



Using China A Shares to access China's ESG story

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The proliferation of China A-shares has afforded global investors with hitherto unseen access to the country's developing ESG story.

Having previously been either completely inaccessible or available only through more-generalised Asian vehicles, global investors now have the opportunity to kick the tyres of China's climate-positive companies, much in the same manner in which they have been accustomed to in the West.

This is a unique and exciting opening for investors to scrutinise one of the world's leading contributors to clean energy production and decarbonisation and one which has the full backing of its government, as President Xi Jinping has already pledged to hit net zero by 2030 and carbon neutrality by 2060.

At the time of writing, China is already both the world's largest solar products manufacturer and solar power generator. Last year, China brought a record amount of solar energy into operation and is currently forecast to do the same in 2023, much of which will be exported to international buyers. Similarly, the nation has led the way in the development of electric cars and batteries, with carmakers such as BYD and Nio having already established themselves beyond China's borders, most pertinently within the European market.

With notable progress also being made within wind and hydro as well, it's clear that China has a wealth of specialist clean energy companies that may be appealing to international investors.

But clearly, there is more to ESG than Environmental alone and it's perhaps the Social and Governance aspects that may have traditionally given investors pause. However, attitudes towards ESG principles have evolved greatly in recent years and the Chinese government's push toward carbon neutrality is closely aligned with its social and economic policies.

Having endured a challenging recent period due to the global pandemic, China's leadership has recognised that its economic and indeed political development hinges greatly upon addressing its environmental challenges, particularly energy and pollution. As such, any development within this space moves with the support of the incumbent government and policy is actively being reshaped to accommodate the continued progress within this space.

From an international investment perspective, this is positive news but there certainly remain some hurdles to overcome.

For example, investment houses in Europe may have extensive ESG criteria to consider as part of their due diligence process. Where there is as yet no international alignment concerning ESG requirements, it is possible, or even likely, that a disparity between the criteria in Europe and China will emerge. And this should be expected.

But the key benefit of accessing these companies directly via China A shares is analysis and engagement. Much like in the West, prospective investors have the facility to interact with these companies at an ESG level. This means that paired with the government's implicit desire to increase foreign investment in China, there is now an opening for the international market to import its standards and practices to Chinese companies. Much like in other economies, companies that seek to match this engagement and align their ESG practices will be in a more advantageous position than those that do not. It is quite simply in everyone's best interests to get on the same page.

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