There is no guarantee that considering ESG risks will be a successful investment approach. Investing involves risks including possible loss of principal.

Not FDIC Insured • May Lose Value • No Bank Guarantee
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About the survey
Methodology

The 2021 Federated Hermes ESG Investing Survey is a second annual survey of U.S. investment professionals (institutions, financial advisors, and high-net-worth individuals) with input on investment portfolios regarding their views on responsible investing and consideration of environmental, social, governance (ESG) factors.

An anonymous, online survey of respondent panels provided by Phronesis Partners was fielded between June 7, 2021, and July 16, 2021.

Respondents included 102 institutional asset owners with more than $500 million in assets under management, including foundations, endowments, public defined benefit plans, corporate defined benefit plans, and insurance general accounts; 202 financial advisors and wealth managers with client assets under management (advisement) of more than $25 million, including registered investment advisors (RIAs), broker-dealer, bank and insurance-affiliated advisors, as well as consultants; and 100 high-net-worth individuals with investable assets (excluding primary residence) of more than $1 million.

The survey findings were augmented by 12 anonymous interviews of randomly selected survey respondents.
Respondents
Advisor/wealth management

N=202
Respondents
High-net worth individuals

N=100

- $1 million-$1.9 million: 27%
- $2 million-$4.9 million: 13%
- $5 million-$9.9 million: 22%
- $10 million-$24.9 million: 10%
- More than $25 million: 10%

Northeast: 26%
South: 30%
Midwest: 27%
West: 17%
Respondents

Institutional investors

- 26% Corporate defined benefit plan
- 15% Public defined benefit plan
- 24% Endowment
- 25% Foundation
- 10% Insurance company general account

$500 million-$999 million
$1 billion-$4.9 billion
$5 billion-$9.9 billion
$10 billion-$49 billion
More than $50 billion

N=102
ESG considerations and integration
Covid-19 and the market environment

All respondents

Survey respondents place general importance on corporate governance (88%) and companies’ consideration of all stakeholders (86%).

Corporate governance and shareholder value

Long-term responsible investing (i.e., gaining benefits in addition to financial returns)

Companies’ consideration of all stakeholders (e.g., workplace safety, work from home, paid sick leave)

Companies’ actions and how they affect the environment (e.g., climate change, CO2 emissions)

Companies’ transparency in disclosing ESG risk data and adherence to sustainability or other ESG commitments

Investments that generate some measurable environmental or social impact (i.e., irrespective of any financial returns)

Relative outperformance of ESG investment strategies in the recent past

Q: Thinking about the coronavirus pandemic and the market environment of the past year or more, please rate the importance (very important, somewhat important, not important) you place today on the following:

N=404
Important ESG issues other than climate

All respondents

Governance factors like data security and social factors such as DE&I continue to be important to investors and advisors.

Q: Events of the past year have raised awareness of other ESG issues in addition to climate and environmental issues. Please note which of these issues are top-of-mind to you and how that may have changed since 2020.

N=404
The “S” factor: Importance to investment risk

All respondents

Two-thirds (66%) of investors agree social factors are more important today for investment risk than those who felt the same (63%) in 2020.

Q: Please indicate your agreement or disagreement with the following statement: The coronavirus pandemic made the “social” or “S” aspect of ESG risk factors more important from an investment risk standpoint (e.g., how companies treat their workforce, suppliers, and communities during the crisis).

N=404

% Agree Social More Important by Type

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Do not agree at all

Two-thirds (66%) of investors agree social factors are more important today for investment risk than those who felt the same (63%) in 2020.
ESG investing and climate

Institutional investors

69% of institutional investors believe responsible investing will be a positive for global climate concerns.

Q: How confident are you that ESG and responsible investing will ultimately have a positive impact on global climate concerns?

N=102
ESG investing and climate
High-net-worth investors

A majority (56%) of HNW investors believe responsible investing will be a positive for global climate concerns.

“‘It kind of feels like...we may be getting to critical mass within the next couple of years where ESG becomes some sort of measurable, scalable factor that can be ultimately translated into company health and long term prosperity.’”

HNW investor, $3M to $5M investible assets

Q: How confident are you that ESG and responsible investing will ultimately have a positive impact on global climate concerns?

