恒生投資
HANG SENG INVESTMENT

Climate Change Policy

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1. Introduction

Climate change is one of the greatest global challenges. The shifting weather pattern presents an unprecedented threat to ecosystems, societies, and economies. This was formally recognised in 2015, when the Paris Agreement was signed by 195 countries at the United Nations Climate Change Conference ('**COP21**'), in which signatories were committed to limiting global warming to well below 2 degrees Celsius (°C) compared with pre-industrial levels, and pursuing efforts to limit the temperature increase to 1.5 °C compared with pre-industrial levels. It also set a long-term ambition of reaching net-zero greenhouse gas ('GHG') emissions by 2050. The development of green finance, as well as the low-carbon economy, can be cited as among the significant contributions of the financial world to the climate cause in recent years.

At Hang Seng Investment Management Limited ('**HSVM**'), we recognise the potential impact of climate change on our investors' portfolios and the investments managed by our company. The Hong Kong Securities and Futures Commission ('**SFC**') has introduced requirements for licensed corporations under its supervision that are consistent with the direction of major regulators in other jurisdictions and globally recognised frameworks on the management and disclosure of climate-related risks. This policy guides investors on HSVM's integration of climate change into its investment processes. Our approach to climate change consists of three main aspects: governance, investment management, and risk management.

2. Policy Scope

The approach to climate-related investment and risk management in this policy applies to the HSVM retail funds ('Relevant Funds'), which are our actively managed funds and index tracking sustainable investment funds across equity and fixed income asset classes. These Relevant Funds have relevant and material climate-related risks, which are managed and disclosed by HSVM in accordance with the SFC's climate-related risk management and disclosure requirements.

3. Climate Ambitions

HSVM contributes to HSBC Holdings plc's ambition of aligning the financed emissions in its portfolio of customers to reach net zero by 2050. As such, HSVM has internal indicators to monitor the reduction of the entity-level portfolio weighted average carbon intensity ('WACI')[1] of the Scope 1 and Scope 2 GHG emissions of our investee companies. HSVM subscribes to the MSCI ESG Ratings product in order to calculate its WACI.

4. Governance

At HSVM, oversight and implementation of sustainability-related initiatives and climate-related matters are embedded into our governance structure, including the Sustainability Oversight Meeting, Responsible Investment Meeting and Risk Management Meeting ('**RMM**').

For details of our climate-related governance structure, please refer to our Responsible Investment Policy.
https://www.hangseninvestment.com/cms/ivp/hsvm/document/RI_en.pdf

5. Investment Management

We identify and consider the impact of climate-related risks on the Relevant Funds, and we incorporate relevant and material information, including climate-related risks information, where appropriate.

[1] Weighted Average Carbon Intensity ('WACI') (tCO2 e/ m$): the portfolio's weighted average of the investee companies' carbon intensity (tonne emissions/ million USD sales).

5.1 Sustainability and Climate-Related Risk Integration

The identified climate-related risks can be divided into two categories:

- Transition risks: Risks that arise during the transition from a high carbon economy to a low carbon economy, which may include the potential impacts of environment-related regulations. The opportunities that may arise during the transition are also considered.

- Physical risks: Climatic consequences that arise directly from more frequent and severe climate events, as well as longer-term shifts in climate patterns. These consequences may impact our investee companies' strategy, infrastructure, operation, workforce, and supply chain.

The Responsible Investment Team identifies and assesses climate-related risks associated with actively managed equity and fixed income funds at the issuer and portfolio levels. The results are reviewed at the Responsible Investment Meeting and escalated to the Sustainability Oversight Meeting and/or RMM when required.

The degree to which climate-related risks are considered in the investment and risk management processes differs depending on the nature of the fund and the investment strategy, as well as how such risks affect the management of our investors' assets in the long run. Climate-related risks are not taken into account in some circumstances, such as in the case of non-sustainable index-tracking funds that adopt a replication approach, as well as commodity funds. Additionally, certain funds of funds may not be covered by our climate-related risk monitoring process due to low data availability.

