Vontobel

Mapping the ESG maze

Exploring cognitive biases to empower investors to build better futures

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More information: vontobel.com/decoding-esg

Foreword

Selecting investments which align with values is becoming increasingly important, as attested by investors' growing interest in sustainability related practices[1]. How can we help individual investors move from words to action?

This paper explores how investors are navigating the dynamic, and sometimes complex realm of ESG investments. It delves into the factors which influence decision-making and examines the cognitive biases which may unknowingly impact your choices.

To develop sound investment strategy, we should recognize prejudices like confirmation bias, which validates pre-existing beliefs. Herding, which refers to the tendency to follow other investors without sufficient information, is another pitfall. These factors can shape how ESG investments are perceived and selected, and being aware of them can help the investor reconsider some of these natural prejudices.

We hope that the findings detailed in this paper provide insights that can empower an investor to make more sound and balanced investment choices. A better understanding of the psychological factors at play can help align your investments with your personal principles as well as your financial goals.

The integration of core values into investment strategy is a logical step forward, given that regardless of your financial strategies and choices, everyone is an investor. You invest in whatever you do, whether you you devote time, money or attention: putting capital to work with a goal in mind.

This is what we do at Vontobel. We empower investors to build better futures.

Christoph von Reiche
Head Institutional Clients

[1] knowledge.wharton.upenn.edu/article/how-retail-investors-value-esg-and-frame-sustainable-investment-strategies/

Mapping the ESG maze: Exploring investor profiles and cognitive biases

As ESG principles become more integral to investment portfolios, many private investors find that aligning sustainable practices enhances well-being and long-term financial objectives. In our view, this trend underscores the importance of expert advice in effectively navigating the complexities of integrating ESG considerations into sound investment decisions.

ESG principles boost long-term financial goals.

42 % acknowledge that ESG principles align well with long-term financial goals.

39 % note that it opens new investment opportunities.

Expert advisors positively impact perceptions of ESG.

36 % of investors working with advisors are more likely to report positive effects of ESG on their savings.

Investors show strong confirmation bias[1] against new information.

56 % of investors stick to their initial beliefs even when presented with new evidence.

Herding bias[2] and emotional bias[3] observed among some individual investors.

25% of investors choose investments based on popular articles rather than conducting further research or consulting advisors.

14% choose to divest from a fund immediately in adverse conditions, regardless of future performance.

Advisors can help mitigate some cognitive biases among investors.

21% of professionally advised investors show herding bias, versus 30% of self-advised.

10% of professionally advised investors display emotional bias, compared to 19% self-advised.

Most investors expect ESG to be integral in all portfolios in the near future.

62% of investors consider ESG principles more important than mere profit.

50% would allocate about half their portfolio to ESG approaches for long-term goals.

67% foresee that ESG principles will be incorporated into all investment portfolios within the next five years.

Professionally advised investors have more of a long-term approach and they are less easily swayed by market volatility or herd mentality

1 Confirmation bias is the tendency to look for, interpret and recall information which supports one's existing beliefs.
2 Herding bias refers to investors who follow and copy what other investors do.
3 Emotional bias sees investors making decisions ruled by their emotions rather than rational reasoning

Introduction

From words to action—putting ESG principles into practice

As environmental, social and governance principles have been gaining ground across the investment landscape, are investors starting to put their preferences into practice? The industry is continuously evolving and, in this context, investors are being encouraged to broaden their objectives and welcome a more holistic approach to building portfolios, one which places ESG concerns and non-financial goals at the forefront alongside the pursuit of financial performance.

Although much of the initial momentum to include ESG in investment portfolios has been driven by industry professionals, gauging the appetite, sentiment, and approach to ESG being taken by individual investors is key to monitoring the traction ESG is gaining among this client group.

A key question to consider is, what role does knowledge of ESG play in investors' choice of product and how do the decisions they take in their personal lives affect their financial well-being?

In preparation to launch this piece of survey, we sought to study the impact behavioral biases could have on investors when taking ESG-related decisions and what factors could potentially mitigate these prejudices.

We undertook an in-depth survey[2] in our efforts to deepen our appreciation of the influential considerations investors make when taking decisions around ESG products and to empower them to build better futures.

The following paper details the results of this study and analyses the implications of the results on the way investors engage with the ESG approach.

We find that investors armed with deeper ESG knowledge are leading the charge towards a more sustainable future, with their ESG preferences permeating their actions and financial decisions. Greater understanding of ESG concepts also impacts the investor experience of the approach. In fact, those with greater knowledge report a more positive outlook regarding the influence of ESG preferences on their savings and investments.

Our research also finds that role of financial advisors is also critical in investors' ESG journey. These individuals help investors navigate the complexities of the landscape; their guidance and insight is then reflected in investors' attitudes towards ESG and investment.

Investor Profiles

Getting personal—delving deeper into the investor experience

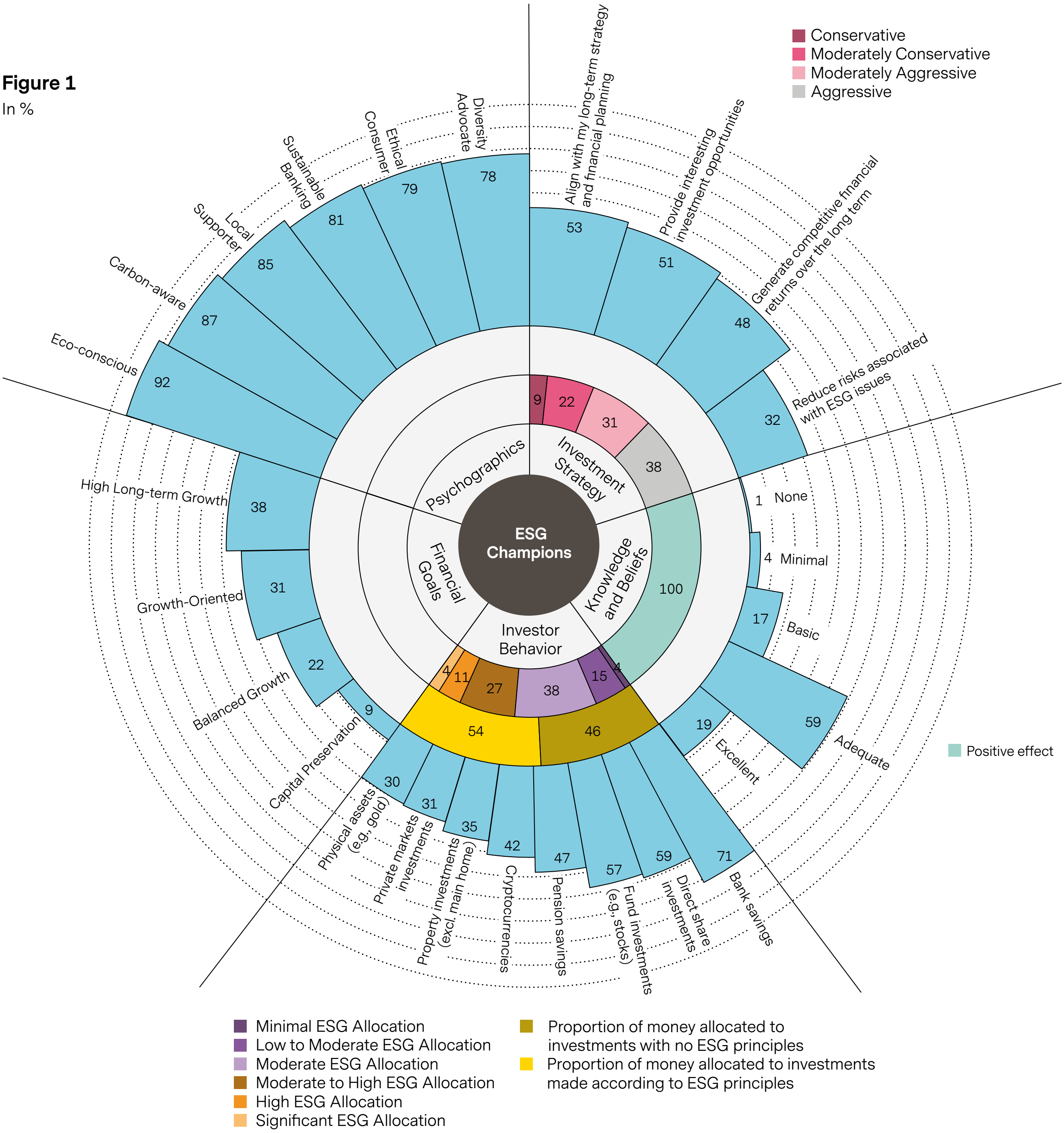
We examined the data we collected and identified three different groups of individuals. These differ in age and sentiment towards ESG investments, and the following section provides detailed information on the profile of each cluster

[2] The data and charts in this report are sourced from Vontobel proprietary research conducted to produce this whitepaper. Please find more detail on the survey methodology on pages 27 and 28.

ESG Champions

Profile
The group of investors shows the highest degree of dedication to investing in line with ESG considerations distinguishes itself in a number of ways. They have a higher tolerance to risk and are more likely to have a longer-term investment horizon. These investors have stronger ESG knowledge and are more willing to invest in vehicles and strategies taking ESG considerations into account.

Figure 1
In %



Demographics
Age: 35+ years old
Wealth: Likely to have USD 100,000 or more in accessible wealth
Income: USD 50,000 or above

Investment Preferences and Characteristics

Investment Strategy

ESG Principles: These investors prioritize investments that adhere to Environmental, Social, and Governance (ESG) principles. They believe these factors not only contribute positively to society but also enhance the long-term performance and stability of their investments.

