PING AN OF CHINA ASSET MANAGEMENT (HONG KONG) COMPANY LIMITED

# Climate Risk Disclosure Statement 2022

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## Introduction

Climate-related risks are considered by the Securities and Futures Commission ("**SFC**") as a source of financial risk which may pose potential impact to the value of assets and therefore an investor's investments in a fund. The Amendments to the Fund Manager Code of Conduct on the Management and Disclosure of Climate-related Risks as released in August 2021 requires fund managers to take climate-related risks into consideration in their investment and risk management processes to make appropriate disclosures to investors in funds. According to this requirement, Ping An of China Asset Management (Hong Kong) Company Limited ("**PAAMC HK**", "**Company**") is being classified as a Large Fund Manager and is required to complete the Baseline Requirements by August 20, 2022 and the Enhanced Requirements by November 20, 2022.

PAAMC HK has now completed a climate-related risk relevancy analysis and materiality assessment of all currently managed funds under its SFC Type 9 License, and is hereby pleased to publish its Climate Risk Disclosure Statement. The purpose of this statement is to communicate to all PAAMC HK's stakeholders – clients, investors and peers on how PAAMC HK considers the climate across its business.

This statement summarizes HKAMC HK's key work to date for identifying, assessing, integrating and managing climate-related risks and opportunities in relation to HKAMC HK's investment. PAAMC HK is fully dedicated to promoting sustainable investment and responsible corporate governance practices in order to align with the goals and responsibilities of the Ping An Insurance (Group) Company of China, Ltd. (the "**Group**"). PAAMC HK believes that by contributing and playing an active role in the evolution of environmental, social and governance ("**ESG**") issues, PAAMC HK can create a positive feedback cycle and deliver higher investment returns for clients in the long-run.

## This statement is based on three pillars: (a) Governance, (b) Investment Management and Risk Management, and c) Portfolio Carbon Footprint Disclosure.

### (a) Governance

The Board of PAAMC HK provides ultimate oversight for climate-related issues of its funds. PAAMC HK has established an Investment Committee, which is made up of senior management including Chief Investment Officer, Head of Risk Management and Head of Compliance of the Company. The Board delegated authority to the Investment Committee regarding the status and progress of efforts to manage climate-related risks for the Company's investments. The Investment Committee meets up monthly to oversee the management of climate-related issues.

PAAMC HK has also established an ESG Office to assist the Investment Committee in compliance with the ESG related policies and objectives as well as follow up the ESG requirements set by the Group, develop fund-level climate strategy, and help identify, assess and manage climate risks and opportunities.

The Investment Committee members and ESG Office members will attend PAAMC HK monthly Risk Management Committee meeting to give an update on the progress of the relevant ESG projects and keep PAAMC HK's management informed of any material climate-related issues.

**Figure 1: Climate-related Governance Structure**

**Board of PAAMC HK**

- Take ultimate responsibility of climate-related issues
- Delegate authority and responsibilities for operational processes of investment management and risk management to Investment Committee
- Ensure that climate-related oversight is built into board composition, structure, and processes
- Set the tone for disclosure and stakeholder engagement

**Investment Committee**

- Assess, review and approve investment opportunities - taking climate risk into consideration and report to Board of Directors in monthly Risk Management Committee meetings
- Oversee progress against goals for addressing climate-related issues
- Monitor closely the status and progress of efforts to manage climate-related risks for the Company's investments
- Conduct the Company's disclosures - both from a compliance perspective and from a broader climate-related communication strategy perspective

**ESG Office**

- Establish a guideline/instruction to be regularly informed about the status and progress of efforts to manage climate-related risks
- Develop the fund level climate strategy
- Devote sufficient human and technical resources for the proper performance of the duty to manage climate-related risks
- Set goals for addressing climate-related issues and develop action plans for managing climate-related risks
- Report climate risk management objectives, plans, implementation and progress, ESG issues and risks to Board of Directors in monthly Risk Management Committee meetings
- Report to the Group's ESG Office on the implementation of climate risk goals and ESG related works as well as achievement on a quarterly basis

The governance structure described above is how PAAMC HK incorporates climate-related risks into the investment process. The steps taken to incorporate relevant and material climate-related risks into the investment management process and the processes for identifying and assessing, climate-related risks, including the key tools and metrics used, are described in the following Investment Management and Risk Management section.

