

2025

Task force on climate-related financial disclosures



FountainCap Research & Investment
(Hong Kong) Co., Limited
2025

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FountainCap Research & Investment

FOREWORD

Over the past year, climate change has continued to shape the investment landscape in profound and far-reaching ways. Against a backdrop of ongoing geopolitical uncertainty, a slowing global economy, and increasingly complex regulatory expectations, climate-related risks and opportunities remain central to how we analyse businesses and allocate capital. As long-term, bottom-up investors focused on China, we recognise the pivotal role that climate considerations play in influencing the structural development of the region, the resilience of companies, and the sustainability of future returns.

This TCFD Report covers the financial reporting period from October 1, 2024 to September 30, 2025. During this time, we made meaningful progress in strengthening our climate-related practices. We enhanced our ESG integration framework, updated our Responsible Investment Policy to further clarify climate governance responsibilities, and broadened our analytical tools to more systematically assess climate-related risks. At the same time, China's evolving policy landscape—ranging from continued investments in renewable energy to intensified environmental enforcement—reinforced the strategic importance of climate adaptation and transition readiness for companies across the market.

In addition to improving our internal processes, we deepened our understanding of how climate factors intersect with the industries and business models we invest in. The rapid expansion of renewable energy, the growing scrutiny on emissions disclosure, and the increasing frequency of climate-related weather events all highlight the need for investors to assess not only the near-term operational resilience of companies but also the credibility of their long-term transition strategies. These dynamics have also reinforced the importance of active ownership. Throughout the year, we continued to engage with portfolio companies on climate governance, disclosure quality, and transition preparedness, recognising that meaningful progress often requires ongoing dialogue and mutual commitment.

Looking ahead, we remain firmly committed to deepening our climate capabilities. While China's national net-zero target is set for 2060, we aim to progressively align our investment approach with a 2050 net-zero pathway, reflecting both the direction of global markets and the expectations of our clients. This alignment is aspirational but intentional: it sets a clear direction for the continued evolution of our climate framework, including enhanced emissions data, more sophisticated scenario analysis, and more targeted stewardship efforts. We are fully aware that the path to long-term climate alignment is iterative by nature. Nevertheless, our commitment to transparency, accountability, and continuous improvement ensures that we will continue strengthening our approach year after year.



Steven Luk

CEO

2 February, 2026

THE CHANGING CLIMATE OF CHINA'S MARKETS

China's climate transition continued to advance during the 2025 reporting period, supported by sustained policy momentum, rapid renewable energy deployment, and greater national focus on environmental governance. The country added another year of strong solar and wind installations, reinforcing its position as a global leader in clean energy expansion. At the same time, China increased investments in grid flexibility, energy storage, and digitalisation, reflecting ongoing efforts to integrate higher levels of renewable generation and strengthen system reliability. These developments highlight China's long-term commitment to reshaping its energy mix and reducing reliance on conventional thermal power, even as concerns over energy security persist.

Climate regulation also tightened meaningfully. The Ministry of Ecology and Environment intensified enforcement of emissions and environmental compliance standards, particularly for carbon- and pollution-intensive industries. Heightened inspections, stricter reporting requirements, and more visible enforcement actions are prompting companies across industrial, materials, and manufacturing sectors to upgrade equipment, improve efficiency, and adopt cleaner technologies. In parallel, China continued preparatory work to expand the national emissions trading system beyond the power sector, signalling wider adoption of market-based mechanisms to support decarbonisation.

Corporate climate disclosure improved as well, with more listed companies providing greenhouse gas emissions data, environmental targets, and governance structures aligned to emerging domestic reporting guidelines. This shift is partly driven by new draft sustainability disclosure standards from China's stock exchanges, which are encouraging greater transparency and comparability. External pressures also remained strong. The EU CBAM transitional requirements, and broader expectations from global supply chains, continued to push Chinese exporters—particularly in basic materials and industrial sectors—to enhance emissions accounting and demonstrate transition readiness to maintain international competitiveness.

Physical climate risks remained a prominent challenge. The year saw continued occurrences of extreme rainfall, flooding, and heatwaves, disrupting industrial hubs and highlighting vulnerabilities for companies with geographically concentrated operations. These events reinforce the need for investors to assess not only a company's exposure to transition dynamics but also its resilience to climate-related disruptions that may affect production, logistics, and long-term asset integrity.

