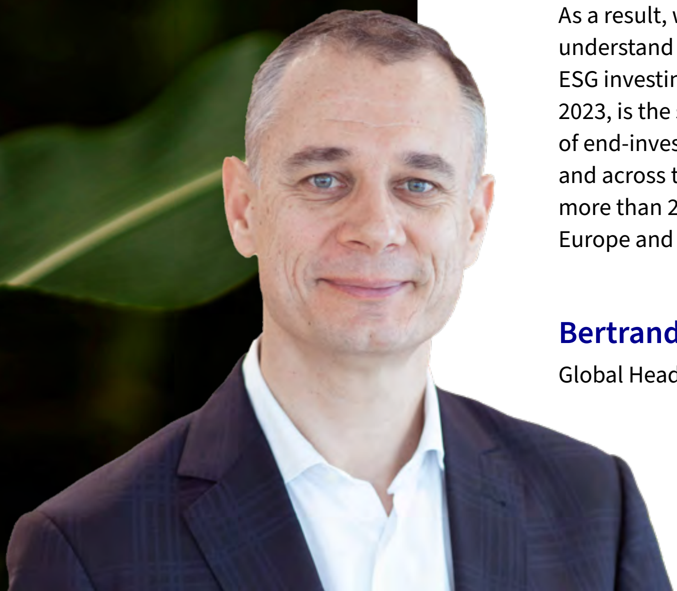
AXA Investment Managers

Select

ESG investing: A global investor study

2023 edition

Contents



At AXA IM we believe in the importance of investing responsibly. We recognise the impact companies can have on the world around them, and that it is our duty to ensure we are taking into account their actions in relation environmental, social and governance (ESG) factors when making investment decisions.

Over a long-term horizon, the move to more sustainable economies will require responsible custodians of wealth that can identify and support ESG leaders, drive the transition and help clients to protect and grow their investment portfolios. This long held conviction was embodied through our commitment to the UN Principles for Responsible Investment, a major collective initiative that seeks to promote responsible investment among investors and asset managers.

Allied to our commitment to responsible investment is our commitment to our investors. As an industry, we can too often fall into the trap of being inward looking and speaking among ourselves. However, we understand the importance of having an outlook that takes into consideration the views and demands of our stakeholders, especially our end-investors.

As a result, we commissioned this report to better understand the views of individuals in relation to ESG investing. Our latest research, from October 2023, is the second study we have undertaken of end-investors on the topic of ESG since 2021 and across the two studies, we have surveyed more than 23,000 individuals across 12 markets in Europe and Asia.

A central objective of our research is to develop our understanding of the differences that exist within and between markets and regions, demographic and social groups. The initial wave of the research in 2021 allowed us to draw a line in the sand. At that point in time, the mood music was very positive for ESG, but the wave of enthusiasm felt then is perhaps not felt as keenly today.

Our latest global survey finds evidence of waning ESG ownership, confidence in ESG performance and understanding of ESG than the first wave. Yet despite a slight dampening in engagement, a healthy appetite for ESG funds is still evident throughout our survey. There is a steadfast view among end-investors that one's own ethical viewpoint should be reflected in their own investments.

There are clear and practical implications that can be drawn from our research, but a central theme is the need to provide better and clearer communications regarding the aims and objectives of products under the ESG umbrella and for intermediaries to exercise an increasingly proactive approach when it comes to responsible investing. Such lessons are important to heed if we are to see ESG investment approaches continue to flourish.

Bertrand Penverne

Global Head of ESG - AXA IM Select

Introduction

This report updates and analyses the core concerns of investors in Europe and Asia regarding Environmental, Social and Governance (ESG) funds. It highlights regional differences and nuances in investor attitudes to responsible investing.

While our research shows that environmental and social factors, as well as ethical considerations, remain important investing considerations for retail investors, these have seen some weakening over the past two years. Perhaps that shouldn't be too surprising. The post pandemic global environment is greatly different from what came before. A step change in financial conditions, higher energy prices, greater geopolitical uncertainties and the implications of AI are some of the major challenges corporations and investors need to grapple with.

One of the results is that fewer retail investors across both Europe and Asia are expected to increase their portfolio weighting of ESG investments.

Our findings are consistent with the fund flow data. The global universe of sustainable funds attracted close to USD 13.7 billion of net new money in the third quarter of 2023, compared to USD 23.6 billion in the second quarter[1]. However, given the global mutual fund and ETF universe suffered outflows over this period, this story is perhaps more positive than it may first appear.

While this slowdown is partially attributable to the prevailing caution mentioned above, our data shows that it is also driven by increased investor scepticism regarding the comparative performance of ESG funds against traditional non-ESG funds. Alongside this, the spectre of greenwashing is a concern. Investing in ESG can be encouraged through enhanced transparency, tax breaks and lower fees, however strengthening trust and confidence in ESG assets will require more than just monetary incentives.

It will be hard to strengthen this confidence unless investors gain a more sophisticated understanding of the range of products and solutions within the ESG space, their respective aims and objectives and appreciation of what is under the bonnet. The large gaps here that our report highlights should act as a wake up call for an industry.

Amidst a constantly shifting market landscape, our research aims to help financial services become more attuned to evolving investor priorities and expectations.

[1] Morningstar, Global Sustainable Fund Flows: Q3 2023 in Review, October 2023

Methodology & sample

The survey was conducted in October 2023 and the findings of this report are based on a survey of 12,000 consumers across 12 European and Asian markets. The sample collected is nationally representative of age and gender within each country. In Europe, the survey was conducted in Belgium, France, Germany, Italy, Spain, and the United Kingdom. In Asia, the markets covered were Hong Kong, Japan, the Philippines, Singapore, Thailand, and Indonesia.

Before we get into the detail, we should first define what we mean by ESG investing. As we will explore, there are a range of different terms and approaches that could all fall under this label. For the purposes of our report, we defined ESG investing as a type of investing that is also known as “responsible investing.” This is an umbrella term for investments that seek to combine positive returns, while promoting the ethical management of businesses and their positive impact on society and the environment.

12,000 individuals

12 countries

To ensure comparability, the sample composition of this study is broadly aligned with that of our 2021 ESG investor research. Percentage point changes since 2021 are indicated in the table below – with the exception of the UK, which was a new addition in 2023.

As was the case in the 2021 study, the sample of High Net Worth (HNW) individuals has been boosted to allow for a closer examination of this subgroup. HNWs are defined as those with more than EUR 250 000 (or equivalent) in investable assets (including pension funds, mutual funds, stocks, bonds, and insurance contracts with cash value but excluding cash and property).

Nationally representative	**Europe**						**Asia**					
Profile (2021 % point change)	UK	Belgium	Germany	Spain	France	Italy	Hong Kong	Japan	Philippines	Singapore	Thailand	Indonesia
Male	50%	49% (0%)	49% (0%)	49% (0%)	48% (0%)	48% (0%)	45% (-2%)	48% (0%)	50% (0%)	49% (0%)	49% (0%)	50% (-1%)
Female	50%	51% (0%)	51% (0%)	51% (0%)	52% (-1%)	52% (0%)	55% (+1%)	52% (0%)	50% (0%)	52% (0%)	52% (+1%)	50% (+1%)
18-34	31%	27% (0%)	23% (0%)	23% (-1%)	26% (0%)	22% (0%)	27% (+1%)	21% (+1%)	48% (0%)	42% (-1%)	32% (-1%)	39% (0%)
35-54	36%	34% (0%)	34% (0%)	40% (0%)	33% (-1%)	37% (0%)	39% (+1%)	32% (0%)	35% (0%)	35% (0%)	40% (-1%)	39% (0%)
55+	33%	39% (0%)	43% (0%)	36% (0%)	41% (0%)	41% (0%)	35% (-1%)	47% (-1%)	17% (0%)	24% (+1%)	28% (+1%)	22% (0%)
Investors*	84%	76% (+11%)	81% (+12%)	74% (+9%)	81% (+12%)	78% (+13%)	98% (+4%)	65% (+2%)	76% (+1%)	93% (+6%)	89% (+11%)	87% (+17%)
HNW (EUR 250k+ Investable Assets)	9%	6% (+1%)	6% (0%)	4% (+2%)	6% (+1%)	5% (-1%)	17% (+3%)	5% (-2%)	2% (-1%)	14% (-5%)	3% (+1%)	2% (-2%)
Total	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000

* Percentage of people surveyed who currently hold investments
Due to rounding, figures may not add up to 100%.

Section 1: how do ESG funds resonate with investors today?

Retail investor ownership of ESG funds has decreased slightly over the previous two years, though we can be cautiously optimistic about the future, with investors keen to add ESG funds into their portfolio.

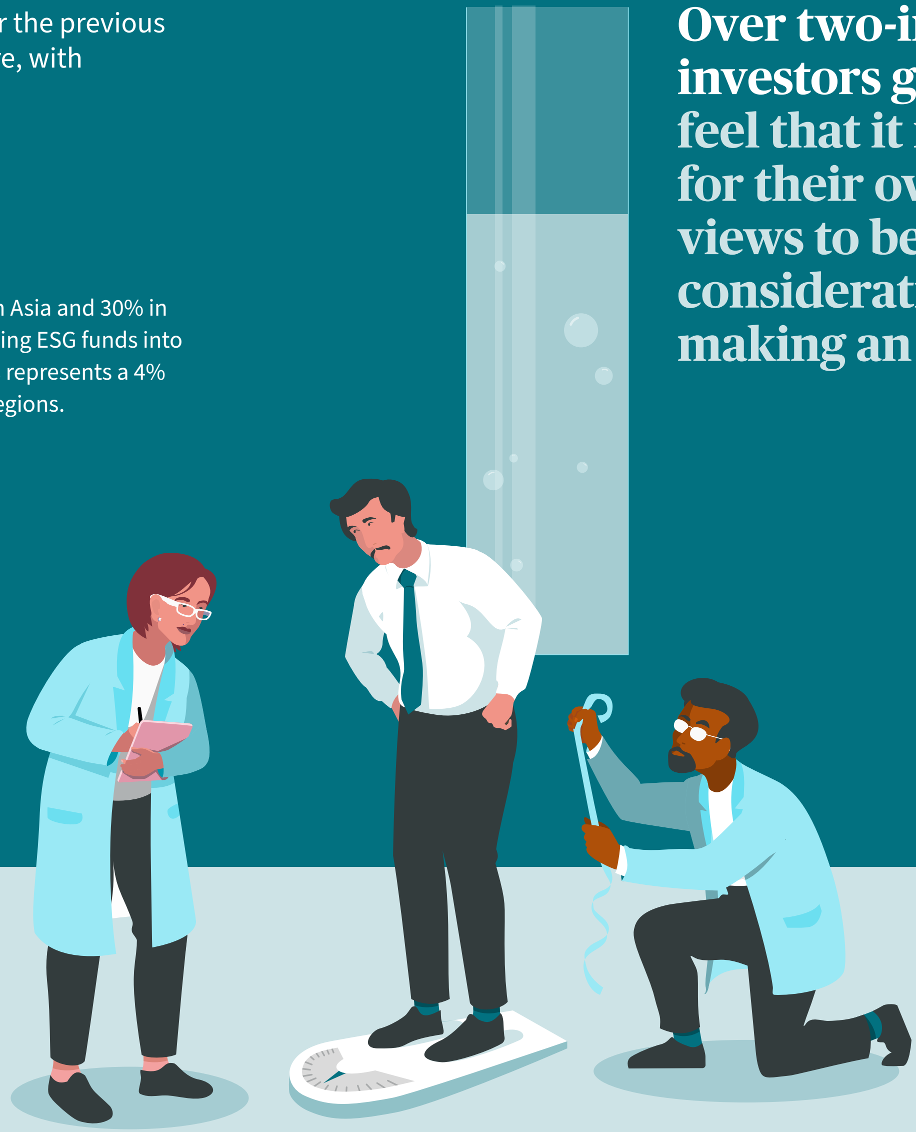
31%

31% of those holding investments state they own funds which can be categorised as either ethical or ESG. This is broadly comparable, but slightly lower, than the 33% recorded in 2021.

↓4%

42% of non-ESG investors in Asia and 30% in Europe are considering adding ESG funds into their portfolio – though this represents a 4% decline from 2021 in both regions.

Over two-in-three retail investors globally (68%) feel that it is important for their own ethical views to be taken into consideration when making an investment.



The world today is very different from the one we inhabited pre-pandemic. While we continue to navigate societal-level crises, their nature and impact will likely be very different. The financial impact of today's crises is hitting the pockets of households globally. While some are more impacted than others, there is no escaping the effects of inflation and the rising cost of living.

