Surveying corporate issuer and investor attitudes to sustainable finance

by Zoë Knight, Group Head, HSBC Centre of Sustainable Finance

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Governments, corporations, the financial system and civil society are all key stakeholders of how climate change and sustainability challenges play out. In addition, they are key solution enablers by the way they make capital allocation decisions. The financial decisions that corporates and investors make today will shape the speed of low-carbon transition and prosperous growth.

To gain an independent snapshot of how corporates and investors are positioned, HSBC commissioned industry research firm East & Partners to survey corporate issuers and institutional investors globally on their attitudes to sustainable finance.

The results form the basis of the numerical conclusions in this report.

HSBC can provide the financial interconnectivity to solve global climate change and sustainability challenges.

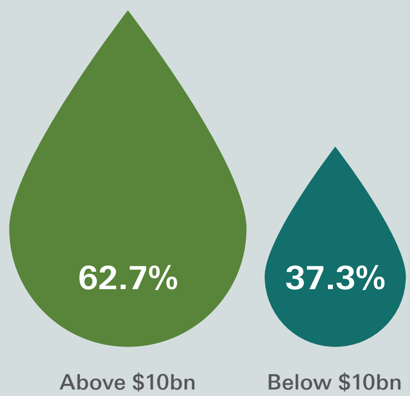
Methodology:
Over a four week period ending on the 11 July 2017, East & Partners surveyed the Group Treasurers and CFO's of 507 corporates globally, asking 15 questions around the key themes of environmental impact, sustainable financing strategies and disclosure.

They also surveyed the Chief Investment Officers, Heads of Portfolio, and Heads of Investment Strategy of 497 investment houses globally, with 32 questions looking at the key themes of Environmental, Social and Governance (ESG) integration into investments, plans for scaling up low-carbon investment, green bond ownership and disclosure.

The samples were distributed across Europe, the Americas, Asia and the Middle East.

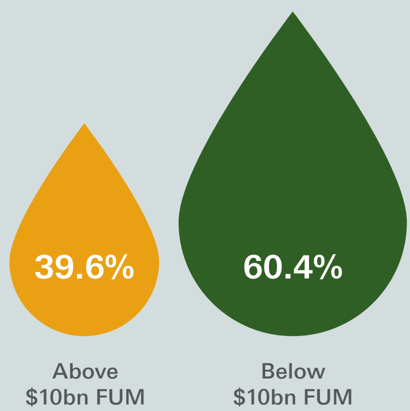
Corporates

Average company size - $19.7bn



Institutions – Funds under management

Average FUM - $14.4bn



The Corporate Issuers View - the trends driving ESG strategy and disclosure

Historically, we think that much of the corporate response to climate and broader ESG factors has been based on becoming operationally efficient.

Companies have been focused on minimising their contribution to climate change by setting CO_2 reduction goals, scaling up energy efficiency and implementing broad sustainability initiatives through in-house and supply chain operational processes. This made sense because all companies will be affected by climate change factors in some shape or form, either directly from regulation or indirectly through energy prices and supply chain risks.

