United Gain Investment Limited

聯威投資有限公司

Climate Related Risks Management and Disclosure Policy

Section 1: Overview

1.1 United Gain Investment Limited (the "Investment Manager") is a Securities and Futures Commission of Hong Kong (the "SFC") Type 4 and Type 9 Licensed Corporation.

1.2 The Investment Manager is subject to the licensing conditions of providing management of collective investment schemes that are offered to professional investors only.

1.3 For the relevant condition terms, reference shall be made to the Securities and Futures Ordinance.

Section 2: Purpose and Scope

2.1 With effect from August 2022 and November 2022 respectively, the SFC expects licensed corporations to adopt its Consultation Conclusions on the Management and Disclosure of Climate-related Risks by fund managers. In light of the direction towards requiring particular disclosures and implementing other necessary measures, this policy serves to provide guidance on the management of climate-related risks in order to achieve the objectives of the Investment Manager whilst being in line with the relevant regulatory requirements.

2.2 This Policy applies to SFC Licensed Corporations and its licensed person managing all SFC authorized and unauthorized funds to ensure climate-related risks are taken into consideration in the investment and risk management processes and make appropriate disclosures.

Section 3: Materiality & Relevance

General

Baseline Requirements

3.1 All fund managers should comply with the baseline requirements of the SFC by establishing and maintaining effective systems, policies and procedures to: (i) identify relevant climate-related risks; (ii) assess the potential impact of the identified risks on each investment strategy and fund; and (iii) monitor and manage these risks on an ongoing basis.

3.2 In assessing and quantifying climate-related risks associated with each investment strategy and fund, the fund managers should apply appropriate tools and metrics.

Enhanced Standards

3.3 To the extent climate-related risks are assessed to be relevant and material to an investment strategy or a fund they manage, Large fund managers are also required to: (i) assess the relevance and utility of scenario analysis; and (ii) take reasonable steps to identify the portfolio carbon footprints of the Scope 1 and Scope 2 greenhouse gas (GHG) emissions associated with the funds' underlying investments.

Concept of Relevance and Examples of Applicability to fund managers

3.4 In order for fund managers to determine whether climate-related risks are relevant, the Task Force on Climate-Related Financial Disclosures ("TCFD") has defined and classified climate-related risks into the following two major categories: Physical risks and Transition risks. With regards to transition risks, this Policy has also made reference to some examples on applicability of such factors provided by TCFD.

3.5 The fund managers should consider identifying and assessing physical risks, which refer to climate change-related extreme weather events and long-term shifts in climate patterns that may have financial implications for companies, for each investment strategy and monitor and manage these risks in an appropriate manner.

The physical climate-related risks include:

<u>Acute Risk</u>

The fund managers should understand acute physical climate-related risks such as event- driven, extreme weather events which may cause disruptions to operations, transportation, supply chain and damage to physical assets and impact on insurance liabilities.

<u>Chronic Risk</u>

The fund managers should understand chronic physical climate-related risks, longer-term shifts in climate patterns, such as rising mean temperatures, water stress which may impact degradation or limitations on resource availability (e.g. labour, natural resources).

3.6 In addition to the physical climate-related risks, the fund managers should continue to identify and assess transition risks, which refer to risks associated with the viability of a business due to transitions to a lower-carbon economy, for each investment strategy and monitor and manage these risks in an appropriate manner. The transition climate-related risks include:

<u>Policy and Legal Risk</u>

The fund managers are encouraged to regularly review policy and legal changes including increased pricing of GHG emissions, enhanced emissions reporting obligations, mandates on and regulation of existing products and services and exposure to litigation as they may pose financial risk to organizations by increasing operating costs, causing early retirement of existing assets (due to policy changes) and reducing demand for products and services resulting from fines and judgement.

<u>Technology Risk</u>

The fund managers should understand that technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economic system can have a significant impact on organizations.

For example, substitution of existing products and services with lower emission options may reduce demand for the products and services, leading organizations to investments for technology development and/or adopt or deploy new practices and processes. Also, unsuccessful investment in new technologies may require organizations to research for new and alternative technology.

