

Emerging Markets Investor Survey Report:

An analysis of responsible investment in
emerging markets

June 2009



Acknowledgements

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Report Sponsors

We wish to give a very special thanks to the International Working Group (IWG) of the Social Investment Forum who provided the funding in its entirety to engage EIRIS to analyze and write this report.

About IWG (www.socialinvest.org/projects/iwg)

The International Working Group of the Social Investment Forum is a collaboration of global institutional SRI investors, along with research and advocacy partners, whose mission is to provide education on existing and emerging global SRI issues of interest with respect to research, policies and advocacy, to foster networks of individuals and institutions within the international SRI marketplace around issues of global relevance and create a space where global SRI researchers, investment practitioners and others can meet to share ideas and develop collaborative action.

We wish also to acknowledge those EMD partners that provided additional funding for the printing and communications related to this report including Boston Common Asset Management, Calvert Investments and EM Capital Management.

About EMDP (www.socialinvest.org/projects/iwg)

The Emerging Markets Disclosure Project (EMD Project) is an international coalition of investors and organizations working to improve sustainability disclosure by companies in emerging markets. This project is currently in its third phase — direct corporate engagement with companies in emerging markets — and is under the coordination of Calvert Investments, the IFC, and the International Working Group (IWG) of the US Social Investment Forum (SIF). This targeted outreach and engagement to promote disclosure is focused on companies based in Brazil, China, India, Russia, South Africa, South Korea, and Taiwan.

About EIRIS (www.eiris.org)

EIRIS is a leading global provider of independent research into the environmental, social, and governance (ESG), and ethical performance of companies. With over 25 years' experience of conducting research and promoting responsible investment strategies, EIRIS now provides services to more than 100 asset owners and asset managers globally.

In the last ten years new EIRIS research has focused on the risks and exposure of companies in key ESG areas, and how companies are responding. EIRIS works with clients to create their own ESG ratings and rankings, to engage with companies and to create specific funds for their clients. EIRIS has a multinational team of over 50 staff in London, together with offices in Boston and Paris. The EIRIS network includes research organizations in Australia, France, Israel, Germany, Spain and South Korea, and now covers over 2,800 companies globally.

About SIF (www.socialinvest.org)

The Social Investment Forum is the US national nonprofit membership association for professionals, firms and organizations dedicated to advancing the practice and growth of socially responsible investing (SRI). Critical to responsible investment practice is the consideration of environmental, social and corporate governance criteria in addition to standard financial analysis. Nearly 500 SIF members support SRI through portfolio selection analysis, shareholder advocacy and community investing.

Executive Summary

Emerging Markets Investor Survey Report: An analysis of responsible investment in emerging markets

Overview

The Emerging Markets Disclosure Project (EMD Project) is an international coalition of investors and organizations working to improve sustainability disclosure by companies in emerging markets. EIRIS was commissioned by the EMD Project to analyze the results of the investor survey that was developed in collaboration with EMD Project partners. The aim of this survey and resulting report was to gain a better understanding of where and how investors including asset managers and asset owners invest in emerging markets. The EMD Project will use the resulting information to help it tailor future research as well as to determine where to focus its corporate engagement efforts.

This survey was designed to assess the current levels of responsible investment and activity in emerging markets and asked both asset owners and asset managers about a range of investment issues related to ESG (Environmental, Social, and Governance) factors.

Survey respondents

There were 67 respondents in the sample, primarily from North America and Europe. They represented over USD 130bn of emerging market assets. This is almost half of the USD 300bn of sustainable investment assets in emerging markets as estimated in a joint report earlier this year by the International Finance Corp. and Mercer Investment Consulting.

Several types of ESG/SRI criteria were commonly used by respondents including corporate governance, international norms criteria (e.g. human rights, labour relations), negative social screening (e.g. tobacco, Sudan divestment) and green energy/technology.

Key insights from the survey:

- ❖ Responsible investors have extensive experience of investing in emerging markets
- ❖ European investor exposure to emerging markets is nearly double that of North Americans in the sample
- ❖ Europeans are much more likely to use corporate governance criteria while North Americans favour negative screening
- ❖ The biggest challenge to investing in emerging markets is a lack of ESG disclosure
- ❖ Key drivers for improved ESG disclosure include development of national sustainability indices, ESG listing requirements, influences of global standards and norms

Best practice countries in emerging markets

According to respondents, Brazil is making the most progress towards ESG disclosure. Investors cited its sustainability index as well as the increased availability of ESG research as it pressures companies to improve transparency. After Brazil, South Africa was identified as another country leading the way towards improved ESG disclosure, followed by China, South Korea, India, and Taiwan. Improved ESG disclosure in Asian countries was influenced by the onset of globalisation and the resulting need to operate to global standards along with changes in government legislation.

Current top country allocations:	Top ten company holdings in emerging markets:	Countries making most progress towards ESG disclosure, according to respondents:
1. Brazil	1. Petrobras (<i>Brazil</i>)	1. Brazil
2. China, India, Mexico	2. Samsung Electronics (<i>South Korea</i>)	2. South Africa
3. South Korea	3. China Mobile (<i>China</i>)	3. China
4. Russia, South Africa	4. Taiwan Semiconductor (<i>Taiwan</i>)	4. South Korea
5. Taiwan	5. Teva (<i>Israel</i>)	5. India
	6. Vale Do Rio Doce (<i>Brazil</i>)	
	7. America Movil (<i>Mexico</i>)	
	8. Gazprom (<i>Russia</i>)	
	9. Posco (<i>Korea</i>)	
	10. Ambev (<i>Brazil</i>)	

Obstacles and opportunities to responsible investment in emerging markets

The most often-cited key challenge to investing in emerging markets, given by 70% of respondents, was a lack of company ESG disclosure. The next most frequently cited challenge was that of corporate culture. North American respondents rated the lack of company ESG disclosure most often as a key challenge to investing in emerging markets, whereas the European group most often cited corporate culture as a key challenge. The European group cited language difficulties approximately twice as often as their North American counterparts, while the North American group cited a lack of investment research far more often than the European group.

Lack of company ESG disclosure was cited by 70% of survey respondents as the key challenge to investing in emerging markets.

Conclusions

If investors are to understand the emerging market company ESG risks and the steps that companies are taking to mitigate those risks, then disclosure levels need to improve. Improved ESG disclosure would also help drive investment research. Corporate culture, the second most cited challenge for emerging market investment, is also an issue, since a substantial proportion of emerging market companies fail to mitigate their ESG risks. This, seemingly, is an indication that some emerging market company managements do not regard ESG issues as material for their companies. Improved government regulation and enforcement as well as investor engagement can go some way towards leading companies towards better sustainable practices. This survey highlights the importance of initiatives such as the UN Principles for Responsible Investment that promote the concept of responsible investment, including in emerging markets. Those emerging market companies that devote resources to CSR activities may well gain financial benefits from being seen as leaders among their peers. An engagement approach among investors in emerging markets should improve the corporate responsibility practices of companies and will also create demand for the development of additional research.

