CHINA SIF SUSTAINABLE INVESTMENT FORUM
中国责任投资论坛

China Sustainable Investment Review

2023

December 2023

Written by: CHINA SIF 中国责任投资论坛 商道融绿 SynTao Green Finance

Foreword

Promoting Cross-Market Synergies for Sustainable Investments

Looking from the global perspective, the sustainable investment market experienced divergence in 2023. The European market gradually adjusted to the requirements of the Sustainable Finance Disclosure Regulation (SFDR), leading to an upturn in the scale of sustainable investment assets. In contrast, the U.S. market became increasinly politicised and polarised, resulting in a significant decrease in the scale of sustainable investment assets. Meanwhile, the Chinese market, propelled by policy incentives in green finance, witnessed steady growth in the scale of sustainable investment assets.

Taking a closer look at the domestic market, the structural characteristics of China's sustainable investment market in 2023 became more pronounced. This was evident in the rapid development of green finance in the credit market, while sustainable investment in the capital market faced challenges. A dynamic comparison reveals a stark contrast between the two markets. In the banking sector, green credit has consistently grown for several years, with an annual growth rate exceeding 30% in the past three years. Conversely, the sustainable mutual fund market has seen an increase in the number of products alongside a decrease in market value, a trend that has persisted for two years. In a static comparison, out of the total sustainable investment market size of RMB 33 trillion, approximately 86% is attributed to green credit, around 6% to green bonds, and mutual funds account for less than 2%.

Objectively speaking, the sharp comparison on scale between banking loans and mutual funds is caused by the stock market volatility to a certain extent, but it is not the main influencing factor. This market structure is predominantly determined by the structural features of China's financial market, specifically the dominance of indirect financing and the limited scale of direct financing. From the perspective of the capital market, it is neither necessary nor feasible to change this market structure. Instead, strategic thinking should focus on leveraging the strength of banks to promote the development of sustainable investment and ESG, fostering cross-market synergy in "big green finance."

There are precedents for such practical exploration. In 2021, the PBoC issued the Green Finance Assessment Scheme for Banking Financial Institutions, which, for the first time, included quantitative evaluation indicators for green credit and holdings of green bonds in the assessment. This initiative increased the enthusiasm of banks to invest in green bonds and contributed to the breakthrough of the outstanding scale of green bonds exceeding RMB 2 trillion. In 2019, Huaxia Bank took the lead in introducing ESG wealth management products, followed by the active participation of several bank wealth management subsidiaries. In four years, the market size has grown to approximately RMB 160 billion.

It can be anticipated that with more exploration of such practices, better connectivity between the banking market and the capital market can be achieved, channelling more investment towards ESG implementation in the capital market. In my opinion, this aligns with the policy direction of the 2021 assessment scheme mentioned above. The scheme introduced the concept of green finance, encompassing not only green credit, but also green stocks, green equity investments, green leasing, green trusts, and green wealth management, reflecting the concept of "big green finance" integration. However, under the policy and standard conditions at that time, only green credit and green bonds had clear definitions, standards, and statistics, so only the scale of these two products was included in the scoring. With time, regulatory authorities can clarify the definitions, standards, and statistics of green finance businesses such as green stocks and green wealth management products. In the future, these could be incorporated into the green finance assessment of banks, incentivising them to build asset allocation strategies conducive to green and ESG considerations.

The same approach can be applied to funds with certain policy (public) attributes, such as sovereign funds, pension funds, and state-owned capital. Sovereign funds (China Investment Corporation) and pension funds (Social Security Fund) have already incorporated ESG considerations into their investment practices. The State-owned Assets Supervision and Administration Commission (SASAC) is currently promoting ESG reporting coverage for central enterprises and central enterprise-controlled listed companies. Perhaps the next step could involve introducing ESG principles into investment companies (funds) controlled by central enterprises and central enterprise holdings, inevitably exerting significant and positive influence on the market.

Considering this, the strategies and methodologies for fostering responsible investment in the capital market can be diverse, adopting an inclusive and open approach. It is beneficial to systematically review and organize these varied methods. However, the inevitable issue to be addressed is the wealth effect of ESG, as both pension funds and state-owned capital have requirements for investment returns. At this point, regulatory authorities and industry associations need to present solid statistical data to demonstrate the robustness of ESG investments. This reveals itself as a systematic process, starting from the definition and standards of green or ESG products, progressing to statistics, evaluation, assessment, and finally forming a closed loop. Looking back, it took more than a decade for the credit market to explore this path and achieve the current amount of 28 trillion yuan. The capital market should also focus on the long term and accelerate its progress.

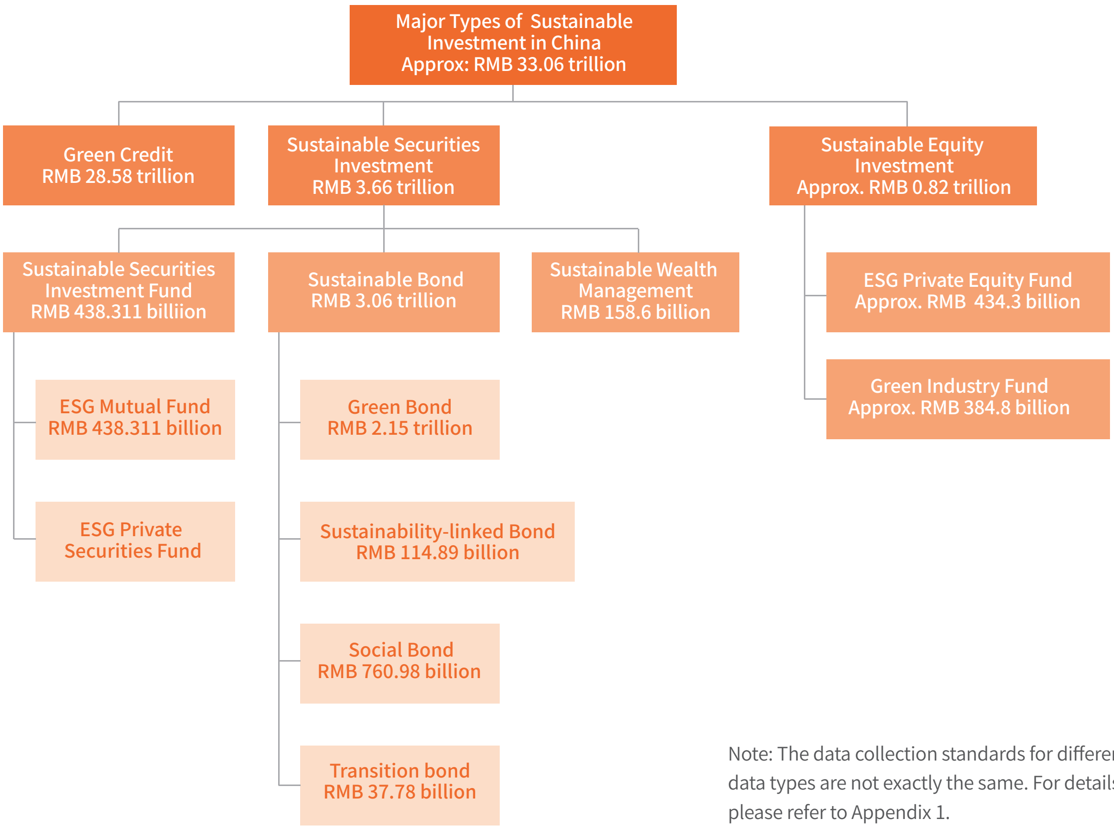
Dr. GUO Peiyuan

Chairman of China Sustainable Investment Forum

Abstract

As the world economy faces multiple uncertainties in 2023, mitigating climate change and achieving the Sustainable Development Goals (SDGs) remain the consensus and common goals of economies across the globe. In September 2020, China set the ambitious goal of peaking carbon emissions by 2030 and achieving carbon neutrality by 2060. The "dual carbon" goals have served as an important guide for the country's economic development and financial work. Despite the sluggish growth of the global economy, sustainable investment and green finance in China's capital markets have continued to grow at a rapid pace, and the number of new sustainable investment products has increased by leaps and bounds. The concepts of ESG, responsible investment, and climate risk and opportunity management have gained mainstream recognition.

Based on public information, China Sustainable Investment Review 2023 (the "Report") has mapped out the status quo and the size of sustainable investment in China. As compiled by the China Sustainable Investment Forum (China SIF), the green credit balance stood at RMB 28.58 trillion; the AUM of ESG mutual securities funds totalled RMB 438.311 billion; the outstanding size of green bonds stood at RMB 2.15 trillion; the sustainability-linked bond was RMB 114.89 billion; the social bond was RMB 760.979 billion; the transition bond was RMB 37.78 billion; the outstanding size of sustainable wealth management products was RMB 158.6 billion; the total amount of ESG private equity funds was about RMB 434.3 billion[1]; and the total amount of green industry funds was about RMB 384.8 billion.



Note: The data collection standards for different data types are not exactly the same. For details, please refer to Appendix 1.

This Report summarised the international development trends of sustainable investment, reviewed the progress of China's responsible sustainable policies and financial institutions' sustainable investment practices in recent years, mapped out existing ESG stock indices, mutual funds and wealth management products, and shared the results from the survey regarding individual investors' attitude towards sustainable investment and asset owners' attitude towards stewardship.

[1] The number was estimated by China Sustainable Investment Forum (China SIF) based on public data. For estimation methodology, please refer to Appendix 1.

Main Findings

Sustainable Investment Policy Progress

- Transition finance has effectively accompanied with green finance. As the former is one of the key tasks of the G20 Sustainable Finance Working Group this year, China's central bank has organized research on transition finance standards for key carbon-intensive industries.
- China's Ministry of Finance (MOF) indicated that the country would fully support the work of the International
- Financial Reporting Standards (IFRS) Foundation and the formulation of international sustainability disclosure standards, with financial institutions in some regions having already embraced the practice of environmental disclosure reporting.
- The Insurance Association of China (IAC) issued the Green Insurance Classification Guidelines (2023 Edition), which standardizes green insurance products, green investment of insurance assets, and green operations of insurance companies. The Insurance Asset Management Association of China (IAMAC) formulated the Stewardship Guidelines for China's Insurance Asset Management Industry (Draft) on the basis of the IAMAC ESG Stewardship Initiative issued last year, which adds more details to the guidelines on stewardship and the supporting disclosure templates.

Sustainable Investment Market Trends

- Domestic mutual funds, insurance asset managers, and bank wealth management subsidiaries have demonstrated significant improvement in specific sustainable investment practices compared to the previous year. Nonetheless, the leading institutions have made relatively smaller strides compared to their counterparts.
- As of the end of September 2023, there are 202 ESG indices in the Shanghai and Shenzhen exchanges. Among them, the ESG Select Indices experienced the fastest growth.
- By the end of September 2023, there had been 738 ESG mutual fund products, with a steady growth rate. Besides, ESG funds accounted for about 7.45% of all funds in the market.
- ESG funds have performed better than the market's overall returns over the long term and outperformed the average returns of all funds in terms of ESG and climate performance.

Investors' Awareness of Sustainable Investment

- With the escalating impact of climate change and China's commitment to the "dual carbon" goals, individual investors have been gradually aware that external environmental and policy factors will lead to heightened investment risks and uncertainties, and 85.6% of the surveyed individual investors agree to a certain extent that "Identifying ESG risks and opportunities for investment portfolios has become increasingly important due to the intensifying climate change and the introduction of 'dual carbon' goals."
- Individual investors still regard publicly available information from regulators as the most important access to ESG investment information, but show increased trust in professional organisations, with half of the surveyed individual investors relying on ESG ratings from professional organisations to understand a company's ESG performance.
- Driven by regulatory requirements, most asset owners have already conducted engagement and stewardship activities, including relevant policy formulation and dedicated personnel arrangements. Compared with surveyed institutions in China, the offshore respondents are more active in adopting various types of stewardship approaches and engaging in ESG issues. Pension funds, playing a crucial role in ESG investments, show the highest interest in stewardship among all asset owners.

Contents

List of Figures

List of Tables

About This Report

Methodology and Definitions

Sustainable investment is an investment approach that incorporates considerations of environmental, social and governance (ESG) factors of the investees into traditional investment strategies. For this Report, the term "sustainable investment" covers concepts such as sustainable finance, ESG investment, low-carbon finance, climate finance, and green finance.

This Report mainly covers the following sustainable investment strategies:

- Positive/best-in-class screening: investment in sectors, companies or projects selected from a defined universe for positive ESG performance relative to industry peers;
- Negative/exclusionary screening: the exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria;
- Sustainability themed investing: investment in themes or assets that address specific sustainability issues such as climate change, food, water, renewable energy, clean technology and agriculture;
- Corporate engagement and shareholder action: the use of shareholder power to influence corporate behaviour, including through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting that is guided by comprehensive ESG guidelines.

This Report is consistent with Global Sustainable Investment Alliance (GSIA)[2] in terms of classifying sustainable investment strategies. According to GSIA, common sustainable investment strategies encompass negative/exclusionary screening, positive/best-in-class screening, norms-based screening, ESG integration, sustainability-themed investing, impact/community investing, and corporate engagement and shareholder action.

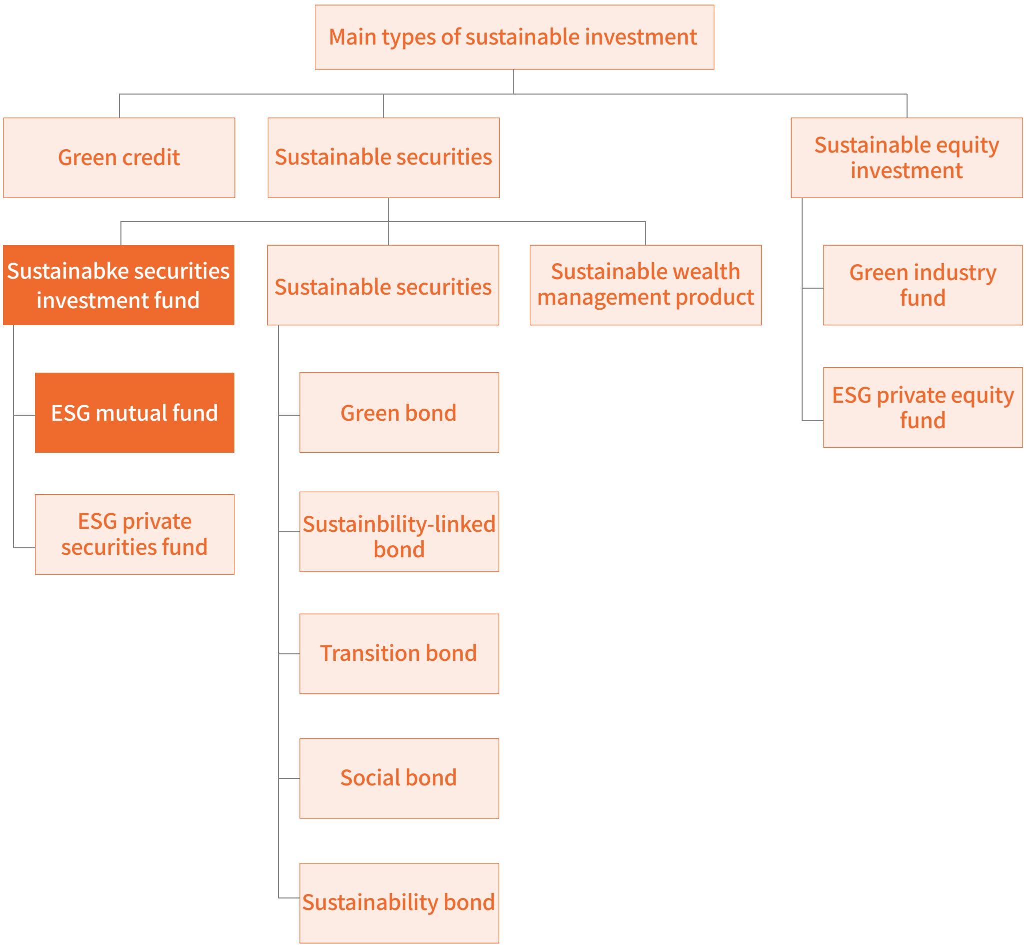
Report Scope

In the Chinese market, sustainable investment, which was primarily adopted by banks in their credit business at the outset, has gradually penetrated the practice of securities investment, equity investment, and industrial funds in recent years. Meanwhile, sustainable investment products, such as ESG stock indices, green bonds, green funds, and other types of sustainable investment products have continued to emerge (Figure 1) (related definitions and data can be found in Appendix 1).

This Report focuses on the category of sustainable securities investment funds, without placing restrictions on the sustainable investment strategies used by investors. The data collection of ESG stock indices and funds is not limited by the ESG factors considered by investors, with products that include one or more elements of E, S and G all included in the analysis.

[2] Global Sustainable Investment Alliance (GSIA), 2023. Global Sustainable Investment Review 2022.

Figure 1 Main Types of Sustainable Investment in China



Data Sources

The main data[3] sources for this Report include the following:

- Sustainable investment policies: policy-related data are primarily sourced from the China Green Financial Policy Database of SynTao Green Finance.
- Sustainable investment practices: information voluntarily disclosed by financial institutions, compiled by China SIF.
- Sustainable investment products: the data related to ESG stock indices, mutual funds and wealth management products are collected and compiled by China SIF based on public information.
- Survey on the attitudes of individual investors towards sustainable investment: the results are obtained from the 2023 Survey on Public Attitudes Towards Sustainable Investment launched by China SIF and Sina Finance in October 2023, with 1,241 valid survey responses. The survey is conducted anonymously and accessible to individual investors.
- Survey on the attitudes of asset owners towards stewardship: The results are cited from a survey on stewardship and engagement among asset owners in the Chinese market, jointly conducted by China SIF, SynTao Green Finance and China Southern Asset Management in October 2023. The questionnaire received responses from more than 50 asset owners both domestically and internationally.

[3] If not otherwise specified, the data on China covered in this report does not include data for Hong Kong Special Administrative Region, Macau Special Administrative Region or Taiwan Province.

1. Trends and Key Progress in Global Sustainable Investment

Sustainable Investment in the Five Major Global Markets Exceeds US$ 30 Trillion, with the Number of Sustainable Investment Institutions Continues to Grow

According to the latest statistics from the Global Sustainable Investment Alliance (GSIA)[4], sustainable investment in the five major global markets[5] reached approximately US$ 30 trillion by the beginning of 2022, a 14% decrease compared with the same period in 2020, due to changes in the US methodology and adjustments to asset size in the calculation. Sustainable investment represents 24.4% of the whole assets under management (AUM) in the five markets.

Table 1 AUM of Global Sustainable Investing Assets in the Five Major Global Markets

	2016	2018	2020	2022
Global AUM of sustainable investment (in US$ billion)	22,872	30,683	35,301	30,321
% sustainable investment in total AUM	27.9%	33.4%	35.9%	24.4%
Increase of % sustainable investment (compared to previous period)		5.5%	2.5%	-11.5%

Data source：GSIA

Europe and the United States remain the largest markets for sustainable investment, with AUM of EUR 12 trillion and US$ 8 trillion, respectively.

· The revised US methodology does not include the AUM of investors who stated that they practice firmwide ESG integration but did not provide information on any specific ESG criteria they used (such as biodiversity, human rights or tobacco) in their investment decision-making. Therefore, the data collected in 2022 on the size and growth rate of sustainable investment in the U.S. market lacks direct comparability with previous years data.

· In Europe, Australia and New Zealand, the definition of sustainable investment has changed significantly over the years (e.g., the EU officially released the EU Taxonomy in 2020, officially providing a detailed definition of sustainable activities for the first time). Therefore, the data collected in 2020 on the size and growth rate of sustainable investment in the two markets lacks direct comparability compared with previous years.

[4] GSIA, 2023. Global Sustainable Investment Review 2022.

[5] The five major markets include Europe, the United States, Japan, Canada, and Australia and New Zealand (Australasia).

Table 2 AUM Growth of Sustainable Investment in the Five Major Global Markets (2014-2022)

	2014	2016	2018	2020	2022	Growth per Period				Compound Annual Growth Rate (CAGR) 2014-2022
						Growth 2014-2016	Growth 2016-2018	Growth 2018-2020	Growth 2020-2022	
Europe (EUR)	€9,885	€11,045	€12,306	€10,730	€12,401	12%	11%	-13%	31%	4%
United States (USD)	$6,572	$8,723	$11,995	$17,081	$8,400	33%	38%	42%	-51%	3%
Canada (CAD)	$1,011	$1,505	$2,132	$3,166	$3,014	49%	42%	48%	-5%	15%
Australasia (AUD)	$203	$707	$1,033	$1,295	$1,680	248%	46%	25%	30%	30%
Japan (JPY)	¥840	¥57, 056	¥231, 952	¥310, 039	¥493,598	6692%	307%	34%	59%	122%

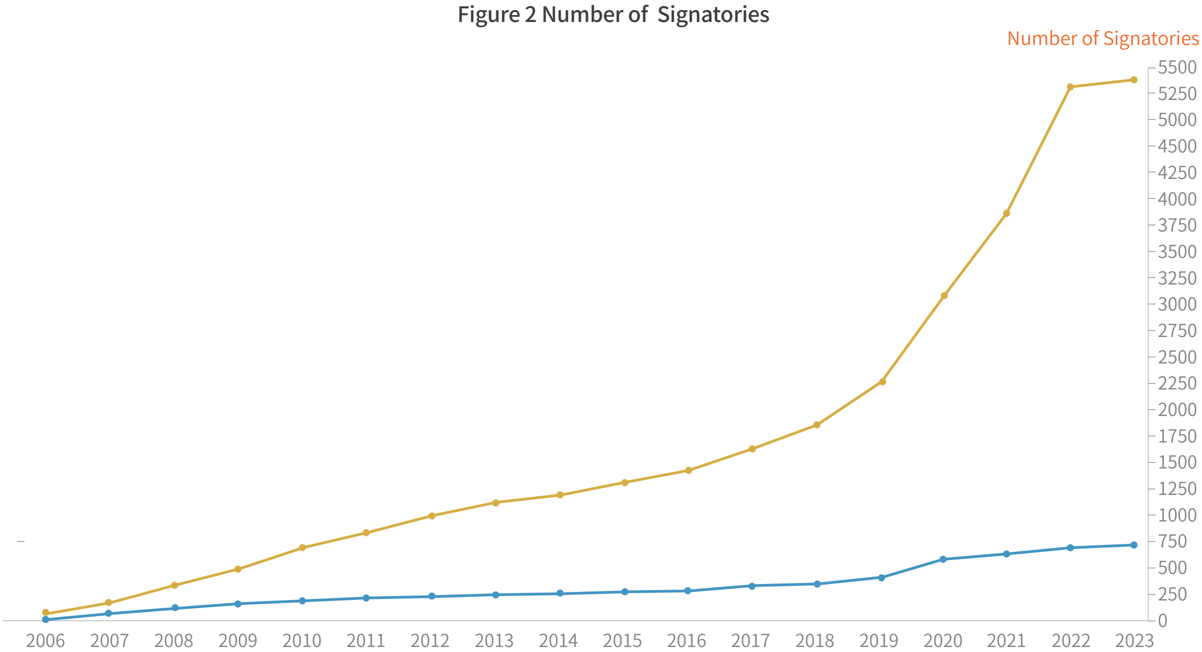
Note: Asset values are in billions.

The cut-off date for data collection in Japan is March 31, 2022, and December 31, 2021, for other markets.

Data source: GSIA

Globally, the number of institutions involved in sustainable investment has continued to grow rapidly for many years, and the growth rate began to slow in 2023 as the concept of sustainable investment matures. By the end of September 2023, the number of signatories to the Principles for Responsible Investment (PRI) reached 5,337, with 18 new signatories, representing a 0.3% increase compared to the end of 2022, and an AUM of about US$ 121 trillion[6]. By the end of September 2023, China's Mainland had 137 PRI signatories, comprising 98 asset managers, four asset owners, and 35 service providers.

