



ESG Investing: Do Values Drive Action?



In partnership with: marketcube

Why Research ESG?



Kiplinger

Investing with a Conscience: The Rise of ESG and What Really Matters to Investors



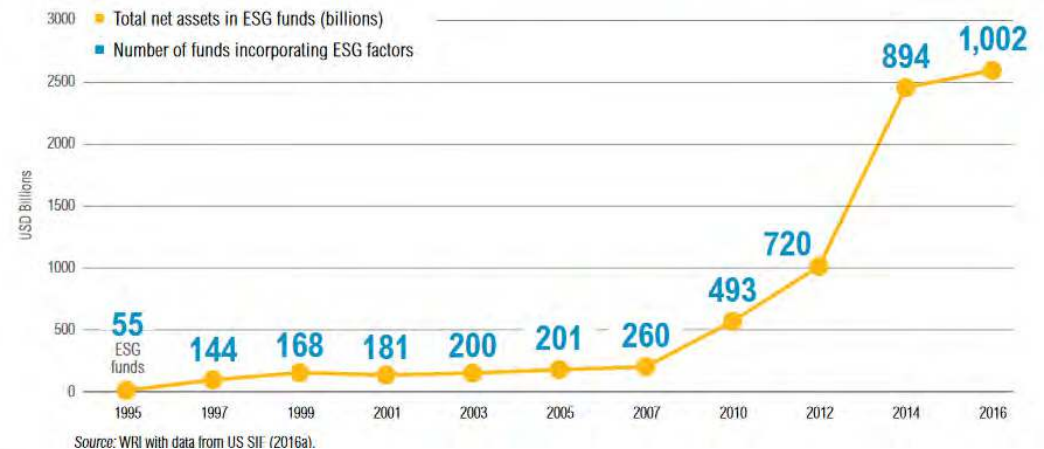
What is ESG Investing?

FIGURE A
Sustainable and Responsible Investing in the United States 1995–2018



SOURCE: US SIF Foundation.

Figure 3 | US funds incorporating ESG criteria have increased dramatically in the last decade



Source: WRI with data from US SIF (2016a).



Why It's Time to Finally Worry about ESG

BARRON'S
How ESG Investing Can Boost Returns

Forbes
The Remarkable Rise Of ESG

What we did...



Online, quantitative survey with

1000

current (n=768) and
likely investors (n=232)



Qualifications:

- Ages 23-73
- Financial decision-maker for HH
- HHI \$40,000+
- Have/plan to have an investment account



National Sample

- Partnered with MarketCube for fielding and panel



15-minute median
survey length



Survey conducted between
May 15 and May 26, 2019



A copy of the
questionnaire is available
upon request



Two **webcam focus groups** with
financial advisors



National Sample

- Partnered with Schlesinger and Civicom for recruiting/platform

Do values drive action?



Actions Taken Based on Values

% of Current Investors Have Done This / Currently Do This

Choose to purchase goods that were Made in America vs. in another country



58%

Take actions specifically to help the environment (vs. because it was required or saved you money)



56%

Choose to purchase goods/services from a company because of its positive actions or values



54%

Boycott a company because of its negative actions or values



42%

Post on social media about an issue that concerns you



38%

Evaluate corporate actions/values before making a decision to invest in the company financially



27%

Evaluate companies included in your 401k, MFs, ETFs to make sure their values align with yours



22%

Ensuring companies align with your values takes a backseat.



Considerations in the Investment Decision

Mean % Allocated

Ensuring the companies you invest in align to your personal values



Recommendation from a financial professional or other source(s)



