

Sharing experience from practitioners : GPF Thailand

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Secretary General

GPF Road Map & GPF's Vision: Leader in ESG Investing and Initiatives in Thailand





FINANCE

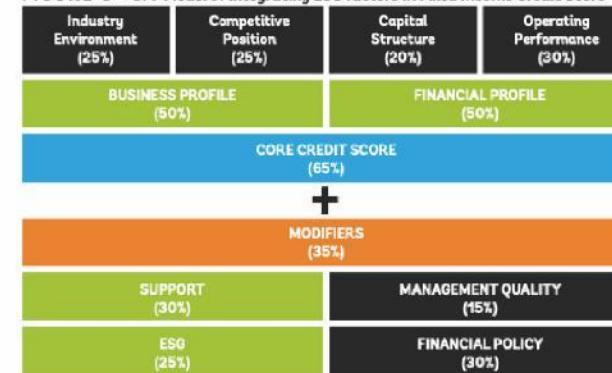
EQUITABLE GROWTH, FINANCE & INSTITUTIONS INSIGHT

Government PensionFund (GPF) Thailand Environmental, Social & Governance (ESG) Weight and Score: Asset Valuation Methodology[©]



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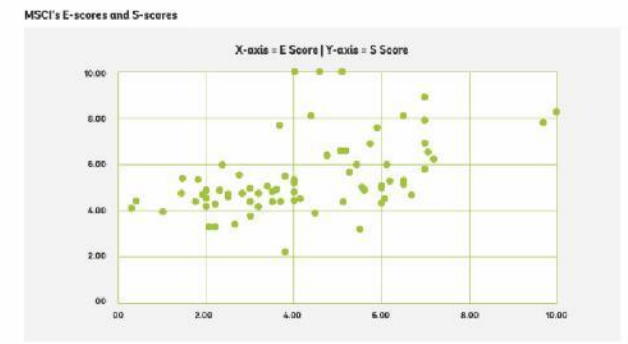
FIGURE 3 - GPF Model of Integrating ESG factors in Fixed Income Credit Score



We apply this Credit Scoring Methodology to corporate bonds and to state-owned enterprise bonds, but not to government bonds. At present, across our fixed income portfolios, approximately 37% of our holdings are in corporate bonds, 18% in state-owned enterprise bonds and 45% in government bonds.

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FIGURE 2 - MSCI's E-scores and S-scores VS GPF's E-scores and S-scores



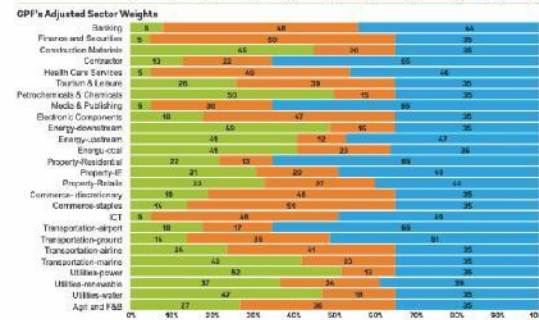
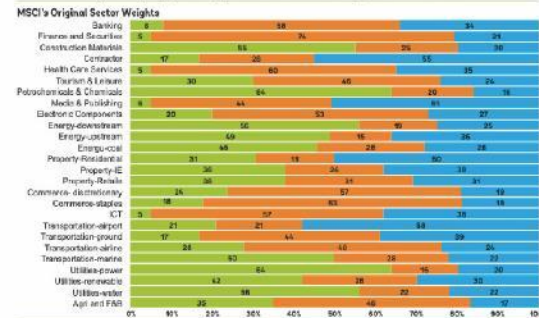
GPF's E-scores and S-scores



Figure 1 presents the full comparison - on a sector-by-sector basis - between MSCI's original industry weights and GPF's adjusted industry weights.

>>>

FIGURE 1 - Graphs comparing MSCI's original ESG WEIGHTS and GPF adjusted ESG WEIGHTS



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Walk the (ESG) Talks

1. Vision

Leader in ESG Investing & Initiatives

2. Policy

Fiduciary Duty + Social Capital (Universal Owner) & Exclusion Policy

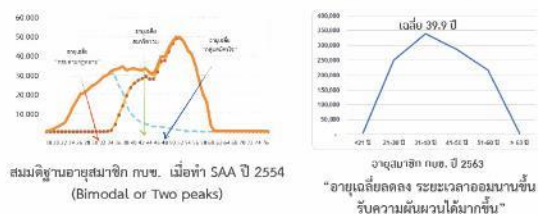
3. SAA

Capital Allocation To asset classes

เป้าหมาย : ผลตอบแทนยั่งยืน ระยะยาว

“Paradigm Shift”

1 อายุเฉลี่ยสมาชิก กบข. ลดลง และไม่มีลักษณะ Bimodal



2 การบริหารอัตราแลกเปลี่ยน



1. อนุลงทุน มีมติให้ “พบทวน”
2. ทุ่มลงทุน Hedging ไม่ได้ช่วยลดความเสี่ยงของพอร์ตอย่างมีนัยสำคัญ อาจไม่คุ้มต้นทุน
3. ที่ปรึกษา (UBS) : Active Management, B/M
4. World Class Pensions Currency is truly uncorrelated assets & Diversification

3 อายุเฉลี่ยเพิ่มขึ้น



- อายุเฉลี่ยเพิ่มขึ้น ระยะเวลาดำเนินงานต้องเปลี่ยนกลยุทธ์
- นานขึ้น ต้องสะสมเงินให้เพียงพอ
- โอกาสการเกษียณอายุที่เปลี่ยนรูปแบบ

4 สภาพคล่องสั้น



- สภาพคล่องสั้น
- นโยบายการเงินค้ำประกันประสิทธิภาพ
- ธนาคารกลางเพิ่มบทบาทของเศรษฐกิจ
- ตลาดหุ้น “จิ้งจอก” ผันผวนมาก
- วิกฤต: ตลาดหุ้น VS ภาคธุรกิจจริง
- อัตราดอกเบี้ยต่ำ

5 สภาพแวดล้อมการลงทุนใหม่



- เอเชีย และประเทศเกิดใหม่บางประเทศ แนวโน้มเติบโตดี
- จีนคือศูนย์กลางเศรษฐกิจใหม่
- กลุ่มธุรกิจสร้างการเติบโตคือ Blue Ocean ที่มี Digital Disruption ไม่ใช่ Red Ocean แบบเดิม
- โควิด 19 คือตัวแปรเร่งขับเคลื่อนที่ปรับตัวไม่ทันกับ Digital Disruption ออกจากตลาด



“90% ของรายได้กองทุนมาจาก SAA”

ระยะเวลาดำเนินงานในการทำ SAA

1. ภาวะปกติทุก 4-5 ปี
2. เมื่อเกิดวิกฤตเศรษฐกิจและการลงทุน

การทำ SAA ของ กบข.

