Sustainable Asset Management in Asia:

2023 Sustainability Pulse Check

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2023 SUSTAINABILITY PULSE CHECK

Introduction

Sedgwick Richardson and Mayer Brown are pleased to share the results of our recent Sustainable Asset Management in Asia survey in this Sustainability Pulse Check.

As interest in sustainability continues to grow worldwide, much of the focus has been on Europe and the United States. From the explosive growth of flows into funds classified as Article 8 or 9 products under the Sustainable Finance Disclosure Regulation (**SFDR**) in Europe to pending climate-related disclosure requirements in the United States, there is no shortage of developments in these regions affecting the asset management industry.

The landscape in Asia, however, is also evolving in significant ways. Hong Kong and Singapore have developed sustainability-related regulations that require covered asset managers to incorporate climate-related and environmental risks into the investment process and make related disclosures. The Association of Southeast Asian Nations has developed the ASEAN Taxonomy for Sustainable Finance, and there are over 175 SFC-authorised funds that incorporate environmental, social and governance (**ESG**) factors as their key investment focus in Hong Kong (as of 12 March 2023).

To bring the Asian context into focus, we surveyed asset managers active in the region to understand how they approach this issue from compliance, strategy and branding perspectives. The results from 26 asset managers highlight some key stakeholder groups driving sustainability in Asian asset management firms and the diverse ways asset managers respond. We also identified some of the barriers asset managers face when developing or enhancing sustainability strategies and the challenges they encounter when seeking to comply with sustainability-related regulations. In each case, the results reflect the impact of global trends on asset managers generally, as well as the unique influence of stakeholder groups, markets and regulations in Asia.

Our Respondents

Responses were collected from December 2022 to February 2023. Our respondents ranged from early-stage venture capital investors formed in the past several years to some of the region's most influential fund managers with AUMs in the billions of U.S. dollars. About half of our 26 respondents are private equity investors, with the remaining respondents comprised of a mix of credit, real estate, hedge and multi-strategy investors. **The vast majority say they have increased their emphasis on sustainability over the past two years.**

The following pages set out the questions asked and responses we received, as well as opportunities and actions for asset managers informed by these insights.

HIGHLIGHTS

85%

of respondents said they have increased their emphasis on sustainability over the past two years in the areas of:

1. **Risk, legal, compliance, and/or other functions tasked with managing sustainability issues (21 responses)**
2. **Investment strategies (20 responses)**
3. **Brand strategy and communications (18 responses)**

