



2020 Responsible Investment and Stewardship Report

2020.01.01-2020.12.31



國泰人壽
Cathay Life Insurance

ABOUT CATHAY LIFE INSURANCE



**Founded in
1962**



**33,000
Employees**



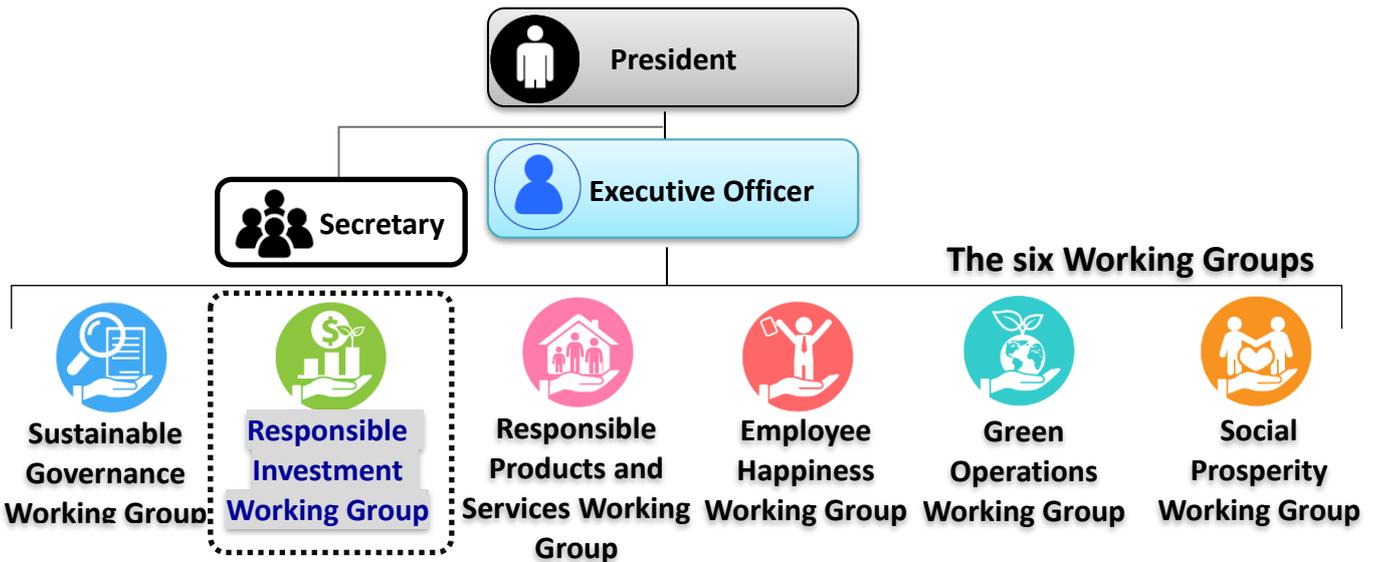
**8 million
policy holders**



Over US\$ 269 bn

Founded in 1962, Cathay Life Insurance has 33,000 employees, 7.92 million policy holders, and total assets of over US\$ 269 billion, and is the leader of Taiwan’s insurance industry. “Lead the way in sustainable insurance and ensure the happiness of society” is Cathay Life’s vision of sustainability, which consists of four strategic directions: Commitment, Accountability, Richness, and Eco-Living (C.A.R.E.).

■ Cathay Life Corporate Sustainability Team



■ Strategic Focuses & Directions



**Strategic Directions:
C.A.R.E**

**Eight
Strategic Focuses**

**Goals for
Sustainability**



STATEMENT

Since 2015, Cathay Life has been self-complied with the Principles for Responsible Investment (PRI) on its own initiative. On July 25, 2016, Cathay Life signed the Taiwan Stewardship Principles for Institutional Investors issued by TWSE Corporate Governance Center, and became the first insurance company in Taiwan to become a signatory.

When Cathay Life use the core investment capabilities to pursue economic growth, we will always commit to integrate environmental, social and governance (ESG) factors into investment decision-making and ownership practice, through the system establishments and process adjustments in order to fully exercise its expertise and influence as an institutional investor and fulfill the duties of an asset owner, thereby increasing the long-term values of its customers and shareholders and realizing responsible investment.

This report is not only we demonstrate our efforts in responsible investment and stewardship but also claim to abide by six principles of PRI and Taiwan Stewardship Principles for Institutional Investors and publish annually.

As of December 31, 2020, Cathay Life has complied with the Principles for Responsible Investment (PRI) and the six principles of the (Taiwan) Stewardship Principles for Institutional Investors without fail.

CONTACT INFORMATION

Please contact us for any comments or inquiries on this report.

Financial Planning Department, Cathay Life insurance

Joy Chang, Project Manager

Tel: +886-2-2755-1399#1610

Email: joy_chang@cathaylife.com.tw

Address : No.296 Ren Ai Road, Sec. 4 Taipei 106, Taiwan, R.O.C

Taiwan Stewardship Principles
for Institutional Investors



Signatory

 Cathay Life Insurance
2016.07.25



Cathay Life

Compliance Statement-
Stewardship Principles for
Institutional Investors

CONTENTS

| | |
|---|-----------|
| Responsible Investment Organization and Mechanism | 4 |
| (I) Our Working Group | 4 |
| (II) Our tasks | 4 |
| (III) ESG policies and mechanism | 6 |
| Responsible Investment Measures | 9 |
| (I) Implementing integration of ESG factors | 9 |
| (II) Asset manager mandating and monitoring | 14 |
| (III) Interacting with investee companies | 16 |
| 1. Dialogue..... | 16 |
| 2. Engagement..... | 17 |
| 3. Proxy voting | 28 |
| (IV)Sustainable investment..... | 34 |
| (V)TCFD | 36 |
| Evaluation of the effectiveness of responsible investment..... | 40 |
| Annexed Table: RI policy on different asset classes | 43 |
| Appendix I: Principles for Responsible Investment Content Index | 46 |
| Appendix II: Taiwan Stewardship Principles for Institutional Investors | |
| Content Index | 48 |
| Other sustainability of Cathay Life | 49 |

Responsible Investment Organization and Mechanism

Cathay Life's total assets over US\$ 269 billion (investment asset approx. US\$ 244 billion), accounting for a fourth of the total funds in Taiwan's insurance industry. As one of the largest institutional investors in Taiwan, Cathay Life has long been focusing on appropriately using the funds of policy holders and shareholders to make its capital usage more meaningful. With the growing awareness worldwide on corporate sustainability and ESG issues, responsible investment has become a mainstream value. In response, Cathay Life also considers the integration ESG issues into our investment decision making process. We not only pay attention to the operational prospect of our investees, but also hope to set a model for our investees that focuses on sustainable development. From encouraging our investees' development towards becoming a good company and demonstrating good behavior to changing other companies, we can make our environment more sustainable, retain long-term viability of our operations, mitigate the impact of ESG risks, and generate positive economic benefits, all in order to establish a model for corporate accountability and create a sustainable future.

(I) Our Working Group

The Responsible Investment Working Group consists of 14 departments from the front-, middle- and back-offices involved in investment, and is headed by the executive managers of equity investment department, with responsibilities to set short-, medium and long-term goals and specific implementation plans each year to refine and complete our sustainable investment projects. As of the end of 2020, there are approximately 45 members in the working group, 2 of whom are dedicated responsible investment officers. The team members continue to expand research resources to strengthen the company's responsible investment energy and improve ours sustainability.

(II) Our tasks

1. To set short-, medium- and long-term goals and specific implementation plans each year in the hope of becoming the leader in responsible investment in Taiwan;

2. To pay continuous attention to international trends and study responsible investment measures of international benchmark companies, thus perfecting sustainable investment;
3. To progressively internalize ESG concepts into investment teams, thereby making sustainable investment an integral part of everyday investment;
 - To utilize external professional ESG databases to assist investment teams in integrating ESG into the investment decision making process;
 - To organize training courses to improve investment teams' understanding of responsible investment and develop talent in ESG investment;
 - The responsible investment courses are included in the compulsory courses for new employees' training, thereby allowing ESG principles to take root in our investment teams.
4. To pro-actively interact with investee companies to improve their understanding and commitment to ESG, thereby changing their behaviors. ;



(III) ESG policies and mechanism

1. Perfecting ESG management policies :

In order to make our responsible investment comprehensively cover various types of assets (e.g., equity, bonds, funds, and real estate), we not only comply with the Responsible Investment and Lending Policy established by Cathay FHC, but also establish relevant ESG directions and policies tailored to individual investments in assets of different natures (please see the figure below and details as [annexed table](#)). In addition, we report the implementation results of responsible investment to the Board of Directors every year.

2. Fully implementing responsible investment :

We exclude assets that fall outside the scope of responsible investment operations (e.g., cash, foreign exchange hedging, and Separate account). The total responsible investment assets amount to US \$203 billion.

Securities Investment

- We stipulate “Investment Management Procedures” and “Investment Policy” to follow the PRI by refining the investment procedures, utilizing its investment information systems, and referring to the external research resources.
- We also established “Stewardship Principles,” which incorporates ESG factors into various stewardship activities.

Equity and Fixed Income

- ESG Risk Review Procedure ([P.9](#))
- Interacting with investee companies ([P.16](#))

Fund and Mandate

- Asset Manager Mandating and Monitoring ([P.14](#))

Corporate Lending

We stipulate “Responsible Lending Policy” and “Notice for Review of Loans to Corporations” and design an ESG checklist to verify lending customers’ achievements of ESG matters. ([P.13](#))

Real Estate Investment

We establish its “Responsible Property Investment and Management Policy”, which states that real estate investments must improve the performance of its real estate holdings so as to engage in the proper utilization of Earth’s resources and the proper management of investment and operating risks. ([P.13](#))

3. Managing conflicts of interest:

Cathay Life is consistently committed to steady, pragmatic operations based on the principle of business integrity. In order to ensure that our use of funds is in line with the policyholders' expectations and shareholders' rights and interests, we established a management system for specific conflicts of interest. The system properly manages and implements internal control of conflicts of interest in the patterns that are likely to occur, so as to avoid various conflicts of interest between Cathay, its employees and policyholders, or shareholders and other stakeholders. In 2020, there was no incident of conflicts of interest in our investments, which shows the effectiveness of this system.

(1) Implementing the promotion of education

In order to enable employees in our investment teams to better understand the spirit of avoiding conflicts of interests, and adhere to high ethical standards and comply with relevant internal and external laws and regulations when implementing investment businesses, Cathay Life has prepared documents for communication on conflicts of interest for employees to refer to at any time, convened meetings among relevant departments from time to time to discuss relevant matters, and included courses on conflicts of interest as compulsory courses for new investment-related employees. In the meantime, we have organized educational trainings for all employees every year. In 2020, a total of 289 people attended internal courses and conferences on conflicts of interest for an average of 38 minutes per person.

(2) Stipulating directions and regulations

Cathay Life has established the Rules for Conduct of Financial Investment Transactions. It establishes a mechanism for preventing conflicts of interest in investment transactions, and requires equity, non-equity and real estate investment teams, as well as departments that are aware of the content of investment transactions prior to the transactions, to adhere to high-ethical standards and perform investment businesses with diligence and professionalism to avoid conflicts of interest. Furthermore, we manage such affairs through regulations on matters, such as

restriction on trading venues and equipment, retention of transaction records, transaction authorization control, pre-transaction reporting/prohibition, post-transaction reporting/audit, and prohibition of improper benefit acceptance, among others.

Investment team shall follow the aforementioned mechanism to implement daily management and annual self-check. In addition, the auditing unit shall implement audits on “reports, transactions, and conflicts of interest” to ensure the effectiveness of the control system. In 2020, no incidents involving conflicts of interest occurred in Cathay Life, which shows the effectiveness of our preventive mechanism for conflicts of interest.

