



## A new approach to ASEAN ESG Investing



By Victor Wong

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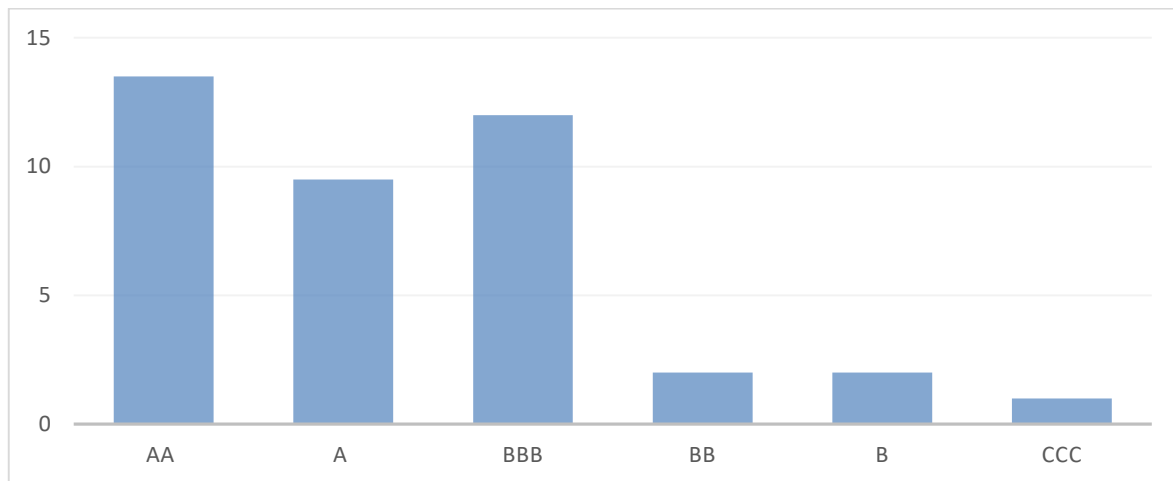
Last month UOB Asset Management (UOBAM) was shortlisted for the PRI's *ESG Incorporation Initiative of the Year Award 2022*, the first time ever for an ASEAN-based fund manager. **Victor Wong, Head of UOBAM's Sustainability Office**, explains the importance of sustainable investing in ASEAN, and the UOBAM model that so impressed the Principles for Responsible Investment (PRI) judges.

### Environment, Social, Governance (ESG) embraced by big business

This week sees the start of the United Nations Climate Change Conference (COP27). A year ago, at COP26, more than 110 countries, including eight from the ASEAN region, committed to net zero emissions by 2050. But given the tough year we have had, including the war in Ukraine and rising global inflation, many countries have not made much headway.

In the lead up to COP27, only 24 had kept their promise to submit updated plans. Similarly, most ASEAN governments are yet to announce firm measures that align to their net zero targets. On the other hand, private companies seem to be faring better. Of the 50 largest businesses based in the ASEAN region, 40 carry MSCI ESG ratings with the majority rated by MSCI to be AA, A and BBB.

**Figure 1: MSCI ESG ratings of Top 50 enterprises domiciled in ASEAN-6: Indonesia, Malaysia, Philippines, Singapore, Thailand, Vietnam**



Source: AIBP, March 2022 <https://iotbusiness-platform.com/insights/asean-tech-for-esg-convening-stakeholders-to-drive-sustainability/>

### **Smaller businesses lack ESG transparency**

It appears that, at least among well-established firms, ESG objectives have come to the fore in recent years. The same cannot be said of smaller enterprises and newly listed companies, not because they are less sustainability-focused, but often because analysts are simply not aware.

While ASEAN regulators have worked hard to establish local sustainability disclosure guidelines, these are not easily applied across borders. Current requirements on ASEAN businesses to disclose detailed sustainability-related data is also more limited. As a result, it is difficult to compare companies against regional peers or global benchmarks. This also means global data and ratings providers tend to stay away.

### **An innovative man + machine solution**

The result is an inability to identify future sustainability leaders in ASEAN – clearly, a major weakness for a fund manager!

To overcome this challenge, UOBAM has developed a man + machine framework for company sustainability assessments. This leverages the firm's extensive presence in, and expert understanding of, ASEAN markets. By maintaining dedicated country based ESG resources, we are able to have both deep and wide-ranging engagements with local companies.

But beyond this, UOBAM also applies an Artificial Intelligence-Machine Learning (AI-ML) ESG model called the ESG Analyser. The Analyser enables us to track company news and controversies in real time and track their ESG impact. This is incorporated with our proprietary materiality map of key ESG issues in order to generate three research models: ESG News, ESG Scores, and ESG Reports.

### **Process consistency is key**

It is important that we follow a standard process for all companies being assessed, whether big or small. First, we complete a preliminary ESG scorecard based on internal plus third-party data. We then make adjustments to ensure the manual score is consistent with scores generated by the ESG Analyser.

We further enhance our overall scoring methodology by maintaining a good line of communication with companies on broad ESG themes, local ESG issues and any specific ESG controversies.

The consistent application of our ESG Analyser, ESG Materiality Map and third-party data allows us to assess companies more consistently, reduce potential human biases, and ultimately create more robust ESG profiles. A secondary benefit of this approach is that companies are encouraged to improve their ESG disclosure while we continue to monitor their sustainability progress over the long term.

## **Expanded investment universe and improved forecasting**

Since instituting this framework, we have been able to add nearly 400 more ASEAN companies into our assessment universe. Our most dramatic improvement is in Vietnam where our ESG coverage has increased from near-zero to 60 percent of the market.

Meanwhile in Indonesia, our coverage has risen from 40 to 89 percent and in Thailand we have widened our universe from 30 to 95 percent. We are also very pleased that in Malaysia, our ESG coverage has risen from 55 percent based solely on third party data, to 100 percent.

But better coverage is futile if our assessments do not lead to better investment decisions. So, we were delighted to find that, based on our internal analysis, there is a positive relationship between UOBAM's Analyser-enhanced ESG ratings and market performance.

Using our proprietary A to D ratings scale, we found that compared to the D-rated companies, A-rated companies demonstrated lower volatility, lower maximum drawdowns and higher risk-adjusted returns. This suggests to us that company risk-taking can be at least partially offset by its ESG initiatives and that our ESG ratings provide a useful indicator of superior performance.

## **The PRI awards are a sharing opportunity**

The PRI was formed in 2006 and supported by the United Nations following an invitation to some of the world's largest institutional investors to help develop the PRI. Since then, the PRI has grown from a handful to nearly 4,000 signatories, of which UOBAM is one.

The PRI awards, according to its website, "recognise individually excellent projects conducted by signatories of all sizes, specialisms and levels of development." They are said to be "a great opportunity for all signatories to learn from each other's successes".

Previous winners and short listees of the ESG incorporation initiative of the year award include Rockefeller Asset Management, JP Morgan Asset Management and BNP Paribas Asset Management. We are proud indeed to be the first ASEAN-based manager to be shortlisted for this award, especially as this was based on a solution designed to meet the specific challenges of ESG investing in ASEAN.

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