ASIA INVESTOR GROUP ON CLIMATE CHANGE

Out of the blocks

Net zero investment in Asia

2nd edition

Contents

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 and a trusted forum for investors active in Asia to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy related to climate change.

AIGCC members come from 11 different markets in Asia and internationally, and include asset owners and managers with a combined AUM of over US$13 trillion. With a strong international profile, the AIGCC network of members and key stakeholders include asset owners and managers, government pension and sovereign wealth funds, family offices and endowments. AIGCC represents the Asian investor perspective in the evolving global discussions on climate change and the transition to a net-zero emissions economy.

Acknowledgements

AIGCC would like to thank the AIGCC members and the broader stakeholder group who responded to the survey and helped to develop this guide. In particular, we would like to thank Amundi, AIIB, GIC, Government Pension Investment Fund of Japan and Manulife Investment Management for providing us with case studies which form an integral part of the report.

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Executive Summary

Global average temperatures in 2020 were tied for the hottest on record, capping what was also the planet's hottest decade ever recorded. Climate-related natural disasters such as the Australian bushfires and South Asian floods have continued to make the effects of global warming increasingly apparent.

The coronavirus swept across the world and has adversely impacted public health, local communities and the global economy. Measures to contain the virus have strangled economies and profoundly reshaped our way of life. Climate change, however, has remained a key focus for governments, businesses and investors while the allocation of capital into net zero emissions solutions has remained strong, even in the time of Covid-19.

The Asia Investor Group on Climate Change (AIGCC) has undertaken this study for the second year running to gather investor insights on defining and investing in climate-aligned opportunities, and the barriers to increased investment.

The report provides the collective views of Asian investors with funds representing over US$1.9tn in assets under management surveyed over November-December 2020. These investors include asset owners (insurance firms, government pension and sovereign wealth funds) and asset managers.

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.

Appetite for climate-aligned and net zero investment continues to be strong across all regions and asset classes in Asia. This is against a backdrop of a lack of appropriate opportunities and measurement tools identified year on year as key barriers to investment. Asian investors are also growing increasingly sophisticated, reflected by the diversity of tools used and the increasingly nuanced approaches for different portfolios.

Asian investors are increasingly considering aspirational net zero emission targets and commitments. Nevertheless, work needs to progress from ambition to target setting, followed by integration through increased fund manager mandates. The Task Force on Climate-related Financial Disclosures (TCFD) reporting remains prevalent among Asian investors.

Investors are embracing the need to consider broader impacts that investments have on society and the environment as a whole. An increasing number of investors have started or continued their work on climate change, despite Covid. Indeed, a green and sustainable recovery to the pandemic can provide immediate and longer term benefits for the climate crisis.

As we look ahead to the post-COVID investment environment, how are Asian institutional investors thinking about the opportunities and the challenges of investing in net zero emissions? What tools are Asian investors using and how are they allocating capital across different asset classes? How will Asian investors act as further details are released on the net-zero policies of China, Japan and Korea? This report sets out investor insights into these issues on climate investment in Asia.

Headline Insights

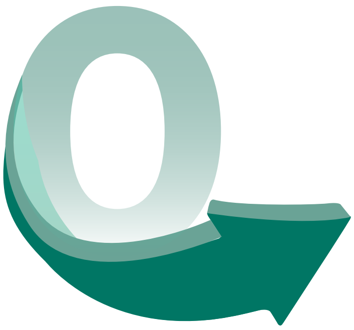
HOW ASIAN INVESTORS ARE THINKING ABOUT CLIMATE CHANGE INVESTMENT OPPORTUNITIES AND CHALLENGES

ASIAN INVESTORS ARE GROWING IN SOPHISTICATION

The diversity of tools and the increasingly nuanced approaches suggests a growth in the level of sophistication amongst investors in the deployment of methodologies and tools that are relevant to their portfolios, though focus needs to expand beyond equities and fixed income.

ASIAN INVESTORS HAVE INCREASED IMPLEMENTATION OF CLIMATE SOLUTIONS

There is a notable increase in climate solution deployment year on year, with the jump being most significant in emerging markets. Client interest continues to be a driver of further product offerings.



NET ZERO COMMITMENT CONSIDERATIONS PREVALENT

Whilst Asian investors surveyed have yet to set portfolio-wide net zero emission targets, it is under consideration for a large number of investors as it is fast becoming the norm globally.

CLIMATE CHANGE HAS TAKEN ON A STRATEGIC FOCUS

Despite COVID, Asian investors are moving ahead with climate change initiatives, with a particular focus on company engagements and incorporating climate risks into portfolios.

Defining Climate-Aligned Investment

INCREASED SOPHISTICATION IN THE USE OF METHODOLOGIES AND TOOLS

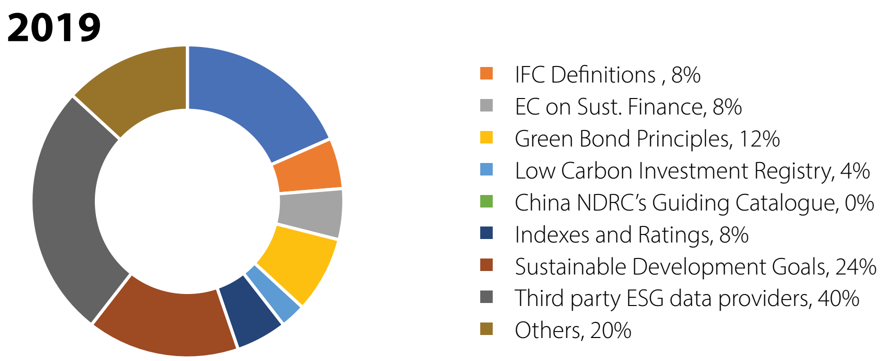
Investors have continued to look to define and measure climate investments through impact and outcomes. The methodologies identified in the previous report continued to be used, with a notable increase in range alongside the greater availability of methodologies available. In other words, investors are looking at a wider range of methodologies, recognising that there is no one-size-fit-all solution to assessing climate impact within their portfolios.

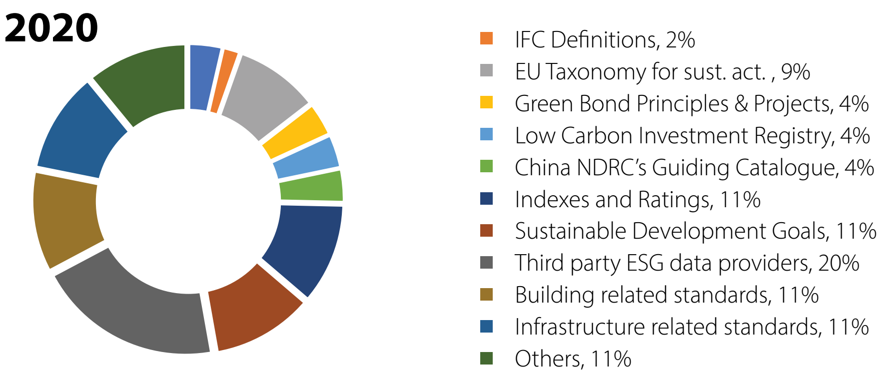
An ongoing trend to watch is the emergence of sustainable finance taxonomies including the EU Taxonomy and China NDRC's Guiding Catalogue for the Green Industry, both of which had increased responses compared to last year. Going forward, we expect this category to expand as Malaysia is targeting to launch a Principle-based taxonomy in 2021, while the Taiwan financial regulator will finalise sustainable finance taxonomy by end-2021.

More generally, while there is a diverse range of methodologies used in Asia to define net zero carbon or climate-aligned investment, methodologies from existing ESG data service providers, indexes and ratings continue to be the primary go-to methodology that is commonly used by investors. It is also worth noting that not only has the use of various methodologies broadened in terms of scope, it has also pivoted towards the increasing use of proprietary tools ranging from in-house developed tools to price externalities and other physical risk tools to identify values at risk. Comments also suggests that some investors would assess revenue generation levels from companies' low-carbon activities.

The diversity of methodologies used, and the increasingly nuanced approaches suggest a growth in the level of sophistication amongst investors in the deployment of methodologies and tools that are relevant to their portfolios.

Figure 1: Methodologies used by investors to define green or climate aligned investments in 2019 vs 2020





Case Study
Amundi-AIIB
Climate Change Investment Framework

Beijing-based Asian Infrastructure Investment Bank (AIIB) and Amundi, Europe's largest asset manager, partnered to launch the AIIB-Amundi Climate Change Investment Framework in 2020.

This framework aims to provide investors with a benchmark tool for assessing an investment exposure to climate change risks and opportunities at the issuer-level, instead of just the instrument level. At present, green bonds have been the main climate finance solution in fixed income, but these do not always consider exposure to climate investment risks and opportunities of an issuer's entire balance sheet, which this framework seeks to address. Additionally, being at the issuer level, the framework's application can be applied across equity portfolios as well.

