

HKRSA

香港退休計劃協會

The Hong Kong Retirement Schemes Association



Retirement  
Beyond  
Dollars  
and Cents  
HKRSA 2023

# ESG investing: a pathway for sustainable retirement

## ESG投資:尋找退休生活可持續投資的出路



2023年10月27日 (星期五)  
下午2時半至3時半



October 2023

# ESG investing: a pathway for sustainable retirement

憑藉實力 贏得信任

**Amundi**

ASSET MANAGEMENT  
東方匯理 資產管理

# Agenda

- Introduction to ESG
- ESG investing trends
- ESG investing strategies
- How to avoid greenwashing?

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# 01

## Introduction to ESG

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# Introduction to ESG

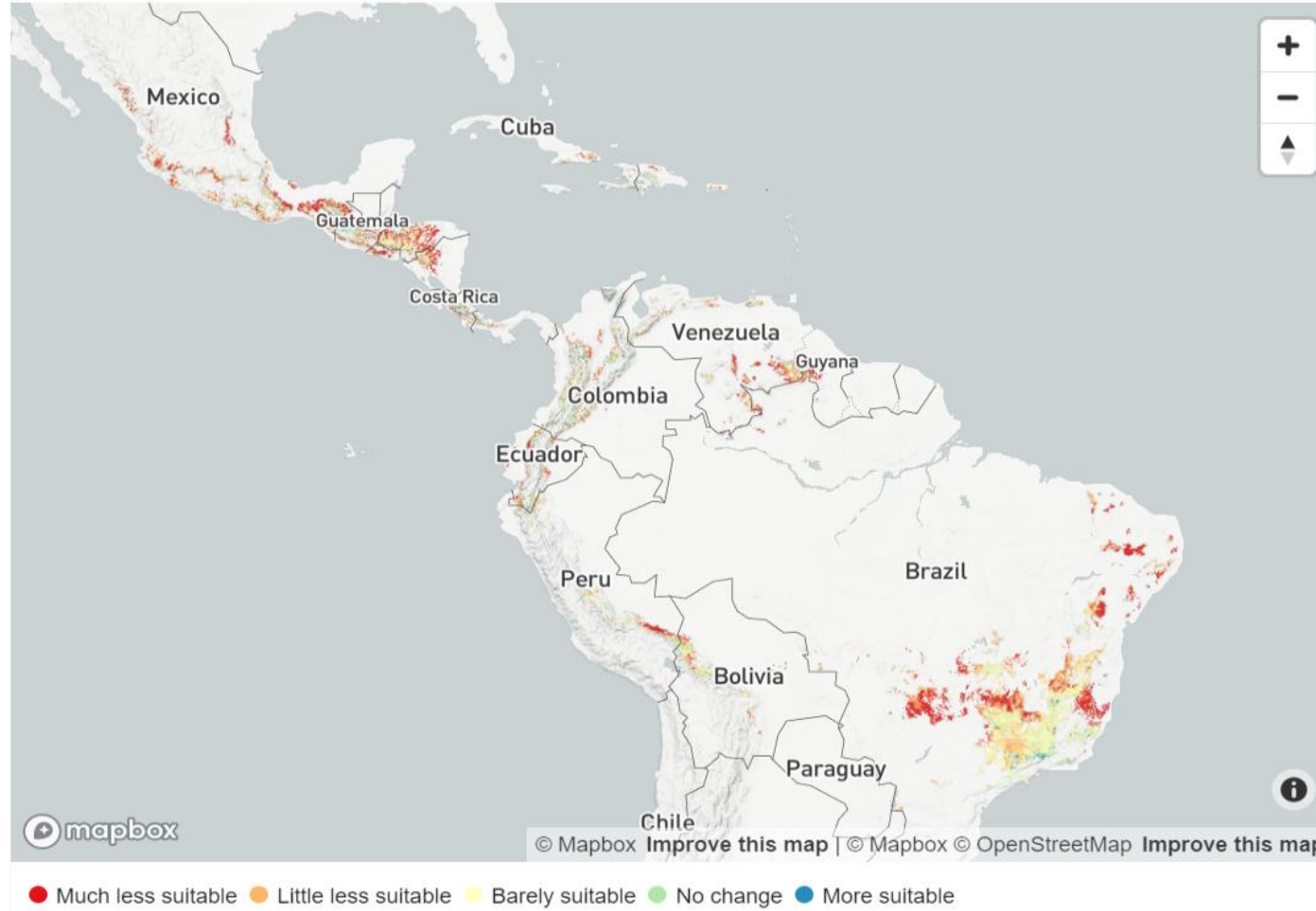


Source: Amundi

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# Why ESG matters?

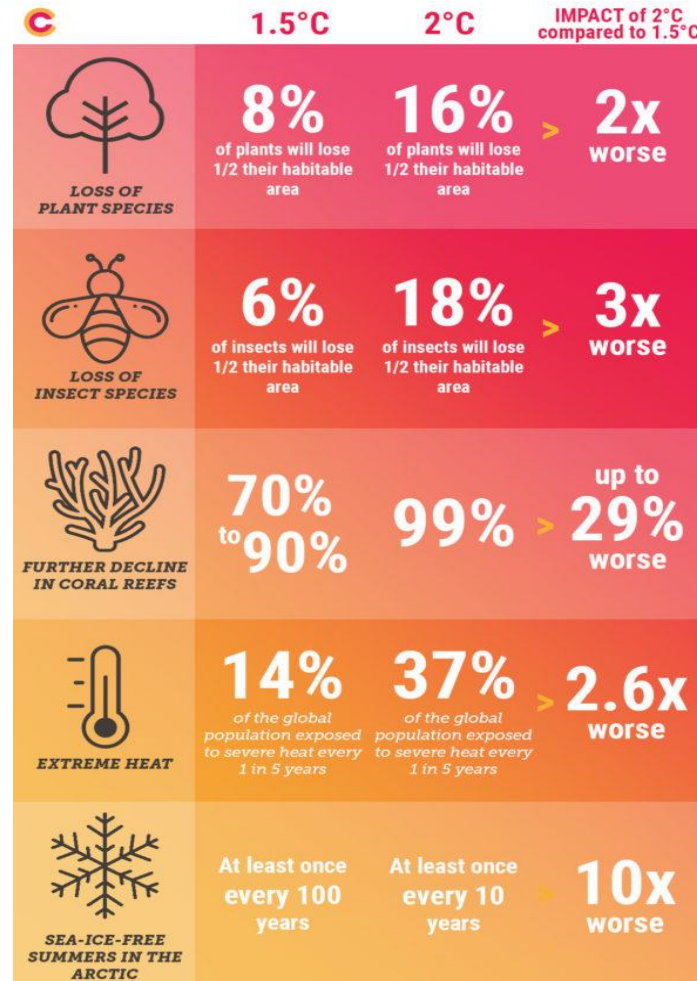
50% of High-quality Coffee Production Land Could be Unproductive by 2050



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# Why ESG matters?

The latest UNEP Emissions Gap Report shows that policies currently in place put us on track for 2.8°C of warming by the end of the century.

