

An aerial view of a busy city street, likely in Hong Kong, featuring tram tracks, yellow road markings, and pedestrians. The street is lined with tall buildings, and a red taxi is visible in the foreground. The scene is captured from a high angle, showing the layout of the road and the movement of people and vehicles.

STEWARDSHIP REPORT 2021

JK Capital Management Ltd.
March 2022

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MESSAGE FROM OUR CEO

We, at JK Capital, are all very proud to introduce to you, client, partner and stakeholder our first Stewardship Report. This report is the result of five years of unfettered efforts to align our firm and our products with the best ESG standards, starting from being one of the first Hong Kong based signatories of the UNPRI in 2017 and culminating with all our mutual funds being classified under Article 8 of the SFDR.

ESG is not a task one has to fulfill. It is a state of mind that has direct repercussions on portfolio construction and on performance. That state of mind must be shared by all members of the team, whether on the front office, the middle office, the back office or the administration of the firm. This is how we set for ourselves the highest standards possible, aiming for the best market practices.

This state of mind is directly impacting our relationship with the companies we invest in. It is the driving force behind the hundreds of meetings we conduct every year, and it is the cement that connects us to our peers through our CDP, TCFD, UNPRI and Hong Kong 30% Club memberships. We believe companies with strong ESG awareness will be the ones ready to overcome the challenges of the future, and we see ourselves as partners which can help them achieve this goal.

The purpose of this first Stewardship Report is to report to you our level of engagement with corporates, our level of disclosure towards our stakeholders, our contributing actions within our community, and hopefully to have you share our team spirit and help you understand what is driving us to provide superior returns through our products.

Fabrice Jacob
CEO
25 March 2022

ABOUT US

JK Capital Management Limited is an asset management company set up in Hong Kong in 1997. By specialising in high-conviction, absolute return, long-only portfolio management, our firm invests in securities – listed equities and fixed income – across Asia and offers a range of equity and fixed income SICAV retail mutual funds that are distributed throughout Europe, in addition to a US-registered Limited Partnership aimed at US institutional investors and US family offices.

MISSION

JK Capital Management Limited's mission is to deliver superior absolute returns with low volatility for our clients over the long term. Within this framework, we pledge to:

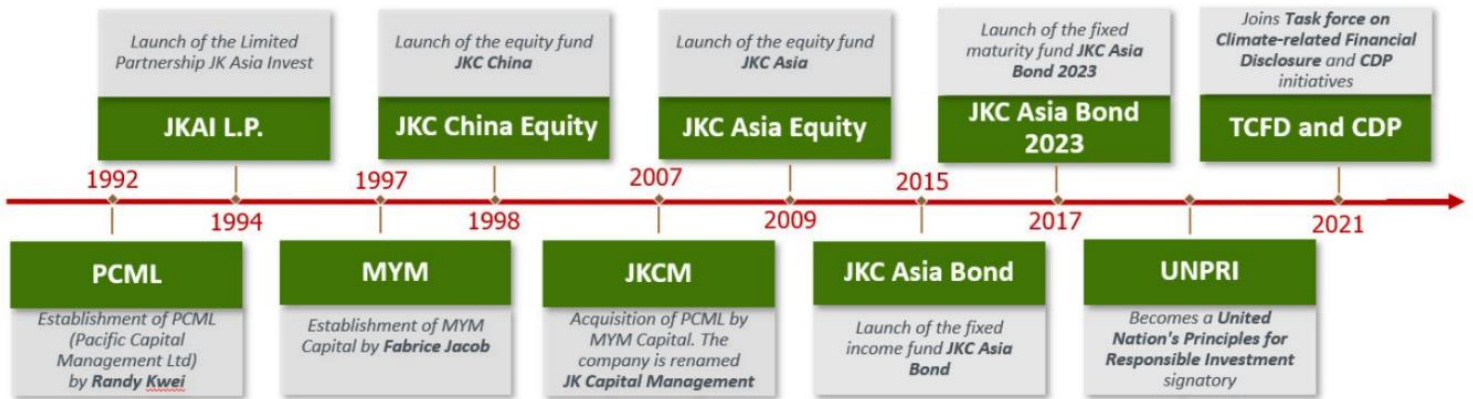
- Provide full transparency of our portfolios
- Maintain a controlled risk environment
- Keep a permanent dialogue with our clients

COMPETITIVE EDGE

Our competitive edge lies with our 25+ years of track record under the same leadership. Our China equity fund set up in 1998 and our Asia equity Limited Partnership set up in 1994 are among the oldest ones available on the market.

We differentiate ourselves by running non-benchmarked concentrated portfolios of high conviction names, resulting in a very low portfolio turnover. The crux of our investment approach is a thorough on-the-ground due diligence process, of which corporate governance has always been the starting point of our work. We pioneered the Environmental, Social and Governance (ESG) investing approach in Asia by leveraging our insights and network in the ESG front-running Nordic countries.

HISTORY



ENGAGEMENT IN 2021

Active engagement has been the centrepiece of our ESG integration strategy at JK Capital. We endeavours to deliver positive social/environmental impacts by improving the ESG performance of our portfolio companies. Respectful of diverse company-specific characteristics, we have adopted a tailored approach to effectively communicate with companies through both collective engagement networks and one-on-one discussions.

