Zeal Asset Management Limited

(“the Firm” or “Zeal”)

ESG and Responsible Investment Policy

September 2023

There is no change in the existing practices. We have provided further explanation/elaboration on the existing practices in the written policy. There is no change in governance or oversight related to responsible investment.

Contents

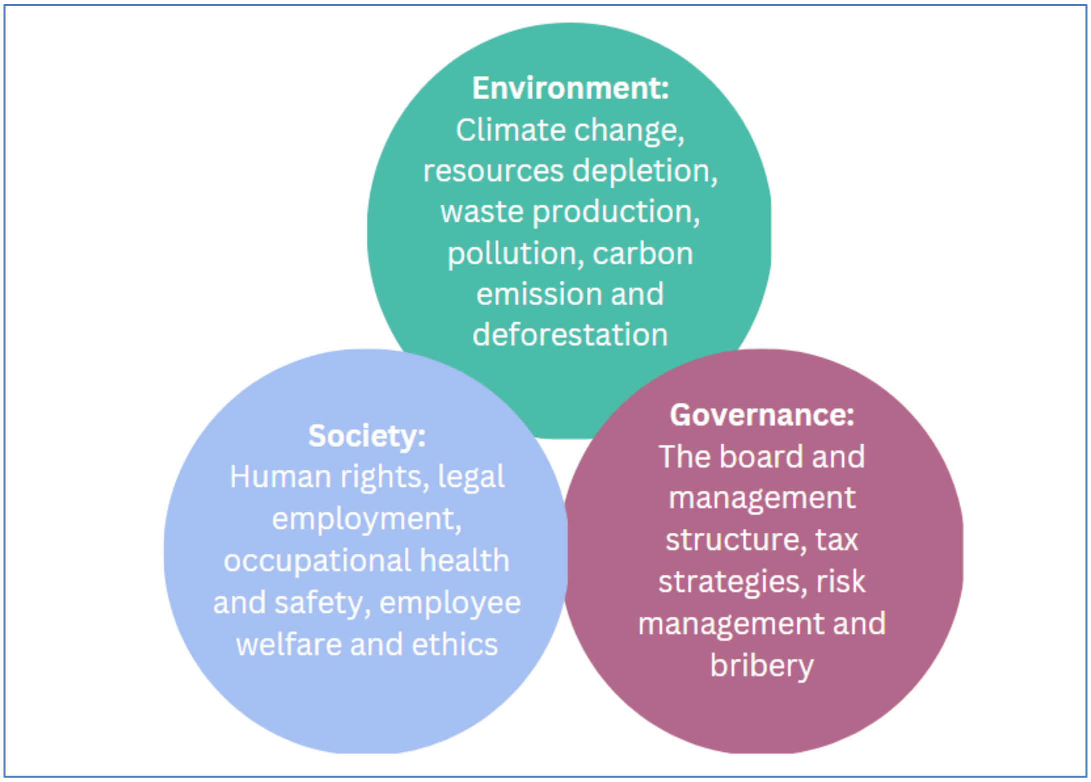
INTRODUCTION

Zeal is committed to creating long-term value for our funds' investors. Environmental, social and governance (ESG) are factors that investors, asset owners, managers and business operators consider in the context of corporate behavior. There is no definitive list of ESG factors, but some examples are pollution, water management, climate change, children rights, labour welfare, health & safety, anti-corruption, management structure, corporate governance and transparency. We acknowledge that ESG factors are keys to creating long-term value. However, these factors sometimes may not be directly reflected in financial reports. This policy describes how we adopt responsible investing, which means the way we incorporate ESG factors into our investment process and business practices, targeting to deliver enhanced long-term investment results and contributing to building a sustainable business environment. In response to the SFC's requirements on the management and disclosure of climate-related risks, Climate Related Risks Management and Disclosure Policy has been established as part of this Policy. For details, please refer to Appendix A.

THE SCOPE OF RESPONSIBLE INVESTMENT

Responsible investment is an umbrella term summarizing various approaches that incorporate ESG consideration during selection and portfolio building. Zeal requires investment professionals, such as the analyst who is responsible for the investment case to consider relevant key ESG risks (and opportunities, as the case may be) in conjunction with traditional financial analysis and Strength-Weakness- Opportunities-Threat (SWOT) analysis.

The three aspects (environmental, social and governance) are inter-correlated and generate synergy to interfere the long-term investment returns. Generally, the ESG factors include but not limited to the following:



PART 1

INCORPORATING INTO INVESTMENT PROCESS

Zeal firmly believes in incorporating ESG considerations into our investment process. It is our responsibility to determine how best to manage this integration and to quantify its added value, taking into account the independent and unique situation of each company of which we research, and more broadly, the impact of regulatory change and the increasingly strict standards of transparency across the investment industry.

Reckoning the impacts of ESG issues on the overall value of the investee companies, we are committed to evaluating investee companies' ESG performances to provide a better analysis of their value and returns. Besides, we are committed to considering ESG factors during the early stage to identify risky portfolios and closely monitor their status. Meanwhile, we also give due consideration to ESG factors.

We usually utilize SWOT analysis and generate an expected share price taking climate risks, carbon footprint, and carbon emissions into account. Climate impacts will be reflected by way of an adjusted target share price. In the example of a significant climate risk, it may materially impact the target share price in the bad case scenario (or downside estimate). We then adjust our investment decision, including but not limited to the decision not to invest, reduce position weighting or divest according to the analysis.

EXAMPLE

The following example extracted from United Nations Principles for Responsible Investment's (UNPRI) "Practical Guide to Include ESG" (2019) is a good illustration of how we may incorporate ESG factors into our fundamental bottom-up stock analysis and impact our investment decision.

(https://www.unpri.org/listed-equity/case-study-calculating-labour-standards-impact-on-revenue-and-discount-rate/20.article)

Case study by Union Investment

We created an ESG valuation framework by selecting different ESG factors for each sector – e.g. CO2 footprint for energy companies, labour standards or product safety for retail companies – and embedding it into our classic fundamental analysis. We apply the framework to individual stocks across all sectors.

While it is hard to quantify the social and environmental risks of holding a stock, we try to evaluate the company's position and outlook by performing a sensitivity analysis to obtain a range of possible fair values. In our experience, integrating ESG analysis generally works better on negative rather than on positive issues.

