



Sustainability Policy 2022

Gavekal Capital Ltd

September 2022

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Introduction

Gavekal Capital Limited believes that high standards of environmental, social and governance (ESG) considerations lead to smarter and more responsible investing. We strive to deliver superior long-term returns by integrating financial and ESG elements into our portfolio construction and investment processes. Gavekal Capital Limited commits to considering material ESG issues in the course of its investment decision process and in the monitoring of investments to the extent reasonably practicable under the circumstances, subject to, in any event, the provisions of the Private Placement Memorandums and other offering documents of the funds under management, and the best interests of those funds.

In implementing this sustainability policy (Sustainability Policy) Gavekal Capital Limited seeks to:

1. Consider environmental, public health, safety, and social issues associated with target companies (a) when evaluating whether to invest in a particular company or entity, and (b) during the period of ownership.
2. Grow and improve the companies in which Gavekal Capital Limited' funds under management invest for long-term sustainability and to benefit multiple stakeholders, including on environmental, social, and governance issues. To that end, Gavekal Capital Limited will (when we deem it to be appropriate to do so) seek to suggest, recommend or implement appropriate governance structures (such as board of directors) with portfolio companies with respect to environmental, public health, safety, and social issues, with the goal of improving those companies' performance and minimizing those companies' adverse impacts in these areas.
3. Monitor energy and carbon impacts of the investments of our funds under management, as well as other environmental risks such as water pollution and waste impacts of these businesses.
4. Remain committed to compliance with applicable national labour laws in the countries in which Gavekal Capital Limited invests on behalf of our clients.
5. Encourage Gavekal investee companies to provide benefits, as well as a safe and healthy workplace in conformance with national and local laws to employees.
6. Use governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and potential conflicts of interest, and to implement compensation and other policies that align the interests of owners and management.
7. Respect the human rights of those affected by Gavekal Capital Limited's investment activities and seek to confirm that Gavekal Capital Limited does not invest on its own behalf or on behalf of its clients in companies that utilize child or forced labour or maintain discriminatory policies.
8. Encourage strict policies that prohibit bribery and other improper payments to public officials consistent with the U.S. Foreign Corrupt Practices Act, similar laws in other countries, and the OECD Anti-Bribery Convention.
9. Be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate.

Our Sustainability Policy is regularly reviewed and amended where applicable on an annual basis.

Good Governance Policy

The EU Sustainable Finance Disclosure Regulation (“SFDR”) requires products that are classified as Article 8 or Article 9 products under the regulation to invest in companies that follow good governance practices. Gavekal Capital Limited applies this policy to all products classified as Article 8 or Article 9 under SFDR and also implements the policy for Article 6 funds.

Governance and business integrity is an important component of the due diligence process of Gavekal Capital Limited’s fund and client investments as well as direct co-investments.

Investments Within Scope Of The Policy

Funds and companies as well as their managers and investors are assessed by gathering independent information to gain an understanding of the integrity and corruption risks associated with the proposed investments.

This Good Governance Policy does not apply to derivatives unless the derivative is used to gain long exposure to a single issuer. The Good Governance Policy will not be applied to short positions or to positions in index funds or other instruments used to gain exposure to multiple underlying issuers. The Good Governance Policy does not apply to sovereigns, securitized bonds, currencies, cash, cash equivalents and money market funds which are held for cash management/liquidity purposes.

Criteria for Good Governance Assessments

With the aid of internal and external sources, Gavekal Capital Limited’s portfolio managers and investment teams conduct their own analysis of the governance practices of companies. The team looks at various factors in order to make judgement, including

- Shareholder rights: Companies are expected to respect basic shareholder rights. Timely and fair reporting of information is also expected to be provided to all shareholders, while voting rights, share class structures are also taken into consideration.
- Audit and Tax Reporting and Compliance: Companies are expected to provide timely and reliable data. We also look into data transparency, any adverse opinions, restatement of financial results, and events such as a change in auditor. Investment teams also analyse both financial and non-financial information reported in order to identify irregularities.
- Board Oversight: Companies should have a supervisory board with board diversity and independent directors, with clear delineation of roles and responsibilities.
- Compensation: Companies should have compensation incentives that are aligned with the interests of shareholders. Transparency of compensation plan structures are encouraged.
- Employee Relations: Companies should adhere to the UN Global Compact Labour Principles within all aspects of business operations to provide and to promote decent work for all workers.
- Corruption and Bribery: Companies are recommended to have strict policies in place that prohibit unethical behaviour such as bribery and any other corruption activities.

