GEMs ESG Materiality H1 2026:

Data centres, AI and the electrification dividend

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Introduction

Welcome to our **Global Emerging Markets (GEMs) ESG Materiality** commentary – a bi-annual publication that demonstrates our engagement activity with portfolio companies and showcases holdings helping to create positive impacts in line with the UN Sustainable Development Goals (SDGs)[1].

In the latest issue, we provide an update on our voting and engagement activity over the last 12 months, while shining a spotlight on companies in the GEMs Equity Strategy that are both contributing to the **net zero transition** and generating alpha.

We also highlight the ESG factors impacting **Artifical Intelligence (AI) demand** and specifically the build-out of **data centres**, with sustainability becoming a key market access requirement.

Our vision for responsible long-term investing in emerging market equities

At a glance

- We aim to select quality companies, benefiting from structural growth drivers and trading at attractive valuations, run by management teams that are willing to confront sustainability challenges.
- We avoid sectors we consider to be unsustainable in the long term and will not invest in companies facing material ESG risks without a credible mitigation strategy.
- We seek to improve sustainability performance through engagement as a means of future proofing the business from medium- to long-term risks, taking into account the specific characteristics of emerging markets as well as contributions to the SDGs.
- We maintain a low-carbon footprint and prioritise climate engagements with holdings with higher emissions and/or climate-related risks.

Portfolio snapshot

The last 12 months in numbers (GEMs Equity core Strategy)

We had **252** engagements with **70** companies

We engaged **90%** of AUM

We made progress on **41** objectives (37%)

We pursued **95** objectives for change as follows:

46 environmental

23 social

26 governance (including strategy, risk and communication)

Our most engaged SDGs:

5 GENDER EQUALITY – **26** objectives/issues[2]

7 AFFORDABLE AND CLEAN ENERGY – **58** objectives/issues

8 DECENT WORK AND ECONOMIC GROWTH – **53** objectives/issues

12 RESPONSIBLE CONSUMPTION AND PRODUCTION – **50** objectives/issues

13 CLIMATE ACTION – **77** objectives/issues

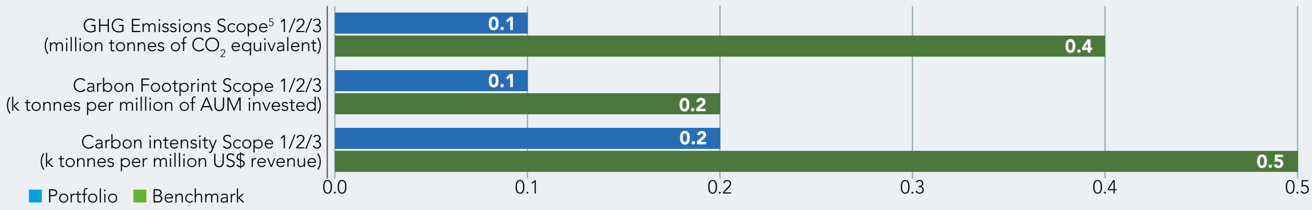
[1] Sustainable Development Goals (SDGs): The SDGs are a set of 17 interconnected goals that were adopted by all UN member states in 2015. They are a universal call to action to end poverty, protect the planet and improve the lives and prospects of everyone, everywhere, by 2030.

[2] In some cases, where we are monitoring performance or raising awareness of an ESG topic rather than pursuing a specific objective, we log this as an 'issue' rather than an 'objective'. This can be more appropriate if the issue is of lower materiality or where we are still in the process of identifying what precise type of change we want to see at a company.

Figure 1:

Our portfolio's carbon footprint, Q1 2026

Federated Hermes GEMs Equity Strategy vs. MSCI EM benchmark



Source: Federated Hermes as at 30 April 2026. Benchmark: MSCI Emerging Markets index. Scope 3 is upstream only.

We maintained a low carbon footprint versus the benchmark (see above) and prioritised engagement with companies with higher emissions and those that are identified as exposed to higher physical and transition risks in our climate risk framework.

We have seen progress in efforts to reach net-zero targets as outlined by the Paris Agreement across the GEMs Equity Strategy with 67.2% of AUM aligned, aligning or committed to net zero (see Figure below), but continued engagement is necessary to deliver on our firmwide commitment to reach net zero by 2050 (Scopes 1, 2 and 3).

