

# ESG<sup>2</sup>

Sharing best practices  
for a sustainable future

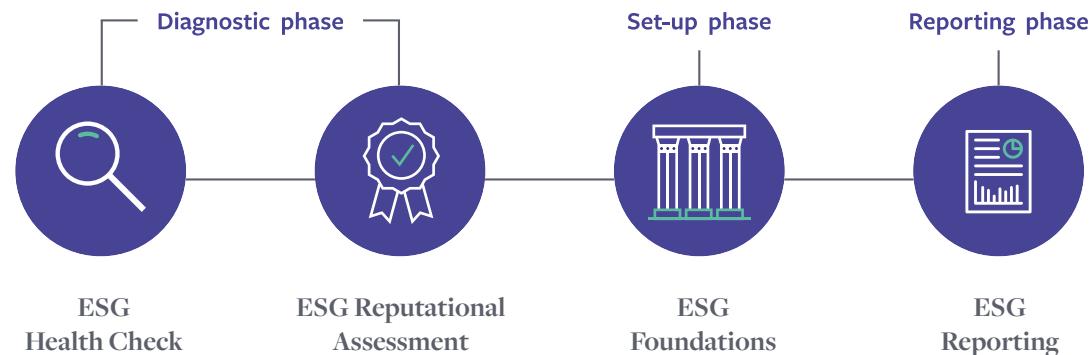




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# Introduction

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**“The scale of recent changes across the climate system as a whole and the present state of many aspects of the climate system are unprecedented.”**

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This is the conclusion of the Intergovernmental Panel on Climate Change’s (IPCC) 6th report, released in August this year. It is their most alarming report so far, and places the responsibility for climate change squarely on human activity.

It goes on to say:

“Many changes in the climate system become larger in direct relation to increasing global warming. They include increases in the frequency and intensity of hot extremes, marine heatwaves, and heavy precipitation, agricultural and ecological droughts in some regions, and proportion of intense tropical cyclones, as well as reductions in Arctic sea ice, snow cover and permafrost.”

Armed with this irrefutable scientific conclusion, and having witnessed many of the extreme climatic conditions predicted by the report, expectations going into COP26 were high. Two weeks of intense negotiation produced modest progress across most climate issues, a number of small wins, and disappointment that ambition was raised then watered down. Crucially, the 1.5 degree target has been kept alive – but it’s clearly on life support.

Collective agreement is always difficult. It is a balancing act between a multitude of disparate and at

times diverging needs. Progress can be frustratingly slow. But, that doesn’t give us an excuse for inaction. Instead of bemoaning the lack of progress, we can face up to our own responsibilities and take action ourselves. There are many no-regret moves we could make right now as individuals or companies that would help mitigate climate change. There is no reason to wait.

It is on this principle that we started ESG Square earlier this year. It provides all the various actors in the Luxembourg Financial ecosystem with a platform to share best practices and ideas, and hopefully nudge each other to make improvements where they can. This book (yes, it’s on recycled paper!) is a collection of examples and stories shared with us over 2021. We hope you will find it interesting and enjoyable, and more importantly be inspired to even just one action that will help the planet, help mitigate climate change and help give our children the future they deserve. And then perhaps share your own story and inspire others to action!

Wishing us all a <1.5 degree future. ■■■

**Niccolo Polli**, CEO, HSBC Luxembourg

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# GOVERNMENT



NICOLETTA CENTOFANTI (LSFI)

# Luxembourg's Sustainable Finance Hub

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**Nicoletta Centofanti, Sustainability Adviser, Luxembourg Sustainable Finance Initiative (LSFI).**

**The Luxembourg Sustainable Finance Initiative has been recently launched.**

**Could you first of all let us know what your mission is?**

The Luxembourg Sustainable Finance Initiative is a public-private partnership that has the mandate to design the Sustainable Finance Strategy for the Luxembourg financial centre and implement its action plan. Our mission is to raise awareness, promote and help develop sustainable finance initiatives in Luxembourg. Having a coordinating entity that helps find synergies and leverages expertise from the different actors that compose this ecosystem is of utmost importance for Luxembourg, given the global shift towards sustainable finance and the ambitious regulatory agenda at EU level. In this regard, we also aim to be a coordinating entity and a central point of contact for all sustainable finance actors.

**Considering your core role is focused on sustainable finance, how would you define sustainable finance and why there is the need for increased sustainability?**

Understanding what sustainable finance is and

how financial services can support a more sustainable transition of the economy is a question we have been posed frequently. If we focus on its theoretical definition, sustainable finance can be described as financial services that are used to finance the transition of the economy towards a more sustainable and equitable future. Going more into practice, investors can contribute to protecting our planet, play a part in creating a socially responsible economy and participate to a fair governance of public and private institutions. For example, through their investment decisions they can help reduce CO2 emissions, promote labour standards and diversity, and enhance equitable and diverse board structures and compositions.

The need for increased sustainability results from the pressing environmental, societal and governance matters that we urgently need to address. To tackle these issues successfully, we need the financial institutions to embark on this journey: sustainability and sustainable finance have to become the new normal.

**What are the main challenges that you have identified so far in Luxembourg and within the financial institutions?**

Sustainable finance is rapidly developing, as a consequence, there are several challenges which financial institutions are going through. Part of our role is to help navigate them and face these issues. One of these, is the fast-evolving regulatory landscape, for

example the Sustainable Finance Disclosure Regulation (SFDR) or the EU taxonomy constitute a challenge as these are new norms the sector needs to adapt to. All these new requirements foresee a substantial mindset and knowledge shift which was not common for financial actors, and this always requires time and expertise.

In line with this, there is still the necessity to increase awareness concerning sustainable finance and, in particular, sustainability. Both at the level of understanding what it is, but also at a deeper level, with regard to how to apply it within the financial decision process: for example, what are the different investment strategies that you can embed into your portfolio, and what are the key metrics and performance indicators you should look at and report against.

In addition, we can also mention the importance of collecting reliable and quality data: understanding how to measure the relevant data, how to effectively analyse it, and which to include in meaningful reporting is still a matter that needs to be developed further. Finally, and closely related to data and the lack of measurement, we can also refer to the myths associated to sustainable finance such as lower returns or market demands. The uncertainty and lack of historical data some actors may have around these can pose a challenge and a barrier to the transition.

**You have mentioned data. Why is data so relevant and how can data be used to increase sustainability?**

Data availability, but most importantly, understanding how to measure, analyse and report the data that is considered relevant for a sustainable investment strategy are paramount for ensuring the transition towards a more equitable and sustainable fu-

ture. Data allows you to understand where you are investing, how you are contributing to the intended objective and is fundamental to track progress. If we want to invest sustainably, we first need to examine our portfolios through the use of meaningful and reliable data to understand where our investments stand, and what ultimately is their impact, both positive and negative. This would allow us to be able to transition and afterwards to track over the years the progress made thanks to our investment decisions. Technology will play a key role to help solve this challenge.

**What are your commitments and what success should look like?**

The Luxembourg Sustainable Finance Initiative's action plan is structured around three overarching pillars: awareness & promotion, unlocking potential and measuring progress. Each of the pillars includes short-, medium-, and long-term concrete actions and objectives, as described in the Luxembourg Sustainable Finance Strategy. In this regard, we are committed to becoming a central and easily accessible information hub about sustainable finance and to promoting existing and upcoming public and private sustainable finance initiatives. We also have the objective to support the Luxembourg financial sector by creating a knowledge and experience-sharing platform, providing toolkits, use-cases and guidelines. And finally, we aim to help the financial industry in Luxembourg in measuring and monitoring progress.

We are committed to developing these goals and helping the different actors to navigate this environment and embed sustainability. Achieving these objectives would be a success for us, but most importantly for sustainable finance and our planet as a whole. ■■■

CLAUDE TURMES (MINISTER FOR ENERGY, MINISTER OF SPATIAL PLANNING)

## Transition without concessions

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**For Claude Turmes, Minister of Spatial Planning, the economy of tomorrow must be ecological and responsible in the broadest terms. His vision is to bring the financial sector, manufacturers and promoters together to work in this direction. The goal is to initiate social and environmental change based on alternative lifestyles.**

### **What challenges and opportunities do you see for Luxembourg in terms of energy?**

The economy of tomorrow will have to be ecological and broadly responsible. Because ecosystems are the way they are, and we have to live with these limits. Also, finance will have to accept that negotiating with nature is impossible. These are two major challenges – at the global level and in Luxembourg – because the financial centre is based on a very globalised economy. We have the skills and the political will to be among the leaders in certain market segments. In real estate, our strict standards in residential property make us the best in Europe. In office construction, our standards stimulate innovation and excellence. Our construction professionals are very competitive internationally, and play in the first division with Paris and Frankfurt. With the EIB, and thanks to its expertise in structuring green funds, the Grand Duchy was able to develop dedicated financial instruments, mixing public and private capital. This included projects such as a solar energy fund for Africa, which will help to eradicate energy poverty on that continent. What better way to advertise the country and the financial centre? In the field of energy, a mechanism requires electricity and gas retailers to commit 1.5% of their sales. For electricity, a measure grants lower average prices to manufacturers in exchange for increased effi-

ciency. Here too, there is exportable know-how in the optimisation of industrial processes.

### **Can you describe the main lines of your regional planning policy?**

The Minister of Regional Planning has the task of ensuring a good quality of life for citizens, and finding a balance between the respect for nature, on the one hand, and urban, territorial and economic development on the other. As our land is the most threatened resource, we must be world champions in multi-use and best-use. One of our top priorities is therefore to densify and make better of residential and business areas in a varied urban structure. For example, Belval has a mix of shops, housing and offices.

### **Can you tell us more about Luxembourg in Transition, an initiative that imagines a carbon-free country by 2050?**

Unique in Europe, the project brings together urban planners, architects and sociologists to identify the best way to structure land-use in Luxembourg, and this in the context of the Greater Region. It also aims to give impetus and new development programmes that build towards the achievement of zero carbon, our second major project. Solar and wind technologies, electric mobility, intelligent industrial processes, and so on

**“Luxembourg in Transition aims to give impetus and new development programmes that build towards the achievement of zero carbon, our second major project.”**

Claude Turmes, Minister for Energy,  
Minister for Spatial Planning

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cannot achieve this objective alone. Our daily habits must also change. The layout of the country must therefore be a pro-active driver and facilitator, with, in particular, the construction of car-free neighbourhoods featuring car-sharing infrastructure, railway and tram links, express bus services, bicycle hire, etc. Our only chance of succeeding in this social change is through the creation of environments based on other ways of living. ■■■



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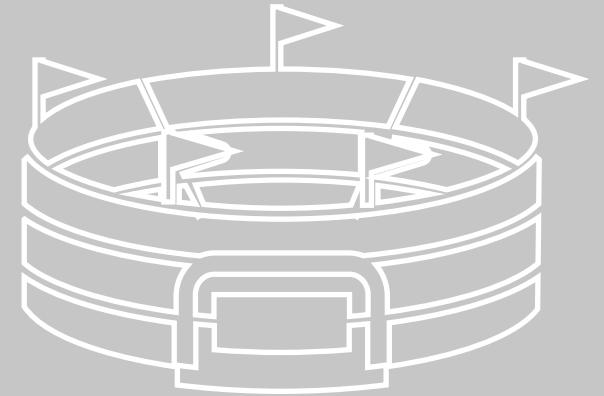
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# ASSOCIATIONS



JULIEN FROUMOUTH (ABBL)

# Transitioning to a sustainable finance approach

**Julien Froumouth, Sustainable Finance Adviser at ABBL says we are at a turning point in the field of sustainable finance, and financial education and training will be absolutely critical. Interview.**

## **Can you describe the importance of financial education and training in regard to ESG?**

First, the level of financial literacy is a key factor contributing to people's ability to make sound and well-informed financial decisions. It is at the heart of financial empowerment of individuals and a powerful catalyst of financial inclusion and consumer protection. It ultimately complements the efforts to build a stable and sustainable financial system. Over the last years, the growing importance of new aspects such as the climate change, the degradation of the environment and the social crisis have created further interplay between financial education and the role of investments and funding to build a more sustainable and inclusive society. Financial education and training have been influenced in a manner that they have both progressively included ESG components and even transformed into full-fledged sustainable finance

programmes. Regulatory and political pressure also plays an essential role in pushing financial professional to gain expertise on ESG topics. The EU action plan on sustainable finance introduced new measures and requirements to include sustainability factors throughout the entire value chain of the financial industry. Even the European Banking Authority now has a mandate to review and coordinate financial literacy and education initiatives via national initiatives and contribute to the convergence of practices and the integration of ESG in a consistent way. Since its creation in 2016, the 'Fondation ABBL pour l'éducation financière' supports and promotes financial education, fostering research programmes, offering collaboration and financing of projects initiated by both the academic universe and the training bodies for financial professionals. Since 2019, the ABBL has been focused on sustainable finance to create and raise awareness of general public, and to integrate sustainability/ESG into education. We are strongly convinced that our role is to support our members in identifying and addressing the needs to skilled resources, specialised employees and targeted training on ESG and sustainable finance. To this end, in partnership with the House of Training, we have launched a comprehensive sustainable finance programme, targeting professionals of the financial sector, as well as a series of videos to raise

awareness with the general public of the principles of sustainable finance, showing how they can act responsibly via their savings and investments. We are at a turning point in the field of sustainable finance, and financial education and training will be absolutely critical to the success of the EU Action Plan on financing sustainable growth and ultimately addressing the sustainability goals set at the national and at the EU level.

## **For further information on ABBL financial education and training initiatives:**

- <https://www.abbl.lu/topics/financial-education/>
- <https://www.houseoftraining.lu/training/explore>
- Check out the four videos

## **How is Corporate Social Responsibility leveraged into the ESG agenda?**

Even though most stakeholders today recognise the value and the importance of ESG data, they are minimising – or at least not properly considering – the role of corporate social responsibility ('CSR') in the context of current initiatives, ambitions and regulations. This could be due to the lack of common understanding or definition of the fundamental concepts and principles involved, and how to implement them. On the other hand, many organisations are just not ready or equipped to understand, identify and prioritise ESG criteria and leverage them when defining their business strategies. In the context of the EU agenda on sustainable finance, it is clear that ESG information will be soon accounted for in the same way as financial information. Establishing the right governance and culture to deliver companies' business objectives and integrate sustainability in all employees' work (including directors) and their decision-making is embedded in the likely legislative proposal from

**“In addition to the regulatory pressure, banks will have to deal with clients' new expectations and take into considerations their sustainability preferences on top of knowledge and experience.”**

Julien Froumouth,  
Sustainable Finance Adviser, ABBL

the Commission on sustainable corporate governance. In addition, the review of the Non-Financial Reporting Directive is expected to improve the disclosure of climate and environmental information by companies, corporate transparency and the value of meaningful sustainability reporting. Finally, the forthcoming measures on the management of ESG risks embeds a double materiality perspective including, on one hand, the environmental and social impacts originating from the companies' activities throughout its entire value chain and, on the other hand, the impacts stemming from climate change, environmental and/or social risks on the companies' performance. Those pieces of the European ESG regulatory puzzle require a systematic integration of ESG criteria into the strategic objectives, the business models and the operational processes of companies and leverage in return the need for adequate corporate disclosures including sustainability information. To this end, the adoption of environmental, social and governance considerations at all level of the organisation has matured continuously in the past years and will continue to improve to better ●●●



●●● align companies' measurable sustainability objectives with their corporate strategies. This will require regularly identifying and assessing the relevant requirements of all their stakeholders, implementing related measures and finally disclosing both financial and sustainability performance in a holistic manner.

#### **What ESG challenges & opportunities do you identify for the banking sector in the medium term?**

The challenges that the banking sector is faced with are twofold: (1) the timely compliance with an accelerating regulatory agenda along with (2) financing a successful transition to a low-carbon and more sustainable economy. It touches upon the environmental, the social and the governance aspects of banks' business models but it ultimately relies on the financial component to thrive. Policy makers are emphasising the central role of the financial sector in advancing the ESG agenda. Banks are particularly affected in the way that they are exposed to ESG risks and sustainability factors indirectly, through their lending and investment activities, and directly, through their own operations and organisational setup. However, the impacts could vary among banks depending on their level of maturity with regards to ESG, the level of sophistication and the granularity of their products and services offering as well as the internal expertise of their employees in sustainable finance matters. In addition to the regulatory pressure, banks will have to deal with clients' new expectations and take into considerations their sustainability preferences on top of knowledge and experience, their financial capacity and their risk profile. Both changing customer preferences and the influence of regulatory changes

affect the entire value chain and raise fundamental questions at senior management level, as well as strategic and operational changes across all business lines, such as the IT department that will have to collect and process a significant amount of new data. At all level of the organisation, banks will need to ensure proper awareness and training of identified staff, upskilling client-facing employees and developing specialised ESG competencies within risk management and control functions. Finally, not all areas of the EU action plan have been implemented in full and the renewed sustainable finance strategy might also bring new measures and reforms for the banking sector. But if banks are under growing pressure, opportunities also exist, like the introduction of new products and the improvement of brand and reputation. At the same time, the long-term business risk can also be reduced by properly managing, measuring and tracking sustainability factors. This creates new substantial investment opportunities in emerging sectors and activities like hydrogen, renewable energies, green infrastructure or clean technologies. It is a great opportunity for enhanced dialogue with clients and counterparties looking for guidance and support on sustainability considerations. ■■■



ROGER H. HARTMANN (EFPA)

# Cross-Border ESG Education

**Roger H. Hartmann, Chairman of the Board, Says the European Financial Planning Association has launched its EFPA ESG Advisor certificate across Europe giving access to common bases for all its members in ESG education. Interview.**

## **What is the importance of Education in combating climate change/ promoting sustainable finance principles?**

Skepticisms about climate change and human activity's impact on it are unfortunately still present. Some fear economic activity and growth cap because of the "too important" weight of extra-financial criteria in economic policies. The Trump administration is a perfect example of this.

Historically, Education has always been an essential tool to fight skepticism and fears, and it will have the same importance on the climate change issue. Education will play a significant role in fighting climate change.

Given clear definitions of Sustainable Finance and its key concepts, and by providing examples of concrete actions, we will educate staff of the financial centers. They will learn about their role and what regulators expect from the financial sector to fight against climate change.

Explaining initiatives such as the UN PRI and reg-

ulations such as the EU taxonomy will be major assets in understanding what is expected. It will make people more confident regarding what they have to do.

## **What certifications do you provide on which topics and to which types of institutions?**

EFPA Luxembourg ASBL provides certifications based on European standards for Private Bankers, Wealth Planners, Wealth Managers, Family Offices... and can certify internal programs of banks or insurance companies.

Our certifications are adaptable, and the CSSF recognizes the EFPA European Investment Practitioner®, the EFPA European Financial Advisor®, and the EFPA European Financial Planner® certifications as meeting the different criteria as stated in the Circular CSSF 17/665 of 31 July 2017.

