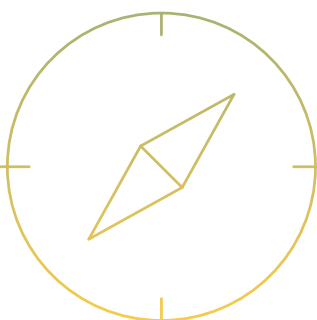
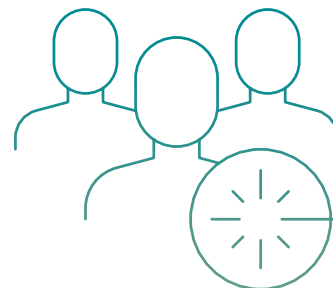




# Voice of the Asset Owner Survey 2024 Qualitative Insights

Conducted by Morningstar Indexes and Morningstar Sustainalytics





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## A global survey of institutional investor priorities and perspectives

### Introduction

Institutional asset owners (AOs) find themselves in the middle of an increasingly volatile and fragile global market ecosystem, resolutely adhering to their fiduciary duty while balancing key stakeholder demands, regulatory pressures, and market challenges. All of this while meeting the needs of their constituents, according to the recently completed qualitative phase of our third annual Morningstar Voice of the Asset Owner Survey.

We developed this annual survey to gain a better understanding of the motivations, attitudes and challenges of institutional AOs in the current environment. Now in its third year, the survey continues to explore topics such as:

- Investment objectives and policies
- Views on current and future investment trends
- The impact of regulatory change
- Key stakeholders and influencers
- The role of ESG in investment decisions and opinions on service providers

We use the survey findings, which are gathered through both qualitative and quantitative outreach to AOs across the globe with the help of [Opinium Research](#), for a variety of purposes. This includes client education, as a reference for the industry, as input into the development of products and services, and for marketing communications.

## Phase one: Qualitative analysis

The first phase of our 2024 program consisted of direct qualitative conversations with a diverse set of thirteen hand-selected asset owners from a range of institution types and sizes across North America, Europe and Asia-Pacific. Our intent with these in-depth discussions was to probe for perspectives and themes to help inform our broader quantitative study, to be fielded later this year.

### **Port in a storm: Asset owners navigate an increasingly challenging landscape**

During our conversations, certain unifying characteristics came to light. Above all, we found that AOs wear many hats as they successfully manage a consistently challenging and dynamic set of responsibilities.

## #1 Hat one: Asset owner as global investment manager

Acting as fiduciaries, AOs oversee some of the world's largest pools of capital, steering investment policy on behalf of pension plans, foundations, endowments, and sovereign wealth funds. The majority of the asset owners we spoke with view themselves as “universal owners,” meaning they hold diversified portfolios that represent a significant portion of the entire market. As such, they cannot easily diversify away from external risks like climate change, biodiversity loss, geopolitical events, or human rights violations. This leads many AOs to pursue an engagement-oriented approach to ensure their portfolio companies are addressing these long-term risks.

AOs are concerned with several macro issues that could have an impact on their investment strategies and portfolios. These macro concerns include geopolitical developments such as the ongoing Russia-Ukraine conflict, the Israeli-Hamas war in Gaza, and China's rising impact on the global stage. These topics were primarily raised by AOs as sources of global unrest and uncertainty. Other important macro themes include the long-term direction of global interest rates as well as the upcoming general elections across the globe and the political uncertainty around those events.

“The whole political situation that's going on now, right now there's a democratic administration, split government, but I've got an election coming up in, oh my goodness, what, six months? And then there could be a huge shift. And so, you're trying to be mindful of that and navigate or try to understand, okay, what's most likely to happen.”

US Public Pension Fund

“We are already more cautious on investing in emerging markets, especially in China. The country is popping up as a red flag more frequently. I expect that in the near future we will only invest in emerging markets through active mandates, not via passive mandates”

European Corporate Pension Fund

"We manage risk by being geographically diversified. So, I don't think that will change unless there's regulatory changes that force us to do so, such as of course, US and China relations or things like that. You know Russia was a good example; when Russia invaded Ukraine, a lot of public funds like us had to write down our Russian assets."

US Public Pension Fund

"Interest rates would be the big one. I mean if there were some huge market decline, that would feed through as well. But for the defined benefit plan, it's an interest rate story and what's happening on that side."

