

China Life MPF Master Trust Scheme

GOVERNANCE REPORT

For The Year
Ended 31 December 2022

TABLE OF CONTENT

SECTION ONE	3
<hr/>	
<i>Trustee's Governance Framework</i>	3
1.1 Board Composition	3
1.2 Fit and Proper and Suitably Qualified	3
1.3 Committees of the Board	4
1.4 Reporting Mechanism	4
SECTION TWO	5
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<i>Assessment Areas</i>	5
<i>(I) Value for Money Assessment</i>	5
2.1.1 Investment Performance	5
2.1.2 Fees and Charges	6
2.1.3 Quality Services to Scheme Members	7
2.1.4 Employer Experience	7
2.1.5 Member Experience	7
2.1.6 Communication and Education	8
2.1.7 Range of MPF Funds and Suitability	8
2.1.8 Investment Manager Selection, Ongoing Review and Monitoring	9
2.1.9 Conflict of Interest Monitoring	9
2.1.10 Summary of Key Actions Taken	10
2.1.11 Conclusion	10
<i>(II) Sustainable Investing Strategy and Implementation Progress for the Scheme</i>	11
2.2.1 The Impact of ESG Factors to the Value of MPF Investment Portfolio	11
2.2.2 ESG Integration Strategy for the Scheme	11
2.2.3 Implementation of ESG Integration Strategy	11
2.2.4 Monitoring of ESG Integration Progress by the CLT's Board	11
2.2.5 Incorporation of ESG Factors into Relevant Investment Strategies	12
2.2.6 Incorporation and Establishment of ESG Risk Identification, Assessment and Management in the Investment Managers' Investment Process	12
2.2.7 Investment Managers' Policies on Engagement Activities	13
2.2.8 Investment Managers' Reporting on ESG Integration	13
2.2.9 Summary of Key Actions Taken	13
BOARD ENDORSEMENT	14
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SECTION ONE

TRUSTEE'S GOVERNANCE FRAMEWORK

China Life Trustees Limited ("CLT") is appointed as a trustee of China Life MPF Master Trust Scheme (the "Scheme"). CLT signed the Mandatory Provident Fund Schemes Authority (the "MPFA")'s Governance Charter for MPF Trustees in May 2018 and committed to uphold and abide by the following core values at all times –

- Value-for-money MPF schemes and services;
- Act in the best interest of members;
- Lift governance standards;
- Understand and respond to members' needs;
- Engage members through transparency and communications; and
- Serve with honesty and integrity.

The board of directors (the "Board") of CLT has the primary responsibility to oversee the conduct of CLT and is ultimately responsible for the overall compliance of the CLT. The Board is responsible for the risk management and internal controls of CLT and for reviewing their effectiveness, and for regularly monitoring compliance with regulations governing the operation of CLT. CLT, being a trust company and a MPF approved trustee, is required, inter alia, to safeguard MPF members' interests.

The Board supervises the management of the Company which, in turn, is responsible for the day-to-day operational activities. The Board should probe the decision-making process of the management to ensure that it has considered all of the material facts and outcomes of its decisions.

1.1 Board Composition

The Board currently consists of five directors, three of whom are non-executive directors. Two of the non-executive directors are independent. The Board has considered and is satisfied that 40% of the board composition is made up of non-executive independent directors is an appropriate balance for the Board.

The directors' biographies, collectively demonstrate a breadth of industry experience, institutional knowledge and members' perspective which enable them to provide oversight and proper governance of CLT. The Board is committed to maintaining an appropriate balance of skills, experience, independence and knowledge amongst its members.

1.2 Fit and Proper and Suitably Qualified

The Board reviews its performance on an annual basis. An evaluation process has been implemented for the Board and its committees. Each individual director also requires to declare their interest and their professional conduct to ensure that all board members are fit and proper and suitably qualified to perform their duties. The Board is satisfied with the current evaluation and declaration process.

1.3 Committees of the Board

The Board has established an Investment Committee and a Compliance and Internal Audit Committee. The directors have delegated certain functions to these committees.

- Investment Committee mainly comprises of independent directors and investment specialist. The Board has designated an independent director as the chairman of the committee. The Investment Committee is responsible for assessing and reviewing the funds' performance, monitoring the performance of the investment managers, overseeing the integration of ESG factors into the investment and risk management processes of the investment managers.
- Compliance and Internal Audit Committee is established to monitor the internal control and compliance with regulations governing the operation of CLT acting as a trustee. The Board has designated a non-executive director with relevant experience in compliance and regulatory matters as the chairman of the committee.

