Sustainable investments in Emerging Markets

The lack of data is often the reason why professional ESG analysis of companies and countries has so far focused on the industrialised countries. This is currently changing and more and more ESG funds with a focus on Emerging Markets are being launched. Jürgen Maier, Emerging Markets expert at Raiffeisen Capital Management in Vienna, explains the challenges and opportunities associated with ESG investments in Emerging Markets.

Jürgen has been analysing the Emerging Markets for more than 15 years. He is Senior Fund Manager at Raiffeisen Capital Management, which holds a.o. a AAA Scope Rating for excellent quality and competence in the management of sustainable fund strategies.

Some financial experts have their doubts that an Emerging Markets portfolio can be managed on the basis of ESG criteria. What do you say to these sceptics?

Jürgen: It is true that sustainable investing in Emerging Markets is not quite as easy to implement as in Europe for example, but the situation has improved considerably in recent years. There are many sustainable companies in the region. The problem in the past was often that these companies did not provide the necessary data for a detailed sustainability analysis. A lot of engagement was necessary from us investors to convince the management to provide this data. This engagement is a very important part of our active management approach.

Which markets are the focus of investment, which less so?

Jürgen: Some Asian countries are clearly further along than others. The pioneer is Taiwan, where we find many sustainable companies. In India, too, it is relatively easy to track down suitable companies. In China, we struggled in the past, but now the situation has improved significantly, and investors can choose from a larger pool of sustainable companies. In comparison, there is still significant catch-up potential in Latin America and Eastern Europe. The exception is Brazil, where there are some companies. In Eastern Europe, unfortunately, one can still count the very sustainable companies on one hand. Overall, however, it is encouraging that the number of sustainable companies is steadily increasing in the Emerging Markets as well due to new issues and the reorientation of companies. The commitment of sustainable investors supports this development.

Does Raiffeisen Capital Management's sustainable investment process make a distinction between Emerging Markets versus developed markets? What challenges do you face?

Jürgen: We apply the same strict criteria for stock selection as our colleagues in the developed markets. Very roughly, we can say that our total universe, where we have sustainability data available, consists of about 1000 companies. After checking the negative criteria (such as violations of human or labour rights, production and trade of nuclear energy or armaments etc.), about 200 companies fall out of this universe. After a detailed sustainable analysis with the help of the Raiffeisen ESG indicator*, another 300 companies fall out of the investment universe. From the remaining 500 stocks, a portfolio of the around 70 to 90 most promising shares is then compiled.

On a country level, where do you see the most attractive investment opportunities within the Emerging Markets? And why?

Jürgen: On a country level, Raiffeisen Sustainable Emerging Markets Equity is most heavily invested in China, Taiwan and India. In China, we like companies that benefit from the government's CO2 reduction target. In Taiwan, we backed technology stocks that are leaders in water conservation and water saving. In India, we like IT outsourcing companies that are leaders in employee training and development, and financials that are active in financing affordable housing.

Which sectors or companies do you consider particularly interesting?

Jürgen: On a sector level, Raiffeisen Sustainability Emerging Markets Equities is most heavily invested in financial and IT assets. There are also very interesting companies within the telecom or consumer sectors, for example, which is positive for portfolio diversification. The largest position in the fund is currently Taiwan Semiconductor Manufacturing, the world's largest independent contract manufacturer of semiconductor products. The company's customers include Apple, Qualcom and Nvidia. The company is interesting from a sustainability perspective because it is a global leader in water conservation and water saving in the industrial sector and performs significantly better than the sector average in the area of energy consumption and employee relations. The company benefits from a steadily growing demand for semiconductors worldwide and is technologically always one step ahead of its competitors.

How satisfied are you with the performance of the fund?

Jürgen: We are very satisfied. The fund was able to outperform the overall market in both the short and long term, even though it was not able to completely escape the market corrections recently (past performance does not allow any conclusions to be drawn about the future development of the fund).

Our sustainable performance is equally pleasing, as our fund has 82% lower CO2 emissions, 99% less waste, 16% fewer occupational accidents and 88% less water consumption compared to the overall market.

In a three-year comparison (30.09.2019-30.09.2022), Raiffeisen Sustainability Emerging Markets Equities generated a performance (gross) of 4.33% p.a., which represents an additional return of 2.71% p.a. compared to the market (MSCI EM Net).