

# A perspective on responsible investment trends

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## A perspective on responsible investment trends

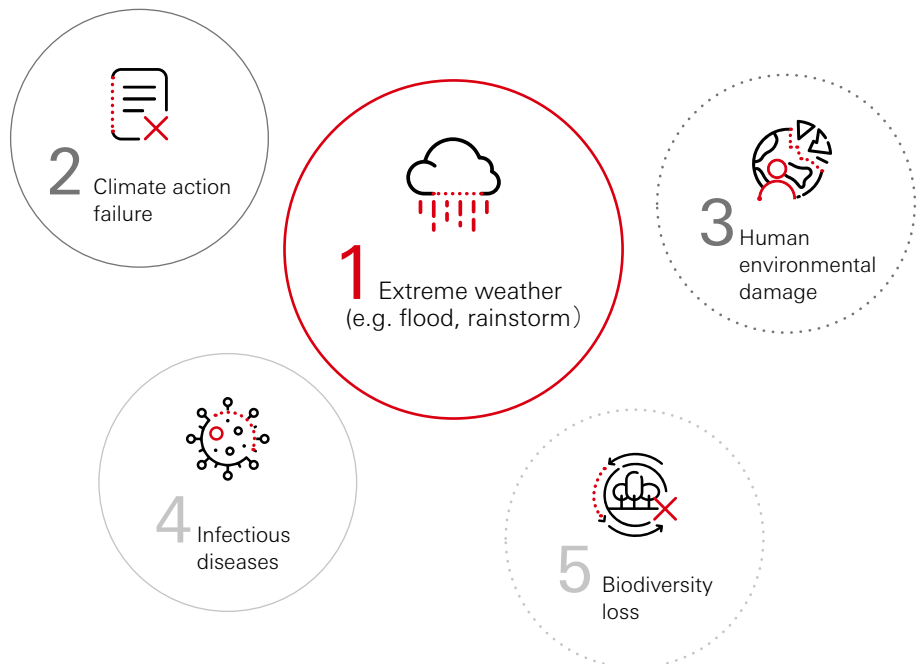
The growing awareness of sustainability issues has given rise to more developed ESG investment ideas. For some time, environmental issues have been the mainstay in the realm of ESG investing. In particular, climate change concerns have been under the spotlight. As the market evolves, investors eye beyond environmental issues (E) and pay more attention to social issues (S). Meanwhile, increasingly diverse ESG-themed investments are made available in the market, providing investors with more choices. In this brochure, we will share some insights and trends we identified in the field of ESG investing.

### 1 Risks ensuing climate change is the top concern



**Climate change** and **global warming** are considered the top risks affecting the sustainability of economic and corporate development. According to a survey conducted by the World Economic Forum, in terms of the likelihood to occur, respondents identified climate change to be the riskiest event globally. Moreover, the risk of biodiversity loss, which is closely linked to climate change, is also on the list:

#### Top 5 risks affecting the economy<sup>1</sup>



<sup>1</sup>Source: The Global Risks Report 2021, World Economic Forum, as of 21 January 2021.

