



香港信託人公會
Hong Kong Trustees' Association



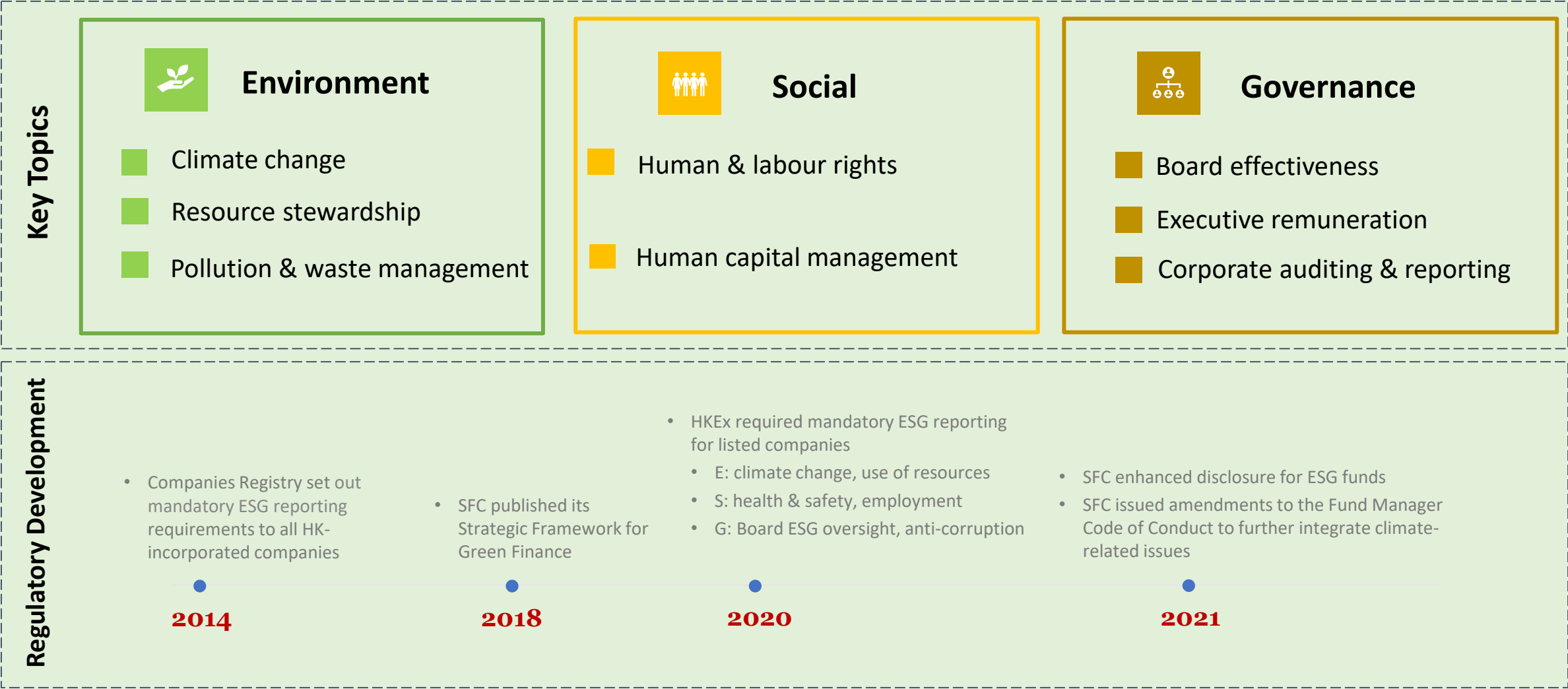
Summary of the Webinar Series on ESG – Part I

HKTA Sep 2022

Reasons for Pension Fund Trustees to Start Their ESG Journey...

- Emerging regulations across jurisdictions
 - Europe, UK and Canada etc. having ESG-related requirements for pension funds
- Fiduciary Duty
 - Failure to manage climate risk may risk fiduciary breach
- Reputation
 - Global competitive position and brand perception

