Schroders

Institutional Investor Study 2019

Sustainability

Marketing material for professional investors and advisers only

Contents

Executive summary

Schroders' third annual Institutional Investor Study

This Study analyses the investment perspectives of 650 institutional investors, collectively responsible for $25.4 trillion in assets and from 20 locations across the world. The Study provides a snapshot of some of the world's largest investors' key areas of focus and concern including the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

650

institutional respondents

20

different locations

$25.4tn

assets under management

This year's results have highlighted sustainable investing is a top priority for global institutional investors. **50% state they have increased their sustainable investments over the last five years.** European institutional investors are leading this growth with 63% saying their organisation's sustainable investments have increased over the last five years in comparison to 36% of Asia-Pacific investors.

Looking ahead to the next five years, **sustainability will play an even more important role**; 75% of investors globally state the role of sustainable investments will increase, with European investors again leading the way at 84%.

Significantly, there has been a **45% decline in institutions stating they do not believe in sustainable investments** over the last three years globally. This has been most pronounced in Asia-Pacific (23% in 2017 vs. 10% in 2019) and Latin America (29% in 2017 vs. 12% in 2019).

Climate change and corporate strategy are viewed as the most important engagement topics for institutions. Climate change is the top engagement tool for European investors (61%) whereas Asia-Pacific and North American investors highlight corporate strategy (62% and 59%).

Integration into the investment process is the most popular approach to implement sustainability, but there are contrasting views about what is the best method. Integration into the investment process is most embraced in Europe (70%) and North America (65%), whereas negative screening is most popular in Asia-Pacific (57%).

Equities is seen as the asset class best suited for sustainability integration (71% Interestingly, North American investors (55%) are more likely to consider sustainability in infrastructure compared to their peers globally.

While there is a growing positive sentiment around sustainable investing, **institutional investors still have concerns around performance, transparency and risk management,** highlighting a need for more robust processes and performance data to increase further adoption. In fact, performance data is considered the most important driver for future adoption (34% in 2018 vs. 49% in 2019).

Growing influence of sustainable investing

Global growth over the last five years

Sustainable investing among institutional investors continues to gain traction globally. 50% state they have increased their sustainable investments over the last five years – up from 46% in 2018 and 48% in 2017. 19% state they do not invest in sustainable investment funds.

Regionally, Europe is leading the way, with 63% of respondents saying their sustainable investments have increased over the last five years. This compares to 48% for North America, 44% for Latin America and 36% for Asia-Pacific. Europe also has the lowest proportion of respondents not investing in sustainable funds (14%).

The growth in sustainable investments, particularly in Europe, ties to a number of trends and factors at play including pro-sustainability regulations, growing awareness of climate change as an investment risk and the emergence of an environmentally-conscious younger generation of millennials.

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Over the last five years how have your organisation's investments in sustainability changed?

Growing influence of sustainable investing

Global growth over the last five years (continued)

North America

	Increase	No change	Decrease	We do not invest in sustainable investment funds
2019	48%	30%	3%	19%
2018	40%	36%	4%	20%
2017	48%	30%	–	22%

Europe

	Increase	No change	Decrease	We do not invest in sustainable investment funds
2019	63%	20%	2%	14%
2018	60%	26%	2%	11%
2017	60%	28%	1%	10%

Latin America

	Increase	No change	Decrease	We do not invest in sustainable investment funds
2019	44%	28%	4%	24%
2018	44%	26%	10%	20%
2017	43%	34%	3%	17%

