

Responsible Investment



As a major global asset owner and manager, the HKMA is pioneering the development of green and sustainable finance. Grounded in our experience of aligning financial performance with positive impact, we uphold responsible investment practices in managing the Exchange Fund, prioritising sustainable assets and mandating active ownership by our external managers.

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Overview

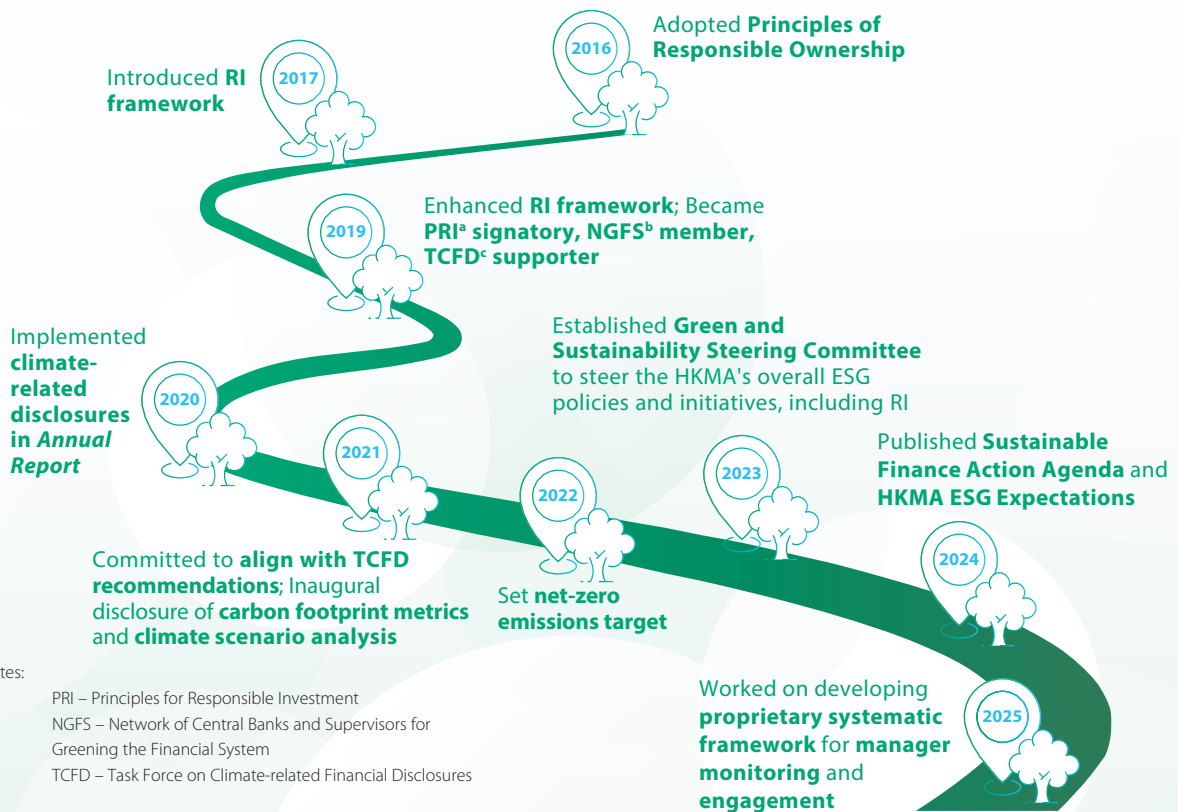
Investing prudently under the principle of “capital preservation first while maintaining long-term growth”¹, the HKMA believes that giving due attention to environmental, social and governance (ESG) factors can help mitigate associated risks and unlock the long-term sustainable value of investments.

As a steadfast signatory of the Principles for Responsible Investment (PRI), we are committed to advancing our responsible investment (RI) initiatives. We place a strong emphasis on sustainability, particularly regarding the effects of climate change, with the aim of bolstering the resilience and long-term risk-adjusted returns of the Exchange Fund. We adopt a pragmatic and disciplined approach to directing the Exchange Fund’s capital towards sustainable investments across different asset classes (Figure 1).

Leveraging our role as a major investor, the HKMA contributes to advancing the ecosystem for green and sustainable finance. We partner with like-minded investors, regulators and international organisations to develop industry-wide ESG standards and promote the adoption of RI across the financial and central banking sectors.

