

# ESG INSIGHTS

## H1 2022

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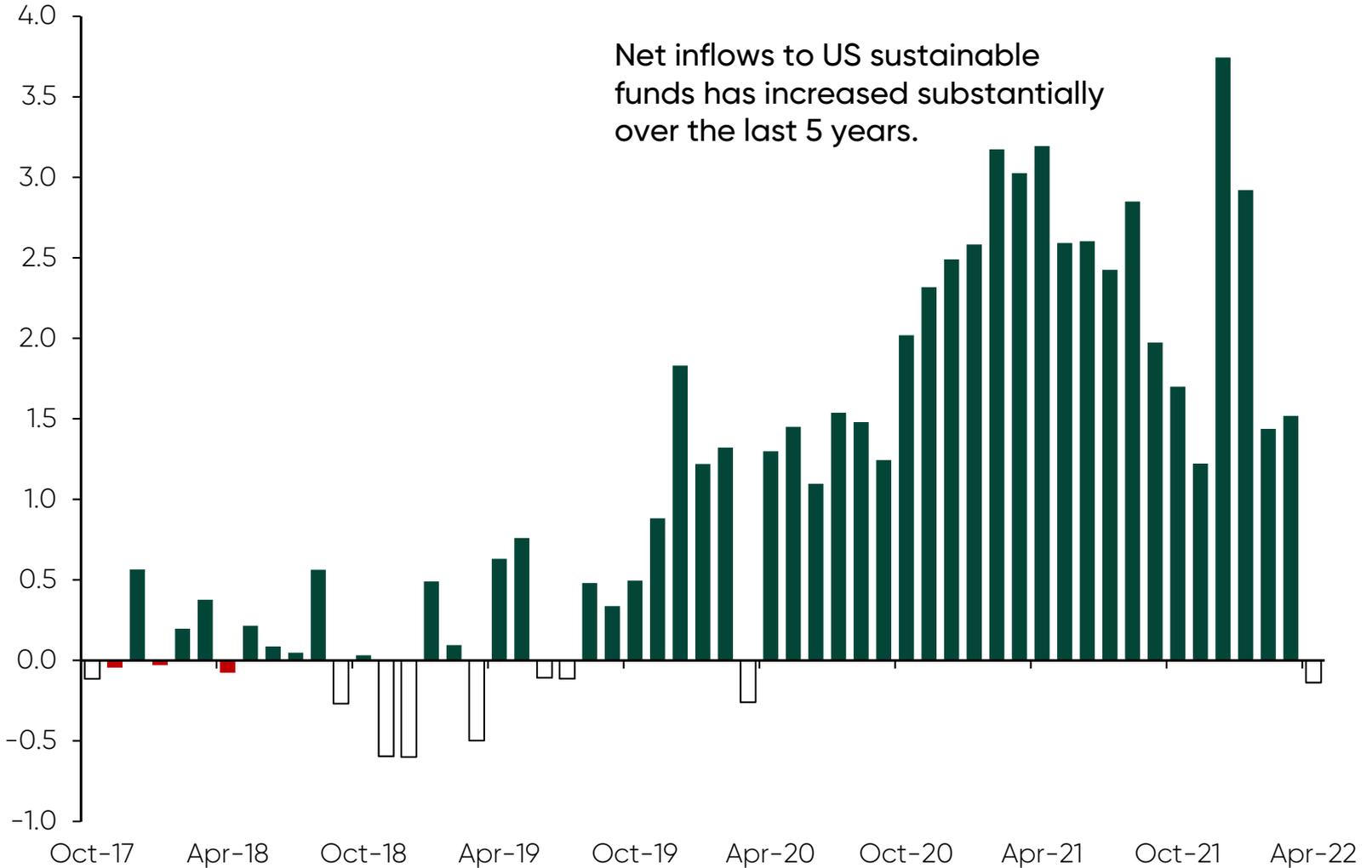
# GLOBAL ESG TRENDS

- Demand for ESG strategies remains strong since the beginning of the global pandemic and US Sustainable funds have had substantial increases in net inflows in the last 5 years.
- ESG Integration overtakes negative screening as the most common sustainable investment strategy by AUM, followed by corporate engagement and shareholder action, norms-based screening and sustainability-themed investment.
- Globally, the United States holds the largest proportion of sustainable investing assets followed by Europe, Japan, Canada and Australia/New Zealand.
- Actively managed ESG fund flows continue to grow at a faster pace than passive.
- Climate change topics dominate discussions as support for ambitious climate goals grows.

# ESG DEMAND REMAINS STRONG

US sustainable funds are enjoying solid net inflows for the most part. Inflows to US Sustainable funds has increased substantially over the last five years.

Net Inflows  
(USD Billions)

