

MIOTECH

1H 2022

China Sustainable Funds Review



ENVIRONMENTAL
SOCIAL
GOVERNANCE

Sustainable Fund Asset Shrink Amid Weak Capital Market Performance

China's sustainable funds^[1] saw a decline in the total assets under management (AUM) in the first half of 2022, dropping 11% from the all-time record of RMB 227 billion at the end of 2021 to the current RMB 203 billion (roughly USD 30bn).

According to Morningstar's statistics on fund flows, China sustainable funds had net outflows of \$1.4 billion in the second quarter of 2022, while in the first quarter, China sustainable funds still had net inflows of \$200 million^[2].

Carbon-neutrality and ESG themed investments were popular in 2021, resulting in a booming 56% increase in the AUM for China's sustainable funds. The AUM drop and net outflow reflects the overall weak performance of the Chinese capital market and dampened investor confidence, which has been affected by the global recession, high inflationary pressures, and recurring cases of COVID-19 in financial hubs such as Shanghai and Shenzhen. In the 2nd quarter, the central government rolled out several stimulus packages to cushion the economic blow, and the AUM for sustainable funds also recovered 11%.

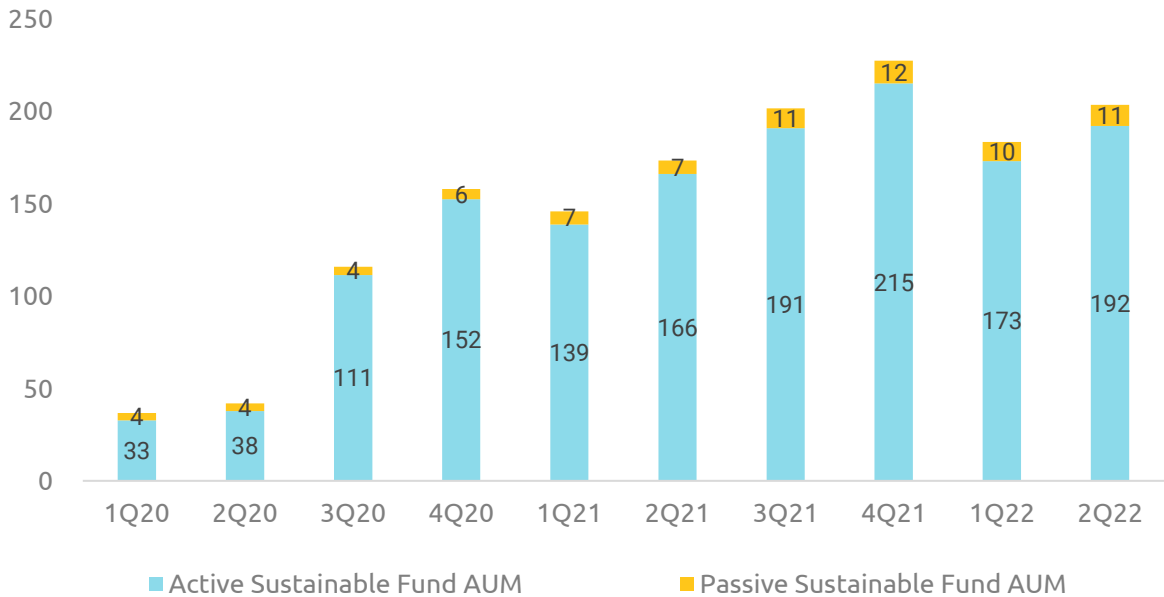
[1] Sustainable funds refer to retail funds in China with labels of either ESG, environmental, new energy, or social responsibilities.

[2] ORTIZ P. China ESG funds bleed \$1.4bn in Q2 as Asian growth slows sharply [J/OL] 2022, <https://www.ft.com/content/f8d3c001-682c-4e8d-bc38-99f5afe95dd3>.