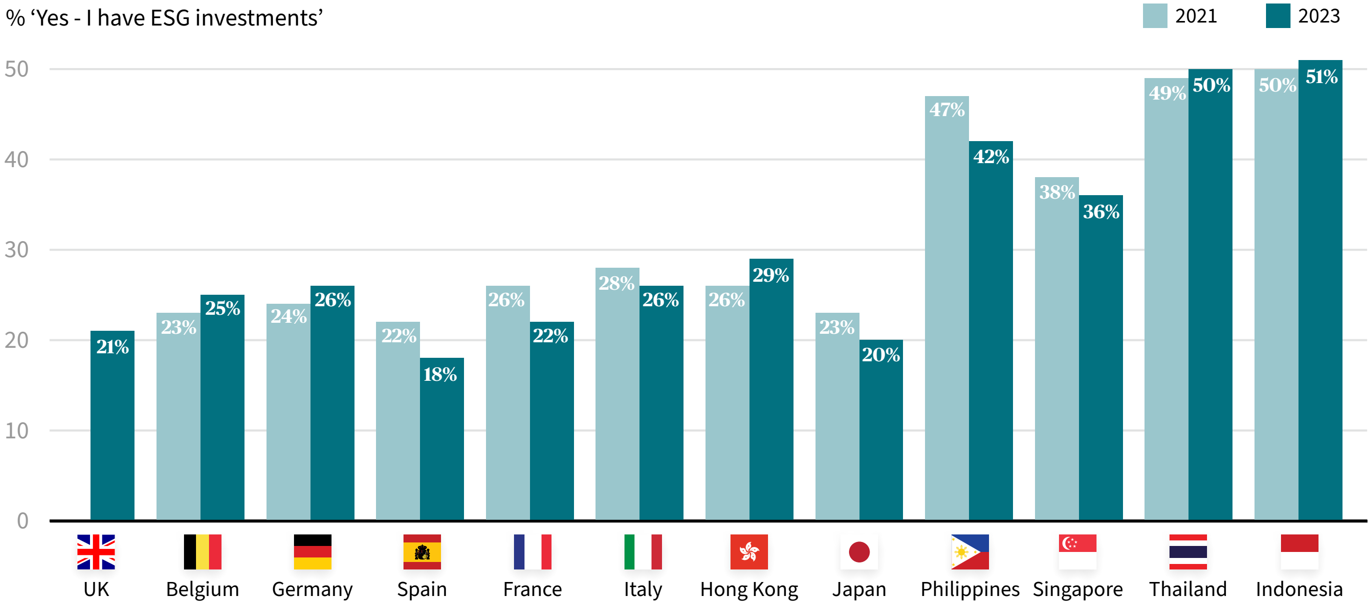
Amid this backdrop, now is a good time to revisit how retail investors perceive ESG investments. With the pressure mounting on our personal finances, how do we now feel about the role of ESG in growing our wealth?

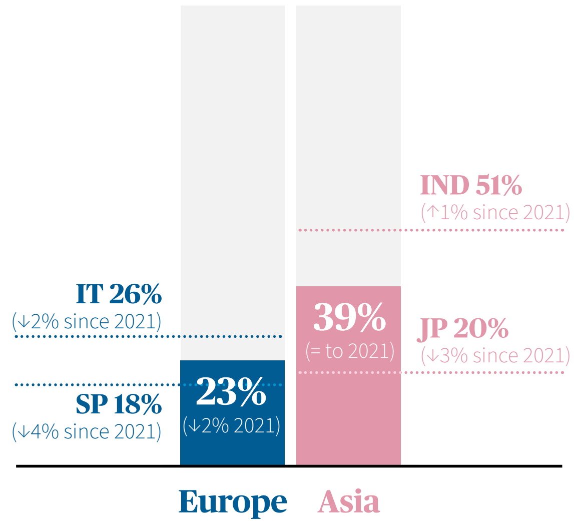
We initiated our survey of retail investor engagement with ESG investing in mid-2021. Even as the global economy grappled with Covid and the resultant lockdowns, by that stage US equities had rebounded following the US Federal Reserve's (Fed) earlier decision to cut interest rates to near zero. Yet one effect of the pandemic has been to shine a light on the fault lines and inequalities inherent in society, such as environmental and social issues (including healthcare, clean air and worker rights). Another result is the impact of interconnected risks and the consequences of good (or poor) governance on how governments and businesses cope in a crisis.

How has ESG ownership changed since our last survey?

Across our entire sample, 31% of those holding investments state they own funds which can be categorised as either ethical or ESG. This is broadly comparable, if slightly lower, than the 33% recorded in 2021. This decline has been felt most acutely in the Philippines (-5%), Spain (-4%) and France (-4%).

Q1: Do you have any funds in your investment portfolio which are labelled as being ethical or ESG? (Investors only)



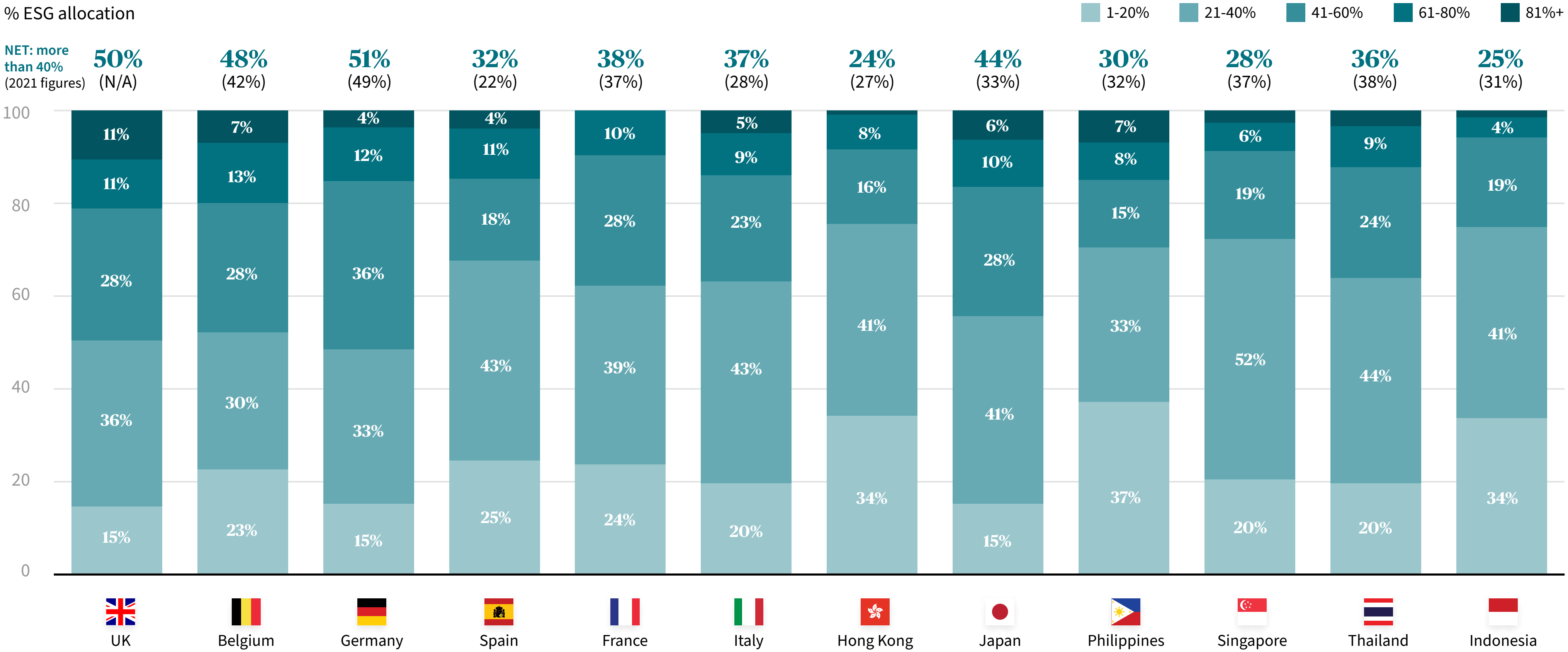


However, while we are seeing a slight decline in the proportion of investors holding ESG funds, across many of the markets in our survey the proportion of their overall portfolio that is invested in line with ESG principles is rising. This is particularly the case within Europe.

For example, investors in Germany and the UK are relatively less likely to own ESG funds, but those that do allocated a significant proportion of their portfolio here. Half of those surveyed invested 40% or more of their portfolio in ESG funds. In Spain, this marked a 10% increase from 2021.

Conversely, across Asian markets, only Japan has seen a higher proportion of investors investing 40% or more of their portfolio in ESG funds (+11%). All other Asian markets recorded a decline.

Q2: What proportion of your investment portfolio is invested in ESG funds? (ESG investors that are aware of their portfolio's ESG allocation*)

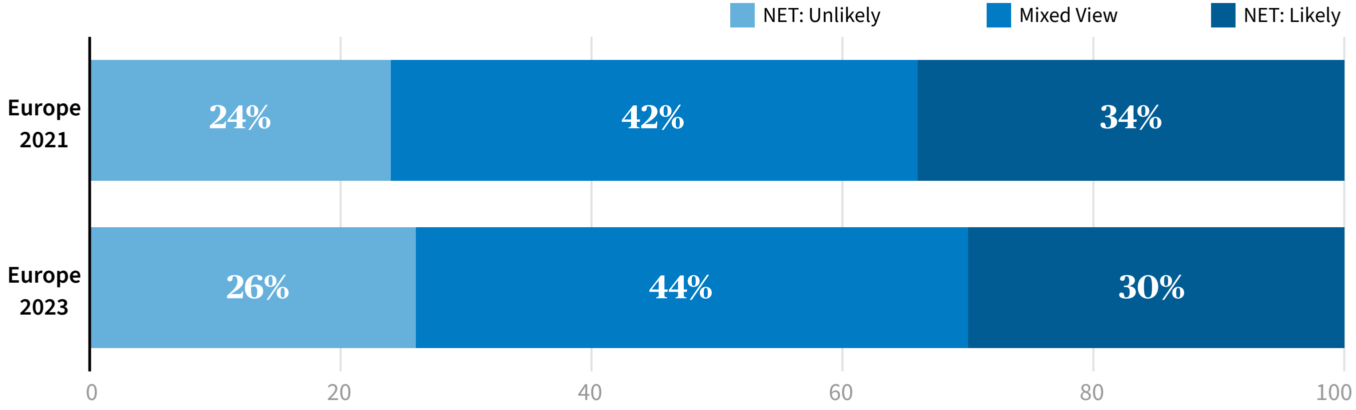


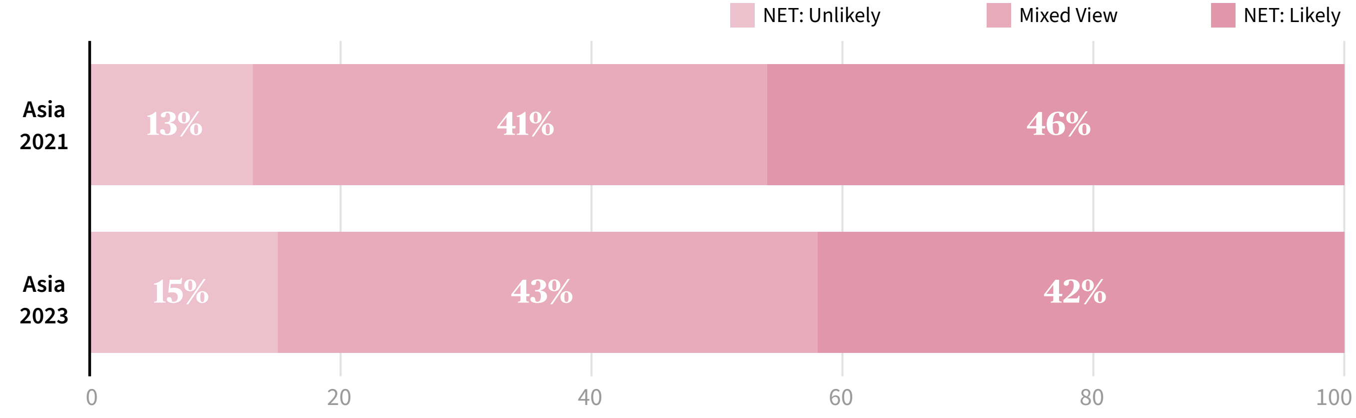
*66% ESG investors in Europe are aware of portfolio allocation to ESG; 82% ESG investors in Asia are aware of portfolio allocation to ESG.
Due to rounding, figures may not add up to 100%.

ESG investment expectations

We only have to look at the change in ESG ownership during 2023, compared with 2021, to appreciate that the stated intention to invest does not mean that this will necessarily materialise. While 42% of non-ESG investors in Asia and 30% of those in Europe are considering adding ESG funds to their portfolio in the future, we should treat these findings with a cautious optimism.

Q3: How likely is it that you will consider adding an ESG investment to your portfolio? (Non-ESG investors)



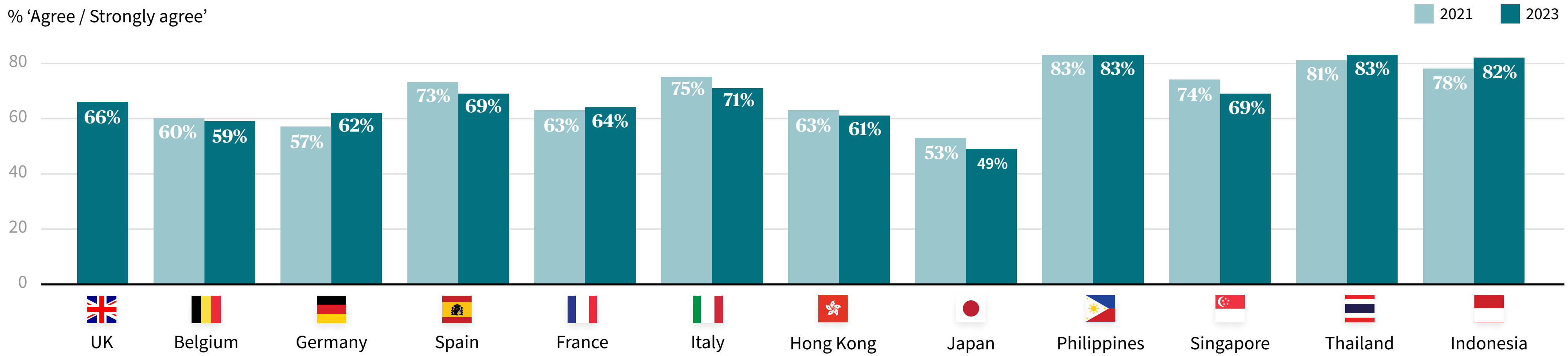


Due to rounding, figures may not add up to 100%.