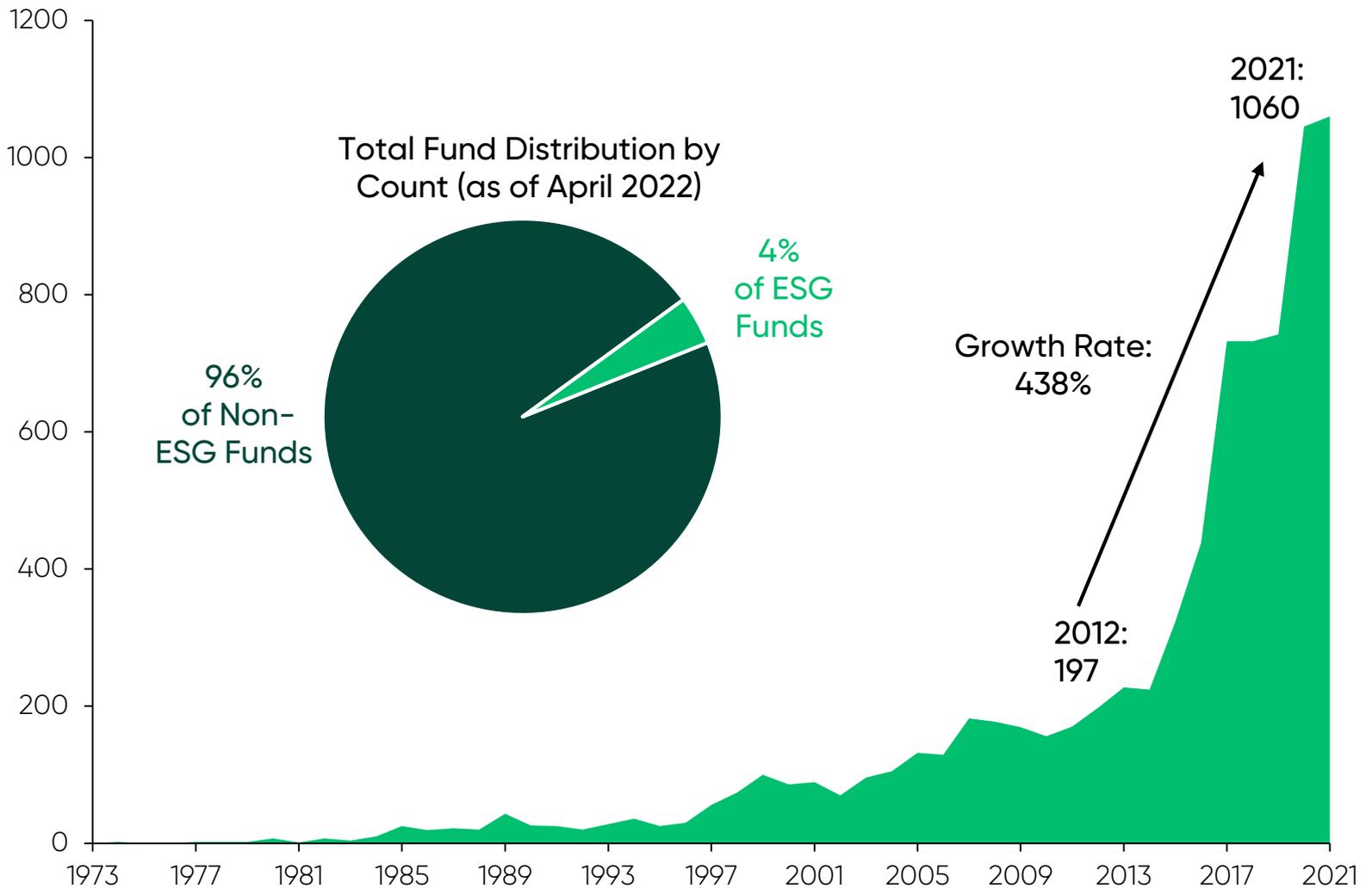


Source: Morningstar, monthly, as of April 2022. Shows net inflows aggregated from all fund share classes and asset classes included in the following Morningstar Sustainable Investment criteria's, and available for sale in the United States. \*Sustainable Investment Criteria included: Community development, Environmental, ESG Incorporation, Gender & Diversity, General Environmental Sector, Low Carbon/Fossil Fuel Free, Other Impact Themes, Renewable Energy & Water-Focused. (414 funds total).

# EVOLUTION OF ESG DEMAND

Demand for ESG oriented products has grown dramatically over the last 9 years, illustrating the importance and value investors put behind considering ESG factors.

## # of New Morningstar ESG Products Incepted

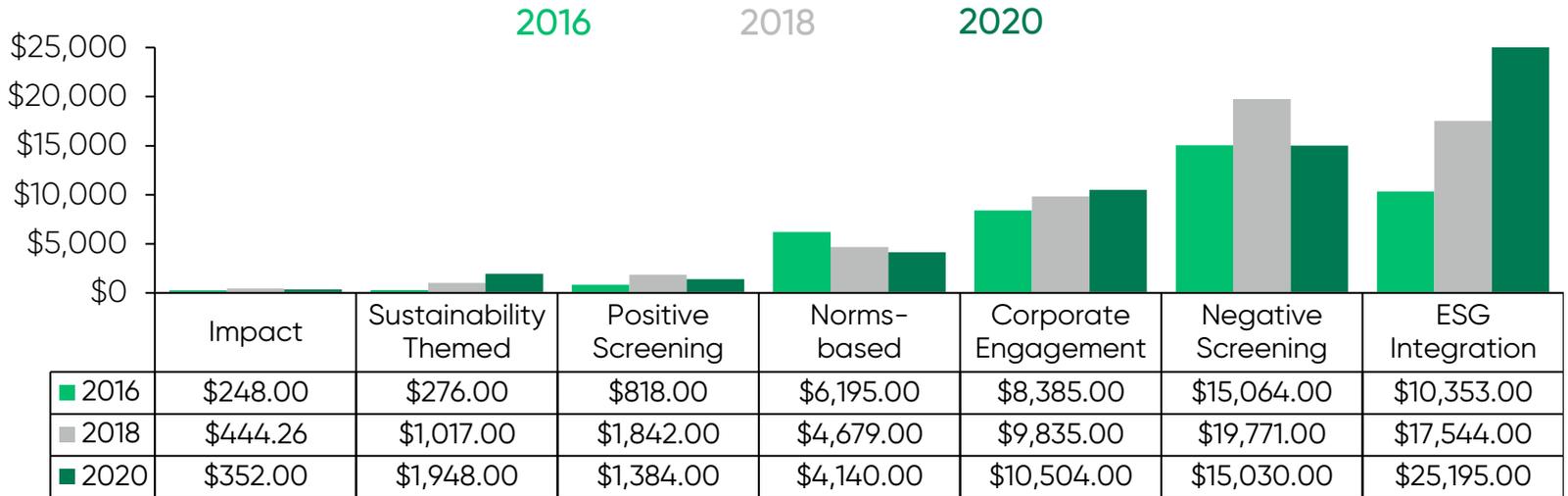


Source: Morningstar, yearly data, as of December 2021. Pie chart as of April 2022.

# GLOBAL ESG AUM & STRATEGY GROWTH

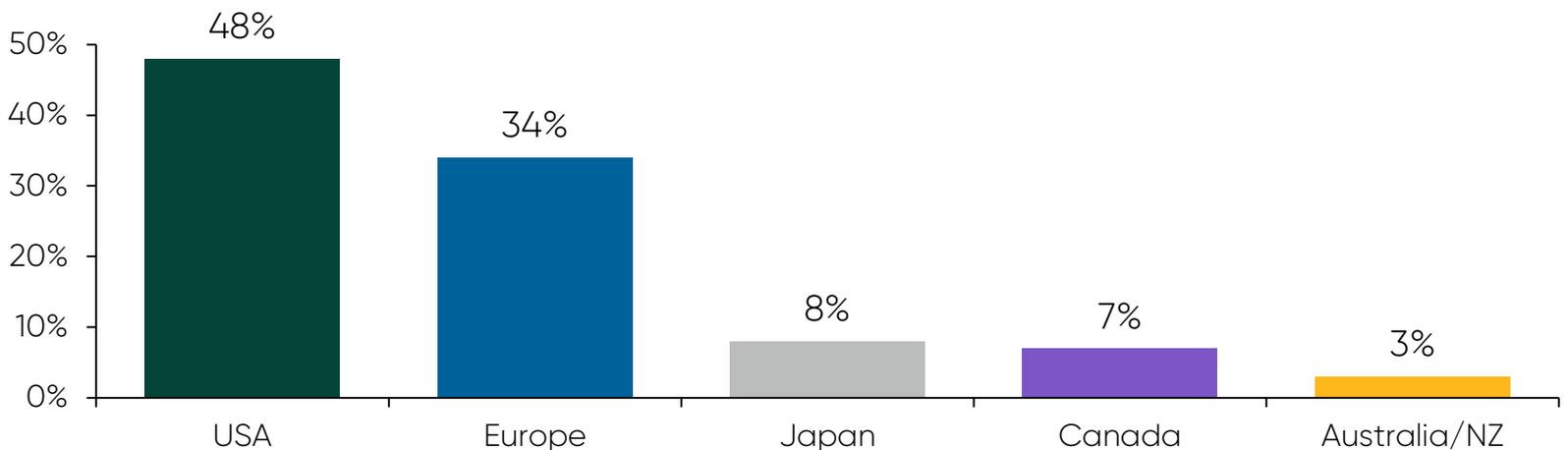
ESG Integration has the highest ESG AUM globally, while sustainability themed was the fastest growing strategy.

Global Growth of ESG by Strategies (Billions, USD)



Globally, the United States holds the largest proportion of sustainable investing assets followed by Europe, Japan, Canada and Australia/New Zealand.