We have seen progress in efforts to reach net-zero targets as outlined by the Paris Agreement across the GEMs Equity Strategy

Figure 2: GEMs Strategy net zero alignment

Category	% AUM	% emissions Scope 1, 2 and 3	Definition
Aligned	21.6%	13.5%	A coherent ambition to reduce emissions in line with the 1.5°C target by 2050
Aligning	6.8%	3.9%	An ambition to reduce emissions sufficiently to align with 2°C or lower or have committed to align to 1.5°C.
Committed to net zero	38.8%	41.2%	Publicly announced a net zero ambition to reduce emissions by 2050 or sooner.
Not aligned	2.1%	1.2%	None of the above
Unscored	30.8%	27.6%	
TOTAL	100%	100%	

Source: Federated Hermes, as at 30 April 2026.

Our impact

The companies we invested in delivered:[3]

Greenhouse gas (GHG) emissions (Scope 1, 2 & 3): **66%** lower than the benchmark

436 million tonnes of CO_2 avoided

1.3 billion litres of water saved

Circular economy: **217** thousand tonnes of conventional material production avoided

Health care treatments for **1.11** million people

Financial services for **109** million previously excluded people

An average of **25.4%** female board representation and **37.9%** female workforce participation

Average employee turnover of **16.7%**

[3] Federated Hermes GEMS Equity core strategy holdings as at 30 April 2026. Portfolio snapshot impact data has been calculated in partnership with our impact measurement partner, Net Purpose. Data is as per latest available data at time of writing.

	Engagement objective or issue	Theme	Progress update (momentum[4]/status)
Accton Technology	PFAS[5] ("forever chemicals") risk management strategy	Circular economy and zero pollution	**Start date: Q1 2026** We gained further insight into Accton's PFAS risk management strategy, which focuses on supplier engagement, regulatory compliance and customer requirements. The company stressed that such chemicals are difficult to replace because of the need to meet technical specifications; and indicated that any targeted reduction and replacement strategy would need to be prompted by a client request (which is not common). We indicated regulatory compliance alone is not enough for the sector to appropriately manage this risk and encouraged the company to develop a PFAS identification, reduction and replacement strategy.
Itausa	Disclose ESG performance metrics across holdings portfolio	Corporate reporting – sustainability transparency	**Start date: Q2 2024** The company has launched a company-wide sustainability strategy and stewardship with investee companies is a key focus. The stewardship strategy will work towards timebound 2030 goals related to the UN SDGs, ultimately seeking to encourage strong ESG risk and opportunity management by investees. The company intends to disclose these goals and investee-level data in future reporting (2027 or later). However, following our feedback, it intends to publish greater detail around the climate targets and progress of investee companies in annual reporting.
Rumo	Publish a Paris-aligned interim emissions reduction target	Climate risk and strategy	**Start date: Q3 2023** We have had a constructive engagement with Rumo regarding establishing a Paris-aligned climate metric and/or target. The company already has a strong target in place however it is difficult to compare it to peers and the sector decarbonisation trajectory. The company took our feedback very positively and has established a project to explore this in 2026. It has seen strong positive momentum in its climate strategy, positively engaging with the Brazilian government to expand access to the Fundo Climate credit facility to include hybrid technologies. As a result, it has now secured financing that has enabled it to pursue hybrid battery-diesel engine retrofits for six of its locomotives.
Localiza Rent a Car	Net zero target with commitments	Climate risk and strategy	**Start date: Q4 2022** Localiza has shown positive momentum on its climate strategy, and it recently announced the large-scale purchase of electric vehicles (EVs) for its fleet. The company is pursuing several pathways to support decarbonisation including emissions intensity reduction, biofuel usage and engagement with customers, gradual penetration of EVs and hybrids, and engagement with automakers. We continue to encourage it to formalise and publish a decarbonisation roadmap, ideally supported by a Scope 3 emissions reduction target.
Lotes	Supply chain due diligence, net zero targets	Human rights, climate strategy	**Start date: Q2 2024** Lotes has secured Science Based Targets initiative (SBTi) certification for its Scope 1, 2 and 3 targets and is rolling out supply chain engagement initiatives. This includes ESG audits covering human rights issues for high-risk suppliers and the formalisation of grievance channels. We continue to engage with the company on the implementation of these commitments.
CATL	Circular business model, supply chain management	Circular economy, human rights	**Start date: Q4 2024** We met with the director of public affairs to understand the company's circular economy strategy in more detail, including its recycling capabilities and battery swapping project, following an earlier meeting on supply chain due diligence. CATL has a mature supply chain management system in place involving annual audits and monitoring against more than 200 ESG indicators. We continue to encourage the company to uphold its ESG leadership on environmental and social issues.
Pidilite	Roll out of ESG policies at country level	ESG strategy implementation	**Start date: Q4 2022** We visited Pidilite's Sri Lanka office to understand how its global ESG policies are rolled out at country level including health and safety, water and energy use and human capital management. We were pleased to see strong ownership of ESG on a country level and clear accountability to deliver on global targets. We continue to engage on overall strategy implementation.

