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China: Risk on, risk off, what next?

November 2022



ESG-related key policy changes of 2022

Date	Issuing Authority	Title	Summary
Jan 24	State Council	14th FYP Comprehensive work plan for energy conservation and emission reduction	By 2025, the national energy consumption per unit of GDP will decrease by 13.5% compared with 2020
Mar 01	SSE	The action plan of 14th FYP carbon peak/carbon neutral targets	Guidance of building a low-carbon economic development plan, support by the SSE
Mar 16	SASAC	Formed Tech Innovation Bureau and Social Responsibility Bureau	Guiding the social responsibility work of Central State-owned Enterprises (CSOEs), promoting sustainable developments
Apr 11	CSRC	Work Guidelines for the Investor Relations Management of Listed Companies	Clarifying the key responsibilities of managing IR, adding ESG into the coverage of engagements with stakeholders
Apr 26	CSRC	Opinions on Accelerating the Promotion of High-Quality Development of the Industry of Publicly Offered Funds	Guiding the industry to summarise ESG investment trends and promoting the sustainable/responsible investment ideology

Source: Regulator's official websites, Impax Asset Management research

ESG-related key policy changes of 2022 (cont'd)

Date	Issuing Authority	Title	Summary
May 27	SASAC	Work Plan of Raising the Quality of Listed Companies Held by CSOEs	Asking CSOEs finalise ESG work scheme, participate in building the ESG information disclosure rules, KPIs and investment guides with Chinese characteristics
May 25	MOF	Opinions on Financial Support for the carbon peak/carbon neutral targets	By 2025, build the framework of the relevant financial policies; by 2030, put the financial policy system in place and by 2060, make sure a mature system is functioning
Jun 1	CBIRC	Guidelines on Green Finance for the Banking and Insurance Industries	Banks and insurance companies should incorporate ESG into their operational and risk management plans
Sep 6	IAMAC	Proposal of Promoting ESG in the Insurance and Asset Management Industry	Insurance and asset management companies should incorporate ESG into their investment decision-making process

Asset Management Association of China (under the guidance of the CSRC) is working on a quasi-stewardship code. A soft consultation was ran in 1H22 with selected local fund companies. I understand it will be more like an amendment to the voting guidance AMAC issued in December 2012.

Source: Regulator's official websites, Impax Asset Management research

Things we know, so far...

- Xi Jinping pledged “China will strive to peak carbon dioxide emissions before 2030 and achieve carbon neutrality before 2060.”
- China will help other developing countries develop low-carbon energy, and not to build new coal-fired power projects abroad.
- Common prosperity was made into the core economic agenda. Fair distribution is a key concern/agenda. The real impact on economy is unclear.
- Fang Xinghai confirmed that CSRC was preparing ESG reporting standards and would adopt the new disclosure rules once issued by the ISSB.

