# Voice of the Asset Owner Survey 2023
## Quantitative Analysis

Conducted by Morningstar Indexes and Morningstar Sustainalytics

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# Our second annual global survey of institutional investors' priorities & perspectives

As stewards of some of the largest pools of capital in the world, asset owners are a critical part of the global market ecosystem. As fiduciaries for their key stakeholders and plan participants, they are sounding boards on global markets, investment policies and standards. As our clients, asset owners tell us what they need in terms of support to help them meet their challenges, such as market data, indexes, tools, research, and insights.

To better understand the motivations, challenges, and perspectives of asset owners in the current environment, with the help of Opinium Research and Bob Collie of Collie ESG, Morningstar introduced its annual global, multi-phase Voice of the Asset Owner Survey in 2022. The findings of our inaugural survey provided a valuable lens into the evolving role of asset owners and the continued influence that environmental, social and governance (ESG) factors and sustainable investment considerations have on their strategic and tactical thinking.

Our 2023 survey confirms many of the baseline assumptions we gleaned last year, while also helping us identify emerging trends and new insights. Overall, as the global stakes get higher for ESG, asset owners remain highly committed to addressing an increasingly complex and persistently challenging environment for sustainable investing.

# Phase One — Qualitative Insights: Setting the stage through direct conversations

During the qualitative phase of our survey, completed in June 2023, we conducted in-depth conversations with ten leading asset owners in North America, Europe, and APAC. During these discussions, we took their temperature on key topics related to investment objectives and policies, the current investment environment, the impact of regulatory change, and developments in ESG and sustainable investment practices. We also sought their opinions on market data, ratings, and research providers. Read the full analysis.

# Phase Two — Quantitative Analysis

During the second, quantitative phase of our survey, completed in August 2023, we dived deeper into many of the key themes uncovered during our phase one conversations. The quantitative survey gathered the responses of 500 asset owners including pension funds (22%), insurance general accounts (21%), outsourced CIOs (OCIOs) (18%) and family offices (17%). Geographically, the quantitative survey spanned 11 countries with 100 total respondents from North America (US & Canada) and 200 respondents each from Europe and APAC.

**The Headlines**

- More than two-thirds of asset owners (67%) believe ESG has become more material to investment policy in the past five years despite persistent challenges to implementation.
- Issues related to the market environment, regulatory confusion, and the need for improvements in ESG data, ratings, indexes and tools ranked among the top concerns of asset owners.
- Regulatory confusion is a significant challenge for asset owners, with the lack of clarity and rising costs related to ESG regulation cited as particular pain points.
- Despite persistent implementation challenges, allocations to ESG strategies are increasing, with environmental issues driving materiality–especially those related to climate change and the transition to net-zero.

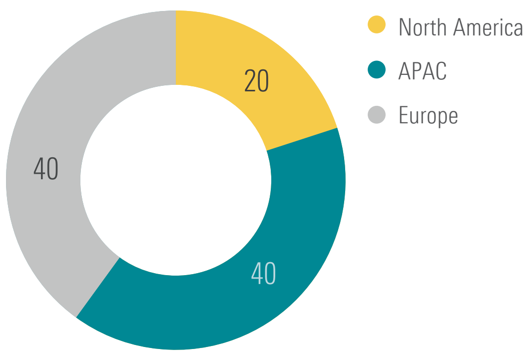
## Who did we talk to?

The quantitative survey gathered the responses of 500 asset owners representing combined assets under management (AUM) of over $10.7 trillion. Those surveyed include pension funds (22%), insurance general accounts (21%), outsourced CIOs (OCIOs) (18%) and family offices (17%). Geographically, the survey spanned 11 countries with 100 total respondents from North America (US & Canada) and 200 respondents each from Europe and APAC.

More than six in ten asset owners surveyed represent institutions managing more than $1 billion in assets, and one in four manage over $10 billion in assets.

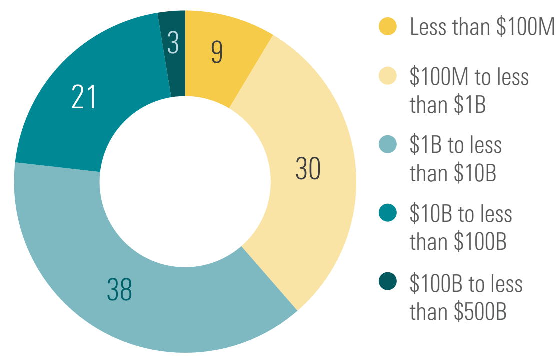
**Regional distribution (%)**

D2. Asked to all respondents (n=500)




**AUM tier distribution (%)**

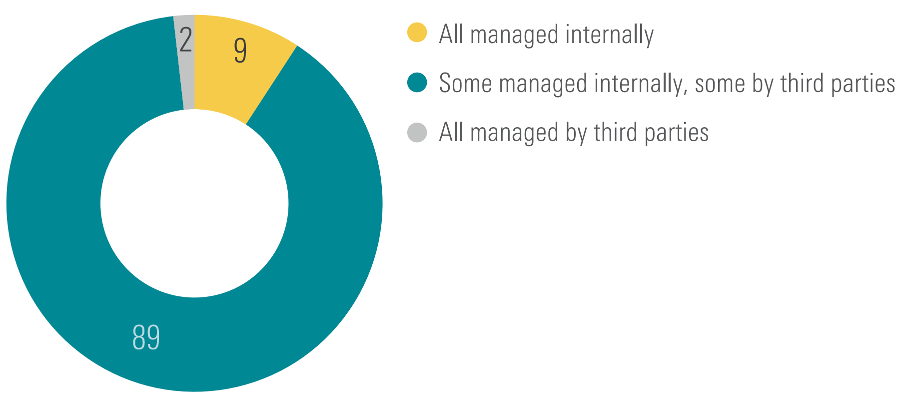
D4. Asked to all respondents (n=500)




While it varies by asset owner size (AUM) and region, most (89%) outsource the management of a portion of their assets, which underscores how essential asset managers are to implementing ESG strategies. About 9% manage all their assets internally. Those who do handle some or all of their assets internally manage an average of 62% of their own assets (not shown).

