

Emerging market companies providing solutions to climate goals, warrants investor attention

- *Achieving Paris Agreement goals is impossible without supporting emerging economies in their transition to sustainable practices.*
- *Under 0.1% of UK pension assets are allocated to developing economies despite \$4tn sustainable development funding gap.*
- *Warns ESG factors and net-zero targets can unintentionally exclude emerging markets, urging investment in 'brown-to-green' strategies to ensure a unified global transition. Encourages asset owners to consider energy transition opportunities in emerging markets.*

London, 23 September 2024 – Reaching the goals of the Paris Agreement by 2030 is impossible without supporting emerging economies transition to more sustainable practices. Yet, UK pension funds are allocating a mere 0.1% of their assets to developing economies, overlooking critical investment opportunities that could drive significant global impact.

These insights come from a new report by Pensions for Purpose, commissioned by Ninety One. Separately, Pensions for Purpose collaborated with the World Benchmarking Alliance (WBA), which also contributed insights. The report highlights the need for capital owners to address a \$4tn funding gap in global sustainable development goals (SDGs) through emerging market investments.

However, with half of the SDG funding gap linked to the energy transition in emerging economies, these regions represent a critical opportunity for impactful investment.

Key insights include:

- **The Paris Agreement goals:** Achieving Paris Agreement goals is impossible without supporting emerging economies in their transition to sustainable practices.
- **Ineffective developed markets (DM) lens:** Applying DM investment frameworks to emerging markets (EMs) is counterproductive. The report emphasises the importance of recognising the diversity within EMs, as different regions face varying levels and types of risks and opportunities.
- **Active management preferred:** Asset owners using active strategies in EMs report more optimistic future performance views. The report highlights pension funds successfully investing in EMs have gone on a valuable learning journey, developing tailored approaches to address specific challenges such as data availability. EM indexes can be concentrated in a few countries, failing to provide a clear picture of all developing economies.

- **Tailored ESG approaches:** In contrast to developed economies, ESG strategies in EMs focus more on governance and human rights than environmental concerns. ESG analyses are largely used in EMs to mitigate risks rather than to drive intentional impact.

Karen Shackleton, Chair and Founder of Pensions for Purpose commented: "UK capital owners possess immense potential to drive positive change in emerging markets, but realising this potential demands innovative risk management strategies and a long-term perspective. To truly address the global climate crisis, asset owners need to broaden their perspective beyond their own portfolio's net-zero metrics and consider their real-world impact. Our report shows engaging with emerging markets is a necessary pathway to achieve tangible global sustainability outcomes."

Daisy Streatfeild, Sustainability Director, Ninety One: "Emerging markets account for over half of the world's GDP and are home to 85% of the global population. Investment in these regions is critical to achieving global net-zero goals, yet there is a pressing need to ensure these transitions are fair and inclusive."

Gwil Mason, Financial System Engagement Lead at the World Benchmarking Alliance added: "This report underscores how UK pension funds are critical in driving sustainable development globally. By choosing to invest sustainably in emerging markets, these funds can significantly contribute to closing the SDG funding gap while potentially realising attractive returns – and ensure ESG is good news not bad for EMs."

The report argues that while EMs may require more due diligence, these jurisdictions shouldn't be avoided. Many opportunities in EMs offer strong returns while significantly addressing global challenges. Given their scale of capital, influence on global investment trends, and commitment to net-zero and ESG goals, UK capital owners are well-positioned to promote change through engagement. By adopting an active management approach to EMs, it may be possible to unlock higher returns whilst also contributing to global goals such as The Paris Agreement.

The report invites pension funds, asset managers and policymakers to engage in deeper conversations on how to overcome barriers to EM investments, particularly in the pursuit of net-zero targets. The full potential of these regions can only be realised by building frameworks that align financial returns with long-term social and environmental impact.

The research is available to download in full and is entitled '[*Real-world impact in emerging markets – an asset owner perspective*](#)'.

ENDS

Notes to editors

About Pensions for Purpose

Pensions for Purpose exists as a bridge between asset managers, pension funds and their professional advisers, to encourage the flow of capital towards impact investment.

Impact investments are made with the intention to generate positive, measurable, social and environmental impact alongside a financial return.

Pensions for Purpose seeks to empower pension funds to make informed, sustainable investment decisions through our member Community, training, events, Impact Lens research and unique Knowledge Centre.

About Ninety One

Ninety One is an active, global investment manager managing £128.6 billion in assets (as at 30.06.24). Our goal is to provide long-term investment returns for our clients while making a positive difference to people and the planet. Established in South Africa in 1991, as Investec Asset Management, the firm began as a small start-up offering domestic investments in an emerging market. In 2020, as a global firm proud of our emerging market roots, we demerged to become Ninety One. We are committed to developing specialist investment teams organically. Our heritage and approach let us bring a different perspective to active and sustainable investing across equities, fixed income, multi-asset and alternatives to our clients - institutions, advisors and individual investors around the world.

For more information, please visit [NinetyOne.com](https://www.ninetyone.com).

About WBA

World Benchmarking Alliance is a non-profit organisation committed to holding the world's most influential companies accountable for their part in achieving the Sustainable Development Goals. WBA's Financial System Benchmark includes 400 financial institutions including asset managers, bank, insurers and asset owners. WBA has recently launched an initiative on Investing Sustainably in Emerging Markets, working with a group of asset managers, owners and investor groups, to ensure that ESG and sustainable investing do not inadvertently lead to divestment from emerging markets.

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