COLLECTIVE ENGAGEMENT NETWORKS

As a long-term supporter of responsible investing, JK Capital recognises the importance of leveraging external resources through relationship-building and active participation with global collaborative networks that specialised in different ESG topics. As early as 2017, we became one of the very first firms in Asia to join the United Nations Principles for Responsible Investment (UNPRI) as a signatory. In 2018, to address the gender inequality issue which is rather prevalent in Asia compared to developed markets, we became an active member of Hong Kong 30% Club (previously Board Diversity HK) which advocates gender diversity among board members of Hong Kong-listed companies.

In 2021, JK Capital further expanded its collaborative network by partnering with CDP and TCFD as we seek to further promote the level of disclosure on climate change and other environmental issues made by public listed companies within our investment universe.

Active participation in these global ESG initiatives has proved to be exceptionally mutual-beneficial and rewarding as it significantly deepened the breadth and depth of our engagement with investee companies. For the CDP Non-Disclosure Campaign in 2021, which offered investors the opportunity to actively engage with companies that have received the CDP disclosure request on behalf of investors but have not provided a response, JK Capital took the lead by sending letters to two portfolio companies on behalf of the CDP initiative and co-signed letters for another 24 companies within our equity and fixed-income portfolios, becoming one of the four market participants that led the initiative in the Asia region.

CDP Non-Disclosure Campaign

2021 is the first year JK Capital joined CDP's global investor network and the Non-Disclosure campaign marked the success of this partnership. Soon after the partnership was formed in early 2021, the investment team proactively identified a list of companies we were interested in engaging with. After rounds of external and internal discussions, we decided to prioritise companies we have a strong relationship with to "lead" the campaign while we "co-signed" for other companies that we have equity or fixed-income exposure to.

Yum China (9987.HK)

Yum China is the largest restaurant chain company in China operating 11,788 restaurants in over 1,600 cities with popular brands like KFC, Pizza Hut, Taco Bells, East Dawning, Little Sheep, Huang Ji Huang and COFFii & JOY.

Despite being a leader in social responsibility and one of the very first companies to set a carbon reduction target in the sector, Yum China failed to respond to the CDP questionnaire request on Climate Change and Forests in 2020. As a longtime shareholder of Yum China, JK Capital decided to leverage its strong relationship with the company by taking the lead during the campaign.

As a result of our engagement efforts, Yum China significantly improved their level of disclosure by submitting the CDP Climate Change, Forests and Water Security questionnaire in 2021. All three questionnaires received a score of B-rated by CDP in 2021 but what is more important is that such disclosure has helped to deepen our understanding of the company's ESG awareness and performance.

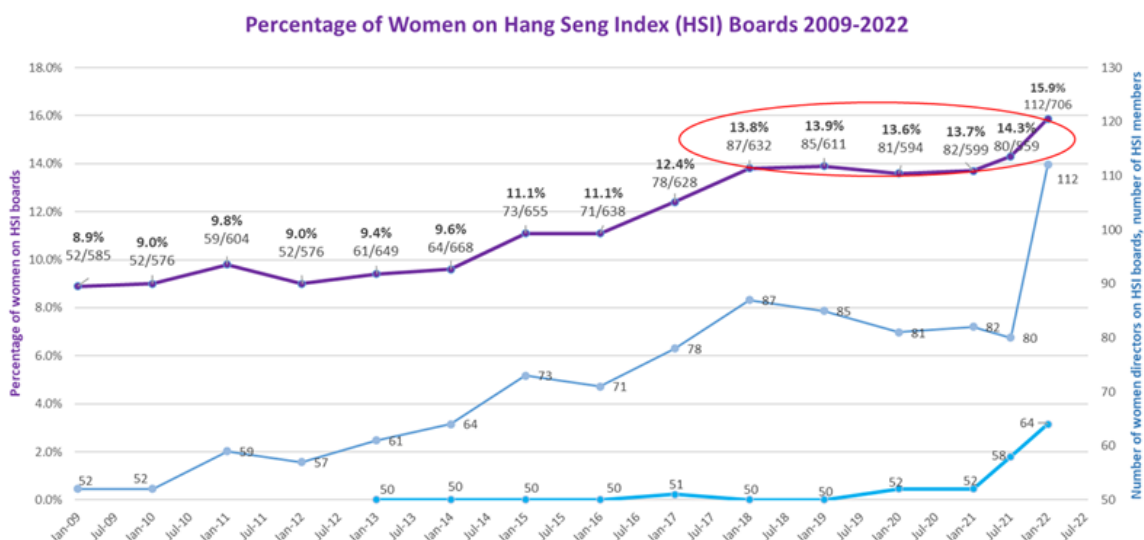
Board Diversity Engagements

JK Capital has been an active member of the Hong Kong Board Diversity initiative as we are deeply convinced that gender diversity on boards fosters better leadership, better corporate governance and ultimately increases corporate performance and global competitiveness for companies.

On a regular basis, the investment team carefully reviews changes in board composition of portfolio companies with special attention to female representation on boards. We frequently incorporate such information when engaging with companies to raise their awareness of gender equality. In April 2021, one of our portfolio companies – Techtronic Industries (669.HK) nominated its first female independent director Ginny Wilmerding, who is an experienced reputational ESG expert currently serving as a Partner with Finsbury Glover Hering.

Supported by the Hong Kong Board Diversity initiative, in September 2021 we sent a formal letter to eight portfolio companies whose boards were lacking gender diversity. In the letter, we highlighted the results of several studies confirming the correlation between greater gender diversity and stronger financial results/corporate governance practices and urged them to consider gender equality during their next board nomination process.

We were glad to see portfolio companies that received the letter taking this matter seriously. Shortly after receiving the letter, several portfolio companies had further discussions with us on this topic and stated that they would improve female representation during their next board election.