**Total AUM managed internally and/or by third parties (%)**

D5. Asked to all respondents (n=500)

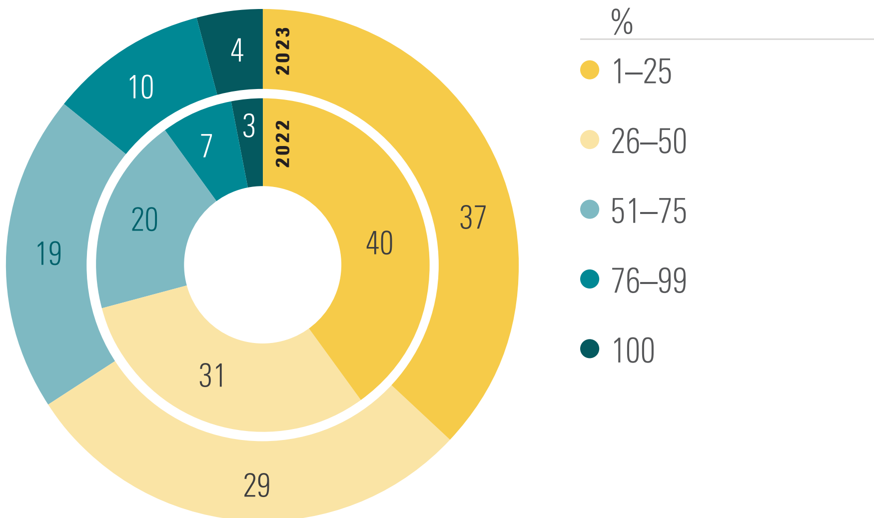


# Allocations to strategies that take ESG into account continue to increase

All asset owners surveyed are allocating at least a portion of their assets to strategies that take ESG factors into account. Compared to 2022, the percentage of asset owners with more than half of their total assets reflecting ESG considerations has increased from 30% to 34%, while the portion of those with 50% or less of their assets considering ESG has decreased from 71% to 66%.

**Percentage of total AUM with ESG considerations applied (%)**

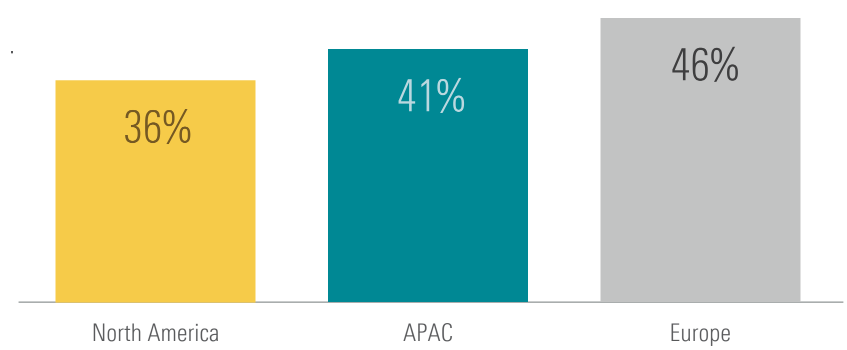
IP1. Asked to all respondents (n=500)




Asset owners in Europe report an average of nearly half of their assets taking ESG into account (46%) compared to 41% in APAC and 36% in North America.

**Percentage of total AUM with ESG considerations applied (regional average)**

IP1. Asked to all respondents (n=500)

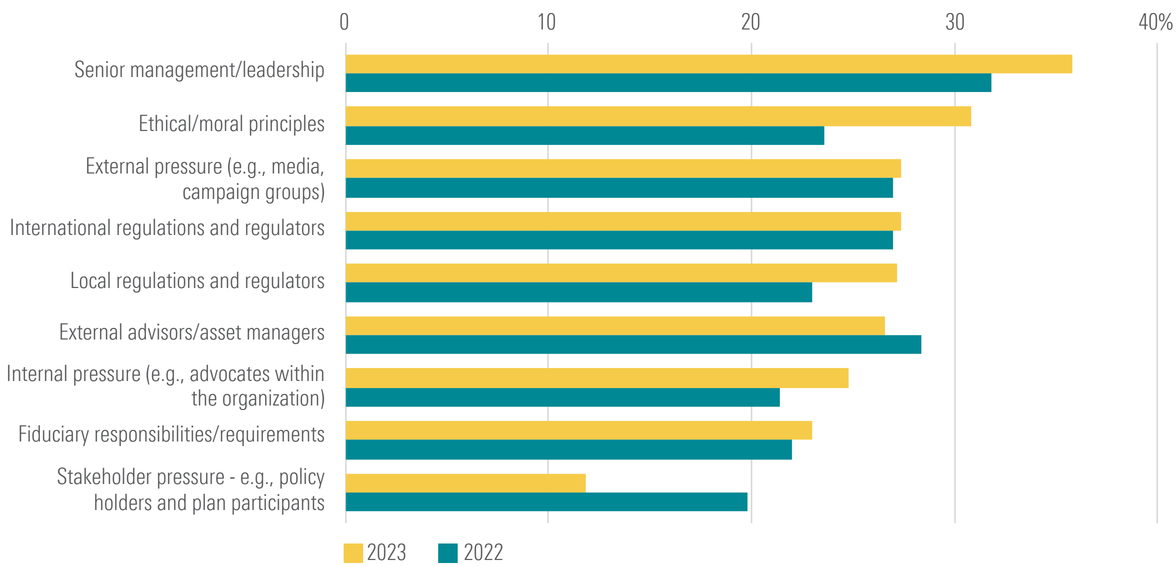


## What are the leading motivators and barriers for considering ESG in the investment process?

When asked to select the three most important reasons their organization has chosen to invest in ESG-focused assets or vehicles, senior management/leadership was the top response in both 2023 and 2022. Ethical morals/principles, external pressure, and both international and local regulation persist as popular responses as well. Stakeholder pressure received considerably fewer responses in 2023 than in 2022.