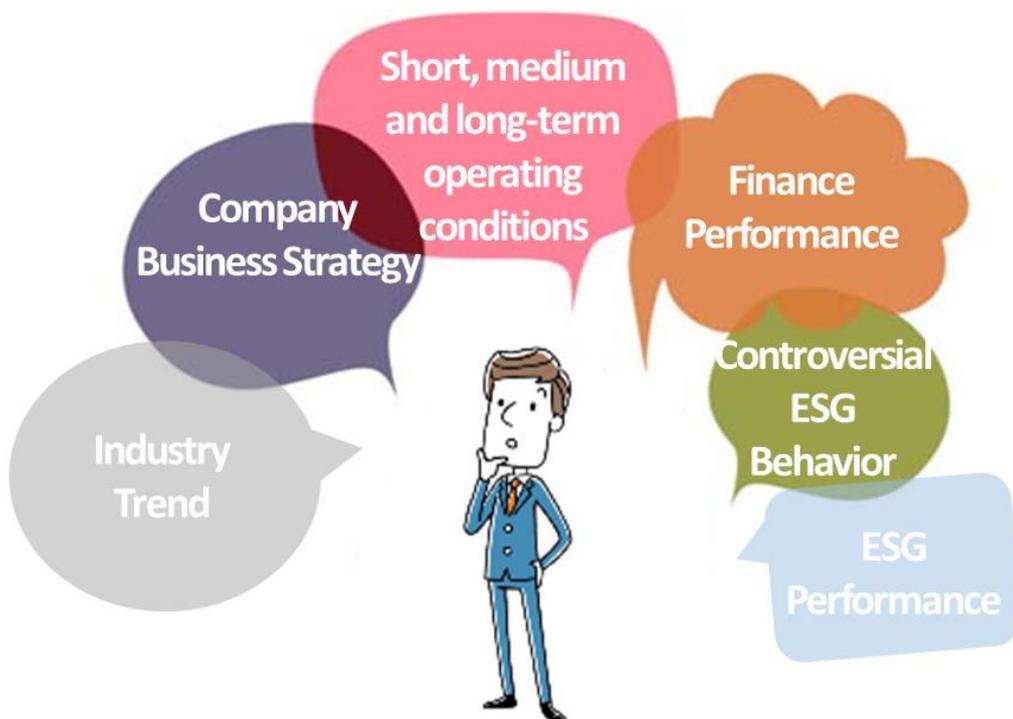
Responsible Investment Measures

(I) Implementing integration of ESG factors

1. Incorporating ESG issues into the investment decision-making process

In order to lower the overall risks of investment portfolios and refine the sustainability project of responsible investment, Cathay Life is the first insurance company in Taiwan to establish ESG Risk Review Procedures. When investing in equity and fixed income, we must consider the financial and non-financial performances of the investee companies, and adopt ESG integrated management mechanisms such as comply-or-explain and escalation process.

In order to lower the overall risks of investment portfolios, our investment teams not only conduct the traditional fundamental analysis in individual stock study reports but also include ESG evaluation to more comprehensively evaluate the investment value of the investment targets. There were a total of 833 reports in 2020.



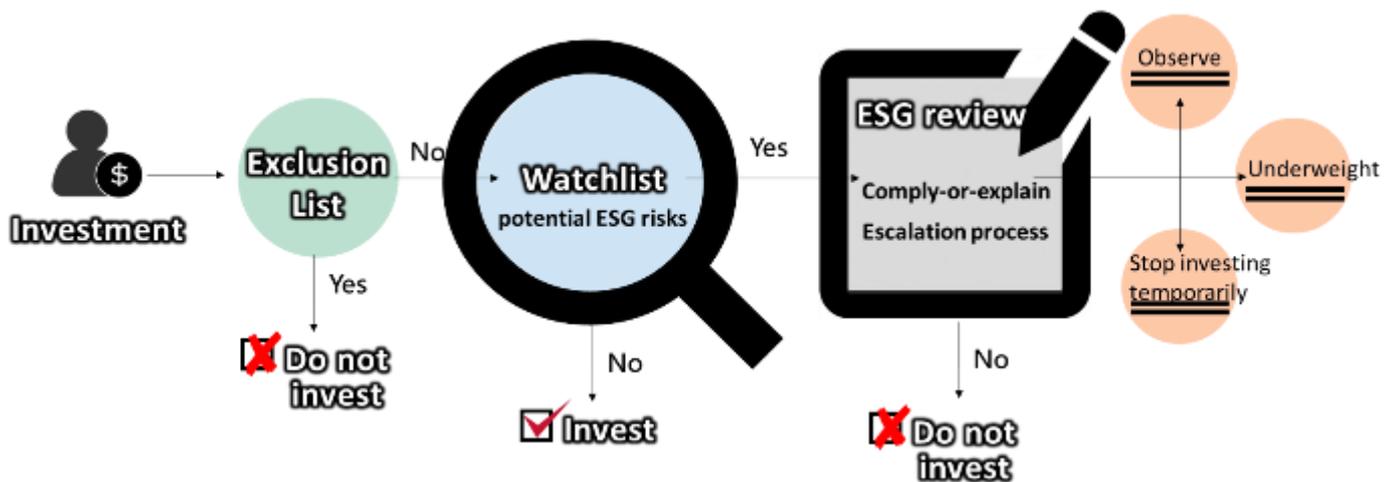
(1) Carefully considering the ESG performance of investment buylist

When adding a new investment target in our buylist, investment teams must check if the target is included in the exclusion list or watchlist. Targets on the exclusion list shall not be accepted in our investment buylist. If a target belongs

to the watchlist, further reports that evaluate its capabilities of ESG risk management shall be provided and the internal escalation process shall be conducted before adding the target as a new investee. Furthermore, the new investee company shall be continuously observed and followed up on its ESG performance in order to avoid ESG risks.

(2) Reviewing the ESG performances of investment positions on a periodic or ad hoc basis

Utilizing data from external professional ESG research institutions, our investment teams monitor the changes in the ESG performance of existing investment targets at any time. When an investment target declines in ESG performance and is placed on the watchlist, our investment teams must immediately provide an evaluation report to understand the target’s decline in ESG ratings, reasons for its negative incidents, and the response measures it has taken, and then take appropriate risk management measures (e.g., continuing to observe and follow up on developments, reducing position size, or holding current position). Furthermore, we conduct a comprehensive ESG review of existing investment targets every September.



In 2020, all listed equity and corporate bond investment targets with potential ESG risks have been reviewed, and a total of 240 cases have been reviewed through the ESG review process.

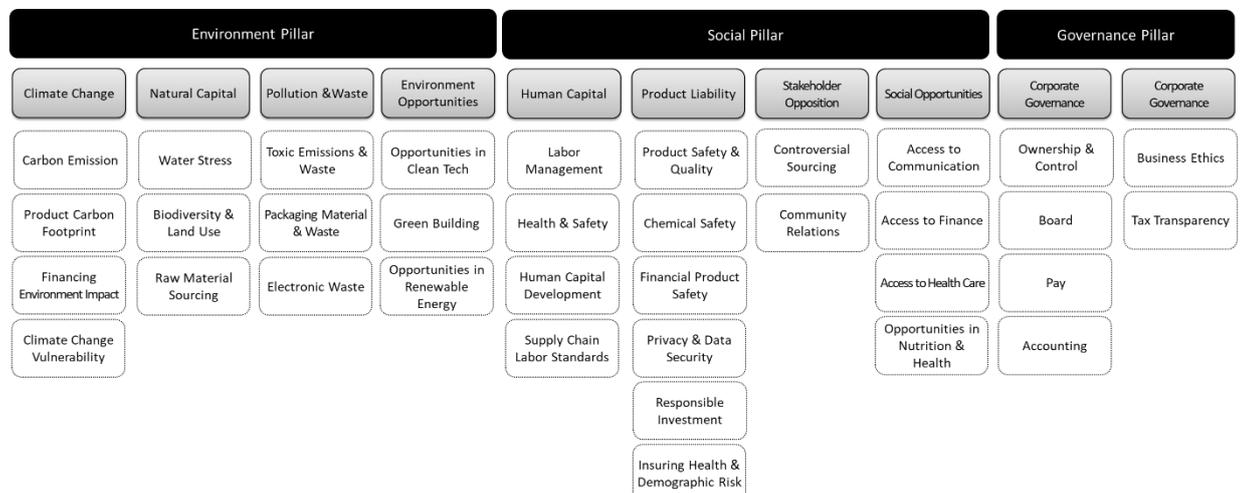
- Exclusion list

We comply with Cathay FHC and Subsidiaries Investment and Lending Exclusion Policy and our own Investment Management Principles for Sensitive Industries and place government bonds issued by countries that systematically violate human rights or exhibit major disputes over human rights and controversial industries that involve high environmental, social and moral risks that lead to negative social impacts (e.g., power generation company whose main source of revenue is coal-fired power generation and have not actively transferred to renewable energy), on the “exclusion list.” Each year, we regularly adjust and review the exclusion list according to factors including international sustainability trends and ESG risks.

- Watchlist

(1) Considering risks from material ESG factors

Governance pillar are the core of ESG and the foundation for evaluating the ESG performance of each company. The environmental and social pillars, on the other hand, are associated with the core competencies of operation and emphasize material issues related to corporate operation or finance performance (e.g., water resource management for the semiconductor manufacturing industry). Cathay Life evaluates the ESG performance of investee companies with reference to data from international ESG research institutions. Those performing poorly in ESG will be placed on the watchlist.



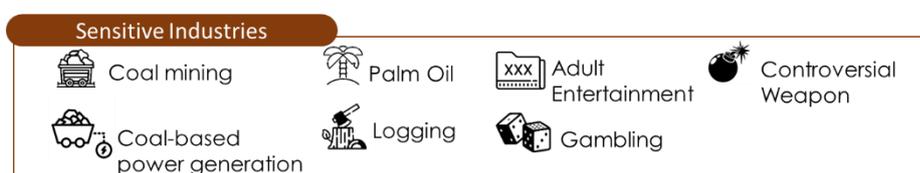
(2) Evaluating controversial incidents

We evaluate investee companies' compliance with the UN Global Contract and monitors their ESG incidents in real time. If an investee company is involved in a severe ESG controversy of a large impact scale, it will be placed on the watchlist.

| Environment | Social | | | Governance |
|--|--|--|--|--|
| | Customers | Labor Rights & Supply Chain | Human Rights & Community | |
| <ul style="list-style-type: none"> Biodiversity & Land Use Toxic Emissions & Waste Energy & Climate Change Water Stress Operational Waste (Non-Hazardous) Supply Chain Management Other | <ul style="list-style-type: none"> Anticompetitive Practices Customer Relations Privacy & Data Security Marketing & Advertising Product Safety & Quality Other | <ul style="list-style-type: none"> Impact on Local Communities Human Rights Concerns Civil Liberties Other | <ul style="list-style-type: none"> Labor Management Relations Health & Safety Collective Bargaining & Union Discrimination & Workforce Diversity Child Labor Supply Chain Labor Standards Other | <ul style="list-style-type: none"> Bribery & Fraud Governance Structures Controversial Investments Other |

(3) Classifying targets from sensitive industries

According to Cathay Life's Investment Management Principles for Sensitive Industries, if a company belongs to a sensitive industry and has a medium-high level of impact on the environment and society, it shall be placed on the watchlist.

