Sustainability

Schroders

Institutional Investor Study 2020

Marketing material for professional investors and advisers only

Executive summary

Schroders' annual Institutional Investor Study analyses the investment perspectives of 650 institutional investors, collectively responsible for $25.9 trillion in assets and from 26 locations across the world.

The Study provides a snapshot of some of the world's largest investors' key areas of focus and concern. These include the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

The research was conducted in April 2020, as the scale and global impact of the Covid-19 crisis had taken hold.

Institutional investors' attitudes to sustainability:

67% cite ESG integration as their favoured investment approach when implementing sustainability

67% believe the role of sustainable investing will become more important over the next five years

60% highlight greenwashing as the main challenge to investing sustainably

58% say the alignment of corporate/internal values is the primary driver behind their sustainable investment focus

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Investors are asking more from their asset managers when it comes to sustainability, and those demands are becoming increasingly sophisticated. The evidence is consistently growing that sustainable investment and robust returns are not mutually exclusive.

We welcome regulatory efforts to harness tangible action and help fight greenwashing. This should support delivering real change, and allow investors to make informed decisions. At the same time, it is also crucial that asset managers and investors do not feel overwhelmed by these growing demands and amount of sustainability information.

We are working closely with industry initiatives, policymakers and regulators to strike the right balance.

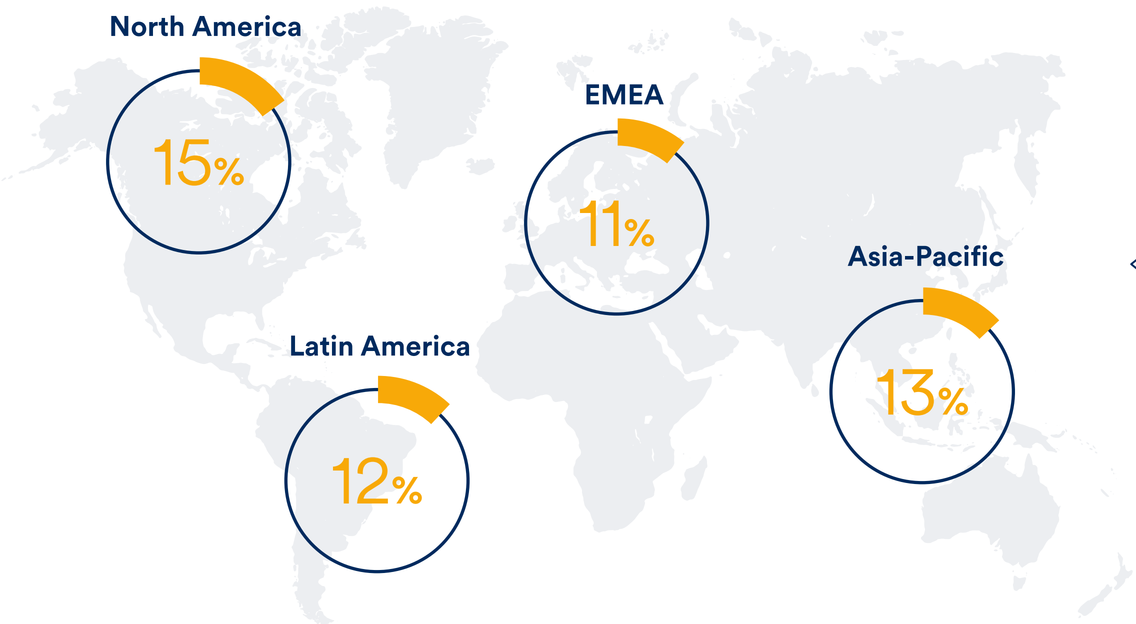
Andrew Howard
Global Head of Sustainable Investment

Upward trend in institutions' allocation to sustainable investments

Over the last five years, how have your organisation's allocation to sustainable investments changed?

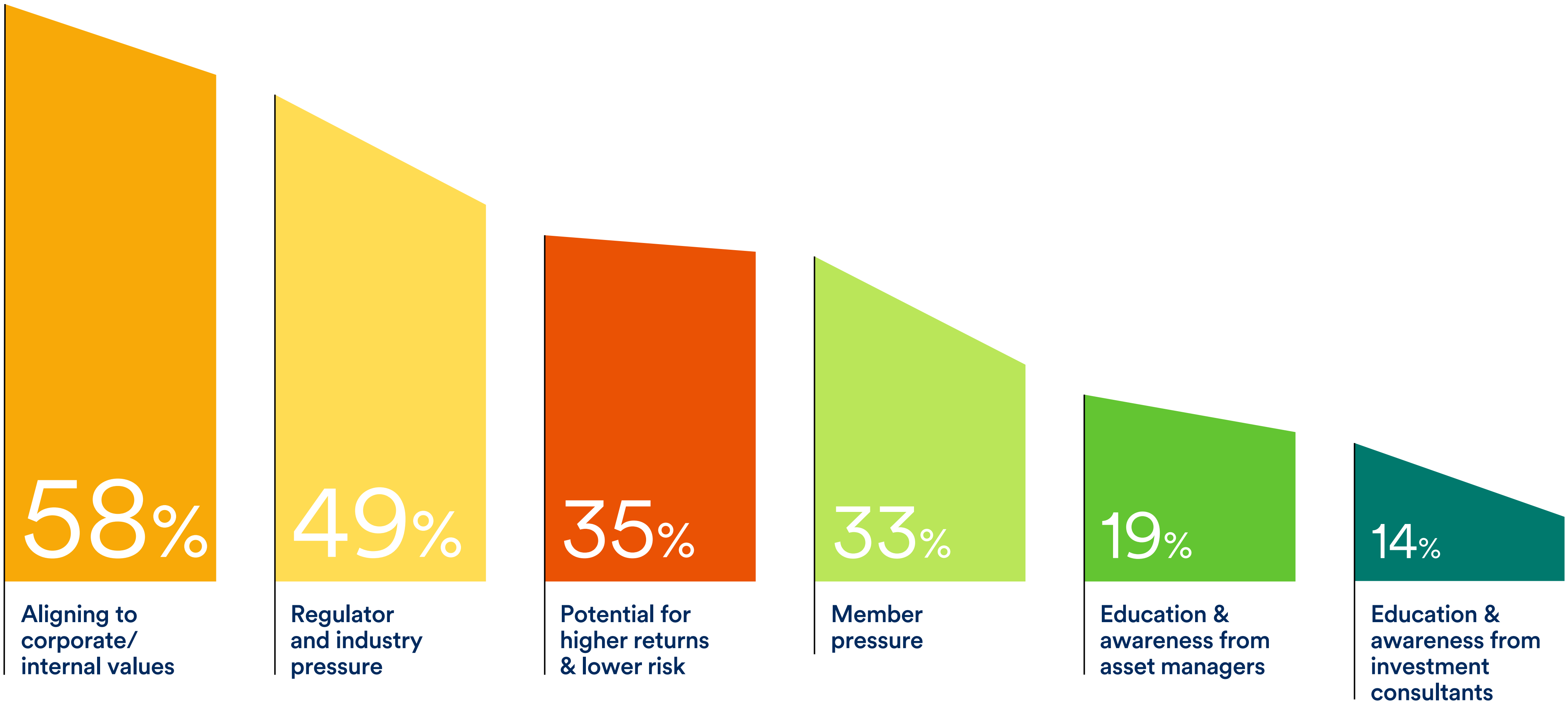
	2018	2019	2020
We do not invest in sustainable investments	16%	19%	12%

