Sustainable Financing and Investing Survey 2019

Markets alert to the environment and society

China Focus

HSBC

China Report
Chinese players feel free to pursue ESG

Optimistic on returns

China's government was the first in the world to develop a comprehensive policy on sustainable finance, with its Guidelines for Establishing the Green Financial System, published by seven ministries in August 2016.

The move followed China's decision in 2015 to become a guiding and supportive force in the world's response to climate change, in the lead-up to the Paris Agreement. There is no doubt China's financial actors have felt the effects of state policy — high levels of green bond issuance, for example, are a direct result.

But against this backdrop, what emerges from our survey is not the strength of state pressure, but rather the opposite — market participants are convinced that paying attention to environmental and social issues is beneficial for their own purposes, and especially because they think it improves returns. It is notably more common in China than elsewhere to be convinced that responsible investing generates outperformance: 35% versus a 17% global average.

A smaller share than elsewhere hold this view in the more lukewarm form favoured in, for example, the UK, that while responsible investing may involve accepting lower returns and/or higher risk, it also offers the prospect of outperformance: 13% versus 24% global average.

Similarly, Chinese issuers' emphasis on ESG reflects greater optimism than elsewhere that this is a route to improving returns. Forty-eight percent take this view, compared with 42% of issuers globally. And Chinese investors also feel less hampered than those elsewhere. Sixty-nine percent, more than in any other focus country or region, say nothing is holding them back from pursuing ESG more fully and broadly.

This underlines the sense that Chinese market participants are enthusiastic about ESG issues and feel able to pursue them at will.

China

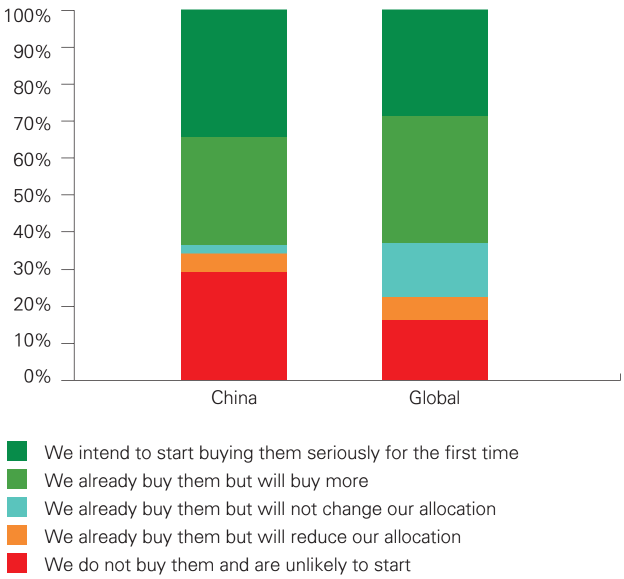
Environmental and social issues are:

	Investors	**Issuers**
Very important	66%	42%
Somewhat important	24%	46%
Important	**90%**	**88%**
Global tally	**94%**	**93%**

Key Findings

- Environmental and social issues are factored into financing approaches in line with other national markets
- Values and hopes of better returns are the leading drivers for focusing on environmental, social and governance (ESG) matters. Regulators are the most important external spur for investors and issuers, but they have less sway than elsewhere
- A world-beating 69% of Chinese investors feel nothing is holding them back from pursuing ESG
- Chinese investors are notably more positive than peers on the prospect of responsible investing generating outperformance: 35% versus 17% global average; issuers, too, are optimistic that an environmental and social focus can improve returns
- The concept of stewardship is more developed than elsewhere — 32% of investors have principles endorsed at board level, against a global average of 23%
- Mixed signals on green, social and sustainable bonds — a third of investors will start buying in the next two years, but a high 29% do not buy and do not intend to start, while 5% intend to reduce purchases

China's green bond market to get big influx of cash
Investors' allocation to green, social and sustainable bonds will evolve in the next two years...



China Report

Investment policies

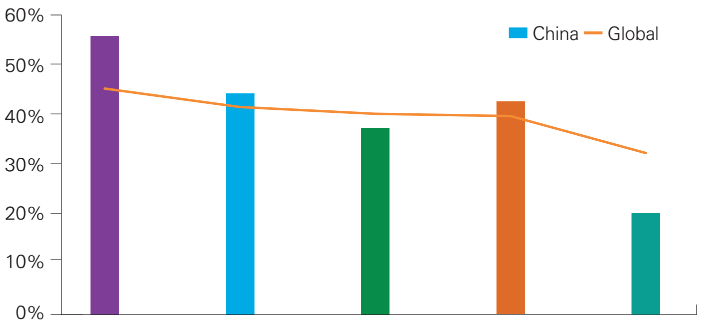
Stewardship well recognised

China's concept of stewardship is more developed than average. Thirty-two percent of investors have stewardship principles endorsed at board level, versus a global average of 23%.

