

GEMs FI Strategy Watch

EM ESG outflows driven by EM outflows
overtaking general ESG inflows

EM ESG EPFR outflows were due to EM outflows not ESG

Outflows for EM overall were felt in EM ESG as well in 4Q and FY23. For FY23, EM ESG outflows, though negative, were about one-third as large as non-ESG outflows. Global Corp ESG funds and All Fixed Income ESG funds saw larger inflows than non ESG funds (p2).

4Q / FY23: EM ESG -\$1.1bn/-0.7bn (-3.2%/-2.9% of AUM)
EM non-ESG -\$14bn/ -\$39bn (-3.6%/-10.0% of AUM).

Exhibit 1: EM ESG flows negative in 4Q and EM non-ESG fund flows

Flows to ESG vs non-ESG funds in %

4Q Flows (%)	ESG	Non-ESG
All Fixed Income	0.9	0.3
Corporate	2.6	0.8
EM Debt	-3.2	-3.6

Source: BofA Global Research, EPFR Global

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EM ESG AUM is still relatively small but growing

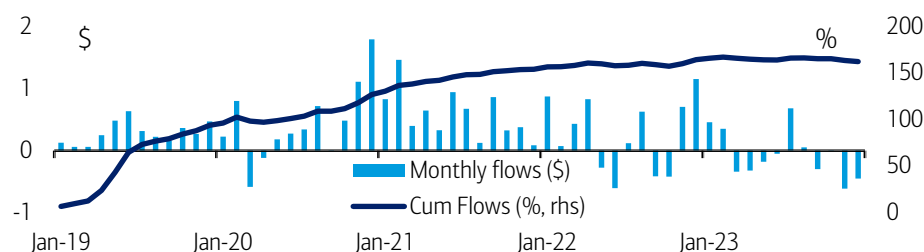
EM ESG AUM (assets under management) is 15% of Global Corps AUM (\$33bn vs \$217bn), although it has grown more than Global Corps despite the lack of flows to the EM asset class overall. EM ESG AUM grew 32% yoy vs 23% for Global Corp ESG AUM.

2023 issuance of external and local debt hit another peak

On a yearly basis, 2023 issuance was the largest ever (\$293bn) with a quarterly peak in 2Q23 (\$96bn). 4Q23 EM ESG issuance of \$62bn was still dominated by CNY bonds (39%). Another 32% was in USD and EUR and the rest (29%) was mostly in Asian currencies (see pages 2-5). EM ESG bond issuers in all currencies, external and local, were led by financials (47%), followed by corporates (22%), sovereigns (18%), government agencies (13%) and ABS (2%). The vast majority was again labeled as green bonds (61%).

Exhibit 2: Net EM Fixed Income ESG had a negative 4Q and year overall

EM Fixed Income ESG flows, monthly (\$bn) and cumulative (% , rhs)



Source: BofA Global Research, EPFR Global

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GEM Fixed Income Strategy
Global

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EM ESG EPFR outflows are due to EM outflows not ESG

2023 marked another year of EM debt outflows, and EM ESG funds suffered outflows too in 4Q and in 2023 overall. For the year, EM ESG outflows were only about one-third that of non-ESG outflows, showing a relatively higher demand subclass.

4Q / FY23: EM ESG -\$1.1bn/-\$0.7bn (-3.2%/-2.9% of AUM)
EM non-ESG -\$14bn/-\$39bn (-3.6%/-10.0% of AUM)

Global Corp funds, which are much larger:

4Q / FY23: Global Corp ESG +\$6bn/+\$14bn (+2.6%/+8.1%)
Global Corp non-ESG +\$13bn/+\$21bn (+0.8%/+1.5%)

All Fixed Income ESG funds saw inflows too:

4Q / FY23: All FI ESG +\$5bn/+\$31bn (+0.9%/+7.1%)
All FI non-ESG +\$31bn/+\$345bn (+0.3%/+4.0%)

EM ESG debt fund buyers' enthusiasm slows

ESG factors are becoming more important across fixed income (following the pattern in equities) but are slower to be adopted in emerging markets than in developed markets. Regulation has moved much further in the EU, for instance, which is actively pushing the ESG agenda there. Outside of Europe, many countries have yet to establish a path to net zero carbon emissions by 2050 under the Paris Agreement.

