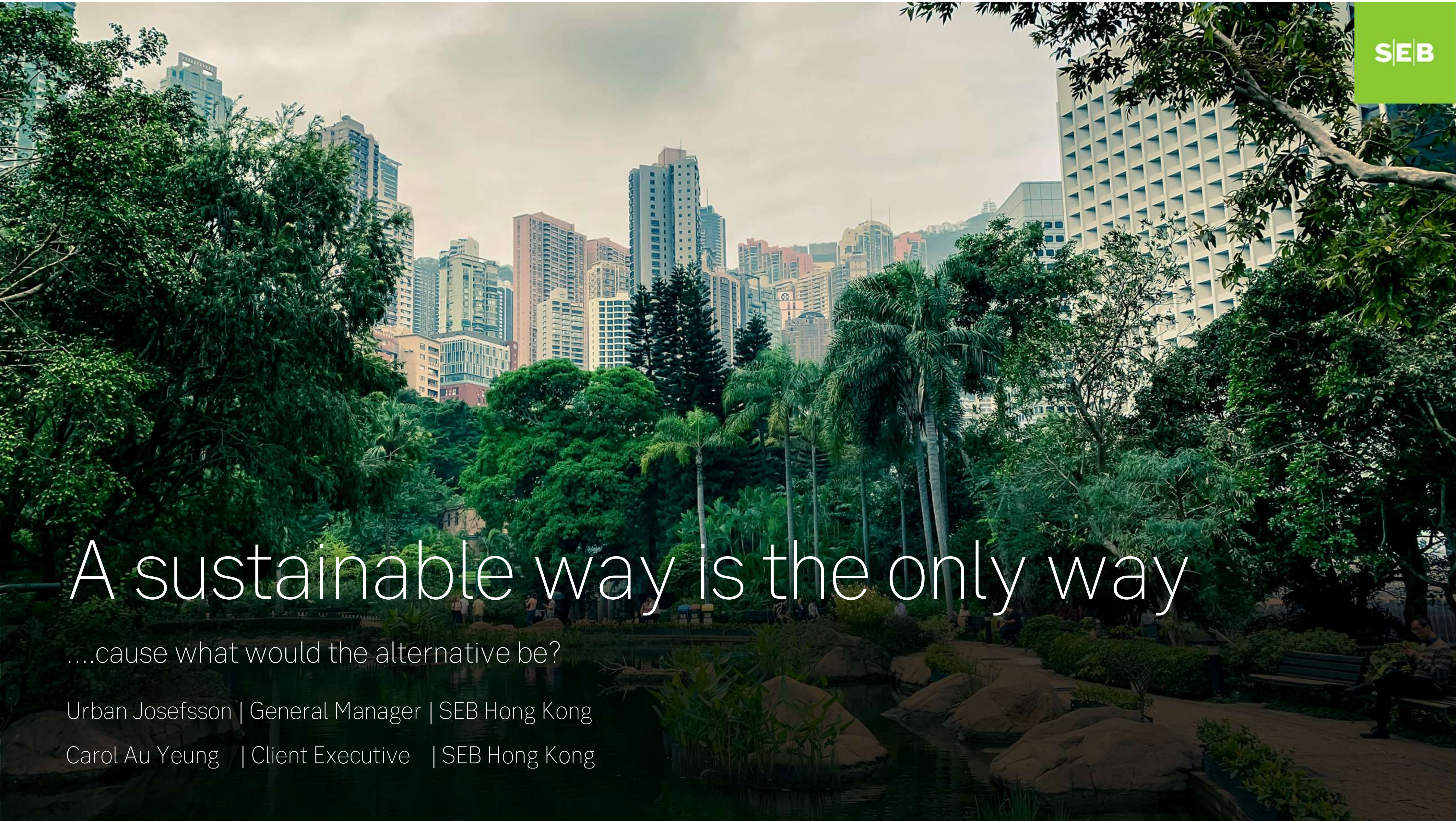


A sustainable way is the only way

....cause what would the alternative be?

