

Sustainable Private Equity in Asia: Through the Lenses of Compliance, Strategy and Branding



Introduction

As providers of capital, private equity (**PE**) fund managers have long played a critical role in growing businesses and economies across Asia.

With global attention turning to pressing issues like climate change and human rights, PE's role in the region, along with the way we think about business more broadly, is now being reimagined to incorporate environmental, social and governance (**ESG**) issues and broader concepts of sustainability. The trend is creating new regulations, shifting stakeholder preferences and highlighting opportunities for value creation that are changing the face of the industry.



INTRODUCTION

The State of Play

1/3

In Asia, some of PE's most important stakeholder groups are bringing ESG and sustainability to the fore. Regulators are rolling out a growing number of ESG-focused regulations relevant to the industry. In financial hubs like Hong Kong and Singapore, for example, some managers are now required to consider climate factors in the investment process. Limited partners (**LPs**) are also paying greater attention to ESG and demanding more from PE managers, with 1/3 of Asia-Pacific LPs responding to a 2021-2022 survey saying ESG factors have played a "major role" in rejecting fund commitments.¹ At the portfolio company level, these developments present real opportunities for value creation and brand building that should not be ignored. For example, consumer demand for sustainable products is a significant growth opportunity for B2C businesses in the region.²

Many PE managers in Asia are responding by investing in capacity-building efforts and developing new processes to comply with emerging regulations. In record numbers, managers are also committing to integrate ESG issues into their investment processes, from sourcing and due diligence to investment documentation and post-investment monitoring. Many of these commitments are being made through organisations like the UN-Supported Principles for Responsible Investment (**PRI**), one of the world's leading proponents of responsible investment.

1/3 of Asia-Pacific LPs said ESG factors have played a "major role" in rejecting fund commitments.¹

Managing risks and capturing opportunities within this multifaceted shift in business thinking, however, calls for a holistic approach to ESG and sustainability. As a result, PE managers must not only address compliance and the integration of ESG issues into the investment process, but also the integration of holistic sustainability strategy and branding efforts at the firm, fund and portfolio company levels. Managers can fully address this new paradigm by viewing ESG and sustainability not just through the lens of compliance, but through the lenses of strategy and branding as well.

Developing robust and integrated approaches to ESG-related compliance, sustainability and branding requires significant commitment and often involves a fundamental rethinking of purpose, business processes and culture. At the same time, many PE managers in Asia are at a relatively early stage in their ESG and sustainability journeys.

This Report seeks to aid the PE industry in developing more fulsome approaches to ESG and sustainability by mapping out the current landscape and suggesting opportunities for managers to better respond to the many pressures that are now arising.

INTRODUCTION

What's in This Report?



As regulation is often the initial driver that causes firms to critically examine their approaches to ESG and sustainability, we first **summarise the state of regulatory requirements for PE managers and discuss developments on the horizon** across five key jurisdictions in Asia: Mainland China, Hong Kong, Japan, Singapore and South Korea.

We then analyse information on 28 PRI signatories from publicly available 2020 and 2021 PRI Transparency Reports to **understand how these firms are integrating ESG issues into their investment processes.*** The 28 firms reviewed in this section are headquartered in Mainland China, Hong Kong, Japan, Malaysia and Singapore.

*As of April 2023, 2022 PRI Transparency Reports had not yet been released.

Finally, we analyse publicly available information from 139 PRI signatories, including websites and LinkedIn pages, to **understand how well they go beyond simply considering ESG issues in the investment process to more fully integrating sustainability into holistic business and brand strategies.** The 139 firms reviewed in this section are headquartered in Mainland China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Singapore and Vietnam.

INTRODUCTION

Highlights

● REGULATION IS EVOLVING

Hong Kong and Singapore have taken the lead in Asia in developing detailed requirements for PE managers on issues relating to climate change and the environment.

This Report focuses on the ESG regulatory requirements for PE managers in five key jurisdictions in Asia: Mainland China, Hong Kong, Japan, Singapore and South Korea. Our analysis indicates that ESG regulations relevant to PE managers are developing less quickly than those around issues like climate-related stress testing for banks, disclosures for listed companies and fund labelling requirements for retail funds.

Hong Kong and Singapore have taken the lead in Asia in developing detailed requirements for fund managers, including PE managers, on issues relating to climate change and the environment. PE managers in Asia outside of Hong Kong and Singapore may look to these jurisdictions to understand the approaches that could take hold in their own countries.



INTRODUCTION

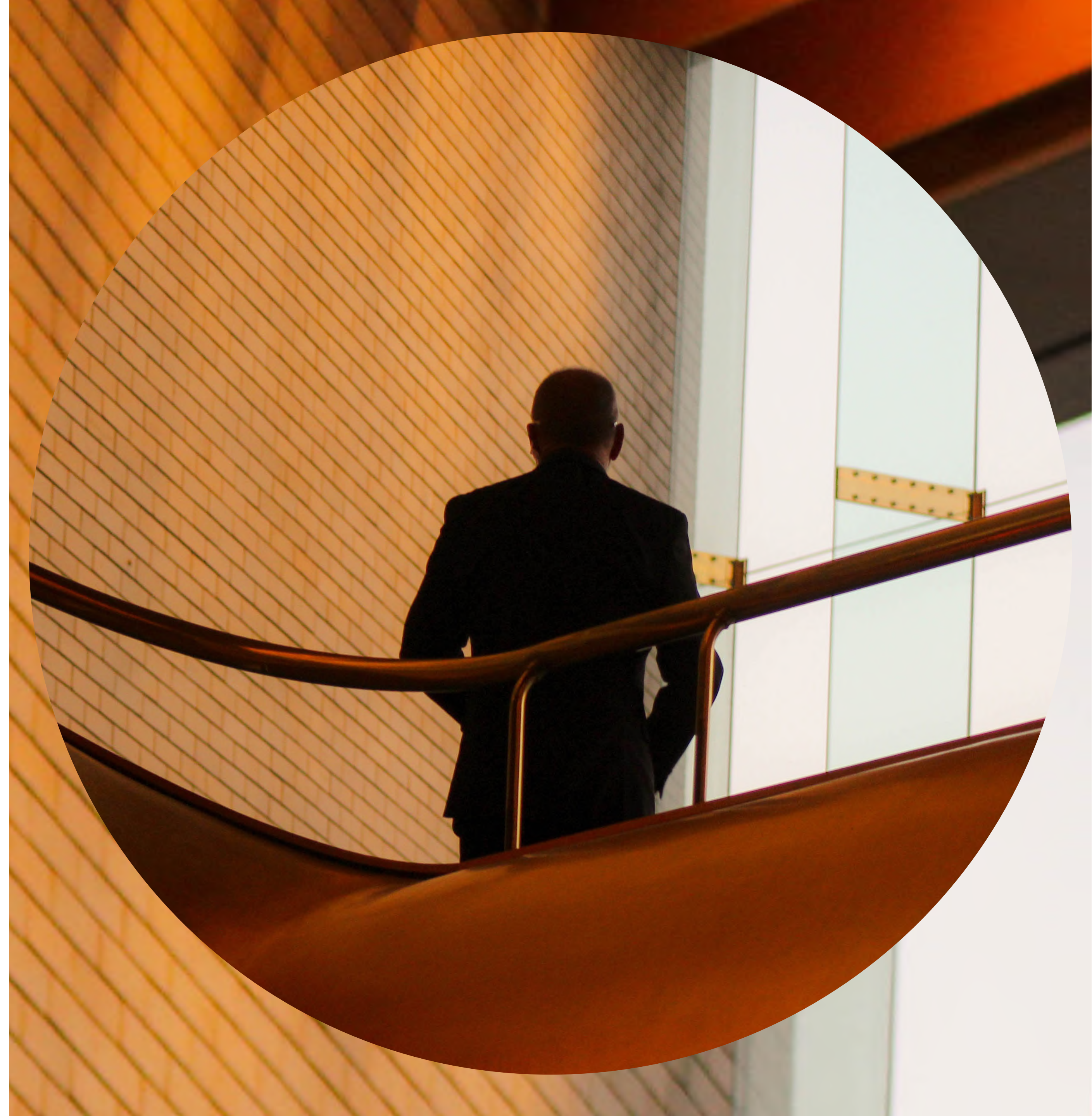
Highlights

● MANAGERS MAY NOT BE ADDRESSING LP CONCERNS

Out of 28 Asian PE managers reviewed, only 25% report consulting with key LPs to align with their sustainability priorities.

Only a quarter of the firms reviewed for purposes of the “ESG Integration” section of this Report indicated that they consulted with key LPs to align with their sustainability priorities in 2021. Firms that do not have a formal approach to engaging this critical stakeholder group – such as through regular and dedicated interviews – may be failing to address LP concerns in ESG and sustainability-related policies and procedures.

In 2020, the same proportion of firms (25%) reported having policies for understanding and incorporating the sustainability preferences of their LPs, suggesting that structured stakeholder engagement with LPs remains an opportunity for PE managers to stand out among peers that are increasingly focused on ESG and sustainability.



INTRODUCTION

Highlights

● MORE CAPACITY BUILDING MAY BE NEEDED TO SUPPORT VALUE CREATION EFFORTS

Out of 28 Asian PE managers reviewed, 92% help portfolio companies develop ESG strategies that can create value, but fewer provide relevant ESG training to portfolio company executives (64%) and employees (57%).

ESG and sustainability strategies at the portfolio company level can drive growth and contribute to broader value creation strategies. Still, managers must ensure those strategies are supported by real expertise – not only to ensure efforts are impactful and effective, but also to help avoid allegations of greenwashing.

While almost all PE managers reviewed in the “ESG Integration” section of this Report (92%) support their portfolio companies in developing and implementing ESG strategies that can create value, fewer PE managers provide training on company-specific ESG aspects and management best practices to portfolio company C-suite executives (64%) and employees (57%).

Many PE managers share best practices across their entire portfolios (75%) and may connect portfolio companies with external ESG experts (64%), but the lack of company-specific training suggests ESG and sustainability focused value creation efforts may not be supported with the tailored knowledge required for success.



INTRODUCTION

Highlights

● ESG AND SUSTAINABILITY PRACTICES ARE DEVELOPING

Out of 139 Asian PE managers reviewed, only 15% have developed holistic sustainability strategies that go beyond ESG integration.

While the results vary across the jurisdictions, the findings suggest that the integration of ESG and sustainability concepts in Asia's PE industry is at an embryonic stage as compared to other financial services sectors.

Similarly, few PE managers have developed holistic sustainability strategies and integrated sustainability into their branding and communications. While almost a third (31%) of the firms reviewed have developed some form of a sustainability strategy that addresses topics other than the firm's overall approach to responsible investment, only 15% have developed more advanced sustainability strategies that address multiple topics in a unified manner.

In other sectors, like banking and insurance, many prominent players in the region have developed robust strategies that address ESG risk management in financing and investment decisions, alongside broader commitments on issues like decarbonisation and diversity, equity and inclusion at the firm level. The holistic strategies and practices employed within these sectors could foreshadow the development of ESG and sustainability within PE in Asia.



INTRODUCTION

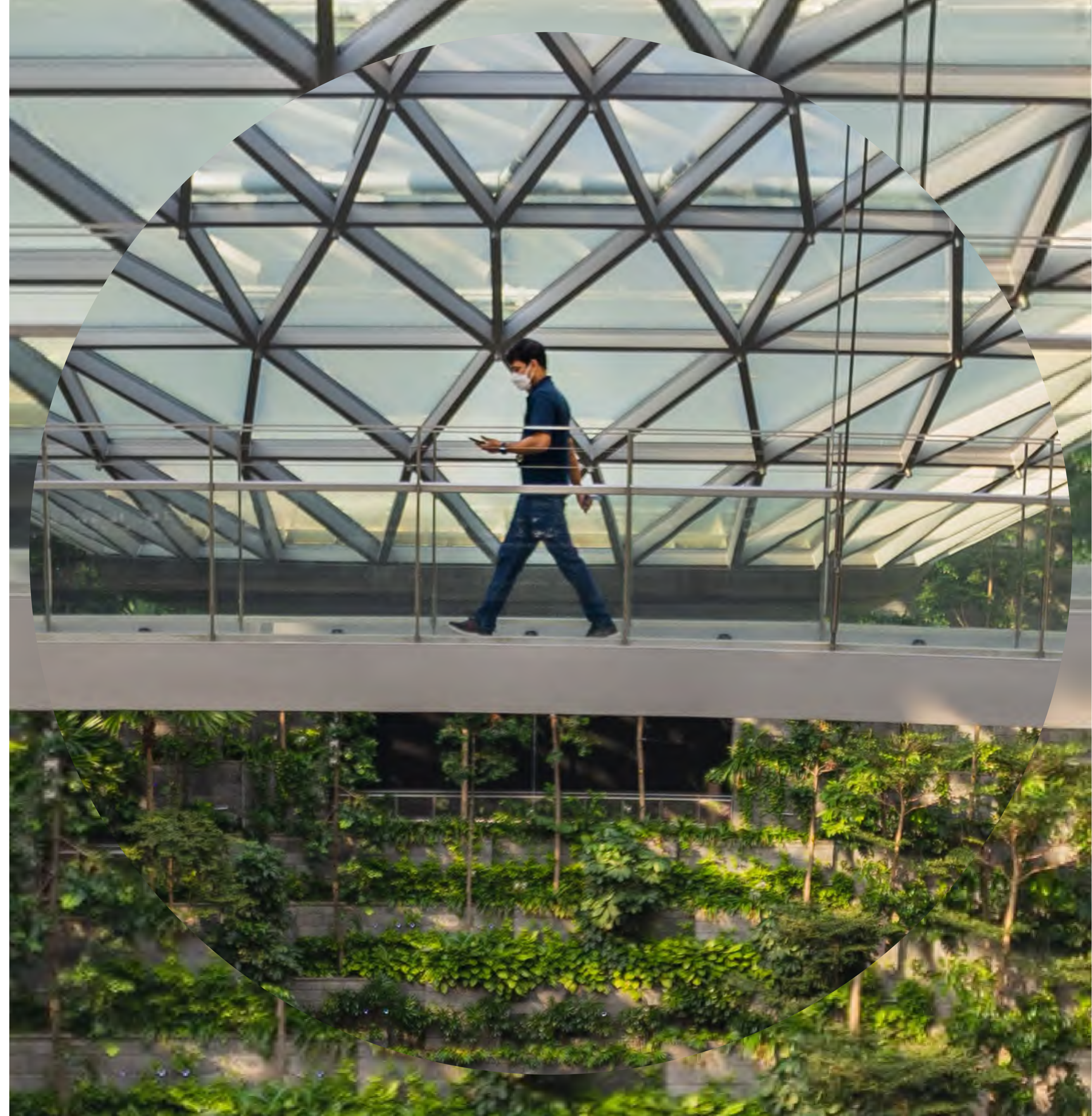
Highlights

● MANAGERS ARE MISSING OPPORTUNITIES FOR BRAND BUILDING

Out of 139 Asian PE managers committed to the PRI, only 9% have made sustainability a defining attribute of brand strategy.

While many firms are taking significant steps to integrate ESG issues into the investment process, few firms have infused sustainability strategies and concepts into their brand and communications. Out of the 139 firms reviewed in the “Strategy and Branding” section of this Report, only 9% have made sustainability a defining attribute of brand strategy. This includes, for example, integrating sustainability concepts into purpose, positioning and values statements and communicating a commitment to sustainability across multiple touchpoints, including public sustainability reporting on targets and commitments.