Risk Tolerance: They exhibit a higher tolerance for risk, suggesting a preference for growth-oriented and potentially more volatile investments which promise higher returns over a longer-term horizon. Such assets could include emerging green technologies and innovative companies with strong ESG credentials.

Knowledge and Beliefs
ESG Knowledge: They possess a higher level of understanding regarding ESG factors, likely staying informed through continuous learning, subscribing to relevant publications, and engaging with ESG-focused financial advisors or platforms.

Impact of ESG: This group firmly believes that incorporating ESG principles into their investment strategy has a positive impact on both their savings and overall investment portfolio. They are convinced that sustainable practices and ethical governance lead to better financial outcomes and mitigate long-term risks.

Investor Behavior

Asset Allocation

- They are more likely to allocate a larger portion of their portfolio to investments taking ESG considerations into account, such as green bonds, socially responsible mutual funds, and stocks of companies with strong ESG ratings.
- They may also be more open to explore impact investing opportunities, which directly contribute to solving social or environmental issues while generating financial returns.

Financial Goals
Growth-Oriented: Due to their higher risk tolerance and substantial accessible wealth, their primary goal is likely capital appreciation. They are looking to grow their wealth significantly over the long term.

Sustainability: Aligning their financial growth with sustainable and ethical practices is crucial, reflecting their belief in the positive correlation between ESG principles and investment success.

Psychographics
Values and Lifestyle: These investors' values likely align with sustainability, ethical consumption, and social responsibility. Their lifestyle choices reflect a commitment to reducing their carbon footprint and supporting fair trade and ethical products.

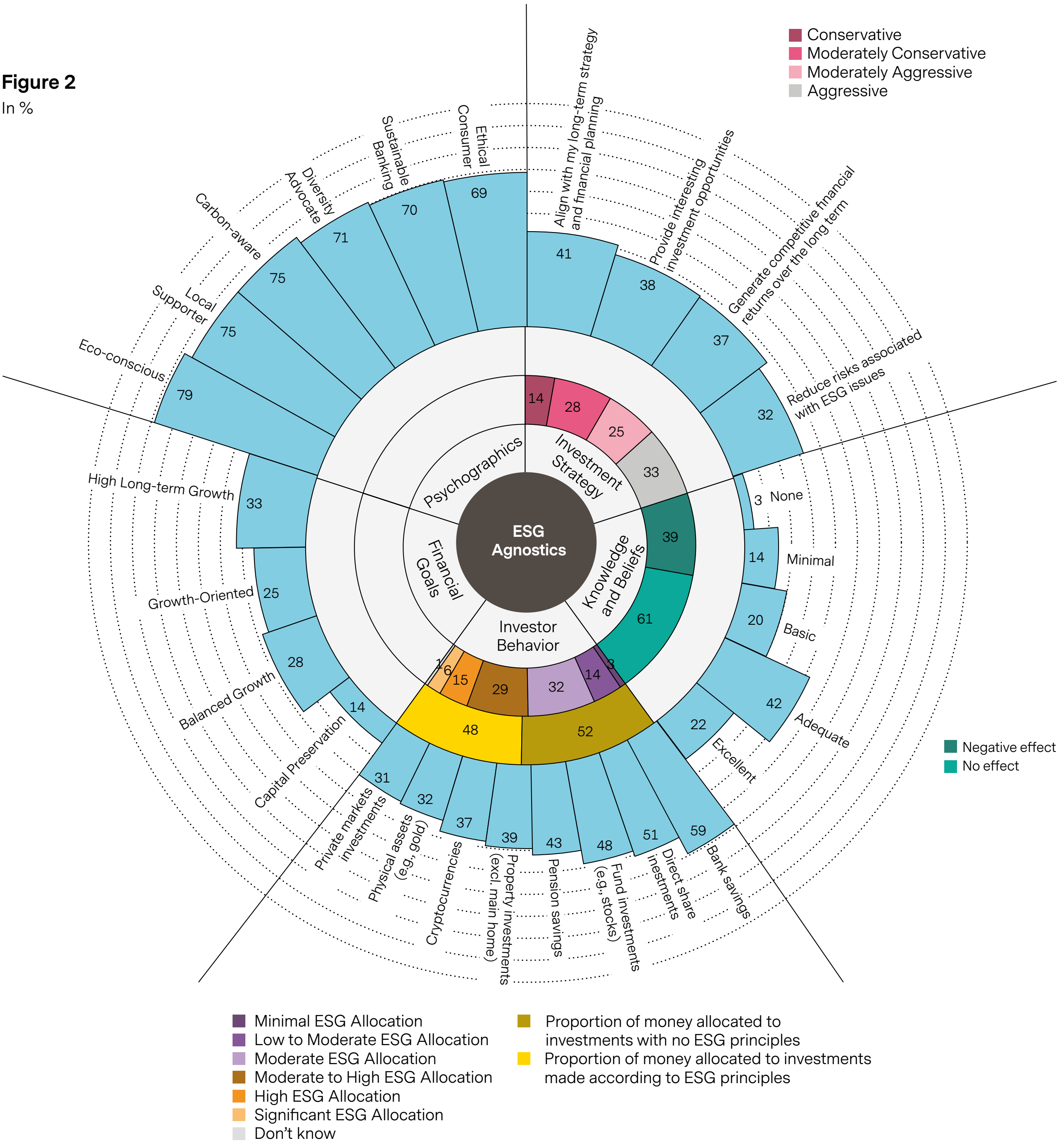
Community and Advocacy: They might be active in communities or organizations that promote ESG principles and advocate for sustainable business practices and corporate responsibility.

By integrating these characteristics, this group of investors represents financially capable, ethically driven, and well-informed individuals who prioritize investment strategies integrating ESG factors with an appetite for higher risk and growth.

ESG Agnostics

Profile
Investors in this group exhibit no strong feelings towards investing with ESG principles in mind, any exposure to integrate ESG factors is coincidental rather than a deciding factor They do not have a negative view of the approach. They have an average tolerance to risk and are reasonably wealthy.

Figure 2
In %



Demographics
Age: Less than 35 years old
Wealth: Likely to have USD 100,000 or more in accessible wealth
Income: USD 100,000 or above

Investment Preferences and Characteristics
Investment Strategy
Non-ESG Investments: These investors do not prioritize investments focusing on ESG considerations. They may consider ESG factors, but these are not a primary driver in their investment decisions.

Risk Tolerance: They exhibit a mid-tolerance for risk, indicating they most likely favor a balanced approach between growth and stability in their investment portfolio.

Knowledge and Beliefs
ESG Knowledge: They possess a mid-level understanding of ESG factors, meaning they are aware of ESG characteristics but do not actively seek to incorporate them into their investment strategy.

Impact of ESG: These investors believe that ESG principles have no significant impact on their savings and investments. They view ESG as neutral in terms of the effect the approach has on their financial returns and performance.

Investment Behavior
Asset Allocation
– This group is more likely to allocate their portfolio to a mix of traditional investments such as stocks, bonds, mutual funds, and potentially some alternative investments.
– They might invest in sectors that are traditionally seen as high-growth, such as technology, finance, or healthcare, without specific consideration for ESG ratings. Any ESG dimension is most likely coincidental.

Financial Goals
Balanced Growth and Stability: Their financial goal, in all likelihood, is to achieve a balance between growth and stability. Their attitude to risk suggests they seek steady returns while mitigating excessive risk.

Diversification: They likely emphasize diversifying their portfolio to spread risk across various asset classes and sectors.

Advisory and Tools
Advisory Services: When seeking professional advice, this group probably prefers working with a financial advisor who provides general investment advice, focusing on a diversified portfolio rather than ESG-specific guidance.

Tools and Resources: They likely utilize mainstream financial tools and resources such as stock screeners, market analysis reports, and traditional brokerage accounts.

