Global Investor Study
The rise of the sustainable investor

Schroders

Marketing material

Contents

Overview

Sustainability is no small feat, requiring all of us to be more conscious of our impact and to work together to contribute to a more sustainable society. We spoke to more than 23,000 people, from 32 locations around the world, about their attitudes towards sustainable investing.

The sustainable investing conversation is gaining momentum, with people more engaged and eager to receive further information on the topic. The results identified several challenges that are preventing sustainable investing from becoming widely adopted. Whilst people see sustainability as a moral responsibility, it can be overshadowed by immediate financial motivations.

Perhaps even more encouraging is the acknowledgement that a more sustainable investment is likely to garner increased returns too.[1]

[1] 42% of respondents found sustainable funds attractive because they are more likely to offer higher returns

About this study

In April 2020, Schroders commissioned an independent online survey of over 23,000 people who invest from 32 locations around the globe. The locations included Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. This research defines "people" as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last 10 years.

Note: Figures in this document may not add up to 100 per cent due to rounding.

Findings in a nutshell

People need proof investments are sustainable
The largest proportion of people (34%) say that confirmation from an independent third party would give them confidence in an investment's sustainability, whereas 33% of people would feel just as confident if the certification came from the investment provider themselves.

Sustainability is intertwined with morality
77% of people wouldn't invest against their personal beliefs while 23% of people would do so for greater returns.

Environmental impact and higher returns are the main attraction to sustainable funds
Almost half (47%) of people around the world are attracted to sustainable investments because of their wider environmental impact. Positively, another 42% felt the reason they were attracted to sustainable funds is because they are likely to offer higher returns – showing that people expect profit and positive impact to go hand-in-hand.

Talk about it
65% of people are driving the topic of sustainable investing forward with their advisers; only 25% do so frequently. 45% of people claim their financial advisers only provide information on sustainable investing when prompted by them and only 16% receive this information unprompted.

A global responsibility
69% of people globally think national governments and regulators are responsible for mitigating climate change with more than half (59%) seeing this issue as something individuals should take responsibility for as well. Only 46% of people thought investment managers and major shareholders should be responsible for this, while 61% hold companies accountable.

Contributing to a sustainable society
47% of people contribute to a more sustainable society by investing in sustainable funds rather than those that don't consider sustainability factors. This is an increase on 42% from 2018.

Companies should prioritise their impact on communities
Above all, people think a company's impact on communities and society is of key importance (70%). Closely behind is paying attention to environmental issues (67%) and treatment of staff (66%).

The proof is in the credentials

The sustainability landscape is evolving rapidly and with no common standards or definitions currently in place, people seek more information to be confident about what they're putting their money towards.

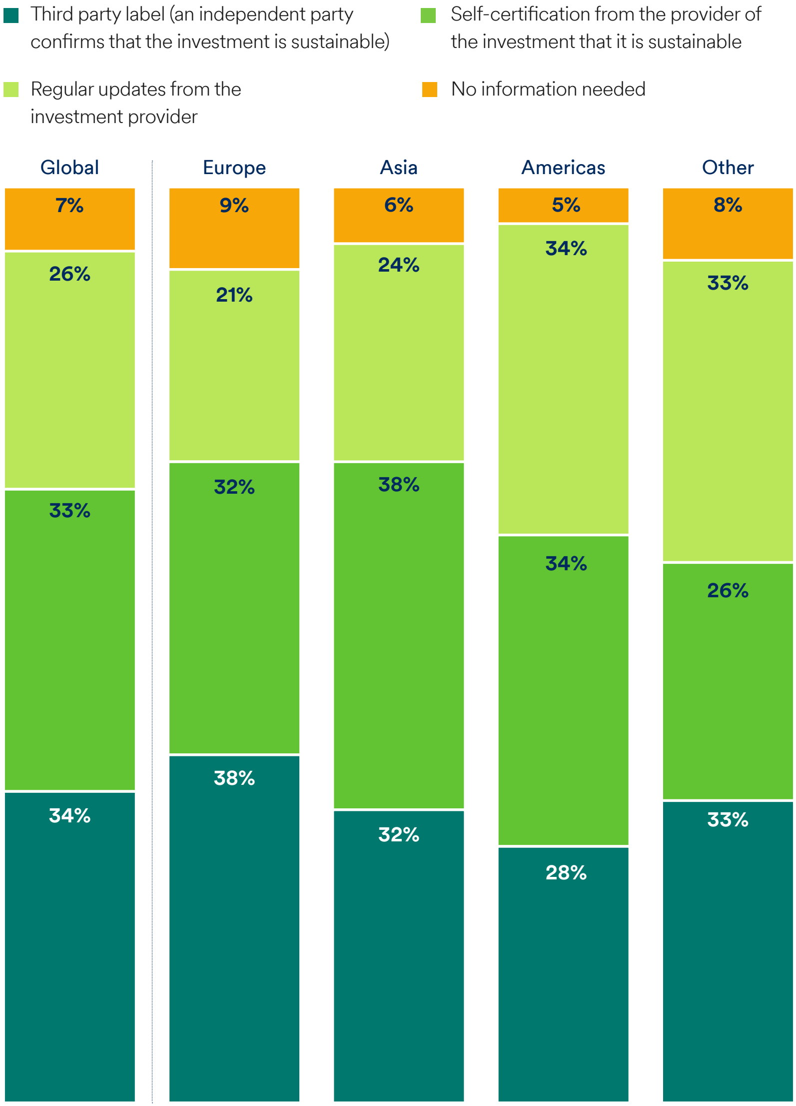
As a result, "greenwashing" (providing misleading information about the sustainability of a company and its products) makes it harder for those truly invested in making greener, or more sustainable, decisions to confirm claims are authentic.

Therefore, it comes as no surprise that in order to be confident in the sustainability of an investment, 93% of people around the world said they required more information on what a company classifies as "sustainable".

