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Climate Focus in Asia

Partnerships needed to accelerate green investments

Corner
Office
Views

About the Author



Leena Dagade

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

Key Points

- Cerulli's survey of Asian asset owners shows a smaller allocation toward ESG bonds among respondents: 74% have a maximum of 5% of their assets in green bonds.
- Reasons for smaller allocation to green bonds include uncertainty about the actual use of proceeds raised and lack of investible projects or sufficient investment avenues.
- Regulators, governments, and non-profit organizations have been calling for collaboration between private and public entities to explore investment opportunities emerging from energy transition.



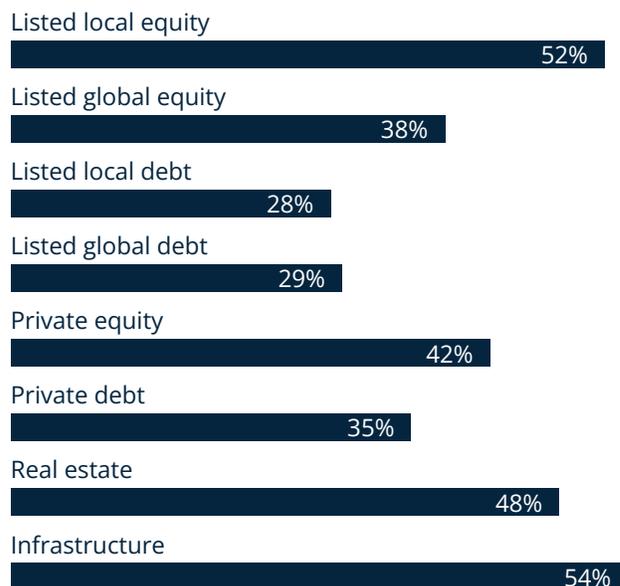
Smaller investment allocations

A full 60% of owners in Asia identify the key responsible investment themes are climate change, clean technology, and renewable energy. Climate has emerged as a key impact investing theme due to regulatory and government initiatives, while social issues, such as quality education, gender equality, reduced inequality, and no poverty feature lower among priorities.

However, Cerulli's survey of Asian asset owners shows a smaller allocation toward ESG bonds among respondents: 74% have a maximum of 5% of their assets in green bonds. Only about 5% to 9% have more than 5% allocated to green bonds. Encouragingly, only a small group of investors do not have any plans to invest in these bonds. And positively, almost half of the respondents have plans to increase their allocation to these bonds over the next two years.

