



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



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Jaslyn leads the research for two of Cerulli's annual reports: *The Cerulli Report—Asset Management in Southeast Asia* and *The Cerulli Report—Institutional Asset Management in Asia*. She also contributes to *The Cerulli Edge—Asian Monthly Product Trends* and generates quantitative analysis to support strategic consulting engagements. Specifically, Jaslyn covers the asset management markets of Hong Kong, Malaysia, Singapore, and Thailand.

Prior to Cerulli, Jaslyn was with the Asia Pacific asset management research team at PwC. Prior to that, she worked briefly with Prudential as a financial consultant during her penultimate years of university.

Education

- Nanyang Technological University, Singapore
Bachelor of Science (with Honors) in Mathematics and Economics

Areas of Expertise

- Southeast Asian market coverage
- Data analysis and modelling
- Data visualization

Recent Project Work

- Competitive analysis of Singapore's Central Provident Fund Investment Schemes
- Strategic market entry evaluation of the Malaysia asset management market
- Reconstruction of the new *Cerulli Edge—Asian Monthly Product Trends*



Trends in Asia Institutional Investing

Institutional investors are building alternatives exposure

Key Points

- Insourcing and partnerships remain key areas for Asian institutional investors with relatively more experience in alternatives.
- Asian asset owners indicated that 43.8% felt that they had benefited from the use of digital solutions to conduct due diligence on alternative investments.
- According to Cerulli's survey of asset owners, real estate, private equity, and infrastructure were among the top five ESG-centric mandates pension funds plan to launch over the next two to three years.

Insourcing and partnerships

Alternatives have been playing a major role in most institutional investors' portfolios, as the consistent exemplary performance displayed by the asset class has supported improving returns. Thus, Asian institutional investors are focusing on building their alternatives exposure.

Insourcing and partnerships remain key areas for Asian institutional investors with relatively more experience in alternatives, as they seek cost benefits and better investment control. Given the extensive work needed to source, research, manage, and monitor alternatives deals, institutions with larger operating capacities have the ability and are more inclined to conduct direct deals. Indeed, GIC and Temasek, which have vast experience in direct investments, possess substantial internal capabilities with about 1,500 and 800 employees, respectively, in offices across the world. On the other hand, smaller institutions, which are more limited in their manpower expansion capacities, are more likely to collaborate with global peers and asset managers to gain direct access to alternative deals.

Tech and databases

Asian institutional investors are also increasingly growing their reliance on technology and databases to assist them in their analysis, due diligence, and performance monitoring during the investment process. This is especially important for those that are active in co-investments or direct investments. Given the hurdles, such as high costs for small institutions and time needed to establish digital frameworks, Cerulli believes that managers are well-positioned to assist institutional investors with digital services, given managers' vast resources and access to information.

Other than identifying opportunities, improving returns, and managing cash flows, Cerulli's survey of Asian asset owners indicated that 43.8% felt that they had benefited from the use of digital solutions to conduct due diligence on alternative investments.

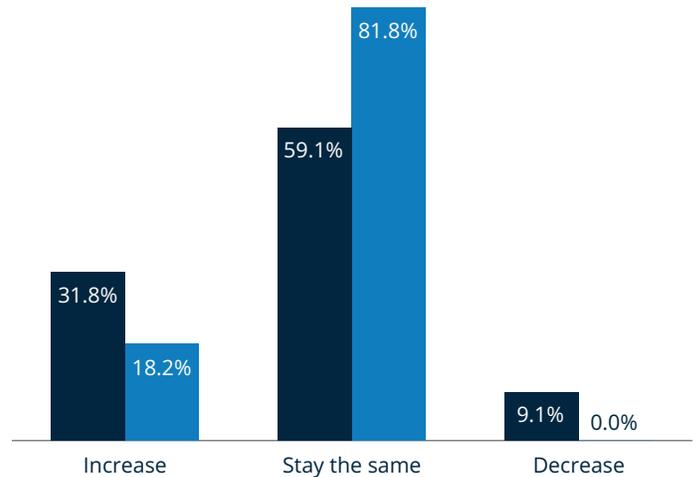
Sustainable investing

Apart from the usual basic considerations, including asset valuations, managers' track records, and fees, sustainable investing is among the top considerations for Asia-Pacific ex-Japan asset owners when investing in alternatives. Indeed, ESG awareness accelerated in 2020, and many institutions have been integrating such themes into their investment process across all asset classes, including alternatives.

ESG-centric alternative mandates have either been launched or are in the process of being launched over the next two to three years. According to Cerulli's survey of asset owners, real estate, private equity, and infrastructure were among the top five ESG-centric mandates pension funds plan to launch over the next two to three years; while life insurers ranked private debt among the top five ESG-centric mandates they are looking to launch over the same period.

Asia-Pacific ex-Japan Life Insurance Companies' Plans for Direct Investments into Alternatives Over the Next One to Three Years, 2021

■ Direct investments into alternatives ■ Co-investments



Source: Cerulli Associates | Analyst Note: The percentage figures indicate the proportion of respondents who have chosen the option.

Proper ESG due diligence frameworks with appropriate metrics have been created, while thematic investments, particularly renewables, are of greater interest.



Besides developing suitable ESG due diligence for alternatives, institutional investors are also focusing on thematic investments. Given that several of them have indicated their commitments to align their investment portfolios to achieve a net zero carbon emission target by 2050, industries revolving around renewable energy have gained prominence. With greater awareness of environmental, social, and governance (ESG), many institutions have been integrating the theme into their investment processes across all the asset classes, including alternatives.

As institutions mature in their ESG practices in alternatives, their expectations of managers' ESG commitments will only increase. As such, managers should be aware of some key criteria institutional investors consider. These include their investment teams' track records in responsible investments, level of intentionality of ESG-focused and impact products, quality of the ESG integration process with examples expected to be demonstrated, firm-level ESG-related incidents, and regulatory issues, as well as the size of their ESG assets.

Top 10 Infrastructure Industries Asia-Pacific Institutional Investors Are Seeking to Invest In Over the Next 12 Months

Industries	Proportion of Investors
Energy	85.2%
Renewable energy	71.9%
Clean technology	15.6%
Roads	14.8%
Telecom	13.3%
Utilities	12.5%
Water	10.9%
Healthcare/medical facilities	8.6%
Logistics	8.6%
Transportation	7.8%

Source: Cerulli Associates

Challenges with alternatives

While alternatives have helped many to improve their returns, some institutions are hesitant about rushing into this segment, especially private equity. Pension funds have their benefit payout obligations, while life insurers are limited by the pending stricter risk capital charges following the upcoming new accounting standards. As such, the illiquidity,

high fees, and relatively higher risk of private equity compared to traditional assets might not sit well with some institutional investors. This has led them to consider exploring alternative indices and exchange-traded assets replicating private equity performance, which could potentially allow some institutions looking to rapidly raise their alternatives exposure to enjoy the benefits of private equity in their investment portfolios.





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

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