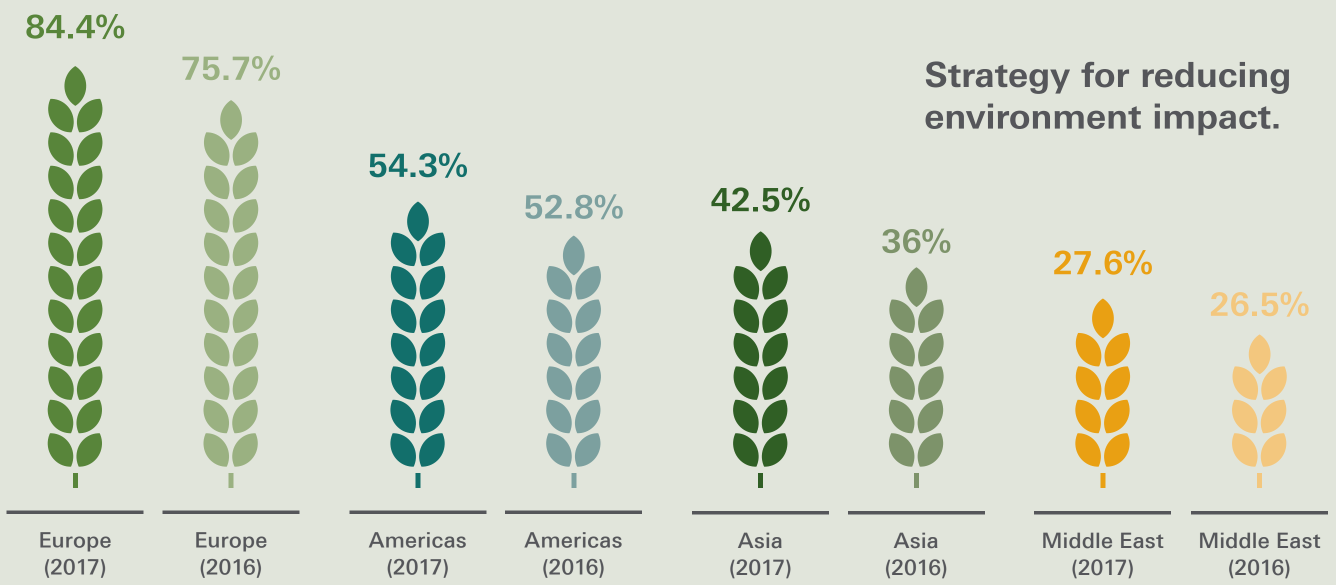
However, as investment professionals are clearly reporting appetite for climate related investments, and social impact related investments, the demands on corporates to improve reporting and disclosure practices will increase – we expect an iterative process between companies and investors as thinking evolves on the 'right data' to disclose to assess climate risks and opportunities.

53%: Companies with a strategy to reduce environmental impact of the organisation

The regional differences are significant here, with European corporates adopting the most active response. 84% of the European corporate responses highlighted that they have a strategy to reduce environmental impact, compared with only 28% of Middle East responses.

Of these, Asia has seen the most significant increase year on year, up 18.1% to 42.5%.

