



# 2022

## ESG Investing Report

/ Long-term Investment / Value Investment / Responsible Investment /

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# Message from Management

## Active Exploration of a Chinese Approach to Asset Management in the New Era

Development is a persistent theme in society. However, in recent years, there have been challenges in the form of frequent extreme climate events, and the contradiction between humanity's stockpile of strategic resources and society's long-term development has intensified. Amid such a treacherous global situation, challenges and opportunities arise in tandem. Today, Chinese-style modernization, a new path for human development, offers the coordinated development of what is referred to as the "Five Civilizations", i.e., material, political, spiritual, social, and ecological civilizations. Looking toward the future, we are ushering in a new wave of sustainable development.

Finance's high-quality development is inherently necessary for our efforts to promote Chinese-style modernization. For the financial sector to experience high-quality growth, our financial system must be more resilient, and a sound foundation for financial security must be laid. In recent years, guided by new concepts of development, China has released a slate of top-level designs for its development, including carbon peaking and carbon neutrality, common prosperity, rural vitalization, etc. The purpose of these initiatives is to spur a shift among enterprises from seeking economic benefits alone to striving for both economic and social benefits. As an embodiment of the concept of sustainability in investment practices and within the capital market, ESG investment aligns with the intrinsic requirement for publicly offered funds to perform their fiduciary duty. This type of investment is closely tied to efforts to build sustainable capital markets. In this context, asset managers, represented by Southern Asset Management, has been exploring how to incorporate environmental (E), social (S) and governance (G) elements into their entire asset appraisal and investment decision-making process on the basis of fundamental investment from the perspective of shareholders. The aim is to tap underlying investments from long-term and diverse points of view and help add value to client assets in a steady and long-lasting manner.

At the behest of Southern Asset Management, I will now introduce our commitments and achievements in the ESG field to increase the resilience of our value-creation efforts.

### 1. Deepening New Development Concepts to Explore New Paths to High-quality Development

In recent years, the Chinese economy has been transitioning from rapid growth to high-quality development. In his report to the 20th National Congress of the Communist Party of China (CPC), General Secretary Xi Jinping emphasized high-quality development as a primary objective to be fulfilled in our drive to build a modern socialist country in every aspect. Asset managers have a crucial role to play in aligning capital markets to serve the real economy more

effectively and efficiently. They are also crucial in promoting high-level circulation in technology, capital, and the real economy, as well as in advancing industrial restructuring and the green transition. With their financial support, asset managers can offer innovative solutions for the contradiction that arises between economic transition and economic growth. As a professional institutional investor, Southern Asset Management acts on the decisions made by the 20th National Congress of the CPC and operates with the new development concepts as its fundamental principle. It implements the concept of high-quality development and fulfills its mission to optimize the allocation of market resources. In this process, we incorporate ESG investment philosophies into our entire process of investment research and are thus able to facilitate our investment decisions from new ESG perspectives and chart new paths to high-quality development on an ongoing basis.

### 2. Conducting Forward-looking Research to Assess Transition Opportunities and Risks from Unique Points of View

The physical risks of climate change on the real economy, as well as the risks associated with transition that arise in building a low-carbon economy, ultimately are transmitted to the financial sector. Furthermore, these physical risks may cause financial institutions to encounter new financial risks in managing their investment portfolios. A present lack of climate change-related data in China has prevented asset managers from analyzing climate change scenarios and conducting stress tests. Southern Asset Management, however, has taken the lead in leveraging its research capabilities and practical experience in the fields of ESG and fintech to develop climate change stress scenarios and transmission paths considering national conditions. It also leads in exploring the methods and models associated with climate risk management that are suited to financial institutions, thus making it one of the first asset management institutions to address ESG issues and apply the TCFD framework. We believe assessing and measuring climate risks in a scientific and reasonable manner, establishing holistic risk management mechanisms, and incorporating climate risks into such comprehensive management frameworks are essential steps. In doing so, we are equipped to thoroughly and systematically evaluate the risks and opportunities brought by the transition to a green and low-carbon economy from a wider and more forward-looking angle, thus making our development strategies more adaptable and resilient.

### 3. Serving the Real Economy to Help Advance Chinese-style Modernization

Firstly, powered by product innovation, we have helped with the

real economy's green transition. Southern Asset Management continuously increases investment in product innovation and R&D. In implementing ESG investment, we deployed eight ESG-themed funds that used publicly offered funds to channel capital into industries and companies practicing Dual Carbon strategies to urge invested enterprises to implement ESG and Dual Carbon strategies, thereby contributing to Dual Carbon goals through capital markets.

Secondly, we have applied our core, professional investment research capabilities to assist in the creation of a modern socialist country. Southern Asset Management has complied with the requirement of the 20th National Congress of the CPC to "improve the functions of capital markets and increase the share of direct financing." By guiding capital markets, we injected vitality into strategically important emerging industries, e.g., green industries and tech innovation. We offered the real economy ongoing, stable, and direct financing instruments, while also increasing the size of green investment in a scientific and orderly manner. As of the end of 2022, our green investment totaled RMB 218.058 billion, an increase of around 114.97% compared to 2020.

### 4. Bolstering Both Security and Development of Financial Services through Digital and Smart Technologies

Southern Asset Management is committed to building an asset manager based on digital and smart technologies. Therefore, we have continuously increased investment in tech development to improve our services through fintech and enhance the sense of gain among investors. Security is the very foundation of development. In response to the Chinese government's main concerns, we have resolutely followed a national security path with Chinese characteristics to secure financial data and ensure customer privacy. High-level security is the safeguard of high-quality development. Based on ensuring data security, we developed a comprehensive ESG information platform consisting of "data, model, and APP ends" to further carry out ESG investment concepts and integrate ESG investment. The platform provides various dimensions of ESG information, including internal and external ESG ratings, underlying data, climate-related data, vote tracking, research report systems, etc. All of this has been embedded into our integrated investment research platform. Through the comprehensive information platform, we have taken ESG issues into consideration throughout the investment research process and subsequently used ESG research for investment purposes. The platform provides digital and smart tools with local characteristics for our ESG business. While creating long-term, sustainable returns for around 200 million customers, it facilitates our sustained exploration into the ESG investment business and its development.

### 5. Leveraging the Public Welfare Nature of Finance to Enhance the Sustainability of Social Development

People's livelihoods and welfare are important factors that we consider in our business development. Thus, we take an active part in building the third pillar of endowment insurance. As a public fund "fully licensed" to manage and invest endowment insurance funds, Southern Asset Management developed retirement pension management into a service of strategic importance. As the company has accrued market experience and built up an army of investment researchers, we have formed a sound pension asset management system, thereby enabling the three pillars of the endowment insurance system to grow hand in hand and facilitating the development of the national pension system in all respects. By the end of 2022, we ranked third across the industry in terms of the size of pension assets under management.

Now, it is the right time for us to set sail and navigate the vast asset management market. The 20th National Congress of the CPC has charted an ambitious blueprint for Chinese-style modernization and indicated the direction of development for the public fund industry. In the future, fueling high-quality development and promoting Chinese-style modernization across all aspects will become an important mandate imposed on the asset management industry by China's new era of development. Southern Asset Management will, as always, fulfill its mission and foster sustainable overall competitiveness. While creating value for all stakeholders, we will have ESG concepts reflected in every link of our investment decisions and, with firm beliefs and upbeat attitudes, create a brilliant sustainable development landscape, thus contributing to high-quality economic development.

Yang Xiaosong  
General Manager, Southern Asset  
Management Co., Ltd.

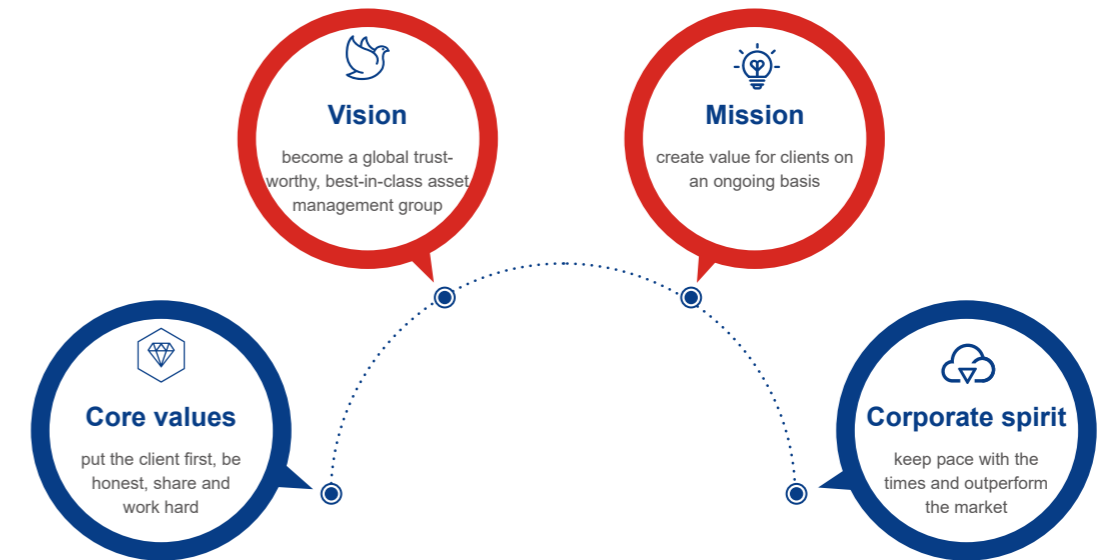



# About Us

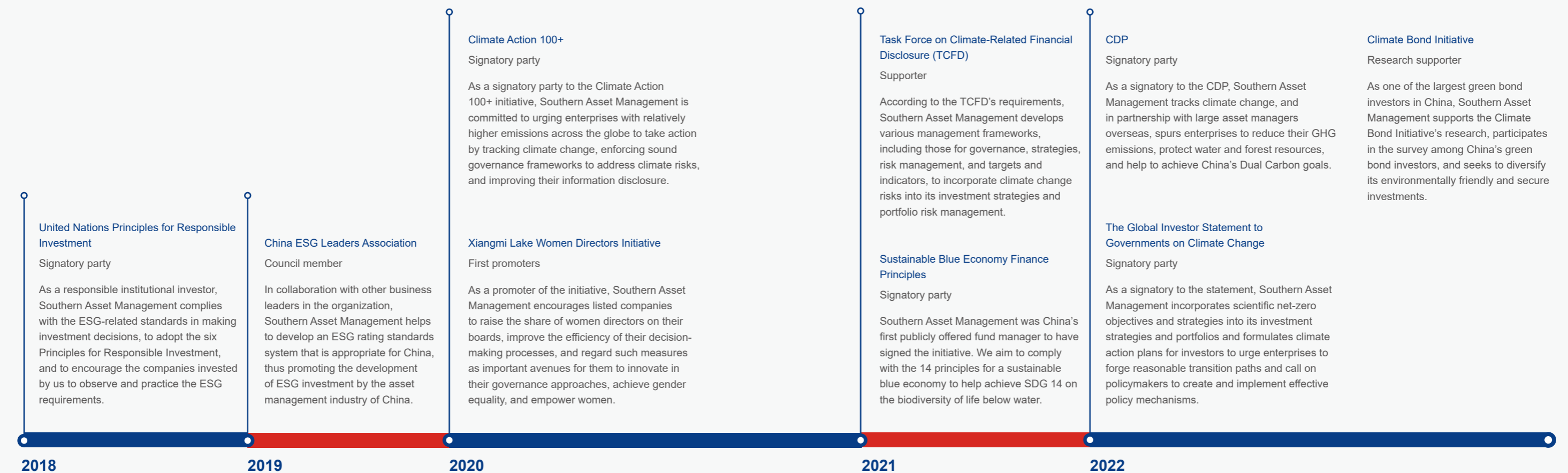
## Corporate Profile

Founded on March 6, 1998, Southern Asset Management (the “Company”) is one of China’s first standardized fund managers identified by the China Securities Regulatory Commission, which has made us a symbol of China’s entry into what is referred to as “the new era of funds.” The Company is based in Shenzhen and has six branch companies located in Beijing, Shanghai, Shenzhen, Nanjing, Chengdu, and Hefei. We also have two subsidiaries, namely China Southern Capital Management Co., Ltd. and Southern Dongying Asset Management Co., Ltd., which are located in Shenzhen and Hong Kong, respectively. China Southern Capital Management has a subsidiary called China Southern Equity Co., Ltd., which deals primarily in private equity investment. Southern Dongying Asset Management is the first overseas branch of a domestic fund management company incorporated with the approval of the Chinese Government.

As of December 31, 2022, the assets under the management of Southern Asset Management and its branch/subsidiary companies have a combined total of RMB 1.8368 trillion. Of these companies, the ones under the management of Southern Asset Management stood at RMB 1.7295 trillion, making the parent company an industry leader. Southern Asset Management manages RMB 1.0585 trillion in publicly offered funds from 187 million clients and has cumulatively distributed RMB 168.9 billion in dividends. Our management encompasses 317 publicly offered funds, including stock funds, mixed funds, bond funds, currency funds, index funds, QDII funds, FOF funds, etc. We have grown into a fund management company that features a rich array of products in all areas of business, an excellent track record, and a top-ranking size of assets under management.

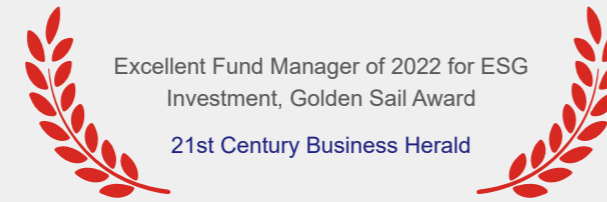
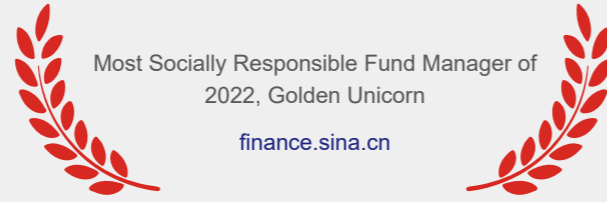
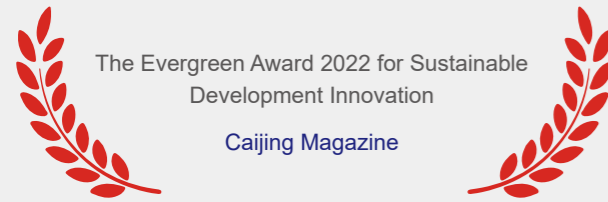
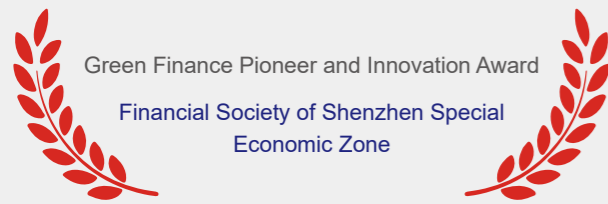


## Participation in Initiatives

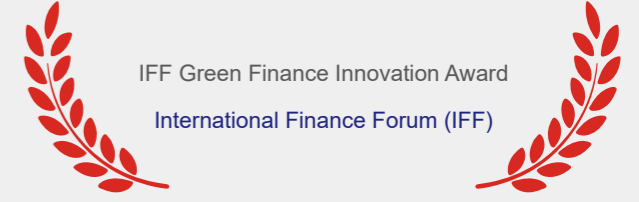
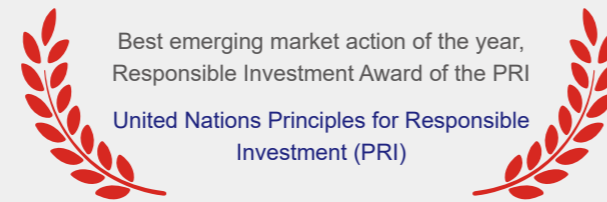
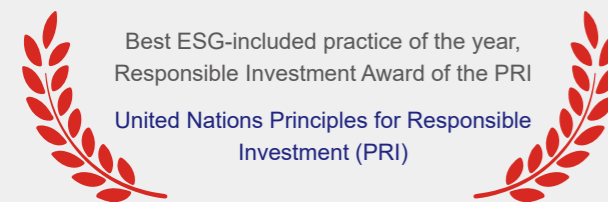


## Honors

### Domestic



### International



## Annual Highlights

### Optimizing ESG rating systems to deeply integrate ESG into investment research

- We conducted materiality analyses for industries to optimize ESG indicator systems by including local and industry-specific indicators.
- We developed a comprehensive ESG information platform comprising the model end, data end, and app end. It runs through research, investment, and risk management processes, thereby supporting the research on ESG investment and the application of research results.
- By the end of 2022, we implemented ESG ratings for 4,381 A-share listed companies and 6,484 bond issuers.

### Taking an active part in ESG infrastructure development to facilitate a booming ESG ecosystem

- We enhanced information disclosure by releasing the *ESG Investment Guide of Southern Asset Management* and the *ESG Investment Report 2021*. While regulating our conduct in ESG investment, the documents helped to improve our performance in terms of ESG information disclosure.
- Furthermore, we participated in developing standards and ESG market mechanisms to help the ESG ecosystem thrive.

### Building ESG investment research capabilities in a research-driven approach







- Taking advantage of our research capabilities and practical experience in the fields of ESG and fintech, while also considering the national conditions of China, we developed climate change stress scenarios and transmission paths to explore climate risk management methodology and models suited to financial institutions and tested the suitability of our models across several dimensions. In addition, we included all climate risks into our risk management systems to measure the impact of a green, low-carbon transition in a more systematic manner.
- Additionally, we relied on ESG research to increase our influence in the ESG sphere via policy-making, topical research, report issuance, etc.

### Intensifying R&D and innovation to enrich ESG products

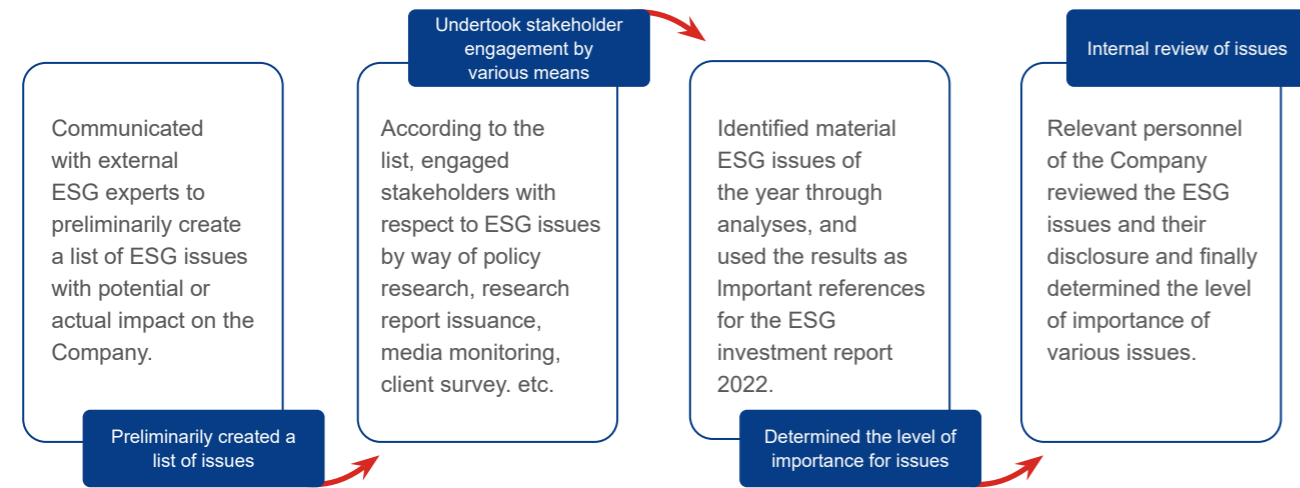
- We advanced green investment in response to China's green finance development strategy, intending to avoid investment in industries with high pollution and high energy consumption and to support the development of green industries. As of the end of 2022, our green investment totaled RMB 218.058 billion.
- We have launched a variety of innovative ESG products to enrich the supply of such products, include them in a multi-tiered system, and meet clients' diversified investment needs. As of the end of 2022, we had eight ESG-themed funds worth nearly RMB 10 billion.

## Stakeholder Engagement and Materiality Analysis

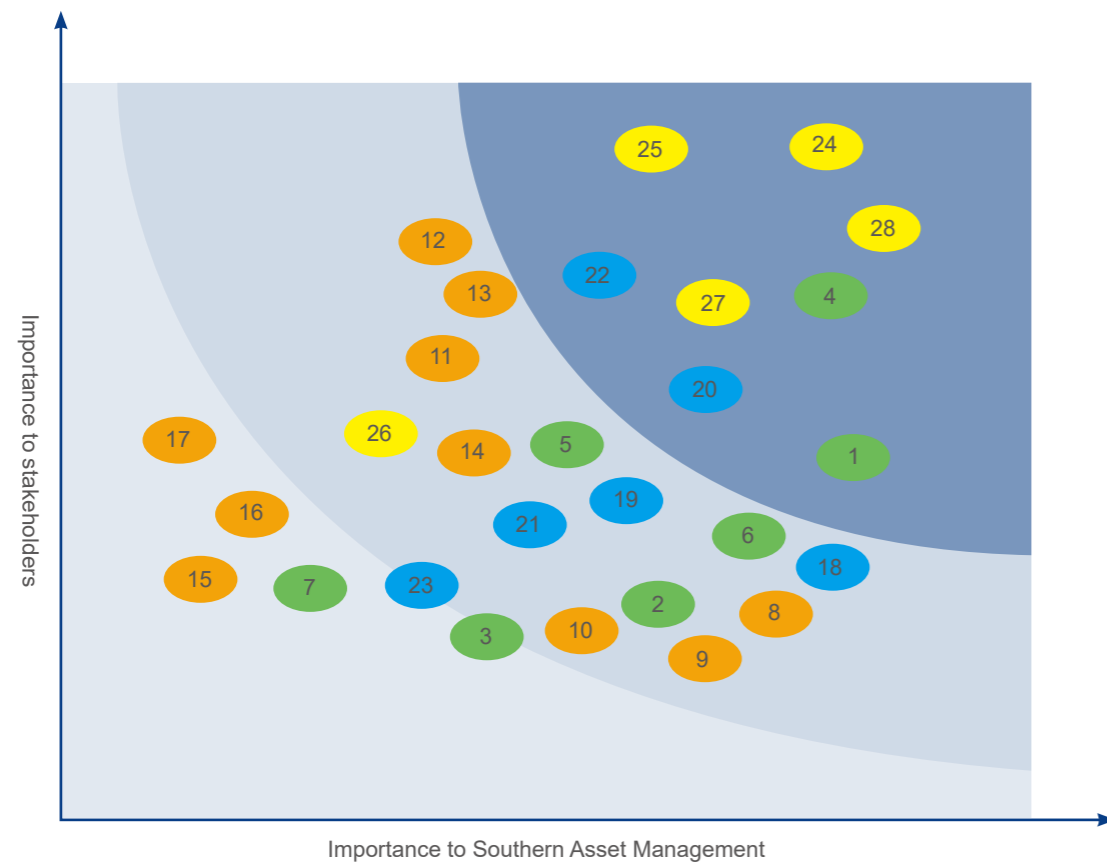
Southern Asset Management engages stakeholders in an active and open-minded manner. We continuously widen the channels to communicate with, hear from and understand our stakeholders. Such channels also allow us to address important ESG issues of concern to them in a timely and sincere manner. This effort aims to push our Company to improve management and services and grow into an excellent corporate citizen.

