Da Cheng International

Climate-related Risk Management Report

Preface

The challenges posed by climate change are becoming increasingly urgent on a global scale and have become an important issue today. Along with the intertwined global challenges, it is time to actively address climate change and to reduce the risks it may cause.

As the core of modern economy, finance plays an important role in promoting low-carbon transition and achieving the goal of "Net Zero". In fact, regional governments have been gradually increasing investment in the green energy industry and encouraging the green financial products while promoting energy transition to achieve the ambitious emission reduction goals. As an asset manager, we have our responsible stewardship for our clients who are asset owners. Always striving for green value creation, we keep long-term investment in mind and take climate risks into account. As a responsible investor, we encourage the investee companies to improve ESG risk management, including climate issues, and to develop more sustainable business practices.

We keep up with the global trend of climate change and never stop our effort in sustainable development. In 2022, we actively identify the risks and opportunities of climate change and manage climate risks in a holistic manner. A systematic climate-related risk governance structure has been established, and a top-down monitoring and management system for climate-related risk issues has been formed, which demonstrates our commitment in sustainable development and our efforts in climate-related risk disclosure.

In the future, we will constantly improve our climate-related risk management. By fully releasing the potential of responsible asset managers in promoting low-carbon transition, and further directing capital flows to greener industries, we are committed to creating long-term investment value and stable investment returns for our clients.

About Da Cheng International

Da Cheng International Asset Management Co., Ltd. (Da Cheng International), which is a wholly-owned subsidiary of Da Cheng Fund Management Co., Ltd, was established in 2009 in Hong Kong. Da Cheng International is one of the first subsidiaries of a Chinese fund company to be established in Hong Kong. We value our business development. To that end, we take the lead in launching a series of public funds and provide diversified asset management services. The AUM of the Company is more than 8 billion HK Dollars.

With our philosophy of "Based in Hong Kong with a Global Vision ", we actively explore and develop cross-border and global investment business. Adhering to the principles of active management and the pursuit of absolute income, we aim to create sustainable and stable investment returns for clients.

Climate change has never stopped. Along with many other global challenges, it is particularly urgent to jointly tackle climate change issues. In 2022, we established a systematic governance structure for climate-related risks at the governance, management and executive levels. We have achieved top-down communication and implementation of monitoring and management of climate-related risk issues. It has been our goal to effectively manage climate-related risks, capitalize on the climate opportunities, and to provide sustainable investment returns for our clients from a long-term perspective.

About This Report

This report is the first climate-related risk management report released by Da Cheng International Asset Management Co., Ltd. (hereinafter referred to as [Da Cheng International] or [The Company] or [We]). This report aims to objectively and fairly reflect the performance of Da Cheng International in climate-related risk management.

This report adopts the "appropriateness" approach to disclose the management of climate related risks from a "pragmatic" perspective.

Report time range: The data used for calculating portfolio carbon footprint is based on the positions of portfolios as of the end of 2021. With the consideration of the comprehensiveness of the content, some activities done by August 2022 will also be included.

Basis for preparation: This report is prepared in accordance with the Fund Manager Code of Conduct and the requirements of Circular to Licensed Corporations-Management and Disclosure of Climate-related Risks by Fund Managers issued by the Hong Kong Securities and Futures Commission (SFC). The report is prepared with reference to the framework of the recommendations of Task Force on Climate-related Financial Disclosures (TCFD), and the relevant contents are disclosed from four aspects: Governance, Strategy, Risk management, Metrics and targets.

Description of report data: Data of the report have been from the internal systems of the Company and relevant public documents with quality review. Unless otherwise specified, the currency in the Report is HKD. The portfolio carbon footprint disclosed in the Report includes funds assessed as applicable to the SFC's funds under the Circular to Licensed Corporations-Management and Disclosure of Climate-related Risks by Fund Managers.

Release and update of the report: This Report is published in both Chinese and English. In case of any discrepancy, the Chinese version shall prevail. The report will be released on an annual basis from 2023.

Executive Summary

Since the establishment in 2009, as a responsible asset management institution, Da Cheng International has been committed to incorporating sustainability into our investment strategy, effectively managing risks through systematic risk management policies, transforming risks into investment opportunities, and maximizing value for our clients.

Climate change is becoming increasingly prominent, and the challenges it brings to the development of human society has been an international consensus. Currently, climate change has become one of the biggest systemic risks, which could have long-term impacts on both investors and financial practitioners. In recent years, with the increase of potential financial risks associated with global climate change, addressing climate change has become a central issue in global sustainable development.

As an asset manager, we deeply understand that we, an asset management institution, are both users and disclosers of climate-related information. Therefore, starting from ourselves, in 2022, we have actively identified risks and opportunities brought by climate change and managed climate risks comprehensively. We have built a systematic climate-related risk governance structure to form a top-down monitoring and management system for climate-related risks.

