FountainCap
Research & Investment
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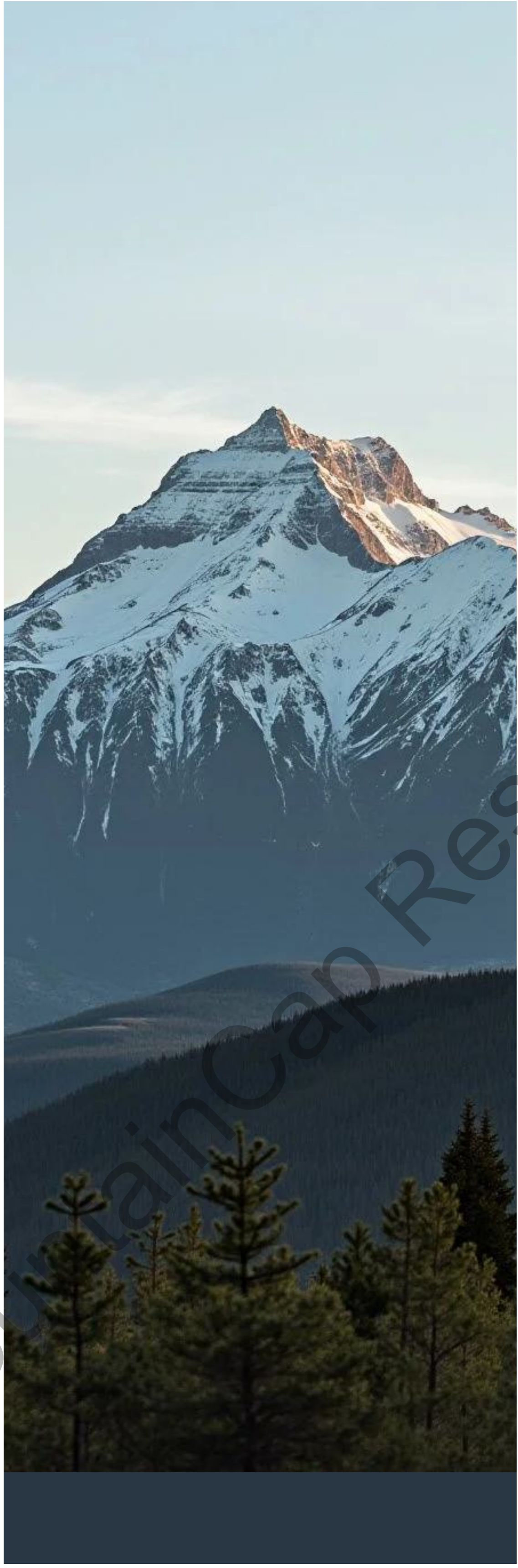

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

REPORT 2024

FOUNTAINCAP RESEARCH AND INVESTMENT (HONG KONG) CO., LIMITED

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Foreword

It is with a profound sense of responsibility and commitment that we present the TCFD Report 2024, covering the financial period from October 1, 2023, to September 30, 2024. We recognize the critical importance of transparency and proactive action in addressing the multifaceted challenges posed by climate change. Sustainability remains one of our most important elements, and this report marks our third comprehensive disclosure under the TCFD framework, highlighting our continuous progress and steadfast dedication to sustainability.

Throughout this period, we have intensified our efforts to assess climate risks across our investment portfolios. We have leveraged advanced analytics and engaged with our investee companies to understand their climate resilience and transition strategies. This proactive engagement has enabled us to identify opportunities within the evolving landscape of carbon regulation and environmental innovation in China.

We have also continuously improved our internal ESG integration process, including the assessment of climate-related risks. This enhancement ensures that our investment decisions are informed by a comprehensive understanding of climate change and ESG factors, thereby reinforcing our commitment to sustainability and responsible investing.

Our firm remains steadfast in its commitment to driving positive environmental impact within China. We have made significant strides in enhancing the environmental, social, and governance (ESG) frameworks that guide our investment decisions in the region. By rigorously evaluating the climate strategies of the Chinese companies we invest in, we ensure that our portfolios are aligned with a low-carbon future and positioned to capitalize on the growth opportunities offered by China's transition to a sustainable economy.

As we look ahead, we remain committed to deepening our integration of TCFD recommendations into our investment processes. We recognize that the journey toward a sustainable future in China is ongoing and requires continual adaptation and innovation. Our firm will continue to prioritize transparency in climate-related financial disclosures, thereby fostering trust and accountability among our stakeholders.
In closing, we extend our gratitude to our clients, partners, and employees for their unwavering support and collaboration. Together, we are poised to navigate the complexities of climate risk and seize the opportunities that lie ahead within the Chinese market. We are confident that our collective efforts will contribute to a more sustainable and resilient future.