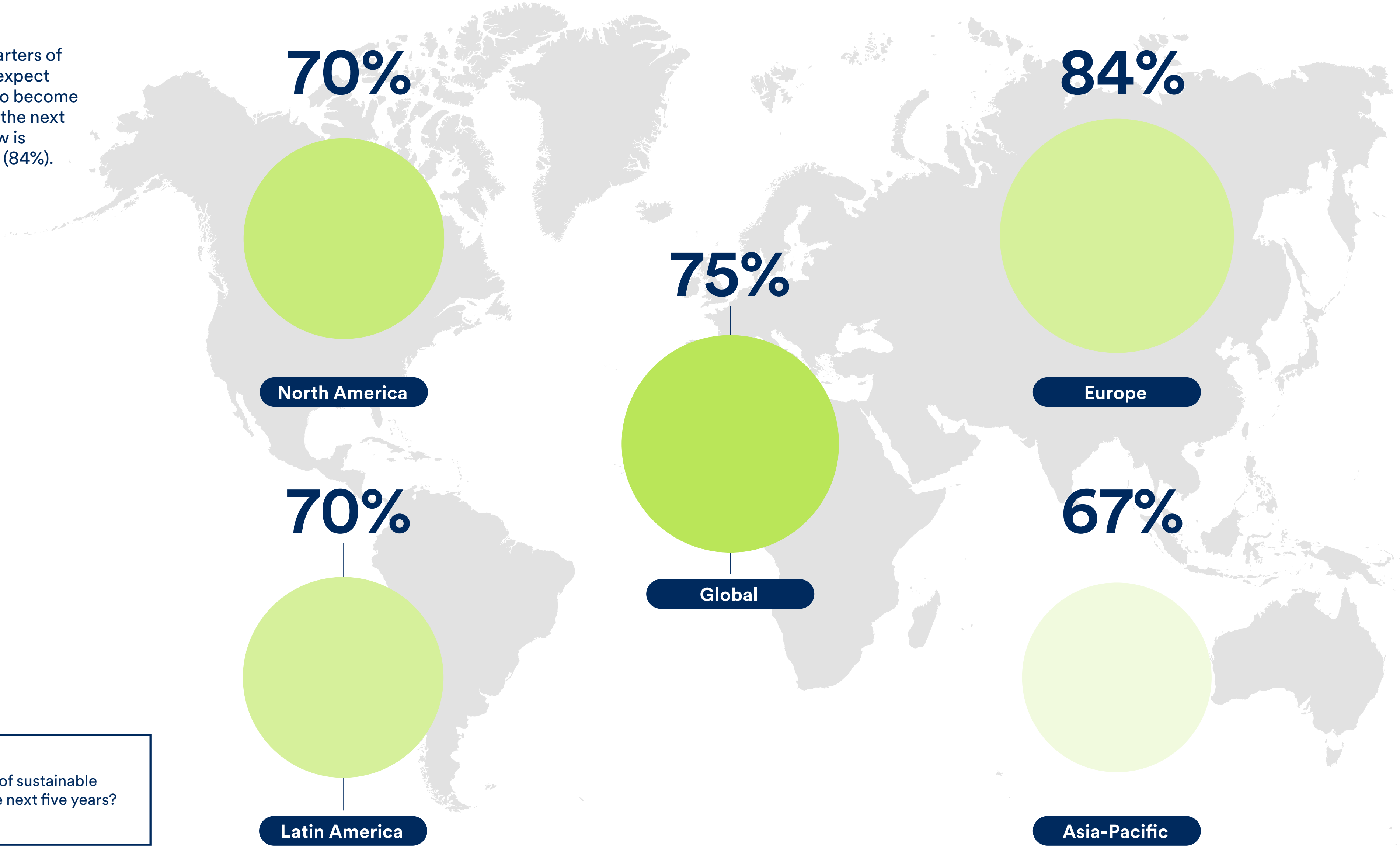
Asia-Pacific

	Increase	No change	Decrease	We do not invest in sustainable investment funds
2019	36%	31%	9%	23%
2018	33%	31%	17%	19%
2017	33%	34%	9%	23%

Growing influence of sustainable investing

Sustainability set to play greater role over next five years

Looking ahead, three-quarters of all institutional investors expect the role of sustainability to become increasingly important in the next five years. Again, this view is more prevalent in Europe (84%).



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How do you expect the role of sustainable investments to change in the next five years?

Sustainability cynics decrease as climate change focus grows

Decline in sustainable investment cynics

It is significant to note there has been a 45% decline in institutions stating they do not believe in sustainable investments over the last three years. This decline has been most pronounced in Asia-Pacific and Latin America; Asia-Pacific: 23% in 2017 to 10% in 2019 and Latin America: 29% in 2017 to 12% in 2019. But investors in North America are slightly more sceptical about sustainable investing (15%) than those in Europe (9%).

Investment committees also seem to be more comfortable making sustainable investments (14% in 2017 vs. 10% in 2019), demonstrating the growing awareness of sustainability as a genuine investment theme.

Which, if any, of the following specific factors do you consider a challenge when investing sustainably?

Climate change focus grows

Climate change and corporate strategy seen as top engagement strategies

While investors want to engage on a range of sustainable causes, climate change and corporate strategy are seen as the most important engagement strategies. But views vary across the continents; climate change is the top engagement tool for European investors (61%) whereas Asia-Pacific and North American investors highlight corporate strategy (62% and 59%) as more important.

Latin American investors place the least emphasis on climate change (44% in 2018 vs. 30% in 2019) and now consider accounting quality to be their main priority for engagement (60%).

Cyber security and supply chain management have decreased in importance this year, while accounting quality has, with the exception of European investors, grown in importance. Bribery and corruption have become a more important engagement focus in Asia-Pacific, 50% in 2019 vs. 35% in 2018.

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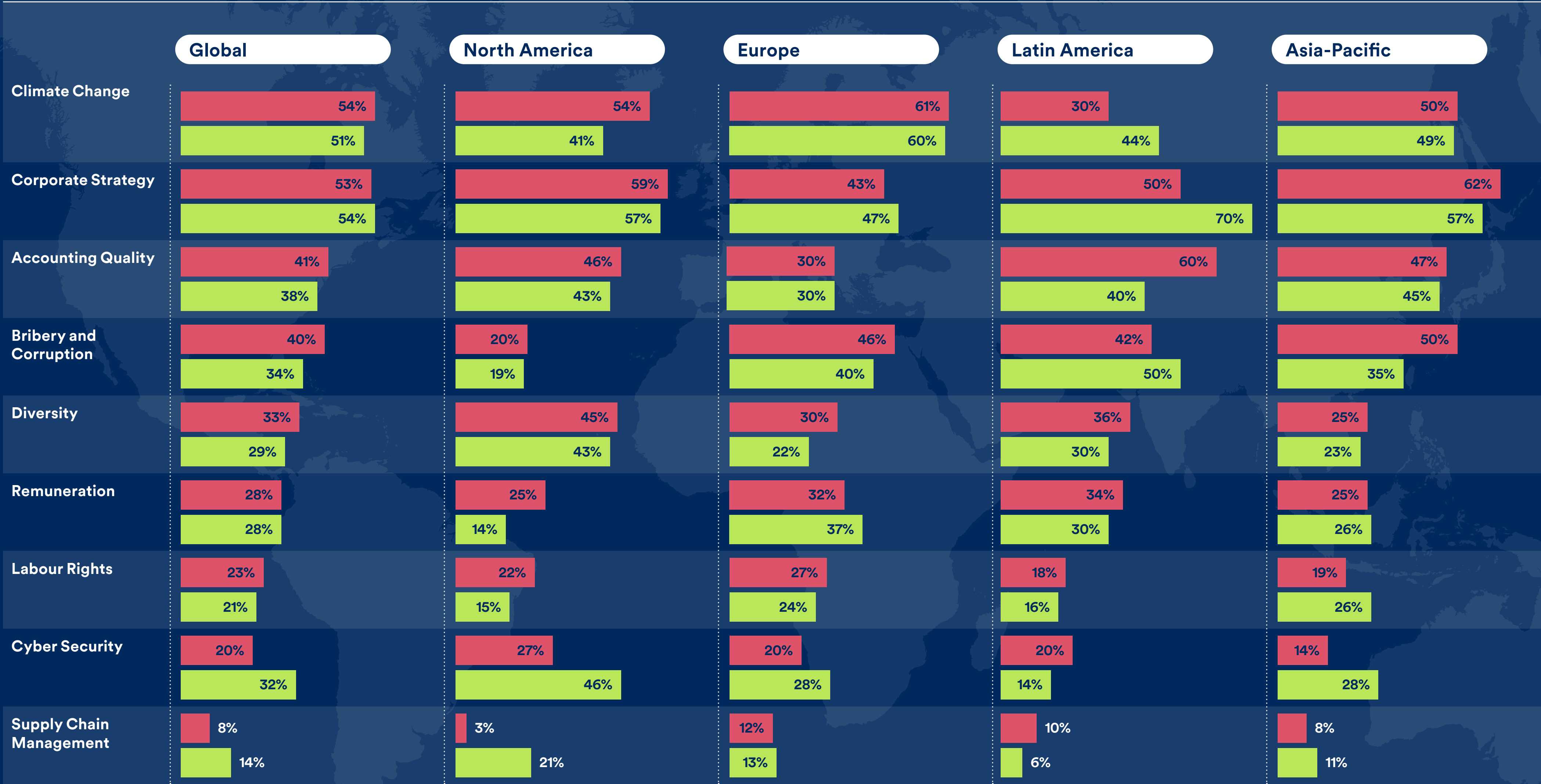
Which areas do you believe are important for investment managers and asset owners to engage on?