ครั้งที่ 1 : พ.ศ. 2546

ครั้งที่ 2 : พ.ศ. 2554 (9 ปี)

Flatter Returns

Fatter Tails

Fatter Tails

“ผลตอบแทนต่ำ, ตลาดผันผวน”

Enhance & Selective Strategy

(in addition to diversification strategy)

Bond ↓

Government Bond ↓

Corporate Bond ↑
(Investment Grade Only)

Public Equity

Sub-region based → Risk Based

Theme Investment

SET 50 → Selective SET 100

Diversify & Enhance Emerging Markets/ Asia

Alternatives ↑

Real Estate ↑

Private Equity ↑

Absolute Return ↑

FX as asset class



Responsible Investment (ESG & Human Rights)

สิ่งที่จะได้จากการทบทวน SAA

1. แนวทางจัดสรรสัดส่วนสินทรัพย์เชิงกลยุทธ์ในระยะยาว (SAA) เพื่อกำหนดแนวทางสร้างผลตอบแทนยั่งยืนระยะยาว
2. สัดส่วนสินทรัพย์ที่เหมาะสม
3. Deviation Range
4. นโยบายผลตอบแทน CPI + X%
5. นโยบายและงบประมาณความเสี่ยง
6. นโยบายการบริหารอัตราแลกเปลี่ยนเชิงรุก
7. ดัชนีเทียบวัดการลงทุน
8. แนวทางจัดสรรการลงทุนระยะกลาง (M-TAA)

Human Rights

- Acting with due diligence
- Addressing adverse impact

UNGPs

The state duty to **protect**

Corporate responsibility to **respect**

Access to **remedy**

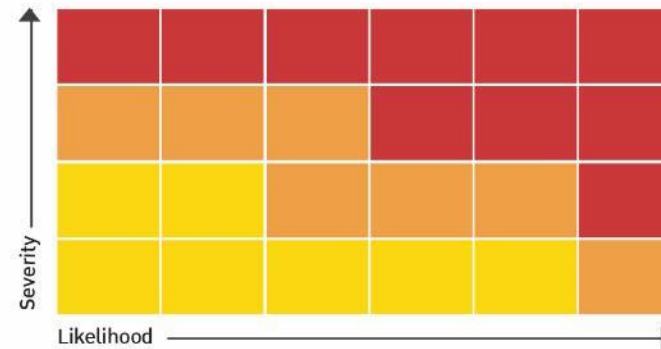
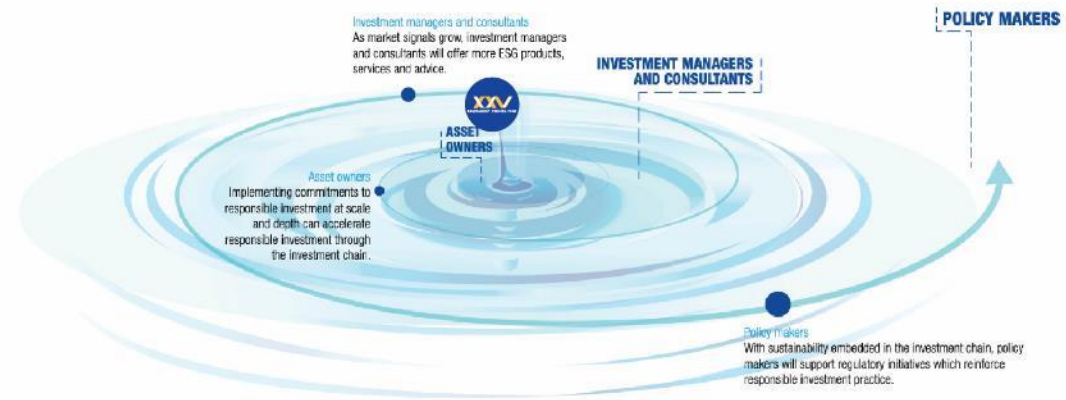
State

Business

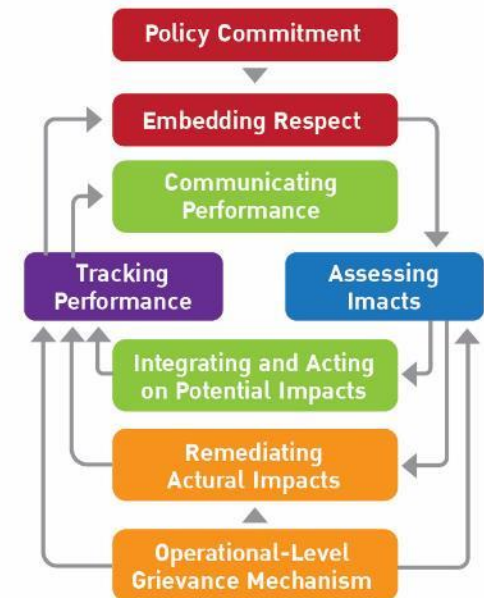
State + Biz

2021

THE MULTIPLIER EFFECT OF ASSET OWNERS' INFLUENCE-ON THEIR MANAGERS, ON POLICY MAKERS AND BEYOND



① Human Rights in Business Heat Map



② Common Framework in putting Human Rights into business picture

External Fund Management Engagement

What is responsible investment?

Approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to **better manage risk and help to generate sustainable, long-term returns**

Responsible investment does **not require ruling out investment in any sector or company**

Responsible investment can and should be pursued even by the investor whose **sole purpose is financial return**

Source: Principles for Responsible investment website, March 2019

Investment Process

Security selection: landmine checklist

Aims to identify the risks that can lead to a sharp deterioration in an issuer's credit quality

Factor	Example
✓ Liquidity	<ul style="list-style-type: none">Assuming no access to capital markets in the next 24 months, what is the impact on the issuer's liquidity?
✓ Regulatory risk	<ul style="list-style-type: none">To what extent is the issuer's industry subject to regulation and changes in regulation?
✓ Environmental, social, governance (ESG)	<ul style="list-style-type: none">Is the issuer properly managing environmental, social and governance risks?
✓ Climate risk	<ul style="list-style-type: none">What is the issuer's exposure to transitional or physical climate risk?
✓ Leveraged buyout (LBO) risk	<ul style="list-style-type: none">Is the business likely to be subject to an approach from or a bid by private equity?
✓ Event risk	<ul style="list-style-type: none">Does the management have an appetite for debt financed MandA? Is the company's share price underperforming?

