ESG Survey Results

April 2020

Executive Summary

- Advisers feel that the majority of their clients do not wish to invest in portfolios with an ESG steer or positive impact, with 46% stating that less than 25% of their wish to do so.

- Advisers indicated that their clients would not be willing to compromise on performance or charges in return for ESG, with 82% and 69% respectively stating that less than 25% of their client base would be willing to do so.

- Only 39% of advisers claim that ESG is integrated into their Centralised Investment Proposition, whilst 46% include ESG in their Attitude to Risk Questionnaires, highlighting that their clients may be totally unaware of it.

- Although 53% advisers are now aware of H1 2021 regulatory change mandating them to determine their client's ESG needs as part of the suitability process, the remainder still had no knowledge of these impending changes.

- Encouragingly, 63% of advisers are comfortable with the terminology around the topic of ESG, however there is still a need for a common language within the industry.

- Advisers feel asset managers, and the industry as a whole, could better support their understanding of ESG by improving clarity of their material and process and offer more education on the topic. This involves the standardisation of terminology, information of methodology, simplification of documentation, more events and more client-friendly literature.

- Liontrust and Royal London were identified as the clear favourites in the market for conveying their ESG message.

- Although 42% of advisers stated they did not know enough about the upcoming regulatory change to comment, 32% claimed that the clarification and definition of different ESG taxonomies would further confuse matters, whilst 27% thought it would be beneficial.

Introduction

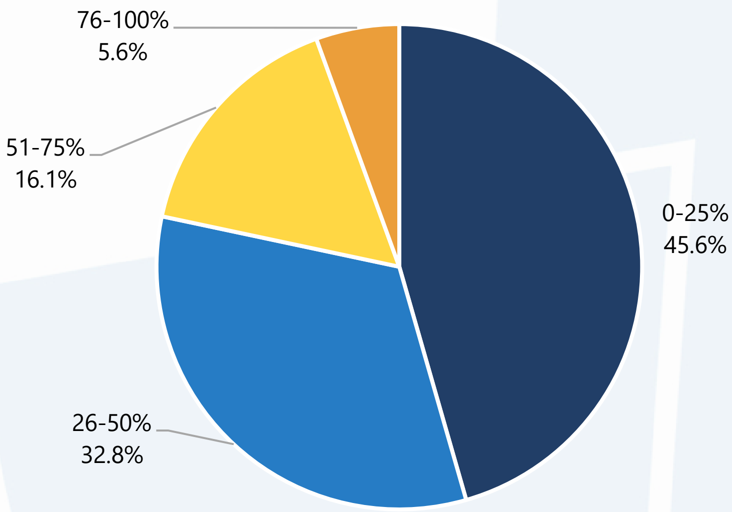
Square Mile presented at 21 events across the UK over the course of Q1 2020, seeing over 2,600 Personal Finance Society members. Square Mile's presentation focussed on Environmental, Social and Governance (ESG), the proposed regulatory approach and how advisers can integrate ESG into their investment propositions. As part of the presentation, ESG surveys were issued to attendees with the aim of determining the views of advisers and their clients on the matter of ESG. Across the events, 184 surveys were completed, each answering eleven questions providing data on:

1. How advisers feel their clients view the importance of ESG within their portfolios.
2. Adviser's understanding of ESG and how this is currently integrated into their suitability assessments and propositions.
3. How the industry and asset managers can better support advisers to understand ESG, as well as cater for ESG demand in preparation for the income regulatory change.

How advisers feel their clients view the importance of ESG portfolios.

The first three questions outlined how advisers feel their clients view the importance of ESG within a portfolio. 78% of advisers indicated that less than 50% of their clients would wish to invest in a portfolio that has an ESG steer or positive impact, with 46% claiming that less than 25% would wish to do so. Only a combined total of 22% of advisers think that more than half of their clients would specifically wish to invest in a portfolio that has an ESG focus.

