



Sustainable Investment Policy

July 2022

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ChinaAMC (HK)'s ESG Goals in Focus

PROMOTE SUSTAINED, INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH AND PRODUCTIVE EMPLOYMENT AND DECENT WORK FOR ALL

REDUCE INEQUALITY WITHIN AND AMONG COUNTRIES

TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS

PROMOTE PEACEFUL AND INCLUSIVE SOCIETIES FOR SUSTAINABLE DEVELOPMENT, PROVIDE ACCESS TO JUSTICE FOR ALL AND BUILD EFFECTIVE, ACCOUNTABLE AND INCLUSIVE INSTITUTIONS

PROMOTE PEACEFUL AND INCLUSIVE SOCIETIES FOR SUSTAINABLE DEVELOPMENT, PROVIDE ACCESS TO JUSTICE FOR ALL AND BUILD EFFECTIVE, ACCOUNTABLE AND INCLUSIVE INSTITUTIONS

Source: Division for Sustainable Development Goals, United Nations

ESG Governance Structure

Structure

ChinaAMC (HK)'s governance structure in respect of ESG investments consists of three layers – the Board of Directors, the ESG Committee, and the Sustainable Investment Team.

ChinaAMC (HK)'s ESG Governance Structure



Source: ChinaAMC (HK)

Responsibilities

Board of Directors

- Define and the firm's ESG investment and risk goals, philosophy and commitments.
- Oversee the building and improvement of ESG investment and risk management framework against the goals of the firm.
- Assign roles and responsibilities of ESG Committee and delegate ESG Committee to implement the ESG investment and risk management framework.
- Review and approve Sustainable Investment Policy, Engagement Policy, Proxy Voting Policy, Climate-related Risk Management Policy.

- Review and approve ESG Committee annual implementation reports of ESG investment, proxy voting, engagement and climate-related risk management.
- Review ESG issues flagged by the ESG Committee from time to time.
- Determine the frequency and formality by which the Board is informed of ESG issues of the firm.

ChinaAMC (HK) ESG Committee

- **Convening of Meetings and Deliberation of ESG Related Issues**
 - Convene semi-annual and ad-hoc meetings to discuss all ESG related matters, such as implementation progresses of ESG initiatives, ESG integration in investment, product plan, implementation of engagement and proxy voting, climate-related risk issues.
 - Lead functional departments to participate and cooperate in the implementation of ESG investments and risk management and the related regulatory requirements.
 - Supervise and scrutinize whether implementation of ESG investments and risk management is in violation of the ESG Investment.
 - Supervise Investment Department to implement ESG investing such as proper level of ESG integration in investment process (including but not limited to identifying climate-related risks and opportunities).
 - Supervise Risk and Performance Department to implement ESG risk reporting and disclosure related works.
 - Review annual implementation report submitted by Sustainable Investment Team.
- **Policy Formulation and Modification**
 - Formulate Sustainable Investment Policy, Proxy Voting Policy, Engagement Policy and Climate-related Risk Management Policy.
 - Lead internal review and policy updates as appropriate and necessary.
 - Establish satisfactory internal controls in relation to management of ESG risks.
- **Other Functions**
 - Assign roles and responsibilities of each ESG Committee members (i.e. CEO, CIO and COO)
 - Devote human, technical and financial resources and flag inadequacy in various ESG initiatives.
 - Review and endorse meeting minutes and/or reports.
 - Report to the Board of Directors on an on-going basis in a frequency and manner determined by the Board.

Sustainable Investment Team

The Sustainable Investment Team is responsible for the application of ESG investment and the execution of shareholders rights in accordance with our fiduciary duties and ESG-related policies.

It comprises of Asset Team and ESG specialists which contains investment personnel from equity, fixed income and ETF investment teams. The roles and responsibilities of Sustainable Investment Team are set out below.

- **ESG Analysis**

1. Apply and integrate ESG analysis in the investment processes of both equity and fixed income asset classes. Conduct relevant ESG researches within ChinaAMC (HK)'s robust research framework on existing and potential investee companies for the securities to be invested or have invested by investment portfolios and form internal scores on each investee company based on the research results.
2. Maintain internal scoring system and adjust the score of each investee company on a continuous basis by i) monitoring ESG ratings of existing and potential investee companies provided by external vendors; and ii) assessing the investee companies' businesses in relation to internally defined ESG Key Issues. Based on abovementioned analyses and scoring system, provide ESG investment recommendations to portfolio managers.
3. For funds or portfolios employing ESG-focused strategies specially, Asset Team monitors the ESG performance of companies in the funds or portfolios' investable universes to ensure compliance with pre-determined investment limits in construction of investable universe, portfolio construction and weighting adjustment.

