

Fact Check

The Truth Behind 5 ESG Myths

Throughout 2020, investors allocated over three times as many assets into environmental, social and governance (ESG) ETFs than in 2019.

Source: Refinitiv/Lipper and MSCI ESG Research, LLC as of Dec 31, 2020 (Feb, 2021)



However, 33% of professional investors surveyed feel they have insufficient knowledge for considering ESG issues.

Source: CFA Institute (Dec, 2020)

ESG strategies may consider the following key issues in the investment process, alongside financial factors:

Environmental



Carbon emissions



Water stress



Opportunities in clean tech

Social



Privacy and data security



Controversial sourcing



Community relations

Governance



Business ethics



Pay figures



Tax transparency

To help investors understand this growing trend, we dispel five common ESG myths.

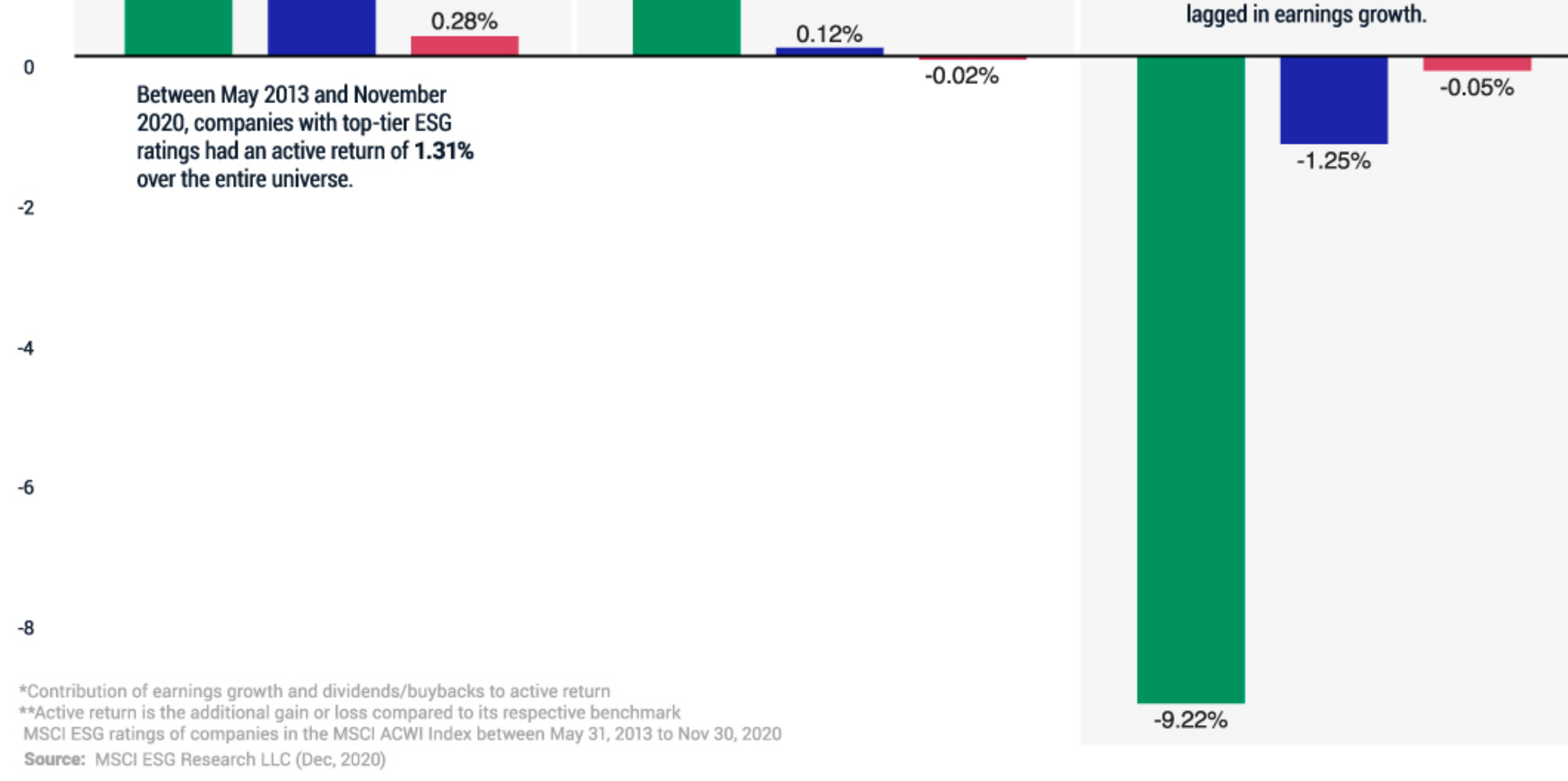
“ESG comes at the expense of investment performance”

