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Berenberg ESG Survey 2022

SDG and Climate Investing – Exploring Investor Sentiment

A Berenberg Wealth and Asset Management Study

Berenberg

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We operate as a limited partnership with personally liable partners. The personal liability of the owners ensures a particular independence from corporate interests, stringent risk management, and management continuity. Accountability is our guiding principle.

Our longevity is only possible with a business model that focuses on sustainability. We offer a proven sustainability approach for individual and institutional clients, with a dedicated ESG Office in Wealth and Asset Management.

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We would like to express our appreciation to the 156 participants that completed this survey.

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Conviction matters

TOP 3

SDG 16 “Peace, Justice and Strong Institutions” moved up to third most important SDG.

Compared to 2021:
57 %
increase of respondents weighing financial returns over impact.

PART 2: Climate Change and Investing

Advocacy matters

43 %
see personal beliefs …

42 %
see regulation and reporting …

only **14 %**
see risk & return considerations …

… as the most effective driver for climate change investing.

Engagement
most useful tool

Divestment
least useful tool

PART 3: Future Considerations

The direction of travel matters

49 %
expect ESG will become more standardised through regulation.

87 %
are comfortable with investing in a company that has poor ESG scores but expresses commitments to improve.

Executive Summary

This year, we focus our 2022 ESG survey on climate change. Last year, COP 26, concluded in November 2021, had the main goal to secure global net zero mid-century and keep a maximum of 1.5°C of warming within reach. As we discussed in last year's survey, 2021 saw an acceleration of ESG considerations moving to the fore for many market participants following the outbreak of, and acclimatisation to, COVID-19.

Ongoing engagement with ESG has, perhaps, been stymied by the emergence of very different macro factors during 2022. Russia's invasion of Ukraine has commanded headlines for most of the year, preceded beforehand by questions over supply chain issues and COVID-19 lockdown policies. With this backdrop, our survey has found changes in investor perceptions of ESG as well as their views towards climate change factors in investing.

Our observations are as follows:

1. There has been an adjustment in the way in which investors weigh impact and returns, as well as the SDGs they find most important. We believe this can be attributed to the significant geopolitical events of 2022. It is a timely reminder of the degree to which the prevailing macro environment influences short-term priorities. This is perhaps most evident by the finding of SDG 16 – Peace, Justice and Strong Institutions rising in importance amongst respondents.

2. Governments and consumers are perceived to be most influential in leading climate change actions. This points to the critical role of advocacy and engagement with personal beliefs as a pull factor and regulatory requirements as a push factor for climate investing.

3. Environmental issues remain a consistent concern and focus for investment whilst social issues tend to be overlooked. We believe this is not only due to the pervasive and worsening nature of climate change, but also due to the market's ability to better measure and manage environmental factors. Nevertheless, risk and return considerations are not yet dominant drivers for incorporating climate change within investing.

4. Demand for ESG investments continues to develop with evidence that investors are willing to support companies in transition, together with the acknowledgement that ESG regulation will result in greater standardisation.

Introduction

We are delighted to share with you the third edition of Berenberg Wealth & Asset Management's ESG survey.

Whilst 2021 saw an acceleration of ESG considerations moving to the fore for many market participants following the outbreak of, and acclimatisation to, COVID-19, in 2022 supply side constraints exacerbated by Russia's invasion of Ukraine and ongoing lockdowns in China have led some to question, and others to affirm, their approach to ESG and investing[1].

This years' survey builds upon our previous ESG surveys conducted in 2018[2] and 2021[3]. It was completed by 156 participants across the investment community and those that provide ancillary services to investors with c. 89 % having average or above average knowledge regarding ESG investing. The participants are largely based in the UK and Germany and answered the survey in the context of public market investments.

This years' survey expands the topics explored such as the consideration of climate change in investment decisions and, where significant, compares the difference of opinions between geographies or investor groups.

The results of the survey are discussed in three parts:
1. the United Nations' (UN) Sustainable Development Goals (SDGs) and investing;
2. climate change and investing;
3. future considerations regarding ESG

Part 1 revisits some of the questions that were asked in previous years and compares the data between them. Part 2 explores views on climate change and how it may influence investment preferences. The final part 3 includes insights into what participants believe is most overlooked in ESG investing, how comfortable respondents feel investing in securities with low ESG scores and how respondents view the influence of regulation on the evolution of ESG.

Should you wish to discuss any of the findings in this survey, feel free to contact esgoffice@berenberg.com or your Berenberg Investment Advisor directly.

We hope you enjoy the read.

Berenberg Wealth and Asset Management

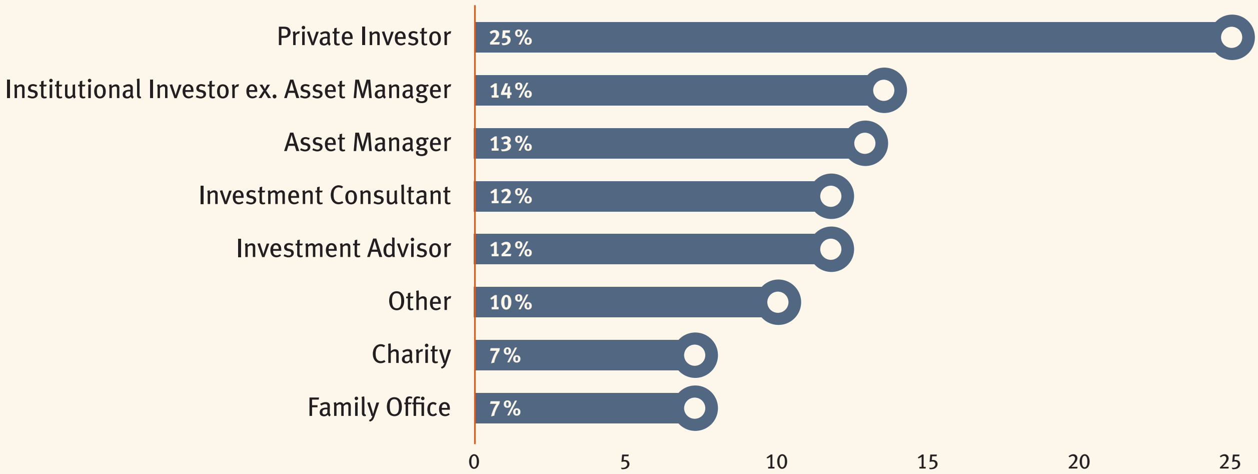
[1] This publication may refer to sustainable investing and ESG investing interchangeably. We consider them both as broad terms which cover all sustainability/ESG integrated investment strategies such as negative and positive screening and ethical investing. Although impact investing is also a form of sustainable investing, the term is specifically used for an investment strategy with the aim of driving positive change for society and/or the environment.
[2] The full report can be found here: 'Understanding the SDGs in sustainable investing'
[3] The full report can be found here: '2021 Berenberg ESG Survey: Exploring investor sentiment'

Survey Design

The survey was conducted online and on an anonymous basis. It was sent to participants across the investment community to gather broad insights from a variety of investor groups. This year's survey design allows to differentiate respondents according to their level of ESG knowledge based on a self-assessment in the questionnaire.

The responses were collected in the context of public market investments. The survey results are based on 156 respondents and the results can be disaggregated as follows:
- by investor group;
- by geographical location; and
- by ESG knowledge

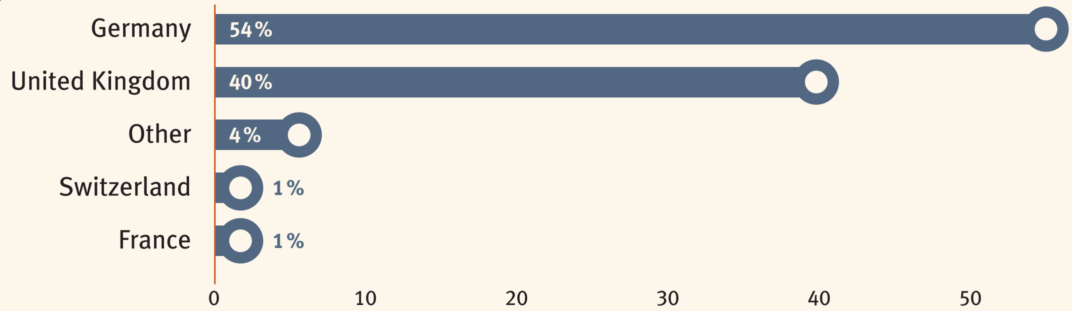
Respondents by investor group
N=156



Participants who listed themselves in "other" (see graph above) include accountants, trustees as well as participants who preferred not to say.