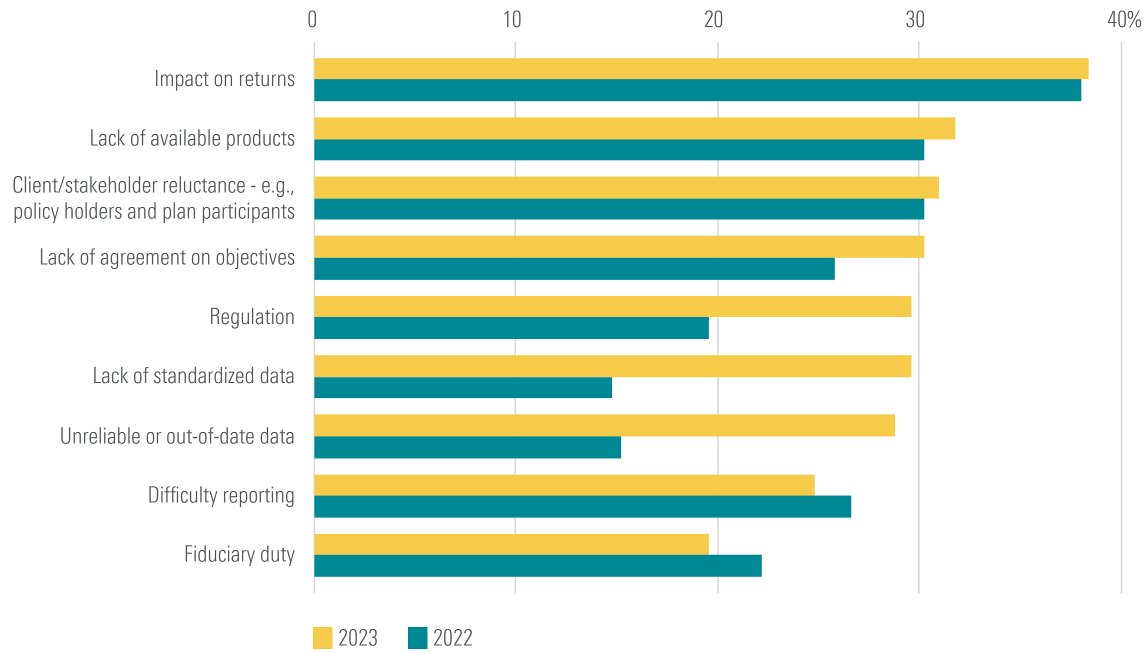
**Rationale for considering ESG in the investment process - top three (%)**

IP3. Asked to all respondents (n=500)




The primary barriers to pursuing an ESG strategy this year are similar to those voiced by asset owners in 2022, with impact on returns continuing as the leading challenge (38%), followed by lack of available products (32%). Lack of standardized data, unreliable or out-of-date data, and regulation showed the most significant changes since last year. Client/stakeholder reluctance is more of an issue in APAC nations (38% - not shown) compared to 31% globally, while unreliable or out-of-date data is not as much of an issue in North America (20% - not shown) as it is globally (29%).

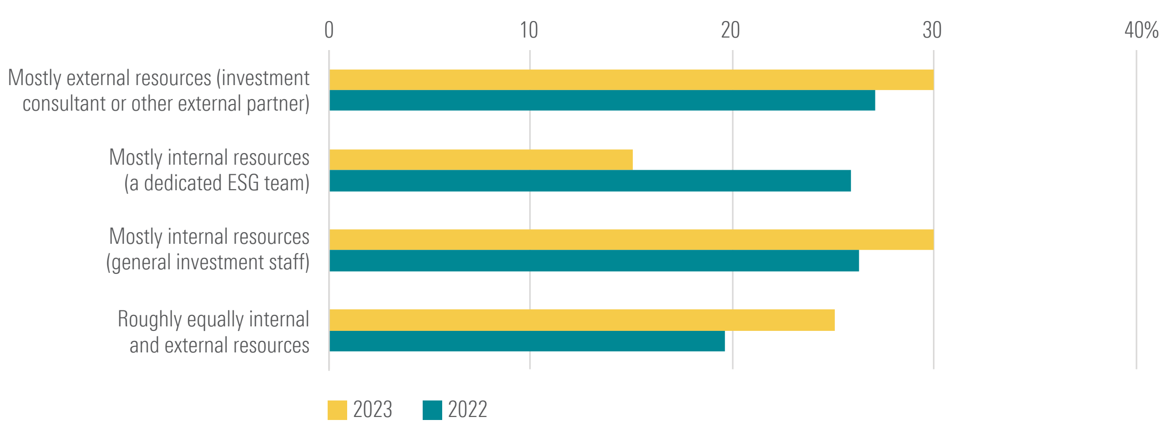
**Barriers to pursuing an ESG investment strategy (%)**
IP4. Asked to all respondents, select top three (n=500)




**Asset owners rely on a mix of internal and external resources to operate their ESG programs**

About 30% of asset owners surveyed rely mostly on external resources (e.g., investment consultants and other external partners). Of the 45% of asset owners who rely mostly on internal resources to operate their ESG programs, about one-third of them have a dedicated ESG team, while the other two-thirds rely on their general investment staff.

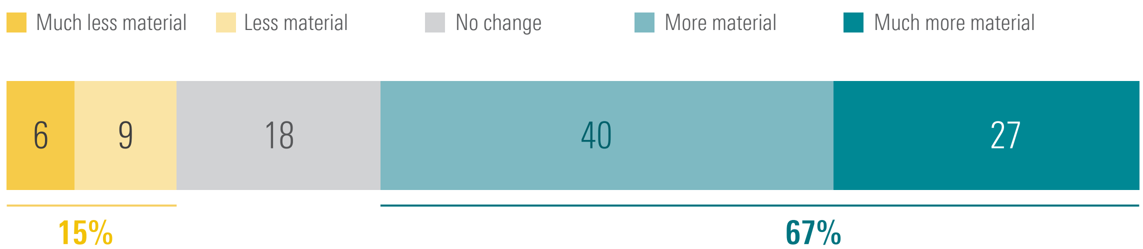
**Who asset owners rely on most in the operation of their ESG programs (%)**
E2. Asked to all respondents (n=500)



