

- 01 Sustainability Strategies & Governance
- 02 Climate
- 03 Health
- 04 Empowerment
- 05 Sustainable Finance and Its Impact**
- 06 Sustainable Governance
- 07 Appendix

Corporate Engagement

Cathay FHC has established the "Cathay Financial Holdings Engagement Policy" and the "Cathay Financial Holdings Engagement Regulations". Meanwhile, climate change and ESG are the two major engagement focuses. The engagement themes include, but are not limited to:

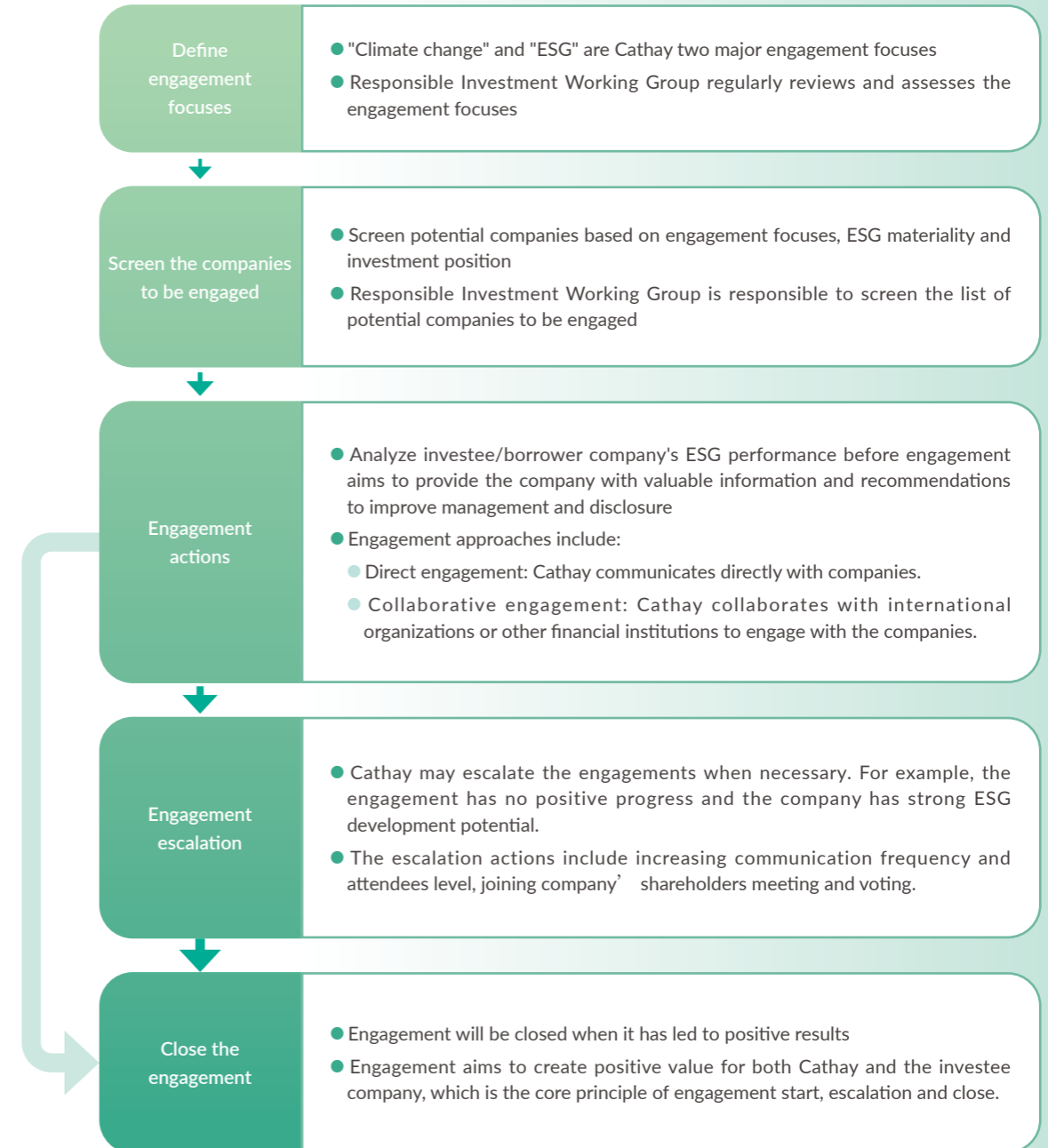
- Climate change: carbon emissions, climate vulnerability, etc.
- Natural capital: water stress, biodiversity and land use, etc.
- Social: labor management, product safety and quality, and management of hazardous chemicals, etc.
- Governance: board of directors, accounting, etc.
- Overall ESG: Management mechanism and disclosure for ESG issues, ESG rating performance, etc.

