



Global ESG Research

ESG Performance Tracker: Slight underperformance in Q1 2023 amid flight to safety



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ESG funds globally have underperformed the market moderately in 2023 YTD. Although many sectors that are commonly excluded by ESG investors, especially oil & gas, have reversed gains from last year and underperformed in 2023, ESG darlings along the clean energy value chain have also underperformed as investors flee to safety amid market uncertainties.

By region, top Asian ESG funds have underperformed the most in 2023 YTD by -2.7% on an NAV-weighted basis. This is followed by top ESG funds with global mandates underperforming by -1.9% and top European ESG funds underperforming by -1.0%. In comparison, North American ESG funds have largely kept up with the market (-0.3% relative to the S&P 500).

Interestingly, we've observed the opposite trend when it comes to fund flows. North American ESG funds experienced record outflows of \$12 billion in Q1 2023 as underlying investors rebalanced their factor exposure and as the political backlash weighed on ESG sentiment. Elsewhere, ESG funds in Asia, Europe, and the rest of the world all experienced positive inflows in Q1 (see report: [ESG Flows Tracker: Record divergence - US vs. rest of the world](#)). The decoupling between ESG flows and performance suggests that performance is not the only factor that drives demand for ESG products.

By fund type, Article 9 products have come under more pressure thus far in 2023, with top global Article 9 funds underperforming by -3.5% and top European Article 9 products underperforming by -1.7% on an NAV-weighted basis. These funds - given many of their sustainability mandates - are significantly more overweight industries along the clean energy value chain, which has likely weighed on performance in 2023.

Over the longer term since 2018, top ESG funds with global and Asian mandates have outperformed by 8.0% and 5.3%, respectively, on an NAV-weighted basis. Top North American ESG funds have performed broadly in line with the market, while top European ESG funds have underperformed by -10.0%, largely a result of the underperformance in 2022.

We believe that ESG funds with more flexible mandates and less stringent exclusion screens will be better positioned to weather market uncertainties. We have also identified several ESG themes (e.g., diversity & inclusion, circular economy, and sustainable infrastructure development) to be relatively well positioned in times of a slowdown or recession given their favorable factor exposures (see report: [Global ESG/Strategy Research: ESG in Action - What ESG stocks to own in an inflation-led slow down or recession?](#)).

Table of Contents

Methodology.....	2
Global ESG Performance.....	3
Article 8.....	5
Article 9.....	5
North American ESG Performance.....	7
Article 8.....	8
European ESG Performance.....	9
Article 8.....	11
Article 9.....	12
Asian ESG Performance.....	14

DETAILS

METHODOLOGY

In this analysis, we analyzed the performance of top ESG funds (including Article 8 and Article 9 products) sourced from Morningstar.¹ We further classified these ESG funds based on their geographical focus (i.e., if a fund that has greater than 70% exposure to North American equities, it is classified as a North America fund; conversely, if a fund does not have greater than 70% exposure to any geography, it is classified as a Global fund).

We additionally ranked ESG funds by net assets value (NAV). From there, we analyzed the performance of the top 50 funds by NAV in each region that have performance data going back to Jan 2018 in Bloomberg. In each region, we assessed the performance of the top 50 funds both on an NAV-weighted basis and an equal-weighted basis to provide additional perspectives.

Using this same approach, we analyzed the performance of the top 30 Article 8 and 9 products in each region. We focused on the top 30 funds (rather than top 50) as there are fewer Article 8 and 9 products with track records going back to 2018 available. We also excluded North American Article 9 funds and Asian Article 8 and 9 funds from this exercise as the data sample sizes are too small.

EXHIBIT 1: 2023 YTD total excess returns of ESG funds relative to benchmarks (NAV-weighted), by region

2023 YTD Excess Returns Relative to Benchmarks (NAV-weighted)			
	Top ESG Funds	Top Article 8 Funds	Top Article 9 Funds
Global	-1.9%	-0.6%	-3.5%
North America	-0.3%	-1.0%	N/A
Europe	-1.0%	-0.9%	-1.7%
Asia	-2.7%	N/A	N/A

2023 data through 4/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

¹ Morningstar defines "Sustainable Investment" as a fund that explicitly indicates any kind of sustainability, impact, or ESG strategy in their prospectus or offering documents. "ESG Funds" incorporate environmental, social, and governance (ESG) principles into the investment process or engagement activities. "Impact Funds" seek to make a measurable impact with investments on specific issue areas like Gender Diversity or Community development alongside financial return. "Environmental Sector Funds" are non-diversified funds that invest in environmentally oriented industries like renewable energy or water.

EXHIBIT 2: **Cumulative excess returns of ESG funds relative to benchmarks (NAV-weighted) since 2018, by region**

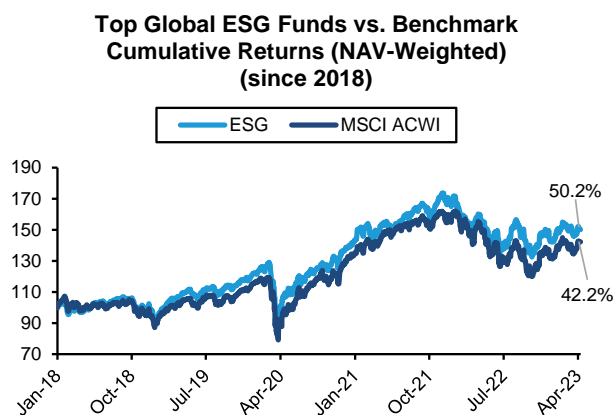
2018-2023 YTD Cumulative Excess Returns Relative to Benchmarks (NAV-weighted)			
	Top ESG Funds	Top Article 8 Funds	Top Article 9 Funds
Global	8.0%	9.2%	4.3%
North America	-0.4%	-10.4%	N/A
Europe	-10.0%	-3.4%	-10.3%
Asia	5.3%	N/A	N/A

2023 data through 4/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

GLOBAL ESG PERFORMANCE

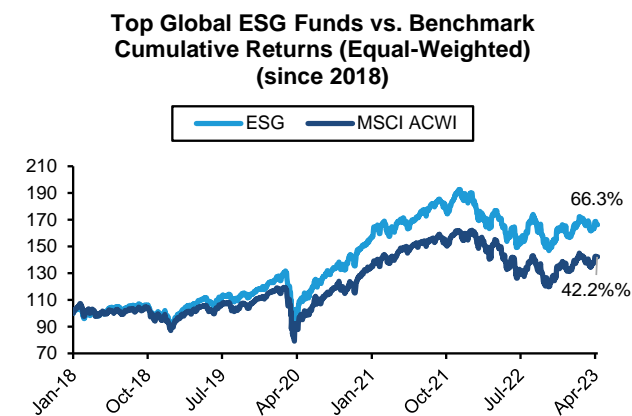
EXHIBIT 3: **Since 2018, top global ESG funds have outperformed the benchmark by 8.0% on an NAV-weighted basis...**



Data labels and data are as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

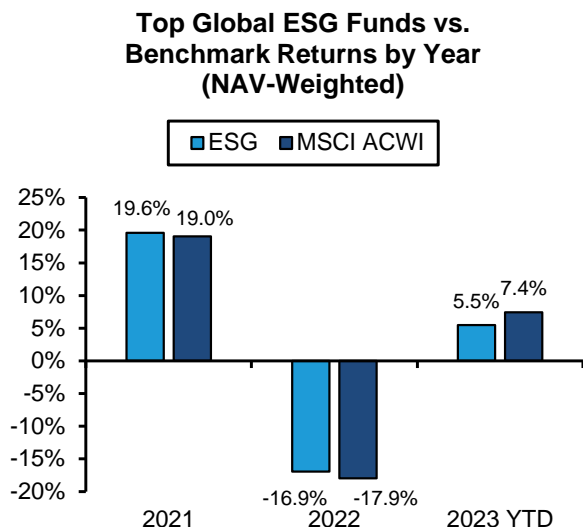
EXHIBIT 4: **...and outperformed by 24.1% on an equal-weighted basis**



Data labels and data are as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 5: By year, top global ESG funds outperformed the benchmark in 2021 and 2022 but slightly underperformed in 2023 YTD on an NAV-weighted basis...



