Investment Philosophy and Sustainability Approach

Investment Philosophy

1. Lion Global Investors (LGI) is one of the largest asset managers in Southeast Asia. Affirmed by more than 30 years of investment expertise, we are dedicated to managing various investment strategies that span across different asset classes for our institutional and retail investors globally.

2. LGI aims to excel in executing our fiduciary responsibilities when managing our clients' money. The investment team is expected to comply with industry standards such as Investment Management Association of Singapore (IMAS) Code of Ethics and Standards of Professional Conduct, as well as LGI's related internal policies on staff trading, insider dealing and fraud. The investment teams must ensure compliance with our clients' mandates and investment objectives and where there are conflicts of interest between our clients and LGI or other influential parties of LGI, the interest of our clients shall prevail. As part of carrying out our fiduciary responsibilities, our investment teams have to take into consideration all material factors that impact the risks and returns of the mandates we manage on behalf of our clients, in a bid to provide the best performance for these investment portfolios.

Our Sustainability Beliefs

3. This Sustainability Approach would apply to all securities across fixed income and listed equities where our investment teams have discretion in making the investment decisions.

4. We believe that material environmental, social and governance (ESG) factors impact the risks and returns of the investments we manage and such ESG considerations should be integrated into our investment process to optimize the risk-reward of each investment decision we undertake. This aligns with the investment philosophy and our fiduciary responsibilities to take into account all material factors to provide the best performance for our clients' investment portfolios.

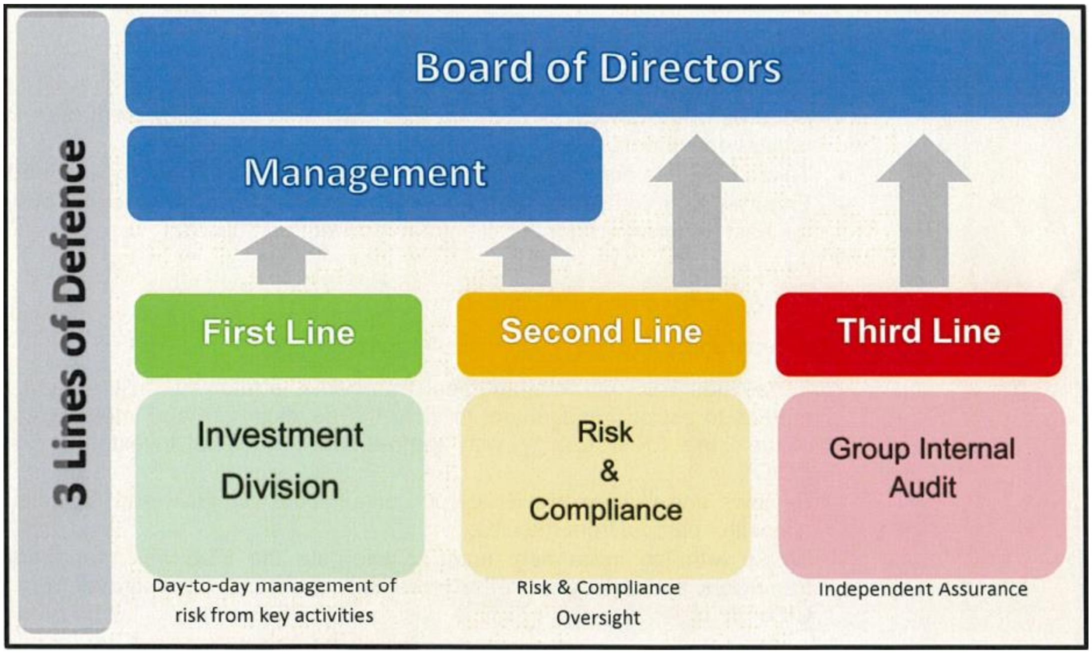
5. Demonstrating our commitment to responsible investing, LGI has started out with two distinct moves. Firstly, LGI joined the Principles for Responsible Investment (PRI)[1] as a signatory in January 2020, putting the organization on a committed path alongside the broader ESG investment community in this ESG journey and maintaining the trust that clients have in our ability to deliver long term sustainable risk-adjusted returns. LGI is committed to the six principles of the PRI, incorporating material ESG considerations and adopting an active ownership approach as part of our ESG integrated investment process. Secondly, LGI has also created an ESG department to provide dedicated resources in this area. The ESG department reports directly to the Chief Investment Officer (CIO), working with various departments across the organization on ESG matters such as ESG analysis and reporting for investment portfolios, ensuring compliance with regulatory requirements, and other ESG-related initiatives.