Figure 2 Number of Signatories



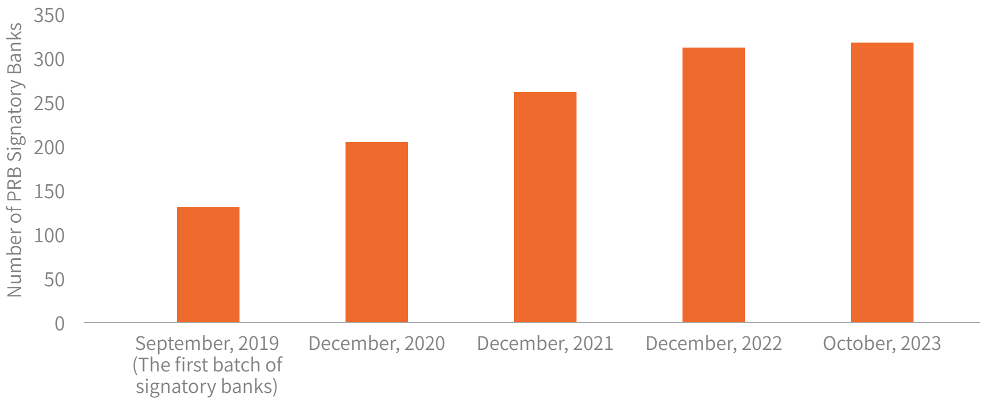
AUM data cut-off: March 2021

Data Source: PRI

[6] The cut-off date for data collection on PRI signatories' AUM is March 2021.

In addition, there have been 325 signatory banks since the Principles for Responsible Banking (PRB) was established in September 2019. Their AUM reached approximately US$ 89.4 trillion, accounting for approximately 50% of global banks. As of the end of October 2023, China's Mainland had 25 signatory banks.

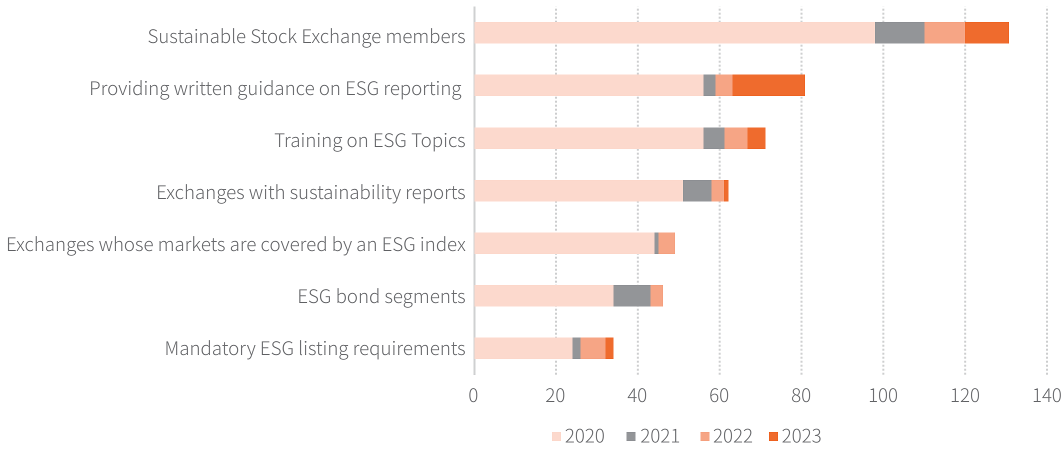
Figure 3 Number of UN PRB Signatories



Data Source: PRB, compiled by China SIF

By the end of October 2023, the Sustainable Stock Exchange Initiative (SSE), an UN Partnership Program, had nearly 130 members, with a regulatory oversight extending to 63,800 listed companies and a combined market capitalisation of nearly US$125 trillion. SSE members have continued to promote training on ESG topics and ESG disclosure, publish ESG reports and indices, develop ESG bond markets and engage in various other activities related to sustainable finance. Training initiatives focused on ESG topics experienced the most significant growth in the past year. As of the end of October 2023, 81 stock exchanges had organized such training, up by 28.6% from the end of last year and surpassing the growth rate of SSE members during the same period.

Figure 4 Progress of Sustainable Finance-Related Activities in Stock Exchanges



Data Source: SSE, compiled by China SIF

ISSB Issued Sustainability Disclosure Standards (IFRS S1 & IFRS S2) and Will Take Over TCFD Monitoring Responsibilities in 2024

The IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the IFRS S2 Climate-related Disclosures issued by the International Sustainability Standards Board (ISSB) on June 26, 2023 will become effective on January 1, 2024.

The IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is generic in nature and provides general standards for sustainability-related financial information disclosures, including targets, scope, conceptual foundations, core content, general requirements and appendices. It requires an entity to disclose sustainability-related information about material risks and opportunities for major readers of financial reports to be able to make informed decisions. The core content follows the disclosure framework of the Task Force on Climate-related Financial Disclosures (TCFD), namely governance, strategy, risk management, metrics and targets.

The IFRS S2 Climate-related Disclosures focuses on climate issues and requires an entity to disclose information about the material climate-related risks and opportunities it faces, allowing users to reasonably assess the entity's ability to address those risks and opportunities. The IFRS S2 Climate-related Disclosures generally follows the TCFD framework, requiring an entity to use climate scenario analysis to assess climate resilience, which can progressively move from qualitative to quantitative analysis, while emphasizing the disclosure of GHG emissions data (including Scope 1, Scope 2, and Scope 3 GHG emissions). If an entity is engaged in banking, insurance or asset management, its Scope 3 GHG emissions should be included into financed emissions.

On July 25, 2023, the International Organisation of Securities Commissions (IOSCO) issued a statement indicating the completion of a comprehensive, independent review of IFRS S1 and IFRS S2. The assessment concluded that the ISSB Standards serve as an effective and proportionate global framework for investor-focused disclosures. This framework aids financial markets in accurately assessing relevant sustainability risks and opportunities, forming the foundation for a framework for report assurance. The IOSCO encouraged all its member jurisdictions to adopt, apply or otherwise be informed by the ISSB Standards within the context of their jurisdictional arrangements. Furthermore, it encourages markets to align their existing disclosure requirements with the ISSB Standards to create a globally comparable sustainability disclosure framework. In addition, the ISSB will take over the TCFD monitoring responsibilities from 2024, and along with countries and regions deeply involved in the ISSB Standards, they may become the forerunners of the IFRS S1 and S2 Sustainability Disclosure Standards.

Majority of Institutions Have Already Conducted Engagement and Stewardship Activities, and the China Climate Engagement Initiative (CCEI) Has Been Launched

The ESG Survey Report for Asset Owners (2023) shows that 80% of the surveyed institutions indicated that they have already conducted engagement and stewardship activities. Most of them believe that regulatory requirements are an important factor in driving investors to incorporate ESG into engagement. In April 2022, the China Securities Regulatory Commission (CSRC) issued the Work Guidelines for the Investor Relations Management of Listed Companies, stipulating that listed companies need to add ESG information in their communication with investors. At the China SIF Summer Summit hosted in July 2023, the China Climate Engagement Initiative (CCEI) was officially launched. This initiative is led by 24 large institutional investors as founding members, covering mutual funds, insurance asset management, bank wealth management, private equity funds, international asset management institutions, among others, representing an AUM of more than RMB 40 trillion. The CCEI aims to assist institutional investors in pooling professional experience and technical resources in stewardship, strengthening proactive communication with investee companies and guiding them to transition towards green, low-carbon and high-quality development. The CCEI actively exerts the influence of shareholders to promote the creation of long-term value by investee companies.

Growing Focus on Biodiversity

The Taskforce on Nature-related Financial Disclosures (TNFD) was established in June 2021, with a working group comprised of experts from global financial institutions, companies, and market service providers. It aims to develop and deliver a framework for nature-related disclosures for companies and financial institutions, including nature-related dependencies, impacts, risks, and opportunities. This shift aims to redirect global financial flows from nature-negative outcomes to nature-positive ones. The TNFD framework was formally released in September 2023 and includes conceptual foundations for nature-related disclosure, general requirements, and 14 recommended disclosures around four pillars: governance, strategy, risk and impact management, and metrics and targets. The four-pillar recommended disclosure system draws on the TCFD recommendations and is also consistent with relevant ISSB standards. The TNFD metrics include core global disclosure metrics, core sector metrics, additional disclosure metrics and assessment metrics on the LEAP approach.

TNFD Framework：

· **General requirements:** 1. Application of materiality; 2. Scope of disclosures; 3. Location of nature-related issues; 4. Integration with other sustainability-related disclosures; 5. The time horizons considered; 6. Engagement with indigenous peoples, local communities and affected stakeholders.

· **Recommended disclosures around four pillars:**

Governance: Disclose the organisation"s governance of nature-related dependencies, impacts, risks and opportunities;
Strategy: Disclose the effects of nature-related dependencies, impacts, risks and opportunities on the organisation’ s business model, strategy and financial planning where such information is material；
Risk and impact management：Describe the processes used by the organisation to identify, assess, prioritise and monitor nature-related dependencies, impacts, risks and opportunities;
Metrics and targets: Disclose the metrics and targets used to assess and manage material nature-related dependencies, impacts, risks and opportunities.

· **Disclosure metrics:**

Core metrics: "Core global metrics" which all organisations should disclose, regardless of sector, and"core sector metrics" which are specific to the sectors that organisations operate in;

Additional disclosure metrics and assessment metrics on the LEAP approach.

Note: LEAP, short for Locate, Evaluate, Assess, Prepare, is an integrated assessment approach summarized by the TNFD Working Group to help companies assess nature-related risks and opportunities.

In addition, the Network Greening the Financial System (NGFS), a group of central banks and supervisors, also published the Conceptual Framework for Nature-Related Financial Risks in September 2023, which proposes that the assessment framework consists of three main phases. Phase 1: Identify sources of physical and transtion risks; Phase 2: Assess economic risks; and Phase 3: Assess risks to, from and within the financial system. The release of the framework marks an important milestone in NGFS's commitment to including nature-related risks into mainstream considerations.

2.Development of China's Sustainable Investment Policy

In 2023, China's ESG policy and market continue to develop in a smooth and orderly manner, with several features: focusing on carbon peaking and neutrality ("dual carbon"), leveraging disclosure and product growth, and developing the insurance industry as a whole at a faster pace.

Focus on the "Dual Carbon" Goals

Shortly after China announced its "dual carbon" goals in 2020, its central bank proposed to build a "green financial system that supports carbon neutrality", marking the "dual carbon" goals as the key focus of green finance. In 2023, this remained the primary theme of green finance policies, with a focus on green credit, green bonds and various other efforts contributing to the achievement of the "dual carbon" goals. A notable change in 2023 was the focus on transition finance. Last year, the G20 Sustainable Finance Working Group (SFWG) led by central banks proposed a framework for transition finance; This year, the G20 SFWG continues to prioritise transition finance. China's central bank publicly stated that it conducted research on transition finance standards in four areas: steel, coal power, construction and building materials, and agriculture. The results will be publicly released when deemed appropriate.

The carbon emission reduction supporting tool is a crucial policy innovation to incentivise transition. By the second quarter of 2023, the relending loans provided through this tool had reached RMB 453 billion. The pilot scheme has been expanded from the initial national banking institutions to include foreign banks and local commercial banks. China's central bank decided to extend the implementation of the tool until the end of 2024. Another similar tool, the relending facility for clean and efficient utilisation of coal, will also be extended until the end of 2023.

Guided by policy directives, the market is gradually developing an understanding of transition finance in the market: Transition finance is a useful supplement to green finance in the narrower sense, which can help traditional high-carbon emissions industries obtain financing support. At its video conference on research in 2023, China's central bank also proposed to "promote the effective connection of green finance and transition finance", indicating that it places a high premium on transition finance.

In 2023, both the country's National Development and Reform Commission (NDRC) and the Ministry of Ecology and Environment introduced several policies and initiatives related to the "dual carbon" goals and finance. In April, the NDRC issued the Notice on the Outline and Instructions for Compiling the Feasibility Study Report of Investment Projects. It mandated that feasibility studies for high-energy-consuming and high-carbon emissions projects should analyse their impact on achieving the "dual carbon" goals in the respective regions. Subsequently in October, the NDRC and other departments released the Guidelines on Promoting Green, Innovative and High-Quality Development of the Oil Refining Industry, encouraging financial institutions to increase credit support for carbon emission reduction projects in this industry. The organic combination of the "dual carbon" goals and green finance is also reflected in the carbon peaking implementation programs and policies launched by various local governments. For example, Henan Province issued its Carbon Peaking Implementation Program in February 2023, proposing to improve the green finance system and vigorously develop green credit, green equity, green bonds, green insurance, green funds and other financial instruments.

Disclosures Developing at a Faster Pace

In 2023, ESG and financial institutions' environmental disclosure was undoubtedly prominent policy focal points. A key driving force is the release of two new standards, IFRS S1 (General Disclosures) and IFRS S2 (Climate-Related Disclosures) at the end of June by the ISSB, an initiative of the International Financial Reporting Standards (IFRS) Foundation. The two standards aim to promote global harmonisation of sustainability disclosure standards. At the inauguration of the IFRS Beijing office, China's Ministry of Finance expressed full support for the Foundation's work and the development of international sustainability disclosure standards.

Meanwhile, the China Securities Regulatory Commission (CSRC) has been steadily advancing ESG reporting by listed companies. In September, CSRC officials mentioned that they were guiding the Shanghai and Shenzhen exchanges in studying and drafting guidelines on sustainability disclosure for listed companies, emphasizing several important principles, including making sustainability disclosure voluntary before making it mandatory, adhering to the principle of double materiality, and disclosing key issues based on both international consensus and domestic concerns. A-share listed companies have responded promptly, with approximately one-third of them published ESG reports in 2023, compared to one-quarter in 2022.

The State-owned Assets Supervision and Administration Commission (SASAC) of the State Council has acted quickly. In July this year, the General Office of the SASAC forwarded the research results of the Notice on Research on the Preparation of ESG Special Reports of Listed Companies Controlled by Central Enterprises in the form of a notice. From the three aspects of ESG, the research group has developed an indicator system of 14 first-tier, 45 second-tier and 132 third-tier indicators, covering core and recommended indicators. This system provides technical guidance for central enterprises and the listed companies they owned in preparing reports. In response to this, local SASACs and state-owned enterprises (SOEs) in various regions have intensified their efforts to promote ESG reporting.

In addition to central enterprises and SOEs, financial institutions also stands out as another industry with a concentrated disclosure of ESG reports, primarily driven by policies. Some banks have gone a step further by segregating their ESG reports and environmental disclosure reports (alternatively referred to as green finance reports or TCFD reports) presenting a comprehensive set of "three regular reports" alongside their annual reports.

China' s central bank branches nationwide are actively encouraging local banks (including local branches of legal person banks of a certain size) to disclose environmental reports. Notably, in Shenzhen, this encouragement has taken the form of legislation, specifically the Green Finance Regulation of Shenzhen Green Special Zone, with 2023 marking the inaugural year of mandatory disclosure. As per the legislative requirements, 161 local financial institutions in Shenzhen are obliged to disclose their reports, making the significant impact of legislation a driving force.

ESG disclosure requirements in Hong Kong continue to align with global trends. In April 2023, HKEx mandated listed companies to disclose climate-related information across four dimensions: Governance, Strategy, Risk Management, and Metrics and Targets, based on the Consultation Paper on Enhancement of Climate-related Disclosures under the Environmental, Social and Governance Framework. This requirement clearly aligns with the requirements of the TCFD framework (i.e., IFRS S2).

Increasing the Number of Products

ESG and green financial products are pivotal drivers shaping ESG policies. Within China's financial market, green credit stands out as the category with the largest amount. According to China's central bank, as of the end of the third quarter in 2023, the outstanding green credit in both domestic and foreign currencies amounted to RMB 28.58 trillion, marking a substantial year-on-year increase of 36.8%. This growth significantly outpaced the overall credit growth rate by 26.6 percentage points. Policies play a crucial role in the development of green credit. Firstly, China's central bank and the National Administration of Financial Regulation mandate banks to report green credit data on a quarterly or semi-annual basis. Secondly, the central bank has integrated the green credit and green bond investment data into the green financial evaluation of financial institutions in the banking sector.

At the local level, an increasing number of provinces and cities have set policy targets for green credit in 2023. For instance, Shanghai aims to achieve over RMB 1.5 trillion in outstanding green financing by 2025. Guangdong has set a target for green credit to constitute approximately 10% of all outstanding loans by 2030. Additionally, Chongqing aims to have outstanding green credit exceed RMB 600 billion by the end of 2025. These policies not only facilitated the ongoing expansion of green credit in 2023 but also support its sustained growth in the coming years.

Climate and transition-related green financial products are key areas receiving substantial policy support. Sustainability-linked products, in particular, exemplify transition finance products. In the first three quarters of 2023, 16 sustainability-linked bonds were issued by 13 issuers in the domestic market. However, lingering concerns within the market revolve around these products, primarily stemming from the risk that some may be introduced under the guise of transition but for the purpose of greenwashing. Therefore, if China' s central bank formally introduces its transition finance standards, the risk will certainly be reduced.
China is actively promoting the Common Ground Taxonomy (CGT), a catalogue jointly developed with the EU. This initiative aims to facilitate the recognition of financial products designed by market entities under this common system in both domestic and overseas markets. In 2023, the Green Finance Committee of the China Society of Finance and Banking organised efforts to label the outstanding green bonds. As of September 30, 2023, there are 237 green bonds issued in the inter-bank market in line with the CGT, of which 207 were during the duration.

Green and inclusive product innovation is a new area encouraged by green financial policies in 2023. In September, the State Council issued the Implementation Opinions on Promoting the High-Quality Development of Inclusive Finance, aiming to boost inclusive finance to support green and low-carbon development. Prior to this, a number of banks had been designing green financial products for small and micro enterprises and individual consumers.

Insurance Gaining Momentum

In recent years, while the insurance sector has gradually increased their involvement in ESG and green finance, two major issues persist. Firstly, there is a division between the insurance product end and the insurance asset management, with the product primarily represented by pollution liability insurance. Secondly, there is a lack of standardised classification method, resulting in incomplete statistics, evaluation data and historical accumulation. In 2023, there has been substantial transformation in this situation, with the insurance industry rapidly accelerating its overall involvement in ESG and green finance.

The issuance of the Guidelines on Green Finance for the Banking and Insurance Industries by the former China Banking and Insurance Regulatory Commission (the current National Administration of Financial Regulation) in June 2022 played a pivotal role in driving this change. The Guidelines introduced comprehensive requirements for the insurance sector, covering areas such as organisational management, policy systems, business processes, internal control management and information disclosure.

In the same context, in November 2022, the former China Banking and Insurance Regulatory Commission released the Statistical System for Green Insurance Business, which provides a step-by-step data collection process on green insurance liability-side business, considering both the product and customer dimensions. The regulator also stipulated that all insurance companies establish and improve the identification and management mechanism for green insurance products, green industry clients and green insurance targets.

In September 2023, the Insurance Association of China issued the Green Insurance Classification Guidelines (2023 Edition), outlining standards for green insurance products, green investment of insurance assets, and green operations of insurance companies. Regarding green insurance products, the Guidelines refines product classification based on service scenarios and guide insurance companies to improve their green insurance product systems. In terms of green investment and operations, the Guidelines provides a tool to measure their green investment and operational practices, ultimately contributing to the improvement of their overall development quality and efficiency.

Fueled by these policies, many insurance companies have devised comprehensive green financial strategies, policies, and classification and statistical frameworks covering both insurance and asset management products at the group level. As of the second quarter of 2023, the premiums from green insurance nationwide amounted to RMB 115.9 billion, with insurance assets invested in green development-related industries reaching RMB 1.67 trillion, a notable year-on-year increase of 36%.

The insurance asset management is continues to advance in the direction of stewardship. In September 2022, the Insurance Asset Management Association of China (IAMAC) initiated the ESG Stewardship Initiative. Building on this, the IAMAC further developed the Stewardship Guidelines (Draft) in 2023, enriching the content and providing complementary information disclosure templates. Consequently, the prerequisites for the implementation of stewardship are essentially in place.

Insurance companies on the asset management side are actively embracing stewardship. In July, 2023, China SIF and the Institute of Finance and Sustainability (IFS) launched the China Climate Engagement Initiative (CCEI). This initiative aims to stimulate a responsible approach among listed companies toward climate change and facilitate orderly transition. Three major insurance asset management companies, including China Life Asset Management Company Limited, CPIC Assets Management Company Limited and Taikang Asset, became founding members of the CCEI, with IAMAC serving as a supporting organisation.

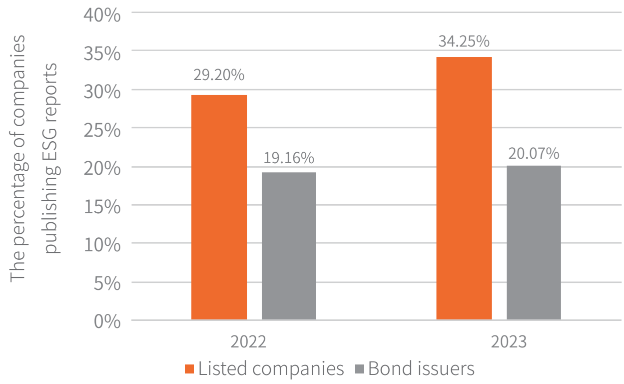
3.ESG Performance of Listed Companies and Bond Issuers

This chapter delves into the current state of ESG information disclosure and the evolving landscape of ESG performance for Chinese enterprises. ESG information disclosures encompasses the release of ESG-related reports[7] along with the disclosure status of key ESG indicators. ESG performance refers the evaluation outcomes derived from assessing a company's public ESG information and events associated with ESG risks. The analysis in this chapter spans a total of 9,023 companies, including 5,372 A-share listed companies and 4,548 issuers of public debentures[8].

Status of ESG Disclosures

As of September 30, 2023, a collective total of 2,178 Chinese A-share listed companies and issuers of public debentures had released ESG reports, marking an increase of 22% compared to 2022. Among them, the proportion of ESG report disclosure and its growth rate for listed companies notably outpaced those of bond issuers (Figure 5). In 2023, 34.25% of listed companies published their ESG reports, marking an increase of 5.05% from 2022. Conversely, only 20.07% of bond issuers published their ESG reports, exhibiting a modest year-on-year increase of 0.91%. Overall, there is a stronger inclination among listed companies to divulge ESG information compared to bond issuers, and this trend is gaining momentum.

Figure 5 Publication of ESG Reports by Listed Companies and Bond Issuers, 2022-2023



Data Source: SynTao Green Finance, as of September 30, 2023

As of September 30, 2023, there were a total of 2,288 companies listed on the Shanghai Stock Exchange[9], 2,862 companies listed on the Shenzhen Stock Exchange[10], and 222 companies listed on the Bejing Stock Exchange[11], amounting to 5,372 listed companies on the three stock exchanges. As of September 2023, a cumulative total of 1,840 companies had released their 2022 ESG reports. This set of reporting companies represents 34.25% of all A-share listed companies, comprising 1,024 companies listed on the Shanghai Stock Exchange, 812 companies listed on the Shenzhen Stock Exchange and four companies listed on the Bejing Stock Exchange, and among them 149 are A/H dual-listed companies.

[7] he ESG-related reports herein include the reports named "Social Responsibility Report", "Sustainability Report" and "Environmental, Social and Governance Report", "ESG Report", "CSR report" and other reports that disclose ESG and other non-financial information.

[8] Among them, 897 companies are both listed companies and bond issuers.

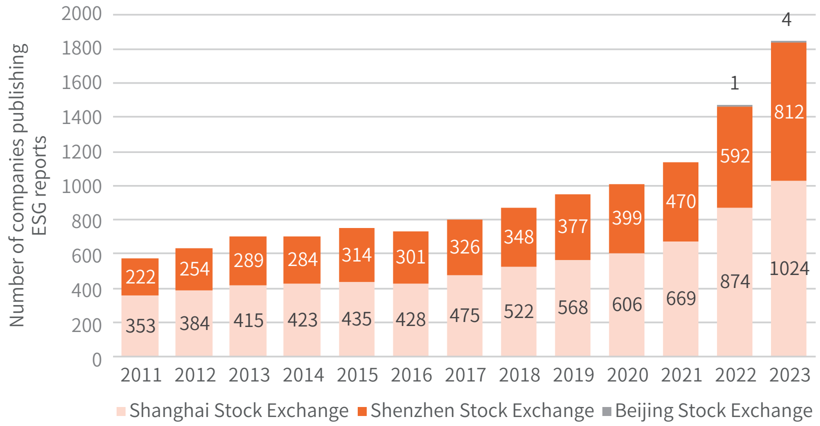
[9] General overview of SSE stock data, http://www.sse.com.cn/market/view/

[10] General overview of SZSE stock data, https://www.szse.cn/market/overview/index.html

[11] General overview of BSE stock data, https://www.bse.cn/static/statisticdata.html

Overall, the year-on-year increase and growth rate of the number of A-share listed companies disclosing ESG-related reports in 2023 made a significant breakthrough compared with the past 11 years, and are expected to continue to grow rapidly in the future.