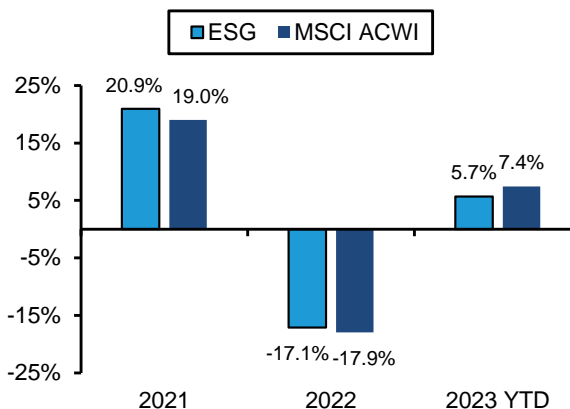
Global ESG Returns represent the top 50 Global ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 6: ...as well as on an equal-weighted basis.

Top Global ESG Funds vs. Benchmark Returns by Year (Equal-Weighted)



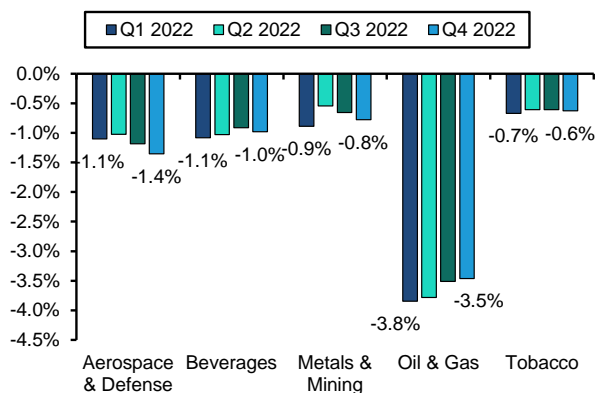
Global ESG Returns represent the top 50 global ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 7: Sectors that are commonly excluded by global ESG investors (e.g., oil & gas, defense, beverages, tobacco)...

Global ESG Funds Weighting of Commonly Excluded Industries vs. MSCI ACWI (Q1 2022 - Q4 2022)

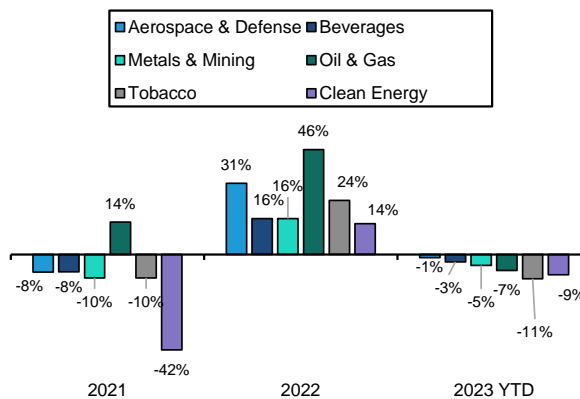


Data labels included for Q1 2022 and Q4 2022

Source: Factset, Morningstar, Bernstein analysis

EXHIBIT 8: ...have underperformed in 2023 YTD, although ESG darlings in clean energy have also underperformed, which has likely weighed on performance.

Total Excess Returns vs. MSCI World Benchmark, Global, by Year



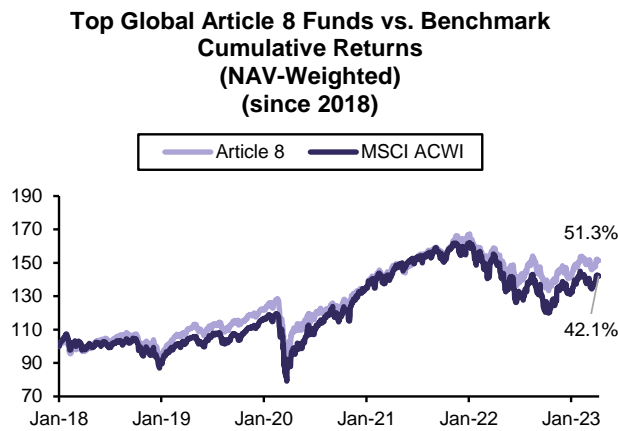
Aerospace & Defense = MSCI ACWI Aerospace and Defense Index, Beverages = MSCI ACWI Beverages Index, Metals & Mining = MSCI ACWI Metals and Mining Index, Oil & Gas = MSCI ACWI Oil and Gas Index, Tobacco = MSCI ACWI Tobacco Index, Benchmark = MSCI ACWI Index

2023 YTD as of 04/10/2023

Source: Bloomberg, Bernstein analysis

ARTICLE 8

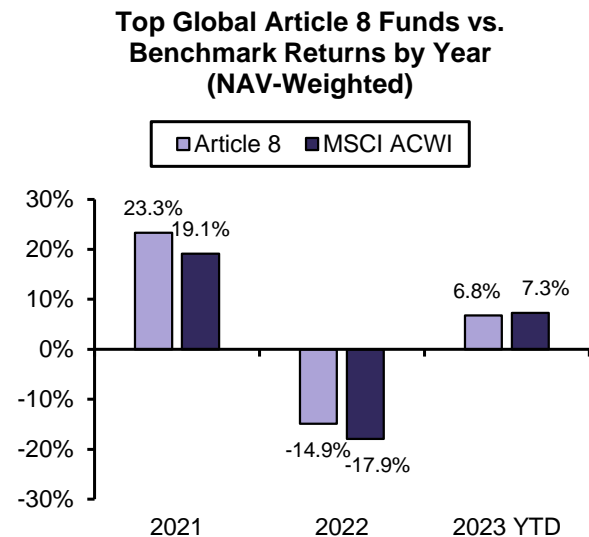
EXHIBIT 9: Since 2018, top global Article 8 funds have outperformed the market on an NAV-weighted basis...



Global Article 8 returns represent the top 30 Global Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data is as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 11: While top global Article 8 funds outperformed the benchmark in 2021 and 2022, they have slightly underperformed in 2023 YTD on an NAV-weighted basis...

