

Asset owners commit to maturing sustainable investment strategies

2023 global survey findings
from asset owners



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Introduction

Welcome to our 2023 sustainable investment asset owner report. We'd like to thank everyone who has shared their valuable time and insights to help create the 7th annual research study for the asset owner community.



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Our report title acknowledges the strong, continued long-term commitment to the maturing sustainable investment industry. Our survey findings take a pulse of the market, noting a directional dip this year in terms of asset owner levels of implementing and evaluating sustainable investment. But we are confident that there is little indication of a readjustment to the enduring appeal of sustainable investment.

While the long-term trend reflects a very positive trajectory, macroeconomic and geopolitical factors have influenced respondents' short-term sentiment. Although clearly not all asset owners are influenced by the same exogenous factors, the persistent inflationary pressures and central bank monetary policy tightening have no doubt had a negative impact. For example, macroeconomic factors have in some cases taken their toll on tech-heavy, growth-focused investment portfolios that sustainable investors have favoured.

We believe the strong focus on governance and greenwashing is one example of the asset owner community's increasingly sophisticated approach to sustainable investment. Prioritising governance and embedding it into investment strategies is a positive endorsement of a maturing industry approach. Attempts to identify and eschew elements of greenwashing also reflect an industry that wants to avoid any misaligned influences, harm to their members and damage to their reputations.

Data has the power to inform, influence and help guide asset owners to make better-informed decisions while strengthening their already well-established sustainable investment strategies. This study highlights where data is already very supportive but could be even more positively impactful if asset owners prioritise forging partnerships with quality data providers.

We hope you enjoy reading this report and its findings help your organisations successfully navigate the sustainable investment industry to meet your long-term objectives and goals.

Executive summary

Asset owners continue to take a robust long-term view of their sustainable investment strategies while focusing on key priorities such as energy transition and well-run companies that prioritise environmental, social and governance considerations.

At the same time, our research highlights how respondents are dealing with the fast changing, short-term macroeconomic and geopolitical backdrop.

Sustainable investment continues to mature. Following five years of steady growth there has been a directional dip to 80% this year from 88% in 2022 in the level of asset owners globally that are implementing and evaluating sustainable investment. Though not a significant change, this dip can be attributed to influential macroeconomic factors, such as high interest rates to combat inflation, and geopolitical volatility caused by the war in Ukraine. Despite short-term influences on sentiment toward sustainable investment, respondents maintain long-term conviction for this continually maturing investment theme.

To illustrate the maturing investment theme, this year's research shows an equal number (73%) of asset owners are implementing passive and active sustainable investment strategies, further highlighting the mainstream characteristics of sustainable investment being part of the flight to passive investment strategies.

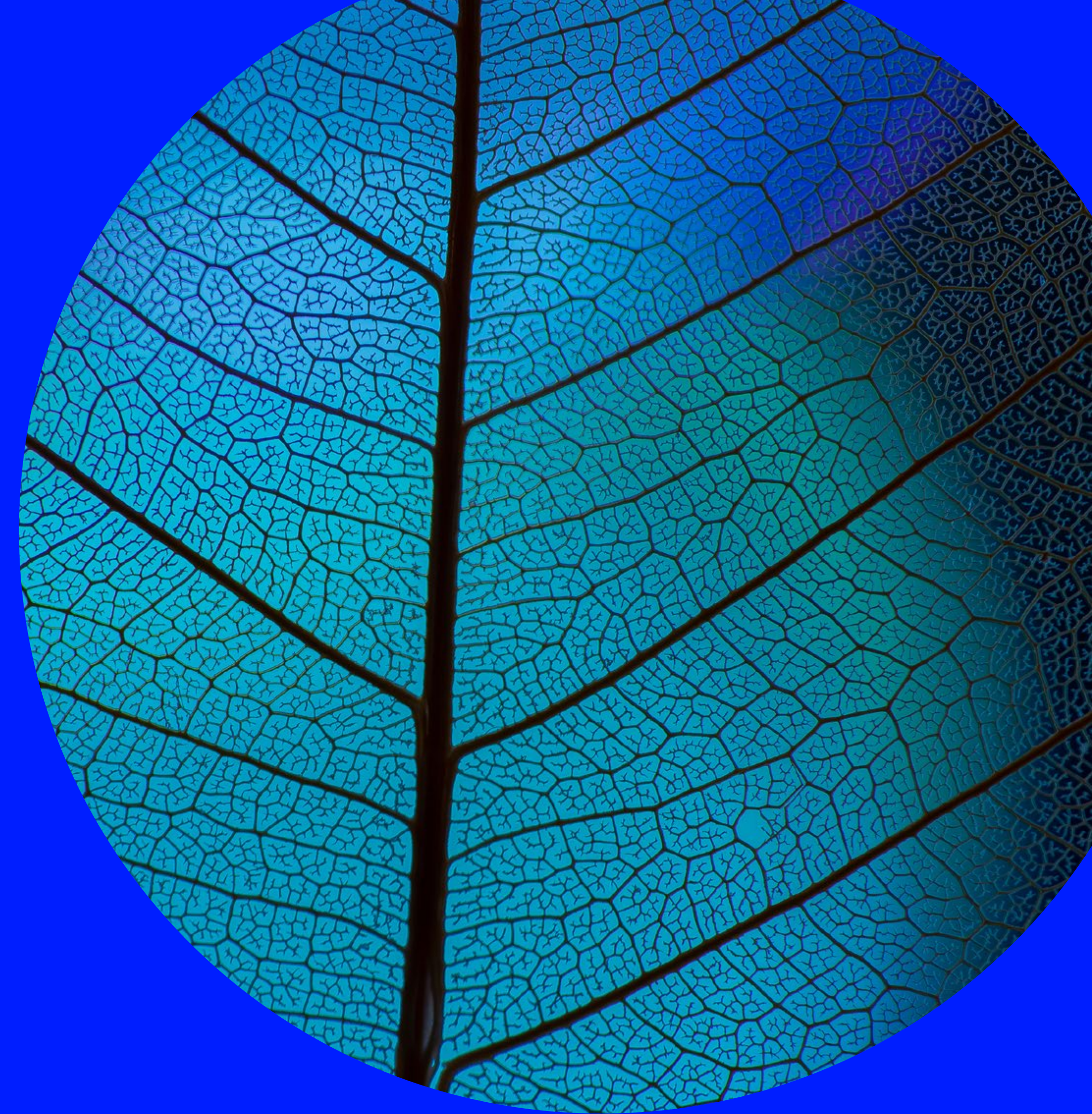
Where constructing investment portfolios has become more challenging due to macroeconomic-induced factors, investors also want to ensure they are not encountering investment opportunities that are considered to be greenwashing and potentially damaging to their reputations and members' interests.

Governance is a priority that has significantly risen across all regions. Our research has highlighted a notable increase in the priority of governance to asset owners this year compared to last. Governance is likely to continue as a priority focus area going forward, which is also a supportive trend for the maturing sustainable investment theme in general.

Certain pressures on asset owners appear to be more complex as the sustainable investment industry matures. Some asset owner priorities are included in their investment strategies. Governance is, but social and broader environmental themes are less so, highlighting that asset owners need to make more provisions so their investment strategies are more inclusive and representative of their priorities. Perceived barriers do exist particularly because of lack of data quality (58% of respondents identified that as a challenge to meet regulatory requirements). In parallel, asset owners are identifying areas that can be resolved, such as by accessing the right, high-quality data and choosing effective data partners.

Sustainable investment: The new normal matures

The influences of macroeconomic factors and geopolitical volatility affected sustainable investment implementation in 2022. Despite these effects, many asset owners maintain a strong commitment to sustainable investing, as do their members and clients.



Short-term decline, but long-term conviction

Following five years of steady growth, our research this year highlights there has been a directional dip to 80% from 88% in 2022 in the level of asset owners globally that are implementing and evaluating sustainable investment (exhibit 1.1).

Though the data represents a directional dip not a significant change, this decline can be attributed to the influences of macroeconomic factors, including high interest rates to combat inflation, and geopolitical volatility caused by the war in Ukraine. The fall can also be traced to respondents in the US, where environmental, social and governance considerations have become contentious in the country's political system, as they have also in other G7 countries.