Stakeholders	Means of interaction
 Government regulators	<ul style="list-style-type: none"> <li>• Tracking and implementation of regulatory policies</li> <li>• Releasing investment strategies and products to respond to national strategies</li> <li>• Participating in policymaking</li> <li>• Online surveys</li> </ul>
 Clients	<ul style="list-style-type: none"> <li>• Client needs survey</li> <li>• Conduct surveys online</li> <li>• Online communication, e.g., service hotlines, WeChat notices, email subscriptions, etc.</li> <li>• Client satisfaction survey</li> <li>• Client feedback</li> <li>• Client protection</li> </ul>
 Shareholders	<ul style="list-style-type: none"> <li>• Corporate meetings</li> <li>• Surveys</li> <li>• Regular reports</li> <li>• Communication through telephone calls, emails, etc.</li> </ul>
 Employees	<ul style="list-style-type: none"> <li>• ESG newsletters (monthly)</li> <li>• Internal interviews</li> <li>• Online questionnaire survey</li> <li>• Employee training and technical support</li> <li>• Employee satisfaction survey</li> <li>• Employee complaint boxes</li> <li>• Meeting of employees' representatives</li> <li>• Employee development and healthcare activities</li> </ul>
 Communities	<ul style="list-style-type: none"> <li>• Online surveys</li> <li>• Donations</li> <li>• Community and voluntary services</li> <li>• Financial knowledge dissemination</li> </ul>
 Suppliers	<ul style="list-style-type: none"> <li>• Online surveys</li> <li>• Centralized procurement</li> <li>• Supplier training</li> <li>• Communication through telephone calls, emails, etc.</li> </ul>

Following the principle of materiality, Southern Asset Management recognizes, assesses, and identifies material issues that significantly impact its operations and management. Through our analysis, we identified a total of 28 material issues, including five environmental issues, eight social issues, 10 governance issues, and five economic issues. With consideration to our stakeholders, we divided all of the above issues into three categories: high, medium, and low importance. The process is shown in the following chart:



Furthermore, Southern Asset Management created a matrix of materiality with the X and Y axes being “importance to stakeholders” and “importance to the sustainable development of Southern Asset Management,” respectively. The matrix can be seen below:



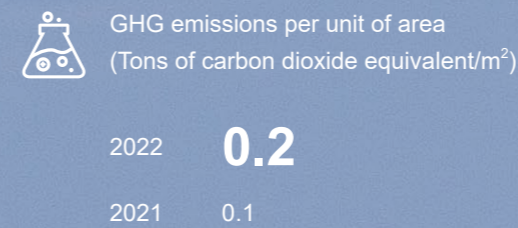
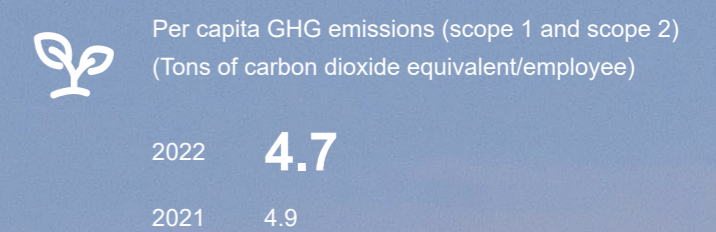
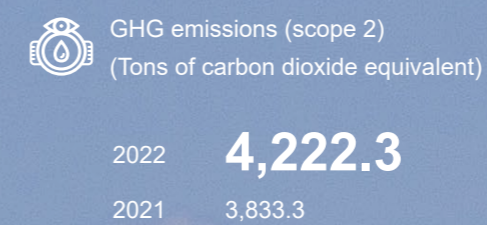
**Materiality Matrix**

		Government regulators	Investors	Clients	Employees	The public	Suppliers
1	Green Investment and transition investment	High	Low	Low	Low	Low	Low
2	Green and low-carbon operations	High	Low	Low	High	Low	Low
3	Green procurement	Low	Low	Low	Low	Low	Low
4	Climate change response	High	High	Low	Low	Low	Low
5	Eco-environmental protection	High	Low	Low	Low	Low	Low
6	Blue economy	Low	Low	Low	Low	Low	Low
7	Biodiversity protection	Low	Low	Low	Low	Low	Low
8	Digital transformation	Low	Low	Low	Low	Low	Low
9	Fintech innovation	Low	High	Low	Low	Low	Low
10	Compliance with tech ethics	High	Low	Low	Low	Low	Low
11	Client protection	Low	High	Low	Low	Low	Low
12	Client complaint handling	Low	High	Low	Low	Low	Low
13	Availability of financial services	Low	High	Low	Low	Low	Low
14	Employee protection	Low	Low	Low	High	Low	Low
15	Financial knowledge dissemination	Low	Low	Low	Low	High	Low
16	Charity	Low	Low	Low	Low	High	Low
17	Community development	Low	Low	Low	Low	High	Low
18	Improved corporate governance	High	Low	High	High	Low	Low
19	Business compliance	High	Low	High	High	Low	Low
20	Comprehensive risk management	Low	Low	Low	High	Low	Low
21	Compliance with business ethics	Low	Low	High	Low	Low	High
22	Information security and client privacy	Low	High	High	Low	Low	Low
23	Intellectual property protection	Low	Low	Low	Low	Low	Low
24	Serving the real economy	High	High	Low	Low	Low	Low
25	Supporting regional development	High	Low	Low	Low	Low	Low
26	Addressing population aging	High	Low	Low	High	High	Low
27	Supporting the development of a capital market with Chinese characteristics	High	High	Low	Low	Low	Low
28	Responsible investment	Low	High	High	Low	Low	Low

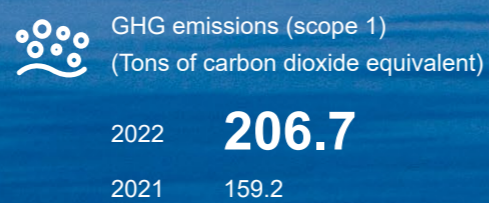
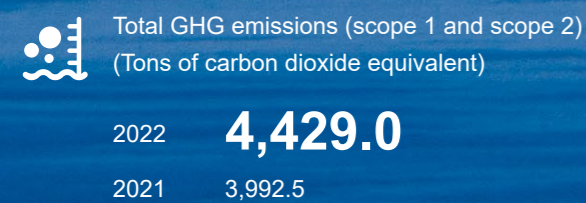
■ Environmental issues   
 ■ Social issues   
 ■ Governance issues   
 ■ Economic issues  
■ Issues of high importance   
■ Issues of medium importance   
■ Issues of low importance

## 2022 in Numbers

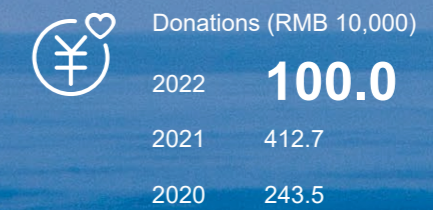
### Economic Domain



### Environmental Domain



### Social Domain



# Making Responsible Investments to Promote Sustainable Development

ESG investment is a key entry point for reshaping the value of the asset management industry and contributing to sustainable, high-quality development. Putting ESG investment philosophies into practice requires knowledge and action, as well as perseverance. Southern Asset Management stays true to the essence of an asset manager. While creating long-term, sustainable returns for clients, we implement ESG investment concepts and practice ESG investment to promote sustainable development through concrete action.



# 01

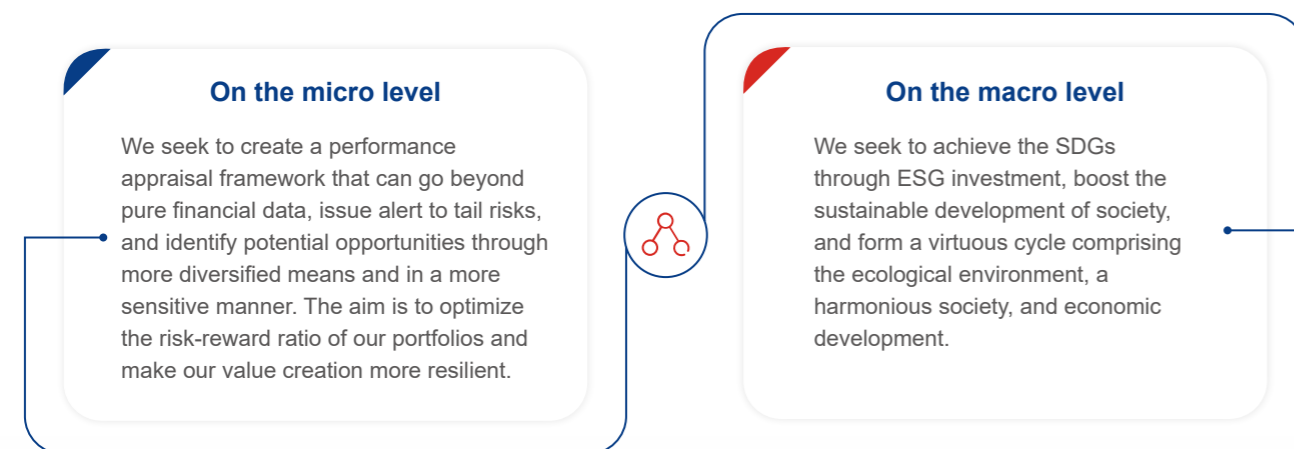
# ESG Investment Vision

## Strategic Planning

Southern Asset Management has always followed the philosophy of “long-term investment, value investment, and responsible investment”. We integrate ESG investment into our corporate development strategies; apply ESG investment concepts to our operations, investment research, and product deployment; and merge ESG elements into traditional investment analysis frameworks to appraise the ESG performance of underlying investments and channel funds into enterprises that excel in terms of ESG. As a responsible asset manager, Southern Asset Management always puts client interests first. We are committed to fulfilling the expectations of our employees, communities, and other stakeholders for a better and more sustainable future as we create ongoing returns for clients.

## Medium- and Long-term Goals

Southern Asset Management has incorporated ESG investment into its overall development strategy. The objectives of our sustainable investment business are divided into two levels:



# ESG Organizational Structure



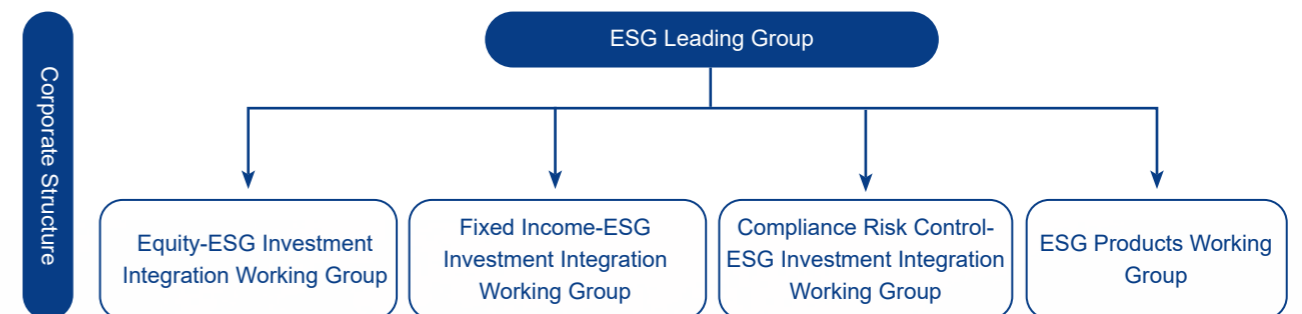
The ESG Leading Group is responsible for planning and coordinating the Company’s ESG work, implementing ESG work items, reviewing the progress of ESG business, and identifying the ESG work priorities for the following stage. The ESG Leading Group also reports on ESG investment progress to the Board of Directors, which supervises and appraises the company’s ESG investment business development.



ESG Working Groups include four groups: fixed income-ESG investment integration, equity-ESG investment integration, compliance risk control-ESG investment integration, and ESG products. ESG Working Groups consist of departments from various asset types and business lines. Led by the ESG Leading Group, they utilize their coordinator role and help integrate ESG into various asset types, business lines, and functional departments according to their respective functions and in response to the rules for ESG practice.



To better conduct ESG business, Southern Asset Management has established a Sustainable Development Department, the asset management industry’s first department specifically responsible for sustainable investment and sustainability strategies.

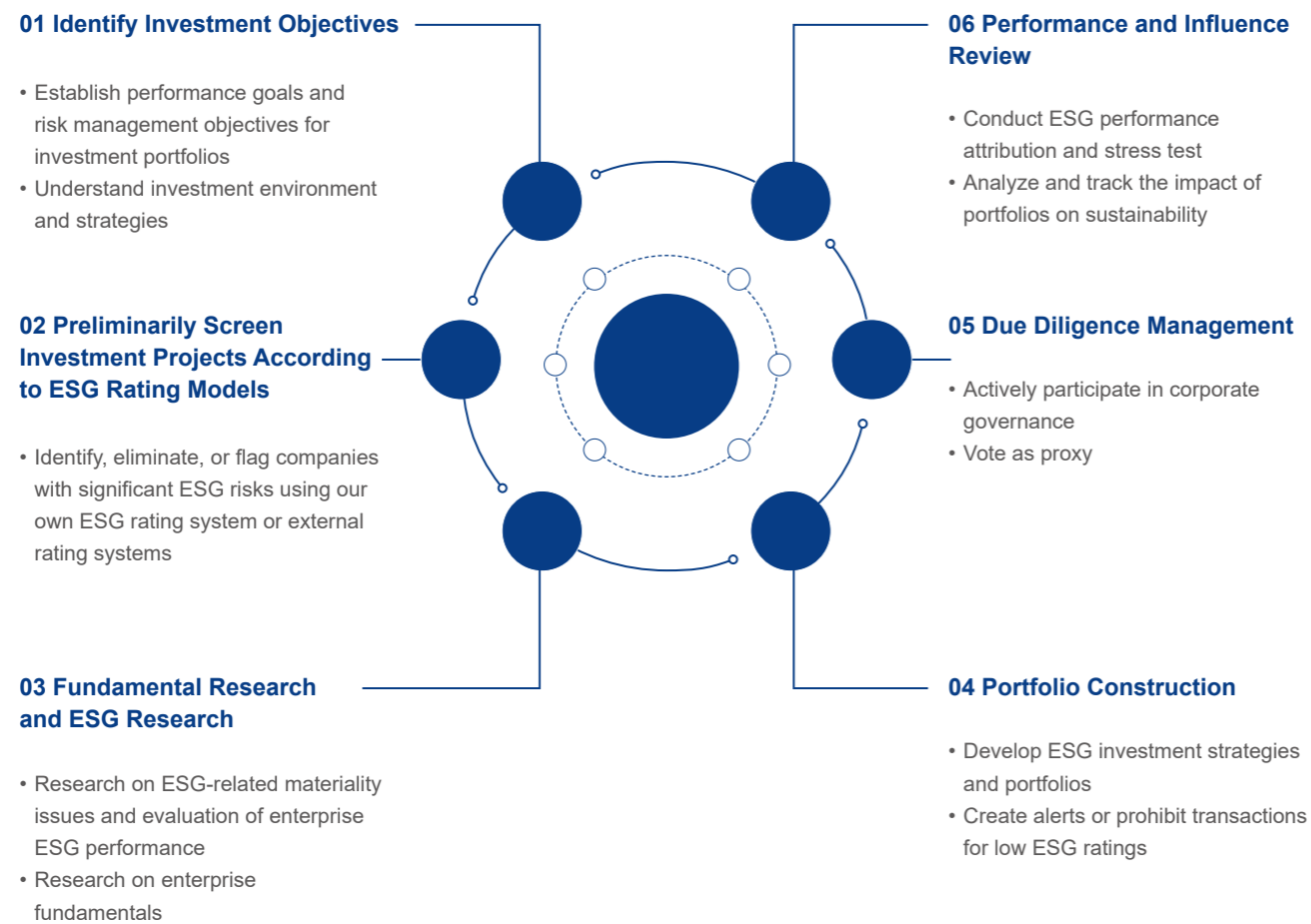


It is responsible for developing an ESG business framework for Southern Asset Management. More specifically, it is responsible for developing ESG databases for rating purposes, conducting research on key ESG issues and policies, rating the ESG performance of underlying investments, and managing due diligence affairs, etc.

# ESG Investment Process

Southern Asset Management has established a whole-process ESG investment framework to manage pre-, mid-, and post-investment affairs. ESG elements are fully integrated with investment and equity research, fixed income, and cross-asset investment, as well as with risk management systems so that listed companies in various industries that possess sound fundamentals, outstanding ESG performance, and long-term growth potential can be identified.

## Southern Asset Management's whole-process ESG investment framework



### Positive screening strategy

Internal ratings and external assessments are referenced alongside the overall ESG performance of underlying investments to prioritize listed companies that have superior ESG performance within a given industry. As the improvement of ESG performance often accompanies improved operations and increased returns on the part of listed companies, we encourage fund managers to increase the investment share in listed companies that experience improved ESG performance.

### Negative screening strategy

Southern Asset Management adopts an absolute exclusion investment strategy for enterprises that have violated domestic or foreign laws, bans, or agreements, and for investment targets that are likely to have adverse effects on society, such as the manufacture of weapons of mass destruction. Our portfolios are prohibited from purchasing such investments. In addition, indicators have been within our risk control systems to single out and identify stocks or bonds with low ESG ratings. All investment portfolios are barred from purchasing stocks or bonds with low ESG ratings or those that lack such ratings to forestall high ESG risks.

### ESG integration strategy

We explicitly and systematically incorporate ESG into our investment analyses and decision-making processes to provide a holistic view of the ESG performance of invested enterprises, enhance the management of ESG risks, and optimize the risk-reward ratio of our investment portfolios.

### Thematic investment strategy

We construct investment portfolios according to environmental, social, and other ESG themes to lower the risks and increase the returns of our investments to the highest extent possible while also achieving environmental or social benefits. For example, products that apply the thematic investment strategy can focus on climate change or the Dual Carbon goals. Our fixed-income products in this field are focused on green bonds, carbon neutrality bonds, rural vitalization bonds, and other themed bonds.

### Stewardship strategy

We include ESG issues in our engagement with invested enterprises to make them more aware of ESG matters, improve their governance structures, and create a more favorable ecosystem. We also participate in industry dialogues related to the invested enterprises and regulatory authorities to create a better environment for the sustainable development of the industry concerned. If communications with the invested enterprises fail, however, the situation will be considered and our veto power may be exercised in proxy voting.

## ESG Rating Systems

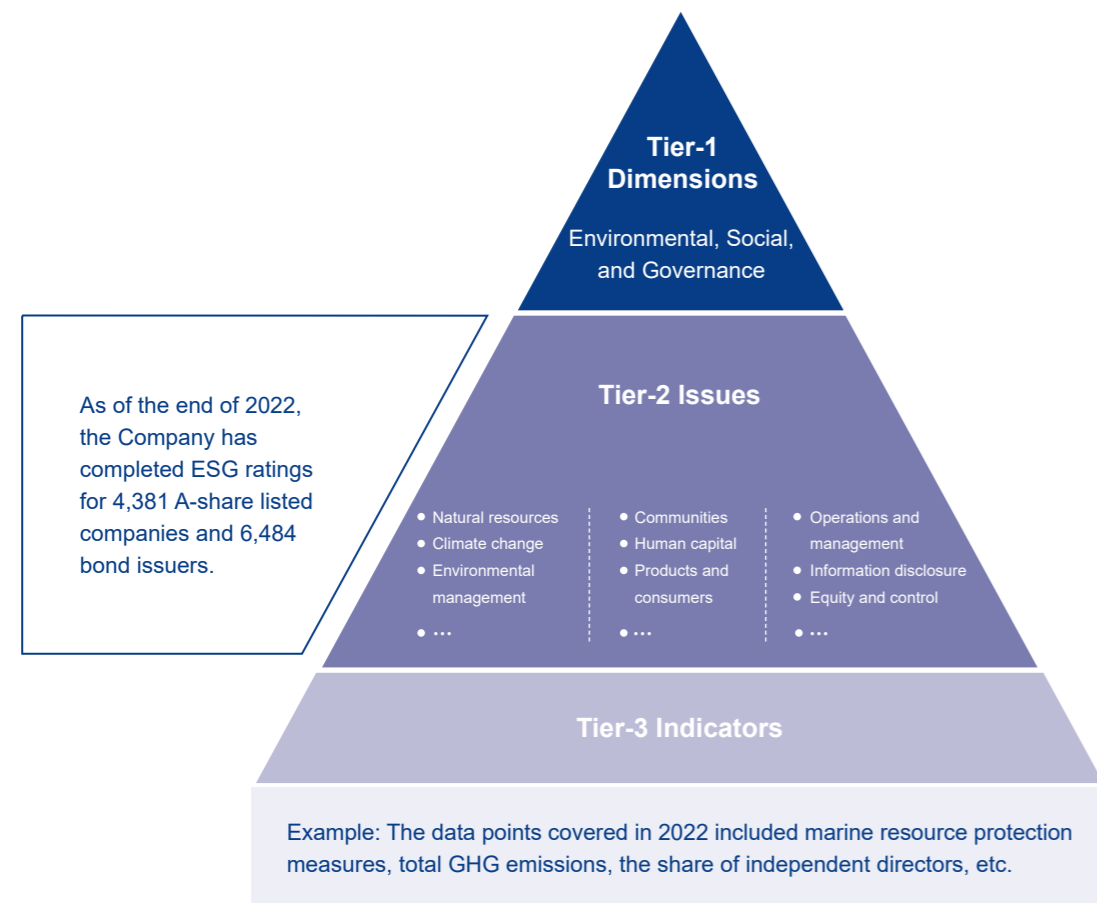
Southern Asset Management has independently developed an ESG rating system and database that is compatible with international standards and incorporates Chinese characteristics. The rating system is centered on quantitative model-based ratings, supported by researcher ratings, and references external ratings. It perfectly integrates ESG concepts with the investment logic of Chinese investors.

### ESG Indicator Systems

Southern Asset Management's ESG rating system consists of three tier-1 dimensions, 14 tier-2 issues, and 38 tier-3 indicators. The tier-1 dimensions are Environmental (E), Social (S), and Governance (G); and five environmental issues, four social responsibility issues, and five governance issues comprise the tier-2 issues.