Each factor scored 1 (good) to 5 (bad)

April 2020

Corporates: Management teams and boards of directors face difficult short-term choices. Decisions should take into account the welfare and safety of employees. For companies under financial stress, we encourage employers to use government support where available to protect employees as much as possible. Companies should consider redundancies or furloughing staff only after exhausting all other options.

We generally support prudent decisions that aim to ensure the long-term success of businesses, which may include, if necessary, suspending dividends, implementing measures to support cashflows and reviewing capital expenditure plans. Financial reporting, investor dialogue and financial responsibility remain essential for investors.

Governments: Governments should remain focused on the health risks from COVID-19 and follow the advice of healthcare professionals and the World Health Organization. Restrictions should only be lifted on the basis of expert advice.

The crisis should not be used as an opportunity to suppress freedoms, control economic rights or privileges, or to weaken governance standards.

Financial policymakers and regulators: We encourage continued global efforts to stabilise financial markets with both monetary and fiscal policy in the short term. As markets stabilise, communication with market participants will be crucial as any stabilising initiatives are withdrawn.

February 2021

- Encourage world leaders in the G7, G20 and ACT-Accelerator Facilitation Council to finance the ACT-Accelerator in full and deploy adequate funding to ensure fair and equitable access to COVID-19 tools globally;
- Commit to work with the Access to Medicine Foundation on this issue and engage (bilaterally and/or via existing collaborative initiatives) with our investee healthcare companies to promote industry actions supporting the mission and operations of the ACT-Accelerator (e.g., cross-industry R&D partnerships, equitable pricing strategies, voluntary licensing agreements); and
- Recommend that governments and international organisations explore the feasibility of innovative finance mechanisms for national and global COVID-19 responses, similar to vaccine bonds issued by the International Finance Facility for Immunisation or social bonds for COVID-19 programmes issued by individual or multiple governments. These mechanisms could build on the strong response by capital markets to ESG-labelled debt issued in 2020.

Sustainability bond: deep dive

Adidas AG

Background

Adidas is a best-in-class issuer under our ESG ratings framework. Their sustainability strategy focuses on six key areas, which include water and waste management, energy conservation, empowerment, improving health and inspiring action. They have set several different targets across each of these areas including a 30% carbon footprint reduction by 2030 as part of the fashion industry charter.

Rationale for issuance

Adidas hope to progress sustainability beyond its own operations and therefore strategically prioritised this issuance to promote sustainability in their value chain, from raw material sourcing and manufacturing to transportation and marketing of products.

Use of proceeds

A significant proportion of the proceeds of their inaugural sustainability bond will be used to finance and/or refinance eco-efficient and/or circular economy adapted products such as sourcing of sustainable materials and 100% recycled materials via suppliers for examples. A second party opinion was provided by Sustainalytics for the company's green bond framework.

People and the community



- Expenditures and investments to provide people of colour, women and LGBTQ+ entrepreneurs focused on tech, healthcare and consumer products with access to capital, operational resources and networks.
- Expenditures and investments to drive social mobility and bring access to career and creative skill development as well as mentorship to underrepresented youth and communities.

Environment and innovation

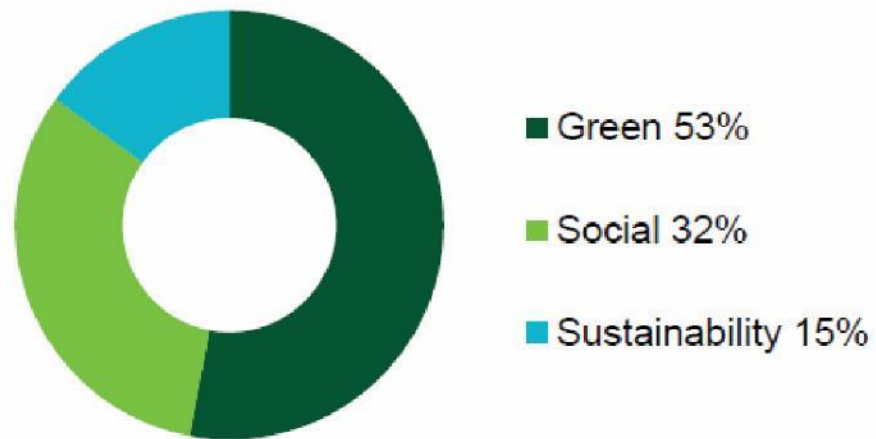


- Expenditures and investments in renewable energy production (e.g. photovoltaic installations in Adidas' own retail stores, own office locations and own distribution centres).
- Research and development in materials innovation to enable closed-loop products.

Please refer to the risk disclosures at the back of this document. Source: Adapted based on Adidas Sustainability Bond Framework as at October 2020. Portfolio holdings are subject to change, for information only and are not investment recommendations.

US\$500bn in total issuance in 2020; we anticipate similar issuance levels from more issuers in 2021