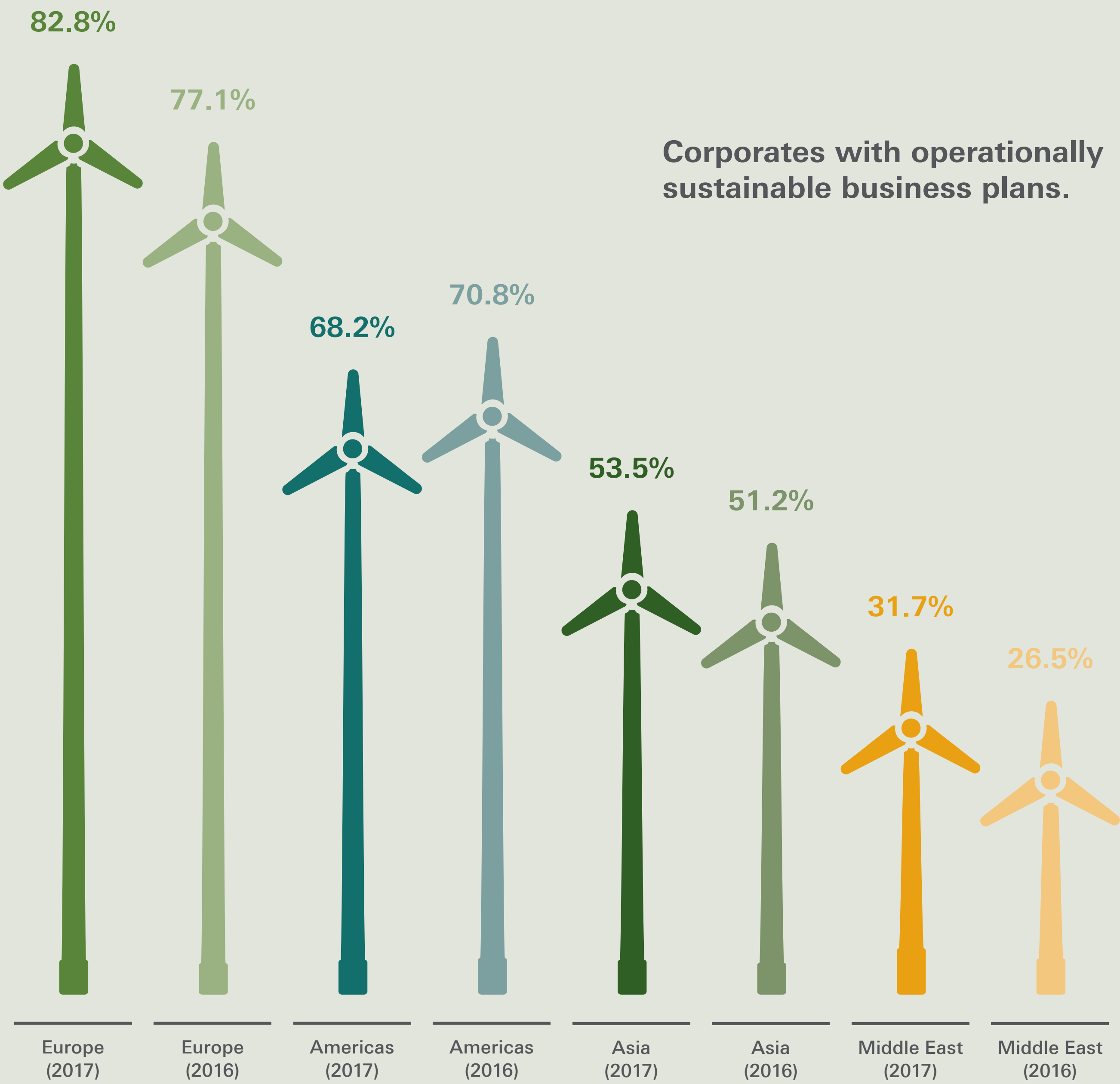
Of the companies that have a strategy on reducing environmental impact, only 43% of the yes responses disclose the strategy. We expect this to change as a result of investor and regulatory pressure, such as the Financial Stability Board task force on climate related financial disclosures.



Yes responses to the question: Do you have a strategy in place for reducing environmental impact of your company?

59% of companies have investment plans to make their business more operationally sustainable

Increasingly corporates are thinking about how to adopt financing strategies that are related to improving environmental impact. With the exception of Europe, there is a higher response in this category than for companies that have an environmental impact strategy. This makes sense, because more corporates have been assessing what an environmental impact strategy looks like, and how to implement it. In many cases this means investing in new plants and equipment or other solutions to reduce resource use to minimise environmental footprints. Some 36% of companies with an environmental strategy are also thinking about the environmental impact of the supply chain.



% of total market corporates answering yes to the question: Do you have operationally sustainable business plans in place? Eg investing to reduce your use of natural resources such as energy and water

Corporates were also asked what sort of incentives would encourage them to be more transparent on green finance. The biggest driver by far on incentivisation is the premium applied by the market to project value.

However, investor pressure is a close second. In addition corporates recognise that reducing climate impact will create a competitive advantage, as well as from disclosing the climate impact of the firm.

