Schroders

Asia Pacific

Sustainability

Institutional Investor Study 2022

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Asia Pacific – An Executive Summary

Mervyn Tang
Head of Sustainability Strategy, Asia Pacific

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This year’s Schroders Institutional Investor Study demonstrates how quickly sustainable investing approaches have evolved in the Asia Pacific (APAC) region, as investors move beyond simple exclusionary and integration approaches to incorporating active ownership, measuring impact and setting net zero targets. Industry initiatives in the region are also drawing focus to certain themes and asset classes. For example, Singapore's carbon exchange is driving interest in carbon offsets, and consequentially natural capital assets that sequester carbon.

Many governments in APAC have now set net zero targets and we are already seeing policy actions to help achieve them. For example the introduction of China's national emissions trading scheme. Seeing the policy momentum, investors seem to be positioning their portfolio accordingly. Almost two-thirds selected new investment opportunities addressing the energy transition as one of the top three factors that will encourage them to invest more in sustainable investments.

A large majority of APAC investors have made commitments to reduce emissions, many of which have pledged to reach net zero by 2050. This is consistent with the conversations we have been having with many of our clients, who are looking to understand the implications of these commitments to their investment portfolio. 55% of respondents thought greater consensus on frameworks and methodologies will help them with their net zero journey, and we believe it will be important for APAC stakeholders to have a voice in their development.

Enhanced reporting and transparency from asset managers, along with consistent and comparable data points, are unsurprisingly the most important factors to institutional investors when investing sustainably. But what investors find important is broadening; more than half of APAC investors now say active ownership and influencing company behaviour important, a substantial increase from 2021. The same can be said for understanding the impact of investments on society and the planet, consistent with the rise in APAC investors identifying impact investing as one of their top three approaches to sustainable investing.

While the motivations and approaches of investors share many commonalities across and within regions, a closer inspection of the Study results shows individual market nuances that highlight the need for on-the-ground sustainability expertise to help us support our clients as they navigate challenges implementing sustainable investing. We point to examples of this throughout the report.

Asia Pacific – An Executive Summary

"This year's Study shows the increasing sophistication of our institutional clients across the APAC region as well as differences in priorities within the region. From the popularity of thematic investing in China to Japan's interest in human capital as an engagement topic. This highlights the importance of our Regional Centre of Excellence for Sustainability, providing a local presence to support our Asia Pacific clients in their sustainability journey.

Amy Cho
CEO, Hong Kong and Head of Distribution APAC

"What we need from an asset management perspective is reliance upon trusted, local sponsors within the markets that we're targeting. It is incredibly important in Asia Pacific, because there are very different regulatory landscapes and revenue frameworks across the region. Having a good local partner that can help you think through the asset management strategy to protect your long-term revenue is incredibly important.

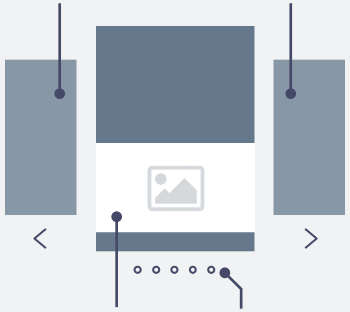
Chief Investment Officer, public or government pension plan, Singapore, less than US$1bn AUM

Key findings across APAC region

Click on the panels to view more information on each of our key global insights

How to navigate:

Click on the panel or arrow below to access the next or previous global insight



Click on the image to find out more about this global insight

Click on a circle to quickly jump to the corresponding global insight

Challenges increase as sustainable investing becomes more sophisticated

1

82%

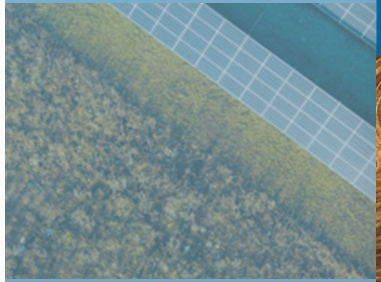
Find sustainable investing challenging, versus 78% in 2021.

48%

Chose impact investing as their preferred approach to implementing sustainable investing, versus 38% in 2021.

Key findings across APAC region

1



Investors look for new energy transition opportunities

2

62%

Indicated that new investment opportunities addressing the energy transition would encourage further sustainability adoption.

3

Key findings across APAC region

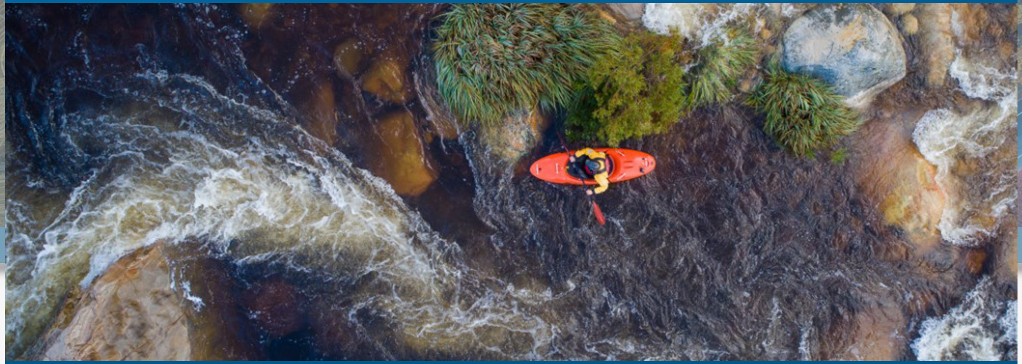
Real world outcomes are integral to active ownership

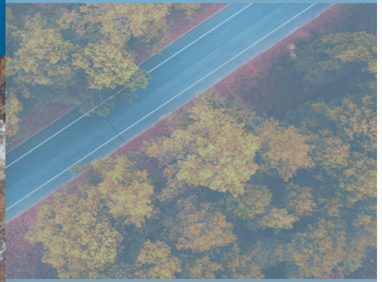
61%

Evidence of real world outcomes with a measurable improvement for a company's stakeholders is top priority for active ownership.