Other regulators and the 13 national EFPA across Europe provide this recognition. Today EFPA has 65'000 certified members across Europe.

This year, EFPA launched an EFPA ESG Advisor certificate in 13 countries across Europe to sensitize advisors in the Sustainable Finance issue. Throughout 24 hours of courses, our idea is to educate people and provide them everyday basis on Sustainable Finance concepts, regulations, investment vehicles and promote their competencies through a European certificate known everywhere in the continent.

## **Why did you start with these?**

As a non-profit organization, EFPA Luxembourg has an important social role and purpose. Its certifications try to increase people's competencies and employability and improve people's lives and sustainable development.

We commit to:

1. Offer specific conditions to young people and job seekers.
2. Open certifications to people without diplomas but with the professional experience required to recognize their professional skills.
3. Allow its corporate members to subvention training.

EFPA is convinced that every financial adviser is defined by two main features: professional integrity and professional qualification. Ethics and skills are the two dimensions by which every financial adviser should be measured. Therefore, EFPA promotes the dissemination of a European Code of Ethics to guarantee the best practices across Europe.

The ESG education is part of our EFPA ESG Advisor certificate and is present in all our certifications. It is essential for us that the financial centers understand the challenges of today thanks to better Education.

## **How do you see ESG education evolving, and what are the challenges and opportunities?**

Thanks to EU taxonomy, ESG principles are the new standard in the financial industry in Eu-

**“Education has always been an essential tool to fight skepticisms and fears, and it will have the same importance on the climate change issue.”**

Roger H. Hartmann, Chairman of the Board, EFPA

rope. Driven by regulation, ESG training will do the same. The professional must be aware of this and must train his staff not to become obsolete.

The main challenges for ESG education will be to become international and to avoid greenwashing. Since finance is international, ESG education must follow this trend, providing clear definitions and common concepts to all the financial centers and avoiding commercial aspects. To contribute, EFPA has launched its EFPA ESG Advisor certificate across Europe, giving access to common bases for all its members in ESG education.

The main opportunities for ESG education will be to sensitize professionals to subjects that are often overlooked. If the E's and the G's of ESG are well known, the S has too often been put aside, poorly defined, or sanctified. ■■■



TONIKA HIRDMAN (FONDATION DE LUXEMBOURG)

# Philanthropy and ESG, Creating impact that lasts

**Fondation de Luxembourg helps philanthropists make the most of their donations. But while it is up to donors to decide which causes they support, Director General Tonika Hirdman says the foundation's adherence to the UN Sustainable Development Goals helps philanthropists direct their giving to the areas of greatest needs.**

## **How are ESG and climate change influencing the Fondation de Luxembourg's activities?**

Philanthropy is based on individual beliefs and personal passions. While the Fondation de Luxembourg helps people realize their philanthropic ambitions, it is not our role to choose which causes to support. We leave that to our donors. Our mission is, firstly, to simplify the process and to make their philanthropy more structured. Secondly, we help guide donors' philanthropic giving towards projects that best reflect their aspirations and resources. That said, a few years ago we aligned with the UN 17 Sustainable Development Goals (SDGs). Their aims include ending poverty, reducing inequality and spurring economic growth, as well as tackling climate change and preserving biodiversity. By integrating these goals into the project planning, we were able to help philanthropists direct their agendas to the most urgent global challenges.

## **What role can philanthropy play in investments that help mitigate climate change?**

Our founders don't want their assets invested in activities that are at odds with their charitable goals. Our sustainable investment approach helps ensure that the philanthropic values of the founders remain consistent with their foundations' investments. This is important. Imagine a founda-

tion financing reforestation projects in the Sahara, while at the same time investing in multinational companies whose palm oil plantations are devastating the same habitat. It doesn't make sense. We decided early on to invest our endowment according to an ESG (environmental, social, and corporate governance) investment policy. Our founders were a bit skeptical when we first proposed this, but today 80% of our foundations' assets adhere to ESG investment principles, not to mention impact investing and microfinance funds, which may serve to advance the causes they support.

## **Can you give examples of ESG/ sustainability initiatives supported by the Fondation de Luxembourg?**

The Wild Flowers Foundation under our aegis works with grassroots organizations to improve the living conditions of vulnerable people in the Amazonas state in Brazil. At the same time, the foundation invests part of its endowment in the Luxembourg Microfinance and Development Fund which is active in the same region. In this way, the foundation leverages its philanthropy by investing indirectly in social purpose businesses that may last beyond the initial grant. Another example is the Akuo Foundation, which is raising awareness and supporting local communities' transition to sustainable agriculture through a "green school" in Morocco. Meanwhile, closer to home, Fondation Campine Vivante is acquiring parcels of land to create nature reserves and promote conservation in Belgium. Finally, the Mangrove Foundation is working with local communities to install water irrigation and reforestation projects in Mali and the Philippines. Other foundations are helping local communities in developing countries become energy independent by investing in solar panels installed on schools and hospitals.

**"Our sustainable investment approach helps ensure that the philanthropic values of the founders remain consistent with their foundations' investments."**

Tonika Hirdman, Director General,  
Fondation de Luxembourg

## **Which risks and opportunities do you see from ESG investment in the future?**

In 2019, we conducted a survey among twenty private banks in Luxembourg and found that more than half of them had less than 5% of total assets invested in ESG. Thanks to the new EU regulations and the Luxembourg government's promotion of sustainable finance, this number is improving, as banks are now challenged to expand their range of ESG offerings. Opportunity may also arise out of a crisis, such as the one we are currently experiencing. The covid pandemic is offering a glimpse of what might happen if we continue to ignore scientists' warnings on climate change, but has also created an opening to integrate environmental aspects into the economic recovery by impelling companies to transition to a more sustainable strategy. I am convinced that climate change will be the key topic for years to come. It is connected to so many other global issues such as poverty, migration and social inequalities. Governments do not have all the answers, but in philanthropy, we see a growing number of new and younger donors seeking to play a role supporting a future in which they believe. ■■■



MARC LAUER (INDR)

# CSR Platform

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**Marc Lauer, President of INDR says CSR is an opportunity for each company to improve its governance, to step up its commitment with society and to reduce its environmental impacts. Interview.**

## **Can you introduce the INDR in a few words?**

INDR was created in 2007 by the Luxembourg employers' association UEL, with the mission to give guidance to companies in their CSR practices. It exists to help them contribute to sustainable development and improve their competitiveness and their image. In this regard, INDR offers businesses comprehensive support with the national programme *ESR-ENTREPRISE RESPONSABLE*, which covers the awareness of companies, the evaluation of their level of maturity in CSR and, if they so wish, the ESR label with an external verification. Furthermore, INDR promotes CSR at institutional level and stands as the national competence centre that monitors publications and academic resources on relationships between Business and Society, brings together the main sustainable development actors, and produces new CSR knowledge. As a think tank and standard-setter, INDR prepares recommendations and advice for businesses and other stakeholders.

## **What are the benefits of CSR in businesses?**

CSR is an opportunity for each company to improve its governance, to step up its commitment with society and to reduce its environmental impacts. It offers a coherent approach to taking action to meet society's problems that are relevant for operations as well as sustainable and resilient

solutions both for the company and for society, e.g. employees' health, innovation, transparency, carbon footprint, human rights, responsible supply chain, fair wages, employability, etc. CSR has a really strong impact on knowledge: treating individuals better affects how they feel about their work, their well-being, motivation, commitment, and productivity. In terms of processes, CSR protects strategic resources, improves relationships with supply chains, heightens task efficiency, etc. And it fosters ongoing improvements, quality, innovation, the circular economy and the development of eco-friendly products. Responsible positioning and heightened transparency strengthen brand image and trust from stakeholders, which improves reputation, increases the loyalty of customers, whilst obtaining a competitive edge. And finally, financial advantages are clear: new markets generate more sales, responsible goods and services increase margins. And whilst being more resilient, effective and efficient, the company makes savings, manages risks and reduces its costs.

## **What are the main obstacles that can slow down companies in their CSR efforts?**

For a company to transform itself, leadership and a willingness to move forward is paramount. In these times of crisis, many companies are struggling to survive and do not consider CSR a priority. They could, however, integrate CSR into their pol-

**“For a company to transform itself, leadership and a willingness to move forward is paramount.”**

Marc Lauer, President, INDR

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icy by delegating this task to a person especially trained and mandated to do so, with the necessary resources. Sometimes, businesses want to do everything at once. But, to begin with, it is in the company's interest to build on what already exists, for example, if it has implemented a good occupational health and safety strategy, it can develop it by including well-being, and later add human rights and HR policies, etc. It thus sets priorities that are useful for the company and its stakeholders, and that are part of continuous improvement. INDR's support programme, more particularly the ESR Guide, strongly emphasises these points. ■■■



FRANCOIS MASQUELIER (ATEL)

# ESG in Money Market Funds, why not?

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**Francois Masquelier, Chairman of the Luxembourg Association of Corporate Treasurers (ATEL) and CEO of SimplyTreasury shares his views on how MMF can motivate companies and issuers to become more socially responsible and to search for sustainability.**

## **ESG and MMF**

Money Market Funds (MMF) can also adapt in response to Environment, Societal and Governance factors (ESG). Only recently market has put attention to explicit ESG strategies within MMF's. Sign of the time? Certainly. The example of MMF's having reduced their exposure to Danske Bank in response to governance risk factors is interesting to illustrate the governance concern. Launches of new MMF's ESG compliant and conversions of existing ones to better reflect concerns on ESG demonstrate the changes and new expectations on the "buy-side".

## **Fund calibration & metrics**

Funds must adjust to market demands for more corporate social responsibility. From implicit, it becomes more explicit concept in MMF's, and strategies change to better respond to investors wishes. They try to apply filters to select "E", "S" or "G" compliant assets. The difficulty is to fix limit of in what they can invest or not. Some assets are more obvious than others. We can imagine that sooner or later rating agencies or ESG specialists will allocate ESG ratings or score and qualify ESG compliance. The ESG metrics will be a key issue to solve prior to claim offering "ESG compliant funds". The inconvenient is the potential additional costs. If we reduce the potential assets to invest

in, the risk is to impact returns. When we will have more ESG funds, the compliant assets will become rare(r) and the scope of eligible assets will be targeted by more MMF's, creating unnecessary competition.

## **Driver of change**

If generalized, such behaviors and trends may lead to difficulties to find short term cash equivalent investments in the long run. Being more virtuous and looking for ESG compliant assets may lead to unbalanced situations. If gradual, it may force non-ESG compliant companies and issuers to become more socially responsible and to search for sustainability. The world is changing so do MMF's managers. Today, we know that major players like AMUNDI, AVIVA, BNPP, CANDRIAM, SG, Blackrock or State Street - roughly 20 funds - offer ESG MMF's. You can be sure that this number will increase over time. The tidal wave cannot be stopped. We need to surf on it and to gradually adapt our investments and requirements, as well as become more socially responsible. ■■■

**"The tidal wave cannot be stopped.  
We need to surf on it and to  
gradually adapt our investments  
and requirements."**

François Masquelier, Chairman, ATEL

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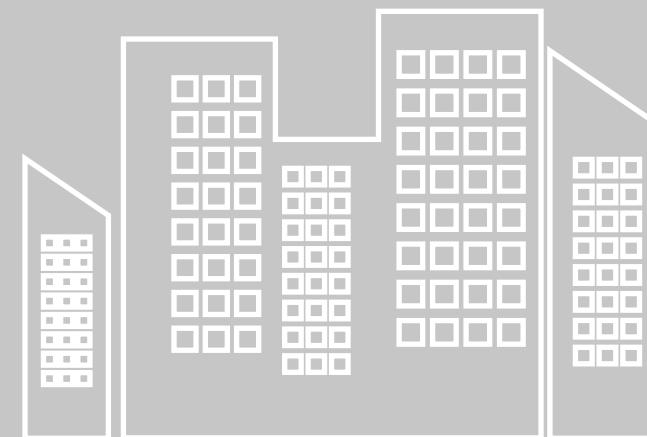
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# COMPANIES, SERVICE PROVIDERS AND LABELLING

JULIE BECKER (LUXSE)

# New financial products to accelerate sustainable finance

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**Julie Becker, CEO of the Luxembourg Stock Exchange, shares her views on market trends regarding ESG products and on the 2020 launch of Sustainability-Linked Bonds, where issuers commit to future improvements in sustainability outcomes with a clear timeline and ambitious science-based objectives.**

## **2020 was a record year for sustainable finance, what were the main drivers?**

2020 saw record levels of new sustainable bond issuances worldwide, in large part driven by a steep uptick in social and sustainability bonds issued in response to the COVID-19 pandemic. These bonds raise financing for social projects linked to food security, affordable housing, access to essential services etc., all areas heavily impacted by the current crisis. On LGX, we saw a 134% growth in new sustainable bonds in terms of value in 2020 compared to 2019. The pandemic accelerated the focus on the social element of ESG and on sustainability more generally across the world. It installed a new sense of urgency and a new awareness that we need to act now to address global challenges. The investor appetite for sustainable instruments is considerable. Today, there is a lack of supply to meet investor demand, and this may encourage other issuers to bring sustainable instruments to the market.

## **The universe of thematic bonds has evolved considerably over the past years, what are the latest trends in this field?**

Up until last year, LGX was dedicated to green, social and sustainability bonds, which are use-of-proceeds bonds that finance specific green or social projects. Last year, a new product started

to gain traction, namely the Sustainability-Linked Bonds (SLBs). SLBs are forward-looking performance-based bond instruments where the issuer commits to future improvements in sustainability outcomes with a timeline and clear and ambitious science-based objectives. Unlike green, social and sustainability bonds, the proceeds of SLBs are intended to be used for general corporate purposes. SLBs are therefore based on the issuer's overall sustainability strategy and ambitions, and finance its transition to a more sustainable model. It is an innovative product that supports the ongoing transition efforts, and we opened LGX for SLBs last year. Going forward, we also expect transition bonds to emerge, but there is not yet a recognised market standard for this type of bond.

## **What role will a company's ESG profile play in financial markets in the coming years?**

A company's ESG profile will be unavoidable! At some point, access to capital markets may even be preconditioned by the ESG profile of issuers. Investors are increasingly considering ESG factors and non-financial data when deciding what companies to invest in. This is what led us to add a new section on LGX recently to highlight Climate-Aligned Issuers and broaden the universe of available sustainable investment opportunities

**“Sustainability data is constantly improving and a lot of efforts are currently being done to define taxonomies and sustainable accounting standards.”**

Julie Becker, CEO of the Luxembourg Stock Exchange

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beyond labelled bonds. For Europe to become climate neutral by 2050, all sectors need to accelerate their transition efforts. Those who lag behind are likely to face a backlash from investors and customers. It is a complicated matter in the sense that there are no universal standard by which we can easily define an organisation's ESG profile and measure its social and environmental impact. That said, sustainability data is constantly improving and a lot of efforts are currently being done to define taxonomies and sustainable accounting standards. ■■■



THIBAUT GHIRARDI (2DII)

# Rewarding impactful climate disclosure

Thibaut Ghirardi is Managing Director of 2° Investing Initiative (2DII) France, an independent non-profit think tank working to align financial markets and regulations with the Paris Agreement goals. Recently, 2DII, alongside the French Ecological Transition Agency (ADEME) and the French Ministry for the Ecological Transition (CGDD), have launched the 4th Edition of the International Climate Reporting Awards (ICRA). This contest targets financial institutions worldwide and rewards the best climate reporting practices both in terms of exposure to climate risk and contribution to the climate goals. This year, ICRA's steering committee was composed of Eurosif, the World Benchmarking Alliance (WBA), Luxembourg Sustainable Finance Initiative (LSFI), Finance For Tomorrow and UN PRI.

## What does climate-related risks mean and why is it relevant for financial institutions to disclose them?

I think it is important to distinguish transition risks and opportunities from the physical ones. Transition risks are linked to the economy moving towards carbon neutrality by 2050. This means that we will drastically decrease our CO2 emissions thanks to new regulations, market developments, technology, NGO campaigns and, more generally, increased awareness among civil society. Transition risks arise if a company does not anticipate these drastic changes, whereas transition opportunities arise if a company anticipates and takes advantage of these changes. Physical risks are directly related to the negative consequences of climate change, such as increased number of floods or extreme climate events that will put human lives or infrastructures at risks, for instance. These risks influence the economy directly and have a financial impact. Another important point to underline is that the better, the swifter the transition, the higher the risks and opportunities. If the world takes the right path to reach the Paris Agreement goals, companies will face stringent transition risks and opportunities. If we fail to reach these goals, companies will face huge physical risks. In the end, it will probably be a mix of both situations so companies must be aware of these two types of risks.

We will provide detailed feedback to all the applicants, so it is a means to understand your strengths and areas for improvement gaining inspiration from best practices.

The speed of the transition will be key too. If it is smooth and ambitious, we can expect the risk to be less significant than if it is late and sudden. If the transition impacts companies financially, this will have consequences on the financial institutions that are related to them. To put it simply, if we face risks and opportunities at the level of the physical assets, those assets might gain or lose value and this will influence the performance of the financial products linked to them. These risks can spread to the financial systems and have a potential systemic effect. That's why it is so important for financial institutions to disclose their exposure to transition and physical risks, for supervisors and for the society to better assess their long-term financial soundness.

## How can companies disclose these risks: are there any standards or regulatory requirements at national or international levels?

There are an increasing number of standards and regulations. Regarding Climate Related Financial Disclosures, the most known framework is the guidelines developed by the Task Force on Climate related Financial Disclosure (TCFD). The rationale behind these recommendations is that companies should disclose their climate risks so that, in turn, financial institutions investing in these companies better understand their own exposure to these risks. In the end, it should also help better understand the overall exposure of the financial system. The TCFD is based on 4 pillars which are 1/governance, 2/strategy, 3/risk management processes and 4/metrics and targets. The TCFD is a voluntary

framework but is used as a basis for "soft" regulations in some countries. For example, in the UK the Prudential Regulation Authority (PRA) is urging banks and insurers to engage with this standard. In the case of France, ESG and climate risk disclosure has been mandatory since 2016 and the adoption of its energy transition law. Its article 173 (now article 29 of the climate and energy law) is about mandatory ESG disclosure with a pillar on climate risk disclosure which is now consistent with the TCFD's recommendations, including how remunerations are related to climate risk management. Apart from the TCFD, there are also standards at EU level, for example, the Guidelines on Reporting Climate related information linked to the former Non-Financial Reporting Directive.

It is important to realize that disclosure is a very interesting tool but is not enough. We also need to know at operational level if companies understand these risks and anticipate them according to different scenarios. It is also very relevant to see how they plan to mitigate these risks.

To help both companies and financial institutions in analysing their risk exposure, at 2DII, we are working on different tools such as a scenario repository, a scenario configurator, and a portfolio evaluation tool.

## To what extent can disclosing climate related risk impact the reduction of greenhouse gas emissions and combat global warming?

