



# ESG Report 2023

## Vietnam through Dynam's ESG lens

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## About Dynam Capital

Dynam Capital (Dynam) is a partner-owned business whose sole focus is asset management and is regulated by the Guernsey Financial Services Commission. Our investment strategy is based on research-driven fundamental analysis, seeking attractive companies that also demonstrate a commitment to Environmental, Social and Governance (ESG) principles. In June 2018 Dynam was appointed as the fund manager for Vietnam Holding (VNH), a London listed investment fund focussed on Vietnam and has overseen the PRI Transparency Report of VNH since then. In June 2022, Dynam Capital launched Dynam Vietnam Sustainable Growth Fund, a Guernsey investment fund also focussed on Vietnam.

We believe that Environmental, Social and Governance (ESG) issues can influence investment returns and portfolio risks in the long term and are the core of responsible investing. We recognize that ESG is a 'journey' for many companies in Vietnam, with some at more advanced stages than others. We consider ourselves patient investors and have played a part in the positive developments in our portfolio companies on several ESG levels. Over the years we have conducted workshops and forums to help foster awareness of sustainability principles within Vietnam's investment community. As part of our climate change strategy, we support the Paris Agreement and the Task Force on Climate Related Financial Disclosures (TCFD). Dynam is also a member of the Asia Investor Group on Climate Change (AIGCC).

Dynam's CEO Vu Quang Thinh is an active member of the Vietnam Corporate Governance community. In 2017, he became a member of the National Advisory Council on Corporate Governance under the Vietnam Corporate Governance Initiative (VCGI). He is also a founder member, and a member of the Board of Directors of the Vietnam Institute of Directors (VIOD), a professional organization promoting corporate governance standards and best practice in the Vietnamese corporate sector.

### Our 2023 highlights

- The 2023 PRI Transparency Reports received top scores across the reported modules.
- Supported a very successful inaugural ESG Investment Conference in Vietnam as a Gold Sponsor.
- Maintained a very active company engagement programme and upgraded the existing internal ESG rating system.

## **Global context: anti-greenwashing and the rising number of new ESG regulations**

2023 saw dwindling demand for sustainable funds globally amid political divisions and growing concerns about greenwashing.

After dramatic growth in 2020 and 2021, investment in ESG related securities started to decline sharply in 2022, with research firm Morningstar reporting a 70% drop in inflows compared to the year before. Also, the number of new ESG funds built from scratch fell 60% over the same period. The deteriorating interest across several stock markets is certainly a factor, but the retreat also coincides with a backlash against the entire environmental, social and governance (ESG) mandate, particularly in the United States, with complaints that some financial companies no longer make decisions in the best interest of their shareholders or clients, but instead use their financial power to push forward socio-economic and political agendas.

Another survey by the UK-based Association of Investment Companies (AIC), the ESG Attitudes Tracker, also showed reduced enthusiasm in ESG investing among some private investors from 2021 to 2023. For investors who do not consider ESG factors when investing, the top reason given is that they prioritise financial performance over ESG issues. However, 'not being convinced by ESG claims from asset managers' is a close second, perhaps showing the need for a new labelling regime, and one with clearer standards that investors can rely on.

In response to concerns about the risks of more greenwashing, 2023 saw a tsunami of new regulations come about around the world: California's mandatory Climate Corporate Data Accountability Act, the S2 Climate-related Disclosure Standards from IFRS, the UK's Transition Plan Taskforce final recommendations, and the EU's Corporate Sustainability Reporting Directive (CSRD) - all pushing companies to pay attention to ESG, particularly in getting the governance up to speed.

## Vietnam context: brighter prospects for green growth development

### The rise of green policy commitments

The past three years saw significant changes in Vietnam's green policy commitments. The country's ambitious net-zero targets for 2050 could be seen as a milestone, paving a way for the transformational interventions needed to address climate change challenges, including the development of cleaner transportation and energy systems.

Since the ambitious target was set at COP26 in Glasgow, the Vietnam government has taken firm steps in building a legal corridor for responding to climate change issues and implementing the commitments made. Decree No.06/2022/ND-CP issued in January 2022 includes regulations on the reduction of greenhouse gas (GHG) emissions and protection of the ozone layer. This new legislation specifies that companies will be provided guidance on the scheme and undergo a pilot operation, followed by a carbon credit trading market that will be launched formally in 2028.

Additionally, in June 2022, the government approved the circular economy development scheme, setting several ambitious targets. The scheme aims to reduce the intensity of GHGs per GDP by at least 15% by 2030. By 2025, the country aims to reuse, recycle, and treat 85% of plastic waste, reducing half its plastic waste in oceans as well the volume of non-biodegradable plastic bags and disposable plastic products in use. To support this, the Extended Producer Responsibility (EPR) regulations became effective at the start of 2024. This places responsibility on producers and importers to manage waste associated with the full life cycle of their products.

