Manulife Investment Management

ESG investing in Asia—the *continuing* evolution

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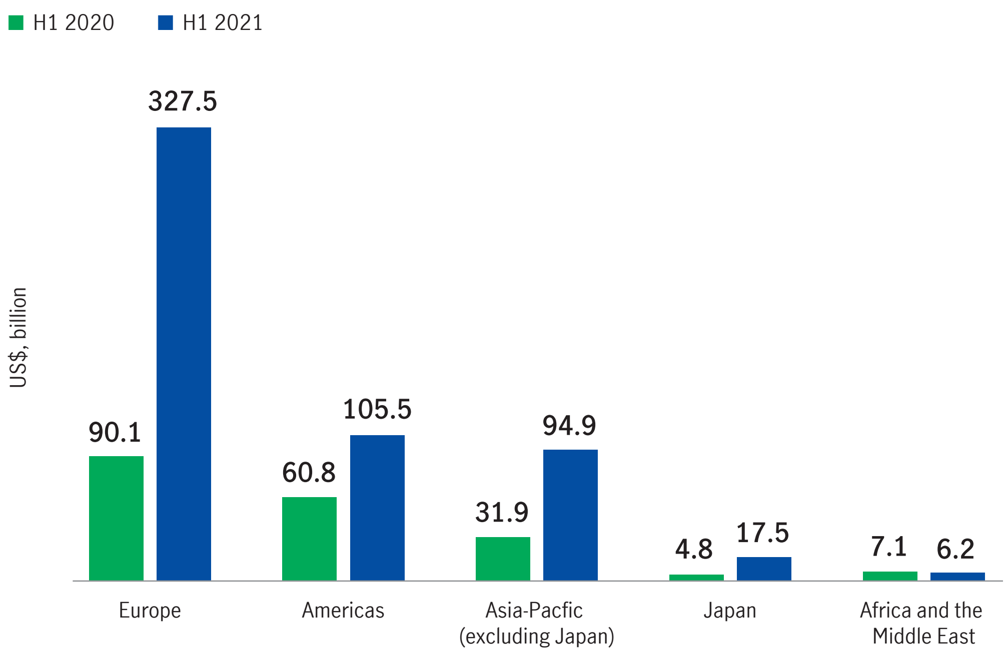
Introduction

If the amount of capital raised to fund sustainable endeavours in the first six months of 2021 could be viewed as a gauge of the progress that we're making toward addressing sustainability issues, there could be cause for celebration. After all, global debt issuance related to environmental, social, and governance (ESG) objectives during the period surged 76% from a year ago to a record high of US$551.6 billion, accounting for nearly 10% of all debt issuance—a far cry from where we were just five years ago.[1]

Unsurprisingly, Europe accounted for the lion's share of total issuance (59.3%), with North America and Latin America together coming in at second place (19.1%). Encouragingly, issuance in the Asia-Pacific region (excluding Japan) in the first half of the year also grew, both in terms of share of new issuance and in value, to just under US$95 billion, or 17.2%[1] (up from 16.4% in H1 2020[2]).

These numbers are impressive in absolute terms, but they acquire additional significance when expressed as a percentage share of total fixed-income issuance in Asia over the first six months of the year—during this period, roughly one of every five debt issues in Asia can be classified as a sustainable bond issue. Using this metric, Asia charges to top of the league table from a geographical basis, ahead of the Americas and Europe.

Sustainable debt issuance surges in the first half of 2021



Source: Refinitiv, Manulife Investment Management, July 2021.

> We remain steadfast in our belief that Asia's growing sustainability drive can unlock compelling investment opportunities for fixed-income investors.

It's fair to say that the rise in ESG bond issuance reflects growing awareness of sustainability challenges among policymakers, corporates, and investors alike, particularly in the wake of the COVID-19 crisis, which provided a much-needed perspective and framework regarding how to best approach issues that have come to light. Policymakers responded to the call to building back better, while investor demand for sustainable investing surged, recognising the role that they can play to help progress broader ESG goals.

This has been particularly true in Asia: A recent survey of 200 global institutional investors (representing roughly US$18 trillion in assets under management) showed that of the 70 or so respondents who are based in the Asia-Pacific region, 79% planned to increase their ESG allocation significantly or moderately in response to the pandemic.[3] It's difficult not to be heartened by the finding: For a region that's been widely perceived to be behind the curve on the ESG front, it represents an important shift in investor mindset.

Despite these positive developments, however, challenges remain.

