

#WhyESGMatters

Investing in the next generation

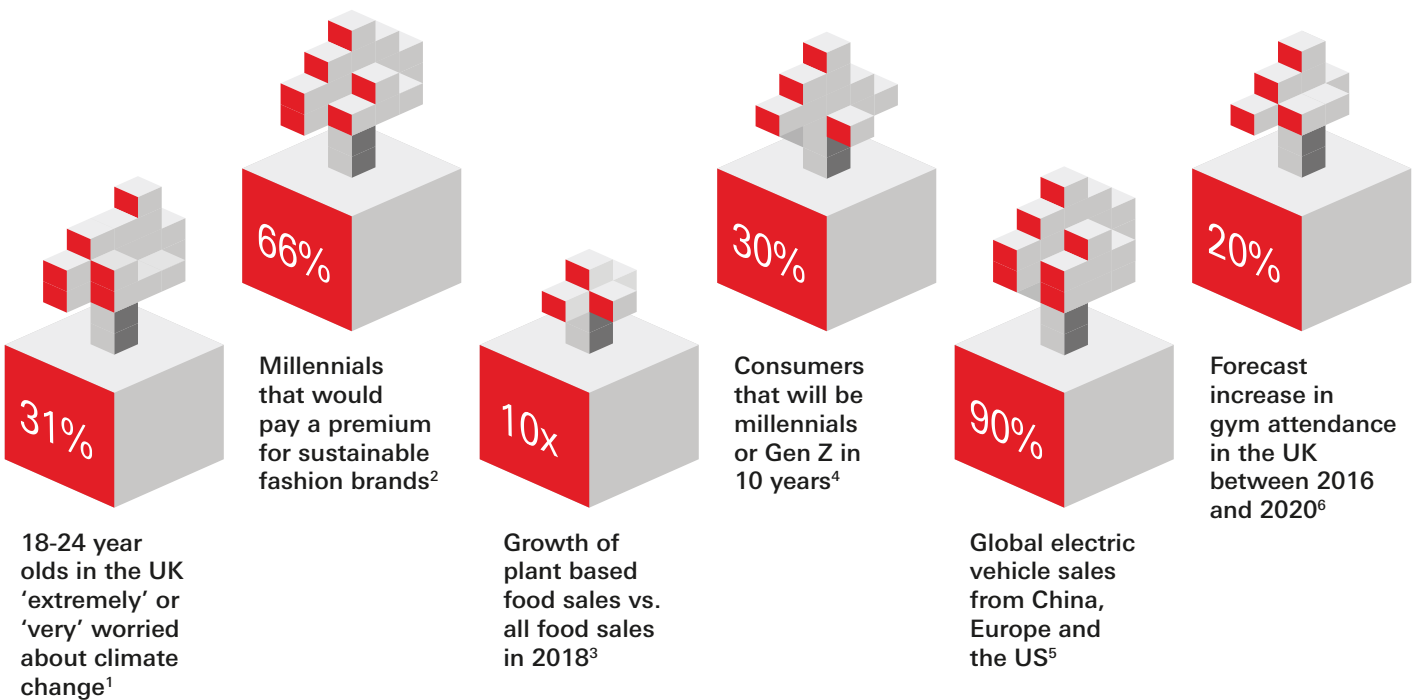
Investing in the next generation

Millennials appear increasingly concerned about environmental and social issues. As they grow older and earn more, they will become more and more influential as consumers which will have significant implications for companies and policymakers.

In this issue of #WhyESGMatters, we identify investable trends in the environmental and social spaces. We look at how attitudes to environmental issues such as **plastics, fast-fashion, climate change and veganism** are changing and how social attitudes towards **personal health and charitable giving** are following suit. In most cases, the youngest age groups are seeing their attitudes and spending behaviour change more quickly than older generations.

Environmental, Social and Governance (ESG) investing aims to generate long-term financial returns whilst contributing positively to society.

Did you know?



1. 2018 British Social Attitudes study

2. McKinsey, 2018. Millennials are aged 23-38

3. Nielsen, 2018

4. HSBC estimates based on UN population division data, Gen Z are aged under 22 today

5. HSBC Global Research

6. Mintel, 2016

1. The new consumer cares



Environmental issues include plastic waste, carbon emissions and water scarcity.



