

Panel Discussion on "Environmental, Social and Governance (ESG)"

Mr Yasuyuki Kawasaki, Deputy Chairman, Sumitomo Mitsui Financial Group, explained Sumitomo Mitsui Banking Group's (SMBC) Action for Sustainability, which identifies three areas as medium-term priorities: the environment, next-generation and community. A corporate sustainability committee endorses the principles for responsible banking, in line with the shared environmental, social and corporate governance (ESG) adopted by the global community.

Environment-focused initiatives on the lending side include revisions to its credit policy and the promotion of green finance, on the funding side is the issuance of green bonds, and on the product end the creation of US\$7 billion in ESG/SDG assessment loans and a US\$300 million Global Impact Investment Fund.

The purpose of ESG and SDG is to address common social issues globally, generate new business opportunities and improve risk management for banking institutions in Asian financial markets, Mr Kawasaki said.

Mr Arnout van Rijn, Chief Investment Officer Asia Pacific and Fund Manager, Robeco Asia-Pacific Equities and Robeco Asian Stars Equities, said that Robeco is developing a scoring mechanism for sustainability. Their clients expect healthy returns, so Robeco assesses the ESGs of the companies it invests in to encourage them to improve, and the market rewards such companies through a lower cost of funding or higher valuations.

SAIF was Softbank's first fund in 2001, but it became independent in 2005, said Mr Andrew Y. Yan, Managing Partner, SAIF Partners. It was the first global fund to focus on China and India, investing in about 400 companies in China and 100 in India, and experienced China's growth and was part of its wealth creation, but there were a lot of issues, such as environmental degradation, poor governance and inequality.

Linkage between profit and the green agenda

There is more demand for renewable energy, recycling and so forth, said Mr Kawasaki, and the market can play a big role in promoting environmentally friendly projects in partnership with the government.

Mr van Rijn said that markets have become short-term, so it is important to convince companies that Robeco is a long-term shareholder. While it is logical for investors to express their views about what can be done better, in the past management tended to regard Robeco as a nuisance, but things have changed and now management wants to learn more about best practices.

Mr Yan said that investing in alternative energy like wind power companies is an easy decision, since about 70 per cent of China's electricity is generated from highly polluting coal-fired power plants. But other investments are more challenging, for example in the past three years China has become the world's largest phone maker and user, and young people often change mobile phones every six months. When the old phones are recycled, tremendous pollution is

created, so investing in mobile phone manufacturing may be highly profitable, but it is environmentally unsustainable. This produces conflict in investors' minds.

Similarly, building a dam to generate hydro power may seem like a sustainable idea, but when a massive area of land must be reclaimed, where do the farmers and villagers go? China has resettled 20 million people to make way for hydro power dams and reservoirs, with a huge social and environmental cost. Fortunately, corporate governance and social and environmental issues have become the new focus and are even more important than profit in some cases.

Mr van Rijn pointed out that child labour was the most prominent social issue in the '90s, but environmental issues are the main focus today. Companies active in ESG must offer something their competitors don't, so, for example, Robeco assesses cement companies on carbon output. A bad CO2 profile will require increased future capital expenditure.

Mr Yan said that most people are aware of environmental issues, but for him as an investor, governance is most important. "As an environmentalist, I am very concerned about the internal efforts of enterprises."

How banks and investors can drive change

For B to C business, reputation and image are essential, said Mr Kawasaki. ESG gives businesses opportunities going forward, but implementation is the most important thing. Evaluation of environmental input is not well established, so it's difficult to assess a business.

Mr van Rijn pointed out that companies need the right people, but it is difficult to attract and retain talent. If companies have a bad environmental image, fewer young people will want to work for them so there is an incentive to improve ESG. Mr Yan explained that when companies are losing money, they tend not to care about the environment, but when they make money, they become environmentally conscious. He estimated that 95 per cent of companies will not spend money on ESG, so government regulations are needed.

Mr van Rijn suggested this is a generational thing and that attitudes are changing and most brands now have or should have a separate section in their annual reports for ESG.

Mr Yan said the dilemma for investors is what to do about a coal-fired power plant in India, for example, which generates horrendous pollution, but which the local people need to live. Closing it down is not an option when it would take 10 years to build a new cleaner plant. However, people are much more aware of and interested in environmental issues today, and brands have to disclose their environmental policy.

Conclusion

Ms Sammy Leung pointed out that environmental issues may affect social issues and that regulations are necessary to move things along.

Mr van Rijn said that it is wonderful to see what financial people can do to improve ESG, and that there is a need to launch funds with these factors. He also mentioned the role of consumers in forcing pension funds to focus on ESG when making investment decisions.

Mr Kawasaki added that since there are so many different situations and societies, interaction between people from different countries and backgrounds is important and makes the AFF particularly valuable.

Mr Yan concluded that we must all be aware of the social and environmental costs of economic growth.