

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.

Subscribers can access the report "Funds & Asset Management – US: ESG investment outperformance overcomes investor hesitancy, a key barrier to growth," at: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1255037

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Stephen Tu
VP-Sr Credit Officer

Financial Institutions Group
Moody's Investors Service, Inc.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Evan Cybart
Associate Analyst
Ratings & Research Support
Moody's Investors Service, Inc.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Robert M. Callagy
Associate Managing Director
Financial Institutions Group
Moody's Investors Service, Inc.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Marc R. Pinto, CFA
MD-Financial Institutions
Financial Institutions Group
Moody's Investors Service, Inc.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653



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