



恒生指數
HANG SENG INDEXES



ESG Service

by Hang Seng Indexes Company Limited

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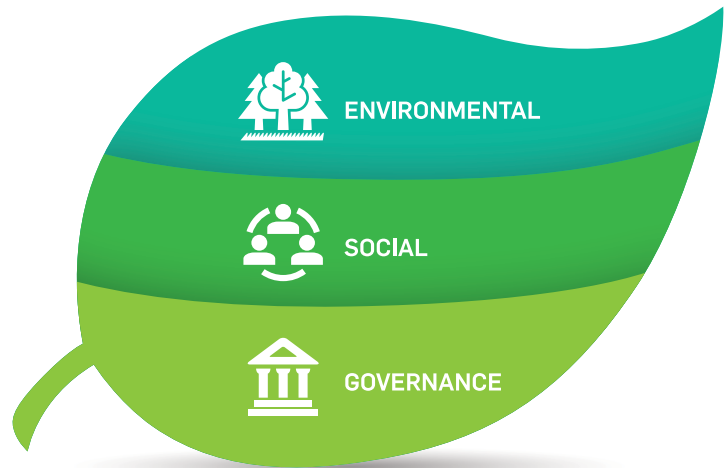
What is ESG?



ESG stands for “Environmental, Social and Governance”

Definition of ESG

ESG stands for “Environmental, Social and Governance”. Investors and companies are increasingly recognising that ESG performance directly impact their reputation, value and investments.



What does ESG entail?

There is no exhaustive list of ESG issues. The tables below are some sample ESG issues that investors and companies need to consider when understanding ESG related risk and growth opportunities.

The Hong Kong Exchanges and Clearing Limited (“HKEX”) has required all Hong Kong listed companies to issue ESG reports in accordance with its Environmental, Social and Governance Reporting Guide (“ESG Guide”) since 2016. If listed companies do not complied with the “comply or explain” provisions set out in the ESG Guide, they must give considered reasons. Further, certain ESG disclosures have been upgraded to mandatory requirements since 2020.