- Very confident: 19%
- Somewhat confident: 37%
- Neither confident nor unconfident: 18%
- Somewhat unconfident: 12%
- Not confident at all: 14%

N=100
ESG investing and climate
Advisors and wealth managers

A majority (60%) of advisors believe responsible investing will be a positive for global climate concerns.

Q: How confident are you that ESG and responsible investing will ultimately have a positive impact on global climate concerns?

- Very confident: 24%
- Somewhat confident: 36%
- Neither confident nor unconfident: 22%
- Somewhat unconfident: 11%
- Not confident at all: 7%

N=100
Q: How would you verify an investment product or strategy you are considering doesn't engage in greenwashing (i.e., indicating a direct ESG connection or benefit that's not actually there)? (check all that apply)

N=102
Executive compensation
Institutional investors

For institutions that have voted shareholder proxies for years, it’s not surprising executive compensation practices continue to be ongoing issue. A majority (52%) of investors, however, do not view it as more important today than it was in the past.

Q: If you consider ESG factors in your investment process, would you say executive compensation is a more important consideration for you than it was in the past?
ESG data quality

Institutional investors

A majority (72%) of investors are concerned about the quality of data and measurement coming from companies in their investment portfolio.

Q: Please indicate your agreement or disagreement with the following statement: I'm concerned about the quality and consistency of ESG data and measurement coming from portfolio companies and investments.

N=102

- Strongly agree: 32%
- Somewhat agree: 39%
- Neither agree nor disagree: 1%
- Somewhat disagree: 2%
- Do not agree at all: 2%
ESG data quality
High-net-worth investors

A majority (69%) of HNW investors are concerned about the quality of data and measurement of portfolio investments.

Q: Please indicate your agreement or disagreement with the following statement: I'm concerned about the quality and consistency of ESG data and measurement coming from portfolio companies and investments.

N=100

28% Strongly agree
22% Somewhat agree
6% Neither agree nor disagree
3% Somewhat disagree
3% Do not agree at all

“I’m not aware of any easy to consume, well-formed aggregate-level ESG reporting, and maybe that’s part of the problem in the industry.”

HNW investor, $3M to $5M in investible assets
ESG and investment valuation

Institutional investors

A majority (54%) of investors believe better ESG practices by companies results in stronger returns/valuations over time; this is a proportional increase found in other recent institutional surveys.*

Q: Do you believe that companies with better ESG practices have better returns and valuations over time?

Yes: 54%
No: 27%
Not sure: 19%

“We did a lot of research on this, and we think that there’s a demonstrated enhanced return by considering the ESG factors.”
Senior Investment Officer, $250B public pension plan

*Source: 2019 CFA Institute survey: 47% of institutional investors globally said they expected ESG investing to “result in higher risk-adjusted returns.”

N=102
ESG considerations

Institutional investors

A large majority (81%) of investors consider ESG factors in their investment process. For those that work with investment consultants, many report that consultants continue to drive the ESG discussion.

Q: Do you presently consider Environmental, Social, Governance (ESG) or responsible investing factors when making recommendations for the investment portfolio?

N=102

Q: If you work with an investment consultant, has that consultant recommended you take ESG criteria into account when considering investments?
Q: Has your investment committee or board asked you about taking ESG or responsible investing considerations into account?

Six-in-10 institutional investors report that their board or investment committee has asked them about ESG and responsible investing.

- Yes: 60%
- No: 20%
- No, but they are considering it: 20%

“Every board meeting we have a slide or two showing the ESG initiatives we talked about at our last meeting and what we’re doing to implement them through the portfolio.”

CIO, $750 million public DB pension
Q: Does your organization have stated ESG factors or considerations in your investment policy statement or in other documentation related to your investment strategy?
N=102

Q: Are investment-related ESG metrics and company engagement data (including proxy voting statistics) made publicly available on your website?
ESG considerations

High-net-worth investors

A majority (54%) of HNW investors consider ESG factors when making decisions about their investments.

Q: Do you presently consider environmental, social, governance (ESG) or responsible investing factors when making decision for your investment portfolio?

N=100

"I would say I try to look at ESG as just another data point...if a company is doing environmental good work or sustainability or good governance, it seems like they're less likely to go off the rails."

