



Challenges of ESG Investing: Case of Korea

30, March 2022

Korea Capital Market Institute

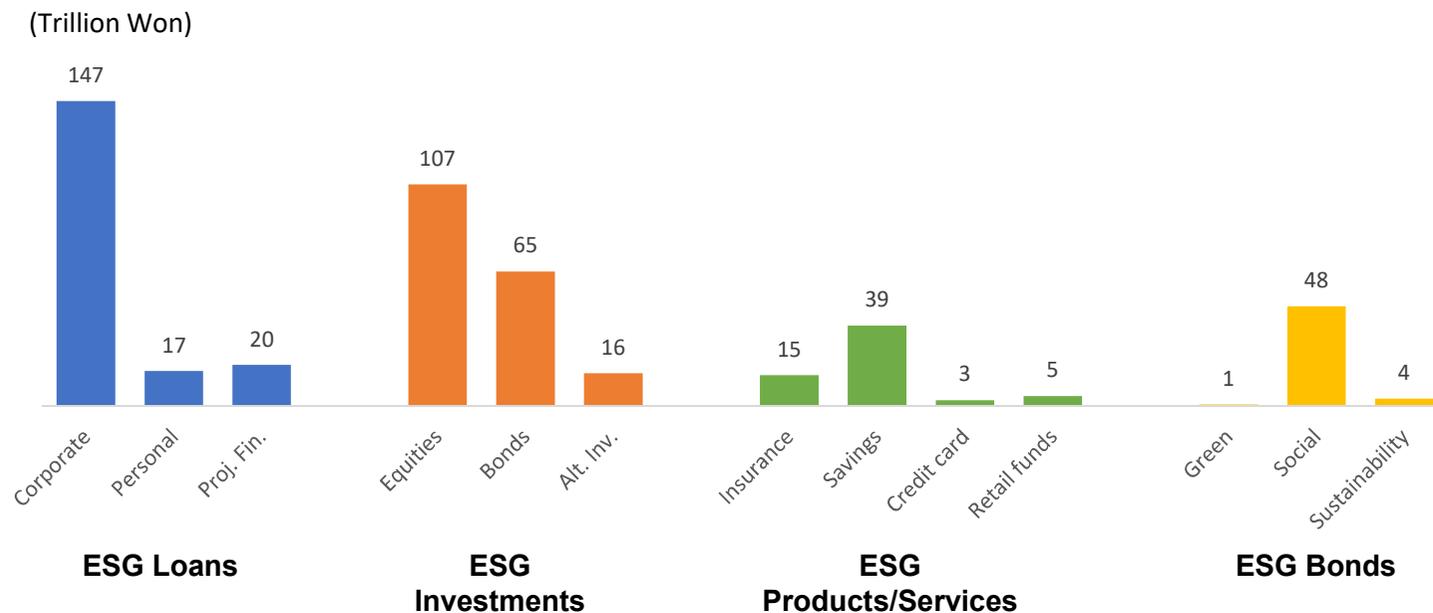
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Sustainable Finance in Korea

○ Sustainable Finance in Korea is expanding across all sectors

- › ESG related finance estimated at around 500 trillion won in 2020
- › Wide variety of financial services/products with ESG label being offered

Korea's Sustainable Finance Market (2020)



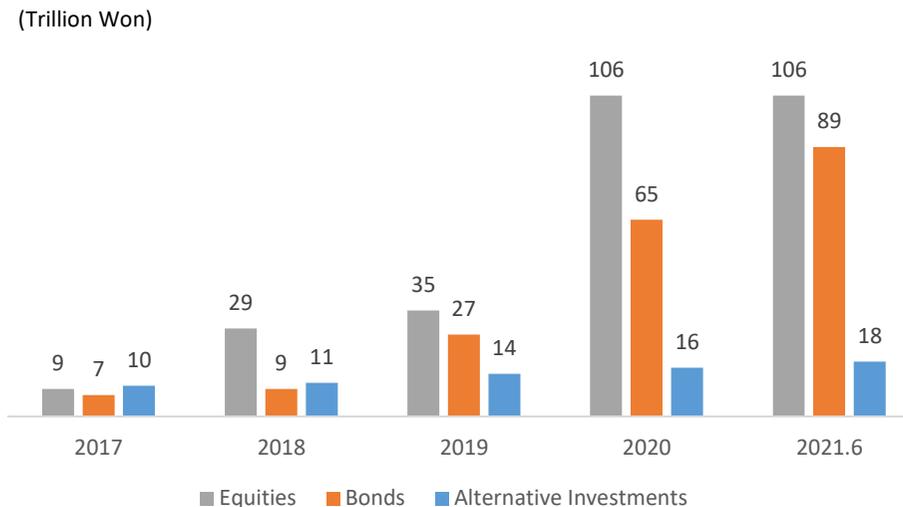
Source: Korea Sustainability Investing Forum