The HKMA published the Sustainable Finance Action Agenda (Action Agenda) in 2024, further underscoring our commitment to investing in a sustainable future. The Action Agenda sets a clear target for the Exchange Fund’s Investment Portfolio (IP) to achieve net-zero emissions by 2050², alongside a commitment to mobilise our counterparties in supporting Asia’s transition through investment. Based on the *HKMA ESG Expectations*, we are developing a proprietary systematic framework to deepen our engagements with external managers on the climate resilience and transition potential of our investment portfolios.

 **Figure 1** The Exchange Fund’s RI journey



¹ Refer to the *Reserves Management* chapter of our *Annual Report 2025* for more details.

² Carbon emissions according to the Greenhouse Gas Protocol (<https://ghgprotocol.org/>).

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Governance

The Exchange Fund Advisory Committee (EFAC), chaired by the Financial Secretary, has endorsed the RI framework and the associated guiding principle for implementation by the Exchange Fund Investment Office (EFIO) in managing the Exchange Fund. The overarching guiding principle has underpinned an RI approach that is fully aligned with the investment objectives of the Exchange Fund.



The Exchange Fund's guiding principle of RI:

Priority will generally be given to ESG investments if the long-term risk-adjusted return is comparable to other investments.



The oversight of ESG and climate-related risks associated with the Exchange Fund's investments is exercised by EFAC's Investment Sub-Committee (ISC), chaired by the Chief Executive of the HKMA. The ISC reviews the Exchange Fund's RI framework and risk management approach, and monitors their implementation progress through regular reports from EFIO's Sustainable Investing (SI) team at each meeting. As illustrated in Figure 2, effective January 2026, the EFIO ESG Committee, chaired by EFIO's Deputy Chief Executive Officer, co-ordinates and oversees all ESG-related efforts within EFIO. Initiatives and progress discussed at regular EFIO ESG Committee meetings are reported to the Chief Executive Officer (CEO) of EFIO. At the operational level, the SI team, led by the Chief Investment Officer (Asset Allocation), ensures the pragmatic implementation of RI principles across all asset classes in which the Exchange Fund invests.

At the firm-wide level, the Green and Sustainability Steering Committee, chaired by the Chief Executive of the HKMA and attended by senior executives from EFIO, convenes regularly to steer the development and oversee the implementation of ESG policies and initiatives across the HKMA, including those of EFIO.



Scan the QR code for more details about the HKMA's RI framework

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Strategies

The HKMA recognises that physical and transition risks³ arising from climate change, along with the associated opportunities, can impact the long-term financial performance of the Exchange Fund’s investments⁴.

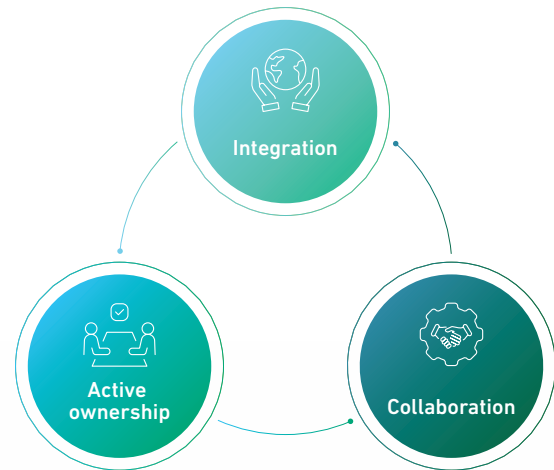
Emphasis on climate change for responsible investment

The HKMA has placed particular emphasis on climate-related risks and opportunities in our ESG integration efforts. We have set a target to achieve net-zero emissions for the Exchange Fund’s IP by 2050. We are advancing our progress towards achieving this target through a disciplined, three-pronged approach (see Figure 3).



Figure 3

The HKMA’s three-pronged approach to RI



The Action Agenda outlines two goals for investing in a sustainable future, further reinforcing the Exchange Fund’s commitments and efforts in supporting the climate transition (see Figure 4).