Demand: Flows to EM ESG funds had been resilient overall and as a percentage of All ESG Fixed Income flows they were 11% in 2019, 9% in 2020, 7% in 2021, jumping to 15% in 2022, while they dipped to 2% in 2023 (due to the strong outflows from EM debt funds this year and since the volumes are quite small).

Exhibit 2 on page 1 shows negative flows in 2023 for EM ESG funds, in line with the overall outflows from the rest of the asset class. On a quarterly basis ESG funds had outflows of \$1bn in 4Q23 (-3.2% of AUM) vs non-ESG with larger outflows of -\$14.0bn (-3.6% of AUM). ESG Global Corps had a positive quarter with +\$6bn inflows (+2.6% of AUM) vs non-ESG +\$13bn (+0.8% of AUM).

Exhibit 2 and Exhibit 10 through Exhibit 15 show differences and growth rates in ESG inflows for EM, All Fixed Income and Global Corporates, the latter of which is where most of the ESG inflows have been going since 2019.

Exhibit 3: In 4Q23 EM ESG funds had outflows of -\$1bn vs non-ESG funds -\$14bn. In Global Corporates EPFR reported ESG inflows of +\$6bn in 4Q23 vs non-ESG +\$13bn.

ESG vs Non-ESG flows yearly comparison since 2019 (in \$bn and %). This table only shows flows (not AUMs).

ESG (\$bn)	2019	2020	2021	2022	2023	Non-ESG (\$bn)	2019	2020	2021	2022	2023	ESG / Non-ESG (%)	2019	2020	2021	2022	2023
All Fixed Income	31	61	102	21	32	All Fixed Income	637	423	675	-499	345	All Fixed Income	5%	14%	15%	-4%	9%
Corporate	16	31	46	2	14	Corporate	109	142	-17	-149	21	Corporate	15%	22%	-276%	-1%	68%
EM Debt	3	5	7	3	-1	EM Debt	40	6	28	-86	-39	EM Debt	9%	86%	25%	-4%	2%
EM % of Corp	21%	17%	15%	184%	-5%	EM % of Corp	37%	4%	-167%	58%	-185%						
EM % of All FI	11%	9%	7%	15%	-2%	EM % of All FI	6%	1%	4%	17%	-11%						

Source: BofA Global Research, EPFR Global. Note 1: All fixed income includes the larger govt and mortgage debt tracked by EPFR; Corp and EM Debt are subsets of All Fixed Income. EM Debt is not a subset of Corp. Data as of 12/31/23. Note 2: For EM data we remove ~ \$61bn of the local funds that were domiciled in BG, CN, CO, IN, KR, MY, RO, RU, TH, TR and VN.

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Increasing issuance of labeled bonds in emerging markets

Use of proceeds from issuance of bonds and sustainability-linked bonds in EM rose to \$62bn in 4Q23, up from \$60bn in 3Q23, after a peak of \$96bn in 2Q23 and \$75bn 1Q23. The total in 2023 reached a new peak at \$293bn, 8% above 2022 (\$270bn) and 2% above 2021 issuance (\$288bn, Exhibit 3 and Exhibit 4).

