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Singapore's MAS calls for more ESG funds to meet post-virus demand

By Ernest Chan June 9, 2020

Singapore's financial regulator anticipates increasing demand for green and sustainability-focused fund strategies in the wake of the coronavirus pandemic, and is encouraging asset managers to launch more environmental, social and governance-related products in the city-state.

The plea comes after some reports show comparatively low levels of investment in sustainable fund strategies in Singapore when measured against other markets in the region.

Jacqueline Loh, deputy managing director at the Monetary Authority of Singapore, has advised asset managers to "seize this opportunity" to roll out more ESG strategies as allocation to such strategies are expected to increase in a post-coronavirus world.

Speaking at the Asian Venture Philanthropy Network Virtual Conference on Monday, Loh noted that global investments that take ESG factors into consideration grew by 70% between 2014 and 2018, with global sustainable open-ended funds seeing 40% more inflows year on year in the first quarter of 2020, reaching US$40 billion of inflows in that time period.

"The momentum will likely persist, with early indications that corporates with good ESG ratings are exposed to less systemic risks and are more resilient to shocks," she said.

Loh also drew attention to the superior performance of such strategies, highlighting that 24 of 26 Morningstar sustainable index funds have outperformed their closest non-ESG counterparts since the coronavirus crisis began.

ESG funds in Singapore have been attracting more attention from investors and saw inflows across most asset classes in the first quarter, despite market volatility driving outflows from the mutual funds industry in general.

Deepak Khurana, Mumbai-based performance director of fund ratings and distribution for Asia-Pacific at Refinitiv, says ESG funds received higher preference from investors because of the perception that sustainable investing helps in mitigating risks, and companies that employ more sustainable business practices would be less impacted by the crisis.

Deepak Khurana, Refinitiv

However, some recent analysis shows that sustainable investing in Singapore lags far behind other markets in the region.

Sustainable assets in Singapore totalled just US$6 million compared with US$234 million in Hong Kong, as of end-March, according to a Morningstar study released last month.

The report showed that assets in Asia ex-Japan ESG funds increased by 21% in the first quarter to US$7.7 billion as of end-March, led by interest from investors in China, Taiwan and India.

A survey conducted in March revealed that over 100 Chinese mutual fund managers, private fund managers and securities brokerages would implement ESG strategies in the next one to two years.

Wing Chan, Morningstar

It is difficult to pinpoint Singapore investor interest in ESG products because most ESG strategies are available in Ucits rather than locally domiciled vehicles, says Wing Chan, Morningstar's director of manager research practice for Europe, the Middle East and Africa, and Asia.

"That said, considering fund investors' subdued risk appetite primarily as a result of recent market volatility, the outperformance of ESG strategies has kept interest levels elevated," Chan says.

The year-to-date performance of ESG funds available for sale in Singapore was higher than non-ESG funds, returning 0.28% versus minus 5.25% as of June 5, according to Morningstar data.

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Fund executives told *Ignites Asia* last year that distributors in the city-state are expressing more interest in carrying ESG-focused funds and some fund houses have been responding, even if the ultimate levels of end investment may be lower than other markets.

Recent ESG fund launches in Singapore include the rollout of Goldman Sachs Asset Management's Emerging Markets Equity ESG product in February and UOB Asset Management's United Sustainable Credit Income Fund in March.

U.K.-headquartered Aviva Investors also launched its Sustainable Income and Growth Fund in Singapore in early October last year, and French asset manager Amundi introduced its CPR Invest Climate Action, CPR Invest Education and CPR Invest Food for Generations thematic funds later that month.

Gabriel Wilson-Otto, BNP Paribas Asset Management

According to Gabriel Wilson-Otto, Hong Kong-based Asia head of stewardship at BNP Paribas Asset Management, human capital-related concerns have been particularly relevant to investors as the coronavirus crisis has unfolded.

"The idea of needing properly funded medical systems, some support for employees, the potential problems with the gig economy and the way that might actually translate into job security or livelihood protection during periods of crisis – all of these sorts of things have rocketed front of mind for a lot of investors, and also a lot of asset owners," says Wilson-Otto.

As a result, BNPP AM is looking at a number of its existing fund strategies around human development to create more tailored retail solutions, he says, without disclosing specific product names.

The company is trying to promote its range of retail thematic funds that can be related to coronavirus directly or indirectly and is currently trying to tweak some products so they are more tailored towards this issue of human capital, he adds.

Even if it is coming from a lower level, Refintiv's Khurana expects investor interest in ESG products to continue to increase in Singapore as sustainability factors have taken on particular significance throughout the coronavirus pandemic.

"ESG helps in picking quality companies, and reducing risk and ensuring long-term sustainable returns," he says.

The call from the MAS for asset managers in the city-state to step up and launch more ESG-focused investment strategies comes amid a wider push to promote sustainable finance by the regulator.

The MAS has launched a number of green finance initiatives in recent months, including the announcement of a US$2 billion investment programme last November that would have the regulator place funds with asset managers that are committed to driving their green financing efforts out of Singapore.

The regulator is also working on a consultation paper for its Environmental Risk Management Guidelines for the banking, insurance and asset management sectors, which should be released later this year, according to the MAS's Loh.

She also highlighted that impact investing strategies are likely to continue to grow strongly in the coming months and years, and pointed to an actively managed impact fund recently launched by BlackRock that aims to back companies that have been hit by the coronavirus.

Hong Kong regulators have made similar moves in recent months. The Securities and Futures Commission earlier this year released a list of verified ESG funds as a tool against greenwashing and mislabelling of investment strategies, as well as its recently announced partnership with the Hong Kong Monetary Authority to address environmental and climate risk to the finance sector.

Hong Kong Exchanges and Clearing also issued new guidelines around mandatory disclosure on ESG reporting in December.