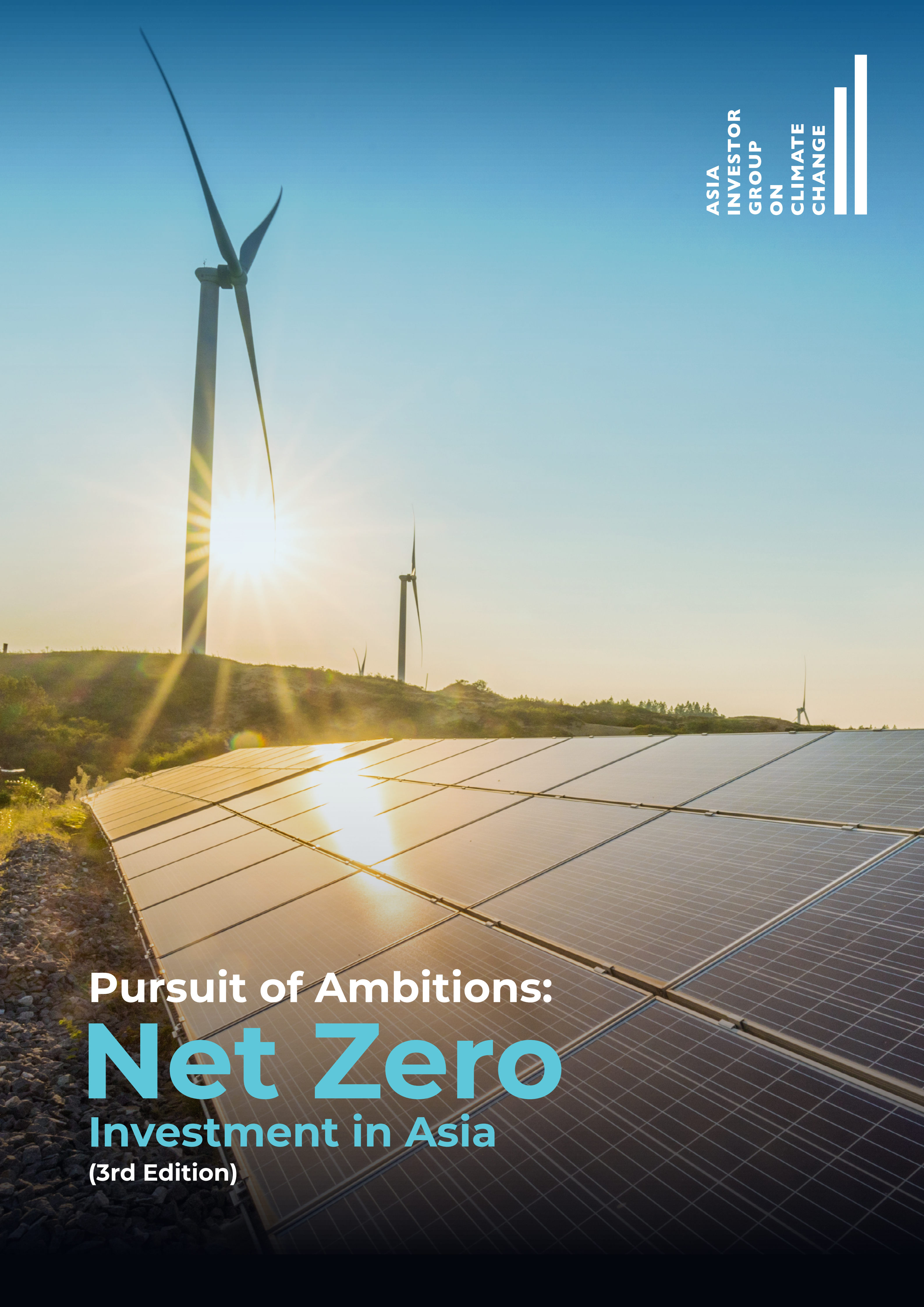
ASIA INVESTOR GROUP ON CLIMATE CHANGE



Pursuit of Ambitions: Net Zero Investment in Asia

(3rd Edition)

About AIGCC

The Asia Investor Group on Climate Change (AIGCC) is an initiative to create awareness and encourage action among Asia's asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing.

AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy. With a strong international profile and significant network, AIGCC represents the Asian investor perspective in the evolving global discussions on climate change and the transition to a greener economy. AIGCC has over 50 members from 11 markets and with over USD 36 trillion in assets under management.

www.aigcc.net

Acknowledgements

AIGCC would like to thank members of the AIGCC Paris Aligned Investment working group who has helped to develop this guide. In particular, we would like to thank Asset Management One, Maitri Asset Management, Blackrock, and Fidelity International for providing us with case studies which form an integral part of the report. Much appreciation also goes to AIGCC members and broader stakeholder group who responded to the survey and provided additional input over the course of developing the final report.

February 2022

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Glossary

AIGCC	Asia Investor Group on Climate Change
AM	Asset management/asset manager
AO	Asset owners
APAC	Asia Pacific
CA100+	Climate Action 100+
CIC	Climate Impact Committee
COP	United Nations Climate Change Conference of Parties
ENCORE	Exploring Natural Capital Opportunities, Risks and Exposure
GIIN	Global Impact Investing Network
IA	The Investor Agenda
ICAP	Investor Climate Action Plans
IGCC	Investor Group on Climate Change
IIGCC	Institutional Investor Group on Climate Change
IRIS	Impact Reporting and Investment Standards
NZAM	Net Zero Asset Managers Initiative
NZIF	Net Zero Investment Framework
OECD	Organisation for Economic Co-operation and Development
PACTA	Paris Agreement Capital Transition Assessment
PAII	Paris Aligned Investment Initiative
SBTi	Science Based Targets Initiative
SDG	United Nation Sustainable Development Goals
TCFD	Task Force for Climate Related Financial Disclosures
WWF	World Wildlife Fund

Executive Summary

The world has gone through unprecedented times with the pandemic over the past two years, with an impressive result of coronavirus vaccination being rolled out at the fastest rate seen in human history. Meanwhile, the world has also continued to see the increasing effects of the other major global crisis– climate change. The 2021 United Nations Climate Change Conference, more commonly referred to as COP26, has driven a historic number of countries, companies, and investors alike to set ambitious targets for net zero emissions. United and urgent climate actions, unlike the pandemic response, must be followed up to ensure that we are on track for halving the emissions by the end of this critical decade.

The Asia Investor Group on Climate Change (AIGCC) has undertaken an annual study since 2019 to gather investor insights on how the market is defining and investing in climate-aligned opportunities, and the barriers to increased investment they continue to face. This report outlines findings from the third survey.

The report provides the collective views of Asian investors, and non-Asian investors with significant investment in Asia, with funds representing over USD 6 trillion total assets under management globally surveyed in December 2021. Investors include asset managers and asset owners including sovereign wealth funds.

The headline insights presented in this report provide a snapshot of current investor sentiment, highlighting some of the factors driving investor thinking and behaviour as they seek to respond to climate change risks and pursue emerging net zero investment opportunities.

New climate frameworks from 2021 that enable portfolio alignment to the Paris Agreement are being embraced by investors. This is coupled with ambitious net zero emissions targets, with the survey results indicating that investors now have the confidence to use these tools to also set interim targets to help guide emissions reductions in the short to medium term. Work now needs to progress on implementing these aspirations into tangible requirements in investment mandates.

Similar to last year's results, corporate engagement and shareholder resolution continues to be a major investment strategy of choice among Asian investors. The survey also showed that voting policies on climate, a newly added category, is also becoming popular. Progress reporting and monitoring will be key to keep the momentum going.

Most Asian asset managers surveyed indicate that they have or are in the process of launching climate-related investment solutions, with an overall increase in respondents noting that they have a wide range of existing climate-related investment solutions and are looking to launch more. There are increasing demands for climate-aligned investment across asset classes and geographies, and the results signal increasing competition for innovation, as well as a need for clear guidelines and disclosures to avoid greenwashing.

In terms of climate disclosure, TCFD reporting continues to grow among Asian investors. It was also pleasing to see a majority of respondents intending to measure avoided emissions or net climate impact, and currently already measure Scope 3 emissions specific to their investment portfolio.

As we look ahead towards COP27, how are Asian investors thinking about the opportunities and the challenges of investing in net zero emissions? What tools are investors using and how are they allocating capital across different asset classes? And how will investors respond to ongoing policy uncertainty? This report highlights investor insights into these and other related issues on climate investment in Asia.

Headline Insights

HOW ASIAN INVESTORS ARE THINKING ABOUT CLIMATE CHANGE INVESTMENT OPPORTUNITIES AND CHALLENGES

Asian investors are embracing new international climate frameworks, while also developing further in house capabilities

New tools that provide guidance and transition pathways on aligning portfolios to net zero emissions have seen a rapid uptake by Asian investors. This should result in converting aspirations to actions in the coming years.

Interim targets are emerging as a key component to net zero commitment

Net zero commitments have quickly become the expectation, alongside interim targets to demonstrate genuine Paris-aligned commitments.

Focus on engagement as an investment strategy remains strong, with voting on climate an emerging theme

Corporate engagement and shareholder action continues to be a major investment strategy of choice among Asian investors, with voting on climate on the rise.

Measuring green impact remains a key barrier to investment

The lack of tools to measure and report on 'green impact' remains a primary concern for Asian investors. AIGCC looks to improving market information and upcoming green taxonomies across the region.

1. Methodology

This report looks to provide deeper insight into the preferences for current and future investment in climate-aligned solutions and perceived barriers to investment by asset owners and fund managers in Asia. With the report in its third year, it identifies the emerging trends and gains further insights into climate-aligned investments in the region.

This report primarily uses the results from the AIGCC net zero investment survey conducted in December 2021. AIGCC surveyed institutional investors regarding current and future appetite for net zero, low carbon and climate change-aligned investments, to capture the evolution of investor thinking on:

- Approaches to transition to a net zero carbon global economy;
- Climate-aligned investment opportunities;
- How and where institutional investors are deploying capital;
- What solutions are emerging across asset classes and what the challenges are.

The questions were modelled on the previous surveys conducted by AIGCC since 2019. With each new iteration of the survey, the inclusion of year-on-year data allows for further trend analysis of key issues.