Figure 6 Publication of ESG Reports by A-share Listed Companies, 2011-2023

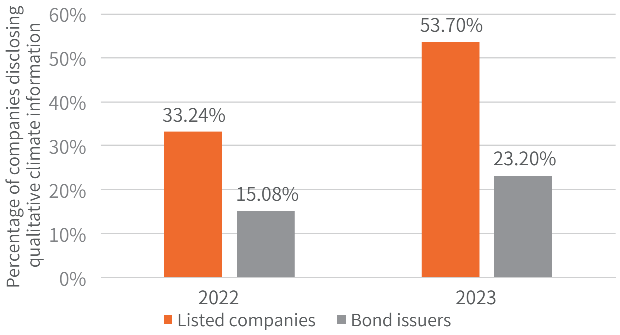


Data Source: compiled by SynTao Green Finance, as of September 30, 2023

Status Quo of Climate-related Information Disclosure

Since the introduction of the "dual carbon" goals were proposed, Chinese companies have displayed heightened interest in climate-related topics. More than half of listed companies have disclosed qualitative information concerning targets and policies related to GHG management, marking a 20% increase compared with 2022 (33.24%). However, only 23% of bond issuers have disclosed relevant information.

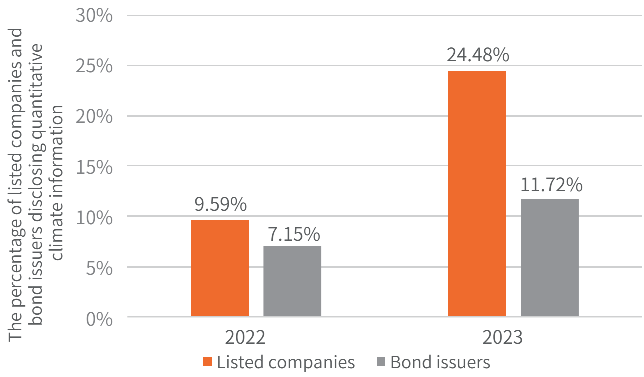
Figure 7 Disclosure of GHG Emissions Management-related Information by Listed Companies and Bond Issuers, 2022-2023



Data Source: SynTao Green Finance STαR ESG Data Platform

In addition to qualitative climate-related information, investors are generally more focused on companies' disclosure of quantitative information, especially data on GHG emissions and reduction. In contrast to qualitative information, Chinese companies still lag in the disclosure of quantitative climate-related information. Broadly speaking, less than 20% of both listed companies and bond issuers have actively disclosed their quantitative performance on GHG emissions. Specifically, 24.5% of listed companies and only 11.7% of bond issuers have engaged in such disclosures. Over the two-year period, the data suggests a growing trend among Chinese companies, with an increasing number proactively responding to policy requirements by disclosing quantitative performance data on GHG emissions or reduction.

Figure 8 Disclosure of GHG Emissions/Reduction by Listed Companies and Bond Issuers, 2022-2023

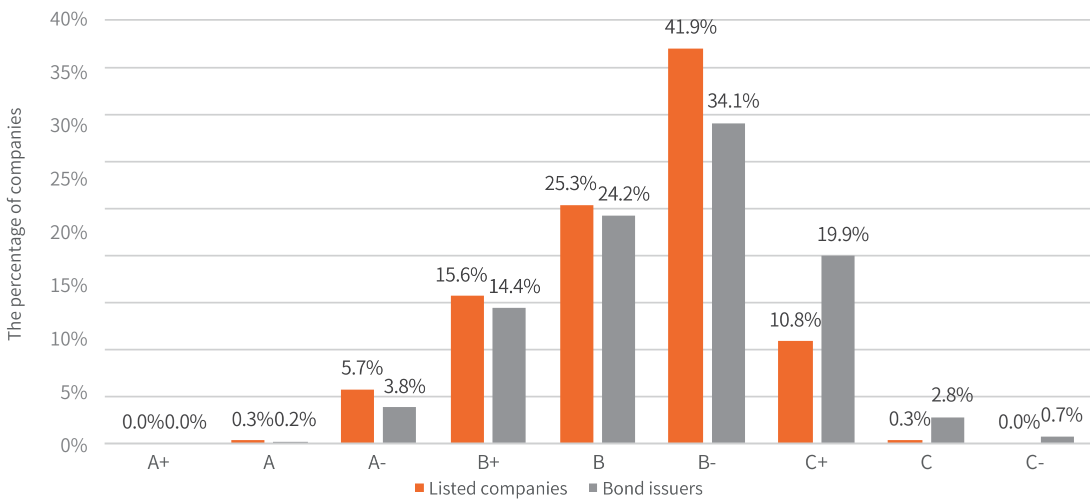


Data Source: SynTao Green Finance STαR ESG Data Platform

ESG Performance[12]

The SynTao Green Finance ESG rating system classifies companies into 10 grades (D to A+) based on their ESG performance. Currently, more than 50% of companies are rated B- or below, suggesting that the majority of companies have ESG performances in the mid to lower range. Notably, companies with lower ESG ratings (C+ and below) (16.57%) significantly outnumber those with higher ratings (A- and above) (5.07%). The distribution of ESG performance among listed companies and bond issuers differs significantly. About 89% of listed companies receive a rating of B- and above, with only 11% rated C+ and below. Conversely, over 20% of bond issuers receive a rating in the C bracket (including C+, C, and C-), highlighting higher ESG risk compared to listed companies.

Figure 9 Distribution of ESG Ratings for Listed Companies and Bond Issuers in 2023



Data Source: SynTao Green Finance STαR ESG Data Platform

As Chinese regulatory authorities gradually advance research on ESG-related disclosure frameworks, it is anticipated that ESG information disclosure will move towards greater standardisation and transparency, which will further promote the implementation of ESG-related practices by listed companies and bond issuers, and ultimately improve companies' ESG performance.

[12] ESG performance refers to the ESG rating results based on an assessment of a company's publicly available ESG information and ESG controversies, as specified in the ESG rating methodology of SynTao Green Finance: https://www.syntaogf.net/pages/esg01

4.Financial Institutions' Sustainable Investment Practices

4.1 Sustainable Investment Practices of Asset Management Institutions

With the strong support and promotion of the Central Government's green development and the "dual carbon" goals, coupled with the growing recognition of ESG concepts in the domestic capital market, domestic financial institutions have initiated diverse sustainable investment practices. Although the growth rate of Chinese signatories to the Principles for Responsible Investment (PRI) slowed in 2023, the number continued to increase, reaching 137 as of September 2023. Among them, 28 are mutual funds, four are insurance asset managers, and one is a bank wealth management subsidiary.

SynTao Green Finance has introduced the Responsible Investment Capacity Evaluation (RICE) Platform to assess the development progress of sustainable investment of China's asset management institutions. It provides a reference for individual investors, asset owners and institutions to make horizontal comparisons of sustainable investment capacity, contributing to the further enhancement of the domestic ESG ecosystem.

Data Sources and Scope

RICE is based on publicly available information, including but not limited to:

- Regular reports and policy documents: e.g. financial institutions' annual CSR reports, sustainable investment policies, annual sustainability reports, and annual ESG reports
- Disclosures mandated by sustainable investment initiatives, such as the annual transparency report required by PRI
- Company's official websites and social media accounts (e.g. official WeChat accounts)
- Reports and information from the group company or parent company
- News articles from reliable media

The RICE Platform covered a total of 221 financial institutions, comprising 157 mutual funds (including asset managers with a mutual fund qualifications), 31 bank wealth management subsidiaries, and 33 insurance asset managers. The information collection and review were conducted until October 31, 2023.

Assessment Methodology

The indicators set for the RICE Platform reference standards and reports such as the Self-Assessment Report on Green Investment by Fund Managers (2021) issued by the Asset Management Association of China (AMAC), the annual Transparency Reports disclosed by signatories as required by the PRI, and the TCFD Recommendation Report. Accordingly, further adjustments were made by China SIF to the selected RICE indicators and weight settings by considering the market practices and data availability.

[13] The institutions were selected from the CSRC's List of Mutual Fund Management Institutions (October, 2023) and the CBIRC's List of Legal Persons of Financial Institutions in the Banking Industry (as of the end of June 2023), and List of Legal Persons of Insurance Institutions (as of the end of June 2023).

The RICE Platform conducts its evaluation across six dimensions: strategy, management, product, climate, disclosure, and advocacy, encompassing a total of 12 secondary indicators and more than 50 tertiary indicators. Specific indicators include:

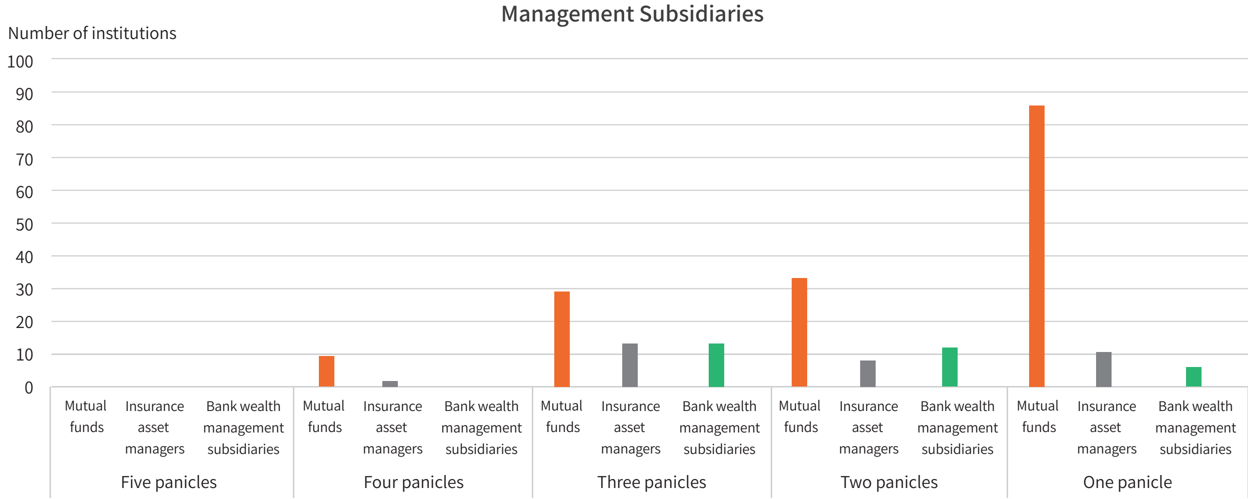
- Strategy indicators evaluate whether an institution has a sustainable investment philosophy and has integrated it into its strategy, policies, and organisational structure.
- Management indicators evaluate an institution's sustainable investment methods and how the ESG assessment system is developed.
- Product indicators evaluate the types, sizes, and ESG investment strategies of ESG products provided by an institution.
- Climate indicators evaluate whether an institution considers climate-related risks and opportunities of the investment, the management methods and tools employed, as well as the status of climate-related information disclosure.
- Disclosure indicators evaluate whether an institution regularly discloses information on ESG- and climate-related activities.
- Advocacy indicators evaluate whether an institution has participated in international and domestic ESG initiatives and whether it has promoted industry development through research, advocacy, and other means.

Data Analysis and Assessment Results

The initial weights for primary, secondary, and tertiary indicators in the RICE Platform were initially determined based on their materiality. Subsequently, these weights underwent adjustment in response to industry developments and data availability, resulting in the final weighting system. The assessment of three-tier indicators is primarily based on whether the targets have been achieved, scoring by yes or no, with some indicators adopt special scoring rules. For example, when evaluating mutual funds, the scale of ESG products and the extent to which each ESG strategy is applied are considered within product indicators. For bank wealth management subsidiaries, the focus is on the types of ESG products offered, while insurance asset managers are evaluated based on whether they provide thematic ESG products. Additionally, if a financial institution's parent company discloses relevant information, but the institution itself does not, it will receive a lower score in this indicator. Ultimately, each financial institution receives a total score on a percentage scale. China SIF classifies the sampled asset managers into five tiers, represented by the number of panicles as rating points to indicate their development level of sustainable investment, with five panicles being the highest rating.

As per RICE's assessment, no institution has yet achieved the highest development level or a five-panicle rating. However, nine mutual funds and two insurance asset managers have reached the advanced level, earning a four-panicle rating, constituting 5.7% and and 6.1% of their respective categories. A total of 29 mutual funds (18.5%), 13 insurance asset managers (39.4%), and 13 bank wealth management subsidiaries (41.9%) have received a triple-panicle rating for their current sustainable investment practices. Meanwhile, a total of 33 mutual funds (21.0%), eight insurance asset managers (24.2%), and 12 wealth management subsidiaries (38.7%) are at a starting level with a two-panicle rating. Finally, 86 mutual funds (54.8%), ten insurance asset managers (30.3%), and six bank wealth management subsidiaries (19.3%) have yet to engage in effective sustainable investment practices.

Figure 10 Development Level of Sustainable Investment of Mutual Funds, Insurance Asset Managers and Bank Wealth Management Subsidiaries



Data Source: SynTao Green Finance Responsible Investment Capacity Evaluation (RICE) Platform.

4.1.1 Financial institutions signing PRIs

According to RICE statistics, as of October 2023, a total of 137 financial institutions in China have signed the PRI, comprising four asset owners, 98 asset managers, and 35 service providers.

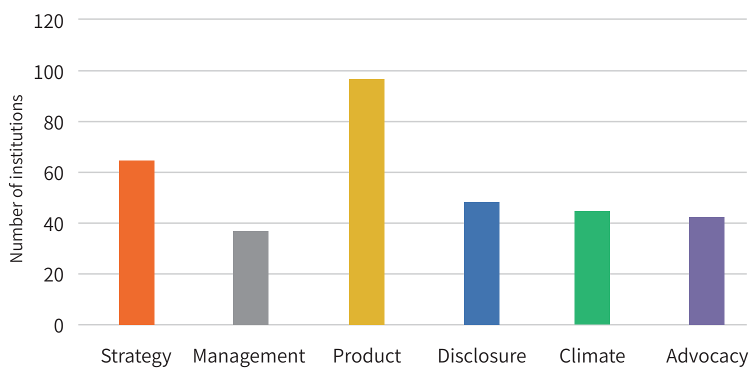
In the mutual fund industry, 28 companies have signed the PRI, and among the top 20 mutual funds in terms of average monthly size in the third quarter of 2023, 16 are PRI signatories. In the insurance asset management industry, four companies are PRI signatories, while there is one in the bank wealth management industry.

4.1.2 Mutual Funds' Sustainable Investment Practices

As of October 2023, among the 157 mutual funds listed in the CSRC's List of Mutual Fund Management Institutions (October 2023), there are nine four-panicle companies, 29 three-panicle funds, 33 two-panicle companies, and 86 one-panicle companies.

Compared to the 2022 assessment results, the overall performance of mutual funds has improved and consistently outperformed insurance asset managers and bank wealth management subsidiaries. However, no companies have achieved a 5-panicle rating. This indicates that industry leaders are facing a bottleneck in sustainable investment, leaving ample room for improvement compared to their global counterparts. Additionally, most funds are still in their initial stages and require further development.

Figure 11 Profile of the 109 Mutual Funds with ESG Investment Practices



Data Source: SynTao Green Finance Responsible Investment Capacity Evaluation (RICE) Platform.

Participation of Mutual Funds in Green Investment Self-Assessment

The Self-Assessment Report on Green Investment by Fund Managers (2022) published by the Asset Management Association of China (AMAC) reveals that out of the 46 sampled mutual funds, 33 have either issued or are in the process of issuing products with a focus on green investment. Among them, 21 have released multiple products, resulting in a total of 108 products. As of the end of the second quarter of 2022, the cumulative net assets of these 108 products amounted to RMB 204.553 billion.

Of the green fund products that the sampled mutual funds provided, 96 incorporated green investment strategies, with the majority being open-end funds. In terms of product types, there are 56 active funds and 40 passive index funds. Equity funds dominate, with fewer hybrid and bond funds. Regarding investment areas, active funds primarily concentrate on themes such as low carbon emissions and environmental protection, energy saving, new energy and carbon neutrality. Passive index funds on the other hand mainly track industry indices such as environmental protection, new energy, and photovoltaics, or thematic indices such as eco-protection and batteries. The green fund products that the sampled mutual funds provided have demonstrated relatively strong long-term returns, with all having positive annualised returns for three years and above.

Strategy

The strategy indicators encompass dimensions like the ESG concept and objectives, sustainable investment policies, and governance. Among the 64 mutual funds scored, nine have four panicles, and the majority (25) received a three-panicle rating.

A comprehensive sustainable investment policy typically covers aspects such as ESG philosophy and objectives, scope of application, governance, ESG investment approaches, information disclosures and reporting, and active ownership. The quality of sustainable investment policies reflect a mutual fund's emphasis on sustainable investment principles, its ability to systematically execute these objectives, and significantly influences how the public perceives the company's efforts in sustainable investment.

Compared to the previous year, the number of mutual fund companies scoring on the strategy indicator has doubled, indicating the widespread adoption of sustainable investment policies within the mutual fund industry. This trend is expected to further boost scores in other indicators.

Product

The product indicators assess three categories of ESG products issued by financial institutions: the ESG Select, ESG Exclusion, and ESG Theme. A total of 97 mutual funds have been scored, representing the majority of the 109 mutual funds scored in this evaluation (see Appendix 5 for details). This clearly demonstrates active responses of mutual funds to China's "dual carbon" goals and green development strategy as well as the increasing acknowledgement, enthusiasm, and attention for the ESG concept in the domestic investment market.

A total of 88 mutual funds have launched ESG Theme products, such as carbon neutrality funds, energy conservation and environmental protection funds, and green and low-carbon funds. The number of mutual funds issuing ESG Theme products has significantly increased compared to the previous year.

In the ESG Exclusion category, only eight mutual funds have introduced related products, which is less than the proportion seen internationally. This may be attributed to the limited number of domestic mutual funds with comprehensive sustainable investment policies, indicating a lack of a complete sustainable investment framework. Additionally, it could also be due to differences in development characteristics, cultural preferences, and variations in investor demands and preferences between China and developed countries, causing domestic mutual funds to be more cautious in determining excluded industries. For instance, industries like alcohol and fossil fuels are generally not included in the exclusion lists of domestic institutions.

Forty-three mutual funds have issued ESG Select products, marking a significant increase in both quantity and scale compared to previous year. The RICE Platform evaluated the investment strategies of ESG Select products by referencing criteria such as the EU's Sustainable Finance Disclosure Regulation (SFDR) and ESG funds recognised by the Securities and Futures Commission (SFC) of Hong Kong. The assessment results reveal that an increasing number of domestic mutual funds have provided comprehensive, detailed and professional explanations in their product investment strategies regarding the definition of ESG, the application of ESG assessment systems, the utilisation of ESG investment methods and the impact of ESG factors on the investment decisions. This enhancement in the popularity of sustainable investment policies among mutual fund companies has positively influenced the improvement of sustainable investment product practices.

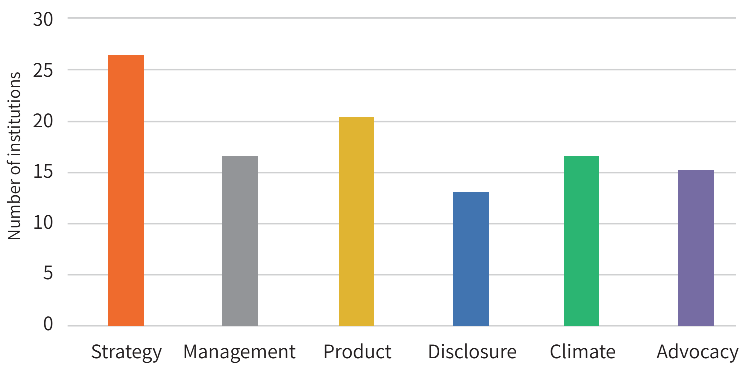
4.1.3 Sustainable Investment Practices of Insurance Asset Managers

According to the RICE Platform, as of October 2023, out of the 33 sampled insurance asset managers, there were 2 four-panicle-rated companies, 13 three-panicle-rated companies, 8 two-panicle-rated companies, and 10 one-panicle-rated companies.

It is evident that the overall level of sustainable investment practices in the insurance asset management industry lags behind that of mutual funds. While the ESG concept aligns with the long-term value investment philosophy of insurance assets, the delayed adoption of sustainable investment practices may be attributed to the fact that insurance asset management institutions primarily manage assets from their group companies, thus being less influenced by the needs of external asset owners.

This year, Taikang Insurance Group and China Pacific Insurance (Group) Co., Ltd. have released their sustainable investment policies, acting as pioneers in the insurance industry. More than a year after the release of the Guidelines on Green Finance for the Banking and Insurance Industries, ESG has been rapidly integrated into the investment practices of domestic insurance assets. It is foreseeable that sustainable investment practices in the insurance asset management industry will experience further rapid development.

Figure 12 Profile of the 27 Insurance Asset Managers with ESG Investment Practices



Data Source: SynTao Green Finance Responsible Investment Capacity Evaluation (RICE) Platform

Management

The management indicators include the application of ESG integration and screening methods, the construction of the ESG assessment system, and active ownership. In 2023, a total of 14 insurance asset managers were scored, representing a doubling compared to the previous year.

This result clearly indicates that, following the lead of top-tier institutions, the insurance asset management industry has initiated the widespread adoption of sustainable investment. However, due to the higher implementation difficulty for insurance asset managers to make various ESG investments across asset classes, the overall development of sustainable investment within the industry is expected to require some time.

This year, both Taikang Insurance Group and China Pacific Insurance (Group) Co., Ltd. issued their sustainable investment policies, outlining specific requirements for their subsidiaries and various investment lines regarding sustainable investment across asset classes. The demonstration effect from these leading institutions, coupled with the increasing influence of the Guidelines on Green Finance for the Banking and Insurance Industries, is expected to prompt more insurance asset managers to establish a framework system for sustainable investment. Consequently, relevant institutions are anticipated to enhance their scores in management indicators and overall sustainable investment practices.

Advocacy

The advocacy indicators assess whether financial institutions have participated in or are signatories to any sustainable investment organisations/initiatives/forums. Financial institutions receive a corresponding score upon becoming members or signatories of relevant global/regional/domestic organisations. In the advocacy indicators, 13 insurance asset managers received scores, showing no change from last year.

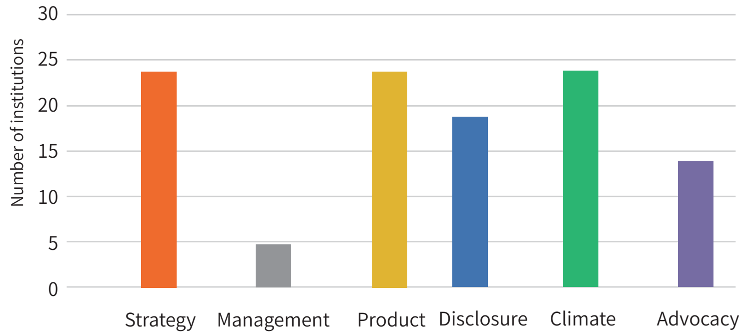
With the ongoing development of sustainable investment in the insurance asset management industry, it is expected that more insurance asset management institutions will participate in international initiatives such as the PRI, TCFD, and other organisations. This involvement aims to facilitate communication and collaboration with indusry peers, contributing to the collective improvement of sustainable investment capabilities.

4.1.4 Sustainable Investment Practices of Bank Wealth Management Subsidiaries

According to the RICE Platform, as of October 2023, among the 31 bank wealth management subsidiaries, there there had been 13 three-panicle companies, 12 two-panicle companies, and 6 one-panicle companies.

This shows that sustainable investment development among bank wealth management subsidiaries is still in their infancy, lagging behind mutual funds and insurance asset managers. While the overall score has increased considerably compared to last year, it mainly stems from their shareholder banks’ ESG practices.

Figure 13 Profile of the 26 Bank Wealth Management Subsidiaries with ESG Investment Practices



Data Source: SynTao Green Finance Responsible Investment Capacity Evaluation (RICE) Platform

Product

The product indicators primarily assess three types of ESG products issued by financial institutions: the ESG Select category, the ESG Exclusion category, and the ESG Theme category. However,due to limited disclosed information on bank wealth management products, it is not possible to identify the product types, assess investment strategies or calculate product scale. Therefore, this assessment focuses solely on the number of existing ESG-related products issued (excluding different batches of the same product).