①

Fact Check: Not necessarily

Worldwide, ESG-focused companies have not only seen higher returns, but stronger earnings growth and dividends.

Decomposition of Returns by ESG Ratings ● Earnings growth* ● Active return** ● Dividends & buyback*



*Contribution of earnings growth and dividends/buybacks to active return
**Active return is the additional gain or loss compared to its respective benchmark
MSCI ESG ratings of companies in the MSCI ACWI Index between May 31, 2013 to Nov 30, 2020
Source: MSCI ESG Research LLC (Dec, 2020)

In fact, a separate study shows that 35% of investment professionals invest in ESG to improve their financial returns.

Source: CFA Institute: Future of Sustainability in Investment Management Report (Dec, 2020)

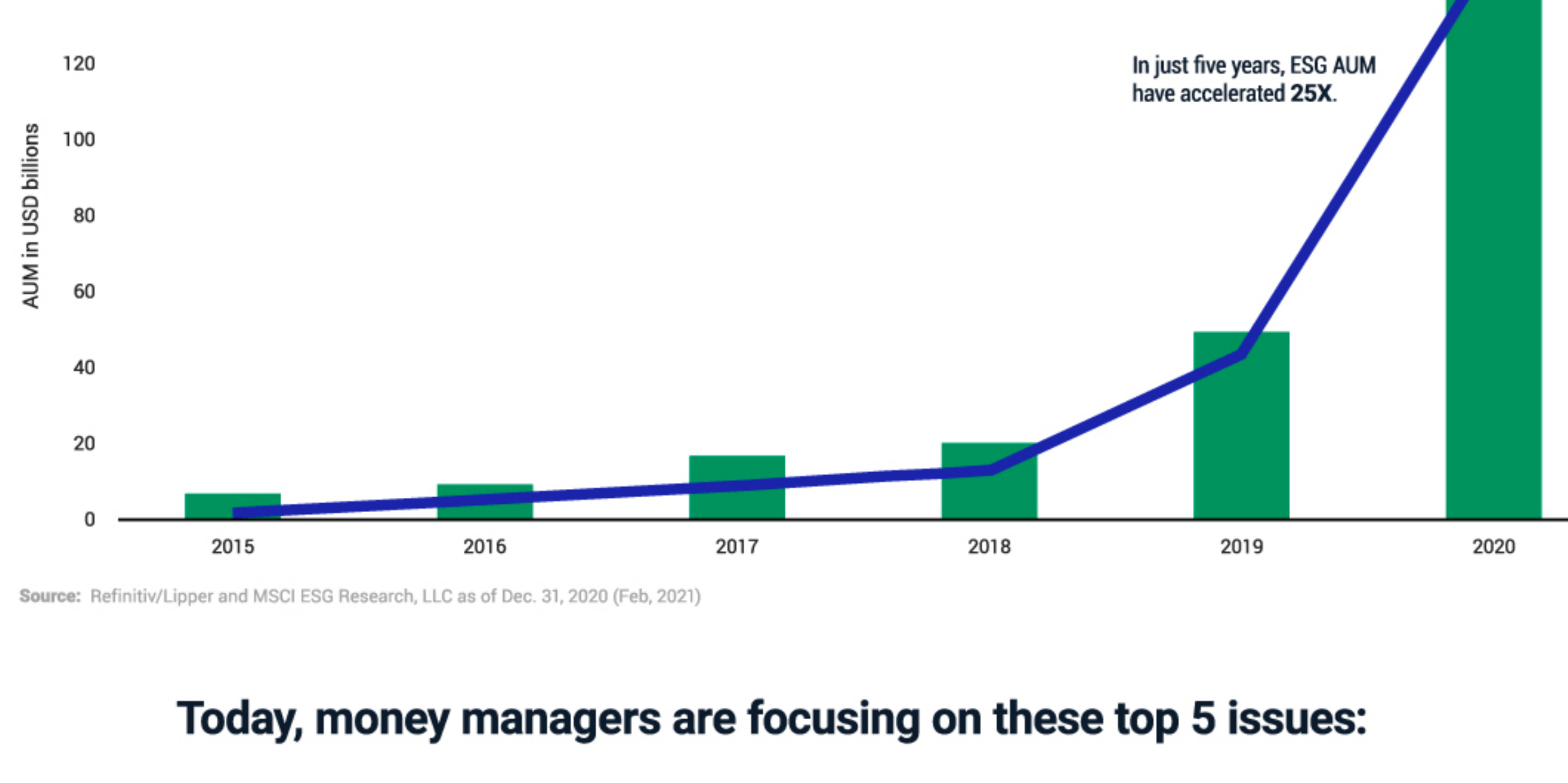
“Investors talk about ESG but don't invest in it”