1.4 Reporting Mechanism

The Board is provided with timely and accurate information so that the Board is able to take responsibility for monitoring compliance of an approved trustee's operation.

The Board meets semi-annually and ad hoc basis as required. CLT determines appropriate reporting protocols to communicate to the Board from time to time. The report to the Board covers but not limited to:

- Non-compliance events, complaint, conflict of interest events;
- Key issues arising from compliance/ risk assessment reviews and findings concerning compliance issues;
- Material legislative, regulatory or policy changes and their potential impact on the business operations of CLT;
- Strategic planning of CLT and the development of major plan;
- Latest business and financial figures.

SECTION TWO

ASSESSMENT AREAS

(I) VALUE FOR MONEY ASSESSMENT

The concept Value for Money is simple but in practice, particularly for retirement savings schemes, it could be complex and far-ranging. A good Value for Money MPF Scheme should provide investment returns within a fee structure that assist most individuals to meet their retirement savings goals and that the entirety of the scheme offerings should be well balanced in its services to members and employers, in a robust, secure and proven governance framework.

CLT is committed to look for constant, ongoing improvement in its Value for Money proposition for its members. CLT conducts an annual on-going assessment to review whether the Scheme could continuously deliver good value for money and reasonable outcome to scheme members, including fund performance, level of fees and charges, quality of service, suitability of MPF products. CLT will report and discuss any identified issues in the CLT's Board meetings.

2.1.1 Investment Performance

The performance of constituent funds ("CFs") is a core pillar for assessing the Scheme value to members. The table below illustrates the Scheme investment returns over 1-year, 5-year and 10-year periods. The table also illustrates the weighting of members' assets to each investment option and the benchmark (and/or fund performance target of the fund category).

Investment Performance Table	Scheme Asset (%)	1-Year Annualized Return (% p.a.)		5-Year Annualized Return (% p.a.)		10-Year Annualized Return (% p.a.)	
		Benchmark / Fund's Performance Target		Benchmark / Fund's Performance Target		Benchmark / Fund's Performance Target	
		Fund	Target	Fund	Target	Fund	Target
China Life Joyful Retirement Guaranteed Fund ^(Note 3)	38.2	-9.70	1.35	-1.15	1.35	0.90	1.35
China Life Growth Fund ^(Note 1)	17.3	-20.63	-18.59	-0.57	-0.26	3.84	3.68
China Life Hong Kong Equity Fund ^(Note 1)	11.4	-18.49	-18.97	-3.77	-4.26	2.38	1.55
China Life Balanced Fund ^(Note 1)	10.3	-19.56	-17.08	-0.76	-0.45	2.88	2.77
China Life MPF Conservative Fund ^(Note 4)	8.9	0.32	0.08	0.51	0.05	0.26	0.03
China Life Core Accumulation Fund ^(Note 2)	4.9	-16.59	-16.32	2.30	2.50	-	-
China Life Retire-Easy Global Equity Fund ^(Note 1)	4.1	-21.57	-20.84	-2.58	2.52	2.94	5.71
China Life Age 65 Plus Fund ^(Note 2)	3.0	-15.18	-14.94	0.04	0.01	-	-
China Life US Equity Fund ^(Note 1)	1.0	-33.04	-22.90	-	-	-	-
China Life Greater China Equity Fund ^(Note 1)	0.8	-26.83	-25.93	-	-	-	-

Note 1: The benchmark figures are obtained from Lipper

Note 2: The benchmark figures are obtained from FTSE MPF DIS Reference Portfolios

Note 3: The fund's performance target: net guaranteed rate (1.35% per annum)

Note 4: The fund's performance target: Prescribed Saving Rate

Source: CLT

Calendar year 2022 was a difficult investment year for all MPF schemes with nearly all asset classes delivering a negative return to their members. Comparing the overall performance with industry benchmark and/or fund performance target, five CFs of the Scheme outperformed their respective benchmarks: China Life Hong Kong Equity Fund (in 1-year, 5-year, and 10-year), China Life MPF Conservative Fund (in 1-year, 5-year, and 10-year), China Life Age 65 Plus Fund (in 5-year), China Life Balanced Fund (in 10-year) and China Life Growth Fund (in 10-year).

