

Asset Management

Act ESG: Closing the ESG knowledge gap

An opportunity for product
providers and advisers to
engage with end clients



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What do you believe in?

Act ESG by Vontobel Asset Management signals a discussion on sustainable investing. As ESG becomes mainstream, the number of options and approaches increases as well.

Further information

vontobel.com/act-esg



Sustainable investing is a hot topic. For instance, the United Nations-backed Principles for Responsible Investment, launched more than a decade ago, is now a thriving global project boasting more than 2,300 members who collectively account for 85 trillion US dollars in assets under management.¹

We assumed that private clients must be equally excited about sustainable products – and commissioned a survey of 4,600 people in 14 countries to find out what they really think. We were concerned to find that although investors follow sustainable principles in their daily lives, their awareness of sustainable investment opportunities is limited. Our assumptions about the groups we thought would be most knowledgeable were wrong, but we were glad to hear that investors will increasingly incorporate ESG principles into their investment behaviors.

However, the data suggests the investment industry can do more to educate investors and offer appropriate solutions. Savers and investors told us they would welcome more support from their advisers, will listen when advisers talk ESG, and are willing to invest a significant proportion of their assets according to ESG principles.

We at Vontobel Asset Management are committed to helping advisers along the ESG journey. Our soon-to-be-launched “Act ESG” app will provide educational support, enabling them to quickly and easily test different ESG approaches, and find the one which is right.

A handwritten signature in black ink, appearing to read 'Schwarzer', written in a cursive style.

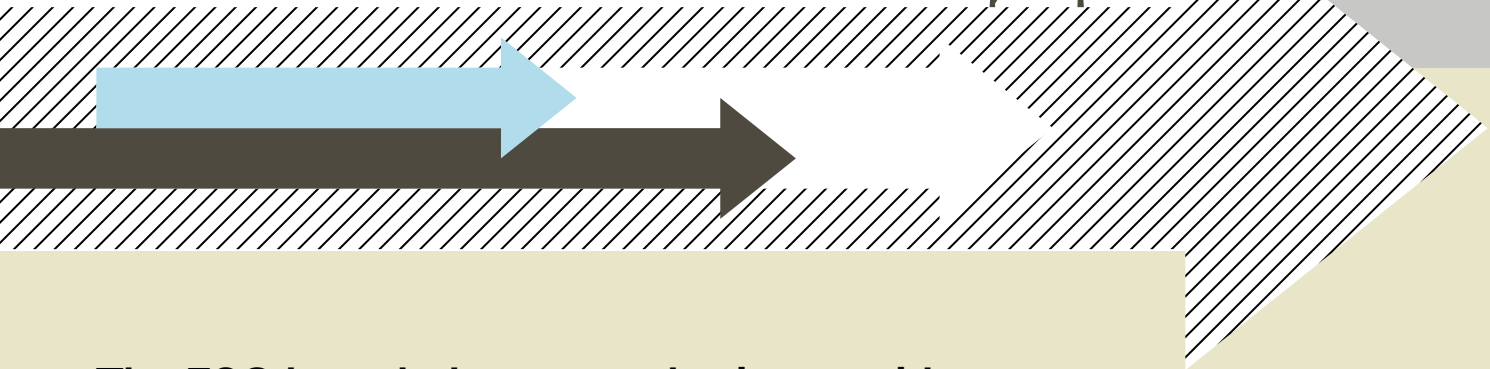
Axel Schwarzer

Head of Vontobel Asset Management

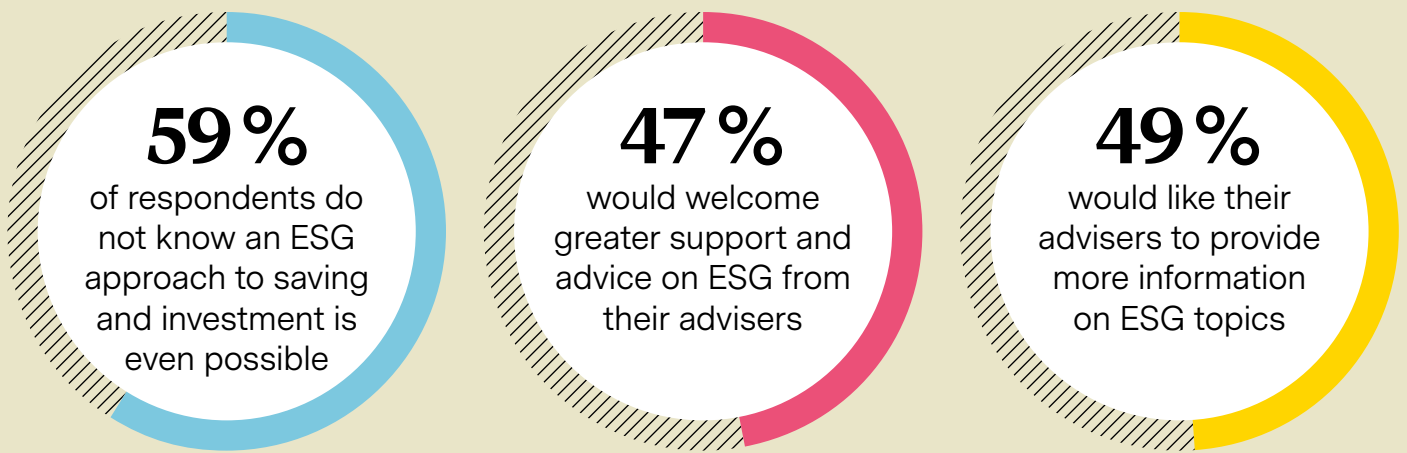
¹Source: <https://www.unpri.org/pri/about-the-pri>

People power:

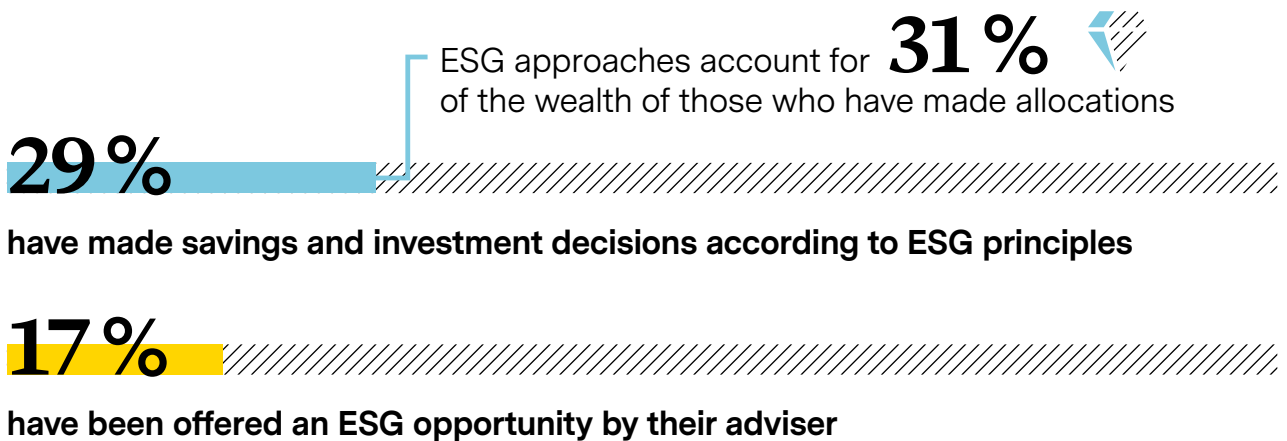
How ESG empowers investors to drive positive change