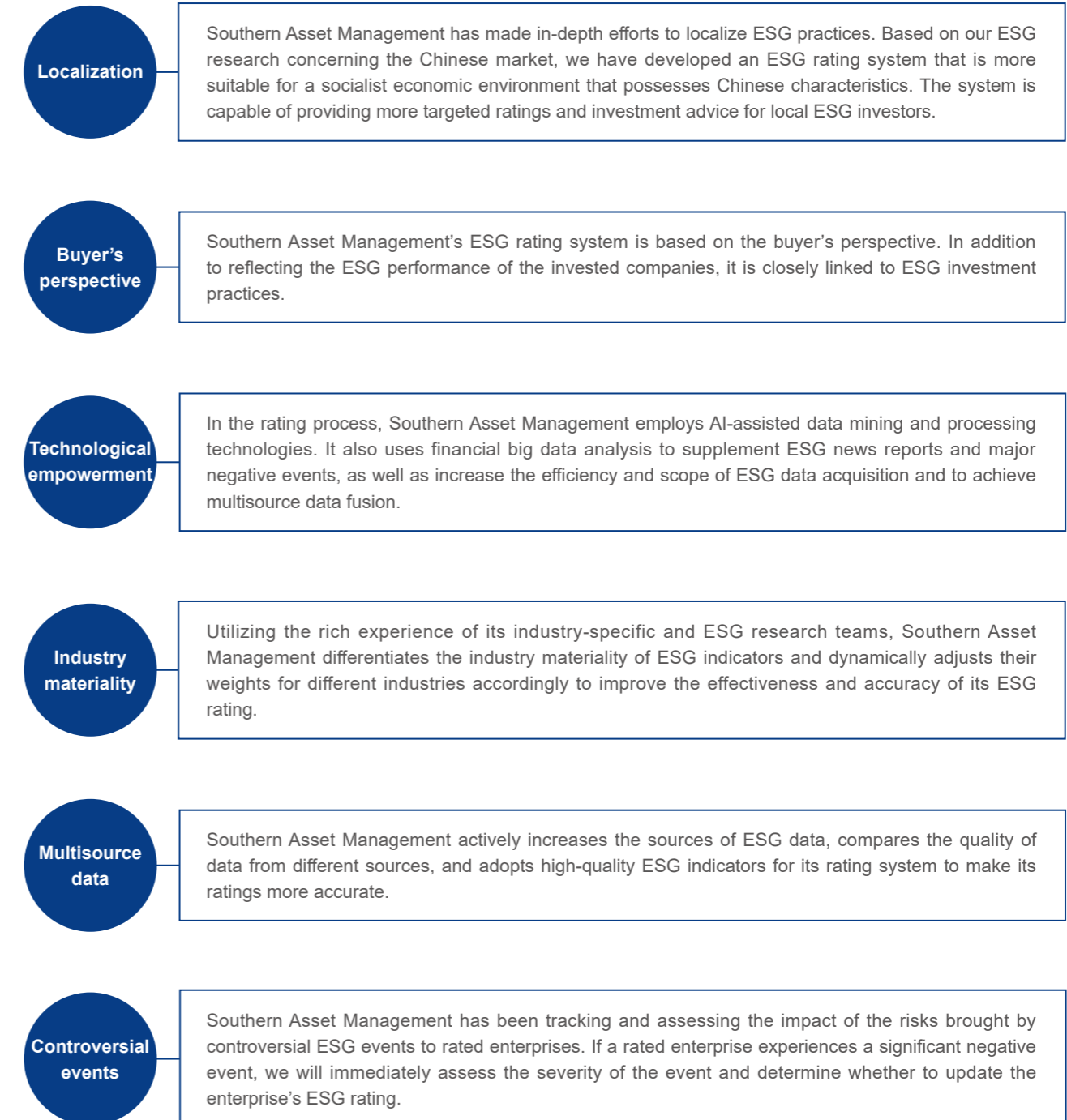
### ESG Rating Results

Southern Asset Management's ESG rating results are divided into nine levels, from AAA to C in descending order. They are usually updated on a monthly basis. If an enterprise undergoes a significant ESG event, the Company will adjust the enterprise's rating promptly.



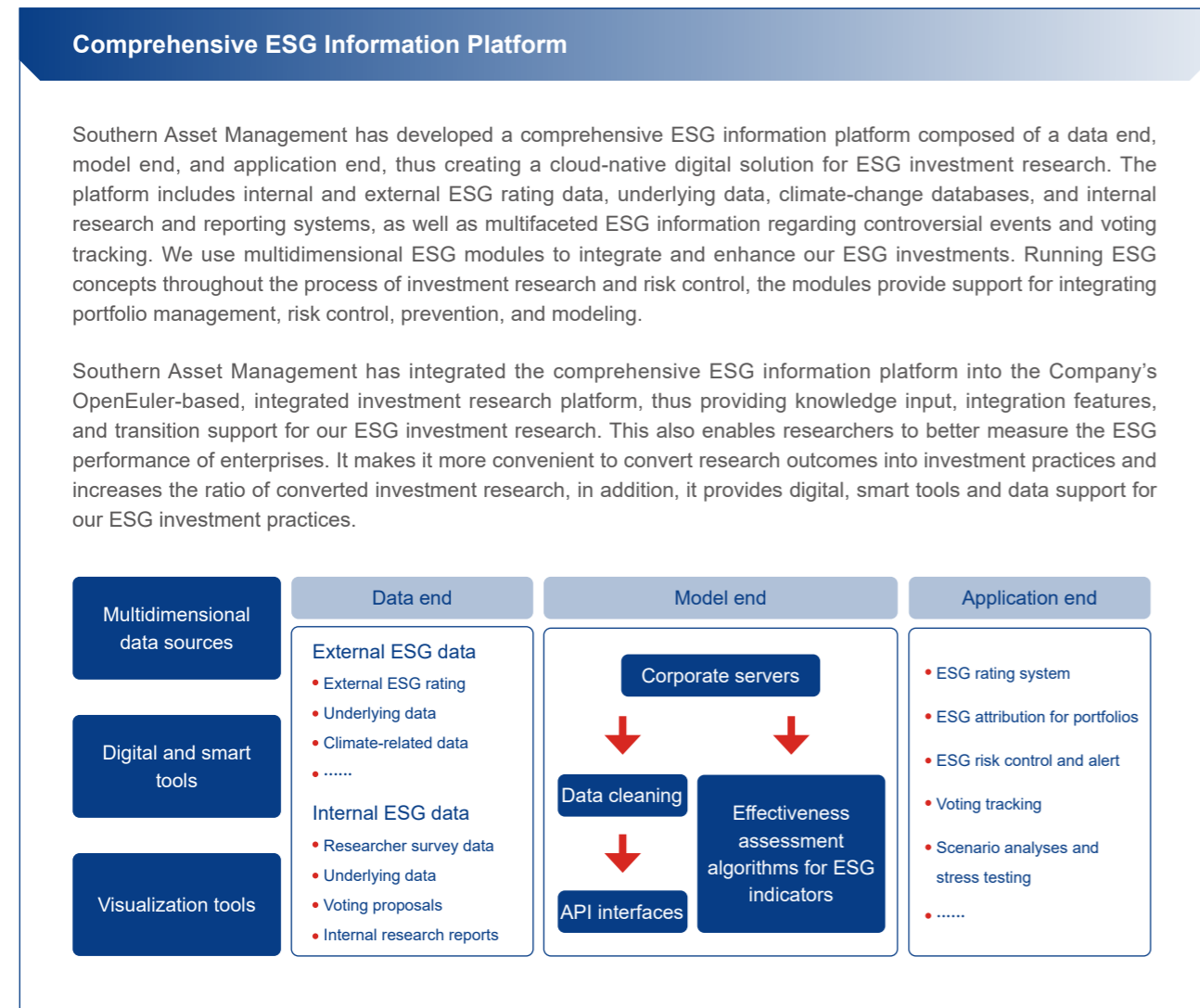
Southern Asset Management continues to optimize its ESG rating methods. Through multisource data fusion, we combine external data, AI algorithms, and researcher analyses and ratings to expand the coverage of our rating systems and improve the quality and efficacy of our rating results.

## ESG Rating System Characteristics



## Digital ESG Investment Research

Following the principle of empowering finance with technology, Southern Asset Management continuously increases investment in fintech to improve its ESG investment research and financial services through digital technologies and to build a digital, smart asset management company.



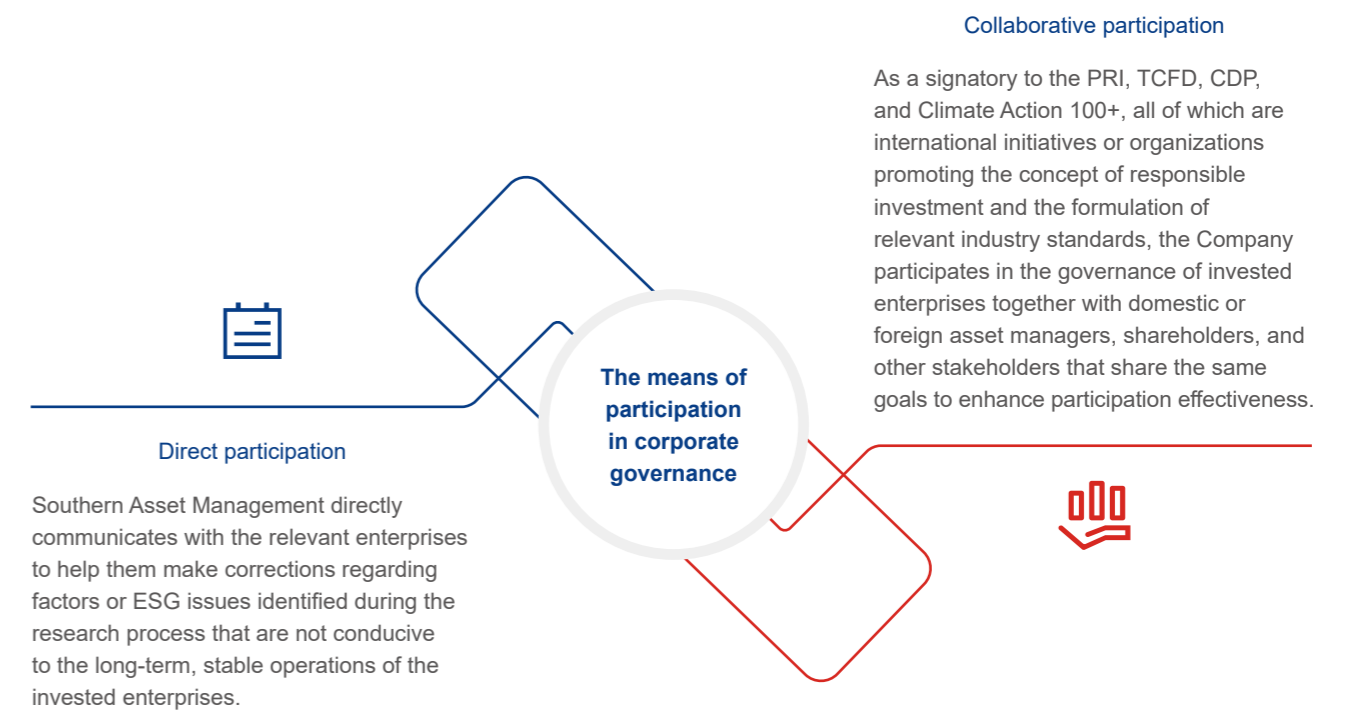
## Stewardship

As an institutional investor, Southern Asset Management adopts a stewardship strategy to fully leverage its influence in guiding capital into low-carbon, innovation areas and building an ecosystem in favor of ESG investment. By engagement and proxy voting, the Company actively alerts enterprises to ESG factors in a bid to improve their ESG performance.

To carry out the stewardship strategy, the Company requires its researchers to include ESG issues as part of their engagement with the invested enterprises, and in compliance with laws and regulations, to actively participate in every aspect (e.g., transition strategies and plans, financial performance, capital structure, corporate governance, sustainability risks and opportunities, etc.) of the enterprises' long-term ESG performance and value creation ability. In addition, as part of the research and communication process, researchers encourage invested enterprises to engage in ESG information disclosure, record the process, and file the records so that reasonable and effective voting proposals can be made when entrusting proxies to vote on behalf of the Company and to assist fund managers in making decisions.

## Engagement

Southern Asset Management participates in the governance of the invested enterprises to enhance their understanding and awareness of ESG concepts, assist in improving their ESG performance, and create sustainable, long-term value for all stakeholders. Engagement is conducted mainly through surveys, teleconferences, emails, letters, and news briefings. Through these channels, the Company communicates with the Board of Directors, management, and relevant departments of the invested enterprises to voice its concerns and views regarding factors that are not conducive to the long-term, sustainable development of the Company.



The Company's researchers are responsible for preparing investigation reports on the ESG matters of invested enterprises. They should ensure that the research of the ESG performance and fundamentals are integrated to provide more comprehensive references for fund managers. Taking the fixed income business line as an example, in 2022, the Company took part in a total of 133 holder meetings, assessed the ESG impact of 178 adopted resolutions, and corresponded with issuers on ESG matters 89 times.

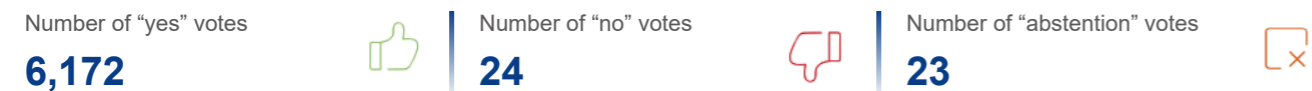
When conducting engagement, Southern Asset Management presents enterprises with concrete proposals to assist them in improving their ESG performance. For example, if the business of an enterprise involves oceans, we discuss whether the project will harm the marine ecosystem or whether the enterprise has planned for the protection of the marine ecological environment.

## Proxy Voting

Southern Asset Management exercises its influence as an institutional investor by proxy voting on ESG issues. During holders' meetings, the Company voices its views and attitudes on relevant matters after conducting in-depth research and careful analyses. This is done to assist invested enterprises with providing sustained returns to their investors and making decisions that are conducive to their long-term, sustainable development.

If a matter to be voted on in a holders' meeting concerns ESG issues, the Company encourages its fund managers to actively participate in the voting process to ensure that the decisions implement ESG investment concepts. The Company's researchers are required to conduct in-depth research on the matters voted on regarding their impact on ESG performance and investment portfolio returns. They must also make objective, independent judgments to provide voting proposals to fund managers.

### Proxy voting in 2022



### A Case on the Practice of Stewardship by Southern Asset Management's Fixed Income Business Line

A typical example of active ownership can be seen by looking at the voting of Southern Asset Management's Fixed Income Research Department during Company E's holders' meeting. During the meeting held in June 2022, the Company's researchers considered ESG factors, identified corporate governance defects in Company E's proposal and cast a "no" vote. The final proposal was not passed.

Company E, a municipal construction, investment, and development platform for a province in central China, planned to acquire eight companies from a large shareholder as well as property from a partnership enterprise. It also intended to divest the equity in seven companies. These actions triggered clauses on major asset restructuring, and the company convened a holders' meeting to deliberate the matter. The Company's researchers found that: (1) the asset restructuring plan would sell high-quality, robust assets in expressways and purchase commercial properties and building businesses. At that time, the real estate sector was in a downward cycle. Many real estate developers defaulted on their debts. Real estate assets were inferior to expressways in terms of both quality and prosperity. Even so, Company E had to pay RMB 9.601 billion in cash to acquire them. Therefore, the related party transaction was suspected of violating the arm's length principle. (2) The counterparty of the proposed deal was a large shareholder of Company E. Prior to the deal, the shareholder owed nearly RMB 13 billion to the issuer. After the deal, there would be a difference of RMB 9.6 billion between the valuation of the assets injected into and that of the assets transferred out of Company E. The difference would be paid in cash by the issuer to the large shareholder, and then given back to Company E to offset the balance of its current account. Ultimately, the shareholder's debt to the issuer would be cut from RMB 13 billion to RMB 3 billion. Therefore, there was suspicion that the issuer was to transfer interest to its shareholder.

In the final analysis, the Company's researchers determined that the deal had a considerably large corporate governance defect that was negative from an ESG perspective. They advised the fund managers to participate in the voting and cast a "no" vote. In the end, the proposal was rejected. Subsequently, many more corporate governance issues surfaced at Company E. Several senior executives at the company, including their predecessors, were investigated and punished for violating the law.

## ESG Risk Management

Southern Asset Management concerns itself with the management and control of risks likely to result from ESG factors. Accordingly, we have formulated and enforced the *Southern Asset Management Risk Management System for ESG Investment* to specify the roles and responsibilities of various departments regarding the management of ESG risks. More specifically, the Risk Control Committee is responsible for managing the ESG risks of all investment portfolios of the Company as a whole; the investment departments are the first line of risk control; and the Risk Management Department and the Supervision and Audit Department are responsible for risk control and compliance management, respectively.

### Key Links of ESG Risk Management

#### ESG risk monitoring and alerts

The Risk Management Department is responsible for monitoring and issuing alerts for ESG risks and improving the means and effectiveness of doing so to prevent long-term investment risks.

#### ESG stress testing

According to internal and external ESG ratings, ESG stress testing will be conducted against funds that adopt ESG investment strategies or where ESG elements are a key feature of the underlying investment.

#### ESG performance attribution

The performance of all investment portfolios will be appraised and attributed regularly, and the impact of ESG considerations on investment performance will be analyzed and incorporated. The actual situation of ESG investments will be tracked, and the gap in price hikes/drops of assets with high, medium, or low ESG ratings will be calculated for the defined timeframe. The impact of fund manager adjustments to ESG factor exposure or the selection of different types of ESG securities on the final performance of portfolios will be presented to help optimize future ESG investment strategies.

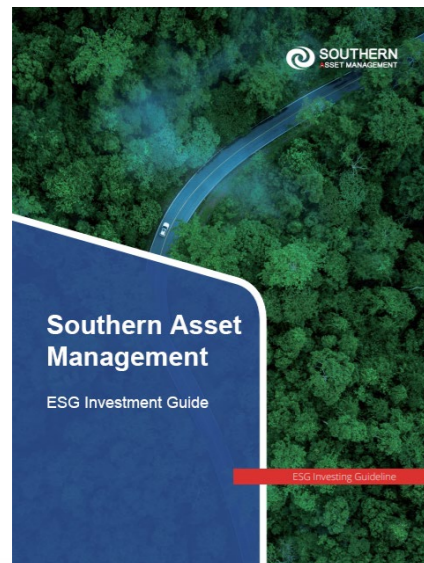
#### ESG integration analysis and tracking

ESG rating dynamics will be closely followed on an ongoing basis. According to the positions of different types of portfolios, the shares of securities with different ESG ratings will be statistically analyzed for all portfolios. Overall ESG integration across the Company and changes in this regard will be examined according to the timing and time series data of positions held.





# ESG-themed Investment

ESG-themed investment means creating investment portfolios centered on environmental, social, and other ESG themes to lower investment risks while trying to achieve targeted returns. Both the risks and returns of investment should be taken into consideration in striving to achieve particular environmental or social benefits. Southern Asset Management emphasizes the application of ESG-themed investment strategies, particularly to achieve the United Nations Sustainable Development Goals (SDGs).

In the already released *Southern Asset Management ESG Investment Guide*, we openly emphasized our focus on climate change, the Dual Carbon goals, corporate governance structure, sustainable blue economy, just transition, and other ESG issues that have a material impact on the sustainable development of an economy or society or those that receive a large amount of attention from domestic or overseas ESG-related authoritative organizations. Our fixed-income investment policies are focused on green bonds, carbon neutrality bonds, and rural vitalization bonds, among other ESG-themed bonds.



Scan the QR code to read the *Southern Asset Management ESG Investment Guide*.

United Nations SDGs		Southern Asset Management's relevant investment projects
 <p>SDG 3: good health and well-being</p>	Ensure healthy lives and promote well-being for all at all ages	<ul style="list-style-type: none"> <li>Southern investment fund for medicine innovation</li> <li>Southern flexibly allocated and mixed funds for medicine and healthcare</li> </ul>
 <p>SDG 7: affordable and clean energy</p>	Ensure access to affordable, reliable, sustainable, and modern energy for all	<ul style="list-style-type: none"> <li>Southern mixed fund on new energy industry trends</li> <li>Southern CS's new energy ETF-linked fund A</li> <li>Carbon Neutrality ETF Southern</li> </ul>
 <p>SDG 9: industry, innovation, and infrastructure</p>	Essential drivers of sustainable development	<ul style="list-style-type: none"> <li>Southern mixed fund for tech innovation</li> <li>Southern mixed fund for information innovation</li> </ul>
 <p>SDG 12: responsible consumption and production</p>	Ensure sustainable consumption and production patterns	<ul style="list-style-type: none"> <li>Southern emerging consumption growth stock investment fund (LOF)</li> <li>Online consumption ETF</li> </ul>

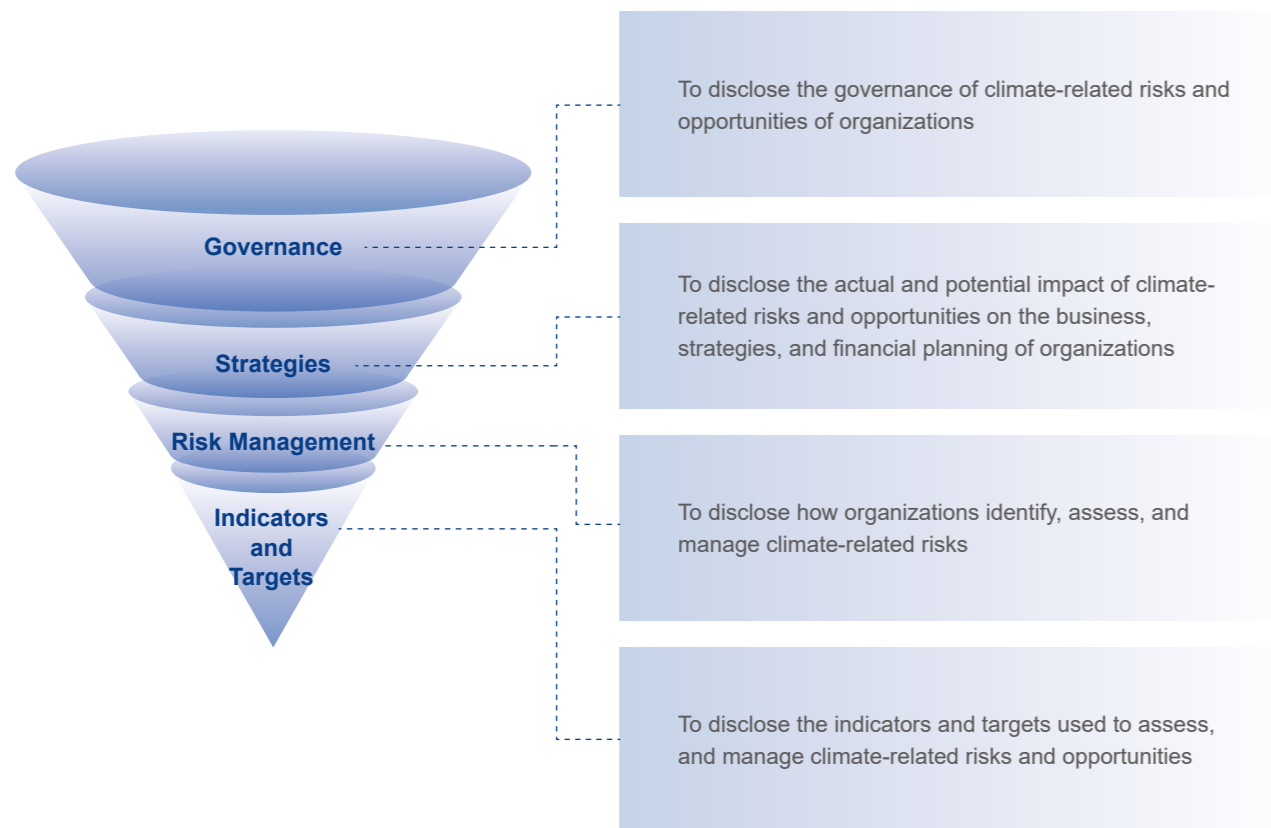
Note: This is a non-exhaustive list of our products.