Our research shows that despite short-term influences on sentiment toward sustainable investment, respondents maintain long-term conviction for this continually maturing investment theme. Many maintain a robust focus on the reasons why sustainable investment matters to their organisation. Here we cite two responses to open questions from asset owners that took part in our research:

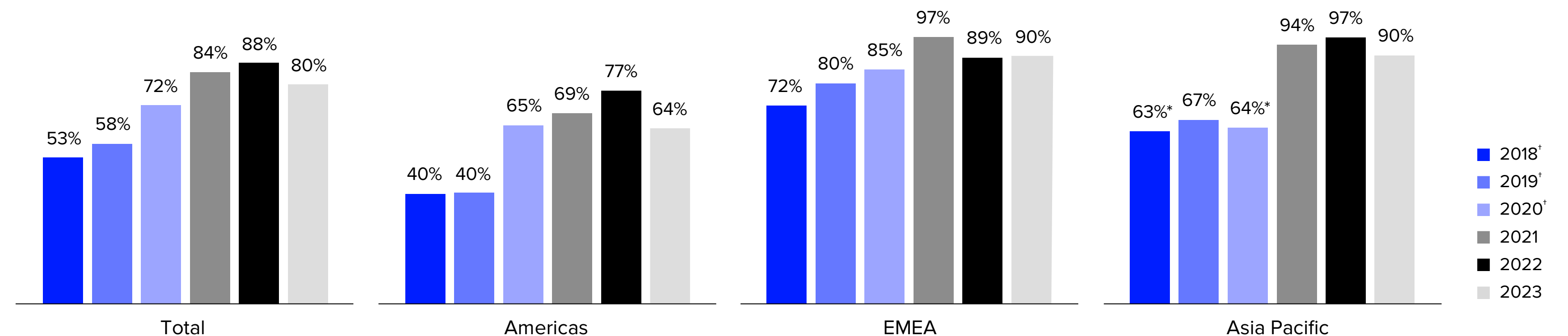
“Because we believe climate change is one of the most important issues facing mankind, it is one of the key priorities for our organisation.”

– Insurance company executive, EMEA

“Sustainable investment is the most pressing of issues today that requires addressing. It is our duty as a business to further these causes.”

– Investment advisor, non-profit organisation representative, Americas

Exhibit 1.1. Sustainable investment implementation or evaluation by region



[†]In 2018–2020, this metric was asked as one question: *Is your organisation currently implementing or evaluating ESG/sustainability considerations in your investment strategy?*

In 2021–2023, it was derived through a series of more specific questions: 1) *Is your organisation (or office) currently implementing any form of sustainability considerations in your investment strategy (i.e. exclusions, climate risk, fossil fuel/high carbon divestment, green investment, thematic ESG investing, impact investing, social factors, ESG integration etc.)?*; 2) *Is your organisation (or office) currently evaluating or has it previously evaluated implementation of sustainability considerations in your investment strategy?*

Total Asset Owners (2018/2019/2020/2021/2022/2023) – Total (n=167/157/123/179/184/350); Americas (n=93/77/51/81/65/146); EMEA (n=57/50/47/64/65/95); Asia Pacific (n=16*/30/25*/34/54/109)

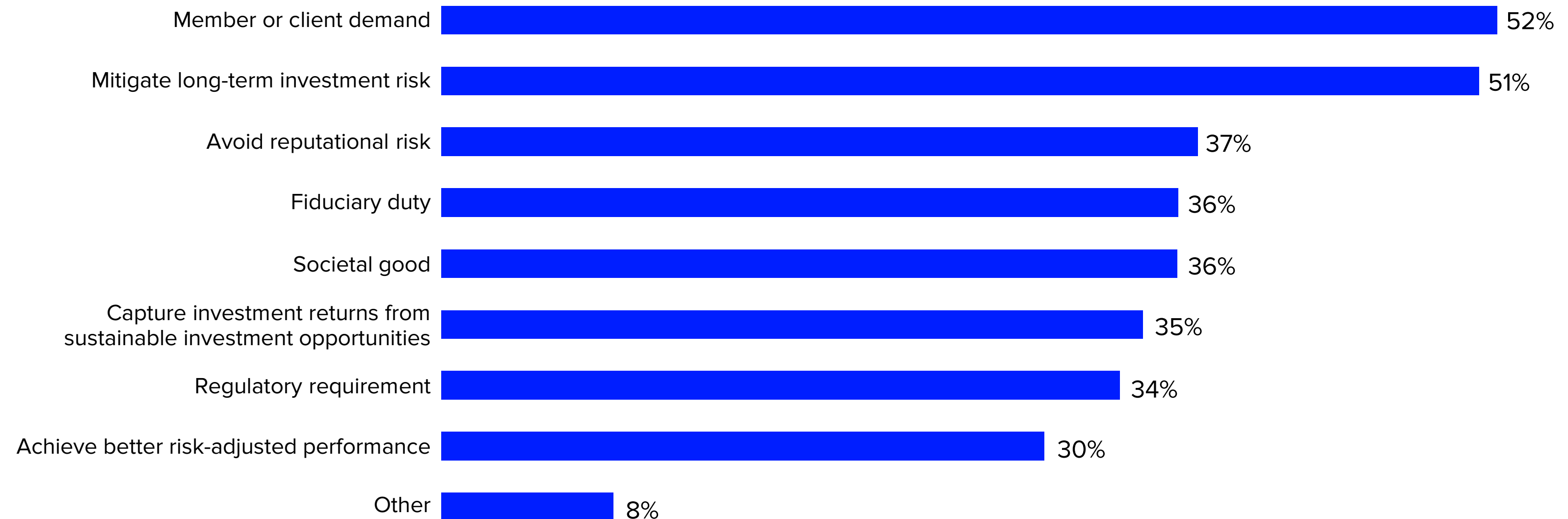
*Base size for Asia Pacific is 16 in 2018 and 25 in 2020; below the preferred threshold of 30.

Drivers: Member demand, brand trust and reputation

We asked what the main motivations are for implementing or considering sustainable investment. More than half (52%) of asset owners say that external demand from members and clients is the top reason. Half (51%) of asset owners say it can be attributed to mitigating long-term investment risk. Avoiding reputational risk (37%) and societal good (36%) are also listed as key motivators for asset owners implementing sustainable investment (exhibit 1.2).

When asset owners were asked about which sustainability considerations are driving priorities for their organisation, key themes emerged around brand trust, public relations and reputation management. Respondents cite enhanced corporate image and purpose as well as customer acquisition and business growth.

Exhibit 1.2. Rationale or motivation for implementing or considering sustainable investment

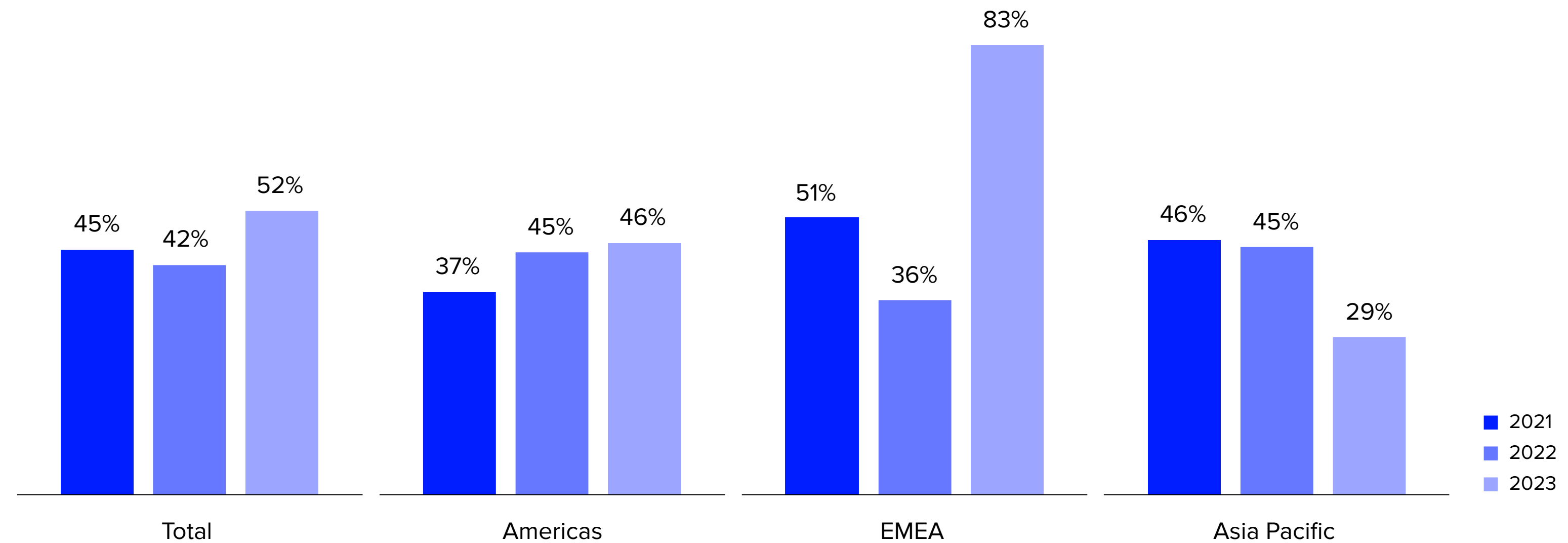


*Multi-pick. MB1. What is your rationale or motivation for implementing or considering implementing sustainable investment considerations in your investment strategy?
MB1 Segment = Currently implementing, evaluating, or plan to evaluate sustainable investment (Total n=275)*

Member demand is the top driver

More than half (52%) of asset owners say that external demand from members and clients is the top reason why they are consistently implementing sustainable investment, up from 45% of respondents in 2021. This is the first year that members or client demand is the top driver for implementing or considering sustainable investment in our research (exhibit 1.3).

