
China Asset Management (Hong Kong) Limited

Climate-related Risk Management Policy

Policy Owner: Risk and Performance Department



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1. Objective, Goals, and Scope

China Asset Management (Hong Kong) Limited (“ChinaAMC (HK)”) has established a framework to govern its management of climate-related risk.

ChinaAMC (HK) defines climate-related risk as both physical and transition risks.

(1) physical risks stem primarily from inaction on climate change like extreme weather events such as flooding, droughts and storms and gradual changes in climate. For instance, if weather-related damage leads to a fall in house prices (and so reduces the wealth of homeowners) then there could be a knock-on effect on overall spending in the economy.

Physical risks include:

- Acute Risk: The severity of extreme weather events such as cyclones and floods has increased.
- Chronic Risk: Changes in precipitation patterns, extreme variabilities in weather patterns, and rising mean temperatures and sea level.

(2) Transition risks arise from the process as the world shifts towards a low-carbon economy which includes policy risks such as increased emissions regulation and climate-related standards; legal risks such as lawsuits claiming damages from entities (corporations or sovereign states) believed to be liable for their contribution to climate change and technology risks such as low-carbon innovations disrupting established industries.

UNSDGs 13 Climate Action is one of the firm-wide goals for ChinaAMC (HK)’s investment and business operations. We strive to fully integrate climate-related risk considerations and monitoring investment and risk management while ensuring proper oversight are established and exercised, under the guidance of SFC’s baseline and enhanced requirements for climate risk disclosures. We will also actively advocate responsible behaviour in respect of climate change through stewardship activities, specifically proxy voting.

The Climate-related Risk Management Policy (the “CRMP”) articulates the climate-related risk measurement and stress testing; ensure a mechanism in place to govern climate-related risk is managed within set risk appetite; make sure ChinaAMC (HK)’s Investment Department understands climate-related risk and the risk is controlled effectively; and ensure tools to manage climate-related risk are in place.

All participating business units are required to implement climate-related risk management practices consistent with this policy. This document is to provide general guidelines and principles in managing climate-related risk in ChinaAMC (HK).

The policy is applicable to all investment portfolios (i.e. public funds, private funds and mandates) on a proportionality basis, except the case that the overall management responsibility¹ of the investment portfolio is delegated to ChinaAMC (HK)’s group entities or third-party delegates. In such delegation, ChinaAMC (HK) shall retain the responsibility

¹ “Overall management responsibility” refers to the overall investment management function as well as the risk management function in managing an investment portfolio.



for ongoing monitoring of the competence of group entities or delegates to ensure that the principles of the requirements are followed.

This CRMP is intended to be a general guideline on the climate-related risk management. If any employee is in any doubt about the CRMP, he/she should consult the Risk & Performance Department.

2. Governance structure

- A. ChinaAMC (HK) has a governance framework to oversee how exposures to climate-related risks and opportunities are assessed, managed and controlled. The Board of Directors (the “Board”) maintains oversight of climate-related issues for the purpose of setting high-level direction. The Board is responsible for:
- Review and approve the goals, approach and commitments (including progress oversight) in relation to climate-related risks;
 - Review climate-related issues flagged by the ESG Committee;
 - Review and approve updates on climate-related risks submitted by the ESG Committee annually; and
 - Monitor the implementation of the CRMP;

- B. The Board has delegated oversight of the management of the climate-related risks to the firm’s ESG Committee to supervise and monitor the integration of climate-related risk considerations into the investment and risk management processes.

The major responsibilities of ESG Committee regarding climate-related risks include:

- Review all investment portfolio’s climate-related risk exposures (including under stressed conditions);
- Timely review and resolution of material climate-related issues that have been escalated;
- Review processes serving to identify, communicate, manage and escalate climate-related events and crises when they arise;
- Periodic reassess the effectiveness of climate-related risk management framework, policies (at least on an annual basis) , tools and metrics and revise accordingly if appropriate;
- Appoint the person/department accountable for the ownership and execution of the climate-related risk management;
- Regularly update the Board on material climate-related risk issues.

To fulfil the Board’s mandate, the members of the ESG Committee shall meet regularly (at the minimum, semi-annually), with the ability to meet on an ad-hoc basis, should it be warranted due to an adverse climate-related event. Meeting minutes shall be recorded.