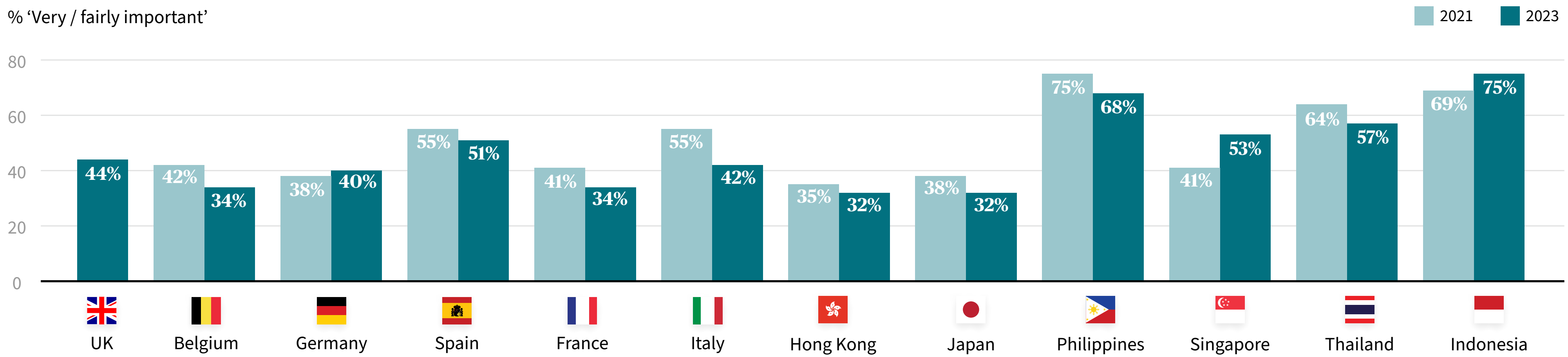
Despite lower expected engagement in ESG investments, our survey shows the appetite for investors' own ethical views being taken into consideration when investing remains high – globally 68% of investors are in agreement and there is very little movement within markets compared with our findings in 2021.

ESG factors will be important when non-investors (people who have not yet started investing) begin investing, although the 46% in 2023 stating ESG factors would be important is lower than the 51% recorded in 2021. Italian non-investors (-13%), Belgian non-investors (-8%), French non-investors (-7%) and Japanese non-investors (-6%) recorded the biggest declines.

Q4: To what extent do you agree that your own personal ethical views should be taken into consideration if you were to make an investment? (Total sample)

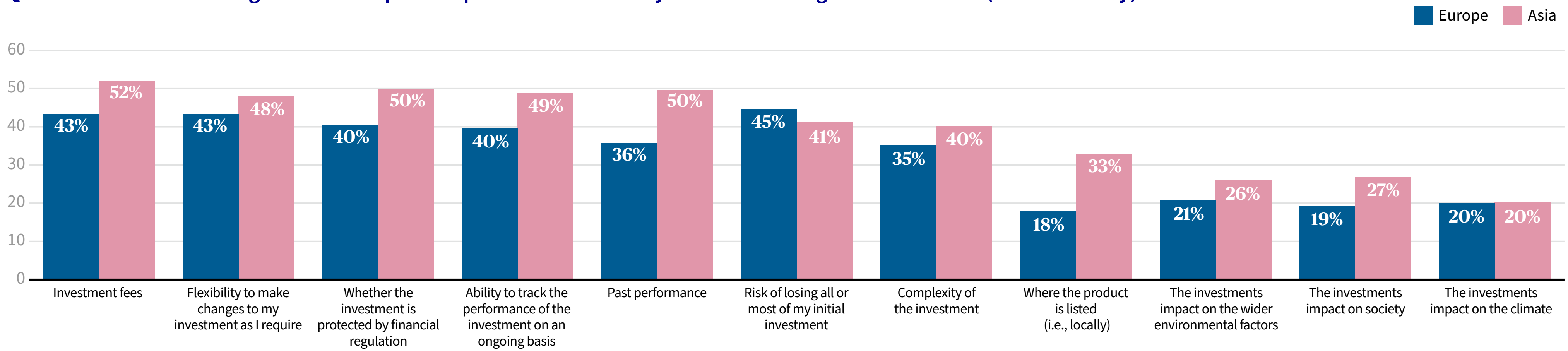


Q5: If, or when, you start investing, how important will ESG factors be in how you decide to invest? (Non-investors)



Our survey shows that for investors ESG is among the least important factors under consideration when investing. Other issues, such as the level of investment fees, product flexibility, financial protection, historic performance as well as the perceived investment risk and product complexity, all have a significantly greater bearing on investor decisions.

Q6: Which of the following would be important product features to you when making an investment? (Investors only)

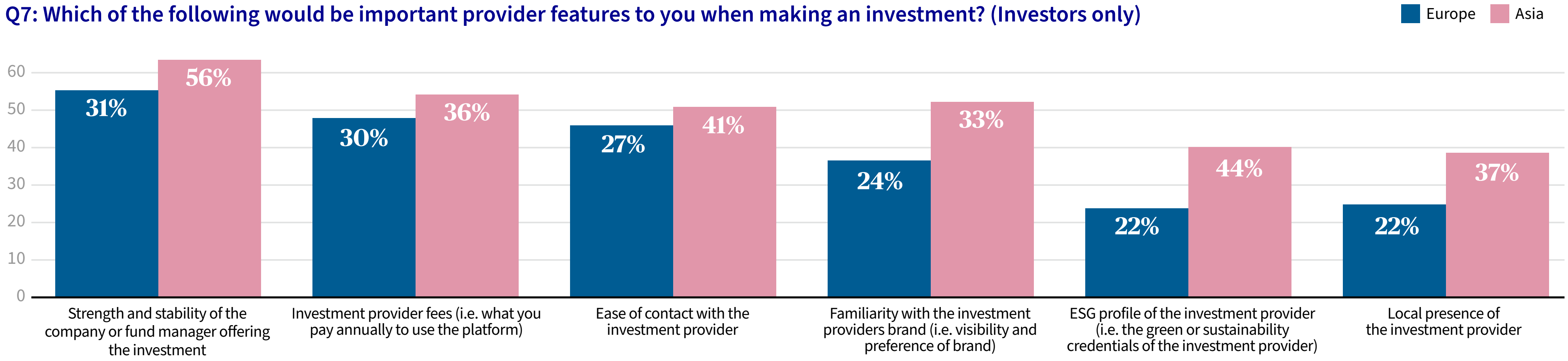


Top answer per country

Europe						Asia					
UK	Belgium	Germany	Spain	France	Italy	Hong Kong	Japan	Philippines	Singapore	Thailand	Indonesia
Protected by regulation	Risk of losing all	Flexibility	Risk of losing all	Fees	Risk of losing all	Fees	Fees	Ability to track	Flexibility	Ability to track	Protected by regulation
52%	43%	52%	48%	45%	49%	61%	50%	62%	50%	62%	66%

Investors in European markets are most sensitive to the risk of losing all of their investment. Those in HK and Japan place the greatest importance on fees.

Q7: Which of the following would be important provider features to you when making an investment? (Investors only)



Top answer per country

Europe

UK	Belgium	Germany	Spain	France	Italy
Strength of fund manager	Strength of fund manager	Strength of fund manager	Strength of fund manager	Strength of fund manager	Strength of fund manager
58%	53%	53%	61%	54%	53%

Asia

Hong Kong	Japan	Philippines	Singapore	Thailand	Indonesia
Fees	Fees	Strength of fund manager	Strength of fund manager	Strength of fund manager	Strength of fund manager
60%	51%	75%	63%	70%	69%

As with product features considered, when it comes to provider features, those in HK and Japan place the greatest importance on fees.

Section 2: the financial underpinnings of ESG product offers

Our survey suggests that investors also remain sensitive to product fees while being increasingly doubtful of the potential for ESG funds to perform strongly.

86%

Overall, 86% of investors that own or are considering ESG funds state that the associated fees were a very / fairly significant factor in their decision making – with over one-in-three stating it was a very significant factor.

60%

Almost three-in-five investors (60%) would be willing to pay higher fees to invest in an ESG fund that aims to combine positive returns, while simultaneously promoting the ethical management of businesses and a beneficial impact on society and the environment.

28%

Across investors who would not consider an ESG fund, a lack of belief in the strength of investment returns is the key barrier for investors globally (28%).

In 2023, only 37% of investors expect an ESG fund to outperform a non-ESG fund with a comparable risk profile – a steep drop of 11% from the 48% recorded in 2021.

The previous section highlighted the weight of importance that investors place in both fees and performance, as well as the relative stagnation we are currently witnessing with regards to ESG fund penetration and inflows. Our survey suggests that investors also remain sensitive to product fees while being increasingly doubtful of the potential for ESG funds to perform strongly.

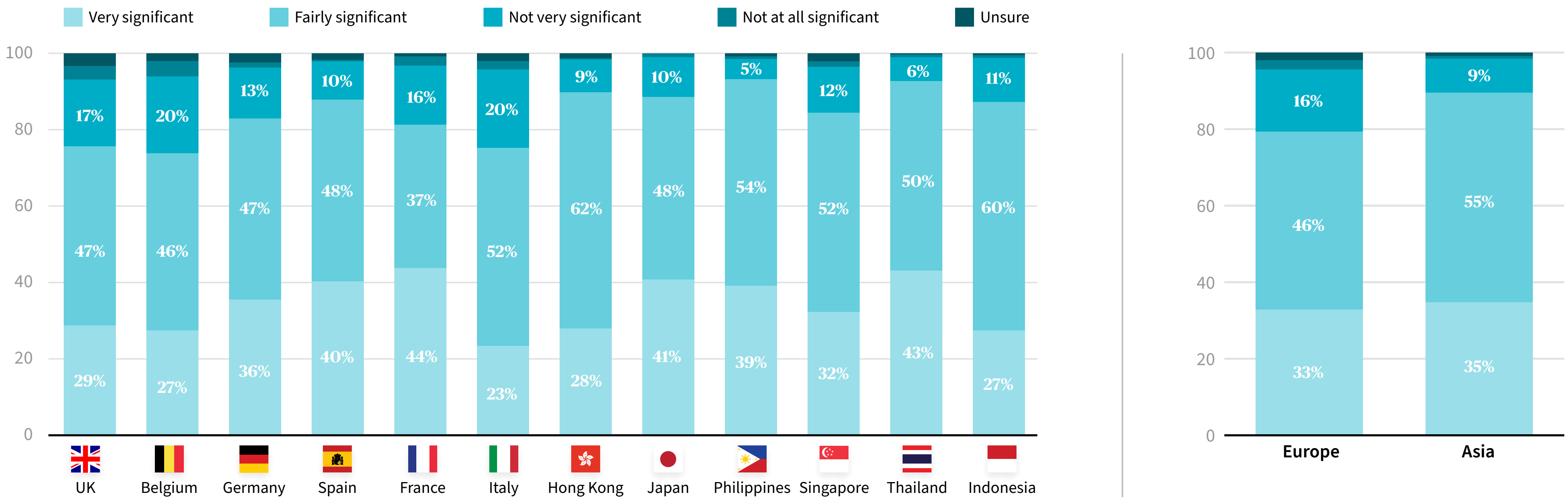
Fee sensitivity

Are ESG funds more expensive to purchase and own than non-ESG funds? Industry consensus is that funds that include "ESG" in their names typically charge higher fees than their non-ESG peers – though the extent by which they are seen as more expensive ranges widely.

However, the extent to which fees are "expensive" must include considerations of performance. A higher fee may be considered worthwhile if coupled with strong investment growth and vice versa. That said, at the point of purchase, the outcome is unknown. With so much uncertainty with regards to how the investment will perform, the only certainty investors have is what basis point they will be charged.

We see this reflected within our survey findings. Overall, 86% of investors that own or are considering ESG funds state that the associated fees were a very / fairly significant factor in their decision making – with over one-in-three stating it was a very significant factor. While there is some country variation, the overarching message is consistent globally – with those in Japan, France and Spain particularly price sensitive.

