恒生指數
HANG SENG INDEXES

ESG Insights At-A-Glance

As the world we live in gets more interconnected, unpredictable events, from pandemics to geopolitical conflicts, have potentially severe consequences. Against this backdrop, the importance of considering ESG risks in pension investments has grown. As long-term investors with a responsibility to protect and grow retirement savings, pension funds have a crucial part to play when it comes to securing a more sustainable future. There are quite a few priorities necessary for global pension systems to take sustainability into account effectively, according to a new report by the United Nations-supported Principles for Responsible Investment. Two could stand out: to ensure that pension funds can access the benefits of scale through consolidation on sustainability objectives, and to assist them in seeking appropriate benchmarks to attain such outcomes.

- Global surveys show growth in adoption of sustainability policies, climate reporting
- Chinese investors prefer stocks with high ESG ratings, research finds
- China to set national corporate sustainability disclosure standards by 2030
- HKEX unveils climate disclosure requirements for 2025
- EU regulators take action to combat greenwashing in financial products
- SBTi CEO to step down after backlash over use of carbon credits in net-zero plans
- Australia introduces sustainable finance roadmap
- Singapore pledges USD26m in sustainable finance upskilling of financial sector

Investing for Retirement and a Sustainable Future

The world we live in today is more interconnected than ever before. The COVID-19 pandemic, ongoing climate emergency, and escalating geopolitical conflicts have starkly highlighted how events in one part of the globe can have far-reaching consequences for all. Against this backdrop, the importance of considering environmental, social, and governance (ESG) factors in pension investments has become increasingly apparent. As we work to build a more resilient and sustainable future, pension funds — as long-term investors with a responsibility to protect and grow retirement savings — have a crucial role to play.

IDENTIFY PRIORITIES IN EMBEDDING SUSTAINABILITY

The integration of sustainability-related factors into investment strategies, particularly in retirement savings, is not just a trend but a fundamental change in how we approach long-term investing. As long-term investors including sovereign wealth funds and pension funds around the world seek to mitigate these risks through their investment decisions and stewardship activities[1], there are major issues in domains such as policy frameworks, market structures, and investment practices that still need to be addressed.

The United Nations-supported Principles for Responsible Investment (PRI), a network of financial institutions working together to promote sustainable investment, has outlined 10 key priorities necessary for global pension systems to effectively incorporate sustainability considerations[2] (Exhibit 1). Two of the most critical priorities identified are that pension funds have scale or can otherwise access the benefits of scale through consolidation on sustainability objectives; and that they seek appropriate benchmarks to attain such objectives. While many pension funds have made progress in integrating ESG factors into their risk management processes, there is growing recognition that this alone may not be sufficient. The PRI emphasises the importance of enabling pension funds to move beyond ESG integration at a risk-return level and work actively towards sustainability outcomes.

While ESG assets still represent a small fraction of the total asset size in Hong Kong's pension system despite encouraging growth, an idea is beginning to gain traction with investors and employees: that a company with good ESG performance can simultaneously attract investors and shape employees' green consumption behaviours. Recent research by the Hang Seng University of Hong Kong showed that local employees' perception of their companies' ESG performance would eventually enhance their green purchase behaviours as individual customers[3].The study also revealed that, in mainland China and the US, investors were willing to pay a premium for stocks with high ESG ratings, indicating their preference for the value of ESG performance of corporations.