Respondents by geographical location

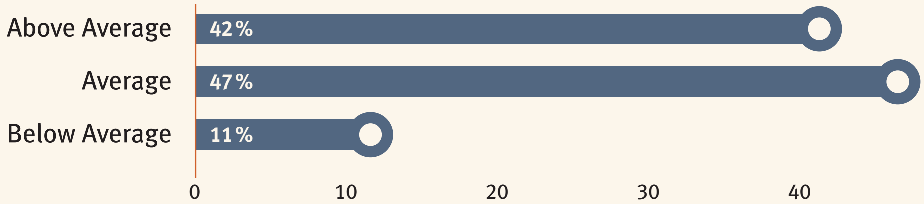
N=156

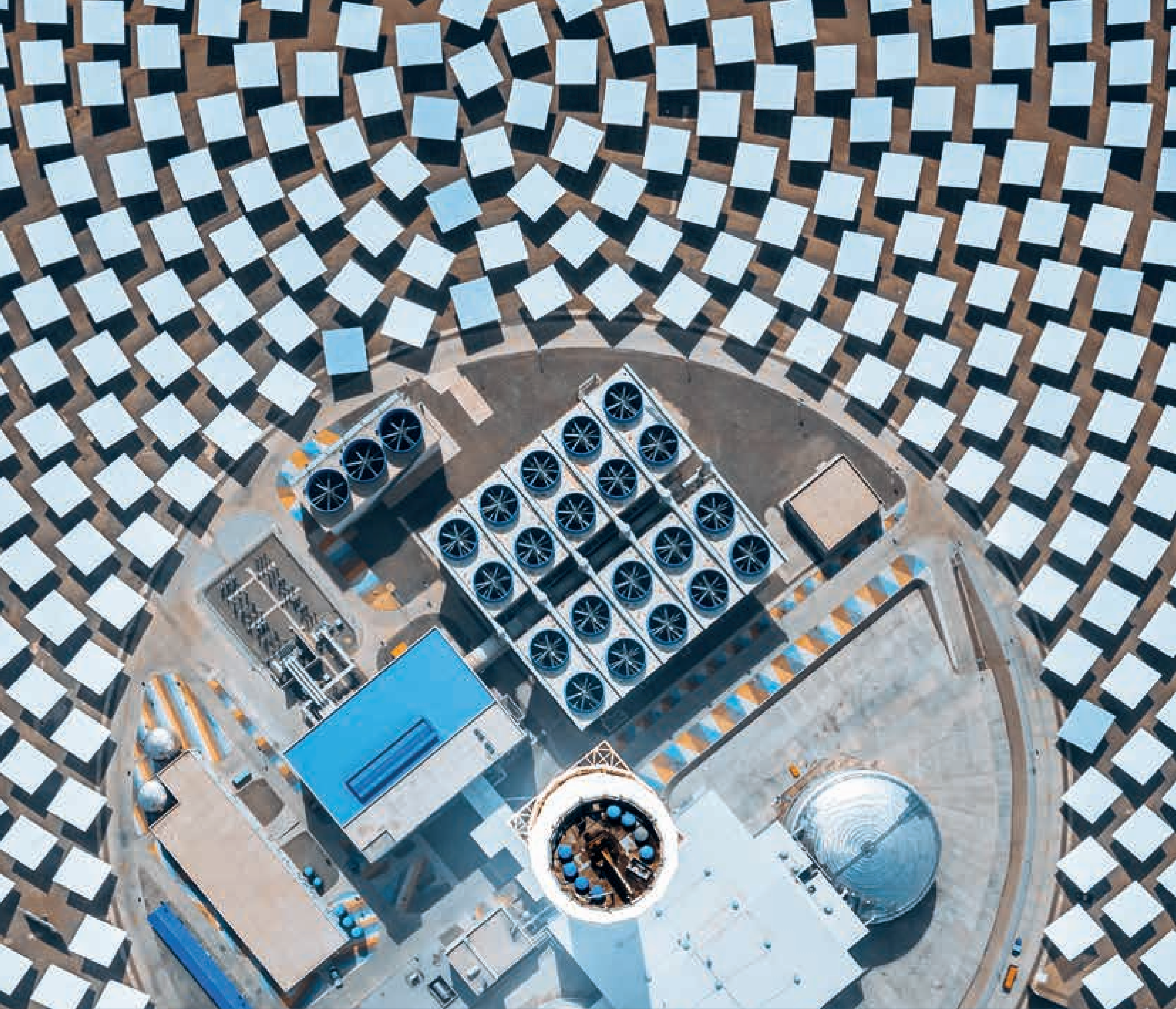


"Other" participant locations (see graph above) include Austria, Finland, Ireland, Italy, Luxembourg and the US. Please note that when disaggregating by geography, we commonly refer to the "UK respondents" and the "German respondents", as these are by far the largest respondent groups within the survey.

Respondents by ESG knowledge

N=156





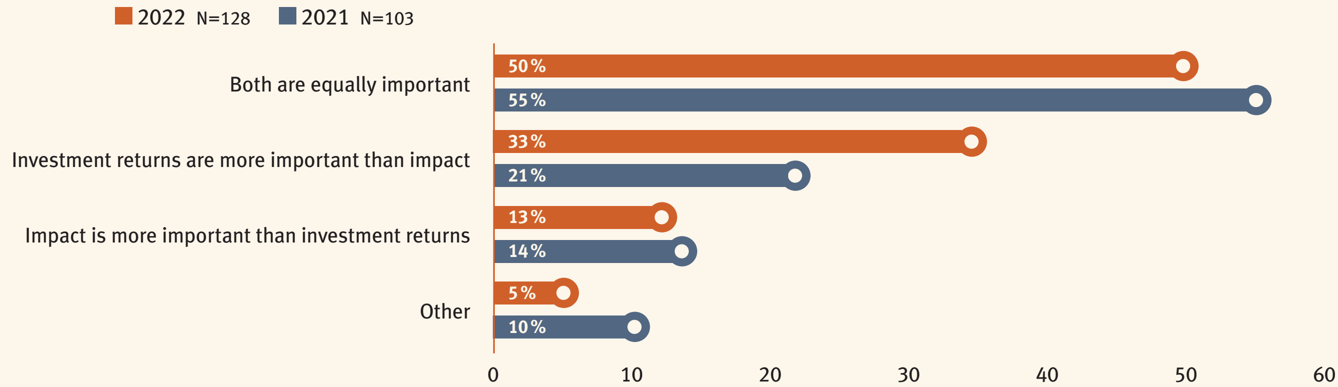
PART 1

The Sustainable Development Goals (SDGs) and Investing

The United Nations' Sustainable Development Goals represent a blueprint to address key global and sustainability challenges. While the 17 goals and their 169 sub-targets are aimed at governments, they have been adopted by some in the financial industry as a universal framework to direct capital towards projects, products and services that address the SDGs. The UN Commission on Trade and Development estimates that the level of investment needed to achieve the SDGs will be $5 to $7 trillion per year on average, over 2015-2030 globally.[4]

How do you rank investment returns and the impact of your investments on the environment and society?

Data may not sum to 100 % due to rounding



As can be observed against last year's results, the consideration of impact and investment returns in terms of importance follows broadly the same order of last year. However, relatively less respondents consider both investment returns and impact as equally important. The importance of investment returns over impact has increased by 57 % compared to 2021, which may be attributable to the change in financial market conditions during 2022. Interestingly, the proportion of respondents selecting impact over returns in terms of their importance remains almost exactly level, suggesting a consistent view over time.

