

## HOW SUSTAINABLE IS THE ESG TREND?

Is ESG only a trendy occurrence or is it capable of convincing in the long term?

ESG (environmental, social, governance), is not a new trend for sure. Lately, climate-change concerns have turned sustainable investing into one of the most discussed market themes. Increasingly, people do not only want to consume in a sustainable way, but they also want to invest in a sustainable way. Nonetheless, the key question remains: Can investors profit from sustainable investing or does it only cost performance?

As our "Chart of the Week" shows, an ESG index is not only good for investors' conscience, but it can also be financially rewarding. Since January 2018, the MSCI World SRI Index<sup>1</sup>, which is based on the popular MSCI World Index, outperformed its "conventional sibling" by 4.7 percentage points. The same conclusion can be drawn, when looking at a longer time frame. The annualized return of the sustainable index since September 2007 was 6.3%, meaning it has beaten the MSCI World by 0.7 percentage points each year<sup>2</sup>. One of the reasons for the outperformance of the sustainable index could be the attention ESG is attracting at

the moment and the thereby resulting consequences for the demand for certain products and companies. Nonetheless, the hype around ESG cannot be the only factor boosting the sustainable index when considering its longer-term track record. Another reason could be the overweighing of growth stocks when compared to the MSCI World. The index would therefore undergo its baptism of fire should value stocks begin to pick up again.

The good historical performance of the sustainable index should make it also easier for policymakers to advance their ideas in this respect. It is not only the new European Commission (EU Commission) President Ursula von der Leyen who has discovered the subject. Christine Lagarde, the new head of the European Central Bank (ECB), has also expressed interest in using monetary-policy measures to support the fight against climate change. In the longer term, that could boost ESG-rating systems, which are becoming better and better. One way or the other, interest in the subject looks set to grow further.

<sup>1</sup> The main difference is that the SRI (Social Responsible Investing) index is heavily overweighing companies with high ESG ratings. Furthermore the index excludes companies whose products have a negative social or environmental impact.

<sup>2</sup> MSCI - <https://www.msci.com/documents/10199/641712d5-6435-4b2d-9abb-84a53f6c00e4>

Percentage points



■ Performance difference between MSCI World SRI \* and MSCI World \*\*

Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 12/11/19

\* MSCI World SRI Index

\*\* MSCI World Index

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Source: DWS Investment GmbH

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## GLOSSARY

**Environmental, Social and Governance (ESG)** is a way of assessing a company that investors increasingly use to screen potential investments, using environmental, social and governance criteria.

The **European Central Bank (ECB)** is the central bank for the Eurozone.

The **European Commission (EU Commission)** is the executive body of the European Union (EU) which represents the interests of the EU.

**Growth stocks** are stocks from companies that are expected to grow significantly above market average for a certain period of time.

**Monetary policy** focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

The **MSCI World Index** tracks the performance of mid- and large-cap stocks in 23 developed countries around the world.

**Value stocks** are stocks from companies that are trading at prices close to their book value and that are therefore cheaper than the market average on that metric.

## APPENDIX: PERFORMANCE OVER THE PAST 5 YEARS (12-MONTH PERIODS)

	11/14 - 11/15	11/15 - 11/16	11/16 - 11/17	11/17 - 11/18	11/18 - 11/19
MSCI World Index	17.2%	2.7%	10.0%	5.5%	17.6%
MSCI World SRI Index (07/26/17*)	-	-	-	7.2%	19.9%

\* Index inception date

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Sources: Bloomberg Finance L.P., DWS Investment GmbH as of 12/11/19

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