Taken together, these developments reflect a maturing and increasingly complex climate landscape in China. For fundamental investors, strengthening climate analysis is essential to understanding both the risks that may impair long-term value and the opportunities arising from China's low-carbon transformation. Companies that demonstrate credible transition planning, operational resilience, and high-quality climate disclosure are better positioned to navigate this evolving environment and benefit from emerging structural trends.

GOVERNANCE

Executive Management Committee

Climate governance at FountainCap is anchored by our Responsible Investment Policy and overseen at the highest levels of the firm. The Executive Management Committee (EMC) holds ultimate responsibility for climate-related matters, reflecting our belief that climate risk is a strategic issue closely linked to long-term investment outcomes and business resilience. The EMC reviews significant climate risks or issues escalated by the Responsible Investment Committee (RIC) or the ESG Specialist and ensures that climate considerations remain aligned with the firm's broader objectives, risk appetite, and operational priorities. The EMC also provides directional guidance on the continued evolution of FountainCap's climate strategy, including data, resource, and process enhancements that support long-term progress.

Responsible Investment Committee

FountainCap has established the Responsible Investment Committee (RIC), chaired by the ESG Specialist, to provide oversight and direction on the firm's ESG policies and practices, including climate-related matters. The RIC includes representatives from key functional areas across the organisation, such as investment, risk, operations, and compliance, ensuring that climate considerations are evaluated through a multi-disciplinary lens. The committee convenes quarterly to review the firm's climate objectives and progress, assess the implementation of the Responsible Investment Policy, and monitor the effectiveness of our ESG and climate integration processes. The RIC also identifies emerging ESG trends, regulatory developments, and potential risks that may influence our investment approach or operational activities. In addition, the RIC engages with external stakeholders—including clients, regulators, industry associations, and NGOs—to exchange views on evolving ESG expectations and best practices.

The RIC fulfils several key roles:

- **Evaluation and Management of Climate-related Issues:** The RIC oversees and manages all climate-related matters within the firm and escalates significant issues to the Executive Management Committee (EMC).
- **ESG Integration:** The RIC works closely with the investment team to ensure that ESG and climate considerations are systematically integrated into investment research and decision-making.
- **ESG Review:** The RIC reviews the effectiveness of ESG and climate integration practices, internal monitoring processes, and reporting outputs.
- **Client Communication:** The RIC supports responses to client queries related to ESG and climate matters, ensuring consistency and transparency in communication.
- **Industry Trends Monitoring:** The RIC maintains an up-to-date understanding of broader ESG and climate-related market developments, regulatory changes, and thematic trends.
- **ESG Culture Promotion:** The RIC helps to foster a strong ESG culture across the firm by promoting awareness, facilitating cross-team collaboration, and supporting ongoing capability development.

The RIC reports directly to the Executive Management Committee on an annual basis and sponsors the ongoing adoption, implementation, and enhancement of ESG and climate-related considerations within FountainCap's business operations.

ESG Specialist

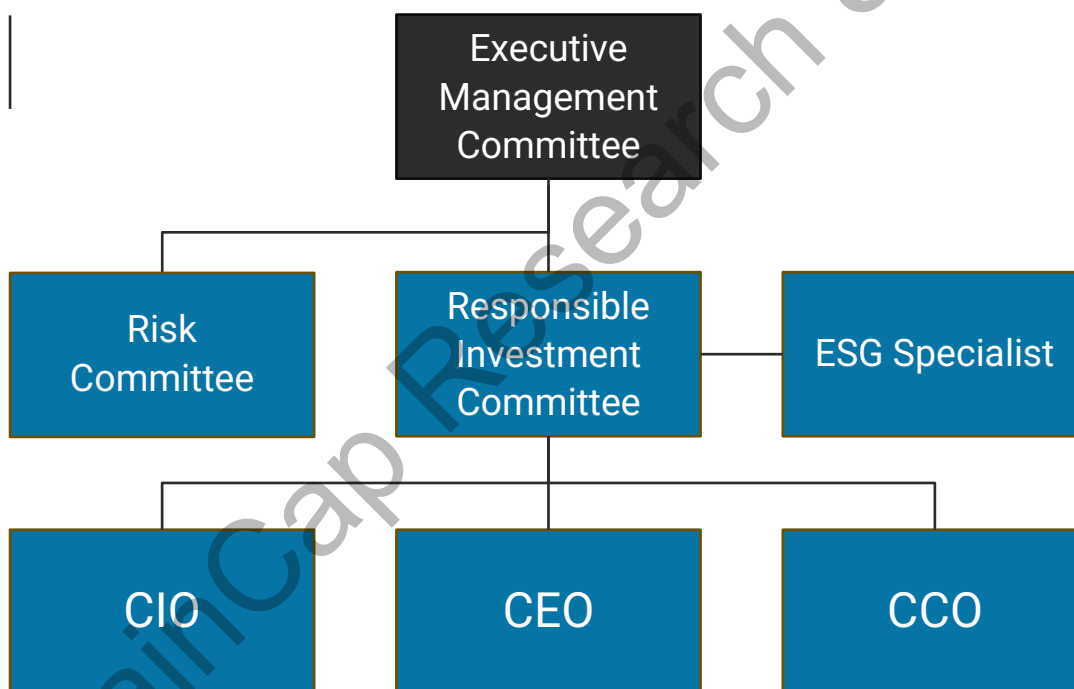
Day-to-day climate integration is led by the ESG Specialist, who is responsible for implementing FountainCap's climate framework across research, monitoring, engagement, and reporting. The ESG Specialist conducts independent climate and ESG due diligence during the pre-investment process, evaluates material climate risks for each investment case, and monitors issuers for changes in environmental performance or emerging controversies. The role also involves providing technical guidance to investment analysts, supporting stewardship activities focused on climate-related matters, and preparing climate reports for the RIC and EMC.