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1. Introduction

The Emerging Markets Disclosure Project (EMD Project) is an international coalition of investors and organizations working to improve sustainability disclosure by companies in emerging markets. The EMD Project is under the coordination of Calvert Investments, the International Finance Corp. (IFC) of the World Bank, and the International Working Group (IWG) of the US Social Investment Forum (SIF). The current (third) phase of the project relates to direct corporate engagement with companies in emerging markets. This targeted outreach and engagement to promote disclosure is focused on companies based in Brazil, India, Russia, South Africa, and South Korea.¹

Building on these foundations, EIRIS was commissioned by the EMD Project to analyze the results of the investor survey. EIRIS is a global responsible investment research consulting firm which conducts research into the environmental, social, governance and ethical performance of companies in developed and emerging market countries.

The aim of this survey and resulting report is to gain a better understanding of how and where investors invest in emerging markets and to help both companies and investors analyze the current level of investment in emerging markets by responsible investors. Additionally, the EMD Project will use the resulting information to help it tailor future research as well as to determine where to focus its corporate engagement efforts as phase three of this project continues. As much of the shareholder base of many large emerging market companies is made up of foreign investors, it is seen as increasingly important that management try to address the needs and concerns of their global investor base.

2. Methodology

This survey was designed to assess the current levels of responsible investment and activity in emerging markets. A link to the web-based survey was sent to signatories of the United Nations Principles for Responsible Investment (UNPRI) and the EMD Project as

well as to members of the following responsible investment groups:

- ❖ Asian Corporate Governance Association (ACGA),
- ❖ Association for Sustainable & Responsible Investment in Asia (ASrIA),
- ❖ European Sustainable Investment Forum (Eurosif),
- ❖ Latin American Sustainability Financial Forum (LASFF),
- ❖ Responsible Investment Association Australasia (RIAA),
- ❖ US Social Investment Forum (SIF),
- ❖ Canadian Social Investment Organization (SIO),
- ❖ United Kingdom Sustainable Investment Finance (UKSIF).

This wide-ranging group was chosen to capture practitioners of responsible investment around the world, including local emerging market owners and managers.

The survey asked both asset owners and asset managers about a range of investment issues related to ESG factors. The survey consisted of 15 qualitative and quantitative questions.

Definitions used for survey consistency:

SRI — abbreviation for “socially responsible investing,” an investment discipline for the retail financial sector that may incorporate ESG issues as well as other criteria more closely linked to a values-based approach. Investors choose to exclude or select particular companies or sectors because of their impact on the environment or stakeholders.

ESG — abbreviation for “environmental, social, and governance” criteria or factors, incorporated into investment analysis, policy or management.

Corporate governance — the means by which decisions are made relating to the control of a corporation and its stock.

¹ More information regarding the EMD Project including the report and sign-on statement can be found at: <http://www.socialinvest.org/projects/iwg/>

3. Results

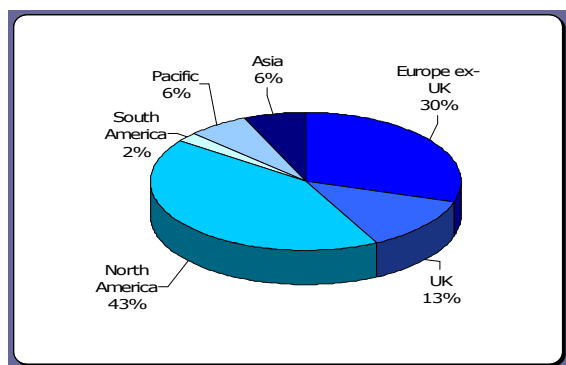
Key Insights:

- ❖ **Responsible investors have extensive experience of investing in emerging markets**
- ❖ **Top five country allocations - Brazil, China, India, Mexico, South Korea**
- ❖ **European investor exposure to emerging markets is nearly double that of North Americans in the sample**
- ❖ **Europeans are much more likely to use corporate governance criteria while North Americans favour negative screening**
- ❖ **The biggest challenge to investing in emerging markets is a lack of ESG disclosure**
- ❖ **Key drivers for improved ESG disclosure include development of national sustainability indices, ESG listing requirements, influences of global standards and norms**

3.1 Sample Analysis

The survey sample consisted of 67 respondents, primarily from North America and Europe. The number of responses for each figure varies because not all respondents answered all of the questions. The regional breakdown of the survey respondents who disclosed their country of residence is shown in Figure 1.

Figure 1. Regional representation of survey respondents (n=47)

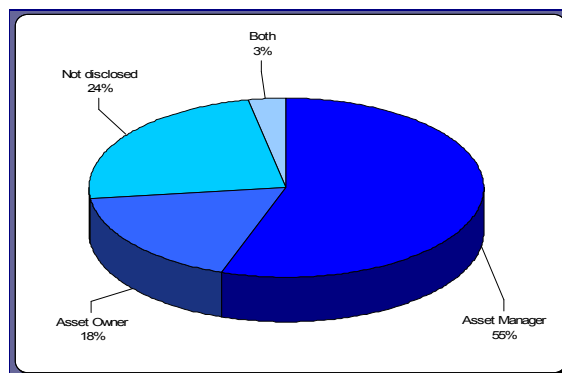


Although the survey methodology was designed to incorporate input from domestic emerging market managers, unfortunately

responses from this group only accounted for 8% of the total.

Figure 2 demonstrates the breakdown of the type of respondent and shows that 55% of respondents identified themselves as asset managers.

Figure 2. Type of respondent (n=67)



The total amount of emerging market assets represented by survey respondents was USD 130.1bn although 17 respondents out of 67 declined to disclose their emerging market asset amounts. This figure represents almost half of the USD 300bn of sustainable investment assets in emerging markets as estimated by the recent IFC-Mercer report².

Figure 3 shows that 50 respondents of the 67 indicated that they are members of at least one organization devoted to CSR/SRI issues, most commonly the UNPRI³. This highlights the importance of initiatives such as the UNPRI which are driving forces in promoting the concept of responsible investment, including in emerging markets.

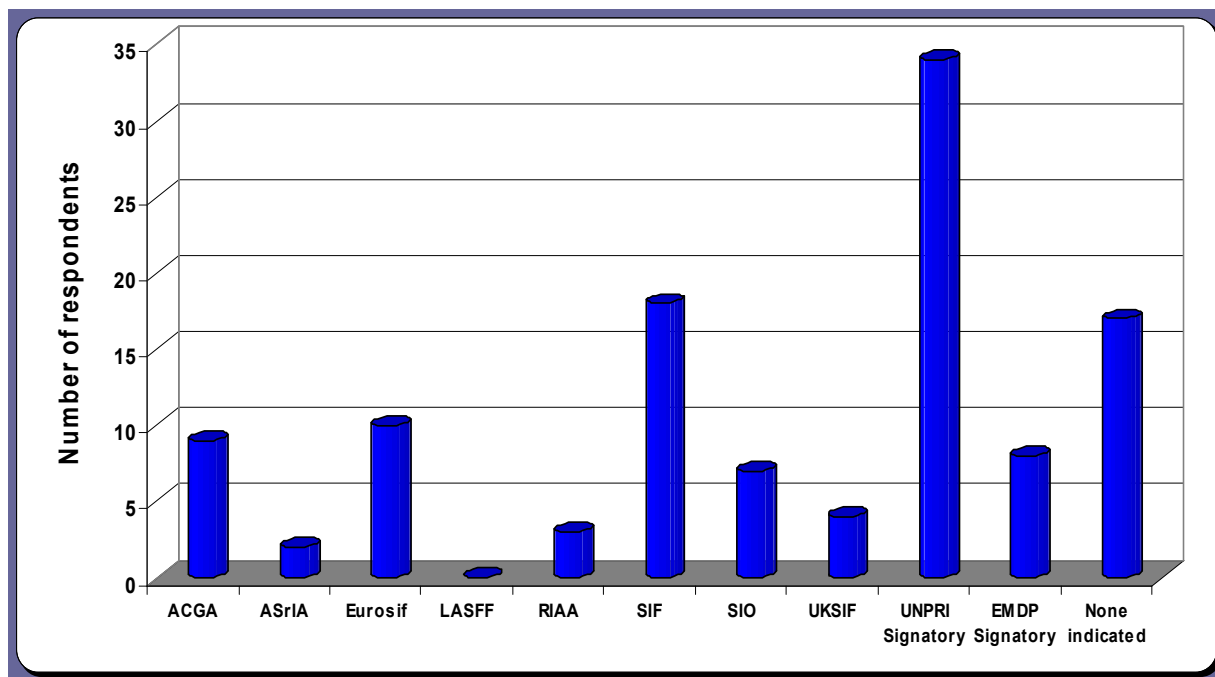
Nearly two thirds of the respondents have been investing in emerging markets for more than six years, the longest option for the question.

