



Environmental, Social and Governance (“ESG”) Policy (the “ESG policy”)

2024 Jan Version

Introduction

BOCI-Prudential Asset Management Limited (“BOCIP”) is an asset management company founded in Hong Kong, offering a broad spectrum of investment products ranging from Hong Kong mandatory provident fund scheme (“MPF”), retirement schemes, retail unit trusts, to exchange traded funds (“ETFs”), etc. We also provide tailor-made investment management service for individual and institutional clients. Our business scope is diversified and can be illustrated in the following table:

Business Overview

MPF and retirement schemes	We are one of the reputable and long established MPF investment managers in Hong Kong
Unit Trusts	We manage various SFC authorized funds, including money market funds, equity funds and fixed income funds
ETFs	We manage ETFs that are currently listed on The Stock Exchange of Hong Kong
Investment mandates	We provide investment management service to tailor specific investment objective / strategies for clients

This policy outlined in this document is designed to inform our stakeholders as to how we formulate our sustainable investing approach. Our ESG philosophy is reflected in our corporate governance structure, investment strategy, risk monitoring and our commitment to enhance climate-related risks disclosure. We aim to provide long term value for our clients while taking proactive steps to support the initiative on transition to a low carbon economy.



Scope of Application

Our sustainable investing approach may vary with consideration of the needs of our clients, specific mandates and the nature of the funds under management. It should be noted that:

As far as practicable¹, we monitor the ESG profiles of our actively managed funds as our baseline monitoring for our sustainable investing process.

For passively managed funds, we take into consideration of the ESG factors in our investment process without compromising the objective of closely tracking the performance of the investment funds against the index.

Instead of singling out climate-related risk, we evaluate ESG factors, i.e. environmental, social and governance in a holistic approach. Climate-related risk will be covered when assessing environmental factors as one of the ESG considerations.

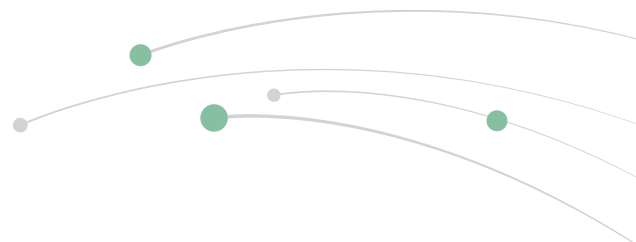
For the avoidance of doubt, our sustainable investing approach does not cover the management of discretionary account and/or mandate which is purely advisory in nature. We reckon that some of our clients would have their own ESG preference and requirements (e.g. placing more focus on environmental factors as compared with other factors such as social), and we are confident that we can cater for their needs.

¹ It should be noted that the ESG profile of the funds are determined based on the data/information provided by our service provider, MSCI ESG Research (UK) Limited ("MSCI"). The ESG profile of investment funds may not be readily generated in some limited situations due to the nature / investment focus of the funds.

ESG Governance Framework and Working Group

Active Participation from Senior Management





In order to effectively assess and manage ESG risks and opportunities, an ESG Working Group (“EWG”) is formed with composition of senior management of BOCIP including Chief Investment Officer, Head of Risk and Compliance and Head of Operation. The EWG would report ESG issues to the two designated Committees, namely Investment Committee (“IC”) and Audit Committee (“AC”) at least on a quarterly basis. These two Committees are approved and delegated by the Board of BOCIP (“the Board”) to assist its oversight of BOCIP’s business operations and controls. The IC and AC comprise different members with diverse background so their participation would enhance the oversight over the ESG issues / matters by the Board. Any significant ESG related risks and issues could be escalated to the Board through different channels, such as IC, AC and/or senior management through Board meeting. Such reporting mechanism does not only facilitate ESG issues to be analyzed from various perspectives, but it also assists senior management to be regularly informed about the status and progress of the efforts to manage climate-related risks.

Role of ESG Working Group

EWG is responsible to assist the Board to identify, assess, monitor and manage ESG risks related to the portfolios managed by BOCIP, subject to the relevancy and materiality assessment as described below. It also facilitates the oversight of the relevant investment strategy and risk management procedures so far as ESG related matter is concerned. Regular meetings of EWG will be held at least quarterly. Ad-hoc meetings will be conducted whenever in need.



² In setting the goals and/or target for different investment portfolios, various factors (such as ESG profile of the portfolios, the nature of the funds, the strategy involved etc.) would be considered.