- **Engagement**

Asset Team is the lead and coordinator in the context of engagements with existing and potential investee companies, with supports from other various involved departments.

- **Proxy Voting**

Assess the voting recommendation provided by third-party voting advisor, Institutional Shareholder Services ("ISS"), to ensure the recommendations are in line with the best interests of clients and the ESG policies. Asset Team may refer the voting decision to CIO for override if the voting decision contradicts any of the principles in this policy.

- **Other ESG related Works**

1. Keep abreast of changes in the ESG landscape, regulations, basic infrastructure and disclosure framework. Explore potential areas of improvement in the firm's ESG integration and ESG-focused strategies.
2. Lead internal ESG trainings including but not limited to ESG investment blueprint, proprietary ESG framework and ESG products.

Sustainable Investment Analysis

ChinaAMC (HK) believes in the philosophy of “research creates value”. We combine top-down research with bottom-up analysis to achieve mid and long-term capital appreciation for the clients. As an asset manager, we have the fiduciary duty to ensure the best interest of our clients, and we believe ESG factors are a material aspect of investment analysis. A company's approach to sustainability may present long-term risks or opportunities. Companies focusing on long-term sustainable strategy is more likely to have a better grasp on the future than companies focusing on survival today. Businesses that focus on long-term goals should be better prepared for transition risks associated with climate risks, regulatory and governance changes.

ChinaAMC (HK) has developed proprietary ESG analysis and climate-related risk analysis framework, based on which we extend our sustainable investment practice to investment strategies, corporate and counterparty engagement and proxy voting.

ChinaAMC (HK)'s ESG analysis is based on the combination of both qualitative and quantitative assessment, in which we examine whether the investee company's development is of quality and sustainability, and whether the investee company has awareness of and undertakes initiatives in ESG, which we believe influences the valuation of the company and thus the return on investment.

We use the information and data provided by external third-party databases, data disclosed by industry associations, regular announcements of the company, and internal research reports to conduct ESG analyses.

Qualitative Assessment

- **ESG Key Issues and Significant Risk Events**

11 ESG Key Issues set out below have been identified as the focus of our analyses. Additionally, we maintain a list of commonly seen "Significant Risk Events", occurrences of which will negatively impact ESG profiles and subsequently ESG ratings of investee companies. The Significant Risk Events will trigger alert to sell the holdings of investee companies. The list of Significant Risk Events does not mean to be exhaustive and covers all the adverse risk events. If the negative ESG events are not on the list, the Sustainable Investment Team will evaluate the event and its impact on a case-by-case basis and suggest action plan for portfolio manager to consider.

ESG Key Issues and Significant Risk Events

Pillars	Key Issues	Significant Risk Events
E	Carbon Emission	
	Clean Energy, Renewable Energy, Energy Efficiency	
	Water Stress, Land Use and Raw Material Sourcing	
	Toxic Emission and Waste	Significant pollution event
	Financial Environment Impact	
S	Employees and Supply Chain Labour Standards (Health, Safety and Human Rights)	Significant employee safety event
	Externalities of Company Operations	Significant production risk event
	Product Liability	Significant customer interest violation
G	Unfair Competition	Significant unfair competition event
	Fraud	Significant financial, tax, fraud event
	Transparency, Minority Protection and Insider Trading	Significant governance flaw

Source: ChinaAMC (HK)

- **Internal Analysis Procedure**

- **Sector determination**

For each investee company, Asset Team will assess and determine the appropriate sector such company should be categorized to. For the case if a conglomerate company may have a large number of various businesses, Asset Team will assign such company with 5 to 10 sub-sectors.

- **Research materials and data collection**

Asset Team, supported by ESG Specialist, will collect important information for the investee companies, including but not limited to the external rating in relation to its ESG Key Issues, company's Significant Risk Events reported by the external database, company's announcement and results of shareholder meetings. In addition to the ESG risk exposure mentioned, we focus on the investee companies' ESG-related risk management as well, including but not limited to awareness the importance of ESG Key

Issues, strategic development plan on ESG transition, internal assessment and evaluation, and historical handling of emergencies.