Chinese investors also outperform on having adopted an approach for identifying material ESG factors for investments. At 38%, more do it than the 28% in Canada. This feeds into the above average proportion of investors (38% versus 35% globally) that always factor ESG considerations into investment decisions. However, 11% rarely or never do so, against an 8% global average.

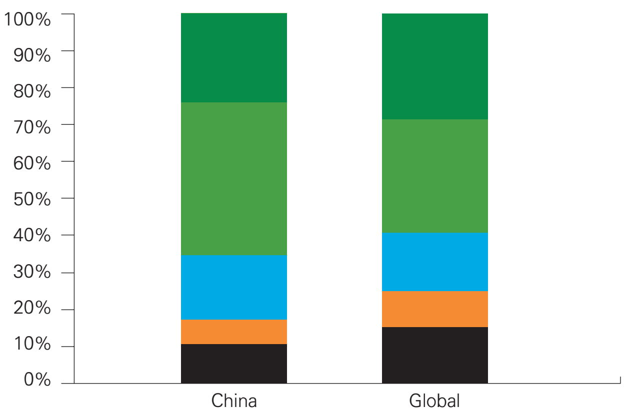
China ahead on disclosing against business initiatives

The disclosure we make on environmental and social issues...



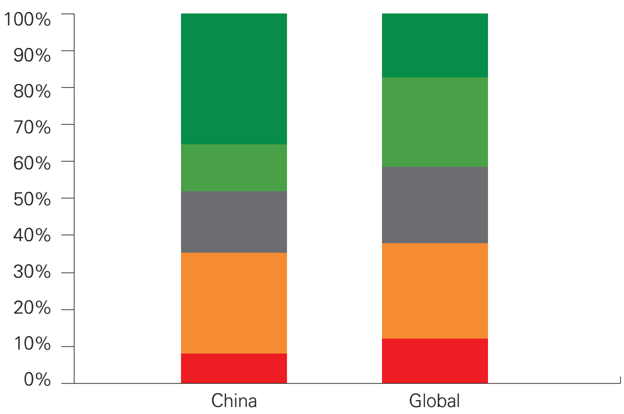
- Tracks our progress on business initiatives that address environmental concerns or social impact
- Tracks our progress towards our public commitments
- Is aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)
- Is aligned with the Sustainable Development Goals
- Discloses operational data relating to our environmental impact

Chinese issuers content with disclosure
The level of disclosure we make on environmental and social issues is:



- Going to increase and that is a good thing
- About right and we do not feel pressure to increase it
- About right but investors or regulators want us to increase it
- Too much
- We don't disclose

China has high confidence sustainable investing is profitable
Investors believe practising ESG, responsible or sustainable investing...



- Is an attractive way of trying to generate outperformance
- Might involve a chance of lower returns or higher risk, but also has a good chance of generating outperformance
- Makes little difference to returns or risk
- Sometimes involves accepting lower returns or higher risk
- Always involves accepting lower returns or higher risk

External stakeholders
Regulators' influence is mild

External pressure on Chinese investors to care about ESG comes first from regulators, at 48% (though this is below the global level of 51%) and then from clients. At 42% clients punch above their weight in China, versus 36% of investors globally citing them.

Society's expectations of investors are less strident in China, at 36%, below the world norm of 48%. Similarly, external stakeholders are not particularly important in shaping Chinese issuers' behaviour. Regulators have the most clout, with 40% influenced by them, but that is below the 46% global average. NGOs' and pressure groups' demands are mentioned by a surprisingly high 34%.

Green debt
Untouched investor pools

China has been one of the biggest sources of green bond issuance in recent years, but despite that strong market growth, investors' views show that there is still huge untapped potential among domestic buyers — and even that many investors remain to be convinced of the product's merits.

When it issues a labelled green, social or sustainable bond, an issuer promises to use the proceeds for specific beneficial projects, and report on how it has done so. A third of Chinese investors report that they will start buying these instruments seriously for the first time in the next two years. But 29%, the highest ratio of any region, do not buy them and do not intend to start, while 5% intend to reduce their allocations.

Only 20% of Chinese investors agree that green/social/sustainable bonds are less risky than ordinary bonds and 22% think they produce slightly better returns, compared with global rates of 39% and 35%. These are the most sceptical views in the survey on those points.

Methodology

***GlobalCapital*, the capital markets newspaper, and Euromoney Data conducted a global survey of investors and capital markets issuers in June and July 2019. The survey is unusual in questioning issuers and investors at the same time.**

The questionnaires for issuers and investors were different, but in many cases the questions were complementary, to give insight into the perceptions each group have of the other.

