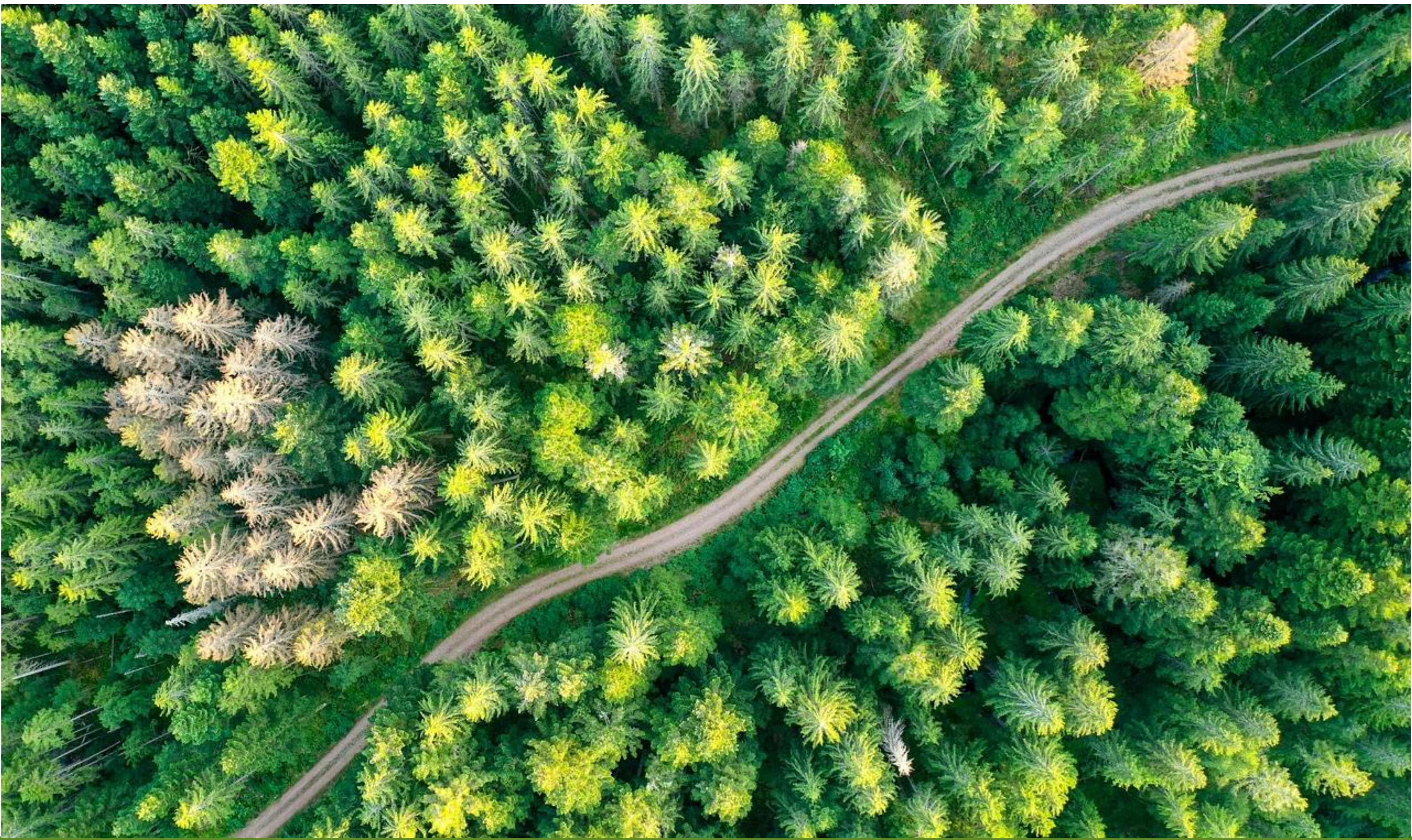
Growing Asia's Markets



Asian Asset Owners' Perspectives towards Sustainable Investing: *ASIFMA Pulse Survey Results*

ASIFMA (Asia Securities Industry & Financial Markets Association) is an independent, regional trade association with over 150 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, accounting and law firms, and market infrastructure service providers.

Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. ASIFMA advocates stable, innovative and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region.

ASIFMA Asset Management Group (AAMG) was established over a decade ago to represent specifically the interests and concerns of asset managers in the region. It focuses on issues that have regional and global impact and / or cross-border implications, such as market access, investments, regulations, taxes, etc.

Through the GFMA alliance with SIFMA in the U.S. and AFME in Europe, ASIFMA also provides insights on global best practices and standards to benefit the region.

If you have any comments or questions, please reach out to Yvette Kwan, Executive Adviser, Asset Management Group (ykwan@asifma.org).

ASIFMA would like to extend its gratitude to all the individuals and member firms who contributed to the preparation of this Paper

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Foreword / About the Research

While sustainable investing has rapidly evolved to become a defining component in the investment management industry, global investors have been facing more challenges, from anti-greenwashing regulations to geopolitical pressure and litigation risks. Meanwhile, Asia is attracting a growing share of global capital and is home to some of the world's largest and most influential asset owners, placing it in a critical and unique position to invest and shape the climate and social outcomes of the future. Despite this importance, there is limited data on how Asia's asset owners view and approach sustainable investing.

ASIFMA Asset Management Group (AAMG) has set out to bridge this gap through the **ASIFMA Asian Asset Owner Pulse Survey on Sustainable Investing**. Through the survey conducted between June and September 2025, we gathered insights from more than 50 asset owners – typically chief investment officers of insurance companies, pension funds, sovereign wealth funds, endowments and family offices across the region. The goal was simple but ambitious: to better understand sentiment, challenges, and priorities on how institutional investors embed sustainability into their mandates.

The survey results, complemented by follow-on in-depth interviews with selected respondents, reveal that Asia's sentiment and demand for sustainable investing have stood up well as a region, with risk management recognised as a key incentive and driver, and supported by regional jurisdictional policies. This aligns with climate change being cited as the top issue for asset owners, as it poses both material risks and opportunities to their investments.

However, respondents also noted a lack of investment opportunities, insufficient sustainability data, and policy/regulatory uncertainty as key barriers to implementing their sustainable investing strategies. In the report, we identified five recommendations for asset owners and policy makers to address investor challenges.

We hope the insights in this report will provide a foundation for the asset management industry to deepen understanding of where Asia's asset owners stand today on sustainable investing, the opportunities that lie ahead, and the enabling factors to meet their client's long-term sustainability goals. The survey had set out to give voice to Asian asset owners, and through this report, we hope to continue the dialogue between asset owners, asset managers, policymakers, regulators and other industry partners for greater collaboration and innovation in sustainable investing across Asia's financial ecosystem.

RESPONDENTS

55

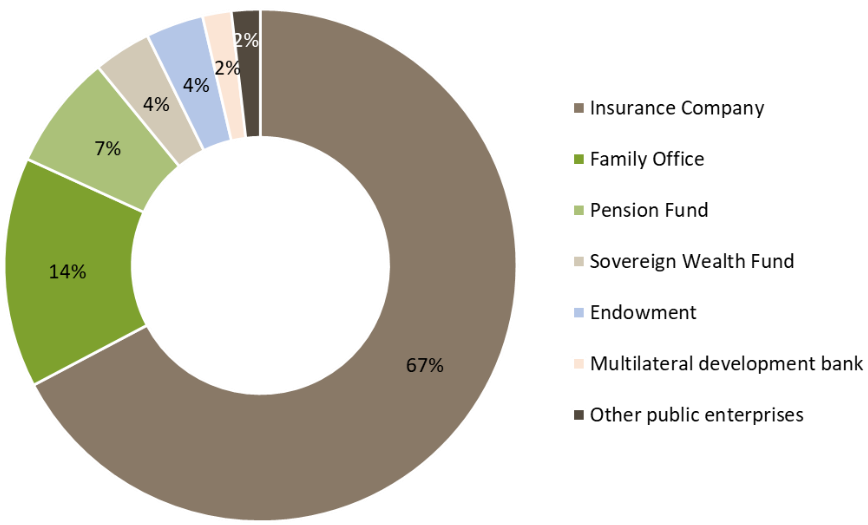
asset owners participated in the survey

US$4.9tn+

of assets under management / administration[1]

8

Asian jurisdictions[2]



across 7 different asset owner types

[1] Based on publicly disclosed and survey disclosed information for 30 respondents. Excludes survey responses disclosed in ranges or where respondents chose not to disclose.