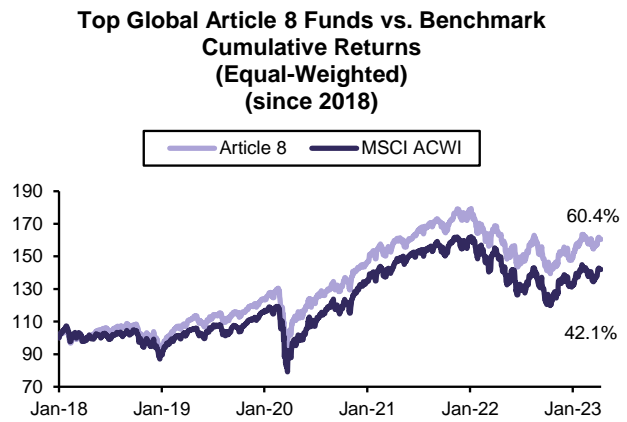


Global Article 8 returns represent the top 30 Global Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023.
Source: Bloomberg, Morningstar, Bernstein analysis

ARTICLE 9

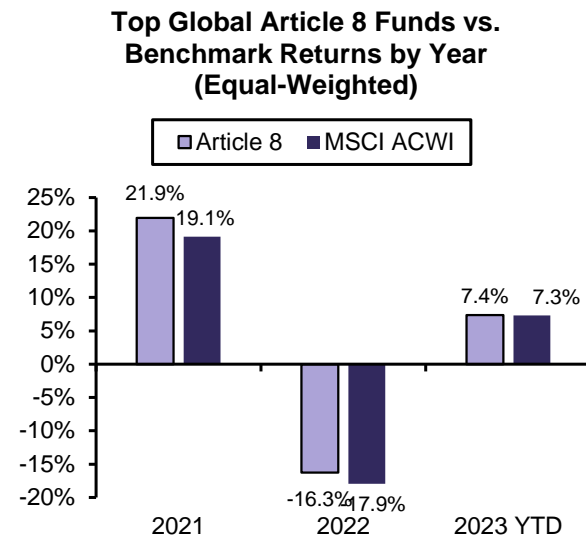
EXHIBIT 10: ...with a stronger outperformance on an equal-weighted basis.



Global Article 8 returns represent the top 30 Global Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 12: Global Article 8 funds have generated stronger performance in 2023 YTD on an equal-weighted basis.

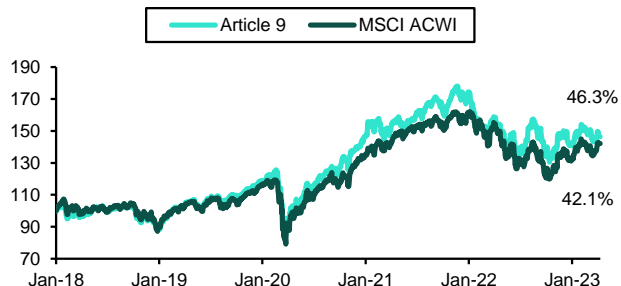


Global Article 8 returns represent the top 30 Global Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023.
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 13: Top global Article 9 funds have outperformed the market since 2018 on an NAV-weighted basis, largely led by its outperformance in 2020.

Top Global Article 9 Funds vs. Benchmark Cumulative Returns (NAV-Weighted) (since 2018)

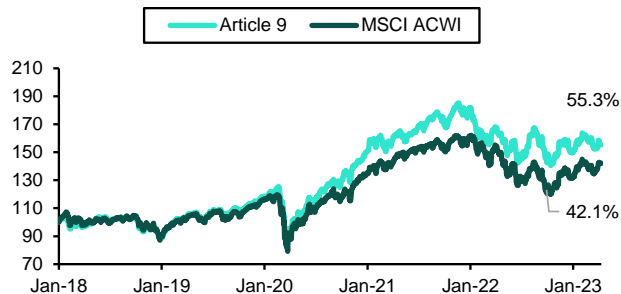


Global Article 9 returns represent the top 30 Global Article 9 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 14: The outperformance is more pronounced on an equal-weighted basis.

Top Global Article 9 Funds vs. Benchmark Cumulative Returns (Equal-Weighted) (since 2018)

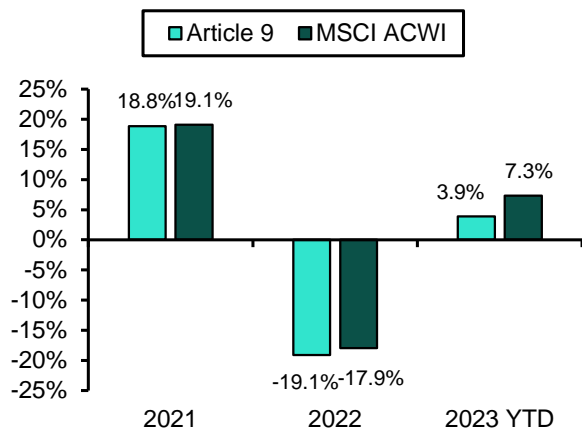


Global Article 9 returns represent the top 30 Global Article 9 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 15: Top global Article 9 funds have underperformed the benchmark in recent years, especially in 2023 YTD, on an NAV-weighted basis.

Top Global Article 9 Funds vs. Benchmark Returns by Year (NAV-Weighted)

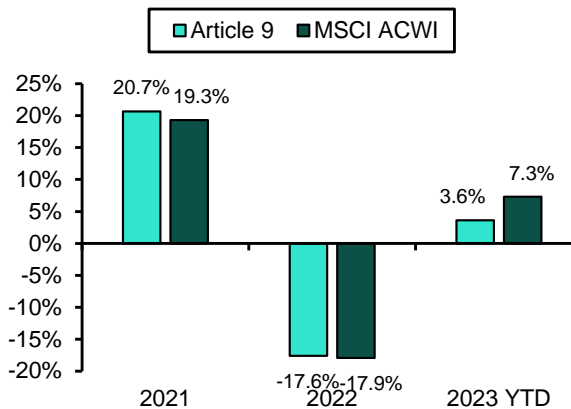


Global Article 9 returns represent the top 30 Global Article 9 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 16: On an equal-weighted basis, top global Article 9 funds outperformed the benchmark in 2021 and 2022 but have underperformed in 2023 YTD

Top Global Article 9 Funds vs. Benchmark Returns by Year (Equal-Weighted)

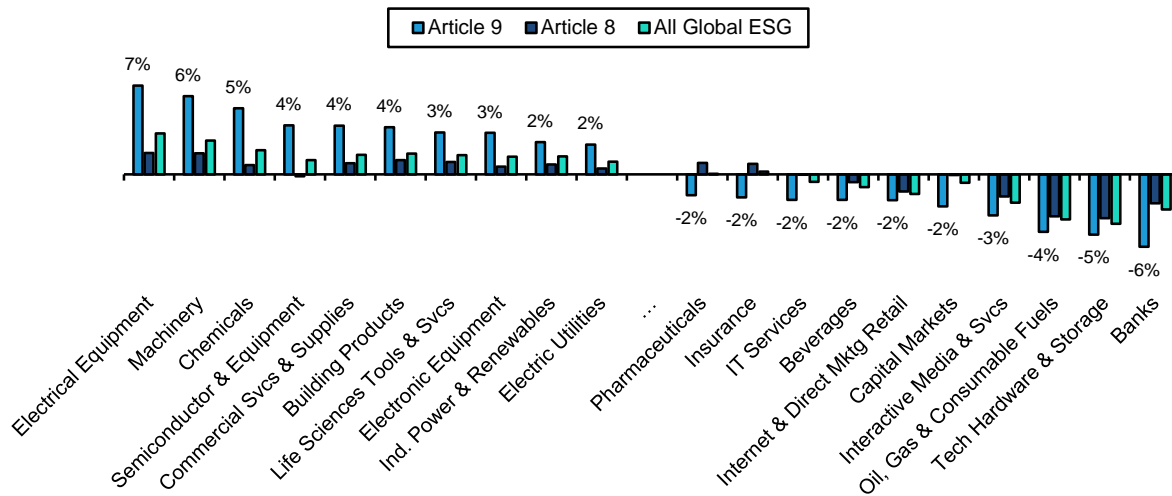


Global Article 9 returns represent the top 30 Global Article 9 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 17: Global Article 9 products are meaningfully more overweight industries along the clean energy value chain, which has likely weighed on performance in 2023 YTD.