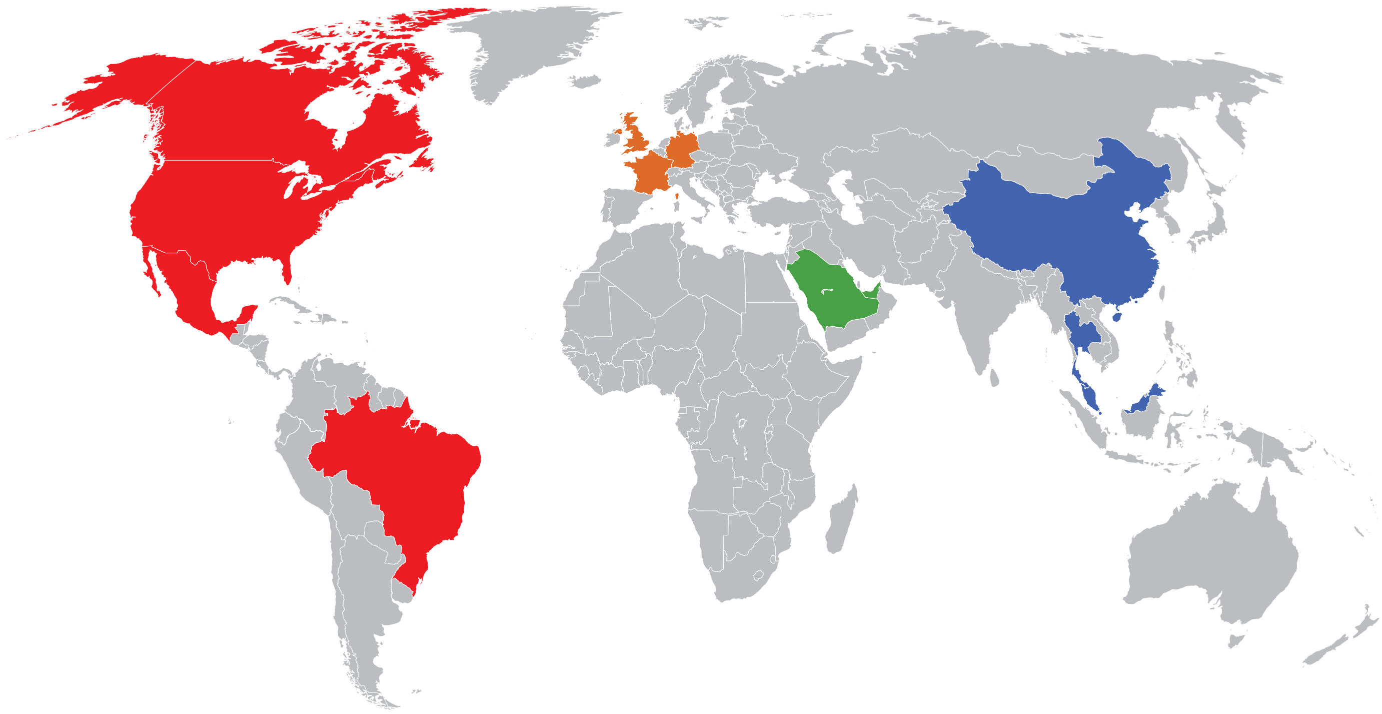
The study was designed to cover a wide diversity of organisations, by size, geography and type of activity.

Investors and issuers were invited to participate in online surveys, comprising multiple choice questions. The surveys were offered in Chinese, English, French, German, Portuguese and Spanish.
Over 1,300 completed responses were received from issuers and investors. To participate, they had to enter their contact details, the name, nature and size of their organisation, and where they were based. Responses are treated anonymously.

From these, a structured sample was extracted for use in the survey. This comprised 500 issuers and 500 investors, distributed across 15 target markets in four regions.

Where there were too many responses from a particular country, those from larger organisations were used.

The sample analysed is as follows:



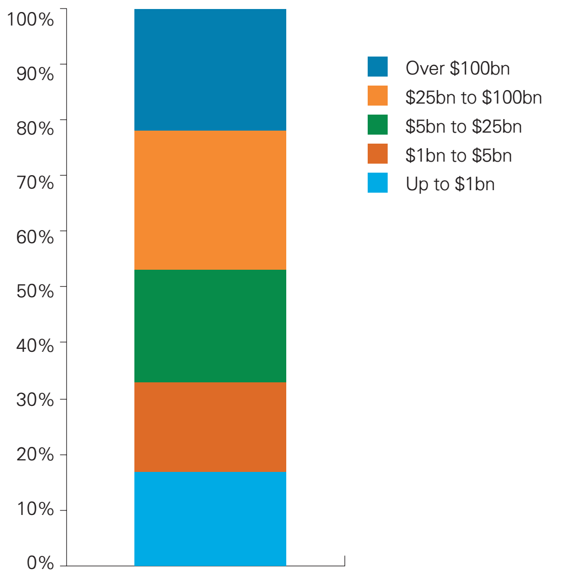
	Issuers	Investors
Americas	**135**	**135**
US	50	50
Canada	50	50
Brazil and Mexico	35	35

