

## **Ping An of China Asset Management (Hong Kong) Company Limited**

### **ESG Policy** **1 January 2022**

This document sets out additional information on the sustainability philosophy, policies, and processes of Ping An of China Asset Management (Hong Kong) Company Limited (the "**Firm**") in respect of its management of Ping An of China Asset Management Fund – China Green Bond Fund (the "**Fund**").

#### **1. Introduction**

- 1.1. The Firm has implemented the Ping An Group's Responsible Investment Policy (the "**RIP Policy**"), which sets out additional information on the sustainability philosophy, policies and processes of the Firm in respect of its management of the Fund. This document provides a summary description of the key environmental, social and corporate governance (the "**ESG**") factors incorporated into investment analysis and decision-making processes of the Fund, for the purposes of disclosure on the Firm's website.
- 1.2. The Ping An Group's RIP Policy and other ESG-related policies are available at: <http://www.pingan.cn/sustainability/index.shtml>

#### **2. Fund**

- 2.1. In accordance with the Green Bond Principles (2018) published by the International Capital Market Association Green Bond Principles (the "**ICMA GBP**"), and Climate Bonds Standard V3.0 published by Climate Bonds, the Firm launched one of the first Undertakings for Collective Investment in Transferrable Securities (UCITS) complied China Green Bond Fund (i.e. the Fund) in November 2019, to serve as an investment vehicle for ESG conscience institutions and individual investors who want to raise their allocation to the fastest growing green bond market, and to maximize environmental impact.
- 2.2. The investment objective of the Fund is to achieve absolute return from investment income and long term capital appreciation. The Fund invests at least 70% of its net assets in international standard aligned green bonds (i.e. those which follow the ICMA GBP) issued by China and other emerging market issuers with the aim to promote green financing, bring upon advancement in environmental friendly investments and social awareness in emerging market countries. In that sense, the Fund intends to finance via its green bond investments in particular the environmental characteristics described by the UN Social Development Goals ("SDGs"), including but not limited to the SDGs relating to Renewable Energy & Energy Efficiency Projects (SDG 7, 12 and 13), Sustainable Water and Waste Treatment Projects (SDG 6) Clean and Mass Transportation (SDG 8, 9, 11 and 13), Green Buildings (SDG 6, 8, 11 and 13) and Waste Management SDG, 12 and 13). The Fund thereby promotes mainly environmental and also social characteristics within the meaning of Article 8 of Sustainable Finance Disclosure Regulation. In pursuing the aforementioned SDGs, the Fund has chosen to pursue climate change mitigation and the avoidance of greenhouse gas emissions as one of its key indicators for reporting the impact of its investments, but does not pursue climate change mitigation as an exclusive environmental objective.

#### **3. Exclusionary Screening**

- 3.1. The Fund adheres to an Exclusion Screening Principles to exclude certain green fixed instruments from the investible green fixed income universe of the Fund based on the exclusion criteria as set out in the Fund's offering documents.
- 3.2. In deciding the investible green fixed income universe of the Fund, instruments labelled as "pending" (unless its preliminary assessment indicates the instrument fulfils the requirements of the Climate

Bonds Taxonomy based on the Firm's research and any Second Party Opinions ("**SPO**"), which are in line with the ICMA GBP provided by other reputable service providers where available will be considered, such as those by Sustainalytics, CICERO, Vigeo Eiris, KPMG, Ernest and Young and Moody's) and "excluded" in the Climate Bond Initiative ("**CBI**") list will not be considered by the Firm. Any self-declared green bonds which do not fulfil the standards set by CBI and/or any equivalent green classification standard may not be included within the investible green fixed income universe of the Fund.

#### **4. ESG Integration and Risk Management**

**4.1.** The Firm believes that ESG events or conditions that, if they occur, can cause an actual or potential material negative impact on investment risk, returns and volatility and therefore should be integrated into its investment processes and decision-making. The Firm considers such ESG risks into the investment strategy, asset selection, asset allocation and portfolio construction of the Fund.

**4.2.** As part of the broader risk management processes in managing the Fund when investing, the Firm has also implemented procedures to (i) **identify**; (ii) **measure**; (iii) **manage** and (iv) **monitor** ESG risks.

