



PASS Conference Opening Remarks Understanding ESG integration: A Stakeholder Perspective (AM)

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ESG Integration

Focus Group Report 2019



The presentation on ESG integration is based on the report submitted to the FoE (HK). For more information about this project, please visit https://www.polyu.edu.hk/af/cesef/index.php/foe_esg_initiative/

1. Purpose and Approach

ESG stands for Environmental, Social and Governance. The objective of the focus group meetings is to better understand the drivers and challenges of ESG integration through an in-depth sharing among stakeholders.

We conducted four focus groups to reach out to these stakeholders. We targeted major stakeholders including buy-side, sell-side, asset owners, financial service professionals (such as private bankers and high-end financial planners), fund managers, investor relation executives of Hong Kong listed firms, representatives of financial professional bodies, ESG data providers, and ESG consultants.

2. Key Findings

Drivers:

- Risk Management (56.52%)
- Client Demand (43.48%)
- Regulation (41.3%)

Barriers:

- Limited understanding of the ESG issues and/or ESG integration (45.65%)
- Lack of comparable and historical ESG data (41.3%)
- Concerns about negative returns, tracking error and underperforming a benchmark (39.13%)

3. Conclusion

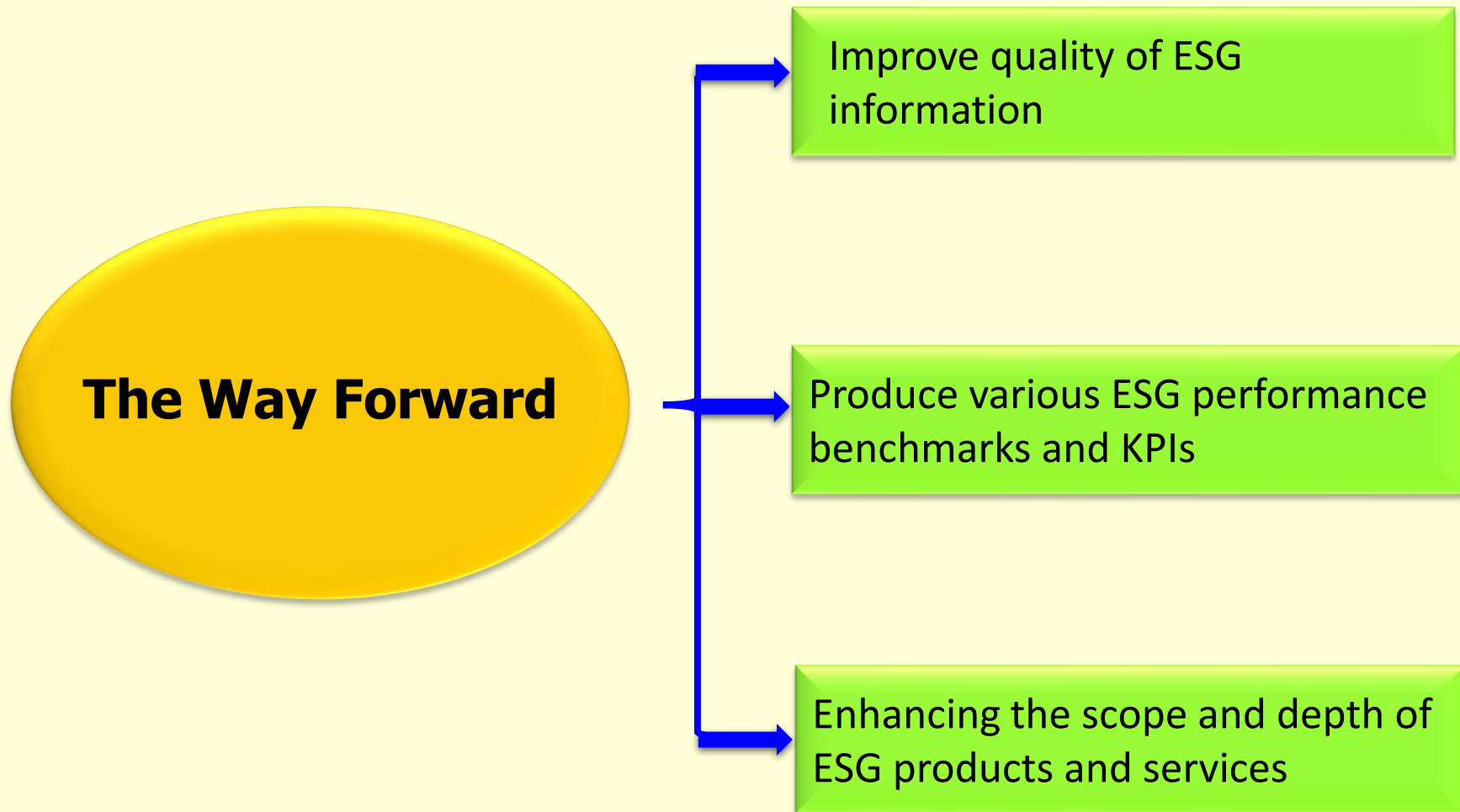
A. *The ESG landscape for more mature ESG stakeholders*

- For more mature asset management managers, asset owners, and listed firms, **corporate governance practice** and **management buy-ins** lead to the emphasis of risk management based on ESG channels. Long-term risk mitigation is commonly regarded as an obvious benefit of E, S, and G factors.

B. *The ESG landscape for early-stage ESG stakeholders*

- For early-stage ESG market participants, regulation is named as a top driver. However, this driver may imply a sense of compliance as a driving force.
- The knowledge gap between the ESG services providers and the clients lead to the current problem of **lacking a check-and-balance** for these ESG activities.

4. The Way Forward



5. Possible Actions for Professional Bodies and NGOs

Based on the focus group findings, we understand that the segment of stakeholders needed help the most is the ***smaller listed firms related to E and S engagement***.

The more specific role that we can play is to ***lobby and educate*** the board and senior management to improve top management buy-in by organizing roundtables for understanding ESG and its benefits.

For better efficiency and reaching a desirable outcome, we suggest that the roundtables should be ***organized by similarities of ESG needs and profiles*** through groupings by industry and other firm characteristics

Upon ESG improvement, this group of listed firms can ***be included in the radar screen*** of buy-side and investment professionals as investment choices for ESG integration.

~ End ~