As illustrated by the above table, over short, mid and long term investment horizons, the Scheme investment performance provides competitive outcomes by the constituent fund performance while China Life Joyful Retirement Guaranteed Fund is consistent with its investment objective, which aims to provide long term capital preservation and enhance return with limited exposure to global equities while providing a guaranteed rate of return of 1.35% p.a. (entitlement to the guarantee return is subject to conditions¹).

2.1.2 Fees and Charges

The fees and charges are an important metric for assessing if the Scheme is offering value of money for scheme members. CLT monitors the Management Fees (“MF”) and Fund Expense Ratios (“FER”) of the CFs against the relevant industry information annually. Comparisons between the Scheme’s CFs MF and FER with their peers are regularly presented and reviewed at Board meeting.

The table below discloses MF and FER of the Scheme. The stated FER of the Scheme is the actual expenses members were charged as a percentage of fund assets while MF includes fees charged by the trustee, custodian, administrator, investment managers of the Scheme and its underlying funds.

Fees and Charges	Scheme Asset (%)	Latest Management Fee (% p.a.)			Latest Fund Expense Ratio (% p.a.)		
		Fund	Industry median	Deviation	Fund [^]	Industry median	Deviation
China Life Joyful Retirement Guaranteed Fund	38.2	2.00*	2.03	Below median	2.03	2.06	Below median
China Life Growth Fund	17.3	1.50	1.50	Same as median	1.39	1.52	Below median
China Life Hong Kong Equity Fund	11.4	0.95	1.18	Below median	0.85	1.27	Below median
China Life Balanced Fund	10.3	1.50	1.45	Above median	1.39	1.45	Below median
China Life MPF Conservative Fund	8.9	0.85	0.88	Below median	0.33	0.29	Above median
China Life Core Accumulation Fund	4.9	0.75	0.75	Same as median	0.82	0.81	Above median
China Life Retire-Easy Global Equity Fund	4.1	1.40	1.45	Below median	1.58	1.49	Above median
China Life Age 65 Plus Fund	3.0	0.75	0.75	Same as median	0.81	0.81	Same as median
China Life US Equity Fund	1.0	1.19	1.19	Same as median	1.12	1.12	Same as median
China Life Greater China Equity Fund	0.8	1.18	1.18	Same as median	1.09	1.27	Below median

* Include Guarantee Charge

Source: MPF Ratings Limited

[^] For the year ended 31 December 2021 (2022 figures are not yet available as of the date of preparation of this report (13 April 2023))

¹ Please refer to the MPF Scheme Brochure (<https://www.chinalife.com.hk/products/mpf/download-centre>) for the details of credit risks, guarantee features, guarantee conditions and guarantee mechanism of China Life Joyful Retirement Guaranteed Fund

The Scheme published MF and FER which were proven to be very competitive within the industry, being better than or in line with the industry median for most of its available asset classes.

The management fee of China Life Retire-Easy Global Equity Fund has been reduced from 1.48% per annum to no more than 1.40% per annum after fund restructure effective from 26 September 2022.

Among the 10 available constituent fund choices, 4 of them are classified as Low Fee Fund² according to MPFA. They are China Life Age 65 Plus Fund, China Life Core Accumulation Fund, China Life Hong Kong Equity Fund and China Life MPF Conservative Fund.

2.1.3 Quality Services to Scheme Members

The parameters for Value for Money extend beyond performance and fees, it also includes services to scheme members. CLT provides members with a balanced and an ever improving suite of member and employer services and functions. CLT reviews the quality and level of services provided to Scheme members regularly and report any observations and suggestion for enhancement in the board meeting.

2.1.4 Employer Experience

While employers have discretion in choosing the MPF Scheme for their employees, it is important to keep a positive experience of employer by offering comprehensive scheme service and supports. The services provided by CLT are comprehensive and integrated in remitting contributions, generating reports, enrolling and terminating members. CLT also offers e-enrolment online platform for employers to enroll employees, which provides a convenient and efficient way of onboarding new hires. Key highlights of China Life MPF Master Trust Scheme's Employer experience include:

EMPLOYER EXPERIENCE	SERVICES PROVIDED
Multiple Pre Contribution Reminder Methods	Y
Multiple Contribution Payment Methods	Y
Multiple Contribution Data Submission Methods	Y
Payroll Software provision to Employers	Y
Provision of online information and functionality for Employers	Y
e-enrolment for employees	Y
Contribution reminders and alerts	Y
Regular Employer Communications and Reporting	Y

