



Liz Su, CFA*Portfolio Manager, Emerging Markets*

EMERGING MARKETS SUSTAINABILITY:

Building on New Growth Avenues

The post-pandemic era is marked by shifting supply chains, reimagined industrial policies, and attention to well-being, signposts in the search for new growth avenues. In Emerging Markets (EM), the increasing focus on sustainability that began before the pandemic continues today.

The traditional case for investing in EM equities hinged on access to a growing middle class, global trade tied to competitive manufacturing, and the availability of natural resources. However, as EM governments chart a return toward growth, they are increasingly aligning economic policies and capital commitments with sustainability goals, even as they manage complex domestic and international challenges.

EM companies are taking advantage of this trend, investing in innovative solutions to become local and global leaders. In 2020, for example, South Korea announced it would invest ₩73.4 trillion (4% of its GDP) through 2025 in green remodeling of public facilities, renewable energy production, and eco-friendly vehicles. Through these efforts to transition towards a more sustainable industrial ecosystem, South Korea expects to create more than 600,000 jobs and boost employment by 2.5%.

More recently, South Korea's Corporate Value-up Program, a policy initiative reminiscent of Japan's reforms, mandates financial transparency and strategies for enhancing shareholder value. In our view, the success of this initiative depends on forthcoming tax reforms, which have the potential to lead to sustained corporate behavior changes. Korea is trading at an almost 40% Price to Book discount relative to EM, and early signs of governance reform bode well as investors reassess company efforts to boost shareholder returns.

In another example, Indonesia set ambitious carbon targets, pledging to reach nearly 50% renewable electricity generation by 2030 and phase out gas-powered cars by 2050. The government promotes clean energy transition by encouraging more value-added industrial activities, including a robust electric vehicles (EV) supply chain. Indonesia's ban on exports of selected unprocessed minerals, including nickel, bauxite, copper, and tin, ensures the availability of raw materials for downstream industries.

Meanwhile, China announced its ambitious carbon-neutral goals, requiring significant investment in a low-carbon, energy-efficient economy. Its policymakers continue to affirm environmental protection and decarbonization as pillars of its economic growth policies. The country's investment in new infrastructure, such as 5G, cloud computing, ultra-high-voltage

power grids, and renewable energy, will also support its goal of technological self-reliance. In China's capital markets, forthcoming mandatory ESG reporting requirements align with other major regions, such as the EU, heralding increased sustainability transparency in Chinese listed equities.

EM government commitments to sustainability are not confined to Asia alone. Following COP26, South Africa announced its Just Energy Transition Partnership with Germany, France, the UK, the US, and the EU. The decarbonization investment plan and its aim of supporting coal phase-out are increasingly seen as models for other EM countries.

In 2021, Brazil bowed to international pressure to set a target of achieving net-zero emissions by 2050—a decade ahead of the previously agreed-upon schedule—while ending illegal deforestation by 2030. The country's current government is expected to focus more on achieving these goals, especially regarding deforestation.

Home to Global Sustainability Leaders

Emerging Market companies have become leaders in alternative energy, and LG Chem in South Korea and BYD in China are leaders in the EV supply chain. Fueled by policy support and innovation, China now accounts for half the global EV market share and is home to more than 70% of the global solar energy supply chain.

Companies in Taiwan, Brazil, Chile, and elsewhere have become important suppliers of EV and renewable energy components. Taiwan's global power management company, Delta Electronics, is among the companies well-positioned to benefit from new demand driven by EVs, data centers, and industrial automation. And thanks to the rise of technology and digitalization—the latter proving particularly effective at reducing the carbon footprint of manufacturing—EM-based global suppliers are offering solutions for more sustainable and energy-efficient economies.

Elsewhere, dramatic improvements in communications networks, achieved by deploying high-speed wireless and wired broadband, have improved commerce efficiency and essential service response times. Bharti Airtel in India, Advance Information Services in Thailand, and SK Telecom in Korea are prime examples.

The promise of Artificial Intelligence (AI) cannot be achieved without efficient production and supply of technologies. EM companies such as TSMC and SK Hynix are critical providers of essential tools and equipment, the “picks and shovels” for the AI boom. These companies' increasing attention to energy efficiency, water management, and talent development has made them sustainability leaders in technology.

It remains to be seen how quickly and indelibly these initiatives will make their mark on the global economy. Still, there are already encouraging signs as global supply chains increasingly adjust to new alliances and production security demands. Together, government policy and capital commitments, growing technical expertise, and enhanced industrial capabilities have become too significant to dismiss.

The post-pandemic economy is beginning to look quite different from the globalized, “just-in-time” world left behind. Instead of depending on the Agri-Industrial Revolution that catapulted Developed Markets forward ages ago, Emerging Markets are betting on the Resource Revolution to propel productivity gains. As the region's share of global solutions leaders expands, its companies may hold a winning hand in a sustainability-driven economy.



ABOUT LIZ

Liz is the lead portfolio manager of Boston Common's Emerging Markets (EM) strategies. She works with analysts to create sustainability-focused EM portfolios, helps grow the firm's EM research capabilities, oversees overall portfolio positioning, and communicates with clients and prospects. She also has research responsibilities focusing on the global consumer staples sector. With over 21 years of investment experience spanning EM and Global equities, fixed income, and quantitative research, Liz is passionate about investing in EM companies that can enable the transition to a more inclusive and sustainable future.

Prior to joining Boston Common, Liz was an analyst and portfolio manager at Batterymarch Financial Management, where she most recently served as the head of Asia ex-Japan on the Emerging Market Equities team. She played an instrumental role in launching an Asia ex-Japan long-short fund and a Global Equity fund. She also gained asset allocation experience with Standish Mellon Asset Management. She began her career in economic and strategy consulting in 2000.

Liz earned a BA in International Finance from Wuhan University (China), an MA in Economics from Tufts University, and an MBA from the MIT Sloan School of Management. She is a CFA charterholder and a member of the Boston Security Analyst Society. In addition to investing, she volunteers as a Girl Scout troop leader and enjoys tennis, yoga, and traditional Chinese dance.