We believe that companies that fail to address climate change risk, poorly manage their workforce, or operate with weak corporate governance practices likely will underperform on a risk-adjusted basis over the long-term. As fiduciaries it is therefore fundamental to ensure that we consider sustainability factors in our decision-making structures to maximise long-term risk-adjusted returns.

[2] Fulton, Kahn, Sharples -- "Sustainable Investing: Establishing Long-Term Value and Performance" (2012). Khan, Serafeim, Yoon – "Corporate Sustainability: First Evidence on Materiality" (2016). Eccles, Ioannou, Serafeim -- "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance" (2012). Please note that no representations or warranties, either expressed or implied, can be made as to the data and analysis provided in these studies. The data analysis has been prepared by the respective authors and entities, and Dalton has not verified any of the studies independently. The views and opinions expressed in the studies are those of the authors and do not necessarily reflect the opinion of Dalton.

B. Dalton's Investment Philosophy & Process

1. Our Investment Philosophy

Dalton utilizes a value investment approach that seeks to invest in companies with sound, sustainable businesses, operated by management teams whose interests are aligned with shareholders. Client portfolios are built one security at a time; each investment being selected on its own merits, through rigorous bottom-up fundamental analysis to calculate an intrinsic value[3]. Dalton's investment philosophy places capital preservation as its priority; therefore, Dalton believes in committing capital only when securities are significantly discounted relative to their intrinsic value. Dalton's core approach to investment analysis has remained consistent over time. However, our investment checklist, will evolve through time at the margin to reflect lessons learned or structural shifts in the market.

Additionally, Dalton seeks out companies with a strong alignment of interest between owner-operators or management and minority shareholders because, over the long-term, these owner-operators generally have been more successful in compounding stock returns[4]. Behavioural economics would suggest that the reason is related to self-interest, as a large percentage of owner-operator wealth is typically tied with their companies.

While Dalton's investment philosophy has remained unchanged, its application has evolved with changing market conditions, regulations, and circumstances. However, the core tenets of our investment approach remain the foundation of our investment discipline, underpinned by the four mantras we have adhered to since the firm's inception in 1999.

2. The Four Mantras & Engagement

Dalton's investment philosophy drives its research process. It is reflected in its four investment mantras and focus on engagement, as highlighted below:

- Invest in good businesses – typically strong cash flows and balance sheets, a "moat "against" competition, focus on ESG best practices.
- Identify a significant margin of safety – Seek a material discount to intrinsic value, looking out at least three to five years.
- Focus on the alignment of interest – Identify companies with an alignment of interest between the owner-operator or management and minority shareholders or companies where an opportunity exists to enhance alignment.
- Strong track record – Identify a demonstrable track record of managing capital effectively and rewarding minority shareholders.
- Engagement - capitalizing on corporate governance reform and shareholder activism to opportunistically add value.

These mantras have served as strong guideposts over the years in which we have operated, and we continue to believe that they remain highly relevant in today's investment environment.

Dalton performs fundamental analysis to identify companies that meet its core investment mantras, looking for securities trading at a material discount to its calculated intrinsic value, therefore displaying a generous margin of safety.

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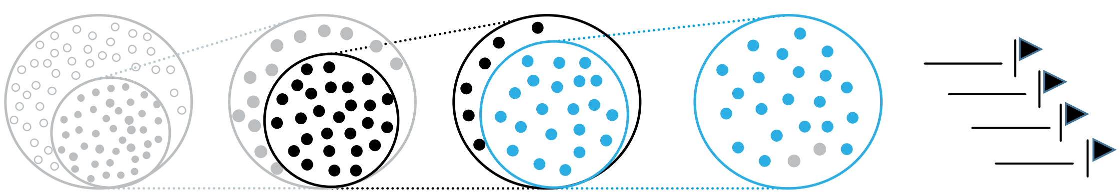
3 Intrinsic value is Dalton's determination of what we believe an asset is worth. This measure is arrived at by means of a calculation or complex financial model. Intrinsic value is different from the current market price of an asset.

4 This is borne out by a 4% per annum outperformance by owner-operator companies in Japan vs the MSCI Japan index, as shown by Horizon Kinetics. We also note Credit Suisse published research highlighting that family-controlled companies in Asia ex-Japan outperformed non-family peers by 3.3% pa from 2006 through 2022.

The value discipline typically leads our investment team to seek out securities which have relatively low enterprise value to earnings before interest depreciation and amortisation (EV/EBITDA) multiples, or low price-to-book valuations, but high Return on Invested Capital ("ROIC"). Typically, identifying companies with superior ROIC or Return on Equity ("ROE") supports our focus on proven track records.

To ensure we achieve an alignment of interest between our clients and the management teams of investee companies, Dalton typically seeks out companies where senior management or the founding entrepreneur owns significant stock in the company. In cases where a company meets all the other core mantras but lacks the alignment of interest, Dalton will actively engage with the management team to increase stock-related compensation to account for at least three to five times their annual cash compensation. This strongly encourages management teams to think more like owners than simply paid employees. Dalton strongly believes that a management team with a material investment in the company it runs leads to decision-making and capital allocation policies that benefit all shareholders.

3. Our Investment Process



Step 1: *Screening*	Step 2: *Due Diligence & Company Meetings*	Step 3: *ESG Analysis*	Step 4: *Internal Debate & Company Meetings*	Step 5: *Trade Recommendation & Portfolio Construction*
Tailored quant screens to relevant markets around 4-mantras	*Analysts drive ongoing due diligence and company interaction*	*CSO conducts an independent review of the company*	*Team discusses new ideas and challenges thesis*	*Portfolio Manager presented idea with trade recommendation*
15,000+ companies screened	< 200 companies on monitor list	< 25 new names reviewed per annum	< 5 names per quarter	< 3 names per quarter

The initial steps of the research process are largely performed by the team's analysts. Idea generation comes primarily through ongoing company interaction, bottom-up research, and market knowledge. Quantitative screens are also maintained to identify pockets of value or potential mispriced opportunities, in addition to monitoring shareholder friendly actions, and local networks and peers. All team members are industry generalists, and each member can suggest investment ideas and conduct preliminary analysis. While the CIO's depth of market knowledge and relationships across the markets also contributes to the pipeline of new ideas.

Company visits and broader industry due diligence support new idea generation. Once an analyst is convinced that an idea meets Dalton's four investment criteria, further due diligence on the overall ESG practices of the target investment is undertaken by Dalton's CSO.

If a candidate security successfully passes the ESG review, a summary investment case is sent to the entire investment team, who will provide review where necessary. This iterative process continues until either the analyst or CIO rejects it, puts it on the monitor list, or agrees to establish an initial position.

4. Portfolio Construction and Risk Management

Dalton's goal is to provide its clients with attractive risk-adjusted returns over a full investment cycle. To this end, the firm's primary risk management guidelines are to seek out individual securities trading with a margin of safety to limit the potential for a permanent loss of capital.

At the portfolio level, we aim to build portfolios with wide economic risk exposure. We seek to diversify earnings risk across industry, country, liquidity, and currency to insulate the portfolio from material drawdowns in the advent of a material exogenous risk. In addition, we strive to implement portfolios with a long-term skew towards companies that exhibit superior ESG qualities. Where deficiencies may exist in ESG, we will actively engage those companies to improve their overall operating practices to unlock further value and reduce the potential earnings risk presented by these poor characteristics.

Risk management at Dalton starts at the beginning of the investment process and includes the following activities:

- Proprietary research: identifying suitable securities; determining the intrinsic value and, therefore margin of safety vs the market price; understanding management's capabilities; and conducting a comprehensive overview of ESG practices.
- Assessing the position, sector, liquidity, and country limits.
- Analysing the portfolio for systematic bets, biases, and underlying macro assumptions.
- Stress testing the analysts' assumptions in their valuation analysis to allow the team to understand better the sensitivity of the company's earnings profile to changing operating conditions.
- Conduct soft stop losses on portfolio positions. Individual long positions are generally reviewed when there has been a greater than 20% negative move in the investment value from its book cost, while short positions are subjected to a hard 20% stop loss.
- Daily risk assessment by the operations team.
- Quarterly review by the Risk Management Committee. The committee comprises the firm's Chairman, Co-Founder, CEO/President, COO/CFO, CCO and CRO/CSO[5].

