

Samsung Asset Management (Hong Kong) Limited

Climate-related Risk Management Policy

November 2022



**SAMSUNG
ASSET MANAGEMENT**

Table of Contents

1. INTRODUCTION	2
2. GOVERNANCE	3
3. INVESTMENT MANAGEMENT	5
4. RISK MANAGEMENT	7
5. DISCLOSURE	8

1. Introduction

Samsung Asset Management (Hong Kong) Limited (“**SAMHK**”) is in the view that considering ESG factors during investment decision-making is no longer a choice but an essential requirement. SAMHK reflects ESG factors in processes, including product development, research, operations, and risk management, identifying opportunities and controlling risk to realize sustainable excess returns for the customers.

Climate issues have been one of the greatest concerns that global leaders have been tackling in recent years. Changes in weather conditions have become an imminent challenge to the natural environment, societies, people and inevitably the economy around the world. The Paris Agreement and the subsequent United Nations Climate Change Conferences have demonstrated the commitment of global leaders to rectify the issues created by severe climate changes. Specifically, the emission of Greenhouse Gas (“**GHG**”) has seriously contributed to the global warming issue which in turn created a lot of climate change issues. SAMHK considers that the financial sector has a more important role to play to contribute to a better environment. This can be achieved by ensuring the flow of capital is consistent with the objective of lowering GHG and carbon emissions so that global warming and climate change issues can be alleviated. The promotion of the theme of ESG and green finance in recent years can be seen as the financial sector’s initiative to contribute to a green and low-carbon economy.

SAMHK acknowledges the influence of climate issues on investors and the investment portfolios under our management. We are committed to contribute to a green and low-carbon economy by considering climate risk factors in our investment decision making process. The Hong Kong Securities and Futures Commission (“**SFC**”) has established respective requirements for licensed corporations and licensed persons to follow in the management of climate-related risks.

The Climate-related Risk Management Policy (“**CRMP**”) establishes the climate-related risk management framework of SAMHK, including the governance structure, investment management approach, risk management measures and the corresponding required disclosures to be made available to our clients and investors. The CRMP applies across all the teams of SAMHK requiring every staff member to follow and execute the climate-related risk management framework accordingly. The policy is applicable to all public funds, private funds and sub-managed investment portfolios which are under the management of SAMHK in Hong Kong.

2. Governance

SAMHK believes that a robust governance structure is of the utmost importance to ensure the effective operation of the climate-related risk management framework. The governance structure establishes the oversight of senior management on the operation of the framework and ensures the effective execution of the approaches and measures prescribed in the framework. This represents a demonstration of the senior management's fulfilment of their fiduciary duties under the management of climate-related risks.

SAMHK's governance structure is constituted of the Board of Directors ("**Board**") and the ESG Committee ("**ESG Committee**") carrying out the role of senior management oversight on the overall operation of the climate-related risk management framework.

2.1 Board of Directors

The ESG and climate-related matters of SAMHK are supervised by the Board, which is ultimately responsible for the establishment of the long-term climate-related risk management strategy to ensure the sustainable asset management objective can be achieved. The Board exercises their oversight on climate-related matters which are brought to their attention through regular business updates by senior executives of SAMHK. The climate-related issues under investment management and the execution status of the management strategies on climate-related matters are reported to the Board on a regular basis. At least one meeting per year is held by the Board to discuss on climate-related risk matters.

2.2 ESG Committee

The Board further delegates the daily supervision and decision making authority on climate-related matters to the ESG Committee. The Chief Executive Officer ("**CEO**") is the chairman of the ESG Committee and the committee members comprised of the Chief Financial Officer ("**CFO**") / Chief Operating Officer ("**COO**"), Head of ETF, Head of China Investments, Head of Regional Investments, Head of Compliance and Head of Risk Management.

In between the day to day operation, the ESG Committee provides direction and guidance on the approach and measures of climate-related risk management. It establishes goals and objective on climate-related risk management and ensures an effective communication of such concept to the working teams. It deploys resources to the execution of plans on investment management and risk management to incorporate climate-related risk considerations into the daily workflow. Key performance indicators are also defined by the committee to keep track of the progress of implementing the climate-related risk management framework and to ensure the right message on climate-related matters has been passed accurately under the top-down approach.

Meetings are held at least semi-annually by the ESG Committee and on a need basis when climate-related issues are brought to the committee for discussion. The committee provides directions and comes down to a decision to the handling of such issues. The more significant

matters such as in relation to the structural change of the climate-related risk management framework will be brought to the attention of the Board for further discussion and authorization.

2.3 Investment Teams

The investment teams including the ETF Investment Team, China Investment Team and Regional Investment Team are structured under the ESG Committee as execution units to carry out the climate-related risk initiatives imposed by the committee. This includes the engaging with investee companies on a need basis to understand and discuss climate-related matters, review ESG scores and climate-related risks across investment portfolios, and coming up with an investment decision that is in line with the climate-related risk management framework. The investment teams identify and monitor key climate-related risks for specific investee companies and determine the proper follow-up actions to take. Such actions include but not limited to engaging with the investee company concerned for further discussions, imposing restrictions on investment holdings in the investment portfolios, and in extreme circumstances, prohibiting the holding of any interest in the investee company concerned.

