General Principles for Disclosure of Sustainable Investment Information for Private Investment Fund Managers

(Abridged Version)[1]

Beijing Private Equity Association (BPEA)

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[1] Note: This abridged English-language version is for general reference only. For the full version, including detailed explanations of terms and their corresponding sources, please refer to the full Mandarin Chinese-language version of this document, which constitutes the official version of these General Principles. Occasional brackets ([ ]) have been added for clarity. For inquiries, please contact bpea@bpea.net.cn.

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Preface

The document is drafted in accordance with the provisions of GB/T 1.1-2020 "Guidelines for Standardization—Part 1: Structure and Drafting Rules of Standardization Documents".

This Document is proposed and under the jurisdiction of the Beijing Private Equity Association (BPEA).

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Introduction

The General Principles for Disclosure of Sustainable Investment Information by Private Investment Fund Managers ("the General Principles") are formulated based on the relevant domestic and international disclosure frameworks and standards for sustainable investment, with reference to the current development status of the private equity sector in China. The aims are to provide guidance for private investment fund managers ("Managers") to disclose sustainable investment information that meets regulatory and stakeholder requirements; to standardize the disclosure of sustainable investment related information within the sector; and to encourage Managers to provide more comprehensive, transparent, and accurate sustainable investment-related data and information for the capital markets.

The main content of the General Principles includes seven sections: scope, normative reference (sources of guidance), terms and definitions, disclosure principles, disclosure system (core content), disclosure requirements and applications, and responsibilities and supervision. The core disclosure system section provides detailed disclosure indicators and content descriptions from three different angles: sustainable development overview, sustainable operations, and sustainable investment. Investments and operations are crucial to how Managers conduct business. We will continue to pay attention to changes and developments in the industry and in specific companies; promptly summarize the investment and management practices of Managers in sustainable investments and operations; and continuously enrich and improve the content of the General Principles of Information Disclosure.

Note on terminology: The terms "sustainable development", "sustainable development goals", "sustainability", and "sustainability goals" each have distinct meanings in different policy contexts. For the sake of clarity and simplicity, and following the convention of the Chinese language version, these terms are used interchangeably in the General Principles unless otherwise specified.

1 Scope

Within the People's Republic of China, **private investment fund managers**—who manage established businesses that are registered in accordance with laws and regulations such as *Law of the People's Republic of China on Funds for Investment in Securities*, *Regulations on the Supervision and Administration of Private Investment Funds*, and the relevant self-discipline rules of the Asset Management Association of China—shall apply the General Principles to the activities of disclosing relevant data and information in the process of sustainable investment.

Private investment funds: raise funds through non-public means; are legally established for the purpose of conducting investment activities; are managed by private investment fund managers or general partners; and engage in investment activities for the benefit of investors.

2 Normative Reference (Sources of Guidance)

The following documents (normative references) constitute the basis for this document. Where a reference file with a date is noted, only the version corresponding to that date applies to this document. For undated references, the latest version of the reference (including all changes therein) applies to this document.

Report of the World Commission on Environment and Development: Our Common Future，WCED

UN Framework Convention on Climate Change

Green Investment Guidance (Pilot), Asset Management Association of China (AMAC)

T/CERDS 2-2022: Guidance for enterprise ESG disclosure, China Enterprise Reform and Development Society (CERDS) under SASAC, standard type T (association-level standard)

T/CAS 612-2022: Carbon neutrality management systems—Requirements, China Association for Standardization (CAS), standard type T (association-level standard)

T/NAIA 01-2022: Guidelines for the application of quality infrastructure in carbon peak and *carbon neutralization, NAIA Ningxia province, standard type T (association-level standard)*

Unlocking the potential of investor stewardship in China: towards a more sustainable economy, UNPRI

EU Sustainable Finance Disclosure Regulation, (SFDR)

Draft European Sustainability Reporting Standards ESRS 1 - General requirements

EU Corporate Sustainability Reporting Directive

Draft European Sustainability Reporting Standards ESRS G1-Business conduct

Draft European Sustainability Reporting Standards ESRS S1- Own workforce

Global Sustainable Investment Review 2020, GSIA

A Sustainable Finance Policy Engagement Handbook, UNPRI

OECD Guidelines for Multinational Enterprises，2011 Edition, Chinese and English versions

GRI Sustainability Reporting Standards

3 Terms and Definitions

Sustainable Investment

Sustainable investment is an investment philosophy and approach that considers the environment, society, and governance (ESG). The Global Sustainable Investment Alliance (GSIA) defines sustainable investment as an investment method that considers environmental, social, and governance (ESG) factors in the selection and management of investment portfolios.