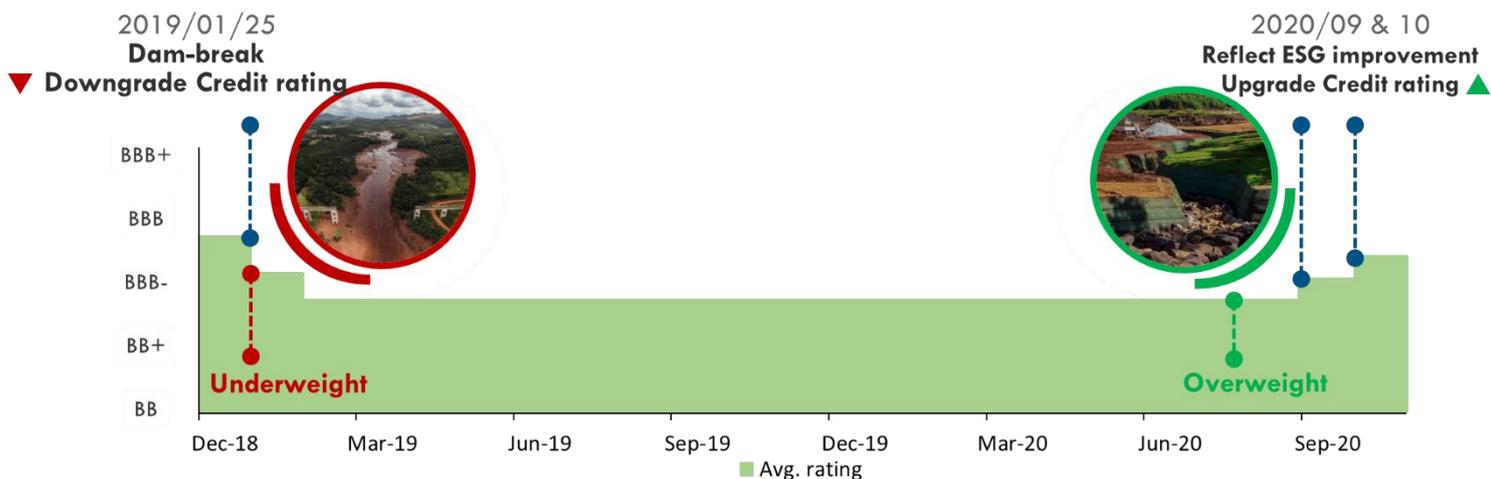


Case study: Integrating ESG factors into investment decisions

In early 2019, an overseas company ("Company A") suffered a second dam breach within 5 years. Our investment team decided that this incident was caused by the negligence in Company A's management. Although the fines levied on Company A did not have a serious impact on the company, since the uncertainty in subsequent operations remained extremely high before its corporate governance was improved, our investment team decided to reduce the company's investment position first.

After a year of tracking and communicating with Company A, our investment team found that Company A has actively assisted with environmental restoration (the E in ESG) and victim compensation (the S in ESG), and has appointed a compliance officer to

supervise the company's management in accordance with relevant regulations (the G in ESG). We decided to increase our investment in this company progressively. Its credit rating was also upgraded by credit rating institutions in September and October 2020 for its ESG improvement. Subsequently, we have also continuously paid attention to Company A's ESG implementation.



2. Incorporating ESG factors into corporate lending decision-making process

When implementing know your customer (KYC) guidelines, Cathay Life designs an ESG checklist, which assesses corporate lending customers' environmental, social and corporate governance performance in order to ensure their ESG implementation. These customers are further divided into those "Excluded loan customer," those "Requiring closer watch loan Customer," those "General loan Customer," and those "engaging in normal transactions with Cathay Life." In 2020, all new loan customers and existing customers who were not involved in ESG incidents were categorized as General loan Customer.

3. Real estate investment

As a demonstration of our commitment to ecology and environmental protection, for 2016 onwards, architects commissioned by Cathay are required to design buildings invested and developed by Cathay based on green building standards, so that all real estates can reach certain standards of energy use, greening, and waste. At present, Cathay has a total of 15 green buildings and continues to promote sustainable cities.

(II) Asset manager mandating and monitoring

In order to ensure that its mandated asset management is subject to responsible investment management, Cathay Life takes various measures on assets under management by mandataries to ensure that its mandate institutions or the ETFs and Fund it invests in are in line with Cathay's principles:

1. Mandate institutions

To ensure our mandate partners fulfill the duty of being an asset manager, we have taken signing the Principles for Responsible Investment (PRI) into consideration as an one of evaluation items for mandate institutions selection process and ask asset managers to take ESG factors into consideration in their regular investment process, review their ESG performances annually, and have formulated clearly ESG-related terms when signing contracts with asset management companies since 2017. Together with our mandate partners, we encourage all asset managers to understand the importance of ESG risks and opportunities and shape the future in a sustainable manner.

As of the end of 2020, 99% of our mandate assets were managed by asset management companies that are either PRI signatories or who have follow the governmental stewardship code in place. Those who have not signed also have related responsible investment actions.

2. ETFs and Fund

The following methods are adopted to understand the ESG policies and measures of counterparties or funds that are selected by Cathay Life-invested ETFs or funds and that are in line with Cathay Life's investment philosophy:

- Checking whether counterparties have signed the PRI and governmental stewardship principles or implemented ESG;
- Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or fund management institutions.

[Summary of Cathay's active management on Mandate, ETFs and Fund]

| | Mandate institutions | ETFs and funds: |
|---|----------------------|-----------------|
| Checks whether they have signed the PRI or governmental Stewardship Principles | ★ | ★ |
| Requires them to observe investment exclusion lists and regulations on sensitive industries | ★ | |
| Reviews ESG implementation | ★ | ★ |
| Utilizes data from international ESG rating institutions to review ESG performance | | ★ |
| Stipulates in mandate agreements that any investment must consider ESG and climate factors | ★ | |
| Requires mandate partners to observe the investment exclusion lists and comply with regulations on sensitive industries | ★ | |
| Required review reports annually and explains their ESG measures | ★ | |

(III) Interacting with investee companies

Owing to the tremendous impact of corporate sustainability development on business operations, which in turn affects the rights of institutional investors, Cathay Life believes that continual communication with investee enterprises to attach importance to ESG risks and opportunities together is the best way to add value to all parties involved. Therefore, we interact with investee companies through dialogue, engagement and proxy voting, thus demonstrating the stewardship measurement of active ownership.



1. Dialogue

Cathay Life communicates with the top management, investor relations (IR) departments, or CSR team of investee companies in the forms of telephone conferences, forums, investor seminars, or attending shareholders' meetings. Among the dialogue methods with investee company we adopt, we deem company visits the most straight-forward and efficient. Through face-to-face dialogue, we are able to improve our understanding of information on investee companies, discern the gap between disclosed information and actualities, keep track of key risks and opportunities, and perfect the soundness of our investment analysis. The outcome of 2019 company visits is as follows:



A total of **2,713**
employees participated



Visited a total of **606** companies;
total no. of visits reached **2,119**
Averaged **3.5** visits per company
visited

2. Engagement

The Engagement Policy, jointly established by Cathay Life, Cathay FHC, and various Cathay subsidiaries, publicizes Cathay's sustainable spirit and corporate governance values to exert our influence as a sustainable investor. We uphold the importance of engagement and adopt a progressive approach to communicating ESG-related concepts with companies, so that they become aware of the impact of ESG on themselves and recognize the importance of ESG issues, and then take a further step to participate in and implement ESG. In addition, we also participate in various relevant activities to share our responsible investment measures with other insurance companies to urge the investment business industry to realize responsible investment, so that a genuine positive cycle of the industry can be created.

(1) Setting up engagement process

|  Main engagement themes |  Engagement targets selection |  Engagement period |  Engagement results evaluation |  Possible post-engagement actions |
|--|--|--|---|---|
| <ul style="list-style-type: none"> ▪ Climate change ▪ ESG rating ▪ ESG information disclosure | <ul style="list-style-type: none"> ▪ Enterprises with high carbon emissions ▪ Those in need of improvement of ESG rating or ESG information disclosure | <ul style="list-style-type: none"> ▪ 5 years ▪ Adjust according to situation | <ul style="list-style-type: none"> ▪ Case closed successfully ▪ Positive progress ▪ Not clear progress ▪ Case closed Unsuccessfully | <ul style="list-style-type: none"> ▪ Adjust investment limit ▪ Submit proposals at AGM or EGM ▪ Stop investing temporarily ▪ Place it on the exclusion list |

■ Main engagement themes

Recognizing the impact of extreme weather and climates brought by climate change on companies, as well as the importance of ESG issues, we choose **“climate change”** and **“enterprise ESG rating/information disclosure”** to be our main engagement themes.

- Engagement targets selection

Considering geographical and economic factors and Cathay's influence on investee companies, we are currently engaging with stock market-listed companies in Taiwan, especially companies with higher density of carbon emissions and larger room for improvement of ESG rating and information disclosure.

- Engagement period

When engaging with an investee company, an enterprise must first recognize the importance of the ESG theme or climate change issue in terms of its impact on the enterprise's operations, and then adjust procedures or even restructure its organization in response to the issues it confronts. This process is very demanding for an enterprise and requires time to make adjustments. Therefore, an engagement with enterprises rarely achieves significant effects in its first year; a successful engagement takes three to five years at least. For this reason, we refer to international standard and set our engagement period is five years.

- Engagement results evaluation

We engage with investee companies based on their key ESG issues. We record the results of our communications from time to time, and evaluate the effect of engagement on various ESG issues every year.

- Possible post-engagement actions

Discuss based on the investee company's response and improvement status as a basis for subsequent investment adjustments.

(2) Implementing engagement measures

International Initiatives

📍 Worked with international investors

🤝 4 international Initiatives



Individual Engagement

📍 One-on-one dialogs

👤 79 companies

Collective Engagement

📍 Invited all enterprises

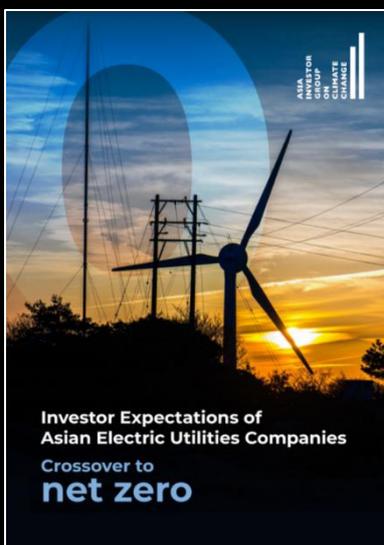
🌐 157 companies

- Collaborating with organizations of international initiatives to expand our influence together

1) Asia Investor Group on Climate Change (AIGCC)

Cathay FHC is a founding member and the only member from Taiwan of the Asia Investor Group on Climate Change (AIGCC). Cathay Life and Cathay FHC also joined three working groups under the AIGCC, including “Paris-aligned Investment”, “Engagement and Policy”, and “Physical risks and Resilience”, and worked with international investors to study climate-related risks and opportunities and to construct Asian investment frameworks based on climate change.

Collaborating with organizations of international initiatives to expand institutional investors together



In 2020, we participated in the planning and presentation of the report on “**Investors Expectations of Asian Electric Utilities Companies: Crossover to net zero**” which provided investors and power companies in Asia implementation guidelines for engagement programs on climate change. This report was published on December 8, 2020 in the hopes that it can urge power companies in Asia to speed up the progress of incorporating climate risk response measures into their business strategies and mainstream issues in their existing operations, thereby getting fully ready for the economic transformation to reach net zero carbon emissions.

2) Ceres Valuing Water Finance Task Force

In recent years, climate change has indirectly changed the water cycle and modes of precipitation. Preserving water resources has also become an important issue for the world today. For these reasons, Cathay Life and Cathay FHC took timely actions by joining the Valuing Water Finance Task Force led by Ceres in 2020, making us the only financial institution in Taiwan that has joined this organization. By keeping track of the forward-looking global trends and understanding risks and opportunities of water resources in various industries, Cathay Life can prevent relevant risks and improve investment resilience when facing water resource challenges.

