



Corner Office Views



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Corner Office Views

Timely Insights to Inform
your Business Strategy

Lead with knowledge and perspective.
Connect with secular trends impacting financial
services, interpret what they mean for your business,
and drive new opportunities. Cerulli's Corner Office
Views provides market-leading insights and tangible
takeaways for senior executives seeking to strengthen
and scale their business models.

About the Author



Leena Degade
Associate Director, Asia

Based in Cerulli's Singapore office, Leena is responsible for retail research in the Asian asset management industry. She is the lead analyst for the Environmental, Social, and Governance (ESG) research practice in Asia and contributes to Asian institutional reports, Cerulli Edge publications, and consulting projects.

Prior to joining Cerulli, she was a deputy editor for an online financial publishing firm, covering the asset and wealth management industry in Asia. Previously, she worked with a real-time financial news and market data firm and an asset management company.

Education

University of Pune
Master of Business Administration with a specialization in Finance

University of Pune
Bachelor of Science in Chemistry

Areas of expertise

- Opportunities for managers in Asia's mutual fund markets
- Mutual fund product developments
- Marketing practices and distribution trends
- Responsible investing in the retail and institutional segments.

Recent project work:

- Analyzed demand for exchange-traded funds (ETFs) in Southeast Asia and potential of retirement market in Singapore
- Contributed to conceptualizing timely ideas for new reports and executed quantitative and qualitative research
- Represented the firm for presentations on Asia asset management trends and moderated an ESG panel discussion.



How to Keep Pace with Asia Asset Owner ESG Expectations?

Asia's largest institutions will influence the ESG behavior of small and mid-sized investors.

Key Implications

- Almost two-thirds of asset owners require asset managers to have a documented approach for ESG integration.
- Cerulli's survey of asset owners shows they are transitioning from using exclusionary investment practices to ESG integration.
- Asian investors are increasingly paying attention to environmental factors.

Meeting asset owners' expectations

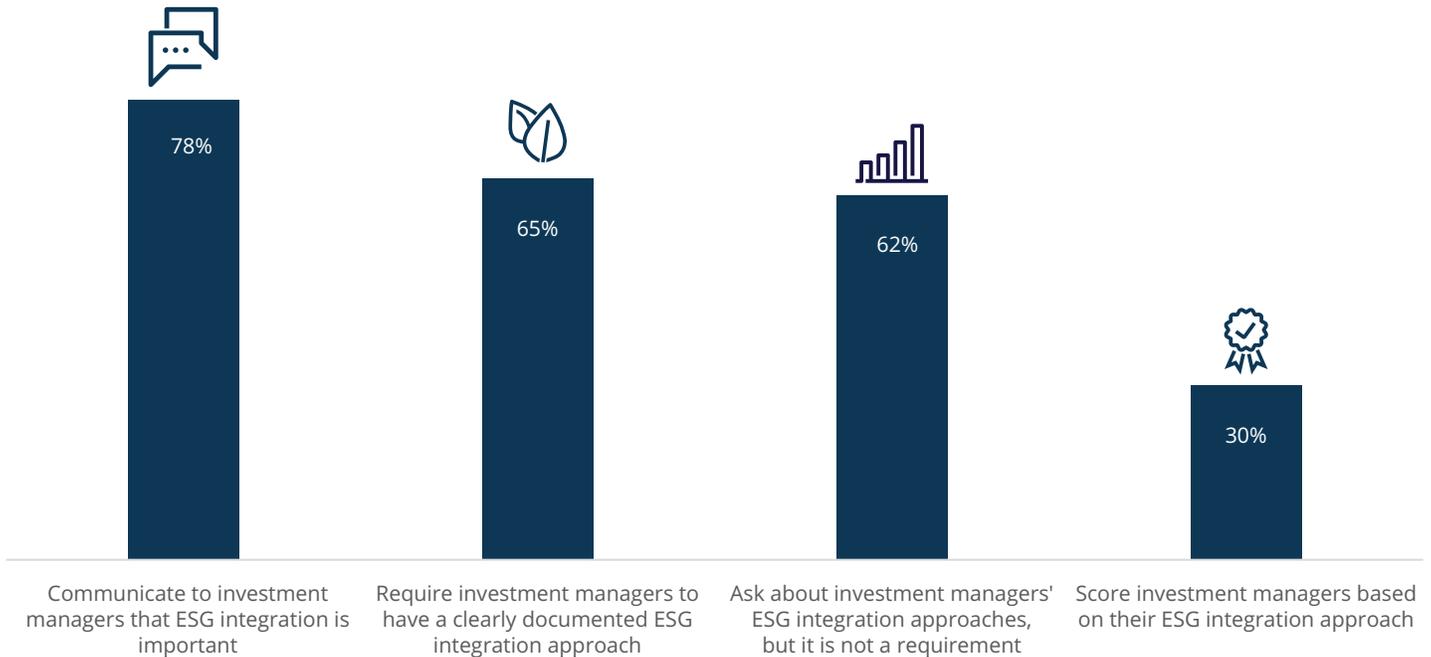
As asset owners in Asia implement measures to increasingly align their portfolios to ESG standards by considering the impact of environmental and social factors, managers will need to meet their growing expectations. Against the backdrop of COVID-19 and various environmental calamities, along with the strong push from policymakers, ESG-based investing is expected to evolve at a faster rate.