Source: Global Sustainable Investment Review 2020, GSIA

For the purpose of these General Principles, sustainable investment includes Socially Responsible Investing (SRI), ESG Investment, and Impact Investing.

Socially Responsible Investing (SRI)

Socially responsible investment (SRI) refers to the evaluation and selection of investments made by enterprises based on social and ethical standards such as legal compliance, respect for human rights, protection of consumer rights, and concern for environmental protection, etc., in addition to traditional financial indicators. Investment strategies mainly include negative screening, positive screening, and norms-based screening.

ESG Investment

ESG investment refers to [when] asset managers and researchers examine the risks of investment targets by comprehensively considering environmental (E), social (S) and governance (G) factors, and emphasize the comprehensive use of indicators related to these three elements [E, S, and G] to evaluate enterprises. Their investments are made primarily based on enterprises' ESG scores.

Impact Investing

Impact investing refers to investments that aim to produce positive, measurable social and environmental impacts and bring financial returns. Impact investing primarily includes sustainability-themed investing and community investing.

Sustainability-themed investing refers to investing [according to] themes or assets specifically contributing to sustainable environmental and social solutions (e.g., sustainable agriculture, green buildings, lower carbon tilted portfolio, gender equity, diversity). *Source: Global Sustainable Investment Review 2020, GSIA*

ESG (environmental, social, and governance)

ESG (environmental, social, and governance) is an investment philosophy and corporate evaluation standard that focuses on corporate environmental, social, and governance performance; ESG is a key factor that affects investor decision-making and measure[s] a corporation's sustainable development capabilities.

Source: T/CERDS 2-2022: Guidance for enterprise ESG disclosure (CERDS)

Due Diligence

Due diligence is understood as the process through which enterprises can identify, prevent, mitigate and account for how they address their actual and potential adverse impacts as an integral part of business decision-making and risk management systems. Due diligence can help enterprises avoid the risk of such adverse impacts.

Source: OECD Guidelines for Multinational Enterprises，2011 Edition, English Version

Primary Market

A primary market refers to a financial market where new issues (initial public offerings) of stocks (shares) and bonds (fixed interest financial assets) are sold, and where the proceeds go to the issuer.

Source: Eurostat Glossary

Secondary Market

A secondary market refers to a market in which shares and bonds are bought and sold between the time they were issued at first [,] and before they mature (their end date).

Source: Eurostat Glossary

Stewardship

Stewardship refers to institutional investors using their influence to maximize the overall long-term value of [assets,] including economic, social, and environmental assets. This overall long-term interest is the basis upon which investors achieve returns on investment and [generate value] for their clients and beneficiaries.

Source: OECD Guidelines for Multinational Enterprises，2011 Edition, Chinese Version

Stakeholders

Stakeholders are individuals or groups whose interests are or may be affected by the activities of the organization. Common stakeholders for an organization include business partners, civil society organizations, consumers, customers, employees and other workers, governments, local communities, non-government organizations, shareholders and other investors, suppliers, trade unions, vulnerable groups, etc.

Source: GRI Sustainability Reporting Standards GRI 1- Foundation 2021

Management

Management refers to managers who assume management responsibilities and functions among managers. These managers' job responsibilities and mandates include formulating the organizational vision and strategy, formulating and implementing organizational policies and procedures, determining the goals of the organization, and formulating corresponding strategies to achieve these goals. They also formulate plans and strategies, monitor employee performance, and provide training and mentoring to employees, etc.

Executive-level Management

Executive-level management refers to the governance body with the highest level of decision-making power within the organization; this governance body is responsible for strategic guidance of managers and supervising managers. This is usually the organization's Board of Directors.

Other terms and definitions (omitted for brevity).

