

RBC BlueBay
Asset Management

# Examining emerging markets

## Influencing improvements in ESG

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**Emerging market debt expert Polina Kurdyavko, Managing Director, BlueBay Head of Emerging Markets, Senior Portfolio Manager, discusses why engagement with emerging market issuers is important to implement positive environmental, social and governance (ESG) risk-return change while providing examples of issuers that the team has worked with.**

ESG has been a significant issue of concern from a risk perspective in developed markets for several years now. However, many investors have questioned if it is really possible to affect risk-adjusted returns in emerging markets, with so many issuers falling short on ESG in the complex emerging market debt asset class.

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### Our approach is through engagement

Firstly, we would like to dismiss the myth that it is difficult to influence the improvement in ESG risks in fixed income. Generally speaking, when the issuers need money the most, they are most willing to listen to investors and follow their guidance. And emerging markets tend to be an area where the funding is always more challenging to raise than developed markets.

Secondly, we would say that without engagement with the issuers, we wouldn’t be able to influence or improve any of the ESG risks. Looking at the universe, half are countries with high or very high ESG risks. And if we exclude that universe, we’re not contributing to the change and improvement in ESG risks more globally. Therefore, our approach is through engagement. We prefer to invest if we can have direct engagement with the issuers. In particular, we help on the disclosure side to improve the broader management of ESG risks and ESG ratings by third-party rating agencies.

### Recent engagement

In Mexico, we engaged with a quasi-sovereign oil and gas company with quite a common situation in emerging markets where the company had not signed the UN (United Nations) Global Compact, the world’s largest corporate sustainability initiative with over 10,000 business participants in over 160 countries. As a result, it was negatively rated by most ESG rating agencies, even though they were adhering to all the general principles to be a signatory for the UN Global Compact. And we were able to highlight this to the company and work with the board to change this status quo.

On the sovereign side, we worked with Indonesia, a country with the majority of exports focused on coal. And it is also a country that is acutely aware of the need to reduce coal production and focus on renewable projects. We recently met with the Minister of Finance of Indonesia, working with the Ministry, to create a framework to provide funding for projects replacing coal with alternative renewable energy projects.

> **"It is important to remember that ESG in emerging markets is on a path towards transition rather than investing in high-quality companies and countries."**

### The path towards transition

It is important to remember that ESG in emerging markets is on a path towards transition rather than investing in high-quality companies and countries. And not all of the three pillars  i.e., the E, S and G factors in ESG are equally important in different countries or can be equally delivered in tangible outcomes.

We need to focus on the priorities for us as investors and the priorities for the country and the companies and see if we can work together to deliver a positive outcome from a risk-return perspective.

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