### (b) Investment Management and Risk Management

PAAMC HK has established policies to manage climate-related risks for its investment activities. For example, PAAMC HK includes climate-related risks in the investment philosophy and investment strategies, incorporates climate-related data and considerations into its investment research and analysis process, takes reasonable steps to assess the impact of these risks on the performance of underlying investments, and proactively engages with the investee companies and fund managers throughout the investment lifecycle.

### (b - i) Qualitative Climate Risk Assessment

PAAMC HK has performed a climate-related risk assessment, which consists of a relevancy analysis and a materiality assessment, for all funds in which it has discretionary management ("**Managed Funds**"). After the relevancy screening, PAAMC HK determined that roughly 43% of the Managed Funds have relevant climate-related risks.

During the materiality assessment, by referencing the Sustainability Accounting Standard Board's sectoral materiality mapping and also a qualitative risk assessment based on the Network of Central Banks and Supervisors for Greening the Financial System scenarios, PAAMC HK has assessed the materiality of climate-related risks – transition risks and physical risks for each Managed Fund based on theirs corresponding investment strategies and horizons.

For transition risks, PAAMC HK has evaluated the degree of exposure in high carbon emission sectors and key markets, assessed the impact of these invested sectors due to potential change in climate policy and technology, provided a qualitative professional judgment on the level of transition risk, and calculated a transition risk score to determine the fund-specific transition risk level of each Managed Fund.

In addition, Global Climate Risk Index[1] ("**CRI**") issued by Germanwatch is adopted as a high-level reference for the physical climate risk associated with each Managed Fund. A fund-specific physical risk score is assigned to each Managed Fund by summing up the products of geographic CRI scores and fund investment proportions. The scores are then compared to the global CRI score ranges to determine the level of fund-specific physical risks.

According to the qualitative assessment conducted in August 2022, approximately 29% of the Managed Funds are deemed to have potential material climate-related risks ("**Material Climate-related Risks Managed Funds**").

### (b - ii) Quantitative Climate Risk Assessment

To further evaluate the Material Climate-related Risks Managed Funds, a quantitative risk assessment and portfolio carbon footprint calculation have been performed as part of the Enhanced Requirements for Large Fund Managers under the SFC's requirements.

As the first step of PAAMC HK's quantitative climate risk assessment, greenhouse gas ("**GHG**") emission is selected as the key indicator of quantitative climate risk assessment to increase cross-industry comparability. A vulnerability scoring scheme is defined based on GHG intensity of each industry, weighted by the proportion of each industry of investment, and applied to assess fund-level vulnerability to change in carbon price.

Based on the quantitative assessment, approximately 33% of the Material Climate-related Risks Managed Funds fall into the Medium risk, whereas the rest are classified as Low risk. A portfolio-level climate risk assessment is then conducted based on the projection under current policies to further drill down and assess the potential impact of change in carbon price to all portfolio companies in vulnerable industries for all the Material Climate-related Risks Managed Funds. Of the 33.76% of the classified Medium risk funds' underlying assets subject to medium to high risk, cost of carbon price in 2025, 2030 and 2050 is projected respectively. PAAMC HK is well-informed about the possible impact. With PAAMC HK's active risk management and engagement policy in place, the risk is deemed manageable by PAAMC HK.

PAAMC HK will closely monitor and review the risk level of each Material Climate-related Risks Managed Fund resulted from the quantitative climate risk assessment from time to time and seek engagement with portfolio companies where possible to facilitate their low carbon economy transition, and adjust PAAMC HK's future investment strategy to reduce exposure to carbon cost.

### (b - iii) Plan for Scenario Analysis

In accordance with enhanced standards applicable to Large Fund Managers whose funds are assessed to be exposed to material climate-related risks, PAAMC HK hereby assesses the relevance and utility of scenario analysis.

Climate risks may cause more than unpredictable natural disasters and are complicated by uncertainty in policy and socio-economic factors. PAAMC HK recognizes that scenario analysis is an essential tool to assess the financial impact of uncertainty and inform risk management using "what-if" scenarios, and therefore the relevance and utility of scenario analysis are confirmed. Network of Central Banks and Supervisors for Greening the Financial System ("**NGFS**") scenarios have been adopted in quantitative climate risk assessment

[1] https://www.germanwatch.org/en/cri

to provide similar context to Pilot Banking Sector Climate Risk Stress Test launched by Hong Kong Monetary Authority in December 2021.