For me, that's the core of the discussion. The current paradigm is based on the premise that managing risk at systemic level will generate financial reallocation and the transition of the economy. The problem is that this might not be the case and there is no scientific evidence that it will be in the com- ●●●



ing years. That's why when covering this topic the notion of double materiality is key: this refers to the distinction between managing the climate risks impacting a company versus managing the impacts of a company on the environment, i.e. its contribution to the climate goals. These risks can be two sides of the same coin. For example, a financial institution wants to engage with a cement company that is in its portfolio to push for CO2 reduction policies. If it manages to do this and the CO2 emissions of this cement company decrease, it will reduce its exposure to transition risks while reducing the impact of the cement company on climate. Another option would be that the financial institution decides to divest from the cement company. In this case, this means that the financial institution will reduce its exposure to transition risks. However, as probably someone else will buy the shares of the cement company, there will be no CO2 reduction in the real economy. In this case the divesting strategy of the financial institution did not have a positive impact on climate, at least not directly.

That's why it is very relevant to distinguish these two angles taking into account this double materiality concept. At 2DII, we've developed a methodology called "PACTA" (Paris Agreement Capital Transition Agreement) which is used for portfolio alignment analysis. This methodology can be the first step in the development of climate strategies. It supports financial institutions in understanding the exposure of their portfolios to carbon intensive sectors, to then help them choose which climate action they can put in place to reduce their risk exposure and/or optimise their impact.

**For the 4th consecutive year, 2° Investing Initiative, along with the French Ecological Transition Agency (ADEME) and the French**

**Ministry for the Ecological Transition (CGDD), organized the International Climate Reporting Awards. What could you tell us about this award?**

The award first took place in 2016, and now it is the 4th year that it was organized with the support of the French Ecological Transition Agency (ADEME) and the French Ministry for the Ecological Transition (CGDD). The goal is to reward the best climate reporting practices both in terms of risk and contribution to the climate goals. For 2021, we reviewed around 40 financial institutions internationally and we gave prizes based on several criteria such as governance, risk management, alignment and impact. To do so, we developed a scoring grid to review the financial institutions' reports. Based on this grid, we provided the jury with a score for each institution. Finally, the jury selected the institution they would like to reward:

2021 winners were:

- Asset Managers: ERAFP (French public service additional pension scheme)
- Banks: KBC Group
- Insurance: Aviva
- Jury's prize: AXA Group

The jury was composed of representatives of various European and International institutions, such as the EBA, the UN PRI, financial supervisory authorities (the Luxembourg's CSSF was part of the Jury this year), Universities, etc.

The award ceremony took place on 28th of October 2021.

**What is the aim of this award and how has it evolved over time in terms of participation and requirements?**

We have seen the topic of non-financial disclosure growing both in terms of financial institutions cov-

ered and of information to be disclosed. The purpose of the award is generally to encourage disclosure as well as helping the work on standardising non-financial information so to make it comparable. Looking at recent developments, I would like to highlight an initiative: the Climate Transparency Hub (CTH) that was launched in France this year. It is an online platform where French financial institutions can voluntarily deposit their climate reportings which are afterwards made publicly available, consolidated and analysed to identify best practices. The CTH then produces one report for each institution using the same grid to guarantee their comparability. The CTH was based on the climate awards' grid and was used to collect climate reports of French institutions participating in the awards. International financial institutions did not apply through the CTH (as it is a tool dedicated to France based companies) but submitted their reports directly to the climate awards' organisation. All reports were therefore assessed based on the same grid.

The grid is trying to combine best practices stemming from different standards and regulations, such as the TCFD, or the French article 29 that we mentioned earlier.

In this edition we were also focusing on impact and contribution to climate goals. We have a specific pillar in the grid dedicated to contribution to climate goals. We are convinced this is a topic that needs to be properly addressed if we want financial institutions to really contribute to the climate goals.

**What would you say to nudge Luxembourg based financial institutions to participate in this contest for the coming years?**

First, I think it is a great way to compare their practices with other financial institutions and show lead-

ership on the topic which is increasingly important for clients, supervisors, and regulators. Second, we provide detailed feedback to all the applicants, so it is a means to understand your strengths and areas for improvement gaining inspiration from best practices. Third, to be a first mover and anticipate regulation, even if for now climate disclosure might be voluntary, we can expect regulations to make this mandatory in the coming years. Finally, to show that they have disclosure practices that are as mature as other countries, and that would be a good way for Luxembourg to signal that they are leading the way. ■■■



ILANA KRANCENBLUM (SQOPE)

# ESG Footprint Assessment

**Ilana Kranczenblum, Chief Executive Officer at Sqope says The mere existence of strong ESG policies on paper does not necessarily translate into adherence, hence the key need to check ESG reputation.**

across the globe, foster an extensive network of ground sources, and develop a unique methodology for conducting research. Once complete, our final reports are put through a rigorous review and Q&A process with the findings presented in a clear, detailed, transparent, and timely manner. Moreover, we pride ourselves in going above and beyond in terms of GDPR compliance and IT security, ensuring that all confidential and private information stays protected.

## Can you present Sqope in a few words?

Sqope is a leading provider of enhanced AML due diligence reports and ESG reputational assessments, which empower over 250 financial institutions and other corporates to evaluate risk and drive business. Sqope enables professionals to comply with every AML, KYC, and anti-corruption regulation and mitigate their risk of negative ESG exposure. Our reports are unique in their depth and quality of research, in large part due to a multi-national and multi-lingual team of experts with years of research know-how and a variety of relevant backgrounds, including investigative journalism, intelligence, military, and academia. Indeed, our decade-plus of experience in uncovering reputational risk gives us an edge in interpreting its weight and impact and predicting potential future exposure. This experience has also allowed us to compile a comprehensive database of hundreds of relevant sources for countries

## What are the costs of non-compliance linked to ESG?

There are significant direct costs associated with non-compliance with ESG-related factors, including fines and legal ramifications for violating, among other, environmental standards, data privacy regulations, safety standards, anti-corruption legislation, and workers' rights. Fines can be severe, even if the violation wasn't company policy and, rather, resulted from a "bad apple". At the same time, there are also serious indirect costs, which are often associated with reputational damage but can also manifest in reduced performance as a result of, for example, poor governance practices that lead to mismanagement, or a negative office culture that reduces productivity. While these are harder to measure, they can sometimes be more impactful than the direct costs. To illustrate these points, a University of Virginia study investigating over 80,000 ESG inci-

dents between 2007 and 2017 found that companies with more negative ESG incidents performed 2.5% poorer per year than the rest of the market. While this may seem like a small figure, it is only an average and incorporates a broad range of ESG-related events. In fact, more serious ESG-related issues - even just one scandal - can have a much greater impact. Between 2014 to 2019, for example, data from the Bank of America indicates that 24 "controversies" involving, among others, accounting malpractice, data breaches, and sexual harassment cases reduced the value of large US companies by 500 billion USD during those years. In other words, ESG reputational concerns cannot only damage a company's reputation for years to come, but can also severely impact their bottom line.

## Can you describe the reputational risk linked to poor adherence to ESG standards/policies?

In today's atmosphere, performance is only one factor in how a company is judged, with the values they represent growing in importance. To this end, the combination of increasing public interest in social causes and expanding distrust of corporations means that companies and their executives are under greater scrutiny and pressure to demonstrate positive contributions to the world or, at the very least, avoid negative ones. Those perceived, for example, as not doing enough to reduce their carbon footprint, acknowledge injustices in the world, reduce wage disparity, and improve diversity, among others, can be villainized, causing significant damage to their public reputation. Indeed, as a direct result of poor adherence to ESG standards and policies, companies have confronted and could be faced with costly "dam-

**"Sqope enables professionals to comply with every AML, KYC, and anti-corruption regulation and mitigate their risk of negative ESG exposure."**

Ilana Kranczenblum, Chief Executive Officer at Sqope

age control" campaigns and even calls for boycott and divestment. Even a company with excellent ESG policies is not immune from an ESG scandal: The mere existence of strong ESG policies on paper does not necessarily translate into adherence, highlighting the fact that checking ESG reputation is key. To clearly demonstrate why conducting reputational due diligence, beyond a regular ESG audit, is necessary, take the following case study. In 2020, a US-based fund reached out to Sqope prior to investing in a fintech company that appeared to have no negative media exposure. Despite presenting themselves on their website as implementing strong diversity and inclusion policies, our initial investigation uncovered online accusations from former employees regarding negative workplace culture and #metoo issues. After digging further into this issue, we discovered additional claims of sexual harassment and a lawsuit against a top executive of that company. As a result of these findings, the fund decided against investing in the fintech and was able to shield themselves from significant negative reputational exposure. ■■■



SERGE KRANCENBLUM (IQ-EQ)

# Sustainability is more than just being green

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**There is a growing desire for environmental, social and governance (ESG) norms to be respected in finance and investment. According to Serge Krancencblum, chairman and founder of IQ-EQ, the real challenge is to determine compliance and minimise reputational risk through ESG benchmarks based on reliable and consistent data.**

## **Why is ESG so important to you and IQ-EQ?**

As a co-founder of a company that has become one of the world's largest independent players in the field of investor and asset manager services, I have two major responsibilities. The first, as group executive chairman, is the strategy and non-organic growth of the organisation. The second is our commitment to environmental, social and governance standards. Thirty-five years ago, when I started my professional career, we didn't talk about ESG but I have always wanted to build my group in a responsible way to ensure its sustainability. This obviously involves the company understanding that we have a real social responsibility. I always understood that taking these questions into account would become crucial for all types of company and would play an increasingly important role in the financial sector and in the wider Luxembourg marketplace.

## **How do you help your clients in this area?**

IQ-EQ works for large alternative funds, including private equity funds, and for their institutional and family offices investors. They all understand that they must invest with or in sustainable companies. "Sustainable" does not only mean "green", it also means respecting every aspect of ESG. We collect and compare data for our clients to help them make their investment decisions, as well as monitoring these positions afterwards. We also provide

them with ESG reputation assessments of a target or of an asset manager. These help clients avoid dealing with entities that do not share their values. We help clients focus on the "E", "S" and "G" by ensuring, for example, that a target does not use carbon-intensive cars, that diversity and inclusion extends beyond gender to the respect of minorities in every country of operation, or that the business meets certain minimum governance criteria.

## **Where are the challenges and opportunities for IQ-EQ and ESG over the next three to five years?**

One of the most important challenges is the question around data integrity and reliability. Unreliable information can hamper the assessment of a company's ESG compliance. Our clients need data they can rely on to ensure that they are not working with an asset manager or investing in a company that are not ESG compliant. A lack of reliable data could have a negative impact on their reputation. A number of different measures currently exist, and we hope that organisations will adopt common standards and KPIs. In terms of opportunities for our group, we know that in the future no one will be able to do without ESG processes, nor will they be able to avoid demonstrating compliance with these standards. This has great potential for us and of course for the society in general. ■■■

**"One of the most important challenges is the question around data integrity and reliability."**

Serge Krancencblum,  
Chairman and founder of IQ-EQ

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EDUARD VON KYMMEL (ID LINKED®)

# Creating values with a better corporate governance

**“Innovation, Sustainability and Transparency are the key values of id Linked®. It is time to offer next to the traditional and conventional governance services state-of-the-art digitalisation and ESG corporate governance values” says Eduard von Kymmel, founder and Managing Director of id Linked®. id Linked S.à r.l. is a Luxembourg-based independent NextGen corporate governance service provider.**

## Why do you think it is time for a change?

Various studies and our own research of more than 2000 SICAVs and management companies in different domiciles show that there is a huge need and demand of investors for development and improvement in the area of corporate governance of companies and funds. Especially when it comes to the composition of boards and the role of independent directors. If we take a closer look at various existing board of directors, we see an extremely homogeneous composition of board members. What is not a surprising fact, as the ma-

jority of board members is recruited from the own (limited) network. Naturally they have quite often the same age, same attitude, come from the same sector etc. And still very often a gap in gender diversity. Similarities that represent a comfort zone, that can be hazardous in terms of an open-minded company management. Only heterogeneity enables a diverse and open approach.

## How do you want to achieve this change?

Currently it is hard to find an independent director outside from one`s own network. Service providers exist, but are they all truly independent as some of these companies also offer for example fund administration and/or AIFM services? Given the fact that there is a need for independent directors that really deserve the attribute “independent” in terms of an unbiased approach and our wish to bring diversity and an added value into the board of directors of companies and funds, we from id Linked® developed id Ship, a dedicated NextGen search-matchmaking platform to connect independent/non-executive directors, interim managers, RCs with investment fund initiators, management companies/AIFMs, SICAVs/ ICAVs, SPVs, banks, insurance companies and consultants/law firms in Luxembourg, Ireland and Liechtenstein. In our opinion, a very attractive tool in addition to the existing service providers.

## Who can benefit from id Ship?

id Ship is a win-win for both sides. On the one hand id Ship helps independent/non-executive directors (including members of sophisticated director offices), interim managers and RCs to connect with counterparties who are looking for their profile, skills and experience. On the other hand id Ship helps ManCos/AIFMs, SPVs, SICAVs/ICAVs, banks, insurance companies and consultant/law firms to increase the number of suitable candidates with a desired profile. With id Ship companies can strengthen their corporate governance and organization by applying a sophisticated board of director, interim manager or RC selection process and succession planning. Furthermore, id Ship expands companies service range as a service provider / consultant/ law firm. Above that id Linked® sets itself high compliance and KYC standards and therefore uses for own KYC purposes LexisNexis® WorldCompliance™ Data and Adverse Information Search™ when onboarding new members. id Ship is a perfect opportunity to bring a breath of fresh air into company management.

## Is id Ship a competitor to existing director offices?

Not at all. We already have some id Ship members who belong to different Directors Office. We see us as an independent supporter and service provider for single directors and members of director offices as well as for searching companies. In our opinion id Ship helps also existing, well established, professional director offices to get access to new mandates. id Linked® will market and promote

**“A good mix of age, gender, ethnicity, personalities, background and objectives is crucial for successful management!”**

Eduard von Kymmel, founder and Managing Director of id Linked®

the iNED industry very focussed to our target customers in the target markets and actively appear on the market. We are convinced, all members will benefit from this in equally. Just as ILA acts as a developer, representation and interesting group for directors, we see ourselves as an international independent iNED ambassador and connector between searching and offering parties.

## What are the main reasons for id Ship members to join your platform id Ship?

According to numerous positive feedback we got: great and unique offering in our target markets, independency of our organisation, no conflict of interests, digitalisation, our ESG approach, state of the art and user-friendly stable and secure system, privacy option, our internal KYC/AML process and very fair pricing model.

## What is you plan for the coming years?

As innovation is one of our key values, id linked will strive to further improve corporate governance and offer additional services that provide distinctive sustainable added value for the board and all stakeholders. ■■■



EDITH MAGYARICS (PAST CEO VICTOR BUCK SERVICES)

## For ESG, think global

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**According to Edith Magyarics, CEO of Victor Buck Services, environmental, social and governance criteria can only be considered in a global approach, otherwise, without a holistic perspective, they may be reduced to greenwashing.**

### **What is VBS's ESG agenda?**

From an environmental, waste and pollution point of view, we have taken multiple initiatives. Our “zero plastic single use” plan, with the distribution of meal boxes and cutlery to our employees. We sort our waste and materials carefully for recycling. We use 100% green electricity. To control CO2 emissions we will work with an external service provider to calculate our output. This is the first step towards reduction. When we order material we favour local suppliers. Regarding the threat of deforestation, we hold the FSC certification, which ensures that our paper consumption, for example, is from environmental friendly sources. In social matters, we offer training and we adapt our working hours for staff. We are a signatory of the United Nations Global Compact, we are committed against forced labour and the use of child labour. We support local projects and organisations, make material and financial donations, and participate in local initiatives such as working groups on renewable energy. In terms of governance, we have an anti-corruption policy and we promote diversity. Our board of directors is composed of two men and one woman from POST, our 100% shareholder. Our management committee consists of one woman and one man.

### **How do you meet increasing demands for ESG standards from your clients?**

We serve the financial sector, and particular-

ly the funds industry from which 80% of our clients come. Their requests don't focus on the ESG thematic yet, but we can imagine it will become more critical at a later stage. We are engaged in the building of a printed electronics process for which we are taking a green approach. This integrates power consumption, materials selection, transport use and more. We position ourselves with differentiated products, using paper and not plastic, all part of a sincere eco-responsible approach.

### **What ESG challenges do you foresee for the next few years?**

We are currently investigating in switching our car fleet into electric. This is in response to a government desire, but it requires holistic thinking that goes beyond the country's borders. It may make sense to use electric vehicles in Luxembourg where pollution will be reduced, but what happens to the batteries afterwards? If they have to be shipped to other parts of the world, this has environmental consequences with a global impact. The impact of cobalt mining and processing, the exploitation of people and pollution must be taken into account. We need to create a local ecosystem to limit CO2 emissions with a global mindset and thinking global. Companies are increasingly outsourcing to distant countries. Which guarantees do we have for the respect of human rights there? ■■■

**“In terms of governance, we have an anti-corruption policy and we promote diversity.”**

Edith Magyarics, CEO, Victor Buck Services

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JOHN PARKHOUSE (PWC LUXEMBOURG)

## Sharing the ESG burden

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**John Parkhouse, CEO and Senior Partner at PwC in Luxembourg, says the ESG agenda is getting too big for policymakers to implement on their own. Companies need to share the burden of the necessary societal change, not only through dialogue, but also by making the right decisions.**

### **Why is ESG important to you and PwC?**

I have two children. I see not only the looming impact on their futures but also those of the broader youth of today. ESG - and especially the climate crisis - is really something that's in our hands to do something about. But if we don't, it will be too late. For me ESG for PwC in its broadest sense is about pushing us and our clients to understand how we can be (a small) part of solving the societal issues we face today. Inequality has never been so high and each year climate becomes an ever greater issue. In a nutshell, for companies it's about building trust across your stakeholders by ensuring outcomes which are sustainable - in terms of the long-term impact on the business, the people and our planet.

### **How are you helping others to make and deliver commitments?**

We help companies appreciate the scale of what needs to be done on the ESG agenda. The burden of achieving societal change is too great to be left to policymakers alone: business has a real role that we need to drive. And that is not just in terms of a business dialogue but doing and being seen to do the right thing (i.e. getting the reporting right). In 2015-16 we began engaging with our stakeholders to see how we could contribute to their journey. We sought to address the question of how to make ESG something that is not just a compliance or a reporting issue, but something beneficial for the compa-

ny and identifying how PwC can contribute value to our clients in that space. This is important for our clients because not only do we bring the technical expertise to help them, but we also bring the real life experience of how to really drive change across the organisation and the real challenges to embed sustainability into the core strategy of the company. Our experts are thus helping our clients to set the strategy, transform the business and ensure the reporting properly captures what is being done.

