



**International
Finance Corporation**
World Bank Group

Sustainable investing in emerging markets:

UNSCATHED BY THE FINANCIAL CRISIS



Economist Intelligence Unit

The
Economist

IFC, a member of the World Bank Group, creates opportunities for people to escape poverty and improve their lives. We foster sustainable economic growth in developing countries by supporting private sector development, mobilizing private capital, and providing advisory and risk mitigation services to businesses and governments.



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Preface



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“Sustainable investing in emerging markets: Unscathed by the financial crisis” is a research paper commissioned by International Finance Corporation (IFC), prepared with the help of the Economist Intelligence Unit. The report surveys the attitudes of corporate executives and investment professionals, summarises the challenges that they face in adapting to the growing use of environmental, social and governance investment criteria, and recommends actions to capitalise on relevant trends.

- **This report is based** on four main initiatives:
- **Two surveys, conducted two** years apart (early 2007 and early 2009), addressing the same audience of:
 - **public companies based in** emerging markets
 - **asset owners and asset managers** with significant investments in emerging markets.
- **In-depth interviews with 23** emerging market investors, investment consultants, ratings agencies and academics, as well as post-crash follow-up interviews with selected interviewees.
- **The report also incorporates** comments from investors, advisors and emerging market corporations at roundtables in New York, London, Buenos Aires and Hong Kong held after the initial survey.

Our thanks go out to the asset owners, asset managers and corporations who participated in our sustainable investing survey, as well as the roundtable attendees and interviewees. Appendix 1 contains a complete list of roundtable participants.

Dan Armstrong at the Economist Intelligence Unit’s New York office was the editor and project manager. John Christy was the writer, interviewer and researcher for EIU. Cecilia Bjerborn was the project manager at IFC. Dan Siddy Delsus Ltd. provided valuable editorial input and assistance.

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Foreword

In 2002, IFC began its advisory program focusing on the relevance of environmental, social and governance (ESG) factors in emerging market listed equity investment. We then found in our initial baseline report, “Towards SRI in Emerging Markets,” that only 0.1% (\$2.7bn) of what was commonly referred to as “Socially Responsible Investment” (SRI) assets globally, were allocated to emerging markets.

Since then, net portfolio equity flows to emerging markets increased to a record \$145bn in 2007, before dropping sharply in 2008 due to the global financial crisis. While it is widely known that the market has expanded and contracted since 2002, what is news – and what we’re encouraged by – is that the factoring in of ESG issues in investment decisions for emerging market equities is continuing to make inroads into mainstream investment practices, despite the financial crisis. A recent survey “Gaining Ground” commissioned by IFC and carried out by Mercer indicates that 46% (\$300bn) of emerging market investment now factor in ESG. Whilst there are some differences in research methodology between the two reports, this is still a marked increase since 2002. Indeed, we believe integration of ESG factors in financial analysis is critical to weathering another current crisis – that is, climate change.

This latest report, produced in co-operation with the Economist Intelligence Unit, provides a unique “before and after” snapshot of mainstream investor opinion on sustainability issues in emerging market equity investment, comparing pre-crisis (2007) and mid-crisis (2009) attitudes. The report shows that the practice of integrating ESG into investment decisions persists – and its perceived importance has increased as a result of the crisis.

Why is this the case? We believe the momentum behind ESG analysis is rooted in initiatives such as the Equator Principles for project finance and the UN Principles for Responsible Investment in the pension fund arena. In addition, a new crop of multinational firms based in the emerging markets has caught the increased interest of global investors. And we believe IFC’s sustainable investment program has played its part. We have pioneered new sustainable investment indices in Brazil and India, as well as supporting regional ESG equity research and investor networks.

Though the investment community is more aware than it was in 2002 about ESG issues, major challenges remain if sustainability factors are to become an everyday part of investing. Meeting these challenges will require action from governments, corporations, and communities. IFC remains committed to raising awareness, supporting development of new tools and instruments that can help emerging market investors as well as investees to make more informed decisions.

I would like to thank those who took part in this survey, as well as the donor governments of the Netherlands, Norway, Luxembourg and Italy.



Greg Radford

IFC Environment and Social Development Director



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Executive summary

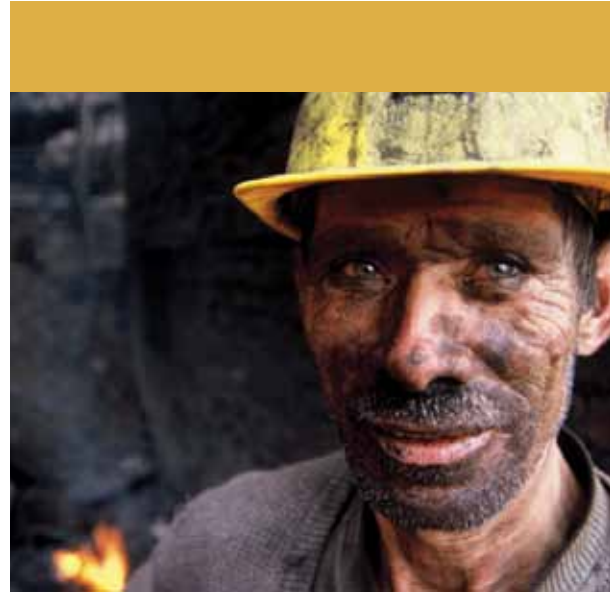
Over a century ago Rudyard Kipling told his countrymen, “If you can keep your wits about you while all others are losing theirs...the world will be yours and everything in it.” For investors caught in the market turmoil of 2008 and 2009, these words have special resonance. Years of short-term thinking by a wide range of market participants culminated in a global financial crash. Leading the way out will be those who “keep their wits about them” by focusing single-mindedly on choosing emerging market investments with advantages that can be sustained over the long-term. Such an approach almost by definition requires the use of environmental, social and governance (ESG) measurements as an aid to evaluate an investment’s fundamental strength.

In tumultuous times, the behaviour of market participants changes. They become less rational. They make bad decisions. They miss opportunities. Most importantly, they lose sight of fundamentals, act on the basis of short-term events and fall prey to the “madness of crowds”, leading correlations among markets throughout the world to approach one. It seems reasonable that investors in this frame of mind would be ready to abandon the use of sustainable criteria and revert to a narrower set of short-term metrics for evaluating investments.

But the asset management community is not abandoning ESG criteria – far from it. Two surveys of asset owners, fund managers and emerging market corporate issuers were conducted by the Economist Intelligence Unit for this project: the first in March of 2007, when market participants watched indices move toward record highs; and the second in March of 2009, when the same indices were in free-fall. In both surveys, market participants confirmed the importance of sustainability criteria in analysing emerging market investments. If anything, respondents were more enthusiastic about sustainability criteria after the crash than before. For instance:

Asset owners – arguably the most influential participants in the investment value chain – were more inclined to agree with the statement “ESG issues are an important part of our research, portfolio management and manager selection process” in 2009 than in 2007. Approximately 46% strongly agreed with this statement in 2009, up from 36% in 2007. (Those who agreed “somewhat” were the same at about 35-36%).

In 2009, a plurality of asset owners (42%) said that the financial crisis would result in more use of ESG criteria than before and 13% said it would have no effect. Another 35% said that the crisis might have the effect of reducing the use of sustainability criteria in the short run, but not in the long run. Only one in ten respondents felt that the financial crisis would reduce the focus among investors on ESG.



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The investment community continues to see the use of sustainable investment criteria in emerging markets as both mainstream and persistent, even after the value of their portfolio has shrunk.

- **Asset owners ranked “investment or business merit”** far ahead of other motives for sustainable investing in 2009, suggesting that sustainable investing criteria are less a matter of fulfilling compliance mandates than an aid to choosing strong investments. In the 2007 survey, asset owners ranked “regulatory and compliance considerations slightly ahead of other motives.
- **The ranking of obstacles to sustainable investing** didn’t change much between the sunny days of 2007 and the bleaker ones of 2009. But significantly fewer asset owners ranked transparency as one of the top obstacles in 2009.
- **The 2009 survey reinforced the need to take climate change into account** when evaluating investments. Most asset owners and funds managers (86% of both groups) believe that it will have a significant effect on their emerging markets portfolios. Moreover, 60% of asset owners and 62% of money managers say that this effect will be felt within the next five years.
- **In both surveys, asset owners and fund managers noted the growing importance of ESG criteria in emerging markets;** they also expect increased demand for emerging market investment products over the next three years. Among publicly traded companies headquartered in emerging markets, there is also a high level of awareness of sustainable criteria.

In sum, the investment community continues to see the use of sustainable investment criteria in emerging markets as both mainstream and persistent, even after the value of their portfolios has shrunk. And emerging market corporate issuers continue to see sustainable practices as important to the investors who provide funding. Investors who neglect these sustainability criteria run the risk of missing opportunities to make a profit, while companies that fail to build sustainable operations may end up paying too much for capital.



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Limitations to traditional methodology

The financial crisis has also raised the question of whether traditional investment methodology is broken. Many analysts devote disproportionate time to scrutinizing published financial statements, earnings estimates, price/earnings ratios and other sources of company data available to all. However, ESG or sustainable investing is a way of casting a wide net to gather a lot more information and to analyze its impact on a company's long-term fundamentals.

There are many examples of how sustainable practices have contributed to long-term gains in revenue and profitability. Any business can cut corners to boost financial results in the short run. But long-term growth requires strategies ranging from reducing waste materials to fostering trust through strong governance practices. The value of a firm's intangibles depends heavily on its reputation, which sustainable practices are likely to strengthen.

Companies engaged in these kinds of practices include many headquartered in emerging markets. The Brazilian utility CEMIG has been selected in the Dow Jones Sustainability Index for eight consecutive years. The four largest companies in South Africa are all compliant with ISO 14001, which lays out standards for companies striving to operate in an environmentally sustainable manner. Over 200 emerging market companies issued sustainability reports for the year 2008, according to the Global Reporting Initiative (GRI).

Moreover, many empirical studies have found a correlation between outperformance and sustainable investment methodologies. One prominent example is: "Demystifying Responsible Investment Performance," a joint effort by the investment consulting house Mercer and the Asset Management Working Group of the UN Environmental Programme's Finance Initiative published in the fourth quarter of 2007. Of 20 academic studies, ten found a positive relationship between ESG factors and performance, seven neutral, and three negative. Of ten broker studies – half qualitative and half quantitative – the qualitative studies were generally positive about the impact of ESG methodologies on performance, three of the quantitative studies were positive and two were neutral.

More significant in terms of the financial crisis may be an analysis by US consulting firm AT Kearney, published in March 2009. The study identified 99 companies committed to sustainability, choosing the companies from the Sustainability Index and the Goldman Sachs Sustain Focus List. Divided into 18 industry sectors, the companies are headquartered in both developed and emerging markets. According to AT Kearney, the companies all:

- focus on long-term strategy over short-term gains
- have strong corporate governance frameworks
- practice sound risk management, and
- have a history of investment in green innovations

In 16 of the 18 industries, these companies outperformed industry averages by 15% between May and November 2008, or about \$650 million in market capitalisation per company.



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82% of surveyed asset owners say that ESG assessment will become significantly more important in their research, portfolio management and manager-selection process over the next three years.

Obstacles remain

Despite the evidence of strong performance, many of the obstacles to sustainable investing practices persist:

- **Even though there has been** marked progress, some investors still fail to see a compelling case for considering non-financial factors in investment decisions, despite the body of evidence in favour of doing so. In the 2007 survey, on average 13% of participants cited the lack of a compelling business case as the main obstacle to sustainable investing; in 2009, the figure was largely unchanged.
- **Investment firms rarely have enough** staff to conduct the research needed to incorporate ESG decisions into emerging market investment decisions. Many analysts who work in the field lack the knowledge, education and skills to apply sustainable criteria to evaluate companies. For instance, when asked whether they were able to find enough investment managers or consultants who use ESG principles in emerging markets, only 34% of asset manager respondents said yes in 2007; by 2009, this percentage had only edged up to 37%. At the same time, asset owners have recognised the need to build internal ESG capacity and engage directly with companies, a trend documented in reports such as Mercer's Gaining Ground² and the "Future Proof?"³ paper on the Who Cares Who Wins initiative.
- **In the 2009 survey,** asset owners continued to highlight insufficient disclosure and lack of transparency as the main obstacles to sustainable investing decisions. In addition, a February 2009 McKinsey study⁴ suggests that while most CFOs believe in sustainable practices, they could increase the valuations of their companies by making improvements in governance – and particularly in transparency.
- **Some market participants still lump** sustainable investment with ethical investment approaches. Moreover, some fund owners still believe that incorporating ESG criteria into investment decisions may violate their fiduciary obligations.
- **While progress has been made** on all of these fronts – greater transparency through policy initiatives, stricter listing requirements, direct shareholder engagement with corporate managers and voluntary agreements among stakeholders – there is still significant room for further reform.



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²International Finance Corporation and Mercer Investment Consulting, Gaining ground: Integrating environmental, social and governance (ESG) factors into investment processes in emerging markets, March 2009, http://www.mercer.com/attachment.dyn?idContent=1318495&filePath=/attachments/English/IFC_Gaining_ground.pdf

³International Finance Corporation, Future Proof? Embedding environmental, social and governance issues in investment markets, January 2009, http://www.unglobalcompact.org/docs/news_events/8.1/who_cares_wins_29Jan09webversion.pdf

⁴McKinsey Quarterly, Valuing corporate social responsibility: McKinsey Global Survey Results, February 2009, http://www.mckinseyquarterly.com/Corporate_Finance/Valuation/Valuing_corporate_social_responsibility_McKinsey_Global_Survey_Results_2309?pagenum=2



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The way forward

The research suggests several ways to address the obstacles described above and to encourage the use of sustainable investing strategies in emerging markets. Although further research on the business case is welcome, the two surveys show that the majority of asset owners, fund managers and emerging market corporations are already convinced of the link between ESG behaviour and superior investment results.

Seen from a policy perspective, the pressure to improve corporate disclosure is key to moving forward on sustainable investing. Most emerging markets have made significant progress in improving corporate governance. Nevertheless, corporate governance advocacy programs could do more to help investors and issuers understand the value of transparent ESG reporting.

Moreover, many emerging markets have an advantage in this regard: they lack the layers of complex regulations to be found in many developed markets. This provides an opportunity for regulators in emerging markets to “leapfrog” developed markets by pushing for ESG information to be included in required and voluntary disclosures.

Finally, in both the 2007 and 2009 surveys, asset owners highlighted a scarcity of emerging-markets ESG talent among consultants and fund managers. This gap represents an opportunity – one that a number of investment banks, data providers and securities research organisations are moving to exploit. And there is little doubt that this lack of capacity will be needed: 82% of surveyed asset owners say that ESG assessment will become significantly more important in their research, portfolio management and manager-selection process over the next three years.

The same group expects to increase emerging-market allocations by about 2% over the same period. The institutions at the top of the value chain are ready to move forward – and the advisors, managers and consultants who support them have received a mandate to help.

About the research

In early 2007, the International Finance Corporation enlisted the help of the Economist Intelligence Unit to learn more about the commitment of the asset management community to sustainable investment principles and methods in emerging markets. Was sustainable investing in emerging markets indeed becoming mainstream? To what extent did market participants believe that it contributed to above-average returns? What obstacles, if any, stood in the way of greater acceptance?

As part of this research, in March of 2007 the Economist Intelligence Unit surveyed 140 executives: 35 asset owners and 51 fund managers with holdings in emerging markets, as well as 54 executives at emerging-market public companies. The corporate respondents were all senior financial or investment relations executives, with the most prominent industry (30%) being financial services.

Throughout the rest of 2007 and early 2008, the Economist Intelligence Service conducted additional research at meetings held in New York, London, Hong Kong and Buenos Aires, interviews with key corporate and asset management stakeholders, and literature reviews. As the credit crisis spread and the equity markets began to deteriorate, however, another question arose: to what extent might the downturn in global equity markets lead stakeholders to question their commitment to sustainability principles?

To answer this question, the Economist Intelligence Unit conducted a shorter follow-up survey in March of 2009, exactly two years after the first survey. Most questions were the same as those in the first survey, included so that the responses could be compared. New questions focusing specifically on climate change and the global financial crisis were included as well. There was considerable overlap among the respondents to

the two surveys and the overall breakdown was similar: 168 executives in all, comprising 48 representatives of asset owners (including pension funds, endowments and government investment bodies), 66 fund managers and 49 public emerging-market corporations. Again, the largest single group of respondents was from the financial services industry.

Report Structure

This report is divided into three categories: the impact on perceptions, the investment case, and the challenges and opportunities to the growth of sustainable investment. The perceptions section draws largely on the two surveys conducted by the Economist Intelligence Unit; the section on the business case contains interviews with market participants and third party research studies; and the challenges section again draws on the surveys.

Sustainable investment defined

This report uses the terms ESG and sustainable investment criteria interchangeably. In the context of this research, sustainable investing is based on the premise that companies that ignore social and environmental concerns, and that fail the test of good governance, are unlikely to be good long-term

investments – regardless of their ability to generate cash flow in the short term. Sustainable investing – sometimes called an “integrated” approach – explicitly incorporates ESG-related risk factors and fundamentals into traditional financial analysis. Fund managers incorporate sustainability research into investment analysis to identify “submerged” risks and opportunities – those outside the traditional boundaries of equity research.

Since 2005, this definition of sustainable investing has been adopted by market participants such as Goldman Sachs under the auspices of the Enhanced Analytics Initiative (set up by a group of institutional investors in 2004 to encourage investment research that considers ESG issues). The integrated approach is also advocated by the UN Principles for Responsible Investment (PRI), which provides institutional investors with a framework to help integrate ESG considerations into the investment process.

In theory, ESG criteria simply comprise a new set of variables to incorporate into discounted cash flow (DCF) valuations. However, the DCF model depends entirely on the availability of information about the company – and companies don’t always inform the market about environmental and social risks (or even grasp them entirely themselves). Indeed, the Economist Intelligence Unit surveys found that lack of transparency was the main obstacle to incorporating ESG principles into investment decisions regarding emerging market equities.

Sustainability factors can be incorporated into either the numerator or the denominator of the DCF equation. To the extent that the analyst can estimate the effects on the timing and magnitude of future cash flows, the numerator can be adjusted. Alternatively, sustainability issues could affect a company’s risk premium, also known as the discount rate. An analyst can subjectively adjust this rate to account for a higher or lower perceived risk arising from a company’s sustainability profile.

Integrating ESG issues into financial valuations is a challenge even in mature capital markets. The impact of unsustainable practices on future cash flows is typically felt over the long term. The farther into the future an event occurs, the more difficult it is to predict. And other valuation metrics such as earnings per share tend to be used for short-term forecasts, which fail to reflect the impact on value of factors like climate change, energy disruptions or emerging skills shortages.



1. The Impact of the Crisis on Perceptions of Sustainable Investing

Nothing promotes introspection like a crisis – and this crisis in particular has given rise to widespread scrutiny of the elements of sustainable value.

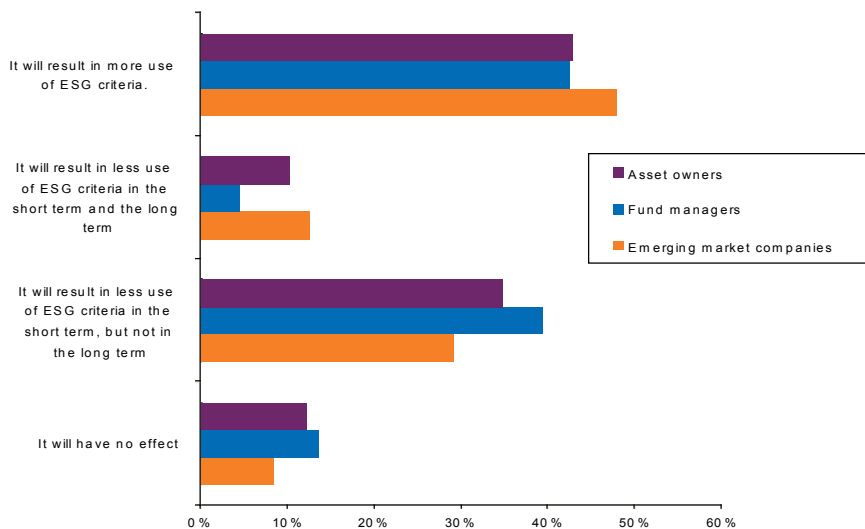
Based on the results of the global executive survey in 2009, the financial meltdown has had little effect on the commitment to sustainable investing methodologies. In fact, follow-up interviews suggest that in many cases the crisis has driven home the importance of sustainable practices.

The first Economist Intelligence Unit survey, conducted in the first quarter of 2007, asked three groups — asset owners, asset managers and emerging market corporate issuers — whether ESG themes:

- **formed an important part** of their investment and operating philosophies
- **would increase in importance** over the next three years

The second survey, conducted in February and March of 2009, asked the same questions of the same three groups. In addition, it asked how the global financial crisis would influence the integration of ESG criteria into traditional financial measurements for the purpose of choosing investments.

How will the financial crisis affect the integration of ESG factors into traditional investment practices ?



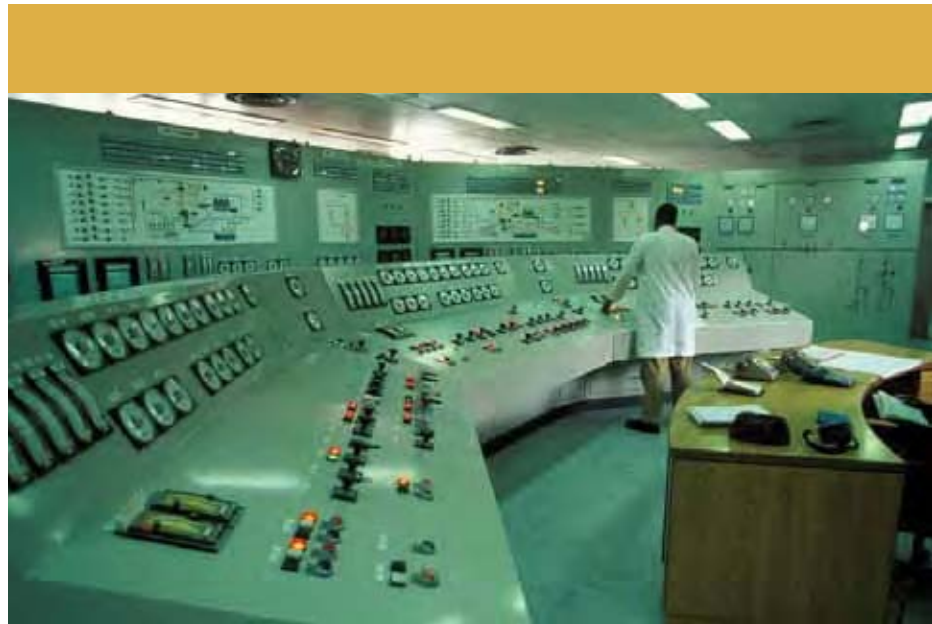
Despite minor differences among the three groups, the results from the second survey show that all three groups express confidence in the future of sustainable investing. Between 77% and 82% of respondents say that ESG issues will become more important – either now (“more use of ESG criteria”) or after the market volatility subsides (“less use of ESG criteria in the short term, but not in the long term”). Another 8% to 12% say that the crisis will have no effect on the use of ESG criteria, and only 5% to 15% believe that investors will rely less on ESG criteria than in the past. In short, the investment and corporate communities tend to downplay the impact of the market shifts, and a plurality feels that these changes will help to push sustainable investing practices more firmly into the mainstream.