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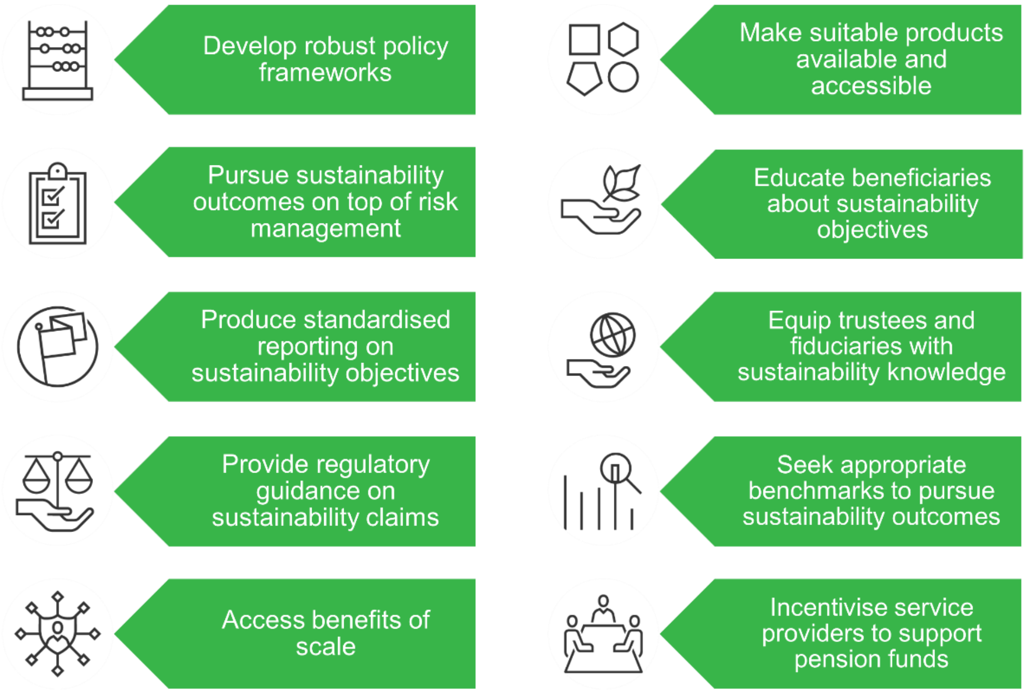
[1] Hang Seng Indexes Company. (January 2024). *ESG Insights*.

[2] PRI. (April 2024). *Progress and Priorities: Reviewing Sustainability in Key Pension Systems*.

[3] Research Centre for ESG, The Hang Seng University of Hong Kong. (May 2024). *Investor and Consumer Surveys on ESG Practices: A Comparison among Mainland China, Hong Kong SAR, and the US*.

Exhibit 1: 10 Priorities for Pension Systems to Incorporate Sustainability Considerations



Sources: PRI and Hang Seng Indexes Company

MOVE BEYOND TRADITIONAL BENCHMARKS

To facilitate the search of suitable benchmarks, an essential prerequisite comes in the form of the development of clear guidance on substantiating the sustainability claims of pension funds. This includes the implementation of standardised sustainability reporting by pension funds, investment managers, and other intermediaries in the investment value chain. Such reporting should provide information about the extent to which pension funds have met stated sustainability objectives and taken action to achieve those objectives. Importantly, this reporting must be in a format that is accessible to members and beneficiaries, promoting transparency and accountability. For evidence, look no further than Hong Kong's move to implement new requirements for climate-related disclosures set out by the International Sustainability Standards Board. In May, the Stock Exchange of Hong Kong — among the world's first exchanges to do so — announced that all listed companies will be required to disclose their Scope 1 and 2 emissions beginning as of the 2025 reporting year[4].

As governments and regulators make efforts to align and enhance sustainability reporting, the role of appropriate benchmarks in measuring sustainability impact cannot be overstated. Pension funds have the potential to pursue their sustainability objectives, by tracking the performance of sustainability-themed indexes that are designed to reduce ESG risks or the portfolio's carbon intensity compared with the benchmark. For instance, the HSI ESG Enhanced Index has consistently achieved a reduction in index ESG risk rating of at least 20%[5].

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[4] Hong Kong Exchanges and Clearing Limited. (19 April 2024). *Exchange Publishes Conclusions on Climate Disclosure Requirements*.

[5] Hang Seng Indexes Company. (May 2024). *HSI ESG Enhanced Index — Factsheet*.

Meanwhile, the strict data requirements of indexes contribute to the advance of sustainable investing research, spurring improvement in the quality of the underlying sustainability data and the index methodology. A case in point are low carbon indexes. With the growing interest in climate investing, investors can now measure the carbon intensity of their investments as a gauge of broader climate risk exposure[6]. The Hang Seng Climate Change 1.5°C Target Index is one such example. Designed with reference to the minimum standards for the European Union Paris-aligned Benchmarks, it aims to achieve specific greenhouse gas emission intensity improvement targets.

