< Management and Disclosure of Climate-related Risks for Asset Managers >

In accordance with SFC's "Circular to Licensed Corporations: Fund Managers' Management and Disclosure of Climate-Related Risks" on August 20, 2021, China Merchants Securities Asset Management (HK) Co Ltd. has formulated these management measures.

Basic rule one:
(i) identifying relevant and significant climate-related entities and transition risks for each investment strategy and each fund managed by the fund manager;
(ii) where relevant, incorporate significant climate-related risks into the investment management process. For example, incorporating climate-related risks into investment ideas and investment strategies, and incorporating climate-related data into research and analysis processes; and
(iii) take reasonable steps to assess the impact of such risks on the performance of the underlying investments of the fund.

Two basic rules:
(i) Risk Management
Establishing a sound risk management mechanism, the board of directors of the company is ultimately responsible for climate-related risks, and authorizes the investment management committee to ensure that climate-related risks are effectively identified and controlled, in line with the risk appetite of the company and the products it manages.
The management of climate risk should be in line with the management requirements of the company’s three lines of defense, 1) The fund manager acts as the first line of defense, considers climate-related risks in the risk management process, and ensures that appropriate steps are taken to and for each fund to identify, assess, manage and monitor associated and significant climate-related risks. 2) Risk control compliance officers should act as a second line of defense and should conduct independent monitoring and assessment of climate-related risks. 3) Internal audit, as the third line of defense, should confirm in the audit work that climate risk management is effectively implemented in accordance with the company's relevant rules and regulations.
(ii) Tools and Indicators
Use appropriate tools and metrics, such as reference to Bloomberg ESG Scores and external consultations such as MSCI ESG, to assess and quantify climate-related risks.

Method and frequency of disclosure
Fund managers responsible for the overall operation of the fund should make appropriate disclosures to investors through different channels, such as websites, newsletters or reports, and ensure that relevant information is brought to the attention of fund investors. They should indicate cross-references to assist investors in accessing relevant information. They are expected to comply with the following when making disclosures
(i) Adopt a proportionality approach whereby disclosures should be commensurate with the extent to which climate-related risks are considered in investment and risk management processes;
(ii) make adequate disclosures in writing and communicate with fund investors electronically or by other means (e.g. company website); and
(iii) Review disclosures at least annually, update disclosures as deemed appropriate, and notify

fund investors of any material changes as soon as practicable.

Basic requirements for disclosures related to governance at the corporate level:

(i) describe the governance structure;
(ii) Describe the role and oversight of the Board of Directors, including:
a. whether the board or board committees will review the risk management framework covering climate-related risks;
b. The procedure and frequency with which the Board or Board committees are notified of climate-related matters;
(iii) Describe management roles and responsibilities, including:
a. how management will monitor the status and progress of managing climate-related risks; and
b. process for regularly informing management of the status and progress of managing climate-related risks.

Basic requirements for disclosures related to investment management and risk management at the institutional level:

(i) Disclose the steps taken to incorporate relevant and significant climate-related risks into the investment management process; and
(ii) Describe the processes used to identify, assess, manage and monitor climate-related risks, including the key tools and indicators used.
Combined with the provisions of the SFC and the actual situation of the collective investment scheme managed by the company (the asset value of the collective investment scheme managed by the company is less than HK$8 billion), the collective investment scheme managed by our company currently applies the basic provisions of the SFC. Advanced requirements apply when the plan is greater than or equal to HK$8 billion. Therefore, a collective investment scheme climate-related risk management approach is developed as follows:
1、Quantitative indicators are not used to determine the carbon emissions of the portfolio for the time being. Fund managers must incorporate significant climate-related risks into the investment management process, add climate-related risks to investment concepts and investment strategies, and incorporate climate-related data into research and analysis processes
2、Assess the impact of such risks on the performance of the fund's underlying investments
3、Quantitative indicators are not used to assess and quantify climate-related risks for the time being. Fund managers are advised to consider the amount of carbon emissions in the securities they invest in, and fund managers are encouraged to add less carbon-emitting and carbon-neutral securities
4、governance structure. The investment committee is responsible for evaluating the climate-related risks of the collective investment plan, and the fund manager reports the portfolio climate-related risks to the investment committee every six months

Method and frequency of disclosure:
The collective investment scheme discloses the identification and assessment of climate-related risks in its annual report.