We have actively carried out the identification, assessment, management and monitoring process of climate-related risks, conducting quantitative analysis of climate-related risks for the funds as of December 31, 2021 from the perspective of relevance and materiality. We have calculated the carbon footprints of funds with compliance requirements. Moreover, we have optimized the Company's internal investment management and risk management process and taken climate-related risks into consideration based on the results of the risk assessment and the Company's overall investment philosophy, risk appetite, etc. This year, we also conducted the relevance and utility analysis of climate scenarios. We plan to conduct scenario analysis to assess the resilience of our investment strategies to climate-related risks under different pathways in the future so that we can improve the resilience of the Company under an ambitious scenario. We will optimize our investment strategy accordingly, take action tackling climate related risks and identify new investment opportunities.

In addition, this year, we have introduced the "Engagement Policy" combined with the original internal "Voting Policy". By comprehensively practicing active ownership and actively exercising our rights, we expect to promote the low-carbon transition of our investee companies and promote sustainable development through future engagement activities.

Based on the overall mission and strategy of Da Cheng International in response to climate change, we have carried out the management of climate-related risks from four aspects: Governance, Strategy, Risk management, and Metrics and targets by referring to the recommended framework of the Task Force on Climate-related Financial Disclosures (TCFD). In addition, we have disclosed our climate-related information in accordance with the TCFD recommendations. The disclosure of the progress and achievements of Da Cheng International on climate-related risks this year can not only facilitate the optimization of the Company's internal processes, but also demonstrate to our stakeholders the philosophy of responsible investment and sustainable development that we adhere to, and our determination and efforts to tackle climate change, promoting the low-carbon transformation of the society.

Governance

A sound and effective corporate governance structure is critical to implementing our overall investment philosophy, meeting client expectations and fulfilling our social responsibilities. This year, we have established a systematic governance structure for climate-related risk management at the Board, management and executive levels. We have formulated an internal document naming *The Climate Investment Management Structure and Risk Management Process of Da Cheng International Asset Management*, which specifies the top-down oversight and management structure of climate-related risks. We are determined and committed to actively addressing climate change and contributing to the low-carbon transition of our society and economy.

Board Level - Oversight and Decision-making

Board of Directors

The Board of Directors (the "Board") provides oversight of the climate-related risk exposures and opportunities based on the investment strategy and risk appetite of the Company . In 2022, in order to lay emphasis on climate issues, the Company convened a Board meeting on climate-related risk issues. The Board approved the corresponding governance structure of climate-related risk management and has delegated oversight of climate-related risk management to the Risk Control Committee.

- **Oversees** progress towards climate-related targets;
- **Monitors** company-wide management of climate-related issues and the implementation of climate-related strategies;
- **Oversees** the incorporation of climate-related consideration into investment and risk management processes of the Company, reviews the risk management framework covering climate-related risks, and ensures climate-related consideration is included;
- The Board delegates the management responsibilities to the Risk Control Committee, reviews the management of the Company's climate-related risks at least once a year, and is **aware** of the progress of implementation reported by the Risk Control Committee.

Management Level - Monitoring and Guidance

Risk Control Committee

As a standing deliberative part of the Company, the Risk Control Committee has relative organizational and operation independence. The Risk Control Committee is responsible for managing climate-related risks and incorporating climate-related risk matters into risk control procedures of the Company. The Risk Control Committee reports regularly to the Board on the management of climate-related risks.

- Manages climate-related risks at the company-wide level and regularly **reports** to the Board;
- The Risk Control Committee sorts out and forms a written report on major sustainability-related matters (such as climate, ESG, etc.) in due course, submits it to the Board for review, and adheres to the requirements of timely reporting major issues to the Board;
- **Determines** the climate-related risk management structure, and sets up the Climate Working Group under the Risk Control Committee to be responsible for the daily management and implementation of the company's climate related matters;
- **Establishes** a process for the management to be regularly informed about the progress of efforts;
- Ensure the Company has devoted sufficient human and technical **resources** to support and implement the duty to manage climate-related risks;
- Incorporates climate-related risk management into the Company's risk control policies, and establishes robust internal controls and **written procedures;**
- Sets climate-related targets (company level or portfolio level) based on the development of the company, develop corresponding action plans at the company-wide level, and guide and monitor the implementation of the action plan.

Executive Level - Execution and Landing

Climate Working Group

- **Coordinates** internal and external resources, guides and supports climate-related functional departments to comprehensively promote the implementation of climate-related policies and systems;
- **Coordinates** departments involved in the work of climate-related risks, organizes and carries out training according to the needs of each department, and ensures the input of sufficient human, technical and other key resources;
- **Cooperates** with the executive staff of each department to implement and promotes the strategies, targets and specific work of Da Cheng International;
- **Leads in preparing** the annual report on climate-related risk management information disclosure;
- **Reports** the progress of climate-related matters to the Risk Control Committee.

Relevant Functional Departments of the Climate Working Group - Collaboration

Investment Management Department, Research Department

- **Assist** in establishing an indicator system for climate-related risks, and integrate and analyze identified risks in research and investment decisions;
- **Identify and assess** climate-related risks of portfolios. Conduct portfolio performance evaluation and comprehensive quantitative assessment of climate-related risks, and provide early warning and countermeasures.

Legal Compliance Department

- Monitors the implementation of the Company's climate-related risk management policies, provides compliance evaluation suggestions, and **assists in the implementation** of other work related to climate-related risk management.