As we discussed in a previous paper, the lack of a globally agreed-on taxonomy relating to sustainable investing continues to frustrate investors and issuers alike. Similarly, the absence of appropriate audit processes and benchmarks has left room for some issuers to test the boundaries of the conventional definition of ESG bonds, paving the way for greenwashing charges while creating dissonance in an otherwise burgeoning market. Then there's the question of ambition: How do we collectively, as investors, issuers, and policymakers, avoid the pitfall of embracing a global framework that endorses (and recognises) ESG goals that perhaps don't go far enough?

While many of these challenges are global in nature, we believe it's important that Asia's policymakers, businesses, and investors adopt a proactive approach to finding solutions to these issues, be it at a global, regional, or sectoral level.

Crucially, we remain steadfast in our belief that Asia's growing sustainability drive can unlock compelling investment opportunities for fixed-income investors. In this paper, we seek to outline key trends and developments in the region's sustainable fixed-income market and provide the context within which these developments should be considered. We also seek to illustrate how an active approach to ESG investing can not only help investors identify meaningful investment opportunities, but also facilitate important dialogue with key players (e.g., policymakers and investee firms) and bring us closer to our shared goal of creating a more sustainable future.

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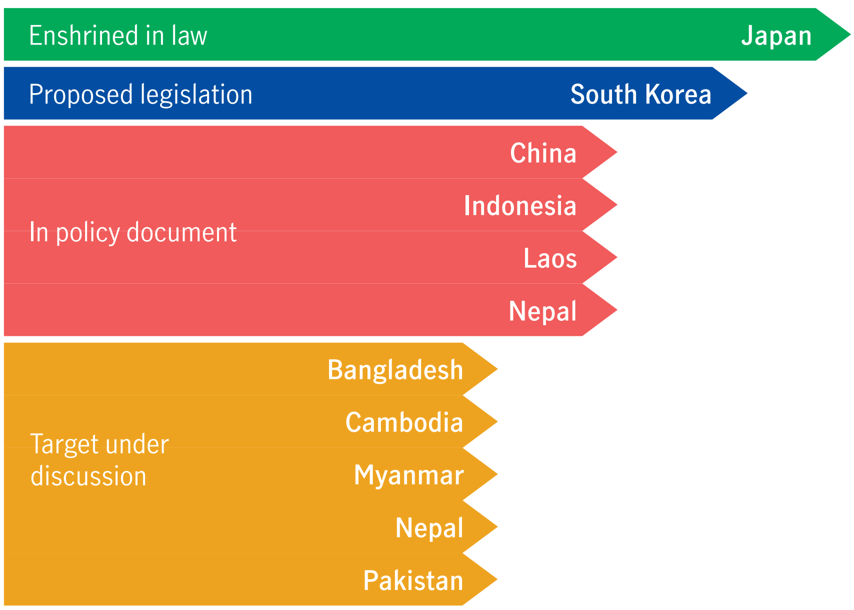
Source: MSCI, January 2021.

Moving toward a *sustainable* future: select developments

China surprised the world in September 2020 by pledging to achieve net zero by 2060.[4] South Korea,[5] Japan,[6] and Indonesia[7] (among others) followed shortly after with similar declarations, and the momentum hasn't stopped since.

Racing toward net zero



Source: EIU, June 2021.

In April this year, the People's Bank of China (PBoC) published its revised "Green Bond Endorsed Project Catalogue 2021"—a document that brings the country's green taxonomy into closer alignment with European standards—and declared that it no longer supports fossil fuel-related projects. In our view, these announcements qualify as important milestones.[8] Crucially, the PBoC confirmed that it's working with the European Union to implement a jointly recognised classification system for green finance that will hopefully be in place by the end of this year.[9]

A month later, the Asian Development Bank—a supranational organisation that provides development loans and grants to the poorest countries in the Asia-Pacific region—published a highly anticipated update to its energy policy that noted that its current mode of operation was "no longer adequately aligned with the global consensus on climate change," and proposed to end financing for "any coal mining, oil and natural gas field exploration, drilling

> "In our view, work that's been taking place behind the scenes over the past few years is finally bubbling to the surface and becoming visible: Momentum is building."

or extraction activities."[10] While the bank is still in the process of collating feedback to its proposal, it's certainly a step in the right direction.

Meanwhile, Singapore unveiled its Green Plan 2030 in February, outlining how the city-state intends to meet the environmental commitments it made under the United Nations' "2030 Agenda for Sustainable Development" and the Paris Agreement over the coming decade, matching pledges with action. The country also announced plans to issue green bonds (to the tune of S$19 billion)[11] to finance green public infrastructure projects. Crucially, these forthcoming green bonds will be referencing the newly minted Singapore Overnight Rate Average, thereby setting an example for its peers in the region, demonstrating how they could mitigate potential bond pricing challenges once the London Interbank Offered Rate—a traditional benchmark—is decommissioned.

