Schroders
Global Investor Study 2016

What investors think about responsible investing

Schroders

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The importance of environmental, social and governance issues, or ESG, are likely to gather momentum, suggest responses from investors and advisers in the Schroders Global Investor Study 2016.

Responsible or sustainable investment, as it is also known, has become a focus for the investment industry with the value of sustainable investments growing from $13trillion to $21trillion within two years.*

The Schroders Global Investor Study has gathered the views of 20,000 investors in 28 countries – each with the equivalent of at least €10,000 invested. 1,836 financial advisers also took part in the survey.

The key findings were:

– **ESG to gain momentum:** In addition to the 22% of advisers who think ESG is already an important element in fund recommendations, 62% of advisers expect ESG to become increasingly important within five years; among investors, ESG issues were more important to “millennials” – investors of the future - than to older generations.

– **A willingness to invest for longer in ESG:** The average current investment time horizon for global investors was 3.2 years but they would hold ESG investments an average of 2.1 years longer than their usual investments. 82% of investors were willing to give sustainable investments more time to succeed.

– **A gap between adviser and investor attitudes:** Advisers place less importance on ESG considerations when choosing investments than investors.

– **Willing to act on conscience:** The majority of investors would (at least) consider selling a successful investment if they discovered the investment was not conforming with ESG considerations.

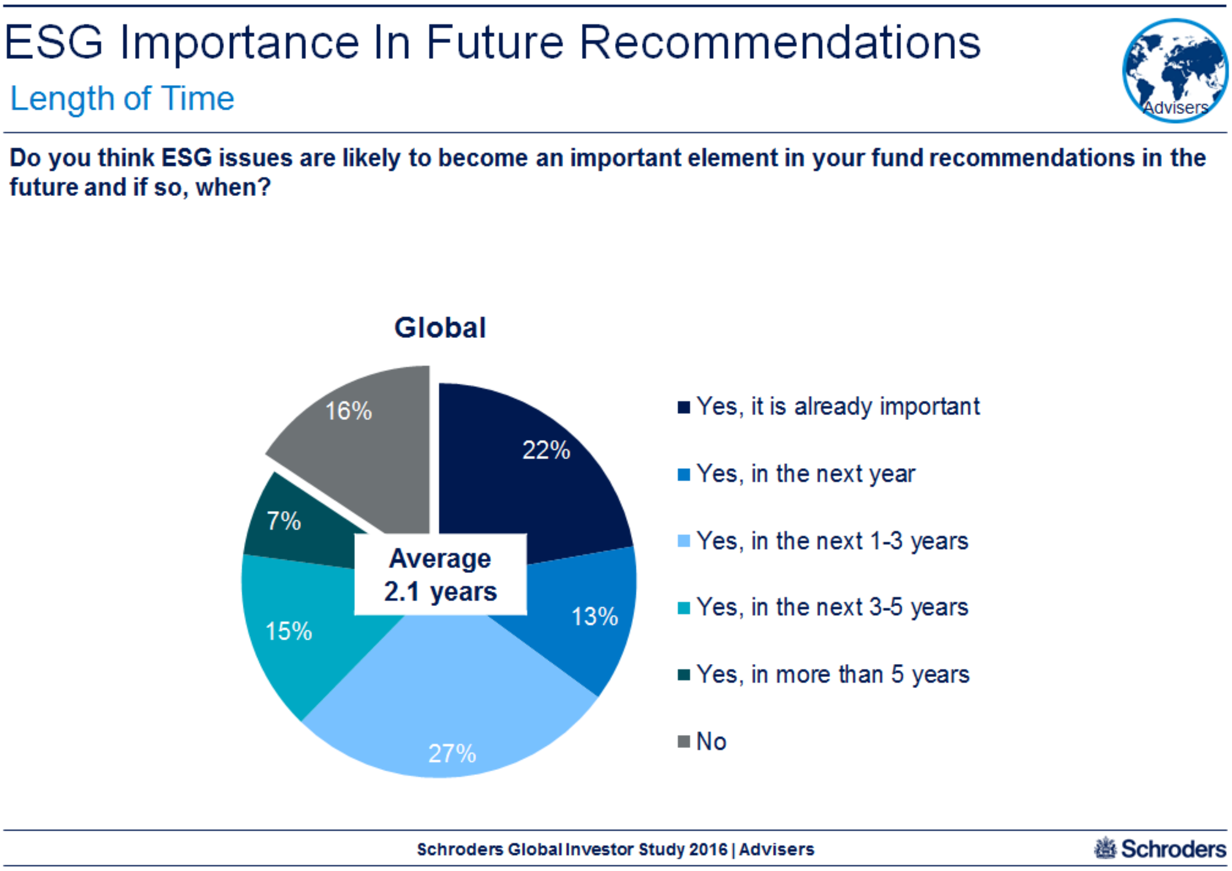
– **Geographical variance in attitudes:** The study unearthed differences in attitude between continents and countries. Investors in Asia and the Americas are most likely to base investment decisions on ESG factors; Europeans are least inclined.