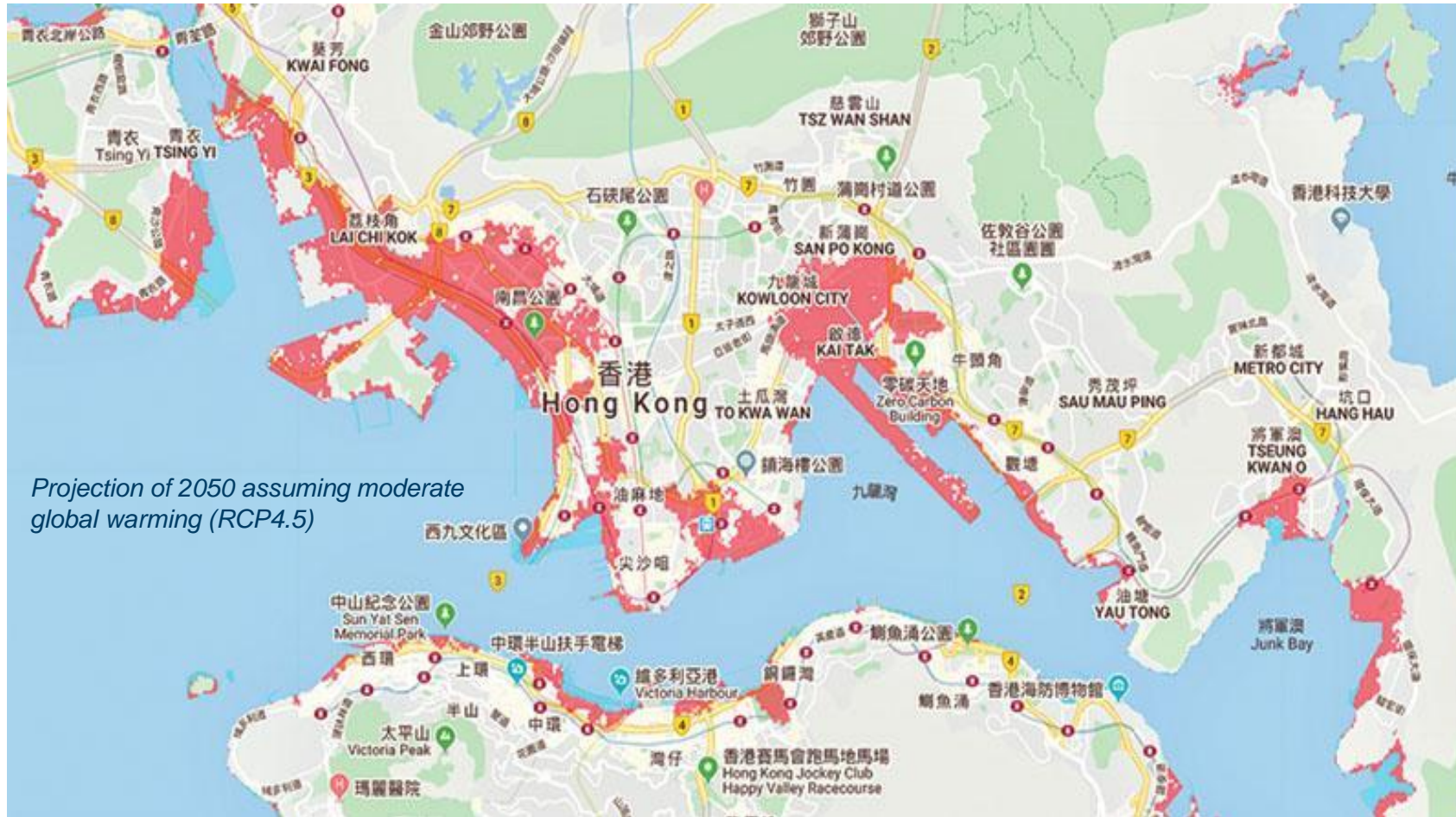


Source: climate council australia

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# What if temperature goes up 2.8°C?

Which areas will be under water if temperature goes up 2.8°C?



Source: <https://www.chinawaterrisk.org/resources/analysis-reviews/hk-submerged-is-this-map-for-real/>

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# Environment

## ENVIRONMENT



ANY ASPECT OF THE COMPANY'S  
ACTIVITY THAT HAS AN IMPACT,  
EITHER POSITIVE OR NEGATIVE,  
EITHER DIRECT OR INDIRECT  
ON THE ENVIRONMENT

- Climate change
- Natural resources
- Pollution and waste
- Environmental opportunities

## Examples of criteria

- Energy consumption and greenhouse gas emissions
- Water
- Biodiversity, pollution and waste
- Sustainable
- Construction, etc...

# Social

## SOCIAL



ANY ASPECT ASSOCIATED WITH THE  
COMPANY'S HUMAN CAPITAL AND  
HUMAN RIGHTS IN GENERAL

• Human capital

• Social benefits

## Examples of criteria

- Working conditions and non-discrimination
- Health and safety
- Local communities and human rights
- Client/supplier relationships
- etc...