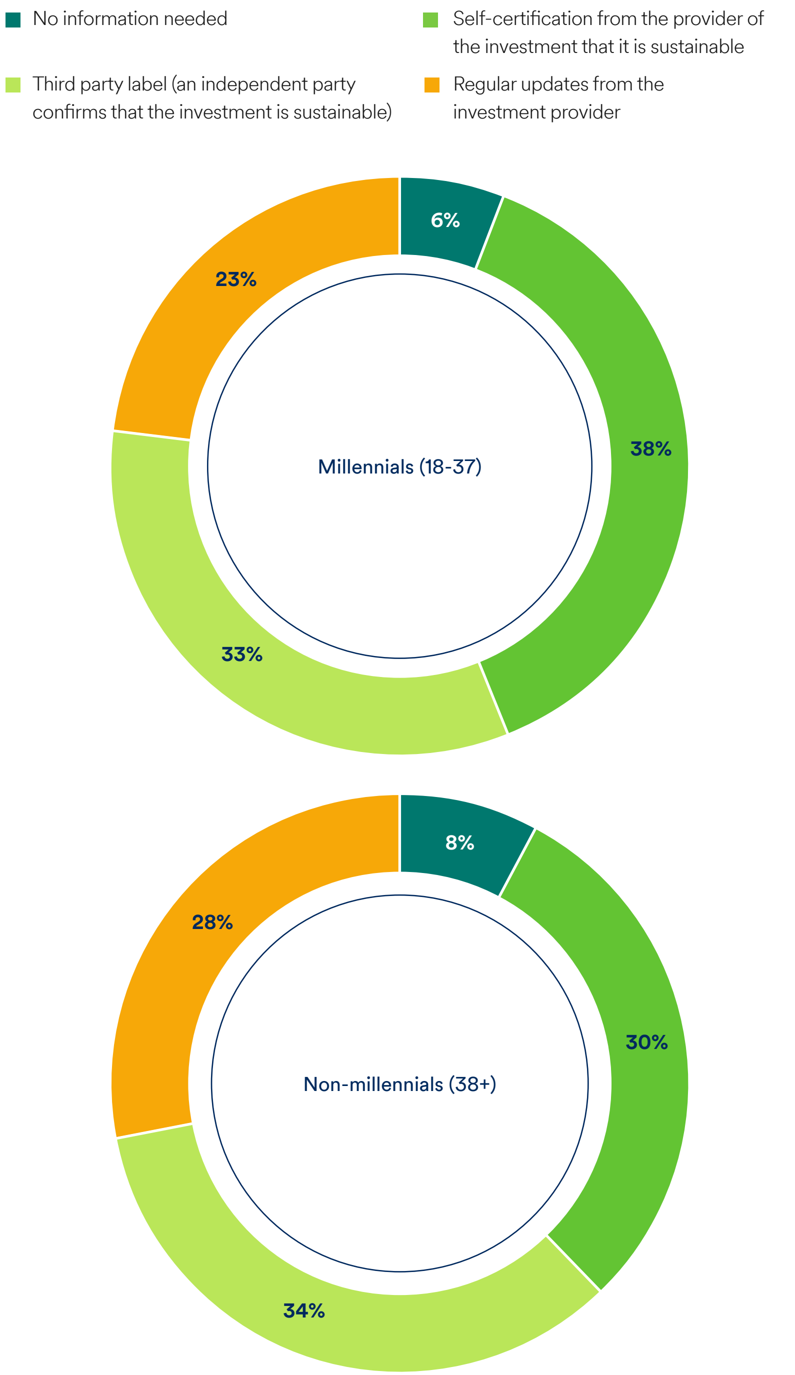
And, given that 72% of people obtain knowledge on their personal financial matters through their own research, it is easy to see how the role of information on the sustainability of investments is set to become increasingly valuable, both for the everyday investor and investment providers.

While the largest proportion of people (34%) say that confirmation from an independent third party would give them confidence in an investment's sustainability, an almost equal proportion (33%) of people would feel just as confident if the certification came from the investment provider themselves. However, more than a quarter of people (26%) forgo the need for a sustainability "stamp of approval", in favour of receiving regular updates from an investment provider instead.

Type of information required to be confident in the sustainability of an investment



Amount of information required to confirm the sustainability of an investment, by age group



Looking at the requirement for investment sustainability credentials by region, there is an overwhelming consensus on the need for information and only a few subtle differences regarding the preferred type of information. While 38% of Europeans prefer sustainable funds to be accredited by a third party, only 28% of people in the Americas favour this method, where instead there is an equal preference (34%) for self-certification and regular updates from investment providers.

Locations in the "Other" category (Australia, UAE and South Africa) are the most sceptical about self-certified sustainable investments with only 26% of people from these countries saying this method would suffice. There is instead a clear preference for either third-party labels or regular updates from an investment provider, in equal measure (33%).

When comparing opinion between millennials and non-millennials, it seems that millennials aren't as concerned about self-certification (38%) as non-millennials (30%) who feel most confident with a third-party label (34%).

Interestingly, there were no notable differences in preference for specific kinds of information whether people regarded themselves as beginner or expert investors. This implies that people at all levels of the investment knowledge spectrum require multiple kinds of information in order to feel confident about the sustainability of an investment.

58% of people say their trust in an investment provider is undermined if there is a lack of visibility of sustainability credentials, compounding the importance of this kind of information.

It's also a quick win for financial advisers and investment providers. With increasing regulation in this area, information is becoming more readily available. Making it more accessible is a great way to not only educate on the topic, but also to increase consumer trust.

The investment compass

Virtuous investors by location

Location	Would not invest against their personal beliefs	Would if the returns were higher
China	90%	10%
Italy	82%	18%
Portugal	82%	18%
Belgium	81%	19%
Sweden	81%	19%
Denmark	81%	19%
Switzerland	80%	20%
Russia	80%	20%
Taiwan	80%	20%
Australia	80%	20%
Germany	79%	21%
Netherlands	79%	21%
UK	78%	22%
France	78%	22%
Poland	78%	22%
Chile	78%	22%
Austria	77%	23%
Brazil	77%	23%
Spain	76%	24%
Japan	76%	24%
Mexico	76%	24%
Canada	74%	26%
UAE	74%	26%
Hong Kong	73%	27%
Argentina	73%	27%
South Africa	73%	27%
India	71%	29%
Indonesia	71%	29%
South Korea	69%	31%
Thailand	68%	32%
Singapore	67%	33%
US	67%	33%

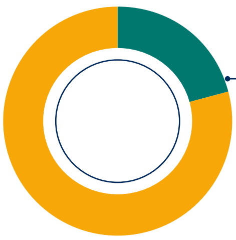
Money or morality? It's the ultimate dilemmma that people will be faced with more and more in this information age as it becomes increasingly impossible to "turn a blind eye". Nonetheless, our survey findings seem to show that when it comes to people's personal beliefs, for the most part, they aren't willing to budge.