The findings suggest 91% of the firms reviewed are missing opportunities to better address stakeholder expectations, manage risk and create value with clearly articulated, comprehensive sustainability propositions integrated into firm-level branding. Communications, in particular, will benefit from a multi-pronged approach in terms of content type and channels to best engage with distinct stakeholder groups — from LPs to employees, portfolio company management teams and more.



INTRODUCTION

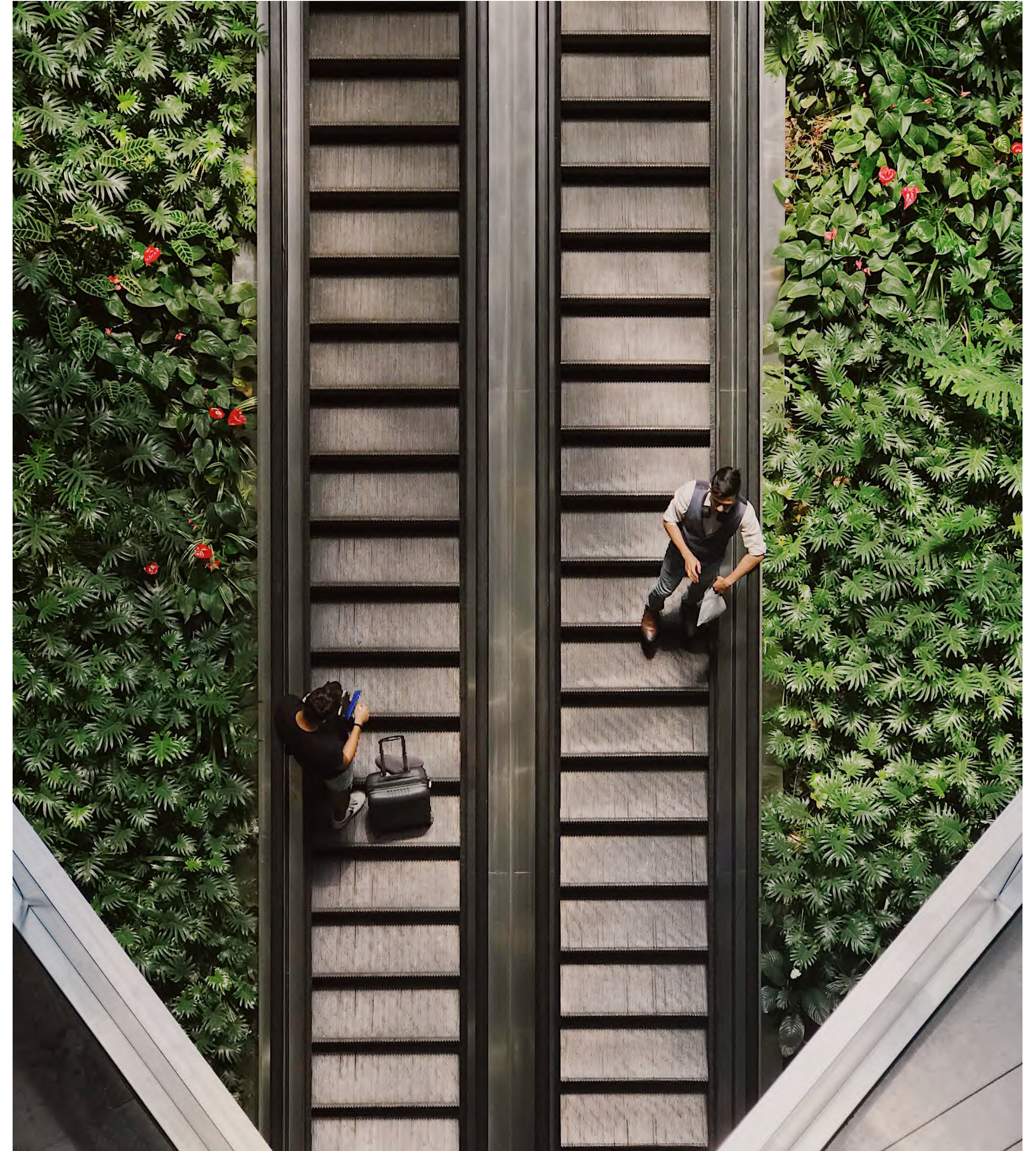
Methodology and Limitations

This Report is based on a review of current and, where applicable, proposed regulatory requirements, as well as publicly available information regarding PE fund managers that have committed to the PRI. The managers reviewed are headquartered in Mainland China, Hong Kong, India, Indonesia, Japan, Malaysia, Singapore, South Korea and Vietnam. The review does not include pure-play secondary firms, PE funds-of-funds or PE real estate managers.

The “Regulatory Requirements” section of this Report is based on our review of regulations in Mainland China, Hong Kong, Japan, Singapore and South Korea as of February 2023, excluding regulatory requirements that focus on retail funds. The “ESG Integration” section of this Report is based on our review of publicly available 2020 and 2021 PRI Transparency Reports from 28 firms reporting according to the PRI’s PE Module. The “Strategy and Branding” section of this Report is based on our review of the websites and LinkedIn pages of 139 PE managers who have

committed to the PRI as of 31 December 2022. While the “ESG Integration” and “Strategy and Branding” sections of this Report are intended to indicate the state of ESG and sustainability practices in the region, the results may be limited by the number of PE managers reviewed. Further, as the analysis relies on publicly available information from PE managers that have committed to the PRI, the results reflect those managers that prioritise public disclosure and are skewed towards managers that have already recognised the benefits of developing an approach to ESG and sustainability.

As robust public disclosure is generally not the norm in the PE industry, the results may be limited by the availability of information used to produce these sections of the Report and may not reflect policies and procedures that PE managers have adopted but not disclosed.



INTRODUCTION

Value Propositions: From ESG Inputs to Sustainability Outcomes

WHAT DO WE MEAN?



There is some confusion about the relationship between ESG and sustainability within the PE industry in Asia. In this Report, we use the term ESG to refer to environmental, social and governance **issues**, which are **inputs** that can inform anything from investment strategies and data collection to reporting and regulation. We adopt the definition of sustainability put forward by the United Nations (**UN**) and the Global Reporting Initiative (**GRI**):³ sustainability means meeting the needs of the present without compromising the ability of future generations to meet their own needs. While ESG refers to issues used as inputs for decision making and other processes, sustainability is an **approach** to managing those issues in a way that is intended to create positive **outcomes** for the economy, environment and people. These definitions generally align with those used by the PRI.⁴

WHAT ARE THE BENEFITS?



The benefits of ESG integration are generally well understood – whether or not it is required by regulation. PE managers have long integrated ESG issues, along with other non-financial information, into the investment process to arrive at more accurate valuations, better risk assessments and more robust investment theses. Labour practices, for example, are almost always relevant to a potential investment and improvements in this area can be a value creation driver. In parts of Asia, emerging regulations now require some managers to integrate issues like climate change into investment processes, as well as risk management and disclosures. As regulation develops, the benefits of these approaches should become evident.

INTRODUCTION

Value Propositions: From ESG Inputs to Sustainability Outcomes

Holistic approaches to sustainability can create even more benefits at the firm, fund and portfolio level.

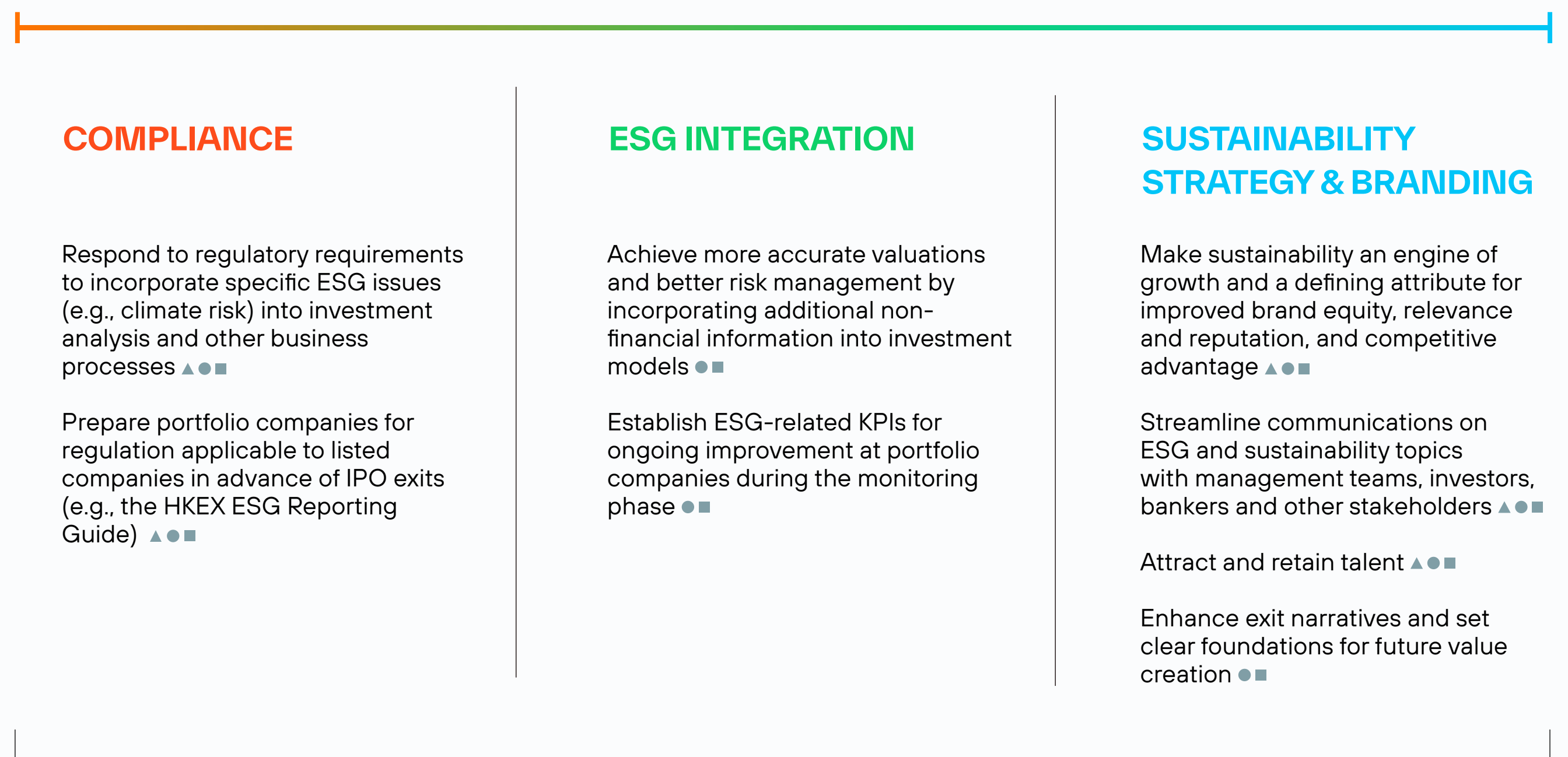
Firms that focus on ESG alone may silo these issues within the sourcing and due diligence phases of the investment process. More holistic approaches to sustainability, however, fit compliance and ESG integration into the bigger picture of how these issues drive risk management and value creation across the manager’s business, and how that business impacts the economy, environment and people.

Holistic strategies will clearly identify focus areas, goals and targets that drive sustainability throughout the entire investment process, from sourcing to exit, as well as within the firm’s own operations – often around topics like diversity and inclusion and climate change. The chart to the right describes a spectrum of approaches that managers are taking towards ESG and sustainability, and the benefits that may accrue.

A Spectrum of Approaches

Focus on Risk Management

Focus on Value Creation



Holistic Approaches to Sustainability

Note that the approaches and benefits described above are indicative and are not based on mandatory legislation.

▲ Firm ● Fund ■ Portfolio

INTRODUCTION

Value Propositions: From ESG Inputs to Sustainability Outcomes

A clearly articulated approach to sustainability, including ESG integration, that is developed through the lens of brand can align a manager's various internal stakeholders and even help address claims of greenwashing from external parties.

Importantly, sustainability strategies that are well integrated into branding and communications can help achieve clarity and consistency in purpose, direction and messaging at the firm, fund and portfolio levels. A clearly articulated approach to sustainability that is developed through the lens of brand can align a manager's various internal stakeholders and even help address claims of greenwashing from external parties.

The Business Case: Connecting Sustainability Outcomes to Financial Performance

While few studies have been conducted on the financial benefits of integrated brand and sustainability strategies among PE managers, the potential for these approaches to

build brand equity and create value at the firm and portfolio levels has been recognised.⁵

For example, WWF-UK and Doughty Hanson note that intangible assets, including brands and reputation, often account for a significant portion of market value. "Corporate sustainability programmes", they state, "have the potential to touch all these areas and create value in myriad ways that would not generally appear on the balance sheet."⁶ An oft-cited meta study published in 2015 found "the business case for ESG investing is empirically very well founded" in academic literature, with the majority of 2,200 individual studies finding a positive correlation between ESG performance and corporate financial performance.⁷

More recently, a 2020 meta study found that improved financial performance due to ESG becomes more pronounced over longer time horizons – which may be particularly relevant for PE funds with terms of approximately 7-10+ years – and that ESG investing appears to provide downside protection in social or economic crises.⁸

HIGHLIGHTS

Creating Shared Value

The "shared value" concept, which is becoming increasingly adopted across a range of industries, can help PE managers reorient business processes towards sustainability. Shared value refers to the process of applying an organisation's core competencies to address an identified societal or environmental need. It ultimately aligns purpose with profit in a way that enhances competitive advantage.

For PE managers, an orientation towards creating shared value clearly aligns with impact investing strategies, but the concept can also be incorporated into a range of other approaches to reduce risk and enhance ESG performance. More information on shared value can be found through the [Shared Value Initiative](#).



INTRODUCTION

Commitments

Public commitments to adhere to ESG and sustainability standards and practices are important tools to quickly communicate a manager's approach to these issues.

Across Asia, commitments to implement the PRI's six principles for responsible investment (**Principles**) are becoming increasingly common among PE managers. The prevalence of this approach underlies the authors' decision to focus on analysing information from PRI signatories in this Report.

HIGHLIGHTS

What are the PRI Principles?

By committing to the PRI, all of the PE managers reviewed in this Report have committed to implement the following **6 Principles** in their businesses.

1

We will incorporate ESG issues into investment analysis and decision-making processes.

2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4

We will promote acceptance and implementation of the Principles within the investment industry.

5

We will work together to enhance our effectiveness in implementing the Principles.

6

We will each report on our activities and progress towards implementing the Principles.

INTRODUCTION

PRI vs Other Initiatives

Our review of publicly available information shows 4.5x growth in the total number of Asian PE managers that have signed up to the PRI in the past four years, from a total of just 35 at the beginning of 2019 to 161 as of 31 December 2022. This rapid growth is helping to mainstream basic ESG integration in the region and could foreshadow a trend towards managers developing more advanced sustainability strategies in the future.

Despite the significant increase in firms signed up to the PRI, fewer regional PE managers have committed to other sustainability-related initiatives.

