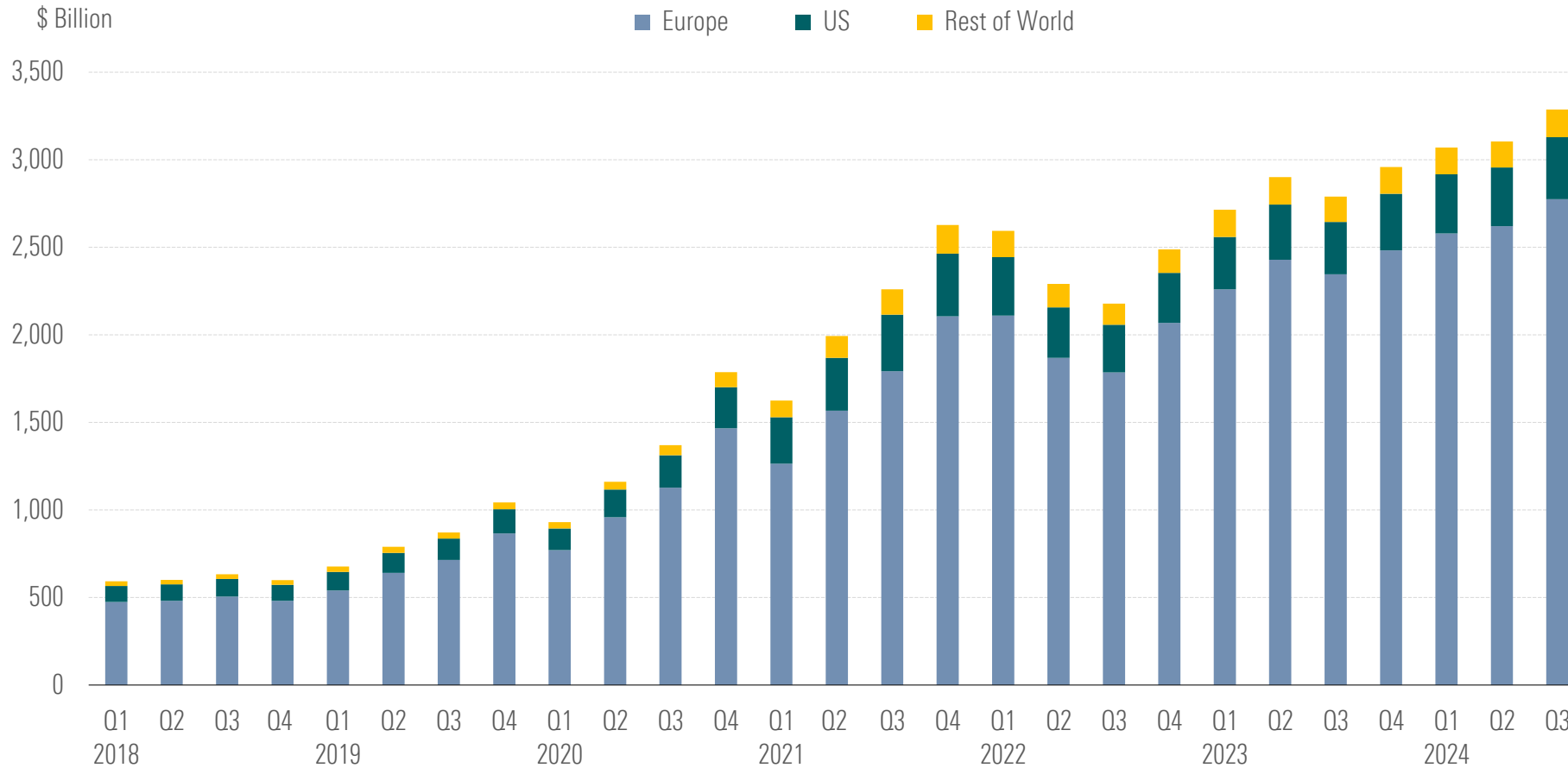


How Anti-Greenwashing Rules Are Reshaping the ESG Fund Landscape

19 November 2024

Hortense Bioy, CFA, Head of Sustainable Investing Research

Global ESG fund assets keep rising - reaching \$3.3 trillion in September



- ▶ **Our universe include** open-end funds and ETFs which, by prospectus:
 - ▶ claim to **focus on sustainability, impact, or ESG factors**
- ▶ **Our universe excludes** funds that:
 - ▶ employ only **limited exclusions** (sector, norms-based)
 - ▶ formally **integrate ESG factors** in a non-binding way
 - ▶ money market funds, feeder funds, and funds of funds

