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INVESTMENT MANAGEMENT
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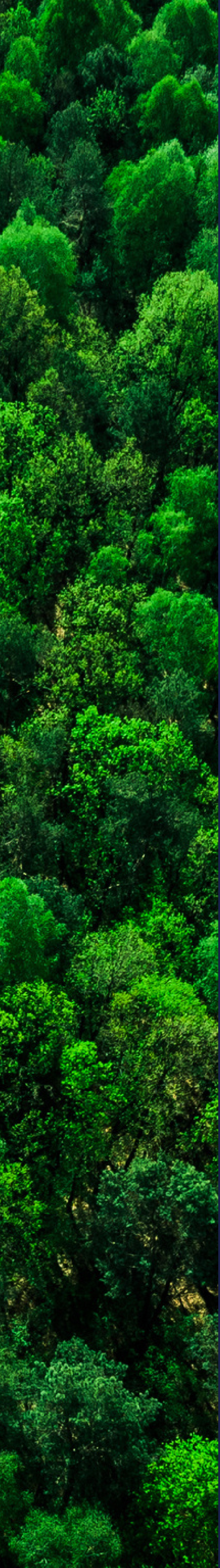

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Foreword

The start of the 2022 calendar year has been an exciting few months for IMAS. As Singapore and the global economy transition to a long-term view that COVID is endemic, we have steadily been pivoting our engagements to a hybrid setting, allowing members opportunities to meet in-person and network. We started the year with our first-ever hybrid event, the annual IMAS Regulatory Forum, which was held in-person at the new IMAS office, with simultaneous live-streaming to include a larger virtual audience. We are very grateful for the support from MAS, where Mr Tan Keng Heng, Executive Director, Capital Markets Intermediaries Department II, gave a keynote address on "Responding to Global Trends, Returning to Fundamentals". In addition to ESG-focused fintech presentations from Conser, FundApps and Matter, Stephanie Magnus from Baker McKenzie Wong&Leow and Ng Aik Kai from Simmons & Simmons JWS took our participants through the latest regulatory developments in the ESG landscape in Singapore, as well as in key foreign jurisdictions such as Australia, Europe, Hong Kong, and the UK.

On 9 March 2022, we welcomed over 800 participants to our ESG-themed IMAS-Bloomberg Investment Conference 2022, where more than 200 delegates attended the event in-person at the Ritz Carlton, and more than 600 attended virtually. We had the privilege of Mr Tharman Shanmugaratnam, Senior Minister and Chairman, Monetary Authority of Singapore, grace the event and we would like to thank him for his gripping opening address which laid out a perfect storm of challenges facing the world – challenges which the asset management industry must help provide solutions to enable investors to build a better future. It has been 2 years since the community came together in-person in such a big gathering, and it was a wonderful networking opportunity for all our attendees and a much-welcomed change. Leveraging our network of local associations, government agencies and fund ecosystem players, IMAS invited a diverse representation of attendees across the finance industry, including banks, asset owners, regulators, and service providers. More than 20% of the delegates hailed from 25 overseas jurisdictions, including Hong Kong, Malaysia, Japan, the Philippines, the UK and the US. We are deeply appreciative of the support from all of our members for making this conference a great success. While the conference has ended, the journey on stewarding capital towards new horizons needs to gain speed. In this newsletter, you will have a chance to immerse or re-experience this event through our event coverage.

Besides ESG, one of IMAS' key pillars is in digitalisation. We are proud to share that we launched our first Data Science in Asset Management course on 17 March, after almost two years of hard work curating the content. Featuring Dr Yves Hilpisch, our trainer from Germany, this live seminar course integrates data science into investment processes at an intermediate level, allowing participants to understand the different machine algorithms, as well as get their hands dirty in using Python coding to build optimal investment portfolios. Our inaugural batch of participants includes more than 30 signups from local and global fund houses. If you are interested to attend the next run for this class, do drop us an email at ilearn@imas.org.sg.

Continuing with the digital theme, we will be organising our second IMAS Digital Summit on 20 April, which will also be a hybrid event held at the Shangri-La Singapore. This digital themed event will bring you a retrospective glance at the progress the industry has made, and a look forward into the next wave of the evolution in a digitised asset management world. It will cover pertinent topics such as how new Weapons of Mass Analysis (WMAs) can be incorporated into core investment processes; digital advisories vs traditional intermediaries; blockchain; and ESG impact reporting. Registration is now open, and we look forward to welcoming you at the Summit. Do visit our Summit website to find out more.

On behalf of the IMAS team, have an excellent 2022.

Ian MacDonald
Honorary Secretary

Greater Public-Private Partnerships Needed to Steward Capital to Greener Horizons

"We need to fortify multilateralism and the rules of the game to ensure that global stability is preserved, and that might is not right. Global stability is like oxygen for the economic system — you don't realise you need it when you have it, you realise you need it when you don't have it — and it is now part of the perfect long storm. We've seen a rupture, and we do not yet have a solution." *- Tharman Shanmugaratnam, Monetary Authority of Singapore*

The financial sector faces what Mr. Tharman Shanmugaratnam, Senior Minister and Chairman of the Monetary Authority of Singapore (MAS), called a "perfect long storm" of the confluence of five forces that defined an era of global fragility: greater geopolitical insecurity, the heightened risk of stagflation, the urgency of both the climate crisis and coming pandemics, and the risk of growing divergences in growth and well-being, within and especially across nations. It was powerful to hear from speakers and participants on how the fund ecosystem is committed to sustainable finance and pushing for greater public-private partnerships to steward capital to greener horizons.

The IMAS-Bloomberg Investment Conference 2022 attracted over 800 participants from across 25 different countries, who were interested in stepping up as stewards of capital to drive new standards and solutions that can blend profit with purpose, while adapting to Asia's economic landscape.

The one-day conference on March 9 took a deep-dive into cross-industry financial trends, such as macroeconomic trends in the wake of COVID-19; Asia's transition to an eventual net-zero economy; ESG integration and adoption into financial frameworks; blended finance for better sustainable development; as well as greater incorporation of sustainability-led solutions into investment portfolios.

"Perfect Long Storm"

Speaking as the Guest of Honour at the event, Mr. Tharman called for vastly greater public-private collaboration to invest in the innovations needed to tackle the climate crisis. Governments, corporate leaders and investors need to mainstream investing in the global commons for both sustainability and global health security, and to avoid the much larger costs of inaction. There is also a need for strengthened multilateral arrangements, and a more durable US-China understanding, to preserve geopolitical stability and avoid polarisation in a multipolar world. The full recording of Mr. Tharman's speech is available on the IMAS website.

Macroeconomic trends post COVID-19

In a post COVID-19 market that's dealing with high inflation, supply chain shocks, climate degradation and geopolitical instability, investors should be on the defensive. The panel also discussed the rapid growth of Environmental, Social and Governance (ESG) debt issuance and the importance of data transparency alongside access to standardized regulations.

"Proper regulatory oversight is needed to level the playing field to encourage greater uptake of ESG initiatives without succumbing to greenwashing," said Mr Pierre-Olivier Gourinchas, Economic Counsellor and Director of the Research Department at the International Monetary Fund.