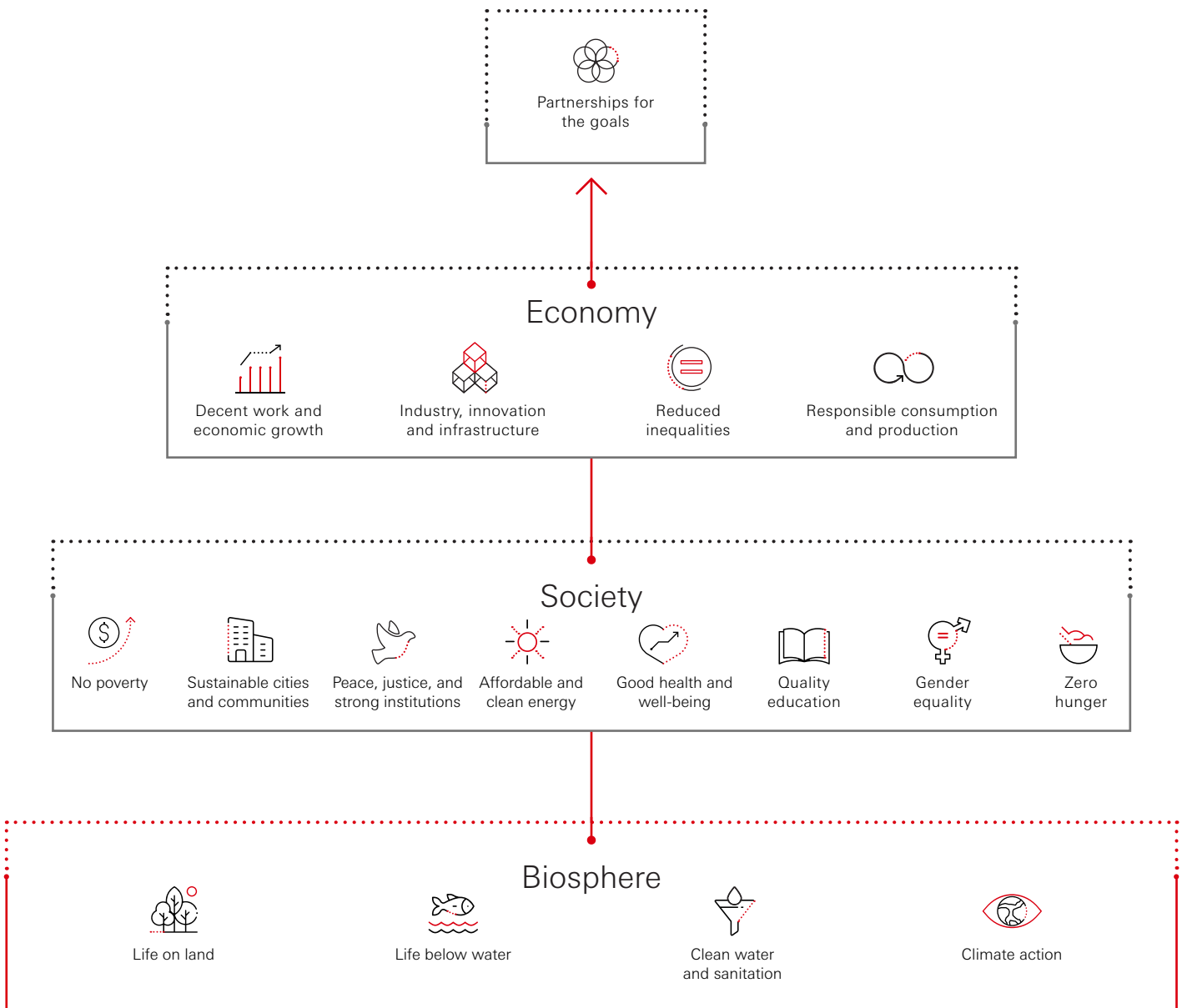


The **risk of biodiversity loss** is getting investors' attention. As food security, supply of medicine, clean water, materials, and climate stability are all heavily reliant on the crucial factor of biodiversity, many of the sustainable development goals can only be achieved upon conservation of biodiversity.

## The 17 Sustainable Development Goals (SDGs) adopted by the United Nations<sup>2</sup>



Biodiversity underpins the delivery of the sustainable development goals



<sup>2</sup>Source: United Nations Principles for Responsible Investment, "Investor Action on Biodiversity: A Discussion Paper," as of 1 September 2020.

## Investment themes and opportunities related to climate change



### Renewable energy

Sustainable transition away from fossil fuels will need USD **110** trillion of investment in renewable energies cumulatively to 2050.<sup>3</sup>

### Green buildings

In the emerging markets alone, the estimated investment in green

buildings will reach USD **24.7** trillion by 2030.<sup>4</sup>



### Sustainable water and wastewater management

Water productivity improvements could cost USD **60** billion annually over the next two decades.<sup>5</sup>

### Clean transport

Improved and digitalised planning in shipping could lead to fewer kilometers traveled, allowing for industry revenue

benefits of USD **1.5** trillion by 2025.<sup>6</sup>



### Natural capital and ecosystems

Enhancing coastal wetlands could save the insurance industry USD

**52** billion a year in reduced losses from storms and flood damage.<sup>7</sup>

<sup>3</sup>Source: International Renewable Energy Agency (IRENA), 2019.