[4] Green = Strong momentum with objective met or we expect to meet in the near future. Orange = Good progress but engagement continuing or recently initiated. Red = engagement stalling.

[5] PFAS (per- and polyfluoroalkyl substances) are a group of over 10,000 synthetic "forever chemicals" prized for their ability to resist heat, oil, stains, grease, and water. They are widely used in everyday goods like non-stick cookware, waterproof clothing, cosmetics, and firefighting foams.

BYD and human rights due diligence

BYD is a leading Chinese electric vehicle (EV) manufacturer, seeking to build market share in key European territories. In April 2025 it outsold Tesla in Europe for the first time, following a consumer backlash against Tesla.

However, in May 2025, Brazilian prosecutors brought a lawsuit against BYD over labour conditions at a factory construction site. In Q1 2026, BYD faced allegations of labour abuses at its Hungarian site from an NGO.

Brazilian labour department inspection in late 2024 allegedly revealed poor conditions for more than 100 Chinese workers.

Both cases highlighted the risks of inadequate human rights oversight in global supply chains. According to media reports, a surprise Brazilian labour department inspection in late 2024 allegedly revealed poor conditions for more than 100 Chinese workers at BYD's EV plant construction site in Bahia, Brazil.

The lawsuit – which was filed in May – alleged human trafficking and forced labour, and sought damages of approximately US$45m. The incident delayed the plant launch and disrupted BYD's South American expansion, while raising reputational concerns globally.

We have engaged with BYD on this issue since early 2025, pressing for stronger governance and risk management. BYD responded by terminating its contractor in Brazil, repatriating workers, and forming a compliance committee. However, we view these steps as reactive, exposing gaps in its overall due diligence process (particularly in light of the subsequent allegations at its Hungarian site).

Other risks include operational delays and reputational harm, potentially deterring prospective buyers, and reducing sales and revenue.

The allegations in Brazil present financially material risks, such as legal penalties and associated compensation. Other risks include operational delays and reputational harm, potentially deterring prospective buyers, and reducing sales and revenue.

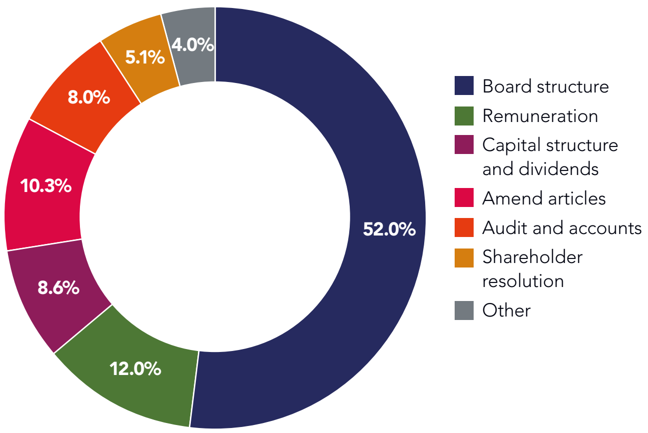
We continue to advocate for systematic improvements, including third-party audits, greater local expertise, and robust oversight, to prevent a recurrence at other overseas manufacturing premises and protect long-term value.

Governance & Voting

The GEMs Equity team has continued with efforts to improve board diversity and independence across various markets, through engagement and voting at company meetings, while also focusing on capital allocation and remuneration.