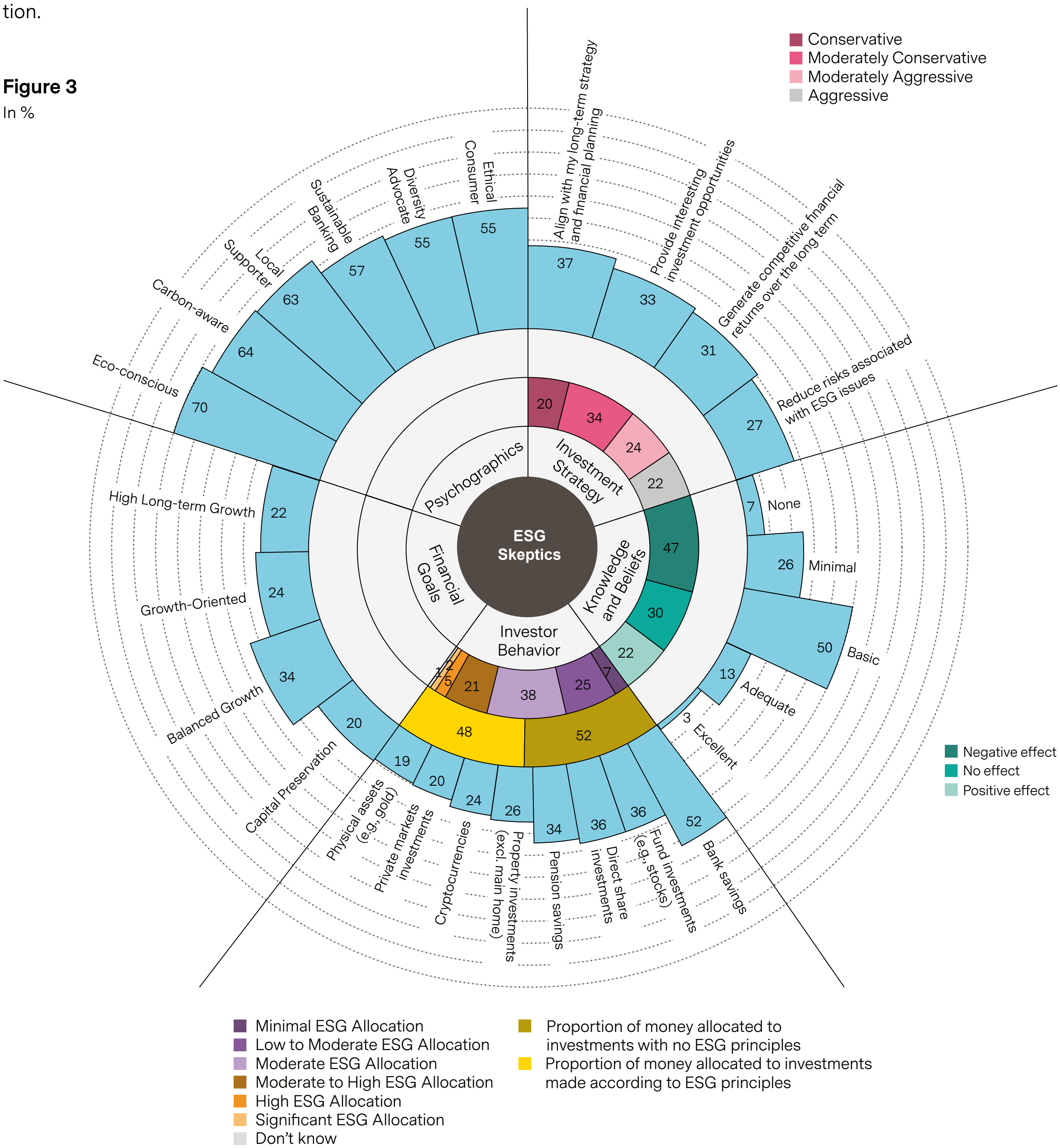
Psychographics
Values and Lifestyle: While not focused on integrating ESG factors, these investors still engage in socially responsible behavior in their personal life but do not prioritize these values to the extent that their peers in the ESG Champions group do. Further, they are a lot less likely to include these considerations in their investment decisions.

Pragmatic Approach: They take a pragmatic approach to investing, focusing on financial performance and stability over ESG considerations.

ESG Skeptics

Investor Profile
With lower levels of ESG understanding, these investors feel the approach is more likely to have a negative effect on their savings, rather than a positive one. Their lack of interest in ESG also bleeds into their daily lives as individuals in this group are less likely to follow everyday sustainable practices such as recycling and water conservation.

Figure 3
In %



Demographics
Age: Between 18 – 45 years old
Wealth: Likely to have less than USD 100,000 in accessible wealth
Income: Low to medium income of less than USD 100,000

Investment Preferences and Characteristics:
Investment Strategy
Non-ESG Investments: These investors do not prioritize focusing on ESG considerations in their investment decisions. They focus on traditional financial metrics and returns.

Risk Tolerance: They display a low tolerance for risk, preferring investments which are more predictable and offer lower volatility.

Knowledge and Beliefs
ESG Knowledge: They possess a low level of understanding regarding ESG factors, indicating limited awareness or interest in ESG-related investments.

Impact of ESG: This group believes that ESG integration has a negative impact on savings and investments, perceiving them as potentially detrimental to financial performance.

Investment Behavior
Asset Allocation
– They are more likely to allocate to low-risk, traditional investments such as savings accounts, certificates of deposit (CDs), government bonds, and possibly some blue-chip stocks or conservative funds.
– They probably avoid sectors or assets that are perceived as high-risk or influenced by ESG considerations.

Financial Goals
Stability and Security: Their primary financial goal is to maintain stability and security in their investments. They prioritize preserving capital over seeking high returns.

Risk Aversion: These investors aim to minimize risk and protect their wealth, even if it means accepting lower returns.

Advisory and Tools
Advisory Services: They may choose to work with a financial advisor who focuses on conservative investment strategies and risk management.

Tools and Resources: In assessing and managing their finances, this group most likely uses basic financial tools and resources such as savings calculators, risk assessment tools, and traditional banking services.

Psychographics
Values and Lifestyle: These investors' values and lifestyle are likely pragmatic and cautious. Given their lack of belief in ESG as a concept, they are less likely to engage in behaviors that uphold such principles, e.g. Recycling, shopping locally or choosing financial institutions which favor sustainable practices. They prioritize financial security and are wary of investments that seem overly complex or risky.

Skeptical of ESG: They hold a skeptical view of ESG integration believing that these principles may compromise financial returns in favor of non-financial goals.

Part 1

ESG knowledge drives higher personal commitment.

Almost all investors in the study are putting ESG principles into practice to some degree and 95 percent say they have allocated savings and investments according to ESG principles. We see this sentiment also coming through in investors' their day-to-day activities as well as on a financial dimension.

Across all investor groups, the majority implement the actions under review, as seen in Figure 4. The regional data, displayed in Figure 5, shows investors in the Americas are more likely to put values such as care for the environment and a drive towards diversity into practice as a higher percentage of these individuals agree with the statements under review. The investors in APAC and Europe are more aligned, with similar percentages across the actions being examined.

As seen in Figure 5, the largest gaps can be observed in American investors' support for diversity and their choice of financial institutions which prioritize sustainable practices.

Figure 4

Question: How much do you agree or disagree with the following statements?

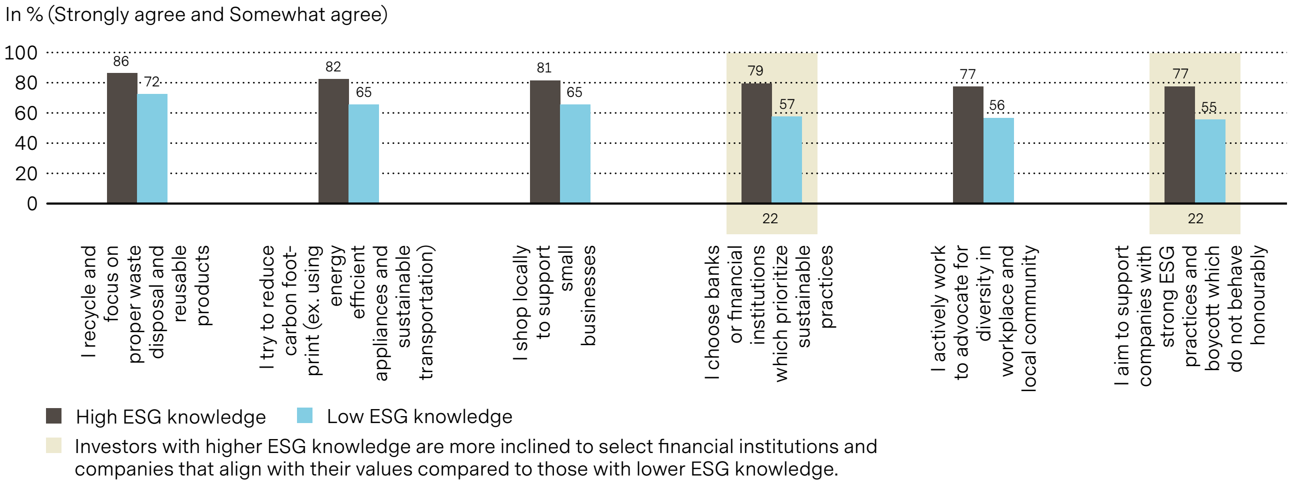
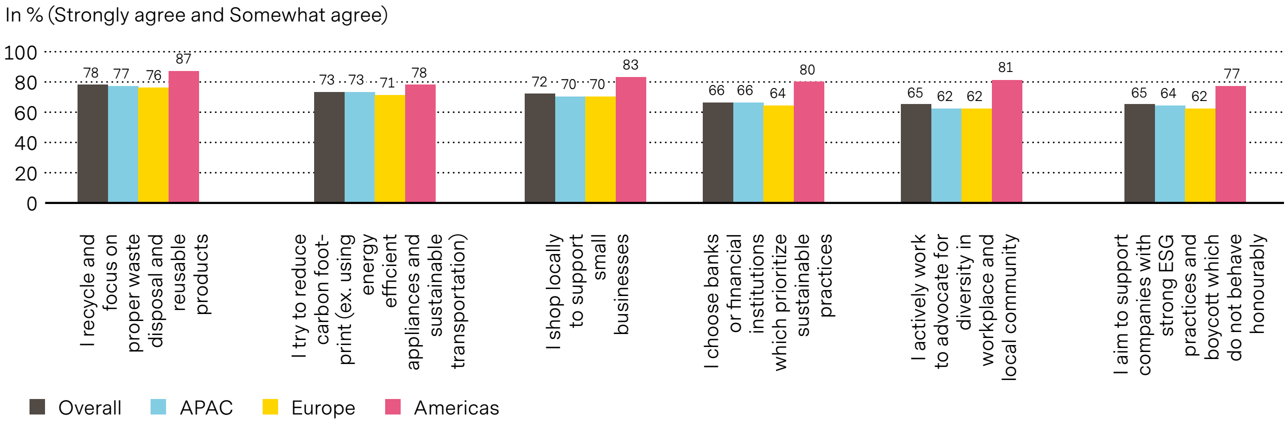


Figure 5

Question: How much do you agree or disagree with the following statements?



These differences reflect the varying priorities across regions, where investors in the Americas are more focused on the human elements of ESG while those in Europe and APAC tend to be more environmentally conscious at this stage.

However, considering the data according to investors' degree of ESG knowledge, we can observe that those with high ESG knowledge are taking the lead in this regard. More investors with strong ESG knowledge say they are integrating these behaviors in their lives.