Exhibit 1.3. Member or client demand increasing as the rationale or motivation for implementing or considering sustainable investment



*Multi-pick. MB1. What is your rationale or motivation for implementing or considering implementing sustainable investment considerations in your investment strategy?
MB1 Segment = Currently implementing, evaluating, or plan to evaluate sustainable investment (Total n=275; Americas n=110; EMEA n=66; Asia Pacific n=99)*

Barriers appear to be decreasing

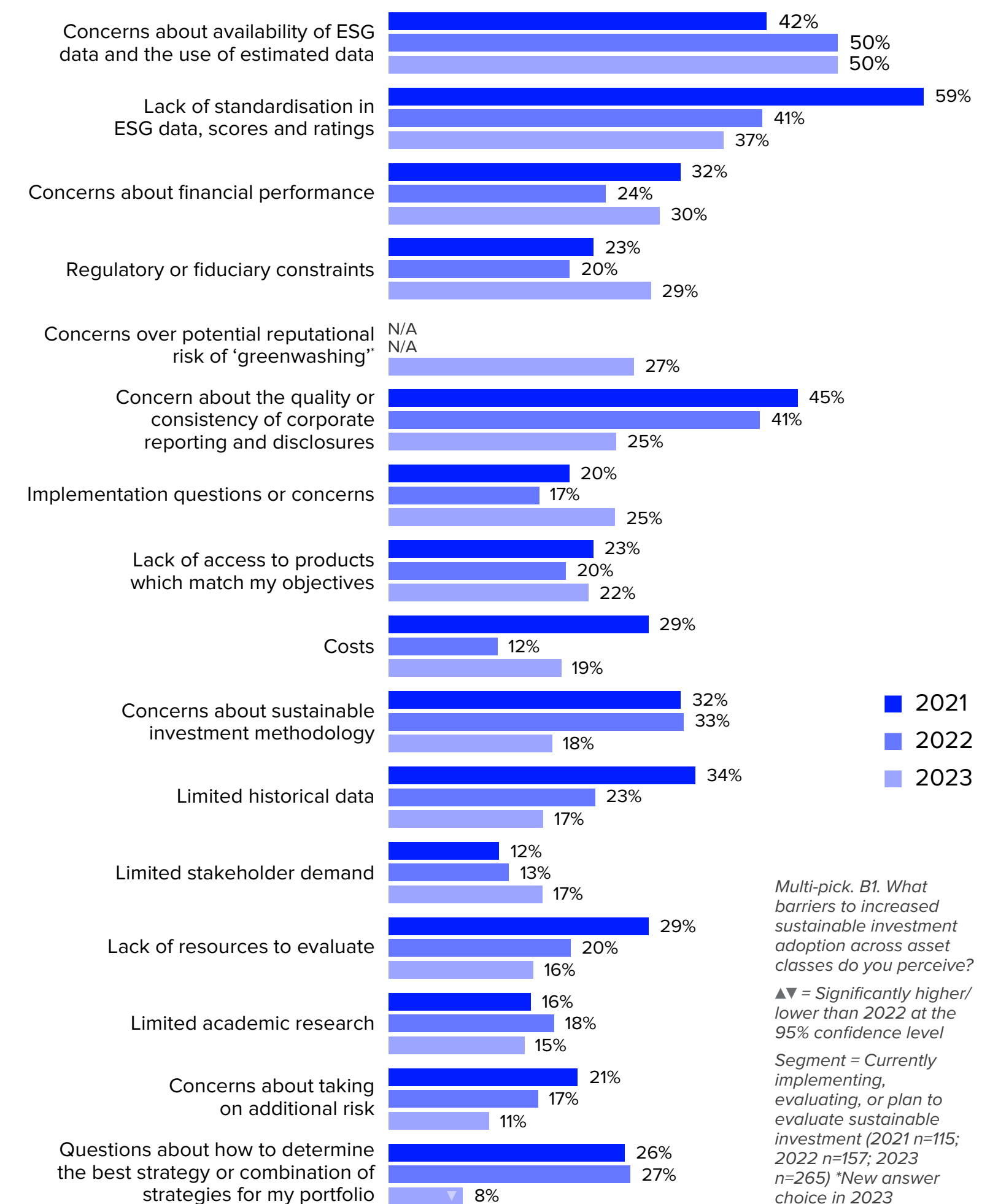
Some barriers to sustainable investment adoption are persisting but are less problematic. At the same time, our research points to a decrease in some perceived barriers, further reinforcing the concept of the continually maturing sustainable investment industry.

Just 16% of asset owners say there is a lack of resources when they are considering adopting sustainable investment across all asset classes, reflecting a downward trend from 20% of respondents in 2022, and 29% in 2021 (exhibit 1.4).

Our research also shows that less than one in 10 (8%) asset owners consider questions about how to determine the best strategy or combination of strategies for their portfolio to be a barrier, down from 27% in 2022, and 26% in 2021 (exhibit 1.4).

While challenging macroeconomic and geopolitical factors have understandably weighed on asset owner sentiment causing a directional dip, a robust structure in place supports a continued, positive long-term future for sustainable investment.

Exhibit 1.4. Barriers to increased sustainable investment adoption across all asset classes

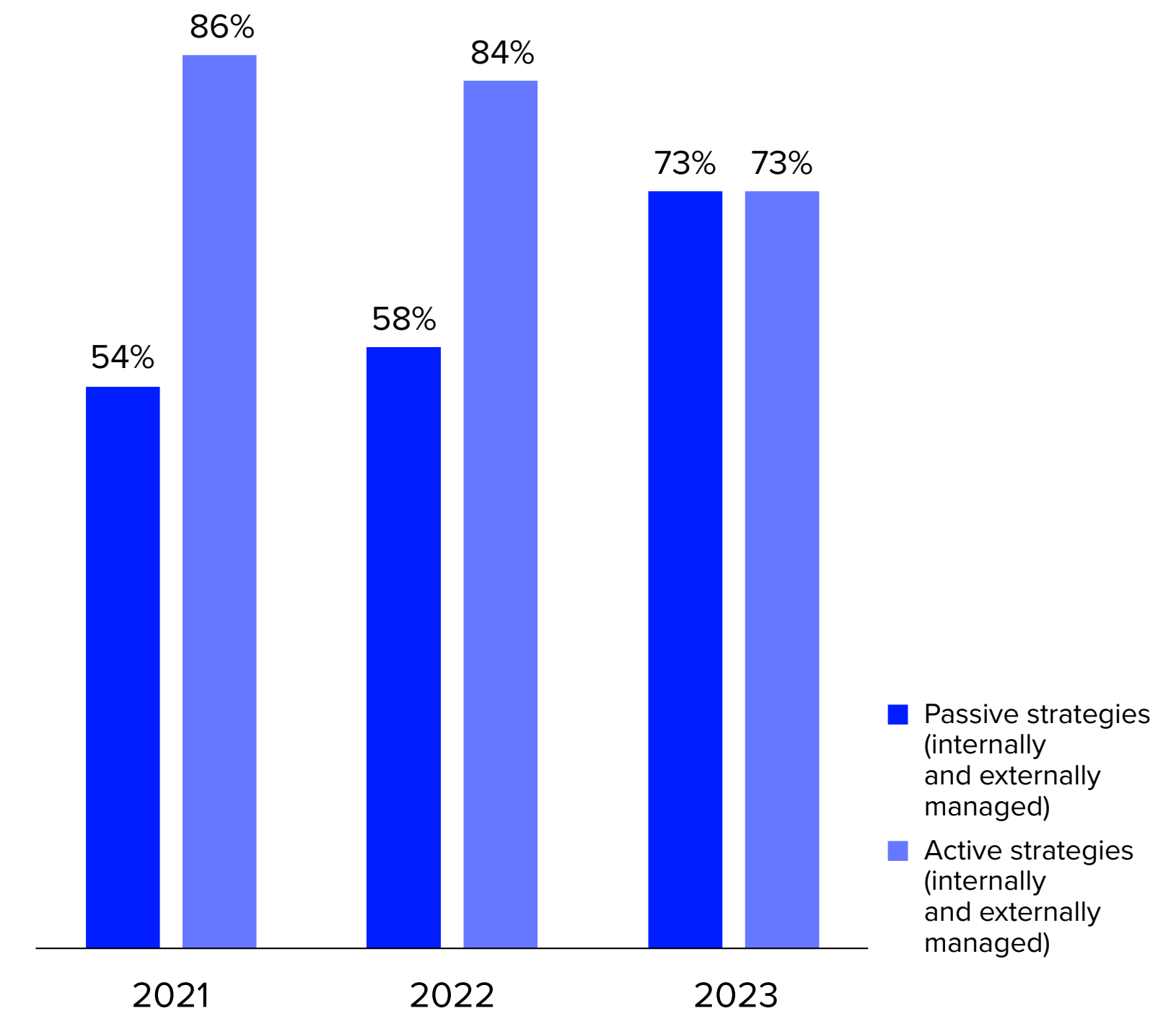


Increasing asset owner demand for passive instruments

As the wider institutional investment industry charts a continuous shift of fund flows from active to passive – increasing the demand for passive instruments and products – the same trend is evident for sustainable investment.