"Proper regulatory oversight is needed to level the playing field to encourage greater uptake of ESG initiatives without succumbing to greenwashing." *- Pierre-Olivier Gourinchas, IMF*

"I think we're much more cautious on the growth picture going forward and the risk is that policy is not going to be synchronised with the slower growth picture and that is going to present more risk for the economy and financial markets." *- Manraj Sekhon , Franklin Templeton*

"Unfortunately, the risk of breakage comes with financial markets. Many assets, from equities to real estate, have been bid up especially over the last two years that the valuations are very high. And from high valuations, you can have very steep drops, very significant changes, and we've seen this with tech stocks globally and may see it from other parts of the stock markets in the months to come. And these sharp drops unfortunately will reveal whether there's hidden leverage in the system, whether somebody bought it on leverage and now are facing margin calls or capital calls that they otherwise wouldn't have had to." *- Dr Jeffrey Jaensubhakij, GIC*

Transition Finance in Asia

With net-zero carbon emissions as a global target by 2050, Asia's large population – which accounts for more than half of global carbon emissions – will play a key part to the transition. A smooth transition towards a green economy for Asia requires better institutional support of technological implementation, clarity of regulation, transparency of digital tools and data that investors can use. Ms. Herry Cho, Managing Director and Head of Sustainability and Sustainable Finance at SGX, also pointed out that global environmental goals should not be seen in isolation, but rather "looked at as a nexus", through its intersections and interactions with each other.

"We've barely begun in seeing transition in terms of actually delivering the change, the hard work is ahead. This is a multi-decade transition that will not happen overnight. The importance of milestones and stepping stones is going to be key. It is going to involve tough choices from different industries across the economy."
- Andy Howard, Schroders

"An inclusive transition means that companies of any sector get access to sustainability-linked services and financial services. As the global economy becomes more interlinked, even if a company is green, they may have vendors and upstream supply chains that are not. All of us impact somebody else, so we need to include traditional sectors in sustainability-linked services."
- Benjamin Soh, STACS

"There is intersection and interaction between sustainability and transitional finance goals, and it has to be looked at as a nexus. What does that mean when you look at other objectives like ensuring there's reliability of power or access to essential services like healthcare and infrastructure. We need to come up with better analyses as to how to measure that nexus of goals." - Herry Cho, SGX

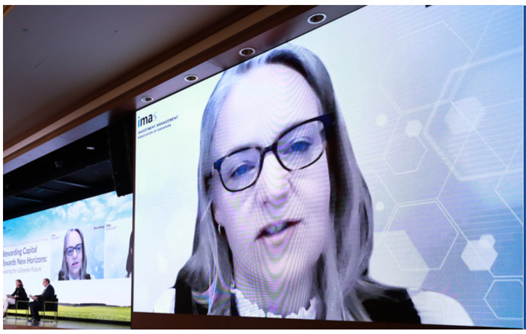
"Investors like us need to use different tools to analyse consistently how companies are doing towards achieving their objectives across all the different sectors, by engaging with companies, by voting, by engaging with policymakers, by resorting to exclusionary measures where required, as well as by developing solutions for investors to transition to these sustainable opportunities." - Paul Milon, BNP Paribas AM

Integrating ESG into Investment Frameworks

Modern investors want to tackle issues such as climate change and inequality. To create an optimal model of integrating ESG into investment frameworks requires asset managers to work with investors to understand their ESG targets and goals. One way to start is by integrating global standards, such as the United Nation's Sustainable Development Goals, into investment decision-making. Investors should also consider how to achieve ESG alignment in strategy, investment implementation and performance attribution.

"Due to COVID, we see a huge surge for ESG — it is a key demand investor expected out of asset owners. People are looking to put their money where they can protect the future generations, forcing asset managers and owners to broaden their product offerings."
- Patricia Torres, Bloomberg

"There is no optimum approach in ESG. We have both active and impact products and need to diversify our screening. The best way might be to support medium ESG companies to create a two-way learning and supportive approach" *- Paul Schofield, NNIP*



"Investors have a wide range of needs and companies should provide them with a wide range of solutions by starting to expand their knowledge bases." *- Erin Leonard, HSBC AM*

"The top-down approach might be ideal for ESG. There are many models such as climate, macro-eco and financial modelling to understand and capture the impact metrics as well as study the risks and opportunities present."
- Willemijn Verdeegal, Ortec Finance

Carbon Credits, Boon or Bane

More than 50% of conference participants said they would invest up to 5% of their portfolio in carbon offsets over the next 18 months, while only 9% said they would invest up to 40%. Panellist agreed that long-term commitment to carbon neutrality is required but more is needed to be done to set the right conditions for carbon credits trading that factors the quality and supply. Panellists also reiterated the need for increased public-private collaboration to solidify long-term commitment to sustainable investing.

"When it comes to decarbonising your portfolio, the very first objective is to ensure that mitigation efforts are done properly. What are the targets of reducing the carbon footprint of your portfolios at different steps in time to ensure that you are leading to carbon neutrality by 2050? For example, if you are an asset owner, you need to reduce your carbon footprint of your portfolio on a 2:19 basis to –16 to –29 by 2025."

- Jean-Jacques Barberis, Amundi

Blended Finance

A group representing US$130 trillion in assets across banking, insurance and investment committed to net zero emissions by 2050 during COP26, but it is still a struggle for blended finance to take off. Instead of a capital shortage, panellists shared the lack of the right projects and taxonomies as the reason. Investment companies are encouraged to look beyond traditional metrics, risks and returns for projects they fund, and to consider the long-tern benefits for society.

Stronger Together

The IMAS-Bloomberg Investment Conference 2022 highlighted the importance for public-private partnerships and individual and collective action, as the world embarks on a decarbonization journey.

“Investing for the future is important and pressing,” said Eleanor Seet, chairperson of the IMAS-Bloomberg Investment Conference Organizing Committee, and President and Head of Asia ex Japan at Nikko Asset Management. “We as a community cannot neglect the need for sustainable investment. It is both an individual and collective journey.”

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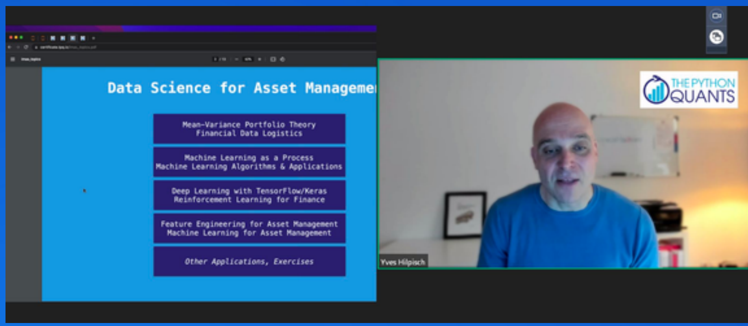
Data Science in Asset Management



IMAS recently launched our inaugural Data Science in Asset Management: Future of Investments course, which is a live seminar series taught by Dr Yves Hilpisch, which runs from March till May over 15 hours of live lessons.

The first run of the course has been very well-received, with more than 30 sign-ups from local and global fundhouses, with representation from associates to directors.

This live seminar course integrates data science into investment processes at an intermediate level, allowing participants to understand the different machine algorithms, as well as learn how to use Python coding to build optimal investment portfolios.