# Governance

**GOVERNANCE** ..... **Examples of criteria** .....

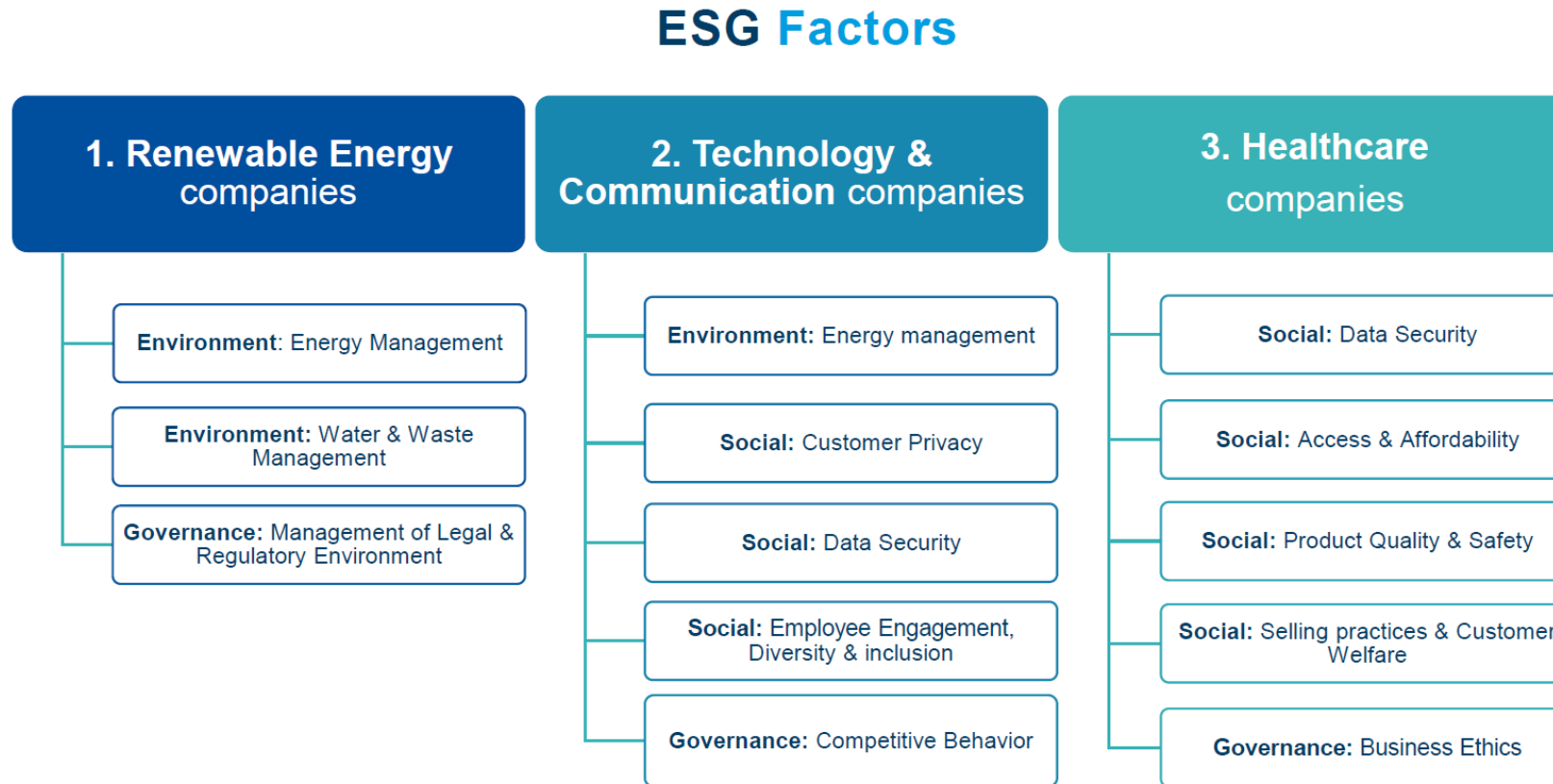
 **ANY ASPECT ASSOCIATED WITH THE MANAGEMENT AND BEHAVIOUR OF A COMPANY**

- **Corporate governance**
- **Behaviour of the company**

- Independence of the Board
- Audit and control
- Remuneration
- Shareholders' rights
- ESG strategy Fiscal practices
- etc...

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# ESG Factors are different for Different Sectors



Source: SASB Materiality Map <https://www.sasb.org/standards/materiality-map/>

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# ESG Analysis Framework

Examples of E / S / G weights for different sectors

	E	S	G
Automobiles	40%	34%	26%
Banks	24%	29%	47%
Metals & Mining	44%	33%	23%
Textiles, Apparel & Luxury Goods	37%	32%	30%
Food & Staples Retailing	28%	38%	34%
Pharmaceuticals	20%	37%	43%

The **weights** assigned to criteria and ultimately to different E, S, and G pillars translate the importance of ESG issues into the final ESG ratings

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# Linkage to Financial Models: Corporates

Goal: lay out assumptions and assess financial impact, on « all-else-being-equal » basis

	Environmental: Transition Risk	Environmental: Physical Risk	Social	Governance
IS: Revenue	Loss in revenue	Loss in revenue	Loss in revenue	Loss in revenue
IS: COGS / SG&A / R&D	higher R&D	Restructuring / decommissioning cost	higher labour costs	
IS: Depreciation / Amortisation / Impairment	Accelerated depreciation / impairment charges from new regulations		Accelerated depreciation / impairment charges from new regulations	
BS: financial/ contingent liabilities, off-BS provisions	environmental liabilities		pension liabilities	
CF: CAPEX	Tangible / intangible CAPEX	Tangible / intangible CAPEX		
CF: other				Higher dividends

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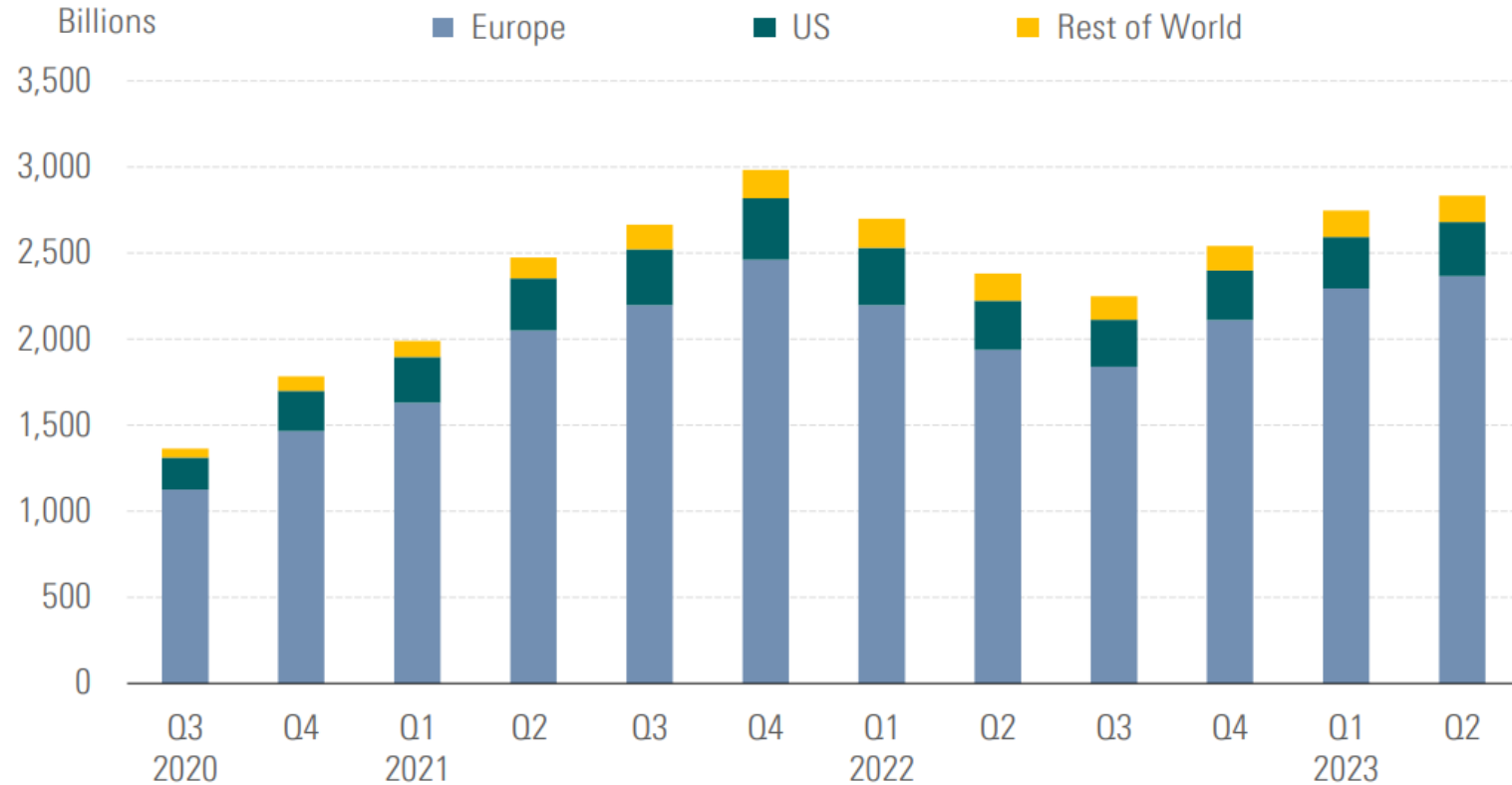
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# 02

## ESG Investing Trends

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# Quarterly Global Sustainable Fund Assets (USD Billion)