Moreover, the survey results reinforce the notion that ESG-influenced investing is a mainstream practice. Most asset owners have a strong commitment to it; fund managers follow the lead of asset owners; and listed companies in need of capital see it as an important element of their investment story. And as the charts that follow demonstrate, there has been little if any change in these attitudes between early 2007 – when emerging market equity indices were surging – and the dark days of early 2009.

The group least committed to sustainable investment practices is asset managers, where 11% disagree with the statement that ESG factors are an important part of the investment process, and eight percent say that ESG criteria will not become more important over the next three years. Yet even among asset managers, at least 75% say that sustainable practices are an important facet of choosing investments, and an even higher proportion thinks that these practices will become more important over 2009-2012 period.



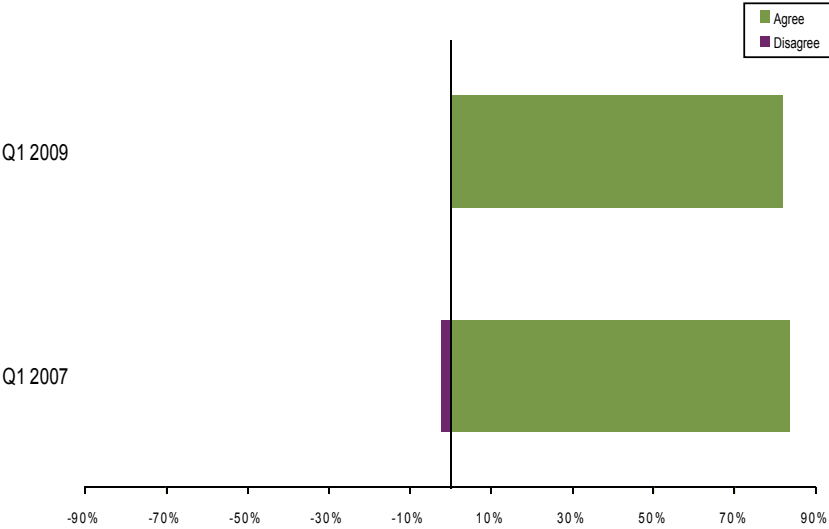
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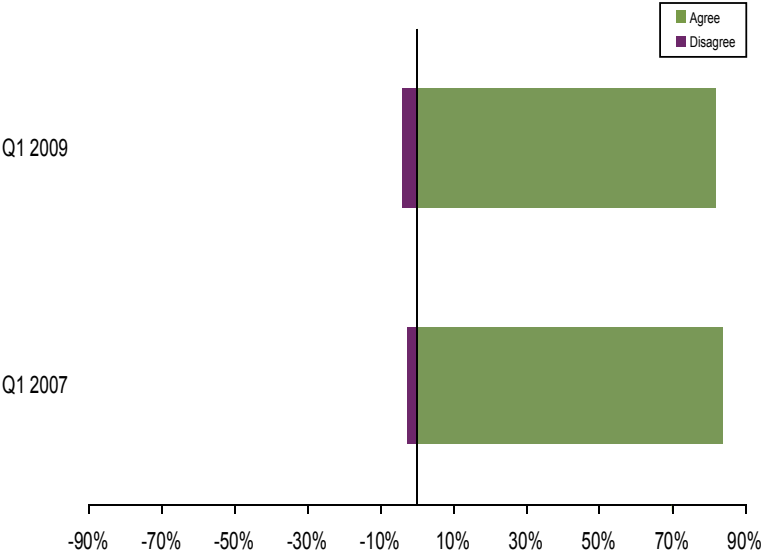
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Asset owners

Environmental, social and corporate governance (ESG) issues are an important part of our research, portfolio management and manager selection process.

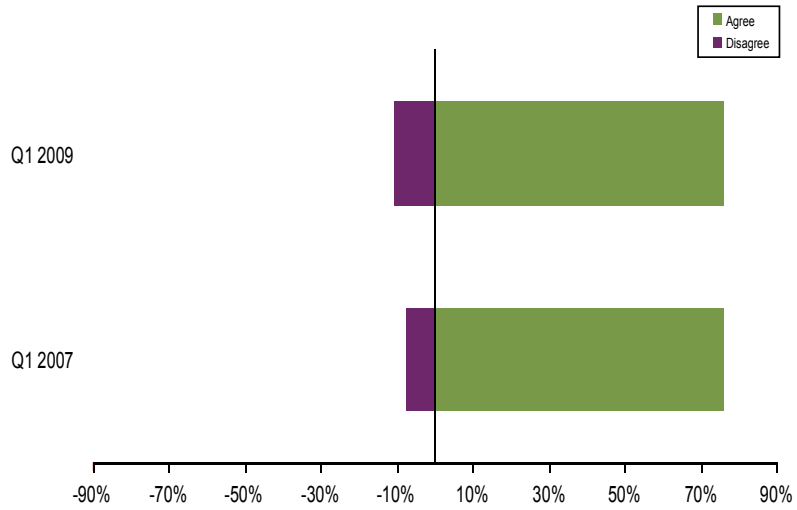


ESG issues will become significantly more important in our research, portfolio management and manager selection process over the next three years.

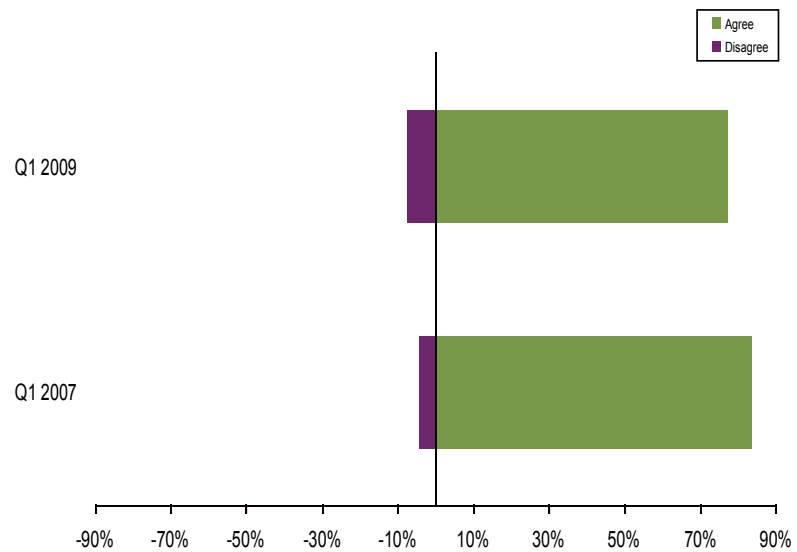


Asset managers

Environmental, social and corporate governance (ESG) issues are an important part of our research, portfolio management and manager selection process.

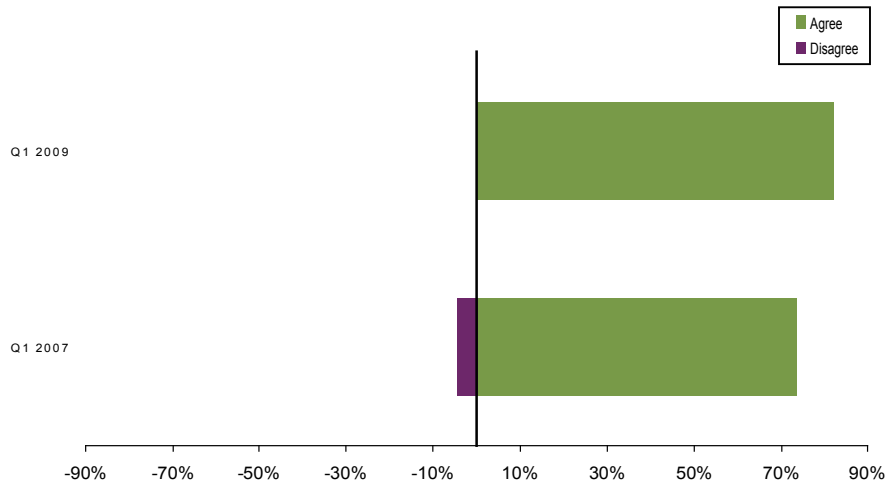


ESG issues will become significantly more important in our research and portfolio management process over the next three years.

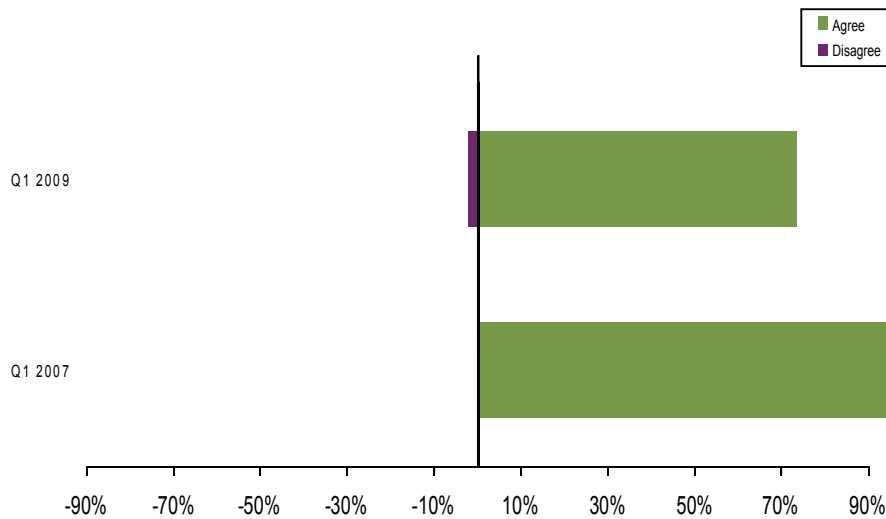


Emerging market companies

Management of ESG issues is an important part of our business operations and investor relations process.



ESG issues will become significantly more important part of our business operations and our investor relations process over the next three years.

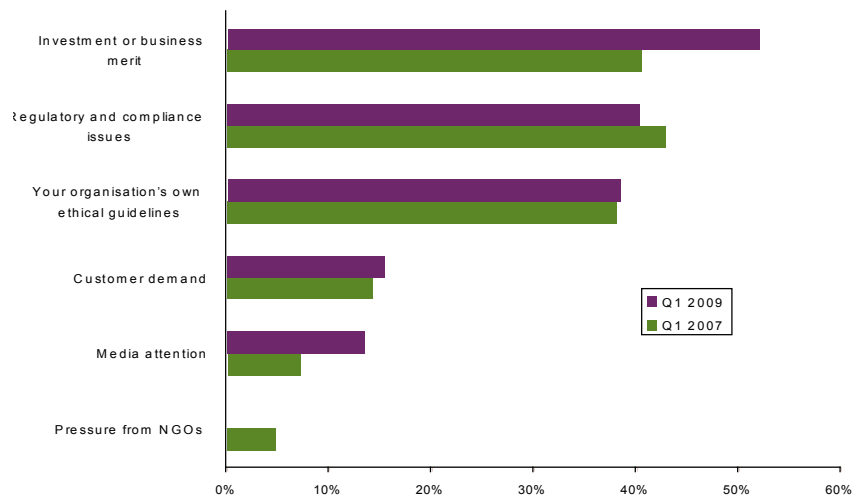


The survey results also suggest that the reasons for sustainable investing have changed. When asked for their motive in addressing ESG issues:

- **Asset owners** ranked “investment or business merit” far ahead of other motives in 2009, suggesting that sustainable investing criteria are less about compliance and more about helping them pick good investments. In the 2007 survey, asset owners ranked “regulatory and compliance considerations” slightly ahead of other motives.
- **Asset managers** ranked “investment or business merit” first in both the 2007 and 2009 surveys.

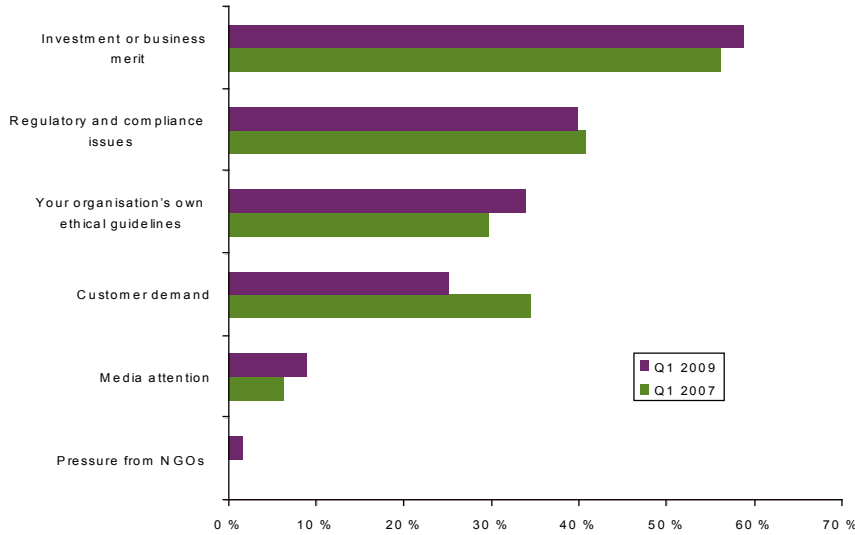
Asset Owners:

**What is your organization’s motivation for addressing ESG issues?
(Choose up to two.)**



Fund Managers:

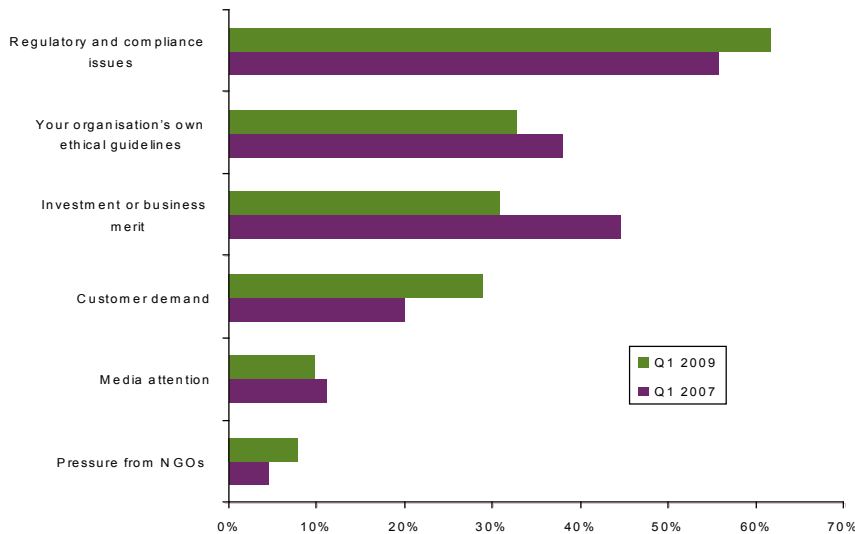
What is your organization’s motivation for addressing ESG issues?
(Choose up to two.)



Emerging market companies ranked their motivations differently. The rankings in 2007 and 2009 were almost identical, and in both years “regulatory and compliance considerations” ranked first. Moreover, the emphasis on ethics as a motivator (number three in 2007 and number two in 2009) suggests that many corporate executives see ESG as a matter of social responsibility or reputation management. However, these factors may still support business goals, especially as governments increasingly use taxes and fines to hold companies accountable for their environmental impact.

Emerging Market Companies:


What is your organization’s motivation for addressing ESG issues?
(Choose up to two.)



2. The Business Case

The business case for sustainability criteria in emerging markets is based on the importance of ESG measurements as drivers of corporate value. Measures of sustainability factors provide investors with an additional way to optimise long-term risk-adjusted returns.

Sustainable investment strategies have been used in developed markets for over 20 years, yielding empirical evidence that validates their use. In emerging markets, there are compelling common-sense arguments for the relevance of sustainability metrics as well. Interviewees quoted in this paper broadly agree that sustainable investing can help reduce risk. More importantly, it can help investors make profits in inefficient markets.



“The investors that did take account of some of the longer-term sustainability issues in their investment decisions have been less impacted, because they likely steered away from some of the investments that may have looked attractive in the short-term, but did not prove to be so ultimately.”

—David Blood, co-founder and senior partner at Generation Asset Management



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2.1 Inefficient markets

The investment case in emerging markets rests most heavily on the concept of inefficient markets, where not all the available information is incorporated in the current stock price. There is a lack of comprehensive research coverage in emerging markets in general and a dearth of ESG-related analysis in particular. Given the higher levels of both risk and return in emerging markets, investors who make an effort to understand the impact of ESG have a better chance of reducing risk and boosting returns.

Because information is scarcer in emerging markets, fund managers see sustainability criteria as a way to make superior investment decisions. For example, the quality of management is an important investment criterion – perhaps the most important criterion – regardless of company, industry or location. But in emerging markets, knowledge of qualitative factors such as the strength of a company’s management can be a particularly useful way to identify undervalued companies.

Senior corporate managers who understand ESG issues may be running firms that perform well across the board. “Companies that have successfully tackled complex issues like human rights in the supply chain could potentially be doing a better job addressing a lot of other key issues as well,” says Jane Ambachtsheer, Principal, Mercer Investment Consulting in Toronto.

2.2 The risk imperative

Including ESG considerations in decision-making can help investors reduce exposure to risk across all markets. This may be particularly important in emerging economies, where some risks are higher than in developed ones. Relative to the size of their economies, emerging markets sell fewer services and more raw materials and manufactured goods, which are potentially more environmentally disruptive. In some countries, the rule of law does not run deep, creating uncertainty for property owners. Emerging markets have smaller middle classes and, in general, greater income and social inequality. They tend to be less regulated in a variety of ways. State- and family-run companies with differing governance structures are more common in emerging markets.

Asset managers certainly cannot ignore risk. “Good fund managers pay very careful attention to risk,” says Raj Thamotheram of AXA Investment Managers in London. “And good managers should always be aware of social and environmental issues that might impact a company’s share price quickly and in an unexpected way.”

2.3 Investment merit

“Part of the reason that sustainability has gotten so much traction over the past three or four years is that it’s not a ‘movement’. It’s not a nice-to-have, ‘feel-good’ analysis, it’s actually pretty core to business,” says David Blood, co-founder and managing partner of Generation Investment Management LLP in London. “But these criteria do have different relevance depending on the industry that you are in or the time-frame you’re looking at. One size does not fit all.”

Proponents of incorporating ESG criteria into investment decisions have long struggled to make clear to investors the distinction between socially responsible investing (SRI) and sustainable investing. SRI is based on ethical or social objectives; its followers attempt to “do well by doing good,” and often screen out investments in companies that manufacture cigarettes, distill liquor or build weapons. In contrast, sustainable investing need not incorporate ethical considerations; it simply requires uncovering and incorporating into a company’s valuation the ESG factors that influence the magnitude and volatility of future cash flows.

2.4 Investment performance

If the business case is valid, shouldn’t sustainable investment managers be outperforming their more traditional counterparts? The answer is probably yes, and there is some evidence that the performance of ESG-oriented investment managers is superior.

Prior to the 2008 collapse in equity prices, several studies concluded that investment managers using ESG criteria did no worse, and possibly did better, than those following traditional investment methodology. It is too soon to say whether this has continued to be true since global equity prices began to slump, but there is tentative evidence that it has. In terms of ESG investing



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in emerging markets in particular, the 2009 survey results indicate that most investors are more convinced than ever of the strong link between ESG-influenced investment methodology and portfolio performance.

The most widely cited research linking sustainability with investment performance in recent years is “Demystifying Responsible Investment Performance,” a joint effort by the investment consulting house Mercer and the Asset Management Working Group of the UN Environmental Programme’s Finance Initiative published in late 2007. The meta-study analysed 20 academic works and 10 broker studies analysing investments from an ESG perspective.

- **Of the 20 academic studies** reviewed, 10 found a positive relationship between ESG factors and investment performance, seven neutral, and three negative. The results differed in part due to factors such as differing research methods and short sample periods.
- **Of the 10 broker studies**, five were qualitative in nature and five were quantitative. The five qualitative studies were generally positive about the impact of ESG methodologies and performance. Of the quantitative studies, three were positive and two neutral.

For its part, IFC – the largest development finance institution investing in emerging markets globally – has found a positive correlation between ESG performance and financial performance. Haydee Celaya, Director of IFC’s Private Equity and Investment Funds Department, says, “Results from analysis of IFC’s own portfolio shows that companies with higher ESG scores also perform better on financial criteria. We have numerous reports and case studies of anecdotal evidence from our private equity funds portfolio. As an example, she cites Brait, a South African private equity firm, also included in the JSE Sustainability Index since 2005.

CPFL Energia, a Brazilian electric utility, is a case in point. CPFL has been chosen as a member of the Bovespa Sustainability Index (Bovespa ISE) since inception. The company’s shareholders have also been handsomely rewarded, as the chart below demonstrates. CEMIG is another example of a company in the Bovespa ISE, and it has also been selected in the Dow Jones Sustainability World Index for eight consecutive years. CPFL Energia and CEMIG are but two examples of how the consideration of ESG factors, combined with sound management practices, can influence the long-term performance of corporate securities.

CPFL Energia vs Bovespa Index



Source: Yahoo Finance

Some third-party research firms have realised the potential commercial value of such analysis and have broadened and deepened their service offerings. In 2006, IFC established a challenge fund for pioneering ESG-inclusive investment research on emerging market stocks. Among the participating firms were Credit Rating and Investment Services India Limited (CRISIL) and CLSA, one of the largest brokers in Asia. As a result, there is now an ESG Index for the Indian market. In addition, all 72 companies in the MSCI Emerging Asia Index are now covered by investment research focusing on environmental performance.

“In our view, increased transparency in emerging market companies and their performance on environmental, social and governance aspects can act as a strong incentive for investors,” says Subir Gokarn, executive director and chief economist of CRISIL. “They often view performance on those dimensions as a proxy for good management.”

2.5 Post-crash research on performance

Although there has been little research on long-term fund performance since the drop in equity prices in 2008, anecdotal evidence from market participants as well as a study from AT Kearney suggest that firms that focus on ESG issues have continued to perform better than their peers. Says David Blood, co-founder and senior partner at Generation Asset Management: “The investors that did take account of some of the longer-term sustainability issues in their investment decisions have been less impacted, because they likely steered away from some of the investments that may have looked attractive in the short-term, but did not prove to be so ultimately.”

Published in March of 2009 and titled “Green Winners: The Performance of Sustainability-Focused Companies in the Financial Crisis,” the research examines the performance of 99 companies from the Sustainability Index and the Goldman Sachs Sustain Focus List. The companies, categorised in 18 industries, were headquartered in both developed and emerging markets. The research demonstrates that even in a tough economic climate, firms committed to sustainability generally outperform their peers:

- **In 16 of the 18 industries**, companies committed to sustainability outperformed the industry by an average of 15% over the six months through November 2008.
- **In terms of market capitalisation**, the outperformance of these companies relative to their peers averaged \$650 million per company.
- **The companies committed to sustainability** tended to focus on long-term growth rather than short-term gains, and had strong corporate governance and risk management practices.

