



## ESG in Emerging Markets Debt

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*Emerging corporate credit markets are relatively unexplored from an ESG perspective, but sustainable opportunities can be found in unlikely places. Watch members of William Blair's emerging markets debt team—Yvette Babb, portfolio manager (hard and local currency), and Luis Olguin, CFA, portfolio manager (corporate debt)—explain more.*

*Watch the video or read the recap below.*

**Babb:** ESG is very important in our view because we see it as an integral part of sovereign risk analysis. Doing country analysis requires one to understand all factors that influence the country's ability and willingness to pay.

Statistically, it is proven to have an influence on the return performance of individual credits. Understanding the individual context of countries becomes more important as countries are less developed.

**Olguin:** Not having a full understanding of ESG factors could lead to the wrong investment decisions. We believe that ESG is inherently a bottom-up process. Our ESG framework is analyst-driven. Really having this intimate

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relationship with issuers will help us gauge their momentum—you know, their improvement, their direction.

**Babb:** An integral part of our investment process is the sovereign risk model. The sovereign risk model is centered around two pillars. One pillar is the financial aspect of our model. The second aspect of the model is the ESG aspect. And so those two pillars inform our view of fair value for the spreads on sovereign credits.

And we consistently evaluate the outcomes of that model. We have used this as an alpha-generating tool.

**Olguin:** We believe the way to create better portfolios is to manage downside risks. And using ESG as a framework to look at these potential financial and reputational risks will help us understand the potential downside of companies, and thus create the potential for better risk-adjusted portfolios.

And at the end of the day, that's core to our job. We seek to make the right decisions with the right information.

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*Yvette Babb and Luis Olguin, CFA, are portfolio managers on William Blair's Emerging Markets Debt Team*

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