American Century Investments®

SUSTAINABLE INVESTING

A KPI-Based Framework for Transition Investing in Emerging Markets

Adopting a transition-investing mindset may reveal emerging markets (EM) opportunities that might otherwise go overlooked.

By Christian Caillaux

02/09/2026

Key Takeaways

Shifting to a low-carbon economy is crucial for EM, which are particularly susceptible to the effects of climate change.

EM firms at early transition stages may be overlooked. Using KPIs adds structure to locating candidates aligned with sustainability progress.

The KPI-led “improvement pathways” approach helps identify EM firms across industries that are advancing on sustainability indicators.

Consumers, companies and investors worldwide are increasingly supporting sustainable business practices, while regulations promoting sustainability are expanding in developed and emerging markets. Our Emerging Markets Transition strategy invests in EM companies we believe are moving toward greater sustainability while demonstrating accelerating growth and improving fundamentals.

As companies modify and even transform their products and operations to support a more sustainable global economy, new opportunities emerge to access new markets and revenue streams, reduce costs over time, and lower risk. A 2025 Deloitte sustainability report that surveyed 2,100 executives from companies in 27 countries found that nearly 80% of respondents are making sustainability a strategic priority in their business models, with *revenue generation* as the most-cited goal(66%), along with *brand and reputation benefits* (60%), *risk management and resilience* (55%), and *cost reduction* (55%).[1]

Our EM Transition strategy targets firms in emerging markets that are typically in the early stages of this process and thus just starting to create value through these efforts.

This perspective addresses well-founded concerns that traditional ESG funds may miss promising businesses pursuing sustainability-related opportunities, especially in developing regions. These traditional strategies tend to focus on sustainability leaders, neglecting companies that are still in the early stages of generating value through sustainability initiatives.

We also note that EM companies may have fewer resources to devote to sustainability-focused disclosures and often face stakeholder pressures that differ from those typical in developed markets. Therefore, data on potentially material sustainability issues for EM companies can be hard to find. As a result, we believe many quality businesses transitioning to sustainability and benefiting financially from doing so are often overlooked by traditional sustainable investing strategies.

EM Foundations and Global Links in the Sustainability Era

Emerging markets offer unique opportunities as testing grounds for innovation. For example, their energy, telecommunications and technology infrastructures are often fairly new and not tied to legacy systems. Consequently, many emerging markets are actively pursuing advanced renewable energy projects. Companies moving toward sustainability may benefit from:

- **Untapped demand**: There is a substantial and often unmet consumer desire for sustainable products in emerging markets. Companies that cater to these preferences can foster brand loyalty and secure a competitive edge.
- **Operational efficiency**: Embracing sustainability can boost efficiency by reducing waste and enhancing resource management, which are major challenges for many financially constrained EM countries.
- **Ample labor pools**: Unlike the aging populations in nearly every developed country, many EM nations have relatively high percentages of young job seekers eager to learn skills relevant to the modern economy. The U.N. projects that by 2030, over 60% of the world's working-age population (ages 15–64) will live in emerging and developing economies.

Emerging markets aren't a group of countries operating independently of developed markets. They inherently influence global supply and demand for products and services, playing a vital role in the transition to a low-carbon global economy. They are rich in the natural resources essential for clean energy technologies, and growing populations in many emerging markets will fuel industrial and economic expansion. However, this growth will also boost the world's demand for electricity and sustainable agriculture.

Applying KPIs to Evaluate EM Transition Efforts

Our EM Transition strategy seeks companies that we believe are improving across both sustainability characteristics and economic fundamentals. Our disciplined approach relies on key performance indicators (KPIs) to impose objectivity and accountability on the investment process.

Unlike most transition funds that focus only on climate-related investments, we take a broader approach. Therefore, our EM Transition strategy doesn't suffer from the "carbon tunnel vision" that could limit a fund's opportunity set.