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 ESG-related Governance Structure



STRATEGY

As an all-China long-only asset manager, FountainCap integrates sustainable practices into its investment strategies. Recognising the importance of climate change and its potential financial implications, we systematically consider climate-related risks and opportunities as part of our investment decisions. This section explains how we incorporate climate-related factors into our investment strategy and portfolio management, including our updated climate-risk assessment for 2025.

We have identified the following potential climate-related risks:

Risk Types	Time Horizon	Potential Impact	Specific Examples
Regulatory changes in Hong Kong	Short-term (0–2 years)	Increased disclosure and reporting requirements may require updates to investment processes and client reporting.	HKEX has proposed enhanced climate-risk disclosure requirements aligned with IFRS S2 and TCFD.
Transition risks due to climate change	Medium-term (2–5 years)	Could affect financial market stability and pose challenges for high-emission industries under more stringent national climate policies.	China’s accelerated adoption of ETS expansion and tightening environmental enforcement.
Climate change impacts on long-term growth	Long-term (5+ years)	Climate change could affect China’s long-term economic development and industrial competitiveness.	Coastal flooding, water scarcity, and climate stress affecting manufacturing hubs.
Acute physical risks (extreme weather events)	Short-term (0–2 years)	Damage to physical assets, supply-chain disruption, reduced operating hours, and higher insurance costs.	Increased frequency of extreme rainfall, heatwaves, floods across China.
Chronic physical risks (long-term climate shifts)	Long-term (5+ years)	Gradual changes in precipitation, temperature, and sea levels impacting sectors such as agriculture, logistics, and coastal infrastructure.	Rising sea levels and long-term urban heat impacts.
Physical risks to office operations	Short-term (0–2 years)	Localised disruptions to office operations and infrastructure, leading to potential business interruption.	Hong Kong and Shanghai have experienced extreme rainfall and flooding stress.
Policy shifts aimed at decarbonisation	Short-term (0–2 years)	Potential changes in market structure, profitability, and regulatory burden for high-carbon industries.	Carbon tax expansion, stricter ETS verification, and mandatory climate reporting in export markets.

Over the past year, FountainCap has continued to strengthen its ESG capabilities, marking another meaningful step forward in the evolution of our sustainable investment framework. We enhanced the independence and authority of our ESG Specialist in the pre-investment process, ensuring that ESG and climate considerations are assessed rigorously and incorporated systematically into investment decisions. This refinement to our governance and workflow, detailed in the “Investment and Risk Management” section, reinforces our ability to identify and address material ESG and climate-related risks.