Steven Luk
CEO
January 24, 2025

China’s Journey in Green Finance

2024 marks a significant milestone in the development of green finance within the Chinese market. China’s regulators have been the driving force behind this movement, with their efforts complemented by local governments and institutions. At the Chinese Central Financial Work Conference at the end of 2023, green finance and “inclusive finance” were highlighted as major focus areas. This emphasis has led to strengthened regulatory frameworks, encouraging financial institutions to integrate green finance. Innovative financial products aimed at promoting environmental sustainability have gained traction, reflecting China's shift towards a greener economy. This momentum is fostering a resilient financial system and contributing to global efforts to combat climate change.

One of the notable developments from the regulatory side in 2024 is the introduction of sustainability disclosure requirements in China. In February 2024, China’s three major stock exchanges—the Shanghai Stock Exchange (SSE), Shenzhen Stock Exchange (SZSE), and Beijing Stock Exchange (BSE)—each published consultation papers outlining draft sustainability reporting guidelines[1]. This move aims to address the significant challenge of the lack of systematic ESG data in the Chinese market, which has hindered asset managers in conducting comprehensive climate risk assessments. Enhanced transparency in sustainability reporting is crucial for building global investors’ confidence and encouraging them to direct capital into Chinese markets. We are pleased to see such substantial progress in ESG data. Furthermore, the International Sustainability Standards Board (ISSB) opened its first office in Beijing in 2023, demonstrating China's commitment to the development of global sustainability disclosure standards. The push for improved ESG disclosure in China is not just a regulatory requirement but a strategic imperative that can drive the growth of sustainable investments in the country. This initiative aligns with global standards and reflects China’s commitment to integrating sustainability into its financial system, thereby enhancing its international competitiveness.

On the local level, green finance is also gaining traction and puts more focus on climate goals. Regions like Huzhou, Shanghai, Chongqing, Tianjin, and Hebei have introduced pilot programs and local regulations have issued transition finance catalogue[2]. These efforts at the sub-national level complement national policies and help to create a more conducive environment for green investments. On the other hand, these pilot zones have also introduced policies to promote green finance and to achieve national carbon reduction goal[3].

Looking ahead, the continued development of green finance in China will be pivotal in achieving its environmental targets. The focus on enhancing disclosure standards, expanding the scope of green financial instruments, and fostering international cooperation will be key drivers of this progress.

[1] China charts path to unified sustainability disclosure by 2030. https://english.www.gov.cn/news/202405/28/content_WS6655152bc6d0868f4e8e78b8.html

[2] Zhang J, Ziying S, Wang CN. New report: China Green Finance Status and Trends 2023-2024 – Green Finance & Development Center. Published April 3, 2024. https://greenfdc.org/china-green-finance-status-and-trends-2023-2024/

[3] Top 10 Trends of Responsible Investment in China 2024 - China Water Risk. China Water Risk. Published February 21, 2024. https://chinawaterrisk.org/opinions/top-10-trends-of-responsible-investment-in-china-2024/

Governance

Executive Management Committee

The Executive Management Committee (EMC) of FountainCap Research & Investment (Hong Kong) Co., Limited (FountainCap) oversees the management of the company's climate-related risks and opportunities and ensures alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The EMC considers climate-related issues when reviewing and guiding strategy, major plans of action, risk management policies, annual budgets, business plans, and monitoring implementation and performance. As no specific goals and targets for addressing climate-related issues have been set, this duty is not required of the EMC. Responsibility for handling all climate-related issues has been delegated to the Responsible Investment Committee (RIC) to align the climate-related strategy with the company's overall vision, mission, and values. The RIC reviews and approves the company's annual TCFD report, which discloses the company's approach to climate governance, strategy, risk management, metrics, and targets. Additionally, the RIC monitors the company's progress against climate-related policy implementation and provides guidance and feedback to the senior management team.

Responsible Investment Committee

FountainCap has established the RIC, chaired by the ESG Specialist, to provide oversight and direction on the company's ESG policies and practices, including climate-related matters. The RIC includes representatives from various functional areas and departments within the company, such as investment, risk, operations, and compliance. The RIC convenes quarterly to review and update the company's climate goals and progress, ESG framework, and guidelines, as well as to identify and assess emerging ESG trends and risks. Additionally, the RIC engages with external stakeholders, including clients, regulators, industry associations, and NGOs, to exchange viewpoints and insights on ESG issues. The RIC fulfils several key roles:

- Evaluation and Management of Climate-related Issues: The RIC oversees and handles all issues related to climate within the firm and reports them to the EMC.
- ESG Integration: The RIC works closely with the investment team to integrate ESG into analysis and decision-making processes.
- ESG Review: The RIC reviews the efficacy of ESG integration and reporting.
- Client Communication: The RIC responds to specific client queries on ESG-related matters.
- Industry Trends Monitoring: The RIC maintains a thorough understanding of current ESG industry trends and themes.
- ESG Culture Promotion: The RIC fosters and nurtures a strong ESG culture within the company.