% of Global Sustainable Investments by Region in 2020

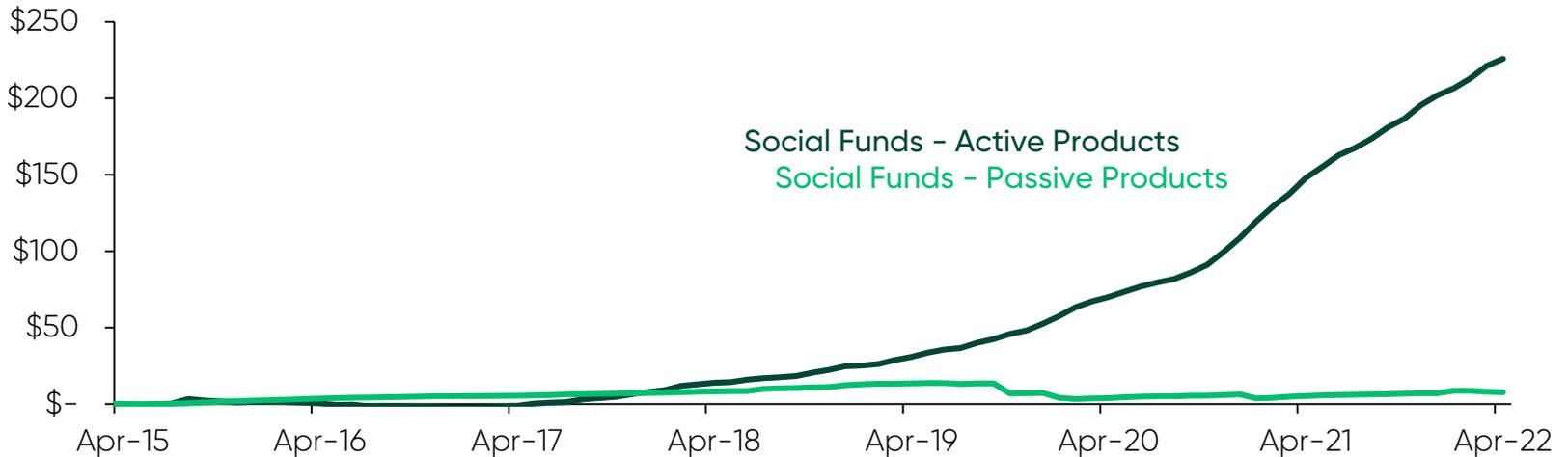
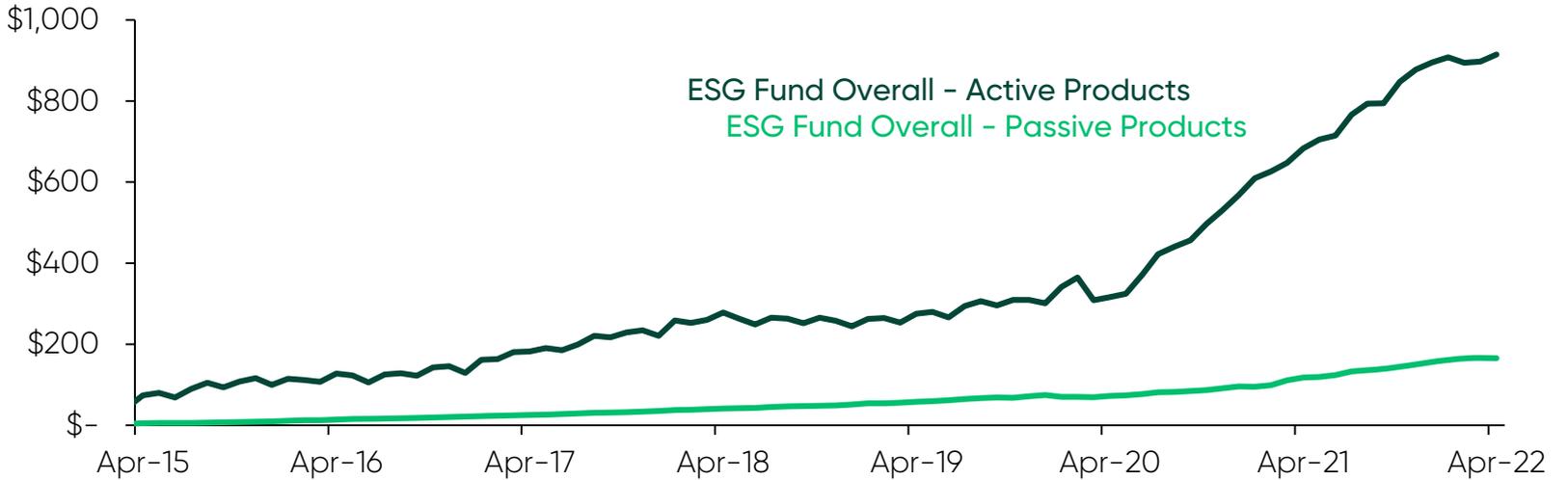


Source: Global Sustainable Investment Review 2020.

# INVESTORS PREFER ACTIVELY MANAGED ESG

Since mid-2015, net inflows into active products considered as ESG Funds by Morningstar has been growing at much faster clip than passive products. Active leading is even more evident for socially focused funds.

Global Cumulative Net Inflows (Billions, USD)

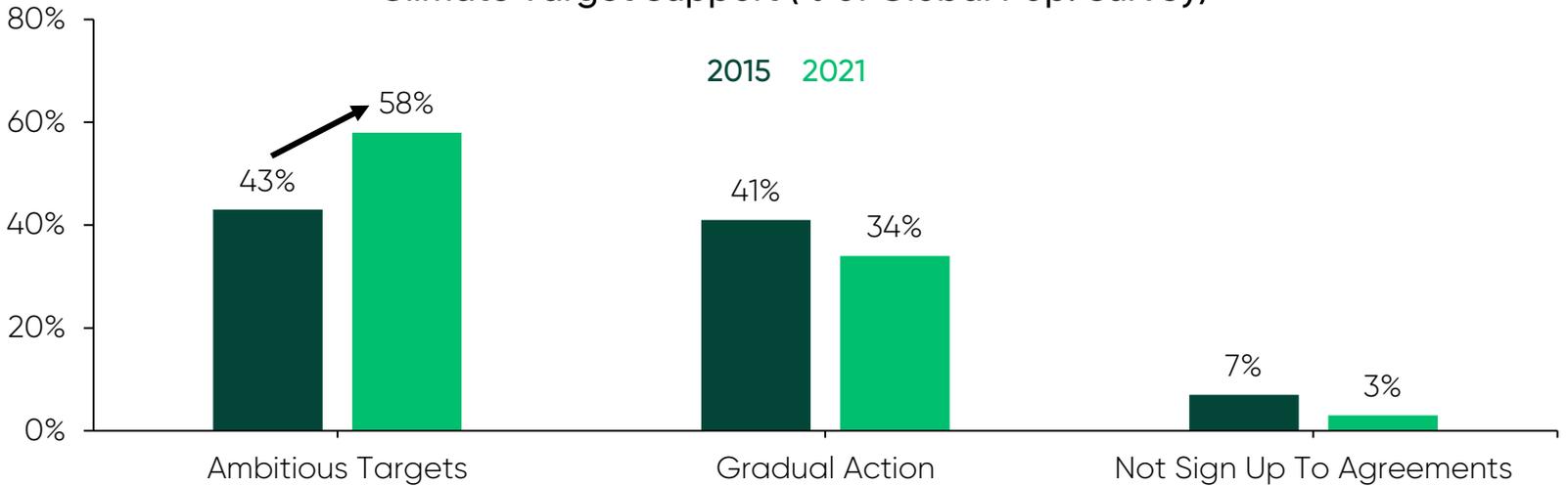


Source: Morningstar, monthly, as of April 2022. Cumulative net flows shown for April 2015 to April 2022. Top chart shows active and passive cumulative net inflows for all open-end funds & ETF's classified as satisfying the "ESG overall" sustainable investment criteria. Bottom chart shows active and passive cumulative net inflows for all open-end funds & ETF's classified as satisfying the "Gender & Diversity" and/or "Community Development" sustainable investment criteria. As products may satisfy multiple criteria, some funds may be represented on both charts.

