



Introducing iFlow Green

iFlow Green, the latest addition to our suite of iFlow Signals (**Carry, Value, Trend, Cloud**), examines how environmental, social and governance (ESG) investment mandates are impacting investor flows observable in BNY Mellon's iFlow data.

Among our findings, we observe that equity flows appear to be tentatively impacted by ESG mandates, with flows responding negatively in countries with deteriorating environmental indicators. Conversely, FX markets appear to have been unresponsive to ESG mandates thus far.

To read a deep dive into our iFlow Green findings, click on the thumbnail to the right.



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Introducing iFlow Green

PAST IS PRESENT FOR ESG

Tracking ESG Portfolio Flows

Investment mandates related to Environmental, Social and Governance (ESG) principles are mushrooming. In this paper we show that flows seem less sensitive to "E" than "S" or "G."

Using ESG inputs, we evaluate the relationship between national-level ESG factors and observations drawn from our iFlow data. We find that equities seem to be tentatively responding to ESG trends while FX flows are not.

ESG vs. Financial Flows: A Philosophical Debate

E + S + G ≠ ESG

ESG investor behavior is by no means uniform. *Ev-post* flows are designed to capture differentiating aspects of institutional behavior, where change has already taken place. *Ev-anto* strategies are designed to be incentives encouraging change. In this note we seek to identify *ev-post* investment flows either because a country has already achieved high scores according to our analysis or because its trajectory is promising.

We propose a framework to quantify whether investors take into account a country's sustainability behavior. Using our iFlow database we seek to quantify co-movements between portfolios and ESG rankings, established through the construction of indices to reflect country-level performance in each individual factor. We find the following:

Environmental: Since the 2008 global financial crisis (GFC), there has been noticeable deterioration in environmental and climate indicators. According to iFlow Green (E), there are initial signs that equity flows are responding negatively to such changes, mainly in northern economies.

Social: Flow Green (S) indicates that equity flows seem to be rewarding high achievers on attainment but not improvement. Unfortunately, low social achievers tend to have underdeveloped capital markets, which constrains investment flows.

Governance: iFlow Green (G) findings are similar to iFlow Green (S) but FX seems to have recently been more susceptible to changes. The top performers in this space are the Scandinavian countries, Switzerland and New Zealand. Despite its impressive growth over the past two decades, China consistently appears in the bottom three ranked nations and only left the bottom five in 2018.

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