The Responsibilities of the ESG Working Group

Below is the summary of main responsibility of EWG:

Monitor the status and progress of managing ESG risks of the investment portfolios.

Provide constructive feedback to the relevant business units with an aim to support the investment managers' integration of ESG considerations into the investment and risk management processes.

Support BOCIP's decision in the resource allocation on various ESG related projects.

Review and monitor the goals and target² (if any) set for addressing ESG related issues and develop action plans for managing ESG risks.

Conduct periodic assessment of the execution / implementation of the ESG Policy, review and consider necessary changes to the Policy.

Promote awareness of sustainable investing throughout BOCIP and cultivate an ESG culture through various means (such as training).

Consider the ESG trends and industry developments as well as the regulatory requirements and changes, and its implication to BOCIP.

² In setting the goals and/or target for different investment portfolios, various factors (such as ESG profile of the portfolios, the nature of the funds, the strategy involved etc.) would be considered.

Relevance and Materiality Assessments of Climate-Related Risks³

Relevancy Assessment

We understand that ESG considerations are an important driver of long-term investment returns from both opportunity and risk mitigation perspectives. We categorized our funds into the following broad categories for our relevancy assessment:

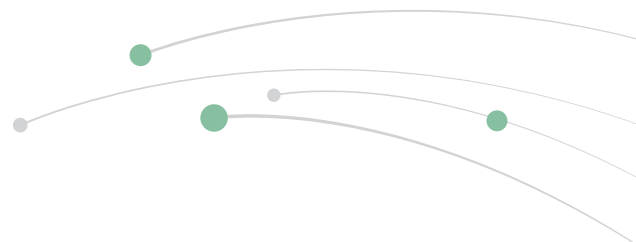
(a) Actively managed funds which consist of diversified portfolios of investments. For these funds, we considered ESG risks (including climate-related risk) would be directly relevant and thus investment managers are required to integrate the ESG factors into their investment and risk management process.



(b) Passively managed funds which include ETFs and index-tracking funds under our management. For these funds, we primarily adopt representative sampling to track the performance of the underlying index. Given that the investment objective is to seek to replicate the underlying index as closely and as efficiently as possible as specified in the offering documents of the relevant funds, we are keen to reduce the tracking error of the passively managed funds as far as practicable. ESG risks (including climate-related risk) are still assessed to be relevant but we acknowledge that the extent of control / influence that can be made by investment managers may be much more limited as compared to actively managed portfolios. These funds are regarded as “less relevant” in terms of relevancy assessment. Nevertheless, we will monitor ESG profile of the passively managed funds against the index regularly. Reevaluation on the relevancy assessment of passively managed funds would be conducted periodically.

For the above funds, we will exercise investment stewardship through proxy voting and conduct engagement activities to the investee companies (through our service provider) where appropriate.

³ As referred in the “Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers”, published by the SFC



Materiality Assessment

We consider ESG issues are likely to have financial impact on the funds managed by us, despite the extent of impact may vary across different nature of the funds. Some ESG issues might be more financially material for companies in a specific industry (i.e. resources management affects more significantly on food and beverage industry rather than financials industry). Environmental issues such as greenhouse gas (“GHG”) emissions are very likely to have a material impact on extractives and mineral processing industries, but less likely to be material for consumer goods and services industries.

Against the above background, we utilize the data, including Climate Value-at-Risk⁴ (“VaR”) provided by MSCI (an independent service provider) as our major tool in conducting materiality assessment.

ESG reports generated through the use of MSCI model may be considered as an additional reference source to assess materiality. For on-going monitoring of climate-related risk / ESG risks, we also conduct regular review of Climate VaR and ESG profiles of the relevant funds.



⁴ Climate Value-at-Risk is a forward looking and financial climate risk metric developed by MSCI. The climate risk is analyzed along a range of transition and physical climate risk scenarios.

ESG Integration



ESG risk factors are integrated in the investment process. We adopt a proportionate approach on management of ESG risks where investment managers would identify the ESG profiles of the funds through the use of ESG ratings and ESG portfolio scores provided by MSCI. To accommodate the characteristic of each fund which applies different investment strategies and with different combination of asset classes, we adopt (i) quantitative approach and/or (ii) qualitative approach as described below, to integrate ESG factors into our investment process.