Urban Josefsson | General Manager | SEB Hong Kong

Carol Au Yeung | Client Executive | SEB Hong Kong

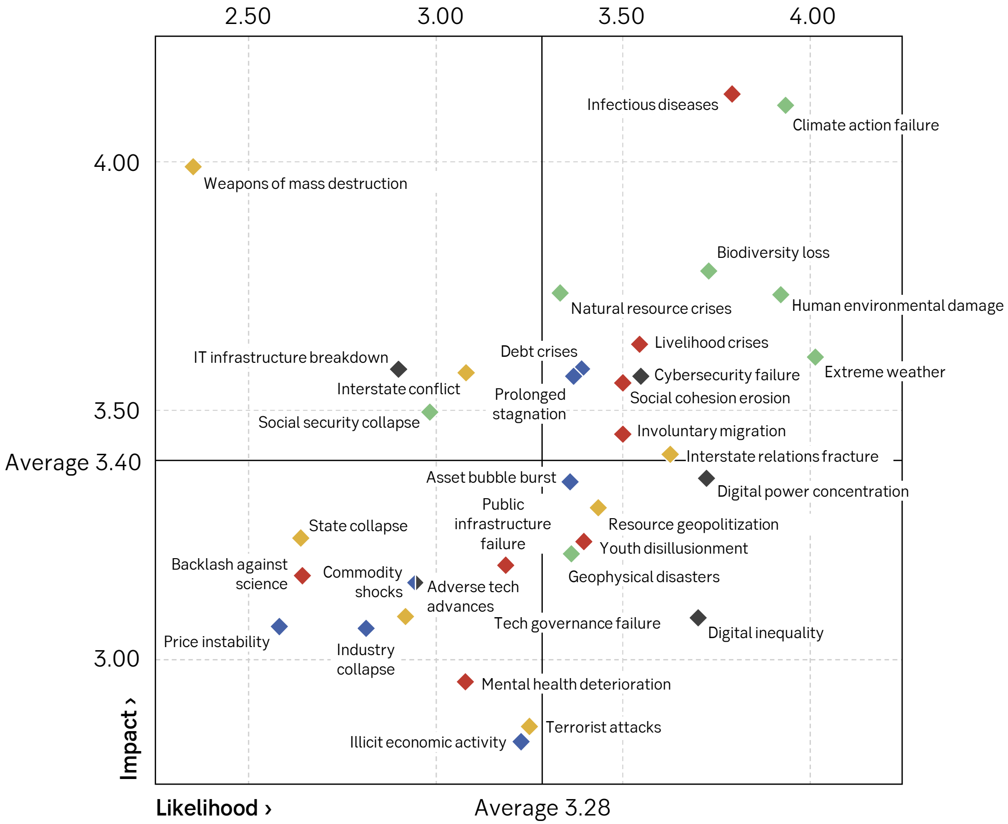
This is what its about

Must decline — If we want to keep this... — we have to fix this.

$$CO_2 = \text{Population} \times \frac{\text{GDP}}{\text{Capita}} \times \frac{\text{Energy}}{\text{GDP}} \times \frac{CO_2}{\text{Energy}}$$

World Economic Forum

Global Risks Landscape 2021



Top Risks

by likelihood

- Extreme weather
- Climate action failure
- Human environmental damage
- Infectious diseases
- Biodiversity loss
- Digital power concentration
- Digital inequality
- Interstate relations fracture
- Cybersecurity failure
- Livelihood crises

by impact

- Infectious diseases
- Climate action failure
- Weapons of mass destruction
- Biodiversity loss
- Natural resource crises
- Human environmental damage
- Livelihood crises
- Extreme weather
- Debt crises
- IT infrastructure breakdown