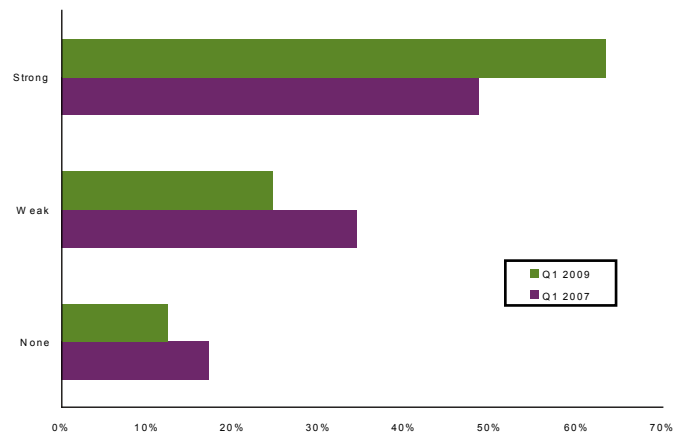
“Our study indicates that the market rewards specific companies,” says Daniel Mahler, a partner at AT Kearney and the global coordinator of his firm’s sustainability practice, “We find common characteristics among the leading companies that show that sustainability goes far beyond the narrow definition of being environmentally friendly.”

The AT Kearney analysis covered companies from both emerging markets and developed ones. By contrast, the Economist Intelligence Unit surveys focus only on the emerging markets. They provide evidence that asset owners with emerging market portfolios, as well as the emerging market companies themselves, believe more than ever that companies following sustainable practices will be superior long-term investments. Respondents in both the 2007 and 2009 surveys were asked the question, “In your experience, how strong is the link between ESG performance and long-term investment performance?”

- **In the 2007 survey, just under half of the asset owners say the link is strong;** in the 2009 survey, 63% said the link is strong. Many fewer 2009 respondents said that the link was weak or that there was no link at all.
- **For emerging market companies, the story was much the same.** A higher proportion of respondents in 2009 say the link between ESG actions and stock price performance is strong, while a lower proportion says the link is weak or that there is no link at all.
- **Only in the case of asset managers was there little change between 2007 and 2009 attitudes.** Even here, however, over half of the 2009 respondents say the link is strong.

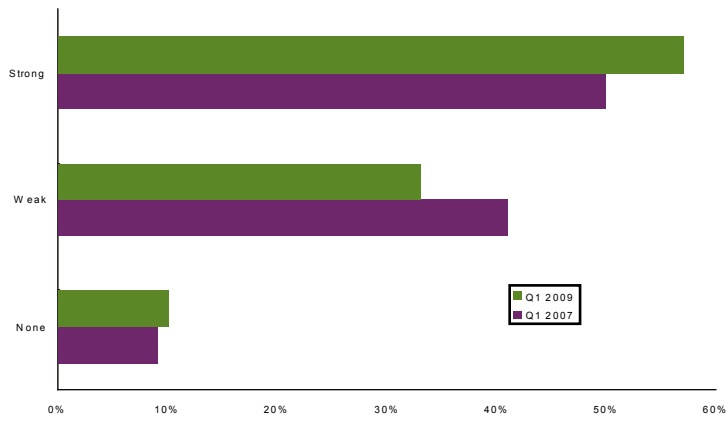
Asset Owners:

In your experience, how strong is the link between ESG performance and long-term investment performance?



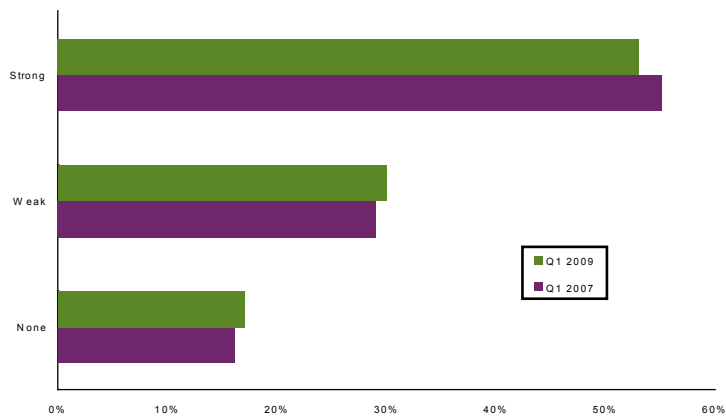
Emerging Market Companies:

How strong is the link between your company's actions on ESG matters and your long-term share price performance?



Asset Managers:

In your experience, how strong is the link between ESG performance and long-term investment performance?



How investors view the impact of climate change

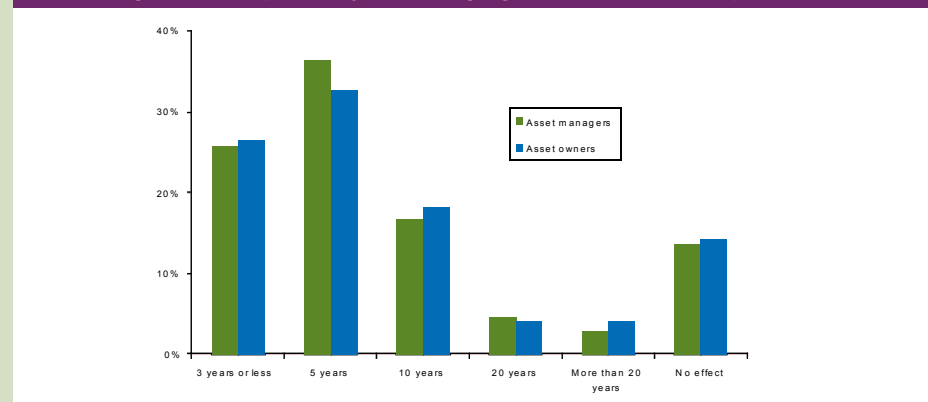
The 2009 survey moved from the general to the specific by addressing the issue of climate change—specifically, how long it will be before climate change has a significant impact on emerging market investment portfolios (among asset owners and managers) or on business operations (among emerging market companies).

The impact is not necessarily negative. Increasingly, the debate around climate change is shifting from risk to opportunity. According to research published in October 2008 by Deutsche Bank Asset Management⁵, carbon in the atmosphere has reached an 800,000 year high, and a spike in global temperatures is no more than 15 to 20 years away. Despite the financial disruptions of the past year, the report argues that the combination of tighter regulations, targeted fiscal stimulus, improvements in technology and a recovery in energy prices will drive a recovery in assets that mitigate climate change.

Investor and corporate respondents differ in their outlook toward climate change. A majority of both groups thinks that climate change will affect their business. A majority of both think the impact will come sooner rather than later. But investors tend to see the impact as more immediate, and fewer belong to the minority of global warming sceptics.

- **Most investors think the impact** on their emerging market investment portfolios will be felt within five years, while only a minority of emerging market companies thinks that their operations will see an impact within five years.
- **Only 14% of asset owners and asset managers** say that climate change will have no impact on their portfolios, compared to almost a quarter of emerging market companies.
- **Over a third of emerging market companies** see the impact on operations occurring at least ten years in the future, and possibly more than 20 years. Asset owners and managers with this time horizon make up only 27% and 24% of respondents, respectively.

Asset owners and asset managers: Over what time horizon will climate change have a significant impact on your emerging market investment portfolio?



⁵“Investing in Climate Change 2009 - Necessity and Opportunity in Turbulent Times,” Deutsche Bank Asset Management Global Climate Change Investment Research, October 2008 http://www.dbadvisors.com/deam/dyn/globalResearch/1113_index.jsp

Dr. Rajendra Pachauri, Nobel Peace Prize co-winner, on climate change

Dr Pachauri has served as the chairman of the Intergovernmental Panel on Climate Change (IPCC) since 2002. He is also the director general of the Energy and Resources Institute in New Delhi. In 2007, Dr Pachauri accepted the Nobel Peace Prize on behalf of the IPCC, along with co-recipient Al Gore.

How can sustainable investment practices be encouraged in emerging markets, particularly with respect to climate change?

First, the pricing of energy has to be rational. It's critically important that the pricing system reflects the carbon intensity of each emissions source.

For instance, emerging market governments need to tax at a higher rate those cars that use energy inefficiently. And tax breaks should be provided to public transport, which has much lower emissions per unit of service provided. Similarly, there ought to be a tax break or other subsidies for the first few years of an investment in solar energy. Governments in emerging markets need to provide these sorts of incentives.

How do these measures differ from those taken in developed markets?

My institute has launched a program that we call "Lighting a Billion Lights". There are 1.6 billion people in this world who do not have access to modern forms of energy, including electricity. Lighting is a critical need, but we don't have to wait until the grid is extended to these homes. We have developed solar lanterns that are now being provided without having to wait for any electric connections.

We also need to facilitate transfers of energy-efficient technologies from developed countries. Some agency of the government might finance a certain part of the costs related to developing these technologies.

What kind of corporate disclosures would be most useful environmentally?

It would be useful to get a sense of energy efficiency per unit of output. I would also want to see a description of the measures that have been adopted to bring about a reduction in the density of fossil fuel use. In terms of the impact of climate change, several parts of the world are going to suffer from scarcity of water. One might look at how much water companies are using. Other things might include recycling policies, prevention of sickness among employees, and so forth. All of that would provide a package of information that would show the commitment of the organisation to these objectives.

What will it take to translate talk into action?

The companies have to benefit from having the information that they are being asked to provide. They need to learn some things that would help them. In raising awareness we need to ensure that companies don't regard this as a burden, but rather something that helps them and, incidentally, helps society.

Regardless of what happens, the world is moving to a low-carbon future. That's inevitable. And those countries and companies that do well on environmental issues will also derive a market benefit. The term that emerged at the UN conference on climate change in Bali in 2007 was, "Measurable, Monitorable and Reportable." As this information becomes known globally, it will become clear that some countries and companies are doing better than others, and that will translate into a competitive advantage.

3. Challenges and Opportunities

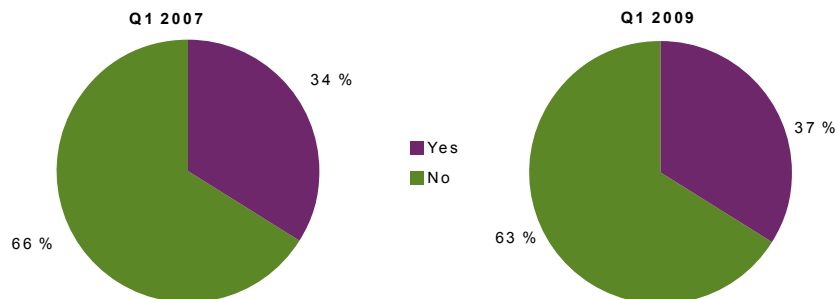
The shift to sustainable investing practices offers business opportunities for fund managers, consultants and emerging market companies. All can benefit from the change in investment styles, even at a time when financial markets are in turmoil. However the growth of sustainable investment is still constrained by significant obstacles.

3.1 Fund Manager Capacity

In the 2007 survey, the Economist Intelligence Unit asked asset owners whether they were able to find enough fund managers and consultants versed in sustainable investment methodology in emerging markets. Two-thirds said that they could not. The survey done in the first quarter of 2009 posed the same question and yielded a similar answer.

Asset owners:

Are you able to find enough investment managers and consultants who use ESG principles in emerging markets?



Asset owners:

Do you expect to hire professionals with ESG experience or responsibilities within the next three years?

3.2 Direct shareholder engagement

Ultimately, a company's owners are responsible for the company's behaviour. In the survey, asset owners also recognized the challenge within their own organisations and the need to build internal capacity, something which has been identified in a number of recent reports including Mercers Gaining Ground and the Who Cares Wins Future Proof report.

The most direct way to encourage ESG-consistent behaviour among firms is for the shareholders themselves to exert pressure on the corporate managers. One example is the Dutch pension fund PGGM, which divested a \$54 million stake in PetroChina in 2008 in response to the Chinese company's activities in Sudan. Another is Norway's sovereign wealth fund, which in November of 2007 sold its stake in Vedanta Resources Plc, an Indian mining company, citing environmental and human rights violations.

The Carbon Disclosure Project (CDP), a nonprofit organisation which holds the largest database of corporate climate change information in the world, is an example of successful engagement with companies on climate change disclosure. More than 1,300 publicly traded companies worldwide have joined the CDP, voluntarily providing detailed information to institutional investors on their emissions management and strategies to deal with climate change. Emerging market participants in the project include companies in Brazil, India and South Africa.

Empowering the shareholder and encouraging a useful discussion with the companies in the CDP is a crucial element, according to Steve Lydenberg, chief investment officer of Domini Social Investments in the United States. "The real prize is in getting the big long-term asset owners properly motivated, and working together," says Mr Melvin at Hermes. "Shareholders working together can be much more effective in engagement and in getting companies to improve, and the value you can add through that process far outstrips the cost. It's a huge opportunity."

The shift to sustainable investing practices offers business opportunities for fund managers, consultants, and emerging market companies.



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3.3 Increased Transparency

Another challenge was highlighted in a February 2009 McKinsey survey of CFOs and investment professionals on how ESG programs create value.⁶ The findings suggest that, while most CFOs already believe in the importance of ESG, they could increase the value of their companies in the eyes of investors by taking ESG activities more seriously. In particular, they should make improvements in governance – and particularly transparency – of paramount importance. CFOs should also strive to integrate the financial value of ESG activities into financial reports using transparent methodologies, quantifying financial impacts and measuring business risks and opportunities. These actions can add value in themselves, suggests the research, as well as indicating the ability of executives to manage their overall business effectively.

The experience in the US confirms this. “The biggest gains came as major corporations, such as General Electric, realised that there was profit to be gained by paying more attention to the environment. It became much easier to make a dramatic shift,” says James Harmon, chairman of Harmon & Co. in New York, a financial advisory firm. “[ESG] didn’t make much headway until companies understood it was not only the right thing to do, but was also good for business.”

The survey results and roundtable discussions support the idea that more transparency is needed. Among asset owners participating in the 2007 survey, 35% said that a lack of transparency is the greatest obstacle to implementing ESG strategies in emerging markets, and the response from fund managers was similar. In our 2009 survey, both asset owners and fund managers say that more transparent ESG reporting and more evidence for the business case are the top priorities in creating a more favorable environment for ESG investment in emerging markets.

Asset owners:

At your organisation, which considerations are most important in your investment process?		
	2007 rank	2009 rank
Governance: Disclosure/transparency	1	1
Environmental: Environmental performance	2	2
Social: Lack of corruption	3	3
Environmental: Climate change	5 (tie)	4 (tie)
Social: Workplace standards	5 (tie)	4 (tie)
Governance: Independence among directors	5 (tie)	4 (tie)
Social: Safety and health benefits of products	4	5
Social: Labor standards	6	6
Governance: Minority shareholder rights	7	7
Social: Commitment to human rights	8	8

⁶McKinsey Quarterly, Valuing corporate social responsibility: McKinsey Global Survey Results, February 2009, http://www.mckinseyquarterly.com/Corporate_Finance/Valuation/Valuing_corporate_social_responsibility_McKinsey_Global_Survey_Results_2309?pagenum=2

Proponents of ESG-based investing are not waiting for further data to support their case, however. Paula Peirão, an ESG investment analyst at HSBC in São Paulo, says: “Every day, you’re only finding more information to prove the point instead of disproving it. It’s starting to become harder by the day to say that ESG criteria are not going to make a difference to the long-term strategy of a company, so I think waiting is not the answer. We need to move now.

“This is relatively uncharted territory for the Asian investor community and we are glad to be part of the solution from an Asian perspective,” adds Simon Powell, head of power research, CLSA Group. In collaboration with CLSA, sustainable investment research firm Trucost has quantified resource use and emissions costs for 578 companies on the MSCI Emerging Asia Index. CLSA is integrating this data into its forward-looking equity research.

3.4 Improve the investment climate

In developing ESG-friendly measures, stakeholders should consider differences between developed and emerging markets. Governments can implement policies to promote various kinds of corporate behaviour, from responsible water usage to better workplace standards. These policy levers have taken the form of market-based solutions such as carbon trading schemes and subsidies for alternative energy technologies, as well as financial penalties for companies that violate environmental standards.

One advantage of such government policies is that they help companies and their shareholders to quantify the risks and rewards. A subsidy or a tax incentive can be included in an evaluation of whether or not to pursue a particular project. Similarly, the financial impact of litigation, fines or other penalties can be measured.

Another effective approach is to promote greater corporate disclosure, by means of either a voluntary or mandatory requirement for listing on a stock exchange or for raising capital. The benefits of disclosure may be difficult to quantify, but they can be substantial.

Also, the need to disclose may cause companies to modify their behaviour in other areas. The discipline of disclosure requirements, in effect, may prevent some companies from pursuing projects that would otherwise result in lawsuits, environmental sanctions or a higher tax bill. Sunlight, as US Supreme Court Justice Louis Brandeis said, is the best disinfectant.

“It’s starting to become harder by the day to say that ESG criteria are not going to make a difference to the long-term strategy of a company, so I think waiting is not the answer.”

— Paula Peirao, HSBC Sao Paulo



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Compliance-driven sustainable investing: The case of China

Frank Tang is the managing partner and CEO of the FountainVest Partners China Growth Fund. Until September 2007, he was director of Chinese investments for Temasek Holdings Ltd, Singapore's sovereign investment fund.

How does the application of ESG criteria in emerging markets differ from that in the developed world?

I'm a firm believer that governance plays an important role in the corporate health and growth of any company. Good corporate governance really helps to improve decision making and to avoid any sort of fraud or unethical behaviour. That's one of the minimum things that we look for in our investing.

Very often in emerging markets, you have state-owned companies where decisions are handed down from the government and don't always make sense from commercial perspective. In emerging markets you also see a lot of privately held, family-run companies that don't have a lot of experience with

How can sustainable investing be encouraged from a policy perspective? What are some examples of initiatives that have worked?

The China Securities Regulatory Commission (CSRC) has started to require environmental audits before they approve IPOs. Several companies have been rejected because they failed the audit. It had never happened before, and it has sent a strong signal. The regulators have already done a fair amount on the governance side, but now they are turning to the environmental and social sides.

What other policy examples come to mind?

It is hard for smaller companies to get loans in China. The big banks ignore them. In industries that they want to promote, the government has been helping these companies get loans. A few months ago they introduced a policy to prevent industrialised plantations from cutting virgin forests by introducing tax benefits and offering preferential lending from state-run banks. This model could be applied to other industries where there is a need to promote ESG issues.

We invested in a Chinese solar producer. The company has a huge business selling solar panels to Germany and Spain because those countries have "feed-in" tariffs for those producers as a way of encouraging a move away from coal-fired power. California has provides a grant to users who install the equipment. Either way, the government subsidises capital expenditures in solar equipment.

What are the prospects for self-regulation?

Not good. If people don't have to incur a cost, they won't. That's a major issue in China and in other emerging markets. You see companies that have bought desulfurisation equipment but won't turn it on because it costs money to operate.

Usually local companies won't do more than the minimum requirement. And the minimums are stipulated by the local environmental agency. The environmental agencies can actually have a bigger role than the securities regulators in this sense.



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Case study: MTR moves ahead with voluntary disclosure

MTR Corporation, Ltd., which operates Hong Kong's mass transit railway system, was among the first companies in Asia to offer comprehensive reporting on ESG issues following its initial public offering in 2000. While MTR's disclosure has never been mandatory, Dr. Glenn Frommer, the company's Sustainability Development Manager, argues that better ESG practices can produce tangible financial benefits. "Asia tends to be compliance-driven. The mindset is, 'If it's not law, why bother?' But for us, the decision was just the next step in a long trail of management improvements. ESG reporting gives us information that we can use to become a more efficient company," Dr. Frommer says.

As an example, Dr. Frommer points to data on resource usage, such as those that fall under the Global Reporting Initiative (GRI). These include measures of energy and water usage, waste management and an accounting system for environmental costs. In each case, the process of collecting and analyzing such information can result in hard numbers that can be used by company managers, analysts and shareholders.

"Managing risk by itself is not good enough," Dr. Frommer says. "If you're looking at sustainable investment you have to look at a dynamic, systematic approach to maintain a competitive advantage. This entails combining a balanced enterprise risk management process with a business-focused stakeholder engagement process, resulting in a sustainable competitive advantage".

"Better ESG disclosure can also be an important tool for attracting and retaining talent, Dr. Frommer says."

Better ESG disclosure can also be an important tool for attracting and retaining talent, Dr. Frommer says. "There are very few big companies in Hong Kong," he explains. "And we are all fighting for the same engineers and other talented people." Frommer notes that annual employee turnover rates at MTR have been in the low, single digits, versus about 12% for the average company in Hong Kong. He credits at least part of this to the MTR's efforts to integrate ESG-related concerns into its corporate culture.

Disclosure of ESG factors alone may not drive investment returns, but MTR's experience suggests that the disclosure of ESG-related information can help ease the concerns of mainstream investors who are exploring these issues for the first time. When investors ask MTR about such matters, Frommer notes that the company's detailed reporting – some of which has been independently audited – as well as its membership in the Dow Jones Sustainability Index and FTSE4Good, provide a solid foundation for extensive discussions with investors. Details on the company's sustainability initiatives are available at www.mtr.com.hk/eng/sustainability/index.html.

An interview with Yusli Mohamed Yusoff, CEO of Bursa Malaysia

How can sustainable investment practices be encouraged in emerging markets?

First, the level of awareness and understanding about ESG risk among investors as well as companies needs to be at a higher level. Awareness of corporate governance is highest among the three areas. But in emerging markets, things like corruption, bribery and transparency can be more of an issue than in developed markets.

What has Bursa Malaysia done to increase awareness? What other policy initiatives could be enlisted in the effort?

In Malaysia, the level of awareness on these issues tends to be very low, so as a stock exchange, we have the ability to have a multiplier effect. As we talk more and more about the subject, we hope players in the industry will become more aware. We can't really force analysts to adopt ESG or corporate social responsibility (CSR) criteria, but certainly we can talk about the benefits that companies can achieve in terms of being more sustainable going forward.

We also have plans to launch a sustainability index, and we are trying to come up with more data on our listed companies in terms of their own CSR practices. We are also talking to S&P about incorporating ESG factors as part of their research on our listed companies.

Is there a potential for emerging markets such as Malaysia to leapfrog the developed world in the implementation of ESG investing principles?

Possibly, because we are a smaller market. And because we have a large plantation sector, we do talk about issues like sustainability here. The government here is also very supportive about promoting more socially responsible practices among our companies. So it is possible for developing markets to implement some of these measures faster than the bigger developed markets.

For example, the government has asked us to include some disclosure requirements within our regulatory framework for listed companies. We believe this is a first step to making companies more aware of ESG practices. Last year's budget announcement also included tax incentives for companies with good CSR practices.

We are also quite active in trying to develop our Islamic investment industry. As you know, Sharia-based investment practices are quite consistent with ethical investment practices. In that respect, we are probably more advanced than some other markets.

How can self-regulation best be combined with external regulation? What are the dynamics and tradeoffs between these two drivers of sustainable investment practices?

Given where we are in our state of development as a country, we need to have both self-regulation and external regulation. We want to encourage the better companies to share their practices with the ones who are trying to learn about ESG. The message we are giving companies here is that want them to think about not just making a profit, but making profit in a responsible way, to become better corporate citizens. And that is very much in line with what the government wants as well.