This year, a total of 20 participants representing over USD 6 trillion of global assets under management (AUM) responded to the survey, with insights gathered from a mix of asset owners and managers active in Asia. Additional qualitative information was also sought to enable participants to provide further depth to their responses.

The questions focused on a range of topics, including the methodology and definitions used to define climate-aligned investments; current implementation of net zero investment strategies across both markets and asset classes; targets; measurement and monitoring of impacts; and barriers to investment.

We expanded the questions this year to reflect current trends with new international climate initiatives and frameworks and focused less on Covid-19 related impacts. We also added questions on climate voting as part of the survey this year to better understand investor's appetite for it.

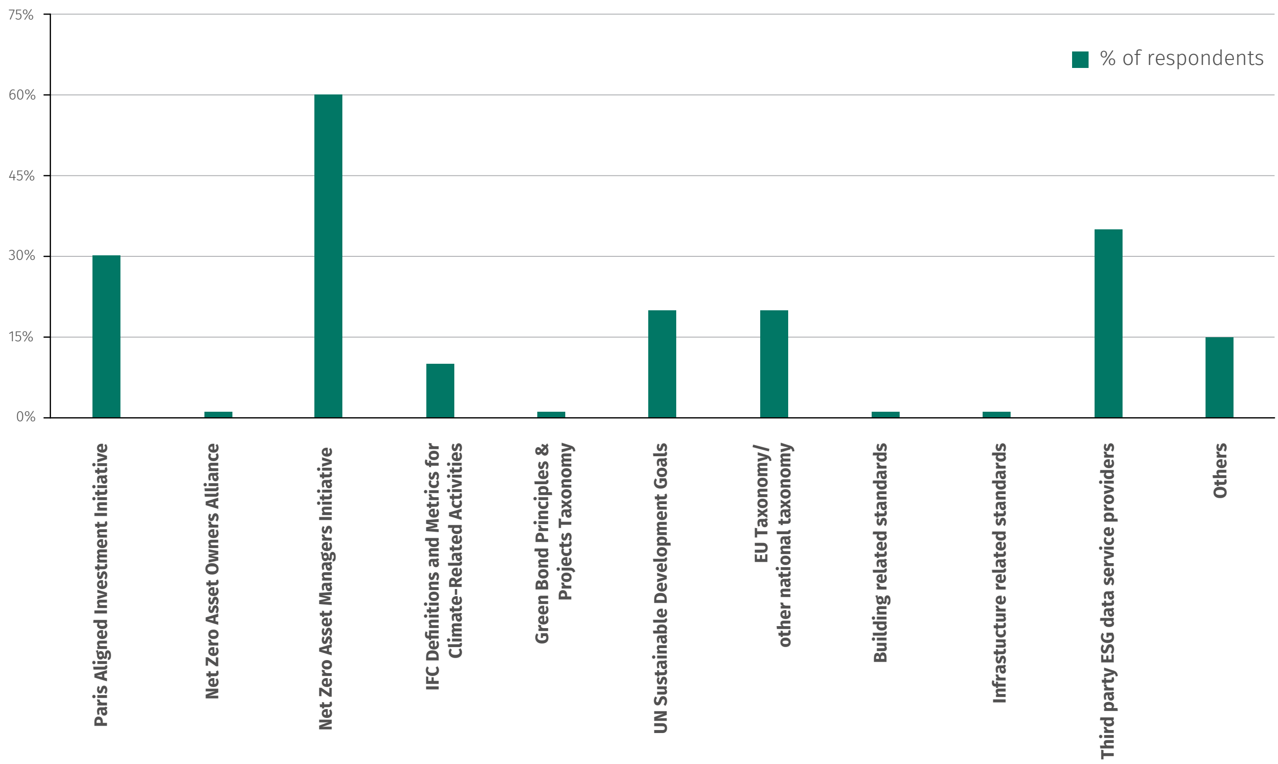
2. Defining Net Zero, Low Carbon or Climate Aligned Investment

Asian investors are embracing new international climate frameworks, while also developing further in-house capabilities

With growing attention towards tackling climate change in 2021, the focus on where and how investors could channel their investments towards climate action has never been stronger. Various tools and methodologies have been developed and introduced in 2021, some continue to be used for specific asset classes, while others present a definite shift from using methodologies purely for integration and benchmarking towards frameworks that provide guidance on portfolio alignment with the Paris Agreement.

Compared to previous years, investors now have more options on methodologies in determining climate-aligned investment solutions. There has been a definite shift year-on-year towards new international frameworks that provide a pathway to implementing net zero emissions commitments across portfolios. In previous years, investors had relied on third party Environmental, Social & Governance (ESG) data service providers and other globally available standards such as the EU Taxonomy. In 2021, we saw a majority opted for the Net Zero Asset Managers Initiative as their methodology of choice for determining climate aligned investment solution for portfolios. Another 35% of respondents chose third party ESG data service providers, and 30% chose Paris Aligned Investment Initiative (PAII). 17% of respondents chose “Others” and specified that they are using internal ESG research to define climate-aligned investments.

Exhibit 1: Methodologies used to define climate-aligned or net zero investments



Notes:

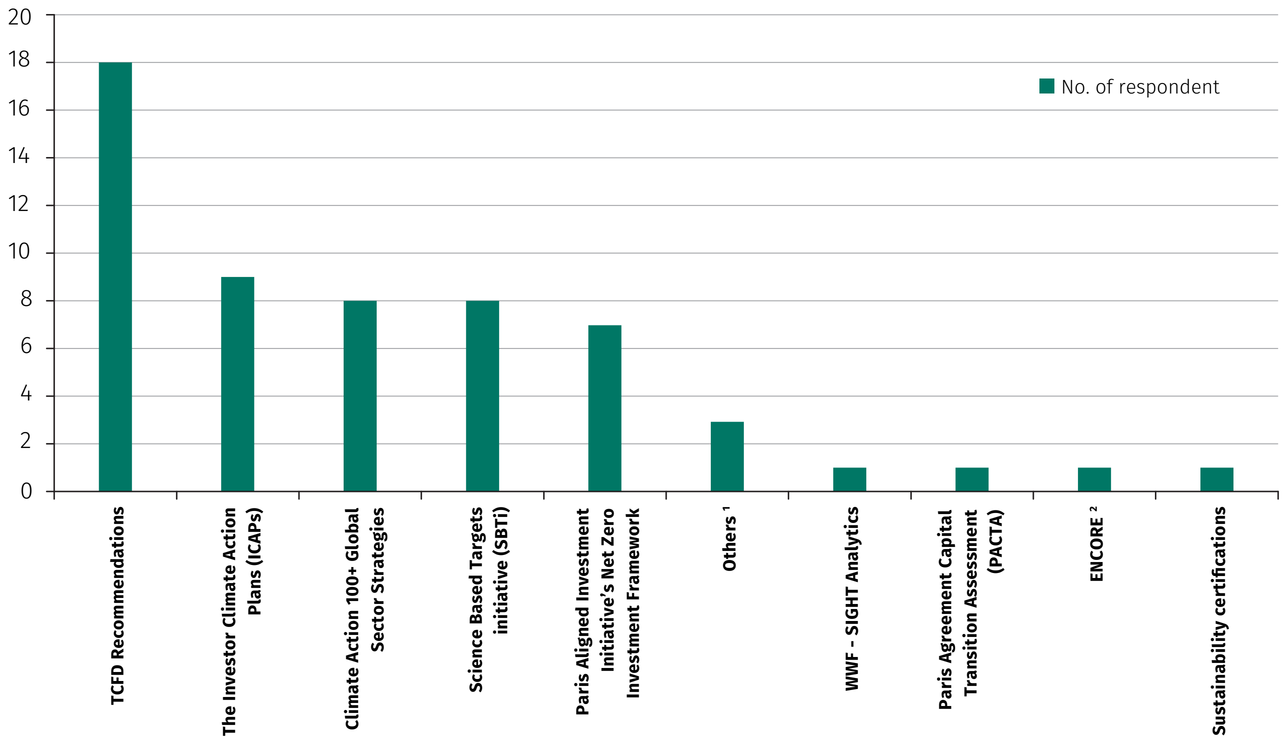
1. Example of building related standards include GRESB, GreenStar and / or NABERS
2. Example of infrastructure related standards include GRESB and / or ISAP

   Others include internal ESG research/scoring methodology

In terms of tools and frameworks, the Task Force for Climate Related Financial Disclosures (TCFD) recommendations were the most used tool that investors referred to, similar to the findings in 2020. More discussions related to the uptake of climate reporting and disclosure is available in Chapter 3.

The second framework of choice is The Investor Agenda's Investor Climate Action Plans (ICAPs), followed by the Climate Action 100+ Global Sector Strategies and Science Based Targets Initiative (SBTi). ICAPs is a new addition to the survey this year and provides an applied approach to support implementation of the Paris Agreement and the climate-related Sustainable Development Goals (SDGs). This provides strong evidence of the necessity for practical tools to establish a foundation for investors to make portfolio-wide net zero commitments, shape strategies, implement transition plans and measure alignment with the Paris Agreement.

Exhibit 2: Tools and frameworks investors use to implement climate or low-carbon technologies



Notes:

1. Others includes solutions not included in the options such as UNPRI, Sustainalytics, RepRisk, and use of SASB materiality map
2. ENCORE stands for Exploring Natural Capital Opportunities, Risks and Exposure, together with Corporate Bonds Water Credit Risk Tool and Drought Stress Testing Tool, are tools developed by Natural Capital Finance Alliance, UNEP FI.

