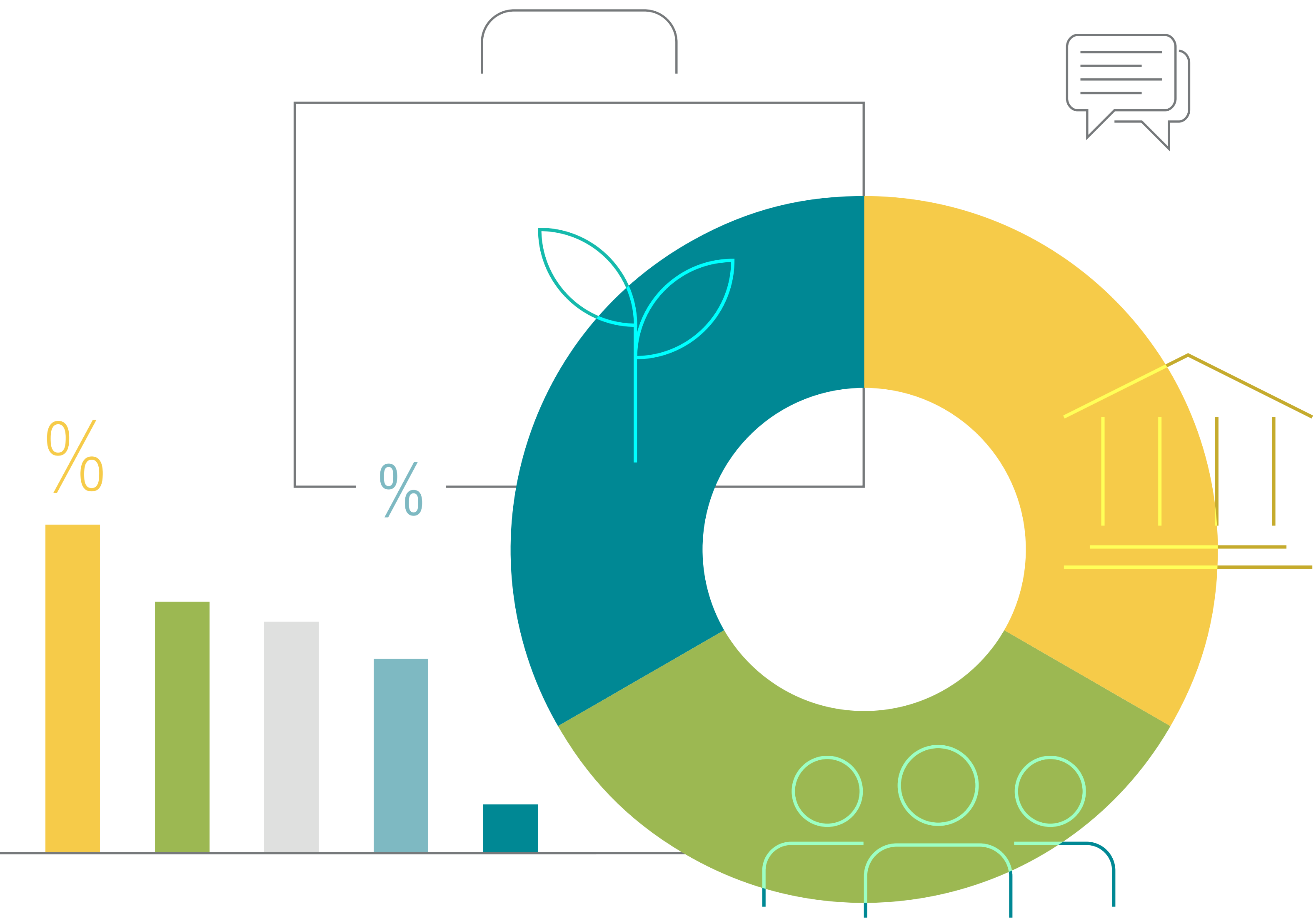
MORNINGSTAR®

Voice of the Asset Owner Survey
Key findings

Morningstar Indexes and Morningstar Sustainalytics
27 September 2022



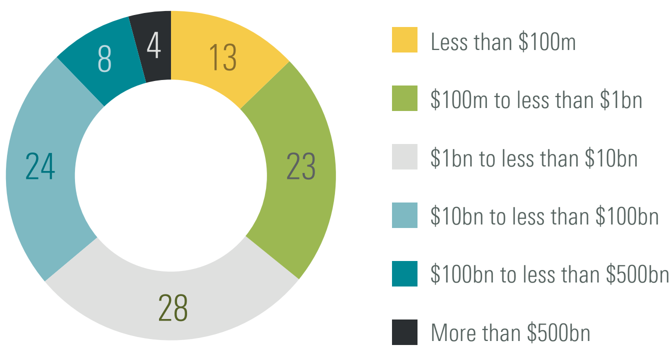
Who did we speak to?

