# European pension funds deepen commitment to sustainable investing amid US ESG retreat



European pension funds and long-term asset owners are reaffirming their commitment to sustainable investing amid a climate of growing scrutiny over environmental, social, and governance (ESG) considerations. This determination persists despite a notable retreat from ESG principles among some asset managers, particularly in the United States. Recent political backlash and shifting market dynamics have catalysed a re-evaluation of partnerships between European investors and US firms, with the former increasingly favouring asset managers who align with their sustainability goals.

Key players in the pension sector are meticulously reviewing their asset management partnerships. For instance, the UK's People's Pension, along with the €60bn Dutch industrial fund PME and PGGM, which manages €250bn for healthcare workers, have either severed ties with US managers or placed them under intense scrutiny due to concerns about their sustainability records. Daan Spaargaren, responsible investment strategist at PME, remarked that these developments signal a broader movement among European asset owners to demand accountability from their managers regarding ESG issues.

Sustainability is becoming a pivotal benchmark in the decision-making processes of major financial institutions. PGGM's Chief Investment Officer, Lars Dijkstra, emphasised that risk, returns, and sustainability are now equally critical factors for trustees. Similarly, Anders Schelde from Denmark's AkademikerPension noted that impending downgrades in the ESG ratings of firms like State Street have directly influenced their investment strategies, leading to a shift of assets towards managers that share their climate approach.

This divergence in attitudes toward ESG is further illustrated by a recent report from the non-profit group ShareAction, which found that a considerable number of asset managers failed to meet even basic sustainability criteria. Notably, firms like BlackRock and State Street received the second-lowest scores, whereas European firms such as Nordea and BNP Paribas Asset Management emerged as leaders in responsible investment practices. This widening gulf reflects both the ethical imperatives and financial realities driving pension funds towards more transparent and accountable asset managers.

External pressures have intensified for US asset managers, with a series of lawsuits from Republican-led state treasuries pushing some to retreat from climate initiatives, while simultaneously facing calls from Democratic states for enhanced sustainability practices. BlackRock, for example, is grappling with conflicting demands from diverse clients across both political spectrums, creating challenges in maintaining a cohesive sustainability policy. The implications of this growing divide could signal long-term changes in the landscape of global asset management.

Furthermore, while European pension funds remain resolute in their long-term investment strategies, the sentiment among shorter-term institutional and retail investors appears to differ. Data from Morningstar indicates a significant outflow from ESG funds, suggesting a prevailing hesitance among these investors, likely influenced by broader geopolitical uncertainties and economic tensions.

Yet, amidst this turmoil, opportunities arise for those steadfast in their commitments to sustainability. David Blood, senior partner at Generation Investment Management, commented on the cyclical nature of the investment market, highlighting that periods of pullback on sustainability initiatives often lead to stronger recoveries. As some investors retreat, others with a clear vision for sustainable investment stand to benefit from the vacuum, reinforcing the long-term viability of ESG-focused strategies.

As European asset owners continue to demand responsible management and sustainable practices, the pressure mounts on US asset managers to clearly articulate their commitments to ESG principles. This situation calls for an urgent reassessment of strategies within the industry, as the competition to attract and retain investors now hinges on a more pronounced dedication to sustainability. With the landscape evolving rapidly, those investment firms that align with the values of their clients will be best positioned to thrive amid the changing dynamics of global financial markets.

### Reference Map

1. Paragraph 1: [[1]](https://www.ft.com/content/ac825fec-e1d2-486c-bb6b-26537a52eff6), [[2]](https://www.ft.com/content/6aae8765-3250-4474-8838-c8217dc74a01)
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## Bibliography