# ESG considerations are increasingly material, with environmental issues driving materiality

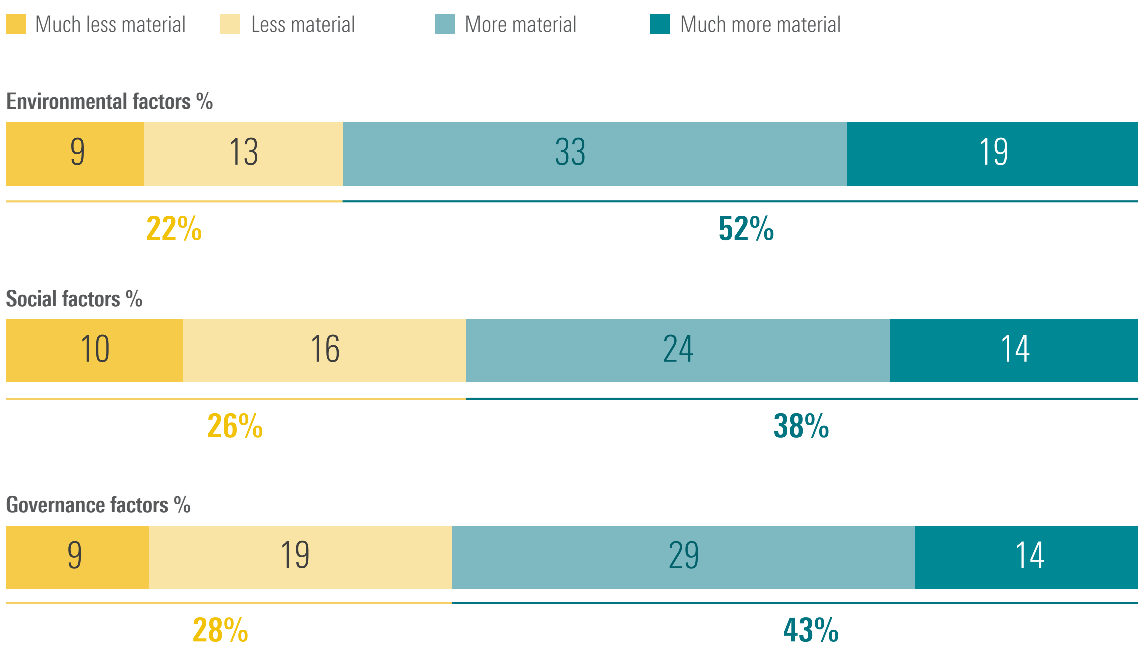
Despite persistent implementation challenges, asset owners view ESG considerations as increasingly material. More than two-thirds (67%) of respondents believe ESG has become "more" or "much more" material in the past 5 years, while only 15% feel ESG has become "less" or "much less" material.

**Whether ESG become more or less material in the past 5 years (%)**
IP7. Asked to all respondents (n=500)




Taking a more granular (and shorter term) view, most respondents feel that environmental, social, and governance-related factors have become more material in the last year, with environmental considerations top of mind.

**Whether environmental, social, and governance factors have become more or less material in the past year (%)**
IP14. Asked to all respondents (n=500)



# Climate is king among environmental considerations, while diversity & inclusion rank highly on the social front

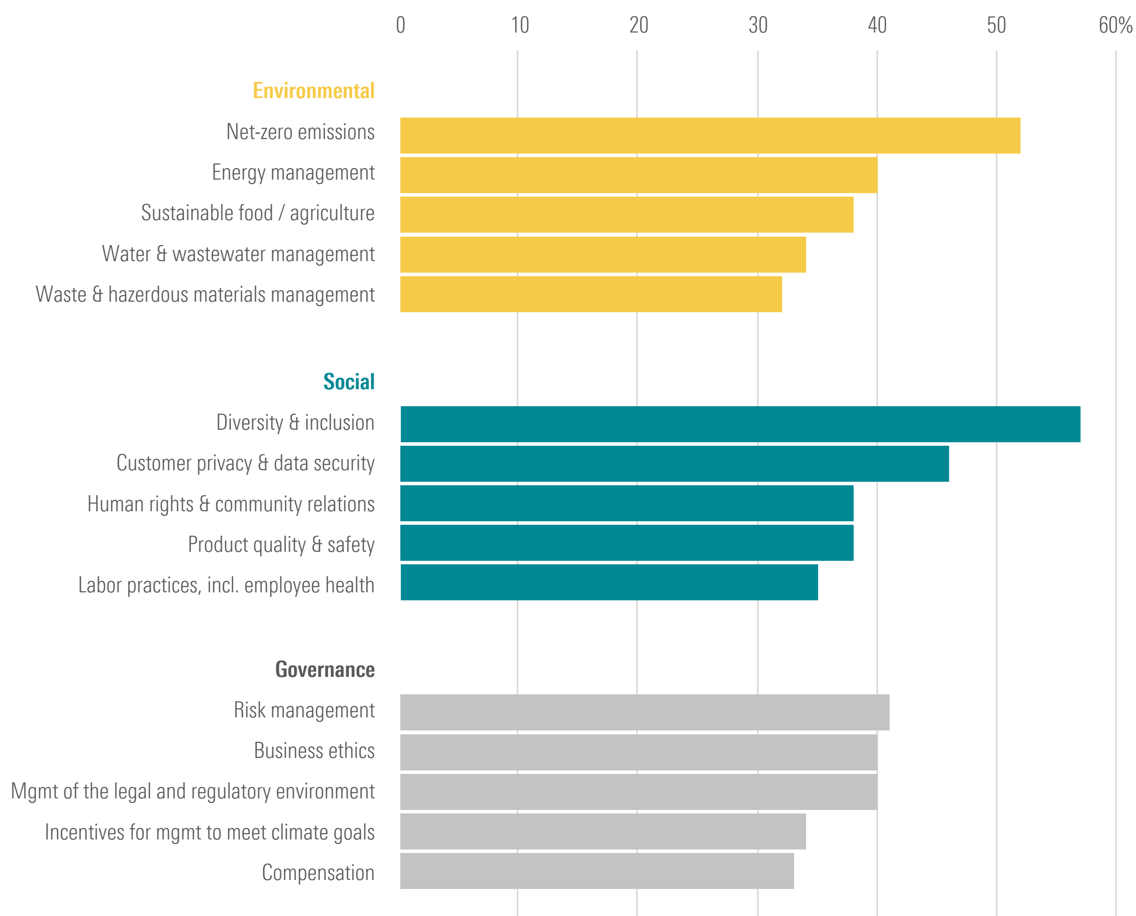
Given the urgency of tackling climate change, it is not surprising that asset owners view the transition to net zero emissions as the environmental factor most material to their decision-making (52%), followed by energy management (40%) and sustainable food/agriculture (38%).