HNW investor, between $1M and $3M in investable assets
Consideration of ESG factors

Advisors and wealth managers

More than two-thirds (67%) of advisors are taking into account responsible investment considerations when making investment recommendations to clients.

Q: Do you presently consider environmental, social, governance (ESG) or responsible investing factors when making investment recommendations for client portfolios?

N=202
A majority (59%) of HNW investors said an advisor recommended they take ESG considerations into account when selecting investments.
Q: Have any of your clients asked you about ESG or responsible investing?

N=202

Q: In the past few years, would you say your average new client is:

N=202
A majority (61%) of advisors said the inclusion of ESG considerations in client portfolios increased in the past year, up substantially from 46% in 2020.

Q: In the past year, would you say the inclusion of ESG considerations in client portfolios has:

N=202

“Post Covid, a lot of things have changed, and I feel that we have more people inclined towards sustainable investing. The uptake would be from the younger investors who are aware of the ESG related topics and concerned about their future.”

Advisor, $50 million RIA
Covid-19 and investment risk

Institutional investors

After pandemic re-opening and a rebound in the market and the economy, less than a majority (45%) of investors report their perceptions of investment risk increased due to the market and economic environment of the recent past.

Q: The coronavirus pandemic and its impact on the economic and market environment of the past year or more has resulted in my organization’s perception of investment risk to?

- Increase: 45%
- Decrease: 50%
- Stay about the same: 5%

N=102
Covid-19 and investment risk
Advisors and wealth managers

More than half (53%) of advisors said the volatile market environment of the past year or more has resulted in their perceptions of investment risk to stay the same.

Q: The coronavirus pandemic and its impact on the economic and market environment of the past year or more has resulted in my perception of investment risk to:

- Increase: 43%
- Decrease: 4%
- Stay about the same: 53%

N=202
Q: The market environment of the past year or more has resulted in my clients' perception of investment risk to:

More than half (51%) of advisors said the volatile market environment of the past year or more has resulted in clients’ perceptions of investment risk to rise.
Covid-19 and investment risks

High-net-worth investors

The Covid-19 pandemic and the recent market and economic environment did not move a majority (62%) of HNW investors to change their perceptions of risk.

Q: The coronavirus pandemic and its impact on the economic and market environment of the past year or more has resulted in my perception of investment risk to?

N=100
Q: (Select One) Complete the following sentence: Considering responsible investing or ESG investing, I would primarily characterize my organization's investment philosophy as:

N=102
ESG investment philosophy

When asked to characterize their primary approach to responsible investing, one quarter (25%) of HNW investors chose ESG integration to seek opportunities and to manage investment risks.

- The integration of ESG or responsible investment criteria in a fundamental investing process to target both investment opportunities and manage investment risks
- Impact investments that meet a specific goal beyond investment returns
- Exclusion or inclusion of certain investments based on my values
- Exclusion or inclusion of certain investments based on specific ESG metrics and data
- The targeting of various ESG themes in portfolio investments (e.g., climate change, water resources, gender/racial diver
- Other

Q: Complete the following sentence: Considering responsible investing or ESG investing, I would primarily characterize my investment philosophy as: (single select)

Note: "Other" includes "N/A" and "companies that focus on sustainable shareholder returns".

N=100
### Social or “S” factors and investment risk

#### Institutional investors

More than two-thirds (67%) of investors agree social factors are more important regarding investment risk; additionally, no 2021 respondent indicated “do not agree at all.”

<table>
<thead>
<tr>
<th>Agreement Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>25%</td>
</tr>
<tr>
<td>Somewhat agree</td>
<td>45%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>20%</td>
</tr>
<tr>
<td>Somewhat disagree</td>
<td>10%</td>
</tr>
</tbody>
</table>

Q: Please indicate your agreement or disagreement with the following statement: The Coronavirus pandemic made the “social” or “S” aspect of ESG risk factors more important from an investment risk standpoint (e.g., how companies treat their workforce, suppliers, and communities during the crisis).

N=102
Q: Please indicate your agreement or disagreement with the following statement: The coronavirus pandemic made the “social” or “S” aspect of ESG risk factors more important from an investment risk standpoint (e.g., how companies treat their workforce, suppliers, and communities during the crisis).

A majority (56%) of HNW investors agree social factors are more important for assessing investment risk.