The strategy's proprietary investment framework helps identify companies at critical stages of their transitions to sustainability based on four key concepts:[2]

- Inflection
- Sustainability
- Gap to Consensus
- Valuation/Risk-Reward

We believe that companies aligning with our criteria may have the potential to achieve financial outperformance and enhance their resilience over time.

While the focus on transition is relatively new, our team guiding the EM Transition strategy has been in place for years — the same group managed the earlier Emerging Markets Sustainable Impact strategy. Partly because of restrictions on using the term "impact," the earlier strategy was restructured to emphasize demand for transition-focused investments.

Now classified as an Article 8 fund under the EU's Sustainable Finance Disclosure Regulations, the strategy has the flexibility to target companies that are not yet sustainability leaders, but are actively working to improve their sustainability profiles.

Mapping EM "Improvement Pathways" via KPIs

As in developed markets, EM companies are at various stages of growth and maturity. With diverse characteristics and varying degrees of development, firms in emerging markets operate across a range of industries that face distinct sustainability pressures, varying regulatory standards and stakeholders with competing priorities. This calls for a thoughtful approach to evaluating where each company stands in its transition toward greater sustainability and its opportunities for value creation.

Therefore, we classify businesses into one of three "improvement pathways," each representing a different aspect of progress toward a transition.

1. **Sustainability Committers** are moving beyond aspirational rhetoric. They allocate meaningful resources toward operational changes and make capital investments that yield measurable improvements in sustainability outcomes. The commitment these companies demonstrate is evident in their business practices and product offerings, as they emphasize sustainability across their organizations, value chains and industries.

2. **Sustainability Enablers** are providing products or services that help consumers, other businesses or stakeholders to advance their own sustainability objectives. Examples include technologies that reduce greenhouse gas (GHG) emissions or innovations that improve health and safety. Enablers work to support environmental and social resilience while generating long-term value for their shareholders.

3. **Operational Improvers** are actively working to overcome temporary challenges that negatively impact their sustainability profiles. In some cases, they are already leaders among their peers but remain undervalued due to industry-specific headwinds. Their improvement paths often involve targeted operational reforms and strategic investments to restore or improve performance, as measured by industry-specific sustainability metrics.

We classify companies into one or more of these pathways by leveraging insights from our proprietary sustainability platform, S360®, which evaluates a company's performance on financially material sustainability issues relative to its sub-industry peers. S360® helps our investment teams assess how effectively a company mitigates key sustainability risk exposures, thereby what we think will drive resilient, sustainable, long-term growth.

Particularly important for the EM Transition strategy, S360® includes multi-year trend analysis that demonstrates a company's progress over time and suggests future potential, rather than relying solely on point-in-time metrics that might favor companies already strong in these areas but with limited upside.

Each improvement pathway draws on an appropriate blend of inputs. Sustainability Committers are evaluated using information from S360® and qualitative assessments of a company's transition-focused plans, including insights from engagements with company management. Sustainability Enablers, whose transition-focused efforts usually occur at the value chain level or through specific product lines, are typically assessed using a combination of quantitative and qualitative inputs. Operational Improvers are generally analyzed using quantitative output from S360® that tracks trends in material sustainability indicators.

A company may be categorized into different pathways over time. Many begin as Committers while establishing the structure and vision to achieve tangible progress, then evolve into Enablers or Improvers as their commitment yields more measurable outcomes. We expect to see a natural progression among companies held in the strategy over a multi-year horizon: Few will remain in the Committer category (though others will enter) as their initial efforts yield results, and they are recognized as Operational Improvers or Sustainability Enablers. This reflects the natural evolution of the transition to sustainability.

Case Study: Apollo Hospitals Enterprise Ltd.

