Are we at an inflection point for a major advance in ESG fund launches?

Progress on ESG dedicated asset management continues

With demand for ESG products & solutions remaining strong, and asset managers advancing their ESG capabilities, we see asset managers bolstering their dedicated ESG product lineups at an accelerating pace. We recently caught up with management teams across our coverage of US based traditional asset managers about their recent & planned ESG product launches, perspectives on client demand, as well as their current range of ESG products.

Asset managers appear poised to launch more ESG products

Overall, we found management teams are disclosing more detail on ESG-dedicated AuM & flows (evident on 2Q earnings calls and likely improving in 3Q-4Q), are raising their brand awareness & marketing of ESG capabilities, and are solidifying plans for more product launches. Importantly, we see greater product creation as the next important phase in the evolution of ESG strategic development across the asset management industry, which we cited in our inaugural report dated 9/30/20 (ESG - Asset Managers: Sustainable Investing Poised to Become Powerful Trend in Asset Management). We highlight three phases of this development for large diversified US asset management firms below:

Phase 1 (~1980s-2015): development of ESG exclusionary capabilities & institutional customization upon institutional client demand, especially in Europe;

Phase 2 (~2015-2020): integration of ESG considerations and factors into nearly the entire investment process, including creation of more dedicated ESG strategies;

Phase 3: (2020+ further acceleration of creation of ESG-dedicated product & solutions, especially for retail, both globally & increasingly in the US).
We see most large managers as having mostly completed or being well-advanced on phases 1 & 2; however, phase 3 is still in relatively early stages, in our view. For example, in the US, ESG-dedicated retail AuM is only ~1.5% of total long-term products, and while much more advanced outside the US, particularly in Europe, it remains only ~13% outside the US. Both of these totals have spiked up recently due to stronger organic growth, and also reclassifications of some products into ESG-dedicated strategies, particularly in Europe under Articles 8 & 9 of the Sustainable Finance Disclosure Regulation (SFDR) - more on this below.

In Figures 1 & 2 above, we show total AuM in retail products (mutual funds and ETFs) as we calculated via Morningstar Direct, for both sustainable-designated strategies and exclusionary strategies, both within and outside the US. While the data shows a higher percentage of AuM in sustainable strategies in the US in an earlier part of the century, we think this is due to some reclassification of products that were formally not sustainable, and on a smaller total market AuM base.

ETFs dominating the early launch phase, but active is ramping up

As we cited in our report on the state of active & passive in retail asset management on 5/27/21 (Asset Managers: 2021 Active vs. Passive: Which is Better in Sustainable Investing?), we think ETF products will take the early lead in this next phase of ESG-dedicated product development. This said, after a sizeable increase in ETF launches over the past two years, we are now beginning to see a faster acceleration of mutual fund products this year (both in the US and outside the US), as active managers are beginning to leverage their ESG investment process capabilities more effectively (Figures 3 & 4). Given our view that we are still early in this phase, we expect this product launch acceleration to advance further this year and into at least 2022. And although fund flows remain weighted toward passive in the US (but still more active outside the US), passive share gains in sustainable products appear to be stalling, at least for now (see Figures 5-8).
**Figure 3: Total number of US ETF & mutual fund sustainable products**

Source: Morningstar Direct, Deutsche Bank

**Figure 4: Total number of ExUS ETF & mutual fund sustainable products**

Source: Morningstar Direct, Deutsche Bank

**Figure 5: US sustainable flows ($bn) - Active vs. Passive**

Source: Morningstar Direct, Deutsche Bank

Note: active includes both active MF + active ETF assets; passive includes both index MF + passive ETF assets, all asset classes. YTD through July

**Figure 6: Global ex-US sustainable flows ($bn) - Active vs. Passive**

Source: Morningstar Direct, Deutsche Bank

Note: active includes both active MF + active ETF assets; passive includes both index MF + passive ETF assets, all asset classes. YTD through July