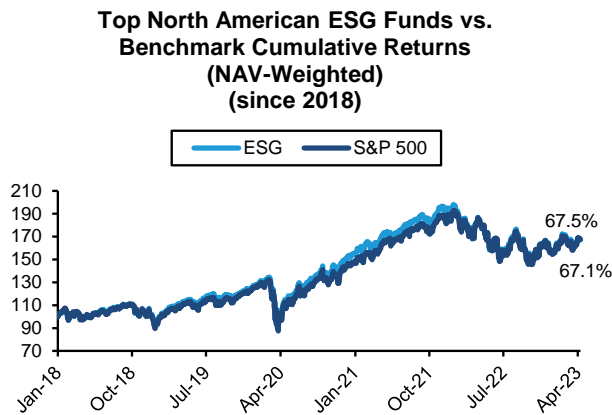
Global Article 8 and 9 Funds Industry Weighting vs. MSCI ACWI, Q4 2022



Data as of Q4 2022

NORTH AMERICAN ESG PERFORMANCE

EXHIBIT 18: Top North American ESG funds have performed largely in line with the market since 2018 on an NAV-weighted basis...

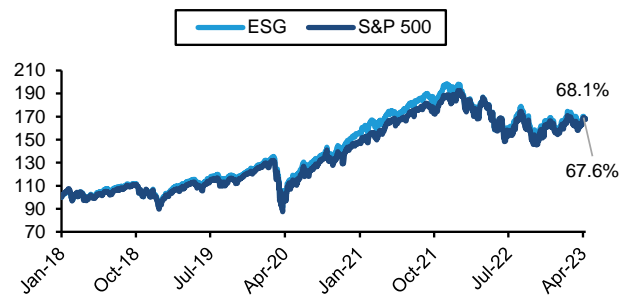


North American ESG Returns represent the top 50 North American ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 19: ...as well as on an equal-weighted basis.

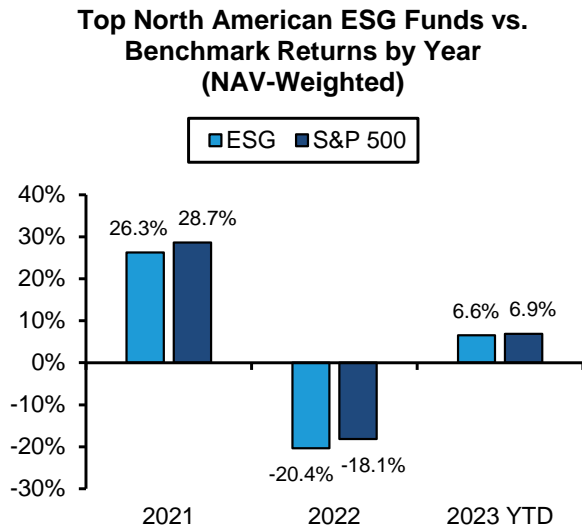
Top North American ESG Funds vs. Benchmark Cumulative Returns (Equal-Weighted) (since 2018)



North American ESG Returns represent the top 50 North American ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 20: Top North American ESG funds underperformed the benchmark moderately in each of the recent years on an NAV-weighted basis...



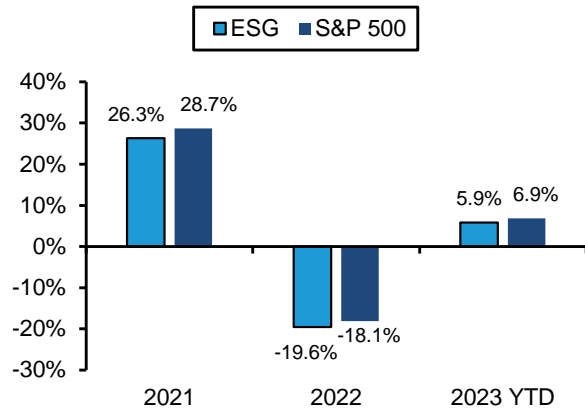
North American ESG Returns represent the top 50 North American ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 21: ...and on an equal-weighted basis.

Top North American ESG vs. Benchmark Returns by Year (Equal-Weighted)



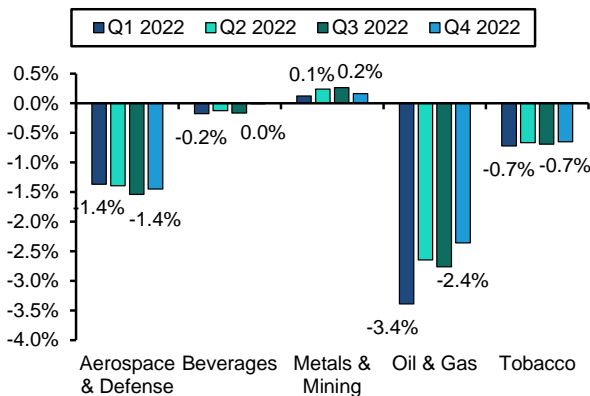
North American ESG Returns represent the top 50 North American ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 22: North American ESG investors became less underweight oil & gas over the course of 2022...

North American ESG Funds Weighting of Commonly Excluded Industries vs. S&P 500 (Q1 2022 - Q4 2022)

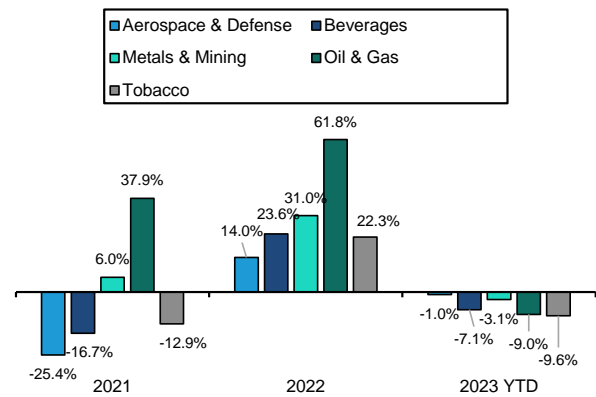


Data labels included for Q1 2022 and Q4 2022

Source: Factset, Morningstar, Bernstein analysis

EXHIBIT 23: ...the oil & gas sector have underperformed the market in 2023 YTD

Total Excess Returns vs. S&P 500 Benchmark, North America, by Year

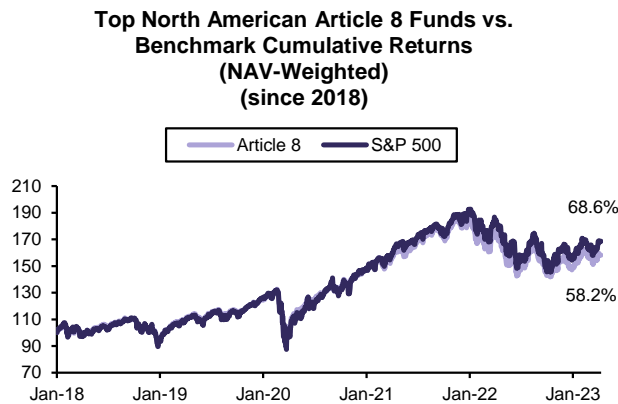


2023 YTD as of 04/10/2023

Source: Bloomberg, Bernstein analysis

ARTICLE 8

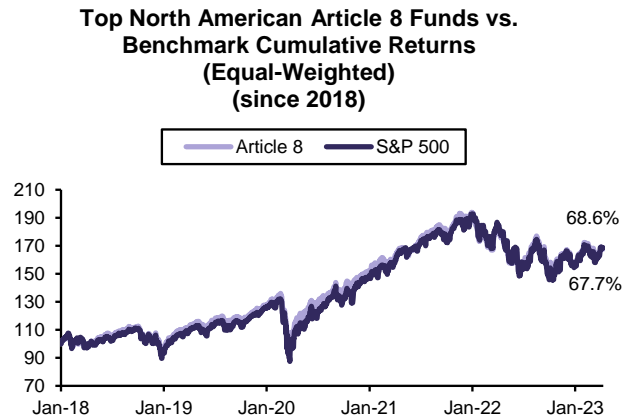
EXHIBIT 24: Top North American Article 8 funds have underperformed the market by 10.4% since 2018 on an NAV-weighted basis...