[2] Based on jurisdiction of local entity respondent or regional headquarter respondent, as applicable

Key Takeaways

85%

are positive towards ESG[3] or sustainable investing

Sentiment, Commitment and Expectations

Positive if not exuberant. Asia demand for sustainability has stood up well as a region.

All respondents expect to **maintain or increase their focus on sustainable investing** in the short-term.

Portfolio wide approach. Respondents expect to focus across all asset classes, with an increasing focus on private assets.

Time horizon is critical when balancing short term returns against long-term systemic risks. Over 70% of respondents expect sustainable investing returns to be **similar or superior** to non-sustainable investing returns in the medium and long term.

2/3

driven by risk management concerns

Rationale

Risk management is the key incentive to act on sustainability.

3/4

are integrating ESG considerations into their investment process

Approach and Themes

Work in progress. Broad recognition of the importance of integration reflects an increasing maturation of the approach to sustainable investing. Respondents continue to fine-tune their commitment and approach.

Climate change and energy transition are the dominant ESG considerations, aligning with policy and regulatory agenda across Asia.

Challenges

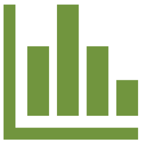
Limited investment opportunities and **insufficient ESG data** are particularly pronounced for investing sustainably in Asia

Solutions

Reliance on external asset managers for their sustainability expertise in data, methodology and reporting capabilities in the face of increasing complexity of sustainable investing and limited resources, as well as understanding of Asian nuances.

3 Environmental, Social and Governance

Recommendations



Improve ESG data availability and quality.
Policy makers can improve corporate sustainability disclosure requirements aligned with global standards such as the International Sustainability Standards Board (ISSB) standards, improve the quality of ESG data provider oversight and their output, and develop sustainable finance / investing taxonomies.

Asset owners can standardise their requirements for reporting from asset manager.

Collaboration and regulatory support.
Regulators can play a larger role in aligning asset owners' mandates with national or state agendas. Regulator support for industry initiatives lends credibility to and boosts effectiveness of industry climate charters, for example. Preferential capital and tax treatment for sustainable investments can both drive uptake.

Greater resource allocation.
Asset owners can allocate more resources to sustainable investing, whether through increased internal resourcing or higher fee allocation to external managers which can match commitments to and the increasing complexity of sustainable investing.

Leveraging role models.
Asset owners can act as role models by providing transparent disclosures of their sustainable investing targets and activities. By increasing transparency and knowledge sharing, broader momentum can be created.

Regulators can develop reporting frameworks, such as stewardship codes, to help asset owners standardise their own reporting to beneficiaries.

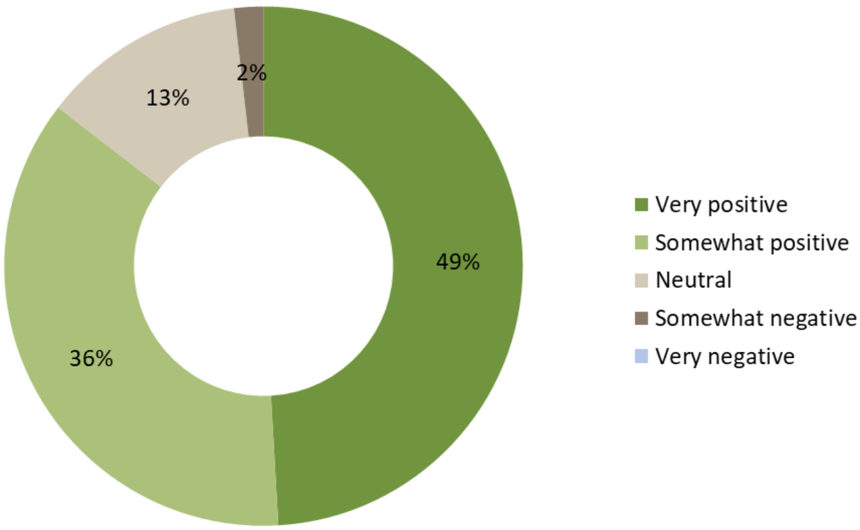
Increasing economies of scale in sustainable investing can mobilise capital to where it is needed most and drive down the costs of sustainable investing, such as the cost of ESG data.

Enhancing end user education.
With limited client and beneficiary demand for sustainable investing solutions currently, **asset owners and policy makers** may consider increasing education and engagement with the retail investor base, pension beneficiaries and insurance policyholders, to develop their understanding of the importance of sustainable investing.

Highlights

Sentiment: Asian asset owners remain broadly positive on ESG and sustainable investing

Overall sentiment towards ESG or sustainable investing



Question 1. How would you describe your organisation's overall sentiment towards ESG or sustainable investing?

Note: n=55

49% of asset owners are very positive, 36% are somewhat positive about ESG or Sustainable Investing. Together, this means that 85% of surveyed Asian Asset Owners are positive about ESG or Sustainable Investing. More importantly, only 2% are negative. While there may be some bias based on sample size and respondents, it highlights how in Asia sentiment remains broadly positive.

As a follow up, we asked respondents if their sentiment had changed from 12 months ago and why. For 90% of the respondents there has been no change, while for 5% the sentiment has improved and 5% said their sentiment has deteriorated or is mixed.

Amongst the very positive responses, one asset owner noted that sustainability is a long-term topic that requires continued focus and attention, both from a risk and opportunity perspective. Another owner responded very positively, noting that the development of sustainability regulations, both globally and locally, played a role in their sentiment. One owner, which already classifies around half of its assets as ESG or Sustainable Investing AUM,

expects to show its increased commitment via a year-on-year increase in the proportion of the portfolio that is ESG / impact investing, albeit without setting specific numerical targets.

One asset owner rated their sentiment as neutral. Whilst climate policy reversals in other regions may be a significant headwind, this has in fact resulted in assets which fit this theme being 'de-rated', potentially presenting buying opportunities.

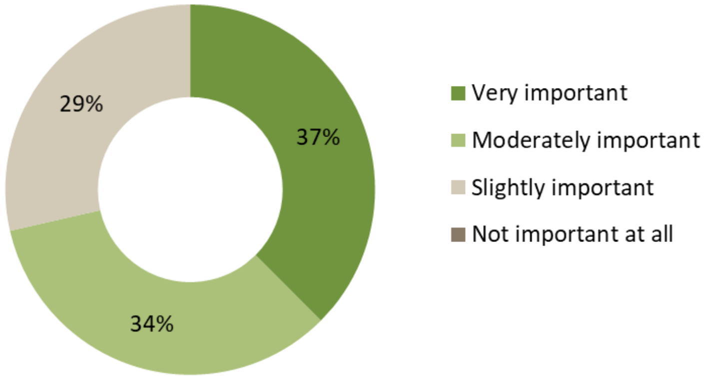
Another owner cited efforts to accelerate their ESG integration over the past 12 months, including getting near-term carbon targets validated by the Science Based Targets initiative (SBTi) and working to quantify climate risks in their investment portfolio using the Network for Greening the Financial System (NGFS)[4] scenarios. This owner was also cautious about the potential tracking error and volatilities of ESG-biased investment strategies, in particular for those with unintended sector bias.

Where there was a deterioration in sentiment, one respondent attributed it to broader macroeconomic factors such as the recent trade wars.

[4] NGFS is a group of central banks and supervisors that share best practices and develop environment and climate risk management in the financial sector.