### **In five years, what do you see as the challenges and the opportunities?**

For many of our clients, the current Covid situation is very difficult. They are seeing if they can get through these next few months, so thinking about diversity and saving the planet is just a pipe dream. In the longer term, we must confront the disconnect between the providers and the users of capital. There is a stark contrast between the financial services industry, which sees ESG both as a technical challenge and also as an opportunity, and then the real economy where the challenge is in some areas acute - but the opportunity is equally real for those ready to really transform. Overall, we see a convergence of pressure on all businesses - from capital providers, from clients and from their employees and future talent - which is in my mind unprecedented and as such I have huge confidence that business will step up and make the massive transformation that meaningful change will require. ■■■

**“We help companies appreciate the scale of what needs to be done on the ESG agenda.”**

John Parkhouse, CEO and Senior Partner  
at PwC in Luxembourg

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DENISE VOSS (LUXFLAG)

# Seal for sustainability

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**The Luxembourg Finance Labelling Agency (LuxFLAG) is an independent and international non-profit organization, founded in 2006, which aims to promote the raising of capital for the sustainable investment sector by awarding a recognizable label to eligible investment products. Interview with Denise Voss, Chairwoman of LuxFLAG.**

## **What are the main principles of ESG labelling?**

The goal of a label is to reassure investors that an investment product complies with the label criteria. The number of LuxFLAG labels has nearly doubled over the last two years. This tremendous growth has its roots not only from the regulatory push supporting the European Green Deal, but also in growing demand from investors, who increasingly value a label when investing in ESG products. The label application process is based

on transparent criteria for each label, available on LuxFLAG's website, and for each label application the LuxFLAG team follows a strict review and validation process, which has been ISAE 3000 certified since 2019. Applications meeting the criteria are presented to an eligibility committee of experts for their review and recommendation to the LuxFLAG Board, which ultimately approves (or not) the awarding of a LuxFLAG label.

## **What is your opinion on greenwashing and how does LuxFlag help mitigate it?**

Europe's political and regulatory focus on ESG means heightened demand for ESG financial products and this increases the risk of "greenwashing" and, thus, the importance of labels. LuxFLAG continues to enhance the transparency and strength of its labels, including alignment of label criteria to the requirements of the EU Sustainable Finance Disclosure Regulation (SFDR). LuxFLAG awards 5 labels to compliant investment products; the ESG Label, for products that focus on a sustainable transition to ESG goals, and 4 impact or thematic labels: Climate, Environment, Microfinance, Green Bonds. Products with an ESG label must comply with Article 8 of the SFDR, while the 4 impact/thematic labels comply with Article 9 of SFDR. Finally, the quality of the label application process is critical to LuxFLAG and is why LuxFLAG first sought ISAE 3000 certification, the first labelling agency in Europe to do so.

## **How important is education to the mission of LuxFLAG?**

Education is vital to LuxFLAG's mission to support the financing of sustainable development. Our Associate Member program brings together the community of financial centre actors, where education and sharing of best practices plays a central role. The financial industry is at various stages of the sustainable finance journey, so raising the level of understanding helps not only ensure that regulatory requirements are met, but that the goals of the UN Sustainable Development Goals (SDGs), for example, can be met as quickly as possible. LuxFLAG organizes regular webinars, including its flagship event, the LuxFLAG Sustainable Investment Week (LSIW). LSIW gives Associate Members an opportunity to showcase what they are doing and to engage in discussions about how we can all move forward to make all finance sustainable. That is the spirit in which the LSIW has been developed and a reason for its success.

## **In line with the increasing amount of EU ESG regulation, what opportunities and challenges do you identify in this sector?**

The EU legislative initiatives aim at reorienting capital flows towards sustainable finance and fostering long termism and transparency. By now we understand that Sustainable Finance is not just another type of investment. It's a complete mindset shift. This means financial market participants

**“By now we understand that Sustainable Finance is not just another type of investment. It's a complete mindset shift.”**

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need to be aware of their own positions and contributions in the development of a sustainable future through their investments. This will lead to more investment opportunities in ESG but also those identified within the framework of the SDGs. However, the industry also needs to develop tools to understand and measure the value we seek through such investments, as it is imperative that issues such as climate change and social inequalities affect investment portfolios. Financial actors who can manage these processes well will enjoy a competitive advantage. Finally, I'd like to pay tribute to my colleague, Sachin S Vankalas, LuxFLAG's General Manager, who tragically passed away in 2021 from COVID-19. Sachin was universally recognized for his expertise and pioneering leadership in responsible investment. We've lost a great champion of sustainable finance and a great human being. ■■■

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*“ The GSSS is a unique service proposed by FARAD I.M. that gives the exposure of any fund or portfolio to ESG criteria and SDGs alignment. ”*



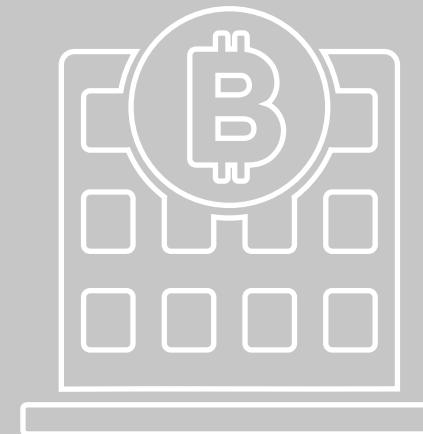
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# FINTECH

FRIDA POLLI (PYMETRICS)

# Unwinding Workplace Bias

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**Unconscious bias can unwittingly lead to unfair recruitment based on gender, ethnic or racial stereotyping. But, as Frida Polli, CEO and Co-founder of Pymetrics, explains, overcoming such typecasting can reveal valuable, innate “soft” skills that can make hiring a win-win for both the company and the recruit.**

## **Can you briefly describe both your and Pymetrics background?**

Before starting Pymetrics, I was an academic neuroscientist at Harvard and MIT for 10 years. Even my own story led me to understand that people have in-built biases when selecting folks for different roles. I went to Harvard Business School to figure out how science could be applied to what is a real-world problem. At HBS I saw recruiting problems first-hand as at the time I was in my mid-30s and a single parent - I didn't look like a tech entrepreneur. Now I am the CEO and co-founder of Pymetrics, a company that uses soft skills and unfairness-optimized artificial intelligence to make hiring both more accurate and fairer.

## **Can you tell us what Pymetrics' objectives are?**

As an academic, I was excited by the new science that improved our understanding of people. But we were frustrated that it didn't have any real-world application. We recognized that much of what was on a résumé was biased towards socio-economic indicators. Yet recruiters wanted to know more about who someone really is - their soft skills, their cognitive, social and emotional makeup - what makes them “human” or not. We worked on how fairness-optimized artificial intelligence and soft skills could identify critical aspects of hiring, mobility, reskilling and other features of the recruitment process and workforce development.

## **Can you explain how Pymetrics addressed the problem of bias?**

Human brains are unfortunately hardwired to biases, but we can build technology that doesn't need to bake them in. We introduced artificial intelligence to remove bias from the equation. That was where our science could help. Secondly, there was no data-driven analysis going on: It was all anecdotal evidence or coffee chats! To avoid those biases being mirrored in technology we had to start with a largely unbiased data set. Then we tested all our algorithms for statistical parity. The results for our clients have seen an increase in gender and ethnic diversity ranging from 10% all the way to 100%.

## **Where do you see the challenges/opportunities ahead?**

More weight needs to be given to soft skills: Your memory, your attention, your altruism – things you were born with rather than hard skills that you learned. But people should not feel that the need for diversity and inclusion is so overwhelming that they don't know where to start. There are basic things you can do. You can set goals and accountability and track your metrics with transparent processes using technology. All those things have been shown by research to improve diversity and inclusion. I think sometimes we think it has to be much more complicated. But it doesn't need to be. ■■■

**“Human brains are unfortunately hardwired to biases, but we can build technology that doesn't need to bake them in”**

Frida Polli, CEO  
and Co-founder of Pymetrics

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SUSANNE SCHATZ (SEQVOIA)

# The data challenges behind the SFDR

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**Seqvoia Chief Operating Officer Susanne Schartz identifies the challenges of compliance with the SFDR requirements: identifying and locating data is important, but understanding it is central – which for each company means defining its data universe.**

## **What kind of data do you need to inform investors about ESG strategies?**

The challenge in sharing information with investors is twofold – the data required per se, and providing an understanding of it. Understanding is central to acquiring knowledge from the data. The EU’s Sustainable Finance Disclosure Regulation initially focuses on general statements that are not backed up by data, with disclosures in companies’ prospectuses the first step. The next level of disclosures goes deeper into the product – is a product sustainable, and to what degree? If not, can you be sure that it does no harm? Finally, from July 2022, the legislation will require a new investor-oriented disclosure document that is designed to provide insight into ESG characteristics at portfolio management level, including market comparisons. In the case of ESG, understanding the data originates from defining its universe. This means identifying data points, but just as important is to understand the relationship of this data to each other and to your products. This will provide a framework of what you are seeking to deliver – if you like, a guiding light through the data jungle.

## **How does this impact each company’s data universe?**

There are no miracles – a lot of work lies ahead,

but as with any challenge, investment of time and effort will pay off. The first step is defining the data that is available – your products, any ESG-related data that you already possess, and any other data that is helpful in creating the disclosures. This requires identifying essential data points and their location, as well as essential data that is missing, and non-essential data, which can contribute to quick wins where possible. The key is defining the content from which customers will benefit and identifying its location within the data universe.

## **What risks and opportunities do you identify?**

The opportunity lies in investor interest – demand for investments that are in line with their personal choices and values, which is especially apparent with institutional investors. The transparency of financial products and their ability to help achieve sustainability goals will represent a significant advantage over competitors. Investors want these goals to be taken seriously, and in return are ready to engage as a partner. But companies ill-equipped to do this, risk falling short. It’s not enough to create an Excel spreadsheet – company data models must be recorded in a more sophisticated manner that captures data points as well as their relationships and make both transparent within the organisation. A sys-

**“ESG is not a siloed activity but intimately bound in with investment, compliance, marketing and operations.”**

Susanne Schartz, Chief Operating Officer,  
Seqvoia

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tematic data layer enables existing data such as product information to be linked to the ESG data model and existing disclosures can be added, both to save time and ensure alignment across all customer communications. As you add the new sustainability data, your data universe will grow, as will organisational understanding of where the sustainability journey is going and the opportunities it will provide. ESG is not a siloed activity but intimately bound in with investment, compliance, marketing and operations. Technology is essential to make use of cross-departmental knowledge and to enable the joint creation of solutions that are coherent and transparent to all teams. ■■■

PATRICK WOOD URIBE (UTIL)

# Impact: The Final (Inefficient) Frontier

**Util's unique methodology provides investors evidence-based sustainability data at scale. Interview with its CEO, Patrick Wood Uribe.**

## Can you describe the recent evolution of investors' behavior in regard to ESG?

I'd say it's been a perfect convergence of factors. I first became interested in responsible investing at least a decade ago, partly because the financial crisis revealed the awful consequences of irresponsible choices.

At that time, after the financial crisis, interest in ESG was already increasing, and I was among a growing number of investors who realised that financial markets were not disconnected from their lives, values, and choices. In regular consumer behaviour, people were already starting to care if the products and brands they used every day were actually reflecting their values, and we started to see this applying to finance as well.

Given these conditions, ESG would have continued to grow anyway (following that inevitable trend), but the 2020 combined two drastic elements.

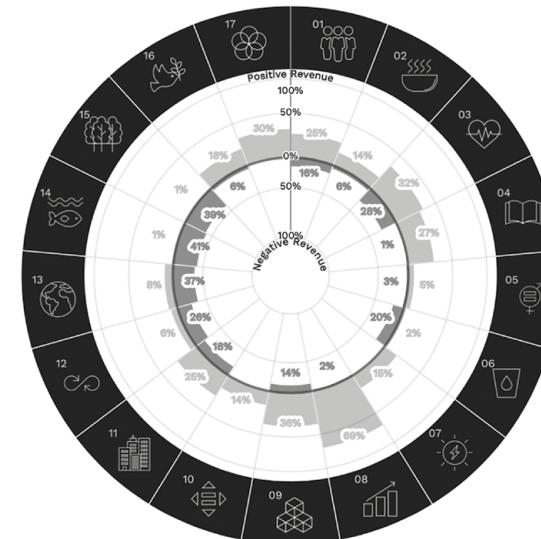
Firstly, the pandemic brought out the incredible importance of recognising our collective humanity, and with it, the idea of living our values, including through our investments. Many investors were encouraged by this impulse to move more assets into ESG. But a second element was the sudden drop in our normal oil-consuming activities like commuting and travel, and as a result almost any fund with a basic exclusion of some fossil fuels would outperform the broad market index.

That means that even very crude ESG strategies produced returns, but a closer look shows the story is more complicated. Is money flowing where it matters? Is it going into indexes that are labeled as ESG but still contain a good number of traditional oil and energy companies? Or is the money going to companies that are actually working on a measurable transition towards renewable energy? And where are the best opportunities? Is it better to invest in a giant company taking small steps, or a tiny company making the biggest strides it can? BP, for example, generates a very small fraction of its revenues from biofuels; but it's also about 100 times the size of Canadian Solar or Renewable Energy Group. Among vehicle companies, does it make sense to buy more Tesla (at an absurdly high PE ratio), or look to traditional car companies starting to add electric vehicles to their lineup? How do we choose? Or, more importantly, how do we give

every investor the information they need to find value consistent with their values?

## That is a complex situation, but what should we do about it?

These questions show both the scale of these challenges, and why it's critically important to have better data about the impact of companies. The idea is that using better data, we can guide capital towards greater impact without sacrificing anything else. This is exactly why we gather and structure our data the way we do at Util: we want to understand not only the positive impacts of companies through the products they sell, but the negative consequences that need to be recognised and managed as well. We also want to do it in a framework that is global, wide-ranging in the issues it covers, and goal-focused, so we use the UN Sustainable Development Goals to contextualise our output. A typical visualisation of Util's data looks like this:



**“ESG in its current form keeps up with investors' needs about as well as Hippocrates' four humours keep up with modern medicine...”**

Patrick Wood Uribe, CEO, Util

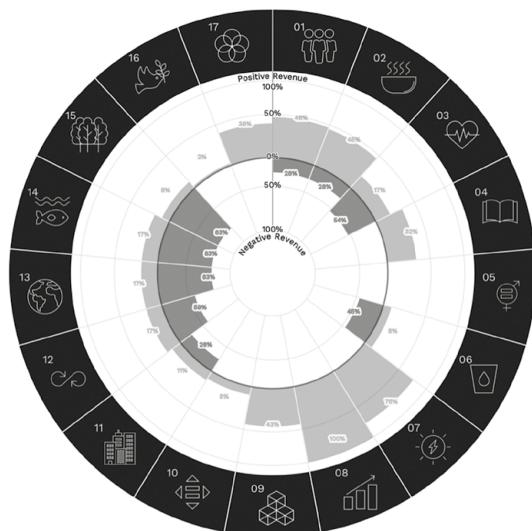
There is one segment for each of the 17 SDGs, and the dark and light grey blocks represent the percentage of revenue that aligns positively and negatively for the company, or companies in the portfolio. Some companies sell products that are positive for one SDG but negative for another, and we capture this using our percentages. (Our data goes into depth for all listed companies, and easily aggregates to the portfolio level.) The critical goal for us is to realistically capture the many impacts of products on the world, not just one dimension. It's also particularly urgent to answer these various questions because ESG is expected to grow considerably, by some accounts doubling in the next 4 years. Without good data, how will we understand and manage the real impact of investments? How will we avoid wasting capital on greenwashed products? Between two similar companies, despite quite similar profiles in terms of their business and returns, we see very different impacts on the world from their products: say both Company X and Company Y sell cleaning products, skin care, and hair care products, for instance, but Company Y also has dairy, food, and coffee businesses, adding both positive and negative impacts. Set against the SDGs, the latter has a greater positive impact on hunger and health (SDGs 2 and 3), but also more negative impacts on climate, water, and wildlife (especially SDGs 13, 6, and 15):

●●● Company X:

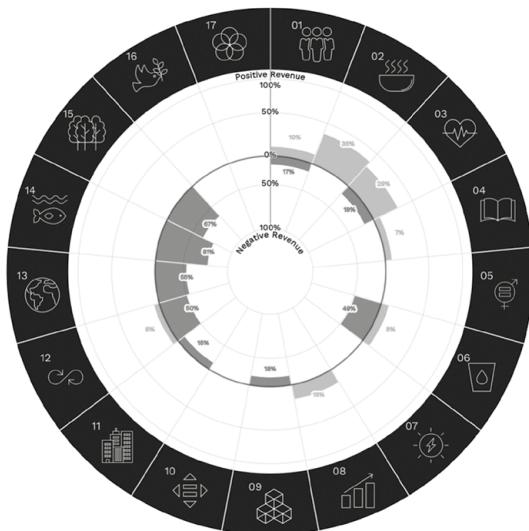


The two companies have similar return profiles, but if you care about poverty, hunger, and education, Company Y will guide your investment towards more positive impact in those areas than Company X. You get the same return, but you also get to choose the impact you want to support.

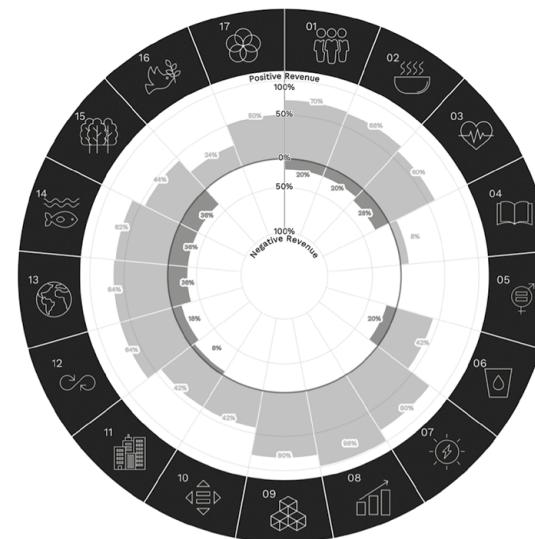
Another way we can help is looking at companies that are transforming. I'll mention one quick example, a power company. Here's what their Util impact chart looked like in 2016, when most of their business relied on traditional energy generation:



Company Y:



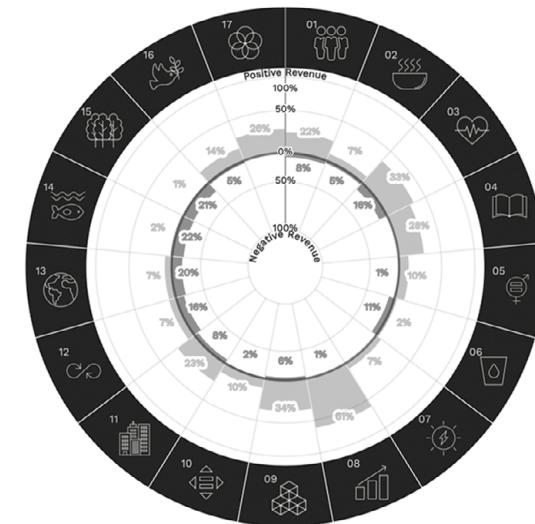
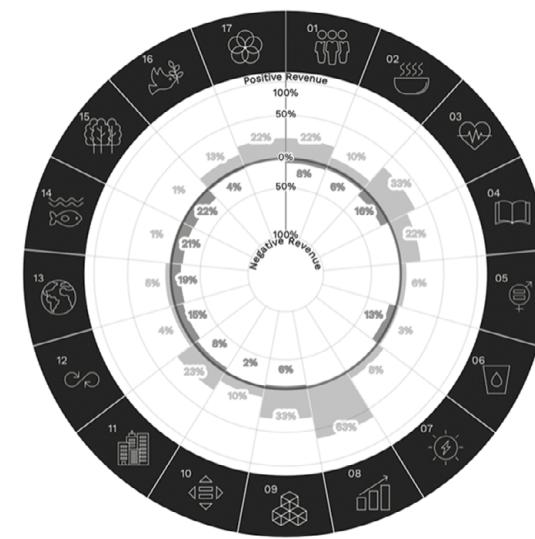
There are some positives from their growing renewable business, but there are still considerable negative impacts (dark grey) on the left of the chart. Here is how the company looks in the most recent chart, now that most of its business comes from wind and renewable power:



More positives across the board, and dramatically reduced negatives, too. And since it's a change in how the company generates its revenues, it's a transformation at the core of the business. The process of transitioning to renewable energy sources is a massive undertaking, in which it is crucial to separate vague promises from meaningful change, and our data can help.