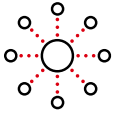
<sup>4</sup>Source: International Finance Corporation (IFC), 2019.

<sup>5</sup>Source: McKinsey, 2019.

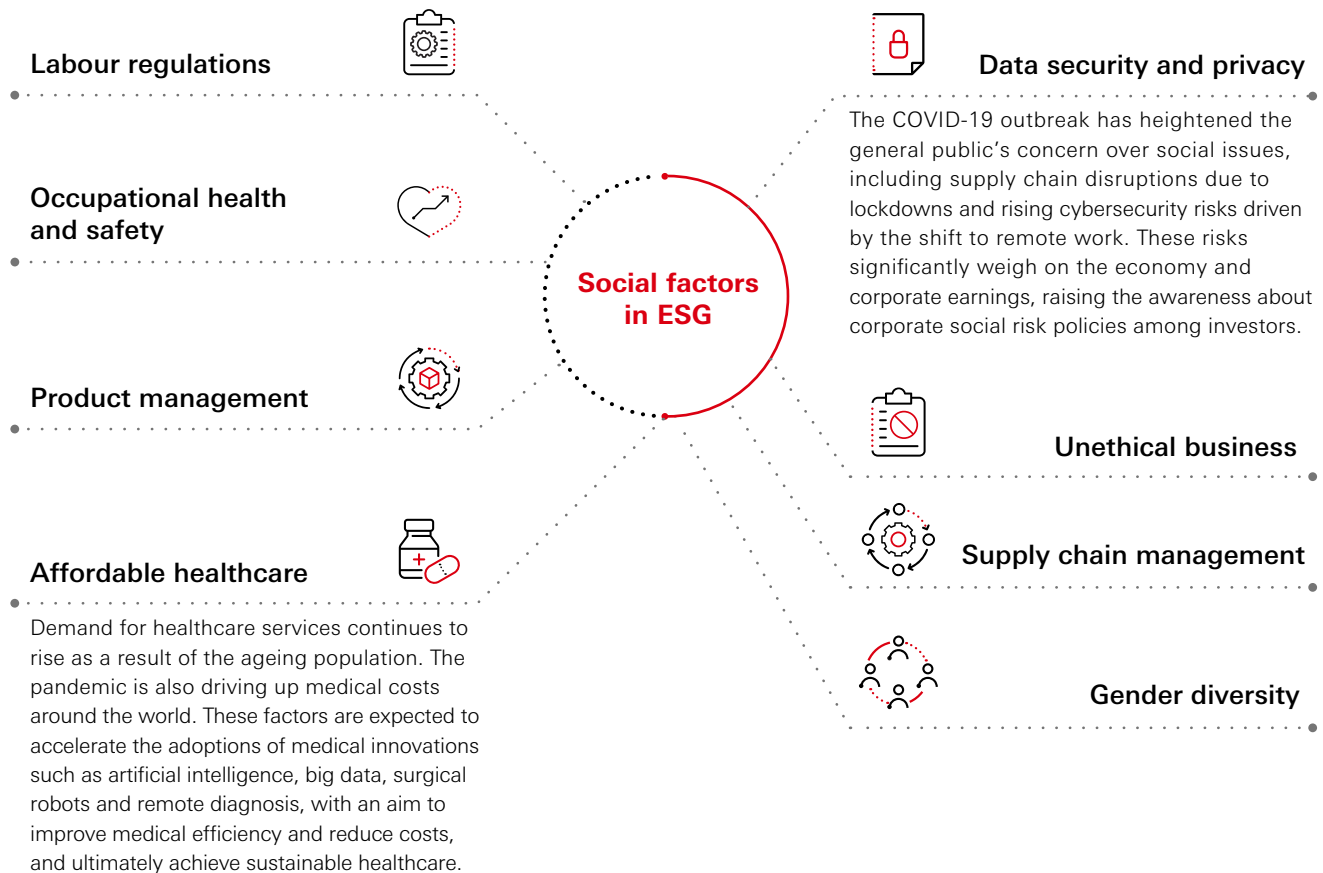
<sup>6</sup>Source: Danfuss, 2020.