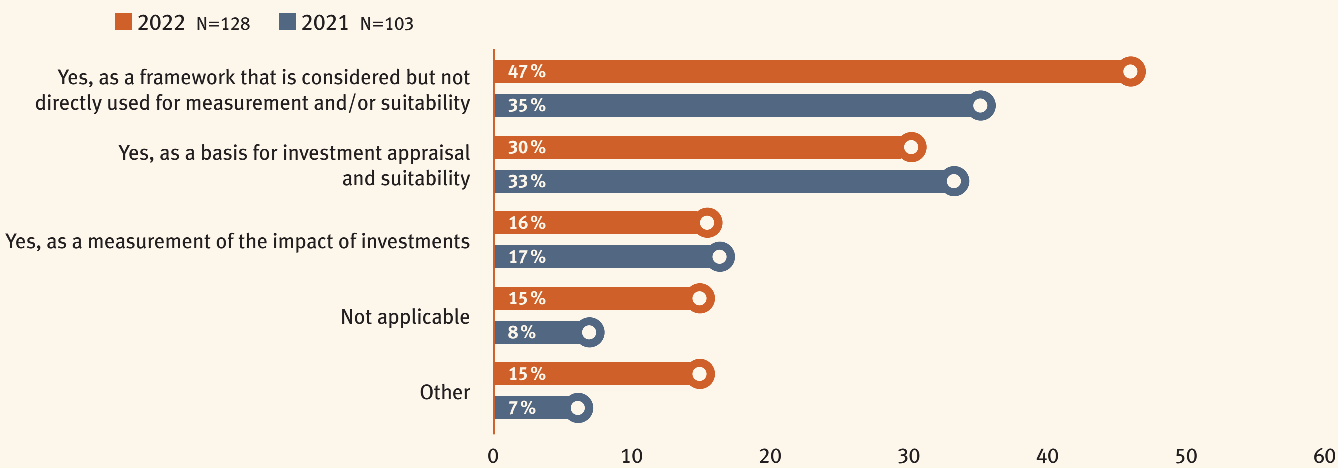
One respondent commented[5]:

"They are both important, but it is very difficult to measure impact (also impact from whose perspective? There is often both negative impact for some stakeholders and positive impact for others), whereas investment returns are very easy to measure. In the absence of anything objective, I would prioritise investment returns. If market forces truly work, those with an unsustainable model should generate poor return."

UK-based family office service provider

Do you incorporate the SDGs into your investment process? If so, how?

multiple selection was permissible in 2022



[4] "Investors and the Sustainable Development Goals", available at: www.unpri.org/sustainable-development-goals/investors-and-the-sustainable-development-goals/304.article

[5] Please note that quotes from the respondents have been edited for brevity and clarity.

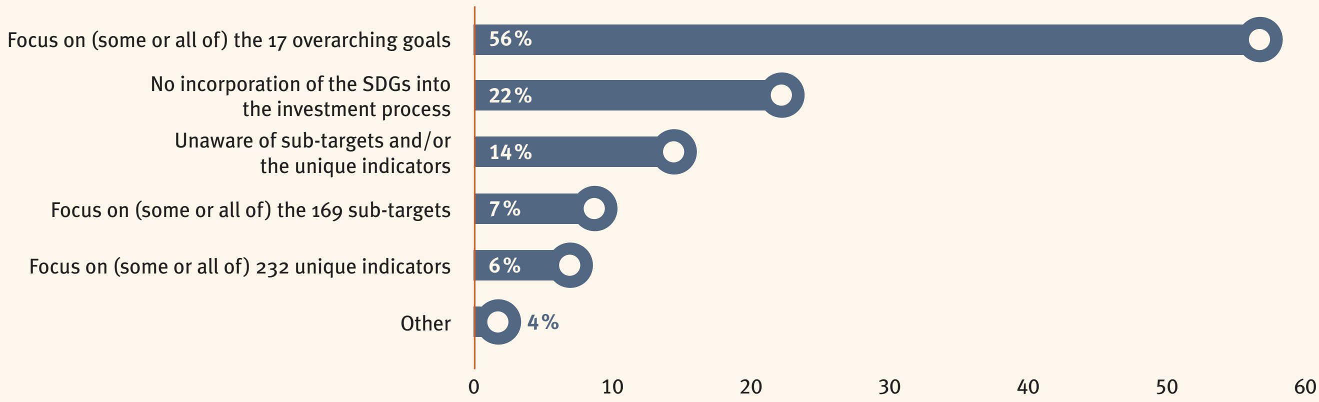
Most participants continue to 'consider but not directly use' the SDGs in their investment process, indicating that they have a role to play in ESG-related investments, but their application continues to be a work-in-progress. When disaggregating the data by investor group, we see a deviation to last year's findings: While private investors continue to use the SDGs as a way to frame investment preferences, fewer asset managers compared to last year use the SDGs to measure impact.

Although companies have adopted the SDG framework, it is still not widely used by investors in their investment decision-making. This may be due to the continuing development and understanding of the SDGs, and their applicability in a public market context. It is important to also consider the net impact value that a company can deliver above and beyond solely aligning to an SDG from a thematic perspective.

Another key consideration that we believe is increasingly important in the realm of ESG investing is the subject of benchmarks. Especially in the context of impact, a core concept is 'additionality' – a factor that needs a counterfactual or an appropriate benchmark. When using the SDGs to achieve impact via investments, it is difficult to measure or monitor without an appropriate benchmark, especially in a public market context.

To what level of granularity do you/would you incorporate the SDGs in the investment process?

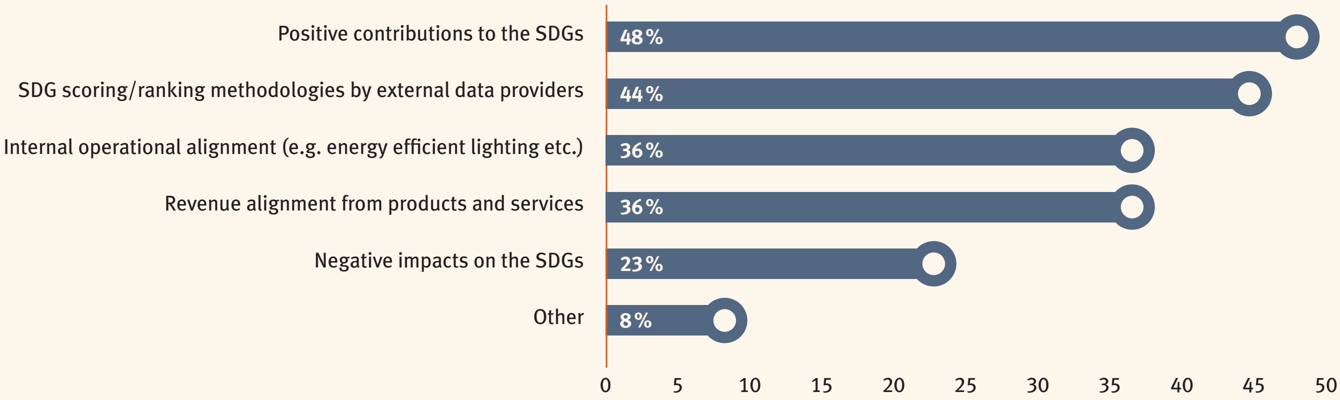
N=136 Multiple selection was permissible



When examining the extent to which respondents use the SDGs in investing, respondents were asked if they consider the more granular levels of the SDGs, i.e. the sub-targets and the target-specific indicators. We found that **most respondents focus on some or all of the 17 overarching goals and only a minority considers the 169 sub-targets.** When disaggregating the responses by investor type, we find that private investors were least aware of the sub-targets.

How do you/would you measure the impact of investments on the SDGs?

N=124 Multiple selection was permissible



When examining how participants prefer to measure an investment's impact on the SDGs, we found that most respondents would seek to **measure the positive contributions to the SDGs,** which is in line with last year's findings.

In Germany, respondents showed a greater preference to align to the SDGs based on a company's internal business operations (54 %). In the UK, however, 49 % of participants prefer a positive contribution towards the SDGs while internal operational alignment is considered less important (16 %). On an aggregated basis, the second most popular answer option was 'SDG scoring/ranking by external data providers', which could indicate that investors (and especially institutional investors including asset managers) have **a preference to outsource their impact measurement.** External data providers, in turn, often carry out both types of measurement, i.e. revenue alignment and internal operational alignment.