Cathay conducts individual assessments of investee companies that have exposure to the aforementioned topics. These evaluations consider our shareholdings in the company and the materiality of relevant ESG issues. Based on this analysis, we determine the necessity of engaging with the investee company. Cathay Life, CUB, Cathay Century, Cathay Securities and Cathay SITE all conduct engagement activities with their investees.

Engagement Overview		
Engagement Themes	Climate Change	ESG
Engagement results in 2022	20 engagements	48 engagements
Objective	Urge the focus companies to transit toward low-carbon and take specific climate actions.	Urge the focus companies to improve relevant management and information disclosure on ESG issues
Goal	Engage with key companies that account for 55% of total carbon emissions in our domestic investment and lending portfolios by 2030	Undertake 45 engagements each year aiming to urge companies to improve ESG-related management mechanisms and disclosure.
SDGs	13	6, 7, 12

Note: Cathay adheres to the engagement approaches defined by international organizations such as PRI (Principles for Responsible Investment). We engage with companies on various ESG (Environmental, Social, and Governance) issues with approaches such as phone calls, emails, meetings, and making a statement at AGM. Our goal is to have in-depth dialogues that influence the target companies to enhance their ESG actions. Approaches such as solely requesting ESG data, sending out ESG questionnaires, or attending AGM or analyst meetings without further interaction are not considered as part of the aforementioned engagement activities.

Please refer to Cathay FHC's engagement process below. For detailed information on Cathay FHC's 2022 climate engagement actions, please refer to [2.1.2 Leader in Climate Engagement Actions](#).



In 2022, Cathay engaged 120 times with 75 companies on 16 material ESG issues. The engaged investee companies were mainly in the information technology, consumer discretionary, and raw materials industries. The main engagement topics were "climate change vulnerability" and "carbon emissions". Overall, the engagements led to positive developments.

Contents

Message from the Chairman

About Cathay FHC

Sustainability Awards and Recognition

Sustainability Performance and Breakthroughs

01 Sustainability Strategies & Governance

02 Climate

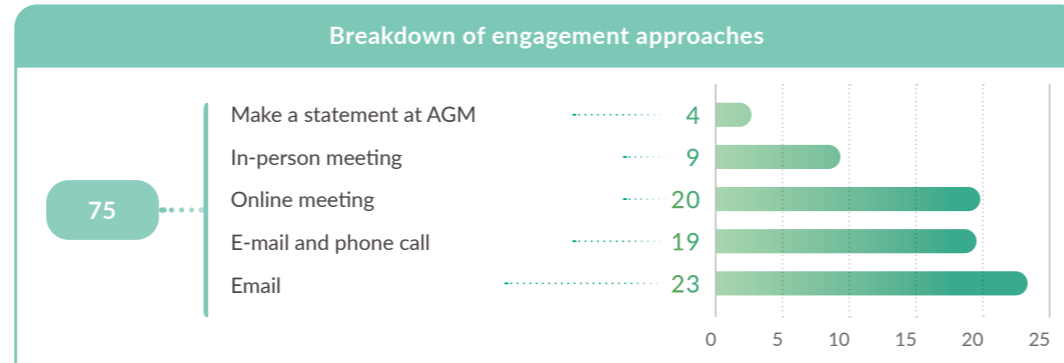
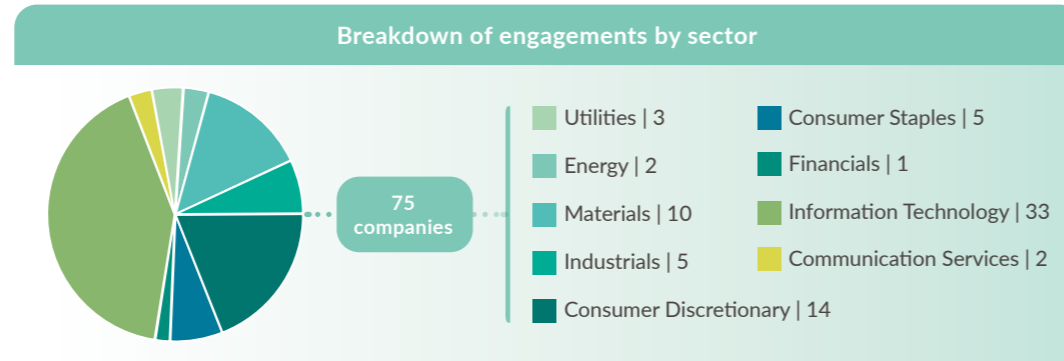
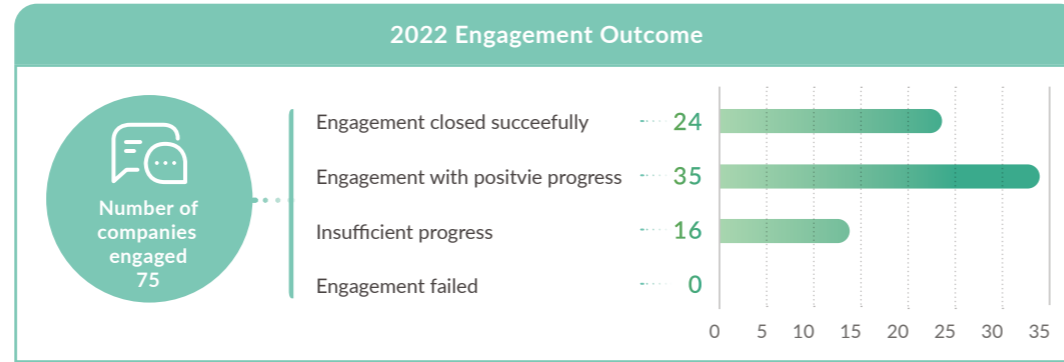
03 Health