3. Investment Management

SAMHK understands the significant impact of climate-related issues on investors' investment interest and we are committed to factor in the concerns that we have placed on climate-related issues in our investment management process. We identify and assess the influence of climate-related risks in each investment portfolios managed by us and ensure every investment decision made by the investment team has already factored in and adjusted with the consideration of climate-related risks.

3.1 Integration of Climate-related Risks

The key risks that SAMHK identifies as significant in the monitoring of climate-related risks are physical risk and transition risk.

Physical risk is the risk about climate consequences that are attributable to the change of climate conditions. Such climate changes refer to severe climate conditions like tropical cyclone, wild fire, drought, flood and also chronic climate impact like extremely hot and cold weather and heavy rainfalls. The severe climate conditions will lead to damages to properties creating losses to the economy.

Transition risk is the risk arising inevitably during the transition to a green and low carbon economy. Such transition refers to the potential impact from climate driven policies towards companies running a business in countries which have commitment in achieving a low carbon target or have restrictions in GHG emissions. The transition will likely induce additional costs to those companies and eventually lowering the performance of them.

3.2 Quantitative and Qualitative Approach

Climate-related risk factors in relation to actively-managed equity portfolios are identified at the portfolio level by the portfolio managers and analysts of the investment teams. The findings will be reported to the ESG Committee on a semi-annual basis for further discussion. The data on climate-related risk used by SAMHK are mainly sourced from multiple third-party data providers, relevant ESG disclosures from reports published by investee companies, and discussions with the investee companies on a need basis.

Through the analysis and discussion conducted by the portfolio managers and analysts of the investment teams, investee companies that have a relatively high exposure to physical risk and transition risk are identified. The potential impact of climate-related risks and opportunities on the business activities, financial performance and business strategies on such investee companies will be identified, analyzed and compared for further evaluation. Specifically, SAMHK will utilize the quantitative ESG rating scoring system maintained by head office in Korea to assist in the evaluation. The scoring system is backed up by multiple third-parties' ESG data along with head office ESG team's qualitative review. In general, an ESG score will be assigned to an investee company. Investment teams will reference to the ESG score and together with the qualitative considerations taking into account such as company culture, business strategy, future growth plans, etc., the materiality of climate-related risk on a particular investment decision will be determined.

The relevance of climate-related risk to our investment portfolios will depend on the nature of the product that investment portfolio belongs to and the investment strategy that is adopted by that product. While we have actively managed and passively managed exchanged-traded funds and investment portfolios, since passively-managed products are passively tracking the performance of certain index on a non-discretionary basis, such products will be regarded as irrelevant to the climate-related risk consideration. On the other hand, for products and investment portfolios that have investment strategies under a discretionary nature, the evaluation of climate-related risk according to quantitative and qualitative factors as mentioned above will be adopted to determine the degree of relevance of such risk on the investment decision making process.

4. Risk Management

While the investment management approach caters for the daily consideration of climate-related risk in our investment decision making process, SAMHK is aware that it is of equal importance to ensure that such climate-related risk is sufficiently managed and monitored in our risk management framework.

4.1 Risk Management Framework

4.1.1 Investment Team

The investment teams represented our first line of defense within the whole risk management framework on climate-related risk. As highlighted in our investment management framework above, portfolio managers and analysts from investment teams will take up the role to initially identify the risk factors under climate-related risk, and further evaluate the relevance and materiality of such risk factors to our products and investment portfolios. Climate-related risk issues and evaluations will be reported to the ESG Committee on a regular basis for further discussion and endorsement.

4.1.2 Risk Management Team

The risk management team represented our second line of defense within the whole risk management framework on climate-related risk. The risk management team takes up the role of monitoring the execution of the investment management framework on climate-related risk and ensures that the execution approach is in line with the pre-established framework. The risk management procedures on climate-related risk are performed on a regular basis, for instance, review of decision making documentation on climate-related risk matters, sample-testing on the validity of use of internal or external data, using different tools and metrics to quantify the impact of climate-related risk factors on the investment portfolio as a whole, performing variance analysis on the climate-related risk exposure between investment portfolios and their respective benchmarks, conducting scenario analysis and stress testing regarding the susceptibility of investment portfolios towards climate-related risk factors under stressed situation, etc.

4.1.3 Compliance Team

The compliance team also stands in the second line of defense to ensure that the regulatory requirements on climate-related risk management have been properly addressed by SAMHK's climate-related risk management framework. The compliance team from time to time has to provide updates on any changes in the regulatory requirements and guidelines on climate-related risk matters.

The risk management team and compliance team as the second line of defense will exercise their presence and influence in the ESG Committee to ensure overall climate-related risk management framework is operating properly.

5. Disclosure

While SAMHK is maintaining an effective climate-related risk management framework operating within its investment management process, we are conscious that investors should also be aware of what we have done in order to demonstrate that their assets under our management have been under a reasonable protection under climate-related risk.

SAMHK will continue to make relevant disclosures to investors regarding its governance structure under climate-related risk management, investment management approach when taking into consideration climate-related risk, and risk management measures in monitoring the climate-related risk level of our investment portfolios.

SAMHK will review the climate-related risk information and disclosures at least on an annual basis. SAMHK will update its disclosures to investors from time to time to reflect SAMHK's most recent approach under climate-related risk management and any changes in regulatory requirements.