**Figure 7: Historical US Active/Passive AuM in sustainable MFs/ETFs**

Source: Morningstar Direct, Deutsche Bank

**Figure 8: Historical ExUS Active/Passive AuM in sustainable MFs/ETFs**

Source: Morningstar Direct, Deutsche Bank
As cited on the previous page, we see this accelerated creation of active products as a logical extension of the asset managers’ work on integrating ESG considerations into the investment processes, and institutionalizing more cohesive ESG philosophies within the firms. We believe the most intense phase of ESG integration began around 3 years ago and is becoming more completely embedded this year (2021). This included the adoption of third-party data sources in the early phase (even many years ago), followed by development of proprietary ESG data/analytics & information systems (over past few years), and more recently, increases in centralized ESG staff & formalized integration of ESG into investment processes. This also began to drive creation of dedicated active ESG strategies, as investment teams have increased confidence in alpha-generation potential, thereby driving creation of new products or investment strategy conversions with ESG as a primary focus (thus changing prospectus language).

These enhanced ESG investment capabilities are also leading asset managers to have their products classified as ESG-focused under emerging European legislation within the Sustainable Finance Disclosure Regulation (SFDR), whereby investment products can be classified as Article 8 or Article 9. While these classifications have been initially defined (and investment managers can self-classify), the dividing lines remain subject to interpretation and debate, and may not be formally defined until 2022.

Broadly defined, Article 8 products are supposed to have characteristics that promote positive environmental and/or social factors while having portfolios with companies that have good governance practices. In contrast, Article 9 products must have a sustainable investment objective, as part of a primary focus of the investment strategy. For now, we view Article 9 products as having a high degree of ESG integration, being most in line with the “sustainable” designation we use in the Morningstar Direct database, whereby ESG considerations are within the primary investment objective and may be used to impact sustainable outcomes. We think of Article 8 products as employing ESG considerations, but may not be primary in the investment objective. These products can also be exclusionary, whereby they formally exclude certain investments.

Continued strong performance helping ESG demand

With this report, we updated our analysis of active investment performance of sustainable equity mutual funds in the US, vs. non-ESG funds, exclusionary funds, and the S&P 500. Overall, as Figure 9 shows, the relative performance advantage continues for the sustainable active equity mutual funds in the US, with alpha remaining strong in 2Q21 after positive alpha in 1Q21 (hence YTD as of 2Q), and also in the full years of 2019 & 2020.

Figure 9: Total asset-weighted active equity mutual fund returns

<table>
<thead>
<tr>
<th>Total active equity mutual fund AW returns</th>
<th>1Q19</th>
<th>2Q19</th>
<th>3Q19</th>
<th>4Q19</th>
<th>1Q20</th>
<th>2Q20</th>
<th>3Q20</th>
<th>4Q20</th>
<th>1Q21</th>
<th>2Q21</th>
<th>2019</th>
<th>2020</th>
<th>YTD 2021</th>
<th>2Q21 AuM ($mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Funds</td>
<td>14.9%</td>
<td>4.2%</td>
<td>0.4%</td>
<td>8.3%</td>
<td>-19.9%</td>
<td>21.4%</td>
<td>9.6%</td>
<td>15.0%</td>
<td>5.3%</td>
<td>8.1%</td>
<td>30.3%</td>
<td>22.1%</td>
<td>13.4%</td>
<td>137,857</td>
</tr>
<tr>
<td>Exclusionary Funds</td>
<td>10.9%</td>
<td>4.1%</td>
<td>1.3%</td>
<td>7.8%</td>
<td>-21.7%</td>
<td>17.7%</td>
<td>6.4%</td>
<td>12.2%</td>
<td>8.0%</td>
<td>5.6%</td>
<td>26.0%</td>
<td>8.9%</td>
<td>13.6%</td>
<td>191,729</td>
</tr>
<tr>
<td>Non-ESG Funds</td>
<td>13.3%</td>
<td>3.6%</td>
<td>-0.5%</td>
<td>9.2%</td>
<td>-21.8%</td>
<td>22.4%</td>
<td>8.5%</td>
<td>16.0%</td>
<td>5.0%</td>
<td>7.5%</td>
<td>27.5%</td>
<td>20.3%</td>
<td>12.5%</td>
<td>8,857,897</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>13.1%</td>
<td>3.6%</td>
<td>1.2%</td>
<td>8.5%</td>
<td>-20.0%</td>
<td>20.0%</td>
<td>8.5%</td>
<td>11.7%</td>
<td>5.8%</td>
<td>6.5%</td>
<td>28.9%</td>
<td>16.3%</td>
<td>12.3%</td>
<td>-</td>
</tr>
<tr>
<td>Active Equity Fund Total</td>
<td>13.2%</td>
<td>3.6%</td>
<td>-0.5%</td>
<td>9.1%</td>
<td>-21.8%</td>
<td>22.2%</td>
<td>8.4%</td>
<td>15.8%</td>
<td>5.0%</td>
<td>7.4%</td>
<td>27.5%</td>
<td>20.3%</td>
<td>12.5%</td>
<td>9,187,483</td>
</tr>
</tbody>
</table>