North American Article 8 returns represent the top 30 North American Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023.
Source: Bloomberg, Morningstar, Bernstein analysis

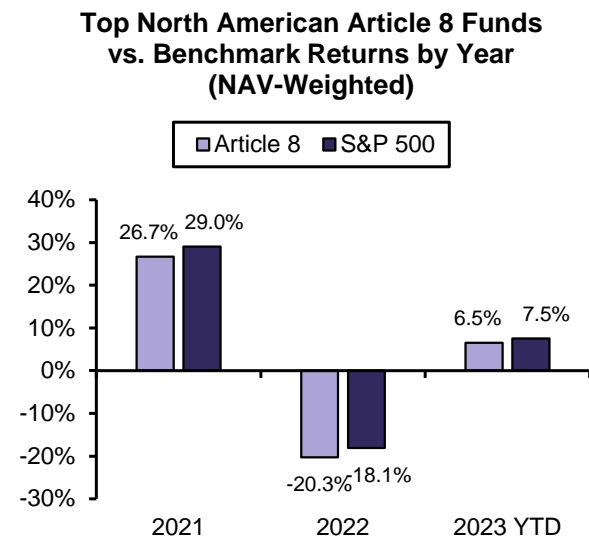
EXHIBIT 25: ...but slightly outperformed the benchmark on an equal-weighted basis.



North American Article 8 returns represent the top 30 North American Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023.
Source: Bloomberg, Morningstar, Bernstein analysis

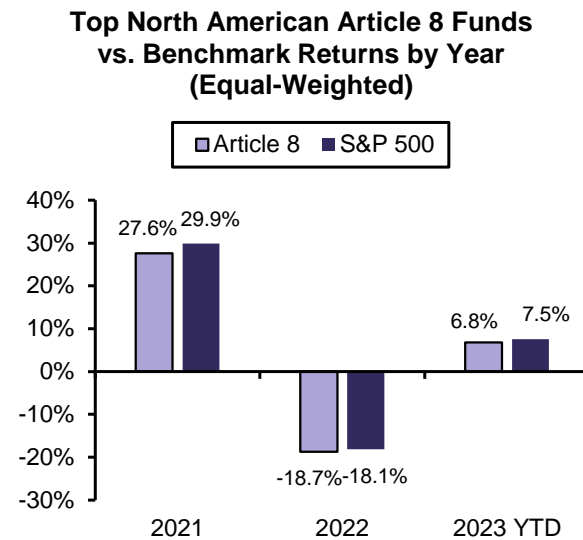
EXHIBIT 26: By year, top North American Article 8 funds underperformed moderately in recent years on an NAV-weighted basis...



North American Article 8 returns represent the top 30 North American Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 data as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 27: ...as well as on an equal-weighted basis, although the underperformance is less pronounced.

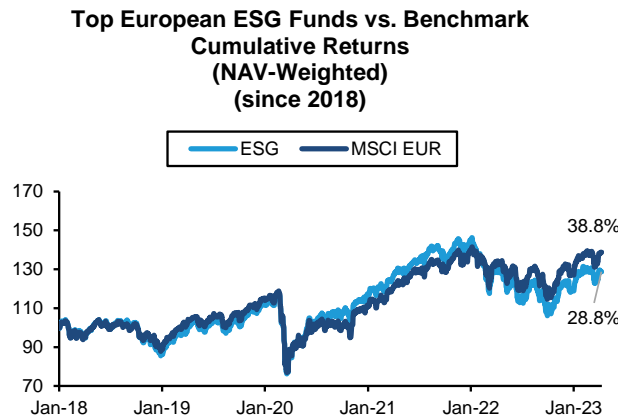


North American Article 8 returns represent the top 30 North American Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 data as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EUROPEAN ESG PERFORMANCE

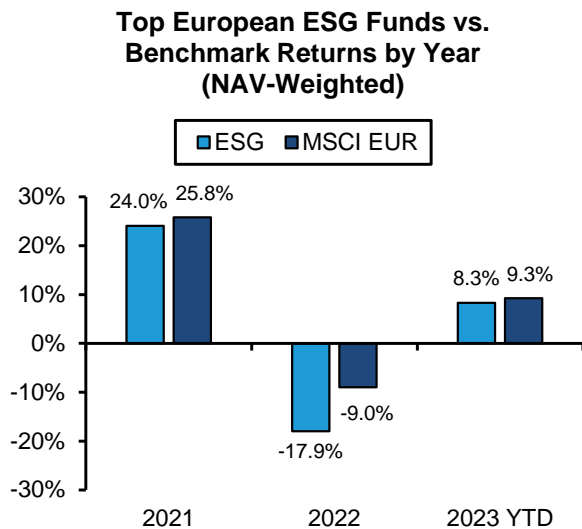
EXHIBIT 28: Since 2018, top European ESG funds have underperformed the market on an NAV-weighted basis...



European ESG Returns represent the top 50 European ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

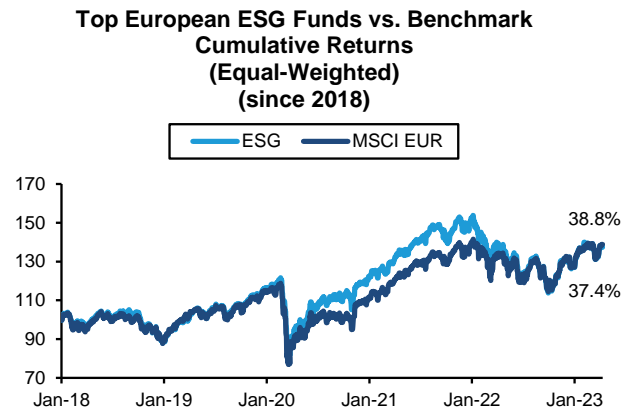
EXHIBIT 30: By year, top European ESG funds underperformed the benchmark in recent years on an NAV-weighted basis...



European ESG Returns represent the top 50 European ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

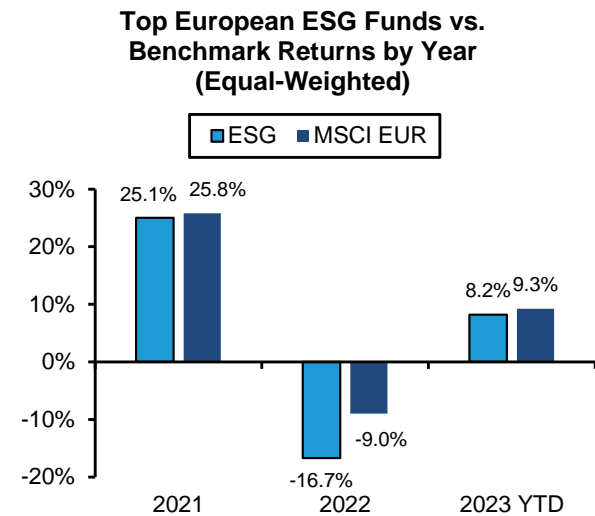
EXHIBIT 29: ...the underperformance is less pronounced on an equal-weighted basis.