In the GEMs Equity Strategy, we voted against management on at least one issue at 36.5%% of all meetings over the last 12 months, with the majority of these votes against related to board structure (52%) including at **Bumrungrad Hospital, Khanzhun, Zhongsheng Group Holdings, NARI, Power Grid and Wiwynn** – all of which fell short of our expectations on board independence and/or diversity (see Figure 3). It is notable that, in **India**, following the Companies Act 2013 regulation limiting independent directors to two five-year terms, many long-serving directors retired or stepped down in 2024, which has contributed to enhanced board independence across Indian companies.

Figure 3: Breakdown of votes against management in last 12 months (per issue)



Source: Federated Hermes, as at 30 June 2026.

In **South Korea**, we were pleased to see the implementation of further 'Value Up'[6] reforms, including mandatory cancellation of Treasury shares and **cumulative voting**. The latter did not feature in this year's voting season since will only apply from September 2026. Unfortunately, several South Korean companies sought to weaken the future impact of cumulative voting through changes to their articles of association (for example by adjusting the length of director terms or reducing the size of the board). We voted against changes to Articles of Association at **Samsung Electronics** for this reason.

HDFC Bank chair resignation

HDFC Bank's former chair, Atanu Chakraborty, resigned unexpectedly in March 2026, citing concerns that certain practices within the bank were not aligned with his personal values and ethics. The bank subsequently commissioned an **independent legal review** by external law firms, which concluded in June 2026 and found no evidence substantiating the concerns raised in his resignation letter. We met with the **Chair of the Audit Committee** to discuss the resignation and broader board dynamics. While we were reassured regarding the role of the Audit Committee and the outcome of the review, we chose to reallocate capital to **ICICI Bank**. In our view, ICICI Bank demonstrates stronger management execution, clearer strategic direction and a strong focus on culture and customer outcomes under CEO Sandeep Bakhshi. ICICI Bank continues to be a leader in **financial inclusion**, reaching an estimated 13.2 million previously excluded or unbanked customers[7]. While HDFC Bank has been a decent franchise, the long-term effectiveness of the new chair is yet to be demonstrated, and cultural challenges may persist. The bank also faces ongoing **reputational** and **regulatory overhangs** related to allegations of mis-selling in the Middle East.

6 South Korea's 'Corporate Value-Up Programme' is a major initiative launched by the South Korean government to boost domestic stock market valuations and eradicate the so-called 'Korea discount'.

7 ICICI Bank Annual Report 2024-25 (page 62).

Across markets, alongside EOS at Federated Hermes Limited[8], we are seeking meetings with **independent directors** to evaluate board effectiveness and oversight of key risks and opportunities. While this practice is well established in governance frameworks in the UK, the EU and North America, it remains relatively underdeveloped in Asia and other emerging markets where cultural norms and regulatory constraints have traditionally limited direct engagement between investors and boards. This landscape is gradually changing[9].

South Korea's progress on governance with amendments to the Commercial Act is perhaps most notable, yet revised listing rules in mainland **China** have also strengthened the responsibilities of independent directors as part of broader transparency reforms. **Hong Kong's** major listing rule revisions, which came into effect on 1 July 2025, increased the emphasis on governance structures and incentive clarity, while also banning single gender boards. Companies now granting more regular access to independent directors include **Samsung Electronics, KB Financial and Tencent**.

In Brazil, we are engaging with companies (such as **WEG** and **Rumo**) to encourage voluntary adoption of the key governance reforms proposed under the Novo Mercado consultation.

This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

Our impact

In collaboration with Net Purpose, we present the following impact data on a weighted and aggregated basis. These figures are our estimates of the impact of the companies we were invested in as at 30 April 2026 (per latest available data at the time of writing). In parallel, we present the year-on-year (YoY) percentage change in the total weighted impact of the current portfolio, as well as the three-year percentage change in total weighted impact of the portfolio, when considering consistent holdings only[10] (i.e. those holdings that we have held for three or more years). The impact calculations draw on data from company, sector and industry reports combined with analysis of academic research and other credible sources. Since the estimates are based on company reported data, and we apply a cautious approach to impact attribution, there is likely to be an under-estimation in some cases.[11]