How likely are investors to compromise their personal beliefs in favour of higher returns? Reassuringly, over three quarters of people (77%) would not invest against their personal beliefs, and the remaining 23% would do so, if the returns were higher. This is somewhat unsurprising as in last year's study, a majority of people believed their individual investment choices can make a difference to building a more sustainable world (60%).

And what is the price of making such a decision? Of the 23% who said they would be willing to invest against their personal beliefs, the average return on their investment would need to be 21% to adequately offset any guilt.

While the decision to invest in harmony with one's moral code is relatively unanimous across the board, the proportions do vary around the world.

What's your price?



21%

The average return people would need to invest against their personal beliefs

While people in China are the least likely to compromise their personal beliefs in favour of higher returns (only 10% would be willing to do so), people in Singapore and the US are more than three times more likely (33%) to invest against their personal beliefs.

There is an interesting pattern across generations as well, where millennials - often heralded as the more sustainability-conscious generation - are marginally more likely to compromise their personal beliefs in favour of higher returns than their older counterparts (25% would do so).

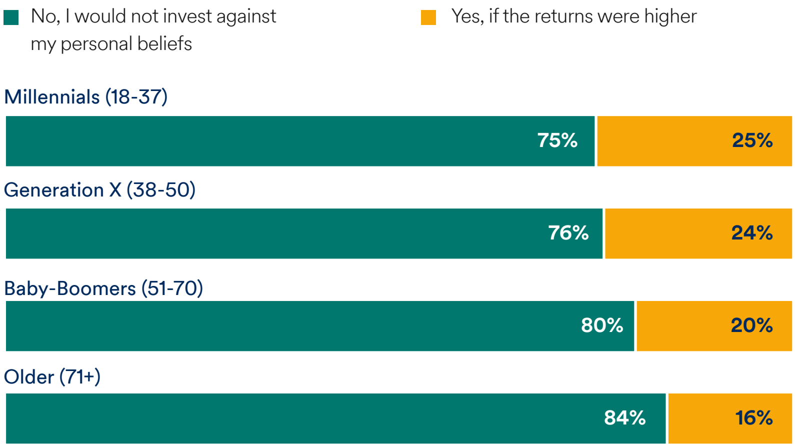
Also noteworthy is the difference in judgement between those who describe themselves as more advanced investors and those who are more novice.

While 82% of "beginner or rudimentary" investors would not invest against their personal beliefs, this figure decreases by 11% for the "expert or advanced" where 71% would be led by their moral compass, and 29% would prioritise financial gains.

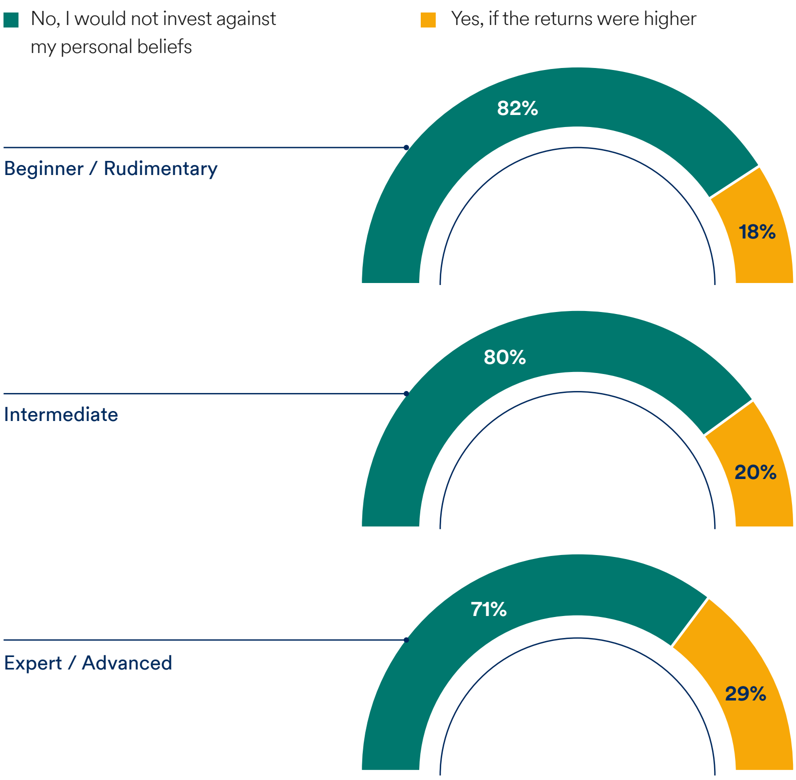
On the whole this is an immensely positive finding, showing that there is a big demand for funds that align with people's personal beliefs, meaning a sustainable investment approach will be comforting to many conscious investors.

> When it comes to people's personal beliefs, for the most part, they aren't willing to budge

Choice to invest against personal beliefs, by generation



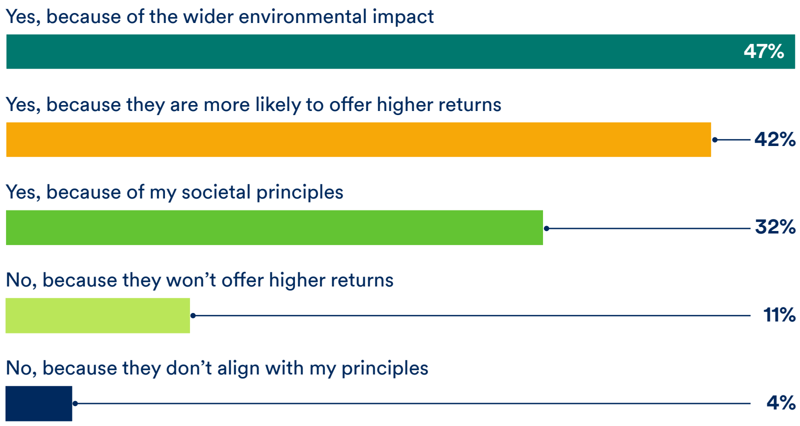
Choice to invest against personal beliefs, by level of investment knowledge*