# INCREASING GLOBAL INTEREST IN CLIMATE CHANGE

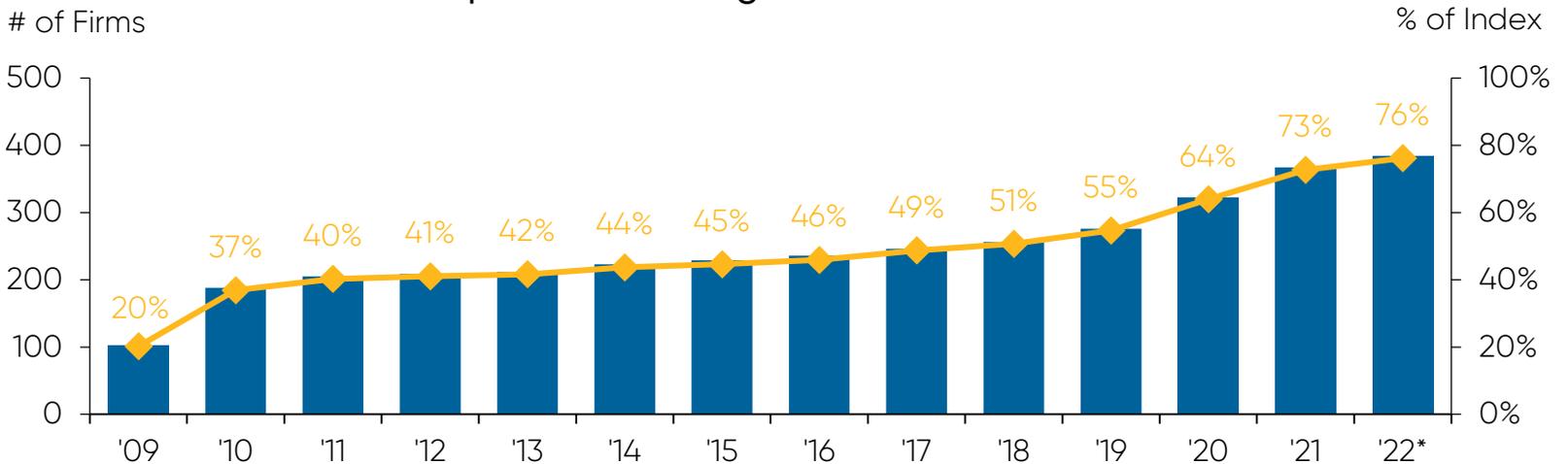
Environmental, social and governance (ESG) factors are dominating discussions in finance and investing, in particular issues relating to climate change. According to a GlobalScan poll on climate targets, more people support leaders making ambitious climate goals.

Climate Target Support (% of Global Pop. Survey)



Similarly, S&P 500 companies are increasingly reporting on climate-related disclosures.

S&P 500 Companies 10Ks Filing with Climate-Related Disclosures



Top Chart Source: GlobeScan. people surveyed across 18 countries, as of November 2021.

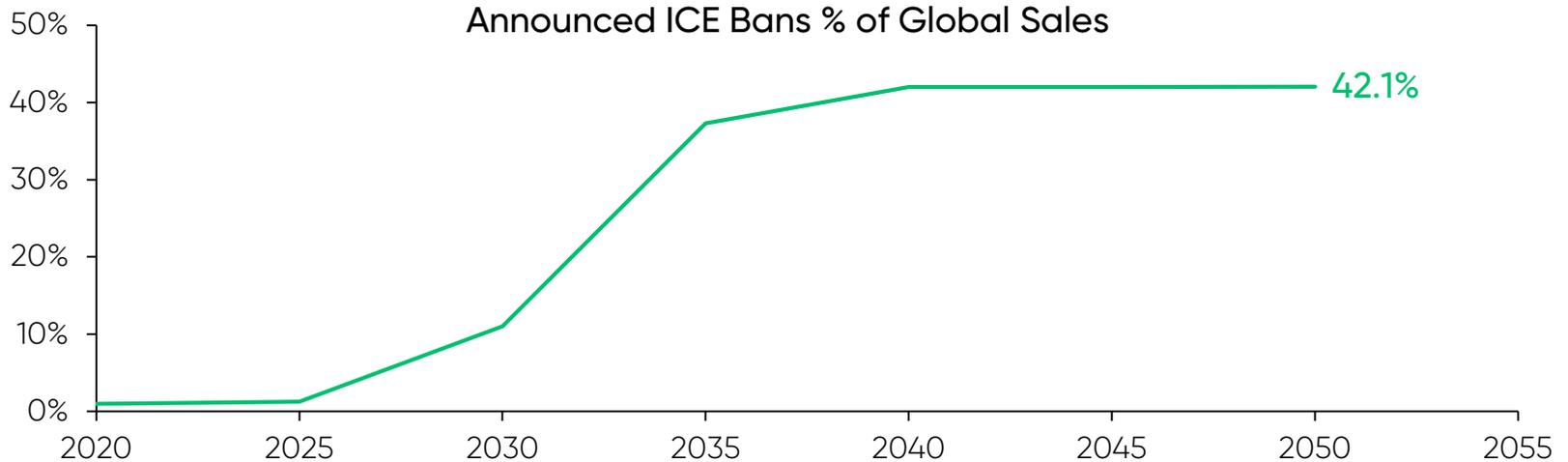
Bottom Chart Source: Factset, yearly, as of May 2022. \*Data from January 2022 – May 2022.

# OBSERVATIONS IN EVs & CARBON EMISSIONS

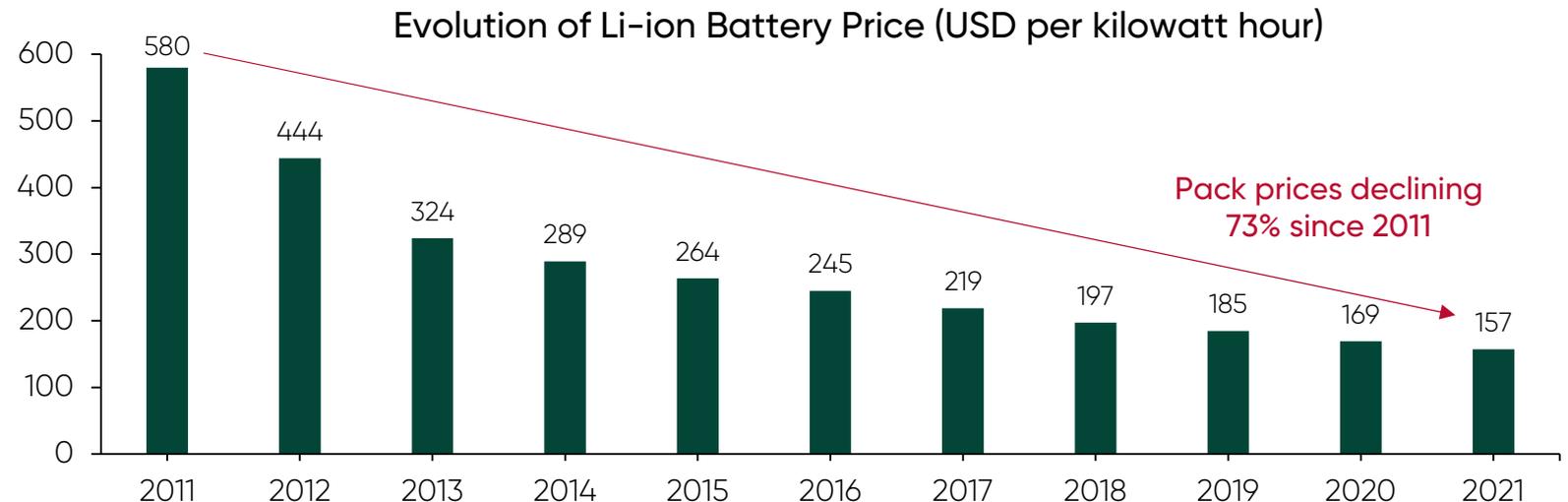
- Internal combustion engine bans and sales phase-outs combined with declines in battery costs drive electric vehicle (EV) market share gains.
- Global climate commitments from COP 26 remain largely unchanged and the legislative progress regarding carbon commitments globally remains slow.
- Developed nations' commitments to finance developing nations' de-carbonization transitions fell short of the Paris Agreement's target of \$100B annually by 2020. This target is now delayed to 2023.
- Even as the EU invests heavily in renewable energy, a full transition will likely take time.
- Net Zero/Paris Aligned investors face practical challenges in balancing financial returns and climate commitments.