Figure 4: Impact data on a weighted and aggregated basis

		Total company aggregated impact	Three-year holds: % three year change in aggregated impact*	Total weighted impact	YoY% change in total weighted impact**
Climate change	CO_2 avoided (MT)	436,600,013	157%	343,308	5.39%
	% of energy or electricity consumed, renewable	29.09%	54.97%	29.09%	6.25%
Water	Total water consumed or withdrawn (m^3)	3,894,095,199	47.29%	866,714	403.20%[12]
	Water saved (m^3)	1,300,500,000	65.22%	16,389,980	0.11%
Circular economy	Operational waste recycled %	52.76%	-6.33%	52.76%	-0.62%
	Conventional material product avoided (MT)	216,789	100.15%	179	28.80%
Employee turnover	Employee turnover	16.80%	-13.29%	16.80%	-8.61%
	Incidents	10,719	12.04%	7	8.56%
Gender equality	% female board representation	25.43%	12.51%	25.43%	7.17%
	% female senior managers	24.17%	14.19%	24.17%	7.84%
	% female employees	37.92%	-0.62%	37.92%	-1.82%
Health and well-being	Number of patients treated	1,103,600	31.35%	3,100	134.76%
Financial and economic inclusion	Number of customers previously excluded	109,027,317	48.50%	66,794	-1.30%
	Jobs supported – indirect	36,908,611	35.25%	3,534	-2.28%

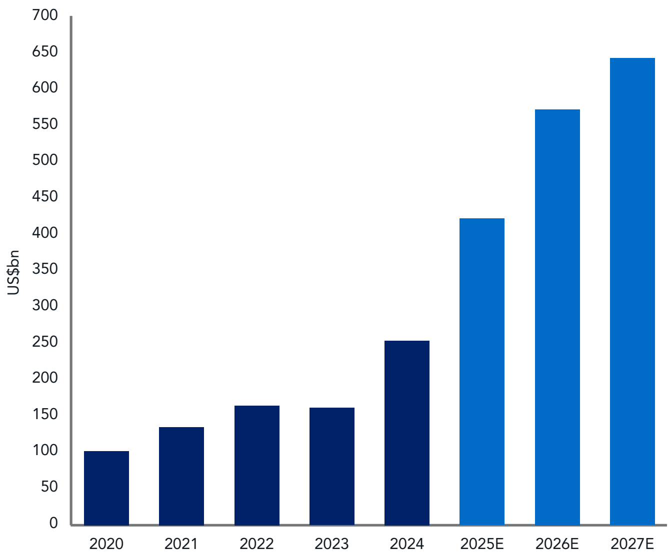
Source: Net Purpose.
*Impact is 'weighted' according to size of the GEMs Equity holding. Data is for the latest year where data is available, typically 2024. Where data is not yet available for 2024, the prior year figure is used.
**YoY% change in the portfolio weighted impact of the current portfolio (April 2026).
***An incident rate, or Total Recordable Incident Rate (TRIR), is a metric used to compare a company's safety performance against a national average for the same industry.

[8] EOS at Federated Hermes (EOS): A pioneer of effective stewardship and provider. Founded in 2004 on a legacy dating back to 1983, EOS provides investors worldwide with the following services: engagement, voting, public policy advocacy, responsible-investment policy advice and portfolio screening.
[9] This is discussed in more detail in EOS' Public Engagement Report Q1 2026 | Federated Hermes Limited
[10] The change in the metrics between April 2023 and April 2026, depending on reporting cycles and latest available data.
[11] This is particularly the case in relation to financial inclusion where a number of our names are not disclosing sufficient detail to enable us to include their impact contributions. It is also the case for 'green metals', such as copper and aluminium, both of which are critical to the net-zero transition due to the need of these metals for electrification yet, due to methodological constraints, it is currently challenging to attribute 'avoided emissions' to them.
[12] Significant increase driven primarily by changes in disclosure coverage by CATL.

AI, sustainability and the data centre ‘arms race’

The huge sums of capex pouring into cloud service providers and data centres (see Figure 5) should significantly benefit emerging markets, driving further demand across the **AI value chain**, including for semi-conductors and manufacturers of servers, networking devices, liquid cooling equipment and other electronic components.

Figure 5: Hyperscalers[13] capex forecast to grow by 36% in 2026 (and another 13% in 2027)



Source: Bernstein and Trendforce.
Past performance is not a reliable indicator of future results.