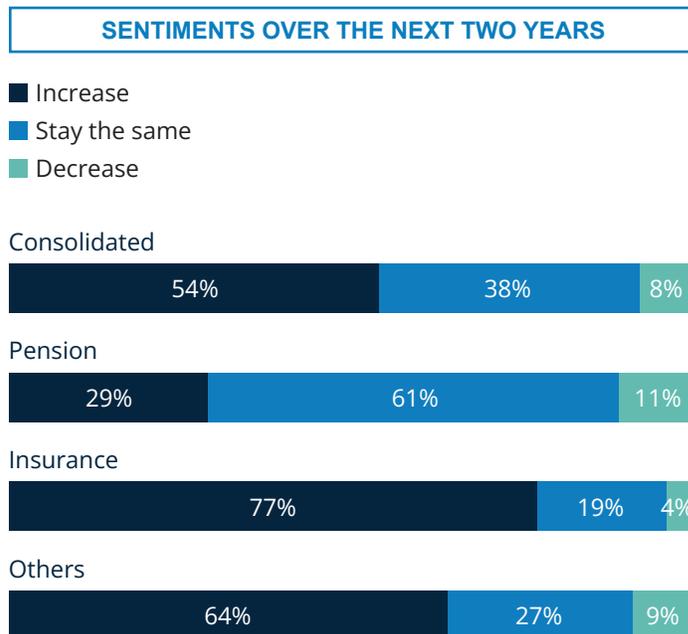
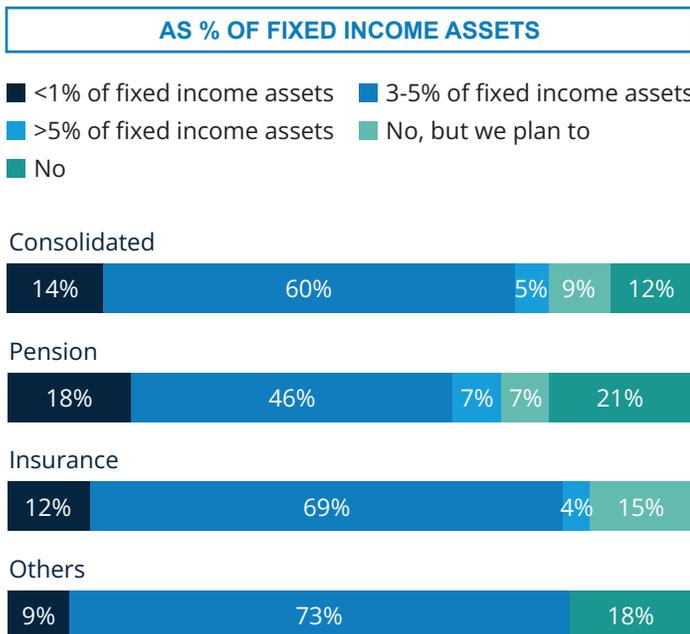
Cerulli believes there could be various reasons for institutional investors' lower allocation to bonds. These range from a cautious approach to investing due to hesitancy in exploring new assets and lack of understanding about addressing climate risk, to uncertainty about the actual use of proceeds raised and lack of investible projects or sufficient investment avenues.

Asia-Pacific ex-Japan Asset Owners on Carbon Footprint Analysis Conducted Across Various Asset Classes, 2022



Source: Cerulli Associates

Asia-Pacific ex-Japan Asset Owners on Investments in Green Bonds and Likely Changes in Allocation Over the Next Two Years, 2022



Source: Cerulli Associates | Analyst Note: Others include endowments, foundations, and healthcare institutions.

The lack of investment avenues is reflected in the GIC's view. It said it is "very active" in investing in new technology sectors such as renewable energy, battery manufacturing, electricity grid software, green hydrogen, carbon removal, and even nuclear fusion, but at the same time, added that the opportunities are currently relatively small despite the great potential.

Measuring climate metrics and disclosures

Apart from the shortage of investment avenues, many investors in the region lack the know-how and technical expertise required in measuring the carbon footprints of their investment portfolios, in subjecting their portfolios to different climate conditions for risk assessment, or in evaluating the scope of emissions to be included in measuring the carbon footprints of their portfolios. If the measurement of metrics is a challenge, so are disclosures.

Hence, Asian institutional investors are keen to not only gain more of understanding of these technical areas, but also build their capabilities. In November 2021, GIC and Schroders co-developed a framework to measure and integrate avoided emissions into investment and portfolio analysis. In a joint paper, they said avoided emissions are used as "an additional lens by capturing companies' contribution to emissions reductions through the substitution of high carbon activities with low carbon alternatives, as these are not reflected in their conventional Scope 1, 2 and 3 metrics." It sees scope for the framework to be improved further and for the analysis to be extended from public to private asset classes.