# Addressing Climate Change — Managing Climate Change Risks and Opportunities

As a supporter of the TCFD, Southern Asset Management manages climate change in terms of governance<sup>1</sup>, strategies, risk management, targets, and indicators, with reference to the TCFD's information framework and technical guidelines. The aim is to incorporate climate change risks into its investment strategies and portfolio risk management.

## Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations



## Strategies

Climate change will have a significant and far-reaching impact on social and economic development across the world and has therefore become an environmental issue that greatly concerns the international community. Southern Asset Management's business will also be subject to the impact of climate change. Climate change presents risks that are both physical and transitional.

<sup>1</sup>Regarding "governance", please refer to Chapter 1, II. *ESG Organizational Structure*.

## Physical Risks

The physical risks resulting from climate change may be changes in climate patterns that are event-driven (acute) or long-term (chronic).

Acute physical risks are event-driven risks that include severely aggravated extreme weather events, such as typhoons, hurricanes, and floods. Chronic physical risks refer to climate pattern changes that may lead to sea levels rising or forms of long-term hot weather, such as continuous heat waves.

Physical risks are likely to affect the financial standing of Southern Asset Management to some degree. Examples of such risks include significant environmental incidents that impact investments, changes in the supply, sources, or quality of water resources for our business, offices, operations, purchasing, or employee safety. Risk can also come in the form of food safety and extreme temperature changes.

According to the *Basic Situation of Natural Disasters across the Country 2022* released by the Ministry of Emergency Management, natural disasters in China in 2022 were predominantly floods, droughts, hail, earthquakes, and geological disasters. There were also typhoons, instances of deep freezing, blizzards, sand storms, wildfires, and marine disasters that occurred at varying degrees of severity. Of these natural disasters, risks related to climate change account for a significantly greater number than those unrelated to climate change.

Physical Risks		The impact of risks related to climate change and opportunities on the strategies, business, and finances of Southern Asset Management	Duration of Impact	Level of Impact
Acute Physical Risks	Floods	<ul style="list-style-type: none"> <li>Disrupted or decreased production capacity of underlying investments (e.g., as a result of production stoppage, transportation difficulties, or break in the supply chain)</li> <li>Affected labor management and planning (e.g., on health, safety, or attendance)</li> <li>Write-off or early retirement of existing assets (e.g., property or asset damaged located in "at-risk" venues)</li> </ul>	Short-term	Medium-to-low
	Droughts		Short-term	Medium-to-low
	Earthquakes		Short-term	Medium-to-low
	Typhoons		Short-term	Medium-to-low
	Deep freezing and blizzards		Short-term	Medium-to-low
Chronic Physical Risks	Rising sea levels	<ul style="list-style-type: none"> <li>Increased cost of operating underlying investments (e.g., as a result of insufficient water supply for hydroelectric power plants or reduced supply of cooling water for nuclear or thermal power plants)</li> <li>Increased cost of capital construction for underlying investments (e.g., as a result of damage due to intense freezing at facilities)</li> <li>Decreased income due to sales/output reduction</li> </ul>	Medium-long term	High
	Rise in average temperatures		Medium-long term	High
	Fluctuations in precipitation and extreme changes in weather patterns		Medium-long term	High

## Transitional Risks

The transition to a low-carbon economy may necessitate widespread changes in policies, laws, technologies, and the market itself. Risks associated with climate change can only be mitigated and adapted to when these changes have been implemented. Due to the nature, speed, and focus of these changes, transitional risks may, to varying degrees, present Southern Asset Management with financial and reputational risks. Compared to physical risks, those of a transitional nature may have an even greater impact on Southern Asset Management in the long term.

Transitional Risks	Analyses of External Trends	Duration of Impact	Level of Impact
<p>Policy Risks</p> <ul style="list-style-type: none"> <li>Increased prices for GHG emissions</li> <li>Greater obligations to report emissions</li> <li>Requirements and regulations imposed on existing products and services</li> <li>Litigation risks</li> </ul>	<p>China has established a “1+N” carbon peaking and carbon neutrality policy framework.</p> <p>The Dual Carbon goals will not only promote industrial competition, but also help to fundamentally solve environmental pollution problems.</p>	Short, medium, or long term	Medium
<p>Technical Risks</p> <ul style="list-style-type: none"> <li>Substitution of low-carbon options for existing products and services</li> <li>Failure in new tech investment</li> <li>Upfront expenses for transition to low-carbon technologies</li> </ul>	<p>Global economic development is shifting from a resource-dependent model to a technology-dependent one.</p> <p>The focus of industrial competition is on zero-carbon energy technologies.</p>	Medium-long term	Medium to high
<p>Market Risks</p> <ul style="list-style-type: none"> <li>Changes in client behaviors</li> <li>Uncertainty of market signals</li> <li>Rising cost of raw materials</li> </ul>	<p>A growing number of enterprises are emphasizing the green transition. SOEs and central government-owned enterprises in particular are facing greater pressure to transition.</p>	Short, medium, or long term	Medium to high
<p>Reputational Risks</p> <ul style="list-style-type: none"> <li>Changes in consumer interest</li> <li>Stigmatization of the industry</li> <li>Growing concern of negative feedback from stakeholders</li> </ul>	<p>ESG, green, low-carbon, and zero-carbon investments, as well as transition finance, garner greater attention.</p> <p>“Green washing” behaviors are seen in the market.</p>	Short-to-medium term	Medium

## Making Strategies More Resilient through Forward-looking Research

Southern Asset Management conducts stress tests for different climate scenarios to improve the resilience of its strategies. Through the results of such stress tests, we are able to understand the impact of climate change factors on the various types of assets we have and consequently gain insights into the CVaR (Conditional Value at Risk) and ITR (Implied Temperature Rise) of the Company as a whole. On this basis, we formulate appropriate strategies and measures to decrease the exposure of our assets to climate risks and choose more active investment strategies in light of the climate risks and opportunities faced by the Company and its investment portfolios in different scenarios.

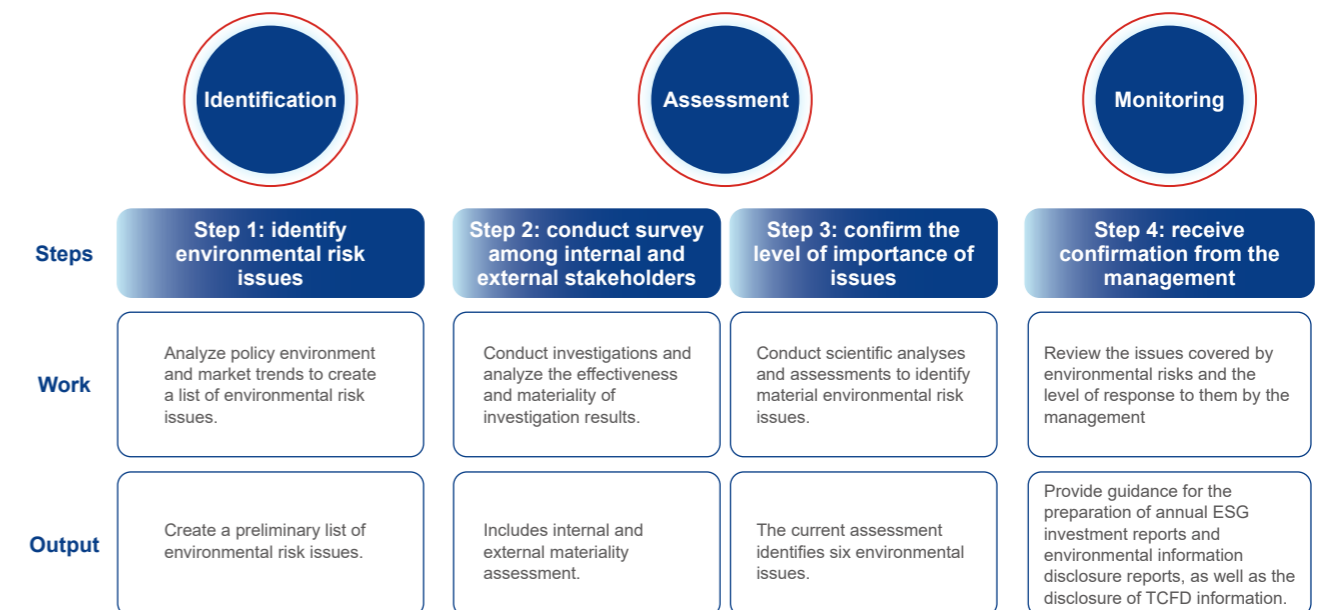
Our climate risk assessment and stress test mainly apply the methodology and modeling tools developed by relatively more mature climate service providers in China and around the world. The models are tested for their suitability in multiple dimensions. We specifically adopted two methods of measurement, CVaR and ITR, to gauge the impact of climate change on portfolios in different hypothetical scenarios, thus providing financial institutions with systematic, effective bases and tools in addressing climate change. These methods also help to improve financial institutions’ investment styles and enable them to make their strategies more adaptable and resilient.

## Risk Management

The ecological and environmental issues that China faces are fundamentally tied to a high-carbon energy structure and an industrial structure that is carbon-intensive and consumes a high amount of energy. To solve such challenges, we must concentrate our efforts on the sources, i.e., implementing the transformation and upgrade of China’s energy mix and industrial, taking a path of development that is environmentally friendly and low-carbon, and activating the synergy involved in carbon reduction and pollution abatement. Reducing carbon emissions is conducive to driving our economy’s green transition, promoting the treatment of pollution starting at the source, mitigating the adverse effects of climate change, and advancing biodiversity protection.

In recent years, the construction of an ecological civilization has entered the “fast track” in China, where people’s understanding and implementation of ecological environment protection have undergone historic, transitional, and overarching changes. The Blue Sky, Clear Water, and Clean Land Protection Campaign launched in 2018 has particularly yielded fruitful outcomes in a matter of just a few years. To address climate change, it is necessary to equally value adaptation and mitigation. As for Southern Asset Management’s contribution, we strive to improve our investment portfolios to assist in the Chinese government’s effort to secure a blue sky, clear water, and clean land and ultimately achieve the goals of carbon peaking and carbon neutrality goals.

### Southern Asset Management’s Processes for Environmental (Climate Change) Risk Identification, Assessment and Monitoring



Based on the *State Council's Report on the Situation of Environment and the Fulfillment of Environmental Protection Goals 2022* and the World Economic Forum's *Global Risks Report 2023*, and in view of the dynamics of Southern Asset Management's business activities (concentrated in mainland China), we have identified six material environmental issues and arranged them according to the level of their materiality, as seen in the table below:

Material Environmental Issues	Ranking per impact on global development		Ranking per impact on Southern Asset Management's development	
	Short-term (over a span of 2 years)	Long-term (over a span of 10 years)	Short-term (over a span of 2 years)	Medium-term (over a span of 5 years)
Natural disasters and extreme weather events	1	3	1	3
Failure of climate change mitigations	2	1	2	1
Mass environmental destruction events	3	6	—	5
Failure of climate change adaptations	4	2	3	2
Natural resources crises	5	5	4	4
Biodiversity loss and ecosystem collapse	—	4	—	6

Note: The smaller a number is, the greater the materiality. Environmental and climate risks and opportunities are divided into short, medium, and long term, which refers to a time span of 1-3 years, 3-7 years, and over 7 years, respectively.



## Adaptation

### Using fintech to build carbon emission databases

Carbon emission data represents important infrastructure for the financial industry to measure the climate change risks that enterprises face; such data is also a necessary resource for the financial sector to conduct asset pricing and revaluation. Publicly offered funds need to conduct comprehensive analyses on their underlying investments via big data sets and to combine carbon emission databases with active research in doing so. In reality, however, domestic enterprises often lack the necessary data for ESG information disclosure. Unlike this kind of enterprise, Southern Asset Management has, through data collection, fintech, and algorithms, created a carbon emission database covering all A-share listed companies, which includes more than 4,000 entities.

## Green Finance Innovation Case: Promoting Climate Transition - The Application of Carbon Emission Databases

Southern Asset Management incorporates climate data into its equity investment portfolios to identify climate change-related risks and opportunities and create carbon emission databases. We collect the carbon emission data disclosed by enterprises and sort the data by industry. Taking into account companies' differentiated energy structure, geographic conditions, and corporate activity level, we simulate carbon emission situations, including direct emission, indirect emission, and carbon intensity, with respect to each industry.

Regarding data sources of several domestic and international third-party organizations and in light of the characteristics of the Chinese market, we have developed our own data assessment system. We divide data into different categories, including verified data (e.g., CDP), disclosed data, feedback given in communication, and estimated values. We then assign differentiated weights to different types of data.

Through external data collection and self-developed carbon emission databases, we calculate the carbon emissions of our investment portfolios according to the PCAF standards. Additionally, we apply environment expansion input and output (EEIO) concepts to our carbon emission database to measure climate change from environmental and socio-economic perspectives.

At present, Southern Asset Management's carbon emission database covers all stock investment portfolios, as well as part of its fixed income portfolios. Using this database and considering the baseline of the industry, we voluntarily adjust the allocation of assets for our portfolios to help reduce a given asset's carbon footprint.

## Improving carbon emission management systems

Southern Asset Management has created an internal carbon emission management system. In accordance with internationally accepted standards, we have calculated the carbon emissions from our operations and offset all our emissions, direct or indirect, through Verified Carbon Units (VCUs) under a voluntary emission reduction scheme and International Renewable Energy Certificates (I-REC). As a result, we achieved carbon neutrality at the corporate level in July 2021, becoming the first publicly offered fund in China that has promised and fulfilled its obligation to achieve carbon neutrality. Since then, we have endeavored to maintain carbon neutrality across our operations.

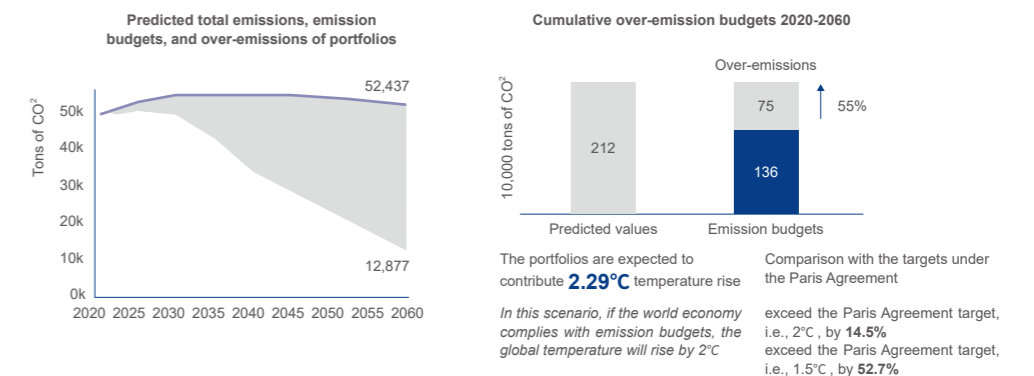
## Scenario Analyses and Stress Test

On the corporate level (for all positions held), our CVaR and ITR are as follows:

Asset portfolio-weighted CVaR: 0.023-0.024

Asset portfolio-weighted ITR: 2.45°C

Overall performance of Southern Asset Management's investment portfolios with temperature rise target of 2°C



We find that, in the scenario where the global temperature rise target is 2°C, ferrous metals, electric and thermal power, and cement and building materials will be the top three industries in our investment portfolios in terms of their average CVaR. This means that invested enterprises in these industries will face the biggest pressure from low-carbon transition by 2030. Meanwhile, finance, other manufacturing, and construction will be the three industries with the lowest CVaR on average.

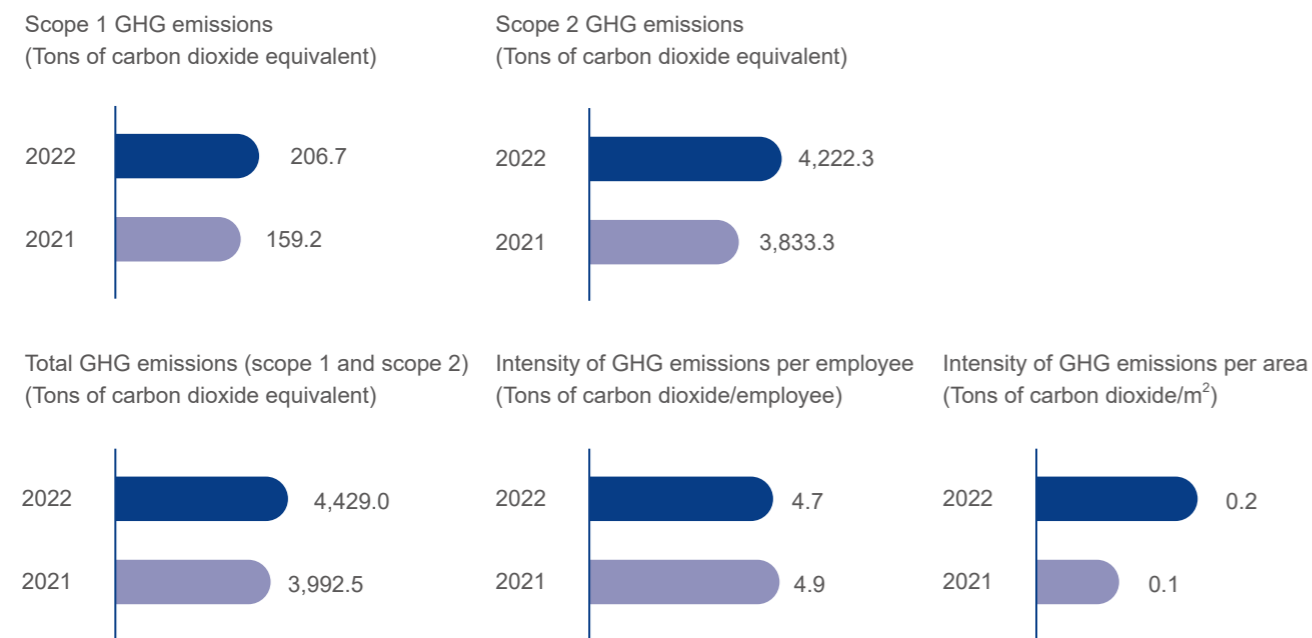
Moreover, we conduct climate scenario analyses and stress test for some of our funds in the scenario where the global temperature rise is set at 2°C.

## Mitigation

Southern Asset Management has actively expanded into new market segments and developed relevant products around carbon neutrality-related opportunities on domestic and foreign markets, including those on technological advancement, technological upgrading, and energy efficiency improvement. The Southern ESG-themed fund, the Southern CS new energy ETF fund, and the Southern CS Yangtze River protection ETF funds are all good examples of such products.

## Indicators and Targets

Southern Asset Management is aware of carbon emissions from both operations and investment, including the scope 1, scope 2, and scope 3 GHG emissions.



In 2022, we took stock of our carbon emissions and adopted a pipeline of measures to achieve our annual carbon neutrality targets. In the future, as our carbon management systems improve, we will extend our carbon neutrality goals into the scope 3 GHG emissions.



GHG emission is an important indicator of a company's ESG performance. Therefore, Southern Asset Management will continue to research and measure the physical and transitional risks faced by its investment portfolios. To that end, we use our carbon emission database to track the carbon footprint of invested enterprises, with a view to identifying their performance in climate change response. Thus far, we have made carbon emission calculation plans for our investment portfolios.