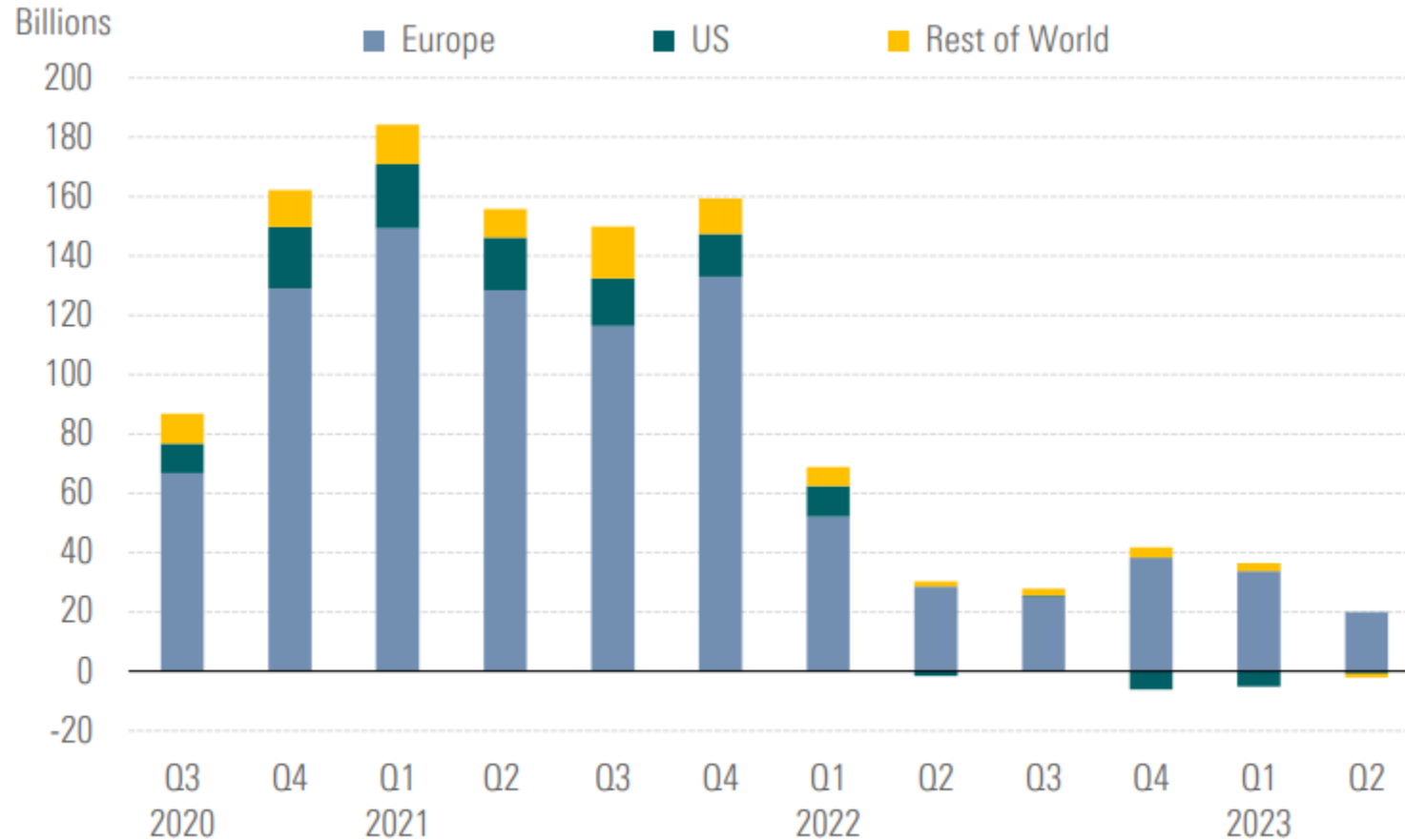


Source: Morningstar Direct, Manager Research. Data as of June 2023.

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# Quarterly Global Sustainable Fund Flows (USD Billion)



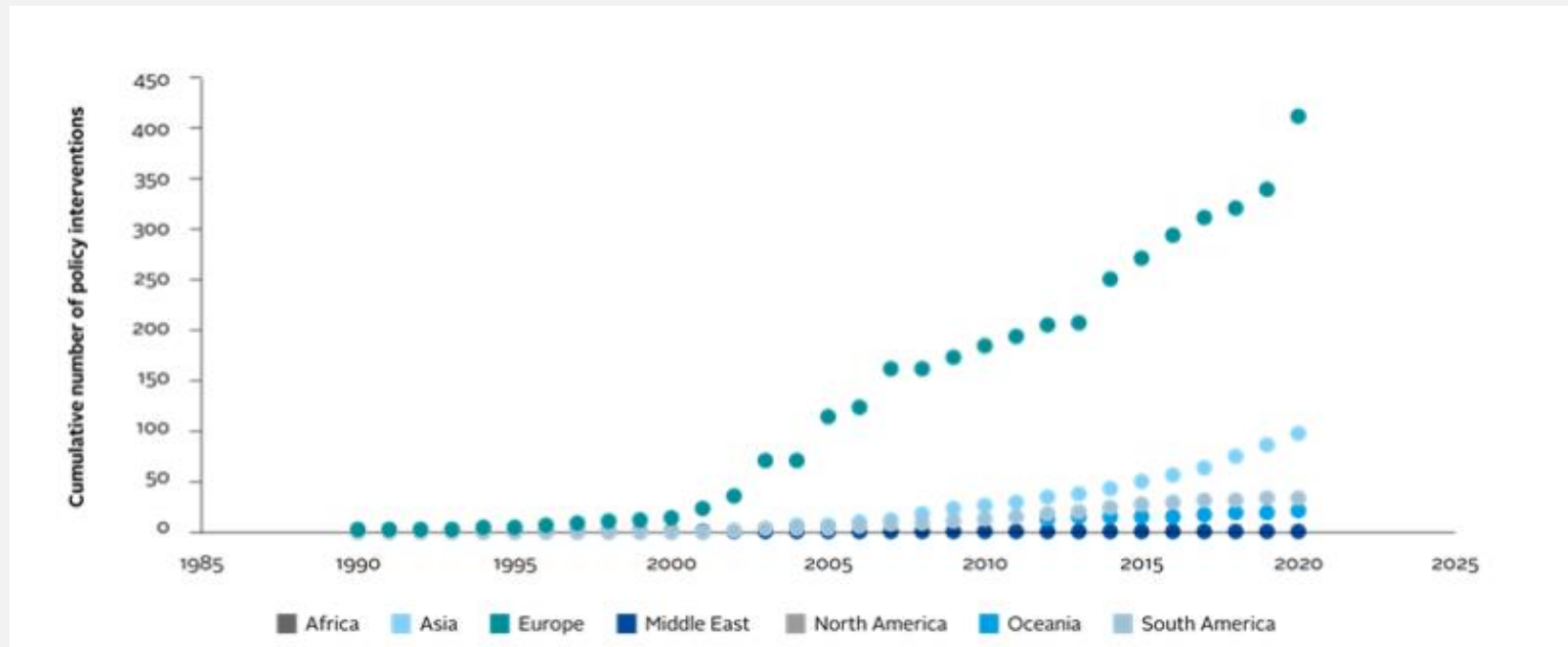
Source: Morningstar Direct, Manager Research. Data as of June 2023.