Strategy

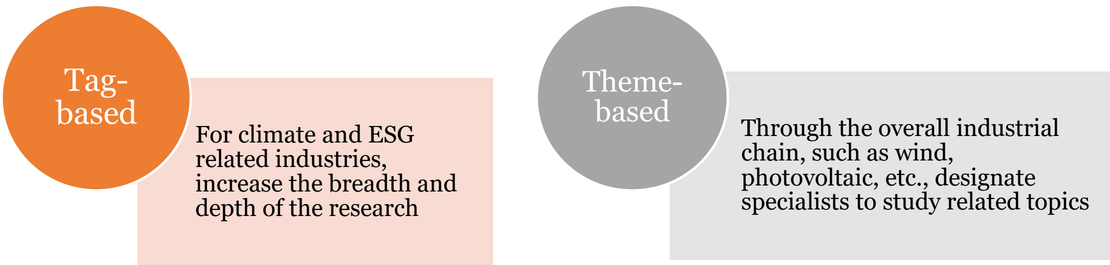
In order to effectively integrate significant climate-related risks into the investment management process, in terms of management, the Board is responsible for the oversight of climate-related risks and the Risk Control Committee bears the management responsibility, which ensures the efficient promotion of climate-related risk management.

In terms of execution, Da Cheng International has systematically reviewed internal policies, systems and processes. By incorporating the management of climate-related risks into the company's investment management and risk management systems, we have standardized and systematically supervised the process of climate-related risk management. The system emphasizes the attribution of authority and responsibility for climate-related risk management, explains the assessment of climate-related physical and transition risks, details the implementation of climate-related risk management, and clarifies the frequency of assessment of climate-related risks, etc.

Investment Research, Management and Decision-making

The Research Department of the Company supports the research on the impact of climate, ESG and sustainable development on individual securities and fund portfolios, and assists in the analysis of investee companies.

In our daily research on macroeconomics, investment strategies and comparative analysis of companies in different industries, we have taken climate-related risk exposure and risk analysis results into consideration. We adopt both "tag-based" and "theme-based" approaches to reflect the importance of climate and ESG-related risks and provide research support for other departments of the Company, facilitating the business development of the departments.



This year, departments involved in investment activities assessed the relevance and materiality of our portfolio's climate-related risks. Based on the results of this assessment, we have incorporated climate-related risk consideration and evaluation into our internal investment management system, to ensure fund managers consider climate-related risks in their investment management.

As we gain a deeper understanding of climate-related risks, we will continue to improve our management system of climate-related risks by assessing the impact of climate-related risks on our investment performance. Through regular assessments and methodological iterations, new relevant and material climate-related risks identified will be effectively and timely incorporated into the investment management process to support decision-making.

Climate Scenario Analysis

Scenario analysis is a method used to consider plausible future pathways of development and their outcomes. It allows the Company to look at different future scenarios and explore the possible courses of action given specific assumptions and constraints. According to *Implementing the TCFD Recommendations: A Guide for Asset Owners* published by UN PRI, the purpose of climate scenarios is to assess the potential earnings impairment of companies (as a result of transition policies, demand changes, physical impacts and other factors) and how this might be translated into investment returns in a portfolio. While uncertainty exists in terms of the rate of warming, pace of technology change, and future government policy, such uncertainty is not infinite.

As an asset manager, it is critical to understand how climate change and the energy transition are affecting the investment returns of our investee companies and markets, so that we can create more resilient portfolios and generate long-term returns for our clients. The relevance and utility of the climate scenario analysis could vary as the thresholds of relevance and materiality adopted in climate risks assessment may be adjusted with the improvement of data availability and analysis methodologies, as well as the optimization of investment strategies. Therefore, in this year's climate scenario analysis, funds analyzed to be relevant with climate-related risks are assessed for relevance and utility of climate scenarios, laying a solid foundation for future work.

	Transition Scenario	Physical Scenario
Relevance Analysis	• Assess the materiality of transition risks in different industries based on industry characteristics; • Develop relevance assessment criteria for transition scenario analysis based on the materiality of climate transition risks; • Set the threshold as a criterion to determine whether the transition scenario is relevant;	• Assess the materiality of physical risks in different industries based on industry characteristics; • Develop relevance assessment criteria for physical scenario analysis based on the materiality of climate physical risks; • Set the threshold as a criterion to determine whether the physical scenario is relevant;

<table>
<tr>
<td rowspan="2">Materiality Analysis</td>
<td>The scenarios presented by the International Energy Agency (IEA) are the most widely used and reviewed in the move to a low-carbon economy;
The data and scenarios published by IEA has covered emissions from the entire energy value chain, but excluded emissions from "non-energy" sectors, such as land use, land use change, forestry (LULUCF);
The scenarios proposed from the perspective of energy can provide better guidance for the financial asset management industry in terms of policy, technology and other transition risks. The scenario is relevant with high utility;
Scenario analysis based on carbon emissions with the combination of future emissions forecasts and the impact of carbon price/carbon tax under different scenarios provided by IEA, quantifies their impact on valuation, and evaluates the resilience of the portfolios under different transition scenarios.</td>
<td>The scenarios and modelling data of the Intergovernmental Panel on Climate Change (IPCC) measure the impact of climate change more from a natural science perspective and more from the global and regional scales;
The IPCC scenarios based on " Representative Concentration Pathways " (RCPs) are examples of physical climate change scenarios adopted in the IPCC fifth assessment report (AR5);
Da Cheng International holds assets all over the world. From the perspective of regional level, the frequency and severity caused by climate change vary at regional level for the underlying assets;
Based on the geographical locations and other information of the holdings assets, we can quantify the physical risk exposure through the prediction of temperature rise, extreme weather, natural disasters, etc. under different RCP scenarios.</td>
</tr>
<tr>
<td colspan="2">Conclusion: The IEA transition scenarios and the IPCC RCP physical scenarios are relevant and useful to Da Cheng International.</td>
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</table>

