



Section A

1st workshop on 4 March 2022

Introduction

ESG fund applications

Increasing number of funds that seek SFC authorization as an ESG fund in Hong Kong ESG funds are required to meet the requirements set out in the SFC circular dated 29 June 2021

- **Eligibility** incorporates ESG factors as a key investment focus i.e. underlying assets
- **Disclosure:** offering documents (incl. KFS) contain the required ESG-related disclosures

ESG fund confirmation (Annex 2 of the SFC circular) submitted as part of fund application documents

- Fund manager should select the most representative ESG theme and strategy of the fund
- ESG-related disclosures in the KFS should reflect the most representative ESG theme and strategy as indicated in the confirmation

UCITS funds

Whether SFDR Article 8 and 9 funds are ESG funds in Hong Kong?

Depends on whether the UCITS fund incorporates ESG factors as a key investment focus

Common ESG strategies

ESG strategy: Thematic



What is the key investment theme and how the theme is ESG related?

Themes that are **clearly defined** and **self-explanatory**, e.g. climate change, clean energy, environment

Themes that **need further elaboration**, e.g.

- Water: companies that protect and improve sustainability of global water resources
- Food: companies that engage in business that improve food management practices with the purpose of improving sustainability of the agricultural practices, natural resource efficiency, and affordability and quality of food
- Forestry: companies that resolve global environmental challenges through sustainable forest management and wood-based materials

ESG strategy: Thematic



What are the criteria for considering whether a company/investment is related to that ESG theme?

Companies with at least XX% of total turnover / profit / capex (or any alternative parameters) in that ESG theme and related sectors (e.g. clean energy)

Companies that engage in products and services that directly or indirectly provide solution for the ESG theme (e.g. climate mitigation and/or adaptation) based on various quantitative factors and performance indicators of which the fund manager consider different threshold depending on the related activities (e.g. details are disclosed separately on the



What is the expected or minimum proportion of fund assets to be invested in those underlying investments?

The fund should primarily invest in those ESG-themed investments

Example 2 Energy transition

ESG strategy: Thematic



Illustrative examples of KFS disclosure

Example 3 ESG / sustainability

The fund invests primarily (i.e. at least XX% of its net asset value) in equities of companies engaging in activities facilitating the achievement of one or more SDGs i.e. companies which offer products, services or solutions across the themes of affordable healthcare, energy transition (de-carbonizing the energy system by transitioning away from fossil fuels towards clean energy), food security (meeting the growing food demand for affordable and nutritious food whilst improving sustainability of the food system), financial inclusion (improving availability of financial services to underprivileged communities)

factors and performance indicators may be considered in assessing whether a company engages significantly in the above themes; and the relevant quantitative and qualitative factors may also vary in importance

To disclose in the KFS the types of ESG factors and metrics being assessed (e.g. carbon footprint, water intensity, social and employee matters, respect for human rights, anti-corruption matters, etc.) in deriving the ESG related scores / ratings (e.g. overall ESG perspective or focus on any particular aspect) of the company / issuer

We expect all of the companies in the investment universe (except for certain assets where ESG may not be relevant such as cash or money market instruments) would be subject to the ESG assessment

Selection based on ESG ratings

The fund should primarily invest in companies with high ESG ratings (or above certain threshold) within the investment universe

- Disclose in the KFS the proportion (e.g. at least 20%) of companies that

ESG strategy: Best-in-class / positive screening



Illustrative examples of KFS disclosure

Example 1 Selection based on ESG ratings

The fund manager uses its proprietary assessment model to assess the ESG variety of ESG factors including carbon footprint, water intensity, social and employee matters, respect for human rights, anti-corruption / anti-bribery matters or other governance matters, etc.

Each companies in the investment universe would be assessed and assigned with a proprietary ESG score (i.e. from 1 to 10) and those among the worst 3 scores would not be invested, representing at least XX% reduction of the investment universe

The fund invests primarily (i.e. at least XX% of its net asset value) in companies based on the above best-in-class approach, except for cash held

Example 2 Upgrading the overall ESG rating at the portfolio level

ESG strategy: Impact investing



positive and measurable ESG impact?

Please refer to the updated slide on page 25.

ESG strategy: Others



Index tracking funds

Please refer to the updated slide on page 26.



Fund of funds

To disclose how the underlying funds are considered as ESG funds. i.e. incorporating ESG factors as their key investment focus (same expectation as to any other ESG funds)

The level of disclosure shall be the same as in other active ESG funds

Investment themes not clearly linked to sustainability goals

Broad spectrum themes where certain themes only demonstrate a remote relationship with the sustainability goals (e.g. artificial intelligence / robotics / subscription-based business)

ESG factors do not have significant influence to the stock selection process

Remove 5-10% worst performing companies in the investment universe by
-in-class strategy

Examples of funds not eligible as ESG funds

The reference benchmark for ESG comparison is not comparable

An Asia focused fund commits to achieve an average ESG score of its portfolio that is at least 20% better than a reference benchmark of which is MSCI World Index

ESG factors are not binding elements

binding or significant impact on the ultimate investment decision

ESG investment philosophy but lack of substance

Operational matters

Application process

Complexity and uniqueness of ESG theme / strategy encourage early discussion with the SFC

Direct dialogue with the portfolio managers may be required to better understand the ESG strategy

Disclosures may vary

issues

-specific

Ongoing monitoring and periodic assessment

Fund managers should regularly monitor how the ESG fund has attained its ESG focus

All ESG funds (including UCITS ESG funds) should disclose its periodic assessment results to investors

Section B

2nd workshop on 12 January 2023

For example, to achieve carbon neutral and net zero emissions by investing in companies that:

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For example, at least 20% of companies will be removed from the investment

ESG strategy: Impact investing



fund?

The underlying investments of the fund themselves should generate positive and measurable ESG impact, for example:

green bonds that are subject to ongoing assessment such as the (i) use of proceeds, (ii) process for project evaluation and selection, (iii) management of proceeds, and (iv) reporting, etc.

at the fund level

Fund managers are expected to disclose in:

offering documents: how the fund measures its ESG impact

periodic assessment: (i) the ESG impact achieved by the fund, and (ii) the methodology to measure such ESG impact

construction methodology and considered as a key investment focus

Same logic and requirements as in other active ESG funds adopting thematic, best-in-class and/or positive screening strategies (e.g. index

Operational matters

Periodic assessment

All ESG funds (including UCITS ESG funds) should disclose its periodic assessment results to investors by appropriate means (e.g. annual report, website, or fact sheets, separate report, etc.)

Periodic assessment should be conducted at least annually

Where an ESG fund decides to disclose its periodic assessment results for its financial year in the annual report, we may accept the assessment period to cover an extended reporting period in cases when the fund is first launched or upon its termination

Section C

Q&As

Q: Can a fund which does not fall under the scope of ESG funds pursuant to

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A:

would generally not expect a Non-ESG fund to have any reference to ESG Terms in its name but exceptions are permitted on a case-by-case basis. In light of the diversity and rapid development of funds, exceptions are permitted on a case-by-case basis. In light of the diversity and rapid development of funds, exceptions are permitted on a case-by-case basis.

Q:

Thank you.

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