The CRO will also independently review the risk characteristics of a portfolio to understand if any unintentional biases and risks are present in client portfolios. Such an analysis will include assessing style and size risk, decomposing risk across factors (e.g., momentum, industry, currency), ESG and carbon analysis, scenario analysis, and liquidity analysis. Where material issues present themselves, they will be raised with the CIO and portfolio management team.

[5] CEO: Chief Executive Officer, COO: Chief Operating Officer, CFO: Chief Financial Officer, CCO: Chief Compliance Officer, CRO: Chief Research Officer, CSO: Chief Sustainability Officer

C. Sustainability at Dalton

As an investor, Dalton aims to find companies exhibiting superior Environmental, Social and Governance (ESG) standards, as it believes these companies tend to exhibit higher long-term sustainable operational performance. We also apply this lens to our own firm and aim to adopt best-in-class principles.

1. Alignment of Interest

A key element of Dalton's investment philosophy is our belief that investing in companies where the firm's decision-makers have an alignment of interests with minority shareholders may lead to superior risk-adjusted results. The main alignment of interest we find is where the key individuals at a company have material ownership in their company. We call these firms "owner-operators."

Dalton is also an "owner-operator" firm, with the company's equity held entirely by its employees (and their related entities). We are currently in the process of broadening this ownership across a larger number of employees to instil the "owner mindset" in more of the Dalton team. We believe that being independent allows Dalton to make long-term focused decisions, which might be challenged under external or public ownership structures.

The second way in which Dalton aligns interests with its clients is to encourage that its investment team members have a material portion of their net worth invested in the firm's strategies alongside clients. Each year, the investment team members are requested to reinvest at least 50% of variable compensation in Dalton's funds. The level of our team's alignment of interest is monitored at least annually. Investment team members are also strongly discouraged from buying individual stocks in their personal accounts. We believe that this concept of "eating your own home cooking" aligns the interests of Dalton's investment team with those of its clients.

2. Diversity, Equity, and Inclusion

Dalton believes strongly that diversity leads to better decision-making, both in the management of our client portfolios and in the management of our business. We also believe that diversity should be considered in multiple dimensions: age, gender, sexuality, race, ethnicity, socio-economic background, education, work experience, religious views and more. Dalton has a highly diverse workforce, with 17 nationalities represented and 19 languages spoken. The composition of the firm's senior executives (including minority and female representation in the Chairman, CEO, CCO and CFO/COO roles) also reflects our commitment to diversity. However, we are conscious that we can always do more and are focused on sourcing diverse talent and challenging our internal biases.

Dalton's Management Committee monitors the ethnic and gender composition of its staff using voluntary and anonymous surveys, as well as a voluntary (but not anonymous) survey for partners of the firm. It also takes steps to source diverse candidates for roles by taking steps such as considering broader educational and professional qualifications, using blind resumes, offering job flexibility and leaving job openings open for longer (hopefully leading to higher participation by under-represented groups).

Dalton is also aware that diversity alone is insufficient, so we take active steps to improve inclusion. We believe that a welcoming work environment, which encourages diverse individuals to prosper, is an invaluable contributor to Dalton's long-term success. As such, we undertake training around the topics of racism, inclusion and unconscious biases. We also have taken steps to align our firm policies with fostering the career growth of diverse individuals – for example, allowing for flexible working practices, providing for parental leave and supporting continuing education. Finally, we have implemented a mentoring program for new employees, with a specific focus on underrepresented groups. Our diverse executives also aim to participate in organizations such as 100 Women in Finance, to hopefully encourage the diverse talent of the future.

On an annual basis, as one measure of progress, Dalton considers the potential gender and ethnicity pay gap at its firm.

3. Well-being

Dalton takes the well-being of its employees seriously, as it believes a healthy working environment is more productive for both the firm and our clients. We encourage our employees to take regular breaks (including in our communal areas, which have a wide range of complimentary healthy-eating options provided) and are also supportive of our employees taking time off to recharge on vacation. Finally, we provide a healthcare allowance (to be used on a gym membership or home fitness equipment) to support the physical well-being of our employees.

4. Travel

Given Dalton's focus on in-depth due diligence of Asian and emerging market companies, as well as our global client base, we view travel as a necessary part of our business for investment and client service purposes. We, however, encourage our employees to evaluate their travel arrangements and, where possible, develop efficient travel itineraries and/or use alternative forms of communication, such as video and teleconference technologies. In addition, we purchase Carbon offsets from Cool Effect (more information here) to compensate for the emissions resulting from our team's air travel. Cool Effect is a non-profit dedicated to helping individuals, organizations and businesses of all sizes reduce their carbon emissions then offset what remains with the highest quality carbon offsets on the planet.

5. Environmental Policy

Dalton takes active steps to minimize its environmental footprint in its largest office (Los Angeles). The facilities provide access to recycling, including e-waste, and provide highly efficient air filtering to ensure a healthy working environment. Within our own office space, we take a range of steps to ensure employees recycle where possible and encourage staff to reduce the use of resources, such as paper and single use plastic products, unless absolutely required.

6. Managing Risk at Dalton

Dalton's Management Committee is responsible for the firm's major day-to-day tasks and projects, including ultimate oversight of the risk management function via the Risk Management Committee. The Management Committee is made up of Senior Executives, including the CEO/President, CRO/CSO, CMO, CCO/Counsel and CFO/COO.

Dalton's Risk Management Committee (the "Risk Committee") supervises all Firm risk functions and consists of the CEO/President, COO/CFO, CCO/Counsel, Co-Founder, Chairman and CRO/CSO. The Risk Committee generally meets on a quarterly basis to review risk-related reports produced by members of the Compliance, Operations and Accounting teams.

Dalton's compliance team monitors and elevates exceptions, issues on client portfolios, and various internal Firm controls directly to the Risk Committee. The CRO/CSO generally monitors and reports market, liquidity, credit and counterparty risk to the Risk Committee. Summaries of the Risk Committee's sessions are reported to Dalton's Management Committee. Any material changes to the Firm's risk policies are reviewed and approved by the Management Committee.

As well as internal oversight from the Risk Committee, Dalton uses external parties to assess and control firm-level risk. An independent controls audit is undertaken on Dalton annually by Grant Thornton, which seeks to record and assess the efficacy of Dalton's stated control processes and publishes a SOC-1 report (available upon request). Dalton also uses an external party to test internet security controls (ACA Aponix) and to implement a mock SEC audit and an email surveillance program on an annual basis (ACA Compliance Consultants). Finally, Dalton welcomes the operational due diligence assessments of its large institutional clients and their consultants, viewing these assessments and feedback as an opportunity to make improvements and minimize risk.

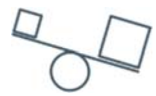
7. Net Zero and Alignment to the Paris Agreement

Dalton is committed to an investment approach that aligns with the central goal of the Paris Agreement. This landmark agreement aims to “hold the global average temperature to well below 2°C above pre-industrial levels” and pursue efforts “to limit the temperature increase to 1.5°C above pre-industrial levels.” To limit global warming to 1.5°C, greenhouse gas emissions must peak before 2025 and decline by at least 43% by 2030.

Dalton will align with the agreement by seeking to implement investment portfolios that will achieve a reduction in emissions of 43% by 2030 against the base year of 2025. At this stage, we monitor emissions within the portfolios and will track year-on-year emissions changes. Where no tangible emissions goals or targets exist, we will actively engage companies to implement sufficient policies and targets to align with the Paris Agreement. By 2050, we aim to transition our portfolios towards net zero emissions.

D. Dalton’s Integrated Approach to Sustainable Investment

1. Our ESG Principles

Integrate ESG into the Process	Proprietary Research	Balance Risk	Engagement
			
Ensure ESG analysis is embedded into the decision-making culture of the organisation.	*Use proprietary research to determine ESG efficacy of portfolio companies and use external research to support this work.*	*Understand that ESG analysis is not about mitigating all ESG-associated risks but attempting to weigh positive practices against the potential negative risks and to assess the impact of ESG on earnings.*	*Be active in company engagement and use voting power to drive change when needed.*

We formed these core principles through our experience of analysing companies and identifying what was most important to us as an investment organisation. The most central tenet is that there is no substitute for completing your own due diligence and forming your own judgement of the qualities of a company’s practices and policies.