Regional split



Alignment with corporate/internal values is driving sustainability investment focus

What is driving your sustainability investment focus? Select all that apply



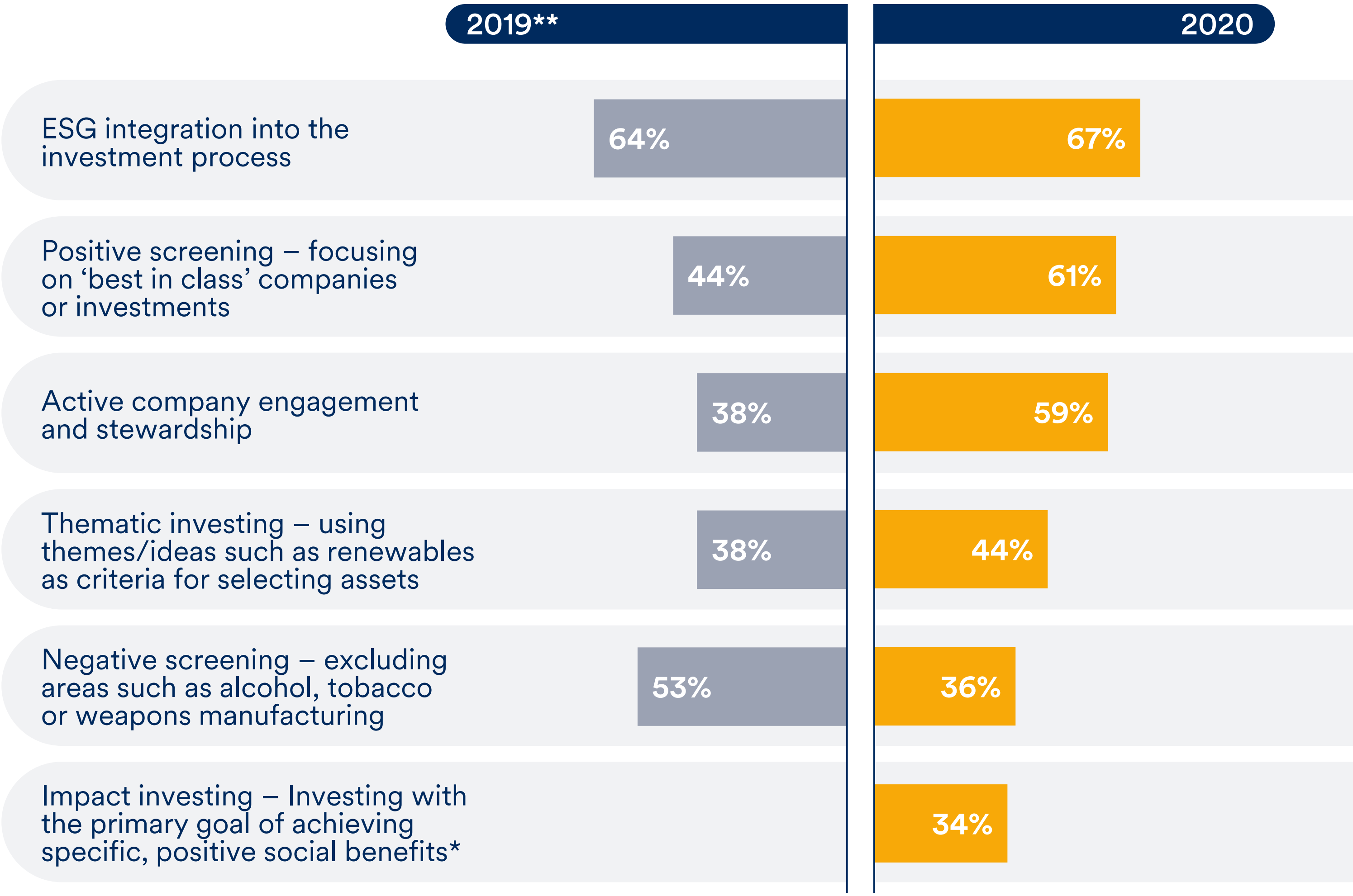
% Yes, Multiple answers allowed | Percentages may not add up to 100% due to options not displayed

Preferences shift from exclusive to inclusive approaches with strong focus on active ownership

Please rank in order of preference your approach to implementing sustainable investments?

67% of global institutional investors cite ESG integration into the investment process as their favoured approach when implementing sustainable investments. Positive screening has increased in importance this year (61% vs 44% in 2019) as well as active company engagement and stewardship (59% vs 38% in 2019). Interestingly, EMEA investors place the most emphasis on integration (44%), while North American investors highlight thematic investing (31%) and Asia-Pacific investors cite impact investing (30%).

Negative screening has tumbled from the second most popular method of integrating sustainability in 2019 to second last in 2020 (36% vs 53% in 2019).