Apollo Hospitals, a leading health care provider in India, exemplifies the kind of company we classify as an Operational Improver, as it is making measurable enhancements to its environmental practices. KPIs for Apollo Hospitals, captured by the S360® platform, include:

- Achieving an 11% year-over-year reduction in absolute Scope 1 and 2 GHG emissions in fiscal year 2023–2024.
- Achieving a 21% decrease in Scope 1 and 2 GHG emissions intensity over the same period.
- Boosting renewable energy usage, which raised the company's renewable energy ratio from 21% to 28% year over year.
- Making significant investments in energy efficiency, including HVAC system upgrades, building maintenance and insulation.
- Reducing water consumption through initiatives like harvesting rainwater, recycling water and installing water-efficient fixtures.
- Initiating Scope 3 GHG emissions measurement in FY 2022–2023 and continuing efforts to improve disclosure of total water consumption, which is especially important given the company's exposure to water-stressed regions.

These improvements lower Apollo's regulatory, reputational and operational risks while supporting its long-term resilience and reducing its long-term operating costs. Apollo's upward trajectory, indicated by its materially improving environmental metrics, supports its classification as an Operational Improver.

Case Study: Capitec Bank Holdings Ltd.

Capitec Bank Holdings, a diversified South African banking company, qualifies for two of our pathways. It's a Sustainability Committer because it considers financially material environmental and social risk factors within its financing frameworks, and a Sustainability Enabler, reflecting its role in expanding access to financial services for underserved populations and its efforts to promote inclusive economic development.

Capitec's Sustainability Committer Performance Indicators

- Implementing an exclusionary screening framework that prevents the bank from financing carbon-intensive projects.
- Conducting thorough due diligence to exclude potential investments linked to societally objectionable activities, such as weapons and munitions manufacturing or production involving forced labor.

Capitec's Key Sustainability Initiatives

- Funding affordable housing initiatives and providing financing to designated small and medium-sized enterprises through Imvelo Ventures.
- Establishing the bank's Access Facility revolving credit lines that offer affordable, flexible loans to underbanked communities.
- Developing the MoneyUp initiative that offers free, accessible financial education for adults, students and children across South Africa, including MoneyUp Academy, MoneyUp Chat and financial wellness workshops.

Capitec's evolving sustainability integration practices, its role in enabling sustainable finance, and its financial empowerment programs demonstrate both concrete internal progress and a broader influence within its industry and the markets it serves.

S360® Scores and KPI Integration Across Pathways

Sustainability disclosures in the EM universe can be limited and often lag company announcements and financial reports. Therefore, we enhance quantitative analyses from the S360® platform with extra research and insights. The S360® platform's trend adjustment feature is invaluable for the EM Transition strategy's future-focused approach.

Our analysts can trend-adjust the top-level score or its components (at the environmental, social or governance level) to reflect forward-looking views or information that might not yet be captured in the model. This supports our goal of investing when a company is poised to reap the benefits of transitioning to sustainability, rather than after these benefits are already widely recognized.

For example, consider a manufacturing company that has historically reported a higher-than-average Total Recordable Injury Rate but recently announced it is taking steps, such as implementing thorough safety audits and other measures. Our qualitative analysis would include this when assessing the company's sustainability profile.

Tailoring KPIs to Committers, Enablers and Improvers

As explained earlier, each company held in the EM Transition strategy is mapped to at least one of three improvement pathways (Sustainability Committers, Sustainability Enablers and Operational Improvers). We regularly evaluate each one using KPIs tailored to our investment thesis. These KPIs can be either quantitative — often informed by S360® metrics — or qualitative, derived from company disclosures, engagement activities or proprietary research.

KPIs for Sustainability Committers

These companies are often among the first to pursue a transition to sustainability and may operate in regions or sectors where sustainability-related disclosures are limited. Therefore, the KPIs for this pathway tend to be qualitative, focusing on the steps the firm is taking toward goals that it may still be developing. Ensuring that a company implements sustainability policies and oversight structures, and invests in improving its resilience, is crucial for achieving operational improvements.

Examples of KPIs for companies on this pathway include:

- Allocating capital to sustainability initiatives, such as an oil and gas company investing in carbon capture technologies or a business improving its human capital management to boost operational efficiency.
- Enhancing governance, such as strengthening data privacy oversight and refreshing the board.
- Making commitments to achieve specific sustainability and operational targets, such as SBTi-aligned GHG-reduction goals.

