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Fourth Annual Responsible Investing Survey

Performance and risk management are responsible investing's top appeals

Responsible investing (RI) is most attractive as a strategy for higher performance by managing risk among high-net-worth investors. There has been a 200% increase in RI conversations between advisors and investors over the past year.

EXECUTIVE SUMMARY

- For the fourth year in a row, our survey has revealed continuing strong interest in responsible investing (RI) among investors, particularly millennials (93% of millennials vs. 78% of non-millennials).
- And although social impact remains a critical motivator for many responsible investors, there are indications that more investors are primarily viewing RI as a means to increase portfolio performance.
- In fact, among high-net-worth investors, there is greater emphasis on RI's risk management aspects than on its ability to positively impact a range of social factors.
- Despite strong momentum, the tangled jargon surrounding responsible investing — RI, SRI, ESG, governance, etc. — is keeping investors and advisors from effectively communicating about this strategy.
- What's more, some investors don't warm to the RI label, even though they find strong appeal in its underlying components, such as sustainability planning and catastrophe avoidance.
- The convergence of political activism and hair-trigger social media is raising investors' sensitivity in a company's ESG performance — and putting pressure on advisors to mediate and explain.

RI AND HIGH-NET-WORTH INVESTORS

For ESG investors, investment performance and risk management are the main allure of RI

Investor demand for RI opportunities keeps rising. Conventional wisdom credits this growth to a shift in cultural attitudes as Americans recycle more, adopt more sustainable practices, embrace diversity and inclusion, and become more involved in political issues. But our survey suggests that this narrative is only one part of the picture, and altruistic appeals aren't always the only way, or even the right way, to introduce RI to investors.

Although there seems to be no dominant primary motivation for responsible investing among high-net-worth investors, they are more likely to view the strategy through the lens of investment performance (via risk management) than social impact.

Tale of three attitudes

Our research uncovers three main investor segments interested in RI — each with its own unique motivations

34%

INVESTMENT IMPROVEMENT / REDUCED RISK

Motivation: "Responsible investing can add alpha and reduce risks. Companies are likely to perform better when they adhere to ESG principles."

28%

WOKE WEALTH / IDENTITY INVESTORS

Motivation: "I want my portfolio to align with my values. My investments represent who I am."

38%

ADVISOR ALIGNED

Motivation: "My advisor is more knowledgeable about these issues, so I follow what he or she recommends."

A quarter of high-net worth investors classify themselves as "woke wealth/identity investors" — they want their portfolio to align with their values. About one third (34%) are "investment improvement/risk management investors" — they want to maximize the return of their investments when it comes to responsible investing. Another two in five (38%) classify themselves as recommendation investors — their primary strategy when it comes to responsible investing is to do what their advisor recommends.

Top 5 reasons for investing in RI

Better performance	**49%**
Align with my values	**44%**
Better risk management	**41%**
Better management for climate-change risks	**31%**
Better shareholder rights to keep boards accountable	**29%**

CLARITY AND TERMINOLOGY

Crosstalk and jargon: Investors and advisors are not speaking the same language

When it comes to discussing responsible investing, investors and advisors may not really be connecting. In a field that's famous for its jargon — RI, SRI, ESG and more — identifying and overcoming areas of confusion can help advisors and investors speak more confidently about investing for impact.

Investors show a resounding preference for simplified language when advisors are describing investment concepts. For example, 79% of investors prefer the term "screening out companies," rather than the common "exclusionary approach" terminology (21%). Similarly, the often-used "UN Sustainable Development Goals" term was favored by only 20% of investors, who would much rather see these worthy global objectives referred to as "goals to end poverty, protect the planet and ensure prosperity" (80%).

Investors like to keep things simple

They say that common-language phrases are much easier to understand

Exclusionary approach	*Screening out companies*
21%	79%
UN Sustainable Development Goals	*Goals to end poverty, protect the planet, and ensure prosperity*
20%	80%
Addressing environmental issues	*Managing risks associated with climate change*
65%	35%
Best-in-class approach	*Choosing top-ranked companies*
32%	68%

ESG? WHAT COULD THAT BE?

Investors are far more familiar with terms like "governance" and "impact investing" than ESG. More than half (51%) understand the terms "governance" and "corporate management and controls" either very well or somewhat well. Only 40% had that same level of familiarity with the term "impact investing" and only 28% were familiar with "ESG."

"governance"

51%
FAMILIARITY

"corporate management and controls"

"impact investing"

40%
FAMILIARITY

"ESG"

28%
FAMILIARITY

INVESTORS STILL EAGER TO MAKE A DIFFERENCE

The vast majority of investors wish to make a positive impact on society and the environment through their investment choices, something that has increased in importance in recent years. In our survey, 81% indicate that they want to advance environmental sustainability, compared with 73% in 2015. Meanwhile, 80% say that their investments should strive to make a positive impact on society, up from 75% in 2015.

	2018	*2015*
I want my investments to make a positive impact on environmental sustainability	81%	*up from* 73%
My investments should try to make a positive impact on society	80%	*up from* 75%

ENVIRONMENT AND GOVERNANCE

The perception paradox: Investors love all the individual pieces of RI, but can't quite put the puzzle together

Many investors have yet to take the plunge into RI. They see the RI label, and fear performance will suffer for the sake of impact. Strip away that label, though, and investors immediately see the financial value of its underlying principles, such as planning for sustainability and trying to avoid negative events (e.g. fraud, ethics, breach, environment catastrophes, etc.).