Finally, India, which has come under increasing pressure to publicly commit to a net zero deadline, quietly marked an important sustainable milestone earlier this year: The country's installed renewable energy capacity crossed the 100 gigawatts mark in August, accounting for more than a quarter of its power generation capacity.[12] India Prime Minister Narendra Modi committed to triple the country's renewable energy capacity to 450 gigawatts by 2030 and pledged to make India a global hub for green hydrogen production.[13] As co-founder of the International Solar Alliance (a supranational group dedicated to promoting the use of solar power), the country also plays a leading role in the development of a proposed global solar power grid, which it hopes will receive political support at the upcoming 2021 UN Climate Change Conference (COP26).

In our view, work that's been taking place behind the scenes over the past few years is finally bubbling to the surface and becoming visible: Momentum is building. It's a development that's reflected in the growing popularity of responsible investing, particularly in the area of sustainable Asian bonds.

India's renewable energy generation capacity crossed

100 gigawatts

in August 2021.

India to triple the country's renewable energy capacity to 450 gigawatts by 2030

Source: "India's renewable capacity crosses 100 gigawatts," *Hindustan Times*, August 13, 2021.

A closer look at recent *regulatory* changes in China

The recent regulatory clampdown in China has dampened investor enthusiasm toward financial assets in the country, which can be seen in the way the market responded to the authorities' various announcements. It isn't difficult to understand why investors were concerned—many of the newly introduced rules have a material impact on the profitability and, in some cases, viability of firms within the affected sectors. From an investment perspective, where investor focus typically lands squarely on return on investments and growth outlook, investors are right to be nervous; however, when these policy announcements are examined through an ESG lens, a more nuanced picture emerges.

Combating addiction to video gaming

On August 30, China published new rules forbidding those under 18 from playing video games for more than three hours a week. The announcement—which sent shock waves around the global gaming industry—was framed in a rather paternalistic manner and noted that the decision was necessary to combat the growing addiction to video gaming among minors.

A ban on profiting from education

Beijing also introduced regulations that require after-school tutoring centres to be registered as not-for-profit organisations and banned them from offering classes during weekends and public holidays. The initiative has been framed as a way to keep the cost of child-rearing down and boost the country's birth rate. The context here is that an emphasis on academic excellence in China's highly competitive education system has driven up the cost of tutoring services, making it financially difficult for those who are relatively less wealthy to commit to starting a family, thereby exacerbating the country's population issue.

Pay caps, worker protection, data privacy

In recent months, the authorities also rolled out new policies aimed at the tech sector, the gig economy, and the entertainment industry, among others. It's fair to say that the bulk of media attention and market commentary focused on the draconian nature of these newly introduced rules and the impact these changes could have on the financial markets. Relatively speaking, less attention was given to the introduction of pay caps in China's entertainment industry, steps taken to improve worker protection in food delivery firms, and the country's new Personal Information Protection Law, which is aimed at limiting the amount of personal data that technology firms can collect from consumers and how that data is managed.

In our view, these recent regulatory changes share a common theme—an emphasis on common prosperity, a phrase that came to prominence in 2017 through a keynote address delivered by Chinese President Xi Jinping at the 19th National Congress of the Communist Party of China.[14] In other words, the authorities had more or less provided hints of what was to come that has since come into fruition: a strong focus on social issues (i.e., the S in ESG) such as inequality, wealth gap, and consumer protection.

> "From an investment perspective, where investor focus typically lands squarely on return on investments and growth outlook, investors are right to be nervous; however, when these policy announcements are examined through an ESG lens, a more nuanced picture emerges."

Against this backdrop, we find it increasingly difficult not to address a pertinent question that perhaps some of us had been happy to sweep under the carpet for some time: While the pursuit of financial returns and sustainability goals isn't mutually exclusive, could it be that some elements within sustainable investing may not always be as consistent with the traditional notion of investing—which is squarely aimed at maximising returns—as we would like them to be? From an ESG standpoint, China's policy initiatives should be applauded; however, these same initiatives look decidedly less appealing from an investment perspective. It's an inherently uncomfortable dynamic that we believe will evolve over time as we head further into the sustainability journey. We expect the consensus view on this issue to shift; for now, however, there are no clear answers, but it's an issue that will no doubt require extensive thought and debate.