Sustainability cynics decrease as climate change focus grows

Climate change and corporate strategy seen as top engagement strategies (continued)



Which areas do you believe are important for investment managers and asset owners to engage on?

2019
2018

Implementing sustainability

Integration is the most popular approach

Integrating sustainability into the investment process is the most popular method for implementation (64%), with Europe again leading the charge with 70%.

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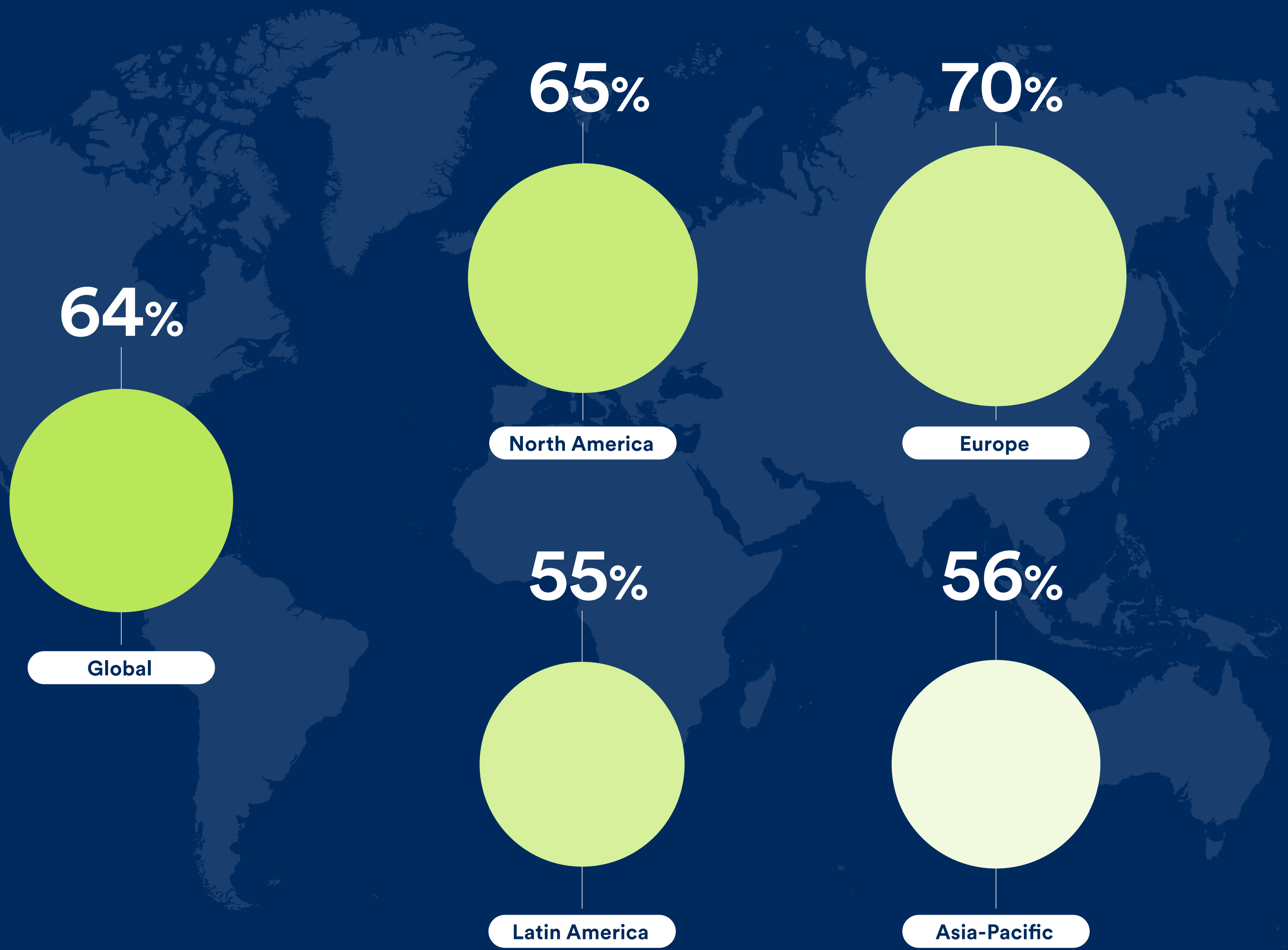
Do you integrate sustainability into your investment process?



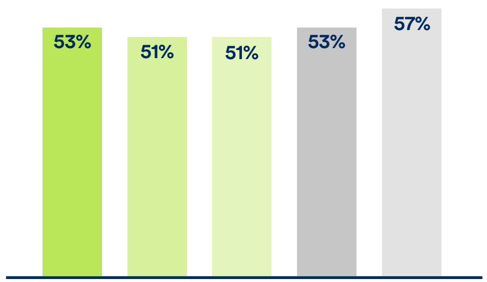
Implementing sustainability

Contrasting views on best approach

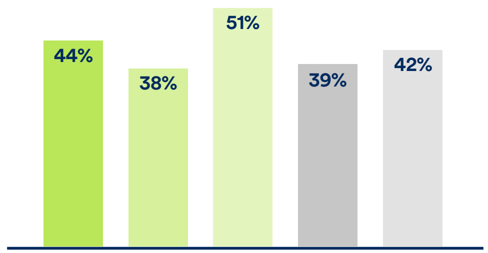
Negative screening remains the most common approach for sustainable investing after integration with 53% of global institutional investors using this approach.