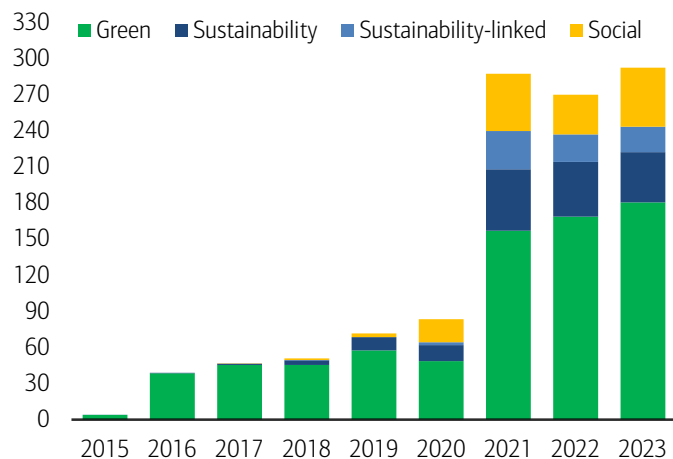
Use of proceeds includes green, social, sustainability and sustainability-linked bonds, and all proceeds must be used for eligible green or social projects (sustainability bonds encompass both types of projects). Under International Capital Market Association (ICMA) guidelines, use of proceeds should also include a process for project selection and evaluation, management of proceeds and ongoing reporting on project impact. Proceeds from sustainability-linked bonds can be used for general purposes, but the coupon is typically linked to achieving specific environmental or social targets (such as reduced carbon intensity, higher use of renewables, reaching underserved populations, etc.).

4Q23: \$62bn in labeled bonds were issued in all currencies, external and local, by EM financials, corporates, government agencies and sovereigns in 4Q23. **Most of this was green bond issuance (61%),** although sustainability bonds have been growing since 2019, and social bonds took off in 2020. The majority of labeled issuance was from financials (47%) and corporates (20%), with 18% from sovereigns and 13% from government agencies. The largest sovereign issuer was Colombia with \$2.7bn, followed by Brazil (\$2.0bn) and Chile (\$2.0bn).

EM labeled bond issuance in 4Q23 was mainly in CNY (39%), followed by USD (28%) and KRW (9%).

Exhibit 4: 2021 labeled bond issuance reached a record of \$289bn, in 2022 it was \$270bn, and in 2023 its up to \$293bn

Issuance of labeled bonds by year

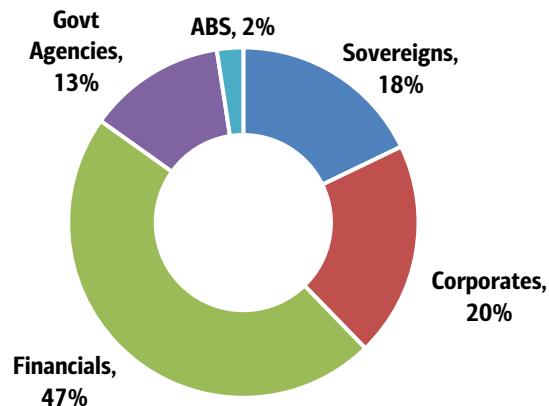


Source: BofA Global Research, Bloomberg. Note: data as of 12/31/23.

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Exhibit 5: Sovereigns are 18% of EM ESG issuance

EM ESG issuance by category in 4Q23 (in US\$ face value)



Source: BofA Global Research, Bloomberg. Note: data as of 12/31/23.

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Exhibit 6: 71% of the \$62bn ESG issuance in 4Q23 was in local debt

Currency distribution of EM ESG debt issuance in 4Q23

Currency of issue	% of total
CNY	39%
USD & EUR	32%
Other, mostly Asian	29%

Source: BofA Global Research, Bloomberg. Note: data as of 12/31/23

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ESG funds keep growing in EM debt markets, but on a low base

- ESG flows from EM debt were negative in 4Q23, reversing 3Q23's figure.
- Due to the small base, in the past four years, flows into EM ESG grew by over 180%, much faster than non-ESG funds. In contrast, in All Fixed Income ESG and the subset Corporate ESG funds in the same period grew around 100% and 120%, respectively.
- Non-ESG funds experienced outflows in 4Q23 in EM, while there were some inflows in All Fixed Income, the same as Corps.
- AUM of funds identified by Bloomberg as ESG is around \$147bn. **96% of the AUM is in funds domiciled in Europe, 3% US.** 84% is invested in EXD or blended funds.

Exhibit 7: 96% of the ESG AUM reported in Bloomberg as ESG EM funds domiciled in Europe and 84% are invested in EXD or blended funds.