ESG to gain momentum: evidence from advisers and millennials

Advisers, perhaps recognising the growing interest and scrutiny of policymakers, expect ESG issues to become an increasingly important element in their fund recommendations.

As the following chart shows, while ESG considerations are an important element in fund recommendations for around a fifth (22%) of advisers today, more than three-fifths (62%) expect them to be important within five years. In contrast, 16% of advisers are unable to envisage a time when they will ever factor ESG issues into their fund recommendations.

*The most recent figures from the Global Sustainable Investment Alliance estimated the value of sustainable assets grew from $13trillion to $21trillion between 2012 and 2014.



Interest in ESG among investors of the future is likely to rise. The study found that "millennials" – those born between the early 1980s and 2000 – already demonstrate greater sympathies on a range of issues.

Compared with older investors, millennials – those aged 18 to 35 – are likely to rate ESG issues as more important when choosing an investment. Investors were asked to rate the importance of ESG factors on their choice of investments, using a score out of 10, where 0=Not at all important to 10=Critical importance.

Table 1: The importance of ESG: Millennials vs. Over-35s

ESG element	Millennials	Over-35s
Good corporate governance	7.4	7.0
Social responsibility	7.3	6.7
Environmental impact	7.2	6.6
Positive local social outcomes	7.2	6.5
Positive global social outcomes	7.2	6.4
Average	7.3	6.6

The study shows how the importance of ESG factors decreases steadily up through the generations. Retired investors (aged 65+) offered the lowest average score at 5.8 followed by baby boomers aged 55 to 64 (6.2) and Generation X aged 35 to 54 (7.0).

Millennials also appear more inclined to stick with an ESG-oriented investment. Nine out of 10 (91%) of them – compared with three-quarters (76%) of investors aged over 35 – say they would delay quitting an investment in this type of product.

Millennials are also more likely to sell due to a range of concerns, shown below. The biggest discrepancy between age groups was on the issue of being in the news for the wrong reasons. On some issues, millennials attributed less importance than those aged 36+ (see below.)

The responses to these questions are explained in more depth later in the report.

Table 2: Millennials more likely to sell out of ‘sinful’ investments

Issue	Millennials	Aged 36+	Disparity
In news for wrong reasons, e.g. product recalls	31%	23%	8
Using tax minimisation schemes	31%	24%	7
Use of animal testing	36%	29%	7
Negatively contribute to climate change	32%	26%	6
Associated with tobacco or alcohol products	24%	18%	6
Poor record of social responsibility	36%	32%	4
Associated with gambling activities	31%	29%	2
Associated with weapons manufacturing/dealing	38%	37%	1
Associated with pornography/sex industry	37%	40%	-3
Links to repressive regimes	38%	42%	-4

Showing the proportions of those that would ‘definitely move’ their money out of an investment that was performing well, if they discovered it was invested in these types of companies.