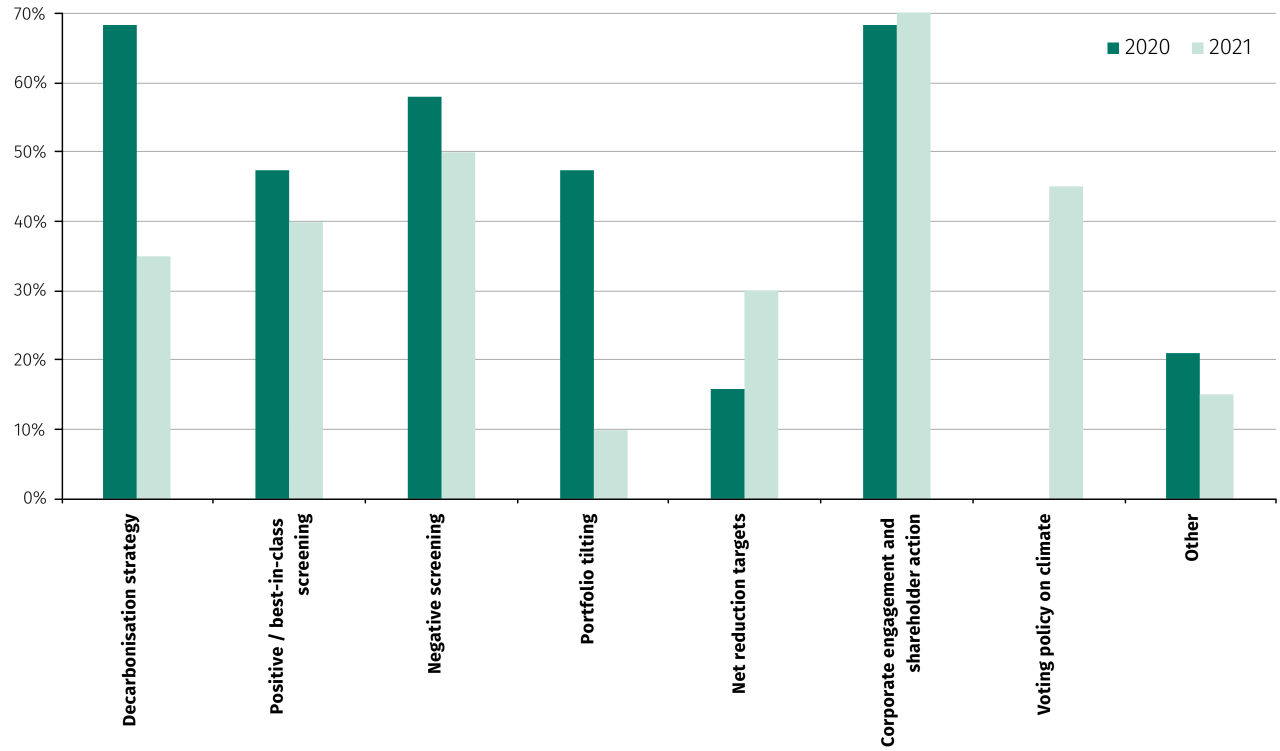
Focus on corporate engagement as part of investment strategy remains strong

Investment strategies for a net zero, low carbon or green investment among investors in Asia sees continued emphasis on corporate engagement and shareholder action, but interestingly, many have also indicated that voting policy on climate, a new survey addition, is being employed. It is pleasing to see this development in Asia with investors further utilising the toolkit of engagement strategies available.

Exhibit 3 shows the survey result related to implementation of low carbon, climate aligned strategies in 2020 and 2021: there was steep decrease in response to decarbonisation strategy (from 68% to 35%) and portfolio tilting (from 47% to 10%). These results might show signals that rather than divesting their high carbon assets, investors are focusing emissions reduction over a pledged timeline.

And similar to the result in 2020, we found that negative screening continues to be more popular than positive screening. With a wider availability of methodology and tools, investors are actively deploying these in their portfolios.

Exhibit 3: Implementation of low carbon, climate-aligned strategies in 2020 and 2021



Note: Voting policy on climate is a new option that included in the survey this year

Case Study 1 :

Asset Management One's Journey in Sustainable Investment

Asset Management One (AM One) is one of the largest asset managers in Japan, with 57 trillion yen ($516 billion) in assets under management (as of March 31, 2021). AM One is one of the founding signatories of the Net Zero Asset Managers (NZAM) initiative, and the first signatory from Japan and Asia, leading the way for other asset managers in the region to follow suit.

When the world was first engulfed in the Covid-19 pandemic in 2020, the unprecedented situation sparked an opportunity for AM One to consider internally how to incorporate sustainability into their corporate strategy. This further leads to the formulation of AM One's corporate message "Creating a sustainable future through the power of investment" in January 2021, which then galvanize their effort to be the first Asian signatory of NZAM.

Signatories to the NZAM have committed to supporting the goal of net zero emissions by 2050 or sooner, which aligns with global efforts to limit warming to 1.5C. They have also committed to setting an interim target in line with that ultimate net zero goal, by working with asset owners and clients on decarbonization goals. AM One has stated an interim target for 2030; aiming to commit 30 trillion yen ($274 billion) worth of investment assets (53% of total AUM) to align with the net zero scenario.

Given that climate change is an urgent global issue and a complex challenge connecting multiple issues across a spectrum of disciplines, it is essential for all stakeholders, including governments, companies and consumers, to address it. As an asset management company, AM One is committed to collaborating with all constituents in the investment chain to accelerate the transition of society towards net zero, in particular in the following three areas:

1. Will strive to increasing the amount of assets managed that align with the net zero target. This includes offering active strategies which invest in companies that can increase their enterprise value whilst working towards net zero goals. From the quantitative and qualitative perspectives, AM One will assess investee companies and direct capital to support those companies that demonstrate an active commitment and make solid progress towards achieving net zero.

   For passive strategies, in addition to index tracking funds, AM One plans to launch passive products with a focus on corporate engagement. AM One believes this will encourage a wider range of companies to act and make the transition towards net zero. This approach will enable AM One to raise awareness and drive action across the entire market, including companies that have not yet taken the necessary steps, as well as those companies that are already working towards net zero goals.

2. Through engagement with investee companies, AM One is a proponent of encouraging companies to transform their business models towards increased sustainability and decarbonization. Rather than simply divesting from the companies that are not yet fully aligned with net zero scenario, the priority is to actively engage with these companies. AM One's goal is to gain a holistic understanding of the company which allows them to have a constructive dialogue that will bring about improvement and positive changes. If there is no evident progress after the engagement process, AM One will consider opposing the proposed election of board directors at the respective companies when exercising our voting rights[1].

3. AM One will continue working with policy makers and other related organizations to strengthen ongoing efforts towards achieving net zero goals by 2050. This is exemplified by the company's participation in climate change and environment-related study groups and initiatives[2] established by the Japanese Ministry of Economy, Trade and Industry (METI) and the Ministry of the Environment (MOE).

The urgency in addressing climate change requires active participation from various stakeholders, including the asset management industry. AM One will continue to engage, advocate and collaborate with clients, investee companies, policy makers and other global organizations as the firm's sustainability strategy going forward.

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1. More information about AM One Approach to the Exercise of Voting Rights is available at page 61 of 2021 AM One Sustainable Report: http://www.am-one.co.jp/img/english/26/sustainability_report_e.pdf
2. Examples study groups and initiatives are listed in page 41 and 43 of 2021 AM One Sustainable Report (link in footnote 1)

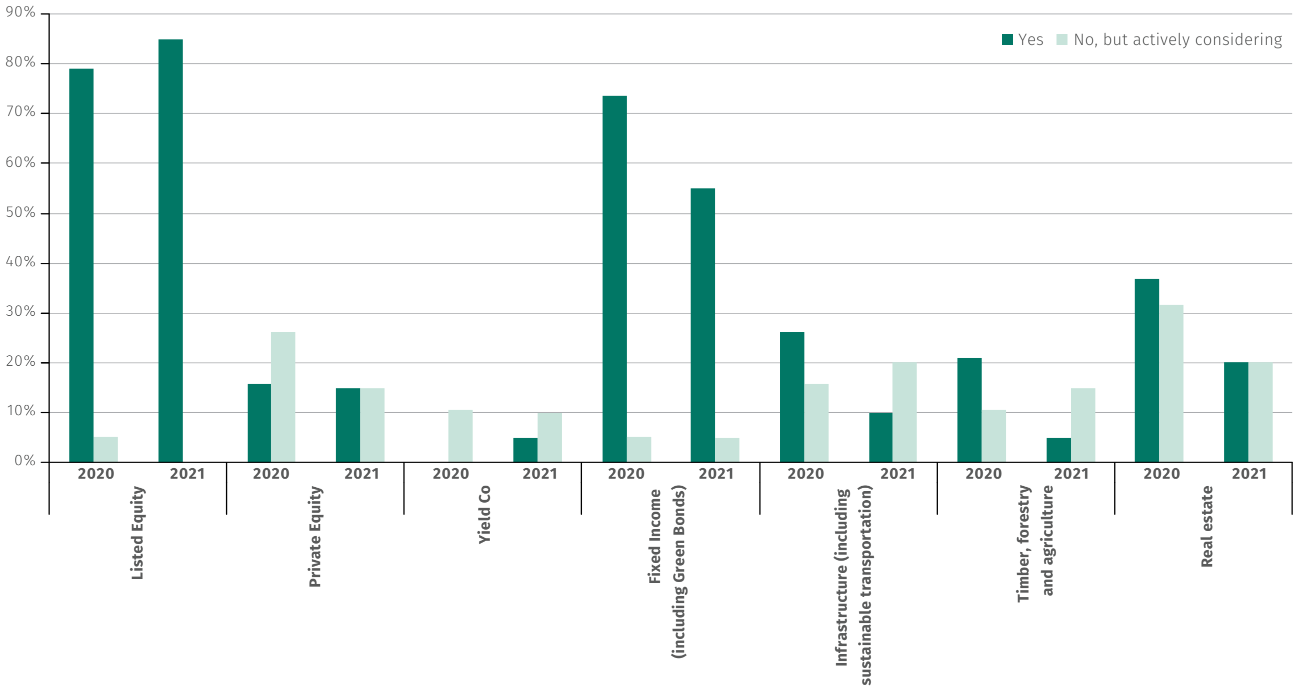
Although none of the responses we received this year opted for policy engagement as one of the climate-aligned strategies of choice, the 2021 Global Investor Statement to Governments on the Climate Crisis showed that investors now are more proactive to engage governments and policymakers to create policy frameworks that support investment in low carbon assets. Investors are a key influence on policymakers and, therefore, policy engagement by long-term investors is an important extension of these investors' responsibilities and fiduciary duties to their beneficiaries.