Governance (cont')

The RIC reports directly to the Executive Management Committee annually and sponsors the ongoing adoption and implementation of ESG considerations into our business operations.

ESG Specialist

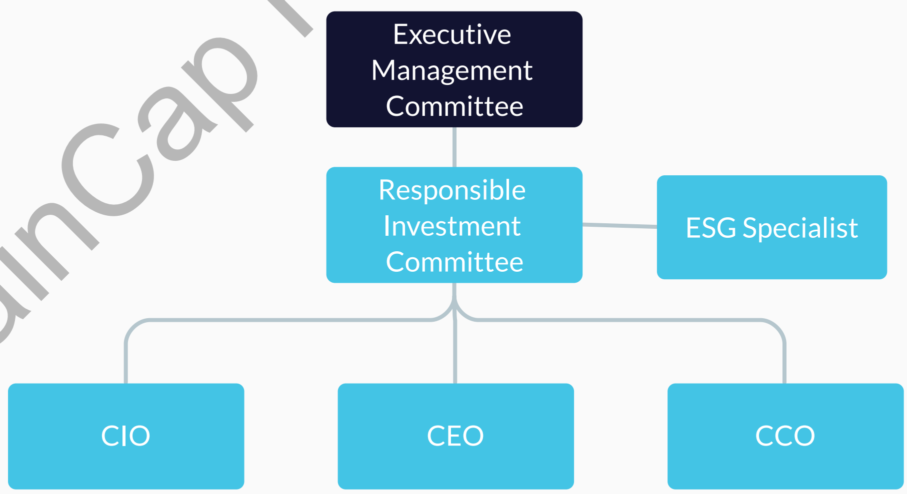
Our ESG specialist, a member of the Risk & Product Control Department, is responsible for implementing the company's climate strategy and integrating climate considerations into the investment process, portfolio construction, risk management, and reporting, in accordance with our Responsible Investment Policy. Additionally, the ESG Specialist regularly engages in activities such as internal training, stewardship practices, and the quarterly monitoring and reporting of climate-related issues to the RIC.

Risk Committee (RC)

An established Risk Committee (RC), functioning as a sub-committee of the Board of Directors, is responsible for overseeing all risk management duties. The RC primarily supervises enterprise operational risk and investment risk, including risks related to climate change.

Through these governance structures and initiatives, FountainCap continues to demonstrate its commitment to responsible investment and climate-related risk management.

Overview of FountainCap's Climate-related Governance Structure



Strategy

As an all-China long-only asset manager, FountainCap is committed to integrating sustainable practices, into our investment strategies. As a responsible investor, we recognize the importance of climate change and its implications for our investment decisions. In this section, we will explain how we incorporate climate-related risks and opportunities into our investment strategy and portfolio management.

We have identified the following potential climate-related risks:

RISK TYPES	TIME HORIZON	POTENTIAL IMPACT	EXAMPLES
Regulatory changes in Hong Kong	Short-term (up to 2 years)	Enhanced reporting requirements related to climate risk and greenhouse gas emissions could necessitate changes in investment strategies.	The Hong Kong Stock Exchange (HKEX) has proposed new requirements for climate risk reporting.
Transition risks due to climate change	Medium-term (2 - 5 years)	These risks could affect financial market stability and pose challenges for carbon-intensive sectors.	The transition to a lower-carbon economy may entail extensive policy, legal, technology, and market changes.
Climate change impacts on growth and prosperity	Long-term (over 5 years)	Without adequate mitigation and adaptation efforts, climate risks could constrain China's long-term growth and prosperity.	Rising sea levels and risks related to coastal flooding, storm surges, and coastal erosion threaten China's densely populated low-elevation coastal cities.
Acute Physical Risks: Extreme weather events due to climate change	Short-term (up to 2 years)	These events can cause significant damage to physical assets and disrupt business operations.	Heatwaves and floods are growing in frequency and severity in China, affecting outdoor working hours and productivity.
Chronic Physical Risks: Long-term shifts in climate patterns	Long-term (over 5 years)	These shifts can have profound effects on economic sectors over time, potentially leading to financial losses.	Droughts and rising sea levels intensify over time, posing risks to agriculture and coastal cities in China.
Physical Risks to Office Location	Short-term (up to 2 years)	Climate change could pose risks to the physical infrastructure of the office building. This could disrupt operations and necessitate costly adaptations or relocation.	With rising sea levels and increased risk of extreme weather events due to climate change, buildings close to coastal area may face increased risk.
Increased frequency of extreme weather events due to climate change: Recent Extreme Weather Events in Hong Kong	Medium-term (2 - 5 years)	These events can cause significant damage to physical assets, disrupt business operations, increase insurance premiums, and necessitate costly adaptations.	Record-breaking rainfall paralyzed much of Hong Kong recently, with flash flooding submerging metro stations and trapping drivers on roads. This came just days after Hong Kong was lashed by its strongest typhoon in five years.
Policy changes that aim to reduce greenhouse gas emissions and promote low-carbon alternatives	Short-term (up to 2 years)	Loss of assets, reduced market size, increased litigation and regulation, social unrest.	A carbon tax in China could increase the operating costs and reduce the profitability of high-carbon industries that FountainCap invests in, such as oil & gas, coal and steel.