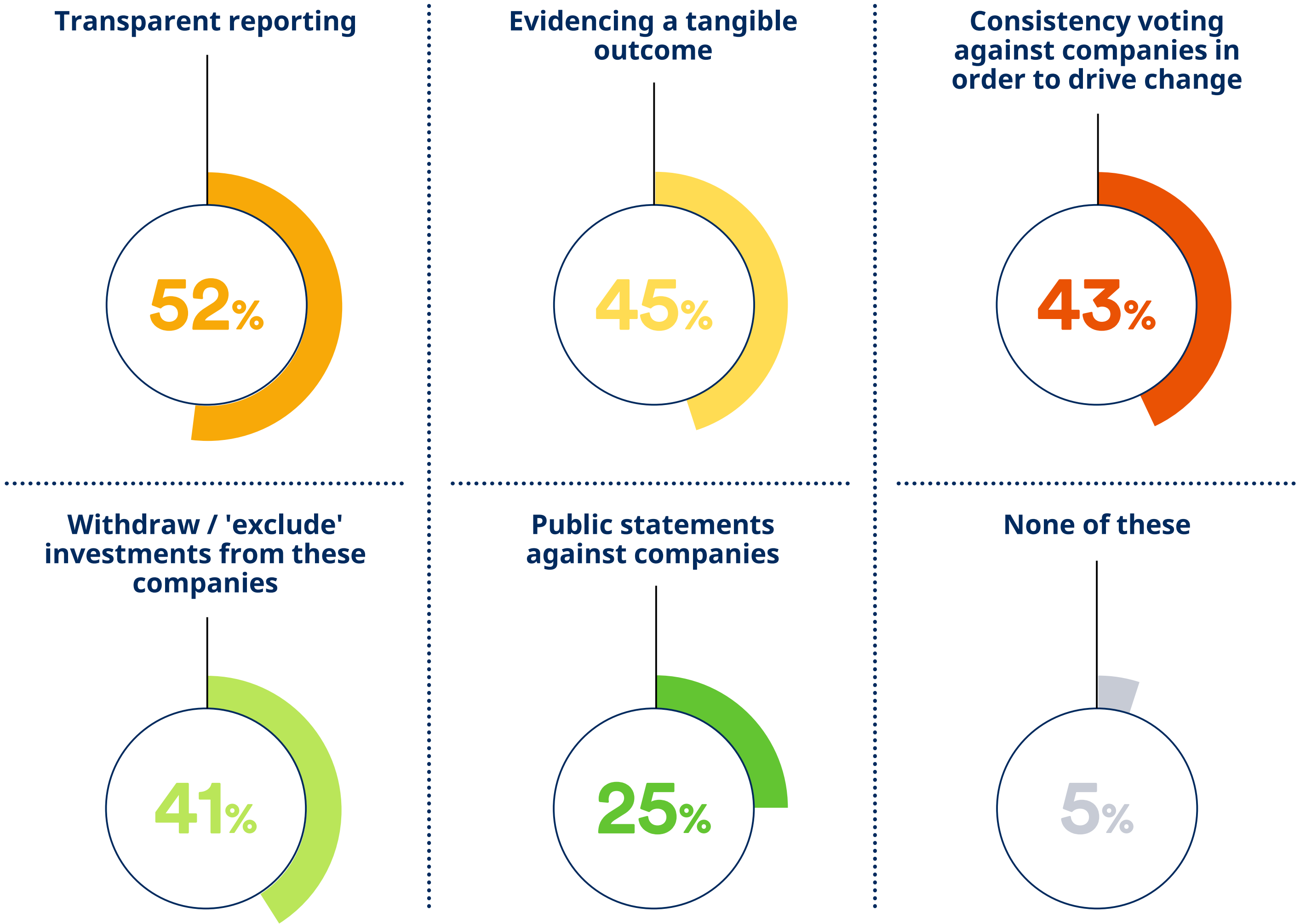
% Rank 1 + Rank 2 + Rank 3 | *This question was not asked in 2019 | ** % Yes, Multiple answers allowed

Transparent reporting and tangible outcomes classed as "successful" engagement

Active ownership has become more important than ever. Investors have a duty to hold companies accountable and an opportunity to drive positive change. It's why Schroders has such a strong commitment to active ownership, demonstrated by our 20+ year history in ESG integration. By engaging with companies and using our voting rights, we can drive sustainable change to better meet the investment needs of our clients.

Elly Irving
Head of Engagement

What would you class as successful engagement in regards to influencing companies to make sustainable changes? Select all that apply



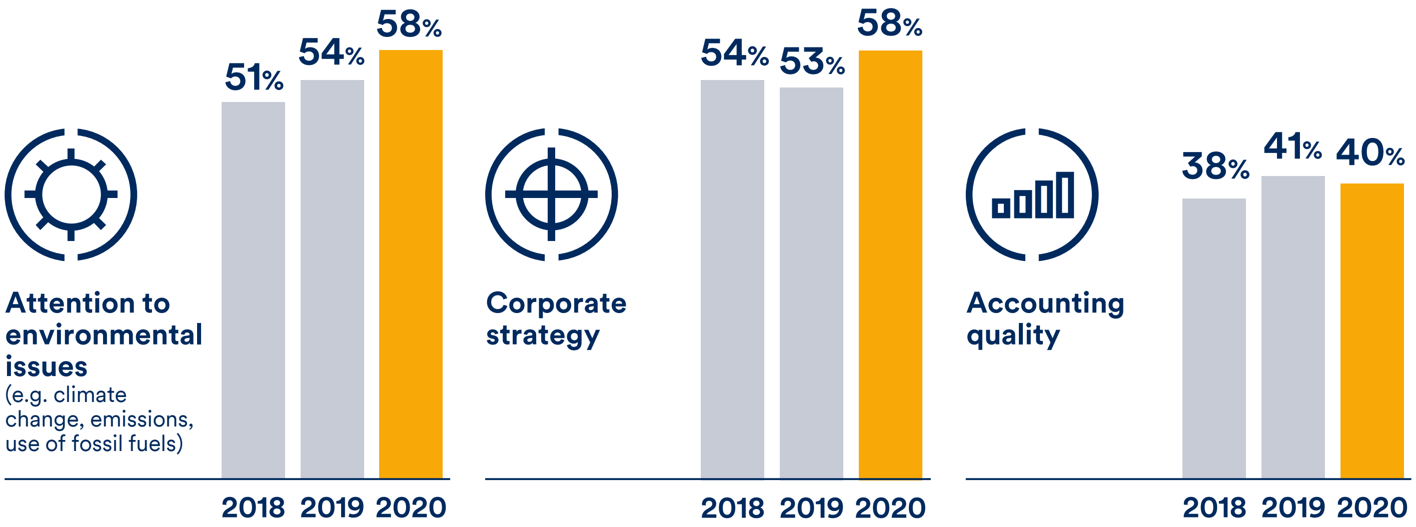
Multiple answers allowed | Percentages may not add up to 100% due to 'Other' option not displayed

Climate change tops global engagement agenda for second year running

Please rank in order of importance the areas that you believe it is important for investment managers and asset owners to engage on

While institutional investors want to engage on a range of sustainable causes, attention to environmental issues (e.g. climate change, use of fossil fuels etc.) and corporate strategy (both 58%) continue to be the most important engagement strategies, followed by accounting quality (40%). Interestingly, the focus on bribery and corruption has dropped considerably this year to 20%, compared to 40% in 2019.