This difference is more pronounced when focusing on the practices linked to their finances. A significantly higher percentage of strong knowledge investors choose banks which prioritize sustainable practices and also support companies with strong ESG practices.

Their seeking out partners that share their commitment to ESG also shows they are recognizing their financial choices have implications that go beyond profit.

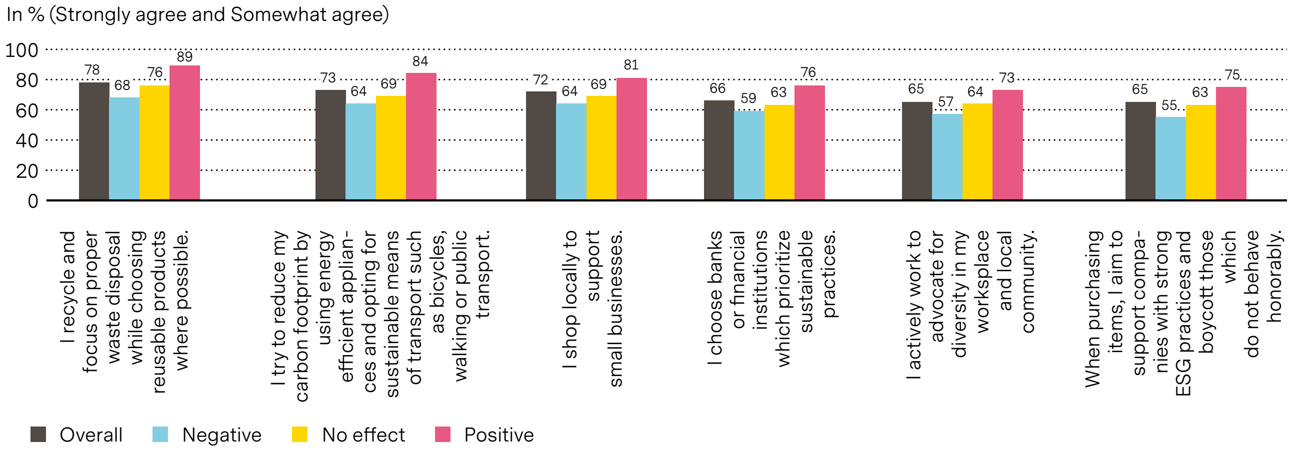
In discussing ESG and finances, we asked investors whether they believe ESG integration has a positive or negative impact on their savings and investments—more detail on this will be given later in this section.

Considering the data regarding their attitude towards ESG impact however shows that the way investors view the effect of ESG has a significant influence on the sustainable practices they carry out in their daily lives.

Figure 6 shows investors who feel ESG has a positive impact on their investments are more likely to undertake the ESG-considering actions being examined. These individuals see a direct connection between their financial decisions and the broader impact on society and the environment. This belief likely reinforces their sense of personal responsibility, leading them to adopting these behaviors.

Figure 6

Question: How much do you agree or disagree with the following statements?



Financial and ethical considerations coming together
When it comes to the impact of ESG principles on their daily lives, almost half of all investors say their ESG preferences give them peace of mind. 4 in 10 also believe these principles contribute to positive corporate behavior.

These positive influences underscore the growing significance of ESG principles and highlight the deep connection between personal values and investment decisions.

The same also holds true for the effects of ESG on investors' financial situations. Over 4 in 10 say their preferences in this regard align with their long-term perspective and a similar percentage believe ESG provides interesting investment opportunities. Furthermore, over a third feel their ESG preferences help generate competitive returns over the long-term.

These results indicate investors are starting to bring together their financial and ethical considerations, where the industry is witnessing a paradigm shift towards a more holistic approach to investment[3]. Though investors' ESG preferences remain personal and individual, the data suggests they are recognizing the materiality of ESG issues and their potential impact on their investment outcomes.

Investors with high levels of ESG knowledge once again outpace their less learned counterparts and more hold the beliefs under review. The two groups, however, are more closely aligned when it comes to reducing financial stress and risk, wherein a similar percentage of each agree with the statements in relation to these matters.

Figure 7
Question: Which of the following do you feel are a result of your ESG preferences? Select all that apply. [Daily life]

(multiple answers were allowed)

49 %	40 %	37 %	33 %
My ESG preferences give me peace of mind as they support socially responsible practices.	My ESG preferences contribute to positive corporate behavior.	My ESG preferences help build a stronger community.	My ESG preferences reduce financial stress as they are more stable.

Figure 8
Question: Which of the following do you feel are a result of your ESG preferences? Select all that apply. [Financial situation]

(multiple answers were allowed)

42 %	39 %	37 %	29 %
My ESG preferences align with my long-term perspective and support my strategic financial planning	My ESG preferences provide me with interesting investment opportunities	My ESG preferences generate competitive financial returns over the long-term	My ESG preferences reduce my exposure to risks associated with ESG issues

[3] blogs.cfainstitute.org/investor/2022/03/22/a-paradigm-shift-in-investing-are-you-ready/

This insight cements the earlier observation that investors who are better informed are more likely to recognize the value of integrating ESG into their financial journey. They also show a deeper connection between their personal values and investment decisions, fostering a greater sense of purpose and conviction.

Investors who believe ESG has a positive impact on their investments are also more likely to hold the belief that ESG preferences align with their long-term perspectives, provide interesting investment opportunties and generate competitive returns.

This, in itself, is not surprising, given this group is already in a receptive frame of mind when it comes to ESG. However, what is interesting is that the smallest gap between those positive on ESG and those who think ESG has a negative impact on investment is related to risk.

Figure 10 shows a similar percentage of both groups of investors, those who think ESG has a positive impact and those who think its effect is negative, agree that ESG reduces their exposure to risk associated with ESG issues. Across both, this is the lowest percentage of agreement registered. This indictes the risk management dimension can afford to be emphasized further and education around how ESG factors can mitigate risks related to ESG issues could broaden the appeal of ESG products and address concerns those in a more negative mindframe may have.

Figure 9

Question: Which of the following do you feel are a result of your ESG preferences? Select all that apply.

In % (multiple answers were allowed)

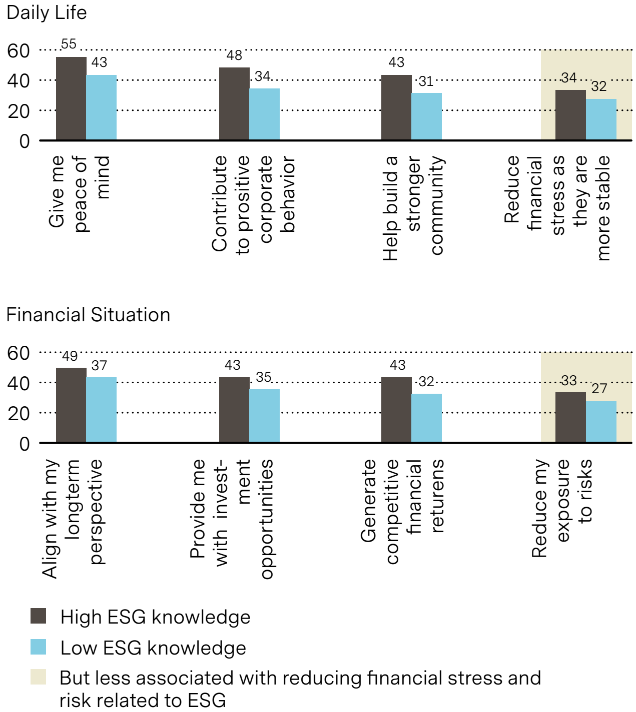
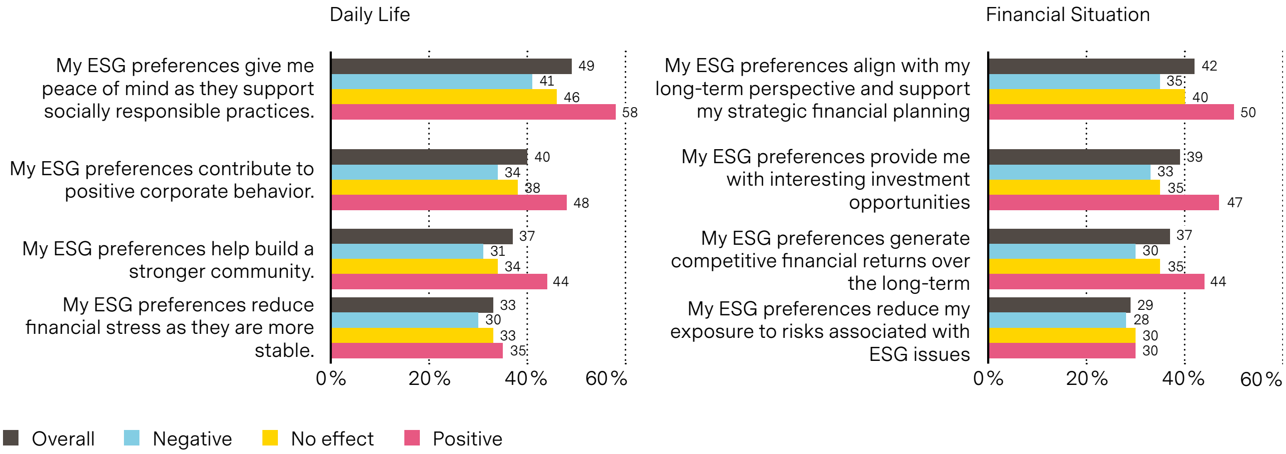


Figure 10

Question: Which of the following do you feel are a result of your ESG preferences? Select all that apply.

