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**RISCURA REPORT UNCOVERS GOVERNANCE AS TOP ESG PRIORITY FOR ASSET MANAGERS IN INDIA**

***RisCura’s report on ‘Moving The Needle - Stewardship In India’ urges investors to embrace a contextual approach to mitigate ESG risks and uncover opportunities in India.***

*Cape Town, South Africa*: RisCura, a purpose-led global investment firm specialising in emerging and frontier markets, has unveiled its latest study, “Moving the Needle - Stewardship in India.” This comprehensive report delves into the stewardship and engagement practices of local listed asset managers in India, highlighting the integration of ESG factors as essential components of their strategies to mitigate investment risk.

The study draws findings from in-depth discussions with 12 eminent Indian asset managers, including notable firms such as Dalton Investments, Schroders/Axis Asset Management, and Kotak. Additionally, it encompasses a comprehensive survey of 35 managers, collectively representing an impressive $400 billion in assets under management. This diverse group of managers encompasses a wide range of strategies, sizes, and backgrounds.

Malcolm Fair, the Managing Director of RisCura, underscores the need for effective identification and management of ESG risks and opportunities, particularly considering recent instances of corporate misconduct in various markets, including India. Fair emphasises that a one-size-fits-all ESG approach can lead to misinterpretations and missed opportunities, as it fails to consider the unique contexts of individual companies and countries.

Considering India’s position as the world’s most populous nation and possessing the fifth-largest stock market by market capitalisation, Fair says it’s crucial to understand how well asset managers engage listed companies on ESG risks. “The reports reveal that respondents skilfully integrate responsible investing practices into their processes, aligning well with and, in some cases bettering counterparts in other emerging markets,” he says, acknowledging significant advancements in this field over the past decade. “But there is recognition from Indian asset managers of the need to further ‘move the needle’ in the future.”

***Emphasis on governance***

The report suggests governance as the primary pillar of ESG priorities in India, re-emphasising the due diligence of the ‘promoter’ and the need to sidestep ‘bad actors’ —defined in the report as significant and influential stakeholders whose actions, for better or worse, can materially impact the company’s performance.

“Even at the expense of potential returns from certain stocks and significant benchmark risk, the respondents maintain their commitment to thorough research. They focus on selecting the right companies, especially those with reputable ‘promoters’ and management teams, requiring a deep understanding of Indian societal dynamics and politics,” says Fair.

Avoiding ‘bad actors’ and potential governance ‘bombs’ –significant governance risks that, if not handled correctly, can have a sudden and detrimental impact on a company’s performance - is essential for ensuring robust long-term performance in this market.

“It was apparent that successful ESG integration in India requires an experienced and connected local team. Several managers, for example, have an individual or team dedicated to building networks across the corporate sector to draw from when reference checking and for more constructive management engagement,” says Fair.

***Social risks sidelined***

When addressing social challenges in the Indian context, the report reveals a general reluctance among asset managers to engage listed companies on social risks beyond labour practices and supply chain concerns. As India grapples with a wide range of societal issues, including religious and ethnic disparities and gender and class divisions, isolating and addressing social risks is a formidable task.

“An unusual characteristic of the Indian market is that regulations require profitable businesses of a certain scale to allocate 2% of their triennial net profits to CSR activities. In discussing their engagement with listed companies on social risks, many managers refer to the mandatory CSR initiatives, which very often have nothing to do with reducing the risks the company faces,” Fair observes. “Other managers entirely refrain from engaging listed companies on social risks and, in doing so, totally miss the point of the S in ESG.

“Treating CSR as a panacea for social sustainability obscures potential social threats within a business. This becomes a superficial fix, failing to tackle the underlying risks that could hamper a company’s long-term performance.”

***Need for local expertise***

The study also highlights the distinctive cultural aspect of engagement in India. Asset managers tend to avoid confrontation, mirroring broader Indian cultural norms. “There’s a strong preference for face-to-face engagement, typically carried out by a single manager, though collaboration is growing, particularly around environmental and industry-wide issues,” Fair points out.

The report also reveals the challenges foreign asset managers face in India and their outsized role in influencing responsible investment practices. Fair notes, “Foreign asset managers face challenging conditions to pick the right stocks, but their influence in implementing responsible investment practices is significant, compelling local operators to enhance their practices and establish ESG departments.”

Overall, the report highlights asset managers’ strong commitment to stewardship and a practical approach to company engagement. “While acknowledging the neutrality and fairness of the Indian legal and tax systems, concerns are expressed about their outdated and cumbersome nature. However, a promising finding is India’s fully automated and effective proxy voting, which sets an example for other emerging markets,” he concludes.

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Managing Director, RisCura: Malcolm Fair

BBusSc (Hons)

An exceptionally rational and multi-talented individual, Malcolm is the Managing Director of RisCura. With an actuarial training background, his experience in the investment industry spans almost 20 years. This includes investment consulting, specialist fund management, quantitative research as well as risk and performance analysis, with organisations such as RMB Asset Management and Futuregrowth in South Africa. Clients of many different profiles and business disciplines leverage his depth of experience and his voracious thirst for knowledge, across a variety of fields. Malcolm has also been heavily involved in the establishment of the United Nations’ Principles of Responsible Investing in South Africa. He is as passionate about how the money is being invested as he is about seeing beneficiaries meet their ultimate investment goals.

About ‘Moving the Needle’

Following the success of our reports on stewardship in China and South Africa, this latest edition, “Moving the Needle - Stewardship in India” focuses on stewardship practices among asset managers in India and their impact on the country’s capital markets. The report delves into the attitudes and practices providing valuable insights into asset managers’ commitment to responsible investing and incorporating environmental, social, and governance (ESG) factors into their investment decision-making. It examines the progress and challenges faced in India’s stewardship landscape, presenting key findings and recommendations. The report is an essential resource for investors, asset managers, and industry professionals seeking to understand and navigate India’s evolving stewardship practices.

About RisCura

Purpose-led global investment firm RisCura is a trusted global investment firm with over 23 years of experience in emerging and frontier markets, delivering results to the world’s largest institutional investors. Our insightful reports on stewardship practices in China and South Africa demonstrate our commitment to research and development, driving responsible investment practices. With expertise in investment research and asset management and thorough due diligence, we enable clients to achieve significant investment returns through specialist mandates, diversification benefits, and assessment of managers’ capabilities. Our proven track record in asset management development showcases our successful Asset Manager Development Programme, which has empowered emerging black and women managers to become industry leaders in South Africa. Go to RisCura.com for more information.

Issued by

Bernadette Marais

PR and Marketing Manager

+27 21 673 6999

Bmarais@riscura.com