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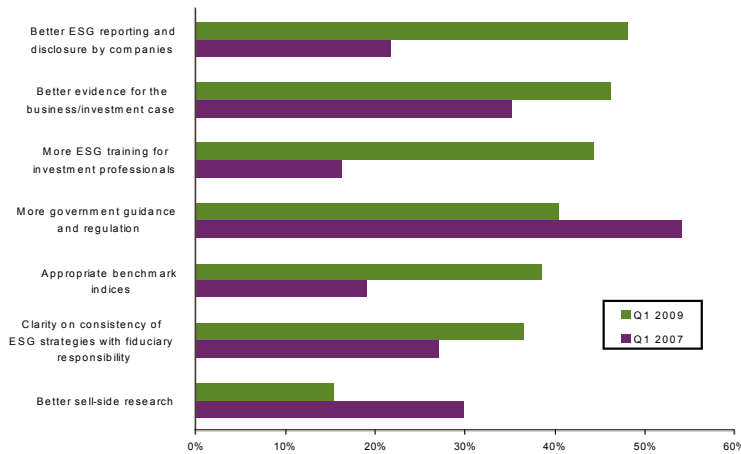
4. Conclusion

As noted at the start of this paper, most analysts devote a disproportionate amount of time to scrutinising published financial statements, earnings estimates, price/earnings ratios and other traditional sources of company data. Non-traditional intelligence is harder to see but can be vital. ESG or sustainable investing methodologies enable analysts to gather all available information and analyze its impact on a company’s long-term prospects.

As investor interest in emerging markets flourishes, there is a growing awareness of the importance of ESG practices in the investment process. Asset owners, fund managers and publicly traded emerging market companies are all paying more attention to sustainability issues, even in a harsher business climate. However they recognise that further steps need to be taken before sustainable investment becomes mainstream in emerging markets.

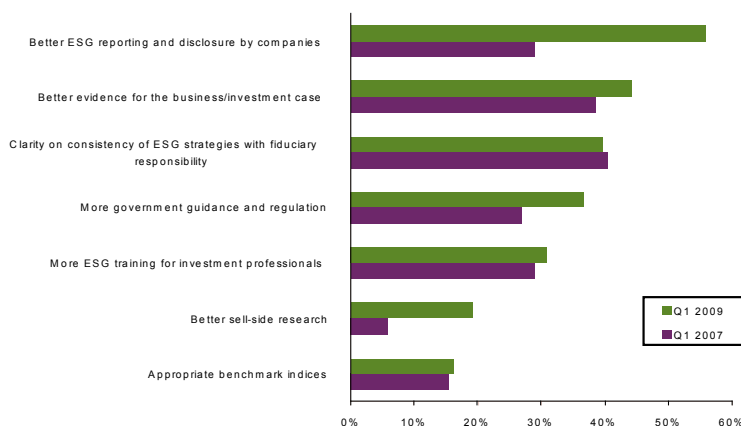
Asset Owners:

What is needed to improve the climate for ESG investing in emerging markets? (Select all that apply.)



Fund Managers:

What is needed to improve the climate for ESG investment in emerging markets? (Select all that apply.)



Our research suggests many possible solutions to strengthen the adoption of sustainable investing strategies in emerging markets. Some take the form of policy initiatives, while others seek to improve communication along the investment value chain. They include:

Improve disclosure. What companies disclose is as important as how much they disclose. In most emerging markets, there has been progress in disseminating information on corporate governance, but corporate governance advocacy programs can do more to educate investors and issuers about the need to focus on ESG issues.

Provide more securities research. There appears to be a strong business case for ESG in emerging markets. New research, based on a growing set of data about the performance of companies in emerging markets, can further validate the importance of sustainability in company performance.

Improve regulations. Emerging markets have the opportunity to incorporate ESG at an early stage in their development. Financial regulators, stock exchanges and other national regulatory bodies in emerging markets can “leapfrog” developed markets by promoting the incorporation of ESG issues in required and voluntary disclosures.

Focus on opportunities. From a commercial perspective, there seems to be significant demand for a wide range of products and services related to sustainable investing in emerging markets. Investment banks and securities research firms could analyse emerging-market companies and score them according to sustainability criteria. Asset management companies might develop emerging market investment products that incorporate ESG criteria. Other firms could provide guidance to asset owners in targeting investable opportunities based on sustainability factors. Stock exchanges might create indices for companies that are selected for the index based on sustainability criteria.

Nurture the next generation of managers and investors. “Investors are often focused on the operations and cash flow generation and ask questions they learnt at university or graduate school on valuation, capital structure etc. It needs to be incorporated in investors’ mindsets that they cannot leave a meeting without knowing certain information on sustainability,” says JP Morgan’s Mr Chan.

Build capacity to satisfy asset owners. According to the asset owners who responded to the survey, portfolio allocations to emerging markets will increase by about 2% over the next three years. More significant, however, is the fact that 82% say that ESG assessment will become “significantly more important in our research, portfolio management and manager selection process over the next three years.” It is difficult to quantify how many additional billions of dollars in funds will be subject to ESG-based criteria in the next few years. But it is clear that new capacity and capabilities in investment analysis will be required from the fund management community.

Further progress will probably also depend on a change in the overall investment climate. In the absence of a bull market for equities, investors will have to become more discerning. At the same time, emerging market companies may have a harder time to ensure the long-term sustainability of their businesses, and this may affect share values.

Such trends are likely to highlight sustainable investment in emerging markets. The question is: which investors, companies and market makers will anticipate this change and position themselves to become long-term winners?



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Appendix 1: Contributors

Interviewees

Jane Ambachtsheer	Principal, Mercer Investment Consulting, Toronto	Colin Melvin	Chief Executive, Hermes Equity Ownership Services, London
Andrew Aulisi	Director, Markets and Enterprise Program, World Resources Institute, Washington D.C.	Michael Musuraca	Trustee, New York City Employee Retirement System, New York
David Blood	Partner, Generation Investment Management, London	Nicky Newton-King	Deputy Chief Executive Officer, Johannesburg Stock Exchange, Johannesburg
Wai-Shin Chan	Analyst, JP Morgan, Hong Kong	Paula Peirão	Investment Analyst, HSBC, São Paulo
George Dallas	former Managing Director, Standard & Poor's, London	Rajendra Pachauri	Chairman, Intergovernmental Panel on Climate Change, New Delhi
Glenn Frommer	Sustainability Development Manager, MTR Ltd., Hong Kong	Dan Summerfield	Head, Responsible Investment, Universities Superannuation Scheme, London
James Harmon	Chairman, Harmon & Co, New York	Frank Tang	Advisory Director, Temasek Holdings (Pte) Ltd., Singapore
George Hoguet	Managing Director, State Street Global Advisors, Boston	Raj Thamotheram	Managing Director, AXA Investment Managers, London
Rolando Ibarra	Principal, Vector Investment Services, Monterey, Mexico	Harald Vogt	Hong Kong Chief Executive, Commerzbank, Hong Kong
Matthew Kiernan	Chief Executive, Innovest Strategic Value Advisors, Toronto	Yusli Mohamed Yusoff	CEO, Bursa Malaysia, Kuala Lumpur
Timothy Lo	Managing Director, CIC Investor Services, Hong Kong		
Steve Lydenberg	Chief Investment Officer, Domini Social Investments, Boston		
Rogério Marques	Supervisor of Market Assistance, Bovespa, São Paulo		

Roundtable attendees

Buenos Aires

Dan Armstrong	Senior Editor, Economist Intelligence Unit, New York
Guilherme Arthur	Presidente, Asociacion de Fondos de Pension
Marcelo Batisti	Manager, Social & Environmental, Itau BBA
Cecilia Bjerborn	Program Officer, Sustainable Investing, Environment and Social Development Department, International Finance Corporation
Sergio Boccadoro	Gerente, Administracion y Finanzas, Marissa Argentina S.A.
Marcela Bochetto	Manager, Sustainable Business Solutions, PricewaterhouseCoopers
Alberto Campbell	Presidente, Comision de Asuntos Internacionales, ADEBA
Marcela Casal	Executive Director, SRinvest Argentina
Horacio De Martini	Regional Director, South America, Manpower
Juan Gonzalez Gaviola	Superintendente, Superintendencia de administradoras de Fondos de Jubilaciones y Pensiones AFJP
Sergio Grinenco	Vice-chairman, Banco Galicia
Luis Lucero	Partner, Cardenas, Di Clio, Romero, Tarsitano & Lucero
Brunno Maradei	Program Officer, Environmental and Social Development, International Finance Corporation
Rogério Marques	Supervisor, Asistencia ao Mercado, BOVESPA
Atul Mehta	Director, Latin America Region, IFC
Carlos Mena	Executive Vice-president, CINVER Foreign Investment Committee

Paula Oliveira	Research Department, HBSC
Nicole Porcile	Manager, Environmental Affairs, Antofagasta Minerals
Gladis Ribeiro	Executive Director, Fundacao Getulio Vargas - FGV-EAESP
Rolando Rodriguez	Office of Sustainability, Vector, Casa de Bolsa
Carlos Roxo	Diretor, Sustentabilidade e Relacoes Corporativas, Aracruz Celulose
Sergio Silva Rosa	Presidente, PREVI (Caixa de Previdencia dos Funcionarios do Banco do Brasil)

Hong Kong

Rudolf Apenbrink	Chief Executive Officer, Asia-Pacific, HSBC Investments
Cecilia Bjerborn	Program Officer, Sustainable Investing, Environment and Social Development Department, International Finance Corporation
Melissa Brown	Executive Director, ASrIA
Sylvia Chan	Partner, Entropy Ventures
Wai-shin Chan	Analyst, Equity Research, Socially Responsible Investing, Asia-Pacific, JP Morgan
Glenn Frommer	Head, Sustainability Development, MTR
Thomas Goh	Partner, Gallup
Laurel Grossman	Chief Executive Officer, RepuTex
David Li	Director, Investment, Ajia Partners Asset Management
Timothy Lo	Managing Director, CIC Investor Services
Matthew Morrison	Principal Investment Officer, IFC

Frank Tang	Advisory Director, Temasek
Dick Tsang	Manager, Investment, Hang Seng Investment Management
Dan Siddy	Director, Delsus Ltd.
Harald Vogt	Chief Executive and General Manager, Commerzbank

New York

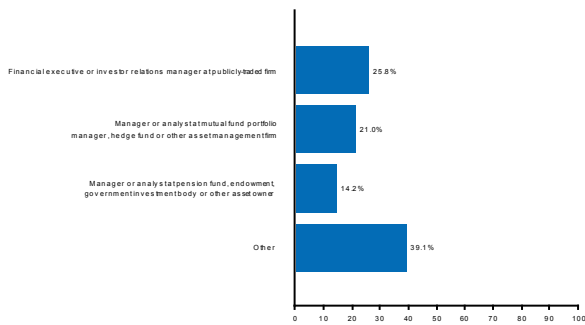
Cecilia Bjerborn	Program Officer, Sustainable Investing, Environment and Social Development Department, International Finance Corporation
John Christy	Contributing Editor, Economist Intelligence Unit
George Dallas	Managing Director, Standard & Poor's
Douglas Fore	Director, Portfolio Analytics, Investment Analytics, TIAA-CREF
Danyelle Guyatt	Principal, Global Responsible Investment Team, Mercer Investment Consulting
James Harmon	Chairman, Harmon & Co. LLC
Matthew Kiernan	Chief Executive Officer, Innovest Strategic Value Advisors
Rachel Kyte	Vice President, Advisory Services, IFC
Steve Lydenberg	Chief Investment Officer, Domini Social Investments
Jeff Mahoney	General Counsel, Council of Institutional Investors
Michael Musuraca	Assistant Director, Research and Negotiations, District Council 37, AFL-CIO
Robert Wright	Senior Communications Officer, Corporate Relations, International Finance Corporation

London

Jane Ambachtsheer	National Partner, Global Leader - Responsible Investment, Mercer Investment Consulting
Helga Birgden	Head of RI, Asia, Mercer Investment Consulting
Cecilia Bjerborn	Program Officer, Sustainable Investing, Environment and Social Development Department, International Finance Corporation
Peter Clifford	Deputy Secretary General, World Federation of Exchanges
Michel Danechi	Managing Director, Head of Emerging Markets Equities, Europe, Lehman Brothers
Christian Deseglise	Global Head of Emerging Markets Business, HSBC Investments
Xavier Desmadryl	Global Head of SRI Research, HSBC Investments
Stephen Hine	Head of International Relations, EIRIS
George Hoguet	Managing Director, Portfolio Management and Global Investment Strategist, State Street Global Advisor
Dr Arend Kapteyn	Chief Economist EMEA, Deutsche Bank
Dr Richard Mattison	Managing Director, Trucost
Philipp Mettler	Senior Equity Analyst, SAM Indexes
Ajay Narayanan	Head, Financial Markets Sustainability, IFC
Penny Shepherd MBE	Chief Executive, UK Social Investment Forum
Matthew Shinkman	Manager of Sponsored Research CEEMEA, Economist Intelligence Unit
Dan Siddy	Director, Delsus Ltd.
Daniel Summerfield	Responsible Investment Advisor, USS

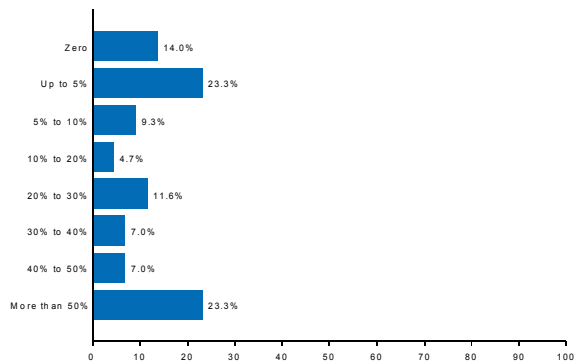
Appendix 2: 2007 Survey results

Which of the following best describes your industry and job function?

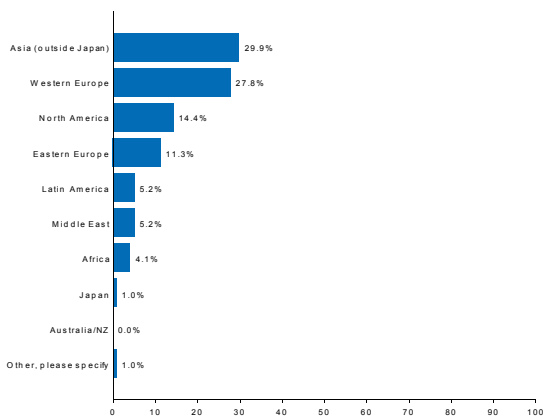


Note: Respondents who choose "other" were not permitted to take the survey.

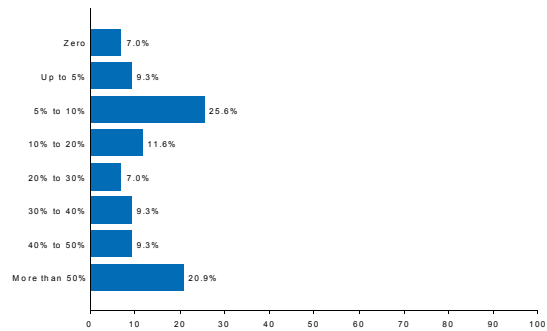
1 Asset owners. What proportion of your firm's equity assets is allocated to emerging markets?



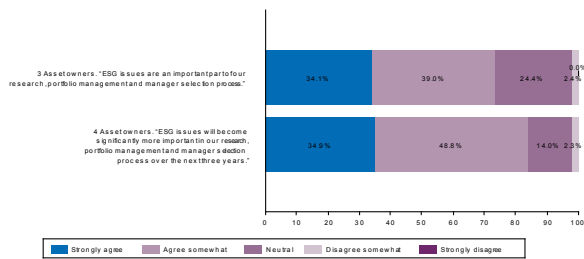
Screeners 2 (Companies only). Where is your company headquartered?



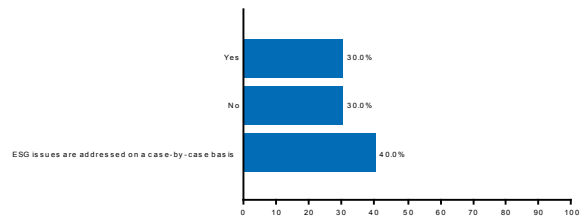
2a Asset owners. Please specify the proportion you envisage investing in emerging markets three years hence.



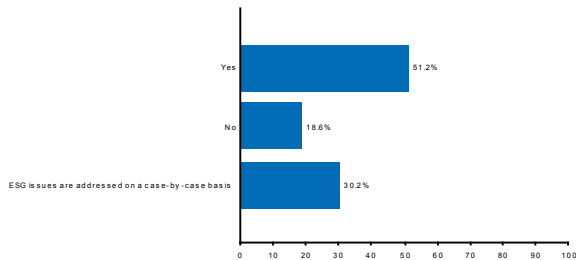
Asset owners. To what extent do you agree with the following statements?



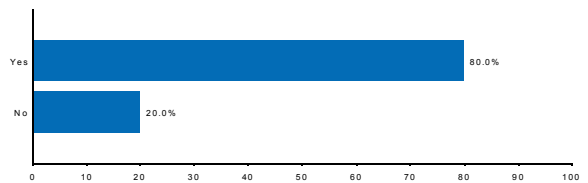
6 Asset owners. Do you currently implement such ESG-related investment policies in your emerging market investments?



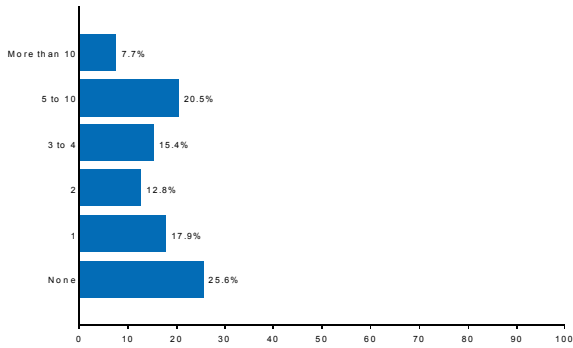
5 Asset owners. Does your investment policy explicitly address environmental, social and/or corporate governance issues?



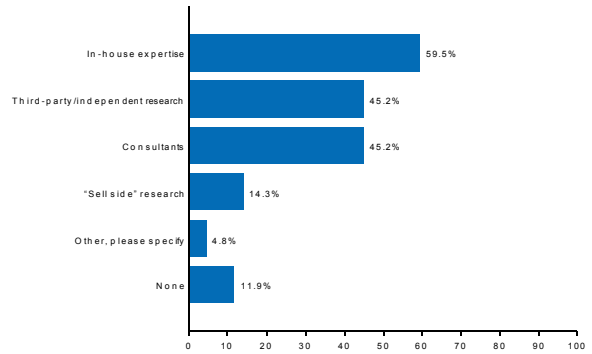
6a Asset owners. If not, do you expect to implement such ESG policies in your emerging market investments within the next 3 years?



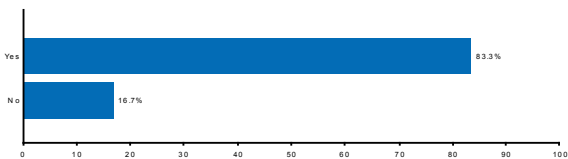
7 Asset owners. How many professionals does your organisation have on staff who evaluate ESG issues as they relate to the investment process?



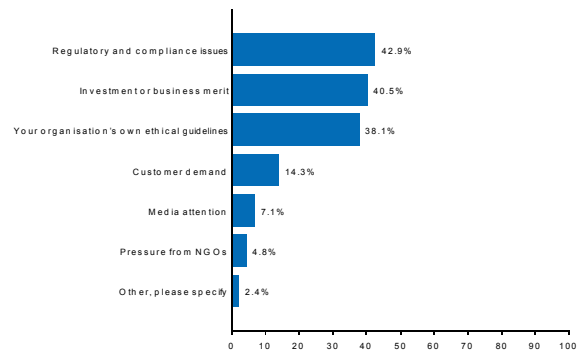
8 Asset owners. What resources does your organisation draw upon when evaluating ESG issues in the context of the investment process? Choose all that apply.



7a Asset owners. Only if "none" was chosen: Do you expect to hire professionals with ESG experience or responsibilities within the next three years? If not, why not?



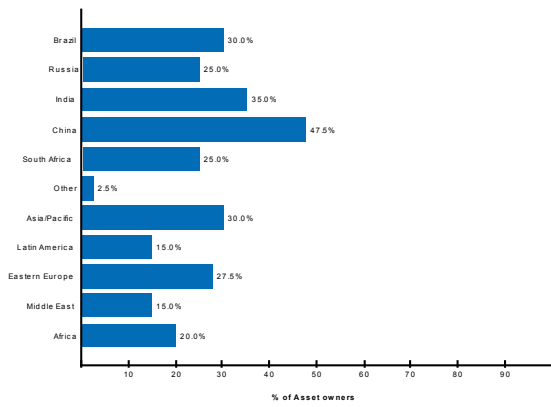
9 Asset owners. What is your organisation's motivation for addressing ESG issues? Choose to two.



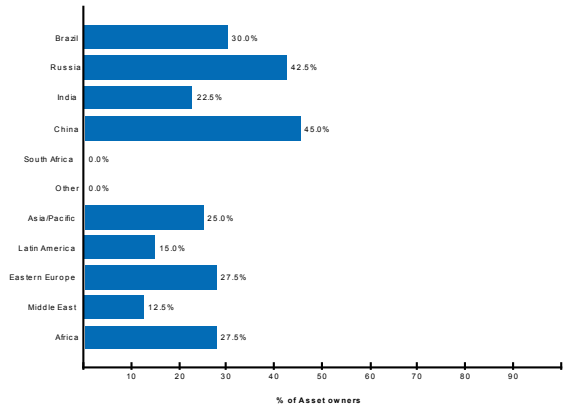
10 Asset owners. In which of the following emerging market countries and regions are ESG issues the most significant in the investment process? Please select the top three.

11 Asset owners. In which of the following emerging market countries and regions are ESG issues the most difficult to incorporate into the investment process? Please select the top three.

