FountainCap
Research & Investment
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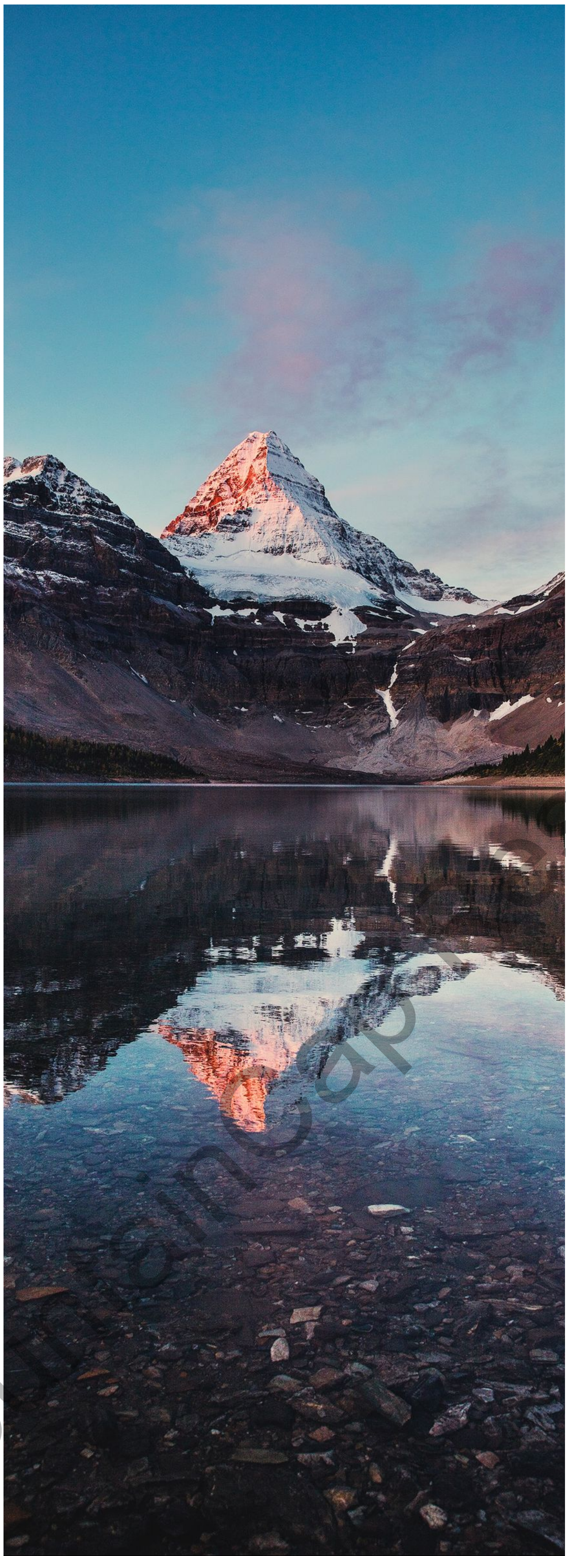