Nearly one third of respondents indicated that they integrated ESG issues across their emerging market investments. However, what this means in practice may differ among respondents.

² IFC-Mercer report: Gaining ground – Integrating environmental social and governance (ESG) factors into investment processes in emerging markets, March 2009 <http://www.mercer.com/ri>

³ United Nations Principles for Responsible Investment (UNPRI) www.unpri.org

Figure 3. Organization membership (n=67)



3.2 Results Analysis

The top country allocations within emerging markets were:

1. Brazil
2. China, India, Mexico
3. South Korea
4. Russia, South Africa
5. Taiwan

The top ten company holdings cited by survey respondents are as follows, in descending order from the most frequently chosen:

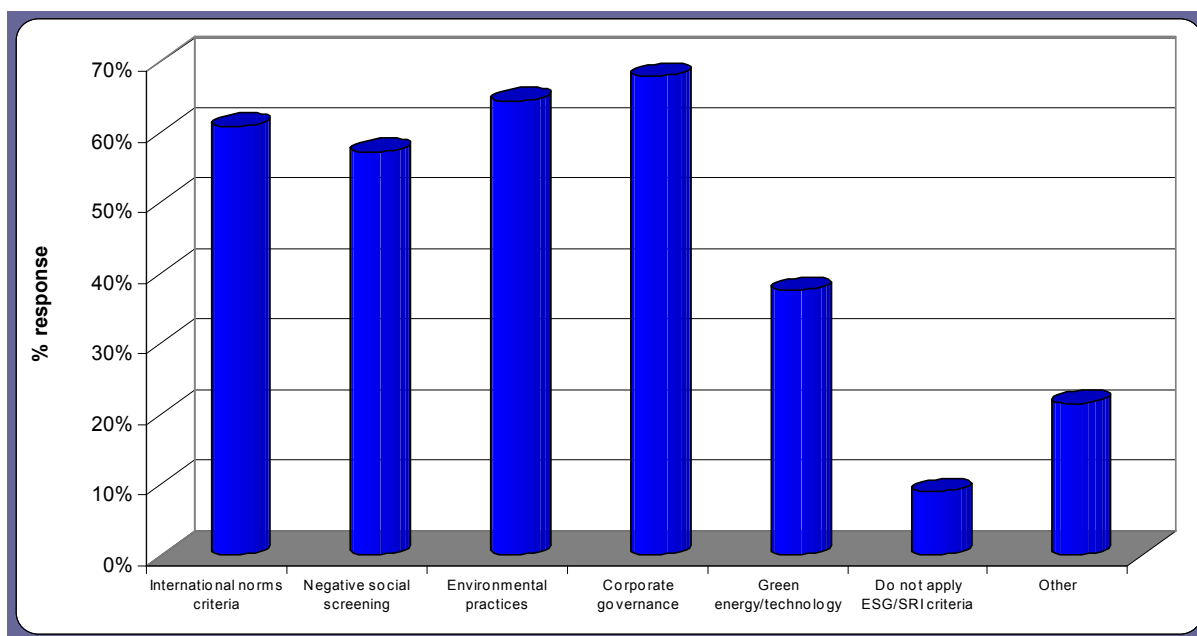
1. Petrobras (*Brazil*)
2. Samsung Electronics (*South Korea*)
3. China Mobile (*China*)
4. Taiwan Semiconductor (*Taiwan*)
5. Teva (*Israel*)
6. Vale Do Rio Doce (*Brazil*)
7. America Movil (*Mexico*)
8. Gazprom (*Russia*)
9. Posco (*Korea*)
10. Ambev (*Brazil*)

Respondents said they commonly used several types of ESG/SRI criteria, including international norms criteria (e.g. human rights, labour relations), negative social screening (e.g. tobacco, Sudan divestment), environmental practices, and corporate governance.⁴ Figure 4 shows that corporate governance slightly edged out the others as the most frequently cited criterion, while green energy/technology was chosen by fewer respondents than the other criteria. Fewer than 10% of respondents stated that they do not use any ESG/SRI criteria.

In response to an opportunity to specify "other" criteria, respondents gave answers that included: client-driven approaches, integrated ESG, social practices, social and environmental indicators to assess financial institutions involved in microfinance and SME (small and medium enterprises) lending, and positive impacts.

⁴ Negative social screening is the practise of applying exclusionary screens for companies involved in controversial products/services (e.g. tobacco) or practices (e.g. operations in Sudan).

Figure 4. ESG/SRI criteria utilized (n=56)



3.3 Investor Profiles

3.3.1 Asset managers and asset owners

Typical asset manager

The survey sample included 38 respondents identified as asset managers. The typical asset manager in the sample was equally likely to be from North America or Europe.

These respondents used several types of ESG/SRI criteria, giving the most importance to corporate governance, followed closely by international norms and environmental practices. They were less likely to use negative social screening or focus on green energy/technology. The biggest challenge they reported to investing in emerging markets was the lack of company ESG disclosure, followed by corporate culture.

Typical asset owner

The survey sample included 13 respondents who identified themselves as asset owners. The typical asset owner in the sample was from North America.

A majority of these respondents said they engage in negative social screening and also consider the criteria of corporate governance, environmental practices, and international norms. Only a minority, though, say

they consider green energy/technology criteria.

Comparative analysis

Comparisons between the sample's asset managers and asset owners are necessarily limited by the unequal group sizes and especially by the small number of respondents identifying as asset owners, which exaggerates differences.