ESG IN HONG KONG'S PRIVATE PENSION SYSTEM

In the context of Hong Kong, the Mandatory Provident Fund (MPF) system has been committed to promoting sustainable investing practices. The introduction of the first batch of ESG-themed MPF products in the second half of last year, including the Manulife MPF Hang Seng Index ESG Fund and the BCOM HSI ESG Tracking (CF) Fund, demonstrates the growing recognition of the importance of sustainability considerations in retirement savings. Both sustainability-linked pension products seek to track the performance of the HSI ESG Enhanced Index, which aims to combine the Hang Seng Index with ESG initiatives by applying an exclusion policy and ESG integration strategy for enhancing sustainability performance. These two funds add to an existing unlisted MPF product supervised by Sun Life Asset Management, which follows the performance of the Hang Seng ESG 50 Index.

As the PRI report states, the availability and accessibility of suitable, sustainable investment products is another key priority for pension funds. To reach their sustainable investment outcomes, pension funds need to be able to access investment products with their desired sustainability considerations, at reasonable cost and appropriate scale. This is an area where continued innovation and product development will be crucial. The inclusion of ESG-themed pension products in the MPF system showcases how Hang Seng Indexes Company and our ETF clients have helped construct the ecosystem.

SUSTAINABILITY CONSIDERATIONS IN GLOBAL PENSION SYSTEMS

Across jurisdictions, we are seeing the development of policies that seek to provide clarity on pension fund duties regarding sustainability considerations (Exhibit 2). For instance, in the UK, recent regulations require pension schemes to disclose how they take account of climate-related risks and opportunities in their investment strategies. Similarly, in Australia, there have been developments in clarifying the duties of superannuation trustees in relation to climate risk.

[6] Institute for Energy Economics and Financial Analysis. (February 2024). *Passive Investing in a Warming World: An Evaluation of Fossil Fuel Impacts on Equity Portfolios*.

Exhibit 2: ESG Considerations in Pension Funds in Major Financial Markets

Market	Year	Policy Framework Adoption
Japan	2015	The Government Pension Investment Fund became a signatory of the PRI with an aim of strengthening its commitment to ESG issues[7]
UK	2019	The Pension Regulators required pension fund trustees to explain how ESG factors are considered in investment decisions in their statement of investment principles[8]
Hong Kong	2021	The Mandatory Provident Fund Schemes Authority laid down a high-level framework to help MPF trustees integrate ESG factors into the investment and risk management processes of MPF funds[9]
Australia	2023	The Australian Prudential Regulation Authority released guidance for superannuation funds to consider ESG risks in their investment analysis, decision making and oversight[10]
Canada	2023	The Office of the Superintendent of Financial Institutions Canada published new guidelines, setting out its expectations for federally regulated pension plans' management of climate-related risk[11]

As these markets have made progress in developing comprehensive and consistent policy frameworks, that can in turn catalyse the identification and implementation of benchmarks more suitable for pension funds' sustainability objectives. However, there is still work to be done in areas such as clarifying when pension funds may be required to consider addressing system-level sustainability risks relevant to financial objectives.

As we look to the future, it's clear that embedding sustainability in pension systems is not just a trend, but a necessity. The key priorities outlined in the PRI report provide a comprehensive framework for policy makers, pension funds and service providers to work towards this goal. By addressing these priorities, we can create a pension system that not only provides for the financial well-being of retirees but also contributes to a more sustainable and resilient global economy. The vision of a sustainable global financial system that benefits both the environment and society is within reach, but it requires concerted effort and collaboration across the investment chain. Pension funds, with their long-term investment horizons and significant pools of capital, have a unique opportunity — and responsibility — to drive this transition.

[7] Government Pension Investment Fund. (28 September 2015). *GPIF Has Become a Signatory to the UN-PRI*.

