

Equities

Sustainable value creation in emerging markets

We believe that investing in higher-rated ESG companies can improve returns. EM companies with better sustainability characteristics than the broader index have shown a pattern of outperformance.

Until recently, sustainable investing (SI) was largely a matter for developed countries. The discipline, well established in Europe, Australia and North America, is not as popular among emerging market (EM) investors. Investors in developed countries have found it difficult to find satisfactory SI solutions that provide EM exposure, but this situation has started to change. Demand for SI is rising in EM investor circles. At the same time, investment vehicles for investing sustainably in EMs have been multiplying.

This development is encouraging, and we see interesting opportunities for investors seeking to integrate environmental, social and corporate governance (ESG) considerations into their portfolios. Investors often fear that these approaches will sacrifice performance, but data suggests that there is no trade-off between SI and performance in developed markets. Based on the limited available evidence, emerging markets may offer the most compelling opportunity to include ESG considerations while adding portfolio value.

We expect the MSCI EM ESG Index to outperform the broader MSCI EM Index by a low single-digit rate over the next 12 months.

Recent developments

This topic offers investors the opportunity to invest in EM equities while avoiding companies with weak ESG profiles. During the first half of 2019, the theme outperformed its benchmark, the MSCI Emerging Markets Index. Over the next 12 months, we expect the theme to continue outperforming by a low single-digit rate.



Source: iStock

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Investment examples

Investment funds

Hermes (Irl) - Global Emerging Markets

USD R acc: ISIN IE00BBHXDF40

USD R dist: ISIN IE00BWTNM305

EUR R acc: ISIN IE00B3NFBQ59

EUR R dist: ISIN IE00BWTNM412

EUR (hedged) R dist: ISIN IE00BWTNM529

UBS (Lux) - MSCI Emerging Markets Socially Resp. UCITS ETF

USD A-dist: ISIN LU1048313891

Global Disclaimer

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