INDIVIDUAL COMPANY ENGAGEMENT

Incorporating the five interconnected pillars of ESG integration (Negative Screening, Materiality Analysis, ESG Picture and its Trajectory, Governance Emphasis and Active Engagement) into our thorough due diligence process, the investment team of JK Capital constantly engages with companies on various ESG issues, such as climate change, energy consumption, waste disposal, water stress, gender diversity, human rights, occupational safety, anti-corruption and connected transactions, etc. Rather than seeing ESG related issues as standalone, we view them as an integral part of our fundamental analysis when making investments and portfolio management decisions.

During the 1,750 meetings we had with 800 companies in 2021, discussions regarding various ESG-related topics were brought up frequently by the investment team based on the results of our in-house fundamental analysis and ESG materiality analysis. Initial discussions are frequently followed by multiple rounds of in-depth follow-up discussions via different forms of communication, until an adequate amount of information has been gathered to support decision-making.

Based on the results of our proprietary ESG materiality analysis, the team also engages in writing with portfolio companies on company-specific issues. With collaborative efforts from our dedicated ESG team and investment team, a PDF file containing specific questions and over 100 data points would be prepared for each portfolio company on a periodic basis. In 2021, results of our ESG materiality analysis were delivered to 18 of our portfolio companies followed by further discussion and analysis.

As JK Capital is committed to helping portfolio companies improve ESG performance, knowledge-sharing has also been part of our engagement strategy. Latest ESG-related information on regulatory updates and specific topics compiled by our dedicated ESG team is sent to portfolio companies on a regular basis to keep the ESG dialogue open and to bring portfolio companies up to speed on ESG developments.

China International Capital Corporation (3908.HK)

China International Capital Corporation Limited (CICC) is one of China's leading investment banking firms that engages in investment banking, securities trading, investment management, and other financial services primarily with institutional clients.

Although CICC has positioned itself as “a China-based investment bank with international perspectives”, during the in-depth ESG materiality analysis the investment team found out that the company’s ESG performance was relatively weak compared to top global investment banks.

In early 2021, during a conversation the investment team had with the company’s top management in which we shared our detailed findings, the management admitted their limited knowledge of ESG but committed to actively explore ways to improve its performance.

In a later meeting we had with the company, we found out that the management had become more aware of the importance of ESG matters and what it means for an investment bank. The investment team of JK Capital was told by CICC that the company’s asset management subsidiary had applied to become a member of the UNPRI (a United Nations-supported international network of investors working together to implement its six aspirational principles which JK Capital had been a signatory of since 2017). Now with a dedicated ESG team, CICC also plans to establish an ESG Committee at the board level to significantly improve the board’s oversight of ESG issues. On the business side, CICC stated that they have participated in more underwriting of green bond issuance and planned to launch more green-related products and services.

Yum China (9987.HK)

Our engagement with Yum China certainly did not end with the CDP Non-disclosure campaign. It remains ongoing in other aspects. For instance, after sending Yum China the official CDP request letter, we also engaged with Yum China on their carbon reduction as their 2025 target had been reached ahead of schedule in 2020 while no new target had been announced.

Yum China also responded to our inquiry positively by participating in the Science Based Targets initiative (SBTi), a project that provides target setting methods and guidance to companies to set science-based targets in line with the latest climate science. With the global decarbonisation megatrend, most companies in China have taken the relatively passive approach of adopting the national/industry-wide target set by regulators rather than following more rigid international standards such as SBTi. Up until today, only 93 Chinese companies have committed to SBTi compared to a global universe of over 2,500+. In late 2021, we were glad to learn that Yum China had successfully set a SBT target that aligns with the 1.5 °C pathway, which is the most ambitious target within the SBTi framework.

Yum China's proactive response in this particular matter has again showcased the quality and forward-thinking characteristic of its management team, which is one of the very important reasons why we invested in the company in the first place.

Taiwan Semiconductor Manufacturing Company (2330.TT)

Taiwan Semiconductor Manufacturing Company Limited (TSMC) is the world's largest dedicated independent semiconductor foundry. It is headquartered in Taiwan.

By nature, the semiconductor sector is highly dependent on a significant amount of water and energy input to maintain its operations. In mid-2021 a severe drought swept the island of Taiwan to cause a large-scale water crisis which further exuberated the world's chip shortage issue. The unexpected operation disruption caused by the drought led JK Capital's investment team to conduct further in-depth analysis on TSMC's water and energy strategy.

With the company's existing abundant disclosure, we were able to identify gaps between its current energy efforts and emission reduction target as well as inefficient climate-risk identification process among its supply chain.

Taking into consideration TSMC's relatively advanced ESG disclosure level, we decided to raise more in-depth questions during the engagement with special attention on the following topics:

- Current energy efforts and Science-based emission reduction target
- Details of Energy Efficiency Enhancement Plan
- Procurement of renewable energy
- Shadow carbon pricing
- Margin impact of water/energy initiatives
- Climate-risk assessment in tier 1 and critical suppliers

BOC Aviation (2588.HK)

BOC Aviation is a top tier global aircraft operating leasing company headquartered in Singapore. It operates a portfolio of self-owned aircrafts with an average age of less than four years, one of the youngest fleets in the aircraft operating lease industry. With the low average cost of funding and diversified funding sources, the company has been delivering industry-leading financial metrics despite the pandemic's impact on aviation.