European ESG Returns represent the top 50 European ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

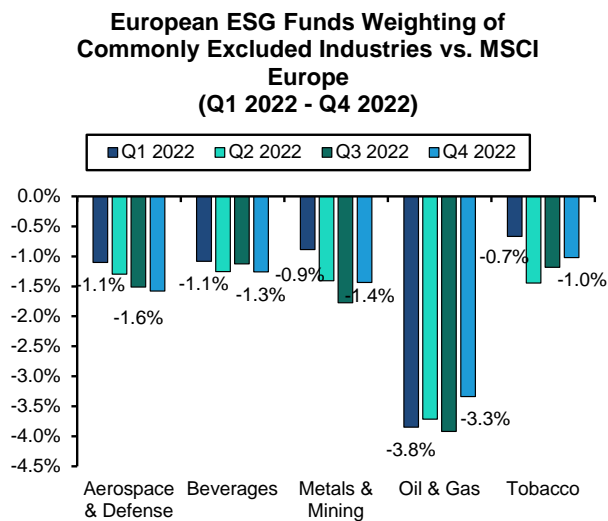
EXHIBIT 31: ...as well as on an equal-weighted basis.



European ESG Returns represent the top 50 European ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

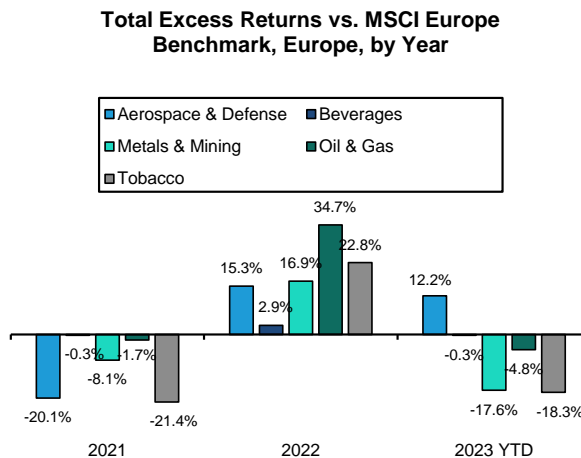
2023 YTD as of 04/10/2023
Source: Bloomberg, Morningstar, Bloomberg

EXHIBIT 32: European ESG investors are underweight commonly excluded sectors, notably oil & gas...



Data labels included for Q1 2022 and Q4 2022
Source: Factset, Morningstar, Bernstein analysis

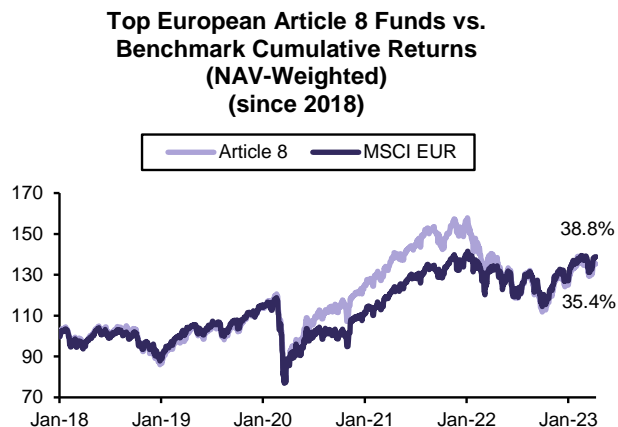
EXHIBIT 33: ...most of which have underperformed the market in 2023 YTD with the exception of aerospace & defense



2023 YTD as of 04/10/2023
Source: Bloomberg, Bernstein analysis

ARTICLE 8

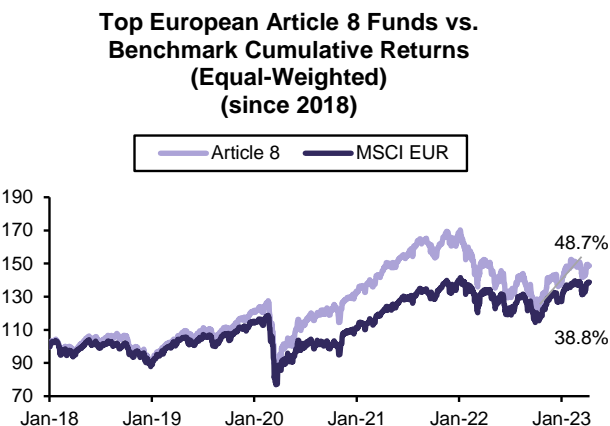
EXHIBIT 34: Since 2018, top European Article 8 funds have underperformed the market by -3.4% on an NAV-weighted basis...



European Article 8 returns represent the top 30 European Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

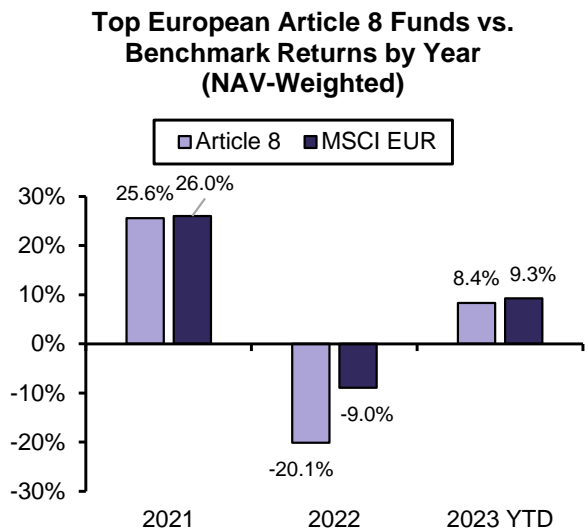
EXHIBIT 35: ...but have outperformed on an equal-weighted basis.



European Article 8 returns represent the top 30 European Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 36: By year, top European Article 8 funds underperformed the market in the recent years on an NAV-weighted basis.

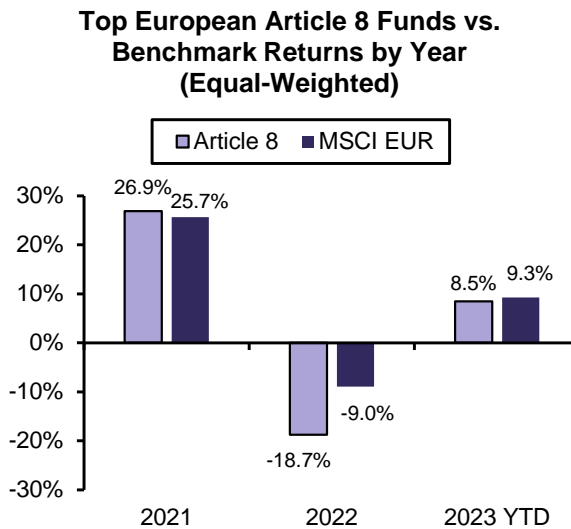


European Article 8 returns represent the top 30 European Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 37: On an equal-weighted basis, top European Article 8 funds similarly underperformed in 2022 and 2023 YTD.