Carbon footprint, transition and physical risk metrics become mainstream

Investors continue to track portfolio alignment against their emission reduction targets. We have included a 'whole portfolio' option in climate-related analysis questions in the survey, in addition to the standard asset classes in order to better capture the trend in measurement.

The survey results show an increase in investors who have undertaken carbon footprint analysis of their portfolio compared to 2020, particularly in listed equities (from 79% to 85%) and yieldcos (from 0 to 5%). Fewer investors have undertaken carbon footprint analysis in other asset classes (private equity, fixed income, infrastructure, timber, forestry and agriculture, and real estate).

Exhibit 4: Comparison of % of respondents who had undertaken carbon footprint analysis of their portfolio between 2020 and 2021

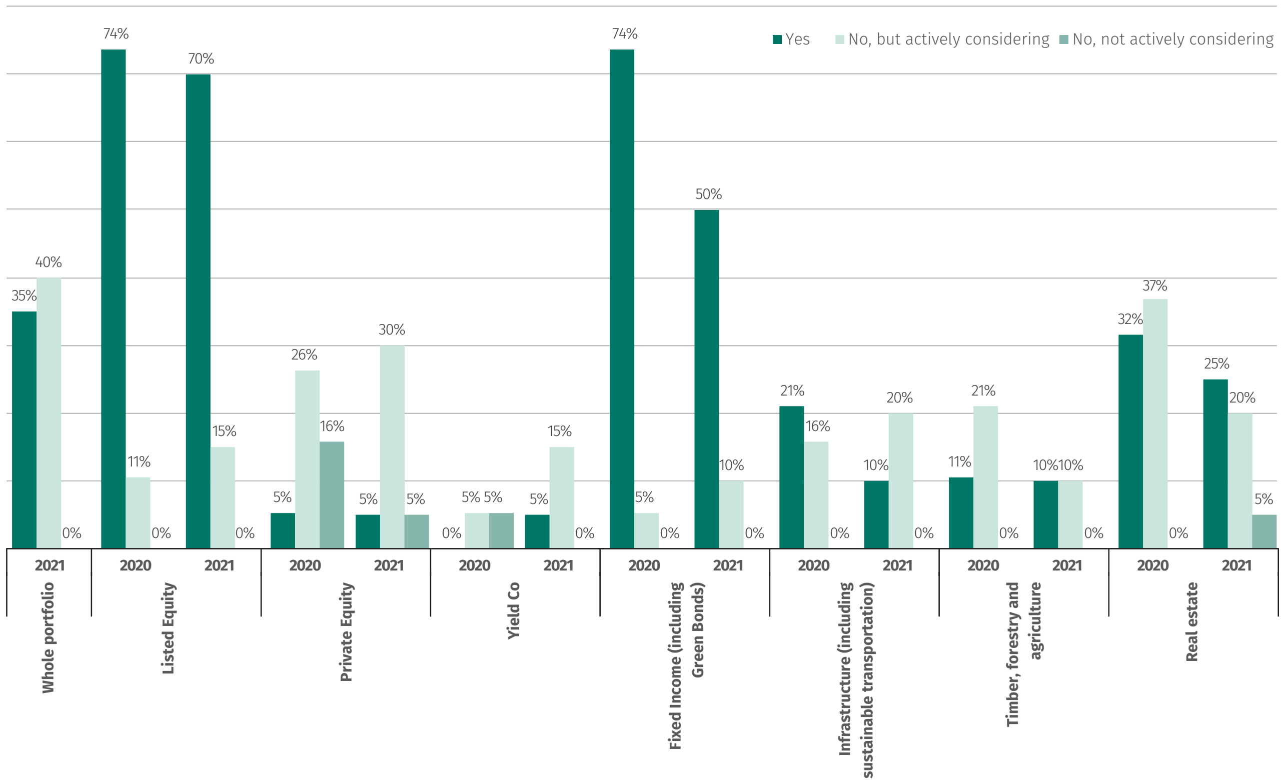


It is also interesting to note that more investors continue to actively consider undertaking carbon footprint analysis in asset classes where they have not yet performed such analysis, such as infrastructure and timber, forestry, and agriculture.

Investors continue to explore using various tools and methodologies, such as weighted average carbon intensity, and data from ESG data providers.

Over 30% of respondents indicated they have undertaken a climate-related transition analysis across the whole portfolio, with almost 40% indicating they are actively considering. Listed equity (70%), and fixed income (50%) continue to lead in terms of analysis, reflecting the tools available. The big jump in investors actively considering transition analysis for private equity is also notable.

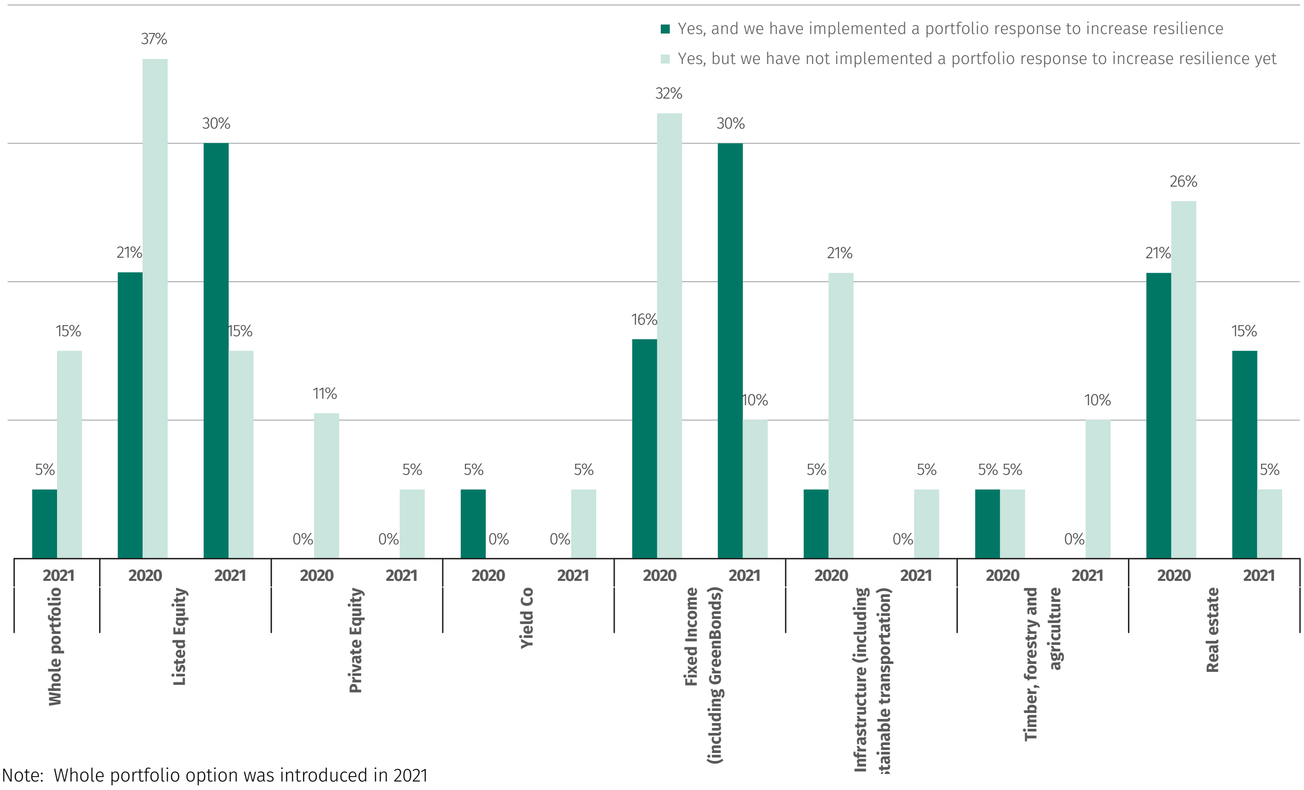
Exhibit 5: Asset classes where investors have undertaken a climate-aligned transition analysis



Note: Whole portfolio option was introduced in 2021

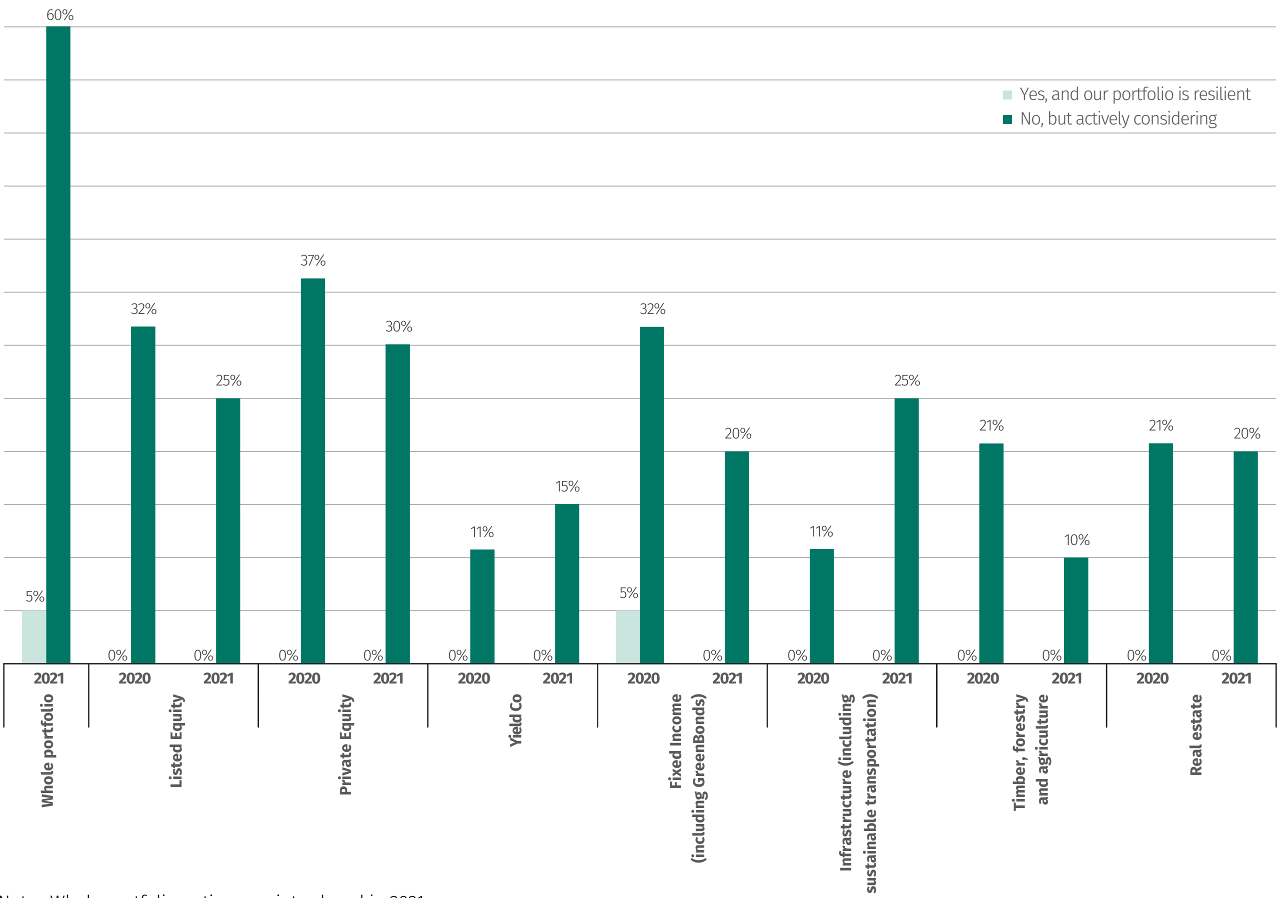
In the area of physical risk assessment, represented in Exhibit 6A and 6B, although only 5% of respondents indicated that they have already undertaken this assessment and have implemented a portfolio response to date within their portfolios, over 60% are actively considering a portfolio wide physical risk assessment. We are pleased to see an uptick in implementation of a portfolio response to increase resilience within the listed equity and fixed income asset classes. Only 5% of responses received stated that they have undertaken portfolio response and their portfolio is resilient. Given the priority focus on adaptation and resilience, leading into COP27 (The 2022 United Nations Climate Change Conference), we expect implementation work on physical risks to further increase as more tools become available.