HSVM's climate data is sourced from selected third-party data providers, sustainability disclosures from the investee companies and engagement with the investee companies.

Examples of climate-related risk information include carbon-related metrics such as the portfolio carbon footprint,[2] weighted average carbon intensity, as well as climate-related

[2] Portfolio Carbon Footprint: Carbon emissions normalised by the portfolio's market value and expressed in tonnes of carbon dioxide equivalent emissions ('CO2e') per million dollars invested.

metrics such as the aggregated climate value-at-risk ('cVaR'),[3] transition risks and physical risks.

In addition, investee companies with an unsatisfactory sustainability performance, changes in the investee companies' environmental impact, and the portfolio's sustainability-related performance (including its carbon-related metrics) are regularly reviewed through our Responsible Investment Meeting.

As our climate strategy continues to evolve, we will explore the use of climate-related risk metrics when more relevant data becomes available and expand our coverage of holdings. As such, the investment and risk management processes to address climate-related risks will continue to develop over time.

5.2 Stewardship and Engagement

At HSVM, we view stewardship as a critical channel and an efficient means of communicating with our investee companies. Our stewardship and corporate engagement approaches allow us to focus on the material sustainability and governance-related issues of our investee companies, such as climate-related matters. For more details, please refer to our Stewardship and Engagement Policy:
https://www.hangsenginvestment.com/cms/ivp/hsvm/document/SnE_Policy_EN.pdf

5.3 Thermal Coal and Energy Policies

Fossil fuels remain the dominant energy source powering global economies. However, a structural shift is underway to reduce the reliance on fossil fuels by transitioning to more energy-efficient and sustainable alternatives. This shift presents both challenges and opportunities for investors: from transition risks and the potential for stranded assets, to prospects for investing in new infrastructures and innovative technologies that enable energy-efficient solutions.

HSVM has established internal policies, which define our investment approach towards the thermal coal and energy transition within the oil, gas and utilities sectors. These policies outline our approach to prioritise engagement with companies that produce the highest relevant emissions in our portfolios of listed equity and corporate fixed income securities, including both active and index tracking holdings, especially where we have the largest exposures. In cases

[3] Aggregated climate value-at-risks ('cVaR') (%): Sum of Policy Risks [Scope 1 Direct GHG Emissions + Scope 2 Indirect GHG Emissions from energy purchase + Scope 3 Value Chain GHG Emissions] + Technology Opportunities + Physical Risks.

where such a company's transition plan lacks clarity, we will also prioritise engagement in order to address any relevant gaps.

We will not hold listed securities of issuers with more than *de minimis*[4] revenue exposure to thermal coal in EU/OECD markets by 2030, and in all markets by 2040 for our actively managed portfolios.

If, following our engagement, a company's transition plan remains unclear and it fails to respond adequately to our follow-up efforts, we will consider escalating the matter in accordance with our Stewardship and Engagement Policy.

5.4 Proxy Voting

We generally support resolutions that promote and enhance the sustainability-related standards of our investee companies, including but not limited to strategy and governance, climate-related risk disclosures, climate transition plans and the setting of carbon reduction targets. For more details, please refer to our Proxy Voting Guidelines: https://www.hangsenginvestment.com/cms/ivp/hsvm/document/ProxyVotingGuidelines.pdf

6. Risk Management

At HSVM, we recognise the potential impacts of climate change on our investors' portfolios, and we integrate climate-related risks into our overall risk management framework.

6.1 Risk Monitoring

Investment Management Team

The Responsible Investment Team and portfolio managers are responsible for monitoring and evaluating the major climate-related risks associated with our investee companies and their overall impact on the Relevant Funds. In addition, sustainability risk metrics for the Relevant Funds are monitored and reviewed at the Responsible Investment Meeting and RMM. In extreme cases, the relevant investee companies may be included in the restricted list.