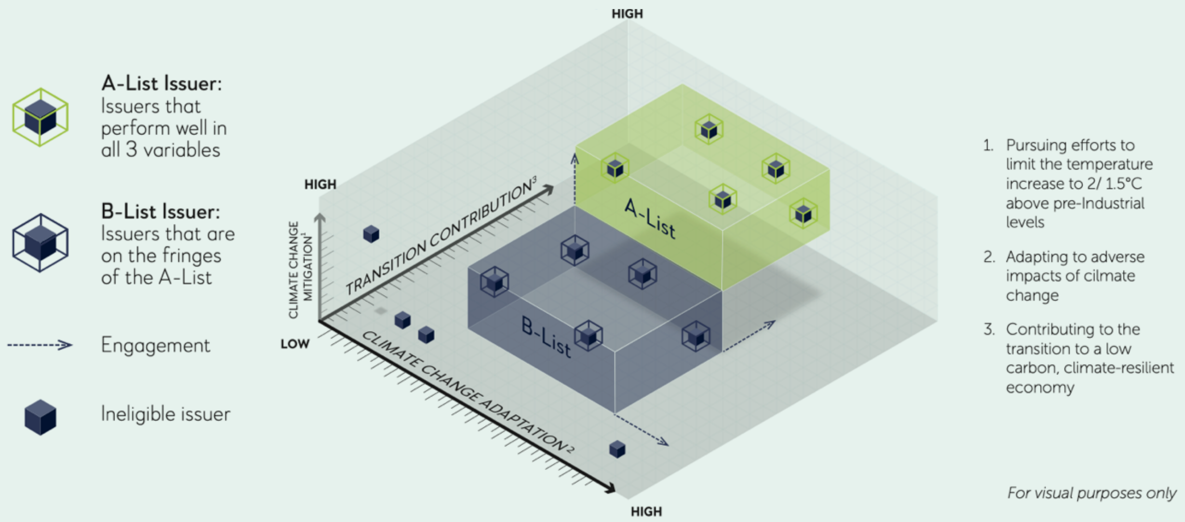
Under the framework, AIIB and Amundi will gather data on how companies are managing their performance in relation to the objectives of the 2015 Paris Agreement by rating them on three factors: climate mitigation, resilience and transition.

For example, to determine how a company is faring on the transition to a green economy, the framework will measure the percentage of the company's green activities as a percentage of total revenue.

The framework translates key objectives of the Paris Agreement into fundamental investment metrics. In that sense, the aim is to define an investment universe for investors which include issuers that are more resilient to climate change risk and more exposed to opportunities not yet priced in by the market. The framework has been endorsed by the Climate Bonds Initiative. The framework will be updated annually according to the evolution of market best practices and thought leadership.

Rating system

A company is rated based on a scoring system that differentiates "A-list and B-list climate champions." The A-list will be those companies that rate highly on mitigation, resilience and transition, while the B-list companies might score well on just one of those three factors. The idea is that the fund manager would then work with companies on the B-list to identify how they could improve their ratings and encourage them to raise their ratings to attract investors, thereby building climate change resilience and green technology development.



Implementation- AIIB Asian Climate Bond Fund

In January 2020, Amundi launched a $500 million Asian climate bond portfolio which is the first application of the framework. The emerging market corporate debt portfolio invests in labelled green bonds and unlabelled climate bonds and engages with issuing companies to help them transition their business models to increase climate resilience and green leadership. Adjacent to the fund, AIIB allocated funding for market education, engagement and issuer support in relation to the framework.

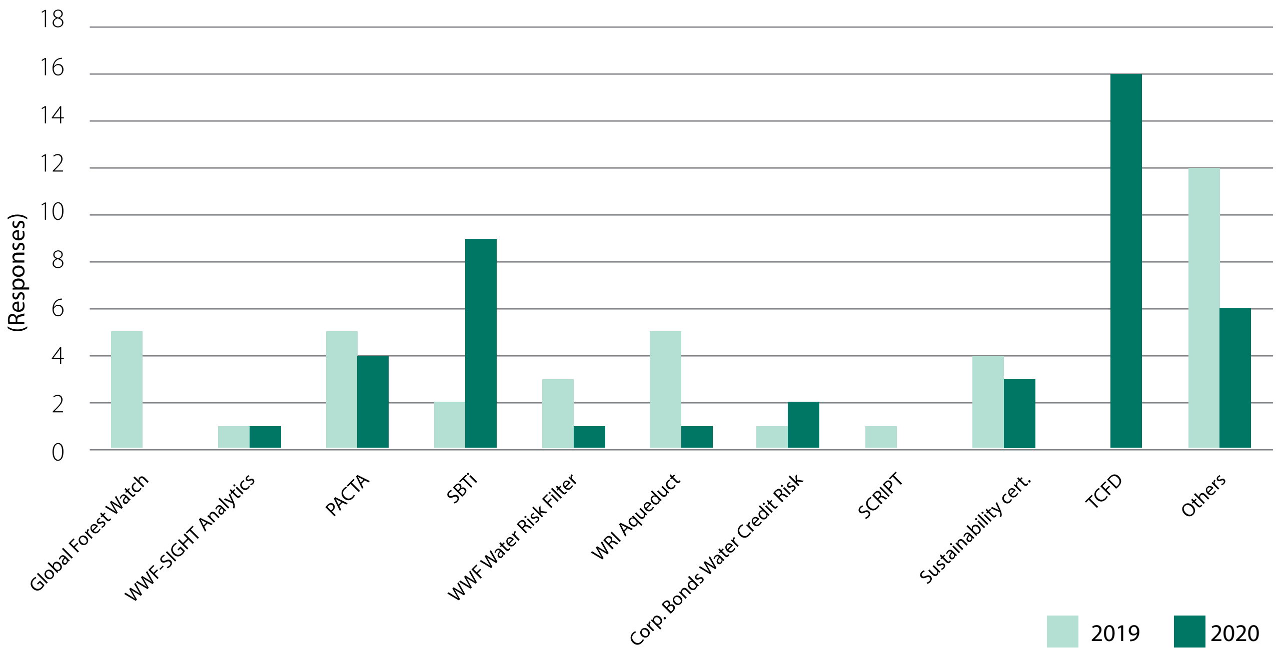
Since 2019, when the first AIGCC Low Carbon Report was launched, we have seen a trend for methodologies specific to asset classes or products rather than one methodology applied to a multi-asset portfolio. In response to this, the survey this year included property and infrastructure tools such as GRESB, NABERS and Green Star. The use of these tools has significant support from investors, particularly for property related assets.

When asked about the specific tools and frameworks used to implement climate strategies, unsurprisingly, the Taskforce for Climate-related Financial Disclosures was the primary tool which a majority of the investors referred to, closely followed by the Science Based Targets initiative, which has seen a significant growth in usage by respondents from 8% to 47% year on year.

In Asia, as similarly observed by our Australian peers, the Climate Bonds Initiative Standard, while being one of the first widely used tools, has waned in its use by investors year on year. This may simply reflect a reduction in climate bonds issued during 2020 and the uptake of pandemic and catastrophe bonds.

What remains clear and consistent across our annual survey is the ongoing importance of using a credible methodology to define net zero or climate-aligned investments. We are also seeing a rapid shift in methodologies being used, as detailed above, and the increasing demand for Asia-relevant climate taxonomies.

Figure 2: Tools investors use to implement climate or low-carbon technologies



*The scope for the survey this year is broadened to include frameworks such as TCFD