N=100
Social or “S” factors and investment risk

Advisors and wealth managers

Seven-in-10 (70%) of advisors agree social factors today are more important in the context of investment risk, up from 63% in 2020.

Q: Please indicate your agreement or disagreement with the following statement: The pandemic made the “social” or “S” aspect of ESG risk factors more important from an investment risk standpoint (e.g., how companies treat their workforce, suppliers, and communities during the crisis).

N=202
Covid-19 and the market environment

Institutional investors

Institutional investors place general importance on corporate governance (88%) as well as portfolio companies’ data transparency (81%).

Q: Thinking about the coronavirus pandemic and the market environment of the past year or more, please rate the importance (very important, somewhat important, not important) you place today on the following:

- Corporate governance and shareholder value
- Long-term responsible investing (i.e., gaining benefits in addition to financial returns)
- Companies’ transparency in disclosing ESG risk data and adherence to sustainability or other ESG commitments
- Companies’ actions and how they affect the environment (e.g., climate change, CO₂ emissions)
- Companies’ consideration of all stakeholders (e.g., workplace safety, work from home, paid sick leave)
- Investments that generate some measurable environmental or social impact (i.e., irrespective of any financial returns)
- Relative outperformance of ESG investment strategies in the recent past

N=102
Q: Thinking about the coronavirus pandemic and the market environment of the past year or more, please rate the importance (very important, somewhat important, not important) you place today on the following:

- Corporate governance and shareholder value
- Long-term responsible investing (i.e., gaining benefits in addition to financial returns)
- Companies’ actions and how they affect the environment (e.g., climate change, CO₂ emissions)
- Companies’ consideration of all stakeholders (e.g., workplace safety, work from home, paid sick leave)
- Companies’ transparency in disclosing ESG risk data and adherence to sustainability or other ESG commitments
- Relative outperformance of ESG investment strategies in the recent past
- Investments that generate some measurable environmental or social impact (i.e., irrespective of any financial returns)

Advisors are placing greater general importance on corporate governance (92%) and long-term responsible investing (90%) compared to last year.

N=202
Covid-19 and the market environment

High-net-worth investors

HNW investors consider long-term responsible investing “very important” (42%); 83% place general importance on companies’ consideration of stakeholders. Corporate governance as a “very important” factor declined proportionately from 43% in 2020 to 34% today.

Q: Thinking about the coronavirus pandemic and the market environment of the past year or more, please rate the importance (very important, somewhat important, not important) you place today on the following:

- Long-term responsible investing (i.e., gaining benefits in addition to financial returns)
- Companies’ consideration of all stakeholders (e.g., workplace safety, work from home, paid sick leave)
- Corporate governance and shareholder value
- Companies’ actions and how they affect the environment (e.g., climate change, CO₂ emissions)
- Companies’ transparency in disclosing ESG risk data and adherence to sustainability or other ESG commitments
- Investments that generate some measurable environmental or social impact (i.e., irrespective of any financial returns)
- Relative outperformance of ESG investment strategies in the recent past

N=100
Q: Events of the past year have raised awareness of other ESG issues in addition to climate and environmental issues. Please note which of these issues are top-of-mind to you and how that may have changed since 2020.

DE&I, supply chain and corporate governance are top-of-mind for investors today; DE&I and data privacy are more important since 2020.

Note: "Other" included pay equity and water resources.
Events of the past year have raised awareness of other ESG issues in addition to climate and environmental issues. Please note which of these issues are top-of-mind to you and how that may have changed since 2020.

Data privacy (48%) is top-of-mind now for HNW investors, while DE&I (62%) and fair labor practices (61%) grew in importance since 2020.

Q: Events of the past year have raised awareness of other ESG issues in addition to climate and environmental issues. Please note which of these issues are top-of-mind to you and how that may have changed since 2020.

N=100

Note: No respondent indicated "not sure/don't know" for "fair labor practices," "supply chain resiliency," "workplace safety", "data privacy and security"
Important ESG issues ex climate

Advisors and wealth managers

Data privacy, DE&I and corporate governance are top of mind for advisors today; while data privacy, supply chain and DE&I grew in importance since 2020.

Q: Events of the past year have raised awareness of other ESG issues in addition to climate and environmental issues. Please note which of these issues are top-of-mind to you and how that may have changed since 2020.