We assessed the relevance and utility of the climate scenario analysis for the applicable funds with the data as the end of 2021. We believe that climate scenario analysis, while relatively new, will become a useful tool to assess the resilience of an institution in the future.

While the industry has not yet developed a uniform standard or requirement for climate scenario analysis, we believe it is necessary to prepare in advance and accelerate the learning and application of this methodology. We will plan to conduct the relevant and useful scenario analysis within a reasonable timeframe in the future. We will also continue to refine our methodology for assessing the relevance and utility of our climate scenario analysis, and select scenarios that are most applicable to our business. We are going to consider timely disclosure of the assessed climate scenarios and our corresponding analysis results in future reports in response to the concerns of our stakeholders.

Risk Management

Climate change is not a standalone issue. It is an intersecting risk that can not only physically impact on the daily business operation and business continuity of the Company, but also interact with other factors and become a driver that can cause risks such as compliance risks. Therefore, consideration of climate-related risks should be integrated into investment decisions, investment processes and broader business and operational strategies rather than independent of other risk management processes.

In 2022, Da Cheng International has integrated climate-related risk factors into the Company's risk management processes and policies. Within the existing risk management system, we have further specified and executed the management responsibilities for climate-related risks.

Identification of Climate-related Risks and Opportunities

The severity of climate change and our social responsibilities as an asset manager has made us recognized that effective identification of climate-related risks and opportunities and incorporation of climate-related considerations into the overall and investment strategies of the Company is an important task to achieve long-term value growth and promote low-carbon transition of the society.

As an asset manager, it is our goal to identify and respond to potential risks and generate long-term financial returns for our clients. On the one hand, the unstable changes in energy prices and the intervention of relevant laws and regulations may increase the transition risk exposure of the portfolio; On the other hand, the global attention to climate change factors will spawn new industries and investment directions, and bring new investment opportunities for asset managers.

Based on the above assessment logic, we have identified climate-related risks and opportunities that may have potential impacts on our investment as followed:

Time Frame	Climate-related Risks	Climate-related Opportunities
Short-term (0-2 years)	◆ Changes to laws and regulations could directly impact the industry operation license, supply chain management and operation management of high-risk industries or regions, thus negatively affecting the business continuity of the investee companies; ◆ Increased frequency of extreme weather events such as floods and typhoons could adversely affect daily operations and business	◆ Changes to laws and regulations and energy prices are driving companies to improve energy efficiency and reduce carbon emissions from operations, benefiting the carbon foot-print reduction of our portfolios; ◆ Climate change and policy changes could positively affect the return on investment in certain industries;

	services;	
Medium-term (2-5 years)	◆ Technological progress and changes in client preferences could lead to the transition crisis and product upgrading, further affecting the investment returns; ◆ Increased frequency of extreme weather events such as floods and typhoons could adversely affect the daily operations and business services of companies, interrupt business continuity, and negatively impact the financial conditions of the investees;	◆ Facilitate energy structure and low-carbon transition of investee companies, reduce their sensitivity to climate-related risks, enhance climate change resilience and indirectly improve the overall portfolio climate resilience; ◆ Climate change could bring positive impact on the return on investment in certain industries;
Long-term (more than 5 years)	◆ A range of assets or industries could become obsolete due to regulatory changes and market transition, impacting the investment returns; ◆ Climate change can have long-term irreversible impacts on the infrastructure and physical assets, including those of which could affect asset valuations such as interruption costs, renovation costs and reconstruction costs.	◆ The increase in customer demand for climate-friendly/carbon-neutral products under future energy policies may require the product and marketing departments to deepen the research on climate-related policies, thus providing forward planning support for climate-related product development strategies and company business expansion; ◆ Leveraging the role of capital in driving a low-carbon transition and contributing to "Net Zero" targets.

Climate-related Risk Assessment

Climate-related risk assessment is relatively new for the industry we are in, and we never stop our effort for better methodology. With the accumulation of relevant data, we will gradually improve our assessment methodology considering the actual situation, investment strategy, risk appetite and other factors, in order to better manage climate-related risks.

This year, we conducted in-depth analysis of the underlying investee companies in the portfolios we manage. Based on multi-dimensional information such as the industry characteristics, the location of operations and revenues of the companies, we comprehensively evaluated the physical and transition risks of our investee companies. With sufficient reference international organizations recommended by SFC in assessing the materiality of climate-related risks, we have summarized the approaches given by the Sustainability Accounting

Standards Board (SASB), PRI, TCFD, etc., followed the qualitative and quantitative guidelines suggested by SFC, and formed an internal process method for assessing climate related risks suitable for our company.

