

NEW BUT NOT-SO-NEW TRENDS IN INVESTING

PART 1 - ESG

PART 2 - METAVERSE (NEXT)

Ten senior executives in the PE, investment and insurance sectors joined our recent roundtable discussions and explored two increasingly hot topics that are impacting investments: **ESG** and the **Metaverse**.

Today, Environmental, Social and Governance (ESG) considerations cut across all sectors in every step of the supply chain. **Investors are leading the way in allocating capital into companies that have demonstrated success in ESG.** While ESG has been a hot topic for some years, companies in different sectors have different interpretations and stages of adoption and implementation.

The investment and asset management industry has encountered the most impact in the last few years. Due to accelerating pushes from more **ESG-conscious clients and investors**, ESG has infiltrated into all aspects of financial services, especially asset management from **ESG or Sustainable Investing across different asset classes, ESG Research, to ESG Sales and ESG Stewardship.** ESG funds have started to appear in the last few years. Take Hong Kong, as an example. The first ESG ETF was launched at the beginning of last year by Mirae Global Investment. The number of ESG ETFs have since grown to 3 now while there are about 100 non-listed ESG funds.



New York
Boston
Los Angeles
London
Paris
Tokyo
Beijing
Shanghai
Hong Kong
Taipei
Singapore
Kuala Lumpur
Jakarta

ESG...CONT'D

Three pressing issues surround ESG investing for asset managers: (i) Greenwashing, (ii) Building an ESG mindset across the organization and (iii) Racing for ESG talent.

'GREENWASHING'

Greenwashing could bring devastating effects on a company's reputation. For asset managers, **the risks are two-pronged**. First, the potential to mislead can arise as a result of the product issuer being unclear on what standards they use to assess the product. The second risk lies in greenwashing by the target companies the fund invests in. It is thus critical that asset managers are **sharp in spotting and uncovering greenwashing** in their target investments.

We asked our senior executives how to detect greenwashing from companies. One CEO mentioned that many companies see ESG only as a PR tool and it's possible to buy ESG awards and certificates. However, this CEO believes that awards and checklists like these will not fool investors anymore since **investors will do their own due diligence**, too, and would see through any attempts of promoting a firm as more ESG-aware than it actually is. This CEO shared that at the beginning of the ESG "boom", asset managers would ask questions in a questionnaire style – a checklist of topics to tick and see



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if a company is implementing ESG. But more stringent methodology and even active participation in the target companies' activities such as proxy voting, stewardship, etc. may be required.

BUILDING AN ESG MINDSET ACROSS THE ORGANIZATION

ESG does not work just with an ESG priority on the CEO's agenda. It would take an **ESG mindset across the whole organisation** for it to be successfully executed at all levels.

One CEO observed that some firms would say that they don't have the budget for implementing ESG "structures". However, she doesn't believe that companies need to spend huge budgets on ESG. **The core to become more "ESG-aware" is to lead by example.** Companies who live by example can influence others on this topic, which will have the most impact on the overall company approach to ESG. One guest added that when approaching topics like carbon

emissions, the direct emissions from a services firm, say an insurance company, are very low, and direct emissions through travel and internal emissions emitted through buildings/AC/lights are still only 20% of the total emission.

The **main portion of emission comes through the supply chain**. So, coupling with the idea above, leading by example and influencing not just one's own organisation but also one's supply chain can have a much larger overall impact...cont'd.

BUILDING...CONT'D

One Senior Executive suggested a more “drastic” approach of giving incentives for companies to embrace ESG by **connecting Senior Executive Pay to KPI for ESG**. But another guest cautioned that a KPI such as this might be hard to define. A reminder was also given that there is more to ESG than just “E”. The “S” for example may involve D&I and obviously large companies have more resources and responsibilities to hire from minority groups and making sure that there is good balance in their employment. As such, large companies should be in a position to contribute more to the overall talent landscape.

RACING FOR ESG TALENT

A LinkedIn search revealed that there are 3000+ “Head of ESG profiles” on LinkedIn but **less than 400 are in Asia**. Of the 1,600+ Financial Services profiles, only 163 are in Asia of which 32 are in Hong Kong and 45 are in Singapore. Hong Kong seems to be lagging behind. The lag in talent may just be reflecting the **low number of launches of new ESG products in Hong Kong**. Our guests explained that there are still difficulties in finding investors for ESG projects. An example was given of a firm that is inventing a way to use carbon caption for building batteries; this would fall into the industrial segment in which not many Hong Kong investors have the expertise nor the investment appetite..

that is inventing a way to use carbon caption for building batteries; this would fall into the industrial segment in which not many Hong Kong investors have the expertise nor the investment appetite. It is also still a high-risk area. Asset Managers who would put ideas like these into a fund need to have expertise to assess the target companies.

One reason that talent in this area is lacking in Hong Kong is because there are generally not many industrial funds left here. It seems to be a chicken-and-egg situation. But that is certainly not helped by a fierce competition for highly sought after ESG talents that are in acute shortage across the board. [Please see latest update in this article: “*Race for ESG talent intensifies in 2022*” <https://theasset.com/article/45912/theasset.com>]

“Head of ESG“ Profiles on LinkedIn



*From financial capital to human capital and now **natural capital**. Nature is precious!*

The good news is that new funds are in the pipeline. Sun Life Asset Management just announced that it is planning to launch its second ESG fund in Hong Kong in the wake of “encouraging” performance of the first one. One of our guests also mentioned that he is working on setting up an “Impact Fund” that invests directly in social projects such as social housing for the under privileged as there is more awareness around that topic these days.