The good governance assessment pursuant to this Policy is a quantitative and data driven approach used by GaveKal across relevant products. GaveKal places reliance on third party data for this analysis and periodically evaluates the data and service providers through due diligence. For a list of data providers that Gavekal Capital Limited uses to evaluate good governance, please find more information in the Data Policy Section.

Sustainability Risk Policy

Introduction

Gavekal Capital Limited adopts the definition of sustainability risk as set out in the EU SFDR:

'sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment;

Gavekal Capital Limited applies this policy to all products classified as Article 8 or Article 9 under SFDR.

Investments Within Scope Of The Policy

This Sustainability Risk Policy does not apply to derivatives unless the derivative is used to gain long exposure to a single issuer. The Sustainability Risk will not be applied to short positions or to positions in index funds or other instruments used to gain exposure to multiple underlying issuers. The Sustainability Risk Policy does not apply to sovereigns, securitized bonds, currencies, cash, cash equivalents and money market funds which are held for cash management/liquidity purposes.

Methodology for Integration of Sustainable Risks

Gavekal Capital Limited evaluates ESG-related issues as part of our investment decision and capital allocation process. As part of our extensive research practices, our investment professionals carry out rigorous due diligence on major business drivers, including macroeconomic outlook, demographic shift, customer preferences, environmental and/or social impacts, etc.

Gavekal Capital Limited investment professionals consider how these factors provide opportunities and pose risks to our investment strategy and ESG initiatives over the long run.

As part of any initial deal identification, Gavekal Capital Limited will perform an early review ("ER") that will anticipate the social and environmental impacts of a given investment and will consider operational change and impact mitigation as part of the investment decision. The ER will assess conformance with the policies for Combating the Financing of Terrorism, Anti-Money Laundering, Anti-Bribery policies and as appropriate will determine internal and external ESG due diligence needs.

At certain times we may engage third party consultants to provide independent technical advice. Targeted portfolio companies are expected to comply with applicable national/local environmental, health and safety, labour, trade, public disclosure, and consultation regulations. When material ESG issues are identified, they will be carefully addressed and discussed with the Investment Committee as part of the evaluation.

As part of the ER, Gavekal Capital Limited assesses the governance structure of the Portfolio Investment and identifies areas for improvement to address corporate governance and/or conflict of interest issues. Any identified issues will be further reviewed and addressed at a later due diligence stage.

The due diligence, ESG impact assessment, decision making process and monitoring results will be documented and retained.

Relevant Sustainability Risks

International standards and norms are used as a starting point for identifying sustainability risks; this is supported by our fundamental research that allows us to determine sustainability risks that are specific to our investments. Some selected examples of sustainability risks include:

Environmental Risks

Climate Change Risks: We consider physical climate risks which relate to damages from events caused by climate change. Transition risks which are associated with the global shift towards a low-carbon economy are also examined in order to understand and assess how an investment or portfolio is to be impacted. In addition, we evaluate scope 1, 2 and 3 carbon emissions of companies where data is available.

Other Environmental Risks: Environmental factors such as scarcity of natural resources, air pollution, water pollution, loss of biodiversity and deforestation may have an impact on our portfolio investments.

Social Risks

We consider human capital issues such as human rights violations, occupational workplace safety, employee equity, inclusion and diversity. These factors would not only mitigate negative impacts on the financial performance of our investments, but could also lead to value creation, both in the short and long term.

Governance Risks

Please see Good Governance Policy section.

Exclusion Policy

Introduction

Gavekal Capital Limited believes that high standards of environmental, social and governance (ESG) considerations lead to smarter and more responsible investing. As such, Gavekal avoids making investments that is deemed harmful to the environment or society. This includes both business-related and conduct-based exclusions. This Exclusion Policy sets out the way in which Gavekal Capital Limited applies exclusions in respect of certain investments on the basis of ESG factors.