We have quantified the physical and transition risk for our portfolios evaluated to be subject to the compliance as of 31st, December 2021. On this basis, the relevance and materiality of climate-related risks are assessed. Where relevance is identified with materiality, the climate-related risks will be incorporated into the investment management process. Risks will be periodically reassessed for those are relevant but not material to minimize portfolio risk exposures.

Relevance assessment of risks

The physical and transition risk exposures are evaluated in the sector level from a qualitative perspective. By incorporating with weightings distribution across different industries, the overall risks quantification would be aggregated from the underlying assets to the portfolio level. On this basis, a threshold has been set at portfolio level according to the risk appetite to decide whether the physical and transition risks are relevant.

We deeply understand the nature of climate-related risk impacts that they bring both spatial and temporal impact, so our current relevance threshold is relatively stringent. We will continue to accumulate climate-related data and adjust this threshold through analysis as appropriate.

Materiality assessment of risks

The physical and transition risk exposures are evaluated in the sector level from a qualitative perspective. By incorporating with weightings distribution across different industries, the overall risks quantification would be aggregated from the underlying assets to the portfolio level. On this basis, a threshold has been set at portfolio level according to the risk appetite to decide whether the physical risk is material.

Taking qualitative analysis as the starting point, we further made a quantitative assessment of the transition risks by incorporating carbon shadow price and the carbon emissions of each investee companies of the fund into our assessment. Based on possible impacts of carbon price on the operations of a company, we have established transition risk score indicators to identify and screen investee companies showing higher sensitivity to carbon price. We quantify the materiality of transition risks by calculating the proportion of the net asset value in the portfolio.

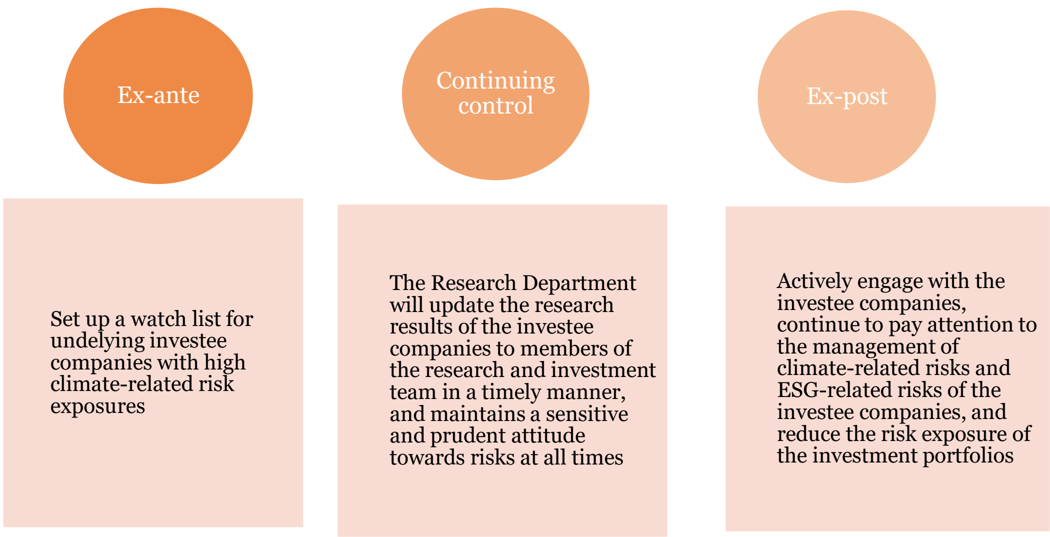
Carbon shadow price serves as an important indicator of transition risk in reflecting the development of future policy trend and technological progress of the low-carbon society. However, there is no current unified standard in the industry to quantify the sensitivity of companies' operations to the carbon price, so as to assess the resilience of companies to low-carbon transition policies. Therefore, we currently adopt a conservative strategy, using a relatively stringent threshold to screen out the underlying investee companies that may be relatively sensitive to carbon prices, and add up the proportion of their net asset value in the portfolio as another key indicator for the results of the transition risk materiality assessment.

We will analyze and keep record of our historical climate-related risk assessment results, combine them with our investment strategies and risk appetites and adhere to the principles of "pragmatic" and " appropriateness". In addition, we plan to gradually optimize our climate-related risk assessment methodology, adjust to the appropriate thresholds, and use the thresholds to effectively guide our management of climate-related risks and facilitate us to grasp opportunities.

Climate-related Risk Management and Monitoring

Risk control is the foundation and guarantee for the survival and development of the Company. The investment decision-making and operation should be based on strict and effective risk control. Avoidance of risks is based on prevention so as to avoid and reduce losses as much as possible.

To this end, we have established and maintained an effective policy and a dedicated risk management function to identify and measure the risks that the company might face, taking appropriate and timely actions to manage the climate-related risks. At the same time, we adhere to the responsible investment philosophy and advocate an investment strategy tilting towards sustainable, low-carbon, climate-friendly and other green assets. We intend to give priority to assets with lower climate-related risks among assets instead of those with higher risks given the similar financial performance assessments.