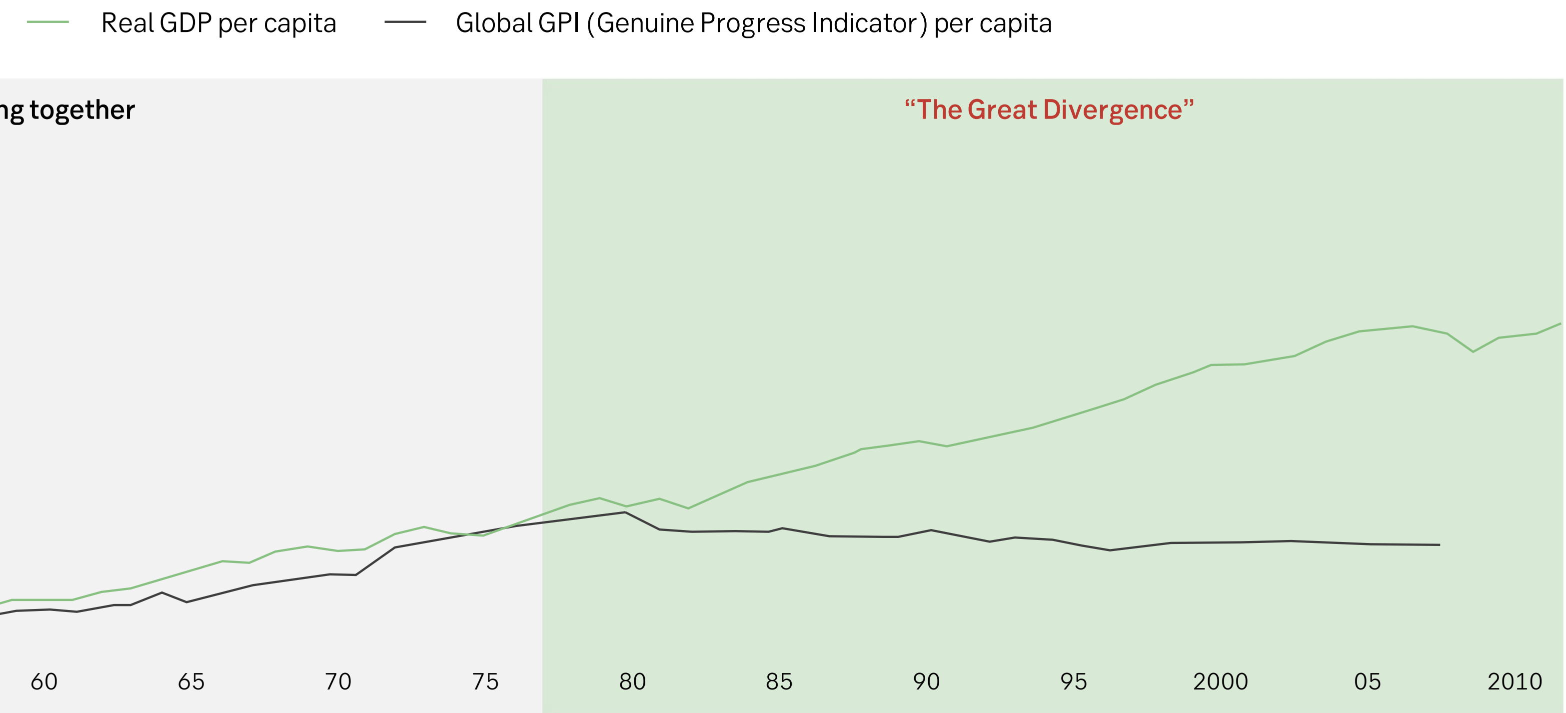
Risk categories

- Economic
- Environmental
- Geopolitical
- Societal
- Technological

Source: World Economic Forum: The Global Risks Report 2021

A good reason

No economic growth since 1980 if we include the cost of cleaning up the environment?



Source: Material Economics

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The Force of Change in Europe

2014–2019

A Resilient Energy Union with a Forward-Looking Climate Change Policy

Targets

40%
cuts in greenhouse gas emissions by 2030

32%
renewables in energy consumption

32.5%
energy savings

Jean Claude Juncker, 2014

2019–2024

A European Green Deal

Targets

50–55%
cuts in greenhouse gas emissions by 2030

First climate-neutral
continent by 2050

Ursula von der Leyen, 2019

Public money

The yearly investment gap to meet these targets is estimated to be between
€175 to 290 billion

Private money

Source: EU Commission, 2020 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en; TEG, 2019

The EU Taxonomy – the EU's definition of sustainability

Details as to how an economic activity can be aligned with the EU Taxonomy

Background

The EU Taxonomy Regulation aims to define environmentally sustainable economic activities to help investors to take informed decisions in the transition to a fossil free society

The EU Taxonomy has six environmental objectives, which are used as a baseline for sustainability

The EU Taxonomy covers 13 sectors, whereby technical screening criteria are developed for different economic activities within each sector

So far, technical screening criteria have only been developed for two of six the objectives

For an economic activity to be aligned with the EU Taxonomy it needs to meet all the specified technical screening criteria, as well as the minimum safeguards