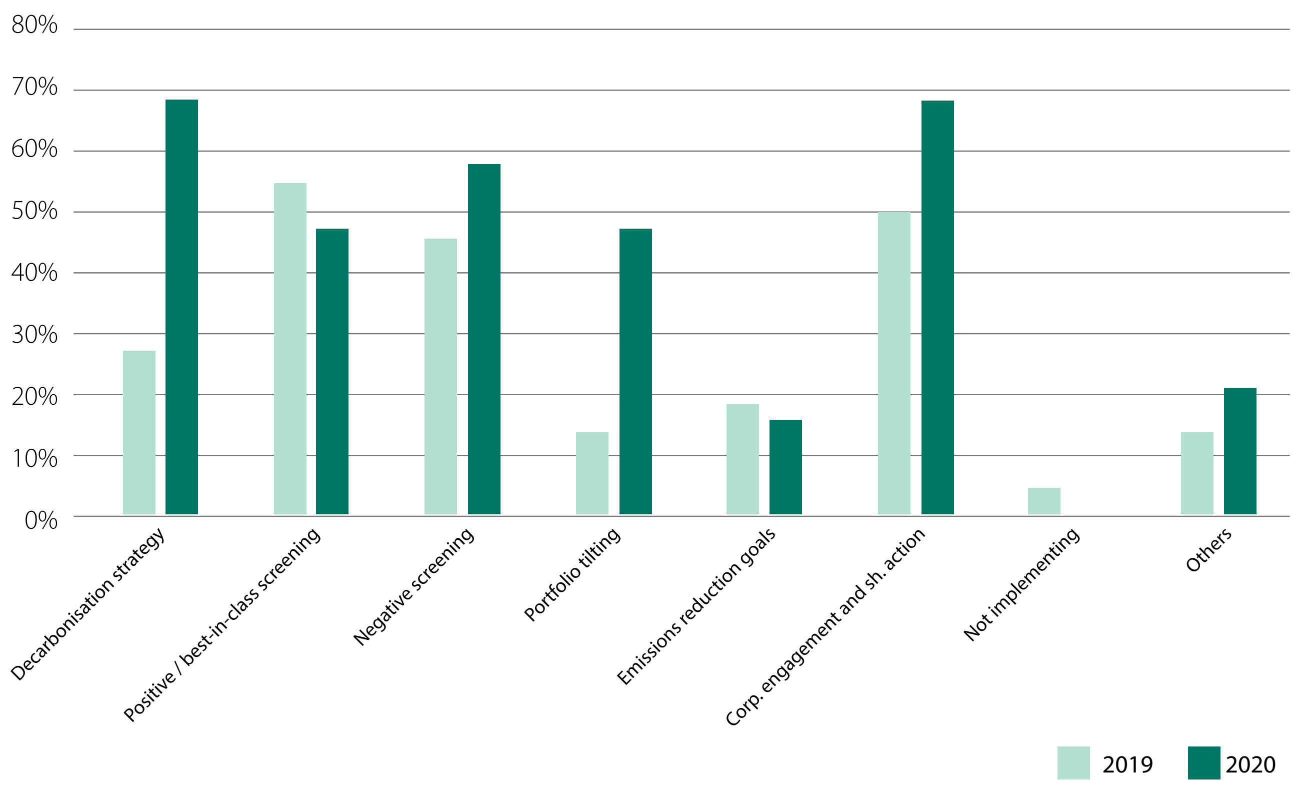
GENERAL INCREASE OF CLIMATE-ALIGNED INVESTMENT STRATEGIES

Over the past year, we have seen increasing ambition statements coming from sovereign wealth funds and investment managers through roadmaps which inform investors' low-carbon strategies with net zero ambitions, effectively shifting low-carbon strategies into net zero strategies. The following statistics illustrates the landscape for deeper and broader implementation of climate-aligned strategies.

Increased implementation of climate-aligned investment strategies

With an upward trend in the implementation of a climate-aligned strategy, we have seen a significant increase in the usage of decarbonisation strategies (>40%) and portfolio tilting (>35%), suggesting that investors are now more actively managing their portfolios to pivot away from assets at risk, while capitalising on investing in climate-related opportunities. Whilst the deployment of these strategies is now at a less nascent stage compared to last year, investors are also developing and refining their overall investment strategy as more tools, knowledge and collaborative initiatives become available. An investor has shared that they have taken courageous but necessary steps to participate in new initiatives as part of the process to refine their own low carbon strategy. Corporate engagement and shareholder action were considered commonly used strategies last year and have continued to see moderate increases in usage.

Figure 3: Implementation of low carbon, climate-aligned strategies in 2019 vs 2020



Case Study
GIC
Greening the portfolio

GIC is a sovereign wealth fund of the Government of Singapore. GIC is a global long-term investor with well over US$100 billion in assets under management and invests across a range of asset classes in the public and private markets.

Climate change is one of the defining issues of our era, with profound and growing impact on both the physical and financial worlds. GIC believes that companies with good sustainability and climate change practices offer prospects of better risk-adjusted investment returns over the long term. GIC expects this relationship to strengthen over time, as regulators, consumers and businesses increasingly act on climate change and other sustainability considerations.

As a long-term investor, GIC encourages portfolio companies to be aligned with the transition towards the low-carbon economy.

Here are some areas that illustrates how GIC is greening its portfolio:

a. GIC has invested in a range of climate-related opportunities, including renewable energy assets, green buildings, emerging technologies that support the low-carbon transition, and various impact funds. Past investments include Greenko (a pure-play renewable energy producer in India, diversified across solar, wind and hydro power), Energy Development Corporation (a vertically integrated geothermal energy developer and operator in the Philippines), and ChargePoint (a developer of electric vehicle charging infrastructure in the US and Europe). GIC continues to explore high-conviction ideas across multiple asset classes.

b. GIC is greening its real assets portfolio by ensuring that all buildings within it are environmentally sustainable, or have the potential to be retrofitted to improve their environmental footprint. For example, extensive energy reduction and sustainability efforts have been implemented at several of GIC's wholly owned office buildings in various cities.

c. GIC's effort is not limited to new assets, but applied to existing ones as well. Where companies are exposed to greater physical or transition risks arising from climate change, GIC engages with their management teams to discuss, and offer support for, the company's plans to mitigate or transition away from those risks.

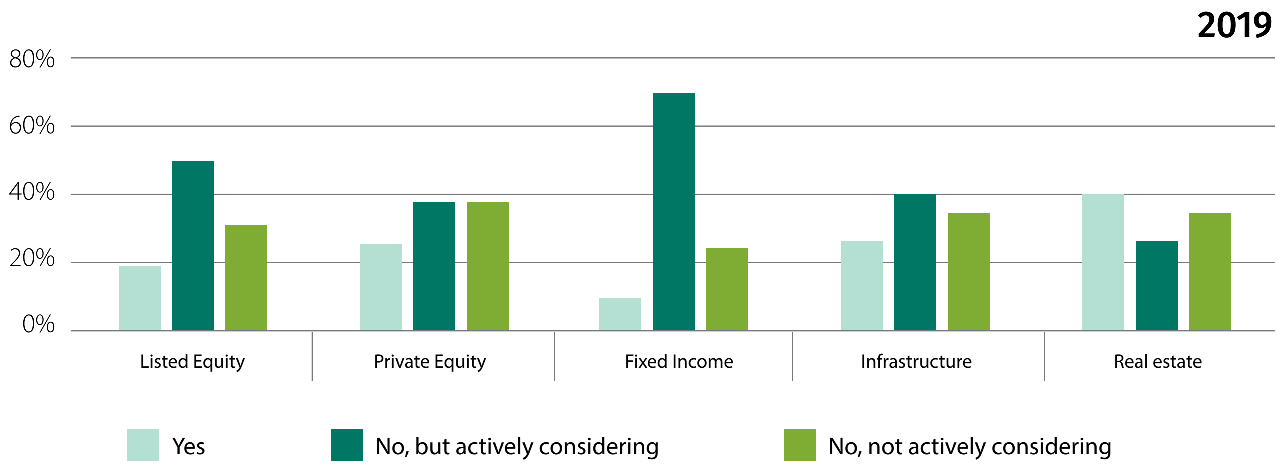
Ultimately, GIC takes a long-term and holistic approach to sustainable investing, which helps build resilience and diversification in their portfolio to achieve better long-term returns, and create more beneficial outcomes for the communities which the investments touch.

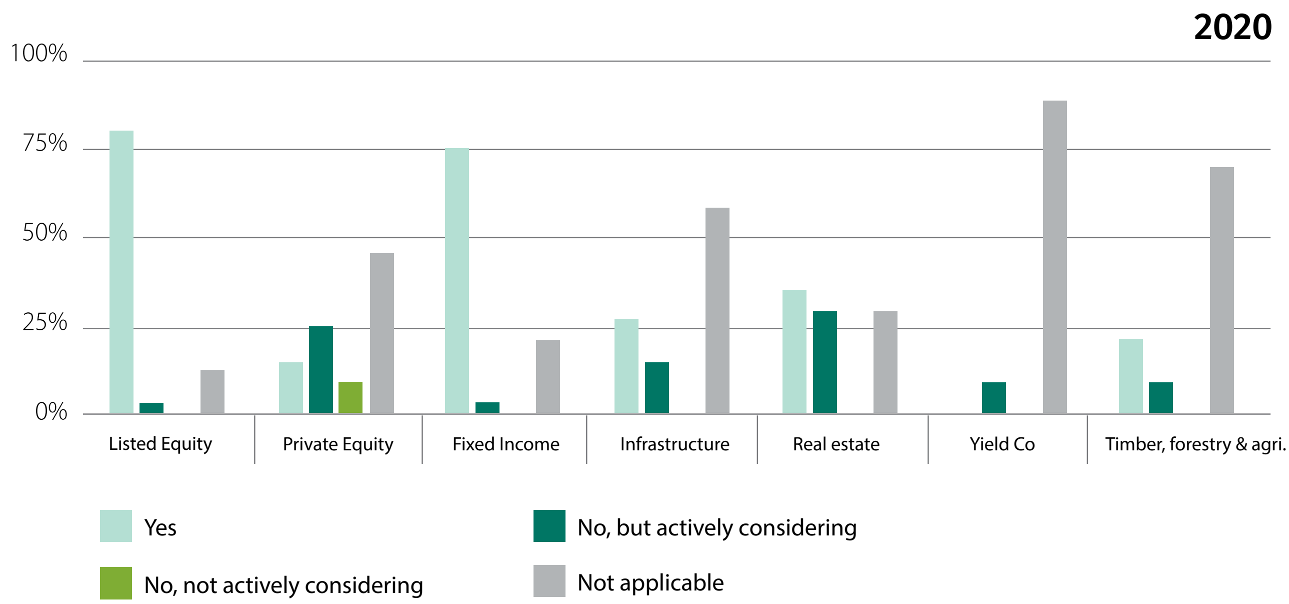
Carbon footprint analysis now commonly conducted for listed equities and fixed income

Over the year, numerous tools have become available in the market to help investors conduct carbon footprint analysis, resulting in a significant growth of carbon footprint analysis conducted, particularly in listed equity (79% in 2020 vs 19% in 2019) and fixed income (74% in 2020 vs 11% in 2019). This is unsurprising as listed equity is the easiest and most common asset class for measuring carbon footprint of a portfolio. Third party research providers like MSCI, Sustainalytics and GRESB continue to be commonly referred to in the process. Some investors have started developing proprietary tools based on their own in-house interpretation of the significance of Scope 3 emissions for different sectors. As an area of rapid development, proprietary methods may draw on the newly launched Climate Action 100+ Net Zero Company Benchmark as it seeks to elevate expectations across all sectors in developing net zero emission standards.