[4] Our intention is to exclude companies engaged in thermal coal mining or thermal coal-fired power generation. In line with the methodology typical of ethical exclusion, we may apply a *de minimis* threshold in good faith for the operability of our policy. This threshold would be set at no more than 2.5% of the issuer's revenue exposure for actively managed portfolios.

Risk Management Team

The Risk Management Team is responsible for overseeing the risk management framework and control environment. The Risk Management Team identifies any excessive exposure to climate-related risks by monitoring the risk levels of the Relevant Funds against the reference benchmarks and parent indices, respectively, and the results are reviewed at the Responsible Investment Meeting.

6.2 Internal Controls

Climate-related risk controls are in place within the organisation.

Governance Structures

There are clear roles and responsibilities within HSVM's governance structures to oversee the development and performance of internal controls in relation to incorporating sustainability risk considerations, including those of climate-related risks, into our investment process. The Sustainability Oversight Meeting plays a key role in overseeing HSVM's sustainability initiatives, including those related to climate-related risks. The Responsible Investment Meeting is the primary governance forum responsible for incorporating climate-related risks into our investment process and monitoring the responsible investment matters, such as climate-related risks, that arise from our investments.

Policies and Procedures

Our sustainability-related policies outline the principles and frameworks for managing climate-related risks and sustainability-related matters from different aspects, including our Stewardship and Engagement Policy (refer to Section 5.2), Proxy Voting Guidelines (refer to Section 5.3) and our Climate Change Policy, as described in this document. Moreover, internal procedures are in place to document the integration of climate-related risks into our investment management processes and risk management monitoring. These policies and procedures are reviewed annually.

Monitoring and Escalation

Continuous monitoring is an important component of our internal control to ensure the effectiveness of our business operations and the safeguarding of our investors' assets from various risks. The monitoring responsibilities of different teams are mainly divided as follows:

- The Investment Team and the Responsible Investment Team propose monitoring thresholds of the sustainability and climate-related risks. The Risk Management Team is

responsible for reviewing the monitoring thresholds of such risks and challenging the results thereof.

- The Operations Team is responsible for monitoring trade transactions for any climate-related rules and restrictions. In addition, HSVM's Compliance Team oversees the overall framework to ensure adherence to the relevant regulatory requirements.

Issues related to sustainability or climate-related risks monitoring are reported to the Responsible Investment Meeting and escalated to Sustainability Oversight Meeting and/or RMM.

6.3 Scenario Analysis

To better assess the impact of climate-related risks on HSVM-managed portfolios, a variety of scenarios [5] with different levels of global warming and climate-related risk factors are considered for each Relevant Fund in our internal discussions and escalation process.

7. Disclosure

To maintain transparency for our investors, we have documented our principles and approaches to responsible investment, climate change, stewardship and engagement in our policies and Proxy Voting Guidelines, which are available on our website. In addition, we publish the portfolio carbon footprints of the Relevant Funds, which are calculated in accordance with the regulatory requirements.

8. Conclusion

At HSVM, we manage the climate-related risks in our investors' portfolios by incorporating climate-related factors into our investment and risk management processes. We will continuously adapt our sustainability and climate-related risk strategy, in order to achieve our investors' objectives and further our climate ambitions.

[5] HSMV has considered utilising the Regional Model of Investment and Development ('REMIND') scenarios from the Network for Greening the Financial System ('NGFS') to assess the resilience of our investments to climate-related risks. These scenarios focus on potential transition pathways aimed at limiting global warming to below 1.5°C and below 2°C by 2050. They assume either an early introduction of progressively stricter climate policies (an 'orderly transition'), or delays and divergences in policy implementation across countries and sectors (a 'disorderly transition').

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Important Information

HSVM cautionary statement regarding sustainability and climate-related forward-looking statements can be found in the link below:

https://cms.hangsenginvestment.com/cms/ivp/hsvm/document/esg_disclaimer_en.pdf