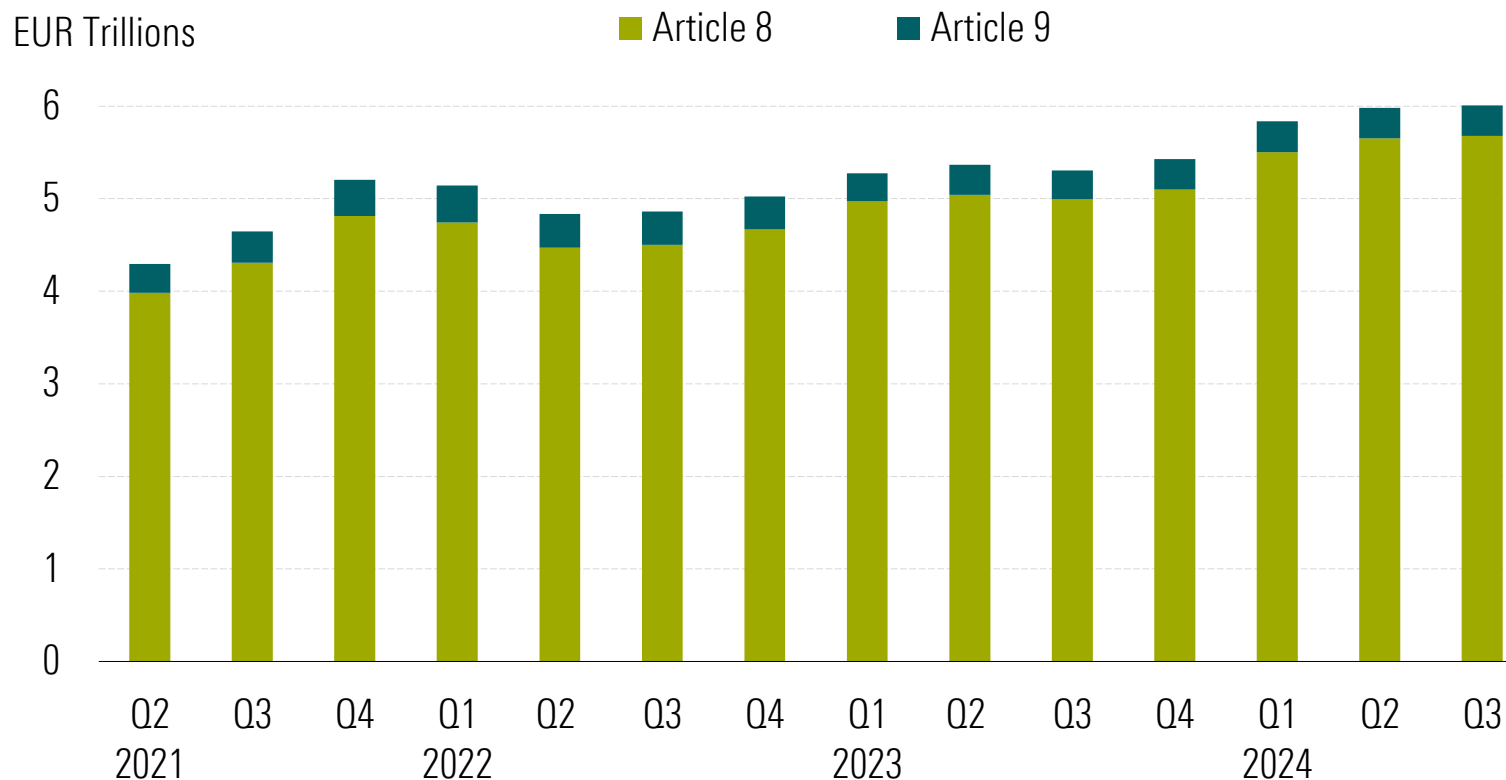
2 Source: Morningstar Direct & Morningstar Sustainalytics Research. Data as of September 2024.
*excluding money market funds, fund of funds and feeder funds.



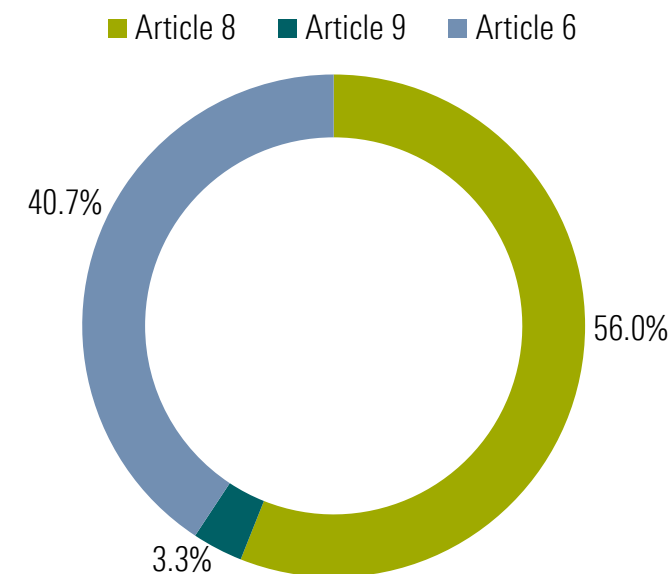
EU SFDR Article 8 & 9 funds – A market worth €6 trillion*

