
SUSTAINABLE INVESTMENTS' MARKET

Camilla Bossi

Associate Director, Client Relations

21st March 2023



2022, a Year in Review

EUROPE


- » European market focus' shifted, almost completely, towards EU Action Plan implementation
- » SFDR, Taxonomy and MIFID regulations absorbed many resources of financial institutions leaving less space to product innovation and integration methodology's improvements

USA

- » Even with the new presidency, or because of it, the focus of market participants shifted towards the political debate around ESG rather than a constructive discussion on how to improve metrics and integration
- » US made few progresses with regards ESG regulation. Major players in any case aligned their offer to EU standards to fulfil regulatory obligations in the region

| Looking at 2023: 6 Threats to Sustainable Investment

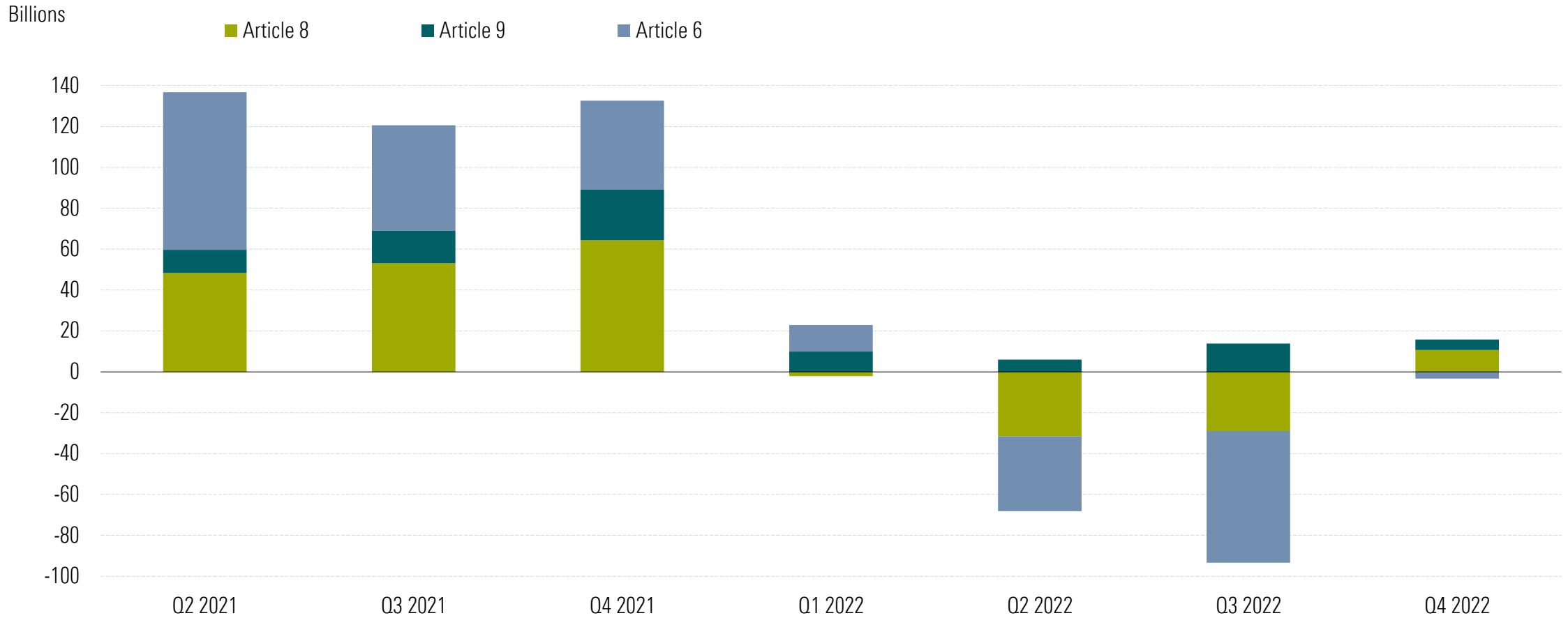
1. The downgrading of 'dark green' funds (Article 9 SFDR)
2. The anti-ESG movements
3. The backward steps on climate
4. Greenwashing
5. Lack of Standardization in Key ESG Information
6. Underperformance of ESG Securities



The downgrading of 'dark green' funds (Article 9 SFDR)

Quarterly Flows Into Article 8 and Article 9 Funds Versus Article 6 Funds

Article 8 funds went back into the black in Q4. Article 9 funds pulled in the lowest inflows on record