Source: Morningstar Direct, Deutsche Bank
While we think performance is helping to keep demand for the products strong, we also believe an increasing desire to invest responsibly (along with some acceptance of subpar returns) is supporting demand (see Figures 10 and 11), such that if performance of sustainable funds weakens for an extended period, the organic growth profile may still be superior to non-ESG funds (albeit with less of a growth premium and provided underperformance is not too dramatic for too long of a duration).

Thus, to us, it is not surprising to see the momentum accelerate in product creation, which we think is evident from our conversations with management across our asset manager coverage, as detailed for each asset manager below. Combined with organic growth and conversions of some funds from non-ESG to ESG, we think AuM in "sustainable" mutual funds and ETFs (as classified by our tabulation using Morningstar Direct data), could easily grow from about $3.3tr globally today to more than $5tr within 2-3 years (i.e., at some point in 2023-2024 barring any onset of a significant bear equity market). Still, despite rising demand within the US (from a low AuM base), we expect Europe to continue to represent more than 80% of global sustainable AuM on this mutual fund & ETF basis, helped by structurally robust retail demand as well as a rising magnitude of fund conversions to sustainable strategies.

We highlight the latest in ESG AuM profiles, flows, and product launches for each of the asset managers in our coverage below (as well as for brief summaries for the trust banks). Please also see additional data and charts in the appendix.

What are the latest ESG moves in asset management?

Below, we provide a detailed update of ESG AuM categorization, organic growth trends in ESG-dedicated funds & product launches for each of the asset managers in our coverage, to the extent information was disclosed.

BlackRock (BLK)

As of 2Q21, BlackRock had $401bn of sustainably-dedicated AuM, which represents ~4% of its total AuM of $9.5tr. This included $157bn of money market fund AuM (domiciled in Europe) that was repositioned in 1Q21 to focus on sustainable investments in short-term instruments and become compliant with Articles 8 or 9 of the SFDR. Excluding money market funds, BLK’s AuM in sustainably-managed long-term funds was $244bn, or ~3% of its long-term AuM as of 2Q. By long-term asset class, equity sustainable AuM was $183bn, while fixed income was $45bn, with $9bn in alternative assets (mostly within BLK’s private renewable power platform) & $7bn in multi-asset categories (including LifePath target date funds).

By region, EMEA remains by far the largest (mostly Europe) with $301bn (including $157bn in MMFs), while $82bn of AuM is domiciled in the Americas (mostly US) and $18bn in Asia-Pacific. Of the $244bn in long-term sustainable AuM, about half were in ETFs ($119bn), while $64bn were in non-ETF indexed strategies, and $61bn were actively managed. In addition to the $401bn sustainable AuM (which can include ESG screens), BLK manages about $650bn in pure exclusionary strategies. Management had also fully integrated ESG considerations into allactively-managed investment processes by the beginning of 2021.
Flows into sustainable products remain a material portion of BLK’s organic growth. Of BLK’s $60bn of long-term inflows in Q2, $23bn were in sustainable products, or nearly 40%. Of this $23bn, $14bn were in ETFs, $5bn in non-ETF indexed strategies, and $4bn in active strategies (while cash management had $12bn of sustainable inflows). The long-term product inflow pace was near levels of Q2, which were $24bn, or 18% of BLK’s $133bn of long-term inflows ($17bn in ETFs and $7bn in active products).