Asset owners (AOs) surveyed work for an array of institutions. Respondents were most likely to work for insurance general account or OCIO/multi-manager organizations (both 21%), though family office (16%), sovereign wealth fund (15%), and pension fund (12%) institutions aren't far behind. In the US, AOs most frequently work for insurance general account organizations.

An average of almost 60% of assets at respondents' institutions are managed internally (vs. third parties). One in twelve (8%) say that all assets are managed internally. The majority of asset owners' work in institutions managing more than $1 billion (64%). This proportion holds across regions.

Total value of assets under management (%)

D4. Asked to all respondents (n=500)

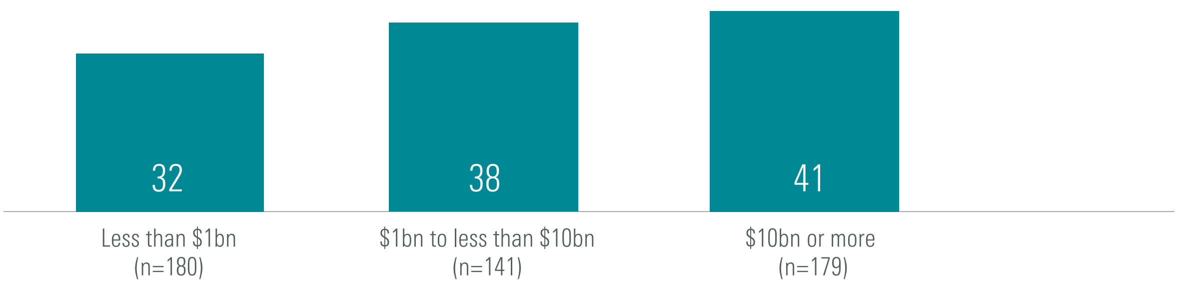


How prevalent – and important – are ESG considerations for AOs and their organizations?

While almost all asset owners take ESG considerations into account when investing, most (71%) indicate that less than half of their organization's total AUM takes account of ESG considerations. This proportion remains stable regionally across North American, European, and APAC nations. As an organization's AUM increases, so too does its consideration of ESG concerns.

Average proportion of AUM with ESG considerations, by AUM value (%)

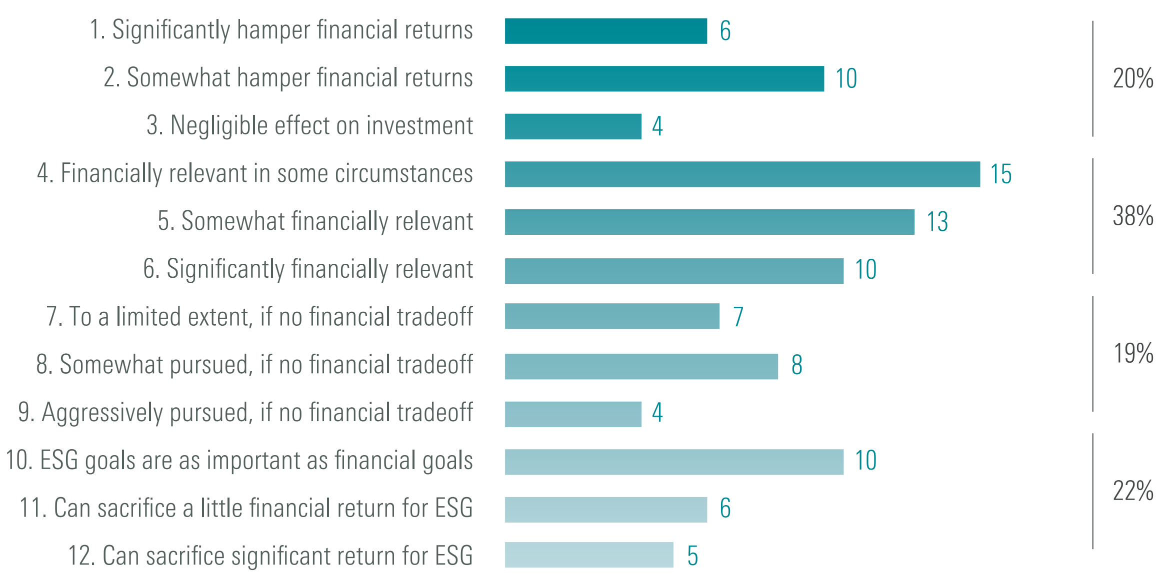
IP1. Asked to all respondents (n=500)