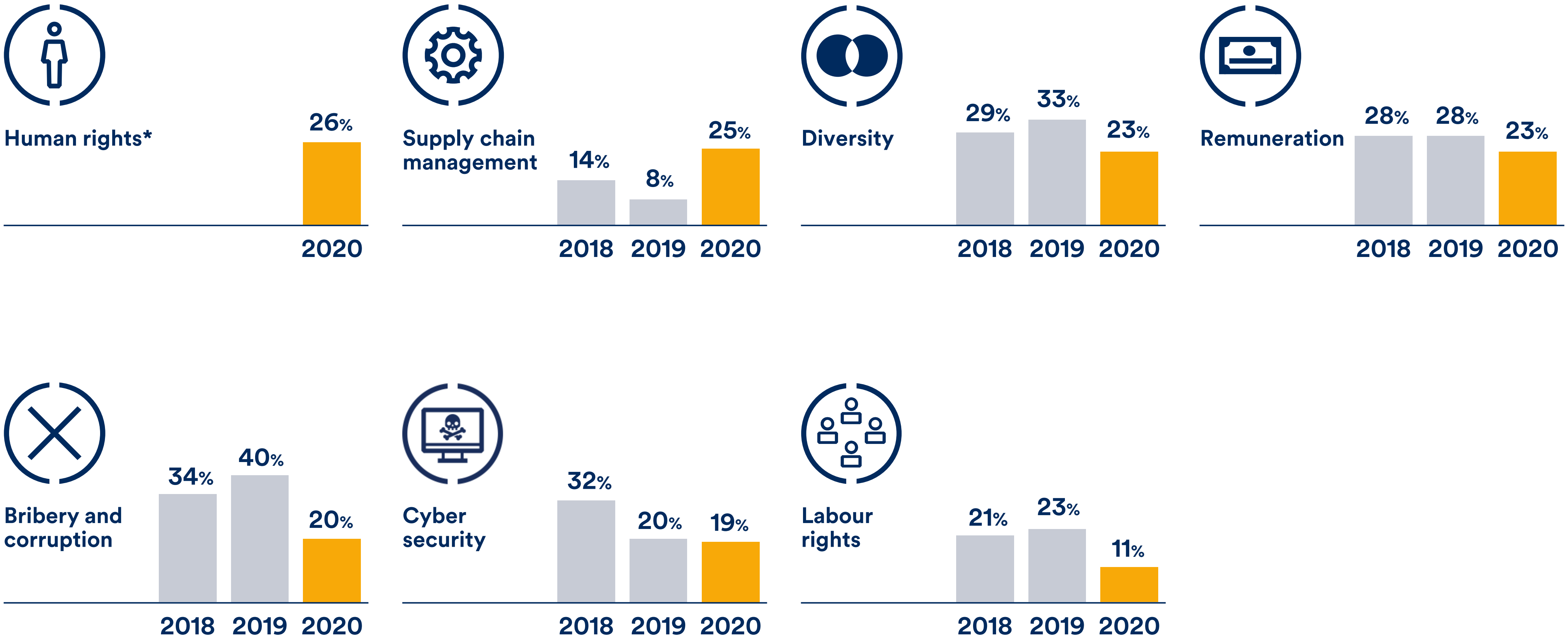
However views vary across the continents; environmental issues is the top engagement area for EMEA investors (47%) whereas North American investors highlight cyber security (40%) and diversity (36%). Asian-Pacific investors place most emphasis on labour rights (38%).



% Rank 1 + Rank 2 + Rank 3

Climate change tops global engagement agenda for second year running (continued)

Please rank in order of importance the areas that you believe it is important for investment managers and asset owners to engage on



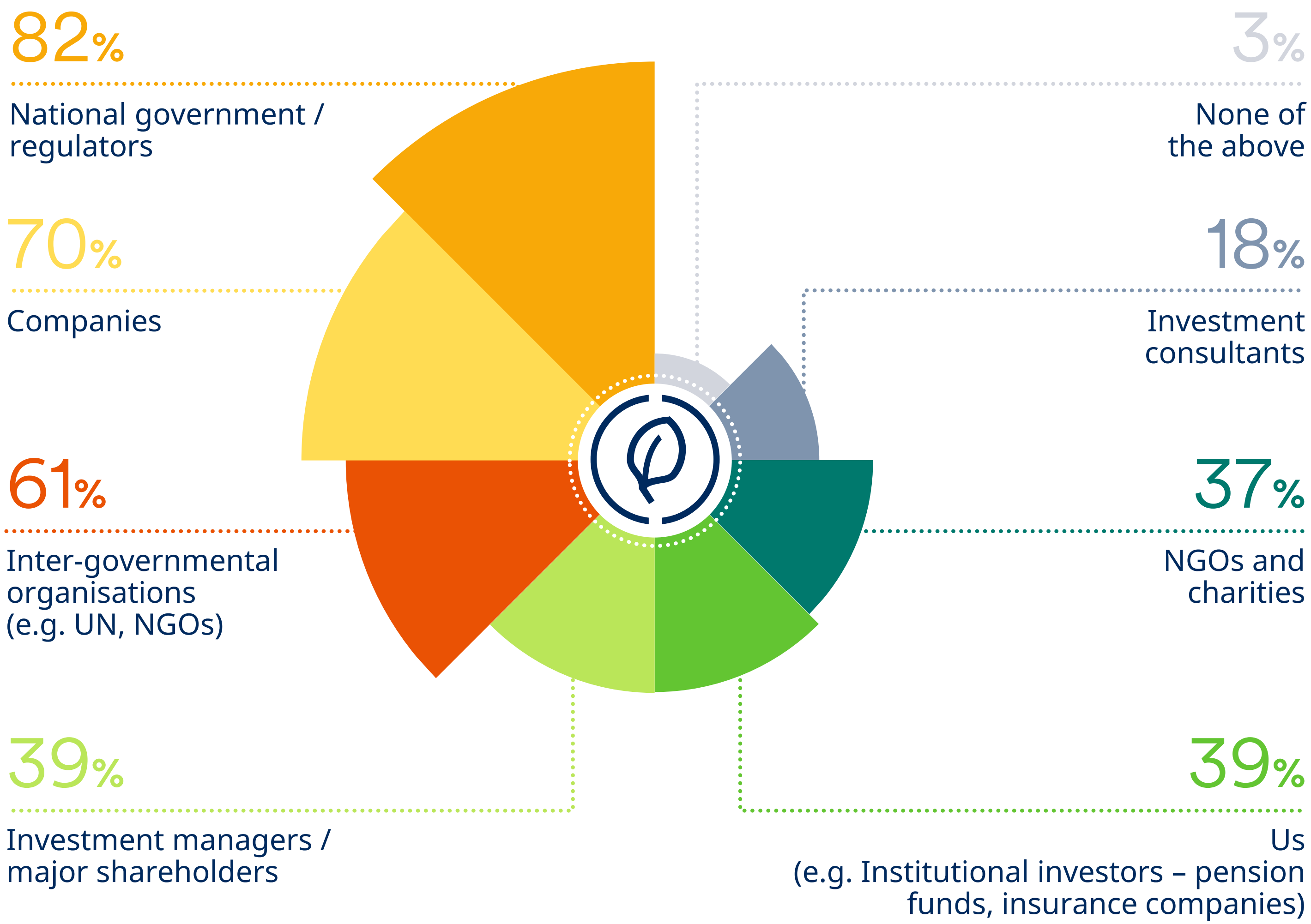
% Rank 1 + Rank 2 + Rank 3 | *This question was not asked in previous years

Private and public sector both responsible for mitigating climate change

Who should be responsible for mitigating climate change?

Institutional investors believe governments and regulators are instrumental in the efforts to mitigate climate change (82%). 70% believe companies are crucial to help dampen the impact of climate change, which echoes the drive for investment teams to align with wider company values when it comes to sustainability (see page 4).

It is interesting to note that very few respondents (3%) selected “none of the above”. This demonstrates that institutional investors believe that all stakeholders have some level of responsibility to mitigating climate change.