52%

Active ownership and influencing company behaviours is very important when investing sustainably.





Key findings across APAC region

3

4

The journey to net zero is underway for APAC institutions

38%

Committed to reach net zero.

31%

Committed to reduce emissions but not to net zero.

Challenges increase as sustainable investing becomes more sophisticated

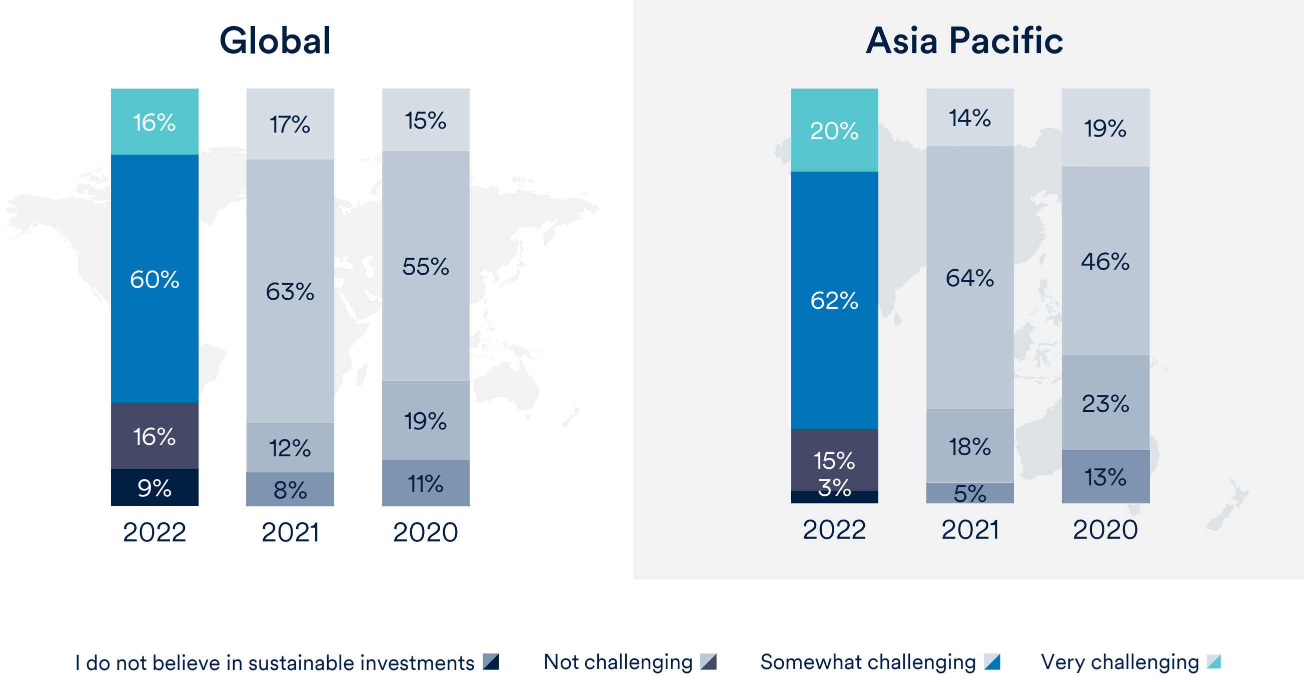
> "Something that we grapple with is that ESG is not applied uniformly across the region. In various markets there are different levels of proliferation of renewables and grids to support such technologies. When speaking to investors, you need to be able to talk about how such a project fits within the sustainability lens. There are useful benchmarks to do that, such as the UN SDGs, and increasingly, discerning investors will require clarity on how projects touch on various elements of UN SDGs, which typically form KPIs on delivering sustainability.

Chief Investment Officer, public or government pension plan, Singapore, less than US$1bn AUM

20% of investors in the APAC region found sustainable investing very challenging this year, up from 14% in 2021 and 19% in 2020.

At first glance this reversal may appear confusing. We might expect investors find it less challenging as they gain more experience with sustainable investing. The result is more understandable once you consider how much sustainable investing has evolved over the past few years. We have seen a huge amount of regulation materializing from markets across APAC, from those asking investors to consider climate risks to additional requirements for sustainability disclosure.