While the classes of the first series are still undergoing, participants have already provided stellar feedback for the course, as a majority have stated that they will be incorporating what they have learnt into their existing work to execute sophisticated tasks, such as automating data processing and drawing insights from data.

If you are keen to enroll in the next run of the course, you could indicate your interest via this link.

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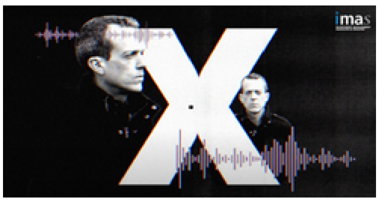


About the course:

Course instructor Tom Hardin was previously a young investment analyst working in the hedge fund industry in the United States. In 2008, as part of a cooperation agreement with the U.S. Department of Justice, Hardin assisted the U.S. government in understanding how insider trading occurred in the investment management industry. Known as "Tipper X," Hardin became one of the most prolific informants in securities fraud history, helping to build over 20 of the 80+ individual criminal cases in "Operation Perfect Hedge," a Wall Street house cleaning campaign that morphed into the largest insider trading investigation of a generation. With his tipoffs, the FBI was able to crack the largest insider trading ring on Wall Street, leading to the arrest of Raj Rajaratnam, the founder of, and subsequent closure of Galleon Group, then one of the largest hedge funds in the world.

Through vivid storytelling, Hardin shares his journey down the slippery slope into unethical and illegal activity, highlighting the psychological traps which pulled him into a spiral of rationalization. Throughout the course, Hardin introduces the behavioral ethics biases which impacted his decision-making, including cognitive errors, organizational pressures and situational factors. Hardin will also provide organizational solutions for preventing unethical behavior and a framework for recognizing its warning signs.

In case you missed it

Watch on imas.org.sg

IMAS 8th Regulatory Forum

28 Jan 2022 | Forum

The IMAS 8th Regulatory Forum was our first hybrid event ever, held at the new IMAS office as well as virtually. We featured a keynote address by Mr Tan Keng Heng, Executive Director & Head of Capital Markets Intermediaries Department II at MAS, and included presentations on the key ESG regulatory developments in Singapore and in key overseas jurisdictions. We also featured three ESG solutions from our Fintech community. To watch a replay, click here.

The Singapore Budget Talk 2022

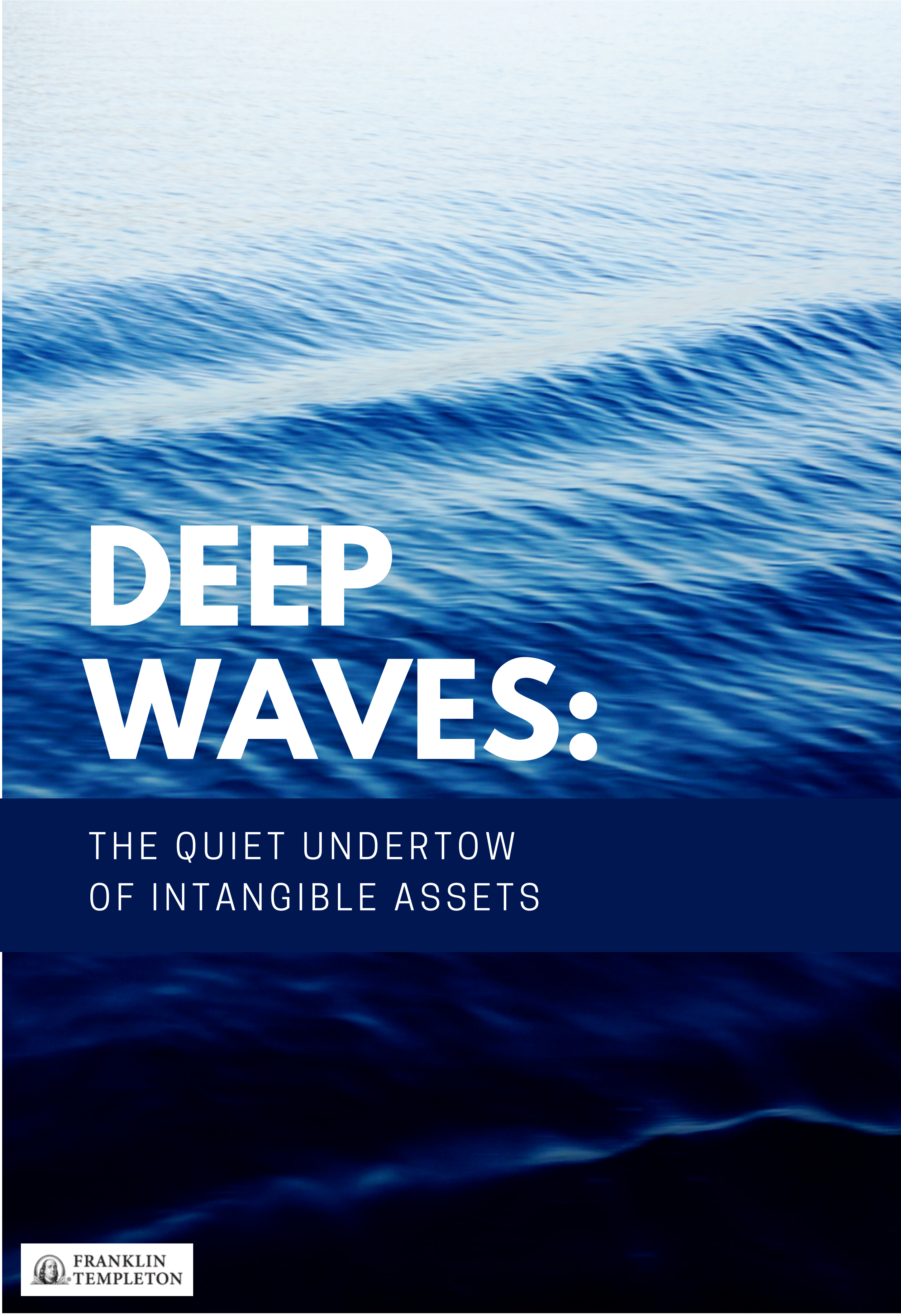
25 February 2022 | Webinar

In this webinar, presenters from Deloitte, led by Michael Velten, Investment Management and Real Estate Sector Leader, shared on the key highlights of the Singapore Budget 2022, and how these would affect the asset management industry in Singapore. Topics covered include the proposed Minimum Effective Tax Rate, GST, carbon taxes, and specific tax schemes for investment managers. To watch a replay, click here.

IMAS 14th Regulatory Roundtable

25 March 2022 | Roundtable

At this roundtable, participants discussed, in small group breakout rooms, the most pertinent regulatory issues affecting the industry, including the implementation of the MAS Guidelines on Environmental Risk Management ("ENRM Guidelines") and the advertisement of income statistics. The event also featured presentations on the ENRM Guidelines and the MAS FRC Framework from Ernst & Young LLP, led by Brian Thung, Asean Financial Services Leader. To watch a replay, click here.