In terms of energy development, the long-awaited National Power Development Plan VIII (PDP8) was approved by Vietnam's Prime Minister in May 2023. It sets out ambitious goals for renewable energy and LNG expansion in the next three years, including phasing out coal by 2030. The scale of the transition needed between 2030 and 2050 to meet the goals and Vietnam's commitment to net-zero emissions by 2050 presents enormous opportunities in the energy sector. For example, energy storage technologies, such as lithium batteries, pumped hydropower, and heat storage, will need to be developed, as will smart grids to ensure a high level of stability and integration of renewable energy in the power system.

At the end of 2023, further steps to achieve the nation's net-zero target were made. At COP28 in Dubai, Vietnam's Prime Minister Pham Minh Chinh announced a Resource Mobilisation Plan to establish a Just Energy Transition Partnership (JETP) between Vietnam and the International Partnership Group (IPG).

The partnership will mobilise an initial USD15.5bn of public and private finance over the next three to five years, aiming to help Vietnam reduce its reliance on coal and transition to renewable sources of energy through a mix of loans, grants, technology transfers, and technical assistance programmes. If the partnership meets its goals, Vietnam will see peak GHG emissions reached by 2030 instead of 2035. Plus, through relying more on renewable energy, it could reduce its annual power sector emissions by 30%.

Furthermore, Vietnam's Green Taxonomy is currently under consultation by stakeholders, following the release of the ASEAN Taxonomy of Sustainable Finance. The Green Taxonomy for green credit and green bond covers eight sectors, including 83 green economic activities and green investment projects. The environmental screening criteria, thresholds, and indicators, all contribute to the eight environmental goals in the Law on Environmental Protection.

**ESG moving up Vietnam's corporate agenda**

ESG awareness in Vietnam might have started later than in the US and Europe, but the focus and implementation of practices have been gaining ground steadily in recent years. According to PwC Vietnam's ESG Readiness report 2022, about 80% of Vietnam's companies have made related commitments or plan to do so in the next two to four years. The top reason cited for pursuing ESG is brand image and reputation (82%), while the second most cited reason is to remain competitive (68%). Another report by KPMG Vietnam, Vietnam's Customer Experience Excellence 2022, shows that up to 93% of customers in Vietnam are willing to pay more for ESG-integrated products and services. The report shows Vietnamese consumers are becoming more conscious of lifestyle choices and aware of the impacts of their purchases. These survey results indicate that interest in ESG has been growing widely.

With Vietnam emerging as an important alternative manufacturing base to China, the country's participation in free trade agreements has created opportunities for enterprises to be part of the global supply chain and ESG considerations are prerequisites for many of these deals. So, as green economy and reporting standards are being upgraded continuously, compliance is necessary to remain competitive with developed markets. Keeping up with both global standards and climate-related disclosures, as well as preparing infrastructure for a clean energy transition, are key ESG aspects that Vietnamese enterprises need to focus on in the next few years if they are to meet the demand of investors and other stakeholders.

## Dynam’s ESG Philosophy

Dynam Capital is a responsible investor focused on long-term outcomes, which is why our commitment to sustainability lies at the heart of our investing approach. We believe that ESG issues can affect investment returns and portfolio risks in the long-term since they are at the core of responsible investing. Dynam integrates ESG principles into its investment decisions and seeks to guide greater transparency and corporate governance best practices in investee companies. This includes encouraging companies to improve their investor relations as well as their financial and non-financial reporting.

Our approach to ESG integration is based on the following principles:

- Investors have power and responsibility to steward change.
- ESG research provides additional insights to help screen investment candidates.
- ESG integration leads to better-informed investment decisions; and
- Active ownership, advocacy, and engagement on ESG issues can both build resilience and seize opportunities.

### Our ESG integration process

Our ESG Management System is a customized set of policies, procedures, tools, and reporting guidance designed to identify, assess, manage, and report on ESG risks and take advantage of opportunities for positive impacts associated with the activities of portfolio companies.

The ESG Management System has been developed to:

- Integrate ESG issues into every single step of the investment process: initial screening, due diligence, investment decision and investment monitoring.
- Provide a framework for monitoring and reporting on ESG aspects to stakeholders; and
- Work in partnership with our portfolio companies to help them identify and implement ESG opportunities, creating sustainable enhancement to their overall financial performance.



