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Asset Management
SOCIETE GENERALE GROUP

- Press Release -

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Can an investment in ESG help optimise a portfolio's performance?

- ESG investors do not have to compromise on performance. A positive screening strategy based on ESG scores can raise the ESG profile of portfolios, without denting returns
- ESG investing is on the rise worldwide, driven by top-down policy initiatives and bottom-up demand from investors across the size spectrum
- Cash flows into ESG funds are accelerating, both for active and passive funds
- Lyxor views ETFs and ESG as a natural fit and expects this segment of Europe's ETF market to grow substantially further

Lyxor Asset Management ("Lyxor") has published the findings of a new research paper addressing one of the most topical questions for investors: does environmental, social and governance-focused (ESG) investing lead to a negative impact on returns?

The conclusions of Lyxor's new research paper are that ESG investors do not have to compromise on performance. Instead, a screening strategy based on ESG scores can raise the ESG profile of both passive and active smart beta portfolios, without necessarily reducing risk-adjusted returns.

Those Lyxor's findings are supported by a new study released by the Lyxor Dauphine Research Academy, as well as by the work of our in-house research team. This is the third in a series of papers from Lyxor on the evolution of the asset management industry and on portfolio construction.

In particular, researchers Fabio Alessandrini and Eric Jondeau of the University of Lausanne, found that, based on an analysis of the past performance of a universe of stocks (represented by the MSCI All Country World index) during the period 2007-2018, a policy of exclusion based on companies' ESG scores did not impact portfolio performance negatively.

And in most cases, using an ESG filter improved the performance of risk factor portfolios, even on a risk-adjusted basis. For example, excluding 50% of firms with the lowest ESG ratings from a European equity size portfolio added 2.3% per annum of return over 10 years, while removing 1.6% of volatility.

Lyxor's latest paper provides ample statistical evidence for the rise of interest in ESG. Sustainable investment assets, including both actively and passively managed ESG funds, reached more than $31trn at the end of 2018, up 34 percent since 2016. This now represents a 39 percent share of global professionally managed assets[1].

[1] Global assets under management totalled $79.2trn in 2017, according to Boston Consulting Group.

PRESS RELATIONS

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Although the bulk of ESG assets are still actively managed, there's evidence of a shift to index funds amongst ESG investors. In Europe, for example, passive ESG fund assets have grown at a rate of 35 percent per annum over the past 5 years, compared with 11 percent for actively managed ESG funds.

Having an ESG focus doesn't mean compromising on expected performance, the new research commissioned by the Lyxor Dauphine Research Academy shows.

"Improving the ESG profile of a portfolio does not happen at the expense of performance. In some cases, it can even lead to superior returns", said Marlène Hassine Konqui, Head of ETF Research at Lyxor Asset Management. "And as the availability and reliability of ESG information improves, more and more index-based strategies are being created to embed ESG characteristics."

"Lyxor views ETFs and ESG as a natural fit and expects this segment of Europe's ETF market to grow substantially" said François Millet, Head of ETF Strategy, ESG and Innovation at Lyxor Asset Management.

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- Including AUM from Commerz Funds Solutions, acquired in May 2019.