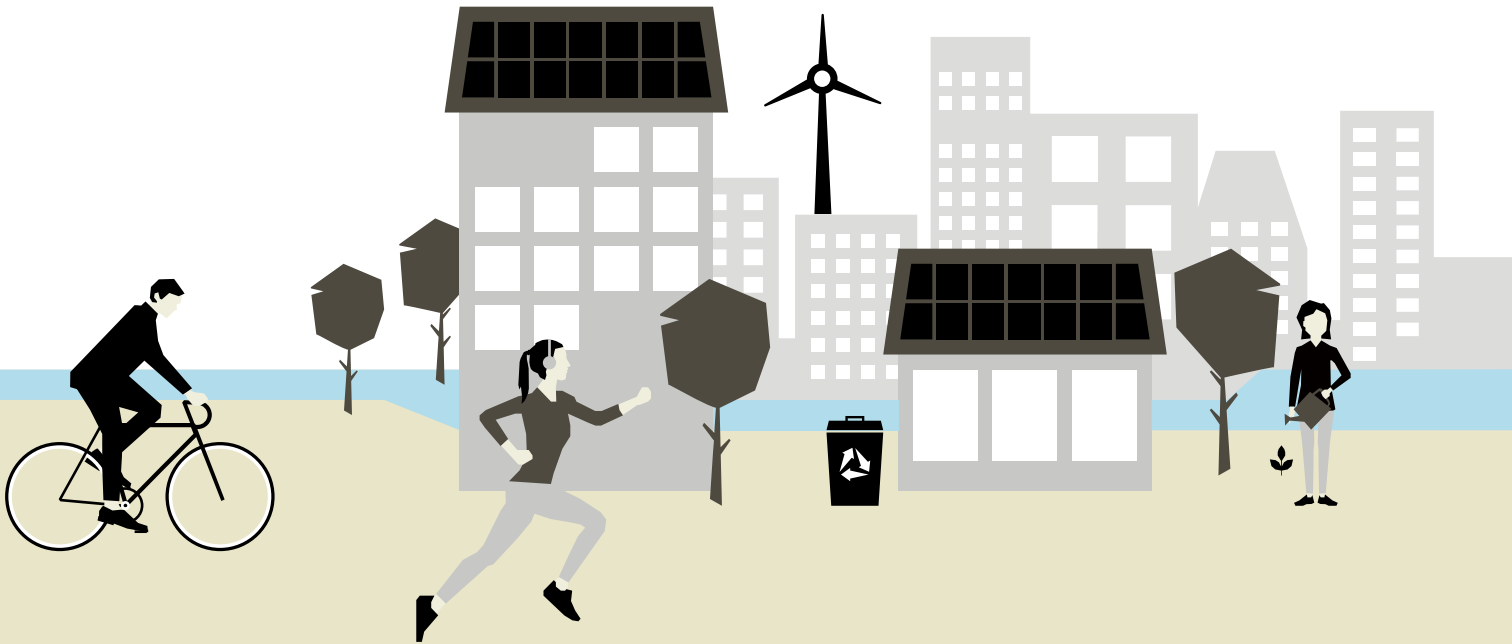


The ESG knowledge gap today is too wide ...

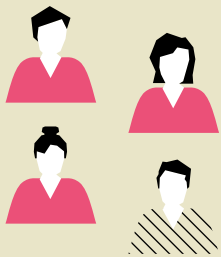


... so for now, ESG remains a minority activity ...





... but more people than ever want an ESG approach ...



73%

believe businesses have a duty to behave more ethically



65%

believe ethical businesses will deliver better investment returns

47%

of a notional 100,000 USD portfolio is the amount respondents say they would invest according to ESG principles



... and they are looking to advisers for ESG support

39%
of respondents

say an adviser's advice on ESG opportunities would be a critical influence on their behavior

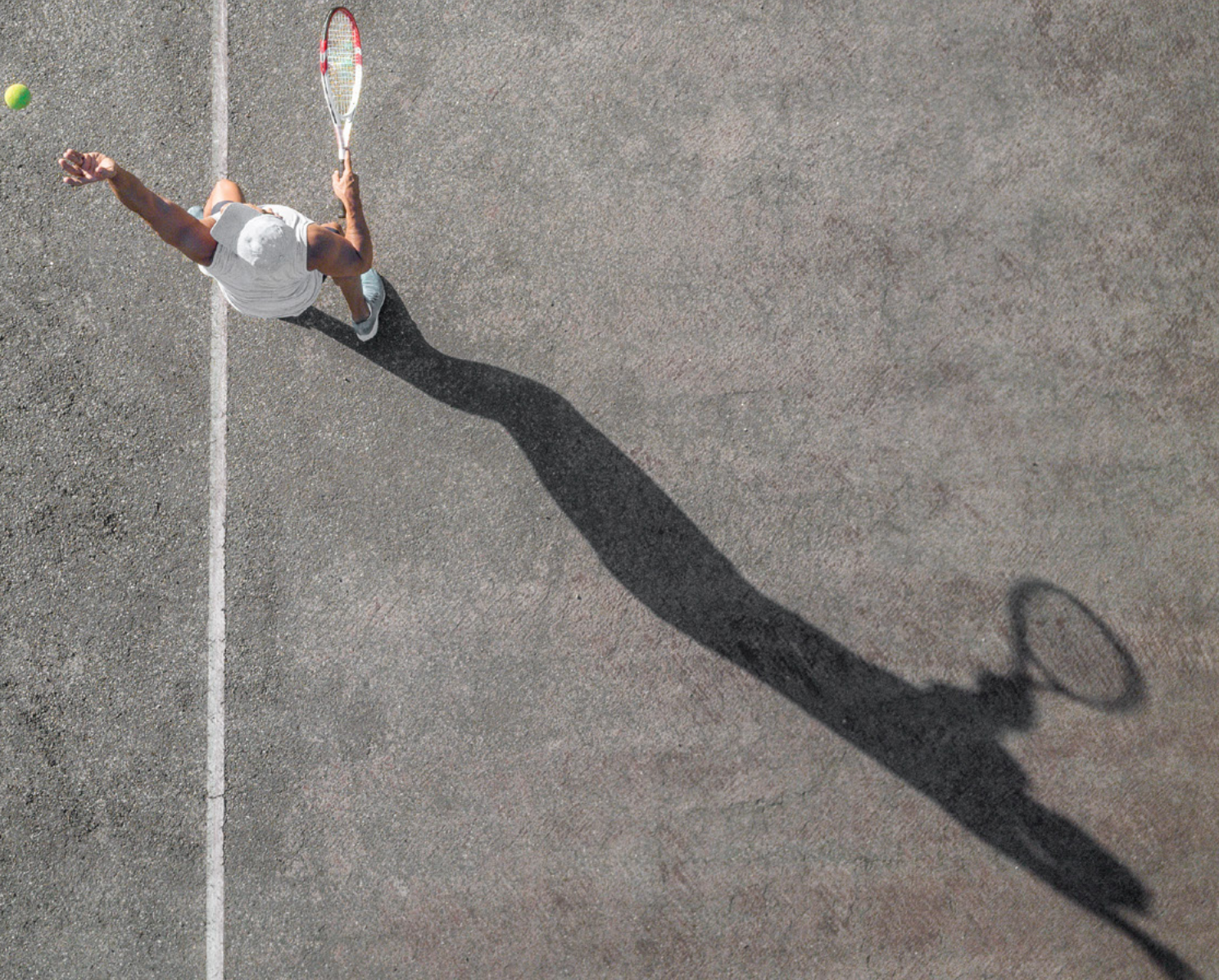
46%
of respondents

would be more likely to choose an adviser able to support their ESG ambitions

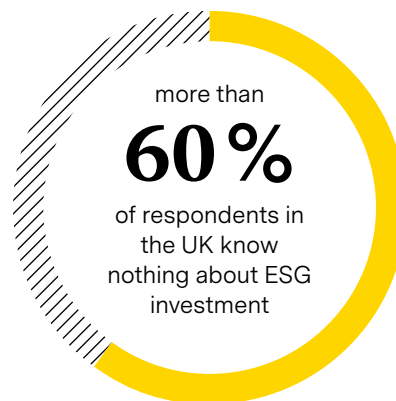
45%
of respondents

would switch out of savings and investments if their money was allocated to activities they disagree with

The knowledge gap revealed



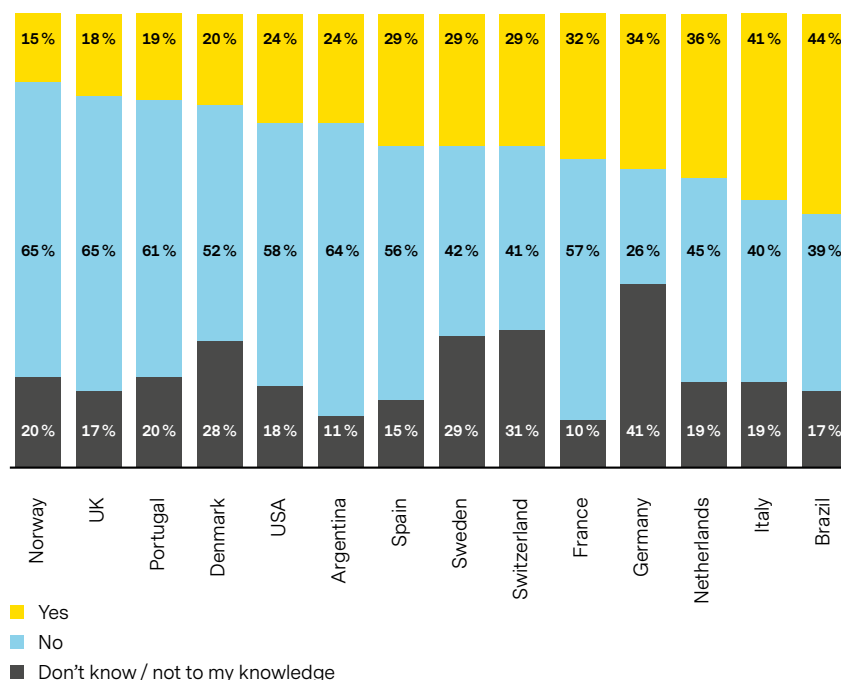
The research that we have commissioned (for details, see page 26) reveals a striking knowledge gap when it comes to principles based on environmental, social and governance (ESG) standards. More than half of the respondents (59%) say they have never heard of an ESG approach to savings and investment. Among respondents with accessible wealth below 100,000 US dollars, this rises to 61%; the wealthiest cohort are more knowledgeable, but a still sizeable group (33%) have never heard of ESG, while a further 35% say they know very little about it.