■ Actively Engaging with Enterprises to Exert Influence in Sustainable Finance

Since 2017, Cathay Life has participated international initiatives, including CDP Non-Discloser Campaign and Climate Action 100+ (hereinafter referred to as "CA100+") and began to engage with our investee companies on "Climate change" issues. Since 2019, Cathay Life has communicated with our investee companies on "Improve ESG Transparency and ESG Ratings" issues based on the results of international ESG Rating assessments through one-on-one engagements.

In addition to one-on-one engagements with companies, we also adopt a collaborative engagement to organize climate change forums to encourage companies to learn more about climate change and respond to the risks and opportunities of climate change through reciprocal exchange and improvement with all Taiwanese companies.

1) Individual Engagement



CDP Non-Disclosure Campaign

- Through one-one-one communications, we have encouraged companies which have yet to respond CDP questionnaires, thus urging enterprises to disclose climate change measures and carbon emission data, understand the shortage of water resources, and consider the issue of sustainable forests, in order to formulate relevant response strategies and management approaches.
- Cathay Life has participated in the campaign for four consecutive years since 2017 and is the only insurance company in Taiwan to be a participant.
- Material Measure:
 - (1) Cumulative success rate: 31%
Cathay Life engaged individually with a total of 75 companies as an leading investor.
 - (2) Progress rate: 65% of the companies improved their CDP scores in the next year.
 - (3) The response rate of companies engaged by Cathay was 19% in 2020, which was 1.6 times the response rate (12%) of

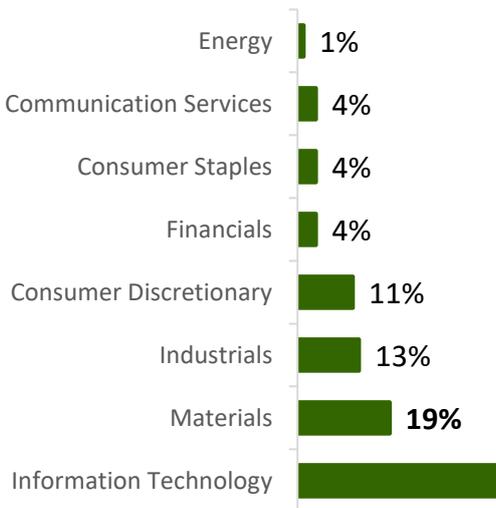


- Of the 167 companies around the world on the focus list, Cathay Life is actively engaging with the three Taiwanese enterprises on this list, in hopes that they will enhance disclosure of information related to climate change in accordance with the framework of Task Force on Climate-related Financial Disclosures (TCFD) and reduce carbon emissions in response to the Paris Agreement to attain the goals and promises of transformation into a low-carbon economy and net zero emissions.
- Cathay Life has participated in the campaign since 2017 and is the only insurance company in Taiwan to be a participant.
- Material Measure:
 - (1) Engaged enterprise A has announced its plan to reach net zero emissions for its value chain by 2050.
 - (2) Communicating with different working teams and independent director of enterprise B with BlackRock to better understood the development of sustainable issues in shareholders levels. Enterprise B has promised to publish report in line with the TCFD guidelines in 2021.

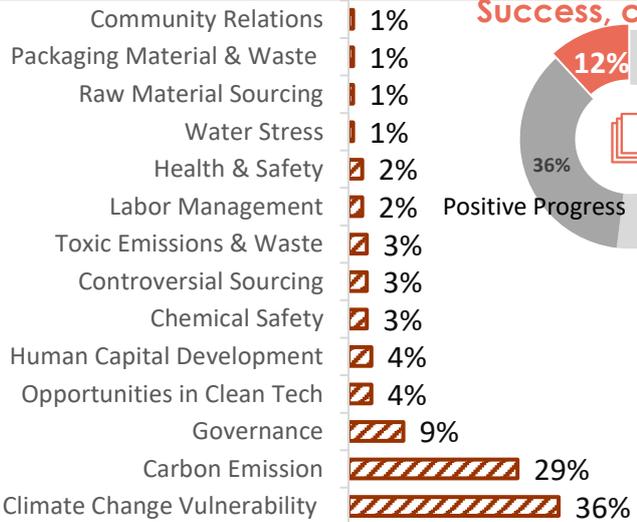
Summary of individual Engagement Result

In 2020, through one-on-one engagements via telephone or meetings, Cathay Life communicated with 79 enterprises on 14 ESG materiality issues for a total of 127 times. The main engagement targets were enterprises belonging to industries of “Information technologies (44%)” and “Materials (19%)”; the main issues for communications were “Climate Change Vulnerability (36%)” and “Carbon Emission (29%)”. The success rate of engagement was 12%.

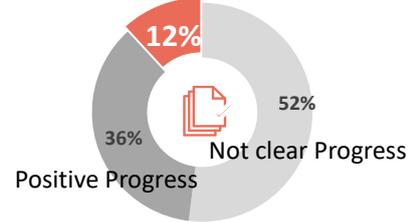
Industry



Issues



Success, closed



2) Collective Engagement

Sustainable Finance and Climate Change Summit

Since 2017, Cathay Life and Cathay FHC have co-organized the Climate Change Forum for four consecutive years; in 2020, COVID-19 threw the world into a state of turmoil. The spirit and implementation of ESG can highlight an enterprise's resilience and ability to respond when facing situations of great uncertainty; however, climate change continues to pose a threat to the world, business, and society. In response to this trend, we cooperated with the Taiwan Stock Exchange (TWSE) to expand the scope of the 2020 forum by including issues of sustainable finance and inviting business leaders at the chairman and president levels, leaders of government authorities responsible for climate policies, and distinguished academic experts on sustainable finance to discuss current trends and share their relevant experiences.



293
People
+90%

157
Organizations
+73%

Participated listed companies:

- 70% of the Taiwan stock market value
- 40% of the Taiwan total carbon emissions

(3) Engagement examples

Engagement Case 1: An electronics company

Engagement themes: the company's ESG rating and climate change

■ Background

This company was included in the engagement targets by Climate Action 100+ for their crucial role in the global low-carbon transformation and for being a top 100 company of carbon emissions, and is considered to be in need of improvement in ESG rating.

■ Engagement contents and progress

In 2019, Cathay FHC and Cathay Life started to engage with the company on ESG issues. In order to help it understand the importance of ESG issues, we began with the perspective of “enterprise ESG rating/information disclosure.” During our meetings with its chairman, president and other management personnel, we shared our views on international responsible investment trends, climate change trends, and relevant initiatives, and analyzed the international ESG and CDP rating performances of its main subsidiaries and competitors. The company thus started to set relevant goals to improve its ESG ratings. By the end of the same year, its ESG rating had improved by one grade.

Subsequently, Cathay closely interacted and communicated with the director of the company's global committee of corporate governance and environmental responsibilities to understand its climate change response measures, and encouraged it to disclose climate change information and propose specific carbon reduction plans. In early November 2020, the company demonstrated its ambition by publicly promising to reach the goal of net zero carbon emissions set by Climate Action 100+, stating that the greenhouse gas (GHG) emissions of its value chain were consistent with the goals set by the Paris Agreement, and that it will attain net zero GHG emissions by 2050. Cathay Life also made a suggestion to the company in the end of November 2020, that its carbon reduction pathways may be planned with reference to the SBTi.

- Follow-up tracking and planning:

To understand the company's subsequent planning for carbon reduction pathways to reach the goal of zero emissions.

- Possible post-engagement actions:

Since the company has made specific promises of carbon reduction, we will follow up on its ESG performance.

Engagement Case 2: A cement company

Engagement themes: the company's ESG rating and climate change

- Background

This company did not respond to the CDP questionnaire, and "its market value and production have greater impact on the environment." It was selected by Cathay Life in 2017 as an engagement target of CDP Non-Disclosure Campaign, and its ESG rating was considered to have room for improvement.

- Engagement contents and progress

Cathay Life explained the importance of the CDP climate change questionnaire to this company. As the CDP questionnaire response required further preparations by its teams, it failed to respond in 2017. However, when Cathay Life engaged with the company on the CDP questionnaire again in 2018, it promised to respond the questionnaire in that year to enhance its climate change information disclosure and stress its attention to climate change. In addition, Cathay Financial Holdings visited the company's CEO in 2018, explaining the importance of corporate sustainability and expecting it to strengthen ESG information disclosure and related actions. In mid-2020, Cathay Life also visited its CEO and ESG team to explain why ESG must begin with materiality issues (e.g., carbon emissions and corporate governance) and suggested that investors' demand may be responded to based on the SASB framework.

Since Cathay Life has communicated with the company, its management team has significantly demonstrated its importance to sustainable business operations, actively established sustainable actions and strategies, set relevant ESG targets, and disclosed information transparently and completely on its website. In 2019, it actively committed to SBTi and passed the target setting in 2020. In September of the same year, it announced that it will move toward product carbon neutrality by 2050, and is committed to reducing carbon dioxide emissions and improving energy efficiency. Its improved its ESG rating by two grade in 2020 from 2018 that the company's efforts in ESG have been recognized by the outside world.

- Follow-up tracking and planning

To understand the company's subsequent carbon reduction pathways and corporate governance performance.

- Possible post-engagement actions

Since the company's ESG rating has been upgraded, we will follow up on its ESG performance.

Engagement Case 3: A financial holding company

Engagement themes: climate change disclosure

- Background

Although this company did not cause a direct impact on the environment, it has a crucial role as a financial institution in directing the attention of investees or credit loan borrowers to environmental sustainability. For this reason, it was selected by Cathay Life as an engagement target of the CDP Non-Disclosure Campaign from 2017 to 2020.

- Engagement contents and progress

In order to help the investee company to better understand CDP organization and questionnaire response, as well as the importance of climate change on its operations, Cathay Life prepared common Q&As for the

company's reference, including: *“Why were we invited to respond to the CDP questionnaire?”*; *“how should we respond correctly to the CDP questionnaire for the first time?”*; and *“why do enterprises have to respond to the CDP questionnaire on climate change?”* We invited experts from the CDP to the Climate Change Forum in 2018 to host workshops in order to help investee companies understand how to respond to the CDP questionnaire through practice.

After four years of communications and follow-ups, the company formally responded to the CDP questionnaire in 2020. Below is a summary of Cathay Life’s communications and interactions with the company:

- 2018: The company stated that it has started studying the questionnaire and planned to respond it in three to five years. At the end of the same year, senior managers of the company have also attended the CDP workshops at the Climate Change Forum.
- 2019: The company stated that it has invited consultants to offer guidance and training, and showed a strong willingness to respond the questionnaire. It also planned to make a formal response in 2020 and has included the response in the short- and medium-term goals (for one to two years) in its corporate social responsibility report.
- 2020: We contacted the company once again, which said that it would certainly respond in that year and disclose the details to investors.

■ Follow-up and planning:

We will remain vigilant on whether the company will continue to respond to the questionnaire in the following three years (2021 to 2024), and understand the company’s readiness to respond to climate change through the contents of its questionnaire response.

■ Possible post-engagement actions:

Since the company formally responded to the CDP questionnaire in 2020, we have implemented general follow-up measures on the company.

Cathay's engagements and information disclosures, allowing the international community to see Taiwanese enterprises' efforts

The engagement results described in our 2019 Insurance Responsible Investment and Stewardship Report was selected by organizations of international initiatives as a Benchmark Case for training materials. In the report, we expressed our approval for enterprises during engagements. For example, we observed that Taiwanese enterprises have an improvement rate of 60% in their response to the CDP questionnaire in the second year in comparison to that in the first year. This can in fact be seen by international investors, thereby helping these investors better understand the efforts made by Taiwanese enterprises to achieve sustainability. We also hope that enterprises will not shy away from responding to the questionnaire or disclosing their performance because of their imperfections, since actions without disclosure will be regarded as no actions at all. However, relevant statistics of Taiwanese enterprises show that many of them improved in their second year after disclosure !

