Research Announcement: Moody's - ESG investing a boon for asset managers as product skepticism diminishes

New York, February 23, 2021 --

» ESG investment performance experienced a breakout year in 2020

» In 2021, ESG will be a key driver of industry organic assets under management (AUM) growth

Environmental, social and governance (ESG) themed investments have seen increasing demand from institutional and retail investors, paving the way for continued growth for this strategy, which is a credit positive for the asset managers that offer it, Moody’s Investors Service says in a new report. In 2020, ESG products saw strong returns and investment outperformance that marked it as a watershed year.

“The experience of 2020 will help remove investors’ worry that ESG investing means giving up returns, which has been a widespread barrier to growth in ESG products,” according to Moody’s Vice President Stephen Tu. “Before 2020 and the pandemic, ESG investments had met with frequent retail investor resistance because of a commonly held belief that ethically motivated investing – avoiding fossil fuels, for example – meant investors had to sacrifice profit and returns.”

Active equity products experienced record outflows in 2020. However, inflows into ESG products have been consistently strong, growing upwards of 140% from 2019. Since 1995, ESG assets have routinely grown at a compound annual growth rate of 14%, although the growth has picked up rapidly since 2012.

Looking ahead, ESG investment products will be the next growth frontier for traditional asset managers. Flows have been positive in recent years, and especially as investors and asset managers now have a keener focus on ESG investment themes, ESG data and the incorporation of ESG considerations in investment analysis and product construction. Even in a difficult environment for equity performance, these investments have seen strong returns and AUM growth among asset managers with a stronger emphasis in ESG products.


NOTE TO JOURNALISTS ONLY: For more information, please call one of our global press information hotlines: New York +1-212-553-0376, London +44-20-7772-5456, Tokyo +813-5408-4110, Hong Kong +852-3758-1350, Sydney +61-2-9270-8141, Mexico City 001-888-779-5833, São Paulo 0800-891-2518, or Buenos Aires 0800-666-3506. You can also email us at mediarelations@moodys.com or visit our web site at www.moodys.com.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Stephen Tu
VP-Sr Credit Officer
OTHER OPINIONS INCLUDED IN MOODY’S PUBLICATIONS ARE NOT STATEMENTS
OF CURRENT OR HISTORICAL FACT. MOODY’S PUBLICATIONS MAY ALSO INCLUDE
QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS
OR COMMENTARY PUBLISHED BY MOODY’S ANALYTICS, INC. AND/OR ITS AFFILIATES.
MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO
NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY’S
CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND
DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR
SECURITIES. MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND
PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY
PARTICULAR INVESTOR. MOODY’S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND
OTHER OPINIONS AND PUBLICATIONS WITH THE EXPECTATION AND
UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY
AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE,
HOLDING, OR SALE.

MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS
ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS
AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY’S CREDIT RATINGS,
ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT
DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER
PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT
LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR
OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED,
DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR
ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY
MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY’S PRIOR WRITTEN CONSENT.
MOODY’S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE
NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED
FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT
IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY’S from sources believed by it to be
accurate and reliable. Because of the possibility of human or mechanical error as well as other
factors, however, all information contained herein is provided “AS IS” without warranty of any kind.
MOODY’S adopts all necessary measures so that the information it uses in assigning a credit
rating is of sufficient quality and from sources MOODY’S considers to be reliable including, when
appropriate, independent third-party sources. However, MOODY’S is not an auditor and cannot
in every instance independently verify or validate information received in the rating process or in
preparing its Publications.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents,
representatives, licensors and suppliers disclaim liability to any person or entity for any indirect,
special, consequential, or incidental losses or damages whatsoever arising from or in connection
with the information contained herein or the use of or inability to use any such information, even if
MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers
is advised in advance of the possibility of such losses or damages, including but not limited to:
(a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant
financial instrument is not the subject of a particular credit rating assigned by MOODY’S.
To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

Moody’s Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody’s Corporation (“MCO”), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody’s Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody’s Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from $1,000 to approximately $5,000,000. MCO and Moody’s Investors Service also maintain policies and procedures to address the independence of Moody’s Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody’s Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody’s Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody’s Group Japan G.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization (“NRSRO”). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.