Sustainable Asia bonds: a surge in *investor* interest

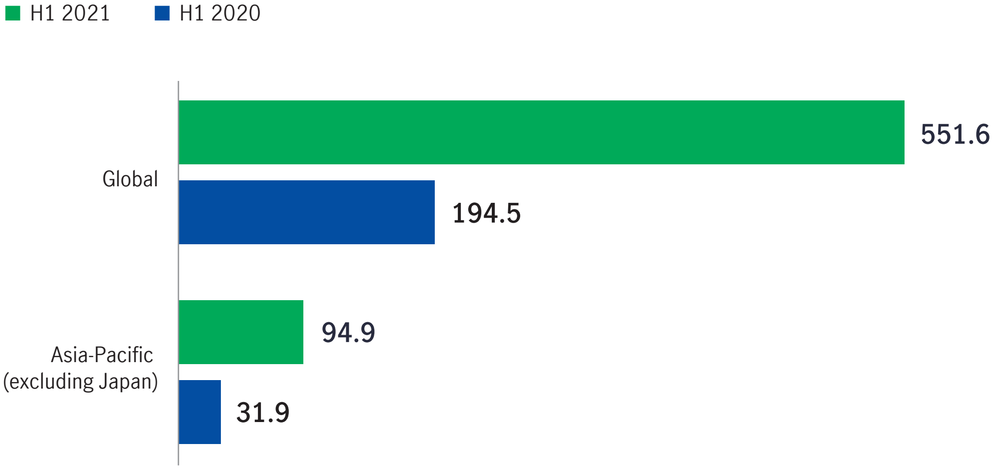
It's probably fair to say that investor interest in sustainable bonds caught fire in 2021—the numbers speak for themselves. In the Asia-Pacific region (excluding Japan) alone, issuance value came close to US$95 billion, up from US$31.9 billion in the first half of 2020.[15]

Green bonds led the surge in issuance, hitting an H1 2021 total of nearly US$260 billion, with the Asia-Pacific region accounting for nearly 17% of overall issuance.[15] In what we consider to be a positive development, we're beginning to see growth of another kind—diversification in issuers in terms of breadth (sectors) and geography in both the credit and sovereign space. (It must be noted that concerns about Chinese real estate developers in recent months have hurt momentum in the green bonds arena somewhat, but we expect the pace of issuance to pick up again in time.)

Meanwhile, the impulse behind social bonds remains strong as the notion of funding socially focused projects and initiatives such as building schools and alleviating poverty continues to appeal to investors. The Asia Development Bank, for instance, launched two gender bonds in April to finance projects aimed at promoting gender equality.[16] Moreover, the International Finance Corporation (part of the World Bank) announced plans to invest in a social bond issue whose proceeds will be used to finance loans for micro-, small, and medium-sized businesses in the Philippines.[17] Within financial circles, it's often said that demand for social bonds outstrips supply. In all likelihood, this market will post strong growth in the next few years.

Sustainable bond issuance

US$, billion



Source: Refinitiv, July 13, 2021.

"It's probably fair to say that investor interest in sustainable bonds caught fire in 2021—the numbers speak for themselves."

The sustainable financing market also received a boost from the growing popularity of sustainability-linked bonds (SLBs) and, to a much lesser extent, the emergence of transition bonds—two relatively new debt instruments that have attracted much attention (as well as scepticism) from investors.

Sustainability-linked bonds

From an issuer's perspective, there's a lot to like about SLBs, specifically the fact that there's no restriction on how proceeds raised should be used. In other words, issuers who've not been able to access the sustainable debt market because they don't have enough capital expenditure related to green or social activities/issues to warrant such an exercise can now do so.

In exchange for the sustainability badge and its associated halo effect (and, potentially, lower coupon rates), SLB issuers pledge to achieve specific ESG objectives. These objectives are typically measured through a range of predefined key performance indicators (KPIs). Failure to meet these goals within a pre-agreed timeframe will trigger penalty step-up coupon rates, which issuers would theoretically be keen to avoid.

We're of the view that SLBs will play an important role in the drive toward creating a sustainable future; however, it's also clear that for the instrument to be truly meaningful, it needs to evolve further. As things stand, SLBs are vulnerable to a different kind of greenwashing—*sustainability* washing. Once again, it harks back to the continued absence of widely accepted standards and taxonomy—this makes it easier for issuers to include terms and definitions that allow them to do the bare minimum.

Under guidelines published by the International Capital Market Association (ICMA), the sustainability-related goals and targets set by issuers should be ambitious and move beyond the business-as-usual trajectory.[18] However, the ICMA's recommendation stands in sharp contrast to a recent analysis of over 70 sustainable-linked loans that had been arranged in the United States since 2018: More than a quarter of these borrowers wouldn't be penalized for missing stated goals, and the incentives lenders provided to encourage borrowers to meet their commitments were negligible.[19]

That said, our experience with SLBs in Asia hasn't been as negative, and we think there are opportunities to be found for the astute investor within this space; however, we've also seen enough to know that a cautious approach is indeed warranted. We feel the same way about transition bonds.