INVESTMENT APPROACH: OVER 70% OF SURVEYED ASSET OWNERS SAY THAT ESG FACTORS ARE VERY OR MODERATELY IMPORTANT

IMPORTANCE OF ESG FACTORS IN INVESTMENT APPROACH



Question 2: How important are ESG factors in your investment approach?

Note: n=56

Over 70% of surveyed asset owners consider ESG factors as either moderately or very important in their investment approach. Perhaps more interestingly, 37% of surveyed respondents recognise ESG factors as very important in their investment approach. An insurer noted that the importance given to ESG factors was driven by the desire to align with their regulator's expectations on ESG integration. AAMG members believe that collaboration between regulators and industry is critical to ensure that ESG factors are being considered by industry, not just to ensure resilience against sustainability-related risks and capture relevant opportunities, but in order to achieve a jurisdiction's sustainability targets (see below for an example of regulator-industry collaboration around climate).

None believe that ESG factors are not important at all in their investment approach.

INSURANCE REGULATOR – INDUSTRY COLLABORATION

The Insurance Industry Climate Charter was launched in February 2024 by the Hong Kong Federation of Insurers (HKFI), the representative body of insurance companies in Hong Kong, in collaboration with the insurance regulator, Insurance Authority of Hong Kong (IA). Creation of the Charter involved formal consultation with HKFI members on the Charter's structure and the nature of commitments. The voluntary initiative, which first launched with 33 participating insurers[5] representing 80% of Hong Kong's market share, aims to coordinate and mobilise Hong Kong insurers' response to climate change.

[5] 37 signatories as at December 2024

The Climate Charter has five core climate principles and objectives across 1. Business Operations & Governance, 2. Investments, 3. Claims Management, Products & Underwriting, 4. Societal Engagement, and 5. Reporting & Disclosures, which signatories are expected to comply with.

The Charter aligns with Hong Kong's Climate Action Plan 2050 (CAP 2050), The Paris Agreement, UN Sustainable Development Goals and the ISSB framework. There is an aim for signatories to achieve carbon neutrality in greenhouse gas emissions in investment portfolios by 2050.

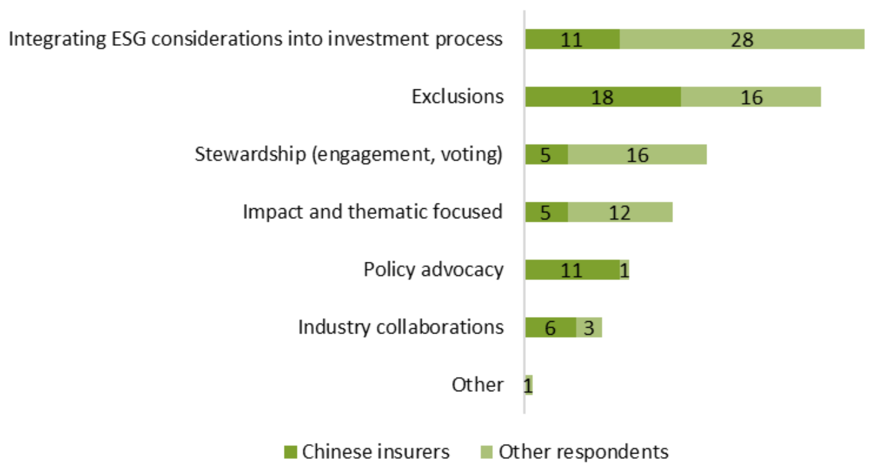
As part of commitments, signatories are expected to set and publish incremental 2030 targets for emissions, together with initial action plans towards The Paris Agreement and CAP 2050 within two years of sign up. Signatories are then expected to report on their Climate Charter implementation progress biennially. In the meantime, we note that various Hong Kong insurers such as AIA[6] are already disclosing their progress against climate-related 2030 targets.

High profile initiatives such as this with clear regulator backing and broad buy-in can induce a certain level of **'positive peer pressure'**.

[6] AIA Group Limited. *Climate-Related Disclosures, AIA ESG Report 2024 Subsection Report*, https://www.aia.com/content/dam/group-wise/en/docs/ESG/2024/Climate-Disclosure-Report_EN.pdf

Sustainable investing approaches: Three-quarters of surveyed asset owners focus on ESG integration, while only about half focus on exclusions and stewardship

Top 3 Sustainable Investing Approaches (no. of respondents)



Question 3a. Which of the below sustainable investing approaches are you focusing on most when managing assets and/or when outsourcing management to external managers?

Note: n=52. Respondents could choose a maximum of 3. Other: includes Tracking carbon emissions

When asked about which sustainable investing approaches they focus on most, 75% of all surveyed asset owners flag a focus on integrating ESG considerations into their investment process, increasing to 93% for respondents other than Chinese insurers. By contrast, 65% mention a focus on exclusions, and 40% a focus on stewardship.

For Chinese insurers, the top 2 foci are reversed with 82% of respondents citing exclusions and 50% citing integration. Half of the Chinese respondents also focus on policy advocacy compared to 3% for respondents other than Chinese insurers.

ESG integration: Those asset owners more advanced on the sustainability journey have integrated ESG considerations across all stages of the investment process, from asset allocation, investment selection, to risk management. The integration approach may differ across investment teams and may also depend on the asset class. For outsourced investments, asset owners noted a reliance on managers' integration of ESG factors.

For external asset managers, asset owners' focus on ESG integration may translate into increasing expectations and requirements to demonstrate ESG integration as part of the external manager selection process and ongoing monitoring.

Exclusions: Exclusions cited by respondents include tobacco, gambling, thermal coal and UN Global Compact violators. For some asset owners less progressed on the sustainability journey there is self-acknowledgement that the extent of ESG consideration, especially in direct investments into the public market, is limited to exclusions.

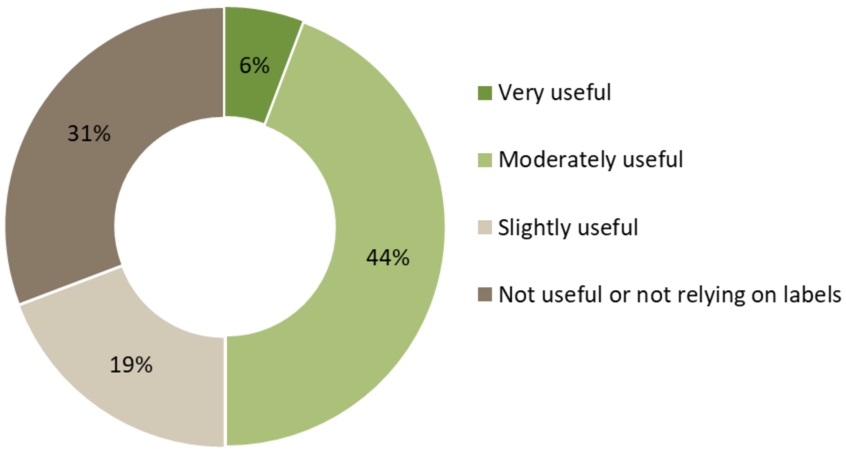
Stewardship: This approach is a focus for 40% of respondents (and 23% of surveyed Chinese insurers). We note that this is often effected through stewardship expectations conveyed to external asset managers and thus includes managers' reporting on engagement and proxy voting activities. One respondent noted that they have revamped their approach with a focus on materiality given that the top 100 public companies they invest in are responsible for 65% of financed emissions.

Impact and thematic focused: 33% of respondents (and 23% of surveyed Chinese insurers) adopt an impact and/or thematic focused approach, citing climate action, health & well-being, education, financial inclusion and agriculture.

Industry collaboration: Only 17% (and 27% of surveyed Chinese insurers) mentioned focus on industry collaborations. One respondent noted that industry collaborations, including net zero alliances, could present challenges due to loss of control over methodology and delivery of outcomes. Another concern was over additional compliance effort required, since collaboration targets and reporting requirements may not align with internal needs.