- **Proprietary ESG scorecard**
According to ChinaAMC (HK)'s internal scoring systems, the ESG Key Issues of each investee company will be assigned a score within each comparable peers group. The key issues score varies from 1-5 while the aggregate score is the weighted average of each key issue score where the weightings vary from group to group.
- **Assess Significant Risk Events**
Firstly, we will analyse whether Significant Risk Events have occurred in the company's history, and the company's corresponding response and action. Secondly, we will analyse and determine whether the company has awareness and efficient mechanisms to prevent future events.
- **Weightings of ESG Key Issues in Different Groups**
 - ChinaAMC (HK) references to external and internal ESG research and set different ESG Key Issues weightings for different comparable peers group to reflect the importance of different key issues in different sectors.
 - This weighting is regularly reviewed and adjusted through our internal research and discussion.
- **Continuous Monitoring**
 - Asset Team should continuously monitor existing and potential investee companies' businesses from the ESG Key Issues perspective to capture occurrence of new Significant Risk Events and perform necessary adjustment of scores.
 - Asset Team shall regularly update portfolio managers on ESG Key Issues and Significant Risk Events of each investee company.

Quantitative Assessment

- **Database and Technology**
ChinaAMC (HK)'s ESG quantitative research is based on the third-party data, including MSCI, Sustainalytics, FactSet TruValue Labs. These ESG data providers provide differentiated ESG data and corresponding ratings based on their proprietary frameworks, as well as compilation of key ESG trigger events, which offer more perspectives on ESG investing.

In order to integrate ESG data from different providers, a third-party workstation is used as our data delivery and integration platform to facilitate our internal ESG analyses by aligning ESG ratings on the same investee company. Bloomberg Terminal is utilized as well to support and enhance the construction of ESG-related investable universes.
- **Integration**

ChinaAMC (HK) uses abovementioned data to derive our internal ESG scores. Measures are taken to maintain data integrity for further calculation, including but not limited to identifier consolidation, record correction, data standardization. ESG scores are generated through a specialized formula based on the characteristics of each provider's scores, while also incorporating assessment of each provider's methodology.

Judgements on ESG materiality may also vary depending on regional and industrial difference. To make the output data more comparable, the data processing is on comparable peers group level.

ESG Integration Strategy

For funds or portfolios which employ ESG integration strategy, which means ESG factors have been considered during selection of investments with no clear or specific ESG goal in its investment objectives or strategies.

During daily research activities, ChinaAMC (HK) integrates ESG analysis to form research results and generate investment decisions. We combine qualitative and quantitative assessment to measure an investee company's exposure to ESG-related risk – whether the company's development is of quality and sustainability, whether the company has awareness of and makes efforts in the development of ESG, whether the company faces material risk exposure to climate-related issues, etc., all which have an impact on the valuation of the company and thus the return on investment.

Companies with ESG scores below our defined thresholds are invested with caution. On the other hand, ChinaAMC (HK) treats Significant Risk Events seriously, a sell decision will be considered by the portfolio managers in such circumstances.

ESG-focused Strategy

For funds or portfolios which employ ESG-focused strategy, which means the funds or portfolios have clear or specific ESG goal in its investment objectives or strategies, ChinaAMC (HK) employs the following filtering tools:

Negative Screening

- **Norm-based Exclusion**

ChinaAMC (HK) will apply norm-based screening to exclude the companies against minimum standards of business practice, based on international norms issued by organisations including but are not limited to the United Nations Global Compact and the Organisation for Economic Co-operation and Development.

All ESG-focused strategies published by ChinaAMC (HK) shall be in line with the 10 Principles of the UN Global Compact, while other norms and standards shall be applied case by case, based on different theme focus.

- **Controversial Weapon Laws**

There is a variety of weapons that cause disproportionate and inhuman harm which continue to remain a threat. ChinaAMC (HK) shall not invest in companies with ties to cluster munitions, chemical or biological weapons, uranium weapons, nuclear weapons and anti-personnel mines.

- **Business Involvement-based Exclusion**

Companies involved in certain businesses should be excluded from investable universe based on the predetermined limits of particular investment strategies. The screening criteria include but not limited to revenue proportion, capacity proportion.

