



## Getting ESG right in Asia

Environmental, social and governance (ESG) matters are increasingly an important part of corporate culture across the Asia-Pacific region, with both investors and companies recognising the long-term value and significance of sustainable business practices.

By the Asian Equity Team  
9 May, 2023

### ESG in the Asia of today

As of February 2023, 1,965 companies and organisations in the Asia-Pacific region had signed up to the Task Force on Climate-related Financial Disclosure (TCFD) requirements, accounting for almost half of the TCFD's 4,000-plus supporters.<sup>1</sup> In addition, more than 600 companies within the region have signed up to the Science Based Targets Initiative (SBTi), putting themselves on a clearly defined and measurable path towards reducing carbon emissions in line with the Paris Agreement goals.<sup>2</sup>

At the same time, the rapid advance of ESG as an investment trend has led to a profusion of interpretations of what ESG actually means. This makes it a potential source of confusion and contradiction for investors, especially in a world of diverse and shifting causes and issues, ranging from climate change to human rights.

Moreover, the complex and fast-changing economies and societies that make up Asia – the same characteristics that make Asia such a rich source of investment opportunity – continue to challenge investors hoping to apply comprehensive ESG analysis across Asian asset classes.

One of the reasons for this complexity comes from the diverse stages of economic development being experienced by Asian countries. Indeed, across the Asia-Pacific region, gross domestic product (GDP) per capita can range from as low as USD 1,500 to as high as USD 60,000 (Figure 1).

Such disparity of incomes and resources leads to vastly different economic and social priorities, as well as the broad spectrum of opportunities and risks among ESG factors. In addition, Asian companies often have ownership structures that differ from those in developed economies. In Asia, majority ownership, either by the state or founding families, is predominant.

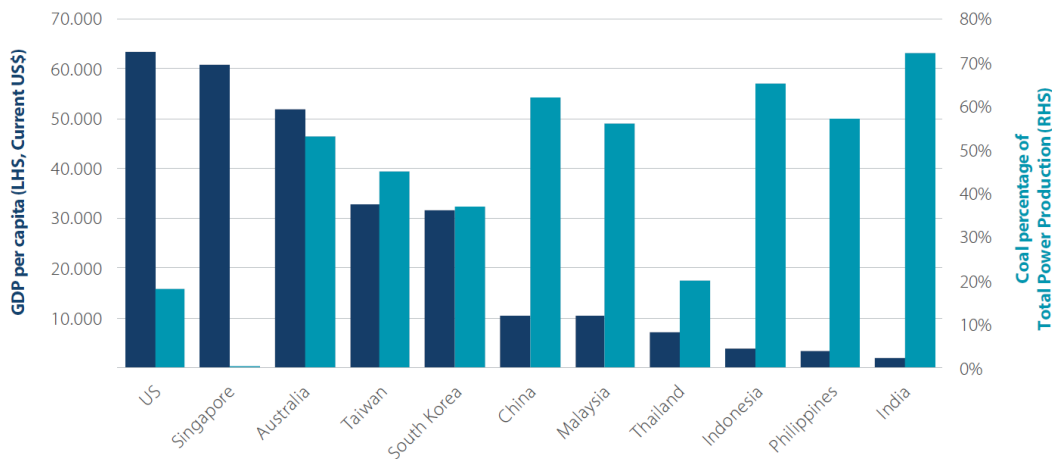
Assessing governance must then be conducted less according to textbook norms, but by applying a more granular understanding of the objectives, character, and motivations of the majority owners, whether state or private.

---

<sup>1</sup> <https://www.fsb-tcfid.org/supporters/>

<sup>2</sup> Companies taking action - Science Based Targets

**Figure 1: GDP per capita in Asia, coal as a percentage of total power production**



Source: World Bank, Local Central Banks, HSBC, Nikko AM.

## ESG integration leads to more opportunities and better risk control

From a portfolio management perspective, investing in companies capable of demonstrating strong or improving ESG credentials has become essential for generating higher sustainable returns. At Nikko AM, we believe ESG analysis and engagement is just as important as fundamental bottom-up research, and should be backed by dedicated ESG resources and independent data providers.

Due to our underlying philosophy of integrating ESG criteria within our stock analysis, we strongly believe that having a robust and improving ESG framework is fundamental for companies that want to achieve and sustain high returns.