However other approaches are also proving popular, for example, positive screening (44%), active company engagement and thematic investing (both 38%). This indicates a unified approach to implementing sustainable investing is yet to come into place. Taking an active approach to company engagement and stewardship is particularly in favour in North America (44% vs. 38% globally). Thematic investing is most common in Asia-Pacific, where 46% deploy this approach.

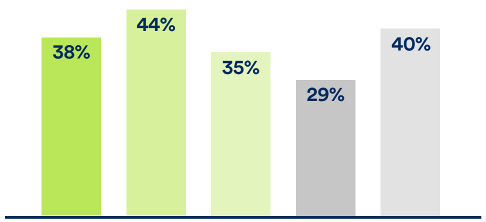
Negative screening – excluding areas such as alcohol, tobacco or weapons manufacturing



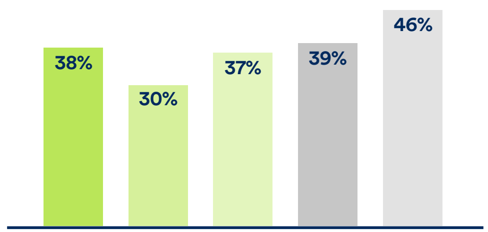
Positive screening – focusing on 'best in class' companies or investments



Active company engagement and stewardship



Thematic investing – using themes/ ideas such as renewable as criteria for selecting assets



- **Global**
- **North America**
- **Europe**
- **Latin America**
- **Asia-Pacific**

Which of the following approaches do you use for implementing sustainability in your funds?

Implementing sustainability

Equities the dominant asset class for sustainable investing

Equities are deemed the most suitable asset class for implementing sustainability. 71% of global institutional investors say equities are the most relevant for sustainable investing, ahead of infrastructure (49%), credit (47%) and real estate (42%).

European investors are more likely to use equities to incorporate sustainability (77%) than investors from Latin America (56%). North American investors are the most likely to consider infrastructure (55%) in comparison to Asia-Pacific investors (39%).

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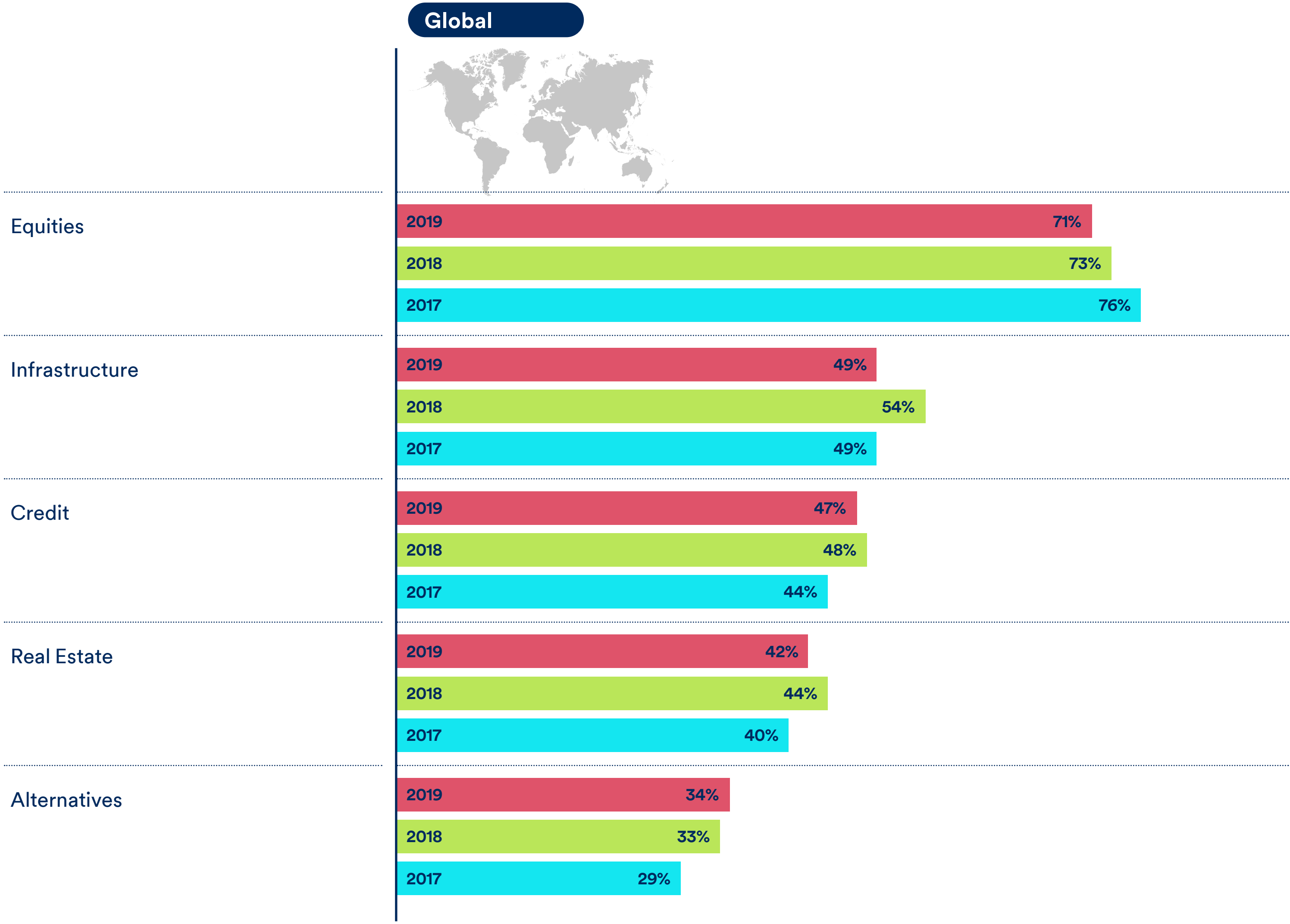
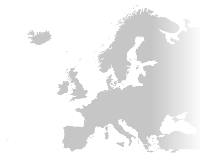


Sustainability is an important consideration in which of the following asset classes?