From 2023 (for FY2022) corporates are required to report Taxonomy alignment

6 environmental objectives and 13 sectors

1. Forestry
2. Environmental protection & restoration
3. Manufacturing
4. Energy
5. Water, sewerage, waste & remediation
6. Transport
7. Construction & real estate
8. Information & communication
9. Professional, scientific & technical activities
10. Financial and insurance activities
11. Education
12. Human health and social work activities
13. Arts, entertainment and recreation

Climate change mitigation

Climate change adaptation

Circular economy

Pollution prevention

Water protection

Biodiversity

Examples

For climate change mitigation

Cars: tailpipe emissions < 50 gCO_2 /km

Steel : emissions < 1,48 tonne CO_2 / tonne product

Batteries, production of H2, Renewable energy technologies

Power generation: emissions < 100g CO_2 / kWh

Storage of electricity & H2

New Buildings: 10% below Nearly Zero Energy building requirements

Examples relate to the technical screening criteria for substantial contribution to climate change mitigation, there is further technical screening criteria for 'Do No Significant Harm'

Requirements

Technical screening criteria

Substantial contribution to at least one environmental objective

+

Do no significant harm to the other five objectives

+

Minimum safeguards (labour & human rights)

=

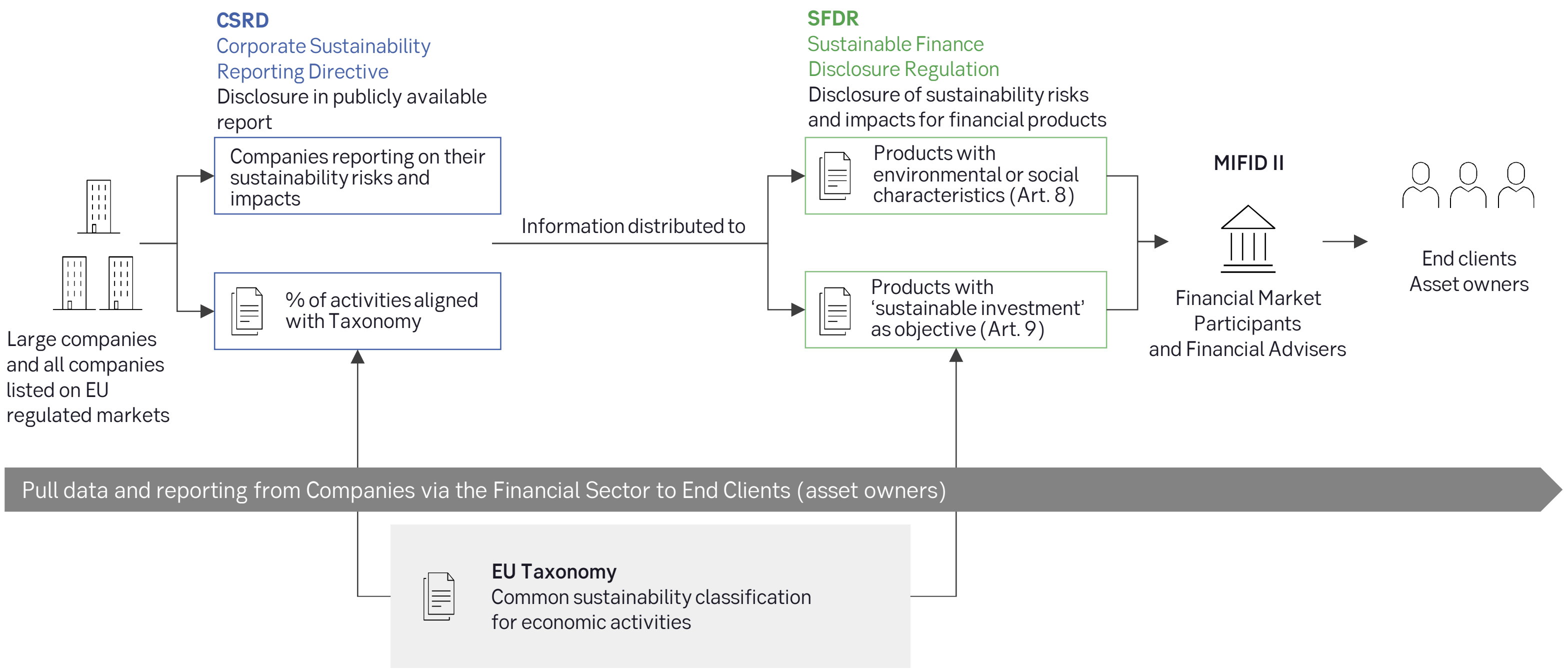
Environmentally sustainable economic activity

Source: European Commission

Overview of EU Sustainable Finance regulations

The aim of EU Sustainable Finance regulations is to redirect capital flows

Snapshot of the EU Sustainable Finance regulations



Source: European Commission

Q&A

Who will be affected?