Quantitative Approach

For Investment Teams which may make use of systematic model as one of the tools for portfolio construction, ESG data is incorporated into their model optimization engine whereby ESG factor can be one of the factors in adjusting the weighting of the securities in the portfolios.

Qualitative Approach

For investment managers who, for example, manage thematic funds / perform fundamental research as part of their portfolio construction process, they would include ESG as a review element⁵ in their research process of high conviction stocks. This include, for example, evaluation of ESG risks / opportunities in the form of commentary in in-house research paper for high conviction stocks or stocks highlighted from EWG meeting.

Within Fixed Income Team, fundamental credit analysis is used to determine the value and risk of individual corporate bonds. When analyzing a corporate bond, the investment manager would usually conduct an evaluation of management and sector specific ESG indicators to perform the ESG assessment.

For Money Market Funds, investment managers will consider ESG factors when choosing depository banks.

⁵ Other factors, such as diversification and market conditions, may also be considered by the investment managers.



Limitation

Data limitation and other challenge

Both approaches listed above would be more readily applied on those markets with availability of relevant and timely information/data related to ESG matters. For markets where ESG data disclosure is not as complete and/or limited, the extent of coverage of MSCI may pose a limitation in the integration process and the investment managers' ability to accurately quantify the climate-related risks.

For example, one equity fund under our management was identified with such data limitation issue⁶. In such case, the investment manager would take reasonable steps to look for alternative source (such as industry news, information provided by other available data provider) to enhance the understanding of ESG information of the relevant investee companies in the fund.

However, we foresee that the problem of data limitation would be alleviated in the long run when more companies stand ready to release their ESG related information.

It should be noted that different ESG data providers may adopt their own ESG methodology and such methodology may be reviewed by the data provider from time to time. Matters such as comparability of ESG data amongst different providers and extent of coverage of the ESG data may present challenge for data user in the analysis.



⁶That equity fund mainly invests in small and medium capitalization companies. It was noted that less than 10% of investee companies of that fund can be covered by the ESG data under the MSCI model, at the time of the publication of the policy.

Risk Management



Portfolio Strategy and Analytics Team of BOCIP assist in the review of ESG risks along with traditional portfolio investment risk during our quarterly portfolio oversight meeting.

An ESG portfolio extended summary report⁷ is reviewed during the meeting which is held quarterly. The report also includes statistics such as ESG quality score breakdown, momentum, rating distribution and carbon risk summary, etc. at the portfolio level. It also highlights the largest positions in the portfolio with their respective ESG characteristics of individual security.

Positions may be filtered for further review owing to ESG consideration. In such a case, investment manager is required to submit the justification report to provide more rationale for holding those securities, with consideration of ESG factors along with other investment drivers.

We understand that there is an increasing concern on how the climate change and a transition to a low carbon economy could impact the risk and return profile of the portfolios. Climate VaR analysis is also implemented for each portfolio, as far as practicable, on a risk-based manner. The analysis is able to capture analysis on transition risk (i.e. risk associated with transitioning to low carbon economy due to policy, technology change in supply and demand in certain sectors) and physical risk (i.e. risk associated with physical impacts of climate change on companies' operations resulting from extreme weather conditions).

The analysis is done on a quarterly basis and any significant issues arising from the analysis will be discussed during quarterly portfolio oversight meeting.



⁷The report is able to provide ESG characteristics and comparison of the portfolio ESG profile against the reference index (if applicable).

Controversial Stocks Screening Policy

A risk-based approach to ESG matters is adopted and we would place companies which we become aware of and regard as sensitive investments falling into the categories as described below on a Controversial Stocks List (the “List”).

We subscribe to relevant data provided by external professional firm which has well-established research team to perform analysis on the companies operating in a more controversial sector⁸. The companies which are confirmed to be involved (red flagged) in the following categories will be screened out from the data from our service provider and included in the List:

- ◆ Cluster munitions
- ◆ Anti-personnel mines
- ◆ Biological weapons
- ◆ Chemical weapons
- ◆ Depleted uranium
- ◆ Nuclear weapons outside NPT (Non-Proliferation Treaty)

The List shall be updated at least quarterly and submitted to ESG Working Group for further review and approval. We set limits on both individual position and aggregate holding level for companies included in the List for each of our actively managed fund, so as to mitigate our exposure to those investments.

If it is subsequently found that the existing holding of the relevant funds is in excess of the limits due to factors beyond controls (such as passive breach resulting from the dramatic increase of relevant stock price), members of EWG would be notified as soon as possible to review the details and discuss the action to be taken.