When asked to identify their organization's attitudes toward ESG considerations on a 12-point scale, AOs gave a spread of responses with the average falling right around the middle of the scale (6.2). AOs from China work for institutions that fall more on the ESG-conscious side of the spectrum, with an average selection of 8.3.

Which comes closest your organization's approach to ESG (%)?

IP2. Asked to all respondents (n=500)



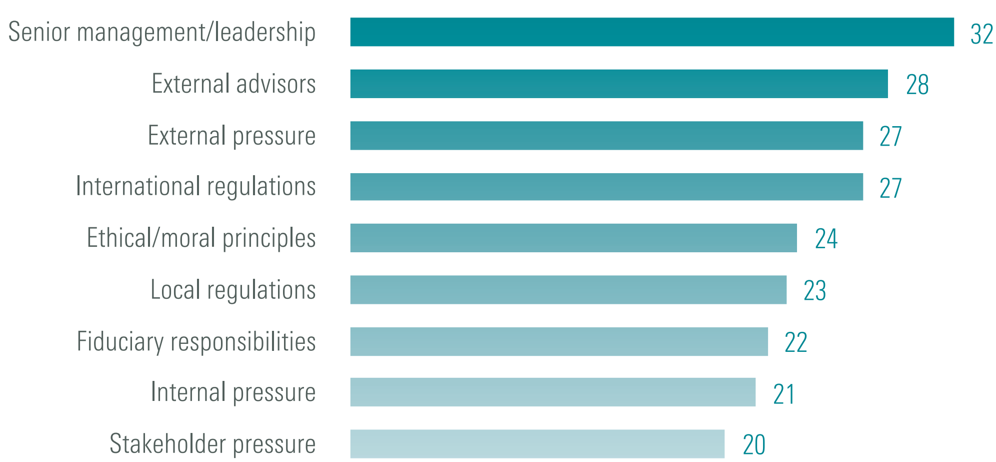
Asset owners tend to be split down the middle on whether or not they measure the ESG effects of their investment portfolio. Around half of AOs measure the social effects (57%), governance effects (50%), and climate effects (47%). North American AOs are more likely to measure climate effects (58%), while APAC AOs are more likely to measure governance effects (58%). AOs from China are much more likely to measure social effects, with the vast majority doing so (90%).

What are the motivators for pursuing ESG compliance? What are the barriers?

The reasons for pursuing ESG goals vary widely. A third (32%) of respondents cite senior management/leadership, closely followed by external advisors (28%), external pressure (27%), and international regulation (27%). External pressure ranks much higher as a motivator in North America (41%) and specifically the US (46%).

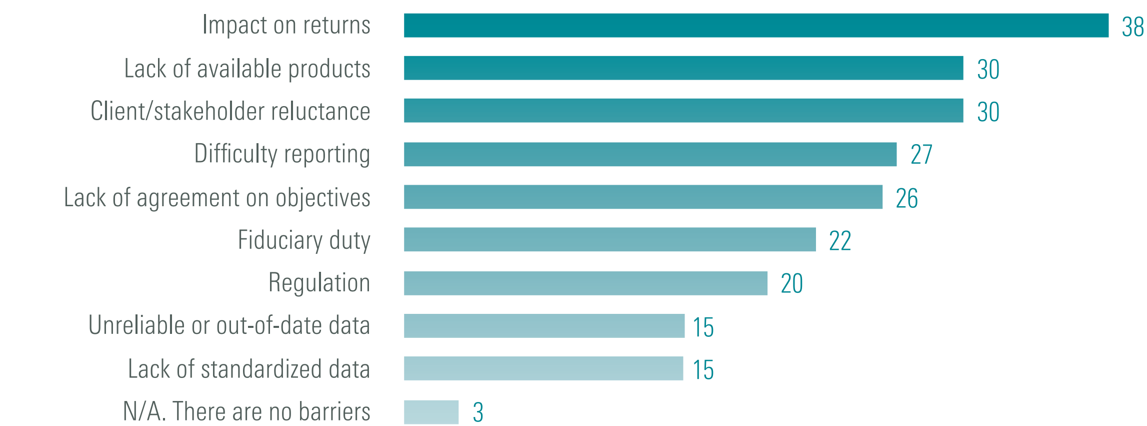
Which is most important in choosing to invest in ESG (%)?