<sup>7</sup>Source: E. B. Barbier et al, 2019.

## 2 The rise of social factors



Although environmental issues (E) have taken the centre stage in ESG investing, social issues (S) are stepping into limelight. Social factors focus on how companies manage their relations with employees, customers, and the communities. Companies without proper management of social issues are exposed to severe reputational and financial risks.



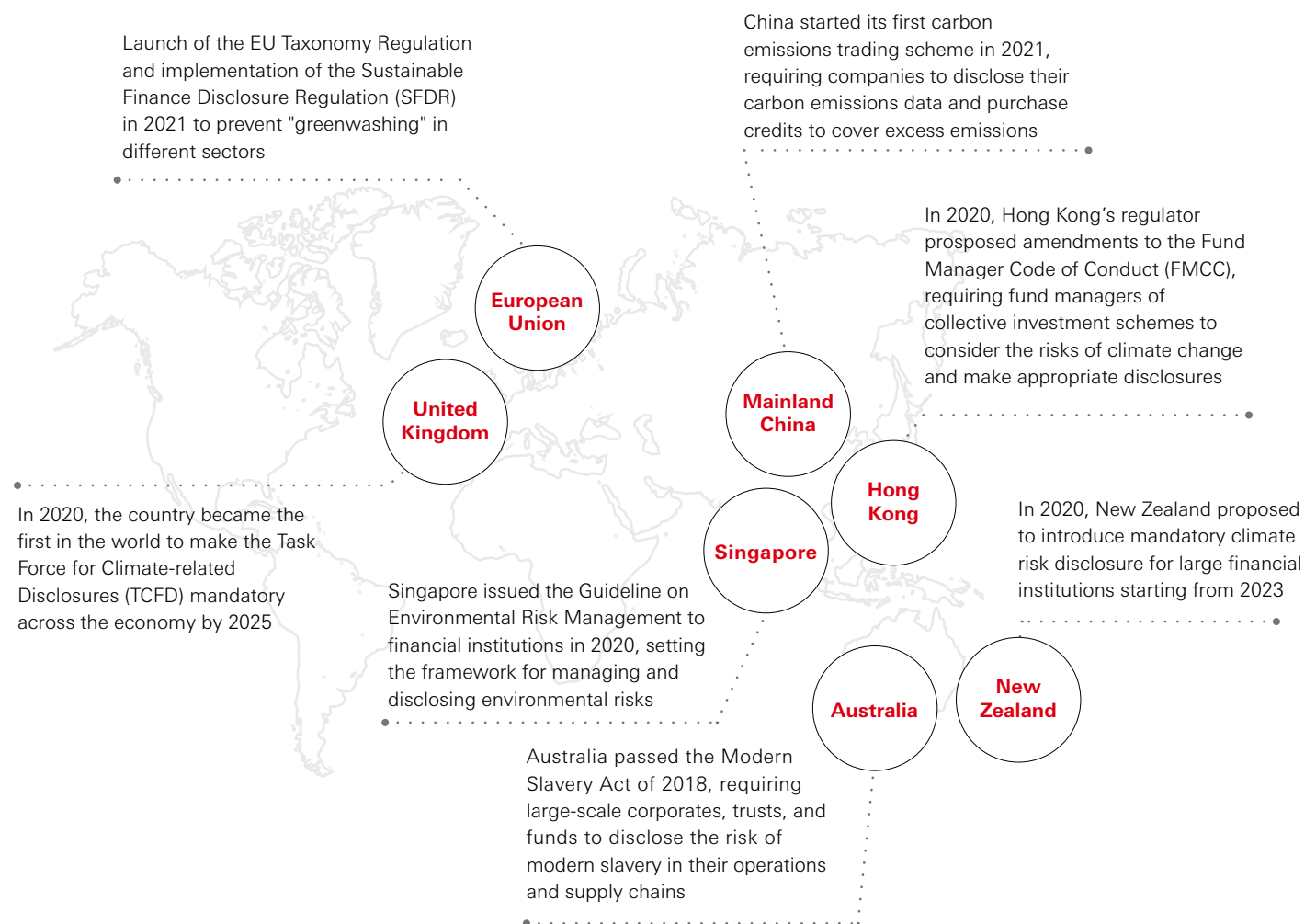
### 3 ESG disclosure enhancement becomes the new norm



Investment markets play a pivotal role in driving better corporate ESG performance. However, ESG performance is hard to quantify in comparison to traditional financial performance. To help investors make better investment decisions, a set of standardised and easily comparable assessment is necessary to reduce the risk of misvaluation and facilitate comparison of ESG performance among different companies.