# EV GROWTH SENSITIVITY & ROAD TO PROFITABILITY

By 2050, we estimate that vehicle standards banning the sale of new internal combustion engine (ICE) will affect 42.1% of global vehicle sales. The EV industry should benefit from this as well as other global de-carbonization efforts. However, uncertainties in environmental regulations still remain high and may impact EV growth.



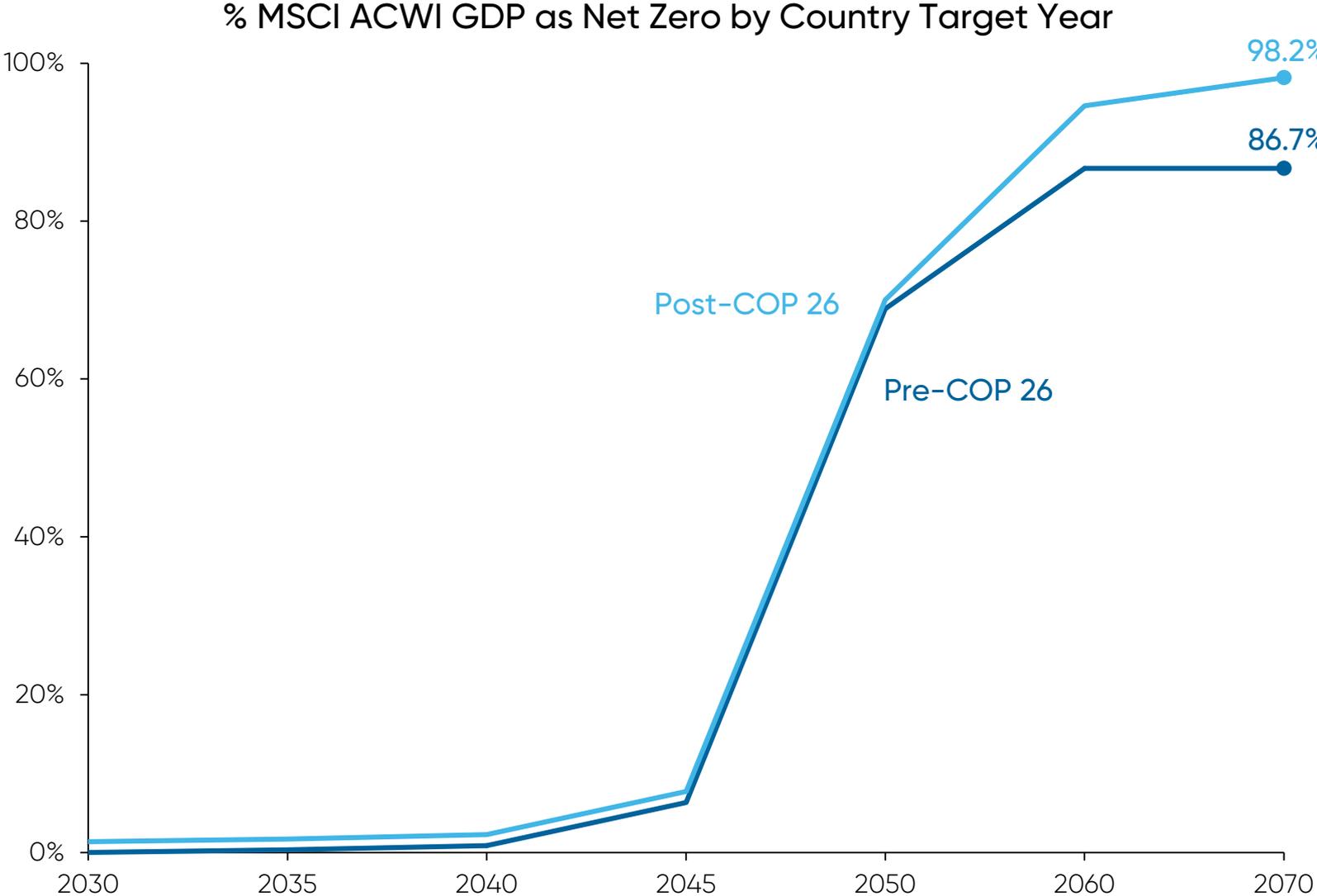
EVs are becoming more affordable for consumers as battery costs have declined 73% in the last 10 years on improving technology. However, currently the cost of EVs is still higher than for ICE vehicles and EV business remains unprofitable for most automakers.



Top chart source: Fisher Investments Research & FactSet, based on country-level ICE bans announced, data as of May 2022. Global vehicle sales data as of December 2021. Bottom chart source: EERE; US Department of Energy; NASEM, yearly. 2011-2021.

# CARBON PLEDGES WILL OCCUR OVER AN EXTENDED TIMEFRAME

While support has grown over the years, most global climate commitments fall short of activists' hopes. Some countries updated their national climate plans post-COP 26, but many largely remain the same from previous summits.

