
CEPHEI CAPITAL MANAGEMENT (HONG KONG) LIMITED
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) POLICY

1. ESG Strategy

Cephei Capital Management (Hong Kong) Limited (“Cephei Capital”) takes serious consideration of ESG factors during the investment management process. Governance has always been one of our top priorities when analyzing and selecting stocks because it is critically important for the long-term interests of a minority shareholder like us. Environmental and Social factors, especially climate-related issues, have become increasingly important to our portfolio construction not only because of the moral merits of these factors but also because of the real long-term impact they have on shareholders’ value amidst the profound transition of the Chinese economy from an extensive and costly growth model to a more refined quality-oriented model.

We avoid companies with highly polluting business models, poor corporate governance, or negative social impacts.

We make fundamentally driven long-term investments. We believe ESG is part of a company’s fundamentals, so it is not just a moral pursuit but also a commercial consideration. We therefore do incorporate environmental, social and corporate governance issues into consideration when making investment decisions. Where relevant conflicts of interest exist, we systematically address them through a formal process and ensure that the prioritization of responsible investments is in line with the objectives. Cephei Capital will handle the issues of conflicts of interest in accordance with the Investment Agreement (e.g. when clients have different opinions on the same responsible investment matter).

Firstly, we do not invest in the companies that are excluded from the client’s investment universe or companies in sectors that are unfavorable to our clients. We pay close attention to and ensure full compliance with a client’s specific requirements or restrictions on sectors/stocks.

Secondly, analysts always look for core competencies when conducting research on a company. If we find that those merits are achieved at the cost of environmental or other forms of damage, we will avoid those companies in the research process.

Thirdly, corporate governance is a very critical factor to consider when making investment decisions. Listed companies will focus on increasing shareholder return only if there is a proper alignment of interests between the company’s largest shareholders, the management team, and the small and medium-sized investors. We avoid companies with poor corporate governance in our research.

Lastly, we believe that taking climate risk into account when making investment decisions will improve portfolio management and lead to long-term business opportunities and

environmental advantages. Cephei Capital is committed to incorporating climate risk considerations into its investment strategy, analysis, and to monitoring the carbon footprint of the investment portfolio/fund. We strive to promote climate change that benefits our clients, society, and the environment for a more sustainable future.

Cephei Capital has been a signatory of the UNPRI since December 2021. Cephei Capital is committed to cooperating with regulatory, government, and other non-profit organizations to continuously enhance the influence of ESG investment in the China market and provides suggestions or opinions on the proposed regulatory rules. Our policy engagement is governed by the ESG Committee, which ensures all public advocacy and standard-setting activities are reviewed for alignment with our PRI commitments and sustainability strategy.

2. Governance

The Board oversees Cephei Capital's ESG management, including climate-related risks and opportunities, responsible investment and other ESG matters. Where appropriate, the Board and its Management Team and Committees receive updates on Cephei Capital's progress on ESG issues and incorporate such issues in guiding Cephei Capital's overall strategy.

Cephei Capital has set up an ESG Committee in 2018 to better formalize and institutionalize our ESG effort. The Committee consists of senior representatives from the investment team, research team, risk management team, and IR team. The ESG Committee is responsible for developing the overall strategy and approach for ESG, including climate-related investment strategy, and regularly reports to the Management Team and the Board.

The ESG Committee meets at least annually and is mainly responsible for:

- Identifying, assessing, monitoring and managing ESG issues in relation to the investment portfolio/fund;
- Supporting the development of ESG policy, ESG exclusion lists, guidelines for active stewardship, investment strategies and risk management procedures to ensure the company addresses ESG risks such as climate-related risks, and builds internal capacity for identifying and managing these risks;
- Setting goals for sustainable development outcomes to address ESG issues and manage corresponding risks.
- Monitoring the ESG exclusion list implementation process for all portfolio/fund.

The working team is comprised of the staff from each relevant team, who are tasked with implementing the relevant internal guidelines. For any ESG risk issue identified, the investment team and risk management team will conduct an in-depth risk analysis and report it to the ESG committee to better respond to and mitigate the ESG risks in a timely manner.

3. Investment Management and Risk Management

Cephei Capital is committed to adopting the principle of responsible investment to our existing investment strategy, by incorporate environmental, social and governance (“ESG”) factors, including climate-related risks factor into the investment and risk management process.

Practical implementation of the policy is the responsibility of the portfolio manager and analyst, who monitor ESG issues, if any, when evaluating the companies in the stock pool. The risk management and compliance function monitor the ESG exclusion list and investment restrictions, if any, for all portfolios/funds. The portfolio manager and analyst work closely with the risk management and compliance functions to ensure that ESG activities are made part of company reporting, compliance, and risk management activities, where possible.