Figure 4

Sustainable Finance Action Agenda

Investing in a sustainable future



Goal 3

Achieve net-zero emissions for the IP of the Exchange Fund by 2050



Goal 4

Support transition in the region through investment



³ Climate risks are widely defined by two dimensions: (i) physical risks, including acute impacts from extreme weather events that cause business disruptions and physical damage to assets, as well as chronic changes in climate patterns that affect operations and productivity; and (ii) transition risks, involving the possible abrupt devaluation of assets due to the shift towards a low-carbon economy.

⁴ Current policies undertaken by nations are insufficient to combat climate change, and the uncertainty surrounding policy shifts, technological advancements and behavioural changes to mitigate temperature rise may exacerbate transition risk. Simultaneously, the growing frequency and severity of extreme weather events are intensifying physical risks. While asset valuations might be impacted by both transition and physical risks, the global shift towards sustainable solutions also presents investment opportunities in low-carbon technologies and sustainable infrastructure, which may offer compelling long-term returns.


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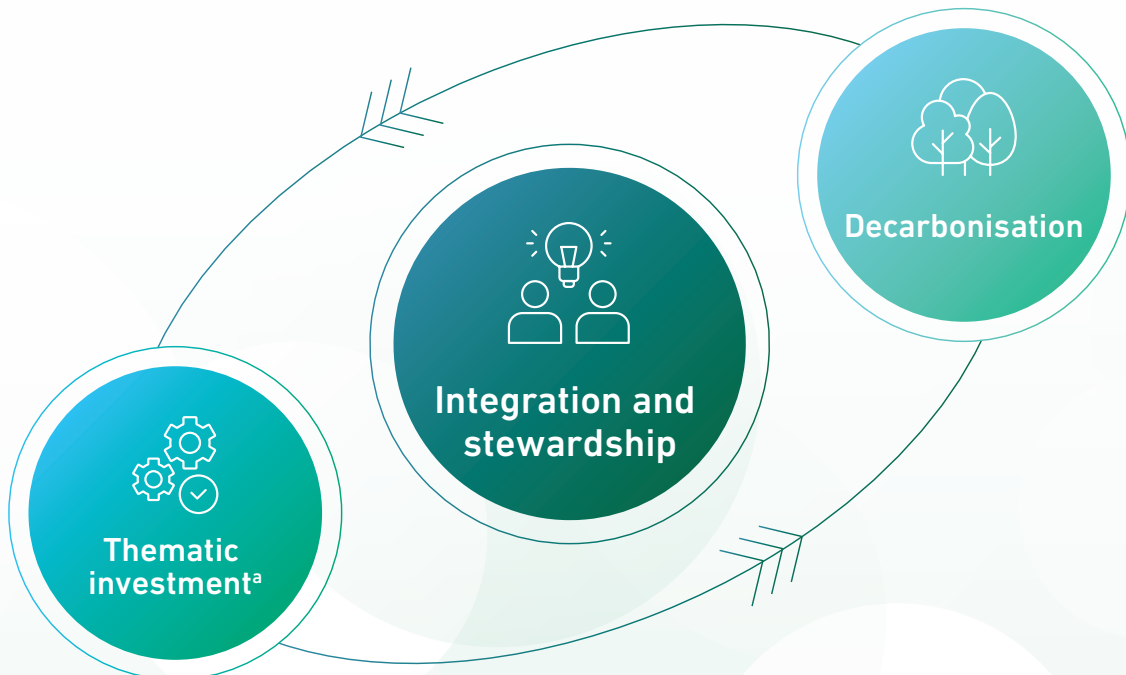
In support of the transition to a low-carbon economy, the HKMA prioritises proactive engagement over exclusion or divestment from our permissible investments on the basis of the following:

❖ Outright exclusion of sectors or industries could narrow the investible universe, potentially undermining the Exchange Fund's ability to meet its investment objectives. In contrast, an inclusive approach enables us to capitalise on opportunities by investing in companies undergoing active transition, including those from heavy-emitting industries that demonstrate strong technological capabilities and robust governance to adapt to global climate trends.

❖ Excluding and divesting from core "brown" industries alone would not resolve the issue of carbon emissions. Instead, we support these industries through strategic capital and active ownership to drive their low-carbon transitions, resulting in positive changes that benefit both the industries involved and the global community.