Strategy (cont')

Over the past year, FountainCap has undertaken significant reforms in its ESG integration process, marking a pivotal advancement in our commitment to sustainable investing. Our ESG Specialist has been granted enhanced authority to conduct in-depth ESG and climate analysis on stocks, a move that underscores our dedication to embedding these critical factors into our investment decisions. This reform, elaborated in the “Investment and Risk Management” section, is expected to bolster our ability to identify and mitigate ESG-related risks more effectively.

In addition to process reforms, we have upgraded our ESG analytic toolkit by subscribing to the SASB standard and integrating Materiality Mapping. This enhancement allows us to pinpoint the most relevant ESG issues for each company in our portfolio, thereby improving our engagement with stakeholders and ensuring that our investments align with our sustainability goals.

Recognizing the importance of comprehensive ESG data, we have continued to rely on Miotech as our primary data provider. However, to address a gap in controversies data, we have onboarded RepRisk. Their AI-enabled platform provides real-time monitoring of news and media reports, enabling us to swiftly identify and respond to potential ESG controversies affecting our portfolio companies.

Furthermore, we are in the process of upgrading the UCITS fund advised by us from an Article 6 fund to an Article 8 fund under the Sustainable Finance Disclosure Regulation. This transition, anticipated to be completed by early 2025, reflects our confidence in meeting the stringent requirements of Article 8 after three years of refining our ESG integration process. We believe this upgrade will not only enhance our ESG credentials but also attract a broader base of investors. More details on this transition will be provided in next year’s TCFD Report.

Strategy (cont')

Climate Journey of FountainCap

2020

- Establishment of RI Committee
- Formulation of RI Policy
- Appoint MSCI ESG as third party ESG data provider

2021

- Became UNPRI signtory
- Became member of AIGCC
- Onboard of ESG Specialist
- Adopted ESG scorecard for research purpose

2022

- Kickstart of stewardship program
- TCFD support commitment
- First TCFD Report published
- Became signatory of Climate Action 100+
- Replace MSCI with Miotech as our primary ESG data provider

2023

- Proprietary ESG analytic toolkits, replacing the ESG scorecards
- Baseline assessment of net-zero alignment of portfolio
- Submission of first UNPRI voluntary reporting

2024 (as of Q3)

- Reform of the entire ESG integration process
- Integration of SASB Standard into the ESG analytic toolkit
- Subscription to an additional ESG data provider, RepRisk.
- Progress toward upgrading the UCITS fund to Article 8

Strategy (cont')

Scenario Analysis

Climate scenario analysis is a strategic tool used to plan for future uncertainties by examining potential outcomes related to climate change. This technique allows us to assess how investments and operations might be influenced by changes in temperature, precipitation, sea level, extreme events, and other climate variables. Conducting climate scenario analysis can aid FountainCap in understanding the risks and opportunities associated with climate change, effectively communicating its vision and value proposition to clients and stakeholders, and preparing for unforeseen events and crises that may arise due to climate change.

We have conducted a comprehensive climate-related scenario analysis, focusing on both physical and transition risks. For the physical risk assessment, we adopted the Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathways (RCP) 8.5, RCP6.0, and RCP2.6 scenarios. These scenarios represent different greenhouse gas concentration trajectories and are widely used in climate modeling and research.

For the transition risk, we have created three scenarios based on China's climate policy development. These scenarios are tailored to reflect the unique economic and environmental context of China, providing a more accurate assessment of the transition risks we might face. The three scenarios are: (i) the current policy state, (ii) the enhanced policy state, and (iii) the delayed policy state. Each scenario represents a different potential trajectory for China's climate policy and its impact on the transition to a low-carbon economy.

The results suggest that the impact on our financial performance and position over the next five years will be minimal. The physical risk in Hong Kong, as outlined in the scenario analysis, is currently not significant. Climate risk analysis has been incorporated into our investment framework, which aids in managing the potential impact of climate risk on future investments. We will continue to monitor and review our analysis to maintain its relevance and accuracy.