	Issuers	Investors
Europe	**120**	**120**
UK	50	50
France	35	35
Germany	35	35

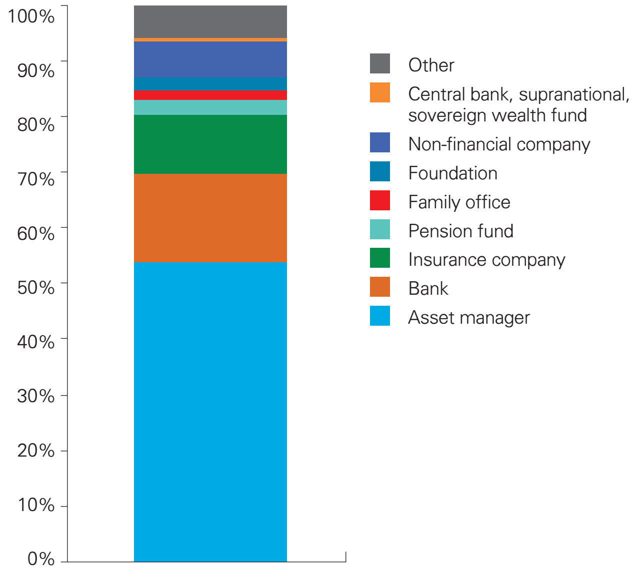
	Issuers	Investors
Asia	**175**	**175**
Mainland China	50	50
Hong Kong SAR	50	50
Singapore	35	35
Indonesia, Malaysia and Thailand	40	40

	Issuers	Investors
Middle East	**70**	**70**
Saudi Arabia	35	35
UAE	35	35
TOTAL	**500**	**500**

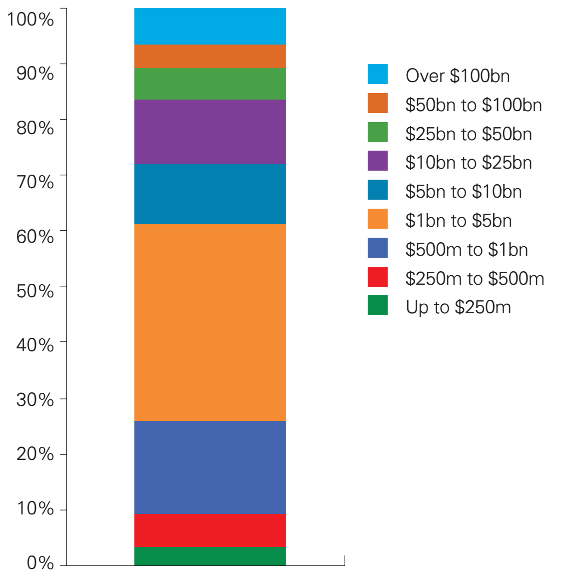
Investors by assets under management



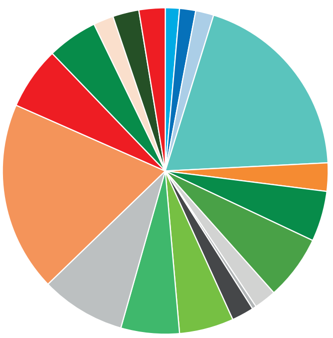
Investors by type



Issuers by annual revenue



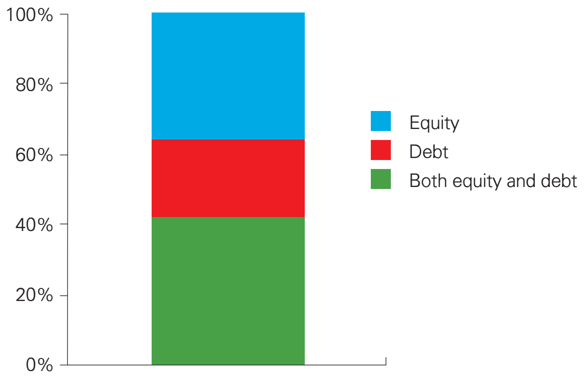
Issuers by industry



Clockwise from top

- Supranational organisation
- Central government
- Local government
- Banking
- Insurance
- Agriculture, food, beverages, tobacco
- Consumer goods
- Healthcare
- Telecoms
- Information technology
- Business services
- Retail and consumer services
- Real estate
- Oil, gas, coal and chemicals
- Metals and mining
- Electricity and water
- Transport
- Industrial goods
- Building materials

Investors by asset type



Published: September 2019
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