We decided very early on that relying on third-party vendor data would not become a substitute to proprietary research. This stemmed from a multitude of reasons, or what we perceive to be flaws in external research models:

- Flaw #1: Data sets are relatively immature within the Asian and Emerging markets.
- Flaw #2: Reliability issues exist in data sets.
- Flaw #3: External rankings are typically based on percentiles and are therefore relative to a universe.
- Flaw #4: External rankings are most often compared to a predefined peer group.
- Flaw #5: Corporate governance scores will often take different weightings across sectors.
- Flaw #6: Controversy scores associated with company rankings are based on media news algorithms that tend to be skewed negatively and often have a substantial time lag.
- Flaw #7: The materiality of the ESG qualities on earnings are not considered.

It is our view that every security needs to be assessed on a standalone basis and cross-sector comparisons are often only of limited relevance. That said, governance efficacy is directly comparable across industries and geographies, and should take an equal emphasis in any ESG-led analysis.

It is our opinion that if an investor uses external research as its primary information source, it may lead to poor choices being made. For example, if you are analysing an industry that is universally “bad” and the scores are relative and percentile-based, then problems exist. In such a circumstance, external scores will demonstrate half of this universe operating with above-average scores, despite the entire universe being bad. This is a compromise we are not willing to make. Indeed, our ESG process has been specifically designed to address many of the pitfalls we highlight.

While the above flaws are the dominant concerns, some ancillary considerations relate directly to how Dalton has historically invested capital and generated value for its customers. Notably:

- Market cap bias: External research providers have a natural bias towards larger-cap companies, given the structure of benchmark indices. Given our all-cap approach, significant gaps exist in data for large proportions of our investment universe.
- Owner/operator companies typically display lower governance scores: This results from how data vendors rank governance scores. These kinds of companies often operate with a lack of separation between the Chairman of the Board of Directors and CEO, potentially have entrenched boards, a perceived lack of board independence, and often weaker disclosure on remuneration. As such, this creates a negative skew that is often not justified. Dalton is naturally biased towards owner-operator firms, given the importance of aligning interests to equity. To counterbalance the perceived weakness, we seek a track record of the owners working with minority shareholders.
- Engagement: External vendors do not actively engage with companies to improve long-term ESG practices, which is essential to driving change and tackling systemic market issues.
- Accounting fraud: Independent research advisors separate financial and ESG risk and do not think about the financial impact of certain practices on the sustainability of earnings. Therefore, we believe it is essential to incorporate the use of accounting fraud tools to raise red flags about the overall efficacy of the financials and to ensure our ESG rankings impact our view of the quality of the company's earnings.

Finally, it should be noted that external research vendors provide high-quality research and where available, we will assess their research as part of our ongoing due diligence. Given all of the above, it is another data input into our process but is not relied upon exclusively. We currently utilise both MSCI ESG Research and LSEG (London Stock Exchange Group) ESG data in our process.

2. Our Approach to Integration

Integrating ESG into Dalton's investment approach was a natural evolution of our long-established four mantras discipline, as this naturally aligns with better ESG.

The Four Mantras & Engagement in an ESG context

- Good business: We believe that a good business has superior long-term earnings, lower costs of capital, higher cash flow generation and higher ROICs. Companies with superior ESG qualities have been shown to demonstrate these qualities in academic and internal research[6]. It is logical to assume that a company more prone to ESG failures will be subject to higher long-term costs and, therefore, lower long-term profitability or much higher volatility in earnings. Our research also demonstrates that companies with sound ESG policies exhibit lower risk than peers; where risk is defined by lower financial leverage over time.
  Margin of safety: If earnings are more stable and risk is lower (as is the case in superior ESG businesses), your margin of safety is enhanced, and the risk of the permanent impairment of capital is lowered.
- Alignment of interests: We believe that partnering with aligned management teams allows for a long-term investment horizon. Where this is not the case, active engagement to foster

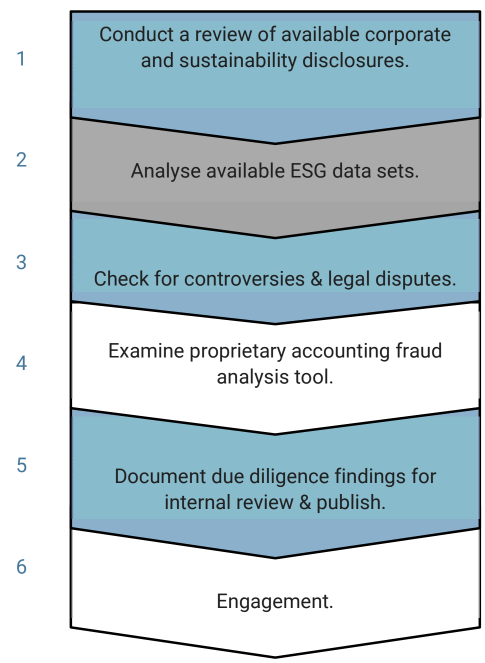
[6] Fulton, Kahn, Sharples -- "Sustainable Investing: Establishing Long-Term Value and Performance" (2012). Khan, Serafeim, Yoon – "Corporate Sustainability: First Evidence on Materiality" (2016). Eccles, Ioannou, Serafeim -- "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance" (2012). Mercer – "The Merits of Corporate Governance Focused Investing in Emerging Markets" (2017).

strong alignments of interest is a crucial part of our investment process. As such, ensuring strength in governance is vital.

- Track record of management: The track record of the management over time is an underlying key performance indicator of good governance.
- Engagement: an integral part of long-term sustainability implementation.

Given this investment philosophy, more formally incorporating an assessment of what comprises good governance reinforces our emphasis on these mantras. To give a sense of the ESG process, we have outlined below a flow diagram explaining the steps we take at the security level.

The ESG Investment Process



As part of this process, there are distinct areas of focus in our due diligence process. This includes an assessment of governance practices, environmental policies and track record of performance, social policies and track record of performance, and an assessment of other issues that includes assessment on contingent liabilities, accounting risk, and earnings risk.

3. Governance

Dalton's investment policy consists of a multi-stage approach to integrating ESG factors and sustainability risks in investment decisions. Dalton believes the key element to understanding the efficacy of a company's overall ESG policies is the foundation set by the governance structures. As part of the assessment, we set some broad process objectives. These include, but are not limited to:

- Examine available public disclosures. For example, annual and sustainability reports, corporate governance reports, ethics policies, and its code of ethics.
- Analyse the board composition and any relevant sub-committees, such as audit, remuneration and nomination committees.
- Review the company's remuneration practices and disclosures to assess the alignment of interest to minority shareholders and accountability of key management professionals.

- Understand the shareholding structure, including cross shareholdings and related-party transactions.

Dalton believes that good corporate governance is shaped by a board that is accountable and offers transparency to shareholders about its operations and its incentive structures. A high-quality governance structure should include, but not limited to the following:

- A board that is majority independent with clear separation from the executive management.
- The company operates with sufficient levels of diversity across the management and board.
- Audit, nominations and remuneration committees are fully independent.
- There is the presence of a sustainability committee that has board-level accountability.
- The board provides detailed corporate governance reporting, which includes detailed remuneration disclosures.
- There is the presence of a clear incentive structure for executive management, with measurable short-term and long-term incentives that align with shareholders.
- There are sustainability measures incorporated into the compensation structures.
- Finally, there is clear accountability within the board for failure to meet its long-term objectives.

We will also leverage several resources to deepen our knowledge of business and governance practices at investee companies. To supplement our own due diligence efforts, Dalton utilises resources, such as proxy voting services, external sustainability research and engagement groups through the UN PRI. The due diligence process will include writing to management teams to source additional information and seek clarity on areas where there are information deficiencies. It is also worth noting that while differences in governance practices exists across geographies, we will anchor to what we perceive to be global best-practices and encourage companies to follow market leading governance structures.

4. Environmental

Our environmental research efforts are set against the foundation of achieving the following key process objectives:

- Examine how environmental practices are entrenched in the organization’s culture.
- Identify long-term sustainability targets and goals.
- Analyse the working practices and disclosures of the company.
- Track the performance of the company against its core goals.
- Seek externally verified working practices e.g. International Organisation for Standardization (ISO) accreditations or equivalent.

The industry context is highly relevant when analysing the environmental operating practices of a company, most importantly when determining the impact of ESG risks to earnings. A greater emphasis will be placed on environmental issues, where the impact on earnings may be more material. In the table below we provide some examples of what matters in different industries.

