Trends in sustainable investing in the Asia-Pacific region

- The shift to sustainability in APAC magnifies investment opportunities
- Trends to watch include climate change and the energy transition
- Investors have a role in amplifying real-world impact

Accounting for 60% of the global population and home to some of the world's fastest-growing economies, Asia represents a compelling investment prospect. The region consists of a diverse grouping of economies and sectors, and is exposed to a variety of growth drivers that include powerful demographic trends, shifts in consumer behavior and technological advancements. The clear pivot towards sustainability in the region has magnified some of these trends and has attracted investors wanting to finance sustainable growth solutions for the region.

We identify three key trends in sustainable investing in the Asia-Pacific (APAC) region: the first is climate change, which will present challenges and opportunities as we switch to cleaner energy and move towards a lower-carbon regional economy; secondly, we emphasize the importance and urgency of achieving meaningful real-world impact by working towards the Sustainable Development Goals; and, thirdly, the rollout of sustainable investing regulation across the region has clear implications for investors.

Article
For professional investors
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Trend 1: Climate change, clean energy and moving to net zero

Managing surging energy demand in the move to net-zero emissions

A particular opportunity arising from the rapid growth in Asia is in the energy sector, as it expands and transforms in line with government ambitions to reach net-zero emissions by mid-century.

In Southeast Asia, electricity demand is growing at an average rate of 6% per year (International Energy Agency (IEA)), which is among the fastest in the world. This region is set to have a major regional and global impact over the next two decades in terms of energy supply, adding the equivalent of Japan's entire energy system to the global energy supply scheme to keep pace with rising incomes and higher temperatures. Such a rapid and large-scale extension of energy infrastructure underscores the importance of Southeast Asian countries' energy policies not only for their citizens, but also for the rest of the world.

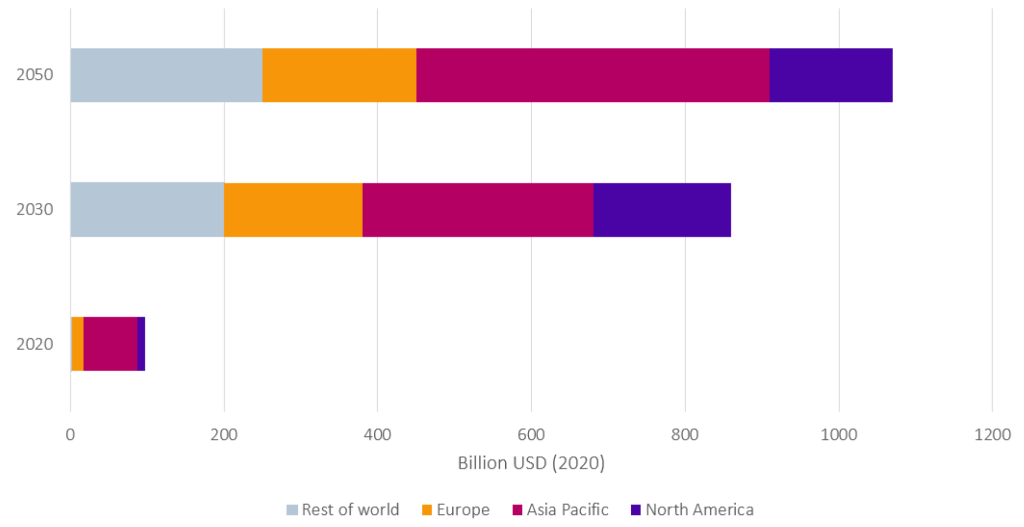
'The region is set to have a major regional and global impact over the next two decades in terms of energy supply'

Current energy trends in Asia are worrying, though. A number of power systems in the region face significant financial strain, which in turn creates stress in the infrastructure. A further critical consideration is that much of the surging energy demand is being met by fossil fuel use, which has boosted CO_2 emissions.

Navigating this growth in energy provision will require much wisdom – from regulators as well as from investors. There will be a need for funding as well as long-term planning to diversify the energy mix and to ensure a steady overall shift towards clean energy.