Please rate on a scale of 1-5 where 1 = Not at all and 5 = Completely responsible

% Responsible (4 + 5)

Investors seek a range of sustainability themes with climate change most popular

When considering making an investment in a sustainable fund where would you like to invest? Select all that apply

40%
A fund that aligns with a specific sustainability goal such as attention to environmental issues

34%
A fund that aligns with a specific sustainability goal such as sustainable infrastructure

33%
In a broad sustainability fund

30%
A fund that aligns with a specific sustainability goal such as responsible consumption

29%
A fund that aligns with a specific sustainability goal such as health and wellness

24%
A fund that aligns with a specific sustainability goal such as inclusion

22%
A fund that aligns with another sustainability goal

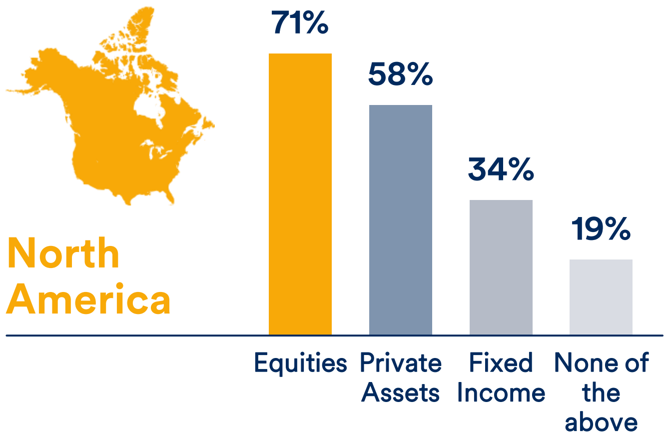
Multiple answers allowed | Source: The UN, Sustainable Development Goals

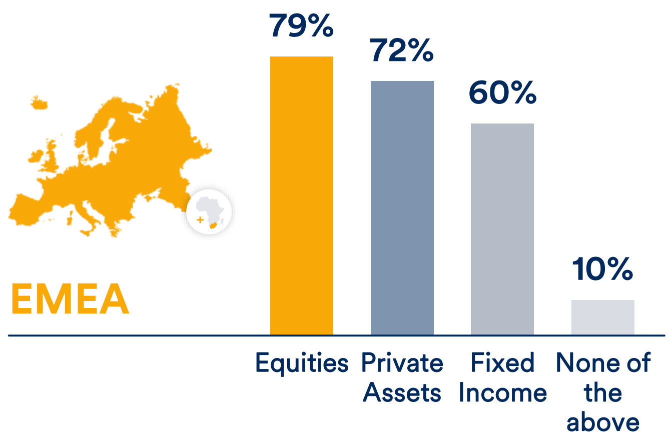
Equities continues to be the dominant asset class for implementing sustainability

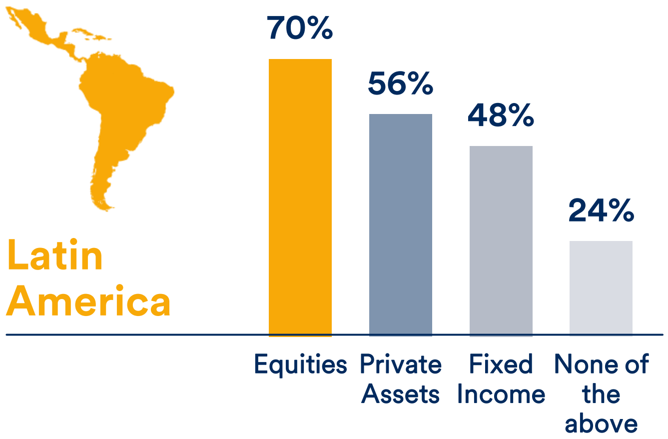
Sustainability is an important consideration in which of the following asset classes? Select all that apply

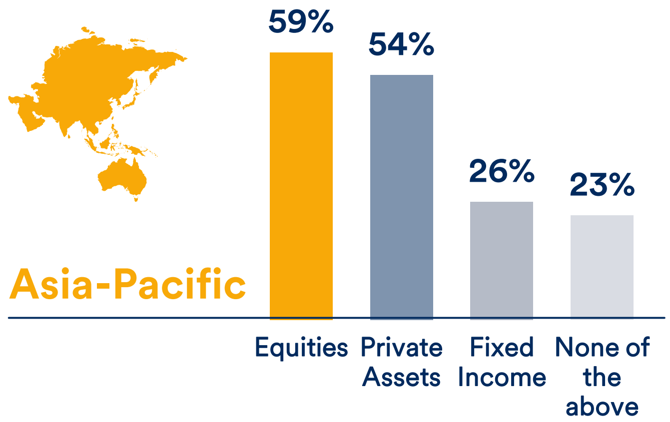
71% of global institutional investors believe sustainability is the most important consideration in equities, followed by private assets (62%) and fixed income at 43%.

EMEA investors are more likely than other regions to use private assets (72%) and fixed income (60%) to incorporate sustainability, whereas Asia-Pacific investors place fixed income much lower in their ranking (26%).









Multiple answers allowed

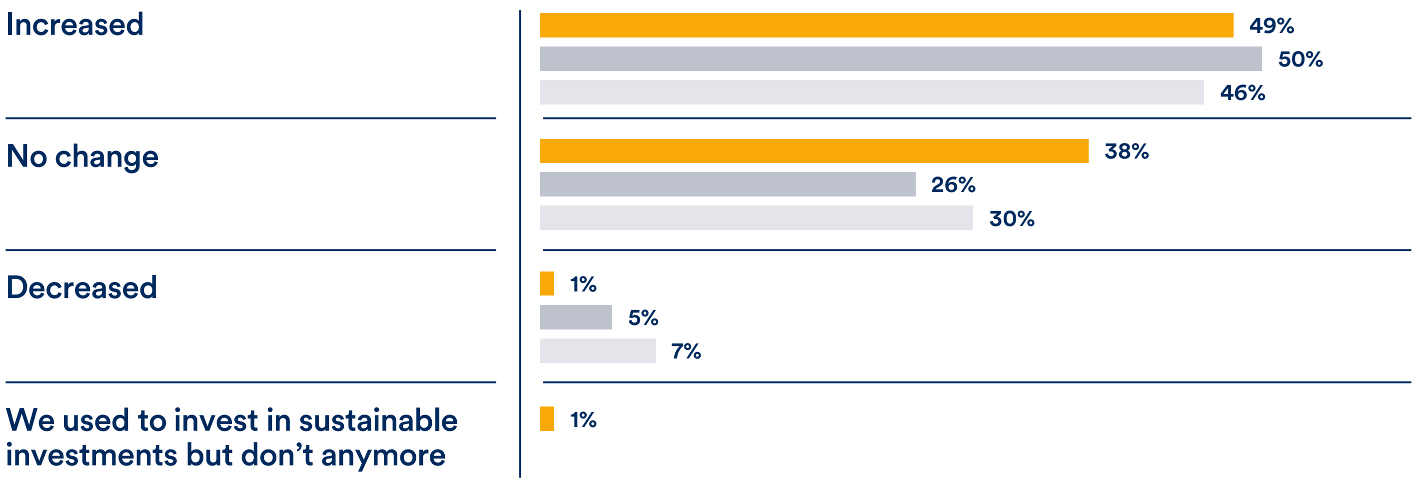
Continued but slowing growth as sustainable investment becomes mainstream

Institutional investors have anticipated an increase in sustainable investments for the past three years and this trend continues this year. 49% of institutional investors say their allocation to sustainable investments has increased over the past five years. 38% state there has been no change to their allocation; up from 26% in 2019. This could indicate some investors made changes to their sustainable investment allocation in previous years and are now holding steady.