✓ Emissions Targets *In high carbon intensive industries, a well-documented process for managing the environmental impact, reasonable goal setting and appropriate accountability for attaining these goals.*	✓ UN Sustainable Development Goals *Industry leaders will have clear sustainable development goals in place surrounding key areas of environmental impact and cost mitigation and will have clear audit processes in place.*
✓ Waste Management *Waste management is vital in intensive manufacturing sectors. Sound practices can lower overall costs in the long-term and reduce the impact of potential fines.*	✓ Resource Management *Management of land, impact on biodiversity and effective supply chain management is essential in a wide range of industrials. This relates to areas such as sourcing of resources and the mitigation of conflict minerals. This is particularly pressing in low margin businesses.*
✓ Property & Logistics *In non-resource intensive businesses, the focus on energy efficiency across properties and its indirect impact on the environment through outsourced operations are key.*	✓ Other Issues *Other key points of analysis include water stress, energy reliability and security, use of renewable energy sources, regulatory considerations, reconciliation efforts, and activist perceptions.*

Dalton will monitor energy management, emissions, and waste management by identifying the companies that hold ISO 14001 (Environmental Management Systems) or equivalent, and/or ISO 50001 (Energy Management), or equivalent certifications. We also track how many companies are members of the UN Global Compact and have adopted UN Sustainable Development Goals in their long-term planning. This includes monitoring the number of companies that have aligned with the Paris Agreement and those that are EU Taxonomy aligned, using a Regulatory Technical Standards[7] (RTS) test.

Finally, where data is available (and relevant), Dalton will assess long-term Scope 1, 2 and 3 emissions performance and seek to identify areas where companies are failing to meet their targets or where no targets align with the Paris Agreement.

5. Social

Our social research efforts are set against the foundation of achieving the following key process objectives:

- Examine the firm's human resources policies and practices, including incentive structures.
- Understand the company's approach to diversity and inclusion.
- Review the composition of its workforce and working conditions.
- Review the health and safety policies and practices of the company.
- Analyse customer engagement policies and practices.
- Understand product safety and quality.
- Examine data protection and IT security policies and practices.

At their core, all companies are people-led businesses and therefore understanding how a company manages and treats its employees is a central facet of appreciating the culture of a company. Assessing labour practices, including a company's approach to human rights and diversity and inclusion, are an integral part of our due diligence process and essential to evaluating the inherent risk of the sustainability of a company's earnings over time. A firm that lacks a strong safety track record,

[7] Please see the appendix for full RTS testing methodology.

operates with poor work life balance, and experiences higher turnover rates will suffer over time, as it fails to attract and retain talent.

However, social policies are not just limited to people management. Other key factors include understanding the impact of a company's products on society. In industries where product safety and quality are vital to earnings and brand reputation, we will check any prior violations and recall practices and procedures. Supply chain management is also vitally important. This is particularly relevant in firms that have large, outsourced operations, such as contract manufacturing. Therefore, it is important to understand how a company manages its suppliers, what guidelines are in place and how it audits its suppliers. This is even more relevant in industries where there has been a prevalence of the use of child or forced labour, such as in the mining of conflict minerals.

In order to assess social characteristics, Dalton will identify those companies that hold OHSAS 18001/45001 (Health and Safety), ISO 27001 (IT Security), and/or ISO 9001 (Quality Management) certifications. We also identify companies with publicly documented human rights policies, ethics and corruption policies, and whistle-blower protections. The EU Taxonomy legislation has deemed it important to ensure minimum social safeguards are in place to align with the regulations. Under our RTS methodology, outlined in the Appendix, we test and track our portfolios to monitor the efficacy of the working practices.

6. Controversies and financial risk

The final key aspect of our integrated ESG process is to understand whether a company is subject to any material controversies with respect to its operations and whether any potential financial malfeasance may exist. As part of this, we seek to achieve the following process objectives:

- Review independent auditor reports and published accounts to assess contingent liabilities and related party transactions.
- Conduct proprietary accounting data analysis to screen companies for potential accounting malfeasance.
- Screen media and external research vendors to identify any material ongoing controversies that may impact upon earnings.
- Review the industry of a company's operations to understand if systemic long-term issues may exist that could impair long-term earnings.

We believe that our accounting screening tool is a differentiating feature of our ESG approach. This proprietary tool analyses the past five years of a company's financial disclosures against a relevant peer group. The analysis identifies potential areas of concern across a range of financial metrics that have been demonstrated to be leading indicators of potential financial stress or aggressive and misleading accounting practices. This includes, but is not limited to, assessing the build-up of inventory and receivables of a company, its use of intangible assets on its balance sheet in relation to a range of metrics, the build-up of deferred taxes relative to its equity, a comparison of operating cash flows to earnings before interest, depreciation and amortisation, the use of prepaid assets on the balance sheet, the capex relative to depreciation and amortisation and any adverse changes in the capital structure of the company, including its use of debt and equity. Our ranking system allows us to identify companies that may demonstrate higher accounting risk and enables deeper questioning by the analyst team to understand why or how such flags are either a prospective problem to earnings quality or not.

It is also worth noting that some other factors are considered when reviewing controversies and financial risk. This includes examining the tax code prevalent in the market of operation. For example, how a specific market treats income and dividends plays a role in how a company may distribute capital to shareholders and how earnings might accrue to a holding company. This runs in parallel to what listing rules are in place within the market of consideration. Voting rights of minority shareholders can be influenced materially, depending on the market of listing, and the type of security or class of shares that an investor chooses to hold.

7. Dalton's Rating Methodology

Once the due diligence has been completed on ESG factors, we will then assign a rating to each company. The rating reflects a balanced view of the company's policies and practices across each key area, where governance is the common thread across all industries and geographies. Ultimately, more emphasis is placed on governance across our process. We firmly believe that a company with relatively weak governance will be unable to implement more robust environmental and social practices. Governance, by default, lays the foundation for everything that follows.

Based on our qualitative assessment of a company's practices, we assign a rating of "A", "B", "C" or "D". The rating includes an assessment of the potential risk in the company, an accounting risk metric, and identifies if any potentially material controversies exist that may impair earnings. The CSO also notes whether there is an opportunity to engage with the company on ESG issues.

Rating	Sustainability Risk	Accounting Risk	Controversies Present	Engagement Opportunity
A – High quality practices	*High*	*High*	*Yes - Material*	*Yes*
B – Moderate quality practices	*Moderate*	*Moderate*	*Yes - Not Material*	*No*
C – Low quality practices	*Low*	*Low*	*No*	
D – Poor practices (Do Not Invest)				

Paired with the above rating applied to the company, there is one final and crucial step. That is determining what impact this rating may have on the sustainability of earnings.

8. Assessing the Risk of Sustainability to Earnings

Integrating ESG research into the investment process is ineffective if we do not understand how ESG factors might impact earnings and what this might mean for the perceived margin of safety. To achieve this goal, we developed a proprietary tool called the Intrinsic Value Load Factor or IVLF.

What is the IVLF?

The IVLF is a proprietary metric designed to translate our ESG ranking into how ESG risk might positively or negatively impact earnings. The metric has been developed to map our ESG ratings to the Sustainability Accounting Standards Board (SASB) materiality map across sectors. The SASB materiality map outlines which ESG factors are potentially significant to earnings across different businesses. For example, if we examine the SASB map for the Extractives and Minerals Processing sector we see the below assessment:

Category	Factor	Extractives & Minerals Processing
Environment	*GHG Emissions*	*2*
	Air Quality	*2*
	Energy Management	*1*
	Water & Wastewater Management	*2*
	Waste & Hazardous Materials Management	*2*
	Ecological Impacts	*2*
Social Capital	*Human Rights & Community Relations*	*1*
	Customer Privacy	*0*
	Data Security	*0*
	Access & Affordability	*0*
	Product Quality & Safety	*0*
	Customer Welfare	*0*
	Selling Practices & Product Labelling	*0*
Human Capital	*Labor Practices*	*1*
	Employee Health & Safety	*2*
	Employee Engagement, Diversity & Inclusion	*0*
Business Model & Innovation	*Product Design & Lifecycle Management*	*1*
	Business Model Resilience	*1*
	Supply Chain Management	*1*
	Materials Sourcing & Efficiency	*0*
	Physical Impacts of Climate Change	*0*
Leadership & Governance	*Business Ethics*	*1*
	Competitive Behavior	*1*
	Management of the Legal & Regulatory Environment	*1*
	Critical Incident Risk Management	*2*
	Systemic Risk Management	*0*

The SASB assigns a score of zero when the factor is not a material issue for the sector, a score of 1 is where the factor is likely to be material for fewer than 50% of industries in the sector, and a score of 2 is where the factor is likely to be material for more than 50% of industries in the sector.