- C. Senior management, who are members of the ESG Committee, assume an active role in managing climate-related risks. Responsibilities of key management roles are as follows:
- The CEO is responsible for organizing and convening ESG Committee meetings, discussing related matters, reviewing meeting minutes or reports, and reporting to the Board. This role is also responsible for the human, technical and financial resources required by various departments on responsible investment/ESG matters.
 - The CIO is responsible for supervising Investment Department to implement ESG investing such as proper level of ESG integration in investment process (including but not limited to identify climate-related risks and opportunities). This role is also



responsible for reviewing and approving key issues in relation to ESG focused strategies, and engagement.

- The COO is responsible for leading operational departments to participate and cooperate in the implementation of ESG investments and the execution of proxy voting, as well as supervising the status and process of climate-related risks at the firm level.
- D. ChinaAMC (HK) adopts a three-lines-of-defence model to oversee climate-related risk management. As the first line of defence, the Investment Department should take into consideration climate-related risk when establishing and managing funds, particularly if they invest in sectors with higher climate-related risk like oil and gas sector. Risk & Performance Department and Legal & Compliance Department act jointly as the second line of defence and they should monitor the business line's implementation of climate-related risk policy and shall ensure all regulatory rules are strictly followed. The Internal Audit function, as the third line, should ensure the robustness of the whole framework in managing climate-related risks and should report to the firm's Audit Committee directly.
- E. In addition to the aforementioned duties, Risk & Performance Department should also be responsible to perform day-to-day assessment, monitoring and escalation of material and relevant climate-related risks to fund managers, senior management, all committee members of ESG Committee and the Board on a regular basis. All material climate-related risks should be discussed in the quarterly ESG Committee meetings.
- F. Product & Strategy Department should work with internal departments to ensure proper climate-related risk disclosure is met on both entity and fund level according to regulatory requirements.

3. Investment Management Process

- A. Based on the firm's ESG investment philosophy and the understanding of the current development of ESG, Investment Department have summarized 11 ESG Key Issues as the analysis focus. Climate-related risk is one of the key issues to be taken into consideration in day-to-day investment analyses.
- B. In considering the materiality of climate-related risk with respect to the different asset classes, the MSCI Climate Change theme score under Environment pillar is used to assess whether the climate-related risk is material for each fund. The fund level Climate Change theme score is calculated by ChinaAMC (HK) using weighted average. The MSCI Climate Change theme score is a normalized score measuring Carbon Emissions, Climate Change Vulnerability, Product Carbon Footprint and Energy Efficiency which takes both transition risk and physical risk into consideration. The portfolio level MSCI Climate Change theme scores in the bottom 30% of MSCI universe should be redeemed as material. The materiality assessment should be conducted in a semi-annual basis.
- C. All leveraged and inverse products are deemed as irrelevant to climate-related risks because their underlying assets are index futures and total return swaps.
- D. Equity and fixed income ETFs whose investment strategies are passive management with full replication methodology and buying all or partial of the constituents of corresponding



indices to minimize the tracking error are deemed as irrelevant to climate-related risks. Because the funds' holdings and weights are decided by the construction methodology of index components and fund manager could not adjust the holdings in investment and risk management process due to climate-related risks.

- E. Money Market Funds/ ETFs and cash management products are deemed as irrelevant to climate-related risk because the funds invest over 90% of the assets in short-term deposits and money market instruments issued by governments, quasi-government, international organizations and financial institutions. Generally, due to limited information, banks don't disclosure the carbon data related to such securities and it is unlikely that climate-related risk will affect the performance of these securities.
- F. Should there be developments that could materially affect the operations and financials of an investee company, fund manager should re-assess the risk and return profile of the investment or portfolio. This would allow the fund manager to make an informed decision on whether to continue with the investment, make adjustments to the composition of the portfolio, or put in place other mitigating measures to better manage the climate-related risk in the investment or portfolio.
- G. Fund managers should consider climate-related scenario analysis of portfolios for risk management purposes. The analysis includes an assessment of both physical and transition risks across a range of climate-related scenarios, including increases in global temperature and temperature alignment.
- H. Improvement of climate-related risk awareness and whether climate-related risk is considered in company's business and corporate development is a key criteria within ChinaAMC (HK)'s proxy voting decisions. ChinaAMC (HK) will vote for proposals to raise awareness and take responsibility for climate-related risks, including but not limited to calling for reduction of GHG emission, increasing use and investment in clean and renewable energy and improving energy efficiency. ChinaAMC (HK) will vote case-by-case on proposals that request the company to disclose its upcoming/approved climate transition action plan and provide shareholders the opportunity to express approval or disapproval of its GHG emissions reduction plan. Factors such as the completeness and rigor of the company's climate-related disclosure, the company's actual GHG emissions performance, whether the company has been the subject of recent, significant violations, fines, litigation, or controversy related to its GHG emissions, and whether the proposal's request is unduly burdensome (scope or timeframe) or overly prescriptive will be taken into account.
- I. ChinaAMC (HK) has appointed ISS as a third-party voting advisor to provide recommendations and support the firm's voting proxies, while final decisions are subject to the firm's proprietary assessment. The voting guideline adopted by ISS in generating recommendations (i.e. ISS Sustainability Policy) takes into account climate change factors that are in line with the firm's climate-related risk objectives.