<u>Market Risk</u>

The fund managers should consistently review market risks such as shifts in supply and demand for certain commodities and products. Changing customer behavior/preferences and increase in raw materials cost may reduce demand for goods and services and result in decreased revenue.

Reputation Risk

Climate change has been identified as a potential source of reputational risks. Changing customer or community perceptions of an organization's contribution to or detraction from the transition to a lower-carbon economy may decrease demand for goods or services, resulting in reduced revenue.

When identifying such risks, fund managers are encouraged to look beyond their usual investment horizon because portfolio assets will in most cases be reinvested in similar investments. For instance, physical and transition risks which are not likely to have a material impact in the short term may become material in the medium or long term if the portfolio assets are reinvested in similar sectors or asset classes. Fund managers should also consider their nature of business as well as how such risks will affect their strategies and can be factored into their investment management processes if they may become material over time.

3.7 The fund managers are encouraged to provide key metrics used to measure and manage climate-related risks as described above. In addition to physical and transition climate- related risks, the fund managers should consider including metrics on climate-related risks associated with water, energy, land use, and waste management where relevant and applicable. If a fund manager deems that climate-related risks are relevant to certain types of investment strategies or funds under its management, the fund manager is expected to disclose how it incorporates climate-related risks into its investment and risk management process. For a sample disclosure statement for relevant climate-related risks, please refer to **Annex 3**.

3.8 Where a fund manager assesses that climate-related risks are irrelevant to certain types of investment strategies or funds under its management, the fund manager should disclose these exceptions when it discloses how it incorporates climate-related risks into its investment and risk management processes. It should also maintain appropriate records which explain why climate-related risks are irrelevant. For a sample disclosure statement for irrelevant climate-related risks, please refer to **Annex 2**.

Concept of Materiality

3.9 When assessing the materiality of the impact of climate-related risks on an investment strategy or a fund, fund managers should adopt an approach which is appropriate and proportionate to their circumstances. The approach can be qualitative, quantitative or some combination of both. Below are some examples as to what each approach may entail.

Qualitative Approach:

Identify sectors (e.g., utility and power, mining, oil and gas) which are more likely to be adversely affected by the transition to a low-carbon economy and evaluate whether the investment portfolio is unintentionally skewed towards these sectors.

Quantitative Approach:

Utilize in-house or third-party data tools to analyze a portfolio's climate-related risks in the context of weather or climate data (e.g., five-year history of daily weather variables such as temperature and precipitation, extreme weather events including cyclones, earthquakes and drought) or projected climate conditions (e.g., the agreed rate of sea level rise in 10, 20 or 30 years' time) and assess their likely impact on the portfolio.

A combination of the qualitative and quantitative approach.

Section 4: Governance

4.1 Rationale

4.1.1 The board and management of the Investment Manager should ensure the effective integration of climate-related risks across an organization.

4.1.2 The board should be accountable for the Investment Manager's long term resilience with respect to potential shifts in the business landscape that may result from climate change.

4.2 Baseline Requirements

Board's roles and responsibilities

4.2.1 The Investment Manager should define the scope in overseeing the incorporation of climate-related considerations into the investment and risk management framework;

4.2.2 The Investment Manager should determine how the board and/or the board committee (e.g. audit, risk, sustainability or other committee) executes the role, including the process and review annually by which the board and/or the board committee is informed about climate related issues.

Management's roles and responsibilities

4.2.3 The Investment Manager should assign roles and responsibilities with description for managing climate-related risks to management level positions or management committees which report to the board or the board committee, and determine the appropriate management structure;

4.2.4 The Investment Manager should determine how the management (through specific positions or management committees) will monitor the status and progress of efforts to manage climate-related risks;

4.2.5 The Investment Manager should keep record on processes by which management is informed about climate-related issue;

4.2.6 The Investment Manager should devote sufficient human and technical resources for the proper performance of the duty to manage climate-related risks (e.g., provide training to staff, engage subject experts and acquire climate-related data from external sources);

4.2.7 The Investment Manager should establish satisfactory internal controls and written procedures to ensure compliance with internal policies and procedures as well as regulatory requirements related to the management of climate-related risks; and

4.2.8 The management should set goals and targets for addressing climate-related issues and develop action plans for managing climate-related risks.