Out of the 26 bank wealth management subsidiaries scored, 24 have issued thematic ESG products, underscoring their commitment to sustainable investment. Most of the thematic ESG products are fixed-income, a small number are hybrid, and only one is an equity product. The major investment targets include green bonds, green asset-backed securities (ABS), and credit assets of enterprises with sound ESG performance, covering key areas such as energy saving and environmental protection, ecological protection, high-quality development, clean energy, and rural revitalisation, suggesting no major change compared with last year.

There is currently limited disclosure on sustainable investment philosophy, systems, governance, and methodology, compared to other aspects where bank wealth management subsidiaries received scores. The ESG investment strategy of these products is not thoroughly explained. Improved disclosure in these areas would enhance public understanding of their sustainable investment capabilities, potentially attracting more investors to ESG bank wealth management products.

Climate

The climate indicators primarily assess financial institutions' climate policy, climate risks and opportunities management, and the disclosure of climate-related information. A total of 24 bank wealth management subsidiaries were scored in this category. The results indicate that their emphasis on climate-related matters surpass that of mutual funds and insurance asset managers. However, their actual scores are slightly lower, mainly due to the fact that much of their information is disclosed by their parent banks.

As of now, only leading mutual funds and insurance asset managers have actively engaged in climate-related practices. The majority have yet to incorporate climate change considerations into their social responsibility reports or sustainable investment policies. In total, 45 mutual funds and 14 insurance asset managers received scores in climate indicators. Although the number has increased compared to the previous year, mutual funds and insurance asset managers continue to focus on climate-related strategies and the assessment of associated risks and opportunities. Nevertheless, there has been no progress in disclosing climate-related information, with most institutions failing to disclose their operational carbon emissions.

Bank wealth management subsidiaries' climate-related practices primarily involve the formulation of climate strategies, assessment of climate-related risks and opportunities, and regular disclosure of climate-related information. These practices reflect the banking industry's commitment to green finance and contribution to achieving the "dual carbon" goals. Overall, only very few leading institutions in the industry have initiated efforts to calculate the carbon emissions of their portfolios and conduct climate risk scenario analysis or stress testing. This is partly attributed to the insufficient carbon emission disclosure of their investment targets.

4.2. ESG Performance of Mutual Funds

In the past three years, led by the "dual carbon" goals, domestic institutional investors have increasingly prioritised ESG investment. On one hand, institutional investors are striving to align themselves with international standards by integrating ESG factors into their investment process. On the other hand, these investors have recognised that ESG investments possess characteristics that can enhance the risk-return profile of investment portfolios. As the AUM continue to grow and mutual funds experience rapid development, Fund of Funds (FOF) investment has also expanded rapidly. Influenced by sustainable investment, FOF institutional investors and pension funds have increased the premium on the ESG performance of the investee funds, which is closely related to the high-quality development of the economy. Given this context, it is imperative for the market to access data and evaluations of the ESG performance of mutual funds.

4.2.1 ESG Ratings of Mutual Funds

To calculate ESG ratings based on the portfolios of mutual funds, this Report collected complete stock and bond portfolio information from the semi-annual and annual reports of equity funds, hybrid funds and bond funds listed before January 1, 2023. Only actively managed funds listed for more than six months[14] were considered for the ESG scores calculation. This Report evaluated the ESG performance of funds from 2020 to 2023, covering a total period of 3.5 years, including Q2 2020, Q4 2020, Q2 2021, Q4 2021, Q2 2022, Q4 2022, and Q2 2023.

SynTao Green Finance (STGF) ESG rating is used as a metric for evaluating ESG performance of mutual funds portfolios. The STGF ESG rating comprises the overall ESG score, as well as E, S, and G scores, along with the ESG management score, and the ESG risk score. This research only includes mutual funds with stock and bond

[14] The period for active public funds to build positions since their inception is generally half a year. This means that after half a year of inception, the fund's positions and strategies run relatively stable.

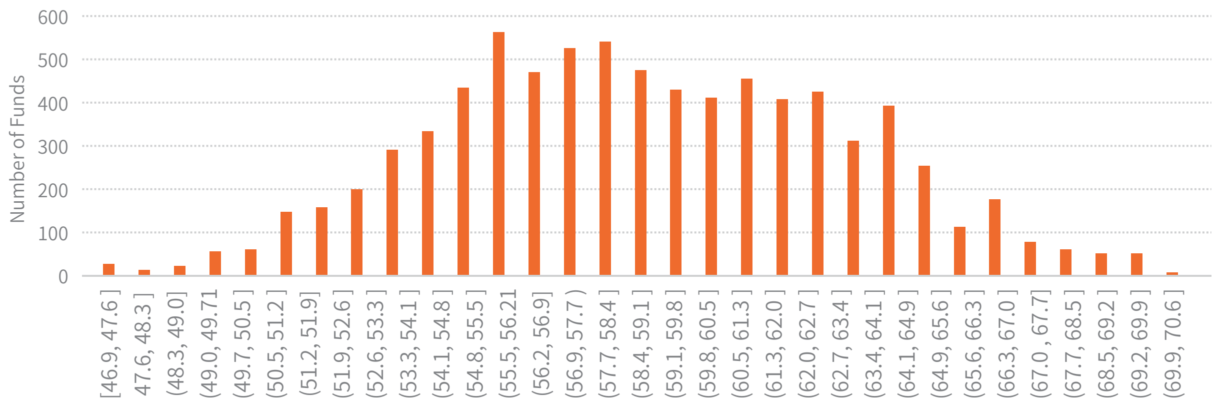
portfolions representing over 2/3 of the overall fund net worth[15]. The ESG rating of a specific fund during a particular period is determined by the weighted average of the STGF ESG rating corresponding to the fund's stock or bond portfolios. The weighting factor is chosen as the percentage of the portfolio corresponding to each stock or bond. The scoring formula is as follows:

$$ESG_t \text{ of a Fund} = \sum_{i=1}^{n} ESG_{it} \times Weight_{it}$$

Where ESG_{it} is the total ESG rating of the stock i in period t[16], and $Weight_{it}$ is the portfolio weight for stock or bond i in period t.

Figure 14 illustrates the distribution of ESG scores among the mutual funds analysed in this research, with the majority of funds receiving ESG scores ranging 55 and 65. **Table 3** provides an overview of the distribution of ESG scores for these funds across the seven six-month periods from 2020 to 2023. It is evident that the median ESG scores are progressively on the rise.

Figure 14 Distribution of ESG Scores Based on the Portfolio of Mutual Funds' 2023 Interim Reports



Data Source: SynTao Green Finance

[15] Given that funds may hold various bonds and cash alongside stocks, and different types of funds have distinct structural and coverage requirements for asset allocation, it's crucial to consider the representative nature of the ESG rating. If a fund's top five stock positions represent a low percentage of the net asset value, the calculated ESG rating based on its stock positions may not represent the overall ESG performance of the entire fund. Similarly, if a fund's top five bond positions represent a low is not representative of the ESG performance of the entire fund.

[16] The ESG ratings of the bonds are taken from the ESG ratings of the corresponding bond issuers.

Table 3 Distribution of ESG Scores of Mutual Funds, 2020-2023

ESG Total Score	mean	std	min	25%	median	75%	max	skew	kurt
2020Q2	50.68	2.32	43.53	48.96	50.40	51.95	63.31	1.01	2.52
2020Q4	50.92	2.24	42.27	49.33	50.84	52.28	63.13	0.67	2.27
2021Q2	53.26	2.61	44.42	51.36	53.27	54.93	65.92	0.50	1.48
2021Q4	52.64	2.45	44.20	50.82	52.41	54.28	65.75	0.61	1.24
2022Q2	56.01	3.31	46.64	53.60	55.80	58.24	70.75	0.32	0.04
2022Q4	55.76	3.30	45.45	53.43	55.34	58.20	64.78	0.22	-0.48
2023Q2	59.51	4.11	46.86	56.55	59.28	62.56	70.58	0.04	-0.38
E Score	mean	std	min	25%	median	75%	max	skew	kurt
2020Q2	51.35	3.59	39.70	48.77	51.18	53.35	68.65	0.64	1.44
2020Q4	51.61	3.59	40.30	49.24	51.63	53.81	68.66	0.31	1.04
2021Q2	55.07	4.30	43.14	51.97	55.18	58.16	71.30	0.14	0.15
2021Q4	53.98	4.13	43.51	50.86	53.89	56.84	70.48	0.31	0.00
2022Q2	56.32	5.23	41.93	52.52	56.15	59.93	74.07	0.20	-0.10
2022Q4	55.53	5.18	40.19	51.76	55.11	59.14	70.26	0.16	-0.54
2023Q2	60.22	6.63	42.43	55.39	59.81	65.13	78.37	0.16	-0.48
S Score	mean	std	min	25%	median	75%	max	skew	kurt
2020Q2	54.58	2.05	45.69	53.29	54.41	55.84	63.66	0.37	1.40
2020Q4	54.75	1.93	44.36	53.58	54.69	55.89	64.14	0.18	1.93
2021Q2	56.77	2.11	46.10	55.43	56.83	58.10	66.57	0.03	2.02
2021Q4	56.40	1.98	45.51	55.14	56.35	57.58	66.78	0.04	2.05
2022Q2	54.41	3.70	43.38	51.73	54.35	56.95	71.70	0.27	0.13
2022Q4	54.11	3.62	43.06	51.47	53.83	56.77	64.31	0.14	-0.47
2023Q2	58.25	4.38	44.45	55.02	58.20	61.43	70.62	-0.03	-0.33
G Score	mean	std	min	25%	median	75%	max	skew	kurt
2020Q2	45.75	2.13	40.12	44.44	45.50	46.67	60.29	1.34	3.67
2020Q4	46.03	2.05	39.35	44.78	45.90	46.96	57.53	0.85	2.87
2021Q2	47.26	2.23	40.59	45.89	47.13	48.39	60.12	0.88	2.70
2021Q4	46.96	2.07	39.86	45.64	46.81	48.19	60.21	0.76	2.48
2022Q2	57.45	2.12	51.66	56.07	57.18	58.51	67.24	1.01	2.29
2022Q4	57.69	2.27	51.69	56.10	57.38	58.91	66.79	0.83	1.27
2023Q2	60.42	2.60	52.04	58.63	60.22	62.29	69.19	0.23	-0.09
ESG Management Score	mean	std	min	25%	median	75%	max	skew	kurt
2020Q2	23.66	5.35	10.87	19.63	22.71	26.88	44.18	0.73	0.20
2020Q4	24.19	5.08	10.35	20.52	23.75	27.45	44.27	0.40	0.23
2021Q2	27.77	5.61	10.95	23.57	27.65	31.46	49.21	0.27	0.02
2021Q4	26.50	5.40	10.47	22.52	25.98	29.92	48.64	0.50	0.18
2022Q2	36.21	5.96	18.79	31.87	36.04	40.39	56.90	0.16	-0.21
2022Q4	35.64	6.27	16.88	31.24	34.95	40.24	53.26	0.23	-0.44
2023Q2	41.78	7.74	19.68	36.07	41.40	47.45	62.28	0.06	-0.51
ESG Risk Score	mean	std	min	25%	median	75%	max	skew	kurt
2020Q2	91.20	3.76	77.32	88.66	92.20	94.06	98.32	-0.75	-0.21
2020Q4	91.02	3.55	76.97	88.53	91.57	93.76	98.04	-0.56	-0.22
2021Q2	91.49	3.43	76.40	89.59	92.21	93.82	98.46	-0.94	0.96
2021Q4	91.86	3.44	74.23	89.94	92.69	94.26	98.57	-1.06	1.30
2022Q2	85.70	1.89	78.19	84.51	85.80	86.96	95.20	-0.18	0.62
2022Q4	85.93	1.99	76.34	84.80	86.20	87.26	90.41	-0.85	1.43
2023Q2	86.12	2.04	74.79	84.92	86.42	87.62	90.33	-0.75	0.73

Data Source: SynTao Green Finance

4.2.2 Climate Rating of Mutual Funds

The European Union (EU) is now entering its fourth year of implementing the Sustainable Financial Disclosure Regulations (SFDR)[17]. According to Article 6 of the SFDR, financial market participants are required to disclose the principal adverse impact indicators (PAIs)[18] of their investment decisions on sustainability. Among the 14 PAIs, greenhouse gas (GHG) emissions take the top spot. The SFDR mandates the regular disclosure of the GHG emissions from investee companies for asset management products in the EU market. In China's market, there are currently no explicit regulatory requirements for funds to disclose their carbon footprints. However, in the context of the "dual carbon" goals, regulatory requirements for financial institutions to disclose environmental and climate-related information have started to be emerge. Institutional investors are also increasingly focusing on the performance of investee funds and portfolios, particularly in terms of their carbon footprints and transition potential.

Carbon Intensity Evaluation

The assessment of a fund's carbon footprint is conducted similarly to the evaluation of its ESG rating. This research specifically focuses on mutual funds where the combined stock and bond positions constitute over 2/3 of the total fund net worth. For a given fund in a specific period, the carbon intensity is calculated as the weighted average of the carbon intensity associated with the fund's stock or bond portfolios. The weighting factor is determined by the amount of each position. The formula is as follows:

$$CarbonIntensity_t \ of\ a\ fund = \sum_{i=1}^{n} CarbonIntensity_{it} \times Weight_{it}$$

Where $CarbonIntensity_{it}$ is the carbon intensity of security i in period t, and $Weight_{it}$ is the weight of security i's position in the fund's portfolio of stocks and bonds covered by the carbon emissions data in period t. The financed emissions per million yuan is calculated in a similar way:

$$Financed\ Emissions_t \ of\ a\ fund = \sum_{i=1}^{n} FinancedEmissions_{it} \times Weight_{it}$$

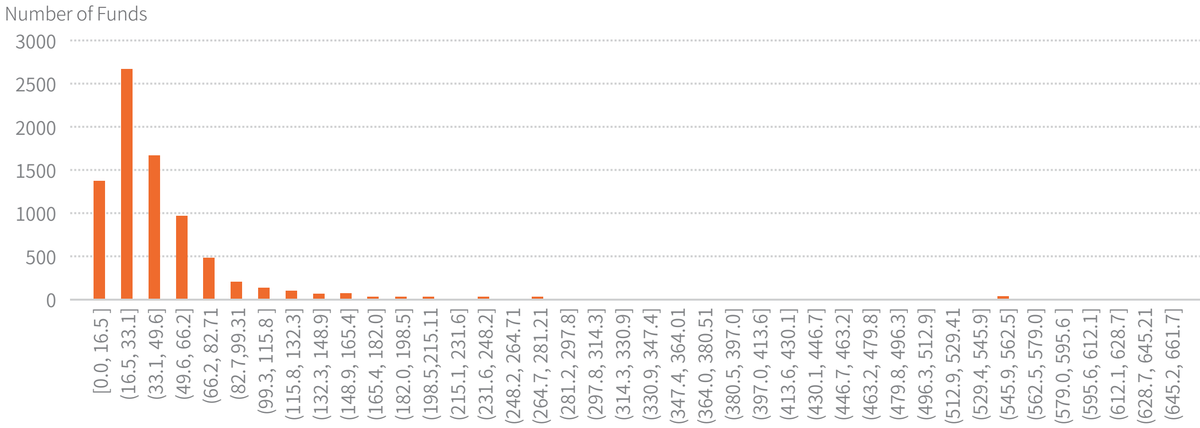
The latest carbon intensity and emissions per million RMB invested in a fund can be determined using the stock and partial bond portfolio information disclosed in the mutual fund's 2023 interim report. Most funds exhibit carbon intensity within the range of 0 to 83 tonnes per million RMB of revenue. However, a minority of funds show higher carbon intensity, displaying a notable positive skew. The fund with the highest carbon intensity reaching 661.74 tonnes per million RMB of revenue. In comparison, the carbon intensity of CSI 300 index at the end of Q2 2023 is 43.08 tonnes per million RMB of revenue, while the CSI 500 index's carbon intensity is 71.46 tonnes per million RMB of revenue. Analysing data from seven semi-annual periods between 2020 and 2023, it is observed that the median and mean carbon intensity of funds increased in Q4 2021 and then decreased, while the emissions per million RMB remained relatively stable.

---

[17] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:32022R1288R(01)

[18] Article 6 Excerpt: In the section 'Description of the principal adverse impacts on sustainability factors' in Table 1 of Annex I, financial market participants shall complete all the fields that relate to the indicators related to principal adverse impacts of their investment decisions on sustainability factors, and they shall add all of the following:
(a) information on one or more additional climate and other environment-related indicators, as set out in Table 2 of Annex I;

Figure 15 Distribution of Funds' Carbon Intensity Based on Fund Portfolios, Q2 2023



Data Source: SynTao Green Finance

Table 4 Distribution of Mutual Funds' Carbon Intensity, Q2 2020-Q2 2023

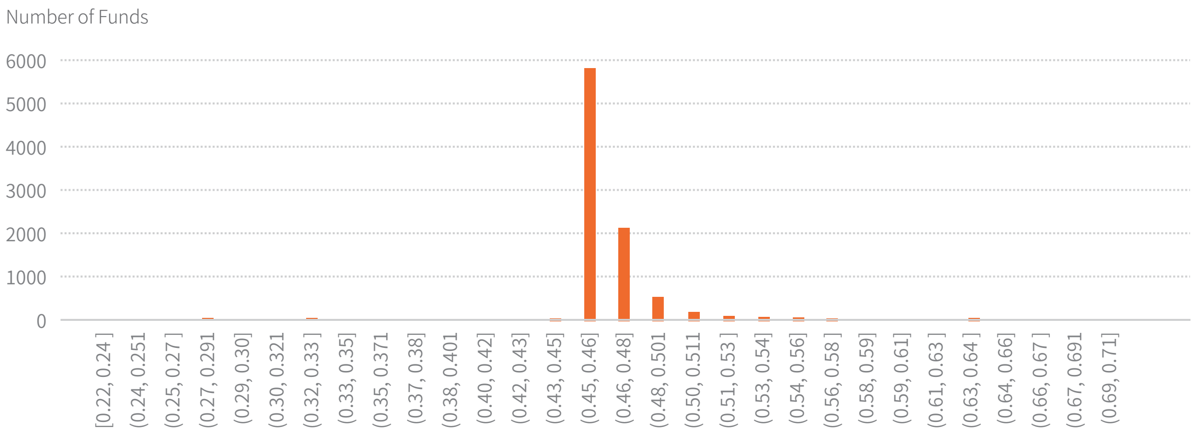
2020Q2	count	mean	std	min	25%	50%	75%	max	skewness	kurtosis
Funds' carbon intensity	3456	47.72	49.35	1.08	21.96	34.71	55.11	821.61	5.21	50.87
Fund's financed emissions per million yuan	3456	22.54	35.82	0.05	4.77	11.22	26.48	500.30	6.00	57.93
2020Q4	count	mean	std	min	25%	50%	75%	max	skewness	kurtosis
Funds' carbon intensity	3829	47.76	45.55	1.04	23.14	37.72	57.92	712.41	5.40	51.46
Fund's financed emissions per million yuan	3829	17.97	29.11	0.04	3.90	8.81	19.91	432.43	6.38	68.24
2021Q2	count	mean	std	min	25%	50%	75%	max	skewness	kurtosis
Funds' carbon intensity	4569	44.14	38.62	1.07	21.62	35.34	55.78	666.56	5.25	58.62
Fund's financed emissions per million yuan	4569	20.84	39.27	0.04	3.92	8.92	21.84	836.27	8.90	140.91
2021Q4	count	mean	std	min	25%	50%	75%	max	skewness	kurtosis
Funds' carbon intensity	5636	53.05	53.93	1.11	24.27	40.52	62.83	662.97	4.69	34.70
Fund's financed emissions per million yuan	5636	21.02	33.11	0.04	4.62	10.14	24.30	443.13	5.79	53.48
2022Q2	count	mean	std	min	25%	50%	75%	max	skewness	kurtosis
Funds' carbon intensity	6360	47.29	41.70	0.00	24.45	40.08	58.66	576.94	5.48	53.44
Fund's financed emissions per million yuan	6360	20.69	28.99	0.00	5.97	12.48	24.48	360.90	5.81	52.10
2022Q4	count	mean	std	min	25%	50%	75%	max	skewness	kurtosis
Funds' carbon intensity	7063	46.78	50.68	0.00	22.59	35.51	54.83	682.92	5.51	44.05
Fund's financed emissions per million yuan	7063	22.37	36.15	0.00	5.48	11.78	25.89	406.63	5.63	44.74
2023Q2	count	mean	std	min	25%	50%	75%	max	skewness	kurtosis
Funds' carbon intensity	7857	45.61	55.53	0.00	19.61	32.44	52.53	661.74	5.64	44.20
Fund's financed emissions per million yuan	7857	21.61	36.55	0.00	4.71	10.52	24.17	452.45	5.82	49.14

Data Source: SynTao Green Finance

Transition Risk Evaluation

Carbon intensity represents a fund's current climate performance. In addition to its calculation, this research also assesses the level of transition risk, indicative of a fund's future climate performance. This research computes the CVaR (Carbon Value at Risk)[19] for individual stocks under the Network for Greening the Financial System (NGFS) scenario, projecting the year 2030 with a global warming limit of 2 °C[20]. This metric gauges the extent of climate change transition risk for listed companies, with values rangeing from -1 to 1. After normalising the CVaR to a range of [0, 1], the transition risk score for individual stocks is derived. A higher score indicates a greater transition risk for the company. Similarly, the fund's transition risk score is determined using a calculation method similar to that of the fund's ESG score. After calculating and normalising, most funds exhibit transition risk scores around 0.45, with a median of 0.4603, and serveral funds show higher transition risks. The transition risk score for the CSI 300 Index and CSI 500 Index are 0.4677 and 0.4803, respectively.

Figure 16 Funds' Transition Risk Scores, 2023



Data Source: SynTao Green Finance

[19] CVaR, which stands for Carbon Value at Risk, is a climate-related risk metric used to estimate the percentage of a portfolio's total asset value that would be lost due to the carbon price over a given investment horizon.

[20] In the scenario in which global warming of 2 °C could be reached, there is a 67% chance of limiting global warming to less than 2°C, with climate policies becoming progressively stronger over time.

4.3 Analysis on ESG and Investment Performance of Mutual Funds

Further analysis involves exploring the relationship between a fund's ESG performance and its investment outcomes. This research uses passive index funds (1900+, tracking about 370+ indices) as sample research pool[21]. It aims to identify the correlation between the ESG weighted scores of the tracked underlying indexes and the indexes' returns, volatility, and maximum drawdown over the next six months. Over seven consecutive six-month periods from the end of Q2 2020 to the end of Q4 2022, we analysed the funds' performance in terms of return and risk for the next six months by dividing the passive indexes into five groups based on their ESG scores. The analysis revealed that higher overall ESG scores, governance scores, and ESG management scores of underlying indexes correspond to higher returns and lower volatility and maximum drawdown for the subsequent six months (ESG cores for the seven periods between Q2 2020 and Q2 2023). This aligns with the effectiveness of ESG scores in A-share market investments.

Table 5 Relationship between ESG Score of Passive Indices and Investment Performance in the Next Six Months

Return for the next six months (%)					
	ESG Total Score	E	S	G	ESG Management Score
Group with the lowest score	-0.75	1.94	-1.21	-3.35	-1.62
Group 2	-1.05	-1.44	-0.87	-2.59	-1.34
Group 3	-0.07	-1.31	-0.01	-1	0.21
Group 4	-1.43	-0.62	-0.01	0.78	-0.38
Group with the highest score	-0.56	-2.46	-1.76	2.31	-0.73
Volatility for the next six months (%)					
	ESG Total Score	E	S	G	ESG Management Score
Group with the lowest score	24.32	25.47	23.19	25.18	25.02
Group 2	24.21	23.41	24.05	24.39	24.38
Group 3	23.35	23.26	23.6	23.15	24.07
Group 4	23.4	23.09	23.67	22.45	23.19
Group with the highest score	23.15	23.19	23.93	23.24	21.77
Maximum drawdown for the next six months (%)					
	ESG Total Score	E	S	G	ESG Management Score
Group with the lowest score	18.77	18.75	18.08	20.73	19.9
Group 2	19.33	18.56	19.17	19.47	19.42
Group 3	18.23	18.84	17.95	18.06	18.76
Group 4	18.3	17.89	18.15	17.26	17.68
Group with the highest score	17.15	17.73	18.44	16.24	16.01

Data Source: SynTao Green Finance

[21] We take passive index funds as an example because their positions are relatively stable, and the positions disclosed in the semi-annual and annual reports are basically the same as those in the next six months. In comparison, the positions disclosed in the semi-annual and annual reports of actively managed funds and their positions for the next six months are not consistent.