However, due to the limitation of data, we have only conducted a qualitative analysis. The summary table below presents the results of our analysis. Please note that while we strive for accuracy, the inherent uncertainty of climate scenarios suggests that they should be used as a guide rather than a precise forecast.

Strategy (cont')

PHYSICAL RISK SCENARIO ANALYSIS			
SCENARIOS	**PHYSICAL RISKS**	**PHYSICAL OPPORTUNITIES**	**OFFICE LOCATION AND DESIGN**
RCP 8.5	Very high risk. Severe impacts of climate change, such as increased heat waves, droughts, floods, storms, and sea level rise, affecting water resources, food security, health, infrastructure, and ecosystems in China - Some portfolio companies may suffer from physical damages, disruptions, and costs of climate change	Limited benefits of climate change, such as reduced cold spells, increased crop yields, and enhanced ecosystem services in some regions of China - Some portfolio companies may benefit from increased demand for adaptation and resilience solutions	Relocate to a safer and cooler location, as Hong Kong may become more vulnerable to coastal flooding, storm surges, and heat stress
RCP 6.0	High risk. Significant impacts of climate change, such as increased heat waves, droughts, floods, storms, and sea level rise, affecting water resources, food security, health, infrastructure, and ecosystems in China - Some portfolio companies may face physical risks and costs of climate change	Moderate benefits of climate change, such as reduced cold spells, increased crop yields, and enhanced ecosystem services in some regions of China - Some portfolio companies may enjoy physical opportunities and benefits of climate change	Adapt office to a more resilient and energy-efficient design, as Hong Kong may become more exposed to coastal flooding, storm surges, and heat stress
RCP 2.6	Low risk. Relatively mild impacts of climate change, such as reduced heat waves, droughts, floods, storms, and sea level rise, affecting water resources, food security, health, infrastructure, and ecosystems in China - Some portfolio companies may face transition risks and opportunities of a low-carbon economy	High benefits of climate change, such as reduced cold spells, increased crop yields, and enhanced ecosystem services in some regions of China - Some portfolio companies may benefit from physical opportunities and co-benefits of climate change	No change in office location or design, as Hong Kong may become less vulnerable to coastal flooding, storm surges, and heat stress

Strategy (cont')

TRANSITION RISK SCENARIO ANALYSIS				
SCENARIOS	TRANSITION RISKS AND OPPORTUNITIES	EXAMPLES OF HIGH-RISK SECTORS	EXAMPLES OF LOW-RISK SECTORS	PORTFOLIO ALLOCATION AND VALUATION
Current Policy State	Moderate risks and opportunities. Risks include potential regulatory penalties for non-compliance, missed opportunities for green investment, and reputational risk if perceived as not taking climate change seriously. Opportunities include continued business operations without significant changes, and potential for gradual transition to greener practices.	Sectors heavily reliant on fossil fuels, such as oil and gas, coal, and transportation.	Sectors already aligned with green practices, such as renewable energy, waste management, and green buildings.	Maintain current allocation but monitor for regulatory changes.
Enhanced Policy State	High risks and opportunities. Risks include increased costs due to stricter regulations, need for significant changes in business practices, and potential for stranded assets in high-emission sectors. Opportunities include new investment opportunities in green technologies and practices, and potential for early mover advantage in transitioning to a low-carbon economy.	Sectors slow to adopt green technologies or practices, such as cement, steel, and aviation.	Sectors leading in green technologies or practices, such as clean tech, electric vehicles, and hydrogen.	Consider reallocating to favor green investments.
Delayed Policy State	Short-term continuity but long-term risks. Risks include sudden and drastic regulatory changes in the future, potential for stranded assets if transition is delayed too long, and reputational risks associated with perceived inaction on climate change. Opportunities include short-term business continuity, and potential for strategic positioning if able to adapt quickly when policies change.	Sectors not preparing for eventual policy changes, such as agriculture, mining, and chemicals.	Sectors capable of rapid adaptation to policy changes, such as information technology, health care, and finance.	Diversify to mitigate potential future shocks.

Explanation of the scenarios:
All the climate scenarios mentioned above span a time frame of over 10 years.

RCP: The Representative Concentration Pathways (RCPs) are scenarios that represent different greenhouse gas concentration trajectories. They are used in climate modeling and research.

- **RCP 2.6:** This is a very stringent pathway, which means it assumes strong measures to reduce greenhouse gas emissions.
- **RCP 6.0:** This scenario uses a high greenhouse gas emission rate and is a stabilization scenario where total radiative forcing is stabilized after 2100.
- **RCP 8.5:** This is a high-emission scenario that does not include any specific climate mitigation target. The greenhouse gas emissions and concentrations in this scenario increase considerably over time.

