
2021

Responsible Investment Policy

China Asset Management Co., Ltd.



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Introduction

China Asset Management Co., Ltd. (ChinaAMC) was founded in April 1998 and has since maintained its top position in the asset management industry of China. ChinaAMC provides a full range of services to retail and institutional investors home and abroad, covering equity, fixed income, money markets, etc. With \$244.1 billion (RMB 1.59 trillion) in Assets under Management (including that of subsidiaries) as of December 31, 2020, it is one of the largest asset managers in China.

In March 2017, ChinaAMC signed on to the United Nations-supported Principles for Responsible Investment (PRI), becoming the first full-service asset manager in China to join the organization. ChinaAMC is committed to implement the responsible investment principles in its investment activities, to persistently explore the feasible environmental, social, and governance (ESG) key issues in China, as well as to promote Chinese companies' responsible investment progresses to the global sustainable investors as an ambassador.

Ambition and Objective

The company vision of ChinaAMC is “Becoming a respectable asset management company with global influence”, to achieve which we establish four core missions for the company:

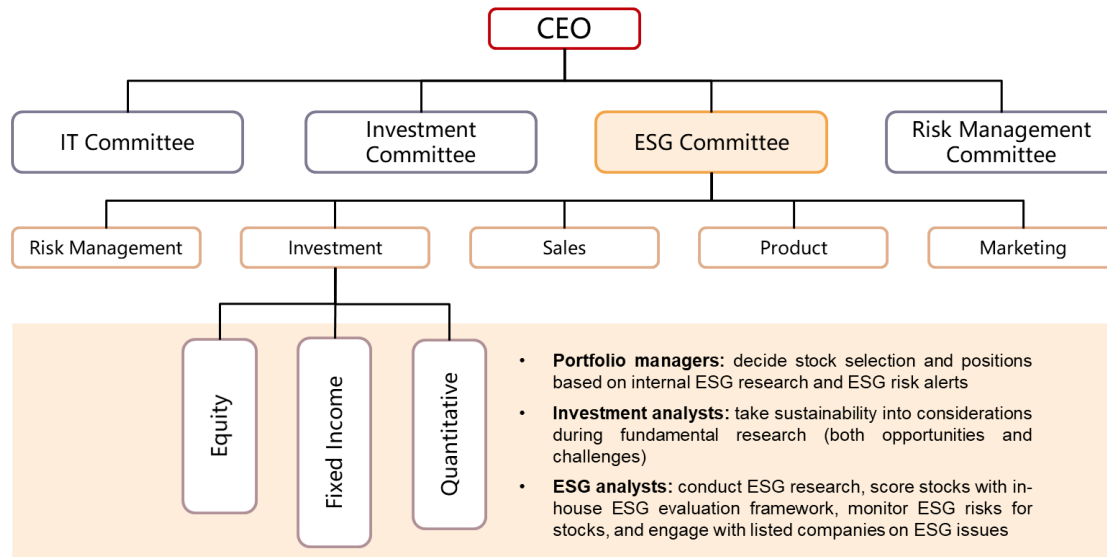
- Providing our clients with professional services.
- Helping to create decent life for our employees.
- Delivering our shareholders with reasonable returns.
- Contributing our talents to the society.

As a responsible long-term investor, ChinaAMC commit to incorporate the responsible investment issues into consideration of our investment across all asset classes, sectors, and markets which we invest in. The philosophy of responsible investment can help ChinaAMC's managers to mitigate risks and source investment opportunities. In addition, the principles for responsible investment align with the company's fiduciary duty to its clients to generate sustainable returns and allow the company to create positive externality when making the investment decisions.

ESG Integration

I. Organizational Structure

ChinaAMC's organizational structure for ESG investment consists of four levels:



1. Chief Executive Officer (CEO):

- Provides overarching guidance and oversight for the ESG program and responsible investment.
- Engages in investor education programs to domestic and international clients.

2. ChinaAMC ESG Committee:

- Approves company-level responsible investment principles and strategies, as well as ESG restriction criteria.
- Assigns and monitors the ESG integration across investment of all asset classes, business units, and functional teams.

3. Portfolio managers and investment analysts:

- Pledge to incorporate sustainability into investment analysis including fundamental analysis, investment decisions, and position weight adjustments.
- Review ESG rating changes and controversial issues of holdings, revisit investment thesis to consider a position change.
- Initiate contact and provide engagement recommendations, and make assessments on engaged companies to apply appropriate adjustments.