Transition bonds

As the name implies, transition bonds enable firms operating in industries that contribute to climate change (e.g., fossil fuel extraction, transportation, and chemicals) to tap into the sustainable debt market to finance projects that can help them reduce the environmental footprint of their activities and/or cut greenhouse gas emissions (GHG).

Arguably, transition bonds are of particular relevance to Asia given that demand for coal in the region is expected to continue to rise in the coming decade,[20] even in India and China, which have invested heavily in renewable energy. Notably, most of the world's coal-fired power plants—planned, under construction, or in operation—are located on the continent.[21] Transition bonds, therefore, can be a useful source of funds to help these firms transition to a greener mode of operation and, hopefully, eventually, wind down these operations.

While many experts had expected the transition bond market to pick up steam this year, the actual picture is rather different: As of this writing, only six issues have come to market in 2021,[22] suggesting that there could be some reticence on both issuers' and investors' parts. This is understandable, in light of the ongoing debate about the asset class. Critics view it as a form of subsidy to offending firms and worry that transition bonds could breed complacency and, as a result, hinder any meaningful progress.

In our view, the criticisms levelled at both transition bonds and SLBs aren't without merit and deserve attention. At the same time, we believe these are teething issues that can be resolved with clearer guidance and tighter standards. The industry should make it clear that transition bonds and SLBs aren't nifty marketing devices for issuers to earn sustainability ESG credentials while raising funds and risking very little. For a start, the ESG targets set by issuers need to be more ambitious, the means of measuring their performance need to be more credible, and penalties for missed goals must be more meaningful. And that's just for *starters*.

The Asia-Pacific region accounted for nearly 17% of the overall issuance of green bonds in H1 2021.

Source: Refinitiv, July 19, 2021.

That said, it's incredibly important to bear in mind that the sustainable debt market remains relatively young and will no doubt become more sophisticated over time. In our view, it's inevitable that investor expectations will rise as more issuers come to the market and competition for investor attention intensifies.

The good news is that we're already seeing some progress; for instance, the aforementioned collaboration between the European Union and the PBoC is likely to be a game changer for issuers on both continents. Some issuers have also proposed channelling the extra coupon payments arising from missed ESG targets directly to pre-agreed sustainability causes as a way to alleviate investor concerns that they might be *benefitting* from negative outcomes.

To our minds, these are important developments. As an investor who's fully committed to sustainable investing, we're well aware of the cost of inaction and the potential dangers of adopting an all-or-nothing approach through negative screening. While it's tempting to believe that the threat of investment exclusion or divestment could nudge so-called offending firms into changing their ways, there usually isn't a shortage of investors who are willing to step in and take the place of existing shareholders. In other words, an all-or-nothing approach may not be as effective as logic suggests.

An emerging, if underdiscussed, issue that reaffirmed our view on the all-or-nothing approach centres on the seemingly innocuous question: What happens to dirty assets once they've been sold to private companies? As the ESG movement gathers strength, it isn't unusual for companies to signal their commitment to sustainability causes by updating their strategic business plans, which can sometimes involve divesting parts of their businesses whose activities are deemed to be harmful to the environment. But we think supporters of sustainable investing should recognise that once these dirty assets land in the hands of private investors, it will be very difficult to track and verify the sustainability records of these firms unless a decision was made to publish this information on a voluntary basis (barring changes in regulations). This, in our view, nudges us down the path of corporate engagement, which we believe can be more constructive—and, potentially, more effective.