This year, there is decline on carbon footprint analysis within the private equity space which is worth keeping a watching brief on.

Figure 4: Carbon footprint analysis across different asset classes in 2019 vs 2020



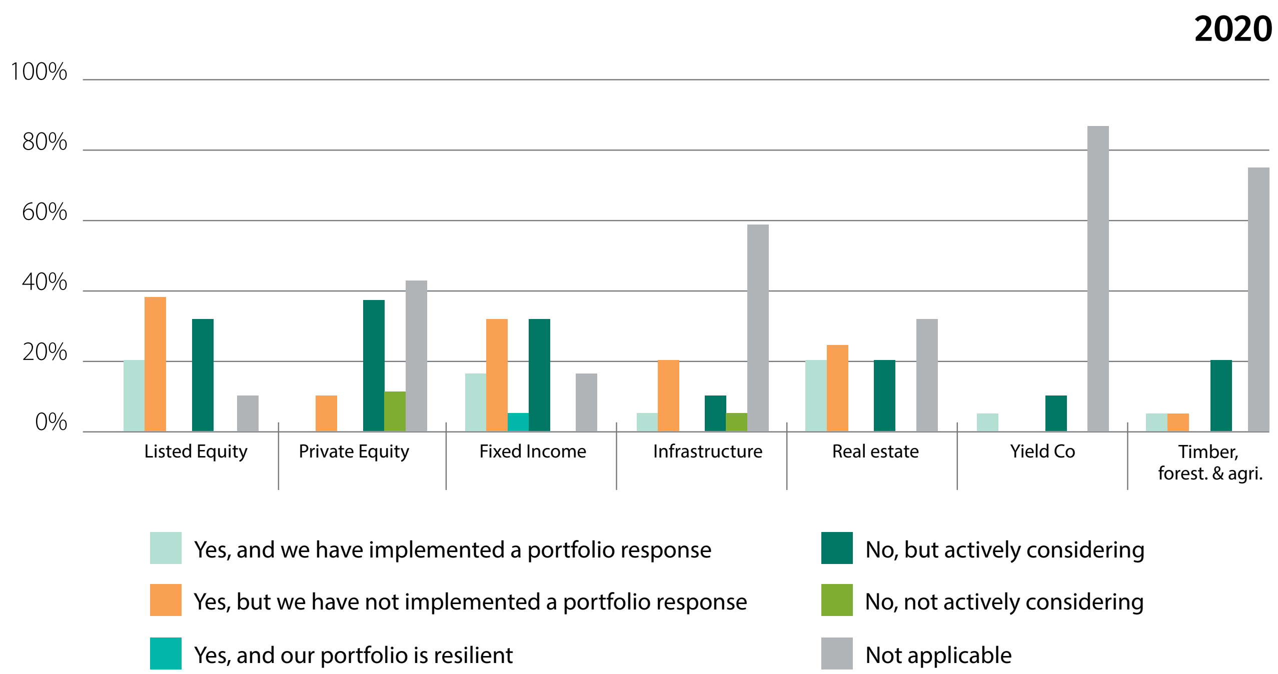


Physical risk or resilience analysis increased in certain asset classes

Apart from listed equities and fixed income, where the analysis of a portfolio's physical risks and the implementation of a portfolio response to increase resilience has increased, a resilience response is often yet to be implemented for other asset classes where implementation has proven to be more challenging.

However, the overall rate of response for physical risk analysis to be considered has increased across all asset classes, including those that are difficult to implement. Actual implementation of a portfolio response to increase resilience have declined for private equity, infrastructure and real estate, suggesting that more tools and examples are needed for these asset classes.

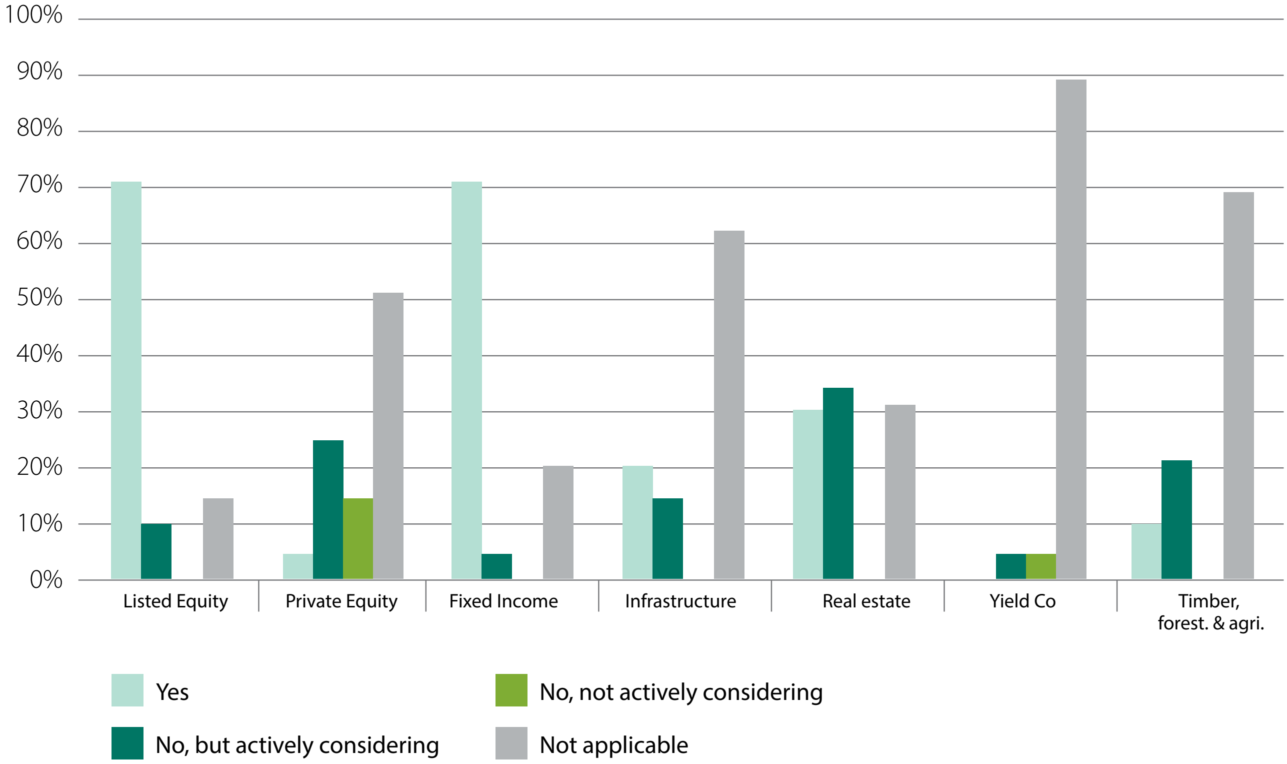
Figure 5: Climate-related physical risk or resilience analysis in 2019 vs 2020



Transition risks are being actively considered in listed equities and fixed income

Similar to earlier results, listed equity and fixed income ranked particularly well in investors' focus on transition risk, potentially reflecting the increasing number and quality of assessment tools available in the market. Whilst the proportion of real estate investors undertaking transition analysis is lower (32%), these investors appear to be actively considering an analysis for this asset class, possibly reflecting the need for relevant frameworks to address the needs of this asset class in its assessment of transition risks.

Figure 6: Climate-related transition risk analysis in 2020



Case Study

Government Pension Investment Fund (Japan)

Scenario Analysis for Climate Change-Related Risks and Opportunities in the Portfolio

The Government Pension Investment Fund (GPIF) manages and invests the reserve funds of Japan's Government Pension Plans. It manages assets of over $1.5 trillion and is one of the biggest pension funds in the world.

In its 2019 ESG report released in August 2020, GPIF expanded on the information disclosed last year, which was in- line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), to include a comprehensive assessment of climate change-related risks and opportunities across all major asset classes in the fund's portfolio.

GPIF used the Climate Value-at-Risk (CVaR) method to analyze stocks and corporate bonds. This approach allows for calculation of the present value of the costs and benefits arising from climate change based on an assumed climate change scenario. The CVaR of a company can show how much a company's value will change in the future due to climate change and allows climate change to be viewed as a sort of financial shock that impacts corporate value [1]. CVaR enables integrated disclosure of the transition risks, physical risks, and opportunities recommended by TCFD, because it allows (1) policy risks, (2) technological opportunities, and (3) physical risks and opportunities to be analyzed using the same yardstick—that is, their impact on corporate value.

