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# Investors and Emerging Markets: Issues and Trends

## **EIRIS, Emerging Markets Webinar: ESG Risks and Opportunities**

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# What issues investors are concerned about when investing in emerging market companies?

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- What issues investors are concerned about?
- Key trends in Asian emerging markets?
- Financial / economic perspectives on ESG risks and opportunities?
- What key ESG issues do investors need to be aware of?

# Association for Sustainable & Responsible Investment in Asia (ASrIA) is the premier network for sustainable finance and investment in Asia



# ASrIA members are global and regional leaders in the sustainable finance movement



# What issues investors are concerned about when investing in emerging market companies?

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- Security of the market – perceptions effect asset allocations
- Disclosure standards
- How to conduct appropriate and effective engagement
- What ESG issues to focus on in particular markets or sectors
- How to handle controversial issues

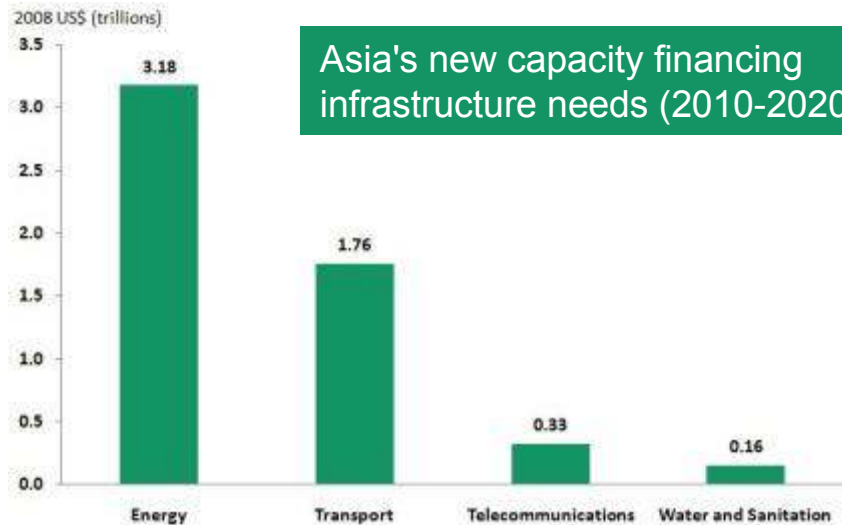
# Key trends in emerging markets

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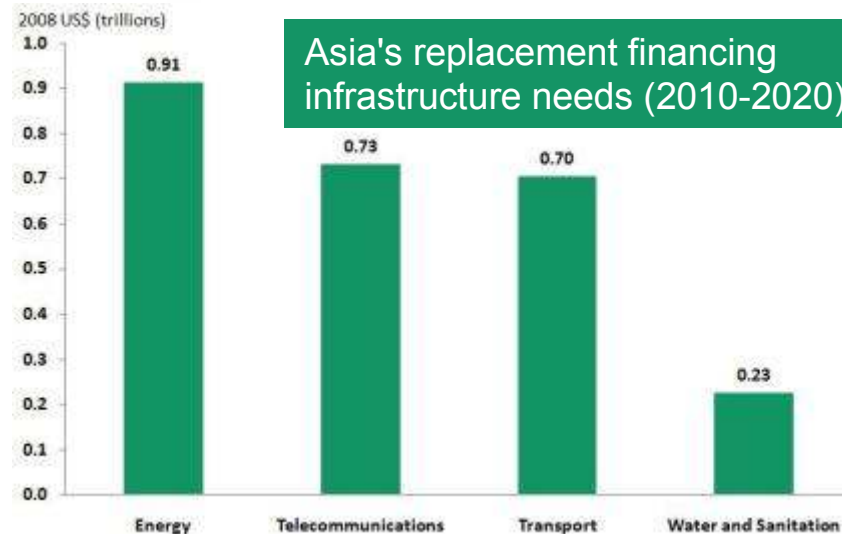
Tremendous variability across different Asian markets, challenging to generalise

- Sustainable investment - yes and no
- Green investment on the agenda. Sustainability experts/teams moving to Asia. More products. PE funds.
- Focus on themes, clean tech, clean energy, water, infrastructure, food and agric (and inflation).
- Eyes on china
- Corporates responding, but often waiting for policy direction. Many corporates investing heavily in building regional and global brands
- ESG seen as a cost, rather than an opportunity by most companies and financial institutions
- Focus on governance issues
- Global 500 now an Asian play - can't afford to ignore Asian issues!