We support the Exchange Fund's and the broader global net-zero goals through a holistic and multifaceted approach to sustainable transition. We employ a combination of top-down and bottom-up tools, ranging from the fundamental integration of ESG factors and stewardship, to portfolio decarbonisation tilts and thematic investments aligned with net-zero pathways across asset classes (see Figure 5).

 **Figure 5** A holistic strategy for sustainable transition



^a Examples include ESG leaders, climate solution providers and transition-themed private investments

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Pursuing sustainable investments


By integrating ESG factors into investment decisions, the HKMA seeks opportunities that promote climate transition while enhancing the long-term resilience of the Exchange Fund's portfolio. As of the end of 2025, sustainable investments across different asset classes constituted over 10% of the Exchange Fund's IP, delivering financial performances on par with their respective portfolio benchmarks (Figure 6).

Investment highlights in 2025 (see Boxes 1 to 4):

🌀 **Public investments** – We extended the application of the decarbonisation overlay to an additional externally managed passive equity portfolio and were progressing towards the adoption of a transition-focused climate benchmark for a

passive ESG equity mandate. We also continued to seek attractive green, social and sustainability bonds that finance sustainable projects while offering competitive returns.

🌀 **Private investments** – We continued to strive to construct a resilient Long-Term Growth Portfolio (LTGP) by seizing opportunities aligned with climate and energy transition themes. Leveraging our extensive network and expertise, we also formed strategic partnerships with multinational organisations to proactively source and vet opportunities that could accelerate the energy transition across Asia.

 **Figure 6** Ongoing initiatives in pursuing ESG investments



- 🌀 Passive mandate using an ESG/transition-focused climate index as the benchmark
- 🌀 Decarbonisation overlay strategy using bespoke methodologies for non-ESG benchmarked passive and active quantitative mandates
- 🌀 Active governance-themed mandate
- 🌀 Active ESG mandate focusing on sustainability and climate transition themes



- 🌀 Projects with sustainable features, such as renewable energy infrastructure, and buildings and warehouses with green accreditations
- 🌀 Funds that focus on energy transition and decarbonisation globally, in Asia, or in the Global South
- 🌀 Venture capital funds that support the development of green and technology-enabled infrastructure in Emerging Asia



- 🌀 Green, social and sustainability bonds
- 🌀 Green bond funds managed by an international organisation
- 🌀 Managed Co-Lending Portfolio Program (MCP) run by the International Finance Corporation with a focus on sustainable projects in emerging markets
- 🌀 MCP One Planet focusing on climate-smart investments aligned with the Paris Agreement in emerging markets