# Promoting Green Development to Build a Beautiful China

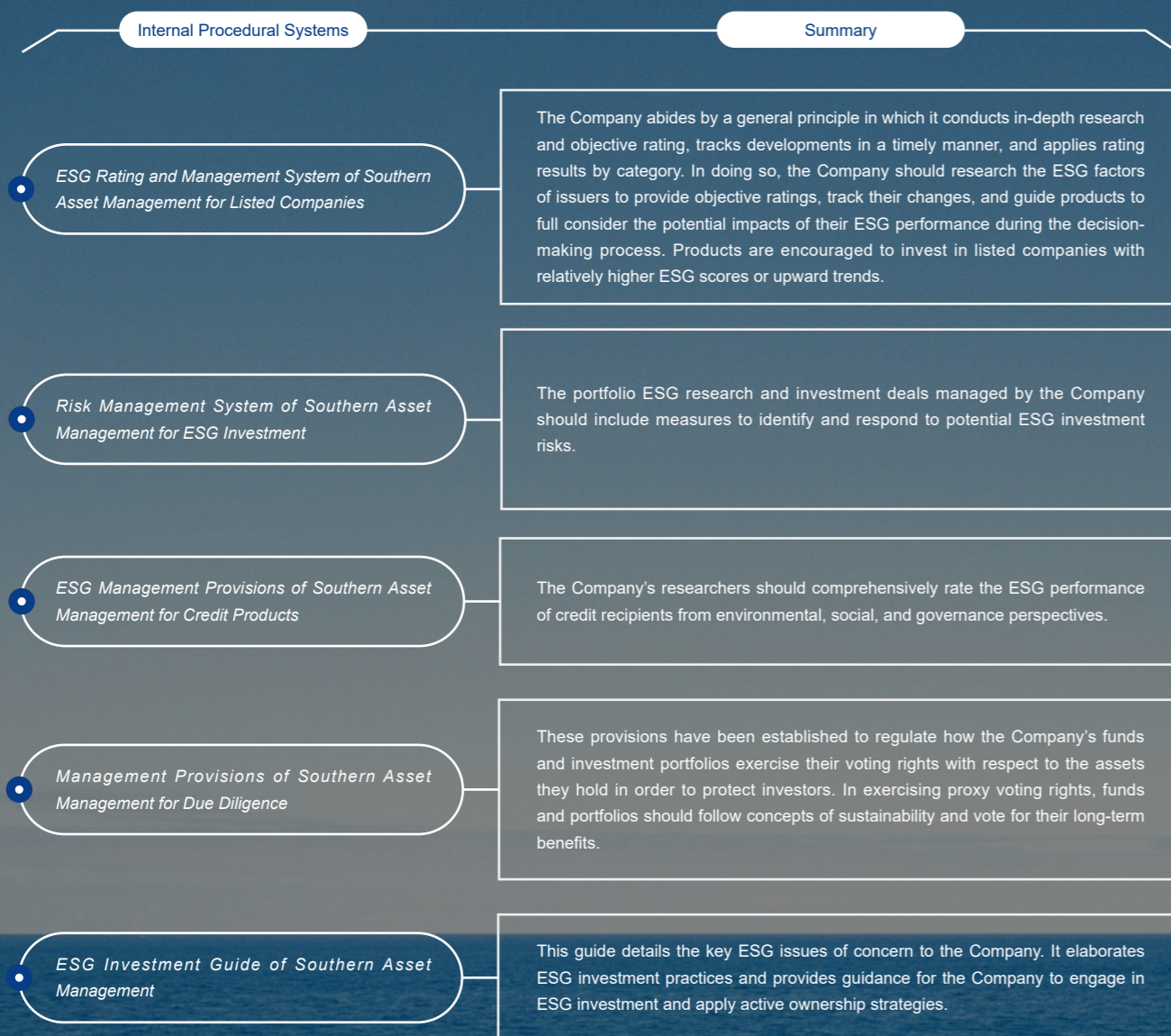
China's 14<sup>th</sup> five-year development plan emphasizes green development as an important element of the country's five new development concepts to boost the transition and upgrading of the nation's economy. Therefore, green and low-carbon development has become an effort we must join to secure further development in the future. In this same line of thinking, green finance is worthwhile, and asset managers must seize this great opportunity. As a responsible asset manager, Southern Asset Management has always attached equal importance to ESG investment and green, low-carbon operations to facilitate the China's green economic growth and its Dual Carbon goals.



# 02

# Environment and Green Finance-related Policies and Institutions

To improve the processes and institutional frameworks for ESG investment and ensure that such investment is conducted in a regulated and orderly manner, Southern Asset Management formulated and complied with complete internal procedural systems for ESG investment, covering ESG integration, due diligence management, risk management, and other facets. In addition, we have standardized our ESG investment business by referencing external standards or policy guidelines for ESG and green finance. In 2022, we were not subject to or involved in any administrative punishments or judicial rulings related to the environment or green finance.



(This is not an exhaustive list of the external policy guidelines referenced by Southern Asset Management.)

# Environmental Impact of Investment and Financing Activities

## Overall Situation of Investment

Achieving carbon peaking and carbon neutrality is an important strategic decision made by the CPC Central Committee. It helps to promote the real economy's high-quality, sustainable development. Sustainable investment, represented by ESG investment, has become a key lever for the capital market to carry out China's Dual Carbon strategies. The stable development of green finance, as well as the development of green products and services, will also serve as a key facilitator for China's creation of a sound green finance standards system.

In developing products, Southern Asset Management conveys the philosophy of ESG investment to channel capital through publicly offered funds and direct them to industries and companies practicing the Dual Carbon strategy. The objective is to drive listed companies to implement ESG and the Dual Carbon strategy thereby contributing to the fulfillment of the Dual Carbon goals through capital markets.

By the end of 2022, the Company's green investment totaled to RMB **218.058** billion.

To help achieve China's Dual Carbon goals, Southern Asset Management stresses investing in green industries<sup>2</sup> and projects.

Energy conservation and environmental protection (RMB billion)



Clean production (RMB billion)



Clean energy (RMB billion)



Ecological and environmental (RMB billion)



Infrastructure greening (RMB billion)



Green services (RMB billion)



<sup>2</sup>The *Green Industry Catalogue (2019)* was referenced to classify and summarize invested industries.

Southern Asset Management supports the United Nations' SDGs and is committed to promoting them through ESG investment. As an investor, our aim is to avoid investing in industries that are high-pollution and consume high amounts of energy, thereby facilitating the development of green industries. We actively enrich our product offerings, facilitate the R&D of carbon emission products, and deploy funds centered on ESG and environmental protection. In 2022, we issued three new green funds, with a size of issuance that combined to RMB 4.676 billion. By the end of 2022, we had issued eight green funds<sup>3</sup>, with the cumulative volume of issuance at RMB 9.971 billion, accounting for 1.92% of the Company's total AUM<sup>4</sup>, i.e., RMB 520.451 billion.

## Southern CS Carbon Neutrality ETF Fund - One of the First Carbon Neutrality ETF Funds Approved

- **One of the first EFT products to include the term "carbon neutrality":** The CS-Shanghai Environment and Energy Exchange (SEEE) carbon neutrality index is the first index which the SEEE participates in developing and includes the SEEE's shorthand name. The SEEE is the first platform for environment and energy trading, as well as the first authoritative organization where carbon emission allowances are openly traded in China. It boasts authoritative carbon emission databases and experts in many fields.

- **Compilation of the CS-SEEE carbon neutrality index:** To reflect the overall performance of listed companies that make relatively greater contribution to carbon neutrality in China, the securities of 100 listed companies on Shanghai and Shenzhen Stock Exchanges are used as samples of the index, including those with relatively larger market caps in low-carbon areas, such as clean energy and energy storage and those with relatively greater emission reduction potentials in high-carbon areas, such as thermal power and steel.

Low-carbon areas: clean energy and energy storage, green transportation, technologies for carbon reduction and carbon sequestration, etc.

High-carbon areas: thermal power, steel, building materials, non-ferrous metals, chemicals, construction, etc.

According to carbon neutrality-oriented, industry-specific emission reduction models, the contribution ratios of the low-carbon and high-carbon areas to carbon neutrality are calculated. The samples between the low-carbon and high-carbon areas are then distributed, and a corresponding number of samples from the respective sub-areas are selected.

- **One of the first carbon neutrality ETF funds approved in China:** The fund was one of the first to be authorized for development and approved to be issued. With a size of RMB 3.265 billion, it ranked second across the industry.

- **An important link of the Company's efforts to create a multi-tiered system of ESG, climate investment, and financing products:** As a first mover in the ESG business of publicly offered funds and one of the first Chinese signatory parties to the PRI, the carbon neutrality ETF fund will become an important part of the Company's ESG product offerings.

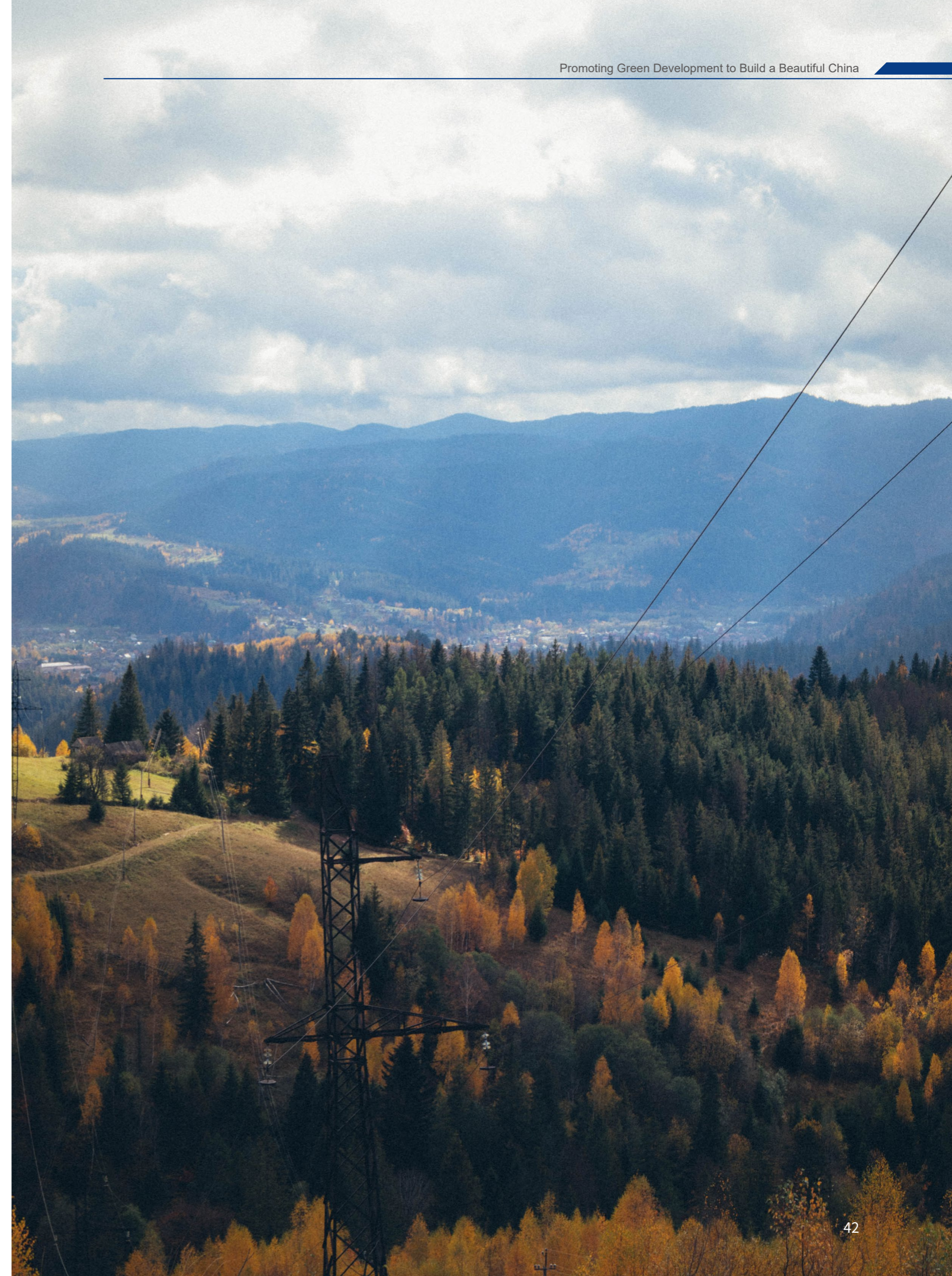
<sup>3</sup>The statistical scope is the WIND ESG investment funds. Data was taken from the WIND database.

<sup>4</sup>The statistical scope is the monthly average size of the publicly offered funds dealing in non-monetary wealth management during the fourth quarter of 2022. Data was taken from the Asset Management Association of China.

### Southern Asset Management's Sustainable Investment Practice on the Fixed Income Market

Company L, in which Southern Asset Management had a stake, publicly issued convertible corporate bonds ("Convertible Bond LX") in 2020. Our researchers gave the issuer a "BB" ESG rating and encouraged fund managers to purchase the bonds issued. Company L is a leading precision manufacturer of global electronic products. After nearly two decades of development, it created three business platforms, covering consumer electronics, automobiles, and telecommunications, respectively. Therefore, Company L enjoys significant market advantages in terms of R&D, industry position, and business scale. Company L is focused on combining underlying technologies with various processes to empower its products and differentiate its operations. Moreover, it stacks products to generate scenarios and then create ecosystems for various scenarios. With its different ecosystems, scenarios, and product portfolios, it strives to become a solution provider that offers a complete suite of products.

Company L always pursues the goal of sustainable development. Seen from environmental, social, and governance perspectives, the company has created a complete framework of sustainable development strategies, which encompass areas of scientific governance, green and low-carbon development, harmony and health, and responsible procurement. Company L's improved sustainability management and information disclosure have garnered it greater attention and recognition. In 2021, it earned a progress award from the CDP (Climate Disclosure Project) for climate change and environmental information disclosure. Then, in 2022, it was upgraded by the same authority to "B" in its rating for climate and water security.



## Environmental Impact of Operating Activities

Southern Asset Management has implemented the green development concept and has operated in a green, sustainable manner since beginning its carbon neutrality initiative in 2021. Through the general reduction of energy and resource consumption, waste discharge management, and other measures, we have conserved energy, reduced emissions, and promoted the transition to green, low-carbon operations. In doing so, we endeavor to build an environmentally-friendly asset management company.

Southern Asset Management has conducted carbon emission accounting<sup>5</sup> for three consecutive years. In addition, we have adopted a series of energy conservation and emission reduction measures to fulfill our own carbon neutrality goals and assist with the country's Dual Carbon strategy.

### • Southern Asset Management's Total Carbon Dioxide Emissions in 2022

Indicators	Detailed descriptions		Emissions (tCO <sub>2</sub> )	Per capita emissions (tCO <sub>2</sub> )
GHG emissions	Scope 1 (CO <sub>2</sub> only)	Carbon emissions from fossil fuel used in business operations	107.44	0.11
		Carbon emissions from fuel consumed by individually-owned vehicles	42.49	0.04
	Scope 2 (CO <sub>2</sub> only)	Carbon emissions from electricity used in business operations	4,222.33	4.46
	Total GHG emissions	Total carbon dioxide emissions (scope 1 and scope 2)	4,372.26	4.6

### • GHG Emissions

GHG emissions	Emissions (tCO <sub>2</sub> e)	Per capita emission intensity (tCO <sub>2</sub> e per capita)
Scope 1	206.7	0.2
Scope 2	4,222.3	4.5
Total GHG emissions (scope 1 and scope 2)	4,429.0	4.7

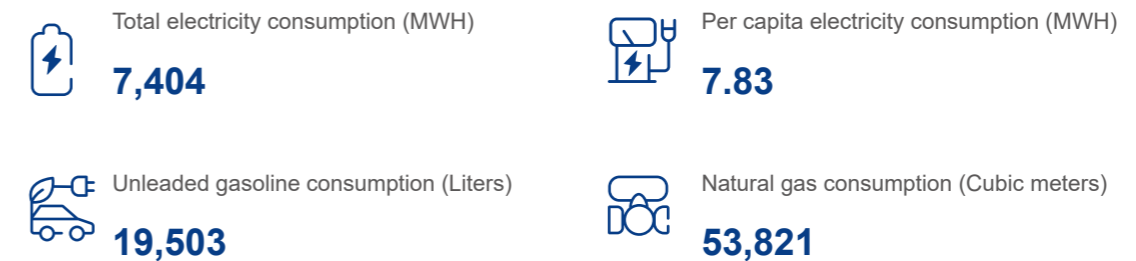
Note: Greenhouse gases include carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), and hydrofluorocarbons (HFCs).

<sup>5</sup> For the scope, standards, references, and methods used for carbon emission accounting, please refer to Appendix 1 of this report.

### • Resource Usage

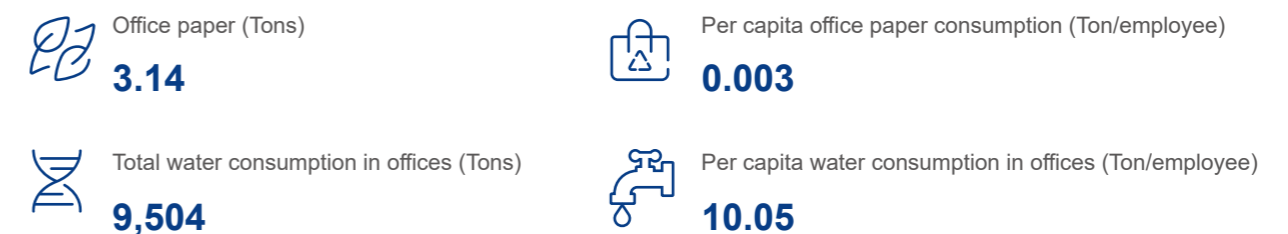
#### Energy consumption

2022



#### Office resource consumption

2022



#### Waste discharge

2022



• Resource Conservation

**Saving Water and Electricity**

The Company voluntarily uses energy-saving products, manages water and electricity use, and encourages employees to independently conserve resources. For example, VAV air conditioners are used to reduce the amount of energy consumed by the air conditioning system. We use water-saving devices to reduce the waste of water resources. Renewable energy systems are also employed. For example, the bathrooms in our fitness centers use solar-powered water heaters. The flush toilets in restrooms and the irrigation systems in gardens both use environmentally-friendly reclaimed water. A direct drinking water system is also adopted. In addition, we encourage employees to bring their own bottles to lower the consumption of bottled water.

**Paperless Offices**

The Company encourages maintaining paperless offices and advises providing clients with customized e-statements to reduce or eliminate the sending of paper statements. We also promote green, environmentally-friendly, and sustainable development concepts. The Company encourages employees to reuse printing paper and utilizes paper monitoring systems to control the quantity of paper used. In addition, dedicated personnel are charged with managing color printing.

**Low-carbon Lifestyle**

The Company provides low-carbon styles for both work and life. For example, a prudent business trip policy has been implemented to cut down on unnecessary trips. If a trip is indeed necessary, we opt to use green means of transportation, with a preference for public transportation systems. We buy and use environment-friendly tissues that have not been color-treated, ration office supplies, and enforce a policy of trading used items in for new ones. In addition, all of our bags are environmentally-friendly or biodegradable cloth bags. This is done to increase the rate of reuse and protect the environment.

**Recycling**

The Company has increased the use of recyclable items to boost green development through concrete actions.



**Publicity**

The Company has produced promotional videos to remind employees to engage in good office practices. Educational videos help to inform our employees of best practices and encourage them to conserve resources and protect the environment.

**Video Conferencing**

We advocate the use of video or tele-conferencing to reduce the need for travel, which also promotes sustainable development. In the past year, the number of online conferences increased, while in-person conferences decreased.

**Desktop Virtualization**

The Company has implemented desktop virtualization, which reduces computer power consumption, prolongs service life, and reduces the number of parts scrapped when equipment is updated. In this way, technological upgrades help our offices become more environmentally-friendly and promote sustainable development.

**Computer Rooms**

The computer rooms at our head office in the Fund Building minimize energy consumption and carbon dioxide emissions by optimizing device configurations, regulating their use, and managing their energy efficiency.

• Waste Management

The Company handles and recycles waste in strict accordance with the requirements set forth by the competent authorities, such as the urban management and law enforcement bureau of Shenzhen City. For example, we have signed a kitchen waste recycling agreement with service providers designated by the competent authorities to recycle such trash at fixed points. To better sort daily waste and reduce garbage, garbage and recycling bins with accompanying wall signs are placed in corporate canteens and on each floor to help employees better understand garbage sorting and environmental protection.

In addition, we recycle, sort, and centrally dispose of office trash such as shredded documents, newspapers, and magazines. Retired electronic equipment and parts, spent toner and ink cartridges, and other items are recycled and disposed centrally in an environmentally-friendly manner. Recycling bins are also placed on each floor to collect hazardous waste such as batteries.

• Green Building

Southern Asset Management not only integrates green elements into its daily operations, but also values the environmental protection afforded by its physical facilities. In 2018, the Company moved to the Fund Building, which was designed based on the concepts of “circular architecture, green technology, and low-carbon life”. It reflects the local spirit and characteristics of architecture in the Guangdong and Guangxi regions. We have responded to the government’s call for green architecture by focusing on the environmental protection benefits generated during the entire lifecycle of the building.

The Fund Building has the following characteristics:

External Wall Design	Water Supply and Drainage Design	Electrical Appliance Design
Gardens are embedded into the office building to create “sky gardens” and increase the green area of the tower. Double-layered curtain walls, which are more conducive to energy conservation, are employed to reduce energy consumption.	Reclaimed water treatment and rainwater recycling systems are adopted to achieve “zero discharge of waste water”. Low water-consuming and energy-saving cleaning devices are installed in bathrooms. In conjunction with the direct drinking water systems, all of these systems help reduce water consumption in the building.	Energy saving VAV air conditioning systems and smart lighting systems help to greatly reduce electricity consumption in the tower. The building also employs new energy systems, such as solar-powered water heaters.

The Fund Building is 200 meters tall and covers an area of 7,260.06m<sup>2</sup>, with a gross floor area of 110,000m<sup>2</sup>. It complies with international green, energy conservation standards and incorporates green building elements in planning, design, construction, building materials, and other aspects. In November 2020, the Fund Building received LEED Gold certification by the U.S. Green Building Council and the Green Building Certification Institute after several rounds of appraisal, becoming a green building recognized by international standards. In 2021, the building was granted a Green Building Label 3-star Certificate.

