

Our ESG Approach

Annual Report 2020
Mirae Asset Global Investments (Hong Kong) Limited

Our approach to ESG integration

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Background: What we did to Integrate ESG?

Mirae Asset Global Investments (Hong Kong) Limited had assessed the importance of ESG way back in 2015. We implemented two clear goals aimed at ESG integration:

1. Adapting our portfolio to be ESG-friendly

We should develop a comprehensive understanding of ESG themes and discourage or limit an investment that we screen as ESG-negative.

2. ESG Engagement:

Beyond adapting our portfolio, we should encourage low-rated ESG companies to improve their ESG matrix for our future generations.

To achieve these goals, we believe that ESG implementation must be deeply entrenched in our investment process. Below are several options we considered.

First option:

Hire an ESG specialist to provide ESG alerts and encourage investment personnel's in the team to consider ESG perspectives when making investment decisions. However, we dismissed the idea immediately. We knew that final investment decisions were made by portfolio managers and sector analysts (whose stock recommendation is pivotal in portfolio construction). Therefore, ESG specialists and their recommendations could be easily dismissed, the decision making power ultimately lays with the portfolio manager/sector analyst. In addition, the ESG specialist may not always have access to company meetings/insights the way sector analysts do.

Second option:

Subscribe to a 3rd party ESG research outlet that provides ESG ratings as well as relevant information. However, we thought high dependence on 3rd party ESG rating agency would bring in underlying issues. That is, evaluation of ESG involves subjective judgment. It has been known that ESG research agencies would provide different ratings on the same company, making it difficult to assess the reliability of these assessments. In addition, our concern is that our investment team may have the tendency to ignore ESG ratings and dismiss it as a subjective judgment.

Third option:

Make all in-house analysts responsible for ESG analysis. Our sector analysts are highly knowledgeable on the respective industries they are responsible for and thus we believe that they could easily catch the forefront of ESG themes (which turned out to be true). Also, sector analysts are effective enforcers of ESG engagement,

compared to an ESG specialist, because they are the people who meet the corporate companies and can often be an effective influence on these firms. We also anticipated this approach will level up our team’s capability and sustainability to deal with ESG. **We finally made the decision to choose option three to become a main pillar of our ESG effort.**

Furthermore, In order to assure our team’s commitment, we created a proprietary ESG evaluation system (**we call it The Mirae Asset ESG scorecard**). The scorecard comprises of 20 parameters ranging from carbon emissions to corruption issues. It has a comprehensive coverage of most ESG issues so that our sector analysts have better scope on major ESG themes before allocating scores. At the same time, we made it mandatory to update ESG scores on research recommended stocks and on major holdings in portfolios on an annual basis.

Mirae Asset’s Proprietary ESG Scorecard with 20 parameters

Environmental

- Resource scarcity
- Climate change
- Toxic Emission/materials
- Contribution to clean tech and energy
- Effort to reduce environment pollution

Social

- Anticompetitive practice
- Support to controversial regimes
- Impact on local community
- Human capital management/human rights violation/labor dispute
- Product safety, privacy security & censorship
- Contribution to clean tech & energy
- Disclosure of ESG
- Workplace diversity

Governance

- Bribery & fraud
- Governance structure
- Reporting/ accounting
- Shareholder rights/controversial investments

In the meantime, we also decided to subscribe to MSCI ESG, a 3rd party ESG research house. ESG analysis generally requires a demanding amount of time to collect relevant information. A 3rd party ESG research company will help us deliver time efficiency. In addition, we conduct cross-checks to our propriety ESG scoring, as ratings are varied between different ESG houses, it is important we capture wider, contrasting views before making a holistic decision. Our Risk team is currently in charge of comparing the results of our in-house ESG scores and the MSCI ESG scores for discrepancies, as well as alerting the entire investment team.

In conclusion, we created an ESG sustainability framework as below:

1. In-house research analysts evaluate invested corporates, using in-house ESG scoring system.
2. We compare our own scores to 3rd party ESG scores to obtain a more rounded view.
3. Our risk team monitors and gives ESG alerts on portfolio holdings.
4. We created ESG watch (a negative screening) list to limit or ban exposure to certain businesses like weapons and tobacco firms.