ESG FUND LABELS AND CLASSIFICATIONS: ONLY OF MODERATE USE

USEFULNESS OF SUSTAINABLE INVESTMENT LABELS



Question 3b. How useful are sustainable investment labels (e.g., SFDR Article 8 and 9, UK sustainable investment labels, etc.) in guiding your investment decisions?

Note: n=52

We observed a nuanced approach to ESG labels and fund classifications, such as the EU SFDR disclosure regime, as only 6% said these were very useful. 63% of surveyed asset owners find sustainable investment labels to be moderately or slightly useful. Green labels are only deemed useful to the extent that they are reputable and credible. Those, for example, from the European Union were cited as useful to measure how green an investment is and to guide the investment process. One owner highlighted that the BlueMark verification was useful for classifying impact funds. A respondent with 10-50% of its AUM considered as ESG or sustainable investing suggested that labels could potentially be more useful as the organisation's sustainable investing journey matured.

One respondent noted that labels can be too rigid and focused on divestments. For example, the European Securities and Markets Authority (ESMA) Guidelines on funds' names using ESG or sustainability-related terms require funds to apply an exclusionary criterion that if not met, means funds must divest from non-compliant assets or rename themselves. As a result of rules which may be less relevant from an Asia context, some asset owners may prefer to develop their own framework (see an example from Prudential plc below).

While fund labels and classifications can be useful for asset owners when selecting strategies from external managers, it is worth noting that many surveyed institutional asset owners use segregated mandates, hence are less directly impacted by fund labels and classifications. We would suggest that this explains the limited interest in labels.

Developing a Transition Framework

To support its focus on climate change (and nature to a lesser extent), Prudential plc has developed and launched in 2024 a **Financing the Transition Framework**[7] to actively and intentionally finance the energy transition in emerging markets.

Building on its responsible investment processes, the framework aims to support brown-to-green transitional investments, which includes an AUM target. To do so, the company classifies investments into five categories[8].

Source: Prudential plc

This framework is used by the company to guide its investments decision to achieve its internal objective of enabling and accelerating the net-zero transition, acknowledging that a just and inclusive transition necessitates investment in a combination of green and not-so-green categories.

[7] Prudential plc (2024), Prudential's Financing the Transition framework, https://www.prudentialplc.com/~/media/Files/P/Prudential-V13/news-and-insights/financing-the-transition/just-and-inclusive-transition-whitepaper.pdf
8 ibid

ORGANISATIONAL FOCUS ON SUSTAINABLE INVESTING: STILL EXPECTED TO GROW

EXPECTED FOCUS ON ESG AND SUSTAINABLE INVESTING IN THE NEXT 12-24 MONTH

Question 4. What are your expectations around your organisation's allocation to sustainability-focused strategies and/or your integration of ESG factors in your approach over the next 12-24 months?

Note: n=55. 'Not a focus' responses are not shown

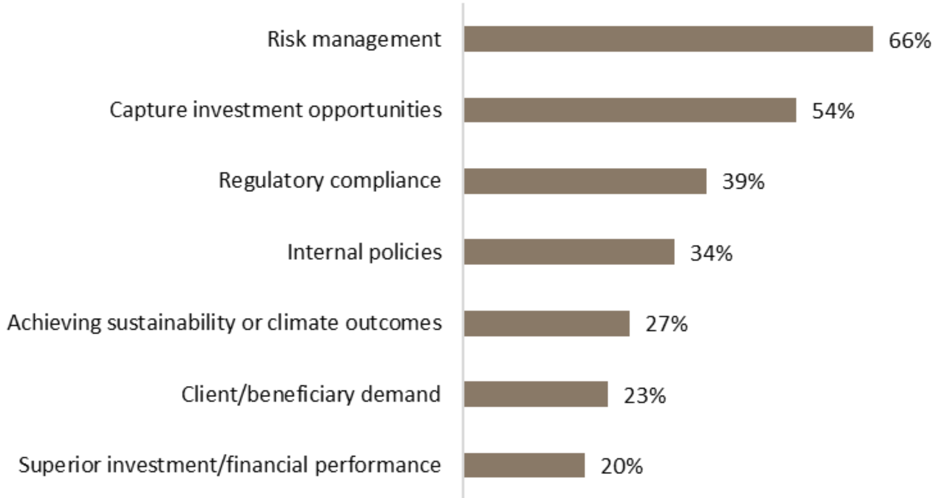
All surveyed asset owners are expecting to either maintain or increase their focus on sustainable investing in the next 12-24 months. None of them expect it to decrease.

As we noted earlier, three-quarters of respondents cite the importance of integrating ESG factors in their investment approach. Correspondingly, just under half of respondents cited that they expect to increase their ESG integration efforts in the near future. For example, some asset owners mentioned that they recently enhanced and fine-tuned their ESG integration approach to cover more investment teams and asset classes. This growing focus is particularly relevant for asset owners that have added ESG or sustainable investments KPIs into remuneration for their senior management.

On the other hand, 56% of respondents plan to maintain their current allocations to sustainability-focused investment strategies. In some cases, this stabilisation can be explained by the increased levels of allocations in recent years. A third of respondents remarked they are still looking to increase their allocations. In one case, an owner intends to increase allocations to sustainability-focused investment strategies managed by their external asset managers, as they reallocate part of their portfolio away from direct investing. This ties into our later discussion on the integration of ESG criteria into the external manager selection process.

Drivers for sustainable investing: risk management is top of mind

Top 3 Drivers for Sustainable Investing (% of respondents)



Question 5. What do you think are your organisation's key driver(s) for sustainable investing?

Note: n=55. Respondents could choose a maximum of 3.

Risk management comes as the number one driver for sustainable investing, cited by two-thirds of those surveyed as a key driver focus. One asset owner pointed out that climate change is a systemic risk, and as such should be part of any risk management considerations. Another flagged that they see it as being part of their fiduciary duty, especially when holding over a very long investment horizon (e.g. long-dated bonds).

Interestingly, the opportunity side comes second, with 54% of respondents indicating that capturing investment opportunities is driving their push towards sustainable investing. In a later section, we discuss that limited investment opportunities are the number one roadblock to the adoption of sustainable investing strategies. This may suggest a gap between the intention to seize sustainability-related opportunities and the challenges in finding these investments.

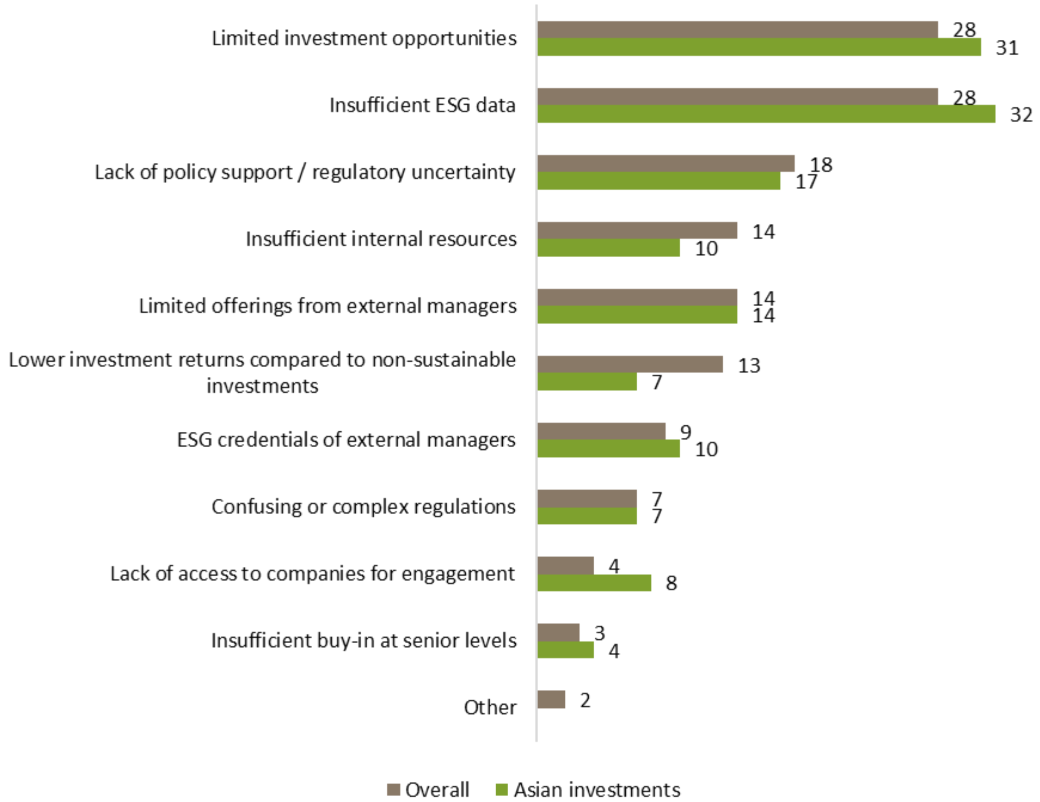
For 34% of respondents, including a few insurers with an European parent, internal policy is a key driver for sustainable investing. 27% of respondents also hope to achieve broader sustainability or climate outcomes. For one asset owner, this involved the consideration of societal impact, including the ability to influence peers. Leaders in sustainable investing can set an example for others. This is important not only to **mainstream good practices**, but greater adoption by peers can lead to economies of scale in elevating disclosure standards and lowering ESG data costs.

