Join global peers in ESG Investing for higher value creation and sustainable income

Amundi
ASSET MANAGEMENT
東方匯理 資產管理

With Hong Kong's ambition of becoming Asia's green finance hub, it has become apparent that asset owners should move together with the government policy and regulatory changes to seek higher value creation and sustainable income for their investment portfolios through ESG investing.

Alpha generation for long-term investment

ESG is becoming increasingly important in terms of alpha generation over the longer term. From a risk perspective, companies which are strong ESG stewards generally have more robust business models. A McKinsey research discovered a significant correlation between resource efficiency and financial performance and that executing ESG effectively could affect operating profits by as much as 60%. [1] Furthermore, companies with improving ESG trends should benefit from increasing investor demand fueling share price appreciation. In order to benefit from these trends, it is critical to have a good understanding of the ESG trajectory of the business and to invest in names that show signs of continuous improvement. ESG momentum can be a source of alpha generation.

[1]Five ways that ESG creates value (McKinsey Quarterly, November 2019)

Going forward: Rethink your investment objective

The growth portfolio of pension funds is traditionally designed to generate return over the long term. As pension funds need to align their growth bucket with their long-term horizon, thematic equities may be part of the solution by providing diversification and exposure to long-term growth. Hence, with a responsibility towards the future society, pension funds should plant the seeds for structural growth through ESG investing.

Growing awareness and performance expectation for ESG investing

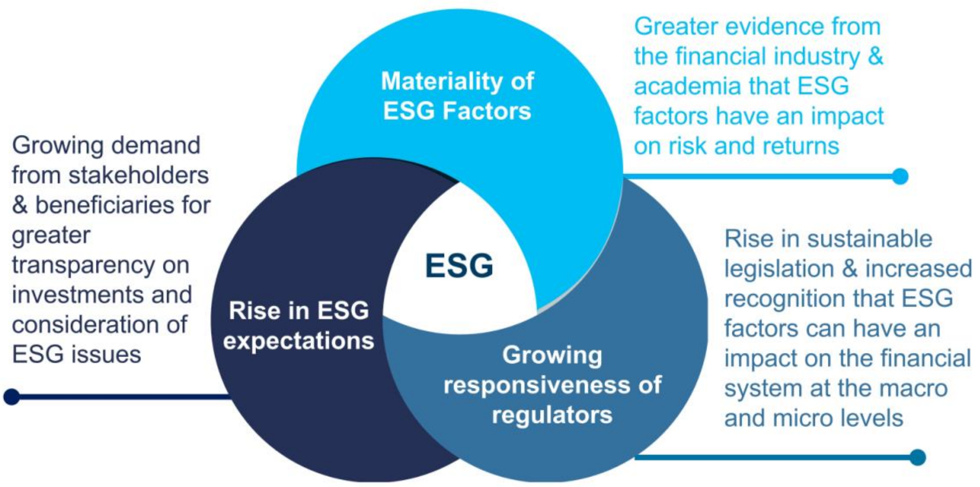
A survey published in Feb 2021 revealed that an increasing proportion of investors seek to map their investment against the UN Sustainable Development Goals with pension funds showing the highest positive response (36%) among all types of asset owners, including insurers, foundations, family offices etc. Today the overall figure sits at 28% compared to 3% three years ago. Additionally, 84% of the interviewed pension funds agreed that ESG criteria become important when they select external asset managers as they face issues such as lack of transparency on manager's ESG considerations and demonstrable evidence that ESG is feeding into investment frameworks and portfolios, possibly resulting in superficial approaches, i.e. "ESG-washing". With rising trend of ESG investing, investors should pay greater attention on the investment managers' ESG investment framework and sources of ESG data.

Your global peers in action

Based on our experience with pension funds worldwide, we observed that those in Europe have acknowledged the rewards of ESG investing and moved quickly to stay ahead of the game. Some French and Swedish pension funds collaborated with their external asset manager and MSCI in developing the MSCI Low Carbon Leaders indexes. Facing difficulties in sourcing reliable ESG data, Danish and Finnish pension giants engaged in responsible investing in their own ways too. The former had a €2.6bn passive global equity climate change mandate[2] while the latter backed the launch of an ESG ETF with its asset manager.[3] These engagements create more ESG solutions for the market as well as their pension peers.