This Exclusion Policy applies to the management of all products classified as Article 8 or Article 9 under SFDR. The Exclusion Policy does not apply to derivatives unless the derivative is used to gain long exposure to a single issuer. The Exclusion Policy will not be applied to short positions or to positions in index funds or other instruments used to gain exposure to multiple underlying issuers. The Exclusion Policy does not apply to sovereigns, securitized bonds, currencies, cash, cash equivalents and money market funds which are held for cash management/liquidity purposes.

Data Availability

In the application of the exclusion categories mentioned in subsequent segments, Gavekal Capital Limited may be reliant on external data sources alongside Gavekal Capital Limited's internal research.

Implementation of the Exclusion Policy

Gavekal Capital Limited maintains an exclusion policy as a part of its responsible investing process. Exclusions are applied on a pre-trade basis while post-investment screening and reporting is also performed.

Gavekal Capital Limited has identified certain issuers or groups of issuers that it will exclude or limit in each fund's portfolio, known as exclusions, to promote the environmental and social characteristics that the relevant fund supports.

Post-investment reporting and monitoring is performed to ensure that each fund's portfolio is in compliance with the current exclusion list. If a company already in the portfolio is added to the exclusion list, the fund manager will divest the position at an opportune time.

Exclusion Categories

Violation of international norms and standards

Gavekal Capital Limited shall not invest in companies which themselves or through other entities violate the United Nations Global Compact (UNGC) or the OECD Guidelines for Multinational Enterprises.

Controversial Weapons

Companies that produce or sell weapons that in the view of Gavekal Capital Limited violate fundamental humanitarian principles through their normal use will be excluded from Gavekal Capital Limited's investment universe.

This includes, but is not limited to, anti-personnel mines, cluster munitions, biological weapons, chemical weapons, and nuclear weapons (apart from those whose use is permitted by the Treaty on the Non-Proliferation of Nuclear Weapons).

Tobacco

Gavekal will seek to exclude companies which derive any revenue from the production of tobacco products.

Coal

Gavekal will not invest in companies that derive more than 10% (10 per cent) of their income from the mining of thermal coal or derive more than 10% (10 per cent) or more of their revenue from thermal coal-based power generation.

Gavekal Use of Third Party Data

The Exclusion Policy is a quantitative and data driven approach used globally across all products classified as Article 8 or Article 9 under SFDR. Gavekal places reliance on third party data for this analysis and periodically evaluates the data and service providers through due diligence. For a list of data providers that Gavekal uses to evaluate exclusions, please find more information in the Data Policy Section.

Principal Adverse Impacts Statement

This ESG Principal Adverse Impacts Statement (the “**ESG Principal Adverse Impacts Statement**”) has been prepared in accordance with the requirements of Article 4 of the EU Sustainable Finance Disclosure Regulation EU 2019/2088 (“**SFDR**”) and sets out the way in which Gavekal Capital Limited considers principal adverse impacts of investment decisions on sustainability factors in conducting its investment management activities pursuant to SFDR.

We apply a methodology for the identification and prioritization of principal adverse impacts and indicators and set parameters on a fund by fund basis on how principal adverse impacts are considered in the investment process. Gavekal seeks to manage the risks connected with potential adverse impact from our investments in various ways, including (i) ESG exclusion criteria, (ii) promotion of E/S characteristics and (iii) good governance engagement. In addition,

Principal Adverse Impacts are only considered in respect of the proportion of the Fund’s investments that constitute sustainable investments as a result of carrying out the DNSH test.

Principal Mitigation Approaches

Exclusion Criteria: Products or accounts may employ climate-related exclusions related directly to the Principal Adverse Impacts. This serves to mitigate the risk associated with such investments. More information can be found at [the Exclusion Policy described above.

Promotion: Some products or accounts may employ specific and binding promotion criteria that serve to mitigate the risk associated with the Principal Adverse Impacts. These can be found in the relevant funds pre-contractual disclosure document. Please see product specific disclosures for further information.

Gavekal Use of Third Party Data

The Principal Adverse Impact Statement is a quantitative and data driven approach used globally across relevant products. Gavekal places reliance on third party data for this analysis and periodically evaluates the data and service providers through due diligence. For a list of data providers that Gavekal uses to evaluate Principal Adverse Impacts, please find more information in the Data Policy Section.