Figure: Total AUM of China’s Sustainable Funds, 2020—Q2 2022 (In RMB bn)

*RMB Billion



Source: iFinD, MioTech Research

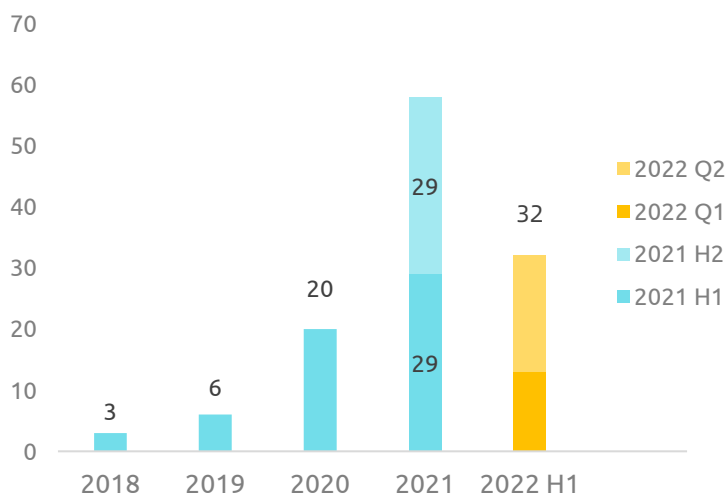
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Active funds continue to retain the overwhelming share (94.4%) of the total AUM for sustainable Funds. The slow development of passive sustainable funds may be due to the lack of variety of ESG index products and the fact that market recognition still needs to be strengthened. But the deficiency is improving. In late July, the Shenzhen Stock Exchange released six ESG indices^[1]. These six indices are ESG

benchmark and ESG leading indices based on its core indices, namely Shenzhen Composite, SZ100 and ChiNext, which integrate ESG strategies of negative screening and positive screening respectively.

[1] 深圳证券交易所. 深交所发布ESG评价方法和ESG指数 完善深市特色指数体系 服务低碳可持续发展 [J/OL] 2022, http://www.szse.cn/aboutus/trends/news/t20220725_595001.html.

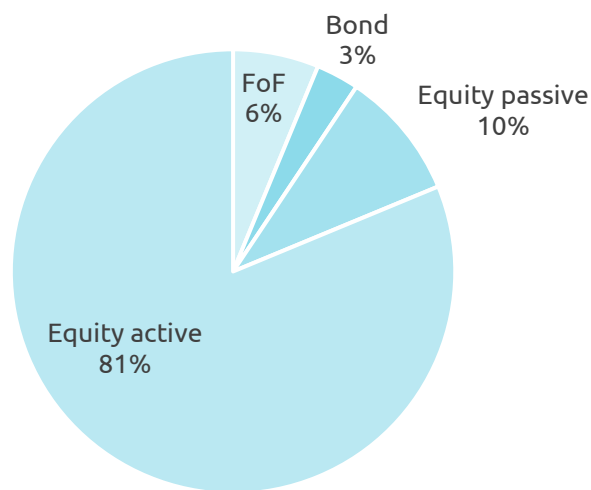
Figure: The Numbers of Newly Launched Sustainable Funds in China



Source: iFinD, MioTech Research

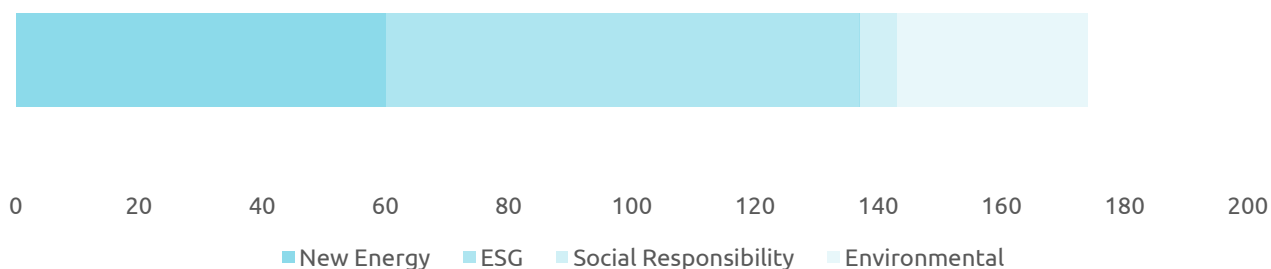
Despite shrinking fund assets, 1H2022 saw a steady growth in the numbers of newly-launched sustainable Funds. In 1H 2022, 32 sustainable funds were newly launched, which exceeded the 29 launches of 1H 2021. Active equity remains the most popular fund type among all new sustainable funds with over 80%, while passive equity (10%),

Figure: Fund types of 1H 2022 Newly launched Sustainable Funds



FoF (6%), and bond funds (3%) make up a smaller share. Presently, the number of sustainable funds totals 174, which includes 77 labeled ESG, 60 labeled new energy, 31 labeled environmental, and 6 labeled social responsibility.