Ever since we invested in the company, BOC Aviation has demonstrated a superior management quality with a strong awareness of ESG issues. Besides routine engagement during the past year, BOC Aviation also reached out to us and asked for our opinions on a series of topics, such as diversity, environmental initiatives, future opportunities and climate-related risks.

On climate-related risks, we provided BOC Aviation with the following feedback:

We expect BOC Aviation to gradually incorporate climate risk considerations into its risk management and credit modelling processes. For example, some airlines tend to have flights concentrated in transportation hubs with higher physical and climate risks. In the long term, extreme climate events such as rising temperature, rising sea-level, typhoons and flooding may impede airlines' ability to operate at an optimal level in these high-risk airports, which ultimately have a negative impact on the airlines' ability to repay their obligations.

At JK Capital, engagement has always been a two-way dialogue and we earnestly appreciate the opportunity to provide company management with our insights. We look forward to having more open communication with companies on both ESG and non-ESG topics.

Fixed-income ESG Questionnaire

The level of engagement with investee companies of our fixed-income team has been less extensive compared to that of our equity team given the differences in investment strategy. While the equity portfolios tend to be highly concentrated, fixed-income portfolios are highly diversified which led us to adopt a broader analysis approach.

In 2021, the ESG team and fixed-income team prepared together an ESG-related questionnaire and sent it to all bond issuers within our portfolios. Leveraging on frameworks provided by international ESG disclosure standards such as GRI and SASB, the questionnaire contains questions on information disclosure, stakeholder engagement, materiality analysis, climate-related risks/opportunities, strategic planning and board oversight. Taking into consideration that many bond issuers have relatively limited knowledge about ESG, particularly Chinese Local Government Financing Vehicles (LGFVs), we decided that such a questionnaire would be a preferred method as it provides flexibility while enabling us to collect information for further analysis.

In 2022, our fixed-maturity fund was classified as an Article 8 fund under the Sustainable Finance Disclosure Regulation (SFDR). An Article 8 is defined as “a Fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.” To embrace this adoption, the investment team had been preparing by collecting more quantitative metrics from bond issuers such as carbon emission to fulfill our regulatory requirements.

With new regulatory requirements and insightful feedback we received from bond issuers through the questionnaire, we are planning to launch another round of ESG questionnaires in 2022 with more in-depth questions focusing on green-related products or services.

PROXY VOTING

Engaging with portfolio companies through exercising shareholder rights at AGMs and EGMs has been the cornerstone of our commitment to foster strong corporate governance and ESG performance. By expressing our voting rights, we seek to promote dialogue between board members and company shareholders as addressing management decisions proactively has proven to be positively correlated to business efficiency.

PROXY VOTING POLICY

In early 2021, JK Capital released its first Proxy Voting Policy, which is a principle-based document intended to guide the investment team when casting votes for portfolio companies. Based on feedback received from equity analysts and leveraging best practices within the asset management industry, we have revised and published the 3rd version of JK Capital's *Proxy Voting Policy* in January 2022. The updated version has adopted a principle-based and rule-based approach to provide analysts with more detailed guidance in the following 5 categories and 20 sub-categories of voting items:

- Boards and Directors
- Auditors and Audit-related issues
- Remuneration Practices
- Shareholders Rights/Protection
- Capital Structure

To further integrate ESG consideration into the proxy voting process, JK Capital has also implemented a “dual-check” internal mechanism, in which each ballot would be thoroughly examined by both the equity team and ESG team with recommendations from both teams separately documented. The enhanced level of scrutiny in proxy voting reflects our profound knowledge of the Asia market and more importantly our ever-increasing emphasis on corporate governance and ESG performance.

FIXED-INCOME VOTING

In the fixed income space although the investment does not represent ownership of the company, on certain occasions the as investment manager JK Capital is asked to vote on certain corporate actions that affect the bond holding directly. Sometimes these corporate actions relate to existing options embedded into the security (e.g. early redemption put options). In other occasions these corporate actions can involve a consent solicitation proposed

by the issuer to make an adjustment on the terms and conditions of the security including maturity, coupons, underlying security and covenants. In some cases, these corporate actions might even include a decision on agreeing to a full exchange into a new security.

Voting outcomes are driven by acceptance thresholds that are already included in the bond indenture, and a successfully granted consent may or may not affect all security holders irrespective of their voting decision, depending on the particular security. In some cases, the consent solicitation will have an accompanying consent fee passed to the bondholder to compensate and incentivise their assent to the proposal.

At JK Capital all fixed income voting decisions are carefully considered on a case-by-case basis with implications weighed to provide the best long-term outcome for the fund and investors. No systematic policy is adopted given that every consent solicitation will have unique implications and risks although every corporate action is proactively assessed. Voting is the responsibility of the portfolio manager and made on a timely basis through the back office to ensure all deadlines are met. Voting records including decisions to abstain or even not vote are properly maintained.

VOTING RECORD DISCLOSURE

In 2021, JK Capital cast 1,258 votes at shareholder meetings of our portfolio companies, with an “against” ratio of 1%. The investment team frequently engages with company management both before and after shareholder meetings via various forms, particularly when we intend to vote against certain management proposals.

Across the board, we have observed an increasing number of proposals on employee stock ownership plans (ESOP) in 2021, particularly from the A-shares market where stock options have become a popular tool used by companies to retain talents. To adapt to this trend while ensuring that stock options are granted under appropriate conditions, JK Capital has also developed a proprietary tool for comparing and analyzing ESOPs proposed by our portfolio companies and their close peers.