Cerulli's survey findings show that 78% of asset owners have communicated to managers the importance of ESG integration, while almost two-thirds of asset owners require asset managers to have a documented approach to ESG integration. This is significant as managers need to explain their approaches to ESG integration in detailed and comprehensive ways. For example, although the Government Pension Investment Fund (GPIF) acknowledges that an increasing number of asset managers explicitly and systematically include ESG in their investment analysis, it expects to see progress by its managers. In evaluating the ESG integration practices of its external managers in its ESG 2019 report, the GPIF said, "It is not clear in many cases (as) to what degree ESG is reflected in their investment decisions."

In terms of ESG reporting requirements for managers, only one-third of asset owners surveyed said they currently require portfolio-level exposure to other financially material ESG risks, but this percentage jumps to more than double (69%) over the next two years. Similarly, asset owners' expectations of portfolio-level exposure to climate risks is increasing, as indicated by 71% of the respondents who require asset managers to report on this aspect over the next 24 months, compared to 31% currently. Moreover, reporting on scenario-testing metrics for climate change is done by a mere 17% of the respondents currently, but over the next two years, 60% expect to receive this kind of information from managers. Over the next two years, survey findings reveal that almost two-thirds of asset owners also will require security-level exposure to climate risks and portfolio-level exposure to climate risks. The ESG theme has been adopted at varying rates across Asian markets, but in general, investors seem to be transitioning from exclusionary investment practices to integration. This is reflected in Cerulli's survey of asset owners, wherein the percentage of respondents choosing ESG integration (69%) has exceeded those using the negative screening practice (65%), which is the most basic and easiest method toward ESG adoption.

Asia-Pacific ex-Japan Asset Owners' Views on Their ESG Integration Policies, 2020

Source: Cerulli Associates



According to the survey, 76% of pension funds use the ESG integration approach, reinforcing Cerulli's view that large and government entities are acting as key agents in setting the trend of ESG investing. Almost three-quarters of insurers indicated that they are following exclusionary/negative screening practices.

Cerulli's survey findings also show that large institutional investors, especially in Australia and Hong Kong, are progressively moving toward systematically incorporating ESG factors in assessing risks and opportunities during financial analysis. Australian investors are advanced in their integration of ESG principles in their investment portfolios, with ESG

