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## SRP Apac Awards 2021: SocGen leverages demand for ESG outperformance

Asia Pacific | Industry

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**Société Générale has won the Best ESG Solution award at the SRP Apac Awards 2021, which was announced on 16 June.**

Following the outbreak of Covid-19, environmental, social and governance (ESG) investments have gained unprecedented attention from Asian investors with the outperformance payoff taking centre stage to deliver ESG-linked structured products.

Since 2020, the French bank has traded approximately €200m (US\$236m) notional of ESG outperformance notes in Apac, primarily with private banks in Hong Kong SAR and Singapore, but also with external asset managers in Australia.

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The outperformance payoff has historically been popular in Asia, especially in the quantitative investment strategy (QIS) space, as it allows investors to express their views vs. the market and capture only the alpha, according to the bank.

“Investors have been able to find very strong themes that they want to pursue due to market volatility post Covid-19,” Avyakt Agarwal (pictured), head of cross asset distribution sales for private banks in Hong Kong SAR and Singapore, told SRP. “Some of them don’t want to take the theme outright and would rather take a relative value view.”

Besides structured notes, ESG outperformance is also often deployed in a warrant or option format, which allows investors to gain only upside exposure at the cost of a premium.

“That’s become quite popular because investors avoid the downside and know what their maximum loss could be,” said Agarwal.

With outperformance strategies, investors are usually long an ESG underlying (index or mutual fund) and short its benchmark. Société Générale has been able to differentiate itself from the competition due to its "strong ESG positioning and wide index and mutual fund offerings".

During the past 18 months, the French bank has provided exposure to Asian and US equities through eight ESG benchmark indices, among which the MSCI Asia ex Japan ESG Leaders is the most popular in terms of notional.

Four ESG equity mutual funds were also used as the reference assets including the Pictet Global Environmental Opportunities, Mirova Global Sustainable Equity, BlackRock Sustainable Energy Fund and RobecoSAM Smart Energy Equities.

### **Risk/reward**

Positive and negative screening and thematic exposure are the two main approaches Société Générale takes in evaluating investors' risk/reward profiles for ESG outperformance strategies.

The screening aims to "demonstrate that ESG investing improves the risk-return of a portfolio and ultimately generates superior returns than traditional benchmarks".

For instance, MSCI ESG indices have generated an outperformance of roughly three to four percent pa. compared with benchmarks since 2013, mainly driven by the 'quality-tilt' stock selection through ESG screening.

In the meantime, the approach through mutual funds largely concentrates on clean energy thematic with sector diversification.

"Mutual funds historically have outperformed the benchmark indices, through investments in companies whose activities are linked to sustainable themes and are able to deliver performance over the long term," said the bank in its award pitch.

### **Headwinds**

There has been a clear rotation in value versus growth towards the end of Q1 21, leading to a reduction of the relative ESG outperformance on the underlyings to a varying degree, according to Argawal.

"While this has led to lower investor interest in outperformance payoff in recent months, ESG remains a long-term focus for investors even though short-term market moves are bound to happen," he said.

Most of the trades took place from mid-2020 with a tenor of two or three years, so it needs more time to find out their performance upon maturity.

"It's still at early stages for ESG outperformance or relative value trades because the volume doesn't necessarily represent the potential scope of ESG across Asia," said Argawal.

However, it's noteworthy that a growing number of private banks in the region are considering the ESG theme as core target while establishing internal guidelines for ESG investment criteria.

Many of them have also applied certain ESG ratings for underlying assets, even for regular payoffs like fixed coupon notes, which have been the bread and butter across the entire private bank segment for the past 15 years.

“That’s a very positive development for the industry as it may also drive more corporates to disclose ESG ratings in their financial reports,” said Argawal.

## Payoffs

The French bank also [introduced three proprietary "green transition-themed" baskets](#) offering excess to European, American and Chinese equities in 2020 - two of them have been made accessible through thematic indices.

“Much of the focus [for the baskets] remains on delta one trackers, though we've seen interest in outperformance, volatility target or call option trades on them during the last few months,” said Agarwal, adding that delta one certificates work well when investors want to take an outright directional view.

In addition, Société Générale expanded its ‘charity notes’ programme to Japan, Hong Kong SAR and Singapore from Europe last October – it donates a percentage of the nominal value of equity-linked flow structured notes subscribed in the region to sponsor CARE France, a humanitarian organisation.

The donation percentage varies by products and clients. Distributors can choose a different organisation, which requires the bank to perform its due diligence.

In Japan, the issuance amount linked to this programme reached over €100m within six months. And the bank completed its first trades with a global private bank as part of the distributor's new set of sustainable and positive investment offerings in Apac in late 2020.

## Tags

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