6. In January 2023, we have progressed further in terms of working to improve our stewardship knowledge as LGI now participates in the Asia Investor Group on Climate Change (AIGCC)[2] through the membership of Great Eastern Singapore.

Governance on ESG Matters

7. The management of ESG risks would require joint efforts across the ESG department and the broader investment division, the risk and compliance department, as well as our Group internal audit, forming the three lines of defense. The various roles are laid out within our ESG risk management policy, with more description of these in subsequent sections below. The policy would be reviewed at least once every two years, with significant amendments subject to the Board's approval.

[1] PRI | Home (unpri.org)
[2] AIGCC



8. In line with LGI's ESG risk management policy, the Board would also oversee, at a strategic level, the ESG risk management framework (ERM)[3] that ensures a structured set of guidance is provided to the investment division via the Sustainability and Stewardship Approach documents for ESG integration and portfolio risk management[4]. The Board would also be updated every semi-annually on the ESG status of our investment portfolios, prepared by the ESG department and vetted by the management committee comprising the CEO, CIO, COO and CMO. The ESG status is measured by metrics such as ESG ratings and specifically for environmental risk assessment, carbon metrics as well as results of forward-looking climate scenarios.

9. The management committee is then responsible for the effective implementation of the ERM and ESG policies, and the vetting of the ESG status of our investment portfolios prior to the update to Board.

Our Sustainability Approach Across Various Investment Products

10. There are three key documents of guidance on ESG integration for our respective investment teams and they include the Sustainability Approach, Stewardship

[3] The ERM was formulated by the ESG department, vetted by the CIO and approved by Board.
[4] Subsequent changes to the Sustainability and Stewardship Approach documents would need to be approved at the management committee level.

Approach, and an ESG operating manual for the investment teams that details the execution considerations for both sets of Strategy documents. These documents are under the care of the ESG department with CIO oversight, and any changes to these strategies or the operating manual would be proposed by the ESG department, taking into account feedback from the investment teams.

<u>Fundamental Equity, Fundamental Fixed Income Funds and Multi-Asset</u>

ESG Considerations

11. From an ESG perspective, we focus our resources on ESG factors that have a material effect on our overall portfolios' performance. These can vary in scope and scale across individual securities, industries, countries and time horizon.

12. For each issuer, the ESG factors considered and the materiality of each factor is usually determined by the issuer's industry, where reference can be made to the materiality map of a reputable third party ESG platform if applicable. For instance, the ESG evaluation for Utilities industry may include environmental and social factors such as Carbon Emissions, Opportunities in Renewable Energy, Human Capital Development and Governance.

    Example of Utilities' Material ESG Factors from MSCI ESG Industry Materiality Map[5]

Environmental

Issue	Average Weight
Carbon Emissions	12.1%
Opportunities in Renewable Energy	10.9%
Toxic Emissions & Waste	9.3%
Water Stress	9.1%
Biodiversity & Land Use	4.5%

Social

Issue	Average Weight
Human Capital Development	11.7%
Health & Safety	3.6%
Product Safety & Quality	1.5%
Community Relations	0.8%
Privacy & Data Security	0.2%
Labor Management	0.1%

Governance

Issue	Average Weight
Governance	36.4%
Ownership & Control	
Board	
Pay	
Accounting	
Business Ethics	
Tax Transparency	

Source: MSCI, 3 April 2023

13. Specifically on environmental and social risks, the material risks under consideration as part of the overall ESG risk assessment would vary, depending on the individual industries and companies that are being assessed. For instance, this may include climate transition risk considerations such as regulatory and business implications surrounding carbon emissions and/or on companies with exploitive labour practices where applicable. These considerations form part of the

[5] ESG Industry Materiality Map - MSCI

prioritised engagement themes we have with the companies we have an interest in (see Stewardship Approach).

ESG Integrated Process

14. Rather than reinventing the wheel, material ESG factors are integrated into the existing investment process. This approach has two merits. Firstly, it allows our investment teams to apply a holistic view when considering the investment risks and opportunities as a whole for the portfolios under management. Secondly, in security selection, the investment teams are the key experts with regard to the securities in the markets they invest in; the investment teams are best suited to make the assessments on what constitutes material ESG factors that each issuer face and how well each of them are managing these factors. Material ESG factors are considered alongside other considerations that are integral to each security's performance, including but not limited to factors such as financials and strategies, management capabilities, growth catalysts and valuations.