- Almost all (the smallest corporates will not be affected) European companies, as well as international companies with EU operations
- Any financial participant providing advisory / products in the EU

When will they be affected?

- Regulations have already started to affect market participants from FY 2021, current defined regulations will continue to come into force until 2026

What will be the impact?

- The wave of regulation will create an environment where there is nowhere to hide for both corporates and investors in terms of their sustainability performance – creating an even-playing field where both can be held to account to their commitments and can be negatively impacted through sub-par performance

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Sustainable Finance Market Overview

The two main approaches

1 Use of Proceeds (“Green / Social / Sustainable Financing”)

- 1a Green Bonds/Loans
- 1b Social Bonds/Loans
- 1c Sustainable Bonds/Loans

Funds from the financing needs to be allocated to specific and predefined eligible projects

Focus on investment / project / asset

2 Performance based (“Sustainability-Linked Financing”)

1a External Rating/Scoring	1b Externally defined target methodology	1c Target set by company
Company assigned an external scoring, e.g. an ESG level	Company benchmarked against e.g. a defined Science Based Target	Company benchmarked against internal sustainability KPIs
Needs to have an external ESG rating	Involves external 3rd party to assess set up and target levels	Requires existing and credible ESG targets, monitoring and reporting

Focus on issuer / borrower

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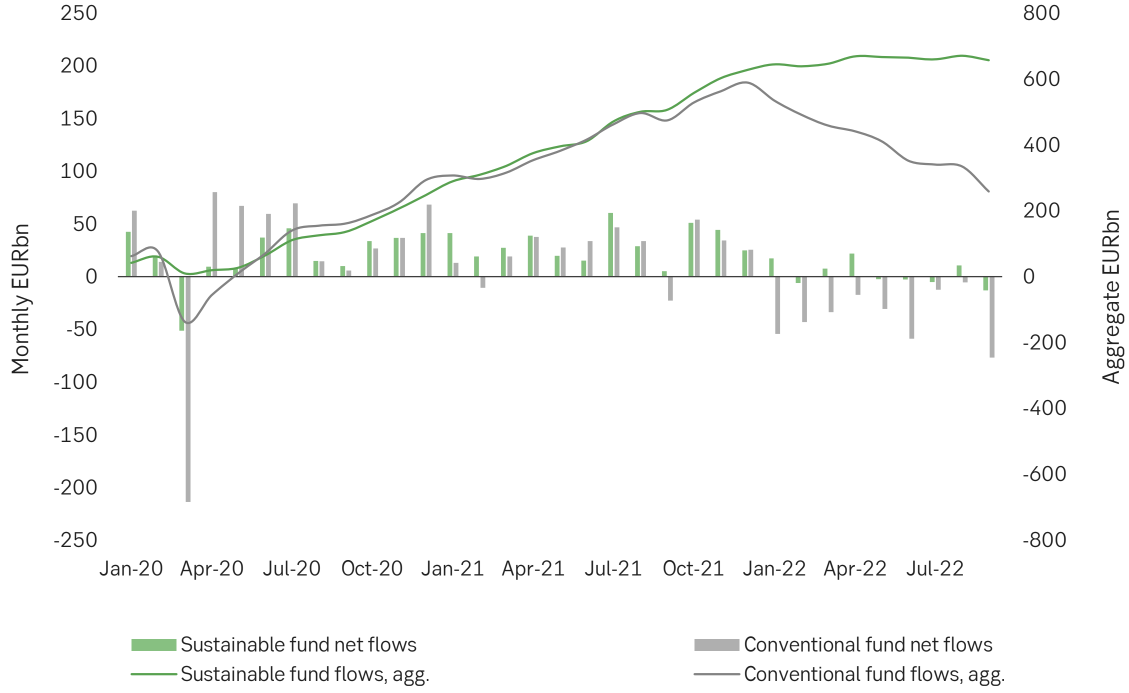
Sustainable fund flows and sustainable finance infrastructure

Net fund flows from European sustainable and general funds since January 2020[1]



Net fund flows from European sustainable and general funds since January 2020[1]

1. Sustainable funds is defined by Morningstar as a fund that, by prospectus or other regulatory filings, claim to use environmental, social, or governance factors as a central focus of their investment process. The analysis includes open-end funds and exchange-traded domiciled in Europe.