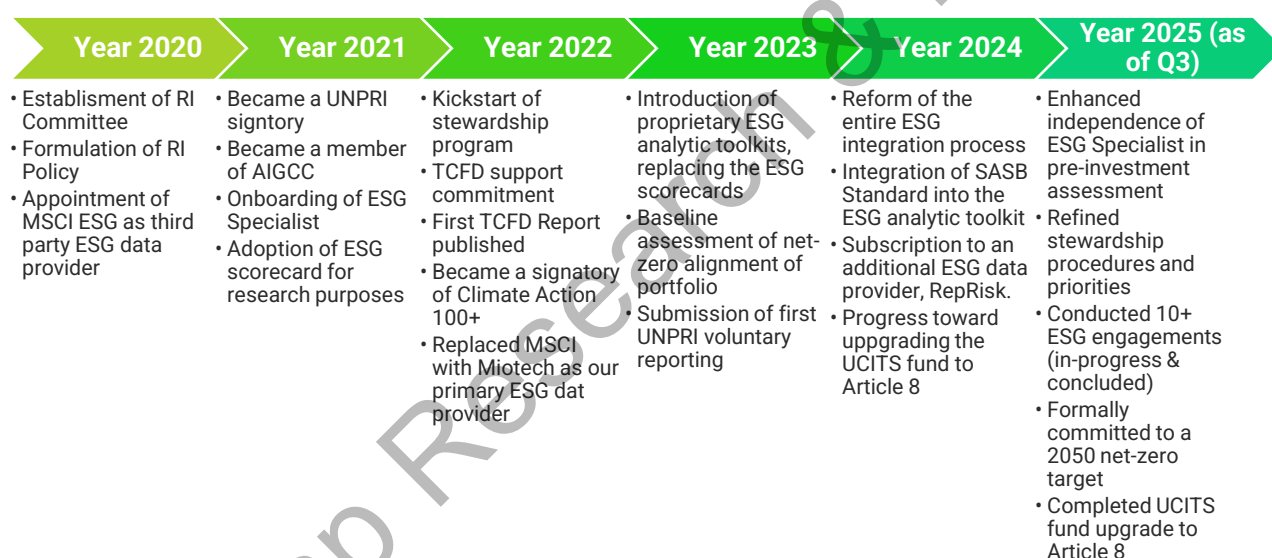
We also refined our stewardship escalation procedures to improve the transparency, structure, and effectiveness of our engagement activities. These enhancements contributed to a more proactive stewardship approach, with FountainCap conducting over 10 ESG-related

engagements during the year, spanning both in-progress and completed cases. This reflects our ongoing commitment to driving meaningful improvements in climate governance, disclosure quality, and sustainability practices among our portfolio companies.

In parallel, we strengthened our strategic positioning by formally committing to align our investment approach with a 2050 net-zero target. While this commitment does not impose portfolio-wide emissions targets at this stage, it sets a clear long-term direction for continued development of our climate analytics, scenario assessment capabilities, and stewardship priorities.

Finally, after several years of iterative improvements to our ESG integration processes, we successfully upgraded the UCITS fund advised by FountainCap from an Article 6 fund to an Article 8 fund under the Sustainable Finance Disclosure Regulation. This achievement reflects the robustness of our ESG framework and affirms our ability to meet heightened sustainability requirements. It also positions the strategy more favourably for investors who prioritise responsible investment practices.

Climate Journey of FountainCap



Scenario Analysis

Climate scenario analysis is an important tool for assessing how different climate pathways may affect our investments and operations over time. By exploring a range of potential climate futures, we can better understand the risks and opportunities associated with both physical climate impacts and the transition to a low-carbon economy. Scenario analysis also supports long-term planning, strengthens resilience, and enables more informed dialogue with clients and stakeholders.

For this qualitative assessment, we evaluated physical risks using three Representative Concentration Pathways (RCPs) developed by the Intergovernmental Panel on Climate Change (IPCC): **RCP 8.5**, **RCP 6.0**, and **RCP 2.6**. These pathways represent a spectrum of global emissions trajectories and are widely used to analyse climate-related impacts such as extreme heat, flooding, sea-level rise, and changes in precipitation patterns.

For transition risks, we constructed three China-specific scenarios reflecting potential policy developments: **Current Policy State**, **Enhanced Policy State**, and **Delayed Policy State**. These

scenarios highlight the range of regulatory, technological, and market shifts that may influence companies as China advances its climate and economic transition.

Based on current portfolio composition, our analysis indicates that the financial impact over the next five years remains limited. Nonetheless, this assessment underscores the importance of ongoing monitoring, particularly for sectors sensitive to regulatory tightening or extreme weather. We will continue to refine our scenario work as higher-quality emissions and climate data become available.

The tables below summarise the updated qualitative outcomes of our physical and transition risk assessments. Scenario analysis should be interpreted as indicative rather than predictive, given the inherent uncertainty of long-term climate projections.