PAAMC HK plans to review annually the result of most current climate risk assessment and track updates on international climate policies and change in physical environment, e.g., global GHG emission level and temperature level, as well as climate-related performances in relevant industries and portfolio companies like industrial GHG intensity and GHG emissions from portfolio companies. Upon significant changes in the above-mentioned factors or a significant change in portfolio composition, PAAMC HK will evaluate whether there is a need to re-attempt quantitative risk assessment or conduct scenario analysis based on a new scenario to compare selected impact under different projection pathways embedded in different scenarios.

### (b - iv) Engagement Policy

PAAMC HK views engagement as an essential way to express and pass on the commitment on ESG and green investments to portfolio companies during ownership. In the face of climate change, PAAMC HK believes that it can exert more impact on investee companies and fund managers it invests in as well as directing capital to drive decarbonization of the whole society.

To ensure its active and effective ownership position, PAAMC HK tailors the engagement approach and adapts to different natures of its diverse asset classes.

PAAMC HK prioritizes its engagement with investee companies based on 1) size of holdings, 2) duration of holding, and 3) sensitive industries/sectors to climate risks, and where feasible, with fund manager based on similar criteria. PAAMC HK conducts regular ESG themed dialogues with investee companies to address areas of concern; explain PAAMC HK's beliefs and share PAAMC HK's expectations; get an in-depth understanding on investee companies' ESG approaches and practices; avoid black swan incidents caused by ESG risks; and help improve the investee companies' resilience to climate-related risks.

PAAMC HK consistently monitors and assesses investee companies' climate-related performance, including but not limited to energy use and GHG data tracking, climate-related information request and climate risk assessment, at post-investment stage to identify and manage potential risks.

PAAMC HK recognizes the power of voting rights and, where feasible and applicable, will file resolution to draw attention from investee companies on climate change subject matters. PAAMC HK also understands the power of education, and where appropriate, will provide trainings to help raise investee companies' and fund managers' awareness on climate changes and relevant mitigation measures.

## (c) 2022 Portfolio Carbon Footprint Disclosure

Pursuant to enhanced standards in Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers set for Large Fund Managers, PAAMC HK calculates the portfolio carbon footprints of the Scope 1 and Scope 2 GHG emissions associated with the Material Climate-related Risks Managed Funds' underlying investments at the fund level.

### (c - i) Methodology

The portfolio carbon footprint is calculated in reference to *The Global GHG Accounting and Reporting Standard for the Financial Industry published by Partnership for Carbon Accounting Financials* ("**PCAF**") and Appendix E of Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers published by SFC. The formula and methodology referenced are as follow:

**Figure 2: Financed Emissions Calculation Methodology**

**For listed companies:**

$$Financed\ emissions = \sum_{c} \frac{Outstanding\ amount_c}{Enterprise\ Value\ Including\ Cash_c} \times Company\ emissions_c$$

**For bonds to private companies:**

$$Financed\ emissions = \sum_{c} \frac{Outstanding\ amount_c}{Total\ equity + debt_c} \times Company\ emissions_c$$

Source: PCAF, 2020, The Global GHG Accounting and Reporting Standard for the Financial Industry. First edition.

**Figure 3: Portfolio Carbon Footprint Calculation Methodology**

| ***Portfolio carbon footprint*** | |
|---|---|
| *Formula* | $$\frac{\sum_{N}^{i} \left( \frac{\text{Current value of investment}_i}{\text{Investee company's enterprise value}_i} \times \text{Investee company's Scope 1 and Scope 2 GHG emissions}_i{}^{@} \right)}{\text{Current portfolio value (\$ million)}}$$ <br> *@ Fund managers are encouraged to include Scope 3 GHG emissions if data is available.* |
| *Methodology* | Scope 1 and Scope 2 GHG emissions (and Scope 3 GHG emissions if available) from investments and debts are allocated to the reporting institution based on the proportional share of investment or debt in the investee company. For example, if an institution's investment represents 5% of a company's enterprise value, then that institution accounts for 5% of the company's GHG emissions. <br> Enterprise value means the sum, at financial year end, of the market capitalisation of ordinary and preferred shares and the book value of total debt and non-controlling interests, without deducting cash or cash equivalents. For other asset classes, please make reference to the PCAF Standard in calculating the portfolio carbon footprint. <br> The current portfolio value is used to normalise the data. |
| *Key points + / -* | + May be used to compare portfolios to one another or to a benchmark. <br> + Uses portfolio market value to normalise data, which is fairly intuitive to investors. <br> + Allows for portfolio decomposition and attribution analysis. <br> - Changes in the enterprise value of underlying companies can be misinterpreted. |

Source: SFC, 2021, Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers.

