Moody's Investors Service

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

NOTE TO JOURNALISTS ONLY: For more information, please call one of our global press information hotlines: New York +1-212-553-0376, London +44-20-7772-6456, 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  
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

© 2020 Moody’s Corporation, Moody’s Investors Service, Inc., Moody’s Analytics, Inc. and/or their licensors and affiliates (collectively, “MOODY’S”). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY’S INVESTORS SERVICE, INC. AND/OR ITS CREDIT RATINGS AFFILIATES ARE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY’S (COLLECTIVELY, “PUBLICATIONS”) MAY INCLUDE SUCH CURRENT OPINIONS. MOODY’S INVESTORS SERVICE DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT
MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY
ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY’S
RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES
OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY’S INVESTORS
SERVICE CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK,
INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE
VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS (“ASSESSMENTS”), AND 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
PUBLISHES ITS 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 $2,700,000. 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 JPY250,000,000.
MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.