The study also found that the picture on ESG take-up varies considerably from country to country – and not in a predictable way. In Norway and the UK, two countries often considered at the vanguard of socially responsible investment, respondents are less likely than anywhere else to say they have invested with an ESG approach in mind. This is a reflection of awareness. In the UK and Norway, respondents are much more likely to say they know nothing about ESG investment – more than 60% in either country have never heard of it. This number drops to around 40% in Brazil, Italy and the Netherlands, the three countries in which take-up is highest (see chart 1).

Chart 1: Brazil, Italy and the Netherlands with highest ESG take-up

Allocated investments to ESG



Source: Vontobel ESG survey 2019

“Investors need to make a clear decision on whether they wish to use ESG to improve financial performance, or align investments with their convictions.”

Eckhard Plinke, Head ESG Competence Center at Vontobel Asset Management

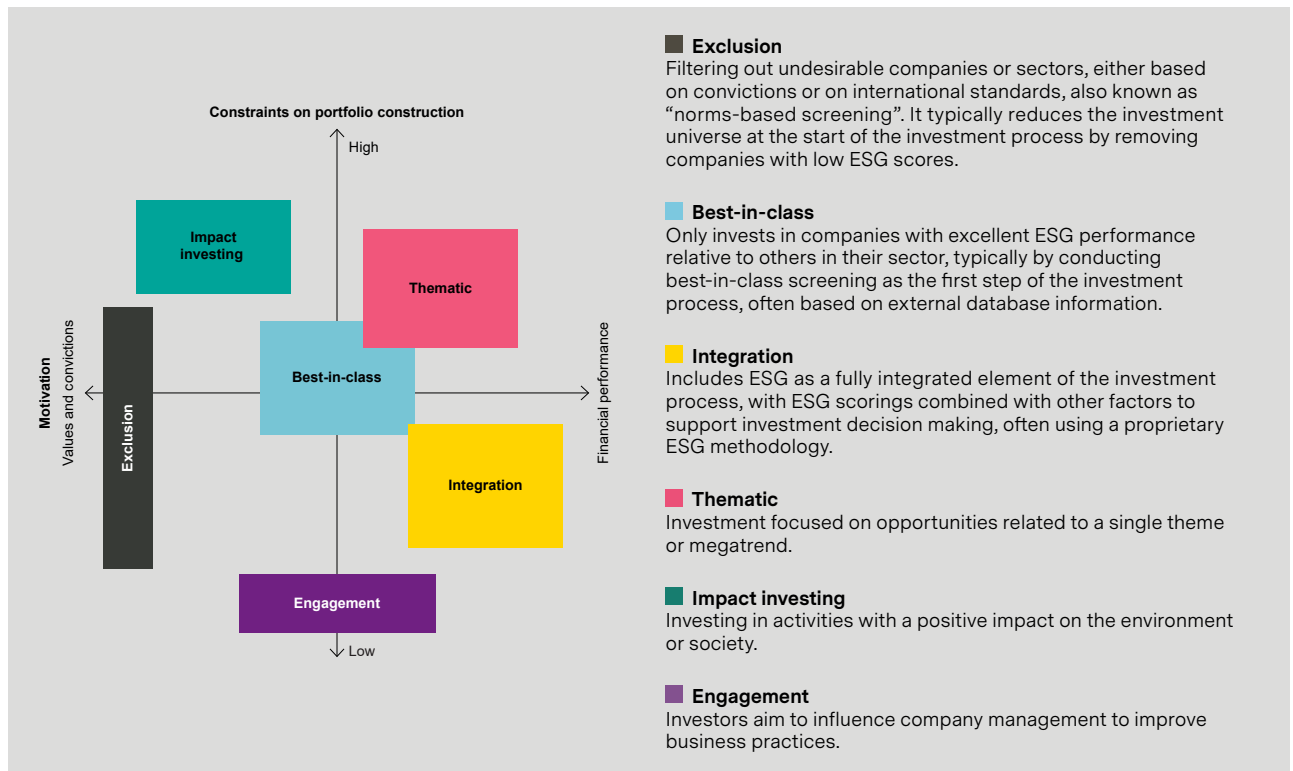
Why the knowledge gap exists

One problem may be language, says Erich Stadlberger, Manager of the Private Banking and Asset Management Division at Austria’s Oberbank, because there is currently too much confusing terminology in the marketplace. “‘ESG’ is a term used by experts. People are more familiar with ‘sustainability,’” he says.

Eckhard Plinke, Head ESG Competence Center at Vontobel Asset Management, agrees. He spends much of his time educating investors about the different options (see chart 2). “Investors need to make a clear decision on whether they wish to use ESG to improve financial performance, or align investments with their convictions. Without this understanding it’s very hard to pick the right investments.”