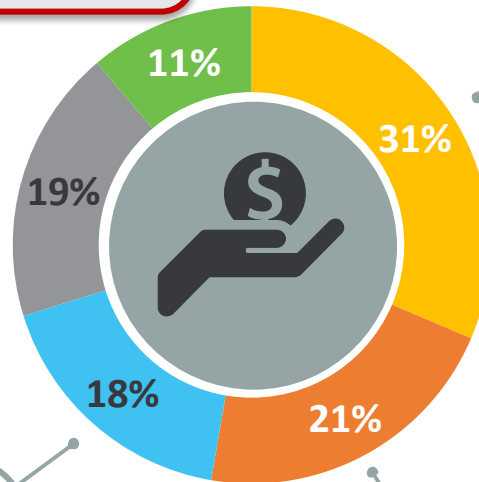
Cost/Fees for investment



Expected return on investment



Potential risk of the investment





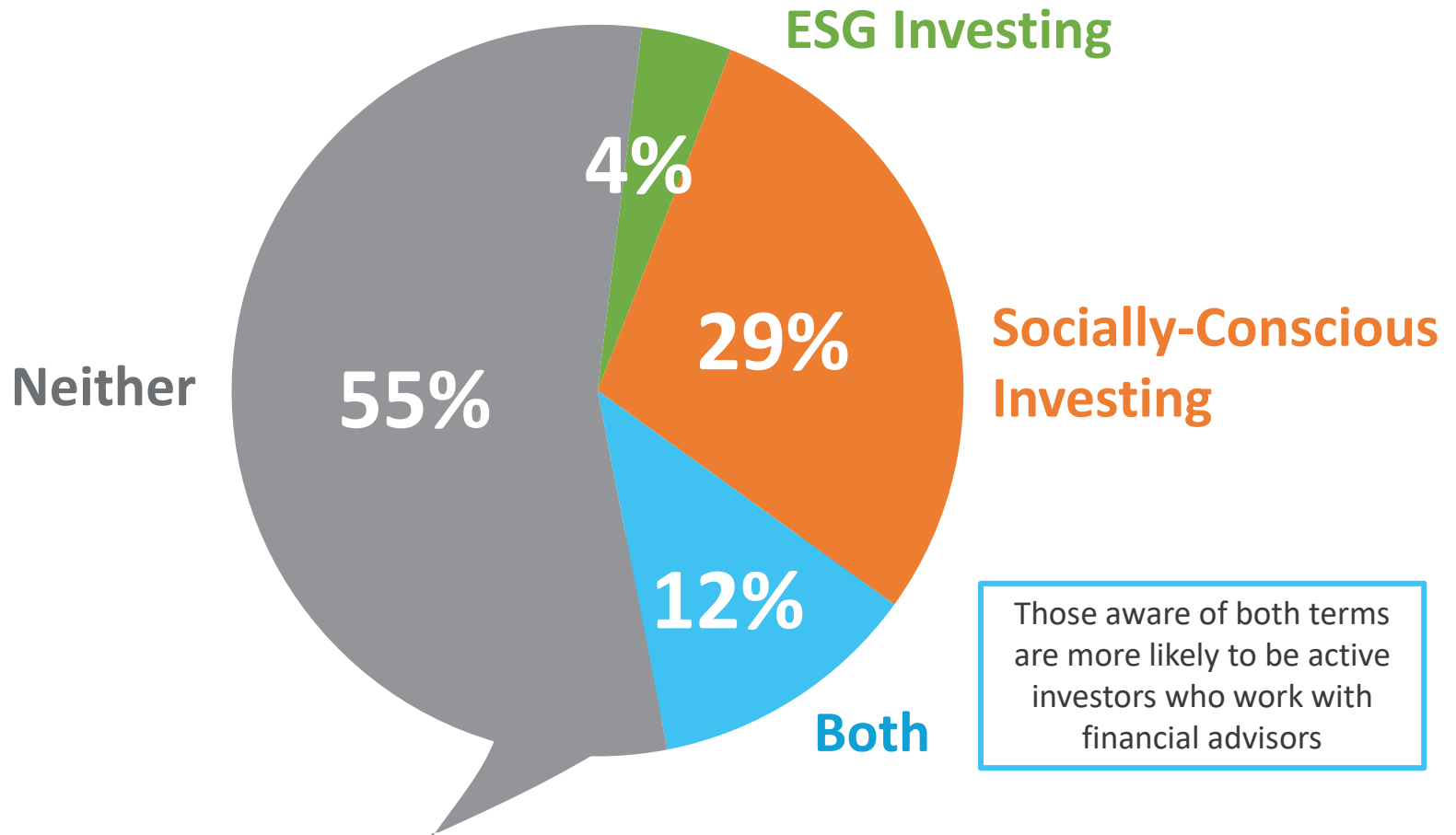
Perceptions of ESG Investing

The terminology is not commonly known.



ESG vs. Socially-Conscious Terminology

% Selected





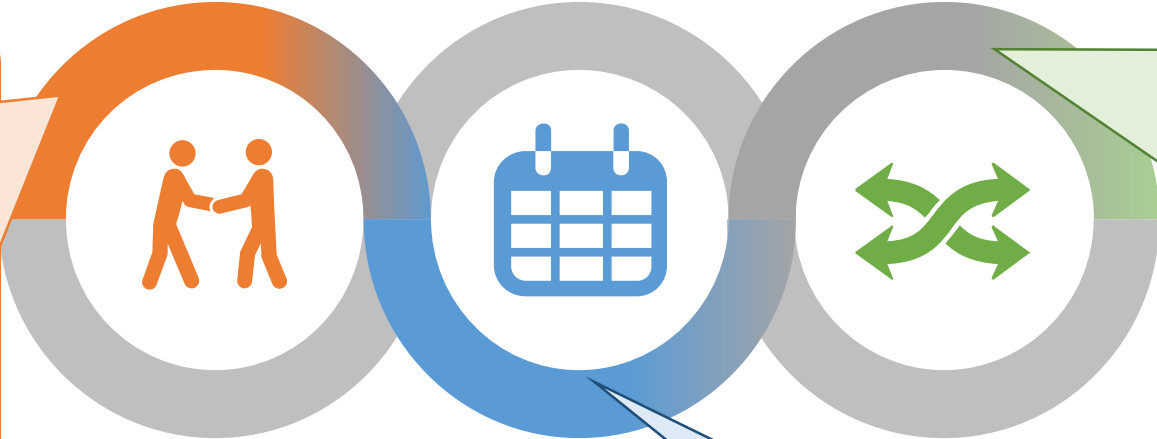
Advisors agree with end investor sentiment, and think the confusion extends beyond terminology, but also to company selection within funds.



Advisor Reactions to ESG Terminology

Advisors refer to ESG as socially responsible investing, which is more client-friendly language.

I use responsible investing which seems to be easier for the clients to grasp, but there are times where they come in with that acronym and that's when I know they mean business. They know what they're talking about, but I typically use responsible investing.



Those who haven't sold ESG are aware of both terminologies; some are unclear of potential nuances.

Since ESG seems to be more of a recent term, you've seen it or heard of it more in the past, but I have to admit, I haven't really looked into this. If there is, I don't know the specific differences. There may be some nuances. I just don't know what they are.

While terminology is a barrier, a more significant barrier is the approach fund companies take to creating ESG funds.

There's not a consistent approach to what that really means across companies, whether it's excluding companies altogether or ranking them lower and underweighting them. It's so specific to each provider that I think that's the difficulty for us, is there's no consistency in delivering ESG in mutual funds.

Defining ESG Investing...



- Respondents were given the following initial definition of ESG investing:

ESG investing, also sometimes referred to as “socially-conscious” investing, involves considering environmental, social, and governance issues, in addition to the usual financials, when evaluating potential companies to invest in.

