FLEISHMANHILLARD

FleishmanHillard Wealth Report 2021:

THE FUTURE OF ESG & SUSTAINABLE INVESTING

FOREWORD

2021: The tipping point for ESG

Momentum is building as a rapidly growing number of consumers, governments, institutional investors and corporations acknowledge the financial as well as physical threats posed by environmental, social and governance issues, such as climate change, greenhouse emissions and reliance on a fossil fuel-based economy.

Meanwhile, the global Covid-19 pandemic has intensified focus on societal responsibility and whether companies and business leaders are doing the ‘right thing’ through the crisis – by employees, stakeholders, and society. In 2021, we have well and truly reached the tipping point for ESG.

As a result, younger demographics are increasingly demanding cleaner, greener and more ethically sound investment portfolios – as well as seeking to impact the way companies themselves behave and operate.

With these younger audiences expected to participate in the greatest transfer of wealth between generations the western world has ever seen over the next few years (estimated £5trn globally), they will be putting more pressure on their advisers and those managing their money to do so in accordance with ESG principles and values. And this will only heighten and intensify in the generations to come.

In the UK alone, it is estimated that at least £327bn is set to be passed on from baby boomers to around 300,000 younger potential clients over the next decade. What will this mean for how financial services firms and advisors must change to appeal to these emerging customer groups – in the short, medium, and even longer-term horizons.

As such, it is crucial that financial services companies pay far greater attention to articulating and demonstrating how ESG approaches not only influence advice, portfolios, asset allocation and investment decision-making, but also everyday business activity. For wealth managers, IFAs and asset owners alike, it’s vital to focus on engaging with investor audiences around ESG criteria, metrics and vital societal issues to capture the hearts and minds of the new generation of investors.

Ludo

Ludo Baynham-Herd

Director | Corporate, Financial Services & ESG

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Methodology:

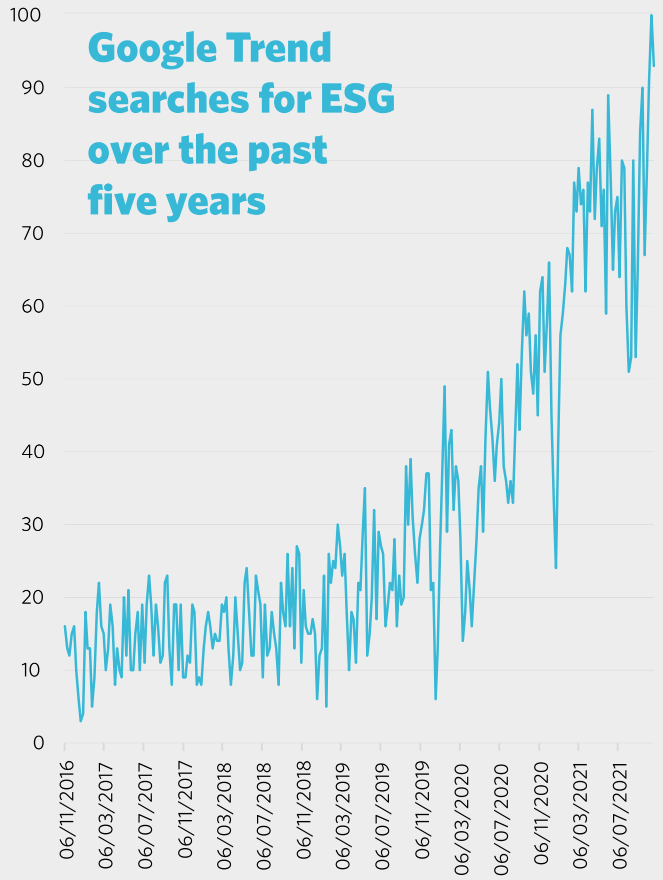
Results for FleishmanHillard UK's '2021 Future Wealth Study' is based on a survey of 1,002 Investors in the UK aged 18+ and 200 UK Independent Financial Advisors. Research was conducted online from 5-12 October 2021

ESG investing: Entering the Mainstream

Over the past five years, ESG has grown exponentially from a niche investment topic to part of common corporate vernacular and a key discussion point in boardrooms up and down the country.

Our analysis of Google trends (see timeline right) shows that search volumes of ESG have risen from a low point in 2016 to peak popularity in 2021 (shown by a value of 100 for the term).

This report delves into the factors behind this growing trend and how financial advisers, intermediaries and wealth managers should respond both now and in the future.