Figure: The breakdown of sustainable funds by the thematic labels



Source: iFinD, MioTech Research



For the second half of 2022, we believe the sustainable fund’s upward popularity trend will continue, as more and more institutional and individual investors in China incorporate SRI and ESG in their investment scheme, prompting asset managers to launch additional Sustainable fund products and repurpose existing conventional ones.

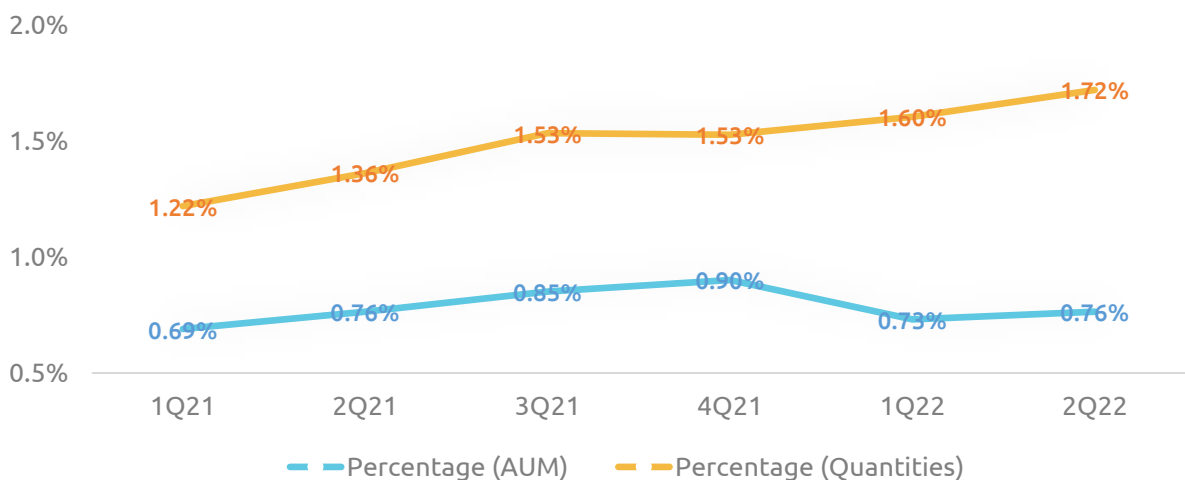
A recent notable development is the launching of a series of new carbon-neutrality ETFs in July from some of the country’s top asset management companies. These ETFs track the CSI SSEE Carbon Neutrality Index, which is compiled by the China Securities Index (CSI), Shanghai Environment and Energy Exchange (SSEE) and Shanghai Stock

Exchange, among others. The index covers both key low-carbon industries such as photovoltaics, wind, battery, electrical equipment, utilities, as well as companies that have great potential for carbon reductions, such as chemicals, non-ferrous metals, construction materials, iron and steels, etc. The first batch of eight ETFs eventually raised over RMB 16 bn, or approximately USD 2.4 bn ^[1].

With these being said, the share of sustainable funds within all retail funds in China is still relatively low, in terms of number of funds and their AUM. According to iFinD, as of 1H2022, the percentage of the quantity and AUM of sustainable funds in all public funds was 1.72% and 0.76% respectively.