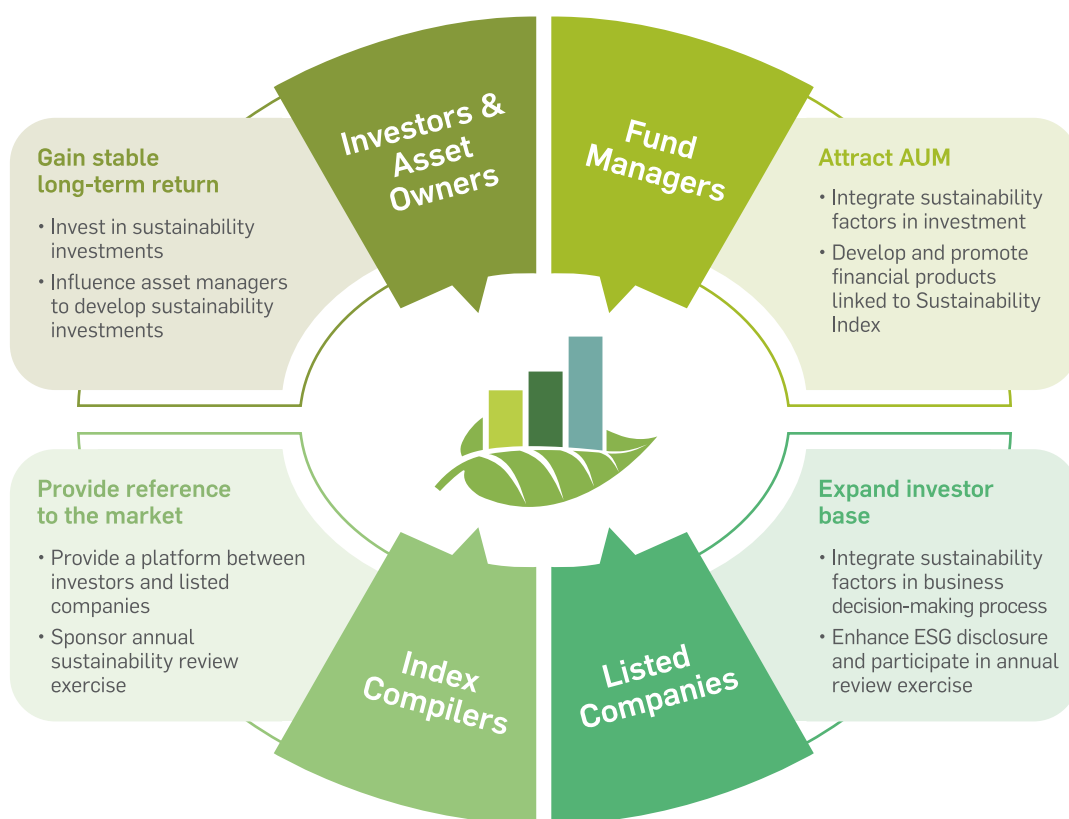


In 2021, the Securities and Futures Commission ("SFC") also issued amendments to the Fund Manager Code of Conduct, requiring fund managers managing collective investment schemes to take climate-related risks into consideration in their investment and risk management process, and to make appropriate disclosures to meet investors' growing demand for climate risk information.

ESG institutions around the globe, such as Task Force on Climate-related Financial Disclosures ("TCFD"), The Principles for Responsible Investment ("PRI"), Sustainability Accounting Standards Board ("SASB"), International Sustainability Standards Board ("ISSB"), and Global Reporting Initiative ("GRI") are working to formulate standards and define materiality to facilitate the incorporation of these factors into the investment process.

ESG versus CSR versus Responsible Investment

ESG and CSR (Corporate Social Responsibilities) are not identically the same but both consider company's impact on society and environment. CSR describes a company's socially responsible commitment, efforts and practices and is often used by the corporate side. On the other hand, ESG is the term used by asset managers and investors to evaluate corporate behaviour and to determine risks and growth opportunities based on non-financial metrics.