Current Policy State: China follows its existing climate policies, such as the Paris Agreement and the Five-Year Plan. Emissions peak around 2030 and carbon neutrality is achieved by 2060.
Enhanced Policy State: China strengthens its climate policies beyond the current state. It sets more ambitious targets for renewable energy, fossil fuel regulation, and green technology. Emissions peak before 2030 and carbon neutrality is reached earlier than 2060.
Delayed Policy State: China faces delays in implementing its climate policies. This could be due to economic, political, or other challenges. Emissions peak later than 2030 and carbon neutrality is postponed beyond 2060.

Investment and Risk Management

At FountainCap, we are committed to integrating Environmental, Social, and Governance (ESG) factors into our investment analysis and decision-making processes. During the reporting period, we have revamped our ESG integration process by introducing new ESG standards and implementing structural changes within the firm. These improvements are designed to ensure a more robust and comprehensive approach to identifying and managing ESG risks and opportunities.

ESG Integration Process

To better integrate ESG and climate factors into our investment strategy, we have significantly revamped our ESG integration process. This enhancement ensures that we are more effectively identifying, monitoring, analyzing, and engaging with ESG issues across our investment portfolios.

Our updated ESG integration process consists of four key steps: identify, monitor, analyze and evaluate, and engage. These steps are aligned with the SASB Materiality Mapping, providing a robust framework for identifying the most relevant ESG issues for each industry.

- **Identify:** At the pre-investment stage, we conduct thorough ESG due diligence on potential investee companies to identify any material risks or opportunities. This involves discussions with analysts and portfolio managers to incorporate ESG issues into our investment decision-making process.

- **Monitor:** Post-investment, we continuously monitor the ESG performance, including climate metrics, of our portfolio companies. We use the Miotech platform and other sources to track changes in ESG scores and ratings, as well as any controversies or events that may impact their ESG profile.

- **Analyze and Evaluate:** The ESG Specialist acts as an independent “gatekeeper” to assess the ESG performance of each proposed company before investment decisions are made. Using the ESG Analytic Toolkit and other sources, the ESG Specialist evaluates the ESG risks and opportunities, providing recommendations to the investment committee based on ESG scores and ratings. The ESG Specialist also reviews ESG due diligence reports prepared by analysts to ensure all relevant ESG issues are adequately addressed. If the ESG Specialist’s assessment differs from the analyst’s view, this assessment is shared with portfolio managers to ensure our ESG standards and expectations are met.

Investment and Risk Management (cont')

- **Engage:** We actively engage with companies on ESG issues, either directly or through proxy voting, to encourage improvements in ESG disclosures and practices. This engagement helps address any concerns or expectations we may have regarding their ESG performance.

We report our ESG activities and outcomes to our investors and other stakeholders regularly, using the TCFD framework as a guideline. This transparency ensures that our stakeholders are informed about our ESG integration efforts and the impact on our investments.

ESG Analytical Toolkit

This Toolkit is designed to consider all material ESG factors, including climate-related risks, in our analysis, thereby enabling our analysts to make more informed investment decisions. The Toolkit has more specific materiality mapping, with reference to SASB Standards.

This year, we have officially adopted SASB Standards as the materiality mapping framework. The SASB (Sustainability Accounting Standards Board) Standards are a set of guidelines designed to help businesses identify, manage, and report on sustainability factors that are most likely to impact their financial performance. These standards provide industry-specific criteria for measuring and disclosing information on a wide range of environmental, social, and governance (ESG) issues. Adopting SASB Standards is particularly beneficial for our investment strategy. This alignment facilitates more informed decision-making and enhances our ability to manage risks and opportunities related to ESG factors. This approach helps us align our investments with our commitment to responsible investment and ensures that we are proactively addressing material ESG issues in a systematic and consistent manner.

For data sources, we are still adopting Miotech as our primary ESG data provider. Miotech's comprehensive climate data helps identify and manage climate-related risks in our portfolio. Their use of artificial intelligence improves our assessment of ESG risks and opportunities. Additionally, their provision of transparent ESG data and ratings aids our investment decision-making, risk management, and compliance. Using Miotech's data facilitates informed investment decisions, more effective ESG risk management, and alignment of our investment strategies with responsible investment and risk management commitments.

Investment and Risk Management (cont')

However, we identified a gap in our ESG data sources, specifically in the area of controversies data. After exploring several options, we decided to subscribe to RepRisk as our additional ESG controversies data provider. RepRisk is a leading ESG data science firm that focuses on providing actionable insights on ESG risks.RepRisk's utility lies in its comprehensive and dynamic data collection process. By leveraging artificial intelligence and an extensive network of sources, including media, stakeholders, and proprietary research, RepRisk provides a robust and up-to-date database of ESG risks. This database includes information on controversial activities and incidents involving companies worldwide, which is crucial for risk management and compliance purposes. Subscribing to RepRisk allows us to make more informed investment decisions and effectively manage ESG risks within our portfolio more instantly.