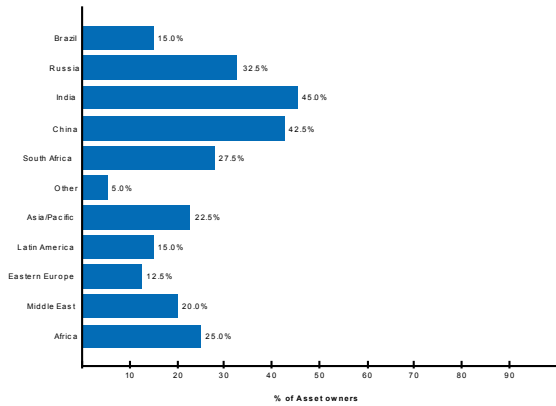
Environmental issues



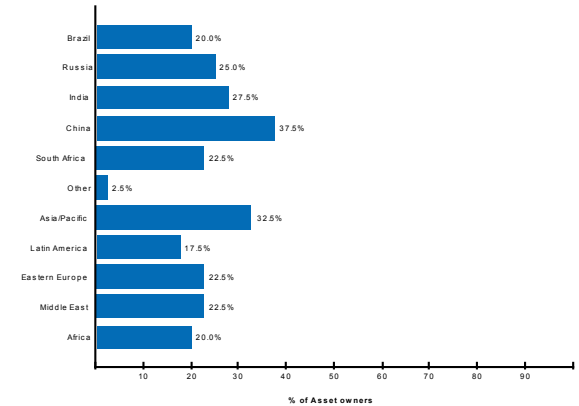
Environmental issues



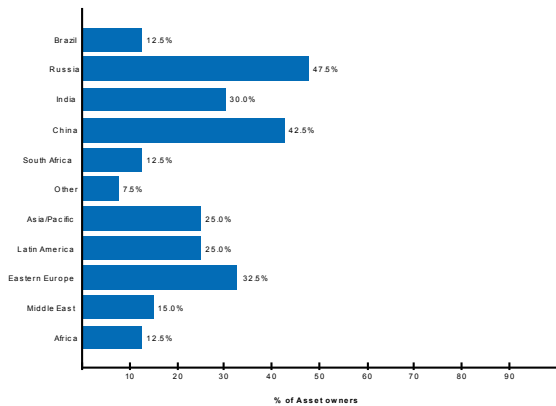
Social issues



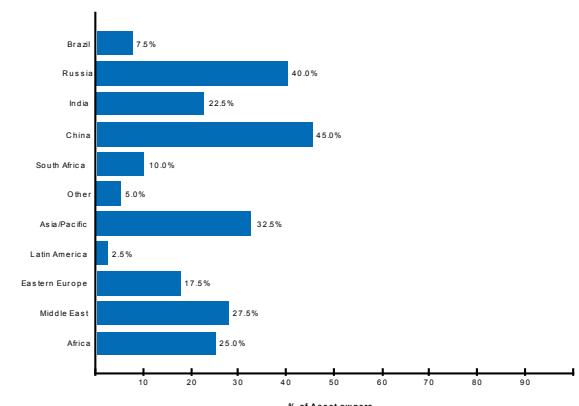
Social issues



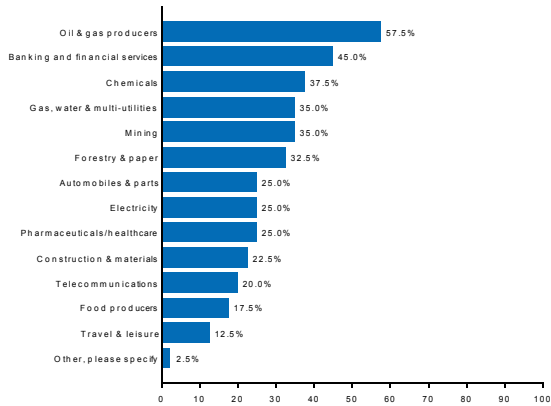
Corporate governance issues



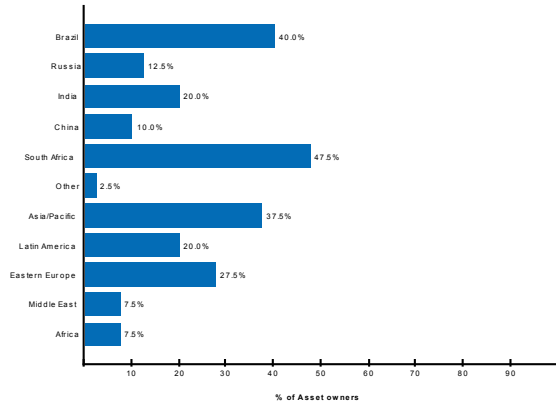
Corporate governance issues



12 Asset owners. In which industries do you believe there is widespread awareness of ESG issues in emerging markets? Choose all that apply.

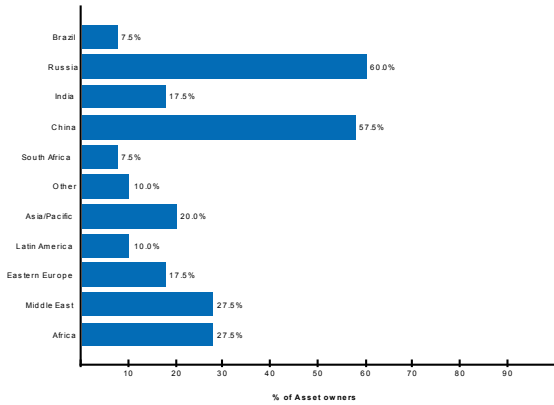


Most complete disclosure and transparency



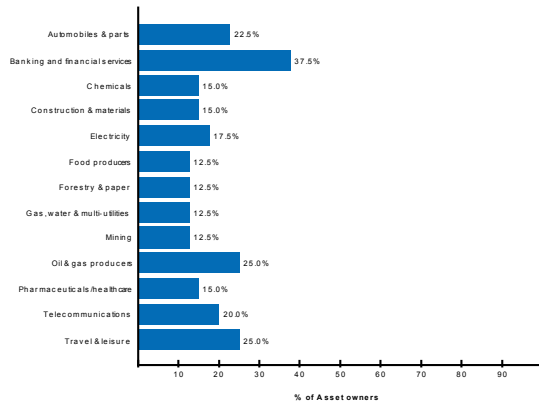
13 Asset owners. In which emerging markets do companies provide the most complete disclosure and transparency and in which do companies provide the least disclosure and transparency on ESG matters? Please select the top three.

Least disclosure and transparency

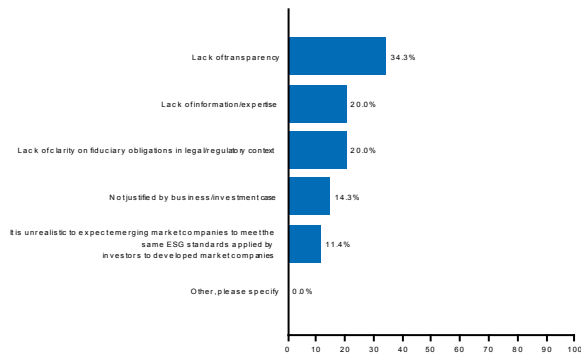


14 Asset owners. In which industries do companies provide the most complete disclosure and transparency and in which do they provide the least disclosure and transparency on ESG matters? Select three.

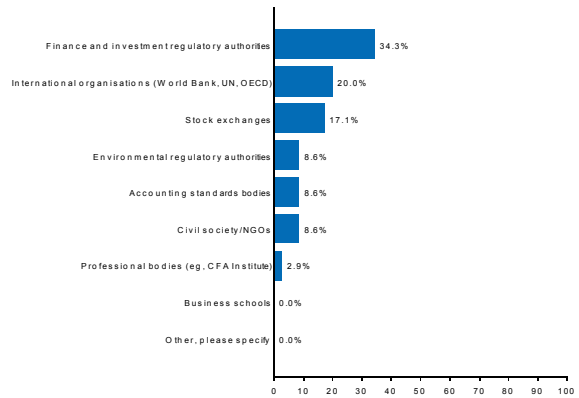
Most complete disclosure and transparency



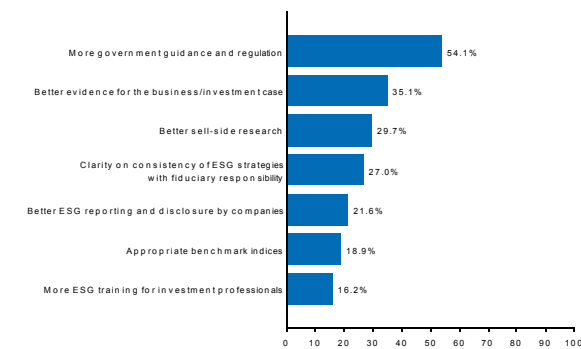
15 Asset owners. What is the main obstacle to incorporating ESG principles in the investment process for emerging market equities?



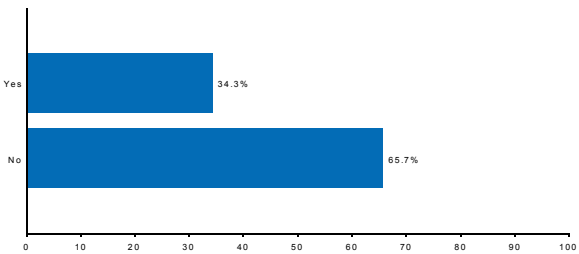
17 Asset owners. Which of the following groups is best positioned to promote and develop greater awareness of ESG issues among investment organisations and professionals?



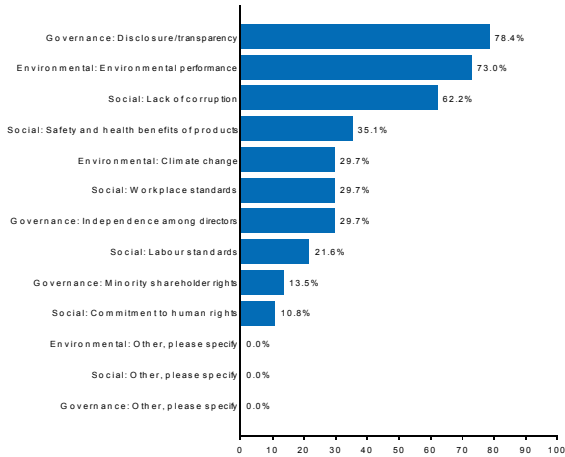
16 Asset owners. What is needed to improve the climate for ESG investment in emerging markets? Select all that apply.



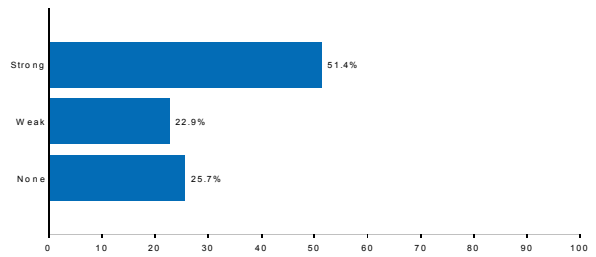
18 Asset owners. Are you able to find enough investment managers and consultants who use ESG principles in emerging markets?



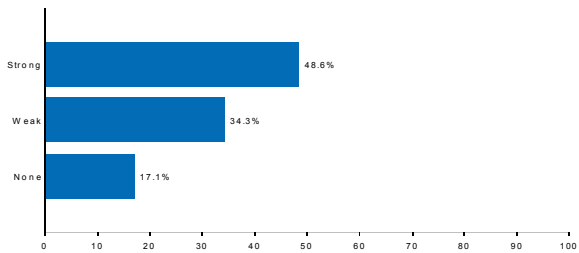
19 Asset owners. At your organisation, which considerations are most important in your investment process? Choose up to five.



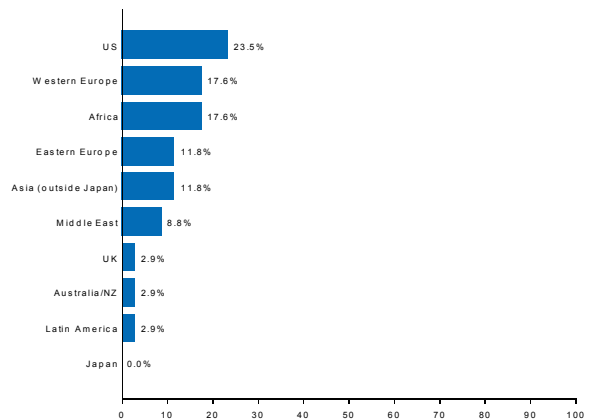
21 Asset owners. In your experience, how consistent is the link between ESG performance and long-term investment performance, ie, are firms that embrace ESG principles better investments?



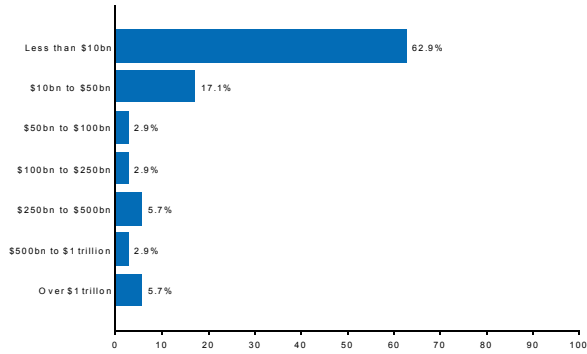
20 Asset owners. In your experience, how strong is the link between ESG performance and long-term investment performance, ie, are firms that embrace ESG principles better investments?



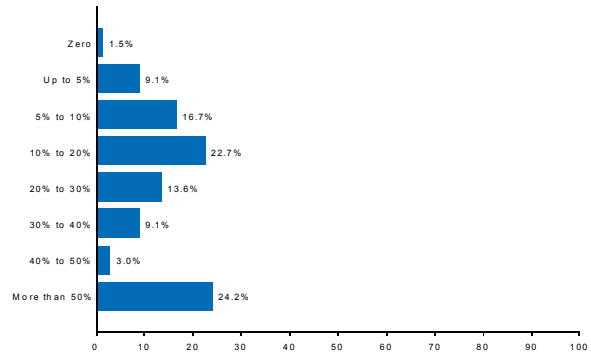
22 Asset owners. Where is your organisation located?



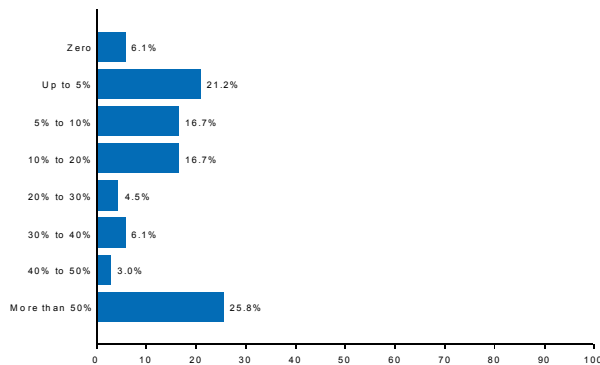
23 Asset owners. What are your total assets under management in US dollars?



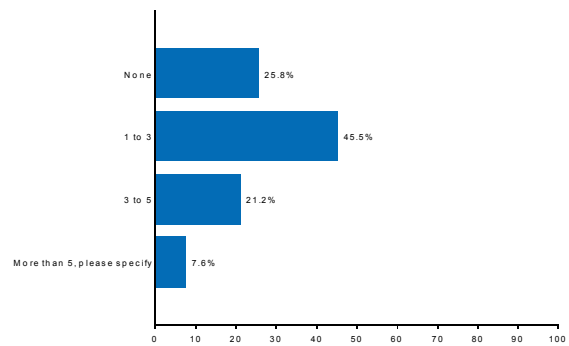
2a Fund managers. Please specify the proportion you envisage investing in emerging markets three years hence.



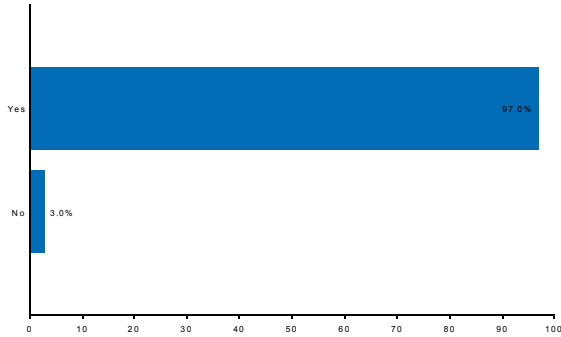
1 Fund managers. What proportion of your firm's assets under management is allocated to emerging markets?



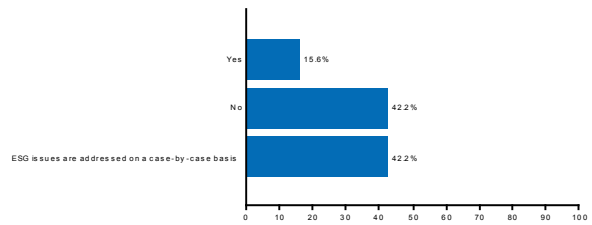
2b Fund managers. How many distinct products (eg, funds, separate account mandates) do you provide that invest only in emerging markets?



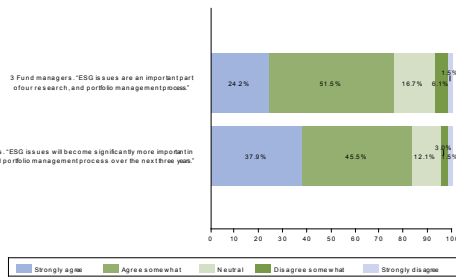
2c Fund managers. Do you foresee increased demand from clients for exposure to emerging markets in the coming three years?



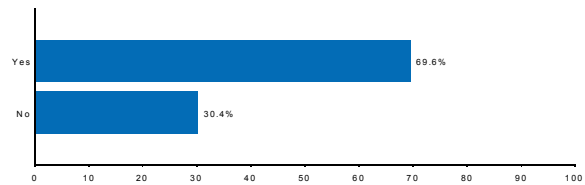
6 Fund managers. Do your ESG-related capabilities, products or services currently apply to your emerging market investments?



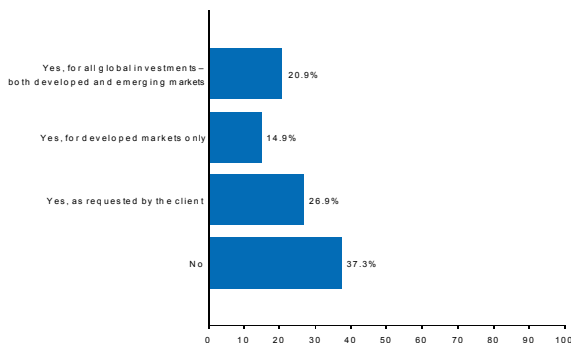
To what extent do you agree with the following statements?



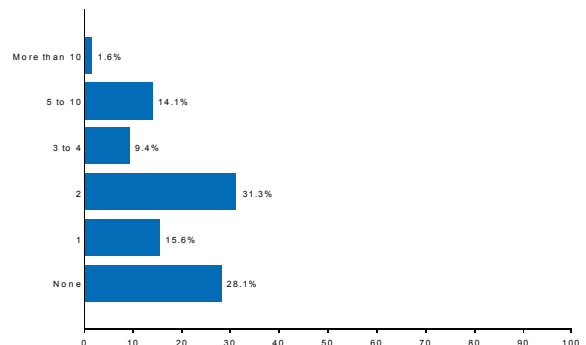
6a Fund managers. If not, do you expect to apply ESG related capabilities to emerging markets within the next 3 years?



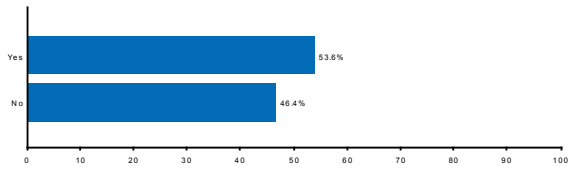
5 Fund managers. Do you offer capabilities, products or services that explicitly address environmental, social and/or corporate governance issues?



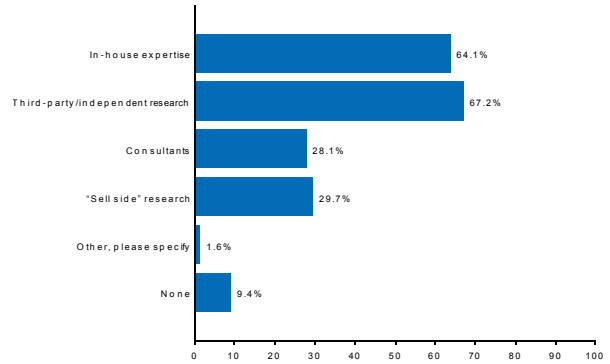
7 Fund managers. How many professionals does your organisation have on staff who evaluate ESG issues as they relate to the investment process?



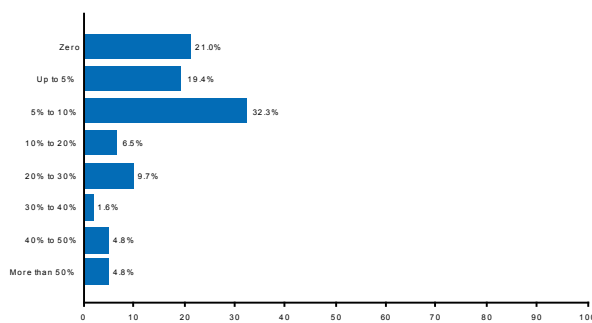
7a Fund managers. Only if "none" was chosen:
Do you expect to hire professionals with ESG experience or responsibilities within the next three years? If not, why not?



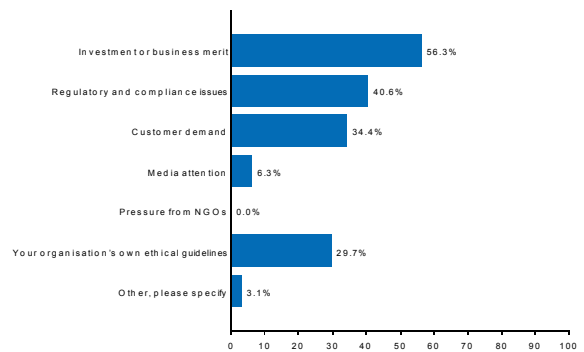
8 Fund managers. What resources does your organisation draw upon when evaluating ESG issues in the context of the investment process? Choose all that apply.



7b Fund managers. What percentage of time do these professionals spend on ESG issues as they relate to the investment process in emerging markets?



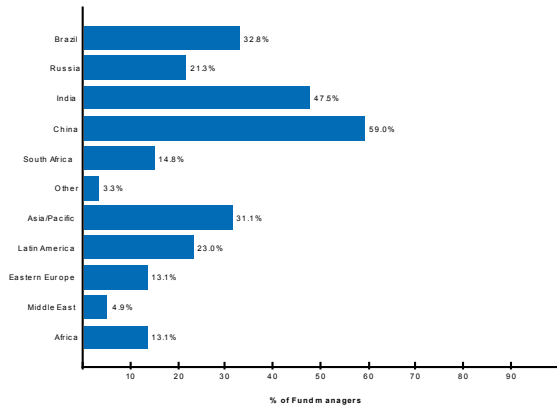
9 Fund managers. What is your organisation's motivation for addressing ESG issues? Choose up to two.



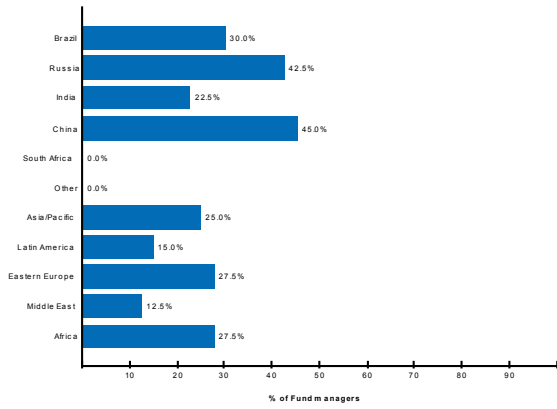
10 Fund managers. In which of the following emerging market countries and regions are ESG issues the most significant in the investment process? Please select the top three.

11 Fund managers. In which of the following emerging market countries and regions are ESG issues the most difficult to incorporate into the investment process? Please select the top three.