Exhibit 6A: Asset classes where investors have undertaken a portfolio response to increase resilience



Note: Whole portfolio option was introduced in 2021

Exhibit 6B: Portfolio resiliency based on asset classes and where investors are actively considering undertaking a portfolio response to increase resilience



Note: Whole portfolio option was introduced in 2021

3. Investment Activity

Climate-related requirements in investment mandates and reporting

Asset owners may need to focus on portfolio target setting and transition to pathways to net zero, and work with fund managers to support implementation of their climate commitments.

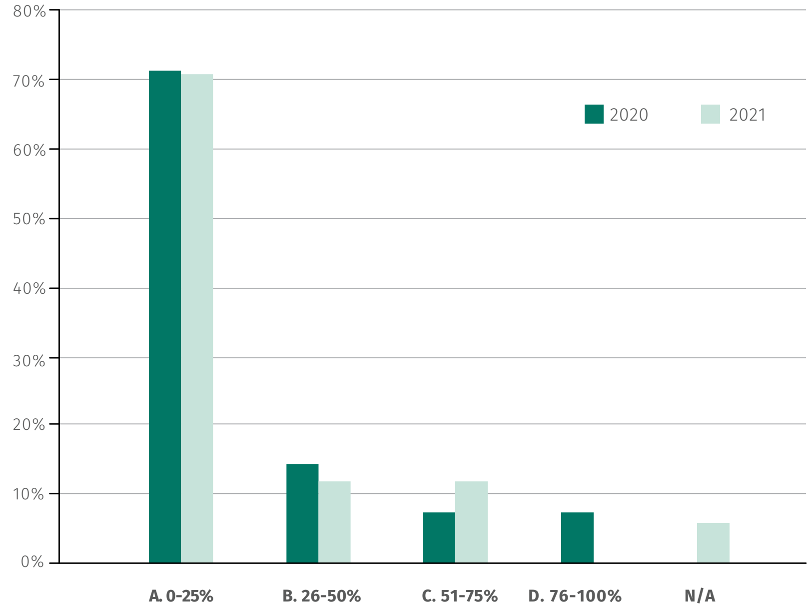
Do investment mandates catch up to climate aspirations? Whilst asset owners are increasingly raising their climate aspirations, we have yet to see a shift in asset owners with clear investment mandates to include expectations on climate compared to 2020. Our respondents have noted challenges in finding external managers with an established track record in successful climate-related investing and expressed concern that existing funds could be at risk of greenwashing rather than having authentic and robust climate-investing processes.

Despite these results, the asset owners surveyed have expressed an intention to increase their allocation to low-carbon or climate-aligned investment over the coming years and have employed specialist fund managers and ESG specialists to support climate-aligned investment mandates. It is critical to mandate these requirements especially in an era where stakeholders expectation on climate change are only rising.

Asset managers continue to report a low proportion of clients that have specified requirements for climate-related investment solutions but are cautiously optimistic that more are looking to do so.

Despite a largely lower proportion of client-based climate obligations (Exhibit 7), asset managers still proactively incorporate these considerations in their investment mandates. Respondents note the implementation of their own Responsible Business Policies (including climate-specific policies) within their new mandates, as well as engagement on climate-related investment solutions with investors during fund formation and fund documentation. Some asset managers also indicate investment decisions that consider ESG and sustainable development focus, which are not solely related to climate solutions.

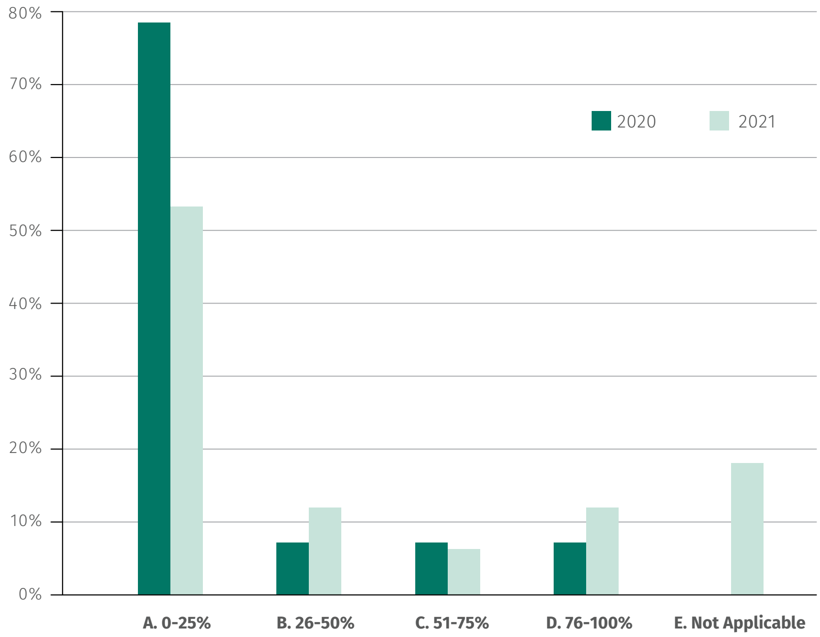
Exhibit 7: Proportion of fund manager clients that have explicit climate-related requirements in investment mandates in 2020 and 2021



Note: AIGCC made minor updates to the parameters from the 2020 report for year-on-year comparison.

Asset managers again highlight that despite a lack of reporting requirements from clients (Exhibit 8), they already disclose their targets and carbon footprinting in annual climate reports including TCFD or stewardship reports.

Exhibit 8: Proportion of clients with ongoing climate specific reporting requirements in 2020 and 2021



Note: AIGCC made minor updates to the parameters from the 2020 report for year-on-year comparison.

Strengthening regulations and guidance documents on sustainable finance products are expected to provide more clarity in what constitutes genuine climate-related investments, which should support the uplift across investment mandates. We also anticipate a continued growth in expectations for asset managers to report and align their strategy with the TCFD recommendations, especially in Asia where disclosure in alignment with TCFD recommendations continues to gain traction.

The results suggest that asset managers are actively embedding climate-related risks and opportunities as part of their long-term business strategy in anticipation of an increase in client-specified requirements on investments mandates and reporting disclosure.