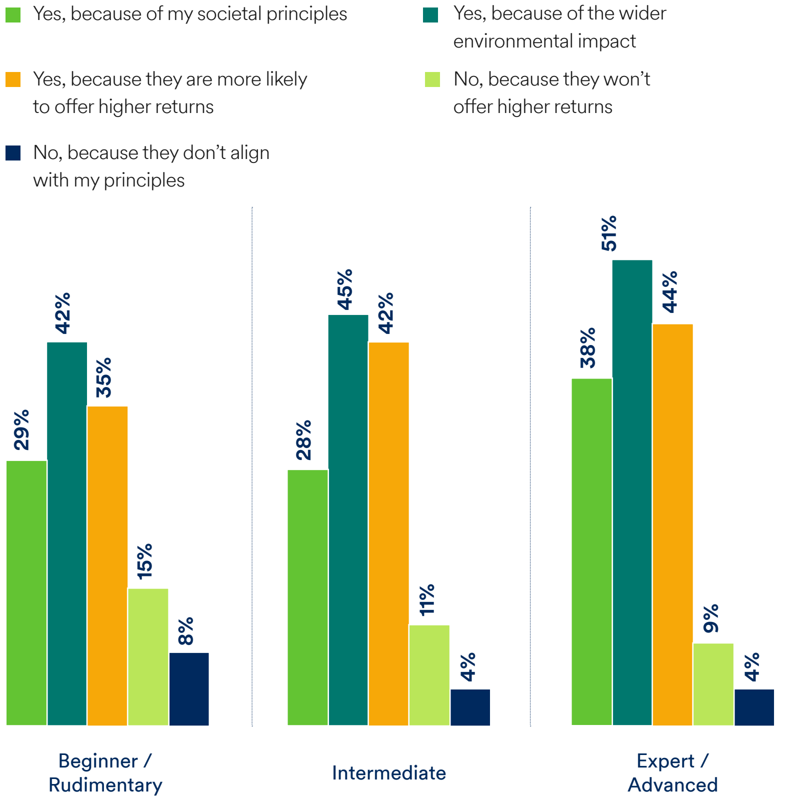
* Please note that the investment knowledge groups are self-allocated by respondents themselves

Why people choose to invest sustainably

Are sustainable investments attractive?



Attractiveness of sustainable investments, by investment knowledge group*



* Please note that the investment knowledge groups are self-allocated by respondents themselves

It would seem that sustainable investing is as much a personal decision as it is best practice. So what is it exactly that attracts people to sustainable investments?

Almost half (47%) of people around the world are attracted to sustainable investments because of their wider environmental impact, showing that the ability to do good is a greater motivator than a likelihood of offering higher returns (42%).

While many people acknowledge the virtues of sustainable investing, there is a small minority (11%) that don't regard them as an attractive investment opportunity because they believe they won't offer higher returns. This is a very encouraging statistic as it shows that the majority of people acknowledge there is no sacrifice of higher returns for more sustainable funds.

An even smaller minority (4%) believe sustainable funds to be an unattractive proposition because they don't align with their principles.

While there were no regional or generational differences of note, there is an interesting pattern that emerges when we look at the attractiveness of sustainable funds according to the level of investment knowledge.

Expert or advanced investors are the most likely to acknowledge sustainable investments as more likely to offer higher returns (44% compared with 35% of the "beginner or rudimentary" investor group). And when it comes to disregarding sustainable investments, beginner / rudimentary investors are twice as likely (8%) to do so than their intermediate and expert/advanced counterparts (4%). This is due to them not aligning with their principles.

Expert or advanced investors are the most likely to think sustainable investments are more likely to offer higher returns (44%) and the least likely to think it won't offer higher returns (9%). This shows an encouraging sentiment that people believe they don't have to sacrifice higher returns for sustainability.

Agents of sustainability

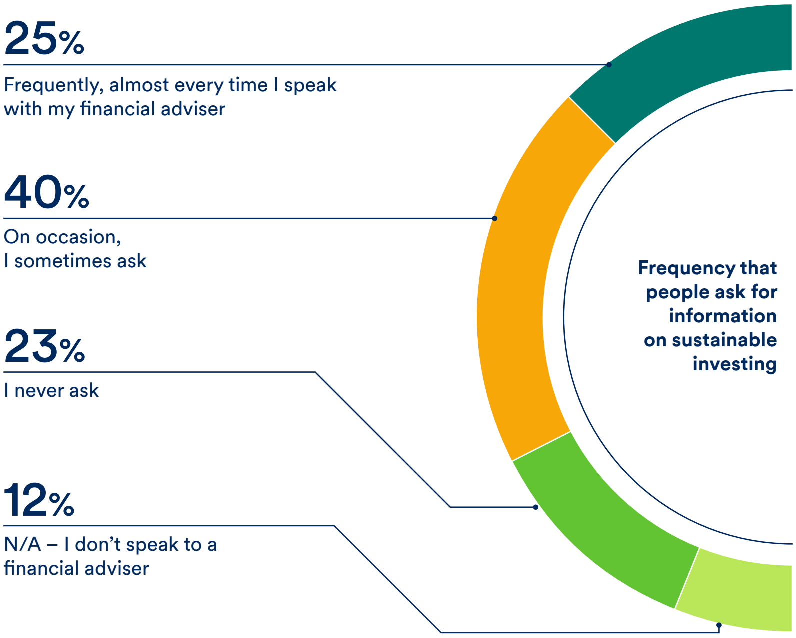
61% of people think financial advisers have a duty to ensure people have a sufficient level of financial knowledge. It is therefore interesting to look at how this dynamic plays out in the context of sustainable investing.

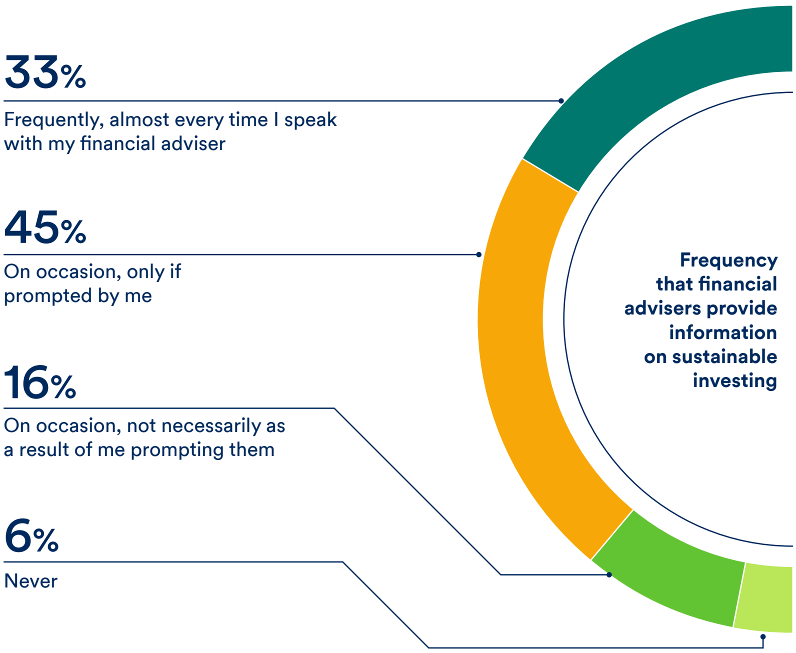
While 65% of people are driving the topic of sustainable investing forward with their advisers, 45% of people claim their financial advisers only provide information on sustainable investing when prompted by them and only 16% receive this information unprompted.