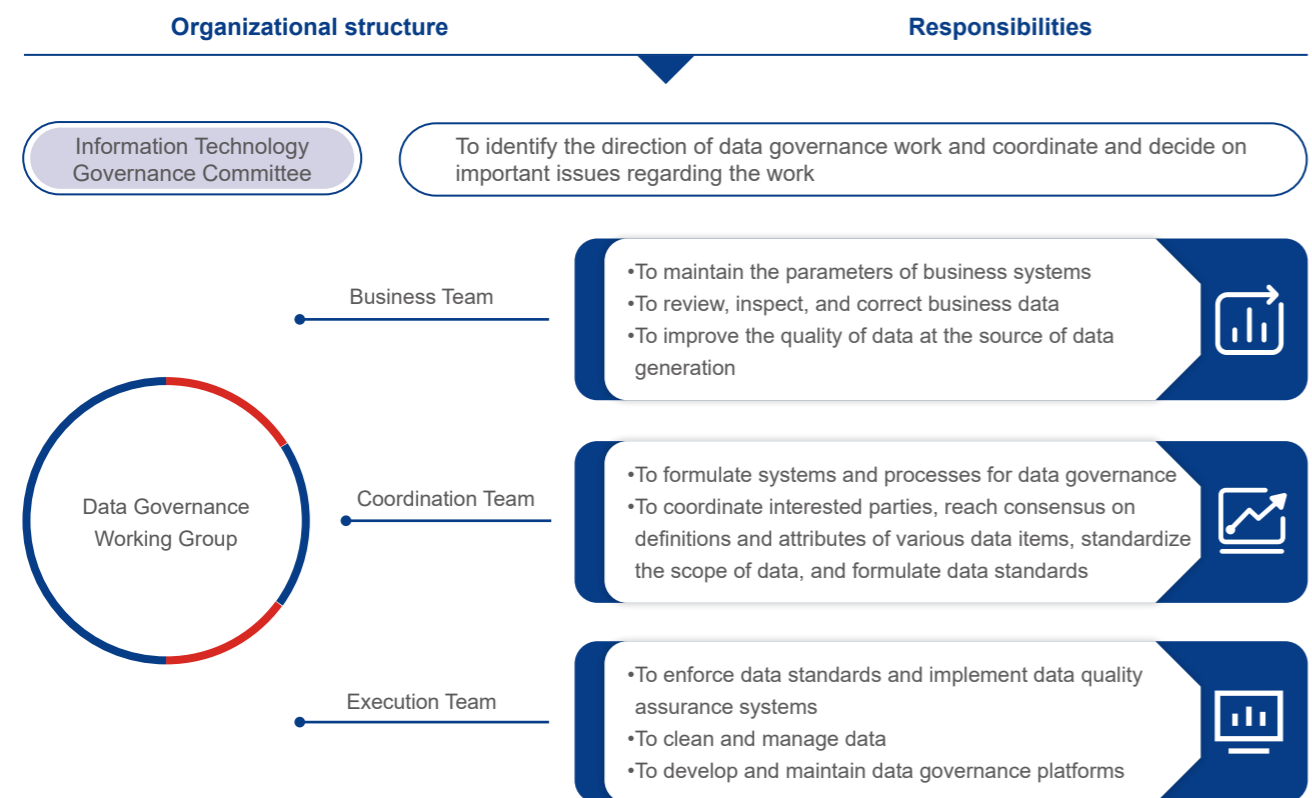
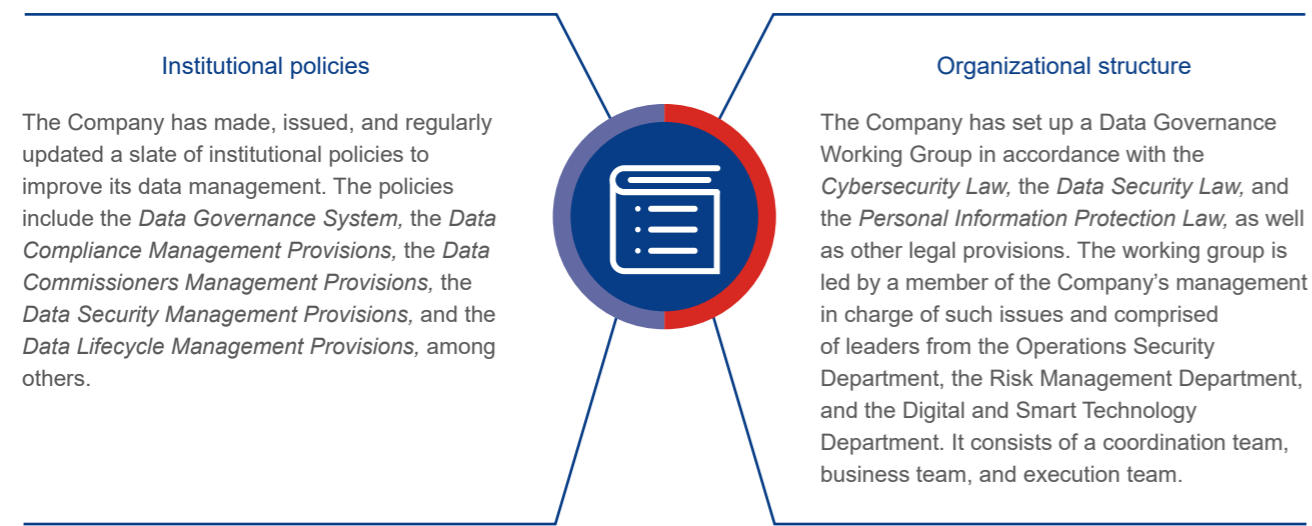


In 2020, the Fund Building, which is the head office of Southern Asset Management, received LEED Gold certification.

# Data Sorting, Verification, and Protection

## Management of Data Quality

The sorting, verification, and protection of data disclosed by Southern Asset Management on a day-to-day basis is mainly conducted through data governance organizations, systems, processes, and personnel, as well as through the Company's information disclosure systems and collaboration approval procedures.



### Business process

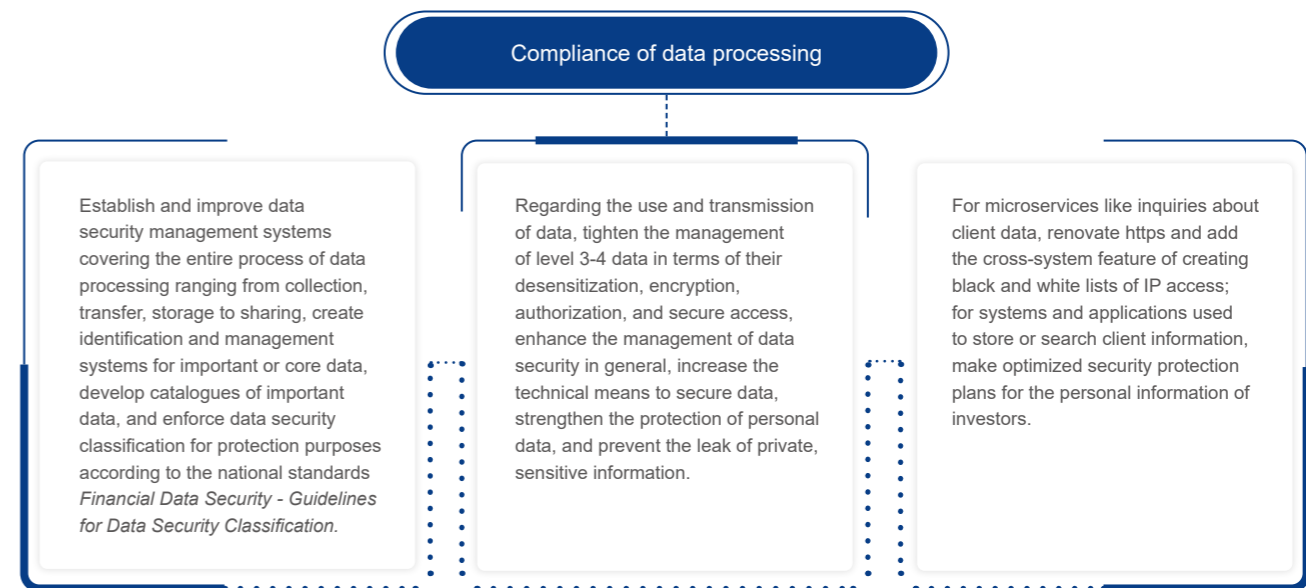
The coordination team, composed of data posts from the Operations Security Department and the Risk Management Department, is responsible for coordinating the transfer of sales, investment research, and risk control data, and subsequently, for forwarding, handling, and distributing data. The Digital and Smart Technology Department is also involved in this process. The business team, composed of a data commissioner from each department, is responsible for sorting the data, submitting data requests, and collecting feedback for each department. The request, transfer, and use of both internal and external data should go through the data request and response processes and be subject to the examination and approval of the Data Governance Working Group according to their data security classifications to ensure secure data transfer and the protection of private or sensitive data.

### Data governance platforms

The Company has developed and optimized its data governance and security management platforms to guide all business lines and systems in classifying data for security protection purposes and protecting personal information. In addition, it has launched the data request and response processes to enhance the management of data security, encrypted transfer of data, and approval or authorization of data use. The platforms consist mainly of meta data, data standards, data quality, and data security management elements. They ensure the quality and consistency of data mainly through data accountability, data standards, and data auditing. Moreover, they ensure the timeliness of data via mass data collection and real-time synchronization technologies.

## Protection of Data Security

The Company constantly improves its data security management mechanisms. We communicate the goals, principles, and scope of data security classification to all business departments, branches, and subsidiaries. Further, we specify the elements, rules, and procedures, update the templates, and provide training on methods and steps, of the data security classification.



Response to security emergencies

- According to the *Data Security Management Provisions of Southern Asset Management*, formulate emergency measures and reporting mechanisms for data security events, and assess security risks on a regular basis in view of the types and quantities of the data processed, the situation of data processing, the security risks of data involved and their response measures, among other things.
- The Data Governance Working Group cooperates with the Supervision and Audit Department in conducting self-review and special audit of data security compliance, formulating data security emergency response plans, conducting regular drills, and improving emergency response processes for data security events.
- Elaborate the response and reporting steps for data security events, closely monitor data security developments, and prevent the occurrence of data security events; in the case of a data security breach, take immediate response measures, keep a record of the response process, and report the event to clients and competent authorities in a timely manner.
- Organize data security training on a regular basis to enhance the communication and enforcement of policies governing the protection of data security and private, sensitive information.

Protection of Cybersecurity

According to requirements of the *Cybersecurity Law* for classified data protection, formulate concrete measures to protect data security, including by making internal security norms, designating personnel in charge of cybersecurity, adopting technical measures against viruses, monitoring network operations, retaining network logs, and employing encryption techniques.

Test and file the systems for classified protection of information security according to requirements of the "classified protection 2.0" series of standards, including the *Information Security Technology - Baseline for Classified Protection of Cybersecurity* (GB/T22239-2019) and the *Information Security Technology - Classification Guide for Classified Protection of Cybersecurity* (GB/T22240-2020).

Training on Data Security

- Provide personnel on data security posts with relevant training covering laws and regulations, management requirements, security technologies, and more. In 2022, in particular, we organized several training sessions and thematic discussions on data security and compliance for our compliance commissioners and data governance commissioners from all over the Company, as well as for data management and development personnel of the Digital and Smart Technology Department. The *Data Security Law* and the *Personal Information Protection Law* were the focus of these learning activities.
- On a semi-annual basis, conduct data security self-check and data security compliance training, covering key client information systems and the data of products involved in our direct and proxy sale.



# Pooling the Strength of the Financial Sector to Help Create Long-term Value

Southern Asset Management has been following a business concept under which business operations are “oriented to client needs, centered on value creation, and driven by product innovation”. We are committed to advancing modernization of the Chinese economy, accelerating the digital transformation process, protecting investors’ rights and interests, providing premium services, and improving the financial literacy of the general public. To that end, we continuously explore and market products and services suited to the characteristics of the capital market and investors in China.



# 03

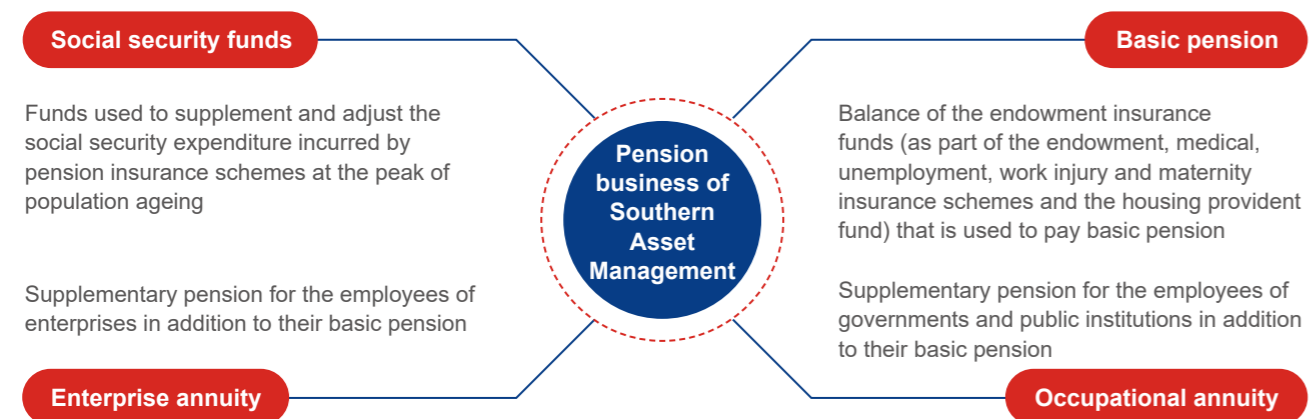
## Serving the Real Economy

In an active response to the government call of “improving the functions of capital markets to increase the share of direct financing”, Southern Asset Management consistently provides the real economy sector with direct financing to enable fast growth of enterprises in that sector. Strategic emerging industries, high-end equipment manufacturing, and tech innovation are the priority areas of our financing. More specifically, they include the semiconductor, new energy, CRO, biomedicine, precision chemical, smart manufacturing industries, etc. In addition, we support the upgrading of regional economic systems in Nanjing, Shenzhen, and Qingdao, among others, to help promote the development of their emerging industries of strategic importance. At the end of 2022, we held about RMB 217.2 billion in the par value of corporate bonds issued by enterprises in the real economy sector, and around RMB 10 billion worth of bonds issued by entities in advanced industries like electronics, telecommunications, computer, biomedicine, and more.

We have continuously developed a unique, characteristic product system, with focus placed on products for “tech innovation”. One after another, we have issued and boosted the development of 14 thematic funds related to tech innovation, the Science and Technology Innovation Board, the growth enterprises market, Tech Innovation and Entrepreneurship, the new third board of the Chinese stock market, Beijing Stock Exchange, and the specialized, sophisticated, distinctive, and innovative industries. At the end of 2022, the volume of our products combined hit RMB 16.3 billion. We have channeled an ongoing flow of incremental investment and a variety of investors to enterprises engaged in tech innovation, promoted the transition, upgrading and restructuring of the real economy, and supported a raft of major reforms on the capital market, including the setup of the Science and Technology Innovation Board, the reform and particularly the registration system of the growth enterprises market, and the founding of Beijing Stock Exchange.

## Helping to Manage Retirement Funds

Retirement funds are material guarantee for the elderly population to live a life of peace in their old age. They function as a foundation for the sustainable development of a society. Southern Asset Management is one of the first Chinese fund managers eligible to manage and invest retirement funds, and is “fully licensed” to conduct all pension funds management and investment business. We regard the management and investment of retirement funds as a strategic business to be given priority and long-term input. So far, we have formed a complete pension asset management system including national social security, basic pension, enterprise annuity, occupational annuity, and personal pension products, with the size of pension assets under management ranking at the third place across the industry. We were one of the first entities found qualified by the test for personal pension settlement systems and allowed to launch the personal pension business online in late November 2022.



<sup>6</sup> The scope of statistic data is subject to the industry classification of Shenwan Hongyuan Securities, with the financial and real estate industries excluded.

<sup>7</sup> Sources: Asset Management Association of China

We are active in helping to build the third pillar of pension insurance in China. In this field, we have increased input in personnel training, investment research capacity building, service support, etc. and established a holistic business system covering basic pension, social security funds, enterprise annuity, occupational annuity, etc. to sharpen our ability to manage and invest pension assets and boost the development of pension finance.



### Social security funds

Southern Asset Management has a long and strong track record in operating social security funds. Several social security fund portfolios of ours have been given “A” rating, and several fund managers have been cited for their outstanding performance, too.



### Enterprise annuity

According to the concept of “stressing the security of principal and ensuring the liquidity of funds”, Southern Asset Management has developed a comprehensive, rich system of enterprise annuity products. By the end of 2022, we have participated in managing the enterprise annuity funds of all provincial-level jurisdictions in China, with the number of our clients in this market segment exceeding 200.



### Occupational annuity

By the end of 2022, Southern Asset Management has been eligible to manage occupational annuity funds in all the 33 jurisdictions that have created such funds, including 22 provinces, five autonomous regions, four municipalities, Xinjiang Production and Construction Corps, and the national Party and government departments and public institutions.



### Private pension

Southern Asset Management is one of the fund managers that contribute most items to the catalogue of products eligible for investment from personal pension funds. As of the end of 2022, we have set up nine target pension funds, worth RMB 5.765 billion in total. These funds include four target risk funds, and five target date funds that cover such timespan as 2030-2050. Eight of our products have been selected and put on the catalogue of products eligible for investment from personal pension funds. In the future, we will continue to expand our pension asset management business and to make our contribution to the pension insurance scheme of China.

In 2022, according to the *Temporary Provisions on the Management of Personal Pension Funds Investing in Publicly Offered Securities Investment Funds* and taking into account the content of investor education by the Client Relations Department, Southern Asset Management actively offered underwriters and clients education on personal pension services. Thanks to our professional macro-economic and policy researchers, we completed the research entitled *Participation of Publicly Offered Funds in Building a Third Pillar of the Pension Insurance Scheme* and won an award given by external parties. Further, we released a *White Paper on Responsible Development of the Pension Finance in China*, took part in compiling books issued overseas (e.g., *Investing in Funds to Live a Happy Retirement Life*) and in conducting the investor education activities organized by 1234567.com.cn in the name of *Plan Y for Retirement*, published more than 20 outsized posters and short videos on investor education, and livestreamed 14 investor education sessions on pension investment. In doing so, we promoted investor education, practiced inclusive finance, and helped to build a third pillar for the pension scheme.

## Building Investment Research Capabilities

Southern Asset Management is focused on building its core investment research capabilities, growing its value-driven, technology-empowered business, and optimizing the long-term performance appraisal and incentive mechanisms for its investment research system. Up to now, we have forged three investment research teams, namely, the equity, fixed income, and “fixed income+” teams. We have an excellent research workforce with hardworking, enterprising, knowledgeable, united, and upbeat members who can share their research outcomes. Our senior experts have done their jobs for more than 10 years and are therefore able to keep our business on track; our mid-level professionals are well experienced and diverse in their style of investment; and our new-generation researchers are of high caliber and grow fast. All of them constitute an echelon of talents with multi-tiered, all-round skills.



Our investment research teams have 287 members, accounting for 31.89% of our total workforce.

287

### Years of service in the industry (persons)

3 years or more **237**

5 years or more **202**

10 years or more **97**

### Years of service in our Company (persons)

3 years or more **181**

5 years or more **140**

10 years or more **48**

## Improving Wealth Management

Southern Asset Management provides its clients with one-stop wealth management services in all scenarios and throughout the lifecycle of our products. Using a self-developed APP, we strive to create a scenario-based, smart, and digital wealth management platform that integrates the outcomes of our digital transformation efforts in all areas, including investment research, fund operations, client service, compliance risk control, etc. We assign a dedicated wealth management advisor to every individual client, who can, according to his/her investment needs and risk appetite, choose customized portfolios or separately managed account (SMA) products to meet their diverse needs for wealth management. Transactions can be processed via Southern Asset Management’s APP, WeChat or the internet. For the time being, we mainly offer customized and SMA wealth management products under the brand name of “Sinan”.

### Sinan Investment Advisors

As one of the first fund managers tasked to pilot investment advisor services, Southern Asset Management launched a one-stop, smart investment advisory service, namely, Sinan Investment Advisors. The service includes four dimensions, i.e., individualized customization, market-wide selection of underlying investments, smart matching of multiple strategies, and whole-process management by professional teams. More specifically, individualized customization, a client-centered approach to both investment and advice, means to customize individualized investment plans for clients through asset diagnostics and smart analytics tools and in light of clients’ risk tolerance, investment preferences, asset allocation, etc. Market-wide selection of underlying investments means to help clients select top-performing funds and star fund managers from all over the market to enrich the target of investment, widen the scope of investment, and increase the choices of investment strategies and in the end, help clients capture excess returns. Smart matching of multiple strategies means to, according to different investment objectives, provide several multi-scenario options for clients to choose from and to implement differentiated investment management strategies to meet diverse needs of clients. Whole-process management by professional teams means that our professional investment teams undertake investment management activities upon the authorization of clients. In response to market changes, and in view of the opinions given by the Investment Decision-making Committee and the risk alert model, investment managers will configure investment tactics and adjust positions held, thus providing clients with butler-style services.



Sinan Investment Advisors given the Golden Ox Award for fund investment advisory services

## Protecting Clients' Rights and Interests

In marketing products, Southern Asset Management will perform its obligations concerning investor suitability, risk alert, risk informing, etc. When entrusting other agencies to sell funds or provide services, we will, in a prudent manner, confirm that the partners have the ability to meet requirements of the investor suitability obligation. What's more, we will review our investor suitability management on a semi-annual basis. In training our proxy sales agencies, we will ensure that the information on investor suitability is complete, stressing that investors must have a full awareness of their own risk tolerance, complete a risk assessment, and match the level of risk of the products they are going to trade.

According to the funds held, we divide our clients into seven levels and accordingly, provide them with differentiated services. For clients of proxy sale, to effectively regulate the conduct of sales agents and ensure that full consideration is given to the suitability of clients for particular products, we have formulated a series of institutions, and updated them on a yearly basis, to ensure that clients' interests are effectively protected. The institutions include the *Sales Agent Access Procedures*, the *Sales Agent Management Measures*, the *Sales Procedures for Sales Agents*, etc. For clients of direct sale, we have made the *Sales Suitability Management System for Electronic Direct Sale*. Through risk assessment questionnaires, we will collect and regularly update the information of every investor on our direct sale platform, including on their investment purposes, investment experience, investment horizons, financial standing, risk tolerance, etc. In the process of trading, we will give investors explicit risk alert to the risk level of our fund products.

### Handling of Client Complain

To improve our service capabilities and assure the quality of our services, Southern Asset Management has established sound institutional arrangement and organizational structure for complaint handling, and formulated the *Investor Complaint and Dispute Handling System* to specify and enforce provisions governing the classification, internal transfer, handling, responsibility assignment, deadline, emergency response, accountability, and information management issues regarding investor complaints. With respect to reasonable advice of clients, we accept, adopt, and optimize it through our regular cross-departmental collaboration mechanisms. In 2022, we received and resolved a total of 235 complaints from our clients, with the ratio of complaints closed reaching 100%. More, we satisfied more than 120 requests of our clients, thus effectively improving client experience.

We have created a platform on which clients can communicate with us by diverse means. With respect to our products, services, systems, etc., investors can seek advice from, lodge complaint or make feedback to us through our national customer service hotlines, online customer services, correspondence, emails, SMS services, and the reception counters across our sales network, among other channels. Nevertheless, we continuously improve our client service systems by applying smart service tools and data modeling, creating complaint and MOT management platforms, and upgrading client profiling systems, among other measures. Importantly, the digitalized complaint management platform can cross-analyze, visually present, and share complaint data through six modules and more than 80 data dimensions. Also, it can create regular collaboration mechanisms for client complaints about product operations, suitability management, and financial fraud, thus achieving integrated management of complaint data and issuing alert to complaint risks. In 2022, the share of client complaints resolved through smart services exceeded 88%; the ratio of complaints resolved reached 100%; and the client satisfaction rate hit 99.62%.



The share of client complaints resolved through smart services exceeded

**88%**



The ratio of complaints resolved reached

**100%**



The client satisfaction rate hit

**99.62%**

## Protection of Client Privacy

In strict accordance with the *Data Security Law* and the *Personal Information Protection Law*, as well as the Company's provisions on data security management, Southern Asset Management classifies corporate data to protect the private, sensitive data of its clients and prevent their data from being leaked, or searched, accessed or used without authorization. Further, it lays down such institution as *Information and Confidentiality Management System* to demand that employees keep client information in strict confidence. New employees, particularly, must sign a letter of commitment to confidentiality after their induction. The application systems used on a day-to-day basis are subject to strict authority management and traceability mechanisms to ensure the security of client information.