ESG EM AUM by domicile country and asset class category (in \$mn)

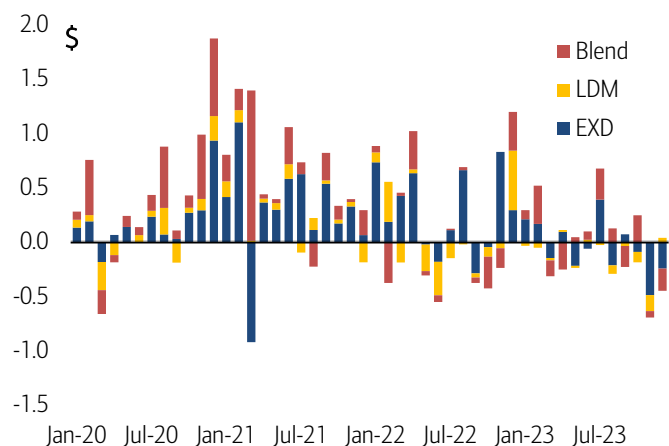
Country	EXD	LDM	Grand Total	% of total ESG funds
Luxembourg	80,001	13,958	93,959	64%
Ireland	29,099	9,205	38,304	26%
United States	4,527		4,527	3%
Austria	2,643	301	2,945	2%
Denmark	1,143	1	1,143	1%
Italy	954		954	1%
France	946		946	1%
Liechtenstein	849		849	1%
Spain	675		675	0%
Cayman Islands	579		579	0%
Germany	533		533	0%
Finland	531		531	0%
Taiwan	313	11	324	0%
Canada	198		198	0%
South Korea	144		144	0%
Poland	39		39	0%
Latvia	21		21	0%
Netherlands	18		18	0%
Total	123,213	23,476	146,689	100%

Source: BofA Global Research, Bloomberg. Note: EXD data includes Blend funds.

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Exhibit 8: ESG monthly flows have grown substantially in 2022, but have declined in the past few months

ESG monthly flows (\$bn)

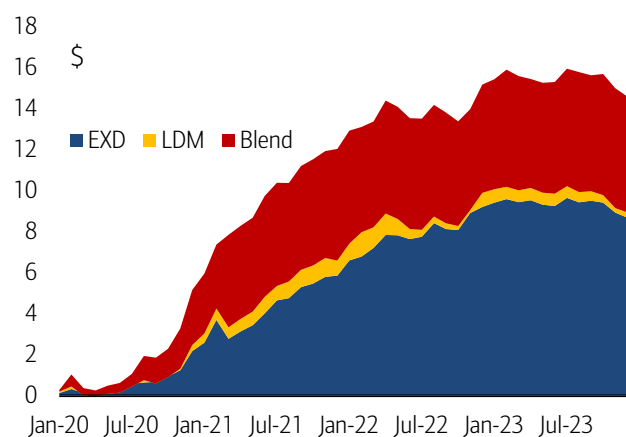


Source: BofA Global Research, EPFR Global

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Exhibit 10: \$16bn inflows went into EM ESG since Jan '20, \$6bn of which was in blended funds of EXD and LDM

ESG cumulative flows (\$bn)

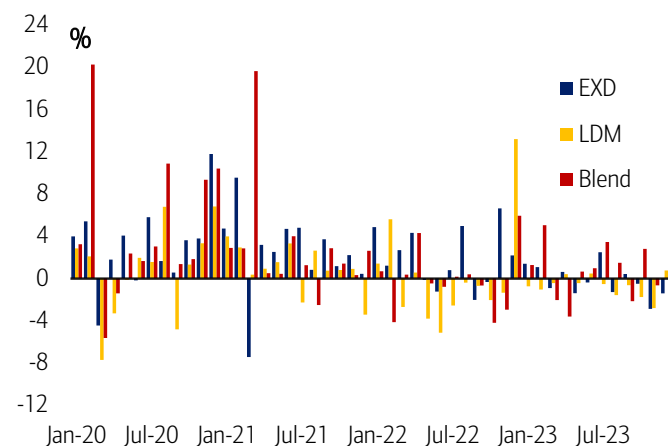


Source: BofA Global Research, EPFR Global

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Exhibit 9: ESG flows have been a fairly consistent in the past year but they have slowed down since October

