ESG screening positively impacts portfolio performance, new research from Amundi finds

- *Popularity of active and passive ESG investing boosted by increasing institutional demand*
- *2014 marks a turning point with ESG screening driving outperformance in developed equities with a strong impact on Environmental in North America and Governance in the Eurozone*
- *Mobilisation of investors on ESG issues is starting to impact supply and demand, with a subsequent effect on stock prices since 2014*

London, 14th January 2019 – Amundi, Europe's largest asset manager and a pioneer in responsible investment, researched the impact of environmental, social and governance ('ESG') criteria on portfolio performance. The purpose of the research was to determine whether being an ESG investor had an impact on portfolio performance.

Following growing demand for ESG investing from institutional clients worldwide, Amundi has used proprietary data from 2010-2017 to analyse the performance of 1700 companies across five investment universes, corresponding to MSCI indices: MSCI North America, MSCI EMU, MSCI Europe-ex EMU, MSCI Japan and MSCI World.

By analysing the performance and ESG criteria (E,S,G and composite ESG scores) of companies, Amundi found that the impact of ESG screening on return, volatility and drawdown is dependent on three factors: observation period, investment universe and investment strategy. Findings indicated that during the study period, the impact of ESG screening had little impact on portfolio risk (volatility and drawdown). On the contrary, the impact of ESG screening was crucial in terms of portfolio returns.

In general, ESG investing tended to penalise both passive and active ESG investors between 2010 and 2013. Contrastingly, ESG investing was a source of outperformance from 2014 to 2017 in Europe and North America. For example, buying the best-in-class (or 20% best-ranked) stocks and selling the worst-in-class (or 20% worst-ranked) stocks would have generated an annualised return of 3.3% in North America and 6.6% in the Eurozone during the 2014-2017 period, while these figures were respectively -2.70% and -1.20% between 2010 and 2013. Across the three ESG pillars, the environmental factor in North America and the governance factor in the Eurozone performed the strongest. From 2015, the social component improved significantly and has now been positively priced by the stock market. Overall, the study revealed that ESG does not impact all stocks, but tends to impact best-in-class and worst-in-class assets.

The causal mechanism lies on demand and supply dynamics, as well as the virtuous circle created by the intrinsic added value of ESG screening. Impact on performance is driven by increasing investors' demand for ESG approaches, which generates flows into best-in-class stocks, which in turn boosts stock prices and performance. With momentum growing (12% annual growth rate on average[1]), this trend is expected to continue.

The previous results are also valid when considering passive management with exactly the same findings in terms of impact of ESG screening on portfolio returns. Combining an ESG approach within

[1] Source: Global Sustainable investment alliance report 2017

a passive management framework is compatible, as far as investors accept additional, yet controlled, tracking error compared with market capitalization-weighted indices.

In October this year Amundi announced a three-year action plan to increase its commitment to responsible investment. By 2021, ESG analysis will be integrated across all Amundi funds and initiatives promoting investment in projects with an environmental or social impact. By improving and developing ESG research, Amundi is convinced that it will help investors to better understand the big issues on ESG investing.

Thierry Roncalli, Head of Quantitative Research, **explained**: "This new scientific research confirms the time-varying dynamics of ESG performance. Since stock prices reflect supply and demand balance, our research shows that ESG screening has influenced stock market performance. It is apparent that 'extra-financial' ESG risks have become financial risks and that asset pricing momentum is in favour of ESG investors."

Vincent Mortier, Group Deputy CIO, **said**: "Our research confirms that ESG integration generates a tangible impact on equity performance in Europe and North America. By favouring a best-in-class ESG approach, investors are able to benefit from an investment strategy that improves long-term performance of the portfolios."

Methodology

The research is based on quantitative data from January 2010 to December 2017 using ESG metrics provided by the Amundi ESG Research department. For each company, the overall ESG score and the ratings for the environmental, social and governance categories were assessed by Amundi ESG analysts, who rated each stock using a scoring system relying on the data of four external providers. Amundi ESG analysts reviewed and finalised the final score of each company.

Publication

The comprehensive research "The Alpha and Beta of ESG Investing" and the companion summary paper "How ESG Investing Has Impacted the Asset Pricing in the Equity Market?" have been published on Amundi's Research Centre website: http://research-center.amundi.com.

About Amundi

Amundi is Europe's largest asset manager by assets under management and ranks in the top 10[2] globally. It manages more than 1.470 trillion[3] euros of assets across six main investment hubs[4]. Amundi offers its clients in Europe, Asia-Pacific, the Middle-East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Headquartered in Paris, and listed since November 2015, Amundi is the 1st asset manager in Europe by market capitalization[5].

Leveraging the benefits of its increased scope and size, Amundi has the ability to offer new and enhanced services and tools to its clients. Thanks to its unique research capabilities and the skills of close to 4,500 team members and market experts based in 37 countries, Amundi provides retail, institutional and corporate clients with innovative investment strategies and solutions tailored to their needs, targeted outcomes and risk profiles.

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[2] Source IPE "Top 400 asset managers" published in June 2018 and based on AUM as of end December 2017.
[3] Amundi figures as of September 30, 2018
[4] Investment hubs: Boston, Dublin, London, Milan, Paris and Tokyo
[5] Based on market capitalization as of September 30, 2018

Press Contact

Maitland/AMO
Zara de Belder
Tel: +44 207 379 5151
zdebelder@maitland.co.uk

Amundi
Fany de Villeneuve
Tel: +44 (0)207 190 2040
Fany.DeVilleneuve@amundi.com