Massive market opportunities for clean energy
While Southeast Asia has considerable potential for renewable energy, only around 15% of its current energy demand is supplied through renewable sources, excluding the traditional use of solid biomass. However, the adoption of clean energy is expected to accelerate in the broader region. The IEA's scenario for net-zero emissions by 2050 predicts that the market for clean energy in APAC will balloon to 45% of the global market size over the next thirty years.
Source: International Energy Agency, 2021.

Figure 1 | **Estimated market size for selected clean energy technologies by region, 2020-2050**



Source: International Energy Agency (2021); assuming a net-zero emissions scenario by 2050

Investors therefore have much scope to get involved in the energy transition in the region. Doing so would also be consistent with investors' growing support for such a transition, as reflected in their commitment to regional and global decarbonization.

Findings from the 2022 Robeco Climate Survey[1] shows increasing investor support for climate change in APAC, with almost one third of respondents saying they have made a public commitment to reach net zero by 2050.

Ensuring a just energy transition

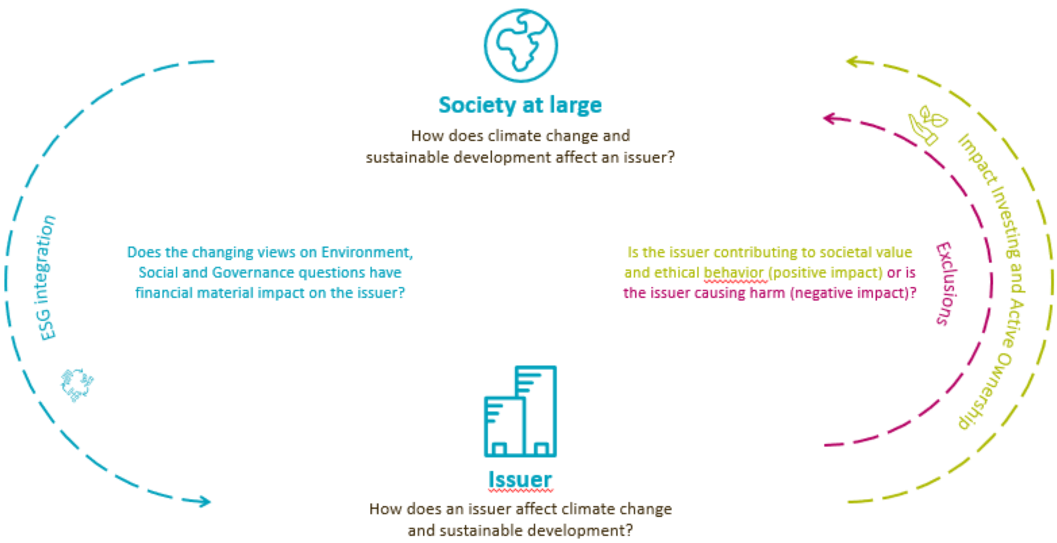
In Asia, over 350 million people still lack adequate electricity supplies. For instance, several countries in South Asia face frequent power outages. And worryingly, 132 million people in developing countries in Asia still live without electricity, although this has dramatically decreased over time.

A key consideration for investors who support this fundamental change in the energy supply mix will be to ensure that this is a just transition that takes account of the social dimensions and ramifications of such change. In particular, as fossil-reliant economies decarbonize, a sustainable-investing lens should actively promote solutions ensuring equal access to clean and affordable energy, while providing new job opportunities to workers formerly employed in high-emitting sectors.

Trend 2: The urgency of achieving real-world impact

As a concept, sustainable investing continues to progress. In recent years, it has broadened from a focus on ESG integration at the company level, towards thinking more deliberately about how companies influence society and the environment, and incorporating these effects when calculating the risk of a particular investment (see Figure 2). Compared to a one-dimensional focus on ESG risks, this notion of double materiality is a more useful way of building towards a sustainable future – and increasingly is becoming the focus of public opinion and regulators.

Figure 2 | **Assessing double materiality when evaluating an investment**



Source: Robeco

The UN Sustainable Development Goals (SDGs) are powerful tools for assessing what impact companies have on the world. The 17 SDGs are designed to tackle a wide range of sustainability issues in every region of the world. Social impact, improved labor conditions and standards, equality, diversity are at the forefront as well. Our view is that those companies that offer solutions to help achieve the SDGs may well be the winners of the future, while being attractive investment candidates.