4. Dedicated responsible investment staff:

ChinaAMC's ESG team is a dedicated unit to implement responsible investment. They integrate throughout the investment management, risk management, and corporate action processes.

- Generates industry ESG reports based on the in-house ESG framework for specific industries, with internal ESG score ranking for covered companies.
- Provides thematic pieces on ESG topics, as well as conducts researches on implementation of ESG strategies and develops appropriate strategies based on client demand on sustainability.
- Reviews portfolio holdings and provide regular portfolio-level ESG exposure and risk analysis periodically.
- Monitors rating adjustments and controversy events, ensure portfolio managers' awareness and engagement in the process.
- Engages with public companies regarding ESG issues and follow up on engagement conversations on a regular basis.
- Provides internal training on ESG subjects within the company.

II. Integration Process

ChinaAMC has developed a 6-stepped ESG integration process that we currently apply on a select number of accounts, to enhance the traditional investment process where sustainability and ESG risks can be considered in investment process. The process includes determining sustainable investment objectives, sector and security analysis, portfolio management, risk management, corporate engagement, and reporting.

1. Sustainable objective establishment:

We set up guidelines to exclude sectors and securities that not meet certain ESG standards.

2. Sector and security analysis:

In our listed equities investment, material ESG factors are assessed as part of research and stock selection processes. We account for ESG factors and their potential impacts on financial statements and valuations. Our sector analysts

perform in-depth company analysis and work with our ESG team to evaluate questions on the governance, environmental, and social risks of companies. The analysts' research is supplemented with ESG data from various external providers (MSCI, etc.) and our ESG Factor Model.

3. Portfolio management:

Our ESG team reviews the portfolios' ESG exposure and rating changes on a quarterly base, which are reported to the relevant portfolio managers for potential position weight adjustments.

4. Risk management:

From a risk management perspective, we apply an overall portfolio ESG exposure and risk management and monitor the possible ESG rating adjustments and risk events on ESG controversial issues. We have applied a firm-wide ESG risk monitoring and screening system.

5. Corporate engagement:

We engage with public companies regarding ESG risks and provide recommendations, monitoring and reporting. ChinaAMC has had more than ten in-depth engagements with mainland China-listed public companies regarding requests to further enhance their corporate disclosure and corporate practices. We will be closely following up on their ESG disclosures in the future and to determine the effectiveness of our program.

6. Reporting:

ChinaAMC reports to the PRI annually to periodically present our progress in responsible investment. The public reports and relevant policies can be found at the PRI's official website.

ESG Analysis

I. Methodology

ChinaAMC believes in the philosophy of “research creates value” – fundamental and quantitative research may discover investment opportunities in the market. We combine top-down research with bottom-up analysis to achieve mid and long-term capital appreciation.

As asset manager, we have the fiduciary duty to ensure the best interest of our clients, and we believe ESG information is a material aspect of investment analysis. A target 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 transitional risks associated with climate risks, regulatory and governance changes.

Except for the black-list approach applied during the sustainable objective establishment and risk management, an in-house developed ESG framework is applied to select currently managed accounts, based on a reference of MSCI ESG Analysis. ChinaAMC's framework consists of sector analysis and factor analysis, aiming to identify the localized ESG key issues in Chinese markets as well as to distinguish Chinese companies that outperform their peers.

In the example of real estate, third-party ESG data may not be sufficient to analyze specific issues relevant to the industry in China. ChinaAMC therefore supplements third-party research with localized analysis. This would, for instance, include checks on off-balance sheet financing and profit shifting. The in-house adjusted ESG scores reflect a range of perspectives and expose the risk of tunneling, helping portfolio managers manage governance risk when selecting stocks.

II. Topic

The main considerations of ChinaAMC's ESG analysis include: local environmental regulation compliance, environmental management policies and programs,

environmental sustainability of products/services, product safety, employee safety and health, labor management, supply chain management, broad stakeholder perspective, ownership structure, management incentives, corruption and related-party transactions, and accounting stability, etc. Some specific topic examples are presented as following:

1. Environmental issues:

- Climate change: Carbon emission management amid the objective of the Paris Agreement, energy efficiency, opportunities in energy transition, etc.
- Natural resources: Water conservation, natural resources recycle, etc.
- Pollution: Risk management of liquid, solid, and gaseous pollutant, etc.

2. Social issues:

- Human capital management: Rights and welfare of employees, talent development plans, labor management through industry chains, etc.
- Social value: Relationship with local communities, anti-poverty projects, philanthropic funds, responsible marketing, etc.
- Corporate culture and ethics: Management of business ethical risks.