Numbers represent search interest for the UK. ***A value of 100 is the peak popularity for the term.*** *A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term.*

The reason why ESG has gone mainstream is three-fold:

1. ESG deals with business-critical issues that are material to market and reputational value
2. Consumers are increasingly expecting companies to have a positive impact on society
3. COVID-19, the climate emergency and racial justice movements have acted as a critical tipping point

The surging demand for ESG

Younger investors are much more likely to say they have taken ethical investment actions over the past 12 months. Nearly nine in ten (87%) of 18-34 year olds have taken some ethical action in their consumer or investment behaviour compared to 45% overall.

In general, IFAs are reporting an increase in the number of clients enquiring about ESG products over the past 12 months with two in five (40%) saying the proportion has increased. While there has been an increase in interest across customers of all age groups, IFAs are most likely to identify increases from younger clients (43%) compared to middle-aged clients (38%), and older clients (29%).

Supporting this trend, the majority (57%) of investors aware of ESG think older generations do not pay enough attention to ESG and ethical investing, including 79% of 18-34s and 46% of over-55s.

According to Morningstar Global, sustainable fund assets hit a record $2.3 tln in Q2 2021, driven by market gains, product launches and persistent demand from investors.

9 in 10

18-34 year olds have taken some ethical action in their consumer or investment behaviour in the past year

40%

of IFAs surveyed say they have seen an increase in clients enquiring about ESG products this year

Over half

of investors aware of ESG say older generations do not pay enough attention to ESG and ethical investing

What's driving ESG investing?

Naturally, predicted future performance is still by far the most important factor when it comes to investing.

However, a quarter (24%) say the ESG of companies they invest in is very important and a similar proportion (23%) say the same of the ESG performance of financial services providers offering the product.

When asked why they think it's important to invest in ESG financial products, the most common reasons stated by investors were because it has a positive impact on society (54%) encourages ethical business practices (48%) and drives change among companies and corporates they invest in (38%).

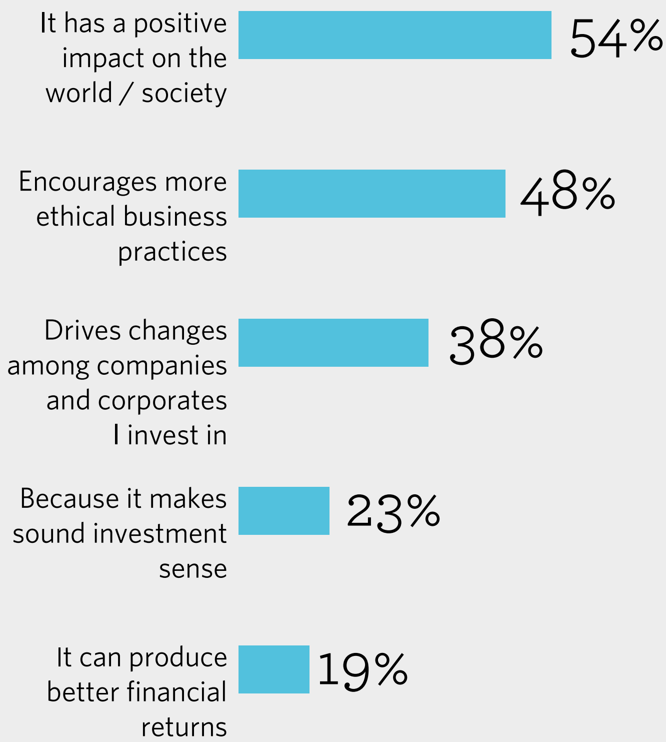
Strikingly, over half (55%) of investors believe ethical and ESG investing will have a greater impact on company behaviour than changing consumer purchasing behaviour or campaigning.

The majority (53%) of investors say COVID-19 made them rethink their approach to investing, while nearly half (47%) said the climate emergency has made them rethink the way they invest their money.

55%

of investors believe ethical and ESG investing will have a greater impact on company behaviour than changing consumer purchasing behaviour or campaigning

Top reasons for investing in ESG products



The rise of **'Generation Activist'**

Younger investors are much more likely to say they have taken ethical investment actions over the past 12 months.

