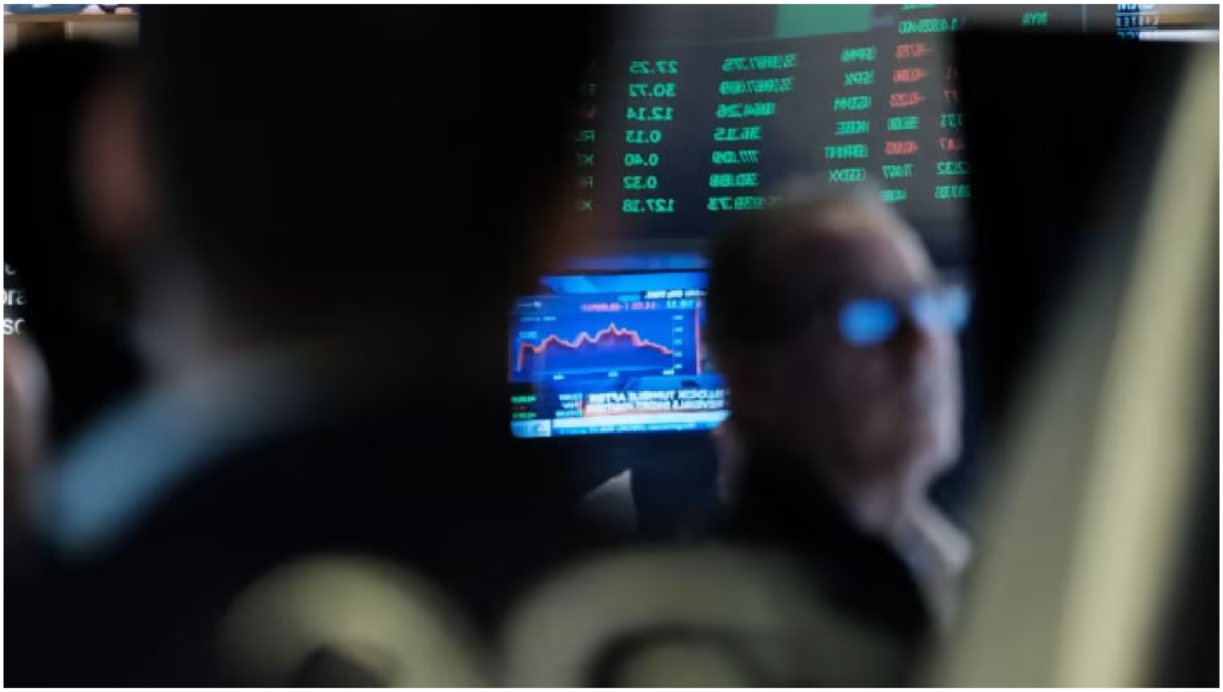
ETF Hub iShares Inc

Investors pull nearly $4bn from iShares ESG ETF in one day

Quality Factor ETF receives $4.8bn in inflows on same day



The outflows could reflect a rebalance by a large institutional investor or waning interest in ESG products, analysts said © Spencer Platt/Getty Images

Sonya Swink, Ignites MARCH 27 2023

An environmental, social and governance-focused iShares ETF haemorraghed $3.9bn in one day at the beginning of last week, data shows.

The iShares ESG Aware MSCI USA ETF (ESGU) had $14.4bn in assets under management on March 21, the day after the sell-off.

On the same day, March 20, the iShares MSCI USA Quality Factor ETF (QUAL) added $4.8bn in net inflows, helping assets rise to $25bn on March 21.

The redemptions from the ESG ETF represent a stark drop from the ETF's recent flows. Overall, the fund recorded $1.6bn in net outflows during the year ended February 28, according to Morningstar Direct data.

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"It's certainly an eye-popping number. It's something we don't see on an everyday basis," said Ryan Jackson, a managing research analyst on passive strategies at Morningstar.

The redemptions may have occurred because BlackRock rebalanced its model portfolios, said Nate Geraci, president of the ETF Store.

BlackRock offers more than 150 model portfolios, its website shows. ESGU is in more than 20 BlackRock models, according to Morningstar Direct.

"As we actively manage our models to capture opportunities in the market, some ETFs included in BlackRock model portfolios experience inflows or outflows, driven by advisers who trade their clients' portfolios in line with BlackRock's models," a company spokesperson said.

The spokesperson declined to comment on the trades and nature of the flows.

About 43mn shares of ESGU were traded on March 17 and another 11mn on March 20, Yahoo Finance data shows.

The volume of trade likely means a strategic pull away from the ETF, said Todd Rosenbluth, head of research at VettaFi.

It is also possible that a large institutional investor shifted its assets from ESGU to QUAL to gain large-cap US equity exposure, he noted.

"While companies with strong ESG attributes often have strong financial profiles, the factor ETF will provide more precise exposure which could be helpful given the persistent market change," Rosenbluth said.

The swap may also indicate "waning interest in ESG products in favour of defensive strategic beta", said Elisabeth Kashner, director of global fund analytics at FactSet.

BlackRock has also faced major blowback from Republican states over the past year about its ESG investing practices.

Sustainable mutual funds and ETFs added $3.1bn in 2022, down from their record high of $67.4bn the year prior, Morningstar data shows.

“ESG ETF inflows have waned over the past year due to a nasty combination of underperformance, political backlash and investors generally questioning the overall merits of such an approach,” Geraci said. “It’s certainly plausible that BlackRock was getting some questions on the inclusion of ESG ETFs in their models and decided to cut bait.”

The ESG Aware ETF fund invests in large- and mid-cap US stocks, with a tilt towards those with favourable ESG ratings, its prospectus shows. MSCI USA Quality Factor ETF, meanwhile, invests in large- and mid-cap companies with positive fundamentals.