The pace of product launches remains robust, although management has already been leading the industry (among US managers) in product launches over the past 2-3 years, especially in ETFs but also mutual funds, and also on a global basis (especially as demand for sustainable products in Europe remains especially strong). Most recently in Q2, BLK raised nearly $2bn in 2 US Carbon Transition Readiness ETFs, along with 4 additional equity iShares in Europe, which are Paris climate-aligned (2 in April & 2 in July), and 8 sustainable equity mutual funds in Europe (5 domiciled in Ireland, 3 in Luxembourg), along with a sustainable high yield fund in the US (in July). Management also announced a decarbonization fund venture with Temasek, targeting an initial $1bn raise in the near-term. Also in the near-future, management is seeking to launch funds focused on the social pillar in ESG, that are infrastructure-based, targeting underserved communities. Management is also seeking to extend its sustainable LifePath series into the US, after the most recent launch in the UK in December, and hopes to see progress soon in working with the US Department of Labor (DOL). In addition to an active pipeline of new products, there may be more fund strategy conversions into sustainable classifications (per at least Article 9 in Europe), though the timing and magnitude is uncertain for now. Overall, with strong organic growth of existing sustainable products, new product launches, and possible future conversions, we see BLK likely reaching its $1 trillion in sustainably managed AuM several years before its 2030 target of that amount.

Affiliated Managers Group (AMG)

As of Q2, AMG’s affiliates managed about $33bn in sustainably-classified AuM, which, pro-forma for AMG’s recently announced investment in Parnassus (founded in 1984), will total about $80bn by the end of 2021 (potentially higher considering strong organic growth and investment performance). This should represent about 10% of AMG’s AuM by year-end. In addition, management considers roughly 80% of AMG’s total AuM, or about $60bn, to be ESG-integrated, whereby ESG considerations are factored into the investment process. Of AMG’s affiliates that manage dedicated sustainable products, Parnassus will be by far the largest, at $47bn in Q2, which we think will grow to more than $50bn by year-end. The majority investment in Parnassus (announced in early Q2) signals management’s confidence in ESG investing as a durable long-term trend, and we think the firm is positioning itself for ESG leadership within US-headquartered asset managers. Other affiliates with dedicated sustainable strategies include Boston Common Asset Management, a women-owned sustainable & impact investing firm with $4bn in AuM (joining AMG earlier this year) and Inclusive Capital, a private capital spinout from AMG affiliate Value Act, that is in a fundraising stage. In addition, Artemis recently added a sustainable investing global equity team, while several other affiliates have dedicated sustainable investing strategies, such as AQR, Harding Loevner, EIG, Veritas, Montrusco Bolton, and GW&K.

While management does not provide granular net flow detail by affiliate, we believe sustainable strategies are a positive contributor to AMG’s net flow profile, which remains negative in total overall, inclusive of continued quantitative outflows, but slightly positive excluding those strategies. In particular, Parnassus may become AMG’s strongest organic growth engine if its roughly $500mn monthly inflow pace in 2021 YTD continues (representing a mid-teens + annualized organic growth rate). Even inclusive of persistent quantitative outflows, we think Parnassus, combined with other
ESG strategies across AMG’s affiliates & improving core organic growth tractions for the firm generally, could swing AMG into a sustained positive organic growth profile by early 2022.

From a product launch perspective, we expect an increasing number of strategies to be launched across AMG affiliates in coming quarters, given the vast number of affiliates (over 35) of which at least 10 are currently managing dedicated strategies. For example, the new Artemis ESG team recently launched a sustainable global equity fund. In addition, while we do not expect new products from Parnassus or Boston Common in the near future, Inclusive Capital is in a fundraising stage and should be contributing positively to dedicated ESG organic growth in at least the near-term.

