

Why Sustainability Matters?

There is a growing awareness of sustainability and a fundamental shift in how markets are incorporating these risks. Sustainable investing incorporates ESG or Environmental, Social and Governance issues into the investment process. For the past 15+ years, Telligent has specialized in investing in Asia. Our team focuses on fundamental investing. In our search for attractive investments, sustainability factors have always been part of our decision making process. Now we have a name for it.

Telligent takes a long term investment approach. Instead of weeks or months, we typically think in terms of years. Because of our longer holding periods, assessing ESG factors helps us to better understand the risks. We take a systematic approach based both on global best practices and local market specific fundamental insights. Our team has refined the investment approach over many years. As active investors we are driven to understand all of the material factors that determine the price of a security.

Academic research has broadly supported the thesis that ESG does not lead to lower returns. There is some evidence that ESG data is helpful to risk management. These academic studies have largely been conducted on American and European markets. Our practical experience on the ground in Asia is that ESG especially Governance has been an important risk management tool. Environmental regulations and enforcement have dramatically strengthened over the past decade. This will be increasingly important to companies in Asia.

Regulators around the world are moving from conceptual debate into implementation. Both government policy makers and market regulators are bringing new rules with greater frequency. For example in Hong Kong the stock exchange conducted a public inquiry process on sustainability requirements for listed companies. We contributed our suggestions and views to the regulators. Key issues we're seeing come into play include:

- **Climate change – reporting standards and data**
- **Social responsibility – stakeholders versus shareholders**
- **Corporate governance – board governance and disclosures**

These are no longer abstract ideas. They are increasingly being codified in expected standards of behavior and regulations. Our investment approach has to incorporate the likelihood of these upcoming changes. We publicly support the Paris Agreement to stay ahead of the curve.

Understanding the regulatory environment a company operates in and assessing how management runs the company is one of the basic building blocks of investment analysis. As ESG data becomes increasingly available, this is a rich data set for our team. Sustainability data and insights are a mandatory tool in our investment process.