Mirae Asset, ESG Development Milestone

Jan 2015	The Company started to discuss on how to integrate ESG framework in to the investment process
Apr 2015	The Company became a UNPRI signatory
Jun 2015	The Asia Pacific Research Team created the ESG scorecard with 20 parameters The Company decided to mandatorily create ESG scorecards for the stocks covered in the Analyst's Recommended List and active holdings
Nov 2015	The Investment Committee decided on the principle rules in regards to integration of ESG scores into the investment process in practice
Dec 2015	The Investment Committee created the ESG Negative List to put a buy restriction on ESG poor stocks. Currently, we have zero tolerance on "controversial weapons" and put a buy limit (2% of NAV) on "tobacco"
May 2016	The Company subscribed to MSCI ESG Research, a third party ESG information aggregator
In the future	The Company continued to invest more resources in developing the processes regarding ESG engagement with the corporations we invest in, ESG reporting and risk analysis

Below, is an indication of how we have engaged in ESG in last few years;

1. Portfolio level:

- a. In-house research teams evaluate and update key stocks, by giving an ESG score with 20 parameters.
- b. As of 2019, we completed and updated more than 150 ESG scorecards on corporates in AP regions.
- c. We divested tobacco stocks from our portfolios.

2. Engagement level:

- d. There have been several cases where we had an influence on corporate firms we invested in, to change their attitude and enhance their ESG perspective.
- e. When we had group investor meetings with Asian firms, we realized that it was rare to raise questions around ESG issues. It demonstrates how poor ESG awareness is in Asian regions. We are proud to say we are of a handful of companies to actually raise ESG issues in IR meetings, though admittedly still far behind European standards.

Other: Mirae Asset's commitment to ESG

In addition, we would like to highlight our group-level effort on ESG implementation. On 17 January 2020, MAGI (HK) launched China Electric Vehicle ETF (ticker: 2845 HK) and China Clean Energy ETF (ticker: 2809 HK), which invests in Chinese corporates whose major businesses revolve around reducing carbon emissions with products like Electric Vehicle, solar wafer, Wind turbine, etc.

The China clean energy ETF was one of Mirae's **first SFC-certificated ESG ETF** in HK exchange (note that SFC is HK's financial regulator). The launch had received the spotlight of Hong Kong news as well as other media attention, mainly highlighting that Hong Kong finally launched one of its first ESG-dedicated fund. The listing demonstrates our group's strong commitment to ESG.