DEEP WAVES:

THE QUIET UNDERTOW OF INTANGIBLE ASSETS

FRANKLIN TEMPLETON

INTRODUCTION

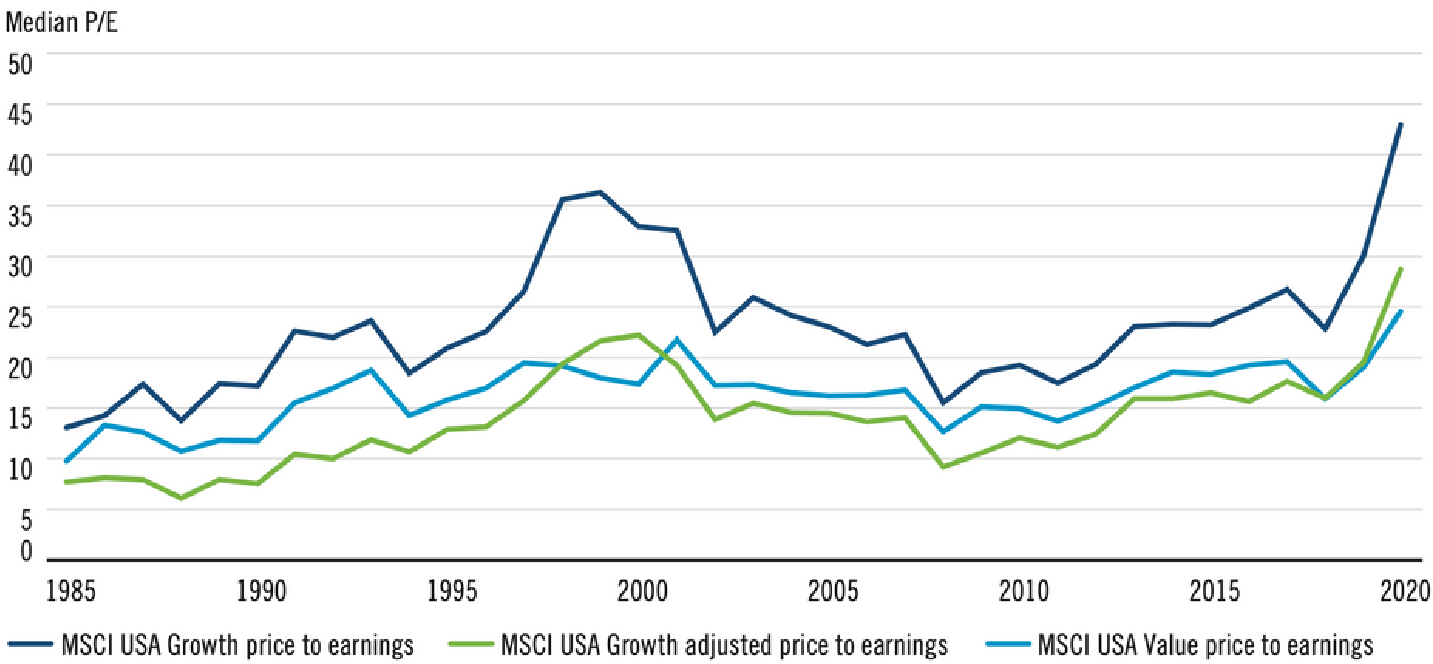
Our definition of assets and their economic value has been changing over time. In the 20th century, machines, factories, and transportation were the assets on a company's balance sheet. Today, value is dominated by intangibles. Brands, technologies, patents, copyrights, synergies, and business models determine the lion's share of company worth. At this point, 90% of the capitalization of the S&P 500 Index is accounted for by intangibles, a huge jump from 36% in 1985. This paper builds on the technological innovation and taxation themes presented in Deep Water Waves, a paper published by the Franklin Templeton Investment Institute, to explore the definition of intangible assets and draws conclusions on the implications for investors. Further, the paper dovetails with the Investment Institute's Franklin Templeton Thinks Equity Markets piece, Growth or value? For active managers it can be both. All things considered, the evolving treatment of intangible assets may be one of the most impactful trends in the global economy, making them impossible to ignore.

IMPACTS ON VALUE AND GROWTH EQUITY CLASSIFICATIONS

Current accounting treatment's failure to capture internally generated intangible assets has an impact on many topical themes. A better understanding of accounting nuances can shed light on the growth versus value debate. To put it simply, if intangibles are more fully considered, migrations of stocks between value and growth happen.

To illustrate our point, we adjusted the price-to-earnings multiple of the index representing growth stocks by adding back our proxy of internally generated intangibles: 100% of R&D and 30% of selling, general and administrative (SG&A) expenses (see Research Methodology in Appendix of full paper). Interestingly, the adjustment makes the valuation of growth stocks look more in line with the standard valuation of the portfolio of value stocks. While this is just preliminary analysis and further research will be needed, it highlights that incorporation of intangibles may significantly alter the current definitions of value and growth.

Active management strategies have been evolving and pure reliance on traditional accounting measures and their mean reverting properties is less common. Investors who require exposure to this traditional definition of value do it via indexing. Leading style indexes provide useful information about the relative performance of traditionally defined value and growth stocks and investment strategies based on such indexes can be profitable if executed nimbly. However, investors should be aware of the inherent limitations before making any investment decision.



Source: Analysis by Franklin Templeton Investment Institute, FactSet. No amortization is assumed. Indexes are unmanaged, and one cannot invest directly in an index. They do not include fees, expenses or sales charges. Important data provider notices and terms available at www.franklintempletondatasources.com.

STANDARD AND INTANGIBLE ADJUSTED PRICE-TO- EARNINGS

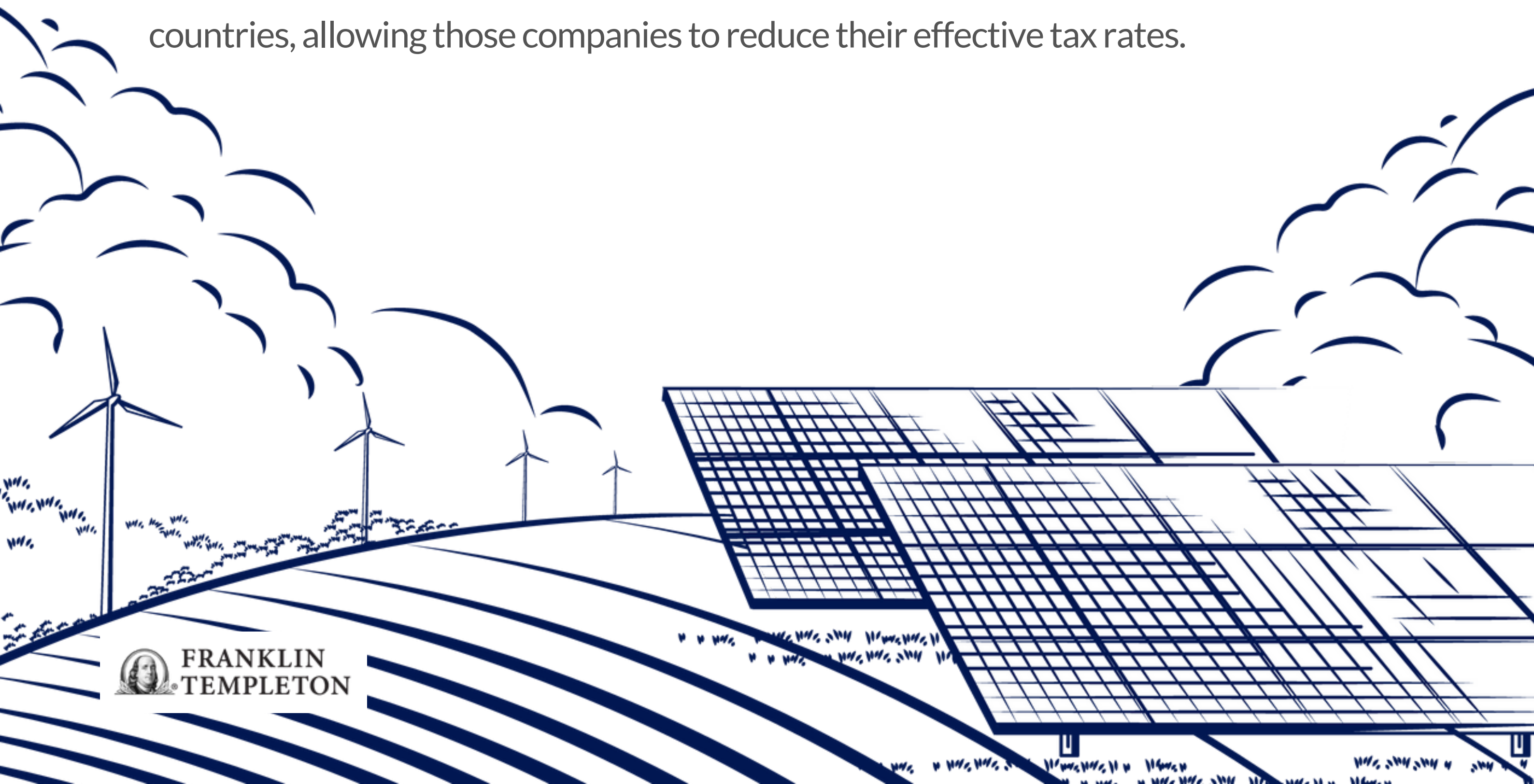
Exhibit 1: Median price- to-earnings for selected MSCI indexes, 1985–2020