### What about ESG funds?

There's a bewildering array of products out there. What's the difference between an ETF that's "ESG Screened" compared to "ESG Aware"? What about the difference between "ESG Screened" and "Sustainability Screened"? Why do several ETFs labelled this way contain not just one, but many obviously polluting companies? Below are two radial charts for two prominent ESG-labelled ETFs:



The key thing for both of these is that while there are light grey segments (denoting positive revenue alignment), all of the key environmental ●●●



●●● SDGs (12, 13, 14, 15, on the left side of the circle, and SDG 6 at about 4 o'clock) have more negative alignment than positive. That's important in two ways: first, it means that overall, the products sold by the companies in both of these ESG ETFs are actually doing more harm than good, today, for those SDGs. Secondly, and more crucially, it means that every year this proportion persists without transformative changes in the underlying businesses, those negatively aligned revenues will continue to accumulate – in spite of the ESG label – taking all of us further from the environmental outcomes the world needs.

#### How is ESG changing capital allocation?

We are already seeing some significant impacts on capital allocation: about a third of European funds are now labelled as ESG, and that's projected to grow to almost two-thirds by 2025. These numbers should be approached with some caution, though, since there is widespread disagreement and inconsistency in ESG data — what counts as ESG in the first place, and what relative importance each area or issue assumes.

ESG in its current form keeps up with investors' needs about as well as Hippocrates' four humours keep up with modern medicine: yes, they are indicative and sometimes helpful, but we have a long way to go. Thankfully the tide has turned, and improvements will follow.

What's important at the moment is that this dramatic increase in demand for ESG highlights an important shortcoming in traditional information: investors need new dimensions of data because financial data alone isn't enough to identify valuable opportunities and isn't the fullest representation of companies or their future potential. If I want to know Tesla's P/E ratio it takes me seconds to find

it on my phone. Finding equivalent actionable information on a company's impact could take me hours, if I ever find it at all.

The demand for ESG also represents what I believe is a fundamental, secular transformation of capital markets towards valuing companies using non-financial goals and principles on an almost equal footing with financial data. It's a drastic change, moving away from just preserving capital or maximizing gains, and is probably the most important shift for at least this generation if not the next one or two as well. The long-standing principles of capital preservation and maximising gains will no longer be the only guiding factors in capital allocation decisions. In fact, in the next few years, these non-financial metrics will change the very conception of 'shareholder value' that guides how companies are managed.

In this sense, the impacts of ESG — or more accurately the better thing that ESG will become — are far-reaching, deep, and lasting: regulation is already changing, the nature of competition (what is a successful financial product) in capital markets will change, the gravitational pull of what makes companies 'attractive' as investments will change. And of course, in the best outcome, the world will change for the better.

#### What is your foresight in new ESG compliant investment opportunities?

As regulation mandates increasing disclosure (as to how investments comply with ESG criteria), we'll see two things happening at the same time.

- The current interest and growth will continue, but with some rebalancing as the most alpha-focused investors move away from ESG to capture non-ESG performance gains.
- There will be more bumps in the road as disclo-

tures reveal the extent to which ESG criteria are strictly applied (as they are often only loosely applied today). Some funds will need to be re-categorised, some will close, and those with the best data and credentials will attract flows.

What will also happen, though, is that technology will play a more important part in allowing us to understand the nature of non-financial impact. The technology we use at Util, for instance, is designed to process more information than any team of humans could manage, so we can surface better evidence and deeper data on which investors can base their decisions. Technologies like ours will not only increase the information value of all kinds of data, but will also make sure that it can be transmitted, understood, and implemented. ■■■



NASIR ZUBAIRI (LHOFT)

# Raising the Roof for ESG Investing

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**In an ESG<sup>2</sup> Financial Square conversation, Nasir Zubairi, CEO of the LHoFT, discusses with Niccolo Polli, CEO, HSBC Luxembourg, what role fintechs can play in the development of an ESG investment environment.**

**In the context of ESG and sustainable finance, what is the role of the LHoFT and fintechs in creating a favorable investment environment?**

At LHoFT we see technology as an enabler for financial services and, increasingly, people see its value through fintechs supporting ESG and sustainable finance. With all the rules and reporting requirements for these activities, we see a green field for financial technology to enable the sector to be effective and efficient. We are already seeing the application of tokenization in the issuance of green bonds. We are also seeing their use in the creation of carbon-neutral credits for new bank accounts that are being opened at certain fintech neo banks in the US. We see a key component of the LHoFT's role and future as concentrating on the broad ecosystem as Luxembourg emphasizes ESG and sustainable finance in its growth and activity.

**Are there particular activities in which fintechs can contribute?**

The new EU regulatory requirements being put in place for ESG and green investing has created an opportunity for regtech applications. We see a number of interesting start-ups emerging to provide efficient technologies and tools to enable institutions to comply. I have already held valuable discussions with a number of financial services players. Another activity that is creating great opportunities

is in the investment fund industry where firms are seeking indexes or benchmarks to help measure the impact and effectiveness of investing in different green initiatives. For example, one company is creating metrics around the impact investments have on different equities and assets so the effects can be built into financial models to allow better understanding about the source of returns.

**What would be your message to the typical traditional firms, like banks and funds in terms of working with fintechs?**

The banks and funds can marry their economies of scale and their skill set in financial products with the agility, ingenuity and creativity of fintech start-ups. That way they can offer better solutions to their clients. When we talk about the issuance of green bonds, for example, there is hesitancy sometimes from firms. That is principally because the costs are going to be higher with all the new reporting requirements. However, nowadays you can use tokenization to help reduce the expenses of the initial part of an issue and maybe set a foundation and a framework to integrate technology for future issuance. As new tools arrive, you're going to make that product more attractive. So, I think working together and recognizing each other's strengths will ultimately lead to a better market and a better industry.

**“The banks and funds can marry their economies of scale and their skill set in financial products with the agility, ingenuity and creativity of fintech start-ups.”**

Nasir Zubairi, CEO, LHoFT

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# EDUCATION



RENÉ CARAYOL (MBE)

# ESG Mentoring - Coping with ESG Resistance

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**An executive coach to CEOs of multinational companies, René Carayol MBE, says his challenge is keeping leaders focused on ESG goals when their executive colleagues, boards of directors and shareholders question the short-term returns that ESG can deliver.**

## **Why is coaching chief executives to focus on inclusivity and ESG important to you?**

Because you never know the power of inclusion until you've been excluded, and you never quite believe that you can get into the leadership position. In my early days, I could never look up and see anyone who looked quite like me. I was lucky to have a breakthrough and realized that there are talented people who looked like me, who sounded like me and who were desperate for a role model. Coaching CEOs is a privilege, but it's a great responsibility. Through my coaching I help them not only with their leadership, I also help them with their inclusion; I help them not just to do the smart thing, but also to do the right thing.

## **What have you learned from your interaction with CEOs?**

The best people I've coached aren't afraid to make mistakes, to own up to the mistakes and to learn from mistakes. Being chief executive is a tough job because you're caring for others in your firm. You can delegate many things, but the big, ugly, horrible, tough things end up on the desk of the chief executive. The CEOs have to have someone to turn to relieve the stress of the job - or who else will care for the "carers"? That's my job: I have to be a good listener; I have to be there on Sundays when CEOs are preparing for a week from hell.

However, I also get to share in the successes, to feel part of the team and to know that they are a force for good.

## **What is the key to a company having a successful ESG journey?**

If you want to make a tangible difference, be it sustainability, climate change or inclusion, you've got to invest. The most challenging aspect is to keep leaders focused on these issues when their financial returns are being questioned by some of their executive colleagues, boards of directors or investors. ESG is not about short-term gain, it's about long-term reputation and your legacy for the business. In the early days of adopting ESG, achieving high returns can be difficult: you must think in terms not of "return on investment" but "return on inclusion." If we look at some of the real role models like Unilever, Blackrock or Goldman Sachs, they wouldn't be doing this unless there was a real return.

## **What do you see as the key challenges and opportunities over the next five years?**

ESG is relatively new and unproven. People question whether it offers better returns than investment in technology, buildings or people. But a lot of research says that ESG is the right thing to do and it's the smart thing to do. Some companies

**"The best people I've coached aren't afraid to make mistakes, to own up to the mistakes and to learn from mistakes."**

René Carayol, MBE

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are a few chapters ahead in the ESG manual and willing to share their journey: I brought Google to share what they had done with HSBC. I've also brought younger people to meet those in the c-suite. It's been extremely productive. Young people are outspoken, less deferential and promiscuous, so they're not afraid to take their loyalty elsewhere. We are going to deliver for our shareholders whilst we also deliver for the planet. The question is, "Why wouldn't you?" ■■■

JULIEN DOSSIER (QUATTROLIBRI)

# The Great Rethink

**In order to cut our emissions by 60% in Europe by 2030, a clear rethink of European governance process is needed, with accelerated procedures for the implementation of the Green New Deal says Julien Dossier, founder of Quattrolibri.**

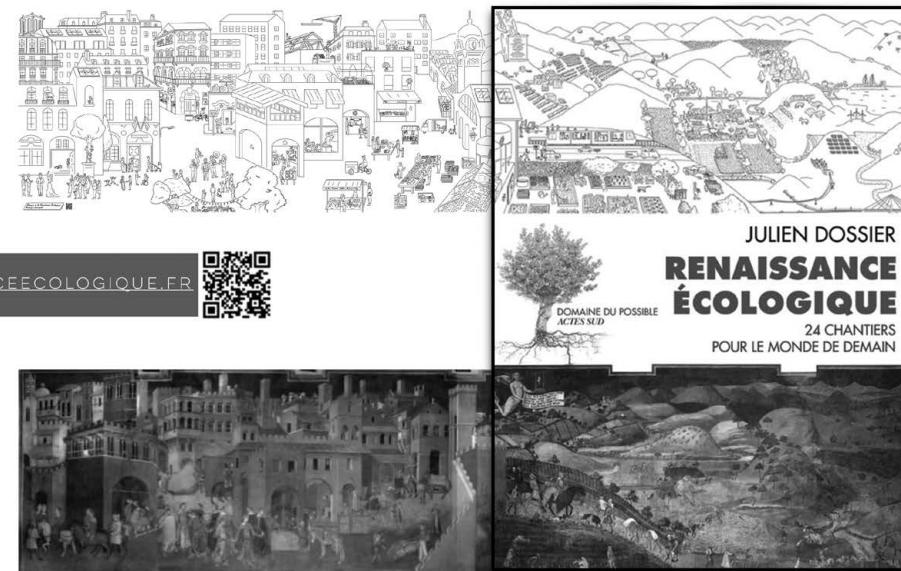
## Why is time critical in the fight against climate change?

April 1st, 2021 is no time to fool around. On that day we will only be 116 months apart from December 31st, 2030, and 356 months apart from December 31st, 2050. Let's pause for... a second: 116 months is the timeframe we have in order to cut our emissions by 60% in Europe (target voted by the European Parliament), or a "mere" 55% if we use the Commission's target.

That means renovating 60% of our stock of houses, retrofitting or removing 60% of the cars from the roads, reducing by 60% the meat we consume daily... Just for starters. These are only the most "visible" targets, to which we must add the provision of materials, transformation of factories, training of staff, planting of seedlings, restoration of ecosystems, upheaval of our legal and normative environments. We must ensure the decar-

bonated solutions can be covered by insurance, therefore update the insurance models with the properties of these solutions, which require completing and updating safety procedures such as the new materials' wear and tear or fire resistance testing (we don't want another cladding scandal). If we have to change the law, to adjust the rules to the needs of this transition process, time hits again as a major constraint. The legislative process now starts with the drafting of texts debated by the European parliament, before its transposition in the national legal systems. Boom, that's 36 months gone, to the very least. How can we shoe-horn such lengthy procedures in a 116 month window of opportunity? Here's a case in point: France has committed to 55% cuts at the European level in 2020. However, this target isn't yet integrated in the current #climateResilience law debated by the French parliament in 2021, which would shift the re-writing (and upgraded ambition) of the law to the next legislature, with a best case scenario delivering the revised law in mid-2023, hence a 24 months shift in a 116 month process. This clearly points to the need for a renewed European governance process, with accelerated procedures for the implementation of the Green New Deal (and its massively increased size, to match the Chinese or American investments).

The challenge is not only huge, it's getting worse and less feasible as time goes by. If so much re-



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mains to be done in such a short period of time, we will need to have our factories belching out as much as they can, in order to deliver the replacement infrastructure, which adds further pressure on the decarbonation of our energy mix, in order to avoid worsening our climate contribution, while we're trying to reduce our emissions. This ends up representing switching the carbon economy off, as if we were switching off the lights. Our system can't take in such a violent "cliff fall". This is why the ECB is founded in describing the systemic risk of climate change in the paper published on March 18th, 2021 by the ECB's VP, Luis de Guindos<sup>1</sup>.

## HOWEVER : "All is not lost, yet".

We still have a minute window of opportunity to still operate a coordinated process, short of the

"cliff fall" eventuality, IF we take it as a massive sprint, with no caveats, wavers, lighter clauses, IF we don't allow ourselves to be slowed down by any "prisoner dilemma" or "freerider" qualms, IF we boldly decide to shift, with a coordinated timetable. A lot to ask?

As Greta Thunberg puts it, we must treat the crisis for what it is, and act accordingly. Don't fret at the mention of Greta's name. She's merely stating what one can read in the IPCC's 1,5°C special report, published in 2018, which can be summarized in three sentences: "each half degree matters; each year matters; each choice matters". Managing against time must therefore become our standard project management and risk/return norm. Will this project deliver on time ●●●



●●● or not? If yes, then we must adjust our risk weighting to incentivize its prompt delivery. Why not weigh the rates of return based on the timeliness of the carbon cuts? Should there be “transfer rates” affixed to the EU taxonomy, whereby returns in the brown / black sectors would be capped / taxed / transferred to a green fund, and allocated to green projects based on the time-weighted carbon cuts?

If a project can't deliver the cuts in time, then we analyse its merits against the 2050 target, and adjust our priorities.

The joint management of two-time targets, 2030 and 2050 is another subtlety of the time-based management of the transition. A project may be discarded for the 2030 target, but relevant for the 2050 target. Typically, this applies to diversified forests. However, a project may become obsolete or may be discarded if it ends up mismatched with both time targets: too late for 2030, and no longer relevant for 2050 because the project will have been replaced by shorter term alternatives.

This timing misfit risk specifically applies to nuclear energy. We're no longer in the situation of the early noughties, when we were questioning the relevance of launching new nuclear reactors, the time of Hinkley Point and Sizewell for instance in Great Britain or the time of Flamanville in France. Given the length of time induced by the ever more complex security features applied to the nuclear industry, time has run short and new nuclear reactors would miss the 2030 target if we were to start them now. This raises the question of their continued relevance beyond 2030: will they still be the technology of choice to decarbonate what

## “Managing against time must therefore become our standard project management and risk/return norm.”

Julien Dossier, founder, Quattrolibri

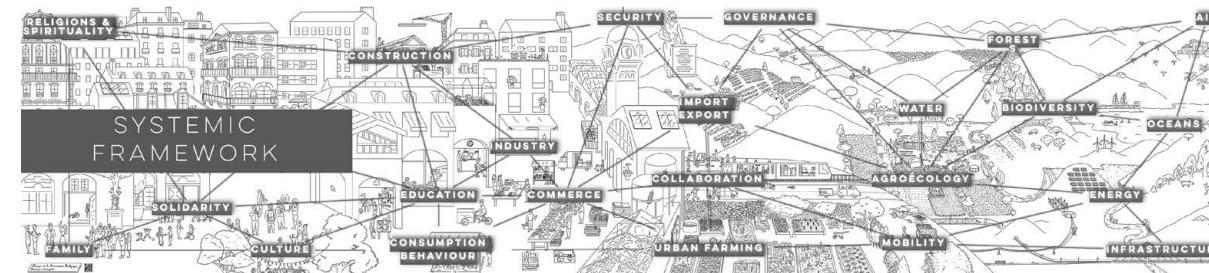
will remain to be decarbonated? If we stick to the 2030 objective, we will have cut our emissions by 55% If not by 60%. We will therefore have cut the emissions of the lower hanging fruits, both the usage driven changes (cutting meat in our diets) and the large-scale emitters, highly intensive in energy. Which technologies will we need to cut the remaining 45% or 40%, the harder bits?

The taxonomy should be further refined, with a time element: at what stage is this technology green / brown / black, how long does it need to be rolled out at scale? Only then, could we decide where to allocate our funds. We risk otherwise a misallocation of our (scarce) resources, underinvesting in what can be delivered in time, overinvesting in what may work, but too late.

### Talk to us about the Fresco concept you have developed and why it's important?

The fresco of Renaissance Ecologique is my personal interpretation of a fresco painted by Lorenzetti in Siena in 1338, the allegory of the effects of the good government, which I discovered by chance while researching a lecture to HEC students on sustainable cities.

I wanted to prove a point on the importance of our representations, pointing at the paucity of our



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representations of a “green city” (experience this and type “green city” or “sustainable city” in an Internet search). I wanted to show that our misrepresentation of the subject induces a misallocation of our efforts and time: our minds are “colonised” by these images and we can't think of anything else. We therefore continue to talk about hyper-loops, automated cars, new green buildings (often in concrete, covered by PV panels and or wind turbines), large swaths of green grass. But no history, landmarks, people, production centres, food provision, heat, material sources...

