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Why a tailored ESG approach is key in emerging markets

By **Sam Benstead** / 29 Mar, 2019

Don't count on external data providers for ESG in emerging markets, urges Maria Negrete-Gruson, who manages the Artisan Sustainable Emerging Markets Fund.

Given the nature of emerging markets, she stressed that investors need to take countries and companies on a case-by-case basis and focus on improvements in ESG, rather than absolute scores.

'We have to acknowledge where we are investing,' she told Citywire Selector. 'Emerging markets can be very weak and troubled places.

'We need to care about positive change, rather than absolute scores, because a portfolio of perfect companies rarely exists. It is about improvement – that's what we are trying to identify.'

For example, Negrete-Gruson looks at how many times a company has been sued for sexual harassment to give it a score which she can compare against its previous track record.

'If a company used to have 20 incidents and now has five, that is an improvement, or if a company used to perform well and now no longer does, that is a deterioration,' she explained.

'We believe that ESG in emerging markets is not about the good and bad lists – it is about improvements and deterioration. And it is very important to identify inflection points,' she said.

Flexible analysis

Negrete-Gruson's methodology combines incident-based quantitative scores, which look at improvements, deteriorations and the severity of an incident, with other qualitative elements.

This allows the team to look ahead, assessing whether bad incidents are likely to be repeated and analysing what policies are in place to prevent that.

Negrete-Gruson argued that the worst thing emerging market investors can do is screening companies based on ESG considerations.

'In a place like Brazil, there have been serious ESG breaches at Vale regarding environmental and social damage, and governance issues at Petrobras.

'These are grave issues, but the worst thing that investors can do is to blacklist them because that will eliminate core parts of the economies and stunt the potential for improvement.'

Instead, she penalises companies and looks for change. This allows for companies that have had issues in the past to remain in portfolios.

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Maria Negrete-Gruson is portfolio manager of the Artisan Sustainable Emerging Markets Fund. This article represents the views of Sam Benstead of Citywire Selector and Maria Negrete-Gruson as of the date of publication and those views and opinions presented are their own. Artisan Partners is not responsible for and cannot guarantee the accuracy or completeness of any statement in the discussion. This material does not constitute investment advice or a solicitation of any specific investment product or service. Any forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation. Prospective investors should consult their financial and tax adviser before making investments in order to determine whether an investment will be suitable for them.

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