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Responsible Investment Services

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ESG CONSULTANCY

Summary Responsible Investment in Emerging Markets, May 11, 2011

Double Dividend and Fair Impact organise a series of round table meetings on responsible investment in Hermitage Amsterdam because pension funds, insurance companies and family offices need to implement responsible investment in daily practise. The first meeting focussed on Emerging Markets (EM).

The Swiss based Vontobel ceased the opportunity to present its expertise on the Asian equities market. Erste Asset Management from Austria has a natural strength in Central and Eastern European (CEE) equities. Both have integrated environmental, social and governance (ESG) factors into their investment process.

ESG is gaining ground in EM. Stephen Tong, Head of Emerging Market Equities at Vontobel, mentioned that in Asia, the Chinese 5 year plan now also focuses on environment, health care, and social housing. Also, Singapore is considering ESG disclosures as part of listing requirements. However, government interference, bureaucracy, lack of a working legal system and corruption are worrying investors. Scenario analysis is a tool to make good investments when governments are able to interfere and change ownership.

Engagement has resulted in improved data availability in many CEE countries (Poland, Turkey, etc.), but the further east (Russia, Ukraine, etc.) the more challenging it gets. Thomas Motsch, Equity Fund Manager at Erste Asset Management, explained that most engagement is done in English. Its ESG research agency works with locals. When Vontobel analysts are verifying the answers from a Chinese company they ask a native Mandarin speaker to make sure that the company has understood the questions to be able to trust the answers.

The conclusion is that managing ESG risks in emerging markets has improved a lot recently. A bottom up investment approach is the way to deal with these risks. A lot companies are still not investible due to a lack of disclosure or regulatory framework.

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