4 Disclosure Principles

4.1 Materiality

Managers should disclose their incorporation of sustainable investment philosophy and related topics into their own operational management, investment analysis, and decision-making processes, as well as proactive ownership policies and practices. They should also seek appropriate disclosure of sustainable investment topics by investee companies. The disclosed information should have a significant impact on the risk management and value creation of the disclosing entity and stakeholders.

4.2 Authenticity

Managers should make disclosures based on objective facts or on judgments and opinions with a factual basis, without any false statements or concealment of important facts, and should truthfully reflect the objective situation of Managers and the investee companies.

4.3 Transparency

Managers should use the judgment ability of stakeholders as the standard for accurately understanding the disclosing information. The information provided by the Managers should be easily accessible and should be presented in concise, clear, easy--to-read, easily understandable language and writing. The disclosed content should not contain any misleading statements.

4.4 Integrity

Managers should disclose all information that has a significant impact on the value judgments and decision-making processes of stakeholders. The disclosed content should be complete, comprehensive, specific, and standardized in format, without significant omissions.

4.5 Consistency

Managers should use consistent disclosure statistical methods to enable the disclosed information to be useful to stakeholders for making meaningful comparisons.

4.6 Timeliness

Managers should regularly disclose relevant data and information involved in the sustainable investment process in the form of sustainable investment reports, and provide these reports to stakeholders in a timely manner, for their decision-making reference.

5 Disclosure system (Core Content)

The following framework provides Managers with ways to disclose the efforts and achievements made by the institution in sustainable investment and to comprehensively show the institutions' sustainable investment philosophy and actions.

5.1 Sustainable Development Overview

A sustainable development overview should include two sections: the institution's sustainable development strategy and its sustainability goals. The formulation of the overview should not only follow the national strategy, but should also be based upon the actual state of the Managers' business.

5.1.1 Sustainable Development Strategy

A sustainable development strategy is planned and designed by Managers from the perspective of the overall development strategy of the institution, and is used to command and guide the sustainable development path and strategies of the institution.

5.1.1.1 Management's Commitment to Sustainable Investment

Managers can clarify the sustainable investment commitment of the institution through statements or speeches from its legal representative, board of directors, or senior executives.

5.1.1.2 Core Values and Development Philosophy

Managers can integrate the concept of sustainable development into the core values and development philosophy of their organization as an important part of company culture, and which guides the development of the enterprise.

5.1.1.3 Sustainable Development Vision

Managers can describe the sustainable development vision of the organization, which is used to motivate employees, enhance the competitiveness of the organization, and enhance its influence in the industry.

5.1.1.4 Sustainable Development Mission

Based on the vision of sustainable development, managers can define their own roles and approaches to various socioeconomic activities in ways that demonstrate their sense of responsibility.

5.1.2 Sustainability Goals

Managers should set their institution's sustainability goals over the short, medium, and long term, in coordination with the managers' other operational goals.

5.1.2.1 Short-term Sustainability Goals

Short-term goals usually refer to goals with a time horizon shorter than two years. These goals are specified, realistic, and operationalizable versions of the medium- and long-term goals. Short-term goals are the clearest type of sustainability goal.

5.1.2.2 Medium-term Sustainability Goals

Medium-term goals refer to goals with a time horizon of two to five years. These goals represent an intermediate phase of the long-term goals. Medium-term goals are sub-goals of the long-term goals in a given goal system.

5.1.2.3 Long-term Sustainability Goals

Long-term goals usually refer to goals with a time horizon of more than five years. These goals are the expected outcomes of certain strategies, therefore the time horizon of long-term goals shall align with that of the organization's overall sustainable development strategies.

5.1.2.4 Completed Goals and Follow-ups

Managers can describe the completion status of short-, medium- and long-term goals, including goals already completed, ongoing goals and progress, and work that will be subject to continuing follow-up.

5.2 Sustainable Operations

Sustainable operations represent the implementation of an institution's sustainable development strategies and goals, and which create positive influences on both investees and society. Sustainable operations serve as the key component through which managers can achieve both financial and social returns.

5.2.1 Company Culture

Managers can disclose sustainability-related concepts and practices that are integrated into cultivating company culture, including but not limited to core initiatives, typical cases, and achievements related to building the company's culture content, value, and culture.

5.2.1.1 Cultural Content

Managers can propose an institution's sustainability goals and integrate them into their strategic planning and investment management systems. Managers can concurrently disclose these sustainability goals and plans to stakeholders.