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# Regulators have tightened sustainable finance policies

Sustainable and climate regulations are shaping the future of the financial sector

>> The number of ESG and climate regulations is steadily rising

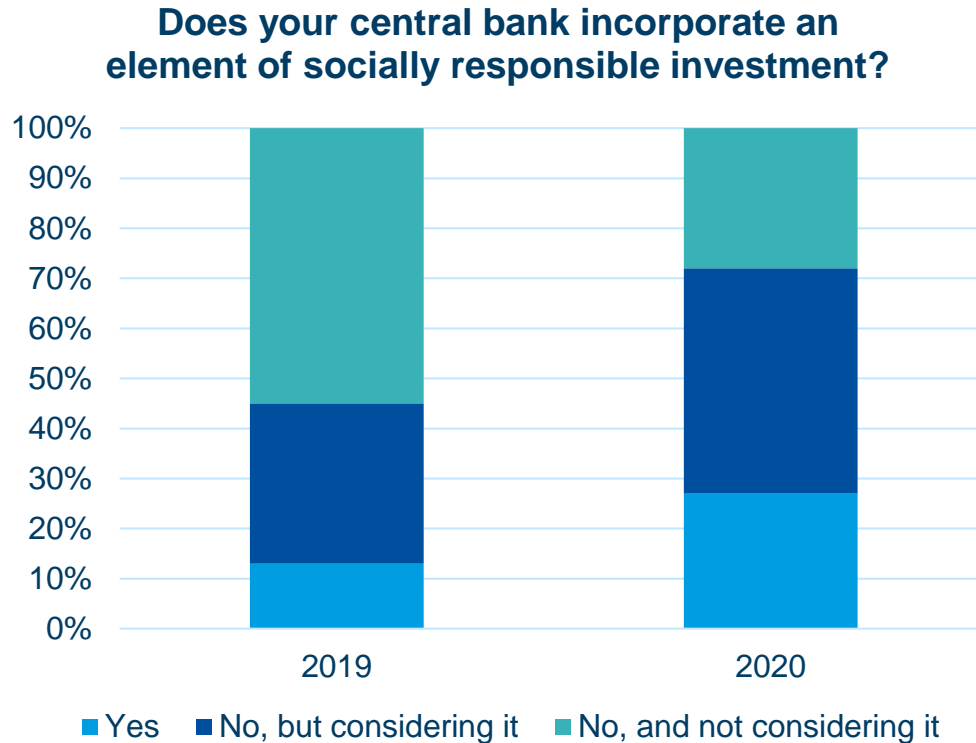


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Source : UNPRI, as of Mar 2021

# Socially Responsible Investment is gathering interest

Central Banks are increasingly willing to incorporate SRI into reserve management



## Central Banks and SRI Investing is gathering momentum...

- Almost half of respondents (45%) said that they are considering incorporating an element of **socially responsible investment (SRI)**, and 27% said that they already did
- However, the most advanced Central Banks with regards to SRI are from **high income countries**
- The main obstacles for considering SRI integration include **concerns over liquidity/returns** and the difficulties reconciling this with the Central Bank's mandate

Source: HSBC, *Central Bank Investment Trends (2020)*

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# ESG Performance

**48%**

of studies show that **ESG has a positive  
Impact on performance**<sup>1</sup>

**90%**

of studies show that **RI does not have  
a negative Impact on performance**<sup>1</sup>

<sup>1</sup> Source: Friede, Busch, & Bassen. (2015). ESG and financial performance: meta-study aggregating the results of 2200 individual analyses of ESG performance on different asset classes and regions published between 1970 and 2014 shows a positive relationship globally

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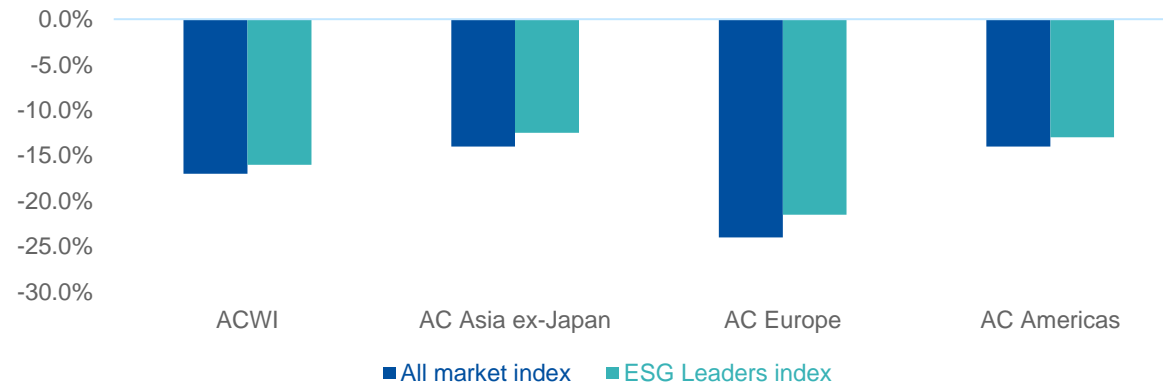
# Does It Mean Sacrificing Returns?

## ESG Leaders diverging<sup>1</sup>

CUMULATIVE INDEX PERFORMANCE – GROSS RETURNS (USD)  
(MAR 2008 – MAR 2023)



## Covid Impact on ESG<sup>2</sup>



Sources: 1 - MSCI As of Mar 2023. The SGI index represents stocks that could benefit from the European green deal. Past performance is not a guarantee or indicative of future results. 2 -Source: MSCI, UBS.

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# 03

## ESG Investing Strategies

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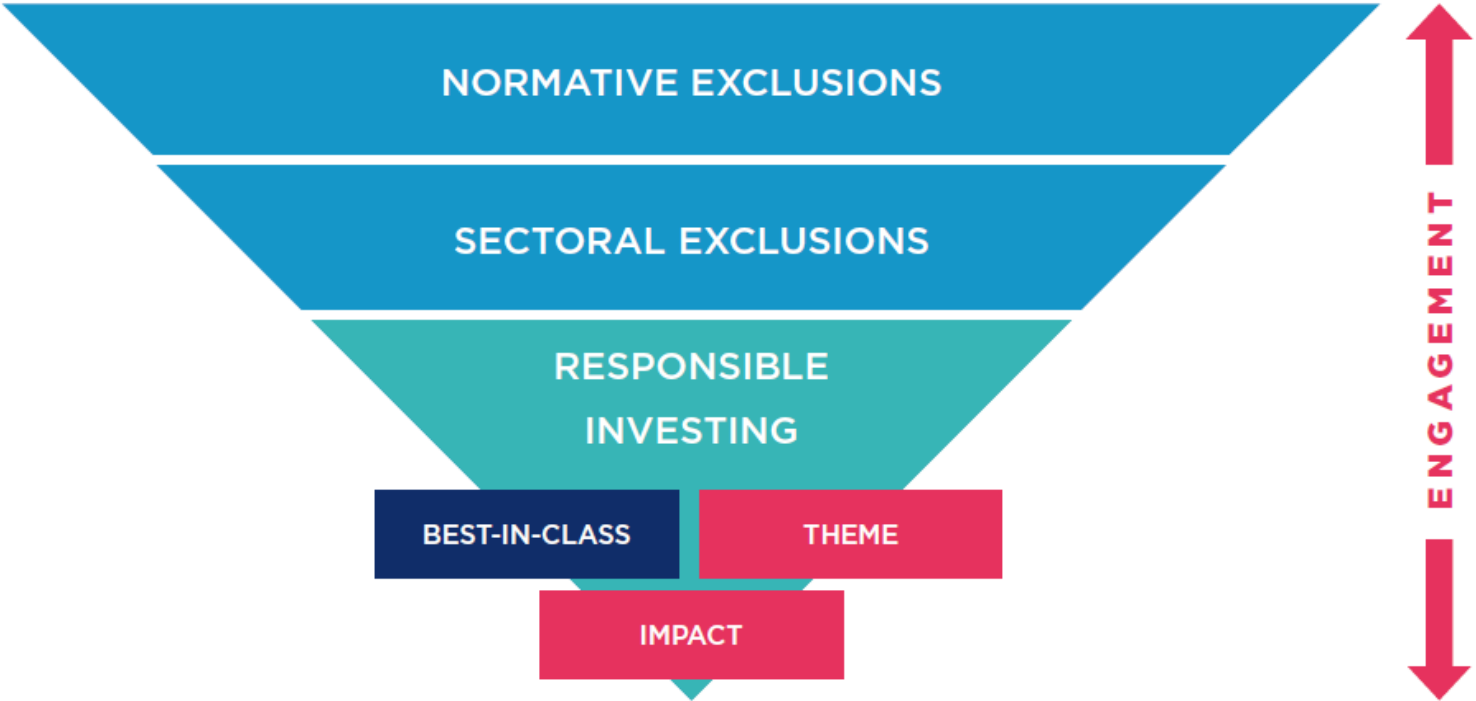
# Main Responsible Investment Approaches