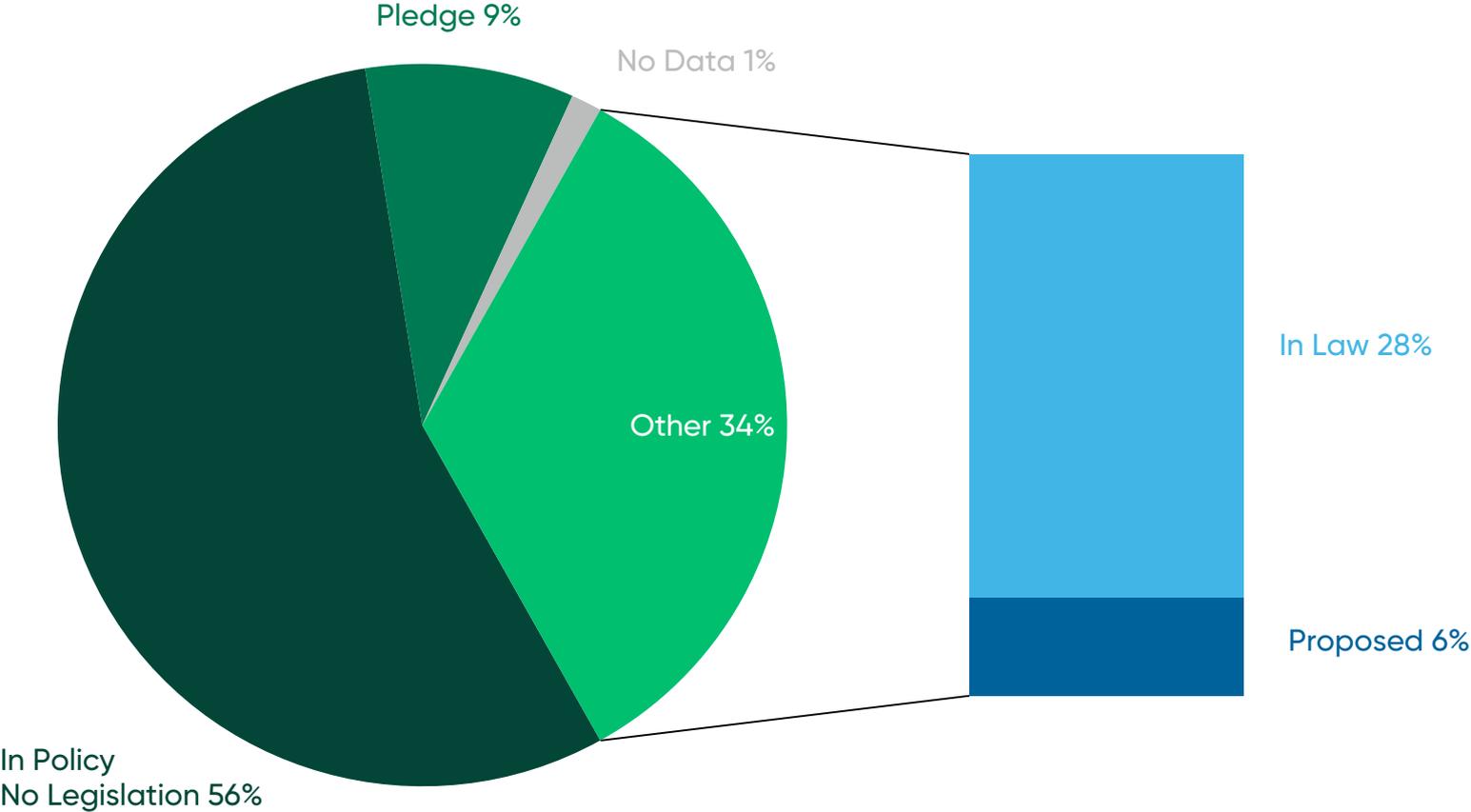


Source: FactSet, MSCI All Country World Index; World Bank, GDP Data in Current USD; Enovate's Net Zero Tracker; Due to data availability, Taiwan is calculated as part of China. Turkey's commitment date is 2053, but included as 2050 for consistency. As of November 2021.

# MOST CARBON COMMITMENTS HAVE YET TO BECOME LAW

Lack of legislative progress towards meeting net-zero commitments demonstrates the challenges countries & politicians face.

### Status of Net Zero Legislation as % of MSCI ACWI GDP



Source: FactSet, MSCI All Country World Index; World Bank, GDP Data in Current USD; Enovate's Net Zero Tracker; Due to data availability, Taiwan is calculated as part of China. Turkey's commitment date is 2053, but included as 2050 for consistency. As of November 2021.

# FINANCING COMMITMENTS ARE SIGNIFICANT BUT BEHIND SCHEDULE

Developed nations' financing commitments still fall short of the Paris Agreement target. OECD estimated that the original 2009 target of contributing \$100 billion to developing nations annually by 2020 was not met. As a result, they have delayed the target to 2023 and countries are planning to report on their financial commitments as part of the COP26 agreements.

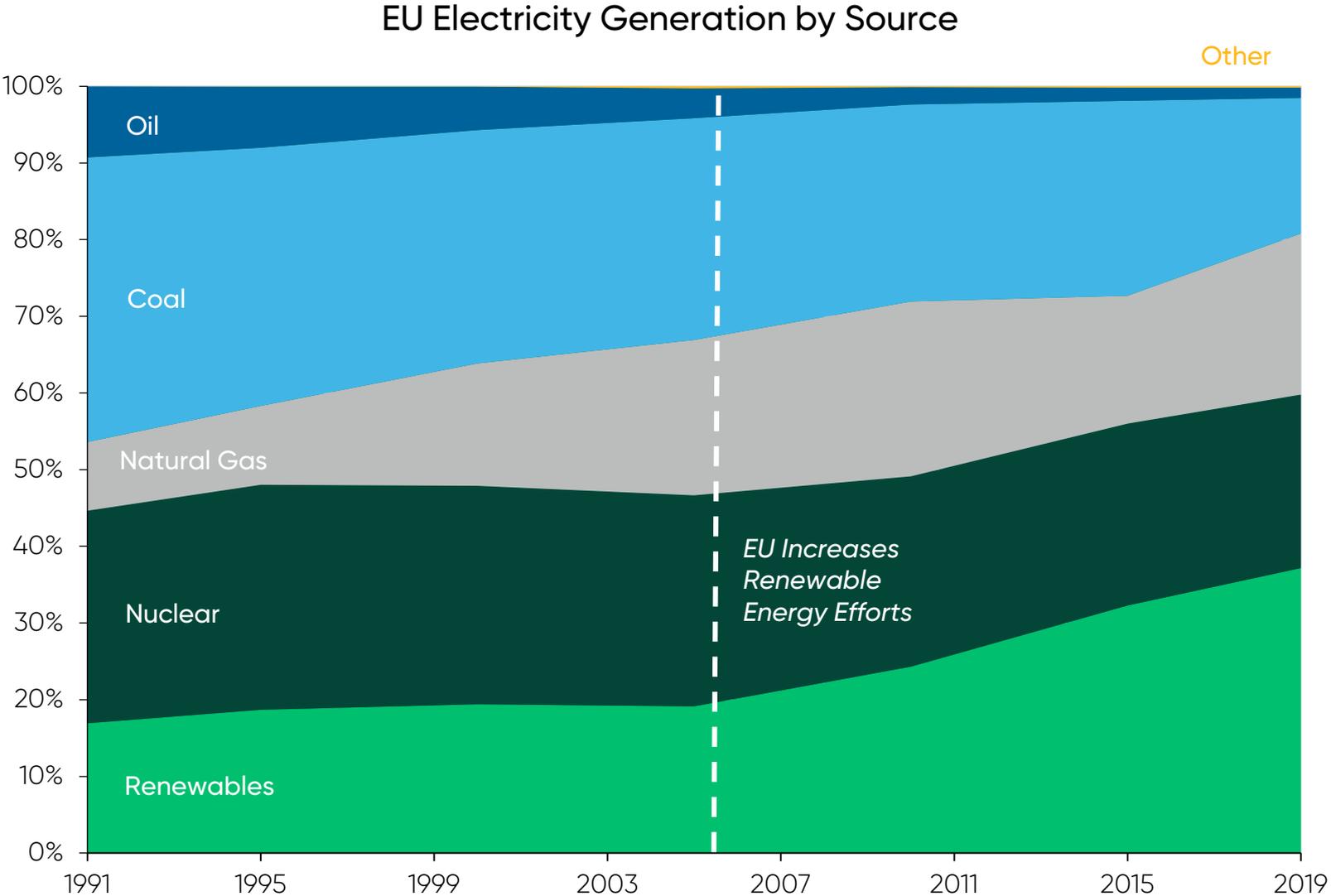
### Global Climate Financing



Source: OECD, Report as of September 2021. Data as of December 2019, yearly.

# EU RENEWABLES TRANSITION TAKES TIME

The EU has invested heavily in renewable energy, such as wind and solar. However, immediate energy needs will likely continue to feature non-renewable energy like natural gas and coal.