87% of 18-34s have taken some ethical action in their consumer or investment behaviour

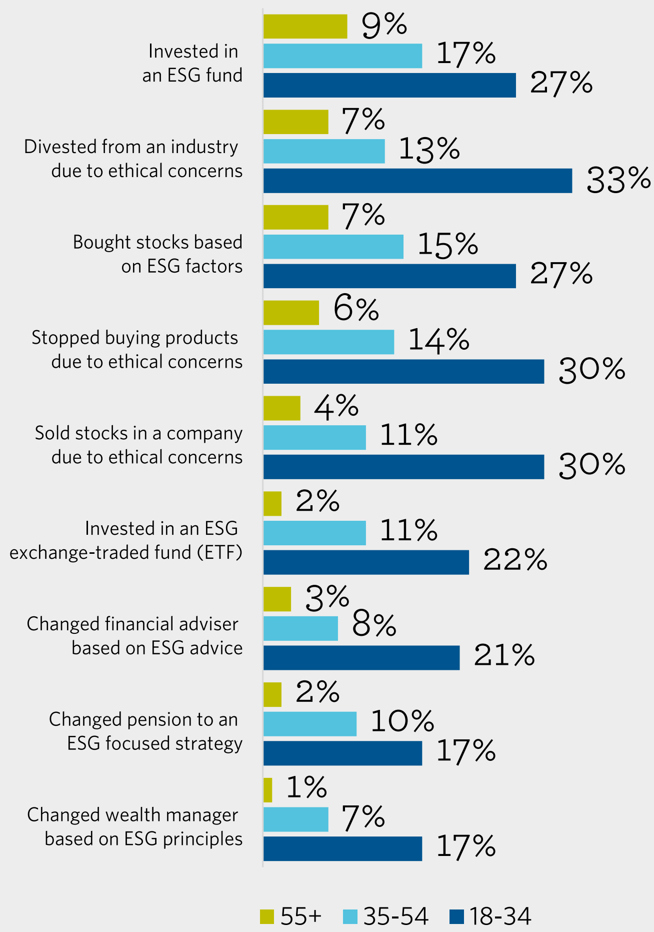
Nearly nine in ten (87%) of 18-34s have taken some ethical action in their consumer or investment behaviour, compared to 45% overall. In fact, where younger investors invest their money appears to be as, or more important, as where they shop.

Similarly, younger investors are slightly more likely to have divested from a specific industry than to have stopped buying a product or service due to ethical concerns (33% vs 30%).

"It is not only the newsfeeds or endemic scepticism that sets the younger generation apart from their elders. Unavoidable to any analysis of them, their priorities and their character, is the fact that younger consumers and investors have not known a time when they weren't being told their world was under existential threat, and climate change wasn't an indisputable, irrevocable fact."

Alastair Lyon
Brand Purpose & Consumer Campaigning Strategist, FleishmanHillard UK

Proportion of Investors who have taken the following actions in the past 12 months



The ESG Expectation Gap

Despite a surge in demand for ESG products, concerningly two in five IFAs surveyed said they rarely or never recommend ESG alternative products to clients without them expressing an interest.

Supporting this notion, in the past twelve months less than half of investors reported having seen or heard about ESG, from either IFAs or Wealth Managers be it through advertising, media coverage or direct contact.

When asked about the impact of performance and returns, a third (32%) of IFAs have said they would not offer clients ESG alternative products if they knew they would deliver a lower rate of return.

Whereas in stark contrast, an overwhelming majority (71%) of investors aware of ESG would actually expect providers and advisers to offer ESG options even if they offer a lower rate of return.

However, for those that do discuss ESG with their clients, among the most frequently discussed ethical investments and products are ESG investment funds (38% discuss these often with clients) and ESG stocks and shares (21%).