##### **(i) Identify**

**4.3.** The Fund invests only in green bonds which fulfil the general criteria for green bond as defined by the ICMA GBP since 2014. The ICMA GBP defines at high level the 4 core principles which stipulate the basic requirement and set the framework for green bonds classification, namely include (1) the Use of Proceeds – proceed will be used to finance "green"/climate projects; (2) Process for Project Evaluation and Selection – have process to identify qualifying projects based on sound methodology and clear criteria; (3) Management of Proceeds – allocating proceeds to the identified projects and not to other general expenses/investments; and (4) Reporting – report, at least annually, the status of the use of proceeds, the status of projects and the actual environment impact.

In order for the Fund to practically evaluate the eligibility and the greenness of the bonds, the Firm partnered with CBI, a well-recognized independent verifier, and apply their green taxonomy when evaluating the investible green bonds universe of the Fund but leave room for considering other international verifications subject to availability.

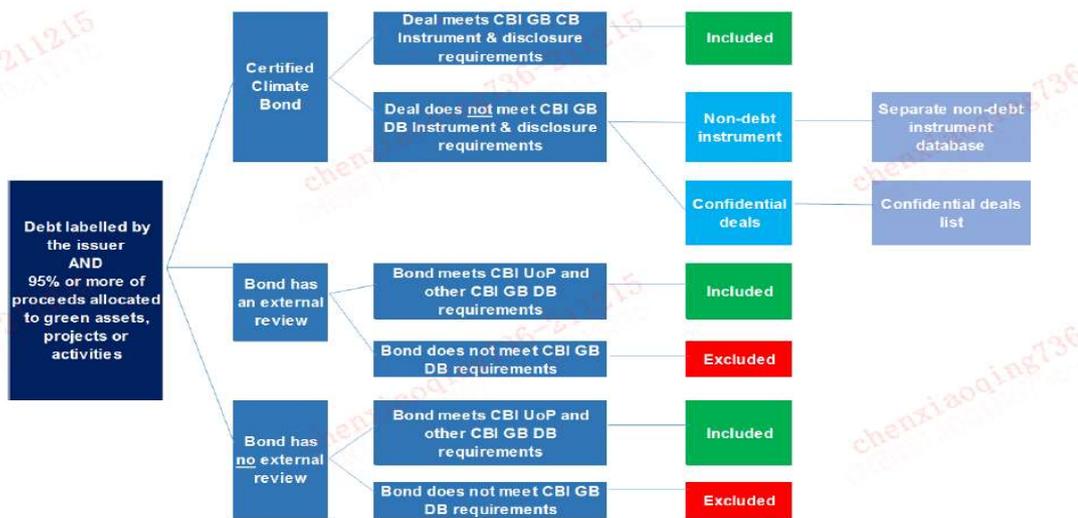
As stipulated in the Fund's offering documents, the Fund applies the CBI's defined "eligible green" standard (i.e. those are in accordance with the Climate Bonds Taxonomy, which identifies assets and projects needed to deliver a low carbon economy and gives greenhouse gas emissions screening criteria consistent with the 2-degree global warming target set by the Paris Agreement Under the United Nations Framework Convention on Climate Change) and/or any other equivalent green classification standard, which provides in-depth evaluating methodology and is following the ICMA GBP standard. Any self-declared green bonds which do not fulfil the CBI standard and/or its equivalent may not be included within the investible green bond universe of the Fund.

After the investible green bond universe is identified, the individual bond selection process and trading decision then emphasize more on bottom up credit analysis, relative values, tactical factors and diversification in order to maximize the Fund's risk-adjusted return profile. ESG/greenness analysis on individual issuers/projects are taken into consideration but as secondary. For illustration, if determining allocation on 2 green bonds with similar risk profile and trading at exact same yield, one issuer demonstrates a higher ESG awareness/impact than the other, both green bonds would be allocated for the benefit of diversification but perhaps a slightly larger exposure to the one that is more ESG aware.

**4.4.** For primary issuance of a labelled green bond where CBI evaluation may or may not be available, the portfolio management team will perform preliminary assessment based on the decision tree that CBI applies (Table 1) and other crucial information disclosure, i.e. the green underlying projects

identified, the ring fencing of bond proceeds, the post-issuance reporting standard and the impact commitment, etc. from issuer's green finance framework, its green bond issuance document and SPO provided by other renowned verifiers. The portfolio management team will also seek to validate such information via direct conversation with the issuer representatives during face-to-face meetings or tele-conferences, or via email or other written communication channels. Proactive information exchange and consultation with CBI are often conducted before the investment decision is finalized. CBI will review the eligibility status of new issuance and update it within 1-3 months after the issuance.