Sustainability is increasingly becoming a market-access requirement for the build-out of data centres.

The GEMs Equity Strategy has significant exposure to this theme through semiconductor and hardware companies (such as **TSMC, Samsung Electronics, ASMPT, Eugene Technology and Lotes**) as well as telecoms and internet companies (for example, **AIS, Etihad Etisalat, Alibaba, Tencent**).

Yet sustainability is increasingly becoming **a market-access requirement for the build-out of data centres**, determining eligibility for grid access, permitting and investment[14].

Seven out of 10 Americans are opposed to data centre schemes.

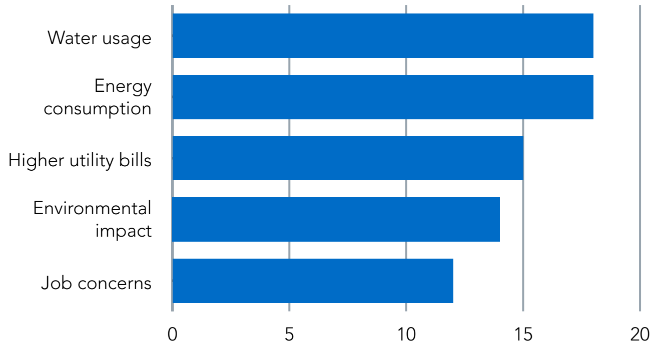
Energy is typically the main constraint (especially for large AI campuses) with global data centre power demand forecast to more than double by 2030, rising to about 200GW (from 70GW in 2025)[15]. The constraint is not power generation alone – deliverability is the key issue due to transmission and interconnection bottlenecks and local grid constraints. Other constraints include **water availability, labour shortages, community acceptance** and wider social licence to operate, linked to broader concerns about AI (not least data sovereignty factors), creating **regulatory headwinds**.

Seven out of 10 Americans are opposed to data centre schemes, an increase from three in 10 last year[16] with 14 or more US states implementing or considering data centre moratoriums.[17] Energy affordability, local pollution risk, water usage and employment concerns are often cited as people’s key concerns (see Figure 6, overleaf).

[13] Hyperscalers: massive cloud service providers – such as Amazon’s AWS, Google Cloud, Microsoft’s Azure, IBM Cloud, and Oracle Cloud – that operate enormous data centres.
[14] Only 50% of planned capacity in the US is expected to come online on time over the next one to two years with ESG constraints a key contributor to delays (Goldman Sachs).
[15] International Energy Agency (IEA)
[16] Americans Oppose AI Data Centers in Their Area
[17] 14 States, Dozens Of Localities Consider Bans On Data Centers

Figure 6: The top five concerns Americans cited in relation to their opposition to data centres in their local area

Share of poll respondents who mentioned each factor (%)



Source: Gallup.

Many countries (including emerging markets such as China, Singapore and Malaysia) now include ESG metrics – such as **Power Usage Effectiveness (PUE), Water Usage Effectiveness (WUE) and 'Bring your own power' requirements** – as part of the criteria to permit the construction of data centres.

Data centres are making concerted efforts to **mitigate constraints** through **increased demand flexibility** (for example, AI workload shifting and pausing), energy and water efficiency, greater energy independence, innovative cooling technologies, and stakeholder engagement to secure support (such as promising job creation and other community investments).

Hyperscalers are at the forefront of this effort with **ambitious net-zero targets** of 2030 for Microsoft, Google and Meta, and 2040 for Amazon – yet their emissions are still increasing with only four years to go before their first targets kick in.

Our expectation is that the data centre build-out will continue to accelerate but the pace is unlikely to keep up with AI-driven demand, even in a more bear case scenario. Mitigating the ESG constraints has become critical in the face of AI backlashes and regulatory pressure and 'speed to power' being key.

Mitigating the ESG constraints has become critical in the face of AI backlashes and regulatory pressure.

Opportunities abound for companies providing ESG solutions including cooling technologies, efficiency tools and on-site power solutions including battery storage and software solutions for workload orchestration. The GEMs Strategy is well positioned for this, including through its holdings in **CATL** (energy storage) and **Delta Electronics** (efficiency and cooling solutions). See next section.