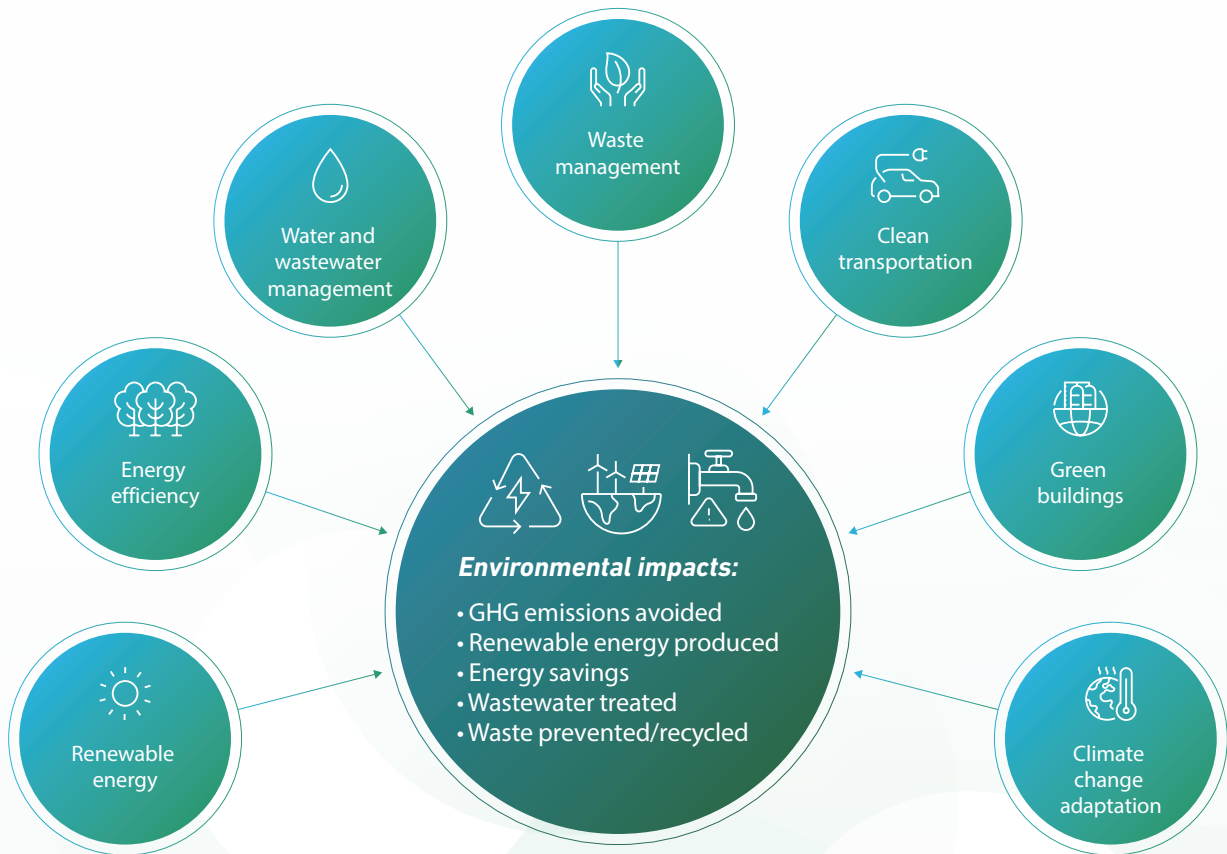
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Box 1

Supporting energy transition through an Asia-Pacific green bond fund

To support the energy transition in Asia, the HKMA invested in a green bond fund managed by an international organisation. This fund allocated capital to green bonds offered by Asia-Pacific issuers, with the proceeds dedicated to financing green projects that deliver environmental or climate-related benefits. As of the fund's financial year-end in 2025, it reported various positive environmental impacts across multiple categories, including renewable energy, clean transportation, green buildings, energy efficiency and waste management. With greenhouse gas (GHG) emissions avoided as a commonly referenced impact metric, the fund reported a 13% increase in avoided GHG emissions compared to the prior year. Other positive environmental impacts achieved included energy savings, wastewater treated, and waste prevented or recycled.

Beyond its positive environmental impacts, the fund delivered a return comparable to our performance benchmark over the same period. This demonstrates that sustainable investing can achieve the dual objectives of generating good financial performance while delivering positive environmental impacts.

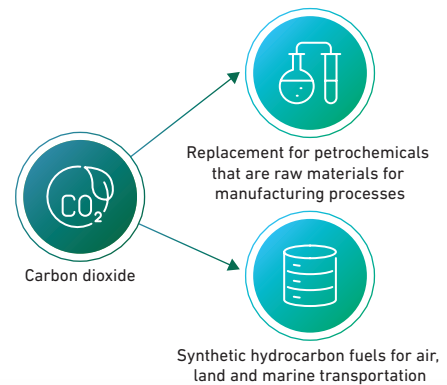


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Box 2

Pursuing sustainable investments in the private market

The HKMA invested in a company specialising in carbon transformation through a private market fund. Utilising advanced electrochemical processes powered by renewable energy, the company converted carbon dioxide into new hydrocarbons and chemicals that could serve as fuels or raw materials for manufacturing. This innovation enabled the creation of commercial value from a substance that was previously regarded as a pollutant. Notably, the sustainable aviation fuel (SAF) produced by the company could reduce carbon emissions by up to 90% compared to conventional jet fuel, making it one of the most effective options for lowering emissions among existing SAF types.



Box 3

Joining forces to advance innovative technologies for green and technology-enabled infrastructure in Emerging Asia

Recognising that innovation and technology are essential for energy transition and infrastructure development in Asia's emerging economies, the HKMA signed a partnership agreement with the Asian Infrastructure Investment Bank (AIIB) in June 2025 to invest in a portfolio of venture capital funds that prioritise investments in the region. This strategic partnership aims to create a demonstration effect, encouraging other investors to scale their venture investments in emerging Asia.