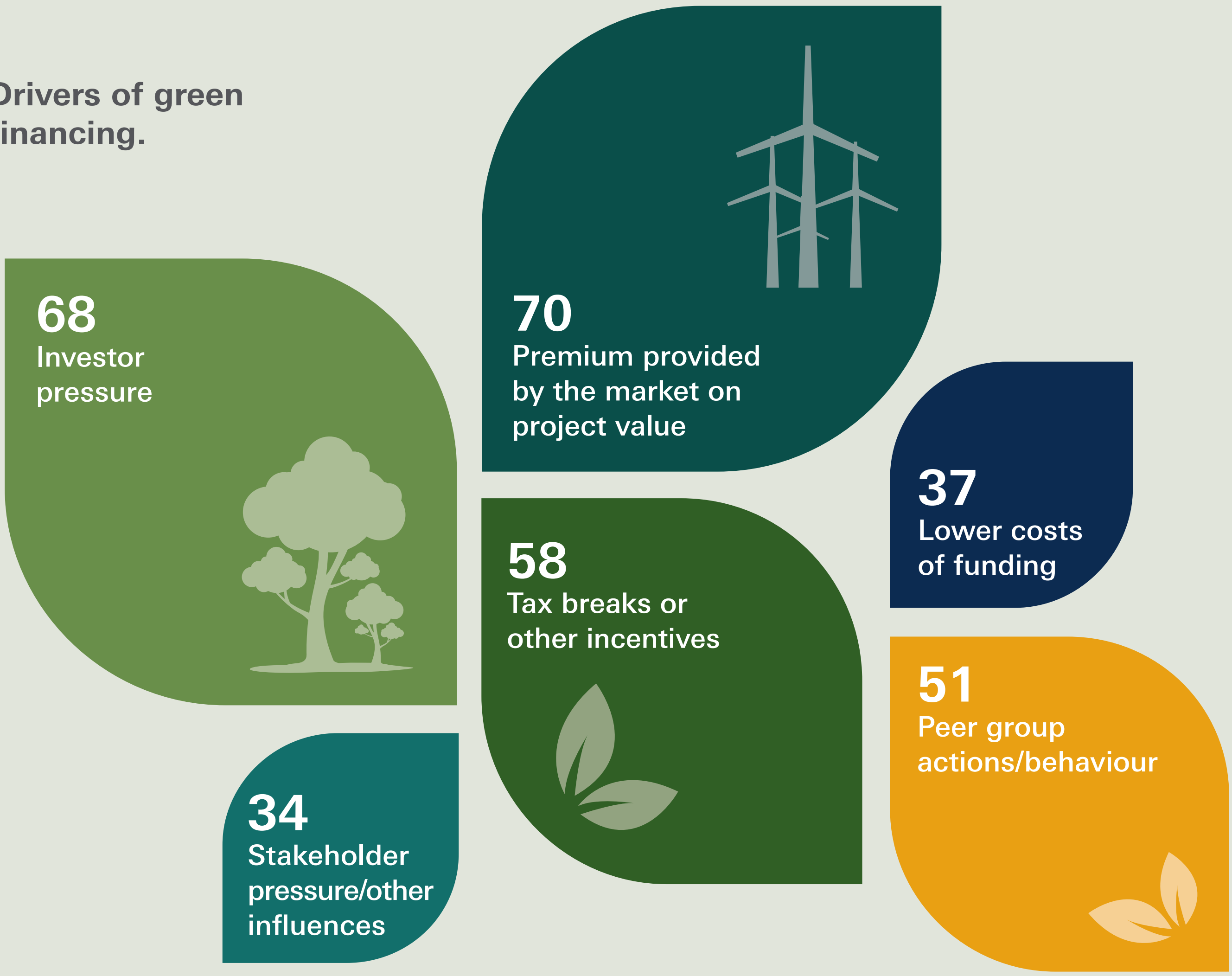
Risk disclosure is an increasing focus for corporate issuers

61% of respondents said they are increasing the level of disclosure around climate risk, but interestingly, overall only 8% of respondents said that the reason for this was related to the Financial Stability Board task force on climate related financial disclosure. Here, there are regional differences, but even in Europe, where we would argue that there has been a lot of coverage of the task force work, only 23% of respondents said that the task force was a key driver.

Investor pressure is a key driver for disclosing more on climate risk, as demonstrated by the responses to the investor survey.

Lastly, East and Partners asked corporate issuers where they thought the leadership would come from on Envrionmental, Social and Governance Strategies. Here, 33% voted 'ourselves', with industry based groups and the investment community the next key leaders.

Drivers of green financing.



Based on 500 participants interviewed.
(N Count 75 - Sums to over N count due to multiple responding allowed).

Q: If you do have a green/ sustainable financing strategy to raise capital for green initiatives/investments, what would encourage you to do more green financing?