US Corporate Pension Fund

## #2 Hat two: Asset owner as communicator & influencer

AOs are not just investors. It was evident in our recent discussions that their roles and responsibilities are becoming more complicated with each passing day. The importance of managing communication with key internal and external stakeholders emerged as a common theme. AOs also noted that administrative complexities, such as plan conversions (from defined benefit to defined contribution), are adding challenges to their daily operations. Complexities related to plan governance and managing boards of trustees also surfaced in several interviews. US-based AOs face an additional communications-related challenge related to ESG consideration and competing political interests.

AOs have historically been committed to engaging collectively around important issues. However, when asked about involvement in industry groups such as Principles for Responsible Investment (PRI), some interviewees mentioned weighing the costs versus benefits of specific organizations, which may reflect increasing pressure and resource constraints.

"...in the Netherlands we're doing this big pension transition, so all Dutch pension funds are facing the same. We're going from a DB type of pension system to a DC so that's a big change."

Dutch Pension Fund

"There's so many attacks and interference from politicians in terms of the fiduciary responsibility of public pension funds in the United States."

US Public Pension Fund

"...the number of steps that need to be taken in order to execute any decision, there's quite a lot of work involved in that, so it's kind of just pushing through all the things that need to be done..."

US Corporate Pension Fund

"Does PRI offer value? I think they do. The set of relationships, the stamp, the sounding board. They do their best to keep us informed on the issue topics. To be honest, we could have more involvement. We could get more out of the relationship. It's not a priority, unfortunately."

US Public Pension Fund

"In general, I would say our culture we're a little, some would say slower to act. We like to say deliberative, and so we are careful in terms of what we put our name on and what we sign on to. So, it's just more that we don't want to just to sign up for a bunch of things. So, anything we sign up for, we want to make sure we are taking part in devoting resources to being really thoughtful in terms of how we put our time and energy. And it's not like those aren't worthwhile groups..."

US Public Pension Fund

### #3 Hat three: Asset owner as steward of global capital

In last year's Voice of the Asset Owner Survey, a full two-thirds (67%) of AOs indicated that ESG had become more material to their investment process in the previous five years, reflecting their perspective as long-term investors. Yet the concept of "materiality" meant different things to different people.

This year, we extended the dialogue around ESG-related investment strategies and materiality. The definition of materiality clearly varies based on the type of plan and where the asset owner is located. In Europe, for example, materiality often implies pursuing financial returns to benefit key stakeholders while also engaging more broadly to consider the environmental, social, and governance impact of investments. For AOs located in the US, financial materiality takes center stage, and ESG impacts are thought of as a related benefit but not the main determinant of where and how to invest.

While it is clear that there is a spectrum of approaches to ESG ranging from finically material risks to impact considerations, there is no doubt that the focus on ESG factors is increasing across the board. Respondents consistently indicated that over the last five years, ESG has become more material to their investment considerations, and they expect this trend to continue.

Notably, variance in the ESG investing landscape has emerged across geographies, with clear differences between the levels of "noise" (i.e., criticism & political roadblocks) surrounding ESG encountered by AOs in the US relative to those in Europe and Asia.

"We've had to take slightly different steps in order to implement the ESG goals within the US than we have in other markets."

US Corporate Pension Fund

"...broader than that, it encompasses how we view our fiduciary responsibility in the US as opposed to in Europe. Fiduciary responsibility is very narrowly defined in terms of financial risk and return only."

US Public Pension Fund

When asked about importance of the “E” (Environmental) relative to the “S” (Social) and “G” (Governance) components of ESG, climate remains the key material factor driving investment policy. Biodiversity, water, and reporting around scope three emissions were commonly cited as emerging climate factors.

Data quality, availability, and consistency, while cited as needing improvement in all aspects, were perceived as much better for “E,” reinforcing the focus on climate. The “G,” came up in discussions as a factor that has perennially held significance and is becoming increasingly tied to topics related to the environment. AOs noted that conversations around climate are moving into the board room, showing a coming together of the “E” and “G” as climate becomes a necessary component of good governance. AOs also voiced growing concerns around areas where they believe better corporate governance is needed, referencing voting structures at Meta, board independence questions at Tesla, and the recent suit by ExxonMobil against two shareholders for bringing a specific resolution.

“Climate is in the lead and that’s because the data that’s available is better.”

US Corporate Pension Fund

“The biggest gap most definitely is biodiversity. I think that’s probably a gap for most asset owners.”