The collaboration also deepens the ties between the HKMA and the AIIB, and reinforces Hong Kong's status as a leading innovation and technology centre, as well as a green finance hub in Asia.

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Box 4 Building the ecosystem

The green and sustainable finance ecosystem is the cornerstone of future global sustainability. The HKMA proactively collaborates with like-minded investors and counterparties to promote RI and strengthen the industry's capacity.

HKMA ESG Workshop



In 2025, we successfully hosted the seventh annual ESG Workshop as part of the Hong Kong Green Week for the first time, bringing together around 90 investment professionals from EFIO and our counterparties. The event gathered asset managers from both public and private markets for fireside chats and panel discussions on current developments, challenges and opportunities in RI.



Mr Howard Lee, CEO of EFIO, delivers remarks at the HKMA ESG Workshop 2025

Collaboration with international organisations

Internationally, the HKMA maintained a leading role in 2025 in promoting industry-wide ESG investment standards and practices:

-  At the Network of Central Banks and Supervisors for Greening the Financial System (NGFS), we co-chaired the subgroup on transition planning for central banks alongside the European Central Bank under the "Net Zero for Central Banks" workstream. Our chairmanship spans from 2024 to 2026.
-  We continued to participate actively in key industry forums and media interviews, sharing our experiences in RI and advocating for the adoption of sustainable investment practices.



Mr Leong Cheung, the then Chief Strategy Officer of EFIO, speaks at an international conference on sustainable investment

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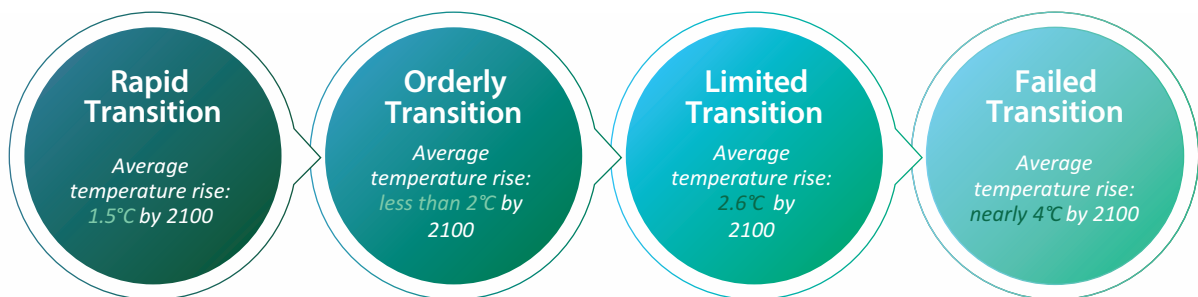
Assessing portfolio climate resilience

The HKMA utilises scenarios (see Figure 7) developed by an external consultant to assess the resilience of the Exchange Fund's IP against potential vulnerabilities and opportunities arising from different states of climate change. While the analysis presented in the *HKMA Sustainability Report 2024* remains relevant, we will continue to monitor evolving developments and enhance our assessment as appropriate.



Scan the QR code to access the Climate Scenario Analysis presented in our *Sustainability Report 2024*

 **Figure 7** Applying a range of scenarios for analysing climate risks



Strengthening internal capacity

Developing internal expertise is essential to further advancing RI. In addition to staff undertaking sustainability-related courses and acquiring relevant certifications, the HKMA actively participates in conferences and seminars organised by esteemed international organisations such as the PRI, the NGFS, fellow central banks and investment counterparties. The events provide opportunities for us to engage with industry-leading experts and international investors to keep abreast of ESG developments, and exchange insights and best practices on ESG implementation.

To facilitate internal knowledge sharing, every EFIO ESG Committee meeting includes a standing agenda item to discuss ESG news and the market landscape (see the *Governance* section on page 27 above). Furthermore, sustainability and green finance-related topics are frequently featured in the HKMA's internal training programmes, aiming to equip staff members with the necessary knowledge.