Q1: To what extent was the fees / cost associated with investing in the fund a significant consideration in your decision making? (ESG Investors / considerers of ESG products)

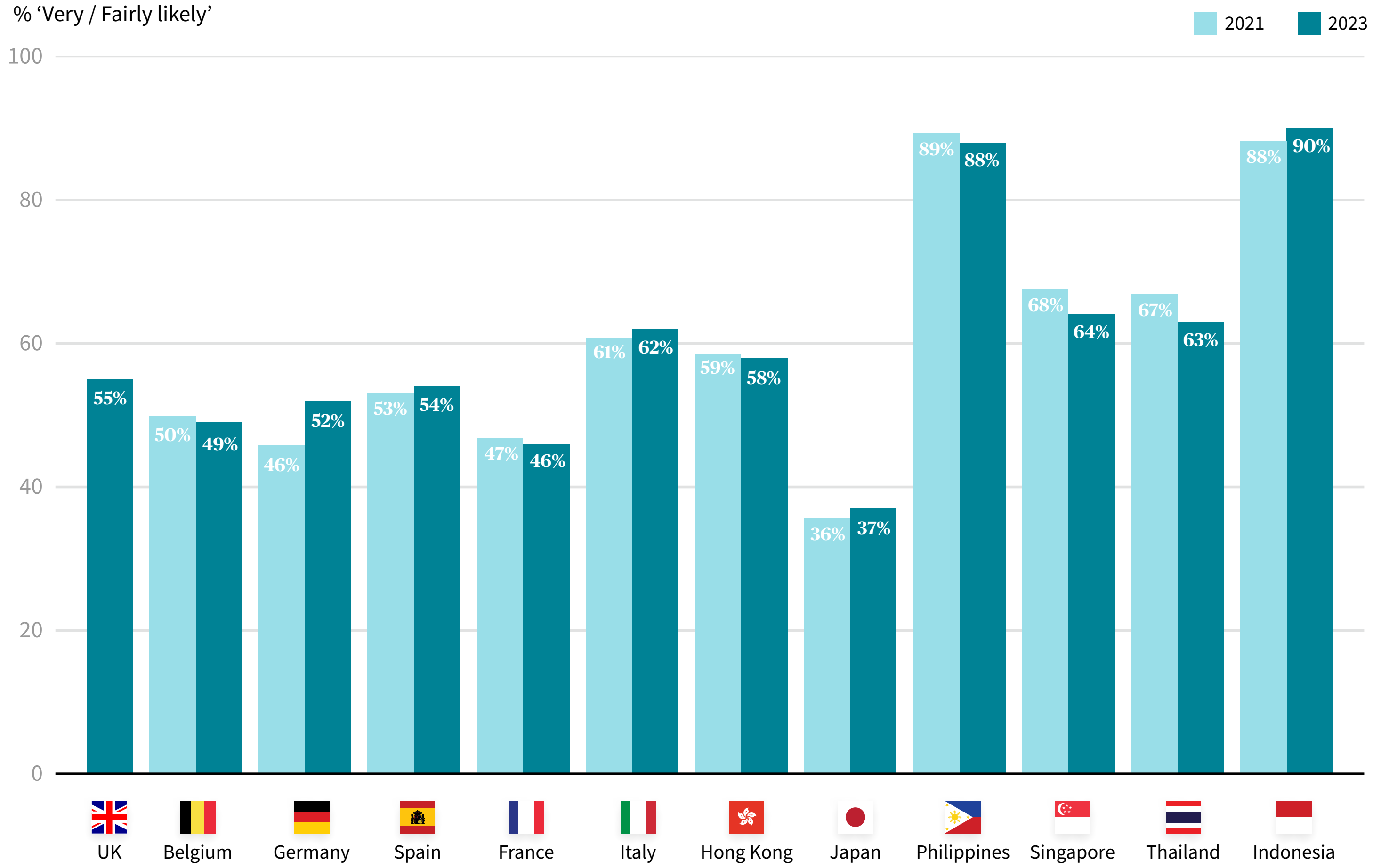


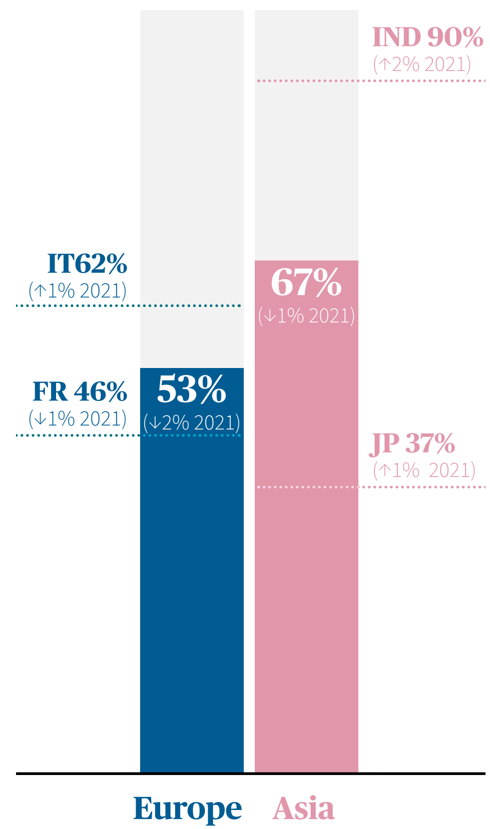
Due to rounding, figures may not add up to 100%.

Even with a higher fee structure, the majority of investors are willing to pay a premium for ESG-linked funds. Indeed, on a country-by-country basis, very little has changed in our latest survey regarding investors' willingness to pay more for ESG funds, compared with our findings in 2021.

Almost three-in-five investors (60%) would be willing to pay higher fees to invest in an ESG fund that aims to combine positive returns, while simultaneously promoting the ethical management of businesses and a beneficial impact on society and the environment. There is greater openness to this among Asian investors – but there is notable variation among markets.

Q2: How likely is it that you would be willing to pay more in fees to invest in an ESG fund that aims to combine positive investment returns whilst promoting the ethical management of businesses and positive impacts on society and the environment? (Investors)



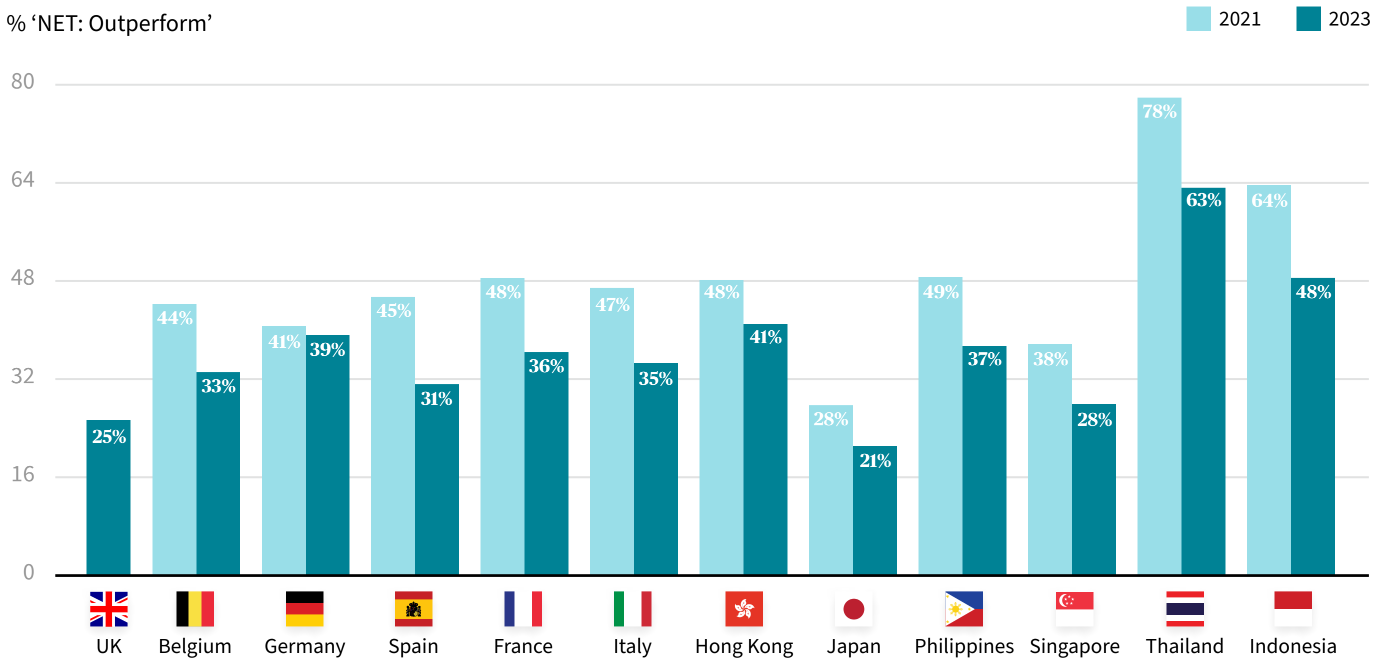


Dampened performance expectations

While there has been little movement in investor willingness to pay more for ESG funds, our latest survey shows a significant decline in investor expectations regarding investment performance. In 2023, only 37% of investors expect an ESG fund to outperform a non-ESG fund with a comparable risk profile – a steep drop of 11% from the 48% recorded in 2021.

Investors in Japan, the UK and Singapore are the least likely in our survey to expect an ESG fund to outperform. Despite sharp declines in investor expectations, those in Thailand (63%) and Indonesia (48%) are the most positive about ESG funds outperforming.

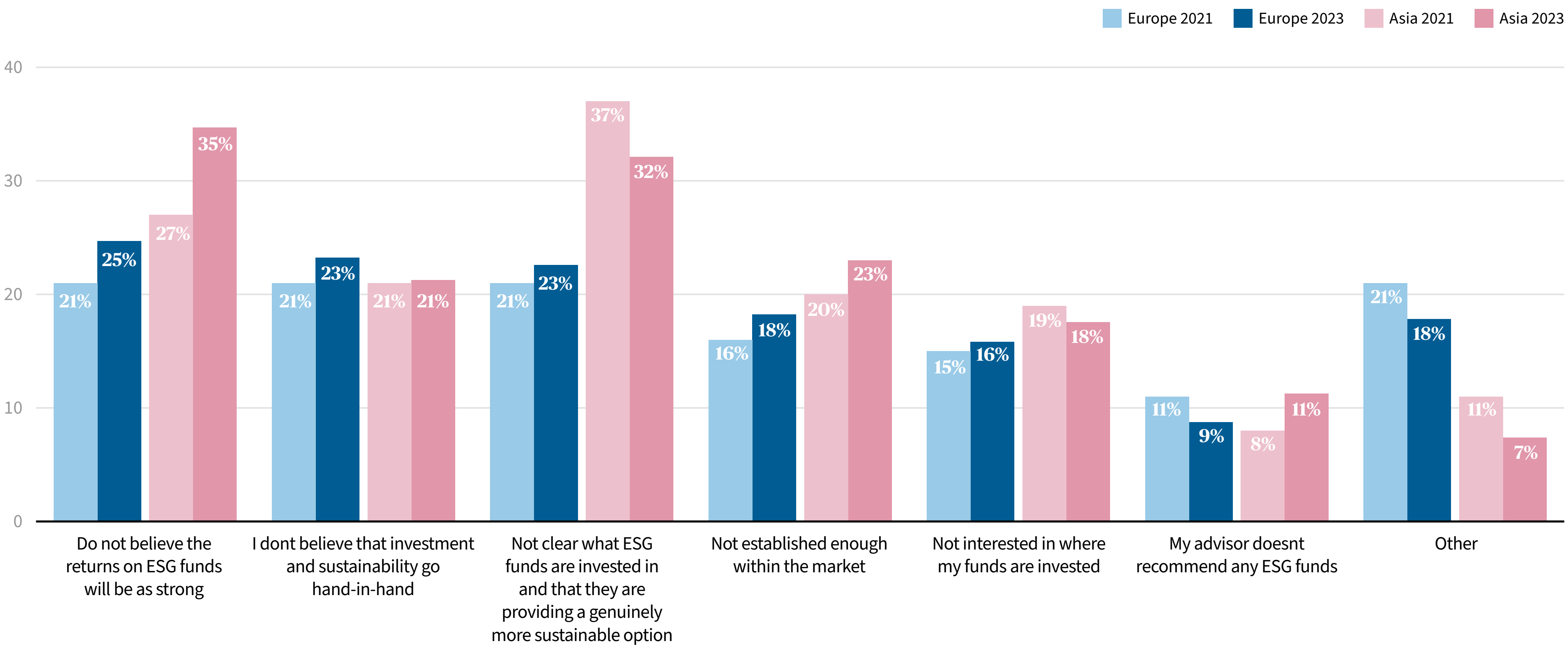
Q3: How would you expect an ESG fund to perform relative to a non-ESG fund of the same risk level? (Investors)



These doubts about superior performance are acting as a drag on investor engagement with ESG-labelled funds. A willingness to pay more here will only materialise if investors are confident about how these funds will perform. As with the issue about fees, and despite the common assertion that applying ESG principles should make funds more resilient (because sustainability initiatives drive better financial performance over the long term) this doesn't seem to be the current perception amongst large numbers of investors.

Against a difficult economic backdrop, investor caution is more likely to win out. Our survey shows that across investors who would not consider an ESG fund, a lack of belief in the strength of investment returns is the key barrier for investors across both Europe and Asia. This level of doubt is growing in both markets.

Q4: What are the main reasons why you would not start investing in an ESG fund? (Non-ESG investors who would not consider ESG)



Section 3: the investor knowledge gap

Our research shows clear gaps in retail investor awareness and understanding of the range of sustainable investment approaches and in the very funds that they hold in their portfolio. Furthermore, advised investors display no significantly improved understanding.

37%

Only a minority of retail investors (37%) have heard of the term 'ESG' – 26% among European investors and 47% among Asian investors.

30%

Only 30 % of investors that currently hold ESG funds in their portfolio feel fully aware of the ESG aims and objectives of these funds (26% in Europe and 33% in Asia).

↓2%

The number of adviser initiated ESG conversations has dropped from 40% to 38% since 2021 (from 38% to 35% in Europe and from 42% to 40% in Asia).

Among those investors that have had a conversation with their financial advisor about ESG or responsible investment, still only 30% feel fully aware of the ESG aims and objectives of these funds.

While we see a developing lack of confidence with regards to ESG fund performance among many investors, it is more important than ever to ensure that they develop a strong understanding of the ESG investment landscape.

Confidence in, and understanding of, ESG starts with a definition of some of the classification and approaches that all fall under the ESG umbrella. Our survey shows that many of these terms and phrases, understood and frequently applied by institutional investors, are largely unrecognised among retail investors.

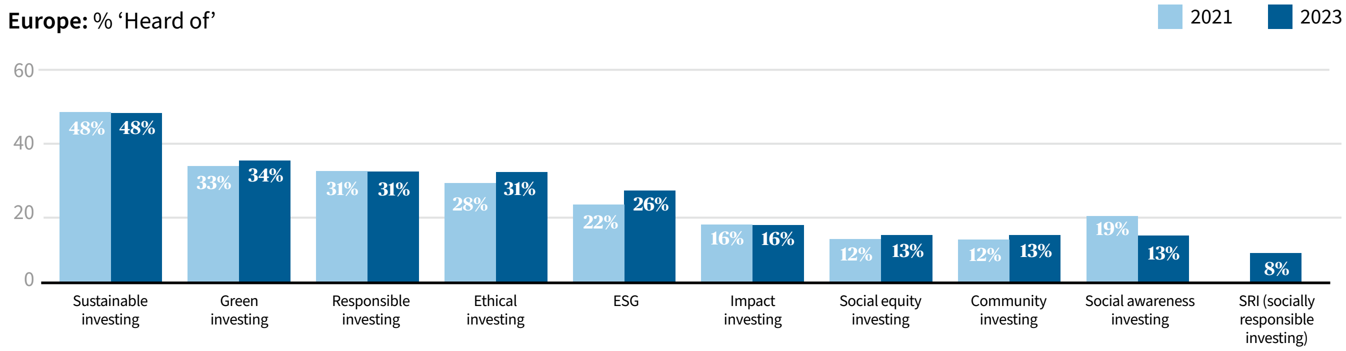
Despite the coverage discussing sustainability related issues, we have seen relatively little shift in investor awareness of these terms and phrases since 2021. ‘Sustainable investing’ remains the most commonly known term across both European and Asian investors.