I wanted to show that this misrepresentation of an “ideal city” isn't new, and looked for photographs of Urbino's “Cite ideale”. That's where Lorenzetti came up, among the vignettes. It immediately struck home. At last, a vision of the city that was balanced between a built environment and a natural environment, linking both in a symbiosis. At last a vision where humans and nature were inter-

acting productively. At last a vision of a diversified set of walks of life, jobs, ages, wealth levels. At last a vision that could be read both for the bigger cities and the smaller ones. The more time I spent analysing the fresco from the Renaissance, the more I felt it was perfectly matched to the challenges of our modern times.

That's when I decided to produce a modern version, and commissioned an artist, Johann Bertrand d'Hy, who first used tracing paper on a print of the original allegory to recreate the proportions and composition of the original. I then drew up a table of equivalence providing a modern version of each of the functions depicted in the fresco, a sort of “Rosetta stone”, which guided the artist's rendition.

This fresco is proving more important as time goes by. It has been used with countless groups, in France, in Europe, in New York City, in New ●●●



●●● Zealand or even in Benin! Each time, the allegorical nature of the fresco works: everywhere, participants could say “oh, this is my place”, “this is me”, “this is where I live”, “This is what I do”. This inclusion is fundamental: once you find your place in this representation, it becomes relevant to your story, in its entirety. You can swiftly adjust your real-life representations of the functions depicted in the fresco. You’re hooked!

Then, the fresco serves as a systemic matrix, which allows to represent a very wide range of interactions across the main themes, pillars of the transition (I’ve identified 24 key zones in the fresco). This helps connect the 17 sustainable development goals of the UN, adding here the additional benefit of identifying ways of “hitting several birds with one stone”: one can more easily mutualise efforts in hitting SDG 1 and 4 or 7 or 17... And the composition of the fresco helps us memorise the various dimensions of the SDG. I challenge anyone to memorise the full list of the 17 SDG. But you will find that you will have memorised the composition of the image with ease, and that this image will help you map the issues.

Today, the fresco is being deployed in schools, in companies, in local governments (led by various coalitions / political parties), by philanthropists, climate activists, by researchers, specialists in the mobility, construction, agroforestry, agriculture, circular economy and other major themes of the transition...

The fresco is even being used to map the 2050 strategy for the Grand Duchy of Luxembourg, as Quattrolibri is part of the team led by AREP, one of the laureates of the Luxembourg in Transition programme. The fresco serves both our expert team

as a strategy design tool and the general public, as a support of communication and engagement. It’s been particularly useful in the exchanges between the expert teams and the members of the Bierger Kommitee, leading to projections of daily life changes which were considered both radical AND within reach. [https://twitter.com/lux\\_transition/status/1456199683274121218](https://twitter.com/lux_transition/status/1456199683274121218)

The fresco connects and empowers people. It doesn’t hurt, especially in these dark COVID times, that the fresco is often seen as a source of serenity, if not joy. The aesthetics prove important in moving viewers, galvanising their energies and strengthening their beliefs that this transition can be with our reach, that we can relate to it, we can get started.

If used at scale, then the fresco can further help by providing a joint timescale for those using it. It is simple enough to be shipped to all classrooms across Europe, all city halls, all boardrooms... and therefore provide a joint vision, which will mean different things to different players, but will lead to compatible actions, compatible methodologies, compatible timetables.

The composition of the fresco is a tiered agenda. The bottom layer describes projects which can be implemented in less than a year: simple, no special requirements, they just require our willpower, they modify the demand side of our economy: how much meat we eat, how frequently we buy clothes, whether parts of what we buy is reused or upcycled, whether we collect and compost our organic waste...

These projects pave the way for more structural

projects, which we can roll out in less than five years: solar roofs, conversion to organic farming, retrofitting of a car, opening zero waste shops, earning a degree, changing the lamps in the city... Finally, the conjunction of a vibrant demand and a thriving production infrastructure puts us on the right trajectory to meet the more structural transformation programmes in a five to ten year horizon: planting forests, reducing farming’s water consumption, regeneration of ecosystems, adaptation of our legal system, of our factories and industrial sites, renovation of our stock of buildings... Evidently, planting forests, changing our value system or our international relationships -all implied by this endeavour- will not be solved in a ten year horizon, and we must understand the upper part of the fresco as our horizon -which it literally is, in visual terms!

This is what leads me to speak in months and days. With the fresco, one sees the steps that connect our starting point with the interim and further time targets.

In short, could a simple image, derived from a 700-year-old Italian fresco turn out to be an open guidebook for our mega-meta project of transition? Based on the string of successful deployments across such a diverse range of use cases, I happen to think it could. ■■■

1. <https://www.ecb.europa.eu/press/blog/date/2021/html/ecb.blog210318~3bbc68ffc5.en.html>



DR. ROMAN KRÄUSSL (UNIVERSITY OF LUXEMBOURG)

## Ground-breaking ESG investing research

**Investment greenwashing and how questions of gender affect business sustainability, just two of the ongoing research topics by Dr. Roman Kräussl, Professor of Finance at the University of Luxembourg. Here he explains how his academic work should result in tangible benefits for people, profits and the planet.**

### **Please introduce yourself and explain your commitment to ESG**

I am Roman Kräussl, Visiting Fellow at the Hoover Institution at Stanford University and Professor of Finance at the University of Luxembourg. My research focus is Alternative Investments. In recent years I researched extensively “The True Value of Art”, work which resulted in numerous publications. One of these, entitled “Gendered Prices”, provides evidence that culture, specifically gender culture, is a source of pricing bias. Using a sample of 1.9 million auction transactions from 1970 to 2016 in 49 countries for 69,189 individual artists, I document that auction prices for paintings by female artists are significantly lower than prices for paintings by male artists. I also found that the gender discount in auction prices is

generally higher in countries with greater gender inequality. This study was in a way my reconnection to ESG.

### **What do you mean by “reconnection to ESG”?**

25 years ago, when I started my PhD studies, I worked on sustainable economic development. Since it was brought to broad public attention at the UNCED Conference in Rio de Janeiro in 1992, the concept of sustainability had developed into a new socio-economic paradigm. However, all too often it was not much more than a mere buzzword. For the Kyoto 1997 meetings, I analyzed the existing models of emissions trading and identified minimum conditions for sustainable development. I’ve co-developed a macro-econometric model, which included the measurement of energy and material consumption, and this was well suited for indicating the link between economic development and environmental impact. I found that there was a trade-off between economic growth and employment, on the one hand, and environmental concerns on the other hand. Nevertheless, sustainable compromises were possible. So it was hugely frustrating when in subsequent years, the topic of sustainable economics was only talked about, but resulting in scant action.

### **What is your current research focused on?**

My current research on ESG focuses on two topics:

Greenwashing and Gender. As regards gender research, previous studies have found that having multiple women on a board of directors translates into better financial performance due to greater creativity and better decision-making. I fully agree with these findings, but think they are too narrowly focused. In my ESG-related gender research, I would like to dig deeper and analyze more than just female representation in senior leadership positions. Thus, I am going to investigate additional performance metrics and their impact on the financial performance of a company. These metrics are: (1) attraction, e.g., the percentage of women employees among new hires and in the total workforce; (2) retention, such as the percentage difference in average employment years for female and male employees; and (3) promotion, including the percentage of women in senior management roles. I hope to have a first working paper completed in 2021.

### **How will you address greenwashing in your research?**

My goal is that my research will help facilitate greater transparency in the sustainable finance market, which can bridge the gap between artificial and genuine concern for the environment. We truly need a better understanding of the available data. It is not sufficient to look only at the highest ESG ratings and declare a company “good”. Academic research can play here an important role as a sort of impartial check and balance to the economic system. We have to understand that many of these ESG ratings rely on self-reported data, and do not even try to fully understand and capture controversies. It is very tempting for companies to report great stuff. In the mid-1980s, for example, Chevron ran the now-infamous “The People Do” campaign on TV, while actively violating the Clean Air and Water Acts. Today, many customers ask whether Tesla, for instance, is

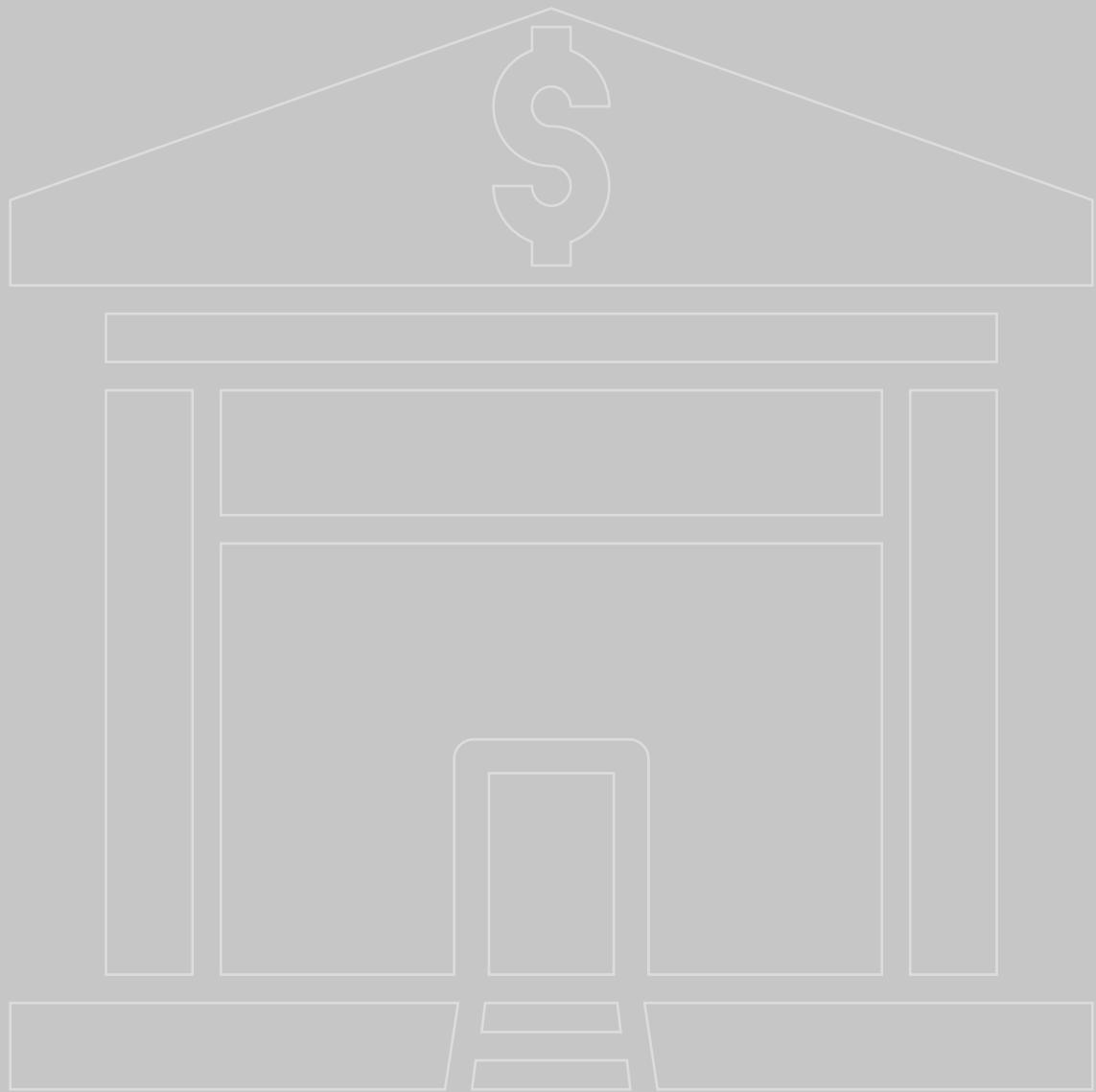
**“Luxembourg is on the right track with its focus on ESG, sustainability and green finance.”**

Dr. Roman Kräussl, Professor of Finance at the University of Luxembourg

really green? The government and regulators will try to regulate this away and ensure level playing field, but this could take years (even with SFDR) and we need to move fast. So I think academia has a really important role to play in “calling it out”, talking about the elephant in the room and not letting companies get away with greenwashing.

### **ESG & Me in 5 years?**

I am very happy to see that Luxembourg is on the right track with its focus on ESG, sustainability and green finance. Recent initiatives such as Luxembourg Sustainable Finance Initiative (LSFI) all point in the right direction. Educating the future workforce is important, and we’ve recently started at our University a new track on Sustainable Finance within our Master’s programs. I am confident that our ongoing research will deliver interesting results, not just by analyzing standard data sources such as ESG ratings by MSCI, but by also making use of non-public data sets such as UTIL, which do not rely on self-reported, potentially greenwashed data. My goal is to keep up my strong research ties with Stanford University and deliver further interesting academic papers. At the same time, I would like to develop a dynamic ESG investment tool. Using this, an individual or institutional investor could pick their ideal green-asset allocation, depending on how much E or S or G to support, while keeping the risk and return characteristics of the investment in mind. ■■■



# FINANCIAL SERVICES



NICCOLO POLLI (HSBC LUXEMBOURG)

# ESG Financial Square initiative

HSBC Group has announced its ambitious plan to help build a net zero global economy, and committed financing and investment to help create a sustainable future for businesses and society. Our climate plan has three elements:

- Achieve net zero in HSBC's operations and supply chain by 2030 or sooner;
- Dedicate \$750bn - \$1trn of finance and investment by 2030 to help customers transition;
- Unlock next-generation climate solutions

Additionally, last year, the Group was named the World's Best Bank for Sustainable Finance by Euromoney for the second consecutive time and this year HSBC has committed to phase out the financing of coal by 2030 for EU and OECD countries and by 2040 for the rest of the World.

Locally in Luxembourg, the bank has set itself analogous goals and trained a team of ESG Ambassadors to help achieve these. The bank is also sponsoring the "ESG Financial Square" initiative which aims to be a one-stop guide to the World of ESG and sustainability in Luxembourg, increasing awareness on this important topic. Niccolo Polli, CEO HSBC Luxembourg, tells us more.

I felt a responsibility as both a parent and a CEO of a bank to ensure we "build back greener" and not simply revert to previous habits by default.

## What motivated you to sponsor the "ESG Financial Square" initiative?

I have three young children and during lockdown last year, I became their sports teacher. We would

go out for long bike rides around Luxembourg and it brought us much closer to nature. It was incredible to see, feel and hear how nature flourished the instant humanity took a collective pause.

It was then that I realised that we can do this: collectively we can stem climate change and really make a difference. I also realised it will not be easy to sustain this level of impact once the impetus of COVID is removed. Speaking with colleagues, many had similar moments of awakening and a shared ambition emerged within our management team to really make a difference.

We agreed to act on several levels: increase awareness of the issues and the solutions; make specific commitments for HSBC Luxembourg; develop and deploy client solutions to help them transition to a net-zero carbon future; track progress. Sponsoring ESG Square fits into the category of raising awareness of the issues, actors and solutions.

Climate change is going to be a defining topic in the decades to come and we will be remembered for our actions, or indeed inactions, to help mitigate the impact.

## What can people expect from this initiative?

There is so much happening in the world of sustainable finance and ESG that it's not always easy to keep up and understand what is going on and what really matters.

This is where ESG Square comes into play, by aiming to be a one-stop guide to the World of ESG and sustainability in Luxembourg; providing structure,

removing the noise and focussing on the key issues and developments that matter. ESG Square looks at the key players and will provide relevant content on:

- Who is doing what and how does it fit into the Luxembourg ecosystem
- Which commitments have been made by whom
- New initiatives on the horizon
- Real world solutions that people or companies can consider
- Thought-provoking analysis and opinion pieces

## What is HSBC Luxembourg committing to?

I feel a responsibility both as a parent and a CEO of a bank to ensure we "build back better" and not simply revert to previous habits by default. As an individual, I have calculated my own carbon footprint and committed to take actions to reduce it. As CEO locally, I am in a privileged position to amplify my impact by integrating ESG considerations into all facets of our business, including capital allocation decisions to favour more carbon neutral activities.

As a management team, we agreed to work on three levels:

**Footprint:** reduce HSBC's carbon footprint (including suppliers) to net zero by 2030 and encourage employees to know their own footprint and make commitments to reduce it as well

**Clients:** provide solutions for corporate customers wanting to transition away from carbon intensive activities, and individual clients wishing to align their investments with the impact they want to achieve. We have not yet established hard targets, but plan on doing so later this year

**Education:** increase awareness not only of the issues, but also the solutions, through regular training, analysis, communication and best practice sharing.

**"I felt a responsibility as both a parent and a CEO of a bank to ensure we "build back greener" and not simply revert to previous habits by default."**

Niccolo Polli, CEO, HSBC Luxembourg

## What is your key message for our readers?

First, that being sustainable is good business. Doing things sustainably and considering the environmental impact is not in opposition to running a commercially viable business. To the contrary, it is becoming mainstream and in many cases the more profitable option:

- HSBC's Navigator survey\* shows that 86% of companies expect their sales to grow over the next year from a greater focus on sustainability
- The S&P 500 ESG index has outperformed the S&P 500 index over the last 3 years
- Many companies that have invested in a sustained manner over time in greener alternatives (e.g. Iberdrola or Tesla), have outperformed peers with less sustainable profiles;
- Global sustainable funds recorded c\$50bn of inflows during Q1 2020 while the broader market saw c\$390bn of outflows

Second, that together we can succeed. We need to work collectively in a positive manner and just get on with it, for our children, our well-being, our employees and our shareholders. So I hope many of your readers will join us in the metaphorical "ESG Square" and share their stories and their solutions; be informed and inform; be inspired and inspire. Together we will succeed. ■■■



XAVIER BARATON (HSBC ASSET MANAGEMENT)

# Green Bonds Bound for the Future

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**Following the success of the first HSBC Real Economy Green Investment Opportunity (REGIO) Global Emerging Market (GEM) bond fund, Xavier Baraton, Global Chief Investment Officer at HSBC Asset Management, assesses why green bond investment opportunities, particularly in emerging markets, are good not only for investors but also for our Planet.**

**Can you describe the REGIO fund in a few words?**

Recent COP26 has reconfirmed Emerging markets urgent need to attract investment to mitigate the potentially devastating impacts of climate change. These markets are more likely to suffer the cost and consequences of climate change while, at the same time, being less able to self-finance solutions. Launched in conjunction with IFC (International Finance Corporation), REGIO has been designed to enhance financial flows for sustainable

development in the markets that are most challenged by climate change. It is also an opportunity for institutional investors to align financial return objectives with real economy impact to deliver against the UN's Sustainable Development Goals (SDGs) and the terms of the Paris Climate Agreement. The fund invests in a diversified portfolio that comprises emerging market green bonds issued by corporate issuers, on a buy-and-maintain basis. All green bond issuers selected in REGIO's portfolio commit to spending the bond proceeds wholly on environmental projects, according to the Green Bond Principles from International Capital Markets Association (ICMA). Therefore, investing in green bonds is a good way to support expenditure on pollution emission reduction, technical innovation and resiliency against climate change. Such funds offer investors the prospect of long-term, sustainable returns while delivering a real economic impact in lower Gross National Income (GNI) countries. However, by buying into REGIO fund, investors are exposed to less liquid bonds and have to remain invested for a certain number of years.