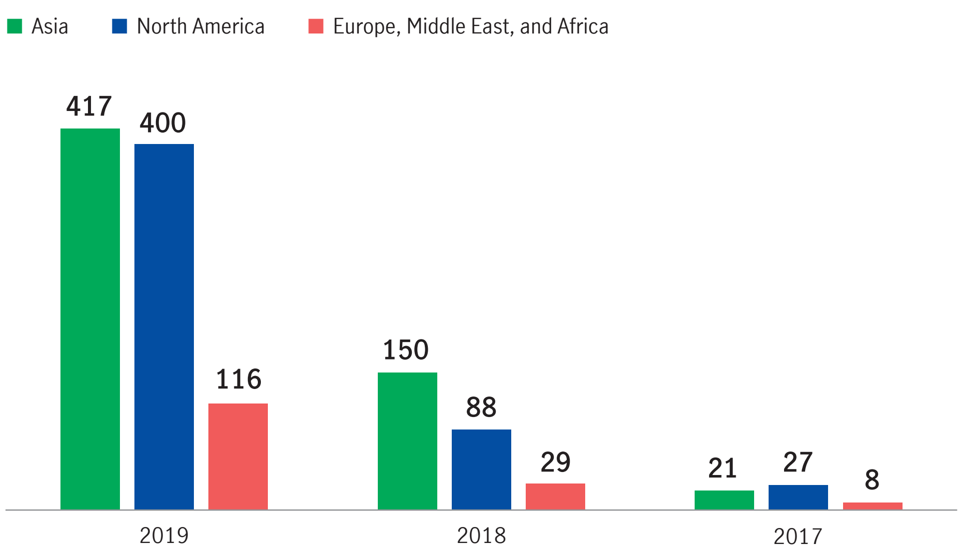
The importance of *engagement*

Most would agree that corporate engagement provides a platform for investors to have an open dialogue with investee firms about their business models and strategies, including ESG challenges that could affect their valuations or industry standing. It also creates an opportunity for investors to encourage investee firms to adopt best practices in ESG management and reporting (i.e., effecting positive change).

Recent research shows that engagement often triggers a change in the ESG profile of the target firm, regardless of whether the attempt was successful; in fact, a study suggests that firms with less-than-ideal ESG performance scores typically improve their scores after having engaged with proactive sustainable investors. On the other hand, firms with high ESG performance scores tend to see their ESG ratings slip afterwards as the ESG ratings provider would incorporate the highlighted issue that it might not previously be aware of.[23] In our view, this is proof that engagement is an important tool investors can use to bring about positive change.

In our experience, most issuers are open to some form of ESG engagement and, in many cases, welcome it. This shouldn't be surprising since companies don't operate in a vacuum—most, if not all, governments in Asia expect businesses to adopt ESG goals and help drive the broader sustainability agenda. This can be seen in the growing number of Asian companies that are adopting TCFD-aligned financial reporting.[24] That said, the way wealth managers approach their ESG engagement programme can, we believe, make a difference to how effective they can be in influencing outcomes—from a returns perspective as well as a sustainability perspective.

Manulife Investment Management: corporate engagement across regions



Source: Manulife Investment Management, December 2019.

• A strategic vision behind engagement

As wealth managers, we're used to being obsessed with quantifiable metrics. We rely on data to make investment arguments and win over sceptics. When it comes to corporate engagements, it's easy to mistake quantity for quality. While the number of engagements undertaken can be an important indicator of the breadth and scope of an ESG engagement programme, we believe it's equally important for investors to look beyond the numbers and question if there's a bigger plan behind those numbers. For instance, our ESG team created a robust engagement programme for Chinese firms as a thoughtful response to China's outsize influence on Asia. In practice, this means setting specific goals about the number of industries the team needs to engage with, in what order, and the means of engagement: Should it be through direct engagement with relevant firms and regulators, or through industry-level collaboration? Similarly, our ESG team believes that cultural context and preferences should inform the engagement programme, as there are considerations relating to the kind of proprietary research that might be needed to fill information gaps or enhance our understanding of the market. A by-the-numbers approach, in our view, wouldn't be adequate.

• Engagement as a way to manage systemic risk

The scope of a thoughtful engagement programme typically covers a much broader universe than companies that make it onto the investment team's buy list. It may seem counterintuitive, but an experienced ESG team should be able to identify firms that are strategically important to an industry or, occasionally, the market in which they're based. In these instances, it's important to engage with these companies regardless of whether they're investee firms because they present a potential systemic risk that could have an adverse effect on both investment and sustainability outcomes.

• Engagement programmes: more active than passive

In our view, ESG engagements are by default an active affair as they typically involve on-the-ground research and in-person meetings. If done well, engagement programmes could be viewed as a natural extension of the active, bottom-up research process that feeds into investment decisions. As our appreciation of sustainability factors becomes more sophisticated, it's becoming increasingly clear to us that it's near impossible to create a comprehensive risk-reward profile for each issuer without close collaboration between the investment team and the ESG team. At Manulife Investment Management, we work to ensure that members from both teams are present at each engagement opportunity—chances are, the investment team is already very familiar with the firm we're meeting, and the team has a deep understanding of the sustainability challenges it faces. On the other hand, the ESG team can draw on its experience and provide meaningful feedback on proposed solutions and share insight that could be helpful.

We also believe it's important for investors to understand that the way active investment firms approach engagement is different from their passive peers. Understandably, ESG teams in passive investment firms typically work independently and are, by default, insulated from the investment process. As a result, they tend to assess the companies they're engaging with through a sustainability lens and may have a limited working understanding of the challenges that their investee firms face at a local level. While it doesn't mean that this form of engagement can't be effective, we believe that such an approach can lead to an overreliance on ESG data (which is rarely consistent), which can make it easier to miss the cultural context and local nuances that typically define ESG challenges.