ESG Investments

○ ESG investments have grown substantially in a short period, led by institutional investors

- › ESG investments increased from 26 tril. won('17) to 212 tril. won('21.6)
- › Major investor is National Pension Fund, with ESG mandate in equity

ESG investments



Source: Korea Sustainability Investing Forum

ESG Mutual Funds & ETFs

○ Investment in ESG mutual funds and ETFs is growing, but still only a small share of overall retail funds

- › ESG mutual funds/ETFs have grown to 3.1 trillion won in 2020
- › Share of ESG mutual funds/ETFs only 1% of overall mutual funds

ESG mutual funds and ETF AUM



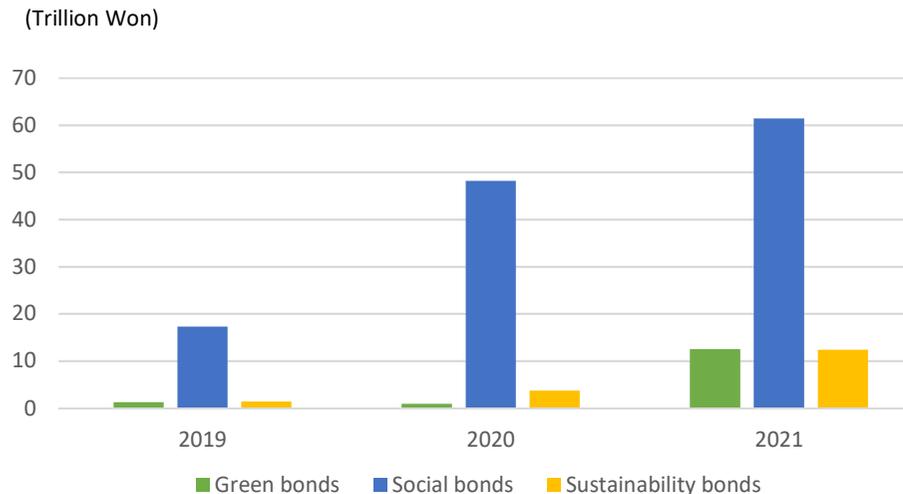
Source: Korea Sustainability Investing Forum

ESG Bonds

○ Issuance of ESG bonds have increased substantially, predominantly in social bonds

- › ESG bond issuance reached 86.3 trillion won in 2021
- › Social bonds share is 71.1%, Korea Housing Finance Corp. primary issuer

Korea's ESG Bonds Issuance



Source: Korea Exchange

Challenges

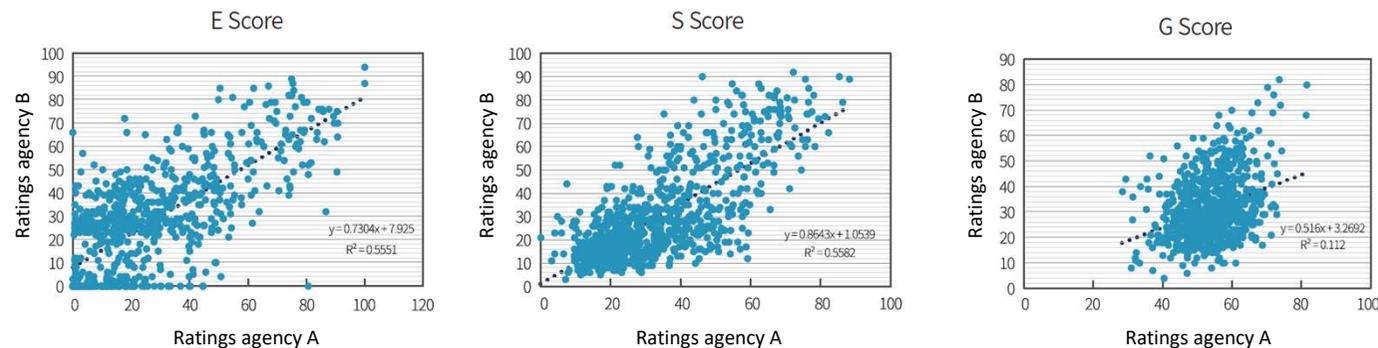
○ **Despite substantial progress, further developments are needed for ESG investment market growth**