Among other drivers, client and beneficiary demand is only cited by 23% of respondents. One insurer noted a lack of client demand for sustainable investing in their particular jurisdiction. This may reflect varying levels of awareness and penetration of sustainable investing across Asian jurisdiction as retail sustainable investing assets remain limited across the region. We understand many insurers' access to end-customers is via bancassurance channels which may additionally limit the ability to directly educate and / or proactively introduce such products to retail customers.

Lastly, only 20% of respondents cited superior financial performance as a driver. This aligns with findings from our question below on investment performance, where most respondents indicated that while they expect superior returns from sustainable investing over the long term, they mainly expect similar or lower returns in the shorter term. One respondent acknowledged alpha generation potential from sustainable investing, particularly in private market, whereas for public markets which are more market sentiment driven, brown investments have recently outperformed and there is a need to manage competing objectives.

Challenges: Limited investment opportunities and insufficient ESG data are the two greatest roadblocks to ESG / sustainable investing adoption

Key challenges to ESG / sustainable investing (no. of respondents)



Question 6a. What are your key challenges to adopting or implementing your organisation's ESG considerations / sustainable investing strategies?

Question 6b. What are your key challenges to adopting or implementing your organisation's ESG considerations / sustainable investing strategies, specific to Asia?

Note: n=55. Others: Tracking error vs non-ESG indexes, disagreement with ESG rating methodologies by rating agencies, Lower returns includes one for **perceived** lower returns. Not included: one response no challenges, they have long adopted sustainable investing strategies

Limited investment opportunities: This was cited as one of the two most common challenges to the implementation of sustainable investing strategies, which is even more pronounced when looking specifically at Asian investments. Some respondents specifically flag limited offerings from external managers as a challenge, in spite of the actual need for more capital in Asia to finance the climate transition, for example.

While some have acknowledged the lack of investment opportunities as being due to a mismatch between risk and return, others that adopt ESG considerations across their whole portfolio also mentioned walking away from investments which made financial sense if

sustainability criteria were not satisfied. Although limited to specific investment mandates, some asset owners have cited cases where meeting sustainability criteria could help get investment projects with lower projected financial returns over the line.

Insufficient ESG data: This is the other most common challenge, and in fact the dominant Asia-specific challenge. Some respondents also indicated issues with comparability of sustainability and impact reporting across external managers. It is not surprising that challenges with insufficient ESG data is more pronounced in Asia given the more nascent nature of sustainable investing in the region. As ever, the fragmentation resulting from different jurisdictional standards and policies, and differing market development and governance levels across Asia are recognised as more challenging for consistent data collection. Within jurisdictions, asset owners noted that the lack of data can be even more stark, with limited adoption of ESG disclosures except by blue-chip companies. This is a challenge that Asian regulators are increasingly tackling through various initiatives, including the adoption of ISSB standards and code of conduct for ESG data providers.

We are positive about the commitment and action of regulators to the adoption of the ISSB global baseline standards in various Asian jurisdictions, acknowledging that the climate-first approach in many markets appropriately reflects market readiness.

Lack of policy support / regulatory uncertainty: Interestingly, survey respondents ranked this as third among other challenges. We note that interviewed respondents were more likely to cite, as example of challenges, uncertainties around international rules or those outside of Asia as opposed to regulations within the region. This includes the roll-back of ESG disclosure rules in the US and regulatory changes in the European Union (EU). The EU has recently introduced Omnibus proposals aiming to streamline various EU Green Deal regulations, including the Corporate Sustainability Reporting Directive and Corporate Sustainability Due Diligence Directive.

Other challenges: Insufficient internal resources and lower investment returns compared to non-sustainable investments are seen as lesser challenges when investing in Asia. It appears that the challenges from lack of investment opportunities and ESG data overshadow these two particular challenges.

On the other hand, there was commentary from an asset owner that the tick-box, compliance approach commonly seen in Asia can extend to the quality of sustainable investing available from asset managers in the region, such that ESG credentials of asset managers is a useful gauge of quality.

Finally, one respondent offered a more sanguine view that the "direction of travel is set" and although ESG may be hit by political headwinds, it is merely the finer details, the velocity and how to get there that have changed.

Does size matter?

One smaller insurer pointed out that adopting ESG considerations / sustainable investing strategies may not always go hand-in-hand with investment returns, at least in the short term. In such cases, compared to large peers with 'higher tolerance' for situations where returns may need to be 'sacrificed', it can be challenging to obtain buy-in from senior management for greater adoption of sustainable investing.

We would highlight the benefits of industry associations and other asset owner forums as enablers for knowledge transfer around sustainable investing from more experienced players to those who are earlier on in the journey.

SUSTAINABILITY THEMES: CLIMATE CHANGE AND THE ENERGY TRANSITION ARE RESPONDENTS' MOST MATERIAL ESG CONSIDERATIONS

RANKING OF THE MOST MATERIAL ESG CONSIDERATIONS IN THE PORTFOLIO *(BY COUNT)*

Rank	1	2	3	4	5	6	7
E – Climate change and energy transition	22	7	0	0	2	1	1
G – Corporate governance and shareholder rights	7	8	1	6	3	2	6
E – Biodiversity, natural capital and circular economy	2	6	9	6	6	4	0
S – Human rights and labour practices	0	6	8	8	5	3	3
S – Social justice and equality	0	3	5	5	7	9	4
S – Supply chain management	0	1	5	5	10	9	3
S – Responsible AI/ technology	2	2	5	3	2	4	15

Question 7. What are the most material ESG considerations in your portfolio?

Note: n=33. Colour coding: Dark green: >10 responses, Mid green 7-10 responses, Light green: 4-6 responses, Lightest green: 1-3 responses, Grey: 0 responses

Unsurprisingly, two-thirds of surveyed asset owners who currently focus on sustainable investing rank climate change and energy transition as the most material ESG considerations. This aligns with the relative maturity of the theme, as well as with the greater government and regulatory focus on climate change and transitioning to a low carbon economy.

Amongst other considerations, 52% of respondents ranked Biodiversity, natural capital and the circular economy as the top three ESG consideration. Although 48% also ranked Corporate Governance in the top three, views on its importance also varied the most. Of note was the relative unimportance of supply chain management which has been targeted more extensively by regulators in other regions. For one multi-lateral development bank, they also consider the social impact of their investments on resettlement and indigenous peoples.