Through these measures, we aim to ensure that our investment strategies are aligned with our commitment to responsible investment and risk management.

Investment and Risk Management (cont')

Enterprise Risk Management

FountainCap has a robust process in place for reporting climate-related enterprise risks to the Board and the management.

We conduct a quarterly Enterprise Risk Meeting with the management where all potential risks to the company, including climate-related issues, are discussed. The ESG Specialist identifies and monitors material climate-related issues that may pose a risk to the company and presents these findings at the meeting. For prioritising climate-related risks, we use a materiality assessment process. This involves performing a scenario analysis, as outlined in the "Strategy" Section, to estimate the potential financial implications of each risk, its likelihood of occurrence, and the period over which it could impact our investments. Risks that pose a substantial financial threat, have a high chance of occurrence, or are immediate, are given top priority. This materiality determination process is dynamic and is routinely reassessed to keep up with changing climate scenarios and new data.

The outcomes of these discussions, including any identified risks and proposed mitigation strategies, are then reported to the Board of Directors. This ensures that both the management and the Board are informed about any climate-related risks and can make decisions on how to mitigate, transfer, accept, or control these risks effectively.

This process is part of our commitment to transparency and effective risk management and is applied to all our products and investment strategy. It allows us to address climate-related risks proactively and integrate them into our overall business strategy and risk management framework. Through this approach, FountainCap continues to demonstrate its commitment to responsible investment and climate-related risk management.

Investment and Risk Management (cont')

Stewardship Program

We believe in engagement over divestment. Rather than divesting from companies with high climate-related risks, we prefer to engage with them to encourage better ESG practices. In late 2022, we kickstarted our stewardship program, which is designed to engage with companies in our portfolio. We have created a set of criteria for prioritizing the target companies for engagement:

1. **High contribution to portfolio carbon emission intensity**: Companies that significantly contribute to the carbon emission intensity of our portfolio are prioritized for engagement.
2. **Significant ownership**: Companies in which our ownership constitutes a higher percentage of their outstanding shares are also prioritized.
3. **Long-term holdings**: Companies that have existed in our portfolio for more than 6 months are given priority.

Through this stewardship program, we aim to influence companies to better address climate-related issues, thereby managing and reducing climate-related risks in our portfolio. This approach aligns with our commitment to responsible investment and risk management.

We are currently focusing on climate as our prioritized topic for engagement. We believe that addressing climate-related risks is not only crucial for the sustainability of our portfolio companies but also for the long-term returns of our investments. Through our stewardship program, we aim to (i) engage with our portfolio companies on their climate strategies; (ii) enhance their climate-related disclosures in order to improve data availability and asset managers' ability to assess climate-related risks; and (iii) encourage them to adopt practices that mitigate climate-related risks and contribute to a sustainable future. This focus on climate aligns with our commitment to responsible investment and risk management.

Metrics and Targets

We use the following carbon footprint and exposure metrics that are recommended by TCFD to monitor our progress. These metrics are also in line with the Partnership for Carbon Accounting in Financials (PCAF) for reporting purposes.

- $Financed\ Emission = \sum\left(\frac{Current\ value\ of\ investment_i}{EVIC_i} \times Company\ emissions_c\right)$

EVIC: Enterprise Value, including Cash

- $Carbon\ Footprint = \frac{\sum\left(\frac{Current\ value\ of\ investment_i}{EVIC_i} \times Company\ emissions_c\right)}{Current\ portfolio\ value\ (\$M)}$

- $WACI = \sum \frac{current\ value\ of\ investment}{current\ portfolio\ value} \times \frac{Company\ emissions}{Company\ revenue}$

Different metrics are used by the industry, and investors may prefer one metric over another for evaluating the carbon emission level of a portfolio. These metrics help in understanding the portfolio's absolute and relative emission profiles. Only Scope 1 and Scope 2 data of the underlying companies are disclosed. This decision is primarily due to the current level of disclosure from Chinese companies, which form a significant part of the investment portfolio. Presently, these companies have a relatively low level of disclosure, particularly regarding Scope 3 emissions, which encompass all other indirect emissions in a company's value chain and require a high level of detail and transparency. Given the current disclosure practices in China, obtaining accurate and reliable Scope 3 data of the underlying companies is challenging. Active engagement with portfolio companies is ongoing to improve their disclosure practices. Until such improvements are made, focusing on Scope 1 and Scope 2 data of the underlying companies is believed to provide the most accurate and reliable representation of the carbon footprint. The commitment to full transparency remains, and disclosure practices will continue to be reassessed as the situation evolves.