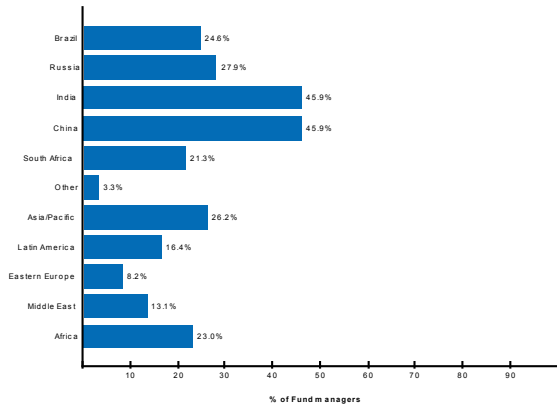
Environmental issues



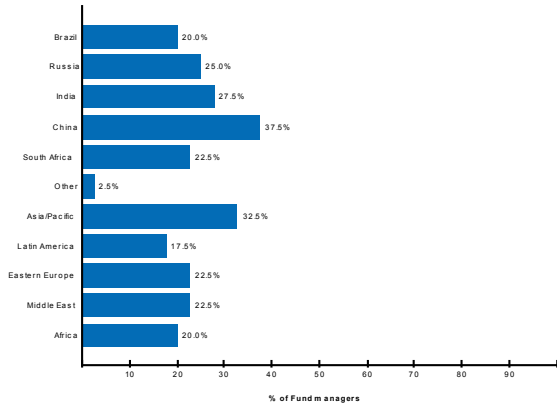
Environmental issues



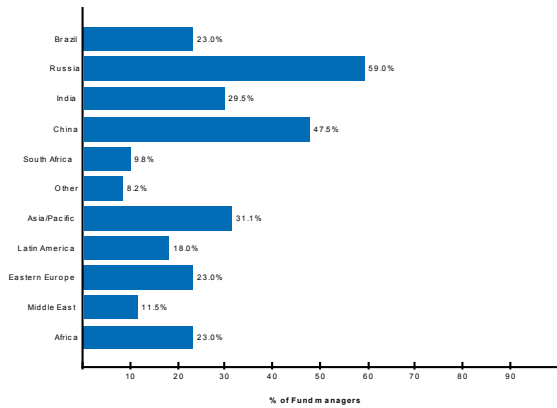
Social issues



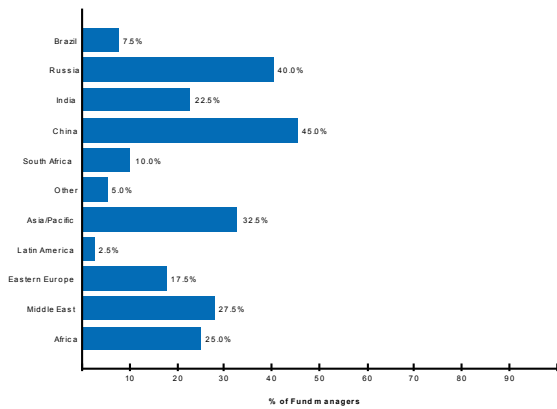
Social issues



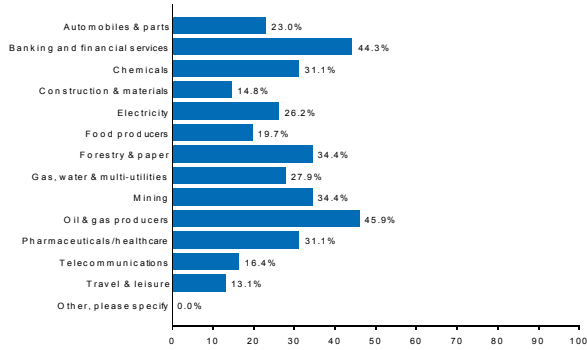
Corporate governance issues



Corporate governance issues

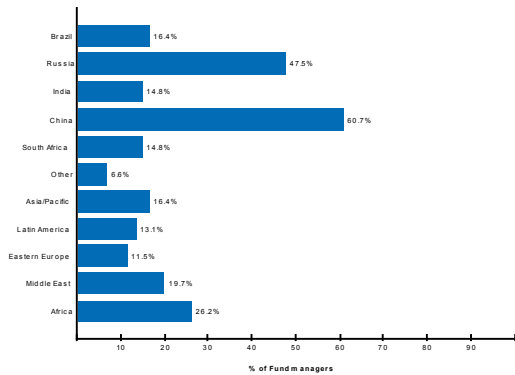


12 Fund managers. In which industries do you believe there is widespread awareness of ESG issues in emerging markets? Choose all that apply.

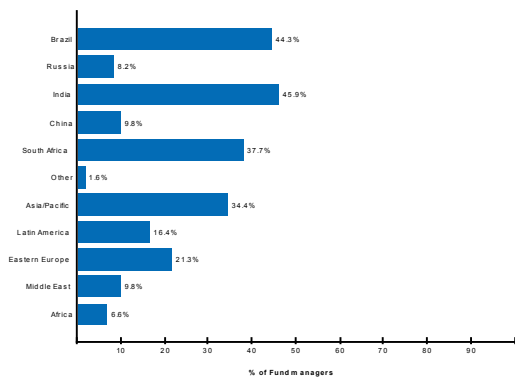


13 Fund managers. In which emerging markets do companies provide the most complete disclosure and transparency and in which do companies provide the least disclosure and transparency on ESG matters? Please select the top three.

Least disclosure and transparency

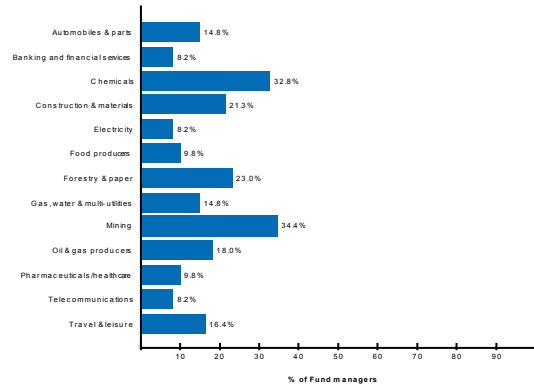


Most complete disclosure and transparency

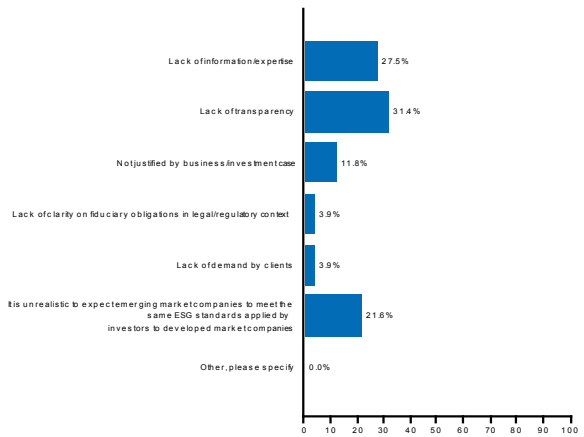


14 Fund managers. In which industries do companies provide the most complete disclosure and transparency and in which do they provide the least disclosure and transparency on ESG matters? Please select the top three.

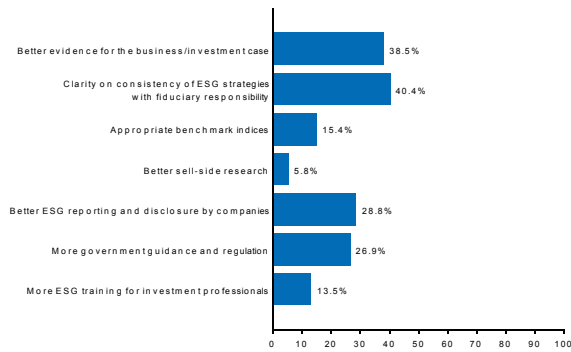
Least disclosure and transparency



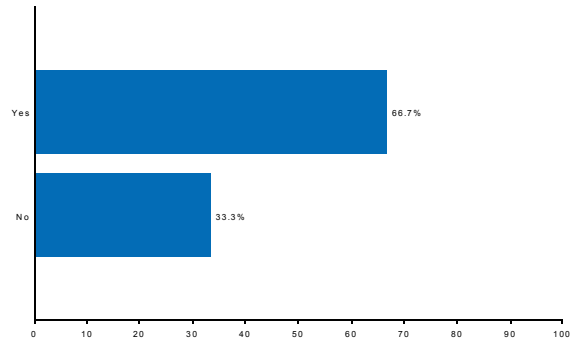
15 Fund managers. What is the main obstacle to incorporating ESG principles in the investment process for emerging market equities?



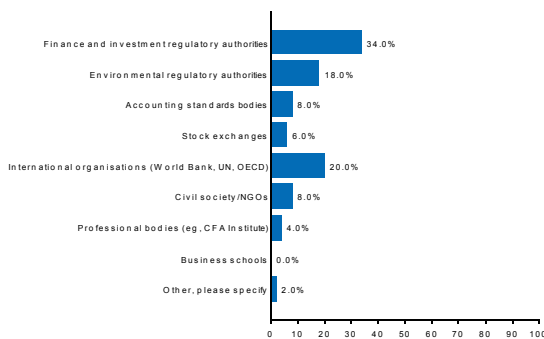
16 Fund managers. What is needed to improve the climate for ESG investment in emerging markets? Select all that apply.



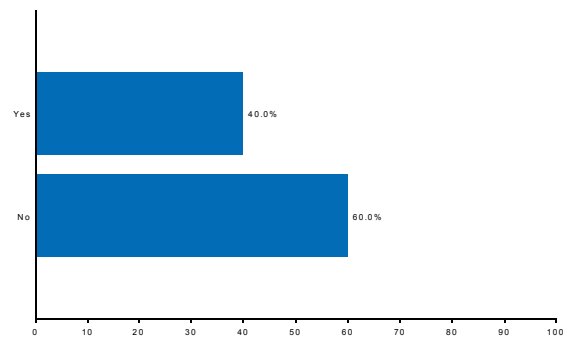
18 Fund managers. Do you see demand for ESG capacity from asset owners?



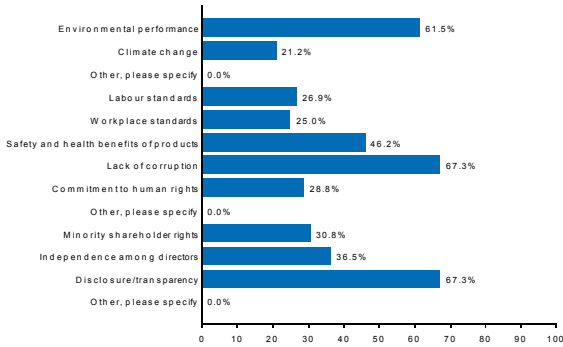
17 Fund managers. Which of the following groups is best positioned to promote and develop greater awareness of ESG issues among investment organisations and professionals?



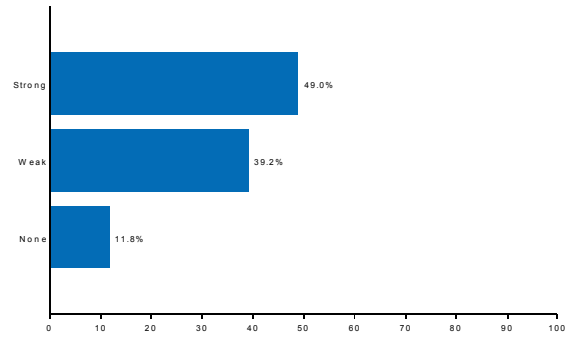
18a Fund managers. Can you find sell-side or independent research that meets your ESG needs?



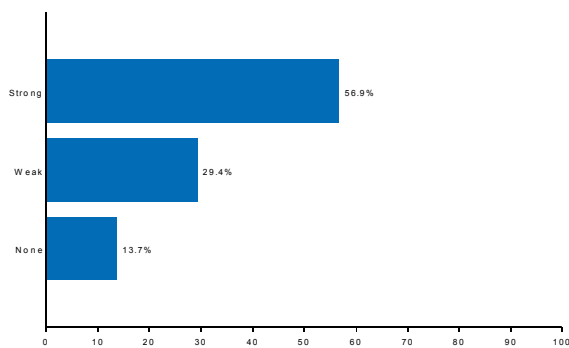
19 Fund managers. At your organisation, which considerations are most important in your investment process? Choose up to five.



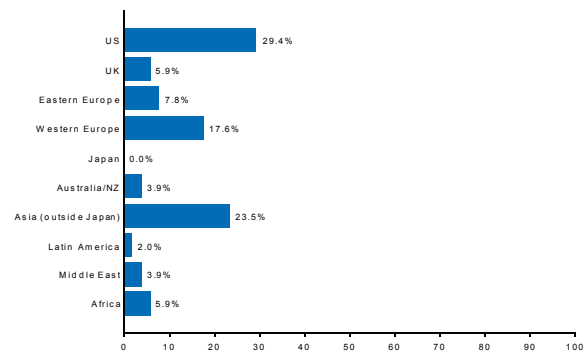
21 Fund managers. In your experience, how consistent is the link between ESG performance and long-term investment performance, ie, are firms that embrace ESG principles better investments?



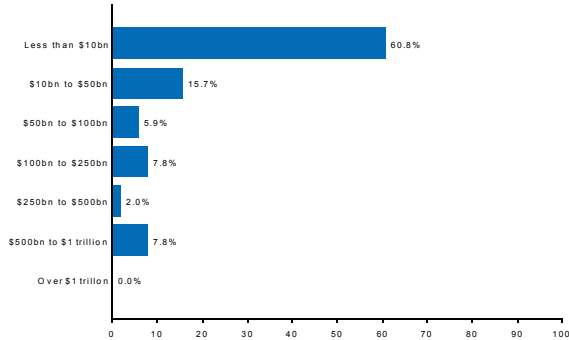
20 Fund managers. In your experience, how strong is the link between ESG performance and long-term investment performance, ie are firms that embrace ESG principles better investments?



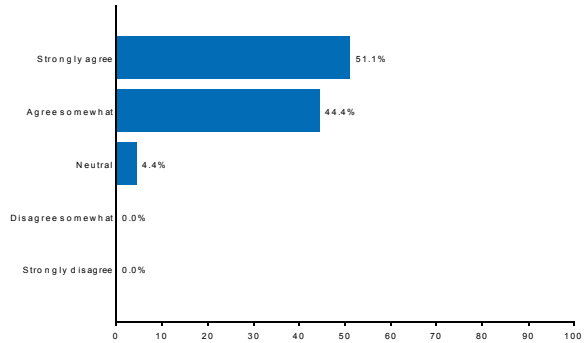
22 Fund managers. Where is your organisation located?



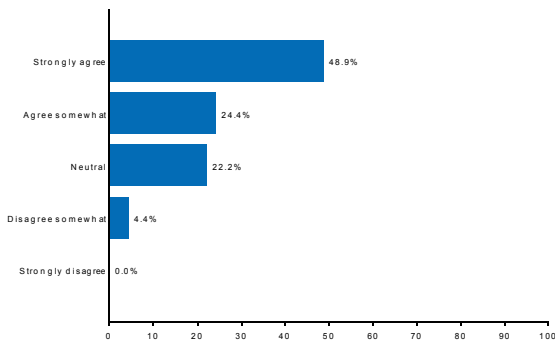
23 Fund managers. What are your total assets under management in US dollars?



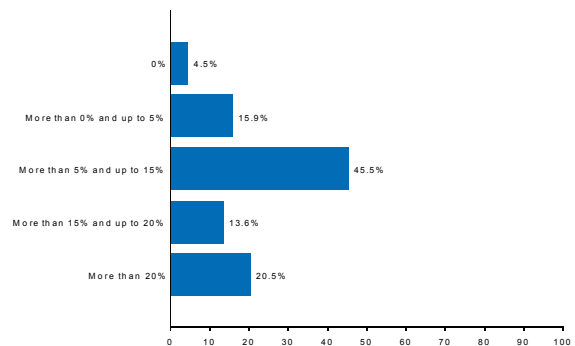
4 Companies. To what extent do you agree with the following statement? "ESG issues will become significantly more important in our research, portfolio management and manager selection process over the next three years."



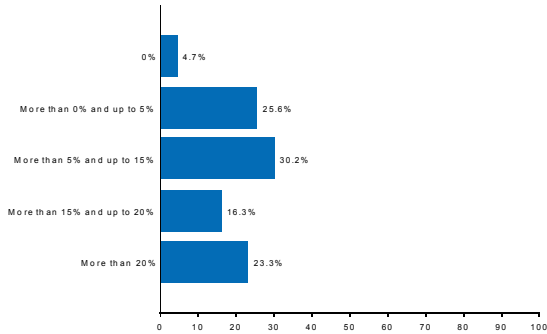
3 Companies. To what extent do you agree with the following statement? "Management of ESG issues is an important part of our business operations and our investor relations process."



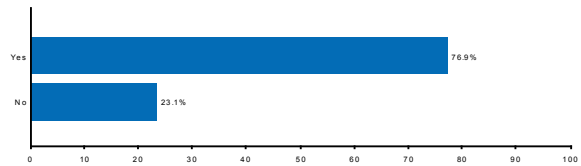
5 Companies. What percentage of your board of directors' time and resources are dedicated to addressing ESG issues?



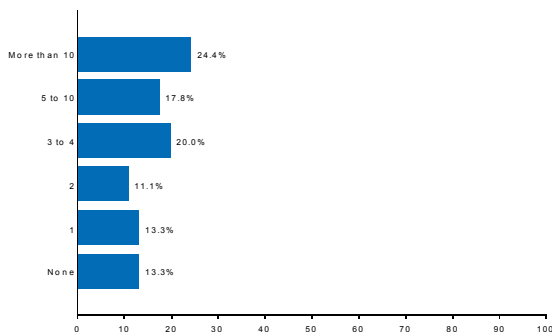
6 Companies. What percentage of your investor relations team's time and resources are dedicated to addressing ESG issues?



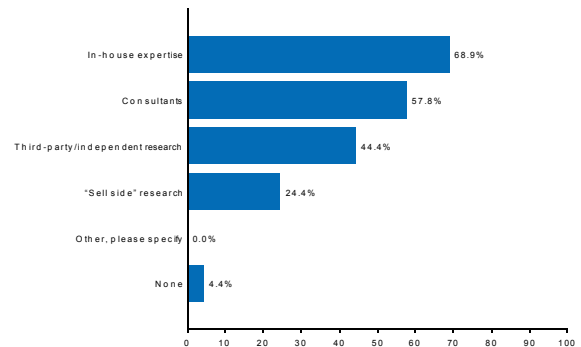
7a Companies. Only if "none" was chosen: Do you expect to hire professionals with ESG experience or responsibilities within the next three years? If not, why not?



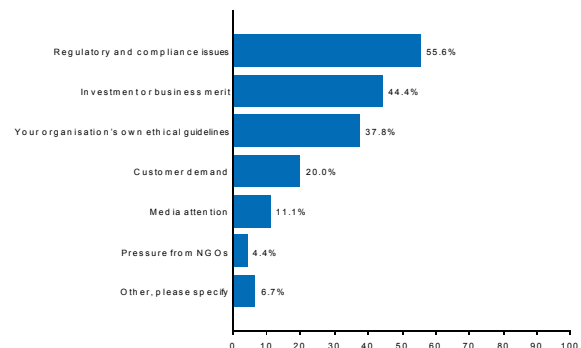
7 Companies. How many professionals does your organisation have on staff who evaluate ESG issues as they relate to business operations or explaining the company's ESG position to investors?



8 Companies. What resources does your organisation draw upon when evaluating ESG issues in the context of the investment process? Choose all that apply.



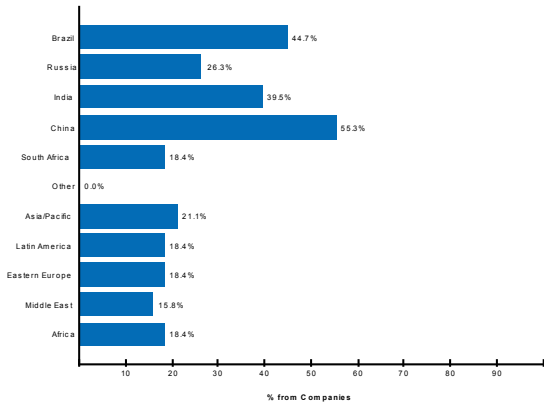
9 Companies. What is your organisation's motivation for addressing ESG issues? Choose up to two.



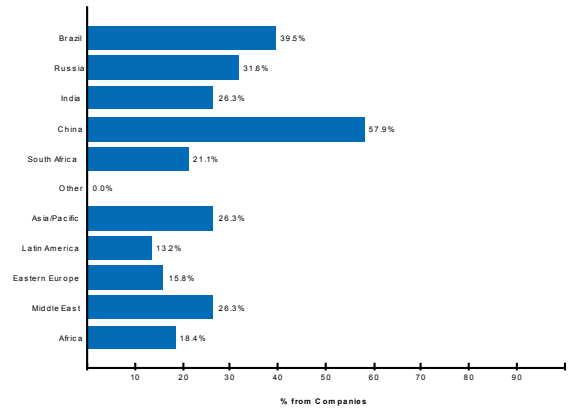
10 Companies. In which of the following emerging market countries and regions are ESG issues the most significant in the investment process? Please select the top three.

11 Companies. In which of the following emerging market countries and regions are ESG issues the most difficult to incorporate into the investment process? Please select the top three.