Federated Hermes (FHI)

As of 2Q21, Federated Hermes managed $60bn in dedicated sustainably-managed AUM, almost entirely via the London-based Hermes Investment Management entity that Federated acquired in 2018. This represents ~28% of FHI’s total long-term product AuM of $216bn. Since the acquisition, Federated has embraced ESG wholeheartedly, especially via: 1) integrating ESG considerations into investment processes (roughly 99% of AuM is ESG-integrated), 2) changing the firm’s entity name from Federated Investors to Federated Hermes in early 2020, and 3) raising their stake in Hermes from 60% initially to 90% this year. Across Hermes’ strategies, roughly $36bn is equity strategies, about $20bn in private assets, and nearly $4bn in fixed income strategies. For the ~$40bn in equity & fixed income strategies, these are delivered in a combination of mutual fund vehicles and separately-managed accounts in the UK and Europe. In the US, Federated has adopted Hermes sustainable strategies in several fund launches over the past 2 years, though AuM is less than $200mn, as distributors are largely waiting for 3-year track records in the new products.

The contribution to net flows in dedicated sustainable products has increased substantially for FHI this year, from relatively modest levels the past 2 years. For example in 1Q, several Hermes sustainably-dedicated fund products generated $2.5bn in inflows, or ~77% of total FHI long-term flows. In 2Q, these products generated inflows of $1.3bn, or ~63% of total FHI long-term flows.

From a product launch perspective, Hermes launched another sustainable global equity fund in the UK in 2Q, and Hermes is working on creating more UK-based UCIT funds, distributable into Europe, in the near-to-intermediate term. In the US, Federated is working on creating sustainable fund strategies in a new semi-transparent active ETF vehicle format.

Invesco (IVZ)

As of 2Q21, Invesco managed $53bn in dedicated sustainably-managed AUM, across 130 different funds & mandates. This represents ~4% of long-term AuM, split roughly evenly between institutional and retail, and does not include exclusionary strategies. Of the $53bn, about $41bn is actively managed, mostly within equity strategies but also fixed income, along with some alternative strategies, such as in senior loan floating rate products. A total of $7bn of active strategies are managed in mutual fund vehicles. The remaining $12bn of sustainable products is passively managed in ETFs, and IVZ is currently the second-largest ESG sustainable ETF provider in the US behind BlackRock. In regards to ESG integration, some 75% of AuM considers ESG as part of the investment process, with the goal remaining of becoming fully ESG integrated by 2023.

From an organic growth perspective, ESG products remain a material part of Invesco’s net flows, although they slowed down in 2Q, to less than $2bn, or 5% of IVZ’s long-term net flows, compared with about $4bn in 1Q, which was 16% of long-term product inflows.

From a product launch perspective, Invesco remains active, especially within ETFs, with 3 new sustainable ETFs in 2Q (Green Building, Global Clean Energy & Solar Energy), following 2 ETFs in 1Q (Japan & Europe ESG Universal Screens), and an active non-transparent ETF (Real ESG Assets) at the end of last year. We expect Invesco to remain active in new product launches over the coming quarters, especially within ETFs, but increasingly within active strategies, particularly as more strategies become ESG-integrated and the firm deepens its expertise around ESG-related alpha-generating capabilities.
Franklin resources (BEN)

As of 2Q21, BEN had ~$200bn in ESG strategies, which is ~13% of their total AuM of $1.55tr in AuM. Of this $200bn, management categorizes four main strategy types, those being ESG tilted, values driven, impact focused, & thematic. This said, management does not yet segment the $200bn between exclusionary strategies (largely within ESG tilted) vs. sustainable/dedicated strategies, likely in the other three areas. Management also stated it has some 25 funds classified as Article 8 in Europe and another 8 funds as Article 9, amounting to about half of their AuM in the EMEA region (or over $75bn in total). By region, 74% of their assets are located in the United States, meanwhile EMEA & Asia Pacific is ~10% of AuM each, and the remaining 6% of AuM is located in LatAm. Overall, some 94% of BEN’s AuM is considered ESG-integrated from an investment process standpoint.

From an organic growth perspective, mgmt. stated that they were seeing good flows within their two Paris climate aligned ETFs, as well as their European Total Return and Templeton Global Climate fund, each reaching $1bn of inflows. Mgmt. believes that the supply side of ESG is increasing, and mentioned that a third of Europe’s Covid-19 relief fund will be invested in Green Bonds.