These results tell us that the majority of people are keen to discuss and learn more about sustainable investing, however, there is more to be done about making this top of the agenda so that both financial advisers and investors are having frequent conversations about sustainable funds.

“The majority of people are keen to discuss and learn more about sustainable investing

Who’s driving the sustainable investing conversation?



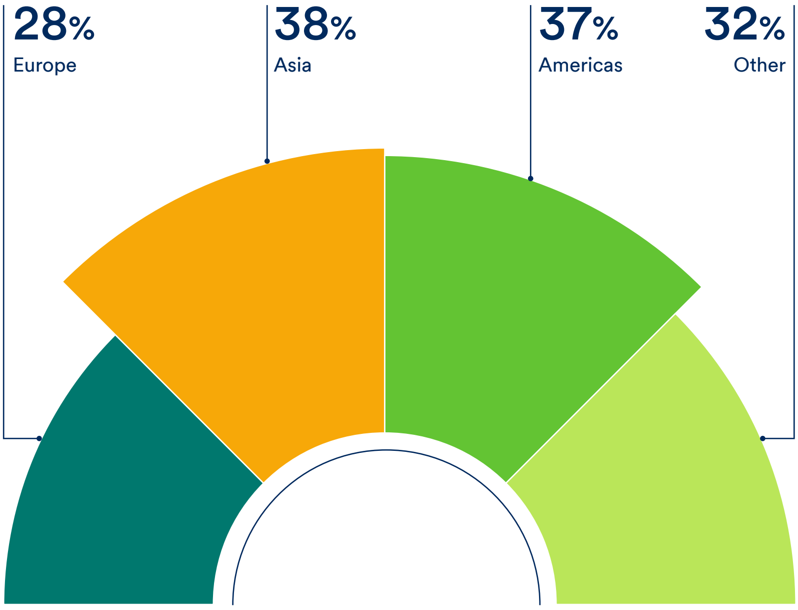


This experience is interestingly similar around the world, except for one notable difference. In Europe, people's financial advisers seem to be the least forthcoming with the sustainable investing conversation than any other region, with 28% of people saying they receive information on this frequently. This is compared with 38% of people in Asia and 37% in the Americas.

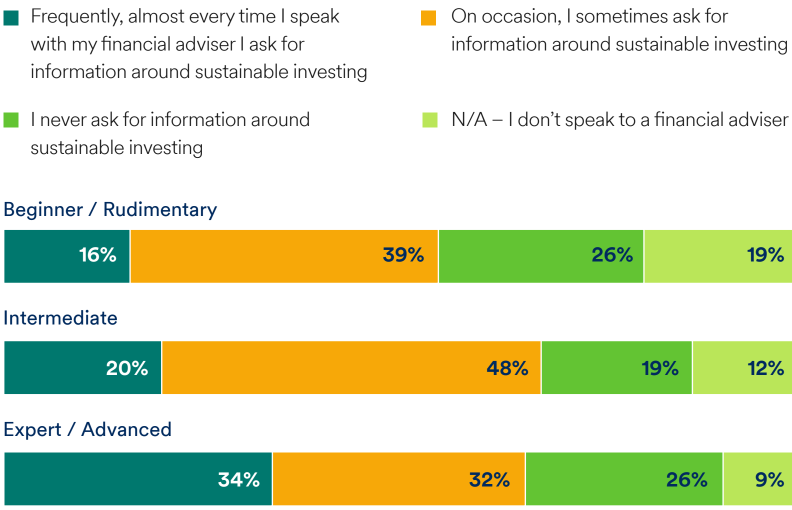
While we can see there's no real pattern in "asking occasionally" or "never asking for information" across the board, it is clear that expert or advanced investors are more likely to ask for information frequently than their intermediate or beginner or rudimentary counterparts. Expert or advanced investors are more than two times as likely (34%) than beginner or rudimentary investors (16%) to ask for information about sustainable investing almost every time they speak with their financial adviser.

Given that 80% of people said they would like to have either a medium or high level of financial knowledge, this certainly plays in the favour of sustainable investing. As access to information on the topic improves, so will people's knowledge on the subject.

Financial advisers providing information on sustainable investing, by region



People requesting information from financial advisers, by investment knowledge group*



* Please note that the investment knowledge groups are self-allocated by respondents themselves

Unconscious impact

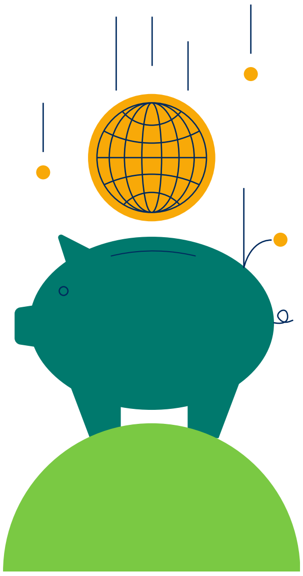
ESG (environmental, social, corporate governance metrics) in the investment industry has grown rapidly over the last few years with drivers coming from all angles, but there is still more to be done to make advisers to talk about it more frequently. Especially given how much of an impact it could have in solving global problems like climate change.

But who do people think is truly responsible for solving one of society's greatest challenges?