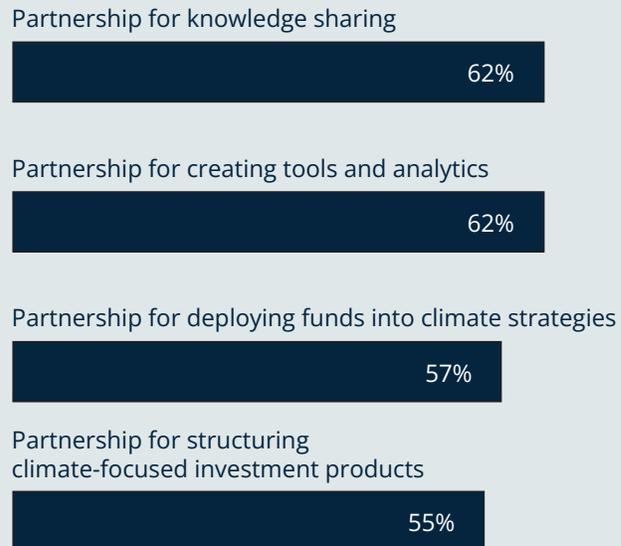
Green partnerships

Cerulli believes that major influential investors in the region should join forces to address the various issues and accelerate investments into climate-transition and green financing investments to meet their net zero pledges. Regulators, governments, and non-profit organizations have been calling for collaboration between private and public entities to explore the investment opportunities emerging from energy transition.

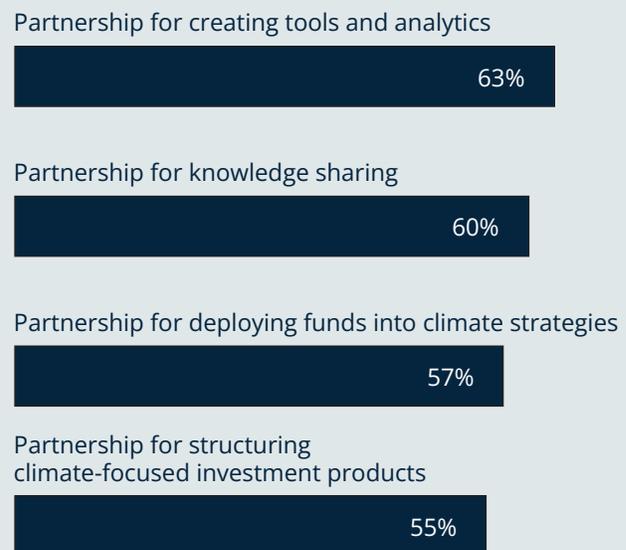
Already, some partnerships are being inked. At the G20 summit in November 2022, the Indonesia Just Energy Transition Partnership was announced, which will see mobilization of US\$20 billion over the next three to five years, using a mix of grants, concessional loans, market-rate loans, guarantees, and private investments, to accelerate a just energy transition.

Asia-Pacific ex-Japan Asset Owners on Plans to Partner with Other Institutional Investors and Asset Managers to Meet Climate Plans, 2022

WITH OTHER INSTITUTIONAL INVESTORS



WITH ASSET MANAGERS



Source: Cerulli Associates

A blurred photograph of a modern building's interior courtyard. In the foreground, several people are walking across a light-colored tiled floor, their figures out of focus. The background features a multi-story building with large windows and several young, green trees planted in a courtyard area. The overall atmosphere is bright and contemporary.

In the same month, the Anthropocene Fixed Income Institute (AFII), a research organization that helps fixed-income investors to drive climate transition, and Singapore-based Climate Smart Ventures, inked a Transition-Southeast Asia (T-SEA) partnership. The initiative will develop financing opportunities for corporates planning to move to more sustainable operations, with an initial focus on the shift from fossil fuels to renewable energy. It will ensure funding through transition and sustainable finance structures in the region, such as sustainability-linked bonds and other labelled debt.

Cerulli's survey of asset owners also indicates areas for collaboration, with 62% showing interest in partnering with each other for knowledge sharing and creating tools and analytics. Currently, MSCI and Carbon Delta Data are used by 42% of asset owners, followed by S&P and Trucost. Some 57% of asset owners showed interest in collaborating for climate-related investment opportunities. They are also keen to explore partnerships with asset managers in areas such as knowledge sharing and tools and analytics.



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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, and the Cerulli Edge series.

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