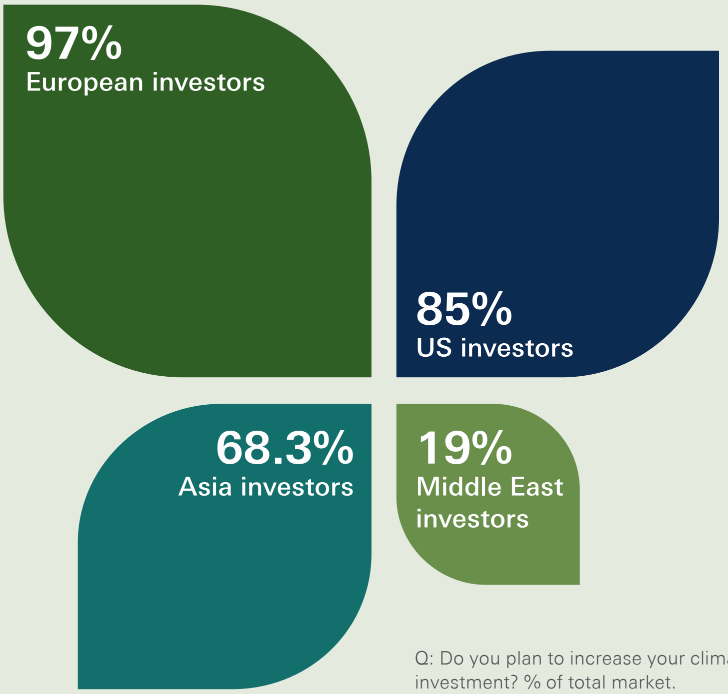
The institutional investor view – the evolution of ESG as an investment concept

From a climate change perspective, there is a clear trend of increasing investment into the area, with 68% of investors highlighting that they plan to increase their climate related, or low carbon investments. In Europe and the US the picture is even more conclusive, with 97% of European, and 85% of US investors responding that they will increase investment.

On the flip side investors overwhelmingly think that there are barriers to increasing climate related and low-carbon investment, with a lack of credible investment opportunities available the most frequently cited reason.

79% of investors that think there are barriers to increasing climate related investment.

68% of global investors plan to increase their climate related investment.



Q: Do you plan to increase your climate related investment? % of total market.

In addition, poor availability of research and analysis and a lack of standardised sector definitions are also barriers.

This investor sentiment that there is a lack of credible investment opportunities is backed up by the point that 66% of the investor respondents do not hold any green bonds in their portfolios. Since the green bond market is relatively small, at USD232.2bn[1] issuance outstanding in July, it is unsurprising that many respondents don't hold any.

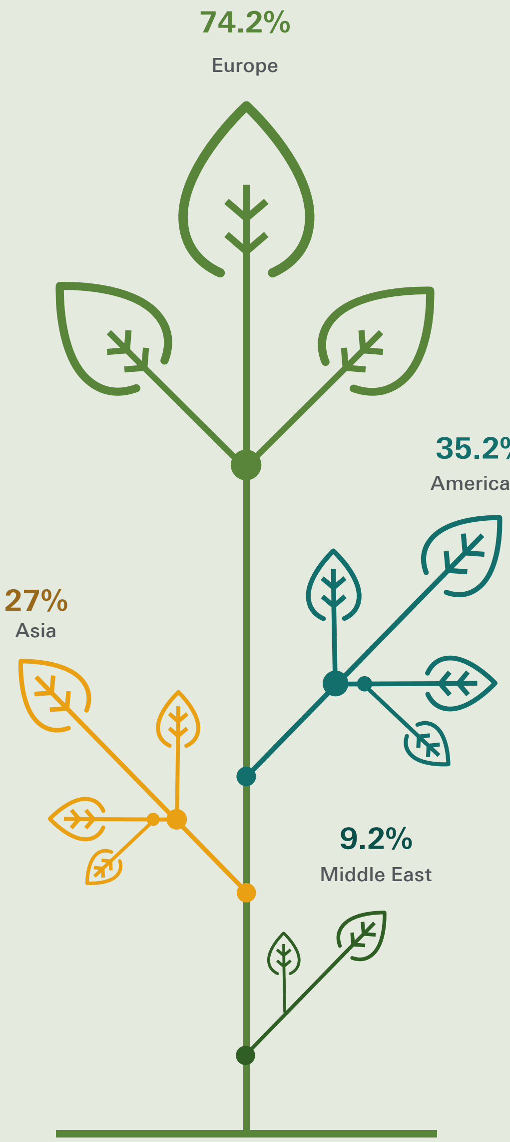
All respondents however, felt that investment institutions were 'quite' to 'very' important for driving low-carbon transition. Climate related-risk disclosure remains a problem for investors. When asked about the adequacy of risk disclosure 56% said that disclousre is 'highly inadequate'.