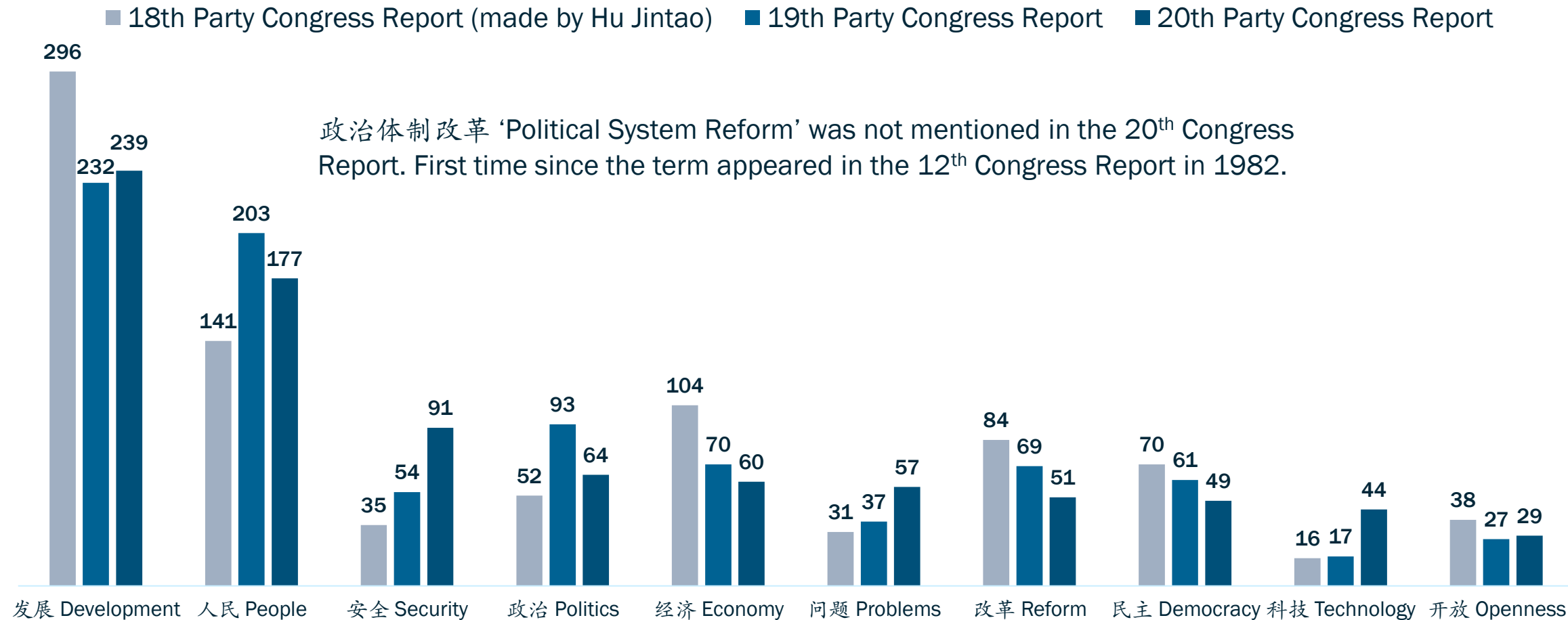


Things we know, so far... (cont'd)

- Property sector is **still under severe stress**. The MOF has cracked down on regional govts selling lands to related-financial arms using bank loans. **Sector wide deleveraging ongoing, while local govts loosening house purchase restrictions.**
- The Q3 GDP data was delayed with no explanation, indicating more opacity on the way for investors to analyse China.
- HSI had its worst day since the GFC 2008, showing low confidence of investors.
- On Taiwan, the Party Constitution was amended to committed to strengthening the Chinese military to promote “unification of the motherland.”



Tracking the key words of the congress reports in Xi's era



Source: China State Council website, Impax Asset Management research

Thoughts after the 20th Congress — Pros

- 'Home run' for Xi, so more regulatory consistency?
- Fairly low expectations on Chinese market now, so rising from the rock bottom?
- No surprises. The market reaction says maybe people were expecting some surprises?
- Less mention of the 'common prosperity' than expected to 'make the cake bigger first' (quote from the press con), so refocus on economic growth?
- No one can stand in the way of China's growth, so things will work out in its own way?
- Loosening restrictions on foreigners travelling to China, so still hope for opening in 2023?

Thoughts after the 20th Congress — Cons

- All 'yes man' around. Information flow? Who will challenge the boss? Overshooting policies?
- Less hope about economic reforms under Premier Li Qiang as a conservative leader?
- No change of the dynamic-zero covid policy any time soon with continuous new lockdowns?
- Higher intensity with other countries (i.e., US), confronting the TW conflict is more imminent?
- The state plays an even more dominate role in the economy, lower efficiency in the private sector?
- Loyalty is everything, new definition of meritocracy? What about competence and how to measure?

Disclaimer

This presentation was prepared by Nana Li in her personal capacity.

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