While many managers are committing to consider ESG issues in the investment process, fewer are committing to generate positive outcomes in ways that can create shared value. For example, as of 31 December 2022, the authors identified only 10 Asian PE managers that had signed up to the United Nations' Global Compact (**UNGC**), the world's largest corporate sustainability initiative, which addresses a range of topics from human rights and labour to the environment and anti-corruption.

Similarly, as of the same date, the authors identified fewer than 30 managers that had joined the list of supporters of the Task Force on Climate-related Financial Disclosures (**TCFD**), one of the leading disclosure for financially material climate information, which regulators are now adopting around the world.

Committing to other leading initiatives, in addition to the PRI, can help managers further develop internal capacities and set clear goals and targets to inform more holistic sustainability strategies. Thematic initiatives can also help managers prepare for future expectations to address areas of increased stakeholder attention, such as nature-related risks and opportunities arising from the work of the Taskforce on Nature-related Financial Disclosures.

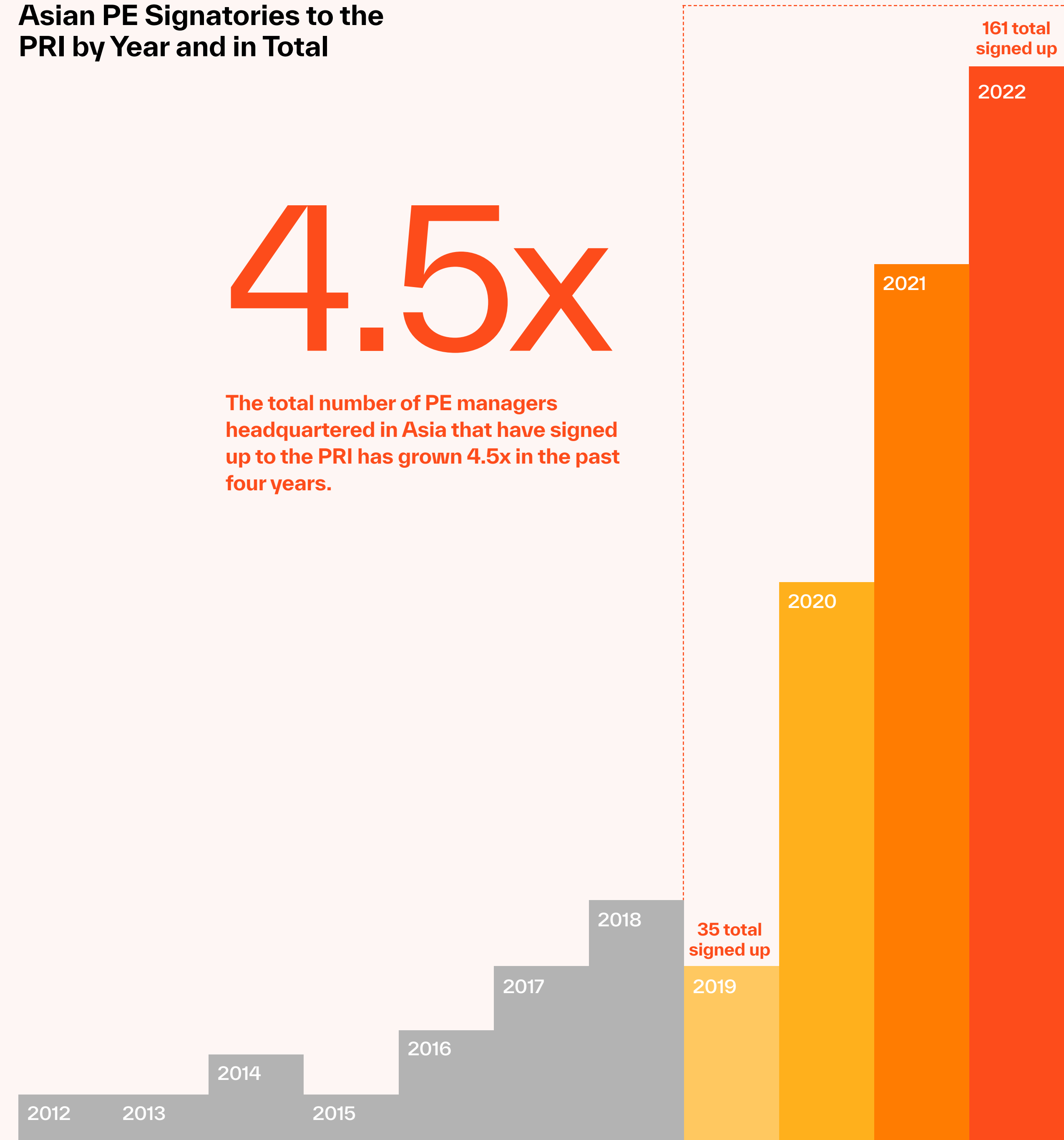
50
40
30
20
10
0

New Asian PE Signatories to the PRI by Year

Asian PE Signatories to the PRI by Year and in Total

4.5x

The total number of PE managers headquartered in Asia that have signed up to the PRI has grown 4.5x in the past four years.



Regulatory Requirements

Regulation is often the initial driver that brings ESG and sustainability into focus for many organisations. With this in mind, regulators around the world are now developing and adopting a range of regulatory approaches to increase the uptake of ESG and sustainability practices in the financial services sector, including asset management. Focus areas to date that are relevant for PE managers include disclosures, risk management, and ESG integration.



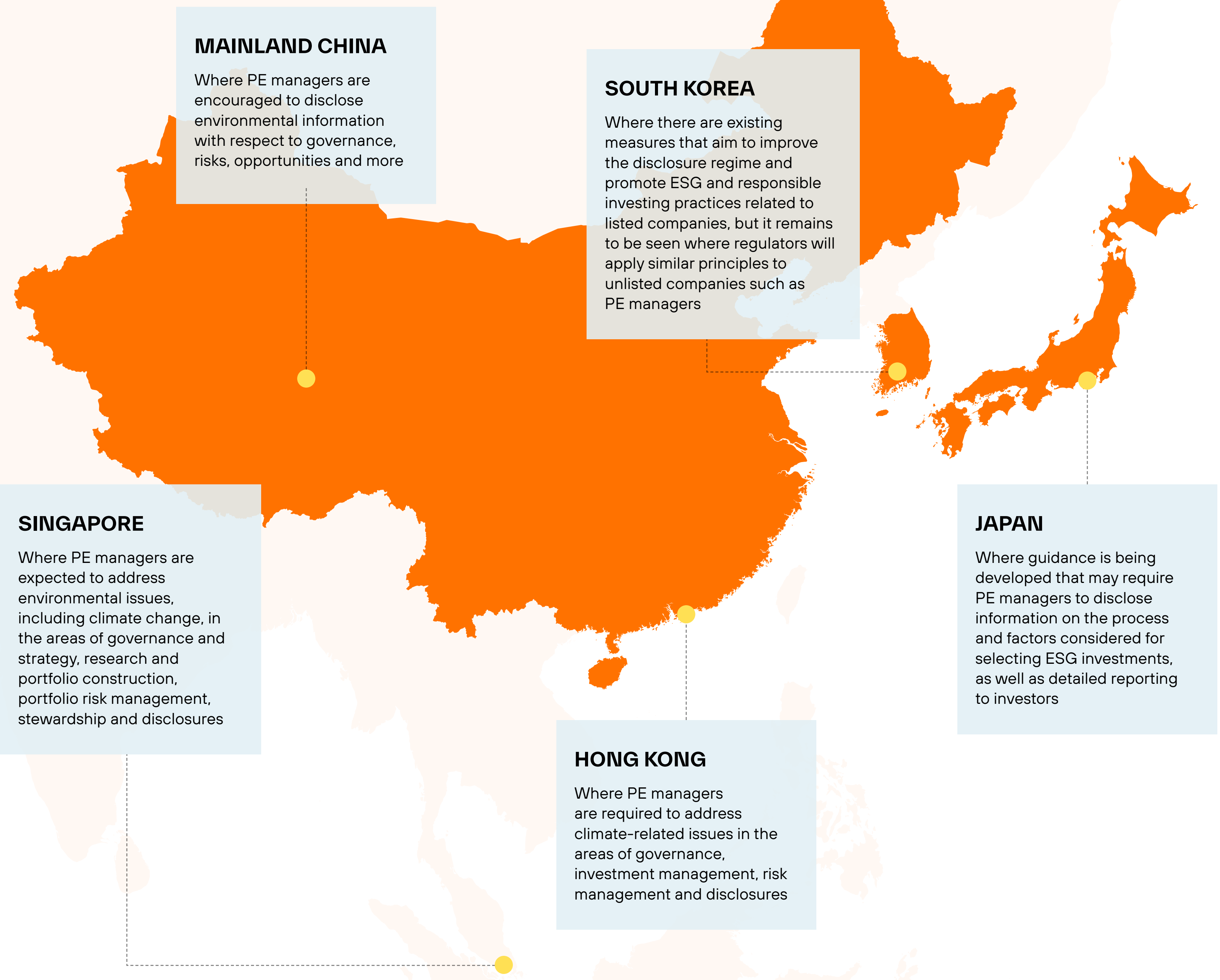
REGULATORY REQUIREMENTS

The Focus of Our Review

To help understand how legal requirements and expectations are evolving, this section presents a summary of existing and pending ESG-focused regulation in five regions throughout Asia.

Our review indicates that the ESG-related PE regulatory regime in Asia is at an early stage in its development and will continue to evolve, currently with an initial focus on climate-related requirements.

Hong Kong and Singapore have taken the lead in Asia in developing detailed requirements for fund managers, including PE managers, on issues relating to climate change and the environment. PE managers in Asia outside of these jurisdictions may look to these jurisdictions to understand the approaches that could take hold in their own countries.



MAINLAND CHINA

Where PE managers are encouraged to disclose environmental information with respect to governance, risks, opportunities and more

SOUTH KOREA

Where there are existing measures that aim to improve the disclosure regime and promote ESG and responsible investing practices related to listed companies, but it remains to be seen where regulators will apply similar principles to unlisted companies such as PE managers

SINGAPORE

Where PE managers are expected to address environmental issues, including climate change, in the areas of governance and strategy, research and portfolio construction, portfolio risk management, stewardship and disclosures

JAPAN

Where guidance is being developed that may require PE managers to disclose information on the process and factors considered for selecting ESG investments, as well as detailed reporting to investors

HONG KONG

Where PE managers are required to address climate-related issues in the areas of governance, investment management, risk management and disclosures

REGULATORY REQUIREMENTS

Hong Kong

Covered fund managers in Hong Kong are required to identify relevant and material climate-related risks for each investment strategy and fund they manage.

COVERED COMPANIES

- All fund managers licensed or registered with the SFC whose business involves the management of collective investment schemes with investment discretion (but does not cover discretionary account managers).
- Certain enhanced requirements only apply to Large Fund Managers, i.e. covered fund managers with assets under management of HK\$8 billion or more (excluding assets under discretionary account management) for any three months in the previous reporting year.

REGULATOR

Securities and Futures Commission (**SFC**)

GOVERNING LEGISLATION / GUIDELINES

- Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers (August 2021)⁹
- Circular to licensed corporations Management and disclosure of climate-related risks by fund managers (20 August 2021)¹⁰
- Fund Manager Code of Conduct (August 2022) (**FMCC**)¹¹

KEY DATES / TIMEFRAME

- Large Fund Managers must comply with the baseline requirements by **20 August 2022** and the enhanced standards by **20 November 2022**
- Other covered fund managers must comply with the baseline requirements by **20 November 2022**



REGULATORY REQUIREMENTS

Hong Kong

ESG REGULATORY REGIME OVERVIEW

The amended FMCC requires covered fund managers to identify relevant and material climate-related risks and take them into consideration in their investment and risk management processes and, in the case of managers responsible for the overall operation of the fund (**ROOFs**), make appropriate disclosures.

The requirements have two tiers: (i) baseline requirements for all covered fund managers; and (ii) enhanced standards for Large Fund Managers only.

Baseline requirements

Covered fund managers must comply with a set of “baseline requirements” covering four key climate-related elements, namely governance, investment management, risk management and disclosures, including:

- **Governance** – defining the board’s role and ensuring board and management-level oversight of climate-related issues;
- **Investment Management** – identifying relevant and material physical and transition climate-related risks for each

investment strategy and fund it manages and, where relevant, factor the material climate-related risks into the investment management process;

- **Risk Management** – taking into consideration climate-related risks in its risk management procedures and managing and monitoring the relevant and material climate-related risks for each investment strategy and fund it manages; and
- **Disclosures** – in the case of ROOFs only, making appropriate climate-related risks disclosures to investors.

Enhanced standards

Large Fund Managers are also required to follow the enhanced standards as set out below:

- assessing the relevance and utility of scenario analysis in evaluating the resilience of investment strategies to climate-related risks under different pathways, and where the assessment result is deemed to be relevant and useful, developing a plan to implement scenario analysis within a reasonable timeframe;

- if climate-related risks are relevant and material, identifying the portfolio carbon footprints of Scope 1 and Scope 2 greenhouse gas emissions associated with the funds’ underlying investments and defining the calculation methodology and underlying assumptions; and
- for ROOFs only, making the appropriate disclosure, including disclosing a description of the engagement policy and how it’s implemented, and, at a minimum, providing the portfolio carbon footprints associated with the funds’ underlying investments.

COMMENTS

The amended FMCC marks an initial but important step of Hong Kong’s effort to align their ESG standards with international ESG standards. However, given the evolving nature of local and international standards in this area, we expect the SFC to refine its requirements and provide further guidance from time to time with the result that the covered fund managers should see this as the beginning of the SFC’s ESG journey and expect further, more detailed reporting requirements in 2023 and beyond.

REGULATORY REQUIREMENTS

Japan

The FSA's Progress Report found a lack of dedicated ESG personnel employed by asset managers and insufficient disclosures to investors.

COVERED COMPANIES

Asset Managers

REGULATOR

Financial Services Agency (**FSA**)

GOVERNING LEGISLATION / GUIDELINES

No legally binding legislation currently in effect but certain guidelines are under development.

KEY DATES / TIMEFRAME

By end of March 2023

ESG REGULATORY REGIME OVERVIEW

There are no ESG-related laws or regulations that are legally binding on asset managers in Japan.

The Guidelines for Supervision of Financial Instruments Business Operators, etc., of the FSA is expected to be updated by end of March 2023 with provisions imposing greater disclosure requirements on asset managers related to the process and factors considered for selecting ESG investments and also requiring detailed reporting to investors. However, whether those requirements will be legally binding is yet unclear (Comments on the next page for further details).