- **Consistency of ESG ratings**
- **Diversity of ESG projects**
- **Differentiation of ESG investments**

Consistency of ESG Ratings

- Consistency of ESG ratings needs to improve to achieve desired environmental/social goals and enhance investor trust
 - › Disparity across ratings agency E, S, G scores and overall ESG rating
 - › Better input quality and ratings comparability needed

Ratings agency E, S, G Score Correlation



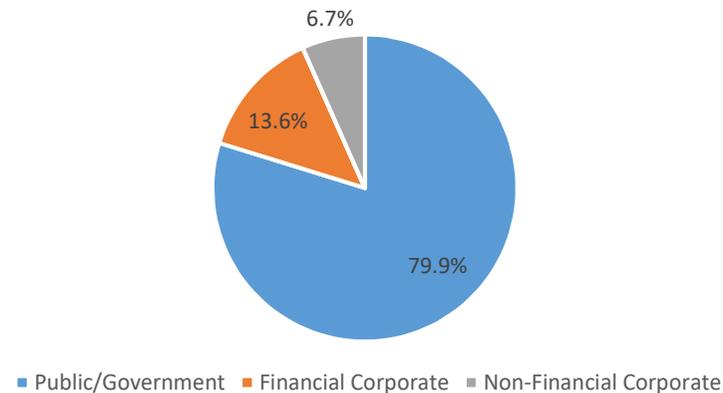
Source: Lee, 2021, "Current state and characteristics of ESG ratings system", KCMI

Diversity of ESG Projects

○ ESG bond market structure shows insufficiency of green projects and lack of diversity of social projects

- › ESG bonds skewed toward social bonds, lack of environmental projects
- › Social bond issuance mainly by a few public/government entities, projects largely in housing/real estate sector

ESG Bond Share by Issuer Type



Source: Korea Exchange

Differentiation of ESG funds

- Currently, insufficient differentiation of ESG ETFs/Funds from general funds or indices in portfolio composition
 - › Undifferentiated portfolio composition vis-à-vis market index/other funds
 - › Investment prospectus lack of specificity of ESG investment criteria, ESG assessment of portfolio firms, methodology and metrics

ESG ETF Portfolio share of top 10 KOSPI firms

Company	ESG Rating	ESG fund A	ESG fund B	ESG fund C	ESG fund D	ESG fund E	ESG fund F	KODEX 200 ESG	KODEX 200
Samsung	B+	3.0	1.0	0.0	24.8	21.8	24.7	24.3	29.0
SKHynix	A	2.5	1.4	17.7	5.1	7.6	10.6	8.4	6.2
NAVER	B+	0.0	0.9	9.0	3.5	4.8	4.8	3.8	2.8
Celtrion	B+	0.0	0.0	0.0	0.6	1.3	0.0	0.0	2.2
Shinhan Financial	A	0.8	1.4	6.7	4.5	0.05.7	0.0	2.8	2.1
Hyundai Motors	B+	1.9	0.9	0.0	0.7	1.3	0.0	2.7	2.0
KB Financial	A+	0.6	1.5	6.5	2.0	2.8	4.6	2.7	2.0
Hyundai Mobis	A	2.2	1.2	0.0	0.6	1.3	4.5	2.6	1.9
POSCO	A	1.7	1.1	0.0	1.9	2.7	0.0	2.6	1.9
LG Chem.	B+	0.0	1.1	5.1	1.4	2.1	4.0	2.3	1.7
Total		12.7	10.5	45.0	45.1	51.4	53.2	52.2	51.8

Source: Park, 2020, "Current state and characteristics of Korea's ESG Funds", KCMI

Going Forward

- **Challenges of ESG investing multifaceted, solutions require approach from various fronts**
 - › **Continued development of ESG infrastructure, including rules and guidelines**
 - Improvements of disclosure, rating methodology, impact assessment, etc.
 - Development of social taxonomy, social bond guidelines, etc.
 - › **Sustaining investor interest and trust in ESG investing, with a long term perspective**
 - Manage investor communication/expectations, care not to over-promise and under-deliver
 - Stringent due-diligence to mitigate ‘washing’



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