In valuing a European sport shoes and equipment manufacturer, we took into account concerns and opportunities of the company's supply chain labour conditions.

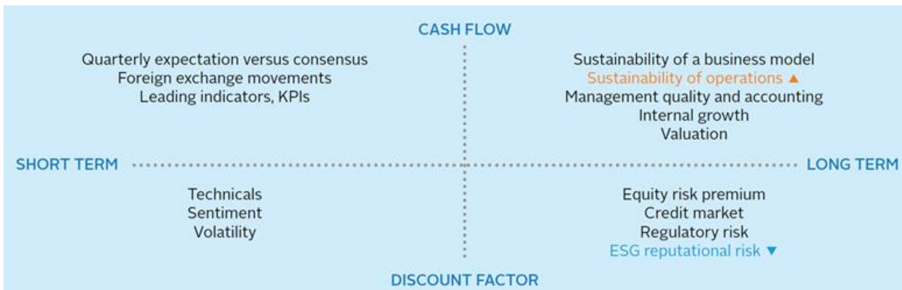
Analyzing the ESG issue

There had been criticism of the labour standards, particularly poor wages and overtime, at many of the company's suppliers and sub-contractors in Southeast Asia. After many years of dialogue with the company and after visiting the contracted factories, we saw gradual improvements in the social standards at the company and its suppliers, including improved risk management and enhanced systematic monitoring of social standards. This reduced reputational risk, enhanced the brand and resulted in employees reporting being more satisfied.

Impact on valuation

We embedded these positive observations into our valuation model (by increasing sales growth estimates and decrease discount rate.)

The sizes of the adjustments are based on past experience with the sector, with the company and its peers, and on the assumption that most other market participants have not integrated sustainability considerations.



ESG INCORPORATION STRATEGIES

Zeal's ESG considerations are investment driven as we seek to make better informed decisions through analysis of both quantitative and qualitative factors that have significant influence on an investment's long-term financial return. We believe properly analyzing and evaluating relevant ESG issues can help generate better long-term performance for clients. This is becoming more and more important as the regulatory environment has been continuously tightening and costs and repercussions (both financial and reputational) associated with ESG breaches, scandals and non-compliant cases have been rapidly increasing as well.

We adopt the concept of responsible investment which generally refers to integrating ESG issues during selection and portfolio building. Hence, we strive to consider ESG factors during the investment process in conjunction with the 4Rs principles, namely, companies that have the Right people to run the Right business at the Right business & industry cycle offering the Right price to investors.

Right People

- a decent management team with good management skills
- with a well-thought execution plan and remediation plan
- good internal coordination and communication
- good and consistent investors communication track record
- associate with strong interests' alignment and well-defined KPIs

Right Business

- with good ROE/ROIC and cashflows
- able to maintain a high level of customers stickiness and gain a wider market share
- high level of product differentiation/uniqueness
- have leading edge in research and development
- with superior operating efficiency
- with outstanding ESG practices
- with convincing execution strategy to provide long-term visibility

Right Cycle

- in an upcycle or at the bottom of the cycle which we expect to turn
- the valuation has already fully reflected the downcycle or cycle trough

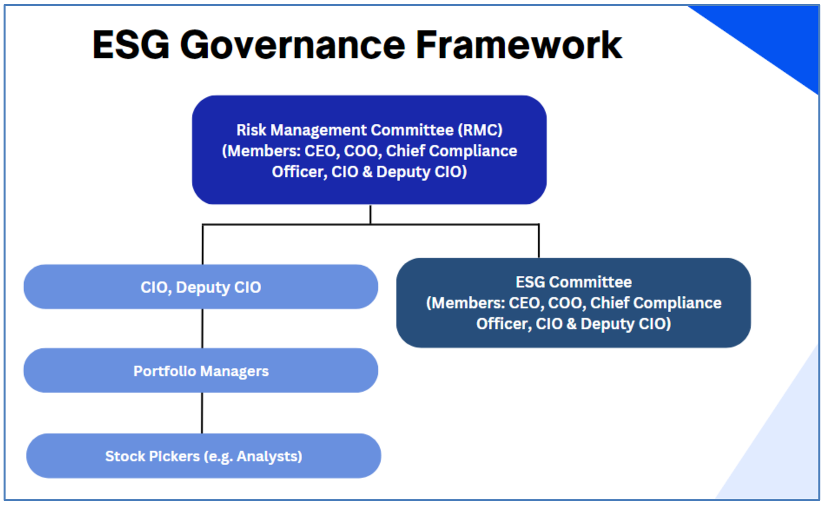
Right Price

- determine whether the valuation is currently compared to the company's intrinsic value as computed from our financial modeling, and also compared to the historical valuation range of the company
- prefer to be early movers since that would give us higher tolerance on price volatility and usually a favorable risk-to-reward ratio

OVERSIGHT AND GOVERNANCE

On the top management is the Risk Management Committee (RMC) to supervise and monitor the ESG and Responsible Investment Policy at the firm level. The ESG Committee, which is established under the RMC, is then responsible for ESG frameworks/policies formulation and implementation.

Regarding responsible investment, investment professionals (stock pickers) are accountable for evaluating ESG factors such as "Worker Rights, Environment, Climate Change and Human Health, and Resource Efficiency" (in conjunction with traditional financial analysis and SWOT analysis) and portfolio managers will monitor ESG exposure at a portfolio level. The Chief Investment Officer (CIO) may veto (if necessary) ESG-related investment analysis and decisions. He is also responsible for overseeing ESG exposures across all portfolios. On the other hand, the ESG committee reviews stocks positions with ESG red flag (e.g. for unsatisfactory ESG ratings or for other qualitative reasons) at quarterly committee meetings and provide recommendations to RMC, if needed.



Zeal reviews ESG governance framework regularly to follow the most updated regulatory standards. Besides, we consider international standards and peer performances as good illustrations for us to strive for continuous improvement in incorporating ESG factors into fundamental bottom-up stock analysis and investment decisions.