Our Findings

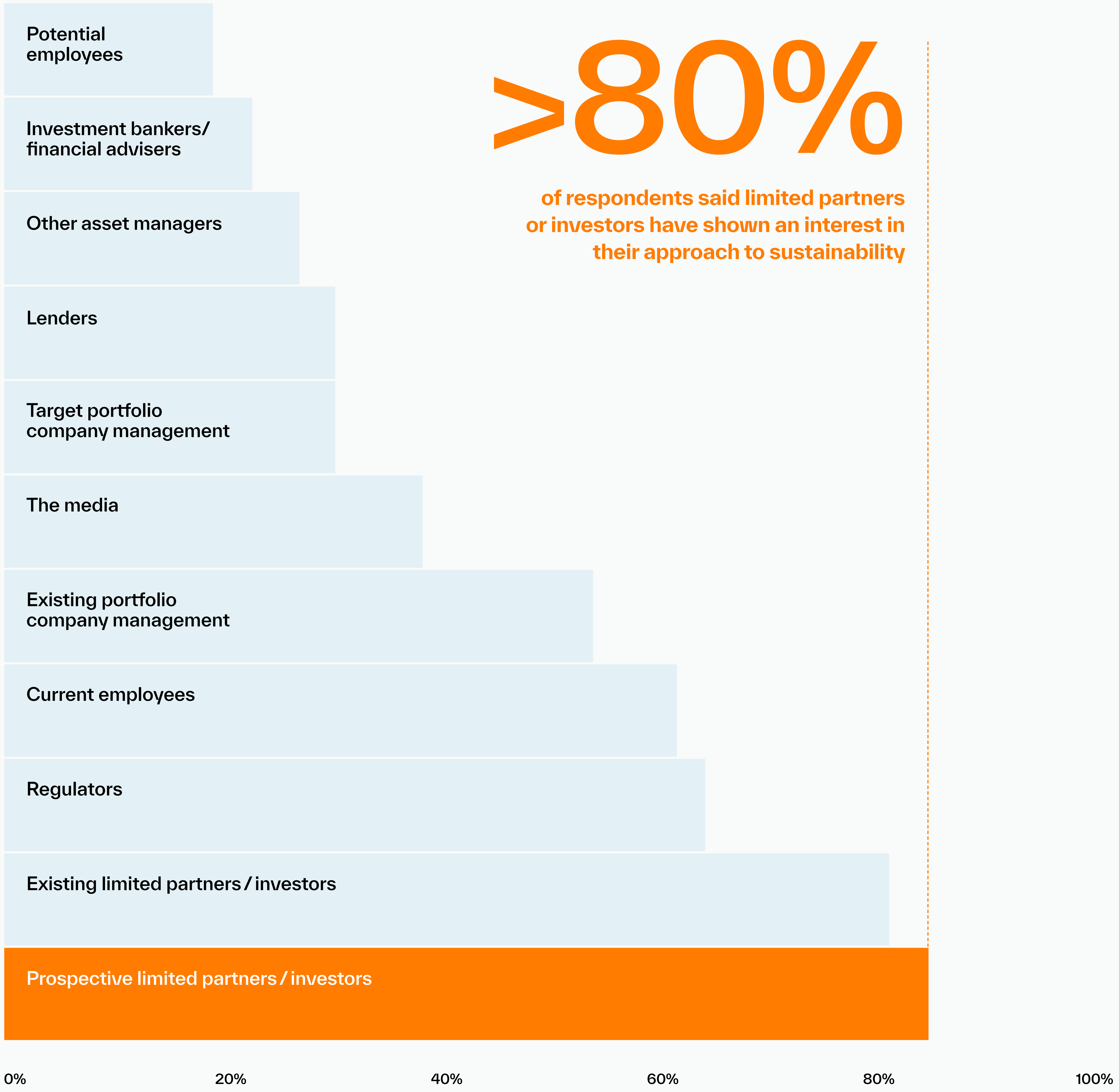
OUR FINDINGS

Which stakeholder groups have shown an interest in your firm’s approach to sustainability in the past two years?

Sustainability is top of mind for respondents’ limited partners, investors, regulators and employees.

Prospective and existing limited partners (**LPs**) and investors were most often cited as showing an interest in how our respondents approach sustainability. Asset managers increasingly receive inbound requests for sustainability-related information from these critical stakeholders, including as part of fundraising processes.

Asset managers have been approached by regulators across Asia as they continue to develop ESG and sustainability-related regulations. Over half of our respondents further indicated that their current employees have shown an interest in sustainability, highlighting opportunities for sustainability to enhance employer brands and talent management at the firm level.