In % (multiple answers were allowed)



Knowledge and financial advice lead to a more positive outlook on the impact of ESG

Overall, investors are split regarding the type of impact ESG investment principles have on the money they earn from their savings and investments. Around a third each feel the approach has a positive, negative or neutral effect.

Interestingly, the investors based in the Americas are the most likely to believe ESG has a positive impact on their finances. They are also the group in which a lower percentage claim ESG has a negative effect on their savings and investments.

These findings are in line with other industry studies which show that despite the push back against ESG in the US, investors are holding strong in their beliefs[4].

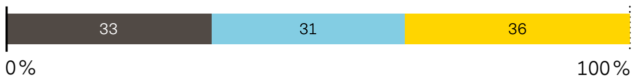
However, it is worth digging deeper to better understand these groups of investors. In doing so, we find that better ESG knowledge is more likely to result in investors believing ESG principles have a positive effect on their savings.

The role of education is therefore critical to driving further awareness and adoption of ESG principles among investors. As knowledge correlates to a more positive experience of ESG investment, it highlights the transformative potential of the approach and emphasizes the importance of improving investor understanding of ESG principles to encourage greater penetration and uptake of ESG investment principles.

Figure 11

Question: Which of the following statements about investing with environmental, social and governance (ESG) do you agree with most?

In %

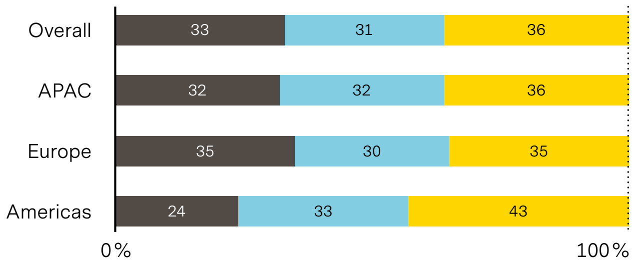


- I believe adopting ESG investment principles could have a ***negative effect*** on the money I earn on my savings and investments
- I believe adopting ESG investment principles would make ***no difference*** to the money I earn on my savings and investments
- I believe adopting ESG investment principles could have a ***positive effect*** on the money I earn on my savings and investments

Figure 12

Question: Which of the following statements about investing with environmental, social and governance (ESG) do you agree with most?

In %



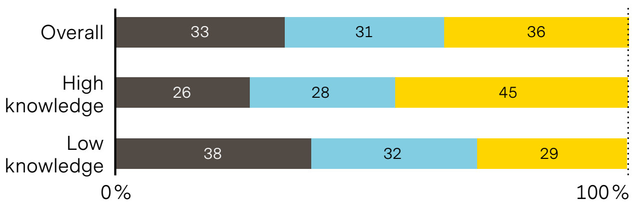
Negative effect · No difference · Positive effect

Data may not sum to 100% due to rounding

Figure 13

Question: Which of the following statements about investing with environmental, social and governance (ESG) do you agree with most? [ESG understanding]

In %



Negative effect · No difference · Positive effect

[4] www.esgtoday.com/investors-executives-to-increase-esg-investment-despite-greenwashing-scrutiny-political-pushback-bloomberg-survey/

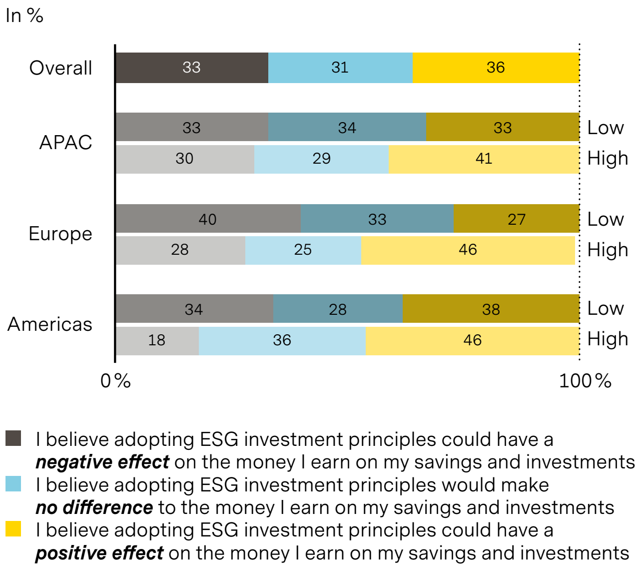
A look at regional variations shows that investors with low levels of ESG knowledge in Europe are the least likely to consider the approach to have a positive effect on their finances. Those in the Americas and in Europe who have high levels of professed knowledge are the most likely to believe ESG has a positive impact on their savings and investments.

Considering the data according to the sources of information investors trust, we can see that a higher percentage of those who use a professional advisor have a positive outlook on the outcomes of applying ESG principles when investing.

Advisors are guides, they help steer investors through what can sometimes be rocky terrain [see more in part 2]. These findings suggest advisors are living up to their role in guiding investors in relation to ESG as their direction is leading to investors being more satisfied or at least having a more positive outlook on the impact of ESG.

Figure 14

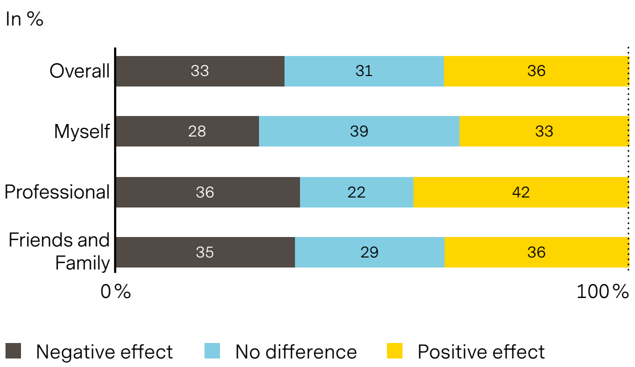
Question: Which of the following statements about investing with environmental, social and governance (ESG) do you agree with most?



Data may not sum to 100 % due to rounding

Figure 15

Question: Which of the following statements about investing with environmental, social and governance (ESG) do you agree with most? [Financial decision influence]



Part 2

Holding the reins—Do advisors help investors mitigate cognitive biases?

An advisor's role is to help clients make investment decisions which will lead them to achieve their financial goals. But how does this work when it comes to making decisions about non financial objectives? Are advisors fulfilling their duties in this regard, and as a result, are those investors who rely on professionals make choices better aligned to their goals/expectations? Or are they subject to the same biases as all investors in this field?

To examine this, we focused on testing investors' cognitive biases when making investment decisions related to ESG products. The biases selected are confirmation bias, herding and emotional bias, all 3 biases being already well known for weighing on financial decisions.

For reference, confirmation bias is the tendency to look for, interpret and recall information which supports one's existing beliefs. Herding bias refers to investors who follow and copy what other investors do, while emotional bias sees investors making decisions ruled by their emotions rather than rational reasoning.

Bias is a human trait, it is part of our psychology and in truth, little we can do can eliminate bias completely. However, the right support and education can limit the influence of these biases to help investors make more appropriate, less prejudiced investment decisions, toward reach their long-term goals.

Confirmation bias rife among investors
Figure 16 shows investors overall are considerably affected by confirmation bias, which is the tendency to interpret information in ways that are consistent with their existing beliefs. Those susceptible to this bias are also more likely to ignore or dismiss information which contradicts their original conclusions.

In the chart below we can see how, when confronted with information which does not match up with their original beliefs, 56 percent say this would not impact their perspective, though they would consider the information. A further 8 percent would outright dismiss this new data.

Greater understanding of ESG appears to influence confirmation bias among investors. More of those with a better grasp of ESG concepts say they would reconsider their views in light of new information.

Figure 16

Question: Jane strongly believes that renewable energy companies offer the most promising long-term growth and return. She comes across a well-researched article which the renewable energy sector may face challenges in the coming years due to regulatory changes. If you were Jane, which of the following best describes your reaction?

In %

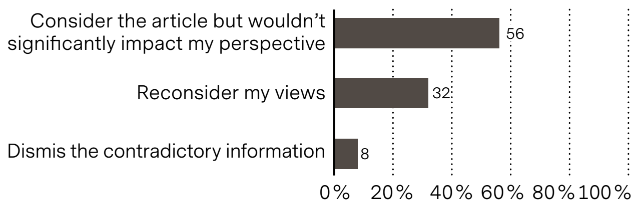
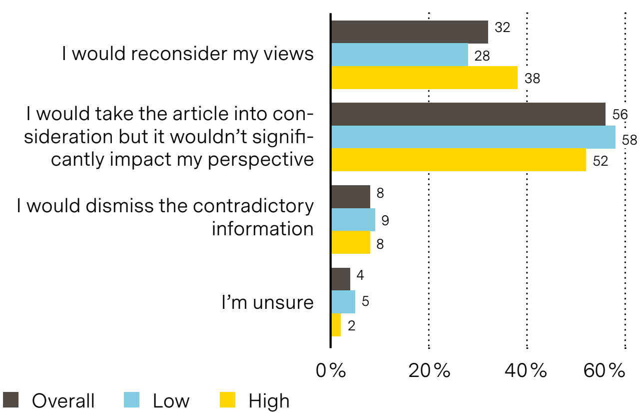


Figure 17

Question: Jane strongly believes that renewable energy companies offer the most promising long-term growth and return. She comes across a well-researched article which the renewable energy sector may face challenges in the coming years due to regulatory changes. If you were Jane, which of the following best describes your reaction?

In %



In this particular instance, seeking professional advice does not appear to tone down the confirmation bias and investors who rely on advisors are still impacted by this prejudice—62 percent would consider the article but would not change their stance while 9 percent would disregard the new information.