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

REPORT 2023

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

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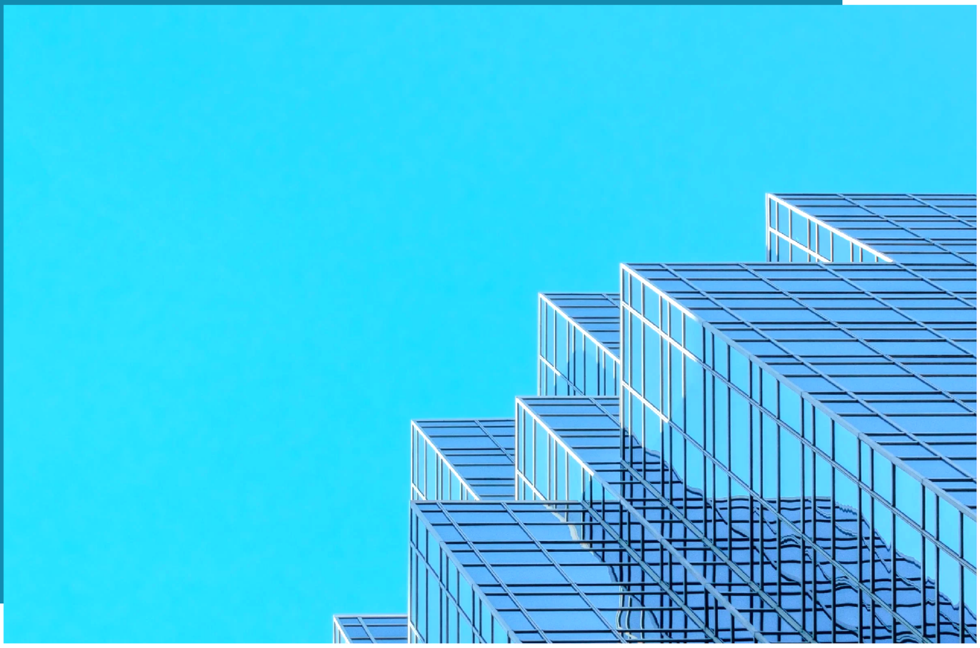


Foreword

We are pleased to present our second report in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This report shows our commitment and actions to address the climate-related risks and opportunities that affect our investment activities and our clients' interests. This report follows the four pillars of the TCFD framework: governance, strategy, risk management, and metrics and targets. It covers the period from October 1, 2022 to September 30, 2023 and reflects our progress and achievements in integrating climate considerations into our investment processes and practices.

As a China manager, we recognize that climate risk is material to our investment decisions and our fiduciary duty to our clients. We believe that climate change is one of the most significant challenges facing the world today, and that it also presents enormous opportunities for innovation and value creation. We are determined to play our part in supporting the transition to a low-carbon economy and to align our investments with the goals of the Paris Agreement.

We are aware of the challenges and opportunities that the China market presents in terms of environmental, social and governance (ESG) and climate issues. China is undergoing a rapid economic transformation that has implications for its energy consumption, emissions, and environmental quality. China is also a global leader in renewable energy development, green finance, and low-carbon innovation. As an asset manager that focuses on the China market, we have a unique opportunity to support the country's green transition and to capture the growth potential of its emerging sectors. We understand that investors are increasingly demanding more transparency and accountability from us as asset managers. We are committed to working with our peers, regulators, and other stakeholders to address these issues and to promote best practices in the industry. We actively engage with our portfolio companies to encourage them to improve their ESG and climate performance, and to disclose their climate-related information in line with the TCFD recommendations.

We hope that this report will provide useful information to our stakeholders and contribute to the global dialogue on climate action. We acknowledge that climate change poses significant challenges and uncertainties for investors and businesses alike, but we also see it as a source of innovation and opportunity. We are proud to be part of the TCFD community and to support the transition to a low-carbon economy. We look forward to continuing our journey of learning and improvement in this important area.

Steven Luk
CEO
November 29, 2023

China's Navigation to the Green Transition

The economic downturn in China and globally has significant implications for the development of climate change initiatives in the Chinese market. However, it's important to note that the transition to a low-carbon economy could also serve as a pathway to economic recovery. Investments in renewable energy and other green technologies can stimulate economic growth while also addressing climate change.

As China asset managers, we face several challenges when supporting China's low carbon transition. One of the main challenges is the lack of ESG awareness among companies and the general public. This can make it difficult to promote sustainable practices and investments. Additionally, the regulatory environment for climate change is complex and evolving. Navigating these regulations requires a deep understanding of both domestic and international climate policies.