While S360® may provide useful baseline data, engagement insights and research initiatives typically inform the KPIs for these companies.

KPIs for Sustainability Enablers

These companies might not rank highly on traditional sustainability metrics because of their business types (like industrial or basic materials firms). Still, their products or services support sustainability in other areas. Often, companies that look beyond their own operations to innovate in ways that benefit other stakeholders — such as clients, supply chain partners or industry peers — are among the most impactful, helping strengthen entire value chains and those that rely on them for economic growth.

The KPIs used to assess these companies are frequently qualitative or sector-specific, such as:

- The proportion of revenue generated from low-carbon technologies.
- Products that enable water recycling and reuse.
- Contributions to the circular economy or support for digital inclusion.

The data in S360® may not fully reflect the roles that sustainability enablers play, so the EM Transition strategy relies on bespoke KPIs and thematic analyses to capture their impacts.

KPIs for Operational Improvers

These companies usually provide quite thorough sustainability disclosures due to their size and experience, or because their industries face greater scrutiny of sustainability issues. As a result, S360® often includes a broad set of metrics for Operational Improvers, and their KPIs are likely to be directly tied to trends in these metrics, such as:

- Scope 1 and 2 GHG emissions intensity.
- Energy consumption intensity.
- Employee turnover and worker safety rates.
- Board independence and executive compensation structures.

Since these companies actively address sustainability issues and may be underrecognized leaders in this area, we can rely on quantitative trends from S360® to assess improvements over a one- to three-year period. Their financial statements may also reveal these improvements. A company’s progress toward more sustainable operations often becomes clear through the composition and trajectory of its capital expenditures.

For example, over time, companies might allocate larger portions of CapEx to energy-efficient equipment upgrades, reflecting a shift toward transition-focused investments. This can indicate that management is taking steps to shield the business from regulatory, market or physical climate risks.

Sector-Specific KPIs for EM Transition Assessment

The EM Transition strategy's KPI framework is sector- and sub-sector-specific, drawing from both S360® and complementary qualitative metrics. For example:

In the consumer staples sector, KPIs might include the percentage of a company's packaging that is recyclable (quantitative) and how it incorporates sustainability criteria into its supplier onboarding processes (qualitative).

In the energy sector, metrics may include total GHG emissions intensity (tracked via S360®) and investments in developing and promoting the commercial use of transition fuels (shown through ongoing stewardship activities).

This approach to defining KPIs ensures that companies are assessed holistically, even when disclosures are limited or their sustainability contributions are indirect and underrecognized by the market. **Figure 1** shows examples of sector-specific KPIs, both quantitative and qualitative, that we might use to select and monitor companies in the strategy.

Figure 1 | KPIs Vary Across Sectors to Focus on the Most Relevant Metrics

Sector	Quantitative KPIs	Qualitative KPIs
Communication Services	Broadband/Internet Expansion Capital Expenditures	Network Social Benefits (enabling sensor adoption and automation)
	Water Consumption Intensity and Trend	Energy Efficiency Upgrades
	Energy Consumption Intensity and Trend	Responsible AI Oversight/Policies
Consumer Staples	% Recyclable/Reusable Packaging Content	Supply Chain Audits and Oversight
	Scope 3 GHG Emissions Intensity and Trend	Product Circularity Initiatives
	# of Product Recalls	Product Assessments for Chemical Risk
Energy	Scope 1 and 2 GHG Emissions Intensity and Trend	Health and Safety Audits/Training
	Energy Transition Capital Expenditures (Including transition fuels)	Local Community Investment Programs