2.1.5 Member Experience

As the popularity of e-services among the MPF industry, employees expect to manage their MPF accounts more efficiently and effectively. CLT offers varied online services and supports toward members to enhance their experiences on account opening, contributions, managing accounts, and transfer and withdrawal of MPF benefits. Key highlights of China Life MPF Master Trust Scheme's Member experience include:

² MPFA's Low Fee Funds refer to funds with a Fund Expense Ratio (FER) $\leq 1.3\%$ p.a. or current management fees $\leq 1\%$ p.a. For a list of Low Fee Funds, please visit the Fund Information Table on MPFA's MPF Fund Platform (https://mfp.mpfa.org.hk/mobile/eng/mpp_list.jsp)

MEMBER EXPERIENCE

SERVICES PROVIDED

Online Investment Rebalancing	Y
Member Hotline Services	Y
Online Personal Account Opening	Y
Online TVC Account Opening	Y
Online SVC Account Opening	Y
Online MPF Transfers from other Schemes	Y
Member App	Y

2.1.6 Communication and Education

CLT provides several communication tools and promotion channels toward members and also has in place free financial planning advice as a significant value add to the member experience. Key highlights of China Life MPF Master Trust Scheme's Communication and Education experiences include:

COMMUNICATION AND EDUCATION

SERVICES PROVIDED

TVC Promotions	Y
Member Alerts	Y
Newsletters	Y
On Social Media	Y
Dedicated Complaints Hotline	Y
Free Financial Planning Advice	Y

2.1.7 Range of MPF Funds and Suitability

CLT plays an active role in reviewing the range and suitability of its MPF funds manual. The Scheme launched the China Life Greater China Equity Fund and China Life US Equity Fund in December 2021. CLT aims to provide a greater varieties of fund choices to our scheme members and speed up the feasibility studies of launching new funds.

Apart from providing diversified fund choices, CLT is also dedicated to optimize the existing CFs under the China Life MPF Master Trust Scheme to improve its investment structure with better investment returns to scheme members. With effective from 26 September 2022, China Life Retire-Easy Global Equity Fund was restructured with a change of investment manager to China Asset Management (Hong Kong) Limited and reduction of management fee from 1.48% per annum to no more than 1.40% per annum.

The Scheme presently consists of a series of constituent fund choices and Default Investment Strategy with diversified investment objectives, risk levels and portfolio are offered, covering money market fund, mixed assets funds, equity funds and guaranteed fund. The investment portfolio is suitable for nearly all age range and risk profiles and, with the diversified options, the series of constituent fund choices are likely to provide the retirement savings goals of all members.

RANGE OF MPF FUNDS AND SUITABILITY

Number of Fund Choices	10
Choice of Mixed Asset Funds	Y
Choice of HK & China Equity Funds	Y
Global Equity Fund	Y
US Equity Fund	Y
Guaranteed Fund	Y
Money Market Fund	Y
Default Investment Strategy	Y
Use of Multiple External Fund Managers	Y

2.1.8 Investment Manager Selection, Ongoing Review and Monitoring

Being an MPF Trustee, CLT has a statutory duty to invest the contributions of scheme members of the Scheme and monitor the fund performance in order to safeguard scheme member's interest. CLT conducts fund performance monitoring of CFs on monthly basis.

CLT regularly engages with investment managers on fund performance and oversee portfolio of each CF. CLT monitors the investment managers to ensure performance of each CF is consistent with its investment objective.

In addition, starting from February 2022, CLT has appointed Goji Consulting Limited ("Goji"), as an independent fund consultant, to on-going monitor fund performance of our CFs over different time horizons. Goji provides monthly fund performance reports for CLT's review. The report includes past performance, risk profile, trend analysis of CFs and whether there are any underperforming funds in past 3 consecutive months and 3 consecutive quarters. The monitoring mechanism is reviewed by CLT on a pre-determined period or whenever necessary.

While there are any CF underperforming continuously, CLT will monitor and assure enhancement will be in place and remedial action will be taken by the respective investment manager. In December 2022, CLT issued underperformance letters toward two investment managers since the respective underlying funds of the CFs underperformed in past 3 consecutive quarters.

2.1.9 Conflict of Interest Monitoring

CLT maintains conflict of interest policies and procedures for identifying, assessing and managing actual and potential conflicts. All the investment managers of the Scheme and its underlying funds appointed are independent of CLT. The fees and charges (include the fees paid to CLT) borne by the Scheme are clearly disclosed in the scheme brochure. Each individual director of CLT requires to declare annually that he/she is free of any conflict of interest that would interfere with the proper performance of the responsibilities of a director.