### Implementing our ESG Rating Framework

After almost two years of pilot testing, we have refreshed our proprietary ESG rating framework, which is included throughout the investment process. Our ESG Scorecard has 80 questions covering a wide variety of E, S, and G factors that we consider material to a company's success. This includes the structure and composition of the board of directors, shareholder rights, risk management practices, internal controls, employee policies and protection of customer rights, diversity and inclusion, community outreach, environmental protection, and commitments to climate impact measurement and change. The ESG scorecard provides a lens through which we can view and measure the potential risks and opportunities facing an investee company. During the most recent financial year, we made several decisions to adjust our conviction levels – that is, to increase or decrease our investment amount in a portfolio company based on not only the financial but also ESG factors. In one company, we identified a latent opportunity to benefit from the transition to cleaner energy. In another, we identified a potential damaging issue related to how customer privacy was being managed.

We rated all the 25 portfolio companies in our funds – Vietnam Holding (VNH) and Dynam Vietnam Sustainable Growth Fund (DGF) – and based on the available public data as of 31 December 2023, the portfolios' average ESG score is **69.1%**. The top ten holdings of VNH scored a median of 76.1%, and the top ten holdings of DGF scored a median of 74.7%. When we piloted our ESG framework in 2021, albeit with only 26 indicators, the average rating was 61%.

Our top three ESG-rated companies are PNJ, MWG and ACB. These three companies have made significant progress in the past twelve months to improve their ESG strategy and practices, which are well-reflected in their 2022 annual reports and 2023 activities.



## Our ESG Key Focus Areas

### Corporate Governance

Corporate Governance (CG) is an integral part of any successful business as it guarantees accountability, transparency, and ethical behaviours. As an investor, we value companies that can prove they have good corporate governance practices. The CG part in our ESG scorecard has been developed based on both national regulations and international guidelines, including the Law on Enterprises, the Law on Securities, Decree 155 on corporate governance of public companies, Circular 96 on disclosure of information of public companies, Vietnam's CG Code of Best Practices for public companies, and the ASEAN CG Scorecard. It covers a wide range of governance issues, including board structure, the company's stated commitment to corporate governance, risk management practices and control systems, transparency and disclosure, shareholder rights and board oversight of environmental and social issues.

Although Vietnam's equity markets are still classified as Frontier Markets by MSCI and FTSE Russell, we think it is just a matter of time before they are upgraded. In anticipation of this, many leading companies have employed the World Bank's IFC ESG guidebook and other international guidelines to improve their corporate governance framework. We have observed significant improvements over the past year in board-level oversight of ESG issues among our portfolio companies. Nearly one-third of portfolio companies have established dedicated board sub-committees to address key ESG matters. The majority have sent their directors on corporate governance training courses, and more than one-third of the companies in the portfolio have certified directors in their board. In addition, we are pleased to see enhanced investor relations activities and greater transparency across all our portfolio companies. This includes more monthly performance updates and quarterly reports, as well as more content available in English. As noted above, we also are seeing more sustainability reports from companies following GRI standards, and this includes improved investor relations support to address questions from investors. FPT, the biggest holding in Dynam's portfolios, is one of the Top three Vietnamese Publicly Listed Companies for best corporate governance scores in the ASEAN region. It has been named on the ASEAN's CG score list for the past two consecutive years.

### Climate Change

The Vietnamese Government committed the country to net-zero by 2050 during the COP-26 meeting in Glasgow. As a long-term investor focused on the Vietnamese market, we support the efforts of Vietnam's government and business community in addressing climate change and its socioeconomic effects. We have been actively contributing to the national and regional dialogue to drive forward the net-zero transition and will continue to do so.

Climate change is also the main topic for engagement with companies in our portfolio. Followed on from a webinar we hosted in 2022, we have been working with companies to help them prepare for their ESG and carbon footprint reports. We are pleased to see that the number of portfolio companies reporting their total carbon emissions has increased this year, and are particularly encouraged that some decided to do so only after meeting with us.

As we navigate to a net-zero world, Dynam has identified focus points for climate change over the next two years:

- We will continue to measure and track the carbon footprint of investee companies to identify carbon-intensive sectors, integrate climate risks and opportunities into our broader risk management framework, and identify investment opportunities in low-carbon sectors.

- We will improve our climate related disclosures following the guidelines of the Task Force on Climate-related Financial Disclosures, considering disclosures following the guidelines of the Task Force on Nature-related Financial Disclosures.
- We will encourage more investee companies to measure their total carbon emissions and to create a decarbonisation roadmap; and
- We will put in place Scope 1 and 2 decarbonisation targets for our own operational emissions.