Impact bond category



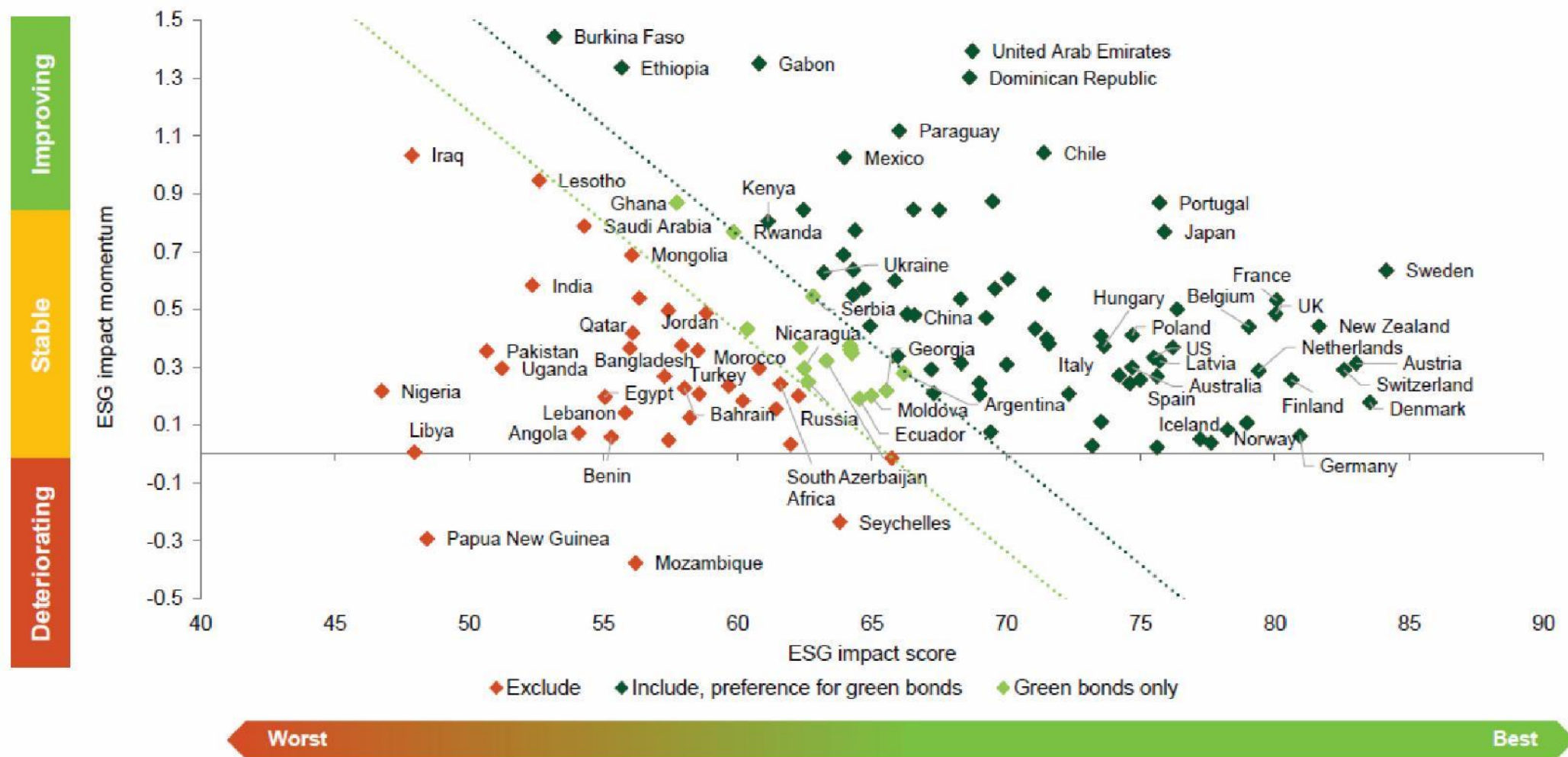
Largest sector issuance



Source: Bloomberg as at 4 January 2021.