According to the "White Paper on ESG Practices in China" published by the International Capital Market Association (ICMA) and the China Central Depository & Clearing Co., Ltd. (CCDC) in January 2023, there has been a noticeable enhancement in the ESG performance of Chinese enterprises. More than 4,500 Chinese companies disclosed 2022 sustainability reports, accounting for 52.22% in A-shares, H-shares, ADRs and Taiwan-shares, according to Miotech.

Private and public enterprises in China are also playing significant roles in tackling climate change. Private enterprises, especially Small and Medium-Sized Enterprises (SMEs), are paving the way for greening and adapting to climate change across economic sectors, including industrial and manufacturing, agriculture, tourism, and energy. Public enterprises, on the other hand, are incorporating specific mitigation and adaptation policies into their development initiatives.

The impact of these climate change initiatives on us as asset managers is profound. Understanding these dynamics is crucial for navigating the investment landscape. Companies that align themselves with a low-carbon economy could offer promising prospects for investment. Moreover, understanding the implications of these initiatives is essential for risk management and identifying new investment opportunities.
In conclusion, while the current economic situation presents challenges for the development of climate change initiatives in the Chinese market, it also opens up new avenues for strategic investment and growth.

Governance

Executive Management Committee

The Executive Management Committee (EMC) of FountainCap Research and Investment (FountainCap) is responsible for overseeing the management of the company's climate-related risks and opportunities, as well as ensuring alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). In addition, 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 we have not set goals and targets for addressing climate-related issues, the EMC is not required to achieve this duty. To ensure our climate-related strategy is aligned with our overall vision, mission, and values, the Board has delegated the responsibility of handling all climate-related issues to the Responsible Investment Committee (RIC). 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. The RIC also 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 comprises representatives from various functions and departments within the company, such as investment, risk, operations, and compliance. The RIC meets 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. The RIC also engages with external stakeholders, such as clients, regulators, industry associations and NGOs, to exchange views and insights on ESG issues. The RIC plays 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.

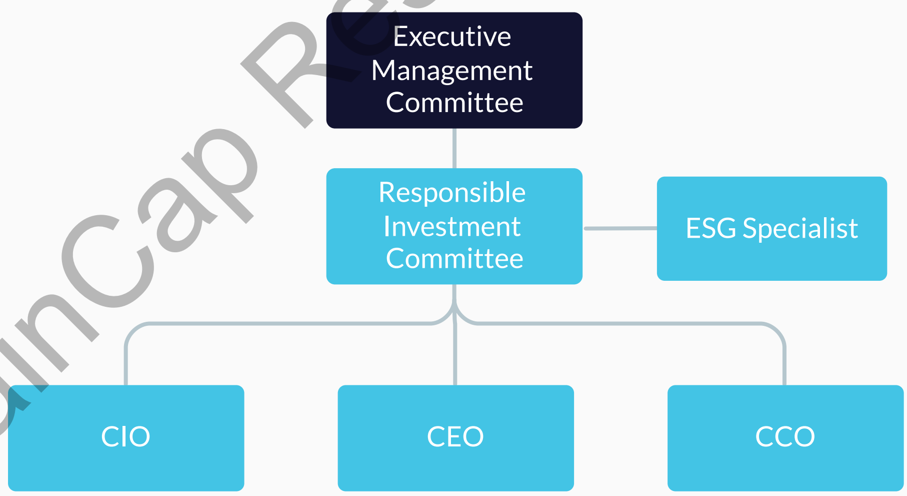
ESG Specialist

Our ESG specialist, who is part of the Risk & Product Control Department, is accountable 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. In addition, the ESG Specialist also regularly conducts other activities, such as internal training, stewardship practices, and monitoring and reporting climate-related issues to the RIC on a quarterly basis.