FRANKLIN TEMPLETON

INTANGIBLES ARE A KEY ISSUE IN ONGOING GLOBAL TAX REFORM

2021 has brought some significant developments to international tax policy. The G7 (Group of Seven), a group of the world's richest countries, agreed to make big multinational companies like Amazon, Meta Platforms FB and Google pay more tax in the countries where they are selling their products or services. The plan also backs a global minimum tax rate to limit tax competition between countries. Then, 130 OECD countries have also supported the initiative.

Intangibles-heavy companies, or at least some of them will undoubtedly be affected if the proposed changes come into effect. Intangible-intensity of multinational enterprises is a big part of the ongoing global tax reform. Intangible assets are easy to move around geographically. Hence, big companies can arbitrage differences in tax regimes. Increasingly, income from intangible sources has migrated to low-tax countries, allowing those companies to reduce their effective tax rates.



INTANGIBLE ASSETS ARE OFTEN STRONGLY CONNECTED WITH ESG GOALS

Intangible assets include brand and human capital, which reflect how companies treat their people, communities, and the environment, and how a company achieves its ESG investment goals. The shift towards an era of intellectual property makes the incorporation of relevant ESG factors crucial to the evaluation of a company.

Consumer and institutional investors' preferences are evolving. The asset management industry needs to respond to this demand. Consequently, the prominence of sustainability-oriented investment has been accelerating over the last decade. In 2020, global sustainable investments reached more than US$35 trillion. Exhibit 12 portrays the growth of sustainable assets in five major regions. Growth has been steady everywhere but in Europe, which was the leading region in 2018.

Predictably, growing intangible-intensity correlates with the widening adoption of ESG, as ESG can fill the value creation gap in financial reporting. Increased focus on the formation of intangible assets through ESG investments can improve the informational usefulness of sustainability reports. Further, the ESG value proposition can eventually transform a financial reporting system so that more intangibles are captured in financial statements.

Given the evolving macroeconomic backdrop and long-term investment drivers, companies will be under pressure to change at almost every level. Those that are good corporate citizens are already better placed for the changing consumer and investor preferences.

The adoption of a wider definition of 'quality' that includes ESG factors will be critical in the newly emerging investment landscape. Markets have been adopting socially responsible criteria which have largely benefited investors. However, accounting practices have not kept pace. A more readily implementable and standardized ESG framework is needed to further motivate companies to make responsible strategic decisions and to fill the value creation gap in financial reporting.

Financing the energy transition in Asia

Public finance will continue to be instrumental, but private finance will also have significant roles to play

As published in The Business Times

Sylvia Chen
Senior Sustainable Officer,
Amundi

CLIMATE change is a global threat and energy consumption is the main source of human-induced greenhouse gas emissions. Where more than half of the world's population resides, Asia consumes over 40 per cent of global energy while releasing over half of global carbon emissions as of 2020. As the region prepares for the next wave of development, energy transition will be critical in the fight against climate change.

This energy transition needs to be multifaceted - bridging the gaps of public-private financing, electricity access and stability, training and reskilling of workers, and other socio-economic issues - all as Asia maneuvers the delicate balance of economic development, climate ambitions and energy security.

Progress of energy transition

Asia has made good progress towards energy transition over the past decade. Asia's Energy Transition Index (ETI) for 2021 - a benchmark measure of a country's energy transition progress based on the current energy system and transition readiness - has improved at the fastest rate of 6 per cent over the past decade, surpassing all other regions in the world.

At the same time, an increasing number of countries in Asia are announcing more aggressive climate pledges. In 2020, South Korea and Japan pledged to achieve "net zero" by 2050, which have been legally enshrined into their respective laws. Shortly after, China announced plans to peak its carbon emissions by 2030 and become carbon-neutral by 2060. Just recently, Singapore also announced a new target of reaching "net zero" "by or around mid-century" during its annual Budget.

However, the current pledges made by countries still leave room for further enhancement, including addressing the role of coal and its phase-out.

From coal to renewable energy

Compared to other parts of the world, Asia faces a sticky problem - coal makes up about half of the region's energy mix. In certain markets, coal is still subsidised by governments, and a coal exit should encompass phase-out from coal projects together with the removal of any policy support.

Another problem is the risk of stranded assets, as coal-fired power plants in Asia are relatively young at 13 years on average, way below the average age of 30-40 years in developed markets.

While coal phase-out is a major step in energy transition, this should be coordinated with sustained expansion of renewable energy. The falling cost and increasing availability of clean energy solutions offer tremendous opportunities in renewable energy expansion where solar and wind are leading the growth in Asia.

Across Asia, power generation is often state-owned or affiliated with a monopoly or oligopoly position for national interest and security reasons. With the ambition to expand renewable energy aggressively, countries need to start allowing private sector financing and other market players to come into the picture. An example of this is in Vietnam, where its electricity law was amended to allow for private sector investment in power infrastructure.

Innovative solutions and regional collaboration are necessary to support this transition. The Energy Transition Mechanism (ETM) announced by the Asian Development Bank (ADB) at COP26 aims to retire nearly 50 per cent of coal-power plants in Indonesia, the Philippines and Vietnam within the next 15 years.

The Asean Power Grid - an initiative to connect the region and create an integrated South-east Asia power grid system - enhances grid accessibility on a regional level. We have also seen the popularity of corporate renewable powe purchase agreements (PPAs), where investors can engage companies to reduce their Scope 2 emissions.