- More detail on the elements of ESG was given in subsequent questions (definition via Investopedia):

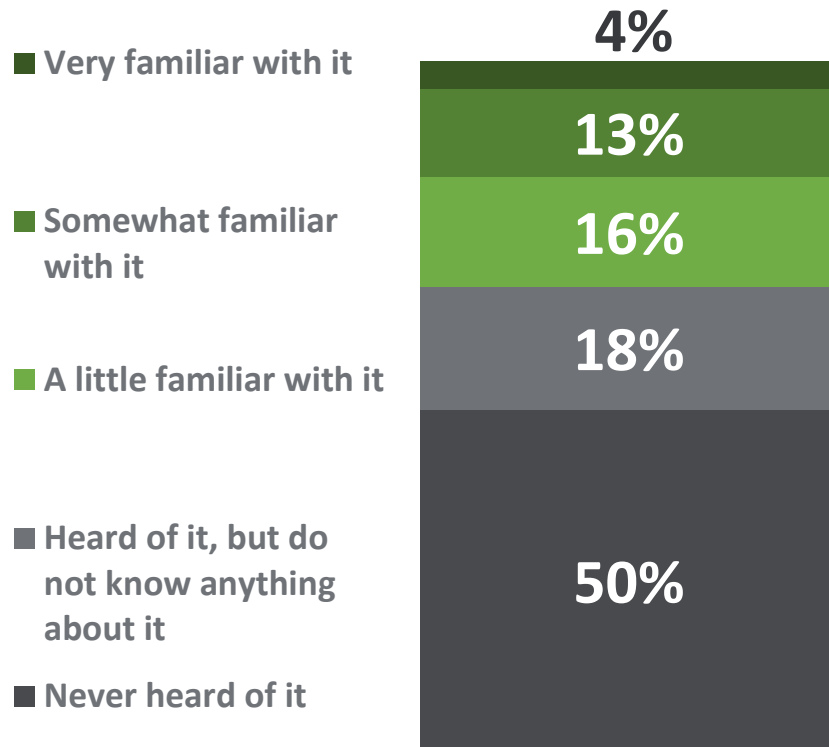
ESG investing: ESG (environmental, social, and corporate governance) are a set of standards for a company’s operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers and the communities where it operates. Governance deals with a company’s leadership, executive pay, audits, internal controls and shareholder rights.

Awareness itself is a significant barrier.



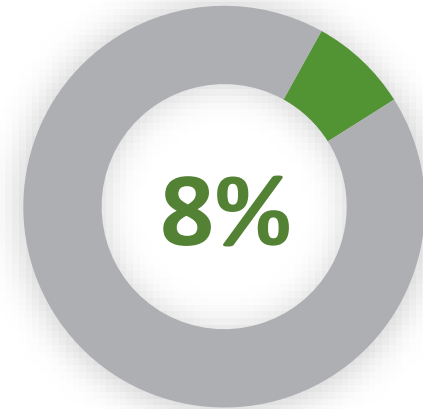
Awareness of ESG Investing

% Selected



ESG Investment Ownership

% Yes (of Current Investors)





All advisors are aware of ESG Investing, and have heard more about it in the last five years, though experiences and high-level perceptions vary.



Over the last five years, some say ESG investments have been a higher priority.

- Awareness of ESG investing has dovetailed with higher awareness of socially responsible or values-driven causes.

The industry is starting to catch up to client interest, especially among Millennials.

- Advisors mention younger clients in particular having interest, and rating organizations starting to catch up to this interest.

However, advisors who don't sell ESG are limited to conceptual awareness.

- Those who haven't sold ESG are aware of the concept, but generally lack specific awareness and have reservations about the category as a whole.

Across the board, it can be difficult to find ESG investments which are suitable to sell.

- Firms vary in their ability to find ESG investments which are suitable, and even some of those which do suffer from low interest.

“

I could tell you that it's become a lot more popular over the last five years. For sure. I could tell you that a lot of ETFs were recently incorporated solely for that purpose. There's been a humongous spike, I would say, since 2014 until now.

I think Morningstar is starting to rank companies and help advisors figure out scoring some of these investments, though we haven't had a whole lot of clients come to us proactively about it.

To me, it's a nice concept but there's no way to truly say you're socially responsible. I just don't see it. Everything has its pros and cons.

We have a portfolio that we've put together that uses ESG, and we have offered it to a couple of clients, but it hasn't really taken up. There are less than five people in our practice that have taken us up on that.



Even for advisors who sell ESG investments, ESG is a low-touch topic, and advisors do not commonly source information about it.



Advisors who sell ESG refer to it as a reactive, not a proactive, market.

Requests to consider ESG concerns in a portfolio are rare and typically client-driven, and few clients bring it up.

One advisor who sells ESG, however, does attend impact conferences about socially-responsible investing.

Advisors who do not sell ESG are generally even less aware of sources of ESG product information.

“

I really don't look into this. I think that this is a topic that's more reactive in terms of advisors than proactive. I could tell you that I'm just looking into this recently.

Advisors who sell ESG investments **generally wish there were better sources for ESG information.** This information could be:

- ✓ A search tool (besides Google), such as a Morningstar work station
- ✓ More concise and clear information direct from the fund companies (though Calvert has traditionally been an excellent source on this)

What does the current ESG investor look like?



Demographic Profile: Current ESG Investors



Younger

(48% millennial vs. 40% non-ESG investors)



Higher proportion of Hispanic investors

(20% vs. 6% non-ESG investors)