Q. How challenging do you find investing in sustainable investments?



Impact a growing consideration for sustainable investing

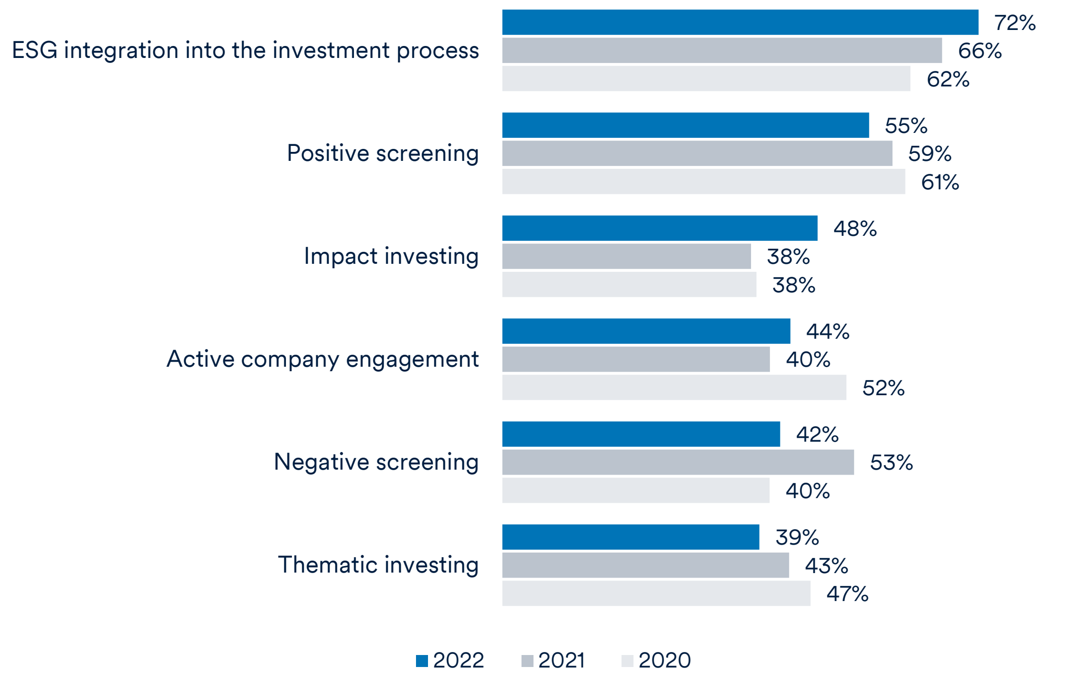
This evolution is evident from the changing preferences with sustainable investing approaches. Almost half (48%) see impact investing as a preferred approach (investing with the objective of achieving environmental and social benefits alongside financial return), up from 38% in 2021. This contrasts with negative screening, such as exclusion of alcohol and tobacco, which fell to 42% from 53% over the same period. Approaches like impact investing can be more complex to implement than blanket exclusion policies, and require more and higher quality investment data and other information to assess the costs and benefits of different investment opportunities from a sustainability perspective.

ESG integration remains the most preferred approach with almost three-quarters (72%) of APAC investors highlighting it in their top three, similar to other regions.

This reflects that ESG integration is core to the investment process for institutional investors even as they add other approaches, and integration frameworks are likely to have become more sophisticated as they try to balance more varied and specific sustainability objectives.

On their preferred approaches to implementing sustainable investments, we can see nuances across the APAC markets. Integration is generally the most preferred approach across the region. Thematic investing is more popular in China and Singapore than the rest of the region (58% and 51% versus 39% for the region as a whole). Positive screening - focusing on ‘best in class’ companies, is most preferred in Hong Kong (68% versus 55%). Taiwan is a notable outlier for impact investing (71% versus 48%), although the result came from a relatively small sample of institutions.

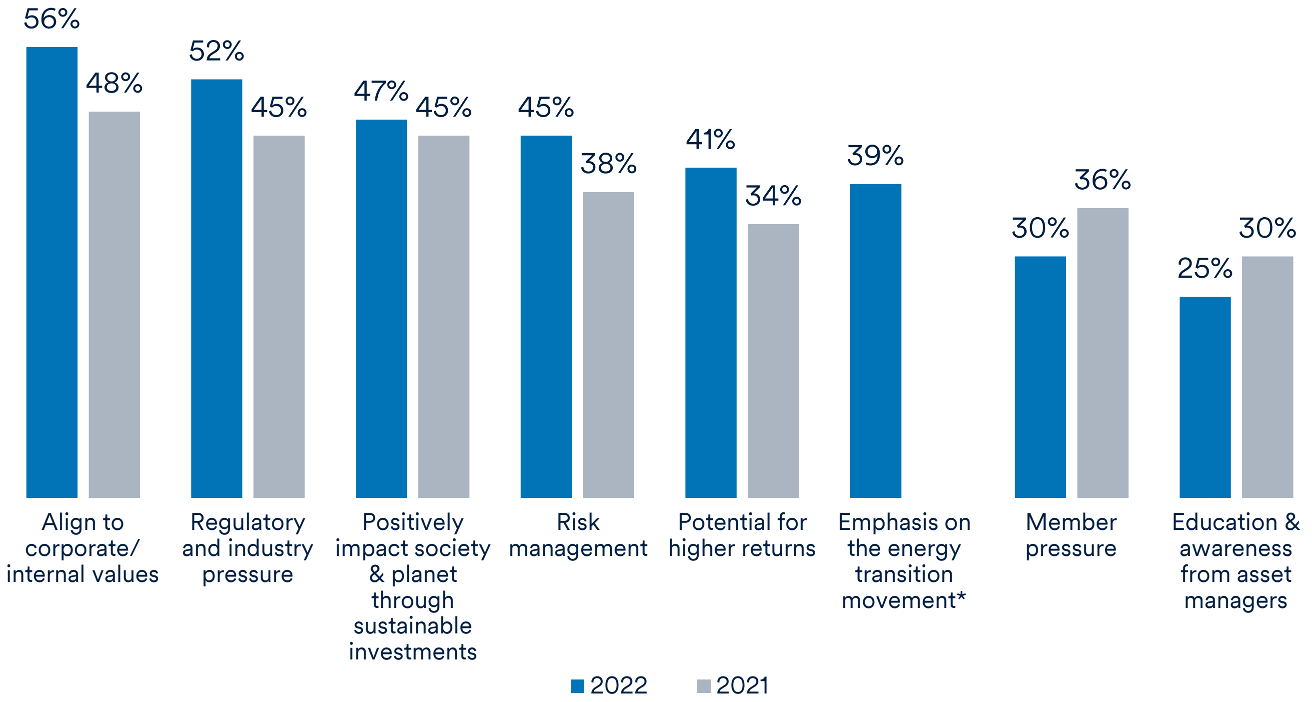
Q. What is your preferred approach to implementing sustainable investments?



