



Economic Sustainability & Entrepreneurial Finance
THE HONG KONG
POLYTECHNIC UNIVERSITY
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ESG: The Path to Sustainable Investment



1.1 Meaning

Definition of Green Finance (IDFC):

The International Development Finance Club (IDFC) defines green finance as financial investments flowing into sustainable development projects and initiatives, environmental products, and policies that encourage the development of a more sustainable economy



Sus^{tain}ability

In **June 2007**, the **European Investment Bank** issue the world's first ***labelled*** green bond – a **600 million Euro-dollar** transaction labelled a '**Climate Awareness Bond**'

Philosophical View of GREEN

Physical Environment

Infrastructure - Green Building - Green Plant & Equipment - Green Production Process	Outcome - Clean Air - Clean Energy - Clean Food
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Green/Sustainable Society

- ✓ Better Health
- ✓ Better Life-style
- ✓ Reduce Poverty

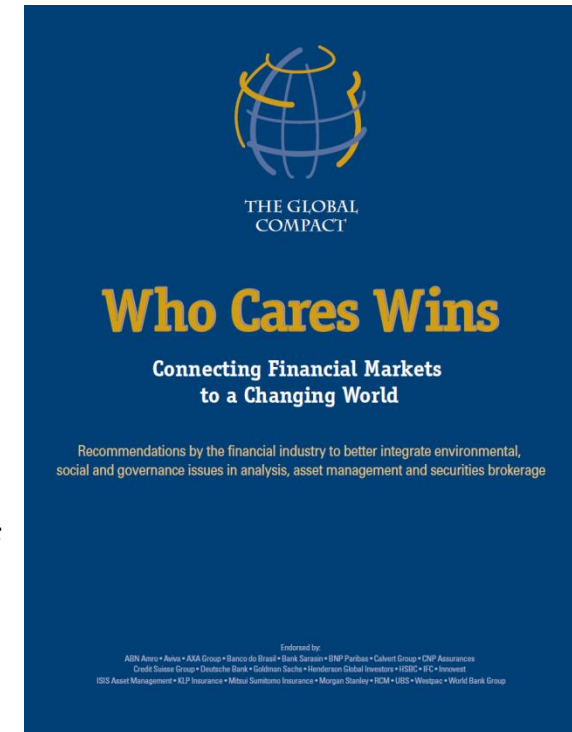
Sustainable environment for people to live in

Happier/Green/ Sustainable Society



Conclusion: Green is the effort that eventually leads to a sustainable society and hopefully Planet Earth

- The term “ESG” stands for Environmental, Social and Governance. ESG can be defined as an evaluation framework which prescribes a set of E, S, and G factors in the investment decision-making process to evaluate companies and institutions for the purpose of “sustainable investing”.
- The idea of ESG was first formally developed in December 2004 when the U.N. Global Compact produced a report entitled *Who Cares Wins*.
- The report argues that the financial industry should integrate ESG aspects in asset management, securities brokerage services and the buy-side/sell-side research.
- Such ESG integration can lead to more resilient investment markets and contribute to the sustainable development of societies.