4. Risk Management Process

Each fund is required to assess its climate-related risks on a regular basis. Risk & Performance Department has designed and implemented a climate-related risk management framework to perform ongoing fund climate-related monitoring.

4.1 Risk Assessment of Fund Climate-related Risk

- A. Risk & Performance Department serves as the second line of defence of climate-related risk management to check the relevance and materiality of the fund against the benchmark if there's an appropriate one.
- B. The metrics used to assess transition risks include but not limited to carbon metrics like Scope1,2,3 GHG emission and intensity at single security, sector and portfolio level and carbon risk rating, stranded assets/ reserves, exposure to controversial practices etc.

Calculation of the portfolio and benchmark level carbon footprint are performed on a regular basis according to the regulatory requirement. The formula of the carbon footprint is shown as below:

$$\sum_N^i \left(\frac{\text{Current value of investment}_i}{\text{Investee company's enterprise value}_i} \times \text{Investee company's Scope 1, 2 and 3 Greenhouse gas emissions}_i \right) / \text{Current Portfolio Value (\$ million)}$$

- C. Rising temperature, even if limited to 2C, will change the climate system resulting in physical risks such as floods, droughts or storms. Physical risk analysis evaluates the most financially impactful climate hazards and how they might affect the portfolio's value.
- D. Third-party data providers are used to conduct the risk assessment, such as ISS for carbon footprint data, MSCI ESG score, TrueValue ESG Score and Sustainalytics ESG Score. All climate and ESG related data have been integrated into FactSet.
- E. Scenario analysis for the portfolios against the benchmarks are conducted on a regular basis. The scenarios include physical risk and financial impact scores per hazard type for *Current* (historical scenario), *Most Likely* (based on RCP 4.5, 1.7 3.2 degrees temperature rise by 2100) and *Worst-case scenario* (based on RCP 8.5, above 3.2 5.4 degrees temperature rise by 2100). Risk & Performance Department also conducts the scenario alignment analysis which compares current and future portfolio GHG emissions with the carbon budgets for: 1. the IEA Sustainable Development Scenario (SDS), 2. Stated Policies Scenario (STEPS) and 3. the Current policies Scenario (CPS).
- F. If any investment portfolio or investment strategy is deemed as irrelevant to climate-related risks, appropriate documentation should be kept to record why climate-related risks are irrelevant.



4.2 Risk monitoring and escalation process

Certain thresholds regarding key metrics of climate-related risks should be proposed by Risk & Performance Department and should be approved by the ESG committee. Where there is breach according to an assessment criterion, escalation needs to be made to the ESG Committee for review and discussion. Additionally, climate-related risk report should be included as part of the internal review materials to be circulated prior to each ESG Committee meeting. During the meeting, the Risk & Performance Department should highlight any material and relevant climate-related risks for the ESG Committee to review and discuss.



5. Disclosure—Investor Awareness

Investors and potential investors need to be aware of the funds' climate-related risks. Disclosures relating to the climate-related risks should be made to allow investors to make an informed determination as to whether their climate-related risk appetite matches the climate-related risk profile of the fund. Disclosures to investors and prospective investors should include but not limited to:

- the governance structure of climate-related risks;
- the steps taken to incorporate relevant and material climate-related risks into the investment management process;
- the processes for identifying, assessing, managing and monitoring climate-related risks, including the key tools and metrics used;
- the engagement policy at the entity level with examples to illustrate how material climate-related risks are managed in practice, including how the engagement policy is implemented; and
- the portfolio carbon footprints of the Scope 1 and Scope 2 GHG emissions associated with the funds' underlying investments at the fund level.