An investment's impact on the SDGs is measured in various ways, but often refers to the two mentioned ways, i.e. revenue alignment mapping as well as internal operational alignment. Revenue alignment is usually calculated based on a company's products and services and the respective revenues generated by them. For example, a company that produces specific water treatment solutions, which in turn help customers to re-use water, will often be considered to have a positive impact in terms of its alignment with SDG 6 – Clean Water and Sanitation. However, for some SDGs, a company's impact can be assessed more effectively if measurement is based on a factor beyond its products and services. For example, a company that actively strives to achieve gender equality and inclusiveness in the workplace may be assessed as having a positive impact in terms of SDG 5 – Gender Equality.

For an external party, assessing a company's internal operational alignment to the SDGs might be more complex than revenue alignment as it involves understanding a company's operational workings. However, by companies themselves the of SDG alignment based on their internal business operations might be perceived as easier to achieve and measure.

The survey results clearly show that both ways of measuring an investment's impact on the SDGs – i.e. revenue alignment as well as internal operational alignment – are meaningful to investors, which suggests that even though a company may have products or services that positively align with the SDGs, it is **important for investors that the company also aligns to the SDGs via its business practices.** As one respondent commented:

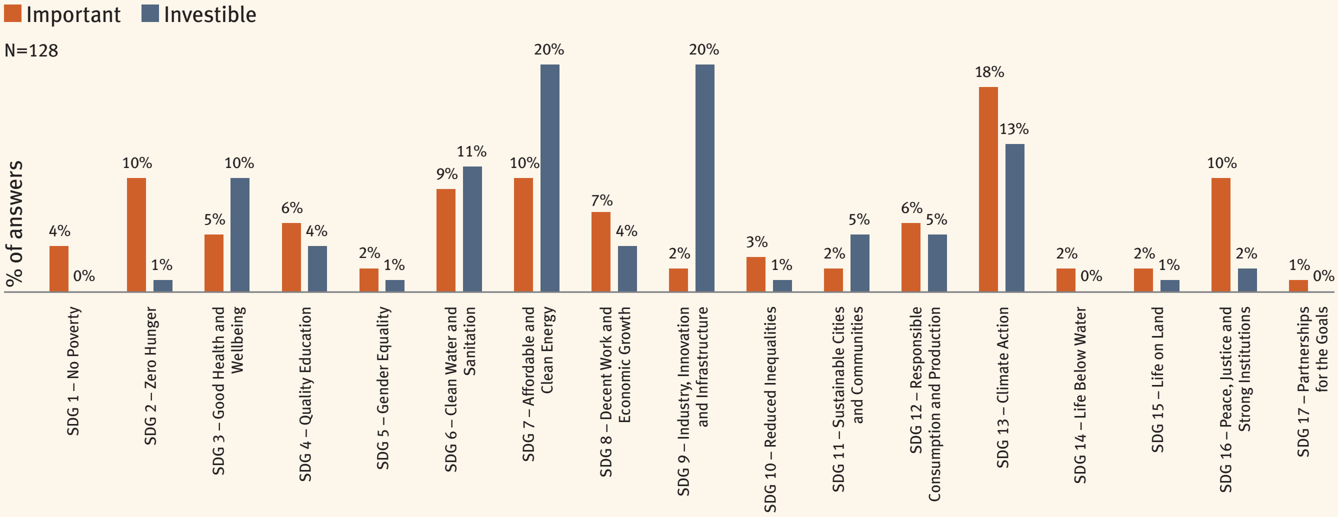
> *"For optimal and genuine measurement, there is no one-size-fits-all solution, as each SDG needs various measurement techniques; an example of this would be investing in climate solutions for clean energy versus buildings for industry and innovation. There can be co-benefits unlocked from a single investment, but there are many ways to measure these."*
> UK-based wealth manager

We asked the following two questions consistently over the last years:

"Select the three SDGs that you believe are most important" and

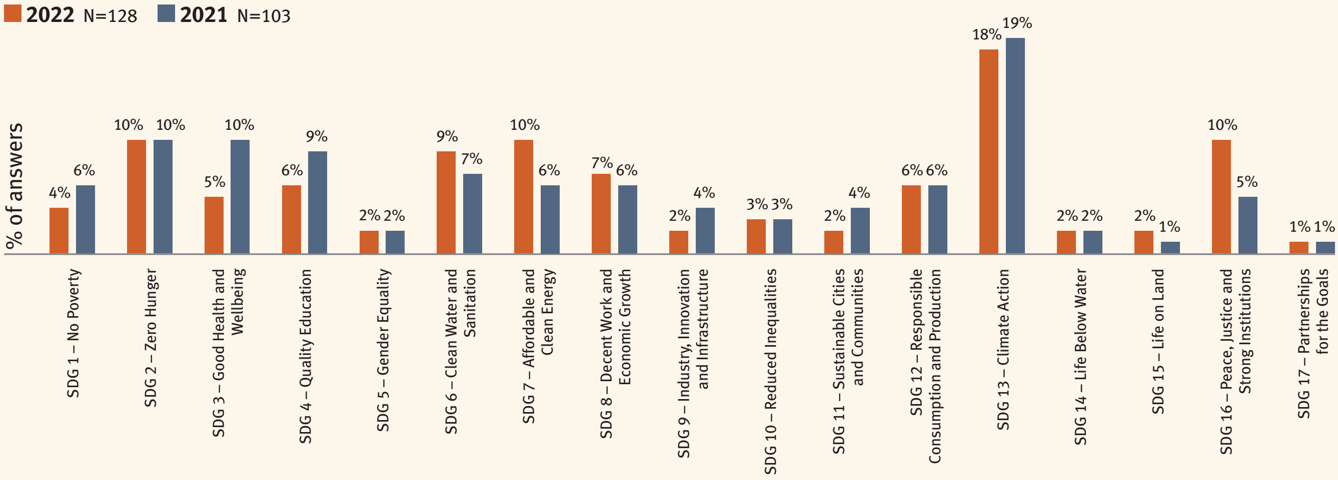
"Select the three SDGs you believe are most investible".

Respondents' top 3 SDGs they consider most important vs. most investible



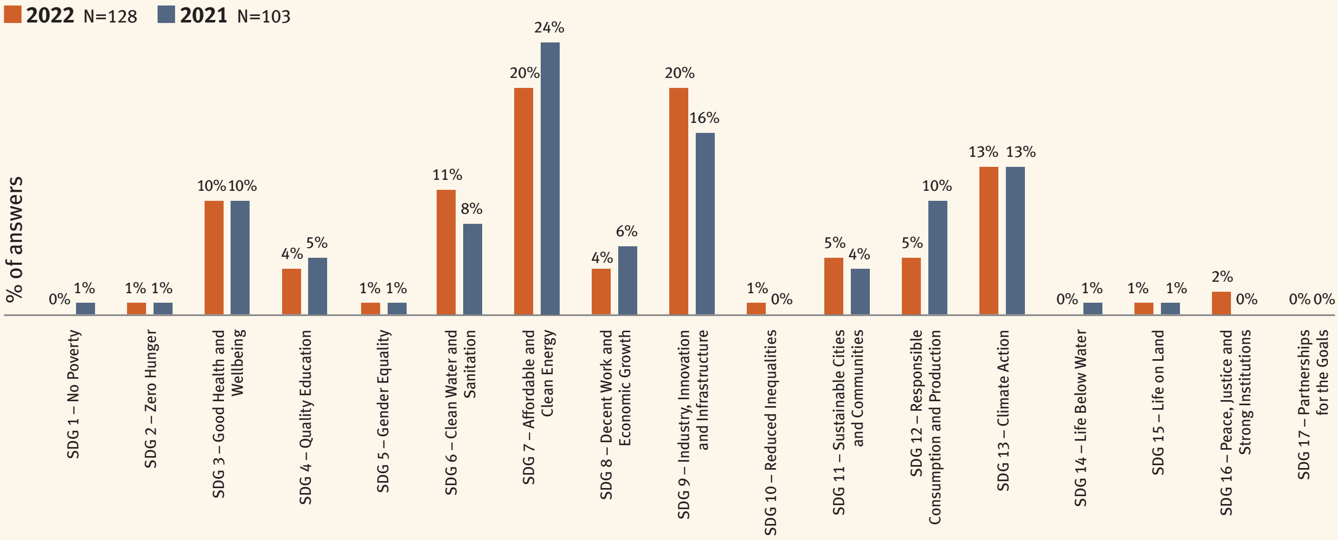
Differences remain between what participants believe is most important vs. most investible. For environmental and climate change-related topics importance and investibility, however, align well (SDG 6, SDG 7, SDG 13) in terms of their positioning in the top 3 of most important and most investible.