A difference in attitude: advisers vs. investors

The average score for the importance of ESG issues among investors was 6.9 out of 10 compared to 6.6 for advisers.

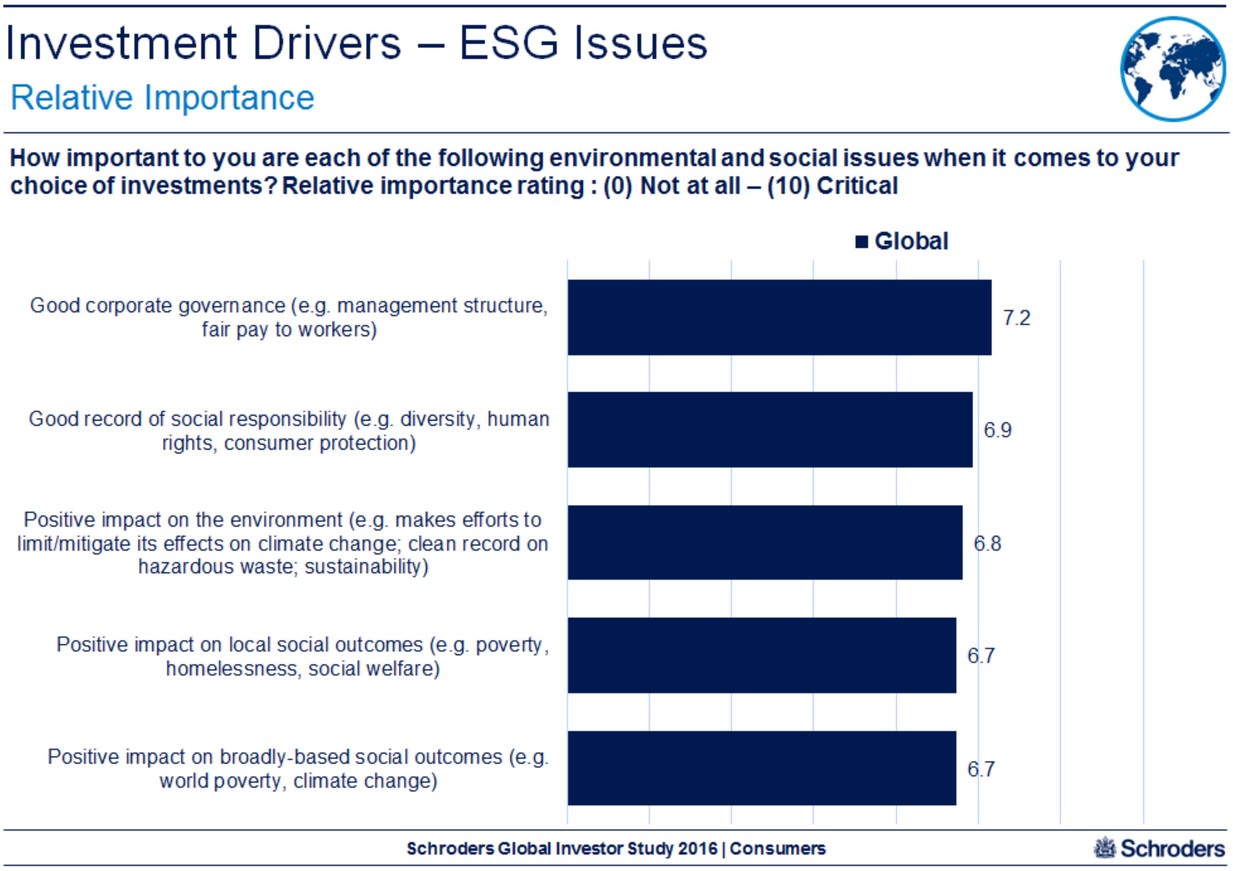
In the UK, investors gave an average score of 6.1 out of 10 compared to 5.4 for advisers. The gap was even wider in the US, with investors marking the average importance at 7.3 against 5.5 for advisers, and in Germany, with investors stating the importance at 6.5 compared to 5.6 for advisers.