Chart 2: ESG investment approaches

Financial decision making



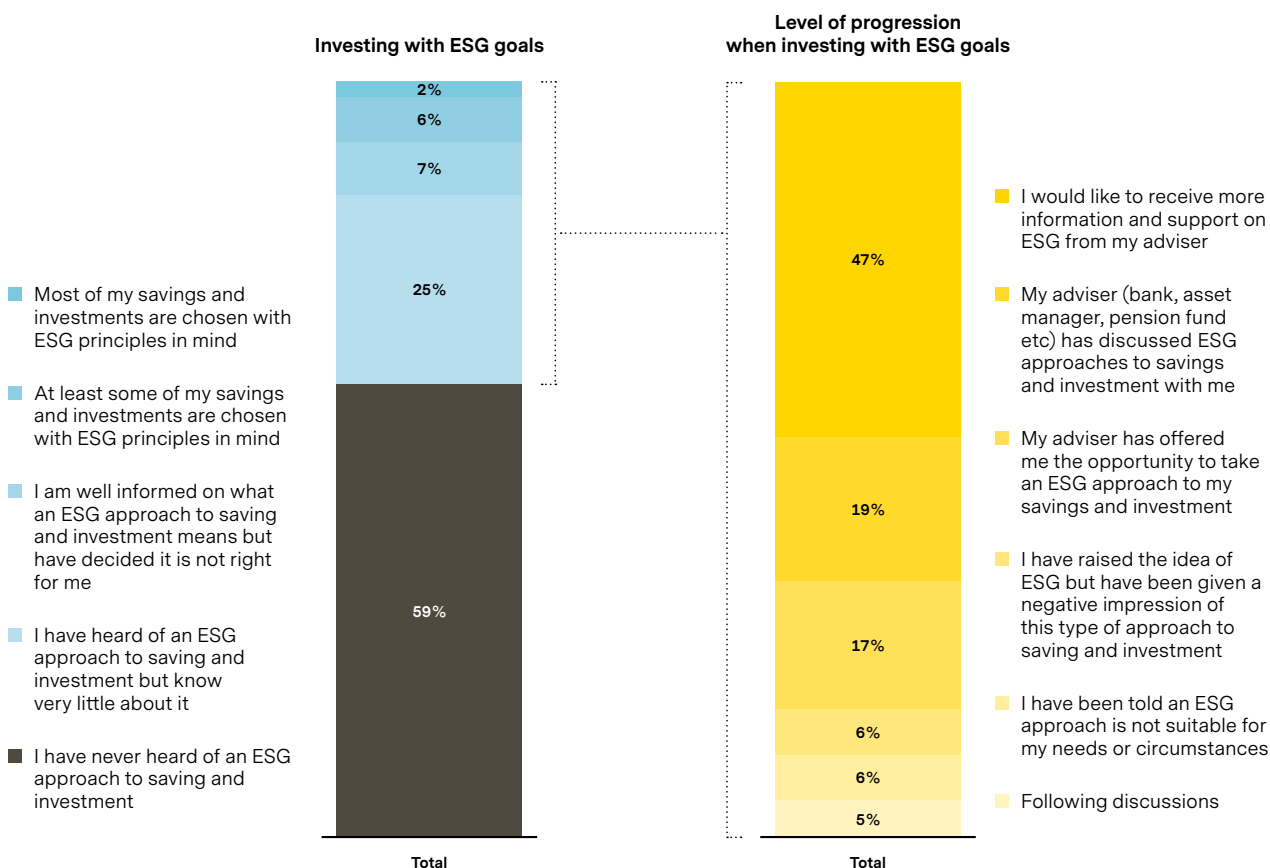
Source: Vontobel Asset Management

Limited support and advice available

Too few advisers are currently seizing the opportunity to help cut through the jargon. Almost half of respondents (47%) would like to hear more about ESG from their advisers; only 19% have ever discussed ESG approaches with their adviser, while only 17% have been offered opportunities to save and invest this way (see chart 3). Even among respondents who have more than 100,000 US dollars of accessible wealth, these figures are barely any higher (see chart 3).

Chart 3: Investors look for more support on ESG

Financial decision making



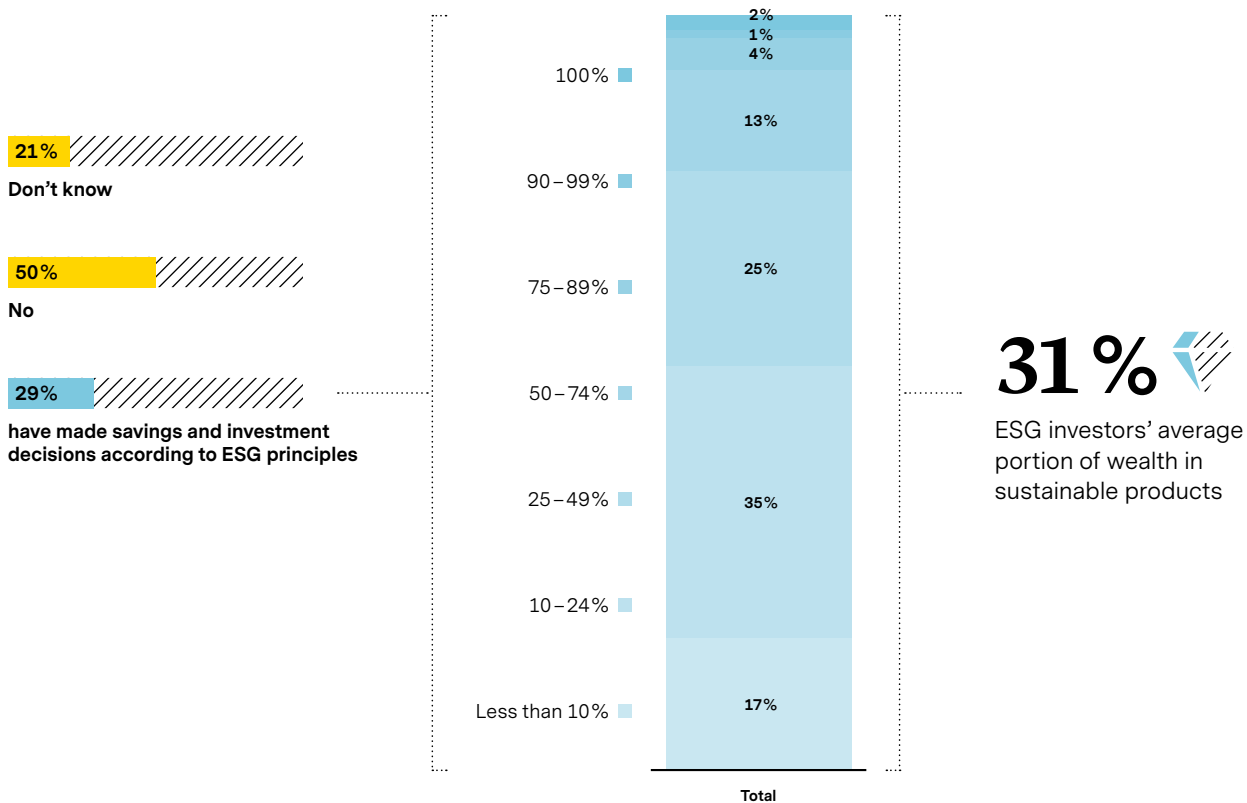
Source: Vontobel ESG survey 2019

A minority activity, but a major opportunity

For now, ESG investment remains a minority activity. Only 29% of respondents have already allocated part of their savings and investments to ESG approaches. And those that did put a mere 31% of their funds into sustainable products (see chart 4). The percentage rises to 40% among the wealthier.

Chart 4: Modest ESG allocations point to strong growth potential

Proportion of investments allocated to ESG



Source: Vontobel ESG survey 2019

What investors want (but seldom get)



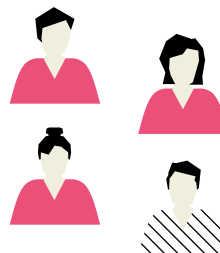
“We see increasing demand for information on ESG approaches to investment from the next generation of clients.”

Cléo Fitzsimons, Responsible Investments Manager at Cazenove Capital

Despite a lack of knowledge of ESG investment – and low take-up – it is clear there are now high levels of concern in society about a broad range of social, political and environmental issues. Three-quarters of respondents (75%) fear their children and grandchildren will live in a world that is more dangerous and hostile than the one they know now; 74% do not think we’re doing enough to tackle climate change, while 71% say the same of inequality.

This awareness is likely to grow as the role of younger investors increases. “We see increasing demand for information on ESG approaches to investment from the next generation of clients,” notes Cléo Fitzsimons, Responsible Investments Manager at Cazenove Capital in the UK.

The reality is that many people are now beginning to change their financial behaviors to reflect these views. Some 47% of respondents say they have started to consider environmental and social issues when they make purchases of food and other items. In some countries – Italy, the Netherlands, Spain, Switzerland, Argentina and Brazil – more than half are shopping in this way. The savers and investors of tomorrow are especially aware. Asked about a range of possible behaviors, from using electric cars and sustainable energy to joining campaign groups, 75% of 18-to-34-year-olds have adopted at least one – versus only 66% of the over-50-year-olds. Those with higher levels of education and wealthier investors are even more likely to have engaged in some way. Some



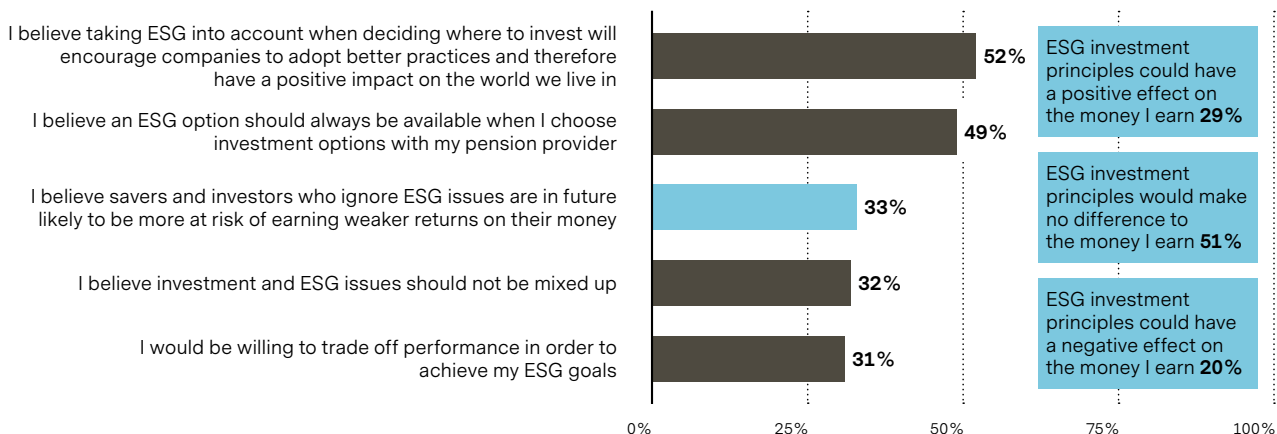
73%
believe businesses have a duty to behave more ethically

75% and 81% of respondents in these groups, respectively, have adopted at least one of these behaviors.