**Table 1: Decision Tree of CBI**



Source: Climate Bonds Initiative, as of Mar-20. UoP: Use of Proceeds. DB: Database

**(ii) Measure**

**4.5.** Environmental impacts measured in its various quantifiable units are deemed as the key additional benefit for investing into the Fund in addition to the financial performance. The Fund produces annual impact report that provides consolidated impact analysis at the fund level and breakdown of impact attributable to each bond exposure as reported by the issuers and verified by their ESG auditors. The Firm believes that this method is the most in-depth and accurate impact assessment of the ESG-related attributes of the Fund's underlying investments; while the high level ESG scores at corporate level serve as a reference data within the top down sector and bottom up company analysis.

**4.6.** The Firm adopts an approach, which is governed by the Ping An Green Investment Framework developed with reference to the International Capital Market Association (ICMA) Handbook on Harmonized Impact Reporting and subject to regular review, to disclose the environmental and social impacts of the Fund's investments.

Such impact disclosure relies on publicly available information like annual impact reports, dedicated newsletters and official websites of green bond issuers, if available. The Firm tailors the selected indicators to summarize the impacts of eligible projects that have been financed by the green bonds in which the Fund invests (Table 2). Examples of measures the Firm uses include the total

renewable energy capacity built (GW), energy generated per year (GWh) and sewage water treated (M³). In addition, the Firm tracks the distribution of green bonds in the Fund's portfolio by sector and geography, according to the issuer's main location. The Firm also tracks how the proceeds of each green bond are used by location and sector to enrich the impact reporting. Investors may contact the Firm for the Annual Green Impact Report of the Fund at the office of the Firm or at +852 37629292.

**Table 2:** Green Impacts Metrics

<b>Green Impact</b>	<b>Measurement</b>
Renewable Energy & Energy Efficiency Projects  (SDG 7,12,13)	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> <li>• Annual renewable energy generation in MWh/GWh (electricity) and GJ/TJ (other energy)</li> <li>• Capacity of renewable energy plant(s) constructed or rehabilitated in MW</li> <li>• Where CO2 emissions figures are reported, the GHG accounting methodology and assumptions adopted by issuers may vary. Depending on their own GHG reporting requirements, some institutions may report Absolute (gross) GHG emissions from the project, alongside the reduced/avoided emissions (under Measurement 1). Together with baseline emissions for the host country/region, absolute (gross) emissions allow for the calculation of emissions reduced/avoided</li> </ul>
Sustainable Water & Waste Water Treatment Projects  (SDG 7,12,13)	GBP recognized eligible scope includes & measurement metrics: <ul style="list-style-type: none"> <li>• Sustainable infrastructure for clean and/or drinking water supply in M per day before vs after the project</li> <li>• Wastewater treated in M per day</li> <li>• Reduction in water consumption/wastage M per year</li> <li>• sustainable urban drainage systems, river training and other forms of flooding mitigation (areas or population benefited)</li> </ul>
Clean Mass Transportation  (SDG 8,9,11 and 13)	GBP recognized eligible scope includes: <ul style="list-style-type: none"> <li>• Clean transportation (such as electric, hybrid, public, rail, non-motorized, multi-modal</li> <li>• transportation, infrastructure for clean energy vehicles and reduction of harmful emissions)</li> </ul> Measurement metrics: <ul style="list-style-type: none"> <li>• Passenger-kilometers (i.e. the transport of one passenger over one kilometer) and/or No. of</li> <li>• passenger times per day</li> <li>• Annual GHG emissions reduced/avoided in tCO2e p.a. from reduction in fossil fuel</li> </ul>