15. To aid our investment teams in ESG analysis, quantitative and/or qualitative ESG information can be derived from key sources such as public information provided by issuers either via our engagements with the companies, company filings or company announcements, and/or through reputable third party ESG platforms that LGI subscribes to. With this information gathered, the investment team can also perform a more targeted engagement with investee companies to better understand their stance towards these material ESG issues and encourage improvement (see Stewardship Approach) and ultimately influence our investment decisions.

16. Besides having ESG considerations that form part of an initial investment decision, post investing, the investment teams would continue to evaluate and monitor the ESG quality of the issuers as part of the ongoing evaluation and risk management that would have an impact on the ESG quality of our portfolios.

Time Horizon and ESG risk considerations

17. In general, our investment teams expect to generate an outperformance from security selection over the medium term (i.e. a three years investment horizon). Material ESG risks and/or opportunities that impact the performance of our investments within this period would form a key part of the overall investment

assessment. Beginning 2020[6], the investment teams tracked and monitored for improvements in the ESG quality of investee companies[7]. For investee companies with below average ESG quality and had not made sufficient improvements across a period of up to three years[8], limits would be imposed on the exposure to such companies. The analyst would then evaluate the assessment to blacklist the name in consultation with the head of asset class, and in appeal cases, the CIO and the ESG department. During this period, such companies with poorer sustainability efforts would initially be placed on a restricted list where investment teams are not allowed to increase allocation. Post evaluation, any company that is deemed non-investible would fall into a blacklist and would be subject to divestment if held and cannot be purchased for any portfolios managed by the investment teams. Subsequently, a blacklisted name could be lifted out of the blacklist after a minimum period, if the analyst provides sufficient justification in consultation with the CIO, head of asset class, and the ESG department that there had been transitional improvements on the material ESG considerations that had initially led to its inclusion in the blacklist and there are no other material ESG considerations that would pose a significant risk to the overall risk-return of the security. On the other hand, post evaluation, investee companies that are not included in the blacklist would have exposure limits imposed on them and are subject to annual reviews. For all other eligible securities, the ESG quality is monitored and assessed again at least on an annual basis.

ESG Opportunities

18. Besides assessing ESG risks when making an investment decision, investment instruments that represent climate-related opportunities within the respective investment universes can be considered for investment. This includes but is not limited to green and sustainability-linked bonds, as well as equities of companies that would benefit from the transition towards a greener global environment.

19. LGI is also open to managing dedicated green funds and is in the midst of building a track record in managing a dedicated green bond fund for one of our clients, taking into account the green properties of each security and their broader risk and return characteristics.

[6] Beginning 2020 for Fixed Income and Japan Equities, 2021 for Asian Equities and 2022 for Multi-Asset.
[7] The ESG risk quality assessments take into consideration our third-party provider's ESG scores and our internal assessment.
[8] Improvement is assessed based on changes in the score derived from our ESG data provider(s) based on their assessment of material ESG issues.

20. In 2022, we have also successfully launched the Lion-OCBC Securities Singapore Low Carbon exchange-traded fund (ETF) on the Singapore Exchange (SGX) to provide investors a convenient and affordable way to participate in Singapore's low-carbon transition[9].

Curated Portfolio Solutions

21. The Curated Portfolios team (CPT) is an investment team dedicated to conducting Mutual Fund/Exchange Traded Fund ("ETF") research and constructing risk-based portfolios that best serve our clients' needs. CPT maintains an open architecture platform where only the best of breed solutions and funds in which we have the highest conviction in their abilities to deliver top-quartile performance within their peer universe are offered to our clients.

22. In line with LGI's sustainability belief that ESG is integral to providing the best performance for our clients' investment portfolios, CPT integrates ESG considerations into its selection and monitoring process when identifying the best of breed solutions and funds for our clients.

23. The ESG considerations include the assessment of an asset management company's ESG stance, both at an overall firm level and the fund-specific level. This includes but is not limited to the firm's ESG approach and resource allocation to ESG integration. CPT gathers the necessary information via engagement with the asset management companies and third party ESG data providers.