In other words, support for acting on ESG issues is already high – and likely to rise in the future. Importantly, respondents are beginning to make the link between these issues and the businesses in which they might invest. There is a determination to hold these businesses to account: almost three-quarters (73%) of respondents think too few companies take their societal responsibilities sufficiently seriously, and almost two-thirds (65%) now think companies that behave ethically will outperform as a result.

Already, a third of respondents (33%) think that ignoring ESG issues during the investment process could lead to lower long-term returns. Equally, more than half (52%) think ESG investors could help persuade businesses to improve their behavior (see chart 5).

Chart 5: Gravitating towards ESG ... with some anxieties



Source: Vontobel ESG survey 2019

“Private clients are still focused primarily on financial returns, but we see an increasing number who want their portfolios also to be based on their values.”

Thomas Trsan, ESG & Impact Investing Specialist at Vontobel Wealth Management

Thomas Trsan, ESG & Impact Investing Specialist at Vontobel Wealth Management, points out that client sentiment is changing. “Private clients are still focused primarily on financial returns, but we see an increasing number who want their portfolios also to be based on their values,” he says.

One important strategy for advisers and others as they make the case for ESG will be to understand the motivations of those who have already invested in this way. Here, the research is encouraging: existing ESG investors say they have experienced a wide range of positive outcomes. These include both values-based benefits – the desire to have money working for a greater good (50%) or to avoid activities not liked (45%) – as well as performance goals – the desire for higher returns (37%) or reduced risk (33%) (see chart 6).

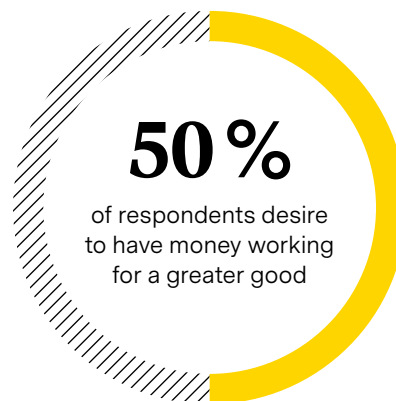
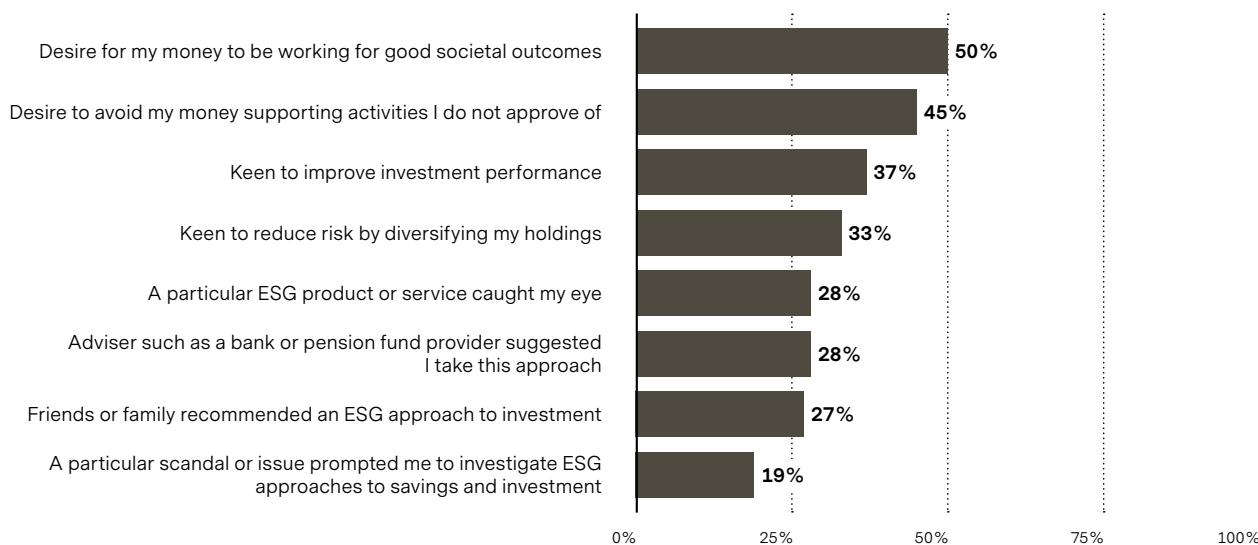


Chart 6: Why savers and investors have committed to ESG

Motivations for allocating savings and investment to ESG approaches



Source: Vontobel ESG survey 2019

Surprisingly, these motivations vary very little between investors of different ages and levels of wealth. In all categories, existing ESG investors believe they are “doing well by doing good”, achieving the performance they desire while supporting the principles they hold dear.

When asked to specify what their ESG goals are, many investors take a more proactive view. The top three priorities for ESG investors are a positive move towards renewable energy, environmentally friendly businesses or projects, and sustainable companies (essentially a thematic investment approach). Avoidance-based goals that focus on exclusion, by contrast, consistently rank lower (see chart 7).

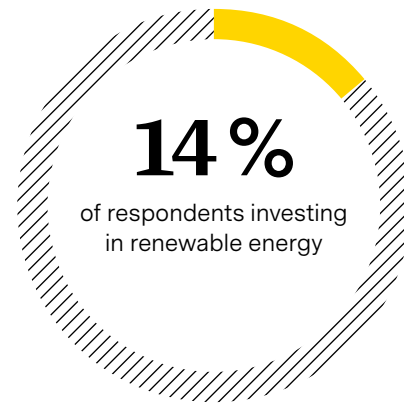
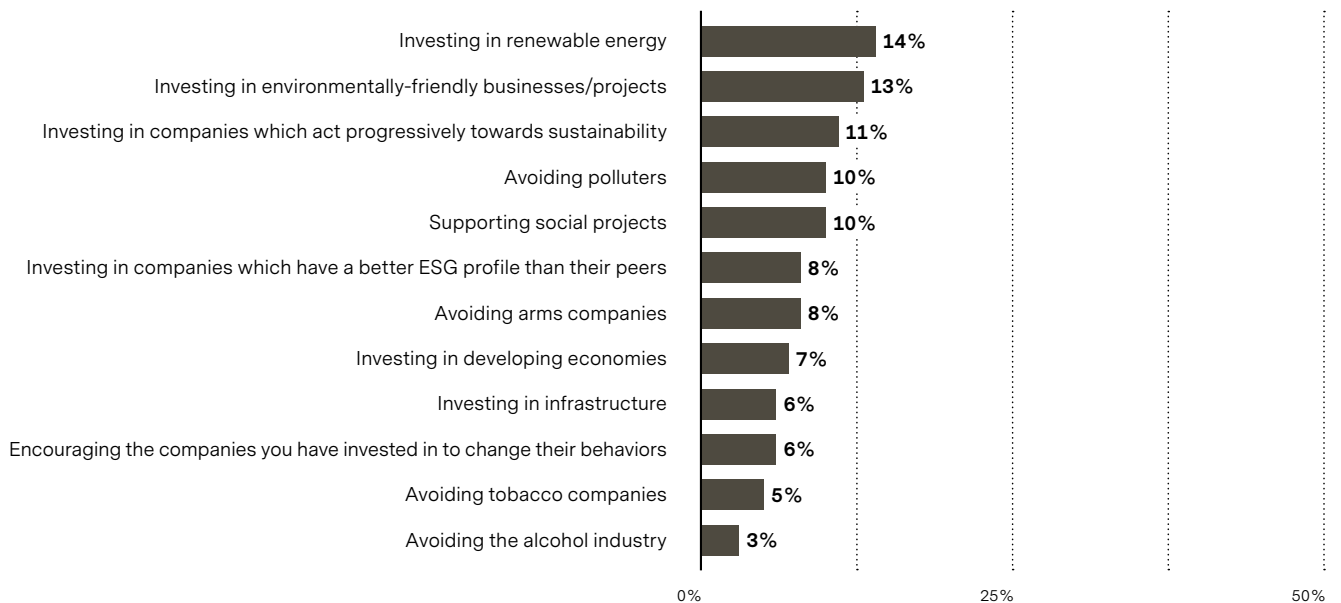


Chart 7: The ESG goals most likely to attract investment

Investing for long-term financial goals



Each value is out of 100 where for example a score of 20 is twice as important as a score of 10

Source: Vontobel ESG survey 2019

“If you use ESG factors as a risk management tool or to identify opportunities, worries about compromised performance are generally not warranted.”