We specifically asked asset owners to tell us where they have implemented or are considering implementing sustainability considerations in internal or external passive or active investment strategies. Our research shows that an equal number (73%) of asset owners are implementing passive and active strategies. We note this flight to passive is a further indication of the mainstream characteristics of sustainable investment as asset owners cement their long-term investment strategies (exhibit 1.5).

Exhibit 1.5. Where sustainable investment considerations have been implemented or considered



Multi-pick. AP3 - Where have you implemented or are you considering implementing sustainability considerations?

▲▼ = Significantly higher/lower than 2022 at the 95% confidence level

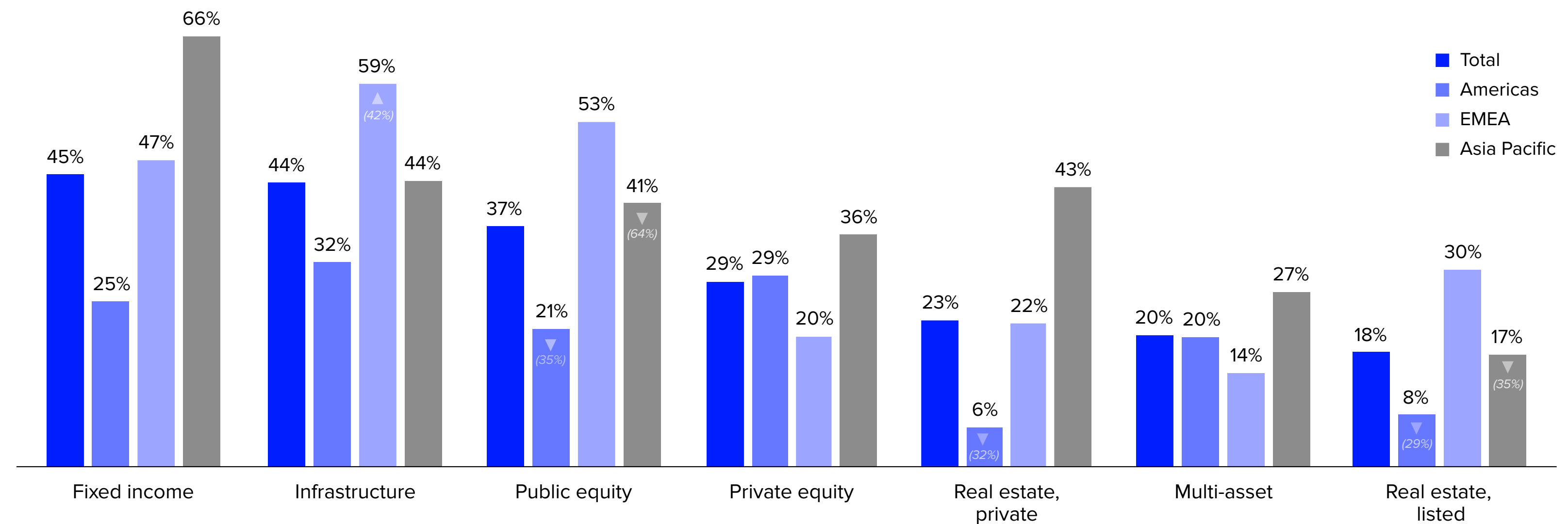
Segment: Currently implementing, evaluating, or plan to evaluate sustainable investment (2021 n=120; 2022 n=157; 2023 n=265)

Fixed income: Top asset class

Historically, fixed income has been a laggard in the sustainable investment industry. This is no longer the case. Fixed income remains the top asset class for sustainable investment allocation. Globally, 45% of respondents indicated they have implemented or are considering implementing sustainable consideration in fixed income (exhibit 1.6).

Fixed income is the most popular asset class (66%) for those implementing or considering implementation of sustainability investments in the Asia Pacific region; while infrastructure sees the most sustainable investment implementation and considerations (59%) in EMEA (exhibit 1.6).

Exhibit 1.6. Asset classes for which sustainability considerations have been implemented (2023)



Multi-pick. AC1. For which asset classes have you implemented or are you considering implementing sustainability considerations? (Summary of "implemented")

▲▼ = Significantly higher/lower than 2022 at the 95% confidence level

(xx%) = 2022 percentage

Total Asset Owners (Total n=350; Americas n=146; EMEA n=95; Asia Pacific n=109)

Charting the rise of governance

Governance appears to be a priority for asset owners, significantly increasing in importance from last year.



Sustainability as a priority focus

Governance is a priority that has significantly risen across all regions, the first year we have seen complete regional alignment on the top priority. The priority level of governance increased notably to 54% globally (exhibit 2.1).

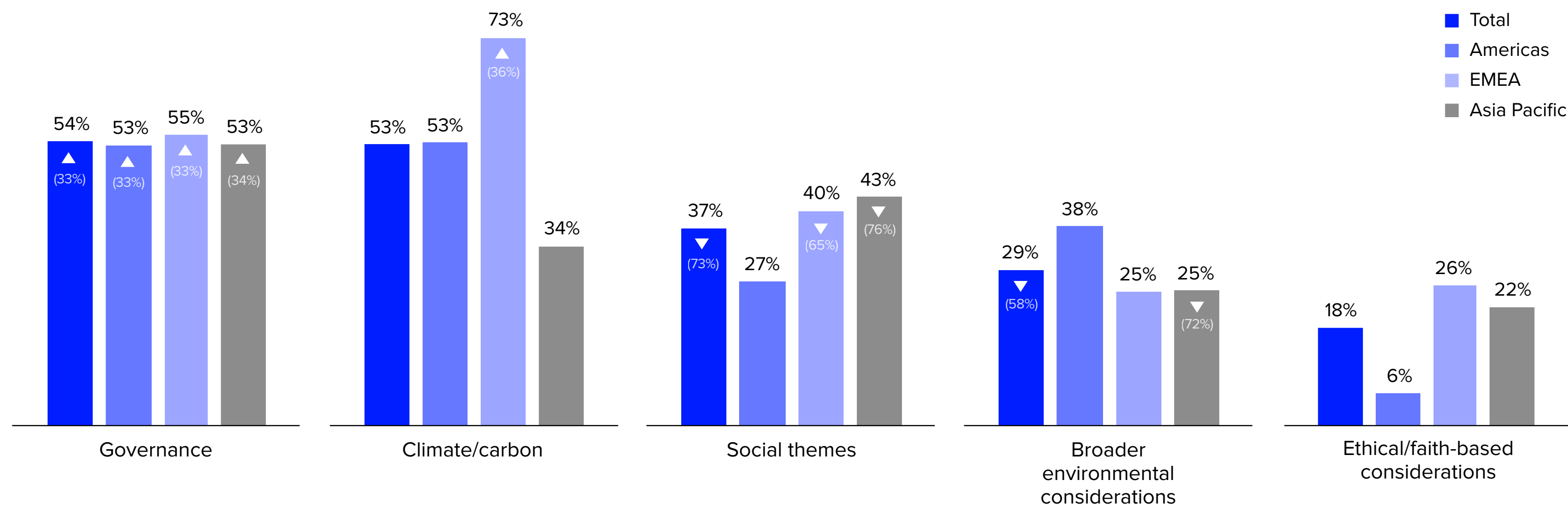
Climate/carbon is an enduring priority that is reflected in a large spike this year with 73% of asset owners in EMEA citing this focus area, compared with just 36% in 2022. The low level of stated

prioritisation for climate/carbon among EMEA respondents last year can be explained because asset owners had not fully factored in the impact of the war in Ukraine on energy prices and the impact on their investment strategies. However, for this year's research, asset owners have fully acknowledged the impact of the war in Ukraine. Hence, why climate/carbon is a top priority.