Cephei Capital has set up an ESG Exclusion List, which includes companies associated with tobacco, gambling, pornography that are inconsistent with the sustainable investment concept. We do not invest in the companies which have been included in the Cephei ESG Exclusion List. We regularly update the exclusion list in the order management system to ensure effective implementation.

We implement investment and risk management to assess the company and portfolio/fund’s exposure to ESG issues and incorporate material ESG risks and severe ESG incidents into our risk management process to assess their impact on our holdings exposed to similar risks and incidents, and our stewardship activities, from various sources as follows:

- 1) We read the company’s public disclosures closely, and we conduct thorough research on the target company by interviewing the industry experts as well as the company’s stakeholders, suppliers, customers, and competitors, under sufficient compliance supervision;
- 2) Financial data service providers, such as WIND, have functions to capture all related news reporting and press coverage on listed companies;
- 3) MSCI’s ESG rating system is used by analysts in constructing the firm’s stock pool rating system. For companies in clients’ portfolios rated CCC by MSCI ESG, the analysts are required to conduct in-depth risk analysis and report it to ESG Committee for review;
- 4) We integrate the Governance factor into our stock rating system. Drawing on the quantitative method created by Morgan Stanley, Cephei Capital has built an internal "ten-factor" scoring system for stock pool corporate governance based on: (1) changes in receivables/revenue, (2) changes in net operating cash flow/ changes in net profits, (3) internal and external audit opinions, (4) pledge ratio, (5) proportion of free-floating shares, (6) independence of the board of directors, (7) proportion of the three highest earners in the board of directors to the market value, (8) share incentive plan, (9) company violation records, and (10) company legal litigation history;
- 5) We incorporate climate-related risk in the investment and risk management as follows:

(1) We evaluate whether climate-related risks may affect the fund by considering its investment strategy, categories of investment, investment period and other features through a relevant framework. After preliminary relevance checks, climate-related risks are considered to have an impact on all our ROOF¹ funds. Besides that, we re-evaluate the relevance assessment periodically and when there are any major changes.

(2) We identify the climate-related risks materiality by a proprietary Climate Risk Materiality Assessment Framework according to international guidelines such as SASB Standard, to identify the exposure level and material issues of climate-related risks for the underlying investment targets of funds or investment strategies.

(3) We employ third-party data tools (Climate-related Risk Scenario Analysis) to evaluate climate-related risks on portfolio/fund with reference to their investment strategy, sectors, and key geographical locations of the underlying, and to analyze each portfolio/fund's climate-related risks to assess their potential impacts. If any issues or significant change of the factors is identified by evaluating the climate-related risks for the portfolio/fund, portfolio managers are required to conduct in-depth risk analysis.

(4) We calculate and evaluate the carbon intensity of the stock pool companies on an annual basis; for any significant change of the top holdings, the analysts are required to conduct in-depth risk analysis and report it to ESG committee for review. Besides, we also assess and monitor investment portfolio/fund's carbon footprints to evaluate the exposure of the underlying portfolio/fund to climate-related risks.

4. Stewardship

We will not seek to interfere with the specific operation and management of the listed companies at the micro level, but will engage with them on systemic sustainability issues, including ESG risk and opportunity management and overall business strategy. Our primary stewardship objectives are to encourage the investee companies to improve their ESG practices and to maximize the overall benefits to our clients.

The issues we focus on are mainly climate-related risk management, environmental management, human capital, supply chain management, corporate governance, business ethics as well as ESG information disclosure.

Our stewardship mainly includes the practices of engagement and voting:

- Engagement: We participate in on-site shareholders' meetings, meetings with relevant personnel (e.g., board members, senior managers, and/or investor relations leaders), correspondence (e.g., phone or email), site visits and research as well as other engagement methods permitted by law.

¹ Responsible for overall operation of the fund

- Voting: We conduct on-site and online proxy voting. For on-site voting, authorized analysts and portfolio managers attend the meetings and vote. For on-line voting, we will vote directly through the system, after the voting opinions have been approved by our internal process. We incorporate ESG in our proxy voting procedure as follows:
 - 1) We implement voting resolutions based on ESG investment principles for all companies, to the extent permitted, formally expressing approval or disapproval to the matters of general meeting of shareholders, especially on ESG issues.
 - 2) We continuously update our voting principles on specific environmental, social and governance factors, including the reduction of environmental pollution, the reduction of disparities between rich and poor, the promotion of gender balance in business and the sustainable transformation of industry, etc.
 - 3) We vote in favor of resolutions not only as an escalation measure, but expected to advance progress on our stewardship priorities, including affirming a company's good practice or prior commitment.
- Shareholder Proposals: We will vote in favor of proposals submitted by other shareholders that are beneficial to the long-term interests of the company and all shareholders.