N=202

Note: "Other" included social factors not listed such as pay equity as well as exclusionary factors such as alcohol and firearms production.
Implementing ESG and responsible investing

Institutional investors

A large majority (82%) of investors have implemented or are considering implementing ESG integration in their investment process.

Q: Have you implemented or are you considering the following?

- Active ownership (i.e., continuing engagement of companies on ESG considerations either directly or via a stewardship consultant)
- Impact investing (i.e., a measurable environmental or social "return" or goal)
- ESG thematic (e.g., climate change, water resources, gender/racial diversity, etc.)
- ESG integration (i.e., ESG risk factors are part of the investment process)
- Positive screening strategies (i.e., inclusion of certain investments based on ESG data)
- Negative screening strategies (i.e., exclusion of certain investments)

N=102
Implementing ESG and responsible investing

High-net-worth investors

Almost two-thirds (64%) of HNW investors are either implementing or considering ESG integration in their investment portfolio.

Q: Do you follow any of the below mentioned strategies when making decisions related to your investment portfolio?

N=100
Implementing ESG and responsible investing
Advisors and wealth managers

A large majority (80%) of advisors have implemented or are considering ESG integration in clients’ portfolios.

Q: Have you recommended or are you recommending the following? (check all that apply)

N=202

- ESG integration (i.e., ESG risk factors are part of the investment process)
- Positive screening strategies (i.e., inclusion of certain investments based on ESG data)
- ESG thematic (e.g., climate change, water resources, gender/racial diversity, etc.)
- Negative screening strategies (i.e., exclusion of certain investments)
- Impact investing (i.e., a measurable environmental or social “return” or goal)
- Active ownership (i.e., continuing engagement of companies on ESG considerations either directly or via a stewardship consultant)
Understanding of active engagement
Institutional investors

Engagement of portfolio companies by U.S. institutions is on the rise, following practices established by their international peers. A majority (61%) of investors view engagement as an ongoing process of working with companies in goal setting and progress against those goals.

Q: Which phrase best describes your understanding of engagement? (single select)

- Portfolio managers and analysts periodically meeting with corporate managements
- An ongoing process of working with companies to identify ESG goals and influencing progress toward those goals
- Activist investors or those seeking control and/or board seats
- Voting shareholder proxies, evaluating shareholder resolutions at annual meetings
- Other

N=102
Change in ESG integration-investment process

Institutional investors

After a significant year or more of change, some investors are holding tight on further ESG integration. More than half (52%) indicated the level of integration of ESG considerations stayed the same, up from 46% in 2020.

Q: In the past year, would you say your integration of ESG considerations in your investment process and portfolio has:

- Increased: 45%
- Decreased: 3%
- Stayed about the same: 52%
In light of a volatile and rapidly changing 2020, it was not surprising that more than two-thirds (67%) of HNW investors largely stood pat on ESG integration in portfolios in the past year.

Q: In the past year, would you say your integration of ESG considerations in your investment process and portfolio has:

N=100
Drivers of focus on ESG

Institutional investors

What drives institutions to focus more on ESG and responsible investing? A majority (61%) were moved to prioritize ESG more in the past year in order to better align with their organization’s values.

Q: Please describe the forces that have most moved you to focus more on ESG/responsible investing in the past 12 months. (Check all that apply)

N=102
Factors driving focus on responsible investing

High-net-worth investors

Aligning investments with their values (42%) and a desire to influence corporate behavior (38%) were what most motivated HNW investors to focus on ESG and responsible investing.

Q: Please describe the forces that have most moved you to focus more on ESG/responsible investing in the past 12 months: (check all that apply)

N=100

Note: "Other" included "N/A" and "I don't focus on ESG".
Drivers of focus on ESG

Advisors and wealth managers

Client interest will always motivate advisors to consider new strategies, so it is not surprising 72% noted investor demand as a force causing them to focus more recently on ESG investing. Additionally, aligning investments with clients’ values (56%) was also a top driver.

Q: Please describe the forces that have most moved you to focus more on ESG/responsible investing in the past 12 months? (check all that apply)
Barriers to greater ESG adoption

Institutional investors

Few clear definitions of ESG criteria (59%) and a lack of ESG data transparency (58%) are impediments to further ESG integration for institutions.