5.2.1.2 Values

Managers can establish sustainability-orientated company values; incorporate components of sustainable development, including environmental protection, employee rights protection, and business ethics compliance; and encourage these values to be written into their institution's systems and policies.

5.2.1.3 Implementing Culture-Building Initiatives

Managers can actively conduct social responsibility activities around sustainable development topics; proactively engage with public services and social affairs such as through establishing foundations, launching initiatives, and participating in charities, among other activities; practice a sense of social responsibility; and build a sound image and reputation.

5.2.1.4 Typical Cases and Impacts

Managers can establish sustainability performance review processes and incentives schemes to measure and evaluate work and progress on sustainability. Managers can apply incentives to encourage employees to set and achieve sustainability-related development goals. Concurrently, they can also summarize sustainability-related work and progress and make related disclosures to stakeholders.

5.2.2 Organizational Structure

Managers can establish sound governance structures with transparent and fair processes for the nomination and selection of personnel into leadership roles. Meanwhile, managers can actively undertake leadership roles in supervising and managing sustainable investing, emphasizing communication with different stakeholders.

5.2.2.1 Governance Structure and Composition of Sustainable Investment

Sustainable investment governance structure and composition refers to a type of structure and scheme that considers and integrates sustainability development factors into investment decisions and management processes, to achieve sustainability goals.

Sound governance and investment composition can ensure the alignment of managers' decisions and execution in sustainable investing with the institution's own strategies and goals.

5.2.2.2 Nomination and Selection of the Highest Governance Body that Oversees Sustainable Investment

To ensure the highest executive governance body's effective operation and high-quality decision-making, managers can use a series of procedures and criteria to select and appoint members of the highest executive governance body and entrust them with sustainable investing-related supervisory and directive duties.

5.2.2.3 Supervisory Role of the Highest Governance Body in Sustainable Investment

The highest governance body can monitor and assess strategies, policies, implementation, and outcomes of sustainable investment, to ensure the quality and effectiveness of sustainable investment and achieve sustainability goals.

5.2.2.4 Managers' Role in Managing Sustainable Investment

The management team plans and arranges effective strategies, policies, implementation, and outcomes of sustainable investing, to accomplish sustainability goals.

5.2.2.5 Mechanisms for Stakeholder Participation

In managers' operations, management, investment decision-making, and activities, they ought to consider and integrate stakeholders' demands and opinions, so as to promote communication, collaboration, and cooperation with stakeholders.

5.2.3 Systems and Processes

Managers can establish systems and processes for sustainability that are aligned with the institution's life cycle and the business landscape. At different stages of managers' operations and investment, the specific emphases of these sustainable investing systems and processes may be different.

5.2.3.1 Risk Assessment Systems for Sustainable Investment

Managers can establish sustainable investing risk assessment systems to conduct assessment, identification, analysis, and evaluation on the sustainability-related risks and opportunities of potential investments. Managers can create a list for negative screening on industries with material sustainability-related investment risks. In addition, the decision on whether or not to invest should align with sustainable investing principles, as stated by managers.

5.2.3.2 Integration of Sustainable Investing Considerations into Investment Decision-making Systems

Managers can adjust or update investment decisions to ensure that those decisions are made based on the results of sustainable investment risk assessments and due diligence processes. For investment projects which are significantly against sustainability concepts or have significant sustainable investment risks (managers can establish relevant judgement criteria based on the organization's specific circumstances), managers should consider rejecting, withdrawing, or decreasing investment.

5.2.3.3 Post-Investment Management Systems Aligned with Sustainable Investment Principles

Managers can conduct responsible post-investment management on investees; follow up on sustainable investment risk assessments or on corrections made based on issues identified in due diligence; and promote the establishment or implementation of sustainable investment improvement plans.

5.2.3.4 Establishing Systems of Personnel Responsible for Sustainable Investment

Managers can establish systems of personnel who are responsible for sustainable investment. This kind of system specifies the team and individuals who implement sustainable investment policies and defines relevant work allocation, rights, and person(s) in charge. When establishing systems of personnel who are responsible for sustainable investment, rights and responsibilities should be allocated in ways that fully consider different asset classes of fund investments. Concurrently, consultation, training, reporting, feedback, and other process frameworks can also be integrated into the system.