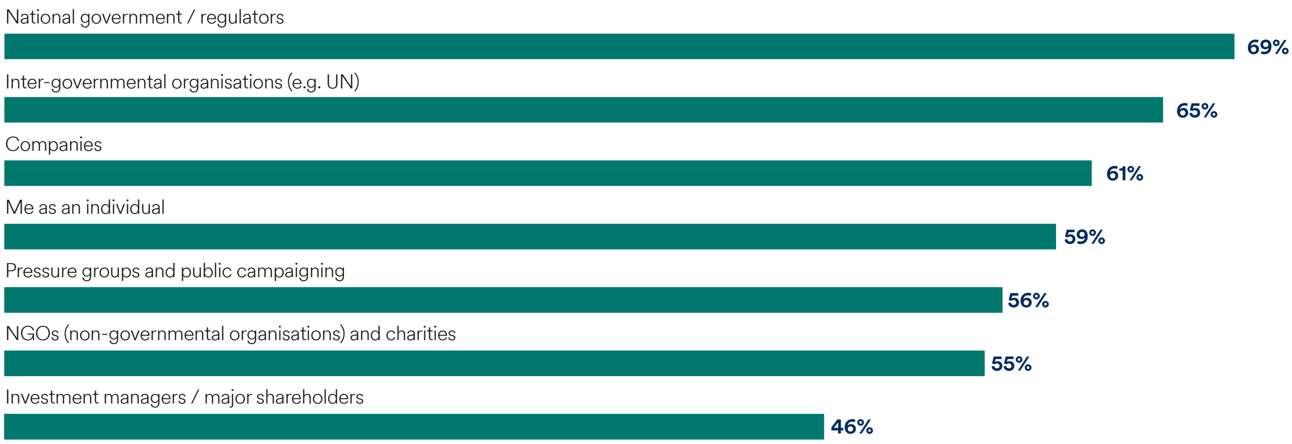
The proximity of the results affirms that this is something we all have a part to play in, though clearly to varying degrees. It should be noted that this global picture is also representative of the distribution of responsibility across regions as well.

69% of people globally think national governments and regulators are responsible for solving this problem with more than half (59%) seeing this issue as something individuals should take responsibility for as well.

The rising government debt to GDP ratio demonstrates that governments alone cannot finance the much needed investment to mitigate and manage the impacts of climate change. So, while 46% of people thought investment managers should be responsible, they clearly have a significant role to play, particularly as 61% of people held companies accountable too.



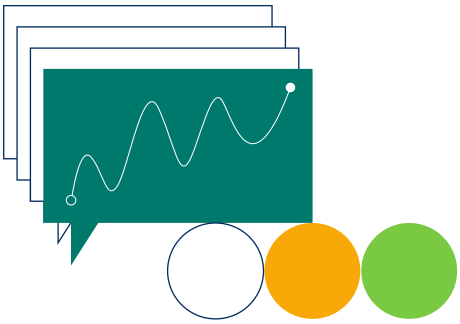
Who people think should be responsible for mitigating climate change



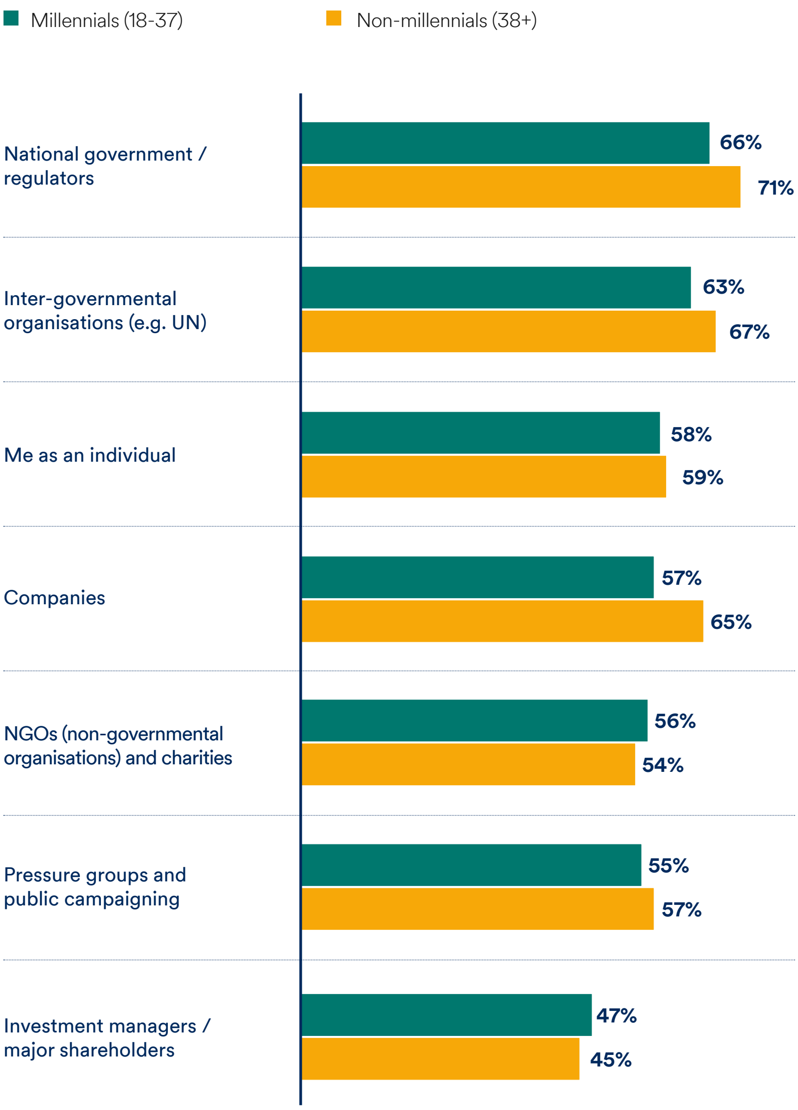
This is a noteworthy distinction people are making here, as it shows that they might not be aware of the influence investment managers and shareholders have on companies. Although 77% of people wouldn't invest against their personal beliefs, the lack of acknowledgement of investment managers' responsibility in mitigating something like climate change weakens the link between investments and their subsequent impact.

While there is no significant variation in opinion among investment knowledge groups, there are points to note when comparing millennials and non-millennials. Non-millennials place more responsibility on national governments / regulators (71%) in mitigating climate change than millennials (66%) and similarly with companies as well, 65% of non-millennials in agreement they should be responsible, while a smaller majority of millennials (57%) hold them accountable here.

Perhaps the most interesting aspect to consider is not the differences but the similarities. Millennials are often thought of as having a more sustainable mindset and being the most proactive generation in this space. However, given 58% of millennials compared with 59% of non-millennials believe themselves as individuals to be responsible for mitigating climate change, this suggests that in practice the opinions of the millennial generation on sustainability don't differ from any other generation.



