



香港信託人公會  
Hong Kong Trustees' Association

# Summary of the Webinar Series on ESG – Part II

HKTA Oct 2022



# What is ESG Stewardship?

**ESG stewardship** is reserving and enhancing the value of assets by incorporating ESG factors in active and responsible ownership process.

## Benefits of ESG stewardship

1. Enhance information exchange and expectation alignment with different stakeholders (e.g. asset managers and portfolio companies)
2. Deepen understanding on ESG concepts (e.g. ESG integration)
3. Facilitate diverse internal relationships and enhance external relationships

## The Evolving Stewardship Landscape

- Stewardship effort across trustees is growing in both scale and depth due to regulatory changes, mounting social pressures and growing appetite from investees
- UK Stewardship Code, the first regulatory backed stewardship code, was initially issued in 2010, following with Hong Kong's stewardship code (i.e. SFC the Principles of Responsible Ownership) in 2016

# ESG Stewardship from Trustees to Investment Managers

Trustees may consider engaging with its investment managers regarding the below aspects:

## 1. Investment Mandate

- Communicate with IMs with your ESG expectations through investment mandates
  - e.g. divestment from fossil fuel financing

## 2. Investment Strategy

- Understand IMs' ESG philosophy and approach

## 3. Investment Operations

- Engage with IMs and investees on their performances
  - e.g. ESG risks of IMs' portfolio, ESG-related KPIs for IMs and investees

# Common Stewardship Techniques

Key types of stewardship activities across asset classes:

**1. Equity**

- Individual engagement
- Collaborative engagement
- Voting

**2. Corporate Fixed Income**

- Material ESG downside risks

**3. Sovereign Debt**

- Multilateral dialogues

**4. Passive Index Funds**

- Voting

**5. Private Equity**

- High level of influence over company management

Checklist for Trustees on ESG stewardship:

**1. Ask the Philosophy**

**2. Timing of Survey**

**3. Regular Monitoring**

**4. Data**

# The Principles of Responsible Ownership in HK

SFC issued the non-binding and voluntary Principles of Responsible Ownership in 2016 that Hong Kong Trustees are encouraged to establish their engagement framework based on the Principles.

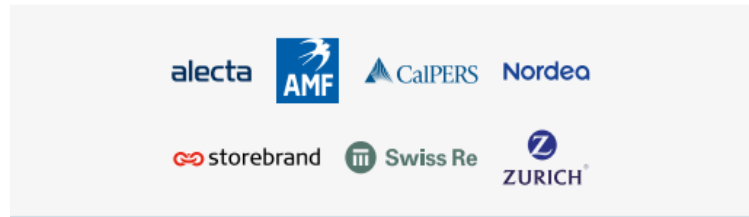
Approach Trustees Can Adopt	Applicable SFC Principle
<ul style="list-style-type: none"><li>• Develop and disclose engagement policy</li><li>• Discuss the policy in your disclosure document</li><li>• Document and disclose the progress or outcome of an engagement, if any</li></ul>	Principle 1, 6 and 7
<ul style="list-style-type: none"><li>• Consider the escalation pathway and approach</li><li>• Understand how IMs escalate material ESG issues during their engagement process with portfolio companies</li></ul>	Principle 3
<ul style="list-style-type: none"><li>• State the voting principles and procedures clearly in relevant policies</li><li>• Encourage IMs to exercise voting rights to proactively address ESG-related issues</li><li>• Obtain voting records from IMs</li></ul>	Principle 4
<ul style="list-style-type: none"><li>• Perform collaborative engagement via industry initiatives and other channels</li><li>• Elaborate on engagement tools and approach in the engagement policy</li><li>• Develop metrics and/or tools for monitoring IMs/ investee companies</li><li>• Discuss relevant information in disclosure document</li></ul>	Principle 2 and 5

# Net Zero Asset Owner Alliance (NZAOA)

Apart from initiatives for asset managers, Trustees may consider joining asset owner-focused coalitions.



Led by Asset Owners representing  
more than US\$ 2 trillion AUM



## Key Objective

Supports asset owners to:

- commit to net-zero by 2050 emission compatible with 1.5°C; and
- carry out the net-zero commitment through collective and individual target setting, engagement actions, and policy advocacy

## Reporting Requirements

- Issue 5-year targets for emissions, engagement, and financing within 12 months of making the Alliance Net-Zero commitment
- Report annually on progress to the Alliance

## Why this initiative?

- >70% signatories are Trustees
- High credibility and transparency
- Demonstration of climate leadership

Source: Net Zero Asset Owner Alliance website as of 11 Oct 2022

# Key Takeaway on ESG Stewardship

## ESG Stewardship From Trustees to Investment Managers

- ESG Stewardship can be performed through: Investment Mandate, Investment Strategy, Investment Operations
- No standardized stewardship approach, different stewardship techniques can be applied across asset classes and investment strategies
- Checklist for Trustees:



Ask the Philosophy



Timing of Survey



Regular Monitoring



Data

## Stewardship Code in Hong Kong

- SFC issued the non-binding and voluntary Principles of Responsible Ownership in 2016 that Hong Kong Trustees are encouraged to establish their engagement framework based on the Principles
- Below are some approaches to be considered by Hong Kong Trustees:

Approach	Applicable SFC Principle(s)
Develop and disclose engagement policy	Principle 1 and 6
Decide escalation pathway	Principle 3
Establish voting standards	Principle 4
Monitor and engage with Asset Manager and/or investee companies	Principle 2 and 5