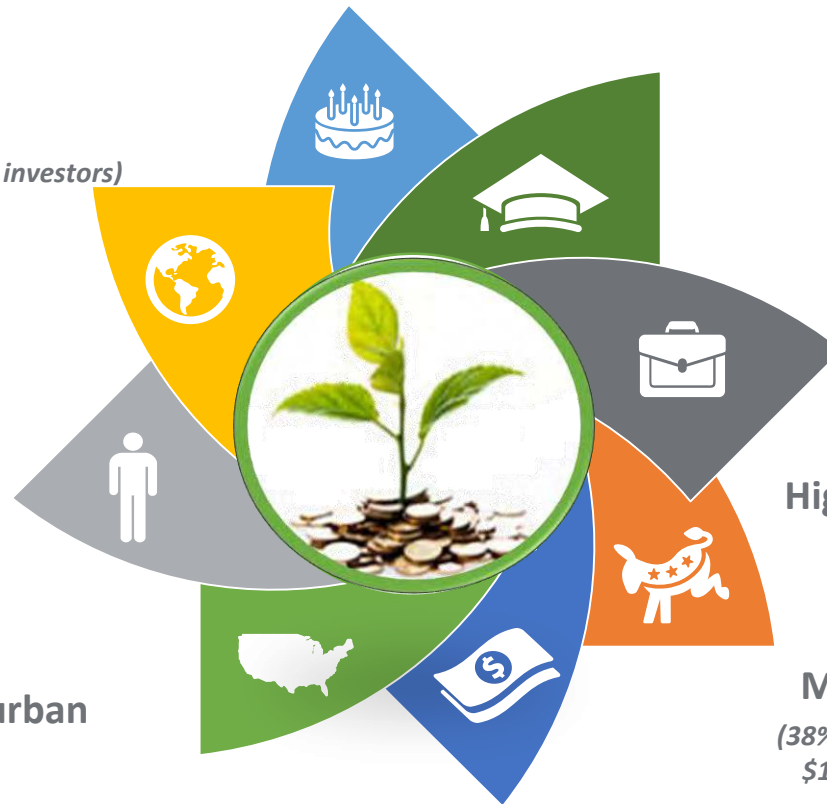
Male

(63% vs. 48% non-ESG investors)



Higher proportion of urban

(38% vs. 21% non-ESG investors)



College graduates

(66% vs. 54% non-ESG investors)



Work with an FA

(69% vs. 36% non-ESG investors)



Higher proportion Liberal

(39% vs. 27% non-ESG investors)



More Financially Secure

(38% vs. 27% non-ESG investors earn \$100K+; mean IA \$171K vs. \$131K)



Regardless of whether they sell ESG, advisors tend to agree with the definition of a “target” ESG investor.



Advisors' Perceptions of Target ESG Investor

Strong Sense of Social Justice

“

*If I was going to see them coming, it would be somebody that's been in the social services field or has done work in under developed countries and things like that. **Someone who's spent some time kind of extending themselves in the service of others.** It might be someone who has very strong religious convictions.*



Younger, More Liberal

“

*I would say **a younger person** would probably fall into the profile as it relates to me and I agree. Also, **someone more liberal in their political views** as well would probably be a part of that profile.*

A Global Mindset

“

*It tends to be someone with a more global mindset, **probably an avid traveler who has been outside of our continent** and traveled around the world and seen the kind of disparities and some of the things that we take for granted here in the States particularly.*

Why do people invest in ESG funds?



Because it's personally important to me that the companies I choose to do business with align with my personal values; from investments to where I buy groceries. I really make a lot of effort to make sure my actions are consistent and take it seriously.

The returns seem to beat the overall market and money goes to good causes. It's a win-win situation.

Because I care about being socially conscious and I care about climate change.

Word cloud containing terms related to ESG investing: **ESG**, **investment**, **companies**, **investing**, **financial**, **environment**, **good**, **well**, **care**, **invest**, **social**, **return**, **company**, **actions**, **choice**, **future**, **risk**, **make**, **returns**, **help**, **advisor**, **believe**, **business**, **issues**, **beliefs**, **responsible**, **betterment**, **others**.

I believe that companies that screen well for environmental, social, and governance issues will over time earn a higher return of their capital.

I want to promote environmentally friendly business practices through investment.

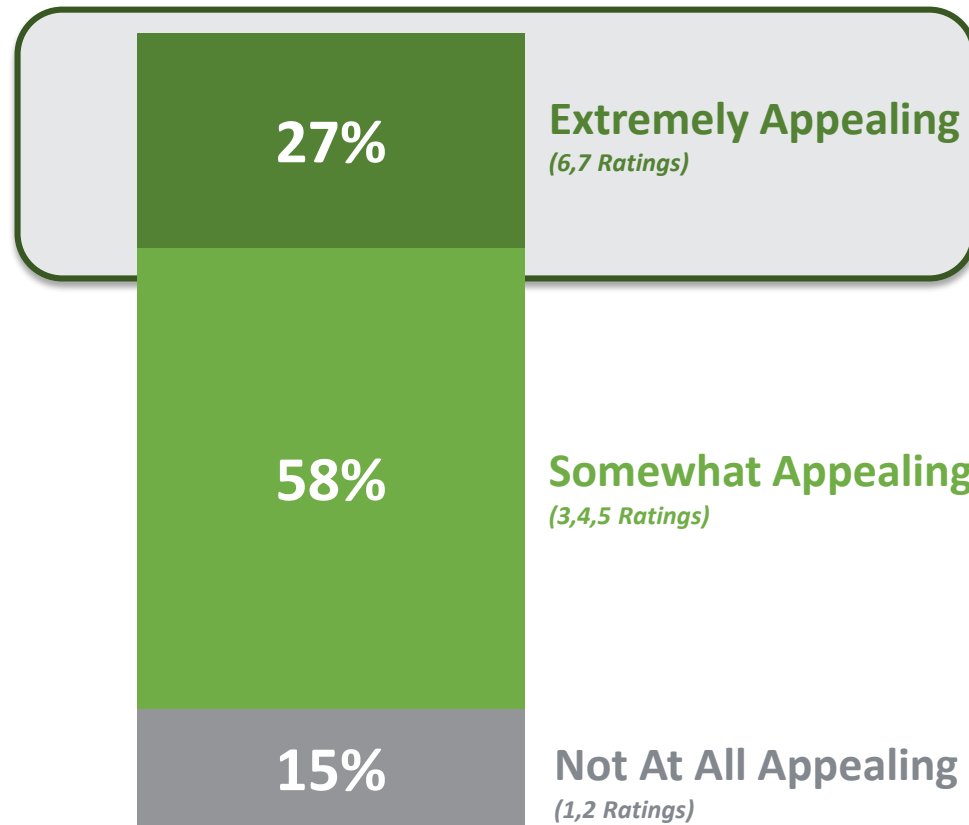
For the social position it takes and returns have generally been above market rate returns.

Most investors/potential investors see at least moderate appeal.



