

The Briefing Report

ESG's impact on the fund industry

Turn of the year double issue

This time it really might be different

ESG growth forecasts

Forecasts for further strong growth in ESG are widespread. PwC, for example, describes ESG as a once in a century investment opportunity. How much further can it really grow?

In spite of, or possibly because of, the pandemic 2020 was another outstandingly strong year for environmental, social and governance investing, which aims to look beyond traditional financial metrics when picking stocks. Until approximately three to four years ago this was just another niche area of fund management. Now it looks like it could take over the industry.

And many believe that we are still at the early stages of a phenomenon that could change our lives, not just our investment portfolios. This is thematic investing on stilts: it appears to be on a very different scale from the last two investment booms that have come along over the last few decades: the emerging markets one in the early 1990s and the tech, or TMT, craze on the eve of the millennium. [Continued on page 8 >>](#)

Is it a bubble and will it burst?

Thematic investing crazes distort markets. They lead to bubbles which burst sooner or later. Valuations, based on fundamentals, are jettisoned in favour of owning a stake in a company that it is hoped or believed will come good at some time in the future. Is that happening with the ESG investing boom?

The inflows into ESG funds has been extraordinary (see above). Many now fear that the huge sums of money flooding in will distort markets. Investors must not lose sight of ESG fundamentals amid a 'tidal wave of inflows', says RWC fund manager Graham Clapp. He warns that ESG investing is now in bubble territory. 'The E in ESG has a lot of momentum right now, and there's a huge sum of capital going into companies seen as winners in this space', he adds.

'Many companies at the heart of this trade are loss-making, and keep warning on profits, yet shares keep rising. The situation may become more extreme from here, but investors should be aware that the more detached share prices become on the way up, as we are seeing now, then the more extreme the moves can be on the way down.' [Continued on page 10 >>](#)

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