From a product creation standpoint, mgmt. is looking to increase their ESG product range, and recently announced that 5 new actively-managed ESG ETFs will be coming to market in Canada. The affiliate managers are Clearbridge, Brandywine, Martin Currie, & Royce Investments. Meanwhile, the firm is exploring creation of more dedicated ESG products across its multiple affiliates and at legacy Franklin Templeton, while further potential conversion of Europe-domiciled assets into Article 8 or 9 products remains a possibility.

Janus Henderson (JHG)

As of 2Q21, Janus Henderson had an estimated ~$12bn in dedicated sustainably managed AuM (~3% of total AuM of $428bn), and approximately another $8bn in exclusionary strategies. Of the $12bn, $9bn were managed in Janus Henderson mutual funds, with the remaining estimated $3bn in institutional strategies, mostly at Intech. After being slightly cautious in their ESG integration in prior years, JHG has revamped their ESG team, adding a new head of ESG investing, and increasing their team to 15 members, up from 4 in 2020.

While JHG does not disclose ESG product level flows, we can see about $285mn of inflows into six of the Janus Henderson funds in 1Q, and $92mn of inflows in 2Q, using data from Morningstar Direct. With JHG still in modest outflows, the inflows into ESG-dedicated funds is a bright spot in JHG’s organic growth profile.

Management plans to become increasingly active in exploring creation of new ESG dedicated products. For example, applications have been filed for 5 new actively managed sustainable ETFs; 3 equity & 2 fixed income. The sustainable Equity funds are a US Sustainable ETF, an International Sustainable ETF, and a Net Zero Transition Resources ETF. The fixed income funds will be a Sustainable Corporate bond fund, and an Impact bond fund. Mgmt. also sees opportunities to launch active ETFs in Australia. In addition, we believe JHG will launch more sustainable equity mutual funds in coming quarters, with development of global sustainable PM capabilities. In the longer-term, the firm could also benefit from potential conversions of some European strategies to Article 8 & 9 qualified funds.

T.Rowe price

As of 2Q21, TROW had ~$68bn in ESG-related AuM, which while being ~4% of total AuM of $1.6tn, is mostly managed with exclusionary strategies. Of the $68bn, less than $2bn is managed in what we regard as dedicated sustainable strategies. By asset class of the $68bn, $50bn is in equity strategies and $18bn is in fixed income.

From an organic growth perspective, flows into dedicated sustainable ETFs are still quite nascent, especially with the Global Impact fund being new and the Sicav range of ~$1.5bn being relatively small. That said, positive inflows are certainly welcome and these funds generated a total of $260mn in 1Q and $70mn in 2Q, according to data from Morningstar Direct.

In terms of product launches, TROW recently launched its first Global Impact Equity Fund in 1Q, followed by a Japan Responsible Investing fund, which launched in April. Management is also considering fund conversions to ESG classifications in Europe, with some portion of a Sicav fund range nearing $30bn potentially eligible for classification into Article 8 (those that are more exclusionary-based) or Article 9 (those being more impact based).

WisdomTree (WETF)

As of 2Q21, Wisdomtree had ~$9.3bn in Sustainable AuM, which represents ~13% of their total AuM of $74bn. Not included in this is ~$5.2bn of exclusionary-based ETFs. Of their ESG-related AuM, Wisdomtree’s largest fund is their Emerging Markets Ex-State-Owned Enterprise Fund, with $5.0bn in AuM as of 2Q. Wisdomtree has a variety of additional ex-state owned funds, which include a China ex-state owned enterprise fund, and an India ex-state-owned enterprise fund, which has $990mn & $5mn in AuM, respectively. Wisdomtree’s ex-state owned funds are essentially funds consisting of companies that have less than 20% state ownership, hence from a governance perspective, are considered more privately independent, and thus theoretically more investor friendly. In addition to the ex-state owned funds, Wisdomtree also has their flagship US
ESG fund, which is a screened fund that comprises companies that screen favorably on ESG factors. They also have an International & Emerging Markets ESG fund. Their US ESG fund has ~$100mn in AuM, while their International ESG & Emerging Markets ESG has $8mn & $33mn in AuM, respectively.