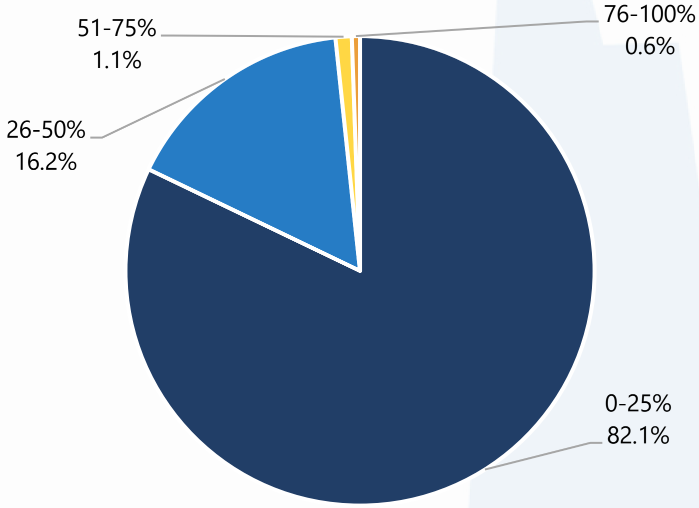
What percentage of end clients wish to invest in portfolios that have an ESG steer or positive impact?



Advisers could have interpreted this question in one of two ways; one, that this represents clients who have asked them specifically to invest in ESG portfolios and two, that this is the number of clients that advisers estimate would invest in an ESG portfolio if informed about them. In the case of the latter, with regulation due H1 2021 mandating that advisers identify client's ESG preferences, it would be valuable to see how far that figure changes.

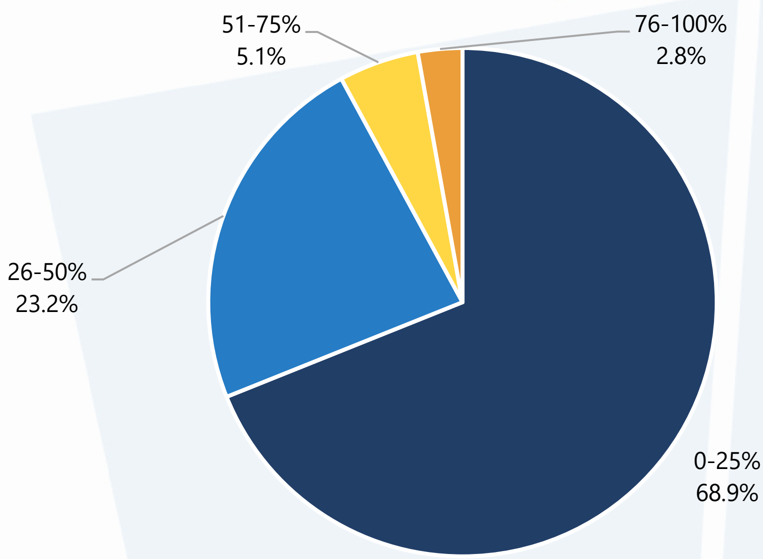
When asked what percentage of their client base would consider it acceptable to sacrifice some degree of performance in return for a portfolio which delivers more ESG compatible results, 82% of advisers claimed less than 25% of their clients would be willing to do so. Comparably, only 2% advisers out of the entire group believe that more than half of their clients would be happy to make this choice.

What percentage of end clients are willing to sacrifice some degree of performance in return for an ESG approach



Similarly, when asked how many of their clients would consider higher charges to be an acceptable compromise in return for an ESG outcome, only 8% of advisers believe that more than 50% of their clients would be prepared to do so. More than two thirds of advisers (69%) think than just 0 to 25% of their clients would be willing to pay a higher cost if they were to consider an ESG portfolio.

What percentage of end clients are willing to pay a higher overall cost in return for ESG?