Section 5: Investment Management

5.1 Rationale

5.1.1 The Investment Manager should assess how climate-related risks will impact each product or investment strategy on the transition to a lower-carbon economy.

5.2 Baseline Requirements

5.2.1 The Investment Manager should identify the relevance and materiality by assessing the climate-related risks for each product and investment strategy over the short and long term.

5.2.2 The Investment Manager should factor the climate-related risks into the investment management process, such as investment philosophy, investment strategy, and research and analysis process.

5.2.3 The Investment Manager should disclose the steps of incorporating the climate-related risks of the investment management framework and assess the impact of these risks on the performance of underlying investments.

5.2.4 If the climate-related risks have been assessed to be irrelevant to certain types of investment strategies or funds, the Investment Manager should disclose such exceptions at the entity and fund level together with the disclosure on how it incorporates climate- related risks into its investment and risk management processes. Records on the explanation of the irrelevant climate-related risks should also be maintained.

5.2.5 The Investment Manager should make adequate disclosures of information in writing and communicate to fund investors through electronic or through uploading such disclosure or information to the Investment Manager's website (if available).

5.2.6 The Investment Manager will review disclosures at least annually and update the disclosures where considered appropriate and inform fund investors of any material changes as soon as practicable.

Section 6: Risk Management

6.1 Rationale

6.1.1 The Investment Manager should disclose how it identifies, assesses, and manages climate-related risks.

6.2 Baseline Requirements

6.2.1 The Investment Manager should take climate-related risks into consideration in risk management procedures for each product or investment strategy.

6.2.2 The Investment Manager should describe the processes for identifying, assessing, managing and monitoring climate-related risks for each investment strategy and fund it manages.

Examples of process including:

- Decision-making to mitigate, transfer, accept or control climate related risks
- Prioritization climate-related risks
- How materiality determinations are made
- Existing and emerging regulatory requirements related to climate change
- Potential size and scope of identifies climate risks