We note that measurement gaps make several of these material considerations difficult to address. One respondent pointed out that while the impact of climate change is seen and widely accepted, biodiversity impacts are often less visible, difficult to track and suffer from lack of data, while human rights exposures are highly country dependent, hard to standardise into a single policy and difficult to quantify.

ASSET CLASS FOCUS: PRIVATE ASSETS STARTING TO RANK HIGH IN ASIAN ASSET OWNERS' SUSTAINABLE INVESTING PRIORITIES

ASSET CLASSES WHICH ASIAN ASSET OWNERS PLAN TO FOCUS ON FOR SUSTAINABLE INVESTING (NO. OF RESPONDENTS)

Question 8. Which asset classes do you plan to focus on for sustainable investing?

Note: n=44. Respondents planning to invest in Private Assets including Private Equity (6), Infrastructure including infrastructure loans (4), Real Estate (3), debt investment / trust schemes and direct investments in mining and venture capital

Looking ahead, it is interesting to see that private assets are cited as one of the priorities for sustainable investing for almost one-third of respondents other than mainland Chinese insurers. This connects well with respondents' focus on sustainable investing opportunities, as private assets tend to align better to thematic and impact investing opportunities. We would also surmise a greater maturity in sustainable investing as some Asian asset owners expand their approach from an initial focus on listed assets towards private assets.

Interestingly, close to half of respondents say they plan to focus on sustainable investing across all asset classes, indicating a portfolio-wide approach. Listed equity and fixed income - corporate also rank highly. On the other hand, we were surprised to note that there is relatively less interest in investing in sovereign bonds. This topic may be worthy of further analysis, including the sustainability criteria assigned to sovereign entities, the availability of ESG ratings for such entities, the development of sustainability taxonomies, and the frameworks for the issuance of sovereign green bonds. We do, however, expect the amount

Asian insurers allocate to fixed income to increase if regional regulators follow the Insurance Authority of Hong Kong in offering capital incentives for green bonds (see below) to facilitate large-scale mobilisation of sustainable capital.

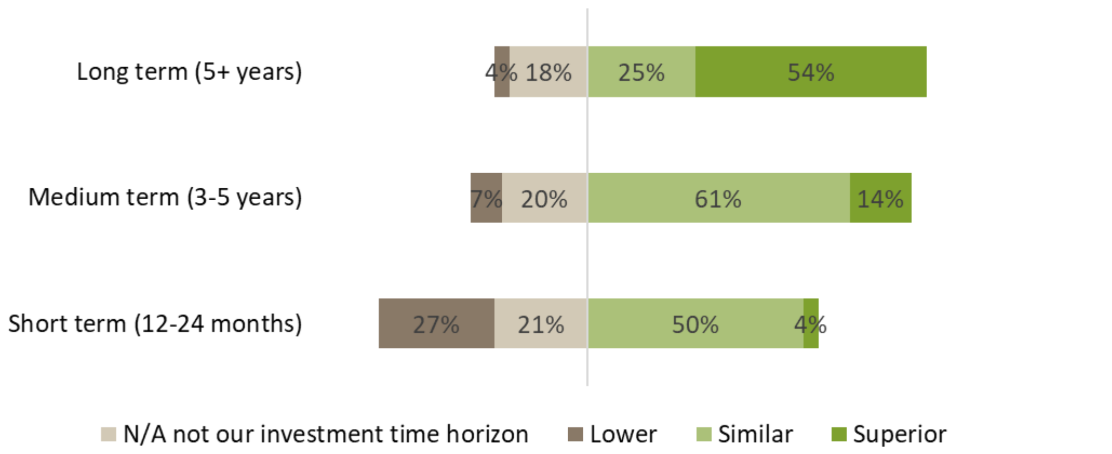
Insurance Regulator – Preferential Treatment to mobilise a Sustainable Asset Class

The Insurance Authority of Hong Kong (IA) in June 2025 announced new valuation and capital guidelines which can help insurance firms comply with regulatory requirements whilst increasing allocations to sustainable investments. Updates to the Hong Kong Risk-Based Capital (RBC) regime in the form of Green Bond Capital Incentives[9] means that from July 2025, recognised green bonds will enjoy a preferential capital treatment where a factor of 90% is multiplied to the stress factor for credit spread risk. Recognised green bonds include those that qualify under the China Green Bond Principles and the European Green Bond Standards.

[9] Insurance Authority of Hong Kong (2025), *RBC Green Bond Capital Incentives*, https://www.ia.org.hk/tc/infocenter/files/HK_Green_Week_Sustainable_Debt_Catalyzing_Capital_for_Climate_Leadership.pdf

Investment Returns: respondents expect sustainable investing to generate superior returns over the long term, but expect similar or lower return over the short term

Expectations for Sustainable Investment Returns compared to those from non-Sustainable Investing (no. of respondents)



Question 9. What are your expectations for the investment returns from considering ESG factors and/or from sustainable investing compared to not considering ESG factors and/or non-sustainable investing, based on your investment time horizon?

Note: n=56

Across the long-term investment horizon, the view across respondents is that considering ESG factors and / or sustainable investing offers similar (25%) or superior (54%) returns compared to not doing so. In the medium-term, expectations for similar returns increase to 61% and for superior returns fall to 14%. In the short-term, half of respondents still expect similar returns whilst 27% of respondents expect lower returns.

These results demonstrate respondents' view that over the short-term horizon, investors can expect higher costs for sustainable investments to meet sustainability criteria, which may include higher R&D and capital expenditure on emerging transition technologies, increased compliance and regulatory costs, and so on. We have also observed cyclical and geopolitical factors at play. For example, oil price shocks leading to traditional energy stocks outperforming ESG indices that are underweight on fossil fuel companies.

A handful of Asian asset owners indicated that their expectations regarding short- (and medium-term) performance did not matter given their long term investment time horizon.

Market Perceptions add Friction to the Equation

Some of our members and surveyed asset owners believe that a common expectation that all Sustainable Investing strategies must consistently outperform conventional approaches is a false bar to reach. Especially when there isn't the same expectation for non-sustainable investing strategies. Indeed, not all sustainable investing strategies are the same.

An over-reliance on exclusions beyond obvious values-based cases like tobacco can unnecessarily narrow universes. For example, when too many traditional energy names are excluded, this can lead to potential under-performance against the broader market. Additionally, from an emerging markets and just transition perspective, there is still an overriding need for investments into certain industries such as oil & gas.

Accordingly, we would argue the necessity for asset owners to also adopt ESG integration and stewardship to manage ESG risks, drive growth and promote sustainable practices without restricting their investment universe unless necessary.

External Asset Manager selection: sustainability expertise matters most

Top ESG / sustainability capabilities Asian Asset Owners are looking for when selecting external asset managers – Global / Asian Assets (no. of Respondents)

Question 10a. What ESG / sustainability capabilities are you looking for when selecting your external asset managers?

Question 10b. What ESG / sustainability capabilities are you looking for when selecting your external asset managers for Asian assets?

Note: n=53. Other includes Stewardship and engagement capabilities, forward looking insights and thought leadership, follow the asset owner's policies, and knowledge in both sustainability and the Asian market

With the increasing complexity of sustainable investing and limited resources, especially for smaller asset owners, many recognise the benefits of leveraging external asset managers' platforms and capabilities. Across both global and Asian investments, surveyed asset owners have similar expectations regarding the ESG / sustainability capabilities of their external asset managers. Data, methodology and reporting capabilities are the overriding features sought. With quite a spectrum of expertise currently available especially across different markets, asset owners looking for more nuance in approaches are looking for meaningful ESG integration across the investment process rather than a simple overlay.

Interestingly, we note that adequacy and access to a manager's overall sustainability resources matter to 60% of mainland Chinese insurers versus only 48% of other respondents. For other respondents, the technical capabilities of staff are ranked as the second most important. A surveyed asset owner, noting situations where sustainability teams are still double-hatting with other roles, wants to see dedicated sustainability teams with sufficient technical expertise. This is underscored by a recent report[10] by The Thinking Ahead Institute (TAI), commissioned by the Principles for Responsible Investment (PRI), which recommends that institutional investors should be prepared to double stewardship resources across the industry to align asset manager and owner ambitions.