Environmental and social risks of climate change

The fight against climate change also brings about inevitable risks. Asia stands out as one of the regions most exposed to physical climate risk, as millions of people are living in coastal areas. On the social front, the United Nations estimated that climate change could force an additional 120 million people into poverty by 2030. Ensuring that the transition is inclusive and equitable will require coordinated efforts where key stakeholders must take into account both environmental and social issues.

Embarking on a rapid energy transition in Asia could also lead to job transformation, replacement or loss if not planned properly. Government efforts are necessary to encourage the development of alternative industries and creation of jobs to avoid hollowing out communities in need.

At the same time, based on the International Labour Organization's research, the green economy could see net job creation of some 14 million in Asia. With Asia's relatively nascent renewable energy market and the need to reskill and upskill the existing large workforce, more and more countries and businesses have these initiatives as top priorities in employment development.

Financing the energy transition

Lastly, we cannot look at energy transition without factoring in costs. Energy transition requires a massive increase in clean energy investment. According to the International Energy Agency (IEA), clean energy investment needs to expand by more than 7 times to above US$1 trillion under a net-zero scenario by 2050.

Although climate financing has accelerated with the types of instruments available, it is still short of the US$100 billion a year commitment made at COP15. Public finance will continue to be instrumental in Asia, but private finance will also have significant roles to play in climate financing. A possible solution is the introduction of green bonds, use-of-proceed bonds that fund eligible projects with positive climate and environmental benefits. Green bond issuance from issuers in Asia has reached a milestone of more than US$100 billion in 2021. Singapore's commitment during Budget 2022 to issue S$35 billion of green bonds will likely give green financing in the region a further boost.

A collective effort

Climate transition in Asia has its distinct challenges. Balancing economic development, climate actions, and social inclusion will be critical to ensure a just transition pathway that leaves no one behind.

Building a conducive policy environment and directing capital and funding into clean energy areas are essential to achieve climate goals. This will require a global effort and support from all stakeholders - from developed to developing countries, from public to private sectors, from communities to individuals - to reach shared goals.

BNP PARIBAS
The bank for a changing world

When it comes to sustainable private capital, APAC leads the way.

Private capital is booming in the Asia-Pacific, and so is sustainable investing. The region now leads the world in bringing these two investment strands together with a strong emphasis on shared values between private asset owners and managers.

The BNP Paribas ESG Global Survey 2021 shows that 43% of Asia-Pacific (APAC) investors incorporate ESG (environmental, social and governance goals) into private market assets, compared to 38% of respondents globally. The approach varies by country. Investors in China tend to focus on incorporating ESG into private equity and debt, as do those in Singapore, whereas in Australia the focus is on real estate investments.

Why are ESG and private capital converging in APAC? Improving the ESG profile of an asset is likely to increase its future value, given that more and more global capital is chasing ESG opportunities. And private markets grant APAC's investors greater power to define the ESG profile of the assets they are acquiring, because a small number of investors participate in a single deal, so each holds a proportionately larger ownership stake than do investors in listed companies.

Aligned on alignment

The survey also shows that APAC investors place significant importance on alignment between the ESG agendas of asset owners and managers. "ESG considerations form an integral part of our Alternatives' team's investment process. When we look at investments in private equity funds an co-investments, our due diligence includes an assessment of ESG performance, potential risks and scope for improvement. Where applicable, we will seek to engage and influence the private equity managers to improve underlying businesses for long-term sustainability" says Michael Woolley, director, sustainability at Eastspring Investments.

Discussing the way ESG in alternatives is handled by the Australian superannuation fund, UniSuper Governance and Sustainability Manager Sybil Dixon says: “We seek to have good alignment with our private market managers; we are quite explicit in how we expect them to manage ESG risks. We have a small number of private market mandates that provide us a focused range of opportunities, rather than allocating to a large number of funds.”

At a time of increasing urgency around climate action, private capital is going to play a vital role in supporting the race to net zero. APAC’s early lead may well be a function of this strong belief in making sure that asset owners and managers are on the same ESG page.

Rights (and wrongs) of sustainable healthcare investment

Why affordability and accessibility, rather than the conventional benchmarks of sustainability, have become the key metrics of future performance

HSBC

The global trend towards sustainable investing may be unstoppable, but investors who let conventional ESG (environmental, social and governance) benchmarks guide their decisions are going to miss some important dynamics in the sector. While environmental themes garner most of the headlines in the financial pages, important though they are, they are not the most important facet of sustainability in healthcare, says Dr Michael Schröter, co-head at the Global Equity Sustainable Healthcare Fund.

In this emerging era of squeezed healthcare budgets and growing demand for care, it is the S, not the E of ESG that matters most. In short, ensuring the broadest possible access to healthcare across a given society within tight financial constraints is going to become a central theme in Europe, the US and beyond.

In many cases, companies routinely increase prices for their products twice a year in the most important healthcare market – the US – without adding any new value, says co-head at the fund, Dr Nathalie Flury. Such an approach will meet with increasing resistance, she adds. “It is not sustainable from an affordability point of view.”

This is a blind spot for a number of healthcare investment funds with a sustainability label, which do not give value and affordability its due weighting, says Flury. “They invest in large cap names and add their ESG filters – but if you look at their pipeline and pricing, there are no sources where you can receive more details on the social part of the ESG equation for healthcare companies,” she says.

A new approach

This is central to Global Equity Sustainable Healthcare's approach. "We could not buy this data in; we had to build out ourselves," says Flury. "You have to complete data by talking to healthcare management and key opinion leaders, going to the literature to assess the value of a product and what makes health economic sense – and what it brings to society."

Things are changing slowly. Big pharma has started to address this issue, and is starting to focus more on demonstrating better outcomes and their value to payers. However, it is in the mid market where much of the innovation in value, efficacy and outcomes is happening. A therapy that reduces a hospital stay and returns a patient to work, saves on the cost of care and gets that individual back contributing to economic growth and to the tax base, for example. "When a new product is brought to market, increasingly the developer will look to show the health economics data and the cost implications to the system," says Flury. "If you price a therapy at a fair price that makes sense on a health economic level, payers will pay."

An increasing number of biotech players are conducting such research. Independently the US Institute for Clinical and Economic Review (ICER) also analyses products and calculates an optimal and fair price for each of them, boosting the chances of reimbursement in the US if the institute attests positive health economics, says Flury. Global Equity Sustainable Healthcare applies such an approach broadly in conventional biotech, and beyond pharmaceuticals, as well, looking for innovation across products, business models and services that help make health budgets go further or that improve healthcare access equity.

Clinical and cost benefits combined

The fund is interested in drugs that offer clinical efficacy and competitive pricing to health systems, either by simply coming in cheaper than rivals or, more often, by offering to save payers other costs. Such products could obviate the need for adjacent therapies, prevent the progression of a disease to a more complex and expensive stage, or prevent rehospitalisation. "We identify companies that offer that clinical benefit along with cost savings," says Schröter.

The fund also pursues investments beyond the molecule in areas including medical devices, services, diagnostics and digital, which integrate technology into care pathways to drive better outcomes and save costs. One example is diagnostic services paired with medical devices, such as insulin pump/continuous glucose monitor combinations that can dramatically improve diabetes care management and patient lifestyles.