In 2022, we updated our anti-money laundering system, the master data of our clients, and our list of level CC personal information classified for anti-money laundering purposes. Moreover, we set the authority for users to access systems involved in the management of personal information and the authority to audit traceability records. On a trial basis, we used the data security management software developed by third parties to check the efficacy of such non-core business system as anti-money laundering function in desensitizing and de-identifying personal information to further secure the personal information of clients.

### Investor Education

Southern Asset Management staged investor education events in several places to disseminate basic knowledge on funds, address investors' queries, and convey the concept of long-term and value investment on site. The further purpose was to guide investors to make rational investment, popularize investor education, and deliver the mission of developing inclusive finance for the benefit of the general public.

To standardize investor education and expand the work in both width and depth, we created a website in the name of "Investor Education Base of Southern Asset Management", and issued provisions governing the management and performance appraisal of the base, the protection of investors, etc. to guide the work in all respects. Further, we launched a WeChat Service Account for the base, constructed an investment education management platform, and adopted the operation and management model for smart big mid-offices to ensure the production of high-quality content for investor education.

The website of our Investor Education Base set a column called "Heart to Heart" and designed to diffuse financial knowledge among investors, guide investors to achieve a balanced state of mind, and accompany clients. In 2022, we released a total of 7,200 investor education products. In the form of online livestreaming, on-site events, salons, etc., we conducted 737 client exchange activities, reaching close to 75 million people.



### Actively cooperate with regulators

- In active cooperation with the central bank, the Securities Regulatory Commission, and other regulatory authorities, we conducted investor education activities on anti-money laundering 3,047 times, reaching audiences 75.508 million person-times.

### Engage in sustained publicity and education activities

- Set investor education columns at WeChat Public Account, toutiao.com, baijiahao, baidu.com, etc., with the number of audiences exceeding 500,000 and the number of articles released more than 500.
- Produced and posted investor education content complying with laws and regulations through self-operated public accounts, e.g., "Fund Intelligence Bureau", "ETF The Great", "Southern Asset Management's Video Account", etc.
- Set the investor education column *Southern Asset Management's Talk on Wealth Management* for more than three years, updated it on each weekday, designated personnel to operate it, and integrated product marketing with investor education.
- Revolving around thematic events such as "Shareholders Are Coming", "Financial Knowledge Popularization Month", "5/15 Investor Protection Day", conducted such offline activities as "visit listed companies", "visit investor education bases", "visit communities", etc., and such online livestreaming activities as "Hello, Friend Southern!" "Southern Live Studio", "Zhifuhui Online", etc.
- Took an active part in various investor education activities, communicate relevant information, including but not limited to REITs, Beijing Stock Exchange, reports of listed companies, through our own official website, APP, WeChat public accounts, and in the meantime, posted the information on such platforms as Snowball Finance and Weibo.

### Increase audience through cooperation

- In partnership with cs.com.cn, produced a 10-episode open course on index investment and released it through tencentwm.com, caixin APP, *China Fund News*, SPD Bank, and stock.pingan.com, etc.
- Participated in an anti-fraud public welfare event organized by the Blue Jacket volunteers from Ant Foundation based in Zhejiang Province, held an anti-fraud exhibition and five anti-fraud lectures in communities, and won the Blue Jacket award for innovative volunteer services 2022.
- In cooperation with tencentwm.com, put a 6-episode *Open Class on Index Fund Investment* on the platform's course center, with the number of learners exceeding 60,000 in just half a year.
- Launched a fixed investment training camp and a pension investor education column on mayiw.com, 1234567.com.cn, tencentwm.com, etc.

### Case: Investor Rights and Interests Knowledge Contest in the Name of "Shareholders Are Coming"

During the event, we produced a total of 215 publicity items, including posters, display racks, etc., and published 140 articles and news releases on investor education. Moreover, we conducted 20 online and offline activities, including visits to listed companies and higher learning institutions, and lectures on the registration system of the growth enterprises market. By the end of 2022, a total of 9,127 people has signed up for the contest. They answered 1.957 million questions, lifting the overall ratio of completion to 717.49%. During the event, we continuously diffused knowledge on investor protection to investors and the general public in combination with special investor education campaigns like "the Anti-illegal Fundraising Publicity Month", "Hello, Registration System!", etc., and a total of 828 thousand people participated in these campaigns.



### Case: Tiered Financial Knowledge Dissemination Focused on "the Elderly and the Youths"

Revolving around the financial knowledge needed by the youths in their everyday life and the misconceptions of senior citizens on financial investment, Southern Asset Management provided tiered, targeted financial education. Given the characteristics of different groups, we prepared nearly 30 types of investor education materials, including cartoons, brochures, oversized posters, short videos, etc., and organized 20 investor exchange activities, both online and offline. What's more, we covered these events continuously through self-media and new media platforms, reaching target audiences more than 2.10 million person-times.

# Reinforcing the Foundation of Governance to Go Far and Steady

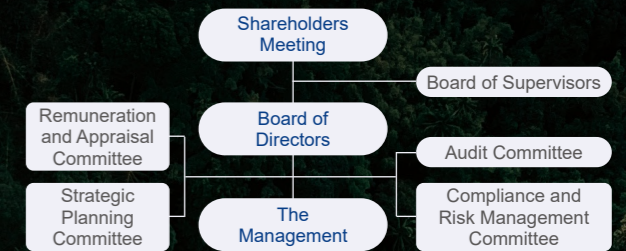


Business compliance has always been the bottom line to which a fund management company must hold on. For this reason, Southern Asset Management has constantly enhanced the education on Party spirit, style, and discipline in a bid to elevate the Company to a higher political stance and make its strategies more comprehensive and forward-looking. To that end, we make full use of the organizational life and democratic performance appraisal systems of the Party to control and prevent corruption risks, with the stress put on regulating the operation of power. In addition, we adhere to the concept of “putting compliance first to go far and steady” and persistently enrich the forms of compliance education. For example, we communicate compliance culture in various forms, including by publishing the *Internal Publication on Compliance*, interpreting new laws and regulations as well as their key points, pushing regulatory news and risk cases, releasing articles on the forum “Voice on Compliance”, making posters on compliance knowledge, distributing compliance-themed T-shirts, and more. The purpose is to ensure that our employees always bear in mind the principle that “compliance is the lifeline of corporate development”.

# 04

## Corporate Governance

Southern Asset Management has established a sound, modern framework of corporate governance, where the shareholders' general meeting, the board of directors, the board of supervisors, and the management efficiently perform their respective duties. We have always upheld the leadership of the Party and regarded it as a matter of primal importance. Under the Party's leadership, we have continuously improved our corporate governance structure and emphasized the delineation of roles and responsibilities between the Party Committee on one side and the governance and management on the other side to ensure that their positionings are clearly identified, their rights and responsibilities are well aligned, and therefore, they can effectively check and balance each other.



## Corporate Culture

### Process of Corporate Culture Development

2017

To accelerate building the soft power in terms of "governance, ecology, and culture", Southern Asset Management set up a Leading Group for the Development of Corporate Culture.

2018

Led by the Leading Group for the Development of Corporate Culture, Southern Asset Management discussed its corporate culture issues and identified work priorities in this regard. As a result, we adopted a *3-year Corporate Culture Development Plan* in 2018 to specify the general principles, annual goals, and priorities of the corporate culture work.

2020

Southern Asset Management held a special meeting on corporate culture, divided the roles and responsibilities for priority work, and adopted a *Corporate Culture Development Work Plan* to clarify its objectives and paths in this field. Further, we improved and added more personnel to the Leading Group for the Development of Corporate Culture by including all members of the General Manager's Executive Meeting into the group. Moreover, we made a special budget of RMB 8.8 million yuan per year to support the cultural construction efforts in all respects.

2022

Southern Asset Management set up a Reputational Risk Management Committee and Working Group, specified their membership and primary responsibilities, revised a series of regulations, including its *Risk Management System*, and added the *Reputational Risk Management Provisions*. Through risk control commissioners and monthly reporting systems, we put the requirements for reputational risk management in place, screened potential risks, and reported them accordingly. More, we guided our subsidiaries to build relevant systems and mechanisms with a view to helping them comply with the requirements for reputational risk management.

2021

We set the overall goal of basically building a corporate cultural system and ecosystem compatible with the Company's business development, making a unified corporate culture widely accepted across the Company through publicity, education, and disciplinary actions, and integrating the culture into all aspects of the corporate operations and management.

## Framework of Corporate Culture Organizations

The construction of corporate culture at Southern Asset Management is deeply rooted in the traditional Chinese culture; it is a cultural innovation based on a 25-year corporate history. In recent years, led by the Company's Party Committee, we not only attached importance to business growth, but also set great store by cultural development. In this vein, we issued a sequence of codes of conduct and formed a quite sound system of support for corporate culture development. The documents included the *Outline of Corporate Culture*, the *Principles of Southern Asset Management*, and the *Norms of Southern Asset Management*, all of which not only promoted traditional culture and followed the orientation of industry development, but also exhibited the characteristics of our own Company.

In an ongoing effort to enhance organizational safeguards, Southern Asset Management strengthened the leadership for corporate culture development by setting up the Leading Group for the Development of Corporate Culture, establishing an organizational framework composed of the leading group, a working group, and correspondents, and clarifying the goals and paths for corporate culture development.

## Creation of Cultural Ecology

In developing "a modern capital market with Chinese characteristics", Southern Asset Management combines the quintessence of traditional Chinese culture with the cream of its corporate culture. For example, we include such traditional ideas as family, country, commitment, credibility, meritocracy, etc. into our corporate culture and develop the concise and eloquent *Principles of Southern Asset Management*, such as "look at the big picture, not the small one", "don't race horses, but choose them". In this way, we unite all Southern Asset Management people with traditional culture to pursue their common values.

To continuously foster good market ecology and culture, Southern Asset Management has actively promoted its cultural concepts through various publicity efforts, and in this process, created a multi-tiered, multi-dimensional cultural display platform. For example, we have set a nearly 200m<sup>2</sup> cultural exhibition hall at our head office, namely, Fund Building, created a module on corporate culture on the homepage of our OA system, produced publicity videos and brochures, and opened a variety of communication platforms, e.g., WeChat accounts, video accounts, forums, etc.

Southern Asset Management is active in building characteristic cultural brands in the hope of driving corporate culture development through branding projects. In 2022, for instance, we organized a pipeline of cultural branding activities, like the 24th anniversary celebration event, and forged a series of cultural brands, such as "Dream Journey" and "Dream IP", to enhance employees' sense of honor and belonging. In recent years, we have developed many peripheral cultural products, including DIY T-shirts, cultural emblems, cultural walls, commemorative albums recording merits, Doraemon, etc., to make our culture tangible and perceptible.



Dream IP images

## Robust Operations

Southern Asset Management has devised basic compliance systems for such areas as oversight and audit, behavioral control, insider trading control and prevention, confidentiality, anti-money laundering, integrity, compliance performance management, and accountability, among other things. According to laws, regulations, and regulatory requirements, we have created systems governing corporate governance, investment transaction, fund sale and operation, etc.

## Compliance of Internal Control

Southern Asset Management has established an integrated compliance risk management system comprising a Risk Control Committee, a chief supervisor, compliance risk control departments, and full- and part-time compliance risk control commissioners. We have put in place such institutions as the *Compliance Management System*, the *Compliance Performance Management System*, and more. Aside from these, we have strengthened internal control over investment research, standardized the buy-in and sell-out of securities, and put the communications equipment use, equity investment, etc. of investment researchers under strict control.

In 2022, we continued to improve the Company's overall compliance management system, optimize the joint compliance measures between the parent and subsidiary companies, and tighten the control over subsidiaries in compliance terms. More, we perfected existing institutional systems by reducing the number of systems and of their levels, removing outdated systems, and improving those in key areas, thereby forming a clearly categorized, organically integrated compliance system.

Southern Asset Management has employed digital, smart technologies to improve compliance management. According to actual scenarios of compliance management, we developed compliance engines for digital employees, and applied various AI technologies to strengthen their control, including by checking the use of communication tools, detecting insider information in the recorded conversations, and checking the record of external communications of investment researchers. In addition, we continued to improve the product contract management system by digitalizing the entire process of contract management ranging from contract making to approval.

Southern Asset Management strengthened the construction of compliance culture. We increased the resources used to provide compliance education, including by publishing

the *Internal Publication on Compliance*, interpreting new laws and regulations as well as their key points, pushing regulatory news and risk cases, releasing articles on the forum "Voice on Compliance", making posters on compliance knowledge, distributing compliance-themed T-shirts, and more. Additionally, we produced *Compliance-themed Cartoons* and roll-up banners on compliance knowledge. More, we provided employees with opportunities for targeted professional training and exchange, including on anti-money laundering, investment compliance, marketing and promotion, personal information protection, information security, insider trading prevention, employee investment control, business practitioner management, etc. In this way, we fueled business growth in a targeted manner and provided effective solutions for compliance matters. Also, we made good use of external resources by appointing senior partners or advisors of famous law firms to provide training for our employees.

By the end of 2022, Southern Asset Management has provided 26 training sessions on compliance, with the number of participants totaling 3,121.



Provided

**26**

training sessions on compliance



The number of participants totaling

**3,121**

## Comprehensive Risk Management

In this sphere, Southern Asset Management formulated and enforced a series of institutions, including the *Risk Management System*. To tighten the management of reputational risks, in August 2022, Southern Asset Management set up a Reputational Risk Management Committee and Working Group, specified their membership and primary responsibilities, and added the *Reputational Risk Management Provisions*. Through risk control commissioners and monthly reporting systems, we put the requirements for reputational risk management in place, screened potential risks, and reported them accordingly. More, we guided our subsidiaries to build relevant systems and mechanisms with a view to helping them comply with the requirements for reputational risk management.

## Professional Integrity

Southern Asset Management has constantly consolidated its professional integrity management system by enhancing accountability, e.g., enforcing an accountability system for Party style and clean government building. The Company's Party Committee is the primary entity responsible for Party style and integrity affairs, while the discipline inspection committee performs the supervisory responsibilities concerned. We allow the Board of Directors and the Board of Supervisors to play decision-making and supervisory roles in integrity building, and the audit, financial, compliance, risk control, discipline inspection and supervision, organization and personnel departments to play collaborative roles. Since the integrity management system was established, we have never given rise to any Party style or integrity problems on the part of leading cadres; nor have we been held to account by regulators for violating laws or regulations related to professional integrity.

Southern Asset Management has set up all-round supervision mechanisms for the legal and disciplinary compliance of employees in almost all respects, including professional integrity, insider trading, use of non-public information for trading, fair trading, interest transfer, use of communications devices, securities investment, etc. We drew up the *Internal Control System for Business Integrity*, the *Compliance Handbook*, the *Financial Expenditure Management Measures*, the *Tender Management System*, the *Information System Tender Management Measures*, the *Compliance Performance Management System*, and the *Accountability Management Measures*, among others, to effectively regulate various financial expenditure behaviors, specify the requirements, norms, and standards for internal control, and establish the procedures to handle violations.

In 2022, we offered several training sessions on professional ethics, covering business integrity requirements, code of conduct, moral standards, and more. The coverage of anti-corruption learning among employees hit 100%.



## Anti-money Laundering

Southern Asset Management has set up a sound anti-money laundering organizational framework featuring complete structure and clearly defined roles and responsibilities to clarify the duties of various entities, including the Board of Directors, the Board of Supervisors, the management, all departments, and branches. We have also improved the development of anti-money laundering systems to sharpen our ability to control and prevent money laundering risks in all respects, including process control, due diligence, monitoring of black lists of money laundering and sanctioned entities, data integration and presentation, etc. Both our parent Company and subsidiaries have so far been subject to anti-money laundering checks. Further, we have laid down internal control systems for anti-money laundering purposes that are consistent with regulatory requirements, including the *Risk Management System for Money Laundering and Terrorist Financing*, the *Internal Control System for Anti-money Laundering Purposes*, and relevant systems of various departments and branches. Almost all mandatory obligations regarding anti-money laundering requirements have been covered up to now.

In 2022, we launched a campaign to handle and manage suspicious clients, and accordingly, we created work mechanisms and operating guidelines for the handling of problem clients and in an orderly manner, advanced the work of sorting and renewing information on such clients in direct and proxy sale. More, we finalized the plans to optimize data-updating rules for TA clients and main data integration rules for clients in general to improve the quality of client information used for anti-money laundering purposes. In addition, we developed such new capabilities as to present money laundering risks on big screens, remind employees of the deadline for risk handling, and assess money laundering risks of channels, etc., and enriched the view of clients' due diligence information, thus lifting the digital and smart level of anti-money laundering systems to a new high. Particularly, we solved the problems regarding money laundering risk maps and the registration and storage of clients' anti-money laundering data, elaborated the guidelines for categorizing and auditing the list of money laundering and sanction risks, and optimized the mechanisms and processes used to assess the money laundering risks of our services and products, thus ensuring our high performance in controlling money laundering risks. Finally, we enriched and improved the form of anti-money laundering training by making full use of internal and external resources to offer precision, professional, and practical training. During the reporting period, we were free of any money laundering risk events.



Regular audit for anti-money laundering purposes

1 Time



Anti-money laundering compliance check

1 Time



Special audit for anti-money laundering purposes

6 Times



Anti-money laundering training

10 Times

## Protection of Intellectual Properties

Southern Asset Management complies with state laws and regulations, respects and protects intellectual property rights, and regulates the use of its own intellectual properties and business information, as well as those of its clients and third-party organizations. To encourage the innovation of intellectual properties, we set up a working group for the

verification of IT intellectual property rights, established procedures to apply for independently developed software copyrights and patents, and organized the staff members of IT departments to receive regular training on intellectual property protection. By the end of 2022, we granted five patents and 20 software copyrights.

# Charting an Ambitious Blueprint to Enable Change for the Better

Southern Asset Management follows a long-term approach to add value to our people. In developing a modern capital market with Chinese characteristics, we actively promote putting holders first, and therefore, always do what is right, even when it is difficult. Moreover, we have created a sound incentive and restraint system that is compatible with our culture to enhance the management of our people. We have also established a systematic personnel management system featuring long-term performance appraisal. The system also combines incentives with restraints and gives equal weight to material and spiritual rewards. Finally, we always emphasize the development of communities and actively fulfill our social responsibility in order to contribute to social progress through charity.



# 05

# Setting the Stage for a Dream

## Lawful Employment

Indicators	Unit	2022	2021	2020
Total number of employees	people	900	815	758
Number of investment researchers	people	287	259	234
Share of investment researchers compared to the total workforce.	%	31.9	31.8	30.9
Number of operating personnel	people	343	300	247
Share of operating personnel compared to the total workforce	%	38.1	36.8	32.6
Number of marketing personnel	people	270	256	277
Share of marketing personnel compared to the total workforce	%	30.0	31.4	36.5
Number of new employees	people	157	143	74

### By gender

Number of female employees

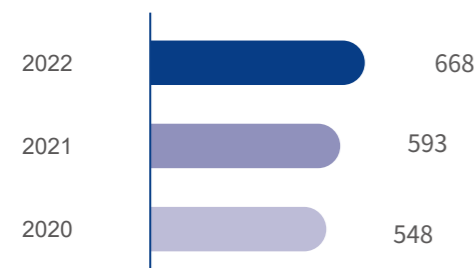


Number of male employees

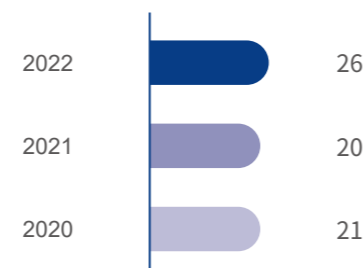


### By educational level

Master's students



Doctoral students



Note: The score of these statistics covers the head office in Shenzhen and its branches.

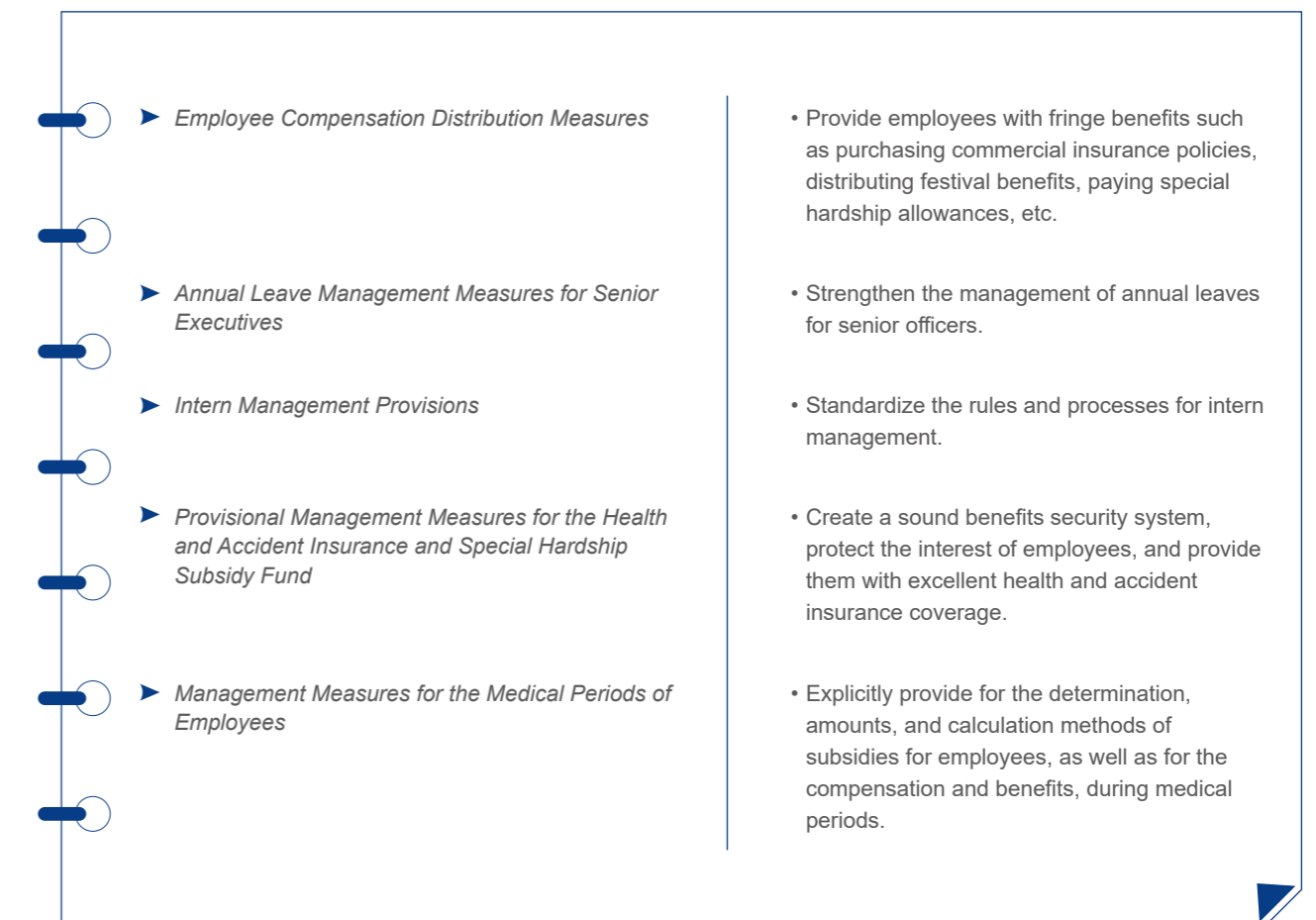
## Recruitment

In 2022, Southern Asset Management used various means to introduce and add core professionals, including open recruitment, internal referral, recommendations from hunters, campus recruitment, cooperation with websites, etc. Specifically, we hired 58 individuals in fintech and 37 investment researchers. We conducted campus recruitment both online and offline to channel new blood into our business teams.