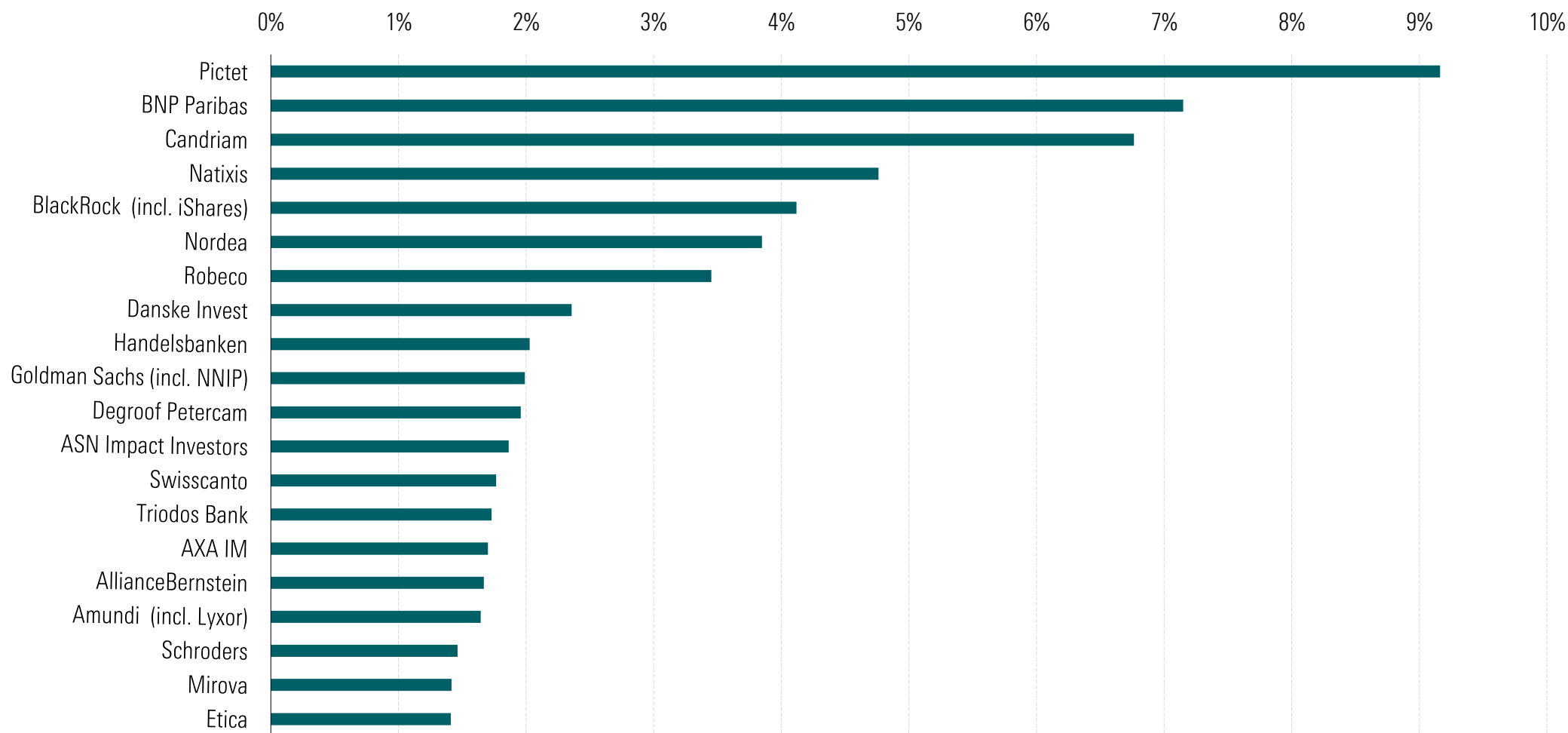
Top 20 Asset Managers by Assets of Article 9 Funds Downgraded to Article 8

40% of Article 9 Funds in total were downgrades, amounting to 307 funds with an AUM of EUR 175 billion

Asset Manager	Assets of Downgraded Article 9 Funds (EUR Billion)	Number of Downgraded Article 9 Funds
Amundi	34.2	51
BlackRock (incl. iShares)	26.4	16
Handelsbanken	16.1	7
BNP Paribas	13.2	26
Pictet	12.9	4
CPR Asset Management	8.7	17
Northern Trust	7.3	8
AXA IM	6.9	18
Robeco	5.9	8
ASR	5.2	3
ACTIAM	4.6	10
Storebrand Fonder	4.1	4
Degroef Petercam	3.7	4
Carmignac	3.4	4
La Banque Postale	3.0	7
Mercer Global Investments	2.6	1
Lombard Odier	2.2	12
DWS (incl. Xtrackers)	2.1	9
Sycomore Asset Management	1.8	6
Allianz Global Investors	1.4	6

Top 20 Asset Managers by Article 9 Fund Assets

BNP and Candriam replacing Blackrock and Amundi in the top 3; Candriam even kept all it's Article 9 Funds





The anti-ESG movements

What happened in US?