2023 is the second year we have formally assessed the climate risks of the VNH portfolio<sup>1</sup> and its investee companies. VNEEC, a Vietnamese environmental consultant, was employed to estimate total carbon emissions of all investee companies as of 31 December 2022. This was followed by an assessment of climate risks and the portfolio's alignment with the Paris Agreement goals using scenario analysis and the implied temperature rise metric. We also estimated the impact on companies that are more susceptible to transition risks and integrated that data into our financial models.

Below is a summary of the carbon footprint calculation results of VNH and DGF portfolios as of 30 December 2022, and their comparison against the attributable carbon footprint of an identical amount invested in companies in the Vietnam All Share Index (VNAS). The carbon footprint of the two portfolios in 2022 are slightly higher than the VNAS benchmark due to the investment in two oil and gas stocks that we envision having great potential in transitioning to net-zero in line with the newly approved PDP8.

<b>Figure 1 – VNH Portfolio 2022 Carbon footprint</b>	<b>VNH Portfolio</b>	<b>VNAS Benchmark</b>	<b>Difference between VNH Portfolio vs. the benchmark</b>
Total Emissions Scope 1&2 (tCO <sub>2</sub> e)	20,539	19,455	<b>1,084</b>
Total Emissions Scope 1, 2 & 3 (tCO <sub>2</sub> e)	40,879	39,978	<b>901</b>
Carbon footprint (tCO <sub>2</sub> e/ USD Million Invested)	194.83	184.54	<b>5.6%</b>

<b>Figure 2 – DGF Portfolio 2022 Carbon footprint</b>	<b>DGF Portfolio</b>	<b>VNAS Benchmark</b>	<b>Difference between DGF Portfolio vs. the benchmark</b>
Total Emissions Scope 1&2 (tCO <sub>2</sub> e)	4,812	4,572	<b>240</b>
Total Emissions Scope 1, 2 & 3 (tCO <sub>2</sub> e)	9,573	9,396	<b>178</b>
Carbon footprint (tCO <sub>2</sub> e/ USD Million Invested)	194.22	184.54	<b>5.2%</b>

### **Diversity, Equity, and Inclusion**

Diversity, Equity, and Inclusion (DEI) in workplace is based on the principle that recruiting and supporting workers of various backgrounds is integral to a company's success, encompassing policies and initiatives designed to help all employees feel welcomed and equipped to perform their jobs at a high level. In our ESG rating framework, DEI is assessed based on the company's employee health and well-being policies, its succession planning process, the gender balance of its workforce, the proportion of women in senior positions, the availability of company policies towards LGBTQ+ and the support (or lack of) for pregnant and nursing employees and people with disabilities.

While most companies in our portfolios have, to a certain extent, disclosed their employee health and well-being policy, succession planning process and data around gender balance, very few companies are devoted to creating LGBTQ+ inclusive workplaces and supportive policies for employees with disabilities. These shortcomings can become a topic for future company engagement.

<sup>1</sup>A summary of VNH's Taskforce on Climate-related Financial Disclosures can be found in VNH's Annual Report 2022.

## Our important stewardship role

### Our Voting Records

Throughout 2023, we voted at the Annual General Meetings (AGM) of all portfolio companies on behalf of our client funds. In the past year these AGMs were held in both online and offline modes. We considered each issue based on its merits related to the strategic objectives of the investee company and its long-term performance, and voted 100% in favour of all agenda items.

As part of our usual practice, we discussed the agenda items, where possible, with the investee companies' board of directors ahead of the AGMs. In all cases during the past year, we voted for every agenda item proposed by the companies' boards of directors.

### Our Engagement

We assign a high priority to the engagement mandate entrusted to us by our stakeholders and are devoted to working with portfolio company executives through face-to-face meetings as part of our Company Engagement Programme. This focuses on improving a portfolio company's financial performance and emphasising the necessity to systematically implement ESG objectives and build a culture that supports them. By enhancing our knowledge on specific issues, we can support investee companies in both financial and ESG aspects from influencing better governance to helping them take positive steps toward improving sustainability policies, practices, and performance. This not only helps us in our investment decisions but also adds value by influencing positive change at the investee companies.

### Engagement case studies

#### *Company A – ESG Governance and Sustainability Disclosure*

Company A is a maritime port and logistics operator. Our investment team has developed a close relationship with the Investor Relations team of the company through regular conversations and meetings. The company defines its mission as 'to promote economic flows and create added value for the country, customers and partners through a chain of outstanding logistics services and solutions, in which ESG factors are the core foundation for long-term development'. The management team has shown determination in developing a feasible ESG strategy and roadmap for the company.