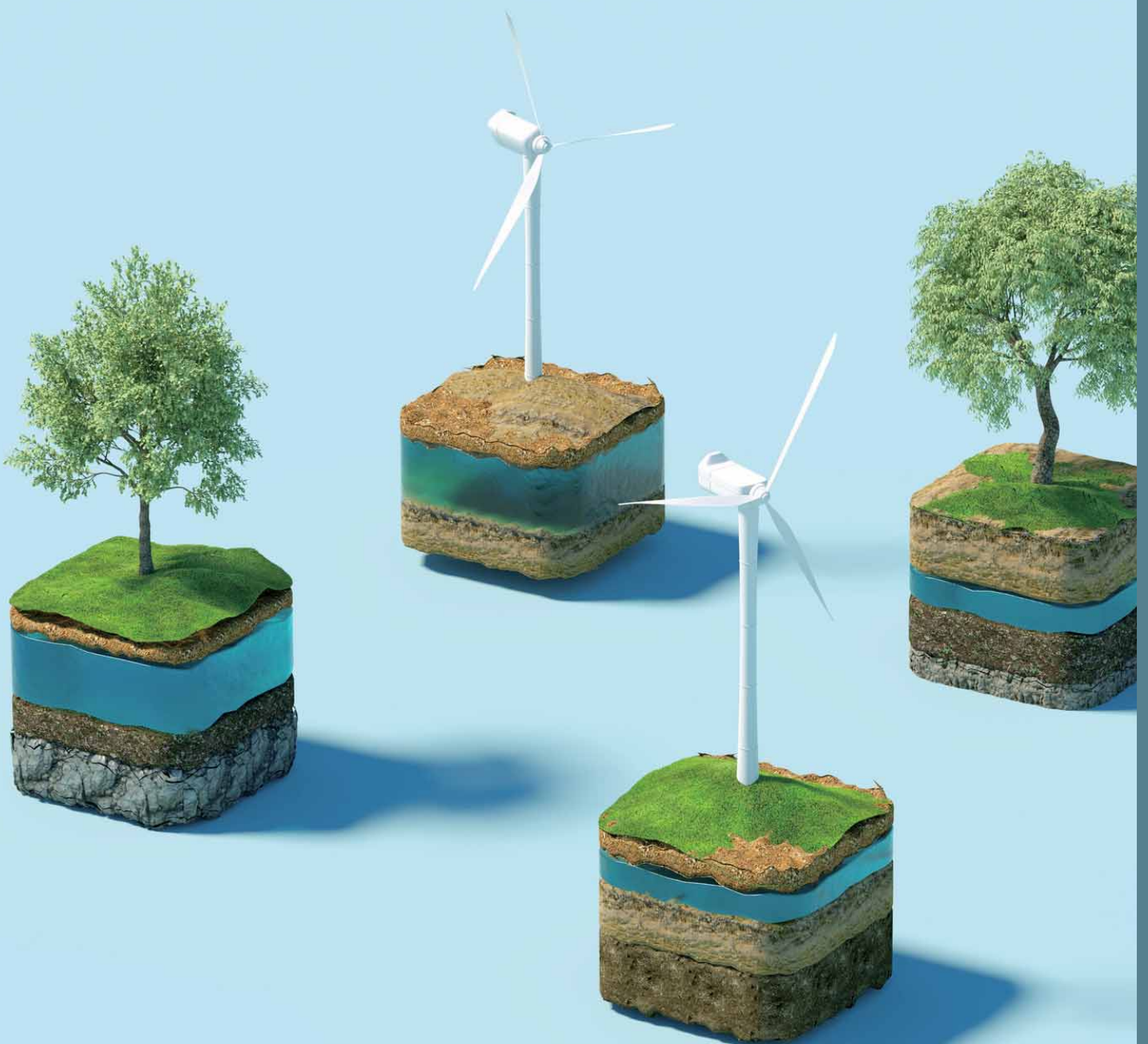


INCENTIVE is the key to encouraging participation at all levels

Responsible investment¹ is an approach to investing which explicitly acknowledges the relevance of ESG factors in investment decision-making as well as the long-term health and stability of the financial market as a whole. Furthermore, it recognises stable, well-functioning and well-governed social, environmental and economic systems.

Reference: 1. The Principles for Responsible Investment

Why ESG?



ESG & Performance

A common debate is if ESG adds value to companies' performance. According to a study by the University of Oxford¹, a "high sustainability portfolio" outperforms a "low sustainability portfolio" by 4.8% on an annual basis (when using a value weighted portfolio, the results indicate an annual outperformance of 2.3%). Overall, the findings point to the possibility of earning an alpha by investing in firms with a superior sustainability profile.

The table below shows the Indexes with ESG considerations perform better than HSI over the long run



Index	Annualised Return			Annualised Volatility		
	1-Yr	3-Yr	5-Yr	1-Yr	3-Yr	5-Yr
HSI ESG Enhanced Index	-23.44%	-4.87%	-	27.57%	23.41%	-
HSI Low Carbon Index	-21.52%	-5.14%	0.29%	27.84%	23.29%	21.16%
Hang Seng Climate Change 1.5°C Target Index	-24.56%	-3.02%	1.63%	28.59%	24.21%	22.02%
Hang Seng Corporate Sustainability Index	-7.68%	-2.13%	1.72%	15.94%	18.71%	16.92%
Hang Seng ESG 50	-16.48%	-3.14%	2.25%	20.79%	20.05%	18.65%
HSI	-21.87%	-5.67%	0.01%	27.12%	22.92%	20.77%

Source: Hang Seng Indexes Company, as of 30 Jun 2022

Reference: 1. 2015 University of Oxford & Arabesque Partners Meta-study, How sustainability can drive financial performance