Risk Committee (RC)

We also have an established Risk Committee (RC) as a sub-committee of the Board of Directors responsible for all risk management duties. The RC mainly oversees enterprise operational risk and investment risk, including climate-related risks.
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 like this 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')

FountainCap has demonstrated its commitment to responsible investment and climate action by achieving several milestones in 2022 and 2023. One of the key achievements was the kickstart of its stewardship program, which involved revising the stewardship section of its Responsible Investment Policy to better identify target engagement companies. An example of such engagement will be provided in the “Investment and Risk Management” section of this report. Another achievement was the creation of a proprietary ESG analytic toolkit, which replaced the ESG scorecards and incorporated materiality mapping from different ESG data providers. This toolkit helps the investment team identify relevant ESG issues, including climate-related risks, for their coverage companies and enhance their decision-making process. The integration of climate-related risk and opportunities into our investment strategy will also be explained in “Investment and Risk Management” section. Furthermore, FountainCap conducted a baseline assessment of its portfolio’s net-zero alignment, which involved a thorough analysis of its investee companies’ carbon emissions and climate risks. The result and insight of this assessment will be detailed in the “Metrics and Targets” section of this report. Lastly, FountainCap submitted its first voluntary UNPRI reporting in 2023 and is awaiting the feedback in 2023Q4. This report reflects FountainCap’s adherence to the UNPRI principles and its continuous improvement of its ESG performance.

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+

2023 (as of Q3)

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

Strategy (cont')

Scenario Analysis

Climate scenario analysis is a technique that helps us plan for the future by analyzing the possible outcomes of different events and situations related to climate change. By using the IPCC warming scenarios, we can evaluate how our investments and operations might be affected by changes in temperature, precipitation, sea level, extreme events, and other climate variables. Climate scenario analysis can help FountainCap understand the risks and opportunities of climate change, communicate its vision and value proposition to its clients and stakeholders, and prepare for unexpected events and crises that might be influenced by climate change.

This year, 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 indicate that the impact on our financial performance and position over the next five years will be minimal. The physical risk in Hong Kong, as detailed in the scenario analysis, is currently not significant. We have already incorporated climate risk analysis into our investment framework, which gives us confidence in managing the potential impact of climate risk on our future investments. We will persist in monitoring and reviewing our analysis to ensure 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 made significant strides in enhancing our ESG integration approach.

ESG Analytical Toolkit

We have replaced our old version of ESG scorecards with our proprietary 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, with reference to materiality mapping from third-party ESG data providers.

We adopt the materiality mapping and engage in discussions with the Responsible Investment Committee, which includes representatives from the investment team. We then adjust the materiality of each GICS[1] subsector, in accordance with the context of the China market. Our analysts use our proprietary ESG Analytical Toolkit to efficiently identify and assess significant ESG topics, including climate-related risks. This toolkit incorporates materiality mapping from third-party ESG data providers.

For data sources, we have transitioned from MSCI ESG to Miotech. Miotech's climate data is more comprehensive and suitable to us as they are a China-market specific ESG data provider. Their comprehensive climate data is crucial for identifying and managing climate-related risks in our portfolio. Additionally, their use of artificial intelligence enhances our ability to assess ESG risks and opportunities. Lastly, their provision of transparent ESG data and ratings supports our investment decision-making, risk management, credit processes, and compliance. Using Miotech's data allows us to make more informed investment decisions, manage ESG risks more effectively, and better align our investment strategies with our commitment to responsible investment and risk management.

[1] 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.

Investment and Risk Management (cont')

Our analysts conduct their fundamental research on companies, taking into consideration the relevant ESG issues. Issues for further analysis may arise from data provided by external ESG rating providers, as part of the analysts' meetings with companies, and from their deep knowledge of industry dynamics and trends. Analysts rate each of the companies within the portfolio based on a mix of qualitative and quantitative factors, leveraging their own knowledge and understanding of the company's current actions on a particular ESG issue together with external ESG data. While our investment professionals have discretion in taking a view on any given ESG risk or opportunity, any investment in a company with a below-average ESG rating versus its peers requires a detailed rationale, which will be regularly reviewed. In the context of climate-related risks, firms that are more vulnerable, such as those in the oil and gas sector, must undergo rigorous scrutiny. If their climate change rating is below average when comparing to their industry counterparts, analysts are required to provide in-depth evaluation and conduct regular reviews.