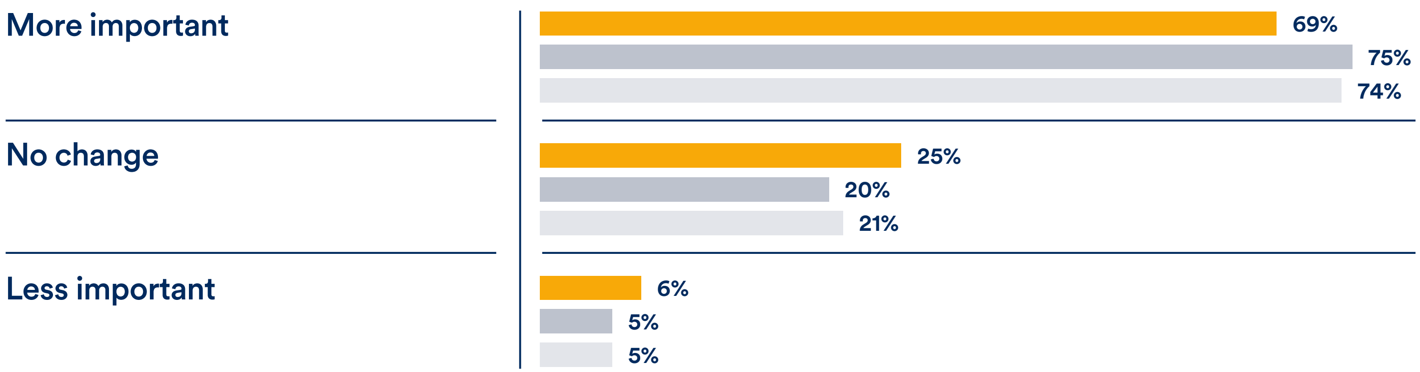
There is further confidence in the sector as 69% expect sustainable investments to have a more important role in the next five years. Although this is a lower percentage than last year's high of 75%, this could be because more investors feel sustainability already plays a critical role in their asset allocation.

Over the last five years, how have your organisation's allocation to sustainable investments changed?

2020 2019 2018



How do you expect the role of sustainable investing to change in the next five years?

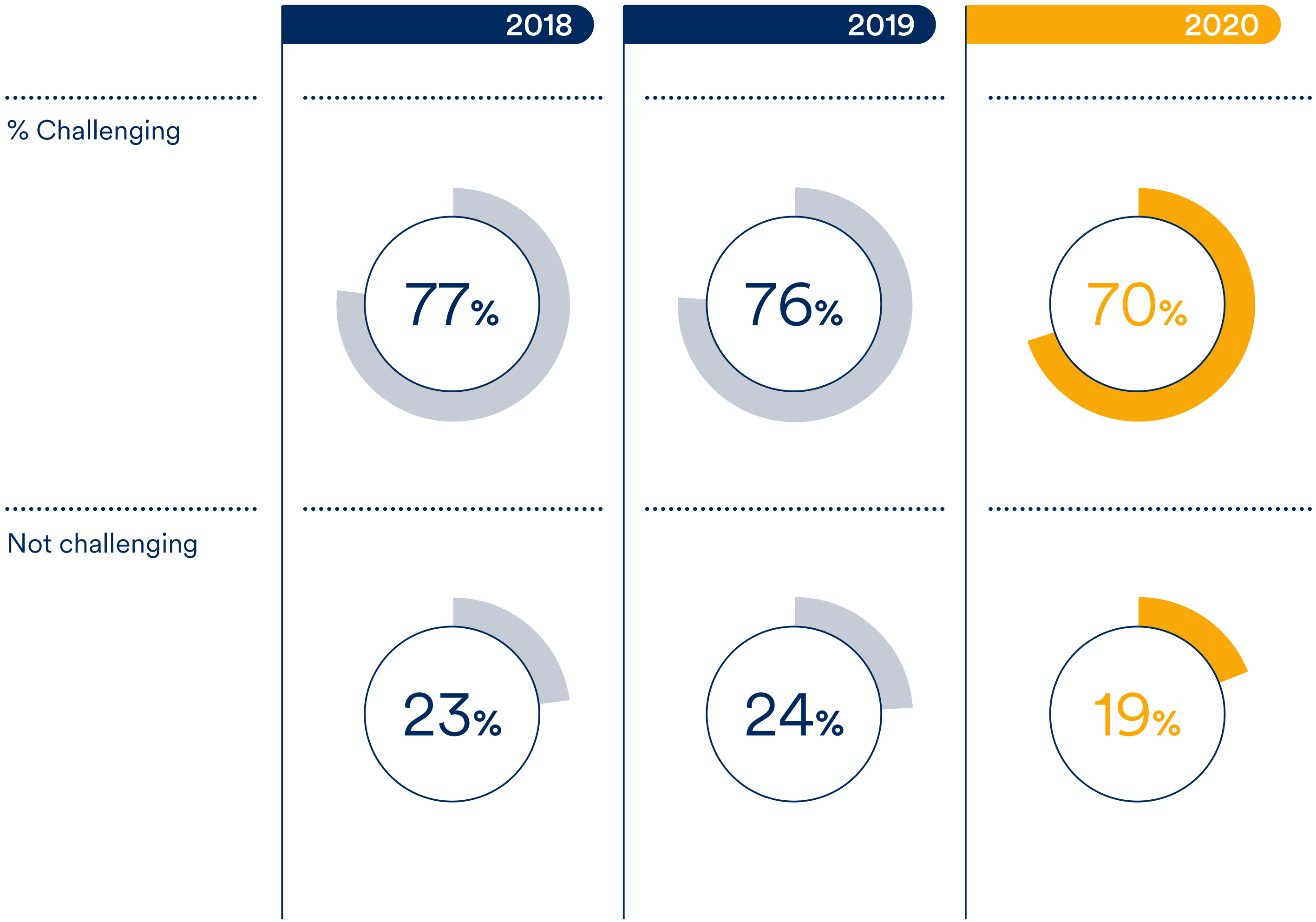


Increased (% Slightly increased (less than 5%) + Significantly increased (more than 5%)) | Decreased (Slightly decreased (less than 5%) + Significantly decreased (more than 5%))
More important (Somewhat more important + Significantly more important) | Less important (Somewhat less important + Signficantly less important)

Sustainability still considered challenging by most

How challenging do you find investing in sustainable investments?

Although sustainability is a major consideration for institutional investors, they continue to face challenges when implementing across their investment portfolios. 70% of global investors consider sustainable investing to be challenging, but this has fallen from the high of 77% in 2018. Yet, the number of investors globally which say it is 'not challenging' has dropped from 24% in 2019 and 19% this year.