Over the process of recruitment, during interviews, and before hiring in particular, we verify the state of candidates and recruits item by item to fend off violations of labor provisions, including child labor, forced labor, etc., as per China's law, regulations, and the Company's internal rules. Furthermore, we formulated a series of labor-related policies, including *Labor Contract Management Measures*, *Employee Attendance Management Measures*, *Recruitment Management Measures*, etc., to standardize the management of employee relations and protect the legitimate rights and interests of our people. The share of employees who have signed labor contracts with us reached 100%, ensuring the lawfulness of employment.

## Compensation and Benefits

Following market-oriented, performance, and incentive principles and with consideration to characteristics of the industry and the requirements of corporate management, Southern Asset Management created a scientific, systematic, and diverse system for compensation and benefits that integrates long-term and short-term perspectives. The mechanism covers both long-term incentives and short-term motivation, while also combining intangible incentives with material rewards. In practice, we have strictly enforced a mechanism of incentive and restraint to ensure that the interest of our investment personnel aligns with that of our clients. Given the requirements of business management and compliance, and to encourage long-term service and ward off investment risks, we implement a deferred payment system for people in different positions. During the reporting period, the coverage of social insurance schemes for our employees stood at 100%, thus effectively securing the lawful rights and interests of our people.



## Safety and Health

### Guarantee of Workplace Safety

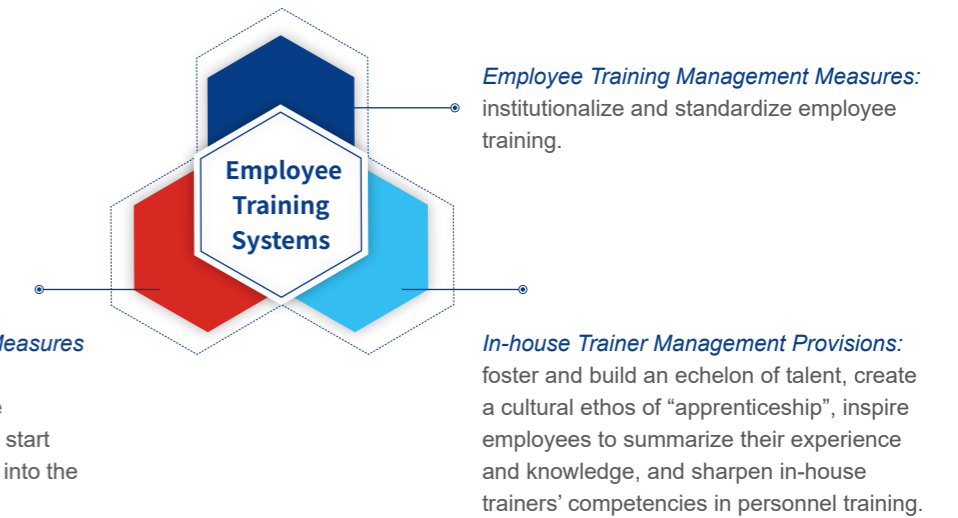
Southern Asset Management inspects fire emergency responses monthly to ensure workplace safety. We paste fire evacuation plans on all floors and organize employees to participate in fire drills. Furthermore, we arrange for people to tour our workplaces and relevant facilities on a daily basis. Our office areas have sufficient sunshine and are well-lit all day long. We offer employees ergonomic chairs to reduce the harm done to their health as a result of sedentary jobs and improve their work conditions.

### Protection of Physical and Mental Health

Southern Asset Management provides employees with comprehensive health services and security. For example, we have purchased medical services offered by guokang.com, supplementary medical insurance, and personal critical illness insurance for our employees, improving their healthcare in terms of setting up appointments, claim settlement, critical illness coverage, etc. In doing so, we help our employees manage emotions and shape a positive mindset. On an ongoing basis, we implement an employee care project to reflect that the company is lucky to have these employees. Staff members can consult advisors about their career development, family and parent-child relations, marriage love, emotional regulation, etc. via telephone, video, or on-site consultations. A family advisor service was added to the project, too.



## Occupational Training



### Employee Training

In 2022, Southern Asset Management held three Thoroughfare, one Falcon Plan, and eight Wolf Warriors training sessions, which were attended by 1,304 people from all over the Company's investment research and marketing teams. In addition, we conducted a training entitled *Structural Thinking and Road Show Capacity Building* for investment research teams, which reached 134 people. For all employees, we offered training sessions on the *New Provisions on the Management and Code of Conduct of Fund Practitioners*, the *Cybersecurity Awareness Raising Training 2022*, and *Private Pension, Nice!*, which were attended by 667 people. We also established internal sharing mechanisms and held 10 corporate exchange activities entitled *Southern Asset Management Speakers in Action*, which drew 1,543 participants.



**Case: Southern Study — A Corporate Learning Platform**

To stoke employees' enthusiasm, and create an environment favorable to continued learning, Southern Asset Management integrated internal and external resources to launch a corporate learning platform called, "Southern Study," which provides all employees with one-stop learning services. This platform helps employees obtain learning resources conveniently and fosters their competencies comprehensively and efficiently. Our Southern Study platform allows users to learn about process management, project design, data analysis, archives management, and other topics. It is highly effective in making our training work more systematic, thus helping us to build an integrated, digital, and smart learning platform, while also improving the efficiency of our organization and facilitating our professionals' personal development.

**Case: New Entrants Training Camp**

In July 2022, the Company's New Entrants Training Camp conducted online training on products for close to 149 new employees hired in the past year. We offered offline closed training for 55 new hires recruited directly on campus, too. A total of 34 in-house trainers were invited to deliver lectures for them.

**Promotion and Development**

Southern Asset Management has set up a competence-based position system consisting of eight MD series of positions in the fields of management, investment, research, sales, marketing, technology, operations, and wealth management advisor. Each MD series includes explicit standards for promotion and demotion. In terms of performance appraisal and incentives, we prioritize the interest of investment practitioners. We use performance appraisal as a means to guide employees' conduct in the workplace and appraise all employees' performance from a long-term perspective. Additionally, we equally emphasize incentives and restraints. On the incentive side, in particular, we have long-term incentive mechanisms, intangible reward projects, and compensation restraint mechanisms. We also enforce compensation/bonus payment deferral plans, co-investment plans, etc. As for promotion, we focus on putting people at the center, appointing the right people to the right positions, taking both virtue and talent into account, and emphasizing self-discipline. In all respects, we follow the guideline that calls for the Party to manage cadres and talents as well as cadre selection standards that take both virtue and talent into consideration and give priority to virtue.

Southern Asset Management has adopted differentiated performance appraisal methods concerning senior executives, departmental heads, employees, and compliance management personnel. In 2022, we employed the OKR approach to manage business targets and effectively distinguished target management from performance appraisal. The results of our performance appraisal were subsequently used as the basis for our selection and citation of top performers, the appointment of cadres, training, and development of employees, distribution of bonuses, adjustment of compensation, etc.

**Leveraging the Strength of Charities**

Southern Asset Management strives to fulfill its social responsibility and aims to promote coordinated regional development and assist communities in overcoming challenges through philanthropy.

To advance the public good in a more professional and sustained manner, we founded the Southern Asset Management Charity Foundation as a sole promoter on July 25, 2011. Using the foundation as a vehicle, we have conducted various public welfare activities and have continued to fulfill our commitment to philanthropy.

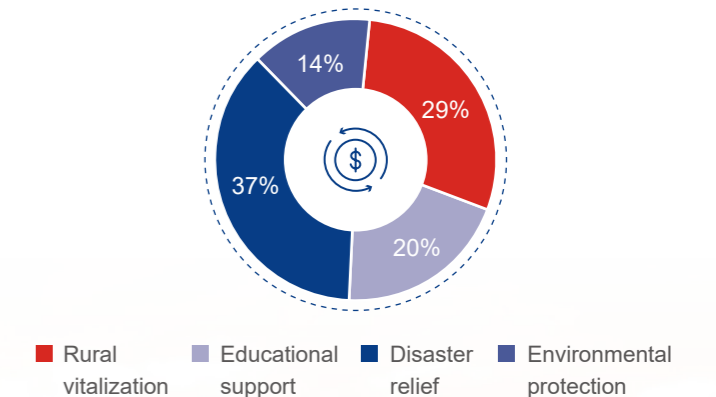
The Southern Asset Management Charity Foundation is a non-public charitable organization founded with a registered capital of RMB eight million. It is involved in charitable activities, including educational support, disaster relief, poverty alleviation, and environmental protection, etc. As a key donor of the foundation, Southern Asset Management promises to continue donating to the organization. We also encourage our employees and their families, clients, individual members of society, and other organizations to do so as well.

"Be kind and donate." This phrase is not just a manifestation of the Chinese culture, but also a good tradition of the Chinese people. "Being benevolent and helping the poor" is a call to action that is not only the most respected virtue, but also a need for social development. We will conduct charitable activities according to the principles of honesty, standardization, transparency, and efficiency to bring our love and care to every corner of the world.

**Donation**

By the end of 2022, the foundation had donated a total of RMB 8,675,741.56. That year alone, it donated RMB 1 million for education support, disaster relief, rural vitalization, and environmental protection areas. Over the years, it has donated approximately RMB 2.36 million, RMB 1.6 million, RMB 3 million, and RMB 1.12 million to rural revitalization, educational support, disaster relief, and environmental protection, respectively.

Share of donation by area, 2022





## Volunteer Services

In 2011, Southern Asset Management set up a volunteer service team composed of both employees and their family members, making it the first company in the fund management industry to have established an organization of this kind. In their spare time, members of the team visited elderly people and disabled children in need of company at community care centers to show them love and warmth. They also engaged in environmental protection activities by planting trees, collecting garbage in public places, disseminating the concept of a "green lifestyle", etc. In addition, they provided financial aid to impoverished families and implemented "one-on-one" poverty relief projects. By the end of 2022, they rendered over 2,300 hours of volunteer services.

In May 2022, Southern Asset Management established a Vanguard of Party Members. More than 100 people joined the group to take part in volunteer services across various communities.

### Case: Playground Repair and Renovation at Fengxiang Primary School, Fenxi County

In July 2022, Southern Asset Management donated RMB 700,000 to fund the repair and renovation of a playground at Fengxiang Primary School, Fenxi County, Shanxi Province. In addition, we agreed to financially help the school build a football court. In early September 2022, the project was completed and accepted, greatly improving the facilities of that school. The playground has already been put into use, bringing an all-new experience for teachers and students. Southern Asset Management was given the title of "an advanced organization in support of education in Fenxi County" by the local government.



## Promoting Prosperity through Cooperation

Southern Asset Management actively builds diverse channels and deepens its cooperation with channel providers. In addition to direct sales, we have established multifaceted, all-round partnerships with banks, securities dealers, third-party selling agents, insurers, trusts, and other organizations as a means to push the boundaries of our services and fulfilling the mission of growing inclusive finance as a publicly offered fund. As of the end of December 2022, we engaged in cooperation with 103 banks, 100 securities dealers, and 82 organizations of other kinds.

We have complied with the *Tendering and Bidding Law of the People's Republic of China* and the *Implementing Regulation of the law*, among other regulations, in procuring goods and services, and have continuously improved our management systems to strengthen how we manage the suppliers with which we work. Due to the characteristics of the financial industry, we mainly procure IT hardware and software, office supplies, facilities and equipment, and services. With relatively short supply chains, we likewise have relatively smaller risks of imposing a negative impact on the environment and society. In selecting suppliers, we require that they have no history of violations or have been previously subject to administrative penalties within the last three years. Furthermore, we give priority to supplies with a relatively better image or performance in terms of social responsibility. We practice green procurement. In purchasing sanitary and office supplies in particular, we select environment-friendly products and services on the condition that they meet quality requirements. To reduce our environmental impact, we prioritize environment-friendly products, such as selecting environmentally friendly paper.

## Appendix

### Appendix 1 Methods of Calculating the Environmental Benefits of Operating Activities

The organizational boundary<sup>8</sup> for the current environmental data disclosure is identified according to the operational control method described in the *GHG Protocol: Corporate Accounting and Reporting Standards*. Therefore, the emissions produced by both the head office and branches over the span of January 1 to December 31, 2022, including those in Scope 1, 2, and 3, are included. Scope 1 direct emissions include those from fixed sources, mobile sources, and fugitive emissions. Emissions in this scope are mainly the carbon emissions generated by the combustion of gasoline consumed by self-owned vehicles, the combustion of natural gas used by gas equipment in self-owned cafeterias, and the fugitive emissions from cooling equipment. Scope 2 indirect emissions include the carbon emissions produced by the electricity consumed in offices within the boundary of accounting. Finally, Scope 3 emissions are mainly derived from business trips, commuting, water and paper use in offices, and garbage treatment by employees.

#### Scope 1 and Scope 2 Emissions

Scope 1 and Scope 2 emissions are derived from the gasoline consumed by self-owned vehicles, the natural gas used by gas equipment in self-owned cafeterias, and an office's electric and cooling equipment. The total of such emissions is the sum of the emissions from the combustion of fossil fuel, the fugitive emissions from refrigerants, and the emissions from outsourced electricity. For the carbon emission from the combustion of gasoline consumed by self-owned vehicles, the activity data is actual the consumption of gasoline (for the branches in Chengdu and Nanjing, such consumption is determined by dividing the annual expenditure for gasoline by the gasoline price). The average lower heating value is based on the data found in *China Energy Statistical Yearbook 2022*, and the default emission factor for carbon dioxide is derived from the *2006 IPCC Guidelines for National Greenhouse Gas Inventory* (revised in 2019). For the carbon emission from the combustion of natural gas consumed by gas equipment in self-owned cafeterias, the activity data is the actual consumption of natural gas. The average lower heating value is based on the data in *China Energy Statistical Yearbook 2022*, and the default emission factor for carbon dioxide is derived from the *2006 IPCC Guidelines for National Greenhouse Gas Inventory* (2019). For the carbon emission resulting from the electricity consumed in offices within the boundary of accounting, the activity data is the actual consumption of electricity; the emission factor is the average emission factor for the national power grid in 2022 as released in the *Accounting Methods and Reporting Guidance for GHG Emissions by Enterprises-Power Generation Facilities* (2022).

The formula is as follows:

$$E_{\text{GHG}} = E_{\text{GHG-combustion}} + E_{\text{GHG-outsourced electricity}} + E_{\text{GHG-refrigerants}}$$

In the formula:

$E_{\text{GHG}}$  is the total GHG emission of the reporting entity, as measured by the unit of tCO<sub>2</sub>e;

$E_{\text{GHG-combustion}}$  is the emission of CO<sub>2</sub> within the organizational boundary from the combustion of fossil fuels, including CO<sub>2</sub>, CH<sub>4</sub>, and N<sub>2</sub>O, as measured by the unit of tCO<sub>2</sub>e;

$E_{\text{GHG-outsourced electricity}}$  is the emission of CO<sub>2</sub> from the consumption of outsourced electricity within the organizational boundary;

$E_{\text{GHG-refrigerants}}$  are the fugitive emission of CO<sub>2</sub> within the organizational boundary from the HFCs generated by the operation of air conditioners and refrigerators, as measured by the unit of tCO<sub>2</sub>e.

<sup>8</sup> The scope of GHG emission accounting covers the headquarters and all branch companies of Southern Asset Management, including the branches in Beijing, Shanghai, Shenzhen, Nanjing, Chengdu, and Hefei, as well as China Southern Capital Management and China Southern Equity.

### Appendix 2 Methods of Calculating the Environmental Benefits of Investment and Financing Activities

For projects supported by the Company's green investment, the environmental benefits are calculated according to *Appendix 2 Notes on the Statistical System for Green Financing* and *Appendix 3 Guidelines for the Calculation of Energy Conservation and Emission Reduction Volumes in Green Credit Projects* attached to the *Notice of the General Office of China Banking and Insurance Regulatory Commission on the Work Concerning Statistical Systems for Green Financing* issued in June 2020. Consider the calculation of energy conservation and carbon dioxide emission reduction volumes for example.

The formula used to calculate the volume of energy conservation is as follows:

$$E_s = E_a - E_r$$

In the formula:

$E_s$  is the volume of energy saved;

$E_a$  is the adjusted energy consumption (the consumption of energy before a project is implemented). More specifically, it is the energy consumption of all entities, equipment, and systems that fail to adopt the energy conservation measure within the boundary of a project during the reporting period, as measured according to the energy consumption in the base period and the energy consumption during the reporting period;

$E_r$  is the consumption of energy during the reporting period (the consumption of energy after a project is implemented). More specifically, it is the energy consumption of all entities, equipment, and systems that use energy within the boundary of a project during the reporting period.

The formula used to calculate the volume of carbon dioxide reduction is as follows:

$$\text{CO}_2 = \sum_{i=1}^n E_i \times \alpha_i$$

In the formula:

$\text{CO}_2$  is the reduction of carbon dioxide emission, as measured by the unit of tCO<sub>2</sub>e;

$E_i$  is the physical volume of savings of a particular energy product, as measured by t (or 10,000kWh, m<sup>3</sup>, etc.);

$\alpha_i$  is the CO<sub>2</sub> emission factor for a particular energy product, as measured by kgCO<sub>2</sub>/kg (or m<sup>3</sup>).

### Appendix 3 Response to United Nations' SDGs

As an investor, Southern Asset Management is currently focused on the following goals:



As a corporate citizen, we are focused on the following goals:



## Appendix 4 Practicing the Principles for Responsible Investment (PRI)

Principle 1: Incorporate ESG issues into investment analysis and decision-making processes	<ul style="list-style-type: none"> <li>• ESG Organizational Structure (P16)</li> <li>• ESG Investment Processes (P17-18)</li> <li>• ESG Rating Systems (P19-20)</li> <li>• Digital and Smart ESG Investment Research (P21)</li> </ul>
Principle 2: Be active owners and incorporate ESG issues into our ownership policies and practices	<ul style="list-style-type: none"> <li>• ESG Rating Systems (P19-20)</li> <li>• Practice of Active Ownership (P22-23)</li> </ul>
Principle 3: Seek appropriate disclosure on ESG issues by the entities in which we invest	<ul style="list-style-type: none"> <li>• Practice of Active Ownership (P22-23)</li> </ul>
Principle 4: Promote acceptance and implementation of the Principles within the investment industry	<ul style="list-style-type: none"> <li>• ESG-themed Investment (P25-26)</li> <li>• Spotlight: Climate Change Response — Managing Climate Change Risks and Opportunities (P30-33)</li> <li>• Environmental Impact of Investment and Financing Activities (P39-42)</li> </ul>
Principle 5: Work together to enhance our effectiveness in implementing the Principles	<ul style="list-style-type: none"> <li>• ESG-themed Investment (P25-26)</li> <li>• Environmental Impact of Investment and Financing Activities (P39-42)</li> </ul>
Principle 6: Report on our activities and progress toward implementing the Principles	<ul style="list-style-type: none"> <li>• We have enhanced information disclosure by issuing ESG investment reports for three consecutive years</li> <li>• Furthermore, we have made annual reports according to the requirements of PRI</li> </ul>

## Appendix 5 Notes on This Report

This is the third annual ESG investment report ("Report") released by Southern Asset Management Co., Ltd. ("Southern Asset Management", "Company", or "we"). It gives a true and objective view of the progress in making responsible investments and performing corporate social responsibility by Southern Asset Management and its branches in 2022.

It is prepared with reference to the *GRI Standards 2021* issued by the Global Sustainability Standard for the Board (GSSB), and the *Guidelines for Environmental, Social, and Governance Reporting* published by the Stock Exchange of Hong Kong (HKEX).

In conjunction with this report, we issued the first *Environmental Information Disclosure Report by Financial Institutions* to meet the disclosure requirements of Shenzhen for financial institutions. Accordingly, the environmental information disclosure report was prepared in accordance with the *Guidelines for Environmental Information Disclosure by Financial Institutions in Shenzhen* (Shen Jin Jian Gui [2022] No. 5). Furthermore, to enhance the information disclosure on "climate change responses", we formulated special reports following the recommendations of the TCFD.

For quantitative indicators referred to in this report, we have provided explanations on their statistical bases in corresponding sections.

This report is produced in reference to the following eight principles:

### Accuracy

This report provides accurate and sufficiently detailed information that is free of false records or misleading representations to accurately measure the impact of the organization covered during the reporting period.

### Balance

This report gives an objective view of factors and discloses both positive and negative indicators to avoid selective reporting, omissions, or reporting formats that may improperly affect the decision-making or judgment of its readers.

### Clarity

This report is easy to understand, clearly structured, and draws a clear distinction between more important and less important content to lower the effort of reading and help convey important messages of the organization covered.

### Comparability

This report expressly notes the international or industrial guidelines that serve as the basis on which to make statistical analyses or perform the calculation for the key quantitative indicators of ESG performance and, to the highest extent possible, make the indicators and calculations consistent for different reporting periods to help reflect the trend of ESG performance.

### Completeness

This report provides thorough and complete information free of material omissions to fully gauge the impact of the organization covered during the reporting period.

### Sustainability

In the context of sustainable development, this Report focuses on ESG issues of the organization covered that may have an important impact on investors and other stakeholders.

### Timeliness

This report discloses information every year to provide readers with timely information that facilitates their decision-making.

### Verifiability

For the information disclosed herein, this report retains a record of data collection, recording, compilation, or analysis to help with fact-checking and ensure the quality of information and data.

Unless otherwise stated, this report uses Renminbi as the currency for monetary values. This report is released electronically. It can be downloaded from <https://www.nffund.com/main/zjcc/ESG/zrtz/index.shtml>.

## Appendix 6 Contacts

Dear readers:

Thank you for reading this *ESG Investing Report (2022) of Southern Asset Management Co., Ltd.* To better meet your needs, provide more valuable information, and improve our ESG performance and ability to make responsible investments and perform social responsibility on an ongoing basis, we sincerely hope that you will consider giving us your valuable opinions on this report.

If you have any comments or questions, please scan the following QR code to provide feedback.



You can also contact us at:

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*ESG Investment Report Working Group of Southern Asset Management Co., Ltd.*  
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