However, when it came to specific issues, there were similarities in views.

When recommending investment products, advisers see a good corporate governance as the most important ESG issue, scoring an average of 7.0 out of 10. A good record of social responsibility (6.6), a positive impact on the environment (6.5), on local social outcomes, such as domestic poverty and homelessness (6.4) and on non-local social outcomes, such as climate change, (6.4) are accorded similar significance.

Consumers appear to have a similar set of priorities with good corporate governance (7.2) again rated the most important ESG issue. This was followed by a good record of social responsibility (6.9), a positive impact on the environment (6.8), local social outcomes (6.7) and non-local social outcomes (6.7).

Consumers



Advisers

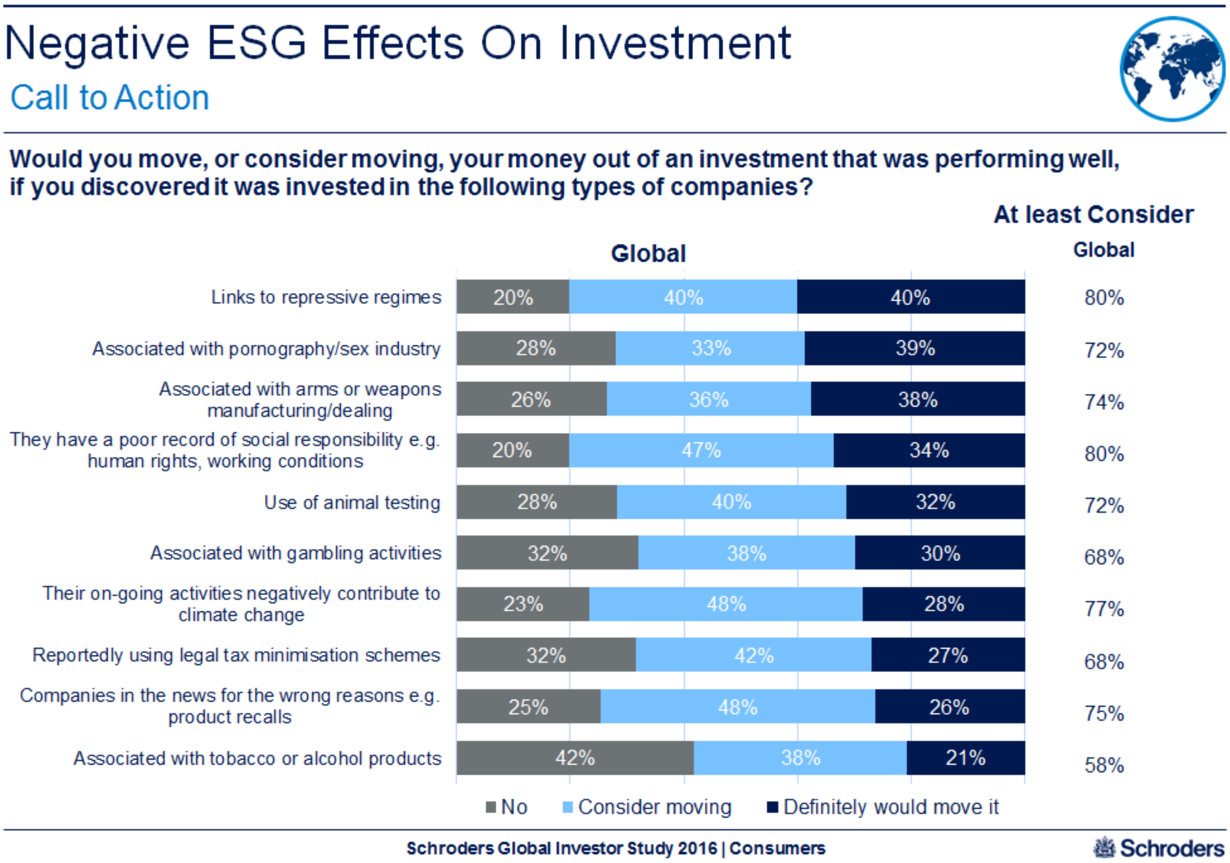
High scores from both investors and advisers on social responsibility and good corporate governance suggest both groups are coming to appreciate the importance of ESG considerations in proper risk management, recognising that poor corporate behaviour has the power to hurt returns over time.