Respondents' top 3 SDGs they consider most important in 2022 vs. 2021



Comparing respondents' considered **importance of the SDGs** between 2022 and 2021, some **shifts of opinion have emerged.** SDG 7 – Affordable and Clean Energy has risen in importance, which could point to the current energy crisis. Further, SDG 16 – Peace, Justice and Strong Institutions has almost doubled in importance compared to 2021, which we believe is a consideration of, and reaction to, Russia's invasion of Ukraine. On the other hand, SDG 3 – Good Health and Wellbeing decreased in importance, perhaps mirroring a diminished focus on health aspects compared to last year, where COVID-19 prompted participants to place greater emphasis on health considerations. These findings suggest that **investors are heavily influenced by geopolitical and macroeconomic events,** which could potentially affect their investment decisions.

Respondents' top 3 SDGs they consider most investible in 2022 vs. 2021



Regarding **investibility**, respondents largely followed the **same pattern of last year**, suggesting that what is considered investible remains consistent over time.

From both newly emphasised SDGs in terms of importance, namely SDG 7 and SDG 16, the latter stands out given that it is still not broadly considered as investible. As SDG 16 aims at multi-lateral collaborations between governments and institutions, where investors have limited influence, there are **hardly any direct opportunities to invest** in the context of public market securities. Nevertheless, Russia's invasion of Ukraine has sparked discussions about specific sectoral ESG exclusions and has made ESG investors question aspects of their sustainable investing strategies. Two investment-related areas come into focus:

- **Defence sector:** Russia's invasion of Ukraine has sparked discussions around whether investments in the defence sector can be evaluated as neutral or even as positive from an ESG perspective. Those who think they can, argue with the need for security and stability that only companies operating in the defence sector can provide. However, this does not seem to be the dominant view as defence exclusions remain strongly prevalent in ESG funds.
- **Replacement of energy sources:** Replacing Russia's supply of gas to Europe with an alternative source has been a political priority for European governments since the beginning of the war. The ongoing shift to renewable energies has now become a matter of national security as governments try to eliminate gas supply as a tool of political leverage. The recent inclusion of natural gas and nuclear energy as a "sustainable" investment in the EU Taxonomy has highlighted the challenges: Opponents argue that the inclusion of gas and nuclear energy steers much-needed investments away from renewable energies and leads to upholding environmentally harmful energy sources. However, proponents believe that these investments are needed not only to cut carbon emissions but also to accelerate Europe's independence from Russian gas.

In light of such shifts in opinion, one respondent commented:

"The different interpretations of such rules is time-dependent, i.e. when we are at war, arms manufacturers are good, when the heating is off, oil companies are good, when food runs out, glyphosate is declared key."

Germany-based asset manager

This comment highlights an important point: the **conflict between short-term issues that define the focus of the public debate (as evidenced by SDG 16 rising in importance this year) vs. long-term objectives which many ESG investments and particularly climate-related investments often require.** ESG discussions tend to be contextualised by current events and, thus, while translating them into investment decisions and priorities, we should distinguish between addressing short-term issues and long-term objectives.

PART 2

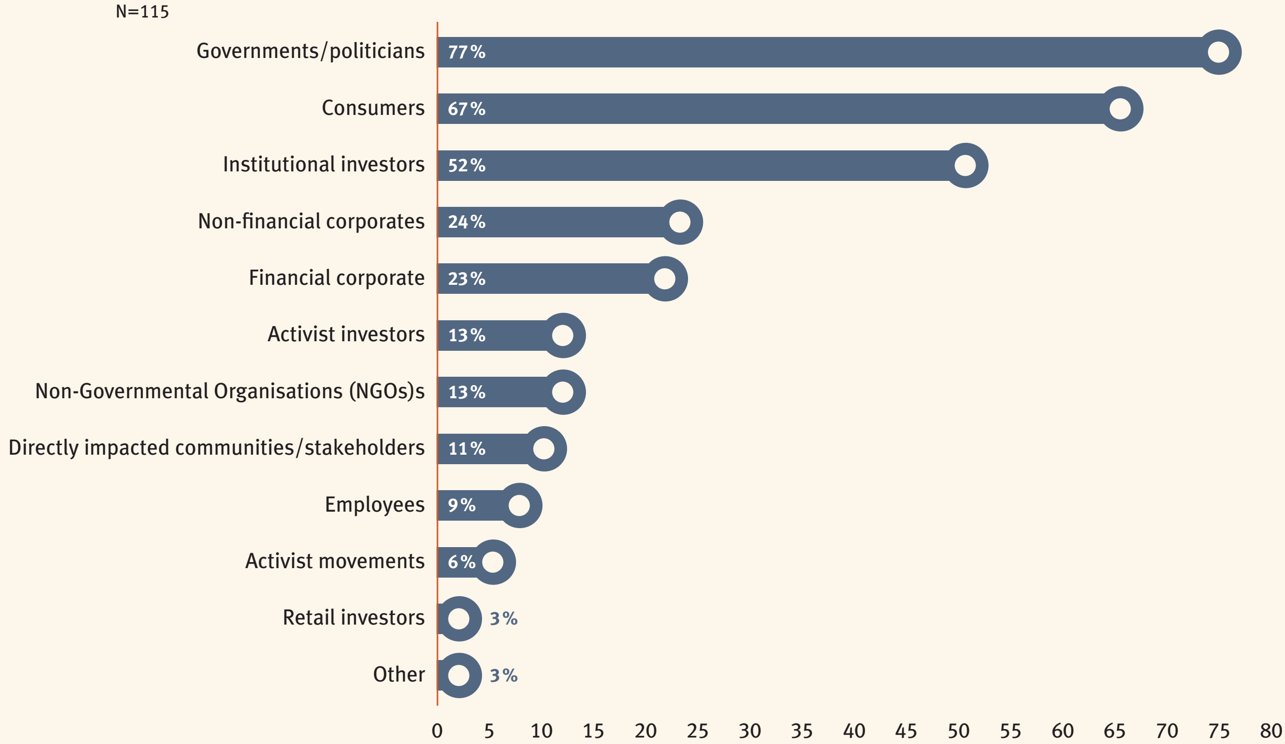
Climate Change and Investing

As a focus of this years' survey, and following the events of COP26, we chose to look at climate change and investing. We wanted to explore the current state of climate change investing by looking at investors' preferences as well as the effectiveness of climate-related investing drivers and tools. Further, we examined the importance of climate change targets, both at a product and an organisational level. We have found that investors acknowledge the increasing importance of climate change considerations in their investment decisions mostly out of personal beliefs rather than risk and return considerations.

We started the climate change investing part of our survey with a general question: which stakeholder groups did our respondents believe to have the most influence in mitigating climate change?

Which 3 stakeholder groups have the most influence in mitigating climate change?

N=115



Most respondents believe that governments/politicians, consumers, and institutional investors are the most influential stakeholder groups to mitigate climate change. Interestingly, despite their visible presence in the media, activist investors, activist movements, and non-governmental organisations were considered less influential. Disaggregating the data between investor groups shows that asset managers most frequently considered consumers to be the most influential group followed by governments/politicians, whereas all other investor groups chose governments/politicians most frequently. Generally, we found that few of the respondent groups selected themselves as having the most influence in mitigating climate change, which ties into the remark of one respondent commenting on the necessity for all stakeholders to 'do their part':

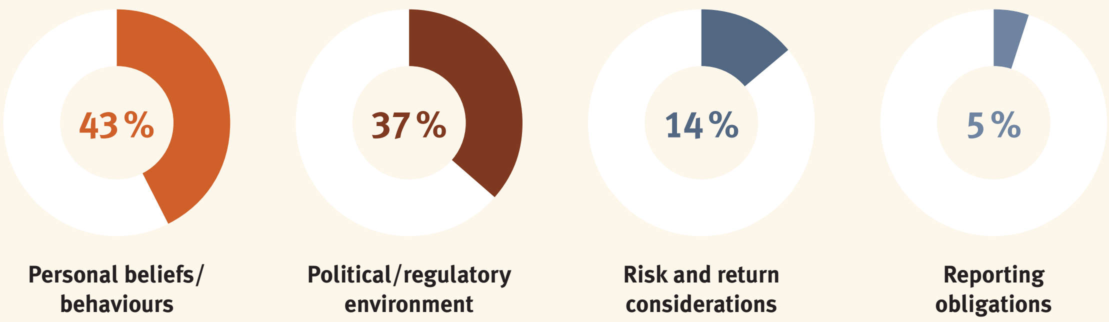
"Each person can mitigate climate change with his or her own behaviour; simply pointing at others is not helpful."

