

Forward-looking Value Creation through Active Engagements

As the responsible manager for precious assets on behalf of our investors, Cephei Capital takes a proactive approach in creating an effective stewardship of the capital we oversee. In this fiduciary role, the Cephei team deeply understands that ESG issues can be crucial to the performance of portfolios. Cephei has systematically incorporated ESG factors into the investment analysis and decision-making processes. In addition to incorporating quantitative ESG factors into our investment process to detect risks, the bigger part of our ESG efforts focus on active engagement not only on a company-specific basis but also on a thematic level.



At the thematic level, we proactively engage in high-level topic discussions of broad ESG issues, such as engaging in policy discussions, providing feedback, and participating in industry activities as one of the forward-looking steps we take towards ensuring the best long-term interests of our beneficiaries.

On October 25, 2023, the Cephei team attended the PRI Progression Pathways Workshop in Hong Kong and actively provided feedback on two concepts of a new initiative set out by the PRI, which is a new framework of “pathways” that distinguish between signatories with various levels of engagement.

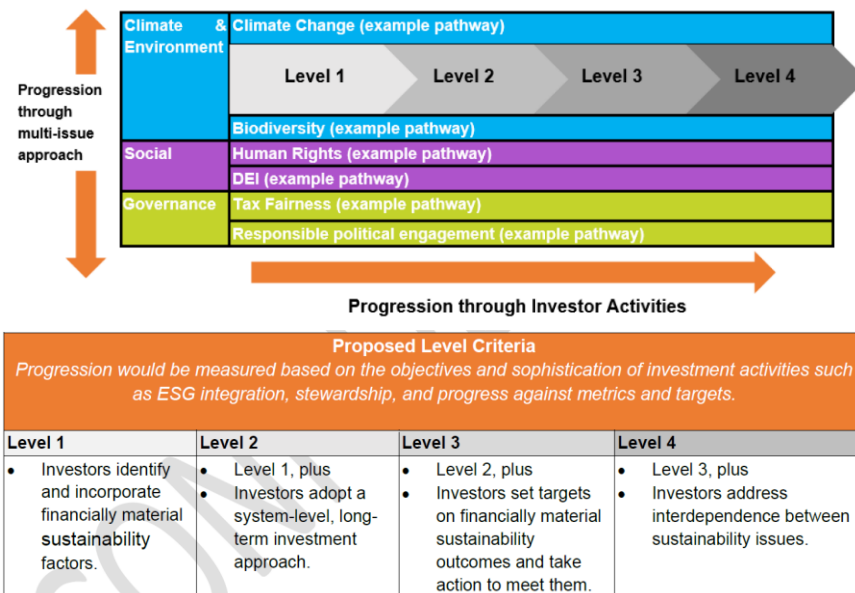
Below are two proposed concepts for the framework:

Concept 1: categorization by investor purpose (level of engagement)

| | Pathway A Incorporating ESG factors | Pathway B Addressing the drivers of sustainability-related financial risks | Pathway C Pursuing positive outcomes |
|-------------------------------|--|--|--|
| Progression ↑ | Level 3 | Level 3 | Level 3 |
| | Level 2 | Level 2 | Level 2 |
| | Level 1 | Level 1 | Level 1 |
| Investor purpose | Purpose: Achieve competitive risk-adjusted financial returns. Instrument: <ul style="list-style-type: none"> Incorporate financially material ESG factors Identifying positive and negative sustainability outcomes | Purpose: Achieve competitive risk-adjusted financial returns. Instrument: <ul style="list-style-type: none"> Incorporate financially material ESG factors Pursue positive sustainability outcomes as a means to address the drivers of financially material sustainability issues | Purpose: <ul style="list-style-type: none"> Pursue positive sustainability outcomes, and Achieve risk-adjusted financial returns (competitive or below market). |
| Sustainability outcomes goals | No sustainability outcomes goals expected | Instrumental sustainability outcomes goals | Sustainability outcomes goals which are not wholly instrumental |
| Level expectations | <ul style="list-style-type: none"> Each level will include clear expectations on how investor activities (capital allocation, stewardship, etc) should reflect the investor purpose relevant to the pathway – with sophistication increasing from Level 1 to Level 3 Issue-specific expectations (e.g., on climate, biodiversity, human rights) will be included for specific pathways/ levels. | | |

SOURCE: UNPRI

Concept 2: categorization by sustainability issues (aspect of focus)



SOURCE: UNPRI

This categorization would be optional for signatories, mainly to avoid the term “responsible investing” or “ESG incorporation” being used too broadly by different organizations that practice ESG in very different depth. While the Cephei team believed it was a great initiative to deepen the categorization of signatories, the team also expressed concerns, as did many other participants, that this scheme would add complexity to the already-sophisticated PRI framework and eventually become a mandatory categorization.

We aim to help various parties and stakeholders in their efforts towards building a more refined ESG environment in the long-term through active participation in conferences and workshops held by the PRI, other non-profit organizations and regulators and provide our suggestions or feedback with the goal to enhance the influence of ESG investment in the China market.