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Poor ESG data quality holds back sustainable investing in Asia

Managers that do not have analysts with sufficient training risk failing to identify major ESG issues, experts say

By Lisa Kim | September 15, 2022

The sub-par quality of data for environmental, social and governance investing is a major obstacle for fund managers who oversee sustainable funds in the Asia-Pacific region, with the problem being more distinct in emerging markets.

Concerns over data and issues focused on stewardship practices and greenwashing have prompted a discussion on whether actively or passively managed ESG strategies are more effective for fund managers to achieve their sustainability goals and foster positive change at investee companies.

Growing scrutiny on data quality and the effectiveness of sustainable investing comes as the appetite for ESG strategies continues to grow in Asia, with Accenture saying in April that 70% of wealthy investors this year, doubling the ratio in one year.

“The main challenge that I think [active fund managers] are facing is about accessing consistent and reliable and timely ESG formation reported by listed companies themselves,” Loic Dujardin, head of ESG at Traveloka, said at the FT’s Moral Money Asia event on Thursday last week.

He added that the ESG data released by companies in Asia can be “limited” in quality and consistency.

Although many Asian countries are rolling out more detailed ESG guidelines for listed companies, they still lag compared with their European peers.

Viktor Ostebo, Singapore-based head of institutional trading for the Asia-Pacific region at Flow Traders, said at the same session that “in certain emerging markets, the quality of the data is perhaps and not as good as it could be”.

The lack of quality data in those markets is the reason there are more ESG exchange-traded funds for developed markets, Ostebo said.

The challenges linked to data, he added, were both experienced by active and passive managers due to the “heavy” reliance on data to assess ESG funds.

This is not unique to emerging markets as investors often depend on ESG benchmarks from providers.

In the U.K., the Financial Conduct Authority said last week that ESG benchmarking should disclose more information to ensure that “intermediaries and investors can assess the underlying economic reality or market that is being measured and the sustainability claims of the benchmark”.

The FCA added that it will “consider enforcement action” for companies that “fail to consider our feedback”.

Traveloka’s Dujardin said there are also challenges on the fund manager’s side that make it difficult to actively manage ESG products.

Managers who do not have analysts or talent with adequate training in ESG risk failing to identify major ESG issues, which “can create value or destroy value over time”, Dujardin said.

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Managers who can hire experienced analysts with knowledge of sustainable investing can consistently engage with portfolio companies.

“These insights are going to fuel the fundamental analysis. It’s going to complement your ratio analysis, your P&L assessments, and so on,” Dujardin said.

In the private equity space, managers in emerging markets often start from scratch when evaluating investee companies, which allows them to make sure the companies meet global standards, according to Cate Ambrose, CEO and board member of the nonprofit Global Private Capital Association.

Private equity managers in such markets work closely with management on issues of sustainability, Ambrose said at the same panel discussion.

“There has to be buy-in because in some cases they are the majority stakeholder, and these are all areas of a learning curve and an opportunity to bring companies in say Southeast Asia or India up to global standards in labour practices, supply chain, climate, etc.” she said.

Building trust with management and engaging in transparent communication with limited partners are essential in transforming a company to “ultimately sell it to another acquirer where they’ve created all of this value and there’s no longer that headline risk”, she added.

Asian investors’ appetite for ESG-themed funds has jumped amid the growing awareness of sustainable investments.

Sustainable-themed funds doubled in assets as of end-March to US$88.26 billion from US$44.68 billion in March last year, *Ignites Asia* reported.

Authorities in Asian countries are paying more attention to ESG rules and greenwashing.

South Korea’s financial regulator, the Financial Supervisory Service, said last week that it intends to crack down on ESG-labelled funds, while the Philippines’ central bank released guidelines on ESG investments last month.

Greenwashing emerged as a global concern after German police raided the office of asset manager DWS in May over allegations of investment fraud of ESG-labelled funds.

That month, the U.S. Securities and Exchange Commission proposed new rules for ESG funds, including requiring managers to disclose more about their ESG strategies. BlackRock, the world's largest asset manager, is pushing back, saying the rules could confuse and mislead investors.