These findings could suggest advisors may need to employ different communication strategies to help counter confirmation bias among their clients; presenting diverse perspectives, encouraging critical thinking and also addressing the bias directly.

Further, presenting information in a way which acknowledges the investors existing beliefs while providing different perspectives could mean the investors are more receptive to the new information and are therefore more likely to take it into consideration.

Confirmation bias is however lessened among the investors who believe ESG has a positive impact on their investment outcomes (Figure 19), with almost a third of this group globally saying an article showing a contrary point of view would lead them to reconsider their views.

Advisors therefore would be well served by fostering this positive outlook towards ESG principles and encouraging their investors to nurture this feeling. The data shows that slightly larger percentages of advised investors have higher levels of ESG knowledge and a positive outlook of ESG outcomes.

Professional advisors help dampen herding bias

Several academic studies have shown that individual investors are more prone to herding behavior than professional investors, such as fund managers[5], and this tendency appears to be persistent over time.

Figure 18

Question: Jane strongly believes that renewable energy companies offer the most promising long-term growth and return. She comes across a well-researched article which the renewable energy sector may face challenges in the coming years due to regulatory changes. If you were Jane, which of the following best describes your reaction?

In %

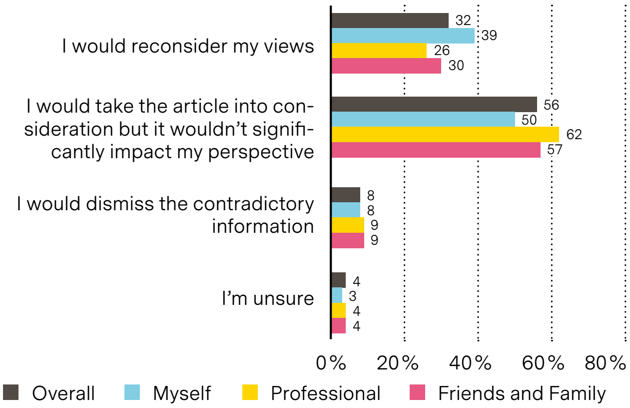
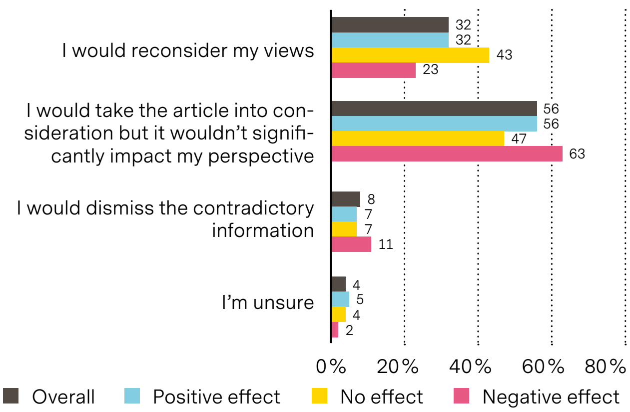


Figure 19

Question: Jane strongly believes that renewable energy companies offer the most promising long-term growth and return. She comes across a well-researched article which the renewable energy sector may face challenges in the coming years due to regulatory changes. If you were Jane, which of the following best describes your reaction?

In %



The data in this study also supports this notion. When considering ESG decisions, a quarter of investors would invest in a fund based on views shared in articles, rather than reverting to additional research or asking their financial advisor's opinion.

The use of professional advisors helps dampen this bias. We can see in Figure 21 that fewer of the investors who rely on professionals would blindly invest in a fund due to the media coverage it received. More of these investors would automatically turn to their financial advisor for guidance.

This argument is further supported by the fact that fewer of the investors who rely on professional advisors say they would reduce their commitment to ESG due to peer influence or market trends.

Financial advisors are therefore critical in helping investors navigate the complexities of the ESG market and facilitating the route to better-informed investment decisions. Media coverage can also lead investors to react emotionally rather than rationally, potentially creating market inefficiencies. Professional advisors can help mitigate this behavior.

In fact, further survey data supports the notion that advisors can reduce investors emotional triggers and lead them to making more rational investment decisions, aligned with their long term objectives.

Figure 20

Question: Consider the following scenario: Alex notices a surge in interest and positive news surrounding a particular ESG fund, with many experienced investors and financial experts suggesting it will be successful, despite some reservations about the stability of the provider selling the product. In Alex's place, which of the following actions would you take?

In %

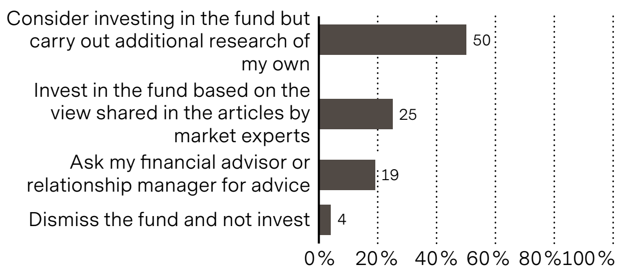


Figure 21

Question: Alex notices a surge in interest and positive news surrounding a particular ESG fund, with many experienced investors and financial experts suggesting it will be successful, despite some reservations about the stability of the provider selling the product. In Alex's place, which of the following actions would you take?

In %

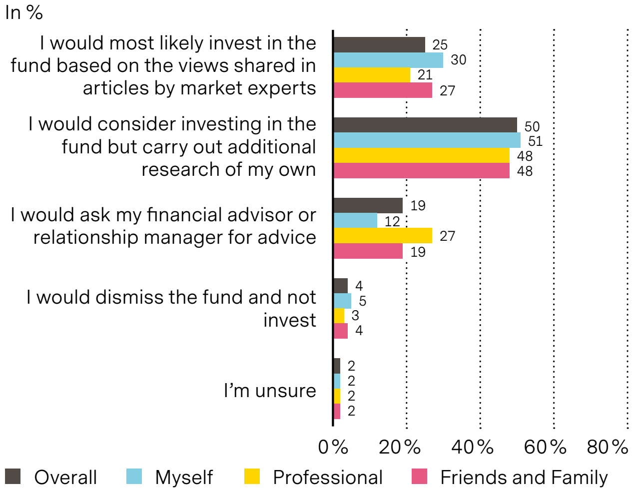


Figure 22

Question: Which influencing factors or situations would lead you to lessen your commitment to your ESG preferences? (Peer influence or market trends)

multiple answers were allowed

23%	25%	22%	29%
Overall	Myself	Professional	Friends and Family

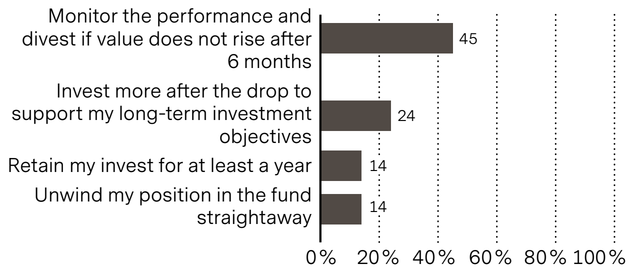
[5] www.cairn.info/revue-finance-2013-3-page-67.htm

Positive ESG outlook keeps emotions in check
Emotions can derail investors' decision-making processes. "In reality, investors are not rational. They are frequently influenced by emotions while taking investment decision. Emotions can get in the way of making prudent financial decisions.[6]"

Figure 23

Question: Chris recently invested in an ESG fund. The fund experiences a sudden drop in value due to market volatility. If you were Chris, which of the following actions would you take?

In %



The findings in this study shows that investors are swayed by their emotions. A small, but still significant percentage of investors (14 percent) would immediately divest from a fund which experiences a sudden drop in value regardless of its future prospect of performance. A further 45 percent also show a certain level of short-termism and would exit their investment after six months, should the fund not recover its losses.

We can also assess that 41 percent of investors however do take a longer-term view. The data shows that 14 percent would retain the investment for a year and 24 percent would invest more after a drop, showing this group to be more capable of withstanding certain levels of volatility.

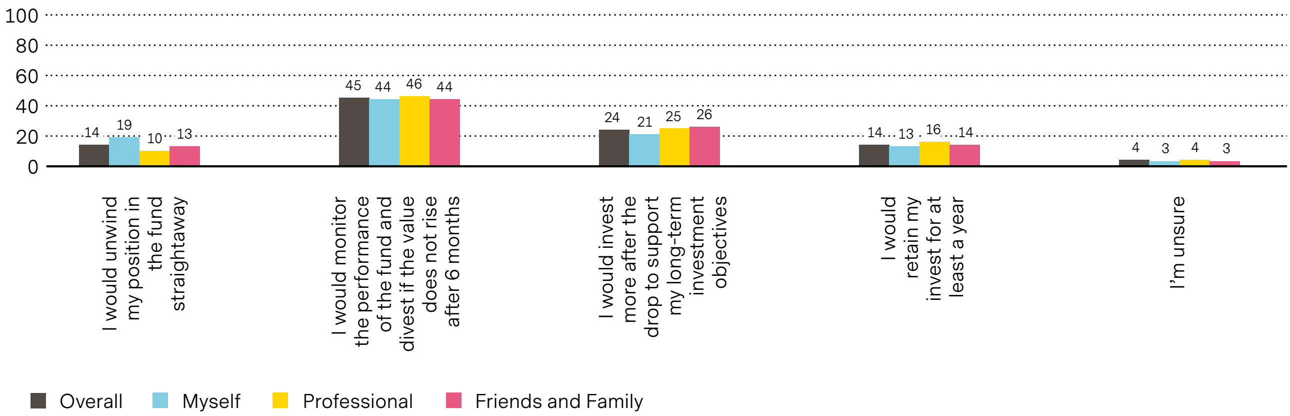
This data is very telling of investors' responses to market volatility and short-term fluctuations in value. It underscores the struggle of maintaining a disciplined, rational approach to investing in the face of market uncertainty, highlighting a greater need for education and guidance.