When asked about why sustainability issues are priorities, a central bank respondent from the Americas stated:

“We all rely on natural resources; that is, oceans, mineral ecosystems and atmosphere. Natural capital provides like fuel, food, fibre, medicines and services like water filtration.”

Exhibit 2.1. Sustainability issues that are priority focus – by region (2023)



Multi-pick. MB2. Which sustainability issues does your organisation consider as a priority focus?

▲▼ = Significantly higher/lower than 2022 at the 95% confidence level

(xx%) = 2022 percentage

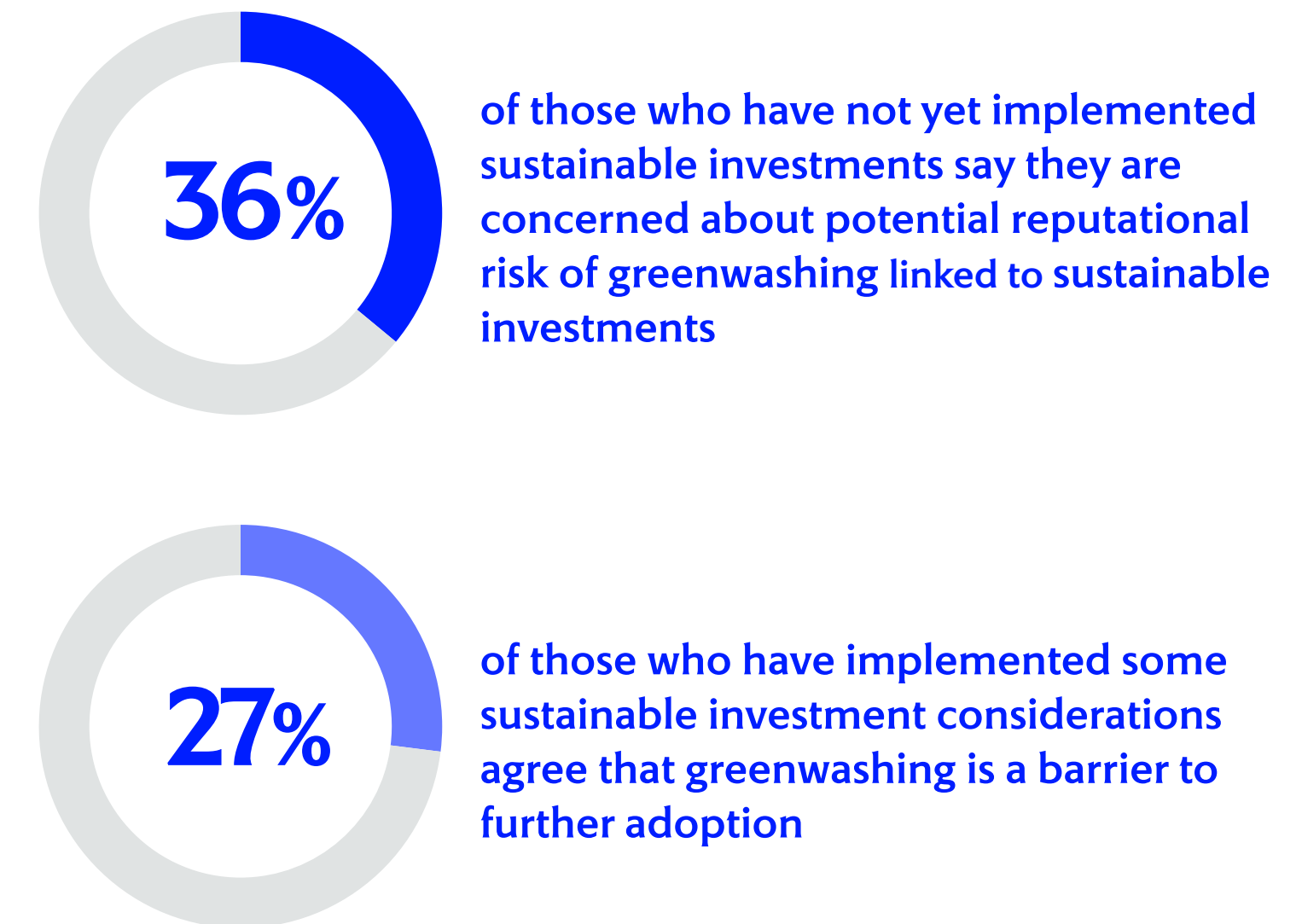
Segment = Currently implementing, evaluating, or plan to evaluate sustainable investment (Total n=275; Americas n=110; EMEA n=66; Asia Pacific n=99).

Greenwashing: Asset owners raise concerns

Marking the first year that we have asked asset owners about greenwashing – that is, the concept of making false environmental claims (intentionally or unintentionally) to mislead customers, our research underscores some concerns. We wanted to investigate if the rapid rise in sustainable investment has indeed resulted in certain financial firms overrepresenting or misrepresenting the qualifications and creditability of sustainable finance products to the asset owner community.

In our research, asset owners flag that reputational risk of greenwashing may negatively impact their sustainable investment strategies. More than a third (36%) of those who have not yet implemented sustainable investment say they are concerned about potential reputational risk of greenwashing linked to sustainable investment. Similarly, 27% of those who have implemented some sustainable investment considerations agree that it's a barrier to further increase in sustainable finance (exhibit 2.2).

Exhibit 2.2. Concerns around greenwashing are evident



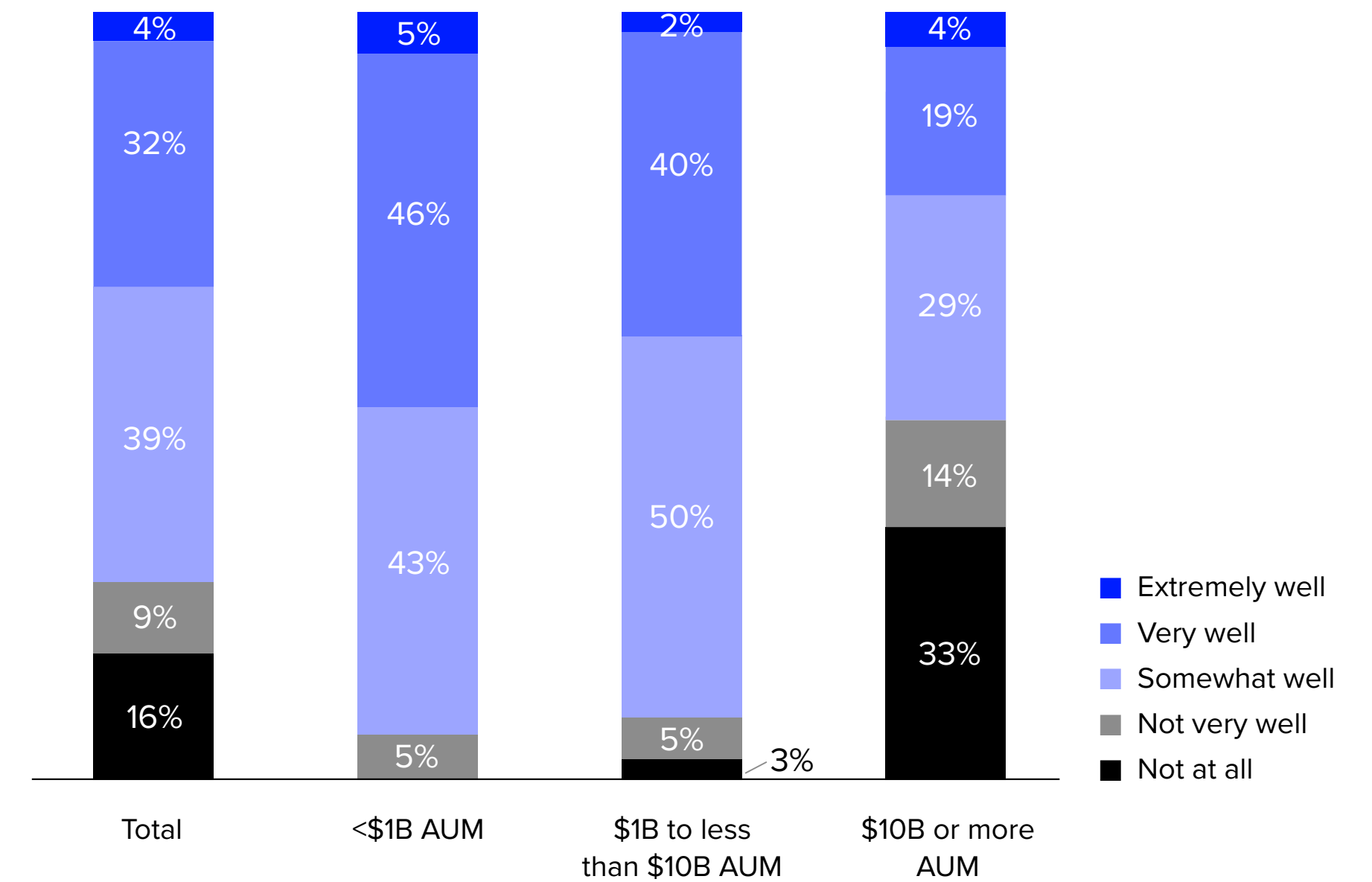
Multi-pick. B2. Why have you not or not yet implemented sustainability considerations in your investment portfolio?
B2 Segment = Previously evaluated & didn't implement sustainable investment/no plans to evaluate (n=53) Segment =
Currently implementing, evaluating, or plan to evaluate sustainable investment (n=275)

Regulation largely supports asset owners in meeting their investment goals

Regulation of sustainable investment and ESG helps asset owners meet their sustainable investment goals, according to three-quarters (75%) of all asset owners globally in our research (exhibit 2.3).