Meanwhile, we are engaging with companies on data centre sustainability performance including **Alibaba, Tencent, AIS and Etihad Etisalat**, encouraging them to set high ESG standards for owned and leased data centres. More broadly, we are engaging on AI governance and ethics, alongside EOS, addressing issues such as board oversight, mitigation of negative societal impacts, protection of children[18] and human capital management (HCM).

This information does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments.

[18] Mitigating AI risks to children | Federated Hermes Limited

The electrification dividend

The Middle East conflict has spurred policy support for electrification and the net zero transition, which should boost numerous holdings.

The Middle East conflict has prompted many governments to re-assess their **energy security** and reduce exposure to hydrocarbon imports, further encouraging the uptake of **alternative energy sources**. It has also spurred policy support for electrification which should provide a boost to a range of sectors, including electric vehicles (EVs), batteries and grid infrastructure.

These shifts form part of a broader structural realignment driven by **geopolitics, demographics, climate pressures and technological progress**, and we believe companies able to respond to these challenges – while sustaining strong profitability and returns on equity – are well placed to outperform. Our portfolio has numerous holdings that fit these criteria.

Delta Electronics (Taiwan)

Delta Electronics is a global leader in power electronics and an important enabler of next-generation infrastructure. Its core capabilities in power management, artificial intelligence (AI) server power supply and liquid cooling place it at the centre of several powerful structural trends, including data-centre expansion, semiconductor growth, EVs, renewable energy and industrial automation.

The company's role is particularly important in **energy efficiency**. Its products help reduce power consumption and optimise energy use in high-demand applications, notably AI data centres, where power and thermal management have become critical constraints.

Beyond AI, Delta is well positioned to benefit from the broader electrification of the global economy. Its solutions are used in **EV infrastructure, renewable energy systems, building automation** and **industrial automation**, all of which draw on the company's long-standing expertise in power management. This combination of AI infrastructure exposure and electrification has translated into strong earnings momentum and sustained value creation over time.

> **This combination of AI infrastructure exposure and electrification has translated into strong earnings momentum.**

We rate Delta as a leader on environmental issues, both for the quality of its own operations and for the **positive impact of its products and services** where life-cycle assessments are incorporated at the product design stage. On operational performance, the company has **Science Based Targets initiative (SBTi)-validated objectives** across all three emissions Scopes[19], alongside environmental management systems that are ahead of many peers. Delta was also an early adopter of the **Taskforce on Nature-related Financial Disclosures (TNFD)**, underlining the maturity of its approach to nature-related risks and reporting.

Delta also performs strongly on social metrics, particularly **responsible sourcing**. Its reporting is detailed and transparent, including disclosure on the nature and type of supply-chain non-conformities identified. The company has human-rights due diligence systems in place for both its own operations and its supply chain, placing it ahead of many emerging market peers.

[19] Scope emissions: Scope 1, Scope 2, and Scope 3 is a classification system for greenhouse gas (GHG) emissions a firm creates through its operations, energy usage, and the wider value chain.
- Scope 1 emissions – All direct emissions from the activities of an organisation or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks.
- Scope 2 emissions – Indirect emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy and eventually used by the organisation.
- Scope 3 emissions – All other indirect emissions from activities of the organisation, occurring from sources that they do not own or control. These are usually the greatest share of the carbon footprint, covering emissions associated with business travel, procurement, waste and water.

Power Grid (India)

India's heavy reliance on imported energy – which includes about 80% of its oil and 50% of its gas[20] – highlights the strategic importance of investing in domestic power and transmission infrastructure. As the country's largest electricity transmission company, Power Grid is central to expanding **reliable access to power across India**, supporting economic development, poverty reduction and progress towards **affordable, cleaner energy**.

The company is also well placed to benefit from India's long-term push towards **net zero by 2070**. Its regulated return-on-equity (ROE) model, which covers most of its earnings, provides stable and predictable cash flows, with limited exposure to commodity-price volatility. This gives Power Grid a combination of defensive earnings visibility and structural growth potential.

As India's energy mix shifts towards **renewables**, transmission capacity becomes increasingly important. Investment in transmission is expected to outpace generation, particularly through green energy corridors designed to connect renewable power to the grid. Power Grid already allocates roughly 40%–60% of annual capex to these corridors, giving it a substantial and visible pipeline of projects across inter-state connectivity and renewable integration.