Sources: Amundi

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# Main Responsible Investment Approaches



Sources: Amundi

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# Exclusions Example

## Normative exclusions

Companies that do not comply with Amundi's ESG policy, international conventions, internationally recognized frameworks, and national regulations:



Anti-personnel mines<sup>1</sup>



Cluster munitions<sup>1</sup>



Chemical weapons<sup>2</sup>



Biological weapons<sup>3</sup>



Depleted uranium weapons



Violation of the UN Global Compact<sup>4</sup>



Nuclear weapons<sup>5</sup>

## Exclusions sectorielles



### Charbon

**Exclusion rules:** Amundi is committed to phase out thermal coal from its investments by 2030 in OECD countries and by 2040 in non OECD countries. Amundi already excludes:

- "Developers", i.e. mining companies, utility companies, and transport infrastructure companies that are developing coal projects with permitted status and that are in the construction phase, as defined in the Crédit Agricole Group's coal developers list. In addition, companies with coal projects in earlier stages of development, including announced, proposed, with pre-permitted status, are monitored on a yearly basis.
- **Companies considered too exposed to be able to gradually withdraw from thermal coal at the expected pace:**
  - Companies with revenue from thermal coal mining extraction and thermal coal power generation that exceeds 50% of total revenue without analysis;
  - Coal-fired power generation and coal mining companies with a threshold between 20% and 50% of total revenue and with an insufficient transition path<sup>6</sup>.
  - Regarding mining extraction, companies generating more than 20% of their revenue in the thermal coal extraction or companies with annual thermal coal extraction of 70 MT or more without intention to reduce.

**Engagement:** 100% of "coal" companies under exclusion thresholds and invested by Amundi are committed in order to obtain an exit plan and an escalation plan is triggered if the commitment proves unsuccessful within the compatible 2030 OECD / 2040-NonOECD timetable.



### Tabac

**Exclusion rules:**

Companies that manufacture complete tobacco products (thresholds for application: revenues above 5%) \*\*

**Cap rules:**

The ESG rating (ranging from A to G) of the tobacco sector is capped to E. This policy applies to companies involved in the production, the supply and retailing of tobacco (thresholds for application: revenues above 10%). This applies to active investments.



### Hydrocarbures non conventionnels

By the end of 2022, Amundi will exclude companies whose activity is exposed to exploration and production of unconventional oil & gas extraction (covering "shale oil and gas" and "oil sands") by over 30%.

((1) Conventions Ottawa 3/12/1997 and Oslo 3/12/2008, ratified by 164 and 103 countries respectively as of July 2018 (including European Union countries and excluding the United-States). (2) Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction 13/01/1993. 3) Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction 26/03/1972. (4) United Nations Global Compact (UN Global Compact): "A call to companies to align strategies and operations with universal principles on human rights, labor, environment and anti-corruption, and take actions that advance societal goals."; (5) . By the end of 2022, Amundi will also exclude: • Issuers involved in the production, sale, storage of nuclear weapons of States that are non-parties to the Treaty on the Non-Proliferation of Nuclear Weapons; • Issuers that produce nuclear warheads and/or whole nuclear missiles; or that • Issuers that derive over 5% of their total revenue from the production or sale of nuclear weapons. (6) Amundi is performing an analysis to assess the quality of their phase out plan. \*\* This policy is applicable across all actively managed strategies and passively managed ESG strategies over which Amundi has full discretion.

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# ESG Integration Example

		ESG RATING						
		A	B	C	D	E	F	G
FINANCIAL RATING	+2	+2	+2	+2	+1	-2	-2	-2
	+1	+2	+2	+2	+1	-2	-2	-2
	0	+1	+1	+1	0	-2	-2	-2
	-1	0	0	0	-1	-2	-2	-2
	-2	0	0	0	-1	-2	-2	-2

Sources: Amundi

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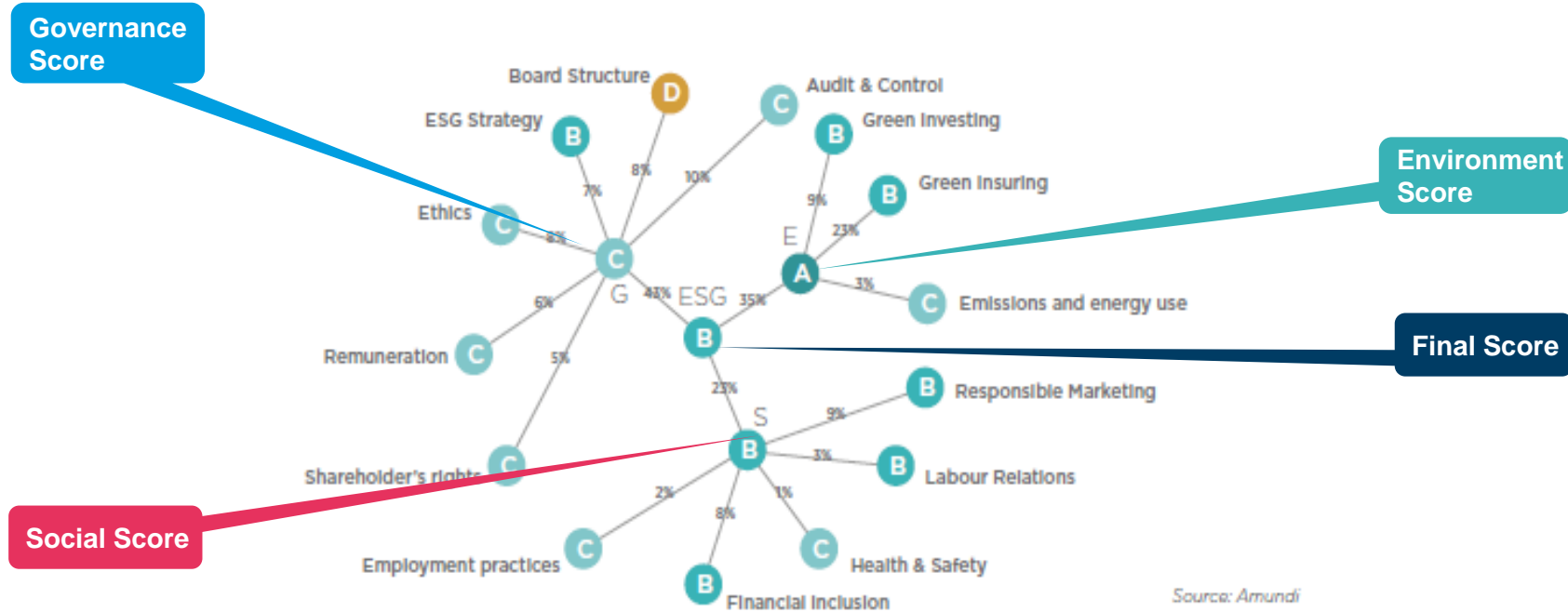
# ESG integration Example