In contrast, lower ratings for positive local outcomes and – particularly from advisers – positive global outcomes, such as climate change and world poverty, could suggest investors are yet to make a significant connection between better management of ESG issues and improved corporate performance.

There was also a diversity of response between investors and advisers when asked which issues would persuade them to sell investments.

Around two-fifths of investors said they would "definitely move" their money if they discovered it was invested in a company with links to repressive regimes (40%) or was associated with pornography or the sex industry (39%) or dealing or manufacturing arms (38%).

Consumers

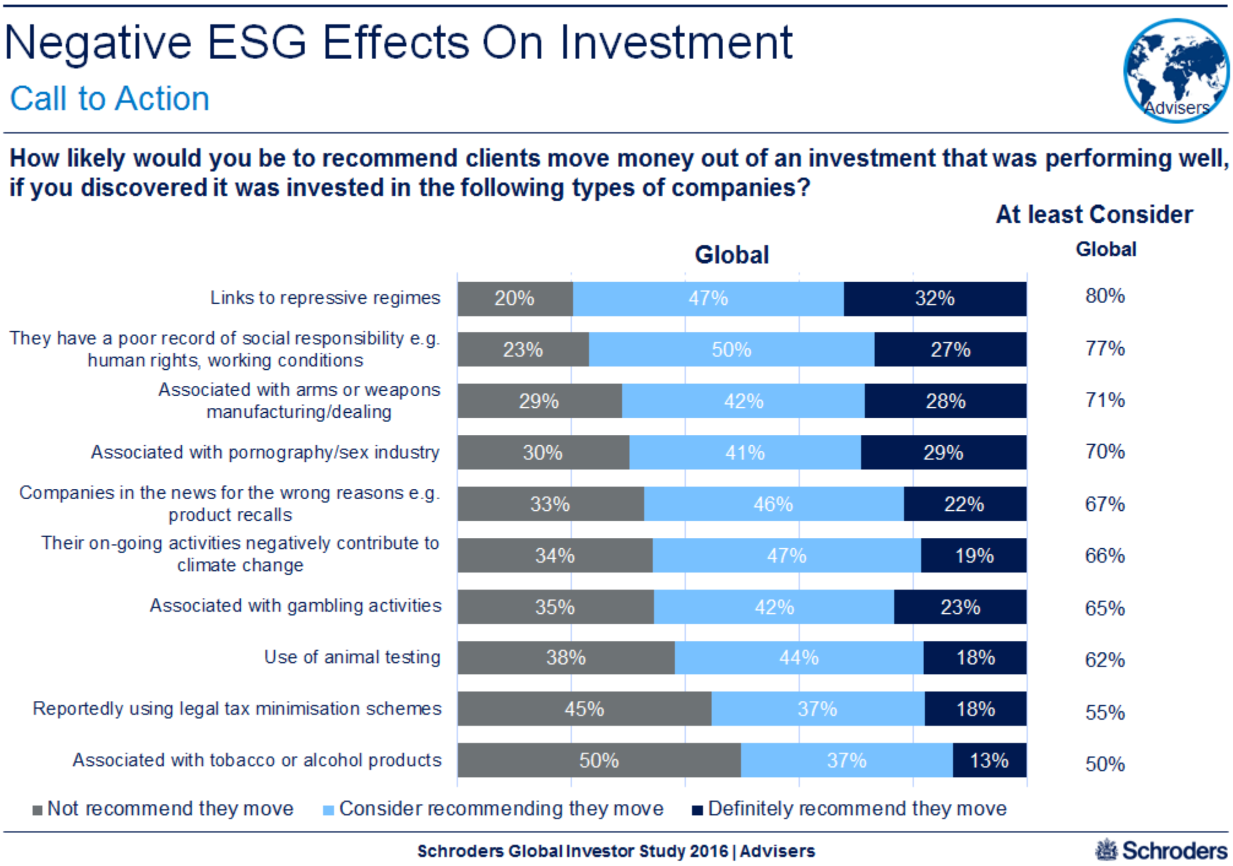


Less definitive but still potentially motivating factors – where in each case around half of investors would "consider moving" their money – were, if they discovered it was invested in a company that had a poor record of social responsibility (47%), negatively contributed to climate change (48%) or was in the news for the wrong reasons (48%).

In total, three-quarters (75%) of consumers would at least consider moving their money if a company was in the news for the wrong reasons, indicating both the value many place on reputation and brand and a broad recognition that these can be savagely dented by poor press.

