PRESS RELEASE

NEW REPORT: “Are Asia’s Pension Funds ready for Climate Change?”
By China Water Risk, Manulife Asset Management & Asia Investor Group on Climate Change

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Climate change is multiplying risks for investors in Asia, and unless unprecedented actions are taken we are on track to a 3°C world, with serious, severe impacts on water resources. Investment portfolios of Asian asset owners are uniquely exposed, putting the continent’s savings at risk, says the new report.

The report highlights that Asian pension funds already face shortfalls due to an ageing population, and that this could be exacerbated by water and climate risks to their investments.

“Asia’s water resources face a triple threat - not enough water to develop; climate change exacerbating water scarcity and our assets and populations are clustered along vulnerable rivers” warned Debra Tan, who heads China Water Risk (CWR), a leading think tank on water security. “If these threats are not factored in, Asian banks and insurers may well inherit the water and climate risks of their clients” she added. CWR’s research shows that over US$4trn of GDP and almost half of Asia’s population is housed in the basins of just 10 rivers; four of which are projected to see shrinkage in the next 50 years. Yet, 92% of climate finance does not protect assets globally, leaving people and businesses vulnerable to climate impacts already baked into the system.

“Asian asset owners are uniquely exposed to climate and water risks as a large share of their investment portfolios tend to be concentrated in their domestic markets, which will bear the brunt of global climate change losses” said Emily Chew, the global head of ESG Research and Integration at Manulife Asset Management. The report highlighted that available data for the asset allocations of 30 large public pension funds, sovereign wealth funds, and central banks from 12 Asian markets—including Japan, South Korea, China, Hong Kong, Singapore and India—shows high allocations to their respective domestic markets; in some cases as high as 80-100%. Chew added, “Asian asset owners may not be able to diversify geographically due to economic, political and regulatory reasons. This leaves them no choice but to face the new normal and systematically price climate into their portfolio returns”.

In addition, some governments are already regulating for a future with limited water, such as China. If the economy runs on water, less water points to a new development model. Such water transition risks are imminent, and they are material as they will disrupt global trade and multiple supply chains.

Investors in Asian assets may not be fully aware of such inter-linked risks. To better navigate the new risk landscape, the report identifies five key water and climate risks to illustrate how the portfolios of Asian
asset owners might be affected. These include the impact on logistics from rising sea levels and storm surges; increasing risks from extreme weather events affecting dense areas and regulatory risk triggered by water-nomic policies.

According to the report, the Nikkei 225 and KOSPI are particularly vulnerable to logistics and supply chain disruptions, whilst the Hang Seng Index and Straits Times Index are skewed towards financial institutions, which are prone to systemic shocks from clustered risks arising from lending to multiple sectors in concentrated locations.

However, big risks come with big opportunities. The report’s analysis of 1.5°C, 2°C and 3°C temperature change scenarios shows that while Asia is more exposed than the rest of the world to policy risk, it also has the greatest opportunity to benefit from low-carbon transition technologies. Asian asset owners can lead the way: their actions can be significant as the ratio of asset owners’ domestic investments to country GDP can be as high as 25-45% according to the report. “If Asian pension funds and other asset owners start to act on their water and climate risks, it would lead to improved resilience and better outcomes in their investment portfolios. In addition to strengthening returns, this would also ultimately benefit all communities in the region,” said Rebecca Mikula-Wright, Director of AIGCC.

The report therefore urges investors to map and assess their water and climate risk exposure and price in the prospect of new “water-nomic” regulations. Engagement with investee companies, fund managers and using voting rights are also recommended. Such actions will help asset owners better protect their portfolios and more importantly savings across Asia.

The report is available at www.aigcc.net

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Asia Investor Group on Climate Change
The Asia Investor Group on Climate Change (AIGCC) is an initiative to create awareness among Asia’s asset owners and financial institutions about the risks and opportunities associated with climate change and low carbon investing. AIGCC provides capacity for investors to share best practice and to collaborate on investment activity, credit analysis, risk management, engagement and policy.

With a strong international profile and significant network, AIGCC represents the Asian investor perspective in the evolving global discussions on climate change and the transition to a greener economy.

AIGCC has 31 members from 11 countries representing over US$4trn in assets under management. (April, 2019) www.aigcc.net

China Water Risk
China Water Risk (CWR) is a non-profit think tank that aims to create a world where water and climate risks are embedded in business and finance so that better decisions can be made today, for a water secure tomorrow. Since its launch in 2011, it has worked from its Hong Kong base to engage with global business and investment communities to understand and manage water risks in Asia, especially China. Today, CWR publishes proprietary research including co-authoring policy briefs with government-related bodies in China and beyond and its website www.chinawaterrisk.org still remains a “go-to” resource on water risks.

CWR has also been commissioned by financial institutions as well as listed corporates to conduct research and assessments analyzing the impact of water risks across various sectors. Such reports have been considered ground-breaking and instrumental in understanding China and Asia’s water challenges. CWR is part of China’s Environmental Risk Analysis Task Force and a founding member of the Hong Kong Green Finance Association.
www.chinawaterrisk.org

Manulife Asset Management
Manulife Asset Management is the global asset management arm of Manulife Financial Corporation (“Manulife”). We provide comprehensive asset management solutions for investors across a broad range of public and private asset classes, as well as asset allocation solutions. We also provide portfolio management for affiliated retail Manulife and John Hancock product offerings.

Our investment expertise includes public and private equity and fixed income, real estate and infrastructure equity and debt, timberland and farmland, oil and gas, and mezzanine debt. We operate in the United States, Canada, Brazil, the United Kingdom, New Zealand, Australia, Japan, Hong Kong, Singapore, Taiwan, Indonesia, Thailand, Vietnam, Malaysia, the Philippines, as well as through a China joint venture, Manulife TEDA. We also serve investors in select European, Middle Eastern, and Latin American markets.

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