Our scenario analysis suggests that the short-term financial implications to the portfolio are limited, given our focus on fundamentally strong companies and sectors with moderate climate exposure. However, physical risks—particularly heat stress and flooding in parts of China—and transition risks stemming from regulatory tightening remain important areas for ongoing monitoring. Scenario analysis has therefore been incorporated into our investment review processes.

Given current data limitations, this scenario analysis remains qualitative and is intended to inform strategic decision-making rather than serve as a precise forecast.

Physical Risk Scenario Analysis

Scenarios	Physical Risks	Physical Opportunities	Office Location & Design Implications
RCP 8.5	Very high risk. Severe impacts from extreme heat, intense rainfall, flooding, storm surges, droughts, and sea-level rise affecting infrastructure, supply chains, and ecosystems. Some portfolio companies may face operational disruption and higher adaptation costs.	Limited benefits; some increased crop yields in cooler regions and increased demand for adaptation technologies.	May require relocation or substantial resilience upgrades as Hong Kong becomes more exposed to coastal flooding, storm surges, and heat stress.
RCP 6.0	High risk. Significant increases in extreme weather events and flooding, with material implications for operations, logistics, and supply chains.	Moderate opportunities from improved agricultural productivity in select regions and demand for resilient infrastructure.	May require improvements to office resilience, energy efficiency, and flood protection.
RCP 2.6	Low risk. Milder impacts but still includes more frequent heavy rainfall and heatwaves. Transition risks become more prominent under this scenario.	Benefits from stabilised climate conditions and improved ecosystem function in some regions.	No major changes expected; Hong Kong's physical risks remain manageable with moderate adaptation.

Transition Risk Scenario Analysis

Scenario	Transition Risks & Opportunities	High-Risk Sectors	Lower-Risk / Opportunity Sectors	Portfolio Implications
Current Policy State	Moderate risks and opportunities. Continued regulatory tightening, expanding ETS coverage, and heightened disclosure requirements. Opportunities in firms already improving energy efficiency and governance.	Oil & gas, coal, thermal power, aviation, steel	Renewable energy, waste management, green buildings	Maintain allocation; monitor regulatory changes and governance strength.
Enhanced Policy State	High risks and high opportunities. Accelerated decarbonisation drive; stricter standards; potential asset stranding in carbon-intensive sectors. Strong incentives for clean tech and industrial upgrading.	Cement, steel, petrochemicals, inefficient manufacturers	EVs, batteries, renewables, hydrogen, advanced manufacturing	Reallocate toward transition-aligned leaders; avoid structural laggards.
Delayed Policy State	Short-term continuity but elevated long-term risk. Sudden policy tightening possible later; reputational risks rise for firms perceived as unprepared; potential long-term disruption.	Companies failing to prepare for regulatory tightening	Tech, healthcare, services, adaptable manufacturing	Diversify and favour companies with strong governance and forward-looking risk management.

Explanation of the scenarios:

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

FountainCap's enhanced ESG integration process has now been fully implemented across all stages of the investment workflow. After a full year of application, the updated framework has proven effective in strengthening the consistency, depth, and decision relevance of our ESG and climate analysis. The process ensures that material sustainability factors are systematically identified, monitored, analysed, and addressed through engagement, reinforcing our ability to assess long-term risks and opportunities across the portfolio.

Our ESG integration framework consists of four key steps—identify, monitor, analyse and evaluate, and engage—supported by SASB Materiality Mapping and our proprietary ESG Analytic Toolkit.

- **Identify (Pre-investment ESG due diligence)**

At the pre-investment stage, analysts conduct structured ESG due diligence to identify material risks and opportunities specific to each company and industry. This includes reviewing disclosures, analysing business practices, and discussing ESG considerations directly with the ESG Specialist and portfolio managers. ESG and climate factors are incorporated early into investment cases to ensure that material issues are considered before capital is allocated.

- **Monitor (Ongoing ESG and climate monitoring)**

Once invested, we continuously monitor the ESG performance of portfolio companies using Miotech, RepRisk, and other data sources. These platforms provide real-time updates on controversies, climate indicators, regulatory shifts, and material ESG score changes. This monitoring helps us detect emerging risks quickly and identify companies that may require closer scrutiny or engagement.