Implementing sustainability

Equities the dominant asset class for sustainable investing

		North America	Europe	Latin America	Asia-Pacific
					
Equities	2019	68%	77%	56%	71%
	2018	71%	80%	64%	66%
	2017	77%	83%	63%	69%
Infrastructure	2019	55%	51%	50%	39%
	2018	54%	52%	52%	55%
	2017	49%	51%	49%	48%
Credit	2019	42%	50%	52%	45%
	2018	41%	55%	50%	46%
	2017	45%	48%	40%	38%
Real Estate	2019	52%	41%	36%	34%
	2018	46%	44%	30%	45%
	2017	42%	41%	43%	37%
Alternatives	2019	43%	31%	32%	29%
	2018	43%	33%	22%	26%
	2017	43%	26%	34%	21%

Sustainability is an important consideration in which of the following asset classes?

The sustainability challenge

Investing sustainably remains a challenge

Institutional investors continue to face challenges when implementing sustainability. These include deciding on an overall approach and ensuring it aligns with their investment beliefs and objectives.

It is therefore unsurprising that 76% of respondents say investing sustainably is at least somewhat challenging, consistent with the last two years. Yet, the number of investors globally which find investing sustainably 'very challenging' is falling steadily (22% in 2017 vs. 16% in 2019).

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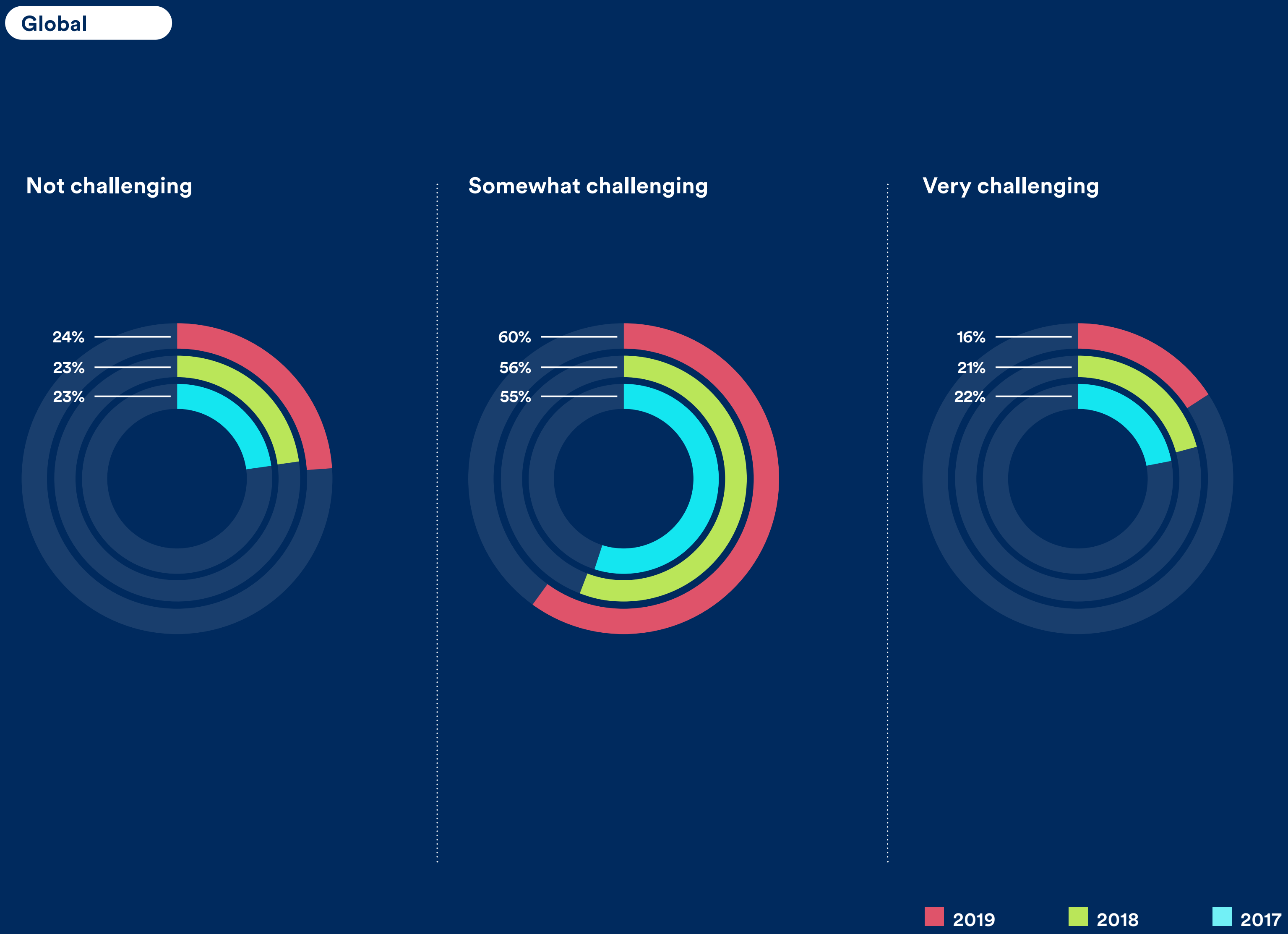

How challenging do you find investing sustainably?

The sustainability challenge

Investing sustainably remains a challenge (continued)

How challenging do you find investing sustainably?

The sustainability challenge

Performance and transparency major hurdles

Performance concerns and a lack of transparency and reported data stand out as institutional investors' biggest challenges, which have remained consistent over the last three years. Less than half of investors globally (48%) point to performance concerns in 2019. But the tide could be turning as, with the exception of investors in Asia-Pacific, fewer institutional investors find performance as much of an issue compared to last year.

Globally there has been a rise in institutions finding risk management and measurement a specific hurdle for adoption over the last three years (28% in 2017 vs. 35% in 2019). About four in 10 global investors cite a lack of transparency and reported data as a specific challenge when investing sustainably. On the other hand, cost has declined in importance from last year (20% vs. 29% in 2018).

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Which, if any, of the following specific factors do you consider a challenge when investing sustainably?