	Methane Emissions Intensity	Medium-Term Climate Targets
Financials	Employee Turnover Rate	Expanded Cybersecurity Controls/Oversight
	2030 Projected Financial Vulnerability to Climate Change	Executive Compensation Structure
	Scope 3 GHG Emissions Intensity (financed emissions)	Financial Literacy/Education Programs
Industrials	Penetration Levels of Electrified Products	Biodiversity Impact Assessments
	Scope 1 and 2 GHG Emissions Intensity and Trend	Independent Quality Assurance Audits
	Occupational Health and Safety Rates (TRIR, LTIR) and Trend	Renewable Energy Procurement Initiatives
Information Technology	Energy Consumption Intensity and Trend	Responsible AI Oversight/Policies
	% of Sales Linked to Sustainable End Markets	Responsible Marketing/Promotion Practices
	# of LTM Data Breaches	Employee Engagement Programs
Materials	Scope 1 and 2 GHG Emissions Intensity and Trend	Sustainable Materials Policies/Practices
	Occupational Health and Safety Rates (TRIR, LTIR) and Trend	Water Risk Assessment/Reduction Targets

	Toxic Emissions/Hazardous Waste Intensity and Trend	Responsible Hazardous Waste Disposal Programs
Real Estate	# of Training Hours per Employee	Waste Management Certification (e.g., TRUE Zero)
	% Renewable Energy Onsite	Nature Conservation/Land Restoration Projects
	Employee Turnover Rate	Initiatives Improving Internet Access and Connectivity in Emerging Markets

Source: American Century Investments.

The Role of Active Ownership and Engagement

Given the inconsistencies in disclosures across the EM universe and varying levels of data availability, insights from stewardship efforts are crucial. Information collected through ongoing engagement with management and other stakeholders can demonstrate a company's commitment to advancing sustainability in its operations and supply chain, even if there are no formal disclosures on these issues.

Capturing such information also helps reinforce (or sometimes challenge) the investment thesis behind a position in the strategy. Investments in and commitments to sustainable initiatives can reduce unnecessary operating costs and capital expenditures, improve business stability, strengthen the balance sheet and lead to superior, differentiated product offerings. Regular engagement can also provide more context about future initiatives that a company plans to pursue, enabling a more forward-looking analysis than traditional disclosure frameworks offer.

Engagement Case Study: SABESP

One example of this type of productive engagement dialogue began in June 2025 with the Brazilian water utility Companhia de Saneamento Básico do Estado de São Paulo (SABESP). In a detailed discussion about the company's sustainability strategy and objectives, SABESP's chief sustainability officer confirmed that the company is undertaking an ambitious initiative to universalize water and sewage services across its concession area, aiming to achieve 99% water coverage and 90% sewage coverage by 2029.

This effort is particularly critical in underserved, informal settlements where access to these services remains limited. Brazil is home to 12% of the world's freshwater supply, yet 35 million of its people lack access to clean water, and 100 million lack adequate sanitation services.[3] SABESP's ambitious program represents a transformative infrastructure project of unprecedented scale.

A Pragmatic Proxy Voting Lens for the EM Transition

Insights gathered through engagement can also help inform proxy voting decisions made by our Emerging Markets and Sustainable Research teams. We adopt a pragmatic, evidence-based approach to support initiatives that can enhance a company's resilience while encouraging potential growth and profitability.

A key element of the Emerging Markets Transition strategy's stewardship framework is our three-year engagement horizon. Defining this timeframe helps us evaluate portfolio

companies' progress toward their stated transition goals while allowing enough flexibility for strategic efforts to produce measurable results. Ongoing, multi-year engagements encourage deeper discussions and the sharing of evolving best practices, positioning us to help companies stay committed and accountable as they move toward greater sustainability.

We recognize that some companies contribute to the transition to a lower-carbon economy by enabling other firms' efforts, such as by investing in lower-carbon technologies. Nonetheless, our transition investing thesis requires companies to demonstrate progress across the most material KPIs in their sub-industry.

For example, in the construction and engineering industry, where environmental KPIs are highly prioritized, a persistent lack of progress, unmet commitments or ongoing deterioration of key environmental metrics would lead us to reevaluate our investment thesis. Our sell discipline depends on a materiality-weighted assessment of a company's sustainability path, ensuring that any positive contributions don't mask setbacks that could undermine the overall case for improvement.