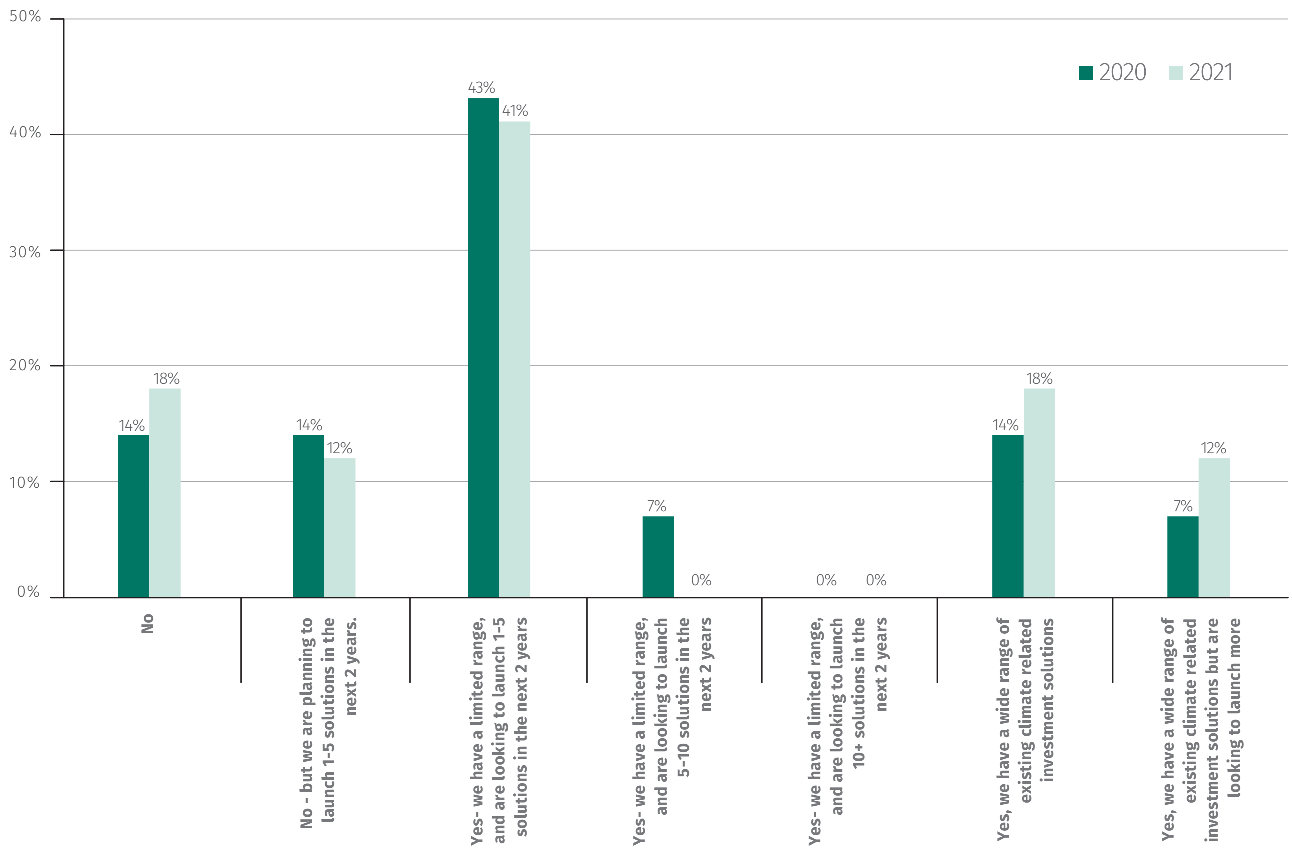
Yet, what is not clear from the survey is whether asset managers are driven by other ESG or climate-specific regulations in their investment activities. Understanding investor motivation may be a topic of interest in 2022 to provide insight on whether organisations are holistically integrating climate action into business strategies or are going through a compliance checkbox exercise. In our next survey, we could potentially assess how climate issues translate to action in mandates and report outcomes in various asset classes.

Increasing interest in climate-related products

Most Asian asset managers surveyed indicated that they have or are in the process of launching climate-related investment solutions, with respondents noting that they have a wide range of existing climate-related investment solutions and are looking to launch more.

Among asset managers with climate-related solutions as part of their strategy surveyed in 2021, 12% of respondents without existing climate-related investment solutions are planning to launch up to five solutions in the next two years, 41% of respondents indicating that they currently have a limited range and are looking to launch up to five solutions in the next two years (Exhibit 9). The overall results indicate increasing demands for climate-aligned investment across asset classes and geographies, and signals increasing competition for innovation, as well as the need for clear guidelines and disclosures to avoid greenwashing.

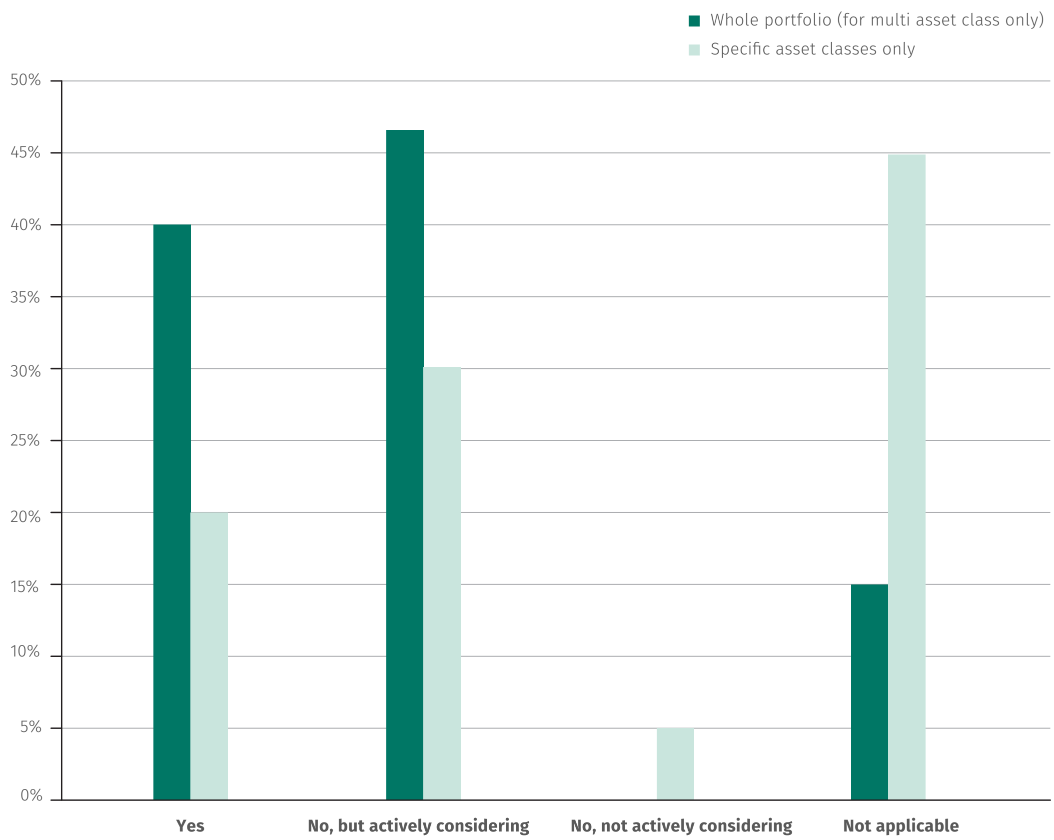
Exhibit 9: Proportion of investors that have or are in the process of launching climate-related investment solutions in 2020 and 2021



Interim targets are emerging as a key component to net zero commitment

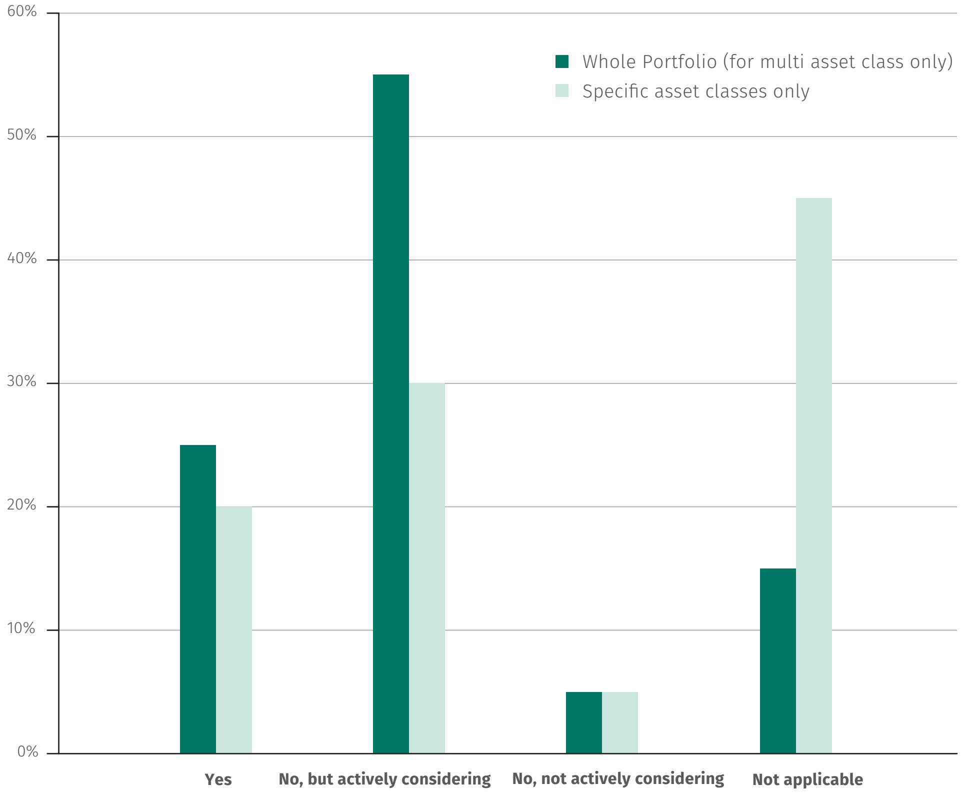
Asian investors highlight a significant increase in commitments to net zero emissions over the past year. 40% of respondents have made portfolio-wide commitments, where there were none in the previous year. 20% of respondents have also made specific asset classes commitment to net-zero emissions by 2050 (Exhibit 10).

Exhibit 10: Proportion of investors setting a net zero emission target by 2050



Setting interim targets to reduce emissions across portfolios is a new question that we included in our 2021 survey (Exhibit 11). 25% of respondents have set a portfolio-wide interim target while 55% are actively considering doing so. Portfolio-wide interim emission reduction targets may be easier to set than interim targets for specific asset classes and provide more flexibility in reaching a decarbonization pathway. Nearly half of the investors (47%) have publicly disclosed their targets and attributed these results to the support from initiatives such as the Net Zero Asset Managers Initiative.

Exhibit 11: Proportion of investors who have set an interim target to reduce emissions across portfolio (e.g., by 2025 or 2030)



Case Study 2 :

Maitri Asset Management - Setting realistic and impactful ESG targets

Given that Maitri Asset Management's (Maitri) single largest beneficiary is a charitable organisation – the Ishk Tolaram Foundation (the Foundation) – responsible investing (RI) is firmly embedded in Maitri's DNA as they align their principles with the values of the Foundation.

With sustainability and the climate change agenda identified as priority areas of focus, Maitri has been a leader in the ESG investment space in Singapore since the launch of their first sustainable fund in November 2019. Maitri's proprietary RI Approach was first published in April 2020 and continues to serve as a concrete framework for their investments.

Maitri became a signatory to the Net Zero Asset Managers (NZAM) Initiative in March 2021. The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner. Maitri was one of the first two Asian investors to disclose interim net-zero targets before COP 26.

In coming up with the interim targets, Maitri focused on aligning data from their climate data provider to meet the requirements of the NZAM through the Net Zero Investment Framework (NZIF) Implementation Guide. The process required continual and robust discussions between the ESG, management and investment teams on understanding the terminologies, evaluating impact to portfolios (e.g., whether divestments needed to be made and when) as well as the priority of adopting an internationally recognised framework such as the NZIF.