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Figure: Percentage of the Quantity and AUM of Sustainable Funds in China



Source: iFinD, MioTech Research

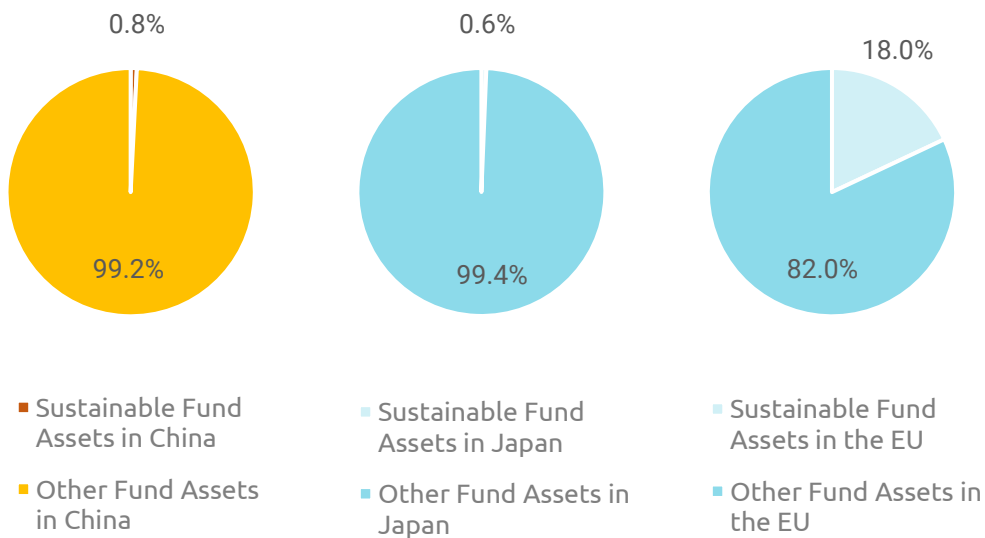
[1] 张燕北. 超160亿! 首批碳中和ETF发行“成绩单”来了 [J/OL] 2022, <https://fund.jrj.com.cn/2022/07/15145336815708.shtml>.



We expect this percentage to keep rising in subsequent quarters as investors' demand for strategies that align with their values and sustainability preferences continues to grow. **China's share of sustainable funds is currently closer to that of its other Asian neighbors, such as Japan, but there is**

still more room for growth than in Europe, where sustainable funds are thriving. As a comparison, assets of the EU and Japan's sustainable funds account for 0.6% and 18% of total fund assets in the EU and Japan capital markets, respectively.

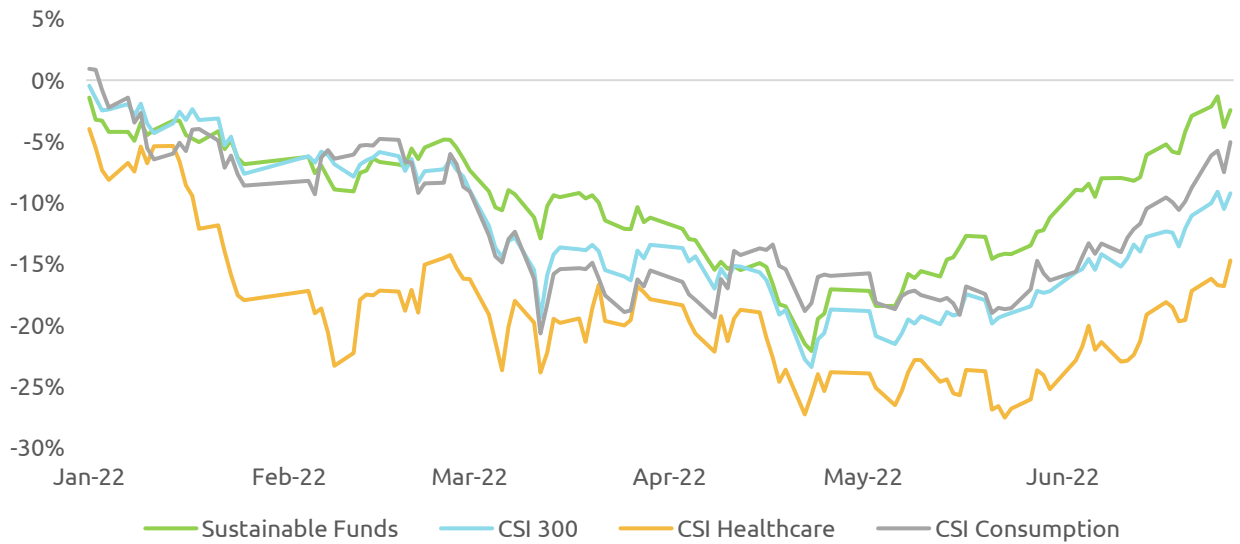
Figure: Shares of Sustainable Fund Assets in China, Japan, and the EU (as of 1H22)



