



Sustainable Investing Brief Note

Sustainable investment (also called responsible investment) is an investment strategy aimed at delivering long term social and environmental benefits alongside considerable financial returns, while minimizing risks and generating long-term profits. Investors direct capital and investments to corporates or funds whose operation and production methods have taken “Environmental, Social and Governance” (ESG) into account¹. Informed by the concept of sustainable finance, which is first brought onto the global political table in the United Nations Millennium Development Goals (UNMDGs) in 2000², the UN Principles for Responsible Investment (PRI) was launched in 2006, which lists a set of investment principles designed to help investors to incorporate environmental, social and governance (ESG) considerations into their investment practices.³ The creation of corporate sustainability assessments (and the related indices), such as the Dow Jones Sustainability Indices, MSCI ESG Ratings, FTSE4GOOD Index, CDP and United Nations Global Compact 100, have further incentivized green and sustainable investments.

Sustainable investing has challenged the deep-seated impression that philanthropy is the only channel for the business sector to give back to the community, and investment has no direct linkage with doing good. Several factors have been contributing to this trend. Firstly, younger professionals have climbed up the ladder to leadership roles in corporates and assets owners. Millennials, with generally higher educational level, are more open-minded to accept the integration of sustainability and investing, two seemingly unrelated disciplines at first, while acknowledging the importance, potential, and urgency sustainable investing could address. According to Asian Venture Philanthropy Network (AVPN), about 37% of Hong Kong millennials are passionate in becoming leaders in sustainable finance⁴. This new generation of leaders has attracted a greater reputation for sustainable investing.

Secondly, sustainable investing can not only do good to society, but is also beneficial to the company itself. In face of global turbulence, such as climate change and COVID19, investors nowadays are looking for business partners who continue to thrive in spite of increasing threats. Businesses that dedicate themselves into sustainable orientations are most likely to have higher resilience against future challenges, with more stakeholders agreeing that ESG factors should be taken into account⁵. As

¹ Kölbel, J. F., Heeb, F., Paetzold, F., & Busch, T. (2020). Can Sustainable Investing Save the World? Reviewing the Mechanisms of Investor Impact. *Organization & Environment*, 33(4), 554–574. <https://doi.org/10.1177/1086026620919202>

² Cooper, S. C. (2019, February 5). *The evolution of sustainable finance*. Standard Chartered. <https://www.sc.com/en/feature/the-evolution-of-sustainable-finance/>.

³ About the PRI. Principles for Responsible Investment. (2017, December 1). <https://www.unpri.org/pri/about-the-pri>

⁴ Wang, O., Wo, B., & Gates, J. (2019). *Social Investment Landscape in Asia: Hong Kong*, p.10. Asian Venture Philanthropy Network.

⁵ Financial Services Development Council. (2020). *Hong Kong – Developing into the Global ESG Investment Hub of Asia*. Hong Kong: Financial Services Development Council. Retrieved 28 July 2021, from



a result, to attract greater investments and financial gains, corporates are tuning into ESG metrics, creating a bigger momentum for sustainable investing.

In Hong Kong, various actors are playing a pivotal role in promoting sustainable investing. As the Hong Kong Exchanges and Clearing Limited (HKEX) has mandated ESG reporting of listed companies since 2016⁶, business stakeholders, including corporate owners and asset managers, are taking sustainable investing more seriously. Note that sustainable investing should not be confused with “Impact Investing”, which is a similar yet different variant of the former. While sustainable investing emphasizes on a corporate’s ESG operation, “Impact Investing” shifts its investment focus from maximizing financial returns onto companies which products or services they provide have a net-positive impact to the society or environment, creating impact by contributing to a solution in achieving sustainability goals⁷.

As the central banking organization, the Hong Kong Monetary Authority (HKMA) also finds its way to mainstreaming sustainable investing. The HKMA prioritizes ESG as a core factor when making investment decisions and approaching business partners⁸. Corporates are also actively involved in sustainable investing. Hong Kong has a long and sustained history of institutional philanthropy by prominent tycoons and funds⁹, and this lays solid groundwork to evolve from philanthropy to sustainable investing.

Corporates can better secure sustainable investing opportunities by leveraging on the “Sustainable Value Chains” (SVC) management concept pioneered by the Partnership for Sustainability Leadership in Business (PSLB) project. As SVC situates business processes in a holistic picture, every actor along each stage of the value chain shares the same responsibility towards social and environmental good in this collaborative ecosystem. Investments made on a company which adopts SVC management principles magnifies the impact of sustainable investing well beyond a single company, instigating a butterfly effect onto its upstream and downstream business partners and stakeholders along the value chain as well.

https://www.fsdc.org.hk/media/egvher4d/fsdc_paper_no_44_hong_kong-developing_into_the_global_esg_investment_hub_of_asia_eng.pdf

⁶ Hong Kong Exchanges and Clearing Limited (2020), Appendix 27 Environmental, Social and Governance Reporting Guide. Retrieved on 22 July 2021, from <https://en-rules.hkex.com.hk/rulebook/environmental-social-and-governance-reporting-guide-0>

⁷ Clark, C., Emerson, J. and Thornley, B., 2014. *Collaborative Capitalism and the Rise of Impact Investing*. Hoboken: John Wiley & Sons, Inc., p.22.

⁸ Hong Kong Monetary Authority. (2020). Responsible Investment. Retrieved 28 July 2021, from <https://www.hkma.gov.hk/eng/key-functions/reserves-management/responsible-investment/>

⁹ Wang, O., Wo, B., & Gates, J. (2019). *Social Investment Landscape in Asia: Hong Kong*, p.9-10. Asian Venture Philanthropy Network.