FUND LAUNCHED
2005

FUNDS UNDER MANAGEMENT
£572.7
MILLION

NET ASSET VALUE PER SHARE
564.2%
SINCE INCEPTION*

Strong Corporate Governance: How Governance Quality Shapes Returns in Emerging Markets

May 2026

The Opportunity – and the Risk
Emerging markets offer attractive investment opportunities, supported by higher growth potential and ongoing improvements in physical and legal infrastructure. According to World Economics, emerging markets accounted for approximately 65.5% of global GDP growth over the past decade (2015–2025)[1], highlighting their increasing importance in the global economy.

However, investing in emerging market companies is not without risk. Political and macroeconomic volatility can significantly influence corporate performance, with share prices often sensitive to government policies, leadership changes, and fiscal or monetary decisions. In addition, corporate structures in these markets are frequently characterised by concentrated ownership, which can elevate governance risks. These include management entrenchment and the potential expropriation of minority shareholders. As a result, emerging market investments can exhibit heightened volatility, underscoring the importance of strong and stable corporate governance frameworks to navigate complex operating environments.

The cost of governance failure is well documented. Research highlighted by Société Générale shows that two-thirds of companies affected by major ESG controversies underperformed the MSCI World Index by an average of 12% in each of the following two years[2]. Similarly, a study by Monash University found that markets react more strongly to negative ESG news than to positive developments, reflecting investor sensitivity to governance failures[3].

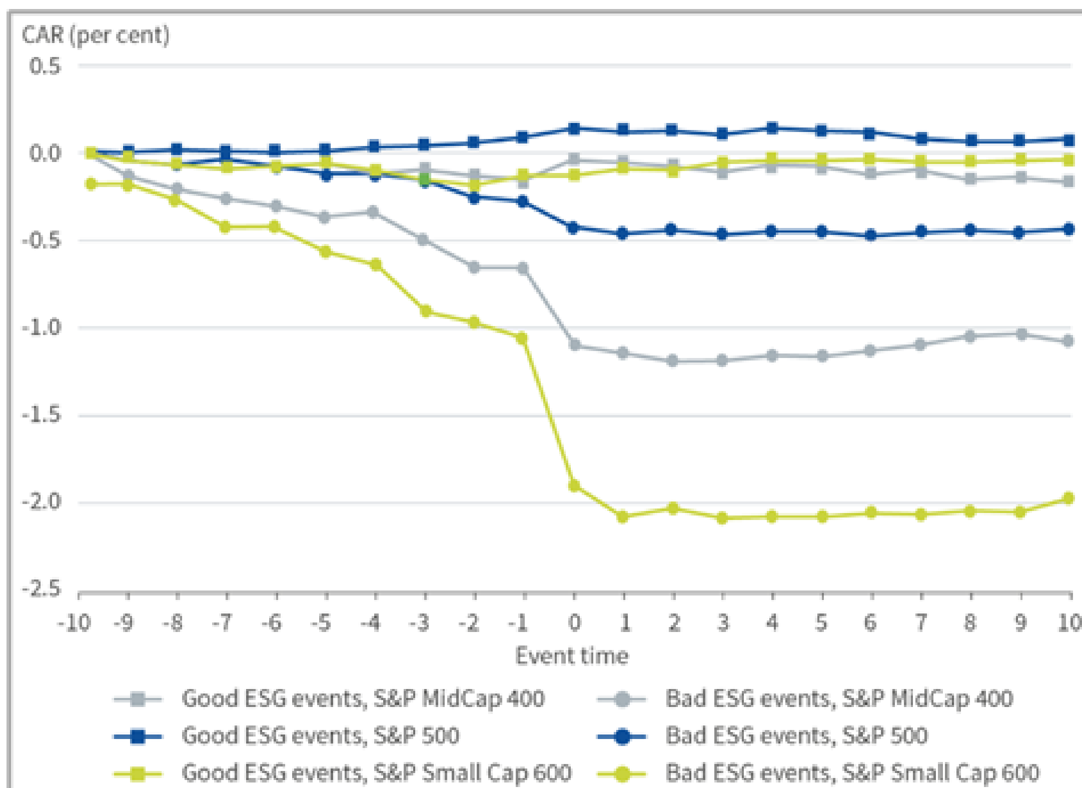
Governance as a Driver of Long-Term Confidence
There is a compelling argument that improvements in corporate governance standards have contributed to the growth of these markets. Research by Andrew G. Ross (2019) suggests that long-term confidence in developing countries can be strengthened in two key ways: first, by enhancing institutional capacity to design and implement effective policies; and second, by creating a business environment that promotes fairness and

ensures that foreign investors can compete freely and on equal terms with domestic firms[4]. Such measures increase predictability for investors and reduce the uncertainty often associated with the regulatory and business environments of developing economies.

The Core Principles of Corporate Governance

Corporate governance encompasses a range of practices, but its core principles remain consistent across markets. These include a credible, independent, and diverse board; transparent and accountable management; effective oversight through external committees; and robust accounting, audit, and compliance frameworks. Together, these elements form the foundation for evaluating a company's governance quality, and their importance is particularly pronounced in higher-risk environments, where weak governance can have long-term adverse consequences for investors.

Figure 1: Cumulative Average Abnormal Returns of ESG Events (2000–2018)



Source: Bel Cui and Paul Docherty, Monash University (2020).

To mitigate ESG-related risks and unlock long-term value, companies must establish and maintain robust governance structures. Utilico Emerging Markets Trust Plc ("UEM") demonstrates a differentiated approach to governance assessment. Although not explicitly labelled as a "sustainable" fund under applicable UK regulatory definitions, UEM integrates comprehensive ESG due diligence into its investment process.

Its framework includes 21 ESG factors, 62 questions, and 35 metrics, with corporate governance representing a significant portion, being 6 factors, 25 questions, and 13 metrics, weighted at 40%. Each category is systematically scored, enabling the identification and monitoring of ESG risks. This structured approach supports active engagement with investee companies. Where governance concerns persist, UEM exercises its voting rights, including opposing resolutions when necessary to encourage improved practices.

A key strength of UEM's methodology is its emphasis on sourcing data first-hand, thereby reducing reliance on third-party ESG data providers, which can sometimes be inconsistent or incomplete. While global reporting standards continue to evolve, the lack of uniformity in ESG disclosures remains a challenge, making data collection resource intensive.

Nevertheless, ESG has evolved from a compliance driven obligation into a value creating component of the investment process. For UEM, integrating governance analysis enables better risk management, supports informed decision making, and ultimately positions investors to achieve more resilient and sustainable long-term returns.

Jack Cuddigan,
ESG Manager
May, 2026

Source Data: ICM Limited.

[1] World Economics (2026), https://worldeconomics.com/Regions/Emerging-Markets/
[2] CNBC, (7th February 2020) 'ESG high controversy events can cost stocks' (https://www.cnbc.com/2020/02/07/esg-high-controversy-events-can-cost-stocks.html) – Research by Societe Generale
[3] Bei Cui and Paul Docherty, (17th March 2020) 'Stock price overreaction to ESG', (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3559915) – research conducted by Monash University (Figure 1)
[4] Ross, A. (June 2019) 'Governance infrastructure and FDI flows in developing countries'. Transnational Corporations Review, 11(2), 109-119. (Governance infrastructure and FDI flows in developing countries)

Risk Warning
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