The company has established a rigorous environmental, health and safety (EHS) management system and has been piloting a green eco-port model at one of its strategic ports. Our ESG team helped their management team identify the company's strengths and weaknesses through our ESG Rating Framework. We also sought greater clarity on the company's intention to become a sustainability leader in maritime logistics in Southeast Asia, and proposed key ESG areas that the company should focus on for improvement. In response, the company presented their plan for replicating the eco-port model in their other logistic hubs and getting their EHS team on board for further addressing climate-related issues.

Between 2021 and 2023, the company has made the following progress in their ESG journey:

- Established an ESG Core working group of 15 members, led by the CEO.
- Prepared GHG inventory reports at their two main ports following the ISO 14064 standards.
- Improved their 2022 sustainability strategy with more disclosures on environmental data, including GHG emissions, total water, and energy consumption; and
- Identified the Company's Sustainable Development Strategy for 2022-2025 with a vision to 2030.

Our investment and ESG teams will continue to maintain the dialogue with the company over ESG issues and monitor the company's implementation and progress.

#### ***Company B – ESG Strategy and Marketing***

Company B is a jewellery producer and retailer. We have been investing in the company for a decade, and closely cooperative with the company on their ESG journey. The company has transformed its governance structure over recent years, segregating the role of the CEO and the Chairman, and adding more independent board members. As a leading retailer in the jewellery industry, the company is also aware of consumer behaviour trends. The company wants to build its reputation among the young consumers as a socially conscious brand, and the board has developed a core business strategy that has ESG at its heart.

Our investment team had a meeting with the company's board members to discuss their ESG strategy, providing suggestions on solutions that the company can adopt to meet the best practices recommended by the Responsible Jewellery Council, including translating ecological and socially conscious concepts into product design and marketing. The company was very receptive and shared with us their key ESG focus areas and their plans for recruiting a senior ESG manager. At the end of 2022, the company invited us to a meeting that focused solely on introducing the establishment of the board's ESG sub-committee and their ESG roadmap for 2023-2025. In 2023, we invited the company to join our investor webinar focused on the retail sector in Vietnam and we featured the company in an article in the UK financial media about responsible consumption in Vietnam.

## Membership and Partnership to promote ESG practices

### The UN's Principles for Responsible Investment

As mentioned above, Dynam's responsible investment policy is aligned with UN's PRI. Each year, the company reports on its responsible investment activities through the PRI Transparency Report. In its first report in 2023, the Company received five-star scores for two sections and four-star score for the rest. VNH received five-star scores across all the modules reported in its PRI Transparency Report. The improvement in active ownership activities was noted, particularly in our engagement approach, escalation strategy, the number of companies engaged with, the topics covered, and the way we share insights from engagements with our stakeholders.

### Vietnam Institute of Directors (VIOD)

Mr Vu Quang Thinh, the CEO of Dynam, is a founder member, and a member of the Board of Directors of the Vietnam Institute of Directors (VIOD), a professional organisation promoting corporate governance standards and best practices in the Vietnamese corporate sector. VIOD was legally formed in 2018 with technical support from the IFC, which is a member of the World Bank Group, and SECO, the Switzerland's State Secretariat for Economic Affairs. Governed by a board of directors comprised of various private sector representatives, VIOD has close collaboration with and is supported by the State Securities Commission of Vietnam ("SSC"), HOSE and HNX under the Vietnam Corporate Governance Initiative ("VCGI"). With the support of SSC, VIOD will continue to represent Vietnam for participation in the ASEAN Corporate Governance Scorecard. Our close collaboration with VIOD will continue to play a key role in fostering good corporate governance in Vietnam over the coming years.

### Asia Investor Group on Climate Change

Dynam is a member of the Asia Investor Group on Climate Change (AIGCC). We signed the 2022 Global Investor Statement to Governments on the Climate Crisis alongside 602 investors, representing almost USD 42 trillion in assets under management. Its aim is to raise climate ambitions and implement meaningful policies to address the climate crisis. In addition, we have been applying AIGCC's Investor Climate Action Plan to set out our climate strategy, while regularly attending AIGCC's monthly member meetings (including training sessions) on climate change.

### Supporting local initiatives

In 2023 we worked to promote greater ESG awareness in Vietnam. We sponsored the inaugural ESG Investor Conference in Vietnam in May 2023. We also helped strengthen the sustainability conversation in Vietnam through published articles in the Vietnam Investment Review ("VIR") magazine, the Saigon Times, and Dear Our Communities, a start-up that produces podcasts and creative media to help young people in the country learn more about sustainability issues and relevant career opportunities. We will be supporting the second ESG Investor Conference in 2024.

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### Disclaimer

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