US Public Pension Fund

“I think for the ‘e’ part, I think everyone is struggling with scope 3 emissions. That’s the trickiest, the hardest part.”

US Public Pension Fund

“The challenge with data at the moment is yes, in ESG space you have combination of qualitative and quantitative data. So you have analyst overlay at the same time they would have quantitative inputs as well. Sometimes when you compare different rating systems with one of their peers, ratings can be very different and it makes you question as to what risk is material for this particular company if two big service providers are looking at and rating these risks differently.”

Australian Superannuation Scheme

“Another challenge is, yes, the data... We know that some data are still missing, some are still not fully reliable because the companies also have to understand the way they have to report and sometimes we see some variations.”

European Insurance General Account

## #4 Hat four: Asset owner as operations manager

In addressing a large and growing set of duties related to regulatory reporting and transparency requirements, asset owners have proven themselves to be practical and resourceful. They make use of high-quality tools and assistance where available, and if they can't find a resource to address a certain need, they proactively develop their own solutions.

In terms of perceived gaps between the solutions asset owners need and what is currently available to them, similar to what was reported in last year's survey, they believe the data and tools are improving but are not yet where they need to be.

"The availability of products is market-driven and the market will respond to what perceived needs are. Ideas will get tested and some of it will hit the market. Some of it will fall flat. So, I think sufficient, yes. Is it a rich and varied and wonderful marketplace? No. Is it an adequate marketplace? Yes. So, for us, having better reporting, better data on the impact of what we're doing will be the elements that we really want to see in the products we're going for."

US Corporate Pension Fund

"Sustainable investment will stay very high on agenda with a lot of regulation, which is really challenging, which is complex to implement. We know that we have to face issues that are not yet solved about data quality, data availability in some areas."

European Insurance General Account

"There are some big legislations that are being introduced in Australia such as climate-specific legislation, greenwashing guidelines, and how we communicate is important. So, I think obviously doing what we do on a day-to-day basis, but in addition, managing those regulatory expectations, risk and compliance has even evolved in last 12 months."

Australian Superannuation Scheme

"So you have limited resources and sometimes you have to be jack of all trades. It's like there's so much happening from climate, modern slavery, biodiversity, compliance, to regulatory developments, and members asking questions. And you have a limited number of people on your team. So, you have to be really creative and innovative in the sense how you manage this complex dynamic, collaborate, and also upward background in law, engineering, science, overlapping specialization in areas such as climate and human rights. ESG professionals often feel like they constantly have to keep learning."

Australian Superannuation Scheme

"I'm a pioneer of cookie cutter processes. They exist, I'll find them...We will try our best to stick them together with tape and hope they hold."

US Public Pension Fund

"In terms of certain products not being available, maybe we're lucky because we have a certain size, but if things are not available, we try to make them ourselves. So also, certain collaborations we started ourselves and I agree that at times if you want something very specific and it's not in the market, that can be a challenge, but we can also be a bit creative and just keep going. It shouldn't hold you back to step forward on certain issues in the largest scheme of things."

European Pension Fund

## Conclusion & next steps

The robust nature of our qualitative conversations helps us adapt and evolve the questionnaire for the upcoming broader quantitative survey to be fielded later this year. During the second phase of our program, we will build on this notion of the asset owner as a “port in a storm” and as a global investor that “wears many hats” by further exploring topics such as:

- How relevant are some of the macro concerns like China, Russia, the Middle East and upcoming elections and could they trigger material changes in investment strategy?
- Do asset owners need more help navigating plan governance challenges around key stakeholder communications and related reporting needs?
- As asset owners continue to build out their ESG capabilities, what types of tools can be developed or improved by service providers to address evolving regulatory and reporting requirements?

Our sincere thanks to the investment professionals who participated in the qualitative phase of our study. We are looking forward to engaging with our clients, key stakeholders, and the broader market in the coming months and sharing the results of our quantitative survey later this year.

### 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](https://indexes.morningstar.com).



### About Morningstar Sustainalytics

Morningstar Sustainalytics is a leading ESG data, research, and ratings firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Morningstar Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG information and assessments into their investment processes. The firm also works with hundreds of companies and their financial intermediaries to help them consider material sustainability factors in policies, practices, and capital projects. With 17 offices globally, Morningstar Sustainalytics has more than 1,800 staff members, including more than 850 analysts with varied multidisciplinary expertise across more than 40 industry groups. For more information, visit [www.sustainalytics.com](https://www.sustainalytics.com).



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