SET GOALS

CASE 3: Demonstrate active ownership: Cathay Life, Taiwan

Situation

- Since 2019, Cathay Life, a key subsidiary of Cathay Financial Holdings, has been engaged with investee companies in achieving the goal of "Improving ESG Transparency and ESG Ratings" issues based on the results of international ESG Rating assessments, such as CDP. Cathay Life aims to achieve the goal through three main approaches:
- International initiatives – Participate in CDP Non-Disclosure Campaign and Climate Action 100+ since 2017
- Individual engagement
- Collaborative engagement – Organize climate change forums to encourage companies to learn more about climate change and respond to the risks and opportunities of climate change through reciprocal exchange and improvement
- Cathay Life has engaged with a total of 69 companies, among which 16 (23%) have responded CDP carbon questionnaire, since 2017. Cathay Life noticed that 60% the companies' CDP score make progress.

Objective

This example illustrates the content related to Objective "Provide participants with an overview of current popular climate-related scenarios, climate-related risks and opportunities assessment methods, as well as commonly-adopted climate goals."

Source: 2019 Cathay Life Insurance Responsible Investment and Stewardship Report, Taiwan.

3. Proxy voting

In pursuit of the greatest benefits for customers and shareholders, Cathay Life supports companies that attach importance to sustainable development. Attendance of shareholders' meetings, exercise of voting rights and offering of opinions on proposals in the shareholders' meetings of investee companies are some of the ways in which we perform stewardship.

(1) Setting up Proxy voting process

| | | | |
|---|--|---|--|
|  <p><u>Criteria for exercising voting rights</u></p> <ul style="list-style-type: none"> ▪ Fulfilling voting qualifications ▪ Voting rights must be exercised according to the judgment of investment department. |  <p><u>Evaluating proposals</u></p> <ul style="list-style-type: none"> ▪ Follow the internal guidelines for exercising voting rights. ▪ Refer to third-party voting recommendation reports. |  <p><u>Communication procedures</u></p> <ul style="list-style-type: none"> ▪ Directly dialog with investee if necessary. |  <p><u>Exercising voting rights</u></p> <ul style="list-style-type: none"> ▪ Electronic voting ▪ Appoint delegates to attend. |
|---|--|---|--|

Cathay Life exercises its voting rights for proposals in shareholders' meetings in accordance with external laws and regulations and its own internal voting policies. Before exercising these rights, our investment teams carefully evaluate each proposal based on Cathay's voting guidelines and research of investee companies, along with the ISS voting recommendations, and then present a report on "evaluation and analysis of proxy voting," which therefore will be by no means identical to the ISS recommendations.

Compared to conveying concerns for investee companies by directly speaking up or voting in shareholders' meetings, we believe that working to reach consensuses with investee companies in terms of long-term value creation may bring more positive impacts on investee companies and exert our influence as an institutional investor, thereby simultaneously benefiting Cathay Life, investee companies, and the society at large. Therefore, in the following situations, the Company's responsible units of investment and the Responsible Investment

Working Group will cooperate to directly communicate with investee companies:

- When there are controversial and high-profile issues
- When information needed to conduct voting analysis is insufficient
- When the core shareholding companies of domestic listed stocks recommend to “against” in their preliminary voting recommendations
- When overseas listed stocks holding 1.5 percent or more of investee companies’ outstanding shares at the end the previous year recommend to “against” in their preliminary voting recommendations

However, in the event that the Company’s communication or engagement is ineffective, we will carefully evaluate our engagement and raise its level by making proposals or speaking up in the company's shareholders' meeting. Furthermore, to fully express an opinion on each proposal at the meeting and reduce the time and space restrictions of voting, the Company will mainly exercise voting rights in electronic form. A representative may be assigned to exercise voting rights at a shareholders’ meeting of an investee company if necessary; however, we do not exercise voting by proxy.

A case of communication procedures

The company in question made a proposal to “TO RE-APPOINT ○○ AS AUDITORS AND TO AUTHORIZE THE BOARD OF DIRECTORS TO FIX THEIR REMUNERATION.” As over 50% of the remuneration was not related to auditing, it may involve conflicts of interest. Therefore, we preliminarily recommended to “against” after analysis of the proposal by our internal analysis. Given Cathay’s influence on this company, we implemented a communication procedure.

After meetings with this company, we concluded that the excess percentage was not high. Furthermore, this company provided reasonable explanations and promised to take non-audit expenses into consideration in the future. For these reasons, we eventually supported the proposal.

1. The remuneration for ○○ firm included not only the auditing fees, but also fees unrelated to auditing, including: (1) service charges for removing securitized assets from balance sheets, (2) private placement product issuance fees, and (3) bond issuance fees. Because of the change of the auditor in 2019, the financial statement

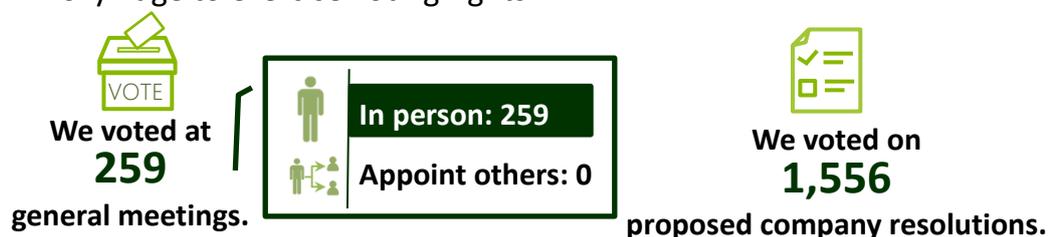
audit fee of the year was slightly lower than that of 2018. In addition, statements of asset securitization were published in a considerably increased scale in 2019 compared to 2018. This change led to a considerable increase in service charges, which then resulted in the non-audit expenses exceeding 50%.

2. The company always conducts a formal competitive bidding, which follows reasonable procedures and regulations before determining the providers for each service. ○○ firm has relatively low fee standards and is familiar with the company's situation. Before Cathay Life raised this concern, this company had not been aware of the changes in the composition of its annual expenses, thus resulting in the excessive non-audit expenses accounting for over half of the total expenses. In the future, it will take this issue into consideration.

(2) Participation in voting

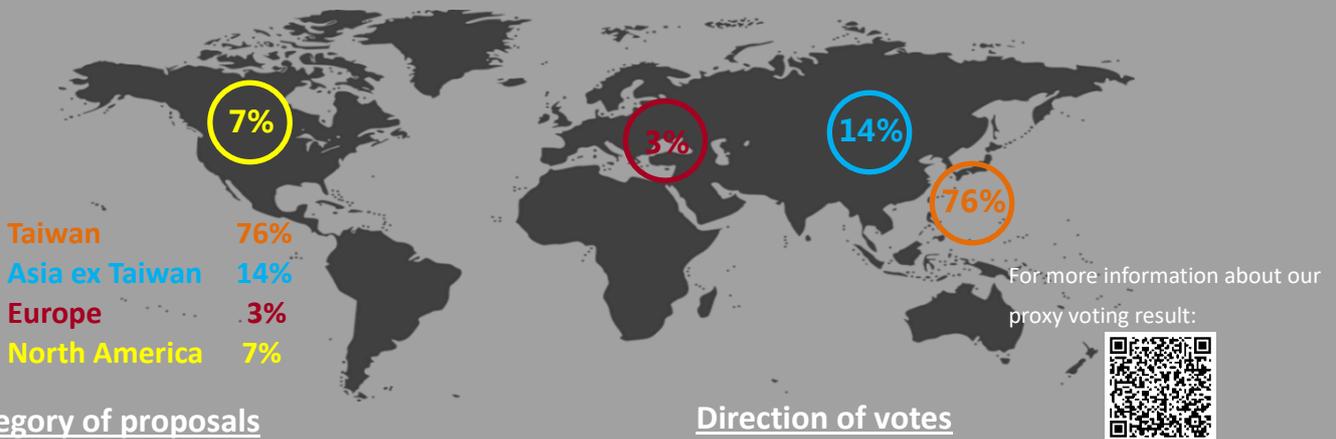
As of the end of 2020, Cathay Life has attended 259 shareholders' meetings of domestic and foreign companies, and has voted on a total of 1,550 proposals, all of which were conducted electronically. In addition, since the Company learned from its careful evaluations that no engagements or communications have been so ineffective that there was a need to voice our concerns regarding investee companies in shareholders' meetings, we did not attend these meetings by delegation or proxy, nor is there any record of our speeches in these meetings.

In addition, in response to the competent authority's encouragement for investors to exercise voting rights electronically, the shareholders' meetings held by the Company's domestic stock listed investee companies prioritized using the Shareholders' Meeting Electronic Voting Platform on the website of the Taiwan Depository & Clearing Corporation to exercise voting rights. On the other hand, given geographical and economic factors, the shareholders' meetings held by the foreign stock market-listed or OTC investee companies prioritized using the electronic voting platform Proxy Edge to exercise voting rights.

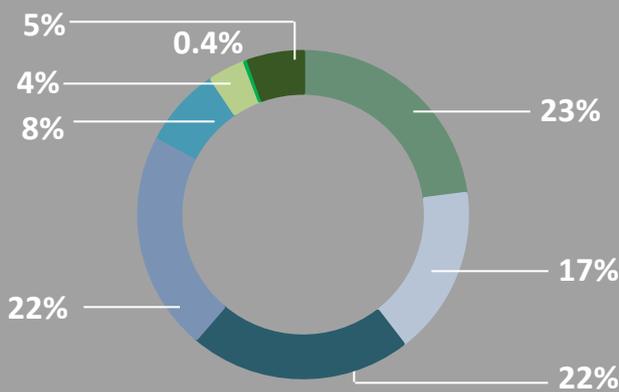


(3) Voting results

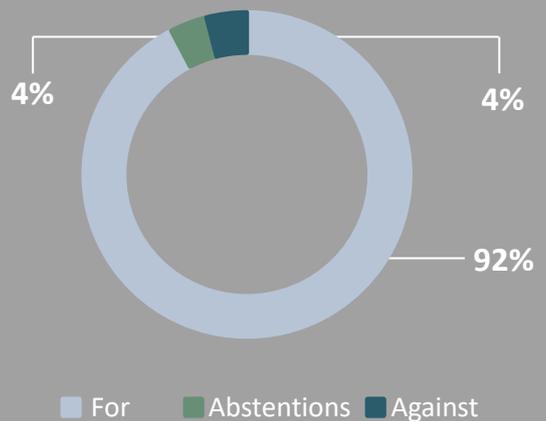
In 2020, shareholders' meetings held in Taiwan accounted for the highest percentage of all the meetings we attended at 76%, followed by those in other countries within the Asia Pacific region (14%). The proposals for voting were mainly finance-related (23%), followed by operations and management (22%) and elections of directors and supervisors (22%). Cathay Life respects the professional know-how of investee companies and, in the interest of effective growth, supports all proposals in general. However, ESG proposals that obstruct the sustainable development of investee companies will not in principle win our support. Therefore, we voted in for 92%, against 4%, and abstained from 4% of the proposals we voted on this year.