**Following the closing of the first REGIO fund, what are the main results/take-aways?**

At its launch in March 2020 the HSBC Real Economy

Green Investment Opportunity GEM Bond Fund secured commitments of \$592 million. REGIO was a "pathfinder" - leading the way to increased access to climate finance as well as helping to further develop the market for green bonds. By tapping into the growing appetite for emerging market green bond funds REGIO has pioneered access to competitive risk-adjusted emerging market debt (EMD) returns, while also creating opportunities to meet environmental, social and governance (ESG) and climate change objectives. We foresee this as a model for green investments offering long-term sustainable returns that primes the market for the issuance of green bonds. A fund like this can enhance the sustainable economic prospects of GNI countries while simultaneously helping them and investors achieve Paris Climate Agreement and SDG objectives.

**How do you see this asset class evolving in the coming years?**

Although the corporate global emerging market green bond market is still young, we expect it to grow substantially in the coming decade. By supporting and building the market for green and sustainable emerging market corporate debt, HSBC Asset Management can also promote and develop sustainable financing and investment in emerging markets and in specific regions (e.g. Asia). We ex-

**"Such funds offer investors the prospect of long-term, sustainable returns while delivering a real economic impact in lower Gross National Income (GNI) countries."**

Xavier Baraton, Global Chief Investment Officer,  
Fixed Income, Private Debt & Alternatives,  
HSBC Asset Management

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pect a rise in green bonds supply led by multilaterals, sovereigns and corporates. Our confidence that green bonds supply will rise has been encouraged by the EU first green bond issues expected to account for up to 30% of the funding of its €750 billion Next Generation recovery fund between 2021 and 2026. We may also see an increase in developing world sovereign supply after Egypt issued the first sovereign green bond for the Middle East and North Africa in October 2020. The prospects for REGIO funds have been much enhanced against the background of a much more positive global approach to action on climate change than we have seen for a long time. And it is not only the prospect of a positive environmental impact; we think green bonds can outperform non-green bonds in credit terms too. ■■■



MARINE DE BAZELAIRE (HSBC)

# Financing Biodiversity – Investing for Good

**In the race to reduce carbon emissions to net-zero, Marine de Bazelaire, Group Advisor on Natural Capital, HSBC, conveys a timely reminder that mobilizing private finance to preserve biodiversity can be both a business opportunity and the natural foundation for building and achieving long-term sustainability.**

## **Why do you see financing biodiversity as the next frontier for the banking sector?**

The rate of biodiversity loss is an immense challenge. The numbers tell the story: The World Economic Forum estimates that half the world's GDP - \$44 trillion - is dependent on nature. The EU estimates that from 1997 to 2011 annual losses in ecosystems ranged from €3.5 trillion to €18.5 trillion. Our future prosperity is exposed to biodiversity loss. The cost of inaction poses huge risks of reduced crop yields, loss of sources of medicines and reduced fish catches. But the interdependencies and complexity of the issues mean the damage is unevenly priced, leading to unprecedented costs. An example? Look at artificial pollination, in the

US only, farmers paid \$400 million for commercial pollination services in 2019, and those new practices are rising in different parts of the world.

## **How do you address those risks?**

HSBC's approach is to see natural capital risks and opportunities as our sector's next frontier. Since 2004 HSBC has been developing policies to manage the risks its financing may have on the environment. Our first sustainability risk policies were dedicated to forests and forest products. The policies' aims are to avoid deforestation and to protect sites, like Ramsar - wetland zones - with dedicated policies for agricultural commodities like palm oil and soy. Do we adequately assess the risks along the value chain? No, data, frameworks and metrics are missing. Asset Management has published in 2020 its policy engagement on biodiversity. Still, more needs to be done across the financial system as a whole to understand and address biodiversity risk. Collective actions such as the TNFD, the Taskforce on Nature related Financial Disclosure we are a member of, are key.

## **How can private finance and investment in biodiversity be mobilized?**

At HSBC we believe there are opportunities to finance "natural capital" and the ecosystem services it provides. Natural capital has always been a fuel for human economic growth. In October 2020 we an-

nounced our ambition to align our operations, supply chain, and financing activities to the net zero, in line with the goals of the Paris Agreement. We recognise that achieving net zero, while safeguarding economic growth, goes hand in hand with halting and reversing nature loss. Our plan to achieve this includes supporting our customers in their decarbonization and unlocking new climate solutions including natural capital investing and financing. For example, HSBC has announced the creation of real asset nature-based solutions (NBS) and carbon offset funds. Nature is, of course, the first carbon sink, but given its rate of depletion, nature needs investment to continue to play this role. Other initiatives include supporting customers in assessing their dependence on natural capital and establishing a vision to stop deforestation and overfishing to protect biodiversity. Positively, these can lead to numerous investments, finance and advisory opportunities on sustainable supply chains. We also have clients whose natural capital assets are undervalued for whom understanding biodiversity loss and carbon markets can drive enhancement. There are ways to improve our resilience and well-being using nature-based solutions: like mangroves improving cost-competitive infrastructure to protect offshore wind farms, or HSBC Australia purchasing coral reefs to support coastal farmers' shift to chemical-free practices. Combining these initiatives with biodiversity data could allow us to build financial products to support biodiversity restoration or preservation.

## **What needs to be done to increase biodiversity financing?**

There is no single fix, but a combination of education, regulation and data is key. There needs to be education throughout the economy, among our employees, clients, regulators and consumers.

**“We support conservation including the aim of enhancing the evidence base for research and decisions relating to biodiversity.”**

The Equator Principles 2020

These things can be achieved through leadership fora like the World Economic Forum's Alliance of CEO Climate Leaders, as well as through thought leadership and collective action. Our Research team regularly releases papers and holds webinars around those issues for our clients. Our Center of Sustainable Finance is also supporting research: we have released a white paper on building a voluntary carbon offsets market mainly for NBS, adding to the efforts of the taskforce on scaling voluntary carbon markets. We foresee that voluntary action will not drive the change that we need in terms of halting biodiversity loss. Broader government and regulatory policies are needed to correct institutional failures. It is key to accelerate the preservation and restoration of natural capital. Data and methodologies will be crucial tools. Philanthropic funding can also be key to help develop Nature Based Solutions at scale. That is what we are aiming for with the NBS Accelerator of our Climate Solutions Partnership, a 5 year philanthropic programme we have launched with WWF and WRI. We have a role as financial institutions to encourage clients to commit to net-zero, as well as to assess their dependence on natural capital. For us to reallocate capital toward an economy aligned with planet boundaries, we need our clients to disclose their related impact and dependencies, assess its relative materiality for their business model and set themselves targets for improvement. ■■■



MARCO CALDANA (FARAD GROUP)

# From investment to impact

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**Marco Caldana, founder and chairman of the FARAD Group, a diversified financial services platform for institutional clients, says a new era is dawning in which financial results are not the only benchmark by which clients value the group's services.**

## **How would you sum up the FARAD Group?**

The FARAD Group is an independent group of companies founded in Luxembourg in 2001, with a main focus on sustainable insurance and financial services. Over the past 20 years we have developed a comprehensive and competitive business-to-business and business-to-business-to consumer approach with specialised white label and regulatory hosted solutions. FARAD is a unique mix of multiple entrepreneurial projects that seek to combine Italian creativity with the Cartesian and Calvinist philosophies embodied in Luxembourg's multicultural environment. We enjoy universal recognition for being in the forefront of respect, development and promotion of environmental, social responsibility and corporate governance standards.

## **What is the importance of ESG within your organisations and for you in particular?**

We are a benefit corporation, which commits us to investing 5% of our profit in charity projects, having become a pioneer in the field and achieving B-Corp certification in 2017. We reject the idea of describing ESG as a "no-plastic policy" since we have never used plastic in our office from the beginning. ESG and impact finance have been in our DNA from the outset, and we have always sought to turn our beliefs into practice. We have been continuously developing new ESG projects and

services under the GreenEthica brand. In 2016 we launched the GreenEthica fund database, which from 2018 has provided analysis on Sustainable Development Goals impact, and in the past two years we have developed the GreenEthica ESG/SDG scoring service, which enables our clients to analyse their portfolio and delivers a report on the impact of their investments. In 2017 we launched a first unit-linked product with a sustainable portfolio of assets and the BestSRI SICAV, a UCITS fund of funds showcasing our capabilities in sustainable portfolio management. I am convinced we are entering a new era in which financial results are not the only benchmark by which clients value our services. They increasingly focus on the how their money is invested and the impact on society. This was my dream 20 years ago when I launched my first company – not just to make money but to create a positive impact all round.

## **What opportunities and challenges do you see for the FARAD Group over the next five years?**

We have the useful driver of the 2030 Sustainable Development Goals, which can provide a blueprint for the future. From my side, I see two main opportunities in the next five to 10 years in which I would like to see my group act as a primary mover, the evolution of the circular economy, and renewable energy storage – two key ESG fields that represent the next industrial revolution. They may

**“We are a benefit corporation, which commits us to investing 5% of our profit in charity projects.”**

Marco Caldana, founder and chairman of the FARAD Group

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seem a long way from the purely financial industry, but I believe they are closely linked together, because the financial industry has the obligation to support these projects. We cannot imagine a future without major changes in our attitude. Consumerism, as a social and economic philosophy that encourages the acquisition of goods and services in ever-increasing amounts, is dead. The challenge is to drive clients to this new approach and find a clear way in which to achieve financial and non-financial goals together. ■■■



XAVIER DESMADRYL (HSBC ASSET MANAGEMENT)

# ESG and AI Converge to Help Fill in the Blanks

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**Xavier Desmadryl, Global Head of ESG Research, at HSBC Asset Management considers the growing appeal of ESG investing that has, fortuitously, coincided with the increasing capabilities of artificial intelligence (AI). However, they caution that AI does not herald the end of human participation in investment decisions.**

## **Impact of the rise of ESG awareness and AI on asset management**

Concerns over risks to biodiversity, climate change and numerous other Environmental, Social and Governance (ESG) issues surfaced largely in the wake of the 1992 Rio Earth Summit and got a boost with the Covid-19 pandemic crisis. These have triggered the need for finding some relevant information related to these topics which unfortunately happens to be as scarce as it is heterogeneous. Mining such information is therefore a complex process which can be greatly helped by the waft of emerging technologies collectively known as Artificial Intelligence (AI).

## **What is the biggest contribution AI can make to investment decisions?**

AI will enable faster, more accurate and financially relevant investment decisions. Hopefully, the resulting new ESG datasets will help forming a better and more holistic understanding of the company's investment cases. This process will be largely automated and this will allow portfolio managers, analysts and research teams to focus on higher value-added activities. But human involvement in ESG analysis will continue...and will actually start with the design of supporting research algorithms which will have to be crafted by human intelligence anyway. This nicely illustrates the fact that at HSBC Asset

Management we believe that machines should not be left to their own devices. Automated processes require the guidance and oversight of people in order to prove genuinely efficient and not misleading. Notions of harmony, balance and efficiency must be reconciled between the (still unmatched) capacities of humans and the power of machines.

## **What part does AI play in these trends?**

As a means for assembling volumes of data automatically, AI has benefitted from the increasing speed, processing power and storage capacity of computers. Output is bespoke because AI detects and reports issues, whether positive or negative, relating to pre-defined factors. A sub-set of AI, machine learning (ML), allows computers to classify data, solve problems, uncover and predict patterns without being explicitly programmed to do so. AI in asset management is really taking off. Algorithms allow the collection or building of missing information, like data on poorly-recorded companies. For example, the algorithms used to process images are very useful for making financial predictions, as the problem of restoring missing pixels in an image is similar to the challenge of "predicting" future changes in financial markets. ML detects market anomalies and analyses random datasets. These can establish causal relations and thus forecast financial market changes. ■■■

**“We also continue to consider the notions of harmony, balance and efficiency which must be reconciled between the (still unmatched) capacities of humans and the power of machines.”**

Xavier Desmadryl, Global Head of ESG Research,  
at HSBC Asset Management

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DR NATHALIE FLURY & DR MICHAEL SCHRÖTER (HSBC ASSET MANAGEMENT)

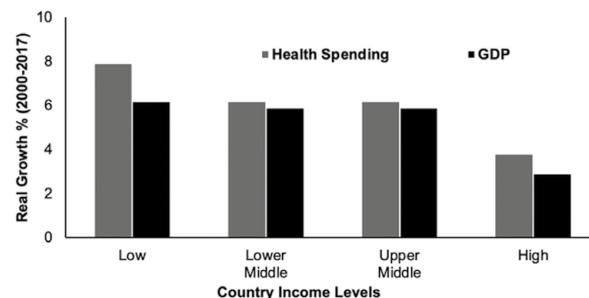
# Rethinking healthcare

The principal sustainability challenge facing the healthcare sector today is cost. As medical costs continue to grow, a basic social need becomes increasingly inaccessible to much of the population. Thankfully, different approaches are emerging through new treatment options, technology and innovative business models. This can ultimately make healthcare more affordable and help consumers, governments and society alike. The innovation and scale required is also an opportunity for companies and investors. An article by Dr Nathalie Flury & Dr Michael Schröter, Co-heads Sustainable Healthcare, HSBC Asset Management.

## Addressing Sustainability in Healthcare

Healthcare budget constraints are forcing treatment access restrictions, denying some patients therapies required to treat their diseases with high out-of-pocket payments driving large medical debts. UK patients, for instance, don't have access to a third of new treatments due to being deemed not cost-effective by the responsible government body (1). Patient outcomes are negatively impacted, as is the industry and investors. This current model is not sustainable.

As we emerge from the pandemic, there will be immense pressure on governments to rein in their spending, of which healthcare plays a large role – one fifth of government spend in G7 countries (2). In the US, which accounts for nearly half (42%) of global healthcare expenditure, total spend is projected to increase by over 50% in the next eight years alone (3). The same plight applies globally, with healthcare spending outpacing GDP growth across markets.



This collision of ballooning healthcare costs and strained budgets leaves hard choices for policy makers. Governments must decide what therapies they can afford to subsidise, while insurers, as the healthcare payers, are left to determine treatment access restrictions in order to protect their own profitability. These decisions leave patients unable to benefit from the latest scientific breakthroughs due to barred treatments and high costs.

In developing countries, where governments are less able to subsidise healthcare, even more of the cost burden falls on individuals. Lower incomes mean patients frequently go without treatment due to lacking the means to pay for it. In 2018, average health spending in low income countries per-person was USD40, while in high income countries, it was USD 3,313 - more than 80 times larger (4).

## The investment opportunity

For investors, the scope of change needed to stop the cycle of spiralling costs, and deliver sustainable healthcare systems, creates both investment risks and opportunities. Those who are attuned to these stand to benefit and can also contribute to the necessary change. The old pharmaceutical model of simply charging higher prices for therapies based on added clinical benefits must inevitably be rendered obsolete. After all, a product with high profit margins and no supporting sales offers little value.

Companies continually delivering treatments that add costs to the system will be hit hardest by tighter budgets, seeing reimbursements denied, or access substantially limited, ultimately hurting sales and profitability. While this is a known risk today, many pharmaceutical companies continue

**“As we emerge from the pandemic, there will be immense pressure on governments to rein in their spending, of which healthcare plays a large role – one fifth of government spend in G7 countries.”**

to operate R&D models that only incorporate late stage accessibility considerations. Likewise, industry analysts largely simplify the risk of market access restrictions in their valuation models.

The resulting profitability projections are unlikely to be achieved, due to a much smaller patient pool than originally envisioned. This is not only hurting patients which are denied access but it will also impact long term company performance and returns for investors. Incorporating these considerations into the investment decision making process provides a more robust understanding of future profitability and the sustainability of business models. Better insights pave the way for superior returns.

With a clear investment opportunity and need for risk mitigation, investors stand to benefit from a proactive approach. While one might assume standard ESG scoring would differentiate between healthcare companies contributing more or less to the unsustainable cost strain, this is not the case. Some companies with “good” ESG scores are the worst offenders in raising drug prices unjustifiably. ●●●



●●● Industry-specific analysis and understanding is needed to truly ascertain company impacts on healthcare sustainability. These impacts extend beyond the ability of therapies to treat illnesses at a lower price tag. Healthcare costs need to be addressed holistically.

With nearly 75% of total healthcare costs spent on patient care (5), solutions that can reduce time in care are critically important. Those that can deliver this objective stand to be afforded more pricing autonomy and avoid access restrictions, expanding their market potential. This can be achieved not only through new treatments that better manage or even cure chronic ailments, but also via new technologies in diagnostic tools and medical devices for instance, that are increasing opportunities to deliver care more effectively and efficiently.

A holistic approach to therapies, supported by new tools and technology, can help transition healthcare systems to a more sustainable footing. Investors have a key role to play. In addition to the opportunity to improve returns, they are in a position to reward companies driving more sustainable business models and behaviour, and challenge those which aren't.

As we have seen with the issue of climate change over recent years, sufficient attention can shift the way of thinking.

[1] - IQVIA 2020: EFPIA Patient W.A.I.T. indicator 2019 Survey

[2] – World Health Organization Global Health Expenditure database

[3] - Bloomberg, Centers for Medicare and Medicaid Services, 2021

[4] – WHO, 'Global spending on health 2020: weathering the storm', Link

[5] - OECD Health Data, 2019

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### The HSBC Group

HSBC Holdings plc, the parent company of HSBC, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of \$2,959bn at 31 March 2021, HSBC is one of the world's largest banking and financial services organisations. ■■■



ZOË KNIGHT (HSBC)

# Learning the ABC of ESG

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**While banking is not, directly, a major contributor to climate change, the business activities that it finances can be. Zoë Knight, Managing Director and Group Head of HSBC's Centre of Sustainable Finance, identifies how the financial sector can help customers seize the opportunities in transitioning to lower-carbon, more sustainable business models.**

## **What key trends do you identify regarding ESG in the banking sector?**

Covid-19 has been hugely influential in changing perceptions about climate change. The pandemic has been a wakeup call. It has raised awareness among our clients of the need to commit to environmental, social and governance objectives. Covid-19 has forced firms to recognize the need to build resilience into their plans to prepare for future shocks - of which the impacts of climate change will certainly be the worst. It has triggered a trend that puts sustainability at the core of our operations and, at the same time, increased demand from our clients for sustainable finance and support to transition to a zero carbon framework.