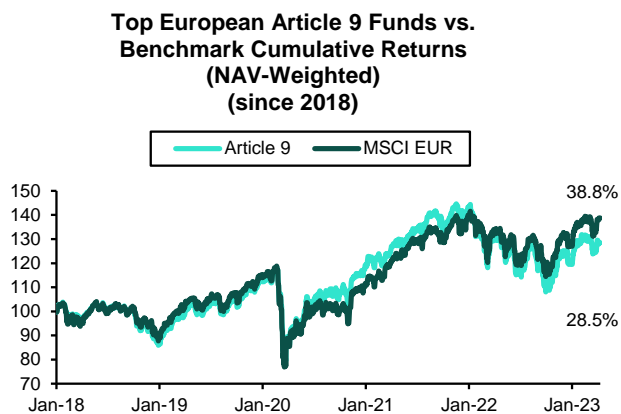
European Article 8 returns represent the top 30 European Article 8 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

ARTICLE 9

EXHIBIT 38: Top European Article 9 funds have underperformed since 2018 on an NAV-weighted basis...

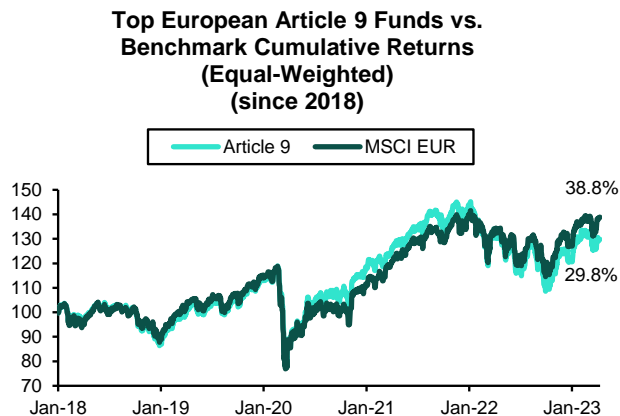


European Article 9 returns represent the top 30 European Article 9 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 39: ...as well as on an equal-weighted basis.

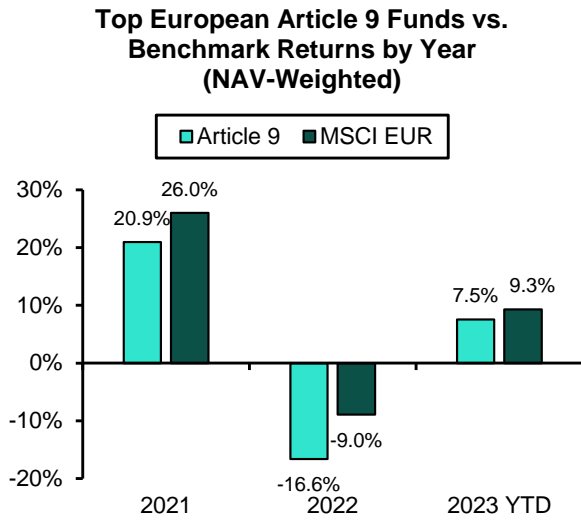


European Article 9 returns represent the top 30 European Article 9 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023

Source: Bloomberg, Morningstar, Bernstein analysis

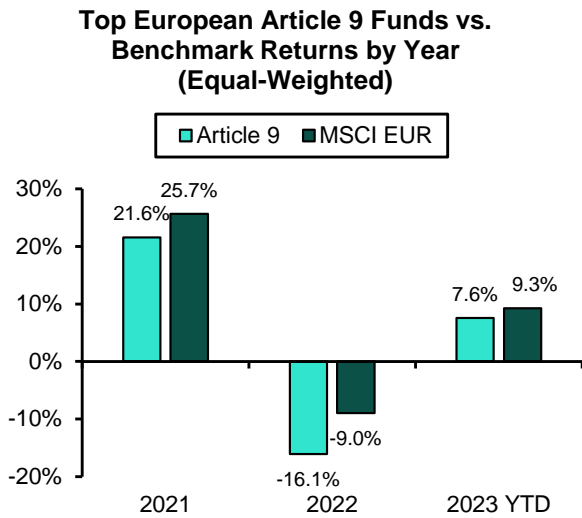
EXHIBIT 40: By year, top European Article 9 funds underperformed in recent years on an NAV-weighted basis...



European Article 9 returns represent the top 30 European Article 9 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

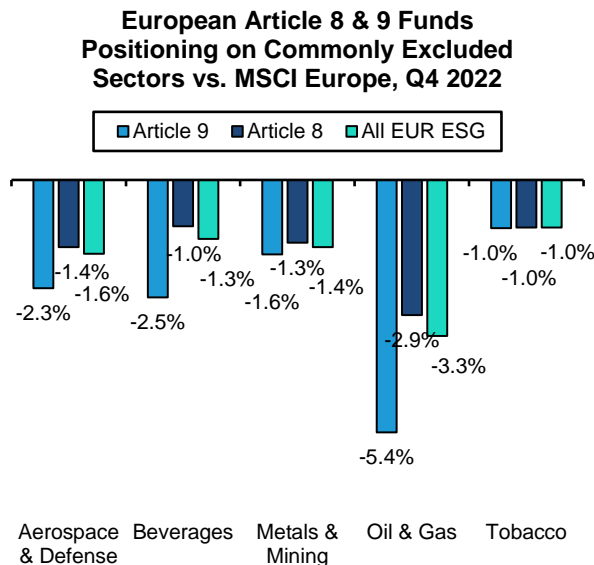
EXHIBIT 41: ...and on an equal-weighted basis.



European Article 9 returns represent the top 30 European Article 9 funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

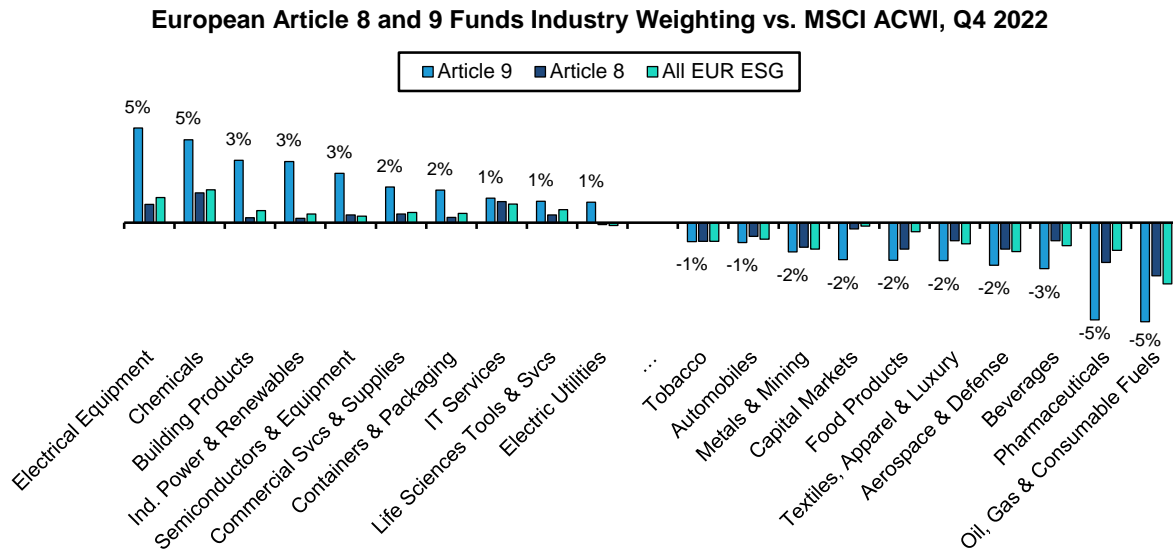
2023 YTD as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 42: European Article 9 products are more underweight commonly excluded sectors, including defense which has outperformed in 2023 YTD



