



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) POLICY FOR THE LONG-TERM INVESTMENT POOL

1. Introduction

This document sets out the guiding principles of The Hong Kong University of Science and Technology's ("HKUST's") environmental, social and governance ("ESG") policy, as applied to its Long-Term Investment Pool ("CCP").

HKUST is a globally respected university and contributes both locally and internationally to talent development, new knowledge and societal interests. We recognise our role as a responsible steward of our capital, which has two distinct aspects:

- a) Firstly, responsible stewardship of our own portfolio requires us to take into account all material determinants of risk and opportunity for the investments we make. These include ESG factors which are in many cases material to the longer-term success and resilience of businesses in which we invest.
- b) Secondly, we seek alignment with our values as an educational institution. Our goal is to be a sustainability leader where our investments reflect our commitment to solving grand generational challenges in climate change, water scarcity, building a circular economy, transforming food production systems, and building a fair, just, and equitable society.

HKUST's portfolio is invested via third party investment managers, and we will be investing into pooled investment funds with their own fixed policies. Thus, HKUST's ESG policy will be implemented in large part through our choice of investment managers whose ESG policies reflect our values.

2. Core Beliefs

We believe that material ESG-related risks and opportunities directly impact the assets in which we invest. These material ESG factors provide insights into future performance while facilitating good decision making. Example of ESG factors include, but are not limited to, climate change, supply chain and human rights, fair pay, diversity and global health. These areas represent both risks and opportunities from an investment point of view. Accordingly, we see ESG integration as a potential return enhancement.

Further, we are keenly aware that investment strategies that do not align with our core beliefs present serious risks to our reputation and our standing within the community. A misalignment can cause skepticism of our true intentions to fulfil our vision for a sustainable campus of the

future, and can inhibit our ability to recruit top tier students and globally recognized faculty and researchers. We believe that our core beliefs must be consistent throughout.

To implement an ESG policy through third party managers while delivering attractive returns requires a degree of pragmatism and flexibility. Therefore, HKUST's strategy is to identify and prioritize investments through managers whose own investment philosophies are closely aligned with our own ESG policies.

3. ESG Investing Approach

3.1. ESG Integration

HKUST intends to work with investment managers for whom ESG considerations are integral to their investment philosophy and manifested throughout their investment process. We will require that investment managers provide a well-explained, well-documented, evidenced-based process for how ESG is integrated into their investment decision making. We expect the link between a manager's ESG considerations and their investment decisions to be clear and transparent. Managers will need to provide evidence clearly and regularly how this is achieved in practice and report adequately.

3.2. Responsible Ownership of Assets

Managers' voting policies and record shall form part of manager selection due diligence and shall be monitored for consistency with HKUST's ESG policy. Effective proxy voting is the minimum threshold for responsible ownership. HKUST expects managers to engage with portfolio companies to emphasize the interests of long-term shareholders in line with ESG considerations. Reporting on the outcomes, both good and bad, from engagement efforts is expected.

4. Net-Zero Carbon Investment Strategy

4.1. Introduction

HKUST considers climate change, driven by human-induced greenhouse gas (GHG) emissions, to be one of the most critical global issues for the next several generations. As a long-term investor, HKUST will incorporate climate change into its investment decision making process. We support the goals of the 2015 Paris Agreement to limit global warming by eliminating net emissions of carbon and other GHGs by mid-century as well as Hong Kong's commitment to achieving carbon neutrality by 2050. The goal of this strategy is to ensure our investment approach is consistent with the scientific consensus on climate change and the goals of the Paris Agreement, as operationalized by the Science-Based Targets (SBT) initiative.¹ We believe that this long-term vision will benefit our long-term investment returns.

4.2. Goals

The strategy has three broad goals:

- To ensure the risks and opportunities arising from a low carbon transition are reflected in the way investments are chosen for the portfolio.
- To seek out investments whose activities can profitably accelerate or otherwise

¹ From <https://sciencebasedtargets.org>.

support the low carbon transition.

- To support and encourage all businesses to adopt business plans and strategies consistent with the goals of the Paris agreement.