Source: iFinD, Morningstar, MioTech Research



Figure: Sustainable Fund Performance in 1H22



Source: iFinD, MioTech Research

Sustainable Funds Recorded Modest Loss However Outperformed the Market

In the first half of 2022, the 174 sustainable funds recorded a **-2.45%** loss on average. In comparison, the overall stock market, represented by the CSI 300 index, dropped over 9% during the same time span. The performances of sustainable funds were also better than those of medical funds and consumption funds. The indexes of these two sectors recorded -14.72% and -5.06% respectively. In addition, sustainable funds were generally less volatile in 1H2022, and achieved a smaller drawdown during the steep fall of the market in Mid-March.



The top five performing sustainable funds in 1H22 all achieved returns of 8% and above. CMF Energy Transition Mixed Fund A, the top performer in the category, gained 24.3% in 1H2022, with an AUM of RMB 306 Mn and an expense ratio of 1.8%. In general, the energy

transition/renewable thematic funds performed better than the other ESG integration strategies in 1H22.

Figure: The top five performing sustainable funds in 1H2022

Ticker	Fund Name	1H2022 Return	AUM (RMB Mn)	Expense Ratio	Ticker
013871.OF	CMF Energy Transition Mixed Fund	24.3%	306	1.8%	013871.OF
014902.OF	Great Wall New Energy Equity Seed Fund	15.4%	68	1.8%	014902.OF
015002.OF	ICBCCS Environmental Protection Industry Fund	13.8%	33	1.8%	015002.OF
014922.OF	ChinaAMC ESG Sustainable Investing 1-Year Mx Fund	8.8%	229	1.8%	014922.OF
012126.OF	MANULIFE TEDA New Energy Equity Fund	7.9%	1,007	1.8%	012126.OF

Source: iFinD, MioTech Research



CATL(300750.SZ), Huayou Cobalt(603799.SH), and Tianqi Lithium(002466.SZ) were the top holding stocks for Sustainable funds by 1H2022. Reigning as world's largest producer for lithium-ion batteries, CATL saw a big slide in its stock price in Q1, but it rallied over 30% in the second quarter due to surging demand from EV and energy storage installations, finally recording -9.5% in 1H2022. On the other

hand, Tianqi Lithium (002466.SZ) significantly improved its profitability from the sky-rocketed price of lithium salt, gaining 21.2% on its stock price. In the top holding list, Ganfeng Lithium, Yongxing Special Materials, and Chengxin Lithium were also lithium mining companies that performed relatively well in the past two quarters.

Figure: Top holdings performance vs. CSI 300 (as of June 30, 2022)

Securities	Ticker	1week	1month	3-mos	1-year	3-year	YTD
CATL	300750.SZ	-7.3%	30.9%	2.9%	5.0%	675.3%	-9.5%
Huayou Cobalt	603799.SH	8.3%	1.2%	-4.2%	-10.8%	348.7%	-11.6%
Tianqi Lithium	002466.SZ	12.8%	26.9%	46.8%	101.3%	393.7%	21.2%
Ganfeng Lithium	002460.SZ	15.0%	25.0%	14.7%	24.5%	534.7%	7.8%
Yongxing Material	002756.SZ	13.8%	26.7%	20.6%	155.0%	942.5%	5.9%
Beijing Easpring	300073.SZ	-5.3%	29.4%	13.8%	57.2%	293.3%	5.7%
LONGi Green Energy	601012.SH	0.8%	-15.9%	-11.6%	-25.0%	188.3%	-18.0%
Shanghai Putailai New Energy	603659.SH	-4.3%	31.8%	-41.4%	-35.0%	79.5%	-47.0%
Chengxin Lithium	002240.SZ	13.2%	22.8%	11.1%	115.8%	619.4%	8.8%
EVE Energy	300014.SZ	-10.8%	21.2%	17.5%	-5.8%	220.1%	-17.6%
CSI 300	399300.SZ	1.6%	9.6%	6.2%	-14.1%	17.2%	-9.2%

