TIAA
GLOBAL ASSET MANAGEMENT

Second Annual Practice Management Study

Responsible Investment: Advisor and investor interest is rising. However old myths still exist.

Executive summary

- Myths around responsible investing continue to pervade among advisors and investors.
- Few advisors mention RI, even though most investors want to know more about it.
- Awareness and education are needed to dispel myths, especially among non-Millennial investors who are less likely to participate.
- Investors are interested in a variety of RI options, but believe their choices are limited.
- Many investors confuse RI with charity, thinking it provides lower returns or believing it's suitable only for the rich.
- Almost three-quarters of investors would be more likely to work with an advisor who could help them make a social impact without sacrificing performance.

About the study

The Second Annual Practice Management Study is a trended analysis of key issues facing advisors and investors. TIAA Global Asset Management commissioned Harris Poll to conduct two surveys of both populations, enabling the study to identify gaps between the perceptions of investors and advisors. The advisors' survey was conducted online from December 1-23, 2015 among 275 currently employed financial advisors in the U.S. ($^1/_3$ wirehouse, $^1/_3$ RIAs, $^1/_3$ broker/dealer affiliated). The affluent investors' survey was conducted online from December 1-31, 2015 among 2,206 affluent investors who were U.S. residents over age 21 with $100,000 in investable assets (excluding workplace defined contribution accounts) or real estate; consider themselves the decision maker for financial decisions and currently work with a financial advisor.

Social and environmental concerns have gone mainstream. Today, they influence consumer behavior, career decisions and investment choices. The phenomenon is strongest among Millennials.

Social responsibility matters to affluent investors

- 86% recycle every day and 71% prefer reusable bags due to environmental concerns.
- 73% want to work for an employer that makes a positive social impact.
- Over two-thirds (76%) would like their investments to deliver competitive returns while also promoting positive social and environmental outcomes.
- Millennials are more likely (90%) to be interested in RI than other generations (73%).

Millennial investors are more likely to say the following environmental attitudes closely describe them

	Millennial	Non-Millennial
I'd like my investments to deliver competitive returns while promoting positive social and environmental outcomes	90%	73%
I'd like to work for an employer that makes a positive social impact on the world	91%	68%
I prefer to use reusable bags, rather than paper or plastic, because it is more environmentally sustainable	88%	67%
I'd like to work for an employer that makes a positive environmental impact on the world	86%	66%
I prefer to shop for brands that have environmentally sustainable business practices	86%	55%
I grew up learning to care for the environment from TV shows, books and my parents	82%	54%
I check labels for sustainability packaging claims at the grocery store before buying a product	81%	42%
I care more about having a positive impact on society than doing well financially	76%	42%

Investors want to invest responsibly—but not if it means sacrificing performance. Fortunately, it doesn't.

- 89% of affluent investors want to invest responsibly—but only if they can earn the same or better financial returns.
- Women are even more adamant in wanting to balance both concerns. 87% of women "want [their] investments to make a positive impact on society while not compromising financial returns" compared to 79% of men.
- Millennial investors are the most passionate supporters of RI, with 90% saying their investments should try to make a positive impact on society (compared to 74% of other generations).

Advisors are more familiar with responsible investing than their clients

- Only 41% of affluent investors are familiar with responsible investing, compared to 68% of advisors.
- Women are more likely to be unfamiliar than men (66% vs 51%, respectively).
- Millennials are far more familiar (81%) with RI than other generations (31%).

RI sounds like an appealing idea to affluent investors, but they aren't completely sure what it is. The concept is much better known among advisors, suggesting they have an opportunity to educate their clients about the approach.

Responsible investing (RI) is viewed positively, but not always accurately

- Investors associate RI with positive attributes, such as long-term thinking (81%) and sound governance practices (67%).
- Yet nearly 1 in 4 (23%) believe responsible investing is only for the very rich; by contrast, only 8% of advisors feel the same way.
- 65% think responsible investing is mostly about excluding companies that fail to meet certain criteria; surprisingly, 72% of advisors agree.
- More than 1 in 4 (29%) affluent investors (as well as advisors) think responsible investing does not offer high-quality choices.
- Four in 10 (42%) of affluent investors "associate responsible investments as charity."
- One in three (35%) advisors and 41% of investors think "Responsible investment options tend to have high fees."

Both investors and advisors appreciate some of the advantages of responsible investing. But myths and misperceptions persist, even among professionals.

...Especially among Millennial investors

Ironically, the very demographic most interested in RI—Millennials—also has the most negative perception of the range of quality choices available compared to non-Millennials. Millennials are also likely to associate RI with lower return and higher fees than other investment opportunities.

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More than one-third (36%) of Advisors don't know how to accurately evaluate responsible investments.