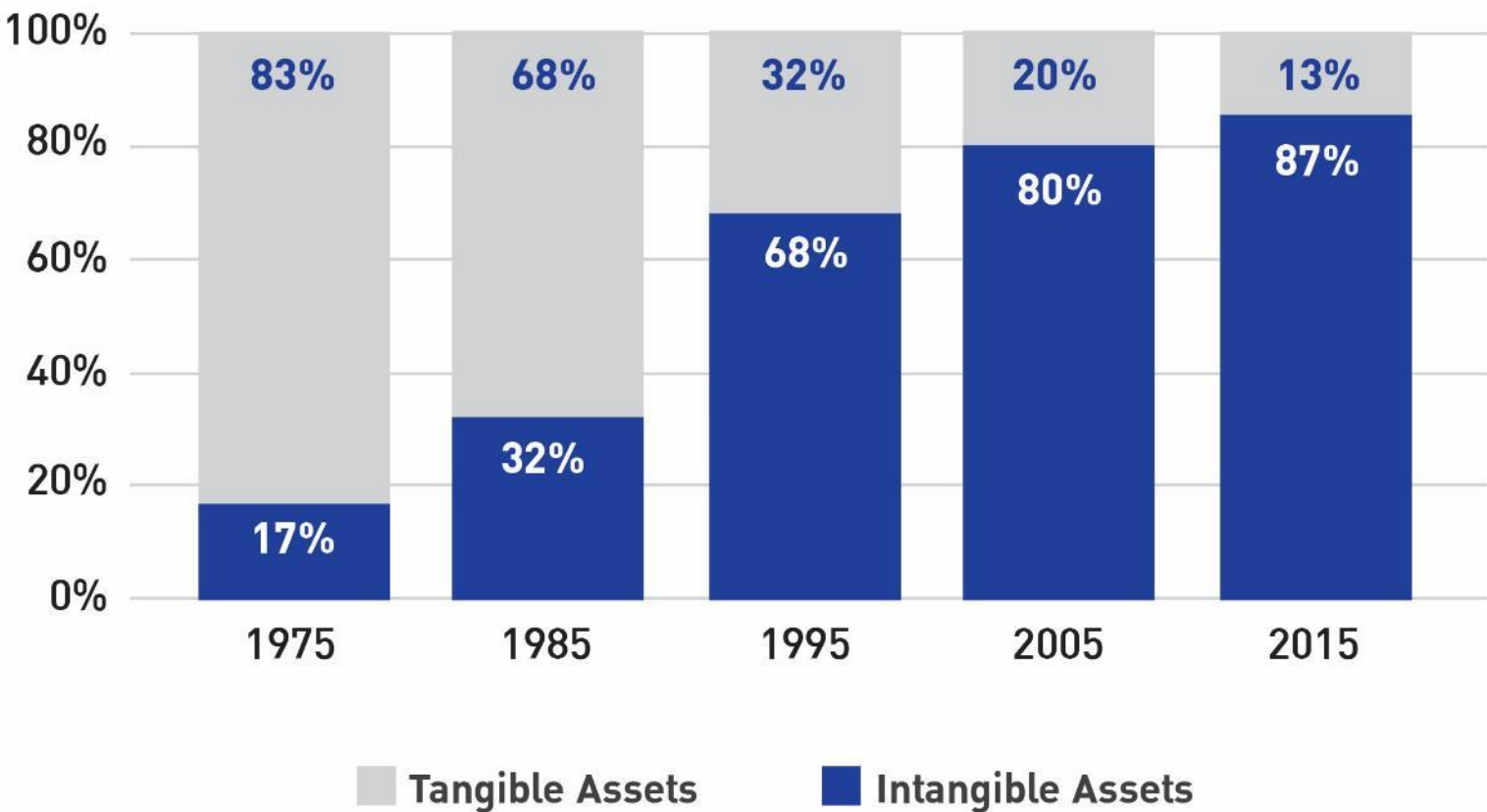
Sovereign impact model

Impact Score vs Impact Momentum



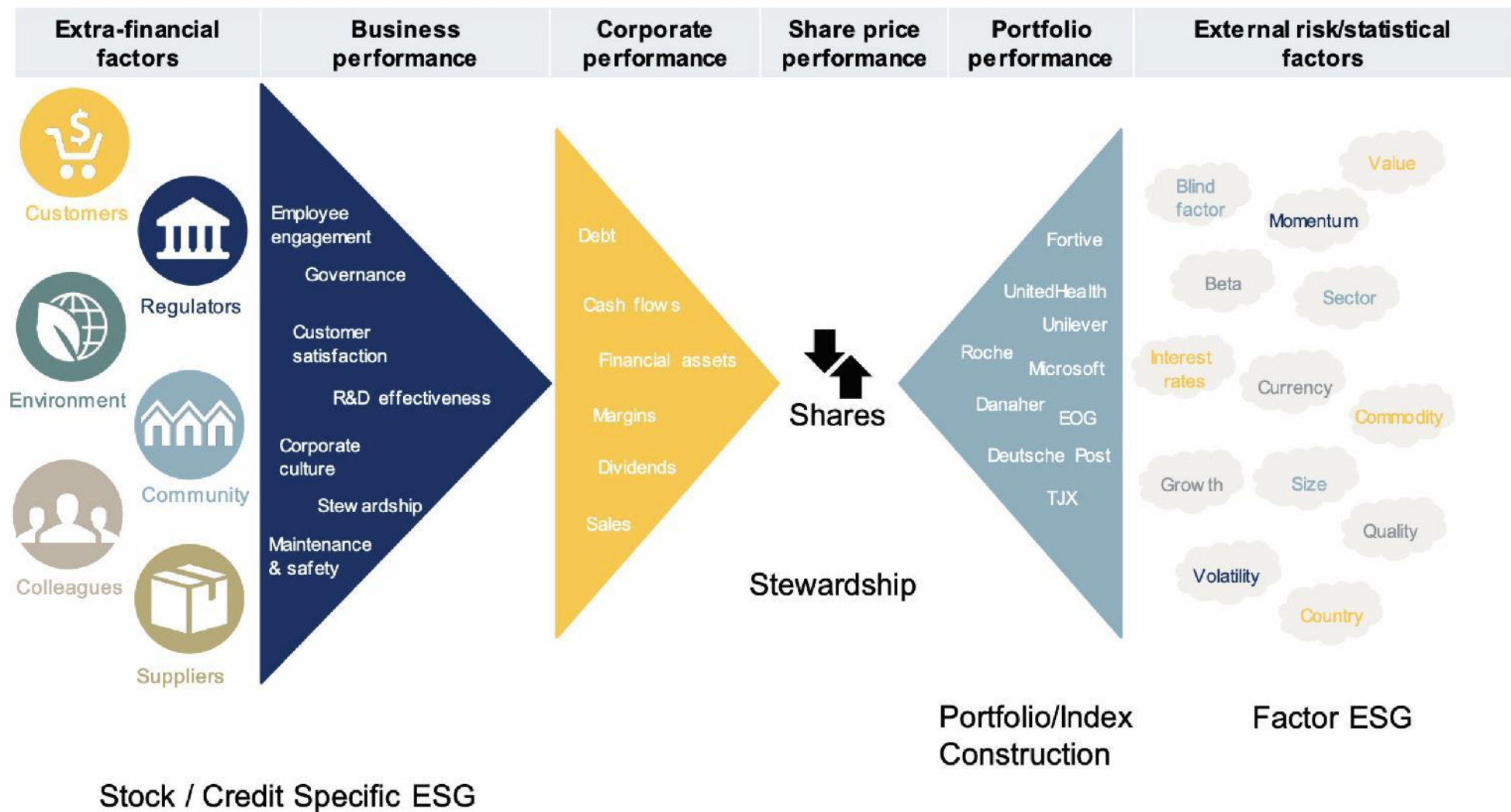
Source: Insight as at September 2020.

Tangible vs Intangible Value (S&P 500)