In practice, the Climate Working Group coordinates the risk management departments to identify and assesses climate-related risks for each fund or asset portfolio. We combine the characteristics and investment strategies of specific funds and asset portfolios, and embed quantitative climate-related risk identification and assessment data into the risk indicator system of each fund. For underlying investee companies with high climate-related risk exposure, we set up a Watch List for trading to improve the systematic process of climate-related risk management control.

Active Ownership

This year, the Company has developed an active ownership policy to promote investee companies' adherence to sustainability and the reduction of climate-related investment risks by advocating to participate in the decision-making process of the investee companies. " *We will be active owners and incorporate ESG issues into our ownership policies and practices* " is one of the Principles of UN PRI, and an important strategy for Da Cheng International to implement responsible investment. We believe that practicing active ownership is the proper responsibility of a fund manager. Active ownership is a practice that aims to protect and enhance the returns of investors by promoting the long-term sustainability of the investee companies.

On the basis of existing Voting Policy, we supplemented the "Engagement Policy" and became an "active owner" to exercise our rights in 2022. As an asset manager, we play our role in driving sustainability. We expect to promote sustainable development (including ESG, climate related risks, etc.) business practices and high-quality disclosure of information through engagement and voting activities. Our mission is to contribute to the positive impact on the investee companies or market environment through engagement with investee companies or policy makers.

The objectives of Da Cheng International to practice active ownership, can be summarized as followed:

1. Promote Da Cheng International to conduct responsible investment activities and achieve sustainable development goals
2. Create environmental and social benefits and maximize the overall interests of clients while obtaining better portfolio returns
3. Embrace the concept of sustainable development and improve the awareness of the investee companies' management on climate, ESG, sustainability and other related issues by practicing active ownership
4. Encourage the management of investee companies to formulate sustainability-related goals and policies, and promote the investee companies to carry out concrete actions of improving sustainability performance

The Company will not seek to participate in specific operations and management of the investee companies from the macro and micro levels, but will interact with the investee companies on important ESG issues, climate-related risk and opportunity management, overall business strategy, capital allocation, etc., to encourage them to improve their ESG performance, climate -related practices and information disclosure. While promoting investee companies to take active measure to address ESG and climate-related risk, we may reduce our investment risks and play an active role in creating sustainable investment returns.

Climate-related issues have been written into our policy as one of the issues that we will focus on the engagement with our investee companies. We hope that with the efforts of Da Cheng International, we can facilitate our investee companies to pay attention to climate change, so that they can improve their operational resilience while reducing our investment risks, creating sustainable financial returns.

In order to further implement the "Engagement Policy”, we require in the policy that our researchers, fund managers and investment managers organize research and investment teams to discuss and determine the key issues of engagement with the investee companies according to the sustainable development goals of our responsible investment, with reference to relevant international guidelines or targets, and taking into account specific industries and investee companies.

Fund managers, investment managers or researchers should promptly communicate and engage with the investee company when the research and investment team believes that the investee company’s poor disclosure or management of ESG and climate-related matters may put the investment at risk or adversely affect the sustainable development outcomes.

In the future, the Company's Research Department will conduct supervision and analysis of the investee companies from time to time and track the sustainability performance of the investee companies after the engagement, keeping records of the engagement process and subsequent improvements. With the above activities, this observation of investee companies can be translated into valid information and incorporated into the investment decision and risk management process.

Metrics and Targets

Setting and achieving low-carbon targets starts with understanding, measuring and disclosing our current carbon emissions. Based on internationally recognized measurement methodologies, the Company quantifies the carbon footprints of our portfolios through evaluation and use of data from multiple sources. With the quantitative results, we set reasonable and achievable climate-related targets regarding Da Cheng's situation.

Disclosure of Carbon-related Metrics

Scopes of Carbon Emissions	**Scope 1 and scope 2**
Asset Classes	• Listed equities • Corporate bonds
Data Sources	• Reported data by investee companies • Modelled estimation
Standard Referenced	Global GHG Accounting & Reporting Standard of the Partnership for Carbon Accounting Financials （PCAF standard）

According to our assessment this year, climate-related risks could be relevant and material to one fund of Da Cheng International. Physical risk has been assessed as material for this fund. The results of the fund's carbon footprint are as follows:

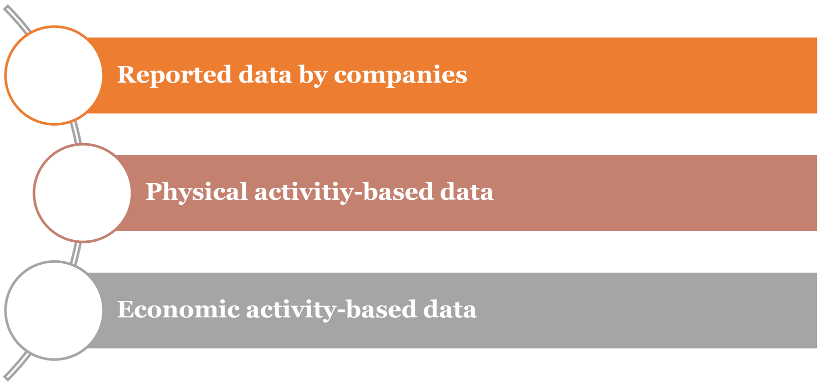
Fund Name	**Fund Code**	**Carbon Footprint (tCO2e/million HKD)**	**Coverage (Take the fund's NAV ratio as a reference)**
Da Cheng Overseas China Concept Fund	DCOCCF	11.67	97.78%