All climate-related information and data should be disclosed via company website and be reviewed at least on an annual basis. Should there're any material changes on the disclosure framework, such disclosure should also be made accordingly.

For the avoidance of doubt, only when ChinaAMC (HK) is responsible for the overall operation of an investment portfolio, it owns the disclosure responsibility to the respective investor.



Appendix 1 Climate-related Risk Disclosure

Data as of Sep 30,2024

	Emissions Exposure (tCO ₂ e)	Relative Emission Exposure (tCO ₂ e/\$M)			
		Port Scope 1+2 Total Emission	Port Carbon Footprint	Port Carbon Intensity	Port WAvg Carbon Intensity
ChinaAMC Select Fixed Income Allocation Fund	2,960	17	79	53	74.76
ChinaAMC Select Asia Bond Fund	597	11	42	27	61.69
ChinaAMC Select RMB Investment Grade Income Fund	1,320	32	91	113	100.00
ChinaAMC Select China Leap Equity Fund	96	288	386	544	89.25
ChinaAMC Global Investment Grade Bond Fund	2,894	312	186	1,084	100.00
ChinaAMC China Focus Fund	1,307	73	202	286	84.95
ChinaAMC Select Greater China Technology Fund	2,323	222	320	557	87.80
ChinaAMC Select Flexible Cycle Income Fund	42	4	17	14	55.69
ChinaAMC HSI ESG ETF	16,782	14	36	41	100.00
ChinaAMC MSCI India ETF	4,697	176	759	622	98.40
ChinaAMC MSCI China A 50 Connect ETF	3,472	86	221	159	99.69
ChinaAMC Hang Seng Hong Kong Biotech Index ETF	3,146	30	90	108	95.82
ChinaAMC NASDAQ 100 ETF	752	10	69	52	100.00
ChinaAMC Hang Seng TECH Index ETF	4,094	15	27	39	100.00
ChinaAMC Asia High Dividend ETF	1,744	203	502	558	99.93
ChinaAMC MSCI Japan Hedged to USD ETF	2,917	54	98	66	99.93
ChinaAMC MSCI Europe Quality Hedged to USD ETF	192	15	58	47	100.00
ChinaAMC CSI 300 Index ETF	338,524	174	440	281	99.34



ChinaAMC Asia USD Investment Grade Bond ETF	196	15	108	104	38.78
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Note:

1. Data is provided by ISS via FactSet. ISS ESG is one of the leading providers of climate data, analytics and advisory services on climate-related risks.
2. Emissions data includes factors for total emissions which include direct emissions (scope 1) and energy indirect emissions (scope 2). Reported emissions have gone through a rigorous quality checking process, and estimated emissions have been calculated using ISS ESG's proprietary methodology.
3. Emissions intensity data identifies an issuer's total (scope 1&2), scope 1, and scope 2 carbon emissions intensity. Carbon intensity is expressed as the issuer's total carbon emissions per million USD of enterprise value as a proxy of the carbon efficiency.
4. ChinaAMC NASDAQ-100 Index Daily (2x) Leveraged Product, ChinaAMC NASDAQ-100 Index Daily (-2x) Inverse Product, ChinaAMC Select Money Market Fund, ChinaAMC Select USD Money Market Fund ChinaAMC Select Stable Income Fund, ChinaAMC 20+ Year US Treasury Bond ETF, ChinaAMC Bitcoin ETF, ChinaAMC Ether ETF and ChinaAMC RMB Money Market ETF are irrelevant to climate-related risks based on the firm's justification. Therefore, they are not subject to emission data disclosure.
5. The climate-related risk of ChinaAMC Select Dynamic Fixed Income Fund, ChinaAMC Global Multi Income Fund and ChinaAMC Asia ESG Bond Fund is immaterial based on the firm's justification. Therefore, it is not subject to emission data disclosure.
6. ChinaAMC Select RMB Bond Fund invested all its assets in onshore RMB bonds or ETF as of Sep 30, 2024. Due to limited disclosure on the issuers, there's no carbon emission data on the fund.