% Challenging (Somewhat challenging + Very challenging)

Greenwashing is considered biggest challenge to investing sustainably

Which, if any, of the following specific factors do you consider a challenge of investing in sustainable investments? Select all that apply

	Global	North America	EMEA	Latin America	Asia-Pacific
Greenwashing, due to a lack of clear, agreed definitions on what sustainable investment is*	60%	61%	61%	61%	56%
Lack of transparency and reported data	48%	49%	52%	43%	43%
Performance concerns	45%	50%	37%	48%	50%
Difficulty measuring and managing risk	33%	31%	32%	32%	38%
Cost	23%	13%	25%	25%	30%
None of the above	5%	3%	5%	5%	6%

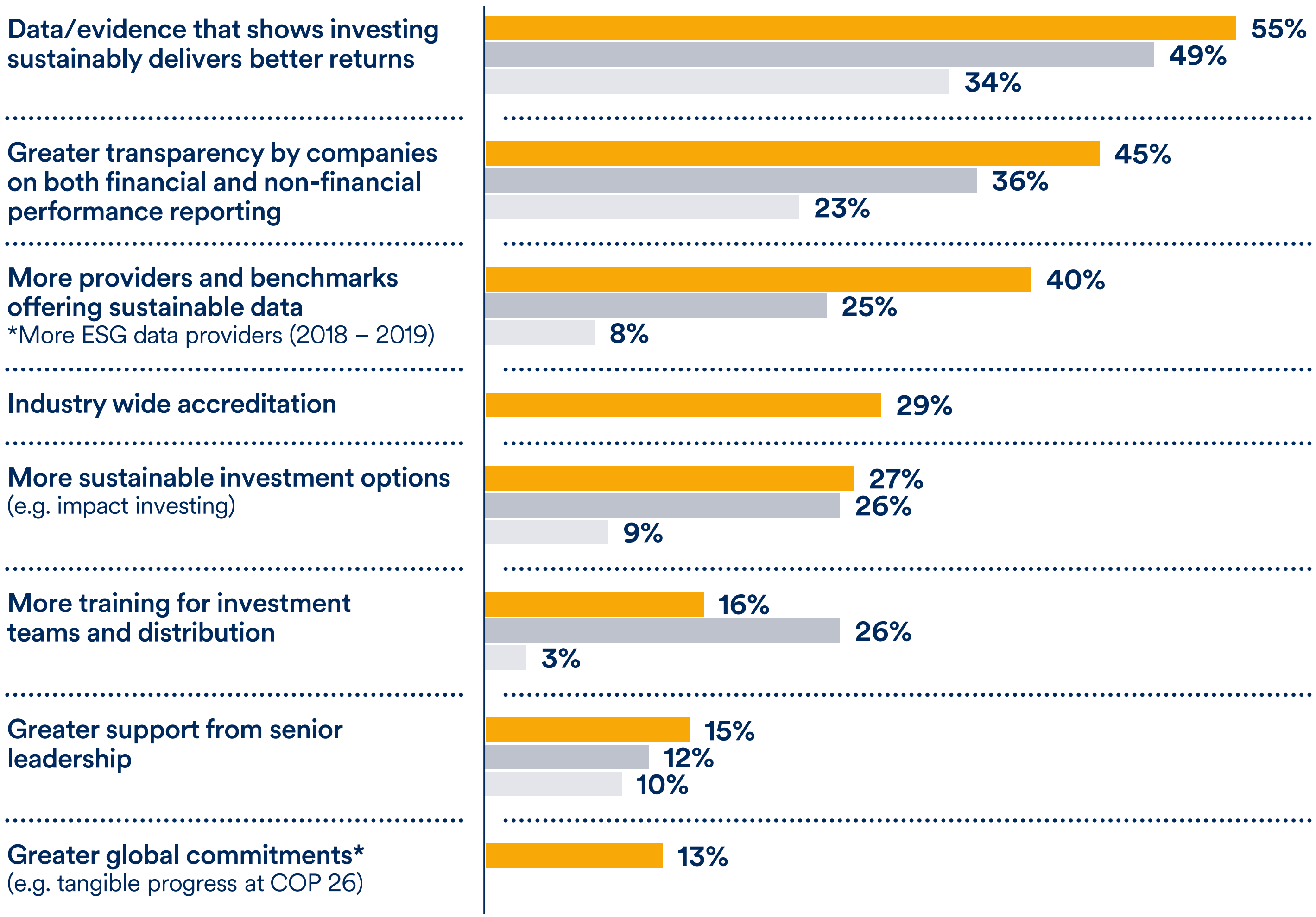
Multiple answers allowed | Percentages may not add up to 100% due to 'Other' option not displayed

Transparency and data crucial for successful adoption of sustainable investments

In your opinion, what would help you invest in more sustainable investments? Select all that apply

Greater transparency and performance data continue to be the key priorities for institutional investors to facilitate greater adoption of sustainable investments. 55% stated that evidence of a concrete link between sustainability and improved returns would be key. 45% cite that greater transparency when it comes to reporting on financial and non-financial performance would also help boost their adoption to sustainable investing.

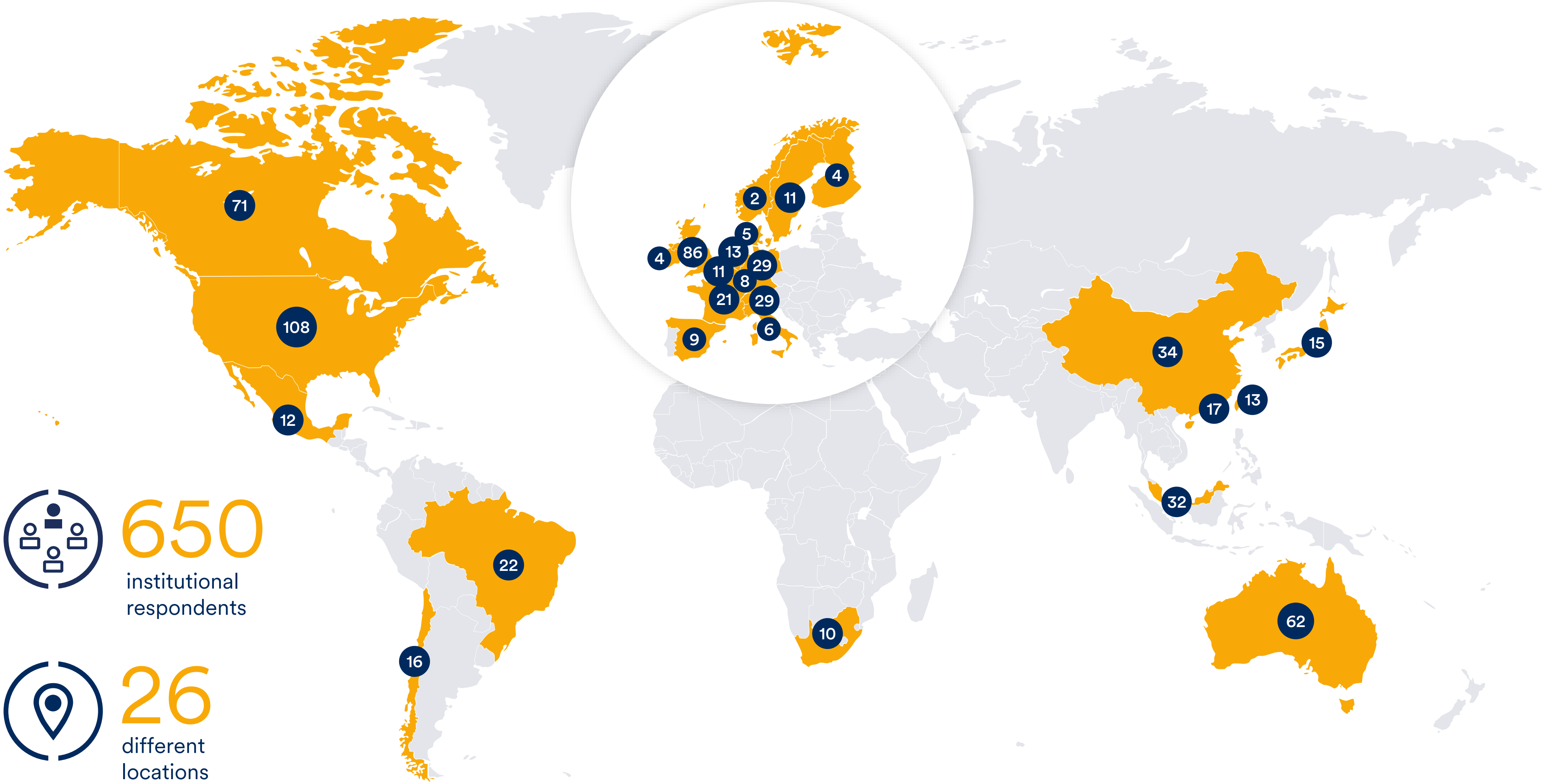
The need for data is also cemented by 40% of institutions who would like to have more providers and benchmarks providing sustainable data.