Positive Screening

- **Best-in-class**

The best-in-class approach for sustainable investing means finding the companies that are top performers in their sector in terms of meeting environmental, social and governance (ESG) criteria. ChinaAMC (HK) will consider both internal and third-party ESG scores to identify companies that have good ESG profile.

- **ESG Score Momentum**

Other than ESG scores, ESG score momentum reflects the efforts and transition the company have undertaken in ESG-related issues.

We define the positive ESG score momentum as improvement demonstrated in a company's ESG score overtime. ChinaAMC (HK) would select companies that have better ESG score momentum.

- **Tilting**

ChinaAMC (HK) uses tilting approach to allocate larger weightings for those that have better ESG ratings, ESG score momentum or lower carbon emission. The specific method of tilting varies depending on investment strategies.

For passive investment strategies with ESG focus, we shall measure the indices to what extent they utilise the abovementioned approaches defined by ChinaAMC (HK). The indices portfolio level ESG rating, ESG score momentum, carbon emission, etc. will be considered when selecting and/or constructing indices.

Climate-related Risk Analysis

In addition to ESG Key Issues analysis, ChinaAMC (HK) pays particular attention to climate-related risk and conduct quantitative track based on carbon emission level 1, level 2 and level 3 data provided by ISS. The particular analysis in climate-related risk would enhance our analysis in “E” factor and address the most pressing environmental issues through investment decisions.

Please refer to Climate-related Risk Management Policy for details.

Sustainable Investment Stewardship

Engagement

ChinaAMC (HK) actively engages with existing and potential investee companies to gain a deeper understanding of their ESG performance and future development. Our engagement activities can enhance awareness of ESG issues, promote more sustainable practices and improve ESG performance of the investee companies.

Our ESG engagement with corporates has following purposes: 1) introduce our ESG philosophy and drive companies in recognizing the importance of ESG transition; 2) to improve companies' ESG performance continuously and promote a just transition.

Please refer to ChinaAMC (HK)'s Engagement Policy for details.

Proxy Voting

Voting at annual general meetings, extraordinary shareholder meetings or other similar occasions is a primary and effective tool for engaging with companies to encourage sound governance and improve sustainability performance. Voting records usually are the most visible element of ESG stewardship and engagement as the results are public. We exercise voting rights on behalf of clients to promote ESG development worldwide.

Where ChinaAMC (HK) is granted with voting right attached to instruments held by the funds or investment portfolios under its management, ChinaAMC (HK) should seek to exercise its voting right in a transparent manner and for the best interests of the clients, unless exercising these rights is not in the interest of the beneficial owner of the assets or is prohibited by the relevant and applicable regulation.

Please refer to ChinaAMC (HK) Proxy Voting Policy for details.

Monitoring and Reporting

We apply two-lines of independent monitoring mechanism to ensure investments are carried out with ESG factors considered and mitigate the company from negligent green washing risk.

- **Monitoring in investment capacity**

The CIO, who sits on the ESG committee, oversees the implementation of ESG integration practices. The Sustainable Investment Team will carry out sustainable investment analysis and integrate ESG considerations into investment portfolios according to this policy and report to the CIO on a regular basis.

- **Monitoring in risk capacity**

The Risk and Performance Department, an independent team led by the COO, take the responsibility of monitoring ESG-focused strategies each day against pre-set targets. For ESG integration strategies, the team mainly oversees the implementation of ESG integration practices by reviewing annual implementation reports on sustainable investment, engagement activities, and proxy voting.

Monitoring on ESG-focused Funds

ChinaAMC (HK) will regularly monitor and evaluate the underlying investments to ensure the ESG-focused funds continue to meet the stated ESG focus and requirements set out by relevant regulations on an ongoing basis.

Where an ESG-focused fund no longer wishes to pursue its stated ESG focus, ChinaAMC (HK) will inform investors and the SFC as soon as reasonably practicable. ChinaAMC (HK) as the managers of ESG funds should also comply with the requirements set out in other applicable codes and guidelines stipulated from the SFC from time to time.

ESG Disclosure

Investors and potential investors need to be aware of ChinaAMC (HK)'s determination in sustainable investment. Disclosures relating to sustainable investment should be made to allow investors to make an informed determination as to whether their ESG concerns in investments are addressed and if the company's goal matches with theirs.