ESG monthly flows (% of AUM)

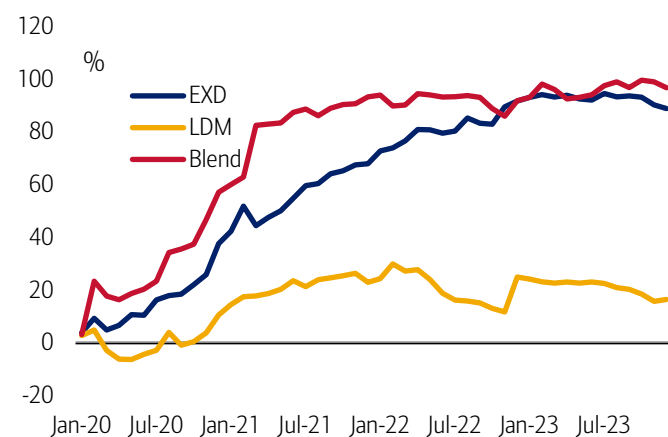


Source: BofA Global Research, EPFR Global

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Exhibit 11: EM ESG Blended funds and EXD have grown by almost 90% of AUM since pre-pandemic, while LDM by just 20%

ESG cumulative flows (each fund type as % of its AUM)

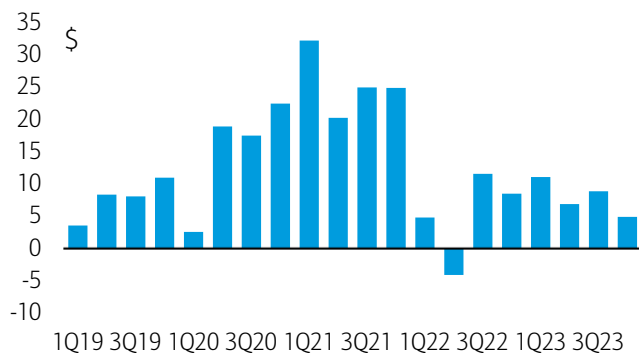


Source: BofA Global Research, EPFR Global

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Exhibit 12: All FI ESG flows have been on avg \$12bn quarterly since Jan '19, but in 4Q23 they were just \$5bn

All FI ESG flows quarterly (\$bn)

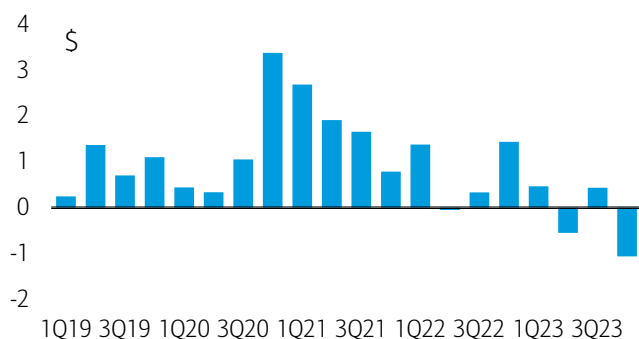


Source: BofA Global Research, EPFR Global

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Exhibit 14: EM FI ESG flows have been on avg \$1bn quarterly since Jan '19, but in 4Q23 they went down to -\$1bn outflows

EM FI ESG flows quarterly (\$bn)

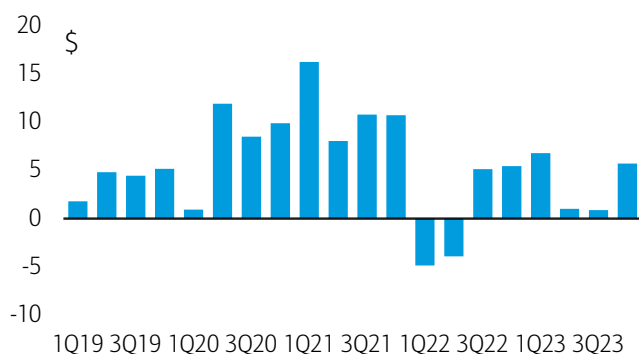


Source: BofA Global Research, EPFR Global. Note: For EM data we remove ~ \$61bn of the local funds that were domiciled in BG, CN, CO, IN, KR, MY, RO, RU, TH, TR and VN.

