

## **Pillar 2 - Portfolio Management**

**1. Portfolio Limits: does the fund have explicit portfolio limits such as, but not limited to, single country, single sector, single security, single asset class, the correlation between securities, or other spelled-out limits.**

We are a Constrained Fund

**Constrained Fund - the portfolio manager can deviate from the explicit limits by:**

By more than 5 percentage points, up to 10 percentage points

**2. Portfolio level ESG characteristics [iv]: We have decided ESG criteria to be used as our portfolio characteristics that include:**

- \* Asset-weighted percentage of the portfolio invested in green bonds
- \* Asset-weighted percentage of the portfolio invested in economic activities deemed to be sustainable by a regulatory or third-party classification standard
- \* Exposure to specific industries, sectors, and companies that aid transition to a low-carbon economy
- \* The ratio of "green" investments to "brown" investments

**3. ESG based Securities Selection criteria[iv]: We take steps to incorporate financially material ESG information alongside traditional financial information in financial analysis and valuation of the investment product's investments:**

- \* We do not have an established security selection criterion that is based on ESG information or ESG issues

**4. Security weight: What determines the weight of each security?**

- \* Liquidity at the security level
- \* Liquidity at the portfolio level
- \* Potential risk-adjusted returns relative to other securities in the portfolio
- \* Potential to produce alpha
- \* Material[ii] ESG merits of the investee
- \* Portfolio limits (explicit limits or soft guidelines) such as single issuer, single security, etc.

**5. Portfolio liquidity in normal markets: When we construct the portfolio, we account for short-to-medium liquidity at the portfolio level under normal market conditions.**

Yes, we aim to be able to liquidate 20%-30% of the portfolio in 5 trading days

**6. Portfolio liquidity in stressed markets: One key factor we consider when we construct the portfolio level is liquidity at the portfolio level under stressed market conditions.**

Yes, we aim to be able to liquidate 10%-20% of the portfolio in 5 trading days if trading volume halves

**7a. Investment Bases: Our investment decisions are substantively based on the following.**

- \*  Security's liquidity in the secondary market
- \*  Valuation
- \*  Target price
- \*  Risk/return profile of a security relative to other positions in the portfolio
- \*  Investee's cash flow
- \*  Investee's ability to meet liabilities promptly/ credit quality
- \*  The ability of investee to benefit from structural changes in its industry
- \*  Investee's key management's track record
- \*  Validity of our investment thesis
- \*  Downgrade/upgrade of the investee by our analysts
- \*  Downgrade/upgrade of the investee by sell-side analysts
- \*  ESG factors improving
- \*  Market timing
- \*  Signals generated by our quantitative, big data models or other similar methods
- \*  The security's drawdown exceeds our limits within a given time frame
- \*  Social factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. In the case of investing, the material impact is positive.
- \*  Governance factors have (or likely will have) a material[ii] impact on the investee's earnings, cash flow, competitiveness, business resilience, reputation, and other risk-return balance. In the case of investing, the material impact is positive.
- \*  We do not have a system or method of arriving at a basis for investment/divestment. The portfolio manager acts according to their wishes.

#### **7b. Divestment Bases: Our divestment decisions are substantively based on the following.**

- \*  Security's liquidity in the secondary market
- \*  Valuation
- \*  Target price
- \*  Risk/return profile of a security relative to other positions in the portfolio
- \*  Investee's cash flow
- \*  Investee's ability to meet liabilities promptly/ credit quality
- \*  The ability of investee to benefit from structural changes in its industry
- \*  Investee's key management's track record
- \*  Validity of our investment thesis
- \*  Downgrade/upgrade of the investee by our own analysts
- \*  Downgrade/upgrade of the investee by sell-side analysts
- \*  Investee's response to our fund's/firm's ESG engagement
- \*  Market timing
- \*  Signals generated by our quantitative, big data models or other similar methods
- \*  The security's drawdown exceeds our limits within a given time frame

#### **8. Research resources: How many securities does each analyst responsible for this fund cover on average?**

Fewer than 50

### 9. Research depth: What types of research do you rely on to make investment decisions?

- \*Our proprietary financial models
- \*Our proprietary credit rating system
- \*Site visits to investees' facilities: We observe operational employees' effectiveness, productivity, attitude, initiative
- \*Site visits to investees: We observe the key processes or production of items that are salient to the investees' competitiveness
- \*One-to-one conversations with investees' management outside of scheduled conferences for all investment analysts
- \*We verify investees' claims with informed third parties, including but not limited to suppliers, customers, distributors, competitors, and industry specialists
- \*Earnings conference calls or meetings with investees' management which are scheduled for all investment analysts
- \*Independent consultants specializing in specific sectors, technologies, geographies, economies, factors, etc.
- \*Sell-side brokers' research

### 10. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.

How you managed portfolio liquidity during a time of market stress. What critical decisions did you make, and what were the rationale and outcome?

#### Please briefly describe the critical challenge/s, actions taken, results and lessons learned:.1

1. Maintain a balanced portfolio Being a high-yield fund, over 60% of our portfolio is in the Chinese property sector. However, to maintain adequate liquidity and to diversify risks to cater to senior tranche investors, we invested around 20% of the portfolio in IG names and have been keeping 8%-10% cash position in the portfolio. We also maintained a short duration strategy and kept the average duration of the portfolio to around 1 year over the past 12 months (1.07 years at June 30, 2020) and maintained high flexibility to ensure stable and predictable return for our investors.

2. Reducing position before the market crash During the bond market volatility in the past year, the portfolio manager started to aggressively reduce HY bond position. By doing so, the Fund managed to reserve adequate liquidity which proved essential to cater for margin calls and capture buy opportunities when market hit the bottom.

3. Pitching clients and attracting inflows when market hit the bottom When market hit the bottom, we managed to perform online presentation to investors and attracted a net inflow. Apart from COSCO, one of the biggest SOEs in China and our strategic shareholder, we also brought in a wide range of strong institutional investors including provincial-government-owned investment platforms, Hong Kong insurance companies, state-owned brokerages and renowned listed companies, etc. A solid base of investors has delivered a continuous net inflow to the fund in the past 12 months.

3. Taking advantage of market volatility

When there was negative news for Evergrande, which triggered a sell-off of property names, we took advantage of the volatility. We liquidated some positions in LGFV names and used the new funds to buy quality property names at bargain prices. For example in Sep 2020, the market subsequently recovered when investors regained confidence in Evergrande. The Fund therefore achieved positive returns when the high-yield bond index was in negative territory then.