Appeal of ESG Investing

% Selected

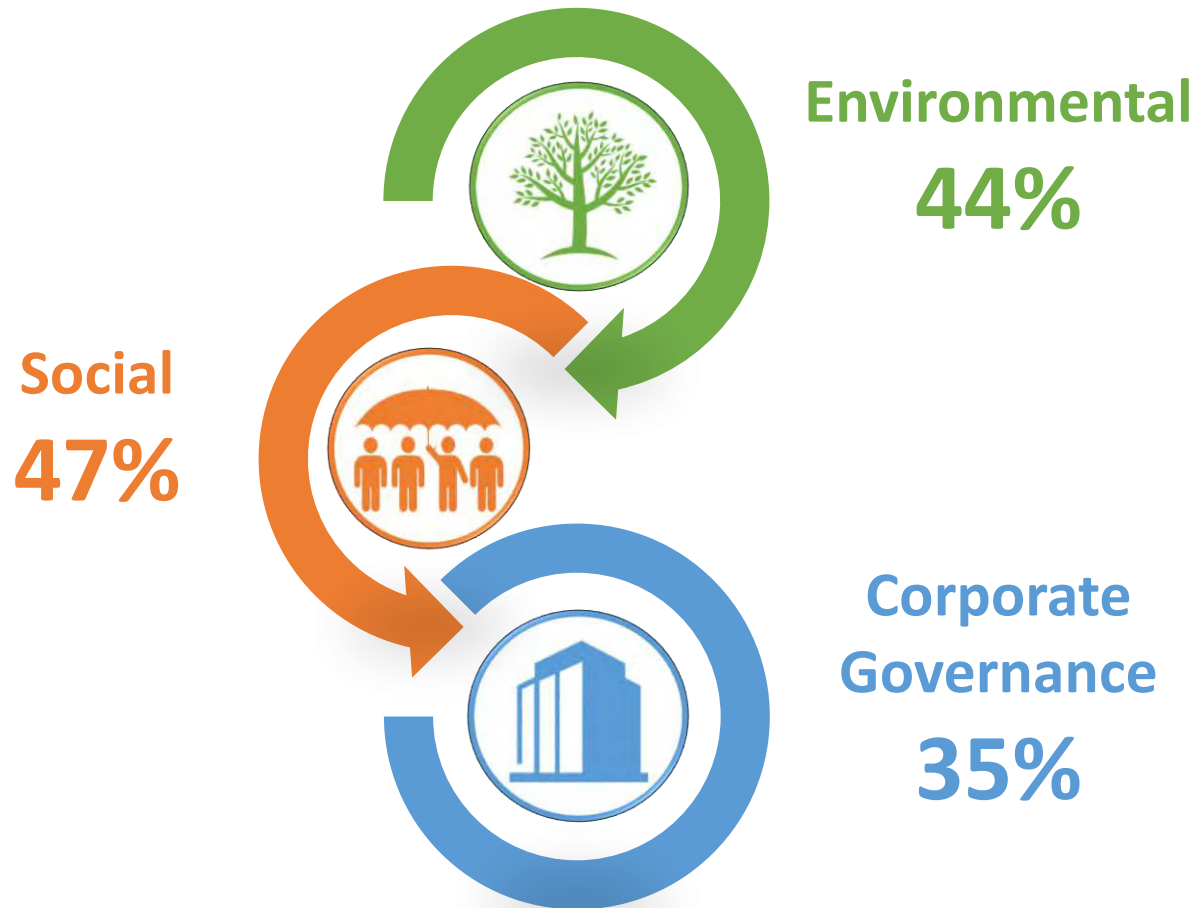


The environmental and social aspects are the most attractive elements to investors.



Appeal of ESG Aspects

% Extremely Appealing (6,7 Ratings)

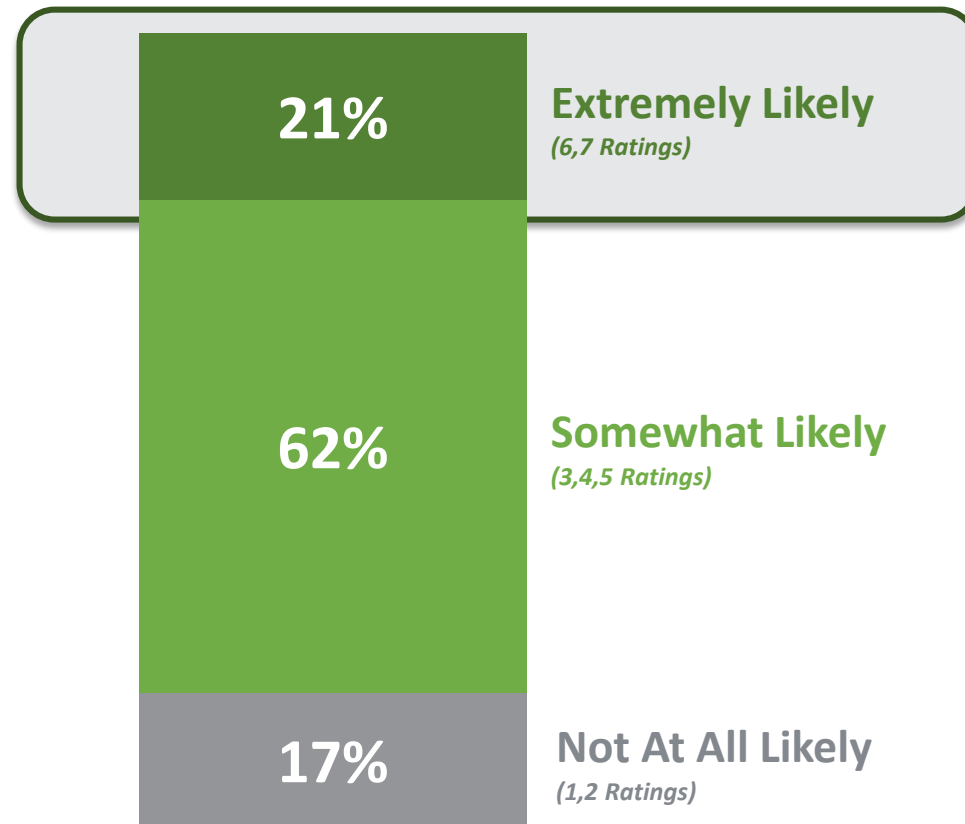


Most investors/potential investors are at least open to the idea of ESG.