Innovators that work out how to bring "big" data to bear to improve outcomes by identifying optimal treatments, or ways to target follow-ups for the most at-risk patient groups to ensure they receive timely interventions are another example. Wearables that help patients work with clinicians to manage their conditions better, and digital therapeutics – for example, apps that help patients to change behaviours and manage their mental health – are further exciting areas of promise.

It is an investment approach that offers a clear win by identifying opportunities that innovate beyond the conflicting trends of rising drug costs and constrained healthcare budgets. Along with the more sustainable health systems that such products will help to create, a sustainable stream of profits for investors will be established over the long term.

Why responsible investing?

- 91% of assets under management met NN Investment Partners (NN IP) strict ESG criteria. That's EUR 274 (USD 300) billion put to work to help build a more sustainable future.
- NN IP sets interim emission-reduction targets to reach net zero by 2050, 37% of assets are managed in line with this goal.
- Carbon emissions related to NN IP's investments were cut by 47% compared with benchmarks, a reduction of 5.1 million tonnes of CO2 or more than 1,000,000 car trips around the world.

Recognition of the need for concerted action to tackle the world's most pressing challenges is growing fast. As a result, investors around the globe are demanding more investment options that put their money to work. Their ambitions include promoting sustainability and supporting the development of solutions to issues from climate change to economic inequality.

NN Investment Partners has earned its reputation as a leader in responsible investing by helping clients realize their ambition to make the world a better place while earning attractive returns. We deliver for clients year after year because our approach is based on a firm belief in the goals and principles of responsible investing. That belief and our unwavering commitment to putting it into action are what set us apart.

NN investment partners

Our belief in responsible investing

Responsible investing (RI) lies at the heart of everything we do. We started practising responsible investing more than two decades ago. Our commitment draws on a long tradition of working collectively for the common good that for centuries has allowed the Dutch to prosper on land reclaimed from the sea.

We are passionate about contributing to the transition to a sustainable, low-carbon economy that benefits all our stakeholders and society at large. Our role as a responsible asset manager begins with offering innovative financial products that help our clients achieve their ambitions. We then invest the capital entrusted to us in line with our principles to deliver attractive financial returns while driving progress towards our non-financial goals.

"We owe it to our stakeholders to take action and offer investment solutions to shape a sustainable future"
Adrie Heinsbroek, Chief Sustainability Officer

We are aware of the challenges confronting the world today, from global warming to social inequality. We feel a deep sense of responsibility to our many stakeholders that extends far beyond short-term financial gains. Thanks to our clients, we can make a lasting difference in a far broader context by putting the capital we manage to work.

"Our adaptive, research-driven approach to investing allows us to take advantage of market opportunities while supporting sustainable outcomes"
Valentijn van Nieuwenhuijzen, Chief Investment Officer

NN investment partners

Unlocking value, improving returns

The consistent integration of environmental, social and governance (ESG) factors in NN IP's investment strategies enables us to unlock potential financial value by identifying risks and opportunities in a rapidly changing market. For our clients, this means their money is directed to companies and projects that are poised to thrive in the shift to a greener, more inclusive economy. And that means a sustained improvement in the returns our products provide, as shown by the attractive absolute and relative performance of our Sustainable and Impact strategies.

By using our influence as an investor, we actively steer the companies and governments we invest in towards greater transparency and more sustainable behaviour. We believe that our consistent engagement delivers results that benefit shareholders, bond investors and stakeholders. These two elements – putting capital to work and improving returns – inform every aspect of our approach. In short, we're committed to responsible investing because it matters, and it works.

For more details, get the full NN IP Responsible Investing Report on Responsible Investing Report 2021 | NN Investment Partners (nnip.com)

Outlook 2022:
Sustainable Investment

Sustainable investing is maturing – and so are the policies, disclosures and debates that surround it.

Schroders

ESG (environment, social and governance) investing has entered the mainstream.

According to analysis by Bloomberg, ESG assets soared to an unprecedented $37.8 trillion by the end of 2021 and are predicted to grow to $53 trillion by 2025, which would be a third of all global assets under management.

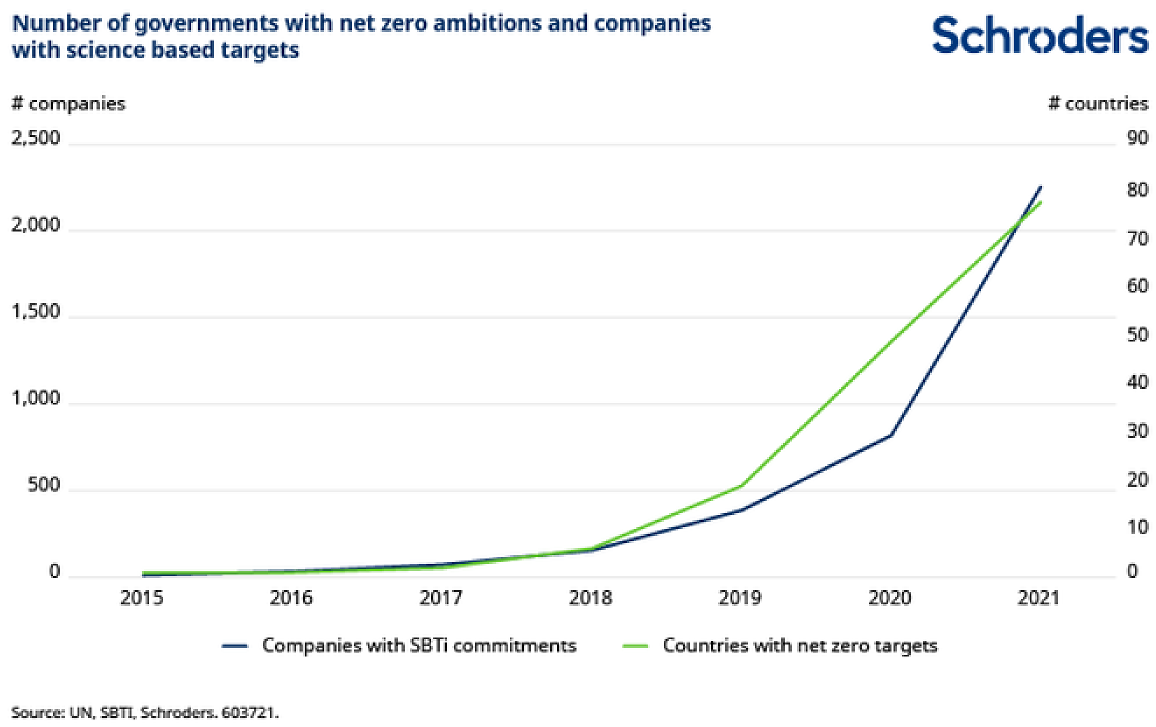
The connection between investment returns and sustainable outcomes is becoming deeper and stronger. Companies' licenses to operate, the sustainability of their business models, and the returns to their investors are increasingly interconnected.

ESG priorities to watch – including climate change, biodiversity and natural resource constraints

Climate change has long been a focal point for sustainable investment and is, undoubtedly, a critical concern. But exponentially increasing pressure on finite environmental resources is exposing cracks across a spectrum of environmental dimensions, bringing a wider range of natural capital issues into focus.