Asset owners with lower assets-under-management (AUM) levels resoundingly say that regulation is supportive. The vast majority (95%) of asset owners with smaller AUM (<\$1 billion AUM), and 92% of those with AUM of between \$1–10 billion, say regulation helps them meet their sustainable investment goals (exhibit 2.3). However, one-third (33%) of asset owners with an AUM of \$10 billion or more say sustainable investment/ESG regulation does not help meet goals at all. For larger organisations with greater focus on regulation, the amount of resources required can put pressure on their business.

Exhibit 2.3. Extent to which sustainable investment or ESG regulation helps meet sustainable investment goals, by AUM



R1a. Using the scale below, to what extent do you think sustainable investment or ESG regulation helps you meet your sustainable investment goals? (new question in 2023)

Total Asset Owners (n=319)

Asset owners see potential regulation benefits

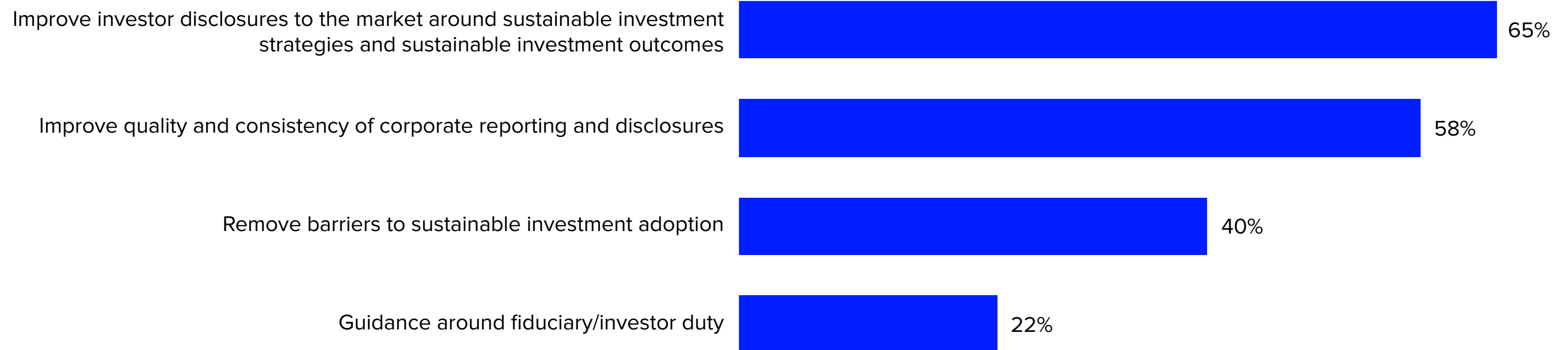
On the flip side, asset owners say that regulation might be helpful to meet their investment goals. Nearly two-thirds (65%) of respondents say regulation improves investor disclosure to the market around sustainable investment strategies and outcomes. Also, 58% say regulation improves the quality and consistency of corporate reporting and disclosure (exhibit 2.4).

40% of respondents say regulation might also be helpful in removing barriers to sustainable investment adoption, while 22% say regulation

might be helpful with respect to guidance around fiduciary/investor duty (exhibit 2.4).

Robust approaches to governance are a key focus area for asset owners. Regulation considerations and a focus on countering greenwashing are shaping these approaches. This trend further supports asset owners' advancement in implementing sustainable investment into their long-term investment strategies.

Exhibit 2.4. Ways in which sustainable investment regulation might be helpful



*R2. In what ways might sustainable investment regulation be helpful?
R2 Segment: SI regulation helps meet SI goals to at least some extent (n=290)*

How the sustainable investment industry continues to mature

As sustainable investment matures, asset owners believe their firms are successfully meeting top priorities for governance and climate/carbon related strategies, although some data and regulatory challenges do persist.



Meeting sustainable priorities

As asset owners look to the future in the sustainable investment industry, our research asks for their views about whether their priorities are included in their investment strategies. We also asked what they perceive to be data challenges and opportunities. While perceived barriers do exist, asset owners are identifying areas that can be resolved: for example, by accessing the right data and choosing effective partners.

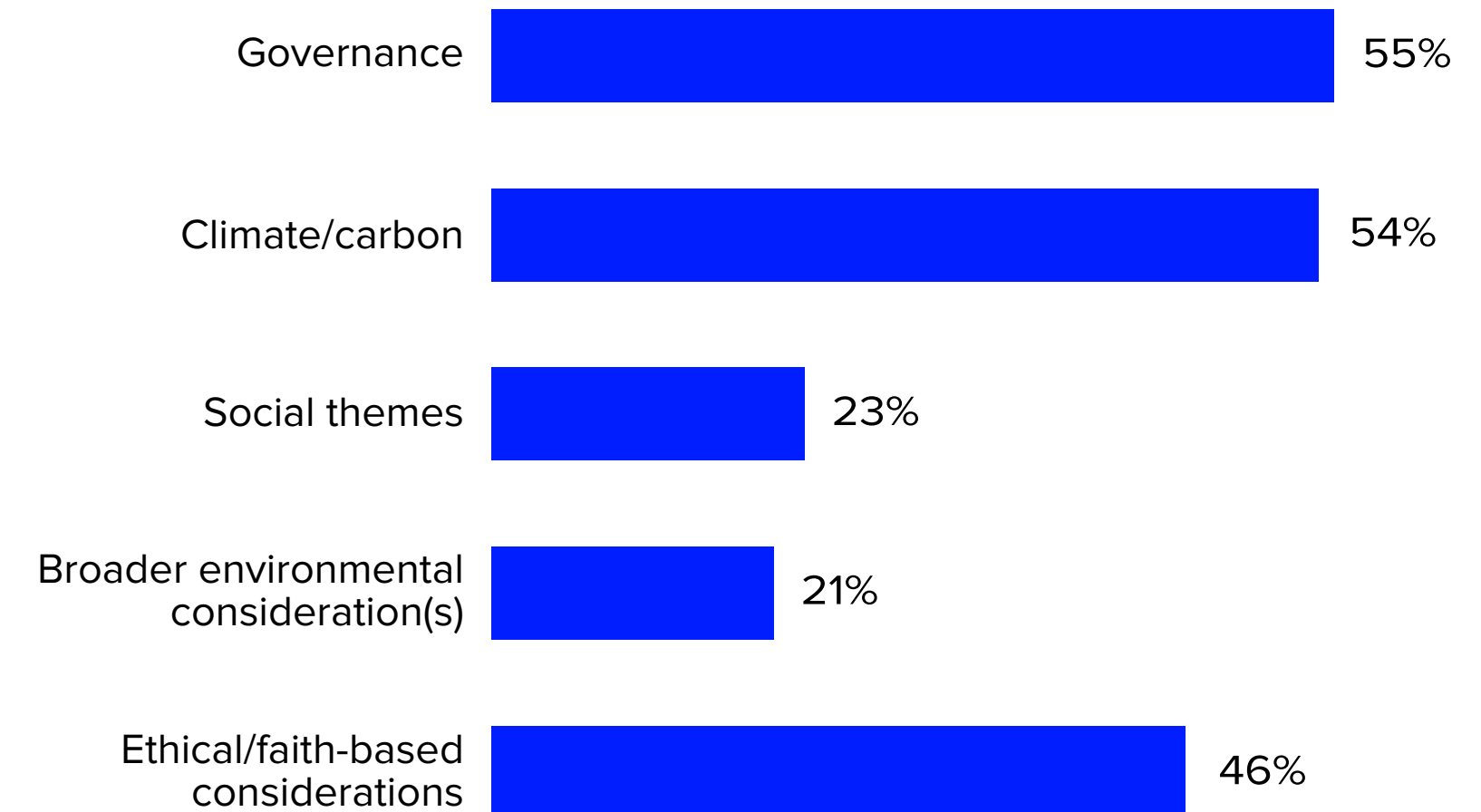
Respondents agree their organisation is successfully meeting their top priorities of governance and climate/carbon. Over half (54%) of them say governance is a priority focus area for their organisation while 55% of those strongly agree that their organisation has investment strategies that also focus on governance. The same number (53%) say climate/carbon is a priority focus area and of those 54% say they have focused investment strategies on climate/carbon (exhibit 3.1).