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. Our ESG Specialist plays a crucial role in these meetings. They are responsible for identifying and monitoring material climate-related issues that may pose a risk to the company and presenting these findings at the meeting. When it comes to prioritising climate-related risks, we employ a process of materiality assessment. This involves carrying out a scenario analysis, as outlined in the "Strategy" Section, to gauge the potential financial implications of each risk, its probability of happening, 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 accorded top priority. This process of determining materiality is dynamic and is routinely reassessed to keep pace 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 kept informed about any climate-related risks and can make informed decisions about how to mitigate, transfer, accept, or control these risks effectively.

This process is part of our commitment to transparency and effective risk management and it is applied to all our products and investment strategy. It allows us to proactively address climate-related risks 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 disclosure 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.

Investment and Risk Management (cont')

CASE STUDY:
ENHANCING CLIMATE-RELATED DISCLOSURE WITH A CHINESE LOGISTIC COMPANY

In late 2022, FountainCap initiated an engagement with a Chinese logistic company, marking a significant step in our stewardship program. This company was selected as our first engagement target due to its substantial impact on our portfolio's carbon emission intensity and our significant stake in its outstanding shares, which provided us with the leverage to influence its ESG practices. The primary goal of our engagement with the Chinese logistic company was to enhance their level of climate-related disclosure. We understand that the awareness of climate change and ESG is generally lower in Chinese companies. Therefore, we do not rush or urge our investee companies to improve their climate performance immediately. Instead, we believe in gradual and steady progress, encouraging our investee companies to enhance their understanding of climate-related risks and opportunities and to improve their ESG practices over time. This approach allows us to support our investee companies in their transition towards sustainable business practices while also managing climate-related risks in our portfolio.

Phase 1: Initiation
We began by reaching out to the company via email, requesting an online meeting to discuss the purpose and scope of our engagement. A productive conversation ensued with their Hong Kong-based general manager, during which we outlined our expectations and requests.

Phase 2: Formal Request
Following the initial discussion, we sent a formal letter to the company, detailing our specific requests. These included disclosing its greenhouse gas emissions, setting emission reduction targets, conducting climate risk assessments, and adopting low-carbon strategies. We also requested the company to publish its first TCFD report by June 2023 and maintained regular follow-ups to monitor its progress.

Phase 3: Review and Discussion
Upon the release of the company's annual ESG report in March 2023, we arranged a face-to-face meeting to gain a deeper understanding of its approach to climate change. We discussed the potential impact of increasing extreme weather events on its operations and supply chain and shared best practices from other logistic companies that had implemented effective climate actions.

Phase 4: Follow-up and Success
In August 2023, we inquired about the status of the TCFD report. The company fulfilled its commitment and released the report later that month. This marked a successful engagement, as the company significantly enhanced its level of disclosure.

This case study exemplifies FountainCap's commitment to engaging with portfolio companies to improve their ESG practices, particularly in relation to climate-related disclosures. We believe that such engagements are crucial for managing climate-related risks and aligning our investments 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