The ESG Rating Model

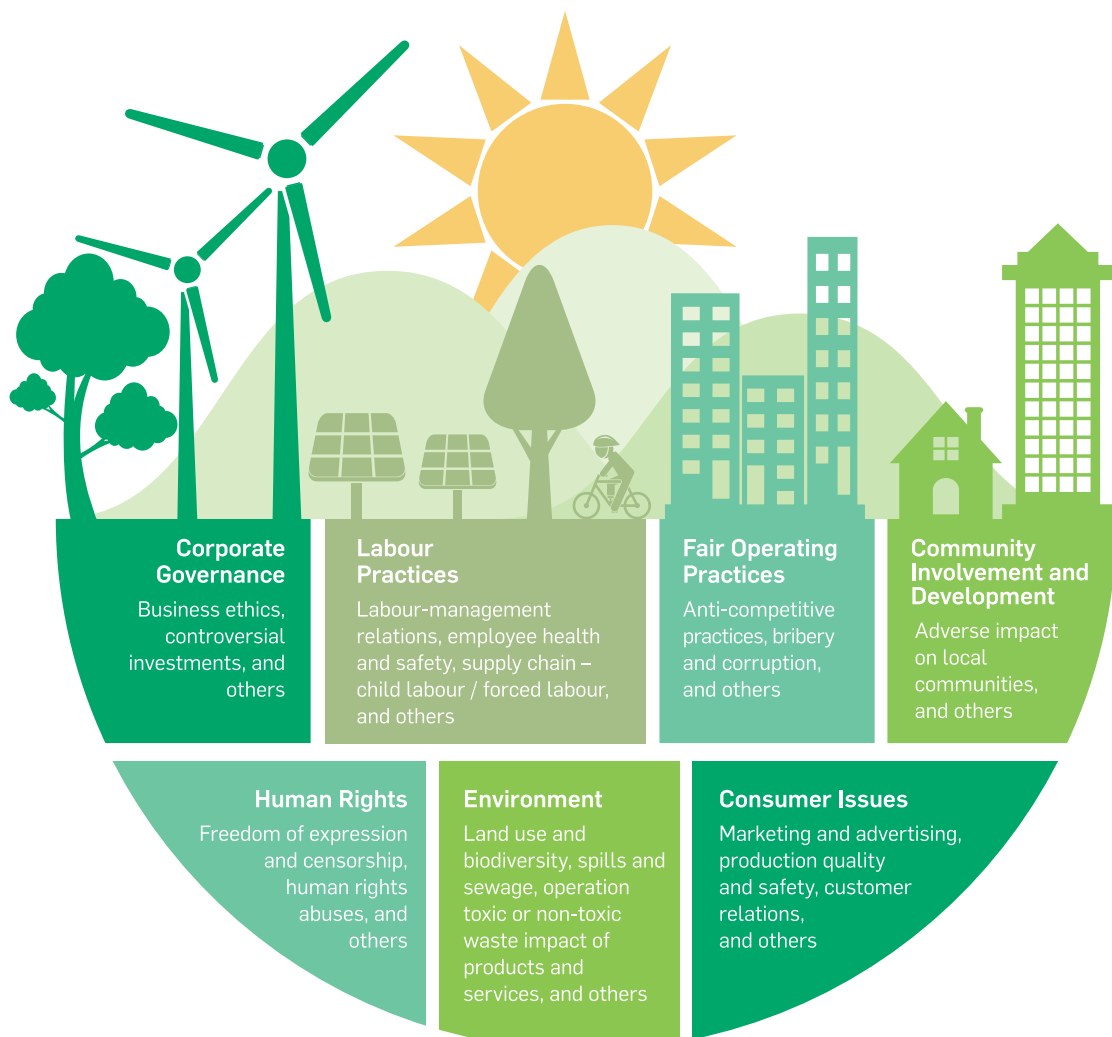


How is ESG Measured?

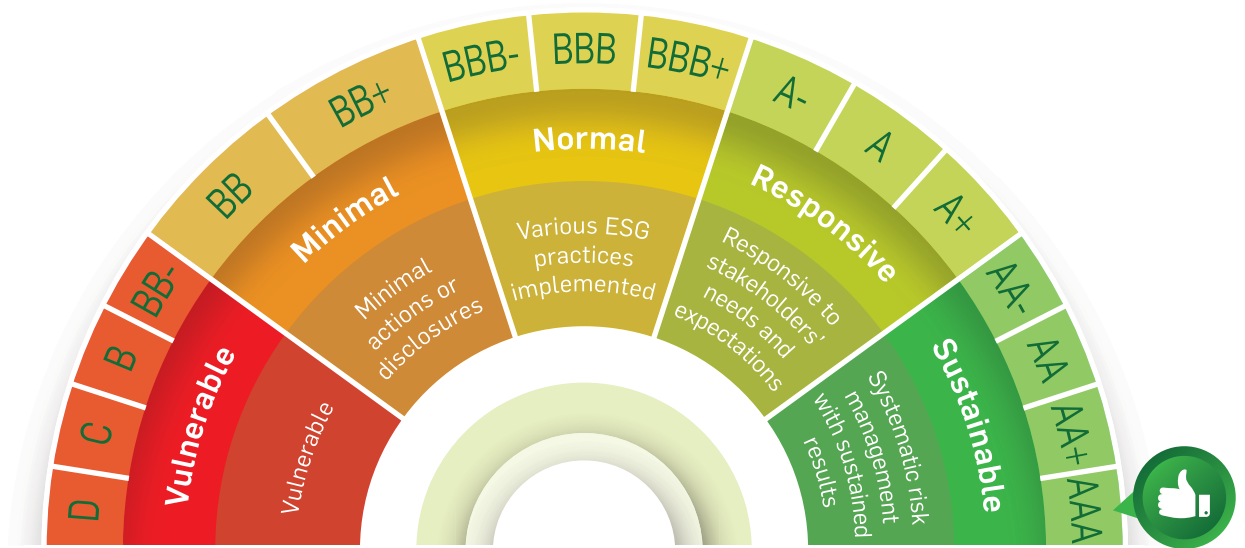
Globally, many research institutes, rating agencies, index providers and investment management companies provide ESG ratings to reflect the management quality and the performance of a company with respect to ESG topics. Since 2010, Hang Seng Indexes Company has appointed an assessment body to provide ESG rating for the construction of Hang Seng Corporate Sustainability Index Series. Over the years, Hang Seng Indexes Company also on boarded international ESG ratings agencies such as Sustainalytics, ISS, and ESG Book, and launched various ESG Indexes.