However, there is a disconnect between some priority focus areas and strong agreement that organisations have investment strategies to meet said priority. This is true for social themes, with 37% identifying social themes as a priority, and 23% strongly agree their organisation has strategies that focus on social themes. In our 2022 research study, asset owners chose social themes as the leading priority focus area (29%) and broader environmental considerations (21%, exhibit 3.1).

When asked about which sustainability issues their organisation considers as a priority focus, a respondent working in an insurance company in the Americas said:

“All of these are important initiatives for my company’s outlook and long-term plans.”

Exhibit 3.1. Strongly agree that organisation has investment strategies that focus on each issue (if selected as a priority)



MB2a1. To what extent do you agree that your organisation has investment strategies that focus on the following sustainability issues? (new question in 2023)

MB2a1 Segment: Selected that issue as an area of priority focus (varies)

Mapping data challenges and improvements

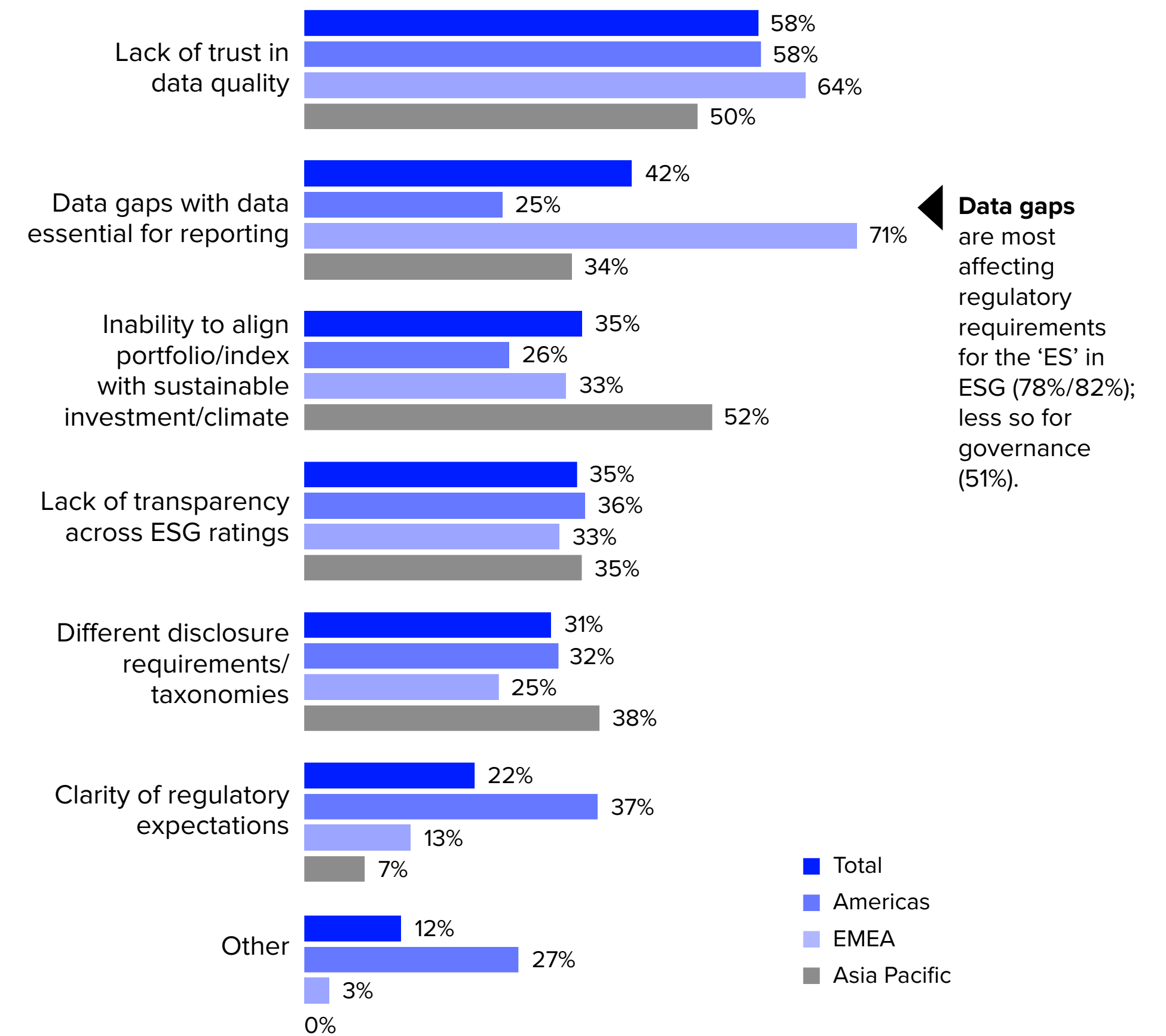
While the barriers to sustainable investment remain varied, the two most significant challenges to sustainable investment adoption are data-focused. Half (50%) of respondents call out ‘concerns about availability of data and the use of estimated data’ (exhibit 1.4).

As mentioned earlier in this section, social issues have dropped as a priority focus area from 73% of respondents in 2022 to 37% this year, a decline that might be due to a lack of available data. A total of 82% of asset owners cite social data availability as a data gap affecting regulatory requirements, far above governance data (51%).

One of the most challenging factors facing asset owners to meet regulatory requirements is the lack of trust in data quality (highlighted by 58% of respondents). Also, 42% of asset owners say a challenging factor is gaps in data essential for reporting (exhibit 3.2).

Our research highlights a need among the asset owner community to find data partners they can work with to shore up their reported data gaps and data quality. Robust and trusted data forms the bedrock of asset owners’ decision-making in and around driving their sustainable investment strategies. With the right data, asset owners can therefore continue to embed their maturing sustainable investment strategies into their long-term investment strategies.

Exhibit 3.2. Most challenging factors to meet regulatory requirements



Multi-pick. R6. Which of the following factors are the most challenging in order to meet regulatory requirements? (list updated in 2023; no trending available)

Total Asset Owners (Total n=318; Americas n=136; EMEA n=81; Asia Pacific n=101)

Multi-pick. R6b. In what areas do you find the data gaps to be affecting regulatory requirements?

Segment: Asset Owners who feel data gaps are a challenge (n=140)

Conclusion

The asset owner community remains committed to their maturing sustainable investment strategies. This commitment is despite challenging short-term macroeconomic and geopolitical factors that have understandably weighed on asset owner sentiment, causing a directional dip this year in terms of evaluating and implementing their sustainable investment strategies.

However, with strong demand from asset owners' members/clients, reducing barriers to evaluation and implementation, and a strengthening asset allocation approach – notably the continual shift to passive investment strategies – the long-term outlook for consistently implementing sustainable investment remains positive.

Governance is firmly in the spotlight this year, reflecting a maturing approach in the sustainable investment industry. It is clear that concerns around greenwashing could impact on members/client demand, so those need to be addressed to avoid reputational damage and misdirected investment decisions. The research found, in general, regulation is positively received; but many rules are still under development across many jurisdictions, not yet fully addressing all issues faced by the industry.

Accessing the right data and choosing effective data partners can help to assuage concerns around gaps in data and poor data quality. But as sustainable investment strategies continue to mature and a focus on governance grows, the quest for the right data is likely to become an even greater priority for asset owners.

About the research

We'd like to thank the 350 asset owners who shared their valuable thoughts and views in this year's research.