Last year's COP 26 climate summit in Glasgow underlined the growing expectations on the private sector to pick up the mantle of action. So it is now companies rather than governments making commitments around sustainability issues such as carbon emissions, deforestation and methane.

For example, a growing number of companies – more than 1,000 including Schroders – have adopted climate action targets through the Science Based Targets initiative (SBTi) in line with the Paris Agreement goals to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.



Asset managers have an ability to engage with companies to drive change and different outcomes, and to hold them to account. Our active ownership team has set climate change and biodiversity and natural resource constraints as key priorities for engagement.

We will also be looking at the S and the G parts of the equation. We see human capital management as well as diversity and inclusion and human rights as critical factors for the sustainability of our investments. And governance – which has long been a focus of the asset management industry – will remain a focal point, particularly in light of increased scrutiny of voting records and shareholder resolutions.

Increasing regulatory scrutiny globally hitting all parts of the value chain

Sustainable finance regulation keeps evolving at a dizzying pace and one pattern that we see is that what used to be a predominantly EU phenomenon is increasingly "spilling over" to other regions, and most notably Asia.

Everyone in the investment value chain is facing similar levels of regulatory change over sustainability practices. For example, asset owners such as pension funds and insurance companies are targeted by the same or similar transparency and risk management obligations as asset managers. We see this not only in SFDR in the EU but also in the UK rolling out the Task Force on Climate-related Financial Disclosures (TCFD) requirements for occupational pension funds last October, and in the US Department of Labor's plans to provide an update on the use of ESG in managing assets or retirement plans.

Intermediaries such as advisers are targeted too. We see this in the new requirement within the EU legislative framework MiFID II for advisers to include clients' sustainability preferences in their suitability assessment, which will come into effect this August. References to the possibility of a similar course of action were made in the UK's Greening Finance Roadmap last October.

ESG data and rating providers are not off the hook either. There are increasing calls for further transparency in ratings methodologies and better management of conflicts of interest. Concerns have also been voiced by European and global regulations, such as the International Organisation of Securities Commissions (IOSCO), around the increasing concentration in the market and the lack of consistency in ESG ratings.

Last but not least, companies may be at the end of the investment value chain but company disclosures are certainly at the centre of all sustainability-related transparency. Everyone else in the value chain, from asset managers to ESG data and rating providers, is dependent on companies for sustainability data. The most hotly anticipated development in this space is going to be the output of the recently launched International Sustainability Standards Boards by the IFRS Foundation.

One key challenge we see for the market (and further into the future) is how to deal with regulations not being sequenced in the right order. A specific issue is how the market will treat disclosures of sustainable investment products that have come into effect before the corresponding reporting requirements for companies. The most immediate test in 2022 is going to be the figures that will ensue for investment products' alignment with the EU Taxonomy. Given that the EU Taxonomy remains incomplete and that companies have not started reporting on their Taxonomy alignment yet, many products are likely to report 0% or figures that may not be very meaningful in the absence of underlying data.

Moreover, with differences between national regulations already apparent, we are likely to see an increasingly complex regulatory picture of the industry, despite stated ambitions for global alignment.

FINANCING ASIA'S SUSTAINABLE FUTURE

by Goh Rong Ren,
Portfolio Manager, Fixed Income,
Eastspring Investments

The pressing need to build climate resilient infrastructure, and the potential boost to economic growth from such an endeavour has made green infrastructure a priority for many Asian governments. We expect the Asian bond market to play a key role in helping to finance these investments, which will in turn create more diverse opportunities for bond investors.

The Asian Development Bank estimates that Southeast Asia alone requires USD210 bn/year in vital climate compliant infrastructure between 2016 and 2030. For Asia, the amount is USD1.7 tr. Significant investments will need to be made in five major sectors - power, transportation, buildings, industry, agriculture.

According to research, climate vulnerability not only affects countries' cost of capital, the macro financial risks from climate change can also amplify sovereign risks[1]. It is therefore not surprising that climate-resilient infrastructure is on many governments' radar.

Besides the need to build infrastructure that can withstand climate driven shocks in the future, the potential boost to economic growth and job creation from such activities also increases the appeal for governments to prioritise green infrastructure post the COVID-19 pandemic. The Asian bond market is expected to play a key role in helping to finance these investments.

[1] Buhr et al. 2018; Beirne, Renzhi, and Volz 2020; Volz et al. 2020

RISING TO THE GREEN CHALLENGE

Asia's sustainable bond market has an outstanding stock of USD388.7 bn at the end of September 2021, accounting for 19.2% of the global sustainable bond market[2]. In the first nine months of 2021, Asia's issuance of Green, Social and Sustainable bonds grew 80.6% from 2020.

Green bonds make up 71.6% of the region's total sustainable bonds outstanding, reflecting the ongoing commitment from various stakeholders to mitigate climate change risks. It also helps that Green bonds have a longer history, existing frameworks and an accreditation process.

Asia has a big role in decarbonising the global economy. With China alone contributing 30% of global carbon emissions, it is not surprising that China accounts for 69% of the region's green bond issuance followed by Japan and Korea at 10.5%[3] each . China already accounts for one-third of global investments in decarbonisation although the path towards carbon neutrality will be challenging as much of its existing energy infrastructure is heavily reliant on coal. China's efforts to build green financing channels to fund the massive investments required to build a green infrastructure will probably be accompanied by the development of an efficient emissions trading system to facilitate price discovery of carbon offsets.

2 Includes Asean, China, Hong Kong, Japan and Korea. Source: Asia Bond Monitor. November 2021.

3 AsianBondsOnline computations based on Bloomberg LP data. Data as of end September 2021 and includes both local and foreign currency issues.

There has also been growing investor interest and issuance in social and sustainability bonds in Asia to help finance health services and poverty alleviation projects post the COVID-19 pandemic. Sustainability bonds are appealing because proceeds can be used for both environmental and social objectives, giving the issuer greater flexibility. On the other hand, there is less clarity surrounding how to measure and assess the impact of social bonds. The Asian Development Bank is seeking to accelerate the development of the social bond market. The expanded scope of social projects to include pandemic support spending under the Social Bond Principle (SBP) framework will help to grow this market.

A CONCERTED EFFORT NEEDED

Corporates are the key issuers of green and sustainability bonds in Asia while governments have dominated the social bond market to date. In recent years, we have seen a strong increase in issuances from renewable energy companies and property developers. Going forward, we are likely to see a more diverse mix of green bond issuances from China as the government's net carbon neutrality target gets cascaded down to more sectors.

To grow Asia's sustainability bond market, governments will need to deepen the liquidity of the market as well as roll out policies that will encourage corporate issuers. More also needs to be done to encourage greater issuances from the lower income conomies in Asia.

As policymakers in the region look to make infrastructure more climate resilient and companies continue their decarbonisation journey in the new post pandemic world, Asian bond markets will play a critical role in helping to finance these initiatives and provide investors with greater diversity and opportunities. Given Asia's later start, the path to net zero is likely to be steeper and more ambitious than Europe's. However, this also suggests that the potential impact could be greater.

In tapping the Asian bond market for sustainable bond opportunities, Eastspring's fixed income team looks at the key ESG risks faced by the company and the company's preparedness in addressing these risks.

For more insights on ESG, refer to our articles available on the Eastspring website.

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