②

Fact Check: False

Global ESG assets under management (AUM) have grown from \$6 billion in 2015 to \$150 billion in 2020.

Global ESG ETF Assets Under Management (AUM) ● AUM ● Flow



Source: Refinitiv/Lipper and MSCI ESG Research, LLC as of Dec. 31, 2020 (Feb, 2021)

Today, money managers are focusing on these top 5 issues:

Top ESG issues considered by money managers and growth in assets affected 2018-2020

Over 1,500 shareholder resolutions were filed between 2018-2020 as investors placed higher ESG demands on corporate boards.
Source: US SIF Foundation, ISS ESG, Sustainable Investments Institute (Nov, 2020)



Source: US SIF Foundation (Nov, 2020)

The shift in investor behavior is far-reaching. Not only are investors turning to ESG assets, but they are placing higher demands on corporate responsibility.

Source: US SIF Foundation (Nov, 2020)

“ESG investment strategies eliminate entire sectors”

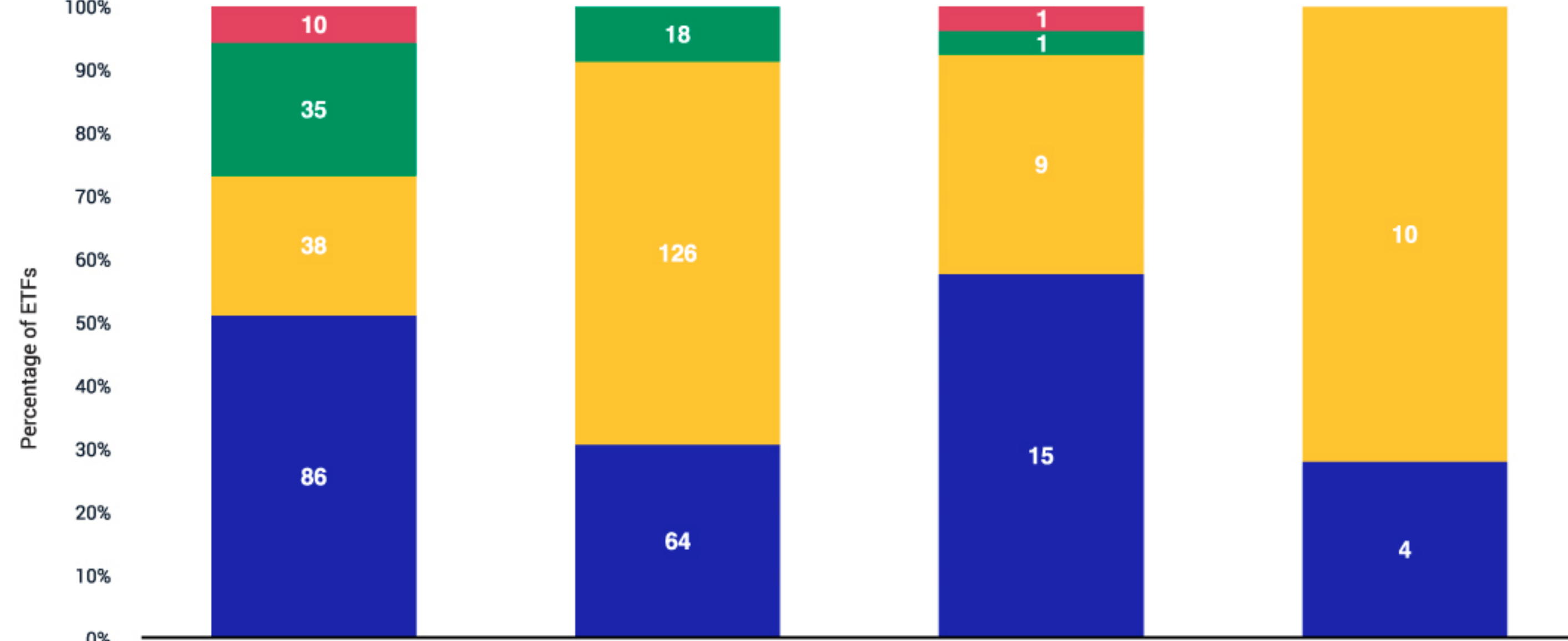
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Fact Check: Not necessarily