IP3. Asked to all respondents (n=500)



On the other hand, the barriers to pursuing an ESG strategy are more clearly defined. Impact on returns is the top barrier (38%) across regions – on the country level, exactly half of the AOs from France consider the impact on returns to be a barrier. Generally, barriers are consistent region-to-region.

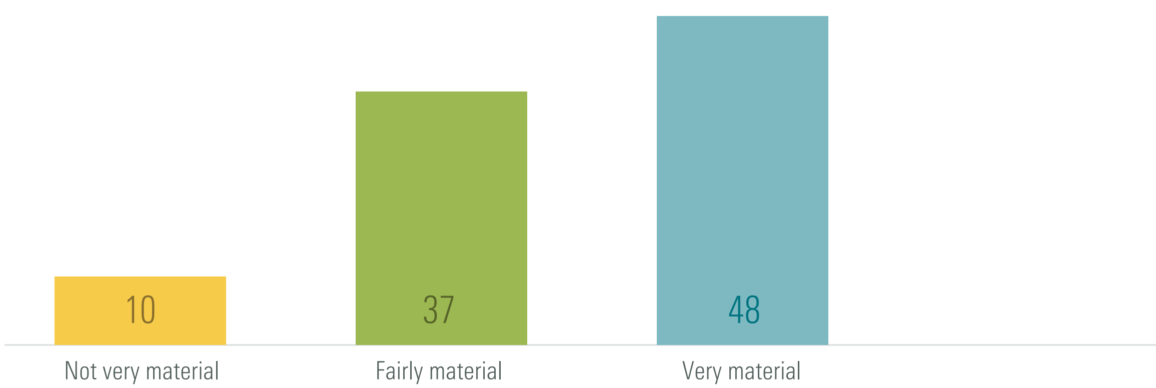
Which are barriers to pursuing an ESG strategy (%)?
IP4. Asked to all respondents (n=500)



But just how material is ESG to asset owners?

Six in seven (85%) AOs surveyed say ESG information is at least fairly material to their overall portfolio, including nearly half (48%) who say it is very material. AOs in APAC are most likely to say ESG is at least fairly material (91%) compared to those in Europe (79%).

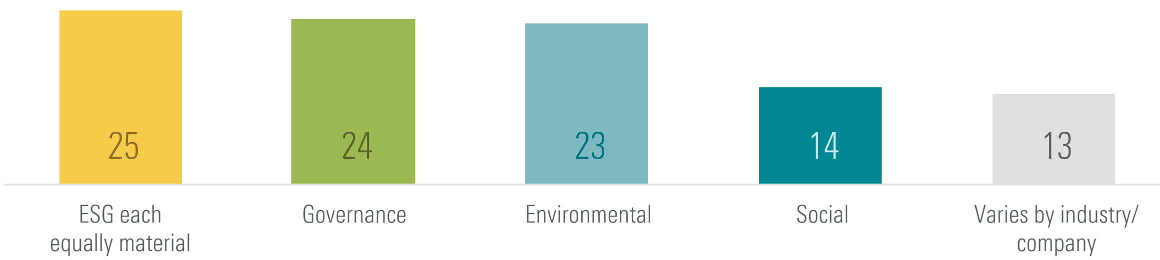
How material is ESG to your total portfolio (%)?
IP6. Asked to all respondents (n=500)



The same figures can be seen at the asset class-level. Globally, the strong majority of AOs consider ESG information to be at least fairly material for listed equities (82%), fixed income (79%), alternative investments (80%), and real estate (80%).