For Asian investments, there is a slightly greater emphasis on a manager's sustainability commitments and policies, and advocacy on sustainability topics. One surveyed asset owner noted that there is not a one-size-fits-all pan-Asia provider, therefore manager capabilities may need to be assessed in each individual jurisdiction. It can, therefore, be helpful to understand a manager's overall sustainability commitments and policies, as evidenced through any advocacy work.

In order to bridge any expectation gaps between asset owners and managers, we would also suggest that asset owners may also need to be more explicit in their Investment Management Agreements (IMAs) regarding their expectations of terms such as "ESG integration" and "Paris-aligned". As the industry develops, we expect to see distillation of best practice in this respect.

Looking at Asia with a Separate Lens

With regards to managing assets in emerging markets, especially in Asia, one particular asset owner said that it is crucial when investing to consider the heterogeneity of development and local reality within emerging markets. For example, not penalising companies that may appear to be behind on their transition journey but are aligned relative to their national target, for example, a 2060 target for net zero.

We conclude that Asian asset owners in selecting external asset managers for sustainable investing in Asian assets expect a combination of Asia expertise alongside the requisite expertise in sustainable investing. This nuanced approach must oftentimes extend beyond a region-wide approach to individual jurisdictions.

How often the sustainability performance of external asset managers is reviewed. Managers are typically assessed on an annual basis, although some asset owners require quarterly updates as part of ongoing monitoring, especially for large infrastructure / private asset investments.

[10] The Thinking Ahead Institute (2024), *TAI /PRI Stewardship Resourcing project: Global Stewardship Resourcing Survey data report*, https://www.thinkingaheadinstitute.org/content/uploads/2024/05/PRI_TAI_Global_Stewardship_Resourcing_Survey_Report.pdf

Case Study

Asset owners, as providers of capital, occupy a central position at the pinnacle of the investment chain. Among them, insurers manage significant capital to pay policyholder claims, maintain financial soundness, and pursue long-term growth, often by outsourcing investments to asset managers but also setting overall investment targets and policies. As in many other industries, there is a growing recognition among insurers on their vulnerability to systemic disruptions, such as those caused by climate change which can impact ecosystems, economies, and societies.

Below we provide a comprehensive case study to showcase a wholistic approach to responsible investment.

Driving Sustainability: A Large Life and Health Approach to Responsible Investment[11]

Headquartered in Hong Kong, Prudential plc serves 18 million customers across 24 markets spanning Asia and Africa, with its largest life insurance operations in Mainland China, Hong Kong, Indonesia, Malaysia, and Singapore. Sustainability plays a central role in the company's strategy, which aims to provide essential savings and protection solutions in regions with low insurance penetration and significant pension funding gaps.

Commitments
As a major allocator of capital in financial markets, as both an asset owner and asset manager, the company has made efforts to drive responsible investment. The claim is backed by its commitments, towards just and inclusive transition to a low-carbon economy, being a signatory of the Net Zero Asset Owner Alliance and the Principles for Responsible Investment since 2021[12], among other memberships.

The company has developed its own Responsible Investment Policy[13] with practices and systems put in place to reach its objectives:

- Net zero by 2050 and with an intermediary target of 55% reduction by 2030
- Engage with companies that are responsible for 65% of the financed emissions
- Internal target to mobilise capital into financing the transition by 2030 (amount not publicly available), by investing into enablers, industry leaders, or high-impact sectors showing an explicit intention of enabling and accelerating the net-zero transition

Approach to responsible investments
When it comes to actual investment activities, the company has broad exposure to sustainable investments, across asset types and regions, and when investing (whether directly, or through external managers), the company focuses its efforts on ESG integration, real-world impact, as well as stewardship.

[11] Information provided during an interview and supplemented with publicly available information.
[12] Prudential, *Memberships, signatories and commitments*, https://www.prudentialplc.com/en/sustainability/memberships-and-commitments
[13] Prudential, *Group Responsible Investment Policy,* https://www.prudentialplc.com/~/media/Files/P/Prudential-V13/policies-and-statements/group-responsible-investment-policy-2025.pdf

The company aims to integrate ESG in all the steps of the investment process, from strategic asset allocation to risk management teams. It remains flexible with the approach taken by investment teams working on different asset classes. Furthermore, the impact of a project on people is considered during the investment decision: if an issuer or project meets the financial requirements, the investing will proceed only once external impacts have been factored in. As noted earlier, the company has also developed its own Financing the Transition Framework.

Finally, while the company delegates engagement with issuers to its external managers or external engagement specialists[14], it communicates its hard requirements and expectations, as well as the themes to be pursued, included but not limited to climate change, palm oil, and deforestation. As an investor itself, the company also engages with policy makers, individually or through investor-led initiatives, to support markets' sustainability initiatives.

Challenges to sustainable investment

Challenges to sustainable investing in Asia are numerous. First and foremost, limited investable opportunities and regional supply constraints, where relatively fewer external managers offer suitable products despite extensive real economy investment needs. Policy and regulatory uncertainty can also create execution risk undermining the deployment of capital.

Despite implementation challenges, the company remains firmly committed to sustainable investment. Its net-zero targets, responsible investment policy, active stewardship expectations for external managers, and the Financing the Transition Framework demonstrate a pragmatic, long-term approach that balances financial and social impacts. By prioritising ESG integration across the investment process, tailoring expectations to emerging-market realities, and mobilising capital toward transition actors, we believe the company can bridge gaps between finance and the real economy and scale meaningful climate and social outcomes over time.

[14] ibid

Concluding Thoughts

With the increasing frequency and severity of climate phenomena across Asia as evidenced once again this summer and autumn, there should be no doubt over the physical and financial risks of climate change impacting Asia. These are reflected in the results of our survey – the importance of ESG factors to Asian asset owners' investment approach, respondents' continued positive sentiment towards ESG or sustainable investing, and intentions to maintain or increase the focus on ESG or sustainable investing.

Now is the time for Asian asset owners to take on a leading role globally to mobilise an increasing amount of resources and capital towards their most material ESG considerations, from climate change and energy transition, biodiversity and natural capital to corporate governance and shareholder rights.

We believe there are meaningful and concrete actions that Asian asset owners can take to uplift the Asian sustainable investing ecosystem, from collaborating with industry groups, sharing best practices, advocating to improve the availability of ESG data, to broadening end user awareness and understanding of sustainable investing.

Similarly, regulators can play an important role in setting standards for the sustainable investing ecosystem, from taxonomies, corporate sustainability disclosures, ESG ratings, fund product labels to responsible ownership disclosures to end beneficiaries. Regulatory support for industry initiatives can lend credibility and boost effectiveness.

This report only scratches the surface – there is far more depth and diversity amongst Asian asset owners not captured here, and there is no doubt that they will have unique perspectives and motivation for sustainable investing. We hope this report will serve as a catalyst to generate more dialogue, collaboration and innovation in sustainable investing across Asia's financial ecosystem.

APPENDIX – SURVEY METHODOLOGY AND RESPONDENTS PROFILES

Survey Methodology

ASIFMA Asset Management Group and its member firms reached out to Asian asset owners to complete the 10-question online survey. Surveyed owners were also given the possibility to provide additional feedback on the survey questions, in the form of an interview conducted by AAMG.