24. Besides assessing the ESG quality of funds, our CPT can also provide dedicated solutions in environmental and social impact-themed funds.

Exclusions

25. The exclusions listed in this section would apply to securities across fixed income and listed equities where our investment teams have discretion in making the investment decisions, and would also apply to any LGI-appointed third party managed discretionary mandate entered through an investment management agreement.

[9] As of 31 December 2022, the ETF represents about 0.1% of our total AUM, excluding cash and derivatives

Tobacco

26. LGI recognises the negative effects of tobacco on public health, be it via direct use or when exposed to second-hand smoke. Tobacco use would also have economic costs as it leads to loss of human capital and is addictive due to the nicotine content and may be challenging for users to quit smoking successfully. Last but not least, tobacco has always been a concern to Singapore as it implements legislation that governs tobacco control and taxes to discourage tobacco consumption.

27. From 1 May 2023, companies that are classified under the Bloomberg Industry Classification System that process tobacco leaf and/or produce finished tobacco products, as well as companies that produce finished consumer tobacco products and related equipment or accessories would be excluded from our investments. We note all else equal, this exclusion could mean an increase in deviation from generic benchmarks and reduced exposure to the Consumer Staples sector.

Catering to Clients' ESG Requirements

28. In addition to LGI's ESG integration and exclusion activities (see Exclusion above) across the various investment products, we are aware that different clients could have different ESG beliefs and norms that they would like to express within their investments. LGI has experience in managing such portfolios with customised ESG needs, including exclusions or limits on names i) with non-adherence to the International Labour Organisation's set of labour standards[10], ii) found within the gambling industry, iii) in the production of armaments and iv) with a proportion of annual revenue and/or power generation from thermal coal, as well as the management of mandates that are targeting for carbon emission reductions through setting of carbon emission targets (this includes the replacement of generic indices for the relevant markets with more climate friendly indices offered by external index providers and a form of decarbonisation methodology for the mandates that we do not manage against explicit benchmarks).

29. This entails detailed discussions with clients or investment partners to better understand their ESG requirements and how best to translate these requirements into investment rules for inclusion in a segregated account or fund.

[10] These names are derived from our appointed third party ESG data provider's database where they rely on public sources to indicate companies' involvement based on allegations and criticisms.

Sustainability Risk Management

30. As part of our portfolio performance and risk management, the Risk & Performance department and ESG department generates ESG metrics and monitors the ESG quality of our portfolios, based on data that is generated from an appointed third party ESG data provider's platform on a monthly basis and on an aggregated basis semi-annually. The information in turn provides a feedback loop to our Board and senior management, and may lead to further improvements in our sustainability-related strategies and ESG integrated investment processes over the longer term.

31. There are two groups of metrics that are being monitored; one that provides a current snapshot and another that is forward looking where both measures the ESG quality and resilience of our investment portfolios.

32. The snapshot includes metrics such as ESG ratings and specifically for climate risk assessment, metrics associated with measuring the carbon emissions. Carbon emissions are often linked to economic growth and human activity such as the burning of fossil fuels and industrial processes. These carbon emissions trap the sun's heat that can then lead to global warming and climate change and can pose risks to human beings and other forms of life on Earth[11]. The carbon emissions are split into three types namely scope 1, 2 and 3 emissions[12]; scope 1 and scope 2 are direct emissions that occur from sources that are owned or controlled by the company[13] and emissions from the generation of purchased electricity consumed by the company respectively while scope 3 emissions are all indirect emissions that occur from sources not owned or controlled by the company but is a consequence of the company's activities[14]. Here, we use some of the common metrics to measure LGI's carbon emissions across scope 1 to 3 including total carbon emissions, the financed carbon emissions (FCE) and weighted average carbon intensity (WACI) (refer to Appendix 1 for calculation methodology).

33. The forward looking metrics we look at, namely the climate value-at-risk (climate VAR) and implied temperature rise (ITR) of our investment portfolios, also serves to provide an assessment of climate risk. The climate VAR provides insight into the potential impact on the financial performance of our investment portfolios

[11] Causes and Effects of Climate Change | United Nations
[12] Corporate Standard | PROVUS (ghgprotocol.org)
[13] For instance, Scope 1 emissions could come from company vehicles
[14] For instance, Scope 3 emissions could come from the further production of purchased materials

based on various scenarios, each scenario with different assumptions on global trends and climate change impact. The ITR metric project the increase in temperature from the underlying investments and aid us in assessing how well our investment portfolios fare relative to global temperature rise targets (refer to Appendix 2 for more reading references).