Key findings of the CVaR include:

- Equity prices are estimated to actually be higher under a 1.5˚C scenario than under a 2˚C or 3˚C scenario due to the value generated by greater technological opportunities
- Fixed income portfolio shows the opposite trend, with the negative impact on the portfolio becoming smaller as policy restrictions become more relaxed.
- Prices of assets in GPIF's portfolio as a whole (excluding government bonds) is negative in the 3˚C scenario, positive in the 2˚C scenario, and significantly positive in the 1.5˚C scenario

1. For example, if the CVaR of Company A is -10% (or +10%), it means that Company A will lose (or gain) 10% of its corporate value under the climate change scenario being assumed.

Figure 6A: Aggregate CVaR by Temperature Change Scenario

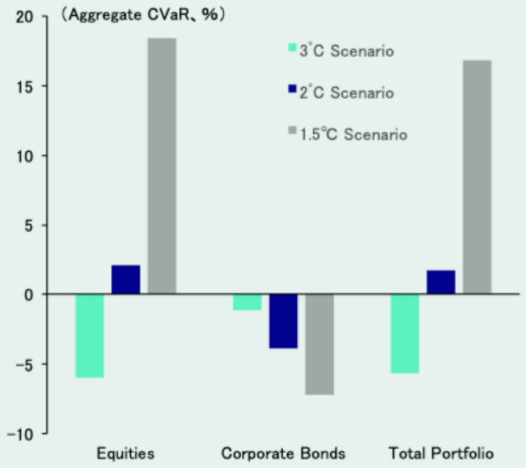


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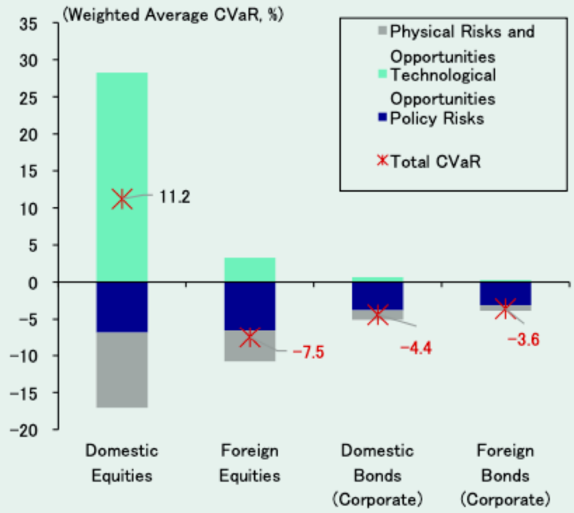
Figure 6B: GPIF's Portfolio Climate Value-at-Risk (CVaR) under a 2˚C Scenario



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In line with TCFD recommendations, the report also shows a breakdown of the effect of climate change risks and opportunities as follows:

- Under the 2˚C scenario, technological opportunities have a substantially positive effect on domestic equities, with the estimated value of this asset class rising by +11.2%.
- Foreign equities, for which the positive contribution of technological opportunities is more muted, actually decrease in value by -7.5%.
- Overall, policy risk pushes down the value of equity and fixed income prices for companies in sectors in which the environmental burden is high, such as the energy, materials and utilities sectors.

While the analyses in this report focus mainly on GPIF's portfolio, the fact that the majority of its assets are invested passively across a broad range of equities and fixed income instruments across the world means that the findings act as a valuable reference to other investors globally.

See full details here.

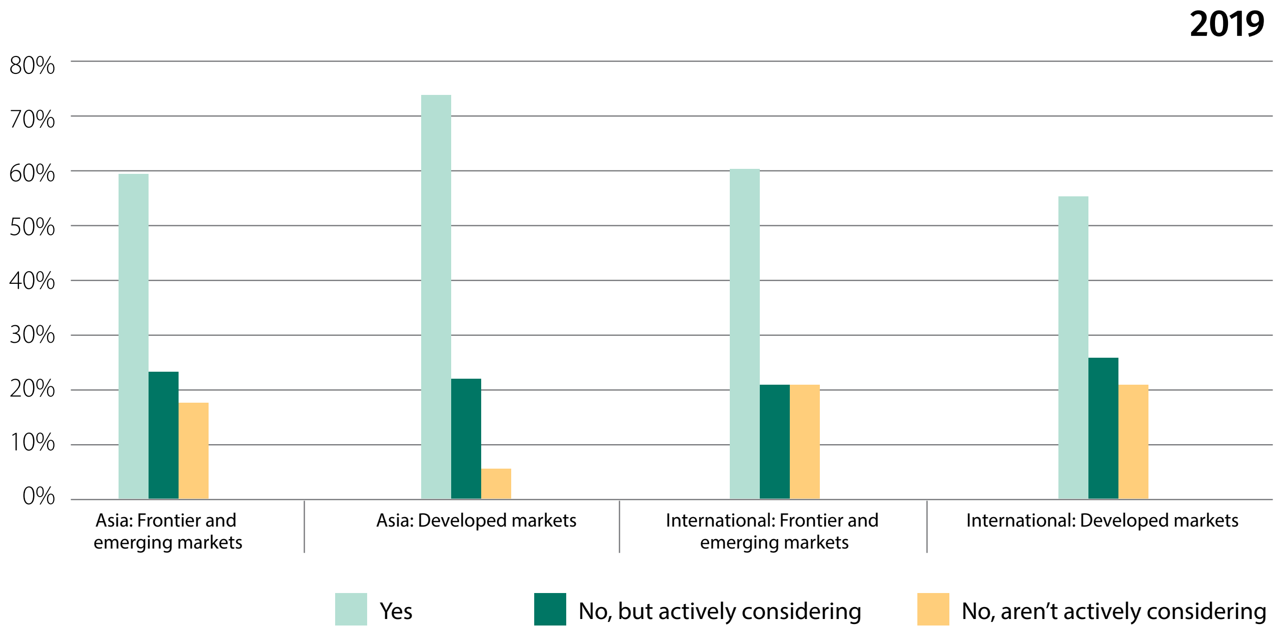
Note: GPIF commissioned its climate change risk and opportunity analysis to three different evaluators: the Zurich-based MSCI Climate Risk Center (formerly Carbon Delta, acquired by MSCI in 2019); Paris-based Beyond Ratings, a subsidiary of FTSE Russell, and London-based Trucost, a subsidiary of S&P Global.

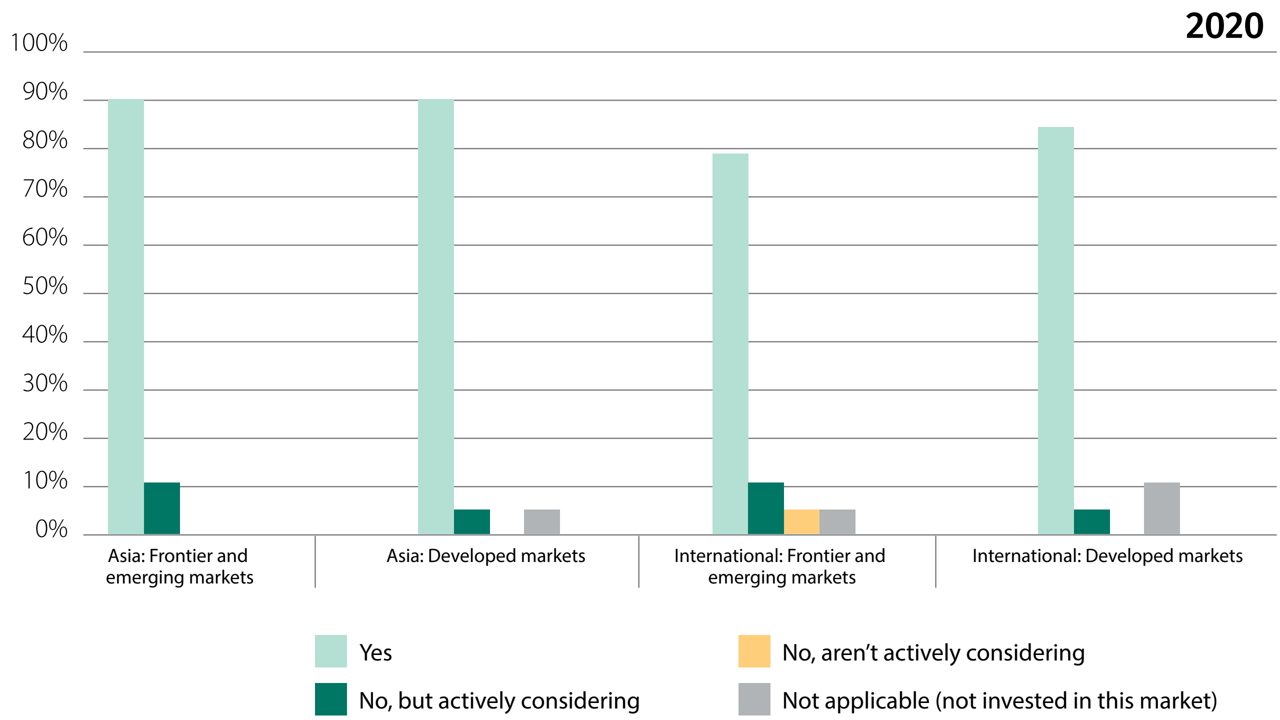
Investment Activity

GROWING INVESTOR APPETITE

Investor appetite for climate solutions remains strong with investors allocating capital across a broad range of asset classes and regions. There is a notable increase in strategy deployment year on year, with the jump being especially significant in emerging markets, where an increase in availability of data may have helped. We also note that almost all respondents intend to further increase allocations across all regions and asset classes.