ESG Scorecard Samples

Vitasoy

Environmental Impact		Comment
1	Resource scarcity (water, land, etc.) Does the company's revenue highly rely on products which use scarce natural resource (material)? Does the company have substantial exposure of production facilities to water stressed areas? Does the company have eco conservative policy to address resource scarcity problem?	5 Vitasoy does not rely on scarce natural resources, it does not have exposure of production facilities to water-stressed areas, and it has industry-leading eco conservation policy.
2	Climate change (carbon) Does the company's revenue highly rely on products which emit green house gas? Does the company put efforts into carbon efficiency in its production and supply chain? For a company whose industry is prone to carbon emission, does it put sincere effort to reduce the emission vs. industry peers?	5 The company is very conscious of its potential impact on climate change, and it has instituted various initiatives to reduce its carbon footprint. Vitasoy is far ahead of its peers in this regard, and on par with the practice of MNCs.
3	Toxic emission/ material Does the company put effort to design products with reduced toxic chemical content? Has the company been involved in spills or violation cases?	5 None.
4	Effort to reduce environment pollution Does the company invest in energy/ carbon efficient production methods/ facilities? Does the company invest in alternative energy solutions at its sites - base stations, data centers, or manufacturing centers? Does the company address reduction of toxic materials in its sourcing policies?	5 Vitasoy's production facilities are state-of-the-art in terms of efficiency, and the company has upgraded its Hong Kong plant to become the largest grid-connected solar-powered factory in Hong Kong. The Hong Kong factory even provides electricity to CLP's Renewable Energy Feed-in Tariff scheme.
5	Internal standards Are the company's environmental standards at least equal to or above what is required by law? Is the company certified to international standards such as the ISO 14001?	5 The company meets multiple international standards: ISO 22000, ISO 9001, ISO 31000, HACCP certification, and GMP certification.
6	Contribution to Clean tech and energy Does the company put effort to contribute to clean technology (e.g. fuel efficiency) or involve in renewable energy generation?	5 Yes, Vitasoy utilizes renewable energy extensively throughout its production facilities around the world. Its Hong Kong plant even provides electricity to CLP's Renewable Energy Feed-in Tariff scheme.
Others (industry specific issue)		
Social Impact		Comment
1	Human capital management/ human rights violation / labor dispute Have there been any significant labor relations issues or human rights violation cases through the supply chain? Does the company have higher staff turnover compared to peers? Does the company have any controversy regarding to rehabilitation program amid land acquisition to build production facilities, etc.?	5 None, no, and none.
2	Safety / health of employees and code of contact through the supply chain Does the company have controversy and cases related to safety and health of employees through supply chain? Does the company have appropriate code of conduct through the supply chain?	5 No controversy. Vitasoy does have a supply chain code of conduct.
3	Anticompetitive practice Does the company have business practice or record that prevents or reduce competition in a market?	5 None.
4	Support to controversial regimes Does the company have business to provide meaningful support to governments with extremely poor human rights records? As of October 2012, Burma, Iran, Sudan, and Syria were classified as controversial regimes.	5 Does not support controversial regimes.
5	Impact on local community Does the company have controversy or record to give negative or controversial impact to local community?	5 Vitasoy does not have any negative impact on local communities, and it has a whole host of community initiatives such as university grants in Wuhan, Shanghai, and Guangzhou.
6	Product safety & privacy security & Censorship Has the company suffered any product safety issues or recalls? Does the company have decent product safety standards? Does the company have controversy regarding to freedom of express and censorship? Have there been incidents in which the company has failed to protect customer information?	3 Since 2000, Vitasoy has only recalled products in 2004 and 2014.
7	Workplace diversity Does the company have discriminatory hiring practice?	5 No discriminatory hiring.
8	Public Relationship How's company's track record of PR management when emergent issues/scandal/product safety issues come to media spread	5 Good public relation management.
9	Disclosure of ESG information Does the company disclose sufficient and accurate information to allow outsiders to evaluate ESG factors in a proper way? (e.g. quality of annual ESG or sustainability report)	5 Vitasoy has the best ESG disclosure and it was the first to publish a Sustainability Report among SEHK-listed companies.
Others (industry specific issue)		

Governance			Comments
1 Bribery & Fraud	Is the company prone to bribery and fraud scandal or does it have relevant scandals in the past? Does the company have a publicly stated policy on bribery and corruption?	5	Vitasoy has never been embroiled in any bribery scandals.
2 Government Reliance	Does company's business highly rely on specific relationship with government, especially through certain personnel relationship.	5	Vitasoy does not rely on the government.
3 Governance structure (board independence)	Does the company have reasonable number of independent directors at BOD to prevent from breaching shareholders' interest? Does the company establish appropriate corporate governance practice to protect shareholders' interest?	3	5 out of 12 directors are independent
4 Reporting / accounting	Does the company has consistency and transparency in reporting and accounting; particularly among Chinese firm listed in US market.	5	Consistent reporting and accounting.
5 Shareholder rights/ controversial investments	Does the company have record on controversial investment or inter-group transaction which is against minority shareholder's interest?	5	Vitasoy has a good track record of respecting shareholder rights.
Others (industry specific issue)			

Pick most prominent risks

No proper ESG or sustainability report, vague details in annual report.