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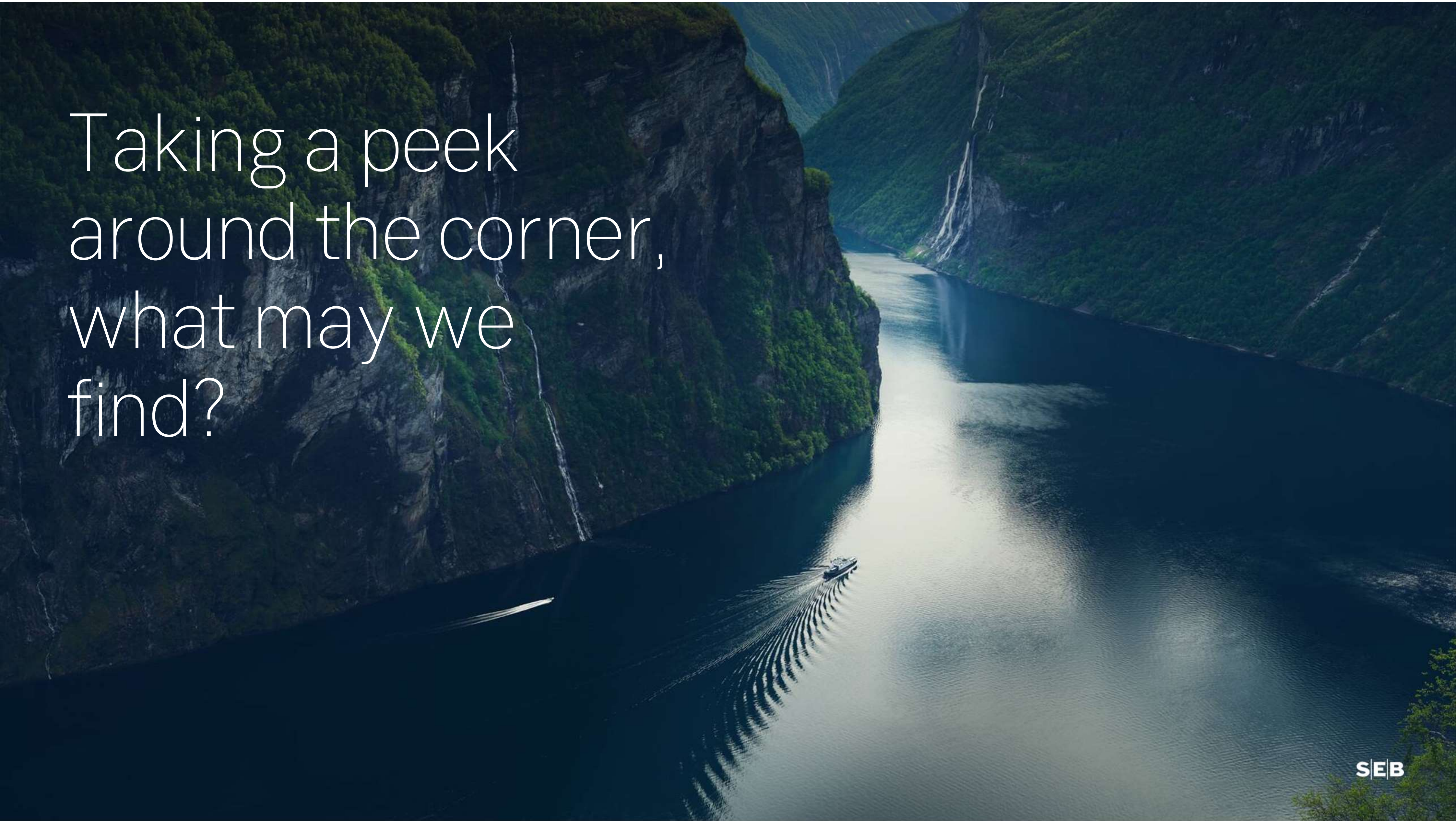

Taking a peek around the corner, what may we find?