ACTIVE ENGAGEMENT / STEWARDSHIP / OWNERSHIP

Similarly, Zeal aims to actively engage with investee companies' management with the objective to raise awareness of ESG issues, which are important to investee companies, their stakeholders and the society. We believe taking an active role in engagement is likely to improve the investee companies' practice on ESG factors, make progress on sustainability outcomes and improve public disclosure, which will in turn help create value for our investors, manage risk and protect our reputation. We believe the best approach to engage with companies' management is through proactive and respectful dialogue, instead of hostile, activism approach, which often destroys mutual trust and may potentially lead to opposite effect.

- **Corporate engagement**

Zeal believes stable and robust relationships with our investee companies benefit our stock analysis and facilitate ESG improvement. As such, active engagement approach is embedded with an aim to promote proactive communication. During our investment process, a large emphasis is placed on arranging company visits as well as calls with our target companies.

Our interaction with investee companies may include dialogue with Investor Relations, Chief Financial Officer (CFO), Chief Executive Officer (CEO), management team, Chairman, Founder etc. , aiming to understand their attitude towards ESG and engage with them on ESG issues. We may also visit their factories, retail locations, development sites to investigate investee companies' ESG performance and raise their ESG awareness.

- **Other Stakeholders Engagement**

Zeal views stakeholders' concerns and ideas as valuable assets. As such, we monitor to identify key stakeholders and may communicate with them, if needed. Interviews with the media and publishing articles in financial magazines are means that we may use to share our insights with the public. Public opinions are also welcomed to progress our responsible investment.

- **Political engagement**

Political engagement by fund managers is an extension of an investor's responsibilities and fiduciary duties to the interests of beneficiaries.

Policy Statement

Zeal believes that political engagement is an important tool for promoting responsible investment practices and driving positive change. We may engage with policymakers and regulators to advocate for policies that support sustainability, climate action, and just transition. Our engagement will be guided by our commitment to the principles of PRI as well as the following principles:

Transparency and accountability

Zeal is transparent about our engagement activities, and hold ourselves and policymakers accountable for the commitments. To allow stakeholders to track our political engagement progress, we are committed to disclosing our political activities where applicable.

Evidence-based advocacy

Zeal bases our engagement on analysis and evidence, and votes in favor of policies that are grounded in sound science and best practices.

Collaboration and partnership

Zeal is open to collaboration with other investors, society organisations, and policymakers to amplify our impact and build coalitions for change.

Respect for human rights and environmental standards

Zeal votes in favour of policies that respect human rights, protect the environment, and promote just transition, while avoiding engagement with parties or advocacy on policies that violate these principles.

- **Lobbying**

There are two types of lobbying, namely direct lobbying and indirect lobbying, which Zeal may use.

Direct lobbying involves direct contact between the lobbying entity and public policy decision-makers. Means may include the following:

- Direct communication with policymakers and officials
- Interactions through trade associations on behalf of Zeal
- Participation in advisory bodies/consultations

Indirect lobbying is when the lobbying entity seeks to influence public policy indirectly by shaping and mobilising public opinion. Means may include the following:

- Publication of articles
- Comments on political issues
- Interviews

- **Standard of conduct**
  To ensure our political engagement activities are responsible, Zeal is committed to adhering to the spirit of existing international agreements and best practice, while preserving the long-term interests of our diversified stakeholders when involving in political engagement activities.

  In regards of climate change, we define our stance on climate change-related issues as follows:
  - Following SFC's related requirements on climate-related risks
  - Assigning responsibility at senior management for oversight of its climate change lobbying approach and activities

  ESG issues are reviewed to identify material factors at different levels:
  - Thematic level (e.g. exclusion of controversial weapons such as cluster munition, climate change)
  - Sector level (e.g. carbon footprint and other forms of pollution)
  - Company level (e.g. corporate governance – shareholder right, board independence, diversity (e.g. gender, ethnical), executive compensation, labor welfare, etc.)

ESG TOOLS & RESOURCES

Zeal welcomes the usage of external tools and resources to help us identify ESG issues. Currently there is no service provider that can cover all companies in our investment universe; however, these external service providers and their systems may still serve to provide a practical tool to supplement our internal fundamental research and analysis.

We currently use MSCI ESG Ratings, which MSCI is an industry leader in providing ESG research and analytics that helps investor understand the ESG standards of listed companies. We refer to MSCI ESG Ratings which provides Zeal with ESG scorings/ratings that enable us to assess a listed company's ESG standards and the related risks. For companies with lower scores, we make a note to be more cautious about their ESG issues, duly consider the ESG risks in the investment analysis and engage with the management about it during the corporate access phase, in particular, focusing on their plans for improvement. We may also utilize information sourced from other ESG information providers or use other services provider other than MSCI in the future.

An ESG Committee has been established under the Risk Management Committee. The ESG Committee members include Zeal's CEO, COO, CCO, CIO and Deputy CIO. The ESG Committee will hold quarterly meetings to review companies held in Zeal's portfolios which are flagged due to potential ESG concerns (e.g. for unsatisfactory ESG ratings or for other qualitative reasons). The committee will evaluate these exposures and may raise questions or demand explanation, if needed.

While our investment professionals will utilize the ESG scoring/ratings system provided by external service provider(s) in their investment analysis and research process, we currently do not have any hard guideline or formal requirement that prohibits our investment professional from investing into companies below a certain ESG score/ratings or companies that are not covered by these service providers.

INVESTMENT DECISIONS

As a value oriented, bottom-up stock picker, Zeal generally do not exclude any sector / industry from our investment universe. Our preferred approach is to evaluate each company's merits independently and make judgments accordingly. During pre-investment stage of potential investments, we conduct in-depth research through company visits and desk research, considering both financial and non-financial factors.

Within our investment universe, our investment decisions are based on both financial and non-financial factors which include relevant ESG considerations. Each investment case is considered individually with material issues discussed by the investment team as part of the investment decision making process. ESG concerns will be reflected by way of an adjusted target share price. In the example of a material ESG risk, it may materially impact the target share price in the bad case scenario (or downside estimate). This will in turn have an effect on our investment decision, including but not limited to the decision to not invest, reduce position weighting or divest.

We are open to engage collectively with other like-minded investors on ESG issues when situation allows and we believe it is helpful in the concerned case. We believe constructive engagement highlights the growing importance of ESG factors within the investment community and its broad client base.

- **Exclusion**

  Zeal employs the following exclusions on our long investments.