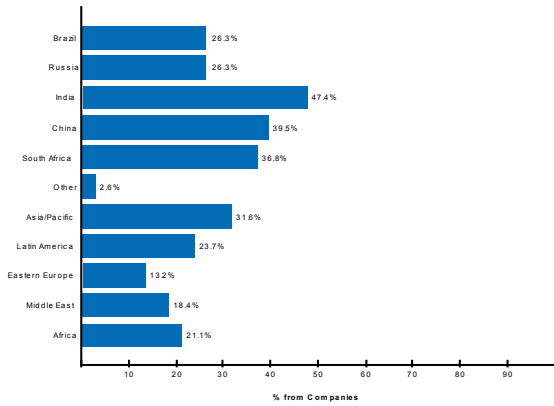
Environmental issues



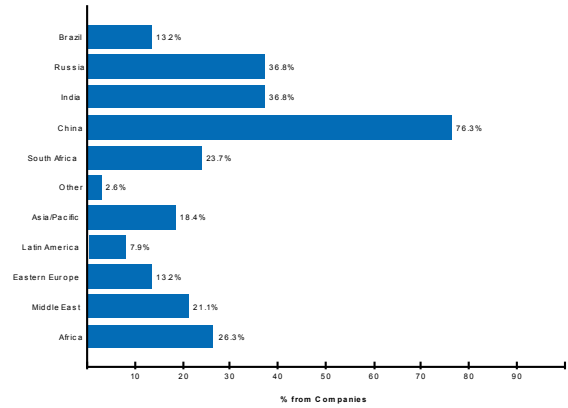
Environmental issues



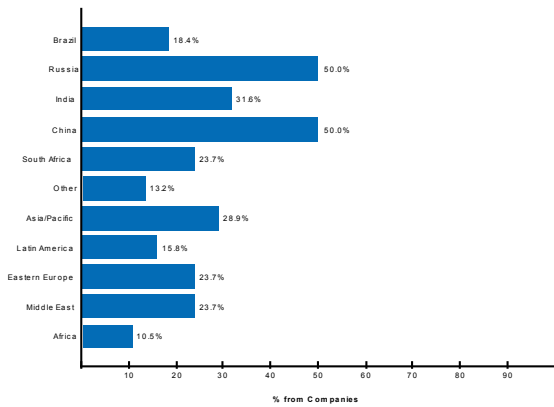
Social issues



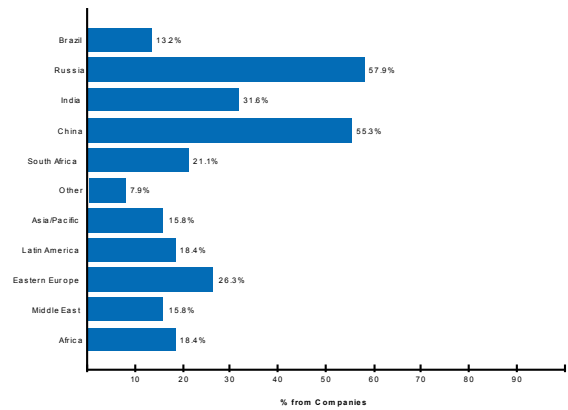
Social issues



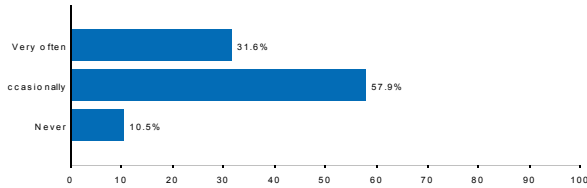
Corporate governance issues



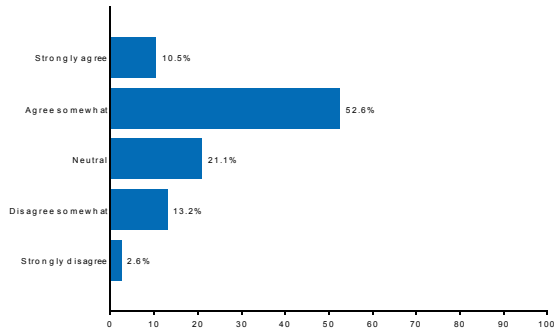
Corporate governance issues



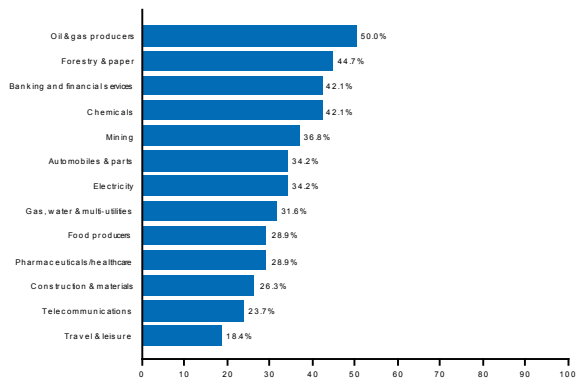
11d Companies. How often do investors/analysts inquire about ESG matters?



11e Companies. To what extent do you agree with the following statement? "Investors and analysts understand the ESG issues that influence the shareholder value of our company."

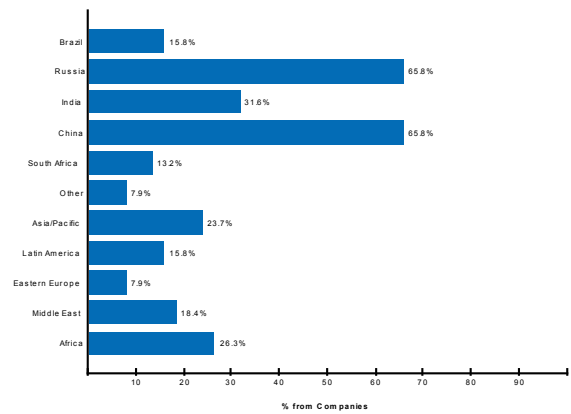


12 Companies. In which industries do you believe there is widespread awareness of ESG issues in emerging markets? Choose all that apply.

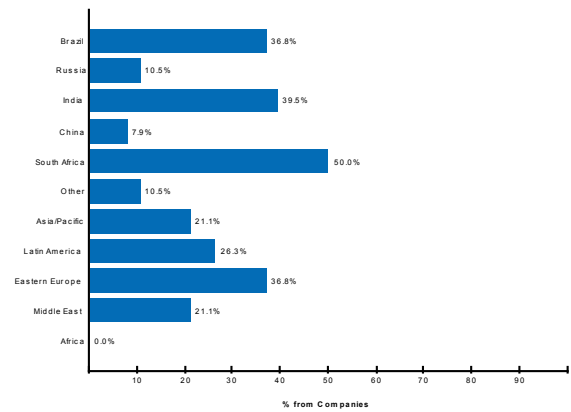


13 Companies. In which emerging markets do companies provide the most complete disclosure and transparency and in which do companies provide the least disclosure and transparency on ESG matters? Please select the top three.

Least disclosure and transparency

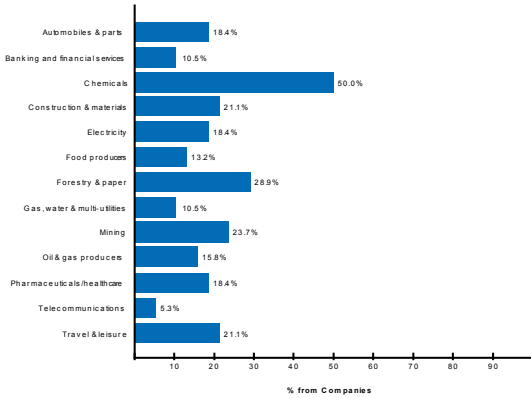


Most complete disclosure and transparency

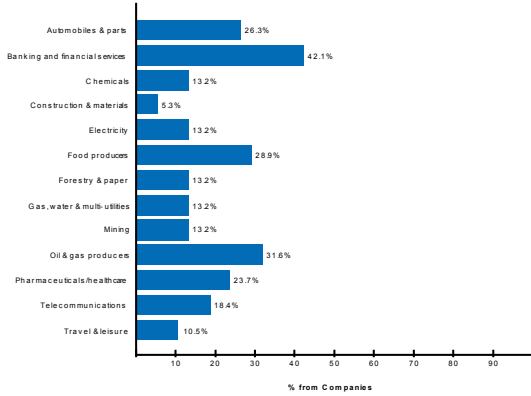


14 Companies. In which industries do companies provide the most complete disclosure and transparency and in which do they provide the least disclosure and transparency on ESG matters? Please select the top three.

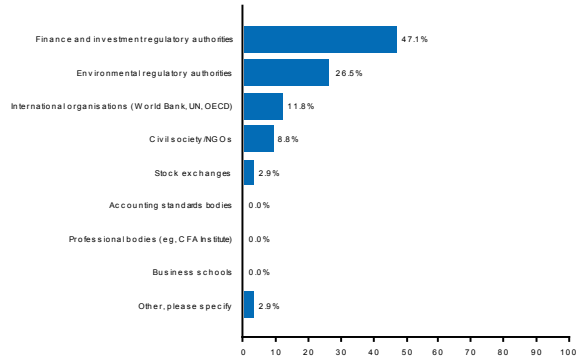
Least disclosure and transparency



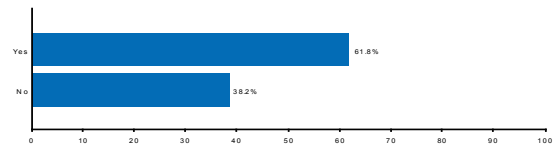
Most complete disclosure and transparency



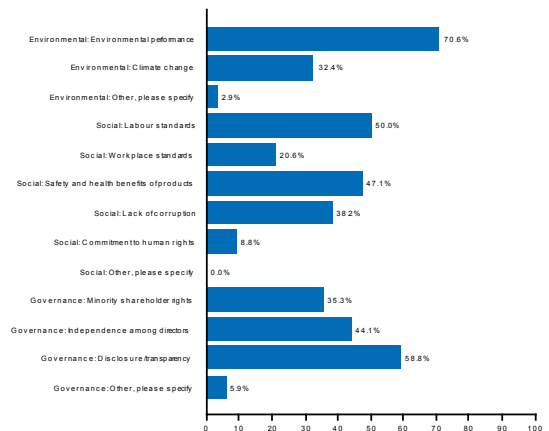
17 Companies. Which of the following groups is best positioned to promote and develop greater awareness of ESG issues among investment organisations and professionals?



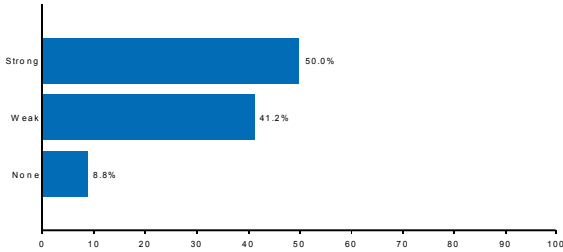
18 Companies. Can you find the expertise you need to engage with investors and analysts on ESG issues



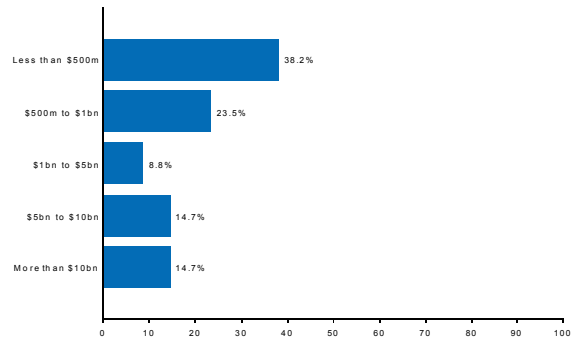
19 Companies. What considerations figure most prominently in your discussions with investors? Choose up to five.



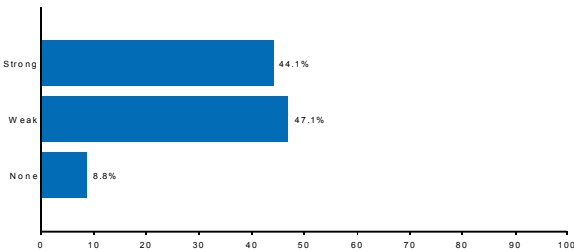
20 Companies. How strong is the link between your company's actions on ESG matters and your long-term share price performance?



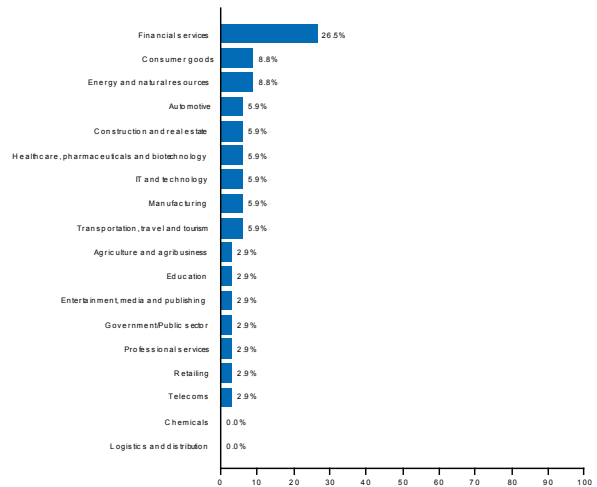
23 Companies. What is your company's total annual revenue in US dollars?



21 Companies. How consistent is the link between your company's actions on ESG matters and your long-term share price performance?



24 Companies. What is your primary industry?



Question 1. Asset owners and fund managers

	1 Asset owners. What proportion of your firm's equity assets is allocated to emerging markets?		1 Fund managers. What proportion of your firm's assets under management is allocated to emerging markets?	
Zero	6	14.0 %	4	6.1 %
Up to 5%	10	23.3 %	14	21.2 %
5% to 10%	4	9.3 %	11	16.7 %
10% to 20%	2	4.7 %	11	16.7 %
20% to 30%	5	11.6 %	3	4.5 %
30% to 40%	3	7.0 %	4	6.1 %
40% to 50%	3	7.0 %	2	3.0 %
More than 50%	10	23.3 %	17	25.8 %
Total	43	100.0 %	66	100.0 %

Question 2a. Asset owners and fund managers

	2a Asset owners. Please specify the proportion you envisage investing in emerging markets three years hence.		2a Fund managers. Please specify the proportion you envisage investing in emerging markets three years hence.	
Zero	3	7.0 %	1	1.5 %
Up to 5%	4	9.3 %	6	9.1 %
5% to 10%	11	25.6 %	11	16.7 %
10% to 20%	5	11.6 %	15	22.7 %
20% to 30%	3	7.0 %	9	13.6 %
30% to 40%	4	9.3 %	6	9.1 %
40% to 50%	4	9.3 %	2	3.0 %
More than 50%	9	20.9 %	16	24.2 %
Total	43	100.0 %	66	100.0 %

Questions 3 and 4. All respondent categories

	Strongly agree	Agree somewhat	Neutral	Disagree somewhat	Strongly disagree	Total
3 Asset owners. "ESG issues are an important part of our research, portfolio management and manager selection process."	14	16	10	1	0	41
	34.1 %	39.0 %	24.4 %	2.4 %	0.0 %	100.0 %
3 Fund managers. "ESG issues are an important part of our research, and portfolio management process."	16	34	11	4	1	66
	24.2 %	51.5 %	16.7 %	6.1 %	1.5 %	100.0 %
3 Companies. To what extent do you agree with the following statement? "Management of ESG issues is an important part of our business operations and our investor relations process."	22	11	10	2	0	45
	48.9 %	24.4 %	22.2 %	4.4 %	0.0 %	100.0 %
4 Asset owners. "ESG issues will become significantly more important in our research, portfolio management and manager selection process over the next three years."	15	21	6	1	0	43
	34.9 %	48.8 %	14.0 %	2.3 %	0.0 %	100.0 %
4 Fund managers. "ESG issues will become significantly more important in our research and portfolio management process over the next three years."	25	30	8	2	1	66
	37.9 %	45.5 %	12.1 %	3.0 %	1.5 %	100.0 %
4 Companies. To what extent do you agree with the following statement? "ESG issues will become significantly more important in our research, portfolio management and manager selection process over the next three years."	23	20	2	0	0	45
	51.1 %	44.4 %	4.4 %	0.0 %	0.0 %	100.0 %

Analysis of performance of countries on ESG criteria

In which of the following emerging market countries and regions are ESG issues the most significant in the investment process? Please select the top three.

Environmental issues

	Asset owners	Fund managers	Companies
China	45.7%	82.9%	48.6%
India	34.3%	68.6%	28.6%
Brazil	28.6%	51.4%	34.3%
Asia/Pacific	28.6%	42.9%	14.3%
Eastern Europe	28.6%	14.3%	14.3%
Russia	25.7%	28.6%	17.1%
South Africa	22.9%	17.1%	14.3%
Middle East	14.3%	8.6%	14.3%
Africa	14.3%	20.0%	17.1%
Latin America	11.4%	31.4%	17.1%

Social issues

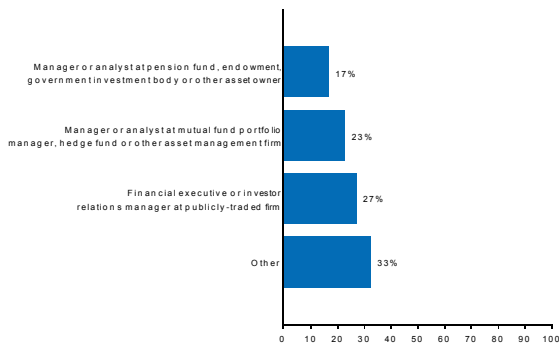
	Asset owners	Fund managers	Companies
India	45.7%	62.9%	37.1%
China	40.0%	65.7%	34.3%
Russia	34.3%	37.1%	25.7%
South Africa	25.7%	34.3%	34.3%
Asia/Pacific	22.9%	40.0%	22.9%
Africa	22.9%	34.3%	14.3%
Middle East	17.1%	14.3%	14.3%
Brazil	14.3%	34.3%	14.3%
Latin America	14.3%	28.6%	17.1%
Eastern Europe	14.3%	11.4%	11.4%

Governance issues

	Asset owners	Fund managers	Companies
Russia	51.4%	85.7%	48.6%
China	42.9%	65.7%	42.9%
India	31.4%	40.0%	20.0%
Eastern Europe	31.4%	25.7%	20.0%
Latin America	25.7%	22.9%	11.4%
Asia/Pacific	20.0%	40.0%	22.9%
South Africa	14.3%	14.3%	17.1%
Middle East	14.3%	11.4%	17.1%
Brazil	11.4%	34.3%	8.6%
Africa	11.4%	22.9%	8.6%

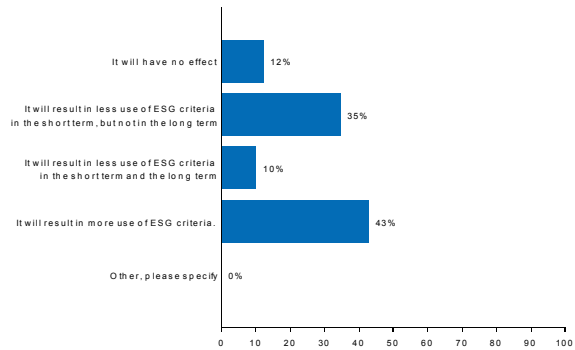
Appendix 3: 2009 survey results

Screener 1 (All respondents). Which of the following best describes your industry and job function?

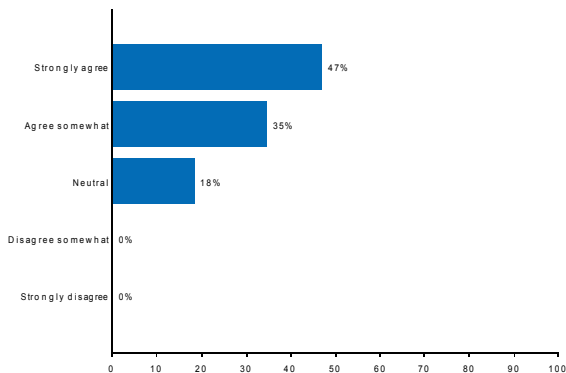


Note: Respondents who choose “other” were not permitted to take the survey.

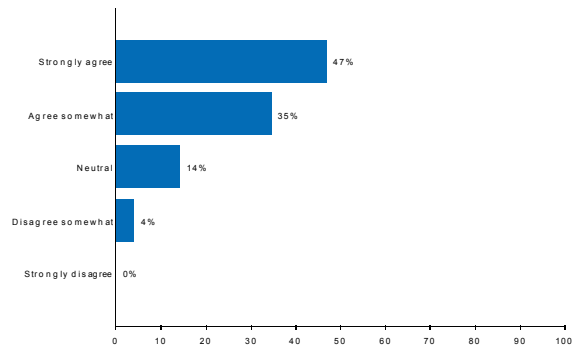
2 Asset owners. How will the global financial crisis influence the integration of ESG criteria into traditional financial measures when choosing investments?



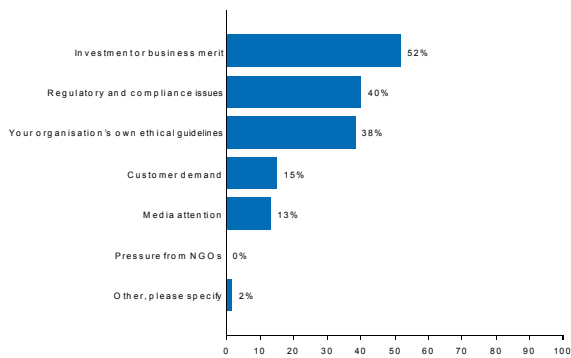
1 Asset owners. To what extent do you agree with the following statement? “Environmental, social and corporate governance (ESG) issues are an important part of our research, portfolio management and manager selection process.”



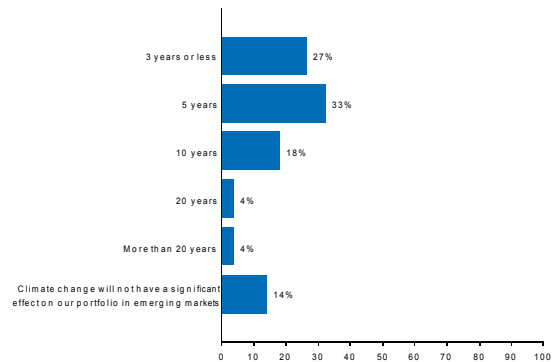
3 Asset owners. To what extent do you agree with the following statement? “ESG issues will become significantly more important in our research, portfolio management and manager selection process over the next three years.”



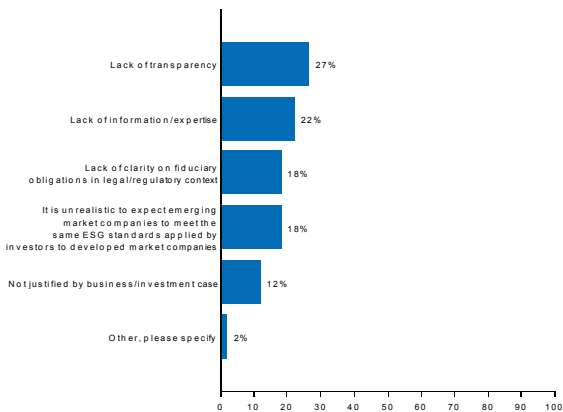
4 Asset owners. What is your organisation’s motivation for addressing ESG issues? Select up to two.



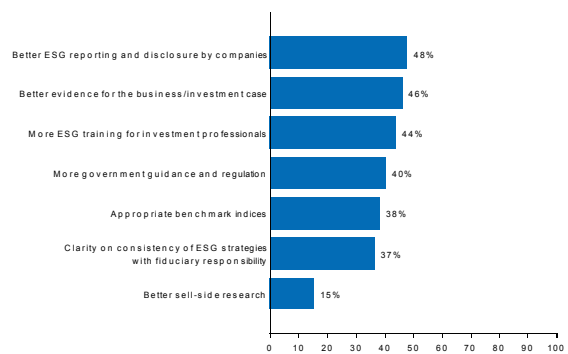
6 Asset owners. Over what time horizon will climate change have a significant effect on your portfolio in emerging markets?



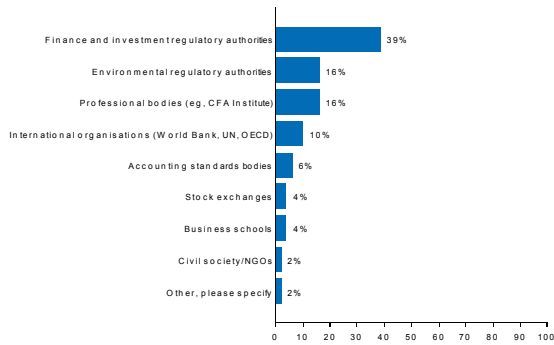
5 Asset owners. What is the main obstacle to incorporating ESG principles in the investment process for emerging market equities?



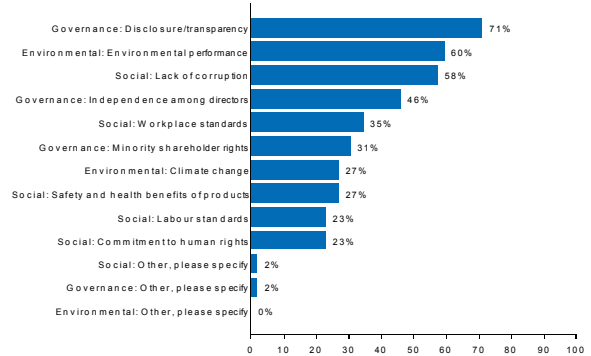
7 Asset owners. What is needed to improve the climate for ESG investment in emerging markets? Select all that apply.