It is more efficient and environmental-friendly to make the disclosure on a website rather than to each investor individually via paper format. As such, this policy, the proxy voting policy, the engagement policy, together with other ESG related information are disclosed on ChinaAMC (HK)'s website: www.chinaamc.com.hk.

The disclosure is reviewed on a continuous basis with at least one update during a year. If there are any changes to the ESG framework, approach or policies of ChinaAMC (HK), the related disclosure will be updated accordingly in a prompt manner.

Disclosure in Offering Documents

ChinaAMC (HK)'s ESG-focused funds should disclose the followings in their offering documents:

- a description of the fund's ESG focus,
- ESG criteria used to measure the attainment of the fund's ESG focus,
- a description of the investment strategy(ies) adopted by the ESG fund,
- a summary of the process of consideration of ESG criteria,
- a description of whether an exclusion policy is adopted by the ESG fund and the types of exclusion,
- asset allocation,
- reference benchmark,
- additional information reference,
- a description of risks or limitations associated with the fund's ESG focus and the associated investment strategies.

Disclosure of Additional Information

ChinaAMC (HK)'s ESG-focused funds should disclose the following additional information of the ESG fund or the fund manager or the index provider (where the ESG fund tracks an ESG benchmark), as appropriate, to investors to complement the disclosures in the offering documents:

- a description of how the ESG focus is measured and monitored throughout the lifecycle of the ESG fund and the related internal or external control mechanisms;
- a description of the methodologies adopted to measure the ESG focus referred to in paragraph 14(a)(i) above and the fund's attainment of the ESG focus;

- a description of due diligence carried out in respect of the ESG-related attributes of the fund's underlying assets;
- a description of the engagement (including the proxy voting) policies (if any); and
- a description of the sources and processing of ESG data or a description of any assumptions made where relevant data is not available.

Periodic Assessment, Reporting and Disclosure

ChinaAMC (HK) should conduct periodic assessment, at least annually, to assess how the fund has attained its ESG focus of ESG-focused funds, and should review disclosures at least annually, update disclosures where considered appropriate and inform fund investors of any material changes as soon as practicable.

ChinaAMC (HK)'s ESG-focused funds should disclose the following information about its periodic assessment to investors in Annual Implementation reports:

- a description of how the fund has attained its ESG focus during the assessment period,
- a description of the basis of the assessment performed, and
- where the fund has provided previous periodic assessment, a comparison between the current and at least the previous assessment period.

Conflicts of Interest Management

A conflict of interest may arise where there is a conflict between the interests of ChinaAMC (HK) or its employees and the duty ChinaAMC (HK) owes to a client or between the differing interests of two or more of its clients.

The core principle of ChinaAMC (HK)'s management of potential conflicts of interest is that – Client interests always come before those of ChinaAMC (HK) and its employees. Therefore, the company's organizational, administrative and remuneration structures should not incentivize behavior that may lead to conflicts.

ChinaAMC (HK) has adopted an internal Code of Conduct and a series of measures to designate proper reporting lines and responsibilities of various functional teams, enabling us to appropriately detect and manage perceived and potential conflicts of interest.

To guard against possible conflicts of interest, ChinaAMC (HK) has implemented the controls set out below:

- Conduct all transactions in good faith at arm's length and in the best interests of clients on normal commercial terms.
- General or implied disclosure in a fund offering document or client mandate that ChinaAMC (HK) may have a material interest or a conflict in a transaction;
- Specific disclosure of an interest or conflict to a client either in writing or orally before ChinaAMC advises or exercises discretion on behalf of that client. This will usually be necessary in highly sensitive transactions. ChinaAMC (HK) must be able to demonstrate that it has taken reasonable steps to ensure the client is being fairly treated;
- Declining to act; or
- Any other measures stipulated by the Legal and Compliance Department on a case-by-case basis depending on the actual circumstances of the conflicts.

In particular, where such a conflict cannot be avoided, and provided that funds or clients' interests can be sufficiently protected, the conflicts should be managed and minimized by appropriate safeguards and measures to ensure fair treatment of fund investors or clients.

Miscellaneous

All sustainable investment related documents are retained. The documents, includes but not limited to ESG analysis report, investment decisions records, are retained for seven years in accordance with the record keeping requirements of applicable laws and regulations.

The SIP and other ESG policies are available free of charge upon written request.

This policy is subject to annual review and update. The update of such policy needs to be approved by the ESG Committee.