Specifically, we believe this approach might not be well suited to sustainable investing in Asia. The region is home to a heterogenous group of economies, each at a different stage of the development cycle, not to mention its own unique set of sustainability challenges.

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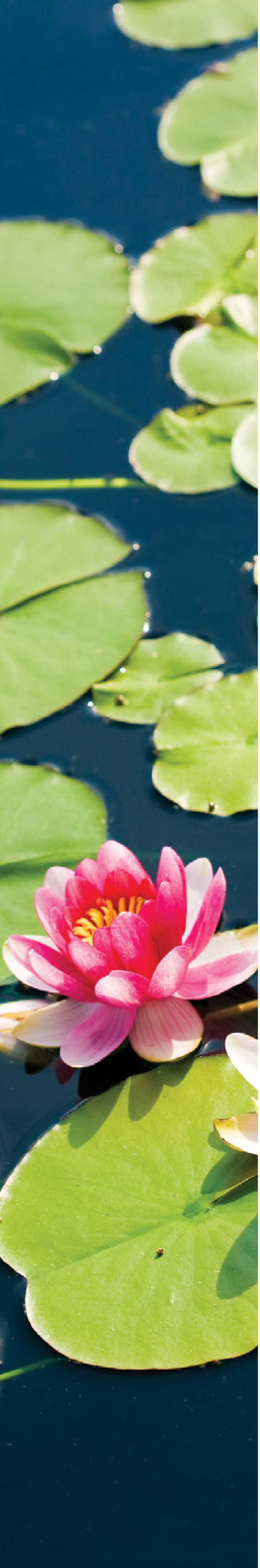


From engagement to *discernment*—separating the wheat from the chaff

It should be abundantly clear by now that we believe a robust sustainability engagement is integral to combatting greenwashing; however, we also think that the basic tenets of good investing can help investors distinguish genuine sustainability-related investment opportunities from, shall we say, less authentic ones.

1 Due diligence

Due diligence assumes a central role in any bottom-up investment process; arguably, its importance is elevated further when it comes to sustainable investing. In practice, this means adopting an inquiring mindset and setting out to question everything—from how the issuer intends to use the proceeds raised from the debt sale to how the entire exercise is likely to benefit society, how those purported benefits will be measured, and by whom. Definitions and terms are important as they determine what an organisation will have to do to meet its proposed ESG goals, the processes involved, and the standards it will need to adhere to. Ambition, once again, plays an important part: Should firms be using the sustainable debt label to finance ESG targets that they're already close to achieving? It's inevitable that investors will need to make a qualitative judgment at some point, but in our view, a healthy dose of scepticism can't hurt.

2 Discipline

Not all eligible sustainable debt issues that make it through the due diligence stage warrant an allocation. It's important for investors to evaluate whether the debt instrument in question fits into their portfolio from a risk-reward/diversification perspective and is consistent with their investment philosophy and goal. This is where an established investment process and risk-management procedures can be helpful. As long-term investors, we think it's important to never lose sight of the bigger picture and to remain true to the stated investment philosophy.

3 Knowledge

This is a field that's constantly evolving. At any one point, definitions, standards, and legislation are being drafted, debated, and agreed on. Investors who invest across a region (e.g., Asia) will need to understand how standards and legislations differ from one market to another and have a good sense of where things might be headed. It's also key to keep pace with the developments in the industry—new ways of measuring qualitative targets and new iterations of sustainable debt instruments could emerge, potentially necessitating a rethink of existing investment approaches.

To be clear, what we've described merely represents the tip of the iceberg—it's meant to be neither prescriptive nor exhaustive. ESG best practices are evolving all the time, and it's only appropriate that we, as long-term investors, constantly reframe the way we evaluate these issues.