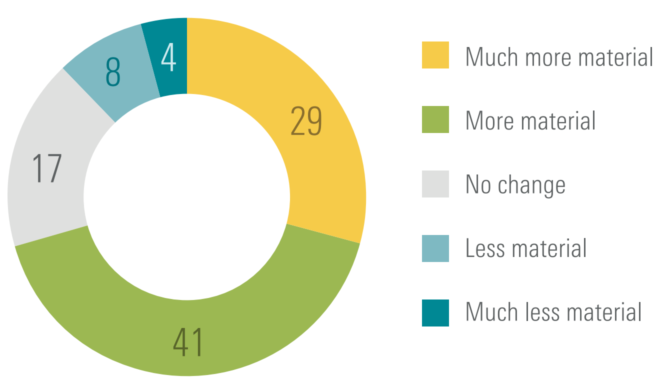
There's an even spread among AOs as to which part of ESG is most material to investing decisions, though social considerations lag environmental and governance concerns. Asset owners in the UK find environmental concerns to be particularly material, with 38% choosing 'E' as most material to their ESG investing choices.

Which part of ESG is most material to your decisions (%)?
IP8. Asked if ESG material to portfolio (n=476)



ESG has been more material for AOs in the past five years, with 70% indicating ESG has become more material, including 29% who say it has become much more material. Those in Europe are slightly less likely to say ESG has become more material (64%) and especially those in France (50%).

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

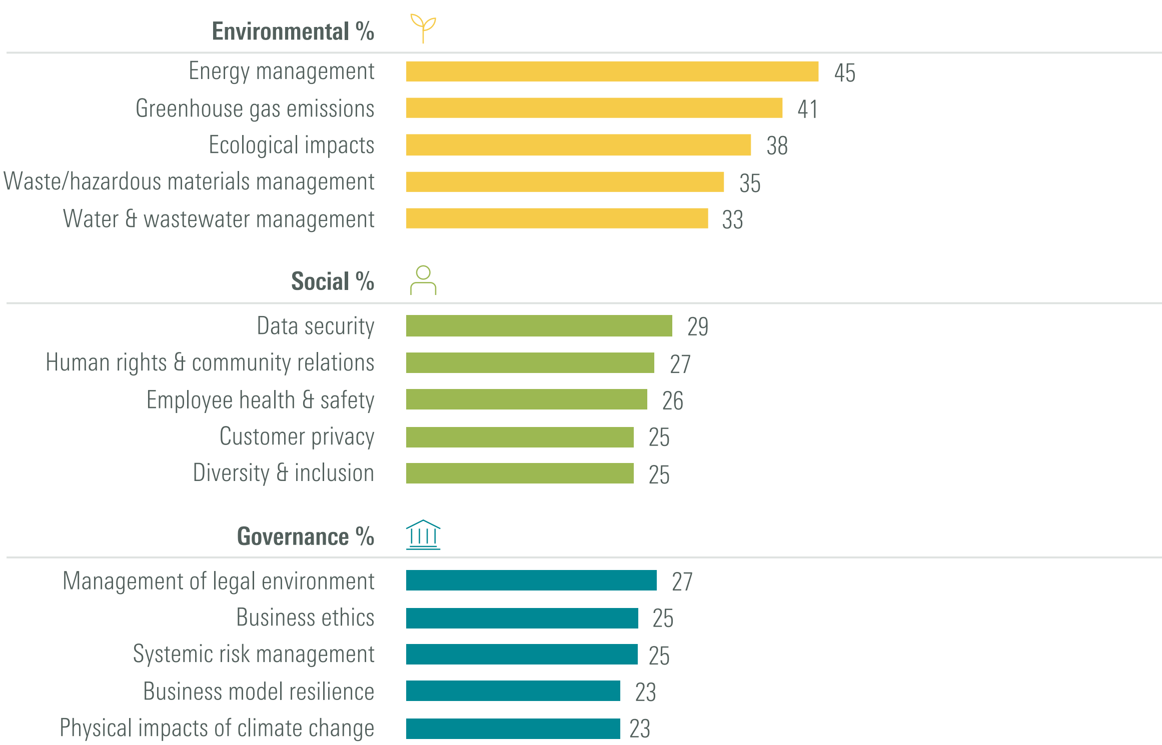


Digging deeper, which ESG issues are driving the increase in materiality?

Environmental concerns win out over social and governance issues in terms of materiality. Perhaps due to current energy shortages, almost half (45%) of AOs consider energy management to be material to their investment decisions, with greenhouse gas emissions coming close behind (41%).

Generally, specific social and governance issues are considered less material than environmental ones. The top social issues include data security (29%) and human rights (27%) while the most prominent governance issues include the legal environment (27%) and business ethics (25%).

Which issues are most material to your decisions (%)? (Top 5)
IP9-IP11. Asked if ESG material to portfolio (n=476)



How do asset owners implement their ESG strategies?