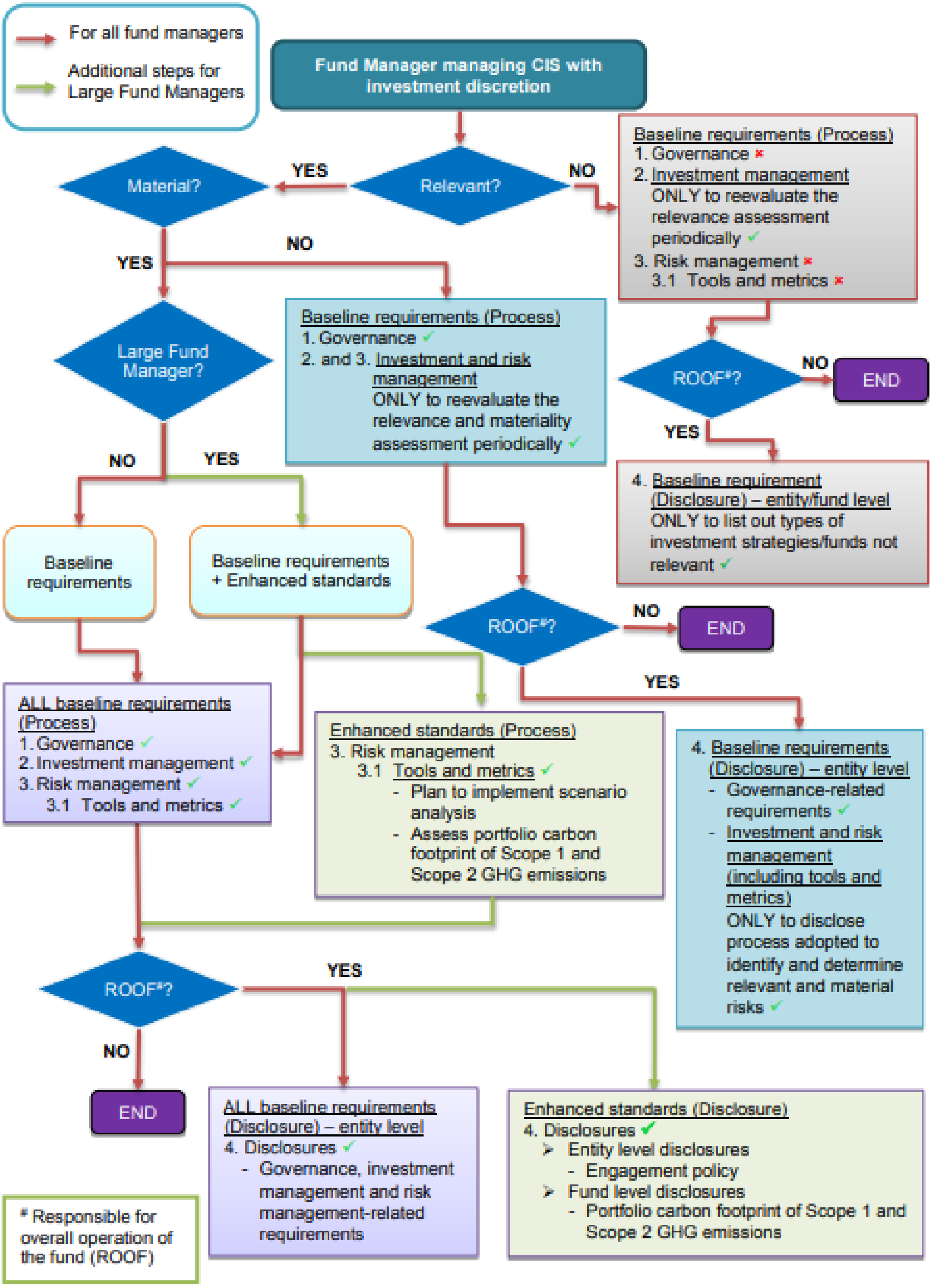
6.2.3 The Investment Manager should apply appropriate tools and metrics to assess and quantify climate-related risks and describe how these metrics have changed over time. For more information on the aforementioned, please refer to Section 3.

Enhanced standards for Large Fund Managers

6.2.4 The Large Fund Managers should assess the relevance and utility of scenario analysis in evaluating the resilience of investment strategies to climate-related risks under different pathways. If the assessment result is deemed to be relevant and useful, fund managers are required to develop a plan to implement scenario analysis within a reasonable timeframe; and

6.2.5 The Large Fund Managers should take reasonable steps to identify the portfolio carbon footprints of the Scope 1 and Scope 2 GHG emissions associated with the funds' underlying investments, where data is available or can be reasonably estimated, and define the calculation methodology and underlying assumptions.

Annex 1: Flowchart for the applicability of the requirements



Ref: SFC Consultation Conclusions on the Management and Disclosure of Climate-related Risks by fund managers

Annex 2: Sample Disclosure Statement when Climate-Related Risks is irrelevant

United Gain Investment Limited acknowledges that climate change is emerging as a major driving factor affecting long term resilience in the industry and the global economy. Thereby, this creates an urgent need to accelerate the transition towards a net-zero economy. While climate change poses a systemic and unprecedented risk to the global economy, the impacts on specific markets, regions, communities, and investments are complex, dynamic, and uncertain.

As an SFC licensed corporation, we take our fiduciary responsibility to consider and disclose all material factors that may impact the risk-adjusted returns of our investments, including climate-related financial risks and opportunities.

As an investor in the global economy, the scale and multi-faceted nature of climate change presents a systemic risk to our portfolio. Climate change impacts investors like us in two main ways:

- Physical impacts (e.g. wildfires, extreme weather, sea-level rise, drought) can affect our fixed assets (e.g. real estate) and disrupt portfolio companies' supply chains and operations. Climate change's acute and chronic physical impacts can affect people's health, food security, migration, water supply, and other ecosystem services in ways that could bring heightened volatility to financial markets and harm economic growth.