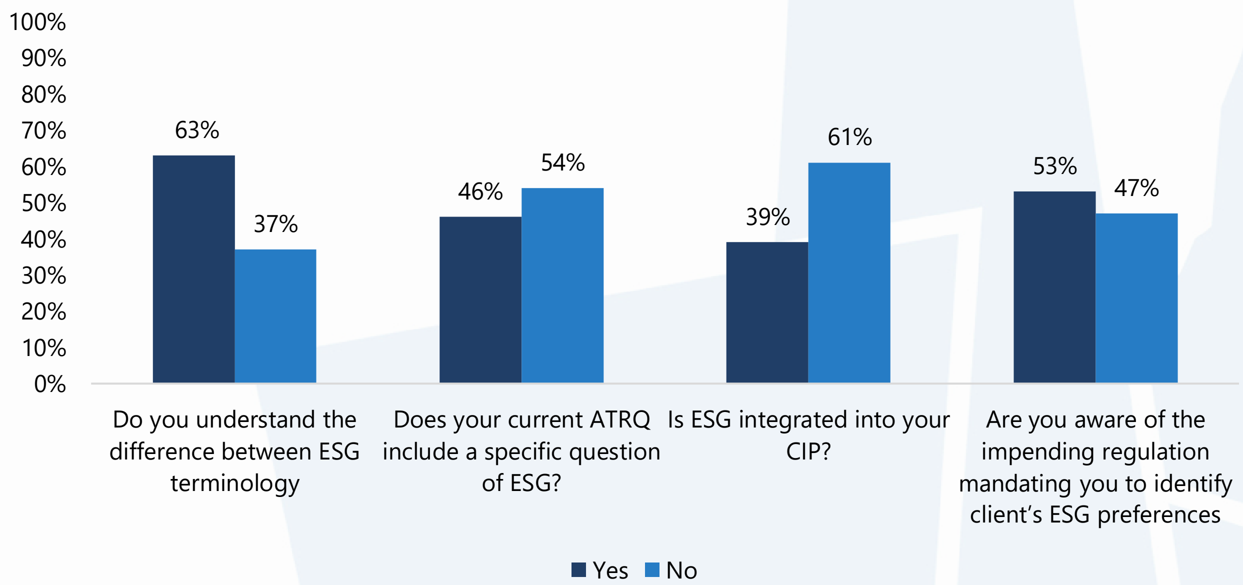


Adviser's understanding of ESG and how this is currently integrated into their suitability assessments and central investment propositions.

The second part of the questionnaire focussed on how adviser firms have already integrated ESG across their suitability assessments and Central Investment Propositions (CIP), but also their understanding on the topic and incoming regulatory changes. Encouragingly, 63% of advisers felt confident they knew the difference between the various terminology surrounding ESG, including impact investing, sustainability, ethical, etc. These terms have had an ambiguous, interchangeable and inconsistent usage in industry literature in recent years. Although this is positive, there are still more than one third of advisers who remain confused and may require help learning about which terms to use and how to precisely define each.

In terms of the Attitude to Risk Questionnaires (ATRQ), only a fraction more than half (54%) of advisers stated they do not already ask a question specifically around the theme of ESG in their ATRQ. Although 7% of advisers mentioned that they did cover this area in their fact find. With regulation inbound in H1 2021 that will require advisers to establish their client's ESG needs, this will need to change fast. Moreover, this highlights the general lack of information clients are being provided in the area of ESG by many advisers and could indicate there being significant room for development of ESG in the market were clients are made more aware of it.

In terms of adviser's CIPs, only 39% of advisers claimed to have integrated ESG already, which speaks to the still modest number of ESG funds, and asset managers who have a clearly articulated proposition on how ESG is integrated into their processes. It could also be indicative of a lack of information and knowledge on the part of advisers that they do not feel they have the sufficient tools to make their CIP more ESG friendly as yet.



ESG will be brought to the forefront given the impending regulatory changed scheduled for H1 2021 which will require advisers to build an assessment of each client's ESG preferences into the suitability test. Although 53% of advisers stated they were aware of the upcoming changes, the remainder still had no idea about the new regulations, meaning that the answers to the previous questions in the survey around CIP and client expectations could be liable to change in quick order as advisers move to adapt in time.