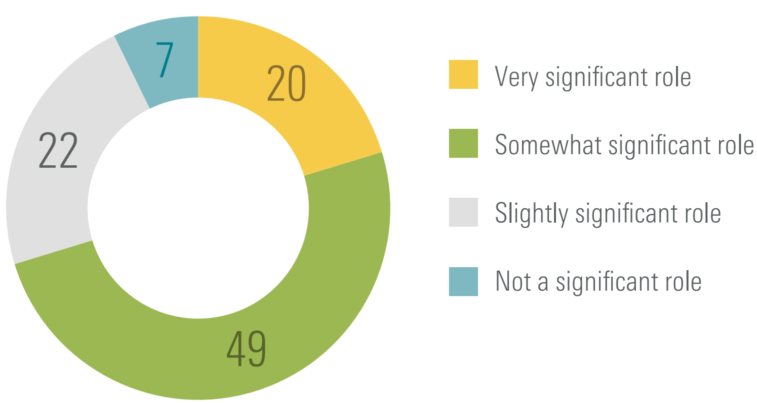
Asset owners utilize a range of resources and partners when strategizing how to employ their ESG approach. Proxy advisors are used most frequently (32%), though there is a wide distribution of partners used for ESG strategy decisions, including strategic partners (30%), specialized ESG data providers (29%), investment consultants (28%), and ESG rating & index providers (28% and 25%, respectively). These proportions are broadly consistent across all markets surveyed.

When it comes to the operation of an ESG program, asset owners rely mostly on internal resources, whether it's a dedicated ESG team (26%), general investment staff (26%), or a mix of internal and external resources (20%). North American AOs are less likely to rely on general investment staff (18%), while AOs in the UK are more likely to do so (40%).

Active stewardship is an important risk management tool for AOs with ESG investment plans. Nine in ten (91%) asset owners report that active stewardship (including proxy voting) plays at least a slightly significant role in their ESG program, with 49% saying it's somewhat significant and 20% very significant. Those in the US are most likely to say active stewardship plays a very significant role (34%).

Significance of active stewardship in ESG program (%)

E3. Asked to all respondents (n=500)

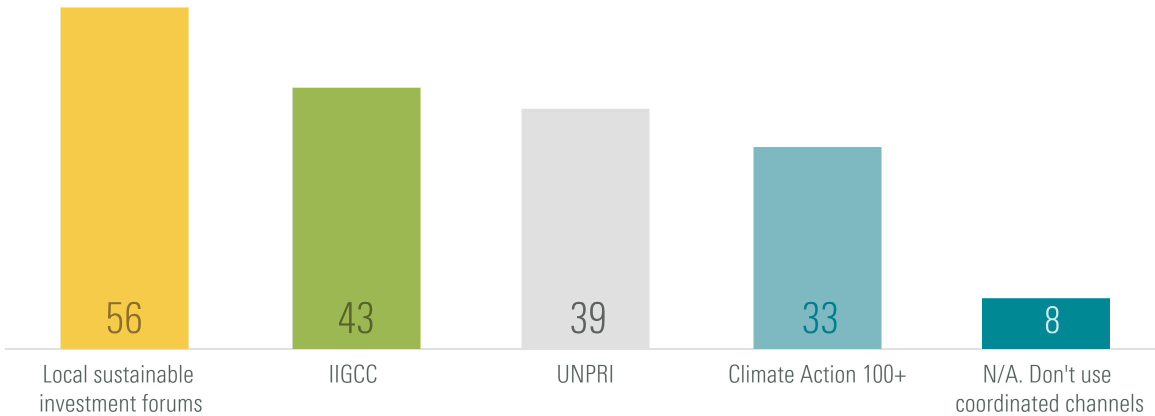


In their approach to active stewardship, AOs tend to prefer local or regional forums. A majority (56%) use local/regional sustainable investment forums such as US SIF, Eurosif, RIAA, etc. This figure is notably higher in China (90%).

Other channels commonly used include the Institutional Investors Group on Climate Change (IIGCC) (43%), the UN Principles for Responsible Investment (UNPRI) (39%) and the Climate Action 100 (33%). American AOs are more likely to make use of the UNPRI than those in other markets (56%).

Channels used through approach to stewardship (%)

E4. Asked to all respondents (n=500)



Asset owners are equally likely to have their ESG engagement policies implemented through direct (22%) interaction as they are indirectly through collective initiatives (23%). Direct interaction is more popular in Europe (27%), and less popular in Canada (10%). Nearly half (45%) indicate they implement ESG engagement policies through both direct and indirect channels.