5.Sustainable Investment Products

The AUM of global sustainable funds has continued to decline in the first three quarters of 2023 due to factors like the global economic recession, rising interest rates, and regional conflicts. Although China's sustainable investment market had increased significantly in the number of products, there has been no growth in size.

5.1 ESG Indices

The Number of ESG Indices Continues to Grow Rapidly, with the ESG Select Category Showing the Largest Increase

According to the China SIF, as of the end of September 2023, major domestic index companies[22] have released a total of 202 (see Appendix 3 for more details) stock indices involving constituent stocks screened by environmental (E), social (S), or corporate governance (G) factors. Among them, 70 are ESG Select indices, 7 are Corporate Governance Select indices, 15 are green and Low-Carbon Select indices, and 6 are Social Select indices; 92 of those have energy conservation and environmental protection themes, one with Blue Economy Theme, and 2 with Social Development Theme; 7 are ESG Exclusion indices, and 2 are Green and Low-Carbon Exclusion indices. Before the SSE and SZSE required listed companies to disclose social responsibility information in 2008, the development of ESG indices was very slow. The number of ESG indices rose steadily after 2008, up by single digits each year by 2018. The number has been increasing rapidly since 2019. Especially in 2021 and 2022, after the "dual-carbon goals", the number has increased by more than 40% compared to the previous year. In 2023, the growth in the number of ESG indices slowed down due to market fluctuations, with the number of ESG indices increasing by 17.4% as of September compared to the end of 2022.

Select Category

- "ESG Select": The constituent stocks are screened based on all three factors of E, S and G.
- "Corporate Governance Select": The constituent stocks are screened based on corporate governance factors.
- "Green and Low-Carbon Select": The constituent stocks are screened based on environmental factors.
- "Social Select": The constituent stocks are screened based on social factors (e.g., employee compensation, tax contributions, etc.).

Exclusion Category

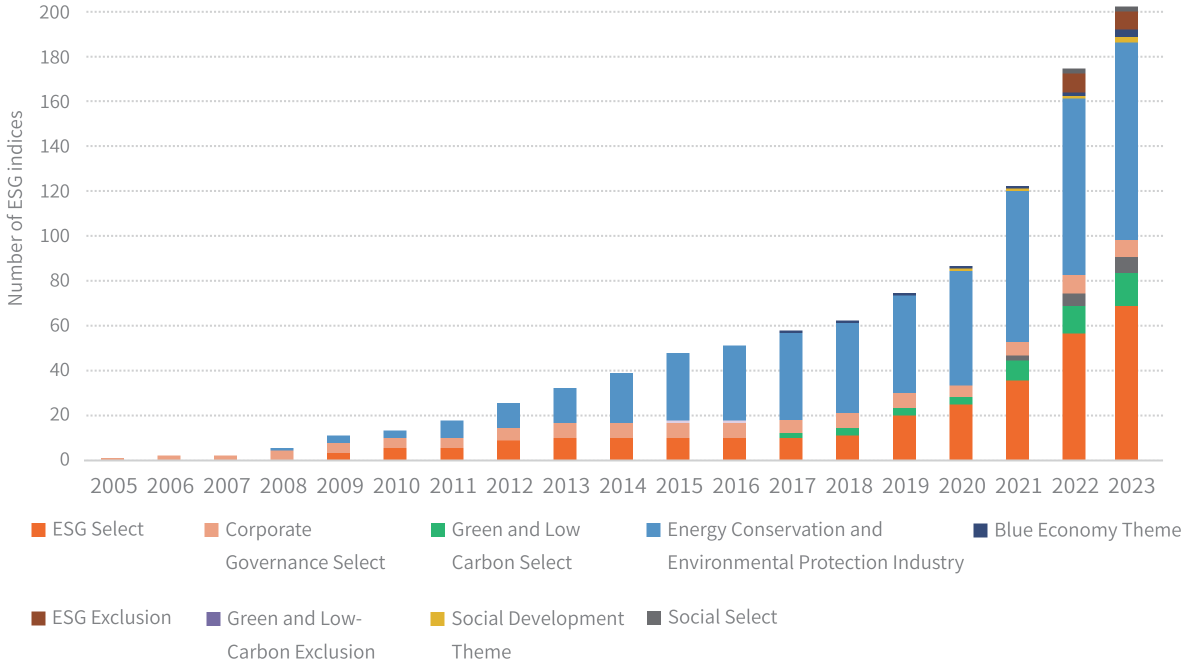
- "ESG Exclusion": a screening method that excludes constituents with poor ESG performance.
- "Green and Low-Carbon Exclusion": a screening method that excludes constituents with poor environmental performance.

[22] They include the SZSE, China Securities Index Company, Shenzhen Securities Information Co., Ltd., and Sino-Securities Index Information Service (Shanghai) Co., Ltd.

Theme Category

- "Energy Conservation and Environmental Protection Theme": All the constituent stocks are those of listed companies engaging in energy conservation and environmental protection-related business.
- "Social Development Theme": The constituent stocks are those of listed companies related to related to industries such as rural revitalisation and data security.
- "Blue Economy Theme": The constituent stocks are those of listed companies related to marine economy.

Figure 17 Growth of A-share ESG indices



Data source: Wind data terminal. Compiled by China SIF

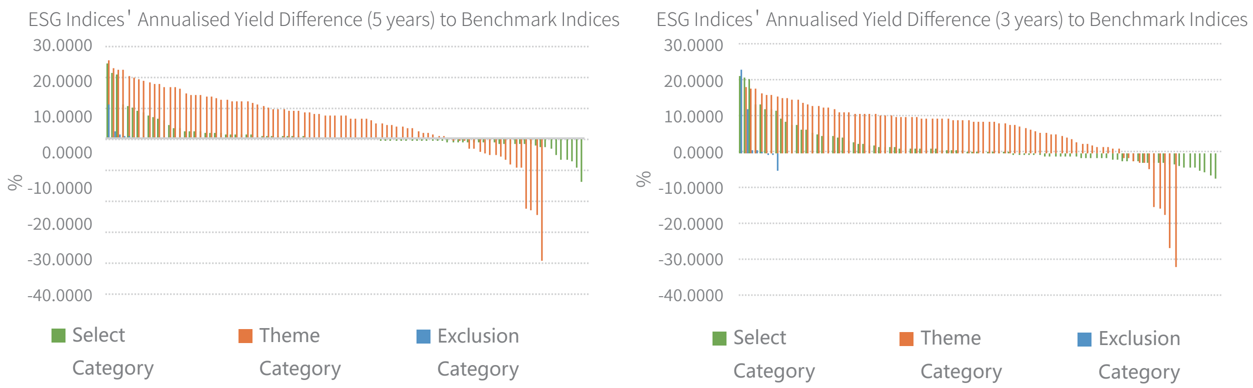
As of September 2023

Among them, the "ESG Select Category" indices, which takes ESG factors into account, have seen the fastest growth in recent years, with an increase of 22.8% at the end of September 2023 compared to the end of last year. This shows that this category is still a source of innovation in the compilation of China's ESG indices.

ESG Indices Have Outperformed the Market Over the Long Term, and Thematic ESG Indices are Even Better

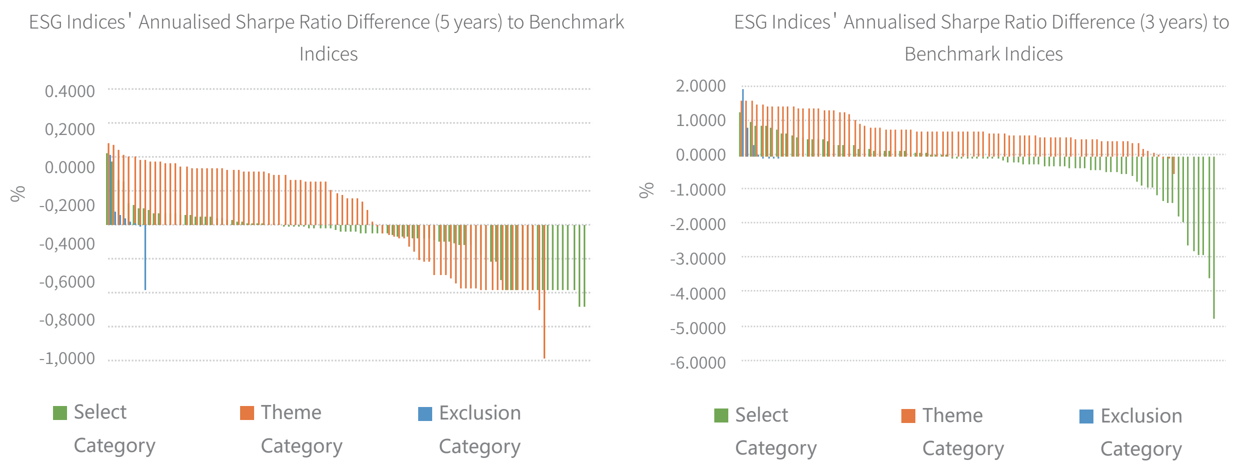
Apart from indices that include H-share stocks and bonds, there are 186 ESG indices available for performance comparison with benchmark indices. The findings reveal that 68.8% of ESG indices exhibit higher five-year annualised returns compared to their benchmark counterparts, and 70.1% of ESG indices outperform their their benchmark indices in three-year annualised returns. Notably, the Theme category, primarily focusing on companies in the energy conservation and environmental protection industry or those engaged in rural revitalisation, has demonstrated superior performance in both five-year and three-year annualised returns when compared to the Select category. Despite being less numerous, the Exclusion category has consistently outperformed benchmark indices in terms of five-year annualised returns (Figure 18). Taking a comprehensive view of risks, 49.5% of ESG indices have five-year annualised Sharpe ratios surpassing those of their benchmark indices. Moreover, 68.3% of ESG indices have three-year annualised Sharpe ratios exceeding those of the benchmark indices. The thematic indexes also outshine the select indexes over both the last five years and the last three years (Figure 19).

Figure 18 Comparison of Annualised Yields of Select, Thematic and Exclusion ESG Indices



Data source: Wind data terminal. Compiled by China SIF

Figure 19 Comparison of Sharpe Ratios of Select, Thematic and Exclusion ESG Indices



Data source: Wind data terminal. Compiled by China SIF

Funds Tracking ESG Indices Have Grown Rapidly, and Carbon Neutral and Photovoltaic Indices are Popular

By the end of September 2023, a total of 34 ESG indices were being tracked by mutual funds, corresponding to a total of 207 passive index fund products (see Appendix 4 for details). The number of funds increased by approximately 23%, with the majority of new funds tracking thematic indices such as those related to green power, photovoltaics and renewables. This trend underscores the ongoing significant influence of the "dual carbon" goals in the market.

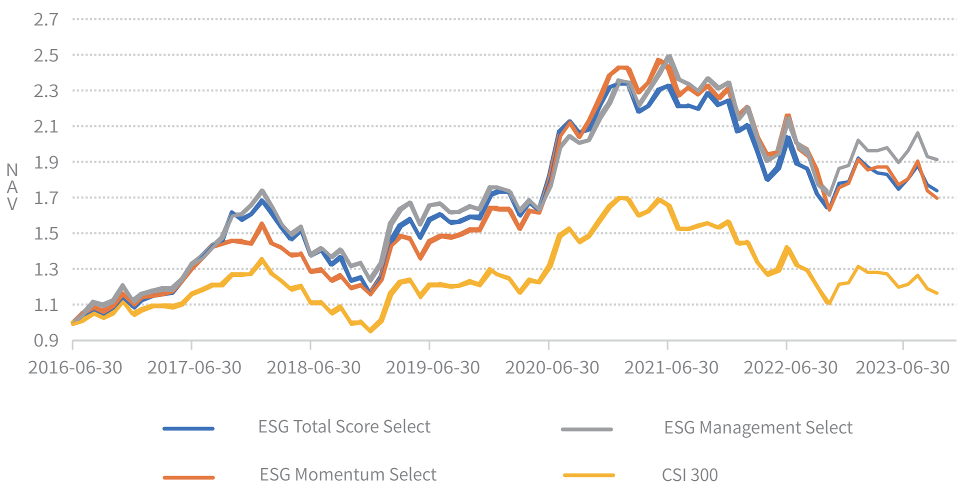
In July 2022, eight ETF products tracking the CSI SEEE Carbon Neutral Index (931755.CSI) were introduced to the market. As of September 23, there were already 22 funds tracking this index, ranking second only to the CSI Photovoltaic Industry Index (931151.CSI) in terms of total number of tracking funds. The CSI SEEE Carbon Neutral Index stands out by not only selecting listed companies with significant market capitalisation in low-carbon sectors like clean energy and energy storage, but also including listed companies with substantial potential for carbon emission reduction in traditional high-carbon industries such as thermal power, and iron and steel as constituents. This comprehensive approach covers the crucial areas of low-carbon development and transition on the path to carbon neutrality while also ensuring diversity across industry segments.

SynTao Green Finance Builds an ESG Select Index based on ESG Rating Data

Based on more than 10 years of experience in China's ESG market, SynTao Green Finance has independently developed an ESG Rating Framework that is more suitable for the A-share market. Based on the systematic evaluation of the ESG performance of listed companies, SynTao Green Finance has developed a series of index strategies based on various ESG factors. An ESG Single-factor Select Strategy Index was developed by selecting the top 20% of the CSI 300 constituent stocks and CSI 500 constituent stocks; a weight tilting strategy was also designed to lean the weights toward companies with higher ESG scores without changing constituent stocks of the index. We found that single-factor strategy indices have excess returns relative to the benchmark index and can achieve higher Sharpe ratios.

SynTao Green Finance developed the ESG Single-factor Select Strategy Index using the CSI 300 constituent stocks as the sample pool. During the backtesting interval (July 2016 to September 2023), the annualised excess return of the ESG Total Score Select Strategy Index relative to the benchmark index was 5.8%, the annualised excess return of the ESG Momentum Select Strategy Index was 5.3%, and the annualised excess return of the ESG Management Select Strategy Index was 7.1%. Compared to the Sharpe ratio of only 0.13 of the benchmark index during the observation period, the ESG Total Score Select Strategy Index, ESG Momentum Select Strategy Index, and ESG Management Select Strategy Index increased the Sharpe ratio to 0.43, 0.42, and 0.52, respectively.

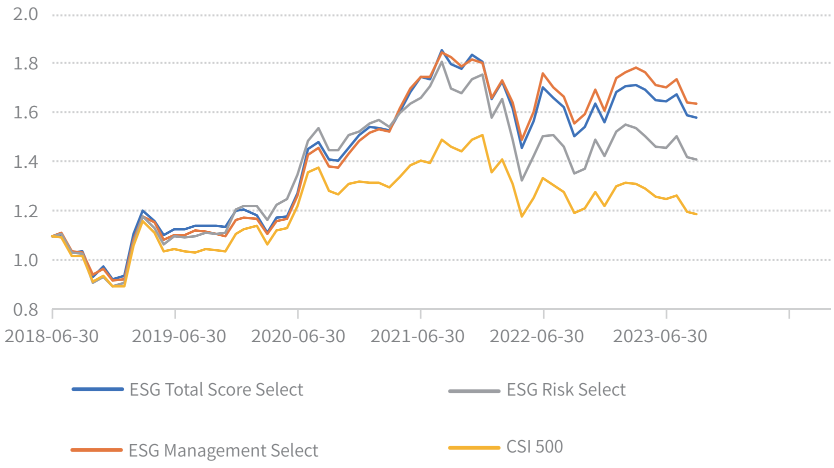
Figure 20 Performance of CSI 300 ESG Single-Factor Select Strategy Index



Data source: SynTao Green Finance

Using the CSI 500 constituent stocks as the sample pool, SynTao Green Finance has also developed the ESG Single-factor Select Strategy Index. During the backtesting interval (July 2018 to September 2023), the annualised excess return of the ESG Total Score Select Strategy relative to the benchmark index was 5.97%, the annualised excess return of the ESG Management Select Strategy was 6.54%, and the annualised excess return of the ESG Risk Select Strategy was 3.69%. In comparison to the benchmark index's Sharpe ratio of 0.09, the ESG Total Score Select Strategy, ESG Management Select Strategy, and ESG Risk Select Strategy increased the Sharpe ratio to 0.39, 0.45, and 0.26, respectively.

Figure 21 Performance of CSI 500 ESG Single-Factor Select Strategy Index



Data source: SynTao Green Finance

ESG Investments Have Fueled High-Quality Development

High-quality development stand as the primary approach to comprehensively advancing Chinese-style modernisation. The essence and characteristics of China's high-quality economic development manifest in three aspects: high-quality economic development signifies a transition from inefficient to intensive economic growth, emphacising a shift towards innovation-led development. The goal of high-quality economic development is to achieve higher-quality, greater efficiency, enhanced fairness, increased sustainability and heightened securityin economic growth. The outcomes of high-quality economic development include a more equitable income distribution system, equalisation of public resources between regions and urban-rural areas, and a broader and fairer distribution of economic development benefits to the entire population.

The principle of sustainable investment align closely with the philosophy of high-quality development. Companies selected through ESG strategies represent, to a certain extent, the high-quality economic development advocated by the state. An analysis of companies selected through ESG strategies outperform broad-based indexes in terms of several dimensions of high-quality development. The report takes the constituent companies of the CSI 500 index for the last three years as an example.

First, high-quality development emphasises quantity accumulation. Companies selected through the ESG Total Score Select Strategy exhibit higher Return on Equity (ROE) and dividend yields, signifying a direct embodiment of high-quality development.

Second, high-quality development, with a focus on the stability, can be reflected in low volatility, drawdown and risk level, as well as relatively lower valuation. Companies selected by the ESG Select Strategy demonstrate lower in drawdown, volatility[23] and ESG risk scores[24] compared to broad-based indexes, indicating a lower frequency of lawsuits, and price-to-book ratio, which means relatively lower valuation.

[23] Indicators here are, unless otherwise stated, the latest year's company performance, or values from the company's latest annual or semi-annual report

[24] Corresponds to a higher ESG risk score.

Third, sustainability is a key aspect of high-quality development, focusing on scientific and technological innovation and human resources quality. Companies selected through the ESG Total Score Select Strategy show slightly higher R&D expenditures, a greater proportion of technical staff, and 1.2 times higher values of intangible asset (software) compared with broad-based index. In terms of human resources, higher academic qualifications of employees implies that a company has a higher-standard human resource composition, contributing to the sustainability aspect. The average proportion of employees with bachelor's degrees and graduate degrees is higher in companies selected by the ESG Select Strategy than that of the broad-based index.

Fourth, high-quality development advocates for fairness and justice. Companies selected through the ESG Total Score Select Strategy exhibit a higher proportion of donations and rural revitalisation inputs in their operating revenues compared to the broad-based index, emphasizing a commitment to fairness and harmonious social development.

Table 6 ESG Select Index and High-Quality Development

		CSI 500	
		ESG Select	CSI 500 Index
"Quantity" in high-quality development	Excess return (%)	5.97	0.000
	Dividend yield (%)	1.81	1.71
	ROE (%)	2.13	2.04
"Stability" in high-quality development	Volatility (%)	40.02	40.96
	Maximum drawdown (%)	-33.56	-35.12
	Litigation	4.52	4.57
	P/B	3.05	3.08
	ESG risk score	91.01	90.04
"Sustainability" in high-quality development	Proportion of technical staff (%)	22.91	22.85
	Ratio of R&D expenditures to operating revenues (%)	5.53	5.51
	Ratio of R&D expenditures to operating revenues in a single quarter (%)	5.23	5.20
	Software - Book Value	121.92	100.00
	Proportion of employees with bachelor's degrees (%)	34.15	33.12
	Proportion of employees with graduate degrees (%)	9.66	8.27
"Fairness" in high-quality development	Donations/revenue (%)	0.019	0.016
	Donations+ rural revitalisation inputs/revenue (%)	0.029	0.023

Data Source: SynTao Green Finance

5.2 ESG Funds

The Number of ESG Mutual Fund Products Grew to 738, Maintaining a Strong Momentum

China's earliest ESG mutual funds were launched in 2005, but the growth was slow until 2015, with the number of new funds added each year remaining in the single digits. By the end of 2014, there were only 33 ESG mutual funds. From 2015 (the year "green finance" become popular), more than 10 new funds were added each year, bringing the total number to more than 100 in 2019. In 2022, there was an exponential leap in the number of ESG funds, reaching a total of 621. In 2023, the figure continued to rise, with a total of 738 ESG funds by the end of September. In 2021, the size of ESG funds increased to about double that of 2020, reaching more than RMB 630 billion.

However, due to market fluctuations, although the number of ESG funds still increased at a high rate in 2022, their size fell back sharply. In 2023, the situation remained unchanged, as the size of ESG funds continued to decline in spite of the upward trend in the number of ESG funds (see Figure 22).

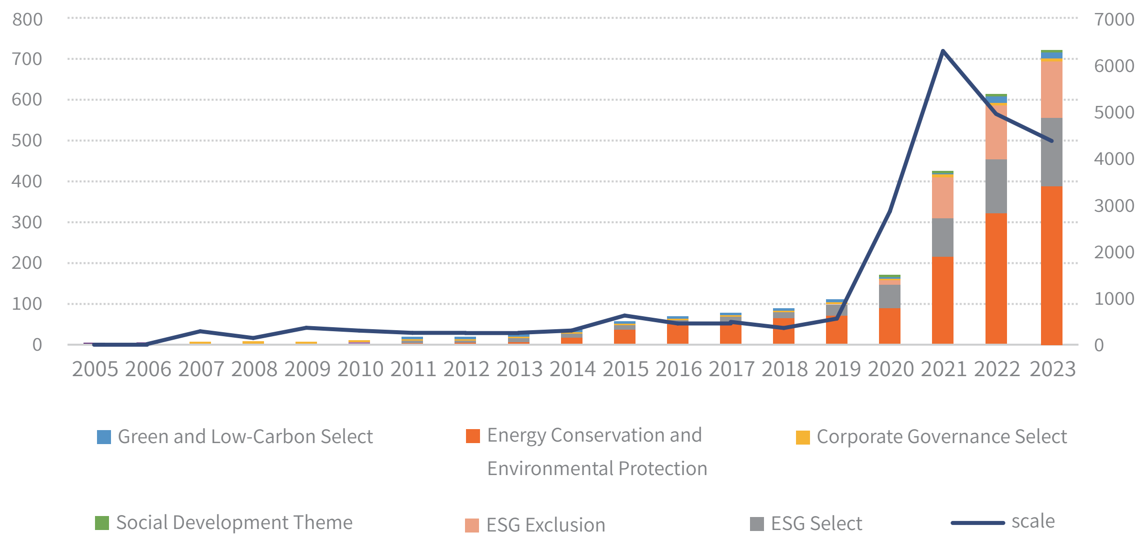
By the end of September 2023, 97 funds had issued 738 ESG mutual fund products (calculated by A/B/C/H classifica- tion). There are 157 fund managers in China, and nearly 60% have released ESG fund products. Among those, 24 are bond funds, 279 are equity funds, 397 are hybrid funds, 29 are FOFs, and 9 are international (QDII) funds (see Appendix 5 for the complete list).

Among the 738 ESG mutual funds, 155 used the ESG Select Strategy, 7 used the Corporate Governance Select Strategy, 29 followed the Green and Low-Carbon Select Strategy, 389 selected constituents primarily based on whether they belong to the "energy conservation and environmental protection industries" defined by the fund, and 158 ESG Exclusion funds used a screening methodology that excluded stocks with significant flaws in ESG performance (Figure 22).

Number of Funds

Scale

Figure 22 Growth in the Number and Scale of ESG Funds



Data source: Wind data terminal, compiled by China SIF

ESG funds have experienced certain growth in their market share and influence across the fund market. According to the mutual fund market data provided by the Asset Management Association of China (AMAC), as of September 30, 2023, ESG mutual funds constituted 7.45% of all equity and hybrid funds in the market, marking an 11% increase from the previous year. The proportion of ESG funds in terms of their scale decreased, due to a market impact. (Table 7).