Category of proposals

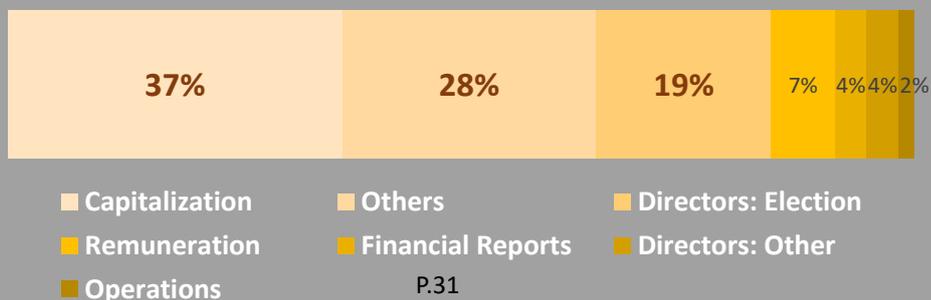


Direction of votes



- Financial Reports
- Capitalization
- Operation
- Directions: Election
- Directions: Other
- Remuneration
- Reorganization and Mergers
- Others

Category of votes against



■ Reason of Abstentions

- Subject to Article 146-1 of Insurance Act in Taiwan, insurance companies cannot cast a vote in the election of directors or supervisors at the public company, those in Taiwan being invested, hence the abstention votes for proposals related to the appointment of directors and supervisors °
- If the preliminary voting recommendations is "against", investee company is willing to improve after we communicate and engage with the investee company.

■ Reason of Against

Cathay Life believes that shareholders have the right to review material issues one by one rather than be forced to vote on multiple proposals collectively as a bundle. If a motion classifies into multiple types of proposals of the same category, and the contents of these proposals may clash with or obstruct shareholders' rights or economic interests, Cathay Life may directly oppose the whole proposal bundle in the motion.

In addition, we pay attention to the overall ESG performance of investee companies. We will cast opposition votes against proposals deemed inconsistent with the spirit of corporate governance, detrimental to shareholders' rights and interests, or having negative impacts on the environment or society. Below are the proposal categories of our main concerns and the considerations for our opposition:

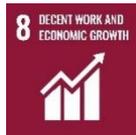
| | |
|--|---|
|  Director election | Whether directors are independent, serve for too long or have too many concurrent positions in other companies |
|  Financial statement and audit | The completeness and truthfulness of financial statements often depends on whether external auditors can effectively audit the management without obstruction or interference. For this reason, we attach great importance to the widely recognized independence of auditors. |
|  Capital structure | Whether the capital structure affects shareholders' investment values and their priority to receive benefits over other debtors in the company |
|  Earnings distribution | Cathay Life is normally in favor of distributing cash or stock dividends generated by income or derived from capital and statutory reserves, unless the dividend rate is not in the best interests of shareholders (such as being continuously too low without adequate explanation) or is unfavorable to the company's sustainable financial condition (such as being too high for the company's financial condition). |

A case of proposal opposition: Senior management remuneration

The objective of remuneration is to attract, retain, and offer incentives to capable directors, senior managers, or other employees who make crucial contributions to the sustainable growth of shareholders' values. However, the company in question, which made a proposal on the remuneration of its senior management, has long been unable to have sufficiently rigorous indicators for performance bonuses. As a result, despite its poor performance in the preceding three years, the management still received bonuses for their improved performance in the fourth year. In addition, when performance bonuses are being calculated, not only the company's overall performance, but also "individual performances" may be taken into consideration to make adjustments. However, while the scale of adjustments was massive (50 to 150%), the evaluation standards of this indicator were not disclosed in advance, and as a result it was unable to prove its reasonableness and fairness, hence, our opposition votes.

(IV) Sustainable investment

In addition to establish a comprehensive responsible investment policies and mechanism, we also invests in specific topics that solve social or environmental issues. The total amount of relevant sustainable investment as of 2020 is US\$ 38.1 billion (9% growth compared to 2019).

| Theme | SDGs | 2020 investment amount | Contents |
|--|--|---------------------------------|---|
|  <p>low-carbon green energy</p> |   | <p>US\$ 5.7 bn (+22%)</p> | <p>In response to the global trend of transformation into a low-carbon economy and the Taiwanese government’s 5+2 Industrial Innovation Plan, we actively invest in low-carbon green energy industry to contribute to the wellbeing of the Earth.</p> |
|  <p>Infrastructure</p> |   | <p>US\$ 21.3 bn (+8%)</p> | <p>In order to maintain economic and social growth, eradicate poverty, and adapt to the impacts of climate change, infrastructure improvements will be crucial for continued sustainability. Cathay Life has invested in infrastructure-related industries to fund sustainable urban development and change people’s lifestyle.</p> |
|  <p>Water Treatment</p> |  | <p>US\$ 0.20 bn (+308%)</p> | <p>With the scarcity of water resources, the rapid increase of the urban population, and the violent climate change, the issue of effectively using water resources is also one of the most important issues. We hope that areas can have better public water supply by investing in public sewage treatment and water resources development.</p> |
|  <p>Health</p> |  | <p>US\$ 12.6 bn (+12%)</p> | <p>With the rapid demographic changes, tremendous impact and demand will be placed on the medical system. In order to promote human health and well-being, we actively invests in health-related industries such as drug development and biotechnology.</p> |

| Theme | SDGs | 2020 investment amount | Contents |
|--|--|--|--|
|  <p data-bbox="153 577 392 607">Financial inclusion</p> |   | <p data-bbox="564 450 730 539">US\$ 0.25 bn (+54%)</p> | <p data-bbox="735 320 1422 674">Upholding our core philosophy of being “people-oriented,” which is incorporated into our core competencies of investment, Cathay Life invests in industries related to education and microfinance, hoping in doing so to contribute to the realization of inclusive finance.</p> |

Note: Due to the overlapping of some sustainable investment contents, the total amount of sustainable investment is not a combination of low-carbon green energy, infrastructure, water treatment, health and financial inclusion directly.

(V)TCFD

Confronted by the increasingly severe impact of climate change, Cathay Life has taken the initiative in promoting the framework of the Task Force on Climate-related Financial Disclosures (TCFD) issued in June 2017 by Financial Stability Board (FSB).

1. The impact of quantified climate change on investment portfolios

Physical risks caused by extreme weather may damage investee companies and even impact their production capacities, thus increasing the probability of companies' defaults or decreases in their market values. To control global warming, governments around the world are intensifying their supervision of carbon emissions by implementing carbon pricing or carbon emissions trading mechanisms; but such measures have created a transition risk that has led to an increase in the costs of investee companies and affected their profits and values, thus reducing Cathay's income and values of assets we are investing in.

Based on the methodology of the MSCI ESG Industry Risk Intensity, Cathay Life identified the exposure of equity and corporate bonds to different level climate risks. Our inventories show that 7% of our positions are involved in high climate-related risks; therefore, our climate-related risks are controllable.

Figure: Distribution of high climate-related risk position



Note:

| | |
|----------------------|--|
| High Risk | Based on the nature of their business activities, companies in that industry face a high level of risk exposure to the Direct climate change Issue. |
| Indirect Risk | Based on the nature of their business activities, companies in that industry face a high level of risk exposure to the Indirect climate change issues. |
| Moderate Risk | Based on the nature of their business activities, companies in that industry face a medium level of risk exposure to the Direct climate change Issue. |
| Low Risk | Based on the nature of their business activities, companies in that industry face a low level of risk exposure to climate change Issue. |

(1) Backward looking: Portfolio of Carbon footprint

Since mid-2018, we have used weighted average carbon intensity method (tCO2e/\$m sales) recommended by TCFD to assess and monitor the carbon footprint of our listed equity and corporate bond portfolio and since 2020, we adopt the standard of Partnership for Carbon Accounting Financials (PCAF) to calculate total carbon emission of portfolio.

Our 2020 carbon footprint is 281 tCO2e/\$m revenues, which represents a decrease of 9.5% from 2019. In addition, further analysis of carbon footprints in industries with high climate-related risks showed that, although the “integrated petroleum and natural gas” position accounted for only 4.0%, its carbon footprinting accounted for 8.3%. In due course, we will continue to engage with high carbon emission industries and observe changes in these indicators.

Figure: Carbon footprint in 2020(by asset class)

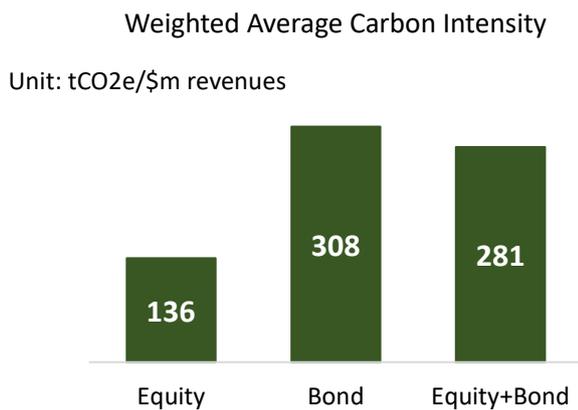
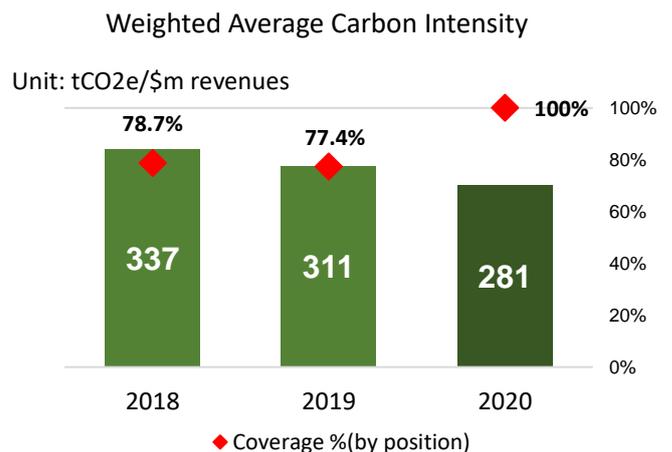


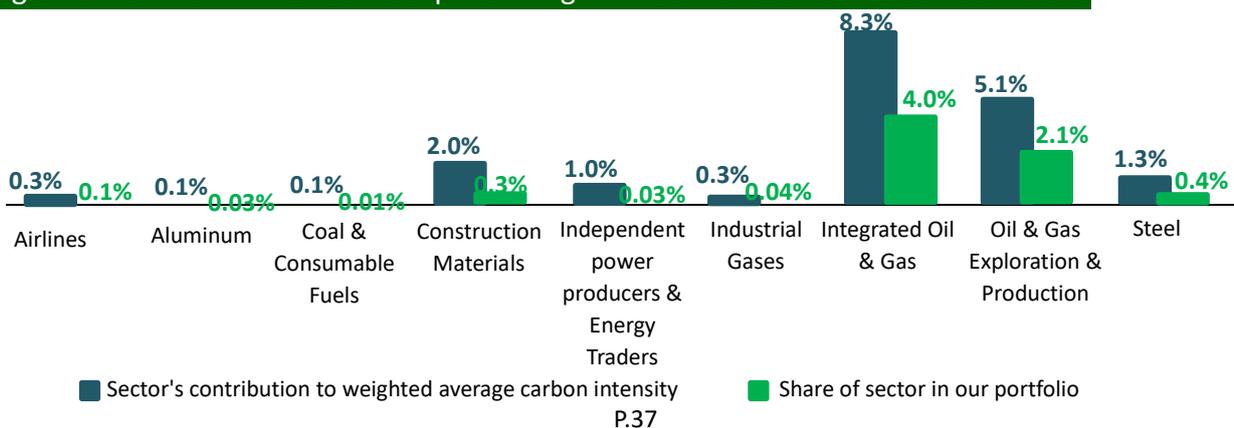
Figure: Carbon footprints from 2018 to 2020



Note:1. The total carbon emissions of the portfolio in 2020 are calculated based on the methodology developed PCAF, with a data quality of 2.2 (a score of 1 is the highest data quality which means that all carbon emission data has been verified by a third-party institution; a score of 5 is the worst data quality)

2. Weighted Average Carbon Intensity
$$\sum_n \left(\frac{\text{current value of investment}_i}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}_i}{\text{issuer's \$M revenue}_i} \right)$$

Figure: Distribution of carbon footprint in high climate-related risk industries in 2020



(2) Forward looking: Climate value at risk(C VaR)

The carbon footprint of the portfolio is evaluated based on the past carbon emission performance of the investee company. In addition to increase cost from carbon pricing, it is also necessary to consider the value of the company’s operating capacity and assets value due to physical risks, which will lead to the value of the securities issued and the decline indirectly led to the loss of Cathay Life's net asset value. Cathay introduced the model developed by MSCI, and adopted corresponding climate scenarios such as 2°C temperature rise and RCP8.5 emissions to comprehensively evaluate the impact of climate change on the value of equity investment targets, and measured the Climate Value-at-Risk (Climate VaR, CVaR) to keep track of climate risk in our investment portfolios ahead of time.