Are ESG regulations helping or hurting asset owners?

Asset owners are generally positive about the impact of regulations on their approach to ESG investing. Three in five (59%) say regulations have been a help, including 28% who say they have been a major help. Those in the US and Germany are most likely to say regulations have been a major help (both 40%).

It is therefore unsurprising that nearly three quarters of asset owners (73%) say they support regulations intended to achieve specific objectives, such as net zero by 2050. A third (32%) say they strongly support, rising to nearly half (48%) of American AOs.

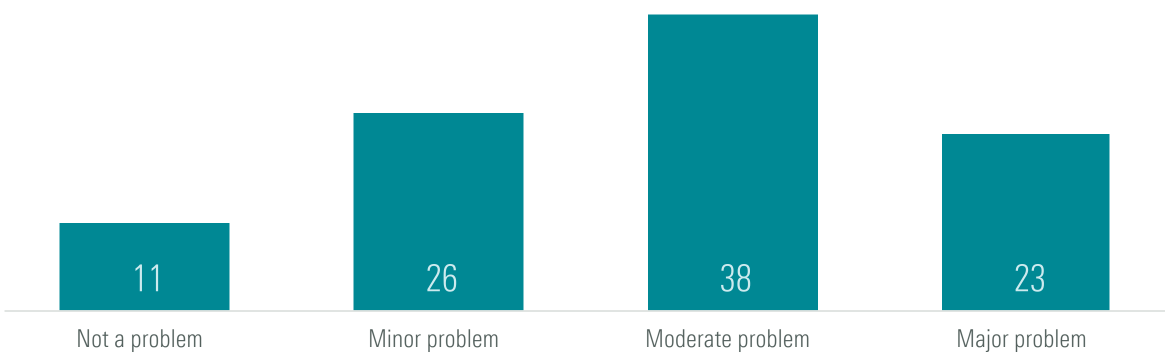
For those that feel positively towards regulation, the biggest reason is the clarity they bring to definitions (53%). This is followed by easy integration of IT systems (51%), detail of definitions (45%), and standardized frameworks (42%).

Only 24% of AOs say regulations have been a hindrance to them, although this figure rises to 36% in Australia. Among this group, the key challenges are too much bureaucracy/reporting requirements (47%), the large cost of integrating systems (42%) and inconsistent definitions (36%).

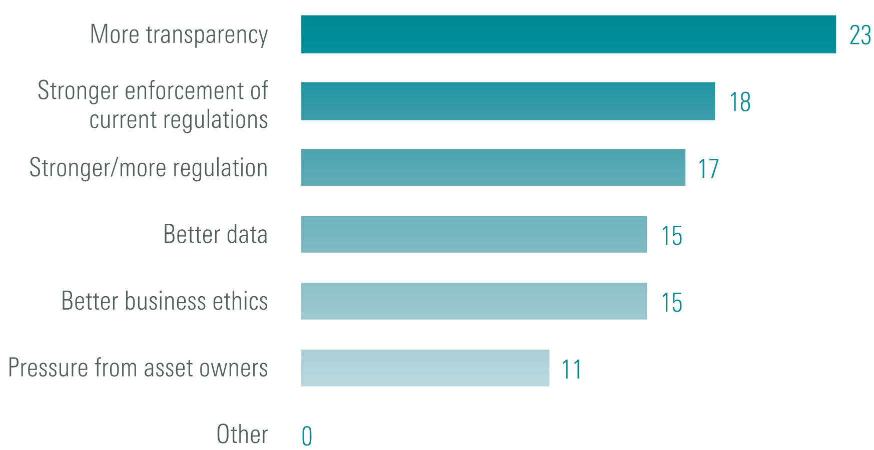
Despite this positive tone towards regulations, AOs are still aware of potential issues with the current state of ESG investing. One in four (23%) say greenwashing is a major problem while 38% cite it as a moderate problem.

More transparency is the best solution for AOs who consider greenwashing a problem (23%). This is followed by stronger enforcement of current regulations (18%) and more regulations (17%).