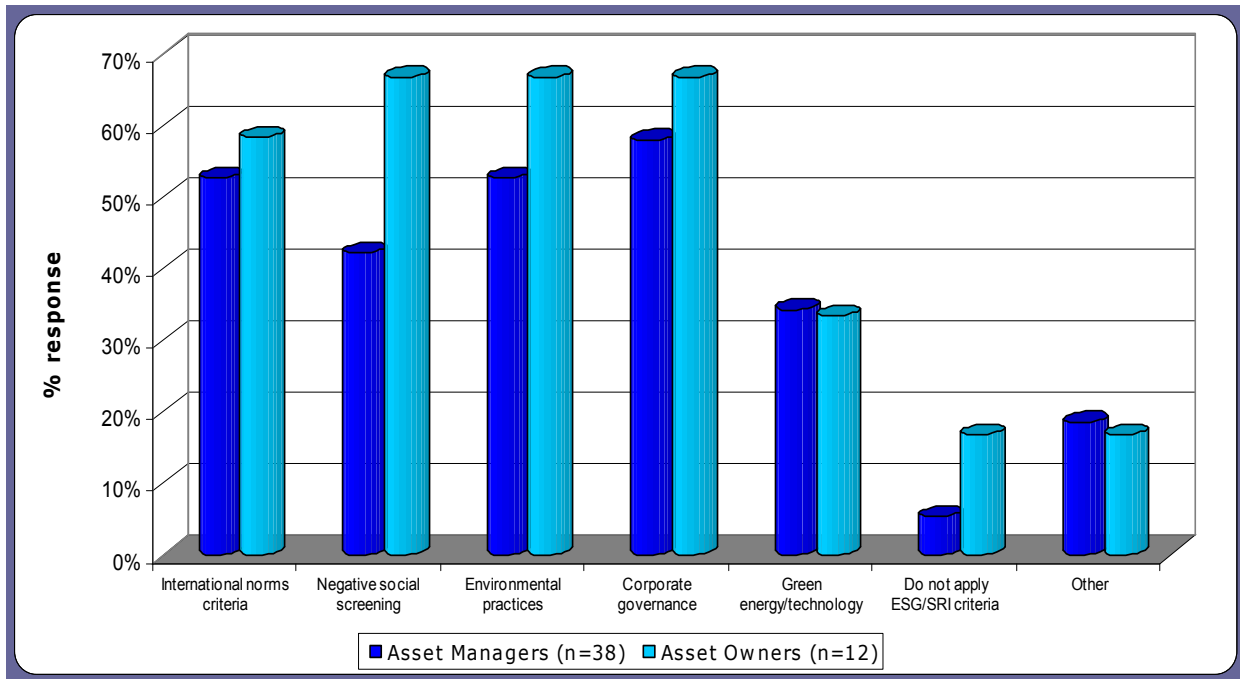
The two groups attached similar importance to each of the types of criteria, with the exception again of negative social screening, ranked as more important for the asset owner group than for the asset managers. This again may be due to the North American influence in this group, as North Americans in the sample were also found to use negative screening more often than their European counterparts. The relatively minor weight that both asset managers and owners place on green energy/technology criteria suggests that these are not likely to be primary drivers of responsible investment in emerging markets by either type of investor.

Both groups rated a lack of company ESG disclosure as the most common challenge to investing in emerging markets, followed by corporate culture. The asset owner group cited both language difficulties and local market access less often than did asset managers.

Table 1. Comparison between asset managers and owners

Indicators	Asset manager	Asset owner
Sample size	38	13
Average AUM	USD 3.5bn	USD 0.6bn
% of international assets in EM	36%	6%
Years of experience in EM	>6	>6
Organization membership	UNPRI + 1 other	UNPRI + 1 other
Most used ESG criteria	Corporate governance	Negative screening
Least used ESG criteria	Green energy/technology	Green energy/technology
Top five countries by assets	Brazil, China, India, Mexico, South Africa	Brazil, China, India, Mexico, South Korea
Greatest challenge to EM investing	Lack of ESG disclosure	Lack of ESG disclosure

Figure 5. ESG/SRI criteria utilized



3.3.2 North American and European investors

Typical North American investor

The survey sample included 20 respondents from the US (15) and Canada (5). Thirteen of these were asset managers.

North Americans relied most often on negative social screening criteria, followed equally by corporate governance, international norms criteria, and environmental practices. The typical North American

respondent cited lack of company ESG disclosure as the main challenge to investing in emerging markets, followed by corporate culture and a lack of investment research. Language issues were seen as less of a problem.

Typical European investor

The survey sample included 20 respondents identifying as being from European countries, most commonly from the UK (6) and representing asset managers (16).

Based on this sample, Europeans placed a heavy emphasis on corporate governance, followed by international norms criteria and environmental practices, with less importance placed on negative social screening and green energy/technology. This hides various regional trends such as Nordic investors using mostly international norms and negative screening criteria. The European sample most frequently cited corporate culture as the key challenge to investing in emerging markets, followed by lack of company ESG disclosure. At the opposite end, they rated lack of investment research last as a challenge.

Comparative analysis

The European investors in the sample had a greater absolute amount invested in emerging markets, roughly three times more on average than their North American counterparts. It follows that they also had a greater percentage of their international holdings in emerging markets, an average of 37% versus 20% for the North American respondents.

The greatest regional differences in utilization of ESG criteria were in negative screening. North American investors were much

more likely to employ negative screening for emerging market investments than were European investors. Conversely, European investors were more likely to consider corporate governance criteria in emerging markets. The North American group on average also rated the criteria of international norms, social screening, and environmental practices as more important than the European group. Also of note was that nearly 20% of North American respondents do not currently apply ESG/SRI criteria to their emerging market investments, while most European respondents indicated that they do.

The North American group most often rated the lack of company ESG disclosure as a key challenge to investing in emerging markets, whereas the European group most often cited corporate culture as a key challenge. The European group cited language difficulties approximately twice as often as their North American counterparts, while the North American group cited a lack of investment research far more often than the European group. The perceived lack of ESG disclosure by emerging market companies may reduce investor confidence and lead to lower allocations to emerging markets.

Table 2. Comparison between North American and European investors

Indicators	North American investor	European investor
Sample size	20	20
Average AUM	USD 1.5bn	USD 4.7bn
% of international assets in EM	20%	37%
Years of experience in EM	>6	>6
Organization membership	UNPRI + 1 other	UNPRI + 1 other
Most used ESG criteria	Negative screening	Corporate governance
Least used ESG criteria	Green energy/technology	Green energy/technology
Top five countries by assets	Brazil, Israel, Mexico, China, India	Brazil, South Africa, India, Mexico, China
Greatest challenge to EM investing	Lack of ESG disclosure	Corporate culture