Figure: The transition risk and physical risk analysis of portfolio

| Climate scenario | | Analytical model | | | Analysis results (CVaR) | | | |
|------------------|-------------------------------|-----------------------------------|---|-------------------------------|--------------------------|---|--------|-------------------|
| | | Analysis of estimated extra costs | | Dividend discount model (DDM) | | | | |
| Transition risks | 2°C scenario Note 1: | → | Estimated cost = amount of carbon reduction x carbon price per unit | → | Calculated current value | → | -1.56% | -3.07% Note 2: |
| Physical risks | RCP 8.5 (unreduced emissions) | | Estimated cost = exposure x hazard x vulnerability | | | | -1.51% | |

Note 1: The amount of carbon reduction in this scenario refers to NDC target; the carbon price in the 2°C scenario adopts that of AIM-CGE and SSP2.

2: Using the latest data from the database, we retrospectively calculated the CVaR in our equity and bond investments in 2019, which was -3.50%.

3: Climate Value-at-Risk (CVaR) refers to the discounted cost of climate risk accumulatively borne by investment portfolios up to the year 2080, which can be found on the [MSCI website](#).

4. For MSCI Climate VaR, CVaR data used throughout this report: Although Cathay life’s information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the “ESG Parties”), obtain information (the “Information”) from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/ or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in Dconnection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

2. Climate change response strategies and relevant actions for investment portfolios



Participated in international organizations that keep track of international climate change trends ahead of time (P.19-20)

- Asia Investor Group on Climate Change (AIGCC)
- Ceres Valuing Water Finance Task Force

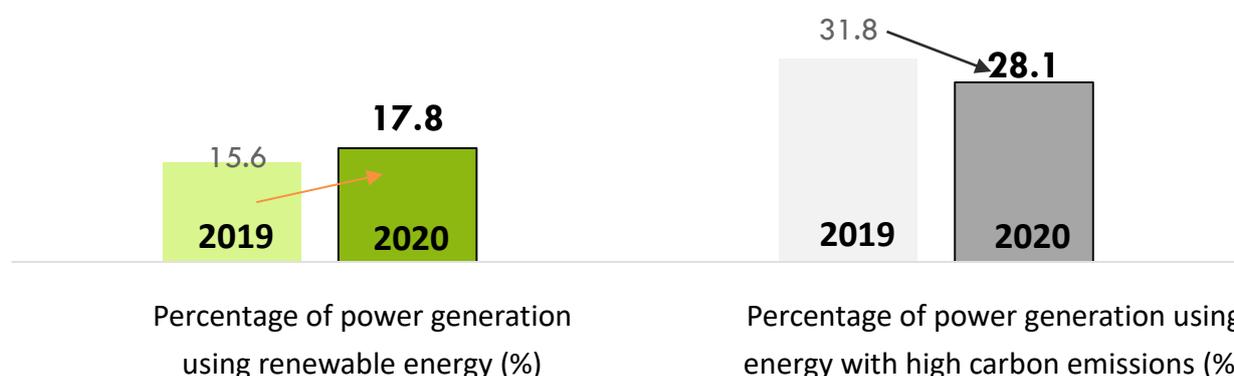
Implemented ESG risk reviews and engagements to mitigate investment risks

- Incorporated climate risk factors into investment processes(P.9)
- Implemented strict control for sensitive industries and required attention to environmental issues for general industries(P.12)
- Adopted “climate change” as the main theme for engagements (P.17)

Set goals for investment in low-carbon and green energy industries, thereby raising the resilience against climate change

Set low-carbon and green energy investment targets in 2018: “Investment amount shall grow 20% by 2025 and 40% by 2030 using 2018 as the baseline year”

For example, Cathay Life has listed power producers whose main source of revenue is coal-fired power plants and have not actively switched to renewable energy as ineligible for investments. As a result, our review shows that, in 2020, our self-operated bond position in utilities industry had an increase in the percentage of power generation using renewable energy, and a decrease in the percentage of power generation using energy with high carbon emissions.



Evaluation of the effectiveness of responsible investment

Insurance is a “people-oriented” industry, and responsible investment is the mission Cathay Life takes upon itself as the leader of the industry.

As insurance is a “people-oriented” industry, every time we sale a life insurance policy for a newborn, it represents Cathay Life's promise to protect policyholders their entire life. On the basis of such promise, we not only pursue targets of stable and long-term income in terms of our use of capital, but also seek solid and sustainable organizational operations.

Having operated for more than 50 years, Cathay Life has assets worth over NT\$7.6 trillion, which account for one quarter of the total capital of Taiwan’s insurance industry. As the leader of the industry and one of the largest institutional investors in Taiwan, we not only fulfill our promises to policyholders and expectations from shareholders, but are also fully committed to making a more meaningful use of our capital. Therefore, despite the risky investment environment in the past few years, characterized by low interest rates for a long time, high volatility in the international market, and losses from differences of interest rates, we constantly give our best to fulfill the obligations as an asset owner and implement responsible investment. The evaluation of implementation effectiveness is summarized as follows:

1.100% responsible investment amounting to NT\$5.8 trillion

We began participating in the Group's Responsible Investment Working Group in 2014 and adopting the Principles for Responsible Investment (PRI) in 2015. Since then, we have set relevant expectations and goals for ourselves every year. We have progressively refined and implemented our responsible investment policies, covering various types of assets (stocks, bonds, funds, real estate, etc.), in order **to become the leader of responsible investment in Taiwan.**

To enhance the investment team’s understanding of responsible investment, the responsible investment course is listed as a compulsory course for newcomer training in the investment system (including basic introduction to responsible investment, interpretation of ESG rating reports, explanation of internal responsible investment mechanisms, etc.), and held regularly every year 2 sessions of responsible investment training course(including international trends, climate change, case studies, etc.), and

grouped workshops to allow investment team colleagues to discuss and share. Besides, in order to enable the investment team to learn more, we also encouraged investment team to participate in responsible investment seminars or education training organized by external international benchmark companies and sustainable organizations. Therefore, in 2020, a total of 167 Cathay employees participated in our training courses and external conferences. On average, employees received 97 minutes of training.

Cathay Life's training results were also selected as the only [leading practice](#) when Share Action conducted an Asset Owner Disclosure Project (AODP) questionnaire for 70 insurance industries around the world:



Cathay Life: mandatory sustainability training for all staff

An example of **leading practice** comes from Cathay Life, which has made sustainability-related training mandatory for all employees. This covers the organisation's sustainability strategy, the Principles for Sustainable Insurance, responsible investment and underwriting, and corporate governance and is given annually or, for employees on the investment side, twice a year.

2. We have worked with various stakeholders to exert our influence in sustainability.

During our investment decision-making process, we consider the ESG measures of potential investee companies to select companies with a prospect of sustainable development to invest in. By doing so, we can avoid the impact of ESG risks on Cathay's income from investments and ensure the rights and interests of our policyholders and shareholders. However, this approach is unable to make companies with poor ESG performance improve their performance. For this reason, Cathay Life adopted a more active approach to exert its influence on sustainability, hoping that by doing so we can become a stable force for society and bring a positive impact to the world.

(1) We required mandate institutions to implement responsible investment, thereby ensuring the security of the capital of our policyholders and shareholders:

99% of our mandate assets were managed by asset management companies that are either PRI signatories or who have follow the government stewardship code in place. Those who have not signed also have related responsible investment actions.

(2) We proactively cooperated with international investors to exert a bigger influence:

We have participated in four international initiatives, thereby continuing to promote the global sustainable development with international organizations.

(3) We engaged with investee companies to improve sustainable actions, thus creating a positive cycle:

Cathay Life communicated with 79 enterprises on 14 ESG materiality issues for a total of 127 times. The main engagement targets were enterprises belonging to industries of “Information Technologies” (44%) and “Materials” (19%); the main issues for communications were “Climate Change Vulnerability (36%)” and “Carbon Emission (29%)”. The success rate of engagement was 12%.

3.We directly invested in sustainable categories to support corporate sustainable transformation:

We are proactively seeking sustainable investment targets (e.g., low-carbon and green energy, water resources, infrastructure, health, and financial inclusion), in which we have invested a total of US\$ 38.1 billion, up 9% compared to 2019. In 2021, Cathay Life will take further steps to invest in impact investing, which tackles issues including social integration, educational and environmental resource requirements, medical care, and quality of living. To accomplish this, Cathay Life has invested US\$5 million.

Annexed Table: RI policy on different asset classes

| Asset class | Own assets managed internally or by third-parties | RI Policy | % of assets | Note | | | | | | | | |
|---------------|---|--|-------------|---|--|---|--|-------------|------|----|------------|-----|
| Listed equity | managed internally | Yes | 1~5% | 1. 100% apply Investment and Lending Exclusion Policy. 2. 100% apply Investment Management Principles for Sensitive Industries. 3. By leveraging the ESG database, Cathay life insurance established <u>ESG risk review procedures</u> to integrate ESG factors in listed equity and fixed income. 4. Cathay FHC also established the <u>engagement policy</u> to improve investee’s ESG information disclosure. | | | | | | | | |
| | managed by third-parties | Yes | 1~5% | 1. Mandate assets (1) 100% apply Investment and Lending Exclusion Policy. (2) 100% apply Investment Management Principles for Sensitive Industries. (3) Cathay life insurance have taken signing PRI into consideration as an one of evaluation items for mandate partner selection process and ask asset managers to take ESG factors into consideration in their regular investment process, review their ESG performances annually, and have formulated clearly ESG-related terms when signing contracts with asset management companies. (4) As of the end of 2020, 100% of our listed equity mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or <u>who have follow the government stewardship code</u> in place. 2. Equity Fund & Equity ETF: (1) Checking whether counterparties have signed the PRI or governmental stewardship principles or implemented ESG; (2) Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or fund management institutions. <table border="1" data-bbox="810 1505 1388 1733"> <thead> <tr> <th></th> <th>Sign the PRI or governmental Stewardship Principles</th> <th>Review the ESG performances of funds or fund management institutions</th> </tr> </thead> <tbody> <tr> <td>Equity Fund</td> <td>100%</td> <td>0%</td> </tr> <tr> <td>Equity ETF</td> <td>52%</td> <td>48%</td> </tr> </tbody> </table> | | Sign the PRI or governmental Stewardship Principles | Review the ESG performances of funds or fund management institutions | Equity Fund | 100% | 0% | Equity ETF | 52% |
| | Sign the PRI or governmental Stewardship Principles | Review the ESG performances of funds or fund management institutions | | | | | | | | | | |
| Equity Fund | 100% | 0% | | | | | | | | | | |
| Equity ETF | 52% | 48% | | | | | | | | | | |
| Fixed income | managed internally | Yes | 20~50% | 1. 100% apply Investment and Lending Exclusion Policy. 2. 100% apply Investment Management Principles for Sensitive Industries. 3. By leveraging the ESG database, Cathay life insurance established <u>ESG risk review procedures</u> to integrate ESG factors in listed equity and fixed income. | | | | | | | | |
| | managed by third-parties | Yes | 20~50% | 1. Mandate assets (1) 100% apply Investment and Lending Exclusion Policy. (2) 100% apply Investment Management Principles for | | | | | | | | |