Data as of Q4 2022
Source: Factset, Morningstar, Bernstein analysis

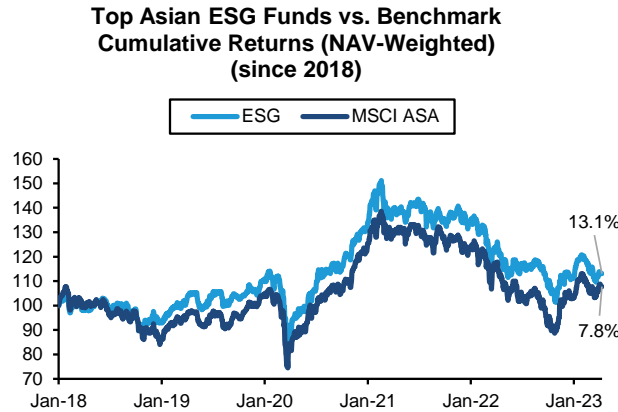
EXHIBIT 43: European Article 9 products are also more overweight industries in the clean energy value chain, which has negatively impacted performance in 2023 YTD.



Data as of Q4 2022

ASIAN ESG PERFORMANCE

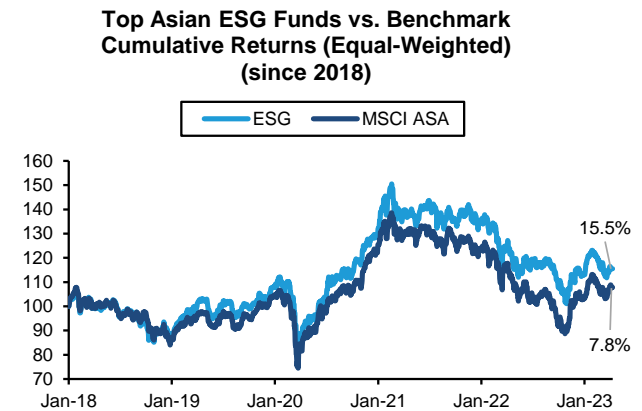
EXHIBIT 44: Top Asian ESG funds have outperformed the market since 2018 on an NAV-weighted basis...



Asian ESG Returns represent the top 50 Asian ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

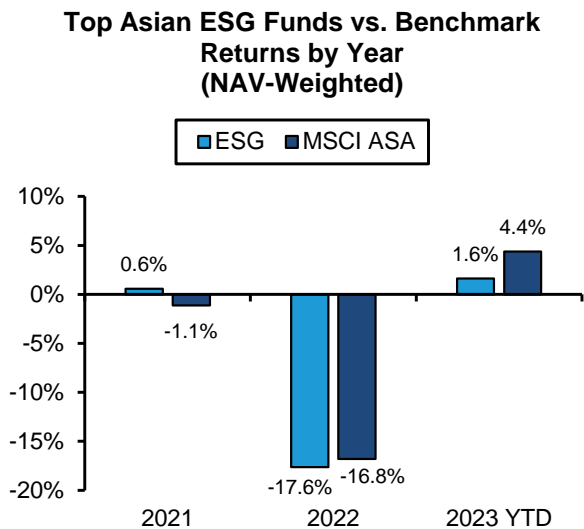
EXHIBIT 45: ...as well as on an equal-weighted basis.



Asian ESG Returns represent the top 50 Asian ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

Data labels and data are as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

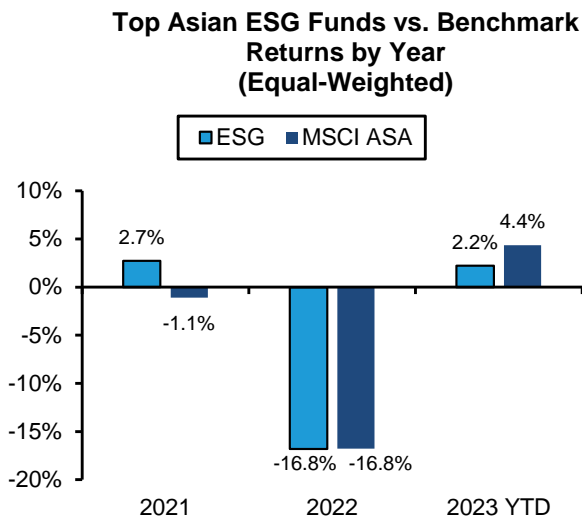
EXHIBIT 46: By year, top Asian funds outperformed the market in 2021, but underperformed in 2022 and 2023 YTD on an NAV-weighted basis...



Asian ESG Returns represent the top 50 Asian ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

2023 YTD as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

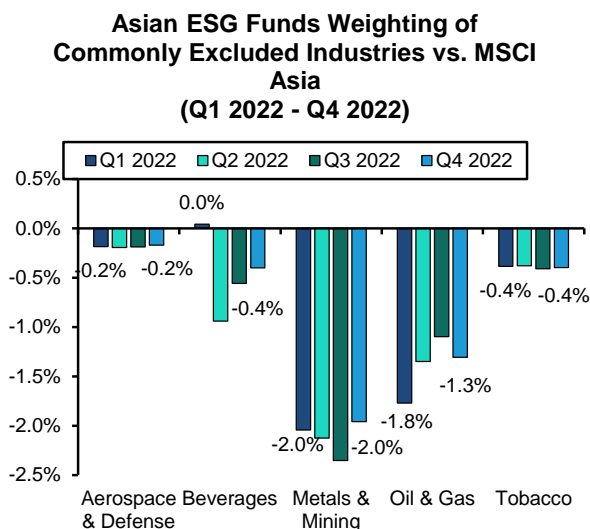
EXHIBIT 47: ...and on an equal-weighted basis.



Asian ESG Returns represent the top 50 Asian ESG funds by market value as of Q1'22 with performance data available from 1/1/2018 to present.

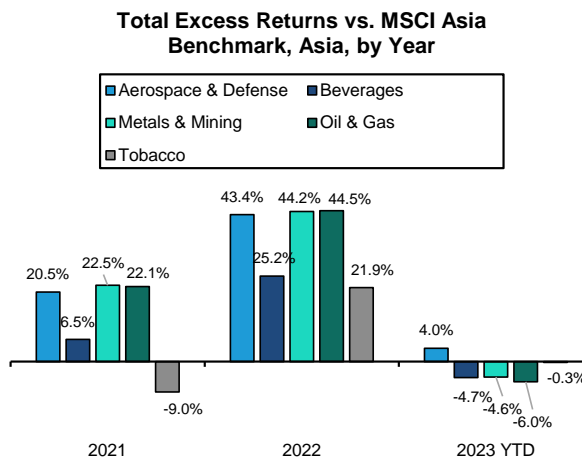
2023 YTD as of 04/10/2023
Source: Bloomberg, Morningstar, Bernstein analysis

EXHIBIT 48: Asian ESG investors became less underweight oil and gas over the course of 2022...



Data labels included for Q1 2022 and Q4 2022
Source: Factset, Morningstar, Bernstein analysis

EXHIBIT 49: ...oil & gas have underperformed the market in 2023 YTD



2023 YTD as of 04/10/2023
Source: Bloomberg, Bernstein analysis

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Neutral (Autonomous Brand)					
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