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Emerging markets bonds: “Responsibility and growth are not mutually exclusive”

Paul Severin



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The global, sustainable corporate bond fund [ERSTE RESPONSIBLE BOND EMERGING CORPORATE](#) has clearly passed the threshold of EUR 100mn of assets under management. A perfect occasion to take stock. Christian Schön, member of the board of directors of Erste Asset Management, explains what role sustainable investments play in emerging markets, especially in the corporate bond segment.

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Mr. Schön, sustainability and emerging markets – how do these two go together?

Schön: Very well, actually. Responsibility and growth are not mutually exclusive. Let me take China as example: between 2006 and 2012 energy consumption per unit of GDP was reduced by almost a quarter. By 2020, CO2 emissions are to be cut by 40 to 45% per GDP unit. On top of that, the government plans to increase the share of non-fossil fuels in energy consumption to 15%. The entire industry benefits from this green policy. In China alone, more than EUR 500bn have been invested in renewable energy and measures to cut greenhouse gas

emissions over the past five years. In South America, too, we can see enormous progress as far as sustainable business practices are concerned. At the same time corporate bonds from emerging economies continue to pay significantly higher yields than their peers from developed countries. This scenario holds opportunities for sustainable investors, especially in the emerging markets corporate bonds segment.

From your point of view, what is the added value of an emerging markets bond fund that is managed on the basis of sustainable criteria?

Schön: The application of sustainable criteria in company research facilitates an improved risk assessment, particularly for emerging economies. Imagine that in addition to traditional company valuation, you are using another magnifying glass that provides you with new insights into the respective company and its governance. This is particularly essential for the assessment of corporate governance criteria including the risk of corruption. This expanded analysis is done against the backdrop of the stringent ethical criteria, which we as sustainable investors apply with regard to the upholding of human rights or in connection with the problem of child labour.

What criteria play a role in the investment process for emerging markets bonds?

Schön: Especially in a dynamic environment such as emerging markets, an ongoing research process is a crucial element of success. We have been developing our approach for 15 years. It combines all methods of analysis and selection that are available to sustainable investors into one integrated management approach. In addition, we complement our in-house expertise with the know-how of renowned research partners. On the basis of this method, we develop an initial ESG investment universe, which is then used for the individual investment process of the individual funds. The [ERSTE RESPONSIBLE BOND EMERGING CORPORATE](#) fund for example invests in the bonds of emerging markets companies that have successfully gone through our ESG screening. It also taps the high-yield segment while requiring a rating of at least B-. However, BBB bonds account for the biggest share of the portfolio. Foreign exchange risks are largely hedged against the euro. This multi-step process ensures the compliance with criteria of sustainability and the opportunity of surplus return.

How has ERSTE RESPONSIBLE BOND EMERGING CORPORATE fared since its launch, and what is its outlook?

Schön: Since the launch of the fund in December 2013 we have recorded a compound annual growth rate of 4.25% in spite of a relatively difficult market environment. We have seen investors return to the emerging markets segment especially as a result of the current low interest rates. The capital inflow into our funds testifies to the fact that sustainable criteria play an ever-greater role in this area as well.

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Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

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