The next big thing in ESG investing

ESG-minded asset managers like UOBAM Thailand are leading the way in sustainability, and new government policy could catapult it to the forefront of the region

WORDS BY
Dr. Narongdech Thakerngkiat
ESG SENIOR ANALYST,
UOB ASSET MANAGEMENT (THAILAND)

Thailand hasn't always been a leader in sustainability. Just three years ago, it ranked a lowly 154th in the Global Sustainability Index. But today, emboldened by leaders on its own shores like UOBAM Thailand, the country is showing real climate ambition. Unlike many other developing and developed economies, these policies are not merely surface-level commitments. They represent a real and genuine commitment initiative to promote sustainable development. Not just words, but policies.

In 2019 the government announced 'Thailand 4.0' to shake up some of its long-running economic challenges. Among them are a reliance on heavy industry and a persistent middle-income trap. It's essentially a framework to transform Thailand into a high-income, value-based economy. And within it lies a steadfast commitment to sustainable growth, be it through a focus on environmental protections, human capital, social well-being or otherwise.

Then in 2020, the government launched Thailand's Sustainable Development Plan 2030 to again promote sustainable development. This plan included specific targets to reduce emissions, increase the share of renewables in the energy mix, and promote sustainable land use practices.

Alongside this national focus on ESG factors, we've seen a nationwide shift towards ESG-focused funds and products in Thailand, which, together with the government's own policies, will likely put Thailand on a stronger, more sustainable path. We've known for some time that measuring any asset's long-term viability on financial performance alone is insufficient. But at UOBAM Thailand, we go further. Because we see in our own portfolios that integrating ESG evaluation across all investment asset classes can – and often will – boost performance. Looking at ESG returns at this moment, the Morningstar Global Sustainability Leaders Index doubled its broad market index returns in Q1 2023, reaching 21.2 percent. The top holding within the index, NVIDIA Corp (NVDA), posted a massive 90 percent return over that same period.

An early lead on ESG investing

As ESG investment experts, we receive many questions on how we can be sure any investment meets strict ESG criteria. Thankfully, this is where we lead. Our aim is to become the continent's leading fund manager on sustainability – one that creates long-term value and a legitimate positive impact for our stakeholders. We want to make sustainable investing accessible for all. And it's why we were one of the first Asian asset managers to integrate ESG principles in our investment philosophy and process. We were also one of the first Asian asset managers to become a signatory of the United Nations Principles for Responsible Investment (UNPRI).

As for our process, we adopt a holistic approach to ESG investing that considers E, S, and G factors as well as their interrelationships. Since 2020, UOBAM Thailand has launched five ESG-themed mutual funds for retail investors and two ESG funds for institutional investors. In our view, ESG investing is not simply about picking companies, watching, waiting and hoping for them to perform. Instead, we actively engage with the companies we invest in, using our influence as an investor to advocate for positive change. These may include suggestions on how to adopt sustainable practices or improve governance standards. Either way, our role is not just to highlight sustainably minded companies but to actively inspire them.

A well-oiled ESG machine

Though we will have an opinion on whether a company is indeed sustainable or not, our selection criteria are far more rigorous than any one expert's say. We assign specific E, S, and G pillar weights to companies across 11 classified sectors, using Global Industry Classification Standard (GICS) and referencing the Sustainability Accounting and Standards Board (SASB) materiality map.

All this is to say that we choose only companies with robust sustainable and financial performance and rule out any that have strong financials but fail to meet our sustainability threshold. Of course, E, S, and G factors are ever-evolving, and it is thanks to our ESG news alert system that we can dynamically screen for any changes in our portfolios. Put simply, we use an Artificial Intelligence-Machine Learning (AI-ML) ESG model called the ESG Analyser to find any relevant information.

This lets us track company news and controversies in real time. But we also supplement our overall scoring methodology by regularly engaging with companies on broad ESG themes, local ESG issues, and any specific ESG controversies we find. Unfortunately, far too many 'ESG investments' are only skin deep, which is why we use our ESG Analyser, ESG Materiality Map and third-party data to assess companies more consistently, reduce potential human biases, and ultimately create more robust ESG profiles.