Regulators around the world, such as that of the EU, the UK, mainland China, Hong Kong, New Zealand and Australia have all introduced rules to strengthen corporate ESG disclosure.

#### Enhanced ESG disclosure requirements across the globe



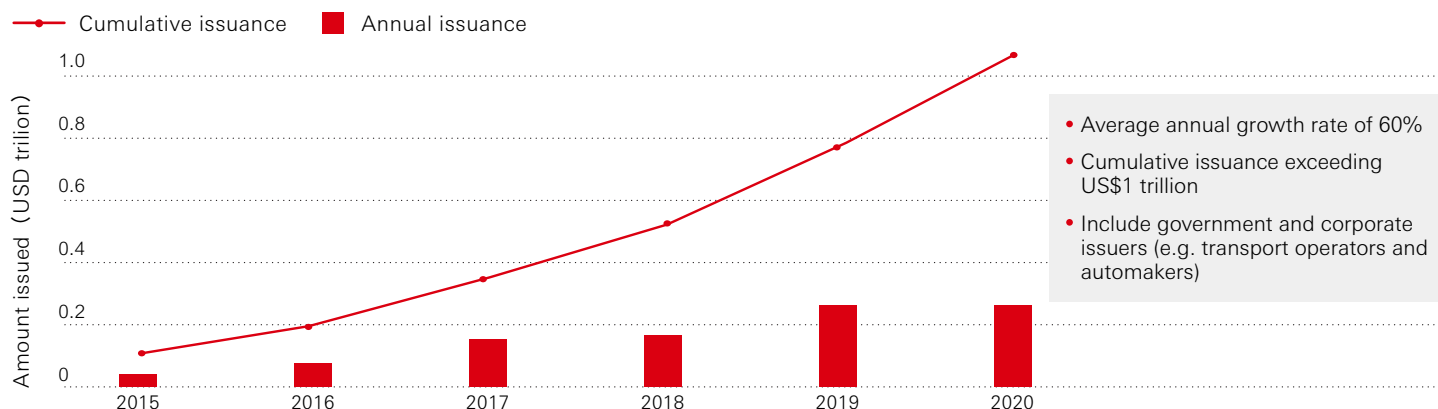


## 4 Flourishing investment opportunities from diverse ESG assets



For some time, ESG investments have been largely concentrated in equity as the asset class accounts for over 80% of total ESG assets. However, rapid development in the sustainable bond market in recent years has created a more diversified pool of ESG assets for investors to explore a greater variety of opportunities.

### Global green bond issuance (2015-2020)<sup>8</sup>



<sup>8</sup>Source: Climate Bonds Initiative, as of 24 January 2021.

With the growing demand for ESG investments, ESG thematic funds have emerged as an option for investors in recent years. These funds allow investors to invest in specific ESG investment themes such as renewables, waste and water resource management, and sustainable healthcare, covering solar panel and wind turbine manufacturers, consumer goods producers that actively reduce waste along production and consumption chains, as well as remote healthcare services providers etc.

According to the "List of green and ESG Funds"<sup>9</sup> compiled by the Securities and Futures Commission of Hong Kong, there are 67 unlisted ESG funds and 3 listed exchange-traded ESG funds available in Hong Kong, providing investors with more choices.

<sup>9</sup>Source: The Securities and Futures Commission of Hong Kong, as of 16 October 2021.

### Conclusion

As ESG investing develops over time, it is no longer confined to the "environmental" aspect. Investors can explore a wider range of opportunities with consideration of social issues such as employee relations, product management and affordable healthcare. In addition, enhanced ESG disclosure among companies and an increasingly diverse pool of ESG assets have enabled investors to make better decisions in choosing investment products.



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