<u>Calculation methodology</u>

During our practice, we paid great attention to combining international methodologies with local authoritative practical experience. To this end, we procured high-quality carbon emission data from professional third-party data provider. We measured the carbon footprint of funds that evaluated to have climate-related risk relevance as of 31st December 2021. The calculation methodology is based on the Global GHG Accounting & Reporting Standard of the Partnership for Carbon Accounting Financials (PCAF Standard). It standardizes carbon emissions by the market value of the portfolio and presents them in terms of carbon dioxide equivalent per million HK dollars invested. The calculation formula is as follows:

$$\sum_{N}^{i} \left(\frac{\dfrac{\text{Current value of investment}_i}{\text{Investee company's enterprise value}_i} \times \begin{array}{c}\text{Investee company's Scope 1} \\ \text{and Scope 2 GHG emissions}_i^{@}\end{array}}{\text{Current portfolio value (\$ million)}} \right)$$

Based on the three options of emissions data sources recognized by PCAF, we collected and calculated the carbon emissions of our holdings, thus obtaining the carbon footprint of our portfolio.



For companies with self-reported data, we collected the emissions after quality review; For sectors such as power, heat, steel, and cement, we calculated the emissions using companies' physical activity-based data according to the characteristics of the sectors; For other investee companies with limited public information, the carbon emissions were estimated based on economic activity-based data.

<u>Assumptions and limitations</u>

Given the evolving methodology and the data quality with room for improvement, there are limitations on the accuracy of the calculation results.

Accurate calculation of carbon emissions at the portfolio level depends on high quality basic information about underlying investee companies. Many companies are publicly reporting their operation emissions, which benefits us in directly obtaining data for our calculations. However, on the one hand, the quality of self-reported data varies with limited third-party assurance. On the other hand, many companies have not yet conducted internal carbon accounting, which makes it necessary for us to rely on other data to estimate their carbon emissions in order to understand the carbon footprint of the fund.

Currently, with the help of the third-party professional data service provider, by combining the reviewed self-reported data and the estimated data, we have quantified the carbon footprints of our portfolios and disclosed the data to the public from the perspective of public transparency. However, there is still room for improvement in the accuracy of the estimated data and the credibility of the self-reported data. Further, since the quality of estimated carbon emissions can hardly go beyond the self-reported data of companies, the estimation may not truly reflect the carbon emissions of any of the underlying companies in our portfolios.

<u>Next Steps</u>

We have taken the first step in improving transparency of our portfolio carbon emissions data. We believe there is still a long way to go in the future, in terms of improving both the quality of data disclosure and the transparency of information such as data coverage. Currently, the industry has not yet formed a complete and unified measurement methodology, and the overall data quality in the market still has room for improvement. We will actively engage with our investee companies to improve the transparency and disclosure quality of carbon-related data in the industry, while improving the accuracy of our own measurement.

Special and exceptional circumstances

Monetary Fund relevance and materiality assessment

Fund name	Fund Code	Fund type
Da Cheng Money Market Fund	DCMMF	Monetary fund
Da Chang Hong Kong Dollar Money Market Fund	DCHKDMMF	Monetary fund

The Company currently manages and holds two types of money market funds as shown above in the table. We determine the relevance of climate-related risks to money market funds primarily by assessing the impact of climate-related risks on monetary policies. The practical analysis of the impact of climate change on monetary policy in "*Climate-Related Financial Risks - An Analysis Based on Central Bank Functions*" by the Research Bureau of the People's Bank of China shows that the economic and financial impact periods of climate change are either too short or too long to influence monetary policy decisions.

We learned that monetary policy is not the appropriate choice to promote economic structural reform, such as low-carbon transition. Second, monetary policy uses countercyclical instruments designed to stimulate or smooth out economic activities over a future period. However, the climate change issue has a longer time horizon so there is a natural mismatch between monetary policies and climate-related risks. Third, the number of monetary policy instruments is relatively small, and monetary policy targets such as safeguarding inflation may be harder to achieve if central banks use the limited tools to address climate change. Climate change is a global issue and requires a global solution. As the monetary policy reflects sovereignty, the inconsistency of monetary policy objectives across countries may make it more difficult to systematically address global issues.

From a practical perspective, even though the major central banks begin to pay attention to the physical risks and transition risks of climate change and their impact on monetary policies, the practice of central banks promoting low-carbon transition through monetary policies is limited.

Therefore, we believe that climate-related risks are irrelevant to the money market funds for now. In the future, we will regularly do the research in the relevance of the monetary policy and climate change, track corresponding policy practice, and regularly conduct an overall reassessment of the relevance on an annual basis.