Q: What are the significant barriers to greater adoption of ESG considerations across your investment portfolio currently? (Check all that apply)

- Lack of advanced analytical tools/skills
- Concern about costs required to develop ESG processes and reporting
- Concern about costs of investing with managers with ESG integration (e.g., higher management fees)
- Not a priority for our organization’s stakeholders
- Limited ability to source ESG-themed investment strategies to meet our needs
- Lack of availability of robust ESG data
- Few clear definitions of ESG criteria (59%) and a lack of clear definition
- Lack of products or strategies with three-year track records

Other

N=102
Barriers to greater ESG adoption

High-net-worth investors

Few clear definitions and in order to monitor ESG in managers (47%) and a lack of analytics (43%) were top barriers for greater ESG adoption. HNW investors’ concern about management fees/costs declined proportionately from 43% in 2020 to 28% today.

Q: What are the significant barriers to greater adoption of ESG considerations across your investment portfolio currently? (check all that apply)

N=100
## Barriers to greater ESG adoption

*Advisors and wealth managers*

Advisors say that a dearth of clear definitions of ESG criteria (51%) as well as a lack of robust ESG data (51%), i.e., data transparency, are impediments to greater adoption of responsible considerations.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Few clear definitions of ESG criteria and the ability to monitor outside managers against that criteria</td>
<td>51%</td>
</tr>
<tr>
<td>Lack of availability of robust ESG data</td>
<td>51%</td>
</tr>
<tr>
<td>Not a priority for the client</td>
<td>45%</td>
</tr>
<tr>
<td>Lack of conviction that ESG-focused strategies will improve long-term performance</td>
<td>40%</td>
</tr>
<tr>
<td>Limited ability to source ESG-themed investment strategies to meet client needs</td>
<td>35%</td>
</tr>
<tr>
<td>Lack of advanced analytical tools/skills</td>
<td>30%</td>
</tr>
<tr>
<td>Concern about costs of investing with managers with ESG integration (e.g., higher management fees)</td>
<td>30%</td>
</tr>
<tr>
<td>Lack of products or strategies with three-year track records</td>
<td>30%</td>
</tr>
<tr>
<td>Concern about costs required to develop internal ESG processes and reporting</td>
<td>25%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
</tbody>
</table>

Q: What are the significant barriers to greater adoption of ESG considerations across clients' investment portfolios currently? (Check all that apply)

N=202
Institutional investors seek a variety of ways of gathering information about ESG and responsible investing. The top ways are the news media (50%), investment consultants (47%), and from their asset managers in quarterly meetings (39%).

Q: What are the top ways you learn about developments in ESG and responsible investing? (select three)
### Top ways of learning about ESG

**Advisors and wealth managers**

Managers’ websites (44%), manager updates (43%) and the news media (43%) are the top ways advisors learn about responsible investing.

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset managers’ digital content (website, video, manager-hosted webinars)</td>
<td>44%</td>
</tr>
<tr>
<td>Asset managers during periodic performance updates</td>
<td>43%</td>
</tr>
<tr>
<td>Media or news sources</td>
<td>43%</td>
</tr>
<tr>
<td>Other consultants or data providers (e.g., Morningstar, Greenwich Associates, etc.)</td>
<td>35%</td>
</tr>
<tr>
<td>Virtual or in-person conferences hosted by a third party (e.g., trade association, media property, conference organizer, etc.)</td>
<td>30%</td>
</tr>
<tr>
<td>Investment consultants</td>
<td>30%</td>
</tr>
<tr>
<td>Academic literature and sources</td>
<td>20%</td>
</tr>
<tr>
<td>Regulatory or governmental statements</td>
<td>15%</td>
</tr>
</tbody>
</table>

Q: What are the top ways you learn about developments in ESG and responsible investing? (choose three)
Manager search/selection
Manager-search information

Institutional investors

A majority (52%) are still seeking more information on managers’ responsible investing credentials; managers’ ESG incorporation continues to be important.

Q: In asset manager searches, would you say you are seeking more information on a manager’s responsible investing credentials (such as in an RFP, DDQ or other forms of information)?

- Yes, we do
- No, we don’t and have no plans to do so
- No, we don’t but we have plans to do so

Q: What type of information or data from an asset manager is most meaningful to you?