APAC respondents only

Alignment to internal values and regulatory pressure are key drivers to invest sustainably

Q. What is driving your sustainable investment focus?



APAC respondents only *This question was not asked in 2021

Alignment with corporate values, and regulatory and industry pressure, remain the most commonly selected drivers of sustainable investing for APAC investors, with even more investors stating their importance this year. This is consistent with our client conversations. We have seen a huge amount of regulation materializing from markets across APAC, from those asking investors to consider climate risks to additional requirements for sustainability disclosure.

This desire to capture opportunities aligns with the potential for higher return as an increasing driver (41% vs 34% in 2021 and 29% in 2020). This focus on performance is also reflected in the response on what would encourage investors to invest more in sustainable investing – 61% pointed to more quantitative evidence about financial considerations of investing sustainably.

This focus on return comes with scrutiny over performance. 62% cite performance concerns as one of the leading challenges of investing in sustainable funds, above the global figure of 53%. This is a consistent finding across the APAC region, and it has increased in recent years.

The volatile investment climate, with an uncertain geopolitical and macro-economic backdrop, has had some near-term performance implications for some sustainability themes such as alternative energy, or ESG funds that are skewed towards sectors like technology. These findings highlight the importance for investors to understand how the risk-return profile for different sustainable investing approaches can vary, and the case for long-term performance and risk mitigation that underpins ESG integration.

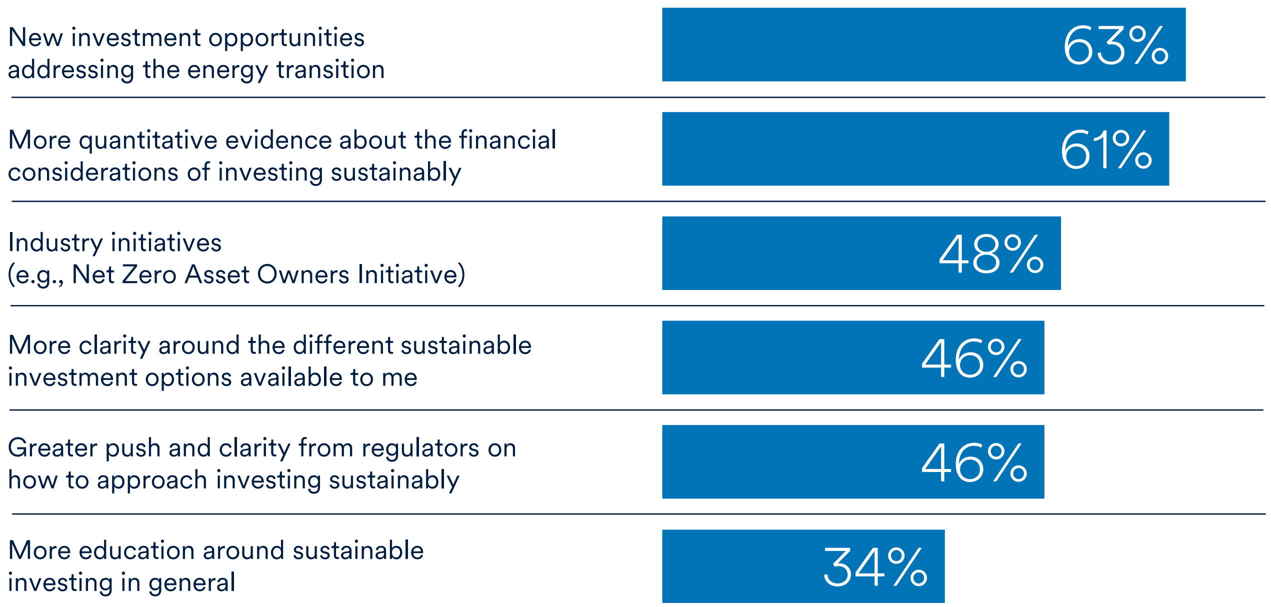
Investors look for new energy transition opportunities to increase sustainable investing

Many governments and companies are setting corporate sustainability objectives such as decarbonisation. This has driven policy actions from governments such as the introduction of carbon pricing mechanisms and formation of transition from companies. In anticipation, APAC investors are looking to find new investment opportunities that address the energy transition, with 63% saying such opportunities will encourage them to further adopt sustainable investments. Across the region, Australia (75%), Japan (68%) and Singapore (61%) highlight energy transition as key to further sustainability adoption.

Second most important factors for future adoption of sustainable investing is the need for more quantitative evidence (61% of APAC investors). This aligns with the increasing proportion of investors driven by the potential for higher returns as well as risk management.

In China, institutional investors place greater importance on industry initiatives, potentially a reflection of the role some of these initiatives play in setting out industry sustainable investment guidelines.

Q. What would encourage you to invest more in sustainable investments?



APAC respondents only. Other not included.

Investors look for new energy transition opportunities to increase sustainable investing

"Many of our clients are looking to take advantage of opportunities from the energy transition, in both public and private markets. This requires tools that help us to understand how much different climate solutions contribute to system-wide decarbonization. This is one reason why we worked with Singapore's Sovereign Wealth Fund GIC to publish a joint research paper, detailing how an Avoided Emissions framework can complement conventional carbon metrics in investment and portfolio analysis.

Lily Choh
Country Head, Singapore

Real world outcomes are integral to active ownership

Q. What features of an engagement strategy are most important to you? Please select all that apply

	Global	APAC
Evidence of real world outcomes with a measurable improvement for a company's stakeholders	59%	61%
Greater transparency on the content and progress of engagements	53%	51%
Evidence of improved financial performance	48%	50%
Understanding how engagement has informed investment decisions	45%	44%
A clear and robust escalation plan for stalling or unsuccessful engagements	30%	37%
Consistently voting to drive change	29%	31%
Use of public statements on key sustainability issues	21%	20%
I do not consider engagement within my sustainable investment strategy	5%	1%

As sustainability matters more to institutional investors around the world, including in the APAC region, being an active owner and willing to engage with companies on ESG issues is also becoming increasingly important. This is particularly the case for global issues, such as tackling climate change. Here, investor activism is expected to play a crucial role, putting pressure on companies to decarbonize, as investors seek to lower net zero carbon emissions in their portfolios.