Specific to social factors, diversity and inclusion considerations are the most material according to 57% of respondents, followed by customer privacy & data security (46%).

There is less of a consensus on which governance-related factors are most material. Risk management (41%), business ethics (40%), and management of the legal and regulatory environment (40%) ranked as the top three.

**Issues most material to asset owner investment decisions (%)**

IP9–11. Asked if ESG material to portfolio, top five each for E, S, and G (n=461)

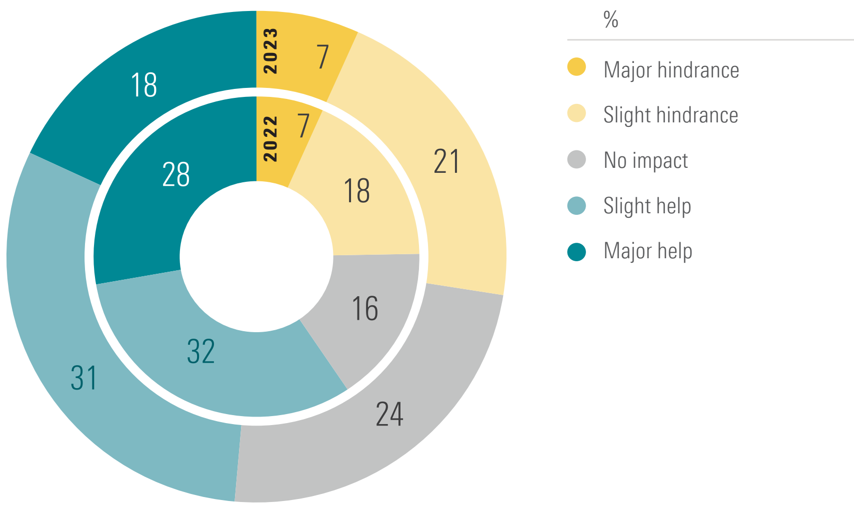


# The regulatory conundrum

ESG regulation continues to walk the line between serving as a help or a hindrance to global asset owners. Perhaps reflecting the growing stress of ESG portfolio implementation amid advancing regulation and cross-border regulatory confusion, the percentage of asset owners who say ESG regulations are either a "a major help" or "a slight help" fell 10 percentage points in the past year to 49%. In addition, the percentage of respondents reporting that regulations have no impact has risen materially, with those indicating regulation as a "slight hindrance" have risen as well.

**Whether ESG regulations have become a help or a hindrance (%)**

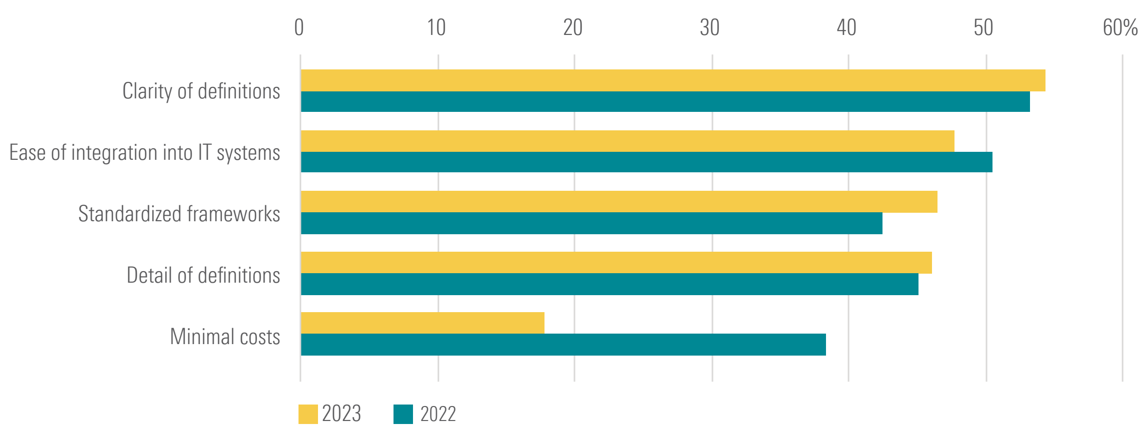
R1. Asked to all respondents (n=500)




Of the 49% who find regulations to be helpful, more than half (54%) say this is because regulations bring clarity to definitions, a similar proportion to last year. This group of asset owners also values the ease with which regulations can be integrated into IT systems (48%) and standardized frameworks (47%). Only 18% report that regulations have helped because of minimal costs, down 20 percentage points from 38% in 2022, an indication that the cost of regulation is rising and becoming more burdensome.

**How ESG regulations have helped (%)**

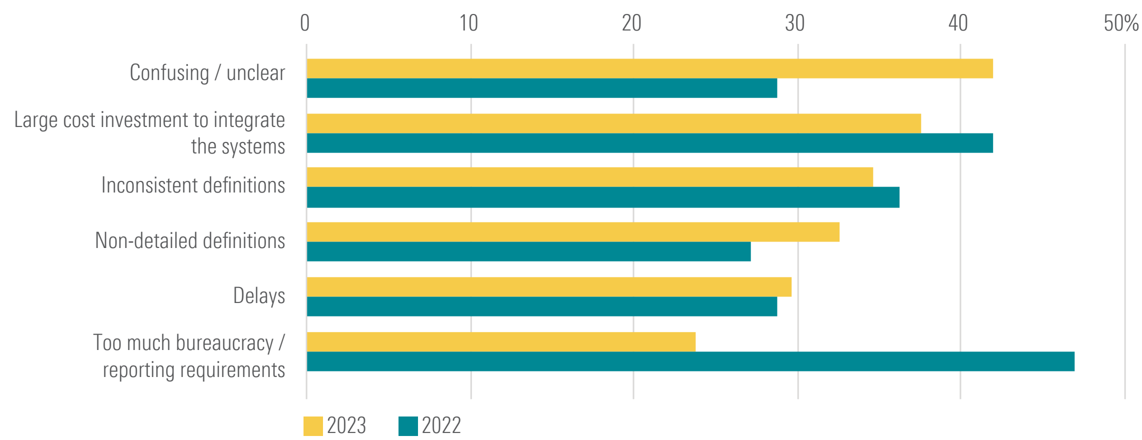
R3. Asked if ESG regulations have helped, select all that apply (n=243)