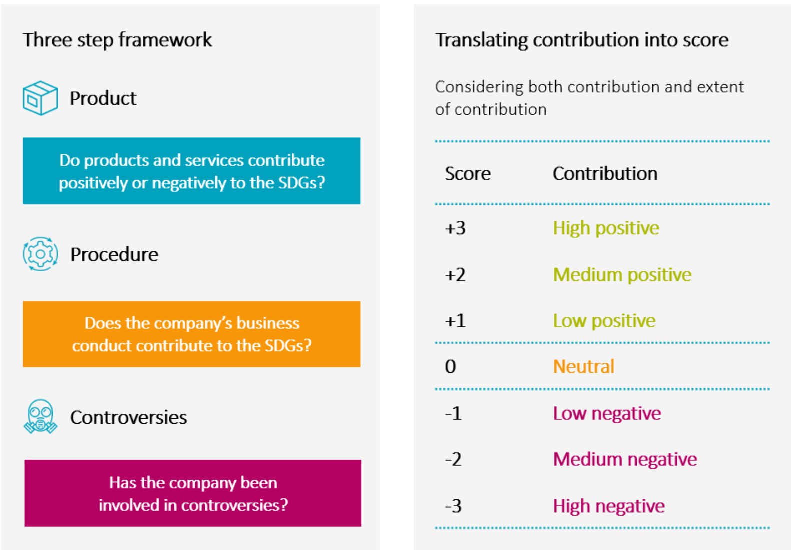
[1] Conducted in January 2022, the survey reflects responses from 205 global institutional investors and 95 global wholesale investors. Of these, 28% are located in APAC, 36% in Europe (36%), and 36% in North America. Access the report here.

To this end, Robeco developed its SDG framework to facilitate the process of selecting winners, while helping to avoid losers – which includes steering clear of those companies and sectors that are at risk because they do not adhere to ESG and sustainability regulation.

The framework provides a rules-based, consistent and replicable approach to assessing positive and negative SDG contributions in a credit portfolio. Using a three-step approach, the framework investigates the extent to which a company has a positive or negative impact on each of the SDGs, on a scale of -3 (very negative) to +3 (very positive).

Our empirical research on the application of this screening process in global credit investing enhances the risk-return characteristics of the opportunity set, and does not impede our ability to generate alpha through credit selection (see our publication for more details).

Figure 3 | The Robeco SDG framework



Source: Robeco

Investment solutions that contribute to the SDGs

Robeco has created a range of investment strategies that rely on this SDG screening methodology. This includes the Robeco Sustainable Asian Bonds strategy, which assesses and selects credit issuers in light of their contribution to the SDGs.

In line with what we have learned from our research and our many years of sustainable investing, Robeco Sustainable Asian Bonds predominately invests in the bonds of companies that make a positive or neutral contribution to the SDGs. The strategy has the flexibility to invest to a limited extent in issuers with an SDG score of -1. We do this when we believe a company is on the path of transitioning but requires more time to make that happen.

The impact objective and the sustainability indicators are monitored on a regular basis as part of the investment process, as well as by independent risk management functions.

In addition to the fund-specific sustainability indicators, Robeco Sustainable Asian Bonds is also in scope of Robeco's entity-level stewardship activities. Through engagement, we encourage good governance and sustainable corporate practices. We believe that engagement with investee companies on financially material sustainability issues can contribute to long-term value creation whilst creating real-world impact.

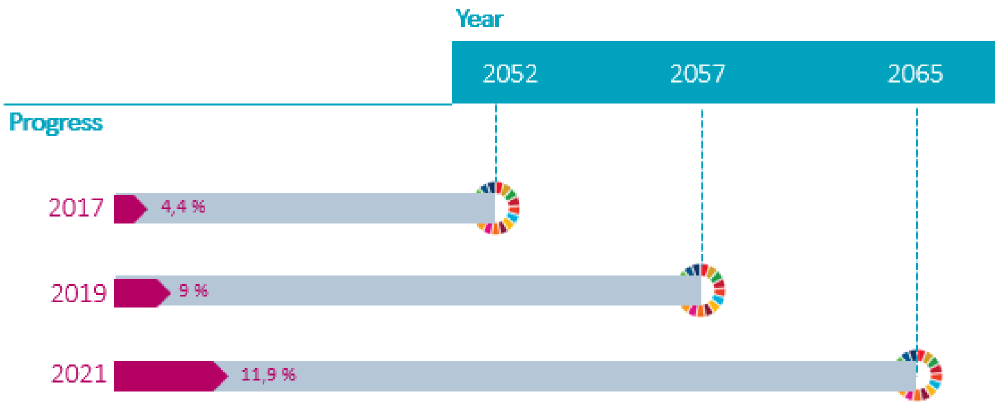
In our equities stable, Robeco Sustainable Asian Stars Equities focuses on companies benefiting from Asia's shift towards sustainability, by investing in line our view that the future of Asia is wealthy, healthy, electric and green. It is a highconviction core strategy that invests in 30-50 companies that will drive the sustainable development in Asia and around the world.