2.1.10 Summary of Key Actions Taken

In order to improve value for MPF scheme members, the following key actions were taken by CLT during the financial year from 1 January 2022 to 31 December 2022.

Investment Performance

- Starting from February 2022, CLT engages with Goji on monitoring fund performance and overseeing portfolio of each CF on regular basis. CLT issued underperformance letters toward the investment managers in December 2022 for those funds that were underperformed.
- In the previous assessment, CLT observed the underperformance of China Life Retire-Easy Global Equity Fund and China Life Joyful Retirement Guaranteed Fund. With effect from 26 September 2022, CLT appointed China Asset Management (Hong Kong) Limited (“China AMC”) as the CF investment manager of the China Life Retire-Easy Global Equity Fund. The management fee was lowered from 1.48% per annum to no more than 1.40% per annum. Apart of the restructure of China Life Retire-Easy Global Equity Fund, CLT is planning to change the underlying investment manager of China Life Joyful Retirement Guaranteed Fund in Q2 2023 tentatively.

Fees and Charges

- CLT conducted annual review of the CF’s FER and fee levels are in line with peers. CLT continues to monitor fees and charges applied by the respective CFs.
- To address the observation on room for reduction of management fee, CLT restructured China Life Retire-Easy Global Equity Fund effective from 26 September 2022, as a result, the management fee of China Life Retire-Easy Global Equity Fund has been reduced from 1.48% per annum to no more than 1.40% per annum.

Quality Services to Scheme Members

CLT regularly reviews the type of services offered to scheme members. Over the year, various enhancement had been launched to improve engagement with scheme members after reviewing quality of services annually.

- Effective from May 2022, SMS reminder message would be sent to unclaimed benefits members on a quarterly basis.
- Effective from 19 July 2022, CLT launched new electronic service: E-Notice for online fund rebalancing member.
- CLT enhanced MPF information disclosure by providing additional disclosure related to guarantee fund balance after member login to our official website and mobile app with effect from 13 November 2022.
- Apart of the additional disclosure, a Contribution Guide for Existing Tax Deductible Voluntary Contribution (“TVC”) Account Holder has published on our public website to improve understanding of existing TVC member on contribution arrangement effective from 7 December 2022.

2.1.11 Conclusion

On an overall basis, CLT is satisfied that scheme members have been consistently receiving Value for Money for the year ended 31 December 2022. The China Life MPF Master Trust Scheme is clearly well balanced across various assessment criteria in a robust, secure and proven governance framework. The scheme provides performance and features that should assist most members to meet their retirement savings goals.

(II) SUSTAINABLE INVESTING STRATEGY AND IMPLEMENTATION PROGRESS FOR THE SCHEME

Environmental, social and governance (“ESG”) factors could be a source of financial risk with financial impact on the value of the MPF schemes. CLT is committed to work with the investment managers (“IMs”) of the constituent funds and/or their underlying funds in the integration of ESG factors into the investment and risk management processes in accordance with the MPFA’s “Principles for Adopting Sustainable Investing in the Investment and Risk Management Processes of MPF Funds” (the “Principles”) issued in November 2021.

2.2.1 The Impact of ESG Factors to the Value of MPF Investment Portfolio

CLT considers that ESG factors, including climate change, can have a financially material impact over the investment risk and return outcomes of the Scheme, particularly given their long term nature. It is in members’ best interests that ESG factors are taken into account in the investment and risk management processes.

2.2.2 ESG Integration Strategy for the Scheme

CLT has developed an ESG integration strategy at the scheme level in accordance with the Principles. Consistent with the Principles, as the investment management functions is carried out by IMs, CLT set the expectation to IMs that they should take account of financially material ESG considerations when making investment decisions and provide relevant information to CLT to allow CLT understand the respective ESG policies, their processes for identifying, assessing and managing ESG factors, and how these processes are integrated into the IMs’ overall risk management.

2.2.3 Implementation of ESG Integration Strategy

CLT expects the IMs of constituent funds and their underlying funds to take into account of financially material ESG considerations when making investment decisions. CLT has incorporated ESG integration into its IM selection, appointment and monitoring processes. CLT would engage with IMs who are signatories (or who is looking to have the signatory) to the United Nations Principles for Responsible Investment (“UNPRI”) going forward. Such signatories commit to integrate ESG issues into investment analysis and decision-making processes. CLT regularly monitors the IMs’ approach to ESG and alignment with the scheme’s ESG integration policy.