Implications of the regulations on corporates

Compliance, risk and repricing

Need to conform with a common definition of sustainability

- Taxonomy setting a common definition for sustainability across asset managers, public institutions, banking sector
- Companies will need to show how their activities align with this definition and how they compare to peers

Regulatory tightening affects operations

- Increased pace, extended scope and a rapid tightening of regulatory environment has made investors wary of increased transition risks

Access to bank financing will be linked to sustainability factors

- Integration of sustainability considerations to banks' credit approval policies

Investors search for sustainable opportunities

- Companies with credible Paris aligned plans face considerable investor interest
- Investors are looking for exposure to new green stocks
- Increasing investor engagement and pressure on companies and financiers

Data and communication will increase transparency and set higher expectations

- Better reporting and high-quality communication will lead to higher overall transparency in the market
- Transition laggards will be fully exposed when they report
- Increased focus on corporate sustainability data

Regulatory-imposed disclosures will leave corporates with nowhere to hide as investors fulfil sustainability commitments

Transition laggards

Management decisions

- ✗ Failure to act and integrate sustainability risks into business model, means the company is unprepared for sustainability regulations
- ✗ Failure to invest into clean technologies , invests steadily into fossil fuel related infrastructure

Implications

- Perform weakly in peer benchmarking
- Indicate to investors poor governance, which results in divestments
- Loss of market share due to lack of sustainable products
- Negative outlook results in reduced free cash flows
- Unable to attract top talent
- Further divestments and erosion of shareholder value

Banks are unable to finance, investors are unable to hold in their portfolios, lack of access to capital means the company is no longer able to operate and risks becoming a stranded asset

Transition leaders

Management decisions

- ✓ Have been reporting on ESG for a number of years and are well prepared for regulatory sustainability disclosures
- ✓ Strong integration of sustainability risks and opportunities into the business model (i.a. set targets and implement a governance structure)
- ✓ R&D investments into clean technologies (e.g. EVs, green steel)

Implications

- Perform strongly in peer benchmarking
- Indicate to investors strong governance, which encourages investments
- Gain market share through offering of sustainable products
- Demand for products enables a price premium which improves cash flows
- Attract top talent
- Increase shareholder value

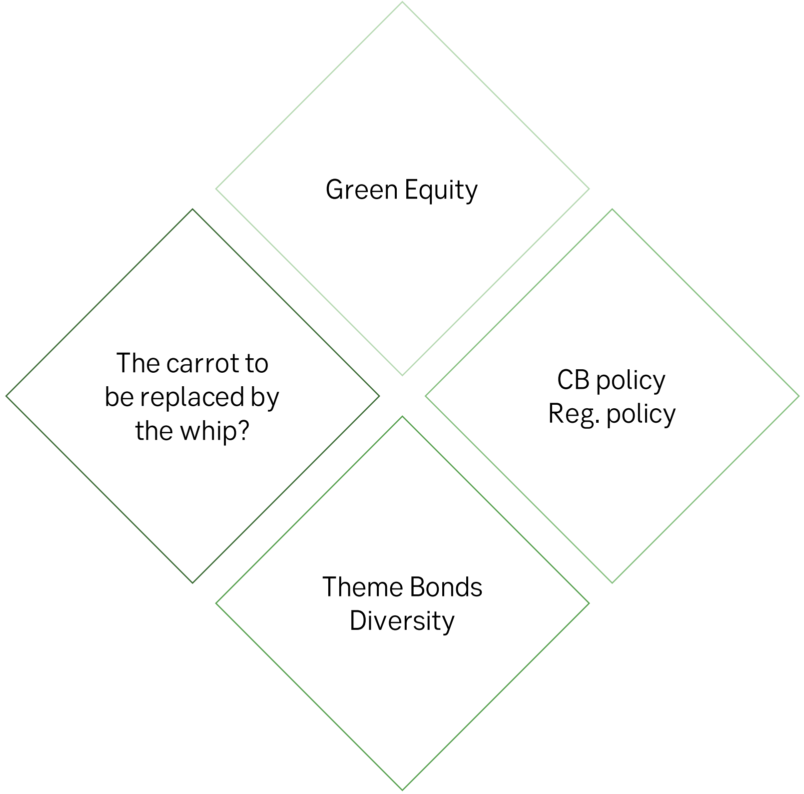
Strong management enables the company to anticipate the evolving landscape, benefiting in the short-medium term and enabling the company to remain relevant in the longer-term

Evolving landscape will result in a market equilibrium by 2050, whereby all the companies which continue to operate in the market have fully integrated sustainability into their business model.