Likelihood to Invest in an ESG Product

% Selected



What does the likely ESG investor look like?



Demographic Profile: Likely ESG Investors



Reasons folks are likely and unlikely to invest in ESG...



I often feel overwhelmed by the world's problems, so this offers a salve of sorts for my conscience.

I believe this is the morally conscious way to invest in a world that is problematic.

I believe that companies that score better on ESG metrics should over time be more sustainable and earn a higher return on capital.

It's important to me and a part of who I am to stay consistent with my values. Without those, what am I?

Because how a company interacts with its customers and communities is important to me.

I don't invest to feel good about myself as a person, and think anyone who does is an idiot. I invest for a return.

I think that it is too risky.

I've looked at socially conscious investments before. They're always very poor investments when it comes to returns.

I'm not sure of the costs and how it delivers to me. I appreciate the social aspect but I'm really in it for a financial win.

There are too many variables to decide when using this type of investing ON TOP OF the normal items, like profitability, risk, ROI, etc.

Likely ESG investors tend to hold more liberal views than current ESG investors.



Political Views

Mean Ratings

Liberal View

Conservative View

The country should do whatever it takes to **protect the environment**

The country has **gone too far** to protect the **environment**

I support **gay marriage**

I believe marriage should be between **one man and one woman**

Too much power is concentrated in the hands of **large companies**

The largest companies **do not have too much power**

Immigrants strengthen our country because of hard work and talents

Immigrants are a burden because they take jobs, housing and health care

Discrimination is a key reason many **minorities can't get ahead**

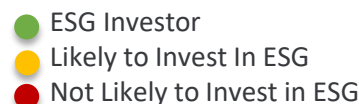
Minorities who can't get ahead are **responsible for their own condition**

It is more important to **control gun ownership**

It is more important to **protect gun ownership**

Results of the **"Me Too"** movement are **mostly positive**

Results of the **"Me Too"** movement are **mostly negative**

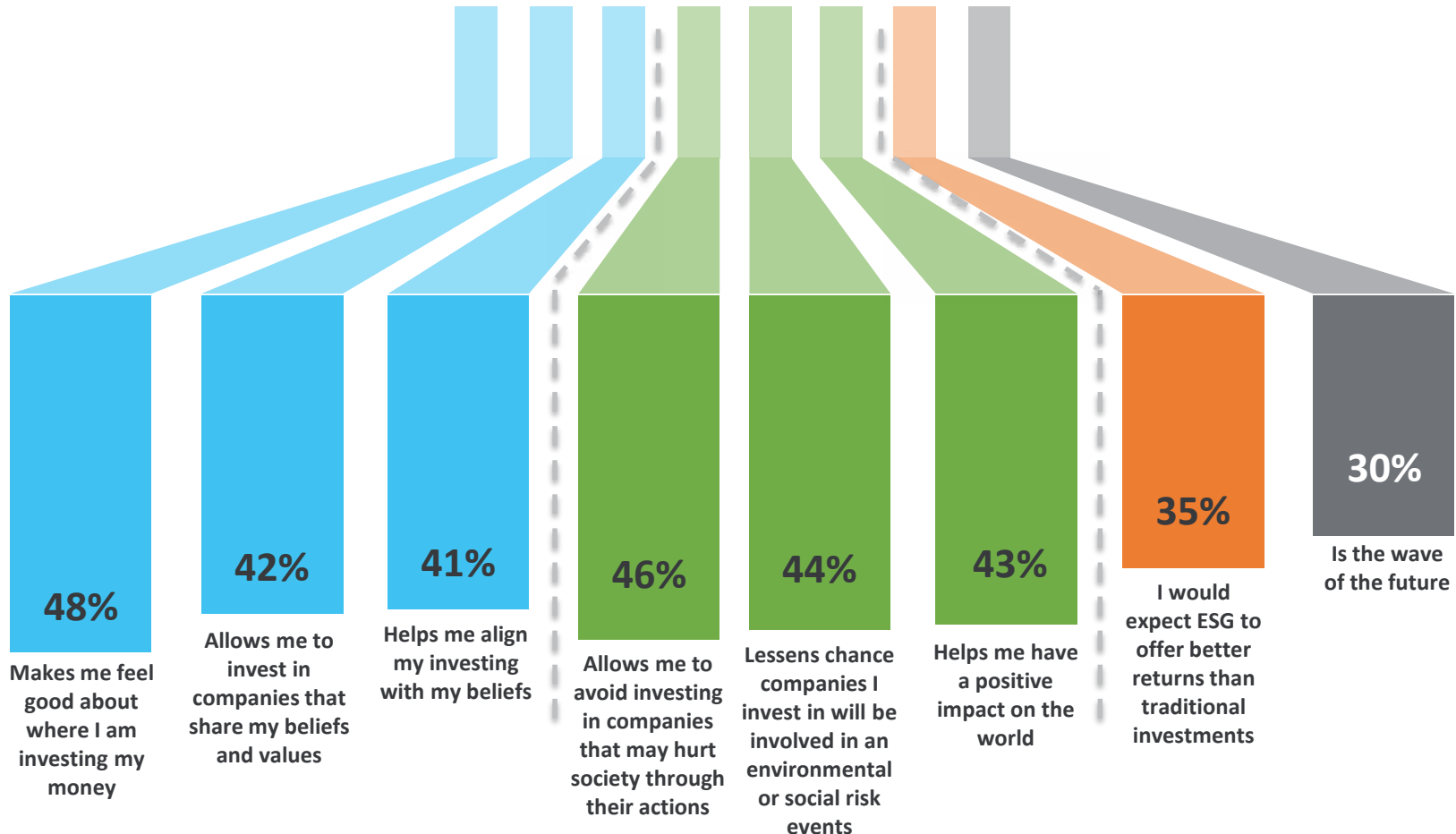


Key benefits of ESG investing include a positive impact on society and personal fulfillment.