Dalton will aggregate the total number of materiality flags for a given sector and map this to its score for the company. This provides an objective risk assessment of the sector in which a specific company operates. Therefore, companies in sectors with low materiality will have less potential financial impact from an ESG failure, while companies in high materiality sectors will have greater potential financial impact from ESG failures. Within our approach, companies rated A or B receive an uplift in the perception of fair value while those companies rated C or D are assigned a reduction in perceived fair value. The size of the premium or discount is driven by the nature of the business and its relative sector risk.

How to Interpret the IVLF

The IVLF scoring ranges from +11% to -26% and depends on the materiality of ESG risk in the sector of the company's operation. Outlined below is the output of this process when mapped to the relevant GICS sector.

	Intrinsic Value Load Factor – By Rating			
GICS Sector	A	B	C	D
Automobiles & Components	7.50%	2.50%	-7.50%	-22.50%
Banks	11.30%	3.80%	-6.30%	-18.80%
Capital Goods	7.50%	2.50%	-7.50%	-22.50%
Commercial & Professional Services	11.30%	3.80%	-6.30%	-18.80%
Consumer Durables & Apparel	11.30%	3.80%	-6.30%	-18.80%
Consumer Services	11.30%	3.80%	-6.30%	-18.80%
Diversified Financials	11.30%	3.80%	-6.30%	-18.80%
Energy	3.80%	1.30%	-8.80%	-26.30%
Food & Staples Retailing	3.80%	1.30%	-8.80%	-26.30%
Food, Beverage & Tobacco	3.80%	1.30%	-8.80%	-26.30%
Health Care Equipment & Services	3.80%	1.30%	-8.80%	-26.30%
Household & Personal Products	11.30%	3.80%	-6.30%	-18.80%
Insurance	11.30%	3.80%	-6.30%	-18.80%
Materials	3.80%	1.30%	-8.80%	-26.30%
Media & Entertainment	3.80%	1.30%	-8.80%	-26.30%
Pharmaceuticals, Biotech & Life Sciences	3.80%	1.30%	-8.80%	-26.30%
Retailing	11.30%	3.80%	-6.30%	-18.80%
Semiconductors & Semi Equipment	3.80%	1.30%	-8.80%	-26.30%
Software & Services	3.80%	1.30%	-8.80%	-26.30%
Technology Hardware & Equipment	3.80%	1.30%	-8.80%	-26.30%
Telecommunication Services	3.80%	1.30%	-8.80%	-26.30%
Transportation	7.50%	2.50%	-7.50%	-22.50%
Utilities	7.50%	2.50%	-7.50%	-22.50%

The outcome is that a for a company with a positive IVLF, earnings are more sustainable because of the higher ESG ranking, while those with a negative IVLF have lower sustainability of earnings. Therefore, companies with a high rating theoretically trade at a greater discount to intrinsic value given the quality of the earnings base.

The IVLF is ideally used as a tool to support or complement conviction building and inform on the relative risk of a security taken in isolation. Our ideal scenario is to have more conviction in A rated stocks where there is already a big margin of safety. This highlights that we believe the market is undervaluing both the financials of the security and the greater sustainability of the earnings that result from its superior ESG practices. However, final position sizing will involve assessing a multitude of factors, including but not limited to client constraints, liquidity, valuation, structural earnings drivers, industry risk, geographic risk and ESG risk.

By way of example, a company rated A in the banking sector will gain an 11% uplift in earnings, which infers a higher earnings yield, greater EBITDA, or larger book value than the market (or analyst) might believe is warranted. While similarly a company in the same sector with a D rating will have a 19% reduction in earnings which infers a lower earnings yield, lower EBITDA, or lower book value than the market (or analyst) might believe is warranted.

9. Exclusions

As part of our process, and our desire to operate with a policy that adheres to the principle of “Do No Harm”, we also include active exclusions within our process to reduce sustainability risk across portfolios. Over time, these are areas where Dalton has had limited historical exposure. This primarily results from our emphasis on good businesses and alignments of interest under our four mantras. For example, within the Asian region, highly carbon intensive businesses such as power generation companies, are typically state-owned enterprises. This kind of company fails our criteria on alignment to minority shareholders. However, to avoid ambiguity, as part of our formal process we introduced the following exclusions:

We prohibit investment in companies that:

- Are involved in the production or trade in weapons and munitions*.
- Operate in the production controversial weapons. Including anti-personnel landmines, cluster munitions, chemical, biological, and nuclear weapons.
- Are involved in the production in tobacco*.
- Are involved in gambling, casinos, and equivalent enterprises*.
- Operate in the thermal coal industry.
- Operate in the oil sands industry.
- Are involved in adult entertainment enterprises.
- Are rated D by the CSO.

* This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations and does not comprise more than 5% of revenue.

10. Resourcing

Undertaking the process of integrating ESG research into the due diligence effort is a team wide undertaking, with oversight and implementation provided by the firm’s CSO. As part of the analyst team’s duties, they must complete an investment due diligence checklist incorporating ESG factors. The CSO conducts an independent review of each security before a core position in an investment is established and works with the analyst leading the research to fill gaps in knowledge with the management of the prospective investment. This engaged approach allows the CSO to form a more balanced view of a company’s ESG practices, and to provide an objective challenge to the analyst covering a specific security.

Each quarter, the CSO will systematically update all the individual company reports to reflect all new financial and ESG-related data. The CSO also systematically monitors news and ESG-related controversies, which prompt a review of security where required. While ongoing monitoring of the company and its sustainability policy is a team effort and new and relevant changes to its approach are updated in our due diligence documentation as required.

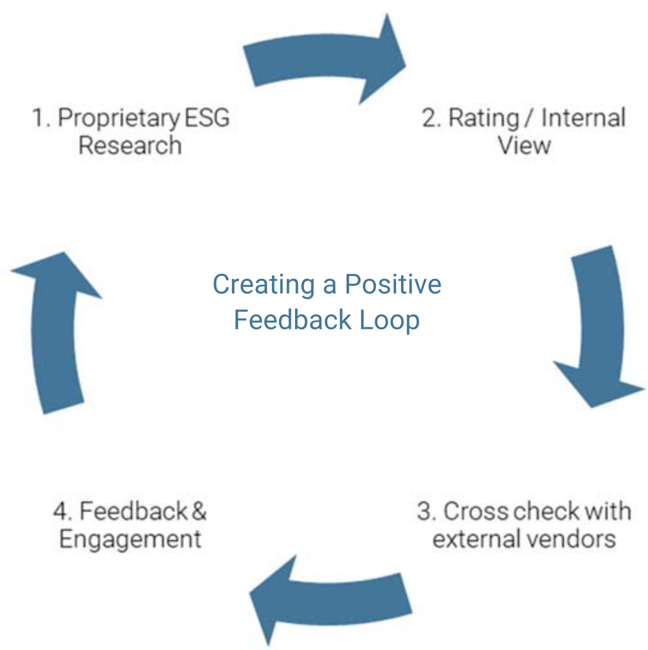
Dalton’s analyst team is comprised of 18 investment professionals as of the end of Q2 2024.

E. Active Ownership

1. Engagement

Like the relevance of understanding the impact of ESG on earnings, an integrated approach to ESG investment will not succeed over time unless there is a dedicated approach to ongoing engagement with companies. As such, Dalton actively incorporates engagement as a pillar of its investment discipline.

A dialogue with investee companies as well as proxy voting are ways to add value to the investment process and Dalton believes that stronger ESG practices will be reflected in better company and stock performance. Through constructive engagement with company management, from a medium to long-term perspective, Dalton seeks to promote an investee company's sustainable growth. this type of dedicated approach creates a positive feedback loop that enhances the investment approach.



Our investment team will regularly set measurable targets for improvements before engaging with an investee company and will revisit these regularly to monitor progress.

As part of the CSO's due diligence process and final ranking, there is an indication when there is the need for specific engagement on a company's overall ESG policies and practices. The CSO will outline to the analyst leading the research on the company where deficiencies exist and outline the key areas of focus with the management team.

