



# THE YEAR OF THE PHOENIX - ESG INVESTING RETURNS TO GROWTH IN 2024

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*Investor Update celebrates the dramatic resurgence of the ESG asset class, which presents significant challenges and opportunities for Investor Relations teams in all geographies. Improved fund performance and an alignment of regional regulatory trends are mirroring the expectations of investors, fostering a virtuous circle of growth and expansion. The senior management of companies with ambitions for excellence in ESG must understand the nature of this paradigm shift if they are to maximise the associated investor inflows.*



## ESG Funds Resume Growth Path

As economic uncertainties persist and regulatory landscapes evolve, ESG investments are not only adapting but flourishing. **The first quarter of 2024 witnessed a notable resurgence in ESG-oriented funds** within Europe, driven by regulatory frameworks like the Sustainable Finance Disclosure Regulation (SFDR) and reflects a broader trend towards sustainable investments.



## A Rebound in ESG Fund Flows

The beginning of 2024 marked a significant turning point for ESG funds with Article 8 funds experiencing net inflows of EUR 14 billion, reversing previous outflows and signalling a revitalised investor confidence in ESG.

Combined assets in Article 8 & 9 funds grew to a record EUR 5.5 trillion, representing nearly **60% of the European fund universe**, driven by significant reclassifications from traditional (Article 6) funds to ESG-focused offerings.



## Outperformance Driving Inflows

A key element of this growth resurgence has been the outperformance of ESG funds during 2023. After years of delivering premium returns, ESG funds were profoundly impacted by the Tech correction of Q2 2022 which caused many investors to review their allocation of capital to the ESG asset class. 2023 saw ESG funds back on track, outperforming traditional funds by 400 basis points, returning 12.6%. ESG Equities were even stronger at 16.7%, directly contributing to the inflows that we are now witnessing.

Investor Update's proprietary analysis reveals notable shifts in the allocation of ESG capital to industries that are transitioning but have been previously starved of capital. The sectors seeing the lion's share of inflows in 2023 included **Transport, TMT, Energy, Industrials, Real Estate and Financials**. This trend of inclusiveness has significant implications for companies wanting to excel in the areas of ESG communication, disclosure, targeting and engagement.



## Regulatory and Market Drivers

The regulatory environment has been a key driver of growth in ESG investments. Initiatives such as the SFDR and the EU Taxonomy have played critical roles in setting clear standards and definitions for what constitutes a sustainable investment.

Our recent White-Paper **'The Unjust Transition'** set out all the ESG regulations that are being introduced in Europe, the UK, Switzerland, the US, India and Japan.

The global nature of ESG investment means that **investors expect their companies to target the highest bar in terms of disclosure** rather than just comply with the local legal requirement, increasing the value of genuine best practice at the sector level.



## The Future of ESG Investing

For the first time in three years, ESG funds are outperforming, growing faster than traditional funds and are now the largest constituent of the Equity asset class

With regulatory frameworks expected to tighten and investor awareness on the rise, ESG funds are well-positioned to not only expand their market share but also to lead the way towards a more sustainable global financial system.

As more investors recognize the long-term benefits and necessity of sustainable investing, we expect ESG funds will move from being a niche to a normative component of investment portfolios, shaping the future of global finance with sustainability at its core.



## Accessing the Largest & Fastest-Growing Pools of ESG Capital

With ESG capital back on a clear growth track, the challenge and opportunity to issuers is explicit – how to best to target and engage with the specialist funds that are driving this sustainability trend? At Investor Update we have built a range of enabling solutions to maximise ESG inflows from the global pool of active and passive capital that now exceeds EUR 50 trillion. We have helped more than 100 companies across all sectors achieve their goals in this critical area - we are keen to hear your priorities and explore how we can move your ESG agenda forward.

Source: Investor Update and Morningstar



### VISION

Built on the foundation of our unique analytic capabilities and ESG expertise, the IU Advisory Team provides bespoke 'evidence-based' solutions to companies in all key geographies and industry sectors.



### SOLUTIONS

- ESG Strategy & Materiality
- ESG Investor Benchmarking
- Active Investor Engagement
- Ratings Optimisation
- Executive Remuneration
- ESG Events & Narrative
- ESG Policy & Regulation
- Investor Perception Studies



### EXPERIENCE

The IU Advisory Team is leader in ESG, authoring multiple White Papers and working with over 100 companies globally, large and small. Our innovation, integrity and client-centric approach are our true differentiators.