[8] The Pensions Regulator. (September 2019). *DB Investment Governance*.

[9] Mandatory Provident Fund Schemes Authority. (December 2021). *"Environmental, Social and Governance (ESG)" in MPF Funds*.

[10] Australian Prudential Regulation Authority. (July 2023). *Prudential Practice Guide: SPG 530 Investment Governance — Integrated Version*.

[11] Office of the Superintendent of Financial Institutions. (31 March 2023). *Climate Risk Management*.

ESG Around the World

Global surveys show growth in adoption of sustainability policies, climate reporting

Recent studies reveal considerable progress in setting up sustainable investment policies and corporate climate reporting around the world, albeit with notable regional disparities. A survey by Deloitte and Tufts University of over 1,000 professional investors in Asia, Europe and North America, found that 79% of respondents had sustainable investment policies in place in 2023, up from just 20% five years ago[12]. US investors led this trend at 83% despite the anti-ESG backlash in the local market, slightly ahead of their European counterparts at 75%. The survey also identified key drivers for integrating sustainability factors, such as regulatory requirements, improved financial performance, and stakeholder pressure. However, it noted that challenges have remained, including inconsistent ESG data and unclear integration strategies.

Meanwhile, an MSCI report showed that public companies are increasingly disclosing their greenhouse gas emissions[13]. Globally, about 60% of companies reported on Scope 1 and 2 emissions, while 42% disclosed at least some Scope 3 emissions. However, US companies lagged significantly behind their global peers in emissions reporting. The quality of climate targets is improving, according to the report, with 20% of companies setting science-based targets aligned with a 1.5°C scenario, up from just 1% in 2020. Despite these improvements, listed companies' Scope 1 emissions have yet to decline, and are expected to stay flat at 11.8 billion tons for 2024.

Chinese investors prefer stocks with high ESG ratings, research finds[14]

A new study conducted by the Research Centre for ESG at The Hang Seng University of Hong Kong explored how investors in the US and mainland China viewed ESG performance in relation to stock valuation, as well as how employees and consumers in the US and Hong Kong perceived corporate ESG efforts. The findings revealed a growing appreciation for ESG factors in investment decisions and consumer behavior in these markets. Investors in both the US and mainland China demonstrated a clear preference for stocks with high ESG ratings, showing a willingness to accept lower returns in exchange for better ESG performance. Notably, mainland China investors exhibited an even stronger inclination towards high ESG rating stocks compared to their US counterparts. On the consumer front, the study uncovered a link between employees' perceptions of their companies' ESG performance and their own sustainable purchasing habits. This connection was particularly strong in Hong Kong. The research suggested that companies excelling in ESG practices might enjoy a dual advantage:

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[12] Deloitte and The Fletcher School, Tufts University. (12 March 2024). *How Can the Enterprise Earn Investor Trust through Sustainability Disclosures?*

[13] MSCI Sustainability Institute. (April 2024). *The MSCI Net-Zero Tracker: A Periodic Report on Progress by the World's Listed Companies toward Curbing Climate Risk*.

[14] Research Centre for ESG, The Hang Seng University of Hong Kong. (May 2024). *Investor and Consumer Surveys on ESG Practices: A Comparison among Mainland China, Hong Kong SAR, and the US*.

attracting investors while simultaneously influencing their employees' consumption patterns towards more sustainable choices. This effect appeared more pronounced in Asian markets than in the US.

China to set national corporate sustainability disclosure standards by 2030[15]

China's Ministry of Finance has released draft guidelines aiming to establish a nationwide standard for corporate sustainability disclosure by 2030. This initiative seeks to address the current inconsistencies in voluntary disclosures and align with international reporting standards, including those set by the International Sustainability Standards Board (ISSB). The proposed framework includes introducing basic regulations for corporate sustainability and climate-related disclosures by 2027, gradually expanding from listed companies to private enterprises. It will also gradually migrate from qualitative requirements to quantitative requirements, and from voluntary disclosure to mandatory disclosure. Officials have noted that while major stock exchanges in China have already mandated sustainability reports for certain listed companies, covering emissions and decarbonisation plans, disclosures by Chinese companies remain "largely voluntary" and lack "uniform standards"[16]. Roughly 40% of over 5,300 listed companies on the Chinese domestic stock market at the end of 2023 had released their sustainable development reports, according to official data[17]. The financial industry had the highest proportion of companies to have published such reports, at over 90% last year, while most other industries had a rate of around 40%.