3. Governance issues:

- Board of directors: Separation of CEO and chairman, independence and professionalism of the board, etc.
- Shareholder rights: One share one vote, cross holdings, related party transactions, etc.
- Accounting governance: Robustness of accounting treatments, sustainability of accounting policies, etc.

Corporate Engagement

The core objectives that ChinaAMC seek to influence through our corporate engagement activities are to support the long-term sustainable development of listed companies and the improvement of their enterprise value. To achieve these objectives, in-depth learning of industries, promotion of best ESG practices, and examination of the companies' ESG progress will be applied.

We believe the corporate engagement work is a part of investors' assuming of active ownership, which is consistent with the fiduciary duty to our clients. On the one hand, we could help the listed companies enhance their ESG performance and relevant information disclosure, which will present their intrinsic value more profoundly. On the other hand, the engagement work allows us to penetrate into companies, so that we can make more precise analysis of the industries' sustainable risks and opportunities.

ChinaAMC's engagement framework consists of four major levels:

1. Policy

- Guideline: Is the company (or its management team) aware of its material ESG risks within the sustainable development? Does the company take any actions in its operating activities to address these risks?
- Question: Does the company set any (functional) positions that are responsible for its ESG performance? Does the company (or its management team) have any general statements or announce any attitude towards its ESG risks? Does the company (or its internal departments) have any policies to address its material ESG risks? Does the company have any group-wide policies to address its material ESG risks (including contractors, vendors, and suppliers, etc.)?

2. Program

- Guideline: How well does the company implement its ESG policies to address the material ESG risks in operating activities?
- Question: What are the company's operation programs to address material

ESG risks (ex. water recycle program, waste disposal program, etc.)? Does the company have any certified management systems (ex. ISO 14001)?

3. Target

- Guideline: Does the company have any expectations or targets towards its implementation to manage material ESG risks?
- Question: Does the company set any ESG targets at firm-wide or function-wide level? Are these targets quantifiable and comparable?

4. Performance

- Guideline: How effective are the company's policy and programs in practice?
- Question: Is the management's remuneration related to the company's ESG performance? Has the company made any improvement on its material ESG risks (ex. pollution emission, carbon intensity, etc.)? Does the company achieve its targets within expected time horizon?

More details about our engagement methodology (including initiation, attitude, contact, record, review, etc.) can be found in our Corporate Engagement Policy.

Conflicts of Interest

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

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

ChinaAMC has adopted an internal Code of Conduct and a series of measures to designate related responsibilities of staff, management, and functional teams, enabling us to appropriately detect and manage perceived and potential conflicts of interest and help protect and enhance the long-term value of our client's assets.

Global Cooperation



- ChinaAMC signed on to the United Nations supported Principles for Responsible Investment (PRI) in March 2017, becoming the first full-service Chinese asset management company to join the organization.
- ChinaAMC is the first Chinese investment manager to support the Climate Action 100+ initiative. We are committed to promote awareness and engage with Chinese companies on climate-related issues and long-term sustainability programs.



- ChinaAMC is a supporter of the TCFD to promote and support the disclosure of climate-related information through global recognized framework.



- ChinaAMC collaborates with NNIP, the experienced European ESG investor. In 2020, the two companies together launched an ESG UCITS fund investing in Chinese A-shares.

Awards

ChinaAMC is rewarded as the *ESG Fund Manager of the Year – China* by The Asset Triple A Awards in 2019 and 2020, for the company’s outstanding performance in implementing ESG investment in Chinese markets.



ChinaAMC is rewarded as the *Best ESG Manager – Mainland China* by Insights & Mandate for the Market Awards of 2021 Professional Investment Awards. The Company also wins the *Green Equity, China (1 Year)* and *Green Equity, China (3 Year)* for the Performance Awards.



ChinaAMC is rewarded as the *Best Fund Management Company for Responsible Investment* by China ESG Golden Awards in 2019 and 2020. The awarded companies are selected on ESG performance, ESG social impact, and ESG expert’s opinion.



ChinaAMC is rewarded as the *Best Sustainability Contributor* by China Evergreen Award 2021 of Caijing.



Corporate Social Responsibility

ChinaAMC is dedicated to give-back to the community. The Huaxiaren Charitable Foundation was founded in 2009, which provides support to disaster relief programs, as well as scholarship and financial aid to students in underdeveloped regions. In addition, ChinaAMC has been a proud sponsor of the Beijing International Marathon since 2014, dedicated to promoting health awareness and social harmony.