Table 7 Number and AUM of ESG Funds

Types	2021/12/31		2022/12/31		2023/9/30	
	Quantity	Scale of AUM (in RMB billion)	Quantity	Scale of AUM (in RMB billion)	Quantity	Scale of AUM (in RMB billion)
ESG Equity Funds	159	2463.01	234	2054.79	279	1890.57
ESG Hybrid Funds	238	3711.03	343	2735.85	397	2280.15
ESG Bond Funds	6	55.78	16	106.55	24	136.42
ESG QDII Funds	2	0.00	5	1.96	9	3.54
All Equity Funds	1772	25816.73	1992	24782.42	2170	28254.55
All Hybrid Funds	3972	60511.48	4595	49972.86	4872	42350.03
All Bond Funds	1827	40985.49	2095	42730.86	2205	49029.56
All QDII Funds	199	2384.13	222	3267.81	266	3798.35
ESG funds as a percentage of the market	**5.21%**	**4.80%**	**6.72%**	**4.06%**	**7.45%**	**3.49%**

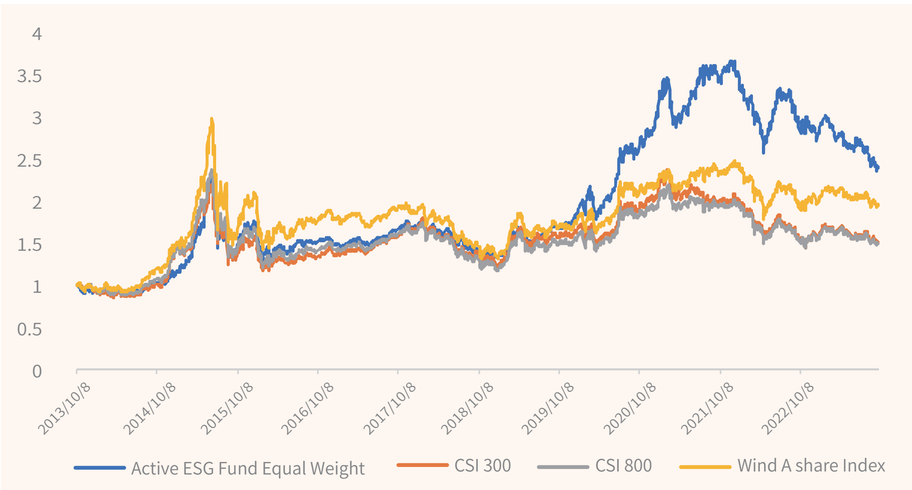
Data source: AMAC, statistics compiled by China SIF.

Among the 738 ESG funds, there are 208 Passive Index-based Equity Funds. Among them 207 funds track the ESG indexes mentioned above, except for one funds tracking the MSCI China A-Share International ESG General Index[25].

Active ESG Funds Have Outperformed Average Returns in the Market and Thematic ESG Funds Deliver Better Returns

Analysing the performance of actively managed ESG funds over the past three, five, seven and ten years, it is evident that these ESG funds have consistently outperformed broad-based indices. Thematic ESG funds, in particular, have delivered impressive returns, while select ESG funds have exhibited lower volatility. In a long-term comparison with market benchmarks such as the CSI 300, CSI 800, and the Wind A share Index, actively managed ESG funds have demonstrated superior performance.

Figure 23 Long-term Performance of Actively Managed ESG Funds (2013-2023: 10 years)



Data Source: Wind data terminal. Compiled by SynTao Green Finance

[25] There are 207 funds tracking the above-mentioned ESG indices, one of which is the Hong Kong-listed Harvest CSI 300 ESG Leadership Index ETF (3108.HK).

Table 8 Long-term Performance of Actively Managed ESG Funds (2013-2023: 10 years)

Time	Indicators	Active ESG Funds	ESG Select Funds	Thematic ESG Funds	CSI 300	CSI 800	Wind A Share Index
Three years: October 2020-September 2023	Annualized Yield	-2.10%	-4.55%	3.78%	-6.65%	-5.75%	-1.22%
	Annualized Standard Deviation	18.60%	16.30%	23.12%	17.93%	17.22%	17.10%
	Sharpe Ratio	-0.11	-0.28	-0.16	-0.37	-0.33	-0.07
Five years: October 2018 - September 2023	Annualized Yield	13.17%	9.82%	17.57%	4.35%	4.75%	8.10%
	Annualized Standard Deviation	19.35%	16.62%	22.80%	19.87%	19.65%	19.84%
	Sharpe Ratio	0.68	0.59	0.77	0.22	0.24	0.41
Seven years: October 2016 - September 2023	Annualized Yield	8.31%	6.15%	11.39%	3.41%	2.36%	3.13%
	Annualized Standard Deviation	17.91%	15.78%	20.63%	18.58%	18.40%	18.66%
	Sharpe Ratio	0.46	0.39	0.55	0.18	0.13	0.17
Ten years: October 2013-September 2023	Annualized Yield	11.27%	9.89%	12.99%	6.73%	6.60%	9.97%
	Annualized Standard Deviation	20.86%	21.03%	22.14%	22.10%	22.16%	24.39%
	Sharpe Ratio	0.54	0.47	0.59	0.30	0.30	0.41

Data Source: Wind data terminal. Compiled by SynTao Green Finance

Examining the performance of different types of ESG funds, the rapid growth of the green industry in recent years has positioned thematic ESG funds to outperform ESG select funds in terms of returns, especially over the past three to five years[26]. On the other hand, ESG select funds consistently maintain a superior record in volatility compared to thematic funds, reflecting the significant advantage of volatility control in ESG strategies and diversified investments. When considering the active versus passive management types, actively managed ESG funds have outperformed passive ones over the long term, highlighting the former' s advantage in volatility control.

Table 9 Performance of Various Types of ESG Funds (2013-2023: 10 years)

Time	Indicators	All ESG Funds	ESG Select Funds	Thematic ESG Funds	Active ESG Funds	PassiveESG Funds
Three years: October 2020-September 2023	Annualized Yield	-0.60%	-3.96%	3.60%	-2.10%	1.82%
	Annualized Standard Deviation	17.94%	15.09%	23.60%	18.60%	22.51%
	Sharpe Ratio	-0.03	-0.26	0.15	-0.11	0.08
Five years: October 2018 - September 2023	Annualized Yield	12.20%	8.82%	15.38%	13.17%	10.07%
	Annualized Standard Deviation	18.86%	16.14%	22.93%	19.35%	21.93%
	Sharpe Ratio	0.65	0.55	0.67	0.68	0.46
Seven years: October 2016 - September 2023	Annualized Yield	6.91%	6.75%	8.47%	8.31%	3.78%
	Annualized Standard Deviation	17.57%	15.39%	20.84%	17.91%	20.17%
	Sharpe Ratio	0.39	0.44	0.41	0.46	0.19
Ten years: October 2013-September 2023	Annualized Yield	9.89%	10.03%	10.41%	11.27%	6.90%
	Annualized Standard Deviation	20.78%	19.84%	22.86%	20.86%	23.27%
	Sharpe Ratio	0.48	0.51	0.46	0.54	0.30

Data Source: Wind data terminal. Compiled by SynTao Green Finance

[26] ESG exclusion funds, introduced after 2020, cannot be calculated for their 5-, 7-, and 10-year returns.

ESG Funds Have More Impressive ESG and Climate Performance

Comparing ESG funds' overall ESG performance scores to all funds in Q2 2023, it is evident that ESG funds generally achieve higher total ESG performance scores than the eintire fund universe. This is primarily manifested in ESG funds having higher environmental and social scores. Further classifying ESG funds into ESG Select, ESG Exclusion and ESG Theme categories reveals that the total ESG performance score of ESG Select and thematic ESG funds surpass those of ESG exclusion funds. This indicates that actively screening the ESG status of investment targets and choosing energy-saving and environmental protection industries can significantly enhance a fund's ESG profile.

Table 10 ESG Funds' ESG Scores

Fund Type / Score Type	All Funds		All ESG Funds		ESG Select Category		ESG Exclusion Category		ESG Theme Category	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median	Mean	Median
ESG Total Score	59.52	59.29	61.00	61.53	61.70	62.48	59.39	59.18	61.02	62.07
E Score	60.23	59.81	62.90	63.70	63.45	64.59	60.01	60.18	63.28	65.13
S Score	58.26	58.21	59.67	60.45	60.69	60.97	58.39	58.30	59.47	60.86
G Score	60.43	60.23	61.06	61.06	61.69	61.79	60.16	60.07	60.97	61.03
ESG Management Score	41.78	41.41	44.60	45.73	45.92	46.94	41.44	41.42	44.68	46.89
ESG Risk Score	86.12	86.42	85.59	85.78	85.38	85.34	86.31	86.41	85.54	85.75

Data Source: SynTao Green Finance

When comparing the median transition risk score of ESG funds to all funds in 2023, it is evident that ESG exhibit a slightly lower transition risk score. Upon further categorisation of ESG funds into ESG Select, ESG Exclusion, and energy-saving and environmental protection themed funds, it can be observed that the transition risk scores of both ESG Exclusion, and ESG Theme are lower than those of ESG Select funds, suggesting that active exclusion of stocks with higher transition risk and selection of energy-saving and environmental protection industries can reduce the overall transition risk of a fund.

Table 11 Transition Risk Scores for All Funds, ESG Funds and ESG Fund Sub-categories

Fund Type	All Funds	ESG Funds	ESG Select category	ESG Exclusion category	ESG Theme category
Fund Transition Risk Score	0.4603	0.4591	0.4625	0.4594	0.4588

Data Source: SynTao Green Finance

5.3 ESG Wealth Management Products

The market for sustainable wealth management products has boomed since the debut of ESG products in the wealth management market in 2019. According to the Banking Wealth Management Registration and Custody Center, in the first half of 2023, 67 ESG thematic wealth management products were issued, raising over RMB 26 billion, accounting for 0.64%[27] of the newly issued wealth management products. As of the end of June 2023, outstanding ESG wealth management products amounted to RMB 158.6 billion, marking a 51.29% year-on-year increase, accounting for 0.63% of all financial products in existence[28]. In addition, more than 200 outstanding wealth management products under the themes such as "sophisticated technologies for producing novel and unique products", "rural revitalisation" and "the Greater Bay Area" totalled over RMB 85 billion.

According to the China SIF, as of the end of September 2023, out of all outstanding wealth management products, 559 had the ESG concept, issued by 40 wealth management companies (see Appendix 6 for more details). Among them, 333 products included "ESG" in their names, 19 included "green", 27 included "carbon neutral", 11 included "new energy", and 85 included "low carbon". Additionally, 84 wealth management products have dedicated purposes such as "rural revitalisation" and "public welfare".

At present, most of the wealth management products on the market now focus on investing in green projects or rural revitalisation, livelihood, and industries involving agriculture, rural areas, and farmers. ESG wealth management products primarily invest in green bonds, green asset-backed securities, and other products with green labels. According to the Banking Wealth Management Registration and Custody Center, as of the end of June 2023, the AUM of wealth management products investing in green bonds is over RMB 230 billion. It can be seen that although individual investors have already recognised the ESG investment concept, incorporating ESG in wealth management products is still in its infancy, with a small market share. Systematic ESG methodology has not been widely adopted yet.

[27] According to the Banking Wealth Management Registration and Custody Center, in the first half of 2023, 15,200 new wealth management products were issued, totalling RMB 27.75 trillion (including cumulative purchase amount for open-ended wealth management products during the 2023 open cycle).

[28] According to the Banking Wealth Management Registration and Custody Center, as of the end of June 2023, there had been 37,100 outstanding wealth management products, totalling RMB 25.34 trillion (including the cumulative purchase amount for open-ended wealth management products during the 2023 open cycle).

6. Survey on Attitudes Towards Sustainable Investment

6.1 Individual Investors

China SIF, SynTao Green Finance and Sina Finance conducted a survey in October 2023 on public attitudes towards sustainable investment in form of a questionnaire. The following is an analysis of sustainable investment behaviours and attitudes based on the feedback of 1,241 individual investors.

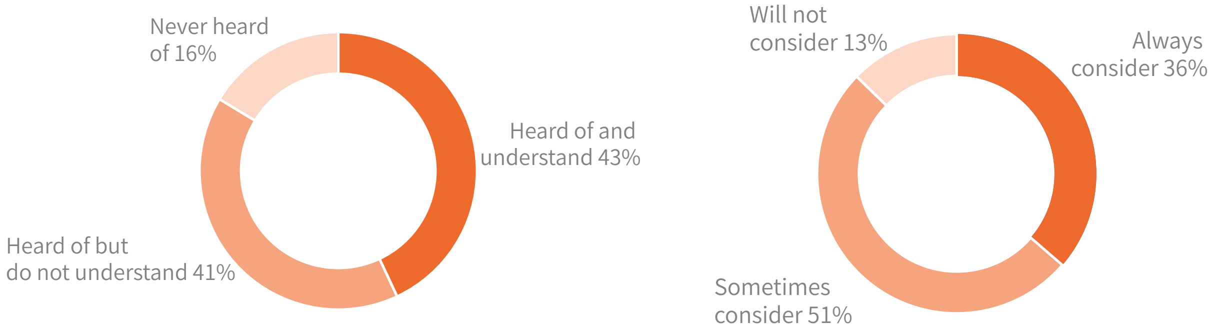
6.1.1 Understanding and Practices of Sustainable Investment

More Than 80% of Individual Investors Have Considered Sustainable Investment; the Level of Understanding Is Likely to Affects the Investors' Willingness to Incorporate ESG Factors

In response to the question "Have you ever heard of 'green finance', 'sustainable investment', or 'ESG'?", over half of individual investors still lack awareness of sustainable investment. This includes 16% who have never heard of it and 41% who have heard of it but do not fully understand. However, the proportion of individual investors who have both heard of and understand it has significantly increased, rising from 23% last year to 43% (Figure 24).

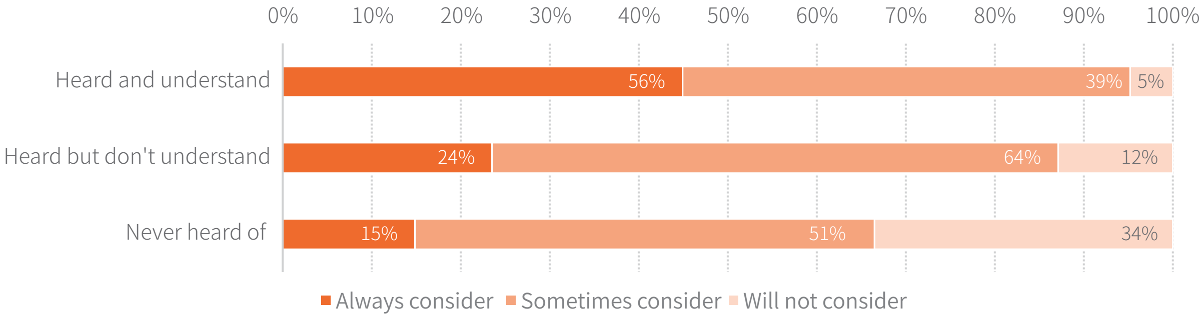
However, from an investment behaviour perspective, whether or not one has heard of or understands sustainable investment does not have a decisive impact on whether or not one considers ESG factors in their investments. For individual investors who have never heard of or are not aware of sustainable investing, some still include "environmental protection", "emissions reduction", "climate-related risk management", "labour rights and safety", and "business ethics" as part of their investment process. 87% of respondents said they consider ESG factors in making investments, up by 3 % compared to last year; Among them, 36 % always consider ESG factors and 51% sometimes do (Figure 24).

Figure 24 Level of Understanding and Adoption of Sustainable Investment by Individual Investors



While perception is not a decisive impact factor on behaviour, the more knowledgeable they are about sustainable investment, the more likely they are to adopt it. Of people who have "heard of and understand" sustainable investment, 95% would incorporate ESG factors into their investment, as opposed to 88% of those who have "heard of but do not understand" and 66% of those who have "never heard of" sustainable investment (Figure 25).

Figure 25 Individual Investors' Willingness to Consider Sustainable Investing by Their Level of Understanding

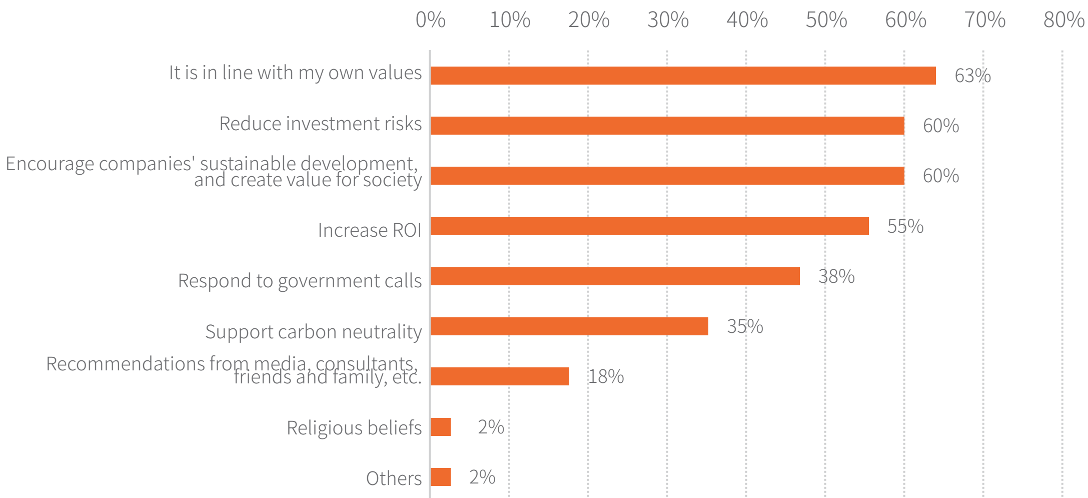


6.1.2 Motivations for Considering Sustainable Investment and the Impact of External Factors

"In Alignment with My Own Values" Emerges as the Primary Driver for Individual Investors Embracing Sustainable Investment

For individual investors, aligning with their own values stands out as the leading motivation for embracing sustainable investment (63%). Following closely are the objectives of reducing investment risk (60%) and encouraging companies to pursue sustainable development and create value for society (60%) (Figure 26).

Figure 26 Motivations for Individual Investors to Consider Sustainable Investment



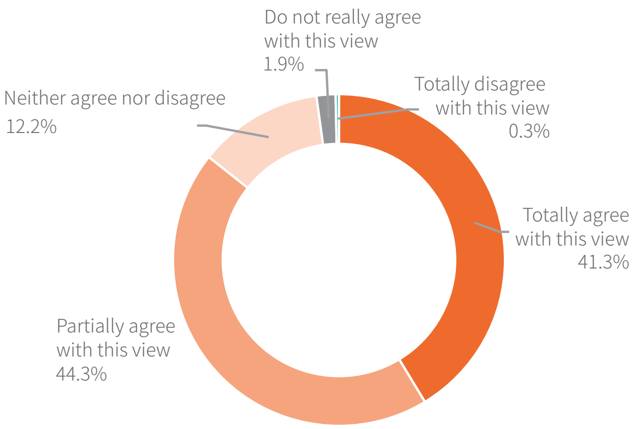
Compared with the results of the 2021 and 2022 surveys, "in alignment with my own values," "reducing investment risks" and "creating value for society" remain the top three drivers of sustainable investment among individual investors (Figure 27). This suggests that while individual investors focusing controlling investment risks, they are increasingly considering the realisation of social values and the expression of personal values.

Figure 27 Changes in Individual Investors' Motivations to Consider ESG/Sustainable Investment

86% of Individual Investors Agree to Some Extent that Environmental and Policy Factors Underscore the Importance of Identifying ESG Risks and Opportunities

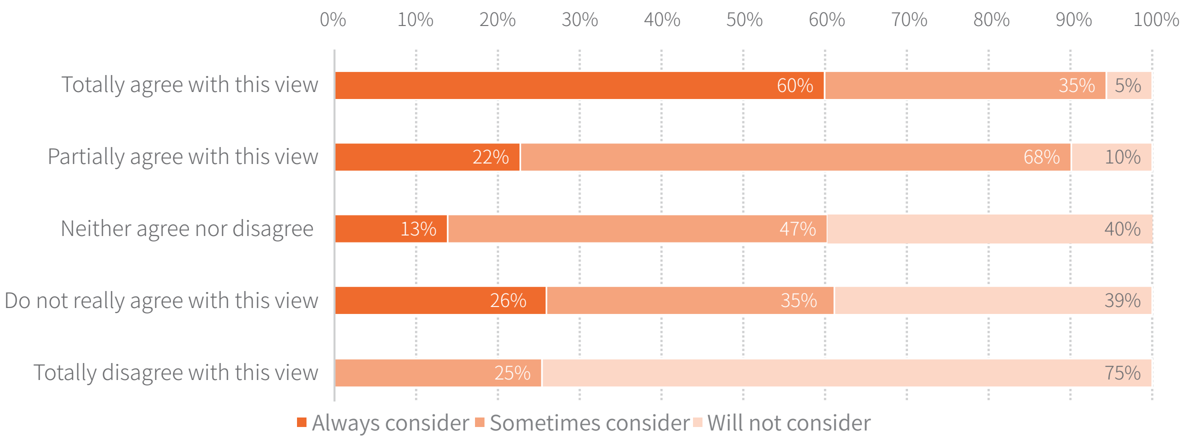
In the survey regarding the view "Identifying ESG risks and opportunities in investment portfolios has become increasingly important due to the growing climate-related challenges and the 'dual carbon' goals", 85.6% of individual investors agree to some extent (41.3% totally agree, 44.3% partially agree) with this view (Figure 28). This signifies a growing awareness among individual investors that environmental and policy factors pose heightened investment risks and uncertainties, and therefore emphasizing the increasing significance of identifying ESG-related risks and opportunities.

Figure 28 Individual Investors' Level of Agreement with the View that Climate-related Issues and Policies Highlight the Importance of Identifying ESG Risks and Opportunities



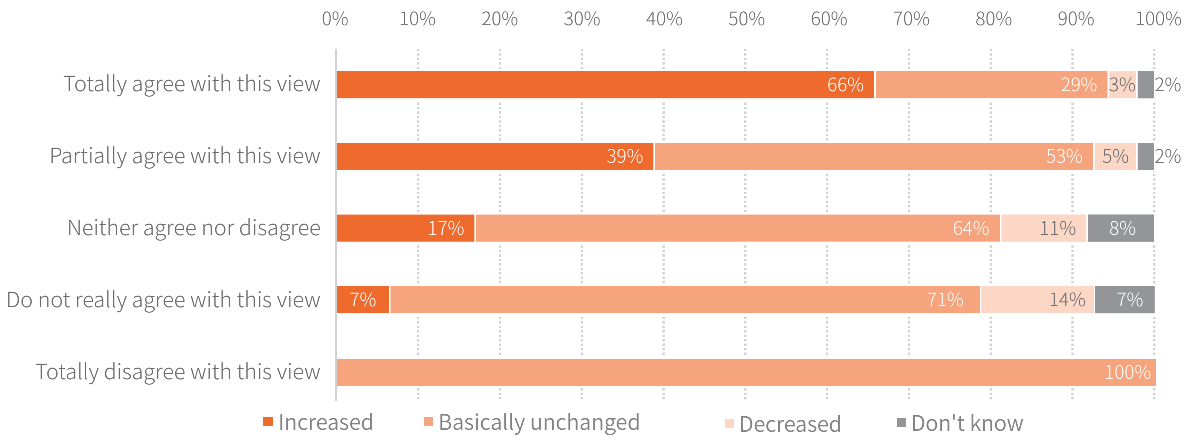
Among those considering sustainable investment factors, individuals who completely agree with the view that "Identifying ESG risks and opportunities in investment portfolios has become increasingly important due to the growing climate-related challenges and the 'dual carbon' goals" constitute the highest proportion (95%) (Figure 29). Furthermore, the percentage of those who consistently consider ESG sustainable investment factors has increase to 60%, marking a 22% growth from the previous year. The adoption of sustainable investment by individual investors declines as the level of agreement with this viewpoint decreases. Those who completely disagree with this viewpoint typically do not consider ESG factors in their investments.

Figure 29 Adoption of Sustainable Investment by Individual Investors, by Level of Agreement with the View that Climate-related Issues and Policies Highlight the Importance of Identifying ESG Risks and Opportunities



Of those who totally agree with the view that"Identifying ESG risks and opportunities in investment portfolios has become increasingly important due to the growing climate challenge and the 'dual carbon' goals", 66% have increased considerations of incorporating ESG performance in their investments this year compared to the previous year. In contrast. 100% of individual investors who totally disagree with this view have chosen to maintain their approach unchanged from previous year (Figure 30). This suggests a correlation between the two.