	<b>E</b> nvironment 	<b>S</b> ocial 	<b>G</b> overnance 
<b>GENERIC</b>	17 <ul style="list-style-type: none"> <li>Emissions &amp; Energy</li> <li>Water Management</li> <li>Biodiversity &amp; Pollution</li> <li>Supply Chain - Environment</li> </ul> 4	6 <ul style="list-style-type: none"> <li>Health &amp; Safety</li> <li>Working Conditions</li> <li>Labour Relations</li> <li>Supply Chain - Social</li> <li>Product &amp; Customer Responsibility</li> <li>Community Involvement &amp; Human Rights</li> </ul>	7 <ul style="list-style-type: none"> <li>Board Structure</li> <li>Audit &amp; Control</li> <li>Remuneration</li> <li>Shareholders' Rights</li> <li>Ethics</li> <li>Tax practices</li> <li>ESG Strategy</li> </ul>
<b>SPECIFIC</b>	21 <ul style="list-style-type: none"> <li>Clean Energy</li> <li>Green Car</li> <li>Green Chemistry</li> <li>Sustainable Construction</li> <li>Responsible Forest Management</li> <li>Paper Recycling</li> <li>Green Investing &amp; Financing</li> <li>Green Insuring</li> <li>Green Business</li> <li>Packaging</li> </ul> 10	11 <ul style="list-style-type: none"> <li>Bioethics</li> <li>Responsible Marketing</li> <li>Healthy Product</li> <li>Tobacco Risk</li> <li>Vehicle Safety</li> <li>Passenger Safety</li> <li>Responsible Media</li> <li>Data Security &amp; Privacy</li> <li>Digital Divide</li> <li>Access to Medicine</li> <li>Financial Inclusion</li> </ul>	

Source: Amundi as of 31 December 2021

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# ESG Integration Example: ESG Rating



**E** + **S** + **G** = **Final Score**

Source: Amundi as of end Dec 2021. For illustrative purposes only. Information given is at time of writing and may change without prior notice. Example of a company of the Financial Sector. Absolute weights at criteria level.

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# Thematic Investing Example: United Nation 'SDGs'