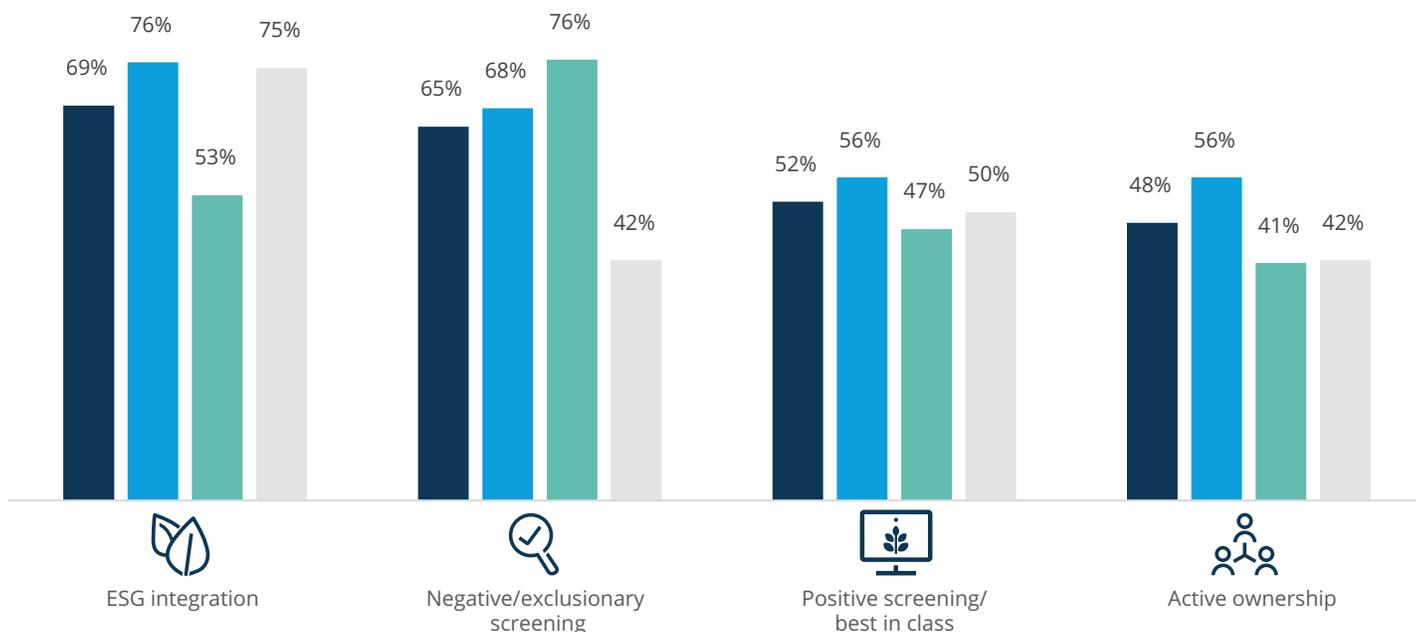
integration being the most widely employed method, followed by active ownership, which sees shareholder rights being used to influence investee companies to bring about positive change.

Our survey findings show that 48% of asset owners have built ESG teams, while almost three-quarters of them look for external managers' expertise to acquire ESG knowledge.

Among asset owners that chose the exclusion-based approach, the most commonly avoided businesses were firearms/weapons (chosen by 74% of respondents), tobacco (74%), and gambling (66%). Some 60% of asset owners also said they exclude fossil fuels, reflecting the increasing awareness of climate concerns. Environmental considerations are also reflected in impact investment themes, with 68% of asset owners choosing clean technology and renewable energy as their impact investment theme.

Asia-Pacific ex-Japan Asset Owners' Views on Their ESG Integration Policies, 2020

Source: Cerulli Associates



Asian investors that have largely focused on the governance aspect of ESG during their investment analysis have started paying attention to environmental factors, Cerulli gathered during its research discussions. As per our survey findings, almost half of the asset owners said they consider environmental factors in their investment policies, such as fossil fuel divestment, carbon dioxide emissions/carbon intensity, and energy efficiency, which feature among their top ESG parameters.

Our survey findings show that 48% of asset owners have built ESG teams, while almost three-quarters of them look for external managers' expertise to acquire ESG knowledge. Close to 70% also refer to ESG indices for asset and security selection. Some 70% of pension plans are looking to build their capabilities over the next three years, a finding that managers should take note of to seize potential opportunities.

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Headquartered in Boston with fully staffed offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

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