

Governance

Governance Structure, board's role and oversight

Bin Yuan Capital has a senior management team (including investment and operation/risk/compliance) and an investment committee in the governance framework which sets objectives, develops principles and oversees execution throughout the whole organization. We have an open and transparent team structure where everyone can express ideas and opinions freely so that any concerns of possible violations can be promptly raised to avoid governance and compliance issues.

The senior management team is responsible for:

- Setting structures and processes for carrying out its role
- Setting the framework, including objectives and an acceptable investment risk appetite within that framework
- Providing oversight of the investment committee

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

Bin Yuan Capital is committed to supporting the goal of net-zero GHG emissions by 2050 or sooner with reduction targets set for 2030, in line with global efforts to limit global warming to 1.5 degrees Celsius.

The ESG research reports on individual companies and the portfolio are generated by the research team quarterly the **senior management team, portfolio managers, the investment committee**. The firm's annual report on responsible investment will be generated by the ESG team using the UNPRI framework and the report is available on the UNPRI database.

Management Role and responsibilities

The investment committee is responsible for:

- Developing the investment principles and strategic approach to investment
- Developing and maintaining the company's RI principles
- Determining the overall approach to the risk management of investments
- Overseeing the execution



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The portfolio managers are responsible for:

Discretionary management of the portfolio, including implementation within guidelines provided by the investment committee.

ESG framework

Our ESG framework is fully incorporated in our risk management framework and investment process. We believe poor ESG is a key business risk. We therefore aim to identify any stocks not meeting our ESG criteria early on in our screening process and exclude them from our pool of potential investments.

We have a diversified team with different backgrounds. The senior people in the research team have finance backgrounds. They also have experience of working at GE and operational experience. We have been hiring associates/analysts with backgrounds in diverse sectors, including auto logistics, environmental, hardware and semiconductor, information technology etc. This gives us industry knowledge and networks, and it helps us to assess the long-term sustainable development of a company.

UNPRI

Bin Yuan Capital became a UNPRI signatory in **September 2019**. The annual firm report on responsible investment is generated by the ESG team using the UNPRI framework and is available on the UNPRI database.

CA 100+

In February 2021 Bin Yuan became a member of CA 100+, an investor led initiative to ensure the world's largest corporate greenhouse gas emitters take the necessary action on climate change. In the near future, we are planning to work with other members of CA 100+ to carry out a series of communications with target companies (such as SAIC) in an effort to help companies increase their environmental awareness, cut emissions, and strengthen their climate related disclosures.

We publicly support the Paris Agreement for a better environment and TCFD (Task Force on Climate-Related Financial Disclosures) for better disclosure. We promote the culture of Responsible Investment throughout the whole organization to ensure the entire team share the same values of building a long-term responsible investment firm and investing in responsible companies.



Investment management

Identifying climate-related risks for investment strategies and funds

Our ESG framework is fully incorporated in our risk management framework and investment process. We believe poor ESG is a high impact business risk. We therefore incorporate climate considerations in the stock selection process using bottom-up research to identify any stocks not meeting our ESG criteria early on in our screening process and exclude them from our pool of potential investments.

The whole process is managed by our in-house team, and we have accumulated many years of practical experience in the market. To assess the real substance of a company's climate related risk, we look comprehensively into business process to identify those companies 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 companies as we hold the views that successfully avoiding damages from climate change will help drive economic growth and offer investors better returns. Throughout its portfolio design process, it incorporates steps such as examining the carbon emissions intensity and other measures to assess potential investments.

ESG factors may be of a medium to long-term nature and are often difficult to quantify. Therefore, apart from qualitative approach, Bin Yuan therefore devised an in-house rating system to quantify the qualitative elements of ESG risks and opportunities and how companies manage those risks. We rate those factors into two categories, **Exposure** and **Management**.

- Exposure refers to how exposed a company is to various ESG risk factors
- Management refers to how a company manages those ESG risk factors
 - ⇒ Exposure is scored on a 1-5 scale, with 5 representing no exposure and 1 representing very high exposure.
 - ⇒ Management is scored on 1-5 scale, with 5 representing the best practice management and 1 representing no effort being made.

A company with high exposure must also have very strong approach to managing those ESG risk factors, whereas a company with limited exposure can have a more modest approach. We monitor low ratings for each factor and avoid companies with management ratings below 3 in any categories where they also have high exposure.



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More than 30 ESG metrics are considered to get a comprehensive ESG score:

1. The **Environmental** score consists of the following factors: climate change, natural resources, pollution & waste, and environmental opportunities.
2. The **Social** score includes the following factors: human capital, product liability, stakeholder opposition, and social opportunities.
3. The **Governance** score has the largest weight and consists of over 20 factors including board diversity, ownership & control, conflict of interest, business ethics and all other governance-related factors.