How the industry and asset managers can better support advisers to understand ESG, as well as cater for ESG demand in preparation for the income regulatory change.

The final part of the survey aimed to highlight the support advisers require from asset managers, and the investment industry as a whole, to enable them to better understand ESG as well as cater for the growing demand for ESG.

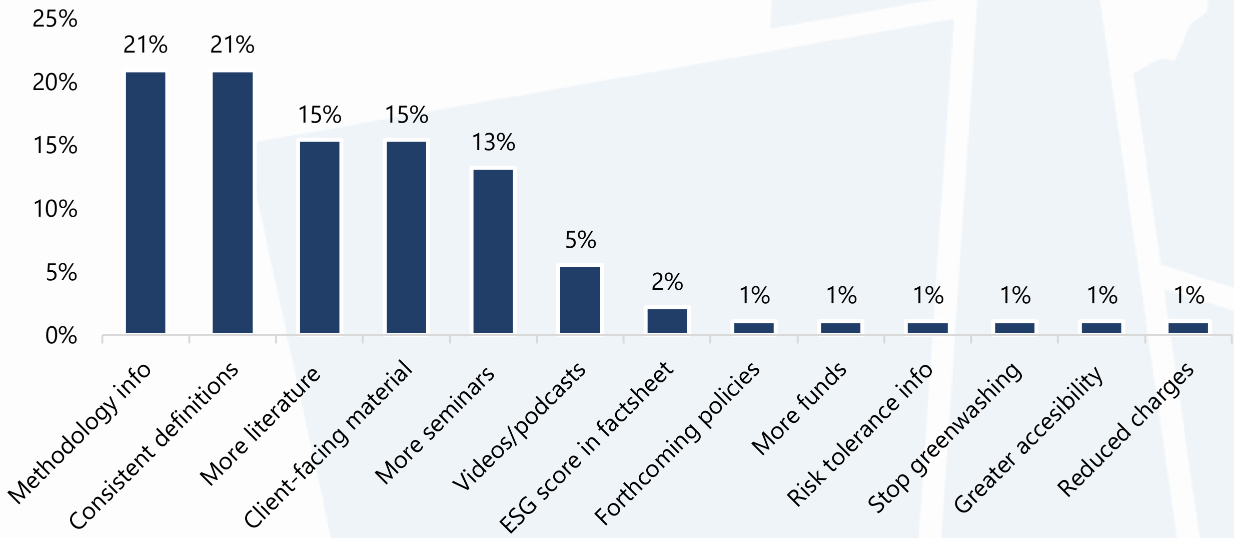
Although only 50% of respondents answered these more open questions, the answers that were given provided clear themes on what support advisers require from the industry surrounding ESG.

When asked what support advisers would like from asset managers the two clearest trends are tangentially related to one another with a need for greater clarity within the industry. 21% of advisers highlighted the need to have more access to information asset managers have on how they select their ESG criteria, and a further 21% claimed a more consistent use of language would allow advisers to compare and contrast funds and fund groups more easily.

In addition to the need for greater clarity, advisers flagged the desire for greater education around the theme of ESG, with 15% of advisers stating the need for more literature would support their understanding of the topic. Furthermore, 12% of advisers highlighted events to be a key channel through which asset managers can help increase awareness of ESG. Other suggestions related to these themes of clarity and education included the production of industry publications such as podcasts (5%), ESG scores in factsheets (2%), risk tolerance information (1%) and greater accessibility (1%).

Another key theme identified by the survey, with 15% of adviser votes, is for there to be more client friendly material that make it both easier for the client to understand what the utility of ESG investing is as well as easier for advisers to sell to clients. This means literature produced without industry jargon and with a heavier emphasis on the good the fund provider believes it is doing so that the adviser can explain more easily to their clients.