The sustainability challenge

Performance and transparency top challenges (continued)

North America

	Performance concerns	Lack of transparency and reported data	Difficulty measuring and managing risk	Cost
2019	49%	37%	35%	12%
2018	56%	44%	36%	26%
2017	42%	33%	29%	28%

Europe

	Performance concerns	Lack of transparency and reported data	Difficulty measuring and managing risk	Cost
2019	47%	39%	31%	18%
2018	53%	50%	33%	28%
2017	47%	44%	26%	22%

Latin America

	Performance concerns	Lack of transparency and reported data	Difficulty measuring and managing risk	Cost
2019	40%	36%	26%	22%
2018	48%	34%	22%	22%
2017	37%	34%	26%	26%

Asia-Pacific

	Performance concerns	Lack of transparency and reported data	Difficulty measuring and managing risk	Cost
2019	50%	43%	42%	30%
2018	45%	54%	33%	36%
2017	45%	45%	31%	21%

Greater future adoption

Data the key to greater adoption

49% of global institutional investors say evidence of better returns is the main factor which would help increase allocations to sustainable investments. This is more important than greater transparency on reporting (36%) and better sustainability-related benchmarks (34%).

North American investors put more emphasis on data, with 67% saying evidence of better returns from sustainable investments would help bolster their allocations. A further 43% believe better benchmarks would be supportive which is greater than the global average. Some 35% also believe more sustainable data providers would be beneficial, in comparison to European and Latin American investors (18%).

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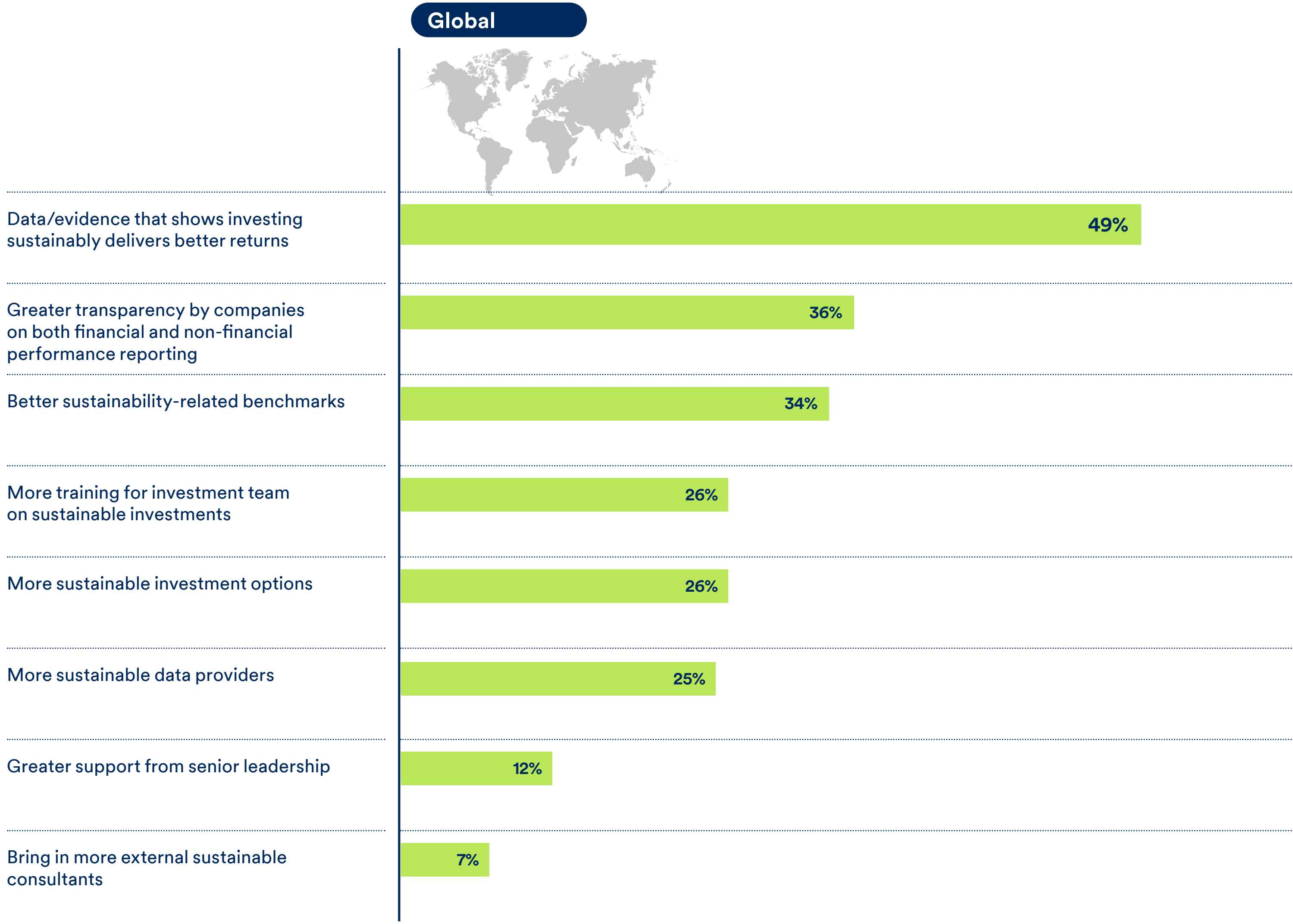
In your opinion, what would help you invest in more sustainable investments?



Greater future adoption

Data the key to greater adoption (continued)

	North America	Europe	Latin America	Asia-Pacific
Data/evidence that shows investing sustainably delivers better returns	67%	42%	36%	45%
Greater transparency by companies on both financial and non-financial performance reporting	38%	37%	28%	35%
Better benchmarks	43%	37%	22%	25%
More training for investment team on sustainable investments	31%	24%	16%	27%
More sustainable investment options	33%	27%	20%	18%
More sustainable data providers	35%	18%	18%	27%
Greater support from senior leadership	9%	12%	16%	15%
Bring in more external sustainable consultants	6%	5%	18%	7%