In stress testing the robustness and practicality of Maitri's interim targets, the firm ran through various scenarios and back tested different thresholds via an iterative process. Maitri also worked closely with AIGCC, who supported Maitri's journey by organising various forums, including closed door roundtables with other global and Asian asset owners and managers to promote peer learning and presentations from data providers and other global network partners. These events helped Maitri to develop a broader perspective on their approach.

Backed by the experience with ESG investing accumulated from Maitri's early foray into sustainability, and leveraging on the expertise of networks such as the AIGCC and other NZAM signatories, Maitri announced 2030 interim commitments including:

- Halving the emissions intensity of 50% of Maitri's AUM;
- Meaningfully increasing the proportion of AUM invested in companies within material sectors that are on a net zero journey;
- And engaging at least 70% of financed emissions in material sectors, assessed to be net zero or aligned with a net zero pathway, either directly or through collective investor initiatives

To find out more, please click here.

Case Study 3 :

Fidelity International: How Fidelity's Climate Rating is used to test net zero alignment

Climate Investing Policy

Fidelity International (FIL) manages over USD 700 billion across Asia Pacific, Europe, the Middle East, South America and Canada.

In 2021, FIL launched a Climate Investing Policy that sets out their approach in reducing real-world emissions while mitigating climate-related risks. The policy covers FIL's 2050 net zero emission target, interim target of halving the carbon footprint of investment portfolios by 2030, and how these targets will be achieved. A key plant in FIL's net zero emissions plan is a new Climate Rating system.

Climate Rating System

FIL's Climate Rating system was launched in 2021 and aims to identify climate related risks, net zero investments and targets for transition engagement. The Climate Rating also assesses which companies are in the best position to transition to net zero or have a positive trajectory towards transition. The Climate Rating system analyses firms in three cores areas:

1. Net zero ambition - Current emissions disclosure, reduction targets and sector specific criteria are used to evaluate a company's net zero ambition.

2. Climate governance - Given the long-term nature of net zero commitments, effective governance and oversight of climate commitments are critical for integrity.

3. Capital allocation - The extent that commitments are backed up with capital expenditure can be an important signpost to evaluate a company's net zero transition.

Each area consists of underlying assessment factors and additional factors depending on a company's sector and classification as "high impact" or "low impact" in line with TCFD and IIGCC definitions[3].

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3. IIGCC defines "high impact" as companies on the Climate Action 100+ focus list; companies in high impact sectors consistent with Transition Pathway Initiative sectors; banks; and real Estate. TCFD defines them as companies most affected by climate change and the transition to a lower carbon economy.

After assessment and scoring on the three pillars above, a company receives a Climate Rating score of 1-5 as outlined below.

1	2	3	4	5
Achieving or enabling net zero	**Aligning to a net zero path**	**High transition to net zero potential**	**Low transition to net zero potential**	**No evidence of transition potential**
Issuers' current emissions intensity performance is at, or close to, net zero emissions or issuers are critical enablers of the transition through their products and services	Issuers have committed to robust targets in line with a net zero emission trajectory with an appropriate governance and investment plan to achieve that goal	Issuers have demonstrated a commitment towards achieving net zero and are proposing or implementing credible plans to achieve this goal	Issuers demonstrate some level of climate awareness but fall short of credible commitments to achieve carbon reduction objectives	Issuers show no indication or willingness to align emissions and business model to a net zero world

Eligible for a net zero portfolio (1–2)

Continued investment and engagement/voting (3–4)

Assessment and engagement, with risk of divestment (5)

Source: Fidelity International, October 2021

The importance of engagement

Of the first 1600 companies analyzed globally under the Climate Rating, approximately 10% of the issuers achieved the top two ratings of "achieving or enabling net zero" or "aligning to net zero", with approximately 6% of issuers assessed in Asia achieving the top two ratings.

This highlights the importance of active engagement with issuers to help 'move the dial' towards decarbonization and net zero alignment.

FIL aims to use a company's Climate Rating to set transition targets at both the fund and individual issuer level and to help direct resources and engagement towards the biggest emissions reduction opportunities. To complement this, FIL has published minimum standards of climate change oversight, practice, disclosure and action in the sustainable investing voting principles and guidelines.

Climate reporting and disclosures

The use of external reporting frameworks such as TCFD (74%) to measure and report targets has become much more common than internally defined organizational priorities (26%). This contrasts with the figures from 2020, where targets measured based on internally defined organizational priorities were marginally more common (64%) than the use of external reporting frameworks such as TCFD (55%). This finding may be attributed to increasing information flow and knowledge sharing among investors in best practice, and the recent updates to the TCFD recommendations.

TCFD reporting continues to grow among Asian investors. 70% of respondents said that they report against the TCFD recommendations, an increasing trend compared to last year, with another 30% of respondents actively considering it. It is pleasing to see such a relatively high proportion of investors in the region reporting against TCFD recommendations. While several climate risk reporting frameworks exist, the one that most policymakers have endorsed is the TCFD. A growing number of countries are mandating companies and financial institutions to report their climate-related risks rather than on a voluntary basis, such as in New Zealand and the UK. Several other countries in Asia have also set a timeline to adopt mandatory TCFD reporting, such as Singapore in 2023 and Hong Kong in 2025. Japan also signaled that it is looking to adopt mandatory climate reporting and has incorporated the TCFD into its Stewardship Code with currently 20% of global supporters from this market alone.

A similar survey in the Australia and New Zealand region showed a 55% of respondents reporting against TCFD. 65% of respondents surveyed intend to measure avoided emissions or net climate impact, compared to 2020 (44%).

Half of the respondents (50%) currently measure Scope 3 emissions specific to their investment portfolio with 35% actively considering it. This is a high proportion despite data quality concerns over Scope 3 emissions, particularly in terms of inconsistency between data sources/providers.

Investor accountability

Investor accountability has also become a more prominent topic that ties executive remuneration to climate metrics. 45% of Asian investors indicated that their organizations are actively considering this matter, with 5% already taking action. These numbers are comparable to responses from the latest IGCC Net Zero report which covers institutional investors from Australia and New Zealand. The IGCC results illustrate a slightly lower (40%) proportion of respondents are actively considering linking funds to executive remuneration, but with more organisations already doing so (10%).

These results demonstrate a regional upward trend in increasing accountability and avoiding greenwashing. Linking executive remuneration to climate metrics provides alignment to what investors are asking of companies and assets.

Fossil-fuel divestment

One new element that is included in our survey this year is whether the respondent has a policy or strategy to divest or exclude fossil fuel-related stocks from their portfolio, either as part of risk management strategy or to achieve progress against a net zero, low-carbon or climate-aligned investment target. Over a third of respondents (35%) responded that they have a policy to divest or exclude fossil fuel-related stocks from their portfolio, a third do not have a policy but are actively considering it and and over a third (35%) have no policy and not actively considering.

This is certainly an interesting trend, especially in light of increasing interest among Asian investors towards aligning their investment to net zero. It remains an area of active discussion whether outright divestment or active engagement leads to better real-world outcomes, with investments no doubt needing to be evaluated on a case-by-case basis.

The social dimension

A high proportion of investors continue to consider the social aspects of climate change (40%), with another 50% actively considering so - this is still somewhat behind other regions. The UN Sustainable Development Goals (SDGs) remain the preferred approach. Investors are also actively considering the Climate Action 100+ Net Zero Company Benchmark (Just Transition) and are looking to understand how to evaluate issuers using this approach before incorporating it into their investment strategy.

Case Study 4 :

Blackrock - Climate Finance Partnership Fund

Blackrock's Climate Finance Partnership Fund ("CFP" or "the Fund") is a public-private finance vehicle focused on investing in climate infrastructure across emerging and developing markets in Asia, Latin America, and Africa in order to help accelerate the global transition to a net zero economy.

According to BloombergNEF, almost 80% of emissions in the next decades will come from developing countries. And those same vulnerable communities and developing nations are expected to be the most exposed to the harmful impacts of climate change - as well as being home to more than half of the global population. The global energy transition and its attempt to keep global warming under two degrees Celsius does not happen without developing and emerging markets. The world needs a cohesive global approach that spans both the private and public sectors, and the Climate Finance Partnership is a prime example of Blackrock's work as part of this effort.

Blackrock announced the Fund at the One Planet Summit and completed the fundraise in October 2021, achieving a US$673 million final close, exceeding the initial target by 35%. The Fund is supported by a diverse, reputable, and creditworthy global consortium of 21 investors including governments, philanthropies, and institutional investors. Blackrock believes that the enthusiasm for the CFP demonstrates that the historic journey to a net zero emissions economy is not only a high growth investment opportunity – but one than can have a positive, measurable impact in the parts of the world that need it most.

BlackRock estimates suggest that the world needs to invest US$1 trillion annually into low-carbon projects in developing countries in order to achieve a just transition to a net zero global economy[4]. Emerging markets are staged to account for an increasingly large share of global emissions due to population growth and economic development. However, in 2020 only a total of US$150 billion was invested in decarbonization in emerging markets, excluding China, which represents a sixth of what is needed.

4. BlackRock Investment Institute, October 2021.

The goal of the fund is to help mobilize private capital into climate-friendly investments in emerging markets. The Fund aims to achieve this goal through three different mechanisms:

- **Unique Blended Finance Structure :** It has a unique structure which seeks to de-risk the opportunity set in emerging markets for institutional investors. The governments of France, Germany, and Japan, together with US philanthropic institutions and a global multi-energy company, participate through a subordinated equity tranche, which provides downside risk protection to institutional investors. This type of public-private partnership aims to incentivize private investors to participate in what is expected to be one of the fastest growing infrastructure investment opportunities of the coming decades and one they might otherwise not consider due to perceived risks.

- **Climate Infrastructure Investing :** The CFP aims to invest in onshore wind, utility-scale and distributed solar PV, and climate infrastructure such as battery storage and clean transmission projects in emerging markets and developing markets. Through these investments in renewable energy and climate infrastructure, the fund aims to reduce potential emissions from emerging markets by preventing the need for incremental fossil fuel development and generation while providing access to affordable and reliable clean energy to meet domestic energy demand.