> **Power Grid's strongest contribution lies in its role as an enabler of India's energy transition.**

From an ESG perspective, Power Grid's strongest contribution lies in its role as an **enabler of India's energy transition**, facilitating the flow of renewable energy across India. In addition, the company has set a target to source 50% of its own energy from renewables by 2025 and to reach net zero by 2047, well ahead of India's national 2070 ambition. It is also working with PwC to develop its emissions approach further, including Scope 3 reporting.

Governance at the company is broadly sound for a state-owned enterprise. Power Grid is professionally run, and minority shareholder interests are generally respected. However, **board composition is an area to monitor**: only around a quarter of directors are independent and there is just one female director, although the audit and remuneration committees are fully independent.

NARI Technology (China)

NARI Technology is China's largest supplier of secondary grid equipment, providing dispatch systems, control platforms, monitoring software and protection technologies. This places the company at the centre of China's efforts to modernise and digitalise its power grid, supporting the **expansion of electrification and affordable and clean energy**.

The company is well positioned to benefit from state-backed investment in grid upgrades and renewable-energy integration, with spending expected to rise over the next planning cycle. Demand for grid infrastructure is also increasing globally, driven by electrification, renewable deployment and the power needs of AI data centres.

NARI is also expanding overseas, where supply-demand imbalances in grid equipment and growing interest in automation solutions are creating further opportunities.

Its strong domestic position, combined with rising international exposure, has supported consistent growth and contributed meaningfully to portfolio performance. We continue to engage with the company on ESG improvements, including **stronger governance** and **fully independent board committees**. Following dialogue with us, NARI recently established a board-level ESG committee.

CATL (China)

CATL is the world's leading battery manufacturer, with dominant positions in **electric vehicles** and **energy storage systems**. Its scale, manufacturing expertise and technology leadership place it at the centre of the global electrification ecosystem, where demand is being driven by the growth of EVs, rising investment in grid-scale storage and the broader push for decarbonisation and energy security.

The company continues to expand capacity and gain share in both domestic and international markets. It is also investing in **next-generation battery technologies**, including sodium-ion and other advanced chemistries, which could broaden its addressable market and reduce reliance on specific raw materials

From an environmental perspective, we rate CATL as a leader operationally. The group has set **ambitious carbon-reduction targets**, including operational carbon neutrality by 2025 and value-chain carbon neutrality by 2035. It has also reported year-on-year improvements in greenhouse-gas emissions intensity per product, reinforcing its focus on reducing the environmental footprint of battery production.

Battery recycling is a central part of this strategy. Through its subsidiary Guangdong Brunp, CATL has built an extensive recycling network and production base, with partnerships spanning more than 60 recycling and disposal collaborators across 26 countries and regions.

Overall, CATL offers exposure to the growth of **electrification, energy storage and circular battery value chains**. Its leadership in manufacturing, innovation and recycling supports a strong long-term position, while its involvement in responsible supply-chain initiatives, including the Battery Passport, adds further credibility to its environmental profile.

[20] International Energy Agency (IEA)

GEMs Equity summary and next steps

The first half of 2026 has seen continued progress from GEMs Equity holdings which have been responsive to engagement and share our vision that sustainability is an integral part of long-term value creation. Case studies in this report demonstrate that while progress is not always linear, the overall direction is positive, with sustainable investment names making important **contributions to alpha** over the period and beyond. Where we have concerns that are not being fully addressed, we are prepared to divest and seek opportunities elsewhere.

We remain positive about opportunities for quality and growth companies that show positive ESG momentum, and especially those that provide solutions to some of the most pressing sustainability challenges. In particular, companies that **mitigate ESG concerns** related to data centres and the wider AI roll-out are well placed to benefit from this theme while making an important contribution to UN Sustainable Development Goals (SDGs).

The GEMs Equity Strategy will continue to:

- **Assess the climate and biodiversity risks** that our holdings face, with in-depth research into higher-risk names.
- **Prioritise engagement** with companies to future proof against medium- and long-term risks, particularly focusing on high emitters in the portfolio and any company facing nature, human rights and AI related risks.
- **Evaluate our impact** across a range of outcome metrics, including CO_2 avoided, water saved and jobs created.

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