OUR FINDINGS

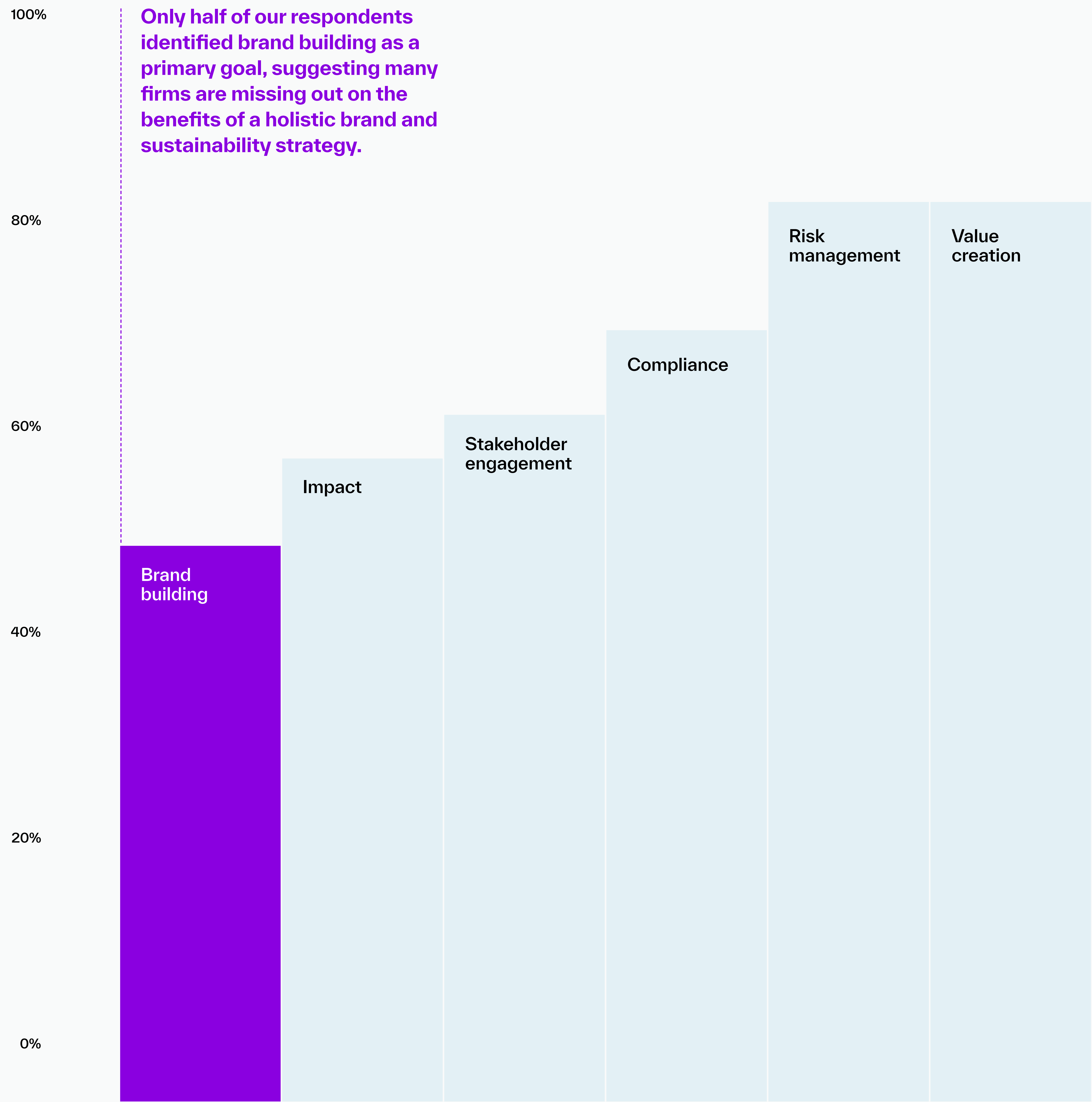
Which of the following describes the primary goal or goals of your firm's approach to sustainability?

Respondents are leveraging sustainability for both risk management and value creation.

It is generally well understood that sustainability strategies can help asset managers better identify and mitigate non-financial risks. Opportunities for value creation, however, may not be prioritised as they can be more difficult to identify and may be harder to achieve. Despite this, an equal number of respondents (21) said the primary goals of their approach to sustainability include risk management and value creation.

In Hong Kong and Singapore, where many of our respondents are headquartered, regulators have developed fairly robust sustainability-related regulations applicable to asset managers. Unsurprisingly, 70% of respondents identified compliance as a primary goal.

Only half of our respondents identified brand building, which can provide a wide range of benefits for asset managers, as a primary goal. Specifically, integrated brand and sustainability strategies can help achieve clarity and consistency in purpose, direction and messaging. A clearly articulated approach to sustainability developed through the lens of brand can align an asset manager's various internal stakeholders and even help address claims of greenwashing from external parties.