We believe that the most important aspect of the ESG criteria is the impact it has on a company’s sustainable returns. And as bottom-up investors focused on company fundamentals, we scrutinise factors deemed most material to returns – in terms of both risks and opportunities.

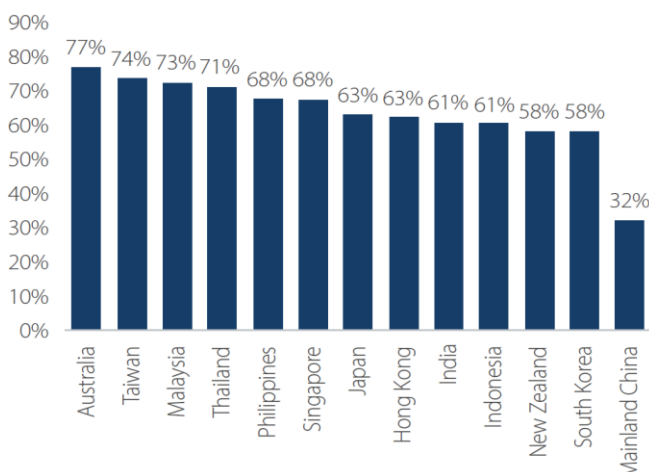
As investors, we are looking for underappreciated strong levels of ESG risk management or underappreciated (or overlooked) positive ESG change. These factors will typically result in the best impact on shareholder returns.

Companies known for their industry-leading ESG management typically already command premiums. We also assess materiality through a uniquely Asian lens, by being cognisant of differences in ownership, culture, and stages of development when compared with developed markets.

## The challenges of gathering ESG-related data

One of the biggest challenges – and indeed pitfalls – within the investment industry is the availability, integrity and relevance of ESG-related data. In many respects, some parts of Asia are still at an early point in terms of disclosures. The chart below shows average environmental and social (E&S) disclosure rates across different countries in Asia.

**Figure 2: Average E&S disclosure rate across different countries (MSCI ACWI) – February 2023**



Source: MSCI, ESG and GS Sustain, December 2022.

While disclosures are helpful in terms of achieving greater overall transparency, it is important to apply caution towards pure data-driven approaches, and to also recognise that disclosures are only as valid as the authorities policing them. Also, ESG data can be gamed (for example, Wirecard had a 100% independent board of directors), while 'greenwashing' remains a significant problem for investment managers to be mindful of.

In the absence of data, or using data as just one input among many, an active investment approach – reinforced by a well-resourced, experienced on-the-ground team – with engagement as a core element of the investment process should lead to the most accurate conclusions and unearthing of opportunities.

## Key Takeaway



We believe that managing ESG-related issues as an active manager is about understanding industry norms and identifying what matters the most in influencing shareholder returns from an ESG perspective. ESG investing will continue to develop, evolve, and mature, with investors also adapting how they integrate ESG into their investment processes.

In a time of significant change, Nikko AM is deeply committed to our focused and rational ESG framework, as we are convinced that this best serves our duty as stewards, not only of our clients' capital but also for the earth and its communities.

**To learn more about ESG investing in Asia, download Nikko AM's new Asia equity investment guide [here](#).**

**For any questions in regards to this report, please contact:**

**Nikko AM team in Europe**  
Email: [EMEAenquiries@nikkoam.com](mailto:EMEAenquiries@nikkoam.com)

**Important information:** This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (Nikko AM) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

**Japan:** The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association.

**United Kingdom:** This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

**Luxembourg and Germany:** This document is communicated by Nikko Asset Management Luxembourg S.A., which is authorised and regulated in the Grand Duchy of Luxembourg by the Commission de Surveillance du Secateur Financier (the CSSF) as a management company authorised under Chapter 15 of the Law of 17 December 2010 (No S00000717) and as an alternative investment fund manager according to the Law of 12 July 2013 (No. A00002630).

**United States:** This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

**Singapore:** This document is for information to institutional investors as defined in the Securities and Futures Act (Chapter 289), and intermediaries only. Nikko Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

**Hong Kong:** This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

**New Zealand:** This document is issued in New Zealand by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

**Kingdom of Bahrain:** The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

**Kuwait:** This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

**Kingdom of Saudi Arabia:** This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Holdings group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

**Oman:** The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

**Qatar (excluding QFC):** The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

**United Arab Emirates (excluding DIFC):** This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request. The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in

connection with the addressee's consideration thereof). No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.

**Republic of Korea:** This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. Nikko AM is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.