### (c - ii) Data Source

An external GHG data vendor is tasked to provide investee company's Scope 1 and Scope 2 GHG emission data. There are three data sources, including: (1) disclosed 2021 GHG data from corporate websites, annual reports, environmental reports, social responsibility reports and all publicly available information, (2) 2021 GHG data reported through third-party carbon disclosure programs or government databases, and (3) where (1) and (2) are not available, estimated GHG data derived from GHG intensity based on industry, country, region and main goods and services, and relevant company financial data, including market capitalization, revenue, etc., for year 2021.

### (c - iii) Assumption

Cash is assumed to generate no GHG emissions, and thus the Scope 1 and 2 GHG emissions of cash is assumed to be 0 t CO2e.

### (c - iv) Results

Among the Material Climate-related Risks Managed Funds, the table below summarizes the portfolio carbon footprint of the Scope 1 and Scope 2 GHG emissions associated with the funds' underlying investments for those are authorized by the SFC:

**Table 1: Portfolio Carbon Footprint**

| Fund Names | Year-end Date [1] | Currency[2] | Covered Assets[3] (Millions) | Total Net Assets[4] (Millions) | Data Coverage[5] | Covered Financed Emissions[8] (t CO2e) | Portfolio Carbon Footprint[9] (t CO2e / USD Million) |
|---|---|---|---|---|---|---|---|
| **Ping An of China Asset Management Fund - Emerging Market Income Fund (Fund A)** | 31-Dec-21 | USD | 41.74[6 7] | 67.73 | 61.63%[6, 7] | 44957.07[6, 7] | 1076.98[6, 7] |
| **Ping An of China Asset Management Fund Sub-fund 2 - China High Yield Private Strategy Bond Fund (Fund B)** | 31-Dec-21 | USD | 38.64 | 38.64 | 100.00% | 810.71 | 20.98 |
| **Ping An of China Select Investment Fund Series - Ping An of China SIF - RMB Bond Fund (Fund F)** | 30-Jun-22 | RMB | 434.07[6] | 513.81 | 84.48%[6] | 9370.51[6] | 144.62[6, 10] |

**Notes:**

[1] A financial year end date signifies the completion of 12-month accounting period for a fund. Portfolio Carbon Footprint calculation for each of fund is aligned with the corresponding Year-end date, as appeared on corresponding annual financial statement.

[2] Currency indicates the presentation currency in which each fund presents its financial statements.

[3] Covered Assets indicates the amount of net assets with GHG data coverage, reported or estimated, and not excluded due to lack of recognized GHG accounting methodology.

[4] Total Net Assets is displayed as appeared on financial statement of corresponding fund by the indicated year-end date. In case where PAAMC HK is responsible for managing a portion of the fund, the values are adjusted to correctly reflect the total market value of the portion of assets under management of PAAMC HK.

[5] Data Coverage for a specific fund is calculated as the amount of covered assets, divided by the total net assets of that specific fund.

[6] Supranational bonds, sovereign bonds, government bonds, and quasi-government bonds are excluded in the calculation due to the lack of internationally recognized methodology to calculate financed emissions of the above-mentioned asset classes.

[7] Due to the lack of information on financed emissions for collective investment scheme asset class in the fund, corresponding financed emissions (6.72% of Total Net Assets of the fund) are not covered.

[8] Covered Financed Emissions are calculated as the Financed Emissions related to the Covered Assets, with reference to *Global GHG Accounting and Reporting Standard for the Financial Industry* published by PCAF.

[9] Portfolio Carbon Footprint is calculated as the financed emissions of the covered assets normalized by covered assets, rendering comparable results between different funds.

[10] Presentation currency of the fund is converted to USD using the exchange rate by corresponding Year-end Date.