| Asset class | Own assets managed internally or by third-parties | RI Policy | % of assets | Note | | | | | | | | | |
|----------------|---|--|-------------|---|--|---|--|-----------|-------|------|----------|-------|------|
| | | | | <p>Sensitive Industries.</p> <p>(3) As of the end of 2020, 100% of our fixed income mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or <u>who have follow the governmental stewardship code</u> in place. Those who have not signed also have related responsible investment actions.</p> <p>2. Bond Fund& Bond ETF:</p> <p>(1) Checking whether counterparties have signed the PRI or governmental stewardship principles or implemented ESG;</p> <p>(2) Utilizing data from external professional ESG assessment institutions to review the ESG performances of funds or fund management institutions.</p> <table border="1"> <tr> <td></td> <td>Sign the PRI or governmental Stewardship Principles</td> <td>Review the ESG performances of funds or fund management institutions</td> </tr> <tr> <td>Bond Fund</td> <td>99%.1</td> <td>0.8%</td> </tr> <tr> <td>Bond ETF</td> <td>99.8%</td> <td>0.2%</td> </tr> </table> | | Sign the PRI or governmental Stewardship Principles | Review the ESG performances of funds or fund management institutions | Bond Fund | 99%.1 | 0.8% | Bond ETF | 99.8% | 0.2% |
| | Sign the PRI or governmental Stewardship Principles | Review the ESG performances of funds or fund management institutions | | | | | | | | | | | |
| Bond Fund | 99%.1 | 0.8% | | | | | | | | | | | |
| Bond ETF | 99.8% | 0.2% | | | | | | | | | | | |
| Private equity | managed internally | Yes | 1~5% | <p>1. 100% apply <u>Investment and Lending Exclusion Policy</u>.</p> <p>2. 100% apply <u>Investment Management Principles for Sensitive Industries</u>.</p> | | | | | | | | | |
| | managed by third-parties | Due Diligence | 1~5% | <p>1. Mandate assets As of the end of 2020, 100% of our private equity fund mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or <u>who have follow the governmental stewardship code</u> in place.</p> <p>2. Private Equity fund From 2017 onwards, Cathay Life has <u>taken ESG into considerations of new transaction counterparties</u> in our PE fund investment selection process.</p> | | | | | | | | | |
| Infrastructure | managed internally | Yes | below 1% | Cathay mainly adopt the <u>sustainability themed investing</u> approach in this asset class. | | | | | | | | | |
| | managed by third-parties | Yes | below 1% | | | | | | | | | | |
| Property | managed internally | Yes | 5~10% | <p>1. Property is 100% covered by <u>Responsible Property Investment and Management Policy</u></p> <p>2. Cathay also adopt the <u>sustainability themed investing</u> approach in this asset class.</p> <p>3. As a demonstration of our commitment to ecology and environmental protection, for 2016 onwards, architects commissioned by Cathay are required to design buildings invested and developed by Cathay based on green building standards. °</p> | | | | | | | | | |
| | managed by third-parties | Due Diligence | below 1% | <p>1. Mandate assets As of the end of 2020, 100% of our REITs mandate assets were managed by asset management companies that are either <u>PRI signatories</u> or <u>who have follow the governmental stewardship code</u> in</p> | | | | | | | | | |

| Asset class | Own assets managed internally or by third-parties | RI Policy | % of assets | Note |
|--|---|----------------|-------------|---|
| | | | | place. 2. REITs As of the end of 2020, 100% of our REITs assets were managed by fund management institutions that are either <u>PRI signatories or who have follow the governmental stewardship code</u> in place. |
| Derivatives & Alternatives, specify Hedge fund | managed internally | Not applicable | 0.00% | |
| | managed by third-parties | Due Diligence | below 1% | 1. Mandate assets We ask our hedge fund asset managers to take ESG factors into consideration in their regular investment process, review their ESG performances annually, and have formulated clearly ESG-related terms when signing contracts with them since 2017. 2. Hedge fund From 2017 onwards, Cathay Life has <u>taken ESG into considerations of new transaction counterparties</u> in our HF fund investment selection process. |

Appendix I: Principles for Responsible Investment Content Index

| | | |
|--|---|---|
|  <p>PRINCIPLE 1 INCORPORATE</p> | <p>Incorporate ESG issues into investment analysis and decision-making processes</p> <ul style="list-style-type: none"> ■ Complies with Cathay FHC’s Responsible Investment Policy and Investment and Lending Exclusion Policy ■ Established the ESG risk review process; ■ Stipulated Investment Management Principles for Sensitive Industries. ■ Invested in sustainable investment targets ■ Reported the implementation results of responsible investment to the Board of Directors every year | <p>P.6-13 & P.34 - 35</p> |
|  <p>PRINCIPLE 2 BE ACTIVE</p> | <p>Be active owners and incorporate ESG issues into our ownership policies and practices</p> <ul style="list-style-type: none"> ■ On July 25, 2016, Cathay Life signed the Taiwan Stewardship Principles for Institutional Investors issued by TWSE Corporate Governance Center, and became the first insurance company in Taiwan to become a signatory. ■ Interacts with investee companies through dialog, engagement, and exercise of voting rights to demonstrate the Company’s due diligence management as an active owner. | <p>P.16 - 33</p> |
|  <p>PRINCIPLE 3 SEEK DISCLOSURE</p> | <p>Seek appropriate disclosure on ESG issues by the entities in which we invest</p> <ul style="list-style-type: none"> ■ Participated in CDP NDC and encouraged investee companies to respond to CDP questionnaires and disclose their carbon emission data and climate change measures. ■ Participated in Climate Action 100+ and encouraged investee companies to strengthen climate risk disclosure and management. ■ One-on-one engagements with companies to encourage the investee company to improve ESG and increase carbon governance, carbon targets, and carbon disclosure | <p>P.21 - 26</p> |

Promote acceptance and implementation of the Principles within the investment industry



PRINCIPLE 4 PROMOTE

- Took signing the Principles for Responsible Investment (PRI) into consideration for mandate partner evaluation, and required mandate partners to comply with Cathay Life's exclusion policy and implement ESG management. P.14-15 & P.19
- Participated in various activities, and hope that the peers can jointly implement responsible investment, such as participating in AIGCC " Investors Expectations of Asian Electric Utilities Companies: Crossover to net zero ", providing investors and Asian Power Companies guide and directions.

Work together to enhance our effectiveness in implementing the Principles



PRINCIPLE 5 COLLABORATE

- Participate in AIGCC, Ceres Valuing Water Finance Task Force, improve the learning and understanding of climate change and water resources, and strengthen the effectiveness of investor negotiation. P.19 - 22
- Co-organized the Climate Change Forum with Taiwan Stock Exchange and 2020 to jointly promote the importance of the ESG and climate change issue.

Each report on our activities and progress towards implementing the Principles



PRINCIPLE 6 REPORT

- Published CS related reports on our activities and progress in the implementation of PRI. --
- Since 2017, we have published a Stewardship Report on a yearly basis; in 2020, we added details regarding our responsible investments in the report.

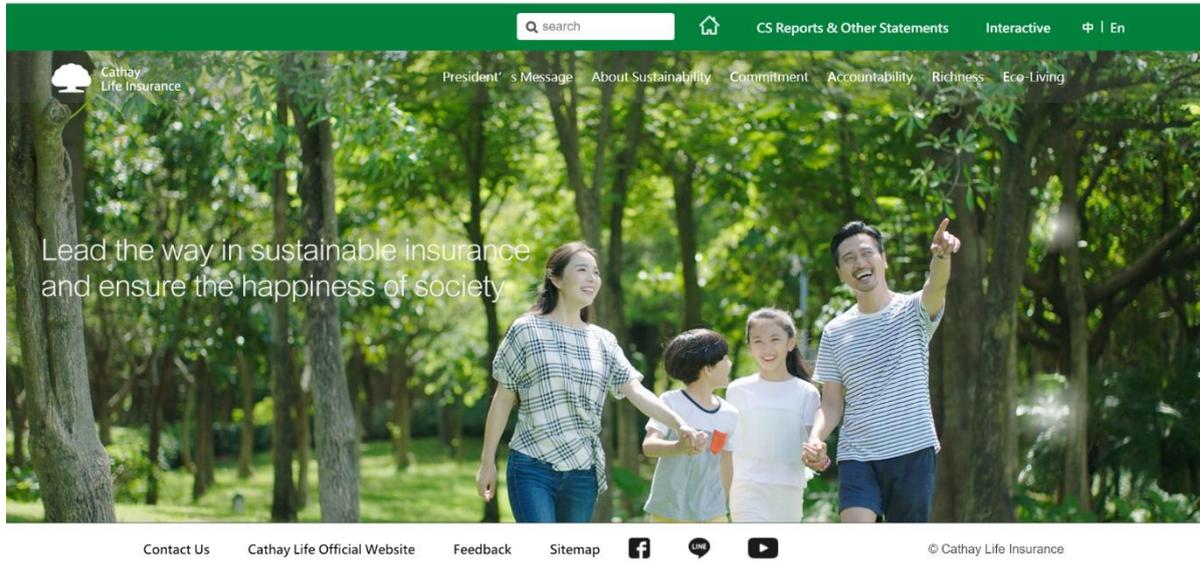
Appendix II: Taiwan Stewardship Principles for Institutional Investors Content Index

| | | |
|--|--|------------------|
|  PRINCIPLE 1 STEWARDSHIP | <p>Establish and disclose stewardship policies</p> <ul style="list-style-type: none"> Complies with Taiwan Stewardship Principles for Institutional Investors and publish our compliance statement. Stipulate Stewardship Policy. | P.2 & P.5 |
|  PRINCIPLE 2 MANAGEMENT | <p>Establish and disclose policies on managing conflicts of interest</p> <ul style="list-style-type: none"> Ensures that we executes its businesses in the interest of its clients and shareholders, we has established Rules for Conduct of Financial Investment Transactions on managing conflicts of interest, including types of conflicts of interest and management approach. | P.6 |
|  PRINCIPLE 3 OBSERVATION | <p>On-going observation of investee companies</p> <ul style="list-style-type: none"> Observes financial and ESG performance of investee companies through ESG data from the international ESG rating institutions, their website, conference calls, face-to-face meetings, participation in institutional investors' roadshows or attendance at shareholders' meetings or significant extraordinary general meetings | P.9 & P.16 |
|  PRINCIPLE 4 INTERACTION | <p>Maintain an appropriate dialogue and interaction with investee</p> <ul style="list-style-type: none"> Interacts with investee companies through various activities such as being a guest speaker or panelist on seminar or participating international initiatives, and holding climate change forums. | P.19 - 27 |
|  PRINCIPLE 5 PROXY VOTING | <p>Establish clear voting policies and disclose voting results</p> <ul style="list-style-type: none"> Stipulates Proxy Voting Policy to establish our threshold for exercising voting rights, escercising manners and publish the voting result annually based.  | P.28 - 33 |
|  PRINCIPLE 6 REPORT | <p>Periodically disclose to clients or beneficiaries the status of fulfilling its stewardship responsibilities</p> <ul style="list-style-type: none"> Publishes a Stewardship Report every year.    | -- |
| | <p>2017 Stewardship Report 2018 Stewardship Report 2019 Responsible Investment and Stewardship Report</p> | |

Other sustainability of Cathay Life

1.CS website

<https://patron.cathaylife.com.tw/ODAB/en/ODAB0000>



2.CS website-Stewardship

<https://patron.cathaylife.com.tw/ODAB/en/ODAB9000>