Germany-based asset manager

Asking respondents which driver they considered to be the most effective for incorporating climate change factors into investing, we found that **the most effective driver for incorporating climate change into investments are personal beliefs or behaviours, followed by the political or regulatory environment. Risk and return considerations, on the other hand, were only chosen by 14 % of respondents as the most effective driver to incorporate climate change considerations into investments.** Disaggregating by investor type, we found that only 9 % of institutional investors (including asset managers) surveyed believed risk and return considerations to be the most effective driver, whereas 15 % of the private investors surveyed believed risk and return considerations to be the most effective.

What do you believe is the most effective driver of incorporating climate change factors in investing?

N=115 1 % of respondents marked "Other".



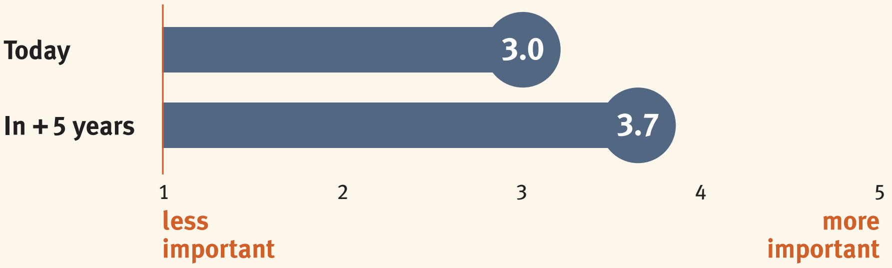
The dominant role of personal beliefs as well as governments and consumers being considered as the most influential stakeholder groups to mitigate climate change (see above) points to the **critical role of advocacy** where personal beliefs act as a pull factor and regulatory requirements as a push factor for climate-related investing.

We find the relatively small percentage of respondents choosing the option of risk and return considerations as particularly noteworthy. Given the unequivocal risks of climate change laid out by scientific organisations such as the Intergovernmental Panel in Climate Change (IPCC), this finding suggests that investors may struggle to fully incorporate financial risks arising from climate change.

As SDG 13 – Climate Action and SDG 7 – Affordable and Clean Energy rank as the most important of all 17 SDGs (see Part 1), this points to the two typical dilemmas faced by climate change as a whole: firstly, despite widespread belief in climate change and significant concerns about its consequences, individuals may find it challenging to incorporate these concerns on the level of individual behaviour. Secondly, individuals may neglect the necessity to act instantly, because the irreversible consequences of climate change can appear far-off or intangible. **If investors don't recognise imminent financial risk for their portfolios, they might be more inclined to incorporate climate change factors due to personal beliefs.** A different perspective on the results could relate to personal beliefs already including risk and return considerations; this however, could point to a vague understanding of the matter.

Although various research and calculation methods have emerged in recent years to help assess climate risks within portfolios, the responses to our survey would suggest that there is some uncertainty about how investors should accurately incorporate climate change from a financial perspective.

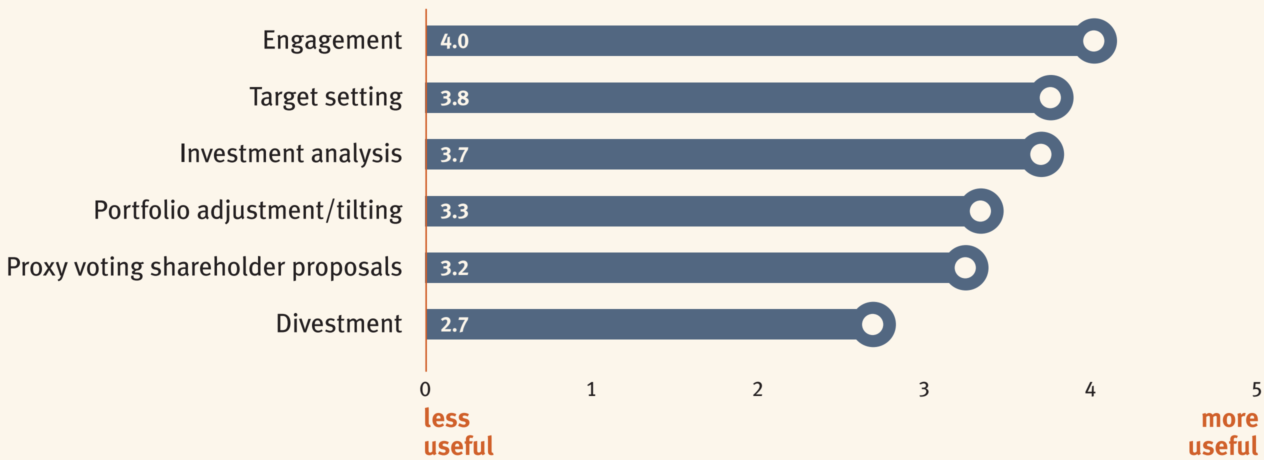
How important are climate change considerations in your investment process and/or in investment preferences today and in +5 years time?
(1 being least important, 5 being most important)
N=115



The tendency to put off climate risks as a task to be tackled in the future was confirmed by the responses to the question addressing the importance of climate change considerations in respondents' investment decision today in comparison to their consideration in investment decisions in 5 years' time. On a scale ranging from 1 to 5, respondents on average view the **importance of climate change in investment decisions currently at 3.0, whereas its importance in +5 years is seen to increase on average to 3.7.** The difference between the importance now and the importance in +5 years is statistically significant.

Generally, UK respondents rank the importance of climate change in investment considerations on average higher than German respondents. The difference, however, is statistically significant only for the consideration of respondents' investment decisions today and could point to already existing UK legislation for investors to incorporate climate ambitions following COP 26.

Please rank each instrument in terms of its usefulness in addressing climate-related aspects in an investment approach:
(1 being least useful, 5 being most useful)
N=115



When exploring the various tools to incorporate climate change factors into investing, around **70 % of respondents chose engagement[6] as the most useful instrument to address climate change in an investment approach,** with an average of 4.0 on a scale ranging from 1 to 5. Further effective drivers are target setting with an average of 3.8 and investment analysis with an average of 3.7. Divestment, on the other hand, was considered to be the least useful instrument with roughly 50 % of respondents marking it as this with an average of 2.7 on a scale ranging from 1 to 5.

Engaging with invested portfolio holdings on climate-related aspects via dialogues and voting activities allows for actively pushing companies in their efforts to start transitions and to become climate neutral – a lever that is out of scope for investors divesting specific companies or sectors altogether. **The results, thus, showcase the perceived relevance of active ownership activities and, again, points to the necessity of climate change advocacy. Divestment might seem limited in terms of the ability to support positive change in companies.**

The effectiveness of using portfolio adjustment/tilting is considered relatively low with an average of 3.3 on a scale ranging from 1 to 5. This aligns with the earlier result regarding low importance attributed to risk and return considerations for incorporating climate change factors into investment decisions: **Investors would not adjust portfolios if they do not perceive climate change as an immediate risk to their portfolios.**

On the subject of climate targets, we examined their application on an organisational level and their importance to investors. We asked institutional investors participants[7] to provide insights into the current state of climate-related targets in their organisation. A range of answers emerged, differing in parts greatly between the UK and German investors. **28 % of UK respondents set targets for the entire investment portfolio,** whereas only 5 % of German respondents follow this approach. **27 % of German respondents state that they set overall targets for internal operations as well as the entire investment portfolio,** whereas 0 % of UK respondents chose this option. Further, 18 % of **German respondents are currently in the process of obtaining management/board approval of climate-related targets,** whereas no UK respondent currently has such targets pending.

Generally, there is a clear **preference towards setting targets at the portfolio level over setting targets for internal operations –** which, although it is requested increasingly by various clients, is not surprising given the fact that institutional investors' impact is more significant through their respective portfolios rather than their organisation's operations.

