



A Franklin Templeton Company

A Governance-First Foundation to Sustainability in Emerging Markets

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Key Takeaways

- ▶ Governance is the clearest lens for assessing long-term sustainability in emerging markets. Because ESG standards vary widely by country and company, governance offers a practical foundation for evaluating resilience, stewardship and long-term value creation.
- ▶ Progress in emerging markets is real, but it is uneven and highly country specific. Regulatory reforms in places like South Africa, China and South Korea show that local context matters and can materially shape corporate behavior and disclosure standards.
- ▶ Bottom-up engagement helps uncover improvement that broad labels can miss. Company-level analysis and direct dialogue can reveal meaningful advances in governance, disclosure and risk management, creating opportunities for long-term investors.

A Principles-Based Approach to ESG in Emerging Markets

As we outline in [ClearBridge's 2026 Stewardship Report, Global Platform, Global Insights](#), for emerging markets investors it is difficult to set a defining standard to which all companies can be held, given the number of countries in the emerging markets investable universe. This is why we take a principles-based approach to ESG and consider each company's individual circumstances when conducting analysis.

We pay particular attention to how a company is run, as we believe governance is a fundamental determinant of long-term performance and thus the sustainability of a business. Additionally, in our experience, good governance goes hand in hand with management of social and environmental risks, making it a good proxy for wider performance. The end goal is to develop insight as to whether a company will be a good long-term steward of our clients' capital.

Our focus on materiality, combined with our bottom-up approach to analysis, drives our deep understanding of these emerging market businesses and helps us to identify the key ESG issues requiring engagement. We think that helping portfolio companies develop strong governance and sustainable business practices can lead to long-term sustainable growth for the companies and value creation for our clients. Our input is increasingly recognized by company management teams, and we are regularly approached to provide a global perspective on a company's ongoing improvement initiatives.

Country Specifics Are Key

Emerging markets have made great strides in ESG practices over the years, and there is now a constellation of companies that can go head-to-head with their developed market peers. We find that most emerging market countries recognize the importance of international capital flows and are keen to improve governance standards for listed companies.

For instance, in South Africa the adoption of the King Report on Corporate Governance, first published in 1994 and iterated upon since, has led to some of the best integrated reporting anywhere in the world, with clear communication on strategy, planning and how companies' resources are used to create value. In China, while reporting standards have historically been less stringent, in 2025 there were updates to the Code of Corporate Governance for Listed Companies, which have provided recommendations for enhanced board effectiveness and remuneration.

One of the more dramatic changes that we have seen recently has been the launch of the Corporate Value-Up Program in South Korea in 2024; this aims to close the valuation discount that has persisted between Korean companies and global peers. As part of these reforms, institutional improvements such as stronger government-mandated disclosure obligations are driving needed changes to long-established capital efficiency and corporate governance practices. Korean companies look to be adopting the program's disclosure plans.

Improving Practices in Korea, Latin America

While we have seen meaningful progress from a top-down perspective in emerging markets, our focus on bottom-up stock-specific analysis reveals how governance approaches at the individual company level can vary.

Korea's Value-Up Program, for example, has profoundly affected Korean financials companies such as Shinhan Financial Group, where we have noted gradually changing attitudes to governance. While the Korean banking sector remains politicized and the regulator often faces political scrutiny, we are observing an easier path toward more shareholder friendly capital management practices, rather than the protracted back-and-forward conversations that have historically been required to achieve buy-in on these actions.

Reforms in Korea have arrived coincidentally with a Korean stock market rally driven by exposure to trends such as artificial intelligence, but we think the prospect of improved capital allocation and a more positive minority shareholder environment may well have played a part in improved market sentiment.

We also continue to see progress with our Latin America-based holdings, such as e-commerce company MercadoLibre. We first began engaging the company in 2021 on its data privacy and security practices following reported data breaches. We questioned the absence of a public-facing policy and lack of certification for its systems, such as to International Organization for Standardization (ISO) standards. The company confirmed its privacy standards met the Brazilian General Data Protection Law; measures it takes to ensure compliance include conducting data protection impact assessments and data protection training for new employees. Since our first engagements we have continued the conversation and have observed improved data privacy disclosures; we are generally reassured by the investment the company is making in best practices. Recently, the company secured ISO 27001 certification for both MercadoLibre and Mercado Pago, the company's integrated fintech arm, providing us with sufficient assurance of its practices.

Governance Leads Emerging Market Progress on Sustainability

While approaches to ESG differ across countries, plenty of emerging market companies are starting to recognize the importance of ESG, in particular good corporate governance. In many cases, while a company may appear to have poor underlying sustainability practices, it is often simply a matter of disclosure; management may be unaware of the importance investors attach to these factors. Regulatory and corporate developments across our markets demonstrate that progress continues to be made, even in these uncertain times. We find this encouraging for the markets, our holdings, our bottom-up research and engagement process, and ultimately, the long-term value creation potential for our clients.

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