34. Besides the investment teams, the Risk & Performance department and ESG department, we also have the Risk and Compliance departments and Group Internal Audit department that help to ensure our ESG-integrated process is adhered to. The Risk department reviews and concurs with any updates to ESG related policy and related documents prior to the Board's approval. The Regulatory Compliance department reviews the ESG disclosure and any related communications prior to their public release. The Investment Compliance department updates ESG investment rules and ESG blackout securities in the trading system to ensure any ESG restrictions imposed by LGI or its clients are monitored and adhered to. The Group Internal Audit department, on a periodic basis, would provide the necessary checks on the investment process to ensure that the ESG-related strategies and procedures are strictly adhered to.

35. ESG is a journey and we aim to improve on our sustainability risk management process over time. Specifically on environmental risk management, we expect the carbon footprint of our investments to reduce over the next few years and target to display carbon metrics that are superior to the universe benchmark at the overall firm level based on investee companies' scope 1 and scope 2 carbon emissions. This is monitored for progress by our investment teams, ESG department and overseen by the CIO.

Conflict of interests

36. At a broader firm-wide level, LGI has established a Compliance Manual and various policies to ensure that all employees maintain the highest level of integrity in carrying out our duties towards our clients. The policies place clients' interests first and has laid out the guidelines across the various areas of operations that all employees have to adhere to in order to ensure compliance with the policies. Our three lines of defence risk governance framework that clearly sets out the roles and responsibilities of our Board of Directors, Management Committee, Risk and Compliance department and respective Business functions in managing our business activities, is designed to support effective risk management within LGI.

External Reporting on ESG matters

37. As a PRI signatory, LGI will, with effect from 2023, provide reporting to the PRI on an annual basis in accordance with the PRI's reporting framework. The Transparency Report would then be made available for public access.

38. In addition, LGI maintains a Sustainability website to provide our stakeholders an insight into LGI's approach to ESG investing and Stewardship (Sustainability | Lion Global Investors). Podcasts (Latest Podcasts 2022 – LGIDirect) and articles (Latest Insights 2022 – LGIDirect) in relation to our ideas on ESG investing is also made available for public access.

Building Capacity on ESG

39. As part of our ESG journey, and as ESG thinking in the investment industry continues to evolve, continual learning is an important part of improving the technical abilities of our employees and have a direct influence on the quality of ESG integration. Our employees, including the CIO and asset class heads, are trained on responsible investing through both internal and external courses, with the latter launched by reputable third party ESG focused organizations. We continue to search for suitable courses to further advance our employees' ESG knowledge that translates into value add for our organization and our clients.

40. At the strategic level, our Board would also be equipped with the necessary knowledge on ESG to help them oversee the ESG risk management framework at a strategic level. The ESG department, through the Management Committee, provides relevant ESG information to the Board at the regular Board meetings to inform of relevant developments in the industry that could affect LGI and its investment portfolios, and seek approval for policies or strategies to address such developments. Such matters include for instance, changes in relevant public policies, new trends/risks in ESG investing that LGI would be acting on or new ESG initiatives that LGI produces.

Appendix 1

Carbon Metrics

Total Carbon Emissions (TCE)

$$\text{TCE (tCO2e)} = \sum_{i=1}^{N} (\text{Emissions}_i / \text{Market capitalization of Investee}_i \times w_i)$$

Weighted Average Carbon Intensity (WACI)

$$\text{WACI (tCO2e/ USDm Sales)} = \sum_{i=1}^{N} (\text{Emissions}_i / \text{Revenue}_i \times w_i)$$

e

Financed Carbon Emission (FCE)

$$\text{FCE (tCO2e/ USDm)} = \sum_{i=1}^{N} (\text{Emissions}_i / \text{EVIC}_i \times w_i)$$

Where:

i = company i in the portfolio with emission data

w_i = investment in company i as a proportion of the sum of investments in the portfolio of companies with emission data

Emissions_i = the total of scope 1+2 carbon emissions for company i or the scope 3 carbon emissions for company i, in metric tons

Appendix 2

Additional Reading References

Climate VAR

[MSCI Data Explorer]

Implied Temperature Rise

[Implied Temperature Rise - MSCI]