In Hong Kong, the Hong Kong Quality Assurance Agency ("HKQAA")'s rating model is designed to rate a company's management system maturity and risks with regards to sustainability performance. The assessment captures both general and industry-specific criteria covering seven core subjects.

Seven Core Subjects



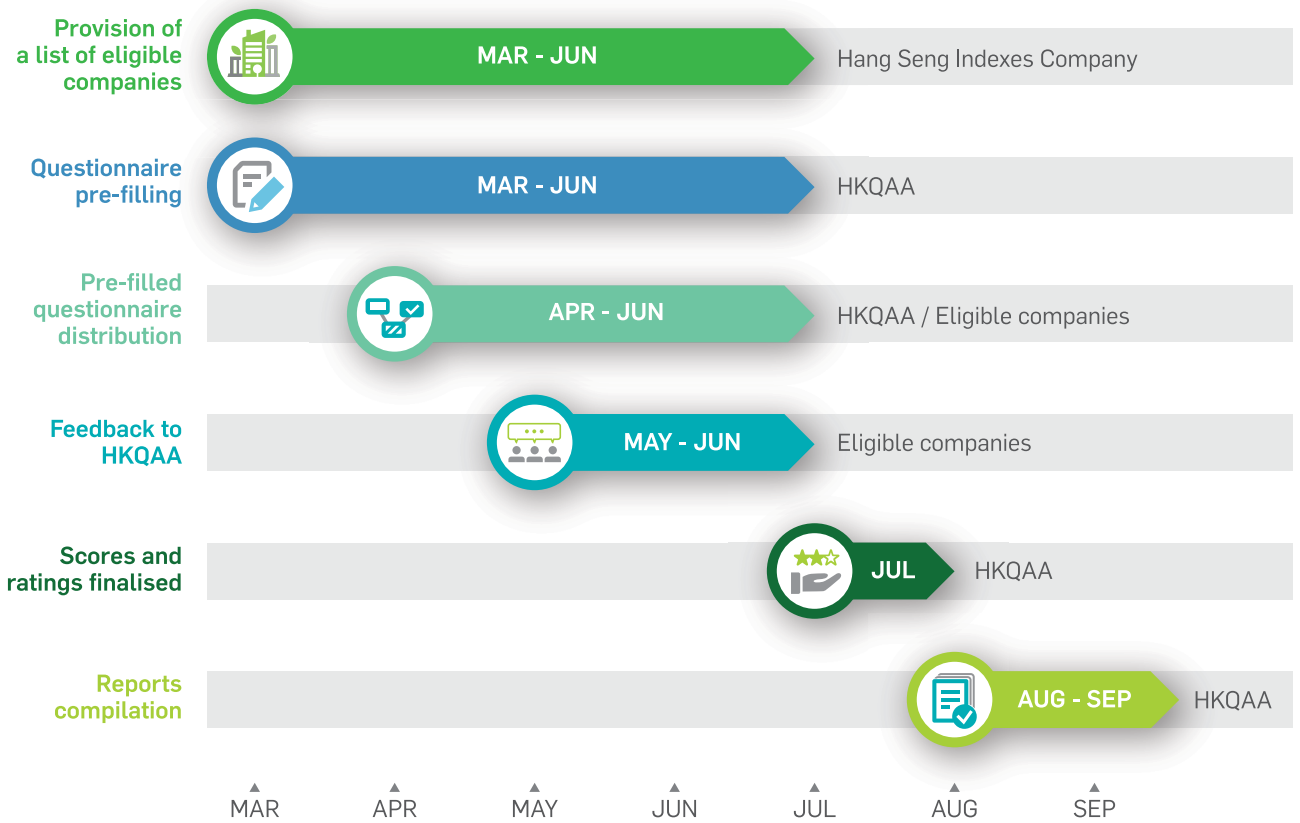
HKQAA Sustainability Rating Scale



Plan-Do-Check-Act Scoring Approach



Timeline for Assessment Process

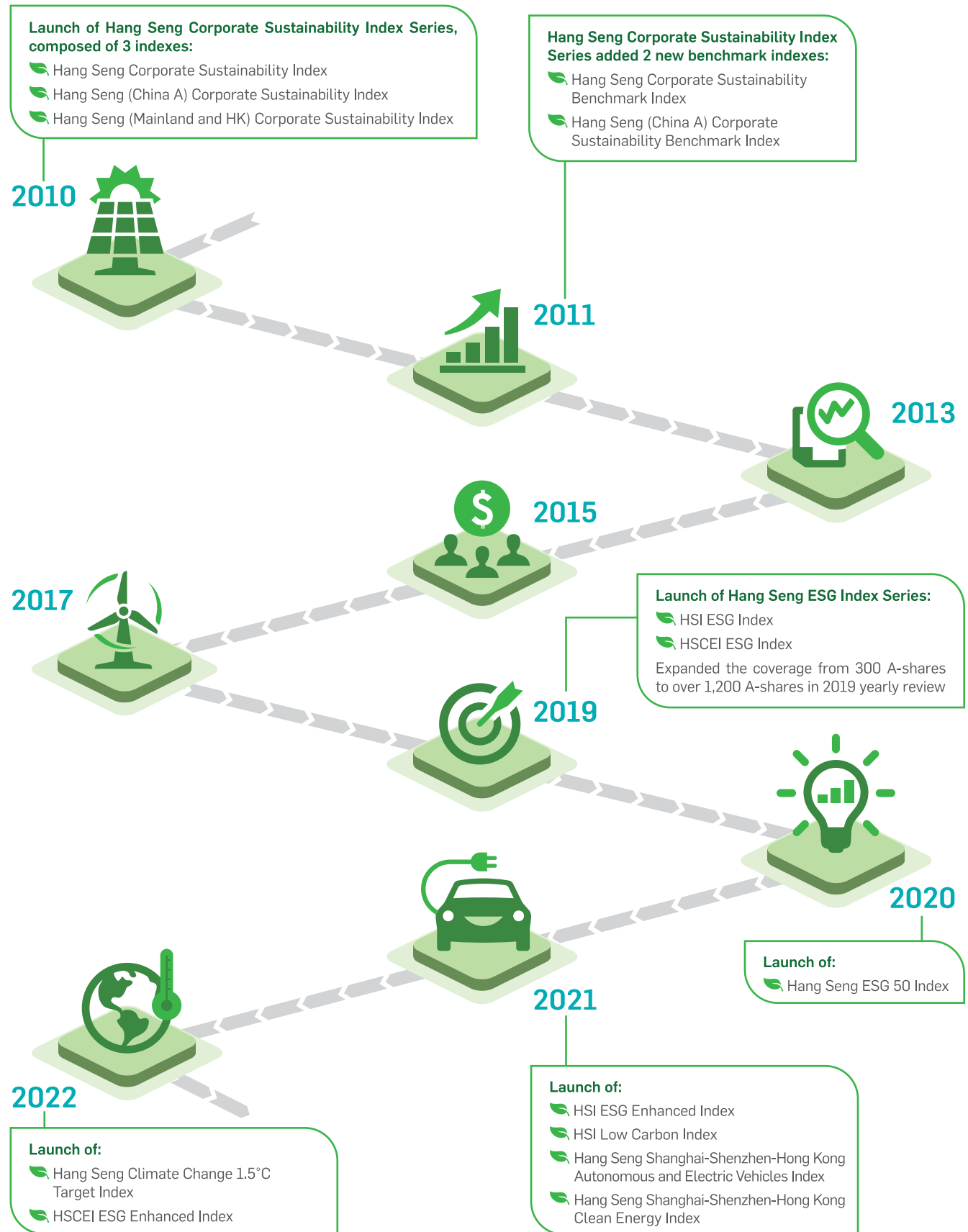


Our ESG Solutions



a. ESG Indexes

Milestones of our ESG Indexes

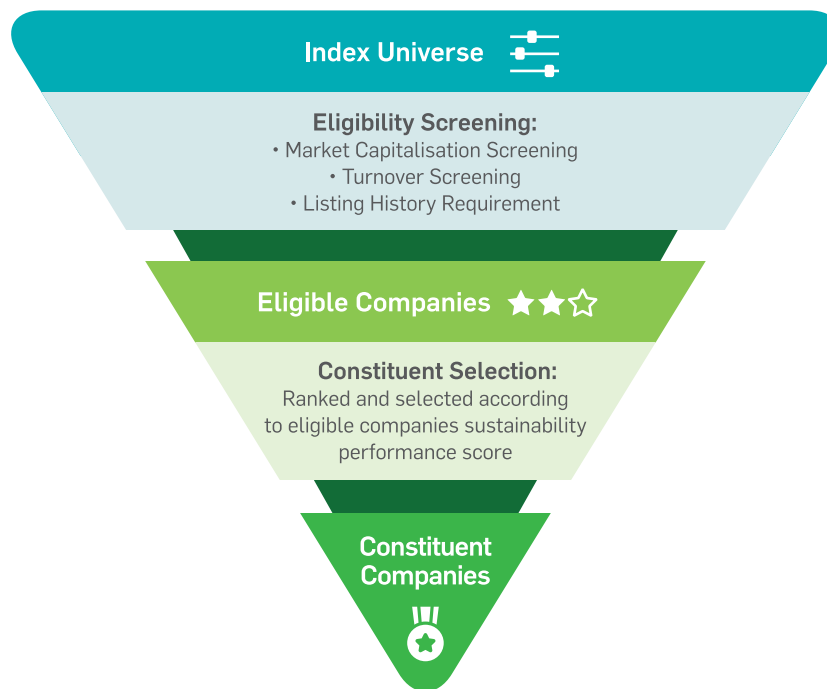


a. ESG Indexes

From ESG Data to Formulating Our Indexes

(1) Best-in-Class:

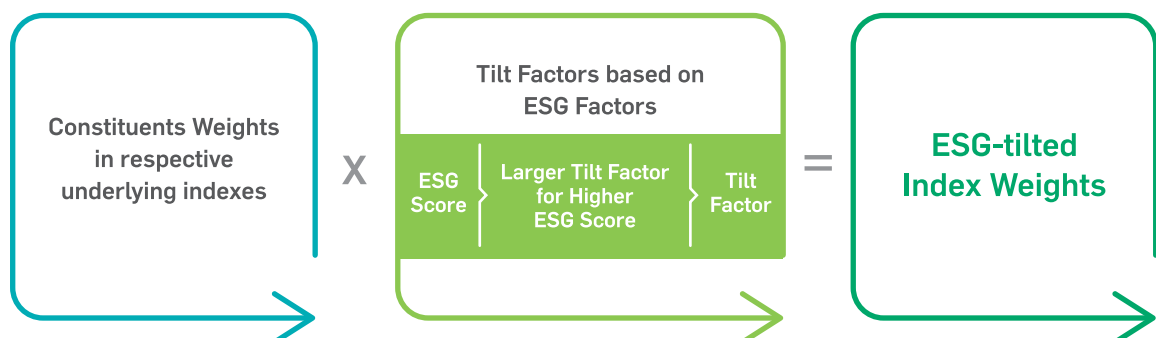
Selection of companies with the best ESG rating;



(2) Integration of ESG factors:

Incorporating the ESG factors into a base index;

- The constituent weights of the underlying index are adjusted according to the companies' ESG factors