For the constituent funds which are investing in a single approved pooled investment fund (“APIF”), CLT incorporates in its APIF selection and on-going monitoring and review process to ensure the ESG integration strategies of IMs align with the integration strategy for the Scheme adopted by CLT. CLT expects IMs of the APIFs to take into account of financially material ESG considerations when making investment decisions.

For the constituent fund investing passively in index-tracking collective investment funds (“ITCISs”) where the IM of the ITCISs cannot use ESG factors in the stock selection process without changing the index construction of the funds, CLT considers how the IM of the ITCISs positively engages with index constituent companies whether there is scope to improve the way ESG factors are taken into account when running a company.

2.2.4 Monitoring of ESG Integration Progress by the CLT’s Board

The board of directors of CLT monitors the ESG integration implemented by the IMs of the constituent funds and their underlying funds regularly. Directors will be informed of ESG integration and development updates formally at Board Meeting and/or through Investment Committee meetings. ESG integration forms a standing agenda item for discussion at every Investment Committee meeting.

2.2.5 Incorporation of ESG Factors into Relevant Investment Strategies

CLT requests information on the ESG policies adopted by IMs of the constituent funds and/ or their underlying funds from time to time to ensure they align with our scheme ESG integration policy. Please refer the IM's ESG policies set out below or at IMs or their group website.

IMs of the constituent funds and/or their underlying funds:

- China Asset Management (Hong Kong) Limited
<https://www.chinaamc.com.hk/sustainable-investing/>

- Taiping Assets Management (HK) Company Limited

Taiping Assets Management (HK) Company Limited (“Tai Ping”) will conduct a regular assessment on the relevance of climate risk and investment strategies. The material climate-related risks will be integrated into the investment management process. Tai Ping will further enhance its ESG Policy to cover other ESG factors (apart from climate risk) in the future.

IMs of the underlying funds of the constituent funds:

- FIL Investment Management (Hong Kong) Limited
<https://www.fidelity.com.hk/en/sustainable-investing/reports-and-policies>
- Franklin Templeton Investments (Asia) Limited (The Scheme ceased to invest in the respective underlying funds since 1 February 2023)
<https://www.franklintempleton.com.hk/en-hk/about-us/sustainable-investing-and-stewardship/index>
- Invesco Hong Kong Limited
<https://www.invesco.com/hk/en/investment-ideas/esg-and-responsible-investing/2021-esg-investment-stewardship-report.html>
- J.P. Morgan Asset Management (Asia Pacific) Limited
<https://am.jpmorgan.com/us/en/asset-management/institutional/investment-strategies/sustainable-investing/>

Each IM of the constituent funds and/ or their underlying funds has a unique approach to their ESG strategy due to their respective approaches to investing, their philosophy, risk profile and investment objectives. However, currently, most of the IMs of the constituent funds and/ or their underlying funds are signatories to the UNPRI which shows evidence of IMs' commitment to comply with the global ESG investment standards.

2.2.6 Incorporation and Establishment of ESG Risk Identification, Assessment and Management in the Investment Managers' Investment Process

When meeting with the IMs, CLT ascertains from them how relevant and material ESG factors are taken into account in their investment and risk management processes. IMs demonstrated to CLT a structured integration of ESG factors and data into the investment decision making process with examples.

2.2.7 Investment Managers' Policies on Engagement Activities

CLT expects IMs to use their influence as institutional investors to pursue CLT's rights and duties as a shareholder including voting, along with, where relevant and appropriate, engaging with underlying investee companies to promote good corporate governance, accountability and positive change.

2.2.8 Investment Managers' Reporting on ESG Integration

CLT requires that the IMs report to CLT on ESG and stewardship matters on a regular basis and be responsive to queries from CLT. The IMs of the constituent funds are also invited to report on their ESG related information in the Investment Committee meeting.

2.2.9 Summary of Key Actions Taken

- In March 2022, CLT's ESG integration strategy for the Scheme was formalised and reflected in CLT Governance Policy.
- CLT regularly engages with investment managers on the updates on ESG integration.

BOARD ENDORSEMENT

The China Life MPF Master Trust Scheme Governance Report has been endorsed by the Board of China Life Trustees Limited on 27 June 2023.