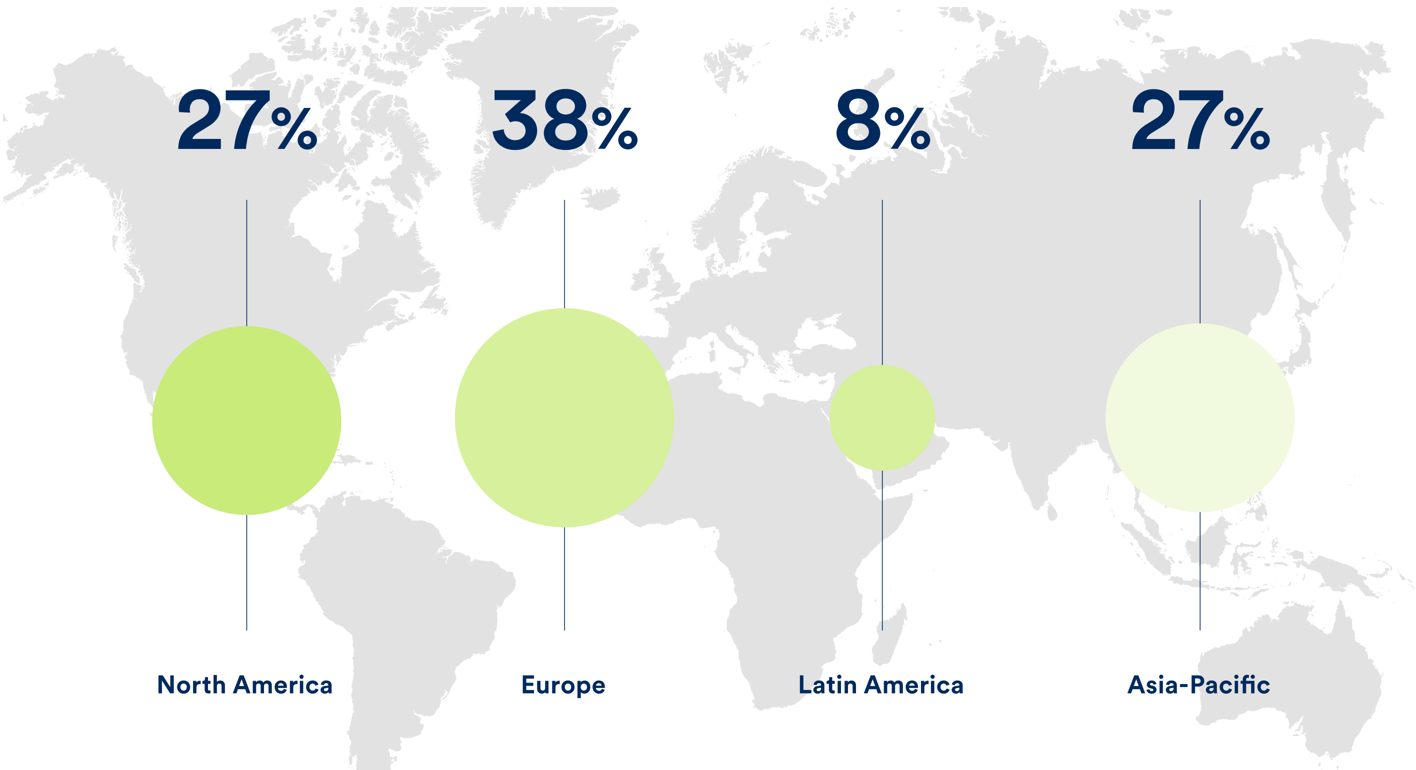
About the Study

Schroders commissioned CoreData to conduct the third Institutional Investor Study to analyse the world's largest investors' key areas of focus and concern including the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

The respondent pool represents a spectrum of institutions, including pension funds, insurance companies, sovereign wealth funds, endowments and foundations managing $25.4 trillion in assets. The research was carried out in May 2019. The 650 institutional respondents were split as follows: 175 in North America, 250 in Europe, 175 in Asia-Pacific and 50 in Latin America. Respondents were sourced from 20 different locations.

