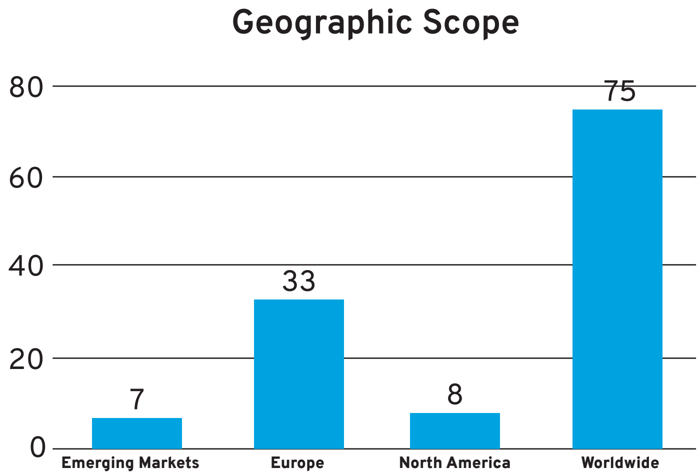
LuxFLAG ESG Supplements

Supplement 2

ESG investing goes beyond geographical borders

Although companies have improved their ESG disclosure in recent years (mainly driven by regulatory requirements), the current availability of relevant and quantifiable ESG data remains relatively low, particularly in the case of companies located in emerging markets. Companies headquartered in developed countries tend to have better access to ESG data and are often covered by ESG data vendors, as opposed to those in emerging markets. Geographical proximity also facilitates dialogue between investors and investees. Though the location of a company does not necessarily influence its ESG performance, investment funds tend to build ESG portfolios with companies for which more disclosures are available.

Based on the analysis of the prospectuses of the 123 LuxFLAG ESG Labelled products, representing nearly 60 billion euros of assets under management as at March 2020, the geographical location of the companies these products invest in is split as follows: 33% in Europe, 7% in emerging markets, 8% in North America, and 75% invested worldwide, in two or more regions (except in countries which are sanctioned by the UN).



The collection of relevant ESG data on emerging market companies requires extensive due diligence and research. But the situation is improving. As more and more international investors require information on sustainability issues as a part of their pre-investment analyses, an increasing number of emerging market companies have started to prepare separate sustainability reports along with their annual reports. Initiatives such as the UN Global Compact have played an instrumental role in raising awareness around issues such as human rights, labor rights, the environment and anti-corruption.

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