Our study reveals negative ESG issues to be less emotive for advisers than for consumers – but again underlines the difficulty of framing broadly applicable ethical definitions. As the following chart shows, between a quarter and a third of advisers said they would "definitely recommend" a client move an investment if they discovered it was invested in a company with links to repressive regimes (32%),was associated with pornography/sex industry (29%), was dealing or manufacturing arms (28%) or with a poor record of social responsibility (27%).

Advisers



Time horizons

Just as problems associated with weak corporate governance can be slow to manifest themselves, so the benefits of good corporate governance take time to be realised. As such, the short time horizons of many investors – according to our study, the average period consumers usually leave money in any investment is 3.2 years – is a particular problem for investments with the potential to have a positive environmental or social impact.

When asked how much longer than usual consumers would stay invested in investment products with the potential to have a positive environmental or social impact, 60% said they would leave it up to 3 years longer. However, a significant minority (12%) were unwilling to give it any longer at all.

On average, investors would hold a sustainable investment for 2.1 years longer than usual.

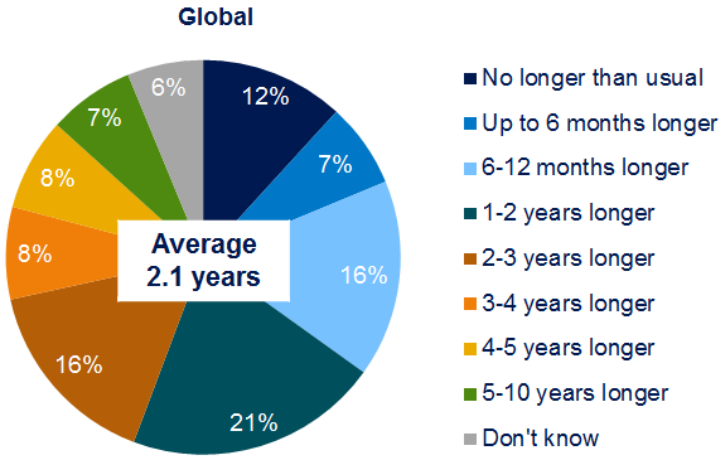
As the following chart shows, advisers are also prepared to give such investment products extra time.

Consumers

Positive ESG Effect On Investment

Length of Time

Investments with the potential to have a positive environmental or social impact may take time to achieve this. How much longer than usual would you stay invested in investment products like this?