~60% of EU funds claim some ESG characteristics

Article 8 and Article 9 Fund Flows

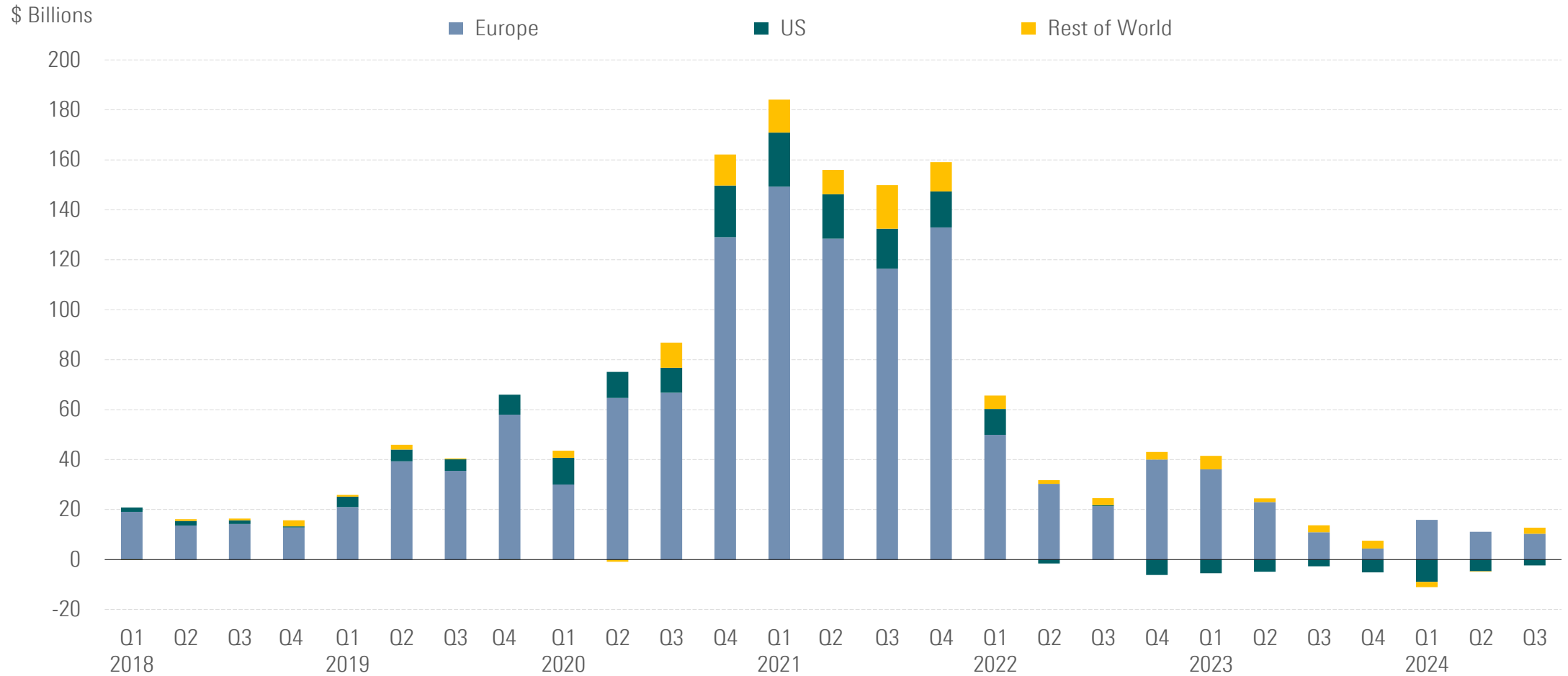


EU Fund Assets



3 Source: Morningstar Direct & Morningstar Sustainalytics Research. Data as of September 2024.
*excluding money market funds, fund of funds and feeder funds.

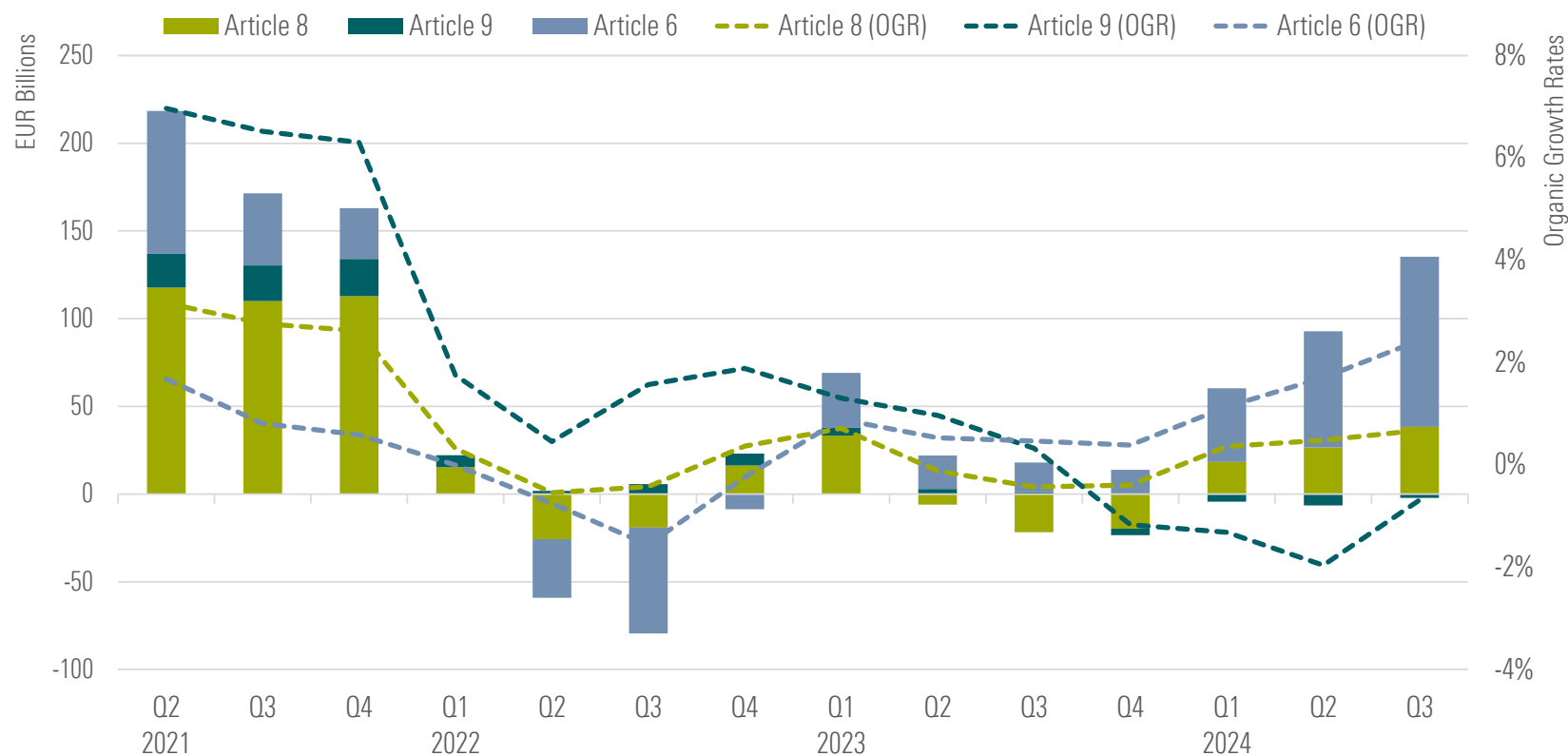
But global ESG fund flows have declined and are now subdued



4 Source: Morningstar Direct & Morningstar Sustainalytics Research. Data as of September 2024.
*excluding money market funds, fund of funds and feeder funds.



EU SFDR: In Q3, Article 8 funds attracted highest inflows since late 2021, but continued to trail Article 6 funds, while Article 9 funds continued to bleed money



5 Source: Morningstar Direct & Morningstar Sustainalytics Research. Data as of September 2024.
*excluding money market funds, fund of funds and feeder funds.

