Eurozone outperforms North America in ESG investing, new research from Amundi finds

- *ESG investing continues to be a source of outperformance in Eurozone, while squeezing returns in North America since 2018*
- *In Europe, the Social pillar now has the strongest impact, indicating that Environmental and Governance factors are not the only concerns for investors*
- *ESG is no longer about exclusion, and has now been fully integrated in stock picking processes*

London, 14th January 2020 – 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 between January 2018 to June 2019. The findings update the inaugural seminal paper which was published last year.

Following growing demand for ESG investing from institutional clients worldwide, Amundi has used data from 2018-2019 to analyse the performance of 1,700 companies across five investment universes, corresponding to MSCI indices: MSCI North America, MSCI EMU, MSCI Europe-ex EMU, MSCI Japan and MSCI World.

Our research confirmed the findings in our original paper, noting that ESG investing tended to penalise ESG investors between 2010 and 2013, but rewarded ESG investors after 2014, both passive and active. However, over the last 18 months, we have identified new trends.

- **The Transatlantic Divide.** After eight years of consistency, we observed a contradiction between North America and the Eurozone in ESG equity trends. In North America, we notice a decrease in alpha generation on all dimensions, and even a loss on the Environmental pillar, whereas in the Eurozone, the same positive dynamic still operates, with the Environmental and the Social pillars outperforming. For example, buying the best-in-class (or 20% best-ranked) ESG stocks and selling the worst-in-class (or 20% worst-ranked) ESG stocks would have generated an annualized return of 5.8% in the Eurozone, but only 0.6% in North America (versus 6.6.% and 3.3% for the 2014-2017 period).

- **Social: From laggard to leader.** In our previous paper, we found that the Social pillar's integration lagged compared to Environmental and Governance between 2010 and 2017. However, since 2018, Social is now the best performing pillar. We found that when a portfolio took a long position in the 20% best-ranked stocks and a short in the 20% worst-ranked stocks, this contributed to an annualised return of 2.9% in the Eurozone and 1.6% in North America. Similarly, optimized index management, in which the weighting of companies in the index is optimized to obtain the lowest possible tracking error, would have created an excess return of about 60 and 40 basis points in the Eurozone and North America for a tracking error of 50 bps. We believe this was helped by more sustainable investors exploring the latest trends in ESG investing and a greater interest in Social themes.

- **ESG Investing: growing in complexity.** Our study shows that ESG investing goes beyond the exclusion of worst-in-class stocks or the selection of best-in-class stocks. We found that the increasing relationship between ESG ranking and performance is sometimes affected by the behavior of second-to-worst* in class stocks. We hypothesize the abnormal performance of these stocks is due to the development of forward-looking strategies, with some investors betting on improving companies instead of well-scored companies. We argue that the emergence of ESG momentum strategies and the shift towards a dynamic view of ESG ratings are a positive development, as it reinforces the complexity of ESG integration. This demonstrates that sustainable investors might better understand underlying issues and are moving beyond a binary black and white view of corporations.

Thierry Roncalli, Head of Quantitative Research, **commented**: "*As a responsible investor, we continually monitor ESG investing dynamics to ensure that we are well-positioned to meet the needs of our clients. Our new research indicates that ESG investing continues to offer value, but is becoming more mature with divergent trends across geographies, investment strategies and the three themes of E,S and G.*"

Vincent Mortier, Group Deputy CIO, **said**: "*The complexity and diversity of responsible investing means investors must be agile and willing to respond to new themes and drivers. We have found that over the last 10 years, investor mobilisation and awareness has meant that the consideration of ESG factors has gone from a 'nice to have' to a 'must have'*".

Methodology

The research is based on quantitative data from January 2018 to June 2019 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 determined by four external providers. Amundi ESG analysts reviewed and finalised the final score of each company.

Publication

The updated study "ESG investing in recent years: new insights from old challenges" can be found on Amundi's Research Centre website: http://research-center.amundi.com.

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

* Second-to-worst in class stocks: This research divides the stocks in 5 quintiles according to their ESG score. Those in the worst-in-class category – or 5th quintile- being the 20% stocks with the lowest ESG score. Second-to-worst in class stocks are those in the 4th quintile.

About Amundi

Amundi is the European largest asset manager by assets under management and ranks in the top 10 globally[1]. It manages 1,563 billion[2] euros of assets across six main investment hubs[3]. 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. Clients also have access to a complete set of services and tools. Headquartered in Paris, Amundi was listed in November 2015.

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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Important Information

[1] Source: IPE "Top 400 Asset Managers", published in June 2019, based on AuM at December 2018
[2] Amundi figures as of 30 September 2019
[3] Investment hubs: Boston, Dublin, London, Milan, Paris and Tokyo