First, not all ESG investment approaches are exclusionary. For instance, in North America 50.9% of ESG ETFs used an ESG integration approach.

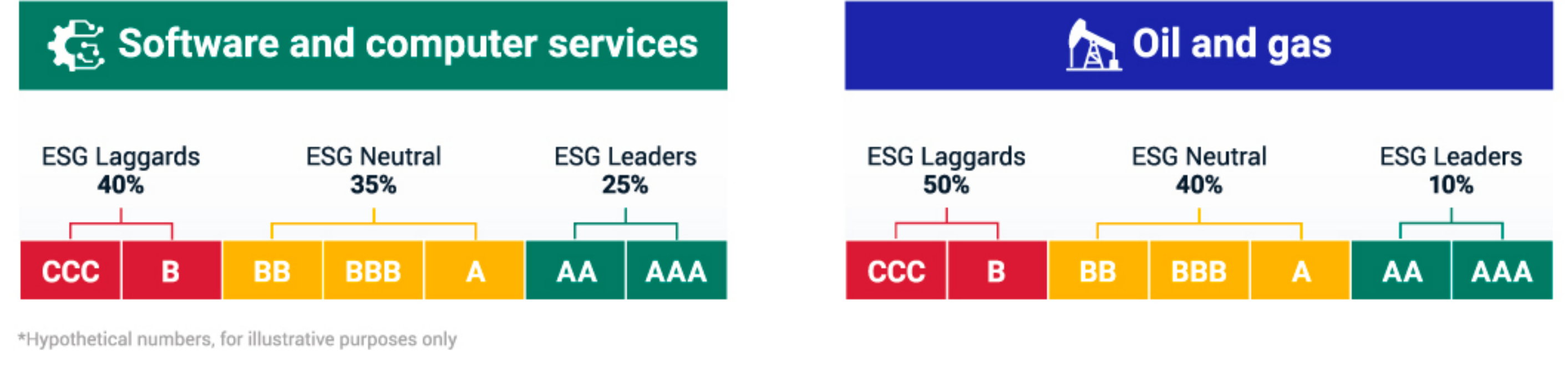
Source: Refinitiv/Lipper and MSCI ESG Research LLC as of Dec. 31, 2020 (MSCI Feb, 2021)

Distribution of ESG ETF Type by Domicile ● Integration ● Values & screens ● Thematic ● Impact



Source: Refinitiv/Lipper and MSCI ESG Research LLC as of Dec. 31, 2020 (MSCI Feb, 2021)

Second, MSCI ESG Ratings assess companies on a sector-specific basis, identifying ESG leaders and laggards within each sector in comparison to peers.