Figure 30 Change in Individual Investors' Sustainable Investment Considerations Compared to the Previous Year, Based on the Level of Agreement that "Climate Change and Related Policies Highlight the Importance of Identifying ESG Risks and Opportunities"

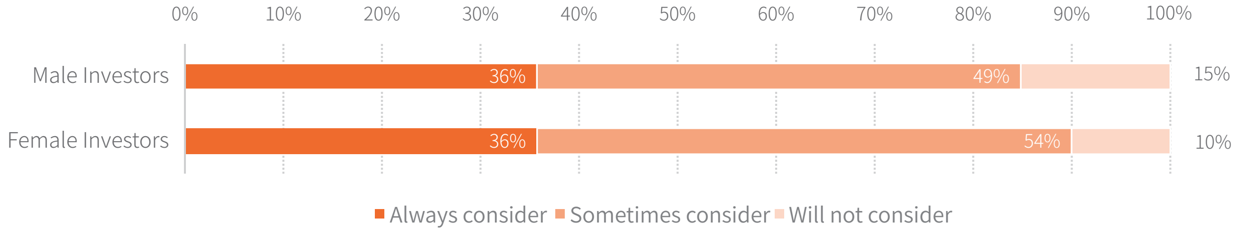


6.1.3 Demographic Features of Respondents Who Are Willing to Consider Sustainable Investment

Female Investors are More Proactive to Take Sustainable Investments into Consideration

Female investors (90%) are more likely to consider sustainable investment factors in their investment decisions than male investors. The percentage of investors who always consider such factors is 36% among both female and male investors (Figure 31).

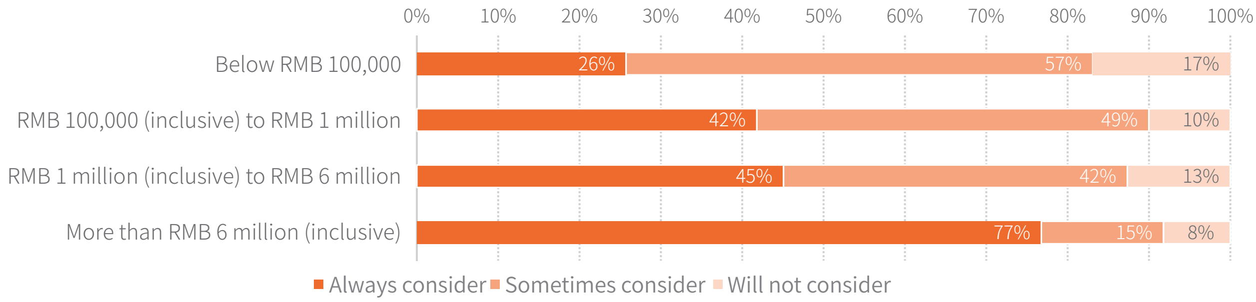
Figure 31 Individual Investors' Willingness to Consider Sustainable Investment by Gender



High-Net-Worth Individuals ("HNWIs") Are More Likely to Always Consider ESG Factors

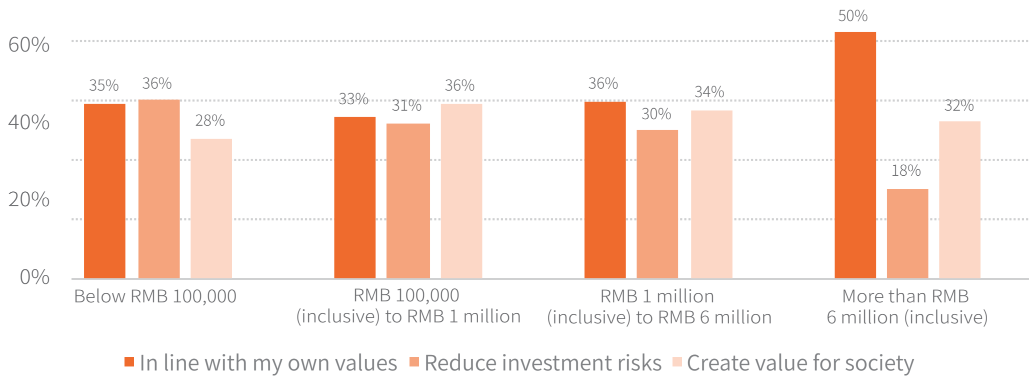
The higher the investment capital, the more likely individual investors are to consistently consider sustainable investment. Among those with investments capital exceeding RMB 6 million, 77% always consider ESG factors in their investments (Figure 32). In contrast, individual investors with investments capital below RMB 100,000 have the lowest percentage (26%) of always considering ESG factors.

Figure 32 Individual Investors' Willingness to Adopt Sustainable Investment by Investment Capital



For HNWIs, the primary driver behind their adoption of sustainable investment is their values, especially for those with assets available for investments exceeding RMB 6 million (50%) (Figure 33).

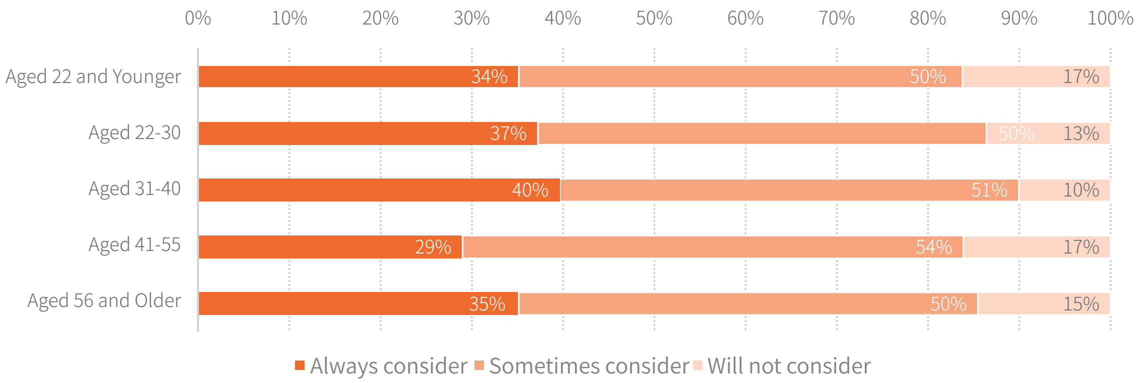
Figure 33 Top Three Drivers in Adoption of Sustainable Investment Among Individual Investors by Portfolio Size



Young and Middle-aged Investors are More Inclined to Consider ESG Investment Factors in Their Investments

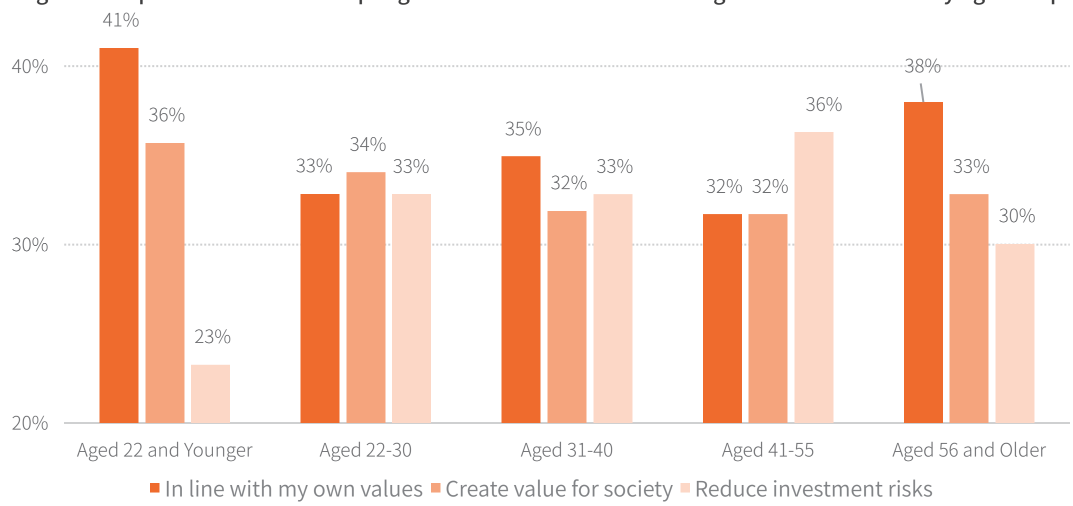
Among all age groups, individual investors aged between 31 and 40 have the highest percentage (40%) of always considering ESG factors, followed by the age group of 23 and 30 (37%) (Figure 34).

Figure 34 Individual Investors' Willingness to Consider Sustainable Investment by Age



When it comes to value-driven sustainable investments, the highest percentage is seen among those aged 22 and under at 41%, followed by those aged 56 and over at 38% (Figure 35).

Figure 35 Top Three Drivers of Adopting Sustainable Investment Among Individual Investors by Age Group

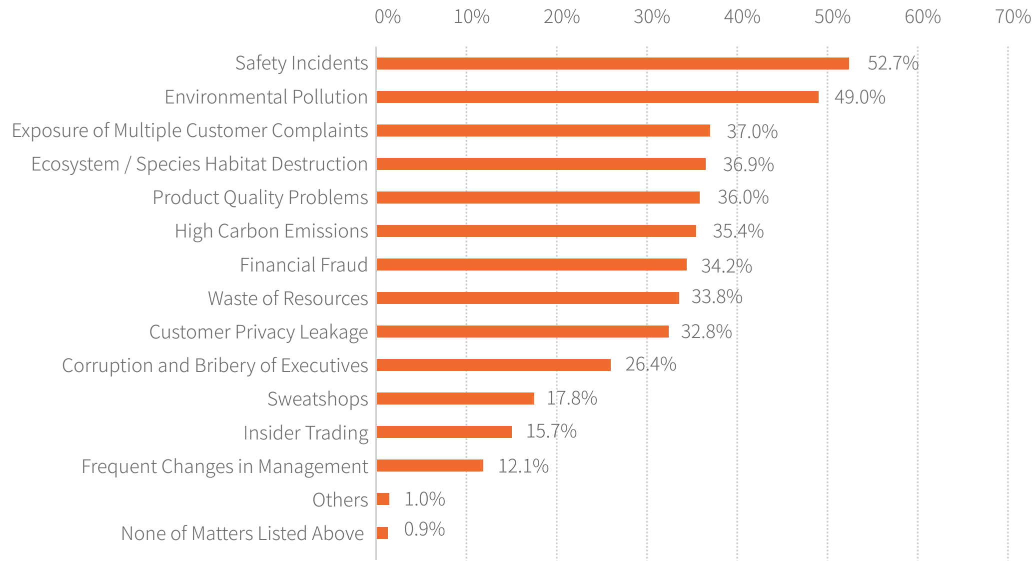


6.1.4 Sustainable Investment Focus and Strategy

The Most Important ESG Issue is "Safety Incidents"

In response to the question "Which of the following issues do you think would prevent or discourage you from investing in a listed company?", the top three concerns for individual investors were: safety incidents (52.7%), environmental pollution (49.0%), and product quality (37.0%) (Figure 36). Compared to last year's survey, safety accidents and environmental pollution continue to be the top two concerns. Notably, individual investors' concerns about exposure of multiple customer complaints (37.0%) and ecosystems/species habitat destruction (36.9%) made it into the top five for the first time.

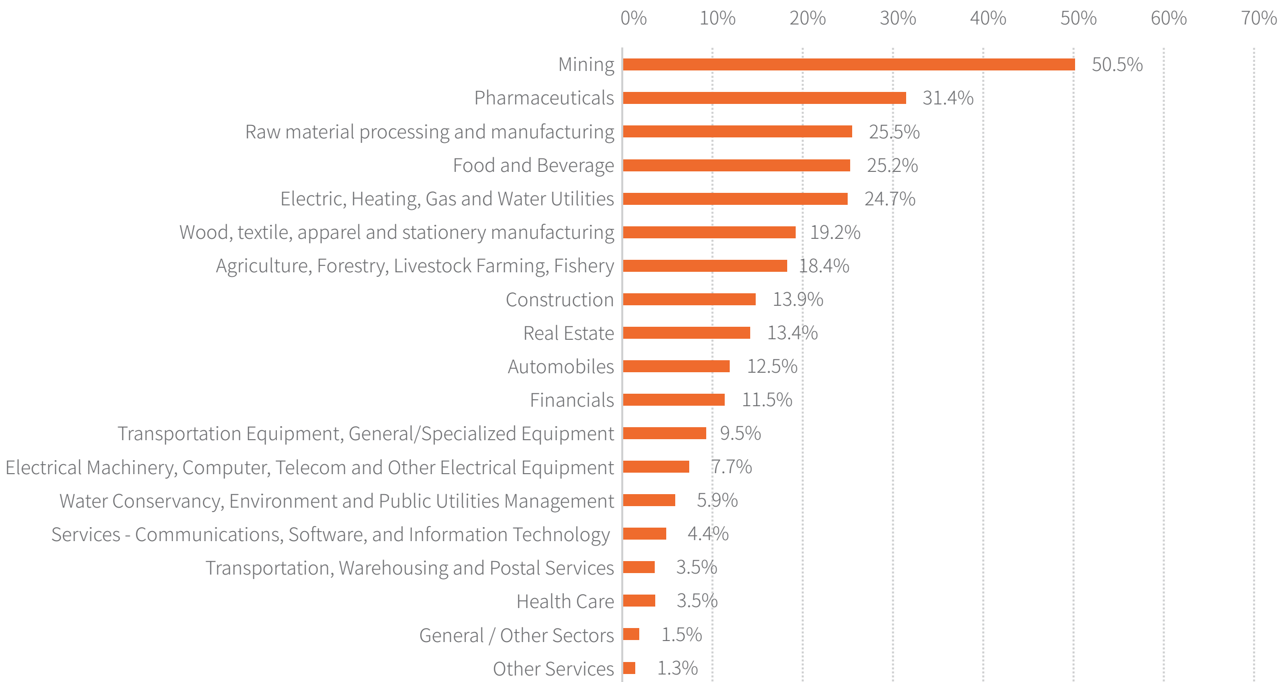
Figure 36 Level of Concern about ESG Risk Types Among Individual Investors



Mining Industry Is Perceived to Be Subject to the Highest ESG Risks

Regarding the top three industries with the highest ESG risk, 50.5% of individual investors selected mining, followed by pharmaceutical manufacturing (31.4%) and raw material processing and manufacturing (25.5%) (Figure 37), consistent with last year's findings.

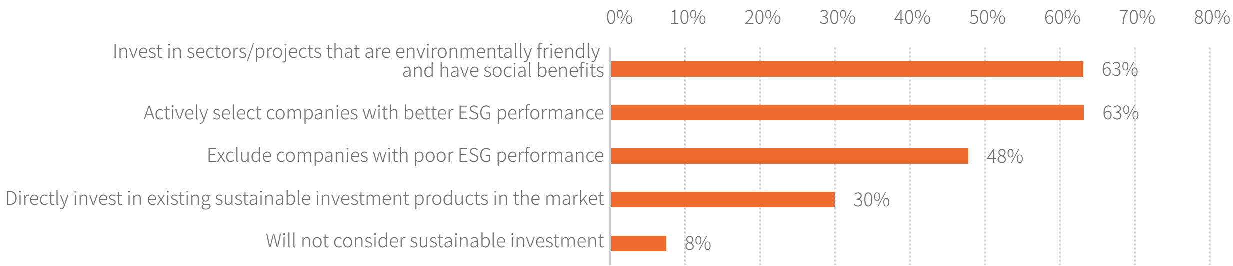
igure 37 Sectors' ESG Risks as Perceived by Individual Investors



Individual Investors are More Inclined to Choose Environmentally Friendly and Socially Beneficial Industries/Projects when Considering ESG Investments for the Future. A Large Number that have Never Considered ESG Factors before are Inclined to Experiment with ESG Investment Strategies

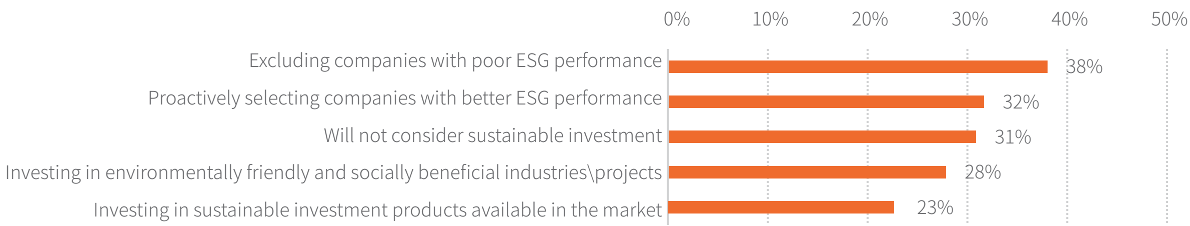
In response to the question "Would you consider using the following approaches in your investments in the coming year?", 63% of individual investors opted for investing in environmentally friendly and socially beneficial industries/projects, marking a 5% increase from the previous year. Simultaneously, the best-in-class strategy is also favoured by individual investors, with 63% of respondents preferring to actively select companies that excel in ESG performance (Figure 38).

Figure 38 Individual Investors' Sustainable Investment Plans



Among those individual investors who have never considered including ESG factors, only 31% indicated that they would not consider sustainable investment in the next year. This implies that 69% of investors who have not yet explored ESG investments are willing to experiment with such strategies in the next year. The top choice among this group is to exclude companies that are not proficient in achieving profitability in terms of ESG in their first initial attempt (38%) (Figure 39).

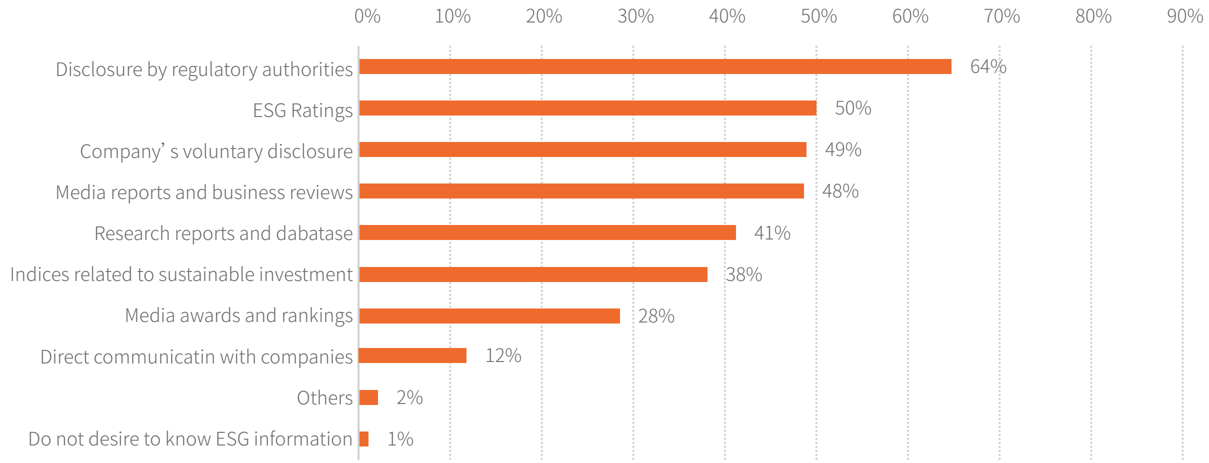
Figure 39 Sustainable Investment Plan within One Year of Individual Investors that Do Not Consider Sustainable



Most Trusted Source of ESG Information: Regulatory Information Disclosure

The primary information source that individual investors rely on for ESG investment remains public information disclosed by regulatory authorities. Sixty-four percent of investors prefer to understand a company's ESG performance through this channel, consistent with the findings of the previous two years' surveys. In addition, half of individual investors seek insights into a company's ESG performance through ESG ratings from professional organisations (Figure 40).

Figure 40 Individual Investors' Preferred Sources of ESG Information

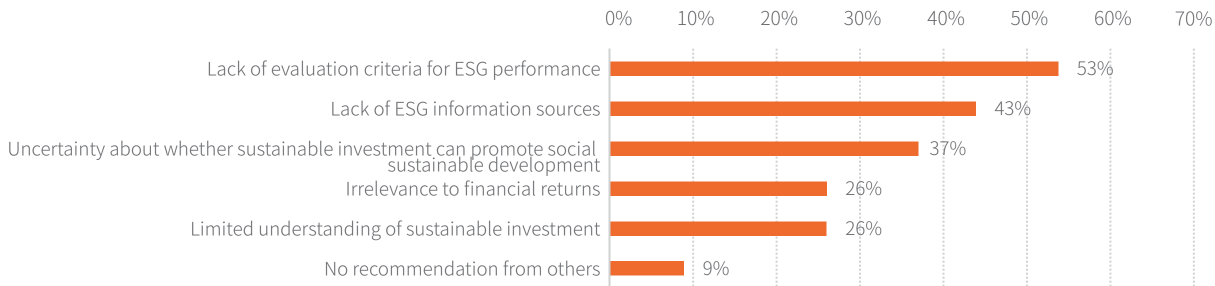


6.1.5 Challenges for Sustainable Investment

The Biggest Challenge for Individual Investors to Consider Sustainable Investment Remains the Lack of ESG Information Sources

In response to the question "What are the possible reasons for you to not consider a company's ESG performance when making an investment", 53% of individual investors identified a lack of evaluation criteria for ESG performance as the biggest barrier to sustainable investment (Figure 41), followed by a lack of ESG information sources (43%) and uncertainty about whether sustainable investment can promote social sustainable development (37%).

Figure 41 Barriers Hindering Individual Investors from Considering Sustainable Investment



Analysing the survey results from 2021-2023, the consistent top three barriers to individual investors' adoption of sustainable investment include the absence of both ESG performance evaluation (Figure 42). Notably, "uncertainty about whether sustainable investment can promote sustainable social development" has entered the top three for the first time, while "limited understanding of sustainable investment" has dropped to the fifth place. This shift indicates an increase in individual investors' knowledge of ESG-related concepts and a heightened focus on the social benefits associated with sustainable investment.

Figure 42 Changes in the Top Three Barriers Hindering Individual Investors from Considering Sustainable Investment

6.2 Asset Owners

In October 2023, China SIF, in collaboration with SynTao Green Finance and China Southern Asset Management, conducted a survey on stewardship practices among asset owners in China[29]. Over 50 asset owners from both domestic and international backgrounds participated, covering a wide range of financial institutions such as sovereign funds, pensions, insurance institutions, bank wealth management subsidiaries, and family offices, collectively managing over US$2.9 trillion in assets.

Key findings from the survey include:

1 Shareholder Engagement and Stewardship Philosophy and Practices:

- Eighty percent of surveyed institutions have engaged in shareholder engagement and stewardship practices, with diverse stewardship policies.
- Communication/engagement actions are typically carried out by dedicated stewardship personnel or internal investment teams, as indicated by 80% of the surveyed institutions.
- Seventy percent of surveyed institutions cited regulatory requirements as a significant driver, compelling investors to incorporate ESG considerations into their communications/engagement.

2 Shareholder Engagement and Stewardship in China:

- Sixty percent of surveyed institutions consider communication/engagement crucial when investing in China, with a particular focus on equities and fixed-income investments.
- Offshore respondents exhibit greater proactivity in engaging on various topics and adopting escalation measures when needed. However, they also face greater challenges in establishing communication with their Chinese investment targets and achieving the desired outcomes.
- Seventy percent of surveyed institutions refer to companies' annual reports and ESG ratings during communicating/engagement.

[29] Please see the ESG Survey Report for Asset Owners (2023) for more details.

3 Requirements for Fund Managers to Implement Stewardship:

- The survey underscores the importance of fund managers possessing expertise and skills in communication and engagement. .Over half of the surveyed institutions consistently consider a fund manager's ability to implement communication/engagement.
- Eighty percent of the organisations surveyed recommended that fund managers report regularly on the covered asset classes and their respective proportions within communication/engagement efforts.

4 Pension Funds Have Garnered the Greatest Interest in Stewardship among All Asset Owners:

- Pension funds exhibit heightened interest and commitments to shareholder engagement and stewardship policies.
- Pension funds, compared to other asset owners, require fund manager to report more extensively on the content and scope of communication/engagement on a regular basis.

In summary, propelled by regulatory requirements, most asset owners have embraced shareholder engagement and stewardship, including relevant policy development and staffing arrangements, among others. Offshore institutions demonstrate greater activity in stewardship methods and engaging in communication on ESG issues. Notably, pension funds, as an important participant in ESG investments, exhibit the highest level of concern for stewardship among all asset owners. In view of this, fund managers should enhance their communication/engagement capabilities and refine reporting content to meet the heightened expectations of asset owners.

