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The ESG conversation in Hong Kong

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Our head of ESG Funds and Hong Kong-based partner Kate Hodson joined the We Are Guernsey Hong Kong Masterclass supported by the Hong Kong Green Finance Association earlier this year and wrote the following article for BL Global's Asia edition discussing the global agenda of financing sustainability and particularly how this is shaping up in Hong Kong.

The interest in ESG is now a truly global one. According to a 2019 survey by UBS of over 600 asset owners in 46 countries, 78% are already integrating ESG principles into their investment processes. It has grown substantially and rapidly from being a fairly niche consideration to a demand that has driven changes in regulation and governance in jurisdictions and financial hubs around the world.

However until relatively recently, Asia was not demonstrating a significant interest in or awareness of ESG in the context of financial markets, particularly as compared to the EU and US. Over the past 24 months we have seen dramatic changes in the conversations around ESG in the region and increasing numbers of Asian investors and asset managers are signalling their commitment in this space.

In China this has in part been driven by the development of new policy directions with a strong top-down influence. Hong Kong and Singapore have recently seen intervention by regulators to help drive this development. For example in Hong Kong, five financial regulators and two government bureaux published a joint statement on 5 May 2020 announcing the establishment of the Green and Sustainable Finance Cross-Agency Steering Group to drive green and sustainable finance policy in Hong Kong and co-ordinate the management of climate and environmental risks to the financial sector.

Alongside these developing regulatory and policy frameworks, the momentum behind sustainable investing has been building. There has been something of a scramble in the last year in key Asian locations as market participants seek to ensure that they have the teams with the skills and expertise to support clients in ESG integration, due diligence and reporting.

In early 2019, global management consultants, Bain and Company published findings that only 13 per cent of Asian asset managers were integrating in ESG. We would hope that those numbers would now be growing given the level of momentum that has been gathering with the move to greater ESG integration. However, thematic investing has not yet caught up to the levels seen elsewhere and the focus in this area has been somewhat lacking. While the conversations we are having are positive, we do still need to be careful not to overstate the position as to the volume of capital flowing towards investments that have a positive, quantifiable environmental or social impact, which is ultimately what is needed if problems as large as climate change are to be solved.

Whereas in the US and EU, asset owners have been a key driving force for sustainable investing, until recently this hasn't been as significant a factor in Asia. We are possibly now at an inflection point having seen some of Asia's largest asset owners, including Japan Post, GPIF, the Hong Kong Monetary Authority becoming signatories to the PRI (Principles for Responsible Investment). With the PRI now imposing obligatory reporting measures one might reasonably predict that the flow of ESG considerations down the "food chain" from assets owners to investee companies should pick up the pace.

Our experience on the ground here in Hong Kong is that considerations of environmental and social factors as they relate to finance is growing. We are committed to this trajectory such that we have hired our own head of ESG and Impact Advisory so that we can better assist clients on this journey.

What is clear is that as an industry we need to support and help each other on this curve and contribute, together, to the body of knowledge, analysis and thought leadership. Raising the level of awareness and understanding in Asia will be critical for the growth of sustainable investing and its ability to go beyond "lip-service".

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