*Hypothetical numbers, for illustrative purposes only

In short, ESG doesn't mean eliminating exposure to entire sectors. Instead, investors can choose from a range of companies based on their ESG ratings quality.

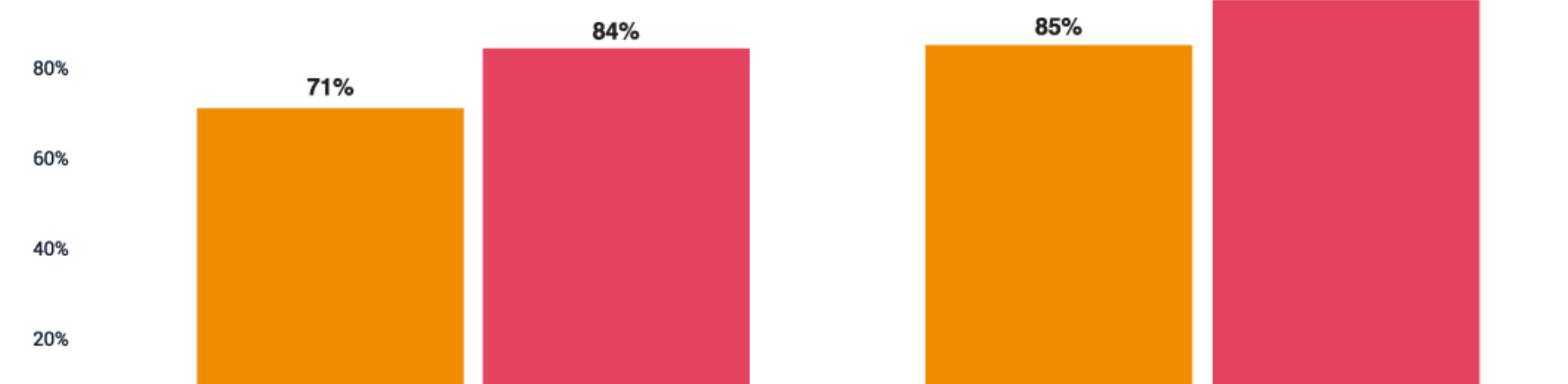
“ESG investing is only for millennials”

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Fact Check: False

Although ESG is popular among millennials, ESG investing is being driven by the entire investor population.

Interest in Sustainable Investing (Individual Investors) ● General population ● Millennials



Source: Morgan Stanley Institute for Sustainable Investing: Sustainable Signals – The Individual Investor Perspective (2019), US SIF Foundation (Nov, 2020)

Sustainable investing goes far beyond millennials—ESG disclosures are quickly becoming requirements for key industry participants, such as institutional investors and listed companies.