- **ESG Measurement and Reporting :** The Fund and its investors will benefit from robust Environmental, Social, and Governance measurement and reporting across its portfolio aligned with the U.N. Sustainable Development Goals (UN SDGs), Global Impact Investing Network (GIIN), and Impact Reporting and Investment Standards (IRIS). Furthermore, select investors will participate in the Climate Impact Committee (CIC), an active advisory committee intended to be a collaborative forum where members will exchange knowledge, monitor, and discuss the Fund's impact, manage ESG risk, and encourage accountability through annual public reporting. Investors will be able to utilize this reporting to showcase the impact generated from each of the investments, with the objective to further green their own portfolios and contribute to global Net Zero goals.

In terms of allocation, approximately 30-50% of the fund is expected to be invested in non-OECD APAC markets. Blackrock's target markets in Asia for investment include but are not limited to Vietnam, Philippines, Thailand and Indonesia. The Fund's investments will principally comprise of assets and businesses encompassing the generation and delivery of clean power. It will have a strong focus on both greenfield and operational wind and solar energy and assets that support the delivery of renewable power, including transmission, energy storage and distribution, and/or electrified transport infrastructure.

More information regarding the fund can be found here.

4. Barriers to Investment

With investment activity occurring across a wide range of asset classes and geographies, market-specific nuances across pan-Asian markets continue to pose various challenges for investors that require a market-level understanding of each region. However, there are broad themes on commonly experienced barriers to investment in Asia discussed below.

The top three identified barriers to investment in 2021 are:

1. Lack of tools to measure 'green impact' (45%)
2. Lack of client demand (30%)
3. Lack of opportunities with risk return objectives (25%)

For reference, the barriers to investment in 2020 are:

1. Lack of tools to measure and report 'green impact' (56%)
2. Lack of clear definitions of what constitutes a low carbon or green investment (33%)
3. Lack of opportunities with risk return objectives (33%)

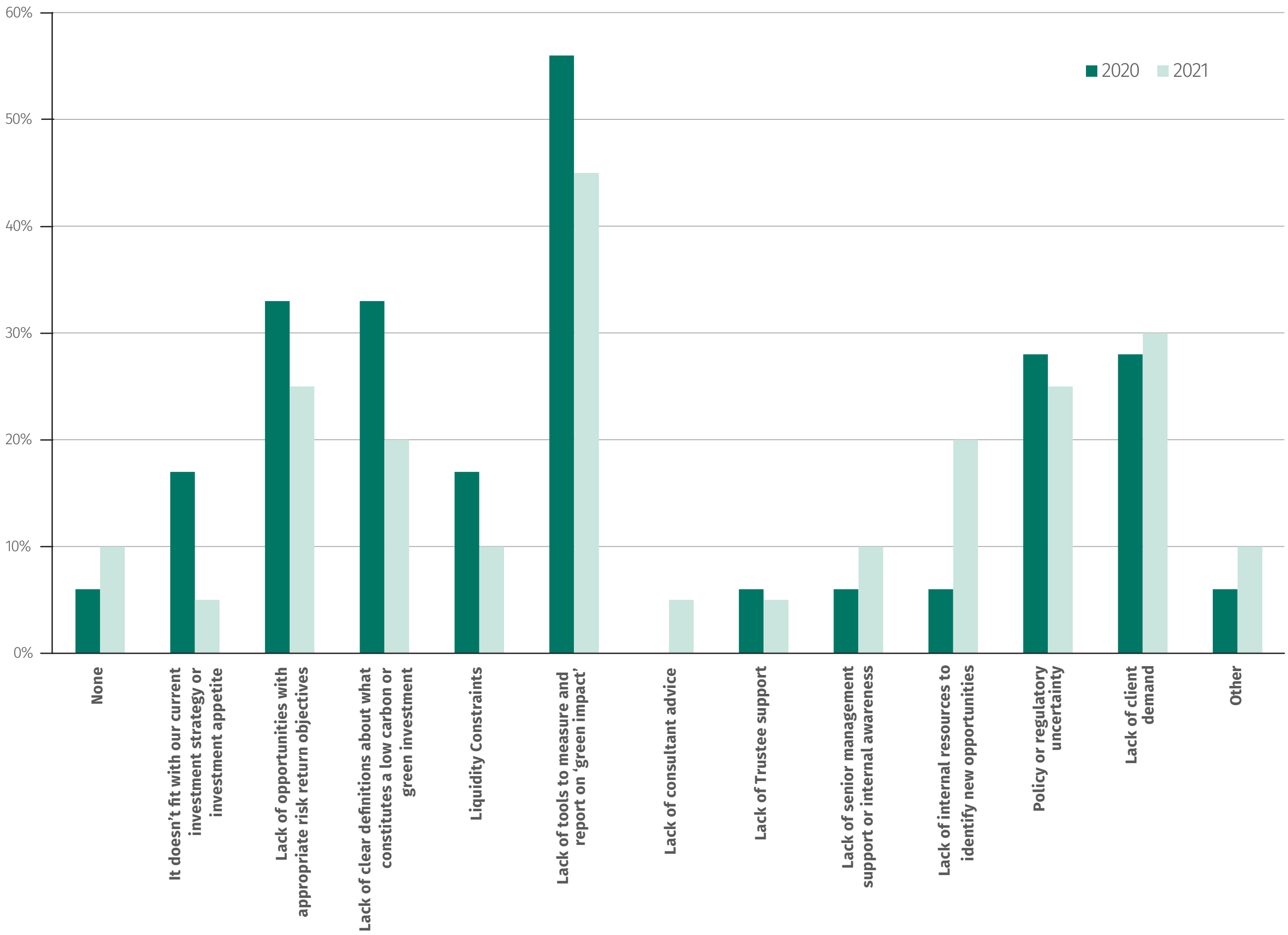
The lack of tools to measure and report on 'green impact' remains a primary concern for Asian investors across both years, which could be a result of imperfect market information and lack of alignment in green taxonomies across different Asian countries and internationally. Optimistically, the decrease in this result (from 56% in 2020 to 45% in 2021), suggests that more tools and guidance are starting to ameliorate this issue.

Whereas the lack of clear definitions for low carbon or green investment was a top barrier in 2020 (33%), less respondents (20%) identified this as a barrier to investment in 2021, indicating that increasing collaboration and continued discussions on the subject, including through international forums such as the Paris Aligned Investment Initiative, has given better clarity among Asian investors.

The lack of opportunities with risk return objectives remains among the top three barriers. Although the increasing launch of climate funds would help address this issue in the future, an emphasis on identifying investable opportunities is still necessary.

Other key conclusions on barriers to investment are noted. The institutionalisation of climate investments may have contributed to the notable drop in respondents in 2021 (5%) compared to 2020 (17%) who note that increasing climate-aligned investment does not fit in with their current investment strategy. There has also been an increase in the proportion of respondents who identified the lack of internal resources to identify new opportunities (20%) compared to 2020 (6%), indicating that more resources are required to address this fast-growing area, given the proliferation of standards, frameworks, and activities.

Exhibit 12: Perceived barriers to increasing climate-aligned investment in 2020 and 2021



It is significant that policy or regulatory uncertainty has declined as a perceived barrier year-on-year, no doubt reflecting the step up in regulatory attention and action in Asia. Information from the UN shows more than 130 countries have now set or are considering a target of reducing emissions to net zero by 2050 or later, including Asian countries such as China, Japan, South Korea and India.

While policy action remains uneven across the region, the direction of travel has become clearer. We note that investors have made a slight shift in their strategy in managing policy and regulatory uncertainty in investment activities. Some have taken an even more active role in contributing to shaping the financial ecosystem through policy work alongside industry peers, governmental bodies, and membership organisations, while others are currently evaluating their strategies in managing these uncertainties.

5. Conclusion

AIGCC has been conducting this survey for three years, enabling us to observe the trends in investor progress and their approaches to climate-aligned investment; where they are allocating capital; and what barriers or challenges they face when investing in climate solutions in Asia.

Although we did not specifically gather insight related to Covid-19 this time, the 2021 survey was conducted during the on-going pandemic, and we continue to sense societal and economic strains being felt everywhere. However, despite these challenges, we found that investor sentiment remains stronger than ever and focused and centred around pathways and roadmaps to a net zero economy.

What has become clear in the 2021 survey is that Asian investors are now embracing different approaches on how they are implementing this transition in their own portfolios. It is also evident the critical need to establish, plan, and track progress to achieve short-term and interim targets particularly to 2030 or even earlier, to ensure 2050 commitments stay firmly on track.

The trends we have seen in the last few years of accelerated integration, appetite for climate and net zero transition aligned investments, as well as more streamlined approaches to investing in climate solutions continue to increase. With the emergence of international climate initiatives and frameworks that call for net zero as a baseline for action, interim targets are becoming a key component in Paris-aligned portfolios following the making of a net zero commitment. There are clear signals that investors are embracing the numerous tools and frameworks to reach such targets.

The lack of tools to measure and report on green impacts continues to be a major barrier for Asian investors to increase their climate-aligned investment and play an even more significant role in the transition of the economy. However, compared to previous years, investors have found how and where they can continue to make positive progress around climate integration in their portfolios, for returns and ultimately for their members, all the while ensuring their fiduciary responsibilities are upheld.

AIGCC will continue to support the growing appetite among Asian investors for tools, frameworks, and resources to assist implementation and acceleration of the transition to net zero through climate aligned investments. We look forward to working with our members to develop investable solutions to facilitate the transition to a resilient, net zero emissions economy.

Relevant websites and resources

- Paris Aligned Investment Initiative:
  https://www.parisalignedinvestment.org/
- Net Zero Asset Owners Alliance:
  https://www.unepfi.org/net-zero-alliance/
- Net Zero Asset Managers Initiative:
  https://www.netzeroassetmanagers.org/
- The Investors Agenda, Investor Climate Action Plan:
  https://theinvestoragenda.org/icaps/
- Climate Action 100+ Net Zero Company Benchmark:
  https://www.climateaction100.org/progress/net-zero-company-benchmark/
- Net Zero Investment Framework (Implementation Guide):
  https://www.iigcc.org/resource/net-zero-investment-framework-implementation-guide/

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