- The weightings of constituents with good ESG factors are tilted up while the weightings of those with bad ESG factors are tilted down
- Reduce tracking error from benchmark while integrating ESG considerations into the existing investment portfolio



a. ESG Indexes

(3) Negative screening:

Exclusion of companies with the worst ESG rating or deriving a certain threshold of their revenue from business activities seen as negative for society, e.g. thermal coal, controversial weapon or tobacco;



(4) Norm Based screening:

Exclusion of companies that violate global recognized norms, e.g. the United Nations Global Compact (UNGC) principles;

(5) Sustainability Themed investing:

Selection of companies with revenues generated or business related to sustainability theme, e.g. clean energy, electric vehicle;

(6) Customized Indexes:

With datasets from various international and local ESG rating providers, we can provide customised ESG index solutions which fit our clients' needs.




a. ESG Indexes

Sustainability Indexes


		Sustainable investment Strategies / Focus					
		Best-in-Class	Negative Screening	Norm Based Screening	ESG Integration	Sustainability Themed	Decarbonisation -focused
Hong Kong-listed	HSI ESG Enhanced Index						
	HSI ESG Index						
	HSI Low Carbon Index						
	Hang Seng Climate Change 1.5°C Target Index						
	HSCEI ESG Enhanced Index						
	HSCEI ESG Index						
	Hang Seng Corporate Sustainability Benchmark Index						
	Hang Seng Corporate Sustainability Index						
	Hang Seng ESG 50 Index						
Mainland-listed	Hang Seng (China A) Corporate Sustainability Benchmark Index						
	Hang Seng (China A) Corporate Sustainability Index						
Cross-market	Hang Seng Shanghai-Shenzhen-Hong Kong Autonomous and Electric Vehicles Index						
	Hang Seng Shanghai-Shenzhen-Hong Kong Clean Energy Index						
	Hang Seng (Mainland and HK) Corporate Sustainability Index						

b. ESG Ratings

Company ESG Ratings

Our webpage “**ESG Service**”  <https://www.hsi.com.hk/eng/esg/esg-introduction> was launched in August 2020 to serve as a comprehensive platform of our ESG solutions.