Goals 1 and 2 align the portfolio with HKUST's net-zero carbon investment priorities by seeking returns from a low carbon transition while protecting against the risks from uncontrolled climate change. Goals 2 and 3 advance net-zero as a global economic outcome, not merely transferring GHGs from HKUST's balance sheet to someone else's. Since climate change is already imposing vast net costs to the global economy, Goal 3 seeks to preserve the economic returns that drive the portfolio and therefore HKUST's ability meet its target return into the future.

5. Net-Zero Carbon Investment Implementation & Targets

HKUST acknowledges that there is no one right approach and that methodologies are evolving. Accordingly, we aim to be pragmatic and move forward promptly where the path is clearest. Because the portfolio is invested through third party investment managers, it is through the choice of managers and what HKUST asks of them the strategy can be implemented.

5.1. Strategy Applicability

The availability of emissions data, methodologies for target setting and the means of control vary widely across asset classes. Therefore, this strategy applies fully to Public Equities and public Fixed Income, referred to as 'in-scope' assets.² For other asset classes, HKUST will evaluate all investment opportunities according to whether they contribute to or hinder climate goals. Managers whose strategy clearly hinders climate goals will be ineligible for the portfolio.

It is accepted that investing in fossil fuel-reliant businesses conflicts with our goal of low carbon transformation. Over time we believe such business assets may become 'stranded' – unusable and worthless – in the event of successful decarbonisation. For these reasons, HKUST pledges to divest from fossil fuels within the CCP.

5.2. Strategy

To achieve the long-term goal of net zero emissions by 2050, HKUST will adopt a clear and robust strategy to guide its actions and against which success can be measured. Data and methodological gaps limit how specific targets can be today, but the approach will be tightened and refreshed over time. Initially HKUST is adopting the following strategy:

- a) Reduce with goal of eliminating investments in fossil fuels.
- b) Improve portfolio transparency:
 - Aim for full transparency in Public Equities and public Fixed Income, which allows for detailed carbon analysis.
 - Extend to Hedge Funds and Private Investments over time.
- c) Engage to drive real world change:
 - Invest in managers with aligned policies.

² This covers 64% of the CCP's Strategic Asset Allocation.

- Use influence as an asset owner to request and require managers across all assets and strategies to adopt net-zero aligned processes.
- d) Reduce carbon emissions:
- Halve emissions for in-scope assets by 2030 from a 2021 baseline calculated on a consistent basis.
 - Ensure in-scope asset class emissions are below relevant benchmark index on an ongoing basis from end 2023.
 - By 2025, 70% of emissions from in-scope assets should be from companies which are aligned with Science-Based Targets goals or with whom HKUST is engaging (directly or indirectly) toward that objective. Increase this target to 100% in 2030.
- e) Investment in “climate solutions”³ to increase as a percentage of the portfolio by 5% by end 2025.

5.3. Measurement

An annual review will be undertaken covering all investments, with details to vary by asset class depending on information available. This is to include a detailed ‘look-through’ to the underlying holdings of each manager. Managers should support this by identifying exposure to material ESG issues, be they positive or negative, and explaining how negatives are being managed both by the underlying company and by the manager themselves (e.g., through engagement or position sizing). This annual review will also identify managers who either don’t provide holdings transparency or are not explaining the negatives to our satisfaction, and what action is being taken to either engage with them or remove them from our portfolio.

- GHG emissions are measured in CO₂ equivalent (CO₂e), with the baseline at emissions in 2021, and tracked on an annual basis.
- The degree to which portfolio holdings are Paris-aligned with commitments confirmed by SBTi, TPI⁴ or equivalent is also tracked on an annual basis via manager reporting.

5.4. Private Investments

Methodologies and data for net-zero are less developed around private investments so it is more challenging to include them in the targets and monitoring framework. Nevertheless, HKUST will lay out its aspirations as well as guideposts to prevent committing now to long-term investments that will impede net-zero goals in future. HKUST’s expectation of private investment managers follow from the approach to public investments:

- Disclose robust data on emissions from portfolio companies.
- Require and support portfolio companies to adopt Paris-aligned targets.

³ Climate Solutions include Cleantech and renewable infrastructure as well as industrial businesses whose products support a low carbon transition.

⁴ <https://www.transitionpathwayinitiative.org/>