04 Empowerment

05 Sustainable Finance and Its Impact

06 Sustainable Governance

07 Appendix







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- 01 Sustainability Strategies & Governance
- 02 Climate
- 03 Health
- 04 Empowerment
- 05 Sustainable Finance and Its Impact**
- 06 Sustainable Governance
- 07 Appendix

Engagement Escalation

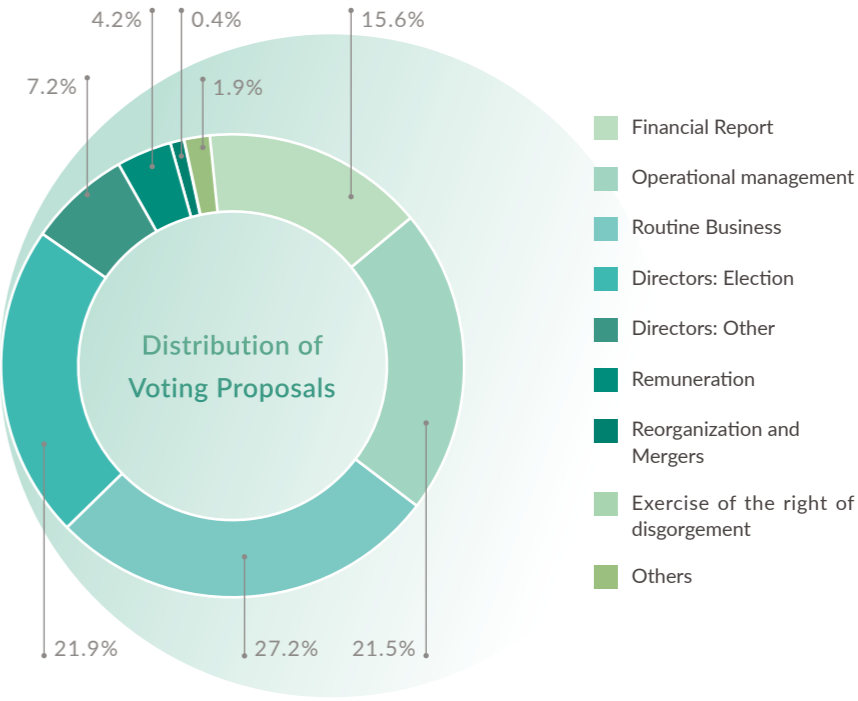
The Responsible Investment Working Group, operating under the Corporate Sustainability Committee, regularly evaluates the engagement outcomes of the group's focal investees. In cases where the outcome significantly deviates from expectations, the engagement will be escalated based on management needs. This can involve measures such as increasing communication frequency, top management conversation from both parties, inviting the investee's key stakeholders to join the engagement, making ESG statements in the investee's Annual General Meeting (AGM) or investors conference, and exercising voting rights or filing ESG proposals during the investee's AGM. Subsidiaries may also share their views on relevant ESG shareholder proposals with the investee before the investee's AGM.