HKEX unveils climate disclosure requirements for 2025[18]

The Stock Exchange of Hong Kong Limited, a subsidiary of Hong Kong Exchanges and Clearing Limited (HKEX), announced that all listed companies will be required to provide mandatory climate-related disclosures starting from 2025. Under the new rules, all issuers on the HKEX will be required to begin Scope 1 and 2 greenhouse gas emissions disclosures from 1 January, while other aspects, such as Scope 3 emissions, will initially follow a "comply or explain" approach. The climate requirements are based on the new sustainability standards set out by the ISSB under the International Financial Reporting Standards Foundation. The IFRS Foundation released the inaugural general sustainability (IFRS S1) and climate (IFRS S2) reporting standards in June 2023, and both came into force at the start of this year. In related news, the IFRS Foundation and the Global Reporting Initiative (GRI) announced an expanded collaboration aimed at improving the interoperability of their sustainability reporting standards[19]. The new partnership seeks to reduce the reporting burden on companies by aligning common disclosures, starting with a pilot project on biodiversity reporting. While both organisations will maintain their separate focus — IFRS Foundation

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[15] Ministry of Finance of the People's Republic of China. (22 May 2024). *Letter Regarding Soliciting Opinions on the "Corporate Sustainability Disclosure Standards — Basic Standards (Draft for Comments)".*

[16] Xinhua. (28 May 2024). *China Charts Path to Unified Sustainability Disclosure by 2030*.

[17] China Association for Public Companies. (17 May 2024). *2023 Performance Report of Chinese Listed Companies*.

[18] HKEX. (19 April 2024). *Exchange Publishes Conclusions on Climate Disclosure Requirements*.

[19] GRI. (24 May 2024). *GRI and IFRS Foundation Collaboration to Deliver Full Interoperability that Enables Seamless Sustainability Reporting*.

on investor needs and GRI on broader stakeholder interests — they said this collaboration would represent a step towards a more harmonised global sustainability reporting system.

EU regulators take action to combat greenwashing in financial products[20]

The European Union (EU) is taking multiple steps to address growing concerns about greenwashing in sustainable finance. In a series of moves, various EU regulatory bodies have introduced new guidelines and proposals aimed at ensuring transparency and authenticity in sustainability claims made by financial products and companies. The European Securities and Markets Authority (ESMA) has led the charge with new guidelines for funds using "ESG" or "sustainability" in their names. These rules mandate that such funds must invest at least 80% of their assets in sustainable investments. Additionally, ESMA has introduced a new "transition" category for investments that are on a path towards sustainability but haven't yet achieved that status. The impact of these guidelines could be substantial. According to a report from Morningstar, about two-thirds of EU funds currently labelled as sustainable may need to either divest up to USD40 billion in assets or change their names to comply with the new rules[21].

In a parallel effort, the European Supervisory Authorities have proposed changes to the Sustainable Finance Disclosure Regulation[22]. These include the introduction of new "sustainable" and "transition" categories for financial products, as well as a sustainability indicator to help simplify complex information for investors. While implementation timelines vary, some of these measures could take effect as early as 2025.

SBTi CEO to step down after backlash over use of carbon credits in net-zero plans[23]

The Science Based Targets initiative (SBTi), a leading verifier of corporate green targets that has validated the climate plans of over 5,000 companies around the world, is facing turmoil following a controversial decision regarding carbon offsets. CEO Luiz Amaral announced his resignation in July amid backlash over proposed changes to the organisation's guidelines. The controversy stems from an April statement indicating that SBTi would allow companies to use carbon credits to offset emissions along their entire supply chains, reversing the group's long-held position. This announcement, made without consulting staff and advisory groups, raised concerns about SBTi's governance and susceptibility to external pressure. Following internal protests, including staff letters calling for leadership resignations, the SBTi board clarified that "no changes have been made to SBTi current standards"[24]. They emphasised that any potential changes would be informed by evidence and follow the organisation's standard procedure. SBTi plans to publish in July an assessment on the effectiveness of carbon offsets in corporate climate targets, along with a discussion paper on

[20] ESMA. (14 May 2024). *Final Report: Guidelines on Funds' Names Using ESG or Sustainability-related Terms*.