Sustainable Bond Framework

Gavekal Capital Limited believes that Sustainable Bond financing offers a way to create transparency around funds targeted to green and social (collectively known as sustainable projects). Sustainable bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Sustainable projects. As part of Gavekal Capital Limited’s plan,

- 1) Our first step is to identify the issuer’s sustainable bond framework, e.g., the Sustainability Bond Guidelines, the Climate Bond Initiative (CBI), the Green Bond Principles, the Social Bond Principles, or regional standards. We take into account if the issuer has looked for external verification, also known as a Second party opinion.

- 2) We examine the positive contribution of the use of proceeds to the environmental program. These include, but are not limited to the six objectives that are defined by the EU SFDR,
- a. Climate change mitigation
 - b. Climate change adaptation
 - c. Sustainable use and protection of water and marine resources
 - d. Transition to a circular economy
 - e. Pollution prevention and control
 - f. Protection and restoration of biodiversity and ecosystems.
- Gavekal Capital Limited plans to include data related to the various taxonomies as there are more clarity and data availability.

For positive contribution of the use of proceeds to the social program, these include, but are not limited to the objectives listed below,

- a. Affordable basic infrastructure
 - b. Access to essential services
 - c. Food security
 - d. Socioeconomic advancement and empowerment
- 3) We then look at the process by which the issuer determines how the project fits within the eligible Sustainable Project categories.
- 4) Post issuance, we track the management of proceeds that have been raised and its use in eligible projects (allocation and impact reporting). Generally, the issuers that we invest in will make, and keep readily available up to date information on the use of proceeds annually, which we continue to monitor until the maturity or our sale of the bond. Optionally, the issuer has obtained external assurance on the reported impact. This external assurance, if obtained, must be given by an independent third party, such as an auditor, and could be part of the audit of the financial statements.

We also look at the issuer's environmental strategy, as we aim to preclude investments in a business that is not making significant steps towards becoming more sustainable.

Data Policy

This Data Policy sets out the way in which Gavekal Capital Limited uses data to evaluate and monitor Environmental, Social and Governance (ESG) factors in the conduct of its investment management activities. This Data Policy serves as the framework for the selection, deselection and quality control of third party data providers in the ESG sphere.

Third Party Data Providers

Gavekal places reliance on a combination of third-party data and internal analysis in the implementation of its ESG investment strategies. Where Gavekal relies on third party data for this analysis it periodically evaluates the data and service providers. Gavekal's use of external data providers may vary from time to time, including selection and deselection of relevant data providers. Gavekal periodically reviews the data sources and methodologies used to inform its Exclusion Policy and to compile its ESG exclusion list and accordingly the Exclusion Policy and exclusion list may be

updated from time to time. Examples of major service providers we use for data and analytics include Sustainalytics, MSCI, Moody's, S&P and Bloomberg.

Data Risk Factors

There can be no assurance that data-based ESG investment methodologies will be successful at capturing all ESG factors. Gavekal evaluates its use of data and data service providers as a matter of course through due diligence and may adjust data providers, sources or methods as the availability and quality of data evolves. Where Gavekal is reliant on third party information, data providers may not capture the full extent of an issuer's activities, the full scope of the investment universe or may experience delays in a changing business environment or institutional conduct. In such cases, activities that we are looking to exclude may not be fully captured, resulting in inaccurate information and therefore investments in issuers engaged in activities which the portfolio wishes to exclude may be included and vice versa.

One of the challenges faced by the investment management industry when integrating sustainability risks, Principal Adverse Impacts, or ESG considerations in the investment process is the limited availability of relevant data for that purpose.

Gavekal Validation of Third Party Data

The methodologies for exclusions policies and third-party data use applied by Gavekal are regularly reviewed to take into account changes in the availability of data or methodologies used by issuers to disclose ESG-related information. As elements of the fixed income market do not yet have reliable ESG data, Gavekal monitors the development of additional data sources and providers to assess if additional areas of the market have reliable and relevant data coverage. As new data providers are evaluated and on-boarded, our provider list will be updated or changed.