Figure 6. ESG/SRI criteria utilized by region

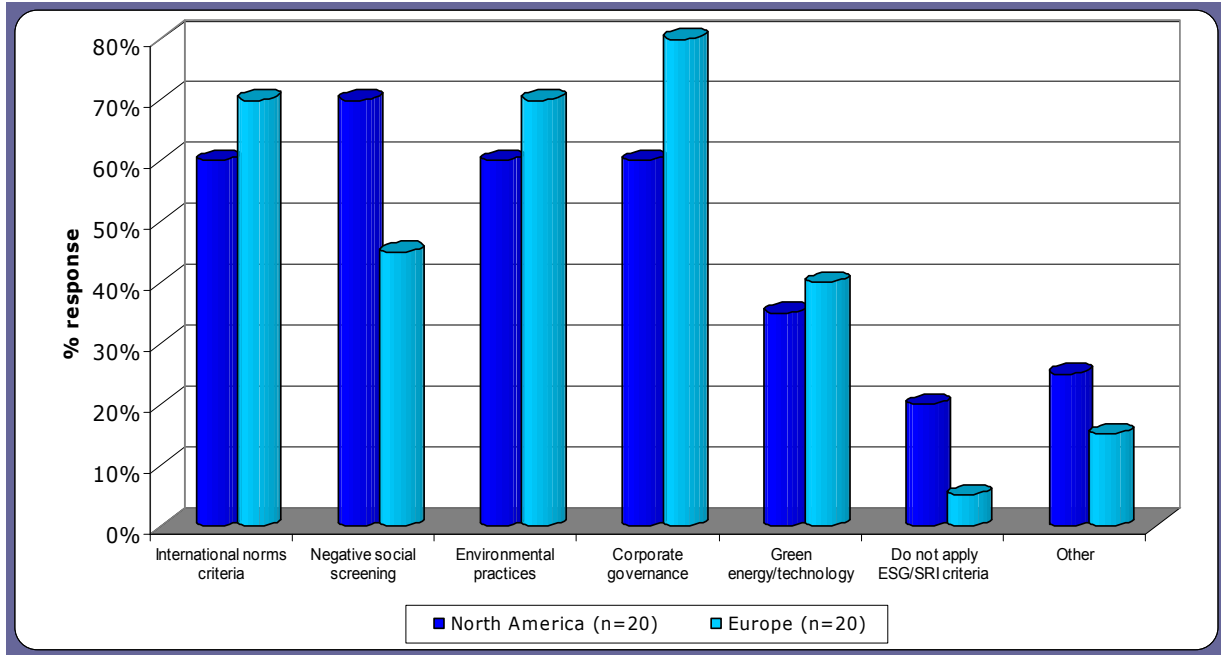
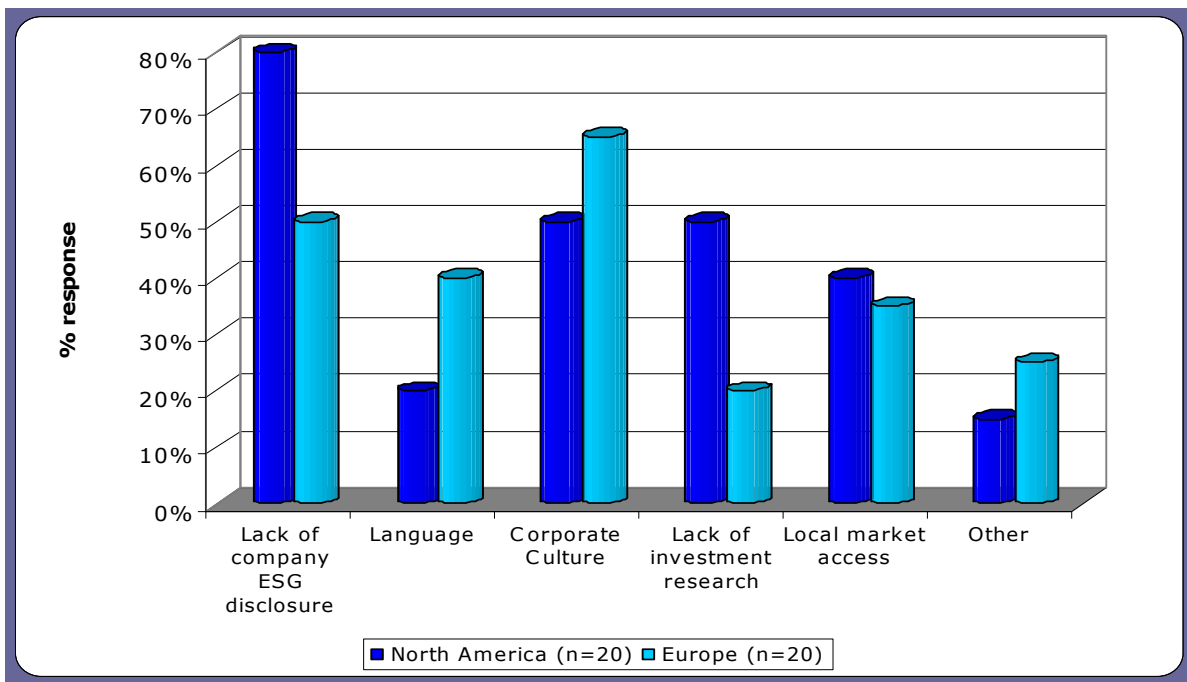


Figure 7. Key challenges to emerging markets investment by region



3.3.3 The Top 10 (by assets under management)

The top ten respondents by asset value in emerging markets reported having responsibility for assets over USD 3bn each. This group consists of seven asset managers, two asset owners, and one who was unidentified. Together they represented over USD

120bn invested in emerging markets. These respondents indicated that they have an average of 26% of their international portfolio in emerging markets, just slightly above the mean for the survey sample as a whole.

The top ten investors reported similar ESG/SRI criteria taken into account for

emerging markets investment compared to the larger sample of all respondents, as well as showing a similar pattern of valuation for the importance of various ESG issues. In general, the top ten group assigned a somewhat greater importance than the overall survey sample to corporate governance, and somewhat lesser importance than the larger sample to the other ESG criteria choices.

Regarding the key challenges to investing in emerging markets, the top ten group cited the lack of company ESG disclosure and lack of investment research slightly less than would be expected from the sample at large, and conversely cited "other" challenges slightly more often. These included access to companies and their managements and time horizons being too short.

Korean investors

The sample contained three asset managers from South Korea. They represented a total of USD 6.7bn in emerging market assets, and an average of 96% of their total holdings were in emerging markets. Two of the three had been investing in emerging markets for more than six years. Two were UN PRI signatories, and one was a SIF member.

Though one respondent invested widely across emerging market countries and regions, the other two stated that Korean holdings were their only emerging market investment. They leaned toward the criteria of environmental practices, green energy/technology, and corporate governance, and away from negative social screening. They ranked environmental criteria as slightly more important than the other criteria the survey presented. Interestingly, these investors from emerging markets also agreed with the overall sample that lack of ESG disclosure is a key challenge.

3.4 Best practice examples of emerging market countries and companies

Countries which were viewed as making positive steps towards ESG disclosure are shown in Figure 8 below.

Both asset owners and asset managers identified Brazil as making the most progress towards ESG disclosure. Reasons for Brazil's improved ESG disclosure are primarily concerned with the development of a na-

tional sustainability index along with increased pressure from investors, who are demanding improved ESG disclosure and research. It seems that investors there are now realising the importance of ESG issues, and according to one respondent "*private enterprises are now supporting ESG research*", ultimately placing increased pressure on companies to improve their disclosure and transparency. In addition, Brazil's image as an investor-friendly market has been enhanced by a newly created set of voluntary listing levels which focus on corporate governance.⁵

After Brazil, South Africa was identified as another country leading the way towards improved ESG disclosure, with nine of the respondents identifying this to be the country making the most positive steps towards ESG disclosure. According to one respondent, South Africa is "*more advanced with regard to ESG disclosure, as well as sectors which are traditionally more high impact such as energy, metals & mining*". As with Brazil, the respondents commending South Africa cited the fact that the country has its own sustainability index with ESG disclosure compulsory in listing requirements. One respondent said they cited South Africa due to the "*development of a national sustainable index, along with specific requirements*".