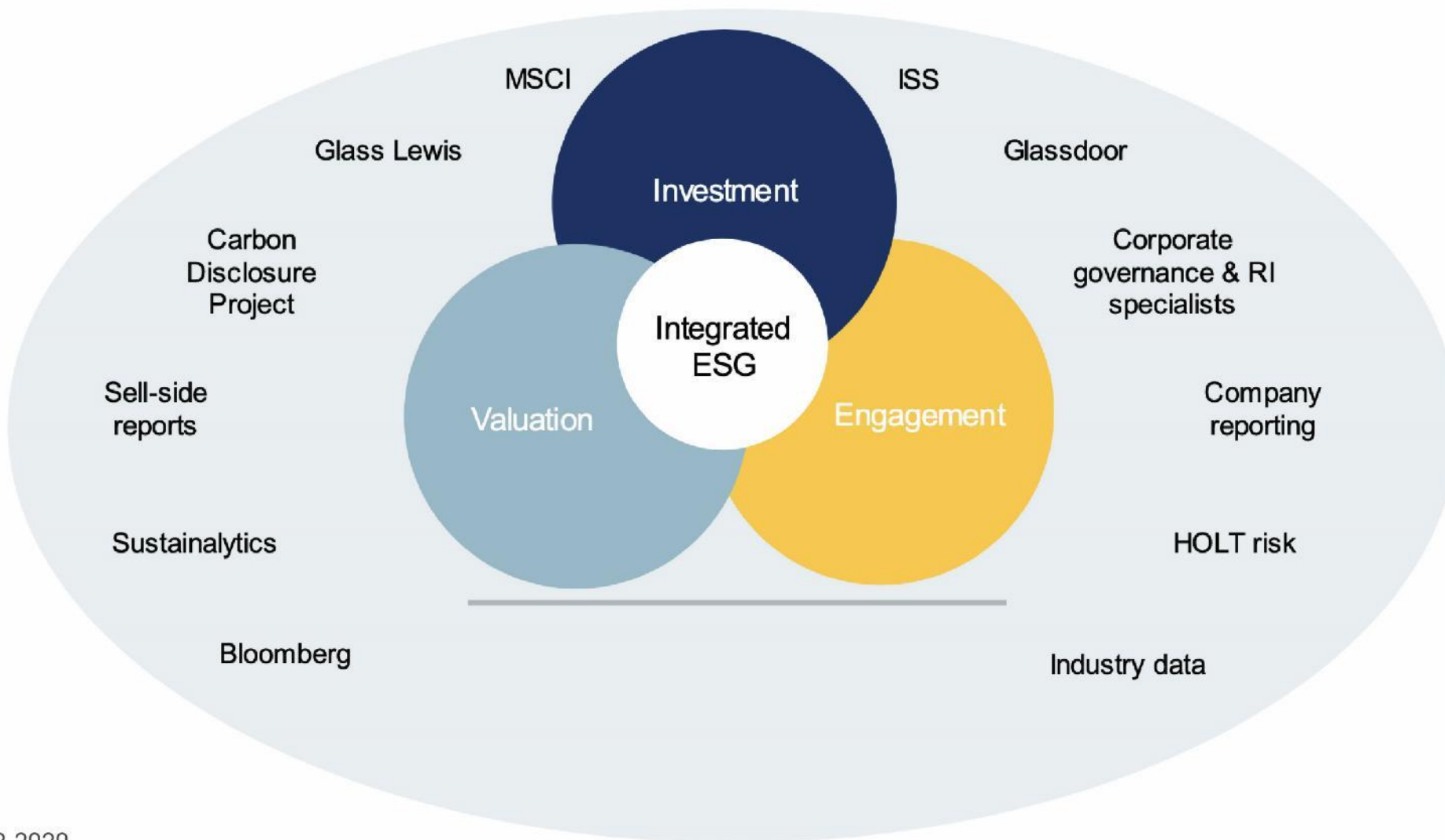


Source: <http://www.oceantomo.com/blog/2015/03-05-ocean-tomo-2015-intangible-asset-market-value/> Ocean Tomo

Where ESG fits into a Theory of Firm & Portfolio Value



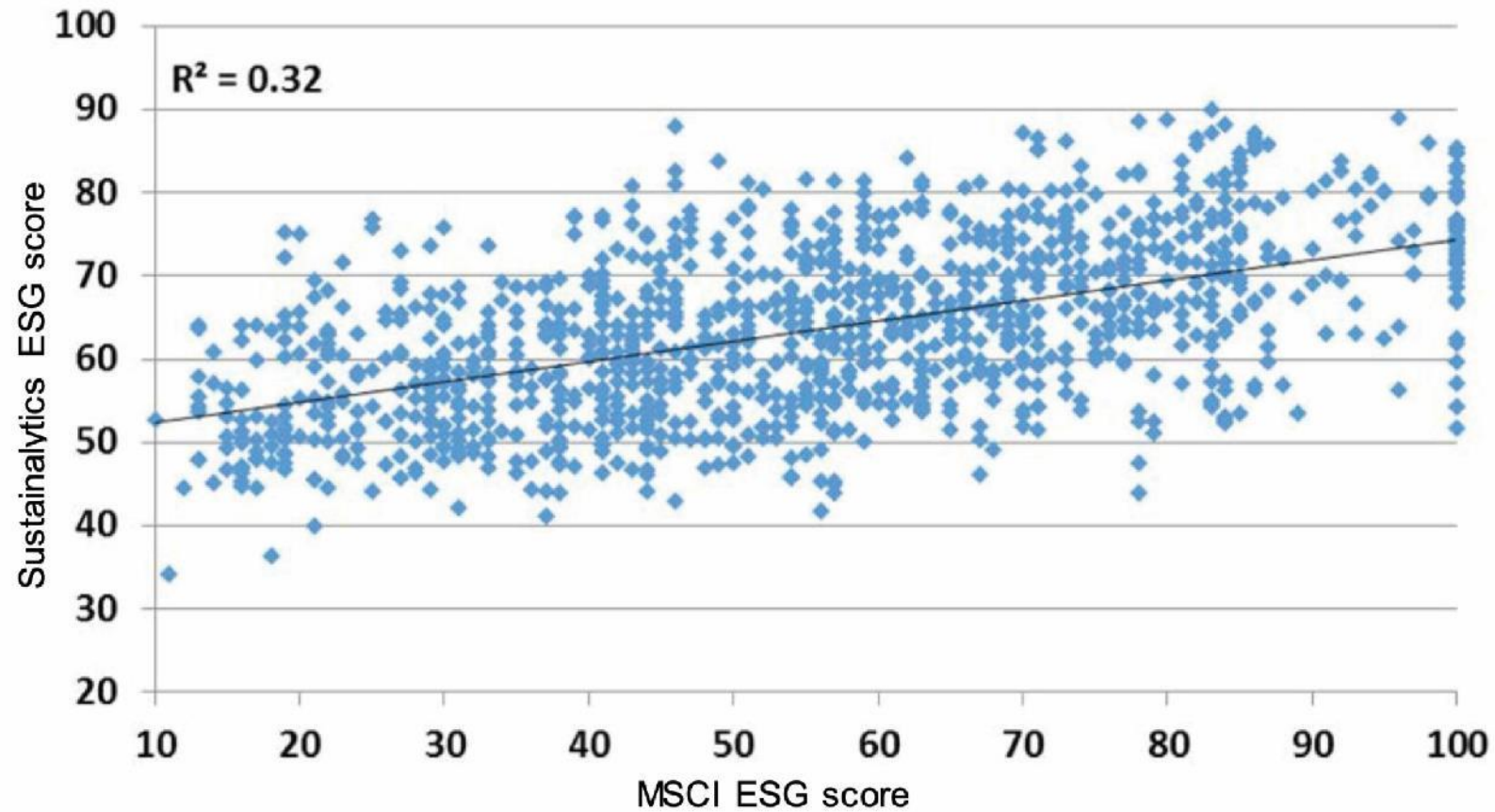
Our differentiated approach to evaluating extra-financial factors



As at 31.12.2020

Source: RBC Global Asset Management.