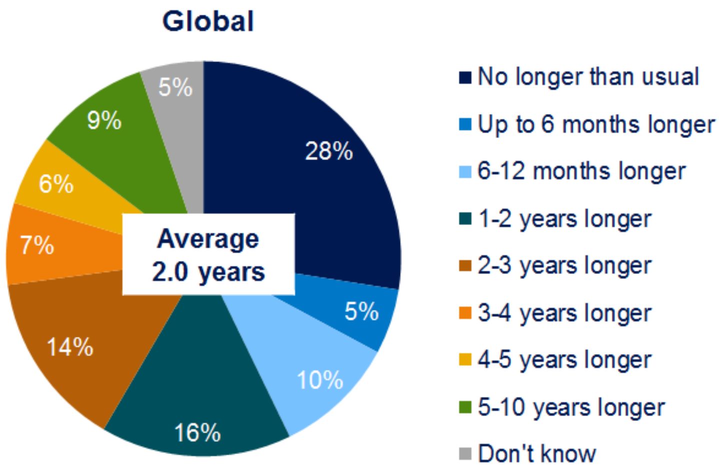
Advisers

Positive ESG Effect on Investment Recommendation

Length of Time

Advisers

Investments with the potential to have a positive environmental or social impact, may take time to achieve this. How much longer than usual would you recommend clients stay invested in investment products like this?



Levels of concern: geographical differences

The study mapped levels of concern about ESG, highlighting how it varied by country and by continent. Investors in Asia and the Americas scored ESG issues as more important than investors in Europe, as the table shows. Further tables within the appendix offer league tables of country results for each category.

Table 3: The importance of ESG issues when investing by region

Issue	Europe	Asia	Americas	GLOBAL
Good corporate governance (e.g. fair pay to workers, management structure)	6.8	7.4	7.7	7.2
Good record of social responsibility (e.g. diversity, human rights, consumer protection)	6.6	7.1	7.5	6.9
Positive impact on the environment (e.g. climate change policies)	6.5	7.0	7.3	6.8
Positive impact on local social outcomes (e.g. poverty, homelessness)	6.4	6.9	7.3	6.7
Positive impact on worldwide social outcomes (e.g. world poverty, climate change)	6.3	7.0	7.2	6.7

Level of importance when making investment decisions, average rating on the scale: 0=Not at all important – 10=Critical

Conclusions

Environmental, social and governance issues are increasingly commanding the attention of policymakers. Poor behaviour by companies – particularly high-profile episodes, such as the Volkswagen emissions scandal in 2015 – has an increasingly far-reaching impact and investors can expect more scrutiny and supervision of corporate behaviour and greater sanctions for businesses that fall short.

This should only serve to make ESG a more important consideration for shareholders, as both a risk management tool and a source of higher-growth investment ideas.

It should also lead to a change in adviser and consumer attitudes. ESG factors may be currently viewed more as a “nice to have” but they will increasingly form an integral part of any diligent investment analysis. Ultimately, investors might pay the price for not factoring in the full future costs for how a company conducts itself today.

Over the longer term, this trend looks set to gain momentum as millennials reach their peak earning years and impose their views on the way their money is invested. More immediately, where policymakers lead, companies and investors will have to follow.

Appendix

Table 4: The level of importance investors place on positive environmental impact by country

Country	Score
1. Indonesia	8.5
2. Brazil	8.2
3. China	7.7
4. Chile	7.6
4. India	7.6
4. Thailand	7.6
7. South Africa	7.3
7. Taiwan	7.3
9. US	7.2
10. UAE	7.1
10. Italy	7.1
10. Russia	7.1
13. Portugal	6.9
14. Spain	6.8
15. France	6.7
15. South Korea	6.7
17. Hong Kong	6.6
17. Singapore	6.6
19. Canada	6.5
20. Germany	6.4
20. Poland	6.4
22. Australia	6.2
23. Sweden	6.1
23. Switzerland	6.1
25. Belgium	6.0
25. UK	6.0
27. Netherlands	5.9
28. Japan	5.6

Level of importance a positive impact on the environmental has when making investment decisions; average rating on the scale: 0=Not at all important – 10=Critical

Table 5: The level of importance investors place on good corporate governance by country

Country	Score
1. Indonesia	8.7
2. Brazil	8.4
3. Thailand	8.0
4. China	7.9
5. Chile	7.8
5. India	7.8
5. Russia	7.8
8. South Africa	7.7
8. Taiwan	7.7
10. US	7.6
11. UAE	7.4
11. Italy	7.4
13. South Korea	7.3
14. Portugal	7.2
15. Spain	7.1
15. Hong Kong	7.1
17. Singapore	7.0
17. Canada	7.0
19. Germany	6.9
20. France	6.8
20. Poland	6.8
20. Australia	6.8
23. Switzerland	6.5
23. Sweden	6.5
25. UK	6.4
26. Belgium	6.2
26. Japan	6.2
28. Netherlands	5.9