During the past year, we have also observed increasing scrutiny over the role played by independent directors, particularly in the A-shares market where corporate governance practices have traditionally been suboptimal compared to developed markets. The China Securities Regulatory Commission (CSRC)

has released a series of policies aiming to hold independent directors and market intermediaries such as auditors and sponsors accountable for negligence and wrongdoings after a landmark litigation against Kangmei Pharmaceutical (600518.SH), which we elaborated in an earlier newsletter. We see this as an encouraging sign towards higher corporate governance standards and continue to uphold our emphasis on strong governance practice.

Tigermed (3347.HK)

Tigermed is a leading clinical Contract Research Organization (CRO) in China that specialises in providing services for new drug research and development and other supporting services to global and Chinese pharmaceutical and biotechnology companies.

In mid-2021, the company proposed to hire a co-CEO. During our research, we discovered the candidate's past working experience to be more related to the insurance sector rather than CRO. The investment team immediately initiated conversations with the company to express our concerns over the qualifications of the candidate. In response, Tigermed provided detailed explanations that the co-CEO will be in charge of responsibilities transferred from the chairman rather than from the incumbent CEO. The management also believed that despite his recent 10 years' experience being outside of the healthcare industry, the candidate could contribute to the company in a significant way by bringing new perspectives.

After a series of internal discussions, the investment team at JK Capital concluded that the person nominated is not an ideal candidate for the position as his lack of industry experience could significantly limit his ability to effectively manage the company's overall operations. As a result, we voted "Against" this particular proposal.

At JK Capital, we evaluate each board member and executive management nomination proposal thoroughly with consideration factors such as industry experience, diversity, expertise, leadership skill, reputation, education background and relationship with existing board members/controlling shareholders, etc. In this case, we believe the lack of industry experience exhibited by the candidate could potentially lead to negative impacts on company operations and shareholder value.

ESOP Review Mechanism

An employee stock ownership plan (ESOP) is an employee benefit plan that provides employees with an ownership interest in the company. As mentioned above, the increasing number of ESOP proposals in the China A-shares market with some cases of inappropriate granting conditions has led the investment team of JK Capital to develop a proprietary review mechanism.

Essentially, the review aims to identify gaps between the net profit's implied compound annual growth rate (CAGR) suggested by the proposed ESOP and the CAGR estimated by JK Capital's internal model. In addition, historical growth numbers have also been taken into consideration to prevent companies from granting stock options with easy targets.

The tables below serve as an illustration of the analysis conducted when our analysts evaluate each ESOP proposal.

	Conditions
Initial granting	2020: ROE>13% and higher than 50 th percentile of peer companies; NP growth > 10% compared to 2019; ΔEVA>0
1 st vetting period	2022: ROE>14% and higher than 75 th percentile of peer companies; 2020-2022 NP CAGR > 10% and NP 5x higher than the average of peer companies ; 2020-2022 R&D CAGR>5%; ΔEVA>0
2 nd vetting period	2023: ROE>14% and higher than 75 th percentile of peer companies; 2020-2023 NP CAGR > 10% and NP 5x higher than the average of peer companies; 2020-2023 R&D CAGR>5%; ΔEVA>0
3 rd vetting period	2024: ROE>14% and higher than 75 th percentile of peer companies; 2020-2024 NP CAGR > 10% and NP 5x higher than the average of peer companies; 2020-2024 R&D CAGR>5%; ΔEVA>0
4 th vetting period	2025: ROE>14% and higher than 75 th percentile of peer companies; 2020-2025 NP CAGR > 10% and NP 5x higher than the average of peer companies; 2020-2025 R&D CAGR>5%; ΔEVA>0

Historical numbers

	2015	2016	2017	2018	2019	2020	CAGR
ROE	17.09%	23.78%	17.10%	17.65%	14.90%	15.00%	
NP (mn)	1,299.5	3,161.2	3,250.5	4,162.1	4,343.1	4,851.5	30.1%
NP Growth YoY	1.28%	143.26%	2.51%	28.44%	4.35%	11.71%	
R&D (mn)			1,252.5	1,542.1	1,768.4	1,856.1	14%
R&D Growth YoY				23.21%	14.59%	4.96%	

At JK Capital, we believe that ESOP is an important and powerful tool to motivate employees by granting them stock ownership. If designed properly, ESOPs could lead to an increase in productivity and an overall performance improvement, thus improving shareholder value. On the other hand, poorly-designed ESOPs with easy targets signal managerial issues and are likely to lead to shareholder value destruction. With this ESOP review mechanism, we endeavour to safeguard our shareholder value with enhanced due diligence processes.

CLIMATE ACTIONS

2021 has been a remarkable year for the climate community as various milestones were achieved at COP26 and regulatory developments ramped up in markets across the world. As a result, the focus on climate change has gained a tremendous amount of traction among asset managers despite limited data availability and discrepancies in rating methodologies.

OVERALL CLIMATE-RELATED STRATEGY

To position ourselves ahead of the industry, JK Capital developed in 2021 its proprietary approach to monitor, assess and evaluate the emission performance of our portfolio companies. We view decarbonisation efforts as one of the most critical elements for incorporating climate-related risks into our investment management strategies.

Adopting a proprietary Greenhouse gas (“GHG”) emissions analysis approach to systematically assess the carbon intensity and decarbonisation efforts of our portfolio companies, the dedicated ESG team at JK Capital monitors the following GHG emissions metrics that align with the TCFD recommendations:

- Total Carbon Emissions
- Carbon Footprint
- Weighted Average Carbon Intensity (WACI)
- Carbon Intensity

In addition to the above quantitative measures, qualitative assessments would also be conducted jointly by the investment team and ESG team to comprehensively examine the company’s decarbonisation efforts.