ESG Performance of our ESG index constituents can be viewed on the webpage:

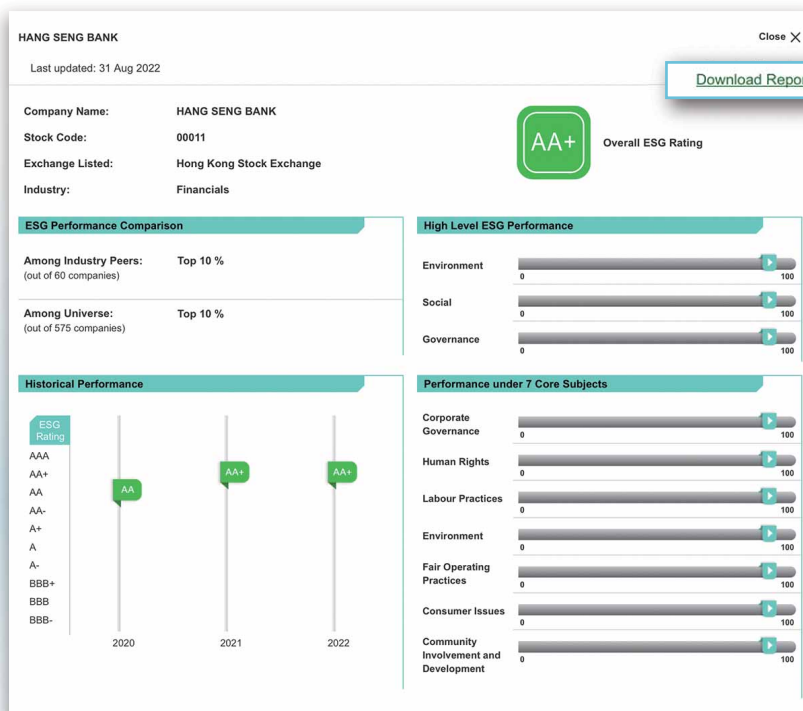
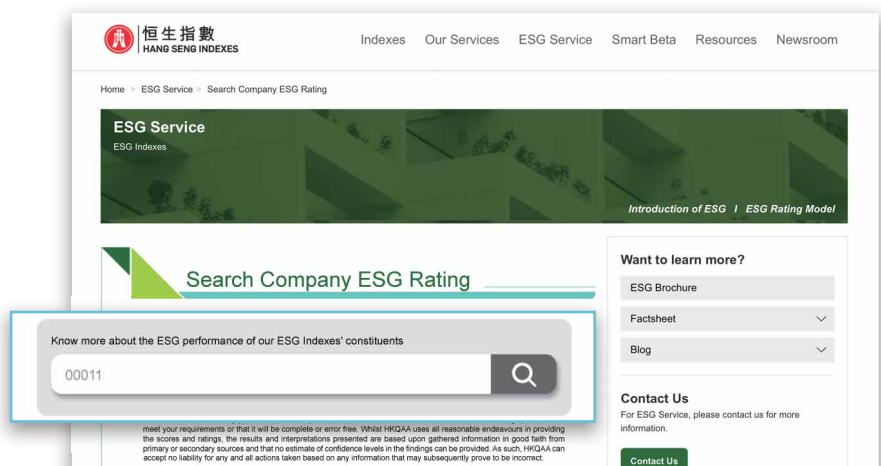
 <https://www.hsi.com.hk/eng/esg/company-search> or you may go there to download ESG reports of individual companies.

Step 1:

Input the **Company Name or Stock Code** into the search bar

Step 2:

Click on the company name to view its ESG reports



Step 3:

You can download the report by clicking “**Download Report**”



Logo for Constituent Companies

The Hang Seng Corporate Sustainability Index Series includes companies that perform well with regard to corporate sustainability. Being a constituent member of this index series reflects high environmental, social and corporate governance standards in a company.

Constituent companies can use the logo under permission, which is renewed on an annual basis. The display of the logo on corporate or promotional materials is a reflection of a company's achievements in the area of corporate sustainability.



**Hang Seng Corporate
Sustainability Index
Series Member**



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