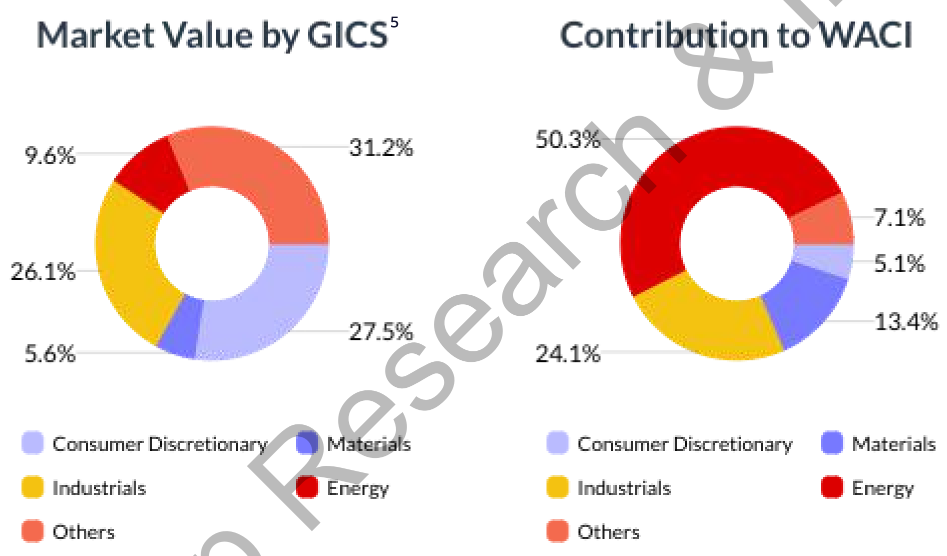
Furthermore, we have determined that as an asset manager, we do not encounter any significant climate-related risks linked to water, energy, land use, and waste management. Therefore, such information is not included in this report.

Metrics and Targets (cont')

Key Metrics[4] (as of September 2024)

Carbon Metrics of FountainCap Aggregate Portfolios	2022	2023	2024
Carbon Emissions (t CO2e/$m invested)	128.5	106.7	102.2
Carbon Intensity (t CO2e/$m sales)	365.0	307.6	342.1
Weighted Average Carbon Intensity (t CO2e/$m sales)	213.6	209.5	228.4

Source: Miotech, Bloomberg



Source: Miotech, Bloomberg

The charts indicate that the Energy, Industrial, Materials, and Consumer Discretionary sectors have the highest contribution of Weighted Average Carbon Intensity (WACI) to FountainCap's Portfolio, accounting for more than 93% of the portfolio's WACI. This highlights a significant exposure to transition risks. In particular, the Energy and Industrial sectors are facing substantial exposure to transition risk. As a result, we are carefully monitoring our portfolio companies within the Materials and Energy sectors to ensure that their risk levels are being effectively managed.

[4] Given that we operate as a manager with a single investment strategy, the companies we hold across our portfolios are largely the same. As a result, the carbon metrics across these portfolios are also predominantly identical.

[5] The Global Industry Classification Standard (GICS) is a framework developed by MSCI and S&P Dow Jones Indices for categorizing companies based on their primary business activities. It's a four-tiered, hierarchical industry classification system that includes sectors, industry groups, industries, and sub-industries, and it's used globally to provide consistent and exhaustive industry definitions.

Metrics and Targets (cont')

Portfolio Net Zero Initiative

In our Report 2023, we conducted a net zero alignment analysis in accordance with the Net Zero Investment Framework. This framework provided us with a structured approach to assess our progress and strategies towards achieving net zero emissions. During the reporting period, we continuously evaluated the feasibility of issuing the commitment statement. We sought to ensure that any commitments made were realistic, achievable, and based on reliable data. However, after careful consideration, we decided not to release the statement during the reporting period for the following reasons:

- The Chinese market lacks sufficient climate-related data disclosure, making it hard to set a target last year. This lack of data makes measuring and reporting greenhouse gas emissions difficult, posing risks and uncertainties that could hurt our credibility.

- We were cautious about issuing statements to avoid greenwashing, which involves misleading claims about environmental benefits. Our goal was to ensure our actions truly reflect sustainable and responsible investment practices. Premature or unsupported commitments could damage our reputation and stakeholder trust.

Looking ahead, after a year of dedicated work and anticipated improvements in data disclosure in China, a net zero target is expected to be established and a commitment statement released by 2025. Transparency and accountability are key, guiding this milestone towards more sustainable investment practices that align with international standards and efforts to mitigate climate risks.

IMPORTANT INFORMATION

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