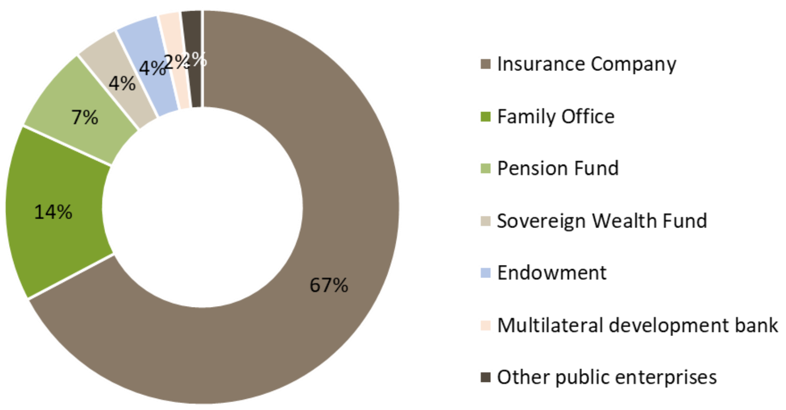
Whilst we endeavoured to obtain representation across different asset owner profiles (including asset owner type, jurisdiction, size, and level of commitment to sustainable investing), we acknowledge that representation was influenced by the outreach method, AAMG and its member firms' asset owner network, the voluntary nature of the survey, and the propensity to respond to surveys across different asset owner profiles.

Respondent Profiles

We received 56 survey responses from 55 discrete asset owners and conducted follow-up interviews with 8 respondents. Insurance companies are the largest category by type with 36 respondents. Mainland China is the largest category by jurisdiction with 26 respondents.

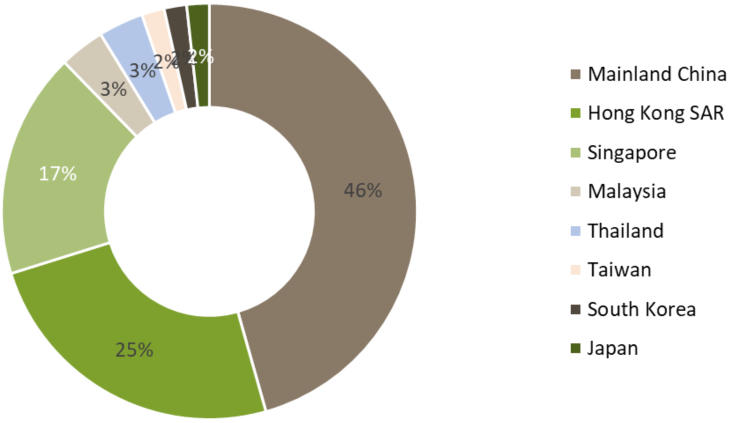
The largest individual subgroup was insurers from Mainland China with 25 respondents and certain subgroup results are broken out to highlight select insights.

BY TYPE



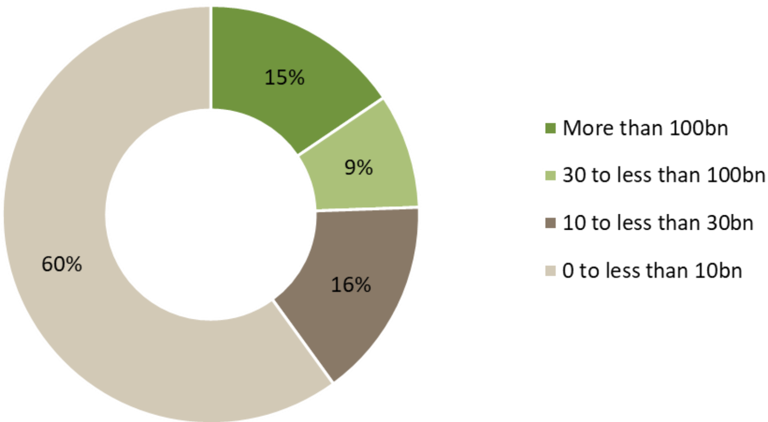
Note: Discrete asset owners

BY JURISDICTION



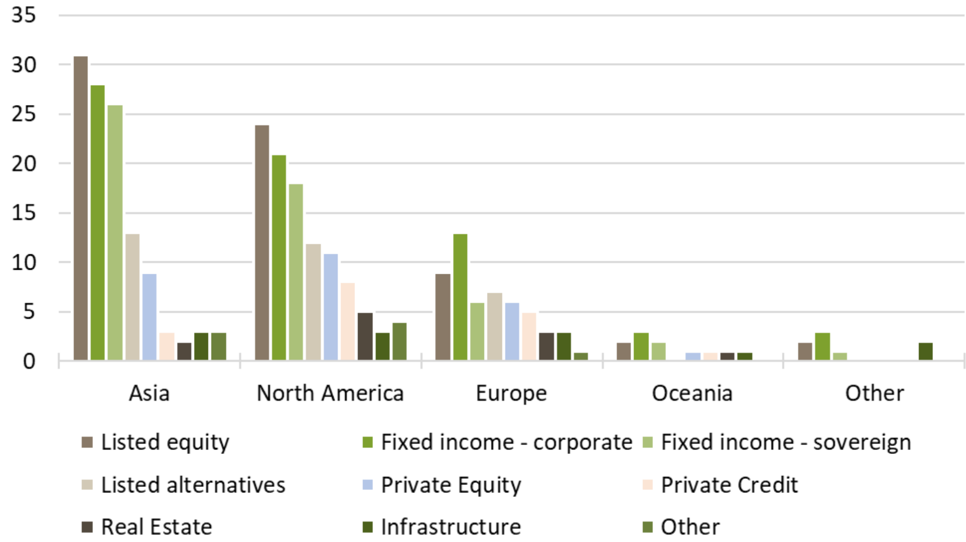
Note: Discrete asset owners, based on jurisdiction of local entity respondent or regional headquarter respondent, as applicable. Some respondents with more than one regional headquarter may be represented in more than one jurisdiction.

BY ASSETS UNDER MANAGEMENT OR ASSETS UNDER ADMINISTRATION (USD BN)



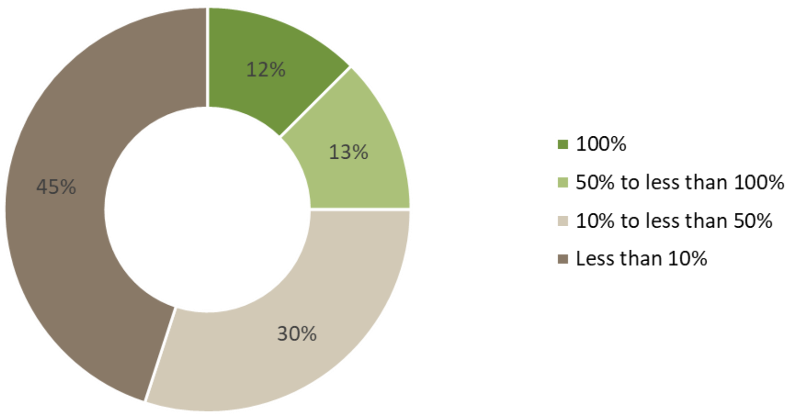
Note: Based on publicly disclosed and survey disclosed information, excluding survey responses disclosed in ranges or where respondents chose not to disclose.

BY ASSET CLASS AND TOP 2 INVESTMENT REGIONS



Note: Other region includes Middle East, Africa and South America. Other investments includes direct investments (mining and venture capital), commodities and nature capital.

BY ESG / SUSTAINABLE INVESTING AUM/AUA (USD BN)



Note: n=40. Excludes those who did not respond

12% of respondents considered 100% of their portfolio (excluding cash and derivatives) as ESG or Sustainable Investing Assets under Management (AUM) or Assets under Administration (AUA). For some respondents this was due to the adoption of ESG integration or exclusions across their portfolio.

An insurer respondent noted it was easier for listed or public assets to be categorised as ESG or Sustainable Investing AUM, compared to alternative assets. On the other hand, for a multi-development bank respondent focused on private assets, this particular asset owner's investment mandate which incorporates ESG factors enables 100% of assets to be aligned with ESG / Sustainable Investing considerations.

Caution should be taken in drawing conclusions from the information in this chart. For example, one respondent has selected the ‘Less than 10% category’ as less than 5% of their portfolio is invested in ESG specific mandates although they screen 100% of their portfolio.

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