Source: Refinitiv Eikon, MioTech Research

Doubling Down on Sustainable Energy

Delving into the changes in stock and sector allocations of sustainable Funds in 1H22, we found that sustainable fund managers were increasing their positions on companies along the sustainable energy value chains. The top ten holdings are exclusively companies of renewable and battery industries and value chain giants. **CATL is still the favorite, as fund managers hold more than RMB 16 bn worth of its stocks in 1H 22, or 8.03% of the total sustainable funds' assets.** The Chinese liquor giant Kweichow Moutai (600519.SH), despite not showing on the top 10 list in terms of total holding values, is named 39 times on the individual sustainable fund's top 10 holding list in 1H22, which is a 77% increase to 2H21 (22 times). **Overall, the sustainable funds' portfolios are more concentrated than in 2H21, as the top 10 holdings account for 33% of total fund assets in 1H22, as opposed to 27% in 2H21.**

Table: Top holding companies of China's sustainable funds in 1H 2022 and 2H 2021

2022 H1			2021 H2		
Top Holdings	Total Market Value (RMB bn)	Percentage of total AUM	Top Holdings	Total Market Value (RMB bn)	Percentage of total AUM
CATL	16.3	8.03%	CATL	15.4	6.78%
Huayou Cobalt	8.3	4.10%	Huayou Cobalt	7.2	3.16%
Tianqi Lithium	6.7	3.30%	Ganfeng Lithium	5.9	2.59%
Ganfeng Lithium	5.8	2.85%	Shanghai Putailai New Energy	5.7	2.50%
Yongxing Material	5.5	2.69%	Beijing Easpring	5.1	2.26%
Beijing Easpring	5.4	2.66%	Tianqi Lithium	5.1	2.26%
LONGi Green Energy	5.0	2.48%	Yongxing Material	5.0	2.19%
Shanghai Putailai New Energy	4.8	2.37%	SEMCORP	4.1	1.79%
Chengxin Lithium	4.3	2.09%	LONGi Green Energy	3.9	1.73%
EVE Energy	4.0	1.96%	Chengxin Lithium	3.6	1.58%
The rest	137.2	67.46%	The rest	166.2	73.16%

Source: iFinD, MioTech Research



The funds' sector allocations also demonstrate the trend of sustainable energy investment. Over half of the total fund assets is allocated in the power equipment sector, which are mainly composed of battery stocks, and non-ferrous metal sectors, specifically companies producing lithium, nickel, cobalt. There are also considerable

changes in the rest of the sector allocations. Positions in the value sectors, such as food and beverage, chemicals, and banking are accumulated while positions in the electronics, healthcare, automotive, non-banking financial institutions, transportation and light manufacturing sectors were reduced in 1H 2022.

Table: Top holding sectors of China's sustainable funds in 1H 2022 and 2H 2021

2022 H1			2021 H2		
Sector Allocations	Total Market Value (RMB bn)	Percentage of total AUM	Sector Allocations	Total Market Value (RMB bn)	Percentage of total AUM
Power Equipment	67.8	33.3%	Power Equipment	61.0	26.8%
Non-Ferrous Metal	44.0	21.6%	Non-Ferrous Metal	35.8	15.8%
Food & Beverage	10.2	5.0%	Electronics	13.0	5.7%
Automotive	7.9	3.9%	Automotive	9.4	4.1%
Electronics	6.9	3.4%	Food & Beverage	8.0	3.5%
Chemicals	5.6	2.7%	Healthcare	7.3	3.2%
Healthcare	5.4	2.7%	Chemicals	3.7	1.6%
Banking	2.1	1.0%	Non-banking Financial Institutions	2.5	1.1%
Non-banking Financial Institutions	1.0	0.5%	Transportation	2.1	0.9%
Communications	0.9	0.4%	Light Manufacturing	1.0	0.5%

Source: iFinD, MioTech Research

About us

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As Asia's leading sustainability technology provider, MioTech leverages artificial intelligence to provide ESG, climate change, carbon neutrality, and social responsibility solutions. With coverage of over 4 million companies globally, MioTech enables financial institutions, corporations, governments, and individuals to achieve their net zero and CSR objectives.