STOCK LEVEL CARBON ANALYSIS

For stock level carbon analysis, the ESG team utilises the Total Carbon Emissions and Carbon Intensity metrics to closely monitor and assess portfolio companies’ level of carbon emissions, particularly for companies operating in energy-intensive sectors.

For holdings within our equity portfolios, we classify each company under the four following groups:

- Intense: Companies emit more than 1,000,000 tons of CO₂ per year. These companies also tend to be the companies with the highest carbon intensity

- Moderate: Companies emitting between 10,000 to 1,000,000 tons of CO₂ per year
- Low: Companies emitting less than 10,000 tons of CO₂ per year
- Foggy: Companies without enough reliable emission data

Below is an illustration of our total carbon emission analysis:

		thousand of tons of CO ₂					
Internal Classification	Company	2016	2017	2018	2019	2020	Trend
Intense	Company 1		3,700.00	3,678.00	3,978.60	5,085.31	
	Company 2	1,798.70	1,796.30	1,997.90	1,901.70	2,010.00	
	Company 3			2,032.18	2,070.79	2,009.37	
	Company 4	1,392.00	1,392.00	1,414.00	1,522.00	1,508.00	
	Company 5	986.83	1,211.57	1,277.44	1,117.12	1,169.84	
	Company 6	1,271.00	1,114.00	981.00	912.00	790.00	
Moderate	Company 7				146.53	154.21	
	Company 8	51.27	50.45	47.17	48.90	40.20	
	Company 9	22.67	38.52	31.69	36.71		
	Company 10					23.06	
	Company 11	10.79	23.64	24.94	25.66	21.51	
	Company 12	10.63	10.37	10.46	14.04	15.84	
	Company 13			8.55	10.06	9.59	

Equity Strategy: Total carbon emission per company (in kt of CO₂)

Similar to our approach with total carbon emissions, we also classify companies into groups based on their carbon intensity.

Below is an illustration of our internal carbon intensity analysis:

		thousand of tons of CO ₂ / \$Mln or revenues					
Internal Classification	Company	2016	2017	2018	2019	2020	Trend
Intense	Company 1		1.96	1.80	1.92	2.12	
	Company 2	0.20	0.18		0.15	0.14	
	Company 3			0.24	0.24	0.24	
	Company 4	1.14	1.03	0.98	0.98	0.89	
	Company 5	0.43	0.45	0.40	0.34	0.35	
	Company 6	0.29	0.25	0.20	0.19	0.17	
Moderate	Company 7				0.02	0.02	
	Company 8	0.00	0.00	0.00	0.00	0.00	
	Company 9	0.06	0.09	0.07	0.07		
	Company 10					0.05	
	Company 11	0.01	0.01	0.01	0.01	0.00	
	Company 12	0.04	0.03	0.03	0.03	0.03	
	Company 13			0.00	0.00	0.00	

Equity Strategy: Carbon intensity per company (in kt of CO₂ / \$m of revenues)

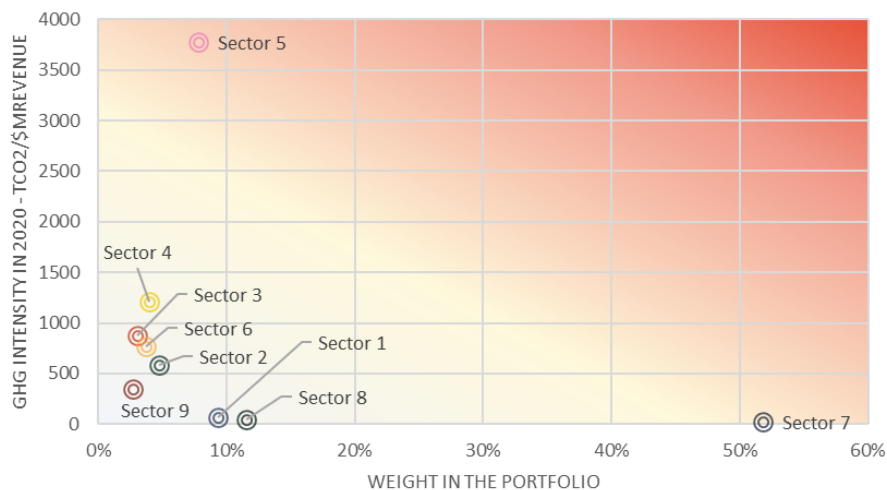
Depending on the level of carbon intensity, a specific course of action would be taken by the investment team during the engagement process with individual portfolio companies. Combining carbon intensity with additional information such as product mix, companies' decarbonisation targets, regulatory requirement and national net-zero plan, JK Capital adopts a tailored engagement strategy to facilitate effective communication.

In particular, we pay greater attention to companies in the "high" carbon intensity group and those associated with sectors or regions that are currently under heavy environmental regulatory scrutiny. This analysis enables the portfolio managers to better understand both the operational and ESG performances of the company, as well as the company's outlook.

Incorporating each portfolio companies' carbon emission level and regulatory requirements in respective sectors/regions, the investment team has been conducting climate-risk analysis on an ongoing basis. The climate-related risks analysis adopts the TCFD framework by categorising transition risks and physical risks and aims to provide the team with a more comprehensive picture of each investee companies' risk profile.

PORTFOLIO LEVEL CARBON ANALYSIS

For carbon analysis at the portfolio level, our proprietary approach focuses on security weightings in perspective of their respective GHG intensity (in tCO₂/\$m of revenues) or, in the case of our fixed-income strategy, by country weighting and by sector weighting.