When considering this data in isolation, the use of professional advisors does have some impact on the investors' behavior. Fewer advised investors say they would unwind their position straightaway.

Figure 24

Question: Chris recently invested in an ESG fund. The fund experiences a sudden drop in value due to market volatility. If you were Chris, which of the following actions would you take?

In %



[6] utu.ac.in/DManagement/download/Junepercent202016/4.pdf

However, the more significant difference in emotional response can be seen among investors who believe ESG has a positive impact on their outcomes. This belief, as identified earlier in this paper, is higher among advised investors, therefore linking this behavior to the use of financial advisors.

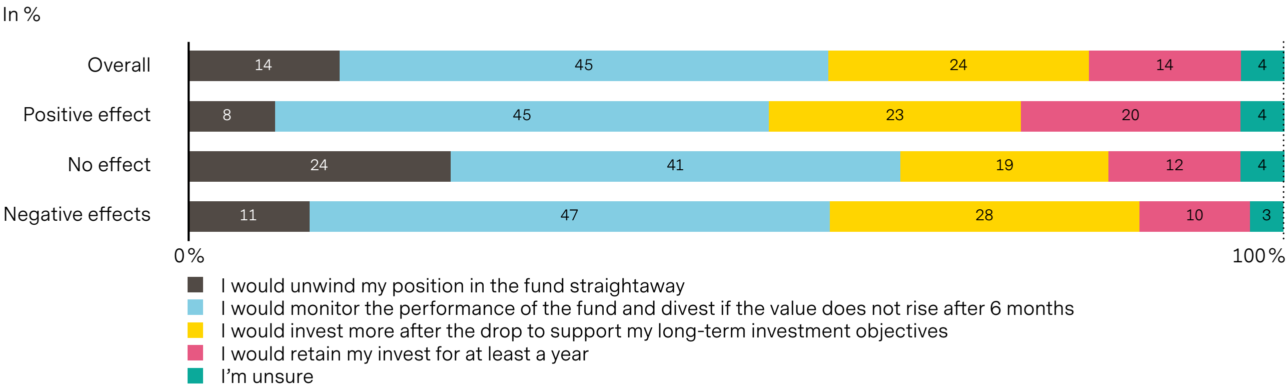
Figure 25 shows that only 8 percent of these investors would divest from a fund that fell suddenly in value.

In addition, fewer positive investors feel their emotional responses rule their investment decisions. A higher percentage of this group disagree that their emotional responses influence their choices in this regard.

Arguably, this group of investors is more resilient and disciplined in their decision-making around ESG, which could, in turn, impact the performance and long-term outlook for their portfolios.

Figure 25

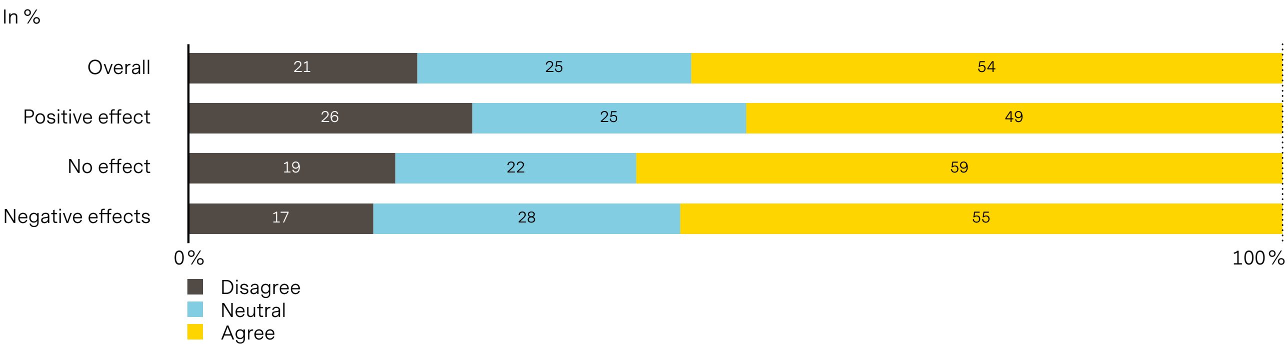
Question: Chris recently invested in an ESG fund. The fund experiences a sudden drop in value due to market volatility. If you were Chris, which of the following actions would you take?



Data may not sum to 100 % due to rounding

Figure 26

Question: When researching ESG investments how strongly do you agree or disagree with the following in terms of your approach? [My emotional responses often influence my decisions to buy or sell investments]



Data may not sum to 100 % due to rounding

Part 3

ESG principles rising high on investors' agenda

We have established that a number of factors influence the way investors interact with ESG as a financial conceptand the way they make investment decisions related to the topic. ESG education levels, ESG outlook and type of advice all have an impact on the choices investors make.

However, regardless of these differing elements, the data from this survey is clear evidence that ESG is on an upward trajectory.

The value of this approach is rising on all investors' agendas. We can see that the majority of investors (62 percent) agree that investors like them are prioritizing ESG over profits (Figure 27). Even half of those who think ESG has a negative impact on investment outcomes agree with this statement, suggesting the approach is becoming ingrained in the way people invest.

Society is moving towards providing greater support for sustainable and socially responsible practices and these findings are evidence of this shift.

The same can be seen among investors who have different ESG knowledge levels. Over half of those with low knowledge agree ESG is becoming more of a priority.

Investors commit to real allocations

In discussing the concept of ESG, investors may have a tendency to be more laissez-faire with their opinions and could, arguably, be supporting ESG values more readily as a result. However, we chose to go a step further and ask investors how they would allocate a sum of money across ESG integration and non-ESG integration.

Overall, investors would choose to split the money between the two types of investment approaches. Those who believe ESG has a positive impact on investment would place a slightly higher percentage of the money into related vehicles though the ones who feel ESG has a negative effect on the money they make would still allocate 48 percent of the lump sum to ESG-related strategies.

Considering the regional results we can see investors in APAC are, on average, ready to allocate a larger portion of money to ESG investments. Those in the Americas say they would invest less of their money in strategies with this approach.

Figure 27*

Question: How much do you agree with the following statements about investing with environmental, social and governance (ESG)? (by impact of ESG)

In %

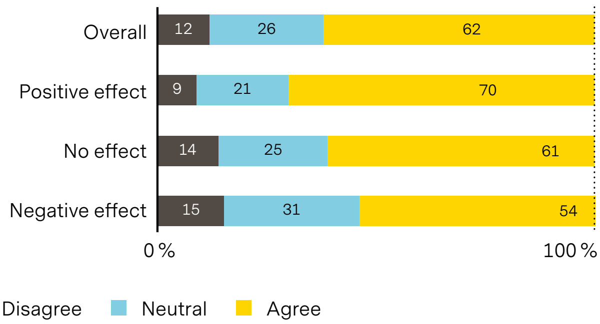


Figure 28*

Question: How much do you agree with the following statements about investing with environmental, social and governance (ESG)?

In %

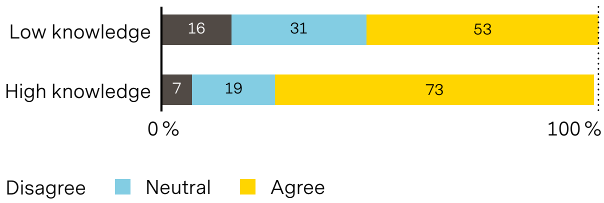
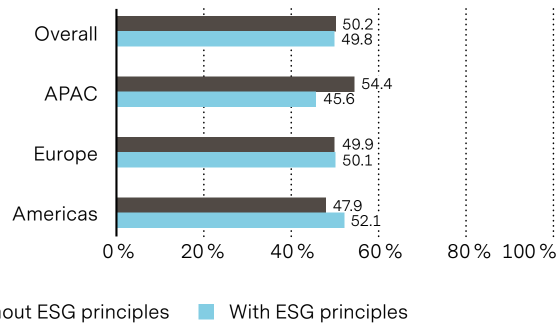


Figure 29

Question: Given a USD 100,000 portfolio to invest as you see fit in order to hit long-term financial goals, how would you split the money between ESG and non-ESG approaches?

In %



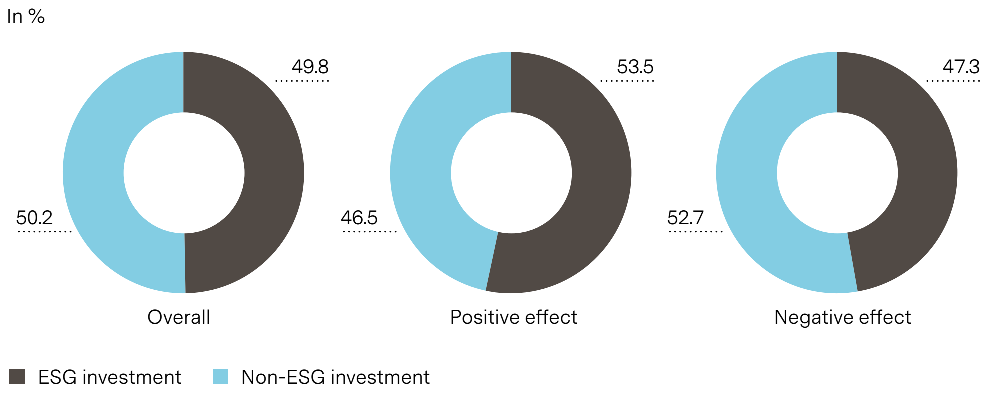
* Investors like me are starting to prioritize ESG-oriented investments over profits

There is a growing recognition of the importance of ESG among investors, regardless of their perception of its impact on investment returns. This signals a continued shift towards more conscious investment decisions across the whole landscape, indicating continued investment by industry players is necessary to ensure the growth remains strong and sound.