Our Emerging Markets Transition strategy is distinguished by our disciplined, forward-looking approach to investing in companies that we believe are actively transitioning toward greater sustainability. By integrating rigorous KPI-based analyses with ongoing engagement and research, the strategy aims to identify opportunities where sustainability initiatives align with, and often provide the spark for, value creation and improved financial performance.

Investors seeking exposure to dynamic markets and companies positioned for significant transformation will find this framework pragmatic and results-oriented. With a clear focus on transparency, accountability and continuous improvement, we believe our EM Transition strategy offers a robust way to participate in the global transition toward resilient, sustainable growth.

Author

Christian Caillaux
Sustainable Research Analyst

Curious about EM opportunities?

Learn more about transition investing in emerging markets.

Emerging Markets Transition Strategy

1 Deloitte, "2025 C-Suite Sustainability Report," October 2025.

2 For definitions and further details, please see our white paper, "Transitioning to Sustainability: The Crucial Role of Emerging Markets."

3 We Are Water Foundation, "Brazil, So Much Water Yet So Little, October 19, 2017.

References to specific securities are for illustrative purposes only and are not intended as recommendations to purchase or sell securities. Opinions and estimates offered constitute our judgment and, along with other portfolio data, are subject to change without notice.

The opinions expressed are those of American Century Investments (or the portfolio manager) and are no guarantee of the future performance of any American Century Investments portfolio. This material has been prepared for educational purposes only. It is not intended to provide, and should not be relied upon for, investment, accounting, legal or tax advice.

The portfolio managers use a variety of analytical research tools and techniques to help them make decisions about buying or holding issuers that meet their investment criteria and selling issuers that do not. In addition to fundamental financial metrics, the portfolio managers may also consider environmental, social, and/or governance (ESG) data to evaluate an issuer's sustainability characteristics. However, the portfolio managers may not consider ESG data with respect to every investment decision and, even when such data is considered, they may conclude that other attributes of an investment outweigh sustainability-related considerations when making decisions. Sustainability-related characteristics may or may not impact the performance of an issuer or the strategy, and the strategy may perform differently if it did not consider ESG data. Issuers with strong sustainability-related characteristics may or may not outperform issuers with weak sustainability-related characteristics. ESG data used by the portfolio managers often lacks standardization, consistency, and transparency, and may not be available, complete, or accurate. Not all American Century investment strategies incorporate ESG data into the process.

S360's proprietary scoring model uses third-party data to generate a quantitative score that summarizes an issuer's performance on financially material sustainability factors relative to its peers. The S360® Quantitative Score is driven by issues and metrics that are most relevant and financially material at the sub-industry level and supported by academic and/or industry research. S360 quantitative scores are generated for individual sustainability factors, which are then weighted appropriately and combined to generate separate scores for the three pillars of Environment, Social, and Governance (ESG). These pillar scores are then combined into an overall S360 Quantitative Score. All scores range from 0-10 and are peer relative within the subindustry. Fundamental investment analysts may apply a trend adjustment of negative or positive 0.5, 1 or 2 to the pillar scores to reflect their qualitative view of an issuer's sustainability practices and/or to account for additional sustainability-related information not captured by the model. The S360 Quantitative Score is tied to a fiscal year and does not consider historical data at this time. A relatively low quantitative score, negative trend, or red zone flag does not mean that the security cannot be purchased, as sustainability is one of many factors the investment team takes into account when deciding to purchase a security. References to specific securities are for illustrative purposes only and are not intended as recommendations to purchase or sell securities. Opinions and estimates offered constitute our judgment and along with other portfolio data, are subject to change without notice. Third-party ESG data used by S360's scoring model may lack uniform regulation and reporting standards across sustainability factors. In addition, some of the data may be inconsistent across sources and, in certain cases, incorrect. In addition, data may not currently be available for many issuers and, when available, frequently only includes some but not all of the sustainability factors considered by an investment team.

All dates and times are based on Central time.

For Institutional Use Only.