GHG Intensity vs weight in the fixed income strategy (per sector)

The series of analyses and illustrations above empower portfolio managers to identify the main carbon footprint contributors of the portfolios. Combining this micro-approach with portfolio-level metrics fosters a comprehensive understanding of the carbon-related risks attached to our respective strategies and provides an in-depth analysis that allows us to scale our engagement with our investee companies.

As an encouraging sign, our carbon analysis and engagement efforts in 2021 have led companies within our portfolios to become more aware of the importance of decarbonisation and improve their level of disclosure on the topic. We look forward to further refining our carbon analysis approach and improving our coverage on fixed-income holdings in 2022.

For more information related to our carbon analysis approach, please refer to our [*Carbon Analysis Whitepaper*](#).

FIRMWIDE ESG EFFORTS

The direct environment and social impacts of the asset management industry may be limited but indirect impacts driven by our investments are much more profound and long-lasting. While we keep engaging with portfolio companies to identify, assess and manage ESG related risks and opportunities, JK Capital endeavours to adopt best internal practices within the asset management industry to set examples for our portfolio companies. In 2021, with the establishment of our in-house dedicated ESG team, a series of ESG-related activities including discussions, training and publications have been regularly held to improve staff's awareness and our firmwide ESG performance.

ESG DISCUSSIONS

We believe that fostering staff's awareness of ESG issues is the key to successfully incorporating ESG considerations into investment processes. On a daily basis, the ESG team holds discussions with both the equity team and the fixed-income team on the latest ESG-related news in the investment universes under our coverage. Every month, each equity analyst at JK Capital is required to conduct an in-depth ESG materiality analysis together with the ESG team on at least one company under his or her coverage, providing the foundation for our ongoing ESG engagement with companies.

ESG TRAINING

Knowledge sharing both internally and externally has been a key driver in deepening our understanding of ESG issues at JK Capital. Internally, ESG-related CPTs and documentary watching events have been organized by our dedicated ESG team on a monthly basis covering topics such as carbon market, energy transition, natural resources, NEVs, social justice and social governance, etc. Externally, our investment staff have been actively participating in ESG-related webinars and conferences hosted by brokers, research institutions and other intermediaries.

Carbon Market CPT Training

As China launched the largest carbon market globally in July 2021 and carbon trading became a hot topic in Asian markets, JK Capital decided to host a series of CPT training around the topic.

The “Carbon Market Overview” is the 2nd training section in the series in which the ESG team introduced the concepts of mandatory and voluntary markets and an overview of various carbon markets around the world. In particular, comparisons were drawn between the EU Emissions Trading System (ETS) and the China ETS in terms of history, regulatory framework, historical price movement, trading volume, industry coverage and future development. The training provided our staff with insights on how rising global carbon prices and expanding regulations could potentially have a positive/negative impact on our equity and fixed-income exposures.

WEEKLY ESG PUBLICATIONS

To effectively communicate with our investors and stakeholders on the latest ESG developments in Asia, JK Capital publishes ESG weekly newsletters to share our insights on the ground. These weekly newsletters cover topics such as regulatory policy updates, energy, environmental protection, raw materials, gender equality and corporate governance in our major markets including China, India, Taiwan, Korea and Indonesia.

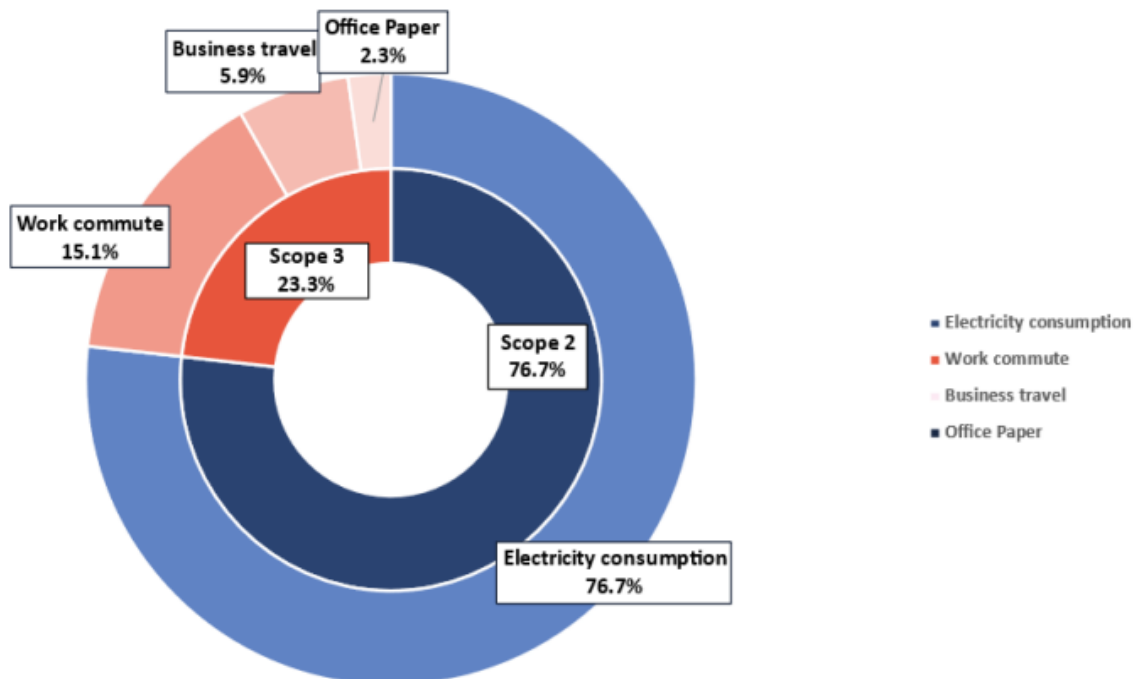
To read our insights on various ESG topics, please visit our ESG Insights webpage.