These results correspond with those found in the SIRAN/EIRIS study where the Brazilian and South African companies studied stood out as consistently having the highest assessments among the companies sampled.⁶ Brazil and South Africa also have both a strong background of domestic responsible investment as well as important guidelines for disclosure, as in the case of the King Reports in South Africa and the Brazilian Pension Fund Association guidelines on SRI.^{7,8}

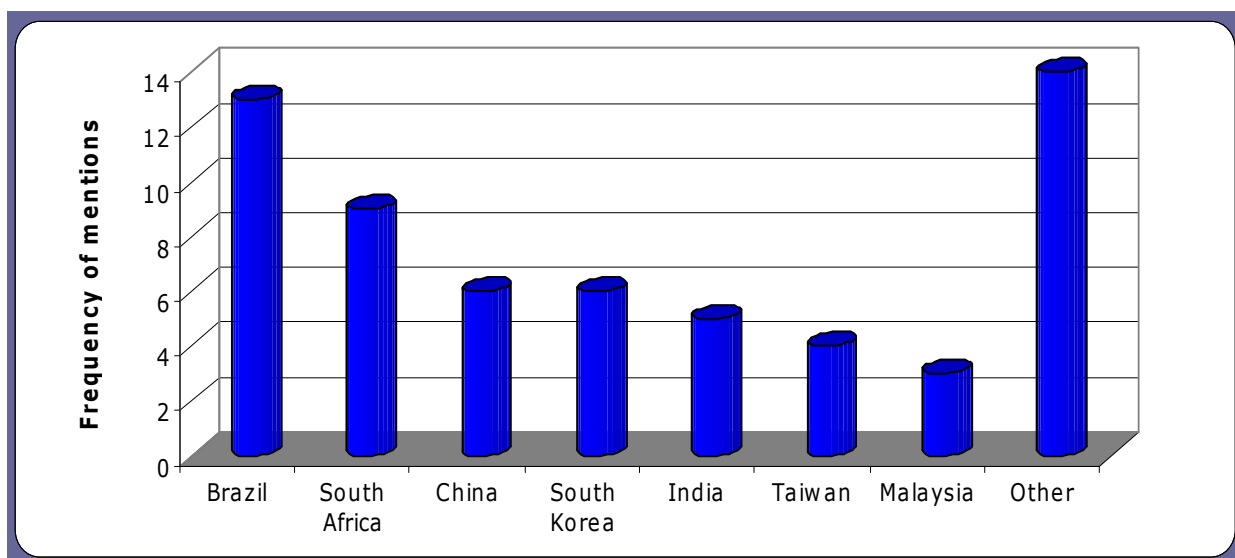
⁵ CFA Institute report: Shareowner Rights across the Markets – a manual for investors, April 2009
http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2009.n2_1

⁶ SIRAN/EIRIS report: A Review of ESG Practices in Large Emerging Market Companies, March 2009
<http://www.siran.org/pdfs/Emerging%20Markets%20aper%20%20FINAL.pdf>

⁷ South African King Reports:
www.iodsa.co.za/king.asp

⁸ Brazilian Pension Fund Association guidelines:
http://www.internethos.org.br/_Uniethos/Documents/undos_pensao.pdf

Figure 8. Countries identified as making positive steps towards ESG disclosure (n= 24).



After Brazil and South Africa, a group of Asian countries were identified as making positive steps towards ESG disclosure. These included China, South Korea, India, Taiwan and Malaysia. It appears that motives for the move towards improved ESG disclosure in these countries included the onset of globalisation and the related need to operate to global standards as well as changes in government legislation, suggesting that global norms are favouring ESG disclosure.

"Companies are now competing on a global level and so are being pressed to meet global sustainability standards. The Chinese Government also published a set of guidelines on corporate responsibility reporting for Chinese enterprises."

One respondent noted that the Chinese government has published a strong set of guidelines on ESG reporting along with strong listing requirements whilst another respondent highlighted the fact that Malaysia has *"introduced a listing standard requirement that all publicly-traded companies report on their CSR policies in the annual report"*. It is similar for South Korea, where the Center for Good Corporate Governance in South Korea was highlighted,

along with its role as a watchdog for institutional investors. In India, the launch of the first ESG mutual fund was seen to be a huge step in the right direction, along with *"more disclosure and improved accounting standards"*. A number of other countries outside the regions mentioned above were also identified in the survey responses. These included Russia, Turkey and Israel.

In terms of corporate disclosure, one of the companies identified as leading the way was Itaú-Unibanco: *"This Brazilian Bank provides excellent disclosure of direct and indirect social and environmental risks from banking, including a clear articulation of its activities under the Equator Principles in line with global best practice standards"*. Another was Natura Cosméticos, also from Brazil: *"This natural cosmetics company reflects good disclosure on its systems for managing relations with a disparate agent-based workforce and a biodiversity risk management system"*. Other companies singled out by respondents for leading the way in terms of improved ESG disclosure were both in South Africa: Aspen, given its *"strong sustainability positioning"* and Woolworths, due to *"its integrated sustainability in business practices and growing range of organic and ethical products as well as external recognition for their efforts"*.

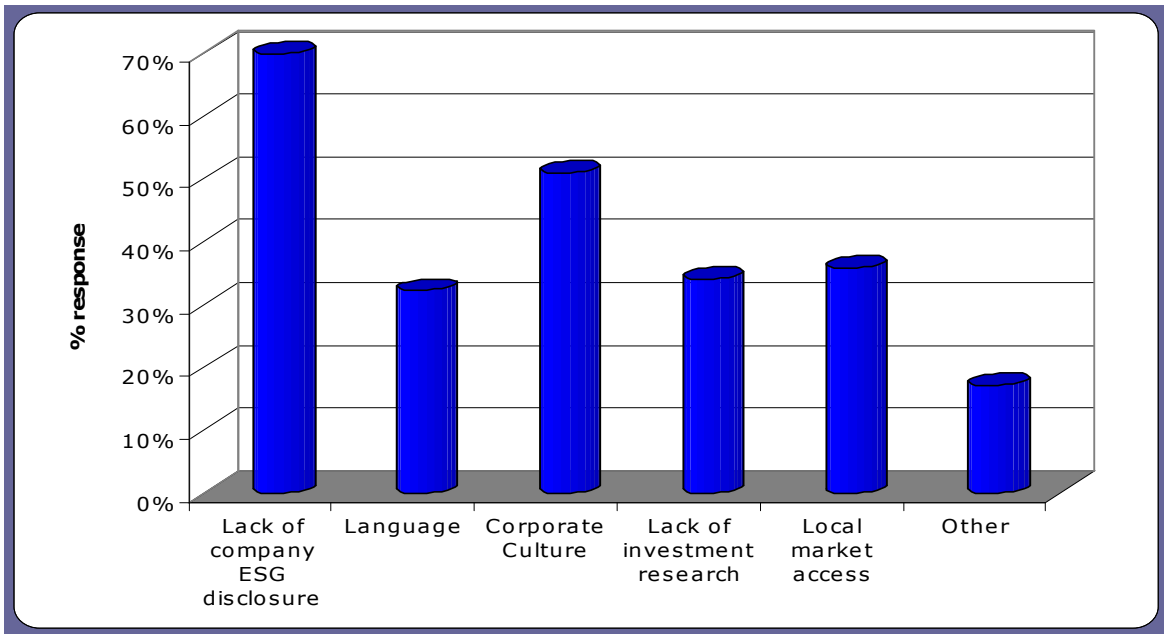
Key drivers for improved ESG disclosure include:

- Development of national sustainability indices
 - ESG listing requirements
- The influence of global standards and norms

3.5 Obstacles and opportunities to responsible investment in emerging markets

The most often-cited key challenge to investing in emerging markets was a lack of company ESG disclosure, chosen by 70% of respondents. This was followed by the challenge of corporate culture, chosen by 51% of respondents. The other responses including language, a lack of investment research, local market access, and "other" were chosen less frequently.