Lukas Münstermann, Senior ESG Investing Specialist at Vontobel Asset Management

Why investors are slow to change their behavior

The respondents obviously think sustainability is important and believe in the power of change through financial decisions and behaviors. So why aren't more of them doing it? Again, the knowledge gap can explain their inertia. Even among those who are more engaged with ESG approaches, misconceptions appear to be common. For example, 40% are concerned about additional cost if they invest this way. Some 21% think performance could be compromised, despite evidence to the contrary.² Almost half the respondents (48%) don't think they yet have sufficient savings and investment to “indulge in the luxury of an ESG approach.”

Such deeply ingrained notions are understandable, says Lukas Münstermann, Senior ESG Investing Specialist at Vontobel Asset Management. “But think about it this way: if you use ESG factors as a risk management tool or to

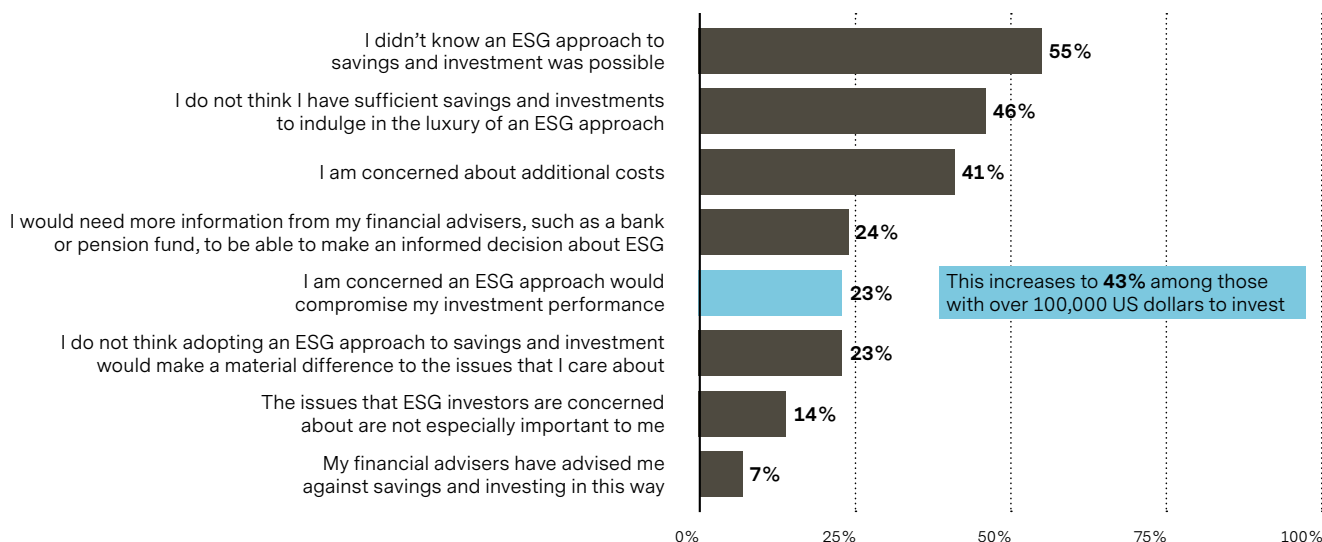
identify opportunities, worries about compromised performance are generally not warranted,” he notes. “On the other hand, if ethical beliefs dictate your investment decisions and you exclude so-called sin stocks, for instance, you may have to worry about performance.”

Another barrier is the widespread belief that ESG is a “nice-to-have” approach. Such criteria should come into play only after “the basics have been covered,” some investors seem to think.

Product providers and advisers can do more to change these attitudes, says Sabadell's Carlos Garay. “ESG is in the ground: it's normal life, whether you're in the supermarket and hearing announcements about which products do not contain palm oil, or your children are in nursery planting trees,” he says. “This is mainstream, definitely has come to stay. Product providers and advisers must address this opportunity.”

Chart 8: Why conversion to ESG savings and investment is low

Reasons for not allocating savings and investment to ESG approaches



Source: Vontobel ESG survey 2019

²See also Friede, G., Busch, T., and Bassen, A., “ESG and financial performance: aggregated evidence from more than 2,000 empirical studies”, December 2015.

The opportunity for the client adviser



“Advisers who do talk about sustainable investment are perceived more favorably.”

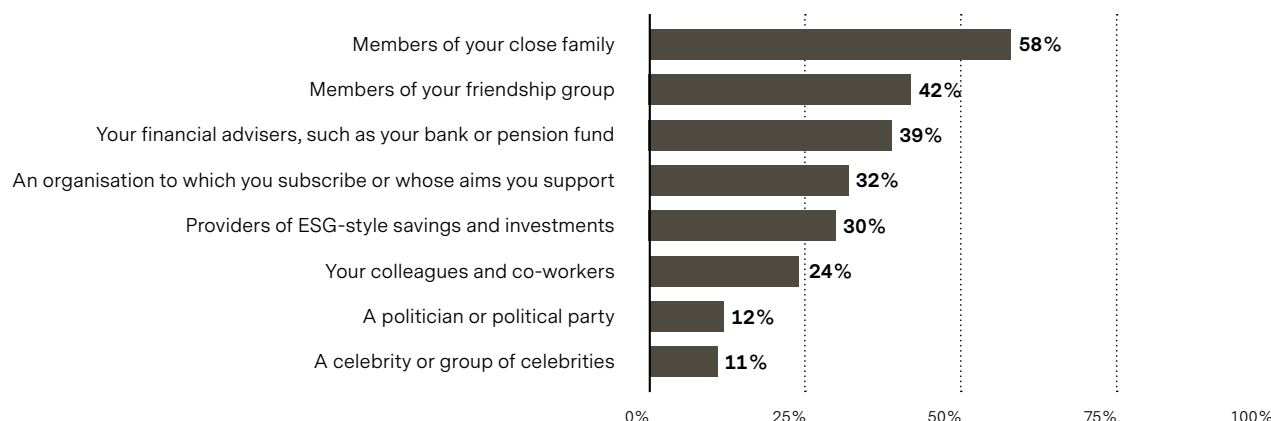
Philipp Achenbach, ESG specialist at TauRes

That’s all very fine, you might say, but why should the financial industry bother? Couldn’t advisers keep quiet and carry on? They could, but then they will miss out on opportunities. Conversely, if they raise their voice, they get heard (see chart 9) and may attract new business.

“Advisers who do talk about sustainable investment are perceived more favorably,” Philipp Achenbach, an ESG specialist at the German investment adviser TauRes, says. “What I wish for is that advisers understand that it makes strategic sense to give the customer the opportunity to move within the scope of their ethical and moral views, even if the advisers do not have strong convictions of their own.” The data clearly supports this view, and suggests that advisers are missing a chance to engage with their clients when it comes to ESG advice. (see chart 10).

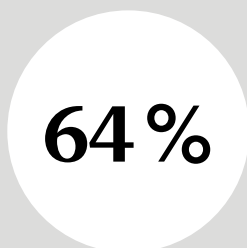
Chart 9: People listen when advisers talk ESG

Influence for moving more investments into ESG opportunities

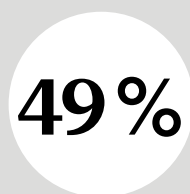


Source: Vontobel ESG survey 2019

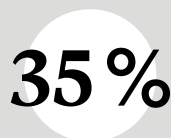
Chart 10: An opportunity for advisers



People like me do not receive enough information about ESG approaches to investment



I would welcome greater support and advice on ESG from my advisers



My appetite for ESG approaches to saving and investment seems to be ahead of the ability of advisers to help me with it

Source: Vontobel ESG survey 2019

Right now, comparatively few people are getting professional help on their finances. More than half of respondents (55%) say they make all their own decisions (see chart 11) – even among more wealthy investors, the figure is 47%. Only 18% of respondents with accessible wealth of more than 100,000 US dollars currently pay an adviser for support, although a further 20% have an adviser who manages most of their money.

Advisers will therefore need to find ways to break down the barriers preventing more people accessing information about ESG investment. There is a now a significant opportunity for advisers to use their ESG expertise to attract new and retain existing clients. The market potential remains considerable.