It is also important to note that Dalton is a signatory of the UN Principles for Responsible Investment (PRI) and as such adheres and is committed to the six principles: namely:

- to incorporate ESG issues into investment analysis and decision-making processes.
- to be an active owner and to incorporate ESG factors into its ownership policies and practices.
- to seek appropriate disclosure on ESG factors by the entities in which it invests in.

- to promote acceptance and implementation of the UN PRI Principles within the investment industry.
- to work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the UN PRI Principles.
- to report on its activities and progress towards implementing the UN PRI Principles.

Dalton is also a signatory of both the Japanese and Korean Stewardship codes.

As well as engaging portfolio companies. Dalton takes an active approach in its relationships with policy makers, regulators and wider industries bodies, in order to accelerate its engagement objectives.

2. Escalation

Dalton typically begins its engagement on a private basis but has a wide “toolbox” of engagement tactics, which can be implemented to drive positive change for all minority shareholders. These are summarized below.

3. Voting

Dalton invests its portfolios across a multitude of investment markets across the globe. Each market has a unique structure, corporate governance code, rule of law, and each is in a different phase of its evolution. Indeed, many of the markets in which we invest are emerging economies and therefore have more immature market structures. In order to combat these challenges, Dalton holds a series of common values and principles regarding voting, and it looks to express these as consistently as possible across jurisdictions. Ultimately, we believe that each situation needs to be examined on a case-by-case basis, where the nuances of both the company and its market of operation are considered.

The general framework we have established relies on a range of voting principles that form the foundation for our voting activity. In the rare circumstances where we vote differently to these principles, we document our rationale and will provide transparency to our clients where required.

Voting Principles

Category	Issue	What we seek
Board	*Role of board*	A board that can be held accountable against long-term performance metrics that are both transparent and in-line with long-term shareholder value creation.
	Independence	A majority independent board.
	Diversity	A board the actively seeks a diverse composition.
	Role of Chairman and CEO	An independent Chair which is separated from the role of the CEO.
	Disclosures	Comprehensive disclosure of board responsibilities (including sub-committees) and performance against key performance indicators.
	Skills	A board that is comprised of professionals which hold adequate qualifications and that are suitably diverse.
	Entrenchment	A board that is constantly refreshed with new talent and does not suffer from entrenchment concerns.
	Sub-committees	Presence of majority independent sub-committees, including audit, nominations, remuneration and sustainability. Each comprised of suitably qualified professionals.
	Over-boarding	A board that contains members that are not encumbered by excessive duties with other roles and responsibilities.
Remuneration	*Disclosures*	Detailed disclosure of remuneration policies and performance.
	Incentives	An incentive structure that is well designed against long-term performance indicators and skewed towards equity incentives.
	Alignment	A board and management team that is closely aligned to the long-term performance of the company equity.
	Key Performance Indicators	Performance indicators that balance short-term and long-term performance against relevant performance metrics and incorporate sustainability metrics.
Environmental	*Climate Risk*	A board that provides disclosure and is measured against its performance of managing climate related risk.
	Capex	A company that has adopted a policy of capital expenditure towards managing climate-related risk.
	Disclosures	Seek detailed disclosures on environmental performance that align with best international practice, such as aligning with the Taskforce for Climate-Related Disclosures.
	Biodiversity	A company that takes into consideration the impact of its operations on biodiversity and provides adequate disclosures in its processes and approach.

Category	Issue	What we seek
Social	*Human Rights*	A board that actively adopts Human Rights policies that adhere to global best practices – such as United Nations Guiding Principles on Business and Human Rights.
	Human Capital	A board that implements policies that support the wellness and long-term value of its employees.
	Health and Safety	A board that is held accountable for the implementation of health and safety practices and undertakes activities that safeguard the health and safety of its employees.
	Diversity and Inclusion	A company that advocates for diversity and inclusion and is held accountable for failure to do so.

With the framework outlined above, Dalton will seek to vote for proposals that meet these principles. When a board of the investee company seeks to implement structures and recommendations against such principles, we will typically vote against the proposals made. In addition, where policies and structures do not exist in any of the areas noted above, this will form part of Dalton's ongoing engagement efforts with the investee company to enhance disclosure and governance.

Finally, Dalton employs the use of Institutional Shareholder Services ("ISS") as a proxy advisor to support its voting process and decision-making.

Voting Process

The process entails identifying the investee company's meeting calendar, noting cut-off dates and whether share blocking or stock registration is required. The analyst leading the coverage of the security will be notified of the upcoming voting resolutions proposed with ISS voting recommendations. The analyst will make their voting recommendation and if there is a conflict between the recommendation and the voting principles the CSO will request additional information. Should the analyst wish to vote against any of these principles, they will provide written justification, and the CRO/CSO will determine if such a decision is warranted. The outcome of this process is then instructed to the proxy voting team to implement accordingly.

Managing Conflicts of Interest

To avoid conflicts of interest in the companies we invest in, Dalton has established a conflict-of-interest policy documented within the firm's compliance manual. The firm's CCO conducts oversight of managing the firm's potential conflicts of interest.

Reporting and transparency

Dalton will provide complete voting transparency to any client that wishes to receive the information. This will include the total number of votes made, those made against the management, those made against the proxy advisors' recommendation and where we have voted against the principles our sustainability policy.

4. Collaboration

While direct company engagement is instrumental to long-term success, there are occasions where a more collaborative approach with institutional investors is warranted. Dalton participates in a range of collaborative activities, which include:

- Direct engagement with shareholders in commonly held securities, with steps taken to avoid acting in concert.
- Participation in group collaborations via the UN PRI.
- Taking the lead on collaboration activities through the UN PRI to seek global support for a wider market concern.

The goal of collaborative engagement is to enhance long-term outcomes for our customers. By engaging in curbing emissions, improving governance, and strengthening climate-related financial disclosures, we believe risk-adjusted returns will improve over time, whilst also serving to help tackle the systemic risk that climate change represents.

F. Transparency & Reporting

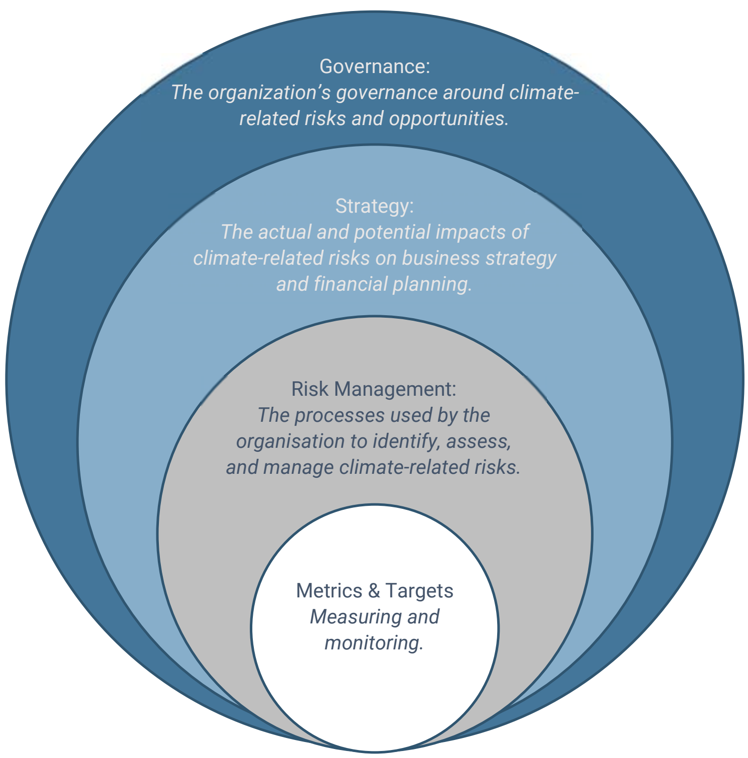
1. Monitoring Sustainability Risk

The primary objective of monitoring sustainability risk is to identify areas of potential weakness in portfolios over time, while serving to acknowledge where active engagement on sustainability-related initiatives may be warranted.

Our monitoring framework has been structured in-line with the European Union's Sustainable Finance Disclosure Regulation (SFDR) and we aim to produce portfolio metrics in-line with those we adopt across the Article 8 registered funds advised and managed by Dalton. While we examine portfolio risk in aggregate, we also monitor company specific metrics. Included in the Appendix are examples of portfolio-based reporting and a company specific report. These reports provide the backbone of our reporting and risk monitoring of our investments within an ESG context.