Common ESG topics assessed by pension funds



Common Sustainable Investing Approaches

1. Screening

- Adopting specific criteria when selecting investments

2. Integration

- Embedding ESG factors into investment decision

3. Active Ownership

- Directly influencing investee companies' behaviour in ESG-related issues

4. Impact

- Focusing investments aimed at solving social and/or environmental problems

ESG Integration for Directly Managed Assets

Trustees' Common ESG Integration Approaches by Asset Class

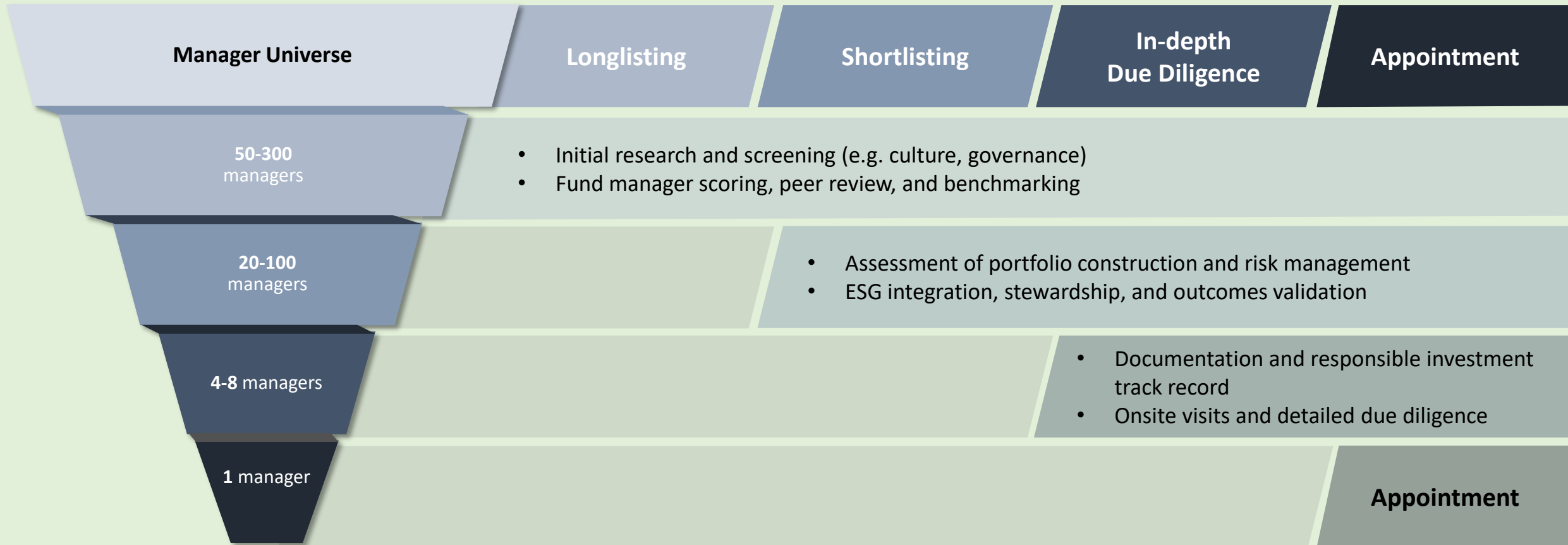
Asset Class	Investment Integration	Engagement
Listed Equity	<ul style="list-style-type: none"> Consider financially material ESG factors and their impact on future profitability in company evaluation 	<ul style="list-style-type: none"> Exert influence on companies through engagement and voting
Fixed Income	<ul style="list-style-type: none"> Consider potential for ESG risks to impact credit ratings and borrowers' future ability to make repayments Identify and seek mitigation of potential ESG risks during due diligence on loans 	<ul style="list-style-type: none"> Initial engagement and ongoing dialogue with borrowers on emerging, identified, and material ESG risks
Private Equity	<ul style="list-style-type: none"> Consider systemic risks Assess potential ESG risks during due diligence and ongoing ownership 	<ul style="list-style-type: none"> Trustees are expected to have high level of influence over company management and ensure that governance structures are effective
Passive/Index Tracking	<ul style="list-style-type: none"> Limited manager discretion in stock selection 	<ul style="list-style-type: none"> Exert influence on companies through engagement and voting There is also scope for influence on market- and system-wide issues

Source: PRI and CFA

ESG Integration for Externally Managed Assets

Pre-investment - A Guide for Selecting Fund Managers (FMs)

FM Selection Process Overview



ESG Integration for Externally Managed Assets

Post-investment - A Guide for Monitoring Fund Managers Common Approaches

Ongoing Monitoring Approaches



ESG performance discussion

- Periodic dialogues with the appointed FMs



Portfolio-level assessment

- Questionnaires, peer analysis and supported by third-party data providers
- Help inform the quality and depth of ESG integration into investment decision-making

Typical Reporting Component for FMs

1

Incorporation of ESG factors into investment process

2

Identification of priority ESG themes or issues

3

Case studies on ESG investing and stewardship approach

Benefits of FM Reporting:

- Track progress of responsible investing against international frameworks
- Able to receive ongoing feedback and tools for improvement
- Enable benchmarking of ESG performance against industry peers
- Enhance FM's internal process and capacity-building in ESG

Key Takeaway on ESG Integration

How to Integrate ESG Factors?

For Directly Management Assets



Common Approaches

- Mainly focus on investment integration and engagement
- Approach varies based on asset class, no standardized approach applicable for all asset classes



Tools and Elements of ESG Analysis

- ESG exclusion list/ criteria
- ESG due diligence checklist
- Redflag indicators
- Company questionnaire
- ESG research reports/ scores/ rankings
- ESG research dashboards
- Watch lists for securities with high ESG risks
- Management interviews

For Externally Management Assets



Fund Manager Selection

- Longlisting
- Shortlisting
- In-depth due diligence



Fund Manager Monitoring

- Periodic ESG performance discussion with appointed FMs
- Portfolio-level assessment
- Reporting requirement for FMs