Multiple answers allowed | *This question was not asked in previous years

About the Study

Worldwide institutional respondents



650
institutional respondents

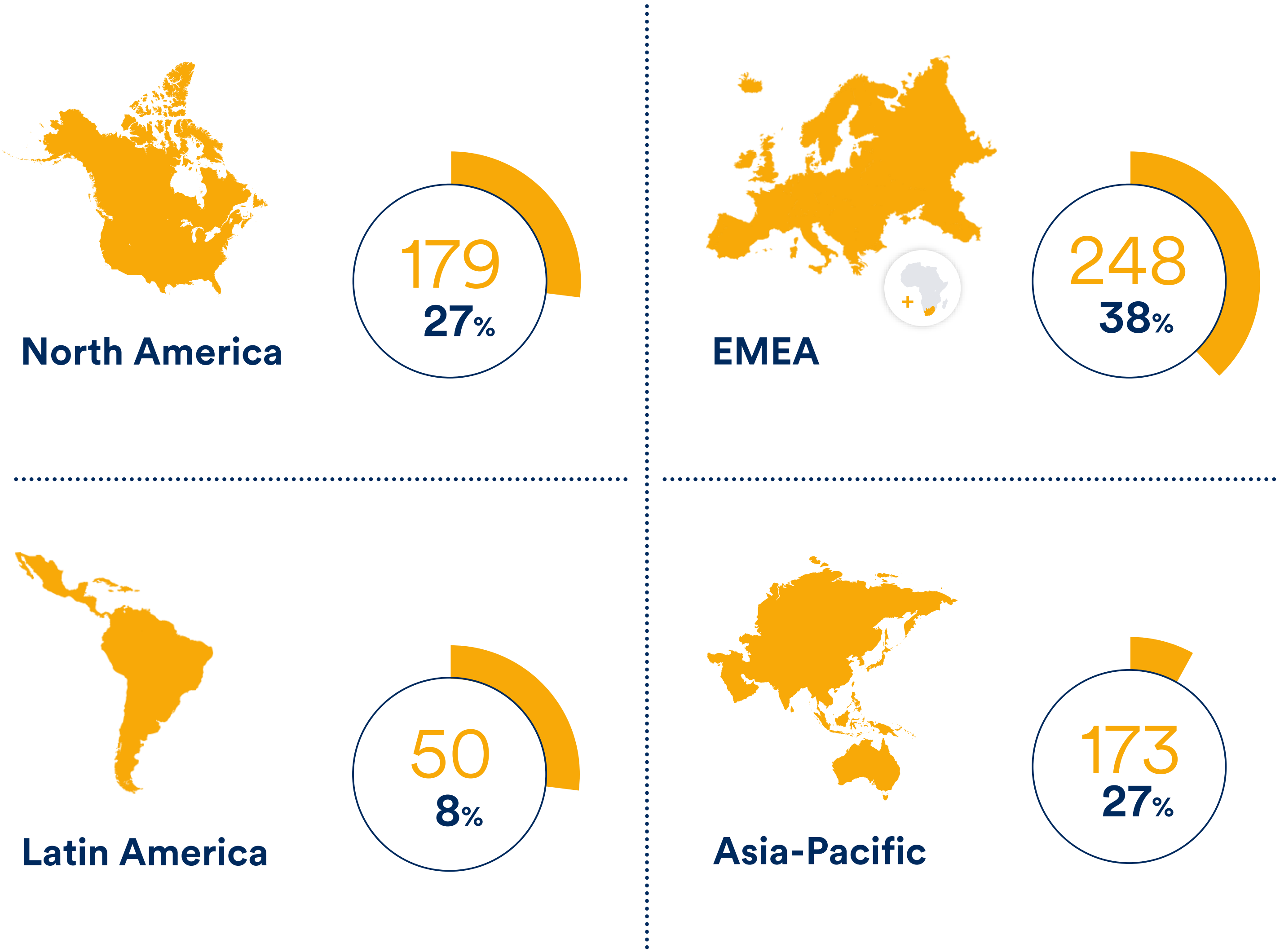
26
different locations

About the Study

Schroders commissioned CoreData to conduct the fourth Institutional Investor Study to analyse the world's largest investors' key areas of focus and concern including the macroeconomic and geopolitical climate, return expectations, asset allocation and attitudes to private assets and sustainable investing.

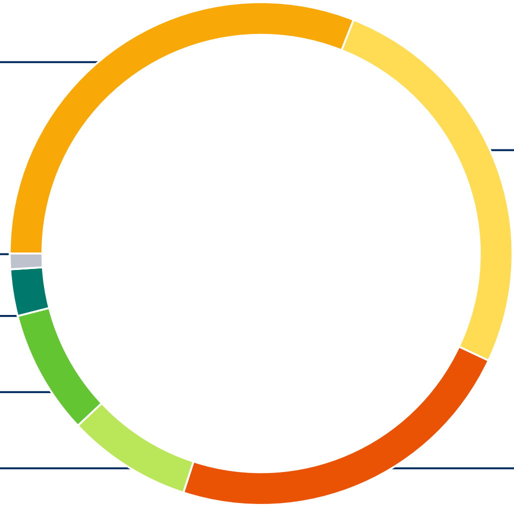
The respondent pool represents a spectrum of institutions, including pension funds, insurance companies, sovereign wealth funds, endowments and foundations managing approximately $25.9 trillion in assets.

Regional institutional respondents



About the Study

Type of organisation



Assets under management

Total AUM

$25.9 trillion

Less than 1 billion (n=136)	21%
1 billion to less than 5 billion (n=129)	20%
5 billion to less than 10 billion (n=93)	14%
10 billion to less than 50 billion (n=147)	23%
50 billion to less than 100 billion (n=55)	9%
100 billion to less than 250 billion (n=44)	7%
250 billion to less than 500 billion (n=36)	5%
500 billion to less than 1 trillion (n=10)	1%

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