- **Analyse and Evaluate (Independent ESG Specialist assessment)**

The ESG Specialist conducts an independent assessment of each proposed investment, acting as an internal “gatekeeper” to ensure ESG risks are rigorously evaluated. Using the ESG Analytic Toolkit, the ESG Specialist reviews analyst due-diligence findings, assesses climate risks, and provides an ESG opinion that is presented to portfolio managers. Where the ESG Specialist's assessment differs from the analyst's, that view is highlighted for investment consideration to ensure our ESG expectations and standards are upheld.

- **Engage (Active ownership and escalation)**

We actively engage with companies to encourage improvements in ESG governance, disclosure, and performance. Engagements are prioritised based on materiality and risk, with escalation pathways that now include structured follow-ups and time-bound

expectations. Over the past year, this framework has contributed to improved engagement effectiveness, with more than ten ESG-related engagements conducted or in progress.

Through the effective implementation of this enhanced integration process and improved stewardship structure, we have strengthened the decision-usefulness of ESG insights across the investment lifecycle. This approach supports transparent reporting, enables more informed investment decisions, and ensures alignment with our long-term commitment to responsible investment.

ESG Analytical Toolkit

Our ESG Analytic Toolkit continues to serve as a core component of our investment process, enabling analysts to systematically assess material ESG and climate-related factors. Building on the enhancements made in recent years—including the integration of SASB Standards for materiality mapping—the Toolkit now provides a more structured and comparable framework for identifying financially relevant ESG issues across industries.

Miotech remains our primary ESG data provider, supporting the Toolkit with comprehensive company disclosures, climate metrics, and AI-enabled risk assessments. Over the past year, we have also benefited from a full year of RepRisk subscription, which has proven valuable in strengthening our understanding of real-time ESG incidents and emerging risks. RepRisk's controversy screening and incident-driven analytics have been particularly effective in helping us identify potential risk hotspots, prioritise engagement targets, and intervene earlier when material issues arise.

Together, these data inputs enhance the robustness of our ESG assessments and support more informed investment decisions. They also enable us to adopt a more proactive and risk-aware approach to stewardship, ensuring that our investment strategy remains aligned with our commitment to responsible investment and effective ESG risk management.

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.

Stewardship Program

Stewardship remains a central pillar of FountainCap's ESG integration framework, and in 2025 we placed particular emphasis on strengthening our engagement practices. We continue to believe in engagement over divestment and view active ownership as an essential lever for improving ESG outcomes, managing long-term risks, and supporting the resilience of our portfolio companies.

Over the past year, stewardship became a major focus of our ESG programme. We conducted over 10 engagement activities, both concluded and ongoing, primarily centred on environmental issues and human rights-related concerns. These themes were identified as material across several sectors in our portfolio and often reflected areas where disclosure was insufficient or where company practices required further scrutiny.

RepRisk played a meaningful role in enhancing the effectiveness of our engagements. After one full year of using the platform, RepRisk has proven valuable in identifying real-time ESG incidents, controversy clusters, and risk hotspots. This allowed us to prioritise companies for engagement more systematically and escalate discussions where emerging risks were observed. In addition to incident-driven engagement, we also approached companies proactively where their disclosure on material ESG topics was inadequate, encouraging improved transparency and alignment with market expectations.

Our prioritisation framework for engagement continues to reflect the criteria established in previous years, including:

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.

These criteria ensure that our stewardship efforts are focused on issuers where our influence is most meaningful and where ESG improvements can lead to material risk reduction.

This year, we also conducted firm-wide outreach to all portfolio companies to inform them of FountainCap's formal commitment to align our investment approach with a 2050 net-zero target. This communication reinforced our long-term expectations for climate governance, transition planning, and disclosure quality, and served as an initial step in establishing clearer stewardship dialogue on net-zero alignment. More detail on this initiative is provided in the "Portfolio Net Zero Initiative" section.

Through these efforts, we continue to advance our stewardship objectives, strengthen our relationship with portfolio companies, and support their progress on climate- and ESG-related matters. This approach is consistent with our commitment to responsible investment and our belief that constructive engagement can drive meaningful improvements in corporate sustainability performance over time.