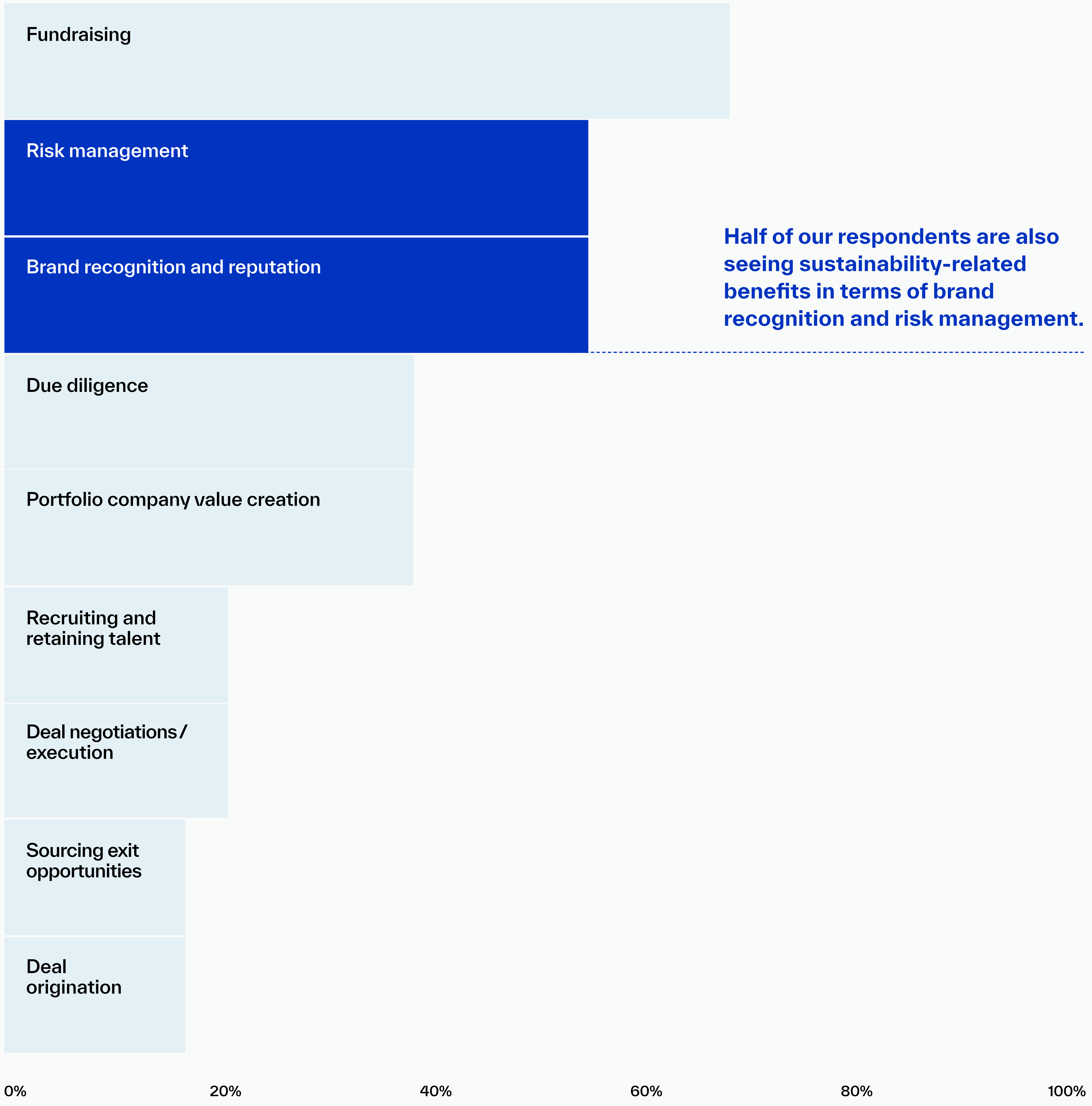
OUR FINDINGS

When has your approach to sustainability most benefitted your firm, financially or otherwise?

Sustainability is helping our respondents raise funds, differentiate their brands, and manage risk.

Respondents most often identified fundraising as an area where they have seen a benefit from their approach to sustainability. As LPs and investors develop their own sustainability strategies with respect to the capital they allocate, a credible approach to sustainability is becoming a fundraising necessity for asset managers.

Half of our respondents are also seeing sustainability-related benefits in terms of brand recognition and risk management. As interest in sustainability continues to grow across the full range of stakeholder groups, an integrated brand and sustainability strategy can help differentiate an asset manager in a crowded marketplace. Credible approaches will also help asset managers identify and mitigate investment risks while future-proofing the business against sustainability-related regulatory requirements
and stakeholder expectations on the horizon.