## **How can HSBC help customers as they transition to more sustainable business models?**

If the world is to achieve net-zero carbon emissions by 2050 it has to remove 51 billion tons of carbon a year from the atmosphere. Firms are best to partner in setting targets for reduced emissions. It is crucial that business and government are aligned to a common goal. But while we believe public finance can get the ball rolling, private finance is the biggest catalyst for change. Banks partnering with their clients have a huge role to play by creating the best possible conditions for sustainable investment, particularly in emerging markets. This requires agreement on

common standards; agreeing priorities to rebuild sustainably with the most economic benefits and establishing future-focused markets, such as for carbon offsets. This isn't (just) a values-based proposition; it's a value proposition. There is huge upside to investing in sustainable infrastructure, clean technology, and climate solutions that are the next growth sectors.

## **What challenges and opportunities do you identify regarding ESG?**

We help customers to see sustainable goals as an opportunity, not an obligation: it's just good business sense. To achieve our ambition of becoming a net-zero bank, we expect to provide between \$750 billion and \$1 trillion in finance and investment to fund transitioning to low carbon over the next decade. We are also mobilizing private finance to transform sustainable infrastructure projects into a global asset class and to create a pipeline of bankable projects through our FAST-Infra initiative. HSBC Pollination Climate Asset Management intends to establish "natural capital funds" to provide investor returns linked to the protection and enhancement of nature and biodiversity. Firms rising to the challenges are applying technology and working smarter to achieve costs savings, efficiency, attractiveness as an employer and competitiveness. ■■■

**"We help customers to see sustainable goals as an opportunity, not an obligation: it's just good business sense."**

Zoë Knight, Managing Director  
and Group Head of HSBC's Centre  
of Sustainable Finance

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RICCARDO MILLICH (HSBC MARKETS & SECURITIES SERVICES)

## Global ESG Trends

**Riccardo Millich Sales Director with HSBC Markets & Securities Services says foreign investors – especially those from the EU and US – who invest in Chinese assets and are looking for ESG exposure, are also helping to drive an increase in the number of sustainable funds in Asia. He shares his insights on the impact of ESG on the Asian market.**

**Now that ESG has become mainstream in Europe, how does the situation look like in Asia and in China in particular? Is sustainable investing gaining ground?**

There is an increasing awareness and importance of ESG in asset and wealth management in Asia. ESG investing is enjoying a boom, although some markets are further ahead in Asia.

In China, fighting climate change has been high on the agenda in the last few years following President Xi Jinping's announcement in September last year that the country would become carbon-neutral by 2060. Its 14th five-year plan covering 2021-2025 has a strong focus on sustainable development.

Of any region, Asia is emerging as a leading re-

gion in environmental and social issues. 89% of issuers and investors regard these matters as important[i] (HSBC sustainable finance and investing survey, September 2021).

What's more, we are seeing interest in ESG investing from Asian asset managers and asset owners accelerating, in particular in mainland China, Hong Kong and Singapore.

According to the ESG Investment in China report from Ping An Digital Economic Research Center (DERC), investments into ESG-themed ETFs in China hit a record high in 2019, up to 4 times that of 2018 year-on-year. While funds were flowing out of traditional ETFs in the first half of 2020, flows into sustainability-themed ETFs consistently increased. Total ESG assets in Asia came to US\$25.4bn at the end of last year, as a result of US\$7.9bn of inflows (Morningstar Global Sustainable Fund Flows report).

Foreign investors – especially those from the EU and US – who invest in Chinese assets and are looking for ESG exposure, are also helping to drive an increase in the number of sustainable funds in Asia.

Asia today, however, still lags Europe in terms of number of funds with an ESG focus. One reason could be the perception that sustainable investments will not deliver the quick returns often sought by Asian investors.

Relative to the size of the region and its growth potential, we still see a shortfall of ESG expertise

that's available to fund managers in Asia, but this is changing quite rapidly as a lot of Asian asset managers are building in-house environmental, social and governance capabilities and launching ESG strategies using various products including traditional UCITS actively managed funds, or ETFs.

In Europe, demand for ESG-related funds is mainly coming from high net worth individuals as well as large institutional investors who are required to invest part of their assets in sustainable products. Questions on ESG are now systematically part of the due diligence process when looking to onboard new funds.

If this clearly presents opportunities to develop and distribute ESG products to investors, it can on the other hand also increase complexity and compliance costs for financial firms. One example is on the distribution of funds in different European markets, where local regulators might have different disclosure requirements.

### What are the challenges?

If the trend towards more sustainable products is clear, Asian companies are facing several challenges that are slowing this process.

Selecting the right ESG investment and exposure in Asia might prove more challenging for an asset manager than is the case in Europe, and this is mainly due to lack of comparative data.

However, international investors must also meet ESG standards in their respective domiciles when investing in Chinese or Asian assets, which should also act as an incentive to drive improved reporting by local firms.

If just a few years ago it was hard to make ESG-themed investments in Asia because of this lack of data to measure companies' ESG performance, this is, however, changing.

**“We are seeing interest in ESG investing from Asian asset managers and asset owners accelerating, in particular in mainland China, Hong Kong and Singapore.”**

Riccardo Millich, Sales Director,  
HSBC Markets & Securities Services

With the rapid growth of ESG-linked investments, we're likely to see an increase in the quantity and quality of ESG disclosures from Chinese and Asian companies. According to a recent report published by Willis Towers Watson, the number of A-share companies disclosing ESG information has kept rising, although it still remains at a low level, with just over 25% of all A-share listed companies having issued ESG reports in 2019.

**We see a lot of new regulation in Europe – how does this mirror in Asia?**

Different factors have contributed to the increased interest of ESG in Asia, and regulatory developments are certainly one of the main factors that created this momentum. Asian regulators are putting in measures and infrastructure to enable the incorporation of ESG factors in the investment process. However, the heterogeneous nature of different markets in Asia implies a different approach and pace when it comes to the adoption of ESG.

Green investing has become a hot topic in China in the last few years as it aligns with its national priorities, and in particular sustaining current and attracting future international investors.



●●● China's policy and regulatory landscape have been developing fast in response to this change, and the implementation of new ESG practices suggests a serious shift towards meeting global standards.

China Action Group, a community of Chinese CEOs and chairpersons engaged in the activities of the World Economic Forum are calling on their peers in China to become Chinese ESG champions to realise the Sustainable Development Goals, a collection of 17 goals adopted by all United Nations member states in 2015 that provide a blueprint for "good growth" nationally and internationally. Recent changes in legislation are shifting voluntary to mandatory ESG disclosure requirements for listed firms, which is in line or even exceeds what is in place in other countries. According to Fitch, mandatory environmental information disclosure requirements for companies proposed by the Ministry of Ecology and Environment could improve investor access to data and risk assessment around ESG factors in China.

Better ESG disclosure would facilitate allocation of more funds to mainland-listed shares according to international asset managers.

Investors are now actively engaging with listed companies on ESG matters, following the release of the Revised Corporate Governance Code for Listed Companies by CSRC (China Securities Regulatory Commission), and guidelines published by the AMAC (Asset Management Association of China) and the IAMAC (Insurance Asset Management Association of China) to help asset managers and insurers incorporate green investing into their businesses.

In Hong Kong the SFC (Securities and Futures Commission) has initiated in May 2020 with the HKMA (Hong Kong Monetary Authority) the es-

tablishment of the Green and Sustainable Finance Cross-Agency Steering Group which aims to support a greener and more sustainable future for Hong Kong, around 5 key action points which will include disclosures obligations aligned with the Task Force on Climate-related Financial Disclosures (TCFD) and a uniform set of sustainability reporting standards. This has made Hong Kong one of the first jurisdictions in proposing and implementing laws and regulations to mandate TCFD-aligned financial reporting.

The SFC also released a consultation paper in October 2020 on proposed amendments to the Fund Manager Code of Conduct (FMCC) that require fund managers to consider climate-related risks in their investment and risk management processes. This consultation covers governance, investment management, risk management and disclosure requirements. Conclusions were published on August 20th 2021. In general, the SFC received positive feedback on the proposed requirements focusing on climate-related risks which would at the initial stage apply to fund managers managing collective investment schemes. Respondents also agreed to make reference to the well-recognised TCFD Recommendations in developing the requirements and to implement them using a two-tier approach, i.e. with baseline requirements for all fund managers and enhanced standards for fund managers with assets under management above a certain threshold.

In Singapore, the MAS (Monetary Authority of Singapore) published in December 2020 the Guidelines on Environmental Risk Management for financial institutions. These guidelines cover Asset Managers, Banks and Insurers and aim to enhance financial institutions' as well as segregated accounts managed by asset managers and funds'

(including REITS) resilience to and management of environmental risk by implementing sound risk management practice. The guidelines are intended to drive the transition to a green economy through integrating environmental risk considerations in investment decisions. A transition period of 18 months ending June 2022 is allowed, by which all asset managers are expected to comply. The Securities Commission Malaysia has recently issued an update to its corporate governance code (MCCG) introducing best practices for action on ESG risks and opportunities by company boards and senior management. The 2021 update of the MCCG introduces best practices and guidance aiming in particular at strengthening board oversight and the integration of sustainability considerations in the strategy and operations of companies.

In India the SEBI (Securities and Exchange Board of India) is considering whether responsible investment policy should be revised to contain a clause that from October 1, 2022, asset management companies shall only invest in securities which have business responsibility and sustainability report (BRSR) disclosures, and in Korea the FSC (Financial Services Commission) now encourages financial institutions to enhance their disclosures based on the TCFD framework, which means they have to disclose the organization's governance, strategy, risk management, metrics, and targets quantitatively and qualitatively in relation to climate-related risks.

Other regulators in other Asian countries have also taken necessary steps to help financial institutions meet their ESG targets. A lot more to come in the coming months.

Finally, if Asia was already convinced of the importance of ESG principles, according to HSBC's

Sustainable Financing and Investing Survey Asia report, the Covid-19 pandemic has reinforced that belief. Employee wellbeing in particular, has, for obvious reasons following the pandemic, jumped up in the agenda. ■■■

[i] <https://www.gbm.hsbc.com/en-gb/feed/sustainability/sfi-survey-global-report>



GYÖRGY SASS (HSBC PRIVATE BANK)

## ESG proactivity

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**György Sass, Senior Relationship Manager, Europe International at HSBC Private Bank (Luxembourg) says although younger generations are very sensitive to Sustainability and Impact investments, the bank still needs to raise awareness, not just of the issues but also of the solutions, and in that spirit propose a range of investment solutions that meet ESG standards.**

### **Are Private Banking clients interested in the ESG thematic?**

During 2020 we noticed an increasing interest from our clients in the ESG thematic. The recurring requests we get are: can I invest part of my portfolio in ESG products? What is the strategy of HSBC in ESG and what are the commitments of your Bank? Moreover, there are clear signs showing, that younger clients are the ones that are the most aware about the topic. Would ESG related questions be a new generation story? We know today that Sustainability and Impact investments are key to attract Next Generation clients. Millennials for example believe social impact is fundamental to their investment decisions. However, the majority of our clientele often do not proactively ask about ESG, even though they believe it is highly important to help create a better planet and react positively when we initiate the conversation. As a major international Bank, we have a role to play to educate customers about financial materiality of ESG issues, this is one of our contributions to improve society. We then have to understand their expectations and recommend Sustainable investment solutions. We are only at the beginning of this amazing journey.

### **How can HSBC Private Bank guide those clients in the ESG Investment world?**

As part of HSBC Group, our Private Banking service and product offering can leverage on the

incredible expertise HSBC Group has built in the ESG area. The way our teams can guide our clients is at two levels:

Increase awareness: the Bank has a clear educational role to play. Although the majority of private bank clients recognize the importance of creating a more sustainable future, only 40 % have at least 1 % of their portfolio in sustainable investments. We can share with our clients data and research about the impact and the causes of climate change, and the risks it represents for their asset allocation. There is a consensus now that climate change represents more than ever a risk for investors.

Propose solutions: offer our clients a range of investment solutions that meet ESG objectives and protect their capital and long-term returns. HSBC Private Bank will launch this year a Discretionary Mandate dedicated to ESG investments.

### **What are the objectives of HSBC for ESG?**

In October 2020, HSBC announced its “Plan for the Planet” with a Net Zero Ambition by 2050 for our loan book. At the heart of this plan is an ambition to reduce financed emissions from our portfolio of customers to net zero by 2050, in line with the goals of the Paris Agreement. The Bank will intensify support to its portfolio of customers to switch to more sustainable ways of doing business. At a Private Banking level, the main objective is to increase the asset allocation of Sustain-

**“At the heart HSBC’s “Plan for the Planet” is an ambition to reduce financed emissions from our portfolio of customers to net zero by 2050.”**

György Sass, Senior Relationship Manager,  
Europe International at HSBC Private Bank  
(Luxembourg)

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able investments in the portfolios of our clients. ESG investments will be part of our global offering and the discussion will be opened with our clients to increase awareness. Sustainability is now at the heart of all our business discussions.

The efforts of HSBC are recognized by the market and The Banker named us Investment Bank of the Year for Sustainability, saying HSBC had delivered “an impactful and holistic approach to ESG issues across many geographies, products and services for a range of clients”. ■■■



ALAN SMITH (HSBC)

# Reducing the Risk, “En Route” to Net-Zero

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**After twenty-six years in a variety of risk, investment banking and finance roles at HSBC, Alan Smith, Senior Advisor on Climate and ESG Risk Management, explains how he is leveraging his experience to advise HSBC’s senior management on managing the opportunities and risks of the bank in its transition to net-zero emissions.**

## **How did you come to be advising HSBC on its risk strategy for sustainability?**

My journey to this role is both professional and personal. In early 2020, Pam Kaur, HSBC’s new Group Chief Risk Officer asked me to shape the build out of our climate risk management capabilities. Developing our strategic approach to climate risk flowed naturally from my previous roles in enterprise-wide risk because climate risk impacts every single risk within our taxonomy. In one of my previous roles, I also oversaw the Group stress-testing programme and scenario capabilities which gave me a big-picture understanding of the HSBC Group and how to model changes which may affect it. From a personal perspective, I like to tell people that I was born into climate change! I come from the Caribbean which is at the front line of climate impacts and because my dad was at the time of my birth a meteorologist with the Caribbean Meteorological Service, he spent his time plotting hurricanes and weather patterns throughout the region. I learned early-on that the choices we make about how we live are intertwined with the Earth’s climate.

## **How is HSBC helping its customers transition to net-zero?**

Our customers must be central in our climate strategy and it is essential that we support them

in the journey to the low carbon world. The bank articulated our very ambitious net zero strategy last year in our Climate Plan. HSBC expects to provide between \$750 billion and \$1 trillion in financing over the next decade to enable our customers to execute an effective and sustainable transition. We will particularly work with those in sectors we have assessed as posing higher emissions risk. We see it as being responsible to work with our clients, helping them to articulate and execute their transition plans to achieve net-zero by 2050. How we execute our own Climate strategy is of considerable interest to all of our stakeholders. As an important part of our commitment and transparency on that front, at our May 2021 AGM we will be proposing a Special Resolution on Climate Change which sets out the next phase of detail of HSBC’s strategy to support its customers on the transition to net zero carbon emissions.

## **What tools are you using to address the challenges of climate change risk?**

By working with the front line to collect insights on our client’s transition risk plans and needs, we can help our teams articulate climate risk appetite and also better understand our customers’ requirements. We are developing the capability to identify and understand the climate risk profile of our balance sheet – at the portfolio, sector,

**“I learned early-on that the choices we make about how we live are intertwined with the Earth’s climate.”**

Alan Smith, Senior Advisor on Climate and ESG Risk Management, HSBC

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customer and transaction level in a way which will equip us to make the right risk management decisions and allocate capital in a disciplined manner. Acquiring the right data to assess the risks of climate change is a big challenge: historical data does not tell us all we need to know. It will therefore be critical to use climate scenario analysis as an essential strategic and risk management tool. We are building the data infrastructure to provide us with the more granular information necessary to provide deeper insight into climate change risks. It will also be important to build models that pull together the scientific, economic and financial dimensions of climate risk in a coherent way to enable us to make evidence based, data driven decisions. All of this will have to be governed and disclosed properly, two other key building blocks of effective climate risk management. ■■■



WAI-SHIN CHAN (HSBC)

# The climate challenge, and the way forward

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**The climate challenge offers no easy choices, explained Wai-Shin Chan, Head of Climate Change Centre of Excellence and Global Head of ESG Research based in Hong Kong. Some advocate a long term, slower move towards meeting global goals, others want quick change. Each strategy carries known and unknown risks.**

## **What are the big choices facing the world regarding climate change?**

According to the latest Intergovernmental Panel on Climate Change report, we have already reached 1.59°C of warming above 1850-1900 levels on land, with 0.88°C in the oceans. Yet the Paris Agreement goals are limiting the rise to 2°C or even better 1.5°C. So the question we face today is whether we go beyond 2°C before working to return to 1.5°C, or to limit the overshoot. The more we exceed these warming limits, the harder and more expensive it would be to return to lower levels. Until now, the oceans have absorbed over half of the temperature gains but they're struggling to do so at similar proportions indefinitely. This means that a higher proportion of what we emit into the atmosphere now will probably stay there. We know what this would mean for the increased severity and frequency of extreme weather events, not least if forecasts about multiplier effects are borne out. The physical, economic and social damage would be costly.

## **What are some of the key options to help reduce global heating?**

People often ask me about carbon dioxide removal technologies, but we shouldn't expect these to a magic wand. The main solution is structural decarbonisation of the economy, of energy

production and industrial processes. Companies need to adapt their business strategies, and individuals must react. We all know how difficult this is in terms of the economic and social angles, with complexities from politics and managing vested interests. This is often a question of social development, featuring challenges such as reducing poverty, boosting food security, land development and so on. Carbon pricing has a role to play here, as it captures the externalities from emissions including health problems, infrastructure damage, crop yield changes, and so on. It is a mechanism by which we can nudge behaviour and offer the right incentives. Carbon taxes are complicated not least because raising taxes is politically difficult, particularly now we are seeking to boost our economies after the pandemic. However, emission trading schemes can work well too as they set a cost for the right to emit carbon dioxide within an overall carbon cap. Prices should be carefully considered, and with each successive year the emissions cap gets smaller, encouraging participants to reduce their level of emissions.

## **Specifically, what should businesses and individuals be doing?**

Businesses should consider climate change within their strategies and all their decisions. For the financial sector, it is about raising capital in a way

**“The more we exceed these warming limits, the harder and more expensive it would be to return to lower levels.”**

Wai-Shin Chan, Head of Climate Change Centre of Excellence and Global Head of ESG Research, HSBC

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that signals this change and accelerates the transition, but also embeds climate resilience in their investments. For individuals, we all need to keep making small but conscious choices in our everyday lives, about the things we buy, the food we eat, the transport we take. That's where I think one of the biggest differences can be made. ■■■





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