What is striking is a low awareness of the term “ESG” – particularly among European investors. The industry should be concerned given the key differences between ESG as an approach and ‘sustainable’, ‘green’, ‘responsible’ or ‘ethical’ investing and the lack of conviction about ESG fund performance. These funds link sustainable corporate practices and good governance, alongside credible investment performance. How can investors truly understand the meaning of ESG funds if they have not heard of the term “ESG”?

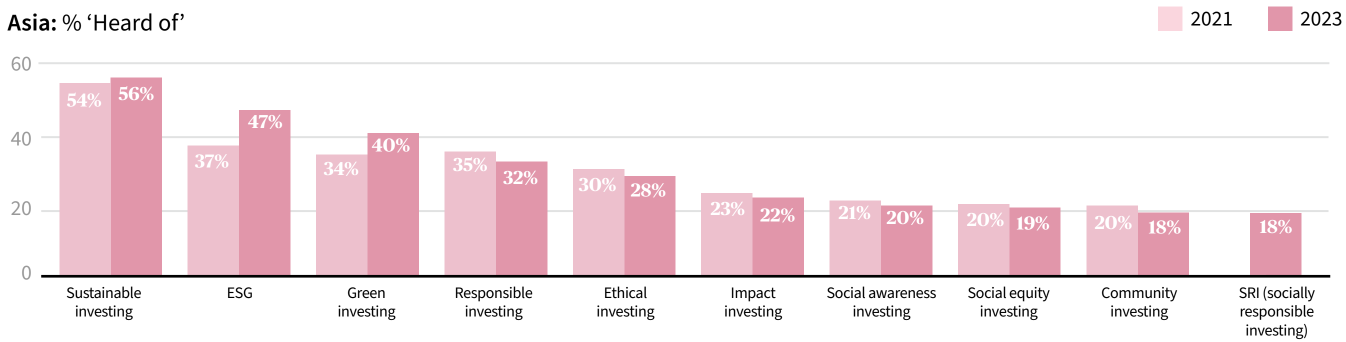
However, it is not just limited understanding of this market that should be a concern. Among retail investors already holding ESG-labelled funds, only a small minority feel fully aware of the aims and objectives of their fund(s); the specific ESG factors taken into account; the assets they invest in or the impact that being an ESG fund has on the fees being charged. To compound this, levels of awareness have fallen, rather than improved, since our previous survey.

Q1: The following terms and phrases are sometimes used to describe investments which focus on the social, ethical and environmental impact of the investment. Which ones have you heard of? (Investors)

Europe: % ‘Heard of’

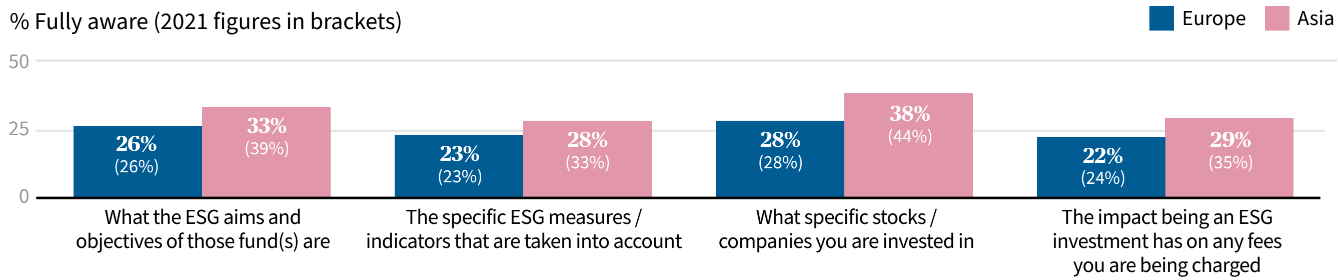


Asia: % ‘Heard of’



Q2: You stated that you currently hold ESG investments, to what extent are you aware of…

% Fully aware (2021 figures in brackets)

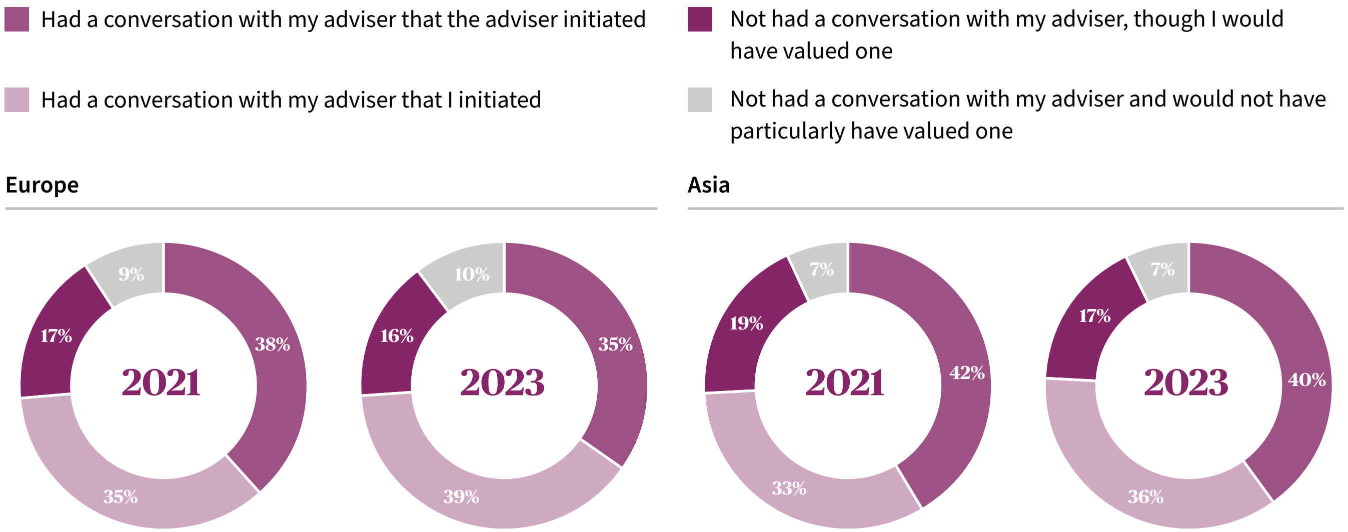


Such knowledge and understanding gaps pose a real issue for the industry. Beyond the lack of investor confidence that goes with poorer levels of awareness and understanding, it raises questions as to whether enough is being done to ensure that investors are informed and protected – a key regulatory factor.

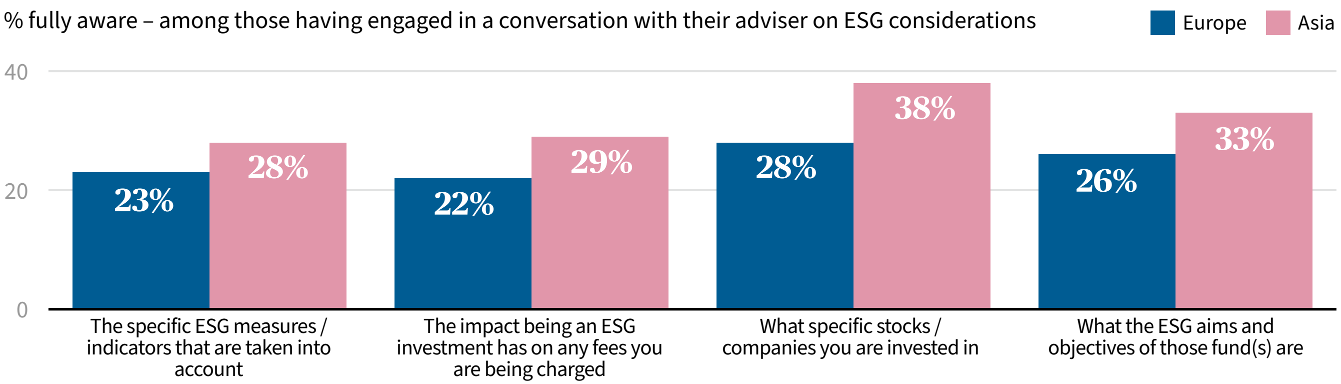
Regardless of whether this is an issue of transparency or communications, it seems more needs to be done so that investors are better engaged and informed. While this should begin with product transparency, financial advisors have a key role to play. The survey shows that there are fewer adviser-initiated conversations now than there was two years ago, and there has been an increase in conversations initiated by clients. This highlights a potential need for greater adviser education on the topic in order to encourage and support them in these conversations where there is clearly demand from their clients.

Interestingly, even when retail investors have engaged in conversations with their advisor about ESG considerations, only about one-quarter were aware of their ESG fund characteristics.

Q3: Have you had a conversation about ESG or responsible investment factors / considerations with your adviser in the past? (Advised investors only)



Q4: You stated that you currently hold ESG investments, to what extent are you aware of…



Due to rounding, figures may not add up to 100%.

Section 4: getting under the bonnet

While our findings show the need to be clearer in communications with retail investors about the nature, aims and characteristics of ESG funds, there is also investor demand to supply that clarity.

79%

79% of investors agree that all companies within any ESG fund should have to report on the same consistent measures to ensure comparability (77% of European investors and 81% of Asian investors).

75%

75% of investors agree that ESG funds must clearly disclose the specific measures / indicators that are taken into account. (71% of European investors and 78% of Asian investors).

71%

71% of investors (64% of European investors and 77% of Asian investors) are concerned about the potential mis-selling of ESG funds – an increase from the 61% and 71% respectively recorded in 2021.

79% of investors globally agree that it should be compulsory for investors to receive detailed information on how the companies they are invested in perform across ESG criteria.

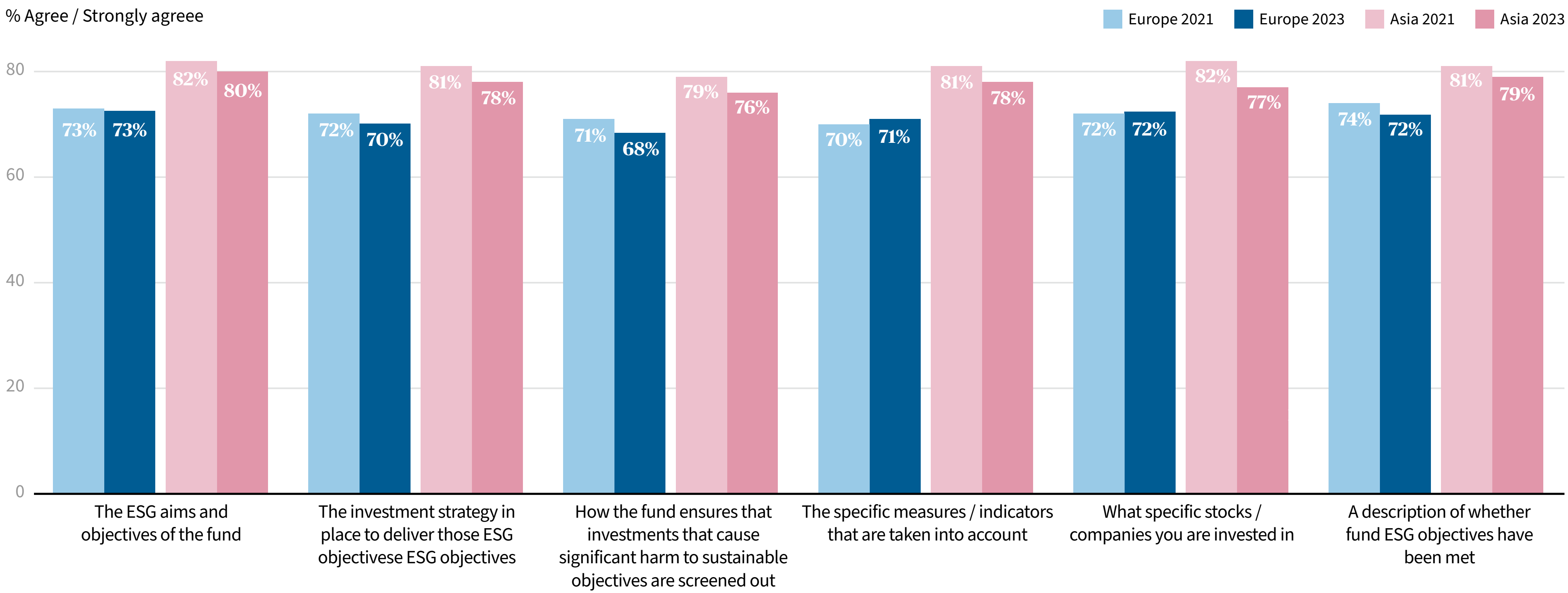
While our findings show the need to be clearer in communications with retail investors about the nature, aims and characteristics of ESG funds, there is also investor demand to supply that clarity.

Along with performance, there is a lack of clarity about what ESG funds are invested in. Whether they genuinely provide a more sustainable option, is a key barrier cited by non-ESG investors – 32% among Asian non-ESG investors, and 23% among non-ESG European investors. Similarly, improving transparency about where your money is being invested is cited as the leading step that could be taken to make it easier or more attractive for people to invest in responsible or ethical investments.