Evaluation of the relevance and materiality of fund of funds (FOFs)

Fund name	Fund abbreviation	Fund type
Da Cheng Synergy	DCSGSP	FOF

For FoFs investments, since the underlying assets of the sub-funds we invest in consist mainly of stocks or bonds issued by companies, the impact of climate-related risks on the FoFs portfolio is indirectly caused by the loss of financial value due to climate-related physical risks and transition risks. Therefore, climate-related risks may be relevant with this type of portfolios.

To that end, we designed a questionnaire and scoring rules for the FOFs. We communicate with the sub-fund managers in the form of questionnaire evaluation, which asks the sub-fund managers to respond to a series of questions to assess their inputs and practices on climate-related risks. These questions included asking whether the manager has a governance structure, management system, work process, and working methods to manage climate-related risks, as well as whether the sub-fund's investment strategy and processes are linked to climate-related risks. In the questionnaire, we required the sub-fund managers to provide relevant explanations to ensure their relevant processes and documents are in line with Da Cheng International's approach to climate-related risk management. This questionnaire evaluation is conducted on a regular basis, in line with the time frame of the climate-related risk identification and assessment for other asset classes of the Company.

This year, assessment results of the responses from sub-fund managers showed that the climate-related risks are relevant but not material to FOFs. Considering the difficulties of inquiring about specific information of the underlying asset portfolio from the sub-fund managers and the limited information collected, we consider not disclosing the carbon footprint of the FOFs category for this year. In the future, we will continue to communicate with the sub-fund managers and consider disclosing carbon measurement data under the condition of higher transparency and more accurate information.

Evaluation of the relevance and materiality of Sovereign Bonds

Some of the funds of Da Cheng International contain sovereign bonds (including Chinese government bonds, Hong Kong government bonds and U.S. government bonds). The risks inherent in these bonds are mainly political, social, tax, economic, foreign exchange, liquidity and regulatory risks related to the country and region. The impact of climate-related risks may arise from factors such as the introduction of low-carbon transition policies, fiscal spending on a low-carbon economy, and changes in energy prices that can lead to interest rate fluctuation, credit downgrade risk, sovereign debt risk, etc.

If climate-related risks have a significant impact on political, social and economic factors in certain region, they will directly affect the value of all underlying assets. However, at a macro level, we believe that the current climate change-related risks are mainly local and temporary. These risks have not materially impacted the countries and regions involved in current funds. The international community is taking a proactive, step-by-step approach to tackle with climate change. For this year, we see no indications that climate-related physical and transition risks will have a material impact on the regions involved. On the other hand, there are currently no objective theories or standards in the market to support the fund managers in quantifying the relevant climate risk transmission pathways and the scale of impacts. As a result, there is lack of scientific basis for fund managers to assess the challenges posed by climate-related risks through quantitative approaches such as measuring carbon emissions.

Based on above situation, we believe that the climate-related risks are relevant to the sovereign bonds involved in our funds, yet they are not material. Considering the lack of a unified and scientific methodology to measure the carbon footprint of such investments, the carbon footprint measurement of portfolios did not include sovereign bonds

Our process for identifying and assessing climate-related risks of the fund is generally implemented in accordance with the Company's climate risk management policy. In the future, we will review or reassess the materiality of climate-related risks when there are introduction of key policies or transition in a fund's investment strategy. We will also continue to track industry updates on such carbon footprint measurements and incorporate them into our overall portfolio carbon footprint measurements as appropriate, so as to achieve a more comprehensive and accurate calculation of the portfolio carbon footprint.

For funds that are assessed above to be irrelevant or not material in terms of climate-related risks this year, we will regularly reassess and adjust our conclusions. We will also monitor the latest external developments and progress of climate-related risks in real time, pay close attention to the relevant funds or underlying investee companies, update and adjust their measurement results in a timely manner.

Future goals

As the public has gradually accepted the fact that the average global temperature will continue to rise due to climate change, the world is realizing the importance of mitigating and responding to climate change. The low-carbon transitions of various industries are necessary and urgent. Setting future goals can effectively guide and motivate us to play our role in contributing to the global low-carbon transition. Meanwhile, the process of moving towards our goals can also help reduce our own climate-related risk exposure and increase our resilience to climate-related risks.

This is the first year that Da Cheng International discloses climate-related information. As scientific and reasonable carbon reduction targets require the accumulation and analysis of more relevant information, we will focus on the following goals from the perspective of climate-related management:

（I） Effectively promote climate-related risk management: promote the oversight, management and implementation of climate-related risk management at the Board, management and executive level, and constantly optimize our governance structure and corresponding responsibilities;

(II) Increase engagement with the investee companies: The Company will actively implement the "Engagement Policy" and "Voting Policy" in the upcoming years, practice active ownership, and encourage the investee companies to adopt appropriate measures to keep records of their practices for future disclosure as a responsible investor. The disclosure, while benefiting ourselves in improving the accuracy of our carbon footprint measurement, will also promote the quality of climate-related information disclosure of the society;

(III) Optimize investment portfolios to enhance climate resilience: Through continuous accumulation of climate data, relevant departments can collaborate to conduct research and combine quantifiable climate-related risk indicators with our current investment strategies. With these measures, we will benefit in optimizing our investment portfolios, reducing our climate-related risk exposure, increasing the proportion of green investments and seizing climate-friendly opportunities.