How much of a problem is greenwashing in ESG (%)?
R5. Asked to all respondents (n=500)



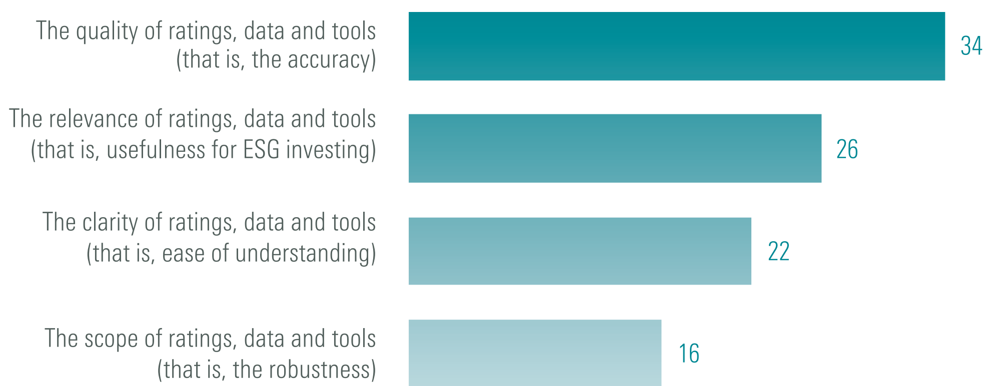
What would be most effective in addressing greenwashing (%)?
R6. Asked to all who believe greenwashing to be a problem (n=435)



How have ESG tools available changed, and how can they be improved?

There has been a marked improvement in the quality of ESG data, ratings, indexes and tools available over the past five years, according to AOs. Around two-thirds (64-66%) say these have got better during this time, compared to just one in ten (8-13%) who have seen a decline in standards.

Which elements of ESG ratings, indexes, data, and tools need the most improvement in the next five years (%)?
T6. Asked to all respondents (n=500)



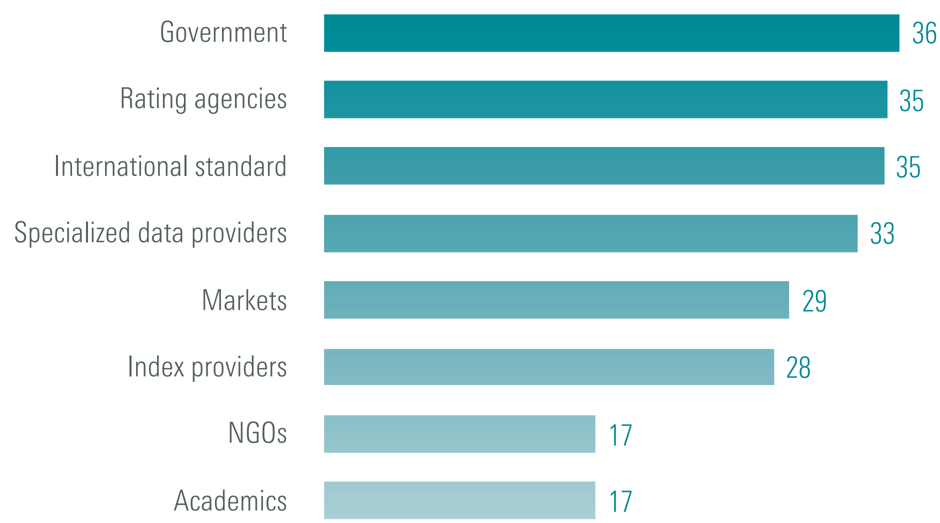
Respondents in North America (75%) and especially the United States (84%) are most likely to have seen an improvement in ESG tools.

AOs are most likely to find these resources useful for managing and mitigating ESG risk (40%), followed by measurement of impact investing (33%), and enhanced return opportunities (24%).

However, in a fast-moving world with greater emphasis on ESG, there is still plenty of room for improvement. Nearly half (48%) say they would benefit from more accurate data, 42% from more timely data, and 41% from more objective data. More standardized reporting is cited by 36% across all markets, although this figure is higher in APAC (44%).

This is also reflected in the aspects of ESG ratings, indexes, data, and tools that AOs feel need the most improvement. A third (34%) want to see improvements in quality, 26% improvements in relevance, 22% improvements in clarity, and 16% improvements in scope.

Who has the most responsibility for improving ESG ratings, data, and tools (%)?
T7. Asked to all respondents (n=500)



Respondents in Germany and those working in endowments or foundations are most likely to value scope (26% and 28% respectively).

When asked who has the greatest responsibility for making these improvements, AOs are split. Similar proportions say governments (36%), rating agencies (35%), and international standard-setting bodies (35%) have the greatest responsibility.

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About Morningstar Sustainalytics

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