CATCHING THE WAVE
HONG KONG AS A REGIONAL GREEN FINANCE HUB?

ALEX NG, CIO APAC
17 April 2018

The asset manager for a changing world
Beyond Green, becoming a Responsible Investor

UK Green Finance Taskforce’s report, *Accelerating Green Finance* has 10 themes

**Theme 6: Clarify investor roles and responsibilities**

- Relevant regulators should ensure *fiduciary duty* clearly states the importance of ESG (Environment, Social and Governance) issues.

- Government should require that the *Statement of Investment Principles* include statements on the extent to which social, ethical and environmental issues (including climate change) are considered.

- Investment advisors should ask clients about their sustainability preferences, and *investment funds* marketed directly to individuals should clearly state the ESG impacts of the fund.

Source: Principles for Responsible Investment, Green Finance Taskforce report: UK poised to become green finance leader, April 2018
Aligning finance with a 2°C world

Article 173 of the French Energy Transition law came into force in August 2015. It requires institutional investors to disclose:

• Information on how ESG criteria are considered in their investment decisions

• The results of their proxy voting activities and their ESG engagement with companies

• How their investment policies align with the national strategy for energy and ecological transition (risk assessment of climate change-related risk exposure & positive contribution of investments to a 2°C scenario)
Sample carbon and environmental impact reporting

Sample equity fund’s carbon footprint reporting

Source: BNP Paribas AM, March 2018
Note: a fund’s carbon footprint will depend more on the sector allocation of investments than the carbon performance of the companies themselves

Sample environmental impact reporting of €10m investment in a thematic portfolio

- Net CO₂ emissions avoided 300 tCO₂
- Water provided/saved or treated 2,280 megalitres
- Renewable energy generated 1,890 MWh
- Materials recovered/Waste treated 2,110 tonnes

Source: BNPP AM, Impax, March 2018. Impact of €10m invested in the strategy for one year. Based on most recently reported annual environmental data for holdings in the Impax Leaders strategy as at 31 December 2016. Methodology has been assured by Ernst & Young LLP. For further explanation of Impax’s impact methodology (which is based on equity value) please see http://www.impaxam.com/about-us/impact-investing
Good sustainability practices matter for performance

Oxford University study based on over 200 academic studies

<table>
<thead>
<tr>
<th>Percentage of the studies showing</th>
<th>Cost of capital</th>
<th>Operational performance</th>
<th>Stock price performance of companies</th>
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<tbody>
<tr>
<td>90%</td>
<td>Sound sustainability standards lower the cost of capital of companies</td>
<td>Solid ESG practices result in better operational performance of firms</td>
<td>Stock price performance of companies is positively influenced by good sustainability practices</td>
</tr>
</tbody>
</table>

Source: BNPP AM, University of Oxford, “From The Stockholder To The Stakeholder”, March 2015
Asian market is growing; penetration is still low

Sustainable assets in 2016 (including ESG) and 2014-2016 growth

- **Canada**
  - USD 1,086 bn
  - +49%

- **USA**
  - USD 8,723 bn
  - +33%

- **Europe**
  - USD 12,040 bn
  - +11%

- **Asia**
  - USD 52 bn
  - +16%

- **Japan**
  - USD 474 bn
  - +6690%

- **Australia**
  - USD 516 bn
  - +248%

**Sustainable investment AUM (as % of total)**

- **Asia**: 0.80%
- **Global**: 26.30%

- **Globally, negative screening is the most used strategy vs. limited in Asia (excl. Sharia)**
- **In Asia, ESG integration is the most widespread**

Source: Global Sustainable Investment Review 2016
Green Bond Market

USD 354bn of cumulative sustainable bond issuance

Green bonds 2017 use of proceeds breakdown

Source: Bloomberg, BNP Paribas, as of 05 March 2018.
Some recent promising developments in Hong Kong

- HKEx in 2016 upgraded the ESG guide to “comply or explain” for all listed companies.

- Principles for Responsible Investment (PRI): now 23 signatories from Hong Kong, 9 of which joined since 2017

- Hong Kong Green Finance Certification Scheme by the HK Quality Assurance Agency launched in 2016
  - HK announced a grant scheme in March to subsidise cost of green bond certification

- Hong Kong announced in its budget 2018/19 a sovereign green bonds programme with a borrowing ceiling of HKD 100 billion

- HKMA and the International Capital Market Association (ICMA) will co-host the Green and Social Bond Principles AGM and Conference in Hong Kong in Jun
Green Finance is more than just Green Bonds

<table>
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<tr>
<th>Sustainable Thematic Equity</th>
<th>Mixed Assets</th>
<th>Fixed Income</th>
<th>Money Market</th>
<th>Structured &amp; Indexed</th>
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<tr>
<td>BNPP Développement Humain (S)</td>
<td>BNPP L1 Sustainable Active Balanced</td>
<td>BNPP Obli Responsible</td>
<td>BNP Paribas EASY Low Carbon 100 Europe Theam Quant – Balanced Sustainable</td>
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<tr>
<td>Parvest Human Development (S)</td>
<td>BNPP Climate Impact (E)</td>
<td>BNPP L1 Sustainable Active Growth</td>
<td>BNPP Obli Etat Parvest Sustainable Bond Euro</td>
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<td>Parvest Sustainable Equity High Dividend Europe (G)</td>
<td>BNP Paribas L1 /Parvest Smart Food (E)</td>
<td>BNPP Comfort Sustainable Equity World Plus</td>
<td>Parvest Sustainable Bond Euro Corporate</td>
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<td>Parvest Sustainable Equity Food (E)</td>
<td>Parvest Green Tigers (E)</td>
<td>BNPP Social Business France</td>
<td>Parvest Sustainable Bond world Corporate</td>
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<tr>
<td>Parvest Sustainable Equity Europe</td>
<td>BNPP Immobilier Responsible (E)</td>
<td>BNP Paribas Social Business Impact France</td>
<td>BNPP Sustainable Bond Euro Short Term</td>
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<td>BNP Actions Europe Responsible</td>
<td>BNPP Euro Valeurs Durables</td>
<td>FundQuest Ethis World</td>
<td>Parvest Green Bond</td>
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<td>BNPP Actions Europe Responsible</td>
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<td>BNP Paribas B Strategy Europe SRI (Defensive, Neutral, Dynamic)</td>
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<td>BNPP Actions Europe Responsible</td>
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<td>BNP Paribas Portfolio FOF Dynamic, Balanced, Defensive SRI</td>
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<td>BNPP Actions Europe Responsible</td>
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(E) : Environment, (S) : Social, (G) Governance

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