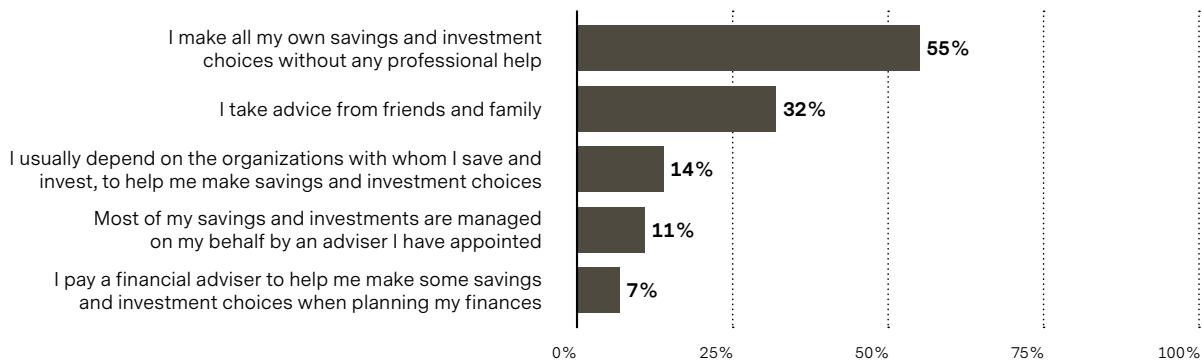
Regulators are tightening the ESG screws

Regulatory or policy interventions may provide the impetus for taking ESG more seriously. More than half of respondents (55%) believe financial advisers should be statutorily required to engage more extensively with their clients on ESG issues, while 54% say an occupational pension scheme should have to offer ESG investment options to members.

In fact, legislation in Europe, in particular, is now heading in this direction. The European Commission’s Action Plan on Sustainable Finance,³ unveiled last year, will seek to standardize definitions of different types of ESG investment approach and introduce new requirements for institutional investors to take account of ESG issues in their risk processes. New rules on reporting are also likely to be introduced.

Chart 11: The advice gap – people manage their money on their own

Financial decision making



Source: Vontobel ESG survey 2019

³Sustainable finance, May 2018, European Commission (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#commission-action-plan-on-sustainable-finance)

“Financial players will face a credibility issue if they fail to handle ESG properly.”

Erich Stadlberger, Manager of the Private Banking and Asset Management Division at Oberbank

“Greenwash” and you’ll be ditched

Regardless of any increased regulatory oversight, financial players will face a credibility issue if they fail to handle ESG properly, argues Oberbank’s Erich Stadlberger. He fears a backlash if the financial services industry is seen to be cashing in on investors’ desire for a values-based approach without providing the genuine support they require to invest productively in the field. “The keyword is ‘greenwashing’ and I think it’s important that authorities such as the ESMA (European Securities and Markets Authority) are now going to work on guidelines to avoid this,” he says.

Almost half the respondents (46%) said their choice of a financial adviser would in future be influenced by ability to help clients engage with ESG issues. A similar share of respondents said that discovering their money had been invested in an organization engaged in activities of which they disapprove would prompt them to switch out of a product (see chart 12). Remarkably, such a development seemed to carry more weight than increased cost or poor performance. The only disappointment more likely to persuade respondents to go elsewhere would be a disadvantageous change in the terms and conditions of the products.

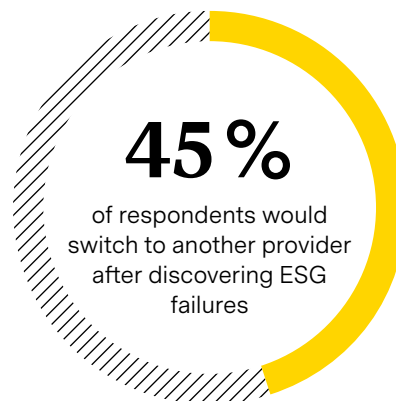
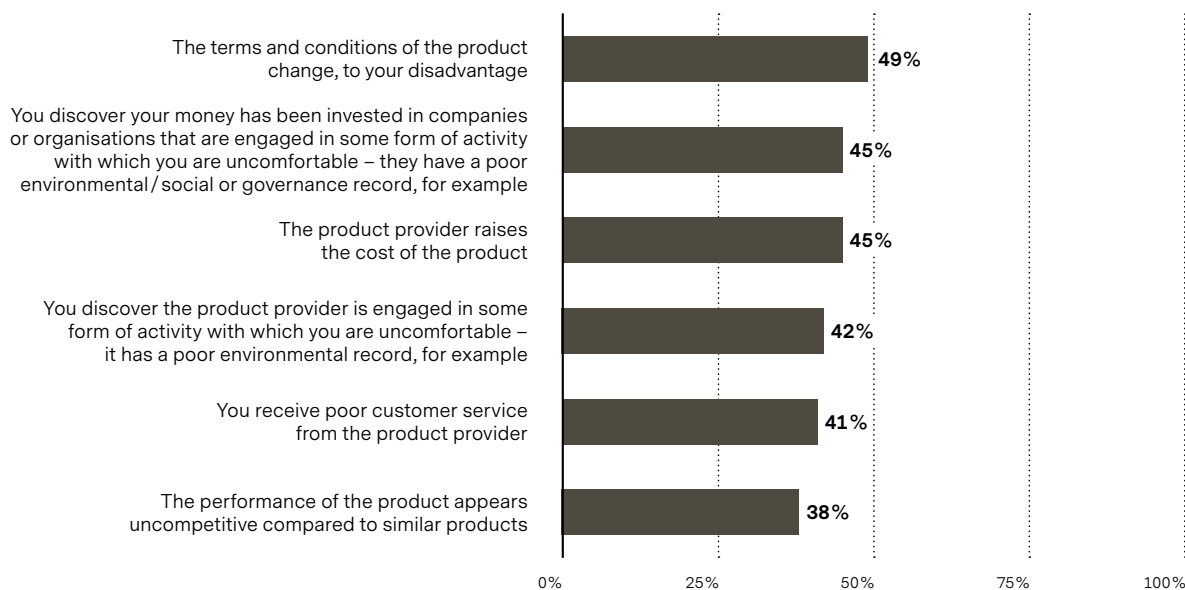


Chart 12: ESG failures could drive clients away

Reasons to switch out of savings or investment products



Four investor groups with very different needs



Investors care about sustainability but are at different stages of their ESG journey. The challenge for adviser will be to identify where each particular investor stands and what matters to them – right now.

The head of market intelligence at a leading Italian private bank believes product providers and advisers must develop services for clients that reflect these attitudes. His own bank has designed a new analysis model that enables advisers to align client concerns more closely with particular ESG funds. “Our aim is not just to offer broad exposure to an ESG universe, but to build relationships with individuals that reflect their sensitivities to particular concepts of socially responsible investment,” he explains.

For this the financial industry needs to find reliable indicators that identify investors’ ESG preferences, beliefs, convictions, level of sophistication (financial and ESG-related) as well as their current commitment to ESG investing. Surprisingly, the data doesn’t show that there are major demographic differences between those who invest in ESG and those that don’t. Widely held beliefs that women, for instance, are more open to ESG than others are not supported by the data.

Instead, the data shows that people’s attitudes best explain the differences in their behavior. Four groups of interest are represented as personas below:

“Our aim is not just to offer broad exposure to an ESG universe, but to build relationships with individuals that reflect their sensitivities to particular concepts of socially responsible investment.”

Head of market intelligence at a leading Italian private bank



Albert

already invests in ESG products and services

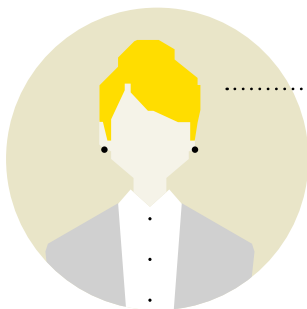
- Actively seeks ESG investments aligned with his beliefs
- Holds investments both designed to perform well and do good
- Is considering going “all-in” with an electric car when prices come down
- Has access to advice via an adviser
- Typically early middle ages with children living at home
- Above average wealth, higher education completed
- Needs information about specific ESG topics to continue adjusting his portfolio



Béatrice

would like to invest in ESG but lacks information

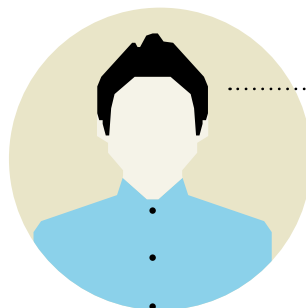
- Needs a “what you need to know about ESG” guide before considering portfolio changes
- Put off by complexity of what’s available and possible costs
- Incorporates sustainability into her daily life, for example by minimizing air travel, thinking about food miles and recycling
- Doesn’t trust advisers, but struggles to research things herself
- Is likely to rely on information from nongovernmental or non-profit organizations
- Typically late middle ages and may have retired
- Holds significant non-ESG investments as savings and pension



Camilla

remains unconvinced by ESG

- Focused on performance, believes ESG is for other people
- Keeps an eye on costs, thinks that ESG is expensive
- Goes through the motions on sustainability, but questions whether re-using cups at work will really save the planet
- Gets regular advice, also discusses investments with friends and family
- Lacks basic ESG information, needs to be convinced that ESG investing is not only for tree huggers
- Typically late middle ages and may have retired
- Holds significant non-ESG investments as savings and pension



David

attracted to ESG, but is just beginning to save

- Would like to learn more regarding saving and investing in general
- Enjoys researching new topics using the internet
- Is highly engaged on sustainability issues and incorporates them into his daily routine, for example bicycling to work
- Is early in his career, so has not yet had the chance to build up significant savings
- Holds a pensions plan via his employer, but most savings are held in cash in order to pay daily bills and large expenses
- Knows that he will have to save more for retirement, but simply does not have the money to do so right now

“ESG is in the ground: it’s normal life, this is mainstream, definitely here to stay. Product providers and advisers must address this opportunity.”