Figure 9. Key challenges to emerging markets investment (n=53)



A selection of free-text responses in the "other" category included: corruption, government interference with independent verification of corporate practices, liquidity, preferred shares with very low rights, quantitative investment approach, share price volatility linked to less availability of information, and overly short time horizons.

A recent SIRAN/EIRIS paper which reviewed the ESG practices of large emerging market companies found that the majority of the companies reviewed showed some evidence of addressing at least some ESG issues in their public disclosures.⁹ The SIRAN/EIRIS study focused on the largest 40 companies

in emerging markets and as investors highlighted lack of ESG disclosure as the key challenge to investing in emerging markets in this survey, it would seem that while disclosure for the largest companies is good, poorer disclosure at a long tail of other companies hampers investor efforts to invest responsibly in emerging markets.

Corporate culture, the second most cited challenge for emerging market investment, is an over-arching concept that can include a range of issues. While it is unclear why so many respondents cited corporate culture as a challenge, one hypothesis is that they are concerned that a substantial proportion of emerging market companies fail to mitigate their ESG risks. As in some developed country companies, some emerging market

⁹ SIRAN/EIRIS report: A Review of ESG Practices in Large Emerging Market Companies, March 2009

company managements do not appear to regard ESG issues as material. Improved government regulation and enforcement as well as investor engagement can go some way in leading companies towards better sustainable practices. For example, a recent CFA report outlining corporate governance practices in various markets attributes an improvement in the shareowner engagement process in Malaysia to increasing activities by government-related agencies. The report contrasts this finding with that of the situation in South Korea where 'regulatory inadequacies often impede both the formation of independent corporate boards and the improvement of shareowner engagement practices.'¹⁰

Although language was not chosen by respondents as a top challenge in investing in emerging markets, it is very important for investors to be mindful of this issue. Language, idiomatic, and cultural differences can be stark, and differences should be heeded, especially when undertaking engagement.

The pressure on emerging market companies to improve their climate change response and disclosure seems destined to rise as many fast-growing large countries such as China and India start playing a greater role in dialogue about climate change policies. Another driver for emerging market companies may be their growing orientation towards global markets. The lack of a domestic regulatory framework does not insulate a company from risk. Competition may drive some emerging market companies towards new, developed markets where stakeholders are more concerned with ESG issues. Those emerging market companies that devote resources to managing ESG risks and opportunities may well gain financial benefits from being seen as leaders among their peers. An engagement approach among emerging market investors should improve the corporate responsibility practices of companies and will also promote the development of additional research.

4. Conclusions

The results of this survey have summarized the levels, activities, and views of a signifi-

¹⁰ CFA Institute report: Shareowner Rights across the Markets – a manual for investors, April 2009

cant proportion of responsible investors in emerging markets. Various regional differences emerged, most notably the types of ESG/SRI criteria used by investors as well as the challenges to investing in emerging markets. Yet there was also clear agreement as to which countries were making the most progress in terms of ESG disclosure.

There is obviously a record of strong interest in emerging markets among responsible investors. Despite the numerous challenges, it is encouraging that investors are increasingly considering ESG issues in these countries. Addressing these challenges is important for opening up these areas to further investment. Further research into these and other challenges faced by emerging market investors, such as corporate culture, as well as the differences in the perception of challenges between the investor groups analyzed will help to clarify and identify solutions to these problems.

As identified by this survey, the biggest obstacle is a lack of disclosure from companies regarding their CSR activities. Disclosure levels need to improve so that investors can understand a company's risks better as well as the steps that companies are taking to mitigate those risks. Improved ESG disclosure would also help drive further investment research.

There is significant scope for improvements by companies in both the levels of disclosure and the quality and consistency of information provided. Investors need to make clear to emerging market companies that ESG data is increasingly important to them and that improved levels of disclosure help them understand corporate risk exposure and performance on these issues. It is important that management try to address the needs and concerns of their developed country investor base but as the small sample of emerging market investors in the survey showed, they too are concerned about the lack of ESG disclosure.

Initiatives such as the EMD Project are vitally important to drive more reporting from emerging market companies. Other more globally focused organizations such as the Carbon Disclosure Project (CDP) or the Global Reporting Initiative (GRI) can also help companies with reporting. Another part of the solution consists of encouraging civil society groups in emerging markets to put pressure on companies to improve their dis-

closure. 'Home-grown' CSR initiatives are key in helping companies with their disclosure. These can include domestic responsible investment funds and indices and the emergence of listing rules which include CSR. The examples of Brazil and South Africa can be used as models to encourage local uptake of improved ESG disclosure.

As corporate responsibility seems to work best when instigated domestically, emerging market regulators, policy makers and stock exchanges can also work to reduce some of the ESG risks that serve as a barrier to cer-

tain investors in their countries. Emerging market governments can make their mark by encouraging ESG. This is especially pertinent when they have specific issues they want to promote (such as black economic empowerment in South Africa) or when they see corporate responsibility as a source of comparative competitive advantage. This can be accomplished by setting up initiatives to further increase understanding among domestic companies about CSR and responsible investment and encourage ESG disclosure.

Appendices

5.1 The Emerging Market Disclosure Project (EMD Project): Fact Sheet

The EMD Project began as an initiative to improve sustainability disclosure in emerging markets through the international collaboration of companies and investors.

Phase 1 of the project involved a benchmark report on the current state of sustainability reporting in several emerging markets, including China, India, South Africa, Brazil, Korea and Russia. The study assessed 75 companies across three sectors: Energy (Oil and Natural Gas), Materials (Metals and Mining), and Telecommunications. According to the study, nearly 9 out of 10 companies (87%) offer at least some level of sustainability disclosure. South African companies emerged as the overall leaders, while Chinese companies were the laggards on sustainability disclosure. Overall, only 27% of the companies surveyed indicated that they use the GRI reporting framework.

Phase 2 of the project involved a sign-on statement encouraging emerging market companies to use the GRI and to improve sustainability reporting. The sign-on statement calls on companies in emerging markets to improve their transparency of management of environmental, social and corporate governance (ESG) issues. The sign-on statement has been endorsed by 28 global institutional investor signatories and 15 affiliated supporters (NGOs and research organizations).

Phase 3 of the project which began in May of 2008 is well underway and will run through at least the middle of 2010. It is focused on outreach to corporations operating in Brazil, India, South Korea, Russia, and South Africa to promote greater sustainability disclosure. This is being done through established country teams with a strong emphasis on working with local institutional investors and research partners in each country.

We would like to acknowledge and thank the many organizations who have worked on this project throughout the three phases.