We will consider escalation if the listed company has violated the law or engaged in other conduct that is seriously detrimental to minority shareholders. Possible methods of escalation include direct contact with C-Level executives or a letter to the company's board of directors; a public statement; voting against the responsible director or a related proposal at a shareholders' meeting; a reduction in holdings; and other methods of permitted by law.

5. Reporting & Communications

Cephei regularly reports on ESG activities of portfolio companies to investors, including:

- 1) Company Business Status (i.e., construction, operation, expansion, shutdown);
- 2) ESG risks or significant incidents (if any) identified (Appendix 1);
- 3) How it affects the company's value;
- 4) Portfolio/fund ESG ratings and carbon footprints², etc.;
- 5) Any changes in policies and procedures, governance or oversight related to responsible

² We calculate and report Scope 1 and Scope 2 GHG emissions according to The Global GHG Accounting & Reporting Standard for the Financial Industry published by Partnership for Carbon Accounting Financials (PCAF). The following formula illustrates the calculation methodology. We use company's carbon emission data provided by QuantData.

$$\sum_n^c \frac{\text{Present value of investment}_c}{\text{Investee company's enterprise value}_c} \times \text{Investee company's Scope 1 and Scope 2 GHG emissions}_c$$

Present portfolio value(million)

investment;

- 6) Membership in and support for any form of political engagement, our policy positions, details of our engagements with policy makers, etc.;
- 7) Proxy voting Statement;
- 8) Recommendations.

Through these communications, Cephei Capital aims to explain its commitment to careful analysis of ESG topics and thoughtful decision-making on investments.

6. Goals

Cephei Capital’s focus is to enable the transition to a low-carbon economy and to promote sustainable development incorporated by the UN sustainable development goals (“SDGs”).

Figure: Sustainable Development Goals (SDGs)



- 1) Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership;

Linkage with SDGs: 3, 7, 9, 12, 13

- 2) Seek to be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate;

Linkage with SDGs: 16, 17

- 3) Increase the exposure in the companies in which we invest for long-term sustainability and to benefit multiple stakeholders, including on environmental, social and governance issues. Invest in companies that have appropriate governance structures (e.g. Board of Directors), that have good respect for environmental, public health, safety, and social issues, with the goal of improving performance and minimizing adverse impacts in these areas;

Linkage with SDGs: 6, 7, 9, 10, 12, 13, 16, 17

- 4) Invest in companies with governance structures that provide appropriate levels of oversight in the areas of audit, risk management, potential conflicts of interest as well as implement compensation and other policies that align the interests of owners and management;

Linkage with SDGs: 16, 17

- 5) Remain committed to compliance with applicable national, and local labor laws in the countries in which they invest; support the payment of competitive wages and benefits to employees; provide a safe and healthy workplace in conformance with national and local law;

Linkage with SDGs: 1, 2, 3, 5, 6, 8, 10, 12

- 6) Respect the human rights of those affected by the investment activities and seek to confirm that the investments do not flow to companies that utilize child or forced labor or maintain discriminatory policies;

Linkage with SDGs: 1, 2, 3, 5, 6, 8, 10

- 7) Provide timely information to investors on the matters addressed herein, and work to foster transparency on the activities;

Linkage with SDGs: 16, 17

- 8) Encourage the portfolio companies to advance these same principles in a way which is consistent with their fiduciary duties.

Linkage with SDGs: 16, 17

7. Regulatory Compliance

Climate-related risks are considered by the Hong Kong Securities and Futures Commission ("SFC") to be a source of financial risk, which may cause 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 ("FMCC") on the Management and Disclosure of Climate-related Risks as released in August 2021 require fund managers to take climate-related risks into consideration in their investment and risk management processes to make appropriate disclosures to investors in the fund.

Cephei Capital has completed relevancy analysis and materiality assessment of all currently managed funds under its SFC Type 9 License. Under this framework, Cephei Capital is being classified as a Large Fund Manager. To better address the risks associated with climate change, Cephei Capital adopts an approach to incorporate climate factors into our governance, investment management, and risk management by identifying, assessing, managing and monitoring climate-related risks through a range of tools, as described above.

Appendix 1

Company Name: Code: Sector:	Key Risk	Factor	MSCI Risk Alert	Cephei Capital's Comments