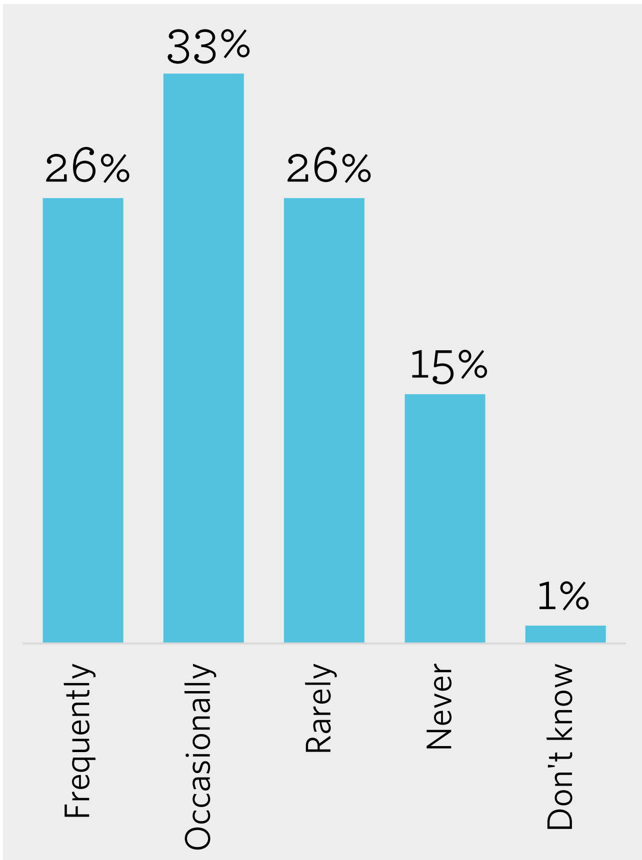
Less commonly discussed products include ESG ETFs (10%), sustainability-linked bonds (9%), green bonds (6%) – which we may see change, given global issuance of sustainability bonds surged to a record high in the first nine months of this year, totalling $777.6 billion.

41%

of IFAs surveyed said they rarely or never recommend ESG alternative products to clients without them expressing an interest

Yet **71%**

of investors aware of ESG would actually expect providers and advisers to offer ESG options, even if they offer a lower rate of return



Looking to *the future*

For investors, the trend towards ESG investing is here to stay and they are more certain than IFAs about its long-term future.

Two-thirds (66%) of investors disagree with the notion that ESG investing is 'just a fad that will pass' compared to just (44%) of advisers who thought the same.

As such, many investors say they are likely to change their investment to ESG profiled products within the next 12 months (40%) as they align their investing behaviour with other parts of their daily lives – with nearly four in five (74%) planning to cut their plastic consumption and half (51%) switching to a more environmentally-friendly energy provider.

When it comes to specific products and providers, two-thirds of investors rate ESG considerations as important when choosing their financial services providers – pension provider (67%), stocks & shares ISA (66%), financial adviser (62%) and their bank (64%).

Interestingly, there is agreement that all investments should include ESG principles and criteria, stated by over half of investors and IFAs (59% and 58% respectively).

66%
of investors disagree with the notion that ESG investing is 'just a fad that will pass'

4 in 10
investors say they are likely to change their investment to ESG profiled products within the next 12 months

Why financial services firms must up their game on ESG

Many investors feel strongly that firms need to up their game when it comes to ESG investing.

More than two-thirds (70%) of those aware of ESG agree that financial services firms have a responsibility to encourage companies in the wider economy to act in a more sustainable way, while 58% say they are more likely to choose to use or invest in firms based on their ESG credentials in the future.

Importantly for financial services firms, over half (56%) say they are more likely to choose to use or invest in firms based on their ESG credentials in the future, and over a third (39%) plan to reduce or withdraw investments in businesses with poor ESG records.

Furthermore, 44% of investors aware of ESG say they are likely to switch financial services provider if they do not offer ESG options, and a similar proportion (40%) would consider ditching their financial adviser if they did not recommend ESG products.

70%

of those aware of ESG agree that financial services firms have a responsibility to encourage companies in the wider economy to act in a more sustainable way

1 in 3

investors plan to reduce or withdraw investments in businesses with poor ESG records

44%

of investors aware of ESG say they are likely to switch financial services provider if they do not offer ESG options

Marketing to new investors

Nearly two-thirds of IFAs say they do not change how they market and sell their services to younger clients and 60% say they do not change their advice to cater to the younger demographic.

Of the advisers that did say they changed their approach, just under half (47%) said they offer advice on ESG products and a further quarter (23%) increased their focus on impact investing.