  Norms-based exclusions

  These exclusions apply on both long and short sides of the portfolios.

  - Controversial Weapons involvement (0%)
  - Biological-Chemical Weapons involvement (0%)
  - Cluster Munitions involvement (0%)
  - Landmines involvement (0%)
  - Nuclear Weapons Involvement (0%)

  Values-based exclusions

  These exclusions apply on the long side of the portfolios.

  - Tobacco Producer (revenue over 5%)
  - Tobacco Retailers, suppliers & distributer (revenue over 20%)
  - Gambling (revenue over 5%), exception is where the company is of a resort and leisure nature, which may include casinos
  - Adult Entertainment (revenue over 5%)
  - Nuclear Power direct (revenue over 5%)
  - Conventional Weapons and Firearms (revenue over 5%)
  - Conventional Weapons and Firearms Support Systems & Services (revenue over 20%)

- **Business conduct exclusions**

  Zeal defined a list of Business Conduct exclusions according to the United Nations Global Impact Breaches.

  Human Rights

  1: Businesses should support and respect the protection of internationally proclaimed human rights; and

  2: make sure that they are not complicit in human rights abuses.

  Labour

  3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

  4: the elimination of all forms of forced and compulsory labour;

  5: the effective abolition of child labour; and

  6: the elimination of discrimination in respect of employment and occupation.

  Environment

  7: Businesses should support a precautionary approach to environmental challenges;

  8: undertake initiatives to promote greater environmental responsibility; and

  9: encourage the development and diffusion of environmentally friendly technologies.

  Anti-Corruption

  10: Businesses should work against corruption in all its forms, including extortion and bribery.

PROXY VOTING

Zeal is committed to exercising voting rights on assets managed on behalf of clients aiming to maximize our investments' long-term value. Details of our proxy voting principles and arrangements are separately documented in our Proxy Voting Policy.

TRAINING

Zeal is committed to providing on-going education and training to our staff on ESG subjects. We will regularly provide training to the investment team on ESG issues and encourages attendance at seminars / workshops on this topic. These training may be provided by internal members who are familiar with this subject, or external ESG specialists, if appropriate opportunities arise.

REPORTING

Zeal is committed to making our ESG framework transparent and sharing our progress with the public. We participate in the Principle for Responsible Investing (PRI) reporting to disclose how our ESG-related performance is. The reporting boundary includes how our investments contribute to the United Nations Sustainability Investment Goal and to what extent our portfolios incorporate ESG factors.

ON-GOING MONITORING AND REVIEW

Our Risk Management Committee is committed to evaluate the ESG aspects of our policies and practices on a regular basis in its quarterly meeting, and on an ad-hoc basis if required.

PART 2

INCORPORATING INTO BUSINESS PRACTICES

In addition to incorporating ESG practices into our investment process for assets under our management, Zeal also believes in incorporating ESG considerations into our business practices. While ESG considerations can be found in almost every aspect of the business, there are a few key areas that we believe are the most relevant to our day-to-day operation.

CORPORATE GOVERNANCE

Zeal believes effective corporate governance and disclosure serve the best long-term interests of the company's shareholders, clients, employees and other stakeholders.

Effective corporate governance helps companies achieve strategic goals and manage risks by ensuring that shareholders can hold directors accountable as their representatives, and in turn, directors can hold management accountable, with each of these constituents contributing to balancing the interests of the company's varied stakeholders.

We are committed to:

- Managing the financials of the company in a responsible manner,
- Carefully listening to the feedback and paying due attention to the suggestions of our clients, employees and other stakeholders, and
- Adhering to the standards, guidelines and regulations (in relation to sustainability issues including but not limited to corruption and bribery, discrimination, confidentiality of information, conflict of interest, anti-competitive practices, environment, health and safety as well as whistleblowing) set by the relevant regulators in our industry, and wherever commercially possible, constructively and proactively consider adopting industry best practices in our business operations.

CLIMATE CHANGE, CARBON EMMISSION AND GREEN OFFICE

As an asset management company, our business tends to be asset light. Our staff and our office premises tend to be relatively small. However, Zeal still needs to do our own parts in achieving a sustainable environment as we believe every organization, no matter big or small, does have the responsibility to play an active role in achieving a sustainable environment. As such, we strive to:

- Fulfill, and where practicable, exceed statutory requirements in relations to environmental issues,
- Reduce carbon footprint by minimizing the consumption of natural resources and energy, and where practicable, encourage the use of low carbon and high efficiency materials and products,
- Reduce wastage and recycle materials whenever practicable, and
- Instill a green culture in office through continuous promotion.

HEALTH AND SAFETY

Zeal considers the health and safety of our employees and all stakeholders is of utmost importance to us. We strive to:

- Following all relevant statutory requirements,
- Maintaining a safe environment on our premises for employees and customers
- Providing employees with a work environment (e.g. furniture and equipment with an ergonomic design) that is good for their health and well-being, and
- Taking a proactive and transparent approach to reporting and investigating relevant incidents.

DIVERSITY AND INCLUSION POLICY

Zeal recognizes and values the contribution of people with differences in capabilities, experiences and perspectives. Diversity encompasses gender, age, experience, education, ethnicity, religious and cultural backgrounds as well as other dimensions such as lifestyle and family responsibilities.

At Zeal, we are committed to:

- A workplace which is free from discrimination, harassment, and bullying;
- Treating employees fairly and with mutual respect;
- A workplace culture that is inclusive and embraces individual differences;
- Equal employment opportunities based on ability, performance and potential;
- Flexible work practices and policies to support employees and their changing needs;
- Attraction, retention and development of a diverse range of talented, energetic and committed people.

To achieve a diverse and inclusive environment, we support the following practices:

- **Recruitment and promotion**
  Equal opportunity is integral to the recruitment and selection practices at Zeal and in the aspects of recruitment and promotion, we undertake not to discriminate any candidates or employee, no matter what their backgrounds, perspectives and religious beliefs are.

- **Equal-pay**
  Zeal determines the remuneration for women and men undertaking similar work of equal value (considering position range, performance, qualifications, experience and market considerations). There will be no discrimination for remuneration due to factor such as gender, cultural background, ethnicity, nationality, sexual orientation or religious belief.