We can see that the importance APAC investors attach to active ownership and influencing company behaviour is now on a par with, or ahead of their peers in other regions, with over half (52% versus 48% globally) agreeing that it is very important to them when investing sustainably. This marks a change from 2021, when only 36% agreed.

So what are APAC investors looking to achieve from active ownership? Evidence of real world outcomes with a measurable improvement for a company's stakeholders (60%) tops the list of what APAC investors see as an important feature of an engagement strategy, in line with the rest of the world.

However, APAC investors stand out on being prepared to act if engagement fails, with 37% saying that a clear and robust escalation plan for stalling or unsuccessful engagements is important to them (versus 30% globally).

Real world outcomes are integral to active ownership

“Our approach is to work with the organizations we invest in to promote transition towards a better ESG arrangement. We do, however, have a view that if you get to a point where you've been having those conversations, and the company is just not receptive, or taking a strategy which is inconsistent with what we think is the right path, we will then divest. But not until we've had a crack at being part of that positive journey with them.

Chief Investment Officer, public or government pension plan, Singapore, less than US$1bn AUM

Thematic focus on engagement topics vary across the APAC region

Q. Investment managers and asset owners are often able to engage with and influence the behaviours of the companies that they invest in. How important are the following to you?

	APAC	Australia	China	Hong Kong	Japan	Singapore	Taiwan
Governance and oversight	1 72%	1 80%	1 79%	2 60%	2 68%	1 68%	57%
Climate	2 64%	73%	58%	2 60%	63%	1 68%	36%
Inclusion and diversity	62%	59%	55%	1 64%	2 68%	2 61%	1 86%
Human rights	60%	2 77%	52%	48%	2 68%	43%	64%
Human capital management	60%	54%	2 70%	52%	1 79%	52%	2 71%
Natural capital and biodiversity	40%	31%	48%	40%	42%	52%	14%

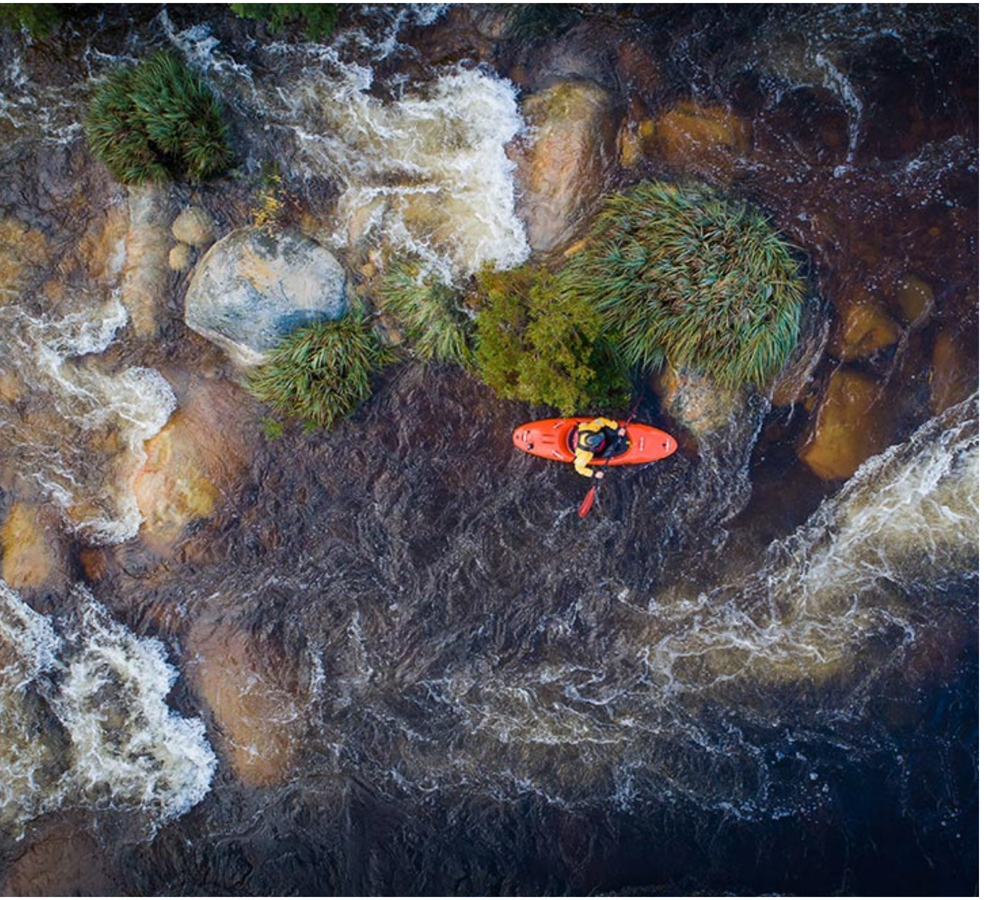
% Important (4+5).

Climate change (64%) is just one of the engagement topics important to APAC investors, with governance and oversight (72%), inclusion and diversity (62%) and human rights (60%) amongst topics of particular significance.

The topics that strike the most importance varies by region. Human capital management is particularly important in Japan (79%), Taiwan (71%) and China (70%), reflecting societal discussions on workplace culture and safety. Australian investors focused more on human rights (77%), unsurprising given the prominence of the modern slavery act and related disclosure rules in the market. Fewer, but not an insubstantial percentage, of investors in APAC thought natural capital and biodiversity was important (40%). We believe this will increase over the coming years, as the Taskforce for Nature Related Disclosures (TNFD) framework develops and as data coverage on biodiversity metrics improves.