This process doesn't only support sustainable development, but, in many cases, it actually boosts performance. In an internal analysis, we found that a positive relationship exists between UOBAM's Analyser-enhanced ESG ratings and market performance.

Using our proprietary A to D rating scale, with A representing the highest ESG standards, the top-rated companies registered not only higher returns, but lower volatilities and lower maximum drawdowns. A-rated companies outperformed D-rated companies in terms of risk-adjusted returns, which itself suggests that risk-taking can be at least partially offset by its ESG initiatives. In short, our ESG ratings provide a useful indicator of superior performance.

ESG opportunities in Thailand

So, where are the opportunities for ESG investing in an emerging market with ambitions to become a low-carbon society? For one, the government expects renewables to make up 30 percent of the mix by 2037, meaning solar, wind, hydropower, and other forms of clean energy show promise.

Investment in companies focusing on energy efficiency will also help reduce energy consumption and carbon emissions – both vitally important as we make the transition to a low-carbon economy. These companies may, for example, make energy-efficient products, such as LED lighting or smart thermostats, or provide services that help businesses or households reduce their energy use.

Likewise, energy storage solutions, such as batteries or hydrogen fuel cells, will increase the efficiency and reliability of renewable energy sources. Investment in companies developing energy storage technologies will support the growth of this same industry. It's worth remembering that the many and varied opportunities above have emerged amid an energy crisis. In fact, some have become more attractive precisely because of it. Here at UOBAM Thailand, we consider the energy crisis and hope to provide a kind of antidote to it for investors.

For example, we launched the United Battery and EV Technology Fund (UEV), which focuses on foreign equity funds and/or mutual funds ETFs of the operator in battery production lines, lithium mining, and the development of battery technology companies. The Master funds also invest in the companies that benefit from developing technology, products, and services related to the future of transport.

A fertile land for growth

We recognise of course, that ESG investing is an established sector beyond Thailand. Europe has been a leader in ESG investing and sustainable finance, thanks in part to regulations such as the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR). Similarly, countries in the Asia-Pacific region, particularly Japan and Australia, have taken big strides to adopt ESG best practices.

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As for emerging markets, particularly in Asia, many countries are seeing rapid economic growth and rapid urbanisation, which again creates opportunities in public infrastructure, renewable energy, and other areas conducive to sustainable development. That said, financial institutions in Thailand are themselves creating a more fertile landscape for ESG investing in growing – and growing apace.

The Securities and Exchange Commission Thailand (SEC) just recently released guidelines on the disclosure of information for SRI funds for asset managers. These will improve the operational standards of SRI fund management and prevent misleading information or greenwashing.

Just last year, they announced an additional policy requiring listed companies to disclose their ESG practices in annual reports. Guidelines on management and disclosure of climate-related risk by asset managers have also played a big part in building the climate risk management framework.

The Stock Exchange of Thailand (SET) has likewise introduced many regulatory measures to promote ESG investing, such as requiring listed companies to disclose ESG-related information and guidelines for responsible investment. It also launched the Thailand Sustainability Investment (THSI) list, which includes companies that meet ESG criteria and aims to both promote sustainable investment and encourage listed companies to improve their ESG practices.

Thailand, clearly, is something of a hotbed for ESG investing, thanks to government policy, financial regulations, and local leaders such as ourselves. But the spark we're already seeing in ESG investing is only likely to explode in the coming years, thanks not only to the above factors but growing demand among Millennials and Generation X.

We see that these generations are more likely to prioritise sustainable and socially responsible investing and are increasingly conscious of the impact of their investment decisions on the environment and society. As ESG investing thrusts itself firmly into the mainstream, we hope investors will recognise that countries like Thailand and companies like UOBAM are hot prospects in an exciting sector. Thailand is perhaps the next big thing in ESG investing. You heard it here first. ■