

**Research Announcement: Moody's - Generating value in values investing; ESG a new growth frontier for global asset managers**

New York, February 27, 2020 --

- » Consumer demand, financial materiality and regulation support significant growth for asset managers focused on ESG, a credit positive
- » ESG-compliant mandates are feasible and readily achievable in contrast to many traditional fund products

The rise in Environmental, Social, and Governance (ESG) investing reflects a shifting consumer preference that has the potential to drive exponential and enduring growth in this segment of the asset management industry, Moody's Investors Service says in a new report. Incorporating sustainability and sometimes ethical impact into investment decisions signals a desire to influence societal and environmental outcomes through investing choices. Importantly, in contrast to other growth initiatives asset managers have tried, ESG is a feasible solution and readily achievable as it provides value beyond investment performance.

The share of ESG assets under management (AUM) today is small based on a Moody's survey that estimates ESG penetration of roughly 6.5% across rated asset managers. However, the results reflect ESG AUM based on funds reported by managers that currently have an explicit ESG mandate defined in their prospectus or investment management agreement, and there is potential for these mandates to increase significantly.

"ESG is a unique growth opportunity for asset managers because it promises to deliver value in a more holistic manner, getting beyond investment outperformance which is a zero sum game. As this is recognized, ESG as style or overlay could represent more than half of total invested assets, echoing the market share growth of passive products," according to Stephen Tu, a Moody's vice president.

There are two major impediments to further growth in ESG: a lack of standardization of definitions and process in the industry, and investor perception that there is a tradeoff between doing good and maximizing investment return. However, as standardization improves and investors increasingly view the risk-reward profile of ESG products as similar to other products, both hurdles will likely be overcome.

Subscribers can access the report "Asset Managers – Global: Beyond passive, ESG investing is the next growth frontier for asset managers" at: [http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_1194847](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1194847)

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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

Melissa Costa  
Associate Analyst  
RRS  
Moody's Investors Service, Inc.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Matthew Kuchtyak  
Analyst  
Environmental, Social & Governance  
Moody's Investors Service, Inc.  
JOURNALISTS: 1 212 553 0376  
Client Service: 1 212 553 1653

Robert M. Callagy  
Senior Vice President/Manager  
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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