Who should be responsible for mitigating climate change, by generation



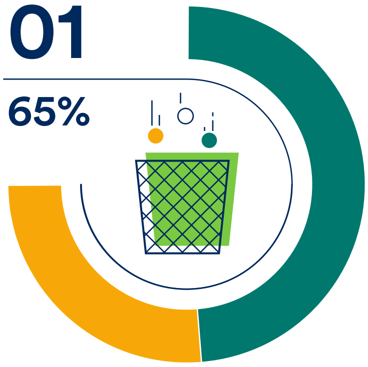
Invested in doing better?

Though people as individuals do not hold themselves as the most responsible in mitigating things such as climate change, they do undeniably contribute to a more sustainable society, from the brands they choose to shop with to the funds they choose to invest in – they all have an impact.

Ways that people frequently contribute to a more sustainable society

01

65%



I reduce or recycle my household waste

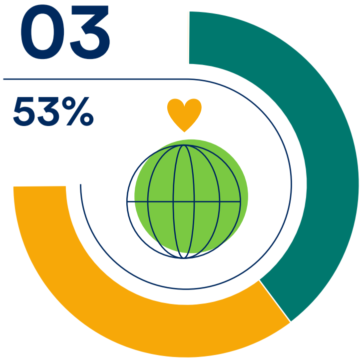
02

56%

I buy locally produced goods rather than goods that are transported over longer distances

03

53%



I avoid businesses who have a track record of controversies / are not socially responsible

04

52%

I consider my carbon footprint in my transportation and home energy decisions

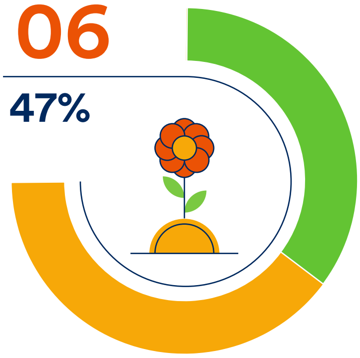
05

50%

I buy from businesses with a good record of social responsibility

06

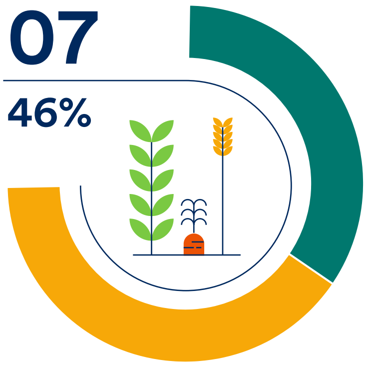
47%



I invest in sustainable investment funds rather than those that don't consider sustainability factors

07

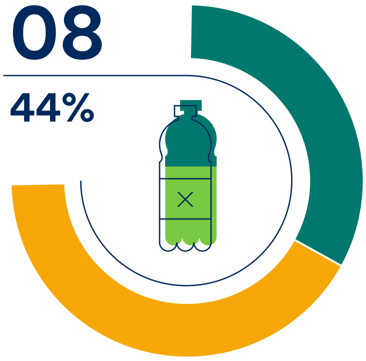
46%



All my food choices consider the environmental impact (e.g. vegan/ locally sourced etc.)

08

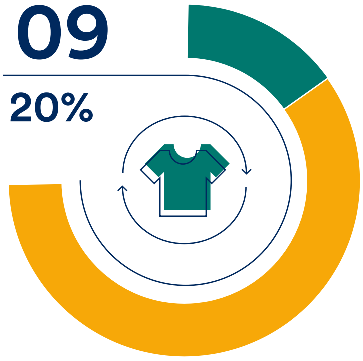
44%



I don't use single-use plastic

09

20%



I buy clothes second hand

As the sustainability conversation has developed with people more aware now than ever before of the impact of human activity on the planet and on communities, this has translated to encouraging levels of sustainable activities.

While 65% of people choose to reduce or recycle household waste, making it the most popular way for people to contribute to a more sustainable society, supporting "good" businesses and avoiding irresponsible businesses are also frequent contributions for around half of people around the world (50% and 53% respectively).

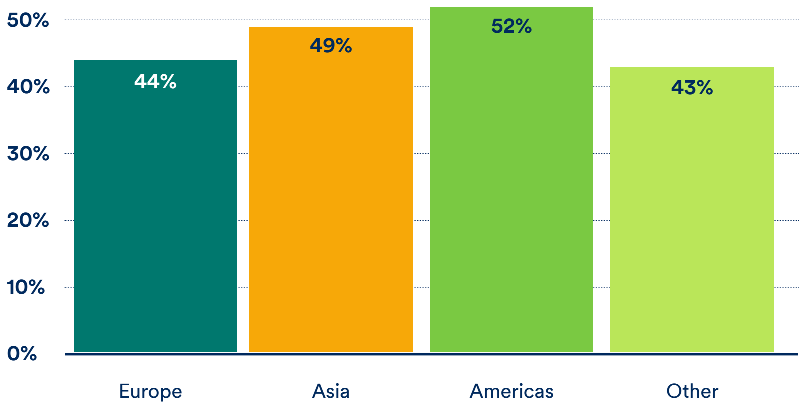
While investing in sustainable funds is middling on this league table of sustainability contributions, 47% of people choosing to contribute to a more sustainable society so frequently in this way is a significant portion. Especially given that an additional 35% of people sometimes contribute to a more sustainable society in this way too.

Even more encouraging is that this percentage is up 5% points from 2018's survey results (42%), suggesting change is certainly moving in the right direction.