Sustainalytics vs. MSCI



Source: CSRHub, S&P 1200 equities, January 2016.

Correlation at aggregate ESG level and at E, S and G level

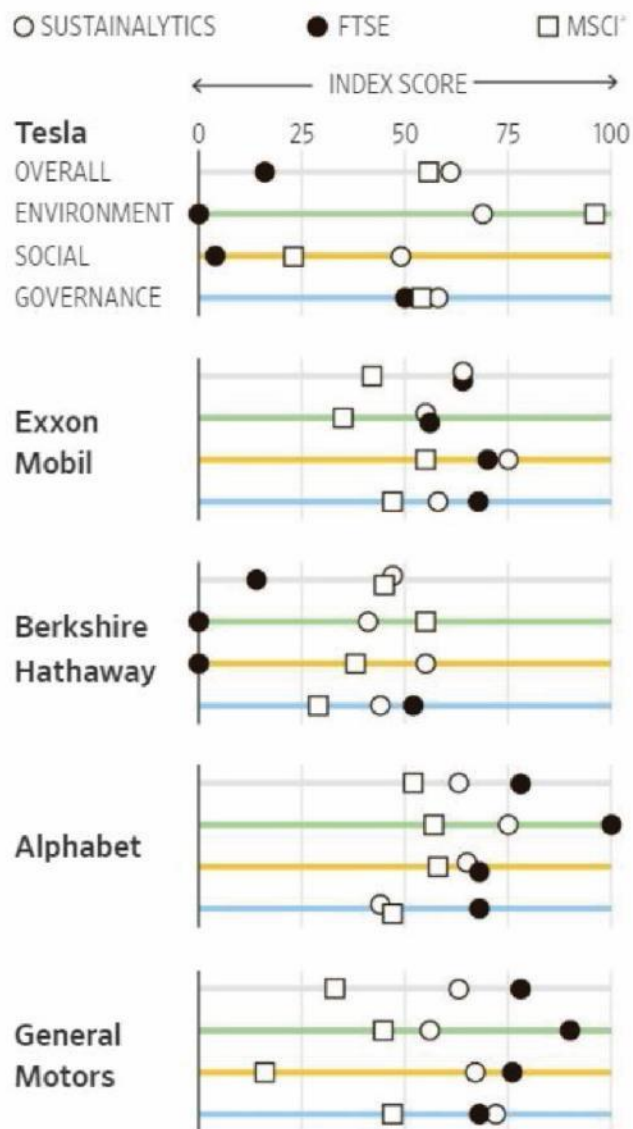
	SA - VI	SA - KL	SA - RS	SA - A4	VI - KL	VI - RS	VI - A4	KL - RS	KL - A4	RS - A4
ESG	0.73	0.53	0.68	0.67	0.48	0.71	0.71	0.49	0.42	0.64
E	0.70	0.61	0.66	0.65	0.55	0.74	0.66	0.58	0.55	0.70
S	0.61	0.28	0.55	0.58	0.33	0.70	0.68	0.24	0.24	0.66
G	0.55	0.08	0.53	0.51	0.04	0.78	0.77	0.24	-0.01	0.81
Econ	-	-	-	-	-	-	-	-	-	0.43

Correlations between the ratings on the aggregate level (E, S, G, and ESG) from the five different rating agencies are calculated using the common sample. The results are similar using pairwise common samples based on the full sample. SA, RS, VI, A4 and KL are short for Sustainalytics, RobecoSAM, Vigeo-Eiris, Asset4, and KLD, respectively.

- Average ESG correlations across 5 providers of 0.61
 - Average Environmental correlation: 0.65
 - Average Social correlation: 0.49
 - Average Governance correlation: 0.38

“53% of the discrepancy [between ratings] comes from the fact the rating agencies are measuring the same categories differently, and 47% of the discrepancy stems from aggregating common data using different rules”

ESG Ratings: Limited correlations



Investors should not treat ESG scores as settled facts...

...But potentially worthwhile analysis that needs to be understood before being acted on

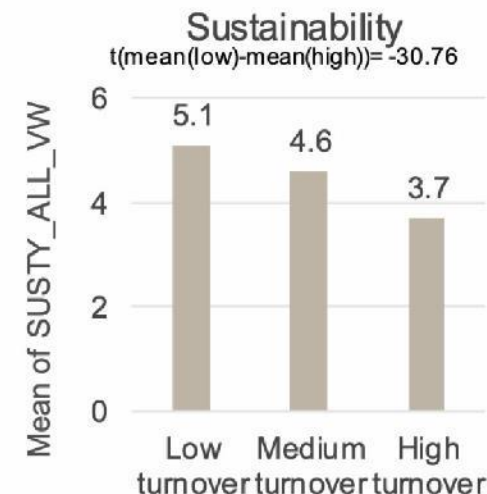
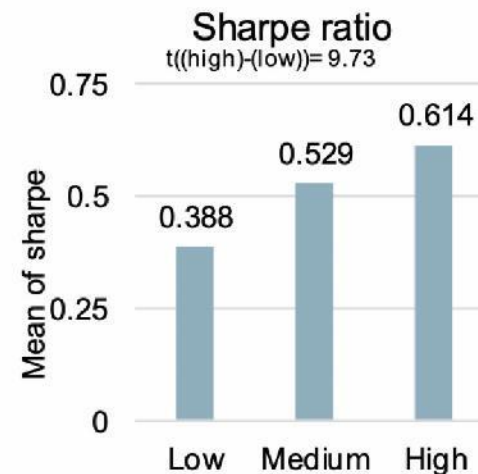
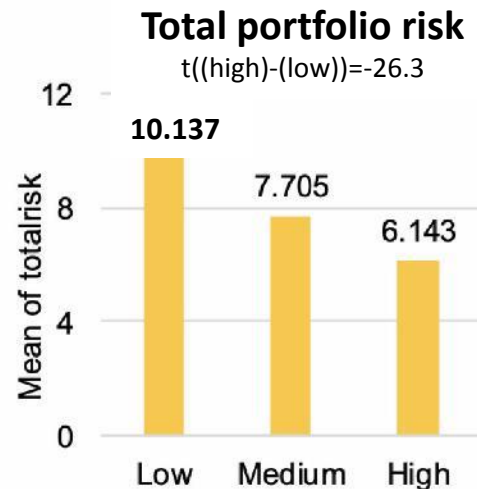
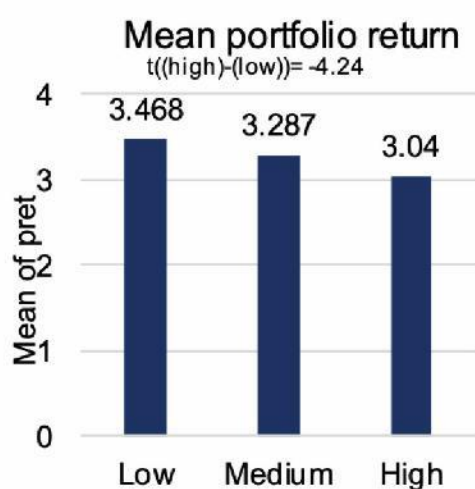
The problem here isn't the ESG ratings...