What support would like you from asset managers on ESG?

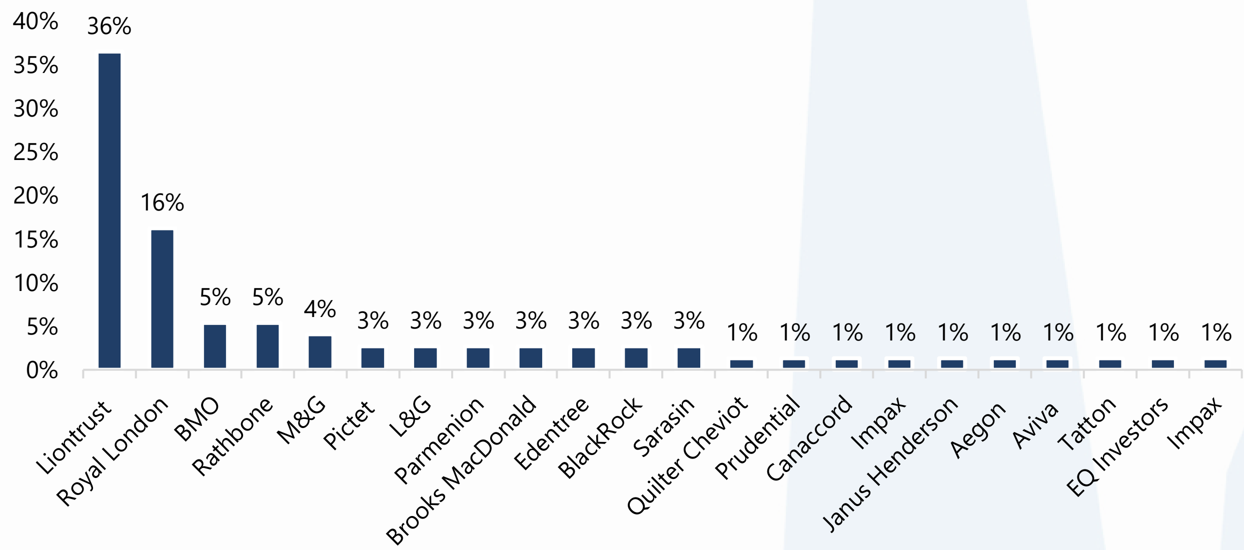


There are two stand-out favourites for advisers as to which asset management firm has the clearest and most effective ESG messaging. Liontrust was by far judged the most effective with a 36% share of the votes, owing to their sales team being dedicated to ESG, their constant presence at events, as well as their impressive amounts of documentation and literature available on their websites.

Royal London had fewer than half as many votes as Liontrust yet was still far beyond third place in terms of popularity, with 16% of advisers viewing their message around ESG as the best. Advisers commented on their effective sales team, accessibility and literature.

20 other firms were mentioned by advisers but none of those received more than 5% of the votes so it is a safe conclusion that Liontrust and Royal London are the industry leaders of ESG matters according to this group of advisers.

In your opinion, which asset manager has the best messaging on what their ESG strategy is?