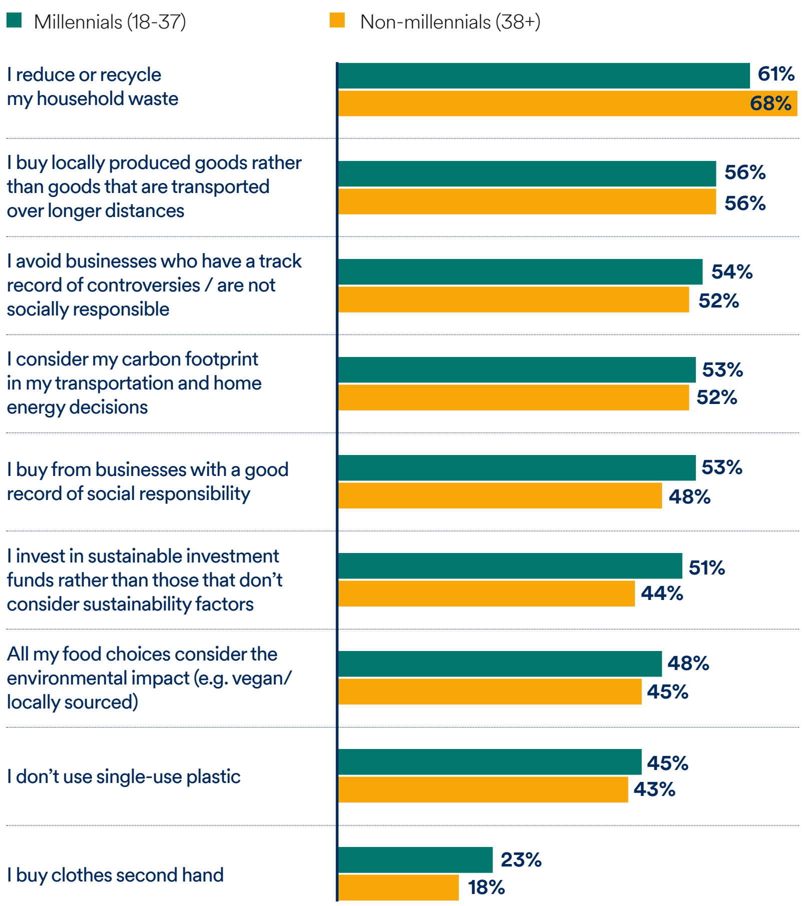
Looking at these results across regions, we can see how the popularity of sustainable investing has developed around the world. While people in the Americas are most likely to invest in sustainable investments (52%), they are followed closely by people in Asia (49%) with then only 44% of people in Europe frequently making this choice. The UAE, South Africa and Australia ("other") are least likely to invest in sustainable investments.

There are also some interesting points of difference across generations. While on the whole millennials and non-millennials contribute to a sustainable society in equal measure, non-millennials are more likely to reduce and recycle their household waste (68%) than millennials (61%).

Investment in sustainable funds around the world



Ways that people frequently contribute to a more sustainable society, by generation



The profit-planet conundrum

Although only 46% of people hold investment managers responsible for mitigating climate change, 58% of people think they should withdraw funds from the fossil fuel industry.

This conflict between the accountability of investment managers versus people's expectations of them shows for mitigating climate change, they still expect them to use their influence accordingly.

And while 41% of people think investment managers should remain invested in the fossil fuel industry, there are different reasons behind this view. 14% believe managers should stay invested as long as it is profitable.

> **"There are multiple interpretations of what it means to make responsible and sustainable investment decisions**

What should investment managers do with companies involved in the fossil fuel industry?*

*Please note numbers may not add to 100% due to rounding

This difference in approach to supporting fossil fuel companies shows that there are multiple interpretations of what it means to make responsible and sustainable investment decisions. So people will need to be sure of the credentials of their investments to ensure they align with their own principles.

Perhaps most interesting is that non-millennials are more likely to think managers should remain invested to drive change (31%) than millennials (23%), showing that perhaps the younger generation is more sceptical about the influence of investment managers than older generations.

What investment managers should do with companies involved in the fossil fuel industry, by investment knowledge group* **

* Please note that the investment knowledge groups are self-allocated by respondents themselves

**Please note numbers may not add to 100% due to rounding

> “Non-millennials are more likely to think managers should remain invested to drive change

Sustainability stakeholders

As key stakeholders of a sustainable future (and not just as investors), what kind of behaviours do people expect from the businesses they invest in?

While these high percentages demonstrate people think all of the listed behaviours are a priority for companies, which is very positive in itself, the results show that there are some clear frontrunners that companies can focus on.

Most important company behaviours

Above all, people prioritise a company's impact on communities and society, with 70% of people classing this as 'very important'. Closely behind is paying attention to environmental issues (67%) and treatment of staff (66%).

Items that focus more on the internal practices of a company feature as a lesser priority for people. For example, only 52% of people are likely to prioritise the diversity of a company's workforce and 56% are likely to think that pay gaps between executives and employees is very important for companies to address.

People clearly expect companies to prioritise the actions that have an impact on the wider environment and society.

When looking at the most important company behaviours according to investment knowledge group, the hierarchy of these behaviours remains the same. However, there is a notable trend whereby the expert and advanced investors are more likely to rate behaviours as important than those in the beginner and rudimentary investor group.

64% of expert and advanced investors rated these company behaviours as 'very important' on average, compared with 57% of beginner and rudimentary investors and 61% of intermediate investors.

While there was a consensus across regions and age groups, there were some interesting anomalies. For instance Europe was least likely to rate the importance of diversity of a company's workforce as ''very important'' (46%) - lower than the global turnout for this (52%).

Consolidating profit and impact

Out of these "sustainability indicators" it's important to consider how they consolidate all three pillars of sustainability – people, planet and profit.

Do people believe that a company's efforts to consider the environment or take care of their staff will translate to higher returns?

The findings here are really interesting on two counts. One is that the behaviours people deem to be the most important from a sustainability perspective are also deemed the most impactful on returns and these do generally correspond for each behaviour.

Second is that the most important behaviours (societal and environmental responsibilities) are considered marginally less likely to generate higher returns. Whereas the more internal practices, like treatment of staff and addressing pay gaps, are actually equally or more likely to be perceived to generate higher returns compared to their overall importance.

Encouragingly, this pattern is also discernible across regional and generational differences. This demonstrates that people across the board are connecting the dots between responsible company behaviour and increased ROI, concluding that responsible business might just be good for business after all.

Profit vs impact: do people think the most important company behaviours equate to strong returns?

Would people like to upskill their financial expertise?

It's clear that people are willing to take the necessary steps to become conscious investors.

The survey shows that people are attracted to a sustainable investing approach that encompasses environmental, social and governance matters, and genuinely believe such an approach can create stronger investment prospects.

Having enough information and knowledge on the sustainability of funds will be key to ensuring sustainable investing goes mainstream. The information gaps that exist now are a responsibility that investment managers and financial advisers are readily available to fill, which is encouraging for the progress of the sustainable investing conversation moving forwards.

Schroders commissioned Raconteur to conduct, between 30 April and 15 June 2020, an independent online study of 23,450 people in 32 locations around the world. This research defines "people" as those who will be investing at least €10,000 (or the equivalent) in the next 12 months and who have made changes to their investments within the last 10 years.

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