A similar trend can be seen among investors of differing ESG knowledge levels. Both groups would allocate roughly half of the money to ESG integration. Once again, this finding reveals the appeal of ESG products and the increased integration into investment decisions.

Figure 30

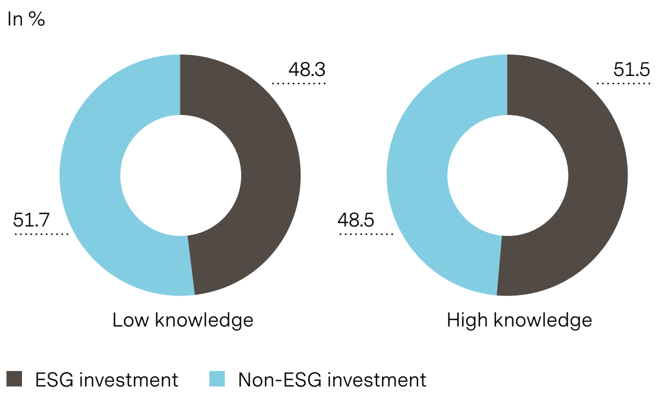
Question: Given a USD 100,000 portfolio to invest as you see fit in order to hit long-term financial goals, how would you split the money between ESG and non-ESG approaches?



Data may not sum to 100 % due to rounding

Figure 31

Question: Given a USD 100,000 portfolio to invest as you see fit in order to hit long-term financial goals, how would you split the money between ESG and non-ESG approaches?



Data may not sum to 100 % due to rounding

Unilateral agreement on growth in ESG

Another crucial fact which surfaced in this study is that the outlook for growth within the ESG sphere is unilaterally positive. The majority of investors agree that all portfolios will include some ESG integration within the next five years.

This is reflective of market commentary which has forecast a significant growth trajectory for the approach. According to data from Bloomberg[7], global ESG assets are expected to surpass the USD40 trillion mark by 2030, up from USD 30 trillion in 2022.

The majority of our sample already invests in ESG products and only 5 percent of investors say they do not hold any investments which reflect ESG principles.

Of those who do invest with ESG considerations in mind, almost four in 10 (38 percent) have allocated 25 percent or more to investments using this approach.

Figure 33

Question: Have you allocated any of your savings and investment according to environmental, social or governance principles or values?

95 %	5 %
Yes	No

Figure 32*

Question: How much do you agree with the following statements about investing with environmental, social and governance (ESG)? (by Impact of ESG)

In %

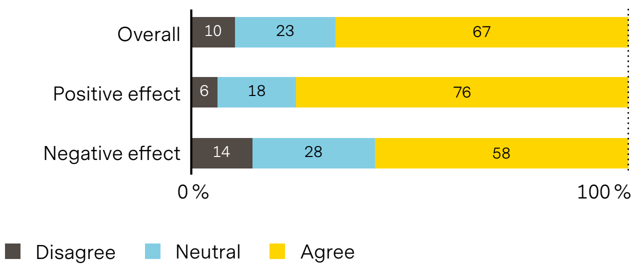
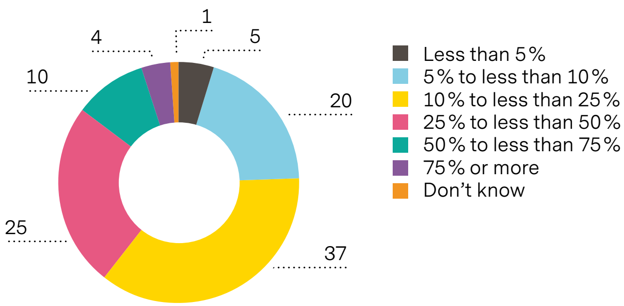


Figure 34

Question: You said you had allocated some of your savings and investment according to environmental, social or governance principles or values. Roughly what proportion of your savings and investments have you allocated in this way?

In %



Data may not sum to 100 % due to rounding

* All investor portfolios will include some ESG investments within the next 5 years

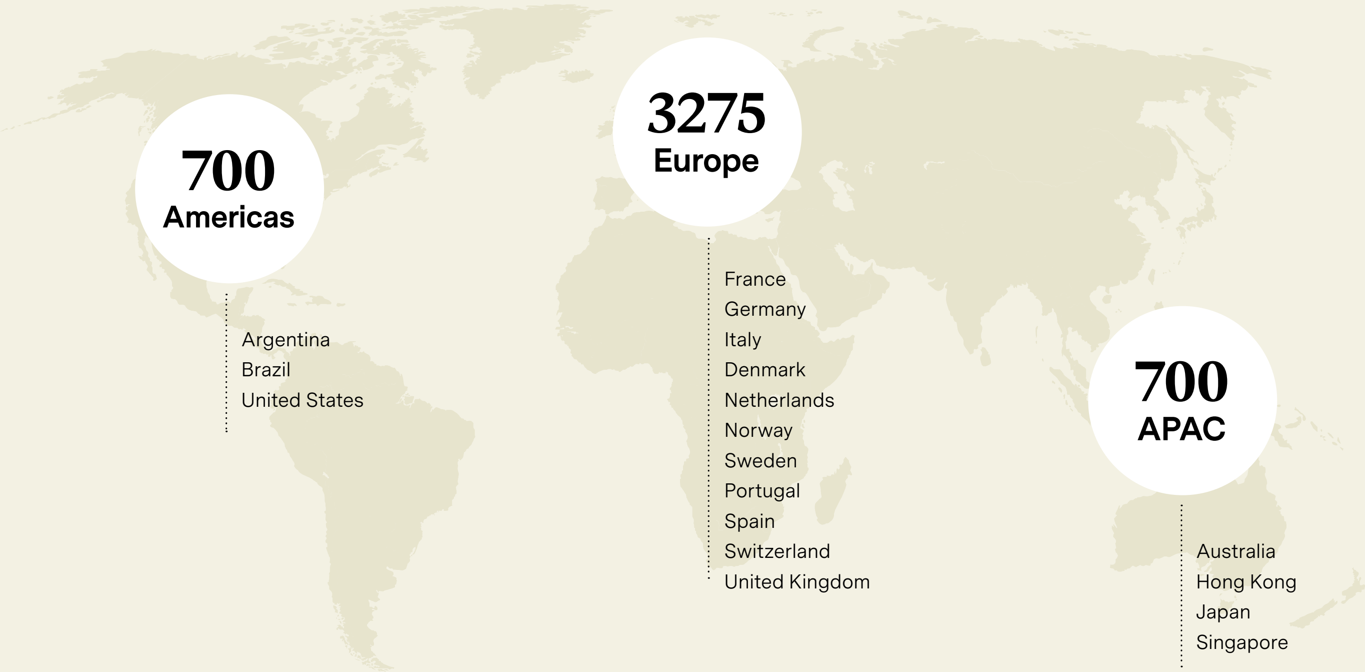
[7] www.bloomberg.com/company/press/global-esg-assets-predicted-to-hit-40-trillion-by-2030-despite-challenging-environment-forecasts-bloomberg-intelligence/#:~:text=London%2C%208%20January%202024%20%E2%80%93%20Global,from%20Bloomberg%20Intelligence%20(BI).

About this survey

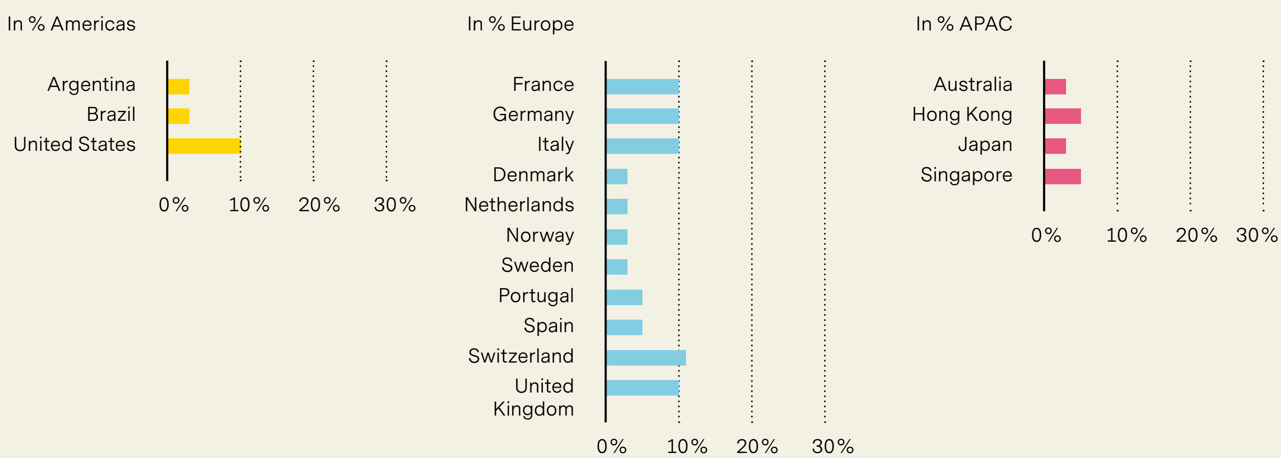
The Vontobel Investor ESG Study 2024 was commissioned to gather the views of individual investors on various aspects of ESG investing.

CoreData Research conducted an extensive online survey including a sample of 4,675 investors globally. The data was collected during January and February 2024, from 18 countries throughout Europe, Asia Pacific and North America.

The graphic below shows the location of the investors who participated in the study.



Respondents' location



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