650
institutional respondents

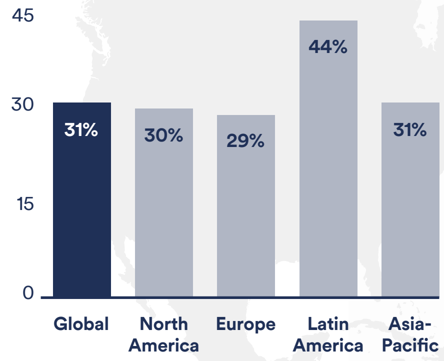
20
different locations



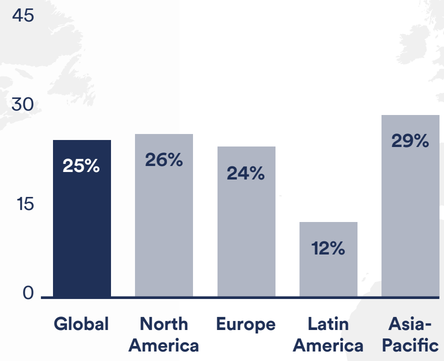
About the Study

Type of organisation

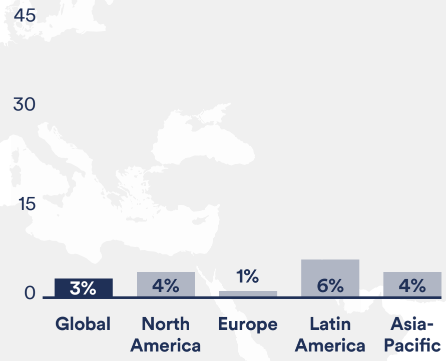
Corporate pension plan



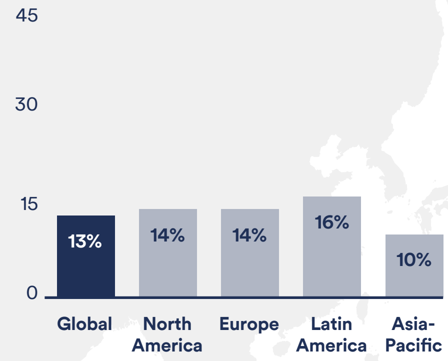
Public or government pension plan



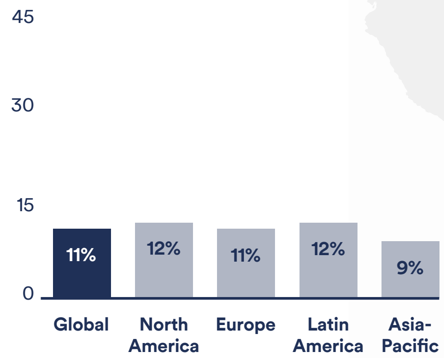
Sovereign wealth fund



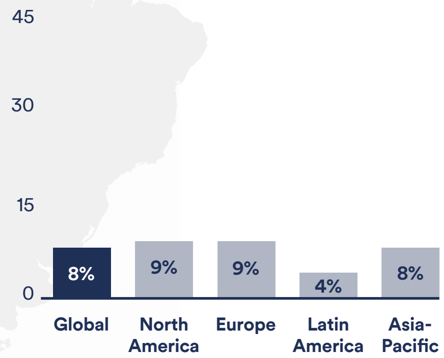
Life insurance company



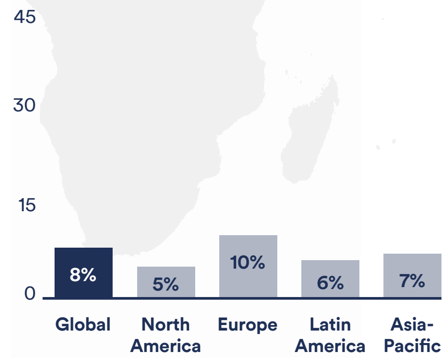
Non-Life insurance company



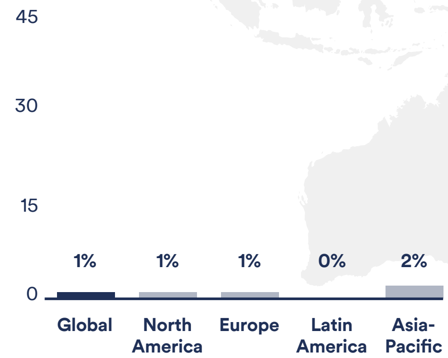
Endowment



Foundation



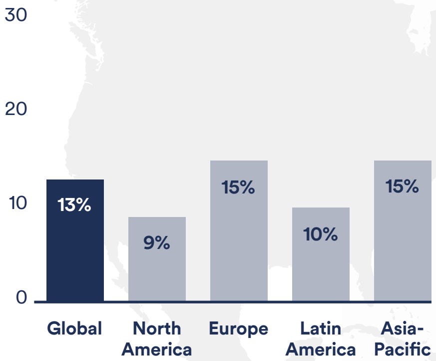
Other



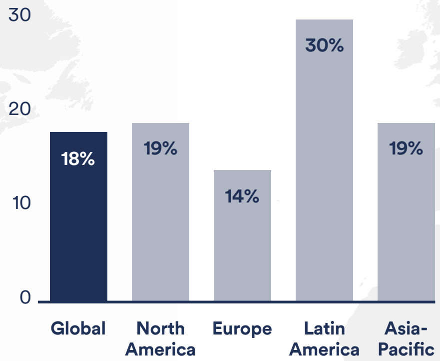
About the Study

Assets under management

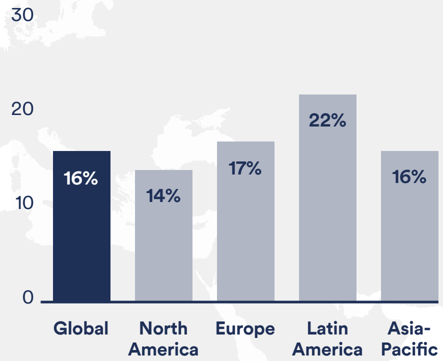
Less than $1bn



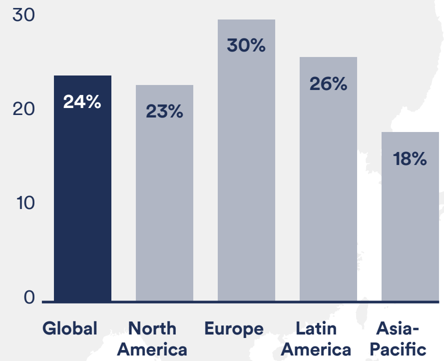
$1bn to less than $5bn



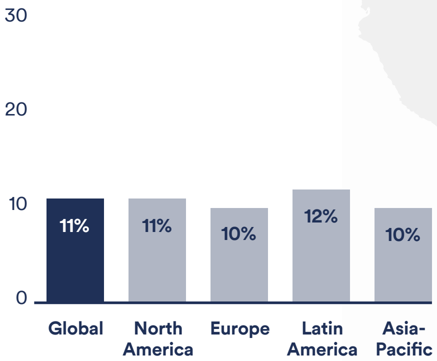
$5bn to less than $10bn



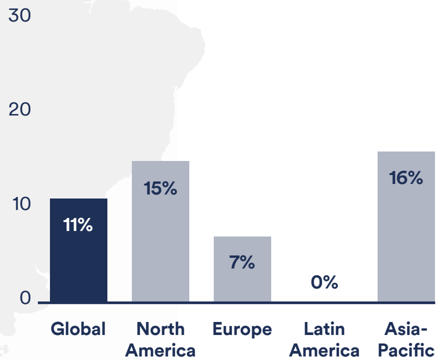
$10bn to less than $50bn



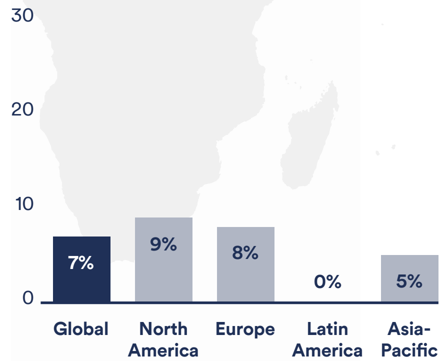
$50bn to less than $100bn



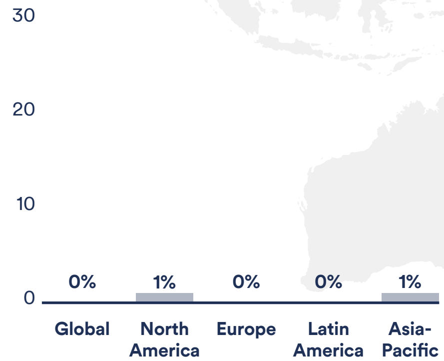
$100bn to less than $250bn



$250bn to less than $500bn



$500bn to less than $1tn



Schroders

EST. 1804

Schroder Investment Management Limited
1 London Wall Place, London EC2Y 5AU, United Kingdom
Tel: +44 (0)20 7658 6000

schroders.com/siis/sustainability

@schroderpension