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Risk management

Integrating ESG factors into credit analysis

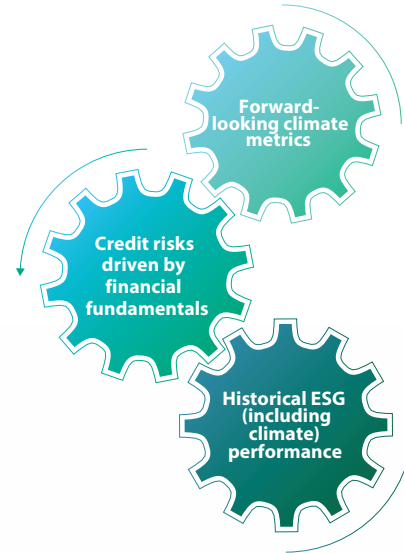
Climate risk management is an integral part of the HKMA's investment processes across all asset classes. Since 2017, ESG factors have been incorporated into the credit risk model for the Exchange Fund's fixed income portfolios, with ongoing assessment of the portfolios' ESG profiles. In 2023, we enhanced the model by incorporating forward-looking climate factors, placing additional emphasis on the climate-related commitments and transition plans of fixed income issuers (Figure 8).

Advocating active ownership

The HKMA believes in enhancing the long-term sustainable value of our investments through stewardship and continuous engagement. We place high importance on the ESG and stewardship practices of our external managers, who are entrusted with discharging active ownership responsibilities and exercising shareholder rights on behalf of us. ESG considerations are integrated into the processes of selecting, appointing and monitoring external managers to ensure alignment with the HKMA's net zero commitments.

In 2024, we launched the inaugural *HKMA ESG Expectations*, structured around five pillars that outline our preferred ESG practices for our counterparties and service providers to reference and follow (see Figure 9).

 **Figure 8** Factors in credit risk analysis



 **Figure 9** Five pillars of the HKMA ESG Expectations



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Meanwhile, we adopt a pragmatic approach in applying the *HKMA ESG Expectations* during our investment selection, appointment and monitoring processes, recognising that certain expectations may not be universally applicable to all investments and counterparties within our diversified portfolios. We will regularly review the *HKMA ESG Expectations* to incorporate the latest international standards and best practices, reinforcing our commitment to continuous advancement in ESG integration.

To support the real-economy transition, we are developing a proprietary systematic framework based on the principles outlined in the *HKMA ESG Expectations* to deepen our engagements with external managers regarding the climate resilience and transition potential of the investment portfolios they manage on our behalf.



Scan the QR code to access the *HKMA ESG Expectations*

Promoting transparency for private investments

We examine the ESG policies and practices of general partners (GPs) as a mandatory part of our due diligence work for every investment mandate of the LTGP. We conduct assessments using the HKMA's ESG due diligence questionnaire⁵. For real estate investments, we also review whether the properties have obtained the relevant green accreditations.

On an ongoing basis, we continue to incorporate ESG integration clauses into the legal documentation and require GPs to report ESG information, including climate risk assessments and key metrics such as carbon emissions of underlying investments, to facilitate our risk monitoring

and promote data transparency in the private market sector. To address the challenges of ESG data availability and standardisation, we have been encouraging our GPs to utilise industry templates, such as those developed by the ESG Data Convergence Initiative, for their ESG reporting to us⁶.

Target and metrics

Targeting net-zero emissions

The HKMA has set a target of net-zero emissions by 2050 for the Exchange Fund's IP. This target marks a significant milestone in the HKMA's RI journey.

To demonstrate accountability for this commitment, we announced as part of the Action Agenda that we will endeavour to reduce the weighted average carbon intensity (WACI)⁷ of the Exchange Fund's public equities by 67% from 2017 levels by 2030. The interim milestone is grounded in the latest science from the Intergovernmental Panel on Climate Change and has been reviewed by an external consultant.

However, challenges persist in establishing interim milestones for other asset classes due to limitations in data availability and a lack of well-founded net-zero pathways. We will actively monitor market practices to track the decarbonisation progress of those other asset classes.

Measuring carbon emissions

Measuring carbon emissions enables us to understand the climate risk profile of our portfolios, track progress in decarbonisation and identify carbon-intensive areas that require further action.