RESPONSIBLE POLICY

To further cultivate an ESG mindset within the firm and minimise the environmental footprint of our operation, JK Capital formulated its Firm Responsible Policy in 2021, detailing internal requirements in areas of energy conservation, material consumption, fuel consumption, recycling and social impacts. The Policy aims to demonstrate our intention of being a responsible investor in our daily work and to showcase our commitments to sustainability and social responsibility.

CARBON FOOTPRINT REPORT

In addition, as we hold the belief that convincing investee companies to change and adopt best practices can only be achieved by applying the same values and principles to ourselves, we published our first *Carbon Footprint Report* in 2021. The report includes carbon accounting methodologies adopted, annual energy consumption and emission data for Scope 1-3 as well as a comparison of carbon intensity (per headcount) between our peers. We plan to issue such a report on an annual basis going forward and seek to include more aspects of our operations into the calculation.



2020 Carbon Emission Breakdown

PHILANTHROPIC ACTIVITIES

Furthermore, as a socially responsible enterprise, JK Capital believes in the importance of supporting charity causes. We have been encouraging staff to actively participate in various philanthropic activities. All employees of the firm are also encouraged to propose initiatives that are meant to have a positive social impact on society while contributing to the team-building efforts of the firm.

Following is the list of charities we contributed to in 2021:

- UNICEF Hong Kong – Support Covid relief in India
- RUN Hong Kong – Assistance to refugees in Hong Kong
- OXFAM – Support for poverty alleviation and emergency relief
- Solerico – Donation for solar-power water pumps for Nepalese villages

RUN Hong Kong – Refugee Assistance Virtual Challenge

JK Capital actively participated in the 2021 Virtual Corporate Challenge organised by RUN Hong Kong, a charity event for supporting refugees and asylum seekers in Hong Kong. By providing financial donations to the charity organisation and having 10 members of our staff participate in several runs around Hong Kong over a two-week period, we endeavoured to promote the cause of stateless refugees of Hong Kong while the firm contributed to providing financial support to them.

LOOKING FORWARD

Despite the ongoing impacts of the pandemic, JK Capital has been continuously improving its due diligence and engagement processes on the ground. With robust governance practices remaining at the core of our fundamental analysis, incorporating ESG considerations and maintaining active engagement empower us to invest in more high-quality businesses governed by experienced management teams.

As the green transition megatrend gained momentum in 2021, JK Capital has accelerated its ESG efforts on multiple fronts to better serve our clients, including the publication of this inaugural Stewardship Report. Combining with our decades of track record and investment expertise in Asia, these efforts mark the start of a new journey towards sustainable investments. In 2022, we look forward to further finetuning our ESG integration approach in both equity and fixed-income strategies, continuing engagement with companies that have shown progress in ESG efforts and delivering superior returns to our investors.

APPENDIX

CDP 2021 NON-DISCLOSURE CAMPAIGN

Lead:

- Yum China Holding Inc
- Hansol Chemical., Ltd

Co-sign:

- Shenzhou International Group Holdings
- Jangsu Hengrui Pharmaceuticals Co., Ltd
- Sino Biopharmaceutical Ltd.
- China Resources Beer (Holdings) Company
- China Resources Beer (Holdings) Company Limited
- Japfa Comfeed Indonesia Tbk PT
- China Mengniu Dairy Company Limited
- PT Bayan Resources Tbk
- Oil & Natural Gas Corporation
- Reliance Industries
- San Miguel Corp
- Tower Bersama Infrastructure Tbk PT
- Korea Gas Corp
- Agile Property Holdings Ltd
- China Aoyuan Group Ltd.
- China Evergrande Group
- China Fortune Land Development
- China Overseas Land & Investment
- China South City Holdings Ltd.
- China Vanke
- Country Garden Holdings Co
- Gemdale
- Greenland Holdings Corp Ltd
- Jiayuan International Group Ltd
- KWG Group Holdings Ltd
- Kaisa Group Holdings Ltd
- Logan Group Co Ltd
- Longfor Properties Co. Ltd
- Shimao Group Holdings Ltd
- Sun Hung Kai Properties

- Sunac China Holdings Ltd
- Wharf Holdings
- Xinhua Zhongbao Co Ltd-A
- Zhenro Properties Group Ltd
- Techtronic Industries
- Hyundai Capital Services
- Jaguar Land Rover Ltd
- Petronas Chemicals Group Berhad
- China Hongqiao Group Ltd
- ReNew Power Private Limited
- CGNPC International Ltd
- CK Hutchison Holdings Ltd
- China Grand Automotive Services Co Ltd
- Shriram Transport Finance Co.
- China Cinda Asset Management
- China Huarong Asset Management Co Ltd
- Bank of China
- CITIC Limited
- Indiabulls Housing Finance Ltd
- Industrial And Commercial Bank Of China Limited
- Muthoot Finance Limited
- Power Finance Corporation
- Woori Bank
- Dr Peng Telcom & Media Group Co Ltd
- Telekom Malaysia
- Alibaba Group Holding Ltd
- COSCO Shipping Development Co Ltd
- Sitc International Holdings