Calls for greater transparency

Through our survey, we see a significant majority of investors across both Europe and Asia agreeing that ESG funds should be clearly disclosing key details of the product – including which stocks are in scope for investment, specific measures being taken into account, ESG strategies being used, and the fund aims and objectives. Clearly, this high level of agreement sits at odds with the small minority of ESG investors that felt fully informed.

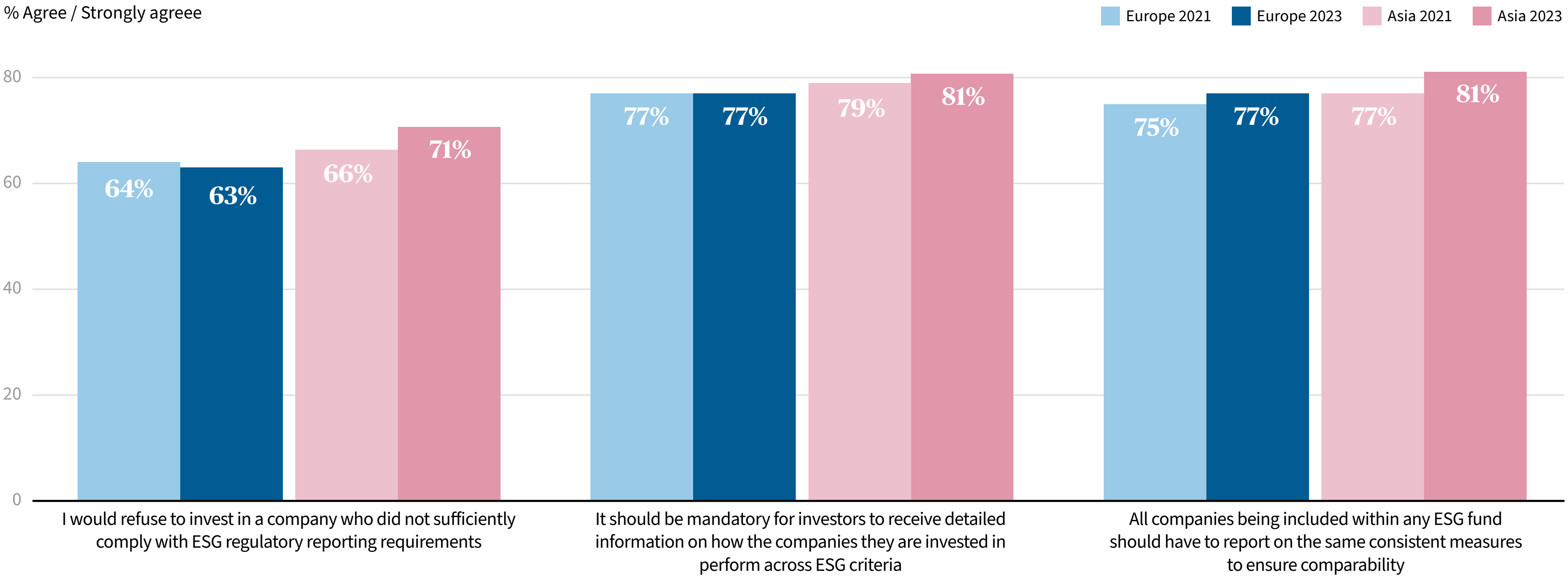
Q1: Regardless of whether or not you currently hold investments or ESG investments specifically, to what extent do you agree or disagree that ESG funds must clearly disclose the following to investors? (Investors)



Greenwashing is a concern

This demand for transparency also extends to the companies that ESG funds are investing in – with over three quarters of investors agreeing that all companies included in an ESG fund should have to report on the same consistent measures to ensure comparability. The same proportion also agreed it should be mandatory for investors to receive detailed information on how these companies perform according to ESG criteria.

Q2: To what extent do you agree or disagree with each of the following statements? (Total sample)

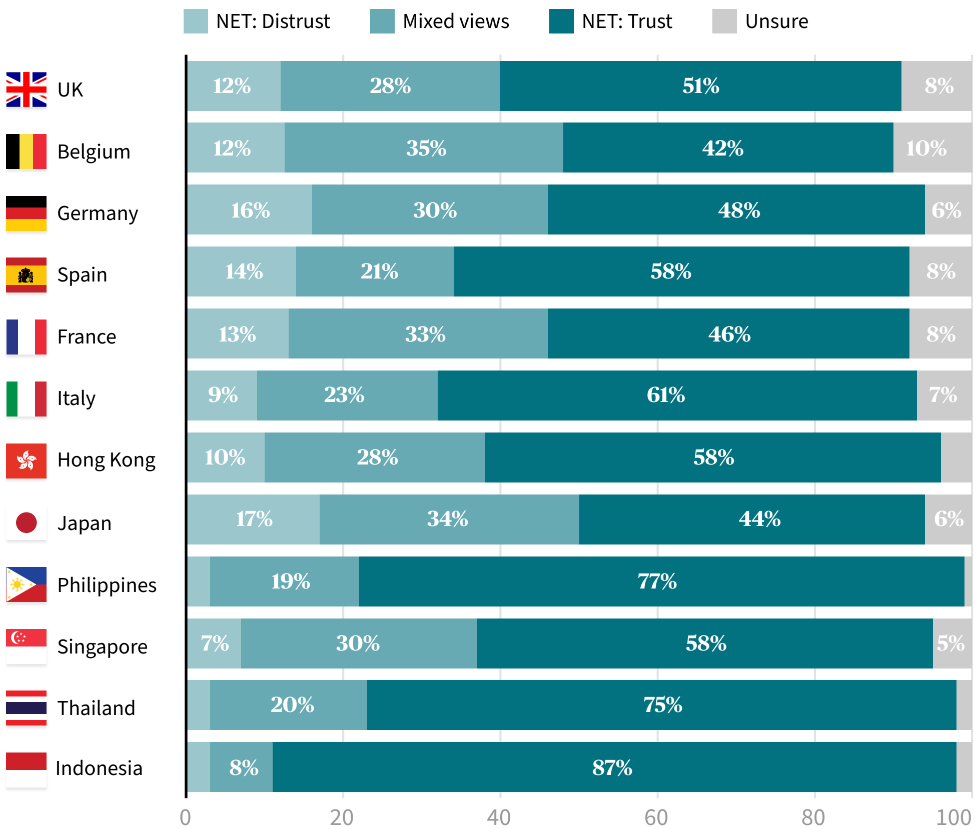


This may be easier said than done. Regulatory requirements and the ease with which businesses can collect this detail across the globe varies greatly. Adding to these challenges, a report from data provider RepRisk released in 2023[2] revealed a 70% increase in greenwashing incidents by financial services companies globally over the previous 12 months.

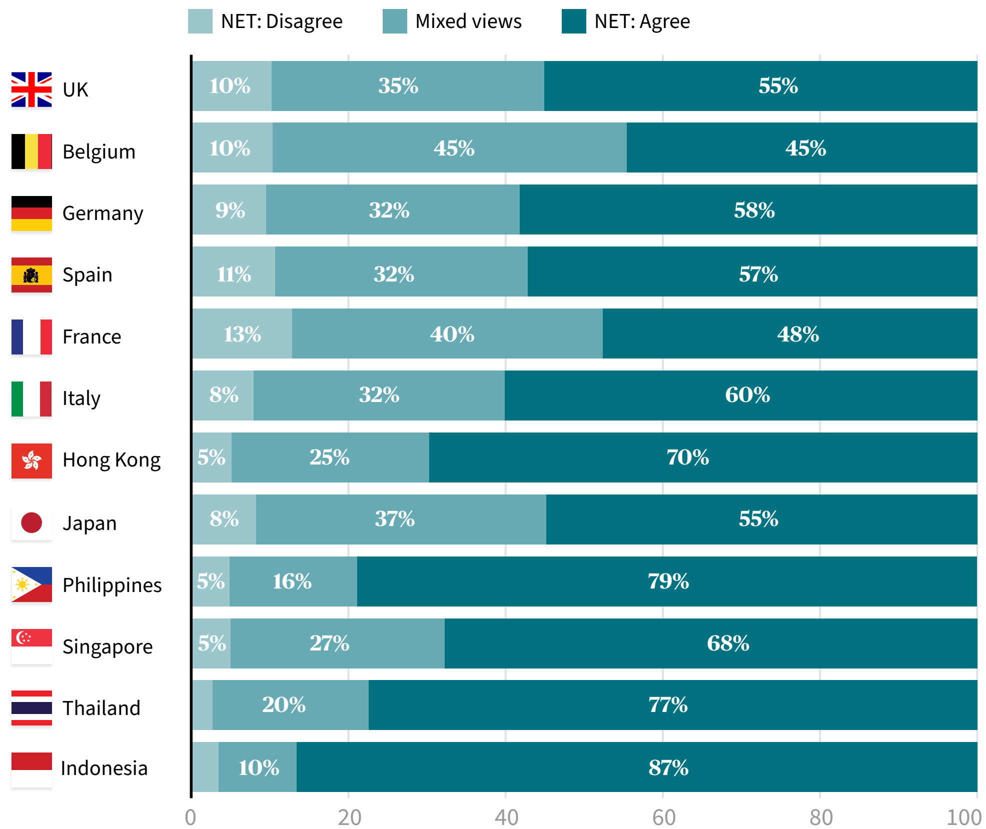
Given the investor demand for transparency, the difficulties inherent in ensuring accurate and comparable data, and the rise in greenwashing incidents, it is vital that investors trust the ESG ratings that they are provided with – either by a fund manager or through independent research with a ratings agency. It is reassuring that only a few investors globally (10%) do not believe ratings provide an accurate picture of the ESG practices of a given company.

Across most European markets though, only around half of investors believe this to be the case. In contrast, with the exception of Japan, investors in Asian markets tend to place greater trust in ESG ratings. Over a third of investors globally have mixed views/disagree that ratings provide the clarity and information needed to make informed decisions in relation to ESG.

Q3: To what extent do you trust that ESG ratings give you a true and accurate understanding of the practices of a given company? (Investors)



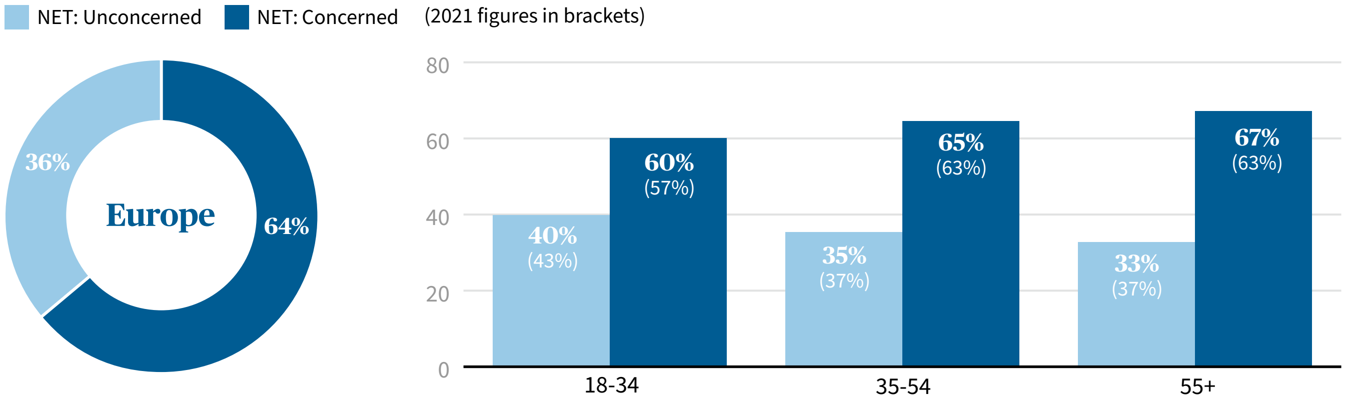
Q4: To what extent do you agree that ESG ratings give you the clarity and information you need to make informed decisions in relation to ESG? (Investors)

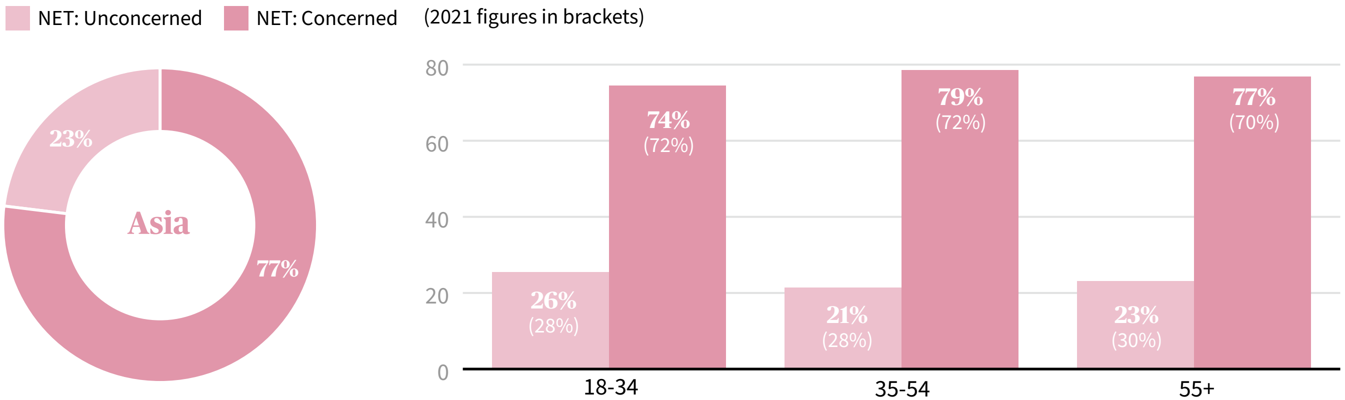


[2]RepRisk, On the Rise: Navigating the Wave of Greenwashing and Social Washing, October 2023.
Due to rounding, figures may not add up to 100%.