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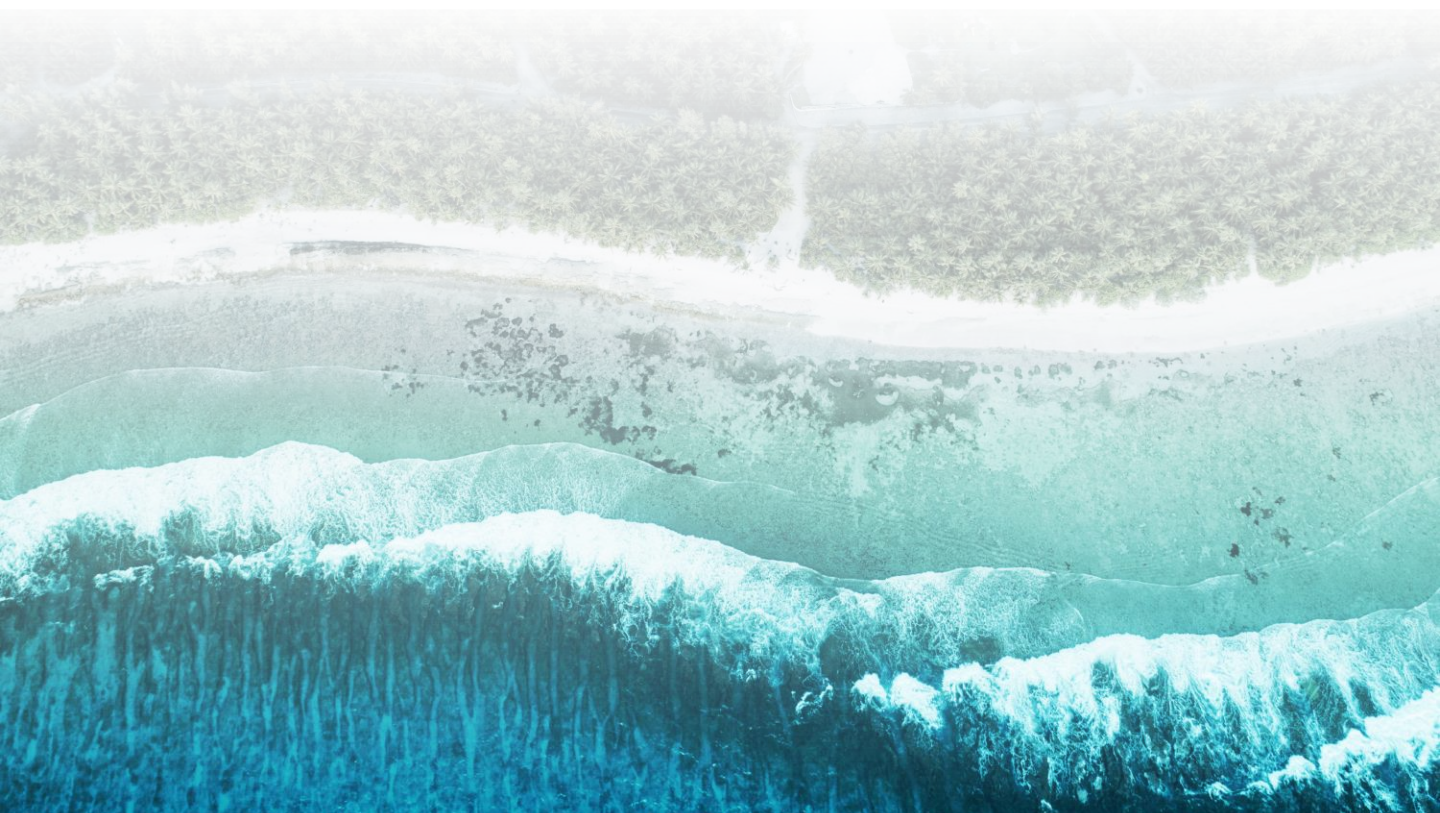


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