On the other hand, lack of clarity and rising costs related to ESG regulation continue to be pain points. Among the 28% of those surveyed who say regulations have been a hindrance, 42% see ESG regulations as confusing or unclear (up from 29% last year), while concerns related to bureaucracy and reporting requirements have declined since 2022 (from 47% in 2022 to 24% in 2023)

**How ESG regulations have hindered (%)**

R2. Asked if ESG regulations have been a hindrance, select all that apply (n=139)

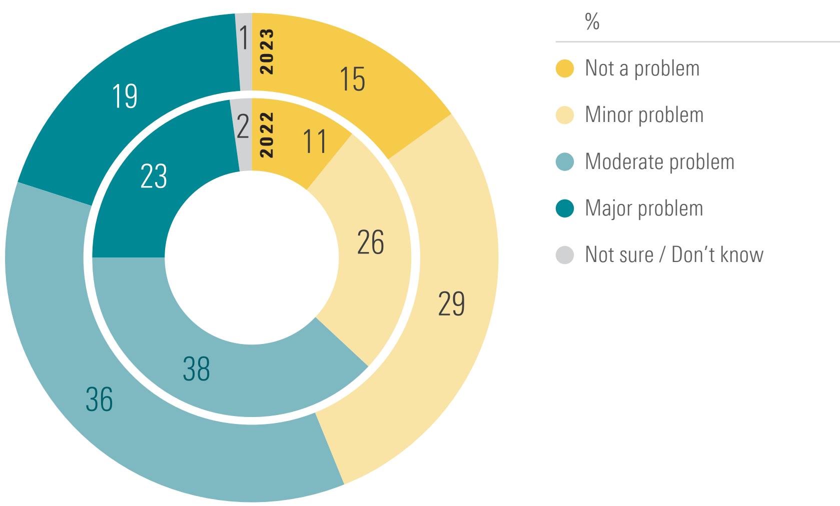


# Greenwashing is still a problem — but becoming less of one

Greenwashing refers to misleading tactics used to overstate the extent of a commitment to sustainability. We asked asset owners how much of a problem they believe greenwashing to be, and 15% reported that they don't view it as a problem, up slightly from 11% in 2022. The number of respondents who view greenwashing as a minor problem have increased as well, while the proportion of respondents stating that greenwashing is a moderate or major problem has declined, indicating that while the issue still exists, it has decreasing in severity.

**To what degree greenwashing is a problem (%)**

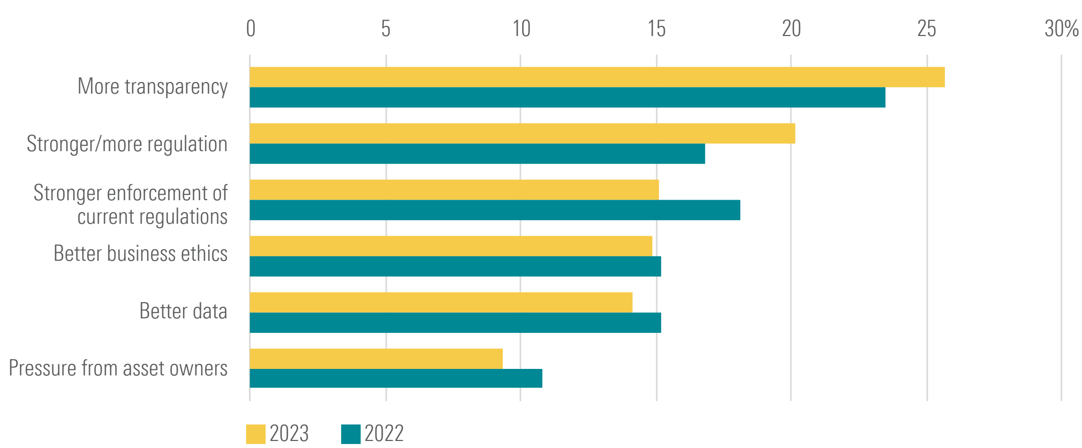
R5. Asked to all respondents (n=500)




For those who believe greenwashing to be an issue, greater transparency continues to be cited as the most effective solution (26%, up from 23% last year). One in five (20%) want to see stronger/more regulation — a slight shift from 2022 when stronger enforcement of current regulations was a more popular suggestion.

**Most effective way to address greenwashing (%)**

R6. Asked if greenwashing is a problem (n=417)

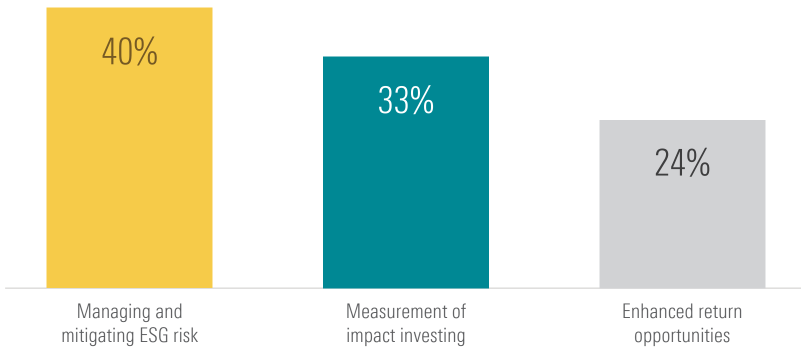


# Resources for managing and measuring ESG risks and opportunities have improved, but asset owners' needs are always evolving

Asset owners of all types are using ESG ratings, indexes, data, and tools in some capacity. When asked which applications they find to be most useful, 40% cited managing and mitigating risks, 33% said measuring the impact of their investments, and 24% find them to be the most useful for enhancing return opportunities.

