

INSIGHTS FROM CFA SOCIETY SINGAPORE

Climate investing opportunities in Asia: Green bonds, renewables and transition credits



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ONCE relegated to a niche concern, the private sector is increasingly taking climate risks seriously.

Extreme weather, among other environmental risks, topped this year's World Economic Forum report, which identified the most significant concerns the world will face over the next decade.

These risks are set to intensify as the levels of planet-warming gases in the atmosphere enter "unchartered territory", said Singapore Management University professor of urban climate Winston Chow, who also co-chairs the United Nations' Intergovernmental Panel on Climate Change (IPCC). He was delivering the keynote speech at the CFA Society Singapore's dinner event last month.

Meanwhile, financing needed to limit global warming to 1.5 deg C by this century has ballooned from billions to trillions of dollars – a bill that can only be footed by climate-vulnerable countries if private investors come into play.

Prof Chow said: "Sufficient capital does exist across numerous markets, and they can be utilised as financing for adaptation and mitigation solutions."

However, as his IPCC colleagues highlighted, the challenge is to identify and remove the current impediments to effective climate action, he added.

As a first step, Asia's regulators have proposed mandatory International Sustainability Standards Board (ISSB)-aligned reporting rules that over 32,400 companies across the region will be bound by in the next few years, building momentum for the financial sector to be a

bigger enabler of climate action.

Implementing a strong disclosure regime to produce accurate, comprehensive and comparable climate data is important for coordinating the actions of investors, policymakers and carbon-emitting companies through price and policy signals, said Tan Boon Gin, who heads the Singapore Exchange Regulation (SGX RegCo), the regulatory body overseeing SGX.

Speaking on the event's panel, he elaborated that the market sends price signals in the form of a "green premium" or "brown discount", while policymakers send policy signals through carbon taxes, emissions caps or incentives for renewable energy.

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Winston Chow, professor of urban climate, Singapore Management University

"If these price and policy signals are strong enough, they will force companies to internalise their externalities, and they will have to change their behaviour because these price and policy signals are hitting their financials," he said.

However, "there are still some ways to go" in strengthening these signals, Tan said, acknowledging that the current wars and tough macroeconomic environment offer "many distractions".

Green investing, for instance, has yet to take off among private equity funds and family offices operating in the region, said Keoy Soo Earn, who leads Deloitte's private and private equity practice in

South-east Asia and is a council member of the Sustainable Energy Association of Singapore.

"I will confess that climate financing is not something that is right at the top, but it doesn't mean that what they're interested in investing in doesn't impact the climate positively," said Keoy, who also spoke on the panel.

For instance, with the Singapore government's push for "transition credits" in the past year, financiers in the energy sector – the world's single largest greenhouse gas emitter – may now find it more economically viable to participate in phases out still-profitable coal plants early, apart from investing in renewables, he said.

Tarang Khimasia, the Asian Development Bank (ADB)'s principal investment specialist from its syndications unit, said that the novel class of carbon credits generated from managed coal phase-outs "will take a few years" to become credible and monetisable.

Compared to financing renewable energy projects, which is "on the vanilla end of the spectrum as an investible asset class", financing the managed phase-out of coal for the region is trickier due to institutional policies around coal-linked financing and the multi-stakeholder nature of this type of transaction, he said.

Through the Energy Transition Mechanism (ETM), a model using blended finance to accelerate the premature retirement of Asia's some 2,000 coal plants, ADB will refinance the 660-megawatt (MW) Cirebon-1 power plant in West Java. Proceeds will go towards repaying existing debt and compensating shareholders through a "special distribution" for the economic loss due to the shortened lifespan of the coal plant, Khimasia said.

Separately, ADB is working with the Monetary Authority of Singapore (MAS) to bring forward the decommissioning date of a 200 MW Philippine coal plant by five years through the use of transition cred-



Several parts of Asia have suffered extreme heat in 2024. Extreme weather is among the most significant environmental risks over the next decade. PHOTO: EPA-EFE

its. But it remains unclear how much demand there is for these credits, with Singapore being the only country that has pledged to offtake them in the future.

Low-hanging fruit for climate finance

Based on Khimasia's back-of-the-envelope estimates, there is roughly US\$1.25 trillion worth of renewable investment potential across India, Indonesia, Vietnam, the Philippines and Thailand – which have a combined population nearly twice the size of China's – if these countries strive just to match China's total installed renewable capacity of 1,500GW.

"The onus is on real money to make room for this asset class, because it already exists and needs financing," he said.

Renewable financing is a form of "infrastructure debt", which is typically seen as an attractive, utility-like relatively low-risk asset for long-dated investors. Asset managers should see renewable debt investments on the safer end of the "private debt" spectrum due to their unique features – typically senior secured, with contracted, long-term underlying cashflows.

Tan referred investors to green and sustainable bonds that meet the criteria under the SGX Sustainable Fixed Income initiative, which recognises bonds that have not only met international standards, such as the Asean Green Bonds Standards or the ICMA Green Bond Principles, at issuance, but also publish ongoing reports showing how they continue to align to these standards. "Investors like this be-

cause they have confidence in the process and some assurance. Companies like it as well, because they feel that the 'green mark' gives them credibility," said Tan.

"Our teams have seen growing investor interest in transition investing, be it due to energy security or climate goals," said Won Shinbo, managing director and head of investment stewardship for Asia Japan at asset management giant BlackRock.

He recounted how he used to get blank stares from companies when the firm's investment stewardship teams began to raise the topic of climate risks seven years ago. But that has changed due to heightened awareness of the material risks that could impact the value of investments, regulatory developments and expectations from broader stakeholders, including consumers and employees, he said.

"It is quite surprising, actually. It's in Singapore and this region, where we see much more concerted effort in guiding companies to produce high-quality data, that investors generally require navigating on this issue," said Won.

The asset manager launched a new Asia-focused climate action fund on SGX last year, which attracted over US\$426 million from investors, making it the city-state's largest equity exchange-traded fund (ETF) on record. Just last month, Decarbonisation Partners – BlackRock's joint venture with state investor Temasek – saw its inaugural late-stage venture capital and growth equity strategy fund being oversubscribed by over US\$400 million, he noted. The fund targets

proven decarbonisation technologies.

Won said that the firm's sustainability and transition-related investments have continued to grow, reaching about US\$940 billion, or roughly 9 per cent of its total assets under management, as at end-2023.

Keoy believes that as the ISSB rules kick in, the requirement to disclose the traceability of raw materials could lead to carbon emissions being priced into products, which would reflect the true cost of high-emitting products, from food to mobile devices. This should result in a change in consumer behaviour.

Instead of focusing on the prevailing "higher-for-longer" interest rate environment, board members should therefore be looking into "less for more" – that is, the reduction of the carbon intensity of each item a firm produces to net-zero, said Keoy.

"If you're getting to net zero by buying carbon credits, then that's not helpful. The question is: are you able to change the process of what you are doing through your whole supply chain to reduce your carbon emissions, while producing a greater yield by leveraging technology?" he said.

"The financial sector can work in conjunction with technology and other aspects as a critical enabler for climate action," said Prof Chow. "Time draws short for action to keep to a 1.5 deg C world. But I also want to stress that the future is not yet written."