Friends of the Earth (HK)-PolyU
ESG Integration Focus Group Report 2019

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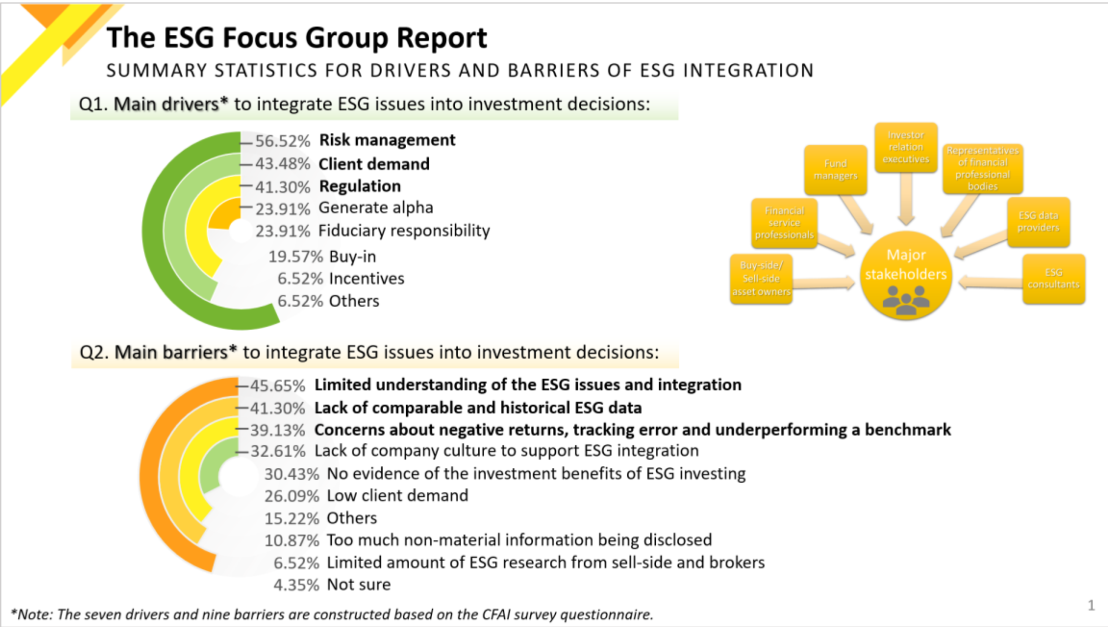
The Voice-over Script for Presentation

Welcome to our presentation. The purpose of this presentation is to discuss the key drivers and challenges of practicing ESG integration in Hong Kong and Mainland China. We will also look ahead to the future milestones to improve ESG performance on our way forward.



In the focus group meetings, we engaged these major stakeholders to help us better understand the drivers and challenges of ESG integration through an in-depth sharing.

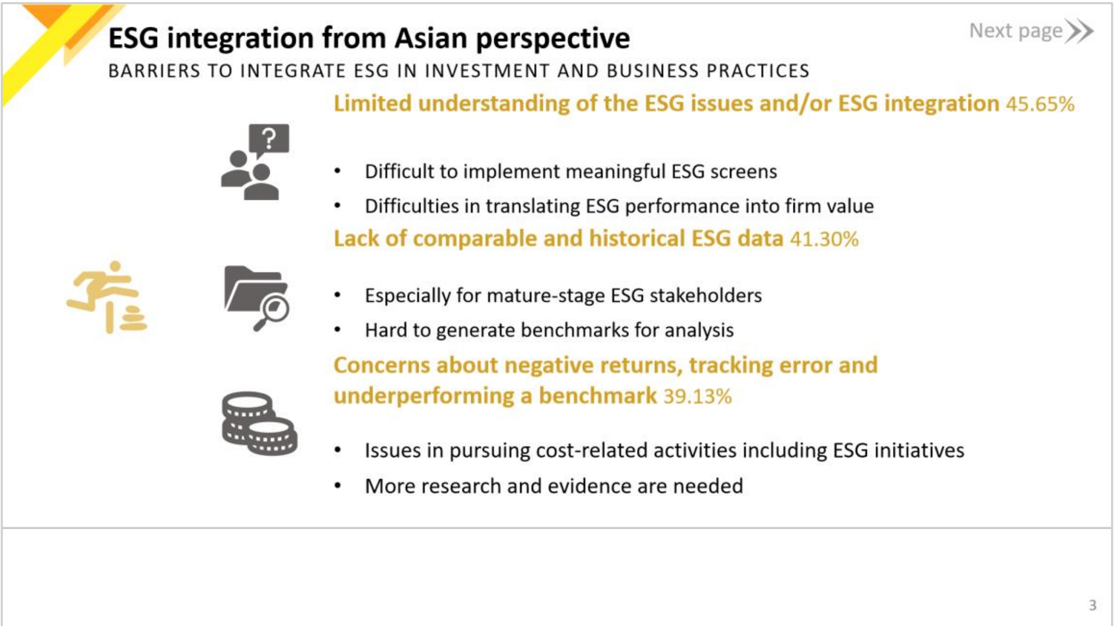
As a result of the interviews, here shows the frequency count list, which reveals several significant factors affecting ESG integration that worth our notice. We will present the top three drivers and barriers in the coming slides.

There are many drivers to integrate ESG issues into investment decisions and business practices. According to the research the top three motivations are risk management, client demand and regulatory concern.