Wisdomtree’s emerging market ex-state owned ETF showed inflows of $134mn in 2Q, after a very strong $1.3bn in 1Q. Their China ex-state owned fund had inflows of $202mn in 2Q, which is slightly less than the $263mn in 1Q21. Lastly, their India ex-state owned fund was flat in 2Q, after having $2mn of inflows in 1Q. Wisdomtree’s US ESG fund had $1mn of inflows in 2Q, but the inflows offset the $1mn in outflows in 2Q, but their emerging markets ESG fund had $35mn in 2Q inflows, which was slightly better than their $34mn in 1Q inflows. The emerging markets ESG fund is on track to surpass 1Q & 2Q inflow levels, as so far in 3QTD the fund has $33mn in inflows. Their International ESG fund had $8mn of inflows in 2Q, up slightly from 1Q21 levels of $7mn.

Wisdomtree recently announced that they launched Europe’s only fully collateralized Carbon ETP. This fund, which trades on the London Stock Exchange, will allow investors to gain exposure to the performance of carbon emission allowances. In addition to the Carbon ETP, management has stated a strong desire to maintain on ESG ETPs, including both thematic and “replacement” funds - which are funds that can replace a core position, such as an S&P 500 responsible investing fund, for example. In terms of Wisdomtree’s ESG integration, they utilize Owl Analytics, which will utilize a screening process through various ESG rating resources, and get a consensus of ESG scores. They feel that by having a consensus of ESG scores, this gives them the true score, removing the bias.

Trust banks (BNY Mellon, Northern Trust & State Street)

Each of the trust banks in our coverage have substantial asset management businesses, that, while being minority contributors to overall earnings, are still sizeable in the multi-trillion range. Moreover, the trust banks are fairly advanced in ESG considerations across their asset management businesses, having been serving global institutional clients, including in Europe, for decades. That said, disclosure on granular components of ESG assets are somewhat limited, and we believe a considerable portion of ESG-related AuM is run with exclusionary strategies, especially within index mandates, given demand from institutional clients. Still, we think ESG considerations are fairly well integrated across the spectrum of both index and active strategies, albeit the levels are not specifically disclosed. We also believe the asset management divisions of the trust banks are, like other managers, increasingly seeking to launch dedicated ESG products targeting both institutional and retail clientele. Below, we detail a very brief snapshot of ESG asset management for each of the trust banks.

For State Street (STT), of its total $3.5tr in AuM at the end of 2020, roughly $465bn of AuM is managed with an ESG lens, though this includes about $357bn in screening strategies, which includes exclusionary strategies. For strategies that embed ESG integration or sustainability themed investing, the total is about $108bn. The vast majority of these strategies are equity based and we believe largely institutional, though STT also has $9bn in sustainable ETFs.

For Northern Trust (NTRS), of its total $1.5tr in AuM at the end of 2Q21, roughly $155bn of AuM is considered ESG focused. NTRS leverages a full spectrum of sustainable investing techniques to meet client needs including norms-based and values-based exclusions, best-in-class, integration and thematic approaches. Approximately 40% of their $155 billion of Sustainable AuM leverages a combination of two or more of these approaches, while 60% solely leverages norms-based and values-based exclusions. Of their sustainable AuM, it is 96% equity, 2% fixed income, 2% REITS, and 68% is located within SMAs, meanwhile 32% within funds (30% UCITS Funds). In terms of Domicile, 82% of their AuM is located outside of the United States, while 18% is located within the United States.

For BNY Mellon (BK), of its $2.2 trillion in AuM at the end of 2020, we calculate at least $24bn being managed with an ESG focus, though we suspect the totals are much higher, though are not disclosed. Of the $24bn, over $16bn in ESG-focused strategies were at Insight Investment Management in the UK, while BNY Mellon Wealth Mgmt. had nearly $8bn in AuM managed across BK affiliates.
Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank

Are we at an inflection point for a major advance in ESG fund launches? September 2021.

Deutsche Bank