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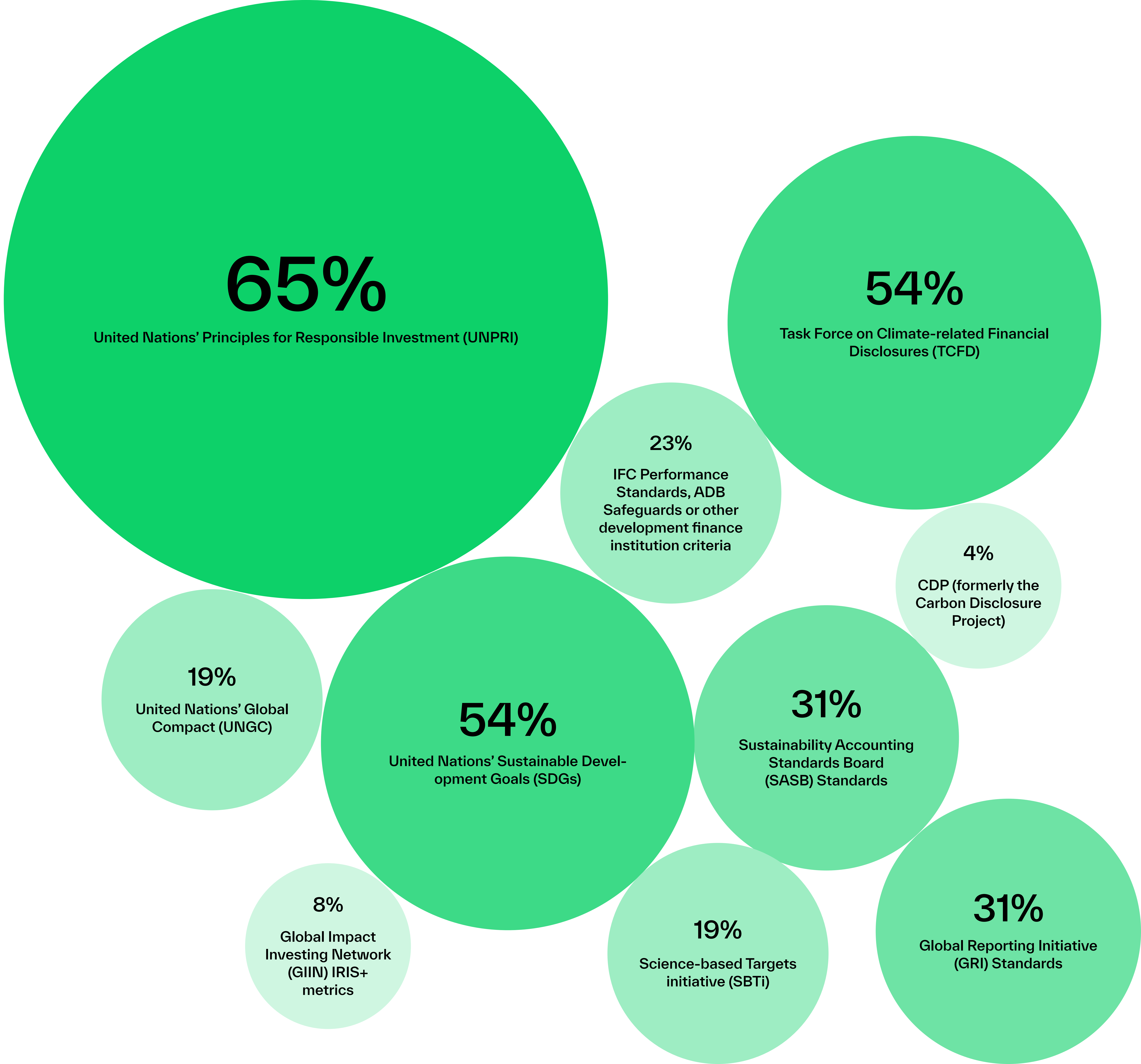
OUR FINDINGS

Have you relied on any of the following frameworks in developing your firm's approach to sustainability?

Respondents primarily rely on the SDGs, PRI and TCFD to develop their approaches to sustainability.