- Transition risks, or shifts in policies, technologies, industries, and customers, due to changed climate norms or movement toward a lower-carbon economy can affect the financial success of existing business models and industries. Our portfolio companies' long-term success depends on the degree to which they can successfully navigate the transition.

Given our investment portfolio, frequency of trading and investment scope, climate-related risks are not included in the investment objective of our products, the investment and risk management process of those products consider climate-related factors to be irrelevant. Therefore, such climate-related risks are not included in the investment philosophy, investment strategies, research and analysis process.

The Investment Manager will conduct assessment of the Fund’s portfolio annually on the relevance of climate-related risks.

We will continue to take reasonable steps to assess the impact of the aforesaid risks on the performance of the managed Fund’s underlying investments to ensure compliance with the Hong Kong SFC’s related requirements on management and disclosure of climate-related risks by fund managers.

Should you have any queries, please do not hesitate to contact us at operation@unitedgain.com or +852 3586 0220.

United Gain Investment Limited

Disclaimer: This disclosure statement is intended to provide information to stakeholders and by its nature may involve risk and uncertainty. This document may contain forward-looking statements. Any statements that may express forecasts, expectations and projections are not guarantees of future performance given the current uncertainties on this front.

<Annex 3: Sample Disclosure Statement when Climate-Related Risks is relevant>

United Gain Investment Limited acknowledges that climate change is emerging as a major driving factor affecting long term resilience in the industry and the global economy. Thereby, this creates an urgent need to accelerate the transition towards a net-zero economy. While climate change poses a systemic and unprecedented risk to the global economy, the impacts on specific markets, regions, communities, and investments are complex, dynamic, and uncertain.

As an SFC licensed corporation, we take our fiduciary responsibility to consider and disclose all material factors that may impact the risk-adjusted returns of our investments, including climate- related financial risks and opportunities.

As an investor in the global economy, the scale and multi-faceted nature of climate change presents a systemic risk to our portfolio. Climate change impacts investors like us in two main ways:

- Physical impacts (e.g. wildfires, extreme weather, sea-level rise, drought) can affect our fixed assets (e.g. real estate) and disrupt portfolio companies' supply chains and operations. Climate change's acute and chronic physical impacts can affect people's health, food security, migration, water supply, and other ecosystem services in ways that could bring heightened volatility to financial markets and harm economic growth.

- Transition risks, or shifts in policies, technologies, industries, and customers, due to changed climate norms or movement toward a lower-carbon economy can affect the financial success of existing business models and industries. Our portfolio companies' long-term success depends on the degree to which they can successfully navigate the transition.

Given our investment portfolio, frequency of trading and investment scope, we take climate- related risks into account in our investment and risk management process.

Therefore, United Gain Investment Limited has incorporated such climate-related risks in the investment philosophy and investment strategies, along with climate-related data into the research and analysis process.

In light of the above, Investment Manager will conduct risk assessment of the Fund’s portfolio annually on climate-related risks and opportunities and how these may influence decisions in relation to risk management, strategy setting, implementation and monitoring.

Through our engagement and advocacy efforts we are working to minimize the absolute risk from climate change to our portfolio. We also hope to understand the financial risks to our portfolio and prepare for the long-term changes that will accompany climate change through our research and integration efforts.

We will continue to take reasonable steps to assess the impact of the aforesaid risks on the performance of the managed Fund's underlying investments to ensure compliance with the Hong Kong SFC's related requirements on management and disclosure of climate-related risks by fund managers. Our Board will also continue to thoroughly oversee the progress against goals for addressing climate-related issues.

Should you have any queries, please do not hesitate to contact us at operation@unitedgain.com or +852 3586 0220.

United Gain Investment Limited

Disclaimer: This disclosure statement is intended to provide information to stakeholders and by its nature may involve risk and uncertainty. This document may contain forward-looking statements. Any statements that may express forecasts, expectations and projections are not guarantees of future performance given the current uncertainties on this front.