- The asset manager is incorporating ESG considerations and risk factors...
- The asset manager has infrastructure in place to identify and manage...
- The asset manager can demonstrate their use of ESG data and the...
- The asset manager provides strategy-level ESG data and metrics...
- The asset manager has an active engagement policy and process for...
- The asset manager is a signatory of UN PRI as well as other...
- Other

N=102

N=53
Manager-search information

High-net-worth investors

HNW investors may be at a saturation point when it comes to requiring more information from managers. Of those looking for more information, a majority (62%) want to validate the manager is incorporating ESG considerations across their investment process.

Q: In asset manager searches, would you say you are seeking more information on a manager’s responsible investing credentials (such as in an RFP, DDQ or other forms of information)?

N=100

Q: What type of information or data from an asset manager is most meaningful to you?

N=34
Manager data in recommendation

Advisors and wealth managers

Advisors continue to seek more information on managers’ ESG credentials (45%); they are mainly looking for ESG integration in managers’ portfolios.

Q: When recommending an asset manager for clients' portfolios, would you say you are seeking more information on a manager's responsible investing credentials?

Yes, we do: 45%
No, we don’t and have no plans to: 22%
No, we don’t, but we have plans to do so: 33%

Q: What type of information or data from an asset manager is most meaningful to you?

- The asset manager is incorporating ESG considerations and risk factors across their investment process...
- The asset manager can demonstrate their use of ESG data and the materiality (i.e., the...)
- The asset manager has infrastructure in place to identify and manage ESG risks
- The asset manager has an active engagement policy and process for portfolio investments
- The asset manager provides strategy-level ESG data and metrics (e.g., carbon footprint of...)
- The asset manager is a signatory of UN PRI as well as other commitments and frameworks...
- Other: 0%

N=202

N=92
Manager recommendation likelihood

Institutional investors

Based on what they have learned about ESG, nearly three-quarters (74%) of institutional investors are likely to recommend a manager that emphasizes ESG/responsible investing.

Q: Considering what you’ve learned about ESG risk factors and responsible investing in general, how likely are you to recommend investing with an asset manager who emphasizes responsible investing?

Very likely: 24%
Somewhat likely: 29%
Neutral: 3%
Somewhat unlikely: 29%
Very unlikely: 44%

Note: No respondent indicated "Not at all likely"

N=102
Manager recommendation likelihood

Advisors and wealth managers

Almost two-thirds (65%) of advisors are likely to recommend a responsible manager given what they’ve learned about ESG investing in the past.

Q: Considering what you've learned about ESG risk factors and responsible investing in general, how likely are you to recommend to clients an asset manager who emphasizes responsible investing?

N=202
Manager selection
Institutional investors

Institutions prioritized values aligned with their own as well as the performance track record when selecting a responsible manager.

Q: Which of the following are most important when selecting an asset manager for ESG investments? (select three)

- ESG values are aligned with ours
- Performance track record in ESG or sustainable investments
- Competitive fees/ costs
- Clear investment processes relating to ESG
- ESG research capability
- ESG reporting capability
- ESG brand and reputation
- Breadth of ESG products or strategies
- Dedicated ESG or responsible investment office
- Engagement or stewardship capabilities
- Other

Q: Which of the following are most important when selecting an asset manager for ESG investments? (select three)
Manager selection
High-net-worth investors

Competitive fees (44%), performance (35%), and ESG values alignment (30%) were top criteria of HNW investors in selecting a responsible manager.

Q: Which of the following are most important when selecting an asset manager for ESG investments? (select three)

N=100

Note: "Other" includes "N/A" and "do not segregate managers based on ESG"
Manager selection-platform
Advisors and wealth managers

Advisors note client values alignment (52%), a clear investment process (49%), and a performance track record (41%) are most important in selecting a responsible manager getting on an advisory platform.

Q: Which of the following are most important when selecting an asset manager for ESG investments? (select up to three)

- ESG values are aligned with the client
- Clear investment processes relating to ESG
- Performance track record in ESG or sustainable investments
- Competitive fees/costs
- ESG research capability
- ESG brand and reputation
- Breadth of ESG products or strategies
- ESG reporting capability
- Dedicated ESG or responsible investment office
- Engagement or stewardship capabilities
- Other

N=202
Manager selection-responsible credentials
Institutional investors

Assuming performance is satisfactory, two-thirds (66%) of investors said a manager’s responsible investing credentials are important in selecting that manager for a mandate.