There is currently a plethora of sustainability frameworks that asset managers can rely on to develop their approaches to sustainability. Over half of our respondents rely on the United Nations' (**UN**) Sustainable Development Goals (**SDGs**), the UN-Supported Principles for Responsible Investment (**PRI**) and the recommendations of the Task Force on Climate-related Financial Disclosures (**TCFD**). These represent some of the world's leading sustainability frameworks, suggesting our respondents have well-integrated international expectations and developments in their approaches.

About a third of respondents rely on sustainability reporting standards developed by the Global Reporting Initiative (**GRI**) and the Sustainability Accounting Standards Board (**SASB**). While corporates often employ these standards in formal sustainability reporting, they can also help asset managers quickly assess materiality in different industries and identify KPIs for value creation, target setting and reporting purposes.



OUR FINDINGS

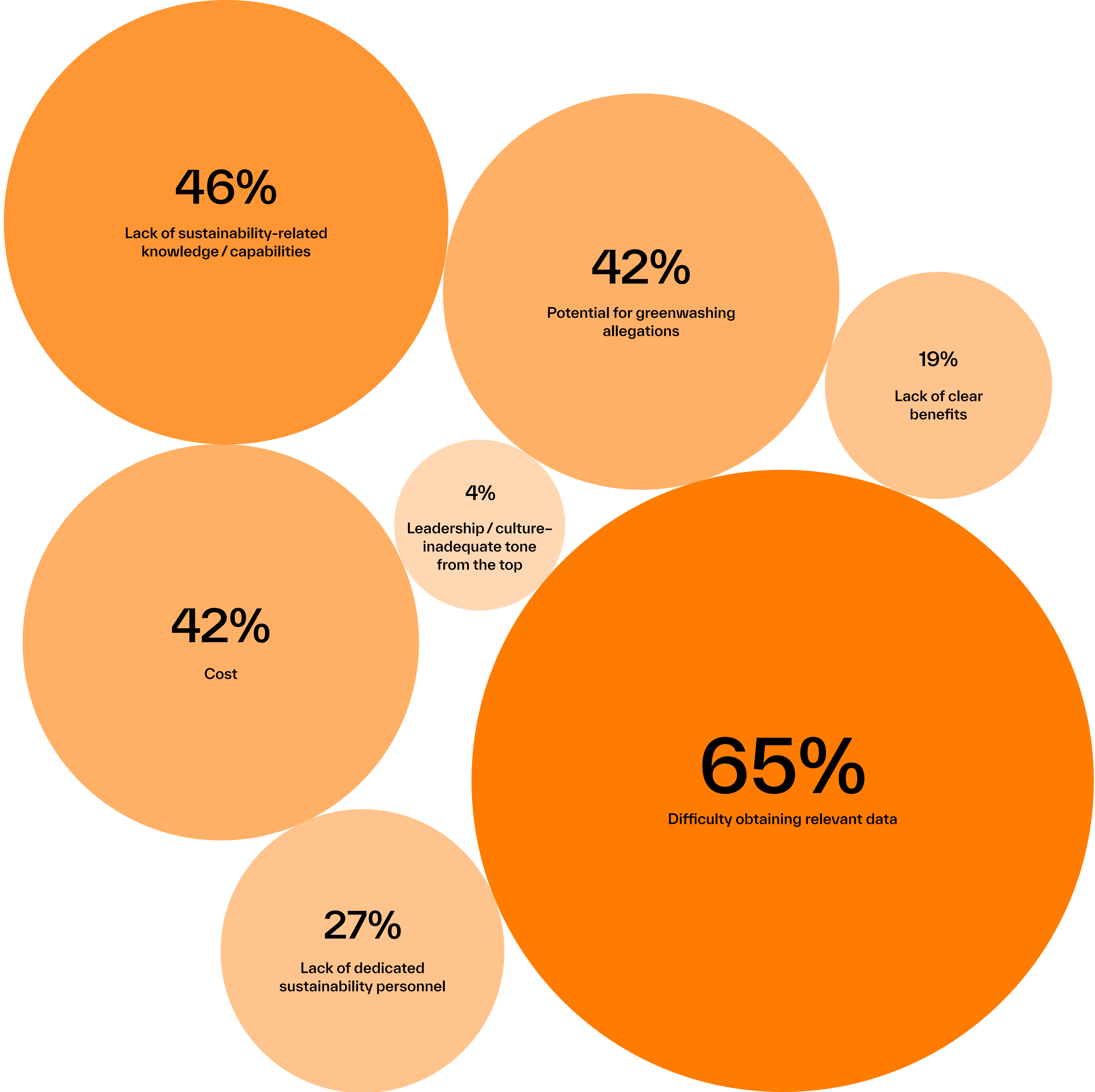
Which of the following have been significant barriers to developing or enhancing your firm's approach to sustainability?