Figure 7. Markets in which investors are currently active or considering climate aligned or low carbon investments

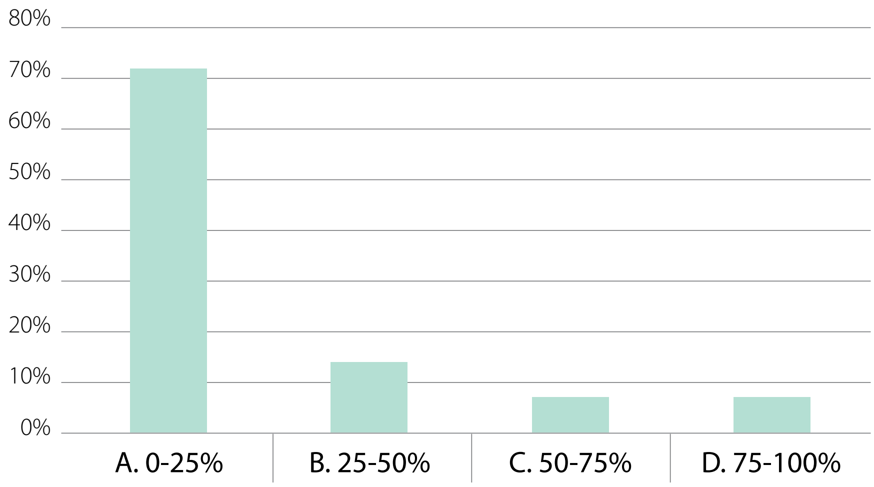




Low climate solutions yet to be broadly integrated

Asset managers continue to report a continued low proportion of clients to have specified requirements for climate related investment solutions. Asset managers results have been consistent year on year. Client mandates that have specified climate related obligations primarily fall within 0-25% (see the chart below). This captures climate investments, exclusions and also reporting obligations such as TCFD.

Figure 8. Proportion of fund manager clients that have explicit climate related requirements in investment mandates



Case Study

Manulife Investment Management –

Raising the bar for TCFD reporting

Manulife Investment Management (MIM), a global life insurer with AUM of US$900b (as of June 2019) of which one-third is comprised from Asia and Japan, has aligned disclosure standards with the recommendations of TCFD in its Sustainable and Responsible Investing Report 2019, clearly setting out how MIM incorporates climate-related risks and opportunities into governance, strategy, risk management, metrics and targets.

MIM was an early participant in the UNEP FI pilot project, where participants developed scenarios, models and metrics to enable a scenario-based forward-looking assessment and disclosure of climate-related risks and opportunities. In 2019, MIM rolled out the use of this scenario analysis model for select asset classes, creating a numerical output that measure the risk of loss for investments.

MIM conducted a comparison of public equity portfolios in different regions using these tools, analyzing the climate VaR impact under three climate scenarios using a 15-year timeframe to assess risks and opportunities. The output, as detailed in the figure below, helps determine those organizations that have greater exposures to climate risk.

Unweighted aggregate climate VaR among holdings for two portfolios

Canadian equity portfolio			Asian equity portfolio	
Climate VaR from transition risk	Climate VaR from tech opportunity	Change in average global temperatures above preindustrial levels	Climate VaR from transition risk	Climate VaR from tech opportunity
-12.65%	0.77%	3.0˚C	-16.74%	4.99%
-48.78%	2.87%	2.0˚C	-135.70%	17.20%
-99.77%	6.91%	1.5˚C	-177.60%	40.40%

Overall, MIM concluded that climate transition risk (the general cost associated with moving from a business-as-usual scenario to a carbon neutral scenario) represents the greatest portfolio risk, followed by physical hazard risk (the cost impact associated with extreme weather events). Both these risks may be partially offset by low-carbon technology innovation, particularly for companies that have invested in sustainability-related research and development.

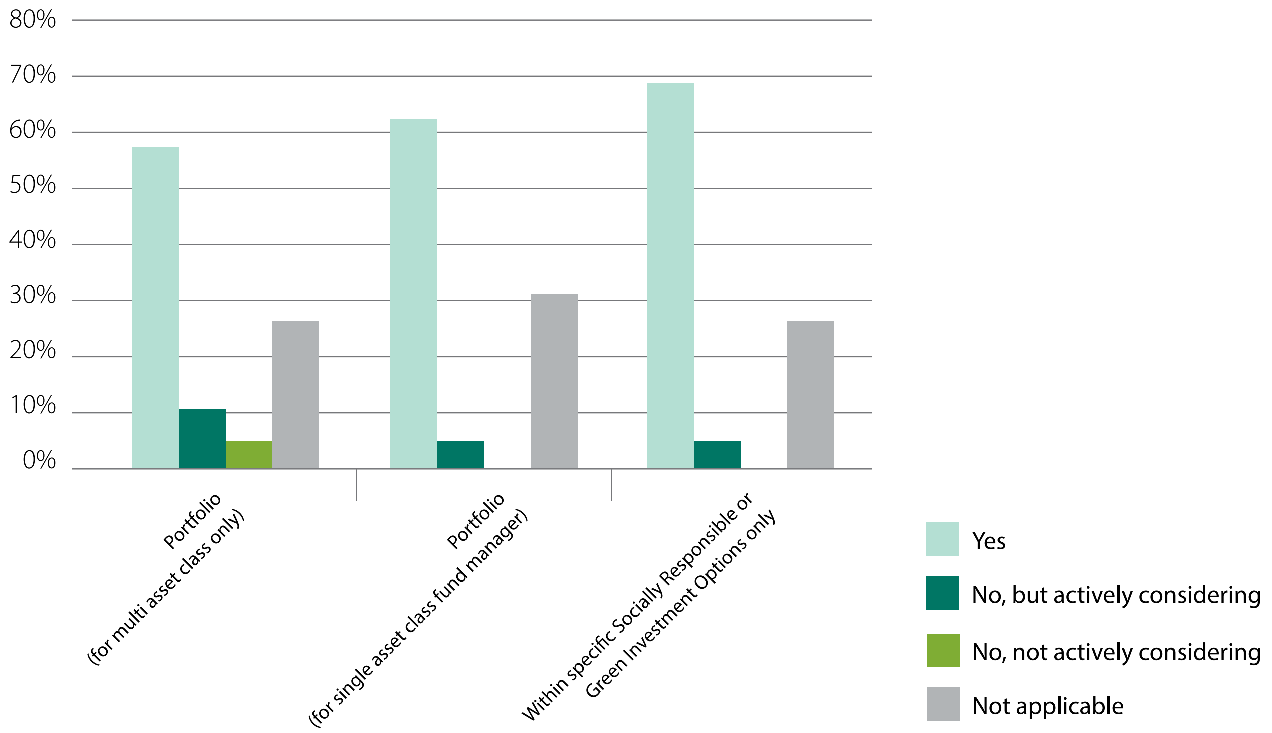
MIM uses a variety of metrics to manage and monitor their alignment and investee companies with the Paris Agreement including green investments, carbon footprinting, portfolio warming potential, sovereign ESG model and strategy-level emissions monitoring. MIM also provides training for investment staff, engagement with companies and education and reporting for clients on climate risks.

Whilst asset owners are gradually raising climate aspirations, more work can be done to leverage this value chain since mandates determine assets under management. Asset owners need to use this mechanism and work with fund managers to support implementation of their climate commitments.

In Asia, we found asset owners to employ specialist fund managers for low carbon investments with low proportion of overall investment mandates having specific requirements for investments in climate related solutions, as well as more active consideration for ESG specialists for low carbon mandates.

Survey findings suggest that climate change investments were primarily in the domain of socially responsible investment options closely followed by individual asset classes. This is one to watch going forward to see if climate investments would go further mainstream. One point to note is that a relatively large number of Asian investors have taken a whole[2] 'portfolio' implementation approach to green investments, a relatively high percentage relative to Investor Group on Climate Change (Australia/New Zealand) findings (under 40%). This is a trend to watch for next year.