ESG fund performance has been disappointing since 2022

	YTD 2024		2023		2022		2021		2020		2019	
	ESG	non-ESG	ESG	non-ESG	ESG	non-ESG	ESG	non-ESG	ESG	non-ESG	ESG	non-ESG
Asset-Weighted Average												
Global Large-Cap Blend Equity	10.98	11.22	22.83	21.92	-19.80	-18.78	21.17	19.84	17.26	15.00	27.17	26.13
Europe Large-Cap Blend Equity	6.16	5.88	19.62	19.07	-18.43	-16.26	16.06	15.21	9.87	6.55	24.26	22.89
EUR Moderate Allocation - Global	2.34	2.53	12.00	13.03	-18.85	-18.48	1.33	2.36	15.41	12.11	10.76	10.60
Eurozone Large-Cap Equity	4.68	5.53	21.89	23.39	-18.93	-17.19	13.50	14.42	10.36	7.59	23.70	24.04
US Large-Cap Blend Equity	14.18	14.83	26.65	25.28	-20.54	-18.62	28.69	27.37	20.89	18.75	31.10	30.57
Global Emerging Markets Equity	6.20	7.60	7.75	10.31	-21.87	-21.71	-3.36	-2.81	22.64	19.66	19.88	20.23
EUR Corporate Bond	-2.35	-2.26	11.88	12.02	-18.76	-19.10	-7.98	-8.00	11.76	12.28	4.10	4.55
EUR Diversified Bond	-3.66	-3.49	10.85	10.37	-20.21	-19.04	-8.98	-9.18	12.28	12.19	3.48	2.98
Global Large-Cap Growth Equity	10.55	11.24	20.01	24.95	-25.69	-26.24	15.82	14.78	38.21	32.01	29.67	30.28
Alternative Energy	-6.08	--	-1.67	--	-16.63	--	1.09	--	108.27	--	33.67	--
Simple Average												
Global Large-Cap Blend Equity	9.33	9.26	20.00	19.58	-19.46	-18.56	19.38	16.78	15.33	13.47	25.99	24.51
Europe Large-Cap Blend Equity	5.42	5.02	18.65	17.85	-19.39	-17.61	15.39	14.63	8.87	6.74	23.95	22.03
EUR Moderate Allocation - Global	1.85	1.79	12.06	12.15	-19.29	-18.30	2.15	1.58	13.78	11.63	11.65	10.28
Eurozone Large-Cap Equity	4.18	4.09	21.03	21.59	-19.83	-18.57	13.50	13.58	10.56	6.73	23.02	21.67
US Large-Cap Blend Equity	13.12	13.87	23.80	24.45	-20.11	-19.44	27.21	25.64	19.96	17.09	29.95	28.85
Global Emerging Markets Equity	5.47	7.37	7.47	10.22	-22.24	-22.08	-3.34	-2.12	20.68	18.55	19.62	19.89
EUR Corporate Bond	-2.37	-2.34	11.75	11.77	-19.11	-18.81	-8.02	-7.96	11.43	11.84	4.12	4.08
EUR Diversified Bond	-3.71	-3.41	10.49	10.29	-20.05	-18.91	-9.16	-8.84	12.00	12.00	2.79	3.04
Global Large-Cap Growth Equity	9.00	10.78	19.51	24.49	-25.61	-27.68	15.30	14.18	32.56	28.85	29.16	29.72
Alternative Energy	-6.03	--	-2.60	--	-17.60	--	3.00	--	80.34	--	30.98	--
Median												
Global Large-Cap Blend Equity	10.04	9.72	20.39	20.02	-19.53	-18.60	20.88	17.60	15.68	14.39	26.51	25.20
Europe Large-Cap Blend Equity	5.77	5.49	19.05	18.07	-18.91	-17.13	15.81	15.21	7.94	5.93	24.11	22.58
EUR Moderate Allocation - Global	1.94	2.02	12.61	12.28	-19.44	-18.58	2.24	1.72	13.35	11.61	12.05	10.60
Eurozone Large-Cap Equity	4.44	4.30	21.18	22.44	-19.43	-17.81	13.58	13.90	9.62	6.55	23.30	21.69
US Large-Cap Blend Equity	13.82	14.56	24.89	25.22	-20.28	-19.52	27.30	26.36	20.10	17.81	30.52	29.55
Global Emerging Markets Equity	6.51	7.38	6.95	9.31	-21.77	-22.33	-2.42	-2.62	19.53	17.92	19.41	19.76
EUR Corporate Bond	-2.41	-2.41	11.84	12.02	-19.17	-19.25	-8.13	-8.09	11.41	11.94	4.22	4.18
EUR Diversified Bond	-3.94	-3.66	10.51	10.43	-21.07	-20.52	-9.39	-9.24	12.14	12.19	3.27	3.30
Global Large-Cap Growth Equity	8.98	10.40	18.97	23.40	-25.17	-26.30	16.91	15.47	29.36	24.35	29.88	29.94
Alternative Energy	-5.40	--	-4.12	--	-17.89	--	1.45	--	59.94	--	31.46	--

Media relays the confusion, greenwashing concerns, and an anti-ESG sentiment

Goldman Sachs Facing SEC Probe of ESG Funds in Asset Management

- Probe focuses on Wall Street giant's mutual-funds business
- Agency has warned firms not to mislead investors on ESG



LIVE ON TV
Watch Live
Listen to Li

Deutsche Bank, DWS Raided Over Allegations of Greenwashing

- Frankfurt offices searched by police, watchdog BaFin
- Raid adds to pressure on DWS Chief Executive Asoka Woehrmann



The first rule of ESG: Don't talk about ESG

Amid the pushback, companies are staying the course but keeping their heads down.

European asset managers blame regulatory confusion for downgrade of ESG funds

Amundi and Axa among those that point to uncertainty for the changes



The Economist

Heatwaves: a harbinger
Lessons on inflation from Turkey
Women's sports take off
Software to predict who wins a war