Total Score

Environmental Impact	5.0
Social Impact	4.8
Governance	4.6
Total	4.8

(Note1) Reviewer has to make comment, if brief, in case of giving score **ranging 1 to 3**

(Note2) Reviewer has to pick **at least** one parameter which needs highest attention and make comment

Narayana Hrudayalaya

Component	Environmental Impact	Score (1-5)	Comment
1 Resource scarcity (water, land, etc.)	Does the company's revenue highly rely on products which use scarce natural resource (material)? Does the company have substantial exposure of production facilities to water stressed areas? Does the company have eco conservative policy to address resource scarcity problem?	5	
2 Climate change (carbon)	Does the company's revenue highly rely on products which emit green house gas? Does the company put efforts into carbon efficiency in its production and supply chain? For a company whose industry is prone to carbon emission, does it put sincere effort to reduce the emission vs. industry peers?	3	The hospital highly relies on electricity supply to sustain its large medical equipment and run the whole hospital.
3 Toxic emission/ material	Does the company put effort to design products with reduced toxic chemical content? Has the company been involved in spills or violation cases?	3	The healthcare usually generates Bio-Medical waste.
4 Effort to reduce environment pollution	Does the company invest in energy/ carbon efficient production methods/ facilities? Does the company invest in alternative energy solutions at its sites - base stations, data centers, or manufacturing centers? Does the company address reduction of toxic materials in its sourcing policies?	4	The company applied cheaper renewable energy, efficient diesel-powered equipment to reduce energy consumption.
5 Internal standards	Are the company's environmental standards at least equal to or above what is required by law? Is the company certified to international standards such as the ISO 14001?	3	
6 Contribution to Clean tech and energy	Does the company put effort to contribute to clean technology (e.g. fuel efficiency) or involve in renewable energy generation?	3	
Others (industry specific issue)			

Social Impact			Comment
1	Human capital management/ human rights violation / labor dispute	Have there been any significant labor relations issues or human rights violation cases through the supply chain? Does the company have higher staff turnover compared to peers? Does the company have any controversy regarding to rehabilitation program amid land acquisition to build production facilities, etc.?	5
2	Safety / health of employees and code of contact through the supply chain	Does the company have controversy and cases related to safety and health of employees through supply chain? Does the company have appropriate code of conduct through the supply chain?	5
3	Anticompetitive practice	Does the company have business practice or record that prevents or reduce competition in a market?	3
4	Support to controversial regimes	Does the company have business to provide meaningful support to governments with extremely poor human rights records? As of October 2012, Burma, Iran, Sudan, and Syria were classified as controversial regimes.	5
5	Impact on local community	Does the company have controversy or record to give negative or controversial impact to local community?	4
6	Product safety & privacy security & Censorship	Has the company suffered any product safety issues or recalls? Does the company have decent product safety standards? Does the company have controversy regarding to freedom of express and censorship? Have there been incidents in which the company has failed to protect customer information?	5
7	Workplace diversity	Does the company have discriminatory hiring practice?	5
8	Public Relationship	How's company's track record of PR management when emergent issues/scandal/product safety issues come to media spread	5
9	Disclosure of ESG information	Does the company disclose sufficient and accurate information to allow outsiders to evaluate ESG factors in a proper way? (e.g. quality of annual ESG or sustainability report)	4
Others (industry specific issue)			

Governance			Comments
1	Bribery & Fraud	Is the company prone to bribery and fraud scandal or does it have relevant scandals in the past? Does the company have a publicly stated policy on bribery and corruption?	5
2	Government Reliance	Does company's business highly rely on specific relationship with government, especially through certain personnel relationship.	4
3	Governance structure (board independence)	Does the company have reasonable number of independent directors at BOD to prevent from breaching shareholders' interest? Does the company establish appropriate corporate governance practice to protect shareholders' interest?	4
4	Reporting / accounting	Does the company has consistency and transparency in reporting and accounting: particularly among Chinese firm listed in US market.	5
5	Shareholder rights/ controversial investments	Does the company have record on controversial investment or inter-group transaction which is against minority shareholder's interest?	5
Others (industry specific issue)			

Pick most prominent risks	Comment
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Total Score	
Environmental Impact	3.5
Social Impact	4.6
Governance	4.6
Total	4.3

(Note1) Reviewer has to make comment, if brief, in case of giving score **ranging 1 to 3**

(Note2) Reviewer has to pick **at least** one parameter which needs highest attention and make comment

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