

Principal Asset Management Company (Asia) Limited  
Responsible Investment Policy

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Table of Contents

**Definitions** ..... 3

**Introduction**..... 4

**Responsibilities, Review Frequency and Approval**..... 4

**Scope** ..... 4

**Specific Drivers for ESG Funds** ..... 5

**Assessment** ..... 5

**Monitoring**..... 6

**Responsible Investment Policy Governance**..... 7

## Definitions

“CIS”	means collective investment schemes commonly regarded as mutual funds and unit trusts as are contemplated in SFC Code on Unit Trusts and Mutual Funds
“ESG”	means environmental, social, and corporate governance
“Investment Delegates”	means other entities or third-party fund managers that have been delegated the investment management function of all or part of the assets
“PAM” or “Company”	means Principal Asset Management Company (Asia) Limited
“Policy”	means this Responsible Investment Policy
“SFC”	means Securities and Futures Commission
“SFC Approved ESG Fund”	means funds that are specifically designated by SFC as an ESG fund
“UNPRI”	means United Nations Principles for Responsible Investment

## **Introduction**

Our Responsible Investment Policy (the Policy) provides information on how PAM undertakes investment stewardship across funds under its management. This Policy seeks to explain what we expect from our Investment Delegates and what those firms can expect in return from us. Information is provided on our commitment to responsible investing and ESG. This commitment runs in parallel with our key responsibility to act in our client's long-term best interests. As a general policy, it acts as the cornerstone on how PAM's assets could be managed according to general responsible investment, ESG regulations and governance.

## **Responsibilities, Review Frequency and Approval**

The Responsible Investment Policy and the performance of the funds are overseen by PAM. The Responsible Investment Policy shall be subject to review at least annually or more frequently when appropriate. The Board of Directors of PAM owns the final authority of the Policy, approvals from the Hong Kong Executive Investment Committee and the PAM Management Committee are also required.

## **Scope**

In PAM, our ESG philosophy or Responsible Investment Policy is defined as a high-level investment methodology incorporating ESG factors in making investment decisions. PAM aims at supporting responsible investment by overseeing Investment Delegates. The ESG factors incorporation and consideration during the investment process becomes the essence of responsible investment. The Policy generally covers the Company's funds, including but not limited to equities funds, bond funds or asset allocation funds. In general, the Responsible Investment Policy also applies to our Investment Delegates. Since PAM primarily delegates the investment management function to Investment Delegates, PAM expects Investment Delegates to have responsible investment policies.

This Policy provides the fundamental responsible investment requirements for PAM. For PAM's Investment Delegates, the key purpose of this Policy is that it aims

at developing a broad approach so PAM can use this Policy to communicate with the Investment Delegates and let them understand PAM's expectations relating to responsible investing.

### **Specific Drivers for ESG Funds**

When building our ESG funds, we ensure they reflect our ESG philosophy. There are three drivers that support PAM to build ESG funds and uphold PAM's ESG philosophy.

1. To recognize ESG factors materiality in mitigating risks related to ESG.
2. To answer client potential demand of calling greater awareness of a specific ESG factor.
3. To meet the increasing demand on the compliance of ESG regulations.

### **Assessment**

PAM and the Investment Delegates can implement responsible investment by looking through the lens of ESG philosophy as stated above. This ensures that we are engaging with investment partners that share our belief that ESG issues can impact the performance of investment portfolios. To assess Investment Delegates, PAM will consider,

1. Whether the Investment Delegates is a signatory of the UNPRI.
2. Whether the Investment Delegates have responsible investment policies and send it to PAM for review.
3. Whether the Investment Delegates complete our annual questionnaire in relation to responsible investing.

PAM can assess the Investment Delegates based on their responsible investment policies. There is no explicit level of ESG rating in selecting the Investment Delegates to execute ESG investing. On contrary, the Company believes that the periodic review of the Investment Delegates can ensure their ESG standards are on a similar level as the Policy.

Managed appropriately, we believe ESG integration could possibly contribute to enhanced long-term returns and reduced risks. Consistent with our overall investment philosophy, our focus is not limited to companies that rate highly in ESG according to third-party research providers, but also companies that are demonstrating a commitment to improvement. In short, we appreciate companies to always strive to be better versions of themselves. Our focus and commitment can therefore be summarized by our guiding purpose. By encouraging corporations to be leaders on sustainability through better long-term stewardship of human, natural and financial resources, we could play an active role in betterment of society.

### **Monitoring**

Monitoring is the final stage of the PAM oversight process and it is a crucial component in ensuring that the Company and the Investment Delegates have a comprehensive ESG aware process. The depth and frequency of monitoring the underlying Investment Delegate will vary based on the fund investment objective. Fund managers will need to fulfill the governance requests within the “Assessment” section above. Traditional funds that utilize internal fund managers or Investment Delegates who have ESG practices integrated into their investment process would fulfill PAM’s responsible investing expectations. Funds that are specifically designated by SFC to be ESG funds will have more stringent expectations placed on them. To monitor Investment Delegates of ESG funds designated by SFC, PAM will

1. Send out and request Investment Delegates to complete annual questionnaire in ensuring managers meet the ESG or responsible investment expectations.
2. Receive periodically portfolios and benchmarks ESG scores.
3. Review any material change in ESG focus of investment strategy.

For SFC Approved ESG Fund, in order to achieve responsible investing and meet the investment objectives of each ESG fund, PAM will monitor certain characteristics within each fund. For example, Investment Delegates would report any material change in ESG focus or investment strategy. It would include selecting companies with better relative ESG performance in peer sectors and/or referencing forward looking ESG changes. The selection criteria will also include comparing ESG scoring against traditional benchmark references. A more detailed ESG characteristics report would be expected from the Investment Delegates.

### **Responsible Investment Policy Governance**

ESG investing is subject to change due to technological advancement, global cooperation, and public initiatives. Therefore, this Policy will be reviewed from time to time when there is change or development in the ESG investment universe. The updated or reviewed Policy will be distributed to the Investment Delegates at least annually. In turn, Investment Delegates would submit their responsible investment policies for PAM's record and review.