...but that they are used as though they were some sort of objective truth

Investors who blindly follow scores are buying into those opinions (mostly without even knowing what they are)

¹Source: WSJ. <https://www.wsj.com/articles/fs-tesla-or-exxon-more-sustainable-it-depends-whom-you-ask-1537199931>, MSCI, Sustainalytics, FTSE

Does the 'ESG factor' add value? SFI thinks it reduces risk



Thomson Reuters and MSCI E and S scores of US asset management firms holdings used to derive a 'Sustainability' score.

Performance and volatility tracked from 2002 to 2015

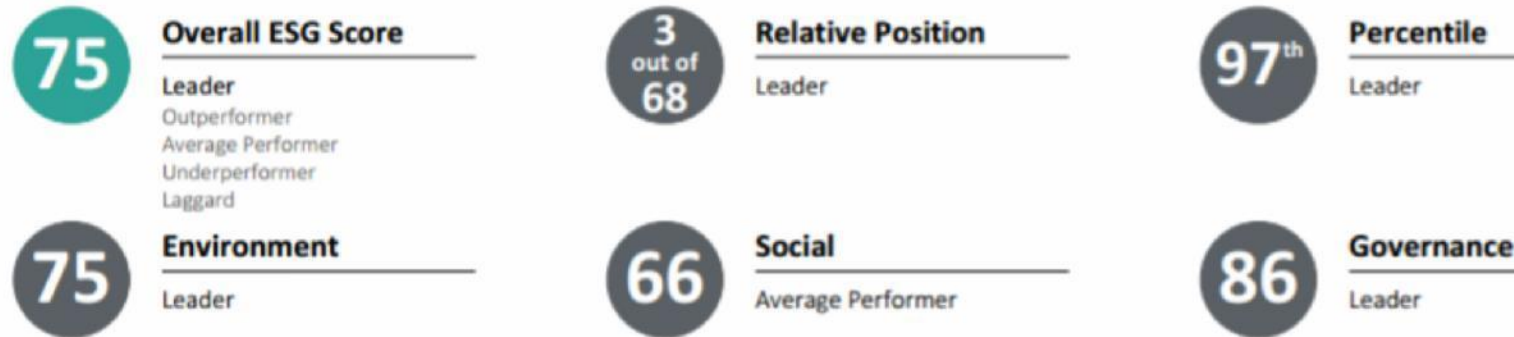
Conclusion - Higher sustainability associated with similar returns but lower risk

Tick Box ESG misses much. Engagement can be key.

Carillion

ESG Summary

Overall Performance



Carillion had great ESG scores, but failed as a business with poor culture.

Carillion plc.

- British multinational construction and facilities management, created in 1999.
- Had 43,000 employees in 2016.
- Collapsed and was involved in an illegal construction industry blacklisting body.

Source: Bloomberg, Sustainalytics.

- Both approaches arise from the same stimuli and share a common goal
- The debate between them is arguably over process and the most effective way to achieve that goal

The case for Divestment:

- Easy to implement
- Easy to communicate
- Strong social signal

But – what does it really change?

- If the business model remains the same, just with different owners, the environment sees no benefit

Sustainability Themes, many unsuitable for private sector

The UN SDGs (Sustainable Development Goals) give 17 broad sustainability themes, with 230 indicators and 169 targets (!)

Official Commit. SDGs	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Yes	No	No	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	Yes	No	No	No	Yes
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No	No	No	No	No	Yes	No	No	Yes	No	Yes	No	No	Yes	No	No	No	No
No	No	No	No	No	Yes	No	No	Yes	No	No	Yes	No	Yes	No	No	No	No
No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No	No	Yes	No	No	No	Yes
No	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	No	Yes
Yes	No	No	Yes	No	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	No	No	Yes
Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No	No	No	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No	Yes
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Yes	No	No	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	No	Yes

Many targets are more suitable for government intervention than private sector intervention. These themes are not suitable eg social security systems, primary school education, extreme poverty, resilience of the poor (arguably around 108 of the targets are primarily for governments and NGOs), although we collaborate on promoting long-term sustainable policy with certain relevant policy makers and accounting standards boards.

All companies can and should contribute to long-term sustainability. The SDG mapping suggests our portfolio covers all SDGs to some extent.

Key summary: **Sharing GPF's experiences**

- ① **Human rights:** a part of GPF's road map to become "the leader in ESG investing and initiatives in Thailand."
- ② **Past success:** Integration of Key framework in investment process [PRI's ESG integration framework, OECD's due diligence guideline]
- ③ **2021's ambition:** Human Rights Due diligence and Integration **expected output** 1. Human rights in business heat map and 2. Common Framework in putting Human Rights into business picture
- ④ Learning points from global external fund managers:
 - **Intangible assets** (i.e., risks) become increasingly important.
 - **ESG** [including human rights] are **extra financial factors** which can impact business performance, corporate performance, share prices and portfolio performance etc.
 - **ESG Valuation** is an art and science. Multiple resources + own analysis = KSF
 - **Index providers** may have different viewpoints, better use more than two and apply your own judgement.
 - **ESG Scores:** should not be treated as a settled facts. Blindly following the scores = Buying into opinions (mostly) without even knowing what they are.
 - **ESG factors** reduce risk rather than adding values.
 - **Engagement is a key** as ESG scores can miss some facts.
 - **Divestment** sends strong social signal but does it really change anything?
 - **17 SDG goals may not suit** to all investor and private sectors. **Common Framework in putting Human Rights into business picture**