2. Task Force for Climate-Related Disclosures

As part of our process, we actively consider the requirements as a fund manager under the Task Force for Climate-Related Disclosures ("TCFD"). The core elements of the TCFD are governance, strategy, risk management and monitoring.



It has been recommended by research vendors, such as MSCI, that asset managers should generally approach TCFD based reporting with five central foundations:

- Setting objectives.
- Identifying key dimensions of climate risk.
- Measuring portfolio exposure and impact.

- Assessing vulnerability to climate change scenarios.
- Enhancing adaptive capacity.

Dalton will commit to the TCFD regime and has built its own processes around these foundations to tackle each.

Setting objectives	Identifying key dimensions of climate risk	Measuring portfolio exposure and impact	Assessing vulnerability to climate change scenarios	Enhancing Adaptive Capacity
Integration of ESG into our process. *Dalton's 4-mantras steer us away from ESG laggards and towards leaders.* *We actively exclude problem areas and have attained Article 8 approvals for our funds, where relevant.* *Active engagement is embedded into our investment discipline.*	*Maintain a database of key market research to identify risks, both emerging and present.* *Assess and analyse threats and opportunities.* *Monitor key country legislation.* *Seek to understand where acute or chronic physical risks lie.*	*Analyse portfolios against carbon metrics and a wide range of ESG-related measures (data permitting).* *Identify where exposure to carbon exists.* *Detailed underlying due diligence on each investment.* *Use a proprietary tool called the IVLF, which captures how holistic ESG risk might impact our assessment of fair value.* *Assess potential liabilities that may arise from climate-related risks.*	*We have limited overall exposure to high carbon investments because of our process and therefore the risk is largely mitigated against worst case climate scenarios.* *Dalton currently utilises MSCI Climate research to assess the vulnerability of its portfolios to climate change.*	*We identify companies more prone to transition risk in our portfolio.* *We are members of the PRI.* *We actively engage portfolio companies directly or through organisations like the PRI.* *We identify company goal-setting in our due diligence and will monitor progress against these targets.* *Our due diligence process is structured to focus on ESG leaders over time.*

Dalton's primary mitigation tools for managing climate-related risk are:

- Proprietary due diligence
- Monitoring and analysis
- Active engagement

We firmly believe that we lay a solid foundation for integrating ESG within our investment process through a disciplined focus on our four mantras. Chief among these is the focus on good businesses. A good business will be actively considering a transition framework to net zero emissions, while we acknowledge that those businesses that do not do so will likely trade with less margin of safety than expected as highlighted by our IVLF methodology.

3. SFDR

The SFDR is a European regulation introduced to improve transparency in the market for sustainable investment products, prevent greenwashing and increase transparency around sustainability claims made by financial market participants. The regulations impose comprehensive sustainability disclosure requirements covering various environmental, social & governance metrics. The EU introduced the regulatory framework in 2021.

In addition to the SFDR regulations, the European regulatory authorities outlined EU Taxonomy guidelines. These guidelines serve as a classification tool to assist investors in determining whether an economic activity is environmentally sustainable or not. To meet EU Taxonomy alignment, the regulator outlined a series of Regulatory Technical Standards ("RTS") to determine whether an activity is in line with environmental sustainability. The Taxonomy Regulation lays out six environmental objectives:

- climate change mitigation
- climate change adaptation
- sustainable use and protection of water and marine resources
- transition to a circular economy
- pollution prevention and control, and
- protection and restoration of biodiversity and ecosystems.

The regulatory framework also stipulates four conditions that an economic activity must meet to be recognized as EU Taxonomy-aligned:

- making a substantial contribution to at least one environmental objective (noted above)
- doing no significant harm to any other environmental objective
- complying with minimum social safeguards, and
- complying with the technical screening criteria.

As part of this process, it is required that SFDR regulated funds must document and make publicly available their approach to assessing the RTS. In addition, the Fund must provide reporting to the regulator concerning the proportion of the Fund's investments that are EU Taxonomy-aligned and data in relation to a group of Key Performance Indicators ("KPIs"). The KPIs include information on the proportion of an investment portfolio's turnover, capital expenditure ("CAPEX") or operating expenditure ("OPEX") of non-financial companies that are associated with environmentally sustainable economic activities.

A number of Dalton-advised funds have received approval for Article 8 classifications from European regulators. We have disclosed in the appendix our full RTS methodology. In addition, these funds adhere to the Principal Adverse Indicators Methodology, and therefore, the funds will provide reporting around the required disclosures on a periodic basis.

Dalton, as this policy outlines, evaluates and integrates certain ESG factors at multiple stages throughout the investment process. This is important in contributing to long-term investment returns and an effective risk-mitigation technique.

Appendix:

1. Regulatory Technical Standards Methodology

The below framework serves to outline Dalton's approach to the RTS.

As part of Dalton's integrated approach to ESG research, the company also undertakes a series of tests across its portfolio holdings to assess the EU Taxonomy-alignment.

Dalton performs the following underlying tests to evaluate a company's alignment to the six environmental objectives. As part of our ESG process integration, Dalton conducts detailed due diligence on each prospective investment's sustainability practices. This process results in a score being assigned to each investment. The assigned score is based on our assessment of the company's complete disclosures and any available third-party data. On completion of the review, we assign a rating of A, B, C or D to a prospective investment. Companies that are rated A or B have overall better-quality sustainability practices. In contrast, C-rated companies are of poorer overall quality and D-rated securities are excluded from our investment universe.

Those companies that are assigned a rating of A or B are deemed to meet the criteria of at least one of the six environmental objectives. We conduct further tests for those rated C to check whether the company meets the required standards. These tests are outlined below:

1. Climate Change Mitigation Test

We test to find evidence that the company is aligned with the Paris Agreement. To do this, we examine whether the company has in place at least one of the following:

a) A carbon emissions target of at least 40% reduction. Over five years, this would indicate at least a 7% reduction in emissions per annum, which is in line with the Paris Agreement
b) Evidence of at least a 7% reduction in emissions over the past year, or
c) Evidence of a net zero emissions target.

Under the Paris Agreement, the goal is to keep global warming to no more than 1.5 degrees Celsius. To achieve this, emissions will need to be reduced by 45% by 2030 and reach net zero by 2050.

2. Climate Change Adaptation Test

A test is completed to understand if a company presents evidence that it is adapting its processes to account for actual or expected climate change impacts. To confirm this, we check public disclosures to validate if a company is a member of the UN Global Compact.

UN Global Compact is the largest corporate sustainability initiative, and to become a member organisation, a company must take an "important, public step to transform our world through principled business." It is viewed that participation in the UN Global Compact makes a statement about the company's values. Importantly, it also publicly aligns a company to the UN Sustainable Development Goals, which are an essential tool in the global effort to tackle climate change. More information on the UN Global Compact can be found here.

3. Sustainable Use and Protection of Water and Marine Resources Test

We analyse whether evidence is present that the company takes steps to protect water and marine resources within its business operations. We test for the presence of a policy for water efficiency using LSEG data.

4. Transition to a Circular Economy Test

We seek evidence that the company has procedures to mitigate waste, policies to manage hazardous waste responsibly and offers recycling programs. We reference check the LSEG database for proof of a waste reduction policy or a take back recycling initiative.

5. Pollution Prevention and Control Test

Dalton conducts a systematic test to confirm the company has externally verified procedures and practices to manage pollution and its environmental footprint. We check for the presence of externally certified working practices compliant with ISO 14001 (Environmental Management Systems) or ISO 50001 (Energy Management Systems).

6. Protection and Restoration of Biodiversity and Ecosystems Test

We seek evidence that the company has policies concerning biodiversity and protection in place. We reference the LSEG database for the presence of a biodiversity impact reduction policy.

Provided the company passes at least one of the six environmental objectives, the investment is then subjected to three additional tests to ensure it is EU Taxonomy-aligned.

The following three additional tests are then performed:

1. Do No Significant Harm Test

In conducting this test, we systematically test the investment against various technical screens. We test to see if the company operates within a sector that is deemed to be materially carbon-emitting, or whether it operates within a controversial industry. Companies are considered to fail the Do No Harm Test if at least one of the following criteria is met:

a) Operates within the Oil & Gas Drilling, Oil & Gas Equipment & Services, Integrated Oil & Gas, Oil & Gas Exploration & Production, Oil & Gas Refining & Marketing, Oil & Gas Storage & Transportation, Coal & Consumable Fuels, Aerospace & Defense, Casinos & Gaming, or Tobacco Sub-industry group as defined under Global Industry Classification System ("GICS"), or
b) Flags controversy screens as having exposure to any of tobacco, armaments, anti-personnel mines, gambling, or cluster munitions, as determined by the LSEG database.