Most APAC investors are less experienced at incorporating social factors into their investments than environmental factors. On how they want to consider social factors in their investments, 22% of investors cite engagement with companies to ensure workers and other stakeholders are protected and fairly rewarded, above the global finding (15%).

Thematic focus on engagement topics vary across the APAC region



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We are in an era of transition in many key areas, including climate change, equality, diversity and many more. As active managers, we have a critical role to play in supporting that transition. This year we published our Engagement Blueprint which sets out what active ownership means at Schroders, how we engage with the companies in which we invest and what our clients can expect from us.

In this year’s Study, climate was particularly key for Europe and Asia Pacific, human rights and governance came up top for North America and in Latin America, human capital management was first. This demonstrates that while these themes affect investments globally, client priorities will vary regionally.

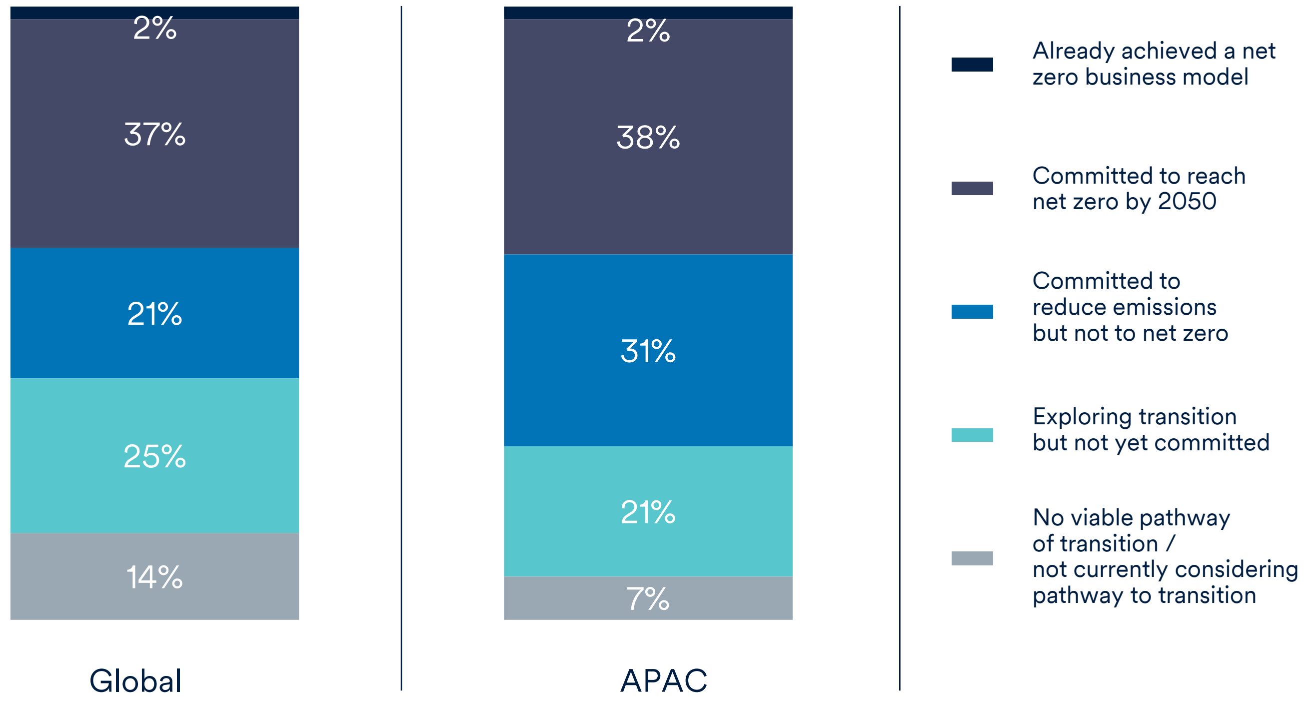
Kimberley Lewis
Head Of Active Ownership

The journey to net zero is underway for APAC institutions

For all institutional investors, the goal of achieving net zero carbon emissions has been given fresh impetus by international negotiations on tackling climate change, such as the COP26 talks in Glasgow, Scotland, in November 2021. While there may be frustration in some quarters over a lack of progress and commitments being weakened, many investors have certainly received and understood the message on the importance of reducing their emissions, for their business as well as their investments.