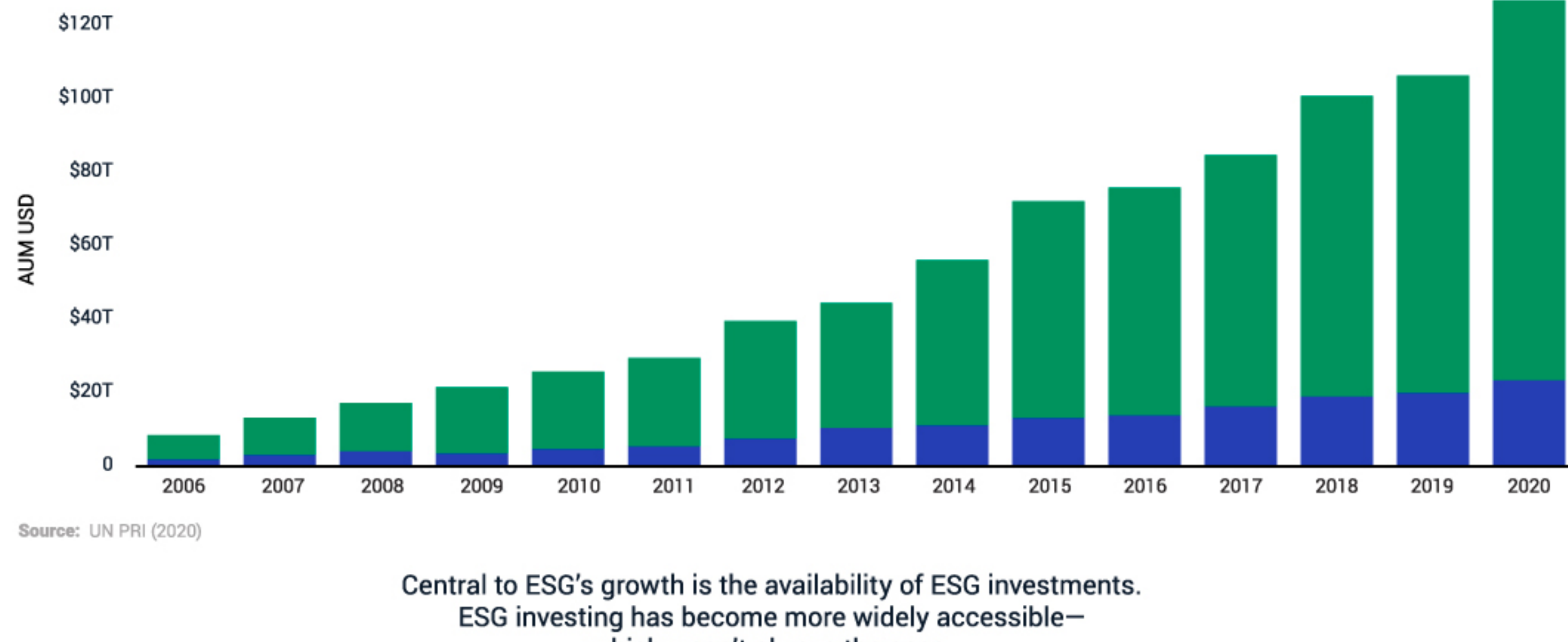
“ESG investing is here to stay”

⑤

Fact Check: True

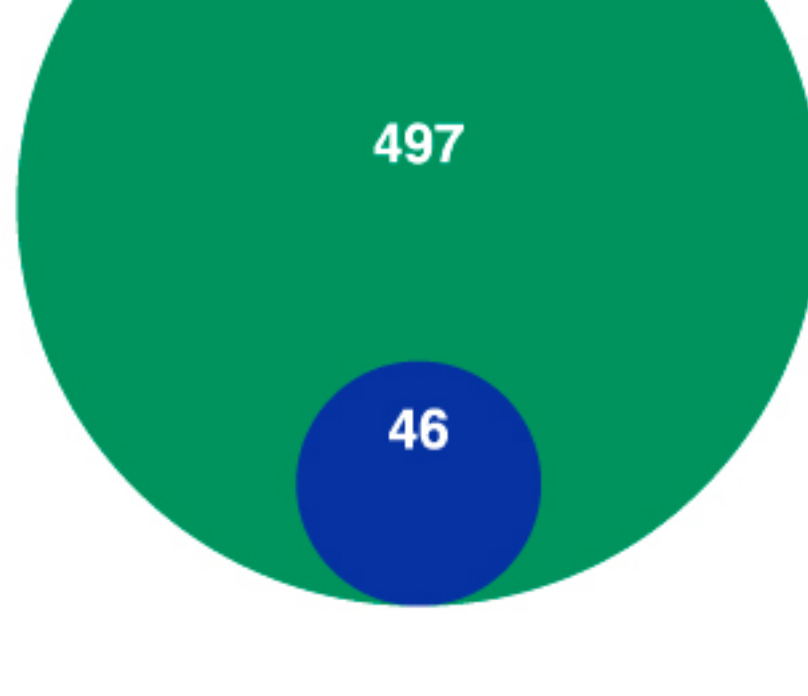
Climbing 28% in 2020 alone, over 3,000 signatories have committed to the UN Principles of Responsible Investment.

Growth of UN PRI ● AUM ● Assets owners' AUM



Source: UN PRI (2020)

Central to ESG's growth is the availability of ESG investments. ESG investing has become more widely accessible—which wasn't always the case.