7.Summary and Outlook

In 2023, the outlook for the global economic recovery remained uncertain. While the scale of sustainable investment products in China experienced a contraction due to market influences, the evolving green finance policy framework, driven by the "dual carbon" goals, is paving the way for enhanced transition finance. Amid economic shifts and new international trends in information disclosure, participants in China's green finance market face fresh challenges. These include balancing investment returns with the integration of sustainable development principles, navigating the low-carbon transition amid energy crisis, and establishing credible transition finance solutions. These tasks require financial institutions to seek solutions.

On the policy side, both international and domestic disclosure requirements for financial institutions are growing increasingly stringent. Products claiming ESG attributes now need to provide systematic explainations of their strategies, methodologies and the ESG risks associated with assets. In addition, the ongoing consolidation of international disclosure standards, coupled with continuous refined domestic disclosure standards, demands swift improvements in disclosure capabilities from financial institutions and their investees.

Despite market fluctuations, the number of ESG products in China continues to surge, although the size of ESG funds has witnessed a decline. Nevertheless, ESG indices and funds consistently outperform the market average over the long term, excelling in areas such as ESG scores and carbon management. This underscores the enduring effectiveness of ESG investment.

As analysed in Section Four of this Report, financial institutions are either taking action or are aware of the need for sustainable investment practices. Sustainable investment practices, however, are significantly different among institutions: The leading institutions have established themselves in various areas, such as policy and management structure, ESG integration, and climate risk management, while those left behind have yet to begin taking relevant actions. As sustainable investment develops rapidly and regulatory requirements become stricter, there is a need for financial institutions to incorporate ESG factors into their business development strategies. To remain competitive in the long term, financial institutions need to explore and adhere to in-depth ESG integration and stay advanced in sustainable investment concepts and actions.

Our market observations indicate a rising emphasis on sustainable investment by both asset owners and individual investors. ESG investment is identified as a solutions to numerous contemporary challenges. Anticipating that policies will further drive sustainable investment development and strengthen its regulation, we can expect continued growth in the volume and diversity of ESG products emerging as significant contributors to this growth.

Appendix 1 Scale of Sustainable Investment in China

<table>
<tr><th>Type of Sustainable Investment</th><th colspan="3">Definition</th><th>Scale (in RMB)</th><th>Current Status</th></tr>
<tr><td>Green Credit</td><td colspan="3">Green credit requires banking institutions to promote green economy, low-carbon economy, and recycled economy through credit business, enhance the environmental and social risk management in their credit business, and improve their own environmental and social performance. (Based on the Green Credit Guidelines issued by the former CBRC in 2012)</td><td>RMB 28.58 trillion</td><td>· 9 banks signed the Equator Principles
· 25 banks signed the Principles for Responsible Banking
· 29 banks signed the China Banking Sector Green Credit Joint Commitment
· At the end of Q3 of 2023, the balance of green loans in domestic and foreign currencies was RMB 28.58 trillion (PBoC statistics)[30]</td></tr>
<tr><td rowspan="3">Sustainable Securities/ Wealth Management Products</td><td rowspan="2">Green/ sustainable (securities) invest-ment fund</td><td rowspan="2">Green (securities) investment refers to investment, aiming to promote companies' environmental performance, develop green industries and reduce environmental risks, in companies and projects which could deliver environmental benefits, reduce environmental costs and risks through systematic green investment strategies. (Asset Management Association of China, 2018. Green Investment Guidelines (for Trial Implementation))</td><td>· ESG mutual funds</td><td>RMB 438.31 billion</td><td rowspan="2">· 28 mutual fund managers signed the UN Principles for Responsible Investment
· 97 fund managers released 738 ESG funds as of Sep. 30, 2023
· On Sep. 30, 2023, the scale of ESG fund was RMB 438.31 billion (Data source: Wind data terminal. Compiled by China SIF)</td></tr>
<tr><td>· ESG private securities funds</td><td>Statistics not yet available</td></tr>
<tr><td>Sustain-ability Bonds</td><td colspan="2">· Green bonds refer to marketable securities through which use of proceeds are exclusively to support green industries, green projects or green economic activities that meet the prescribed conditions, and are issued in accordance with legal procedures and to repay principal and interest as agreed. (Announcement made by the China Green Bond Standard Committee, No. 1 [2022])
· Carbon neutral bonds are a debt financing tool that the proceeds are specifically used for green projects with carbon emission reduction benefits, and are required to have four core elements, such as the use of proceeds, project evaluation and selection, use of proceeds management and information disclosure during the duration. Carbon neutral bonds and are a sub-specie of the green debt financing tool. (National Association of Financial Market Institutional Investors (NAFMII), 2021, Notice on the Clarification of Carbon Neutrality Bond Related Mechanisms)</td><td>RMB 2.15 trillion</td><td>· As of Sep. 30, 2023, the scale of outstanding green bonds had been RMB 2.15 trillion, including RMB 364.86 billion of carbon neutral bonds (according to the "Green Bonds" section of the Wind data terminal)</td></tr>
</table>

[30] PBoC, Statistical Report on the Loan Orientation of Financial Institutions (the third quarter of 2023), Nov 2, 2023.

Type of Sustainable Investment		Definition	Scale (in RMB)	Current Status
		·**Sustainability-linked bonds** are a debt financing tool that links the terms of the bond to the issuer's sustainability targets. The linked targets include key performance indicators (KPIs), and sustainability performance targets (SPTs). KPIs are sustainability performance indicators that are material to the issuer's operations; SPTs are quantitative assessment targets for KPIs and require clear timelines for achievement. (The National Association of Financial Market Institutional Investors, 2021, Ten Questions and Answers on Sustainability-Linked Bonds)	RMB 114.89 billion	·As of Sep. 30, 2023, the scale of outstanding sustainability-linked bonds had been RMB 114.89 billion. (Data source: Wind data terminal. Compiled by China SIF)
		·**Transition bonds** are a debt financing tool that the proceeds are specifically used to support environmental improvements and adaption to climate change in low-carbon transition areas. (The National Association of Financial Market Institutional Investors, 2022, Notice on Conducting Pilot Innovation Related to Transition Bonds)	RMB 37.78 billion	·As of Sep. 30, 2023, the scale of outstanding transition bonds had been RMB 37.78 billion. (Data source: Wind data terminal. Compiled by China SIF)
		·**Social bonds** are any debt tool in which the use of proceeds are used entirely to finance or refinance, in entirely or partially, new and/or eligible socially beneficial projects. (International Capital Markets Association, 2018. Social Bond Principles). According to the National Association of Financial Market Institutional Investors (NAFMII), **social responsibility bonds** are issued by an issuer in the national interbank market that the use of proceeds are entirely for social responsibility projects. (NAFMII, 2021, Q&A on Piloting the Business of Social Responsibility Bonds and Sustainability Bonds)	RMB 760.98 billion	As of Sep. 30, 2023, the scale of the following bonds had been (Data source: Wind data terminal. Compiled by China SIF): ·Rural revitalisation bonds: RMB 183.13 billion ·Poverty alleviation bonds: RMB 48.24 billion ·Regional development bonds: RMB 257.74 billion ·Belt and Road Initiative bonds: RMB 66.99 billion ·Social courses bonds: RMB 58.22 billion ·Relief bonds: RMB 52.72 billion ·Old revolutionary base areas bonds: RMB 38.66 billion ·Pandemic prevention and control bonds: RMB 55.28 billion
	Sustainable Wealth Manage-ment Products	No official definition yet	RMB 158.6 billion	· As of the end of June 2023, outstanding ESG wealth management products amounted about RMB 158.6 billion (data from the Banking Wealth Management Registration and Custody Center)
Sustainable Equity Investment	·**Green equity investment** (please refer to the concept of "green (securities) investment")		Approx. RMB 434.3 billion	· 60 PEs have signed the PRI · According to the Vice Chairman of AMAC, there were 1022 private funds themed green industry related areas, amounting over RMB 482.6billion. Over 90% of them were private equity funds, and it was estimated that the amount was about RMB 434.3 billion.[31]

[31] Fu Weilong: Green investment system is improving in fund sector. http://m.ce.cn/cj/gd/202305/23/t20230523_38557732.shtml

Type of Sustainable Investment	Definition	Scale (in RMB)	Current Status
Green Industry Fund	**Green industry** fund refers to special investment funds that the government establishes to support energy conservation and emission reduction, promote low-carbon economic development, and improve the environment. (according to the Case Studies of Green Finance in China)	Approx. RMB 384.8 billion	According to Qingke database, China SIF estimated the target capital of government guide funds invested in green energy conservation and environmental protection, circular economy, ecological and soil protection and new energy had been RMB 384.8 billion as of the end of September 2023.

Appendix 2 Sustainable Investment Policies in China

Time	Issued by	Policy Documents	Main Contents
Responsible investment directly related			
2016	The PBoC, the Ministry of Finance, NDRC, former the Ministry of Environmental Protection, former CBRC, CSRC, and former CIRC	Guidelines for Establishing the Green Financial System	It specifies the important role of securities market in supporting green investment, and requires the industry to standardize the definition of green bonds, actively support the listing and refinance of eligible green companies, support the development of green bond index, green stock index and other related products, and gradually establish and improve a mandatory disclosure system for listed companies and bond issuers to disclose environmental information.
2018	AMAC	Green Investment Guidelines (for Trial Implementation)	It defines green investment and specifies the objectives, principles and basic methods of green investment.
2020	MEE, NDRC, PBoC, CBIRC, and CSRC	Guiding Opinions on Promoting Investment and Financing to Address Climate Change	Guided by the Nationally Determined Contributions (NDC) and low-carbon development goal and supported by the system of policies and standards, it aims to promote the investment and financing in response to climate change through model innovation and local practice.
2022	CBIRC	Green Finance Guidelines for the Banking and Insurance Industry	It requires banking and insurance institutions to promote green finance at a strategic level, to increase support for the green, low-carbon and circular economy, and to promote the overall green transformation of economic and social development.
2022	CSRC	Guidelines for Investor Relations Management by Listed Companies	It aims to implement the requirements of the new development concept by adding environmental, social and governance (ESG) information of listed companies to the content of communications.
2022	IAMAC	Initiative on ESG Stewardship in China's Insurance Asset Management Industry	It encourages insurance asset management institutions to actively promote green transformation and to guide stakeholders, including investee companies, to work together to build a green development ecosystem from the perspective of fiduciary duty.
Taxonomies			
2019	NDRC, the Ministry of Industry and Information Technology, the Ministry of Natural Resources, MEE, MOHURD, PBoC, and the National Energy Administration	2019 Guiding Catalogue for the Green Industry	It specifies the classification and categorization of green industries and green projects.
2019	PBoC	Green Loan Special Statistics System	It guides financial institutions to strengthen the statistical capacity of their green credit base.
2020	CBIRC	Green Financing Statistics System	It refines the industrial classification to further clarify the direction and key areas of green financial support.

Time	Issued by	Policy Documents	Main Contents
2021	PBoC, NDRC, CSRC	Green Bond Endorsed Projects Catalogue (2021 Edition)	It unifies the domestic green bond market standards and clarifies the scope of projects supported by green bond.
2022	CBIRC	Green Insurance Business Statistics System	It defines green insurance for the first time, and further clarifies that green insurance includes both the liability side and the asset side. The Statistics System only counts business on the liability side: insurance business on ESG risks; insurance business for green industries; and insurance business for green lifestyle.
2023	Insurance Association of China	Green Insurance Classification Guidelines (2023 Edition)	Outlining standards for green insurance products, green investment of insurance assets, and green operations of insurance companies.
ESG information disclosure			
2006	Shenzhen Stock Exchange	Instructions on Social Responsibility of Listed Companies	It requires listed companies to actively undertake social responsibilities, regularly evaluate their performance of social responsibilities and voluntarily release social responsibility report. The Instructions was incorporated into the Guidance for Standardized Operations of Listed Companies in 2010 and continues to provide guidance and standards for listed companies in disclosing social responsibility performance.
2008	Shanghai Stock Exchange	Guidelines on Environmental Information Disclosure of Listed Companies	It requires listed companies to step up efforts to undertake social responsibilities, disclose their practices and performance in employee safety, product safety and environmental protection. It also specifies requirements for listed companies in disclosing environmental information.
2008	Shanghai Stock Exchange	Guidelines on the Preparation of Company Social Responsibility Report	It specifies the efforts that listed companies shall disclose in promoting environmental and ecological sustainable development, such as practices in preventing and reducing pollution, protecting water and energy resources, guaranteeing the habitability of relevant areas, and protecting and enhancing the biodiversity of relevant areas.and energy resources, guaranteeing the habitability of relevant areas, and protecting and enhancing the biodiversity of relevant areas.
2013	Shenzhen Stock Exchange	Guidance on Standardized Operations of Companies Listed on the Main Board of Shenzhen Stock Exchange Guidance on Standardized Operations of Companies Listed on the SME Board of Shenzhen Stock Exchange Guidance on Standardized Operations of Companies Listed on the ChiNext Market of Shenzhen Stock Exchange	They require listed companies to, upon the occurrence of major environmental incidents, timely disclose the causes of the incidents, impacts on the company' s business performance, impacts of such incidents, and the company' s proposed remedy measures.
2019	Shanghai Stock Exchange	Measures on the Appraisal of Information Disclosure of Listed Companies	It stipulates mandatory disclosure of ESG related information, and requires companies listed on the Science and Technology Innovation Board to disclose their performance of social responsibilities such as environmental protection, product safety, labor rights, and interests of employees and other stakeholders.

Data Sources:The China SIF is compiled based on public information statistics

Time	Issued by	Policy Documents	Main Contents
2020	Shenzhen Stock Exchange	Rules on the Listing of Stocks on the Science and Technology Innovation Board of Shanghai Stock Exchange	It evaluates the disclosure of social responsibility performance by listed companies and mentions ESG disclosure for the first time.
2020	Shanghai Stock Exchange	Guidelines No.2 on the Application of Self-Regulation Rules for Listed Companies on SSE STAR Market–Voluntary Information Disclosure	In addition to general ESG information required in statutory rules, a company listed on the SSE STAR Market may further disclose ESG information specific to it based on the characteristics of its industry and businesses as well as its governance structure.
2021	CSRC	No. 2 Content and Format of Information Disclosure Guidelines for Companies Issuing Public Securities - Content and Format of Annual Reports (Draft for Comments) No. 3 Content and Format of Information Disclosure Guidelines for Companies Issuing Public Securities - Content and Format of Semi-Annual Reports (Draft for Comments)	Integrate the content related to environmental protection and social responsibility into "Section V. Environmental and Social Responsibility".
2021	PBoC	Guidance on Environmental Information Disclosure for Financial Institutions	The principles, form and content requirements of environmental information disclosure for financial institutions are systematically described.
2021	MEE	The Administrative Measures for the Legal Disclosure of Enterprise Environmental Information	It defines the basic contents of the legal disclosure of enterprise environmental information for five categories of enterprises, including a certain range of listed companies and companies issuing bonds.
2022	MEE	Guidelines for Legal Disclosure of Enterprise Environmental Information	It refines the content of the legal disclosure of corporate environmental information and standardizes the format of the legal disclosure of environmental information.
2022	Shanghai Stock Exchange	Rules Governing the Listing of Stocks on Shanghai Stock Exchange (Revised in 2022 January)	They include CSR-related content for the first time, including incorporating social responsibility in corporate governance, requiring disclosure of corporate social responsibility information, and the possibility of mandatory delisting for damage to public interest. Listed companies should prepare and disclose non-financial reports such as social responsibility reports as required.
2022	Shenzhen Stock Exchange	Rules Governing the Listing of Stocks on Shenzhen Stock Exchange (Revised in 2022)	
2022	SASAC	The Work Plan for Improving the Quality of Listed Companies Controlled by Central Enterprises	It requires listed companies controlled by centrally-administered enterprises to implement the new development concept and explore the establishment of a sound ESG system. The work plan sets out a clear goal of promoting the disclosure of ESG reports of more listed companies controlled by central enterprises, with a view to achieving full coverage of ESG reporting by 2023.

Appendix 3 ESG Indices

For details, please visit: https://dataexplorer.syntaogf.com/china-sustainable-investment-review-2023

Appendix 4 Fund Products that Track ESG Indices

For details, please visit: https://dataexplorer.syntaogf.com/china-sustainable-investment-review-2023

Appendix 5 ESG Funds

For details, please visit: https://dataexplorer.syntaogf.com/china-sustainable-investment-review-2023

Appendix 6 ESG Wealth Management Products

For details, please visit: https://dataexplorer.syntaogf.com/china-sustainable-investment-review-2023

Appendix 7 Questionnaire on Individual Investors' Attitudes towards Sustainable Investment

No.	Questions	Answer Choice	Times Selected	Proportion
1	What types of investments do you have? (multiple selections permitted)	Stocks	867	69.9%
		Bonds	622	50.1%
		Mutual funds	627	50.5%
		Private funds	181	14.6%
		Others	213	17.2%
2	What is your current portfolio size?	Less than RMB 100,000	484	39.0%
		RMB 100,000 (incl.) to RMB 1 million	596	48.0%
		RMB 1 million (incl.) to RMB 6 million	148	11.9%
		More than RMB 6 million (incl.)	13	1.0%
3	For how long a term do you often plan for your investment returns?	1 year or less	255	20.5%
		1 to 5 years (incl.)	734	59.1%
		6 to 10 years (incl.)	165	13.3%
		More than 10 years	87	7.0%
4	Have you heard of "green finance", " responsible investment" or "ESG"?	Yes and have some understanding	534	43.0%
		Yes but have no understanding	504	40.6%
		Have never heard of	203	16.4%
5	Do you consider companies' efforts in environmental protection, emissions reduction, climate risk management, labor rights and safety, compliance management and business ethics in making investments?	Always	451	36.3%
		Sometimes	632	50.9%
		No	158	12.7%
6	What is your reason for considering an investee's ESG performance when investing? (multiple selections allowed) *[the calculation of proportion excluded those who selected "no" in question No. 5]*	It is in line with my own values	677	62.5%
		To increase investment returns	595	54.9%
		To lower investment risks	647	59.7%
		To encourage companies to pursue sustainable development and create value for society	645	59.6%
		Support carbon neutrality	383	35.4%
		To respond the government's call	408	37.7%
		Others	24	2.2%
7	How have your environmental, social and governance considerations changed in your investments compared to 2021? *[calculation excludes those who selected "no" in question No. 5]*	Increased	531	49.0%
		About the same	471	43.5%
		Reduced	53	4.9%
		No knowledge	28	2.6%
8	What are the possible reasons for you to not consider an investee's ESG performance when investing? (multiple selections allowed) *[the calculation of proportion excluded those who selected "Always" and "Sometimes" in question No. 5]*	Irrelevant to financial returns	208	26.3%
		Lack of evaluation criteria for ESG performance	421	53.3%
		Lack of ESG information sources	342	43.3%
		Not sure whether responsible investment would promote sustainable development of the societyvv	290	36.7%
		Have limited understanding of sustainable investment	204	25.8%
		No one recommended that to me	72	9.1%

No.	Questions	Answer Choice	Times Selected	Proportion
9	Do you agree with the view that the "COVID-19 pandemic" and the "dual-carbon goals", among others, will further manifest the importance of identifying ESG risks and opportunities in a portfolio?	Totally agree	513	41.3%
		Partially agree	550	44.3%
		Neither agree nor disagree	151	12.2%
		Partially disagree	23	1.9%
		Totally disagree	4	0.3%
10	Which of the following issues do you think would discourage you from investing in a publicly listed company?	Environmental pollution	608	49.0%
		Waste of resources	419	33.8%
		High GHG emission	439	35.4%
		Destruction of ecosystem/species habitat	458	36.9%
		Safety incident	654	52.7%
		Exposure of multiple client complaints	459	37.0%
		Leakage of customer privacy	407	32.8%
		Product quality issues	447	36.0%
		Sweatshop	221	17.8%
		Financial fraud	425	34.2%
		Corruption and bribery by senior executives	328	26.4%
		Insider trading	195	15.7%
		Frequent changes in senior management	150	12.1%
		Others	12	1.0%
		None of matters listed above	11	0.9%
11	Which of the following industries do you think have the highest ESG risks? (Pick three industries with the highest risks.) (Question required: 3 at most)	Farming, forestry, animal husbandry and fishery	228	18.4%
		Mining	627	50.5%
		Food and beverage manufacturing	313	25.2%
		Cultural, educational, arts and crafts, sports and entertaining products	238	19.2%
		Raw material processing and manufacturing	317	25.5%
		Pharmaceuticals	390	31.4%
		Transportation equipment, common equipment and special equipment	118	9.5%
		Automobile	155	12.5%
		Electric Machinery and Household Appliances	95	7.7%
		Production and supply of water, electricity, heat and gas	307	24.7%
		Construction	173	13.9%
		Other services	16	1.3%
		Transportation, logistics, warehousing and postal services	44	3.5%
		Services - Communications, Software, and Information Technology	55	4.4%
		Finance and insurance	143	11.5%
		Real estate	166	13.4%
		Water Conservancy, Environment and Public Utilities Management	73	5.9%

No.	Questions	Answer Choice	Times Selected	Proportion
		Health Care	43	3.5%
		Services/Other service	18	1.5%
12	Which of the following sources of information would you like to use for understanding a company's ESG performance? (multiple selections allowed)	Disclosure by regulatory authorities	790	63.7%
		Voluntary disclosure by the company	611	49.2%
		ESG Ratings	617	49.7%
		News report and business commentaries	601	48.4%
		Media awards and rankings	350	28.2%
		Responsible investment-related indices	476	38.4%
		Research reports and database	511	41.2%
		Direct communication with the company	149	12.0%
		Others	22	1.8%
		No interest in such information	14	1.1%
13	Will you consider using the following methods in the investment for next year?	Exclude companies with poor ESG performance	597	48.1%
		Actively invest in companies with superior ESG performance	779	62.8%
		Directly invest in industries and/or projects that are environmentally friendly and have social benefits	786	63.3%
		Directly invest in responsible investment products that are available in the market	374	30.1%
		Will not consider responsible investment	101	8.1%

Written by:

商道融绿
SynTao Green Finance

www.syntaogf.com
contact@syntaogf.com

SynTao Green Finance (STGF) is one of the first Chinese organisations to specialise in providing green finance and sustainable investment services, starting ESG data collection and research as early as 2009. STGF ESG data and research on ESG key issues are widely employed to support investment decisions, risk management, policy making, and sustainable finance product innovation. *STGF STαR ESG Data Platform* and *STGF ESG Risk Radar System* cover the ESG performance and ESG controversies of all A-shares stocks and the Hong Kong market, amounting to over 5,000 listed companies. In 2020, STGF launched *STGF PANDA Climate Data Platform*, providing carbon emission data of Chinese entities based on GHG protocol. STGF ESG ratings (SynTaoGF-ESG) have been onboarding on Bloomberg Intelligence, making it the first Chinese ESG rating agency to have its data displayed on Bloomberg.

CHINA SIF SUSTAINABLE INVESTMENT FORUM
中国责任投资论坛

www.chinasif.org
contact@chinasif.org

China Sustainable Investment Forum (China SIF) was launched in Beijing in 2012, and officially registered as a private non-enterprise entity in Shenzhen in 2016, with the full name of Shenzhen Jifeng Green Finance Promotion Center. China SIF is an international exchange platform focusing on responsible investment and sustainable development. It aims to promote sustainable investment, the environmental, social and governance (ESG) concept, and green finance, facilitating the sustainable development of China's capital market. As a member of Global SIFs Network, China SIF has held ten annual conferences, five summer summits, six sustainable investment week events, and a series of seminars and exchanges since its establishment. Experts, researchers, responsible investment practitioners, representatives of financial institutions and listed companies from home and abroad have been invited to share their research results, working experience and classic cases, to explore and advocate for sustainable investment and green finance in various forms. China SIF has released a series of landmark reports and research results, such as the Annual Sustainable Investment Review in China, and continues to support the dissertation competition on ESG to promote the ESG investment concept and practices. After years of efforts, China SIF has become one of the most influential forums in the area.

Research Team: Valentina WU, Eva CHEN, SHEN Lina, JU Pengfei, Crystal LI, Barney CHEN, Ellie LI, JI Jiangyu, Chelsey CHEN, GUO Peiyuan, Raymond ZHANG

Research Institution: China SIF, SynTao Green Finance