	<ul style="list-style-type: none"> <li>car/truck</li> <li>Reduction of air pollutants: particulate matter (PM), sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)</li> </ul>
<p>Green Buildings (SDG 6)</p>	<p>GBP recognized eligible scope includes:</p> <ul style="list-style-type: none"> <li>Green buildings which meet regional, national or internationally recognized standards or certifications</li> </ul> <p>Measurement metrics:</p> <ul style="list-style-type: none"> <li>Energy Performance e.g. kWh/m<sup>2</sup> of GBA p.a.; and % of energy use reduced/avoided vs local baseline/building code; and, if relevant % of renewable energy (RE) generated on site (specifying the relevant RE form)</li> <li>Carbon Performance e.g. GHG emission reduced/avoided in tCO<sub>2</sub>e vs local baseline certification level</li> <li>Water Efficiency e.g. % of water reduced/avoided vs local baseline/baseline certification</li> <li>Waste Management e.g. amount p.a. of waste minimized, reused or recycled in % of total waste in tonnes p.a.</li> </ul>
<p>Waste Management (SDG 12 and 13)</p>	<ul style="list-style-type: none"> <li>Measurements mainly around waste prevention, reduction, reuse, recycle.</li> <li>Waste that is prevented, minimized, reused or recycled before and after the project in % of total waste and / or in absolute amount in tonnes p.a.</li> <li>For certain waste management projects that reduce the amount of waste disposed of, it may also be possible to capture GHG emissions from waste management before and after the project in tCO<sub>2</sub>-e p.a.</li> <li>Energy recovered from waste in GWh</li> </ul>

**Source:** China Green Impact Report – Annual Green Impact Report (2019-2020)

4.7. The Fund also refers to the ESG risk scores as one of the quantitative inputs in bottom up analysis and company's comparison. The preference is for company to at least have a disclosure scores for the past 3 years, and preferably with the underlying key factors showing an improving trend i.e. improving transparency in ESG data disclosure on top of increasing positive impacts. Particularly for credit assessment for the Fund, the portfolio management team would pay more emphasis on environmental factors disclosure such as emission and energy consumption data, on top of governance factors, which are covered in their quantitative credit analysis.

As part of the ESG qualitative research process, the portfolio management team would assess green bond issuers' ESG framework as well as external researches (including but not limited to CBI and Vigeo Eiris) in order to understand the company's ESG policy direction and keep track of its progress of ESG integration within the business model.

**(iii) Management**

- 4.8.** The Fund applies Exclusionary Screening to exclude certain green fixed instruments which do not fulfil the general criteria for green bond as defined by the ICMA GBP from the investment universe of the Fund.

Once a green bond is labelled or certified as green at issuance, post issuance verification must be taken in the 12/24 months after issuance in order to confirm Post-Issuance Certification and maintain the Climate Bonds Certification. After the Post-Issuance verification, the Certification must be maintained by the bond issuer submitting annual reports throughout the tenor of the bond, until it matures.

With this ongoing reporting requirement for certification, it is expected any emerging ESG risks related to the bond issuer and through the tenor of the bond will be identified and disclosed in the Annual Report provided by bond issuers.

- 4.9.** The portfolio management team also runs independent bottom up credit analysis on the bond issuing entity which covers both quantitative and qualitative aspects, taking into account bond issuer's ESG framework, ESG policy direction, progress of ESG Integration within the business model as well as the ESG score from external ESG research houses (e.g. Vigeo Eiris) to derive the investment ideas/suggestions. Companies that have poor ESG framework and low ESG score will be considered as high ESG risk compared to their peers in the industry and investment in those are not encouraged.

**(iv) Monitoring**

- 4.10.** The portfolio management team reviews and monitors the existing compliance to the green standard requirements on a regular basis. CBI sends out weekly updates on changes made within the week for global green issuance that are newly added and status changes. For any reason, should an issue lose its "Green-label" during the life cycle of the bond, e.g. non-compliance of the reporting requirements or proven misused of proceeds into non-green projects etc., the portfolio management team will proceed to evaluate its suitability for the Fund that may lead to the eventual exit and consider divestment as soon as practicable.

The portfolio management team tracks the use of proceed of green bonds in the Fund's portfolio to monitor the possible positive and negative impacts of the projects that have been financed by such green bonds on the Fund. The use of proceeds for each green bond is often included as part of the offering document of the bond under the "Green Bond Framework" at issuance. Subsequently, the progress of proceeds deployment throughout the life of the bond will be reported by bond issuers in their regular green finance reporting, which usually occurs on an annual or bi-annual basis as part of the green standard reporting requirements.

- 4.11.** The portfolio management team actively engages with green bond issuers whenever opportunity arises. The engagement mechanism is well-defined and transparent, typically involves active and ongoing constructive dialogue via meetings or phone calls with bond issuers to understand their business, future plan as well as their green philosophy. The portfolio management team explains to bond issuers the Firm's beliefs and expectations, the areas which bond issuers need to demonstrate improvement and the desired outcome from engagement (e.g. reduce GHG emission level). The portfolio management team also shares information, tools and resources with bond issuers to solve ESG-related problems and to minimize the negative impacts on the environment and society.

## **5. Important Information**

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