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

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

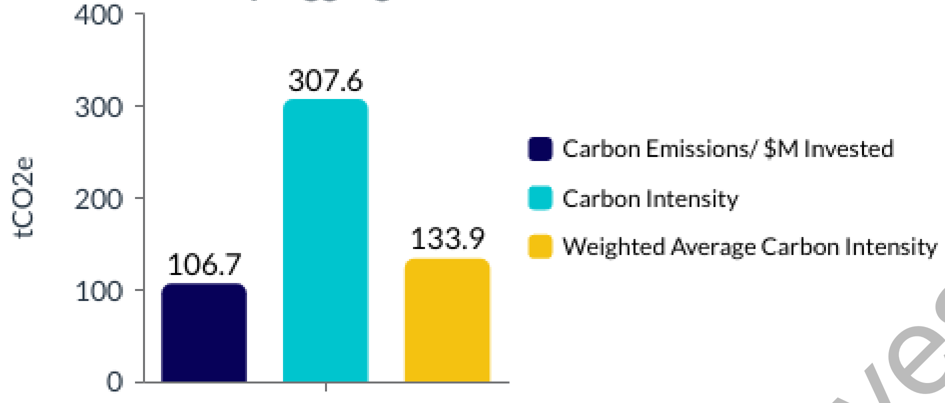
Different metrics may be used by the industry and investors may prefer one metric over the other in evaluating the carbon emission level of our portfolio. We use these metrics to help understand our portfolio's absolute and relative emission profiles. We have chosen to disclose only Scope 1 and Scope 2 data of the underlying companies. The primary reason for this decision is the current level of disclosure from Chinese companies, which form a significant part of our investment portfolio. At present, these companies have a relatively low level of disclosure, particularly in relation to Scope 3 emissions. Scope 3 emissions, which cover all other indirect emissions that occur in a company's value chain, require a high level of detail and transparency from companies. Given the current disclosure practices in China, obtaining accurate and reliable Scope 3 data of the underlying companies is challenging. We are actively engaging with our portfolio companies to improve their disclosure practices. However, until such improvements are made, we believe that focusing on Scope 1 and Scope 2 data of the underlying companies provides the most accurate and reliable representation of our carbon footprint. We remain committed to full transparency and will continue to reassess our disclosure practices 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')

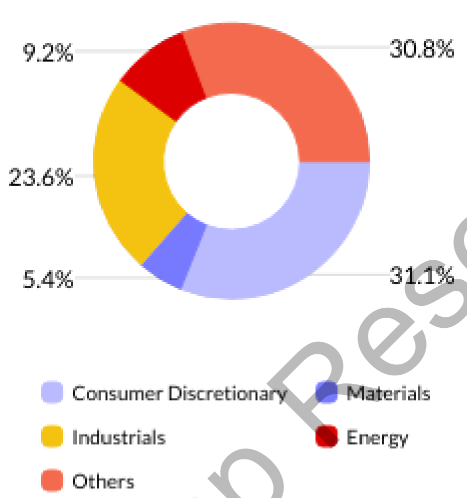
Key Metrics[2] (as of September 2023)

FountainCap Aggregated Portfolio Carbon Metrics

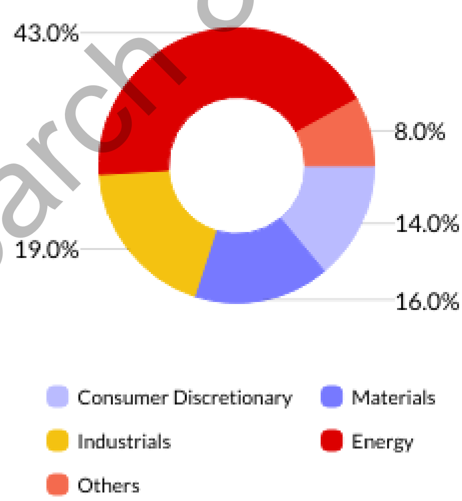


Source: Miotech, Bloomberg

Market Value by GICS



Contribution to WACI



Source: Miotech, Bloomberg

The charts show that Energy, Industrial, Materials and Consumer Discretionary have the highest contribution of WACI to FountainCap's Portfolio, representing more than 69% of the portfolio's WACI, indicating a high exposure to transition risks. Specifically, the sectors of Energy and Materials are encountering significant exposure to transition risk. Consequently, we are diligently overseeing our portfolio companies within the Materials and Energy sectors to confirm that their risk levels are being effectively controlled.

[2] 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.