Figure 9. Asset classes in which investors are currently active or considering green investments (2020)



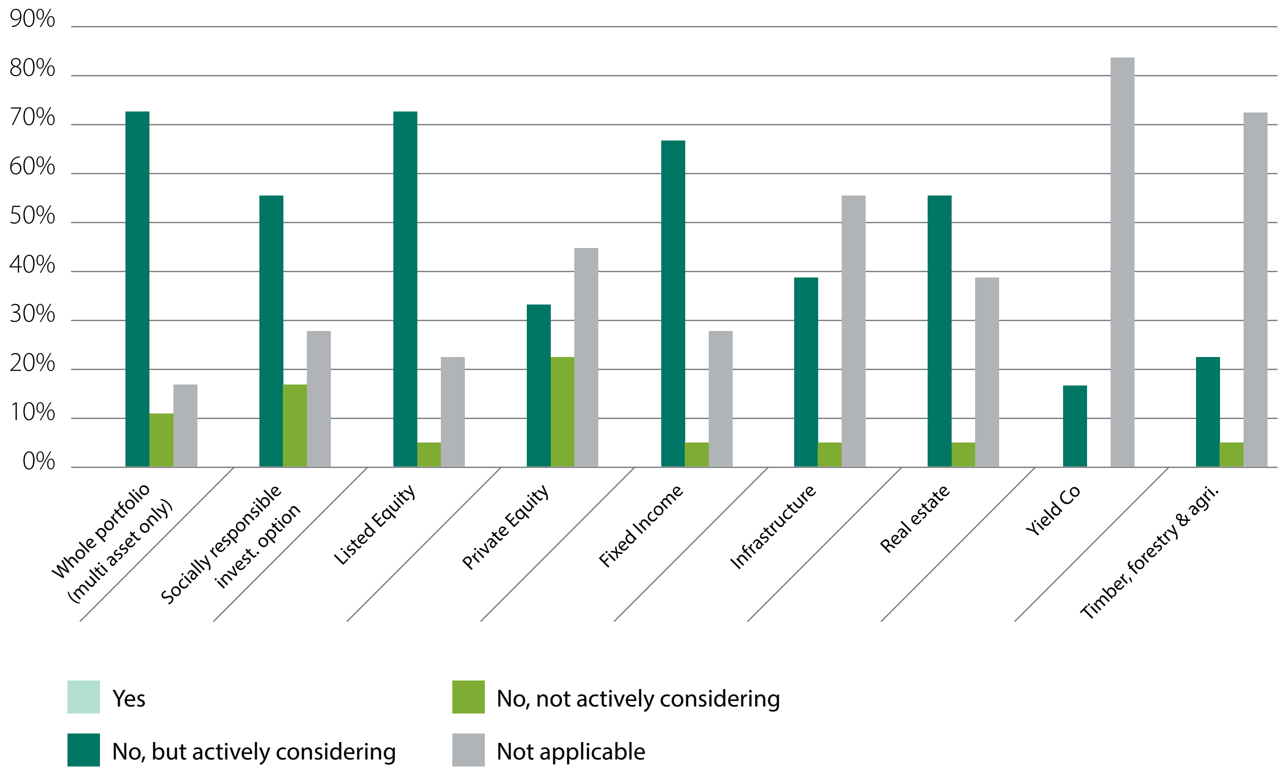
On the other hand, asset managers expect to increase their range of climate related product offerings, indicating strong interest from clients and potentially retail. Over 70% of asset managers expect to launch new climate related investment solutions over the next 2 years.

2. Whole portfolio implies a portfolio wide approach to green investments as opposed to treating these as separate mandates.

Setting targets for green investments

Asian investors have yet to set aspirational portfolio wide net zero emission commitments, relative to global peers, but are conscious of this trend, with over 70% of respondents actively considering a 2050 net zero emissions target (asset managers constituted 74% of respondents). This is a trend to watch for next year. With new net zero initiatives for asset managers and owners,[3] we expect to see more Asian investors set net zero portfolio commitments in 2021.

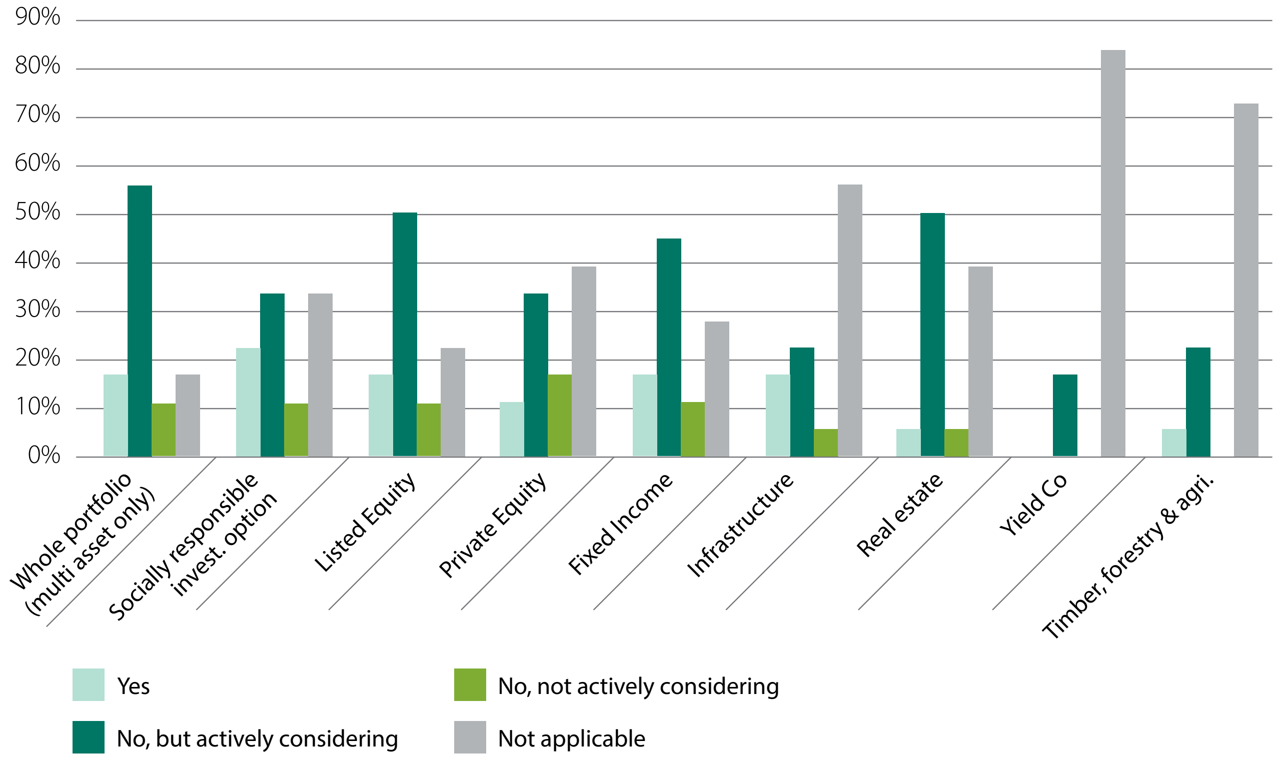
Figure 10. Asset classes in which investors are currently active or considering net zero emissions target



Despite a lack of net zero ambitions, we are encouraged that around half of Asian investors are currently active or are actively considering low carbon or climate aligned investment targets across asset classes. Investors have also pointed out that many clients have set such targets for specific portfolios. Of those who have set targets, most remain internal only, with respondents divided roughly in half between use of external or internal reporting frameworks for measurement and progress report.

3. Net zero asset manager's initiative and Net-zero asset owner's initiative were introduced in 2020 and 2019.

Figure 11. Asset classes in which investors are currently active or considering low carbon or climate-aligned investment targets



Other key survey conclusions regarding target setting, reporting and measurement are that:

- Internally defined organisational priorities are marginally more common (41%) than use of external reporting frameworks such as TCFD (35%).

- **TCFD reporting remains prevalent among Asian investors.** Over 50% of respondents already report against TCFD, with most including scenario analysis, with another over 30% of respondents actively considering it.

- A large minority of respondents intend to measure avoided emissions (44%) compared to the small majority (55%) who do not.

THE SOCIAL DIMENSION

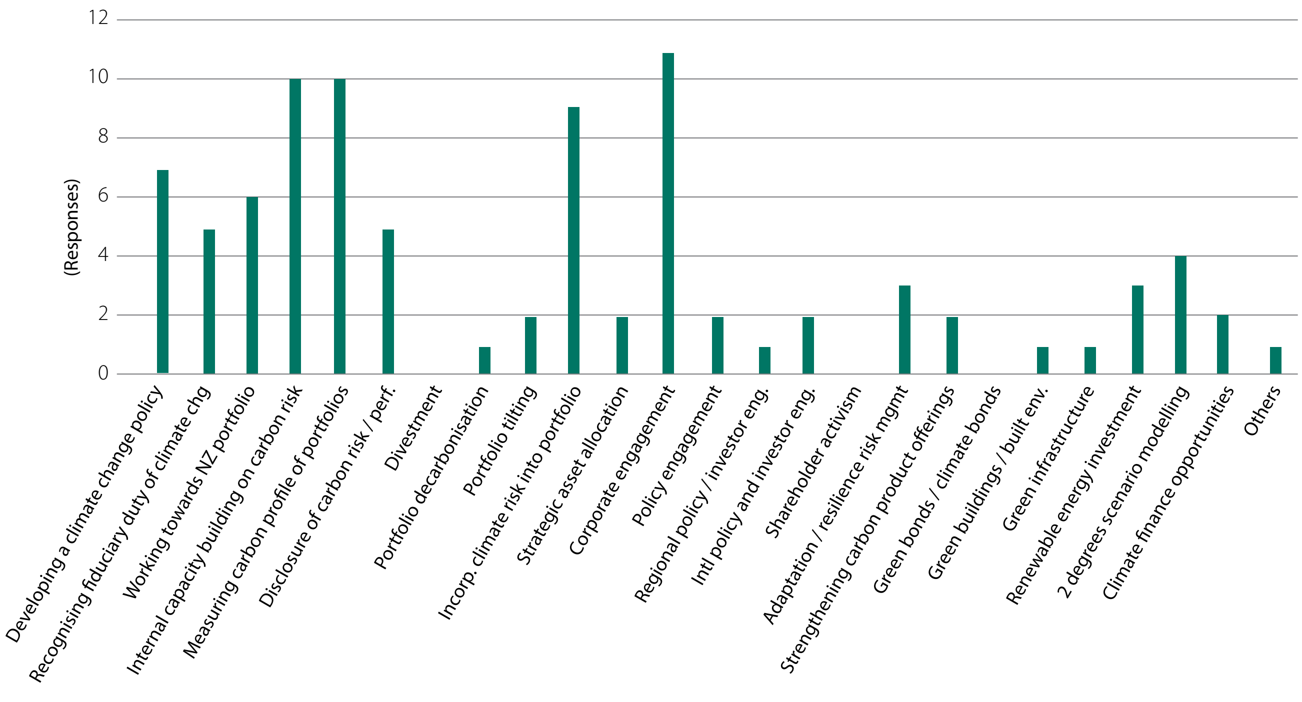
Investors continue to consider the social aspects of climate change. Alignment of investment with the UN Sustainable Development Goals (SDGs) is the preferred approach, with social aspects being considered as part of ESG.