Benefits of ESG Investing

% Extremely Important (6,7 Ratings)



Impact on Self

Impact on Society



Benefits to ESG investing include giving clients what they want, offering peace of mind, and aligning investments with client values, even at the expense of returns.



Benefits to ESG Investing

Advisors want to give clients what they want (or at least, what they think they want) – it helps them from a business perspective.

*I think the benefit for the client is **that they get what they want or at least they sometimes think they get what they want.***

Again, because sometimes these funds and stuff don't really lay out exactly what's going on inside of them.



For some clients, it's more important to align investments with values than it is to make the most money possible.

A client came to us with this and said, "I drive a Prius. I don't support companies in a local community that don't align with my values. Why shouldn't my investing align with the values that I have, that I practice in my life?"

ESG offers some clients the peace of mind of their investments being responsible and helping the planet.

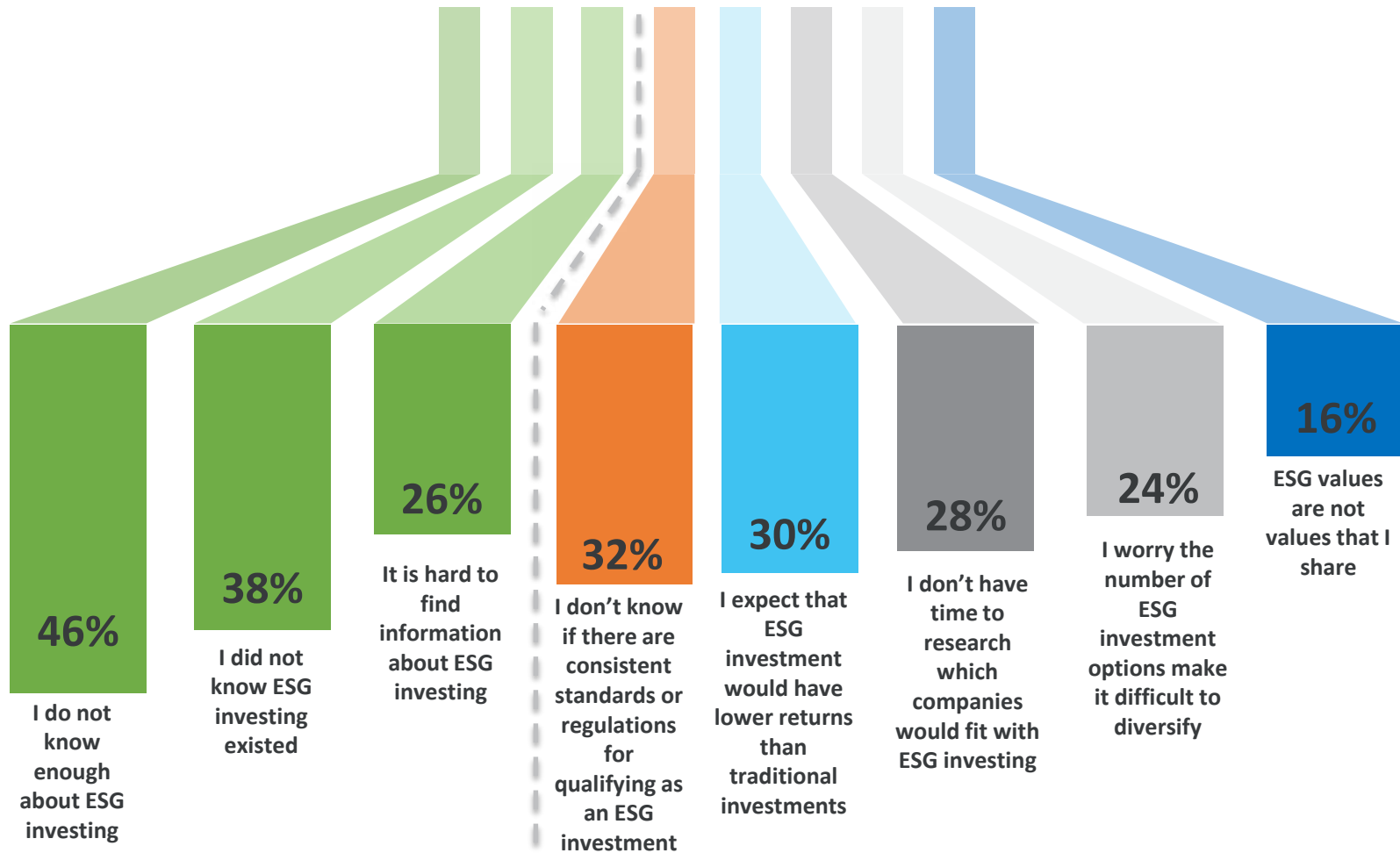
*A lot of clients come in, refusing to invest in companies that are not making more energy efficient choices and that could be a good thing for them. **It would help keep the client in the long run if you are a believer of global warming and the detriments that we currently are doing to our planet.***

Lack of knowledge is a key barrier, along with lack of perceived standards and lower returns.



Barriers to Investing in ESG

% Extremely Important (6,7 Ratings)



Lack of Knowledge

Key barriers are lower returns, lack of a track record, subjectivity, and complexity.



Barriers to ESG Investing



Lower Returns

There's nothing beneficial about telling your clients to take a lower return on something, just because it's in the best interest. I'm not going to recommend something that's not as fruitful. I'm not saying invest in nuclear weapons or anything but if alcohol, tobacco, guns, if they provided me some returns and it'll get you to your goal - we're in a goal-oriented profession.



No Track Record

I don't recommend them, simply because they don't really show up on my screens.... I don't have a single one on my recommended list ..., just because it doesn't meet a lot of the screens that we use (such as) Performance, how long the fund has been (available), we look at manager tenure. A lot of them are just the alpha which - they just don't really fall into any screens well.



Subjective

It's just the world we live in, being subjective...If you start picking out specific funds or specific equities and say, "What do you think about this? What do you think about this," you'll get five or six different answers. What I think fits ESG, someone else might not, and so defining it really is the first thing.