[2]Danish pension fund awards Amundi €2.6bn climate equity mandate (Citywire Selector, Jul 2020)

[3]Ilmarinen invests €500m in passive ESG EM equities via Amundi (IPE, Jul 2020)



Your global peers in action (cont'd)

Amundi's study on ESG Investing in Asia conducted with the Economist highlighted a significant change in the awareness and impact of ESG in Asia over the past 5 years.[4] This has been driven by the uptake by large asset owners such as Japan's Government Pension Investment Fund and the Thai Government Pension Fund, which are not only transforming their own approach but proselytizing among other investors in the region; the policies of national and multilateral development banks; and regulatory action by governments and exchanges.

[4] Sustainable and actionable: a study of asset-owner priorities for ESG investing in Asia (The Economist, 17 June 2019)

https://eiuperspectives.economist.com/sites/default/files/amundi_sustainable_and_actionable_0.pdf

ESG solutions in Hong Kong

The Hong Kong Stock Exchange implemented new ESG reporting guidelines in July 2020[5], which include introducing mandatory disclosure requirements and examining environmental as well as social KPIs. The change demonstrates regulators' determination to improve and promote ESG investing in Hong Kong, which, hence, will undoubtedly become inevitable for investors in the near future.

Despite lagging behind in ESG investing compared to the peers around the world, Hong Kong pension funds will hopefully be heading forward with rising awareness as well as swift transition along with both the policy-makers and other asset owners and contributing to Hong Kong's aspiration of becoming Asia's green finance hub.

[5] Exchange Publishes ESG Guide Consultation Conclusions And Its ESG Disclosure Review Findings (HKEX Website, 18th December 2019)

About HKRSA

The Hong Kong Retirement Schemes Association (HKRSA) was established in 1996 to promote the interests and best practices of retirement schemes in Hong Kong including provident and pooled retirement funds. The HKRSA is a not-for-profit, non-political association, which represents retirement schemes and their members, providing a forum for discussion of issues of current and topical interest.

About Amundi

Amundi, the leading European asset manager, ranking among the top 10 global players , offers its 100 million clients—retail, institutional and corporate—a complete range of savings and investment solutions in active and passive management, in traditional or real assets.
With its six international investment hubs , financial and ESG research capabilities, and long-standing commitment to responsible investment, Amundi is a key player in the asset management landscape, currently managing more than US$2.126 trillion of assets.

HKRSA Disclaimer

This document is intended to be for information purposes only and it is not intended as promotional material in any respect. It does not constitute any solicitation and offering of investment products. The views and opinions contained herein are those of the author(s), and do not represent views of the Hong Kong Retirement Schemes Association (the "HKRSA"). The material is not intended to provide, and should not be relied on for, investment advice or recommendation. Information contained herein is believed to be reliable, but the HKRSA makes no guarantee, representation or warranty and accepts no responsibility for the accuracy and/or completeness of the information and/or opinions contained in this document, including any third party information obtained from sources it believes to be reliable but which has not been independently verified. In no event will the HKRSA be liable for any damages, losses or liabilities including without limitation, direct or indirect, special, incidental, consequential damages, losses or liabilities, in connection with your use of this document or your reliance on or use or inability to use the information contained in this document. This document has not been reviewed by the SFC. Any link to other third party websites does not constitute an endorsement by the HKRSA of such websites or the information, product, advertising or other materials available on those websites and the HKRSA accepts no responsibility for the accuracy or availability of any information provided by linked websites.

Amundi Disclaimer:

The issuer of this document is Amundi Hong Kong Limited. This document is not intended as an offer or solicitation with respect to the purchase or sale of securities, including shares or units of funds. All views expressed and/or reference to companies cannot be construed as a recommendation by Amundi. Opinions and estimates may be changed without notice. To the extent permitted by applicable law, rules, codes and guidelines, Amundi and its related entities accept no liability whatsoever whether direct or indirect that may arise from the use of information contained in this document. This document is for distribution solely to persons permitted to receive it and to persons in jurisdictions who may receive it without breaching applicable legal or regulatory requirements. This document has not been reviewed by the Securities and Futures Commission in Hong Kong. This document is prepared for information only and does not have any regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document. Any person considering an investment should seek independent advice on the suitability or otherwise of the particular investment. Investors should not only base on this document alone to make investment decisions. Investment involves risk. The past performance information of the market, manager and investments and any forecasts on the economy, stock market, bond market or the economic trends of the markets are not indicative of future performance. Investment returns not denominated in HKD or USD is exposed to exchange rate fluctuations. The value of an investment may go down or up. This document is not intended for citizens or residents of the United States of America or to any «U.S. Person» , as this term is defined in SEC Regulation S under the U.S. Securities Act of 1933.