⁸ Companies that are directly or indirectly involved in the development, production, maintenance or sale of weapons that are illegal as their production and use are prohibited by international legal instruments, or deemed particularly controversial because of their indiscriminate effects and the disproportionate harm they cause.

Engagement and Voting Policy

We believe that investee companies/entities that have good corporate governance and operate in a transparent, responsible and sustainable manner will support their long-term growth and increase shareholders value. In this connection, we have developed an engagement and voting policy, with the aim to make a positive influence on our investee companies on ESG matters.

Engagement

It is crucial for us as the asset manager to manage our portfolio risk from ESG perspective, and promote sustainable business practices with the aim of creating long-term return for investors. Engagement is one of the ways to exert influence on ESG practices and drive sustainability outcomes.

Towards this goal, we engage with our investee companies mainly through designated service provider to advocate the ESG-related practices. Our professional service provider will conduct extensive engagement activities with the investee companies in discussions on a range of material ESG issues to encourage best practices and to promote greater transparency. In this connection, the vendor will provide BOCIP periodic reports summarizing engagement statistics, case studies, and result of thematic review.

Furthermore, our Investment Team will partner with the vendor to carry out engagement activities with the selected investee company in Hong Kong/Mainland China through various methods (such as phone calls, written correspondence and site visit, if feasible). The investee companies are selected on a risk-based approach where factors such as relative weighting to the portfolios and ESG rating would be considered.



Voting

Voting is another essential tool for listed equity investors to communicate their views to a company and make an impact to senior management of the investee companies in making key decisions. As we are exercising the voting right, we ultimately attempt to preserve and enhance shareholder value over the long term by encouraging the listed companies to adopt ESG friendly business practices whenever practicable and act in the best interest of our investors in the long run.

We use a professional third-party proxy voting advisory firm to provide voting research, voting recommendations and execution services to aid us in our proxy voting process. We have selected to adopt Sustainability Policy⁹ developed by the proxy voting advisory firm as our voting principal, which is oriented from United Nations Principles for Responsible Investment (“UNPRI”).



Generally, we will adopt proxy voting advisory firm’s recommendation according to its Sustainability Policy to exercise our voting rights. Under exceptional circumstances where investment team intends to make voting decision without taking the recommended approach by the proxy voting advisory firm, investment team shall provide sufficient justifications to support for holding opposing views on a particular resolution concerning ESG matters, and the reason for such decision shall be clearly documented and submitted to the members of EWG for deliberations and determination.

⁹ Sustainability Policy seeks to promote support for recognized global governing bodies promoting sustainable business practices advocating for stewardship of environment, fair labor practices, non-discrimination, and the protection of human rights.

Disclosure

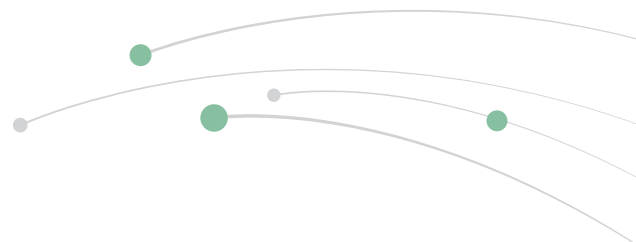
With the increasing international focus on climate change, investors are demanding more information about how climate-related risks affect the performance of assets and how these risks are managed. As a large fund manager, we are required to apply both the baseline requirements and enhanced standards according to SFC's requirements.

In respect of the entity level disclosure, it will be made through BOCIP's corporate website for our stakeholder's information. The disclosure will be in line with the relevant policy and procedures as described above. The contents of the disclosure will be reviewed and approved by members of EWG at least annually, or on ad hoc basis if there are material updates and changes.

In respect of fund level disclosure, where applicable, we will make appropriate disclosure via various channels such as annual report or newsletter. The data of GHG emissions for each fund in-scope will base on the information available in "MSCI ESG Carbon Footprint Calculator".

If climate-related risks have been assessed as irrelevant to certain types of investment strategies or funds under BOCIP's management, such exceptions will be disclosed via appropriate channel as chosen by BOCIP from time to time such as newsletter or website.





Important information:

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The document would generally be updated as soon as practicable in case there is a material change in the procedures or methodology applied in identifying, assessing, monitoring and managing ESG risks. BOCIP is not obligated to provide any notice on the change of the policy in its website.

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