- **Senior level diversity**
  In line with Zeal's commitment to anti-discrimination and inclusion, with regards to appointments of senior executive and Board positions, beside considerations of key factors such as ability, performance and experience, other factors including gender, ethnicity, cultural background and age will also be duly considered.

- **Gender diversity**
  Gender diversity is a key component of our diversity strategy. Zeal is committed to ensuring that gender is not a barrier to career opportunities and advancement. In principle, we support a merit-based and fair representation of women and men at different levels of the Firm. Nevertheless, it is also worth noting that, due to the small staff size of the Firm, it may not be practical or statistically meaningful to require an absolute equality at all levels of the Firm.

- **Cultural and religious diversity**
  Employees from different cultures and religions are welcomed and valued. Employees who have cultural or religious commitments are welcome to discuss with their supervisors with regards to how they may participate in these activities through flexible work arrangements, and these requests should be supported as long as they do not cause disruption to work.

- **Sexual harassment, bullying and discrimination (Unacceptable Behavior)**
  Zeal is committed to creating an environment that is free from sexual harassment, bullying, vilification, discrimination and victimization. Zeal is committed to supporting and maintaining a healthy and safe workplace which promotes the physical and mental wellbeing of our employees.

Just Transition To Low Carbon Economy

Moving towards a low-carbon economy changes the market dynamics and consumer preferences, inevitably sacrificing someone's interests while bringing opportunities to another. For instance, renewable energy may be advantageous, while the fossil fuels industry may face tremendous risks.

The Company reckons a shift to a low carbon economy may pose negative impacts to numerous industries and sectors and we believe just transition is of great importance to create value for all and reduce the associated risks.

The Company’s general approach tends to favor investee companies that value just transition to a low-carbon economy. We believe just transition in general brings less swing to the market, which is beneficial to the general economy. On top of that, just transition seeks to protect workers and communities impacted by transition changes by providing support, retraining opportunities, and alternative employment options, which in turn create a sustainable market.

The Company aims to raise investee companies' awareness of climate change, preparing them with the confidence and mindset for just transition. Through site visits and dialogues, we seek to engage with investee companies to discuss their climate concerns and update them with new climate issues. We strive to encourage our investee companies to participate in just transition, either through business model amendment or political engagement or other forms that suit their own situations. Stakeholder participation is essential for a just transition to a low-carbon economy as it facilitates insights exchange, which can in turn better address the needs and concerns of all affected parties.

Transition Plan Towards Low Carbon Economy

- **Understanding more on the risks and opportunities:**

  The Company will consider different possibilities to determine the potential impacts of climate change on the investee company's investments, operations, and clients. In such a way, we aim to more properly evaluate future risks and opportunities of the investee company.

- **Enhancing climate knowledge building:**

  The Company plans to allocate more resources to climate change management. For instance, we plan to organize more training regarding climate-vulnerable stock analysis and climate regulation updates to our investment professionals, familiarising them with picking stocks that adapt and resist potential climate risks. In addition to conducting our regular ESG committee meetings, we also plan to hold more ad-hoc ESG discussion among various level of management team members, with the view that ESG and climate-related equity issues are expected to rise. We strive to discuss climate-related issues and exchange insights in the meetings.

- **Integrating more climate information into investment decisions:**

  The Company plans to explore climate information sourced from other ESG information providers or use other services providers other than or in addition to MSCI in the future. Our current approach for assessing climate risks of a company is primarily based on greenhouse gas intensity per sales and energy intensity per sales. To make our analysis more comprehensive, fair and consistent, we will try to expand our ESG analytical tools to gather information through different parties and method, if appropriate.

- **Engaging more with stakeholders:**

  The Company plans to more actively engage with our clients, investors, and other stakeholders to communicate its climate strategy and seek feedback. This may include providing updates on progress and sharing best practices for climate risk management. We believe stakeholders' concerns and opinions expand our horizons and facilitate us to handle climate risks and opportunities more comprehensively.

Appendix A

Climate-Related Risks Management and Disclosure Policy

September 2023

Contents

Overview

1.1 Zeal Asset Management Limited (the “Company”) acknowledges that climate change is emerging as a major driving factor affecting long term resilience in the industry and the global economy. Thereby, this creates an urgent need to accelerate the transition towards a net-zero economy. While climate change poses a systemic and unprecedented risk to the global economy, the impacts on specific markets, regions, communities, and investments are complex, dynamic, and uncertain.

1.2 The Company is a Securities and Futures Commission of Hong Kong (the “SFC”) Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management) Licensed Corporation.

1.3 As a Securities and Futures Commission (“SFC”) licensed corporation, we have a fiduciary responsibility to consider and disclose all material factors that may impact the risk-adjusted returns of our investments, including climate-related financial risks and opportunities.

1.4 The Company strives to incorporate climate change into its approach, aiming to prepare, adapt, and mitigate it, albeit the climate impacts on specific markets, communities, regions and investments are complex, dynamic, and uncertain.

1.5 As an investor in the global economy, the scale and multi-faceted nature of climate change presents a systemic risk to our portfolios. Climate change impacts investors like us in two main ways:

- Physical impacts (e.g. wildfires, extreme weather, sea-level rise, drought) can affect our fixed assets (e.g. real estate) and disrupt portfolio companies' supply chains and operations. Climate change's acute and chronic physical impacts can affect people's health, food security, migration, water supply, and other ecosystem services in ways that could bring heightened volatility to financial markets and harm economic growth.
- Transition risks, or shifts in policies, technologies, industries, and customers, due to changed climate norms or movement toward a lower-carbon economy can affect the financial success of existing business models and industries. Our portfolio companies' long-term success depends on the degree to which they can successfully navigate the transition.

Purpose and Scope

2.1 With effect from November 2022, the SFC expects licensed corporations to adopt the revised Fund Manager Code of Conduct. In light of the direction towards requiring particular disclosures and implementing other necessary measures, this Policy serves to provide guidance on the application of climate-related risks in order to achieve the objectives of the Company whilst complying with the relevant regulatory requirements.

2.2 This Policy applies to SFC Type 9 Licensed Corporations and its licensed persons managing both SFC authorized and unauthorized funds to ensure climate-related risks are taken into consideration in the investment and risk management processes and make appropriate disclosures.