The strategy recognizes the ample investment opportunities created by the need to solve sustainability challenges in the region. It seeks to capture the early-mover advantage by identifying innovative businesses that contribute to positive change, while avoiding the distraction created by short-term market noise.

Progress towards achieving the SDGs in APAC

More than ever, we believe that it is imperative that investors invest with these goals in mind. The Covid-19 pandemic has slowed the pace of progress toward achieving the SDGs. Added to this, climate change has exacerbated many developmental challenges faced by emerging markets in the region. At the current pace, none of the 17 SDGs will be achieved in APAC by 2030.

Figure 4 | Estimated year in which the SDGs will be achieved in APAC, when moving at the current pace, in 2017-2021



Source: Economic and Social Commission for Asia and the Pacific (2022)

Meanwhile, the data shows some concerning trends. For example, the region now generates at least 35% more greenhouse gas (GHG) emissions than it did in 2000, with only five economies (China, India, Japan, the Republic of Korea and the Russian Federation) producing around 80% of total GHG emissions in the Asia-Pacific region. Furthermore, since 2015, the average number of people affected by natural disasters has more than doubled, and fossil-fuel subsidies as a share of gross domestic product (GDP) have slightly increased on average, despite the urgent need to reduce CO_2 emissions. These factors contributed to a major setback in the progress towards SDG 13 'Climate Action'.
Source: Economic and Social Commission for Asia and the Pacific, 2022.

Some of the pressing goals for the region include access to increased international financing for clean and renewable energy, considerable success in providing access to electricity to urban and rural populations, and increased official flows for infrastructure development in the least-developed countries in Asia.

The delays in meeting the SDGs imply an urgent call on the financial sector to allocate capital to those companies and institutions that build towards these universal goals.

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Trend 3: Sustainable investing regulation raises the bar

Regulation governing sustainable activity and investing is flourishing in the APAC region, and is catching up with the progress made in the EU and the UK. This is a welcome development that has supported the momentum towards sustainable investing by placing a higher level of expectation on investors claiming to follow a sustainable approach. It also entails some challenges. As each jurisdiction follows a unique approach that varies in depth and breadth, investors need to be well aware of these differences in order to meet country-specific requirements.

Figure 5 | **Developments in sustainable investing regulation**

Jurisdiction	Taxonomy Framework	ESG Disclosures	Investment practices	Stewardship Code
Developed markets				
EU	✓	✓	✓	✓
UK	✓	✓	✓	✓
Mainland China	✓	✓	✓	
Hong Kong		✓	✓	✓
Singapore	↻	✓	✓	✓
Japan		✓	✓	✓
Emerging Markets				
Indonesia	↻	✓	✓	
Malaysia	↻	✓	✓	✓
India		✓		✓

✓ Policy or rules implemented ↻ Proposals under consideration

Source: ASIFMA, CFA Institute

As investors, our approach here is to monitor the emergence of new regulation closely, and to understand the specifics of each market. We also participate in relevant policy and regulatory discussions, and create the necessary internal structures to ensure we operate in line with new regulatory requirements in each market in which we operate.

Conclusion

The tilt towards sustainable investing in the APAC region brings opportunities for investors wanting to be part of the sustainable transition in the region. It also raises a number of considerations, including navigating a realistic and socially just path towards clean energy and net-zero emissions, accelerating the pace of working towards the SDGs and real-world impact, and keeping track of the regulatory advancements in the realm of sustainable investing.

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