**Most useful application of ESG data, ratings, indexes, and tools**

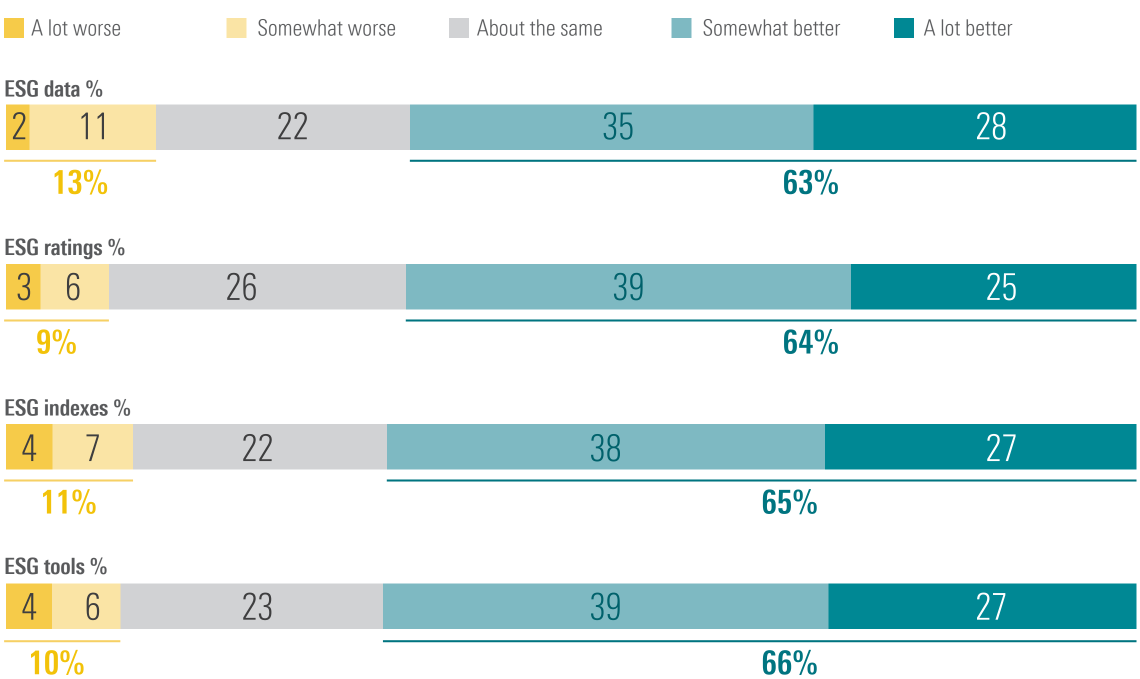
T3. Asked to all respondents (n=500)




In general, roughly two thirds of asset owners feel that the ESG data (63%), ratings (64%), indexes (65%), and tools (66%) have gotten either "a lot" or "somewhat" better over the past five years, but there are still many asset owners who see room for improvement.

**Whether ESG data, ratings, indexes, and tools have gotten better or worse over the past five years (%)**

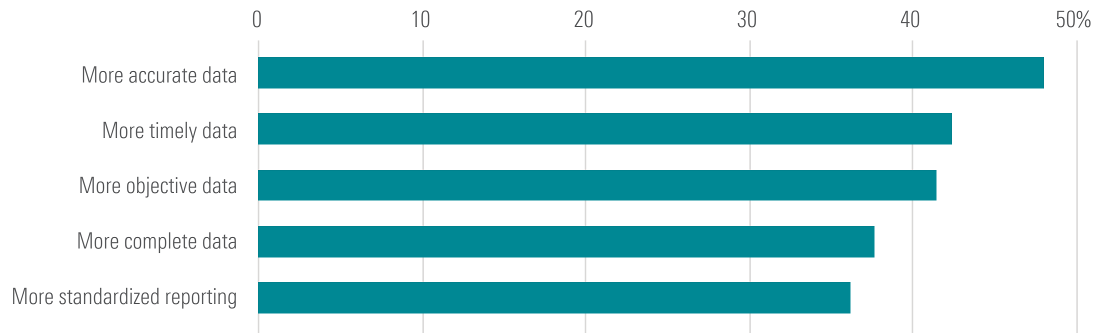
T1. Asked to all respondents (n=500)



When asked which types of improvements to ESG data, ratings, indexes, and tools would benefit them the most, more accurate and timely data were the most popular responses (48% and 42%, respectively), followed closely by objectivity and completeness of data and more standardized reporting.

**Improvements to ESG data, ratings, indexes, and tools that would benefit asset owners the most (%)**

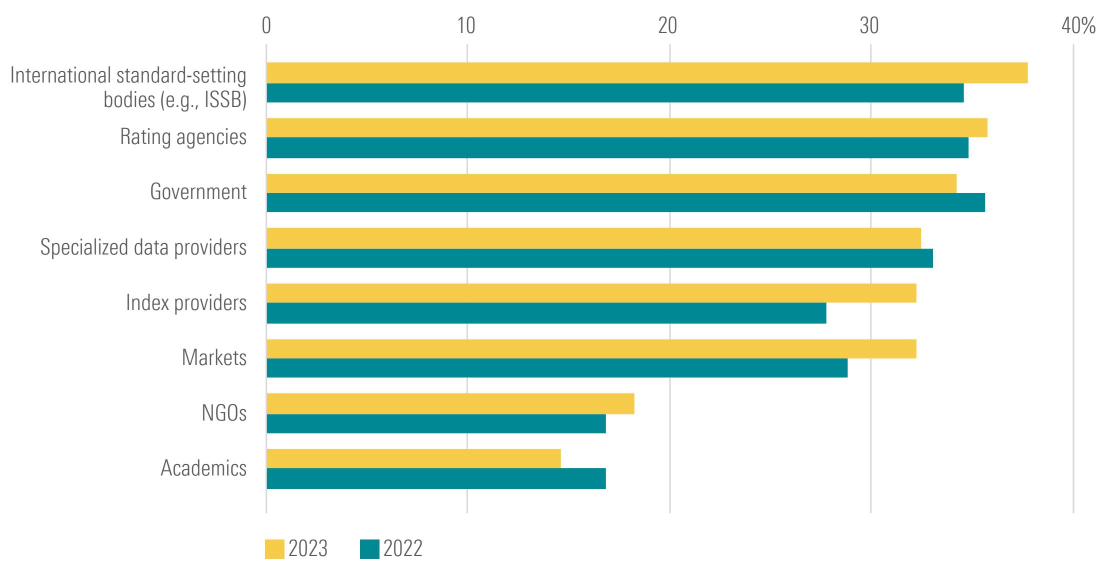
T2. Asked to all respondents, select all that apply (n=500)