2.3 The Company will continue to monitor the investment portfolio on this front regularly to ensure compliance with the Hong Kong SFC's related requirements on Management and Disclosure of Climate-related Risks by Fund Managers.

Materiality & Relevance

General

Baseline Requirements

3.1 All Fund Managers should comply with the baseline requirements of the SFC by establishing and maintaining effective systems, policies and procedures to: (i) identify relevant climate-related risks; (ii) assess the potential impact of the identified risks on each investment strategy and fund; and (iii) monitor and manage these risks on an ongoing basis.

3.2 In assessing and quantifying climate-related risks associated with each investment strategy and fund, the Fund Managers should apply appropriate tools and metrics.

Concept of Relevance and Examples of Applicability to Fund Managers

3.3 In order for Fund Managers to determine whether climate-related risks are relevant, the Task Force on Climate-Related Financial Disclosures ("TCFD") has defined and classified climate-related risks into the following two major categories: Physical risks and Transition risks. With regards to transition risks, this Policy makes reference to some examples on applicability of such factors provided by TCFD.

3.4 Fund Managers should consider identifying and assessing physical risks, which refer to climate change-related extreme weather events and long-term shifts in climate patterns that may have financial implications for companies, for each investment strategy and monitor and manage these risks in an appropriate manner.

The physical climate-related risks include:

- Acute Risk

  Fund Managers should understand acute physical climate-related risks such as event-driven, extreme weather events which may cause disruptions to operations, transportation, supply chain and damage to physical assets and impact on insurance liabilities.

- Chronic Risk

  Fund Managers should understand chronic physical climate-related risks, longer-term shifts in climate patterns, such as rising mean temperatures, water stress which may impact degradation or limitations on resource availability (e.g. labour, natural resources).

3.5 In addition to physical climate-related risks, Fund Managers should continue to identify and assess transition risks, which refer to risks associated with the viability of a business due to transitions to a lower-carbon economy, for each investment strategy and monitor and manage these risks in an appropriate manner.

Transition climate-related risks include:

- Policy and Legal Risk

  Fund Managers are encouraged to regularly review policy and legal changes including increased pricing of greenhouse gas emissions, enhanced emissions reporting obligations, mandates on and regulation of existing products and services and exposure to litigation as they may pose financial risk to organizations by increasing operating costs, causing early retirement of existing assets (due to policy changes) and reducing demand for products and services resulting from fines and judgement.

- Technology Risk

  Fund Managers should understand that technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economic system can have a significant impact on organizations.

  For example, substitution of existing products and services with lower emission options may reduce demand for the products and services, leading organizations to investments for technology development and/or adopt or deploy new practices and processes. Also, unsuccessful investment in new technologies may require organizations to research for new and alternative technology.

- Market Risk

  Fund Managers should regularly review market risks such as shifts in supply and demand for certain commodities and products. Changing customer behavior/preferences and increase in raw materials cost may reduce demand for goods and services and result in decreased revenue.

- Reputation Risk

  Climate change has been identified as a potential source of reputational risks. Changing customer or community perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy may decrease demand for goods or services, resulting in reduced revenue.

When identifying such risks, Fund Managers are encouraged to look beyond their usual investment horizon because portfolio assets will in most cases be reinvested in similar investments. For instance, physical and transition risks which are not likely to have a material impact in the short term may become material in the medium or long term if the portfolio assets are reinvested in similar sectors or asset classes. Fund Managers should also consider their nature of business as well as how such risks will affect their strategies and can be factored into their investment management processes if they may become material over time.

3.6 Fund Managers are encouraged to provide key metrics used to measure and manage climate-related risks as described above. In addition to physical and transition climate-related risks, Fund Managers should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable. If a Fund Manager deems that climate-related risks are relevant to certain types of investment strategies or funds under its management, the Fund Manager is expected to disclose how it incorporates climate-related risks into its investment and risk management process.

3.7 Where a Fund Manager assesses that climate-related risks are irrelevant to certain types of investment strategies or funds under its management, the Fund Manager should disclose these exceptions when it discloses how it incorporates climate-related risks into its investment and risk management processes. It should also maintain appropriate records which explain why climate-related risks are irrelevant.

Concept of Materiality

3.8 When assessing the materiality of the impact of climate-related risks on an investment strategy or a fund, Fund Managers should adopt an approach which is appropriate and proportionate to their circumstances. The approach can be qualitative, quantitative or some combination of both. Below are some examples as to what each approach may entail.

- Qualitative Approach:
  Identify sectors (e.g., utility and power, mining, oil and gas) which are more likely to be adversely affected by the transition to a low-carbon economy and evaluate whether the investment portfolio is unintentionally skewed towards these sectors.

- Quantitative Approach:
  Utilize third-party data tools to analyze a portfolio's climate-related risks in the context of weather or climate data (e.g. greenhouse gas intensity per sales and energy intensity per sales) and assess their likely impact on the portfolio.

- A combination of the qualitative and quantitative approach.

Governance

4.1 Rationale

4.1.1 The board and management of the Company should ensure the effective integration of climate-related risks across an organization.

4.1.2 The board should be accountable for the Company's long term resilience with respect to potential shifts in the business landscape that may result from climate change.

4.2 Baseline Requirements

Board's roles and responsibilities

The Company's board of directors (the "Board") is responsible for the Company's overall strategy and oversight of the incorporation of climate-related considerations into the investment and risk management framework.

4.2.1 The Board oversees the progress against goals on the following events for addressing climate-related issues by holding meetings at least annually:

- Maintain, review and update (if necessary) Company's policy on climate-related risks
- Factor in climate-related risks into the investment and risk management process
Review the status of the climate-related risks in portfolio management on an on-going basis

Management's roles and responsibilities

4.2.2 The Company has a Risk Management Committee ("RMC") which evaluates the risks of all investments, including climate-related risks, for portfolio managers' periodic review. An ESG Committee has been established under the RMC. Both the RMC and ESG Committee members include the Company's Chief Executive Officer, Chief Operating Officer, Chief Compliance Officer, Chief Investment Officer and Managing Director, Deputy Chief Investment Officer. The ESG Committee will hold quarterly meeting to review companies held in the fund's that are managed by the Company which are flagged due to potential ESG concerns. The Committee will evaluate these exposures and may raise question or demand explanation, if needed. Any issues will be reported to the Board in the meetings that are held no less than annually.