The Big Read ESG investing

Added

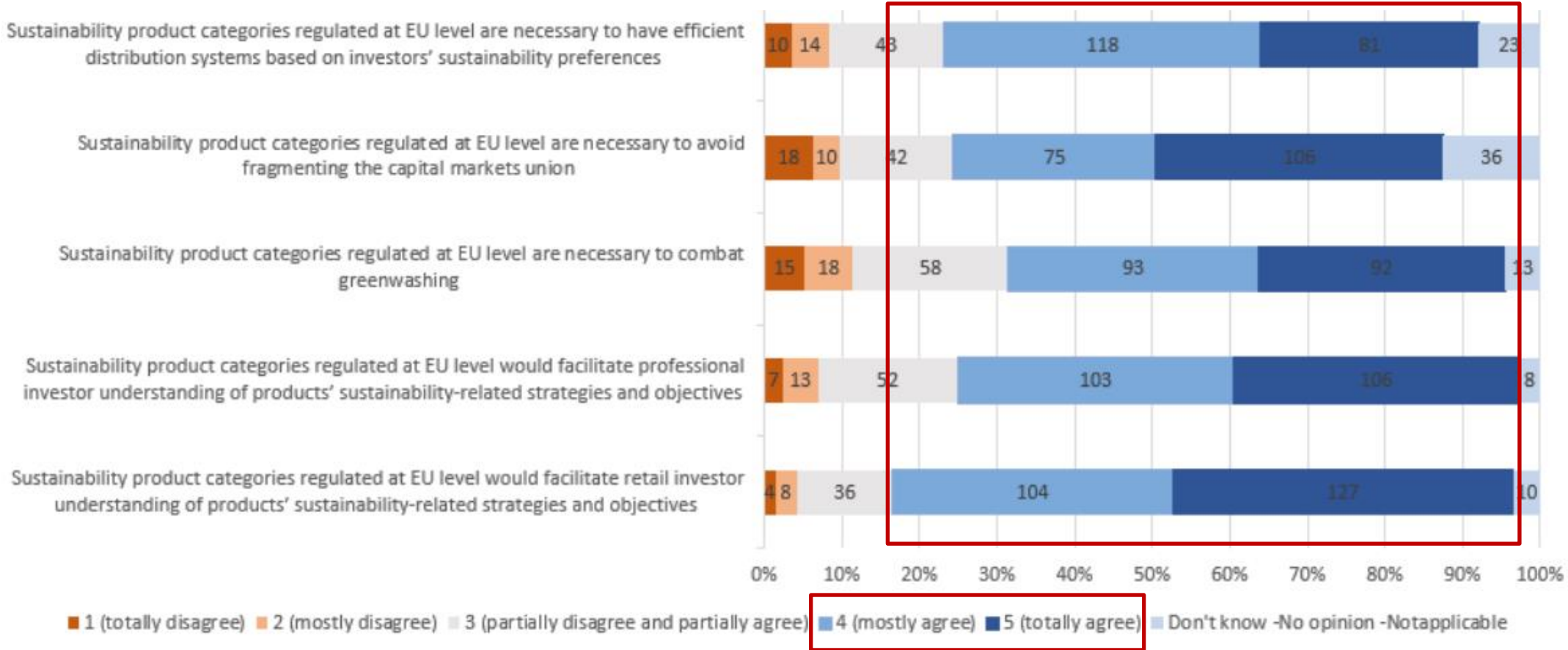
The war on 'woke capitalism'

Rightwing populists and industry sceptics are mounting a backlash against a vision for business that looks beyond profits



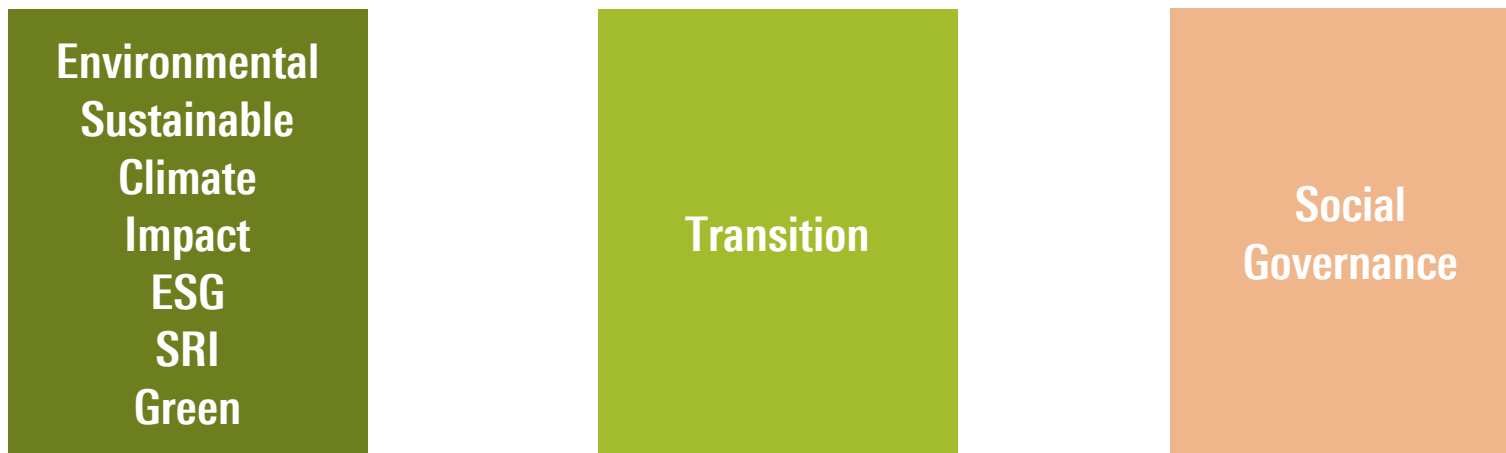
SFDR under review – A need to go beyond disclosure and combat greenwashing

General views on the need for a categorisation system regulated at EU level





ESMA guidelines on ESG funds' names introduce minimum standards



Min. 80% of investments meet sustainability characteristics or objectives

CTB exclusions

Baseline exclusions : Controversial weapons, Tobacco, Violators of the **UNGC** principles or **OECD** Guidelines

PAB exclusions*

Additional exclusions :

- Coal** and lignite (Rev > 1%)
- Oil fuels** (Rev > 10%)
- Gaseous fuels** (Rev > 50%)
- Electricity producers** (Rev > 50% from electricity emitting >100 g CO2 e/kWh)

Additional requirements :

- Sustainable**: "Meaningful" allocation to sustainable investments
- Impact**: Positive and measurable social or environmental impact
- Transition**: A clear and measurable transition path



ESMA guidelines on ESG funds' names: A great reshuffle ahead

~ 4,300 funds in scope

➤ ~ 4,300 funds in scope

➤ Funds with specific ESG or sustainability-related terms in their names will need to **meet the new requirements or rebrand**

Most commonly used sustainability and ESG-related terms

Environmental-related terms	# funds using single term	# funds with combined terms	Total # funds	Sustainability-related terms	# funds using single term	# funds with combined terms	Total # funds	Impact-related terms	# funds using single term	# funds with combined terms	Total # funds
ESG	1140	27	1167	Sustainability / Sustainable	1253	40	1293	Impact	132	81	213
SRI	372	31	403	SDG	30	19	49	Better World	5	1	6
Responsible	194	35	229								
Climate	155	41	196								
Green	126	29	155								
Ethical	63	2	65								
Environmental	35	8	43								
Low Carbon	20	16	36								
Clean	7	15	22								
Circular	19	3	22								
Biodiversity	13	5	18								
Planet	5	6	11								
Renewable	0	10	10								
Earth	3	1	4								
Ecology	2	1	3								