Asset owners are making their needs known, engaging with a wide set of key stakeholders with suggestions on how to improve the quality of ESG resources. When asked who has the greatest responsibility for improving ESG data, ratings, indexes, and tools, in similar proportions to last year, respondents cited international standard-setting bodies, ratings agencies, and governments as the top three responsible parties, with specialized data providers, markets, and index providers following closely behind.

**Where responsibility for improving ESG data, ratings, indexes, and tools lies (%)**

T7. Asked to all respondents, select up to three (n=500)

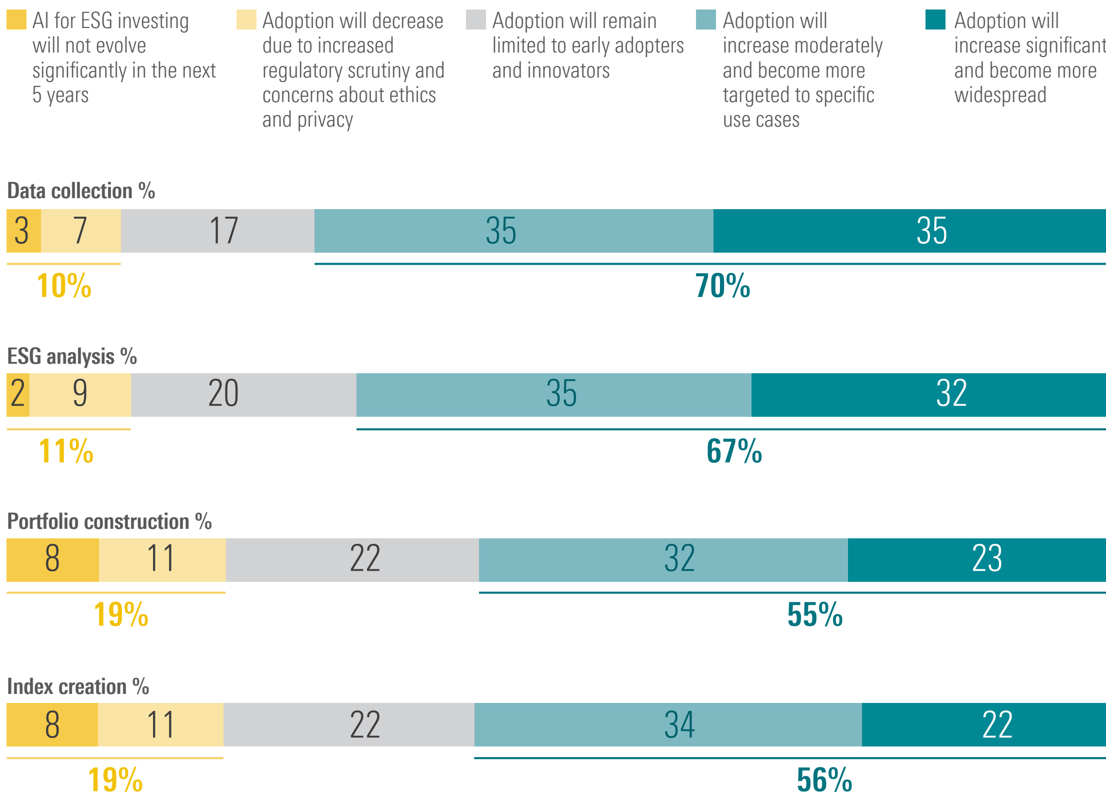


# Artificial Intelligence (AI) is predicted to have a major impact on ESG investing in the coming years

The majority of asset owners believe the adoption of AI will increase either moderately or significantly across the areas of data collection (70%), ESG analysis (67%), portfolio construction (55%), and index creation (56%).

**How the use of AI for will evolve over the next 5 years across data collection, ESG analysis, portfolio construction, and index creation.**

T8. Asked to all respondents (n=500)



# Conclusion

We were reminded through our discussions with asset owners of all sizes, approaches, and geographies that sustainable investing is complex and diverse, and it is progressing at different speeds and stages. We were also reminded that, despite their differences and the fact that each is on a different step within their own ESG journey, asset owners are quite unified in their ESG commitment. In fact, asset owners were consistent in detailing the challenges they face as well as their commitment to addressing these challenges.

It should go without saying that asset owners can be quite influential on global markets and public policy when they get their minds focused on a topic. ESG is an ecosystem with multiple catalysts, influencers, stakeholders, and spheres of influence. The global asset owner community is just one factor in this global ecosystem, but a critically important one whose policies and actions drive the behavior of other participants across the investment value chain.

## About Morningstar Indexes

As the fastest growing global index provider for the last two years according to Burton-Taylor, Morningstar Indexes was built to keep up with the evolving needs of investors—and to be a leading-edge advocate for them. Our rich heritage as a transparent, investor-focused leader in data and research uniquely equips us to support individuals, institutions, wealth managers and advisors in navigating investment opportunities across all major asset classes, styles and strategies. From assessing risk and return with traditional benchmarks to helping investors effectively incorporate ESG objectives into their investment process, our range of index solutions spans an investment landscape as diverse as investors themselves. We help investors answer today's increasingly complex questions so that they can more easily reach tomorrow's goals. For more information, visit indexes.morningstar.com.

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