REGULATORY REQUIREMENTS

Japan

COMMENTS

The FSA formed the “Expert Panel on Sustainable Finance” (**Expert Panel**) in December 2020, to discuss various measures to promote sustainable finance as well as identify underlying issues within the market. In report published in June 2021, the Expert Panel indicated concern the lack of market standards or common criteria imposed on asset managers for ESG investments and recommended the FSA to “broadly examine and analyse ESG- or Sustainable Development Goal (SDG)-related business practices in the asset management industry” and monitor asset managers given the risks of “greenwashing”.¹²

The FSA began conducting a survey from November 2021 on 37 domestic asset managers offering ESG-related investments and on 225 ESG funds; the results were published in the “Progress Report on Enhancing Asset Management Business 2022” (**Progress Report**) in May 2022.¹³ The results illustrate a staggering growth of the ESG market with 2021 alone having 96 newly formed ESG funds, compared to just 41 funds formed in 2020. Both asset managers and investors have an overall positive outlook for ESG investments and see it as a “source of future growth” when properly conducted but also see risks if investments are made with inadequate consideration. However, the survey also revealed asset managers are yet to catch up with the expanding market in terms of personnel and disclosures to investors, with the Progress Report highlighting the lack of dedicated ESG personnel employed by asset

managers and insufficient disclosures to investors. Based on the findings, the Progress Report sets out “Supervisory Expectations” (**Expectations**) for asset managers involved in ESG investments. The Expectations cover a wide range of topics from establishing specialised ESG focused departments within an asset manager’s organisation to forming an internal policy for verifying ESG ratings of potential investments provided by third parties. It should be noted these are “expectations” only and do not have binding authority.

The Progress Report also recognises the importance of the relationship between asset managers and portfolio companies and how voting rights held by asset managers may affect a portfolio company’s performance in relation to ESG. This has been reflected in the Stewardship Code (**Code**). Originally enacted in April 2014, the Code sets out the responsibilities of institutional investors to their clients and also encourages engagement and dialogue with portfolio companies to develop value and sustainable growth. The Progress Report refers to Guidance 1-1 of the Code that was revised in March 2020, which provides that institutional investors are required to consider “sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies”.¹⁴ The principles-based Code applies to institutional investors who primarily invest in Japanese listed shares and adopts a “comply or explain” approach. Institutional investors adopting the Code are required to publicly disclose such intent and certain information pursuant to the principles.

The Japanese government is aware of the need for market standards and common criteria for asset managers involved in ESG investments. In relation to the Kishida administration’s “New Form of Capitalism” economic policy, the Cabinet Secretariat has published related action plans and follow ups for achieving the administration’s economic goals.¹⁵ The follow up published in June 2022 briefly notes that in order to improve reliability and transparency of the ESG market, the administration will request asset managers “to build and clarify appropriate operational processes, enhance disclosure and provide customers with detailed explanations” and it will take necessary measures to amend the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. (**Comprehensive Guidelines**) of the FSA by the end of March 2023. On 19 December 2022 the FSA proposed a new set of guidelines for publicly offered ESG investment funds to be incorporated in the Comprehensive Guidelines.¹⁶ These guidelines set out factors to be considered by financial instrument business operators, ranging from investment strategy, portfolio construction, information disclosures and due diligence of investment managers to prevent misrepresentations by the fund and ultimately assist investors to make informed investment decisions. The FSA called for comments from the public on the proposed guidelines which such comment period ended on 27 January 2023. This is still an evolving area and asset managers can expect further updates on this topic.

REGULATORY REQUIREMENTS

Mainland China

Mandatory disclosure of environment-related information is expected to be introduced in Mainland China, however, the commencement date has yet to be announced.

COVERED COMPANIES

Asset Managers

REGULATOR

- People's Bank of China
- China Securities Regulatory Commission
- China Banking and Insurance Regulatory Commission
- Asset Management Association of China (a self-regulatory body)

GOVERNING LEGISLATION / GUIDELINES

None that are mandatory.

KEY DATES / TIMEFRAME

To be announced

ESG REGULATORY REGIME OVERVIEW

The People's Bank of China issued Guidelines on Environmental Information Disclosure for Financial Institutions¹⁷ that took effect on 22 July 2021. The voluntary guidelines apply to financial institutions including asset management, banking, insurance, trust, futures and securities companies established within the territory of Mainland China. Mandatory disclosure of environment-related information is expected to be introduced in Mainland China, however, the commencement date has yet to be announced.

Under the Guidelines on Environmental Information Disclosure for Financial Institutions, asset management companies can choose from three forms of disclosure that suit their circumstances and are encouraged to disclose their environmental information at least annually.



REGULATORY REQUIREMENTS

Mainland China

Disclosure contents for asset managers include the following categories of information:

- overview of the asset management company's environmental objectives, strategic plans, actions and key outcomes of the year;
- the asset management company's environmental-related governance structures; policies and systems; products and services innovation; and risk management process;
- impact of environmental factors on the asset management company including risk and opportunities and quantitative analysis of environmental risks on the asset management company or its investment targets through scenario analysis or stress test methods;
- environmental impact of the asset management company's investments, including quantitative calculations using proprietary or third-party-provided methods and systems;

- environmental impact of operational activities of the asset management company including direct and indirect greenhouse gas emissions and natural resource consumption, environmental benefits of environmental protection measures adopted and quantitative calculation of environmental impacts of operational activities;
- data sorting, verification and protection processes;
- innovation and research results of green finance; and
- any other environment-related information that the asset management company considers appropriate to disclose.

COMMENTS

A number of industry guidelines are available to further assist the ESG efforts of asset managers:

- Green Investment Guidelines (For Trial Implementation) – issued by the Asset Management Association of China.
- Suggestions on the framework of the self-assessment report on green investment of fund managers – issued by the Asset Management Association of China.
- Guidance for enterprise ESG disclosure – issued by the China Enterprise Reform and Development Society.

REGULATORY REQUIREMENTS

Singapore

PE managers in Singapore are encouraged to refer to international standards and frameworks in research and portfolio construction, including the GRI, CDP, SASB and TCFD.

COVERED COMPANIES

- All holders of a capital markets services licence for fund management and real estate investment trust management
- Registered fund management companies that are exempted from holding a capital markets services licence and registered under paragraph 5(1)(i) of the Second Schedule to the Securities and Futures (Licensing and Conduct of Business) Regulations of Singapore¹⁸

REGULATOR

Monetary Authority of Singapore (**MAS**)

GOVERNING LEGISLATION / GUIDELINES

- Guidelines on Environmental Risk Management (Asset Managers) (December 2020) (**Guidelines**)¹⁹
- Handbook on Implementing Environmental Risk Management for Asset Managers, Banks and Insurers²⁰
- Financial Institutions Climate-related Disclosure Document²¹
- Singapore Stewardship Principles for Responsible Investors²²

KEY DATES / TIMEFRAME

There was an **18-month transition period from December 2020**. Asset managers may implement the Guidelines in phases, but are expected to demonstrate evidence of their implementation progress over the transition period.

MAS has started engaging larger Asset Managers from Q2 2021 on their implementation progress.



REGULATORY REQUIREMENTS

Singapore

ESG REGULATORY REGIME OVERVIEW

The Guidelines set out MAS' expectations on environmental risk management for all fund management companies and real estate investment trust managers. Environmental risk encompasses three risk channels, i.e. physical risk, transition risk and reputational risk, and it relates to a broader range of issues than climate change alone, including the loss of biodiversity, pollution and changes in land use.

The Guidelines only apply to asset managers that have discretionary authority over managed funds. If asset managers delegate investment management to other parties, the asset managers will still retain overall responsibility for environmental risk management.

The MAS expects asset managers to apply the Guidelines in a way that is commensurate with the size and nature of their business activities, and the investment strategy of their mandates. The MAS also expects asset managers' management and disclosure of environmental risk to improve over time as the methodologies for assessing, monitoring and reporting such risk evolves.

The Guidelines cover:

- **Governance and strategy** — the board and senior management should oversee the integration of environmental risk into existing risk management frameworks;
- **Research and portfolio construction** — embed environmental risk considerations in the processes and encouraged to refer to the appropriate international standards and frameworks (e.g., the GRI, CDP, Sustainability Accounting Standards Board (**SASB**) and TCFD);
- **Portfolio risk management** — monitor, assess and manage the material potential and actual impacts of environmental risk on both individual investments and portfolios on an ongoing basis; develop capabilities in scenario analysis to evaluate portfolio resilience under different environmental risk scenarios; engage in capacity building by providing environmental risk management training to staff;
- **Stewardship** — actively shape the corporate behaviour of investee companies through engagement, proxy voting and sector collaboration; and

- **Disclosure of environmental risk information** — disclose environmental risk management approach to stakeholders, and encouraged to disclose the potential impact of material environmental risks with reference to quantitative metrics.

COMMENTS

MAS published Information Paper on Environmental Risk Management (Asset Managers) in May 2022 based on a thematic review conducted by MAS in 2021 on selected asset managers.

MAS urges asset managers to (i) refer to the shared industry practices, and assess their applicability to their efforts to bolster their resilience to environmental risk in a way that is commensurate to their size, nature of activities and risk profile; (ii) pay attention to the impact of their efforts on business strategies and risks, and on the financial system and the broader transition to a sustainable economy; and (iii) set tangible targets to address environmental risk with urgency and ambition.

REGULATORY REQUIREMENTS

South Korea

CARBON NEUTRALITY ACT

COVERED COMPANIES

All

REGULATOR

Ministry of Environment

GOVERNING LEGISLATION / GUIDELINES

Framework Act on Carbon Neutrality and Green Growth for Responding to Climate Change (**Carbon Neutrality Act**)

KEY DATES / TIMEFRAME

Effective on 25 March 2022

ESG REGULATORY REGIME OVERVIEW

The Carbon Neutrality Act served as an opportunity to shift from the past system, which was focused on the central government and experts, to participation from all social sectors, including the central and local governments, industries, future generations and labourers. It also made institutional frameworks such

as climate change impact assessments and climate-responsive budgeting to promote carbon neutrality as mainstream in national finance and across state plans. The Carbon Neutrality Act stated the principle of a just transition to safeguard regions and social classes that may suffer from the negative impacts in achieving carbon neutrality.

Pursuant to the Carbon Neutrality Act, the Korean government set clear targets: (1) reduce greenhouse gas emissions by more than 40% by 2030 from the emission levels recorded in 2018; and (2) achieve carbon neutrality by 2050 as a national agenda.

COMMENTS

The Carbon Neutrality Act is the first legislation to mandate the implementation of carbon neutrality in South Korea.

It is expected that central administrative agencies, local governments and public institutions will come up with various measures going forward. Subsequent legislation (enactment and amendment of relevant laws) may also follow.



REGULATORY REQUIREMENTS

South Korea

K-ESG GUIDELINES

COVERED COMPANIES

All

REGULATOR

Ministry of Trade, Industry and Energy

GOVERNING LEGISLATION / GUIDELINES

K-ESG Guidelines

KEY DATES / TIMEFRAME

Released on 1 December 2021

ESG REGULATORY REGIME OVERVIEW

The purpose of the K-ESG Guidelines is to set forth the key elements of ESG management so that companies can freely put an effective ESG management into practice. The K-ESG Guidelines set forth 27 "Social Values" that companies should pursue through

ESG management. In addition, the K-ESG Guidelines provide 61 Evaluation Items and Item Specifications so that companies can evaluate themselves on how well they are achieving such "Social Values".

K-ESG Guidelines should be treated as a "bare minimum" rather than as an "all-encompassing" set of conditions for establishing an effective ESG management system.

COMMENTS

The government plans to update the K-ESG Guidelines once every one or two years to reflect global ESG standards and trends, and will also provide specific guidelines for various industries and companies of different sizes starting from 2022.



REGULATORY REQUIREMENTS

South Korea

ESG BEST PRACTICE GUIDELINE

COVERED COMPANIES

All

REGULATOR

Korea Corporation Governance Service
(KCGS)

GOVERNING LEGISLATION / GUIDELINES

ESG Best Practice Guideline (ESG Guideline)

KEY DATES / TIMEFRAME

Amendment announced on 5 August 2021

KCGS will reflect the amended ESG Guideline to the ESG evaluation process from 2022

ESG REGULATORY REGIME OVERVIEW

The KCGS is the sole publisher of the ESG Guideline to present the guidance for sound ESG management of South Korean companies. The ESG Guideline has been used in the

KCGS's ESG evaluations as well as referenced in South Korean listed companies' own ESG management standards and various governmental policies.

Major contents of the amended ESG Guideline:

- **Environmental Guideline** – actively incorporates major aspects of global environmental and climate change guidelines.
- **Social Guideline** – emphasises socially responsible corporate leadership as well as management of non-financial risks.
- **Governance Guideline** – emphasises the responsibility and duty of the board of directors.

COMMENTS

It would be necessary for companies to first determine what can be, and needs to be, reflected on their management, as well as to incorporate such identified items in their own internal policies.



REGULATORY REQUIREMENTS

South Korea

KOREA STEWARDSHIP CODE

COVERED COMPANIES

Institutional investors in listed companies in South Korea

REGULATOR

Financial Services Commission (**FSC**)
KCGS

GOVERNING LEGISLATION / GUIDELINES

Korea Stewardship Code, "Principles on the Stewardship Responsibilities of Institutional Investors"

KEY DATES / TIMEFRAME

Effective on 19 December 2016

ESG REGULATORY REGIME OVERVIEW

The Stewardship Code consists of a voluntary set of seven detailed principles²³ and guidelines that institutional investors in listed companies such as asset management companies, insurers, pension funds, and proxy

advisors and investment advisory firms helping with their shareholder engagement to fulfil their fiduciary duties as a steward taking care of and managing the assets entrusted to them by others.

As of 24 March 2023, 207 institutional investors have adopted the Korea Stewardship Code, including 57 asset managers and 61 private equity fund managers.

COMMENTS

There are potential changes to the Korea Stewardship Code to strengthen fiduciary duties related to ESG. The FSC's attention to fiduciary duties is noteworthy as any guidance from regulators in this respect can serve as a benchmark for institutional investors seeking to improve governance processes and integrate ESG-related factors into their investment processes.



ESG Integration

According to the PRI, “[t]here is no one-size-fits-all approach to ESG integration.”²⁴ It is therefore critical for each manager to find the approach that works best for its business, including in terms of geography, investment mandate and LP base.

When ESG integration is done well, the result can not only help manage risks associated with ESG issues, but also uncover opportunities for value creation and support the development of more holistic and differentiated brand and sustainability strategies at the firm, fund and portfolio levels.



ESG INTEGRATION

The Focus of Our Review

To help understand the range of approaches PE managers are taking towards ESG integration in Asia, this section presents data from public 2020 and 2021 PRI Transparency Reports from 28 PE managers[#] headquartered in Mainland China, Hong Kong, Japan, Malaysia and Singapore. The analysis focuses on the four categories set out to the right.

The results show that most of the managers reviewed have taken significant steps to integrate ESG issues into policies, due diligence, portfolio monitoring and disclosure processes. Many managers also leverage ESG for value creation.

Opportunities for improvement include:

- tailoring policies and procedures to more clearly address LP preferences,
- incorporating a broader range of information in due diligence,
- expanding the scope of issues considered in portfolio monitoring,
- embedding ESG and sustainability capacities at portfolio companies to support value creation efforts, and
- disclosing additional information and performance metrics to key stakeholders.

[#]The 28 firms reviewed in this section are headquartered in Mainland China, Hong Kong, Japan, Malaysia and Singapore.

Responsible Investment Policies

How managers have formally committed to integrating ESG into their investment processes

1

Materiality and Due Diligence

How managers determine material ESG factors for potential investments and what types of due diligence information they rely on

2

Post-investment Monitoring and Value Creation

Whether managers track ESG issues across the portfolio and set targets, and how they use ESG to create value

3

Disclosure

How managers disclose information relating to their ESG integration approaches to their stakeholders

4

ESG INTEGRATION

Responsible Investment Policies

All 28 firms reviewed have responsible investment policies, but only about a third (32%) report having dedicated responsible investment employees to help implement them. Responsible investment is, however, a management-level issue at most firms, with investment committees (82%) and C-suite staff (e.g., CEOs or CIOs) (78%) often responsible for implementation efforts.