Difficulty in obtaining data is the barrier our respondents most often face when developing or enhancing their approaches to sustainability.

Developing a sustainability strategy is more than simply considering ESG factors in the investment process – it involves identifying focus areas, goals and targets and, often, a shift in culture. When done well, sustainability strategies can streamline the process of complying with related regulations and provide the proof points to enhance firm-level branding and communications.

Asset managers face a range of challenges when developing and enhancing a sustainability strategy. Among our respondents, obtaining data and a lack of sustainability-related knowledge and capabilities were often cited as significant barriers. Importantly, asset managers run the risk of "greenwashing" claims, or misrepresenting the sustainability aspects of their approaches, if they do not have reliable data upon which to build credible strategies or the knowledge and capacities to deliver them.

The consequences of greenwashing can be significant from both legal and reputational perspectives. Over 40% of respondents identified the potential for greenwashing allegations as a significant barrier to developing or enhancing their sustainability strategies.



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OUR FINDINGS

Have your legal and / or compliance functions been involved in any of the following aspects of your firm's approach to sustainability?

Legal and compliance teams could be more involved in sustainability-related governance and training

The involvement of legal and compliance teams in interpreting sustainability-related regulatory requirements and drafting related internal policies and procedures is crucial as regulations in these areas continue to develop, particularly around disclosures and ESG integration. Nearly 80% of our respondents say these teams have already been involved in such tasks.

When seeking to comply with sustainability-related regulations, our respondents identified the following challenges over the last two years:

- Lack of personnel with relevant expertise, knowledge and / or qualifications (9 respondents)
- Lack of relevant data (9 respondents)
- Lack of clarity in sustainability-related regulation (9 respondents)
- Complexity of sustainability-related regulation (6 respondents)

While legal and compliance teams can help address the challenges above, less than 40% of our respondents currently involve such teams in sustainability-related governance structures (e.g. committees) and training. Operating in a highly regulated industry where attention to sustainability is growing among regulators and governments, **asset managers should consider how legal and compliance expertise can not only ensure compliance with specific regulations but also inform and future-proof sustainability-related strategies and communications.**

Almost 80% of respondents rely on legal and compliance teams to respond to sustainability-related regulation.

In a separate question, over 65% of respondents say they have already been affected by regulations relating to sustainability-related disclosures (e.g. the European Union's Sustainable Finance Disclosure Regulation) and ESG integration (e.g. Hong Kong SFC's Circular to licensed corporations on management and disclosure of climate-related risks by fund managers).

Opportunities and Actions

RESPONDING TO REGULATORY DEVELOPMENTS

As ESG regulation evolves across Asia and globally, periodic reviews of ESG legal and regulatory updates in key jurisdictions can help firms prepare for new requirements and anticipate developments over the horizon. This potentially includes conducting gap analysis exercises, preparing new compliance plans and updating internal policies, procedures and controls. Firms in jurisdictions without a fulsome ESG regulatory regime may look to first movers like Hong Kong and Singapore to view what the future may hold. Recent developments suggest regulators are initially focused on climate change and other environmental issues.

ENGAGING KEY STAKEHOLDERS

Understanding the expectations of LPs, clients, employees and other key stakeholders can inform policy development and help identify focus areas for ESG integration and more holistic sustainability strategies. Structured engagement in the form of interviews and surveys often generates the most valuable insights — surfacing opportunities for mutually beneficial partnerships on sustainability-related topics that, in turn, can create competitive advantage. Regular engagement further helps to identify changes in business trends and stakeholder expectations over time.