Assessing sustainability opportunities: our approach

Evaluating the issuance

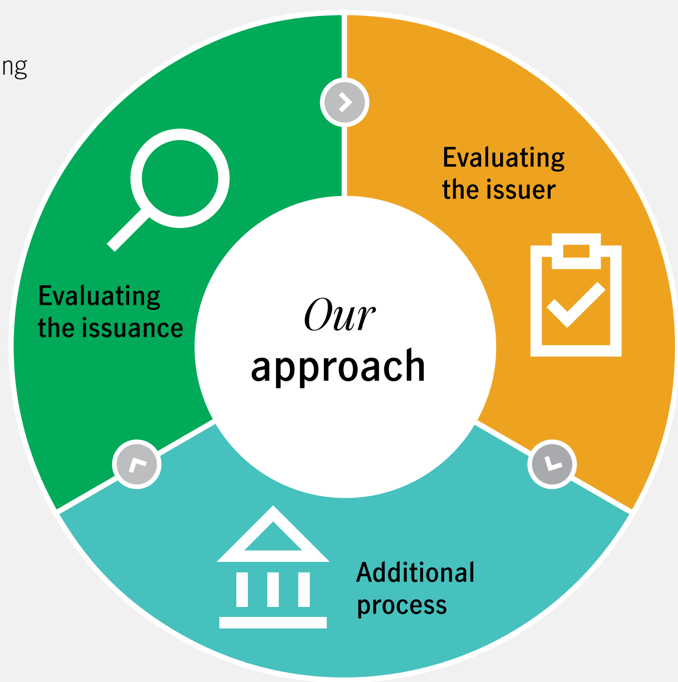
We believe it's important to form our own view on the credibility of green or ESG-themed bonds—this is a painstakingly detailed process, involving a high degree of collaboration between our team, which is based in 10 key markets in Asia, and our Asia credit research team, which has the ability to conduct on-the-ground research in 6 markets in the region. We look for alignment with international best practices, including the International Capital Market Association's Green and Social Bond Principles. We also assess external reviews from ESG data providers that offer assurance, second-party opinions, verification, or certification of alignment with the Climate Bonds Standards. However, even if an issuance has an external review, we may not view a bond as eligible for inclusion in the portfolio if we don't believe it to be credible.

Evaluating the issuer

In our opinion, it's crucial to assess the issuer of the debt instrument (and the bond issue itself) within the context of the issuer's overall commitments and sustainability strategy. We would look to avoid use-of-proceeds issuance, where it could still allow other parts of the balance sheet to be used for expanding emissions-intensive business lines. Similarly, we think it's important to evaluate a general corporate purpose issuance with sustainability-linked targets in the context of the issuer's overall ambition.

Additional process

We believe it's important to engage with our banking partners to promote best practices so that they only bring appropriate deals to the market (i.e., when an issuer understands the function of sustainable debt and the structure of the debt instrument is credible). This has led to the creation of an informal channel of communication in which our banking partners would seek our advice on how best to structure a debt issue that aligns with international best practices without disclosing details relating to what they might be working on.



We believe that the ongoing surge in investor interest in sustainable investing provides global policymakers an excellent backdrop on which they can progress the sustainability agenda.

COP26—mitigating the *gap* between expectations and reality

Expectations and excitement are rising ahead of the COP26 summit, in our view, for good reason. Country pledges in the form of nationally determined contributions—which embody efforts to cut carbon emissions and adapt to the impacts of climate change at the country level—and official carbon-neutral commitments from big businesses have been encouraging. The overall sense is that the COVID-19 pandemic has sharpened our collective focus on environmental issues, and the Intergovernmental Panel on Climate Change's most recent assessment report certainly added a critical sense of urgency to proceedings.

However, it's equally important for all of us—investors, political leaders, and the public at large—to recognise that even if all signatories to the Paris Agreement fulfilled their commitments, we're still quite a long way from being able to cap global warming to below 2° Celsius. In our view, a number of things need to happen in order for us to achieve that vision.

First, there needs to be an added level of granularity to these country- and company-level pledges: Now that political and business leaders have defined the what, they need to explain the how—declarations of intent are no longer enough, detailed action plans are needed. Second, there's an urgent need to scale up the scope of our collective ambition. The situation calls for a genuinely ambitious approach to addressing climate change and sustainability challenges; clearing diplomatically sound low bars is a luxury that we can ill afford. Third, policymakers should acknowledge the expanded role that the global capital markets should play in these efforts and work together to break down any potential barriers. One of the objectives of COP26 is to build a comprehensive framework that can enable the financials sector to allocate capital, manage risks, and capture opportunities along the path toward net zero. This is an endeavour that will require an extraordinary amount of innovation at every level of the capital markets, and policymakers need to work closely together to turn that into reality.

As mentioned earlier, although some thoughtful questions will require attention, fundamentally, we believe that it's possible to pursue index-busting returns while pursuing ambitious, positive sustainability outcomes. In fact, having spent the best part of the last two years exploring Asia's sustainable fixed-income market, we're more convinced than ever that the two goals aren't mutually exclusive. If anything, the Asian fixed-income team has learned what we believe to be a more comprehensive way to think about—and price—risks.

> Great feats are rarely a product of lowered ambition.

In other words, we believe that the ongoing surge in investor interest in sustainable investing provides global policymakers an excellent backdrop on which they can progress the sustainability agenda. The Asian sustainable debt market, in particular, could play an important role in addressing mounting sustainability challenges; however, without ample ambition, we could still fall short. To borrow the title of a well-cited economic article that we find incredibly apt at this time, great feats are rarely a product of lowered ambition.[25] In our view, it's a phrase that policymakers and investors could do well to keep in mind.

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