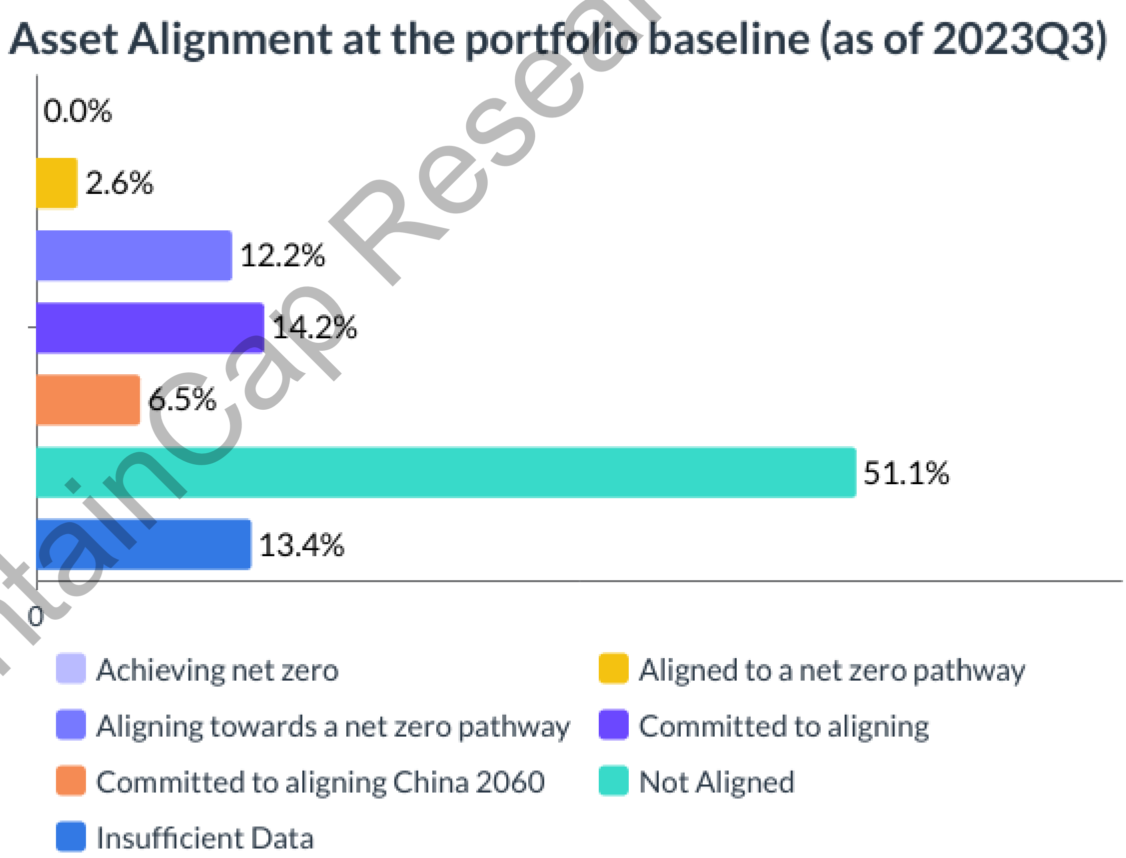
Metrics and Targets (cont')

Portfolio Net Zero Target Plan

We wish to express our firm commitment to tackling climate change as an asset manager. We recognize the importance of aligning with international initiatives, such as the Net Zero Asset Managers (NZAM) initiative, in achieving our climate goals.

Before making a commitment, we have undertaken a careful assessment of our capabilities and conducted a net zero alignment[3] of our investee companies in accordance with the Net Zero Investment Framework. The chart below presents our preliminary results. To better address the China market context, we also add one more category for level of alignment, "Committed to Aligning China 2060" to represent companies which are committed to aligning with China's 2060 climate goals.

We believe in taking a step-by-step approach to this complex issue. We target to release our commitment statement by 2024. We are confident that this measured approach will enable us to make meaningful progress towards our climate goals.



[3] Only public equity investment is included in the analysis.

IMPORTANT INFORMATION

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