DEVELOPING CLEAR POLICIES AND PROCEDURES

Responsible investment policies are becoming more common and can always be improved. Policies should be informed by stakeholder expectations, aligned with broader business and sustainability strategies, and updated regularly. Firms without a responsible investment policy should consider developing and implementing one to address expectations from key stakeholders like LPs and clients. For both policies and procedures, firms need to be mindful of the inherent challenges in designing and managing such policies and procedures in a rapidly developing and uncertain regulatory environment. ESG-related policies and procedures should reflect operational reality with periodic updates responsive to changes in the firm's circumstances and regulatory developments.

BUILDING RELEVANT CAPACITIES

ESG and sustainability strategies must be supported by real expertise in their development and implementation. Putting strategies in place without the foundational knowledge required to both address material risks and opportunities and implement actions to effectively address them, is a recipe for attracting greenwashing claims that can seriously damage reputations. Firms should consider assessing ESG and sustainability-related capacities within their firms and portfolios to identify areas for improvement. Structured training can fill gaps and prepare stakeholders to deliver strategies that can mitigate risk and create value when done well.

INTEGRATING SUSTAINABILITY INTO BRANDING AND COMMUNICATIONS

Firms that go beyond ESG integration and align purpose, positioning and values with holistic sustainability strategies can better capture opportunities and manage risks in this new paradigm. Embedding sustainability as an engine for growth can also support opportunities for value creation. Proactive communication on purpose-led sustainability strategies and ESG performance is equally important. Across a diverse range of channels and touchpoints, a focus on highlighting the stories, the experiences and the proof points that bring your strategy to life will help build brand reputation.

ABOUT THE AUTHORS

Sedgwick Richardson

Headquartered in Asia for over 30 years, Sedgwick Richardson (**SR**) is a brand and sustainability consultancy. We work with visionary leaders and entrepreneurs across Greater China and Southeast Asia to build brands that drive shared value for business, society, and our environment.

We believe that adaptation and regeneration are integral to business resilience, growth and sustainability. Brands that are credibly contributing to a better world will prosper.

Our award-winning expertise enables brands to succeed in developed, emerging and frontier markets. By integrating sustainability strategy with brand building, we ensure brand relevance, differentiation and purpose-led growth.

We are leaders in providing technical, strategic and creative sustainability services across multiple sectors, including PE. Our team includes a former Environment and Social Specialist with the International Finance Corporation and a former PE lawyer. From due diligence and risk management to strategy development and implementation to training and communications, we have deep and diverse expertise.

SERVICES

STRATEGY

- Sustainability audit and benchmarking
- Stakeholder engagement and materiality assessment
- Impact identification and value chain mapping
- Data management, analysis, and insights
- Sustainability strategy and target setting
- Risk and opportunity mapping
- Governance, policy, system, rater and investor advisory
- Board, employee, and supplier training

DESIGN

- Sustainability strategy branding
- Data visualisation
- Sustainability reporting
- Sustainability narrative, messaging, and communications

EXPERIENCES

- Building a culture of sustainability
- Sustainability programmes and campaigns
- Sustainability immersion sessions
- Sustainability touchpoints (e.g. product labelling, building brand community, environmental touchpoints)

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Mayer Brown

Mayer Brown is a distinctively global law firm, uniquely positioned to advise the world's leading companies and financial institutions on their most complex deals and disputes. Our diverse teams of lawyers are recognized by our clients as strategic partners with deep commercial instincts and a commitment to creatively anticipating their needs and delivering excellence in everything we do. Our "one-firm" culture — seamless and integrated across all practices and regions — ensures that our clients receive the best of our knowledge and experience.

We offer clients a full service, multi-disciplinary, ESG team comprising practitioners in the UK, EU, US, Asia, and South America. Our ESG practice includes the expertise of more than 130 ESG-focused lawyers, including lawyers from our private equity and investment management groups. Our ESG lawyers are at the forefront of developments, offering incisive and timely comment on ESG issues. Our "Eye on ESG" blog has attracted high levels of interest and engagement since launched in early 2021. Mayer Brown's ESG practice is managed by the leaders of our global ESG Product Group, which was established to promote and develop our ESG expertise and capabilities around the world in a coordinated way.

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Thank You

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