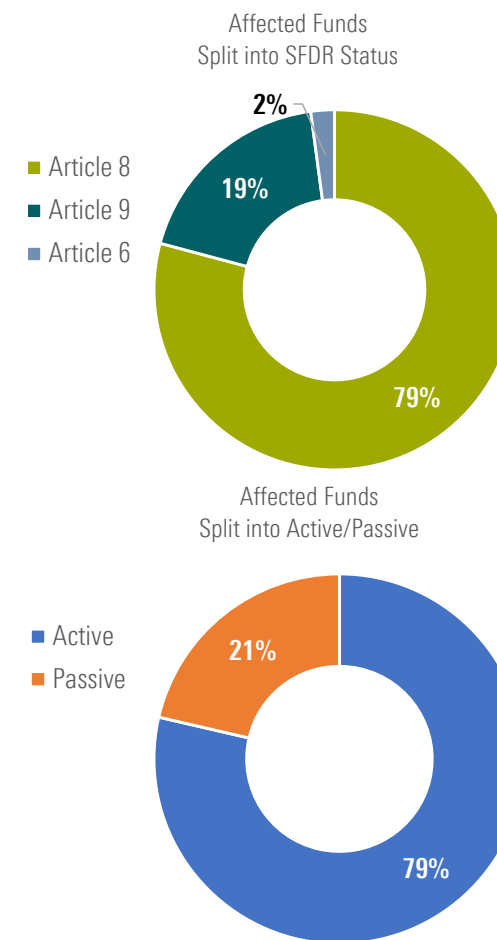
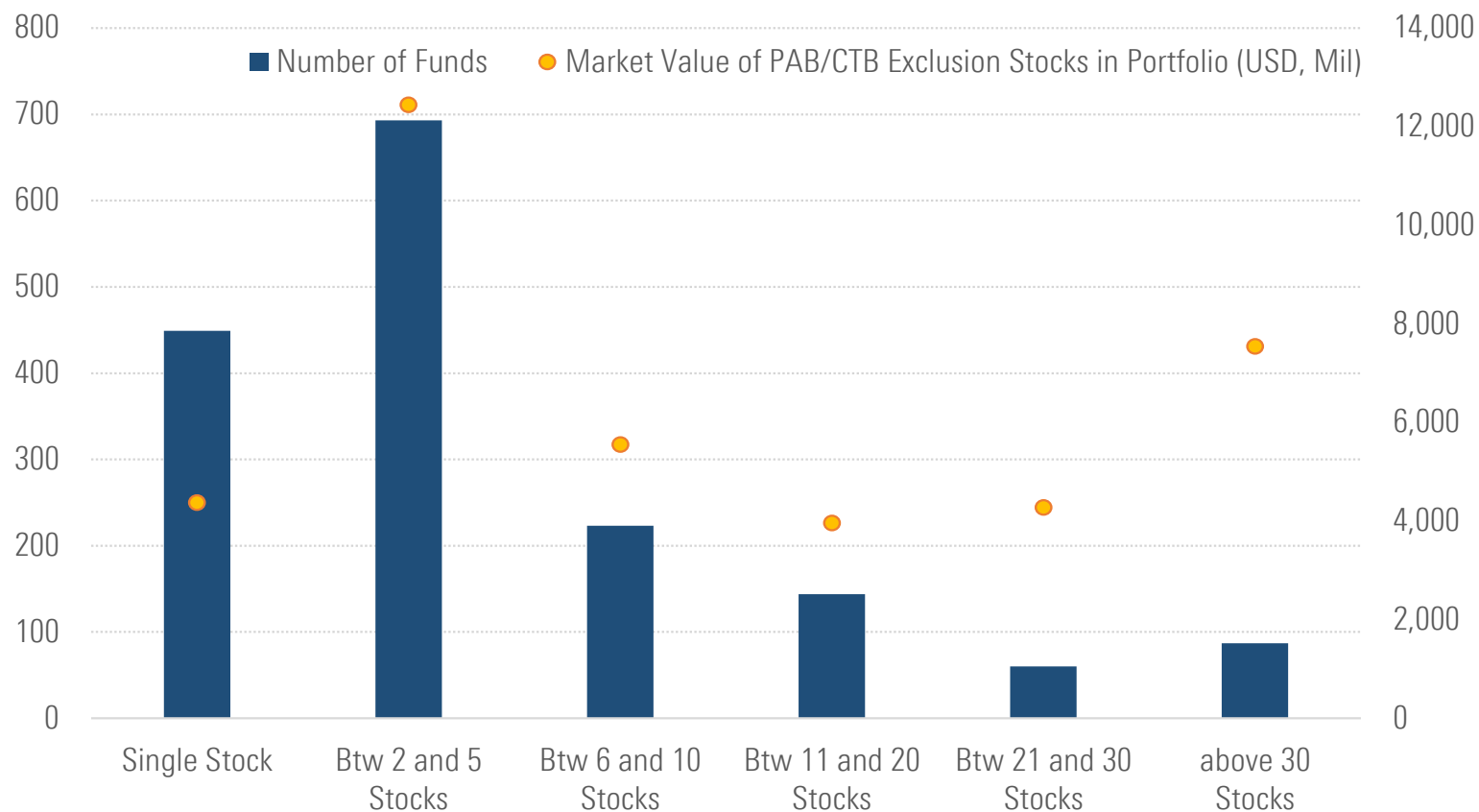
Paris-Aligned Benchmark (PAB) exclusions will apply to these funds

Social-related terms	# funds using single term	# funds with combined terms	Total # funds	Governance-related terms	# funds using single term	# funds with combined terms	Total # funds	Transition-related terms	# funds using single term	# funds with combined terms	Total # funds
Social	47	1	48	Governance	5	0	5	Transition	67	72	139
Solidarity	38	0	38					Net Zero	35	11	46
Microfinance	16	2	18					Improvers	1	21	22
Diversity	7	1	8					Evolution	0	10	10
Inclusion	6	1	7					Transformation	0	4	4
Equality	0	4	4					Smart Energy	3	1	4
Women	1	0	1								

Climate Transition Benchmark (CTB) exclusions will apply to these funds



ESMA guidelines on ESG funds' names: 1,600+ funds hold at least 1 stock potentially in breach of PAB/CTB exclusion rules





SFDR 2.0: Let's simplify!