5.2.3.5 Constructing and Managing Sustainable Investment Systems

Sustainable operations and management systems are crucial to managers' long-term, stable organizational development. Managers should value these systems and should build and manage sustainable investment processes by establishing, implementing, supervising, and improving upon relevant systems and processes.

5.2.4 Human Capital

Human capital is a valuable asset for managers and is critical for achieving sustainability-related strategies and goals.

5.2.4.1 Number and Composition of Employees

Managers can state the number and composition of employees by disclosing the organization's number of employees, gender ratios for employees (separate measures for directors, supervisors, and executives), employee age distribution, education background, etc.

5.2.4.2 Skills and Experience of Employees

Managers can state information regarding employees' skills and experience in sustainable investing by disclosing their professional background, skills, professional experiences in the industry, professional qualifications, etc.

5.2.4.3 Development and Training of Employees

Managers can display their emphasis on employees' career development and on advancing employee competencies in sustainable investment by disclosing: numbers of employees and employee-hours dedicated to sustainability training, learning resources provided to employees, pathways to promotion and career development opportunities provided for employees, etc.

5.2.4.4 Diversity and Inclusion of Employment

Managers can display their respect for employee diversity and their commitments to building an inclusive and fair workplace by disclosing specific measures that are focused on eliminating workplace discrimination, protecting different groups' equal employment opportunity and fair treatment, etc.

5.2.4.5 Welfare and Protection for Employees

Managers can display their efforts to protect employee welfare and legal rights by disclosing incentives and welfare initiatives provided to employees, employee satisfaction improvement plans, democratic decision-making processes for employees, etc.

5.3 Sustainable Investment

Internally, practicing sustainable investment and management helps organizations effectively improve their internal ability to withstand risk and increases management capacity; helps private investment funds identify investment targets that contain positive effects on society and potential within their investment processes; provides private investment funds with innovative investment plans; and supports the construction of investment portfolios with more potential and increased ability to withstand risk.

Externally, private investment fund managers can effectively promote creating a safer and more effective, green low-carbon investment ecosystem and environment through the practices and management of sustainable investment.

5.3.1 Sustainable Investment Processes

Based on their differences to broader investment markets, private investment fund managers can make thorough disclosures on the following sustainable investment processes, discussed below.

5.3.1.1 Private Investment Fund Managers Focusing on the Primary Market

Managers focusing on the primary market can integrate the concepts of sustainable investment throughout the whole life cycle of investment management, to create a sustainable investment system with its own unique characteristics.

a. Pre-investment Assessment

Managers can take climate change, waste management, employee relations and social responsibility, corporate governance, and other aspects into account in pre-investment assessments. Combined with due diligence research, managers can refine their focus on detailed industries and key issues. Based on this, managers can establish and clarify lists of negative screening for sustainable investment, which can be used as a reference with which to strengthen pre-investment risk identification and assessment of the investees.

b. Investment Decision-making

Based on a detailed pre-investment assessment, and through the investment decision-making process, managers can report any sustainable investment-related discoveries that were made during the due diligence process, and can discuss these findings with the investment decision-making committee. After an investment decision is confirmed, managers can make agreements with investees regarding how to improve investees' commitments. Managers can specify pathways for follow-up and continued improvement, as well as timelines for these improvements. These agreements can be based on due diligence findings and findings related to sustainable investment, as well as on the content of discussions with the investment decision-making committee.

c. Post-Investment Management

Managers can empower investees through sustainable investment management and corresponding tools, such as by: using big data tools to implement digital real-time risk control for investees in sustainable investing; helping investees understand and identify sustainable investment risks; and continuously strengthening management controls on investees' whole life cycle of sustainable investments.

d. Investor Relations and Disclosures

Based on the institution's sustainable investing goals, managers can compile sustainability related financial data and data on investees' sustainability development-related progress and include this information in the institution's communication documents with investors, to provide timely and efficient communications with investors on sustainable investment.