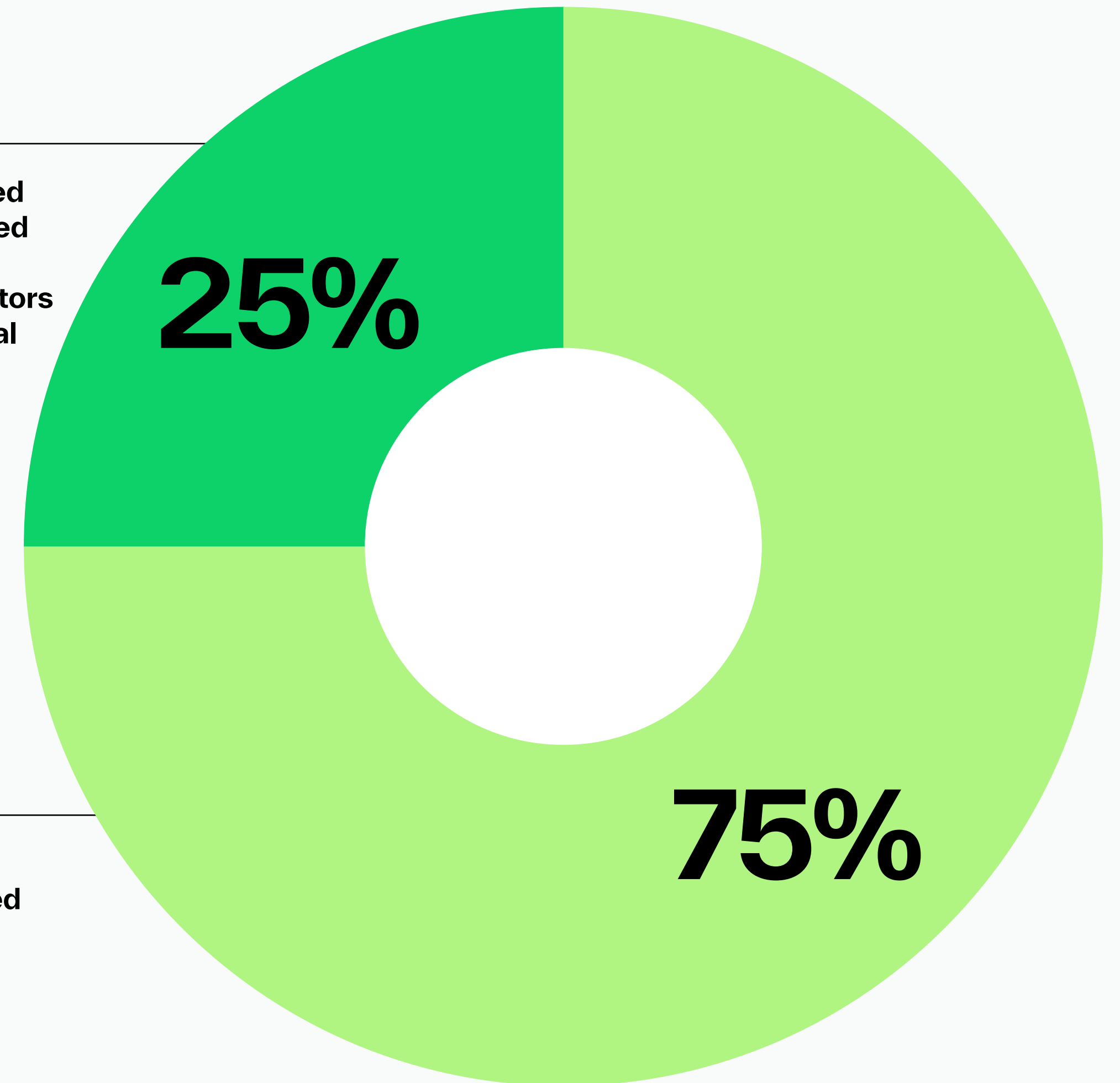
The majority of policies set out minimum due diligence requirements (85%) and the firm's approach to monitoring ESG risks, opportunities and incidents (71%). Almost all policies cover guidelines for screening investments (96%), which often exclude investments based on the firm's values or beliefs on topics like alcohol, tobacco or weapons (64%). Fewer exclusion policies (39%) refer to international standards and guidance like the Universal Declaration on Human Rights or the UNGC.

Most firms reviewed (75%) have formalised guidance on each of the three categories of ESG factors (i.e., guidance on environmental, social and governance factors). Firms in the remaining 25% may, for example, have developed guidance on environmental factors but not social or governance factors. This represents a significant increase over 2020, in which only 54% of firms reviewed reported that their policies included formalised guidance on all three categories of ESG factors. **The increase in guidance on all ESG factors suggests that some firms are beginning to formulate their approach to responsible investment with a focus on one or two categories of ESG factors, before addressing the full spectrum of issues.**

Formalised Guidance on ESG Factors

25% of firms reviewed do not have formalised guidance on the full spectrum of ESG factors (environmental, social and governance)

Most firms reviewed (75%) have formalised guidance on each of the three categories of ESG factors



ESG INTEGRATION

Responsible Investment Policies

While approaches to **ESG factors** are often being reflected in responsible investment policies, it is less clear whether approaches to **sustainability** are also being effectively implemented in formal policies. Most firms reviewed (78%) report that they have identified sustainability outcomes for some or all of their activities, but less than half (42%) include their approach to sustainability outcomes in their responsible investment policies.

When managers develop their policies and guidelines on sustainability, many refer to the UN Sustainable Development Goals (**SDGs**) (32%) or the Paris Agreement (21%). Few managers report referring to international guidance like the UN Guiding Principles on Business and Human Rights (7%) or the Organisation for Economic Cooperation and Development (**OECD**) Guidelines for Multinational Enterprises (3%).

Incorporating LP Views into Policy Development

Importantly, policies on sustainability may not be responding to the needs of LPs, one of PE's most important stakeholder groups. Just a quarter of firms reviewed (25%) report consulting with key clients and/or beneficiaries to align with their sustainability priorities. In 2020, the same proportion of firms (25%) reported having policies for understanding and incorporating the sustainability preferences of their LPs, suggesting stakeholder engagement remains an area for improvement and opportunity to stand out.

Responsible Investment Policy Content



While most firms reviewed report that they have identified sustainability outcomes for their investments, less than half include their approach to sustainability outcomes in their responsible investment policies

HIGHLIGHTS

Stakeholder Engagement and Policy Development

With LPs rapidly developing their own sustainability strategies and related requirements for their investment managers, PE managers cannot develop their own policies in a vacuum.

Formally engaging LPs, as well as other stakeholders, in the policy development process allows managers to incorporate their feedback before policies are finalised, and can even prevent future conflicts over the firm's ESG and sustainability-related practices. Engagement could be conducted via regular interviews with LPs, including on an annual basis through a standardised materiality assessment process, or in dedicated surveys.

While there is no substitute for real engagement, PE managers can initially refer to the ILPA ESG Assessment Framework and the ESG section of the ILPA Due Diligence Questionnaire Template for a basic understanding of the types of concerns LPs are likely to raise about ESG and sustainability topics.²⁵



ESG INTEGRATION

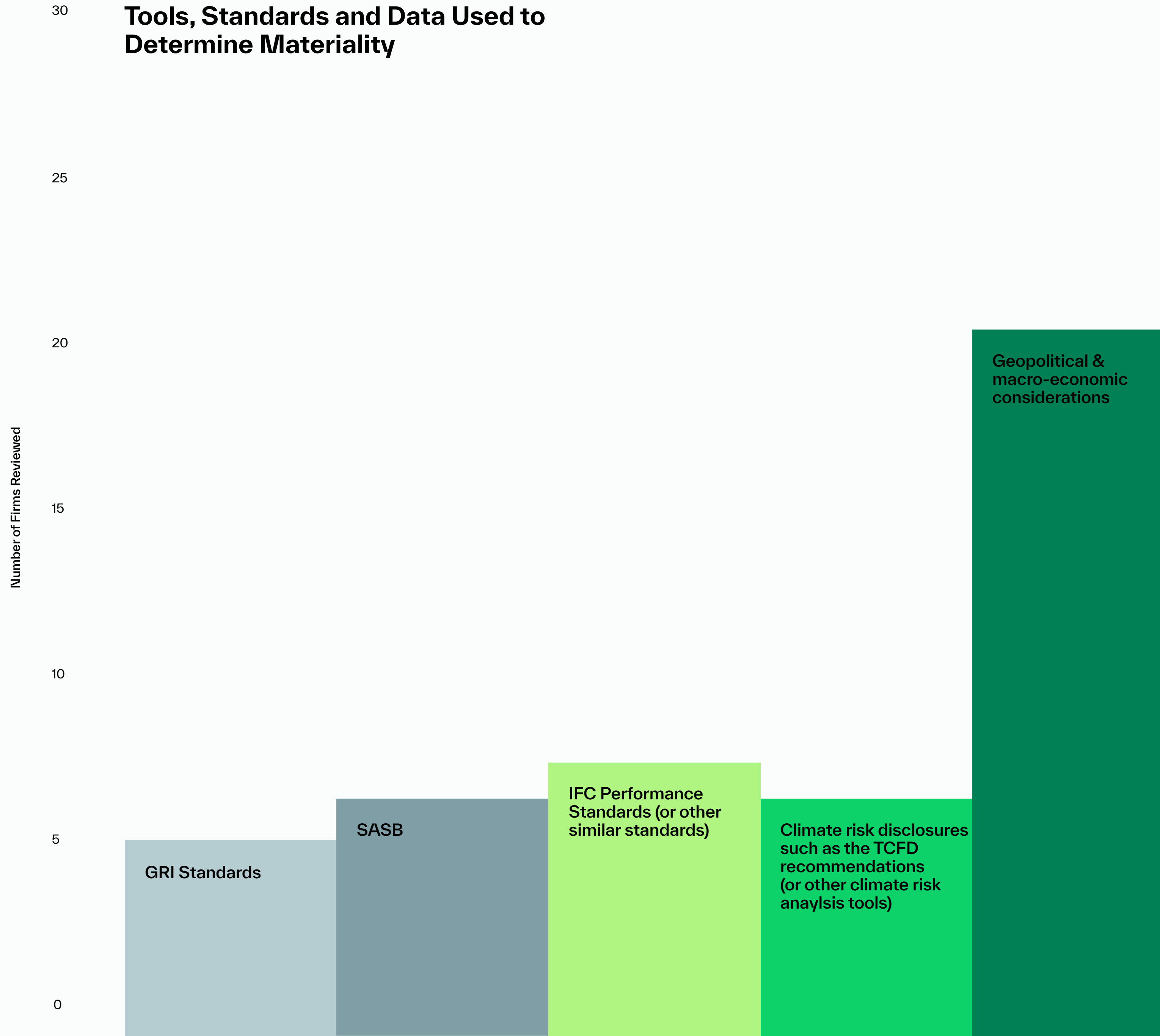
Materiality and Due Diligence

All firms reviewed assess the materiality of ESG issues for potential investments and incorporate ESG issues into the pre-investment due diligence process. Firms use a range of information to determine which ESG factors are most likely to be material for a potential investment, with a majority (75%) relying on geopolitical and macro-economic considerations.

A variety of tools, standards and data are also used, including the GRI Standards (17%), SASB Standards (21%), IFC Performance Standards (25%) and climate-related risk disclosures such as the TCFD recommendations (21%). Firms also report referring to the British International Investment (**BI**)'s ESG Toolkit, legislation on issues like modern slavery, third-party ESG rating providers and in-house, bespoke tools like materiality maps.

Once material ESG factors have been identified, the majority of firms proceed to conduct ESG due diligence for all their potential investments through an initial review applying ESG checklists for potential red flags (78%) and/or site visits and in-depth interviews with target company management (78%). Most firms (67%) address the ESG issues identified in the due diligence process by incorporating actions based on ESG risks and opportunities into 100-day plans for a majority of their investments.

Tools, Standards and Data Used to Determine Materiality



ESG INTEGRATION

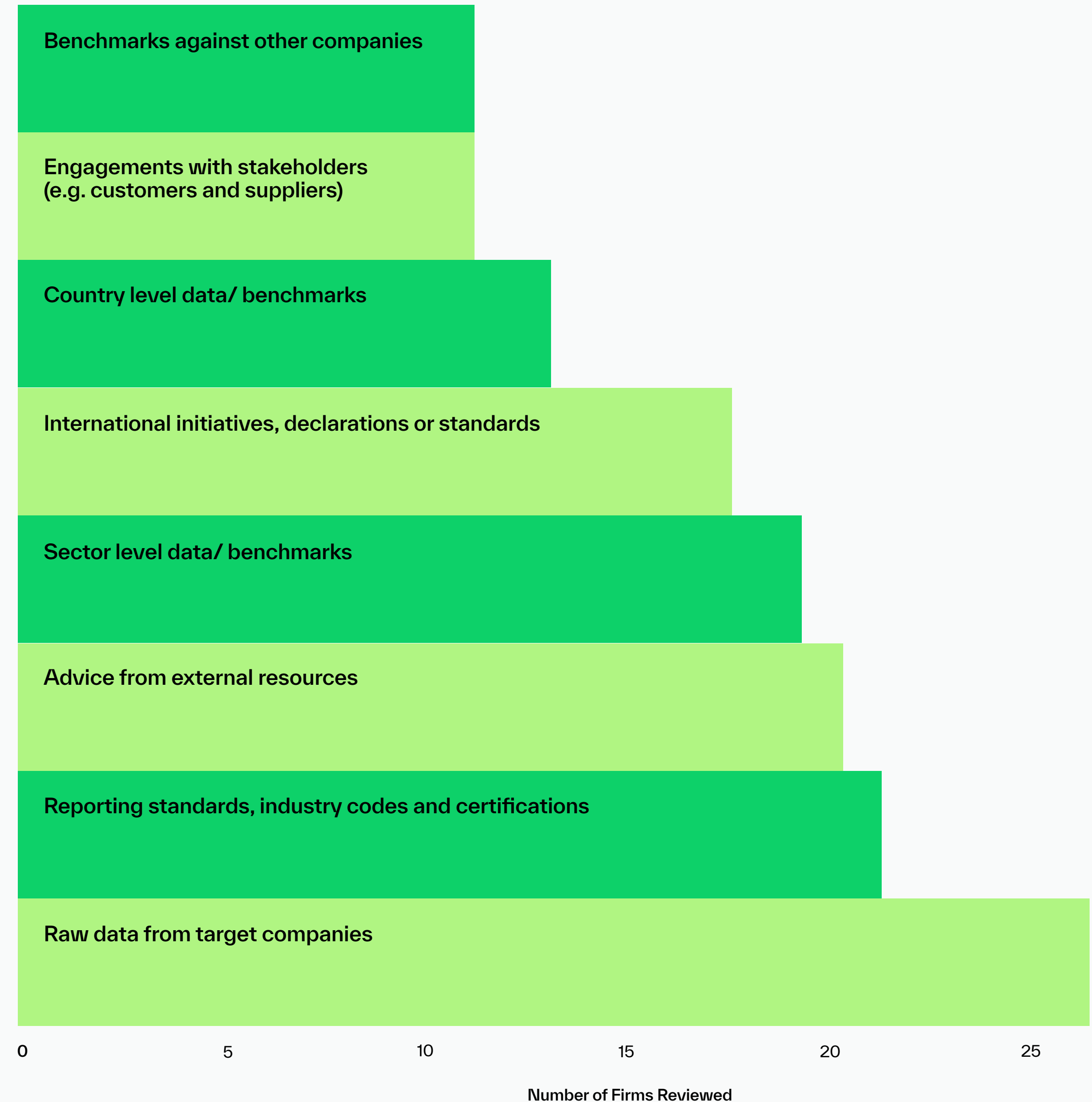
Due Diligence

While a variety of information from multiple sources is often required to fully understand a target company's ESG and sustainability-related risks and opportunities, the scope of the information that managers use to assess potential transactions varies.