Social considerations include health, charitable giving and work environment



ESG products likely to become more mainstream



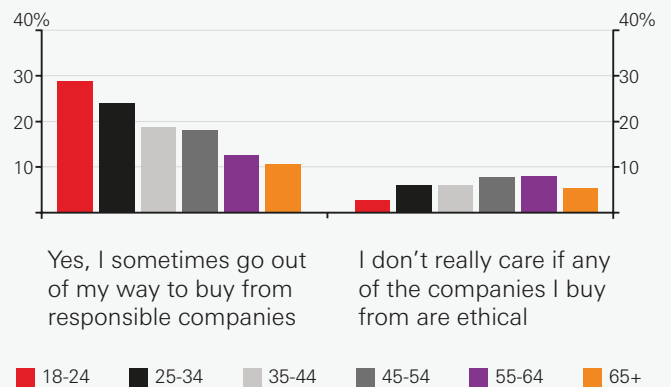
Companies that adapt better to the new consumer will benefit

Over the past few years many environmental and social issues have found their way into the mainstream: from cutting down on plastic usage to thinking about the governance of firms. Both government and industry led consumer surveys suggest that these trends have gained more traction with younger generations.

Today's young people care more

A January 2019 HSBC UK consumer survey suggests that the share of the population that worry about their own health as well as the environment is disproportionately high amongst the 18-24 age group, while the same age group may be more willing to seek out responsible goods and services.

Do you ever buy goods/services from companies that behave in a responsible way? (UK)



Source: Toluna, HSBC research

Importantly, recent data from PEW research suggests so called Gen Z, who are in their teens and early-twenties today, hold even more liberal attitudes than so-called millennials, suggesting that these attitudes could hold over time.

ESG going mainstream

Over the next decade as millennials get richer (through rising incomes and as wealth is passed down) and form a larger proportion of the consuming public, the shift to more ESG-focused products may become even more mainstream.

Investment implications

Companies can help address **environmental concerns** through ways such as reducing plastic packaging, and improving sustainability of supply chains and products produced. Firms can adapt to **social characteristics** of today's younger generations by increasing online engagement, which feeds into both social and shopping habits. And finally, companies that cater to a workforce that puts a stronger weight on **work-life balance, working culture and corporate behavior** when picking an employer may benefit.

Investors should be aware of firms that can best adapt to the needs of the new consumer, as they will be more likely to benefit in terms of sales and public perception.

2. Investing in growing environmental awareness

Climate change – here and now

This is no new problem, but we believe that recently, consumers have been forced to face the reality of climate change impacts as never before, given the increasing frequency and severity of extreme weather events.⁷ This brings the environment to the forefront of consumers' minds and we outline below how spending decisions may be impacted. We also explore the reactions of some consumers – and particularly the younger generation – to growing environmental awareness.



1. Electric vehicles

Decarbonizing the transport sector is a vital way to reduce emissions and as such consumers may increasingly adopt electric vehicles (EVs) as they become more engaged with the environment. Sales are increasing globally with one million EVs sold in 2017 – a growth rate of over 50% from 2016 according to the International Energy Agency.

What are companies doing to prepare?

- ◆ **Volvo** has committed to ensuring that electric cars make up 50% of their sales by 2025.
- ◆ **Volkswagen** has pledged USD50bn of spending on electric and self-driving vehicles by 2023.
- ◆ By 2025, **Honda** hopes that hybrid, plugin, battery electric and fuel cell cars will make up two thirds of their European sales.



2. Plastics

Plastic pollution has become one of the major environmental challenges of our time. Far too little is recycled and far too much leaks into the natural environment. More environmentally concerned consumers are reducing plastic consumption which could affect the business operations across a range of sectors including food retail, autos and waste management.

Selection of large company commitments to tackling plastic pollution

- ◆ **L'Oreal**: All plastic packaging used by the company will be rechargeable, refillable, recyclable or compostable by 2025.
- ◆ **Coca Cola**: Collect a bottle/can for every one sold by 2030.
- ◆ **Ikea**: Removal of single-use plastics globally from products and restaurants by 2020.

7. EM-DAT: The CRED/OFDA International Disaster Database



3. Meat consumption

An increasing number of consumers are reducing their meat and dairy consumption, or becoming entirely vegan/vegetarian⁸. This is a trend that we believe is about to take off dramatically amongst consumers; the Economist has labelled 2019 “The year of the vegan”. Consumers make this switch for a range of reasons, including reported health and environmental benefits.

Some mainstream companies are beginning to buy into the meat and dairy free products or alternatives

- ◆ **Tesco** introduced 20 types of plant-based ready meals.
- ◆ **McDonalds** now offers “McVegan” burgers, suitable for vegans.
- ◆ **Unilever** recently purchased a plant-based foods company called Vegetarian Butcher.



4. Fast vs Sustainable Fashion

“Fast fashion” – cheap, easy to wear, easy to discard – garments have transformed the fashion industry over the past couple of decades. But the adverse environmental impacts of this industry are beginning to gain more publicity, and with it, ‘sustainable’ fashion brands have been increasing in popularity, particularly amongst younger generations. According to McKinsey, 66% of global millennials are now willing to spend more on brands that are ‘sustainable’ and 90% of global Gen Z consumers believe fashion companies have a responsibility to address environmental and social issues.