For example, corporate response to environmental concerns is a hot button issue for investors. Investors of all ages think that companies must be proactive in how they preserve the environment, with nine out of 10 saying that companies must actively manage pollution risk — and that an environmental catastrophe has the power to devastate a company's stock value. Investors also appear to want companies to take steps to address climate-change risk as well as position themselves for the financial impacts as nations shift toward a low-carbon economy. All this speaks to the "G" and "E" in ESG.

How closely do these statements describe how you think?

	Very/ Somewhat
It's absolutely essential for companies to actively manage against the risk of pollution, spills or other disasters	93%
A toxic spill or other environmental catastrophe can have a devastating impact on the value of a company's stock	92%
Companies need to act now to mitigate the risks of climate change to their operations	85%
Companies are risking their future if they fail to plan for a low-carbon economy	80%

THE #AGE OF #ACTIVISM:

People, especially millennials, are more engaged and enraged than ever before — and demand answers from advisors fast

Clearly, the country is in a "mood." One tweet can spark a protest, cancel a top-rated television show, or cause panic in the boardrooms of the nation's biggest brands. Every controversial incident is recorded on a phone and plastered all over social media. For good or ill, people report feeling significantly more engaged with current events than they did five years ago. How does this cultural shift affect RI? Does all this engagement stop at "clicktivism," or do hashtag campaigns actually translate into real-world changes in consumer or investor behavior? How can advisors safely navigate this tidal shift?

Corporations that find themselves in hot water for certain activities are unlikely to get a pass from millennials. Compared to their non-millennial counterparts, millennials are:

*More than **twice as likely** to ask their advisor about corporate bad acts*

59% *vs.* **29%**

*Significantly **more likely** to boycott or digitally bash retail brands that misbehave*

38% *vs.* **27%**

***Twice as likely** to sell holdings of companies embroiled in scandals*

36% *vs.* **16%**

Have you done any of the following in the past year?

Summary table of Yes

	Millennial	*Non-millennial*
BASE	**156**	**844**
Asked my advisor about one or more corporations due to revelations of bad acts over the past year	**59%**	**25%**
Boycotted or posted a negative review of a retail brand based on management behavior or negative headlines	**38%**	**27%**
Liked, retweeted or otherwise engaged in a hashtag-based campaign or cause in the past year	**54%**	**20%**
Sold an investment due to a company scandal or objectionable behavior	**36%**	**16%**

ADVISOR OPPORTUNITY WITH RI

Advisor comfort level with RI on the rise

When discussing RI, many fewer advisors feel negative than in 2017 (only 17% in 2018 vs. 28% in 2017), and their self-reported lack of knowledge and discomfort have simultaneously declined. Today, they are far less likely to call themselves "indifferent" (40% vs. 54% in 2017) or describe themselves as "amateur" (11% vs. 19% in 2017)

Double the conversations about RI — What's the story?

In 2018, 33% of advisors indicated that they had initiated conversations about responsible investing with their clients. This is nearly double the 18% who reported such conversations in 2017.

Why the upswing? One theory is that advisors wish to strengthen client relationships before a market downturn appears on the horizon. Another theory is that advisors are realizing that they are in a unique position to illuminate RI's unique ability to pursue performance goals and address social factors.

More advisors are recommending RI

	2018	2015
Base	311	249
Yes, currently offering	36%	29%
No (net)	36%	25%
Never offered	28%	46%

Advisors becoming more proactive with RI

		2018	2017	Difference
Proactive	I discuss it as a potential investment option	51%	41%	10% rise
Proactive	I provide it as an investment option in my intake forms	30%	19%	11% rise
Reactive	I wait for them to bring it up before discussing it as an option	40%	48%	8% drop

SAY: High-net-worth investors have become more interested in learning about and adding RI options to their portfolios.

FIVE IDEAS FOR PURSUING THE RI CONVERSATION

1

Focus first on governance.

Among ESG factors, governance is likely to resonate with the greatest number of investors — because sound governance can add alpha and reduce risk in the minds of investors. Additionally, millennials tend to be particularly sensitive to corporate laxity when it comes to managing for better ESG performance.

2

Ditch the jargon, use common terms.

Four out of five investors prefer simple language — such as “screening out companies” rather than loftier terms like “exclusionary approach.” Make a better connection by using financial terms they might already know.

3

Emphasize performance, management benefits.

Of course, it’s important to discuss the social objectives of RI strategies. But give equal time to discussing clients’ potential to achieve better performance by choosing companies that are pro-actively managing environment, social, and governance risks (and opportunities). They might not know that RI options have often outperformed.

4

Highlight your forward-thinking business approach.

More than 80% of investors say that they view advisors who discuss responsible investing as “more forward-thinking.” In fact, 64% of advisors themselves describe their RI-fluent peers as more forward-looking. If you’re not having the RI discussion with your clients, who will?

5

Incorporate in client questionnaires.

This easy step can help gauge interest. Include a straightforward question: Would you be opposed to having investments that make a social and environmental impact in addition to financial return? Y/N.

68% agree

that having deep conversations about values with their advisors would make them more loyal

About the survey

The Fourth Annual Responsible Investing Survey is a trended analysis of key issues facing advisors and investors. Nuveen commissioned Harris Poll to conduct two surveys of both populations, enabling the study to identify gaps between the perceptions of investors and those of advisors. The advisor survey was conducted online from 20 – 30 Aug 2018 among 315 currently employed financial advisors in the U.S. (one-third wire house, one-third RIAs, one-third broker/ dealer affiliated). The affluent investor survey was conducted online from 20 – 28 Aug 2018 among 1,000 affluent investors: U.S. residents over age 21 with $100,000 in investable assets (excluding workplace-defined contribution accounts or real estate), who consider themselves the decision maker for financial decisions and who currently work with a financial advisor.

For more information about RI, visit us at nuveen.com/responsible-investing.

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