| | No. | Segment | Sub-segment | Weight | Exposure | Management | Rate |
|----------------------|--------------------------|------------------------------------|------------------------------|--------|----------|------------|------------|
| Environment (15%) | 1 | Climate Change | | | 2.0 | 3.0 | 2.0 |
| | | | Carbon Emissions | | | | |
| | | | Financing Environment Impact | | | | |
| | | | Product Carbon Footprint | | | | |
| | | | Climate Change Vulnerability | | | | |
| | 2 | Natural Resources | | | 3.0 | 3.0 | 3.0 |
| | | | Water Stress | | | | |
| | | | Raw Material Sourcing | | | | |
| | | | Biodiversity & Land Use | | | | |
| | 3 | Pollution & Waste | | | 1.3 | 5.0 | 3.3 |
| | | | Toxic Emissions & Waste | | | | |
| | | | Electronic Waste | | | | |
| | | | Packaging Material & Waste | | | | |
| | 4 | Environmental Opportunities | | | 3.0 | 3.0 | 3.0 |
| | | | Opportunities in Clean Tech | | | | |
| | | Opportunities in Renewable Energy | | | | | |
| | | Opportunities in Green Building | | | | | |
| 5 | Negative Event in | | | | | | |



Assessing the impact of the climate-related risks on the performance of underlying investments

Examples of climate-related risks and their potential financial impact

| Type | Climate-related risks | Potential financial impact |
|-------------------------|--|---|
| Physical risks | Acute | Negative impacts on agriculture and tourism industry. Companies building factories by the sea to gain transportation benefits could encounter the risk of sea levels rising. |
| | Physical climate change or disasters, such as earthquakes, typhoons, floods, forest fires and hail | |
| | Chronic | |
| | Sea levels rising | |
| Transition risks | Policy and legal | |
| | Higher environmental protection requirements Rising carbon prices | Direct negative financial impact on high-carbon-emission companies. |
| | Technology | |
| | Decarbonization trend | Benefit companies providing environmentally friendly products and services. |
| | Market | |
| | Changing customer behaviour | Some new energy enterprises, such as electric vehicles, may benefit from government policy support and consumers' preference changes. |
| | Reputation | |
| | Shifts in consumer preferences | Consumers might favour products using recycled materials as their environmental awareness rises |



Risk management

Taking climate-related risks into consideration in risk management process

Ongoing assessments of climate-related risks

- updating ESG scores periodically and implementing a climate monitoring dashboard with metrics related to physical and transition risks;
- establish appropriate processes for the timely escalation and reporting of significant issues noted during risk monitoring to the board or other appropriate functional units such as the investment management function; and
- regularly review the effectiveness of their risk management systems to ensure that any potentially significant deterioration in climate-related risks is followed up promptly.

Integrating engagement into our investment strategy

The engagement system reinforces our ESG rating process. Engagement is an integral part of our ESG work and refers to the interaction between us and companies. It becomes a part of our job to engage with management to provide our opinion and advice, to share best practices, and make sure the companies are making progress. After meetings, we will follow up on the actions of the company and re-rate the ESG factors from the management dimension based on their progress. Besides engagement with companies, we are also engaging with regulatory bodies to help improve ESG standards in China.

Direct engagement instead of outsourcing our engagement activities to third-party service providers. We pursue the full spectrum of engagement ranging from thoughtful exercise of our proxy voting rights to direct discussions with the chairman. We also give senior management our feedback generated from our extensive due diligence which includes meetings with staff and employees at different levels and in different regions, and cross-checks with upstream and downstream stakeholders.

The investment team engages with investee companies/ research pool companies by: establishing policies and internal guidelines which set out priorities and objectives when engaging with investee companies;

- having regular discussions with investee companies to understand their policies and activities to manage climate-related risks and opportunities;
- seeking commitments from investee companies and monitoring their progress in addressing climate-related concerns; and
- using their voting authority to drive investee companies to enhance disclosures and practices related to climate-related matters to make more data available and better assess climate-related risks.



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The process of identifying companies for engagement:

- ⇒ Step 1 : Each analyst is responsible for assessing the ESG exposure risk for each company he/she covers by using the Bin Yuan ESG Framework
- ⇒ Step 2 : Analysts check if there is any possibility to eliminate or mitigate the risk by improving the company's management process, changing product structure or applying new technology (discuss with Bin Yuan ESG team if necessary)
- ⇒ Step 3 : If the answer is yes, analysts put the company name and engagement items on to the engagement list
- ⇒ Step 4: Prioritize the company according to the factors such as ESG ratings, materiality of ESG factors, and the portfolio exposures, etc.

Voting rights

Our analysts assess shareholder proposals by checking our ESG scorecards. The research team needs to assess whether the proposals have any impact on the environment or social factors, and whether there are governance issues or conflicted interests which impact minority shareholders. A “For” decision can only be made if all three aspects of ESG are compliant. The exercise of voting rights is recorded in a periodic report by the operations team. The principle is to vote in the best interests of our investors.

Vote decision-making processes

- a. Receive notice from custodian via email or fax
- b. Internal record
- c. Instruction distributed to the research team
- d. Receive voting comments from research team
- e. Approved by PMs

We use Proxy Edge and our custodian’s system to execute voting. The voting activities are documented and everyone in the research team and operations team have access to the result and reasons.

Active and constructive role

We play an active, constructive role in supporting the development of a well-functioning green and sustainable financial system by:

- engaging with regulators and policymakers to encourage the adoption of measures which align with the goals of the Paris Agreement; and
- participating as an active member of industry bodies, initiatives and networks including the PRI, Climate Action 100+ which advocate for progressive public policy and action for sustainable investments.