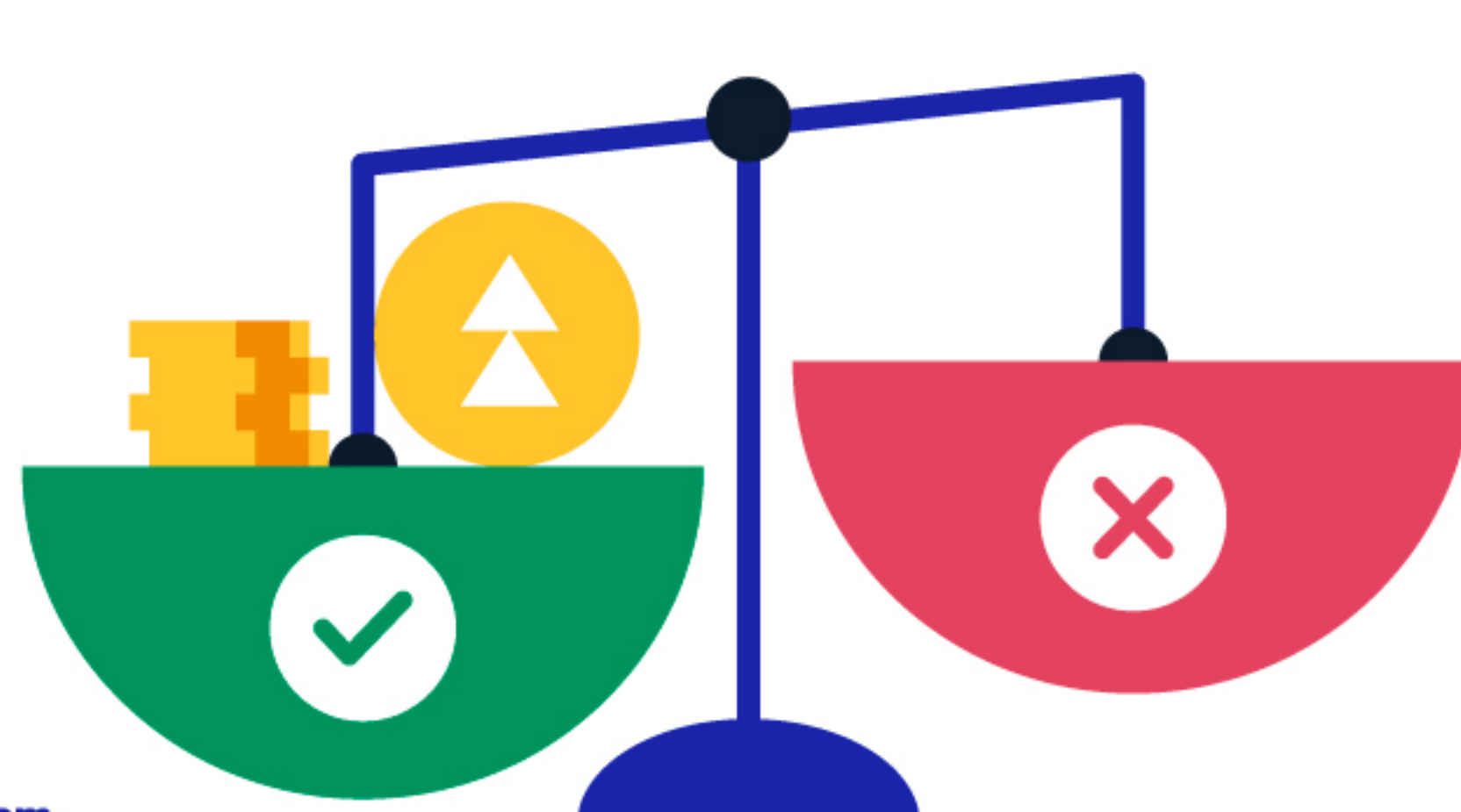
Over the last decade, the global number of ESG ETFs have grown to 497.

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house (Jan, 2021)

Why the facts matter

Sustainable investing doesn't have to be confusing.

Data driven evidence empowers investors to build more sustainable portfolios that better align with their investment objectives.



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