



Oct 13, 2022 10:47 +08

ESG-focused institutional investment seen soaring 84% globally to US\$33.9 trillion in 2026, making up 21.5% of assets under management: PwC report

For immediate release - Singapore, 13 October 2022 – Asset managers globally are expected to increase their ESG-related assets under management (AuM) to US\$33.9tn by 2026, from US\$18.4tn in 2021. With a projected compound annual growth rate (CAGR) of 12.9%, ESG assets are on pace to constitute 21.5% of total global AuM in less than 5 years. In Asia Pacific, 80% of the asset managers surveyed plan to increase their ESG-related AuM in the

next 24 months.

This represents a dramatic and continuing shift in the asset and wealth management (AWM) industry according to [PwC's Asset and Wealth Management Revolution 2022 report](#). The report also captures the views of 250 institutional investors and asset managers worldwide, representing nearly half of global AuM.

ESG-oriented AuM is set to grow at a much faster pace than the AWM market as a whole. Under PwC's base-case growth scenario, ESG-oriented AuM in the US (the largest AWM market) would more than double from US\$4.5tn in 2021 to US\$10.5 tn in 2026; in Europe (already up 172% in 2021 alone) it would increase 53% to US\$19.6tn. Investors in other regions outside the USA and Europe are also growing their allocations. Asia-Pacific (APAC) has the fastest percentage growth in ESG AuM, with this expected to more than triple, reaching \$3.3tn in 2026. ESG products in Africa and the Middle East are gaining market share, as well as in Latin America, where ESG products account for \$25bn in AuM.

ESG investing found to yield higher returns

Belying questions of whether financial and ESG performance might conflict, more than nine of ten (96%; approx 90% globally) of asset managers surveyed in Asia Pacific believe that integrating ESG into their investment strategy will improve overall returns. What's more, a majority of Asia Pacific institutional investors, 64% (60% globally), reported that ESG investing has already resulted in higher performance yields, compared to non-ESG equivalents.

With the prospect of higher returns, investors surveyed in Asia Pacific are willing to pay for ESG performance – 72% (vs 78% globally) say they would pay higher fees for ESG funds, of which close to 67% of them are willing to pay between 21 to 40 basis points (bps). Globally, more than half (57%) of asset managers are looking at charging ESG-based performance fees, compared with 64% in Asia Pacific with most of these, approximately 56% (vs 60% globally), saying a range of 3-5% would be acceptable.

For asset managers, higher fees are needed in some instances to make up for increasing ESG compliance costs – 52% (vs 35% globally) of asset managers surveyed in Asia Pacific noted these costs have increased 10-20%.

While tensions are frequently highlighted between ESG priorities and asset managers' fiduciary duty to maximise financial returns for investors, 72% (vs three-quarters globally) of Asia Pacific investors now consider ESG to be part of their fiduciary duties. Nearly as many, 72% in Asia Pacific and globally, say they set ESG-related goals for their asset managers at a portfolio level, however the extent to which this overrides financial return varies.

Justin Ong, Asia Pacific Asset & Wealth Management Leader, PwC Singapore, said: “ESG has become perhaps the most powerful driver of growth in asset and wealth management. The surge in demand for ESG investments highlighted in our survey exceeds almost all previous expectations. With the current economic headwinds, we have seen some correction in asset prices and there is a risk of significant contraction in capital markets that would result in a further decline. This underlines the importance for asset managers and institutional investors alike to understand how to capture the shift to ESG as a counter-balance to potential portfolio underperformance as well as legacy product obsolescence.”

Demand for ESG investment products is outstripping supply

As the demand for ESG investment products rapidly increases, 32% of investors in Asia Pacific (30% globally) say that they struggle to find attractive and adequate ESG investment opportunities. 80% (vs 88% globally) of institutional investors in Asia Pacific surveyed believe asset managers should be more proactive in developing new ESG products.

Complex and inconsistent regulation is a stumbling block to an increased ESG focus as is the need for more trusted, transparent data on ESG products. Major obstacles highlighted by Asia Pacific asset managers for ESG growth are policy and/or regulations (68.0%) and fear of greenwashing allegations (52.0%). Meanwhile, almost half of the Asia Pacific asset managers surveyed (48.0%; 64% globally) cited that insufficient reliable data is also an obstacle to ESG growth. Specifically with regards to data, appropriate quantitative and qualitative ESG data as well as data reliability are perceived as the biggest barriers to ESG adoption.

From a reporting standpoint, 68% of Asia Pacific investors require ESG information at the overall portfolio level whereas 48% of them require it at the manager level. Meanwhile, some 44% prefer to have it at the underlying portfolio level.

Paul Pak, Asset and Wealth Management Leader, PwC Singapore, said:

“Investor expectations on ESG are transforming how value is defined and delivered within the AWM industry, reinforcing the importance of integrating ESG into the investment process. The Guidelines on Environmental Risk Management for Asset Managers effected by the MAS earlier this year, have contributed to the growth of Singapore's ESG ecosystem and helped credentialise Singapore as an Asia Pacific gateway for investors and asset managers, especially those that serve as regional hubs with headquarters in the US and Europe. While most asset managers understand the significance of incorporating ESG factors into their investment process, a fair amount of work still remains to embed ESG practices within their day-to-day business activities in a manner that is consequential.”

ENDS

Notes to editor

About the [PwC Asset and Wealth Management Revolution 2022](#)

PwC's Asset and Wealth Management Survey is a global survey of asset managers and institutional investors. The goal of the survey is to better understand how the current AWM industry views changes related to ESG and the direction in which that change is likely to take the industry in the future coming years.

The asset manager survey sample included 250 respondents, accounting for a total global AuM of approximately US\$50 trillion. The respondent base was largely cross-sectional in terms of size and tranche.

The institutional investors survey consisted of 250 respondents, with combined global assets of US\$60 trillion. Respondents covered a broad spectrum of AuM size, with more than half boasting assets of more than US\$10 billion. Public pension funds and private pension funds together accounted for more than half of the institutional investor respondent base.

About PwC

At PwC, our purpose is to build trust in society and solve important problems

- this is at the core of everything we do from the value we provide to our clients and society to the decisions we make as a firm.

Our services started with audit and assurance over a century ago. As times change and the issues faced by businesses and individuals evolved, we have developed specialised capabilities in tax, advisory and consulting to help you address emerging new challenges across focus areas like ESG, sustainability and climate change, digital transformation, cyber security and privacy, data, mergers and acquisitions, and more.

In Singapore, we have more than 3,500 partners and staff to help resolve complex issues and identify opportunities for public, private and government organisations to progress. As part of the PwC network with nearly 328,000 people in 152 countries, we are among the leading professional services networks in the world focusing on helping organisations and individuals create the value they are looking for.

© 2022 PwC. All rights reserved

Contacts



Siew Ling Ong

Press Contact

Manager, Brand and Communications

siew.ling.ong@pwc.com