Examples of companies making sustainability pledges in the fashion industry

- ◆ **Zara** targeting zero waste to landfill from their headquarters, stores, factories and logistics centers by 2020.
- ◆ **Gucci** aiming to guarantee traceability of 95% of raw materials – part of a 10 year sustainability plan.
- ◆ **Adidas** planning to produce 11 million pairs of shoes containing recycled ocean plastic in 2019.

8. Third of Britons have stopped or reduced eating meat – report, The Guardian, 1 November 2018

3. Social issues matter more

It's not just environmental issues that are seen differently by this younger generation: there is a clear shift in terms of social interests and tastes.



There are early signs that people are becoming more health conscious



Aerobic activity is on the rise



Philanthropic giving has picked up



Today's younger workers value work culture, diversity and work-life balance more

Health

Obesity has been on the rise across all income brackets in the world over the past few decades to the stage where now 25% of adults in high income countries are obese according to the World Health Organisation.

But there are now early signs that this is starting to change. Large numbers of people around the world are starting to take action by doing more exercise or eating more healthily. Data from Nielsen suggests that more than 70% of people are changing their habits in an effort to improve their health – with Asia and North America standing out. And the Centers for Disease Control & Prevention in the US show that over the past couple of decades aerobic activity has risen. The additional data available via smartphones is also helping to make people more aware of their health.

Philanthropy

In this era of consumers becoming more aware and caring of the surroundings, it comes as no surprise that philanthropic giving has picked up in recent years. Overall charitable giving in the United States witnessed a 4.1% y-o-y rise in 2017, as per the Charitable Giving Report by Blackbaud Institute⁹. The underlying statistics also show that more people are contributing with money or time to give back to society.

Flexible working

Today's younger workers value things like work culture, their employer's impact on society, diversity and flexibility, and work-life balance more than preceding generations. Working from home is a rising trend with today's younger generation as they are more comfortable telecommuting. 75% of workers in this generation think that "work from home" is an important policy, according to the 2018 Deloitte Millennial Survey. According to the same survey, this generation don't see work as just a job being done to earn money. Though financial rewards and benefits do feature at the top of the wish list of employees, many other issues are becoming more important considerations.

9. See: http://institute.blackbaud.com/wp-content/uploads/2018/02/BlackbaudInstitute_2017CGR.pdf

4. Conclusion

The world's consumer is changing and investors need to be aware how this impacts investment opportunities. Social and environmental concerns that have risen to prominence in recent years and will continue to play a bigger role in the decisions of firms. The stakes are high, as companies that can best adapt are more likely to boost sales and benefit from public perception.



Disclosure appendix

1. This report is dated as at 4 Sep 2019.
2. All market data included in this report are dated as at close 3 Sep 2019, unless a different date and/or a specific time of day is indicated in the report.
3. HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
4. You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument.

Disclaimer

This document is prepared by The Hongkong and Shanghai Banking Corporation Limited ('HBAP'), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document is distributed by HSBC Bank Canada, HSBC Bank (China) Company Limited, HSBC France, HBAP, HSBC Bank (Singapore) Limited, HSBC Bank (Taiwan) Limited, HSBC Bank Malaysia Berhad (127776-V)/HSBC Amanah Malaysia Berhad (807705-X), The Hongkong and Shanghai Banking Corporation Limited, India, HSBC Bank Middle East Limited, HSBC UK Bank plc and HSBC Bank plc, Jersey Branch (collectively, the "Distributors") to their respective clients. This document is for general circulation and information purposes only. This document is not prepared with any particular customers or purposes in mind and does not take into account any investment objectives, financial situation or personal circumstances or needs of any particular customer. HBAP has prepared this document based on publicly available information at the time of preparation from sources it believes to be reliable but it has not independently verified such information. The contents of this document are subject to change without notice. HBAP and the Distributors are not responsible for any loss, damage or other consequences of any kind that you may incur or suffer as a result of, arising from or relating to your use of or reliance on this document. HBAP and the Distributors give no guarantee, representation or warranty as to the accuracy, timeliness or completeness of this document. This document is not investment advice or recommendation nor is it intended to sell investments or services or solicit purchases or subscriptions for them. You should not use or rely on this document in making any investment decision. HBAP and the Distributors are not responsible for such use or reliance by you.

You should consult your professional advisor in your jurisdiction if you have any questions regarding the contents of this document. You should not reproduce or further distribute the contents of this document to any person or entity, whether in whole or in part, for any purpose. This document may not be distributed to any jurisdiction where its distribution is unlawful.

© Copyright 2019. The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED.

No part of this document may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.