A few more thoughts

Topics to consider

1. Greenflation
2. From voluntary to regulations?
3. Regulatory harmonization – capital flows
4. Incentives – taxes, discounts?
5. Defining the price of carbon?
6. Carbon tax, why not?
7. ESG – extracting Alpha



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SEB has been advisor for over 150 ESG financing Frameworks globally

SEB was awarded no. 1 Sustainability Advisor in the Nordics for 2020 and 2021

SEB has structured a vast amount of ESG Financing Frameworks globally for a broad variety of clients and industries.

Thank you.

CSRD – the Corporate Sustainability Reporting Directive

CSRD Timeline – when will corporates be affected?

FY2024	FY2025	FY2026
Largest corporates (NFRD) • Companies with more than 500 employees and listed in EU regulated markets • Banks and insurance companies	**Large and listed corporates** • All listed companies • All large companies (where the company has at least 250 employees and either EUR 40m net turnover or EUR 20m net balance sheet)	**Listed SMEs** • All listed SMEs (where the company has at least 50 employees and either EUR 8m net turnover or EUR 4m net balance sheet

What will corporates have to report on?

Corporates will be required to report on both sector agnostic and sector specific indicators, as well as the sustainability business model, strategies, policies and targets. Some examples include:

Environmental

- Scope 1,2 and 3 GHG emissions
- Carbon intensity
- Share of non-renewable energy consumption and production
- Exposure to coal, oil and gas-related activities
- Activities negatively affecting biodiversity-sensitive areas
- Emissions to water
- Hazardous waste ratio

Social

- Violations of / lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
- Unadjusted gender pay gap
- Board gender diversity
- Workers in both own workforce and workers in value chain
- Exposure to controversial weapons

Governance

- Resilience of business model and strategy to risks related to sustainability matters, as well as opportunities related to sustainability matters
- Financial and investment plans to ensure business model and strategy are compatible with the Paris Agreement
- Time-bound targets related to sustainability matters, including GHG emission reduction targets for 2030 and 2050
- Policies and management incentive schemes related to sustainability matters

Source: European Commission

SFDR – the Sustainable Finance Disclosure Regulation

Reporting rules for financial market participants and advisers that manufacture financial products

What is the SFDR?

The Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) lays down sustainability disclosure obligations for manufacturers of financial products and financial advisors towards end-investors. It requires disclosure on:

- The integration of sustainability risks
- Principal adverse impacts (PAI) on sustainability factors of which 14 are mandatory on the entity-level including scope 1-3 GHG emissions, unadjusted gender pay gap

SFDR reporting with regulatory technical standards applies from 1st Jan 2023

Who is affected by SFDR?

Financial market participants including financial advisors offering the following products or services:

- UCITS
- AIF (Alternative Investment Fund)
- Portfolio management (MiFID Article 4(1) point 8)
- IBIP (Insurance Based Investment Product)
- IORP 2
- Solvency 2
- PEPP (Pan-European Personal Pension Product)

Essentially all participants managing assets

Product-level disclosure requirements

There are three products types which the SFDR regulation refers to and the disclosure requirements for the financial market participants managing these products varies depending on the product type:

	Art. 6 products A product where no sustainability claims are made	**Art. 8 products** A product "promoting environmental or social characteristics"	**Art. 9 products** A product with "sustainable investment as its objective"
Pre-contractual	Statement on non-consideration of Principle Adverse Impacts (PAI) and reasons for this	Consideration of the product's Principle Adverse Impacts (PAI) on sustainability factors Disclosure on how the "characteristics" are met and the consistency of benchmark index with the characteristics	Consideration of the product's Principle Adverse Impacts (PAI) on sustainability factors Disclosure on how the "objective" is to be attained and alignment of the benchmark index with the objective
Periodic reports	Information of PAI on sustainability factors	PAI on sustainability factors The extent to which the environmental or social characteristics are met	PAI on sustainability factors Overall sustainability related impact Comparison between the product impact and impacts of relevant indexes

Principle Adverse Impact Indicators (PAI) refers to indicators which fund managers are required to disclose for their investee companies.

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