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

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

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

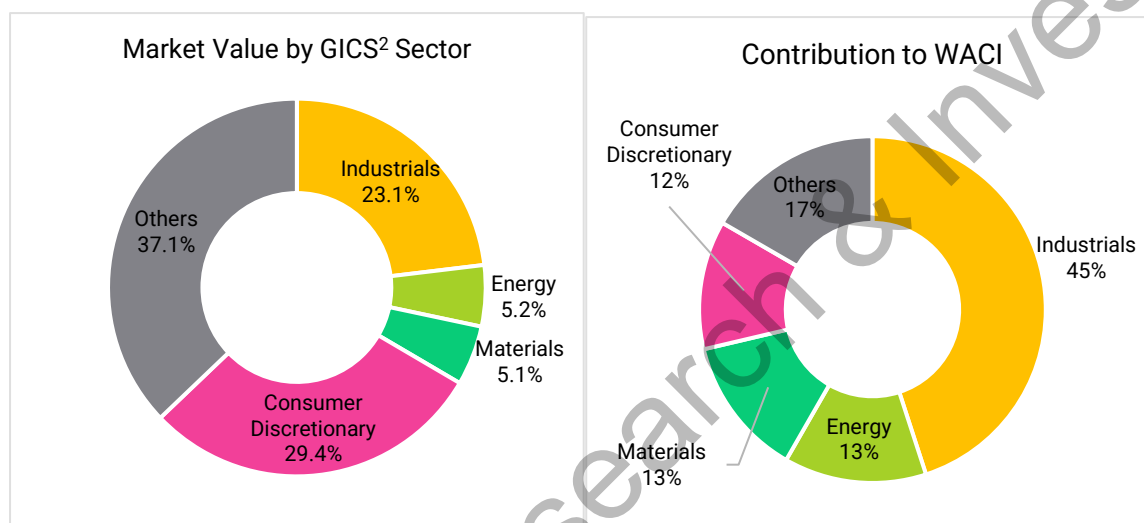
Different metrics are used by the industry, and investors may prefer one metric over another for evaluating the carbon emission level of a portfolio. These metrics help in understanding the portfolio's absolute and relative emission profiles. Only Scope 1 and Scope 2 data of the underlying companies 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.

Key Metrics¹ (as of September 2025):

Carbon Metrics of FountainCap Aggregate Portfolios	2022	2023	2024	2025
Carbon Emissions (t CO ₂ e/\$m invested)	128.5	106.7	102.2	40.2
Carbon Intensity (t CO ₂ e/\$m sales)	365.0	307.6	342.1	185.7
Weighted Average Carbon Intensity (t CO ₂ e/\$m sales)	213.6	209.5	228.4	92.5

Source: Mitech, Bloomberg



Source: Mitech, Bloomberg

The carbon metrics of FountainCap’s aggregate portfolios showed a significant reduction in 2025, with portfolio carbon emissions, carbon intensity, and weighted average carbon intensity (WACI) declining to their lowest levels in four years. Carbon emissions decreased to 40.2 tCO₂e/\$m invested, carbon intensity fell to 185.7 tCO₂e/\$m sales, and WACI dropped to 92.5 tCO₂e/\$m sales.

This substantial reduction was primarily driven by the full divestment of a high-emitting energy company that had previously been a material contributor to the portfolio’s carbon footprint. FountainCap has participated in the Climate Action 100+ engagement working group for this company for several years; however, limited progress on climate transition and disclosure led us to reassess the long-term suitability of the holding within a sustainably positioned portfolio. The exit resulted in a meaningful improvement across all carbon metrics for the 2025 reporting cycle.

The sectoral breakdown of WACI highlights that Industrials, Energy, Materials, and Consumer Discretionary collectively account for more than 83% of the portfolio’s total carbon intensity,

¹ 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.

² 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.

consistent with the emissions profile of China's equity market. Among these, Industrials remain the largest contributor, followed by Energy and Materials, reflecting the emissions-heavy nature of manufacturing, logistics, and upstream supply chains in China.

While our exposure to high-emitting sectors is selective and fundamentally driven, these areas continue to present heightened transition risks, particularly as China advances its climate policy agenda and increases regulatory scrutiny on emissions-intensive industries. As a result, we maintain active oversight of portfolio companies within these sectors, focusing on their climate governance, emissions disclosure, and transition-readiness. This monitoring is supported by our enhanced ESG integration process and the use of Miotech and RepRisk for real-time identification of risk signals and engagement priorities.

Overall, the improvement in 2025 carbon metrics reflects both portfolio restructuring and proactive stewardship efforts. We will continue to refine our monitoring and engagement activities to support long-term decarbonisation and manage climate-related risks effectively.

