

ASSET OWNERS

ASIAN INSTOS' EXPANDING AWARENESS IN ESG

The region's asset owners are slowly gaining interest in using environmental, social and governance factors to influence their investment portfolios

BY RICHARD MORROW

THE INSTITUTIONAL INVESTORS of Asia Pacific have not been as progressive as their European peers when it comes to embracing environmental, social and governance (ESG) factors in their investments. But this is slowly changing, with more asset owners looking to incorpo-

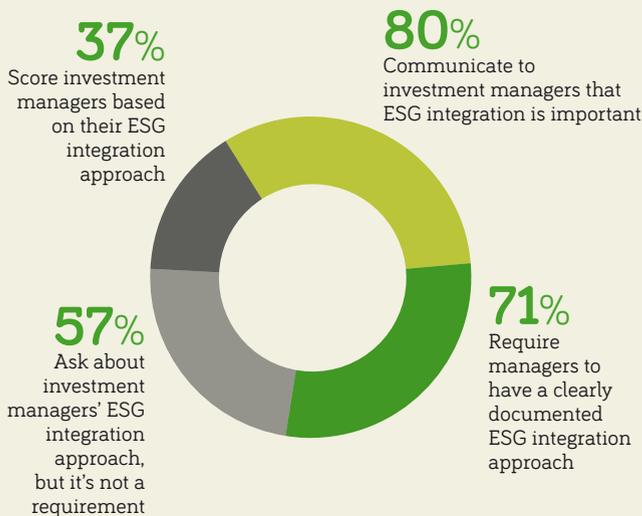
rate ESG directly in their own investment plans, and increasingly asking more of the external fund managers that they allocate funds to.

New research conducted by Cerulli Associates underlines this point. It indicates asset owners are looking to use

ESG engagement across a broadening array of asset areas, and they are asking more questions of their fund house partners. With global warming continuing to worsen, asset owners in Asia Pacific and other regions must treat with more seriousness these areas.

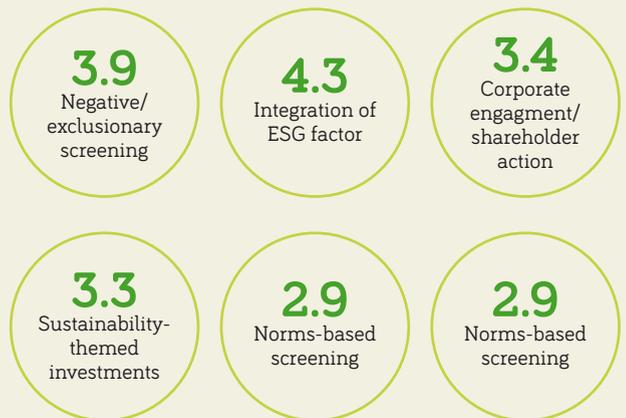
ASSESSING EXTERNAL MANAGERS

LIKE MANY ASSET owners across the world, those based in Asia Pacific hire many fund managers to handle some of their portfolio on their behalf. For investors who take ESG more seriously, this means they need to appoint fund houses that can best translate these priorities when investing. That is why 80% of respondents said they communicate to their investment managers that ESG integration is important when investing, while over 70% said they require the fund houses to have a clearly documented ESG integration approach.



POPULAR ESG INVESTMENT STRATEGIES

ANOTHER COMPLICATING FACTOR with ESG is that it can be applied through a variety of different strategies. The simplest has traditionally been negative screening – removing assets from companies deemed to score too badly (for example tobacco companies or coal producers). But this is seen as a reductive means of investing; there is a fast-growing idea that integrating ESG into investment decisions, and weighing whether companies are improving their ESG capabilities, can offer more reward. Asia Pacific asset owners appear to agree; they offered the highest scoring to ESG integration as a means of applying ESG to their investments, followed by negative screening.

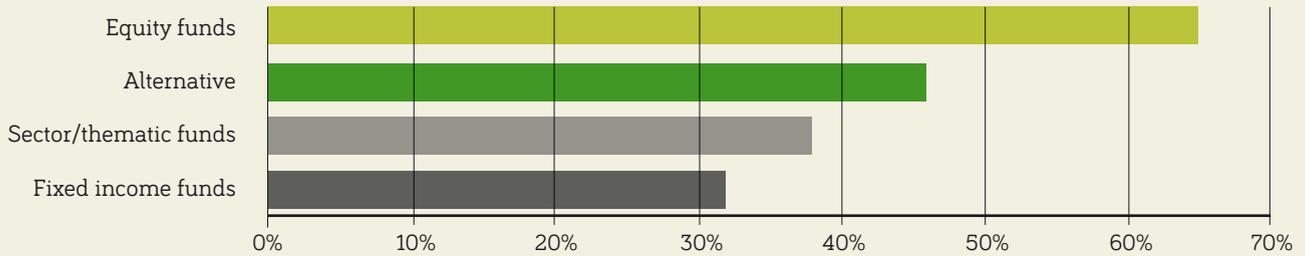


(On a scale of 1 to 5, or least to most likely to use)

All the accompanying charts were sourced from Cerulli Associates, and based upon the responses from Asia Pacific (ex-Japan) asset owners.

IMPLEMENTING ESG ACROSS ASSET CLASSES

ESG FACTORS HAVE traditionally centred around listed equities, but the factors are expanding into other areas of investment too, even among Asia Pacific asset owners. While equity funds ranked as the top asset class in which regional investors are keen to apply ESG principles over the next two to three years, a sizeable number (46%) also want to do so with alternative assets as well. The totals were somewhat smaller for sector/thematic funds (38%), with fixed income funds trailing in last (32%).



THE TOP CRITERIA FOR PICKING ESG MANAGERS

ONE IMPORTANT ISSUE surrounding ESG is its breadth. When asked what the most important facets are to picking external fund managers, asset owners felt the extent to which ESG was included into a fund house’s investment processes was most important, with the quality of their ESG disclosures and the corporate governance structures respectively following.



(On a scale of 1 to 5, from least to most important)

ASSESSING EXTERNAL MANAGERS

51.4%

The percentage of Asia Pacific (ex-Japan) asset owners that have had active engagement with investee companies

THE RELATIVELY NEWNESS of ESG to Asia’s asset owners is revealed in the level of engagement they have had with ESG over time. All-told, 51.4% of respondents said they have had active engagement with companies they invest into in place over one to three years. This figure was 31.4% for four to six years and just 17.1% said more than six.