Level of importance good corporate governance has (e.g. management structure, fair pay to workers) when making investment decisions; average rating on the scale: 0=Not at all important – 10=Critical

Table 6: The level of importance investors place on good social responsibility by country

Country	Score
1. Indonesia	8.4
2. Brazil	8.3
3. Thailand	7.8
3. China	7.8
3. Chile	7.8
6. India	7.7
7. Russia	7.4
7. South Africa	7.4
7. Taiwan	7.4
7. US	7.4
11. UAE	7.3
12. Italy	7.2
13. Spain	7.1
14. Portugal	7.0
15. Canada	6.8
16. South Korea	6.7
16. Hong Kong	6.7
18. Singapore	6.6
18. France	6.6
18. Poland	6.6
21. Germany	6.5
22. Australia	6.4
23. Switzerland	6.1
23. UK	6.1
25. Sweden	6.0
25. Belgium	6.0
27. Netherlands	5.9
28. Japan	5.8

Level of importance a good social responsibility record has (e.g. diversity, human rights, consumer protection) when making investment decisions; average rating on the scale: 0=Not at all important – 10=Critical

Table 7: The level of importance investors place on local social outcomes by country

Country	Score
1. Indonesia	8.4
2. Brazil	8.1
3. Thailand	7.8
4. Chile	7.7
5. China	7.6
5. India	7.6
7. UAE	7.3
8. Russia	7.2
8. US	7.2
10. South Africa	7.1
10. Taiwan	7.1
12. Italy	7.0
13. Spain	6.9
13. Portugal	6.9
15. Hong Kong	6.8
16. Canada	6.6
16. South Korea	6.6
16. France	6.6
19. Singapore	6.5
19. Poland	6.5
21. Germany	6.2
21. Australia	6.2
23. UK	5.9
24. Switzerland	5.8
24. Sweden	5.8
24. Belgium	5.8
27. Netherlands	5.7
28. Japan	5.3

Level of importance that a positive impact on local social outcomes (e.g. poverty, homelessness, social welfare) when making investment decisions; average rating on the scale: 0=Not at all important – 10=Critical

Table 8: The level of importance investors place on worldwide social outcomes by country

Country	Score
1. Indonesia	8.3
2. Brazil	8.1
3. Thailand	7.7
4. China	7.6
4. India	7.6
6. Chile	7.5
7. UAE	7.2
7. US	7.2
7. Taiwan	7.2
10. South Africa	7.1
11. Russia	7.0
11. Italy	7.0
13. Spain	6.9
14. Portugal	6.8
15. Hong Kong	6.7
15. South Korea	6.7
17. Singapore	6.6
18. Canada	6.5
19. France	6.4
19. Poland	6.4
21. Germany	6.3
22. Australia	6.1
23. UK	5.9
24. Switzerland	5.8
24. Sweden	5.8
24. Belgium	5.8
24. Netherlands	5.8
28. Japan	5.6

Level of importance that worldwide social outcomes (e.g. world poverty, climate change) has when making investment decisions; rating on the scale: 0=Not at all important – 10=Critical

Notes: About the Schroders Global Investor Study 2016

Schroders commissioned Research Plus Ltd to conduct, between 30 March and 25 April 2016, an independent online survey of 20,000 investors in 28 countries around the world, including Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, the Netherlands, Spain, the UK and the US. This research defined 'investors' 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 five years. These individuals represent the views of investors in each country included in the survey. 1,836 independent financial advisers were also surveyed between 7th – 29th April 2016 and these individuals represent the views of advisers in each of the eight countries included in the survey; Australia, Germany, Italy, Hong Kong, South Korea, Singapore, the UK and the US. Please note, where percentages do not add up to 100%, this is due to decimal rounding or a multi-coded question.