Given these findings and this broader context, it is little surprise to see investor concerns with regards to the mis-selling of ESG funds increasing. This concern is greater among Asian markets, with 77% of those questioned 'very or fairly concerned' about the potential mis-selling of ESG funds – a 6% increase from our 2021 study. Among European investors, levels of concern are also rising (64% compared with 61% in 2021) – though still below those seen in Asia.

Q5: To what extent (if at all) would you say you are concerned about the potential for mis-selling ESG funds? (Investors)





Due to rounding, figures may not add up to 100%.

Section 5:
ESG funds – what investors want to see

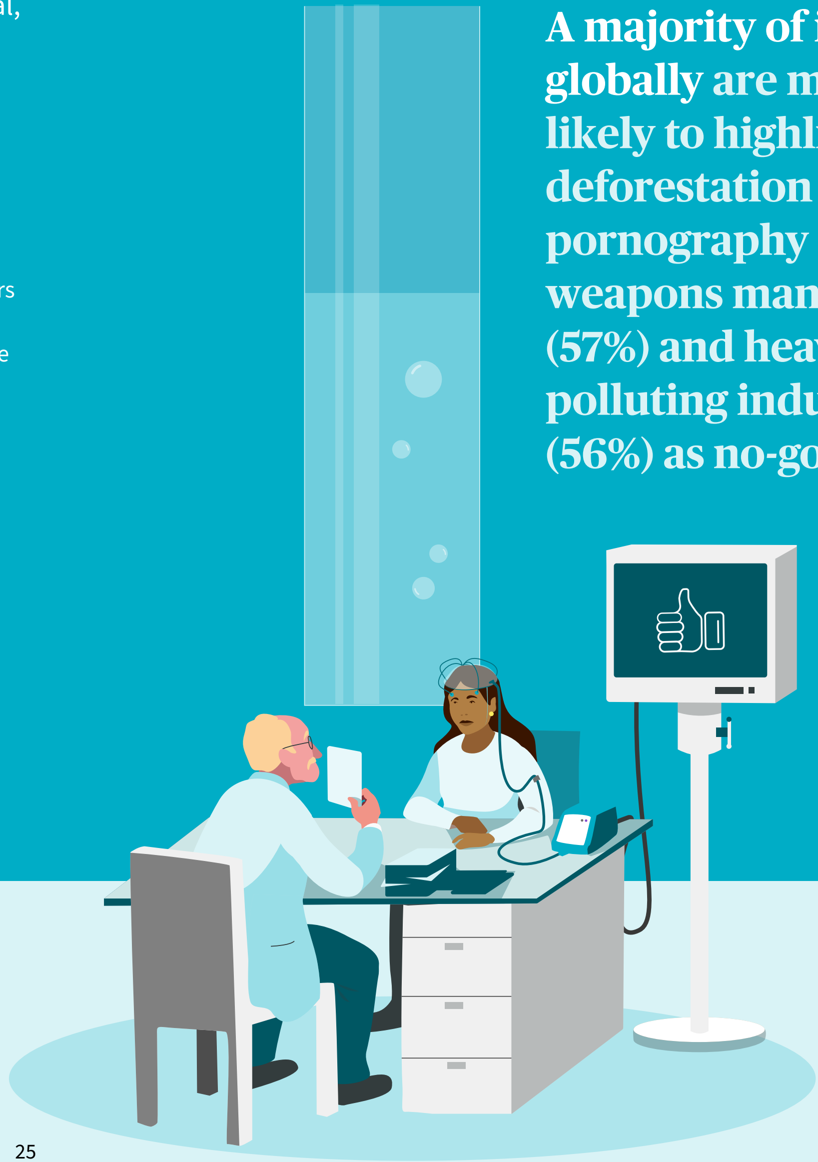
Investors place high levels of importance across the entire range of environmental, social and governance factors covered within our study. Even the least important of these are regarded as an important consideration for a majority of investors.

Data protection and transparent accounting are the top two ESG factors deemed as important by investors in all markets – with the sole exception of Germany (Data protection and Fair pricing).

On environmental factors, investors place greater emphasis on marine life conservation and avoiding waste water than they do on cutting pollution and carbon emissions.

In relative terms, social factors are more important to retail investors in Asia than they are in Europe, where supporting healthy lives and wellbeing feature strongly.

A majority of investors globally are most likely to highlight deforestation (59%), pornography (58%), weapons manufacturer (57%) and heavy polluting industries (56%) as no-go sectors.



The retail investor demand for transparency and clarity that we have seen throughout this report is also reflected in the progress regarding regulation. Both the UK and EU are reassessing how to regulate the ESG ratings space.

However, ratings are only part of the issue. The fundamental lack of awareness of key ESG-related terms - and the different aims and approaches these can take - suggests that the majority of retail investors lack the understanding to ensure any investments they make reflect their intention.

Ethical funds, for example, are likely to hold a very different selection of stocks than an ESG fund. A lack of appreciation about these different product types will leave investors at risk of making decisions that do not reflect their preferred positioning – particularly given the often low levels of understanding regarding their ESG holdings.

Where investors want to see funds focussed?

Understanding the range of considerations retail investors want to see in an ESG-labelled fund is crucial to ensure the alignment between these products' design and development and investor preferences.

As was the case in our previous survey in 2021, among retail investors, governance factors remain the most important of the E, the S and the G components. 'Data protection' and 'transparent accounting' are the top two factors in every country in our study, with the exception of Germany, where 'fair pricing' ranks above 'transparent accounting'. Given the rising cost of living set against the profits being recorded by oil and gas companies, and at a time when household bills have never been higher, the importance of fair pricing to retail investors is perhaps not surprising.

Also consistent with our findings in 2021 is the relative importance of environmental factors in Europe – with a focus on marine life conservation and avoiding water waste the most important factors, as opposed to specific cuts to pollution and carbon emissions. In relative terms, social factors are more important to retail investors in Asia than they are in Europe, where supporting healthy lives and wellbeing feature strongly.

Q1: How important would each of the following factors be to you personally if you were to invest in an ESG fund? (Total sample)
Showing top 10 most important 2023

Environmetal | Social | Governace

#	Europe						Asia					
	UK	Belgium	Germany	Spain	France	Italy	Hong Kong	Japan	Philippines	Singapore	Thailand	Indonesia
1	Data protection	Transparent accounting	Data protection	Data protection	Transparent accounting	Transparent accounting	Transparent accounting	Transparent accounting	Transparent accounting	Transparent accounting	Data protection	Data protection
2	Transparent accounting	Data protection	Fair pricing	Transparent accounting	Data protection	Data protection	Data protection	Data protection	Data protection	Data protection	Transparent accounting	Transparent accounting
3	Fair pricing	Fair pricing	Transparent accounting	Avoiding water waste	Avoiding water waste	Fair pricing	Sustainable long-term growth	Sustainable long-term growth	High regard for health/safety	Fair pricing	Sustainable long-term growth	Access to quality education
4	Sustainable long-term growth	Marine life conservation	Marine life conservation	Fair pricing	Marine life conservation	Cuts to pollution/ carbon emissions	Fair pricing	Fair pricing	Fair pricing	Sustainable long-term growth	Well-being support	Sustainable long-term growth
5	Marine life conservation	Well-being support	Avoiding water waste	Sustainable long-term growth	Fair pricing	Marine life conservation	Cuts to pollution/ carbon emissions	Company's ethical values	Well-being support	Well-being support	Cuts to pollution/ carbon emissions	well-being support
6	Company's ethical values	Avoiding water waste	High regard for staff health / safety	Fair treatment and remuneration	Natural capital preservation	High regard for staff health / safety	Company's ethical values	Fair treatment and remuneration	Fair treatment and remuneration	Avoiding water waste	Fair treatment and remuneration	Company's ethical values
7	High regard for staff health / safety	Fair treatment and remuneration	Fair treatment and remuneration	Marine life conservation	Sustainable long-term growth	Combat against global poverty	High regard for staff health / safety	Marine life conservation	Quality eductaion	Company's ethical values	Fair pricing	Natural capital preservation
8	Fair treatment and remuneration	High regard for staff health / safety	Humane treatment of animals	Quality education	Well-being support	Sustainable long-term growth	Avoiding water waste	Avoid morally questionable business	Avoiding water waste	High regard for staff health / safety	High regard for staff health / safety	Cuts to pollution/ carbon emissions
9	Humane treatment of animals	Humane treatment of animals	Cuts to pollution/ carbon emissions	High regard for staff health / safety	High regard for staff health / safety	Action against climate change	Action against climate change	Cuts to pollution/ carbon emissions	Company's ethical values	Action against climate change	Quality education	High regard for staff health / safety
10	Well-being support	Natural capital preservation	Sustainable long-term growth	Company's ethical values	Cuts to pollution/ carbon emissions	Avoiding water waste	Marine life conservation	High regard for staff health / safety	Sustainable long-term growth	Cuts to pollution/ carbon emissions	Shareholder voting rights	Combat against global poverty

However, what is particularly striking is the importance retail investors place across all environmental, social and governance factors covered in our study. Even the least important of these are regarded by retail investors as important for consideration in an ESG fund.

Q2: How important would each of the following factors be to you personally if you were to invest in an ESG fund? (Total sample) – Showing least important E, S and G factor for both Europe and Asia 2023

	Europe	
Environmental	Clean transportation (i.e. EV batteries, shared mobility and freight)	59%
Social	Profits / donations given to charity	51%
Governance	A company's partnership / supplier organisations	58%

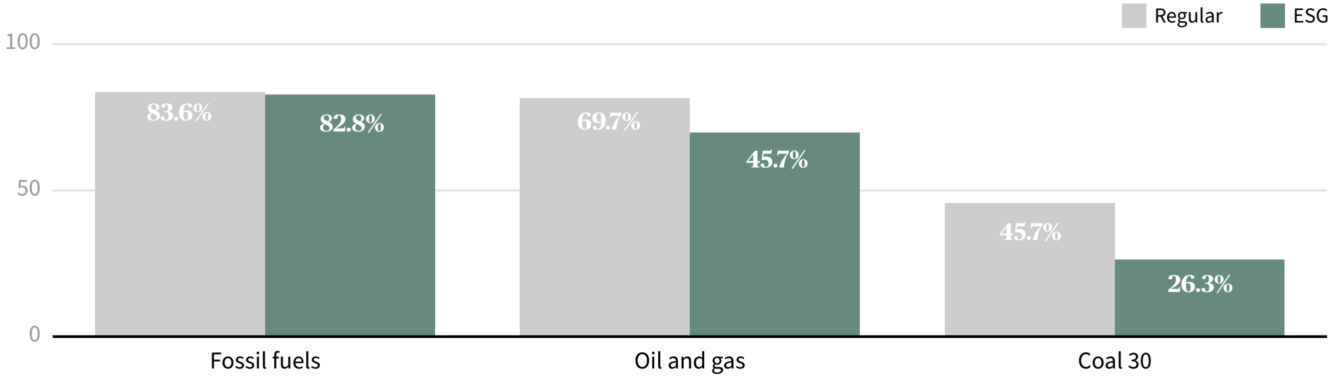
	Asia	
Environmental	Clean transportation (i.e. EV batteries, shared mobility and freight)	69%
Social	Profits / donations given to charity	58%
Governance	Shareholder voting rights	69%

No-go zones and grey areas

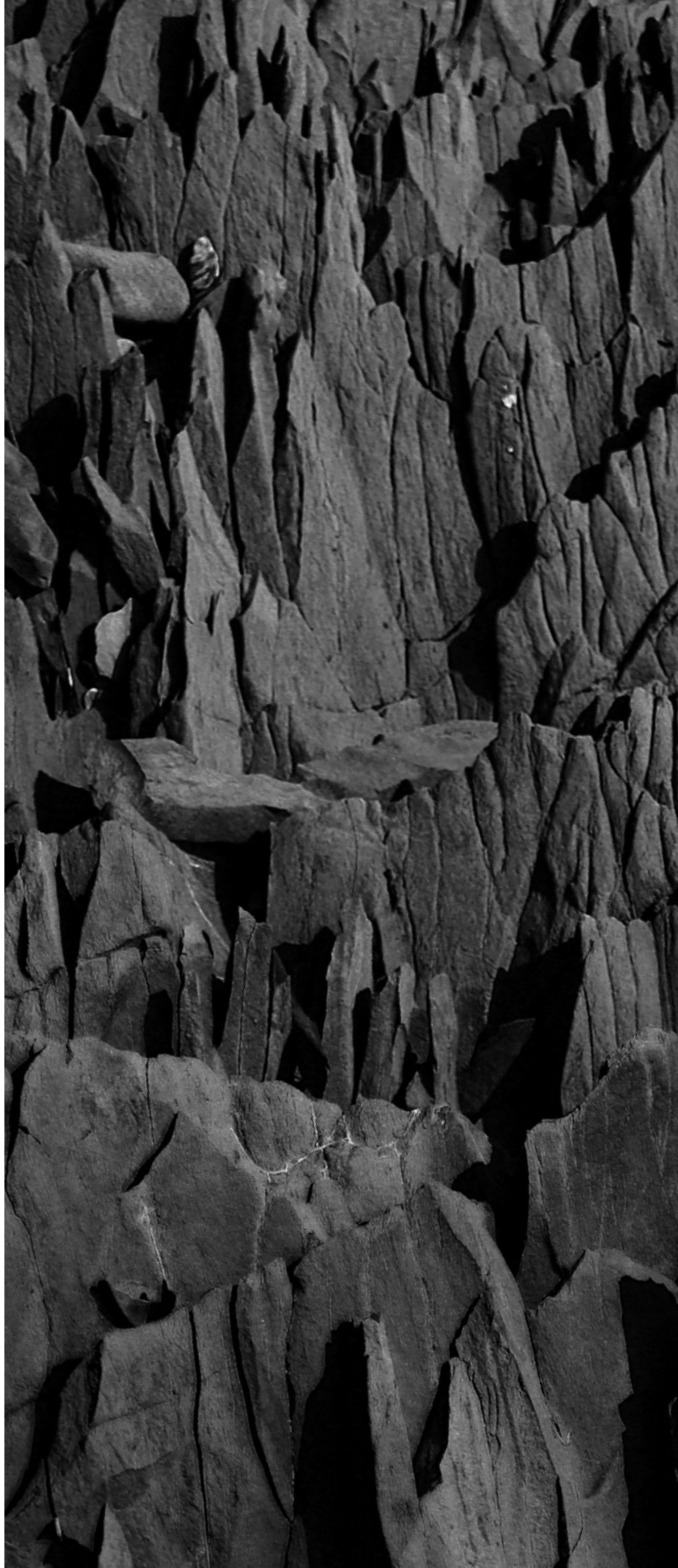
As in 2021, it is particularly challenging to navigate the kind of companies that should be excluded from an ESG-labelled fund. For example, over the past year there has been much debate across Europe regarding the inclusion of both nuclear and oil and gas companies in ESG-labelled funds.