In alignment with industry practices, we continue to monitor the WACI, expressed as tCO₂e⁸/US\$ million revenue, for the Exchange Fund's portfolios. Scope 3 emissions⁹ are excluded due to limited data availability and the lack of a consistent calculation methodology at this stage.

⁵ This is based on the industry standard developed by the PRI and the Institutional Limited Partners Association (Limited Partners' Private Equity Responsible Investment Due Diligence Questionnaire), and also includes the HKMA's own proprietary questions.

⁶ The ESG Data Convergence Initiative is a collaborative initiative between GPs and limited partners to enhance the efficiency of ESG data collection and drive convergence on meaningful ESG metrics for the private markets.

⁷ WACI is a metric recommended by the Task Force on Climate-Related Financial Disclosures and the NGFS. It measures a portfolio's exposure based on Scope 1 and 2 emissions relative to the gross revenues of underlying investments, weighted by their relative sizes in the portfolio. Scope 1 emissions refer to direct emissions from sources owned or controlled by an organisation. Scope 2 emissions refer to indirect emissions generated from purchased electricity, steam, heating or cooling consumed by an organisation.

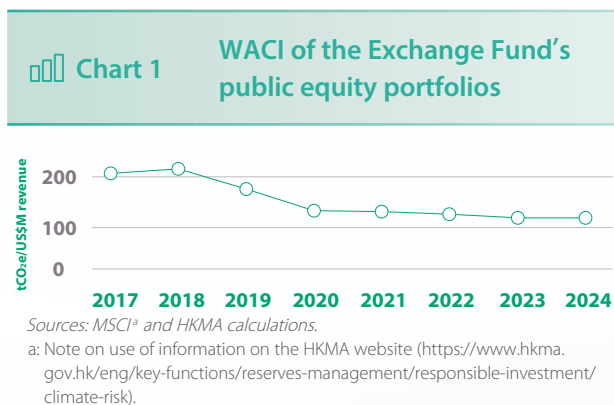
⁸ tCO₂e refers to tonnes of carbon dioxide equivalent.

⁹ Scope 3 emissions refer to all other indirect emissions resulting from the activities of an organisation.

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Monitoring emissions from public equity portfolios takes precedence due to the higher reliability of measurement and disclosure practices in this asset class. This focus also aligns with the results from the climate scenario analysis, which indicate that public equities are more susceptible to climate risks compared to other asset classes within the Exchange Fund.

Chart 1 presents the WACI of the Exchange Fund's public equity portfolios from 2017 to 2024, using methodologies and tools developed by an external data provider. In cases where reported data from underlying investee companies were unavailable, the data provider estimated the respective carbon emissions using its proprietary model. Together, the reported and estimated data covered more than 98% of the asset values of the assessed portfolios in 2024.



As of the end of 2024, the WACI of the public equity portfolios stood at 110 tCO₂e/US\$ million revenue, reflecting an overall 50% reduction compared to the 2017 level. This figure is lower than the market investment benchmark, indicating the Exchange Fund's lower exposure to carbon-intensive assets relative to the broader market.

The pathway to net zero is, however, non-linear. The decarbonisation of the Exchange Fund's portfolios is subject to short-term fluctuations influenced by various factors beyond emissions alone, such as shifts in the portfolio asset mix, strategies in response to market dynamics and fluctuations in underlying asset valuations.

Focusing on long-term transition

While the WACI is a key metric for assessing the carbon exposure of investment portfolios, it relies on disclosures from investee companies, which are inherently backward-looking and do not reflect the potential for future low-carbon transitions.

Importantly, the HKMA's net-zero strategy does not hinge on the exclusion of high-emission companies. Instead, we seek to support a whole-of-economy transition by engaging with companies and funding solutions that facilitate decarbonisation. Therefore, short-term increases in the WACI may occur before positive climate outcomes are realised in the longer run. Overreliance on this single indicator may encourage short-termism, potentially undermining the long-term objective of a comprehensive economic transition.

To complement our analyses, we have been tracking several forward-looking metrics. Through these metrics, we have observed that the majority of companies in which the Exchange Fund has invested have already established climate-related targets, with a growing number committing to align with a net-zero pathway.

As international disclosure standards and collaborative efforts continue to evolve, we will remain vigilant in monitoring these developments to identify suitable metrics for enhancing our climate exposure monitoring and reporting.