4.2.3 The Company will provide training related to ESG to the employees, aiming to equip our investment professionals with adequate knowledge to properly consider factors related to climate change in their investment management activities or keep themselves abreast of the latest regulatory requirements.

4.2.4 The Company has established this Policy, Environmental, Social and Governance Policy and other satisfactory internal controls and written procedures to ensure compliance with internal policies and procedures as well as regulatory requirements related to the management of climate-related risks; and

4.2.5 The management has set goals and targets for addressing climate-related issues and develop action plans for managing climate-related risks by taking into consideration the impacts of climate change during portfolio constructions.

4.2.6 In addition, the Company is a signatory of United Nations supported Principles for Responsible Investment ("PRI") which publicly demonstrates the Company's commitment to including ESG factors in investment decision making and ownership.

Investment Management

5.1 Rationale

5.1.1 The Company should assess how climate-related risks will impact each product or investment strategy on the transition to a lower-carbon economy.

5.1.2 Given our investment portfolios, frequency of trading and investment scope, we take climate-related risks into account in our investment and risk management process. In light of this, we are taking the necessary action to account for such risks, as explained below.

5.1.3 Our climate-related risks considerations are investment driven as we seek to make better informed decisions through analysis of quantitative and/or qualitative factors that have significant influence on an investment's long-term financial return. We believe properly analyzing and evaluating relevant climate-related issues can help generate better long-term performance for clients.

5.1.4 As a fundamental oriented, bottom-up stock picker, we generally do not exclude any sector / industry from our investment universe. Our preferred approach is to evaluate each company's merits independently and make judgment accordingly.

5.1.5 Within our investment universe, our investment decisions are based on both financial and non-financial factors which include relevant climate-related risks considerations. Each investment case is considered individually with material issues discussed by the investment team as part of the investment decision making process.

5.2 Baseline Requirements

5.2.1 The Company has identified the relevance and materiality by assessing the climate-related risks for each product and investment strategy over the short and long term.

5.2.2 For funds under the Company's management where climate-related risk is considered relevant and material, climate-related risks are taken into account in the investment management process, such as investment philosophy, investment strategy and research and analysis process.

5.2.3 In making investment decisions, the Company considers qualitative and/or quantitative factors which include relevant climate-related considerations. Climate-related issues are reviewed to identify material factors at different levels:

- Thematic level
- Sector level
- Company level

5.2.4 Therefore, the Company has incorporated such climate-related risks in the investment philosophy and investment strategies, along with climate-related data into the research and analysis process.

5.2.5 To factor climate-related risks in our investment management process, Analyst has to identify and evaluate climate-related risks in the security analysis. Analysts use metrics including but not limited to greenhouse gas intensity per sales and energy intensity per sales. Other data can also be applied, for example information disclosed in the company's financial statements or the environmental issues disclosed for the industries by the Sustainability and Accounting Standards Board (SASB). Fund manager will assess the impact of those risks to the performance of the security and decide the necessary action to take, for example, reduce position weighting.

5.2.6 The Company posted a disclosure statement regarding the Company's governance structure and how climate-related risks are incorporated into the funds' investment and risk management process to fund investors on the Company's website.

5.2.7 The Company will review the disclosures at least annually and update the disclosures where considered appropriate and inform fund investors of any material changes as soon as practicable.

5.2.8 The Company considers climate-related risks in alignment with our investment planning horizon (i.e. short-term 1 - 6 months, medium-term 6 - 18 months, long-term 12 - 36 months or beyond).

Risk Management

6.1 Rationale

6.1.1 The Company should disclose how the Fund Manager identifies, assesses, and manages climate-related risks.

6.2 Baseline Requirements

6.2.1 The Company has taken climate-related risks into consideration in risk management procedures for each product or investment strategy.

6.2.2 For equities and corporate bonds, the Company uses external data to help us identify climate-related issues. The Company uses greenhouse gas intensity per sales and energy intensity per sales as a starting point for analyzing the impact of climate-related risks on each portfolio's holdings and the portfolio as a whole. The Company applies these two metrics with the aim of assessing the amount of greenhouse gas emissions and energy consumption through the generation of revenue by the investee company. The Company considers that greenhouse gas emissions and energy consumption are the key climate-related risk factors. If the weighted greenhouse gas intensity per sales of a security or weighted energy intensity per sales of a security reaches 10%* (subject to review and change from time to time) and the % attribution from the security's holding to the fund's NAV reaches 25%*, the security will be identified for fund manager to review and assess the impact of the climate-related risks on the performance of the security and decide whether any action has to be taken.

6.2.3 If the information for these two metrics are not available, the Company may apply other metrics, such as the environmental issues disclosed for the industries by the Sustainability Accounting Standards Board (SASB). When a security hits 5% of the fund's NAV, similar to section 6.2.2, the security will be identified for fund manager to review and assess the impact of the climate-related risks on the performance of the security and decide whether any action has to be taken.

6.2.4 For those securities that have been identified as having material climate-related risks, if, on an aggregate basis, it hits the threshold of 15%, fund manager will be required to consider if reducing or re-allocating the position weighting based on climate-related risks is needed.

* By taking an average weighting of the data obtained for each security and then further average out for the funds in concern, the Company considers that the thresholds are reasonable for assessing material climate-related risks.

6.2.5 For sovereign bonds, the Company applies an average figure for the relatively major Asian countries' carbon emission per gross domestic products ("GDP") and compare against the carbon emission per GDP for the location of issuer of the sovereign bond in concern.

6.2.6 When an investee company has been identified to have material climate-related risks, the relevant analyst will provide rationale on the investment decision for further discussion. Any issues will be reported in the quarterly ESG Committee meeting.

6.2.7 Through our efforts we are working to minimize the absolute risk from climate change to our portfolios. We also hope to understand the financial risks to our portfolios and prepare for the long-term changes that will accompany climate change through our research and integration efforts.

6.2.8 We will continue to take reasonable steps to assess the impact of the aforesaid risks on the performance of the Company's underlying investments to ensure compliance with the Hong Kong SFC's related requirements on Management and Disclosure of Climate-related Risks by Fund Managers. Our Board will also continue to thoroughly oversee the progress against goals for addressing climate-related issues.