5.3.1.2 Private Investment Fund Managers Focusing on the Secondary Market

Given the greater abundance of sustainable investment evaluations on investment targets and investment research services available in the secondary market, managers with a focus on the secondary market differ from those focused on the primary market. Managers in these two types of markets differ in the details of their sustainable investment processes and in their respective areas of focus.

a. Pre-investment Research

Because secondary markets contain more complete data disclosures and information related to sustainable investment, managers focusing on secondary markets can take advantage of publicly available data when conducting sustainable investment research. These managers can focus on constructing a quantitative and comparable sustainable investment evaluation system within their sustainable investment research processes.

b. Investment Strategy

Managers with a focus on the secondary market can adopt active or passive sustainable investment strategies, and can make practical use of the results of sustainable investment rating scores. Active investing strategies can be classified into negative screening, sustainability-themed investing, ESG integration, etc. When applying passive investment strategies, the factors in a sustainable investment evaluation system are usually added as quantitative factors in an existing model or index, within which their relative weight may be adjusted based on sustainable investment ratings.

c. Post-investment Due Diligence Management and Risk Monitoring

The post-investment management and disclosure processes for private investment fund managers in secondary markets includes both risk control management and shareholder-related activities. Firstly, in terms of risk control management, secondary-market-focused managers can flag public opinion indicators that are related to sustainable investment risks in their risk control system. Managers can conduct real-time monitoring and set up notifications of key events pertaining to sustainable investment risks within portfolios. Or, based on the sustainable investment ratings of the invested companies in the portfolios, managers can continuously track changes related to the sustainable investment performance of the portfolio as a whole.

Secondly, in terms of shareholding, to responsibly exercise their shareholders' rights responsibly, managers (representing asset owners) can use their proxy voting rights to engage with invested companies on a regular basis; and can recommend that the board of directors continuously push for agreements with invested companies on their improvement plans or explicitly add improvement plans into official transaction documents. They can also encourage invested companies to disclose their own sustainable investment data in compliance with market and regulatory requirements.

5.3.2 Stewardship and Value Creation

While enhancing their own knowledge and practices of sustainable investment, managers can use control of proxy voting rights and the invested companies' boards of directors to promote the management and empowerment of the whole life cycle sustainable investment within invested companies. Managers can help invested companies improve their efficiency on both management and operation levels, and use digital innovations and big data tools to continuously strengthen managers' leadership and management of invested companies' sustainable investments, and strengthen the establishment of invested companies' own governance systems. Concurrently, through continued monitoring and information exchange, managers can use empowerment strategies to help companies more proactively identify high-certainty development opportunities in an uncertain economic environment. Through coordinating with invested companies, managers can improve their institution's own stewardship of investees, helping to realize value creation for the institution and the investees, as well as for the industry and the capital markets as a whole.

6 Information Disclosure Requirements and Applications

6.1 Form of Disclosure

Managers are encouraged to make disclosures in the form of sustainable investment reports or ESG reports.

Managers are encouraged to submit a physical copy of the previous year's (the reporting year) report to the Asset Management Association of China or other local associations at the provincial or city level (if such associations accept such submissions) by the end of April each year.

6.2 Location of Disclosure

It is recommended that managers publish sustainable investment reports on their institution's official website, the Asset Management Association of China website, and on local or industrial associations' websites or online media platforms.

6.3 Period of Disclosure

Managers are encouraged to release a sustainable investment report at least once per year.

For the first-time release of a sustainable investment report, managers can make a one-time, integrated disclose of information that has been collected over previous years, including sustainability strategy and goals, sustainability operations, sustainable investment performance, and outcomes. Subsequent disclosures may be released according to the required reporting period.

6.4 Uses/Applications of Disclosures

Sustainable investment reports made by managers can satisfy the requirements of regulators and stakeholders, and can provide information on decision-making, operations and management, and sustainable development. The reports can also be used as references for internal decision-making and management, and to promote sustainability.

Currently, market entities' usage of sustainable investment reports is still at an early stage. Market entities should continue to advance different stakeholders' broad application of sustainable investment reports, and further develop these disclosures' extensive, practical uses.

7 Responsibility and Supervision

7.1 Responsibilities of Managers

Managers are responsible for the materiality, authenticity, integrity, consistency, and timeliness of sustainable investment reports.

7.2 Acceptance of Supervision

Sustainable investment reports should accept supervision by government entities, the public, news media, and other third parties.

Appendix (Standardized) Sustainable Investment Disclosure Framework and Instructions

(Omitted)

References

(Omitted)