The ESAs suggest 2 product categories: "Sustainable" and "Transition"

Sustainable

- Focus on sustainable investments
- Clear and objective minimum criteria
- EU Taxonomy basis for environmental sustainability

Transition

- Focus on transition investments
- Mix of KPIs
- Consider initial ambitious but realistic share of investments that can grow over time

Non-categorised products

- Products that do not fulfil the conditions to fall under the proposed categories

UK Sustainability Disclosure Requirements (SDR) to protect consumers against greenwashing



	An anti-greenwashing rule for all FCA authorised firms to reinforce that sustainability-related claims must be fair, clear and not misleading. We are also consulting on supporting guidance
	Four labels to help consumers navigate the investment product landscape and enhance consumer trust
	Naming and marketing rules for investment products, to ensure the use of sustainability-related terms is accurate

➤ Since May 31st

➤ Since July 31st

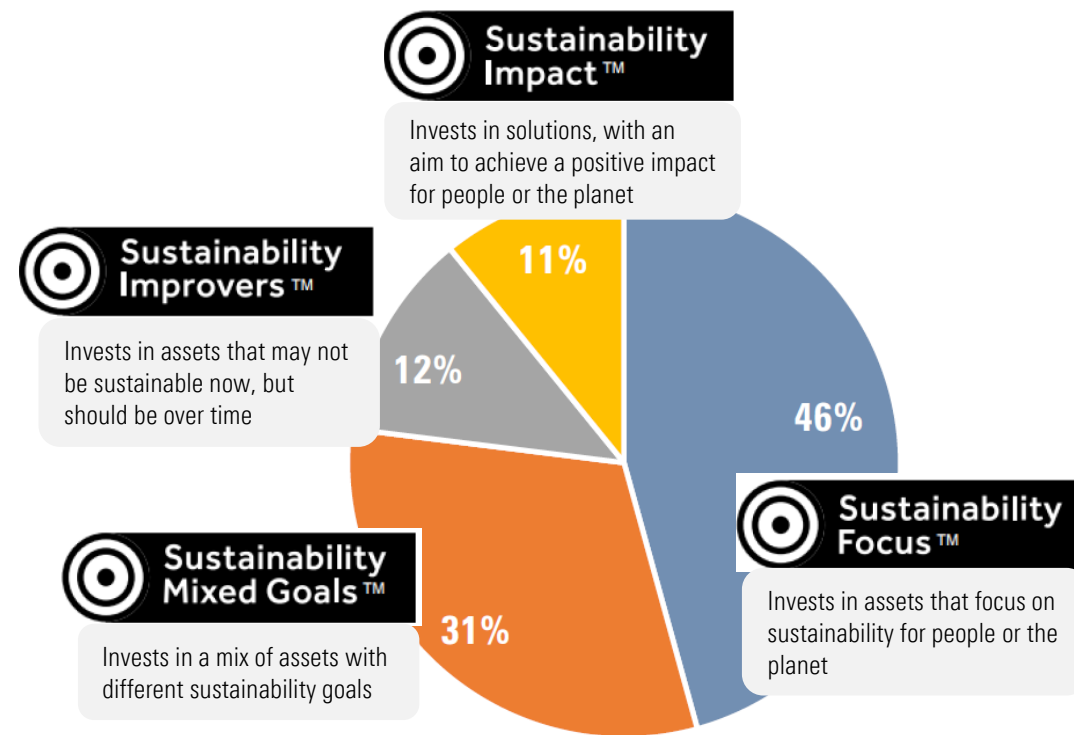
➤ From April 2025



UK SDR: Four “Sustainability” labels since July 31st But the take-up so far is low

- **Only ~10 fund labels approved so far** (out of 400 UK funds with ESG-key terms in their names)
- Uncertain investor demand for labels
- There will be limited choice in passive and fixed income funds
- Unlabelled ESG funds will become a market in its own right