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Exhibit 16: Corp FI ESG flows have been on avg \$5bn quarterly since Jan '19, but in 4Q23 they were \$6bn

Corp FI ESG flows quarterly (\$bn)

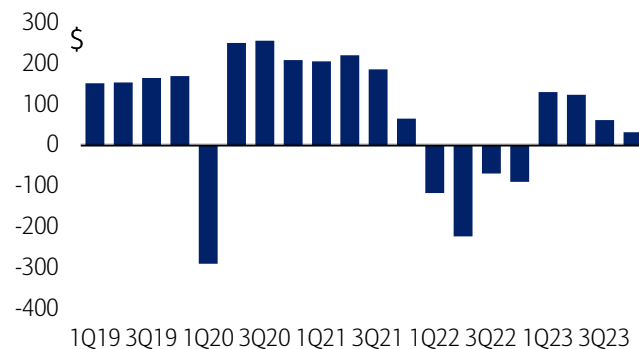


Source: BofA Global Research, EPFR Global

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Exhibit 13: All FI non-ESG flows have been on avg \$79bn quarterly since Jan '19, but in 4Q23 they were just \$32bn

All FI non-ESG flows quarterly (\$bn)

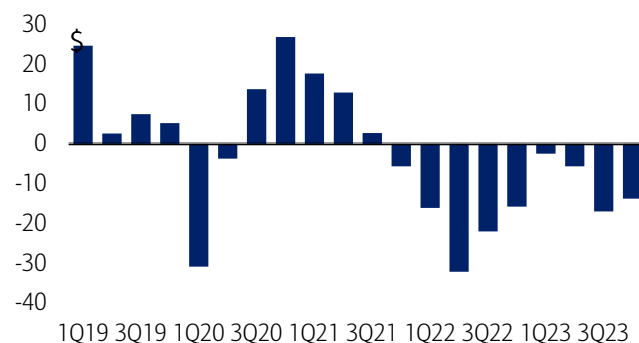


Source: BofA Global Research, EPFR Global

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Exhibit 15: EM FI non-ESG flows have been on avg -\$3bn quarterly since Jan '19, but in 4Q23 they went down to -\$14bn outflows

EM FI non-ESG flows quarterly (\$bn)

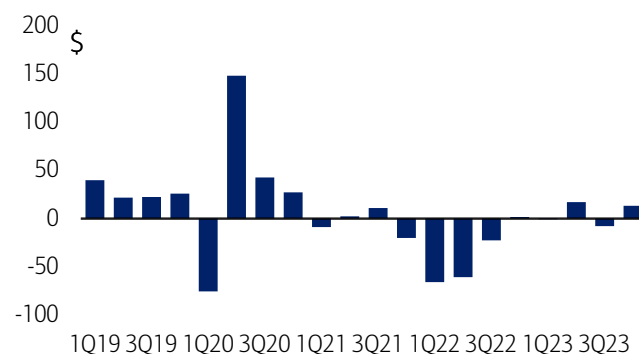


Source: BofA Global Research, EPFR Global. Note: For EM data we remove ~ \$61bn of the local funds that were domiciled in BG, CN, CO, IN, KR, MY, RO, RU, TH, TR and VN.

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Exhibit 17: Corp FI non-ESG flows have been on avg \$5bn quarterly since Jan '19, but in 4Q23 they went up to \$13bn outflows

Corp FI non-ESG flows quarterly (\$bn)



Source: BofA Global Research, EPFR Global

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