Organizing Partners



Boston Common Asset Management



Calvert Investments



International Finance Corporation



Social Investment Forum (SIF)



Country Team Leads



Boston Common Asset Management



Calvert Investments



EM Capital Management, LLC



Mn Services



**PREVI - Caixa de Previdência dos
Funcionários do Banco do Brasil**

Supporting Partners



**Association for Sustainable and
Responsible Investment in Asia (ASrIA)**



**EIRIS Ltd
Global Responsible Investment Specialists**





Korea CSR Research Service



Responsible Research



Santander Brazil Asset Management



**Social Investment Forum
Sustainable Investment Research
Analyst Network**

Government Employees Pension Fund, of the Republic of South Africa

Many of the investors involved in the Emerging Markets Disclosure Project are signatories to the United Nations-backed Principles for Responsible Investment (PRI). The PRI Secretariat has been providing implementation support for the EMD project.

More information on the Emerging Markets Disclosure Project can be found at <http://www.socialinvest.org/projects/iwg>.

5.2 Resources for SRI emerging market investors

Websites

- ❖ Asian Association of Independent Research Providers: www.asiairp.com
- ❖ Asian Corporate Governance Association (ACGA): www.acga-asia.org
- ❖ Association for Sustainable & Responsible Investment in Asia (ASRIA): www.asria.org
- ❖ Canadian Social Investment Organization (SIO): www.socialinvestment.ca
- ❖ Carbon Disclosure Project (CDP): www.cdproject.net
- ❖ CSR-Asia: www.csr-asia.com
- ❖ EcoFrontier: www.ecofrontier.com
- ❖ EIRIS: www.eiris.org
- ❖ European Association of Independent Research Providers: www.euroirp.com
- ❖ European Sustainable Investment Forum (Eurosif): www.eurosof.org
- ❖ Greeneye: www.greeneye.co.il
- ❖ IFC: www.ifc.org
- ❖ International Institute for Environment and Development: www.iied.org
- ❖ Investorside (for Independent Research in the USA): www.investorside.org
- ❖ Johannesburg Stock Exchange (JSE) - SRI index: www.jse.co.za/sri
- ❖ Korea CSR Research Service (KOCSR): www.kocsr.org
- ❖ Korea Sustainability Investing Forum: www.kosif.org
- ❖ Latin American Sustainability Financial Forum (LASFF): www.lasff.org
- ❖ Responsible Investment Association Australasia (RIAA): www.responsibleinvestment.org
- ❖ Responsible Research: www.responsibleresearch.com
- ❖ SynTao: www.syntao.com
- ❖ US Social Investment Forum (SIF): www.socialinvest.org
- ❖ United Kingdom Sustainable Investment Finance (UKSIF): www.uksif.org
- ❖ UN Principles for Responsible Investment (UNPRI): www.unpri.org

Reports

ASrIA report: Taking Stock — Adding Sustainability Variables to Asian Sectoral Analysis, February 2006

http://www.asria.org/publications/lib/sector/ASrIA_Taking_Stock_Combined_Report.pdf

CFA Institute report: Shareowner Rights across the Markets – a manual for investors, April 2009

<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2009.n2.1>

GRI report: Reaching Investors: Communicating Value Through ESG Disclosure, March 2009

<http://www.globalreporting.org/NewsEventsPress/PressResources/Pressrelease25March2009.htm>

IFC-Mercer report: Gaining ground – Integrating environmental social and governance (ESG)

factors into investment processes in emerging markets, March 2009 <http://www.mercer.com/ri>

PFS Report: Survey of Reporting on Corporate Social Responsibility (CSR) by the Largest Listed Companies in 11 Central and Eastern European (CEE) Countries, April 2009

http://www.pfsprogram.org/capitalmarkets_research.php

SIRAN/EIRIS report: A Review of ESG Practices in Large Emerging Market Companies, March 2009

<http://www.siran.org/pdfs/Emerging%20Markets%20Paper%20%20FINAL.pdf>

UNCTAD/EIRIS report: 2008 review of the corporate responsibility performance of large emerging market enterprises, October 2008

http://www.unctad.org/en/docs/c2isarcrp3_en.pdf

5.3 Survey Questions

1. **In your international portfolio, what percentage of your assets is in emerging markets as of December 31, 2008?**
2. **In your international portfolio, what dollar amount is in emerging markets as of December 31, 2008? If possible, please give amount in US dollars. Please note that this number will only be used in aggregate and will not be linked to any respondent or company.**
3. **What types of investment vehicles do you run in emerging markets (check all that apply)?**
 - a. Niche SRI funds
 - b. ESG-themed funds
 - c. Socially screened funds
4. **For how long have you been investing in emerging markets?**
 - a. Less than a year
 - b. 1-3 years
 - c. 4-6 years
 - d. More than 6 years
5. **Do you have a stand-alone emerging market portfolio strategy?**
 - a. Yes
 - b. No
 - c. Unclear/Unsure
 - d. Other (please specify)
6. **In which emerging market countries do you currently have holdings (check all that apply)?**
 - a. Argentina
 - b. Brazil
 - c. Chile
 - d. China
 - e. Colombia
 - f. Czech Republic
 - g. Egypt
 - h. Hungary
 - i. India
 - j. Indonesia
 - k. Israel
 - l. Malaysia
 - m. Mexico
 - n. Morocco
 - o. Pakistan
 - p. Peru
 - q. Philippines
 - r. Poland
 - s. Russia
 - t. South Korea
 - u. Taiwan
 - v. Thailand
 - w. Turkey
 - x. Other (please specify)
7. **What are your top ten largest company holdings in emerging markets as of December 31, 2008? Please include both the company name and country. If not included in list below, please add any additional top ten companies and countries.**

8. When investing in Emerging Markets, what ESG/SRI criteria do you take into account (check all that apply)?

- a. International norms criteria (ex. human rights, labor relations)
- b. Negative social screening (ex. tobacco, Sudan divestment)
- c. Environmental practices
- d. Corporate governance
- e. Green energy/technology
- f. Do not apply ESG/SRI criteria
- g. Other (please specify)

9. Please rank the criteria below in terms of importance for how you analyze ESG issues with emerging market companies with 5 being the highest.

- a. International norm criteria (ex. human rights, labor relations)
- b. Negative social screening (ex. tobacco, Sudan divestment)
- c. Environmental practices
- d. Corporate governance (ex. corruption)
- e. Green energy/technology

10. What do you think are the key challenges to investing in emerging markets (check all that apply)?

- a. Lack of company ESG disclosure
- b. Language
- c. Corporate Culture
- d. Lack of investment research
- e. Local market access
- f. Other (please specify)

11a. Which emerging market countries do you consider are making positive steps toward ESG disclosure?

11b. Please describe how these countries are making positive steps

12a. Which companies in emerging markets would you point towards as models for the integration and communication of ESG issues?

12b. Please describe how you consider these companies to be models

13. What organizations are you a member of (check all that apply)?

- a. Asian Corporate Governance Association (ACGA)
- b. Association for Sustainable & Responsible Investment in Asia (ASrIA)
- c. European Social Investment Forum (Eurosif)
- d. Latin American Sustainability Financial Forum (LASFF)
- e. Responsible Investment Association Australasia (RIAA)
- f. Social Investment Forum (SIF)
- g. Social Investment Organization (SIO)
- h. United Kingdom Sustainable Investment Finance (UKSIF)
- i. United Nations Principles for Responsible Investment (UNPRI)
- j. Emerging Market Disclosure Project Signatory

14. Do you represent an asset owner or asset manager?

15. Additional Comments