[21] Morningstar. (May 2024). *ESMA's Guidelines on ESG Fund Names*.

[22] European Insurance and Occupational Pensions Authority. (18 June 2024). *ESAs Propose Improvements to the Sustainable Finance Disclosure Regulation*.

[23] SBTi. (2 July 2024). *Luiz Amaral to Step Down as CEO of Science Based Targets initiative*.

[24] SBTi. (9 April 2024). *Statement from the SBTi Board of Trustees on Use of Environmental Attribute Certificates, Including But Not Limited to Voluntary Carbon Markets, for Abatement Purposes Limited to Scope 3*.

potential changes to Scope 3 target setting. The incident highlights the ongoing debate surrounding carbon offsetting in corporate net-zero strategies. While offsetting is part of many companies' plans, there are concerns about over-reliance on these schemes and their effectiveness.

Australia introduces sustainable finance roadmap[25]

The Australian government has released a Sustainable Finance Roadmap, outlining plans to reform financial markets to support the transition to a net-zero economy while keeping an eye on greenwashing. Central to the roadmap is the implementation of mandatory climate-related reporting for large and medium-sized companies. Starting January 2025, these businesses will be required to disclose climate-related financial risks and opportunities, including greenhouse gas emissions across their value chains. The Australian Accounting Standards Board is set to finalise the reporting standards by August 2024. The plan also includes the development of a Sustainable Finance Taxonomy, scheduled for completion by the end of 2024. This framework will initially focus on "green" and "transition" activities in six key economic sectors, providing criteria for evaluating the sustainability of economic activities. (Singapore and Hong Kong published similar frameworks in December 2023[26] and May 2024[27], respectively.) To address the growing market for sustainable investment products, the government plans to introduce a labelling regime. This system, expected to be implemented by 2027, aims to clarify how sustainability considerations are incorporated into investment products and strategies.

Singapore pledges USD26 million in sustainable finance upskilling of financial sector[28]

In a move to solidify its position as Asia's leading sustainable finance hub, Singapore has announced a SGD35 million (USD26 million) commitment over the next three years to support upskilling and reskilling initiatives in sustainable finance. The Monetary Authority of Singapore (MAS) said it would expand educational offerings with new undergraduate programmes in sustainable finance, launch executive courses and a specialised master's programme, and implement a skills badge system to recognise professionals who acquire sustainable finance expertise, among other initiatives. The central bank is also encouraging employers to adopt skills-based hiring practices to support this transition. This investment aligns with MAS's broader Finance for Net Zero Action Plan, which aims to catalyse the net-zero transition in Asia and support decarbonisation efforts in Singapore. According to MAS, this decision comes on the heels of a new study by KPMG revealing an enormous market opportunity in the ASEAN region. The study estimated that more than 50,000 professionals are expected to see their roles evolve within the next three years, incorporating new tasks related to sustainable finance. And the sustainable finance market in ASEAN is projected to reach SGD4 to 5

[25] The Treasury of the Australian Government. (June 2024). *Sustainable Finance Roadmap*.

[26] Monetary Authority of Singapore. (December 2023). *Singapore-Asia Taxonomy for Sustainable Finance 2023 Edition*.

[27] Hong Kong Monetary Authority. (May 2024). *Hong Kong Taxonomy for Sustainable Finance*.

[28] MAS. (17 April 2024). *MAS Sets Aside $35 Million to Support Upskilling Singapore's Financial Services Sector Workforce in Sustainable Finance*.

trillion over the next decade, creating a pressing need for a workforce equipped to handle these emerging challenges and opportunities.

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