Portfolio Net Zero Initiative

During the 2025 reporting cycle, FountainCap formally committed to aligning our investment portfolios with a 2050 net-zero target, marking a significant milestone in the evolution of our climate strategy. This commitment follows two years of analytical preparation, including baseline alignment assessments, feasibility evaluation, and engagement with external frameworks such as the Net Zero Investment Framework (NZIF) and the Transition Pathway Initiative (TPI). The commitment—outlined in our 2025 Net Zero Introduction and formal communication letters to portfolio companies and clients—establishes clear targets and expectations for our investment approach.

Our net-zero strategy includes portfolio coverage targets, financed-emissions reduction targets, and a structured engagement programme for companies in material (high-impact) sectors. From a 2023 baseline, we target a 34% reduction in financed emissions by 2030 and full decarbonisation by 2050, consistent with the IEA NZE2050 pathway. These targets are accompanied by a progressive increase in the proportion of AUM assessed as achieving, aligned, or aligning to a net-zero pathway—reaching 70% by 2030 and 100% by 2050.

As part of this initiative, we conducted firm-wide outreach to all portfolio companies to inform them of FountainCap's commitment and outline the expectations associated with our transition strategy. Separate communication letters were issued to companies in material and non-material sectors, explaining the relevance of our net-zero target to their sectoral profiles and inviting dialogue on transition planning.

To support consistent internal application of the strategy, we also conducted an internal training session across the firm. The session provided investment, operations, and risk teams with a clear understanding of our net-zero methodology, data requirements, stewardship implications, and NZIF-aligned evaluation criteria. This training ensured that all staff are aligned on expectations, analytical processes, and the practical integration of the net-zero commitment into day-to-day investment workflows.

In parallel, we strengthened our internal readiness by integrating TPI sector classification into our investment process and aligning our stewardship programme with our NZIF engagement threshold. Under this threshold, we aim for at least 70% of financed emissions in material sectors to be either aligned, aligning, or actively engaged—rising to 90% by 2030. We also

refined our monitoring and reporting approach to support periodic assessment of alignment, consistent with the guidance set out in our Net Zero Commitment Introduction.

FountainCap's net-zero commitment is designed to evolve as data improves. While we continue to face disclosure limitations in China—particularly in Scope 3 emissions reporting—our 2025 commitment reflects a balanced approach that avoids premature or unsupported target-setting while maintaining ambition and credibility. Looking ahead, we expect ongoing improvements in data availability, company transition planning, and regulatory clarity to further support the implementation of our strategy.

Our formalised net-zero commitment now forms a core part of our long-term investment philosophy, guiding both portfolio construction and stewardship. As we progress along this pathway, we will continue to work collaboratively with portfolio companies, clients, and stakeholders to support real-economy decarbonisation and long-term value creation. For stakeholders who are interested in more detailed information about our net-zero approach, please contact us at sustainability@fountaincapri.com.

FountainCap Research & Investment

References & Sources

Category	Key Sources
Global Climate & Energy Data	<ul style="list-style-type: none"> • International Energy Agency (IEA): <i>World Energy Outlook, Energy Transitions Insights, Renewables, World Energy Investment</i> • Intergovernmental Panel on Climate Change (IPCC): <i>AR6 Synthesis Report, RCP Scenario Pathways</i> • UN Environment Programme (UNEP): <i>Emissions Gap Report</i> • World Meteorological Organization (WMO): <i>State of the Climate in Asia</i>
China Climate, Energy & Environment	<ul style="list-style-type: none"> • National Energy Administration (NEA): Renewable energy and energy-storage policy updates • Ministry of Ecology and Environment (MEE): Environmental enforcement, climate & ETS policy updates • National Development and Reform Commission (NDRC): Energy transition policy updates • China Meteorological Administration (CMA): Annual climate bulletins
China ESG & Disclosure Standards	<ul style="list-style-type: none"> • Ministry of Finance (MOF): Sustainability Disclosure Standards • Shanghai, Shenzhen, Beijing Stock Exchanges: Draft sustainability/ESG reporting guidelines • China Securities Regulatory Commission (CSRC): ESG regulatory updates
Investor Climate Stewardship & Net Zero Guidance	<ul style="list-style-type: none"> • Principles for Responsible Investment (PRI): Climate & stewardship guidance • Glasgow Financial Alliance for Net Zero (GFANZ): Transition planning guidance • Institutional Investors Group on Climate Change (IIGCC): Net Zero Investment Framework (NZIF) • Transition Pathway Initiative (TPI): Sector alignment & management quality framework

IMPORTANT INFORMATION

Published on 2 February 2026

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