Carlos Garay, ESG Responsible at Sabadell Urquijo Gestión

Actively talking about ESG

Advisers need to talk about ESG with their clients. Many have begun raising the ESG topic with clients more frequently and deliberately. “These conversations are a real eye-opener for many clients,” Vontobel Wealth Management’s Thomas Trsan says. “They just haven’t had all the options and different approaches explained to them.” The choice is increasing, but so is the competition, he adds. Pitching the conversation at the right level is important, as an experienced ESG investor, such as our Albert persona, has very different needs to someone who is just beginning their investment and saving journey such as David.

Obviously, some ways of broaching the ESG topic are more useful than others. For instance, it’s better to highlight how an ESG approach can actively promote particular causes or priorities, rather than stressing how unpalatable companies can be avoided. This is what clients are very often looking for, says Cazenove Capital’s Cléo Fitzsimons. “Clients’ concerns are more about how their sustainability priorities will be met within the portfolio than performance,” she says. “We talk about the spectrum of sustainability – the various strategies within the sustainable universe ... we start with ESG integrated strategies but also look at thematic investing, impact investment and even philanthropy. Impact is the area where clients get most excited because they can see the tangible effects.”

Multi-channel, with a personal touch

Today, product providers and advisers already use a variety of channels to get closer to the client. “We hold a lot of small-scale workshops, where we can talk directly about ESG investments to 10 to 30 people at a time,” TauRes’s Philipp Achenbach says. “It’s one of the best ways to reach new customers because you have more personal contact.”

Technology plays an increasing role. For example, TauRes produces a regular podcast on socially responsible investment that clients can download and listen to at their leisure. Many assets managers such as Vontobel use or develop apps that cluster investors according to their ethical views as well as their financial interests. The general aim is to expose clients to an ESG universe, build relationships, and ultimately, offer individual products tailored to their needs.

Critical though, is adviser education and commitment. Advancing the quality of financial consulting may require recruitment of staff who are more enthusiastic about driving ESG approaches. TauRes’s Philipp Achenbach observes: “It’s generally our younger employees who approach this topic open-mindedly – I think our peers would say the same.”

How to improve ESG communication with the client

1. Identify different client interests and structure your ESG offering accordingly. Do you have materials that cover clients’ wide-ranging ESG interests, from ecology to social action, for example, and access to products that are a good fit?
2. Build engagement with clients through a broad range of channels depending on their preferred options. Are you offering face-to-face advice on ESG, printed information, mobile and online materials, social media engagement and more?
3. As client engagement develops into investments, keep communicating, particularly around performance – both investment returns and ESG results. Is the product providers and adviser helping clients feel more comfortable with raising their exposure to ESG investment strategies?

Conclusions

The study's message is clear. While investors are keen to embrace a values-based approach, they need support and advice to transform this into financial decision-making. ESG issues already inform their behaviors in fundamental ways – from the cars they drive to the shopping choices they make – but people now need more help to extend this approach into saving and investment.

The trend towards ESG investment will only accelerate. As issues such as climate change become ever more prominent and changing regulation raises the profile of ESG approaches to investment, savers and investors will demand more from advisers and product providers.

Vontobel Asset Management is committed to playing its part. We are partnering with advisers to empower end clients, build ESG product ranges and ensure that this approach to investment is within the reach of as wide a group of individual investors as possible.

We recognize there is no single correct approach to ESG. Every saver and investor has their own beliefs and values – and, of course, highly individual and personal financial objectives. It will be crucial to work with all investors to understand their needs – including both the wealthier investors of today already making asset allocation decisions and the ESG-engaged investors of tomorrow. In other words, it is time to start the conversation. The personal touch will be imperative – those advisers able to develop bespoke ESG plans that meet the financial and ethical objectives of their clients will be well placed to succeed in this new world of engagement.

Further information

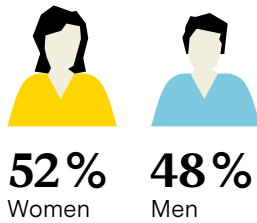
vontobel.com/act-esg



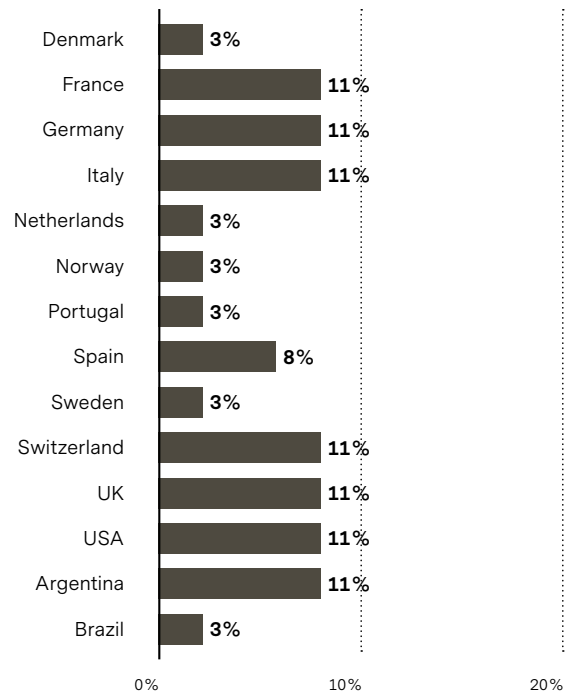
About the research

This research is based on an online survey of 4,643 consumers in 14 countries, as well as a series of qualitative interviews with key opinion formers. Both the quantitative and qualitative research was carried out by Longitude, a Financial Times company, between March and April 2019. The breakdown of the survey respondents is detailed in the chart below.

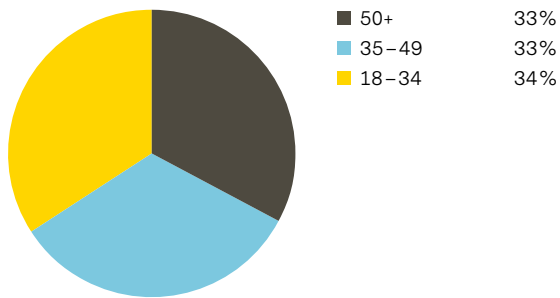
Gender



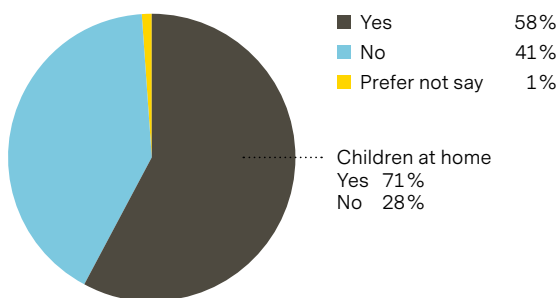
Country



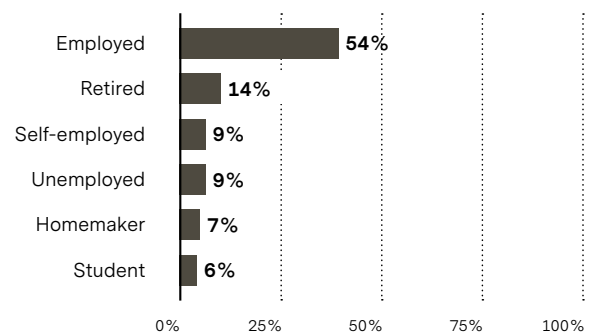
Age



Parent/Children



Occupation





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