2. Minimum Social Safeguards Test

To meet the Minimum Social Safeguards Test, the company must present evidence of at least one of the following practices or policies:

a) Have in place a published human rights policy, or
b) Present evidence of alignment to occupational health and safety standards that are accredited by an internationally recognised body, e.g., OHSAS 18001 (Health and Safety) or equivalent, or
c) Provide evidence that it follows the OECD Guidelines for Multinational Enterprises.

3. Regulatory Technical Standards Test

In order for our process to meet the requirements of the technical screening criteria, we have ensured the aforementioned tests meet the criteria as outlined by Article 19 of the REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020.

This includes ensuring that the tests for six environmental objectives are quantitatively based and contain thresholds to the extent possible, and otherwise be qualitative. In addition, to ensuring that we discount any prospective investments that are operating within the fossil fuel sectors as per our 'Do No Harm Test'. In addition, to clarify if the investment meets the regulatory standards test, we ensure either of the following:

a) The investment is rated A or B through our due diligence efforts, and
   i. Passes the Do No Harm Test
   ii. Meets the criteria for the Paris Agreement (as noted in Climate Change Mitigation Test above) OR
b) Meets at least two of the six environmental tests, and
   i. Passes the Do No Harm Test
   ii. Meets the criteria for the Paris Agreement (as noted in Climate Change Mitigation Test above).

You can find more information on the Paris Agreement here.

We determine EU Taxonomy alignment if the company passes ALL the following:

1. Six Environmental Objectives Test
2. Do No Harm Test
3. Minimum Social Safeguards Test, and
4. Regulatory Technical Standards Test

As an essential part of our ongoing reporting requirements, Dalton will provide the reporting as outlined to monitor its funds' investments against its RTS methodology and alignment to EU taxonomy.

2. Principal Adverse Impact (PAI) Indicators

As part of Dalton's commitment to the SFDR, it is also providing disclosure of PAI Indicators across is UCITS regulated funds. The PAI requires the mandatory reporting around fourteen core criteria and two additional voluntary metrics from the documented range of measures, once of which needs to be environmental and one of which social.

Outlined below are the fourteen Mandatory PAI Indicators, the definitions of the PAI, our reporting methodology, and the source under each criterion. Those categories labelled "M" are mandatory and those "V" are voluntary.

M1 GHG Emissions: Under this PAI we monitor the sum of all reported Scope 1, 2 and 3 financed emissions. We follow the Partnership for Carbon Accounting Financials (PCAF) methodology for calculating financed emissions, which applies an attribution factor scaling to total reported emissions. The data shown is the tonnes of emissions reported adjusted accordingly. Source data is provided by LSEG.

M2 Carbon Footprint: We use the same methodology as above to calculate the carbon footprint of a company.

M3 GHG Intensity: This is calculated as the company's total financed emissions divided by Enterprise Value including Cash (EVIC) and scaled to units of Greenhouse Gas (GHG) tonnes per $m of EVIC. The source data is from LSEG.

M4 Exposure to companies active in the fossil fuel sector: Using Bloomberg data we report the percentage of revenue that is generated from the fossil fuel sector where available.

M5 Share of non-renewable energy consumption and production: Using LSEG data we report the percentage of energy that is sourced from non-renewable sources where available.

M6 Energy consumption intensity: Reported as gigawatt hours of usage per $m of revenue generated. Data provided by LSEG where available.

M7 Activities negatively affecting biodiversity sensitive areas: Using data sourced from Bloomberg, we confirm if the company operates within environmentally sensitive areas.

M8 Emissions to water: LSEG sourced data where available. Measured as tonnes discharged.

M9 Hazardous Waste: LSEG sourced data where available. Measured as tonnes.

M10 Violations of UNGC and OECD Guidelines for Multinational Enterprises: Sourced from Bloomberg, this data metric from ESG Book is a calculated metric that considers several raw data points disclosed from companies and publicly sourced data. Specifically, if any of the following raw data points are 'Yes' this field will return a 'Y': ESG Book Discrimination Lawsuits Or Offences, ESG Book Violence/Harassment Lawsuits Or Offenses, ESG Book Grievances - Involving Indigenous Peoples, ESG Book Health And Safety Lawsuits, and ESG Book Community Grievances. DISCLAIMER: This metric is ESG Book's own interpretation of the principles and guidelines in question based on ESG Book's own methodology and the underlying data as provided by the company itself or sourced from publicly available sources. Actual results may therefore vary. This metric does neither constitute nor replace any legal opinion, legal assessment, legal advice, or other expert statement on the existence of a violation.

M11 Test for mechanisms in place to monitor compliance with UN Global Compact: Provides the Bloomberg estimated United Nations Global Compact (UNGC) Compliance Score, between 0 and 100, based on the company's policies and mechanisms for monitoring compliance to the 10 UNGC Principles. The Ten Principles of the UNGC are derived from the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. 100 being complete compliance and 0 non-compliance.

M12 Gender Pay Gap Ratio: Data is sourced from LSEG is reported as the percentage of remuneration of women to men for doing the same work. Where available.

M13: Percentage Female Directors: Data is sourced from LSEG where available.

M14 Exposure to controversial weapons: Using Bloomberg data, this indicates companies with an involvement in controversial weapons, which could be through production (direct involvements) or direct investments. Involvement in controversial weapons production is taken to mean involvement in the manufacturing and supply chain, either through products or services related to any of the following: a) Landmines - Manufacturing of, and suppliers involved in Land-mines or the provision of services related to land mines manufacturing b) Cluster bombs - Manufacturing of, and suppliers involved in Cluster bombs or the provision of services related to cluster bombs manufacturing c) Chemical and biological weapons - Manufacturing of, and suppliers involved in Biological or Chemical weapons or the provision of services related to chemical and biological weapons manufacturing d) Nuclear weapons - Manufacturing either whole strategic parts or platforms for nuclear weapons, nuclear weapon systems, or nuclear weapon components. Involvement in controversial weapons investments can include providing loans or issuing bonds to companies that fall in the above categories, as reported by both news outlets and non-governmental organisations. This flag is derived by ESG Book, a team of experts in the arms industry through working with non-governmental organisations, arms magazines, and other sources.

V1 Lack of a Supplier Code of Conduct: As part of Dalton's investment due diligence, we assess whether a company has in place a supply chain policy and record this within our databases.

V2 Investments in companies without a carbon emissions reduction initiative: Data is sourced from LSEG where available.

3. Remuneration

Recommendations on compensation for Dalton team members are proposed by the Management Committee and ultimately signed off by the majority shareholder and CIO.

Dalton's primary driver of profitability is providing clients with attractive risk-adjusted returns and superior client servicing and retention. In this manner, we believe that discretionary bonuses help to align the interest of employees and clients.

At Dalton, fixed salaries are kept at a moderate level (Dalton uses an external compensation benchmarking service to ensure fairness), while bonus payments reflect an individual’s contribution to the business over the long-term. Employees are encouraged to reinvest 50% of their bonus into Dalton’s investment funds, further aligning interests with clients. Long-term successful employees can buy into or further increase their share in Dalton. We believe this system aligns investment team members with our clients and locks them into the firm for the long term.

4. Sample Fund Reporting

Please see the sample report below for a detailed example of how Dalton reports ESG-related data to its customers. To request a report please contact investor relations.

5. Company Due Diligence Reporting

Dalton provides an internal tool to analysts and portfolio managers to access all sustainability research on existing and past investments. The web-based portal provides access to all the internal and external analytics, proprietary due diligence, governance analysis, accounting risk assessment, emissions reporting, and climate risk analysis. To request a sample report please contact investor relations.

If you have any questions, please contact us:

Dalton Investments, Inc. (Headquarters)
4220 S. Maryland Pkwy – Suite 205A
Las Vegas, NV 89119
United States of America
info@daltoninvestments.com

Dalton Investments LLC
Dalton Investments
360 N Pacific Coast Highway, Suite 1060
El Segundo, CA 90245
United States of America
Phone: +1 424 231 9100

Craig Mercer GAICD
Chief Research Officer & Chief Sustainability Officer
cmercer@daltoninvestments.com.au