Millennial investors are more likely to say the following

	Millennial	Non-Millennial
My investment choices for responsible investing are very limited	62%	51%
Responsible investing does not offer quality choices	52%	23%
Responsible investing does not provide the same rate of return as other investment strategies	56%	45%
Responsible investment options tend to have high fees	56%	37%

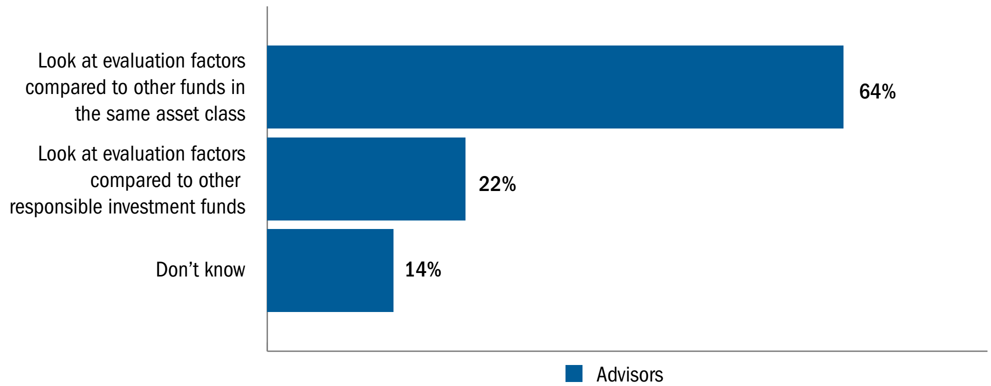
Advisors hesitate to recommend RI due to concerns about performance and the quality of choices available

- 61% of investors say their advisor did not bring up RI over the past 12 months.
- 46% of advisors say they have never offered RI products to their clients.
- Nearly half (47%) of advisors indicate that RI does not offer best-in-class choices as something that would prevent them from recommending it to their clients.
- Almost as many advisors (44%) think RI does not provide the same rate of return as other investment strategies.
- Over a third (35%) think their clients aren't interested in RI.

Advisors might have challenges incorporating RI in portfolios

- More than one-third (36%) of Advisors don't know how to accurately evaluate responsible investments.

Evaluating factors for Responsible Investment



Only a third or fewer of affluent investors say they currently own responsible investments. But more plan to start.

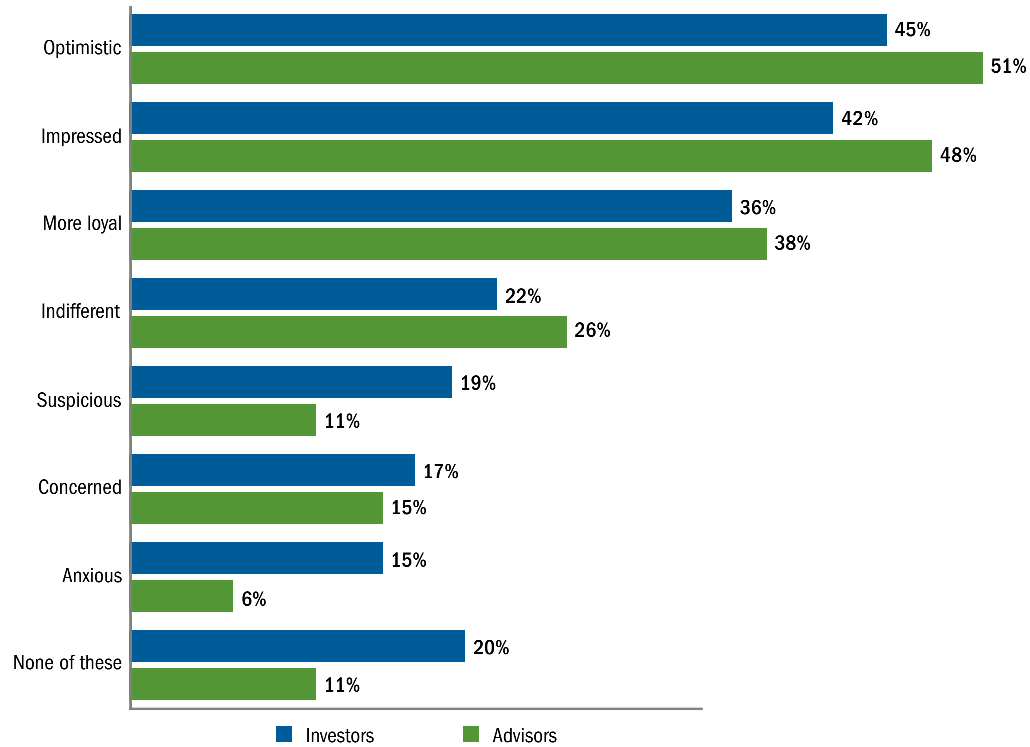
- 34% of investors say they participate in RI; if they are provided a definition of it, the number drops to about 3 in 10.
- Nearly half (48%) are interested in participating over the next 12 months.
- 3-in-5 (62%) are likely to ask their advisor about RI in the next year.
- Domestic stock funds seem to be the most appealing responsible investing asset class (62%), followed by domestic bond funds (55%).