Our early prediction (~300 labelled funds) was too optimistic





SDR's naming and marketing rules

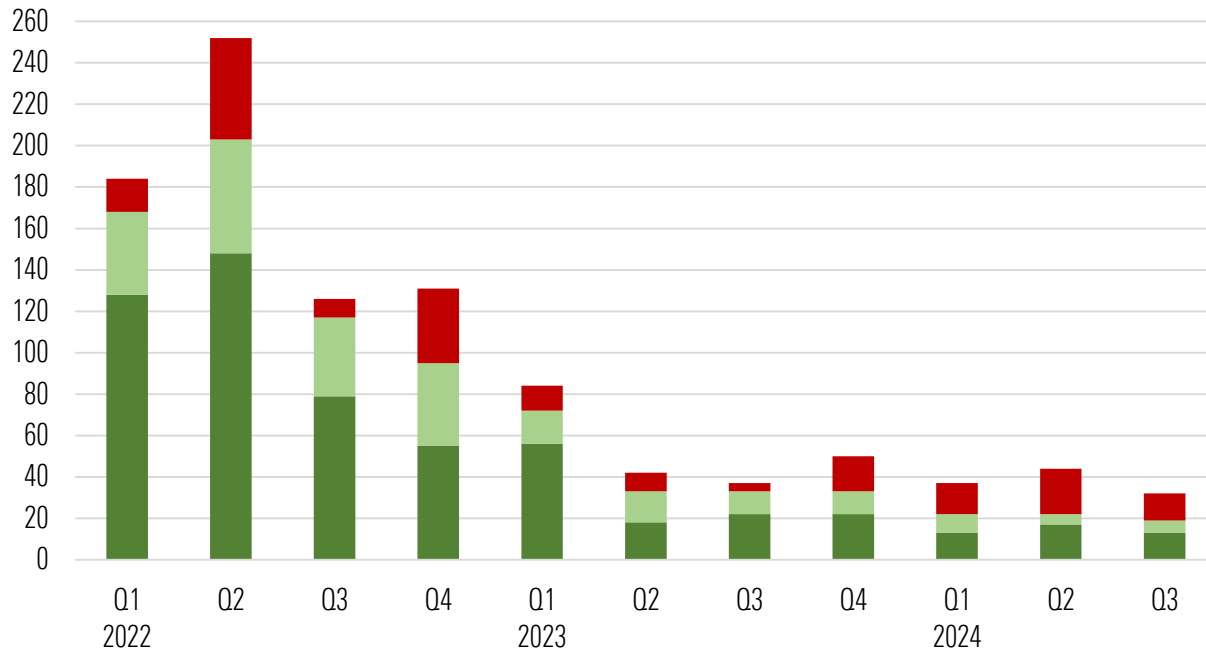
Examples of fund name changes

Current fund name	New fund name
Vanguard Global Sustainable Equity Fund	Vanguard Global Capital Stewards Equity Fund
Vanguard Sustainable Life 40-50% Equity Fund	Vanguard ActiveLife Climate Aware 40-50% Equity Fund
Vanguard Sustainable Life 60-70% Equity Fund	Vanguard ActiveLife Climate Aware 60-70% Equity Fund
Vanguard Sustainable Life 80-90% Equity Fund	Vanguard ActiveLife Climate Aware 80-90% Equity Fund
Vanguard ESG Developed World All Cap Equity Index Fund (UK)	Vanguard ESG Screened Developed World All Cap Equity Index Fund (UK)
Stewart Investors Asia Pacific Leaders Sustainability Fund	Stewart Investors Asia Pacific Leaders Fund
Stewart Investors Asia Pacific Sustainability Fund	Stewart Investors Asia Pacific Fund
Stewart Investor European (ex UK) Sustainability Fund	Stewart Investor European (ex UK) Fund
Stewart Investors Global Emerging Markets Sustainability Fund	Stewart Investors Global Emerging Markets Fund
Stewart Investors European Sustainability Fund	Stewart Investors European Fund
Stewart Investors Global Emerging Markets Sustainability Fund	Stewart Investors Global Emerging Markets Fund
Stewart Investors Worldwide Leaders Sustainability Fund	Stewart Investors Worldwide Leaders Fund
Stewart Investors Worldwide Sustainability Fund	Stewart Investors Worldwide Fund
Stewart Investors Asia Pacific and Japan Sustainability Fund	Stewart Investors Asia Pacific and Japan Fund
Axa Global Sustainable Distribution fund	Axa Global Distribution fund
abrdn MyFolio Sustainable Index II Fund	abrdnMyFolio Enhanced ESG Index II Fund
abrdn MyFolio Sustainable I Fund	abrdn MyFolio Enhanced ESG I Fund

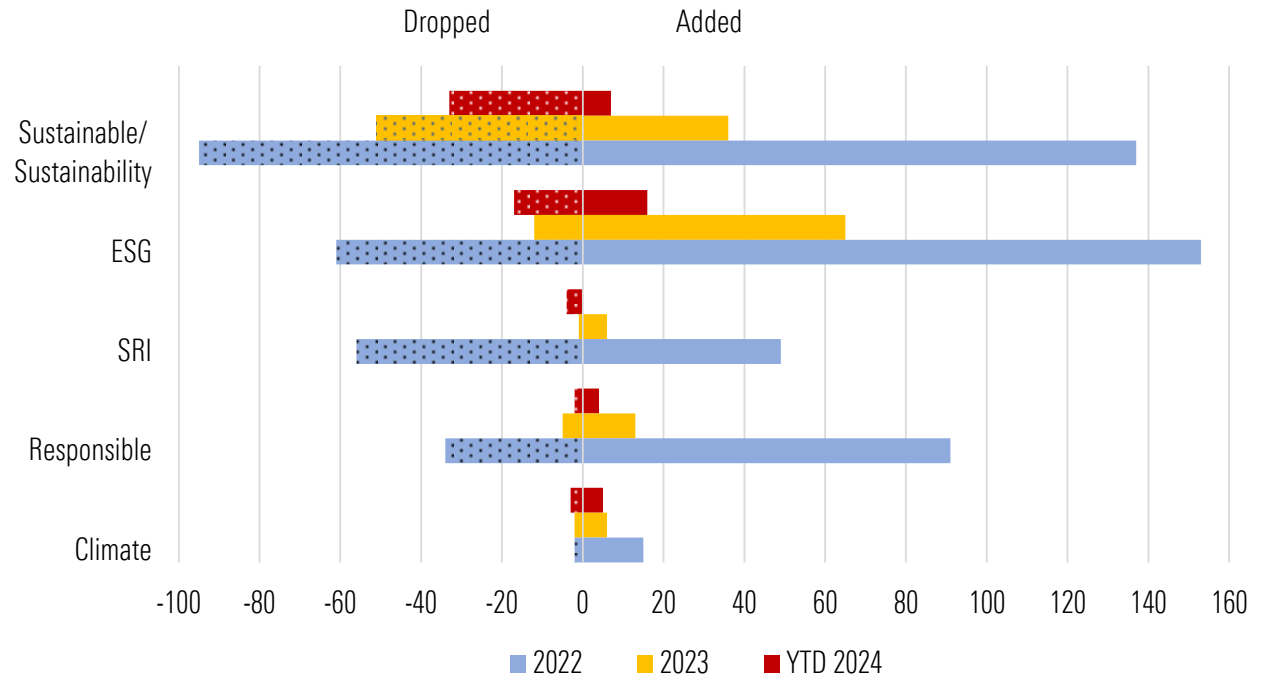
Rebranding activity is about to accelerate across Europe

European ESG fund name changes

■ Adding ESG Terms ■ Swapping ESG Terms ■ Dropping ESG Terms



Sustainability and ESG-related terms with most frequent changes



What the European ESG fund universe may look like



Interoperability?



- **Categorised products** with ESG disclosure
 - Sustainable
 - Transition
 - ESG Mixed (other ESG products with min. standards)

- **Labelled funds** with ESG disclosure
 - Sustainability Focus
 - Sustainability Impact
 - Sustainability Improvers
 - Sustainability Mixed Goals
- **Unlabelled funds** with ESG disclosure
 - Other ESG funds

- **Other products** with ESG disclosure
 - Light ESG
 - ESG integration
 - No ESG integration

- **Other products** with no ESG disclosure
 - ESG integration
 - No ESG integration