1. <https://www.ft.com/content/ac825fec-e1d2-486c-bb6b-26537a52eff6> - Please view link - unable to able to access data
2. <https://www.ft.com/content/6aae8765-3250-4474-8838-c8217dc74a01> - This article discusses how U.S. asset managers are facing challenges in balancing sustainability policies to cater to both conservative American clients and environmentally focused European investors. Republican-led states have withdrawn billions from managers perceived as overly committed to ESG issues, prompting several major U.S. firms to exit climate alliances and reduce support for green shareholder resolutions. This shift has led European pension funds, such as the UK's People's Pension, Denmark's AkademikerPension, and the Dutch fund PME, to reassign substantial mandates to more ESG-aligned European firms like France's Amundi. The article highlights a broader market restructuring, rewarding managers who align more closely with clients' sustainability goals, as key investors in both Europe and parts of the U.S., like California and New York, prioritize climate-conscious investment strategies.
3. <https://www.reuters.com/sustainability/blackrocks-global-client-balancing-act-indianapolis-tokyo-2024-12-18/> - This article examines BlackRock's efforts to balance conflicting pressures from its diverse global client base, which includes both Republican-led states opposing ESG investing and Democratic-led states and international bodies advocating for it. For instance, Indiana's public retirement system removed BlackRock as manager of a $969 million bond portfolio due to its ESG commitments, influenced by a law mandating such actions. Conversely, entities like Japan's Government Pension Investment Fund and British pension provider Scottish Widows have pressured BlackRock to support climate initiatives. The article underscores the challenges BlackRock faces in navigating diverging client expectations amid the ongoing debate over ESG issues in investment decisions.
4. <https://www.ft.com/content/fd7c1fdc-e363-4f86-af7a-b0564540c537> - This article reports on JPMorgan Asset Management and State Street Global Advisors dropping out of the Climate Action 100+ coalition, with BlackRock reducing its involvement, reflecting a growing detente between Wall Street firms and Republicans over ESG investing. The move may be aimed at political realignment ahead of the upcoming presidential election. Additionally, a report by Inclusive Development International criticized major index providers MSCI, FTSE Russell, and S&P Dow Jones for including companies with ties to Myanmar's junta in ESG indices, alleging that these companies aid the military regime and that promoting such investments violates OECD guidelines. This has prompted regulatory complaints in the US, UK, and Netherlands.
5. <https://www.reuters.com/breakingviews/trump-could-make-europes-stockpickers-great-again-2025-05-20/> - This article discusses how Donald Trump's tariff policies and increased defense spending may indirectly benefit European stockpickers, who have struggled in recent years with competition from passive investment funds and U.S. markets. European active fund managers like Schroders, DWS, and Aberdeen could become more attractive due to a combination of declining U.S. asset appeal and Europe's comparatively stable political and fiscal environment. From 2022 to 2023, European active funds experienced a net outflow of investor capital in 18 out of 24 months, largely due to the rise of passive investment vehicles. However, shifting global dynamics—including the fallout from U.S. tariffs and a European defense spending boom—are creating opportunities that favor active over passive management. This trend has already led to a modest revival, with European active equity funds consistently attracting inflows since January 2024, and outperforming U.S. funds in attracting new capital.
6. <https://www.pionline.com/investing/private-credit-sustainability-top-priorities-european-pension-funds-gsam> - This article reports on a survey by Goldman Sachs Asset Management, which found that European defined benefit fund executives expect private credit and investment-grade debt to generate the highest risk-adjusted returns in 2024. Nine in 10 of the 126 survey respondents planned to increase or maintain their allocations to these asset classes. Regarding private credit, 68% of respondents believed it had the potential for increased returns without a corresponding increase in volatility, while two-thirds planned to allocate to this asset class over the next three to five years. The survey also found that nearly half of respondents (45%) allocate more than 20% of their total portfolios to sustainable investments.
7. <https://www.pionline.com/esg/sustainable-investing-will-have-ups-and-downs-big-picture-important-uksif-ceo> - This article features insights from James Alexander, CEO of the U.K. Sustainable Investment and Finance Association, who discusses the importance of sustainable investing despite recent challenges. He acknowledges that ESG-linked investing may experience 'ups and downs' but emphasizes the long-term significance of integrating ESG factors into investment decisions. The article highlights that, despite conflicting desires among trustees and beneficiaries and concerns over inflation, ESG-linked investing should remain a priority for investors. It also notes that a significant majority of people with financial investments are uncomfortable with their savings or pension funds being invested in companies that treat their workers, customers, and wider society badly.