[1]Source: https://www.research.hsbc.com/R/10/W7nQz62NtfOK

56% of investors think climate-related risks disclosure is 'highly inadequate'

The survey reveals even higher momentum for social impact investing than for climate related investment, with 73% of respondents citing that they will increase social impact related investments. This could be because investors are increasingly thinking about what the sustainable development goals mean for them, and how they can address these challenges. Social impact assessment is the natural response. There are challenges here however, as 84% of investors see lack of credible investment, regulatory frameworks and poor available research as barriers.

74% of European investors integrate company ESG scores into decision making.



% of ESG engaged investors Q: Do you integrate companies' environmental and social governance(ESG) performance as an investment factor in your portfolio?

'Social impact has emerged as a key focus area'

The good news for the corporates that are beginning to disclose more on their environmental impact is that all investors in our sample said that the mitigation of environmental impact through their investment portfolio is more important than average. About 20% of the investors said that they will follow the recommendations of the Financial Stability Board Task Force of climate related disclosures.

In our sample, only 37% of investors indicated that they integrate company environmental, social and governance performance as an investment factor into their portfolios, but this hides significant variation in regional attitudes. In Asia and the Middle East for example, only around a quarter of investors integrate ESG analysis. We expect this proportion to increase in the future as asset owners are increasingly adopting ESG approaches, and many have global mandates.

In 2016 USD22.9 trn of assets were managed under responsible investment strategies, a 25% increase from 2014.

Lastly, when East and Partners asked investors where they thought the leadership would come from on Envrionmental, Social and Governance Strategies, similarly to issuers, they felt that they, from an industry perspective, would provide leadership. An overwhelming 58% of investors voted that the investment industry would be the leaders on sustainable investment. Companies are also stepping up by planning on improving climate related risk disclosure and scaling up investment plans.

We think that the East and Partners survey data provides a comprehensive snapshot of the attitudes and understanding of the corporate issuers and investor landscape in response to climate and ESG more broadly. In our view, it reveals that investors are quite comprehensive in their thinking for addressing climate and sustainability challenges. As yet however they are ill equipped to make good decisions on the relative strengths of individual holdings in relation to these factors because of inadequate disclosure.

(Source: Global Sustainable Investment Review 2016. **http://www.gsi-alliance.org/wp-content/uploads/2017/03/GSIR_Review2016.F.pdf).**

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Climate change represents an urgent and irreversible threat to human society in all its forms. The financial sector has a pivotal role to play in combatting that threat.

Major injections of capital are needed to pay for more efficient and less carbon-intensive technologies and infrastructure, to reduce the carbon footprint of established companies and industries, and to cover the costs of climate adaptation.

While this represents an enormous challenge, it also presents big opportunities for investors, businesses, and financial institutions around the globe. HSBC was one of the first financial institutions to make this a global priority and we are uniquely positioned to be the leading bank for green and sustainable finance.

HSBC has created a global structure to manage our sustainable finance business across our Global Businesses and extensive international network. Our global teams are supported out of 5 regional sustainable finance hubs in London, Paris, Hong Kong, New York and Toronto.

We are creating the HSBC Centre of Sustainable Finance to actively shape innovation and thinking across the financial sector to unlock capital flows that address the world's greatest sustainability challenges. Zoë Knight is appointed as the Centre's Group Head.

Over USD100 trillion investment in infrastructure in the next 15 years is required globally under a 2°C scenario.

www.gbm.hsbc.com/solutions/sustainable-financing