[6] "By 'engagement' we refer to active exchanges with companies and issuers on ESG issues."
[7] Institutional investors in this case refer to asset managers as well as other institutional investors such as e.g. endowment funds. N = 40.

We then explored all respondents' preferences for climate targets at an organisational level.

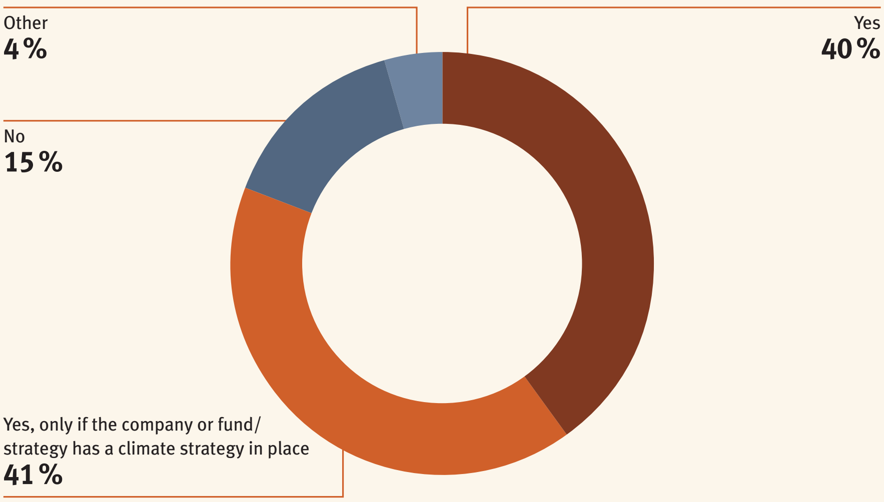
We found that the **overwhelming majority (81 %) would invest in products even if the product offering organisation has not set its own climate targets.** Half of these respondents (41 %), however, attach this to the condition that there must be a climate strategy at the fund/strategy level in order for them to invest. This suggests that climate targets at the organisational level are considered to be an additional benefit but not a requirement for investment. **Consistent with above finding, there is a prevailing focus on the investment portfolio rather than on the business operations.** Further, the importance of effective implementation of targets was mentioned, as one respondent noted:

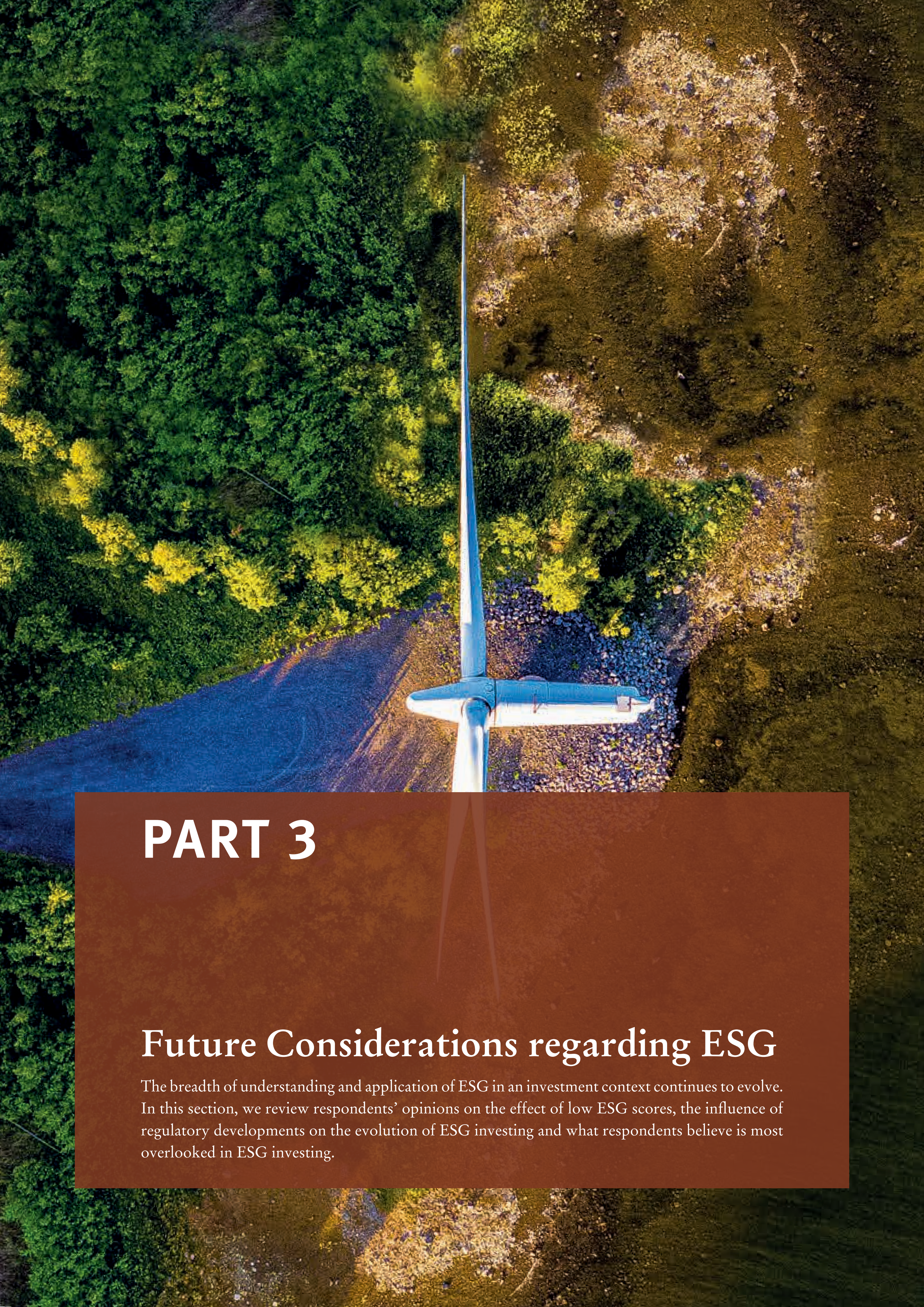
"I am not convinced that much strategy or target setting is anything but greenwashing where there are no effective penalties for not hitting targets or producing an effective strategy."

UK-based private investor

Would you invest in companies or funds/strategies if the organisation has not set its own climate targets?

N=115





PART 3

Future Considerations regarding ESG

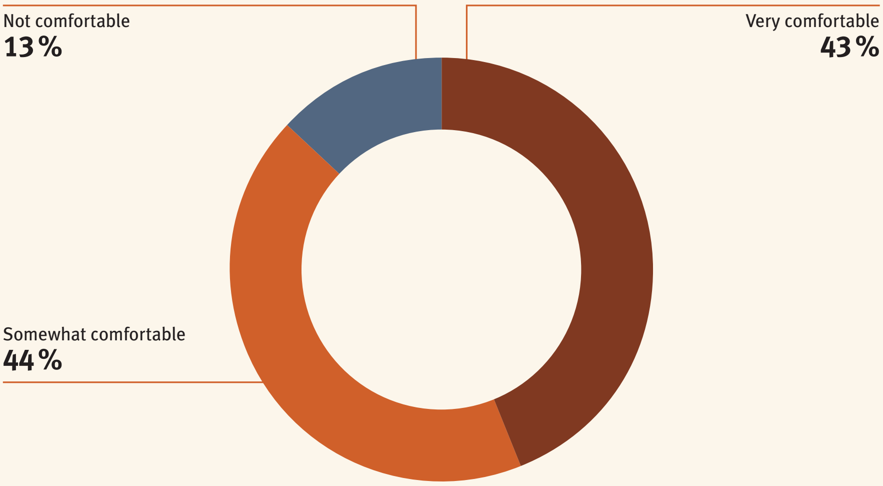
The breadth of understanding and application of ESG in an investment context continues to evolve. In this section, we review respondents' opinions on the effect of low ESG scores, the influence of regulatory developments on the evolution of ESG investing and what respondents believe is most overlooked in ESG investing.

The Challenges of ESG Ratings

A prevailing debate among investors revolves around ESG ratings, their validity, their comparability and their added value. We explored respondents' reliance on ESG scores for investment decisions by asking how comfortable they are with investing in companies with low ESG scores.