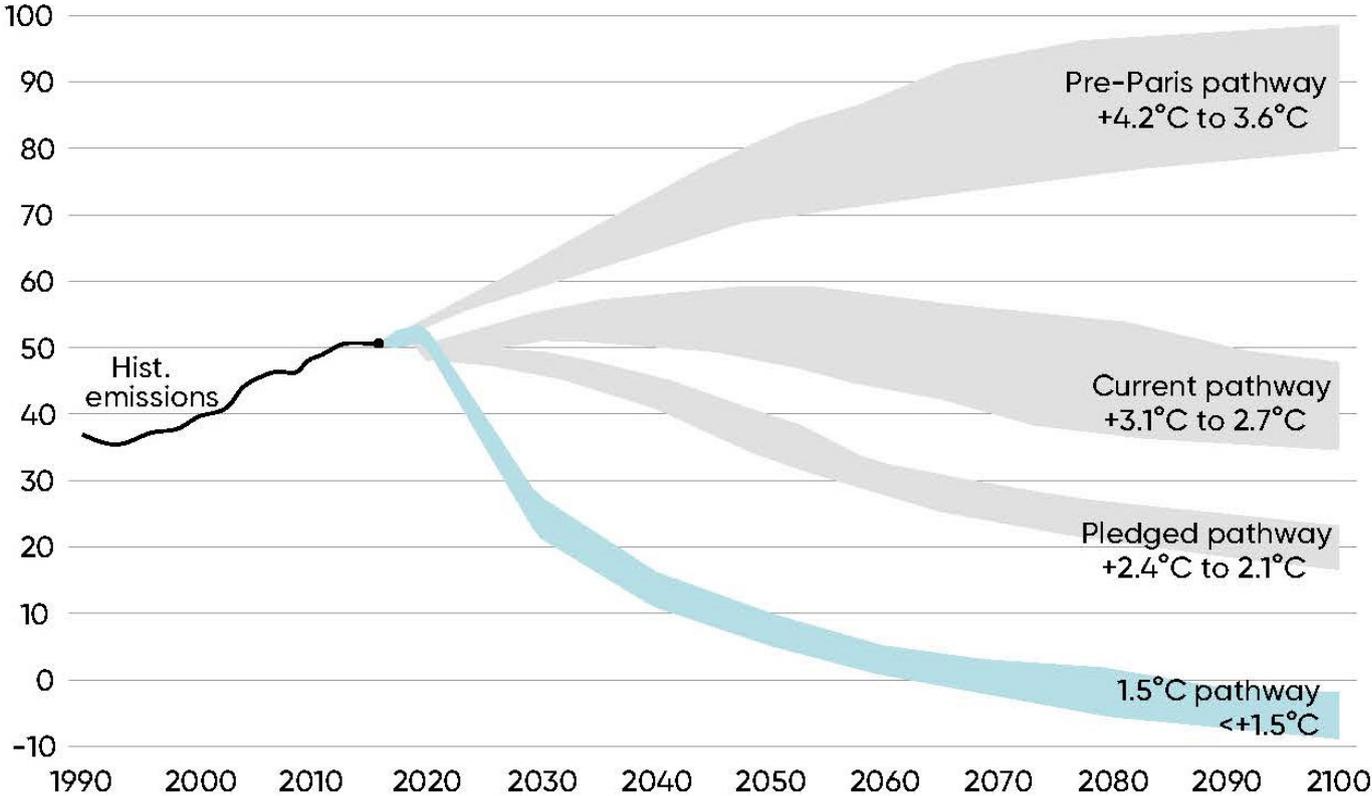


Source: OECD, Report as of September 2021. Data as of December 2019, yearly.

# NET ZERO/PARIS ALIGNED INVESTOR CHALLENGES

Full alignment with the Net Zero Asset Owners Alliance may require a slight delay behind the scientific pathways in order to avoid divestment from the majority of the investable universe.

*“...the Alliance may need to tolerate a ‘buffer’ or slight lag behind the scientific pathways, otherwise members may be faced with a decision to exit the majority of the investable universe, which exposes them to other (investment) risks”*

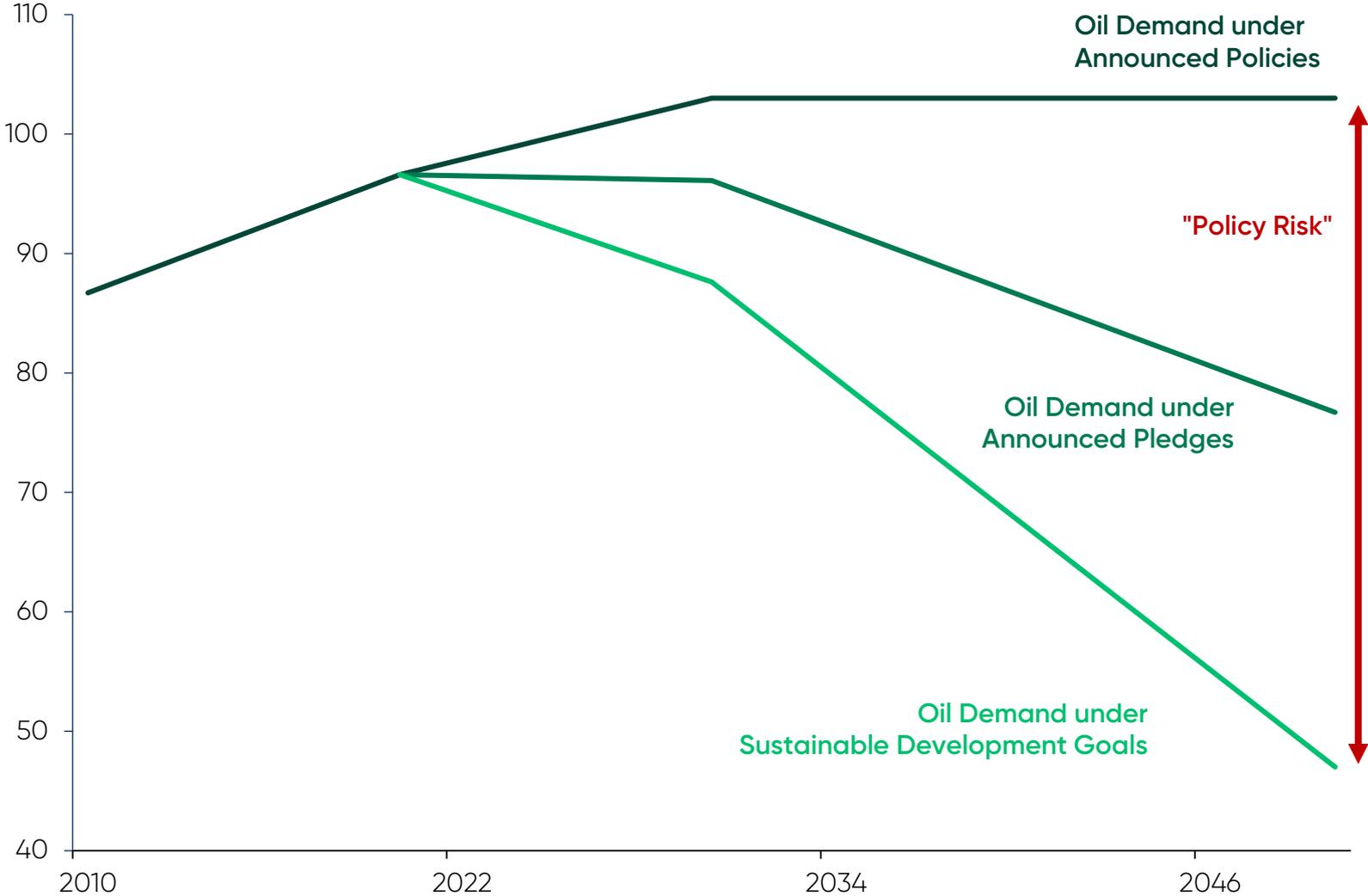


Sources: Net Zero Asset Owners Alliance Target Setting Protocols (Jan 2022) <https://www.unepfi.org/net-zero-alliance/resources/target-setting-protocol-second-edition/>

# FUTURE OIL ASSUMPTIONS HAVE POLICY RISK

Current policies imply oil demand growth inconsistent with meeting the targets of the Paris Agreement.