Many investors (48%) who don't own responsible investments are planning to start soon. Once again, Millennials outpace their elders: 69% are interested in participating in responsible investments over the next 12 months compared to 43% other generations. They're also more interested in exploring international options.

Investors and advisors agree: Conversations about Responsible Investment (RI) strengthen relationships

- Both groups associate RI recommendations with positive attributes such as *impressed*, *optimistic* and *more loyal*.

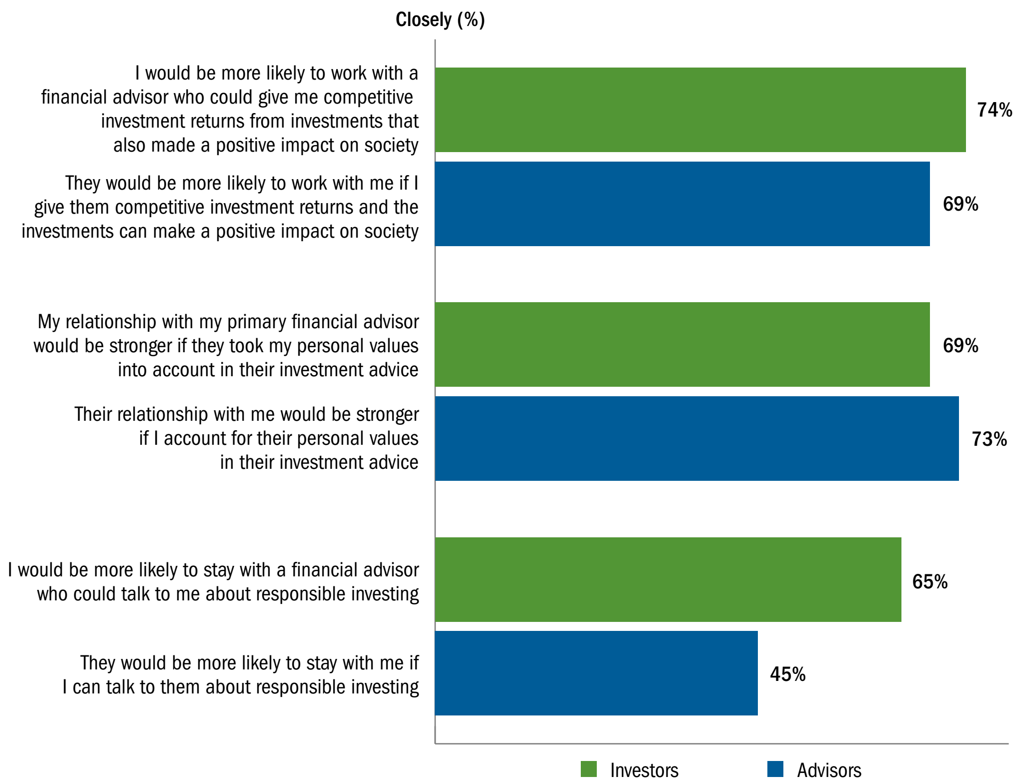
Reactions to recommendations for investments that make a positive impact on society



- 74% of investors say they'd be more willing to work with advisors who can deliver competitive returns and positive social impact.
- 69% say their advisors taking their personal values into account would make for a stronger relationship.
- Nearly two-thirds would be likely to stay with an advisor who can talk about RI.

RI starts with a client's values and gives advisors the opportunity to take their relationships to a deeper level.

Impact of Responsible Investment choice on investor and advisor relationships



Advisors plan to dive deeper into responsible investing

- 72% are likely to learn more about options they can offer.
- 58% are more likely speak to their clients more about RI.
- 57% are likely to start offering more RI choices.

Offering RI choices can give retirement plan sponsors an edge

- 71% say that having RI options on their investment menu would make them feel good about working for their employer.
- 61% say it would make them more loyal workers.
- 69% would feel better about contributing to their plan.
- Advisors seem to underestimate the positive feelings that RI choices can generate among affluent investors.

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Conclusion

Responsible Investment is now mainstream, a reflection of a society-wide shift towards recognizing the social and environmental impacts of individual choices. Interest is strong—especially among Millennials—but investors aren't always aware of their options. In addition, a few old myths persist, especially about performance, fees and the availability of best-in-class products. Practice management and educational resources are urgently needed to close the final gap and satisfy the growing demand for responsible investments.

In the next 12 months, significant numbers of investors plan to talk to their advisors about Responsible Investment. Advisors should welcome these conversations, since they seem to strengthen relationships and build client loyalty.

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