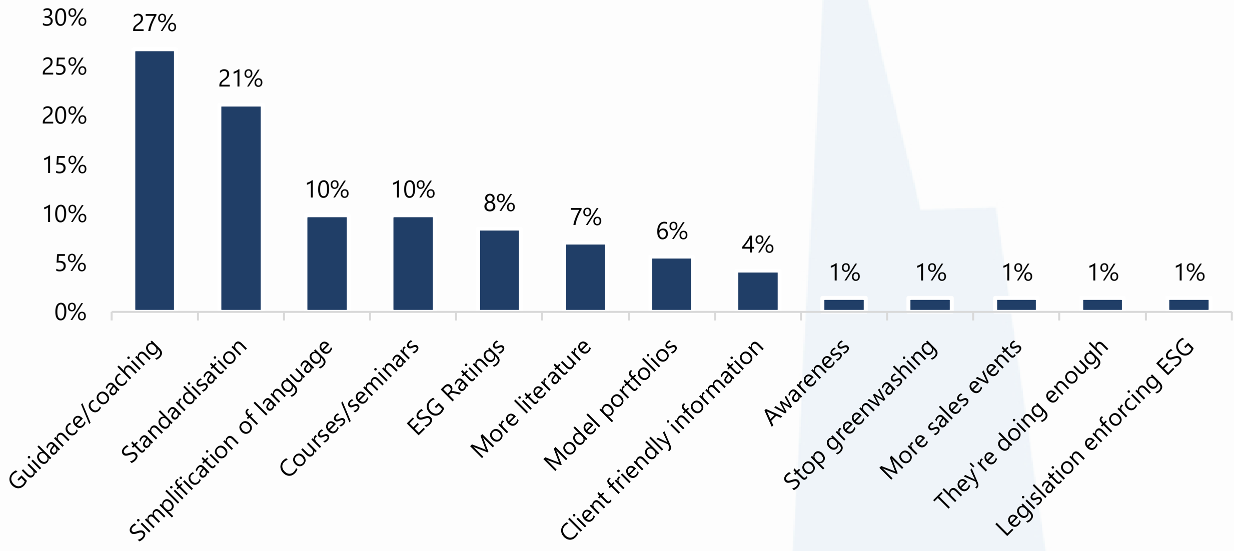
When asked what support advisers would like from the industry specifically related to the impending regulation scheduled for H1 2021, it is divisible into clear themes.

The first of those is education, with 43% of advisers claiming they feel they would benefit from more education on ESG matters, be it through guidance or coaching (27%), seminars (10%) or more literature (7%). This highlights the need advisers feel to have better information in order to deliver the best service they can to their clients.

Another clear theme, once again, is around clarity. A combined total of 44% of advisers voted for the standardisation of terms (21%), simplification of language (10%), ESG ratings (8%), client friendly information (4%) and for the need for the industry to stop greenwashing (1%). This clearly highlights the desire the advisers have to be more easily able to assess fund information, compare them and relay that information on to clients. Many seek more objective, jargon-free and unambiguous presentation from asset managers or other industry professionals.

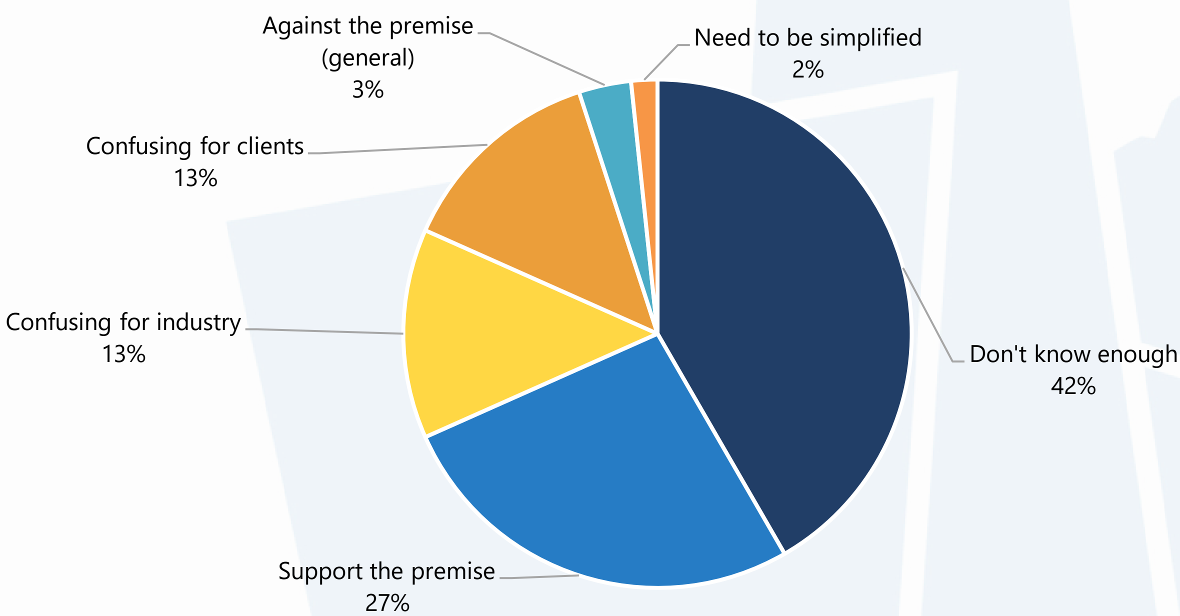
A further 6% of advisers thought that model portfolios would represent the help they need, and only 1% of respondents thought that the industry is doing enough to support the understanding of ESG in line with the new requirement.