Case Study - Cathay Century's Engagement Escalation	
 Background	<p>In 2022, Cathay Century observed that the investee company had an overall rating of B in MSCI's ESG rating system, lagging behind its industry peers. After a thorough review, it was determined that the rating was due to poorer performance in clean technology opportunities.</p>
 Actions	<p>Cathay Century's investment team raised the issue during the extempore motion session of the investee company's AGM. The team made relevant recommendations to the investee company, pointing out that the rating could be improved by strengthening the disclosure of the company's sustainability efforts. This would allow THE external parties and rating agencies to have better understanding about the company's ESG performance.</p>
 The Engagement Impact	<p>The chairman of the investee company responded directly to the motion during the shareholders' meeting. In addition to committing to continued social and environmental contributions and strengthening the implementation of corporate governance, the company will strive to improve the disclosure of ESG-related information:</p> <ul style="list-style-type: none"> ● Environmental: In response to the challenges of climate change, the company will actively review energy conservation and carbon reduction measures in the manufacturing process and at its facilities. ● Social: Foster a welcoming and supportive workplace environment, enhance employee well-being, and safeguard human rights in the workplace. ● Governance: Continue the enhancement of ethical corporate management and risk management. <p>Cathay will continue to monitor the improvement status of the investee company as a reference for future investment position adjustment.</p>
 Others	<p>This engagement marks the first time a financial institution in Taiwan raised an ESG issue at a shareholders' meeting of an investee company, which is a demonstration of Cathay's commitment to sustainability.</p>

Voting

Cathay believes that financial institutions should not only carefully assess the ESG risk exposure of their portfolios, but also exercise their voting rights as a critical obligation in the process of implementing responsible investment. By doing so can help Cathay to ensure that investee companies take responsible actions, which in turn ensures the interests of the financial institution's clients and shareholders. The actions and decisions of an investee company not only affect investment returns, but also have social and environmental impacts. As responsible investors, financial institutions should assess the impacts of AGM proposal and support companies that prioritize economic, social, and environmental actions. This will strengthen the company's transparency and sense of responsibility and drive more active ESG implementations, which will enhance the company's long-term value and investment returns.

In the best interest of our clients, beneficiaries and shareholders, Cathay FHC's subsidiaries have established a clear voting policy and proxy voting policy, actively participate in AGM and exercise our voting rights prudently and responsibly. We do not unreservedly support the proposals proposed by the management of an investee company. In addition, the subsidiaries have established their respective voting policies that apply to their invested listed companies. For detailed policy information and voting results over the years, please refer to the official websites of our subsidiaries: [Cathay Life](#), [CUB](#), [Cathay Century](#), [Cathay Securities](#) and [Cathay SITE](#).