In 2020, the PRI asked firms to report the sources of information used for due diligence purposes. While this question was not asked in 2021, the 2020 results nonetheless indicate the types of information that firms tend to rely on for due diligence purposes in Asia.

Nearly all firms reported relying on raw data from target companies, which can be obtained via due diligence requests. Fewer firms, however, reported supplementing this with information from a range of external sources that can help verify and assess a target company's own data. The chart to the right sets out the number of firms referring to different types of information gathered and analysed in the due diligence process.

Sources of Due Diligence Information



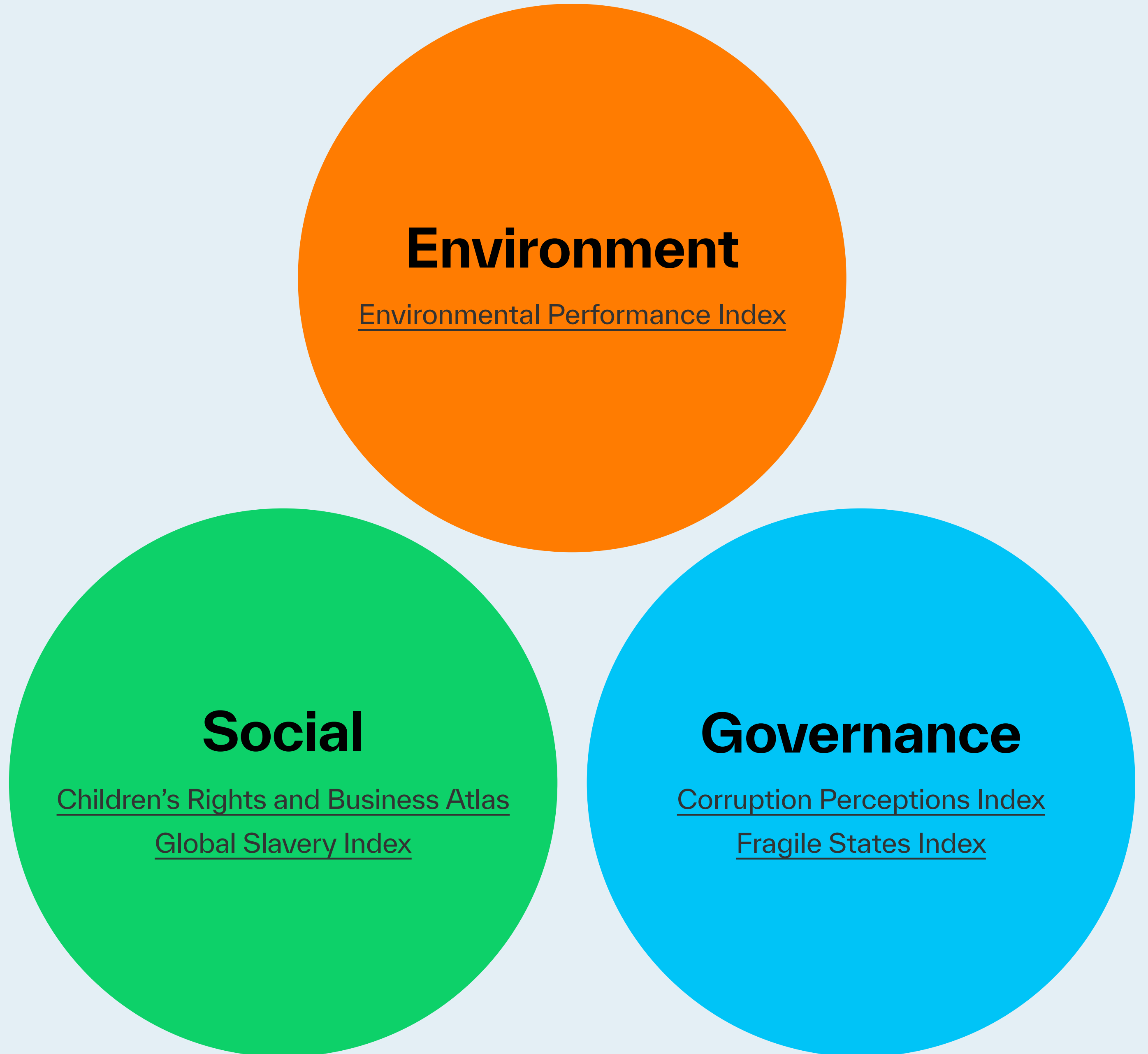
HIGHLIGHTS

Country-level Due Diligence Information

In 2020, less than half of the managers reviewed reported considering country-level data and benchmarks. This information, however, is often relatively easy to obtain.

Along with sector-based materiality maps, country-level information can help to quickly highlight potential sustainability risks and opportunities in a proposed investment for further investigation and discussion with management teams.

The OECD and World Bank provide country-level data across a range of ESG issues. Other sources score or rank countries based on different ESG and sustainability-related criteria, including those set out to the right.



ESG INTEGRATION

Post-investment Monitoring and Value Creation

The majority (82%) of firms reviewed track one or more ESG KPIs as part of their post-investment monitoring of portfolio companies, and 75% go a step further by setting targets relating to ESG KPIs.

Targets can take a variety of forms. Most firms (64%) set targets for portfolio companies to achieve incremental improvements based on past performance, but only 10% set targets against global benchmarks or thresholds, like the SDGs. **Aligning portfolio company targets with global benchmarks or thresholds like the SDGs or the Paris Agreement can help PE managers build credibility into the sustainability performance of their investments while contributing to the achievement of well-established environmental and social goals.**

Firms put a variety of processes in place to help portfolio companies meet ESG targets. 71% of firms reviewed report establishing operational-level benchmarks against sector performance, allocating budget to achieve ESG KPIs and/or developing minimum health and safety standards for portfolio companies. 60% of firms conduct ongoing stakeholder engagement at the portfolio company level with relevant groups including local communities, NGOs, governments and customers.

A minority of firms (42%) implement international best practice standards, like the IFC Performance Standards, to help portfolio companies meet their ESG targets. **International standards can offer a more comprehensive approach to performance improvement and may resonate the most with stakeholder groups including LPs, portfolio company customers and potential buyers at exit.**

82%

Tracking KPIs

82% of firms reviewed track one or more ESG KPIs as part of their post-investment monitoring of portfolio companies

75%

Setting Targets

75% of firms reviewed go a step further by setting targets relating to ESG KPIs

60%

Stakeholder Engagement

60% of firms conduct ongoing stakeholder engagement at the portfolio company level with local communities, NGOs, governments, customers and other groups

ESG INTEGRATION

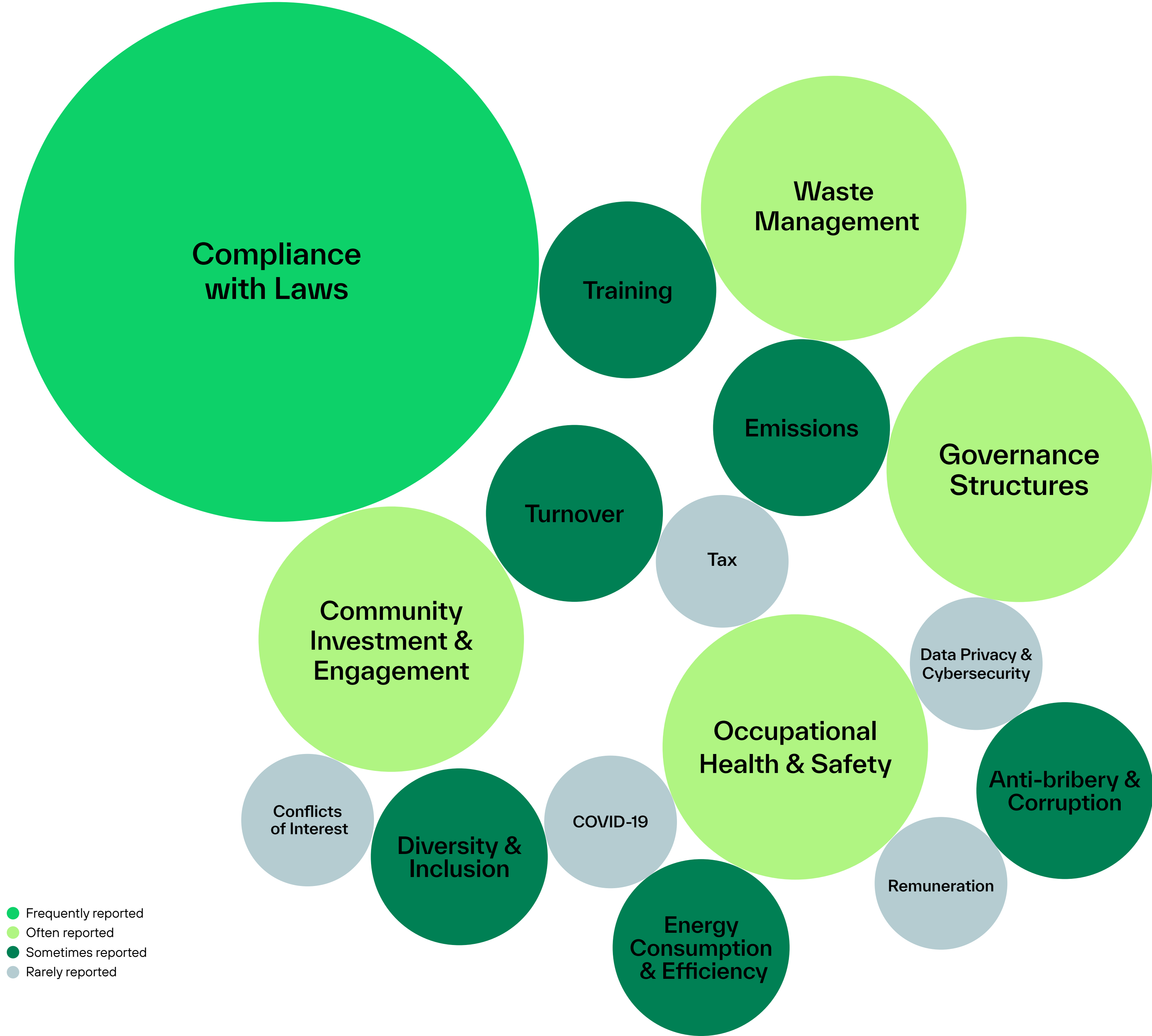
What are PE Managers Monitoring?

In 2020, few firms reported tracking emissions, DEI, data privacy and cybersecurity metrics at portfolio companies, despite the importance of these topics to many LPs and other stakeholders.

In 2020, firms were required to report on the specific ESG issues that they monitor at the portfolio company level. The issue most often reported to be monitored at the portfolio company level was compliance with laws, including environmental and social laws. While this likely reflects the risk management-focused approach adopted by many managers, many firms also monitor post-investment KPIs relating to ESG issues that can help drive value creation, including governance structures (e.g. board and committee practices), waste management, occupational health and safety and community investment and engagement.

Fewer firms reported tracking emissions, diversity, equity and inclusion, data privacy and cybersecurity metrics at the portfolio company level, despite the importance of these topics to many LPs and other stakeholders. The chart to the right shows how often managers reported monitoring certain ESG-related issues in their 2020 PRI Transparency Reports.

Since this data was reported to the PRI, the ESG Data Convergence Initiative (EDCI) has worked to standardise a set of ESG metrics for private markets. Asian PE managers may look to the EDCI metrics for guidance on industry-standard KPIs informed by LP expectations.



- Frequently reported
- Often reported
- Sometimes reported
- Rarely reported

ESG INTEGRATION

Post-investment Monitoring and Value Creation

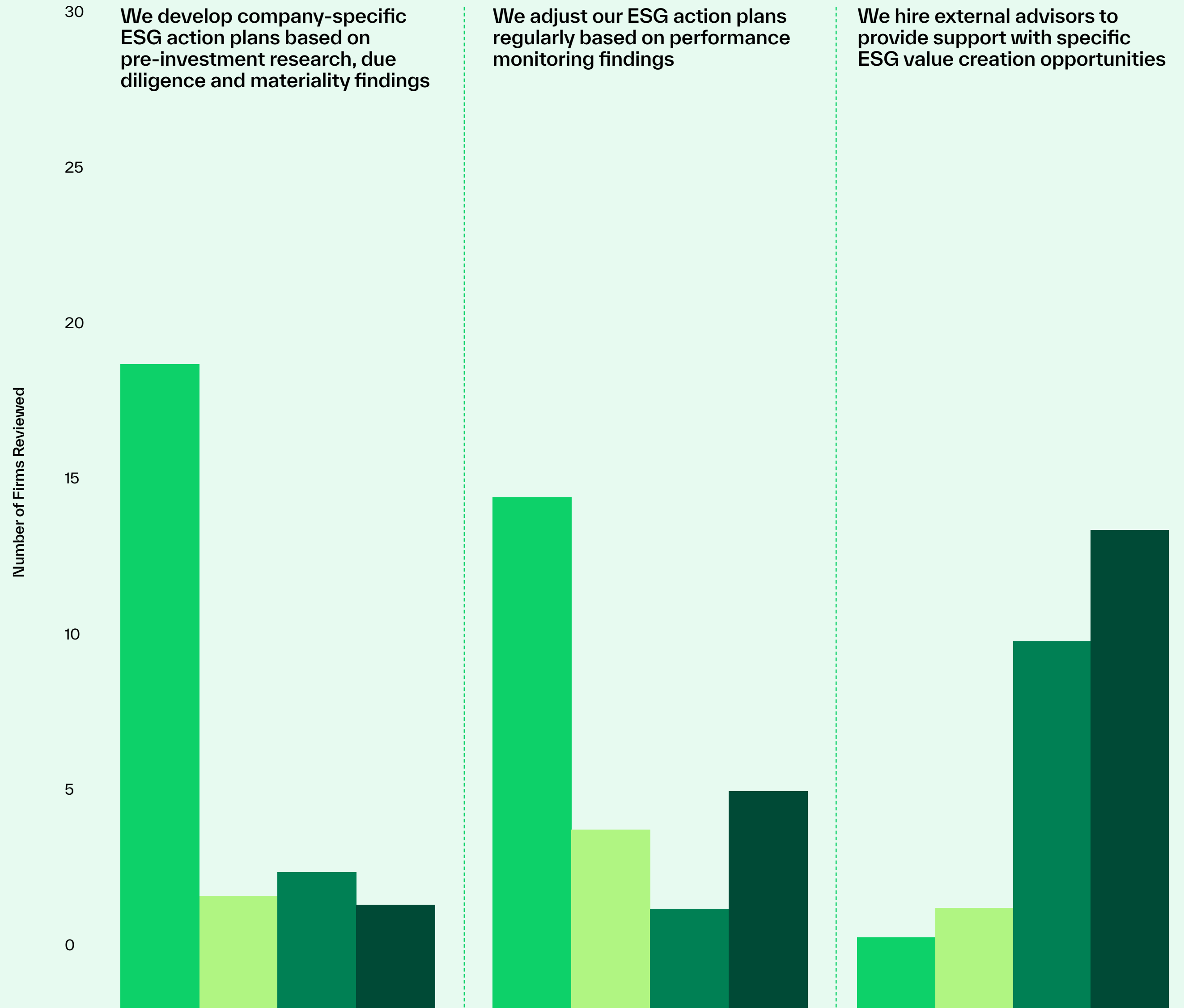
92% of the firms reviewed help portfolio companies develop ESG strategies that can create value, but fewer provide relevant ESG training to portfolio company executives (64%) and employees (57%)

Almost all managers reviewed (92%) say ESG factors have helped them identify opportunities for value creation for at least some of their investments. 89% of managers reviewed seek to realise those opportunities at some or all their investments through ESG action plans based on pre-investment research, due diligence and materiality findings. A majority of firms (53%) also hire external advisors to support specific ESG value creation opportunities.