Millions of Barrels per Day



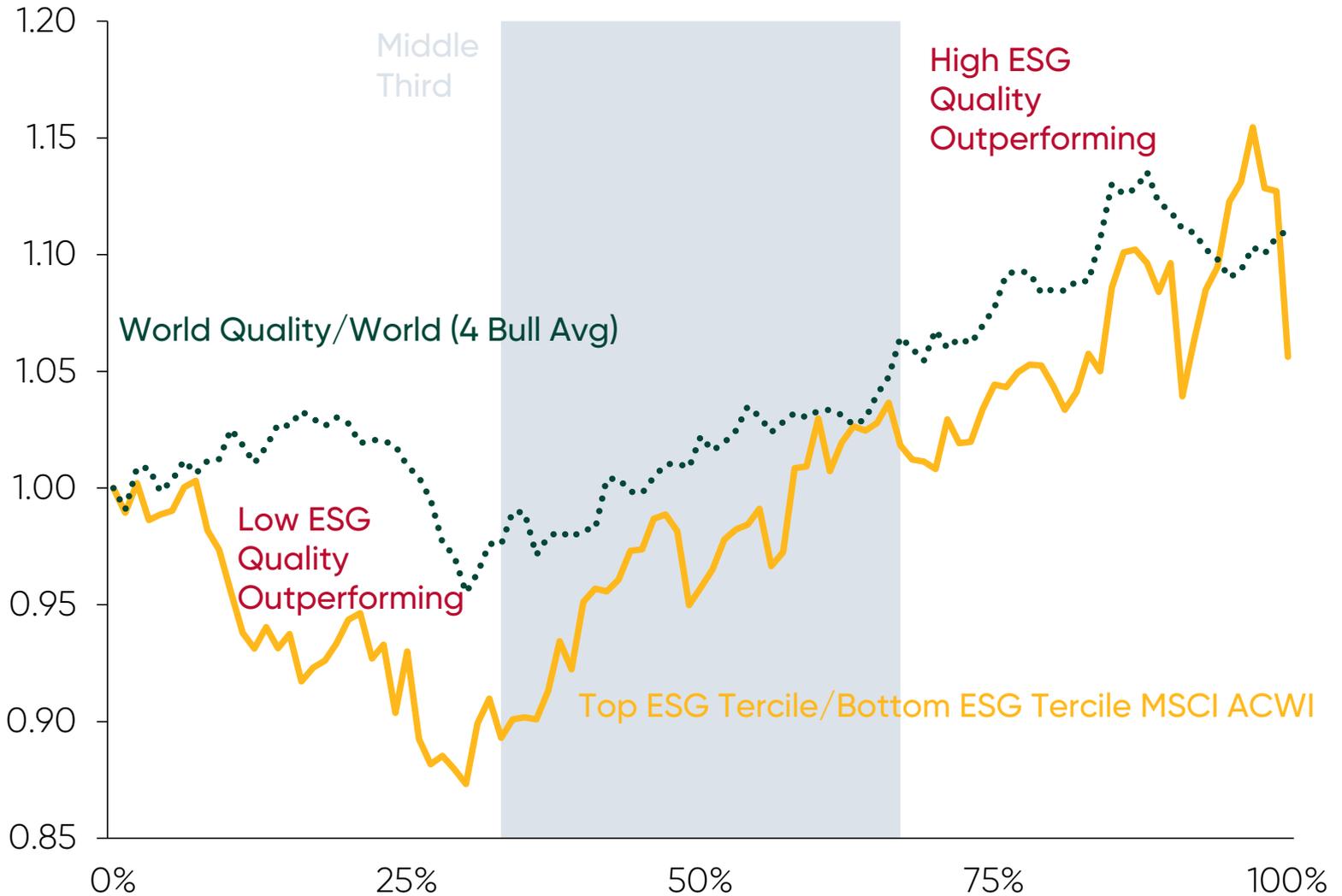
Source: International Energy Agency, yearly, as of May 2022.

# ESG PERFORMANCE & ESG MANAGEMENT IN VALUE LED MARKETS

- Performance based on ESG scores tends to follow quality cycles as lower scoring firms tend to outperform early and higher scoring outperform later.
- Some ESG investors worry that value led markets will lead to underperformance, as some value oriented industries are unattractive to ESG investors. While value indices are more restrictive, the differences are modest.
- With most value oriented equities available to ESG strategies, the performance impact has historically been immaterial.

# ESG SCORE PERFORMANCE TIED TO QUALITY MARKET CYCLE

Returns of the top and bottom decile of ESG scores follows a similar pattern to quality: Low outperforms early in the cycle, while high outperforms later in the cycle.

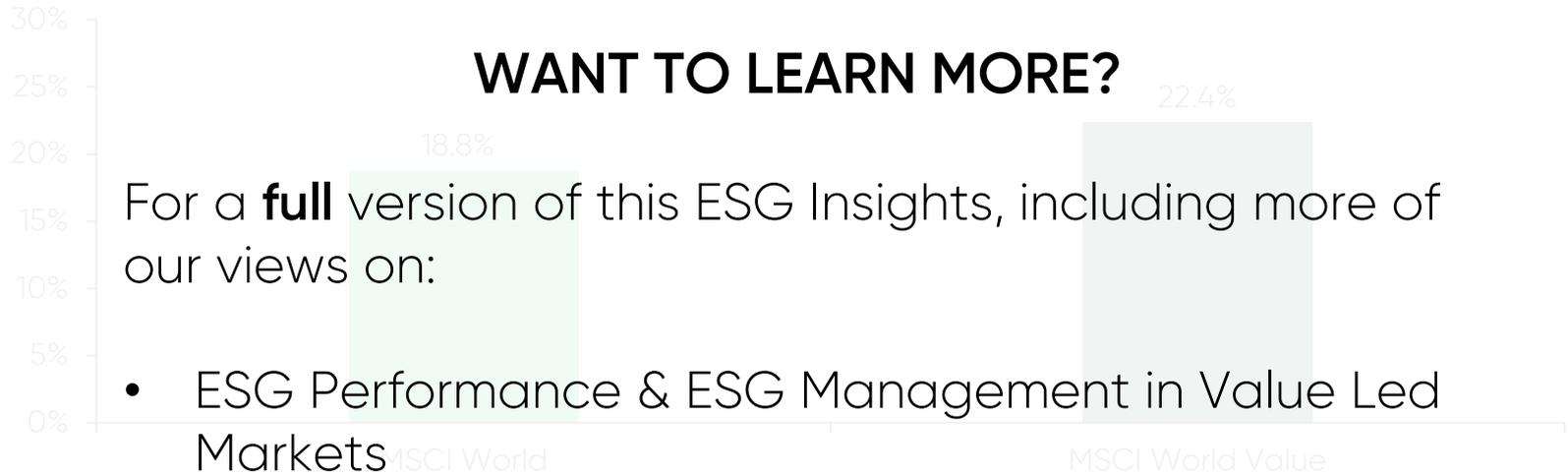


Source: ClariFI and MSCI ESG Research; ESG scores are MSCI's industry-adjusted ESG scores; August 7, 2016 marks the end of the middle third; returns are cumulative from March 2009 to March 2020; FactSet MSCI World Quality vs MSCI World (last 4 bull market cycles), daily.

# VALUE FOR ESG INVESTORS

While value indices are more restrictive, the differences are modest.

% of Index Restricted with  
FI ESG Restrictions



## WANT TO LEARN MORE?

For a **full** version of this ESG Insights, including more of our views on:

- ESG Performance & ESG Management in Value Led Markets
- Limitations of ESG Scores

Looking at our value oriented equities are available.

Please email [FisherInstitutionalMarketing@fi.com](mailto:FisherInstitutionalMarketing@fi.com).

Not Value Equities Count: 773  
Avg. MSCI ESG Score: 6.0

For our latest insights on the key trends shaping ESG, follow [Fisher Investments Institutional Group on](#)

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Value Equities Count: 189  
Avg. MSCI ESG Score: 5.6



Source: FactSet, MSCI World Total Returns. Trailing three years as of March 2021. Value equities are equities that outperform the MSCI World when MSCI World Value outperforms MSCI World Growth. To be defined as value, an equity must outperform alongside Value with 55% or greater frequency over the last 3 years. Please see the Appendix for a full list of FI's available mechanical ESG screens.

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