To what extent would you be comfortable investing in a company that scores poorly in terms of ESG factors but has expressed commitments to improve?

N=112



A clear majority of **87 % are either somewhat or very comfortable with investing in companies with low ESG scores.**

In the context of ESG data providers, and as indicated in the 2021 survey, there remains a lack of: (i) consistency in ESG rating methodology; (ii) relevant ESG data availability and (iii) global sustainable reporting standards, all causing difficulty in comparability. Given such shortcomings, it is understandable that respondents are comfortable with investing in securities that are given low scores by ESG data providers if there is a lack of conviction in their reliability.

Another consideration for investors is the subject of **transition finance and investing** whereby investments are made in companies undergoing a transition to become more sustainable. While some believe in divesting from unsustainable companies, others seek to engage and/or invest in companies that are unsustainable now but demonstrate clear intentions /commitments to improve.

Evidently, from the written explanations, those citing that they are comfortable with investing in low-scored companies would do so on the condition that the **commitments made by companies are measurable and are monitored** to track their developments over time.

[7] Further discussion on ESG Ratings can be found in our 2020 study ‚ESG Ratings: the Small and Mid Cap Conundrum. www.berenberg.de/fileadmin/web/asset_management/news/esg-news/Small_Cap_Bias_White_Paper_Berenberg.pdf

One respondent commented:

"The transition phase is going to be crucial but it will be necessary for companies to share their target and the timeframe over which they are planning to achieve their goals."
UK-based investment advisor

Overlooked Topics within ESG Investing

Awareness of ESG considerations has grown substantially over the past few years. This growth has been accompanied by a wide array of understanding and application in an investment context – which begs the question of what, if anything, has been overlooked?

The 103 responses to this question comprised entirely of freely written answers, whereby some common themes emerged:

What is too often overlooked in ESG investing?
N=103

- **Social factors, supply chains and overarching impact**
  Social factors were cited across investor groups as being overlooked in ESG investing, ranging from diversity and inclusion to employee-related disclosures such as pay and, more broadly, social peace in relation to the cost of living. Further, supply chains were mentioned as an issue relevant for measuring the true social and environmental impact of a company:

"I feel that the full supply chain of the investment is not often fully considered, and if it is, the information isn't shared with investors."
UK-based trustee

- **Financial considerations**
  Historically, a pervasive perception of ESG investing was that it came with the sacrifice of returns, a view that has faced much push-back given the performance of many strategies in this space. Nevertheless, such concerns persist and respondents have highlighted that with the rise of interest in ESG, a focus must remain on considerations such as time horizon, return expectations and costs.

"Investment consensus leads to overvaluations and new risks."
Germany-based institutional investor

"The need to make profits now to enable future developments."
UK-based charity

"The effect of ESG investments is massively overestimated. The regulatory burden is far too high. Regulation should be limited to making undesirable behaviour more expensive and desirable behaviour less expensive."
Germany-based institutional investor

- **Measurement, understanding and legitimacy**
  One respondent noted that there are *"Too many different labels in the area of sustainability"* – Germany-based family office. As a consequence, and as discussed earlier in the report, the measurement of ESG and impact remains fragmented and inconsistent, partly due to the lack of available and good quality data. This sentiment was echoed by respondents with some citing the prevalence of greenwashing and a lack of genuine commitment to addressing ESG-related issues:

"Countless people hide behind good intentions but are themselves unwilling to give up comforts or fundamentally change their own ecological footprint."
Germany-based asset manager

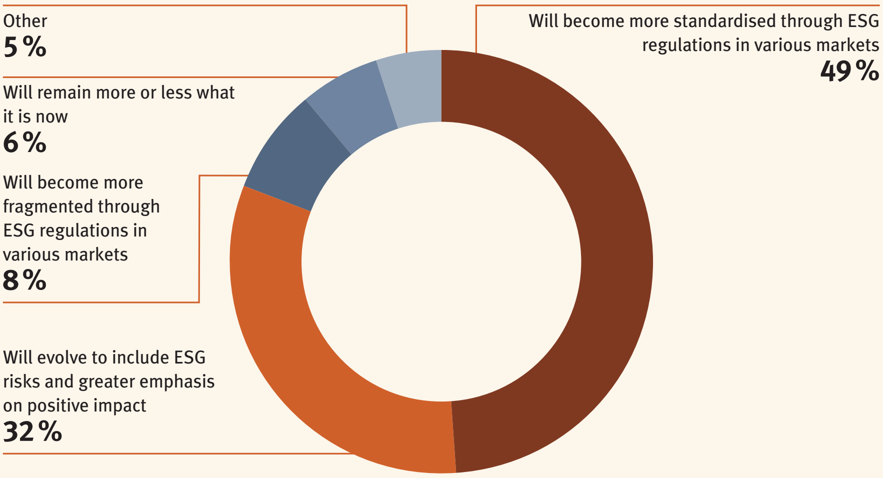
One respondent commented that *"ESG is about the impact of society and the environment on a company, not the other way around – as such, it provides a very useful risk framework for investing but not necessarily an optimal way to do good for the environment and society."* – UK-based family office service provider, thereby confining the capabilities of ESG to achieve impact and focussing on its application as a risk monitoring tool.

ESG Regulation and the Evolution of ESG Understanding

As investors seek to incorporate ESG factors in their investment approach, regulators globally are initiating a paradigm shift in ESG regulation in order to mitigate issues such as greenwashing. Besides operational implementation, ESG regulation will likely influence the way in which ESG will develop and be perceived from a philosophical perspective.

How do you think the understanding of ESG investing will develop in the next 3 years?

N=112



49 % of surveyed investors believe that **regulation will be a driver of standardisation of ESG across markets.** One respondent who selected 'Other', however, cited concerns that a varying level of regulatory understanding could limit the regulations' effectiveness:

"The compulsory fulfilment of regulatory ESG criteria will not achieve the desired goal due to the lack of understanding of many investors and will lead to economically expensive misallocations."

Germany-based family office

Further, a recurring theme in terms of the development of ESG is 'impact'. 32 % of respondents said they **believed that ESG investing will include a greater emphasis on positive impact.** We have observed this development in the European market with the increasing classification of investment funds as Article 9 under the European Sustainable Finance Disclosure Regulation, which are products that have sustainable investments as their objective. This trend suggests that there is a demand for funds in the impact investing range or for those that explicitly target certain global challenges such as climate change, renewable energy, diversity or clean water.

Conclusions

Our survey has identified changes in investor perceptions of ESG as well as their attitudes towards climate change factors in investing. This becomes particularly evident with the influence of significant geopolitical events on investors' priorities shown by this year's increase of importance of SDG 7 – Affordable and Clean Energy and SDG 16 – Peace, Justice and Strong Institutions.

Governments and consumers are perceived to be most influential in leading climate change actions. This points to the critical role of advocacy and engagement with personal beliefs as a pull factor and regulatory requirements as a push factor. Interestingly, the majority of respondents believe the most effective drivers to incorporate climate change into investment decisions are their own personal beliefs rather than financial risk and return considerations.

Further, it seems that respondents are willing to overlook poor ESG scores if companies have commitments in place to improve. We found that they would accept credible transition strategies while engagement on such commitments and strategies is preferred over divestment.

Generally, the findings of our 2022 survey remind us of the importance and influence of personal values on investors' ESG considerations. Climate change, however, despite being one of the main topics within the realm of ESG investing, has financial risk and return implications for portfolios. Thus, investors may not currently be distinguishing enough between the less tangible kinds of ESG goals, like SDG 16, which are important but hard to invest in and measure, and climate-related ESG investments, which are backed by the full weight of scientific evidence and where progress is more measurable.

Key Takeaways are:

- The prevailing macro environment influences short-term priorities as evidenced by the finding of SDG 16 – Peace, Justice and Strong Institutions rising in importance amongst respondents.
- Governments and consumers are perceived to be most influential in leading climate change actions, pointing to the critical role of advocacy and engagement.
- Possibly due to the worsening nature of climate change, environmental issues remain a consistent focus for investment whilst social issues tend to be overlooked. Nevertheless, risk and return considerations are not yet dominant drivers for incorporating climate change within investing.
- Investors are willing to support companies in transition and acknowledge that ESG regulation will result in greater standardisation.

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