It is critical to embed ESG competencies at the portfolio company level to support related value creation efforts. Almost all firms (92%) support portfolio companies in developing and implementing ESG strategies, but fewer firms provide training on ESG aspects and management best practices relevant to those portfolio companies to their C-suite executives (64%) and employees (57%). While many managers share best practices across their entire portfolios (75%) or connect portfolio companies with external ESG experts (64%), the lack of company-specific training suggests ESG and sustainability-focused value creation efforts may not be supported with the foundational knowledge required for success.

How PE Managers are Using ESG to Create Value

- For all of our private equity investments
- For the majority of our private equity investments
- For a minority of our private equity investments
- For none of our private equity investments



ESG INTEGRATION

Disclosure

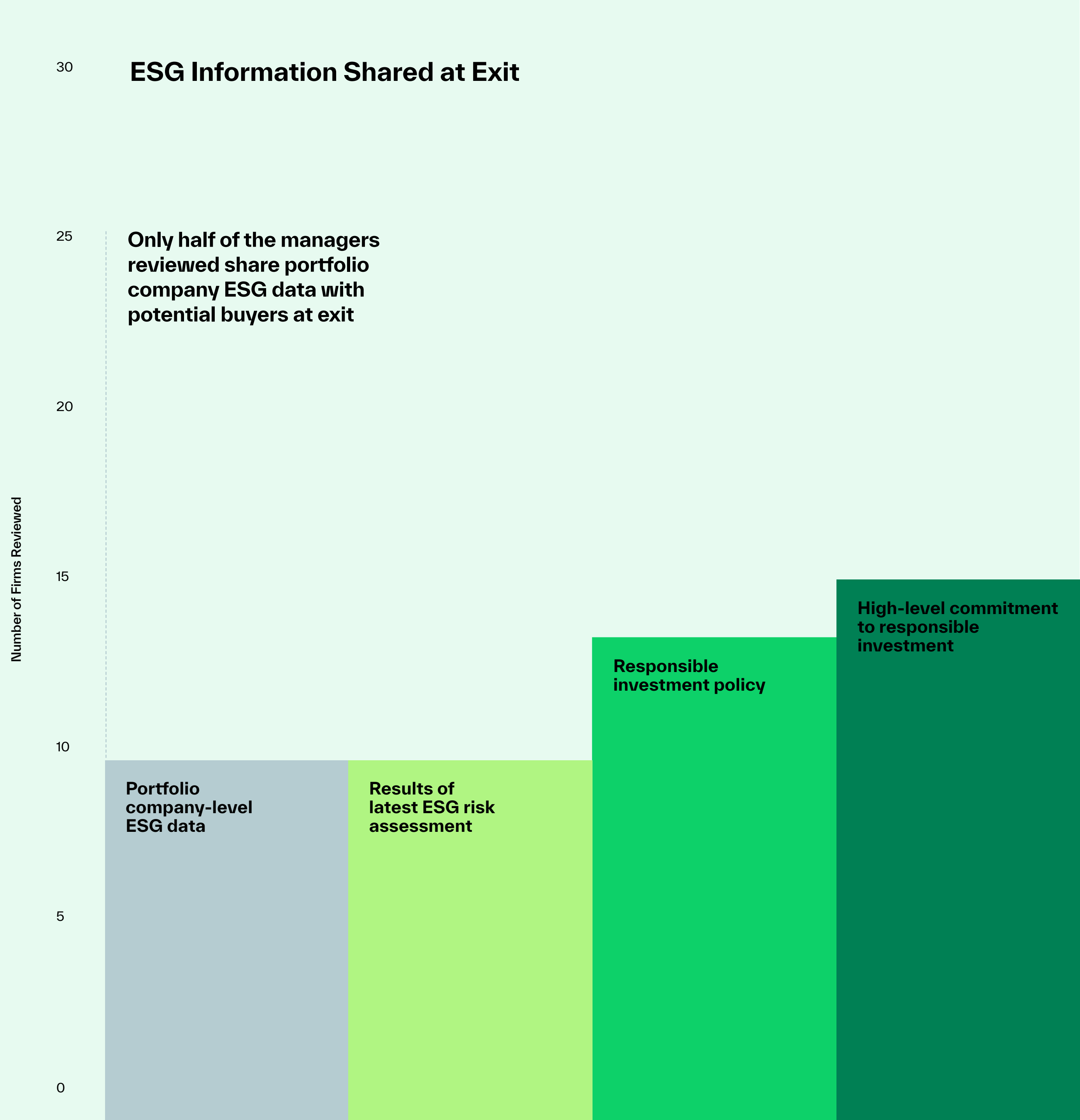
A majority of the firms reviewed disclose ESG-related information to their clients either annually (25%) or quarterly (39%), indicating a small increase in managers reporting on ESG matters to LPs more frequently (in 2020, only 32% of the firms reviewed reported disclosing ESG-related information to their LPs at least quarterly).

The quality of information disclosed to LPs can vary. While most firms (64%) disclose qualitative ESG analysis, descriptive examples or case studies, less than half (46%) disclose quantitative analysis or KPIs related to ESG performance.

Quantitative information may be the most useful information for some LPs, as many have made commitments to monitor the quantitative ESG performance of their investments. At the same time, a smaller minority of the managers reviewed (28%) disclose progress on sustainability outcomes, which LPs may also require to understand the impact of their investments. Accordingly, PE managers that include information on sustainability outcomes or impact metrics in their regular reporting to LPs may be able to stand out.

Similarly, there is significant variability in the information shared with potential buyers at exit.

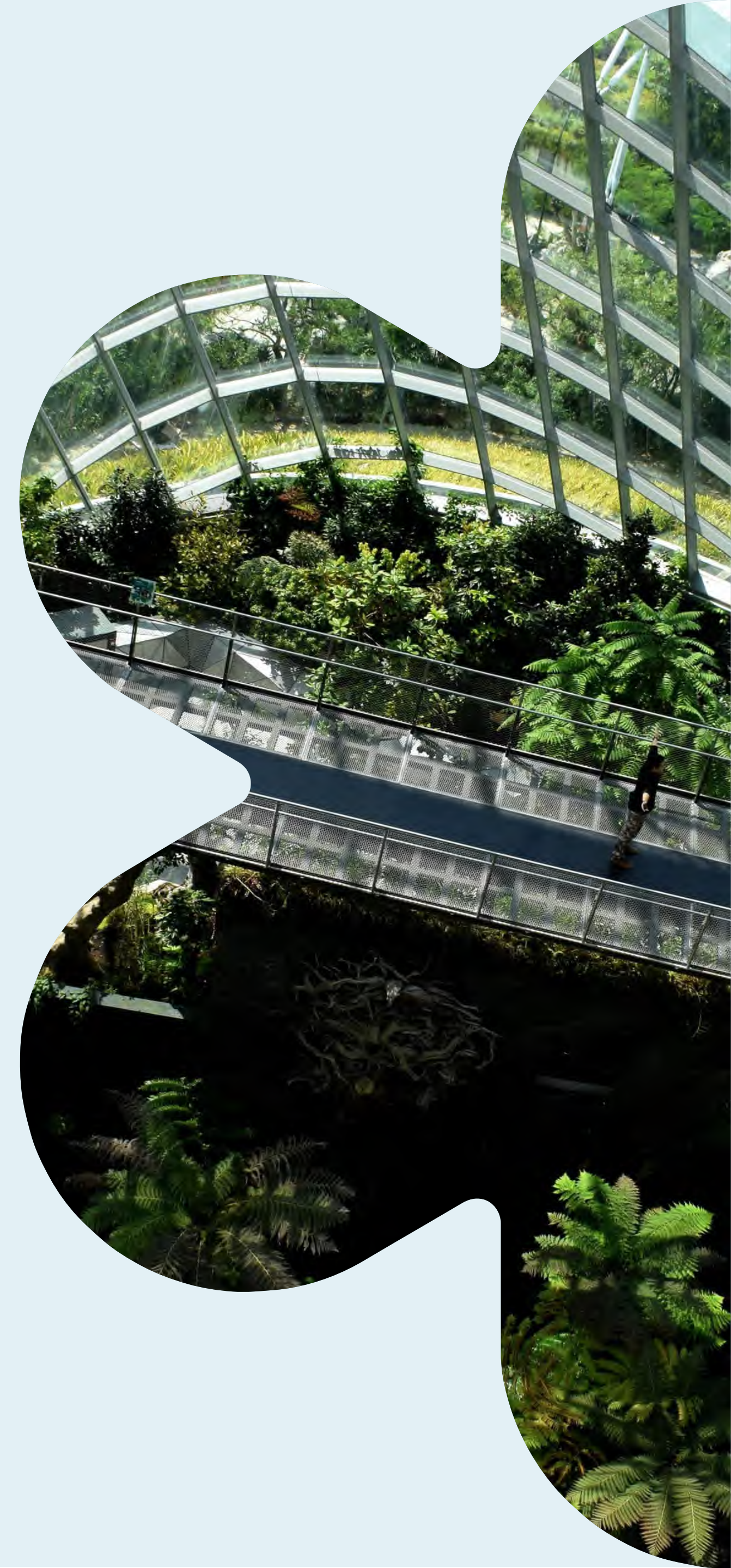
Most firms reviewed share their high-level commitment to responsible investment (75%) and responsible investment policy (67%). Fewer firms, however, disclose asset-specific ESG information like the results of their latest ESG risk assessment of the portfolio company (50%) or the portfolio company's ESG data (50%). **Here, managers may be missing opportunities to clearly highlight the ESG performance of assets at exit, which could contribute to better financial outcomes.**



Strategy and Branding

A holistic, firm-level sustainability strategy is the thread that ties together the manager's ESG and sustainability efforts at the firm, fund and portfolio levels.

This approach includes supporting a purpose (the “why”) with clear focus areas, goals and targets, along with a narrative to explain the “how” and “when”. Holistic sustainability strategies are increasingly branded and designed to be meaningful, memorable and succinctly communicated to stakeholders while supporting firm-level brand differentiation. By going from ESG integration to a holistic sustainability strategy, a manager can ensure alignment of purpose and process consistently in all aspects of its business.



STRATEGY AND BRANDING

The Focus of Our Review

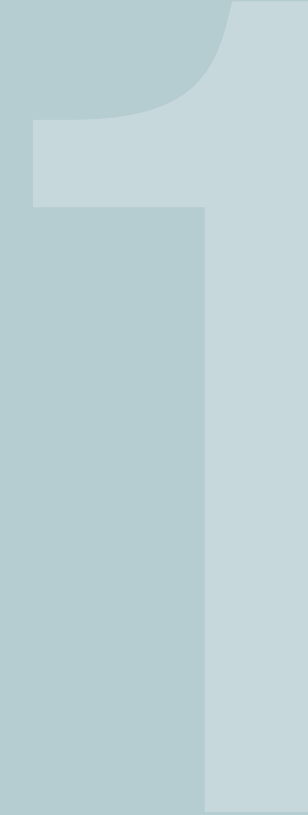
To help understand the range of approaches PE managers are taking towards sustainability strategy and branding in Asia, this section presents information obtained from the websites and LinkedIn profiles of 139 Asian PE managers who have committed to the PRI across the four categories set out on the right.

The 139 firms reviewed in this section are headquartered in Mainland China, Hong Kong, India, Indonesia, Japan, South Korea, Malaysia, Singapore and Vietnam.

Our findings suggest that the PE industry in Asia is at a relatively early stage of a journey from focusing solely on ESG integration, without an emphasis on creating positive outcomes, towards fully integrating sustainability into strategies and branding. In the coming years, the authors expect more firms to develop more holistic approaches to ESG issues and sustainability, and to integrate them more clearly into brand strategy, communications and experiences.

Overall Brand Integration

How well managers have integrated sustainability concepts into their firm-level brands



Purpose, Positioning and Values

Whether managers have incorporated sustainability concepts into their purpose, positioning and/or values statements



Firm-level Strategies

Whether managers have developed and communicated holistic firm-level sustainability strategies, or topic-specific strategies with respect to certain ESG issues, and the issues that they commonly address



Communications

How managers communicate information relating to sustainability



STRATEGY AND BRANDING

Brand Integration

For the purposes of this Report, Sedgwick Richardson developed a four-tiered system to grade the degree to which managers have integrated sustainability concepts into their firm-level brands. The table to the right sets out the criteria applicable to each rating and examples of the practices that have received that grade.

A**GRADE**

Sustainability is core to brand strategy and guides decision making at the firm, fund and portfolio level. As a result, these firms have invested in making sustainability a defining attribute through dedicated sustainability communication channels and a demonstrable and credible commitment to sustainability through reimagining their strategies, value chains, functions and/or capabilities.

ILLUSTRATIVE PRACTICES

Sustainability is at the core of the manager's purpose and investment theses. The manager supports its commitment to sustainability with a diverse range of content, including public reports and in-depth case studies. The manager has set goals and targets, and describes a credible strategy to achieve them, on key topics like decarbonising its portfolio.

B**GRADE**

Sustainability is part of brand strategy, but not a core focus. These firms can communicate a credible commitment to sustainability at the firm, fund or portfolio level.

ILLUSTRATIVE PRACTICES

Sustainability is core to the manager's purpose and investment theses, but there is less content to illustrate how the firm is addressing sustainability both within and outside of the investment process (e.g., at the firm level).

C**GRADE**

Sustainability is not a part of brand strategy, but firms have taken initial steps to communicate a commitment to sustainability.

ILLUSTRATIVE PRACTICES

The manager publishes a short statement about its approach to ESG, but little other content to illustrate that approach. Sustainability concepts are not integrated into the manager's purpose, positioning and/or values statements.

D**GRADE**

Sustainability is not a part of brand strategy, nor is any commitment to sustainability communicated to stakeholders.

ILLUSTRATIVE PRACTICES

The firm states that it is a PRI signatory on its website, but does not describe its approach to ESG or sustainability in any detail.