Risk management is perceived as the top-one motivation, especially among mature ESG stakeholders. Also, more mature ESG stakeholders including asset owners, asset managers and listed firms tend to have more restrictive and prudent approach towards risk management at corporate level.

Client demand is perceived as the second driver. Reasons behind appear to be diversified, depending on client's mandate requirement and product quality expectation, etc.

In addition, regulation is another important driver of ESG integration, especially among early-stage ESG stakeholders. However, the overall opinion is not quite positive as stakeholders regard regulation as an obligation for compliance instead of a motivation to integrate ESG factors in investments and their business practices.

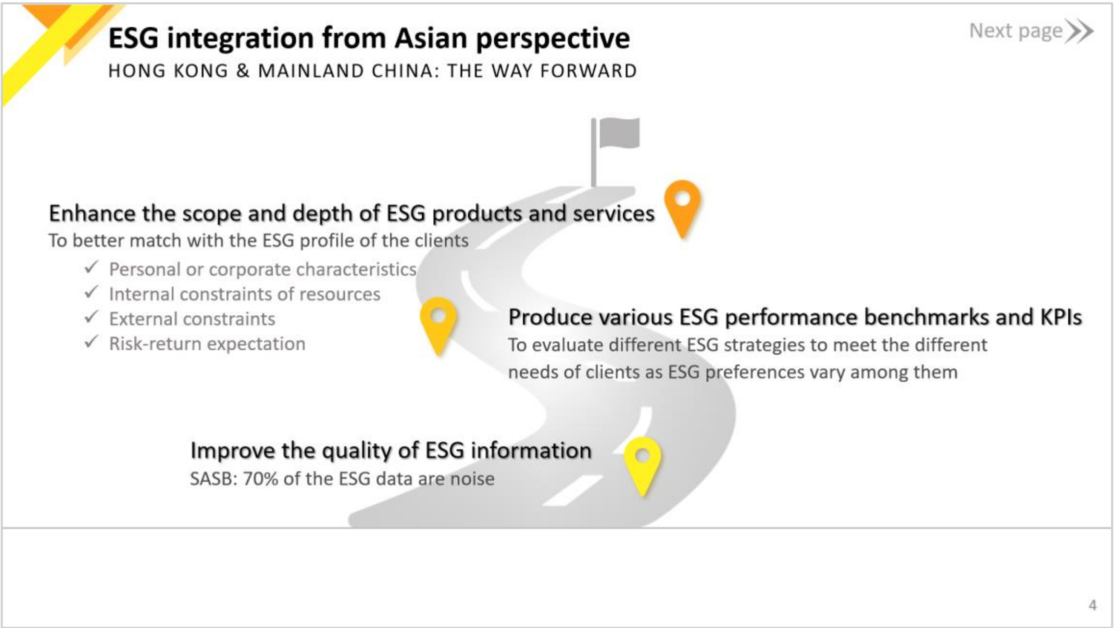


Meanwhile, there still exist certain possible problems that may become a barrier for firms to adopt ESG.

First is the limited understanding of the ESG issues and/or ESG integration. Owing to a lack of quality disclosure, it is extremely difficult for asset managers to implement meaningful ESG screens, as it is very labor intensive to conduct ESG research manually. Moreover, asset managers and owners see difficulty in measuring how ESG performance can be translated into firm value. Thus, a scientific approach to ESG integration is still far away.

Second potential barrier is the lack of comparable and historical ESG data. Especially for mature-stage ESG stakeholders who have existing clients demanding ESG integration, lack of comparable and historical ESG data to generate reasonable benchmarks for analysis can become an important issue.

Third is the concerns about negative returns, tracking error and underperforming a benchmark. Whether adopting ESG would sacrifice financial returns is still under debate, which is always an issue in pursuing any cost-related activities including ESG initiatives. Risk mitigation and long-term sustainability are viewed as key benefit for ESG integration. More research and evidence are needed to substantiate this claim.



Like any product market development, it takes time to make information more assessable and economically affordable to all stakeholders. ESG information is of no exception. In order for us to improve ESG performance of Hong Kong and Mainland China, we have to achieve the following milestones:

First is to improve the quality of ESG information.

Sustainability Accounting Standards Board (SASB) estimates that 70% of the ESG data are noise. We need to recognize the respective roles of risk management, client demand and regulation as drivers to different stage of ESG stakeholders. At the same time, the regulators and stakeholders should stay within their boundary and utilize their strengths and advantages to improve the quality of ESG disclosures.

Second is to produce various ESG performance benchmarks and KPIs.

Currently, it is difficult for clients to evaluate ESG service providers and asset managers in a fair manner due to a lack of comprehensive ESG performance benchmarks and KPIs. We need more comprehensive benchmark to evaluate different ESG strategies to meet the different needs of clients as ESG preferences vary among them.

Third is to enhance the scope and depth of ESG products and services.

Upon the availability of better information disclosures and benchmarks, more comprehensive ESG product choices should be launched. ESG preference is a net outcome of various factors including personal or corporate characteristics, internal constraints of resources, external constraints related to regulation and social expectation, and risk-return expectation. To better match with the ESG profile of the clients, more ESG products choices and solutions aiming to match these preferences are needed.

We believe ESG integration is an important channel to achieve sustainability for the society as a whole. Through ESG investment, corporations will take sustainability issues more seriously. Investors and stakeholders can vote with their feet, and the power of finance should play a vital role in enhancing sustainability through ESG integration. The website link is available if you want to know more about our report and the project. Thank you for listening.