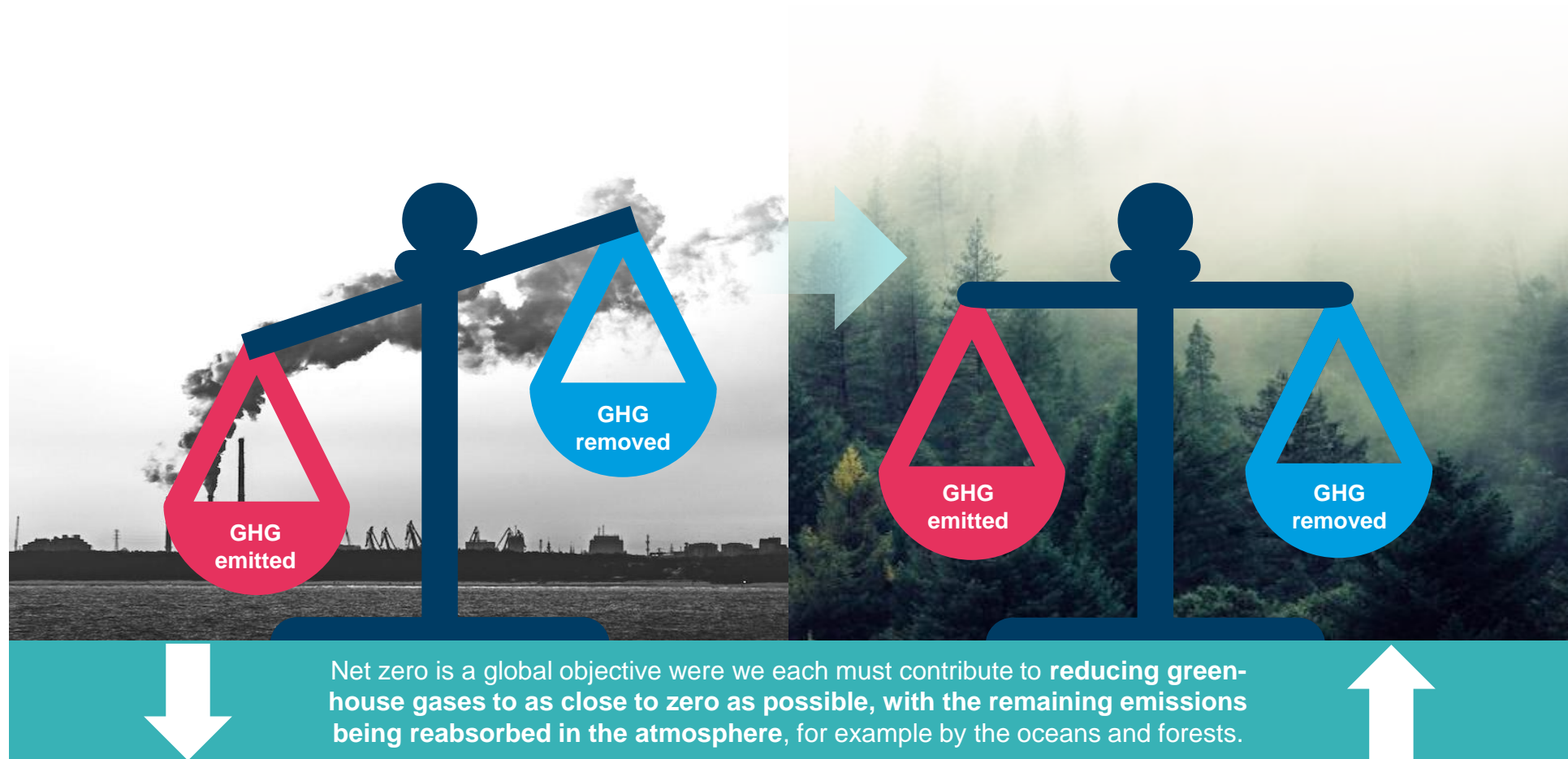


Source: UN

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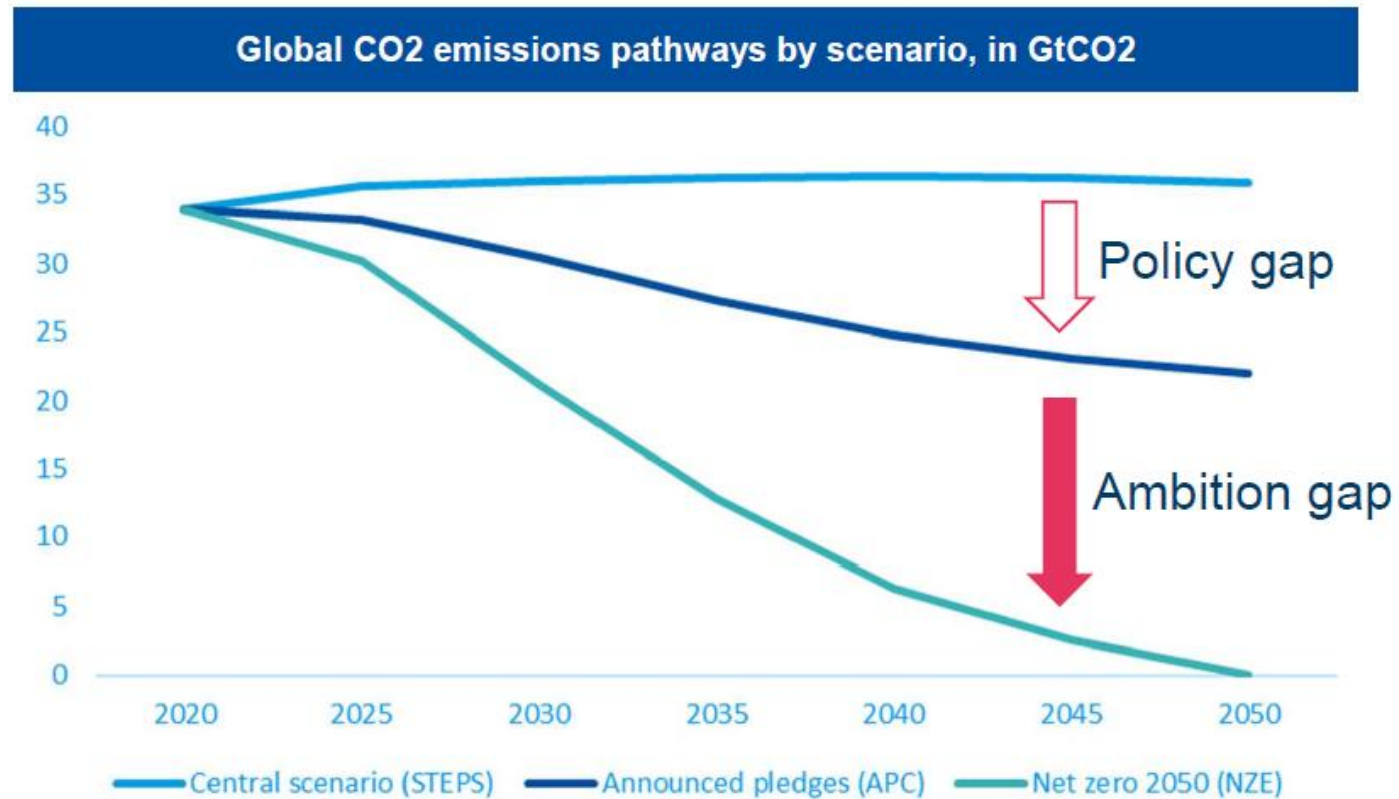
# Thematic Investing Example: Net-zero

Efforts revolve around balancing global emissions of Greenhouse Gases (GHG)



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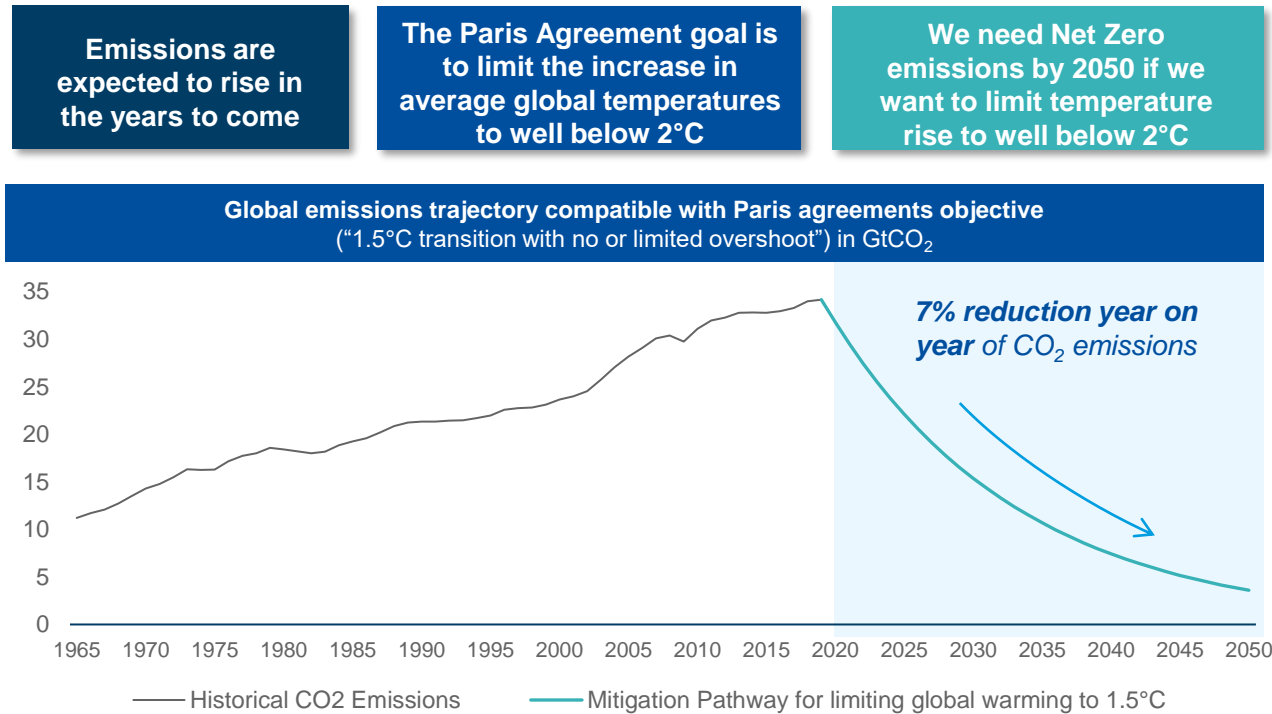
# A huge policy and ambition gap remains to achieve net-zero 2050



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# New challenges: mobilization on carbon neutrality goals

A 7% annual reduction of CO2 emissions is required to reach the Paris objectives



Sources: Synthesis Report, IPCC SR15 report Chapter 2, Global Carbon Budget, 2018; BP Statistical Review of World Energy 2020.

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## Companies can be Net Zero in two ways:



How they operate

Climate Champions  
+  
Climate Committed

Or...

What they produce

Climate Enablers

Please refer to the Amundi [Responsible Investment Policy](#) and the Amundi Sustainable Finance Disclosure [Statement](#).

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# 04

## How to avoid greenwashing?

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# How to Avoid Greenwashing?

The screenshot shows the website of the Securities and Futures Commission (SFC). The header includes the SFC logo, navigation links for 'Eng 繁體', 'Sitemap', 'Contact us', 'FAQs', 'Forms', 'Lodge a complaint', and 'Media corner', along with social media icons for Facebook, LinkedIn, WeChat, and YouTube. A search bar is also present. The main navigation menu includes 'About the SFC', 'Regulatory functions', 'Rules and standards', 'Published resources', 'News and announcements', and 'Career'. The left sidebar lists categories: 'Corporates', 'Intermediaries', 'Products', 'Markets', and 'Enforcement'. Under 'Products', there is a list of links including 'List of publicly offered investment products', 'List of ESG funds', 'Circulars', 'Open-ended fund companies', 'Consultations and conclusions', 'Forms & checklists', 'Real estate investment trusts', 'FAQs', and 'Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts'. The main content area shows the breadcrumb 'Home > Regulatory functions > Products > List of ESG funds' and the title 'List of ESG funds'. The text explains that the list contains information about SFC-authorized funds that incorporate ESG factors. It notes that management companies have confirmed compliance with requirements set out in a circular. A disclaimer states that the SFC has not independently verified the effectiveness of these products' investment strategies. A section titled 'SFC authorisation' explains that SFC authorisation involves a review of whether a product meets legal and regulatory requirements, but it does not mean the product is suitable for every investor.

Source: <https://www.sfc.hk/en/Regulatory-functions/Products/List-of-ESG-funds>

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