

# The Briefing Report

ESG's impact on the fund industry

## Bubble trouble

It is getting very frothy. ETFs based upon ESG criteria are booming. There are growing fears that ETFs are taking ESG investing into bubble territory. And that is on top of very strong inflows into ESG mutual funds. What happens if the bubble bursts?

The recent boom in ESG ETFs is more concerning than the strong inflows into ESG mutual funds. The mutual funds have a longer track record and their recent growth hasn't been as dramatic as in the ETF sector.

ESG ETF assets rose by 9% in February alone, the eleventh month in a row where they have broken their previous monthly record. \$19 billion in new inflows was added just in February. According to TrackInsight assets in ESG ETFs nearly tripled in 2020 – in spite of the pandemic.

Whilst the boom is most visible in the ETF sector strong ESG asset growth is occurring in every asset class. According to the FT at the end of last year, the total assets in sustainable funds hit a record of almost \$1.7 tn, up 50% over the year. 33% of total US assets under management last year come from sustainable funds.

[Continued on page 7 >>](#)

## SFDR: What's the goal?

After a huge amount of discussion and debate the EU's SFDR (Sustainable Finance Disclosure Regulation) has now come into operation. What is its ultimate goal? And who benefits from it?

The SFDR is all encompassing. It applies to all UCITS funds, including ETFs, and Alternative Investment Funds (AIFs) sold in the EU.

It contains ESG-specific transparency requirements which will need to be disclosed to potential investors. The transparency requirements contain disclosure obligations, both on an entity and on a product level, and apply to all entities manufacturing financial products, including fund managers, or providing investment or insurance advice.

It is worth emphasising that every form of asset manager is covered by this measure including insurance-based investment product providers, pension product providers and institutions providing portfolio management. No one escapes

[Continued on page 9 >>](#)

## In this issue

### Features

- 1 **Bubble trouble**
- 1 **SFDR: What's the goal?**
- 7 **Bubble trouble**  
*Story continued from front page*
- 9 **SFDR: Whats the goal?**  
*Story continued from front page*
- 12 **SFDR: Any other takers?**
- 14 **SFDR: No level playing field**
- 17 **ESG office of the future**

### News

- 2 E-events
- 2 The EU-UK Fund Forum
- 3 SIS expanded to include ESG functionality
- 3 The BR's ESG Monitor
- 4 Jersey launches plan for a sustainable future
- 5 AIFMD review
- 5 Equivalence gets political
- 6 Reverse solicitation questioned

### Listings

- 19 **AIFMD service providers**  
*AIFMD related Company listings*
- 20 **Domicile service provider listing**  
*Company listings by Domicile*

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