Contents

Message from the Chairman

About Cathay FHC

Sustainability Awards and Recognition

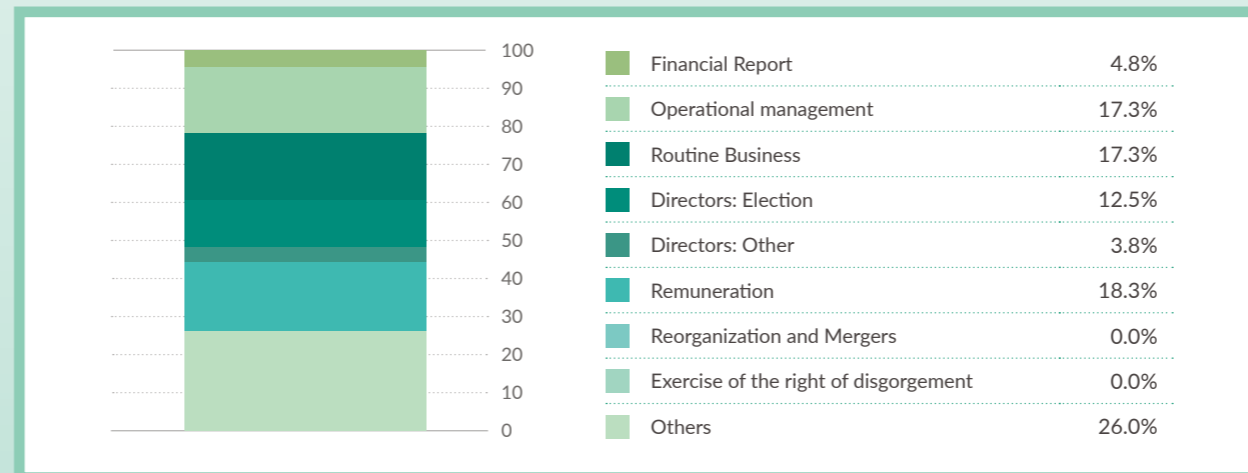
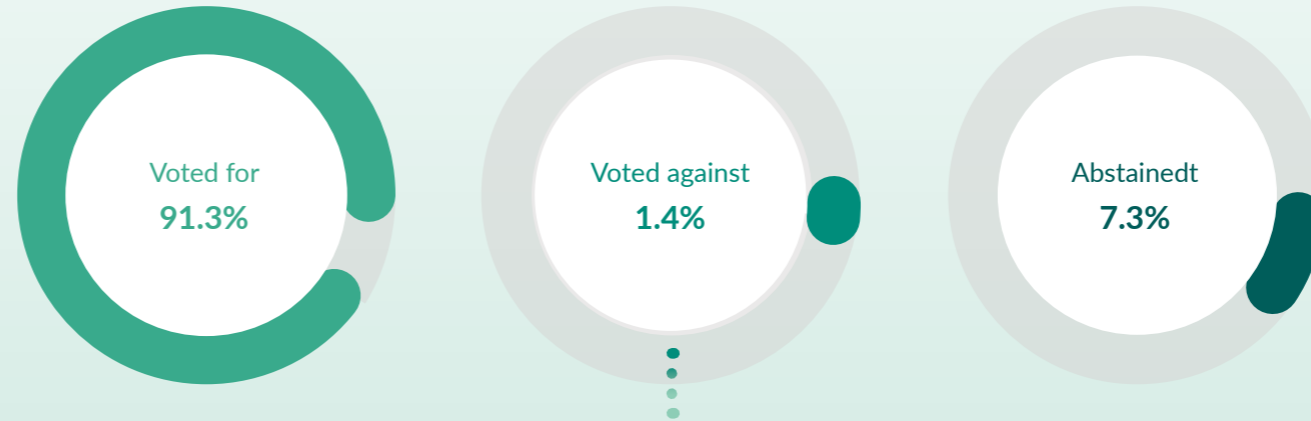
Sustainability Performance and Breakthroughs

- 01 Sustainability Strategies & Governance
- 02 Climate
- 03 Health
- 04 Empowerment
- 05 Sustainable Finance and Its Impact**
- 06 Sustainable Governance
- 07 Appendix

Cathay and its subsidiaries determine the threshold for exercising voting rights by analyzing the impact on our investee companies' overall operations, such as shareholding proportion, and their adoptability. In principal, we support proposals made by the investee company's senior management. However, we don't support any proposal that hinders a company's sustainable development or good corporate governance practices (e.g., misreporting, lack of board independence, inappropriate remuneration) or has negative environmental or social impacts (e.g., environmental pollution, human rights violations, labor rights violations). The subsidiaries specify the considerations for the types of proposals voting against or abstaining in their voting policy and also carefully conduct an internal evaluation and analysis of each proposal before voting. Cathay's goal is to enhance the long-term value of an investee company and create a positive environmental and social impact. Our subsidiaries are also required to communicate with the investee company before voting after careful evaluation to fully exercise their active ownership.

In 2022, Cathay attended a total of 963 shareholder meetings and voted on 7,196 proposals.

In principle, Cathay Life supports the sustainability-related shareholder proposals that can create long-term value for the investee company. Meanwhile, to encourage investee companies to take more specific climate action, Cathay Life will also support climate-related proposals that are aligned with the carbon reduction targets in line with the Paris Agreement. Exercising voting rights in accordance with the investee companies' climate plan and targets is to showcase Cathay Life's actions to stewardship principles. In 2022, we supported the proposals from investee companies, such as publishing reports on GHG reduction targets, disclosing approaches to manage climate-related risks and transit toward low-carbon economy, and publishing inclusion and diversity reports. Overall, Cathay Life has supported 100% of climate proposals which facilitating the sustainable development of investee companies.



Note: According to Article 146-1 of the Insurance Act, insurance companies are not allowed to vote in director and supervisor elections of domestic companies they have invested in, hence the abstention votes for proposals related to the appointment of directors and supervisors.

