

ESG Endures the Crisis: Environmental & Social Factor Adoption Set to Accelerate

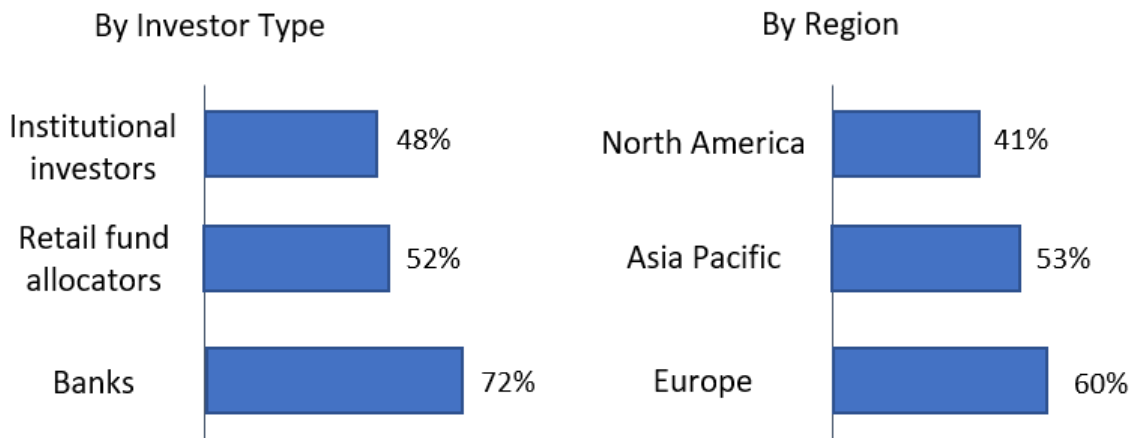
By Hamish Worsley, Mark Fox

Environmental, Social and Governance (ESG) investing has been the leading topic of interest amongst asset owners globally. Pension funds and insurers have been rapidly developing and iterating their ESG approaches while adoption by banks and retail fund allocators has been more varied. Asset managers are consequently adapting and making changes across their organisations to incorporate ESG into their investment processes, reporting, product documentation and marketing. These dynamics make ESG an important theme to monitor, so how will COVID-19 impact ESG investing?

It has been widely reported that ESG-related funds have outperformed during the crisis and several asset managers have hypothesized that take-up will rise (although this has been seen by some as a self-serving forecast). We now have evidence that shows that asset owners agree.

Our recent feedback from asset owners and fund allocators suggests that COVID-19 will accelerate the adoption of ESG. As shown in the graphic below, a majority have reported that the current crisis is likely to result in higher allocations to ESG strategies during the next 2-years.

Net proportion of investors indicating COVID-19 will impact (increase) their ESG adoption during the next 2-years



Note: Net is the % of respondents citing an increase less the % citing a decrease. Remaining respondents indicated no change.

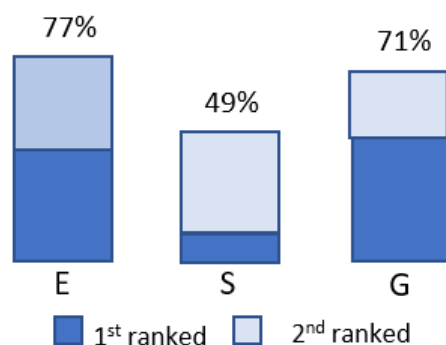
These intentions are prevalent across all segments including banks (who have tended to be late ESG adopters) and in all regions including the US where demand has developed cautiously. This sentiment is a highly positive indicator for ESG demand beyond the traditional ESG-friendly geographies and segments.

Why is this finding so extreme? COVID-19 has boosted several forces behind ESG:

- ▶ An increase in ESG priority in investment selection, based on the relative performance and risk-return outcomes of ESG investments and that the crisis has increased consumer and corporate empowerment on social and environmental issues
- ▶ Secondly, the pandemic has increased focus on social factors, which prior to COVID-19 were ranked behind Environmental and Governance attributes in importance (see chart below). Asset Owners want greater transparency from the companies they invest in with respect to labor conditions including healthcare, paid sick-leave and hazard pay

2019 (pre COVID-19) relative importance of E, S and G factors

(1st & 2nd ranks, by 135 institutional and wholesale investors)



Often a crisis tests the significance of a trend. In the case of ESG adoption, it seems poised to accelerate, with repercussions for capital flows (greater investment in greener and socially responsible initiatives) and political positioning on environmental and social issues.

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