# US\$ 8 trillion in infrastructure investments can help spur Asia's shift to a low-carbon economy over the next decade




Asia's new capacity financing infrastructure needs (2010-2020)



Asia's replacement financing infrastructure needs (2010-2020)

- Over US\$ 4 trillion in energy infrastructure investments
- Over US\$ 1.7 trillion in new road infrastructure
- Over US\$ 500 billion in mobile telecom replacement

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- Potential for Asia to take the lead in creating a low carbon economy
  - Investors play crucial role in picking the winners and losers
  - Investors need to 'future-proof' portfolios by anticipating regulatory changes

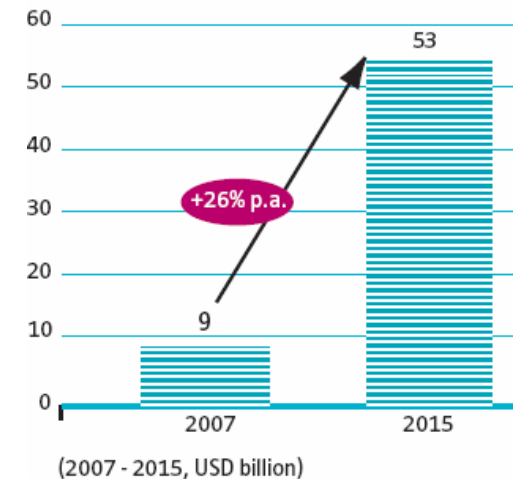
Sources: ADBI (2009), Bhattacharyay (2008)

# Market sizing - By 2015, almost US\$3tn geared for SRI in Asia

SRI market growth (AUM as % of total AUM - 2007-2015)



Global SRI revenue



**26% annual revenue growth in SRI globally**

Source: Robeco, Booz & Co



# Financial Exchanges - offer specialised markets for niche plays, facilitate new products and services, and raise ESG awareness and standards

Minimize taxes

Maximize profits

Optimize capital efficiency

Energize growth

Reduce cost of capital

Communicate with markets

## Specialised markets

- Carbon trading
- Environmental tech (“cleantech”)

## Sustainability indices

- Hang Seng Corporate Sustainability (2010)<sup>^</sup>
- SSE Social Responsibility (2009)
- SRI-Kehati (2009)
- S&P ESG India (2008)