STRATEGY AND BRANDING

Brand Integration

About 1/3 of the firms reviewed (36%) are integrating sustainability principles into their brand strategies and highlighting this through communications, but only 9% have made sustainability a defining attribute of brand strategy.

Using the criteria on the preceding page, about 1/3 of the firms reviewed (36%) are integrating sustainability principles into their brand strategies and highlighting this through communications. Only 9%, however, have made sustainability a defining attribute of brand strategy – these firms may benefit as attention to ESG and sustainability continues to increase and LPs, co-investors, management teams, investment bankers and intermediaries seek differentiated partners in this area.

About 1/3 of the firms reviewed (32%) have not made sustainability a part of brand strategy or communicated any substantive commitment to sustainability, despite being PRI signatories.

Surprisingly, about 1/3 of the firms reviewed (32%) have not made sustainability a part of brand strategy or communicated any substantive commitment to sustainability, despite being PRI signatories. These firms may be integrating ESG issues into the investment process, but they are not well positioned to obtain any of the benefits of a more holistic approach to sustainability strategy and brand integration.

A

Sustainability is core to brand strategy and guides decision making at the firm, fund and portfolio level.

9%

B

Sustainability is part of brand strategy, but not a core focus. These firms can communicate a credible commitment to sustainability at the firm, fund or portfolio level.

C

Sustainability is not a part of brand strategy, but firms have taken initial steps to communicate a commitment to sustainability.

32%

D

Sustainability is not a part of brand strategy, nor is any commitment to sustainability communicated to stakeholders.

27%

32%

STRATEGY AND BRANDING

Purpose, Positioning and Values

About 1/4 of the firms reviewed (26%) have integrated sustainability concepts into formal purpose, positioning or values statements.

These statements are an opportunity to better align activities and communications at the firm, fund and portfolio levels.

HIGHLIGHTS

Orienting Towards Sustainability

Generally speaking, purpose, positioning and values statements help orient an organisation and align its stakeholders around a core set of principles.

For PE managers, these statements help ensure employees are aligned with management’s objectives for the firm. They can also educate key stakeholders, including management at potential portfolio companies and prospective LPs, about what drives the PE manager’s thinking and how the firm operates. Integrating sustainability into these statements can promote clarity and consistency in sustainability-related communications and brand-building efforts.

PURPOSE

Why the organisation exists

POSITIONING

How a firm’s value proposition is presented and positioned in the market, relative to the competition

VALUES

A set of commitments and beliefs that guide stakeholder actions

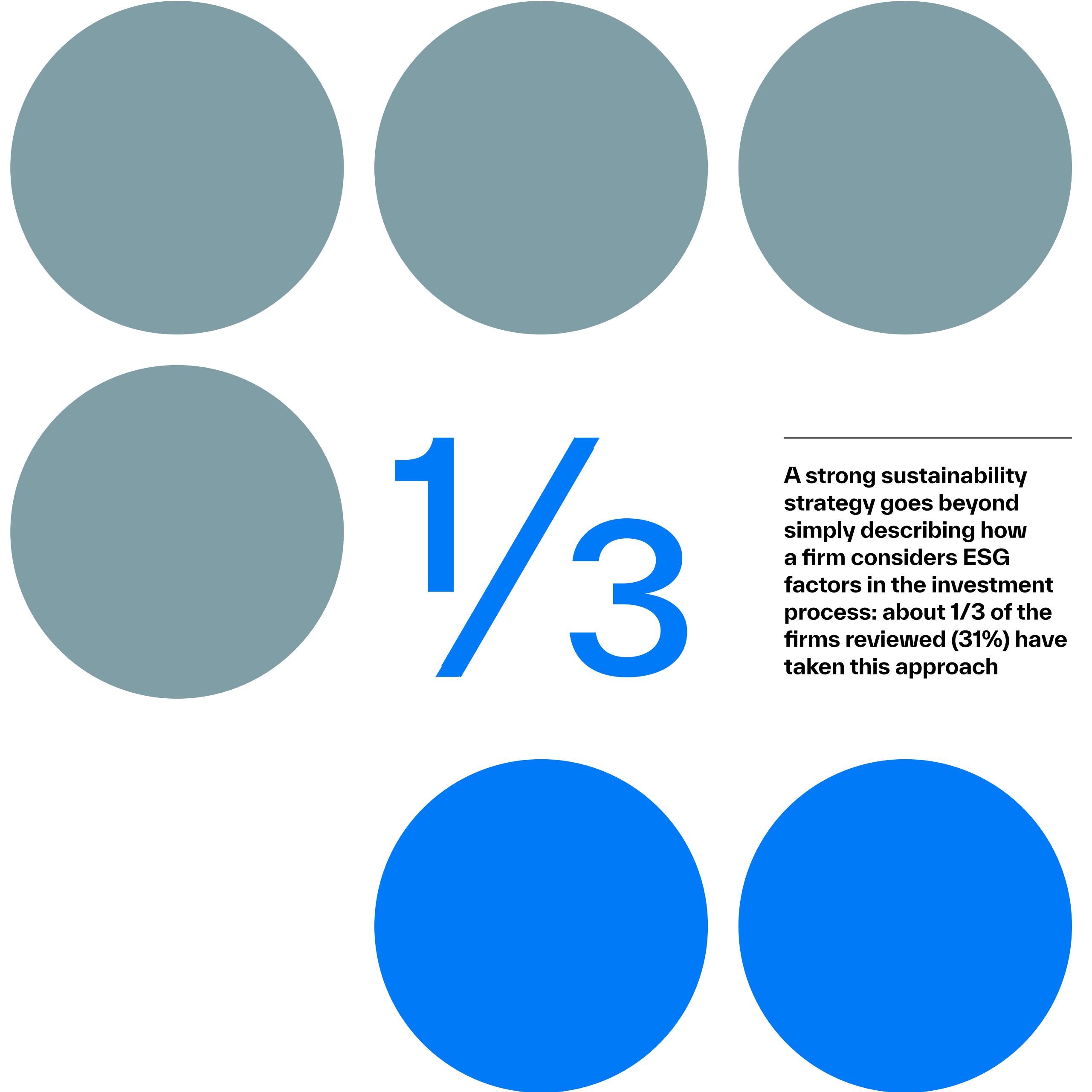
STRATEGY AND BRANDING

Firm-level Strategies

A strong sustainability strategy goes beyond simply describing how a firm considers ESG factors in the investment process.

Successful strategies are holistic: they define which topics a manager focuses on across its funds and portfolio companies, as well as within its own operations, and the positive outcomes that the manager hopes to achieve.

Goals and targets across a range of topics, including ESG integration, help orient the manager, its funds and portfolio companies towards achievable objectives and enable dedicated sustainability reporting processes, which all contribute to attracting and retaining not only sources of capital but talent. Topic-specific strategies are more limited in scope and apply similar approaches to specific ESG issues.



A strong sustainability strategy goes beyond simply describing how a firm considers ESG factors in the investment process: about 1/3 of the firms reviewed (31%) have taken this approach

STRATEGY AND BRANDING

Firm-level Strategies

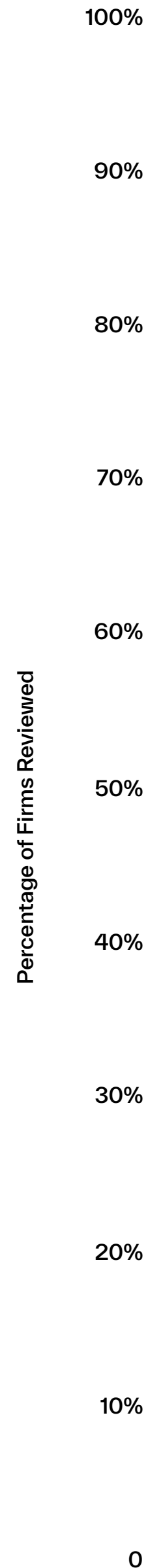
A firm-level strategy in any form can deliver benefits in terms of both risk management and value creation. About 1/3 of the firms reviewed (31%) have developed some form of a sustainability strategy that addresses topics other than the firm’s overall approach to responsible investment.

About half of those firms (16%) deploy embryonic, topic-specific approaches that apply at the firm, fund or portfolio company level. These firms focus on one or more specific ESG issues, like climate change or community investment, but their approach to each issue is not well integrated into one ecosystem-wide sustainability strategy. Another half (15%) have developed more advanced sustainability strategies that address multiple topics in a unified manner. These managers apply a consistent approach to sustainability that is easily understood, but even these more advanced strategies may fail to address the full range of sustainability topics relevant to the firm and its portfolio.

Topics frequently addressed by PE firms in their firm-level strategies include (in order of frequency per our review):

- 1 Community investment and engagement
- 2 Climate change, emissions and energy
- 3 Diversity, equity and inclusion
- 4 Ethics
- 5 Waste management
- 6 Training and development

Approaches to Sustainability Strategy



Firms that do not have a formalised firm-level sustainability strategy (but may be integrating ESG factors into the investment process in some way)

Firms that have adopted topic-specific firm-level sustainability strategies

Firms that have adopted holistic firm-level sustainability strategies

31%

of firms reviewed have developed some form of a sustainability strategy

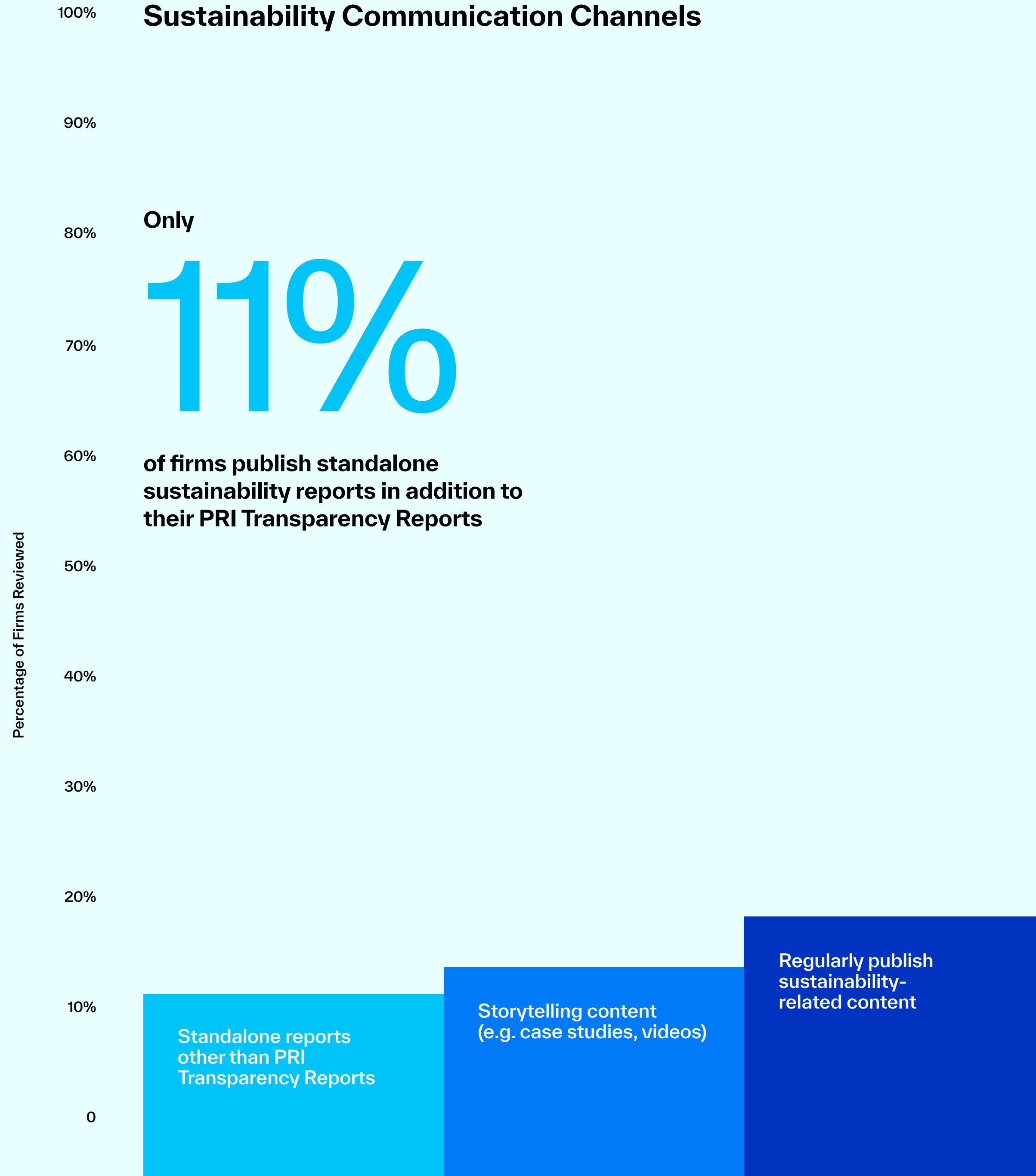
STRATEGY AND BRANDING

Communications

About half of the firms reviewed (52%) have developed substantial sustainability-related web content, including dedicated ESG or sustainability web pages. 17% of firms regularly produce content including blog posts, articles and LinkedIn posts related to sustainability. 13% of firms use storytelling, often through case studies or other rich media like video, to bring life to their sustainability efforts. Only 11% of firms publish standalone sustainability reports in addition to their PRI Transparency Reports – these reports address broader sustainability strategies in addition to the integration of ESG factors into the investment process.

A wide-ranging approach to sustainability-related communications, including dedicated web pages, regular sustainability-related content on relevant social media platforms, the use of storytelling and standalone reporting can build trust and credibility into a manager's ESG and sustainability approach.

Sustainability Communication Channels



EXECUTIVE SUMMARY

Opportunities

● RESPONDING TO REGULATORY DEVELOPMENTS

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

● ENGAGING KEY STAKEHOLDERS

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

● DEVELOPING CLEAR POLICIES AND PROCEDURES

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

● BUILDING RELEVANT CAPACITIES

ESG and sustainability strategies must be supported by real expertise in their development and implementation. Putting strategies in place without the foundational knowledge required to both address material risks and opportunities and implement them effectively is a recipe for attracting greenwashing claims that can seriously damage reputations at both the firm and portfolio levels. Firms should consider assessing ESG and sustainability-related capacities within their firms and portfolios to identify areas for improvement.

Structured training can fill gaps and prepare stakeholders to deliver on strategies that can mitigate risk and create value when done well.

● INTEGRATING SUSTAINABILITY INTO BRANDING AND COMMUNICATIONS

Firms that go beyond ESG integration and align purpose, positioning and values with holistic sustainability strategies can better capture opportunities and manage risks in this new paradigm. Embedding sustainability as an engine for growth within portfolio companies can also support opportunities for value creation and related exit strategies.

For example, developing new products or services that address environmental or social issues can meet societal and consumer demand while also helping to attract and retain talent.

At both the firm and portfolio levels, proactive communication on purpose-led sustainability strategies and ESG performance is equally important. Across a diverse range of channels and touchpoints, a focus on highlighting the stories, the experiences and the proof points that bring your strategy to life will help build brand reputation.

About the Authors



ABOUT THE AUTHORS

Sedgwick Richardson

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

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

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

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

SERVICES

STRATEGY

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

DESIGN

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

EXPERIENCES

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



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Mayer Brown

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

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

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