Research of Morningstar data from Energy Monitor in April 2023 shows that the vast majority of ESG funds have some exposure to fossil fuels[3]. Even though their positioning here is far lower than for non-ESG funds, is this acceptable? The argument for fossil fuel exposure is that in a just transition, heavy polluters must adapt their business model or go out of business. This adjustment – often fundamental and expensive – requires investment. The issue is the extent to which these companies are sticking to the transition plans and the targets they have put into place. This brings us back to the earlier concerns regarding greenwashing and the need for transparent and high quality data reporting.

Percentage of funds with >0.00% exposure to fossil fuels, oil and gas, and the 30 largest owners of coal-fired power plants in developed markets plus India and China



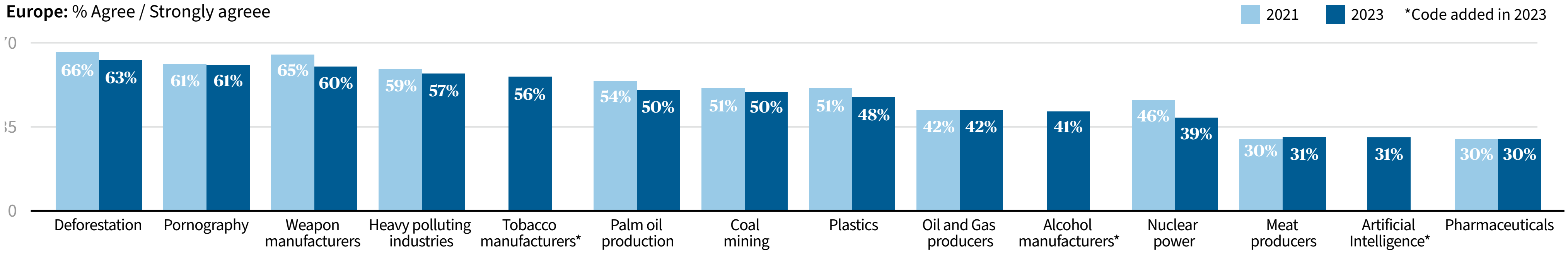
[3] Energy Monitor, Why ESG funds are full of fossil fuels, April 2023



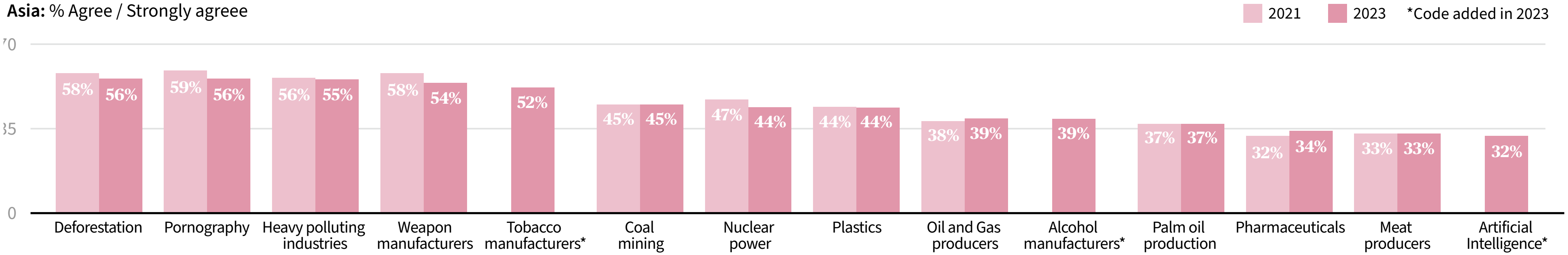
It is clear that there are certain industries that the majority of retail investors feel should not be added to an ESG fund. Investors across both Asia and Europe are most likely to highlight deforestation, pornography, weapons manufacturer and heavy polluting industries as no-go sectors. However it is also clear there is no one size fits all approach.

Q2: To what extent do you feel that ESG investment funds should never invest in a company in the following sectors?

Europe: % Agree / Strongly agreee



Asia: % Agree / Strongly agreee



Top answer per country

Europe

UK	Belgium	Germany	Spain	France	Italy
Deforestation	Deforestation	Deforestation	Pornography	Pornography	Weapon manufactures
65%	59%	57%	64%	67%	69%

Asia

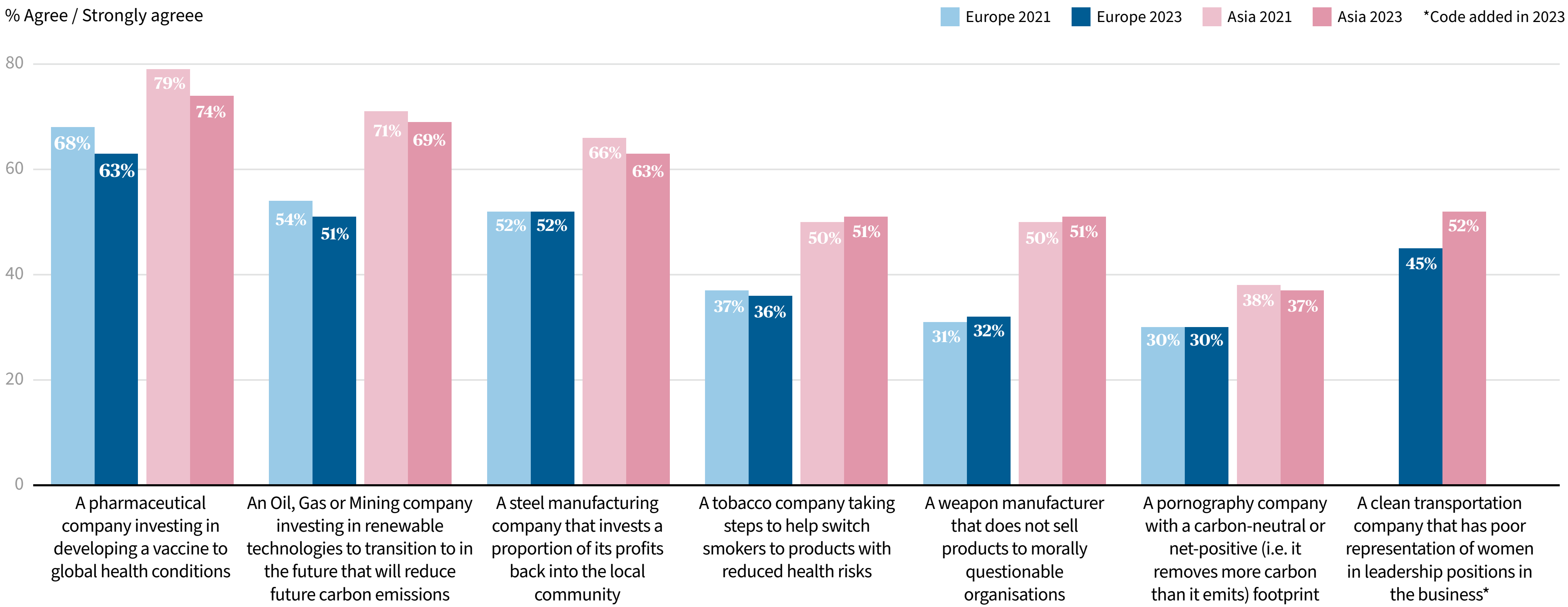
Hong Kong	Japan	Philippines	Singapore	Thailand	Indonesia
Weapon manufactures / Pornography	Weapon manufactures	Heavy polluting industry / Pornography	Pornography	Deforestation	Deforestation / Pornography
61%	49%	55%	63%	59%	60%

While the investment management industry may rationalise (rightly or wrongly) the inclusion of certain sectors or companies within ESG funds – does this matter to retail investors? Our survey suggests that this is a difficult question to answer, but there are nuances and sensitives at play. Whilst some types of companies or sectors have a stronger group that agree they should be excluded there are still a significant number of investors for who inclusion doesn't matter, highlighting the difficulty with a one a size fits all approach.

For example, 30% of investors in Europe and 37% in Asia agree that an ESG fund could include a pornography company with a carbon-neutral or net-positive footprint – meaning 43% and 35% respectively do not agree (43% and 28% hold mixed views). In this case, the nuance and context made some difference in perceived acceptability.

It is a similar story regarding armaments manufacturers. 39% of European investors and 35% of Asian investors state that these companies should not be held in an ESG fund, even if they do not sell their products to morally questionable organisations. But as a general principle, 60% of European investors and 54% of Asian investors state that weapons manufacturers should never be found in an ESG fund. Again, the context does shift investor mindsets.

Q3: To what extent do you agree or disagree that each could be included within an ESG fund that you personally were invested in? (Investors)



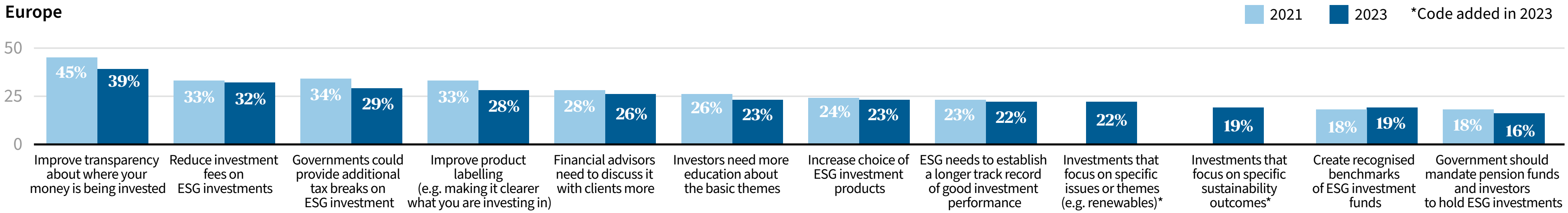
The final word

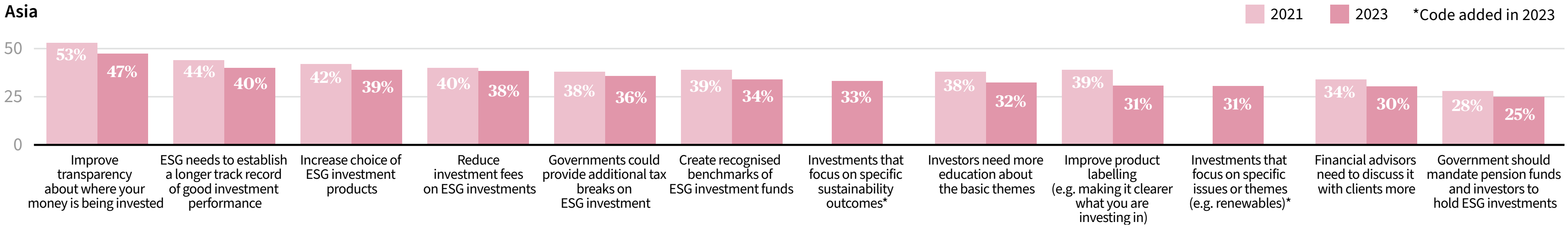
What do all findings mean for the future of ESG retail investments? A healthy appetite for ESG funds is still evident throughout our survey – despite a slight dampening in engagement. However, there is a fine balance between performance, fees and product transparency within the investor mindset.

First and foremost, more needs to be done to ensure that customers are treated fairly. This means better and clearer communications regarding the aims and objectives of products under the ESG umbrella. Our survey also suggests doubts as to the extent to which ESG investors really know and understand the products that they have invested in.

When economies and investment markets perform strongly, this knowledge gap may seem unimportant to investors. But during a slowdown, when performance drops, this information vacuum can allow doubts and misperceptions to fester. Investors themselves cite improving the transparency about where their money is being invested as the single biggest factor that would make it easier or more attractive for them to consider responsible or ethical investments (39% in Europe and 47% in Asia).

Q: What steps could be taken to make it easier or more attractive for people to invest in responsible or ethical investments?





Without greater and improved communications and transparency, investors and the industry will risk poor customer outcomes. Investors feel strongly about what kind of companies should qualify for an ESG fund. Regardless of the stock decision methodology, unclear labelling and poor investor understanding of products is likely to lead to a misalignment between the ambition of a given investment and actual investor preferences.

Important information

Capital at risk. The value of investments, and any income from them, may fall as well as rise and investors may get back less than they originally invested. Exchange-rate fluctuations may also affect the value of their investment. Due to this and the initial charge that is usually made, an investment is not usually suitable as a short-term holding.

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