<sup>^</sup> Not HKSE-affiliated

## ESG Guidelines / Regulations\*

- Bursa Malaysia
- SET
- Shenzhen
- Shanghai
- Taiwan

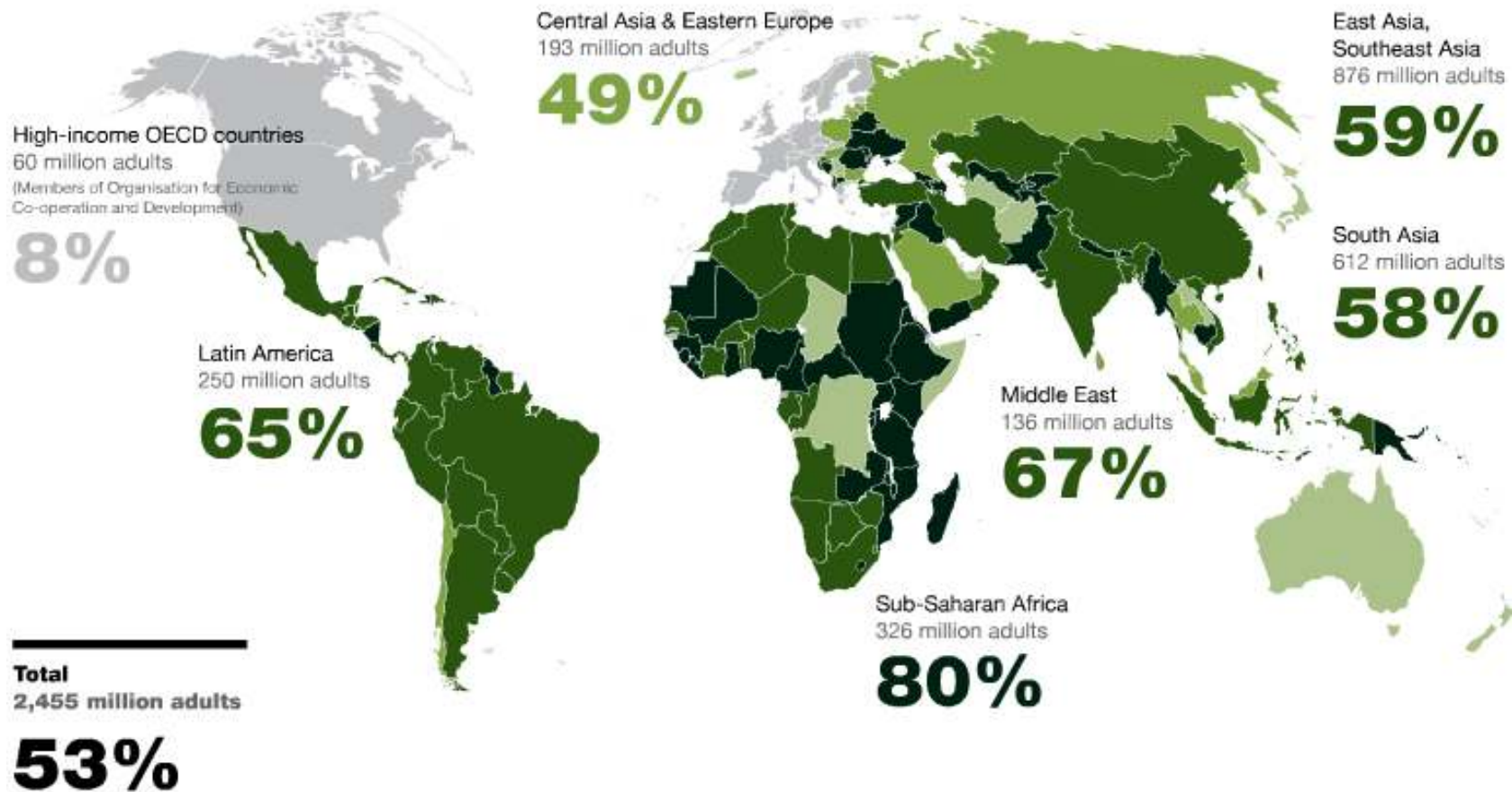
\* More CR reporting, i.e., not ESG nor performance YET!

Linking key drivers with ESG-related initiatives spurs strategic value creation

# Bring Banking to the Poor – ... 53% of adults not using formal financial institutions



Percentage of total adult population who do not use formal or semiformal financial services



# A financial / economic perspective on ESG risks and opportunities in emerging markets

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- A key issue is energy and water pricing, and supporting policies. Critical to enable investment, but raises political issues
- ESG Risks and costs attract more attention than opportunities. Take time to get local management and investment support for opportunity investment
- Commercial financial institutions more risk averse. Development banks also taking a lead. Opportunity for green bonds.
- Huge opportunities in shift to green economy, but needs long term commitment, relationship building, local presence, and local expertise to unlock
- Need a step by step approach. But momentum can build quickly.

# What key ESG issues do investors need to be aware of, with regards to investing in emerging market companies?

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- Awareness and understanding of ESG. Could vary widely
- Capacity to respond. Management expertise can vary
- Priorities could also be different. ie. on issues like independent directors
- Regulatory environment and the relationship between companies and regulatory authorities. Can be very close and mutually supportive.
- Its a two way process



# Thank You

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