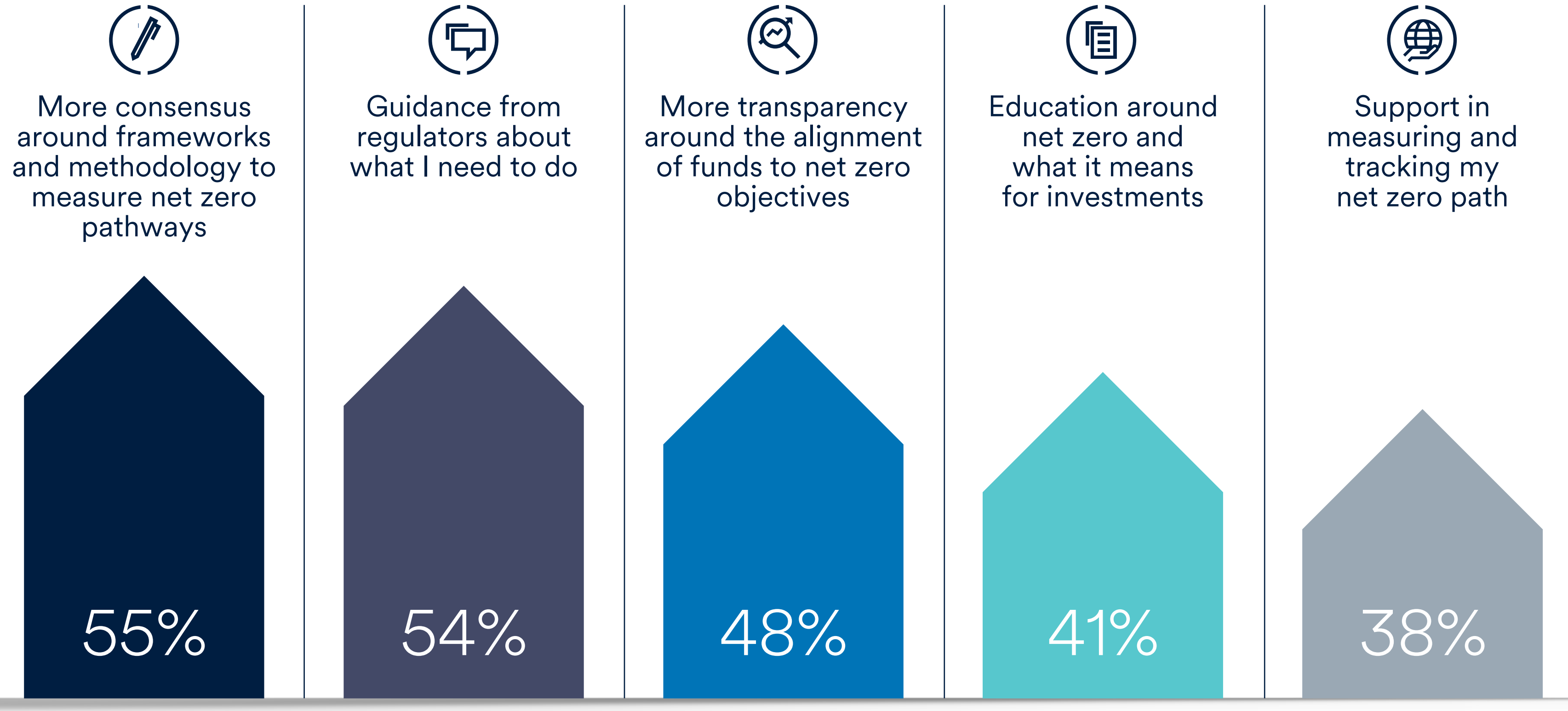
In the APAC region, many have either committed to reach net zero by 2050 (38%) or have committed to reduce emissions but not explicitly to net zero (31%). On this, APAC investors are in line with, or ahead of, their peers globally. And less than one-in-ten (7%) in the region are not on the pathway to net zero, compared to 14% globally. On a market basis, the portion of investors committed to reach net zero by 2050 is higher in Australia (41%), China (45%) and Singapore (48%) than the rest of the region. As discussed earlier, there are substantial market and regional nuances to sustainable investing approaches, and it will be important for APAC voices to help form the consensus on frameworks and methodologies so that they meet both regional and global needs.

Q. Where are you on your path to net zero?



Guidance from regulators and clear frameworks needed for APAC institutions on their net zero journey

Q. What would help you on your journey to net zero?



APAC respondents only.

Asked what would help them on the journey to net zero, 54% of APAC investors cite guidance from regulators, compared to 41% globally, and 55% say more consensus around frameworks and methodology to measure net zero (51% globally). Many APAC investors (48% versus 46% globally) would also like more transparency over how funds are aligned to net zero pathways. Education on net zero and what it means for investments also matters, with 41% of APAC investors saying this would help (39% globally).

The overall message here, on moving towards net zero, is that investors in the APAC region are a solid part of the growing investor coalition of the willing, taking action to decarbonize their portfolios.

Guidance from regulators and clear frameworks needed for APAC institutions on their net zero journey

“Many of our clients in the region are thinking about, or have already set, net zero emission targets for their portfolios. However, setting a target is only the first step of the journey. Our clients are thinking about their decarbonization pathway, engagement strategy and investment in climate solutions, amongst other topics, as they think about how to reach their target. We are working with our clients to share knowledge with one another, as we collectively progress towards net zero.