Climate-Related Proposals - Case Study



Contents

Message from the Chairman

About Cathay FHC

Sustainability Awards and Recognition

Sustainability Performance and Breakthroughs

- 01 Sustainability Strategies & Governance
- 02 Climate
- 03 Health
- 04 Empowerment
- 05 Sustainable Finance and Its Impact**
- 06 Sustainable Governance
- 07 Appendix

Company C:

A company in oil and gas industry and one of the focus companies under the CA100+ initiative.

The proposal made during Company C's 2022 AGM: The proposal asked that the company provide a report on its greenhouse gas (GHG) emissions target.

Overview:

The Company C has committed to reduce its Scope 1 and 2 GHG emissions by 2025 and 2030, respectively. It has established a low-carbon technology department in response to its commitment to eliminate routine flaring by 2025, however, the company has not yet set its carbon reduction target specifically for Scope 3 emissions (the proposed goal of achieving net zero emissions by 2050 includes only Scopes 1 and 2).

Compared to other oil and gas industry peers, Company C's GHG reduction targets appear less ambitious and inconsistent with a net-zero emissions scenario. Many peers in oil and gas industry have committed to more aggressive GHG reduction targets, such as achieving net-zero emissions across the value chain by 2050. In addition, other companies are reducing their investment in oil and gas development while committing to work with customers to reduce their demand for oil and gas. They are also increasing their investment in alternative fuels and technology research and development as part of their commitment to reducing Scope 3 emissions. In contrast, Company C's targets do not reflect similar efforts to reduce its carbon footprint. If the global marketplace takes more ambitious action to limit global warming to 2° C, we anticipate Company C to face significant regulatory, competitive, legal, and financial risks.

As a result, Cathay expects to Company C's disclosure of its plans to reduce its carbon footprint and align its operations with the Paris Agreement targets. We would like to learn more about the company's short, medium, and long-term emissions reduction targets across its value chain. Such disclosure will provide investors with a clearer understanding of how Company C is managing climate-related risks and opportunities, and how will it transition to a low-carbon economy, which is in line with Cathay's expectations of the investee company. Therefore, we support the proposal to require Company C to request on its GHG emission reduction targets.

Sustainable Investment Products and Services

• Sustainability Stock filter and monitoring service in Cathay Securities APP

In 2020, Cathay Securities, Cathay Futures and National Taipei University (NTPU) join forces to provide ESG research services to institutional investors. Cathay uses the SEED (social, environmental, economic, disclosure) rating methodology developed by the Corporate Sustainability Research Team of National Taipei University to create the first ESG rating system in line with international methodology. The rating system covered 658 companies in 2022. In addition to providing the latest ESG research reports, this industry-academic cooperation also began providing investors with a customized "ESG Engagement Report" in 2022. We believe that engagement with rated companies can facilitate the promotion of sustainable operations by Taiwanese companies. In addition, in response to the increasing demand for ESG investment, Cathay Securities leveraged the information provided in the "Taiwan Sustainability Review" published by NTPU in collaboration with Cathay, and launched the innovative, industry-first "Sustainability Investment" services in 2022. We aim to provide a clear overview of the impact of sustainability and help investors generate returns while understanding the power of ESG stocks.



Note: SEED indicates S(Social) \ E(Economics) \ E(Environmental) \ D(Disclosure)

• Sustainability Funds

Cathay SITE - Cathay Taiwan Select ESG Sustainability High Yield ETF Fund

Largest AUM ESG-themed ETF in Taiwan

- Fund AUM reached NT\$137.6 billion as of the end of 2022
- The COVID-19 crisis in 2020 has underscored the importance of corporate responsibility towards employees and supply chain management. To address this, Cathay SITE has partnered with MSCI to offer investors the opportunity to invest sustainably on an international scale. Our investment approach uses a dividend yield-weighted stock selection methodology designed to deliver consistent returns in line with investor expectations. The fund's performance has broken several records on the Taiwan Stock Exchange since its IPO

Cathay US ESG Fund

Focusing on elite US ESG stocks

- Fund AUM reached NT\$4.15 billion as of the end of 2022
- The fund uses ESG ratings from MSCI, a globally recognized rating agency. At least 70% of the portfolio is invested in companies with an ESG rating of A or higher. In addition, the fund excludes companies involved in controversial industries such as arms, tobacco, marijuana and adult entertainment. Our strategy aims to increase portfolio stability and promote socially responsible companies by investing in companies with strong ESG characteristics.