2. From SRI to ESG: The Path to Sustainable Investment

2.1 Defining SRI and ESG

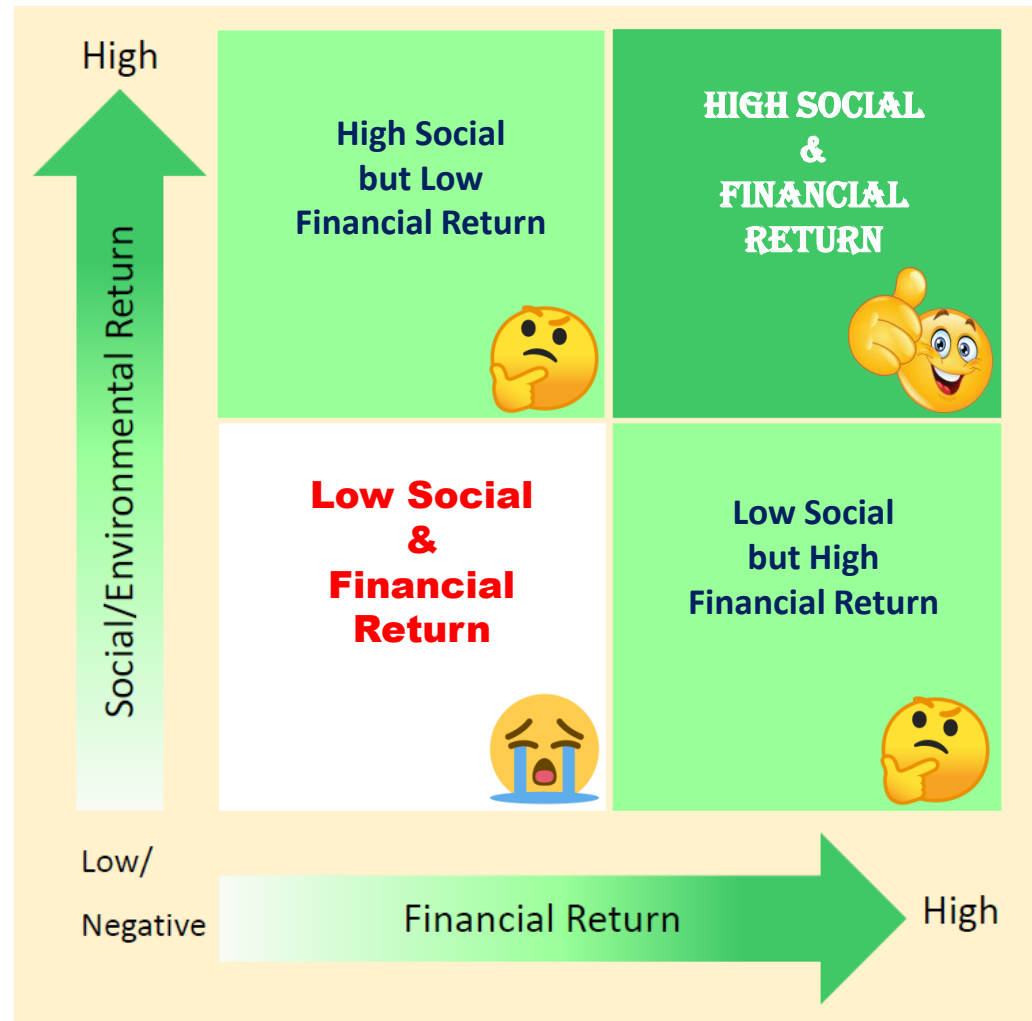
Socially responsible investment (SRI) has been around for over 90 years, but Environmental, Social and Governance (ESG) factors are a relatively new. ESG became prominence in 2006 with the launch of the UN PRI (Principles for Responsible Investment).

SRI	ESG
Focus	
<u>Principles Focus</u> Investments driven first by ethical principles, then extended into religious, cultural and organization values.	<u>Returns Focus</u> Include long-term sustainability factors in research to identify firms with higher investment potential.
Screens	
<u>Use Negative Screens</u> Remove investment choices that do not need organizational value (eg. remove tobacco firms).	<u>Use Positive Screens</u> Assign scores to ESG factors to guide investment choices instead of exclusion.
Criteria	
<u>Different Criteria</u> SRI screens vary substantially among investors and organization specific (eg, Health screen removes tobacco; religious screen removes alcohol and gambling).	<u>Universal Approach</u> Factors related to E, S, and G should all be considered as positive screens, so the investment priorities are universal and clear. Of course the emphasis of E, S, and G may vary.

Measuring ESG Investment Performance: A Benchmarking Issue

The Key Challenges:

- Quantify Social Return using scientific or systematic KPIs.
- Integrate Social and Financial Return into a composite performance indicator.
- Large scale research to profile ESG preference in terms of utility function is needed to form a scientific database to construct benchmarks related to ESG investments.





***PolyU Student ESG
Investment Pledge***

**CESEF
Center**

Professional services advancement support scheme (PASS)

Friends of the Earth (HK)-PolyU Partnership for ESG investment initiative

Drucker Academy-PolyU Partnership for ESG Entrepreneurship and MLA Leadership

Investment Education Pledge

1. Friends of the Earth
HKD 10 mil

2. Hung Fook Tong
HKD 2 mil

The green-bond/ESG investment loop