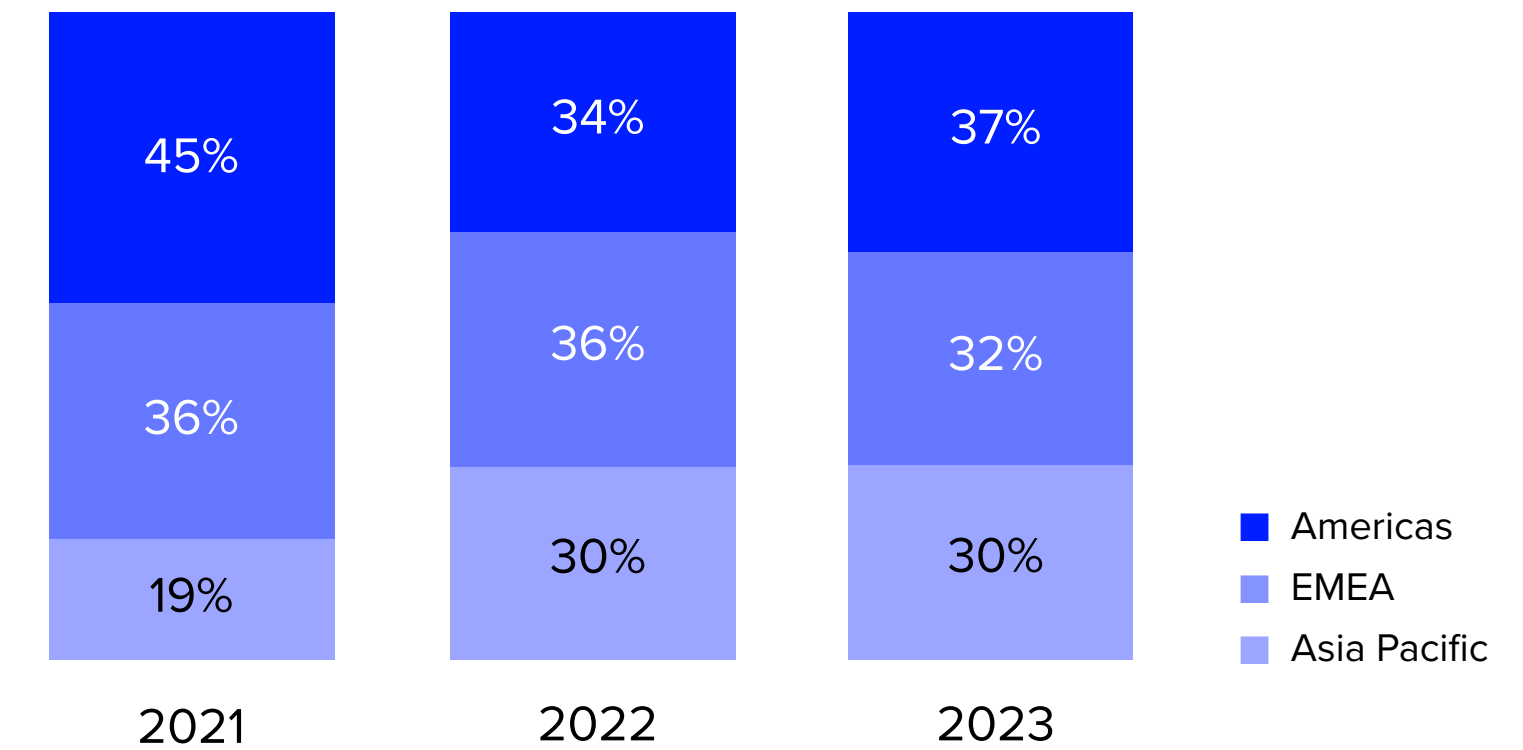
We partnered with Radius to survey 350 asset owners in institutions worldwide between March and April 2023. We aimed to understand their priorities, challenges and preferences about sustainable investment. We asked them about sustainability, environmental, social and governance (ESG) considerations, and sustainable investment topics.

To qualify to take part in the research, respondents had to meet specific job role, responsibility and organisation criteria. Those job roles included executives, portfolio management and investment management among others. Organisations included pension funds/plan sponsors, insurance, government, healthcare, endowments and foundations.

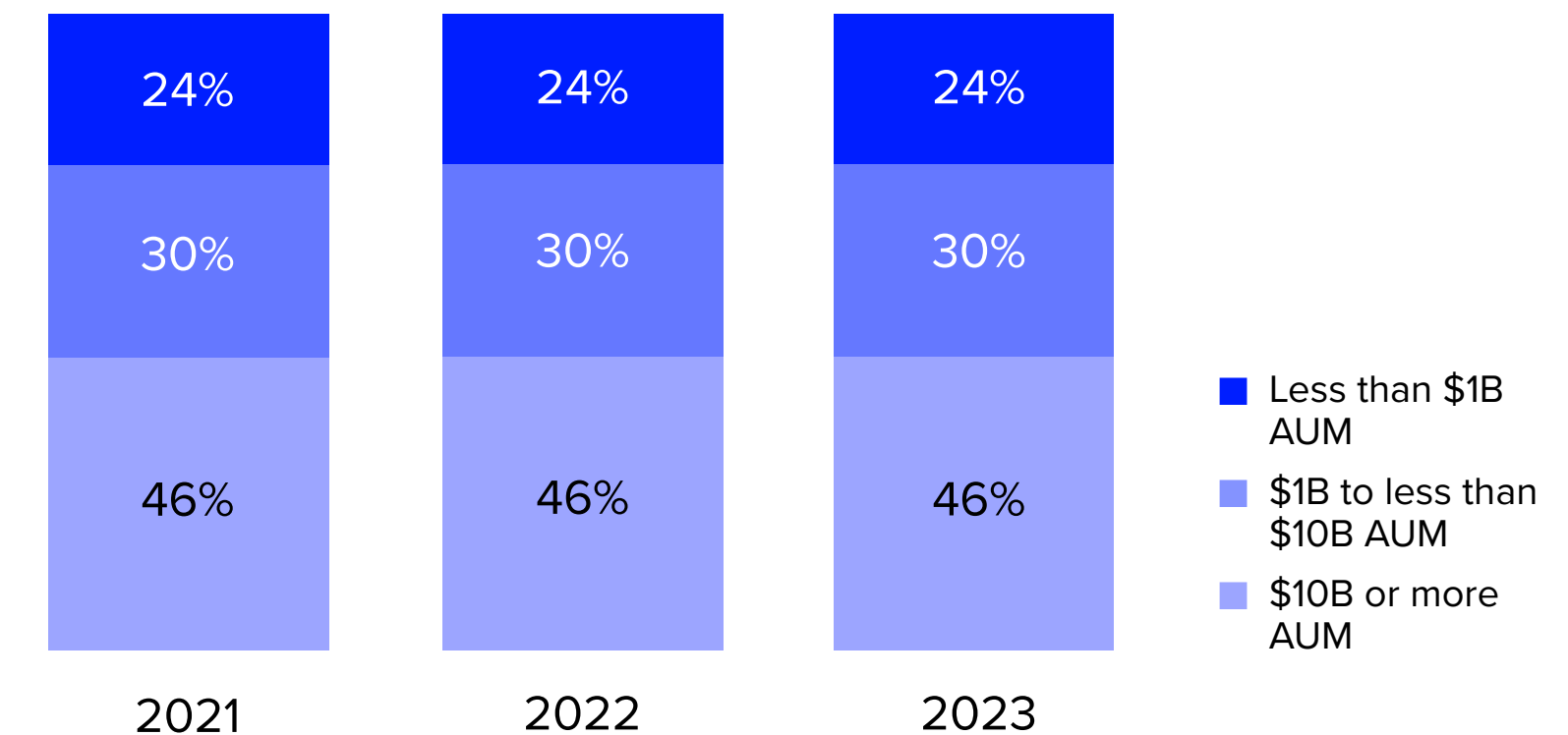
Since 2018, we have interviewed an increasing number of asset owners around the world to understand if, how and why they implement and evaluate sustainable investment strategies.

Asset owners from 31 countries took part in this year's survey, which was offered in English, Japanese and Mandarin Chinese. We spoke to 350 asset owners with a combined stated range of assets under management of between \$7.9 trillion and \$14.2 trillion USD.

Region distribution



AUM tier distribution



For a sample size of 350, the margin of error is +/-5% at a 95% confidence margin. Throughout the report, percentages may not total 100 due to rounding and/or because some questions allowed for multiple responses (allowance for multiple responses is noted as multi-pick options in each exhibit footer).
Survey fielded: March 27, 2023–April 28, 2023

ORGANISATION TYPE	2021	2022	2023
Pension fund/plan sponsor	42%	29%	34%
Insurance company	18%	24%	21%
Government	12%	21%	16%
Endowment/foundation	10%	7%	9%
Other	18%	19%	20%

TITLE	2021	2022	2023
Executive (CEO, CFO, CIO, EVP)	29%	25%	26%
Portfolio management/investment management	22%	18%	18%
Other (e.g., Investment Officer, Investment Committee, Analyst, Investment Advisor, Employee Benefits Manager, Sustainable Investment or ESG specialist/head, Pension head, Risk Manager, Trustee etc.)	49%	57%	56%

TOP PLAN TYPES	2021	2022	2023
Defined benefit	59%	52%	53%
Insurance company general account	21%	44%	32%
Defined contribution	31%	42%	30%
Endowment/foundation	21%	43%	25%
Other tax-exempt organisation assets	5%	17%	16%
Sovereign wealth	8%	33%	15%

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