Complexity

The investment process can be a complex one, to begin with. The most difficult part for me is the additional complexity that (ESG) adds to the overall process.



Advisors who sell ESG believe these investments are at parity with non-ESG, while those who do not sell ESG are inclined to believe these investments perform worse.



Concerns about ESG Investment Performance
by Advisor Type



Advisors Who Sell
ESG

Believe ESG investments perform at parity with non-ESG...

“

*I’m honestly not sure. I can tell you that we do have a lot of analyses run in my company and I will tell you that **I don’t think that there is a very big difference between ESG and non-ESG companies at least within the last couple of years.***



Advisors Who Do
Not Sell ESG

Believe ESG funds perform worse.

“

*The main thing, just to piggyback on what everyone else said, is the performance of the specific, underlying investments can be lower. **It’s the only real barrier that I see.***

60% of end investors would be *much more likely* to invest in ESG if they could be convinced returns were adequate, relative to non-ESG funds



Environmental, Social, and Governance (ESG) Investing: Financial Advisor Influence

While FAs are the top investing resource, those aware of ESG get information from online search and media.



Information Resources

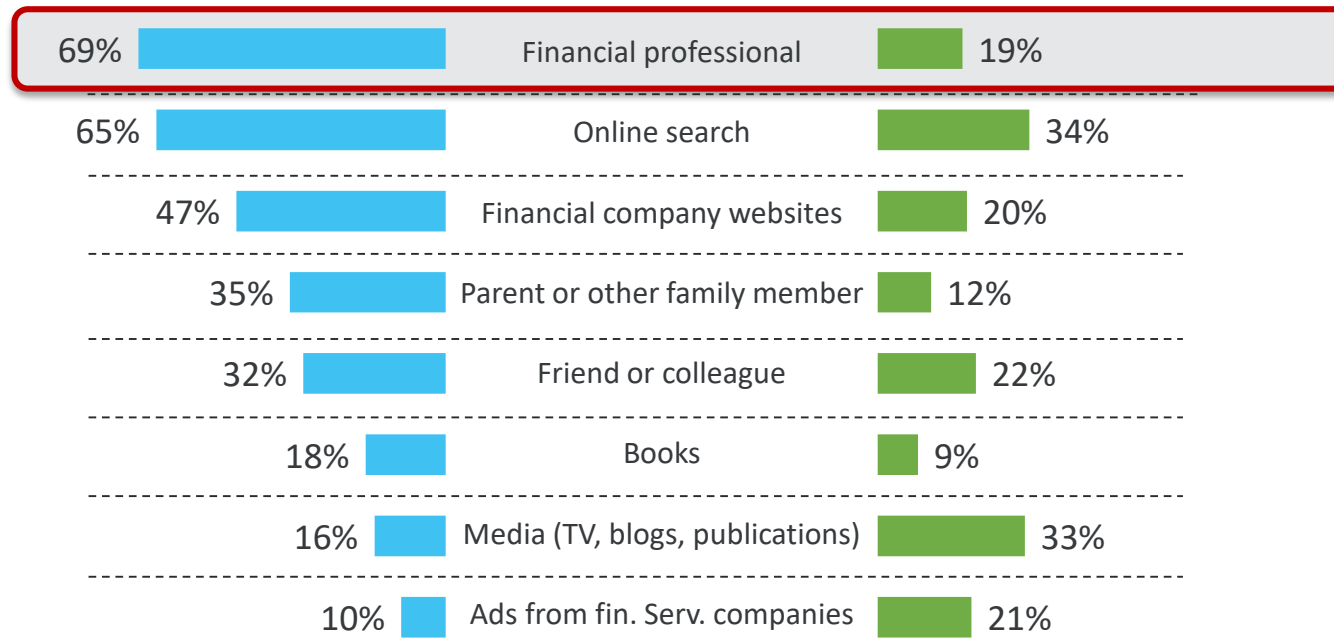
% Selected

Top General Investing Resources

% Ranked in Top 3

Top ESG Resources

% Selected

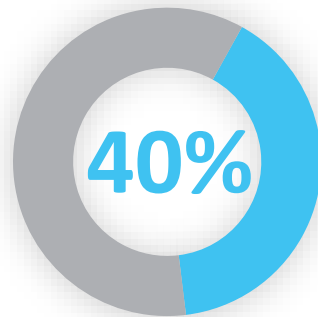


While 40% of those with an FA have asked about investing based on values, very few end up doing so.



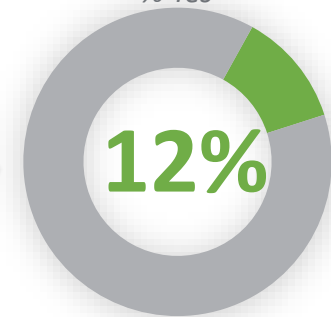
Asked FA about Values-Based Investing

% Yes of those with FA



ESG Ownership Among those with FA

% Yes



This is consistent with what FAs say about how they handle these requests...

“*I guess they read an article about socially responsible and so they wanted to look at a couple of options. I went through the options with them and I showed them returns and that ended it right there, when they looked at the returns.*”

However, advisors who sell ESG think client perceptions may be changing toward more values-based choices in the future.



Perceived Future Changes in ESG Investing Space

Advisors who sell ESG think clients will become more aware, and more likely to proactively mention values-based investing to advisors.

*I have a few that actually know that acronym already. I think most of them come to the table saying that I would like to invest in a socially-responsible company. SRI, has been said a few times, but **yes, a couple of them do fall into the category of knowing what ESG is essentially.***

One advisor mentions hearing more about ESG from wholesalers and money managers.

I'm actually hearing it more these days from wholesalers and money managers just to raise awareness – they're trying to raise it a bit. They're telling me that they're in that game in case it does come up.

Institutional clients, such as religious organizations, are likely to lead the way due to greater overall awareness of the market.

*The only exception is we pitched a few religious organizations or endowments and almost without fail, it seems like every single one of them wants to align their investing with their values. **I think they are more familiar with it than our typical retail clients.***



Questions & Answers



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