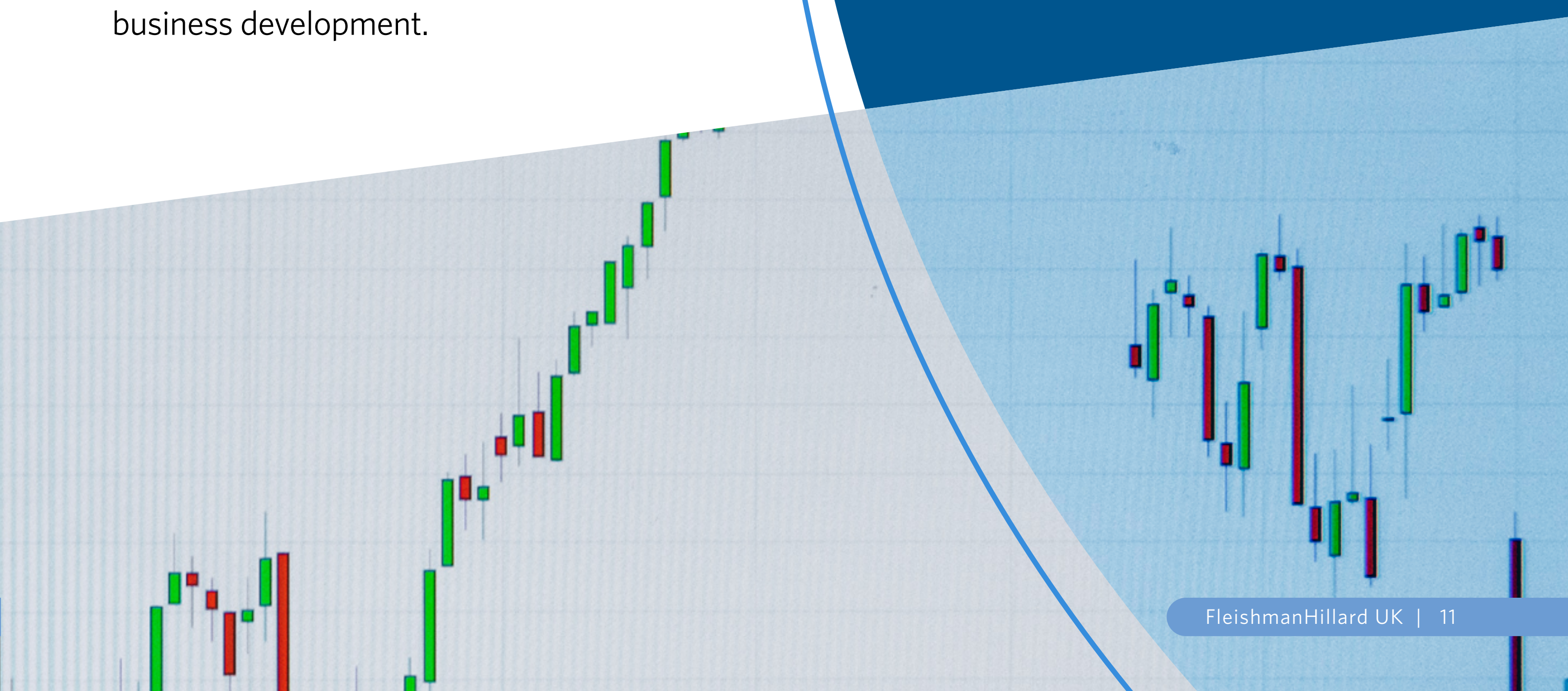
When it comes to marketing and communications channels, some advisers are indeed being more adaptable in their business development approach to target younger demographics, with nearly four in ten (38%) saying they increasingly use social media channels (e.g., social media such as LinkedIn and Twitter) as part of their business development.

Two-thirds

of IFAs say they **do not** change how they market and sell their services to younger clients

However, **1 in 3**

advisers say they are using social media channels more as part of their marketing strategy to new clients



Future wealth: Capturing the next generation

FIVE KEY TAKEAWAYS

1 KNOW YOUR AUDIENCE: It's crucial to not only be armed with insights about your target audience - understanding their attitudes, drives and investment approach – but tailor services, content and advice accordingly to meet them where they are.

2 GET PROACTIVE ON ESG: ESG is no longer 'principles over profits'. So it's important to ensure recommendations around ESG products and strategies are integrated within existing investment advice, rather than it being seen as a 'bolt-on'. Furthermore, by creating genuine excitement around the potential of ESG and impact investing you can create differentiation from peers.

3 EMBRACE NEW CHANNELS: Utilise multiple communication channels and a range of digital content, from traditional media, video, podcasts to social channels, to engage with new investors.

4 BE VISIBLE: Make it easy for people to find you on-and-offline, by regularly engaging with pertinent issues (both on ESG and other relevant topics), creating a steady drumbeat of optimised content and timely insights through commentary, interviews and events.

5 'WALK THE TALK': As our study has shown, investors are increasingly willing to shun financial services providers based on their ESG credentials, so it's important to have your own house order. To be truly authentic on ESG, you need to show you are committed to 'doing the right thing' and embody this through all your communications – both internally and externally.

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