- In the US, sustainable investing was hit by accusations ranging from deceptiveness and ineffectiveness to a secret agenda to impose “woke” values on capitalism and society.
- Main criticisms:
 - Greenwashing: fund managers (and companies) are accused of misleading customers by exaggerating the sustainability attributes of their products
 - ESG is inadequate to address the planet’s environmental challenges, that it focuses on profits for shareholders rather than on creating solutions
 - ESG has a “measurement problem” that allows people to game raters’ scoring systems.
- These criticisms have had the beneficial effect of improving the efficacy of sustainable-investment approaches, increasing investor education, and bolstering the understanding that there is no one-size-fits-all investment strategy
- **In any case ESG and sustainable investing are not going anywhere**

10 Reasons why ESG and Sustainable investing are Here to Stay.

1. ESG Offers a Fuller View of Risk
2. Identifying the Risks Leads to Opportunities
3. Rise of Stakeholder Capitalism Is Good for Companies
4. Regulations Are Leading to Improvements
5. Sustainable Investing Is Growing ...
6. ... Particularly Among Women and Young Investors
7. Performance Is on Par
8. More Shareholders Are Voting
9. Countering the Broad Consensus on ESG Would Be Difficult
10. ESG May Be Better for Investor Outcomes



A Step Backwards on Climate Action

COP27 and Beyond


- » COP27 disappointed ESG supporters: except for a commitment for a new fund to help poor countries manage climate-related damage, there was little to celebrate.
- » There was no commitment on any ambitious targets such as phasing out all fossil fuels and having global emissions peak by 2025.
- » The energy crisis has increased the demand for fossil fuels and some countries have responded with an increase in the use of oil, gas and coal.
- » The priority of many governments has become that of energy security.
- » What will happen at COP28 that will take place in the United Arab Emirates in 2023?
- » More progress is needed to attain 2012 Paris Agreement's targets, but after COP26, actions to quickly reduce the impacts of climate change have stalled.



Greenwashing

A Step Backwards on Climate Action

- » During the last couple of years, greenwashing quickly went from just being bad marketing practices to being a massive legal risk.
- » Regulators in many countries are trying to address this issue and something could change in 2023.
- » Regulators are determined to clamp down on misleading ESG claims to protect end investors.
- » This is of course necessary in order to restore trust as there is a lot of cynicism right now about ESG products



Lack of Standardization in Key ESG Information

A Common Ground for ESG Disclosure

- » Establishing a common ground for ESG disclosure remains a challenge in 2023 and beyond.
- » Investment product disclosures have varied considerably from market to market long before the incorporation of ESG issues, but they did, however, benefit from a standardized way of calculating key information points (past performance, expense ratio for example)
- » A similar international agreement should be applied to key sustainability metrics and their calculation



Underperformance of ESG Securities

Underperformance and Short-termism

- » ESG fund performance may continue to be challenged by the macro-environment and the current energy crisis.
- » In 2022, ESG fund performance suffered from high fossil fuel prices as ESG funds tend to be underweighted in traditional energy companies, while they overweigh the technology sector
- » Investors should be constantly reminded that all investments can go through periods of underperformance.
- » ESG and sustainable strategies are no different. But investors should focus on the long term. Sustainability is about the long term

Legal Disclaimers

Copyright © 2023 Morningstar Sustainalytics. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein are proprietary of Sustainalytics and/or third parties, intended for internal, non-commercial use, and may not be copied, distributed or used in any way, including via citation, unless otherwise explicitly agreed in writing. They are provided for informational purposes only and (1) do not constitute investment advice; (2) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (3) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; (4) are not a substitute for a professional advice; (5) past performance is no guarantee of future results.

These are based on information made available by third parties, subject to continuous change and therefore are not warranted as to their merchantability, completeness, accuracy or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics nor any of its third-party suppliers accept any liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their corresponding terms of use are available on our website. For more information visit: <http://www.sustainalytics.com/legal-disclaimers>.

Insofar as applicable, researched companies referred herein may have a relationship with different Sustainalytics' business units. Sustainalytics has put in place adequate measures to safeguard the objectivity and independence of its opinions. For more information, contact compliance@sustainalytics.com

Different disclaimers may be applicable to specific products or services.



For more information, please contact:

Camilla Bossi

Associate Director

Client Relations

+39 347 466 2487

camilla.bossi@morningstar.com

www.sustainalytics.com