Q: Assuming satisfactory performance, how important will an asset manager's responsible investing credentials be for you in selecting a manager to invest with?

Note: No respondent indicated "Not at all important"

N=102
Q: Assuming satisfactory performance, how important will an asset manager's responsible investing credentials be for you in selecting a manager to invest with?

N=100

More than two-thirds (67%) of HNW investors believe a manager’s ESG credentials are important in selecting that manager, up proportionately from 53% surveyed in 2020.
Decision to recommend
Advisors and wealth managers

Assuming good performance, seven-in-10 advisors (70%) believe a manager’s ESG credentials are important in recommending that manager to a client. Fewer advisors proportionately are neutral on this topic, currently 18% neutral compared to 24% in 2020.

Q: Assuming satisfactory performance, how important will an asset manager’s responsible investing credentials be for you in selecting a manager to invest with?

N=202
Strategies/asset classes
Vehicles for accessing ESG investments

Institutional investors

Investors’ usage of passive investments declined from 2020 (22%); small-to-mid-sized institutions access ESG via mutual funds, private equity, and ETFs.

Q: How do you primarily access ESG or responsible investments? (single select)
N=102

Q: Please select the specific vehicles you utilize to access ESG or responsible investments?
Vehicles for accessing ESG investments

High-net-worth investors

A majority (61%) of HNW investors utilize active investments (including actively managed strategies and individual securities); passive declined proportionately from 2020 (37%).

Q: How do you primarily access ESG or responsible investments? (single select)

N=100

Q: Please select the specific vehicles you utilize to access ESG or responsible investments:
Almost half (48%) of advisors use actively managed investments, up from 31% in 2020; advisors utilizing passive declined proportionately from 36% in 2020 to 32% today.
ESG strategies plans to invest

Institutional investors

U.S. equity, illiquid alternatives and international/global equity are the ESG-integrated strategies investors are likely to invest in during the next year.

Q: Assuming satisfactory performance, which products/strategies or asset classes that may include some form of ESG considerations do you plan to invest in the next 12 months?

N=102
Q: Assuming satisfactory performance, which products/strategies or asset classes that may include some form of ESG considerations do you plan to invest in the next 12 months?

For investment strategies with ESG considerations, HNW investors are likely to add dividend equity (35%), U.S. equity (35%), and ESG labeled strategies.

N=100
ESG strategies plans to invest
Advisors and wealth managers

Advisors are most likely to recommend ESG-related strategies in U.S. equity (63%) and international/global equity (52%) in the next year.

<table>
<thead>
<tr>
<th>Product/Strategy</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. equity</td>
<td>63%</td>
</tr>
<tr>
<td>International/Global equity</td>
<td>52%</td>
</tr>
<tr>
<td>Small-Cap equity (U.S. or international)</td>
<td>46%</td>
</tr>
<tr>
<td>Small- and mid-cap equity (SMID, U.S. or international)</td>
<td>45%</td>
</tr>
<tr>
<td>U.S. dividend-focused equity</td>
<td>38%</td>
</tr>
<tr>
<td>Emerging markets equity</td>
<td>37%</td>
</tr>
<tr>
<td>U.S. investment-grade fixed income</td>
<td>35%</td>
</tr>
<tr>
<td>International/Global fixed income</td>
<td>33%</td>
</tr>
<tr>
<td>U.S. high yield fixed income</td>
<td>31%</td>
</tr>
<tr>
<td>Alternatives, illiquid (private equity, infrastructure, real estate)</td>
<td>29%</td>
</tr>
<tr>
<td>Alternatives, liquid (hedge-fund strategies)</td>
<td>28%</td>
</tr>
<tr>
<td>Short-term/short duration fixed income</td>
<td>26%</td>
</tr>
<tr>
<td>Tax-Exempt municipal bond</td>
<td>25%</td>
</tr>
<tr>
<td>Money market/liquidity investments</td>
<td>20%</td>
</tr>
</tbody>
</table>

Q: Assuming satisfactory performance, which products/strategies or asset classes that may include some form of ESG considerations do you plan to recommend to clients in the next 12 months?

N=202