It's likely given the preference for the SDGs in the methodology section earlier that investors are using one framework to capture all elements related to the climate change thematic. This could explain the lower focus on just transition in 2020.

EMERGING TRENDS AND ORGANISATIONAL PRIORITIES

With a range of responses to investors' organisational priorities, we were able to identify some common concerns and recurring themes around corporate engagement, portfolio management, policy engagement and physical risk concerns. The following chart outlines the key trends identified by investors.

Figure 12: Investors' key organisational priorities with regards to climate change



CORPORATE ENGAGEMENT

Many investors are now devoting more time and resources into engagement on corporate climate change response and performance especially through global collaborative engagement initiatives such as Climate Action 100+ and the Net Zero Asset Managers Initiative. The key issue is how best to effectively translate engagement conversations into corporate action and what kind of escalation tactics investors will consider.

PORTFOLIO MANAGEMENT

The rising standards of mandated carbon disclosure from regulators and growing importance of decarbonisation on investment outcomes has brought carbon to the forefront of investors organisational priorities with four of the top five responses being pertinent to this topic. Investors are focused on portfolio management measures such as measurement of carbon intensity and footprinting of portfolios, portfolio decarbonisation, adding internal resources towards managing carbon risk and working towards a net zero portfolio.

Portfolio tilting, strategic asset allocations and strengthening climate-related offerings were also listed. The breadth of options considered suggests that investors are implementing bespoke strategies fit for portfolios managed under different mandates across different asset classes.

POLICY ENGAGEMENT

Investors continue to show interest towards policy development, which will be critical in a period where governments in China, Japan and South Korea develop their pathways toward net zero carbon emissions. Consequently, policy work remains high on investors' organisational priorities, with investors expected to step up either individually or collaboratively on policy engagement in regional and international policy work.

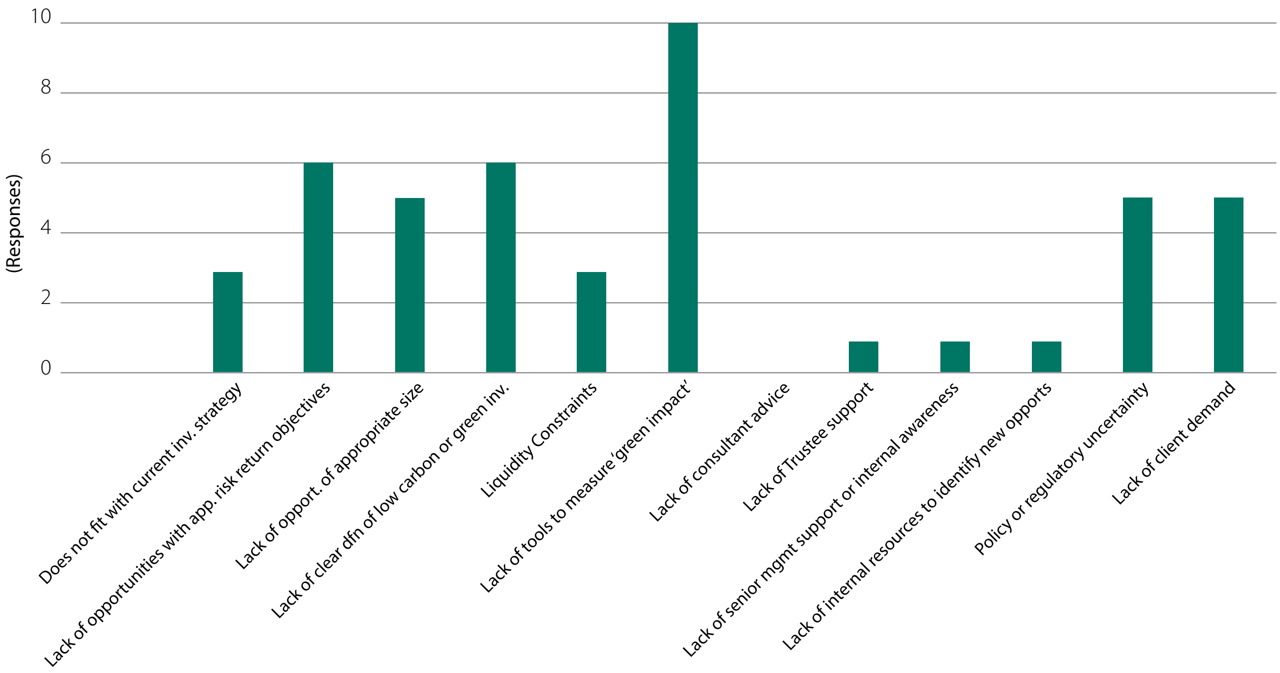
EMERGING CONCERNS ON PHYSICAL RISKS

Investors have highlighted physical risks and potential financial impacts as an area of concern and are developing risk management strategies to mitigate these risks. Investors are also devoting more resources towards developing 2°C scenario modelling to deepen their understanding of the associated risks.

Barriers to Investment

With investment activity occurring across a wide range of asset classes and geographies, market-specific nuances across pan-Asian markets pose various challenges for investors and a nuanced market-level understanding of each Asian market is required. The following chart outlines the commonly experienced barriers to investment in Asian markets.

Figure 13: Main barriers to increasing exposure to low carbon or green investments



Investors are primarily concerned with the lack of tools to measure and report on 'green impact'. This could be a result of imperfect market information and uneven green taxonomies being used in different countries. In this regard, we note progress is being made on this front with China's central bank governor outlining a new set of measures to aid green finance in December 2020.

As compared to last year's survey, the perceived lack of opportunities with the right risk-return parameters remains a significant barrier to increasing investment in green or climate-aligned opportunities, but has decreased in importance, potentially signaling an improvement in this area.

More broadly, other issues identified included lack of opportunities of appropriate size, lack of clear definitions about what constitutes a low carbon or green investment, policy or regulatory uncertainty and a limited universe for green investments from emerging markets. On these last two points, harmonisation efforts of green taxonomies across regions would be helpful to Asian markets and is an area for policymakers to consider.

UNDERSTANDING THE IMPACT OF COVID-19

Climate change is now entrenched enough in investment strategies with limited impact seen from the COVID-19 pandemic on climate-aligned investment.

The coronavirus pandemic represents not only an unprecedented global health crisis, but has resulted in devastating economic and social impacts for communities around the world. It has touched every person and market across the global economy.

Despite this and impacts to global markets, when it comes to climate change, investors are pressing on. More than 70% have signaled that the pandemic has had no impact on progressing climate change investments or developing climate aligned solutions.

Conclusion

AIGCC has undertaken this survey for the second year in a row now, with the intent of gauging how investors are approaching climate-aligned investment, where they are allocating capital and what barriers or challenges they face when investing in climate solutions.

This year, the 2020 survey was undertaken in the midst of unprecedented circumstances, with the global COVID-19 pandemic still sweeping through communities and economies. Resilience would appear to be the watchword of 2020.

For all of this, it appears that investors remain focused on pursuing net zero investment, are continuing to work across their value chain to set targets and design investment solutions.

The trends of implementation and increased appetite for climate ambition have continued to grow in Asia. Investors are setting more ambitious targets, even as their ability to implement continues to develop. And the COVID pandemic has not deferred investor appetite for climate investment, but rather has redirected it towards recovery, resilience and projects which deliver broader social outcomes.

AIGCC will continue to support growing appetite among Asian investors for climate aligned investments and to work with our members and stakeholders in the region to develop investable solutions to facilitate the transition to resilient, net-zero emissions economies. This report is the first in a series of work on scaling up low and net zero carbon investment going forward.