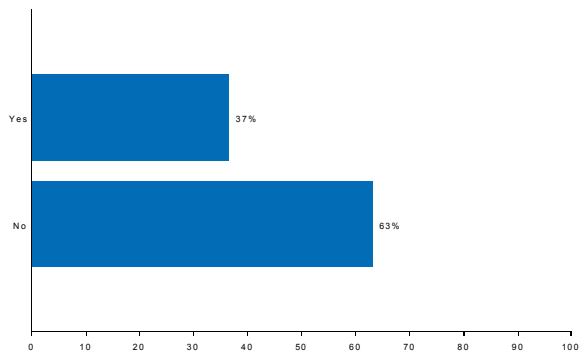
8 Asset owners. Which of the following groups is best positioned to promote and develop greater awareness of ESG issues among investment organisations and professionals?



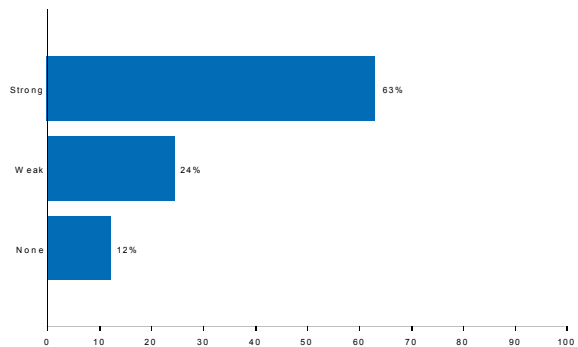
10 Asset owners. At your organisation, which considerations are most important in your investment process? Select up to five.



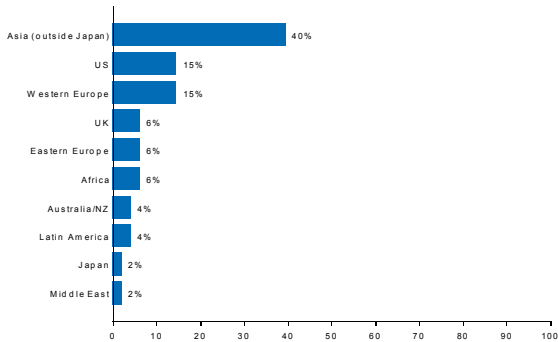
9 Asset owners. Are you able to find enough investment managers and consultants who use ESG principles in emerging markets?



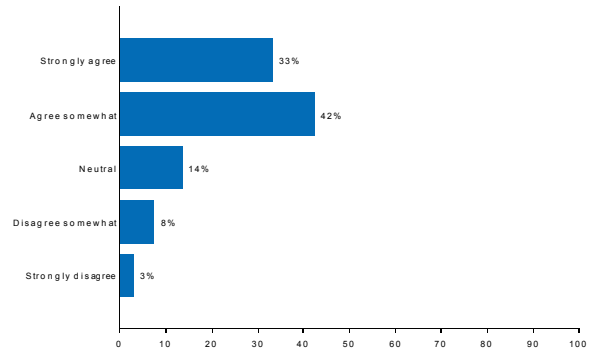
11 Asset owners. In your experience, how strong is the link between ESG performance and long-term investment performance, ie are firms that embrace ESG principles better investments?



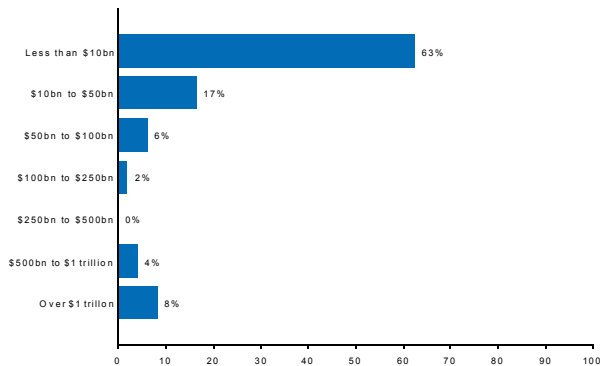
12 Asset owners. Where is your organisation located?



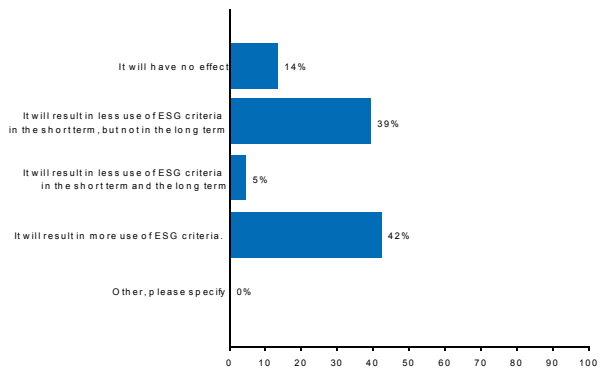
1 Fund managers. To what extent do you agree with the following statement? "Environmental, social and corporate governance (ESG) issues are an important part of our research, and portfolio management process."



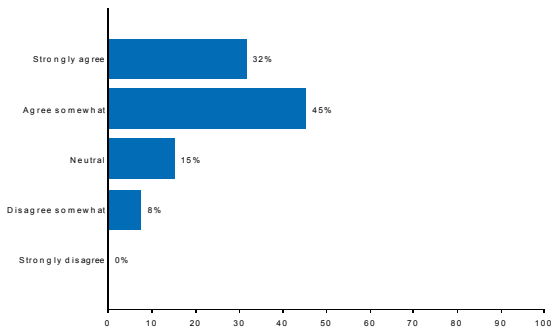
13 Asset owners. What are your total assets under management in US dollars?



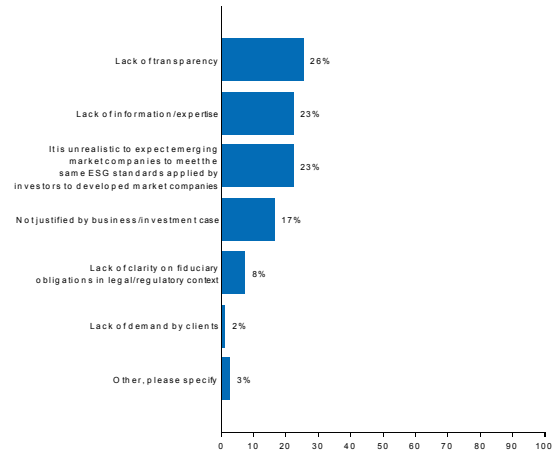
2 Fund managers. How will the global financial crisis influence the integration of ESG criteria into traditional financial measures when choosing investments?



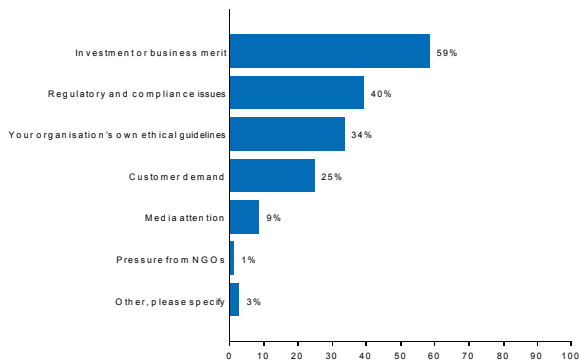
3 Fund managers. To what extent do you agree with the following statement? “ESG issues will become significantly more important in our research and portfolio management process over the next three years.”



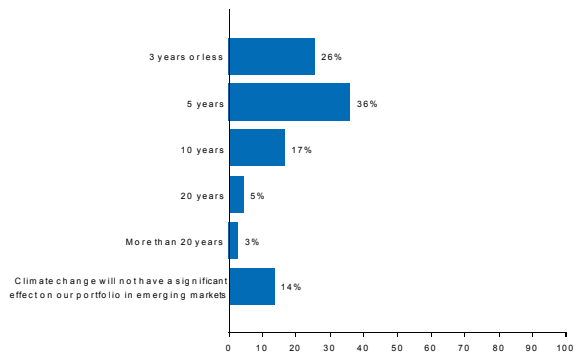
5 Fund managers. What is the main obstacle to incorporating ESG principles in the investment process for emerging market equities?



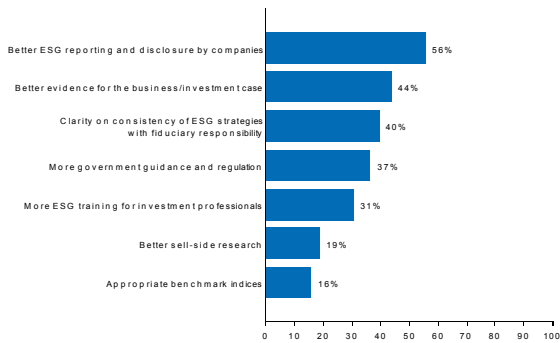
4 Fund managers. What is your organisation’s motivation for addressing ESG issues? Select up to two.



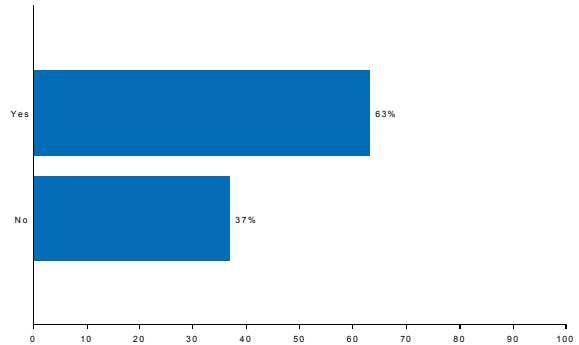
6 Fund managers. Over what time horizon will climate change have a significant effect on your portfolio in emerging markets?



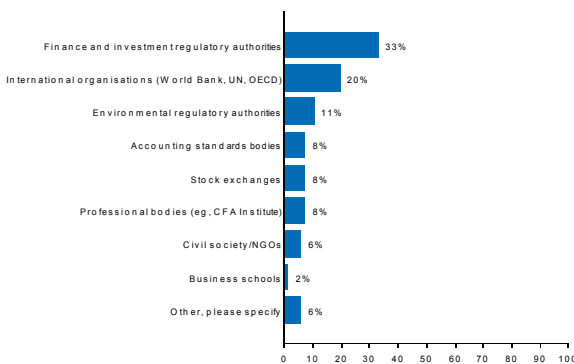
7 Fund managers. What is needed to improve the climate for ESG investment in emerging markets? Select all that apply.



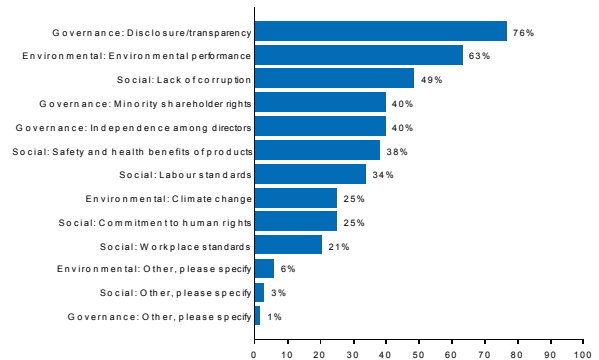
9 Fund managers. Do you see demand for ESG capacity from asset owners?



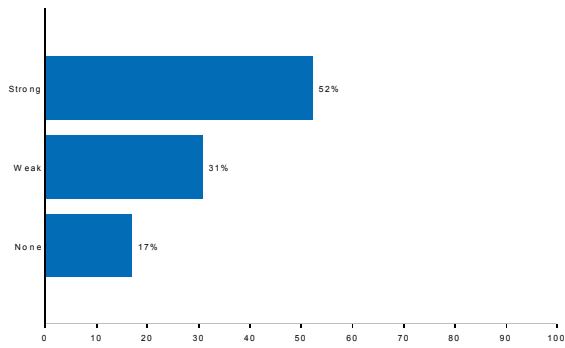
8 Fund managers. Which of the following groups is best positioned to promote and develop greater awareness of ESG issues among investment organisations and professionals?



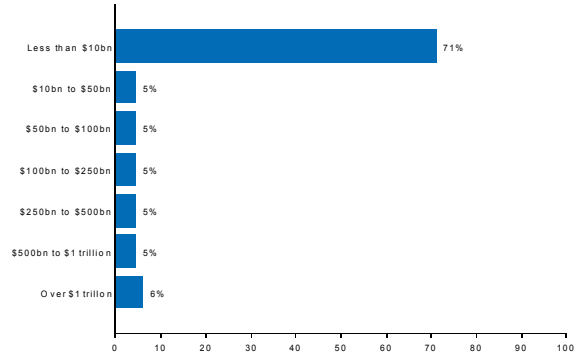
10 Fund managers. At your organisation, which considerations are most important in your investment process? Select up to five.



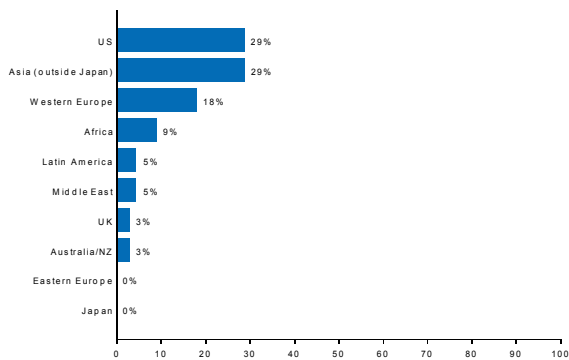
11 Fund managers. In your experience, how strong is the link between ESG performance and long-term investment performance, ie are firms that embrace ESG principles better investments?



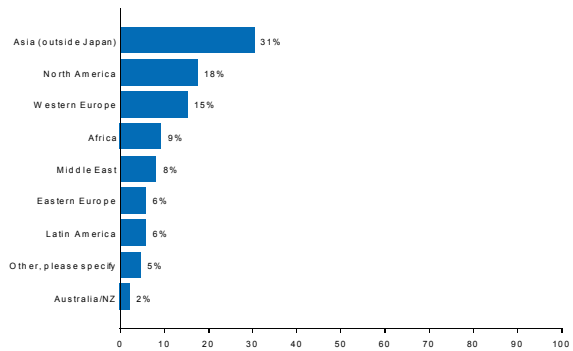
13 Fund managers. What are your total assets under management in US dollars?



12 Fund managers. Where is your organisation located?

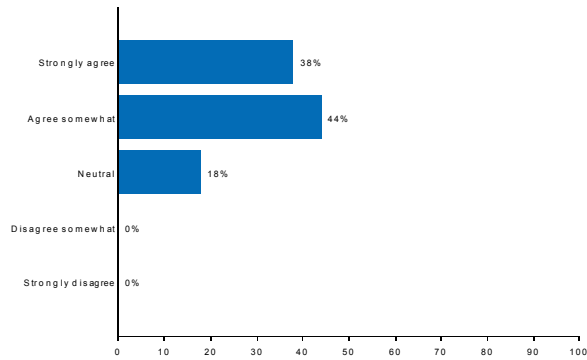


Screener 2 (Companies only). Where is your company headquartered?

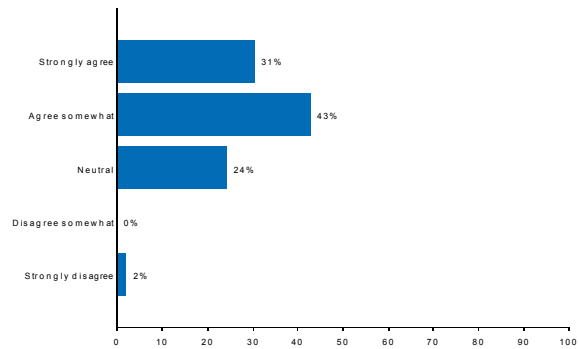


Note: Companies outside emerging markets were not permitted to continue.

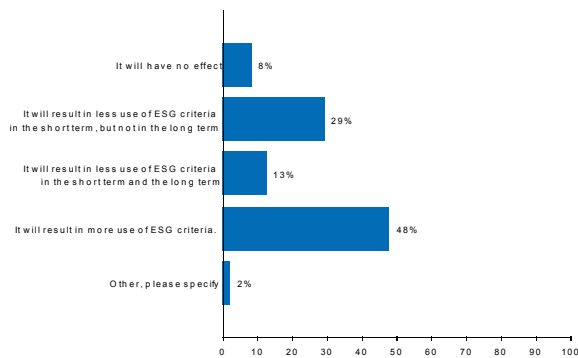
1 Companies. To what extent do you agree with the following statement? "Management of ESG issues is an important part of our business operations and our investor relations process."



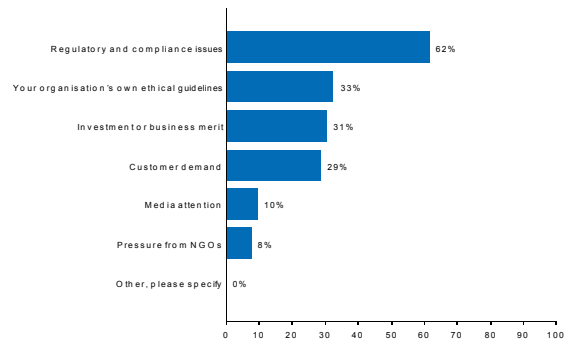
3 Companies. To what extent do you agree with the following statement? "ESG issues will become a significantly more important part of our business operations and our investor relations process over the next three years."



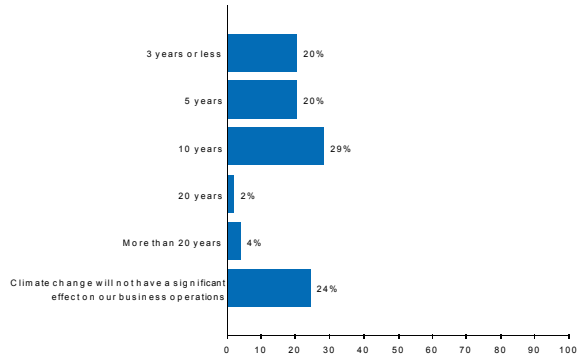
2 Companies. How will the global financial crisis influence the attention investors pay to ESG criteria in combination with traditional financial measures when choosing investments?



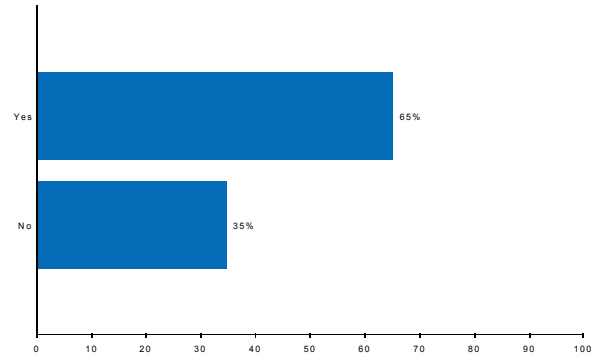
4 Companies. What is your organisation's motivation for addressing ESG issues? Select up to two.



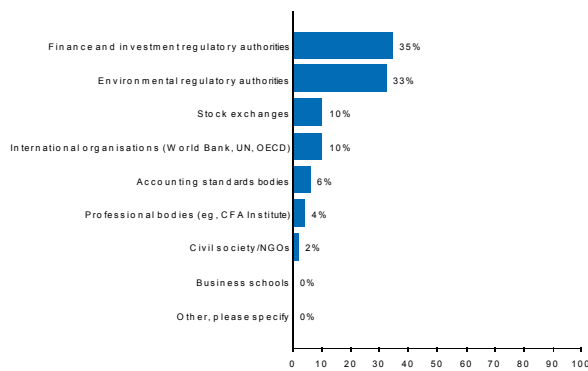
5 Companies. Over what time horizon will climate change have a significant effect on your business operations?



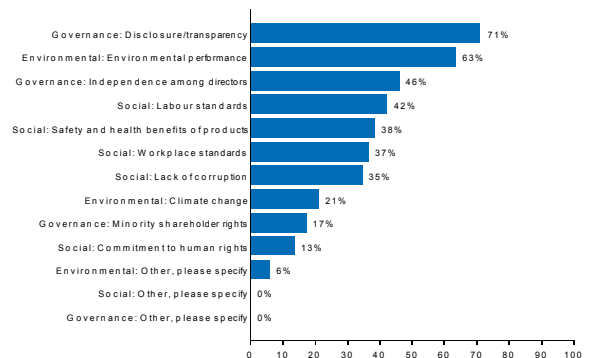
7 Companies. Can you find the expertise you need to engage with investors and analysts on ESG issues?



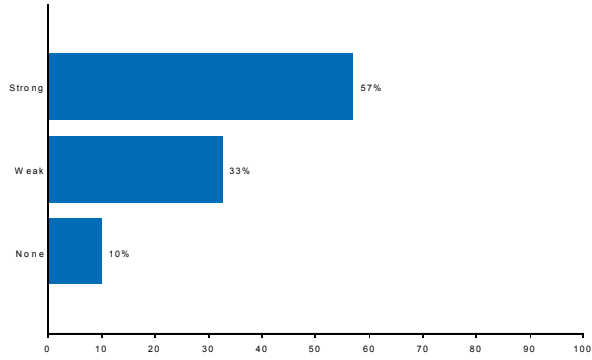
6 Companies. Which of the following groups is best positioned to promote and develop greater awareness of ESG issues among investment organisations and professionals?



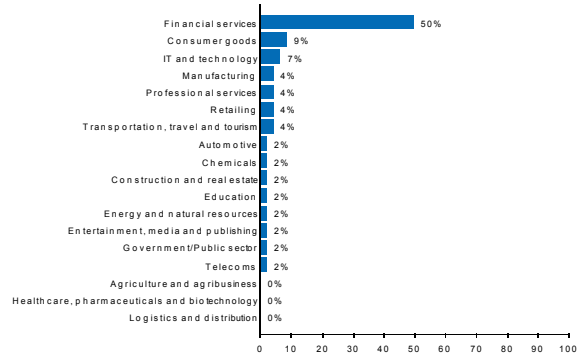
8 Companies. What considerations figure most prominently in your discussions with investors? Select up to five.



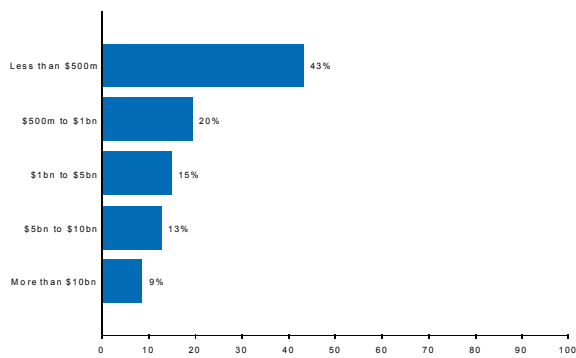
9 Companies. How strong is the link between your company's actions on ESG matters and your long-term share price performance?



11 Companies. What is your primary industry?



10 Companies. What is your company's total annual revenue in US dollars?



The findings, interpretations, views, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the Executive Directors of the International Finance Corporation or of the International Bank for Reconstruction and Development (the World Bank) or the governments they represent.

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