Katherine Cox
Head of Strategic Clients and Product, Asia

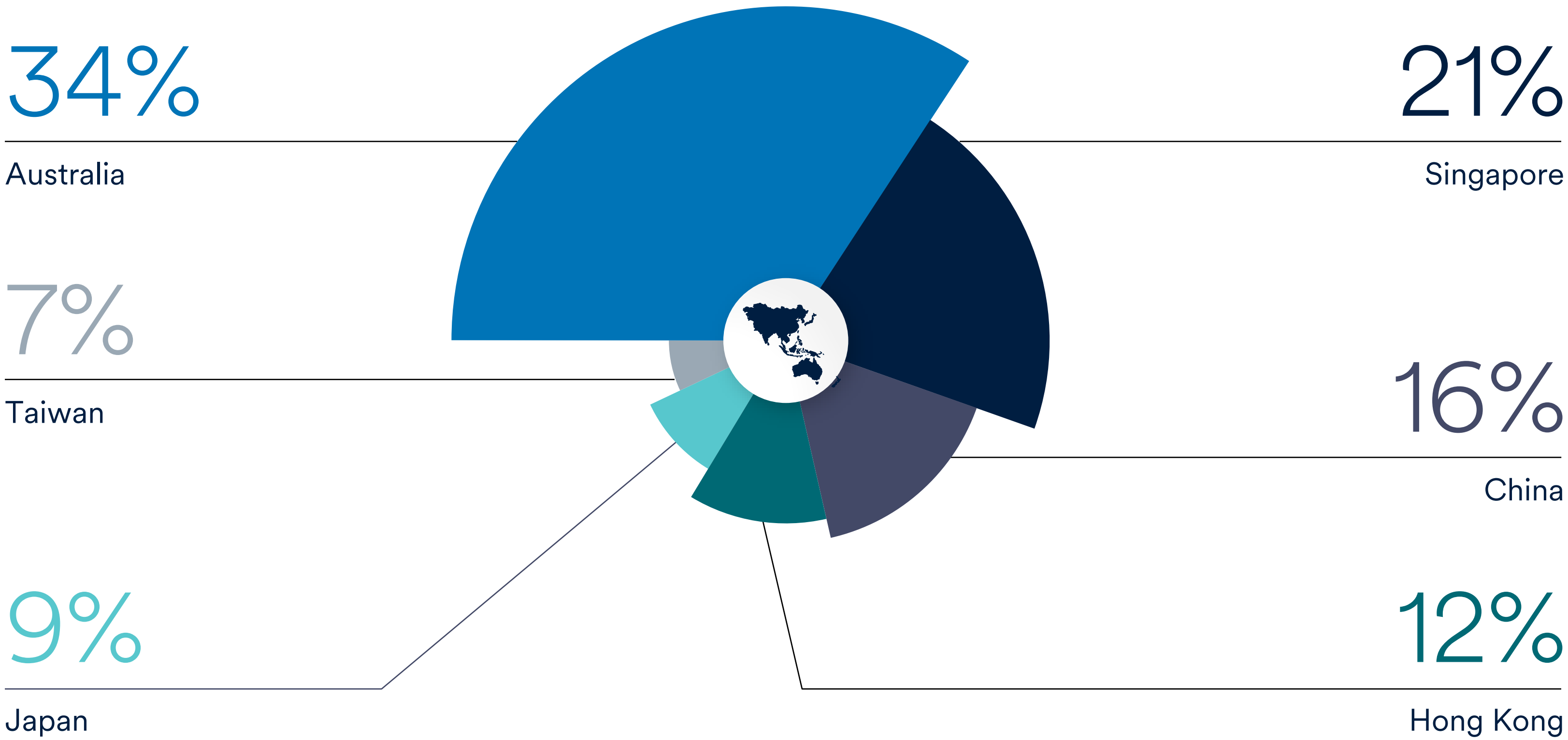
About the Study

Schroders annual Institutional Investor Study analyses the investment perspectives of 770 global institutional investors on the investment landscape, sustainability and private assets.

The respondents (770 globally and 205 in the Asia Pacific Region) represent a spectrum of institutions including corporate and public pension plans, insurance companies, official institutions, endowments and foundations, collectively responsible for US$27.5 trillion in assets. The research was carried out via an extensive global survey during March 2022. Respondents from APAC are from 6 markets.

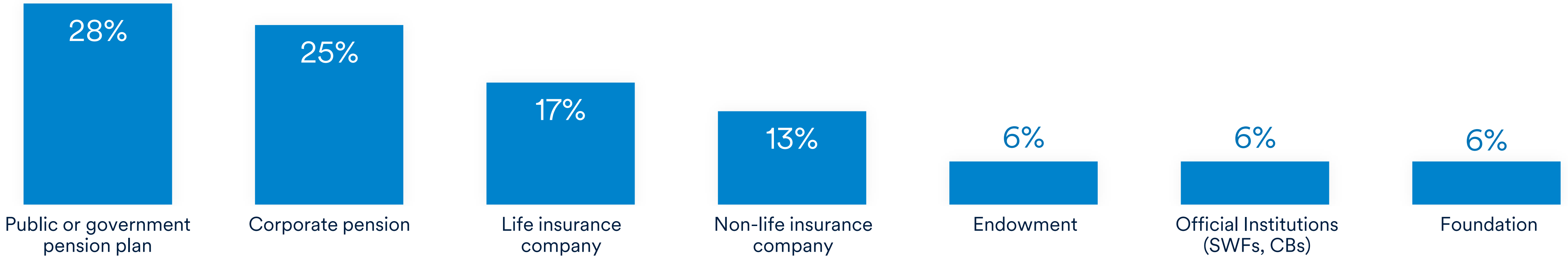
Any opinions expressed reflect our Study and interview results as at the end of March 2022. They are not intended to be a forecast or guarantee of future results. Throughout the report, we complement our findings with commentary and insights from Schroders experts.

APAC markets

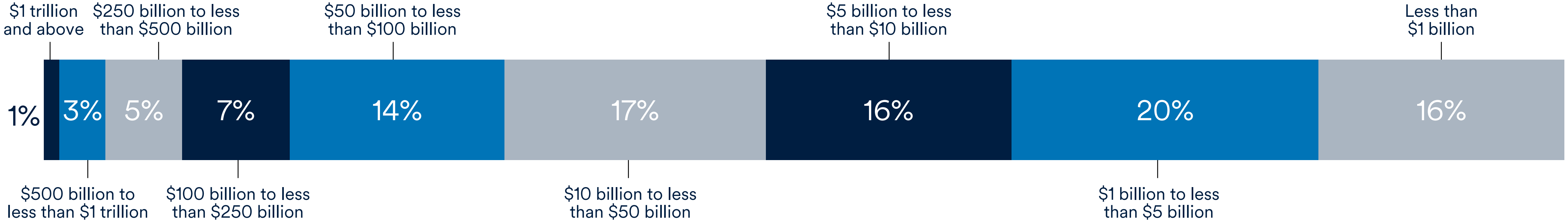


About the Study – APAC respondents

Breakdown by institutional type



Assets under management (US$)



Important information

Schroders commissioned CoreData to conduct the sixth Institutional Investor Study to analyse the world's largest investors' key areas of focus and concern including the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

The respondents (770 globally) represent a spectrum of institutions including corporate and public pension plans, insurance companies, official institutions, endowments and foundations, collectively responsible for US$27.5 trillion in assets. The research was carried out via an extensive global survey during March 2022.

Important information

Schroders

Sustainability – Asia Pacific – Institutional Investor Study 2022