What assistance would you like form the industry to help with the new requirement?



When asked their view on the implementation of different taxonomies to assist advisers in identifying ESG preferences in line with regulatory requirements, it is telling that by far the most common answer, with 42% of votes, was that advisers do not feel they know enough about the topic to answer and may require further education about different taxonomies and classifications of ESG investing such as impact, sustainability, etc.

What is your view there may be different taxonomies in play to assist with identifying the ESG preferences the regulation requires?



A total of 29% are either against the premise in general (3%) or feel the use of multiple taxonomies would be confusing for clients (13%) or for the industry as a whole (13%). Confusion for industry is potentially solvable with a greater emphasis on education and by simplifying and separating taxonomy definitions as much as possible. Clients are highly unlikely to have the same degree of knowledge as their advisers so confusion is a valid concern, but advisers can mitigate this as much as possible, especially so with more education as so many advisers have indicated that they need in this survey.

Just over a quarter (27%) of advisers claimed to support the idea, indicating that removing ambiguity by creating multiple fixed definitions for each taxonomy would remove the risk of miscommunication, confusion and greenwashing.

Conclusion

Though only a small sample of a much wider pool of advisers, this begins to indicate where advisers feel their client's views are towards ESG, as well as the current stance of advisers and the industry in terms of their understanding, proposition and support.

From an adviser's perspective, the large majority (46%) feel that currently less than 25% of their clients would wish to specifically invest in an ESG portfolio. Furthermore, an even larger share indicated that less than a quarter of their client base would be willing to sacrifice performance (82%) or pay higher overall costs (69%) in return for ESG. However, advisers do contest that performance and cost need not be different, and that clients might not be asking to invest in ESG portfolios because they do not know about them. New legislation in H1 2021 requiring advisers to determine the client's ESG needs may change this, as it will force clients and advisers alike to consider this area.

Although 63% of advisers indicated they were confident in the various terminology used around ESG, there is still a fairly neutral stance when asked if this was currently integrated into their suitability assessments and central investment propositions. While 46% suggested they include specific reference to ESG in their ATRQ, only 39% stated they had integrated ESG into their CIP. This indicates that, whist aware of the topic, a lack of confidence in proposing these new changes that could potentially change rapidly with the introduction of new regulations, which most advisers are now aware of.

From an industry standpoint, two clear themes have been identified as areas advisers feel they would like the most support on ESG and the new regulations; greater clarity and more education. This involves standardisation of terminology, simplification of documentation, more events and seminars and more literature, both for advisers and for their clients, to assist in relaying this information to the end investor.

Whilst there is still greater support the industry could offer advisers, Liontrust and Royal London were identified as key players in terms of articulating their ESG messaging strategy. Advisers highlighted their abundance of literature, accessible and competent sales team and presence at industry events as the reasons why the two firms were head and shoulders above the rest in terms of delivering their ESG message.

Although ESG remains in its infancy, this is changing rapidly. This begins to highlight the current views, understanding and requirements of both advisers and their end clients, however the next year will see fundamental changes as the industry prepares for the regulatory requirements, as well as investor demand.