6.2.6 The Company will review the metrics and thresholds that are used for assessing climate-related risks on a regular basis. For more information on the aforementioned, please refer to Section 3.

Disclosure Statement of Climate-Related Risks

Zeal Asset Management Limited (the "Company") acknowledges that climate change is emerging as a major driving factor affecting long term resilience in the industry and the global economy. Thereby, this creates an urgent need to accelerate the transition towards a net-zero economy. While climate change poses a systemic and unprecedented risk to the global economy, the impacts on specific markets, regions, communities, and investments are complex, dynamic, and uncertain.

As a Securities and Futures Commission ("SFC") licensed corporation, we have a fiduciary responsibility to consider and disclose all material factors that may impact the risk-adjusted returns of our investments, including climate-related financial risks and opportunities.

As an investor in the global economy, the scale and multi-faceted nature of climate change presents a systemic risk to our portfolios. Climate change impacts investors like us in two main ways:

- Physical impacts (e.g. wildfires, extreme weather, sea-level rise, drought) can affect our fixed assets (e.g. real estate) and disrupt portfolio companies' supply chains and operations. Climate change's acute and chronic physical impacts can affect people's health, food security, migration, water supply, and other ecosystem services in ways that could bring heightened volatility to financial markets and harm economic growth.

- Transition risks, or shifts in policies, technologies, industries, and customers, due to changed climate norms or movement toward a lower-carbon economy can affect the financial success of existing business models and industries. Our portfolio companies' long-term success depends on the degree to which they can successfully navigate the transition.

Governance

1. Board's roles and responsibilities

The Company's board of directors (the "Board") is responsible for the Company's overall strategy and oversight of the incorporation of climate-related considerations into the investment and risk management framework.

The Board oversees the progress against goals on the following events for addressing climate-related issues by holding meetings at least annually:

- Maintain, review and update (if necessary) Company's policy on climate-related risks
- Factor in the climate-related risk into the investment and risk management process

- Review the status of the climate-related risk in portfolio management on an on-going basis

2. Management's roles and responsibilities

The Company has a Risk Management Committee ("RMC") which evaluates the risks of all investments, including climate-related risks, for portfolio managers' periodic review. An ESG Committee has been established under the RMC. Both the RMC and ESG Committee members include the Company's Chief Executive Officer, Chief Operating Officer, Chief Compliance Officer, Chief Investment Officer and Managing Director, Deputy Chief Investment Officer. The ESG Committee will hold quarterly meeting to review companies held in the fund's that are managed by the Company which are flagged due to potential ESG concerns. The Committee will evaluate these exposures and may raise question or demand explanation, if needed. Any issues will be reported to the Board in the meetings that are held no less than annually.

The Company will provide training related to ESG to the employees.

The Company has established Climate Related Risk Management and Disclosure Policy, Environmental, Social and Governance Policy and other internal controls and written procedures to ensure compliance with internal policies and procedures as well as regulatory requirements related to the management of climate-related risks. Also, the management has set goals and targets for addressing climate-related issues and develop action plans for managing climate-related risks by taking into consideration the impacts of climate change during portfolio constructions.

In addition, the Company, as of the date of this disclosure, is a signatory of United Nations supported Principles for Responsible Investment ("PRI") which publicly demonstrates the Company's commitment to including ESG factors in investment decision making and ownership.

Investment Management

Given our investment portfolios, frequency of trading and investment scope, we take climate-related risks into account in our investment and risk management process. In light of this, we are taking the necessary action to account for such risks, as explained below.

Our climate-related risks considerations are investment driven as we seek to make better informed decisions through analysis of quantitative and/or qualitative factors that have significant influence on an investment's long-term financial return. We believe properly analyzing and evaluating relevant climate-related issues can help generate better long-term performance for clients.

As a fundamental oriented, bottom-up stock picker, we generally do not exclude any sector / industry from our investment universe. Our preferred approach is to evaluate each company's merits independently and make judgments accordingly.

Within our investment universe, our investment decisions are based on both financial and non-financial factors which include relevant climate-related risks considerations. Each investment case is considered individually with material issues discussed by the investment team as part of the investment decision making process.

Climate-related issues are reviewed to identify material factors at different levels:

- Thematic level
- Sector level
- Company level

Therefore, the Company has incorporated climate-related considerations in the investment philosophy and investment strategies, along with climate-related data into the research and analysis process.

Risk Management

For equities and corporate bonds, the Company uses external data to help us identify climate-related issues. Currently the Company uses greenhouse gas intensity per sales and energy intensity per sales as a starting point for analyzing the impact of climate-related risks on each portfolio's holdings and the portfolio as a whole. The Company applies these two metrics with the aim of assessing the amount of greenhouse gas emissions and energy consumption through the generation of revenue by the investee company. The Company considers that greenhouse gas emissions and energy consumption are the key climate-related risk factors. If the information is not available, the Company may apply other metrics, for example, the environmental issues disclosed for the industries by the Sustainability Accounting Standards Board (SASB).

For sovereign bonds, the Company applies an average figure for the relatively major Asian countries' carbon emission per gross domestic products ("GDP") and compare against the carbon emission per GDP for the location of issuer of the sovereign bond in concern.

When an investee company has been identified to have material climate-related risks, the relevant analyst will provide rationale on the investment decision for further discussion. Any issues will be reported in the quarterly ESG Committee meeting.

Through our efforts we are working to minimize the absolute risk from climate change to our portfolios. We also hope to understand the financial risks to our portfolios and prepare for the long-term changes that will accompany climate change through our research and integration efforts.

We will continue to take reasonable steps to assess the impact of the aforesaid risks on the performance of the Company's underlying investments to ensure compliance with the Hong Kong SFC's related requirements on Management and Disclosure of Climate-related Risks by Fund Managers. Our Board will also continue to thoroughly oversee the progress against goals for addressing climate-related issues.

Should you have any queries, please do not hesitate to contact us at info@zealasset.com or (852) 3626-9700.

Zeal Asset Management Limited

Disclaimer: This disclosure statement is intended to provide information to stakeholders and by its nature may involve risk and uncertainty. This document may contain forward-looking statements. Any statements that may express forecasts, expectations and projections are not guarantees of future performance given the current uncertainties on this front.

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