China Life Franklin Asset Management Entity Level Climate-related Risks Disclosures

After thorough analysis and vigorous discussion among our management, we consider climate-related risks relevant and material to the long-term investment risk and return of collective investment schemes under our management. The analysis will be continually monitored and reviewed on an annual basis to keep abreast of the change in market condition and regulatory changes in relation to climate-related risks.

We seek to address climate-related risks in five respects:

1. Governance
2. Investment Management
3. Risk Management
4. Disclosures
5. Active Engagement

Governance:

To set the tone from the top, our board of directors and senior management are involved in overseeing the progress of managing climate-related risks.

The board of directors of CLFAMC will review climate-related risks reports prepared by the risk management function of CLFAMC on an annual basis, which is independent of the investment function to maintain impartiality, with the aim to influence employees' behaviour by putting more emphasis on climate-related risks.

To incorporate climate-related risks into daily operations and decision-making, senior management will be involved in discussion and decision-making processes in relation to the management of climate-related risks during the periodic Risk Management Committee meeting, with participants including head[s] of investment functions and risk management function.

A Climate-related Risk Policy is specifically designed to ensure adherence to our internal expectations and regulatory requirements regarding climate-related risks, which is drafted by the Compliance and Risk Department and approved by senior management.

Investment Management

Climate-related risks are considered in various investment processes, including research report preparation, investment pool approval process and portfolio management decision-making process. Our investment team is also prepared to engage with investee companies through direct communications or proxy voting when needed. Further details are set out below under "Active Engagement".

Various tools and metrics mentioned below under "Risk Management" will be used to identify and assess the relevance and materiality of climate-related risks and monitor the potential impact on portfolio assets on an ongoing basis.

Risk Management

Our Risk Management function is responsible for designing risk metrics and measures to properly identify, manage and monitor climate-related risks. We have collaborated with third-party data providers to enhance robustness of our tools. Metrics and measures such as Portfolio Carbon Footprint (PCF), Carbon Intensity, Transition VaR, Physical VaR, Climate-alignment scenario analysis results and effects in temperature rise are utilized to analyze the interaction between climate-related risks and our portfolios. The analyses are done in different dimensions, from portfolio level to individual security level and in different timeframes, including both ex-post and ex-ante analysis. PCF is disclosed at fund level in channels such as portfolio level financial reports to make sure that investors are well informed of their climate-related risk exposures. The formula shown below illustrates the calculation methodology of PCF:

$$Portfolio\ Carbon\ Footprint = \sum_{N}^{i}\left(\frac{\frac{\text{Current value of investment}_i}{Investee\ company's\ enterprise\ value_i} \times Investee\ company's\ Scope\ 1\ and\ Scope\ 2\ GHG\ emissions_i}{Current\ Portfolio\ Value\ (\$\ million)}\right)$$

The Risk Management function is also charged with the duty to prepare risk reports for the board of directors on an annual basis and to senior management during the periodic Risk Management Committee meetings. The report covers the climate-related risks metrics from portfolio level to individual security level as well as work progress report of climate-related risks projects.

Disclosures

On entity level, we disclose the firm-wide policies and procedures on climate-related risks in terms of governance, investment management, risk management, engagement policy and disclosures on CLFAMC's official website. The content of disclosure is subject to annual review to ensure timeliness of the information disclosed.

On portfolio level, we disclose PCF of collective investment schemes which are in-scope in accordance with the Fund Manager Code of Conduct issued by the Securities and Futures Commission (SFC)[1] on fund level financial reports. The figure is prepared by the risk management function with the aid of third-party data providers to improve the accuracy and coverage of disclosures. Along with the PCF figure, methodology, assumption, limitation, and percentage of securities covered in the computation of PCF are also disclosed to give a clearer picture of the figure disclosed.

Active Engagement

<u>Direct Engagement</u>

Where necessary, we actively engage with investee companies to drive their behaviours towards a more sustainable goal. Metrics such as ESG score, Carbon Intensity, Carbon Risk Rating, Transition VaR, Physical VaR, Climate Scenario Alignment Analysis Results and Portfolio's effect on global temperature are utilized to evaluate the need to engage with an investee company. Topics of engagement include but are not limited to:

1. Discussion of climate-related risk issues faced by the investee company
2. Discussion of the quality of greenhouse gas emission data disclosures
3. Discussion of disclosures regarding climate-related subjects
4. Discussion of carbon reduction targets setting and progress on meeting the targets

<u>Proxy Voting</u>

[1] For the scopes of applicability of portfolio carbon footprint disclosures, please refer to the latest version of the Fund Manager Code of Conduct (FMCC) issued by the SFC

For equity investment, proxy voting is an effective tool in changing an investee company's behaviour. In situations where we are given the authority to vote on behalf of our clients, we exert our influence to drive investee companies towards a more sustainable operation. In general, the following types of resolutions shall be supported:

1. Adoption of climate change policies
2. Adoption of greenhouse gas emission reduction targets
3. Adoption of transition plans to align with The Paris Agreement
4. Adoption of low carbon business strategy
5. Regular and transparent disclosures of climate-related risks in accordance with international standards such as the SASB (Sustainability Accounting Standards Board) and the TCFD (Taskforce on Climate-related Financial Disclosures)
6. Oversight of climate-related risks by senior management and board of directors

In contrast, Portfolio Managers shall vote against resolutions and director elections when the steps taken by the investee companies are not satisfactory or contrary to the principle of sustainable development.

Record Keeping

Proper record-keeping of engagement activities and proxy voting activities is required to ensure senior management and board of directors' ability to oversee the engagement activities.

Conclusion

Data and analytics suggest that climate-related risks have a long-term impact on our investments and therefore efforts are put into designing proper policies and procedures to manage climate-related risks. Understanding that it is a relatively new topic in the context of investment management and the industry's practice in managing climate-related risks is changing in a rapid pace, we will keep abreast of the latest trend in climate-related risk management and continually review our process to equip ourselves with the ability and capacity to tackle the challenge.

18th August, 2022